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Towards a New International Economic Order

Report of the Secretary-General

Summary

The present report is submitted pursuant to General Assembly resolution 73/240. It provides an updated analysis of the main international economic and policy challenges for recovering better from the impacts of the coronavirus disease (COVID-19) pandemic and the ensuing socioeconomic crisis in order to ensure sustainable development for all. It contains a review of the scale and depth of the crisis and the main multilateral and national risks, as presented in recent High-Level Forums of the General Assembly. It focuses on the role of multilateral cooperation and policy coordination in addressing those challenges in the context of the New International Economic Order. The findings of the report include that the crisis poses a great risk to the progress made towards achieving the Sustainable Development Goals and threatens the future achievement of global sustainable development. This occurs against the backdrop of uncertainties related to the development of the pandemic, as well as to financial distress and the multilateral trade system. For the long-term prospects, the great potential is identified that central banks can play in providing necessary liquidity and an enabling framework for boosting investment in sustainable development. The role of multilateral cooperation is underscored, as envisaged in the Declaration on the New International Economic Order,[a] for improving the management of illicit financial flows and international policy coordination for taxing the digital economy in order to support countries' resource mobilization efforts. It includes an emphasis on the risks that the multilateral trade system face and the importance in addressing long-standing trade issues to recover better from the current crisis.

[a] General Assembly resolution 3201 (S-VI).

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I. Introduction

1. The impact of the coronavirus disease (COVID-19) pandemic has severely weakened the resilience of populations and deepened economic insecurity and inequalities. It has been devastating for countries with less resilience and capacities to respond than others and has damaged the prospects for sustainable development. It is estimated that an additional 100 million people will fall into extreme poverty by the end of 2020.[1]

2. The direct impacts of the pandemic have been essentially health-related and socioeconomic. The pandemic has exposed the inadequate access to and quality of health-care systems in many countries, including the lack of sufficient medical personnel, equipment and facilities (e.g., hospital rooms, beds, testing kits, protective gear and face masks).

3. The pandemic has also exposed the strengths and weaknesses of socioeconomic structures and policies in different countries and heightened deep-seated vulnerabilities, including digital inequalities, global supply chains and informal employment. Many population groups in developed and developing countries have inadequate and uneven access to running water, sanitation, resilient housing, electricity, renewable energy and Internet services.[2] Amid the uncertainty of the pandemic's duration, the collapse in global demand will further depress the already weak investment in productive sectors.

4. At the same time, systemic financial risks are mounting. The volatility of global financial markets and capital outflows from developing countries increased dramatically in the immediate aftermath of the outbreak, to levels surpassing those experienced in the global financial crisis of 2008. The central banks of the major economies staged a swift and massive intervention to put a floor under falling asset prices and injected critically needed liquidity to avert a full-flown financial crisis. Consequently, since April 2020, asset prices have recovered. But the financial vulnerabilities that were building up around the world before the pandemic have not been fully resolved. Persistent liquidity constraints, deteriorating debt sustainability and mounting risks of debt distress, as well as further contractions of foreign direct investment inflows into developing countries, continue to exert pressure on financial markets in many parts of the world, especially in the most vulnerable and the least developed countries.

5. The present report contains an analysis of the issues of common global concern, through a forward-looking policy lens. Section I contains a summary of the impacts of the pandemic on health systems and the ensuing socioeconomic crisis. In section II, there is an analysis of the role of monetary policies, and in particular central banks, in injecting substantial liquidity to reduce immediate income and credit constraints and boost long-term investment in a sustainable recovery, and in stabilizing financial markets in the first months of the crisis. Section III includes an examination of the challenges and pathways for international coordination to strengthen countries' institutional and technical capacities to manage illicit financial flows. Given the accelerated development and use of digital technologies, there is also a discussion of their general impacts on the digital divides and the feasibility of effectively taxing the digital economy to enhance resource mobilization, including through progressive digital services taxes.

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[1] António Guterres, Secretary-General, opening statement at the 18th Nelson Mandela Lecture: Tackling the Inequality Pandemic: A New Social Contract for a New Era, July 2020.

[2] For a thorough analysis and policies on income, digital, social and environmental inequalities, see, *World Social Report 2020: Inequality in a Rapidly Changing World* (United Nations publications, Sales No. E.20.IV.1).

6. Section IV of the report contains an analysis of how the pandemic and economic crises have generated a historical fall in the international trade of goods and services. It is underlined that continued trade tensions have deepened the already sluggish trade growth since the financial crisis of 2008, and the need is underscored for making progress on policy coordination within a more inclusive and rules-based multilateral trade system.[3] Overcoming the swift and deep impacts of the pandemic on economies and world trade requires a focus on enhanced cooperation on relevant issues to build better trade value chains going forward and to share more evenly the gains of a growing digital economy and trade in goods and services (e.g., e-commerce). To that end, it is equally important to invest in decent work (e.g., a living wage and social security), renewable energy and sustainable growth and consumption patterns.

Settling at the bottom

7. The global economy is expected to contract by about 5 per cent in 2020, with uncertain prospects for 2021.[4] Similarly, world trade fell by 3 per cent in the first quarter of 2020, with a steep decline of between 2.5 and 8.8 per cent projected for the whole year.[5] Gross domestic product (GDP) is likely to continue to fall in developing economies that depend on commodity exports, tourism and migrant remittances. Small island developing States are among the most vulnerable developing countries. As a region, Latin America and the Caribbean is likely to experience a deeper GDP contraction than other regions.

