Global Essay Competition 2025

Title: International Market Practices for Accountability and Corporate Transparency: Building Cooperation in a Globalized World

Essay:

"The problem that we have is not globalization. The problem is a lack of global governance, a lack of means to address global issues."
Professor Klaus Schwab, Founder and Executive Chairman World Economic Forum
November 13, 2016

When Francis Fukuyama theorized "The End of History" in the early 1990s, he posited that the Cold War had signaled the ideological triumph of democracy and liberalism (Fukuyama, 1992). The collapse of the Soviet bloc left the United States as the sole hyperpower, ushering in an era of American-led global governance (Védrine, 2004). However, this unipolar world is now being challenged by the rise of new economic and political actors, particularly in Asia, South America, and Africa. These emerging powers are reshaping the global economic landscape, creating new markets and commercial opportunities (Acharya, 2018). Considering this new reality, the question of regulating these markets becomes crucial. In a context where the Sustainable Development Goals [SDGs – *see Appendix*] are under threat and ecological transition is crucial, it is imperative to find a way to manage these new opportunities and steer them towards sustainable development. This is the context for the proposal of a tax on markets that do not follow the SDGs: a bold mechanism aimed at internalizing the costs of negative externalities associated with economic activities and generating funding for projects contributing to a more just and fair future. This essay analyzes in detail the implications of such a proposal, examining the challenges related to its implementation, including political acceptability, business competitiveness, and the complexity of reaching an international agreement. Finally, it offers concrete solutions to overcome these obstacles and maximize the potential of this mechanism to accelerate the achievement of the SDGs and build a more responsible and inclusive global economy that places cooperation at the center of its investments.

Fragmentation of Global Governance

The late 1990s marked the beginning of a significant geopolitical shift, transitioning from a unipolar world dominated by the United States to a multipolar system. This change has redistributed power among several major centers of influence, affecting global economic and political dynamics. Asia, South America, and Africa have experienced rapid economic growth, opening promising prospects for businesses and investors. China, for instance, has become the world's second-largest economy, with a gross domestic product reaching $18.3 trillion in 2024, accounting for approximately 19% of global GDP, creating a colossal market for international companies (IMF, 2024). Africa, with an average annual economic growth rate of 3.7% between 2017 and 2023 (excluding 2020 due to economic disruptions), is also becoming a key region for investment (Statista, 2024).

In this rapidly changing global landscape, the "G-Zero" theory, developed by American political scientist Ian Bremmer, has gained traction in the international arena. It presents a vision of a world marked by an absence of unified global leadership. International bodies such as the UN and the G20 are losing authority and effectiveness, while competition among new actors intensifies (Bremmer, 2012). Consequently, global cooperation is fragmenting, and each nation prioritizes its own economic and political interests. Major powers are focusing more on their national interests rather than seeking to cooperate for the global common good (Bieber, 2018). This translates into increasing isolationism in some countries, such as the United States under Donald Trump, with policies like "America First."

This dynamic opens new economic prospects, as the multiplication of markets, particularly in Asia and Africa, offers significant growth potential. However, this heightened competition and lack of global regulation carry substantial risks.

Uneven Application of Sustainability Standards by Multinational Corporations

Without effective global governance, the global challenges of sustainable development detailed within the UN's 2030 Agenda are increasingly difficult to address collectively. Rapid industrialization fueled by global demand for manufactured goods leads to significant negative externalities. China's rapid industrialization for example has caused massive air pollution severely affecting public health (Liu et al., 2018). Similarly, deforestation in the Amazon driven by international demand for natural resources and intensive agriculture threatens biodiversity and contributes to climate change (Artaxo, 2023).

The consequences of this unregulated growth also affect several other SDGs. Income inequality and limited access to basic services in developing countries remain major challenges. In 2024, according to the United Nations Development Programme, over 9% of the global population lived in extreme poverty, which amounts to approximately 700 million people, and reports show that gender inequality and unequal access to education remain significant, hindering progress toward SDG 4 and SDG 5 (UNDP, 2024). In 2023, UNESCO estimated that approximately 250 million children and adolescents were deprived of access to education, representing about 17% of the global school-age population (United Nations News, 2023).

