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Global FDI rebounds amid uneven recovery

Global foreign direct investment (FDI) rose 6% to $1.6 trillion in 2025, ending two years of decline, but the rebound is fragile and increasingly concentrated, with investment flowing mainly to a small group of economies and capital- and technology-intensive sectors, raising concerns that rising FDI flows are not translating into broader development gains, according to UN Trade and Development (UNCTAD).

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Global FDI rebounds to $1.6 trillion amid uneven recovery

Global foreign direct investment (FDI) rose 6 per cent to $1.6 trillion in 2025, ending a two- year decline, with much of the rebound being driven by a handful of mega projects, particularly in AI-related digital infrastructure, rather than a broad-based improvement in investment flows, according to UN Trade and Development (UNCTAD).

by Kanaga Raja

PENANG: Global foreign direct investment (FDI) rose 6 per cent to $1.6 trillion in 2025, ending a two-year decline, but the rebound remains fragile and uneven, with inflows to developed economies rising 11 per cent, while developing economies saw only a 2 per cent growth, according to UN Trade and Development (UNCTAD).

In its flagship World Investment Report 2026, UNCTAD said much of the increase reflected a small number of mega-projects, especially in artificial intelligence (AI)-related digital infrastructure.

The report said investment activity became more selective, with growth concentrated in a limited number of host economies and in capital- and technology-intensive sectors, notably digital infrastructure, semiconductors and selected energy-related activities.

This concentration favoured developed economies, where inflows rose more strongly than in the developing economies, it added.

However, UNCTAD said that prospects for 2026 remain difficult. Trade policy uncertainty, geopolitical tensions, conflicts, high financing costs and economic fragmentation continue to weigh on investment decisions.

At the same time, it said that competition for projects linked to strategic industries is expected to intensify as governments seek to secure future sources of growth and technological advantage.

Global trends

According to the report, global flows of FDI increased by 6 per cent to $1.6 trillion in 2025, from $1.5 trillion in 2024.

Conduit flows through major global financial centres and investment hubs subtracted about $40 billion from the total, compared with -$70 billion in 2024, it said.

Switzerland and Ireland, in that order, accounted for most of the increase. Excluding conduit flows in major European financial centres, global FDI flows rose by 4 per cent compared with 2024, said the report.

It said over the longer term, FDI remained weak relative to other indicators of international economic activity.

During 2010-2025, global gross domestic product (GDP) and trade expanded steadily, while FDI growth was subdued and volatile, it added.

Year-to-year movements continued to be affected by one-off transactions, corporate restructurings, and conduit and other financial flows, rather than changes in underlying productive investment.

Despite this weak longer-term trend, global FDI inflows in 2025, excluding conduit flows, were about 10 per cent above their average level for the 2010-2024 period.

According to the report, FDI trends in 2025 diverged across country groups.

The year-on-year increase was concentrated in developed economies, where inflows rose by 11 per cent to $723 billion, largely reflecting a rebound in a few large host economies and increased flows through financial centres.

Despite this increase, flows to developed economies remained 13 per cent below their average over the previous 15 years.

On the other hand, the report said that flows to developing economies increased by 2 per cent to just above $901 billion, but stood 23 per cent above their 15-year average.

Analyzing the distribution of FDI growth in 2025, the report said the increase was driven mainly by high-income economies, where inflows rose from $1 trillion to more than $1.1 trillion.

This reflected higher inflows to developed countries as well as the continued attractiveness of a small number of high-income developing economies that host large-scale projects.

Inflows to upper-middle-income economies remained largely unchanged, while those to lower-middle-income economies declined by 5 per cent. Flows to low-income countries grew by 10 per cent, though from a low level.

These patterns suggest that the increase in 2025 was concentrated in economies with stronger capacity to attract large-scale and strategic investment.

This concentration reflects the growing importance of the capital- and technology-intensive high-technology and digital infrastructure sectors, as well as the role of industrial policies in major economies, the report suggested.

FDI remains a critical source of external finance for developing economies.

In 2025, it accounted for about 50 per cent of their total external financing, making it the largest source – ahead of remittances, official development assistance and portfolio flows, said the report.

However, in least developed countries (LDCs), FDI accounts for less than 25 per cent of total external finance and portfolio investment remains negligible.

Yet, regardless of its relative importance by income group, FDI plays a distinct role in development because of its links to productive investment, technology transfer and integration into global value chains (GVCs), said the report.

In terms of the top recipients of FDI, the report said FDI inflows in 2025 remained highly concentrated among a relatively small number of host economies.

It said the top 20 recipients accounted for more than 80 per cent of global FDI inflows.

Developing economies represented half of the economies in the top 20 ranking, underscoring their continued importance as destinations for FDI.

The report said the United States retained its position as the largest recipient, with inflows broadly stable at $277 billion, reflecting continued strength in technology-intensive sectors and large-scale projects.

Other major recipients included Singapore, Hong Kong (China) and China, in that order, although inflows to China declined, continuing a downward trend linked to economic restructuring and shifts in GVCs.

The report also found that the composition of top recipient economies shifted modestly in 2025.

The United Kingdom replaced Egypt, reducing the number of developing economies in the list from 11 to 10.

At the same time, a number of large emerging economies maintained or strengthened their positions among top recipients.

Inflows to Brazil rose sharply, supported by investment in renewable energy and natural resources, while India and Mexico continued to attract investment in services, manufacturing and supply chain reconfiguration. The United Arab Emirates also maintained a high level of inflows.

Highlighting trends by investment modalities, the report said cross-border merger and acquisition (M&A) values declined by 7 per cent, despite strong growth in domestic deal-making.

After a weak performance in 2024, M&A activity remained sensitive to financing conditions, valuations and regulatory scrutiny, and was concentrated in a limited number of sectors, including energy, technology and critical minerals.

Mega-deals and corporate reorganizations continued to contribute to volatility in FDI flows, said the report.

It said the value of announced greenfield projects remained close to the high level recorded in 2024 but was supported mainly by mega-projects in developed economies and in a narrow set of capital- and technology-intensive sectors.

Growth in announced values was driven largely by digital infrastructure, particularly data centres, and to a lesser extent by semiconductors, oil and gas, and selected non-digital infrastructure activities.

On the other hand, the report said many other sectors recorded weak or declining activity, among them renewable energy, GVC-intensive manufacturing industries and several basic infrastructure sectors.

After three consecutive years of decline, the downturn in international project finance (IPF) came to a halt but the recovery was limited, it added.

"While global IPF values rose by 3 per cent, they remained about 25 per cent below their 2021 peak and the number of IPF deals declined slightly."

The weakness in deal numbers points to continued constraints on capital-intensive infrastructure and energy projects, especially where high financing costs, long gestation periods and trade policy uncertainty weigh on project implementation, the report emphasized.

FDI outflows

In terms of FDI outflows, the report said global FDI outflows remained concentrated among a relatively small number of home economies in 2025.

The top five home economies were unchanged from 2024 and accounted for almost half of global outflows.

The United States remained the largest source of FDI, followed by Japan and China.

The ranking confirms the continued importance of large multinational enterprises (MNEs) from advanced economies, while also showing the growing roles of Asian and Gulf-based investors, it added.

Developed economies continued to be the largest sources of global investment capital, as the United States, Japan and major European economies are home to many of the world's largest MNEs, which are supported by deep capital markets, extensive networks of foreign affiliates and high levels of reinvested earnings.

Together, developed economies account for nearly two-thirds of outward FDI flows over the past five years and about three-quarters of global outward FDI stock.

These flows, however, remain volatile, especially in Europe, where intra-firm financing, corporate restructurings and transactions involving financial centres can produce large year-to-year swings, said UNCTAD.

United States MNEs retained their position as the largest outward investor group, supported by the scale of existing foreign affiliate networks and retained earnings abroad.

At the same time, project data

suggest a more selective pattern of new international expansion.

The report said though the number of overseas greenfield projects announced by United States MNEs has declined in recent years, their value in 2025 remained high, at $250 billion, reflecting large commitments in digital services, advanced manufacturing, energy, health care and financial services.

Outward investment from the United States is also increasingly shaped by strategic considerations, including through policy support from institutions such as the International Development Finance Corporation, with a focus on infrastructure, the energy transition and strategic supply chains.

Japan remained the second largest source of FDI, despite a slight decline in outflows. Japanese firms continued to invest abroad in manufacturing, infrastructure and services, supported by longstanding internationalization strategies, said the report.

It said that outward FDI from European economies remained significant but volatile in 2025.

Major economies such as France, Germany and the United Kingdom continue to host globally active MNEs, but outward flows are often influenced by corporate restructuring, intra-firm financing and transactions involving financial centres, contributing to pronounced year-to-year variability, it suggested.

Beyond these financial effects, European outward investment is increasingly shaped by strategic objectives, with greater emphasis on supply chain resilience, energy security and access to critical raw materials.

The report said developing Asia has become an increasingly important source of global capital, accounting for one-third of global FDI outflows in 2025.

China, Hong Kong (China), Singapore and the United Arab Emirates were among the top 10 outward investors.

China remained the third largest source of FDI, despite a decline in recorded outflows.

Its outward investment has become more targeted, with greater emphasis on greenfield projects, manufacturing, energy, infrastructure and critical raw materials, often in developing economies and along South-South investment corridors.

The Gulf Cooperation Council (GCC) economies have also become more prominent outward investors, including through sovereign wealth funds (SWFs) and State-owned enterprises (SOEs), said UNCTAD.

It said the United Arab Emirates remained one of the leading outward investors in 2025, ranked 9th in the top 20 home economies, and Kuwait entered the ranking. Although Saudi Arabia dropped out of the top 20, it remained an important source of IPF.

