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Gathering clouds on international economy

While world economic growth remains steady at 3 per cent, the balance of probabilities is that it will decline in the remainder of the year. The trade war launched in the context of an isolationist and protectionist policy is likely to be one of the significant factors influencing the world economy's performance in the months to come. Uncertainties in the global trade environment, which the South Centre underscored in our April 2018 statement, have increased; at least half a trillion dollars' worth of goods are subject to trade restrictions, seven times more than a year ago.

Many other disquieting trends are evident. The favorable interlude of synchronous growth in 2017 was not accompanied by systemic reforms that could have improved the resilience of the global economy. The structural imbalances and fragilities which the 2007-08 financial and economic crisis exposed are unaddressed. Should another widespread global crisis ensue, most developing countries will find their own reserves now insufficient compared to their situation ten years ago. In fact, external debt vulnerabilities are high and continue to rise. According to the United Nation's Inter-agency Task Force on Financing for Development April 2019 report, around 30 least developed and other vulnerable countries are either in or at high risk of debt distress.

In previous statements to this Group, we have identified the need for developing countries to avoid business-as-usual responses should they find themselves in externally induced macroeconomic difficulties. These cures have proven worse than the disease and unsustainable. We have brought up the need to consider temporary debt standstills, capital flow controls and selective trade measures as an alternative to standard policies.

Revitalizing multilateralism

There has emerged a widespread questioning of multilateral economic cooperation in the polities of the world's major economies. As a result, the multilateral capacity to respond to the impending economic slowdown and the unresolved vulnerabilities to a recurrence of a global financial crisis is unprecedently weak. These grievances are real and addressing the multilateral system's failings will be required to preserve and revitalize it. The post-1940s multilateral arrangements did not prevent the resurgence in inequalities in economic and social outcomes back to levels before the First World War. Multilateral rules that have emerged are not consistent with a stable international economic environment which is enabling to national development efforts and for shared growth among both developing and developing countries.

In this context, developing countries may be called to become the principal proponents of the needed reforms to multilateral rules of trade, investment, finance, macroeconomic coordination, technology transfer, climate change response, among many other pressing international issues. In the context of fragmentation and impasse in multilateral fora, developing countries should, as one important component of South-South cooperation (whose scale and diversity has already expanded as developing countries captured a greater proportion of global economic income) to expand their coordination and joint action to carry out norm setting and other activities in areas relevant to the achievement of the Sustainable Development Goals. The WTO proposed reform is one example of a process in which developing countries should be active and avoid being dragged by the agenda set by a few developed country members.

Reforming the dominant system of allocating tax rights

The G-24's tax working group has established a strong presence in the ongoing efforts to reform global corporate taxation. Within less than a year of activities, the group has published a set of proposed rules that, if applied, would protect the taxing rights of developing countries over digital transactions occurring in their jurisdictions. It remains to be seen how much of the proposals becomes an internationally agreed standard as an outcome of the impending deliberations on digital taxation of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS).

The proposal recognizes that developing countries possess taxation rights even without the physical presence of companies undertaking digital transactions in their jurisdictions, and can have a claim to a proportion of the global profits of such companies. The proposal thus addresses some critical concepts of international tax cooperation, including that of "permanent establishment" by which many developing countries which host foreign investment have seen their tax bases shifted back to the home countries of the investors or elsewhere.

Developing countries have long sought alternative tax treatments of transactions among related economic entities, particularly in the case of subsidiaries and other entities controlled by a foreign company. Concepts such as "separate entity" or "arm's length pricing" principles unduly restrict those countries' legitimate claims on the global profits of such companies. Developing country tax policy makers should rely on tax cooperation and actively participate in reform efforts aimed at rebalancing the international tax system and ensuring they can generate the income they need to achieve the Sustainable Development Goals.