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*This written contribution is made available in the language and form in which it was received. The views expressed are those of the author and do not necessarily reflect the views of UNCTAD

CUTS International

DETAILED INPUTS SUBMITTED TO UNCTAD FOR THE HEARING WITH CIVIL SOCIETY ORGANISATIONS BY CUTS INTERNATIONAL

GENEVA, THURSDAY, 24TH MAY 2018

Given below are the consolidated written inputs of CUTS International as a response to the Call for Statements announced by UNCTAD for the purpose of holding a hearing with civil society organizations on Thursday, 24 May in Geneva, Switzerland.

The CUTS contribution lays emphasis on the importance of achieving the Sustainable Development Goals (SDGs) and for that to be achieved, the importance is to create a political narrative to maintain multilaterism, focus on securing long term financing, need to strengthen manufacturing/industrial capacity, so as to focus on job creation and the need to harness the potential of digital economy to ensure promotion of competition and innovation resulting in enhancing consumer welfare.

NEW WAYS IN WHICH THE UNITED NATIONS COULD ADDRESS THE CRISIS OF MULTILATERALISM AND TRADE, ITS DEVELOPMENT MACHINERY, AND WHAT WOULD BE THE CONTRIBUTION OF UNCTAD

The 2030 Agenda states that "international trade is an engine for inclusive economic growth and poverty reduction and contributes to the promotion of sustainable development". However, in recent years, the contribution of trade towards these socio-economic objectives is being questioned. The symptoms of discontent with multilateralism and trade should not be left unaddressed. UNCTAD needs to find ways to emphasise that trade policy can be, poverty sensitive, gender sensitive, labour sensitive, environmentally sensitive and climate friendly.

Unlike the legally binding nature of commitments under the WTO, UNCTAD offers United Nations Member States informal and formal space for open and creative dialogues to explore policy issues and interests and, ultimately, arrive at a common consensus without immediately requiring hard commitments. Therefore, it creates the opportunity for Members to sit and discuss alternative ways to address the negative aspects of trade that are increasingly coming to the fore. This can be enhanced through the consensus-building role of UNCTAD in multilateral trade and development policymaking, stimulate exchanges and the sharing of best practices and experiences, with a view to making trade work for development.

Indeed, the declining trend in globalization that has been 'observed over the past decade has been accompanied by the growing recognition that the economic gains and opportunities brought about by globalization have not been inclusive and have not always translated into sustainable economic, social and environmental well-being'. Indeed, while trade has contributed to lifting millions of people out of poverty, there remains a large number of people for whom the globalization process and trade openness has been harmful. In some countries, international trade and the rules governing such trade, developed through years of multilateral cooperation and administered through international arrangements, are increasingly perceived as detrimental to ordinary workers and as eliminating jobs, in particular in manufacturing sectors.

Against this negative backlash, there is a need to highlight the positive beneficiaries of trade that often tend to be side-lined in these discussions and UNCTAD can play a role in building the narrative. Governments need to advance an economic agenda that is not only outward looking but also fair and equitable and that brings benefits to a much larger share of the population. One of the most often neglected beneficiaries of trade are consumers. The trend towards protectionism has a harmful effect on consumers, particularly low-income consumers in developing countries with high poverty rates. There is a need to focus on the impact that access to more affordable goods and services can contribute to an increasing positive sentiment towards trade.

Similarly, the rise in the cost of imports due to protectionism can also make it difficult for countries to enter into global value chains and limit their participation in domestic value chains. Focusing on the missed opportunities that arise due to protectionism and the potential loss of jobs in these sectors, could serve to counter the perpetuating anti-trade sentiment that trade solely displaces workers. Quite often, one of the neglected side effects is that technological advancements also create opportunities for new jobs, however, countries need to capitalise on those opportunities by creating better-focused education and continuous training/learning systems.

Another way to address this situation is to change the narrative by changing the employment focus from the need to protect jobs to the need to protect workers. It is inevitable that certain sectors will see as a loss of jobs, therefore, we need to encourage the creation of better-focused education and continuous training systems that anticipate these losses but have the foresight to ensure that workers still have access to the new employment opportunities that are arising. UNCTAD can thereby prepare the ground and support member States in openly and holistically discussing collective actions to shift the trade pessimistic narrative that is dominating the trade discourse. A stronger focus on the intergovernmental consensus-building and soft-law approaches of UNCTAD could help to strengthen the substantive content and effectiveness of contributions to such global processes.

