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TRADE AND DEVELOPMENT REPORT 2019

FINANCING A GLOBAL GREEN NEW DEAL

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNCTAD

Main points

I. **Global economy experiencing significant downturn**

- Underlying difficulties predate trade uncertainties

II. **Needed to address global economic and environmental anxieties is a Global Green New Deal**

- Led by big push in public investment and change in policies and international rules

III. **Financing a Global Green New Deal is possible**

- Through measures that make debt, private capital and banking work for development

The global economy

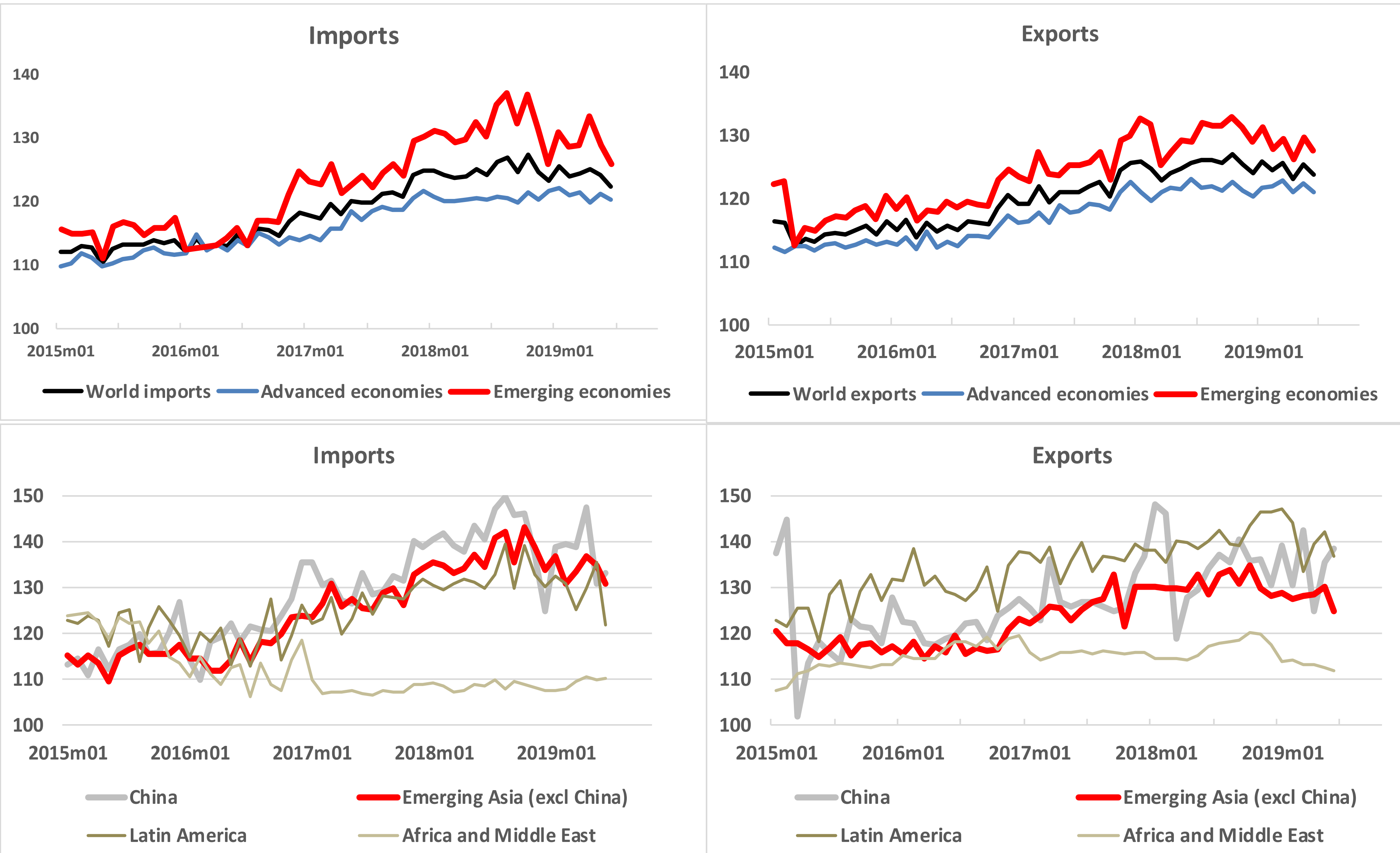
Global economy experiencing significant downturn

World output growth (annual percentage change)

