STATEMENT BY DR. CARLOS CORREA, EXECUTIVE DIRECTOR OF THE SOUTH CENTRE, TO THE MINISTERS AND GOVERNORS MEETING OF THE INTERGOVERNMENTAL GROUP OF TWENTY-FOUR (G24)

October 2021, Virtual Meeting

The world economy is showing signs of recovery, yet very uneven[1], and is facing a multitude of challenges including rising inequality within and among countries, vaccine nationalism in the face of raging COVID-19 variants, escalated debt burden for many developing countries, ravages of climate change and weakening multilateralism.

The COVID-19 pandemic has caught the world by surprise. Naturally, it is an enormous stress test for the global financial system including the international debt architecture, economic governance and global solidarity. Though some international response actions have been initiated to respond to the huge negative economic and social impact on developing countries, so far they have been too late and too little. The Secretary-General of the United Nations recently stated that: "*The pandemic has demonstrated our collective failure to come together and make joint decisions for the common good, even in the face of an immediate, life-threatening global emergency*."

Now, we are at a pivotal moment to mend and fix the global systemic problems so that we can recover better, greener, more inclusively, and more resiliently. It is time to address root causes of the fragility, instability, divergence and asymmetries of the global economy.

In the process, we should ensure that the vulnerabilities of developing countries would not be masked by signs of recovery in the world, as most of these countries' prospects for returning to the pre-pandemic economic situation would require many years. The COVID-19 pandemic has left lasting scars on these economies. The pandemic and the global economic recession have left many developing countries with little fiscal and monetary space. Therefore, while advanced countries have mounted huge stimulus packages, according to the IMF data, 41 developing countries had no choice but to reduce their total expenditures in 2020 amid the global health crisis. This immense asymmetry is a major reason for the divergent economic recovery trajectory from the pandemic.

Developing countries' debt sustainability situation further deteriorated in 2020 with public debt increasing in 108 out of 116 developing countries, and those countries with the highest pre-pandemic debt experienced the largest increases. 33 of developing countries saw their public debt-to-GDP ratios increase. An increasing proportion of low-income countries are in debt distress or

[1] Recovery should be measured with more variables than just average world GDP growth rates.

high risk of debt distress. Middle-income countries have been among the hardest hit by the pandemic and experienced increasing debt vulnerabilities. Yet, neither IMF debt relief, nor the G20 Debt Service Suspension Initiative and Common Framework have included these countries. The pandemic has revealed deficiencies in the international debt architecture. The GDP per capita based system does not seem to be appropriate during a global crisis to address debt burdens and their implications. G20 DSSI and CF are welcome; however, the fear of credit rating downgrades, concerns of conditionality and other reasons have made some eligible countries reluctant to apply for the support offered by those initiatives. So far real debt relief has only been limited to the IMF initiative for the poorest countries whose IMF debts are falling due. There is a weariness towards debt relief and cancellation, however heavily indebted developing countries with both liquidity and debt sustainability difficulties do not seem to be able to engineer economic recovery without meaningful debt relief. The current debt architecture has been ineffective in both preventing repeated episodes of unsustainable debt build ups and restructuring debts. Thus, a reform is urgently needed.

The latest new allocation of Special Drawing Rights has been unanimously welcomed. It needs to be highlighted, however, that compared with actual liquidity needs of developing countries as estimated by various multilateral institutions, the new allocation of SDRs is far from enough. Nevertheless, for developing countries the new SDRs issuance would mean badly needed non-debt creating liquidity even though low-income countries will have access to only 3.2 per cent or less than $21 billion of the US$ 650 billion SDRs while the Group of Seven combined would receive approximately $283 billion out of the new issue. The new allocation creates an opportunity to formulate a workable mechanism to allow donated SDRs to be rechanneled to countries in urgent need of unconditional liquidity. It would be important to involve eligible financial institutions to hold and use SDRs as indicated in the IMF articles of agreement. The fact that countries that need the most of SDRs have the least of them underscores the need to continue with the reform of the IMF quota system.