Fiscal space and debt pressures

8. In this context, many developing countries have experienced heightened capital flow volatility, reduced liquidity, exchange rate fluctuations and falling remittance flows. At the same time, they, like other countries, face rapidly rising fiscal pressures, as tax receipts have fallen dramatically owing to the contraction of overall economic activity caused by containment measures in response to COVID-19, while public spending on the health response and for emergency support measures and stimulus packages have surged.

9. For many countries, these pressures are occurring hand-in-hand with unsustainable debt levels and falling revenues. Nearly half of all least developed and other low-income countries were already at a higher risk of debt distress before the pandemic. Overall, the current crisis has deeply exacerbated sovereign debt risks. Many middle-income countries are now experiencing higher pressure relating to debt sustainability, including six small island developing States that have especially high public debt and debt service burdens, at over 40 per cent of revenue on average.[6]

10. World GDP and trade have contracted greatly and, given the uncertainty about the speed and depth of the pandemic, risk aversion remains high and personal consumption and investment remain low. Under those circumstances, the timing and pace of the recovery of economic activity is likely to be slow. Even so, in the midst of the crisis, a few industries and services have shown resilience, such as consumer electronics, computer and information technology services, food, care services, public transportation and, to a lesser degree, environmental services.[7]

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[3] António Guterres, "Global wake-up call", United Nations, 2020.

[4] United Nations, Department of Economic and Social Affairs, "World economic situation and prospects as of mid-2020", January 2020, pp. 1–10.

[5] World Trade Organization (WTO), "Trade falls steeply in first half of 2020", 22 June 2020.

[6] United Nations, Department of Economic and Social Affairs, "Responding to COVID-19 and Recovering Better" (2020). Available at www.un.org/development/desa/en/wp-content/uploads/2020/07/PB-Compilation-final.pdf.

[7] WTO, "Trade falls steeply in first half of 2020".

Unemployment, poverty and inequality

11. The global economic crisis has severely affected global labour markets. Estimates point to a global decline of 14 per cent in hours worked in the second quarter of 2020 relative to the fourth quarter of 2019.[8] Many young people and women, who were already facing higher unemployment and underemployment levels, are currently at a higher risk of losing their jobs, since a sizable number of them work in the service sectors, which have been particularly hard-hit by the crisis. Furthermore, many women are suffering from an increase in unpaid care work, amid school and childcare closures and a shift of economic activity into the domestic sphere.[9]

12. The contraction of economic activity and massive increase in unemployment have exacerbated global poverty, eliminating the progress made since 2015, particularly in many developing countries that lack effective systems of social protection. Many of the newly poor are located in countries with already high poverty rates, with nearly half living in South Asia and a third in sub-Saharan Africa. Furthermore, the disproportionate effects of the pandemic on low-skilled and low-wage jobs will exacerbate income inequality.

Capital outflows and inflows

13. In the wake of the outbreak of the pandemic, a record $100 billion dollars of non-resident portfolio outflows left emerging market economies between January and March 2020, more than three times the outflow registered during the global financial crisis of 2008 and 2009.[10] Those capital outflows exacerbated already negative trends, primarily outflows from East Asia. Capital inflows to developing countries are likely to remain weak, as many are linked to investments in global value chain-intensive and extractive industries, which have been severely disrupted by the crisis.

14. Overall, the world economy stands to lose $12 trillion in output during 2020 and 2021.[11] The Secretary-General has stated that we face the deepest global recession since the Second World War, and the broadest collapse in incomes since 1870.[12]

15. Paradoxically, the slowdown of the global economy has benefitted the natural environment by reducing greenhouse gas emissions, improving the quality of air, rivers and ocean waters and possibly slowing also the loss of biodiversity. Those effects have clearly demonstrated the strong link between our global patterns of economic activity and growth model and environmental degradation. The above positive developments on the environment are encouraging only if the global community decides to craft a recovery that accelerates the transition from fossil fuel-based and unsustainable economic growth into renewable energy-based and sustainable production and consumption patterns.

II. Should monetary policy play a greater role in promoting sustainable development?

16. With the pandemic triggering massive shocks to economic activity and financial markets, central banks have once again become the first line of defence for countries

[8] International Labour Organization (ILO), "ILO monitor: COVID-19 and the world of work", 5th ed., 30 June 2020.
[9] United Nations, "Policy brief: the world of work and COVID-19", June 2020.
[10] United Nations, Department of Economic and Social Affairs, "World economic situation and prospects as of mid-2020", pp. 8–12.
[11] International Monetary Fund (IMF), "The exchange: conversations for a better future – a conversation with Kristalina Georgieva and Ian Bremmer", video, 30 July 2020.
[12] António Guterres, Secretary-General, opening statement at the 18th Nelson Mandela Lecture.

around the world. Alongside interest rate cuts, central banks have rapidly deployed a wide range of policy tools aimed at preventing a liquidity crunch, stabilizing financial markets and supporting credit flows. In the major developed economies, as interest rates near the zero bound, central banks have rolled out quantitative easing measures on an unprecedented scale. The United States of America Federal Reserve announced an "unlimited" purchase of government-backed debt and set up facilities to buy corporate bonds. Similarly, the Bank of Japan pledged to buy an unlimited amount of government bonds, while accelerating its purchase of risky assets, including exchange-traded funds and corporate bonds. Meanwhile, the European Central Bank launched a €750 billion emergency bond-buying programme, which was later expanded to €1.35 trillion.

