UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

FROM DECISIONS TO ACTIONS

REPORT OF THE SECRETARY-GENERAL OF UNCTAD TO UNCTAD XIV

UNITED NATIONS

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

FROM DECISIONS TO ACTIONS

REPORT OF THE SECRETARY-GENERAL OF UNCTAD TO UNCTAD XIV

UNITED NATIONS
New York and Geneva, 2015

NOTE

The designations employed and the presentation of the material do not imply the expression of any opinion on the part of the United Nations concerning the legal status of any country, territory, city or area, or of authorities or concerning the delimitation of its frontiers or boundaries.

UNCTAD (XIV)/1 Rev.1

CONTENTS

Recall the face
of the poorest and
the weakest man or woman
whom you may have seen,
and ask yourself
if the step you contemplate
is going to be of any use
to him or her.

Mahatma Gandhi, 1948

FOREWORD

The fourteenth session of the United Nations Conference on Trade and Development (UNCTAD XIV) will mark a critical moment not only for economic and social progress in the developing world, but also for the common future of all countries and communities. As the first United Nations ministerial conference of the post-2015 era, it will represent a starting point to translate the heightened ambitions and commitments of the international community into concrete plans of action. The Addis Ababa Action Agenda, the sustainable development goals and the expected call for action at Conference of the Parties on climate change in Paris together embody an immensely challenging and interrelated programme: we must mobilize all available financial, human and entrepreneurial resources to foster inclusive growth and eradicate poverty while decarbonizing the global economy – all within the next 15 years.

In the previous two decades, trade expanded with unprecedented speed, new technologies transformed patterns of interaction and finance became a pervasive feature of everyday economic life. Governments have found the space and instruments to harness these forces in productive ways, and nearly 1 billion people have been lifted out of poverty. Yet for all our progress, we have a long way to go. Inequalities persist or have widened further, oftentimes linked to the same forces that have helped raise our capacity to generate wealth, and the gains from globalization have been unevenly distributed. Islands of prosperity surrounded by poverty are incompatible with the world that we strive for. New vulnerabilities and risks have emerged, linked in particular to the rise of "casino capitalism" and an unhealthy dependence on debt. Financial shocks and crises have become more frequent, setting back development prospects by years and, in some extreme cases, by decades.

UNCTAD – initiated by the developing world, on behalf of the developing world, with a vision of prosperity for all – is equipped to address the challenges that jeopardize human dignity, economic growth and the health of our planet. This report underscores four action lines needed to fulfil the ambitions of the post-2015 development agenda: building productive capacity to transform economies; more effective States and more efficient markets; tackling vulnerabilities, building resilience; and strengthening multilateralism, finding common solutions.

Concerted efforts by Governments, international institutions, non-governmental organizations and the corporate sector have the potential to make a world that is more prosperous, more equitable and more sustainable. UNCTAD stands ready to play its role in the task ahead.

Mukhisa Kituyi,
Secretary-General of UNCTAD

I.

AN EVER CHANGING WORLD:
PROGRESS ACHIEVED

1. Since the birth of the United Nations 70 years ago, the peoples of the world have witnessed remarkable progress and transformation. Humanity not only rose from the ruins of unprecedented destruction, but also threw off the chains of a colonial system, affirming the right and principle of self-determination.

2. With the creation of UNCTAD 50 years ago, the United Nations embraced for the first time an inclusive and forward-thinking trade and development agenda initiated by the developing world, on behalf of the developing world, with a vision of prosperity for all. UNCTAD provided the means through which the South, including through the formation of the Group of 77, could voice its collective ambition and mobilize the international community to deliver on the economic promise of political independence for the benefit of all the world's citizens.

3. Since then, this promise has begun to bear fruit. We have moved from a world dominated by North–South and East–West divisions to one of truly global interdependence. With falling transportation costs, reduction of many barriers on trade, financial and investment flows, technological advancements and the dawn of the information age, our world has also become interconnected to a degree never experienced before. Globalization driven by increased trade, investment and finance has tied an ever tighter web of people-to-people, business-to-business and country-to-country relationships, across national boundaries and traditional divides.

4. An increasing number of developing and transition economies have managed to integrate into the world economy. This has resulted in an unprecedented expansion in international trade. Trade as a percentage of world gross domestic product (GDP) went from 9.4 per cent in 1970 to 24.4 per cent in 2014. Today, exports from developing countries account for half the world total. Since 2008, developing countries as a whole also export more to each other than to developed countries. Even the poorest and least trade-integrated countries, the least developed countries (LDCs), have seen an almost fivefold increase in merchandise exports. Similar trends are also observed in services, where developing countries are generally less competitive. Asia more than tripled its services export between 2003 and 2013, Latin America has almost tripled it and Africa has more than doubled it.

