Third World ECONOMICS
Trends and Analysis

No. 821-822 16 June - 15 July 2025 e-ISSN : 2716-5388

South buckling under alarming debt burden

A new report by UN Trade and Development (UNCTAD) has revealed a stark picture of global public debt, which surged to a record $102 trillion in 2024. A record 61 developing countries spent at least 10% of their government revenue on interest payments, which in many cases, exceeded spending on health or education, affecting vital public services.

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THIRD WORLD
ECONOMICS
Trends & Analysis

Published by Third World Network Bhd (198701004592 (163262-P))
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Global public debt hits $102 trillion, South facing highest burden

Global public debt reached a record high of $102 trillion in 2024, with the public debt in developing countries growing twice as fast as in developed economies since 2010, according to UN Trade and Development (UNCTAD).

by Kanaga Raja

PENANG: Global public debt rose to $102 trillion in 2024, with the developing countries accounting for nearly one-third of that amount, and paying a record $921 billion in interest, straining budgets and putting vital public services at risk, according to UN Trade and Development (UNCTAD).

In its latest "A World of Debt" report, released ahead of the 4th International Conference on Financing for Development in Sevilla, Spain, UNCTAD said that public debt in developing countries has grown twice as fast as in richer nations since 2010.

The report said a record 61 developing economies spent at least 10% of their government revenues on interest payments, leaving less for critical areas like health, education and climate action.

Rising debt, falling investment and shrinking aid are among the biggest financing threats facing the world today and putting the Sustainable Development Goals (SDGs) further out of reach, said UNCTAD.

It said the UN's upcoming 4th International Conference on Financing for Development offers a once-in-a-decade opportunity to mobilize finance at scale and reform global financial rules to better serve people and the planet.

Rising public debt

Global public debt continues to increase rapidly, driven by cascading crises as well as the sluggish and uneven performance of the global economy. In 2024, public debt, comprising domestic and external general government debt, reached US$102 trillion, an increase of US$5 trillion from 2023, said the report.

The public debt landscape and its dynamics are marked by significant regional disparities. The nominal value of public debt in developing countries is rising twice as fast as in developed countries, it said, adding however that the latter continues to account for the lion's share of global public debt (69%).

In 2024, public debt in developing countries reached US$31 trillion, accounting for 31% of the global total. This represents a substantial increase from their 16% share in 2010, said the report.

At the same time, this figure reveals the persistent asymmetries in global financial markets: although developing countries account for 39% of global GDP, they are home to 83% of the world's population and face substantial SDG financing gaps, it added.

There are stark disparities among developing regions, as well as across countries. Over 24% of global public debt – equivalent to three-quarters of the total debt of developing countries – is owed by countries in Asia and Oceania, said the report.

"In comparison, Latin America and the Caribbean accounts for 5% and Africa for less than 2%. Nonetheless, the burden of this debt varies significantly based on the price and maturity of the debt finance countries have access to, and is further exacerbated by the inequalities embedded in the international financial architecture. Those least able to afford it often pay the most."

The report said that this becomes evident when examining the evolution of the public debt relative to the size of developing economies.

After falling from a peak of 59% in 2020 to 53% in 2023, the median value of the public debt-to-GDP ratio in developing countries increased to 54% in 2024, implying that debt grew faster than GDP in over half of these countries.

According to the report, this trend reflects the combined effects of weak economic growth – further depressed by heightened uncertainty and geopolitical tensions – and persistently high costs of debt.

"Asia and Oceania stands out as the only region where the median debt-to-GDP ratio continued to decline, from 39% in 2023 to 38% a year later."

Yet, it said that in the regions already burdened with much higher debt levels, the median debt-to-GDP ratio increased by up to half a percentage point, from 57.5% to 57.8% in Africa, and from 64% to 64.5% in Latin America and the Caribbean.

As a result, 58 developing countries (40% of those with available data) continue to struggle with high debt levels, exceeding the notional threshold of 60% of GDP, it added.

This includes 23 countries in Africa (43% of the region's total), 18 countries in Latin America and the Caribbean (55%), and 17 in Asia and Oceania (31%).

The report said that the widening disparities in debt burdens and the increasing vulnerability of African, Latin American and Caribbean countries are reflected in the evolution of their external public debt.

It said external debt can complement domestic savings and provide foreign exchange to facilitate investment in sustainable development, when its dynamics remain sustainable.

Yet, it said developing countries face a challenging and unpredictable global environment, along with a financial architecture whose entrenched asymmetries exacerbate the impact of cascading crises on their debt sustainability.

"By limiting their access to affordable development finance, the current system intensifies the debt burdens of developing countries, pushing them to rely on more volatile and expensive external sources."

The report said the limited size of domestic financial markets and relatively high levels of external public debt further increase vulnerability to external shocks and financial instability, especially during periods of heightened economic uncertainty.

For example, it said when global financial conditions change or international investors become more risk-averse, borrowing costs can suddenly spike.

Additionally, if a country's currency devalues, debt payments in foreign currency can soar, leaving less money for development spending.

In 2023, developing countries' external public debt reached US$3.3 trillion – an increase of roughly US$102 billion compared to the previous year.

Although the debt burden relative to exports has broadly receded to pre-COVID levels, it remains elevated, said the report.

For more than half of developing countries, external public debt equated to 88% or more of the value of exports of goods and services, and primary income receipts.

This trend is driven primarily by export performance, which declined sharply during the pandemic, rebounded in 2021 and 2022, and grew slowly in 2023.

External public debt service burdens, however, show little sign of improvement, with related payments reaching as much as US$487 billion in 2023, it added.

It said of particular concern is the evolution of the ratio of external debt service to government revenues.

Half of developing countries are allocating at least 8.6% of their public revenues to servicing external debt – nearly twice the 4.7% recorded in 2010.

The report said that this situation leaves fewer public resources available for investments in human capital and sustainable development, and is exacerbated by deteriorating global economic prospects that undermine revenue collection.

"The ratio of external public debt service relative to export revenues has also doubled, from a median value of 3.2% in 2010 to 6.5% in 2023. This implies that servicing external public debt now absorbs a much larger share of foreign exchange earnings in developing countries."

In the same vein, the report said the number of developing countries spending more than 5% of their exports of goods and services, and primary income receipts on external public debt service has nearly doubled since 2010.

"In 2023, two out of three developing countries for which data is available were in that situation, including the majority of countries in Africa and Latin America and the Caribbean."

The growing burden of external public debt reflects both the evolution of debt financing over the last decade and changes in monetary policy in key financial centres, the report observed.

It said that governments in developing countries borrow from various sources, including bilateral donors (other governments), multilateral institutions (such as multilateral development banks) and private creditors (including bondholders, banks, and other lenders).

Since 2010, the portion of external public debt owed to private creditors has risen across all regions, accounting for 60% of developing countries' total external public debt in 2023.

While private creditors can expand the pool of available resources – as was the case between 2013 and 2023 – a strong reliance on them presents three main challenges, said the report.

First, lending by private creditors tends to be more volatile and prone to rapid shifts, especially during crises, as investors pull back their assets in a flight to safety. This can lead to resource outflows when countries can least afford them, it said.

For example, it said in 2023, developing countries paid US$48 billion more to their external private creditors in debt servicing than they received in fresh disbursements.

This resulted in a negative net resource transfer, which offset the net inflows from multilateral and bilateral external creditors, leading to an overall net debt outflow of US$25 billion.

In 2023, a total of 51 developing countries experienced net outflows of debt finance – nearly twice as many as in 2010 – with most of the affected countries located in Africa and Asia and Oceania.

The growth in the number of countries experiencing net debt outflows highlights the widespread nature of the problem, which is exacerbated by rising borrowing costs, UNCTAD pointed out.

Second, borrowing from private sources on commercial terms is more expensive than financing from multilateral and bilateral sources, which tends to be concessional, said the report.

"The inequalities embedded in the international financial architecture exacerbate these differences in the cost of financing."

The borrowing costs of most developing countries far exceed those of developed countries. Developing regions borrow at rates that are two to four times higher than for the United States, it noted.

This increases the resources needed to pay creditors, making it more difficult for developing countries to finance investments while preserving their debt sustainability.

Moreover, the report said developing countries' spreads (i.e. the difference between their bond yields and those of reference markets, such as the United States) can increase sharply in times of global economic uncertainty, as investors withdraw their funds to place them in assets with lower perceived risk.

It said that developing countries' spreads have widened since 2020, especially in Africa.

These asymmetric dynamics raise the cost of borrowing for developing countries precisely when they need more resources for counter-cyclical policies.

Third, the growing reliance on private creditors adds to the complexity of the creditor base. This makes debt restructuring more difficult, as it requires negotiating with a broader range of creditors with diverging interests and legal frameworks, the report underlined.

"Delays and uncertainties increase the cost of resolving debt crises. The relationship between restructuring costs and time required for completion is highly relevant in the current context."

It said debt restructurings since 2020 are taking longer to complete compared to episodes in previous decades, underscoring the need for improved debt crisis resolution mechanisms.

People pay the price

The report also said the interplay of a weakening global economy, heightened uncertainty, and relatively high costs of capital worldwide since 2022 is having a direct impact on public budgets across the world.

Developing countries face particularly challenging conditions due to their widening development finance gaps, shocks stemming from recent trade policy changes, and declines in aid flows, it added.

Against this backdrop, developing countries' net interest payments on public debt reached US$921 billion in 2024 – a 10% increase compared to 2023, said the report.

Currently, half of developing countries allocate at least 8% of government revenues to interest payments, a figure that has doubled over the past decade, it noted.

Furthermore, it said the rising pressure of interest payments is substantial across regions, particularly in Africa and Latin America and the Caribbean, where at least half of the countries allocate a double-digit share of their public revenues to interest payments.

Overall, in 2024, 61 developing countries allocated 10% or more of government revenues to interest payments – twice as many as in 2010.

The report said that developing countries' interest payments are not only growing fast relative to public revenues; they are also outpacing critical public expenditures such as on health and education.

It said the rapid increase in interest payments is constraining spending in other critical areas across developing countries.

For example, between 2021 and 2023, Africa spent US$70 per capita on interest payments – significantly more than the US$63 per capita it spent on education, and the US$44 per capita on public health.

Meanwhile, in Latin America and the Caribbean, per capita health expenditure was only slightly higher than interest payments.

The number of countries where interest payments surpassed spending on these essential services is rising.

From 2021 to 2023, 22 countries spent more on interest payments than on education, and 45 countries spent more on interest than on health, said the report.

It also said that a total of 3.4 billion people live in countries that spend more on interest payments than on either health or education, adding that this situation is "untenable and must change." *(SUNS #10253)*

FDI falls for second year in a row amid rising tensions, trade barriers

Global foreign direct investment (FDI) fell by 11 per cent in 2024, marking the second consecutive year of decline and confirming a deepening slowdown in productive capital flows, according to UN Trade and Development (UNCTAD).

by Kanaga Raja

PENANG: Global foreign direct investment (FDI) fell by 11 per cent in 2024, marking the second consecutive year of decline, amid rising geopolitical tensions, trade barriers and "screening measures" on foreign investment, especially in the developed world, according to UN Trade and Development (UNCTAD).

Releasing its World Investment Report (WIR) 2025 on 19 June, UNCTAD said that although global FDI rose by 4 per cent in 2024 to $1.5 trillion, the increase was the result of – among other factors – volatile financial conduit flows through several European economies, which often serve as transfer points for investments.

It said that in 2024, investment dropped sharply across developed economies, particularly in Europe, while in developing countries, inflows appeared broadly stable – but this concealed a deeper crisis.

In too many economies, capital is stagnating or bypassing entirely sectors that matter the most – infrastructure, energy, technology and industries that drive job creation, it added.

The investment landscape in 2024 was shaped by geopolitical tensions, trade fragmentation and intensifying industrial policy competition, said UNCTAD.