17. Among the developing economies, the severity of the shock prompted several central banks to launch asset purchase programmes, including in Chile, the Philippines, South Africa and Turkey. However, unlike in developed countries, asset purchases by the developing countries were not explicitly aimed at providing monetary stimulus or credit support, but instead to address financial market dislocations due to heightened investor risk aversion.[13]

18. Complemented by sizeable fiscal stimulus, the swift and bold policy actions of central banks have helped to avert a deeper economic and financial crisis in the immediate term. Looking ahead, however, many countries will face significant challenges in getting back on track towards achieving their sustainable development objectives. While vital to avoid economic collapse, the recent large fiscal interventions have left many Governments with record-high debt burdens, raising concerns over public debt sustainability going forward. The situation is particularly precarious among the developing countries, where an increasing number of economies are at high risk or are already in sovereign debt distress. As budgets are squeezed, many Governments will struggle to finance much-needed investment in key areas of sustainable development, such as health, education, physical and digital infrastructure and energy transition.

A new role for central banks

19. With the further narrowing of the fiscal space, a key question is whether monetary policy and central banks can do more to drive sustainable development in the post-pandemic era. The pandemic has demonstrated that, despite historic low interest rates in many countries, central banks have been able to use creative and unconventional strategies effectively to mitigate the impact of the crisis. Beyond those immediate crisis responses, the pandemic offers an opportunity for central banks to play a greater role in helping countries to build forward better. This can potentially be achieved through the integration of sustainable development considerations into monetary and financial policy frameworks.

20. It is widely argued that central banks should not pursue sustainable development objectives, as these extend beyond their traditional mandates. Out of a sample of 135 central banks across the world, only 12 per cent have mandates that explicitly include sustainable development as an objective, while a further 40 per cent play a role in supporting their Governments' development policy agendas.[14] However, it is becoming increasingly clear that some risks to sustainable development can directly affect central banks' core objectives of preserving price and financial stability. For

[13] Yavuz Arslan, Mathias Drehmann and Boris Hofmann, "Central bank bond purchases in emerging market economies", BIS Bulletin, No. 20, 2 June 2020.

[14] Simon Dikau and Ulrich Volz, *Central Bank Mandates, Sustainability Objectives and the Promotion of Green Finance*, SOAS Department of Economics Working Paper, No. 232 (London, SOAS University of London, 2020).

example, the effects of climate change, including an increase in extreme weather events, can cause shortages of food and energy, exerting upward pressure on inflation. In addition, more restrictive climate-related government regulations or an increase in market awareness of the financial impact of climate shocks could result in a sharp repricing of assets. This could in turn expose financial institutions to large losses, posing a threat to financial stability.

21. With that in mind, central banks can take on a more proactive role in addressing sustainable development challenges without an expansion of their existing mandates. In fact, a growing number of central banks and financial regulators are acknowledging the need to respond to non-economic risks and other sustainability issues. In Asia and the Pacific, 94 per cent of central banks surveyed believed that they should play a role in encouraging low-carbon financing initiatives and green finance.[15]

22. During the global financial crisis of 2008 and the COVID-19 pandemic, quantitative easing has largely involved large-scale purchases of government bonds. Several central banks are also buying an increasing amount of corporate assets, encompassing a wide range of sectors and with varying degrees of quality. Given the current fragile global growth outlook, there is a possibility that central banks may need to embark on further easing to support the economic recovery going forward. In that respect, central banks could consider giving preference to purchasing assets that promote sustainable development, such as green bonds and social impact bonds. Access to central banks' crisis lending facilities and refinancing operations could also be made conditional on borrowers' adherence to environmental and social sustainability guidelines.

Social impact investment

23. There are growing calls for central banks to engage more in investments that have a social impact as part of their balance sheet and reserve management frameworks. One study highlighted that, if central banks were to join the Principles for Responsible Investment, an estimated $22 trillion worth of funds would be added to the $44 trillion already pledged, and 4 per cent of central bank assets allocated to such funding would amount to $1 trillion.[16] Currently, the central banks of Finland and the Netherlands are the only two central bank signatories of the Principles. Furthermore, the inclusion of sustainable investments in reserve portfolios need not be at the expense of safety and return, and instead can generate diversification gains for central banks.[17] Against that backdrop, the Bank for International Settlements launched a green bond fund in 2019, aimed at helping central banks to incorporate environmental sustainability objectives into their reserve management frameworks.[18]

24. In response to the sharp impact of the pandemic on households and businesses, many central banks have launched loan programmes targeted at channelling funds to small and medium-sized enterprises. The loans have been offered at lower rates and with favourable terms. In addition, the financing terms for commercial banks offering loans to small businesses have also been eased. Looking ahead, the continued targeting of financial resources not only to small and medium-sized enterprises and

[15] Aziz Durrani, Ulrich Volz and Masyitah Rosmin, "The role of central banks in scaling up sustainable finance: what do monetary authorities in Asia and the Pacific think?", ADBI Working Paper Series, No. 1099 (Tokyo, Asian Development Bank Institute, 2020).

[16] Andrew Sheng, "Central banks can and should do their part in funding sustainability", Fixing Climate Governance Series Paper, No. 1 (Ontario, Centre for International Governance Innovation, 2015).