Country or area	2015	2016	2017	2018	2019[a]
World	2.8	2.5	3.1	3.0	2.3
Developed countries	2.3	1.7	2.3	2.2	1.6
Japan	1.2	0.6	1.9	0.8	0.8
United States	2.9	1.6	2.2	2.9	2.2
United Kingdom	2.3	1.8	1.8	1.4	0.9
Euro zone	2.1	1.9	2.4	1.9	1.1
Germany	1.7	2.2	2.2	1.4	0.6
Developing countries	4.0	3.9	4.4	4.2	3.5
Africa	2.7	1.6	2.7	2.8	2.8
LAC	-0.4	-1.5	0.9	0.7	0.2
Asia	5.5	5.8	5.6	5.3	4.5
East Asia	5.9	5.9	6.2	5.9	5.4
China	6.9	6.7	6.9	6.6	6.1
South Asia	6.0	8.8	6.3	6.0	4.4
India	7.5	8.7	6.9	7.4	6.0
South-East Asia	4.6	4.7	5.2	5.0	4.5
Indonesia	4.9	5.0	5.1	5.2	5.0
Malaysia	5.1	4.2	5.9	4.7	4.3
Thailand	3.0	3.3	4.0	4.1	3.0
Vietnam	6.7	6.2	6.8	6.9	6.7
West Asia	4.3	3.0	2.8	2.3	0.7
Oceania	4.7	1.1	0.9	1.4	2.8

World trade is in deceleration mode

Merchandise trade volume, 2015, Jan – 2019, June (indices: 2010=100)



Need for different policy narrative and different international rules to address economic, social and environmental challenges

- Policymakers seem unprepared
  - Insufficient recognition that basic economic problem is lack of global demand and that redistribution and expansionary fiscal stance are required
  - Insufficient recognition of role of public sector investment, including to prevent environmental breakdown
  - Existing multilateral system disabled in face of growth, trade, currency, technology, debt and environmental challenges

Need for Global Green New Deal

GGND combines economic recovery with reduced CO_2 emissions

Elements of all GNDs

- End austerity; new policy priorities, full range of macro policies
- Increase in wage share
- New and progressive taxes
- Scaled up public investment to decarbonize energy, transport and agriculture (efficiency+renewables)
- Green industrial policies (technologies, land use, new sectors and skills)
- Stronger and dedicated public banks; greener central banks

Simulation for GLOBAL GND

- 1 percentage point (pp) increase in wage share; 2 pps increase in investment share each year (focus on renewables); net transfers 1.5 pps higher by 2030; direct taxes 2 pps higher by 2030
- GDP rises by 1–1.5% in developed countries, 1.5–2% in developing (slower in China); 26mn jobs in developed, 146mn in developing (40mn in China); CO_2 emissions cut by 30bn–32bn tons of gross CO_2 by 2030

Financing a Global Green New Deal is possible

Debt issues

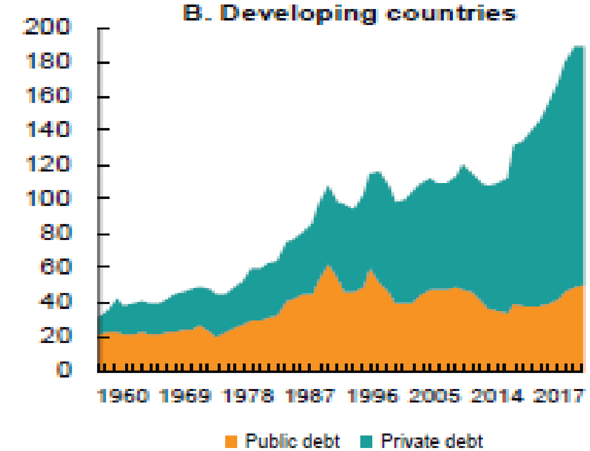
- Increase in global debt – from $16 trillion in 1980 to $152 trillion in 2008 and $213 trillion in 2017 – driven by private debt

- Results are increased risk of excessive foreign lending and subsequent financial crises, and transformation of debt into "fair game" for financial investors in search of high short-term yields

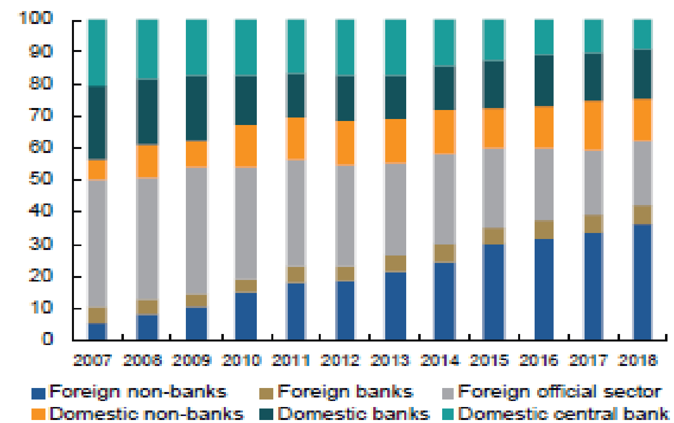
- Even at moderate levels of public debt to GDP, increased fragility due to growing share of private foreign bond holders

- Private (corporate) debt often ultimately backed by foreign-exchange reserves (self-insurance) – makes debt onerous

Total debt, selected developing countries, 1960-2017 (% of GDP)



Composition of government debt by creditor type, 2004-2018



Dealing with debt distress and possible crises in ways that foster (green) development

- Revitalise and expand **special drawing rights (SDRs)** as a flexible and scalable financing mechanism to fund long-term country-by-country **environmental adjustment programmes** without recourse to narrow policy conditionalities or limiting eligibility criteria.

