Asongu, Simplice A.

Working Paper

Rational Asymmetric Development: Transfer Pricing and Sub-Saharan Africa's Extreme Poverty Tragedy

AGDI Working Paper, No. WP/15/017

Provided in Cooperation with:
African Governance and Development Institute (AGDI), Yaoundé, Cameroon


This Version is available at:
http://hdl.handle.net/10419/123665

Terms of use:
Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
Rational Asymmetric Development: Transfer Pricing and Sub-Saharan Africa’s Extreme Poverty Tragedy

Simplice A. Asongu
African Governance and Development Institute,
Yaoundé, Cameroon.
E-mail: asongusimplice@yahoo.com
AGDI Working Paper

Research Department

Simplice A. Asongu

May 2015

Abstract

A recent publication by the World Bank on Millennium Development Goals (MDGs) has established that extreme poverty has been decreasing in all regions of the world with the exception of sub-Saharan Africa (SSA), in spite of over two decades of growth resurgence. This chapter explores the role of transfer pricing in SSA’s extreme poverty tragedy. The analytical structure entails: (i) emphasis of rational asymmetric development as the dark side of transfer pricing, (ii) evidence that the recent growth resurgence in African countries has been driven substantially by resource-rich countries which are experiencing high levels of exclusive growth and extreme poverty, (iii) the practice of transfer pricing by multinationals operating in resource-rich countries of SSA and (iv) a Zambian case study of extreme poverty and transfer pricing schemes by Glencore in the copper industry. While transfer pricing is contributing to diminishing African growth, available evidence shows that the component growth that is not captured by transfer pricing does not trickle down to the poor because the African elite is also captured by practices of rational asymmetric development. Policy implications for the fight against extreme poverty are discussed.

JEL Classification: F20; F50; H20; O11; O55
Keywords: Transfer pricing, Asymmetric development; Extreme poverty: SSA

---

1 Simplice A. Asongu is Lead economist in the Research Department of the AGDI (asongus@afrdev.org).
1. Introduction

A recent publication by the World Bank on Millennium Development Goals (MDGs) has established that extreme poverty has been decreasing in all regions of the world with the exception of sub-Saharan Africa (SSA) (Caulderwood, 2015; World Bank, 2015). Consistent with Asongu and Kodila-Tedika (2015), about 45% of nations in the sub-region are substantially off-track from attaining the MDGs extreme poverty target. From the evidence provided by Figure 1, it can be noticed that, but for SSA, extreme poverty has been decreasing in all other regions of the world. This is an unfortunate tendency, despite about two decades of growth resurgence that began in the mid 1990s (Alan & Carlyn, 2015, p. 598). In this light, optimistic narratives of African countries: (i) with the exception of the Democratic Republic of Congo, reaching the MDGs poverty target one year ahead of time (Pinkivskiy & Sala-i-Martin, 2014) and/or (ii) witnessing considerable poverty decline compared to other world regions (Fosu, 2015); may have been motivated by a stream of the literature on ‘Africa rising’ and/or ‘the African growth miracle’ (Leautier, 2012; Young, 2012); a current of motivation which could be more concerned about promoting the interest of neoliberal ideology and capital accumulation, therefore, not taking into account fundamental ethical concerns like ecological crisis, inequality and sustainability in job creation (Obeng-Odoom, 2014).

