



# TRANSFORMING TRADE AND DEVELOPMENT IN A FRACTURED, POST-PANDEMIC WORLD

Report of the  
**Secretary-General of UNCTAD**  
to the fifteenth session  
of the Conference







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# Abbreviations



<b>COVID-19</b>	coronavirus disease (of 2019)
<b>FDI</b>	foreign direct investment
<b>GDP</b>	gross domestic product
<b>IFF</b>	illicit financial flow
<b>SDR</b>	special drawing right
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>WTO</b>	World Trade Organization

# Preface



Since the last session of the United Nations Conference on Trade and Development four years ago, fractures and fault lines have deepened across the world economy, compromising the achievement of the Sustainable Development Goals. These fractures include widening inequalities that have fuelled popular discontent with globalization, deepening digital divides and uneven vulnerabilities to climate change. These fractures also include a growing disconnect between investment in the real economy and exuberant financial markets that have left the 2030 Agenda for Sustainable Development underfinanced yet have kept debt burdens growing and illicit financial flows rising. The multilateral system itself has shown increasing signs of fracturing, as it has come under mounting stress due to tensions over trade and technology and rising economic nationalism.

These growing fractures have been further scarred by the coronavirus disease (COVID-19) pandemic and its disproportionate impact on the most vulnerable. A worrying economic symptom of the pandemic is the striking discrepancy between the massive national policy responses observed in developed countries and the woefully inadequate international response, which has left many developing countries searching for answers and options. The time is now to redress this situation with a new international approach

that sets us on a path towards more gainful globalization and a more resilient form of multilateralism that can heal these fractures.

The pandemic is accelerating a transformation in global production towards shorter, more regional and more resilient value chains. It has also shown the limits of “go it alone” nationalism. The strong national policy responses to the COVID-19 pandemic are hastening the revival of industrial policies and suggest a changing paradigm that reaffirms stronger developmental States. The international community needs to build common ground on these trends so that they feed an acceleration of the 2030 Agenda for Sustainable Development.

In my report to the fifteenth session of the United Nations Conference on Trade and Development, which will be held in Bridgetown, Barbados, in October 2021, I focus on how expanding the transformative productive capacities and capabilities of all States could form the core of a new, more resilient multilateral consensus for accelerating achievement of the Sustainable Development Goals. Building productive capacities that facilitate structural transformation, economic diversification and industrialization – or “transformative productive capacities” – is needed in all countries. They will be vital to overcoming the current, fractured global economic landscape and addressing the new challenges posed by the COVID-19 pandemic.

The fifteenth session of the Conference should be the moment for debate on how to put these transformative productive capacities at the centre of United Nations efforts for a better recovery from the pandemic, and for achieving gainful globalization and a revived multilateralism. If the outcome of the Bridgetown Conference can strengthen the focus of the entire United Nations system on the productive side of economic sustainability, then it will go a long way towards accelerating achievement of the 2030 Agenda.



**Mukhisa Kituyi**

Secretary-General of the United Nations Conference on  
Trade and Development





# Introduction



1. In my report to the fourteenth session of the United Nations Conference on Trade and Development, convened in Nairobi in 2016, I underlined the progress that had been made in human development and economic transformation over the 75 years since the creation of the United Nations. I emphasized that this progress and transformation had gone hand in hand with growing globalization and with multilateralism governing the interdependence both between countries and between economic, social and environmental conditions.

2. At the same time, I cautioned that there was a long way to go. The world continued to face the persistent effects of the global economic and financial crisis, the spectre of a prolonged period of slow growth in some countries and dimming trade opportunities for many, the challenges represented by new technologies for the world of work, the re-emergence of unsustainable debt burdens, continued volatility in commodity prices, widening levels of income and wealth inequality and unprecedented migration flows. Added to all of this were the challenges arising from climate change and food and energy insecurity, as well as the associated economic, political and social instability.

3. I also emphasized that we seemed to be better equipped than ever to address these multiple challenges. The fourteenth session of the Conference took place at a watershed moment for the international community. It was the first quadrennial conference following the historic agreement of the “triple promises” of 2015, namely the 2030 Agenda for Sustainable Development that established the Sustainable Development Goals, the Addis Ababa Action Agenda on financing for development and the Paris Agreement on climate change. These agreements collectively offer a blueprint of truly historic magnitude for how our global society, economy and environment should look in 2030. As such, the Conference represented a starting point to translate our determination and decisions, as set out in the triple promises, into actions.

4. Now, with one third of the road towards 2030 travelled, the forthcoming UNCTAD ministerial conference will take place at a time when the global economy is deeply affected by the coronavirus disease (COVID-19) pandemic.

The pandemic has proven to be contagious as much economically as in medical terms, and its cost is already measured in the trillions of dollars. With the declaration of a global pandemic in March 2020, social-distancing measures brought economic activity to a near standstill in one country after another, causing a sharp global economic downturn and a near breakdown of global trade, foreign direct investment and financial flows. While massive policy support has prevented even worse outcomes, the pandemic has struck already fragile economic conditions and exposed the vulnerability of already disadvantaged economies and populations.<sup>1</sup> There is renewed hope as vaccinations begin, but ensuring wide access and fair distribution will remain a challenge for a long time. Meanwhile, the recent upsurge of the virus and reintroduction of stringent containment measures in many jurisdictions implies continued great uncertainty on the evolution of the global health and economic situation, as well as on the effectiveness of policies designed to alleviate the related human, economic and social costs.

5. No historical episode can provide valuable insights on the eventual consequences and appropriate policy responses regarding the COVID-19 crisis. The trade-off between limiting the public health crisis and containing economic slowdowns makes finding economic policy responses more complex. Any response must be of sufficient magnitude to match the scale of

Any response must be of sufficient magnitude to match the scale of the crisis and deploy sufficient creativity to match its unique nature

of the crisis and deploy sufficient creativity to match its unique nature. That response must also steer recovery towards achieving the triple promises of 2015. Recovering better demands that we treat the COVID-19 pandemic not only as a crisis to be managed, but also as an opportunity to leverage current and emerging economic transformations and address policy-based and institutional barriers in the way of more equitable and sustainable growth.

6. We must also recognize that, had we advanced further on the triple promises of 2015, stronger health systems would have coped better with the health crisis, and more inclusive and sustainable economies would have lessened its social and economic impacts. Instead, when the pandemic started, the global economic landscape was characterized by major fractures, with the world economy marked by inequality and mired in trade and growth slowdowns, and with multilateralism at a crossroads without clarity as to which direction to take. The pandemic bared to the full the weaknesses that such fractures entail.

<sup>1</sup> For a detailed discussion of how the COVID-19 pandemic has affected the most vulnerable, see UNCTAD, 2020a, *Impact of the COVID-19 Pandemic on Trade and Development: Transitioning to a New Normal* (United Nations publication, Sales No. E.20.II.D.35, Geneva).

7. In that respect, the current situation bears some resemblance with the second half of the 1990s. The Asian financial crisis brought the Asian economic miracle to a halt and sent shock waves across regions and countries, both developing and developed; it also raised serious doubts about the widely accepted recipe that had guided trade and development policies at the time. And it was the period when the multilateral trading regime faced an existential crisis that culminated in the breakdown of the Third Ministerial Conference of the World Trade Organization (WTO) in Seattle in 1999, remembered more for the street demonstrations against globalization and multilateralism, and the tear gas that prevented ministers from attending the meeting, than for trade negotiations.

8. I am referring to these events – and particularly the Seattle Ministerial Conference – not to equate the economic havoc caused by the COVID-19 pandemic and the current difficulties in the multilateral trading regime with the challenges faced at the end of the 1990s. Rather, I want to remind us of the critical role played by the tenth session of the United Nations Conference on Trade and Development, held in Bangkok in 2000, in defending multilateralism and emphasizing that both appropriate policies and properly disciplined globalization are indispensable for integration into the global economy to foster trade and development gainfully.

9. As the first global ministerial conference on trade and development after the Seattle debacle, the tenth session of the Conference – and the highest forum for trade and development in the United Nations system – provided an opportunity for developing countries and their development partners to assess, at the ministerial level, the concerns that lie at the heart of trade and development policies and the challenges faced by associated multilateral settings. As United Nations Secretary-General Kofi Annan said at the time, the tenth session of the Conference provided a propitious occasion for an honest and objective review of globalization and associated institutional frameworks, and a time to take stock of past and recent economic policies from the perspective of development. In fact, for many, the tenth session of the Conference provided an opportunity for a “healing process”, and an occasion to reflect and collectively seek solutions to the challenges facing the multilateral trading regime.

10. We are now facing similar challenges – although the immediate causes and drivers may be different. The existing economic fractures and inequalities within and between countries, combined with dwindling support for multilateral solutions, have accelerated and deepened the economic, financial and social impacts of the COVID-19 pandemic, delaying ensuing policy responses and hampering their effectiveness. Years of austerity and a retreat of the State from the provision of public goods reduced health-care

systems to levels incapable of dealing with the large numbers of infected people and hollowed out the State structures that are indispensable for the provision of rapid and sufficient internationally coordinated relief to anybody in need, irrespective of social status, gender or citizenship. Whatever it will take to address the consequences of the COVID-19 pandemic, there can be no going back to a pre-pandemic policy consensus – or lack thereof.

11. Rather than simply be considered as a crisis, the pandemic can be understood as an event that demands new economic and intellectual beginnings. Learning from the crisis and trying to recover towards more sustainable social and economic conditions will require a debate as to whether issues regarding public

The pandemic can be understood as an event that demands new economic and intellectual beginnings

health and the environment need to figure more prominently in the rules and norms that govern globalization, and what this would imply for the economic sphere of globalization and especially its trade and development dimension. Historians may remember the remainder of the year 2020 and much of 2021 as the time when the groundwork for new global economic relationships was laid. We should not miss the opportunity that a ministerial conference on trade and development provides to contribute its part to this process. Within the broad mandate of the United Nations Conference on Trade and Development (UNCTAD), and from a development perspective, the fifteenth session of the Conference must confront the big challenges and concerns of developing countries regarding the integrated treatment of trade and development in a fractured world scarred by the COVID-19 pandemic. In so doing, the fifteenth session of the Conference must address the way in which a revived and more resilient multilateralism can manage the multiple and changing nexuses between trade and development to the benefit of all.

12. In addition to containing the health and economic impacts of the COVID-19 pandemic and saving people's lives and livelihoods, another key challenge ahead is to prevent the pandemic from derailing progress towards achievement of the Sustainable Development Goals. The pandemic risks making the results underpinning progress on the Goals become even more uneven, and the pace of these achievements risks falling even further behind expectations. The deliberations of the first high-level political forum at the United Nations General Assembly in September 2019 had already highlighted that the world was dangerously off track in implementing the 2030 Agenda for Sustainable Development, and United Nations Secretary-General António Guterres had declared that a “decade of action” was needed to make up for lost ground in achieving the Goals.

13. Recognizing these setbacks and the additional complexities caused by the COVID-19 pandemic should not deter us from staying the course with the Sustainable Development Goals and their direction of travel to 2030 and beyond. The fifteenth session of the Conference provides the opportunity to draw the right lessons from how the existing fault lines could allow the pandemic to scar the global economy so deeply for realizing the economic objectives of the Goals spelled out originally in the outcome document, i.e. the Nairobi Maafikiano (TD/519/Add.2), of the fourteenth session of the Conference with an eye towards bringing to bear our collective efforts more concertedly and accelerating progress towards economic sustainability.

14. While reaffirming the continuing relevance of the Doha Mandate and the Accra Accord, the Nairobi Maafikiano spelled out the specific areas where UNCTAD can and should make maximum contribution to the 2030 Agenda for Sustainable Development and the outcomes of other relevant conferences. The approach to inclusive economic development rooted in structural transformation and outlined in the Maafikiano remains valid and even more relevant in the current global economic environment. This strategic direction agreed in Nairobi rested on the concept of building productive capacities for economic transformation as key to developing countries' economic catch-up and centred around four key SDGs, namely Goals 8, 9, 10 and 17.<sup>2</sup> This "theory of change" underpinning UNCTAD work has not changed. Current setbacks to multilateralism aside, building transformative productive capacities remains an unfulfilled objective for implementing the economic dimensions of the 2030 Agenda.

15. We need to find solutions to the COVID-19 crisis that also help to redress the fractures that have emerged from globalization, creating unfair outcomes and contributing to inequality and vulnerabilities. We also need to uphold that globalization is a policy-driven process and that multilateralism presents the most effective approach to managing policies and their impacts, in a mutually gainful way, across national borders.

Building transformative productive capacities will be vital to healing the fractured global economic landscape and should become central to a more resilient multilateralism

It is my firm belief that this is the right response to the pandemic and the

<sup>2</sup> In *The Least Developed Countries Report 2006: Developing Productive Capacities* of UNCTAD, productive capacities are broadly defined as "the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop" (p. 61; United Nations publication, Sales No. E.06.II.D.9, New York and Geneva). While this concept has most often been used for the least developed countries (for detailed discussion in this context, see UNCTAD, 2020b, *The Least Developed Countries Report 2020: Productive Capacities for the New Decade*, chapter 3, United Nations publication, Sales No. E.21.II.D.2, Geneva), the Nairobi Maafikiano recognizes broader applicability of the concept.

legitimate concerns about globalization and our fractured societies, and that reviving a more resilient multilateralism is the only way to invigorate gainful globalization and empower the multiple nexuses between trade and development to speed up progress on the 2030 Agenda.

16. The present report emphasizes that the fifteenth session of the Conference will be an important moment for the international community to identify elements that will mark the decade of action and move forward the global discourse on inclusive economic development, globalization and multilateralism. It will be the moment for emphasizing the role that the multiple nexuses between trade and development can play in combating the economic consequences of the COVID-19 pandemic and overcoming the multiple fractures in the current global economic landscape. This report also argues that, as the decade of action to achieve the Sustainable Development Goals begins, the fifteenth session of the Conference will be the moment for member States to revive a more resilient multilateralism and reaffirm the critical role of UNCTAD in supporting progress towards the Goals and to call on the wider United Nations system to put building transformative productive capacities at the heart of sustainable development. Building productive capacities that facilitate structural transformation, economic diversification and industrialization – or transformative productive capacities – as put forward in the Nairobi Maafikiano, is vital not only to tackle the fractured global economic landscape but also to address the new challenges posed by the COVID-19 pandemic. With that in mind, by strengthening its development system's focus on the productive side of economic sustainability, the United Nations could lead by example and reinvigorate multilateralism and global cooperation.

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- The background is a dark blue gradient. On the left, there are dark, jagged silhouettes of trees. On the right, there are lighter blue silhouettes of leaves and a person's head and shoulders. At the bottom, there is a horizontal row of colorful, teardrop-shaped icons in shades of blue, green, yellow, and red.
- A fractured global economic landscape scarred by the COVID-19 pandemic

17. The aspirational targets of the 2030 Agenda for Sustainable Development cannot be met without a dynamic and inclusive global economy and sustained efforts at global cooperation. But the global economic landscape has become increasingly fractured. The casualties of this fracturing have included not only the conventional view that globalization can deliver inclusive prosperity, but also the common belief that multilateralism provides the means for delivering such prosperity.

