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Research Report

Post 2015: the need for an enabling global economic governance framework

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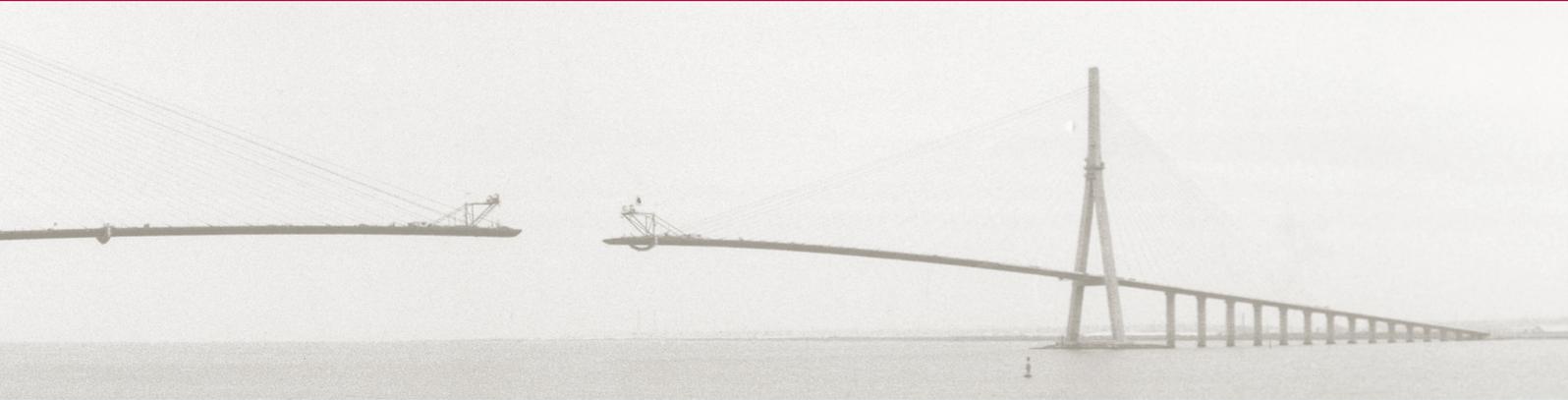
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Post 2015: The Need for an Enabling Global Economic Governance Framework

Summary

In September 2015, the United Nations (UN) adopted a new global development framework, the “2030 Agenda for Sustainable Development”, which includes the Sustainable Development Goals (SDGs). The SDGs thereby replace the Millennium Development Goals (MDGs), which were supposed to be realized by the end of 2015.

What is the role of global economic governance in the 2030 Agenda, and specifically in the SDGs?

The MDGs failed to adequately address issues of global economic governance. MDG 8, which was intended to develop a global partnership for development by 2015, did not create a more effective and fairer framework to enable countries to promote human development within the global economy. What is more, since the MDGs were adopted, broader economic globalization, with more interdependence between countries and shifting economic dynamics, has changed the world economy.

The past two decades have witnessed the quadrupling of global trade and a tenfold increase in South-South trade. In the same period, emerging economies’ share in global foreign direct investment (FDI) increased from just 5 per cent to over 30 per cent. Similarly, financial flows have not just swollen during the past two decades, they have also switched direction, with financial surpluses from emerging economies flowing ‘uphill’ in order to cover current account

deficits in advanced countries. In a decade’s time, international cooperation has been transformed from the dichotomy of the ‘rich North’/‘poor South’ to new forms of international economic cooperation created by new actors.

In light of these new circumstances, the SDGs should place more emphasis on global economic governance issues – some of which are not at all or only inadequately addressed.

Whilst the 2030 Agenda for Sustainable Development does more to address global economic governance issues, it exhibits significant lacks.

Key global economic challenges remain inadequately addressed:

- Greater adjustments to the international trading system are needed to ensure that trade and foreign investment support sustainable development. More must be done to increase developing countries’ access to global value chains, reduce their trade costs and reform the multilateral trading system, especially against the background of ‘mega-regional’ trade agreements.
- The rules and institutions of global finance must be reformed to guarantee greater financial stability and improve global cooperation with respect to the fight against illicit financial flows and transfers. The global financial safety net and the global debt governance system remain incomplete.

