SOUTH CENTRE

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)

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Global economic outlook seems to be darkening in comparison with that at the end of 2024 when the resilience of the world economy was underlined as inflation was receding without triggering a recession. Currently, the trade war that has escalated in intensity and scale has increased geoeconomics fragmentation and global economic uncertainties, including more supply shocks and disruptions, far-reaching inflationary pressure and downward pressure for economic growth. The new wave of protectionism will be welfare-reducing and have many unintended consequences. Poor countries in the end will suffer the most as some of them can be directly hit by tariff hikes and others would be negatively affected by spillovers from trade and financial channels.

Global growth remains the lowest in decades, and not yet recovered to the pre-COVID-19 pandemic average. The slow economic growth is due to many constrains and overlapping structural challenges including weak investment, sluggish productivity growth, high debt levels, elevated cost of capital and demographic pressure. This is compounded by the impact of climate-related shocks. It is not surprising that the economic growth prospects vary significantly across regions as economic divergence has increased across countries. Should the trade war continue, the concern of a global recession would become highly pertinent.

Slow economic growth, high debt levels, high borrowing cost and currency depreciation constitute a dangerous cocktail for countries in debt distress or high risk of it. A significant number of developing countries, particularly low-income countries, are facing high levels of debt burden. Fiscal space for many African countries is particularly limited as interest payments was as high as 27 per cent of government revenues in 2024, up from 19 per cent in 2019. In several major African economies, interest payments have exceeded total expenditure on education and health. Debt sustainability continues to be a major challenge for some countries. Lower-cost financing and grants from bilateral and multilateral development partners are needed badly to reduce their debt servicing burden. The IMF and World Bank's three pillar approach is therefore welcoming. Though the Common Framework and the Global Sovereign Debt Roundtable have made some progress, they have been insufficient to address the challenges faced by those countries.

Under such circumstances, any decline in international cooperation would be acutely felt by counties where Official Development Assistance (ODA) constitutes an important part of the government budget. ODA flows to Africa and the LDCs grew moderately in 2023, but face substantial downside risks through the 2024–2025 period especially with the recent announcements of ODA cut by a number of major donors to their aid budgets.

The upcoming 4th International Conference for Financing for Development (FfD4) to be held in Spain is an important opportunity to assess the progress made in the implementation of the Monterrey Consensus, the Doha Declaration and the Addis Ababa Action agenda, give new impetus for international financial architecture reform, address systemic problems and strengthen partnerships. The South Centre will co-organize a side event and participate actively in the Conference.

We are at a pivotal moment in the history of the international tax system. The current landscape is marked by growing threats to multilateralism, an urgent need for countries to strengthen domestic resource mobilization, particularly from the digitalized economy, and a potential shift in global tax governance through a United Nations Framework Convention on International Tax Cooperation (UN FCITC). The UN FCITC presents a unique and historic opportunity to establish a more inclusive, transparent, equitable, and representative international tax architecture.

We welcome the adoption of the Terms of Reference (ToR) and establishment of an Intergovernmental Negotiating Committee (INC) to negotiate the UN FCITC by the UN General Assembly on 24 December 2024. The intergovernmental committee for negotiation of the UN FCITC and its two protocols on *Taxation of Cross-Border Services in a highly Digitalized Economy*, and *Prevention and Resolution of Tax Disputes* begun its intersessional work this April, with final texts for the Convention and protocols expected in July 2027. It is essential that developing countries engage in the process from the onset. This demands the dedication of experts with relevant technical expertise to the various workstreams, South–South cooperation to advance well articulated regional priorities, and the provision of adequate financial and institutional support by developing countries to their delegates to ensure effective participation. Countries should ensure a strong governance structure of the Convention that is inclusive, democratic, transparent, fit for purpose, and responsive to the evolving global tax environment and the needs of the Global South. Developing countries have long faced challenges with complex international tax rules that are difficult to implement and with minimal revenue impact. We will support developing countries to develop simple and flexible international tax rules with substantial revenue impact, whereby countries can tailor solutions to their specific context while operating within an agreed framework of rules.

Both developed and developing countries are facing increasing external threats on their national tax systems. We encourage developing countries to stand firm against any attempts to dismantle legitimate national tax measures, particularly on the taxation of the digital economy, unless they have viable and enforceable alternatives that generate comparable or greater revenue in place. The South Centre has presented to its Members available options to deal with threats against Digital Services Taxes (DSTs). Developing countries should immediately commence to apply national digital tax measures such as DSTs. In the face of external pressure, countries should remain united, ensuring that no member is singled out and coerced into withdrawing their tax measure.

We welcome the approval of key updates in late 2024 to the UN Model Tax Convention promoting more source taxation rights regarding Fees for Services, International Shipping and Air Transport, Income from Exploration and Exploitation of Natural Resources Insurance Premiums, and urge their early adoption since they can generate enhanced revenues for developing countries. The UN Tax Committee also approved the UN Handbook on Wealth and Solidarity Taxes and draft of the UN Sample Wealth Tax Law.We also encourage interested developing countries to utilize both the Handbook and the draft wealth tax law to implement wealth taxation.