## A. | Unfulfilled trade and development promises prior to the pandemic

18. Globalization is a policy-driven process that can hinder or nurture economic development dependent on the policy choices of States. Policies fostering economic development must be considered from a global perspective, including national as well as international measures. A major objective of the latter is to cushion the international impact of disturbances, which may arise in one part of the world but have negative repercussions elsewhere. UNCTAD has come to play an essential role in this area with its focus on the special vulnerability of developing countries to economic fluctuations arising outside their borders and its integrated approach to how policies can ensure that international trade and finance deliver their full developmental potential.

19. This developmentalist vision sees the State as a legitimate and purposeful contributor to development objectives at both the national and international levels. At the national level, each country is given prime responsibility in designing development strategies and implementing appropriate policies that take account of the possibilities offered by the global economy and interdependence in a proactive manner, complemented and supported by an enabling global environment. At the international level, the State, legitimized by popular support and economic and social advances at home, brings its voice to multilateral processes to agree on avoiding national policies that imply purposely beggar-thy-neighbour policies and to harness cross-border effects to attain global common goods.

20. This developmentalist vision – which has been underemphasized for the last four decades – relies on policy settings beyond the mere provision of essential framework conditions, such as education or good governance. It calls for active policies beyond mere deep integration into the global economy as the only rational way to sustainable growth and prosperity.

It calls for public and private actors to work together concertedly in a spirit of mutual respect and collective benefit.

21. The liberalization of trade, finance and investment regimes, combined with regulatory harmonization and advances in information and communications technologies, have guided the integration of developing countries into the world economy, as reflected in intensified international trade and financial flows, foreign direct investment and other forms of transborder linkages. Over the past quarter century, globalization progressed to unprecedented levels in many of these areas. Underpinned by buoyant global credit growth, a boom in commodity prices and often more developmental domestic policies in developing countries, global integration facilitated the steady and significant decline in the share of the world's population living in extreme poverty over the past few decades and helped turn a prevalence of divergence between the global North and the global South into convergence.

22. The widely held expectation that this combination of globalization and the optimism that privileging the pursuit of private sector interests would offer an inclusive and sustained path towards prosperity has, however, not been borne out. Ever increasing globalization and ever deeper economic integration has delivered the expected benefits only to a few developing countries, which arguably may not even have followed the policy script, and to a limited number of people that had the right skills and initial conditions that allowed them to seize the opportunities that globalization has offered. Economic catch-up that many other developing countries recorded over shorter periods could not be sustained, partly because their integration processes have proven to be crisis-prone, deflationary and to exacerbate vulnerabilities of the most disadvantaged. As such, the dominant policy paradigms of the past 40 years have unleashed a dual process of integration and exclusion, as reflected by widening fractures between and within nations.

### **1. An unbalanced global economy and deteriorating global economic conditions**

23. As a result of these uneven globalization processes, the multiple shocks of the COVID-19 crisis hit a global economy characterized by slow growth, sluggish trade and investment, historically high levels of debt, increased inequality and rampant environmental degradation. Even before the pandemic drove the global economy into recession, a sustained recovery from the global economic and financial crisis of 2008/09 remained a work in progress. In 2019, the global economy registered its slowest growth in a decade, with the downturn in economic activity highly synchronized across regions and risks strongly bent towards the downside. Much of

the sluggishness of the recovery from the global economic and financial crisis may be attributed to low investment in the real economy, which also prolonged the decade-long decline in global productivity growth.

24. Sustaining the little global economic growth that existed had become dependent on ever higher debt levels. Growth performance in the developing world had too often become closely related to volatile international capital flows, and many developing countries were no longer narrowing the gap in living standards but instead falling behind. The dangerous economic vulnerability of most developing countries was compounded by disruptions from the rapid spread of digital technologies and mounting vulnerabilities to climate change, which particularly afflicts small island developing States, not least Barbados, the host country of the fifteenth session of the United Nations Conference on Trade and Development.

25. The little income growth that has been registered on average has been distributed unevenly, and progress towards higher living standards has stalled for many. Slow recovery from the global economic and financial crisis and policy choices, combined with forces from globalization and technological change, have been accompanied almost everywhere by a deterioration in the distribution of income and wealth, making inequality one of the burning economic, social and policy issues of our time. Inequality has created social and political tensions across developed countries, where income and wealth inequality has risen strongly since the 1980s and led to a polarization between prosperous, educated city dwellers and the rest of the population. Income and wealth polarization have been accompanied by generational tensions, with the aspirations of younger cohorts to achieve higher living standards than their parents becoming less likely to be realized. Inequality has also risen in many developing countries, especially those that have enjoyed high growth performance. Inequality remains stubbornly high even in those cases where policies have helped reduce inequalities in developing countries over this time period, such as in Latin America.

## **2. Changing global production structures amidst slowing trade and foreign direct investment flows**

26. Heightened global economic fractures and increased vulnerability of developing countries are also the result of changes in international production that have become increasingly apparent since the beginning of the implementation of the triple promises and the Nairobi Maafikiano.

27. Slowing investment and global output growth, compounded by protracted trade tensions, have exacerbated the slump in global trade that had prevailed since the global trade slowdown in the aftermath of the global

economic and financial crisis in 2008/09. Global trade in goods and services had registered an annual rate of growth of 7 per cent between 2000 and the global economic and financial crisis. Since then, trade has ebbed and flowed around a significantly lower average figure of 3 per cent and, in 2019, growth in the volume of global trade in goods and services decelerated sharply to a post-crisis low.<sup>3</sup> Slow trade growth has caused concern that the world economy has run into a peak trade constraint, i.e. that the ratio of global trade to global output has reached a limit, also as the rate of global trade growth slowed relative to global income growth.

28. This pre-pandemic trade slowdown may well have been a structural phenomenon of a longer-term dimension that operated in addition to the cyclical drivers of slowing global income growth and current trade tensions. Looked at from a historic perspective, the ratio between trade and output varies over time, and the period between the early-1990s and 2008 was a major outlier on the upside, driven by the reintegration of Central and Eastern Europe and China into the global economy, the creation of the North American Free Trade Area and the expansion of global value chains as the dominant mode of organizing production processes at a global scale.<sup>4</sup>

The pre-pandemic trade slowdown was a structural phenomenon operating in addition to cyclically slowing global growth and ongoing trade tensions

29. Global value chains promise beneficial trade and development effects in that they allow more countries, firms and workers to participate in trade as they organize global production around narrow slivers of comparative advantage. Global value chains can make significant contributions to development. An accurate quantification of the gains from global value chains must account for a wide range of issues, including their governance structure and contribution to industrialization, through input–output linkages and increasing shares of domestic value added in total exports, as well as enhanced knowledge spillovers and value-creating competition effects.

30. But the integration of developing countries into global value chains also poses challenges. Developing countries face the risk of remaining locked into activities with relatively little domestic value added, for example, by providing low-cost labour while proprietary technology remains in developed countries. This has left only few channels of transmission of technology between foreign and indigenous firms and hampered the potential to

<sup>3</sup> For further discussion, see UNCTAD, 2020c, *Key Statistics and Trends in International Trade 2019: International Trade Slump* (United Nations publication, Sales No. Sales No. E.20.II.D.8, Geneva).

<sup>4</sup> Irwin DA, 2015, World trade and production: a long-run view, in Hoekman B, ed., *The Global Trade Slowdown: A New Normal?* Centre for Economic Policy Research, London: 21–30.

move up the value chain and exploit new economic opportunities, beyond existing comparative advantage, by leveraging technology and foreign direct investment (FDI) to build transformative productive capacities.

31. Nevertheless, the expansion of global value chains was a game changer for trade policy. Firms can assemble intermediate inputs from various destinations and firms that respect the same standards. As a result, trade policy became increasingly concerned about non-tariff measures and engaged in behind-the-border liberalization and the harmonization of regulations and standards, often codified in bilateral or regional trade agreements.

32. Business decisions to shorten and regionalize supply chains or to “reshore” production suggest an apparent de-globalization of trade. Notably, there has been a move away from highly fragmented, globe-spanning supply chains towards a greater reliance on regional and local production networks. Such decisions result from a re-evaluation of the economic benefits of offshoring, for example, caused by the increase in unit labour costs in some large developing countries and the costs related to global supply-chain management in the face of major supply disruptions caused by earthquakes or extreme climate events, which had already been observed prior to the pandemic, as well as the temporary shutdown of production sites in China related to the COVID-19 pandemic. These decisions also stem from heightened consumer concerns about socially and environmentally responsible production.<sup>5</sup> Disruptions stemming from the rapid spread of digital technologies and associated opportunities to reshore production through automation have further spurred a re-evaluation of global production sharing. Taken together, much of what appears to be a de-globalization of trade may well simply reflect a reconfiguration of supply chains.

33. The evolution of FDI prior to the COVID-19 pandemic indicated that reconfigurations to existing supply chains were indeed under way. Global FDI flows rose only modestly in 2019, following the sizable declines registered in 2017 and 2018, but remained below the average of the previous 10 years and at some 25 per cent of the peak value of 2015. Greenfield FDI (the establishment of new productive capacity) in developing countries had not increased significantly for more than a decade and remains largely concentrated in extractive industries. This has important implications, as greenfield investments are far more beneficial for building transformative productive capacities than flows related to mergers and acquisitions.

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<sup>5</sup> For further discussion, see UNCTAD, 2020d, *World Investment Report 2020: International Production beyond the Pandemic* (United Nations publication, Sales No. E.20.II.D.23, Geneva).

### **3. Rising financial vulnerabilities: Volatile capital flows, rising indebtedness and illicit financial flows**

34. While the pre-pandemic evolution of trade and FDI suggested a retreat from unsustainable highs of globalization, net capital flows to developing countries continued unabated. However, especially in economies with more open capital markets, their extent was highly volatile and largely determined by an abundance of global liquidity and the appetite for risk of global financial investors. Peaks in 2010 and 2013 were followed by the so-called taper tantrum (the sudden capital withdrawal following the announcement in May 2013 by the Federal Reserve of the United States of America that it would eventually taper off its expansionary monetary policy), a rebound in 2017 and 2018 and broad stability in 2019.

35. Net capital flows to developing countries can be a valuable source of external financing. The volatility and procyclical nature of these flows, however, complicates macroeconomic management and increases financial vulnerabilities and indebtedness. These risks are particularly large in developing countries as they are exposed to global financial cycles – the co-movement in global and domestic financial conditions across countries – to a considerably greater extent than developed countries. A global financial cycle implies that capital flows to developing countries are generally driven more by factors external to the receiving country – such as low interest rates and monetary expansion in developed economies, combined with low global risk aversion – rather than by local factors – such as capital-account openness and strong economic growth – that may pull international capital flows towards their economies. Most developing countries do not have the multiple policy instruments, without preconditions for their use, that would be required to stem these pressures.

36. Financial globalization has been boosted further, as high indebtedness has become a key feature of the global economy. The global debt-to-output ratio hit what was then an all-time high of over 322 per cent in the third quarter of 2019, with total debt reaching close to \$253 trillion.<sup>6</sup> Debt expansion has been most pronounced in the non-financial corporate sectors and to a lesser extent in government sectors. For developing countries, the pre-pandemic level of total debt was about double their combined gross domestic product (GDP) – the highest level on record. The indebtedness of higher- and middle-income

The disconnect between deteriorating real economic outcomes and continued financial exuberance left the global economy particularly vulnerable to the COVID-19 shock

<sup>6</sup> Wheatley J, 2020, Pandemic fuels global "debt tsunami", *Financial Times*, 18 November.

developing countries is at unprecedented levels and dominated by private sector debt. At the onset of the COVID-19 pandemic, the indebtedness of low-income countries had not exceeded the levels prior to the debt cancellation programmes for heavily indebted poor countries of the early 2000s, but private sector indebtedness had also increased markedly in these countries. Amid slowing global growth, rising trade tensions and, in some cases, heightened political uncertainty, high corporate debt in emerging economies represents a major source of financial vulnerability, as forcefully exposed by the COVID-19 pandemic. Since the global economic and financial crisis, claims on government debt have shifted towards private, foreign and non-bank ownership, which has further heightened vulnerabilities. In some countries, these vulnerabilities are aggravated by rising dollar-denominated debt. In addition, investment indicators show that a significant part of this corporate debt has been channelled neither to productive investments nor to high productivity sectors.<sup>7</sup> This trend has adversely impacted medium-term growth and has also raised concerns over debt sustainability.

37. While international capital flows have played a crucial role in the expansion of private debt, public debt has often increased because of insufficient fiscal revenues. The drop in fiscal revenues is in part the result of conscious choices, as policymakers embraced a notion according to which taxes are a hindrance to economic growth and should be reduced as much as possible. Meanwhile, tax evasion by high-wealth individuals and an increase in tax-motivated illicit financial flows (IFFs) by multinational enterprises have added further downward pressure. Currently available aggregate estimates on tax-motivated IFFs vary due to their hidden nature and differing measurement methodologies. But recent estimates on revenue losses caused by tax-motivated IFFs from developing countries as a group point to a range of \$49–\$193 billion, with estimates of the proceeds from trade underinvoicing and other IFFs pointing to an average of \$88.6 billion per year for Africa alone.<sup>8</sup>

38. Tax-motivated IFFs mainly occur when multinational enterprises reduce their corporate income tax liabilities by shifting their profits to affiliates in offshore financial centres or tax havens. The existing international corporate tax norms facilitate these practices as they leave decisions where to record profits to the multinational enterprises themselves, regardless of where the profit-making activity took place. This system dates from the 1920s and was designed at a time when most trade in manufactures concerned final goods and took place between separate firms. It is ill equipped to deal with

<sup>7</sup> UNCTAD, *Trade and Development Report 2019: Financing a Global Green New Deal* (United Nations publication, Sales No. E.19.II.D.15, Geneva).

<sup>8</sup> *Ibid.* and UNCTAD, 2020e, *Economic Development in Africa Report 2020: Tackling Illicit Financial Flows for Sustainable Development in Africa* (United Nations publication, Sales No. E.20.II.D.21, Geneva).

current characteristics of trade mostly concerning intermediate goods and, increasingly, services and taking place between subsidiaries of multinational enterprises. While attempts at resolving these issues are under way at the United Nations and under the base erosion and profit shifting project of the Group of 20 (with proposals in this area also provided by the Independent Commission for the Reform of International Corporate Taxation, as well as specialized non-governmental organizations), no agreed solution has been found so far.

39. Closely related to tax-motivated IFFs is the observation that an increasing share of FDI passes through holding companies or investment vehicles, which may in fact be just empty corporate shells, rather than being invested in productive activities in the receiving economies.<sup>9</sup> This type of FDI can be used for intra-company financing or to hold intellectual property and other assets. For tax-optimization purposes, it is concentrated in a few offshore financial centres or tax havens.

40. Trade-related IFFs concern illegal wildlife trade, logging and fishing, but above all underinvoicing of commodity exports, especially from the extractive sector. It has been estimated, for example, that about half of illicit financial outflows from Africa are generated via trade mispricing and more than half of trade-related IFFs stem from the extractive sector. The lack of data makes comparisons over time difficult. But country-specific evidence based on the partner-country trade gap method suggests that the revenues lost from trade mispricing have been much larger over the past 15 years than during the period 1990–2005.<sup>10</sup>

41. The simultaneous occurrence of deteriorating global economic prospects, slowing trade and greenfield FDI, on the one hand, and unabatedly rising international capital flows, asset market valuations, trade-related and tax-motivated IFFs, on the other, illustrates the disconnect between financial markets and real economic activity. Combined with increasing inequality, this disconnect left the global economy particularly vulnerable to a shock as drastic and widespread as COVID-19.

