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South Centre Paper on Sustainable Development Goals

SDGs: Economic Issues at National and Global Levels

The economic pillar of sustainable development is crucial, yet relatively neglected. It should get its proper place in the Sustainable Development Goals. This paper deals with economic issues at national level (as Sustainable Development Goals) and at international level (as part of the new Global Partnership for Development). It is part of the South Centre's contribution to the United Nations process of establishing Sustainable Development Goals.

Economic development with a green environment—an aspiration for many countries.

A. Economic Issues

A1. National Goals and International Supporting Policies

The targets below can supplement MDG-like specific goals that may be set for developing countries. They need to be (a) pursued by developing countries and (b) supported by appropriate policies by advanced economies to enable and support the goals by developing countries and (c) supported by international actions.

1. Sustained economic growth in developing countries

Goal: Sustained economic growth is absolutely necessary for progress on the social front. No country has ever achieved constant improvements in living standards and human development indicators without sustaining a rapid pace of economic growth. Without this, progress in human and social development would naturally depend on external and domestic transfer mechanisms – that is, aid and redistribution of public spending, respectively. Since there are limits to such transfers, social progress cannot go very far without an adequate pace of income and job generation.

Growth targets: The international community should go back to setting growth targets for developing countries. The United Nations at the end of the 1950's fixed 5 percent as the target growth for the 1960's, the first UN Development Decade. It was raised to 6 percent for the 1970's, the Second UN Development Decade. The UN was just getting ready to fix 7 per cent for the 1980's when the world economy went into recession in 1974. A trend growth target of at least 6 per cent should be adopted for low income countries (LICs) in order to close their income gap with more advanced countries. Should growth fall short of the target for an extended period, action should be taken at the national level (policy adjustments) and/or international level (additional financing or debt relief or trade preferences) to achieve the target.

2. Full employment

Goal: Full employment as the key policy objective for both developing countries and advanced economies.

Job creation holds the key to improvements in living standards and to human development. But economic growth is not necessarily associated with creation of jobs at a pace needed to fully absorb the growing work force. Thus, active policies are needed to provide secure and productive job opportunities.

Targets: Set specific time-bound targets for overall and youth employment and use labour market, training and other policies, in cooperation with the ILO.

3. Equity and distribution

Goal: Ensure that the benefits of economic growth and development are distributed fairly and equitably and to improve the situation of income distribution and social equity.

Equity is an important ingredient of social cohesion and development. Prevention of widened inequality in income distribution calls for intervention, targeted policies and correctives.

Targets:

- Set a minimum limit to the share of bottom 20 per cent and a maximum limit to the share of top 5 per cent in national income and use taxes and social policy instruments (income supports, subsidies, provision of free housing, education and health services) to achieve these targets. (This is preferable to setting equity targets in terms of the Gini coefficient because, *inter alia*, it addresses both concentration and poverty.)
- Establish targets for minimum social spending in government budgets (e.g. 10 per cent of GDP), drawing on best practices in advanced economies.
- Strive towards decent wages and incomes for workers in the formal and informal sectors and agricultural producers.

4. Building productive capacity, economic diversification and development strategies

Goal: Developing countries should achieve sustained development of productive capacity, through implementing of development strategies that enable economic growth, employment generation including through adding value to commodities, industrialisation and agricultural development.

Many developing countries are still dependent on commodities. They need to add value through processing and resource-based industrialisation. They also need longer-term policies for industrial and agricultural development, and the support measures (national and international) to enable their implementation. Industrialization is essential for reducing income, productivity, technology and skill gaps with more advanced economies since there are limits to growth and development in commodity-dependent and service economies. It takes different shapes at different levels of development. But, it is not beyond reach even for some relatively small economies. On the other hand, many resource-rich economies closed income gaps with more advanced economies of their times only through industrial development. Developing countries require the policy space and the resources (finance and technology) and market access to enable this development to take place.

A2. The International Context: Actions required at the international level, through policies in developed countries or through international actions

In order that developing countries (DCs) are able to attain the macro-economic goals, two types of supporting policies are needed: (a) National Policies in developed countries, (b) International actions and reforms.

To succeed in development, developing countries need to have adequate policy space. However, their policy space is considerably narrower than that enjoyed by today's advanced economies (AEs) in the course of their industrialization because of the tendency of those who reach the top to "kick away the ladder" and deny the followers the kind of policies they had pursued in the course of their development.

It is necessary to reform multilateral and bilateral arrangements to allow DCs as much economic policy space as those enjoyed by today's developed countries in the course of their industrialization and development.