[17] Ingo Fender and others, "Green bonds: the reserve management perspective", BIS Quarterly Bulletin, 22 September 2019.

[18] Bank for International Settlements, "BIS launches green bond fund for central banks", 26 September 2019.

microborrowers, but also to specific industries, will be essential in ensuring a more sustainable and inclusive recovery. Central banks can play a greater role in designing specialized credit programmes for those enterprises, which can also be made conditional on the businesses creating decent jobs.[19] Based on the experience of several developing countries, priority-sector lending policies can improve access to credit for underserved sectors. In a similar vein, central banks can also introduce a differentiation in lending rates, requiring banks to offer lower borrowing costs to sectors that promote sustainable growth, such as agriculture, rural infrastructure and renewable energy. Those measures would not only enhance financial inclusion, but would also support efforts towards poverty eradication and meeting environmental targets.

Prudential policies and financial regulation

25. Central banks are also being increasingly called upon to utilize prudential policies and financial regulation in order to divert financial resources away from unproductive and unsustainable economic activity. In the wake of the global financial crisis in 2008, central banks, particularly in the emerging economies, introduced measures aimed at curbing speculative investment in targeted sectors, including equity and property markets. Today, prudential instruments remain crucial in addressing financial imbalances, amid elevated global liquidity. Given the rapidly evolving economic and financial landscape, a further differentiation in the prudential and regulation frameworks of central banks is increasingly necessary in order to capture and address new sources and transmission of risks. Notably, rising physical, transition and liability risks arising from climate change are posing a growing concern for policymakers, given their potential systemic implications on financial systems and on sustainable growth. From that perspective, climate change developments are highly relevant to the core mandates of central banks.

26. The Network of Central Banks and Supervisors for Greening the Financial System aims to share best practices for central banks and supervisors in integrating climate risks into financial sector policies. In 2019, the Network published a set of recommendations, which included assessing financial institutions' exposure to "brown" and other non-sustainable assets, as well as incorporating climate-related risks into bank stress tests.[20] In addition, the Network also supports the Task Force on Climate-related Financial Disclosures proposal to establish a framework for comparable disclosure of firms' exposures to climate-related risks. Given the voluntary nature of those disclosures, many companies do not yet disclose sufficiently clear information on the potential financial impact of climate risks on their balance sheets.[21] In that respect, central banks and financial regulators can make sustainability reporting mandatory for financial institutions, as well as potentially setting it as a requirement for corporations to obtain loans from commercial banks.

27. Central banks can also play a role in formulating financial regulations to guide investors who are looking for sustainable investment options, for example, by establishing minimum standards for investment products to be marketed as sustainable (see A/75/268). For example, the European Union Taxonomy for sustainable finance, which was approved by the European Parliament in June 2020, lays out detailed criteria to determine what constitutes sustainable economic activity.

[19] Anis Chowdhury, *Monetary Policy for Inclusive and Sustainable Development* (Berlin, Dialogue of Civilizations Research Institute, 2018).

[20] Network for Greening the Financial System, "A call for action: climate change as a source of financial risk", April 2019.

[21] Task Force on Climate-Related Financial Disclosures, *2019 Status Report* (2019).

Creating conditions to encourage private finance

28. For many developing countries, national development banks and multilateral development banks are important in attracting and mobilizing private sector finance. To enhance the effectiveness of those organizations, central banks can play a role in creating a conducive environment for the flow of private finance to projects that promote sustainable development, including physical infrastructure and renewable energy. The further deepening of financial systems without sacrificing stability, ensuring coherent regulatory frameworks and the absence of unnecessary red tape can stimulate the participation of the private sector in sustainable finance. Central banks can also help to strengthen cooperation between the private sector, national development banks and multilateral development banks. Furthermore, in a large number of countries, the supervision and regulation of national development banks fall under the purview of the same institution that is responsible for private commercial banks, namely, central banks or the bank supervisory agency.[22]

Risks and policy challenges

29. While there are many policy options for central banks to play a more prominent role in driving sustainable development, a move in that direction will not be without risks. The use of monetary and financial policies to promote sustainable development outcomes could potentially cause direct conflict or impact the effectiveness of central banks in achieving their primary goals of price and financial stability. For example, regulations that steer the flow of private finance to certain sectors in economy could not only distort markets but may also have unintended effects on financial stability. There could also be adverse spillovers into other sectors of the economy or parts of the financial system. While the use of unconventional policies in 2008 and 2009 helped to avert a deeper crisis, those measures generated high global capital flow volatility and led to an increase in indebtedness.

30. In that respect, the ability of central banks to act rapidly coupled with their potentially unlimited balance sheets could lead to an overreliance on monetary interventions – instead of fiscal policy – to drive sustainable development objectives. It is important to note that fiscal policy can generate strong incentives to influence economic decisions, and the underutilization of that powerful policy option might prove a disadvantage to a country's overall policy strategy. In addition, the overstretching of central bank mandates could undermine the credibility of central banks, particularly if the lines of responsibilities in relation to other government agencies overlap or are unclear. In that respect, there are concerns that central bank decisions could be influenced by political pressures, thus affecting their independence.