With regard to global economic governance, SDG 17 is the most relevant goal in the 2030 Agenda for Sustainable Development because it aims to “strengthen the means of implementation and revitalize the global partnership for sustainable development”. Target 17 names finance, technology, capacity building, trade and systemic issues that should be used to implement the 2030 Agenda. We focus here on the challenges to international trade and finance systems, questioning the extent to which the SDGs address these challenges, and which crucial issues regarding global economic governance are lacking and should be considered.

1 A global trading system

The 2030 Agenda offers an opportunity to spotlight trade and orient the governance of international trade toward sustainable global development. The SDGs underscore the value of the multilateral trading system, with the World Trade Organization (WTO) at its core. Target 17.10 is to “promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda”. This recommitment to the multilateral trading system strengthens the normative basis of the WTO, acknowledging its role as a global public good and its contribution to fair global economic governance. However, Target 17 does not reflect the most pressing challenges that developing countries are likely to face in the international trading system.

Improve developing countries’ access to global value chains

What are the greatest challenges? Too many least-developed countries (LDCs) are still mired in primary production and lack any significant processing capabilities. They thus have difficulties integrating into the global value chains that have become increasingly important in recent years. Target 17.11 aims to “significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries’ share of global exports by 2020.” While this target is welcome, trade targets should not just set goals for market access: developing countries’ access to these chains must also be enhanced. At the same time, trade rules must create enough policy space for developing countries to regulate trade and investment flows according to their national development priorities. Moreover, many countries, especially less developed ones, are still facing very high trade costs and more attention must be given to reducing them. A first step would be to agree on how to measure these costs.

Simplify rules of origin

One priority area is to simplify the rules of origin in order to help developing countries make better use of existing preferential systems. Target 17.12 is to “realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from LDCs are transparent and simple, and contribute to facilitating market access”. Whilst it is good that the 2030 Agenda for Sustainable Development does not only include targets for market access, another target must emphasize that transparent and simple rules of origin should apply to imports from poorer countries.

Challenges from bilateral and regional trade agreements

Developing countries are challenged by the way that trade rules are increasingly negotiated outside the WTO. Bilateral and regional trade agreements have always been a concomitant of multilateral trading negotiations, but the past few years have witnessed ever-bigger trade agreements negotiated between the main trading powers. The two main examples of these ‘mega-regionals’ are the Transatlantic Trade and Investment Partnership (TTIP) and the Transpacific Investment Partnership (TPP). Such negotiation processes tend to cover ever more complex and sweeping topics that go far beyond mere tariff reduction and make it difficult for developing countries to adopt public policies to implement the SDGs. These challenges are inadequately reflected in the SDGs.

Another target should be added to force treaties negotiated outside the WTO to comply with the 2030 Agenda. There is a real threat that mega-regionals will further restrict the policy space that countries need to “implement policies for poverty eradication and sustainable development” (Target 17.15). The need to align trade and investment agreements with the preservation of developing countries’ policy space is highlighted in the Addis Ababa Action Agenda (the Addis Agenda). Bilateral and regional preferential trade agreements have begun to cover issues such as investor protection, regulatory cooperation and the protection of intellectual property – deep provisions which seek to reduce the contracting parties’ policy space to adopt certain policies or measures. Developing countries must carefully weigh the pros and cons of agreeing to the deep rules contained in the new generation of bilateral and regional trade agreements.

A third challenge relates to the reform of the multilateral trade system. The fundamental changes to trade and

investment flows in the 21st century are not mentioned in the Doha Development Agenda, and mushrooming bilateral and regional trade agreements, especially the TTIP and TPP, call into question the role of the WTO and could further fragment the global trading and investment system.

Reflect on plurilateral agreements

Two reforms should be considered in light of these developments. First, modifying the WTO's consensus-based decision-making would enable members to make plurilateral agreements among "coalitions of the willing". Whilst plurilateral deals might pose new challenges, continuous deadlock within the WTO and proliferating bilateral and regional agreements are worse. Moreover, the WTO's role as a coordinating forum for improving the coherence of regional trade and investment agreements must be enhanced. The deep rules negotiated in the context of bilateral and regional trade agreements must also be multilateralized and the WTO should expand its global governance role beyond its traditional focus on protectionist trade barriers. A plurilateral agreement could be the first step to multilateralizing bilateral and regional trade rules. Developing countries should forget their traditional resistance to WTO-plus rules: Instead, they should proactively negotiate to ensure more development-friendly outcomes. Economic development is largely determined through access to global value chains.