Figure 1: Comparative regional poverty levels

Over the past decades, a lot of scholarly attention has focused on the causes of African poverty (Englebert, 2002; Jerven, 2011; Kodila-Tedika & Agbor, 2014; Asongu & Kodila-
The plethora of studies has either been based on the existence of an African dummy or the assumption that the continent is fundamentally different from other regions of the world. Some of the documented reasons for persisting poverty include: social barriers to economic growth and technological change (Amavilah, 2015); deinstitutionalization of Africa (Nunn, 2008, 2009; Nunn & Puga, 2012) and/or loss of traditional African institutions (Amavilah, 2014a, 2006; Lewis, 1955); inability to make a clear distinction between ‘private property rights’ and ‘private use rights’ (Amavilah, 2015); overvaluation of foreign knowledge and undervaluation of local knowledge (Brush & Stabinsky, 1996; Raseroka, 2008; Lwoga et al., 2010; Asongu, 2014a; Tchamyou, 2014; Amavilah et al., 2014; Asongu et al., 2014); over-idleness of natural resources (Doftman, 1939; Lewis, 1955; Amavilah, 2014a); ‘Ignoring art as an expression of technological knowledge’ (Amavilah, 2014a); excessive consumption of luxury (Adewole & Osabuohien, 2007; Efobi et al., 2013); lack of capacity to acknowledge scarcity (Lewis, 1955; Dorfman, 1939; Lucas, 1993; America, 2013; Drine, 2013; Looney, 2013; Asongu, 2014ab); negative influences from colonialism and noecolonialsm (Ndlovu-Gatsheni, 2013); false economics of preconditions (Monga, 2014) which have resulted in lost decades of policy prescriptions from the Washington Consensus (Lin, 2015); less self-reliance (Fofack, 2014) or over-dependence on development assistance (Moyo, 2009; Obeng-Odoom, 2013; Asongu, 2014c); absence of qualitative measurements in African paradigms of development (Obeng-Odoom, 2013); inability to effectively negotiate for foreign aid, absence of favourable local conditions and presence of fragile institutions (Kayizzi-Mugerwa, 2001); low levels of regional integration (Kayizzi-Mugerwa, et al., 2014) and, inter alia, corruption in international trade (Musila & Sigué, 2010) and asymmetric globalisation-fuelled policies that are more favourable to developed countries (Asongu, 2015a).

To the best of our knowledge, the role of ‘transfer pricing’ (hence TP) has not been substantially explored as a fundamental cause of African poverty. According to Sikka and Willmott (2010, p. 342), in the conventional literature on accounting, TP is a technique that is employed by multinationals to optimally allocate revenues and costs across joint ventures, subsidiaries and among divisions within a group of entities that are related. Consistent with the authors, these representations of TP illustrate how multinational companies are substantially involved in processes of wealth retentiveness which enable corporations to avoid taxes and ease capital flight. In essence, while a conception of purely technical nature of computing TP could abstract from the politico-economic contexts of their development and
usage, the context much reflects contemporary business activities or an époque of globalised trade combined with interactions among tax authorities of the state, shareholders and other stakeholders of the business practicing TP. It is acknowledged that the practices determine economic opportunities in ways that are critical in augmenting private gains, hence, contributing to social impoverishment of developing countries through tax avoidance.

In light of the above, to logically establish that TP may be a source of extreme poverty in SSA countries, at least four conditions are necessary: (i) evidence of rational asymmetric development as the dark-side of TP; (ii) establishing that the recent growth resurgence in African countries has been driven substantially by resource-rich countries which are experiencing high levels of exclusive growth and extreme poverty, (iii) substantiating that TP is practiced by foreign multinational in resource-rich countries in SSA and (iv) a case study of a resource-rich countries from which we clearly articulate the first-three points. In what follows, one section is devoted to elucidating each of the four points, while the last section concludes.

2. Rational asymmetric development and the dark side of transfer pricing

In this section, we: (i) clarify the concept of rational asymmetric development; (ii) elucidate the correlation between rational asymmetric development and TP and (iii) engage the dark side of TP.

Consistent with Asongu (2015a), rational asymmetric development “refers to unfair practices of globalisation adopted by advanced nations to the detriment and impoverishment of less developed countries” (p. 14). The author refers the interested reader to find more insights into the phenomenon in studies focused on capitalism-oriented rational asymmetry. Some examples include: ‘Making Globalisation Work’ by Stiglitz (2007) which documents that “The average European cow gets a subsidy of $2 a day; more than half of the people in the developing world live on less than that. It appears that it is better to be a cow in Europe than to be a poor person in a developing country” (p. 85). Additionally, “Without subsidies, it would not pay for the Unites States to produce cotton; with them, the United States is, as we have noted, the world’s largest cotton exporter” (p.85). Moreover, the Chang (2008) ‘Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism’ also provides insights into the underlying concept. Mshomba (2011) has also provided an African specific-perspective with a systematic review of how the World Trade Organisation (WTO) policies
are affecting Africa while Asongu (2015a) has extended the celebrated Piketty (2014) literature to elucidate the spirit of African poverty.

