INTERGOVERNMENTAL GROUP OF TWENTY FOUR

G-24

2024 Technical Group Meetings, Manila Philippines
Theme: Building Resilience to Meet Global Challenges

Wrap Up Statement
by
Dr. Iyabo Masha, Director, G24

Distinguished guests and colleagues,

The G24 annual Technical Group Meeting (TGM) is the forum where member countries and experts come together to delve into pressing issues. Our meetings foster a vibrant knowledge exchange on matters central to the Group's member countries, encompassing both contemporary challenges and structural complexities. As we draw the curtain on the 2024 TGM, I would like to share with you some thoughts on my key takeaways of this gathering.

I want to start by acknowledging that our 2024 meeting has lived up to the high standards developed over the years. This year's theme - "*Building Resilience to Meet Global Challenges*" provided a fertile ground for member countries to dissect diverse issues arising from global economic headwinds, while exploring avenues for strengthening their collective capacity to effectively navigate these complexities. The theme could not have been more appropriate, as we stand at a pivotal moment in history, facing multifaceted challenges that disproportionately impact the Global South. From precarious financing conditions to trade disruptions, climate crisis, and rising debt distress, these hurdles threaten to derail our hard-won progress and exacerbate existing inequalities. The pursuit of solutions – most of which came out of the presentations – will serve as a powerful beacon, uniting us in a more equitable future.

Reforms of the Global Financial Safety Net for 21st Century Challenges

The first panel, "Reforms of the Global Financial Safety Net (GFSN) for 21st Century Challenges," highlighted evidence that the current GFSN, a network of institutions and mechanisms providing initial protection for economies against external financial disruptions, struggles to support emerging economies facing 21st-century shocks. While access to the GFSN's three main lines of defense – international reserves, pooled resources (swap lines and plurilateral financing arrangements), and precautionary lines from the International Monetary Fund (IMF) – is growing in line with rising financing needs, financial stability risks are also increasing. These risks stem from geoeconomic fragmentation, climate and environmental challenges, the spillover effect of advanced economies' monetary policy actions, and the volatility of US dollar funding for many countries. Furthermore, the heavy dependence on the US dollar significantly increases uncertainties and volatilities, affecting access to liquidity, capital flows, and ultimately, macroeconomic stability. This dominance has also led to profound changes in the cross-border payment architecture, potentially creating a centralized system dominated by mega-banks as the primary creators of US dollar-denominated international liquidity.

Our experts argue that several policy interventions can improve the situation, including:

- Strengthening banks' balance sheet resilience.
- Developing local currency bond markets.
- Implementing carefully calibrated policy measures, such as adjustments to policy rates and macroprudential policies, foreign exchange interventions, and capital controls.

Additionally, encouraging the development of alternative regional and bilateral arrangements grounded not only in bilateral settlements but also encompassing intra-bloc or intra-regional payment mechanisms is crucial. Finally, a key aspect of GFSN reform should be the gradual reduction in reliance on a single currency. In line with the IMF's articles of agreement, promoting the Special Drawing Right (SDR) as the world's reserve currency could be a vital near-term goal.

Changes in Global Trade Regime and Impacts on the Global South.

The challenges faced by developing countries extend beyond the financial sector, encompassing production and trade as well, as evidenced by the presentations in our second panel, *Changes in Global Trade Regime and Impacts on the Global South*. Global trade in goods stagnated after the Global Financial Crisis, falling below pre-pandemic levels despite growth in services trade. This trend, compounded by emerging industrial policies, rising protectionism due to geopolitical tensions and climate concerns, is likely to continue, potentially leading to further fragmentation of the global economy and disregard for global trade rules. While the impact of rising trade protectionism on poverty, inequality, and prospects for inclusive and sustainable growth varies across regions, countries, and even within countries, the overall role of trade as a driver of growth and poverty reduction is undoubtedly challenged. However, our experts offer valuable options for engagement to improve outcomes for the Global South. For instance, the European Union's Carbon Border Adjustment Mechanism (CBAM) could be challenged based on its incompatibility with the principle of "common but differentiated responsibilities," a globally agreed framework for meeting carbon emission reduction requirements. Additionally, countries affected by such policies could advocate for the application of the "critical mass agreement" principle in international trade. This, if implemented, could hinder the implementation of CBAM and similar protectionist measures. In the long run, fostering investment acceleration is crucial. This can be achieved through good overall policies, including measures that enhance macroeconomic stability, implement structural reforms, facilitate cross-border trade and financial flows, and promote institutional development.

Domestic Resource Mobilization for the 21st Century

A country's ability to weather economic storms and build resilience hinges heavily on its access to financing. The third panel, "Domestic Resource Mobilization for the 21st Century," explored this crucial aspect, delving into issues surrounding domestic resource mobilization and international tax reform.