- A **global SDG-related concessional lending programme** for low- and lower-middle-income developing countries combining a refinancing facility designed to allow participant countries to borrow on concessional terms and an additional lending facility designed to cover the external share of gross financing needs of the public sector until 2030.

- A **global sustainable development fund** capitalised and replenished by donor countries paying in their unfulfilled commitments to the ODA target and providing dedicated resources to compensate for what was only partially delivered over past decades (estimated at over $3.5 trillion since 1990).

- **A rules-based framework to facilitate an orderly and equitable restructuring of sovereign debt** that can no longer be serviced according to the original contract, governed by a set of agreed principles and a body of international law.

Managing private capital could reduce the resource drain, including that related to self-insurance

Unrestrained capital flows cause a resource drain from developing countries

Return differentials between external assets held to insure against external liabilities create an annual transfer of resources from developing to developed countries of roughly $440 billion (2.2% of GDP)

	Yields on gross assets minus yields on gross liabilities (%)			
	1995–2007	2008–2009	2010–2018	1995–2018
Selected developing countries				
Indonesia	-1.7	-4.1	-4.1	-2.8
Malaysia	-3.9	-2.6	-2.4	-3.2
Philippines	0.8	-1.7	-2.9	-0.8
Rep of Korea	-0.8	0.2	0.6	-0.2
Thailand	-2.2	-4.4	-5.2	-3.5
Selected developed countries				
Germany	-0.4	0.5	0.6	0.1
Japan	1.6	1.8	1.8	1.7
United States	1.1	1.0	1.5	1.2

Long-lasting capital controls as a way forward

- Instead of accumulating foreign-exchange reserves as self-insurance, comprehensive and long-lasting capital controls can regulate volatile capital inflows effectively and should be part of macroeconomic policy toolkit
- But these controls require supportive measures at international level
  - Capital-account regulation should be kept out of trade and investment agreements
  - Capital flows need to be controlled on both sending and receiving ends
- The IMF new institutional view goes in right direction. Yet, developing countries need multiple instruments without preconditions for their use.

A further drain comes from tax-motivated illicit financial flows …

- Tax-motivated illicit financial flows of multinational enterprises (MNEs) deprive developing countries of $50–200 billion a year in fiscal revenues
- These flows are facilitated by international corporate tax norms that consider affiliates of MNEs as independent entities and treat taxable transactions between the different entities of MNEs as unrelated
- International corporate tax norms should be changed and:
  - move towards unitary taxation – MNE-profits taxed collectively at group level
  - combine unitary taxation with global minimum effective tax rate on all MNE profits set at 20–25 per cent (i.e. the current average global nominal rates)
  - distribute the revenues from such reformed corporate taxes across countries through "formulary apportionment"

… and foregone taxes on digital transactions

- Rapid digitalization is changing how value is created, measured and distributed
  - Fair taxing rights in the digital economy require using concept of significant economic presence in terms of revenue from sales or transactions that exceed certain levels

- While waiting for international consensus – e.g. OECD/G20-led "base erosion and profit shifting" project – several countries have explored temporary unilateral domestic tax measures for the digital economy

- By applying unilateral measures (e.g. those considered by some EU-members), developing countries could increase tax revenues by $11bn–28bn a year

Potential additional tax revenue

	$bn
Developing countries	**11–28**
China	3.2–8.2
S&SE Asia excl. India	1.8–4.5
SSA	0.9–2.4
North Africa	0.5–1.1
LAC	1.7–4.3
Brazil and Mexico	0.9–2.4
Memo item:	
LDCs	0.8–1.9

Revaluing public banking can provide additional finance

Banking systems articulated with national development plans, rather than directed towards external capital and investors

Broaden central bank focus beyond price stability/inflation targeting

- Active policies for credit allocation to green activities – variable reserve requirements; favourable refinancing arrangements; quotas for lending to carbon-intensive sectors; green quantitative easing; green bonds and more

Strengthening national public banks

- Appropriate mandate, regulation and financial support to take on longer term, larger and riskier projects

Scaling up regional development banks

- Expansion of regional public banking (especially South-South) is one of the most significant trends in recent years: offer loans quickly, with no conditionality
- Improve lending capacity by expanding the capital base (SWFs; foreign reserves) to reduce dependence on financial markets and international credit ratings

Thank you