INDUSTRIAL POLICIES AND PRODUCTIVE CAPACITY POLICIES FOR A DIGITAL ECONOMY

Industrial policies, as traditionally understood, intended to strengthen domestic industries and ensure their competitiveness in international market, through government support in form of incentives and concessions. Advanced economies, such as Japan and South Korea have successfully pursued export oriented industrial policies to develop world class auto and steel industries. More recently, countries like China, Tunisia, Vietnam and Ethiopia have experienced accelerated structural transformation as a result of industrial policies, among other factors. Such developing countries have typically pursued industrial policies prior to opening up of domestic markets to foreign competition, to protect and support domestic industries and enable them to withstand the pressure of international competition, whenever markets open.

More recently, several developing countries such as India, Nigeria, Senegal, Morocco and Algeria are considering adoption of industrial policies. These countries are already exposed to considerable international competition and allow foreign companies to enter and operate. Consumers in these countries are already experiencing benefits of low barriers to trade in form of access to high quality and low-price products. However, domestic industries in many such countries have been unable to withstand international competition. As a result, industrial and productive capacities in such countries have remained limited. Industries in these countries have been attuned towards catering to demand of foreign companies, in form of cheap labour and basic raw materials.

Without sufficient industrial and manufacturing capacities, such developing countries are now witnessing problems like unemployment, skill deficit and over reliance on services sector which has limited job creation potential. It appears that industrial policies in such developing countries are attempting to focus on strengthening manufacturing and industrial capabilities, which can result in job creation and sustained growth. Digitalisation and technological advancements in advanced economies are increasingly robbing away advantages of cheap labour which developing countries traditionally offer. Breakthroughs in areas like robotics, cloud computing, artificial intelligence are aiding industries in advanced economies to offer customised products and services. Manufacturing processes and sites are being shifted closer to consumers in advanced economies

to provide customised goods and services, thus putting developing countries at a disadvantage. For instance, Adidas is using technologies to bring footwear "speed factories" to Germany and United States.
Consequently, it may be very difficult for emerging economies to develop strong local manufacturing and industrial base, which typically is a time-consuming process. As a result, developing countries need to rethink their policies towards industrialisation and building productive capacities. A comprehensive assessment of areas wherein productive capacities can be built coupled with opportunities offered by digital economy is required.

Some of the prerequisites to tap the potential of data economy include: access and usage of digital medium and digitally enabled devices; processing of data collected taking into account user practices; customisation of products and services offered by digital economy to suit the requirements and paying capacity of users in emerging economy; and post-sale repair and maintenance services. industrial policies in developing economies must focus on building capacities to harness the potential of digital economy by enabling access to digital tools and assist in designing products and services. For instance, in sub-Saharan Africa, large sets of data on soil characteristics are mined to help determine fertilizer needs and increase productivity. In the United Republic of Tanzania, recycled plastic bottles are being used to 3D-print prosthetics.

Most emerging economies are rich source of traditional goods and services which are yet to tap international markets. Digital economy can help them reach out to foreign customers willing to pay premium prices. Such traditional goods and services are often produced by micro, small and medium enterprises which provide substantial employment. Substantial population in emerging economies is also based on agriculture and agriculture related services. Digital economy can be utilised throughout the agriculture value chain it can help in forecasting weather conditions, assist producers in identifying appropriate agriculture raw materials, reach out to agriculture markets and consumers. For instance, Argentina improved its rice productivity by promoting digitally enabled research in new rice varieties. Sanitary certifications of agricultural products and training programs for the software industry were also introduced to complement successful research. Consequently, industrial policies in emerging economies need to be tuned towards tapping the potential of digital economy.

Not only do developing economies lag in manufacturing capacities but they also appear to be behind their industrialised peers in embracing the digital economy. The digital divide is increasingly becoming synonymous to economic divide. Limited awareness about digital products and services, limited usage capacity, insufficient data processing and management skills, among others, has limited the sustained usage of digital medium in emerging economies. Industrial policies in emerging economies should focus on enabling awareness, uptake and usage of digital technologies.

Also, the policy and regulatory architecture in developing countries is still suited for pre-digital era, resulting in unreasonable impediments and constraints in embracing the digital economy. The digital and non-digital modes should be provided a level playing field so that producers and consumers can exploit the potential of digital economy. The policy framework is also not attuned to address digital economy related risks with respect to user privacy, data protection, ethical use of data, among others. Bilateral and multilateral arrangements should also incorporate digital transformation strategies to enable optimally harnessing digital modes while taking into account related risks. International organisations and civil society should support developing countries in building capacities to harness the potential of digital economy. This would require investment in digital education, skill development, research and development, and policy and regulatory capacity building.