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<sup>9</sup> Damgaard J, Elkjaer T and Johannesen N, 2019, The rise of phantom investments. Empty corporate shells in tax havens undermine tax collection in advanced, emerging market and developing economies, *Finance and Development*, 56(3).

<sup>10</sup> UNCTAD, 2020e.

## B. | The pandemic exposes and deepens the multiple fractures in the global economy

42. The COVID-19 pandemic has already caused more than 1.5 million deaths and made nearly half of the world's population endure lockdown measures. The ensuing slump in consumer spending and factory closures led to the deepest and most synchronized global economic collapse on record. In 2020, the global economy is expected to contract by 4–5 per cent, merchandise trade to shrink by 7–9 per cent and FDI by up to 40 per cent, and remittances are set to drop by over \$100 billion.<sup>11</sup> Global debt has surged since 2019. By the end of 2020, it is expected to hit \$277 trillion, or 365 per cent of global output, up from 320 per cent at the end of 2019.<sup>12</sup> The pandemic also caused the disappearance of almost 500 million jobs globally during the second quarter of 2020 alone and harshly affected many of the 2 billion workers in informal employment with little protection.<sup>13</sup>

43. Global trade is expected to rebound by 7–8 per cent in 2021, closer to a “weak recovery” scenario than to a “quick return to trend”.<sup>14</sup> Regarding FDI, the pandemic has created significant uncertainty about economic prospects, not least in developing countries, which may cause a delay or even cancellation of previously envisaged projects. As such, the pandemic may mark an inflection point that could fundamentally alter the configuration of international production over the next decade, whereby FDI flows to developing countries may be expected to remain positive but significantly below previous peaks.<sup>15</sup>

44. While the COVID-19 crisis has affected all countries, its impact varies widely. The biggest decline in output is in the developed world, where many countries are battling a second wave of the disease. However, the economic and social damage is greatest in the developing

The pandemic marks an inflection point that could fundamentally alter the configuration of international production over the next decade

<sup>11</sup> The numbers cited refer to the entire year 2020, with much more drastic declines registered for the first and especially the second quarter of 2020. See UNCTAD (2020a) for detailed numerical evidence on the impact of the pandemic.

<sup>12</sup> Wheatley J, 2020.

<sup>13</sup> International Labour Organization, 2020, Restore progress towards attaining the Sustainable Development Goals, statement by Guy Ryder at the annual meetings of the World Bank and the International Monetary Fund, 15 October.

<sup>14</sup> WTO, 2020, Trade shows signs of rebound from COVID-19, recovery still uncertain, press release, 6 October.

<sup>15</sup> UNCTAD, 2020f, Investment Trends Monitor, Issue 36, October.

world. These countries combine a high importance of particularly affected economic sectors (such as tourism) with high levels of informal employment and little social protection. This puts millions of livelihoods at risk and with the possibility of pushing an additional 130 million people into extreme poverty if the crisis persists, with close to 300 million facing acute food insecurity. An exception is East Asia, and in particular China, where the health impact was relatively low, and economies bounced back quickly and strongly.

45. Within countries, the pandemic's economic effects disproportionately affect younger generations that find it more difficult to get a foothold in the disrupted labour market and those unable to follow online teaching obliged to discontinue their education. The economic and social effects of the pandemic also risk reversing progress on gender equality and women's empowerment. Given continued gender pay gaps, the overrepresentation of women in relatively less stable as well as less remunerated jobs, women tend to have lower liquid savings and have fewer options for not going in to work than men. When they can relocate to a home office, they often shoulder most of the additional tasks related to care for children and elderly members of the household.

46. The pace of the recovery is also expected to be highly uneven. So far, it has been K-shaped, with those at the top of the income and wealth distribution able to enjoy asset price increases and continue working from home offices, while those at the bottom often face the trade-off between exposing themselves to the pandemic or renouncing any income.

47. The deepening of existing fractures from the uneven direct effects of the pandemic itself is likely to be compounded by diverging paths of economic recovery. In addition to success in containing the spread of the disease, and eventually getting affordable access to vaccines and effective treatment, the country-specific pace of the recovery will depend on the scale and effectiveness of national policy responses and on differences in the structure of countries' economies and their preparedness to adjust to ongoing and emerging structural changes in international production.

### **1. A worrying disconnect between sizable national responses and inadequate international measures**

48. The pandemic triggered an extensive policy response at the national level in most developed economies. The United States alone saw the rapid adoption of a spending stimulus worth 12 per cent of GDP and a 1.5 percentage point cut in short-term interest rates. Other developed countries also brought up fiscal spending to protect workers and rescue firms. The combined monetary and fiscal stimulus of developed countries

is equivalent to about 20 per cent of their GDP. Their additional spending and liquidity support measures amounted to more than double those in developing economies in terms of national income, and more than 20 times on a per capita basis.<sup>16</sup> Central banks in the major advanced economies have created new money worth close to \$4 trillion, much of which has kept yields on long-term government debt close to zero. Entrenched ultra-low interest rates in major developed countries will facilitate keeping long-term debt to GDP ratios stable, with expanding GDP compensating rising debt levels.

49. The massive response of developed countries at the national level contrasts with a woefully inadequate response at the international level. This is surprising because the global nature of the pandemic in medical and economic terms clearly reflects global interdependence and the great need for multilateral cooperation to address the pandemic. By contrast, the international response to the global economic and financial

The massive response of developed countries at the national level contrasts with a woefully inadequate response at the international level

crisis was as ambitious as national measures in the immediate aftermath of the global economic and financial crisis. In terms of financial support, it included a tripling of the International Monetary Fund's lending resources and adaptation of the Fund's lending framework that sought to make access to its resources easier and more flexible, as well as new allocations of special drawing rights (SDRs) in August and September 2008, totalling a record level of over SDR 180 billion. Additionally, the Federal Reserve of the United States and central banks of other developed countries established central bank liquidity swap lines to improve liquidity conditions in dollar funding.

50. This time around, the international response has been much more limited. The International Monetary Fund is providing close to \$100 billion to 81 countries to deal with the crisis, and the World Bank has disbursed \$21 billion. In April 2020, the Group of 20 agreed on a Debt Service Suspension Initiative for the poorest countries which, however, is limited to bilateral official debt, and by early September 2020, deferred debt service payments amounted to only about \$9 billion. Central banks have also taken measures to ease dollar strains. The Federal Reserve extended currency swap lines to a range of countries, including four developing countries (Brazil, Mexico, the Republic of Korea and Singapore) and most other central banks were allowed temporarily to exchange United States treasuries for cash. However, estimated financing needs for developing countries are expected to be in the order of \$2.5 trillion, and many developing countries face a continued

<sup>16</sup> See UNCTAD, 2020a.

risk of sovereign- and corporate-bond defaults and possible funding crises. The debt burden of developing countries has risen by 26 percentage points since the end of 2019 and is approaching 250 per cent of their combined GDP.<sup>17</sup>

51. Stepped-up international support is particularly important as developing countries enjoy much less fiscal space and face greater difficulty in accessing international liquidity. The near-economic standstill in developed economies and the disruption of global supply chains particularly affected developing countries that depend on remittances from citizens working abroad and on export earnings from a narrow range of goods, including commodities such as oil whose average price level in 2020 is about one third lower than in 2019.

52. Developing countries also experienced rapid and massive capital outflows in March and April 2020. Even though this capital flow reversal has come to a halt, and some developing countries with strong credit ratings have raised new financing by selling bonds, it has left many developing countries in a very fragile state. Subsequent reversals, when investors measure their exposure against continued crisis conditions in the real economy, could tip many into financial chaos. This means that the pandemic has put a spotlight on the many shortcomings of the international monetary and financial architecture. As such, it provides an opportunity to accelerate long overdue reforms that would ease access by developing countries to international liquidity and facilitate sovereign debt restructurings.

## **2. A changing policy paradigm towards greater State intervention**

53. An important question regarding the COVID-19 crisis is whether the sizable increase of State involvement in economic activity will mark a departure from the paradigm of a retreat of the State that has prevailed since the early 1980s.

54. The global economic and financial crisis had already made doubts about the economy-wide and broader social benefits of unfettered markets more widely accepted. But the immediate policy response adopted in developed countries during the COVID-19 crisis has shattered many of what previously were considered taboos. For example, after years of austerity, higher levels of government debt became tolerable, with Germany invoking special conditions to be able to suspend its debt brake and its balanced-budget norm. Central-bank financing of government debt became a possibility in many developed countries, as much as leaving aside concerns over moral hazard in Governments bailing out enterprises or handing out

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<sup>17</sup> Wheatley J, 2020.

cash payments to enterprises and households, much as advocated by proponents of universal basic income schemes. The United Kingdom of Great Britain and Northern Ireland renationalized its railways and announced the heaviest borrowing since World War Two. Pushing towards higher wage floors through the introduction of minimum wages is increasingly getting traction in major developed economies, where pushing wages down for the sake of international competitiveness was a pillar of economic policy for decades. Once concerns over economic recovery gain priority over crisis containment, it is also likely that many developed countries governments will further expand long-shunned industrial policies.<sup>18</sup> The adoption of some of these measures may relate to specific purposes in crisis situations. Yet, these and similarly novel policies may well become part of a new normal, just as the unconventional monetary policy that developed country central banks adopted after the global economic and financial crisis have been maintained now for close to a decade.

Increased State involvement in economic activity due to COVID-19 may mark a departure from the paradigm of a retreating State that has prevailed for decades

55. One indication for this would be that, rather than prematurely reverting to fiscal austerity as in their response to the global economic and financial crisis, developed economies uphold fiscal expansion to continue spending for humanitarian reasons and prevent a downward economic spiral, as well as reverse years of public underspending. Focusing macroeconomic policy on assuring adequate demand and economic fairness, driven mainly by expansionary fiscal policy, may well become a key characteristic of the post-pandemic environment. Years of fiscal austerity had contributed to pervasive and chronic shortcomings in infrastructure and logistics that hampered the capacity of Governments to provide support at levels that may have tempered the sharp increase in COVID-19 infections and deaths. Yet, rapid and decisive increases in fiscal expenditure to address the economic and social fallout of the pandemic have contained popular dissatisfaction. It reassured people that everything possible was undertaken to provide a reliable immediate response to the pandemic. Maintaining an enlarged State presence would clearly help in the challenge of vaccinating the population at an adequate pace.

56. The pandemic has also increased the cost of not expanding net public spending. Insufficient fiscal spending would risk creating a high rate of long-term unemployment, eroding precious human capital and leaving capital equipment unused, and a further extended period of sluggish growth would

<sup>18</sup> Aiginger K and Rodrik D, 2020, Rebirth of industrial policy and an agenda for the twenty-first century, *Journal of Industry and Trade*, 20(2):189–2017.

postpone or cancel investment and innovation decisions, triggering a further decline in global productivity growth. This means that a premature turn towards fiscal austerity would reduce job creation and impede the building of productive capacities and structural transformation that crucially determine pre-tax income inequality. As such, it would complicate a post-pandemic recovery and risk further worsening already deep inequalities and increasing vulnerabilities to future shocks. It would also risk further undermining popular support for democratic Governments. This is because some would see support measures after the global economic and financial crisis focused on monetary expansion as predominantly benefiting high-income groups and the wealthy, while it would take targeted fiscal measures to secure the living standards and livelihoods of the less affluent parts of the population.

57. Another indication for the possibility of increased State involvement to continue could be that the massive macroeconomic stimulus in developed economies has come on the heels of enhanced broad-based adoption of formal industrial policies and individual measures aimed at stimulating industrial sectors. Such measures have become commonplace, not least because of anxiety about the ability to maintain high living standards and technological leads in a post-pandemic world. In Europe, leaders vowed to erect barriers to foreign competitors, repatriate production of key technologies, reduce dependencies in sensitive industries, and create new digital champions, much in line with the new industrial strategy of the European Union.<sup>19</sup> In the United States, State aid has been instrumental in accelerating the development of COVID-19 vaccines and follows on the development of frontier digital technologies, much of which came out of the Defense Advanced Research Projects Agency of the United States Department of Defense that pioneered the Internet, Global Positioning System and touchscreen technology.

58. These changes in government policy illustrate that, in addition to finding solutions to the pandemic, much of the greater State involvement and the adoption of more active policy measures respond to ongoing shifts in globalization. The rapid spread of digital technologies may be the most important among these shifts, including as digital service provision has received a decisive boost from the pandemic. But recognition that regaining popular support for globalization and

Regaining popular support for globalization and multilateralism requires conscious efforts to address longer-standing pre-pandemic fractures in the global economy

<sup>19</sup> European Commission, 2020, A New Industrial Strategy for Europe, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2020) 102 final, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0102&from=EN>.

multilateralism requires conscious efforts to address longer-standing pre-pandemic fractures in the global economy has clearly also played a role.

## C. Strengthening efforts to address existing vulnerabilities and advance on the 2030 Agenda

59. The economic fallout of the pandemic risks further questioning the promises of globalization, and the woefully inadequate international response could cause a further faltering of expectations that multilateralism can manage interdependencies, at a point when global cooperation is paramount.

60. If unchecked, these developments would leave the world unprepared for when and where the next pandemic or other global shock strikes. Equally important, they would risk undoing the advances achieved towards the Sustainable Development Goals and the ability of Governments to maintain the multilateral regimes which have been the basis for these advances.

61. These developments would be particularly worrying in the context of the Sustainable Development Goals for two reasons. First, the situation has been related to growing inequality, as reflected by both the decline in the share of labour in national income and the polarization of personal wealth and income. The concentration of wealth and income growth among the top 1 per cent, accompanied by income stagnation for those at the bottom of the ladder and precarity or declines for middle-income earners, has become a defining feature of our time in virtually all countries, but especially in major developed countries, where it has fed growing popular discontent with globalization.

62. While growing inequality has several causes, some of which may be country-specific, policy choices have played an important role. The 1980s saw the wide adoption of a vision of economic policy that sees a retreat of the State as the basis for sustained growth and development. As a result, Governments have cut taxes for high-income earners and the wealthy, while reducing welfare and redistributive policies that benefit those at the

middle and bottom of income distribution.<sup>20</sup> The emerging digital revolution has sharpened these trends. Digital technologies can make significant contributions to realizing the Sustainable Development Goals and have already generated enormous wealth in record time. This wealth, however, has so far been concentrated around a small number of individuals and companies. Under current policies and regulations, this trajectory is likely to continue, further contributing to market concentration and rising inequality.<sup>21</sup>

63. Rightly or wrongly, part of growing inequality has also been attributed to globalization, possibly as the gains of globalization, in the form of lower-priced goods, are spread across the population, while adverse effects associated with a decline in traditional middle-class manufacturing jobs in regions with a high density of import-competing industries are geographically concentrated and therefore highly visible. The ensuing feeling that the gains of globalization are not shared equally and fairly has led to a pushback against globalization, especially in developed countries.

64. A second reason is that the disconnect between financial markets and real economic activity implies a dearth of investment in transformative productive capacities, despite the availability of large amounts of finance. The 2030 Agenda for Sustainable Development requires the largest investment push in history (UNCTAD estimates<sup>22</sup> the annual shortfall at \$2.5 trillion in developing countries alone), while the backlash to globalization reduces the political resolve to engage in global cooperation at a time when it is of key importance. These facts raise important questions. One question is whether globalization inherently fosters dynamics that eventually lead to a backlash and, if so, whether these dynamics are inevitable or can be avoided by an adjustment in the rules and norms that govern globalization and ensuing shifts in policy focus.