Drawing from the above, in the second strand there are grounds on which to sustain that capitalism-fuelled TP is fundamentally motivated by rational corporate policies from multinational companies which are primarily concerned about increasing shareholder value, with little regard over how such practices (like tax evasion by multinationals) affect the livelihoods of the poor in the less developed world from which they operate. According to Osabuohien et al. (2013, 2014, 2015), multinational corporations in African countries have been increasingly employing very questionable accounting practices that enable them to declare minimum profits and therefore liable to low taxes to African governments. The dichotomy between less developed and more advanced countries comes-in when such rational corporate practices are destined to increase tax revenues in more advanced countries to the detriment of their less developed counterparts. In this light, owing to accounting malpractices, a substantial chunk of wealth from African countries end-up in offshore financial centres that are for the most part under the jurisdictions of the Organisation for Economic Cooperation and Development (OECD) nations (Boyce & Ndikumana, 2003, 2010; Fofack & Ndikumana, 2010). Given that, these off-shore financial centres are economically and politically managed by OECD countries, it follows that advanced nations are the primary beneficiaries of these rational corporate practices. Hence, the term: ‘rational asymmetric development’.

The European Network on Debt and Development (EURODAD, 2008) has provided an interesting literature on how the ‘black hole’ of asymmetric development can be tackled through capital flight regulation. It is important to note that more than 50% of illicit capital flight from developing countries involves questionable accounting practices by corporations (EURODAD, 2008, p. 7). Some characteristics of capitalism-driven illicit capital flight practices documented in the study include: speculation and volatility, tax havens, tax concessions, investment and abusive TP, emergence of hedge funds and private equity, capital account liberalisation and its implications, failure by the International Monetary Fund (IMF) to enhance financial surveillance and regulation and, European nations easing conditions for regulatory inefficiencies in hedge funds and private equity as well as facilitating capital flight from less developed countries. From the above narrative, asymmetric development between rich and poor countries is fundamentally driven by capitalism-oriented policies, with a significant determinant of illicit capital flight flowing from less developed to advanced nations being the practice of TP.
Borrowing from Sikka and Willmott (2010), we engage the dark side of TP in the third strand. According to the authors, TP is of growing relevance to companies in the globalised world where their operations are not limited to a single country, but extended to nations with differing regulation capacities and regimes of taxation. The narrative sustains that, in the pursuit of cash flows, marketing goals, joint ventures, profits, inter alia, corporations are obliged to recourse to rational measures of taxable profits and cost performance. Under such environmental conditions, multinational corporations develop processes of overhead- and cost-allocation as well as design strategies with which to transfer commodities. Given the subjective nature of overhead and cost allocation channels, companies enjoy some discretion in tailoring them towards specific geographical jurisdictions and commodities. Such discretion allows them to keep taxes at minimum, hence, increasing profits. The strategy consists of allocating most profits to low-risk and low-tax jurisdictions. While there is some consensus that TP can help companies mitigate the negative effects of double taxation, the practice is substantially abused as it is: (i) used to shift profits by virtually every multinational company in the world (Baker, 2005) and (ii) increasingly being employed to artificially shift profits to low- from high-tax jurisdictions, thereby maximizing income in the former and expenses in the latter. Ultimately, TP remains the most important issue of international tax Multinational Enterprises (MNEs) are increasingly being confronted with (Ernst & Young, 2006), essentially because it is very instrumental in tax avoidance (Ernst & Young, 2005) which has consequences in the distribution of public commodities and wealth in low-income countries.

Globalization has brought about new dimensions in the politics of TP (Sikka and Willmott, 2010). Extricated from the constraints of territorial jurisdictions, MNEs find it easier to establish joint ventures, trust, special purpose entities, affiliates and subsidiaries that enable them to take advantage of favorable subsidies and taxes in certain geographic locations. Hence, global production has bought new and extensive avenues for TP schemes that enable MNEs to avoid taxes in less desirable locations and shift profits to more desirable areas. The sheer complexity, power and scale of globalization represents a significant challenge to mainstream thinking on TP, essentially because owing to complex production and exchange networks: (i) domestic corporations now have transnational and multinational tendencies and (ii) foreign corporations either work with local companies through joint ventures or establish fresh businesses in new jurisdictions.
The overwhelming increases in corporate power and global trade has provided many avenues for crafting ‘tax avoidance’ TP strategies, especially with the tendency of MNEs exploiting natural resources in less developed countries. Hence, developing nations are substantially vulnerable to TP practices of illicit capital flight and/or tax avoidance (Borkowski, 1997). The evidence of manipulation by MNEs in developing countries has been documented in a broad stream of literature, including: (i) the IMF’s position that the globalization of trade has emerged in tandem with numerous issues for national tax authorities, accruing from the abuse and potential use of TP by MNEs, entailing, the allocation of fixed costs, loans, patents and trademark valuations (Sikka & Willmott, 2010); (ii) a plethora of tax administrators are involved in TP practices (Tanzi, 2000).