The 2026 conflict in the Middle East, extending beyond Iran and affecting the wider West Asia region, is likely to weigh on investment, the report stressed.

Prospects for 2026

Global FDI prospects for 2026 and beyond remain uncertain, with macroeconomic conditions remaining a central source of weakness, said the report.

"Slower GDP growth and uncertain trade policy are likely to dampen the expansion of international production networks."

It said geopolitical tensions, conflicts and persistent uncertainty about trade policy further complicate investment decisions, encouraging firms to delay or scale back commitments.

There are some mitigating factors, most notably a stable outlook for gross fixed capital formation and signs of moderating interest rates and foreign exchange volatility, but these positive signals are fragile, it added.

"Downside risks remain significant, including as a result of the conflict in the Middle East."

Increases in energy and commodity prices could reverse recent gains in inflation control, delay monetary easing and disproportionately constrain capital-intensive investments, the report suggested.

In this context, it said the fragile growth in international investment observed in 2025 may be difficult to sustain.

However, it said at the firm level, the outlook is more nuanced. Large MNEs continue to report strong profits, indicating that they retain substantial financial capacity to invest.

However, declining overall rates of return on FDI point to weaker incentives for the broader population of firms.

The report said that this divergence suggests a growing concentration of international production, with value creation and profitability becoming more narrowly distributed among a small group of dominant players in the strategic sectors.

At the regional level, the outlook for FDI in developed economies remains mixed, although underlying drivers differ across regions and countries, it added.

"FDI will remain volatile as long as conduit flows and intra-firm financial transactions dominate changes in the aggregate."

The report said financial market analysts broadly expect a gradual recovery in M&A activity in 2026, led by an easing of financing conditions and a normalization of valuations.

"Strong deal pipelines are supported by high levels of corporate cash and private equity 'dry powder', with activity likely to be concentrated in technology, energy, healthcare and industrial restructuring."

At the same time, transactions are expected to remain selective, reflecting continued scrutiny of investment in sensitive sectors and geopolitical considerations.

The report said in developing regions, the picture is mixed and often more uncertain. Africa shows encouraging signs through rising numbers of greenfield project announcements, pointing to sustained investor interest and a potentially strengthening project pipeline.

"Major initiatives in energy infrastructure underscore both the scale of investment needs and the opportunities linked to the energy transition."

Yet, declining numbers of IPF deals and the continued concentration of inflows in a limited number of countries highlight persistent challenges, the report said.

In developing Asia, mounting pressures from geopolitical and trade tensions, and rising energy costs could delay or deter investment, it added.

In Latin America and the Caribbean, the recent decline in greenfield activity signals ongoing investor caution.

Prospects will depend on each region's ability to translate its advantages, including abundant natural resources and near-shoring opportunities, into more diversified and stable investment flows, the report concluded. *(SUNS 10479)*

FDI in developing Asia hits $644 billion as regional patterns shift

Developing Asia drew $644 billion in FDI in 2025, retaining its position as the largest developing-region recipient, as investment patterns within the region continue to shift reflecting wider changes in the global economy, according to UNCTAD.

by Kanaga Raja

PENANG: Developing Asia attracted $644 billion in foreign direct investment (FDI) in 2025, remaining the world's largest developing-region recipient, according to UN Trade and Development (UNCTAD).

In its flagship World Investment Report 2026, UNCTAD said at the same time, investment patterns within the region continued to shift as companies reassessed supply chains, governments competed for new industries and investors looked for growth opportunities in an increasingly uncertain global economy.

Asia is not only attracting investment, it is increasingly shaping where future industries are being built, even as investment patterns within the region change, it added.

According to UNCTAD, the shifts taking place in Asia reflect wider changes in the global economy.

Around the world, investment is increasingly flowing into sectors linked to semiconductors, digital infrastructure, artificial intelligence, advanced manufacturing and energy-transition technologies and services.

Together, these industries accounted for 44% of global greenfield investment in 2025, up from 16% five years earlier.

UNCTAD said that many Asian economies enter this period with important advantages, including established manufacturing capacity, supplier networks, large consumer markets, growing industrial ecosystems and deep integration into regional production networks.

However, these advantages are uneven and not all economies can compete for the same projects, it noted.

Regional trends

FDI trends in 2025 varied significantly across regions. The global increase was driven mostly by a sharp rise in Europe, while most other regions experienced more moderate changes, said the report.

Regional trends continued to be influenced by large transactions, financial centre effects and the concentration of investment in a limited number of economies and sectors, it added.

It said project and transaction data also point to selective investment activity, with large projects concentrated in strategic sectors, including digital infrastructure, energy, semiconductors and selected manufacturing industries.

FDI inflows to Europe increased by 39 per cent, to $285 billion.

The regional aggregate continued to be shaped by large movements through financial centres and investment hubs, including in economies in which FDI flows often reflect intra-firm financing, corporate restructuring and conduit flows rather than new productive investment.

The report said that outside the European Union, the United Kingdom saw strong inflows and active mergers and acquisitions (M&A) and greenfield investment, with pronounced financial centre effects, reflecting its dual role as a large market and an investment hub.

Switzerland also recorded large swings driven by financial flows.

Within the European Union, several countries recorded higher inflows, supported by cross-border M&A activity and large investment projects.

Germany recorded a substantial increase, with inflows rising from $21 billion to $74 billion. Large M&A transactions were announced, including the acquisition of Schenker by DSV (Denmark) and the acquisition of Covestro by ADNOC (United Arab Emirates), said the report.

Greenfield project values remained significant, although project numbers declined, it added.

France recorded inflows of $22 billion, almost 50 per cent lower than in 2024.

However, the country became the second-largest destination for greenfield projects by value in Europe, with more than $90 billion announced, compared with less than $30 billion in 2024.

These announcements included two large projects for artificial intelligence (AI) campuses: the $43 billion project by MGX (United Arab Emirates) and the $16 billion project by Brookfield Asset Management (Canada).

In Eastern Europe, economies closely integrated with European Union markets or with accession prospects continued to benefit from supply chain linkages and policy harmonization and compatibility efforts, said the report.

FDI flows to European Union accession candidates doubled in 2020-2025 compared with the previous decade.

The Russian Federation recorded a sizeable increase in inflows despite very limited new project activity and ongoing restrictive economic measures.

The rise likely reflected reinvested earnings under restrictions on profit repatriation, corporate restructuring and other financial flow effects, rather than new greenfield or project-based investment.

The report said that FDI inflows to North America remained broadly stable, declining slightly from about $350 billion to $344 billion.

Inflows to the region were supported by continued investment in strategic industries, but uncertainty related to trade policy weighed on some investment decisions, particularly in supply chain-intensive industries.

The United States remained the largest host economy globally, with inflows reaching $277 billion.

The value of announced greenfield projects increased by 30 per cent, confirming the role of the United States as a leading destination for strategic manufacturing, clean energy and digital infrastructure.

However, the number of projects declined by more than 10 per cent, pointing to a concentration of investment in fewer, larger projects.

The report said M&A activity in the United States remained the highest in the world, although values declined from 2024.

FDI flows to other developed

economies remained broadly stable. Japan and Australia remained major recipients, supported by investment in manufacturing, services, energy and infrastructure.

It said in the Republic of Korea, activity concentrated in fewer but larger investments, particularly in the digital economy, including a $10 billion data centre investment by Fir Hills (United States).

Project and transaction data indicate that investment activity in developed economies became more selective in 2025, said the report.

UNCTAD said announced greenfield project values rose from about $715 billion to $850 billion, even as project numbers fell by 15 per cent, pointing to fewer but larger projects, concentrated in the capital- and technology- intensive industries such as semiconductors, data centres, clean energy, batteries and advanced manufacturing – those primarily targeted by industrial policies.

The United States remained the largest destination for greenfield projects by value, followed by France, the United Kingdom, Australia and Spain.

Notably, cross-border M&As continued to play a larger role in developed economies than in developing regions.

The report said net M&A sales declined from about $430 billion to $400 billion, but remained high.

The United States accounted for the largest share, followed by Germany, the United Kingdom and Canada.

"Deal activity was supported by deep capital markets and corporate restructuring, but constrained by financing costs, valuation uncertainty and increased scrutiny of transactions in strategic sectors."

International project finance (IPF) in developed economies weakened in 2025. Deal values declined from almost $630 billion to less than $560 billion, and deal numbers fell by 6 per cent.

"The decline was visible in both Europe and North America and reflected tighter financing conditions, higher capital costs and a more selective approach to large infrastructure and energy projects, including in clean energy and industrial decarbonization."

According to the report, strategic industries remained central to investment trends in developed economies.

Semiconductor projects continued to mobilize exceptionally large capital expenditure, supported by public incentives in the United States and Europe, it noted.

It said data centres were also among the main drivers of mega-project investment, linking digital infrastructure investment to electricity demand, grid capacity and corporate procurement of clean power.

These trends are reflected in the list of the largest greenfield projects announced in 2025, which is dominated by semiconductors, AI infrastructure, data centres, clean energy and other capital-intensive activities.

Established transatlantic investment links remained important, and Europe remained the primary destination for United States outward FDI, while European firms remained the largest source of FDI in the United States, said the report.

The European Union accounted for about 45 per cent of inward stock in the United States and 40 per cent of outward FDI stock from the United States.

Conversely, the United States accounted for 27 per cent of inward FDI stock in the European Union and 24 per cent of outward FDI stock from the European Union.

"Asian technology firms also remained important sources of investment in strategic industries, particularly semiconductors, batteries, automotive and advanced manufacturing," said the report.

It said that investment from China in Europe stayed below the 2017 peak and shifted towards targeted greenfield projects, especially in electric vehicles, batteries and selected industrial assets, with Hungary emerging as a key destination.