31. Amid an increasingly complex global landscape, the expanding role of central banks may require some changes to the way they currently operate, in order to maintain credibility and policy effectiveness. In particular, discussions over accountability and governance structures are likely to grow. In that respect, clear and consistent communication is key. An improvement in transparency can also help to facilitate accountability, allowing the public to better understand the motivation behind new policy actions.[23] In this context, the International Monetary Fund (IMF) Central Bank Transparency Code aims to improve communication between central banks and their stakeholders, which would reduce uncertainty and support improved

[22] Jose de Luna Martinez and others, *2017 Survey of National Development Banks* (World Bank and World Federation of Development Financing Institutions, 2018).

[23] Tobias Adrian, Ghiath Shabsigh, and Ashraf Khan, "Transparency makes central banks more effective and trusted", IMF Blog, 30 July 2020.

policy choices.[24] A joint IMF-World Bank agreement has also put forward recommendations to encourage flexibility in the application of regulatory, supervisory and accounting frameworks, while maintaining compliance with internationally agreed minimum regulatory standards and supervisory principles to prevent the risk of banking crises.[25]

III. Management of illicit financial flows and taxation of the digital economy for resource mobilization

32. Illicit financial flows are illicit in origin, transfer or use, reflect an exchange of value and cut across country borders. Broadly, the three main components of such flows are the following: (a) those originating from transnational criminal activity; (b) tax-related flows; and (c) corruption-related flows. Their main transmission channels include unrelated group trade transactions (the misinvoicing of trade in goods and services); intramultinational enterprise transactions (the mispricing of transfers or misinvoicing of intraenterprise trade in goods and services); capital account channels (foreign direct investment, other investments or loans); and other transactions (such as remittances, real estate titles or cash).[26]

33. Illicit financial flows reduce the amount of resources available for funding essential infrastructures and for the sustainable investments needed to achieve the Sustainable Development Goals. They can also inflate profits for the companies involved, generate inefficiencies in public spending and slow down economic growth. The international community has agreed that reducing illicit financial flows represents a development challenge, while the effective assessment and taxation of such flows requires international cooperation owing to their cross-border nature. On the other hand, the development and use of digital technologies during the COVID-19 crisis has boosted e-commerce, remote work and telecommuting and greatly accelerated the ongoing digitalization of the economy. Sales and profits of digital technology firms have been growing disproportionately. This opens the possibility for a digital tax on surplus-profits obtained during COVID-19 times, which can boost resource mobilization.

Estimated volume

34. The nature of the illicit financial flows makes it difficult to measure their volume and growth, thus estimations often vary greatly. Some estimations indicate that global revenue losses from corporate tax avoidance fluctuate around $183 billion to $494 billion, with developing and transition economies losing $49 billion to $194 billion.[27]

Progress made and remaining challenges

35. An inclusive framework was established in 2016 to ensure the complete implementation of the base erosion and profit shifting project, led by the Organization for Economic Cooperation and Development and the Group of 20, which was directed

[24] Tobias Adrian, Ghiath Shabsigh, and Ashraf Khan, "Transparency makes central banks more effective and trusted", IMF Blog, 30 July 2020.

[25] Tobias Adrian and Ceyla Pazarbasioglu, "Combating COVID-19: how should banking supervisors respond?", IMF Blog, 15 June 2020.

[26] For a detailed discussion on the concept, measurement and challenges to manage the illicit financial flows, see *Financing for Sustainable Development Report 2020* (United Nations publications, Sales No. E.20.I.4), pp. 47–50.

[27] *Trade Development Report 2019: Financing a Global Green New Deal* (United Nations publication, Sales No. E.19.II.D.15), pp. 108–112.

at taxing profits where the profit-generating economic activities were performed. As a result, tax authorities of countries where multinational companies perform economic activities have been able to exchange information on those companies' revenue reported, profit before income tax, income tax paid and accrued, stated capital, accumulated earnings, etc. That information may eventually serve as a base for tax audits. However, the limited capacity of tax authorities in many developing countries and their concern at becoming listed for not recognizing agreed international tax standards have prevented the full implementation of the project. Although the international community is supporting developing countries in strengthening their tax audit capacity, resource constraints are still a limitation.[28]

36. Revenue loss because of tax competition, largely unaddressed by the base erosion and profit shifting project, may be five times larger than tax-motivated illicit financial flows. Making tax avoidance harder can prompt corporations to lobby for deeper tax cuts, which can lead to declining corporate tax rates and reallocation of firm activities to low-tax jurisdictions. Further, there is an emerging concern about profit-shifting activities, mainly related to the allocation of risk within corporations, valuation of intangibles, and avoidance or limitation of physical presence. In fact, the project has kept the principles of treating multinational subsidiaries as separate entities with arm's-length transactions, without adopting a system of unitary taxation.

37. Although developing and developed countries are affected by tax avoidance, the losses are particularly harmful for public finances in developing countries, whose Governments rely more on corporate tax. The tax-avoidance strategies used by corporations can also distort cross-border trade statistics by reporting intracompany trade and investment in intangible assets (e.g., intellectual property) for tax arbitrage reasons. Tax avoidance can be a particularly difficult issue in digital companies because digitalization makes it difficult to establish where production takes place and where profits are generated. As a result, corporation revenues bear little relation to reported profits and the resulting tax bill.[29]