The United Nations has warned that climate change risks pushing approximately 100 million people into poverty by 2030 and that it could reverse progress made in combating hunger and improving public health (World Bank Group, 2015). The 2018 special report of the Intergovernmental Panel on Climate Change showed that limiting global warming to 1.5°C would require global CO_2 reductions of 45% by 2030, highlighting the urgency of action (IPCC, 2018).

In a context where only 15% of SDGs are "on track," it becomes crucial to implement innovative solutions to regulate these new commercial activities and steer them toward even more sustainable development (Guterres, 2023). Indeed, businesses and markets play a crucial role in reversing this trend. Integrating SDG principles into supply chains, promoting transparency, and influencing public policy are essential levers.

Rethink Companies' Impact: How to Make SDGs Unavoidable?

"Companies have power, companies have impact. If you have power and impact, hopefully you also take the responsibility that goes with that."
Feike Sijbesma, Former CEO and Chairman of the Managing Board of DSM
World Economic Forum, January 22, 2020

To address these challenges, we need to rethink business actions and their contribution to the SDGs. I propose launching a new initiative called IMPACT, which stands for International Market Practices for Accountability and Corporate Transparency.

The introduction of a Pigouvian tax system, specifically designed to align with the SDGs, would aim to encourage companies to adopt more sustainable policies and practices. This system would link taxation directly to sustainability performance indicators, thereby incentivizing compliance with the SDGs. As a reminder, a Pigouvian tax, named after economist Arthur Pigou (1877-1959), aims to internalize negative externalities, i.e., the costs of an economic activity borne by third parties (Gallois, 2020). By putting a price on negative externalities (pollution, poor working conditions, etc.), IMPACT incentivizes companies to adopt behaviors more aligned with the SDGs, as this would become financially more beneficial. The tax calculation mechanism would be based on a performance index, which would measure the extent to which each actor respects the commitments related to the 17 SDGs.

Calculating this index would require a rigorous weighting of the different SDGs based on their strategic importance for overall sustainable development. This would involve a detailed analysis of each SDG's impact and relevance, through expert consultations and empirical data analysis. For example, SDG 13 could have a higher weighting for industrialized countries, while SDG 1 could have more weight for developing countries. This weighting could be adjusted based on countries' development levels, introducing a system of thresholds to consider their differentiated abilities and responsibilities. These thresholds would define specific criteria or benchmarks that reflect the varying abilities and responsibilities of countries at different development stages. Less developed countries, with limited resources, could have their sustainability efforts considered in proportion to their financial and technological means. For example, a country like Bangladesh, with a GDP per capita of $2,500 in 2023, would have a different weighting for SDG 1 compared to a country like Norway, with a GDP per capita of $88,000 (World Bank Group, 2025).

General Formula

IMPACT Index = $(W_1 * I_1) + (W_2 * I_2) + \ldots + (W_n * I_n)$

Where:

- W_n is the weighting of indicator *n* (a number between 0 and 1, the sum of all weights must equal 1)
- I_n is the value of indicator *n* (normalized between 0 and 100)

Concrete example (simplified with 3 indicators)

- I_1: CO_2 emissions (SDG 13) – Weighting: 0.4
- I_2: Access to safe drinking water (SDG 6) – Weighting: 0.3
- I_3: Poverty rate (SDG 1) – Weighting: 0.3

If a company has the following values for these indicators:

- I_1: 60/100 (Relatively high CO_2 emissions)
- I_2: 90/100 (Good access to safe drinking water)
- I_3: 75/100 (Relatively low poverty rate)

The IMPACT Index would be:

IMPACT Index = (0.4 * 60) + (0.3 * 90) + (0.3 * 75) = 24 + 27 + 22.5 = <u>73.5</u>

Further Considerations

⇨ *Indicator Selection*: It is crucial to select relevant, measurable, and reliable indicators for each SDG. Data must be available and comparable across countries and companies.

⇨ *Indicator Normalization*: Indicators may have different units and scales. It is necessary to normalize them to a common scale (e.g., 0 to 100) to combine them in the formula.