65. We must not resign ourselves passively to the fractures that are increasingly characterizing the global economy. Instead, we must rectify what has been going wrong and ensure that change equates fairness and advance on the 2030 Agenda. This implies recognizing that the difficulties of harnessing globalization for the benefit of all have been underestimated, as has the risk that related disillusionments with multilateralism jeopardize global cooperation. It requires that we mobilize the entire gamut of policy

<sup>20</sup> UNCTAD, 2012, *Trade and Development Report 2012: Policies for Inclusive and Balanced Growth* (United Nations publication, Sales No. E.12.II.D.6, New York and Geneva).

<sup>21</sup> UNCTAD, 2018a, *Trade and Development Report 2018: Power, Platforms and the Free Trade Delusion* (United Nations publication, Sales No. E.18.II.D.7, New York and Geneva); UNCTAD, 2019b, *Digital Economy Report: Value Creation and Capture – Implications for Developing Countries* (United Nations publication, Sales No. E.19.II.D.17, Geneva).

<sup>22</sup> UNCTAD, 2014, *World Investment Report 2014: Investing in the [Sustainable Development Goals] SDGs – An Action Plan* (United Nations publication, Sales No. E.14.II.D.1, New York and Geneva).

instruments to continue our efforts towards implementation of the Nairobi Maafikiano and fulfil the mandate of UNCTAD of addressing the division of the world into pockets of poverty and of plenty, through gainful integration of developing countries into the world economy.

66. Greater inclusiveness of these policies is crucial for ensuring their popular support. Proactive and legitimized Governments on board for multilateral solutions can best ensure that policies fostering economic development are considered from a global perspective and effective responses to global challenges are found in a way that take the global commons as a yardstick, while allowing appropriate reflection of each country's national interest. The COVID-19 pandemic has shown once again that nationalist solutions do not work.



# ■ Doubling down on the Sustainable Development Goals and unmet trade and development targets



67. Even before the onset of the pandemic and the economic crisis that has accompanied it, progress on the Sustainable Development Goals had been falling worryingly behind, especially with respect to the economic dimension of sustainability, which includes the principal outcomes targeted by the mandate of UNCTAD. Notably, prior to the pandemic, the political declaration adopted at the first Sustainable Development Goals Summit held in September 2019 acknowledged that greater efforts are needed in directing and aligning the means of implementation with the Goals, calling for “gearing up for a decade of action and delivery for sustainable development” in order to accelerate progress.

68. UNCTAD has been among the earliest and most consistent voices arguing that the ambitions of the 2030 Agenda for Sustainable Development faced increasingly strong headwinds. Since the fourteenth session of the Conference, and well ahead of the pandemic, UNCTAD has been raising the alarm with an eye to helping adjust course. For the past four years, however, the unfavourable global economic conditions have only grown, and ever deeper fragmentation has emerged across the multilateral system. Increasingly, over the last four years, multiple assessments by UNCTAD have shown that progress on the Sustainable Development Goals has been slow and should be accelerated in the coming 10 years. But despite efforts by UNCTAD and other key players, deepening fractures in global economic conditions have increasingly hindered progress.

Despite efforts by UNCTAD and other key players, deepening fractures in the global economy are hindering progress on the trade and development targets of the Sustainable Development Goals

## A. | Analytical evidence documenting widening implementation gaps

69. Warnings of insufficient progress on the economic dimension of the Sustainable Development Goals have been raised increasingly across UNCTAD research and analysis products. Since 2019, the UNCTAD [Sustainable Development Goal] SDG Pulse – a statistical assessment of the Sustainable Development Goal targets and indicators relevant to the UNCTAD mandate – has documented the mixed and inadequate progress made on the relevant targets related to trade and development, including on the eight Sustainable Development Goal targets for which UNCTAD has

custodial responsibilities.<sup>23</sup> The mixed and inadequate progress towards finding the necessary transformative pathways required by the Sustainable Development Goals has further been confirmed by *The Sustainable Development Goals Reports* of the United Nations, released annually ahead of successive high-level political forums under the auspices of the Economic and Social Council since 2016.

70. For the past four years, UNCTAD research and analysis has offered intellectual leadership on how the Sustainable Development Goals can be a blueprint for transformative economic change, including for a fair globalization that works for all. In a series of UNCTAD *Trade and Development Reports* since 2017, proposals have been developed for a more supportive policy narrative constituting a “global new deal” to address the inclusive and sustainable objectives of the Sustainable Development Goals. Such a “global new deal”, or “global green new deal”, would crowd in much needed private investment through a public investment push in order to address deep-seated and widening social and economic inequalities and avert the existential environmental threat of climate change, especially in developing countries.

71. Yet such transformations imply significant resource requirements. The additional resources needed have simply not been forthcoming over the past four years, especially in the sectors that need additional resources most. The UNCTAD *World Investment Report 2014* had first estimated that, at then current levels of investment in sectors relevant to the Sustainable Development Goals, developing countries faced an annual gap of \$2.5 trillion in unmet resource requirements to achieve the Goals. Revisiting these estimates five years later, the UNCTAD investment trends monitor on the Sustainable Development Goals<sup>24</sup> has demonstrated the lack of progress in investing in the 10 major relevant sectors for which investment gaps were first estimated in the *World Investment Report 2014*.<sup>25</sup>

72. While signs of progress have been evident across some sectors, including climate change mitigation, food and agriculture, and health,

<sup>23</sup> As mandated by the United Nations Statistical Commission’s Inter-Agency and Expert Group on Sustainable Development Goal Indicators, UNCTAD is the custodian or co-custodian agency of indicators for the following Sustainable Development Goal targets: 10.a, on special and differential treatment for developing countries; 12.6, on sustainability reporting for enterprises; 16.4, on reducing illicit financial flows; 17.3, on mobilizing additional financial resources for developing countries from multiple sources; 17.5, on investment promotion regimes for least developed countries, 17.10 on promoting the multilateral trading system; 17.11, on increasing exports of developing countries and doubling the least developed countries’ share of global exports by 2020; and 17.12, on implementing duty-free and quota-free market access for the least developed countries.

<sup>24</sup> UNCTAD, 2019c, [Sustainable Development Goal] SDG Investment Trends Monitor, UNCTAD/DIAE/MISC/2019/4, Geneva.

<sup>25</sup> See also UNCTAD, 2020d, chapter 5.

Sustainable Development Goal investment trends continue to fall short of the requirements projected in the *World Investment Report 2014*, with the order of magnitude not yet within a range that would make a significant dent in the total estimated annual gap of \$2.5 trillion. Despite concerted efforts by the international community over the past four years to mobilize private sector investment in support of the Goals, the investment trends monitor on the Sustainable Development Goals additionally finds that international private sector flows to at least 8 of the 10 key Sustainable Development Goal areas have been either flat or declining.

73. Similarly, the *Trade and Development Report 2019* (UNCTAD, 2019a) showed that the costs of meeting just the first four of the 17 Sustainable Development Goals – poverty elimination, nutrition, good health and quality education – would require developing countries to mobilize on average 11.9 per cent of their GDP in additional resources annually. This cost rises to 21 per cent of GDP in additional annual resources, on average, in Africa, and 22 per cent of GDP in additional annual resources, on average, in low-income countries. Additional resources of this magnitude have remained stubbornly out of reach, and UNCTAD has shown that efforts to bridge these gaps in many countries seriously endanger these countries' debt sustainability. This limited room for fiscal manoeuvre has only been further constrained by the emergence of the COVID-19 pandemic, which has even begun to threaten the debt sustainability of countries that had hitherto sustainable debt trajectories.

74. *The Least Developed Countries Report 2019*<sup>26</sup> has also shown how the additional resources needed for financing the Sustainable Development Goals in the least developed countries have not yet been forthcoming either. In the case of the least developed countries specifically, not only has the required additional financing far from materialized since the Sustainable Development Goals were agreed, but total external finance instead has also declined for this group of countries. With most least developed countries currently facing the most severe economic recession in 30 years due to the pandemic shock, these declines have an even graver impact on prospects.

75. Over the last four years, successive reports of the Secretary-General of the United Nations to the Second Committee of the General Assembly on international trade and development have also argued that fresh approaches are needed more than ever if trade and the multilateral trading system are expected to play a major role in global efforts to achieve the Sustainable Development Goals. These reports, prepared with the support of UNCTAD,

<sup>26</sup> UNCTAD, 2019d, *The Least Developed Countries Report 2019: The Present and Future of External Development Finance – Old Dependence, New Challenges* (United Nations publication, Sales No. E.20.II.D.2, Geneva).

have shown that trade growth has been affected significantly by rising tensions among major trading nations and by volatile commodity market prices, resulting in growth rates below those for GDP, thus reversing the prevailing state of affairs over the last three decades.

76. Together with the other four major stakeholders of the financing for development follow-up process – the United Nations Development Programme, International Monetary Fund, World Bank Group and WTO – UNCTAD has also contributed research and analysis over the last four years to the annual report of the Inter-Agency Task Force on Financing for Development, mandated by the Addis Ababa Action Agenda to monitor progress on financing for development commitments and means of implementation for the Sustainable Development Goals. The findings of the Inter-Agency Task Force’s annual report, produced in collaboration with the Department of Economic and Social Affairs of the United Nations, have also consistently underlined the fact that mobilizing sufficient financing remains a major challenge in implementing the 2030 Agenda for Sustainable Development. This challenge encompasses a wide range of the areas covered by the Addis Ababa Action Agenda, which are at the core of the UNCTAD mandate, including private business and finance, international trade and investment, technology, debt sustainability and systemic issues.

77. The work of the Inter-Agency Task Force has resulted in a few encouraging steps, such as commitments from the United Nations Secretary-General’s Strategy for Financing the 2030 Agenda for Sustainable Development and its three-year roadmap of actions committing the United Nations development system to support countries to adopt and implement “integrated national financing frameworks” in pursuit of their Sustainable Development Goal financing needs. Yet on the whole, the financing for development process has concluded over the past four years that the investments that are critical to achieving the Sustainable Development Goals remain underfunded and that the sustainability transition in the financial system is not happening at the required scale.

78. Over the past four years, UNCTAD research and analysis has also investigated some of the newer opportunities to enable Sustainable Development Goal implementation, which were highlighted at the fourteenth session of the United Nations Conference on Trade and Development, such as the digital economy and South–South cooperation. For the most part, however, the evidence that has been documented shows that nearly as many new challenges have accompanied these new opportunities.

79. For example, the potential of the digital economy, which received a strengthened emphasis in the Nairobi Mafikiano under the fourteenth session of the Conference, has been analysed in the inaugural edition of

the UNCTAD *Digital Economy Report* (2019b). The findings of the report, however, confirm that potential development gains from the digital economy are being compromised by deepening digital divides, exacerbated by the rise in market concentration of digital platforms and the uneven distribution of digital value creation globally.<sup>27</sup>

80. Similarly, in the lead-up to the Second High-level United Nations Conference on South–South Cooperation (the BAPA+40 Conference) held in Buenos Aires in March 2019, a special UNCTAD report, *Forging a Path Beyond Borders: The Global South*,<sup>28</sup> showed that for as much as the so-called “rise of the South” has prompted enthusiasm, that “rise” has also been relatively uneven and incomplete. With an eye to reinvigorating this special form of development cooperation for the benefit of achievement of the Sustainable Development Goals, the report emphasized overcoming persistent structural economic barriers and growing opportunities for South–South cooperation on technology transfers and partnerships for technological innovation, to kick off innovative partnerships in key emerging areas such as “Industry 4.0”.

## B. | Sounding the intergovernmental alarm about lack of progress on economic Sustainable Development Goals

81. In light of the available evidence described above, UNCTAD has repeatedly sounded the alarm about the lack of progress on achieving the economic Sustainable Development Goals in various intergovernmental forums. Well before the outbreak of the COVID-19 pandemic, at the midterm review of the outcome of the fourteenth session, held at the Trade and Development Board in October 2018, I cautioned that a crisis in multilateralism – centred around lack of consensus on trade and development issues – was endangering the triple promises of 2015 due to an escalating trade war between the world’s two largest economies, a global showdown among major trading nations over leadership on frontier technologies and a looming debt crisis threatening the fiscal space of developing countries.

<sup>27</sup> See also UNCTAD, 2018a; UNCTAD, 2017, *World Investment Report 2017: Investment and the Digital Economy* (United Nations publication, Sales No. E.17.II.D.3, New York and Geneva); and Mayer J, 2018, *Digitalization and industrialization: Friends or foes?* Research Paper No. 25, UNCTAD.

<sup>28</sup> UNCTAD, 2018b, *Forging a Path Beyond Borders: The Global South* (United Nations publication, Sales No. E.19.II.D.2, Geneva).

82. On the basis of the analytical work of UNCTAD described in section A above, during my annual statements to the Trade and Development Board, during my annual addresses to the Economic and Social Council forum on financing for development follow-up, and across my biannual statements at the meetings of International Monetary and Financial Committee and to the Development Committee, I have argued that we are falling further behind on Sustainable Development Goal implementation than where we were when we began in 2015. On balance, the available evidence suggests that this has been largely due to lack of sufficient collective efforts to meet the economic targets under key Sustainable Development Goals, especially a wide range of targets under Goal 8 on sustainable growth, Goal 9 on industry, innovation and infrastructure, Goal 10 on inequalities and Goal 17 on global partnership. There has also been a lack of sufficient progress on many other trade and development-related targets – especially on the means of implementation – under Goal 1 on ending poverty, Goal 2 on zero hunger, Goal 5 on gender equality, Goal 12 on sustainable consumption and production, Goal 13 on climate action, Goal 14 on life under water, Goal 15 on life on land and Goal 16 on strong institutions.

83. This insufficient progress on economic sustainability appears to be at least partly the consequence of fragmenting international solidarity and a lack of collective political will generated by this crisis in multilateralism. As we arrive at the first “early harvest” deadlines for some Sustainable Development Goal targets at the end of 2020, the lack of progress on important near-term trade and development-related economic targets is illustrative of this type of collective failure.

Insufficient progress on economic sustainability is a consequence of fragmenting international solidarity and lack of collective political will

84. For example, blue economy targets under Goal 14 that come due in 2020 – such as ending harmful fishery subsidies – have been the focus of much discussion, but seen little progress, while ocean health continues to deteriorate, and the sustainability of global fishery resources continues to be depleted. Despite continued divergences among countries on the substantive details, efforts are under way to reach a symbolic agreement on ending harmful fishery subsidies before the end of the year. But the prospects even for such a symbolic outcome are slim, given ongoing disagreements among countries, which likely stem from deeper, more fundamental disagreements on the functioning of the World Trade Organization.<sup>29</sup>

85. Similarly, the goal of doubling the share in global exports of least

<sup>29</sup> Kanth DR, 2020, Attempts to finalize “symbolic” agreement on fisheries by year-end, SUNS – South North Development Monitor, No. 9234, 17 November.

developed countries by 2020 under target 17.11 remains unmet. Despite widespread international consensus on the weakness of the productive capacities of least developed countries, there have been only limited international efforts to build least developed country capacity to export.<sup>30</sup> Instead, international support for least developed countries in the last four years has been more focused on treating the symptoms of these countries' vulnerabilities, rather than tackling the root causes of their economic underdevelopment. Amidst declining official development assistance for aid for trade, information and communications technologies and economic sectors, donors have sought instead to emphasize humanitarian issues, for example migration, with consequentially limited progress on building the productive capacities of least developed countries.