38. The United Nations Convention against Corruption is a legally binding universal anti-corruption instrument. It identifies several types of corruption, including bribery, embezzlement, abuse of functions, trading in influence, obstruction of justice, private corruption and money-laundering. The Convention also includes four kinds of anti-corruption measures: preventive, the criminalization of corruption and law enforcement, international cooperation and asset recovery. Good practices identified during peer reviews on the criminalization of corruption and law enforcement and international cooperation include the strengthening of data collection, the adoption of comprehensive legislation for the confiscation of proceeds of crime, access to information by law enforcement authorities, cooperation of the private sector with anti-corruption authorities and the expanded transmission of information to support investigations and criminal proceedings in other countries.[30]

39. Furthermore, chapter V of the United Nations Convention against Corruption provides a framework for the return of stolen assets, encouraging States parties to restrain, seize, confiscate and return the proceeds of corruption. The Stolen Asset Recovery Initiative, a joint project of the World Bank Group and the United Nations Office on Drugs and Crime, promotes the implementation of chapter V. The Initiative is currently conducting a study to collect data on international efforts to recover and return the proceeds of corruption in a systematic and internationally comparable

[28] Ibid.

[29] Jayati Ghosh, "Digital challenges for developing countries", in United Nations, Department of Economic and Social Affairs, *Recover Better: Economic and Social Challenges and Opportunities* (New York, 2020).

[30] *Financing for Sustainable Development Report 2020*, pp. 47–50.

manner. The study would be able to help identifying trends in asset recovery practices, provide an evidence base for policymaking and promote transparency and accountability in international asset recovery.[31]

Looking forward

40. Insufficient accountability, transparency and integrity reduce the ability of States to raise revenue, create less even playing fields for small and medium-sized enterprises and undermine the effectiveness of macroeconomic policies and efforts of the global community to achieve the Sustainable Development Goals. The States Members of the United Nations have pledged to enhance revenue management, assess and act on money-laundering risks, reduce illicit financial flows and prevent and counter corruption and bribery. In that context, the President of the General Assembly and the President of the Economic and Social Council requested the High-level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (further to General Assembly resolution 74/206) to assess further actions that Governments and financial institutions can take in several areas, including tax evasion and avoidance, bribery and corruption, and financial and beneficial ownership transparency. In its preliminary report, the Panel noted that, given the lure of illicit enrichment for both public and private stakeholders, there is a need for systems that can create incentives for actors to act with integrity. Weaknesses in national and global mechanisms directed to rein in tax avoidance, money-laundering, corruption and crime have spillover effects on the others. Thus, national and international cooperation approaches need to be holistic, while also supporting the financial and institutional capacities of countries with limited resources.[32]

41. On the whole, strengthened international cooperation is needed in order to prevent tax avoidance by large firms and to adopt a system of unitary taxation that would recognize the profits of corporations as generated collectively as a group, independently of the place where they operate. A global minimum corporate income tax rate on corporations' profits would reduce tax competition between countries and tax arbitrage. That would simplify the global tax system and increase tax revenues of all countries. Experts suggest using the average of current global nominal rates at 20 to 25 per cent as general metrics. Similarly, the establishment of global public registries of the parent companies of all companies, trusts and foundations, including their financial and real assets, could also support the levying of corporate income tax at the country level.[33]

Digital technology growth and taxation

42. Remote work and digital work meetings have become the new norm, while economic activities have increased on a variety of digital platforms. Public and private organizations are being increasingly persuaded to make remote work routine for all or some of their employees for the rest of 2020 and beyond. Yet it is often employees in the upper income brackets who are able to work remotely. Broadly, there is concern that the recent developments will exacerbate inequalities between those countries at the technological forefront and less technologically advanced countries, as well as within countries (digital divides).

[31] Ibid.

[32] Financial Accountability, Transparency and Integrity Secretariat, *Overview of Existing International Institutional and Legal Frameworks related to Financial Accountability, Transparency and Integrity*, FACTI panel background paper (2020).

[33] Independent Commission for the Reform of International Corporate Taxation, "The global pandemic, sustainable economic recovery, and international taxation", May 2020.

43. The International Labour Organization estimates that, in high-income countries, only 27 per cent of workers were able to work remotely. There is also concern surrounding the likely impact that digital technologies will have on labour markets, particularly by exerting downward pressure on the wages of medium- and low-skilled workers as their tasks are increasingly performed by software applications, upgrades and templates. Furthermore, about 1.6 billion workers in the informal economy, who by definition cannot work remotely, have seen their earnings fall by 60 per cent.[34] However, those trends can also be opportunities for policies to coordinate national and global efforts to support decent employment and foster a resilient and sustainable recovery.

Taxing the digital economy

44. The development, use and benefits of the rise of digital technologies are concentrated in a relatively small number of corporations, which typically also control the collection, processing and commercialization of data.[35] For many of those firms, data are the biggest source of income and profits. Developing countries are also concerned that data are often collected by big companies based outside of their own jurisdictions, which presents tax collection and national security implications.

45. A more inclusive international cooperation framework and increased transparency of corporations would be key to strengthening and improving corporate tax systems. The Independent Commission for the Reform of International Corporate Taxation, which strives for a wider and more inclusive discussion on international tax rules, suggests that responsible Governments should introduce progressive digital services taxes on economic rents captured by multinational firms in this sector.[36]

46. Possible taxes on excess profits from digital companies that overbenefitted from the pandemic have been preceded by similar taxes on military suppliers during the Second World War and, more recently, the windfall taxes on oil firms. The revenue obtained can serve to finance the public and private costs of the pandemic. Given the fact that the operations of digital companies are global, international cooperation would be vital for the effective collection of such taxes. Progressive profit taxes and digital services taxes would protect smaller enterprises with lower rates, since their profits and sales are also smaller.