These dynamics, combined with elevated financial risk and uncertainty, are redrawing global investment maps and eroding long-term investor confidence, it pointed out.

It said multinational companies increasingly prioritized short-term risk management over long-term strategies, particularly in sectors sensitive to national security, supply chain re-configuration and shifting trade policies.

Launching the flagship report at a media briefing at the United Nations Office at Geneva on 19 June, UNCTAD Secretary-General Rebeca Grynspan said that: "This year's report brings a clear and urgent message. Productive global foreign direct investment continues to be weak, with a further negative outlook for 2025".

She added that the consequences are being most sharply felt in the developing world.

"And behind those numbers are very real consequences. Jobs not created, infrastructure not built, sustainable development delayed. So what we see here is not just a downturn, it is a pattern. It's not already something that happened one year, and we'll recover the other year," Ms Grynspan said.

"We have a pattern, and this is happening because of growing geopolitical tensions, rising trade barriers, increasing screening measures on foreign investment, especially in the developed countries, and a shift in priorities towards short-term risk avoidance and national interest," she added.

"So, the global investment landscape has become more volatile, more selective, and more uncertain. This is a pattern we must break," she emphasized.

Global trends

According to the UNCTAD report, global FDI in 2024 increased marginally, by 4 per cent, from $1.45 trillion to $1.51 trillion. However, this headline figure masks significant underlying weaknesses.

It was inflated by volatile financial flows through several European economies with high levels of conduit flows.

The report said that when these are excluded, global FDI flows in fact declined by 11 per cent on a like-for-like basis, from $1.67 trillion to $1.49 trillion – marking the second consecutive year of double-digit contraction and confirming persistent fragility in international investment f lows.

The decline in FDI flows is in stark contrast to other macroeconomic variables, including gross domestic product (GDP) and trade, it added.

One of the sharpest declines in components of FDI was seen in international project finance (IPF) deals.

This form of investment, which is critical for large-scale infrastructure projects – particularly in developing countries – fell by 26 per cent in value in 2024, following the steep drop in 2023, said UNCTAD.

"The downturn was driven largely by financing constraints, including uncertainty about exchange rates and interest rate levels. The impact has been especially severe in the least developed countries (LDCs), where IPF represents a relatively larger share of FDI."

Greenfield project announcements showed mixed signals. The number of projects announced in industrial sectors increased slightly (by 3 per cent), but their value fell by 5 per cent, said the report.

Nonetheless, it said at $1.3 trillion, the value of greenfield announcements remained at historically high levels – the second highest on record.

Activity was strongest in supply chain-intensive manufacturing industries, with regions such as South-East Asia, Eastern Europe and Central America benefiting most.

These trends reflect the continued effort by multinational enterprises (MNEs) to re-balance production locations amid a shifting global trade environment, said the report.

Cross-border mergers and acquisitions (M&As), which predominantly affect FDI f lows in developed countries, increased by 14 per cent in 2024 to reach $443 billion.

However, the report said this recovery built on a low base and still leaves M&A activity well below the average of the past decade.

"In addition, there is a longer-term trend of declining shares of cross-border deals relative to total M&A activity, as firms increasingly opt for domestic and near-market acquisitions."

This trend reflects growing sensitivity to geopolitical risks, regulatory hurdles and shifting industrial policies, the report pointed out.

It said while global FDI flows fell by 11 per cent in 2024, to $1.5 trillion, this figure conceals wide differences in performance across economies.

Developed countries experienced a 22 per cent contraction, while flows to developing economies were stable, it noted.

Much of the global decline was due to a 58 per cent fall in FDI to Europe. Other contributors were the decline of FDI to China, where inflows dropped by 29 per cent, and South America, where inflows declined by 18 per cent.

On the other hand, the report said several regions recorded growth. North America saw a 23 per cent increase in FDI, with inflows in the United States of America up by 20 per cent, mostly driven by a doubling of M&A sales values and by large-scale investment in high-tech and clean energy sectors.

Among developing regions, ASEAN recorded a 10 per cent growth in inflows, Central America a 4 per cent growth and Africa 75 per cent, said the report.

The increase in Africa led to a new record for FDI inflows to the region. The sharp rise was driven primarily by a single development mega-project in Egypt – valued at $35 billion; yet even excluding this project, the region still recorded a 12 per cent increase, it added.

Meanwhile, FDI to developing countries as a group remained stable at $867 billion, or 57 per cent of global FDI, despite tight financing conditions and growing geopolitical uncertainty.

The report said developing Asia, the largest recipient region, saw only a slight decline of 3 per cent, with several major economies maintaining strong inflows, compensating for the decline in China, while Latin America and the Caribbean experienced a 12 per cent decline.

"The relative resilience of developing regions reflects ongoing investor interest in market-seeking and resource-based investment, and the growing role of South-South capital flows."

In terms of announced greenfield projects – a forward-looking indicator of investor sentiment – the global number of projects rose by 3 per cent in 2024, reaching more than 19,000. This was the third-highest level ever recorded, said the report.

However, it said the value of these projects declined by 5 per cent, suggesting a shift towards smaller projects or more cautious capital commitments.

"The increase in project numbers was driven by investment in manufacturing industries, especially in strategic sectors such as semiconductors and electric vehicle (EV) components, often supported by industrial policies. Digital economy sectors, including platforms and services, also saw strong growth."

Developed economies saw a 2 per cent increase in greenfield project numbers, led by investment in the United States and Canada, in that order, said the report, adding that in developing regions, trends were more mixed.

In Asia, particularly East and South-East Asia, as well as India in South Asia, investors maintained strong project activity, as they did in Latin America and the Caribbean, while investment in Africa experienced a decline of 5 per cent.

As for the top investment destinations, the report said the United States remained the recipient of the largest amount of FDI and led in both greenfield projects and IPF deals.

Brazil, Egypt, the United Arab Emirates, Mexico, India, Indonesia and Viet Nam, in that order, also featured among the top FDI recipients.

"Greenfield project activity was particularly strong in India and the United Arab Emirates, while IPF remained more concentrated in a few mature markets and large emerging economies."

The disparity between trends in greenfield projects and IPF deals underlines the divergence between industrial investment and infrastructure development dynamics in the current global environment, the report noted.

It said among structurally weak and vulnerable economies, trends were similarly mixed. FDI inflows to the LDCs increased by 9 per cent, reflecting a modest recovery from previous years.

Small Island Developing States (SIDS) saw a stronger rise of 11 per cent, while landlocked developing countries (LLDCs) experienced a decline of 10 per cent.

Despite these headline increases, in all three groups significant declines were recorded in the value of announced greenfield projects and in IPF activity, said UNCTAD, suggesting that although some capital is returning to these economies, largely in the form of reinvested earnings or smaller-scale investment, the outlook for large-scale and future-oriented projects remains weak.

"These regional patterns reflect a growing fragmentation in global investment flows. Investment is increasingly shaped by geopolitical considerations, industrial policies and supply chain realignment. While some regions and sectors continue to attract significant capital, others face tightening constraints," the report pointed out.

Meanwhile, the report said in 2024, FDI outflows from developed countries increased by 8 per cent, reaching $1.1 trillion.

"As with inflows, outflows were significantly influenced by corporate restructuring activities and intra-firm financial flows in Europe."

Several major conduit economies recorded substantial increases in outflows. However, when these countries are excluded, FDI outflows from developed countries declined by 24 per cent, it added.

"The decline occurred despite an increase in the value of cross-border M&As, normally a key driver of FDI outflows from developed economies."

The value of transactions rose by 26 per cent, largely due to major deals involving MNEs from the United Kingdom of Great Britain and Northern Ireland, said the report.

Announced greenfield projects by investors from developed countries remained stable across both Europe and North America, it noted.

The United States remained the largest home country of FDI outflows despite a 26 per cent decline, it said.

Cross-border M&As by United States-based investors held steady at $118 billion, still about 30 per cent below the five-year average.

Their overseas asset purchases were heavily concentrated in the information and communication sector, which accounted for half of all cross-border M&A deals and announced greenfield projects in 2024, said the report.

Companies from the United States allocated more than 60 per cent of the total value of their greenfield projects to domestic (interstate) investment – the highest share ever recorded, it added.

"This increased domestic focus reflected a relatively strong economy, policy measures aimed at encouraging investment at home and stricter controls on outbound investment."

The report said that FDI outflows from companies in Japan rose by 4 per cent, driven primarily by a 27 per cent increase in investment in the United States.

Outward FDI from investors in Europe (excluding conduit jurisdictions) declined by nearly 30 per cent, with sharp decreases from major investor home countries such as France and Germany, where cross-border M&A activity dropped significantly.

Among other home countries of major investors, seven were in developing Asia. Notably, India and Saudi Arabia rose in the rankings compared with the previous year, said the report.

The number of greenfield projects announced by Indian investors increased by 20 per cent, placing India among the world's top 10 investor countries, it noted.

FDI outflows from investors in the United Arab Emirates also rose by 5 per cent, supported by a 46 per cent surge in the value of cross-border acquisitions.

FDI outflows from MNEs in developing economies declined by 5 per cent, totaling $491 billion.

The drop was particularly pronounced in Latin America and the Caribbean, where outflows fell by 33 per cent, largely due to a halving of investment by Brazilian investors, said the report.

In Asia, FDI outflows decreased slightly, by 3 per cent, yet the region still accounted for 28 per cent of global FDI outflows, it added.

It said FDI outflows from MNEs in China declined by 8 per cent in 2024, falling to $163 billion.

The value of announced greenfield projects dropped sharply, to $86 billion – half the level recorded in 2023, which had seen a significant surge.

However, the report said the number of greenfield projects announced by Chinese MNEs increased by 6 per cent, ranking China sixth globally.

It noted that 70 per cent of these projects were focused on the manufacturing sector, particularly in the European Union and South-East Asia.

In early 2025, the number of greenfield projects announced by Chinese firms was below the quarterly average of 2023 and 2024, as investors appeared to be waiting for greater clarity on tariff policies, it suggested.

Outlook for 2025

The outlook for global FDI in 2025 is negative. Although at the start of the year, expectations were for modest growth, these have been overtaken by rising economic and policy uncertainty, the report said.

"The escalation of a new tariff war, along with deteriorating investor sentiment, has led to downward revisions in key FDI determinants: global GDP growth, capital formation, trade and exchange rate stability."

Financial market volatility has also increased. These trends contributed to a sharp drop in investment activity in early 2025, with first-quarter data showing record lows in both deal volumes and project announcements, said the report.

It also said that macroeconomic indicators are pointing to slower momentum. Forecasts for global GDP growth have been revised downward since the beginning of the year, while projections for capital formation and trade – critical to value chain-driven investment – have also weakened.

"Persistent high debt levels in several countries, coupled with political instability and fluctuating exchange rates, are reducing the attractiveness of FDI across many regions. Investor confidence indicators such as the Purchasing Managers' Index have softened in key capital-exporting countries."

The M&A market has been particularly affected. Despite optimism in January for a continued recovery in deal-making, activity dropped sharply in the first quarter of 2025, reaching the lowest levels since the global financial crisis, the report stressed.

Importantly, it said even if global M&A rebounds later in 2025, this may not translate into an equivalent rise in cross-border transactions.

"Policy-driven fragmentation, growing regulatory scrutiny of foreign acquisitions and geopolitical factors are reshaping corporate acquisition strategies."

Nevertheless, it said there are some mitigating factors, noting that the anticipated start of an interest rate-cutting cycle in major economies may ease borrowing conditions, which could help stabilize IPF and capital-intensive FDI.

In addition, the profit levels of large multinational corporations remain strong, suggesting continued capacity for reinvestment, it added.

Reinvested earnings are an important and stable component of FDI f lows, especially in times of uncertainty, the report underlined.