The strength of MNEs is consolidated with the ideologies of capitalism, as nation-states are obliged to compete in order to attract the investment needed to boost domestic economies. This competition engenders avenues by which MNEs devise TP strategies, rationally needed to take advantage of differences in taxes across nation-states (Sikka & Willmott, 2010). In addition, the opportunities provided by TP are beginning to facilitate the birth of microstates, which are known as ‘tax havens’ or offshore financial centers. These microstates are instrumented by advanced nations with legislative powers to provide less tight regulation, preserve secrecy and impose no/low taxes which are attractive to MNEs seeking blur administrative structures. The secrecy represents a fertile ground for creative TP schemes that are being exploited for tax avoidance. No wonder approximately half of global trade transactions transit via offshore financial centers, despite these jurisdictions accounting only for about 3% of World GDP. While microstates represent only 1.2% of the global population, they account for 26% (31%) of assets (net profits from American MNEs).

We end this section by providing some stylized facts on the increasing power of microstates and growing influence of MNEs vis-à-vis nation states. First, consistent with Sikka and Willmott (2010), every year about 200,000 new corporations are created in microstates, with a cumulative number of about 3,000,000 after the turn of the millennium according to Baker (2005). Consistent with the narrative, some cases in point include: (i) a building in Caymans registering about 18,857 corporations, including major global MNEs (US Government Accountability Office, 2008); (ii) the British Virgin Islands (Caymans) having 3,389 (182) corporations by per 100 people and (iii) the 575 residents of Sark Island (part of the Channel Islands) having some 15,000 companies which are non-resident corporations for the most part (UK Home Office, 1998). A common denominator among these
tax havens is that they do not impose taxes on the profits of corporations and hence, local tax authorities are not concerned about TP practices. Second, at the start of the third millennium, of the 100 largest economies, 51% were not nation states but MNEs with a considerable exercise of power (Anderson et al., 2005). According to the narrative: (i) the 100 biggest companies controlled about $3400 billion worth of assets, of which about 40% are not located within domestic economies; (ii) the top 200 companies represented about 28% of the world economy; (iii) the top 500 controlled 70% of global trade, 80% of FDI, 30% of world GDP, about 33.3% of manufactured exports, 75% of trade in goods and services and approximately 80% of trade in technical and management services; (iv) less developed countries which are dependent on agriculture are left to the whims and caprices of MNEs because, only 20 controlled the trade of coffee, 6 influenced 70% of trade in wheat, 1 controlled about 98% of packed tea production and 2 companies influenced about 80% of world grain which was distributed by two MNEs and (v) intellectual property rights (IPRs) were essentially monopolized at about 97% by OECD nations, of which 90% were held by powerful MNEs (Anderson et al., 2005).

3. Africa rising, resource-rich SSA countries, exclusive growth and poverty

In this section, drawing from the evidence that most of Africa’s growth has been driven by resource-wealth countries with oil, mining and gas industries (Deaton, 1999; Veselinovic, 2015), we present evidence that underlying countries are characterised with exclusive growth and poverty. We have shown above that the growth resurgence in the sub-region has been fundamentally driven by resource-rich nations owing to increasing commodity prices (Boyce & Ndikumana, 2012ab; Asongu, 2014d). Unfortunately, these wealthy nations are also plagued by substantial extreme poverty, with comparatively lower social and health amenities. Putting the account into greater perspective (Ndikumana & Boyce, 2012b): the Republic of Congo, Gabon and Equatorial Guinea are among these countries with per capita incomes (wealth rank) of respectively $1,253 (15th), $4,176 (5th) and $8,649 (2nd) and oil reserve ranks of 8th (Congo), 7th (Gabon) and 10th (Equatorial Guinea). Consistent with the account, a great portion of the population in these nations still live in very abject poverty. Accordingly, the lack of basic social services, drinkable water, elementary schools and decent sanitation are eloquent testimonies. For example, Gabon and Equatorial Guinea both rank second- and third-to-the last with 55% and 51% respectively of
immunization rates against measles. Moreover, the probability of a child reaching his/her fifth birthday in Equatorial Guinea is lower the average of the SSA sub-region.