## C. Growing demands for technical support to the economic dimension of the Sustainable Development Goals

86. Coupled with difficult macroeconomic conditions and a challenging multilateral context, recognition among member States of the massive requirements needed to meet the sustainability imperative has driven an explosion of requests for UNCTAD technical cooperation and the nearly 30 technical cooperation programmes that make up the *UNCTAD Toolbox*, each of which supports specific economic targets of the Sustainable Development Goals. The surge in interest and demand for UNCTAD technical cooperation over the past four years has come mainly from developing countries concerned with the lack of progress due to the worsening economic environment.

87. While some developing countries have increasingly sought to self-finance these technical cooperation programmes, the apparent decline in donor country interest in some economic sectors, described above, may be one reason why so many country requests remain under-resourced. Out of some 448 formal requests for technical cooperation received from countries listed in the UNCTAD technical cooperation database, totalling more than \$150 million in budget requirements, only about one third of this amount has been funded so far.

<sup>30</sup> See UNCTAD, 2020b.

88. Notably, the number of technical cooperation requests and their respective budget requirements skyrocketed following the agreement on the Sustainable Development Goals and on the Nairobi Maaifkiano that came out of the fourteenth session of the Conference. Even when including the current year, which may see fewer requests due to pandemic-related lockdowns, the average number of technical cooperation requests from 2017 to 2020 was nearly twice that for 2013–2016, at 74 requests on average versus 38 requests per year, respectively. Total indicative costed budgets were nearly three times higher, on average, up from \$10 million per year for 2013–2016 to \$28 million per year for 2017–2020.

Demand for international support to developing countries in achieving trade and development targets has surged

89. Going forward, the UNCTAD technical cooperation strategy should consider how the changing nature and growing demand for technical cooperation to support the economic targets of the Sustainable Development Goals can be operationalized to effectively leverage the UNCTAD approach to trade and development, rooted in building transformative productive capacities. Future technical cooperation strategies may benefit from a stronger emphasis on country programming approaches, such as have been piloted by the Angola Train for Trade II project. But greater attention to coordination across UNCTAD technical cooperation activities should also complement existing inter-agency coordination efforts, such as the UNCTAD-led trade and productive capacity cluster and country-level and regional-level coordination mechanisms under the newly strengthened resident coordinator system and regional collaboration platforms. Adapting UNCTAD technical cooperation and advisory services to United Nations development system reforms will be of key importance.

## D. Strengthening the United Nations development system's focus on the productive side of economic sustainability

90. Efforts to reform the United Nations development system have also given new impetus to technical cooperation supporting achievement of the economic dimension of the Sustainable Development Goals. The reforms, which had been in the planning phase and then initial stage of implementation over the past four years, are only just beginning to bring to bear the full

weight of United Nations economic expertise – including that of UNCTAD – on progress of developing countries towards achieving the Goals.

91. Much as the outcome of the fourteenth session of the Conference sought to align the UNCTAD work programme to supporting the implementation, follow-up and review of the Sustainable Development Goals, the quadrennial comprehensive policy review of operational activities for development of the United Nations system (A/RES/71/243) agreed in December 2016 sought to align the entire United Nations development system – in particular its resident coordinator system and United Nations country teams – with the broader economic, social and environmental ambitions of the 2030 Agenda.

92. The 2016 quadrennial comprehensive policy review set out the broad contours of what has now become recognized as the United Nations development system reforms. It called upon all United Nations entities to provide, inter alia “evidence-based and, where appropriate, integrated policy advice to support countries in the implementation of, follow-up to and reporting on” the 2030 Agenda, in particular “by mainstreaming the Sustainable Development Goals into national plans, including by promoting sustained and inclusive economic growth, social development and environmental protection”. After four years of implementation this has led to bold changes to the United Nations development system, creating a new generation of country teams centred on more strategic development system-wide cooperation frameworks in each country, informed by more analytical common country assessments and led by more empowered resident coordinators who report directly to the United Nations Secretary-General.

93. The technical cooperation efforts of the United Nations system at the country level, however, have yet to fully mainstream the policy advice and global approaches to economic issues, promoted by United Nations entities specialized in economic affairs at the global level, such as UNCTAD and other non-resident agencies. Indeed, the 2016 quadrennial comprehensive policy review recognized “that national efforts should be complemented by supportive global and regional programmes, measures and policies aimed at expanding the development opportunities of all countries, supported by an enabling economic environment, including coherent and mutually supporting world trade, monetary and financial systems, and enhanced global economic governance.” This recognition has, however, still not fully translated into integrated and coherent approaches to these issues in country-level United Nations advisory services and technical cooperation.

94. Some progress has been made in expanding technical cooperation efforts that harness global approaches, notably in light of increasing attention to key issues such as financing for development. For example,

as described above in section III.A, a proposal from the Inter-Agency Task Force of Financing for Development has led to the preparation of “integrated national financing frameworks” by United Nations country teams in more than 60 countries. These frameworks aim at leveraging supportive global or regional programmes and measures or policies, such as UNCTAD investment policy reviews.

95. Progress has also been made in improving inter-agency cooperation and dialogue on economic issues, such as through the creation of a United Nation’s Economists Network led by the Assistant Secretary-General and Chief Economist of the Department for Economic and Social Affairs. UNCTAD economists have been active participants in this network. There is, though, still more ground to be travelled in order to ensure that the productive side of the economic dimension of the 2030 Agenda for Sustainable Development is fully mainstreamed in delivery by United Nations country teams. The growing contingent of economists working in the resident coordinator system is encouraging, but this will also require continued concerted efforts in mobilizing and properly resourcing the full complement of existing global-level experts involved in the economic work of the United Nations, including UNCTAD and other non-resident agencies that operate at the global level with limited in-country presence.

96. The implementation of United Nations reforms has therefore helped signal the importance of trade and development issues, but not yet nearly enough to change course on global progress on the Sustainable Development Goals. For example, most recently, the United Nations development system’s socioeconomic response framework for supporting countries’ response to the COVID-19 pandemic has starkly illustrated how technical cooperation harnessing global approaches to trade and development issues still remains a work in progress. The socioeconomic response framework, developed by a group of United Nations entities, including UNCTAD, at the request of the Chair of the United Nations Sustainable Development Group, the United Nations Deputy Secretary-General, is articulated around five pillars: (a) protecting health services and systems; (b) social protection and basic services; (c) protecting jobs, small and medium-sized enterprises, and informal sector workers; (d) macroeconomic response and multilateral collaboration; and (e) social cohesion and community resilience.

Strengthening the United Nations development system at the country-level requires global approaches to economic issues that increase support to the productive side of economic sustainability

97. As of November 2020, this framework had guided United Nations country teams in preparing socioeconomic response plans covering more

than 100 countries. However, an early review of these response plans by the Development Coordination Office and the United Nations Development Programme found that the macroeconomic pillar (pillar 4) was among the weakest across all such response plans. While efforts have been made to minimize this weakness in the socioeconomic response plans, the weakness reflects more generally that macroeconomics is the least well-established area of expertise and work among United Nations country teams. This is understandable, for the most part, given that the United Nations agencies with the most extensive competence in economic matters have a very limited in-country presence and have only limited interactions with United Nations country-level work.

98. UNCTAD in close collaboration with the Department of Economic and Social Affairs and the regional commissions have been called upon to help address this gap on economic policy expertise in the United Nations system. From the point of view of trade and development issues, providing intellectual leadership to the United Nations development system's economic policy experts requires utilizing the approach laid out at the fourteenth session of the Conference and considering the lessons learned over the past four years. Member States must not abandon course on the contribution of trade and development to the Sustainable Development Goals, but instead must resolve to take the Goals more seriously as a road map for economic recovery from the pandemic and towards a fairer and greener globalization.

## E. Taking the Sustainable Development Goals seriously, staying the course and learning the lessons from implementation challenges

99. Intergovernmental deliberations, evidence-based research and analysis and operational development activities have noted and confronted the rising obstacles to achieving the economic dimension of the Sustainable Development Goals, but these have not resulted in sufficient attention to the issues and to the change in strategies needed to reverse the slowing of progress. At the July 2020 high-level political forum, United Nations Secretary-General Guterres frankly acknowledged to ministers that, “at a time when we desperately need to leap ahead, COVID-19 could set us back years and even decades, leaving countries with massive fiscal and

growth challenges. The crisis is taking us further away from the Sustainable Development Goals... [It] is having devastating impacts because of our past and present failures. Because we have yet to take the Sustainable Development Goals seriously”.

100. Importantly, however, in the face of the pandemic, Member States have not abandoned the Goals but rather have resolved to strengthen their implementation as part of response and recovery from the pandemic. The 2030 Agenda and the Sustainable Development Goals remain an enduring and unifying vision, providing a framework to guide our actions as we look to respond and recover better. Indeed, the United Nations collective response to the pandemic has focused on the notion of working towards “a better recovery” that rebuilds, better equipped to meet the unfulfilled commitments of the Sustainable Development Goals along all their dimensions. The deliberations at the 2020 Economic and Social Council high-level political forum and at the seventy-fifth session of the General Assembly of the United Nations, including at important events such as the Sustainable Development Goal Finance Summit have demonstrated the strong commitment from Member States to rally behind the Goals – especially along their economic dimensions – as a way out of the crisis engendered by the COVID-19 pandemic. Indeed, the high-level events of the seventy-fifth session of the General Assembly featured high-level recognition of the UNCTAD mandate, acknowledging the trends and narrative that have led to the pre-existing economic conditions in the developing world, which the pandemic has exposed so glaringly.

101. With overall progress much farther behind today than we could even have imagined a year ago, but with the objectives of the Sustainable Development Goals more relevant than ever, the work programme agreed at Nairobi therefore should be reaffirmed at Bridgetown. The outcome at Bridgetown must also benefit from the lessons that UNCTAD has learned over the past four years of difficult implementation challenges.

102. The principal lessons learned over the past four years of implementation challenges are that the ambitious policy approaches agreed four years ago at the fourteenth session of the Conference – rooted in building transformative productive capacities for all – have become an even more relevant means of transformation for developing countries. This approach should be reaffirmed and reinforced. It should also play a more visible role beyond UNCTAD, in the wider United Nations development system. If building

Building transformative productive capacities to reduce the deep fractures in the world economy will accelerate achievement of the 2030 Agenda for Sustainable Development

transformative productive capacities to reduce the deep fractures in the world economy can find an even more central role in international cooperation and multilateral consensus, then the prospects of achieving the 2030 Agenda and its transformative ambitions beyond the pandemic and indeed beyond 2030 will become more likely.

103. This can be particularly supported by UNCTAD through finding new multilateral consensus on inclusive approaches to the changing global production structure, finding new consensus on the role that trade and development play in the transformations the world needs to tackle climate change, as well as finding new consensus on improving the fiscal space of developing countries in light of the COVID-19 pandemic. These new pathways for trade and development – held together by the guiding objective of building transformative productive capacities – can lay the foundations for a more resilient multilateralism.



Charting new pathways  
for post-pandemic  
trade and development



104. The various fractures in the global economy, and their reflection in growing inequality and the disconnect between financial markets and real economic activity, combined with environmental degradation and the accumulated shortfalls in attaining the Sustainable Development Goals, imply that the COVID-19 pandemic could hardly have come at a worse moment. However, rather than reconciling themselves to concentrate policies on adapting to a supposedly unmodifiable global system, it is how policymakers shape the process of globalization that will determine whether the integration of developing countries into the world economy occurs in a gainful way even in the face of health pandemics.

105. The implications for UNCTAD are clear. Guided by the Nairobi Maafikiano, UNCTAD must promote government policies that combat the current global recession and, at the same time, meaningfully reduce developing countries' vulnerabilities to potential future pandemics or other global shocks and purposefully contribute to the 2030 Agenda for Sustainable Development.

106. Such policies must go beyond building resilience to potential future shocks. They must be of a more active nature. Aimed at addressing the weaknesses of globalization, they must facilitate a virtuous integration of developing countries into the global economy and strengthen sustained progress in building transformative productive capacities, based on an enabling economic environment at all levels.<sup>31</sup> The 2030 Agenda set the objectives, and the Nairobi Maafikiano provided the actions.

107. This chapter addresses the direction of travel towards an action agenda focused on these objectives. Three overarching themes are suggested to define this action agenda: (a) reducing inequality and vulnerability by harnessing the development benefits from existing and emerging structural changes to international production; (b) building wealth while respecting planetary boundaries; and (c) improving the fiscal space and access to international liquidity of developing countries, to finance achieving the Sustainable Development Goals and avoid that the COVID-19 crisis further derails progress on the 2030 Agenda and causes another lost decade for developing countries.

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<sup>31</sup> Cross-country evidence from the UNCTAD productive capacity index indicates that least developed countries score lowest, but that other developing countries also stay significantly below the score achieved by developed countries. For detailed evidence and discussion, see UNCTAD, 2020b.

## A. Fostering inclusive structural transformation in a changing globalization

108. The COVID-19 pandemic has greatly influenced pre-existing changes in globalization. The sluggish recovery from the global economic and financial crisis had already slowed down global trade growth and reduced export opportunities for developing countries, and the disruption to global supply chains from the floods in Thailand and the earthquake in Japan, both in 2011, had added to growing concerns about how globalized production can be combined with environmental sustainability imperatives. The pandemic has brought further changes to global production systems and international trade and investment linkages. An important element of these changes are the pandemic-related supply chain disruptions that have caused shortages of personal protective equipment and provided firms, consumers and Governments with further evidence of the risks of highly concentrated and distant production and sourcing of critical products.

109. Evidence on sectoral and national variation in the impact of the pandemic on supply chains indicate that more fragmented supply chains have been hit more and that more digitized and automated supply chains have been hit less.<sup>32</sup> It also illustrates that manufacturers try to reduce the vulnerability of the “just-in-time” paradigm in international production by diversifying their supplier base, bringing production closer to home and harnessing automation. Environmental and social standards, which are increasingly influencing the sustainability of production and are easier to monitor closer to home, are an additional force towards nearshoring. The effects of these economic forces on manufacturers combine with greater pressure from Governments and the public to increase national or regional autonomy in productive capacity, especially of essential (e.g. health-care related) goods and services, and will have a lasting effect on global production networks.

110. The push for greater supply chain resilience and greater autonomy in productive capacity is likely to further the downward tendency in FDI-flows to developing countries going into the expansion of physical productive assets. It may culminate in shorter, less fragmented supply chains, and a higher geographical concentration of value added.

<sup>32</sup> For further discussion, see Fu X, 2020, Digital transformation of global value chains and sustainable post-pandemic recovery, *Transnational Corporations*, 27(2):157–166.

111. While the changes of international production pattern will vary across industries and countries, they can be expected to fall into four trajectories:<sup>33</sup>

- (a) The reshoring of production in higher-technology industries will help reindustrialization of developed countries but make traditional industrialization paths more difficult for developing countries and increase their concerns about premature de-industrialization;
- (b) The diversification of supplier bases in highly fragmented and contact-intensive manufacturing and services activities implies increased importance of intangible assets and platform-based activities, which may reinforce supply-chain governance and make value capture more difficult for developing countries, especially those that are not able to provide the high-quality hard and soft digital infrastructure whose availability is likely to become of crucial importance for supply chain participation;
- (c) The regionalization of supply chains implies a shift from a concentration of manufacturing activities on exporting a narrow sliver of the entire manufacturing process, towards broader industrial bases with better developed forward and backward linkages, which is likely to favour larger developing economies with an established industrial basis and a large net of domestic suppliers and markets;
- (d) The replication of production sites, such as through an increased use of 3D-printing, will lead to a partial rebundling of activities and further enhance the importance of digital readiness for the participation in international production.