In many nations, low levels of domestic resource mobilization are the primary culprit behind high public debt. This burden of debt and its associated borrowing costs limit the fiscal space needed for crucial investments and service delivery. Left unchecked, rising debt can significantly hinder economic growth.

Regarding international taxation, our experts' analysis revealed that the OECD-BEPS Inclusive Framework is unlikely to provide developing countries with sufficient revenue. For example, a

comparative analysis of potential revenue from Amount A of the Framework against a modest 5% national digital sales tax revealed that, across a sample of G24 countries, domestic Digital Services Taxes generated significantly higher revenues – in some cases, up to five times more than Amount A. Similarly, data overwhelmingly suggests that Pillar 2 of the OECD Framework, the Global Minimum Tax (GMT), primarily benefits tax havens and developed nations. Given various exemptions, only a meager 1.6% of profits subject to the GMT originate from lower-middle-income countries, and a mere 0.2% from low-income countries. The initiation of international tax reform at the UN is therefore a welcome development. This new system promises a democratic and truly inclusive process for shaping the international tax agenda. It also incorporates existing bodies like the OECD Inclusive Framework and the Global Forum as subsidiary structures.

Our experts recommend reforming tax systems to combat harmful tax avoidance practices while simultaneously strengthening governance practices to ensure transparency and accountability in resource management. Furthermore, Medium-Term Fiscal Frameworks offer a path forward, with a strong emphasis on robust domestic resource mobilization. Addressing the shortcomings of the current international tax architecture, through initiatives like the UN Tax Reform, deserves enthusiastic support from member countries. G-24 countries are strongly encouraged to actively participate in the intergovernmental committee negotiating the Convention. In the meantime, developing countries should consider immediately implementing Digital Services Taxes (DSTs) with rates of 5% or higher, specifically targeting non-resident technology companies.

Climate Action and Financing

Panel 4, "Climate Action and Financing," delivered a clear message: the climate crisis demands immediate action, as developing countries face the formidable task of achieving inclusive growth while confronting environmental threats. Climate-vulnerable nations are already experiencing severe losses and damages, with the 20 most exposed countries reporting combined losses exceeding $525 billion in the past two decades. While the COP28 outcomes – including agreements on managing loss and damage, transitioning from fossil fuels, and securing $12.8 billion for the Green Climate Fund – represent positive steps, further action is crucial.

Unlocking diverse funding sources for adaptation and mitigation projects is essential. This undoubtedly necessitates reforming existing institutional frameworks, such as those governing the use of IMF Special Drawing Rights (SDRs). Aligning climate action with national development priorities is key to ensuring inclusivity and sustainability. In this light, the development of country platforms and Climate Prosperity Plans is commendable.

However, given the significant investments required to scale up both climate and development finance, careful attention must be paid to the potential macroeconomic and financial stability risks associated with large capital inflows. Additionally, addressing the social and economic impacts of climate policies is crucial.

Sovereign Debt Resolution

Our concluding panel, "Sovereign Debt Resolution," highlighted the rising threat of debt vulnerabilities to development and climate action. Many developing countries are burdened by rising borrowing costs, further exacerbating their financial fragility. The crippling cost of debt servicing often forces these

nations to prioritize interest payments over crucial areas like education, health, and human development. The current Common Framework for debt resolution is deemed insufficient, as it neither addresses the challenges effectively nor aligns with the investment levels required for the Paris Agreement. Similarly, the Global Sovereign Debt Roundtable hasn't yielded significant quantifiable benefits for debtor countries. Therefore, strengthening international cooperation for debt resolution is paramount. Potential reform options include:

- 25% SDR donation from wealthy nations: This could potentially erase all developing country debt owed to the IMF ($135 billion).
- Elimination of IMF surcharges, which is estimated to save roughly $6 billion between 2023-2028 in the top five countries indebted to the IMF.
- Secondary market reforms and transparency: These reforms would improve debt management and prevent manipulation.
- Longer loan maturities: Aligning loan terms with long-term goals like climate and development projects would improve debt sustainability.
- Inclusive creditor participation: All creditors must be involved in debt resolution initiatives for equitable outcomes.

As we conclude today, we look forward to presenting actionable recommendations to the G-24 Governors during the Spring meetings. This conference has been a springboard for action, a catalyst for collaboration, and a testament to the unwavering spirit of the Global South. Together, we can build a brighter future.

I thank you all for your participation, and wish you journey mercies.

On behalf of the G24 Secretariat, I thank the government of the Philippines for its hospitality.

Manila, Philippines

February 22, 2024