Investors from Japan, Taiwan Province of China and the Republic of Korea continued to support advanced manufacturing and semiconductor projects in both Europe and North America.

The report said that capital from Gulf economies, including through sovereign wealth funds (SWFs) and State-linked investors, also remained relevant, particularly in infrastructure, energy, real estate, technology and private markets.

FDI flows to South

According to the report, FDI flows to developing economies increased by 2 per cent in 2025.

Developing Asia remained the largest recipient region, with a small increase in inflows, while Latin America benefited from strong investment in commodities and in energy transition sectors.

Despite a decline from 2024, Africa recorded its third-highest level of FDI inflows since 1990.

FDI inflows to Africa declined in 2025 from the exceptional level of $94 billion recorded in 2024 but remained historically strong at $70 billion.

The 2024 total had been lifted by a small number of unusually large transactions, notably the Ras El-Hekma construction and real estate mega-project in Egypt.

Despite the decline, inflows to the region were about a third above the average for 2010-2024 and reached the third-highest level in 25 years, said the report.

Excluding the exceptional peaks associated with large one-off transactions in South Africa in 2021 and Egypt in 2024, the 2025 inflows represent the strongest performance in recent decades, it underlined.

Sub-regional trends reflected both underlying investment conditions and the effect of large one-off transactions.

"In North Africa, inflows fell from the exceptional level recorded in 2024, while in West, Southern and East Africa, several economies recorded stronger inflows, supported mainly by investment in minerals, hydrocarbons, energy infrastructure and selected manufacturing activities."

The report said that FDI inflows to developing Asia rose marginally in 2025, from $623 billion to $644 billion, confirming the region's position as the largest recipient among developing regions.

However, the increase masked divergent trends across sub-regions and investment indicators.

Eight of the top 10 developing-economy recipients were in developing Asia in 2025.

Together, they accounted for about 60 per cent of total inflows to developing economies and more than 80 per cent of regional inflows.

FDI inflows across sub-regions in developing Asia showed mixed trends in 2025.

Inflows increased in Central, South-East, South and West Asia, in that order, and declined in East Asia, amid geopolitical tensions and trade policy uncertainty and continued supply chain re-configuration, said the report.

It said investment remained concentrated in communications, semiconductors, digital infrastructure and energy transition sectors, reflecting the transition towards advanced manufacturing and innovation-related activities.

FDI inflows to South-East Asia rose from $222 billion to $244 billion in 2025, making it the largest recipient sub-region in developing Asia, with the increase appearing to be widespread, with 8 of 11 countries recording growth.

However, the magnitude of the increase varied considerably across countries, and regional growth was driven primarily by a subset of economies rather than being evenly distributed throughout the region, said the report.

It said Singapore ranked among the top five FDI recipients globally in 2025, reflecting its role as a headquarters location and financial hub for international investment flows, similar to that of Hong Kong (China).

Several economies showed resilience, with flows increasing in Malaysia (+51 per cent), Thailand (+30 per cent) and Viet Nam (+1 per cent).

It said investment activity remained concentrated in communications, semiconductors, electronics and renewable energy.

Meanwhile, FDI inflows to South Asia rose strongly from $34 billion to $46 billion, driven by investment in India, where FDI inflows increased by 44 per cent to $39 billion.

Large-scale projects continued to move forward, including a cumulative investment of $14.5 billion by Google (United States) in information and communication technologies (ICT) and internet infrastructure, and a $4 billion investment by Hynfra (Poland), reflecting continued momentum in digital and energy transition sectors.

FDI inflows to Latin America and the Caribbean, excluding Caribbean offshore financial centres, rose by 14 per cent, from $165 billion in 2024 to about $188 billion in 2025, with the expansion being driven by South America, where inflows rose from $110 billion to $132 billion.

On the other hand, inflows to Central America remained broadly stable at about $52 billion, while the Caribbean continued to account for only a small share of regional inflows, said UNCTAD.

It said FDI remained highly concentrated in a small number of economies. In 2025, Brazil and Mexico together accounted for roughly two-thirds of total regional inflows, while the top 10 recipient economies accounted for 95 per cent.

The report said this concentration means that regional trends were strongly shaped by developments in a few large host economies and by a limited number of large projects.

FDI inflows to LDCs increased by 21 per cent in 2025, supported mainly by stronger inflows to a small number of African LDCs.

Inflows to those LDCs rose to about $33 billion, with investment concentrated in a few economies that benefit from natural resources, energy, infrastructure and selected manufacturing projects, said the report.

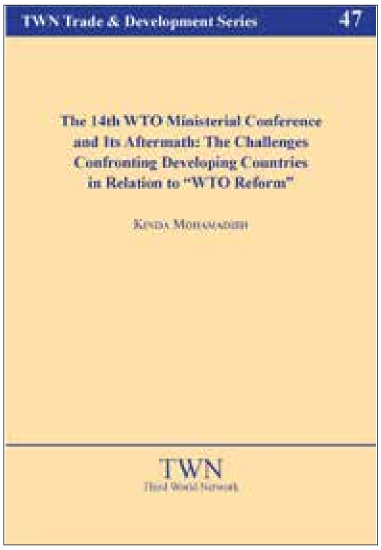
In LDCs in Asia and Oceania, inflows rose by 16 per cent on average, but the increase was also driven by a narrow set of economies and projects.

It said that FDI inflows to landlocked developing countries (LLDCs) remained broadly stable in 2025, but trends differed across regions, while FDI inflows to small island developing states (SIDS) increased modestly in 2025 but remained small in scale and concentrated in a limited number of economies and sectors. *(SUNS 10479)*

TWN Trade & Development Series no. 47

The 14th WTO Ministerial Conference and Its Aftermath: The Challenges Confronting Developing Countries in Relation to "WTO Reform"

By *Kinda Mohamadieh*



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The 14th Ministerial Conference (MC14) of the World Trade Organization in March 2026 grappled with several difficult issues on its agenda – one of the most contentious and far-reaching of which was the question of "WTO reform".

As framed by developed countries like the US and the EU, reform of the trade body would undermine some of its fundamental tenets. Developed country proposals envision jettisoning the "most-favoured nation" (MFN) principle of non-discrimination and seek to prioritize plurilateral pacts among subsets of the WTO Membership at the expense of multilateral approaches and consensus-based decision-making. Special dispensations for developing countries, like special and differential treatment, would also be circumscribed, and restrictions on certain industrial policy tools tightened. These proposals stand in marked contrast to developing countries' longstanding calls for reform of existing WTO rules which constrain their deployment of policy measures to achieve industrialization and structural economic transformation.

With no outcome agreed at MC14, the future of WTO reform is up in the air. What is at stake in the continuing discussions is nothing less than the long-term direction of the WTO and the related implications for the economic advancement prospects of its developing Member states.

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"Flexible multilateralism" a threat to WTO's consensus principle?

Talks on reform of the World Trade Organization have resumed in Geneva focusing on four topics, despite a lack of consensus and in the absence of any ministerial mandate.

by D. Ravi Kanth

GENEVA: The controversial World Trade Organization reform discussions focusing on "decision-making", "development", "level playing field issues" and "foundational issues" have resumed, despite these very topics being firmly rejected by a large majority of developing and least-developed countries at the WTO's 14th ministerial conference (MC14) in Yaounde, Cameroon, earlier this year, said people familiar with the development.

Despite a glaring lack of consensus and an absence of a ministerial mandate from MC14, these discussions are seemingly being restarted with the expectation of yielding a different outcome amid the exact same material conditions, said people familiar with the development.

In fact, the reports from the Minister-Facilitators – contained in document WT/MIN(26)/39 issued on 2 April – appear to be framed on a balancing of "on the one hand and on the other hand" basis, said trade envoys of several countries.

The reports indicate that a large majority of countries vehemently opposed any changes to decision-making, foundational issues, development, level-playing field issues, and plurilateral initiatives.

Conversely, a small group of some 20-odd middle-income nations, otherwise known as the "Friends of the System", coordinated by Switzerland alongside major developed countries, sought fundamental changes to these issues, said trade envoys who asked not to be quoted.

To recall, the Norwegian Minister-Facilitator, Mr Espen Barth Eide, said "there was universal recognition that consensus is essential for inclusivity, legitimacy, and collective ownership of decisions and no Member suggested abandoning consensus-based decision-making."

The Minister-Facilitator pointed out that "many stressed the particular importance of consensus for developing and LDC Members as it ensures equality in decision-making regardless of Members' size or economic power".

However, he also noted somewhat obliquely that "at the same time, support was expressed for a more flexible decision-making approach based in consensus that would enable to deliver more outcomes".

Clearly, these two observations appear somewhat misleading and seem aimed at introducing "flexible consensus" in place of decision-making based strictly on "consensus" as enshrined in the Marrakesh Agreement.

It is suggested that "there was broad recognition of the need to honour existing mandates, particularly in agriculture and special and differential treatment (S&DT)."

Further, according to the Minister-Facilitator, "some Members emphasized the importance of stock-taking to assess what has been achieved and what remains outstanding", while "others drew a link between decision-making and past mandates, noting that unimplemented mandates fuel frustration and hinder progress."

The unfinished Doha issues – such as domestic farm subsidies and the permanent solution for public stockholding programs for food security in developing countries – had been scuttled by major industrialized countries after securing the Trade Facilitation Agreement at the WTO's ninth ministerial conference in Bali, Indonesia, in December 2013.

It is public knowledge that these issues were supposed to be resolved at the WTO's 10th ministerial conference (MC10) in Nairobi, Kenya, in December 2015.

However, two major industrialized countries stated that they were not going to accept them, according to reports of the meeting.

Additionally, it was observed that "a view was expressed that only Ministers have the authority to discontinue mandates, and that mandates cannot be re-read, altered through reinterpretation or allowed to lapse implicitly".