Evidence of exclusive growth is provided by a recent global rankings on ‘quality of growth’ provided by the IMF (Mlachila et al., 2014, p. 27). Drawing from time-dynamic assessments of the performance from 93 developing nations in terms of ‘quality of growth’, rankings of the highlighted oil-wealthy nations have been deteriorating substantially. In essence, evidence from 1990-1994, 1995-1999, 2000-2004 and 2005-2011 shows increasing exclusive growth: Congo Republic (59th, 70th, 74th & 84th), Gabon (58th, 61st, 67th & 69th) and Equatorial Guinea (76th, 73rd, 76th & 88th).

In light of the above, the position of SSA countries in Figure 1 is not surprising, given that the two decades of growth resurgence has been marred by inequality. The stance can be elucidated on two counts: (i) the relationships among, growth, inequality and poverty and (ii) evidence that growth in the sub-region has been marred by inequality which justifies the growing extreme poverty.

First, inequality substantially affects the relationship of growth on poverty because the inequality elasticity of poverty is higher than the growth elasticity of poverty (Asongu & Kodila-Tedika, 2014). In more specific terms: “The study finds that the responsiveness of poverty to income is a decreasing function of inequality” (Fosu, 2010a, p. 818); “The responsiveness of poverty to income is a decreasing function of inequality, and the inequality elasticity of poverty is actually larger than the income elasticity of poverty” (Fosu, 2010b, p. 1432); and “In general, high initial levels of inequality limit the effectiveness of growth in reducing poverty while growing inequality increases poverty directly for a given level of growth” (Fosu, 2011, p. 11). This evidence is consistent with studies focusing on Africa (Fosu, 2010ac) and a broad sample of developing nations (Fosu, 2010b; Asongu et al., 2014).

Second, Africa’s growth resurgence has been marred by inequality (Blas, 2014; Veselinovic, 2015). According to Veselinovic (2015), Africa’s growth has been characterised by the rich getting richer and the poor getting poorer. With seven of the 10 fastest-growing economies in the world, the highest expected-increase in the number of multimillionaires over the next 10 years (59%), it also has 6 to the 10 countries with the highest inequalities, notably: South Africa (65), Namibia (61.3), Botswana (60.5), Zambia (57.5), Central African Republic (56.3) and Lesotho (54.2).

2 It is important to note that Mlachila et al. (2014) have presented a comparatively more holistic measurement of inclusive development, termed ‘quality of growth’.
The facts on inequality substantially contrast with a recent strand of literature on Africa rising (Young, 2012; Leautier, 2012; Alan & Carlyn, 2015; Fosu, 2015). The continent is becoming the destination for luxury commodities (e.g. Nigeria being a top Champagne market) and more than 50% of Africans still live in extreme poverty. It follows that, the fruits of economic prosperity gathered in recent decades have not rolled-down down to the poor. Moreover, the resource-industries driving African growth do not employ many people. Hence, the growth is not broad-based as only a few elite are benefiting from the economic prosperity.

4. Resource-rich countries, transfer pricing (TP) and capital flight

We have seen above that TP contributes to more than 50% of illicit capital flight from developing countries. Consistent with Asongu (2014d), most of the illicit capital flight in Africa is driven by resource-rich nations (EURODAD, 2008, p.7). Hence, interactions among resource-wealth, TP and illicit capital flight are fundamental to the poverty tragedy or the spirit of poverty in SSA (Asongu, 2015a). But in order to fully understand these nexuses, it is important to engage how illicit capital flight is linked to poverty.

Drawing from Asiedu et al. (2012) and Asongu (2015a), one of the justifications put forward for Africa’s underdevelopment is the shortage of investment capital. In line with the Harrod-Domar model, three arguments have been advanced: (i) Africa is confronted with a ‘financing gap’ issue because invested capital is substantially lower than the capital required for sustainable growth investment; (ii) long-run development is achievable with the bridging of the ‘financing gap’ and (iii) for the ‘financing gap’ to be filled, the continent would need external finance in the forms of development assistance and debts. It is in this light that calls for more development assistance have been increasing after unsuccessful attempts at attracting foreign direct investment (FDI) through domestic financial markets and liberalisation policies (Asiedu, 2004; Asongu, 2012). According to the authors, the relevance of external finance in Africa’s development has been encapsulated in the New Partnership for African Development (NEPAD) and the Millennium Development Goals (MDGs).