2 The global financial system

A solid international financial architecture is crucial for achieving the SDGs through a stable global financial system that can enable the financing needed for sustainable economic growth. The most recent global financial crisis has shown that financial stability is a global public good for which both developed and developing countries must take responsibility.

Ensure global financial stability

The SDGs consider macroeconomic and financial market stability in Targets 10 and 17. Whilst Target 10.5 is to "improve the regulation and monitoring of global financial markets and institutions and strengthen implementation of such regulations", Target 17.13 aims to "enhance global macro-economic stability, including through policy coordination and policy coherence". Given that financial stability is a global public good, it must be ensured by a system of coordinated macroeconomic policies that addresses the spillover effects of the major economies' macro policies. The system should be based on a reinforced Mutual Assessment Process, under the

aegis of the International Monetary Fund (IMF) in cooperation with other international institutions.

A further challenge is the fragmented global financial safety net, which consists of multiple layers, including the IMF and regional safety nets, and central bank cooperation (swaps). Improved cooperation amongst these actors is crucial. The Addis Agenda advocates strengthening the international financial safety net by emphasizing the significance of international financial institutions (IFIs) for the safety net and encouraging cooperation between the IMF and regional financial arrangements.

Complete the global debt governance system

The 2030 Agenda for enhancing debt sustainability in Target 17.4 – "to assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress" – includes no concrete suggestions for reforming the instruments of the global debt governance-system. In contrast, the Addis Agenda proposes many important tools for preventing debt crises, including IFI instruments to assess debt sustainability and enhance debt management, and "guidelines for debtor and creditor responsibilities in borrowing by and lending to sovereigns". However, it presents no comprehensive approach for resolving debt crises, such as an insolvency procedure for sovereign states that could be combined with precautionary instruments including the above mentioned guidelines. Over the past ten years, collective action clauses for restructuring sovereign bonds have increasingly been included in bonds, but they have only been applied to certain debt classes and have not prevented hold outs of small creditor groups.

Targets 10.6 and 16.8 address developing countries' improved representation and greater voice in decision-making in global international economic and financial institutions, as well as other institutions of global governance. These targets should promote the ongoing reforms in this area, including those regarding the IMF's quota and governance.

Improve international tax cooperation

The SDGs fail to address another important pillar of the international financial architecture: international tax regulation. Yet the international tax system is a crucial element of the SDGs' financial Means of Implementation because improved international institutions and regulations make it possible to raise much more financing. The Addis Agenda considers global cooperation with respect to combating illicit financial flows, tax evasion and transfers.

International cooperation amongst tax authorities must be promoted through multilateral agreements. The following four issues are particularly important. First, the automatic exchange of tax information should become standard procedure worldwide. Second, agreement is needed regarding the definition of cross-border illicit financial flows in order to combat them effectively. Third, disclosure of beneficial ownership and pricing guidelines for transfers should become the norm – so as to limit taxpayers' opportunities to hide assets through anonymous trusts and foundations. Finally, a common corporate tax base must be established.

Enhance innovative financing instruments

Innovative sources of finance could generate new financial resources. Whilst these are mentioned in the Addis Agenda, along with green and vaccine bonds or carbon-pricing mechanisms, two important instruments – the global financial transaction tax and global solidarity

levies – are not. The financial transaction tax may have the greatest potential to mobilize large amounts of money. Although the European Parliament approved a financial transaction tax for the European Union in July 2013, there is not yet any commitment to introduce such taxes globally.

More ambition needed

Without plans for a truly global partnership to assume responsibility to realize the 2030 Agenda, many developing countries will remain left behind in the galloping process of globalization. Aside from the fact that SDG Target 17 and the Addis Agenda are formulated in vague language that “enhances”, “promotes” and “increases”, these texts also fail to cover the many challenges that prevent developing countries from truly benefiting from global trade and financial flows. This ambition gap must be addressed if the “global partnership” is to be more than a lofty notion.

This Briefing Paper is part of the DIE series “Post 2015”. See our homepage for previous issues (www.die-gdi.de).



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