Further, "it was suggested that the Ministerial Conference could establish a mechanism to clarify mandates without reopening them."

According to another Minister-Facilitator, "delegations affirmed consensus as a foundational principle and the cornerstone of the WTO, essential for legitimacy and inclusiveness, particularly for developing country Members, including LDCs".

"The Trade Facilitation Agreement (TFA) and Fisheries Subsidies Agreement were cited as proof that consensus could deliver meaningful results."

Yet, the same Minister-Facilitator observed that "at the same time, there was recognition by some that consensus should not be equated with unanimity or employed as a de facto veto in negotiation brinkmanship".

It was suggested that "misuse of the consensus could drive Members to conclude agreements outside the WTO, thereby weakening the multilateral system", even though the proponents of these WTO reforms have already seemingly struck a blow to the multilateral trading system through their reform proposals, said several trade envoys familiar with the development.

"There was also strong emphasis on the member-driven character of the Organization and on the practice of decision-making by consensus as a cornerstone for equitable participation and trust in the system. The discussion pointed to the importance of maintaining these principles as the basis for any future work."

In fact, the latest reform proposals by Argentina and Australia on changing the rules to seemingly push the plurilateral initiatives, as well as a non-paper unofficially tabled by Switzerland, titled "Delivering Through Flexible Multilateralism – A Contribution to the WTO Reform," indicate the same old issues that have been repeatedly rejected by a large majority of developing countries, said trade envoys who asked not to be quoted.

These proposals seem akin to "driving more nails in the WTO's coffin", according to trade envoys who preferred not to be quoted.

Even though the reform issues – "decision-making" facilitated by the Japanese trade envoy, "development" facilitated by the trade envoy from Botswana, "level playing field issues" facilitated by the Peruvian trade envoy, and "foundational issues" facilitated by the Malaysian trade envoy – remain on the table, many developing as well as least-developed countries seem far more focused on the mandated issues and the constant denial of the core developmental matters, said people familiar with the discussions.

Against this backdrop of a continued lack of consensus on WTO reform, as reflected time and time again in the reports, this appears to be a move to expect different results by repeating the same failed talks, said people familiar with the development.

Swiss non-paper

The unofficial non-paper from Switzerland, titled, "Delivering Through Flexible Multilateralism – A Contribution to the WTO Reform", appears to be another attempt by the Friends of the System group at changing the decision-making process, among other proposals by some of its members, said trade envoys familiar with the development.

In an alleged attempt to stymie rules-based decision-making by consensus, the Swiss argue that "Decision-making has been identified as a priority area and an important starting point for WTO reform, as reflected in the report by Facilitator Petter Olberg dated 6 March 2026 (JOB/GC/491)."

However, there was no consensus on the controversial facilitator Ambassador Olberg's process. In fact, several questions were raised regarding how he seemingly constructed allegedly biased reports, said a trade envoy who asked not to be quoted.

The Swiss reference "flexible multilateralism," a concept that has been sharply rejected at every stage. Just because it was mentioned in his report does not apparently lend it any credence, the trade envoy added.

In a seemingly convoluted argument, the Swiss say that "although closely linked to decision-making, the notion of flexible multilateralism is not limited to that specific aspect of WTO governance and does not seek to challenge the practice of consensus."

If it does not seek to challenge "the practice of consensus", then why introduce this proposal, the trade envoy asked.

According to the Swiss non-paper, "flexibility should be understood as a way to strengthen the multilateral trading system by enabling the WTO to be more effective, dynamic, and responsive to Members' expectations and current challenges, including through different forms of plurilateral agreements as proposed in Members' written submissions since December 2025".

In effect, the Swiss paper is primarily aimed at promoting plurilateral negotiations that are known to be the least beneficial for the majority of developing and least-developed countries, said another trade envoy.

It seeks to drive another proverbial nail into the WTO's Marrakesh Agreement, which established a member-driven, rules-based, multilateral trading order.

While the Swiss maintain that "flexibility, guided by clearly defined parameters could also be useful in taking into account the respective needs of Members, particularly developing Members," developing countries are not asking for new agreements.

Instead, they are demanding the conclusion of the unfinished Doha negotiations in agriculture – particularly the reform of domestic farm subsidies that is being opposed by the G10 farm-protectionist countries like Norway, Switzerland, and Japan, among others – said a developing country proponent of WTO reform who asked not to be quoted.

The purpose of this non-paper is stated as an attempt "to present concrete ideas and examples of how flexibility could enable the system to deliver while preserving the WTO's core values and principles".

Essentially, however, the Swiss non-paper represents a demand by the Friends of the System group and its major developed-country allies, said an African trade envoy.

The Swiss non-paper suggested that "moving towards greater flexibility, certain guiding parameters should be respected".

It elaborated on the guiding parameters based "on the WTO's fundamental values and rules".

According to the unofficial non-paper, "the following guiding parameters would serve as safeguards:

1. Trade positive agenda: Flexibility should not lead to the imposition of additional trade restrictions. It should facilitate greater trade liberalization through rule-making among those Members that are ready.

2. Preserving consensus: Flexibility is not meant to undermine the practice of consensus – which remains a central feature of WTO decision-making – but rather to support the building of consensus, including by helping overcome obstacles to decision-making.

3. Open door policy: Flexibility to allow any interested Member to join the initiatives.

4. Inclusion: Increased flexibility must also take into account the needs of developing and LDC Members.

5. Variable geometry: Flexibility for different initiatives to have different configuration of Members, which can also move at different pace.

6. Transparency: All Members must be informed of the process, substance and key developments of any relevant initiatives."

Further, it seemingly proposes "concrete ideas on flexible multilateralism".

It suggests that "flexibility could add value in a variety of areas", arguing that "the ideas presented below are meant as a basis for discussion".

It maintains that "these ideas are not exhaustive and should be seen as part of an ongoing discussion on flexible multilateralism".

They include:

1. Flexible instruments: Under this approach, "formal decisions, which are generally legally binding, are the default form of decision-making by the Ministerial Conference or the General Council. However, nothing prevents the Ministerial Conference or the General Council from adopting more flexible instruments, such as best practices, guidelines or recommendations to be implemented by Members on a voluntary basis. Where appropriate, the relevant committees could monitor the application of such instruments. One example is the Guidelines on Conformity Assessment Procedures adopted by the TBT Committee on 13-15 March 2024 (G/TBT/54)".

2. Flexible pace: This would include "Opt-in and opt-out clauses in future agreements or decisions [that] would recognize that a single implementation timetable may not be suitable for all Members, and that differentiated commitments may be necessary to take into account the specific situation of Members, particularly developing Members."

This sounds much like the GATT Tokyo Round codes, which would imply regressing to the old GATT arrangements rather than adhering to the binding WTO rules.

3. Flexible platforms: "There is today a growing gap between the multilateral context and the bilateral or plurilateral context, in which new disciplines are negotiated and new types of agreements are concluded (e.g. digital agreements, green economy agreements, critical minerals agreements). Appropriate thematic platforms – in addition to the regular work of the committees - could be established in order to learn from these initiatives and enable relevant experiences to inform multilateral discussions."

4. Flexible Processes: "Decisions in the WTO are taken by consensus. In practice, this approach gives any Member the ability to prevent the adoption of a decision, even if its economic interests are not affected by a proposed decision and even when that Member would have no obligation to implement it."

In effect, the Swiss non-paper seems to suggest jettisoning the practice of consensus-based decision-making, said a former General Council chair from Africa.

The non-paper suggests that "flexible approach to consensus-building, based on the concept of Pareto improvement, could be an understanding or agreement among Members not to block the adoption of a decision, where (i) their economic interests are not affected by that decision and (ii) they would have no obligation to implement the instrument in question."

In conclusion, the Swiss non-paper states that "the ideas presented in this non-paper are intended to stimulate discussion on concrete steps that could be taken to advance WTO reform and could be further developed in appropriate formats. Structuring the discussions around the different forms of flexibility identified above could in particular support constructive discussions at MC14 and help generate pragmatic and concrete outcomes."

An objective analysis of these ideas, according to several trade envoys, reveals an intent to jettison consensus- based decision-making in order to promote plurilateral negotiations driven by the interests of powerful countries.

Meanwhile, the developing and least-developed countries would be reduced to being mere bystanders and passive takers of decisions made by the former. *(SUNS 10475)*

US-China AI dominance "hijacking" global governance debate?

The United Nations' inaugural Global Dialogue on AI Governance opened on 6 July with sharp warnings that a rapidly accelerating, highly concentrated AI industry is generating profound governance risks.

by D. Ravi Kanth

GENEVA: Amid a technological upheaval where a handful of artificial intelligence (AI) platforms wield unprecedented influence over governments and exacerbate income inequalities on a scale rarely seen in previous economic and technological ruptures, the United Nations Global Dialogue on AI Governance appears to be desperately searching for "guardrails" to shield nations from emerging turmoil.

"AI is advancing at runaway speed," Antonio Guterres, the UN Secretary-General, said on the opening day of the two-day inaugural AI Dialogue on 6 July. "The question is whether we will govern it together- or let it govern us".

"For the first time, the AI Dialogue gives every country a seat at the table," he maintained, suggesting that "we must now turn global participation into global action – to make AI safer, fairer, more accessible and more ethical."

However, these remarks seem to starkly contradict the reality of AI's consolidation. A handful of trillion-dollar tech giants from the US and China tightly control the sector, rendering a vast swath of UN members virtually powerless to influence the dialogue.

Analysts and commentators warn that the discourse is already being framed as a G2 issue between the US and China, reducing the rest of the developed, developing, and poorest nations to being mere bystanders.

For some inexplicable reasons, the UN chief appears to have sidestepped the issue of the total dominance of these few powerful AI platforms.