In line with Asiedu et al. (2012), the dependence on external finance by African countries to fight poverty is problematic for a threefold reason. First, development assistance and FDI are extremely volatile and such volatility has substantial adverse consequences on recipient economies, especially during global financial meltdowns (see Kangoye, 2013; Quartey & Afful-Mensah, 2014). Second, a bulk of recent literature has also shown that the impact of development assistance on economic growth is ambiguous. These includes,
provocative narratives like ‘foreign aid follies’ (Rogoff, 2014), sceptical surveys from more than four decades of development assistance (Doucouliagos & Paldam, 2008, 2009), radical positions (Asongu, 2014c) and clarifications on the questionable economics of development assistance in Africa (Asongu, 2015b), and inter alia, the need to reinvent foreign aid for inclusive and sustainable development in light of Piketty’s (2014) celebrated literature (Asongu, 2015c). Third, efforts at attracting FDI to the SSA sub-region have not been very successful (Asiedu & Lien, 2011; Anyanwu, 2012). This narrative is consistent with the bulk of African business literature (Rolfe & Woodward, 2004; Bartels et al., 2009; Asongu, 2013ab).

The current of literature above provides evidence to the fact that, the use of foreign aid to compensate for TP and/or illicit capital in SSA has several shortcomings. In essence, given that previous attempts at attracting other forms of external financial flows like FDI have not been successful and with the tendency unlikely to change in the near future, it would be unrealistic to suppose that overly reliance on development assistance would in the short- and medium-runs compensate for Africa’s investment needs. While solutions to the issue have varied from self-reliance (Fofack, 2014) to the recommendation ‘that sub-Saharan African nations establish effective strategies toward mitigating illicit capital flight within the framework of a broader agenda of resource mobilization for economic development’ (Asongu, 2015, p.19), the conjectures of Fosu presented in Section 3 clearly emphasise the need to improve inequality structures before the growth benefits in poverty eradication can be fully reaped. Hence, TP is as important to existing inequality structures in policy priority. Therefore, the two policy syndromes should be tackled simultaneously, with greater emphasis on structural inequality. We illustrate narratives in the last-three sections with the case study of Zambia.

5. Case Study: Zambia, transfer pricing, Glencore, the Copper Industry and poverty

TP represents a rational asymmetric development issue of how much profit is fair? In other words how much should be rationally stolen from Africa by MNEs operating in resource-rich countries? As far as we have reviewed, a case study that can objectively illustrate the line of inquiry addressed by this chapter is Zambia, Glencore and the Copper industry. Glencore Plc is an Anglo-Swiss MNE, specialized in mining and commodity trading, headquartered in Baar-Switzerland, ranked 10th of the Fortune Global 500 of the world’s largest corporations and third largest family business of the world (Why Poverty,
Zambia as a nation has been blessed with abundant natural resources, especially in copper. However, the paradox is that the country is ranked among the bottom 20 in terms of poverty. Hence, the country is rich and at the same time poor, which translates the issues of inequality and asymmetric development (Why Poverty, 2013).

The overarching issue is why Zambia with its abundant natural resources is one of the world’s poorest countries? In other words, why have booming copper prices not reduced her poverty? This has been widely debated in political and academic circles. In the former, some parliamentarians have even threatened to walk to the copper mines and request them pay their taxes. On the latter, there is an evolving stream of literature on TP in the Zambian copper industry (Ping, 2007; Azémard & Corcos, 2009; Adam & Simpasa, 2010; Why Poverty, 2013).

While copper represents averagely more than 70% of exports, the ‘copper share of fiscal revenue’ and ‘copper revenue/GDP’ have revolved respectively between 0.1% and 12.9% and between 0.0% and 2.8% for the period 1994-2008 (Meller & Simpasa, 2011, p.20). Despite the fact that the price of copper nearly quadrupled between 2001 and 2008, the shares of copper in fiscal revenue and ‘revenue as a % of GDP’ remained averagely unchanged. For instance in 2006, while Copper exports from Zambia stood approximately at 3 billion USD, corresponding tax revenue was just 50 million USD. And given that the Zambian government has an underlying contract of furnishing electricity, which stood at 150 million USD for that year, it was a loss to the Zambian economy (Why Poverty, 2013). The fact that tax revenues paid by mining industries to Zambia did not increase correspondingly with the burgeoning of world copper prices eloquently translates the concept of TP. In 2008, ‘if Zambia had received for its copper exports the same price that Switzerland declared for its copper exports, in the same quite detailed commodity categories, Zambia’s GDP would have nearly doubled that year’ (Why Poverty, 2013, 40:00mins to 40:15mins).