With the COVID-19 pandemic still raging, equal access to vaccines is of critical significance to the economic recovery and also the global public good for bringing the global health crisis under control. However, this is the most glaring inequality the world is facing. While only 1.1 per cent of people in low-income countries have received at least one dose, high-income countries have administered over 51%. The need of access to affordable vaccines of the poor is of great urgency. Not to correct this situation of unequal access to vaccines would be a demonstration of the breakdown of international solidarity and global governance. This issue also underscores the need for transfer of technology, including know-how, to developing countries for expanding the production of the much-needed vaccines. Immediate action in the context of the WTO is needed, notably in relation to the waiver to certain obligations under the TRIPS Agreement proposed by a large part of its membership.

The climate crisis is an actual threat to human life itself. The natural disasters the world experienced in 2021 have further proved what the scientific community has been saying for years. In this regard, climate finance is crucial to help developing countries to implement their Nationally Determined Contributions; however, the commitments made by developed countries under the UNFCCC to provide US$ 100 billion per year to 2020 are far from being fulfilled. The UN Climate Change Executive Secretary, Patricia Espinosa, has urged developed countries to make good on their promise to support the needs of developing nations. According to an OECD 2020 report, climate finance for developing countries raised to $78.9 billion in 2018. However, it is unclear to what extent climate finance in its current shape is responding to the needs of developing countries. An OXFAM 2020 report has alerted that almost 80% of climate finance are loans, guarantees and other non-grant instruments. About 40% of these loans are in commercial terms, increasing the debt distress of developing countries already overwhelmed due to the need to support their economies during the pandemic. Most of the resources allocated are directed to mitigation and just an estimated 25% is to adaptation which is a crucial issue for developing countries. Loss and damage is also an issue of interest for developing countries but there is nothing concrete on the climate finance tool box. These elements require to be properly addressed in the COP26.

With stressed fiscal space and rising public debt, attention has turned to ensuring that large Multinational Enterprises pay their fair share of taxes in the developing countries where they have sales and generate profits. The UN FACTI Panel has estimated that USD 500-600 billion is lost annually to corporate tax avoidance. This larger problem is compounded by the digitalization of the economy. The Two Pillar solution to the tax challenges of the digital economy, being negotiated in the OECD/G20 Inclusive Framework, so far offers minimal revenue benefits to developing countries and is exceedingly complex to administer. To be fair and sustainable, the Two Pillar solution must incorporate key demands of developing countries, such as the reallocation of at least 30% of residual profits to market jurisdictions, a deemed routine return for remote presence, dispute resolution without binding arbitration, the continuation of unilateral measures until Pillar One has begun demonstrating satisfactory results, a simple to administer Subject to Tax rule with a broad scope, the primacy of the Under Taxed Payments rule over the Income Inclusion Rule and a minimum tax rate that is at least 20%. The South Centre has highlighted in a July 2021 Statement some of the key concerns from the perspective of developing countries in the Two Pillar negotiations.

The UN Tax Committee, another body that sets international tax standards, has produced a valuable alternative for taxing the digital economy via Article 12B of the UN Model Tax Convention. Developing countries can consider including this in their tax treaties with developed countries. This will remove the need for unilateral measures and bring stability to the international tax system. The new membership of the UN Tax Committee has an opportunity to amend the UN Model Tax Convention and allocate more taxing rights to source jurisdictions on key items of income such as capital gains, royalties and air transport. For this, the Committee Members from developing countries require effective support and backing from their tax administrations and Ministries of Finance. The South Centre has recommended issues that can be included in the agenda of the UN Tax Committee.

In concluding, to uphold and reinvigorate multilateralism, especially in the areas of finance, trade, health and development, is of critical importance for the post-pandemic recovery**.** International cooperation must be enhanced to build back better, improve economic and financial resilience and be better prepared for future shocks and crises on a global scale. In the short to medium term, as any financial tightening in advanced countries would have massive repercussions on the developing countries, notably the emerging economies, good policy communication and coordination would be essential for maintaining international financial stability and facilitate economic recovery from the pandemic. This should be complemented with concrete steps to reform an international financial architecture ostensibly inadequate to achieve the Sustainable Development Goals, a target even more elusive now for developing countries severely hit by the pandemic.