Analysts caution that the battle to govern AI is destined to fail unless all countries outside the US and China unite to wage a global struggle against the unmitigated expansion of private AI platforms.

UNHCR interview

On 7 July, the SUNS spoke to the United Nations High Commissioner for Refugees (UNHCR), commonly referred to as the UN Refugee Agency, to understand how AI is severely impacting their work managing the global refugee problem.

"When it comes to AI, we recognize its immense potential to deliver positive outcomes for refugees, displaced populations, and the wider humanitarian sector," said Matthew Saltmarsh, the spokesperson for UNHCR, in an interview with the SUNS.

"However, it is absolutely vital that guardrails are established for these sectors regarding the use of algorithms and how information is disseminated," he said.

"In recent months – an acceleration of a trend we've witnessed [in] real-world harms befalling refugees and displaced people," he said, adding that "this manifests as hate speech targeting refugees, migrants, and humanitarian organizations like our own, including efforts to even our staff online".

He pointed out that UNHCR has seen "specific instances where misinformation about asylum seekers and refugees has spread rapidly, inciting crowds and, in some cases, triggering violence against these communities".

It is common knowledge that driven by global economic and political crises – particularly widening economic disparities and an endless surge of wars and political violence – the global refugee population has skyrocketed.

Against this backdrop, Saltmarsh said that "when people are forced to flee, various actors – such as human traffickers and smugglers – actively attempt to manipulate and exploit them".

Together, these elements form a deliberate architecture of mis- and dis-information, he argued.

When asked what UNHCR is seeking to accomplish at this summit, he replied: "Our goal at this summit is to bring together states, technology companies, humanitarian actors, and representatives of refugees to acknowledge that while AI holds enormous potential for these communities, all stakeholders must collaborate."

"Practically, this means better site moderation, more human-sensitive algorithms, and better control over the dissemination of misinformation – not to impinge on free speech, but to prevent false narratives from spreading at the dangerous speeds we are currently seeing," Saltmarsh said.

"It is a massive arena, and while we are relatively small players within it, we are working hard to amplify this message here," he maintained.

"Guardrails"

The demand for strong "guardrails" to govern AI has become a universal refrain among countries, commentators, and analysts. Yet, the actual architecture of these "guardrails" remains murky.

Asked what would constitute "guardrails" for UNHCR, the spokesperson said: "It essentially boils down to working with technology companies to ensure robust moderation structures are in place."

"Crucially, this means ensuring diverse language representation, because people on the move often come from regions that aren't the primary focus of major tech platforms," Saltmarsh said, adding that "we need to guarantee that accurate, accessible information is disseminated in the right languages."

"Finally, and most importantly, we hope that the prevalence of misinformation, disinformation, and particularly harmful hate speech can be curbed through collaborative moderation efforts between governments and platforms," he added.

While some of the ideas suggested by the UNHCR spokesperson are very innovative, the problem is largely caused by a couple of private sector tech giants.

Furthermore, observers note that the talk of AI "guardrails" is ultimately the business of the G2 – the US and China – leaving private companies beyond reach. Human rights and the plight of refugees are hardly factored into this agenda.

The UNHCR spokesperson was asked if it is not the case that the UN seems somewhat helpless in addressing this problem.

"It is very difficult, and very challenging," Saltmarsh said, adding that "the reality we live and work in is that the global infrastructure and architecture of technology and AI are controlled by a relatively small number of actors, primarily based in the US or China. Yet, to some degree, we all rely on these technologies – including refugees and displaced people."

"Our approach, therefore, is to engage across the board with the companies whose technology is universally used," he said.

"We believe the only way forward is to have conversations with these stakeholders, to persuade them to act on what we know is important, and to try to counteract the increasingly negative real-world impacts we are seeing, particularly from hate speech and the rapid spread of damaging, unverified information."

He offered several concrete examples such as the massive spread of malicious disinformation across the Maghreb, particularly in Tunisia and Libya.

"In Libya," he said, "false information was deliberately disseminated to encourage people to swarm and block our offices. We saw instances where our staff members' names were posted online. The fuelled narrative was that we were trying to undermine the Libyan state and flood the country with foreigners to cause harm. That is completely false; we are simply doing our jobs as we do around the world - supporting displaced people. But the truth is easily manipulated."

The problem also exists in the Northern countries. "We've also seen numerous cases in the global North – though not always directly involving UNHCR – where misinformation about asylum seekers has spread rapidly through communities, triggering protests and, at times, damaging violence."

He issued a caveat that refugees and asylum seekers never commit crimes or pose security risks; if they do, they should be subject to the full force of the law like anyone else.

"But we have seen cases where they have been victimized, and the spread of misinformation has created highly dangerous situations for them, as well as for broader public security," he added.

At a time when UNHCR's overall budget is being badly slashed, and with the US having withdrawn its contributions, it remains somewhat difficult to fathom how these organizations are managing their activities.

"The US hasn't entirely withdrawn, but it is true that the US significantly reduced its funding last year, as did many other donors," Saltmarsh said, adding that even many North European countries slashed their funding.

Many of UNHCR's contributors have reduced their donations, creating a massive structural challenge for the UN refugee agency.

"One way we are reacting to this is through our new High Commissioner's vision, which targets a reduction in the number of long-term refugees reliant on humanitarian aid," the spokesperson said. *(SUNS 10478)*

Southern civil society groups call for fair AI governance

Civil society groups have denounced the emerging global AI governance order as illegitimate and called for "a South-led AI paradigm" that works toward an equitable governance regime that reflects the needs and priorities of the Global South.

by Lean Ka-Min

PENANG: Denouncing the emerging artificial intelligence (AI) order as lacking legitimacy, civil society organisations from across the developing world are advocating "a South-led AI paradigm" that promotes development, human rights and environmental sustainability.

Ahead of the first United Nations Global Dialogue on AI Governance, the Global Digital Justice Forum (GDJF) and the Global South Alliance (GSA) issued a joint statement calling on the Dialogue to redress the injustices blighting the present development of artificial intelligence and to work towards an equitable AI governance regime.

The first edition of the Global Dialogue, which brought together representatives from governments, the private sector, academia and civil society to discuss international cooperation around AI, convened in Geneva on 6-7 July.

The GDJF and the GSA are networks of developing-country civil society groups concerned with digital rights and justice.

The Global Dialogue took place amid rising concern over imbalances in AI innovation even as application of the technology continues to grow.

AI models from the United States dominate the market: an analysis by the think-tank RAND of website traffic to the major large language model (LLM) platforms revealed that US LLMs captured some 93% of global site visits in August 2025, compared with only around 6% for Chinese models.

The US and China, the two countries leading the way in AI development, have differing approaches when it comes to governance of the technology.

As exemplified in "America's AI Action Plan" released by the White House in 2025, the US is pursuing deregulation as a means of spurring innovation in order to maintain its competitive edge and preserve its dominance in the sector.

In contrast, the Chinese government has outlined a vision of global collaboration on AI to deliver equal rights and opportunities for all countries and shared benefits for humanity.

Against this background, the GDJF-GSA joint statement contends that the current trajectory of AI innovation "has consolidated the neocolonial structures of development".

The prevailing inequities, say the GDJF and the GSA, are founded to a large extent upon exploitation of the Global South's resources, "[f]rom the devalued, dehumanizing labor that is essential for training AI models to the critical minerals, land, energy, and water" required for the production and operation of AI infrastructure.

"[C]ommunities in the South continue to provide the scaffolding for the AI economy and society, without the voice and power to shape and benefit from this paradigm," the statement says.

Given this imbalance, the GDJF and the GSA called upon the Global Dialogue "to deliver on a South-led AI paradigm, anchored in a vision of rights-based development, respectful of planetary boundaries, and committed to intergenerational justice and human rights".

The statement demanded an end to "AI extractivism" as characterised by "the violation of human rights, the erosion of democratic processes, the abuse of the environment, and the discrimination and invisibility of marginalized citizens in AI-driven decision-making in public services."

Instead, "AI innovation must embrace the precautionary principle. It must be ethically and transparently developed, democratically accountable, and grounded in a globally agreed minimum floor for meaningful and dignified work, pluralistic knowledge, diversified economies, and planetary flourishing."

The GDJF and the GSA also proposed that international AI cooperation be informed by the principle of "common but differentiated responsibilities" between developed and developing countries.

They maintained that the unequal global economic order seriously undermines the development of digital infrastructure and human and institutional capabilities in developing countries.

Rectifying this requires global commitments to support "the development of regenerative, locally-led AI infrastructures and models in the South".

In addition, the GDJF and the GSA urged the Global Dialogue to address corporate impunity in the AI field.

They asserted that the proposed binding UN treaty to protect against corporate violations of human rights should be "adopted without delay and appropriately future-proofed against the specific risks of harms and abuses in data and AI value chains".

Further, a "global moratorium on the sale and use of AI systems that pose a high risk to human rights (such as remote biometric recognition, social scoring, spyware, and AI-driven autonomous weapons) is urgently needed".

The civil society statement also said that the global governance of cross-border data flows must respect development sovereignty instead of following a "one-size-fits-all" logic.

Additionally, "the governance of the non-personal data commons requires a societal approach that includes safeguards for collective privacy and the rights of communities to steward the use and re-use of their data resources in innovation ecosystems, together with strong personal data protection rights".

Inequalities in access to computing resources, or compute, are another source of concern for the GDJF and the GSA.

They noted that "[t]he foundational infrastructure of compute is controlled by a few corporations", and that "[e]ven open-source AI models are often dependent on closed/proprietary infrastructure systems for their hosting and distribution".

In light of this, they called for "a global facility for public compute", through which a distributed network of AI research centres coordinated by a central hub can be utilised by researchers from developing countries.