At the sectoral level, it said that investment in the digital economy and technology continues to act as a growth engine.

Sectors such as artificial intelligence (AI), cloud computing and cybersecurity have attracted substantial investment, it added.

According to UNCTAD, among the top 10 highest-value greenfield projects announced in 2024, four were in semiconductor manufacturing - three of them located in the United States.

"Data centre development is also expanding rapidly, driven by growing digital demand and strategic industrial policies," it said.

Meanwhile, trade and investment policy developments are reshaping global FDI patterns. The current tariff escalation is best understood not as a new phenomenon, but as an acceleration of an existing trend, it added.

The underlying drivers of a further wave of supply chain restructuring investment that may materialize in 2025 - risk diversification, security of supply and geopolitical alignment – are therefore largely the same as those that emerged earlier, said the report.

What is new is the amplification of these drivers through an escalation in tariff measures. The result may be a more urgent re-configuration of production networks, particularly in sectors vulnerable to trade policy shifts and reliant on just-in-time logistics, it suggested.

It also said that industrial strategies aimed at building domestic production capacity in strategic sectors – such as critical minerals, advanced manufacturing and digital infrastructure – are influencing the destination and structure of new investment.

It said that trade fragmentation is encouraging firms to invest in geopolitically-aligned countries, accelerating regionalization trends and reducing cross-border exposure.

Regulatory developments will continue to affect investment flows. While the United States administration is advancing regulatory simplification and investor incentives, it is also intensifying foreign investment screening, particularly in defence- and technology-related sectors, it noted.

The European Union and other advanced economies are following suit, contributing to a more complex FDI landscape for foreign investors, the report further said.

It also observed that new sources of private capital are playing an increasingly prominent role in shaping international investment.

"Private equity firms, with substantial reserves of un-deployed capital, are particularly active in technology-related sectors and in emerging markets."

The report said institutional investors – including sovereign wealth funds and public pension funds – are seeking stable, inflation-resilient assets such as infrastructure and digital connectivity.

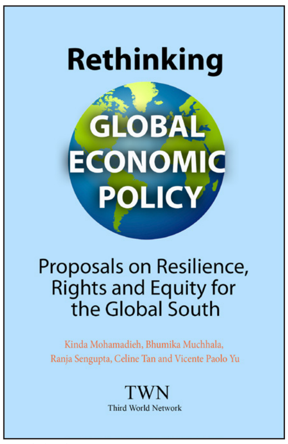
These actors are expected to have a growing influence on the FDI flows, particularly in the context of global sustainability and resilience agendas, UNCTAD concluded. *(SUNS #10247)*

Rethinking Global Economic Policy

Proposals on Resilience, Rights and Equity for the Global South

By *Kinda Mohamadieh, Bhumika Muchhala, Ranja Sengupta, Celine Tan* and *Vicente Paolo Yu*

The COVID-19 crisis has thrown into stark relief the inequities and iniquities of an international economic order that consigns the Global South to the development margins while augmenting the power of rich countries and firms. Redressing this demands a bold multilateralism to support public health and economic recovery in developing countries and, beyond this, an overhaul of the unjust structures underpinning the global economy. This report surveys a myriad of areas – from trade, debt and public finance to investment and intellectual property rights – where fundamental reform and rethink of international policy regimes is urgently required for the developing world to emerge stronger and more resilient from the present turmoil.



Publisher: TWN 142 pages
Year: 2021

Available at https://twn.my/title2/books/pdf/Rethinking%20Global%20Economic%20Policy.pdf

Third World ECONOMICS No. 821-822, 16 June -15 July 2025

BRICS Leaders call for enhanced South cooperation amid US challenges

The Leaders of the BRICS nations on 7 July called for strengthening Global South cooperation in the face of the unilateral reciprocal tariffs imposed by the Trump administration.

by D. Ravi Kanth

GENEVA: The Leaders of the BRICS countries on 7 July called for accelerating cooperation among countries of the Global South on several initiatives that are currently underway, while strongly pushing back against unilateral protectionist measures, including the Trump administration's proposed reciprocal tariffs, and insisting that industrialized countries must pay for their past and current commitments to address climate change.

At the end of their two-day XVII BRICS Summit that concluded on 7 July in Rio de Janeiro, Brazil, under the theme "Strengthening Global South Cooperation for a More Inclusive and Sustainable Governance," the Leaders from the 11 BRICS countries – Brazil, the Russian Federation, India, China, and South Africa (the five original members) plus six new members, namely Egypt, Ethiopia, Indonesia, Iran, Saudi Arabia and the United Arab Emirates – issued a powerful "Rio de Janeiro Declaration" that highlighted numerous global challenges facing the Global South.

The Summit was also attended by the BRICS partner countries Belarus, Bolivia, Kazakhstan, Cuba, Nigeria, Malaysia, Thailand, Vietnam, Uganda, and Uzbekistan.

"We reaffirm our commitment to the BRICS spirit of mutual respect and understanding, sovereign equality, solidarity, democracy, openness, inclusiveness, collaboration and consensus," the BRICS Leaders noted in the Rio de Janeiro Declaration, in the face of worsening global trade, climate, finance, and multinational institutional crises.

The Leaders further committed themselves "to strengthening cooperation in the expanded BRICS under the three pillars of political and security, economic and financial, cultural and people-to-people cooperation, and to enhancing our strategic partnership for the benefit of our people through the promotion of peace, a more representative, fairer international order, a reinvigorated and reformed multilateral system, sustainable development and inclusive growth".

The Leaders underlined "the significance of the adoption of the BRICS Leaders' Framework Declaration on Climate Finance and of the BRICS Leaders' Statement on the Global Governance of Artificial Intelligence, as well as endorse the launch of the BRICS Partnership for the Elimination of Socially Determined Diseases."

Unilateral tariffs

In paragraph 13 of the Rio de Janeiro Declaration, the BRICS Leaders voiced serious concerns about "the rise of unilateral tariff and non-tariff measures which distort trade and are inconsistent with WTO rules," in what appears to be a reference to the seemingly "extortionary" reciprocal tariffs being imposed by the United States on WTO member countries.

In this context, they reiterated their "support for the rules-based, open, transparent, fair, inclusive, equitable, non-discriminatory, consensus-based multilateral trading system with the World Trade Organization (WTO) at its core, with special and differential treatment (S&DT) for its developing members."

With the WTO struggling to survive in the face of US President Donald Trump's seemingly all-out assault on the multilateral trading system, the Leaders emphasized that the WTO, at its 30th anniversary, "remains the only multilateral institution with the necessary mandate, expertise, universal reach and capacity to lead on the multiple dimensions of international trade discussions, including the negotiation of new trade rules."

Highlighting WTO reforms, they recalled "the commitment made at the 12th WTO Ministerial Conference [in Geneva, in June 2022] and reaffirmed at the 13th WTO Ministerial Conference [in Abu Dhabi in March 2024] to work towards a necessary reform of the Organization to ensure its relevance and restore the credibility of the multilateral trading system."

The Leaders focused on a spate of issues that are currently undermining "the multilateral trading system", which "has long been at a crossroads."

Without naming the European Union, which has decided to impose its carbon-border adjustment mechanism (CBAM) while delaying the implementation of its deforestation regulation, the Leaders stated that "the proliferation of trade-restrictive actions, whether in the form of indiscriminate rising of tariffs and non-tariff measures, or protectionism under the guise of environmental objectives, threatens to further reduce global trade, disrupt global supply chains, and introduce uncertainty into international economic and trade activities, potentially exacerbating existing economic disparities and affecting prospects for global economic development."

The Leaders said they "remain committed to the urgent restoration of an accessible, effective, fully-functioning, two-tier binding WTO dispute settlement system," while strongly supporting "Ethiopia and Iran's bid for accession to the WTO."

The US has repeatedly blocked Iran's accession bid since the 1980s and is unlikely to agree to its admission into the WTO.

Significantly, the BRICS Declaration on WTO issues did not include any language on the controversial Investment Facilitation for Development Agreement (IFDA), in which China, Russia, and Brazil are members.

However, during the drafting session of the Rio de Janeiro Declaration, India and South Africa may have pushed back against the inclusion of any language on IFDA and other plurilateral initiatives, said people familiar with the development.

Finance

In paragraph 10 of the Rio de Janeiro Declaration, coinciding with the 80th anniversary of the Bretton Woods Institutions (BWI), namely the World Bank and the International Monetary Fund (IMF), the Leaders called for urgent "reform" of these institutions "to make them more agile, effective, credible, inclusive, fit for purpose, unbiased, accountable, and representative, enhancing their legitimacy."

The Leaders called for urgent reform of the institutions' "governance structure to reflect the transformation of the global economy since their establishment."

They emphasized that "the voice and representation of EMDEs [emerging market and developing economies] in the BWI must reflect their increasing weight in the global economy."

Moreover, they called for "improved management procedures, including through a merit-based and inclusive selection process that would increase regional diversity and representation of EMDEs in the leadership of the IMF and the WBG [World Bank Group], as well as the role and share of women at the managerial level."

It has been followed somewhat religiously that the head of the IMF will be a person from the European countries, while the head of the World Bank Group will be from the United States.

"In the current context of uncertainty and volatility," the Leaders said that the IMF "must remain adequately resourced and agile, at the center of the global financial safety net (GFSN), to effectively support its members, particularly the most vulnerable countries."

"Despite the absence of quota realignment," the Leaders said "we have provided consent to the proposed quota increase under the 16th General Review of Quotas (GRQ) and urge IMF members that have not yet done so to provide their consent and give effect to the quota increases under the 16th GRQ with no further delay."

They urged "the IMF Executive Board to fulfil the mandate set by the Board of Governors to develop approaches to quota share realignment, including through a new quota formula, under the 17th GRQ at the earliest possible time."

Reaffirming "the 2025 World Bank Shareholding Review, co-chaired by Brazil," the Leaders said it is "a critical tool to strengthen multilateralism and enhance the legitimacy of the World Bank Group, as a better, bigger, and more effective development finance institution."

Payments system

On the much-delayed BRICS Payments System, which attracted the wrath of President Trump who threatened to impose 100% tariffs on BRICS countries if they sought to de-dollarize global trade payments, the Leaders tasked their "finance ministers and central bank governors as appropriate, to continue the discussion on the BRICS Cross-Border Payments Initiative, and acknowledge the progress made by the BRICS Payment Task Force (BPTF) in identifying possible pathways to support the continuation of discussions on the potential for greater interoperability of BRICS payment systems."

In this regard, they welcomed "the "Technical Report: BRICS Cross-

(continued on page 10)

Trump enraged over BRICS Declaration and payments system

The strong language by the BRICS Leaders against "unilateral tariff and non-tariff measures" in their Rio de Janeiro Declaration has prompted United States President Donald Trump to threaten the BRICS countries with an additional 10% tariff on their goods entering the US market.

by D. Ravi Kanth

GENEVA: The strong language in the Rio de Janeiro Declaration against "unilateral tariff and non-tariff measures", issued by the BRICS countries at their XVII BRICS Summit, has seemingly enraged United States President Donald Trump.

In paragraph 13 of the Rio de Janeiro Declaration, the BRICS Leaders voiced serious concerns about "the rise of unilateral tariff and non-tariff measures which distort trade and are inconsistent with WTO rules."

On 6 July, President Trump threatened the BRICS countries with an additional 10% tariff on their goods entering the US market.

Writing on his Truth Social website, President Trump said that "any Country aligning themselves with the Anti-American policies of BRICS, will be charged an ADDITIONAL 10% Tariff. There will be no exceptions to this policy. Thank you for your attention to this matter!"

The seemingly endless threats by President Trump have caused alarm and a strong response from the BRICS countries.

A spokesperson for the Chinese Foreign Ministry, Ms Mao Ning, on 7 July said that BRICS focuses on openness and win-win cooperation, adding that the group is not targeting any country.