⇨ *Weighting Determination*: Weighting the indicators is a delicate step. It reflects the relative importance assigned to each SDG. A balance must be found between global priorities and specific contexts. Consultation with experts and stakeholders is essential.

The tax process could be managed through a structured collaboration between the UN and the World Bank, where the UN would oversee the compliance reporting, and the World Bank would handle the financial transactions and distribution of funds. Governments and companies must annually report their SDGs compliance index, and the tax will be calculated based on the observed level of compliance. The collected funds will be distributed to initiatives promoting green infrastructure, energy transition in emerging countries, or biodiversity preservation projects. Renewable energy providers, reforestation projects, and education initiatives may also receive direct funding, promoting the achievement of the SDGs globally by 2030. The Noor project in Morocco, a 580 MW solar power plant complex, is an example of this type of initiative, which could be replicated in other regions thanks to these funds (World Bank Group, 2017).

Compared to other economic mechanisms, such as subsidies or emission quotas, taxation based on compliance with the SDGs presents several advantages. Subsidies, while they can encourage some positive behaviors, can also create market distortions and favor less sustainable sectors if they are poorly targeted (Höckner et al., 2020). Similarly, CO_2 emission quotas, although effective in reducing emissions, are limited to a single aspect of the SDGs and do not promote broader sustainable development (Galetovic et al., 2012). IMPACT offers a bold and innovative solution to the challenges of corporate accountability and promoting sustainable development in a multipolar world. By linking taxation to SDGs performance, it creates a powerful mechanism to drive positive change and accelerate progress towards a more sustainable and fair future.

Feasibility Analysis and Implications

While the implementation of IMPACT presents significant potential, it also faces substantial political, economic, and geopolitical challenges.

Developing countries might fear that this tax would hinder their economic growth and industrialization. Developed nations, on the other hand, might see it as an added constraint on already heavily regulated sectors. Therefore, a compensation system should be implemented, granting subsidies or financing to companies in the least developed countries to support their transition to a sustainable economy. A differentiated approach, considering the abilities and responsibilities of each market, is essential to reduce inequalities.

Reaching an international agreement on a global tax system is also a complex task, given the diverging interests among nations. The weighting of the SDGs is likely to be a major point of friction, as priorities vary from one country to another. A flexible negotiation framework, with tax levels adapted to the specific indicators of each country and transition periods for gradual adaptation, could help reach a global consensus.

The competitiveness of businesses, particularly in highly polluting sectors (chemicals, automotive, mining), is also a major issue. The tax could increase their production costs, putting them at a disadvantage compared to competitors running in countries with lower taxes. Compensation mechanisms, such as carbon credit cap-and-trade systems, could mitigate this risk. Companies that have implemented innovative ecological initiatives could receive help from credits or tax reductions, thus encouraging the green transition without penalizing industries. Finally, a carbon border adjustment tax would help prevent the relocation of companies to countries with less stringent environmental standards by taxing imported products from these countries similarly to local products (Boocker et al., 2024). This would create a level playing field and stimulate innovation in clean technology.

Conclusion

Thus, in a world marked by the emergence of new economic actors and the urgency of the ecological transition, effective market regulation is essential for aligning economic activities with the SDGs. The proposal for taxation indexed to compliance with the SDGs offers a compelling approach to encourage companies to adopt more responsible practices and to finance sustainable development.

Despite the implementation challenges, such as regulatory complexity and potential resistance from businesses, this initiative has the potential to contribute to a more just and sustainable world, where economic growth serves the common good and the preservation of the planet. Transforming risk into opportunity – that's what being a leader of tomorrow is all about!

