The global economic outlook is getting gloomier. World GDP growth is nose diving, much lower than the forecast at the beginning of the year. Inflation is rampant, especially for some developing countries. COVID-19 is still lingering. Increased geo-political tension has intensified the spiking of commodity prices. Response to the COVID-19 pandemic has depleted the fiscal revenue of many poor countries, forcing them to resort to borrowing. As a result, debt to GDP ratio of developing countries, which already reached historic highs in 2021, is getting higher in 2022. Monetary policy tightening has had broad ramifications, including reversing the direction of capital flows to developing countries. The flight to safety mood has resulted in persistent and massive outflows of capital from emerging markets. The interest rate hikes, and the appreciation of the US dollar have been accompanied with portfolio outflows from emerging markets since March 2022, the longest such run in seven years. The discussion of capital control has come back again on the agenda. Higher cost of debt servicing owing to monetary tightening, capital outflows and currency depreciation in many developing countries and their very feeble fiscal position are the most dangerous cocktail for debt crisis. 60 per cent of low-income countries are facing high risks or are already in debt distress. Hence, it is not surprising that an increasing number of developing countries have requested for IMF financial assistance as some of them have already lost access to international capital markets. To make things worse, climate change has caused extreme weather conditions in some countries including floods and draughts, and the war in Europe has exacerbated food security and energy challenges. The overlapping crises have triggered a cost-of-living crisis in almost all developing countries, pushing 71 million people into extreme poverty in the poor countries. Faced with hunger, malnutrition, and various kinds of deprivation like health care and education, many governments in such countries are not in a position to provide marginalized communities with access to affordable food, energy and essential services. The outlook for 2023 seems to be bleaker.

One of the most relevant issues for developing countries will be the creation of a still controversial funding mechanism for loss and damages at COP27, which needs to find effective solutions for climate finance to support the implementation of developing countries’ Nationally Determined Contributions (NDCs) and adaptation challenges, as well as to fight the consequences of extreme weather events. Many developing countries are getting more indebted because they have to respond to climate related problems. Worryingly, developed countries are
spending more on weapons and defense than on climate finance. In 2021, the world military expenditure exceeded $2 trillion for the first time, and it is very likely to further increase in 2022.

While the OECD/G20 Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) has provided a landmark “Two Pillar solution”, and it is expected that by early 2023 a Multilateral Convention codifying the solution (‘Amount A’) of Pillar I will be placed for signature and ratification, the OECD has not publicly released yet country-level revenue estimates so that an informed decision can be made by developing countries. As shown by the revenue estimates for 84 developing countries produced by the South Centre and the Coalition for Dialogue on Africa, Article 12B of the UN Model Tax Convention provides an alternative treaty-based method for taxing income from Automated Digital Services (ADS). If countries choose to proceed with Article 12B, or with unilateral national measures for taxation in the digitalized economy, their sovereign rights must be respected. Work on Amount B must progress in parallel with Amount A and be concluded along the same timelines. It is unfortunate that the developing countries’ priority, the Subject to Tax Rule (STTR) for the global minimum corporate tax of Pillar Two, remains neglected. The key issue of taxation of computer software – whose sales globally grossed more than USD 524 billion in 2021 and which has been under negotiation for more than a decade - requires closure.

Sustainable solutions that respond to the needs of developing countries must be found in these areas. As the strong headwinds against the developing economies do not seem to be abating, with a slowdown in real GDP growth expected to continue through 2023, this has become even more urgent. In view of the limited capacities of developing countries to cope with the human suffering and economic fallout caused by the multiple crises, immediate international financial support, debt relief and other actions to assist these countries are urgently called for.

In this challenging time of concurrent crises, the South Centre stands firmly behind its Member States and other developing countries in helping them navigate this challenging global economic environment.