DCs also enjoy much less environmental space than that enjoyed by today's AEs in the course of their industrialization, and hence face greater constraints in attaining growth and development without compromising future generations' well-being. Centuries of industrial development in AEs have left very little carbon space and much of it is still being used by AEs because of a very high per capita emission of carbon dioxide and other harmful gasses. DCs thus face the dilemma of either sacrificing growth and development or incurring large costs of mitigation to cope with the limited carbon space. In the same vein, global warming and increased instability of climatic conditions are already inflicting significant costs on several poor DCs, including those dependent on agricultural commodities and small-island economies.

Thus, action is also needed at the international level in order to ease the environmental constraints over economic growth and development in DCs and to meet the costs inflicted on them by environmental deterioration resulting from years of industrialization in AEs.

Finally, there is a need for a development-friendly global economic environment. We need mechanisms to prevent adverse spillovers and shocks to DCs from policies in AEs or destabilizing impulses from international financial markets.

Adequate policy space and a development-friendly global economic environment call for action at the international level on several fronts:

i. Review multilateral rules and agreements with a view to improving the policy space in DCs in pursuit of economic growth and social development.

ii. Attention to the international IP regime with a view to facilitating technological catch-up and improving health and education standards and food security in DCs.

iii. Industrial, macroeconomic and financial policies of DCs are severely constrained by BITs and FTAs signed with AEs. These agreements are designed on the basis of a corporate perspective rather than a development perspective and they give considerable leverage to foreign investors and firms in DCs. They need to be revised or re-considered.

iv. Ensure favourable terms for commodity-dependent DCs in contracts with TNCs to enable them to add more value to commodities and obtain more revenues from commodity-related activities.

v. Establish and effectively implement a legally binding multilateral code of conduct for TNCs to secure social responsibility and accountability and prevent restrictive business practices.

vi. Introduce multilateral mechanisms to bring discipline policies in developed countries to prevent adverse consequences for and spillovers to DCs, including:

-- reducing or eliminating agricultural subsidies,

-- reducing or eliminating restrictions over labour movements ,

-- reducing or eliminating restrictions or barriers to transfer of technology,

-- ensuring that monetary and exchange rates policies made in developed countries fully take into account the effects on developing countries.

vii. Establish mechanisms to bring greater stability to exchange rates of reserve currencies and prevent competitive devaluations and currency wars, such as those seen during the current crisis.

viii. Full employment should be declared as a global objective, to be pursued by all countries without resort to beggar-my-neighbour exchange rate, trade and labour-market policies.

ix. Reversal of the universal trend of growing income inequality should also be a global goal. This calls for reversing the secular decline in the share of labour in income in most countries. This goal could be pursued through various means to establish a level playing field between labour and capital, including greater international mobility of labour, regulation of international financial markets and capital movements, more equitable taxation of wage income and incomes from capital and financial assets, prevention of tax competition and a code of conduct for TNCs. Pursuit of such a goal calls for breaking the dominance of finance and corporate interests in the formulation of policies and operation of the global markets. No single country alone can do this – it should be pursued collectively at the global level.

x. Regulate systemically important financial institutions and markets, including international banks and rating agencies and markets for commodity derivatives with a view to reducing international financial instability and instability of commodity prices.

xi. Establish impartial and orderly workout procedures for international sovereign debt to prevent meltdown in DCs facing balance-of-payments and debt crises.

xii. Provide financial resources and technology to developing countries to enable them to cope with environmental deterioration and climate change.

xiii. Introduce international taxes in areas such as financial transactions or energy to generate funds for development assistance as well as for financing the costs of climate change mitigation and adaptation in DCs.

xiv. Reform international economic governance in ways commensurate with the increased participation and role of developing countries in the global economy. Re-examine the role, accountability and governance of specialised institutions such as the IMF, the World Bank (WB) and the WTO, and the role that the UN can play in global economic governance.

B. International Economic Issues and Actions: Enhanced Global Partnership for Development

The shortcomings of the MDG 8 on Global Partnership are well known. The goals were ad hoc and the targets and indicators are also not systematically compiled. The SDGs and the Post-2015 agenda for development should not simply extend MDGs, reformulating the goals, dropping one or two and adding a few in areas such as environment and human rights. It should focus, instead, on global systemic reforms to remove main impediments to development and secure an accommodating international environment for sustainable development.

This is a big, ambitious agenda which cannot be acted on and achieved overnight. It should be prioritized and taken up in an appropriate sequence. International action for systemic reforms should be formulated as explicit commitments with appropriate time frames, going well beyond the generalities of Goal 8 of the MDGs. Without this, global partnership for sustainable development would remain an empty rhetoric.

