

## **Economic diversification, just transition of workforce and global value chain in context of sustainable development**

*Dear Tomasz, ladies and gentlemen,*

As you we know, there is no mention of trade in the Paris Agreement. However, there is little doubt that the Agreement and Parties' commitments - the so-called Nationally Determined Contributions - will mean big changes for their trading partners as the effects of those commitments start playing out in trade flows and trade policies around the world.

A spectrum of alternative ways of reacting to this new reality has already been foreshadowed by competitiveness concerns, with trade traditionally being treated as part of the problem. We believe that it is even more important is to take a closer look at the large - and largely unexplored! - potential for trade to be part of the solution.

Having recently met in Geneva with our counterparts at the UNFCCC, I have every reason to believe that such an approach, aimed at developing a positive agenda on climate and trade, will resonate well with the climate community.

In Paris, Parties agreed to continue addressing the economic and social impact of response measures to climate change, taking fully into account the special needs of developing countries. It was also agreed to continue with the work of the Forum on Response Measures. A three-year work programme, adopted in May 2016, focuses on "economic diversification" and on "a just transition of the workforce and the creation of decent work and quality jobs".

### **Trade is directly relevant to both priorities of the Forum's work programme.**

The trading system is increasingly used to make goods, not just to sell goods. Value chains offer a fast track for diversification, and sometimes may even confer latecomers an advantage. Indeed, many of the newly industrialized countries started off with a lot less financial and human resources than the majority of developing countries have today.

Approaches based on value chains are increasingly recognized as a primary mechanism for meeting combined economic diversification and climate policy objectives. These, essentially bottom-up approaches are instrumental in identifying mitigation opportunities as well as in assisting and enhancing their delivery across the various sectors. They draw companies together that are not used to working together. They also promote a more holistic view of upstream and downstream emissions, as well as their direct emissions.

A variety of business models are being tested already: promoting circular supply-chains; extending working life cycle of products and components; sharing production platforms to enable increased utilization rate of products; treating product as a service; deploying reverse logistics etc. All these models connect well with the benefits of trade. They are also aligned with value chains frameworks. Incidentally, yesterday, I took part in a very interesting event on circular economy, co-organized by UNCTAD, UNFCCC and other interested agencies.

We feel these practical approaches may prove instrumental in unpacking and de-politicizing the issues. However, the politics have yet to catch up as policy strives to master the implications of value chains. And there is a need to understand better their economic, social and environmental dimensions.

### **Trade is directly relevant to the second priority of the Forum - just social transition.**

With the development agenda becoming an increasingly important component of climate change mitigation, the scope for mutual supportiveness or, to put it in the IPCC parlance, complimentary benefits, or *co-benefits*, is bound to increase. Along with finance and technology, trade has an important role to play in leveraging the various co-benefits.

*Co-benefits*, or as they are known in trade policy *win-win* outcomes, do not mean there may be no losers. Economic transformation is bound to raise equity and distributional concerns that have been central to UNCTAD's work for decades.

The need for special attention to adjustment costs is shared by trade community. The disaffection with globalization that we see at present in many developed countries is not exclusively fed by protectionism and xenophobia. Some of it is rooted in the same legitimate concerns that give rise to the desire for a just transition: concerns about the inequity, both at the national and international levels, of the outcomes of economic transitions.

In one case the transition is wrought by trade policies, and in the other it is wrought by climate policies. In both cases there is a need to focus on inequitable outcomes, and in neither case have we been particularly successful in addressing the challenge. We have to find multilateral and national solutions that will serve both regimes to make the transition less jarring in the first place, and to mitigate the inevitable pain of adjustment.

### **Cooperation with UNFCCC**

Over the last few years, UNCTAD has been aligning its climate work with that of the UNFCCC Forum on Response Measures, to make it directly relevant to this very important intergovernmental process. In fact, the "rapprochement" between UNCTAD and UNFCCC on issues pertaining to the Forum started in the run up to Paris, with a series of briefings and meetings.

In Marrakesh (COP 22), UNCTAD was invited to accompany the technical examination process under the Forum on Response Measures. This is an important step in acknowledging the relevance of trade expertise to the work of the Forum, which is implicit in the title of the Forum itself. After all, in the absence of trade, *response measures* would not have even existed. And most of the policies to be discussed in the Forum have a trade angle.

We realize that the focus of the Forum's work is shifting. Response measures are now increasingly seen in the context of sustainable development and as a form of international cooperation.

Trade is traditionally seen through the lens of a competitive relationship, but it has an enormous cooperation potential, too. Trade policy can no longer be reduced in practice to assigning the responsibility and deciding who should be protected against whom. And trade wars are no way to elicit co-operation needed in an era of value chains.

And while the governance structures may remain imperfect, I believe, our sense of priorities has never been more aligned.

Along with finance and technology, trade acts as an enabler, cutting across the various domains relevant to climate policy and sustainable development. The challenge is to change the approach from one of *allocating or shifting burdens* among countries through trade restrictive measures, to figuring out ways in which trade could help all countries *share the benefits* of transforming their economies.