Commenting on President Trump's threat at a press briefing, Ms Mao said that "the BRICS mechanism is an important platform for cooperation among emerging markets and developing countries; it advocates openness, inclusiveness, and win-win cooperation, and does not target any country."

Regarding the imposition of tariffs, China has repeatedly clarified its position that there are no winners in trade wars and tariff wars, and that protectionism leads nowhere, Ms Mao said.

The Chinese spokesperson further clarified that "as for tariffs, we have always opposed tariff wars and trade wars, and opposed using tariffs as a tool of coercion and pressure. Imposing tariffs arbitrarily is not in the interests of any party." *(SUNS #10257)*

(continued from page 9)

border Payments System", which reflects members' revealed preferences, and should play a pivotal role in our efforts to facilitate fast, low-cost, more accessible, efficient, transparent, and safe cross-border payments among BRICS countries and other nations and which can support greater trade and investment flows."

In paragraph 14 of the Rio de Janeiro Declaration, in an apparent reference to the financial and trade sanctions imposed against Russia and Iran, the Leaders condemned "the imposition of unilateral coercive measures that are contrary to international law, and reiterate that such measures, inter alia in the form of unilateral economic sanctions and secondary sanctions, have far-reaching negative implications for the human rights, including the rights to development, health and food security, of the general population of targeted states, disproportionally affecting the poor and people in vulnerable situations, deepening the digital divide and exacerbating environmental challenges."

The Leaders called "for the elimination of such unlawful measures, which undermine international law and the principles and purposes of the UN Charter."

Further, the Leaders stated unambiguously that they "do not impose or support non-UN Security Council authorized sanctions that are contrary to international law."

South cooperation

Given the rapid fragmentation of the multilateral architecture on all fronts and emergence of blocs amid rising geopolitical and geoeconomic tensions, the Leaders reaffirmed their commitment to consolidate and strengthen BRICS in line with the group's "spirit of mutual respect and understanding, sovereign equality, solidarity, democracy, openness, inclusiveness, collaboration, continuity, full consultation and consensus."

They also committed to "strengthening cooperation in the expanded BRICS under the three pillars of political and security, economic and financial, cultural and people-to-people cooperation, and to enhancing our strategic partnership for the benefit of our people through the promotion of peace, a more representative, fairer international order, a reinvigorated and reformed multilateral system, sustainable development and inclusive growth."

The BRICS leaders underlined "the significance of the adoption of the BRICS Leaders' Framework Declaration on Climate Finance and of the BRICS Leaders' Statement on the Global Governance of Artificial Intelligence, as well as endorse the launch of the BRICS Partnership for the Elimination of Socially Determined Diseases."

"These initiatives reflect our joint efforts to foster inclusive and sustainable solutions to pressing global issues." *(SUNS #10257)*

Will WTO survive, amid Trump assault on MTS, EU's WTO alternative?

The future of the World Trade Organization (WTO) appears to hang in the balance amid United States President Donald Trump's continued assault on the multilateral trading system (MTS) and the European Union's proposed idea of an alternative to the "grid-locked" WTO.

by D. Ravi Kanth

GENEVA: The continuation of the World Trade Organization to serve as a multilateral trade body based on rules and consensus-based decision-making appears to hang in the balance, amid United States President Donald Trump's seemingly unstoppable assault on the rules-based multilateral trading system (MTS) and the European Union's proposed alternative to the WTO, said people familiar with the development.

With Washington seemingly echoing that "the sovereignty of the United States must remain paramount" at the WTO while the EU is toying with the idea of an alternative to the "grid-locked" WTO, the continued survival of the 166-member global trade body with binding rules and obligations on its members appears to be in peril, said people familiar with the development.

In a paper published on 25 June, Petros C. Mavroidis, a former WTO official who later became a leading trade academic, and Henrik Horn, another trade academic, argued as to "why the US and the WTO should part ways".

To begin with, the Trump administration's nominee as Washington's trade envoy to the WTO, Mr Joseph Barloon, reportedly told the US Senate in a written reply that "the sovereignty of the United States must remain paramount," according to a report in the Washington Trade Daily (WTD) on 24 June.

If confirmed by the US Senate, Barloon said he will "ensure that our participation in WTO does not undermine the authority of the American people to govern themselves through their elected representatives. I am committed to defending the interests of the United States in all WTO negotiations."

He went on to suggest that "the current state of the World Trade Organization is deeply flawed" and "many member countries routinely fail to meet their obligations to properly notify changes in their domestic laws that affect trade," according to the WTD report.

Highlighting "lack of transparency" as one of the root causes along with China's alleged non-market economic policies, Barloon said that "if confirmed, I will advocate for greater transparency within the WTO and work to hold member states accountable for meeting their notification responsibilities."

On China, Barloon said "admitting China into the WTO was a mistake" and "the fundamental incompatibility with non-market, authoritarian systems and democracies presents challenges."

While Washington recently concluded a seemingly partial bilateral trade agreement with China, whose supplies of critical rare earth minerals and magnets are crucial for the survival of a range of American industries, the comments of the likely new US trade envoy to the WTO seem like the proverbial "pot calling the kettle black", said people familiar with the development.

Moreover, when the US has seemingly become "a serial violator" of the WTO rules, with its unilateral measures that have allegedly "wrecked" the global trade body, making it almost dysfunctional, the likely new US trade envoy's comments seem to not only lack credibility but will hardly be taken seriously by aggrieved members, said people familiar with the development.

However, it is moot why the new US appointee to the WTO is criticizing China, while President Trump himself appears to be "glorifying" the bilateral trade deal with Beijing, said people familiar with the development.

US-China deal

President Trump, mentioning on 26 June that the US had signed a trade deal with China, emphasised that "we're having some great deals. We have one coming up, maybe with India, a very big one."

Later in the same breath, he indicated that not all countries on his list that are facing reciprocal tariffs, first announced on 2 April, will likely get a trade deal.

"Some we're just going to send them a letter and say thank you very much. You're going to pay 25, 35, 45 percent," President Trump added.

The deal between the US and China – the details of which have not been made public – suggests that both sides seem to have secured some concrete gains in regard to the supply to the US of critical minerals by China on one side, and the US lifting some sanctions as well as resuming the export of advanced technology items to China, on the other, said people familiar with the development.

In response, China, on 27 June, said that it will approve the export applications of "controlled items", but cautioned that the US must deliver on its commitments made in the 12 May Geneva agreement and later in the agreement reached in London early this month.

As the 90-day deadline over the allegedly WTO-illegal reciprocal tariffs announced on 2 April by President Trump fast approaches on 9 July, there is no clarity yet on how many deals will be concluded by the US.

So far, there have been two partial agreements – one with China and another with the United Kingdom.

Although the US Commerce Secretary Howard Lutnick on 26 June said that the White House is close to reaching agreements with several countries – reportedly "a whole bunch of deals" – he also suggested that Washington "will send letters to everybody who's responded to us."

Countries will be put in the right category and a tariff rate "will be set, and off we'll go," Lutnick maintained, expressing confidence that the US could get a deal done with the European Union.

The White House on 26 June also suggested that the 90-day deadline on the reciprocal tariffs could be extended, though President Trump on 29 June denied that suggestion.

EU's alternative

In a separate but related development, the European Commission President Ursula von der Leyen on 26 June reportedly signalled that leading EU member countries like Germany are considering an alternative to the crisis-ridden WTO.

Ms Von der Leyen is understood to have proposed to EU leaders the launch of a Europe-led initiative to establish a structured trade cooperation with Asian countries, potentially laying the groundwork for an alternative to the grid-locked WTO, according to a Euronews report.

The EU leaders appear to have discussed the possibility of overhauling the WTO's institutional framework, including its stalled dispute resolution mechanisms, to better reflect the current global trade landscape, according to Euronews.

"The WTO hasn't worked for years," German Chancellor Friedrich Merz said in a press conference following the summit, framing persistent dysfunction under both the Trump and Biden administrations as a major issue.

"Commission President Ursula von der Leyen presented leaders with different options of trade deals, labelling as the most attractive a closer cooperation between the EU and members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a regional trade pact of 11 Pacific Rim countries and the UK," according to Euronews.

She introduced the initiative as a potential first step toward reshaping the global trade order, said the Euronews report.

"I said that we can think about this as the beginning of redesigning the WTO – of course, understanding what should be reformed positively within it," Ms Von der Leyen told reporters after the summit.

According to Euronews, she stressed the importance of learning from the WTO's shortcomings and showing the world that "free trade based on rules" remains achievable with a wide group of willing partners.

"This is a project we should truly engage in. CPTPP and the European Union – that's my team," she said, adding that the EU must take the lead in managing this initiative.

Asked whether the United States should be involved, Ms Von der Leyen replied: "As far as I understand, the Americans left the CPTPP at a certain point."

The CPTPP countries include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

Meanwhile, on 27 June, the United Kingdom joined the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), now with 57 members.

However, the MPIA, a mechanism that replicates the WTO Appellate Body's functions for participating members, covers only 57.6% of global trade and does not address the broader institutional crisis, according to the Euronews report.

The WTO has been effectively paralysed since December 2019, when the US began blocking appointments to the Appellate Body, rendering the two-tier dispute settlement system dysfunctional.

In a paper published on 25 June by the Centre for Economic Policy Research, an independent pan-European non-profit organization, two leading trade policy writers and academics – Henrik Horn and Petros C. Mavroidis – made a cogent case as to why the US should part ways with the WTO.

The two academics argued that "the US embrace of power politics in the trade arena violates both the letter and spirit of the WTO's General Agreement on Tariffs and Trade, undermining the integrity of the multilateral trading system."

According to the two writers, the continued violations by the US "are unlikely to cease in the foreseeable future," and that, "Bipartisan consensus in the US favours a toothless WTO, a position at odds with most WTO members."

Therefore, the two academics pointed out that if the US continues to disregard its obligations, the best option for preserving the credibility of the WTO would see the US withdraw from the Agreement.

According to Mr Horn and Mr Mavroidis, "the advent of the second Trump presidency has caused the worst crisis that the WTO has experienced."

They suggested that "the policies the Trump administration is pursuing violate fundamental commitments in the WTO Agreement, as well as its spirit:

- The US committed to respect thousands of binding tariffs, negotiated with the rest of the WTO membership, as part of its acceptance of the WTO Agreement. The US is disregarding these obligations by violating the core prohibition to unilaterally increase duties that have been capped (Art. II GATT).
- The bilateral deals of the second Trump administration, such as those with the UK and China, violate the most-favoured nation (MFN) non-discrimination clause (Art. I GATT) by not being applied to all WTO members.
- The bilateral deals also defy the quintessential purpose of the WTO – promoting multilateral negotiations – which can be carried out either on a product-by-product basis or on a more global scale (Art. XXVIII bis).
- The US has not paid its WTO membership fee for two years running (2023, 2024), which has been financially challenging for the WTO.
- The US continues to cripple the dispute settlement system – the crown jewel of the agreement – by blocking the appointments of new Appellate Body judges, thereby undermining enforcement of the agreement."

Consequently, "the best option for the WTO, and for the world economy, would be for the US to respect its WTO commitment," the two academics argued, suggesting that "this does not seem likely to occur."

They therefore believed that "the best option from the point of view of the WTO would be for the US to leave the organisation."