PLUGGING FINANCIAL LEAKAGES, MOBILIZING DOMESTIC AND INTERNATIONAL RESOURCES TO DELIVER THE SDGS

Successful implementation of Sustainable Development Goals calls for secure long-term financing. But the usual habit of relying largely on financial resources funded by external development partners can never be a solution to pursue the development priorities. Therefore, the need arises for every country to find innovative ways to mobilise domestic resources for successful implementation. While it is recognised that the available financial resources are either not appropriately channelled or not sufficient to meet the ambitions of the 2030 Agenda, the most important step needed to be taken is to address financial leakages through various means like illicit financial flows, tax evasion, tax fraud, tax avoidance, corruption etc.

Global Financial Integrity states that illicit financial flows are growing in Africa and rest of the developing world. Sub-Saharan Africa ranked the highest in illicit outflows, around 5.3 to 9.9 percent of total trade in 2014, but the lowest in illicit inflows, between 6.3 and 13.1 percent of total trade. Unfortunately, till now not much importance is been given to illicit financial flows that drains scarce resources and severely undermines the joint efforts to achieve sustainable development. Its curtailment is crucial for all countries, especially developing countries, and is significant within the mandate of domestic resource mobilisation and financing for development.

Tax haven is the major culprit in facilitating the illicit movement of resources out of developing countries in particular. With little or no taxes at all, tax havens offer very strong banking secrecy to both companies and individuals, making it extremely difficult and rather impossible for foreign authorities to obtain information about the account holders and the source of money. Such excessive leakage of revenues could be drastically reduced through the implementation of more effective international regulations for cooperation, transparency and accountability on tax issues. There is a need for coordinated action at the international level to crack down on tax havens and eliminating banking secrecy and automatically exchanging information between tax jurisdictions to plug the biggest leaks. At present, improvement in many of these areas remains slow and difficult.

Further, a need arises to adopt at global level a progressive definition of illicit financial flows that goes beyond illegal activities like tax evasion, crime and corruption, and recognises socially unpalatable and abusive practices such as tax avoidance by multinational corporations and the elite as equally harmful. (A request already put forth by Asia based civil society organisations before UNESCAP in December 2017)

At the same time, various other factors curb the mobilisation of domestic resources including - corruption, weak institutional capacities, narrow tax base and pervasive tax avoidance and evasion by wealthy individuals and multinational corporations. Therefore, addressing corruption, strengthening the capacity of the existing tax systems and other financial institutions within the country helps mobilise domestic resources. Apart from these, governments could also earn adequate revenue through robust expansion of its taxable economic activities and widening the tax net. Private business activity such as investment and innovation are also major economic drivers that aid to promote productivity, inclusive economic growth and job creation.

At present, a huge percentage of development expenditure incurred at the national level comes from public resources. The onus should equally shift on corporate sectors too who are part of a welfare state. Healthy nexus between public and private resources would certainly contribute towards positive development. Governments can mandate private sectors to invest in development financing through the Corporate Social Responsibility (CSR), and public investment be planned in such a way so as to catalyse and leverage funds flow from private sector and other domestic sources. For instance, in India as per the Companies Act, 2013 it is legally mandated for large companies to contribute at least two percent of their average net profits annually towards CSR activities. This contributes to development activities.

Generating finance through trade and using it to promote sustainable development is also a viable option as it cuts across every facet of life at the household, national, regional, and international levels. This is feasible through tariff revenues generated through taxing of imports; export taxes on specified commodities and services; and through fees derived from export or import licenses. Further, expanded economic opportunities, enabled by trade, lead to more employment, higher tax collection from both income and sales as well as potentially lesser need for direct government spending on income support. This contributes to an overall increase in economic growth.

Mobilising domestic resources will also require improved regulation and transparency to reduce illicit financial flows and curb corruption. Effectively restraining illicit financing flows is a gigantic task and it needs both - strong support from all stakeholders, and progressive reformation within the countries involved. Countries should effectively utilise the existing regional structures to collaborate and engage with the United Nations and push for the review of international tax standards to ensure that multinational companies pay taxes at the source country rather than the resident country.

Civil societies can be entrusted with the responsibility to raise awareness among policymakers and other stakeholders on the magnitude and development impact such activities creates within the country and across. Only a strong political will can curb financial leakages to a large extent and enhance domestic resource mobilisation to finance sustainable development. Also, measures to enhance transparency should be expanded and strengthened with the full participation of civil society organisations to ensure that governments and corporations comply with existing regulatory frameworks.