An audit of Mopani Copper Mines, initiated by the Zambian government has established evidence of TP. When the report was made public, the European Investment Bank suspended further loans to Glencore. The case has been reported to the OECD by one Zambian charity on charges that Glencore has been violating tax-related guidelines. Unfortunately, failure by Glencore to cooperate has led the OECD to admit it can do nothing about the case if one party refuses to cooperate (Why Poverty, 2013).

Glencore is the world’s largest integrated commodity trader, with a yearly turnover of approximately 180 billion USD which is more than 8 times the GDP of Zambia. It controls Mopani Copper Mines in Zambia, with a 73% stake and all copper produced by Mopani is
sold to Glencore. The copper from Zambia is sold among subsidiaries of Glencore such that the highest margins are obtained from those located in countries with low or no tax requirements (Why Poverty, 2013).

Environmental issues have also been raised, with some of Glencore’s activities suspended because of diluted acids drifting from production plants to homes. There have been incidences in 2005 and 2008 in which contaminated water has sent hundreds of people in townships near the Mopani Copper Mines to hospitals. Sulfur dioxide emitted by the mines is causing severe respiratory problems. Some accounts even sustain that the emissions of impurities by the mines is about 1000 times higher than the limits tolerated by the World Health Organization (WHO) (Why Poverty, 2013). We resist the itch of engaging this dimension further because it may derail us from the TP focus of the study.

Today, with the copper boom, unemployment is not decreasing and about 64% of Zambians still live below the poverty line (Why Poverty, 2013). Moreover, it is the fourth country with the highest inequality rate in the world (Veselinovic, 2015). A logical implication here is that even in the absence of TP, the elite of the country would still exercises rational asymmetric development practices by preventing the juice of economic prosperity from trickling down to the poor. Hence, it is fundamental to deal with the inequalities structures in the country, so that, if and when fair taxes are paid by MNEs, their externalities are broad-based and not captured by a few.

6. Concluding implications

A recent publication by the World Bank on Millennium Development Goals (MDGs) has established that extreme poverty has been decreasing in all regions of the world with the exception of sub-Saharan Africa (SSA), in spite of over two decades of growth resurgence. This chapter has explored the role of transfer pricing in SSA’s extreme poverty tragedy. The analytical structure entails: (i) emphasis of rational asymmetric development as the dark side of transfer pricing, (ii) evidence that the recent growth resurgence in African countries has been driven substantially by resource-rich countries which are experiencing high levels of exclusive growth and extreme poverty, (iii) the practice of transfer pricing by multinationals operating in resource-rich countries of SSA and (iv) a Zambian case study of extreme poverty and transfer pricing schemes by Glencore in the copper industry.

Two main policy implications are derived for the fight against extreme poverty. First, Africa needs to deal with its inequality structures, because the current tendency shows that
even in the absence of transfer pricing, inequality is still worsening. Second, the concept of rational asymmetric development is not only limited to the relationship between developed nations and African countries by the bond of transfer pricing or illicit capital flows. Such tax avoidance mechanisms also substantially exist between the rich and poor segments of African populations. Hence, the rich of poor countries also device all kinds of schemes to avoid declaring their full incomes and hence, limiting the tax paid for the ultimate delivery of collective or public commodities.

In essence, if the component of growth that survives transfer pricing practices cannot trickle down to the poor, there is no guarantee that even with the absence of detrimental transfer pricing, the incremental growth would have trickled-down to the poor. Dealing with the structures promoting inequality would entail, inter alia, understanding the role of inequality in poverty-growth transformations. Accordingly, inequality substantially affects the relationship of growth on poverty because the inequality elasticity of poverty is higher than the growth elasticity of poverty (Asongu & Kodila-Tedika, 2014). In more specific terms: “The study finds that the responsiveness of poverty to income is a decreasing function of inequality” (Fosu, 2010a, p. 818); “The responsiveness of poverty to income is a decreasing function of inequality, and the inequality elasticity of poverty is actually larger than the income elasticity of poverty” (Fosu, 2010b, p. 1432); and “In general, high initial levels of inequality limit the effectiveness of growth in reducing poverty while growing inequality increases poverty directly for a given level of growth” (Fosu, 2011, p. 11). This evidence is consistent with studies focusing on Africa (Fosu, 2010ac) and a broad sample of developing nations (Fosu, 2010b; Asongu et al., 2014).
References