In conclusion, they said that though "the US was a driving force behind the creation of the GATT/WTO," Washington "has shown little interest in engaging in much-needed reform of the agreement; it now violates almost all of its tariff bindings; it violates the fundamental MFN provision; it continues to block Appellate Body appointments, paralysing a central feature of the dispute settlement system; and it does not pay its membership dues." *(SUNS #10252)*

Third World ECONOMICS No. 821-822, 16 June -15 July 2025

Graduating LDCs face heightened risks as US tariff war escalates

The United Nations Department of Economic and Social Affairs has warned that some of the least-developed countries (LDCs) transitioning out of LDC status are at heightened risk due to the unilateral tariff war initiated by United States President Donald Trump.

by Kanaga Raja

PENANG: Some of the least-developed countries (LDCs) currently graduating from LDC status are among the potentially most affected by the impact of United States President Donald Trump's current unilateral tariff war and might face the prospect of declining export possibilities, according to the United Nations Department of Economic and Social Affairs (UN-DESA).

In a paper ,titled "Tariff shocks and graduation from the least developed country category", UN-DESA said that following the unprecedented changes in the trade policy of the United States, LDCs must contend simultaneously with significantly higher bilateral tariffs, policy uncertainty, lower growth prospects in many importing countries, a potential re-alignment of supply chains, and a disruption to the existing multilateral order.

It also said the LDCs not yet in the graduation pipeline might see their aspirations to graduate further delayed.

UN-DESA further suggested that the chances of benefiting from trade diversion remain but are difficult to assess with certainty.

The paper assesses the possible impacts of President Trump's current tariff shock on LDCs, with a focus on their graduation.

It pointed out that the LDC category was created by the United Nations in 1971 to focus attention on a subset of developing countries that faced greater challenges to progress based on a multi-dimensional assessment.

International support to LDCs, intended to facilitate their graduation from the category, has sought to strengthen their integration into the global economy, it said.

In this regard, support has come from preferential market access, flexibility within World Trade Organization (WTO) agreements, preferences in the allocation and modalities of official development assistance, access to (a limited number of) LDC-specific funds and mechanisms, and assistance for participation in international forums.

"With trade-related measures being a vital component of such support, the unprecedented shock to established trading relationships from the unilateral escalation of United States tariffs announced in April 2025 have raised significant concerns about LDCs' development and graduation prospects," said the paper.

It said aside from the tariff rates themselves – with some of the highest placed on LDCs – selective temporary suspensions and bilateral negotiations have injected uncertainty, in itself a source of additional adverse impacts.

As of May 2025, the average effective United States tariff rate was estimated to be around six times higher than the 2.5 per cent of early 2025, and policy uncertainty as well as market volatility have been simultaneously at unprecedented highs, the paper noted.

Following the escalation, LDCs face a range of tariffs – from a floor of 10 per cent, to over 50 per cent, albeit some of these have been stayed until 9 July 2025 to allow for negotiated reductions, it said.

(Since 7 July, President Trump has sent letters to a number of countries, including several LDCs, listing the new tariff rates that they are now required to pay, with0 the deadline extended to 1 August 2025.)

Role of trade

Examining the role of trade in LDC graduation, as well as the importance of the United States as a destination for LDC exports, the paper said since the creation of the LDC category, trade-related support has aimed to increase the demand for products exported by the LDCs.

Consequently, duty-free quota-free (DFQF) access to the markets of developed and major developing countries has been the most prominent international support measure, it pointed out.

The paper said more than $70 billion worth of LDC merchandise exports benefited from LDC-specific DFQF market schemes in 2022, marking substantial, albeit incomplete, progress towards international commitments such as those expressed at the WTO or the Sustainable Development Goals (SDGs).

Participation in the global economy has been essential for LDC graduation. It has enabled these countries to expand economic activities, thereby boosting income levels towards the income threshold for graduation, it underlined.

"Improved integration provides resources as well as incentives for investments in health and education, enabling countries to progress towards meeting the human assets criterion."

When integration allows for the export of a more varied set of products and access to a diversified set of markets, it also helps reduce economic vulnerability, the paper suggested.

Taken together, a robust integration into the global economy facilitates progress along all three LDC graduation criteria, it said.

Other benefits include the provision of foreign reserves, critical for meeting import needs that can be substantial given the low productive capacity of LDCs, it added.

The paper said merchandise trade, whether for low-skilled, labour-intensive manufacturing or commodities, has been an important form of integration into the global economy for many LDCs, particularly those in advanced stages of graduation.

"At the same time, several other LDCs have benefited from the export of services, such as tourism; receiving remittances from migrant workers; or generating revenues through licenses for natural resource exploitation by foreign firms."

These countries are typically less affected by adverse tariff shocks than those highly reliant on merchandise exports, said the paper.

Overall, it said the share of LDCs in

world merchandise exports is still only slightly above 1 per cent, though it has more than doubled between 2000 and 2023.

The share of LDCs in services trade is even smaller with 0.6 per cent in 2023 and shows a lower growth rate.

Notably, the six graduating LDCs experienced a considerably faster growth rate of 158 per cent since 2000, so that they now account for 37 per cent of all LDC merchandise exports, it added.

Overall, the paper said that the United States is the third largest market for LDCs with a share of 8.4 per cent of their total exports, ranking behind the European Union (20.1 per cent) and China (18.9 per cent), but ahead of the United Arab Emirates (7.8 per cent) and India (6.8 per cent).

It said in 2023, the latest year for which complete data is available, the United States was the largest market for the exports of only two LDCs (Cambodia and Haiti), while China is the largest market for 12 LDCs, the United Arab Emirates for 10 and the European Union for 7.

"This pattern is partly due to the dominance of commodities in many LDCs' exports, for which developing countries are key markets."

Moreover, garments, the main sector of manufacture-exporting LDCs, has been excluded from the preferential trade agreements offered by the United States to all developing countries, though it is covered by the specific preferential scheme for African countries (AGOA), said the paper.

Hence, Asian LDCs face more difficult market access conditions in the United States than in other developed countries, leading to smaller market shares, it added.

Among graduating LDCs in particular, Cambodia is the most directly exposed, due to both its overall export dependence and the prominent role of the United States market, the paper pointed out.

Bangladesh and Lao PDR are also exposed quite significantly, the former due to the relatively large share of exports to the United States and the latter due to its overall trade dependence.

The remaining three graduating countries are somewhat less exposed: merchandise exports play a small role for Nepal, while Senegal and Solomon Islands mainly serve other markets, it said.

All three recently graduated countries have low exposure: Sao Tome and Principe and Vanuatu mostly export tourism services rather than merchandise, whereas Bhutan relies predominantly on India as its export market, it said, adding that among other LDCs, Lesotho, Haiti and Madagascar are particularly exposed.

Graduating and recently graduated countries often see expansion into the United States market as one of the ways to mitigate the impacts of losing LDC-specific market access arrangements after graduation, said the paper.

It said that analysis has shown that for LDCs in Asia, graduation does not significantly impact market access to the United States, whereas major providers of LDC-specific DFQF schemes such as the European Union, India, China, United Kingdom, or Japan withdraw access to these schemes (some immediately after graduation; several after a transition period of typically three years).

Hence, exporting to those countries often becomes costlier for LDCs at some point after graduation, though in some cases they may have access to alternative duty-free regimes, it added.

New US tariffs

The paper goes on to review the potential impacts of the announced tariffs on LDC exports, as well as broader impacts on these economies.

Pointing out that the potential impact of tariff increases depends on both the relative exposure of a country to the United States market and on the actual hike in United States rates, the paper said that the decision announced on 2 April 2025 brought rates up by 10 percentage points for all countries, with an additional amount proportional to the size of the United States bilateral merchandise trade deficit with each individual country.

Average tariffs would increase to levels not seen for over a century. Subsequently, on 9 April tariff increases beyond 10 per cent were paused for 90 days, while tariff rates for China were raised to 145 per cent for most goods, though these were subsequently reduced to 30 per cent. Separately, product-specific tariffs - such as for steel, aluminium and automobiles - were also announced, it added.

Notably, in 2024, most LDCs faced an average effective rate of zero, but several others, mostly in Asia, already faced relatively high tariff barriers.

This was due to the fact that their major export to the United States was garments, which face relatively high tariffs and are excluded from preference schemes available to Asian LDCs, said the paper.

Highlighting the eventual scale of the tariff increases, including both the "universal" 10 per cent hike, as well as those proportional to the merchandise trade deficit, currently in abeyance, the paper pointed out that graduating LDCs on average face higher United States tariffs than non-graduating LDCs.

The trade-weighted average of tariffs imposed on graduating LDCs would increase from a relatively high 9.8 per cent to 53.6 per cent if all announced tariffs were fully implemented, while for the non-graduating LDCs it would increase from a relatively low 1.5 per cent to 28.4 per cent, it said.

It said effective tariff rates are especially high for those LDCs that have been relatively successful in leveraging existing systems of preference to develop low-skilled manufacturing as part of the structural transformation of their economies.

These LDCs are mostly competitive in low-skilled labour-intensive manufacturing such as garments or footwear, which are no longer produced in large scale in developed countries, the paper noted.

"At the same time, these LDCs are still poor and have, therefore, limited demand for high-skilled manufactures typically exported by developed countries such as the United States."

The paper also stressed that LDCs faced with higher additional tariffs could also be impacted by changes in tariff rates compared to competitors.

For example, in the garment sector, some competitors of LDCs, such as China and Viet Nam potentially face new tariff rates that are even higher than those faced by graduating LDCs, it said.

Should such differentials persist, garment-exporting LDCs may find their products relatively competitive in the United States, although they would need to contend with Central American producers who may be facing lower rates.

"The net effect, though, remains unclear as the highest tariff increases are yet to be finalized, and businesses would find it difficult to invest in scaling up or moving production until there is some certainty," the paper said.

Such trade diversion was observed in 2018 after the imposition of United States tariffs on Chinese-made solar cells and panels.

Cambodia emerged as a significant exporter of these products, with its share in United States imports of these products rising from zero in 2017 to 9 per cent in 2023, while the share for China fell from 20 per cent to 2 per cent, it noted.

The paper said that Southeast Asian economies such as Viet Nam and Thailand saw even larger gains in market share.

In its trade forecast from 16 April 2025, which assumes that the current pause of tariff increases beyond 10 per cent remains in place, the WTO increased its growth forecast for overall exports from LDCs from 3.5 to 4.8 per cent, highlighting the possibility of trade diversion in garments and electronics from China.

While changes in relative tariff rates are just one of the factors behind this market dynamic, the experience from 2018 demonstrates that LDCs may benefit from rising tariffs imposed on competitors.

However, the current uncertainty and the possibility of massive tariff increases on LDCs in the near future may limit or preclude trade diversion, the paper suggested.

Tariff shock

Using a conventional modelling tool for direct impacts of the tariff increases on exports from LDCs to the United States, the paper said that according to these simulations, the 10 percentage point increase in tariffs would result in LDC exports to the United States decreasing by 21 per cent from the 2024 aggregate of around $24.4 billion.

However, if the additional increases that are currently on hold were implemented, there could even be a decline as large as 77 per cent in the aggregate value, it added.

With a 10 percentage point increase, Bangladesh and Cambodia would see the largest absolute declines, of $1.8 billion and $1.6 billion, respectively.

With the additional tariff increase, exports from these two countries could decline by $6.7 billion and $7.7 billion, respectively, said the paper.

The overall export performance of LDCs will depend not only on the reduced demand from the United States but also on possibilities to redirect exports to other countries, the paper further said.

For example, it noted that the European Union partially suspended Cambodia from its DFQF scheme in 2020.

Subsequently, between 2019 and 2021, European Union imports from Cambodia in the garment and textile sector fell by 17 per cent (whereas competitors such as Bangladesh saw an increase of 6 per cent), before rebounding.

However, imports by the United States from Cambodia increased by 39 per cent over the same period.

The paper said that while there continues to be uncertainty about the eventual set of new tariffs, another risk looms large – the likelihood of non-renewal of US African Growth and Opportunity Act (AGOA) beyond its current validity until September 2025.

Currently, 20 of the 32 African LDCs have preferential access to the American market thanks to AGOA, for a variety of products including apparel.

Some local industries, such as the textile industry in Lesotho, have grown largely thanks to the AGOA preferences.