B1. Policy Space for Developing Countries

1. Policy space in developing countries: Review multilateral rules and agreements as well as trade and investment bilateral agreements with a view to improving the policy space in developing countries in pursuit of the above national objectives.

2. Removing anti-development policies in advanced economies. Examples include:

- Eliminate exports subsidies for agricultural products and restrictions over transfer of technology in advanced economies.
- Encourage reserve-issuing countries to impose controls over destabilizing capital outflows to developing countries, as seen during the past 5 years.
- Developed countries should fully consider the effects of their financial and monetary policies on developing countries. Financial or monetary policies can result in financial instability not only in the developed countries themselves but also worldwide, with adverse effects on developing countries. (a) Lack of financial regulation has resulted in a global financial crisis and there is need for adequate financial regulation and re-regulation in developed countries. So far this has not been satisfactory. (b) Easy monetary policies can cause speculative flows of capital to developing countries with destabilising effects.

B2. Global Economic Governance

Reform international economic governance in ways commensurate with the increased participation and role of developing countries in the global economy. Re-examine the role, accountability and governance of specialised institutions such as the IMF, WB and the WTO, and the role that the UN can play in global economic governance.

B3. Trade Issues

- **Reaffirm the primary importance of the multilateral trading system embodied in WTO.**
- **Discourage proliferation of bilateral FTAs that encroach on policy space of developing countries and divert trade from the multilateral arena.**
- **Ensure that trade and investment agreements enable rather than discourage or detract from policy space in developing countries that is required for their development.**
- **Reaffirm that agriculture is the sector where there is most trade distorting subsidies, express concern that domestic support in developed countries are maintained at very high levels (OECD data that this level has now crossed the $400 billion level), call for elimination of export subsidies in developed countries and very significant reductions in domestic supports in developed countries.**
- **Reaffirm the prime importance of food security in developing countries and that trade rules and negotiations have to recognise and respect this priority, as well as to promote the livelihoods and incomes of small farmers in developing countries.**
- **Reaffirm the need for improved market access for products of developing countries into the markets of developed countries.**
- **Support the proposals by LDCs for increasing their duty free quota free market access to developed countries with associated improvements to rules of origin for their products, and the quick phasing out of cotton subsidies.**
- **Maintenance of the development dimensions and concerns in the Doha Round and on that basis to continue the negotiations in WTO until their successful conclusion.**

Labour mobility: Allow cross border competition over jobs for labour services to be delivered within national territories, as under Mode 4 of GATS.

B4. Financial Issues

1. Reaffirm the targets of 0.7% of GDP for ODA of developed countries:

- Recall the most recent statement on ODA in Rio+20 outcome.
- Express grave concern over the decline in ODA in absolute amounts and in relative terms (i.e. as per cent of GDP) since 2011.
- Reaffirm the need for progress rather than regression in the movement towards the 0.7% target.

2. Other external financing for development:

Introduce international taxes and other sources of revenue to establish a fund for development assistance independent of national budgets of donor countries. The size of the fund should match the external financing needed to meet the above growth target for LICs. This is needed to enable transition donor-dependency framework and to delink development assistance from highly politicised national budgetary procedures. The European

Commission has already negotiated a Financial Transaction Tax scheme, to be implemented by 11 EU members, expected to deliver some 30-35 billion Euros a year. It is designed "to ensure that the financial sector makes fair and substantial the contribution to public revenues" and to encourage it "to engage in more responsible activities". If extended globally, such a tax could raise some $400 billion.

3. External Debt:

(a) Debt workout mechanism: Establish orderly workout procedures for international sovereign debt to replace ad hoc, disorderly and often chaotic negotiations between insolvent debtors and their creditors in order to safeguard the interests of both sides and to remove the legal vacuum that allows the so-called vulture funds to seek unjustified benefits at the expense of both debtors and creditors.

(b) Other assistance to countries to prevent debt distress situation and to manage debt problems. Provision of debt relief to developing countries, etc.

(c) Improve the definition and terms for debt sustainability and link these to developing countries' financial needs in relation to their fulfilment of MDGs and SDGs.

4. Financial regulations:

- Regulation of capital flows to prevent or minimise destabilising and volatile large cross-border flows of short-term capital.
- Bring systemically important financial institutions (large international banks and rating agencies) under regulation and supervision of an independent multilateral agency.
- Control and regulate speculation in the commodities markets.

5. Reform of the international monetary system:

- Address the shortcomings in the exchange rate and the international reserves systems.
- Reform the mandate, operations and governance of the IMF.
- With the objective or goal to reducing systemic financial instability, improving global governance and supporting development.

6. Improving Global Governance to enable participation and voice of developing countries

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