The civil society coalitions concluded by reiterating that the present model of AI innovation "is not working for the majority".

They called upon the Global Dialogue to "move the needle with conviction and courage towards people's participation, planetary wellbeing, and public value. Anything less will not do justice to the people of the South." *(SUNS 10478)*

Fight against poverty must anchor next-gen development goals

A United Nations human rights expert has urged that the fight against poverty and inequality be placed at the core of the next generation of global development goals, stressing that efforts must be stepped up to reduce poverty and inequality without relying on economic growth alone.

by Kanaga Raja

PENANG: The fight against poverty and inequalities should be at the heart of the new generation of development goals – recognizing that poverty is not inevitable, but manufactured by policy choices and structural injustices, according to a United Nations human rights expert.

In his final report (A/HRC/62/42) to the 62nd regular session of the UN Human Rights Council, the Special Rapporteur on extreme poverty and human rights, Mr Olivier De Schutter, said that this is a battle that can be won.

However, it will require a leap in imagination, more audacity, and stronger political will, he added.

Pointing out that participants in the 2027 Sustainable Development Goals Summit will consider development by 2030 and beyond, he said Member States should increase their efforts to combat poverty and reduce inequalities without relying on economic growth alone.

De Schutter said adopting measures of progress that go beyond GDP and are aligned with human rights norms and standards, consistent with the proposals of the Secretary-General's High-level Expert Group on Beyond GDP and the request contained in the Pact for the Future, is a first step.

"This alone will not suffice, however: it is time to move not only beyond GDP, but also beyond growth, and to take policy measures that will prioritize well-being above economic growth alone."

Consistent with the guiding principles on extreme poverty and human rights, rights-based national anti-poverty strategies should be designed to measure poverty and inequalities across all their dimensions (including social mobility and the hidden dimensions of poverty), to set binding targets for poverty reduction and the reduction of inequalities and to ensure accountability, participation and long-term planning for inter-generational fairness, identifying the budgetary needs and ring-fencing resources to that end, said the Special Rapporteur.

Such strategies will only be effective if they combine post-market redistribution with in-market reforms and pre-market social investment, he added.

"Economies should be made inclusive and sustainable by design, rather than simply geared towards growth and export competitiveness, and the cycles that perpetuate chronic poverty from one generation to the next should be broken." In his final report, titled "The manufacturing of poverty", De Schutter said in the 2030 Agenda for Sustainable Development, Heads of State and Government and High Representatives stated that they were determined to "end poverty and hunger, in all their forms and dimensions" by 2030 and resolved to "combat inequalities within and among countries".

However, these pledges will not be fulfilled. More than a tenth of the world's population, or 845 million people (388 million people in East and Southern Africa alone), still lived in extreme poverty in 2025, and 8.9 per cent of people will still live in extreme poverty by 2030 unless a dramatic change of course occurs.

Those figures are optimistic to the point of being misleading, since they rely on the extremely low international poverty line of $3 per day in purchasing power parity, De Schutter underscored.

Using the more realistic $8.20 per day in purchasing power parity, 45 per cent of the world's population, or 3.7 billion people, would be considered to be living in extreme poverty, he said.

He said using that same measure, 89.3 per cent of the sub-Saharan African population (670 million people) live in extreme poverty today, a rate that has remained unchanged for the past 30 years.

At the same time, 2.3 billion people experienced moderate or severe food insecurity in 2024.

The coronavirus disease (COVID-19) pandemic and the cost-of-living crisis that followed the rise in energy prices in late 2021 and during the first quarter of 2022 increased this figure by 335 million people compared with 2019.

He said at the time of writing the present report (March 2026), Governments are bracing for what may be the worst cost-of-living crisis since the Great Financial Crisis, as a result of the energy crisis triggered by the conflict in the Persian Gulf.

Worse, Governments are also facing what has been recognized as an "inequality emergency": nine in ten people in the world live in countries that meet the World Bank's threshold for high inequality (Gini coefficient above 0.4), and wealth inequality in particular has risen dramatically over the past 40 years, said the expert.

He said that in India, the top 10 per cent of earners capture about 58 per cent of national income, while the bottom 50 per cent receive only 15 per cent, and the richest 10 per cent hold around 65 per cent of total wealth (the top 1 per cent owning about 40 per cent).

In the Russian Federation, the richest 10 per cent hold 75 per cent of total wealth, and the top 1 per cent alone hold 47 per cent.

The expert said in Mexico, the top 10 per cent of earners capture around 59 per cent of total income, while the bottom half receive only 8 per cent, and wealth inequalities are even larger: the richest 10 per cent hold 71 per cent of total wealth and the top 1 per cent hold about 38 per cent.

In Colombia, which has one of the highest income Gini coefficients in the world (0.53), the top 10 per cent of earners capture 60 per cent of total income, while the bottom 50 per cent receive around 7 per cent, and wealth inequalities are extreme: the richest 10 per cent hold around 71 per cent of total wealth, a situation that has in fact worsened over the past decade.

De Schutter said the growth

of income and wealth inequalities within countries is a ticking bomb. By reducing social mobility and making it more difficult for the poorest groups to overcome disadvantage, such inequalities transform societies that pride themselves on being "meritocratic" into caste-based societies; a betrayal of the ideal of equal opportunities that has far-reaching political consequences.

Indeed, it should come as no surprise that countries such as Brazil, Colombia and South Africa are taking the lead in the global fight against inequalities, he noted.

In these countries with high inequality and low social mobility, it takes nine generations or more for those born in low-income families to approach the mean income in their society unless significant changes occur.

Entrenched inequality worsens poverty, which is a relational concept: it is extreme material deprivation, but also the social exclusion of people who cannot meet the norms of behaviour that are expected within the society to which they belong, said De Schutter.

"Inequality moreover limits opportunities to save, acquire or inherit assets. Particularly when paired with low coverage of social protection, inequality means that people experiencing poverty are rarely able to change their life trajectory."

The expert said while wealthier households can absorb external and internal shocks through accumulated assets and social networks and access to higher education that lead to better-paid employment, poorer individuals have far fewer options to manage the risks or recover from crises, reinforcing the vicious cycles that perpetuate and exacerbate inequality.

Inequalities also favour speculation on certain assets, particularly land and housing, from which people living in poverty are priced out, he noted.

"Poverty and inequalities are manufactured. While catastrophic for the victims experiencing exclusion, they are not natural disasters: Governments can choose to address them before they happen."

Three levers

In this regard, in his final report, the Special Rapporteur identified three levers in the fight against poverty.

Highlighting lever one as post-market compensation, he said that the most obvious response to the twin challenges of persistent poverty and rising inequality is to combine progressive taxation and redistribution through the provision of public services and social protection.

During his tenure, the Special Rapporteur put forward a number of recommendations in that regard.

However, he said that this first lever faces a major constraint: it requires high levels of economic growth.

"Under existing institutional arrangements, public revenue is mobilized mostly by taxing economic activity, and the reduction of total economic output may therefore place pressure on public finances, threatening the financing of social protection, especially when it reduces total employment, which may result not only in lower revenues for the State, but also in an increase of public spending on unemployment benefits, in the countries that have such protections in place," he added.

Moreover, the less total economic output increases, the higher the percentage of gross domestic product (GDP) will need to be dedicated to debt servicing, which in many developing countries is a major obstacle to financing social protection.

In this context, he said in 2024, developing countries had a total public debt of $31 trillion (and a debt-to-GDP ratio of 54 per cent).

In one in three developing countries (home to 3.4 billion people in total), spending on debt servicing already exceeds spending on healthcare or education, said the expert.

"As long as economic growth remains a precondition for social progress, Governments are trapped in a dilemma: while growth is needed, it is not sustainable, and the quest for growth risks superseding other objectives."

De Schutter said since the 1970s, Earth scientists have been warning that infinite growth is an unrealistic option on a planet with finite resources and with a limited ability to absorb the waste and pollution caused by the growth of human activity.

The expert said dominant, growth-led development models are creating the conditions for what scientists call a "hothouse Earth": climate change is reaching tipping points which are threatening the very conditions that have supported human civilization for millennia.

He said biodiversity loss is such that it is now described not only as the "sixth extinction of species", but also as a national security threat.

"Resource extraction and use are responsible for 55 per cent of global greenhouse gas emissions, and land-use changes are responsible for 90 per cent of biodiversity loss, figures that are anticipated to rise by 60 per cent from 2020 levels by 2060."

The failure of Governments to address poverty and inequalities contributes to this environmental collapse, he underscored.

The Special Rapporteur pointed to levers two and three as being in-market inclusion and pre-market social investment.

He said progressive taxation and the strengthening of social protection are thus essential to the fight against poverty.

However, relying on these tools alone is insufficient, he pointed out.

Lever one requires striking a balance between targeting support at the poorest households, for instance, by proxy means testing, and avoiding the risk of under-inclusion.

"The difficulties that low-income households face in collecting the documentation required to apply for certain benefits or in going through complex application procedures result in high rates of non-take-up of social benefits, and proxy means testing, when it is performed by local officials or social workers, can give rise to discrimination or encourage bribery."

Moreover, he said that excessive targeting creates a form of anxiety for potential beneficiaries, with measurable mental health impacts.

"It also carries a political cost: the more social support goes only to the poorest households, the less it enjoys broad support across all groups of taxpayers, unless combined with strong conditionalities."

Moreover, De Schutter said post-market compensation (lever one) is not a substitute for making the economy more inclusive by design (lever two) or for addressing the root causes of the perpetuation of poverty across generations (lever three).

He said these levers have a key role to play in breaking the cycles of disadvantage and ensuring real equality of opportunities.