Non-renewal of AGOA would make all eligible African LDCs subject to most-favoured-nation (MFN) tariffs, as well as the additional tariffs (if enacted), limiting their competitive advantage, the paper suggested.

Reduced exports from LDCs can have significant social consequences, increasing unemployment and poverty, it warned.

The paper said there can also be a differential impact on women: for example, workers in the garment sector, the dominant export-oriented manufacturing sector in LDCs, tend to be mostly female, and a sharp fall in exports can significantly exacerbate gender inequality.

Employment and poverty impacts can reverberate through the economy through a number of different channels, it added.

Apart from the effects on United States-LDC trade, the tariff increases and the attendant uncertainty are expected to slow growth prospects across the world, said the paper.

In May 2025, UN-DESA reduced its forecast for global GDP growth in 2025 and 2026 by 0.4 percentage points each year.

"The two largest markets for LDCs, the European Union and China, are now expected to grow in 2025 by 1 per cent and 4.6 per cent, respectively, both below the average of the 2010s (1.6 per cent for the European Union and 7.7 per cent for China)."

The paper pointed out that lower growth prospects can further dampen the demand for exports from the LDCs by other countries.

Overall, the paper said the trade channel (combining the impacts on exports to the United States and the impacts on exports to third countries) has the potential to impact current and future graduation processes, though impacts would be highly country-specific and difficult to predict.

It said some graduating countries might observe declining exports, even as growth prospects are diminished.

"An evolving global trade landscape may require additional adjustments to strategies for ensuring a smooth transition," it suggested.

The negative impacts of tariff increases also affect domestic and foreign investment. The increased uncertainty on future market access conditions and global demand may generally delay or reduce investments in LDCs and other countries, the paper further said.

The possibility of redirecting investments to other countries could also impact investments in LDCs positively or negatively, it added.

However, it said while some re-alignment in global supply chains happened during the trade tensions between the United States and China in 2018, with Cambodia emerging among a favoured destination of investments, such impacts may be more difficult to realize at the current juncture due to prolonged policy uncertainty.

Investment in LDCs may also be affected by a transmission of global interest rates. The inflationary impacts of tariffs can slow down the rate at which the Federal Reserve proceeds to reduce interest rates, it added.

While the possibility of a further slowing of the United States economy may impel the Federal Reserve to instead reduce rates, the ongoing interest rate uncertainty also dampens investments, it said, noting that the impacts on trade and investment both have consequences for growth rates.

UN-DESA recently reduced its GDP growth forecasts for LDCs from 4.6 per cent in 2025 and 5.1 per cent in 2026 to 4.1 and 3.8 per cent, respectively, further below the agreed target of 7 per cent GDP growth in LDCs.

For graduating and recently graduated countries that surpass the income graduation threshold, this could reduce resources to finance investment and social protection in support of graduation, while for non-graduating LDCs it may prolong the time needed to reach graduation thresholds, the paper said.

It also said that exchange rates would be impacted by interest rate moves as well as trade policy.

Standard trade theory implies that an increase in tariffs would lead to an appreciation of the United States dollar vis-a-vis impacted countries, as higher tariffs reduce the demand in the United States for imports from impacted countries and, thus, for non-United States currencies, the paper observed.

How exchange rates will react in the current situation, however, remains to be seen as exchange rate movements are also impacted by expectations of future economic growth, inflation, trade and investment flows (and hence future demand for foreign exchange), it pointed out.

Importantly, it said unexpected market reactions to the tariff announcements have drawn attention to the bond market and the possible impacts to the role of the United States treasuries as a global safe haven, based on their perceived risk-free nature and the high liquidity of the treasuries market.

In fact, the paper said that the immediate reaction of exchange rates has been a depreciation of the dollar against most developed country currencies, defying standard trade theory, whereas bond yields rose contrary to earlier instances of instability in global financial markets.

During April and May, 16 LDCs experienced a slight depreciation against the dollar, while currency appreciation was most pronounced in LDCs whose currencies are effectively fixed vis-a-vis the Euro, such as the CFA francs in West and Central Africa.

The paper noted that several LDCs, including graduating countries, have faced significant currency depreciation in recent years, after the shocks caused by the war in Ukraine and the global interest rate shocks, highlighting the importance of closely monitoring exchange rate developments.

It said over the 2022-2023 period, eleven LDCs saw their currency depreciate by more than 30 per cent against the United States dollar.

"While depreciation can in principle have a positive impact on exports, negative impacts on the trade balance, inflation and debt payments dominated in most LDCs."

The financial transmission mechanism of the tariff shocks would be of particular concern for countries that face significant external debt repayment at a time of a significant decline in export earnings, the paper said.

Conclusions

"LDCs must contend simultaneously with bilateral tariff shocks, policy uncertainty, lower growth prospects in many importing countries, a potential re-alignment of supply chains, and a disruption to the existing multilateral order," said the paper.

These shocks come on top of an already tardy recovery from prior shocks of the past half-decade. At the same time, in many LDCs, challenges such as climate change impacts or armed conflicts are mounting, it added.

According to the paper, LDC graduation prospects are impacted primarily through three channels. First, trade with both the United States and other partners is impacted.

Impacts are country-specific, depending on future tariffs on both the LDC and its competitors, the importance of merchandise exports overall and of the United States market, in particular.

"On average, graduating LDCs are affected more than LDCs that are not yet graduating. However, looking forward, effects can also be discerned on the prospects of several LDCs that are approaching the graduation pipeline."

Second, the growth channel reduces the future income of LDCs, not only because of reduced exports but also because of increased uncertainty affecting economic activity more broadly, possibly further delaying future graduations, said the paper.

"As a third channel, the reduced export earnings affect the balance of payments position of LDCs, possibly creating financial risks, especially for LDCs with high external debts."

The potentially grave impacts on the development pathways of LDCs, including those graduating from the LDC category, require close monitoring in the months and years ahead, the paper underlined.

The tariff shock underscores the importance of further diversifying export markets and accelerating structural transformation, it said.

Supporting LDCs' access to export markets could be achieved through further expansion of existing DFQF schemes for LDCs, it suggested.

While product coverage of existing schemes has already improved, often almost or fully reaching 100 per cent of tariff lines, further liberalization of rules of origin could provide scope for additional preferential liberalization, it said.

"Moreover, more developing countries could introduce LDC-specific DFQF schemes. Recognizing the growing importance of other channels such as remittances and trade in services, joint efforts could be made to strengthen the contribution of these sectors to LDC economies."

According to the paper, to pursue a collective approach, solidarity will be critical, both within LDCs and between LDCs and other countries and country groupings in various forums.

Individually, even larger LDCs have only a marginal economic or political weight in the international arena, it said.

Hence, the paper said despite the heterogeneity among LDCs on trade issues, acting as a group and using their established group structures under the United Nations and WTO, would increase their leverage in international discussions.

Solidarity by other country groupings, particularly other developed countries and major developing countries, with the group of LDCs would be even more important, it added.

The longstanding understanding that support to LDCs is a common objective that is central to the multilateral system and advances shared objectives such as eradicating poverty and building resilience, should help anchor such solidarity, the paper concluded. *(SUNS #10259)*

Attacks on world order, global aid derailing progress on poverty

A United Nations human rights expert has warned that the "domino effect" of cuts to global aid, as well as the unravelling of the "world order" that emerged from the horrors of the Second World War are putting in jeopardy decades of progress in the fight against poverty.

by Kanaga Raja

PENANG: Unprecedented cuts to global aid and intensifying attacks on multilateralism are undermining decades of progress in the fight against poverty, a United Nations human rights expert has warned.

In his report (A/HRC/59/51) to the 59th regular session of the UN Human Rights Council, Mr Olivier De Schutter, the United Nations Special Rapporteur on extreme poverty and human rights, urged governments attending the Fourth UN International Conference on Financing for Development (FFD4) in Seville, Spain on 30 June-3 July, to prioritise financing social protection through wealth taxes, "solidarity levies" and other innovative financing tools to prevent further backsliding.

"As countries turn their backs on international cooperation, we are witnessing a terrifying domino effect of cuts to global aid, with one country after the next announcing major reductions to their aid budgets," said the rights expert.

"The world order that emerged from the horrors of the Second World War has lifted hundreds of millions of people out of poverty. In just a few short months, that progress has begun to wildly unravel," De Schutter said.

"It is a sad reflection of our times that money once earmarked for life-saving development programmes are now being redirected to defence and military spending," the Special Rapporteur pointed out.

De Schutter noted that official development assistance fell in 2024 for the first time in six years, with predictions estimating a drop of almost 20% for 2025.

In his report, De Schutter detailed how these cuts are hampering humanitarian assistance and deepening poverty, leaving vulnerable populations increasingly exposed to the intensifying climate crisis.

"It is a perfect storm: cuts to global aid as the climate crisis ramps up and wipes out people's entire livelihoods and assets in mere minutes," the Special Rapporteur said.

He said that his present report has come "at a time when multilateralism is under attack and when international solidarity is facing threats unprecedented since the Second World War."

De Schutter called for a reset ahead of FFD4 and the Second World Summit for Social Development, to be held in Doha from 4 to 6 November 2025.

He said that most urgently, Governments must take a stand against attempts to undermine global solidarity by living up to their pledges to support low-income countries in strengthening the financing and operation of social protection as a powerful tool in countering the effects of climate change.

"For while Governments can procrastinate, while oligarchs can win elections and while authoritarian regimes can seek to hide scientific data, environmental collapse continues unabated," said De Schutter.

He said it is in low-income countries and for the most vulnerable populations, where – despite having contributed the least to carbon emissions – the death and destruction will be greatest and the capacity to respond weakest.

"However much the world would like social protection to be strengthened in low-income countries in order to fulfil its role in protecting people in poverty from climate risks, progress will only be achieved with increased international support," he pointed out.

Pointing to a breakdown in solidarity, the rights expert said that in the United States, the new administration that took office on 20 January 2025 adopted on day one an Executive Order entitled "Reevaluating and realigning United States foreign aid", suspending foreign development assistance for 90 days to facilitate an "assessment of programmatic efficiencies and consistency with United States foreign policy".

On 24 January 2025, the Department of State sent to all contracting and agreement officers and implementing partners of the United States Agency for International Development (USAID), and to all other relevant agencies and internal offices, a "Notice of implementation of executive order on reevaluating and realigning United States foreign aid", including stop-work orders and an instruction to amend or suspend existing awards.

"The choice of the United States to turn away from international cooperation is shocking. It is costing lives all over the developing world," De Schutter emphasized.

But while the example of the United States is extreme, this worrying trend is not limited to one country, he said.

Between 1990 and 2022, the share of European Union aid going to the least developed countries decreased from 52 per cent to 19 per cent of the total and the slide continues, he noted.

According to some estimates, the average reduction of support across the least developed countries could amount to 35 per cent for the period 2025-2027, when compared to the amounts allocated for the period 2021-2024, the Special Rapporteur said.

He said the focus of the European Union is increasingly on the so-called Global Gateway: investments that are of strategic importance to the European Union and that will facilitate access to critical minerals in particular, rather than on forms of support that could contribute the most to poverty reduction.

He also said that with a few exceptions, European Union member States are reducing, sometimes drastically, the budget dedicated to official development assistance (ODA).

Germany, for instance, cut 2.7 billion euros from its foreign development budget in the period 2023-2024 and 930 million euros from its humanitarian aid budget.

According to the report by the Special Rapporteur, France, which has been regularly increasing its aid budget in recent years and had set an objective of reaching 0.7 per cent of its gross national income in ODA by 2025, has postponed that target and has instead reversed that trend: French ODA diminished by 742 million euros in 2024 and by a further cut of more than 2 billion euros in 2025.

Indeed, De Schutter said that further cuts can be expected to be announced in 2025.

