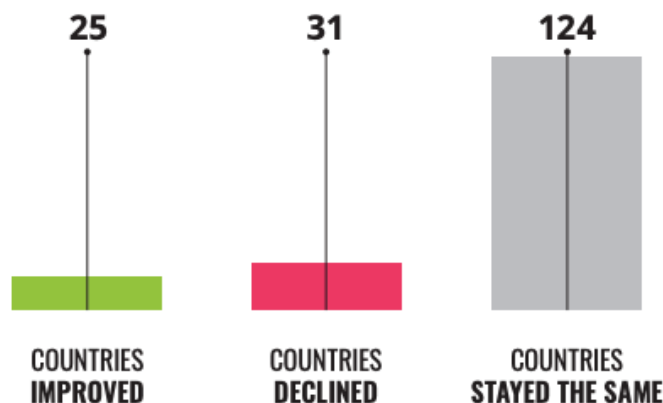


GLOBAL ECONOMIC AND FINANCIAL ARCHITECTURE: WHAT YOU NEED TO KNOW

Current Problems in Global Economics:

- The **Corruption Perceptions Index** finds that in the last 5 years, the vast majority of countries have stagnated, making no progress to eliminate corruption. Meanwhile, 31 have worsened their scores, and progress has been made in only 25 countries.
- In recent years, **inequality** has continued to worsen. When the vast majority (99% of the population) saw their economic prospects worsen as a result of the pandemic, for the richest, their wealth continued to grow (the ten wealthiest men in the world saw their wealth double during the pandemic). Current systems of taxation fail to successfully distribute the wealth. In fact, in many countries poorer people lose a higher percent of their income to taxation than the rich. With this in mind, a number of taxation changes have been suggested to improve distribution and lessen inequality - many of these referred to as a wealth tax.
- **Access to cost-effective finance** can be difficult for developing countries. Broadly speaking there are four sources of developmental finance: (i) revenue from the country itself (accumulated through taxation), (ii) revenue from charitable development assistance (can take many forms, including foreign aid where a lower than typical interest rate might be charged), (iii) loans taken out by (or guaranteed by) developing country governments, from international financial institutions or private sources which typically have market-set interest rates, (iv) foreign direct investment to private corporations. Charitable development assistance has a variety of sources, including NGOs, the IMF, the World Bank, regional development banks and governments working directly with developing countries.



The IMF (International Monetary Fund) aims to support global economic stability through policy advice and short/medium term loans. Typically the IMF assists with more short-term issues relating to a country's balance of payments - the difference between all payments into and out of a country. Issues arise when there is a significant disparity between the amount spent overseas than that received and can lead to countries needing assistance accessing foreign currencies. The IMF assists with this through Special Drawing Rights - an international reserve asset that can be converted into reserve currencies. SDRs are allocated in a process called general allocation, where the amounts allocated are a reflection of a nation's economic position amongst the other member states (e.g. the US has a much larger allocation than Cyprus). The allocation process requires approval of 85% of members so can be slow.

The WTO (World Trade Organisation) was established to reduce limitations to international trade. It does this by creating an international set of trading rules and supporting members to develop their trade capacity. Its day-to-day functions include negotiating and overseeing trade rules and agreements, maintaining open trade, and settling disputes. One mechanism for facilitating trade is the National Committees on Trade Facilitation. These were established to include both private and public stakeholders in the planning and implementation of trade measures.

Key Terms:

- **Progressive tax** - any type of tax where the rate paid increases as the taxable income increases e.g. most income taxes where the rate increases as you earn more
- **Regressive tax** - any tax where the rate does not increase with income. This can result in those on lower-incomes paying a higher percentage of their total income on these taxes than those on higher incomes. E.g. If a sales tax on a loaf of bread adds \$0.25 onto the price, that \$0.25 is a higher percentage of an income of \$100 a week than a person on \$200 a week.
- **Capital gains tax** - tax on the profit from the sale of an asset (e.g. selling a stock that has increased in price)
- **Consumption tax (some specific types include value add tax, sin tax, excise tax)** - taxation applied on the purchase of goods and services, sometimes these can be used to dissuade consumption - these are sometimes referred to as sin taxes
- **Illicit financial flows** - they occur when money moves illegally between countries. Such transactions often fund corruption and other international illegal activity including smuggling and terrorism. The international nature of these transactions and the powerful positions held by the officials responsible makes prosecuting such crimes difficult.

RECOMMENDATIONS FROM THE CONSULTATION:

- **Establish an International Anti-Corruption Court to tackle corruption and illicit financial flows:** The Court would serve as a last-resort facility for the international prosecution of high-level corruption cases where national jurisdictions are unable or unwilling to prosecute. The Court should have power to recover and repatriate assets, with these assets being given to development and humanitarian projects to avoid returning funds to other corrupt officials. With the focus on 'grand corruption', cases could be brought on offences defined by the UN Convention Against Corruption.
- **Increase Transparency in World Trade Organization Decision-Making and include New Stakeholders in National Committees on Trade Facilitation (NCTF):** Greater transparency would ensure both awareness when obligations are broken, and allow members to challenge trade-restricting measures from other members before being implemented. Additionally, NCTFs need to diversify their stakeholders to include women traders, small-and-medium sized enterprises, consumer associations, researchers, and other civil society groups. Such a concoction of perspectives would allow for more complex solution-finding and cooperation.
- **Tax Currency Transfers, Airline Ticket Purchases, and other Transnational Services to Mobilize Public Finance and Leverage Private Finance for Critical Public Goods:** As inequality continues to skyrocket, proposals for taxes targeting the richest are increasingly popular. There are a number of taxes that can target those with vast incomes/wealth, these include - windfall tax, income tax (increasing the rates on higher incomes), higher capital gains tax, inheritance tax, property and land tax. With a global tax system challenging to deliver, it has been proposed that a UN Tax Convention be used to create awareness of the adverse impacts of unfair tax systems and push for more progressive taxes.
- **Biennial Summit for the World Economy to achieve more Equitable Socioeconomic Recovery:** There are two main concerns regarding the use of the G20 summit for green development and economic recovery. Currently this forum is dominated by the West, China and Russia, with many countries not being represented. Additionally, the UN does not have the same capacity as the IMF and World Bank to monitor the financial decisions of the economies dominating the G20. Therefore, a biennial summit of world leaders at the UNHQ, organised to coincide with the opening of the UN General Assembly, could be an opportunity to create worldwide participation in discussions on economic and green development. The Summit could be a chief vehicle for delivering on Secretary-General Guterres' recent call for the G20 to agree on a \$500 billion annual stimulus for implementing the Sustainable Development Goals.
- **Expand the IMF's Special Drawing Rights (SDRs) as a Means for Debt Relief and Financing Critical Global Public Goods:** Although the IMF suggested they wanted to explore options for using SDRs to assist developing countries and has said that US\$275 billion of the US\$650 billion allocated in 2021 will go to developing nations, the current financial threat to many of these countries remains a more immediate threat than their response suggests. Additionally, the process for approving allocations is currently incredibly slow, preventing emergency responses. Giving the IMF that capacity to quickly access new funds under a more streamlined approach would improve flexibility and ability to respond to global events.

Other Considerations from Econsultation:

Many former colonial countries still have not been allowed economic freedom. Typically their exports are low-value raw materials, whereas their imports are typically high value. Some countries have tried to address this inequality by banning or limiting the exports of some raw materials so they are used within the country for production instead. The EU raised concerns about these actions to the WTO, and has therefore started a conversation about broader reform to resolve this value disparity.