IV. Inclusive multilateralism and the global trade architecture

47. Notwithstanding the international community's unprecedented injection of liquidity and debt moratorium for the poorest countries, the scale and scope of the crisis demand continued comprehensive, swift and decisive interventions to mitigate its long-term impacts on livelihoods and all countries' economies. Global solidarity with the countries and populations most affected is crucial for such efforts to succeed, because, as the crisis has continued to demonstrate, a crisis in one community or country is a threat to the lives and security of the rest, as well as to future generations.

48. The devastating effects of the pandemic on health systems, economies and global supply chains have called attention to the importance of swift international coordination and of inclusive multilateral trade. Multilateralism and the international economic order have been increasingly under siege in recent years, as evidenced by

[34] United Nations News, "'Business as unusual': how COVID-19 could change the future of work", 27 May 2020.

[35] United Nations, Department of Economic and Social Affairs, "Data economy: radical transformation or dystopia?", Frontier Technology Quarterly, January 2019.

[36] Independent Commission for the Reform of International Corporate Taxation, "The global pandemic, sustainable economic recovery", p. 3.

the proliferation of bilateral and regional trade agreements, trade disputes and restrictions, all of which have seriously weakened the multilateral trading system and further fragmented its architecture.

Trade tensions between trade partners

49. Mainly because of the higher tariffs imposed by China and the United States on each other, overall trade between those countries fell by 18.3 per cent to $95.43 billion in the first quarter of 2020, relative to one year previous, with Chinese exports to the United States falling 23.6 per cent and imports falling 1.3 per cent.[37] As a consequence, part of the trade between those countries has diverted to other countries with firms that are close competitors of companies in China or the United States. It is estimated that the European Union has benefitted the most, with Japan, Mexico and Canada being the other main beneficiaries.[38]

50. Higher tariffs increase domestic prices, affecting industries that use imported materials and intermediate goods, as well as consumers. Costs are borne by firms that offshore assembly activities to China. Foreign firms, often United States-owned operating in China, account for a substantial proportion of imports into the United States from China. The high import content of Chinese exports indicates that other developing countries integrated into the supply chain are also adversely affected. The lasting effects of tariffs between China and the United States provide incentives for firms to restructure their supply chains. The tariffs will significantly affect upstream suppliers to China in other East Asian countries. Similarly, Chinese tariffs on imports from the United States would have negative effects on North American suppliers.

Multilateral implications of trade tensions

51. Unilateral measures and bilateralism have challenged the multilateral trading system. When unilateral tariff measures are justified by national security reasons or unfair trade, core World Trade Organization (WTO) principles and stability functions are weakened, including the dispute settlement mechanism and the Appellate Body functions.[39] If the measures are not justified, securing compliance may prove difficult, as the losing party might be tempted to disengage. Given the current global crisis, continued trade tensions among major trading partners can delay the rebuilding of more inclusive and sustainable global supply chains. In principle, an inclusive and rules-based multilateral trade system should be able to deliver the benefits of globalization and interdependence, as well as contribute to productive decentralization and a more equitable division of labour.[40]

52. Major initiatives have aimed at reforming and modernizing WTO to resolve relevant trade issues. The reform proposals are mainly targeted at the following functions: (a) trade negotiation and rulemaking, including the development dimension, namely, special and differential treatment; (b) transparency and notifications; and (c) the dispute settlement mechanism. In several of the proposals,

[37] Evelyn Cheng, "China buys more US farm products amid plunge in trade", CNBC, 14 April 2020.

[38] See Alicia Garcia-Herrero and others, *EU-China Trade and Investment Relations in Challenging Times* (European Parliament, 2020).

[39] The Appellate Body is a standing body of seven persons that hears appeals from reports issued by panels in disputes brought by WTO members. It can uphold, modify or reverse the legal findings and conclusions of a panel. Appellate Body reports, once adopted by the Dispute Settlement Body, must be accepted by the parties to the dispute.

[40] *Development Policy and Multilateralism after COVID-19* (United Nations publication, Sales No. E.20.II.A.2).

attention has been placed on enhancing multilateral oversight on unilateral measures that are at the source of the current heightened trade tensions.[41]

Multilateral trade system

53. Despite the increased participation of developing countries in world trade, many lag behind, and over 700 million people remain in extreme poverty. It is estimated that 100 million additional people would fall into extreme poverty by the end of 2020.

54. An inclusive and rules-based multilateral trading system should serve the interests of all countries, according due attention to the poorest and most vulnerable economies. Realigning the system of multilateral trade cooperation with the Sustainable Development Goals requires an unprecedented multilateral and pragmatic discussion of all relevant issues, including those arising from the weakening and collapse of global value chains, which have been affected by long-standing issues, such as intellectual property rights, technology transfer dispute resolution, agricultural subsidies and the current crisis. Uneven gains from international trade and new developments in trade (e.g., e-commerce) and non-trade issues (e.g., environmental protection) are as important as a more comprehensive access to medicines (e.g., vaccines) and technical support to the productive capacities of small and medium-sized enterprises. The reform and strengthening of the principle of special and differential treatment within WTO is critically important to reduce inequality within and among countries, particularly in the current challenging times.