Many countries of the Organisation for Economic Co-operation and Development facing high levels of debt are adopting austerity measures, which will include reductions in aid spending, he noted.

European countries, in particular are reallocating significant budgets to defence spending, in order to take into account the new threats to peace and security resulting from "neo-imperialist expansionism", he said.

The decision announced by the United Kingdom in February 2025 to cut its development budget from 0.5 per cent of gross domestic product (GDP) to 0.3 per cent, in order to raise the defence budget from 2.3 per cent of GDP to 2.5 per cent, is an illustration of that trend, said the Special Rapporteur.

It is against that background and that trend that the rights expert called for a re-commitment to multilateralism.

He said in the 26 poorest countries on the planet, only 9.7 per cent of the population enjoys even minimal social protection, the main reason for such low coverage being insufficient fiscal space.

According to De Schutter, while lack of political will, low administrative capacity and the weight of the informal sector are also important explanatory factors, financing remains key.

He said if those countries benefited from higher levels of international support, rather than being punished by rating agencies and external creditors for investing in social protection, they would be more willing to make progress and they would build the necessary capacity to improve both the collection of domestic revenue and social spending.

The report said the total additional spending required in low-income countries to ensure universal access to five key social protection guarantees (child allowances, disability benefits, maternity benefits, old age pensions and unemployment benefits), as well as providing essential healthcare, amounts to $308.5 billion per year in absolute terms.

That financing gap represents 52.3 per cent of the GDP of low-income countries, exceeding by four times their current government expenditure and a staggering 28 times their current social protection spending, it added.

Without international support, low-income countries will simply not be able to make the investments needed, De Schutter said.

"It is in countries that are least responsible for climate change that people have the worst access to social protection systems that could shield them from its impacts," the rights expert said.

"Over 90% of people in the world's poorest countries lack any form of social protection whatsoever, leaving them entirely unprotected," he added.

In this context, he called on governments meeting at FFD4 to adopt alternative financing mechanisms, including international tax reform and "solidarity levies" on sectors such as transport and finance, managed through a Global Fund for Social Protection, to ensure long-term and predictable funding of social protection in the Global South.

The Special Rapporteur said a new international financing mechanism in support of the efforts of poor countries to establish social protection floors would ensure access to a reliable and predictable source of funding for the countries lacking the fiscal capacity to make progress, allowing such social protection floors to be designed as rights-based (in accordance with the Social Protection Floors Recommendation, 2012 (No. 202)), moving beyond ad hoc and limited cash transfer schemes and involving an enforceable commitment from Governments to their populations.

He said were such a tool to be created, countries would have a positive incentive to invest in social protection, whereas in the current context of high levels of indebtedness, countries making such investments are instead penalized by rating agencies and financial markets, since investing in social protection leads, in the short-term, to higher public deficits.

In the present context, the Special Rapporteur said such a tool would provide countries committing to protect their populations through social protection floors with an insurance against co-variate shocks, such as those caused by climate disasters, by increasing the level of international support in times of crisis, when demand for social protection increases at the same time that public revenue falls.

If financing through a global fund for social protection were made conditional on beneficiary countries investing more in social protection by mobilizing domestic resources, it could lead gradually to a virtuous cycle emerging, favouring the increased mobilization of domestic resources, he suggested.

"It would also act as a financial safety net during economic, climate or health crises and accelerate progress towards achieving the Sustainable Development Goals, including Goal 1 on poverty reduction and Goal 3 on improved health outcomes."

That would allow countries to move away from dependency on short-term, ad hoc aid of a humanitarian nature and gradually gain the fiscal space required to finance social protection without external support, De Schutter said.

"Such an investment has potentially high returns: it leads to building human capital, has significant multiplier effects in the local economy and contributes to resilience in times of crisis."

As the level of support provided by the fund would increase in times of crisis, for instance, when climate-related disasters occurred, it is the necessary international complement to adaptive social protection, he added.

In his contribution (annexed to his present report) to FFD4, the Special Rapporteur reviewed a range of options that could be explored to support the establishment of social protection floors in low-income countries (LICs).

He pointed to calculations he presented in advance of FFD4 demonstrating how the international community could raise US$759.6 billion a year – more than twice the amount required to provide the world's 26 lowest-income countries with the essential healthcare and basic income security that would safeguard people in poverty from the impacts of climate change.

Among the options presented, De Schutter said that official development assistance (ODA) could play a role, if donor countries met their pledges and allocated a significant portion of aid to social protection.

In 2023, ODA from the OECD's Development Assistance Committee countries reached a record $223.7 billion, said the Special Rapporteur's report.

However, the average ODA contribution from high-income countries in 2023 was just 0.37% of gross national income (GNI), falling well short of the internationally agreed target of 0.7% of GNI.

Moreover, only a small fraction of ODA goes to social protection: in 2023, DAC bilateral ODA allocated to social protection ($1,570 million) represented 1.44% of bilateral sector-allocable ODA ($108,818 million).

If donor countries were to meet the 0.7% of GNI target, nearly $200 billion in additional funds could be made available annually, increasing total ODA to $423.2 billion annually, and if, consistent with the Addis Ababa Action Agenda (reflecting commitments contained in both the Monterrey Consensus and the Doha Declaration on Financing for Development), rich countries dedicated 0.2% of GNI to ODA to support the LDCs, $120.9 billion would be directed to LICs – a substantial increase from the current $22.4 billion.

Even a partial allocation of this amount to social protection - such as 25% of total ODA, or $30.2 billion - could cover one tenth of the social protection financing gap in LICs, De Schutter underlined.

However, he noted that donor fatigue, and competing priorities facing rich countries, make it unlikely that ODA will increase in the next few years.

De Schutter also suggested that the International Monetary Fund (IMF) could issue new Special Drawing Rights (SDRs) based on need rather than quota, providing LICs with liquidity without increasing their debt burden.

This would enable them to finance critical investments in social protection, healthcare, and economic recovery, particularly during crises, he said.

The distribution of SDRs based on IMF member countries' quotas, which are determined by the relative size of their economies, disproportionally favours wealthier nations, he pointed out.

In the 2021 allocation of $650 billion to stabilise the global economy during the COVID-19 pandemic, only $21 billion (3.2%) went to LICs, despite their greater need, he noted.

The rights expert said that allocating $650 billion a year to countries according to population and need would allow LICs, despite comprising just 9% of the global population, to receive 27% of SDR allocations rather than the 3.2% allocated in 2021.

This would represent approximately $175 billion, addressing half of their social protection financing gap, he added.

According to De Schutter, still other innovative financing tools exist, such as "solidarity levies".

For instance, he said that a globally implemented financial transaction tax of 0.1% on the trading of stocks and bonds and a 0.01% tax on derivative transactions could yield $326.9 billion annually, equivalent to 0.43% of global GDP.

He said that while most of the revenue raised would be concentrated in high-income countries which have more active financial markets, allocating a share of 9% to LICs (in proportion to their share of the world population) could generate $29.4 billion, covering 9.5% of their social protection financing gap.

"Social protection is increasingly recognised as our greatest tool in the fight against poverty - and is proving just as powerful in protecting people in poverty from the climate disasters that are becoming part of their daily lives," De Schutter said.

"By championing the financing of social protection, world leaders meeting at FFD4 would be taking a powerful stand against today's deplorable attempts to upend the international order, ignore the climate crisis and abandon the world's poorest people," he stressed. *(SUNS #10251)*

$29 billion appeal unveiled amid "cruel math" of brutal funding cuts

Amid unprecedented funding shortfalls in the international humanitarian sector, the United Nations and its partners have issued a streamlined global appeal, seeking $29 billion to assist 114 million people in dire need worldwide.

by Kanaga Raja

PENANG: In the wake of the deepest funding cuts ever to hit the international humanitarian sector, the United Nations and its humanitarian partners on 16 June launched a "hyper-prioritized" global appeal for US$29 billion, aimed at helping 114 million people facing life-threatening needs across the world.

In an online post, the UN Office for the Coordination of Humanitarian Affairs (OCHA) said the hyper-prioritized plan highlights the most urgent elements within the ongoing Global Humanitarian Overview 2025, with a funding requirement of US$29 billion.

"We have been forced into a triage of human survival," said Mr Tom Fletcher, UN Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator, in an OCHA press release.

"The math is cruel, and the consequences are heartbreaking. Too many people will not get the support they need, but we will save as many lives as we can with the resources we are given," he added.

In a separate post on 16 June on the social media platform X, Mr Fletcher elaborated that: "Six months ago, we launched a ruthlessly prioritized humanitarian appeal to help some of the most vulnerable people on the planet."

"Today, we're having to prioritize even further. We're having to hyper-prioritize. Brutal funding cuts have left us with the cruel math of doing less with less," said the UN relief chief.

"Even as the world around us remains on fire, and as people die because we don't have the resources to save them."

"In the face of this affront to our shared humanity, this special edition of the Global Humanitarian Overview is our collective and clear-eyed account as a humanitarian movement of what must happen now," he pointed out.

"Through it, we've identified 114.4 million people who are facing the most life-threatening needs and who most urgently need our help. And we're appealing for $29.1 billion to do this."

"These hyper-prioritized figures represent the most time-sensitive and critical aspects of our broader global appeal, which itself remains intact, just as we launched it in December with 177.6 million people targeted and $44 billion required to reach them," said the UN relief chief.

"Let's be clear. Our appeal for less money does not mean there are fewer needs. The opposite. So, today, I make a plea for responsibility, solidarity and a future built on humanity," he concluded.

According to OCHA, the Global Humanitarian Overview 2025 covers more than 70 countries and aims to assist nearly 180 million vulnerable people, including refugees.

It currently calls for US$44 billion, but nearly halfway through the year, just US$5.6 billion – less than 13 per cent – has been received, it said.

OCHA said when re-prioritizing the individual country plans, the focus has been on two key goals: first, to reach the people and places facing the most urgent needs, using a scale that ranks the severity of humanitarian need.

It said areas classified as level 4 or 5 – indicating extreme or catastrophic conditions - were the starting point.

Second, it prioritized life-saving support based on the planning already done for the 2025 humanitarian response.

OCHA said this will ensure that limited resources are directed where they can do the most good – as quickly as possible.

Humanitarian partners have kept protection at the heart of the re-prioritized response plans. Rather than limiting lifesaving aid to a fixed list, they have focused on meeting the most urgent needs in ways that respect the dignity of affected people, it added.

According to OCHA, this includes cash assistance where possible, allowing people to choose what they need most.

"Cruel math"

Meanwhile, according to the "hyper-prioritized" Global Humanitarian Overview 2025, published on 10 June, by the end of May 2025, nearly 300 million people around the world were in urgent need of humanitarian assistance and protection.

In the first months of the year, conflicts and violence intensified in multiple countries – deepening needs and driving many people to the brink of death – while natural disasters wreaked havoc on the lives of millions of people, it said.

The report said that in the first five months of 2025, multiple major donors reduced funding, triggering a seismic contraction in global humanitarian action.

The United States of America – which funded 45 per cent of the global humanitarian appeal in 2024 and up to 70 per cent in some parts of the world such as Latin America and the Caribbean and the Democratic Republic of the Congo (DRC) – announced a suspension and subsequent termination of many humanitarian contracts, with sudden and widespread consequences around the globe, it noted.

It said this came on top of reductions announced or instituted by other major donors, including Germany and the United Kingdom, and on the back of a reduction in humanitarian aid from 2023 to 2024.

According to the report, at least 79 million people in crisis will no longer be targeted for assistance and this is likely a significant underestimate.

Providing some examples, the report said a dramatic reduction in humanitarian funding has meant that protection services and prevention efforts have been reduced, increasing the probability of gender-based violence (GBV), sexual violence, and child abuse, and removing access to vital services for survivors.

For instance, it said that funding cuts for women-led organizations have hit GBV prevention and response, and protection efforts hardest.