112. Taken together, these trajectories are set to further reduce cross-border investment, but to improve the resilience of global and regional supply chains by exploiting the benefits from automation and digitalization to reduce the fragmentation of supply chains and increase the share of intangibles in the production process.

113. Traditional export-oriented industrialization strategies, based on labour-cost advantages and concentrated in sectors such as apparel and footwear, are less likely to be affected by these transformations, at least until automation also becomes economically profitable in labour-intensive sectors. By contrast, these transformations are likely to complicate economic

<sup>33</sup> For further discussion, see UNCTAD, 2020d.

upgrading towards technologically more sophisticated activities. This will be the case especially for those economies that lack the required digital skill base and face particular challenges in mobilizing the finance required for the costly building of the productive capacities that are needed to transform the structure of their economies in line with changing globalization.

114. These challenges come on top of the need to respond to the prospects of a sustained period of slow growth in developed economies and associated lower prospects for manufactured exports from developing countries. At the same time, these transformations also provide new opportunities. Capturing these new opportunities in international production will imply a degree of rebalancing of development strategies towards a better interface between global, regional and domestic demand. Trade and digitalization will play an important role in this context.

Capturing the new opportunities in international production will imply rebalancing development strategies between global, regional and domestic demand

115. Trade was an important carrier that transmitted lockdown-related market disruptions across the globe. But trade will also be crucial in the response to the pandemic. For one, trade is indispensable for ensuring rapid distribution and equal access to COVID-19 vaccines as they become available. It will also be needed for easier and equal access to personal protective equipment in the future.

116. Trade will be instrumental for accelerating and magnifying the effect of economic recovery from the bottom of the crisis. Robust regional trade linkages can be particularly helpful in this context, not least as the pandemic-related tendency towards a regionalization of supply chains is also likely to reinforce pre-existing regional supply patterns. Network analyses show that trade for all goods and services strongly relies on three regional supply hubs, organized in Europe around Germany, in North America around the United States and in Asia around China. The preponderance of these regional links has prevailed particularly in more technology-intensive sectors, despite an increased importance in the role of China in intermediate stages with links to both the European and North American hubs.

117. From a policy perspective, this means that the accelerated tendency to increase supply chain resilience, through shorter and more regional supply chains, reinforces more general regionalization forces related to policy environments that emphasize regional integration. Regional trade integration has received a considerable boost in the Asia and the Pacific region, through the recent signing of the Regional Comprehensive Economic Partnership, which covers 2.2 billion people and almost 30 per cent of global trade.

The diversification of supplier bases and the regionalization of supply chains could also boost trade in the African Continental Free Trade Area. To seize this opportunity, participating countries will need to reinforce concerted efforts towards harmonizing their trade-related regulations and customs controls, as well as towards reducing tariffs and non-tariff barriers, and improving infrastructures and digital connectivity to lower logistics costs. There is also a strong case to augment the efforts of the African Continental Free Trade Area to strengthen the participation of industries located in the least developed countries in regional value chains, reduce vulnerability in food supply and essential goods as well as make African economies resilient to future pandemics and crises.

118. Concerning digitalization, digitized supply chains will help firms to increase transparency regarding suppliers, as well as get a better understanding of new consumer habits related to online shopping and extended hours spent at home. However, existing differences between countries in digital skills, capabilities and infrastructure imply that not all countries are equally well placed to seize the opportunities from changing international trade and investment and that these transformations are bound to further increase inequalities within and between countries.

119. The increased importance of digital technologies has been demonstrated by their crucial role in mastering the pandemic. Apart from connecting people and allowing people to continue working while containing medical and economic damage, digital technologies facilitate tracing how medical contagion expands, as well as responses and adaptations by Governments, businesses and households, including through remote working and online education facilities. Digital connectivity has also softened adverse impacts on income by allowing for shifts to electronic commerce for retail and service provision. Many of these changes in the use of digital technologies are likely to outlive the crisis.

120. At the same time, the pandemic has added urgency to bridging digital divides to avoid that insufficient digital infrastructure and connectivity further increase already existing economic fractures. For example, in the least developed countries, only one in five people use the Internet and, in most developing countries, well below 5 per cent of the population currently buy goods or services online. Lack of Internet access at home also limits the possibilities for students to be connected when schools are closed. Many developing countries also lack comprehensive and inclusive national electronic commerce (e-commerce) strategies that compound lacking up-to-date legal frameworks to increase trust in online transactions.<sup>34</sup>

<sup>34</sup> See also UNCTAD, 2019b.

121. Digitalization also enhances the tradability of services, and it has helped boost services trade, including through e-commerce. This raises the more general question as to whether the services sector could be a new path towards development. Intangible assets and their transmission through the Internet were already playing an important role in the world economy prior to the pandemic. Developing countries, such as India, the Philippines and Rwanda, have captured significant benefits from services trade for their economic development. The pandemic has further enhanced such opportunities. For example, the surge in investment in remote working, and the greater acceptance of such work relations by both employers and employees, might enlarge the potential for remote workers in poor countries to carry out basic office tasks for firms in the rich world and more trade in digital services more generally.

122. However, while new opportunities from enhanced trade of digital services undoubtedly exist, their developmental impact is less clear. Competition for online service provision at the global scale could quickly turn into a gig economy with a race to the bottom in terms of remuneration, labour standards and social protection. Tradable services that can be provided by low-skilled labour tend to provide little productivity growth, while high-skilled services tend to maximize their productivity potential when they are used as inputs to manufacturing. This may imply that services may have the greatest developmental impact when they are developed in combination with, rather than instead of, manufacturing activities.

123. Challenges to harnessing the development benefits of digitalization also arise from tendencies to monopolization. A major feature of the evolving digital economy is the rise of a few, very large global digital platforms, mainly from the United States but also from China. Platform monopolies often arise when enterprises base their business model on their capacity to extract, control and analyse data, and to enjoy network effects which make platforms more valuable the greater the number users of a platform. Such network effects make it almost impossible for competitors to scale up their activities in the same market segment. The growing importance of a few large digital platforms in the global economy during the COVID-19 pandemic is vividly illustrated by their rapidly rising stock market valuations, which vastly outperformed those of other companies between March and October 2020.

124. The dominance of a few large digital platforms is also the result of various anticompetitive practices that global digital platforms have undertaken to consolidate their market position. An important strategy has been the acquisition of existing or potential competitors. Another has been the use of their large pools of data and leveraging their intermediary role to

expand into other sectors. This has been done, for example, by using their position as a platform for buyers and sellers to obtain market information to develop their own products for offering on a priority basis on their platform, often in combination with algorithmic pricing to undercut products from other suppliers. Such expansion can also be the result of collusion between two digital platforms that cooperate in specific areas to exclude competition from other firms.

125. Collusion and anticompetitive practices of digital platforms pose new challenges for competition and antitrust policies. The goal of these policies has increasingly shifted from a concern with market structure and market behaviour, to an emphasis on maximizing consumer welfare, where harm to consumer welfare is judged as coming from unjustifiable high prices. However, in the digital economy, consumers often receive services in exchange for data, at zero nominal prices, and platforms tend to privilege scale and market-share strategies.

126. To combat monopolistic tendencies in fast-moving digital markets, there may be a need for new competition tools and ex ante regulation of dominant platforms. Existing laws and jurisdictions often imply long investigations and lengthy procedures that negatively affect even strict rulings, as they make enforcement occur after big technology companies have already wiped out their actual or potential competitors. This means that interventions should occur even before competition problems could occur.

Combating monopolistic tendencies in fast-moving digital markets requires new competition tools and ex ante regulation of dominant platforms

127. One way would be through tighter regulation of restrictive business practices, with strong monitoring and administration at the international level. Closer monitoring of vertical integration, including by adding the scope and scale of data at stake as criteria for merger control, would be another policy for strengthening competition. A further approach would be to force firms to restructure so that they cannot use their dominance in one area to harm competitors in others. Such structural separation would diminish dominant market positions and help smaller rivals to develop. Acquisitions proposed by a dominant company could be presumed to be anticompetitive until proven not to be. Large firms responsible for market concentration could also be broken up. This could be done by forcing them into joint ventures with certain majority rules designed to avoid market concentration from arising. Pre-emptive policies may be particularly attractive options for economies with nascent digitalization, including many developing countries.

## B. | Building wealth while respecting planetary boundaries

128. It may be ironic that it needed the economic disruptions caused by the pandemic to cut emissions of carbon dioxide and improve the quality of air, water and soils. The pandemic-linked economic slowdown is expected to cause a drop of about 7 per cent in carbon dioxide emissions this year, with the biggest drop occurring from transport. This is the strongest decline since World War Two. At the same time, atmospheric concentrations of greenhouse gases continue to rise, with the immediate reduction in emissions expected to have a negligible long-term impact on climate change.<sup>35</sup> A sequence of climate-related natural disasters in 2020, such as the wildfires in Australia and the United States, the record-breaking heatwave in north-eastern Siberia that accelerated the vanishing of permafrost and the ever increasing number and intensity of storms, floods and droughts, should also serve as a reminder that the climate crisis has not gone away. We must use this decade of action to achieve the radical decarbonization required to avoid disastrous global warming.

129. Decarbonization may be best understood as a process of global structural change and requires concerted efforts at building the transformative productive capacities needed to accomplish it. This implies that economic activity shifts from carbon-intensive modes of production and consumption to more climate-friendly ones. The process may cause immediate losses and costs for many at the microeconomic level.

Decarbonization is a process of global structural change requiring concerted efforts at building the transformative productive capacities needed to accomplish it

But looked at from a macroeconomic perspective, and over time, moving towards less carbon-intensive economic activities provides new economic opportunities and is likely to enhance growth in many countries. Societal acceptance of moving towards low-carbon solutions is likely to be greater if the transformation goes hand in hand with measures that help develop environmentally sound substitutes.

130. Responses to the COVID-19 pandemic offer an ideal opportunity to use stimulus and recovery measures to accelerate structural change towards a low-carbon economy. Using this opportunity requires additional public investment in activities and infrastructure in support of climate change

<sup>35</sup> United Nations Environmental Programme, 2020, *Emissions Gap Report 2020*, Nairobi.

mitigation, as well as support measures for the development of acquisitions of climate-friendly technologies, as well as capital and consumer goods. This poses a question about the overall objective and the right measures for moving towards a greener world.

131. Climate change is often considered an unstoppable exogenous process. Resulting feelings of vulnerability suggest that the only possible response is building resilience, such that the evolving climate crisis does not unduly affect our economies and societies. This reaction may seem natural. The countries most affected by climate change, not least small island developing States, are those that have contributed least to global warming, so that any proactive policy on their side would do little to address climate change. At the same time, there is a lack of comprehensive and multilaterally coordinated global response to this quintessential global problem. While the Paris Agreement that sets the framework for climate action is the result of a multilateral process, it sets non-binding commitments, and the voluntary targets that polluting countries adopt to reduce emissions have often remained characterized by distinctly national flavours, with little regard for the ambition of global requirements.

132. Economic arguments further feed this reaction. The drop in pollution simultaneously with the pandemic-related decline in economic activities may vindicate those who argue that growth has historically been associated with increasing carbon emissions, and that there is a trade-off between growth and climate change mitigation as the Earth's ecological limits do not permit the replication around the world of the patterns of production and consumption of the developed countries. Instead, prioritizing short-run growth could use resulting income to reduce pollution later. It could further boost economic activity by attracting polluting industries from countries with more stringent environmental standards and regulations. Short-term growth effects from climate mitigation could be particularly adverse for countries with large fossil-fuel sectors, as much-needed policies to reduce emissions in line with the Paris Agreement will inevitably depress fossil fuel demand. Such policies will also increase the risk of "stranded assets", with exploration/production/processing facilities and other infrastructure, which typically have long-term investment horizons, no longer able to earn an economic return.

133. Technological pathways towards greener economies remain highly uncertain and developing countries may have insufficient skilled labour and be unable to assume the high cost of pioneering technology. Letting others assume the sunk costs of developing green technological solutions may also be one way to force early industrializers to pay their historic debt for past pollution. The case for this argument has been strengthened by the pandemic-related worsening of public finances that make it particularly

challenging for developing countries to finance a recovery and at the same time undertake critical investment needed to embark on environmentally more sustainable development paths.

134. Nevertheless, these arguments ignore experiences from many developed and developing countries that demonstrate how reducing carbon emissions and achieving development objectives can be combined. This combination is more successful the more ongoing technological improvements and structural change towards low-carbon production and consumption outweigh increased environmental pressure from the expanding size of an economy. Where this is the case, there is no tension between the economic and environmental goals of the 2030 Agenda. Building transformative productive capacities is at the heart of climate change mitigation, not its antipode.

135. Combining economic growth and structural transformation towards a low-carbon economy is a challenge for all countries. But there is reassuring evidence pointing to higher short-term returns per dollar spent in green, compared to conventional, fiscal stimulus.<sup>36</sup> And green projects can generate more employment because expanding low-carbon sectors, such as renewable energy, retrofitting of buildings, electric car production and the services sector, are typically more labour intensive than shrinking high-carbon sectors, such as fossil fuel energy, transportation and heavy manufacturing.<sup>37</sup>

136. Late developers may have some advantages in the transition to low-carbon activities. Engaging in renewable energy early in the development process avoids the building of infrastructure that locks in carbon-intensive energy sources and associated high switching costs. Mutually supportive structural-change and low-carbon policy frameworks reduce the risk of a technological lock-in, especially where low-carbon solutions allow for easy retrofit options and ensure interoperability with existing structures. Early engagement in low-carbon solutions provides opportunities for augmenting fixed assets in power generation, transport, construction and industry that can provide and rapidly scale up advantages in international production directed towards new and expanding markets that require compliance with high standards or where consumers are willing to pay for superior environmental performance.

137. Given the fractures in the current global economy, though, the overall objective cannot just be accelerating economic growth and structural

<sup>36</sup> UNCTAD, 2019a.

<sup>37</sup> International Monetary Fund, 2020, *World Economic Outlook: A Long and Difficult Ascent*, Washington, D.C. (October).

transformation, while respecting planetary boundaries by setting incentives such that they account for environmental costs and direct economies and societies towards low-carbon-intensive paths. It is rather more complex and must ensure fairness and inclusiveness, by making green products, technologies and services affordable for large shares of the population and by allowing those working in sectors that will be phased out to have prospects in others.

138. Putting a price on emissions in the form of taxes or emissions trading systems, and thereby changing the incentive structure for producers and consumers, would seem indispensable for setting in motion a process towards establishing low-carbon economies. In addition to their immediate impact in incentive structures, the revenues available from phasing out fossil fuel subsidies and introducing carbon pricing can be spent for income support and job creation. Current low oil prices increase the feasibility of this policy option. But such measures need to be supported by targeted income support, as the least affluent parts of society are often those that spend a larger share of their income on energy and are disproportionately engaged in carbon-intensive production and transportation. Changes in the incentive structure also need to be supported by measures on the supply side. In addition to measures that increase innovation, such as making intellectual property rights and patent protection more climate-friendly, standard setting plays an important role to move structural transformation such that it respects better the nature of low-carbon objectives as a public good. Indeed, dedicating part of pandemic-related stimulus measures to a green investment stimulus could significantly accelerate investment in renewable energy generation, clean transportation and more energy-efficient buildings.

