STATEMENT BY DR. CARLOS CORREA, EXECUTIVE DIRECTOR OF THE SOUTH CENTRE, TO THE MINISTERS AND GOVERNORS MEETING OF THE INTERGOVERNMENTAL GROUP OF TWENTY-FOUR (G-24)

11 April 2023, Washington, D.C.[1]

First of all, I would like to welcome the appointment of *Dr. Iyabo Masha* as the Director of the G-24 and express our appreciation of the leadership of *Ms. Marilou Uy* during her tenure. We will support wholeheartedly Dr. Masha for stewarding the work of the G-24 in our capacity as an observer.

2023 has already shown signs to be another difficult year, especially for developing countries. Inflation is rising worldwide, but grew in double or even triple-digits for many developing countries. Global GDP growth in 2023 is projected to be around 2.9 percent, which is still weak by historical standards and lower than that for 2022 and below pre-pandemic levels. It will take time for developing countries to fully recover from the scarring effects of the pandemic and other parallel shocks. Measured by output losses relative to pre-pandemic trends, COVID-19 wiped out about 6 percent of GDP for emerging and low-income economies while advanced economies lost less than 2 percent.

The negative impact of the pandemic, together with the new parallel crises including the conflict in Ukraine, associated rise in food and energy prices, climate-change induced extreme weather events, among others, have resulted in very weak fiscal positions in most of the developing countries. Many governments are not in a position to provide much needed fiscal relief to the poor and vulnerable who are most affected by the cost-of-living crisis. An additional 75 to 95 million people were pushed into extreme poverty in 2022. Clearly the world is not on track to eliminate extreme poverty by 2030.

Rapid and still continuing interest rate hikes in major advanced economies have triggered strong spillover effects across the world. Capital outflows and currency depreciations have been widespread in developing countries. Some 90 developing countries have seen their currencies weakened against the dollar in 2022 – over a third of them by more than 10 percent. Rising interest rates together with currency depreciation have increased massively the debt servicing burden of developing countries and also led to much higher cost for raising money at the international capital market for rolling over the old debt. Meanwhile, an increasing number of developing countries are facing balance of payment difficulties. Quite a number of developing debtor countries are facing a perfect storm. 60 percent of low-income countries are either in or at high risks of debt distress. Many middle-income countries are also facing increasing debt vulnerabilities. A number of countries have already defaulted and are undergoing debt

[1] *To be delivered on behalf of the South Centre by Yuefen LI, Senior Advisor, South Centre*

restructuring. The recent financial instability in the advanced economy banking sector can only make things worse and also lead to less liquidity for the developing world.

Amid all these crises, climate change induced extreme weather has become more frequent. Climate impacts are deteriorating the fiscal position and impairing credit ratings of highly indebted countries leading to increasing probability of default. The G20 Common Framework should be reformed and strengthened. One dimension of such reform could be based on proposals that integrate debt relief with national climate change adaptation and mitigation policies and measures, providing fiscal space for much-needed investments in building climate resilience.

The world is going through an important stage of economic transformation and transition to a sustainable and green economic development model. Unfortunately, this transition has been influenced by geo-political considerations and also tinted with protectionism and nationalism. Sweeping green-industrialization policies with massive government financial incentives to re-shore production and use materials produced domestically carry the threat of further marginalizing those developing countries which do not have the capacity to provide substantive amount of state aid to support climate change adaptation.

The global minimum tax of Pillar Two of the OECD/G20 Inclusive Framework is now under various stages of implementation by developed countries and tax havens. It is imperative that developing countries begin to institute a minimum effective tax of 15% in their countries, else under the Pillar Two rules the untaxed income will be taxed by the developed countries where most in-scope Multinational Enterprises (MNEs) are headquartered. The minimum tax also provides a welcome opportunity for developing countries to review their tax incentive regimes such as tax holidays and tax breaks for MNEs, which may have been over-generous with questionable efficacy in bringing in more foreign investment. On the "digital tax" of Pillar One, it is expected that a Multilateral Convention (MLC) codifying the solution (the so called 'Amount A MLC') will be ready by July and placed before members of the Inclusive Framework for signature. The design of the OECD solution means that unless developed countries agree to it, developing countries cannot get any tax revenue. Therefore, it is strongly recommended that developing countries wait until developed countries where the in-scope MNEs are headquartered, first sign and ratify the OECD solution.

The United Nations Tax Committee is preparing a UN Fast Track Instrument with the objective of speeding up implementation of the UN's solution for digital taxation, Article 12B of the UN Model Tax Convention. Work is also underway in the UN on an alternative version of the global minimum tax, the Subject to Tax rule. Regarding the institutional framework of international taxation, the UN General Assembly's historic resolution on "Promotion of inclusive and effective international tax cooperation at the United Nations" opens the pathway for reform of the governance of international tax architecture. All these efforts in the UN require the full support of developing countries.

In the face of these global challenges, international solidarity and cooperation is needed now more than ever. However, the world is becoming increasingly divided owing to the forces of geo-economic fragmentation. Trade protectionism and use of restrictive measures, including barriers to technology transfer, have been increasing massively in recent years, which negatively impact trade, capital flows, and sharply reduce international cooperation.

With multiple external shocks and high levels of debt in developing countries, liquidity relief is badly and urgently needed, especially at concessional terms. A new issuance of SDRs can be considered to increase the policy space of countries facing balance of payments and fiscal deficits as well as overburdened by debt servicing.

The quota and governance reform of the IMF must enhance the voice and representation of emerging market and developing economies to reflect and acknowledge their growing weight in the global economy.

There are strong headwinds to building back better and more equitably from the multiple shocks. Global collective actions should be strengthened and cooperation must be enhanced to address the multiple challenges that disproportionately affect developing countries.