In the DRC, under-funding – combined with an upsurge in violence – means that 250,000 children will miss out on GBV prevention, it pointed out.

In Yemen, funding suspensions have already forced 22 safe spaces to close, denying services and support to over 11,000 women and girls in high-risk areas.

The report also said the risk of preventable disease and mortality has risen as health and water, sanitation and hygiene services (WASH) are curtailed.

For example, it said in Syria, hospitals serving over 200,000 people in Deir ez-Zor are at risk of closing in May 2025 and over 170 health facilities in the north-west of the country risk running out of funds.

In Somalia, over a quarter of one NGO's health and nutrition facilities will stop services in June 2025, affecting at least 55,000 children, while in the DRC, 100,000 children are projected to miss out on measles vaccination in 2026 alone, it added.

"In Afghanistan, approximately 420 health facilities have closed, denying three million people access to primary health care."

The report said cuts in food rations and emergency assistance are jeopardizing the lives and well-being of people facing acute food insecurity.

For instance, it said that the World Food Programme (WFP) estimates that it may reach more than 16 million people less (21 per cent) with emergency food assistance in 2025 compared to the 80 million people assisted in 2024, with the biggest impact being felt in Yemen.

Already, prior to 2025, financing for food, cash and emergency agriculture was well below what was required, from Haiti to Mali and South Sudan, it added.

"In Bangladesh, one million Rohingya refugees who rely on food assistance will see their monthly food rations halved without additional funding."

The report said that in Haiti, which has just entered the Atlantic Hurricane Season and where food insecurity is rampant, WFP, for the first time ever, has no pre-positioned food stocks, nor the cash liquidity to mount a swift humanitarian response in the case of a hurricane.

Furthermore, the report said that malnourished children face heightened risk of severe malnutrition and death.

It said disruptions to nutrition support and services due to global funding cuts are expected to affect 14 million children, including more than 2.4 million who are already suffering severe acute malnutrition and at imminent risk of death.

In Afghanistan, 298 nutrition sites (out of 3,455) remain closed, depriving 80,000 acutely malnourished children, pregnant women, and new mothers of treatment, posing a serious risk of increased mortality, it warned.

The report also said that more than 1.8 million children will miss out on learning due to aid cuts impacting one NGO's education programmes in over 20 countries.

Meanwhile, cash and voucher assistance (CVA) – including multi-purpose/unrestricted cash – has been drastically reduced in multiple countries, it pointed out.

CVA is projected to drop precipitously in 2025, after already decreasing in 2024 as a proportion of humanitarian assistance. In Ukraine, for example, cash assistance for people fleeing the frontlines was reduced due to funding cuts, said the report.

It also said services for refugees are being jeopardized. In Rwanda, under the DRC regional refugee plan (RRP), cash assistance for food decreased by 50 per cent.

In Uganda, moderately vulnerable refugees (82 per cent of the settlement refugee population) have had their food rations reduced to approximately a quarter of the full amount, it noted.

Significantly, the report said that around the world, budget cuts are forcing humanitarian partners to reduce their operations, presence and services.

At least 12,000 humanitarian staff contracts have been cut and at least 22 organizations have had to completely close their offices in the relevant countries, it noted.

Separately, almost half (47 per cent) of women-led organizations surveyed are expecting to shut down within six months, if current funding levels persist, and almost three-quarters (72 per cent) report having been forced to lay off staff, the report further said.

Moreover, it said that funding cuts have also affected humanitarian programmes for persons with disabilities: 76 per cent of survey respondents reported an impact on humanitarian programmes on disability inclusion, 81 per cent reported an impact on the delivery of assistance to address basic needs, and 95 per cent reported an impact on work to address barriers faced by persons with disabilities to access humanitarian assistance.

As of 10 June 2025, only 12 per cent of the funding required under the 2025 Global Humanitarian Overview has been received, said the report.

Yet, it said, this "devastating under-funding of humanitarian action comes amid an exponential rise in military expenditure."

In 2024, military expenditure reached over US$2.7 trillion in 2024; more than 100 times the amount galvanized for humanitarian appeals globally (US$24.91 billion).

The report said this was the steepest year-on-year rise in military expenditure since at least the end of the Cold War, with European military expenditure accounting for the main increase.

The magnitude, gravity and suddenness of funding cuts in the first quarter of 2025 have forced the humanitarian community to hyper-prioritize its response efforts, it pointed out.

This hyper-prioritization has identified 114.4 million people who are facing the most life-threatening needs to be most urgently targeted with assistance and protection, said the report.

This represents just 38.3 per cent of people in need of humanitarian assistance globally (298.9 million) and only 64 per cent of the total people targeted for humanitarian assistance in 2025 (178.7 million).

"This hyper-prioritization required painstaking deliberation and decisions by humanitarian leaders and partners, who had already exerted extensive efforts to tightly define their 2025 humanitarian plans and appeals."

The report said to reach these people, US$29.1 billion – out of the total US$44 billion currently required under the Global Humanitarian Overview urgently needs to be mobilized.

Yet, it said that as of 10 June, just US$5.5 billion has been received, amounting to 18.5 per cent of the funding immediately required to respond to the most life-threatening needs in the world, and just over 12 per cent of the total humanitarian funding required in 2025 through the Global Humanitarian Overview (US$44 billion).

"Brutal funding cuts leave us with brutal choices," Mr Fletcher said. "All we ask is 1 per cent of what you chose to spend last year on war. But this isn't just an appeal for money – it's a call for global responsibility, for human solidarity, for a commitment to end the suffering," he added. *(SUNS #10244)*

UNHCR announces deep staff cuts amid major decline in funding

UNHCR, the UN Refugee Agency, has announced a major reduction in its global operations due to an unprecedented funding crisis.

by Kanaga Raja

PENANG: UNHCR, the UN Refugee Agency, on 16 June announced that it is reducing the overall scale of its operations, including cutting its global staffing costs by around 30 percent, due to significant funding shortfalls.

In a press release, UNHCR said this announcement came following the completion of a review of its activities, expenditure, staffing and structures, following a significant decline in humanitarian funding compared to 2024.

"In light of difficult financial realities, UNHCR is compelled to reduce the overall scale of its operations. We will focus our efforts on activities that have the greatest impact for refugees, supported by streamlined headquarters and regional bureau structures," said Mr Filippo Grandi, the United Nations High Commissioner for Refugees.

In an earlier statement issued on 20 March, Mr Grandi had warned that "brutal" funding cuts in the humanitarian sector are putting millions of lives at risk.

He said the consequences for people fleeing danger will be "immediate and devastating."

In this regard, Mr Grandi said that refugee women and girls at extreme risk of rape and other abuse are already losing access to services that kept them safe, while children are being left without teachers or schools, pushing them into child labour, trafficking, or early marriage.

Furthermore, he said that refugee communities will have less shelter, water and food.

Most refugees stay close to home. Slashing aid will make the world less safe, driving more desperate people to become refugees or keep moving onwards, said Mr Grandi.

"Together with our partners, we responded to 43 refugee emergencies last year alone," he pointed out in his statement on 20 March.

Mr Grandi said with less funding, fewer staff and a smaller UNHCR presence in countries hosting refugees, the equation is simple: lives will be lost.

In its press release issued on 16 June, UNHCR said as part of the agency's broader cost-cutting measures, it has had to close or downsize offices worldwide and implement a nearly 50 per cent reduction in senior positions at its Geneva headquarters and regional bureaux. In total, approximately 3,500 staff positions will be discontinued.

Additionally, hundreds of colleagues supporting UNHCR on a temporary basis have had to leave the organization due to the funding shortfall, it added.

Overall, UNHCR estimates a global reduction in staffing costs of around 30 per cent.

It said throughout the review exercise, decisions were driven by the overarching priority to maintain operations in regions with the most urgent refugee needs.

Nonetheless, critical programmes ranging from financial aid to vulnerable families, health, education, and water and sanitation have been affected, said the UN agency.

UNHCR said it is working closely with UN partners, humanitarian organizations and host countries to mitigate, to the extent possible, the impact on refugees and others relying on its help.

In this regard, UNHCR said it is centralizing support functions, exploring new operational models - including locating staff within other UN offices - and accelerating the use of technology for greater efficiency.

"We are very grateful to the donors who have stepped up or made early contributions this year, and we continue to advocate for sustained support and to deploy all efforts to mobilize new resources," said Mr Grandi.

"Aid brings a degree of stability in deeply volatile situations. Investing in aid not only saves lives; it also avoids higher costs down the line when desperate people are forced to move on in search of safety," he added.

UNHCR anticipates that it will end this year with available funding at about the same level as a decade ago, despite the number of people forced to flee having nearly doubled over the same period, now standing at over 122 million.

In its annual Global Trends report released on 12 June, UNHCR said that the number of people forced to flee persecution, conflict, violence, human rights violations and events seriously disturbing the public order rose in 2024, reaching a record 123.2 million, an increase of 7 million or 6 per cent compared to the end of 2023.

It said one in 67 people globally were forcibly displaced at the end of 2024. Slightly more than one-third of all forcibly displaced people globally were Sudanese (14.3 million), Syrian (13.5 million), Afghan (10.3 million) or

Ukrainian (8.8 million).

By the end of April 2025, UNHCR estimates that total forced displacement globally has fallen slightly by 1 per cent to 122.1 million.

The UN agency said that during the remainder of 2025, much will depend on the dynamics in key situations.

It said this includes whether peace, or at least a cessation in fighting, is possible to achieve, particularly in the Democratic Republic of the Congo (DRC), Sudan and Ukraine; whether the situation in South Sudan does not deteriorate further; whether conditions for return improve, in particular in Afghanistan and Syria; and how dire the impact of the current funding cuts will be on the capacity to address forced displacement situations around the world and create conducive conditions for a safe and dignified return.

"Even as we face painful cuts and lose so many dedicated colleagues, our commitment to refugees remains unshakeable," Mr Grandi underlined.

"Although resources are scarcer and our capacity to deliver is reduced, we will continue to work hard to respond to emergencies, protect the rights of refugees, and pursue solutions - including returning home, as nearly two million Syrians have done since December," he added. *(SUNS #10244)*

Thin and Shallow: Financial Instruments for Biodiversity Conservation and Their Outlook

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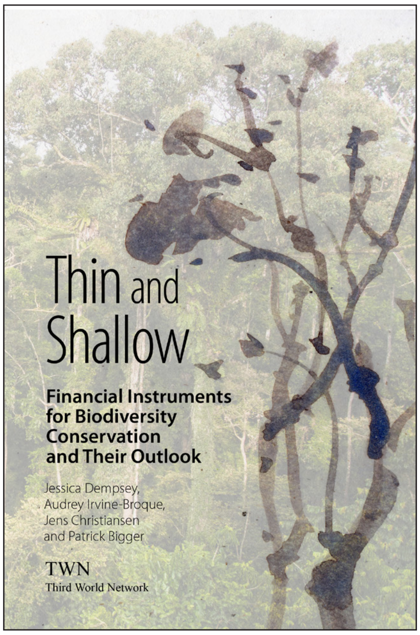

Published by TWN
Year: 2024 No. of pages: 55

This paper examines the track record of private financial mechanisms aimed at funding conservation of biological diversity. It finds that, due to lack of rigorous and consistent benchmarks and monitoring, these investments may not necessarily safeguard biodiversity and could even, in some cases, have adverse impacts. Further, despite decades of attempts to draw private capital to biodiversity protection, the quantum of finance remains limited, especially in the highly biodiverse countries of the Global South where it is most needed.

Written for a research project established by a group of central banks and financial supervisors, this paper cautions these authorities from deploying resources towards promoting such biodiversity-focused private financial instruments. Instead, the supervisory bodies are urged to step up policy coordination to address drivers of biodiversity loss in the financial system.

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