In Organisation for Economic Co-operation and Development (OECD) countries, at least a quarter of the income market inequalities (before tax and transfers) is attributable to circumstances beyond individuals' reach, such as persons' sex, country of birth and, in particular, the socioeconomic background of their parents (their educational level and profession), which explains 60 to 75 per cent of this gap, the expert pointed out.

In countries such as Belgium, Chile, Ireland, Luxembourg, Poland, Portugal, Spain and the United States of America, more than 35 per cent of total income inequality is explained by factors unrelated to an individual's efforts.

An inclusive economy (lever two) is one that actively supports access to decent jobs, in particular by combating discrimination on grounds of socioeconomic disadvantage or long-term unemployment, and that strengthens the bargaining position of workers by upholding union rights and guaranteeing the right to a living wage and to fair remuneration, the Special Rapporteur underlined.

Social investment (lever three) is most effective at breaking the vicious cycles that perpetuate poverty from one generation to the next, by addressing child poverty and investing in areas such as nutrition, adequate housing and quality education, he said.

He said social investment thus conceived, based on the provision of basic services, could focus efforts on the poorest regions and on disadvantaged neighbourhoods, since it is now well understood that neighbourhood characteristics, such as average household incomes, rates of single-parent households and crime rates, the proximity of role models and social networks and access to green areas, have a decisive impact on children's prospects.

Social investment is particularly important to take into account geographical disparities between regions, which often have their source in weaker infrastructure and lower-quality public services, he added.

For instance, he said in Mexico, poverty rates vary tenfold across regions – a gap of around 35 percentage points – and similar disparities are found in Colombia and Italy, where the gap between the regions with the highest and lowest poverty rates exceeds 30 percentage points.

While a comprehensive effort to combat poverty should rely on the three levers, ensuring their complementarity is a major challenge.

A human rights-based approach to combating poverty can help in this regard, he added.

"It should ensure, for example, that any conditionalities attached to social benefits do not result in penalizing people living in poverty or in increasing rates of non-take-up, but instead take the form of enforceable rights that beneficiaries may claim to support them in their search for a job, or in having access to training, to better housing conditions or to quality schools that will improve their children's future prospects."

The expert said it should also ensure that, to avoid social benefits resulting in a disincentive to work, entry-level wages are increased (rather than benefits reduced) and obstacles to employment (such as the lack of childcare services and high transportation costs) are addressed.

"States should adopt anti-poverty strategies based on human rights, involving people living in poverty in their design and implementation and setting targets to be reached within specific time-frames."

The expert said such strategies should ideally be anchored in legislation, as has been done in Belgium, Bolivia, Canada, Colombia and the Philippines.

If well conceived, they can be a crucial tool to ensure that the three levers of the fight against poverty support each other, and to allow countries to move beyond growth dependencies, the Special Rapporteur suggested.

He said there are indications that Governments are now starting to take more seriously the need to abandon the chimera that growth will automatically alleviate poverty, and finally moving to place the fight against poverty and inequalities above abstract measures of general affluence, such as GDP.

He stressed that it is this shift that his "Roadmap for Eradicating Poverty Beyond Growth" seeks to support.

"If poverty is manufactured – produced and reproduced by institutional choices about how labour is valued, how wealth is taxed, how care is remunerated and how markets are regulated – then eradicating it cannot rely only on compensating for its effects: it requires transforming the economic rules, incentive structures and power relations that systematically generate it."

De Schutter said the human rights economy is the systemic approach required to rebuild economies so that they deliver the well-being of all people within planetary boundaries, redirecting production and investment away from accumulation for the few and towards the fulfilment of rights for the many.

The Roadmap is about that vision; it is also about the steps needed to move towards its implementation, he said. *(SUNS 10473)*

Middle East conflict fallout squeezing fiscal space in South

While governments have acted quickly to cushion households and firms from the effects of the conflict in the Middle East, efforts to manage the fallout are squeezing budgets in many low- and middle-income economies, leaving little room for essential investments, according to the UN Development Programme (UNDP).

by Kanaga Raja

PENANG: Governments have moved swiftly to blunt the ripple effects of "the most severe oil supply shock in history", but at a steep fiscal cost for many low- and middle-income economies already grappling with heavy debt, low reserves and limited access to finance, heightening the long-term economic risks even as short-term pressures ease, according to the UN Development Programme (UNDP).

In a new report, UNDP said developing countries' efforts to tackle the ongoing effects of conflict in the Middle East carry a high price that leaves little room for critical investments in education, health and other development priorities.

The report found that low- and middle-income countries have partially protected their populations from soaring oil prices through fossil fuel subsidies, price caps, tax rebates and demand-management measures.

Fossil fuel subsidies, which had been on a downward trend globally, are on track to reach $1.1 trillion in 2026 – $410 billion more than in 2025, assuming the current average oil price settles at $88.6 per barrel, UNDP said.

This projection climbs to as much as $1.43 trillion in a "severe" scenario where oil prices climb to an average of $110 per barrel.

The UNDP warned that while fossil fuel subsidies provide temporary relief, they ultimately undermine climate and development goals, locking countries into high-carbon pathways and limiting future investment.

"The global spillover of the Middle East conflict is profound and potentially long-lasting. Developing countries, many already struggling with debt, have temporarily managed to protect people from the worst of the energy shock," said UNDP Administrator Alexander De Croo.

He said that these countries are doing everything they can, but there is a hidden cost. "To deal with today's crisis, governments are postponing tomorrow's investments."

De Croo said: "Money that should be building schools, hospitals, and clean energy systems is being used simply to keep economies afloat. Without international support, these countries won't escape the shock. They are absorbing it at the expense of future growth."

Close to half of the world's poorest countries are already either "in" or at "high risk" of debt distress, and debt continues to crowd out development spending at an increasing rate, according to the report.

This year, it is estimated that the median developing economy will spend 9.53 percent of total government revenue on interest payments alone – double the share of a decade ago and the highest level seen in 25 years.

Averaged over the three-year period 2024 to 2026, 55 developing economies are estimated to pay more than 10 percent of revenue in interest payments, compared to 32 countries a decade ago.

"No country should have to sacrifice its future development to manage a crisis it did not create," said De Croo.

"First, we must unlock multilateral liquidity in ways that are easy to access for low- and middle-income countries. Second, we must accelerate investment in renewable energy," he added.

"Every clean energy investment reduces exposure to future shocks. The crisis has made one thing clear: energy security and the energy transition are no longer separate agendas. They are one and the same," said De Croo.

According to the UNDP report, the "most severe oil supply shock in history" continues to have ripple effects across the globe, but its immediate socio-economic effects have been partially mitigated by rapid domestic policy responses.

"Governments have moved quickly to cushion households and firms from higher energy prices through fuel subsidies, tax cuts, price caps, strategic stock releases, emergency procurement, export restrictions, demand- management measures and fuel switching."

The report said that these responses have helped reduce the immediate pass-through from international oil and gas prices to domestic retail prices but at a great fiscal cost and risk – especially across many low- and middle-income economies already heavily burdened by debt, with low reserves and limited access to financial markets.

This cushioning, however, is uneven and costly. Advanced economies and large emerging markets have more fiscal, financial and administrative capacity to absorb the shock, it added.

Many low- and middle-income countries have much less room to do so.

For them, the price-cushioning measures may protect households and businesses in the short run but can quickly widen fiscal deficits as expenditure rises and the revenue base erodes, increase borrowing needs, reduce foreign-exchange buffers, and crowd out spending on development priorities.

Under the IMF reference scenario, global extreme poverty is projected to continue its gradual decline since 2020, reaching 561 million people in 2026.

However, a further deterioration in global economic growth would partially reverse the gains, said the report.

Under the adverse scenario, the number of people living in extreme poverty would reach 567 million, while under the severe scenario, it would go under 569 million.

Relative to the reference projection, this implies an additional 6 to 7.5 million people falling into extreme poverty, it noted.

It also said the effects are visible at higher poverty thresholds. Under the lower-middle-income country (LMIC) poverty line, the number of people living in poverty is projected to decline from 1.52 billion in 2025 to 1.49 billion in 2026 under the reference scenario.

Under the adverse and severe scenarios, poverty would increase by approximately 4 million and 6 million people, respectively, relative to the baseline projection.

At the upper-middle-income country (UMIC) poverty line, the impacts are considerably larger.

Poverty declines to 3.31 billion people in 2026 under the reference scenario but would increase to 3.32 billion under the adverse scenario and 3.35 billion under the severe scenario, said the report.

Relative to the reference projection, between 17 million and 45 million additional people fall below the UMIC threshold, it added.

Remittances

A prolonged Middle East shock would transmit to South Asia not only through oil, gas, fertilizer and food prices, but also through labour income earned abroad, the report pointed out.

The Gulf Cooperation Council (GCC) economies remain one of the world's largest remittance-sending regions and a critical source of foreign exchange and household income for India, Pakistan and Bangladesh, it noted.

Highlighting the substantial scale of the corridor, it said India received $118.7 billion in remittances in 2023-24, of which 38 percent came from GCC countries – equivalent to roughly $45 billion.

Pakistan's dependence on GCC labour markets is even greater: State Bank of Pakistan data indicate that Saudi Arabia, the United Arab Emirates (UAE) and other GCC countries account for almost 57 percent of workers' remittances, equivalent to roughly $22 billion in 2025.

Bangladesh received a record $32.8 billion in remittances in 2025, with Gulf employment accounting for about 43 percent of the total, or roughly $14 billion.

The report said together, these figures imply that around $80 billion in annual remittance flows to India, Pakistan and Bangladesh are linked to labour markets in the Gulf.

Even a modest 5 percent decline in GCC-linked remittances would imply a loss of around $4 billion across the three countries; a 10 percent decline would imply around $8 billion, it suggested.

"Remittances constitute an important source of resilience for many households across South Asia. Historically, remittance flows have often proved resilient during periods of economic stress, as migrants increase support to families facing hardship."