Dedicating part of pandemic-related stimulus to green investment could accelerate renewable energy generation, clean transportation and energy-efficient construction

139. There is also a need for blue recovery and support mechanisms to sustain small island developing States and least developed countries. Urgent action is needed to improve the management of fisheries and to protect related ecosystems, while protecting labour and human rights of workers at sea and safeguarding well-being and food security for millions of people. Coastal and marine tourism will need innovative solutions to integrate health functions and ensure the safety of visitors and locals alike and to link ecotourism to heritage, restoration services and responsible fisheries. Improved traceability and compliance with sanitary measures for blue products will enable sustainable coastal and marine ecotourism.

140. Climate-specific finance instruments could facilitate these processes. Even though the availability of climate finance has increased in recent years,

it falls significantly short of the promise to mobilize \$100 billion per year by 2020, as agreed at the fifteenth session of the Conference of Parties to the United Nations Framework Convention on Climate Change in Copenhagen. Estimates for 2018 – the latest year for which data are available – indicate a global amount of climate finance of \$79 billion, including bilateral and multilateral public finance (attributed to developed countries), officially supported export credits and mobilized private finance.<sup>38</sup> Of this amount, public climate finance accounted for \$62 billion in 2018, largely consistent with a projected level of \$67 billion in 2020, but the COVID-19 crisis and its aftermath may have impacted the ability of some developed countries to continue providing and mobilizing climate finance.

141. One way for increasing climate finance could involve a reassessment of the current criteria used to assign official development assistance and concessional lending with a view to including environmental considerations in addition to per capita income. To avoid that debt-sustainability concerns hold back climate-change action, the more systemic use of State-contingent bonds and the inclusion of disaster clauses triggering temporary standstills of debt service payments could be considered. Stepped-up availability of finance from public development banks could also be highly relevant to the reconciliation of economic recovery and sustainable development, given the public mandates, major collective investment portfolios and countercyclical roles of these institutions.

## C. Improving fiscal space and access to international liquidity for developing countries

142. Moving towards a path that promotes sustainable and inclusive structural transformation in an evolving setting of international production requires sufficient fiscal space and access to international liquidity. Alleviating fiscal constraints is particularly important for developing countries as their fiscal space is generally lower than in most advanced economies. The lack of fiscal

Alleviating fiscal constraints is important for developing countries as their fiscal space is lower than in most advanced economies

<sup>38</sup> Organization for Economic Cooperation and Development, 2019, *Climate Finance Provided and Mobilized by Developed Countries in 2013–2018*, OECD Publishing, Paris.

revenues has not only constrained buying of essential medicines and medical equipment to enable testing and contain the reach of the COVID-19 pandemic in populations. It has also hampered the response of Governments to the immediate economic impact of the crisis by allowing only very limited direct transfers to people and businesses whose economic activities were wiped out. We need to make sure that fiscal constraints do not also hamper financing policies that ensure economic recovery and the building of transformative productive capacities in a post-pandemic period.

143. Polices in advanced economies play an important role in this context. A demand-led, full employment strategy, based on a greater emphasis on fiscal rather than monetary policy, would provide a globally expansionary economic environment, with ensuing improved export revenues for developing countries. Such a strategy would also help bring back revenues from tourism and workers' remittances toward pre-pandemic levels.

144. But with an estimated \$2 to \$3 trillion near-term payment shortfall facing developing countries, significantly larger international support is indispensable. One issue concerns joint efforts by developed and developing countries to devote more resources to the recovery of stolen assets and to investment in data infrastructure and transparency, which is indispensable for the reduction of trade-related IFFs. Another issue regards improved tax collection. To complement efforts at mobilizing domestic resources, it is essential to reach international agreement on curbing tax evasion by high-wealth individuals and on containment of IFFs by reforming international corporate tax rules and practices by multinational enterprises, such that developing countries receive their fair share in corporate profits. Any such agreement must accommodate the concerns and implementation capacities of developing countries. Such agreements should also provide multilateral solutions to taxing digital activities. Their absence could see a further flourishing of unilateral action in the form of digital services taxes, with a potential further increase in trade tensions between major developed economies.

145. The most effective way of scaling up access to international liquidity by developing countries is using all parts of the development finance architecture and making it work much more effectively as a system. The International Monetary Fund, which is at the centre of the global financial safety net, has reacted rapidly. It has provided timely emergency lending to more than 80 countries, a temporary increase in annual limits on overall access to the Fund's resources

Scaling up access to international liquidity by developing countries calls for using all parts of the development finance architecture and making it work more effectively as a system

by member countries and an extension of the higher access limits under its emergency facilities. At the same time, compared to past practices, the vast majority of these provisions have come with lower or no conditionality on fiscal austerity. The World Bank and regional development banks have also reacted swiftly and made more financial resources available. Yet, the relatively small size of these responses further illustrates the urgency of adequately resourcing the International Monetary Fund, including through the completion of Sixteenth General Review of Quotas and the implementation of long-awaited governance reforms, as well as alleviating constraints in the lending capacity of multilateral development banks.

146. The limited size of the pandemic-related additional liquidity provision indicates that, going forward, much more is needed. An important option is an allocation of SDRs. This would mirror the allocation of SDR 183 billion, or almost 90 per cent of the cumulative total of SDR allocations, in 2009 in response to the global economic and financial crisis. An additional allocation of about \$500–600 billion could be achieved relatively easily, as it would not require parliamentary approval in some large, developed economies. Combining such a new allocation with a mechanism that allows channelling unused SDRs to vulnerable countries would ensure that the bulk of SDR allocations benefit developing countries. Another option would be better inclusion of developing countries in the currency swap agreements and repurchase facilities extended by the major central banks.

147. An increase in concessional finance through an expansion of official development assistance would also enlarge fiscal space and access to international liquidity, particularly for low-income countries that have limited access to other sources of external finance and lack a developed domestic financial market. Over the decade since the global and economic financial crisis, an additional \$2 trillion would have reached developing countries had the 0.7 per cent (of global national income) official development assistance target been met by Development Assistance Committee members. Now is the time for donor countries to, finally, honour their collective commitment and deliver official development assistance to developing countries in full and unconditionally.

148. For a global financial safety net to work as a system, it would also be important to provide for a structured framework for debt treatments, capable of supporting countries to achieve debt sustainability. The Group of 20 Debt Service Suspension Initiative makes 73 countries eligible to a temporary suspension of “official sector” or Government-to-Government debt payments, but has provided some breathing space to just the 43 countries that have signed up to it. Further measures will be required, such as extending the duration of the initiative and the range of eligible countries,

as well as moving from debt moratoriums to debt relief where required. Multilateral creditors, and especially private creditors, need to assume their global social responsibility of sharing the burden in alleviating debt distress. Sovereign decisions to seek debt relief face the risk of downgrades by credit rating agencies. The creation of a global debt authority would help in coordinating and facilitating debt restructuring, and an independent credit rating agency would be further important measures that foster fair, meaningful and timely sovereign debt solutions.<sup>39</sup>

149. More effective measures are also needed to prevent easy money to flow to developing countries in search of higher yield. Capital controls managed on both ends, i.e. in developed and developing countries, could play an important role. The International Monetary Fund has changed its advice on restricting capital flows and is moving towards greater tolerance of ad hoc restrictions. However, to be fully effective, capital controls may well need to be included in Governments' normal policy toolkit.<sup>40</sup>

150. The long road to addressing pre-pandemic fractures, achieving sustained economic recovery from the pandemic, harnessing the development benefits from structural changes in international production and advancing on a sustainable development path towards achieving the 2030 Agenda faces no shortage of challenges. We need to reduce high levels of inequality and address long-standing impediments to job creation and increased investment in transformative productive capacities, while harnessing digitalization, climate change and other environmental concerns. Lack of progress on any of these fronts runs the risks not only of another lost decade for developing countries, but also of leaving a degraded planet to future generations. Sufficient, timely and effective external assistance will be crucial for developing countries to complement their diminished domestic means. Effective multilateral cooperation is more important than ever to shape our common future.

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<sup>39</sup> For further discussion, see United Nations, 2020, External debt sustainability and development, A/75/281, New York, 30 July.

<sup>40</sup> UNCTAD, 2019a.

The background features a stylized illustration of a forest. On the left, several dark blue tree trunks rise vertically. To the right, a large tree with a thick trunk and a canopy of light blue leaves and circular shapes is depicted. The overall color palette is various shades of blue.

# IV. A more resilient multilateralism for trade and development beyond 2030



151. Integration into the global economy is not limited to the elimination of barriers to cross-border movements of goods, services, capital, labour and technology, but extends to integration into international economic governance systems and institutions. These systems and institutions must address governance problems that arise when the regulatory reach of a country's institutions is confined to its national borders, while forces unleashed by globalization and growing integration have impacts across borders and may constrain domestic policymakers in attaining their goals. From this perspective, globalization implies an erosion of national sovereignty. By contrast, the current backlash against globalization can be seen as a reaffirmation of the nation State. The new task ahead of multilateralism going forward must be how to reconcile the reaffirmed State with governance of a “better globalization”, and how new areas of consensus can be found on issues of common ground among many countries, such as the need for building transformative productive capacities.

The new task ahead of multilateralism is reconciling the reaffirmed State with governance of a “better globalization”

152. Multilateralism is a mechanism for countries to deal with such governance problems, by voluntarily reducing sovereignty on a reciprocal basis and managing the interface between different national systems. The resulting arrangements design, implement and enforce mutually agreed multilateral rules and disciplines. As such, multilateralism differs importantly from mechanisms that are determined solely by economic nationalism. Within multilateralism, there exists an important tension between individual States' pursuit of economic self-determination and multilateral constraints on individual State actions. Even under multilateralism, powerful countries may still try to extract concessions through unilateral measures and to reduce national differences by promoting a singular omnipotent economic and legal structure.

153. A difficulty that multilateralism faces in the economic sphere is that, in legal terms, multilateral rules and disciplines may be equally binding for all participants but, in economic terms, they may be biased against the accommodation of requirements of those countries whose structure of production and comparative advantage provide fewer options for using international systems to benefit from the options that are open to them. This difficulty can be addressed by making it possible for these countries to invoke specific safeguard or opt-out clauses, or by according them special and differential treatment. Another difficulty is that some participants may feel increasingly disadvantaged by the way multilaterally agreed rules are implemented or by changes in economic circumstances that make them perceive a shift in the degrees of freedom that the rules accord to countries,

relative to the time when the rules were formulated. A third difficulty is that multilateral rules and disciplines may not be sufficiently comprehensive in scope and fail to accommodate adequately the interests of some countries, for example, in such areas as finance, labour mobility and corporate taxation. As a result, perceptions of an overreach of rules and restrictions in some areas, and their absence in others, can be a crucial factor in undermining consensus around multilateralism.

154. Regarding trade, the outcome of the Uruguay Round of multilateral trade negotiations 25 years ago extended the scope of multilateral disciplines to include rules that directly impinge on domestic policies. These include policy instruments that had been widely used when the now mature or late industrializers embarked on industrialization to reach their current levels of development. WTO rules have also curtailed the significant opportunities that the previous General Agreement on Tariffs and Trade provided countries to opt out of specific disciplines. Instead, the agreed rules became binding to all WTO-members and subjected them to binding dispute-settlement procedures.

155. The multilateral rules-based trading regime governed by the WTO benefits developing countries as it attenuates the coercion that powerful countries can exert in trade negotiations and relations. Nonetheless, the scope of the rules, the topics chosen for negotiation and the implementation patterns of agreed outcomes may not always be conducive to accelerating the building of transformative productive capacities needed for developing economies to catch-up. For example, the round of multilateral trade negotiations launched in Doha in 2001, commonly referred to the Doha “Development” Agenda, was designed to emphasize the trade and development aspirations of developing countries. Yet it remains an unfinished agenda. It has arguably been put to rest through paragraph 30 of the ministerial declaration of the Tenth Ministerial Conference of WTO, which recognizes that “many members reaffirm the Doha Development Agenda, and the declarations and decisions adopted at Doha and at the Ministerial Conferences held since then, and reaffirm their full commitment to conclude the [Doha Development Agenda] DDA on that basis”, while “[o]ther members do not reaffirm the Doha mandates, as they believe new approaches are necessary to achieve meaningful outcomes in multilateral negotiations”.

156. Different views on how to address further multilateral trade negotiations have additionally encouraged a turn to bilateral and regional trade agreements that is closely related to the spread of global value chains, as mentioned above. Combined with a tendency to favour plurilateral negotiations within the WTO, this has caused the multilateral trading regime to become increasingly fractured. What is more, increasing unilateralism in

global trade policy has led to increased pressure on the dispute-settlement mechanism of the WTO, widely regarded as the cornerstone of the rules-based multilateral trading system. Its Appellate Body became paralysed in December 2019 following disagreement among WTO members over the selection of new Appellate Body members, as well as concerns regarding the timeline for completing the Appellate Body review and the Appellate Body's alleged judicial activism. In addition, the principle of special and differential treatment for developing countries has increasingly been challenged, as their importance in global output and trade has grown rapidly. The frequency and severity of trade disputes are expected to increase unless these issues with the multilateral trading regime are resolved satisfactorily for all parties.

157. These fractures in the multilateral trading regime have gained particular importance with heightened tensions between China and the United States and the imposition of unilateral, potentially WTO-inconsistent tariffs and other impediments to trade and investment flows. The agreement between China and the United States in December 2019 has provided temporary respite, but it leaves previously elevated tariffs in place – challenging the most-favoured-nation principle that underpins the multilateral trading regime – and the numeric specification of intended trade expansion signals a return to bilaterally managed trade. The COVID-19 crisis has the potential to further exacerbate tensions, and to create more segmented and polarized global trade relationships, with obvious negative consequences for many countries.

158. An imminent final resolution to trade tensions is unlikely. In fact, there is a risk that trade tensions may continue or even intensify and include increased trade-restrictive measures between other countries as well. This impact could also spread beyond the parties involved and affect economies around the world, through both direct and indirect channels. It could generate the risk of managed trade being widely adopted through bilateral trade deals. By contrast, an early resolution of the trade tensions between the United States and China would alleviate some of the weakness in global demand, trade and investment brought about by the COVID-19 pandemic.

159. The trade tensions between China and the United States pose wider challenges to multilateralism. This is not only because it involves the world's two largest economies, but also because it juxtaposes an established global power, the United States, and an emerging global power, China, each with different economic, social and political systems. Some observers argue that such constellations face the so-called Thucydides trap – named after the Greek historian Thucydides who argued that the Peloponnesian war was

Fracturing of the global economy into two distinct economic spheres would have severe adverse impacts

caused by the growth of Athenian power and the fear that this caused in Sparta – or the idea that, as China increases its economic, technological and geopolitical power relative to the United States, the two countries are inevitably set on a collision course towards war.<sup>41</sup>

160. While the risk of a Thucydides trap may be small, current trade tensions could lead to a long-term confrontation reminiscent of that between the United States and the Soviet Union during the Cold War. An ensuing “decoupling” and the fracturing of the global economy into two distinct economic spheres centred on the United States and China would have severe adverse impacts, for several reasons. First, contrary to the Soviet Union at the time of the Cold War, today’s China is deeply integrated into the world economy, and global value chains have intertwined the economies of China and the United States. A decoupling would further fracture these settings and require a large-scale reconfiguration of global trade links. Another are the large holdings of United States Treasury bonds that China has. A sharp reduction in these holdings, for whatever reason, could cause yields of United States Treasury bonds to spike and possibly further slow economic growth in the United States. Moreover, global trade remains disproportionately invoiced in dollars, and many developing countries have their foreign debt denominated exclusively in dollars. This means that any movements of the dollar exchange rate that result from a trade dispute could have far-reaching ripple effects across the global economy.