Likewise, undertaking research, analysis and consensus building initiatives within this area could also provide capacity building for domestic and international resource mobilisation. Country level analysis could also look at the role of governance, national leadership, and civil society organisations in preventing illicit financial flows and also assess explicit policy measures and commitment by national leadership to combat such flows and reasons for successes or failures.

BUILDING RESILIENCE TO MULTIPLE SHOCKS AFFECTING PEOPLE AND SUSTAINABLE DEVELOPMENT

One of the most important challenges in today's world is to create effective international consensus towards implementation of the SDGs. While there is an agreement in principle, the action on that has been slow moving, at best. The challenges that countries face are a combination of economic, ecological and social factors, which are particularly felt by the developing and least developed countries.

On the economic front, one of the biggest challenges faced by these countries is ensuring access to finance, markets, goods and services by their population, particularly those at the margins and belonging to vulnerable communities. The hurdles to this are various including weak regulatory mechanisms or its implementation, capacity of institutions and also knowledge and capacity gaps at the ground level. This has resulted in the poor and vulnerable being either not included in the financial network and its services, or subject to spurious and undependable institutions and mechanisms which further depletes their meagre resources. Also, in an increasingly global market and economic space, weak institutions and regulations has to be dealt with strongly because, while the benefits evade the poor in such a system, the shocks (e.g. global financial turndown, demonetisation in India, etc.) impact substantially. What is probably needed are strong regulatory reforms and capacity enhancement of institutions with focus on implementation at the ground level, including building ground level institutions that can cater effectively to needs at that level.

In short, the systems on the ground need to increasingly reflect and adapt to changes in the global financial and monetary systems. It is equally important that these systems are connected and in sync, wherein the importance of technology and digital connectivity is undeniable. While technology will help in ways, it will disrupt in many other ways. This again, means that institutions will need to adapt to disruptive technologies and systems and will need capacity enhancements This in turn requires substantial financial resources for the institutions and capacity building at the ground level and also regulatory reforms.

Social safety nets and protection measures are still at nascent stages in many of the countries. With climate change affecting production, consumption and regulation, it is even more of a challenge to provide for the vulnerable and poor by ensuring growth that is sustainable. Higher pressure on the resources is arguably leading to increasing instances of conflict that destabilises development efforts and policies. With a global trend of inward looking and "nationalistic" regimes, multilateralism and regionalism are facing much heat. Conflicts, on one hand, adversely affect trade leading to lowering of access, escalation of prices and corruption, one the other, they lead to breakdown of social security systems and rule of the land, all of which impact the poor and the marginalised in a disproportionate manner. It is crucial that political consensus building at local levels is given utmost importance with focus on highlighting tangible gains at the local level from multilateralism, regionalism and trade liberalisation. This needs greater emphasis on federalism with particular emphasis on creating opportunities and building critical infrastructure and institution at local levels.

An useful strategy could be to get the States, Provinces and Local Governments more interested and involved in cross-border trade (policy planning and implementation). Highlighting such trade-gains and its social implications, particularly in terms of sustainable livelihoods at the local and provincial levels may help build a discourse where geographical borders (whether international or national) are considered more as opportunities rather than threats, which in turn may help in containing conflicts and its cascading destabilising impact.

One of the most difficult challenges facing countries is the ecological and environmental one. With climate change being a reality, there is no escaping the urgent need to move towards cleaner and greener growth and hence the required policy thrust. However, with hug population of poor and vulnerable the systems and institutions in the countries are not yet ready to shift gears towards being cleaner and greener, while still able to deliver on development goals. It is only through cooperation and leveraging of each other's strengths and natural advantages and enhancing connectivity (physical, institutional, people and digital) that the countries can realistically meet this challenge.

However, as highlighted already, countries are increasingly seeing inward looking regimes as opposed to political consensus on regionalism. In the face of such political trends, it is important to identify common hurdles and issues which affect all and hence, provides grounds for collaboration. Climate change provides a strong ground and it is extremely crucial that we are able to use climate change as a connector and enabler for cooperation and action. The easiest space is probably cooperation on disaster management. While management of shared water resources is a politically sensitive and critical issue, it also lends itself as an entry point for greater cooperation on disaster management. Increasing emphasis on disaster management as part of shared water resource management has the potential to catalyse better regional cooperation and shared thinking on solutions and is likely to positively impact multiple development factors affecting countries and its people, including those on livelihoods, health, gender and on a larger canvas, climate change.

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