Statement for the UNCTAD Intergovernmental Group of Experts on Financing for Development

First Session, 8-10 November 2017, Geneva

Mr. Chairman, Excellencies, ladies and gentlemen,

Let me first extend my congratulations to UNCTAD on this occasion of the first session of the Intergovernmental Group of Experts on Financing for Development. This is an opportune time for UN Member States, through the work of this intergovernmental group of experts, to be informed of and understand better the systemic challenges and opportunities that countries all over the world now face in pursuing economic growth and sustainable development.

As the IGE is meant to make recommendations with respect to domestic resource mobilization and improving international development cooperation, it is important for the IGE to be cognizant of key systemic trends and issues.

The global community is facing another looming financial crisis. On the basis of standard indicators, the global economy has not fully recovered from the 2007-08 financial crisis. Policies pursued in the US and Europe in response to the crisis have failed to restore rigorous and sustained growth but produced significant financial fragility. Despite the recent upturn, global growth remains well below the rates seen before the outset of the crisis.

Debt in both advanced and developing economies, especially in the former, has accumulated massively as a result of the ultra-easy monetary policies pursued in the US and Europe. Asset and credit bubbles and excessive risk taking have resurfaced, as was the case before the crisis. The process of debt accumulation, financial bubbles and excessive risk taking can end in a severe crisis even in the absence of a fundamental shift in monetary policy in developed economies. There is an important rationale for an international debate on national fiscal policies pursued by mature economies and their impact on global economic conditions and spillovers to other countries.

The economic landscape is not much better in the global South. The crisis has moved in a third wave to several developing countries after having swept from the US to Europe. Major developing countries that were expected a few years ago to become global locomotives are now struggling to revive growth.

Because of their closer integration into the international financial system, almost all developing countries are now vulnerable to the onset of another financial crisis, irrespective of their balance-of-payments, external debt, net foreign assets and international reserve positions, although these could play an important role in the way such shocks impinge on them.

Hence, for many, if not most, developing countries, enhancing domestic resource mobilization over the near- and medium-term will become increasingly difficult. At the same time, the continuation of austerity measures and other fiscal policies undertaken by developed countries in response to the global financial crisis have resulted in cutbacks in budgetary allocations for official development assistance and other forms of development cooperation. These difficulties could be aggravated by policies advocated by the new US administration (such as on tax cuts and trade protectionism).

Even in the absence of renewed external trade and financial shocks, developing countries are unlikely to repeat their pre-crisis growth performance in the years ahead because of weak investment, slow productivity growth and a less favourable global economic environment. Their resilience to external shocks is weak, particularly in comparison to that during the subprime crisis. The deepened global financial integration of many of these economies has resulted in new vulnerabilities and heightened their exposure to external financial shocks. Their policy options are limited in responding to deflationary and destabilizing external impulses. Many developing countries find themselves in a tenuous position with an uncanny similarity to the 1970s and 1980s when the combined booms in capital flows and commodity prices that had started in the second half of the 1970s ended with a debt crisis as a result of a sharp turnaround in the US monetary policy. It would now be difficult for some of them to avoid liquidity and even debt crises in the event of severe and durable financial shocks.

This state of affairs raises three sets of policy issues that the IGE on FFD should consider.

First is the policy response to a possible new global financial crisis resulting from a reversal of ultra-easy monetary policy in the US, Euro zone countries and other mature economies. Countries should be prepared for policy responses for the next financial crisis through more systemic multilateral approaches to international debt resolution and cooperation and the use of heterodox fiscal and other policy instruments. Developing countries should **not** hike interest rates, use reserves and borrow from the IMF and resort to austerity to maintain an open capital account and stay current on debt payments. Rather, developing countries should seek to bail in international creditors and investors by introducing, *inter alia*, exchange restrictions and temporary debt standstills, and use selective import controls to safeguard economic activity and employment.

Second, developing countries need to rethink global integration. Most developing countries have allowed too much room for global market forces to drive their development, relying excessively on foreign markets and capital, and transnational corporations. The pendulum has swung too far, particularly in investment and finance and would have to be rebalanced.

Third, international cooperation and action on Financing for Development should be revitalized. For both developed and developing countries, the stakes are getting too high now to continue with business as usual. The times call for an in-depth, honest, and systematic discussion at the multilateral level between the developed and developing countries on ways and means in which the systemic and structural deficiencies of the global macroeconomic governance system can be addressed in the spirit of international cooperation, with a sense of urgency in order to avert the next global financial crisis from occurring.

Through the IGE, countries could start a discussion about the policy responses required in the event of another widespread financial disorder. Such a discussion could also involve examining priorities and the agenda for change in global economic governance arrangements. In this context, the United Nations, including UNCTAD through the IGE-FfD, would be the best multilateral policy forum for an improved and enhanced North-South engagement on FfD issues and their systemic underpinnings.

The past eight to ten years have seen some major initiatives in setting and reforming tax rules and standards. In view of developing countries' greater reliance on taxation as a main source of revenue and their weak capacity in tax collection and rule enforcement, it is of utmost importance to make the rules and standards setting process inclusive to ensure that the interests of these countries would be well protected. In this context, it is crucial to affirm and enhance the role of the United Nations, in particular the UN Tax Committee. International cooperation on tax issues should be deepened and tax competition should be curbed. Significant shifts in tax policies by major economies should be well communicated and assessed to minimize possible negative spillovers. Developing countries are advised to exercise caution in signing tax treaties to preserve their legitimate taxing rights. The just leaked out Paradise Papers have once again shocked the world with the enormous scale and complexity of tax avoidance, particularly by multinational corporations, through offshore tax havens. It demonstrates clearly the weak international framework in curtailing tax avoidance and also the urgent need for tackling this problem. The legality of such kind of abusive practice should be discussed and measures to stamp such activities be taken.

Illicit financial flows out of developing countries have been increasing. Its negative impact on tax collection, foreign reserve accumulation and fight against povery is enormous. Though the strengthened international tax cooperation can contribute to reducing the illicit financial flows, it is far from sufficient. Fraudulent mis-invoicing of trade by multinational and local companies has constituted a significant share of IFF. Efforts to curb this kind and other illegal practices like corruption, illegal trafficking and transfer of funds would be of great importance in the fight against IFF.

In concluding, the South Centre would like to highlight the importance of having the IGE come up with recommendations that member States can consider in order to promote financing for development and achieve its objectives as defined in the mandates coming from UNCTAD XIV, the Addis Ababa Financing for Development Conference, and the 2030 Agenda for Sustainable Development.

Thank you.