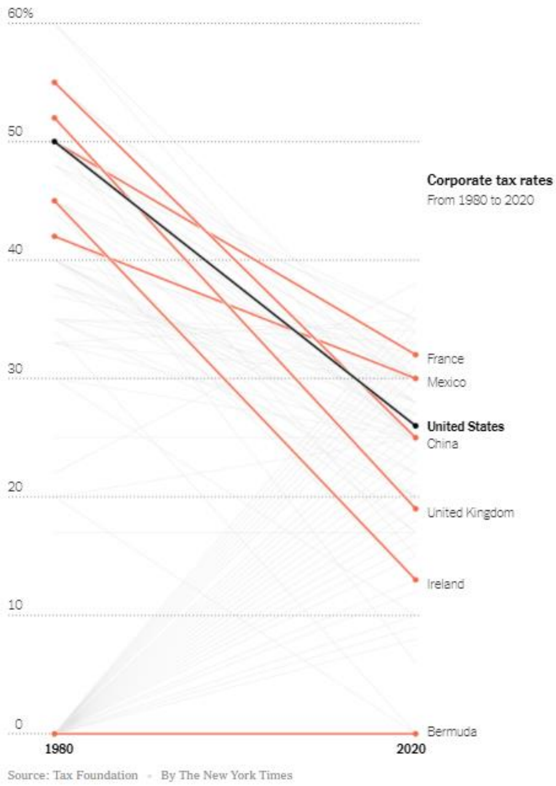
# Global Reforms

*11th August 2021*

## G20 Tax Update

The G20 finance ministers have agreed recently to a global tax reform deal at their gathering in Venice, Italy. This deal, agreed as well by 130 nations from the OECD, seeks to introduce an international tax on multinational companies and set a global minimum tax rate of 15%. This has been set up to eliminate the low tax rates accessible to multinational companies, by structuring key domiciles of key operations in tax havens and/or the use of transfer pricing on intellectual property.

Highly profitable technology companies, including Google, Facebook, and Apple, have utilized complex tax structures to avoid tax. This has reduced their effective tax rates, to as low as 2-3%. The G20's goal is to create a more stable and fair international tax architecture. The changes to the worlds tax system as estimated, will generate an additional $150 billion of global tax revenue per year. This funding is earmarked, towards efforts in fighting climate change. US president, Joe Biden, has stated that such an enforcement will be part of the $4 trillion economic agenda he has in motion.

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## Chinese Regulatory Crackdowns

The Chinese government has signaled its intent, to clamp down on its technology sector. This initially occurred in 2020m, with the cancellation of Alibaba's initial public offering (IPO) of the Ant Group – a move widely seen as reigning in Jack Ma, Alibaba's popular and charismatic founder and chairman. The move to crack-down on technology companies, must be seen in the context of the value of controlling the vast data, which technology giants are able to harvest, analyze and monetize.

Subsequent regulatory moves include:

- The Chinese government halting new user sign-ups, days its US IPO.
- Legislating that educational companies must operate strictly as non-profit organizations, affecting companies such as Gaotu, New Oriental, TAL Education and Zuoyebang.

These controls have had major short-term effects on some of the biggest companies on the stock market including:

- Alibaba (internet conglomerate),
- Tencent (internet conglomerate),
- Meituan (food Delivery),
- Pniduoduo (ecommerce),

Alibaba was slapped with a fine of $2,8 billion on April 10th, 2021. Following this public dressing down, a 34 further technology companies were called to a meeting, to rectify antitrust practices. Some of the findings include, failing to disclose mergers, signing exclusive contracts, misleading marketing tactics and other merger irregularities.

For investors in the Chinese technology sector, this crackdown must be seen in the context of growing concerns about data protection between both sides of the Pacific Ocean, as relations between China and the United States continue to deteriorate. As the two powers vie for economic, military and technological advantages, they have each sought to ensure that their companies' digital information does not slip into the other's hands, even when business takes place across borders.

The Chinese clampdown has been segregated into three main sectors: 1) an antitrust crackdown, 2) a data security overhaul, and 3) a check on capitalist excess. Whilst this antitrust law had been around since 2008, enforcement did not pick up until late 2020. China has started what it seems to be a worldwide clamp down on technology firms, with investors also expecting a rise in regulatory and anti-trust oversight, for US technology giants.

## (Stag)flation – The significance and likelihood

Since our last update, entitled *The Rise of Inflation,* the debate as to the transitory or permeance nature of inflation has continued. Another discussion that has surfaced, is whether the present inflation will lead to stagflation?

Stagflation is the combination of 2 factors: Stagnant or slow economic growth and high inflation. It is a phenom that occurred in the 70's – a period marked by high unemployment and the quadrupling of oil prices following the Arab-Israeli Yom Kippur war.

The risk of stagflation is that it imperils the traditional stock-bond correlation, which investors are accustomed to expecting. I.e. When stocks decline owing to risk in capital markets, bond prices tend to rally as investors seek safer investments. However, the rise of inflation erodes the value of bonds, which leads to investors selling bonds, resulting in price declines and higher yields.
Several arguments point to persistent, secular increases in inflation. Namely:

- The US government acting excessively, by approving an additional $1.9tn of spending in March 2021, on top of a $3tn package last year and a $900bn stimulus in December 2020, with a $2tn infrastructure bill to soon follow (The US response to the crisis is thus an order of magnitude larger than its response to the 2008 global financial crisis),
- The US Federal Reserve and other central banks continued accommodative policies and credit easing,
- Central banks monetizing large fiscal deficits through the application of helicopter money.

Whilst history suggests that inflation may be the only way out of the increases in public debt (which is expected to reach 120% of gross domestic product in the US, to fund the response to COVID-19 pandemic). US debt would plunge to 47% on the back of inflation over 5%. Fractured global supply lines may risk testing global inflation and productivity expectations.

Equity and bond markets will tremble in response to any further surprises, to both inflation and global trade.