Inequalities reduce benefits of multilateral trade

55. The positive impact of international trade has been uneven across developing countries. While trade integration strategies have boosted growth in many developing countries, especially in East Asia, positive effects in many African and Latin American countries have faltered, with trade gains often captured by economically powerful enterprises and richer segments of the population.

56. It is essential that the benefits of international trade become more inclusive. Although the effects of trade on inequality are country- and context-specific, there are two general policies that can greatly improve inclusive trade: (a) improving the opportunities and rights of low-skilled workers; and (b) supporting the productive capacities and reduction of costs for small and medium-sized enterprises.

57. The fragmentation of production processes across countries has benefited workers at the top of the skills ladder while negatively affecting those at the bottom, contributing to rising within-country inequality in both developed and developing countries. Trade policymaking can support the rebalance of such outcomes by including labour rights and decent employment. Governments and the private sector should be able to provide workers with the relevant digital skills required by the global economy. Education and training programmes for retraining and upgrading worker skills can improve workers' mobility from declining to expanding new sectors, which is essential for the transition towards a sustainable knowledge economy.

Small and medium-sized enterprises in world trade

58. Large enterprises have captured much of the gains from international trade, often at the expense of small and medium-sized enterprises. Large enterprises typically have a high share of market power, which raises their return on capital, thereby often dissuading market entry, innovation and productivity. In order to support the participation of small and medium-sized enterprises in world trade, anti-competitive practices will need to be addressed through the introduction of

[41] The subsections below are based largely on A/74/221.

appropriate legislation and means of implementation. In that sense, there is a need to promote international cooperation in competition law enforcement.

59. Many small and medium-sized enterprises remain unable to fully access international trade, while domestic markets are increasingly contested by large, foreign firms. To reduce inequality, a greater participation of those small and medium-sized enterprises in international trade should be supported by policymaking and international cooperation to improve the productive capacities of the entrepreneurs behind such enterprises and provide technical information on access to foreign markets and the processes linked to regulations compliance. The promotion of e-commerce, information and communications technology services and export promotion initiatives are interventions that can help reduce the gap between small and medium-sized enterprises and large firms in gaining access to global markets. Removing some of the barriers to gaining access to trade finance for those enterprises would be an important contribution.

The rise of e-commerce

60. E-commerce has been growing steadily for the past two decades. In fact, its pace has accelerated during the pandemic as a result of consumers' risk aversion, lockdowns and compliance with social distancing to reduce the likelihood of infection. Due to the uncertainty in the duration of the pandemic, it is likely that the share of e-commerce in total trade will continue its brisk pace.

61. Yet there is a great divide between dominant e-commerce platforms and smaller and local e-commerce businesses. WTO e-commerce negotiations need to include the role of competition law and policy with regard to the regulation of online platforms that serve as marketplaces, particularly those of dominant platforms. To derive equally shared benefits from e-commerce in terms of economic growth and consumer well-being, competition law and policy should be proactive in creating an inclusive competitive environment for new and local e-commerce businesses. This is relevant for developing and developed countries whose e-commerce markets tend to be monopolized by dominant e-commerce platforms.

62. WTO e-commerce negotiations should ensure that consumer protection, including consumer data protection and privacy, become part of the discussions and the formulation of outcomes. Cross-border cooperation is crucial to an e-commerce ecosystem that benefits consumers, therefore it is important to streamline provisions for effective cooperation among consumer protection agencies that deal with consumer complaints concerning e-commerce transactions.

63. Enabling developing and the least developed countries to derive benefits from e-commerce remains a critical developmental challenge in the era of digital technologies and work transformation. The majority of developing countries do not currently take part in plurilateral e-commerce negotiations, whose objectives should include the set-up of an international regulatory framework that allows the least developed countries to harness the power of e-commerce for sustainable development.

The least developed countries services waiver

64. The least developed countries services waiver is intended to grant preferential treatment to services and service suppliers originating in those countries and waive the obligation to extend that treatment to other WTO members. It does not require WTO members to notify and grant preferences, nor does it provide guidance on which preferences would better support the development of the least developed countries through trade in services. In that context, the results of the waiver should be assessed in terms of the preferences granted and as an effective tool to support development.

65. The least developed countries can take a forward-looking developmental approach in their requests to pursue preferences in sectors that can contribute to sustainable development, including the acceleration of economic diversification and structural change. Weak productive capacities constrain those countries from making fuller use of preferences, so regulations are important to ensure the use of granted access. It is also key to implement services policies in order to develop services sectors that can benefit from those preferences. Data on services value added incorporated into all economic sectors can be useful in evaluating which services sectors contribute more to overall productive capacity, productivity and competitiveness.

Intellectual property rights in health

66. International cooperation and policy coordination are needed to improve public access to vaccines, treatment and diagnostics. Currently, the system of financing research and development in the health sector is regulated by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights. Many consider that developing countries that are users rather than producers of technology should have a greater voice in the institutions that set the norms on these issues. Overall, there is a need for a framework of enhanced multilateralism and decision-making processes that favours a more active participation of the least developed countries, which would also enable wider consensus.

67. Although some essential medicines have become more accessible thanks to provisions made for a particular disease or medicine, a more comprehensive approach can improve the multilateral trade system. For example, in the context of COVID-19, it is unclear which entity will set the prices for vaccines when they are developed and who will pay for their development. It is also unknown whether there are provisions in the agreements to ensure that vaccines will be priced at affordable levels for the least developed countries.[42]

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[42] *Development Policy and Multilateralism after COVID-19*.