161. Second, and relatedly, other economies, both developed and developing, have economic ties with both China and the United States and would be forced to pick their camp, possibly distinguished by different rules and standards, with their sovereignty being turned into bargaining chips and limited by forcing choices between security and economic interests. Third, both China and the United States are essential actors in a host of non-economic transnational challenges – such as climate change and the pandemic – that demand joint efforts.

162. To avoid unnecessary decoupling, it is important to recognize that, at the current juncture, major nations appear not to have the intention of making, or capability to make, adequate unilateral contributions to the provision of global public goods. They are reluctant to voluntarily forego sovereignty and make concessions under the frameworks of multilateral agreements. For this not to result in a shortage of global public goods provisions, including multilateral rules and disciplines, and a disregard for the legitimate interests of other countries, it requires redefining a set of rules and standards that connect the two countries but at the same time guarantee their national

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<sup>41</sup> Allison G, 2017, *Destined for War: Can America and China Escape Thucydides’ Trap?* Boston, New York: Houghton Mifflin Harcourt.

sovereignty and preferences. In more general terms, it would imply seeing multilateralism as a mechanism by which globalization and the nation State are not competitors, but rather mutually reinforce each other.

163. While retreating from our interdependent world is not an option, how to better manage it in ways that address anxieties and rebuild levels of trust is an urgent challenge facing countries at all levels of development. One important consequence of this recognition would be to consider how to deal with globalization forces that have fostered inequality and vulnerability and that have not been, or have been insufficiently, subject to multilateral processes and procedures. This would concern both persistent and emerging challenges. Areas with persistent challenges include the unprecedentedly high global stock of debt, volatile and often harmful short-term international capital flows, and tax evasion and avoidance. These areas also include issues as to how cooperation could be improved between older and newer institutions that provide development finance, such that financing the building of transformative productive capacities can be maximized. A reviving of multilateralism in this direction would not only address the current dilemmas that multilateral trade settings face, but it would provide a more general way forward to the benefit of all.

Reviving trust in multilateralism requires considering how to deal with globalization forces that have fostered inequality and vulnerability

164. The COVID-19 crisis represents one emerging challenge that may require adjustments of current multilateral rules such that they more adequately reflect the needs of a world confronting pandemics such as COVID-19. Production, trade and investment – the basis of our economic systems – need people to be healthy and safe. A world like that may need rules and norms that govern a globalization that is more centred on people, including to prevent shocks such as COVID-19 from halting progress on the 2030 Agenda for Sustainable Development. This type of adjustment would give organizations such as the World Health Organization a more important role in the governance of globalization. It could take its cue from the COVID-19 pandemic and the epidemics of the past 20 years – such as severe acute respiratory syndrome (SARS), Middle East respiratory syndrome (MERS) and Ebola. This would mean giving increased attention to international regulations concerning health systems that can cope with massive surges in demand and concerning ground data on disease prevalence and population immunity, as well as to norms on how economic consequences of massive social isolation can be integrated into policy decisions. Such international regulation would also need to better reflect environmental concerns in the governance of globalization, as the COVID-19 pandemic has shown that environmental protection is an essential aspect of public health. Halting

deforestation and other forms of habitat destructions would reduce vectors for the crossover to humans of dangerous new zoonotic viruses.

165. For the trade and development dimension of globalization, one indispensable step is minimizing the adverse impacts of tariffs and other trade barriers on essential medical and pharmaceutical products on national and global capacities to respond to public health challenges, such as through greater diversification of supply chains and increased strategic stockholding. A “peace clause” on WTO and investment protection cases related to COVID-19 would enable countries to quickly adopt and use emergency measures to overcome intellectual property, data and informational barriers to health measures related to COVID-19, with a permanent standstill in all relevant forums on claims on government measures implemented in the context of COVID-19. This would create the necessary policy space to support recovery efforts. Another measure, specifically targeted at the least developed countries, would be implementation of duty-free and quota-free commitments, with transparent rules of origin.

166. Further steps could extend to flexibilities brought into the implementation of WTO rules with a view to meeting health needs of developing countries. For example, WTO members adopted the 2001 Doha Declaration on the [Trade-Related Aspects of Intellectual Property Rights] TRIPS Agreement and Public Health that states, in paragraph 4, that the Agreement “... can and should be interpreted and implemented in a manner supportive of WTO members’ right to protect public health and, in particular, to promote access to medicines for all”. In 2005, WTO members agreed to make a temporary waiver contained in a 2003 decision permanent, allowing exports of generic versions of patented medicines to countries with insufficient or no manufacturing capacity in the pharmaceutical sector. The COVID-19 crisis raises the question of whether the introduction of these flexibilities is sufficient or whether further discussion is needed on how our economies and societies can become more resilient to and recover better from massive external shocks, and how the benefits of globalization can be shared more fairly.

167. Similar concerns regard climate change. Ensuring that responses to the COVID-19 crisis include policy and investment decisions that address the climate emergency may require associated rules and norms to gain greater prominence in how we manage globalization. Embarking on a non-carbon-intensive growth path is technologically possible. And there is considerable scope for both developed and developing economies to gain from the opportunities that will emerge from structural change towards renewable sources of energy, climate-friendly technologies, low-carbon equipment and more sustainable modes of consumption. But we must make sure from the

very beginning that we take measures that ensure a fair sharing of both the efforts towards and the gains from this transformation. The main obligation rests on the main carbon emitters. This requires global cooperation and clear recognition of the very different positions — in terms of past behaviour, present responsibility and future needs — of the countries of the world. The principle of common but differentiated responsibilities must be upheld, underpinned by robust multilateral principles and structures.

168. A fairer sharing of the benefits of globalization would result from these processes particularly if it were to entail taking globally coordinated steps towards a policy stance that supports sustained economic recovery and investment in transformative productive capacities and that is embedded in appropriately designed multilateral frameworks. Such steps should result from a consultative process that debates the future of multilateralism, based on full, equal and voluntary participation of all parties concerned, and designed to ensure that globalization and integration into the global economy is consistent with countries' respective needs and concerns at different levels of economic development.

169. In accordance with the Nairobi Maafikiano, UNCTAD could make a crucial contribution to this process not only through its technical cooperation tools and research and analysis products, but especially through its dialogue platforms and soft-law instruments relevant to achieving the Sustainable Development Goals. The advantage of using UNCTAD platforms would be its global reach and transparency, as well as the possibility of frank exchange focused on consensus-building, but without needing to galvanize consensus into legally binding rules and provisions. In this respect, the fifteenth session of the Conference is timely and provides the opportunity to conduct an open and frank dialogue on how to shape a new multilateral trading system that enables developing countries to accelerate investment in transformative productive capacities and contribute to global growth and shared prosperity.

UNCTAD could make a crucial contribution to a more resilient multilateralism through its dialogue platforms and soft-law instruments

# V. Conclusion



170. In my foreword on the outcomes of the fourteenth session of the Conference, I stated that the Nairobi Maafikiano and Nairobi Azimio define a vision for UNCTAD to play a key role in the implementation and follow-up of the 2030 Agenda for Sustainable Development, as well as for UNCTAD to address persistent and emerging development challenges in an integrated and holistic manner. At that time, nobody would have expected the effects of an emerging challenge such as the COVID-19 pandemic to be so intimately related to the persistent challenges of prevailing economic fractures. The integrated and holistic approach underlying the core UNCTAD mandate is suited best to set the global trade and development landscape afloat again.

171. The fifteenth ministerial Conference should reaffirm the core UNCTAD mandate and the work programme that started in Doha, which must continue if UNCTAD is to fulfil its overall objective of assisting developing countries and economies in transition to achieve inclusive and sustainable development. Given the scale of the challenge that developing countries are facing in cushioning the COVID-19 crisis and building their economies back towards implementing the Sustainable Development Goals, the international community will have to explore what new approaches to inclusive and sustainable development can both address persistent development challenges and find sustainable solutions to the COVID-19 crisis.

The fifteenth ministerial Conference should reaffirm the core UNCTAD mandate and the work programme that started in Doha

172. We must succeed in this task not only for economic reasons. Taking the right actions can give hope to those disenchanted with their Governments, and how these have handled globalization and multilateralism over the past few years. These people expect policymakers to demonstrate that it is possible to redress course by standing together and joining forces to build more equal and inclusive societies that are more resilient in the face of pandemics and the many other challenges we face. The 2030 Agenda gives us a sense of direction of where to go in transforming trade and development in a fractured world. And a revived multilateralism will provide the channel to make globalization gainful for all in a world marked by COVID-19.

173. The fifteenth session of the United Nations Conference on Trade and Development will be an appropriate stage for a thorough reflection on the experience of trade and development over the past few decades. It will allow taking stock of what went right, what went wrong and why. It will also help to bring out what was missing from an approach that underestimated the challenges and many resulting economic and social fractures of the chosen form of globalization that neglected health and environmental concerns, as well as what many consider a fairer sharing of the economic gains. And

finally, it will allow debating what challenges and possible remedies lie ahead. Building productive capacities that transform economies from a narrow dependence on commodities or jobs that generate little domestic income towards broader supply bases with more decent jobs will undoubtedly be high on everybody's list. But there are many more challenges and remedies that the debate at the fifteenth session of the Conference can constructively explore.

174. One of the founding ideas of UNCTAD was that trade is the best instrument to generate a virtuous circle for development, but that to fulfil this role, trade needs to provide good jobs and income opportunities from the production of goods and services of increasing technological content and added value. The economic contagion of COVID-19 could be so high as it hit the most powerful vector of economic shocks so forcefully – it caused a rapid near collapse of trade. And the economic effects were so large as, right at the beginning, the pandemic largely shut down “factory” Asia – the global economy's centre of manufacturing. This and the ensuing ripple effects shut down most economic activities across the globe and put workers out of their jobs, and their postponement of purchases put further downward pressure on manufacturing. This demonstrates the need for transformative productive capacities to be more widely diffused and shared across and among countries.

175. The daunting task before us is putting trade and production back on their rails and doing so such that the gains from globalized economic activities are distributed more fairly. In this undertaking, the role of UNCTAD is clear. As a knowledge-based and consensus-building institution, it should, in the areas within its broad mandate, assist policymakers to put in place rules and norms, including through soft rule-making, for a globalization that builds the more equal and inclusive societies to which the triple promises of 2015 aspire. Through all of its three pillars, UNCTAD should assist developing countries to build the institutions and pursue the trade and development policies that build productive capacities that can transform their economies to provide more good jobs and become more resilient to economic shocks, be they related to pandemics, climate change or any other of the many challenges they face.

176. To translate these words into action towards achieving the 2030 Agenda for Sustainable Development, we can build on the groundwork laid since the fourteenth session of the Conference. The UNCTAD intergovernmental machinery, supported by the secretariat's research and analysis and translated on the ground through its technical cooperation, provide venues at the global level for policymakers to explore ideas and possibilities for consensus without pressure to commit to obligations.

Areas within the UNCTAD mandate where such soft law consensus can be explored include development-related trade issues; measures that increase the mobilization of resources that are a prerequisite for the achievement of the Sustainable Development Goals; investment facilitation and agreements; responsible lending and debt principles; macroeconomic, industrial, financial, competition and technology policies that support trade and the building of transformative productive capacities; and the many issues related to emerging digital technologies, to name just a few. The role of outside experts from academia, the private sector and civil society, and South–South cooperation and public–private partnerships will continue to be important.

177. I expect the discussion at the fifteenth session of the Conference to make an important contribution to what actions should be taken to combat the COVID-19 pandemic and decide on how the organization’s broad mandate can help us build more equal, inclusive and resilient societies and advance progress on the 2030 Agenda. How exactly the crisis and its impact on trade and development and interrelated issues in the areas of finance, investment, technology and sustainable development evolve remains to be seen. But the various steps discussed in this report offer UNCTAD member States my assessment of what it will take to navigate towards achieving the Sustainable Development Goals in a world that looks very different from the years preceding COVID-19.

The discussion at the fifteenth session of the Conference will make an important contribution to what actions should be taken to combat the effects of the pandemic and decide how the broad mandate of UNCTAD can help build more equal, inclusive and resilient societies

178. The Bridgetown outcome should speak concisely, but loudly and resoundingly in the collective voice of the assembled ministers for trade and development across the UNCTAD membership. It should speak across the growing constellation of trade and development issues that we see building momentum towards a better globalization, which all member States desire, that can emerge out of a better recovery from the COVID-19 pandemic.

179. This better globalization should be rooted in the universal appeal to all countries of building transformative capacities, as first set out in the fourteenth session of the Conference outcome. If the outcome of the Bridgetown Conference can go further and put this concept of building transformative productive capacities at the centre of United Nations efforts towards a better recovery, then the ministers assembled in Bridgetown will make a strong contribution towards strengthening the economic work of the United Nations.

180. In this way, the Bridgetown outcome will hang together collectively with the wider international post-pandemic discourse, charting a consistent direction of travel from the current General Assembly to the upcoming Economic and Social Council sessions to other important upcoming forums like the Twelfth Ministerial Conference of WTO and the Fifth United Nations Conference on the Least Developed Countries and beyond. Indeed, the Bridgetown outcome should be forward looking and future facing, by addressing these persistent and emerging trade and development challenges that will continue to face member States beyond 2030.

181. With countries facing a wide menu of policy options that they may pursue individually or à la carte, the Bridgetown outcome must focus on the high-level collective actions that all ministers can commit to, to guide the next four years – and indeed the next decade – of concerted actions by UNCTAD and others in pursuit of accelerated achievement of the Sustainable Development Goals, in light of the clear implementation challenges that have emerged against the difficult multilateral context the past four years.

The Bridgetown outcome must focus on the high-level collective actions that all ministers can commit to, to guide concerted actions by the United Nations in pursuit of accelerated achievement of the Sustainable Development Goals

182. The Bridgetown outcome should contribute to the rest of the United Nations system recognizing that an enabling global economic environment for the Sustainable Development Goals is more than the sum of collective national and individual agency efforts and requires a strengthened United Nations focus on the productive side of economic sustainability that fully uses the global expertise of all non-resident agencies to support the achievement of the Sustainable Development Goals of all member States. The Bridgetown outcome should call on all of the United Nations development system working on the economic pillar of sustainability to do more together to integrate support to trade and development into their work collectively and in complementarity with each other, mutually reinforcing both substantive and logistical capacities.

183. Instead of aiming to renegotiate the finer details of the UNCTAD work programme, the Conference at Bridgetown should rather focus on negotiating a clear and concise high-level statement putting trade and development at the centre of accelerating achievement of the 2030 Agenda for Sustainable Development, reaffirming the alignment of UNCTAD activities with the ambitions of the Sustainable Development Goals but also providing guidance on new pathways for reaching further consensus on trade and development issues going forward, after the pandemic and after 2030.

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