The report said that these flows support household consumption, education, health spending, debt repayment and housing investment, while also providing foreign exchange at a time when energy import bills are rising.

Policy attention should therefore focus on preserving this channel rather than assuming it will remain resilient on its own.

This means keeping remittance corridors open and affordable, protecting migrant workers' employment and wage claims, maintaining consular and labour-market monitoring in GCC host countries, and ensuring that remittance-receiving households are covered by targeted social protection if inflows weaken, it added.

If the crisis persists, slower construction and service-sector activity, reduced overtime, delayed wage payments, higher living costs for migrant workers, disruptions to payment channels or increased return migration could gradually weaken remittance flows.

Domestic policy alone may not be sufficient to offset these income losses, the report underlined.

Fertilizer shock

According to the report, a prolonged Middle East shock would transmit to Sub-Saharan Africa through several agrifood channels at once.

Higher oil prices raise the cost of food transport, irrigation, milling and humanitarian delivery.

Trade disruptions raise import costs for food and agricultural inputs. Most importantly, fertiliser markets are tightening sharply, with urea prices rising fastest because nitrogen fertiliser production is highly exposed to natural gas and Gulf export routes, it said.

The scale of the fertiliser shock is substantial. The World Bank projects fertiliser prices to rise by 31 percent in 2026, driven by a 60 percent increase in urea prices.

Fertilizer affordability is expected to fall to its weakest level since 2022, threatening farmers' incomes and future crop yields, it added.

World Bank analysis also reports that urea prices rose above $850 per ton in April, around 80 percent higher than in February, while the Middle East accounts for nearly one-quarter of global urea exports.

Africa imports roughly 80 percent of its fertilizer requirements, while the Strait of Hormuz carries a substantial share of globally traded fertiliser and fertiliser feedstocks, including urea, ammonia and sulphur.

The report said the risk extends beyond prices alone. Delays in procurement, shipping and delivery may reduce fertilizer application during planting windows, lowering yields and tightening local food supplies months later.

"The shock is not only immediate; it threatens future harvests as well, raising the risk that today's fertilizer shock becomes tomorrow's food-price shock."

Some African countries and regional actors are already taking steps to reduce exposure to the fertiliser supply shock, the report noted.

For instance, it said in Nigeria, the Presidential Fertiliser Initiative is reportedly on track to deliver a 1.1 million metric tonne fertilizer programme in 2026, equivalent to about 22 million bags, with more than 449,000 metric tonnes of fertilizer inputs already secured by May.

At the regional level, the Africa Finance Corporation has announced a $600 million facility to Greenview Fertilizer Corp., Dangote Group's fertilizer holding company, as part of a $7 billion expansion programme intended to triple urea output in Nigeria from 3 million to 9 million metric tonnes per year and support new production capacity in Ethiopia.

These initiatives illustrate how regional production and supply-chain investments can help reduce exposure to external fertilizer shocks.

They also point to the importance of scaling sub-regional fertilizer procurement, production and distribution mechanisms, particularly where they can help protect smallholders during planting windows, said the report.

Food insecurity was already severe before the latest energy and fertiliser shock. FAO and WFP identify several Sub-Saharan African contexts among current global hunger hotspots, including Sudan, South Sudan, Mali, the Democratic Republic of the Congo (DRC), Nigeria, Somalia, Burkina Faso, Chad and Kenya, it added.

Of the more than 116 million people in Eastern and Southern Africa facing acute food insecurity, nearly half are located in the DRC and Sudan.

"Several of these countries are already affected by conflict, displacement, drought, high debt burdens, weak currencies and reduced humanitarian funding," the report said, adding that the Middle East shock therefore lands on top of existing fragility.

Citing the situation in Somalia to illustrate the risk, the report said that WFP estimates that 6.5 million people – around one-third of the population – are expected to face severe hunger in 2026.

WFP's Middle East crisis analysis further suggests that an additional 2.5 million people in Somalia risk being unable to afford a basic food basket in 2026, and that almost 60 percent of households may be unable to meet essential needs, up from 47 percent in 2025.

Somalia is especially exposed because it imports all of its oil and around 90 percent of its cereals.

According to UNDP, the policy priority is to prevent a fertilizer price shock from becoming a harvest shock.

"This means keeping input supply chains open, protecting fertiliser access for smallholders during planting windows, avoiding export restrictions and panic procurement, and combining targeted food assistance with support to agricultural livelihoods."

In the current context, fertiliser becomes a strategic food security input: if farmers miss the planting season, the crisis will continue long after energy prices stabilize, it noted.

The report also pointed out that Asia is one of the main destinations for Middle East oil and gas, making the region highly exposed to the current context.

Governments have responded through a mix of fuel subsidies, tax cuts, price caps, emergency funds, rationing, fuel-switching, and strategic stock releases, it added.

These measures can soften the pass-through from international energy prices to domestic consumers, but they also shift part of the shock onto public budgets, state-owned enterprises and balance sheets, it cautioned.

It said the scale of the fiscal response is already large. IEEFA (the Institute for Energy Economics and Financial Analysis) estimates that explicit fossil fuel subsidies reached $55.9 billion in Southeast Asia in 2024, equivalent to 1.3 percent of regional GDP.

Five economies – Indonesia, Malaysia, Thailand, Vietnam and the Philippines – accounted for $54.2 billion of this total.

The same countries now face renewed pressure to expand or extend subsidy schemes as oil and refined-product prices remain elevated, the report suggested.

Recent policy measures show how quickly fiscal exposure can build. Indonesia budgeted about $22.4 billion for energy subsidies and compensation to state energy firms to keep fuel and electricity prices affordable, it said.

Japan has drawn on 800 billion yen, about $5 billion, in reserve funds to finance gasoline subsidies. India's fuel excise-duty cuts imply a revenue loss of around $750 million per fortnight, partly offset through windfall taxes on fuel exports.

Vietnam's suspension of gasoline, diesel and jet-fuel taxes was estimated to reduce revenue by around $273 million per month.

Fiscal implications

According to UNDP, when international energy prices surge, the risk of fiscal and balance of payments crises can rise rapidly in vulnerable net-importing countries, carrying severe implications for the broader economy and social outcomes.

Large poor populations, high public debt burdens, limited foreign exchange reserves, and restricted access to international capital markets leave many developing economies highly exposed to the global energy supply shock, it said.

In net energy importers, a surging energy import bill can quickly worsen current account balances, drive up the demand for foreign exchange and put severe pressure on reserves and the exchange rate.

A depreciating currency further inflates import and external debt-servicing costs – compounding inflationary pressures and heightening the risk of a broader macroeconomic crisis in the most vulnerable countries, it added.

The asymmetrical economic impact is already evident. Not counting the direct conflict-affected countries, 100 countries (with available data) have had their 2026 real GDP growth rate projection revised downwards since the war started, UNDP emphasized.

Most hard-hit are countries in the low-income group, where the median negative revision has been 0.5 percentage points (pp) followed by lower-middle-income countries with 0.4 pp, upper middle-income countries with 0.3 pp, and high-income countries with 0.2 pp.

According to the latest debt sustainability analyzes (DSAs) for the poorest countries, close to half are already rated either "in" or at "high risk" of debt distress while only 13 percent are considered at "low risk", UNDP said.

It said looking at sovereign credit ratings across all developing economies, close to 60 percent are rated "highly speculative or worse", and only 17 percent are considered "investment grade".

"The high fiscal cost of maintaining fuel subsidies during international energy price spikes has forced several governments to accept a higher pass-through to domestic retail prices despite grave implications for vulnerable households and the risk of social unrest."

Across the poorest (low- and lower-middle-income) countries, retail fuel prices increased by an average of 29 percent – and up to as high as 93 percent – between 23 February to 8 June, triggering social unrest and protests in several countries, the report noted.

With international energy prices surging by approximately 60 percent between December 2025 to May 2026, subsidy bills are set to swell again this year, serving as the primary driver of fiscal pressures in many countries, it suggested.

This energy shock has already rippled into fertilizer and agricultural markets, with fertilizer prices up more than 50 percent, and food prices more than 10 percent, over the same period.

Keeping retail energy and food prices from rising carries enormous fiscal costs and risks; conversely, allowing them to rise deepens poverty and can fuel social unrest.

The UNDP estimates that global fossil fuel subsidies are currently on track to reach $1.1 trillion in 2026 and could reach as high as $1.43 trillion in a severe scenario where the average oil price reaches $110/barrel, representing an estimated $410-$740 billion increase from 2025.

While the recently agreed Memorandum of Understanding brings hope that the worst of the crisis has passed, the shock will already have added to fiscal pressures and contributed to the long-run trend of higher debt servicing crowding out development spending in developing economies, said the report.

It said since the mid-2010s debt servicing has absorbed a growing share of government revenue in developing economies.

This year, it is estimated that the median country will spend 9.53 percent of total government revenue on interest payments alone – double the share of a decade ago and the highest level seen in 25 years.

In comparison, the median high-income country pays 2.98 percent. Averaged over the three-year period 2024 to 2026, 55 developing economies (44 percent of the sample) are estimated to pay more than 10 percent of revenue in interest payments, compared to 32 countries (26 percent of total) a decade ago.

The report said twenty-one countries (17 percent) are estimated to pay interest worth more than one-fifth of their revenue, compared to only eight countries a decade ago.

According to UNDP, weaker growth, larger deficits, currency depreciation, and higher refinancing needs all worsen the debt-sustainability metrics, leading investors to demand higher sovereign risk premia for holding emerging market and developing economy debt – further worsening debt dynamics.

These effects are strongest in countries with high energy import dependence, low reserves, high external debt, and limited fiscal space, it concluded. *(SUNS 10474)*