Reference List / Bibliography / Sources:

- Acharya, A. (2018). *The end of American world order*. Polity.
- Artaxo, P. (2023). Amazon deforestation implications in local/regional climate change. *Proceedings of the National Academy of Sciences of the United States of America*, *120*(50). https://doi.org/10.1073/pnas.2317456120
- Bieber, F. (2018). Is nationalism on the rise? Assessing global trends. *Ethnopolitics*, *17*(5), 519–540. https://doi.org/10.1080/17449057.2018.1532633
- Boocker, S., & Wessel, D. (2024). *What is a carbon border adjustment mechanism?*. Brookings. https://www.brookings.edu/articles/what-is-a-carbon-border-adjustment-mechanism/
- Bremmer, I. (2012). *Every nation for itself: Winners and losers in a G-Zero world*. Portfolio/Penguin.
- Fukuyama, F. (1992). *The end of history and the last man*. Free Press.
- Galetovic, A., Hernández, C., Muñoz, C. M., & Neira, L. M. (2012). *Are renewable quotas effective to reduce CO_2 emissions?*. https://ssrn.com/abstract=2014711
- Gallois, N. (2020). Arthur Cecil Pigou (1877-1959) L'économie du bien-être. *Éditions Sciences Humaines*. https://doi.org/10.3917/sh.quint.2020.01.0139
- Guterres, A. (2023). *Secretary-General's remarks to the High-Level Political Forum on Sustainable Development*. https://www.un.org/sg/en/content/sg/statement/2023-09-18/secretary-generals-remarks-the-high-level-political-forum-sustainable-development
- Höckner, J., Voswinkel, S., & Weber, C. (2020). Market distortions in flexibility markets caused by renewable subsidies – The case for side payments. *Energy Policy*, *137*. https://www.sciencedirect.com/science/article/pii/S0301421519307232
- Intergovernmental Panel on Climate Change. (2018). *Global warming of 1.5°C*. https://www.ipcc.ch/site/assets/uploads/sites/2/2022/06/SPM_version_report_LR.pdf
- International Monetary Fund. (2024). *World Economic Outlook database*. Retrieved November 4, 2024, from https://www.imf.org/external/datamapper/profile/CHN
- Liu, W., Xu, Z., & Yang, T. (2018). Health effects of air pollution in China. *International Journal of Environmental Research and Public Health*, *15*(7), 1471. https://doi.org/10.3390/ijerph15071471
- Statista. (2024). *Real GDP growth rate in Africa*. Retrieved November 7, 2024, from https://www.statista.com/statistics/1300818/real-gdp-growth-rate-in-africa/
- United Nations Development Programme. (2024). *No poverty*. https://www.undp.org/sustainable-development-goals/no-poverty
- United Nations News. (2023). *UNESCO: 250 million children now out of school*. https://news.un.org/en/story/2023/09/1140882

- Védrine, H. (2004). Les États-Unis : hyperpuissance ou empire ?. *Cités*, *n° 20*(4), 139-151. https://doi.org/10.3917/cite.020.0139
- World Bank Group. (2015). *Rapid, climate-informed development needed to keep climate change from pushing more than 100 million people into poverty by 2030*. https://www.worldbank.org/en/news/feature/2015/11/08/rapid-climate-informed-development-needed-to-keep-climate-change-from-pushing-more-than-100-million-people-into-poverty-by-2030
- World Bank Group. (2017). *Morocco: Noor Ouarzazate – Concentrated solar power complex*. https://ppp.worldbank.org/public-private-partnership/sites/ppp.worldbank.org/files/2022-02/MoroccoNoorQuarzazateSolar_WBG_AfDB_EIB.pdf
- World Bank Group. (2025). *GDP per capita*. https://data.worldbank.org/indicator/NY.GDP.PCAP.CD

Appendix:

List of SDGs

- SDG 1: No Poverty
- SDG 2: Zero Hunger
- SDG 3: Good Health and Well-being
- SDG 4: Quality Education
- SDG 5: Gender Equality
- SDG 6: Clean Water and Sanitation
- SDG 7: Affordable and Clean Energy
- SDG 8: Decent Work and Economic Growth
- SDG 9: Industry, Innovation, and Infrastructure
- SDG 10: Reduced Inequalities
- SDG 11: Sustainable Cities and Communities
- SDG 12: Responsible Consumption and Production
- SDG 13: Climate Action
- SDG 14: Life below Water
- SDG 15: Life on Land
- SDG 16: Peace, Justice, and Strong Institutions
- SDG 17: Partnerships for the Goals

Word Count (essay text only): (2050/2100)