World Bank sees 'uneven and tenuous' Middle East recovery

Region's economies shrink 3.8 percent in 2020

DUBAI: The Middle East and North Africa are experiencing a tenuous and uneven economic recovery in 2021 as they get to grips with the coronavirus pandemic, the World Bank said yesterday. The Washington-based institution said the pandemic had seen the region's economies shrink by 3.8 percent in 2020, in part due to public health systems' lack of preparedness to deal with the health crisis. The World Bank projected 2.8 percent growth for region's economy in 2021, with total losses from the pandemic estimated to reach almost $200 billion by the end of this year.

GDP per capita is forecast to grow by only 1.1 percent this year after declining by about 5.0 percent in 2020. The health crisis inflicted heavy job losses and a sharp increase in the number of people living below the poverty line of less than $5.50 a day. "Stressed health systems have combined with global economic factors - such as fluctuations in commodity prices, particularly oil - to produce an uneven economic recovery for the region and a tenuous outlook," the World Bank said in a report.

"Each economy's performance depends heavily on its exposure to commodity-price fluctuations and how well it managed the pandemic." It warned that recovery will also depend on a rapid and equitable rollout of Covid-19 vaccines, especially as new variants emerge. "While the GCC (the six-country Gulf Cooperation Council) is among the best in the world at vaccinating its citizens, the slow pace of the vaccine rollout in many developing MENA countries leaves them vulnerable to surges in COVID cases," the report said.

It added that political uncertainty and fragility in developing oil exporter countries, including Iran, Iraq, Libya and Yemen, pose additional risks to economic growth. "The pandemic's crippling impact on economic activity in the region is a painful reminder that economic development and public health are inextricably linked," said the World Bank's vice president for the Middle East and North Africa, Ferid Belhaj. "Going forward, there must be a stronger focus on building core public health functions and leveraging the power of health data and preventive health systems to accelerate the region's recovery and to prepare for future public health emergencies."— AFP

DUBAI: A group of traditional Emirati musicians perform at the entrance of Expo 2020, in the Gulf Emirate of Dubai, on October 6, 2021. — AFP

Key questions on the global tax movement

PARIS: Ireland was set to decide yesterday whether to join a global effort to impose a global minimum tax rate on multinational corporations that Dublin has opposed so far. Here are key questions regarding the reform and Ireland's position:

How did we get here?

In 2017, the Organization for Economic Cooperation and Development (OECD) was tasked by the G20 group of industrialized and emerging economies to fight what is known as domestic tax base erosion and profit shifting (BEPS). In other the words, how multinational companies take avantage of different countries' tax systems to limit the amount of tax they pay, also known as tax optimization.

The talks got a boost earlier this year when the administration of US President Joe Biden backed a global minimum tax rate of at least 15 percent to put an end to "race to the bottom" between nations. The coronavirus pandemic has also added urgency to the reforms as countries need new sources of revenue to pay for huge stimulus programs that were deployed during last year's global recession. On July 1, the OECD announced that 130 countries agreed to a tax rate of "at least" 15 percent. A handful of other countries have since joined it.

Two-pillar reform

The proposed reform is comprised of two pillars to deter companies from establishing bases in countries with low taxes to maximise profits earned elsewhere. Pillar one would give countries a share of the taxes on profits earned there, though the tax would still be collected where the company has its fiscal base. Multinationals operate in many countries-oil giant BP is present in 85, for example-but usually pay taxes on profits only in their tax home. This provision would initially apply only to the top 100 or so companies, before expanding after seven years. Pillar two is a global minimum corporate tax rate of "at least" 15 percent to stop competition between countries over who can offer companies the lowest rate. The OECD says a global minimum corporate tax rate of 15 percent could add $150 billion to government coffers annually.

Why was Ireland opposed?

Ireland has attracted the likes of Apple, Google and Facebook to its shores thanks to a 12.5 percent tax rate, lower than in the United States and most other European Union countries. The country was reluctant to join the global tax movement because it talked about a rate of "at least" 15 percent, which Dublin feared could leave the door open to raising it. But Prime Minister Micheal Martin hinted yesterday that the cabinet is poised to join the reform effort, as Irish media reported that the term "at least" would be removed from the deal. Ireland would become the 135th country to join the pact.

What now?

Ireland's approval would remove a key stumbling block, but the tax still faces a long road to becoming a reality. The OECD is holding talks Friday that could lead to agreements on the finer details of the reform. G20 leaders are expected to sign off on the deal when they meet in Rome in late October. But it does not end there. The legislatures of each signatory will then have to approve the reform, with the OECD hoping that the new tax regime could be in place by 2023. —AFP

UK business leaders criticize PM Johnson's economic strategy

LONDON: British business leaders yesterday criticized Prime Minister Boris Johnson for lacking a plan to deal with a labor shortage crisis, after he called for them to pay higher wages. Johnson said on Wednesday he was committed to moving Britain away from an economy reliant on cheap foreign labor, in a speech to members of his ruling Conservatives.

But he admitted that "difficult" times lay ahead as a result, as many pointed to an end to free movement of people and tighter immigration rules post-Brexit. Supermarkets are already experiencing empty shelves, while panic buying over fears of a tanker driver shortage caused petrol pumps across Britain to run dry last week. Supply chain problems are mounting because of a lack of lorry drivers, while other sectors from hospitality to retail have also complained of a shortfall of seasonal workers, many of whom previously came from the EU.

Businesses leaders said that Johnson was unfairly blaming them for low wages and that his strategy could lead to shortages and high inflation. "The finger is being pointed at business as the bogeyman, but it's much wider than that," said Richard Walker, managing director of budget supermarket chain Iceland. "We want to pay our people as much as possible but business is not an endless sponge that can keep absorbing costs in one go," he told the Times newspaper.

"Next year we'll have a wave of higher costs from higher energy bills, extra HGV (heavy goods vehicle) drivers, packaging costs. "We can only weather so many cost increases at once." The Federation of Small Businesses said that it was now the opposition Labor party that had a pro-small business plan. "Looking at this party conference season, there was one party of the two that came out with a pro-small business policy," the federation's Craig Beaumont told Times Radio.

"The government should be looking at that and going: 'Well, maybe we've taken this group a bit for granted'. So now, what is that small business offer'?" Johnson has historically been in favor of low taxes and free markets, but his speech on Wednesday argued for tax hikes in order to deal with the coronavirus "meteorite" that hit public finances. — AFP