5. The significant expansion in international trade has also had an important impact on foreign direct investment (FDI) and vice versa. In 2014, global FDI flows reached US$1.2 trillion, with FDI stock tripling as a percentage

of global GDP since 1990 (now 34 per cent). For developing and transition economies, FDI flows represent 40 per cent of external financing, making it a key potential source of financing for development. Developing countries are, however, not only the chief recipients of FDI (last year, developing countries and transition economies received 61 per cent of global FDI, and almost US$320 billion more in FDI inflows than developed countries). Today, developing countries are also a growing source of FDI, accounting for over one-third of total global outward FDI. In fact, developing Asia recently became the largest investor in the world, even larger than North America or Europe.

6. The important change in the magnitude, composition and geography of global trade and investment has been aided by improved transport connectivity and groundbreaking new technologies, such as information and communications technology (ICT). Of the world's 10 largest ports, in terms of container traffic, 9 are now located in emerging Asia (6 in China alone); not a single one is located in Europe or North America.[1] Some technologies also go far beyond improving traditional economic activity, by more directly empowering people. The "Internet of things" is a case in point. Between 2000 and 2011, global Internet usage grew 480 per cent on average and, in Africa, by more than 2,500 per cent. As for mobile phones usage over the last 15 years, it has increased two-and-a-half-fold in developed countries, whereas it has increased almost twelvefold in developing countries, which have now reached 91 mobile subscriptions per 100 inhabitants (more than double that of developed countries in 2001).

7. Growing interdependence, interconnectedness and globalization has gone hand in hand with a transformation of many countries in the "developing world" at an unprecedented speed. A number of developing countries have become important engines of growth not only for their own regions, but also for the global economy at large. The South now includes countries that are major drivers of global trade and investment and even of the supply of credit to both developed and other developing countries.

8. This important rise of a number of developing and transition economies has also paved the way for impressive social improvements worldwide. There have been remarkable advancements in human well-being at the global level: nearly 1 billion people have been lifted out of extreme poverty

[1] In 2014, an estimated 61 per cent of world seaborne exports and 60 per cent of imports were handled by ports located in developing regions.

in 20 years, and the proportion of people living in destitution has been reduced by half.[2] Hundreds of millions have also joined the middle class with the increased prospect of self-fulfilment that this implies. Beyond direct economic effects, the rise of developing countries, together with the mobilization behind the Millennium Development Goals, has had a profound impact on human development.[3]

9. Progress has been achieved across countries, although at different paces and with different results. The Asia and the Pacific region has generally experienced the greatest declines in poverty and rise in living standards, largely as a consequence of structural transformation in some key economies. Most of Latin America and the Caribbean has achieved significant declines in inequality, albeit from a high level. Some African economies are now among the fastest growing in the world. Equally noteworthy is the profound shift from economic planning to mixed and/or market economies that is taking place in many transition economies.

10. The last 25 years have been important in terms of achievements, but also in terms of lessons. They have taught us that we can expand the boundaries of what we think is possible. They have taught us that significant improvements can be made with the right policy mix and conducive national, regional and global environments. Change is possible and it is within our grasp to make it happen. Those 25 years have set the stage for the final push in the eradication of extreme poverty within a generation. They have also set in motion the conditions and wealth, including from the South, needed to build a more prosperous, equitable and sustainable world.

[2] Poverty fell even in absolute numbers. In 1981, the World Bank estimated that about 2.6 billion people in the developing world were living on under US$2 per day. By 2011, that number fell to about 2.2 billion, all while the world population grew from about 4.5 billion to about 7 billion people.

[3] Women and children's health has improved dramatically, and people are living longer than ever before. Hunger has declined. Education and literacy have expanded, and discrimination against women and other marginalized groups has also met growing resistance.

II.

THE UNFINISHED BUSINESS: PERSISTENT AND EMERGING CHALLENGES

11. There are still far too many nations and people being left behind. It is essential to acknowledge the tremendous progress achieved today. At the same time, however, it is important to remember and recognize that we still have a long way to go in reaching the degree of development that would reflect the vision of prosperity for all.

12. Poverty and inequality, both between and within nations, remain a pervasive challenge. Most of the dramatic reductions in poverty since 1990 occurred in a few large emerging countries. The world is still far too divided between large areas of poverty and deprivation, on the one hand, and pockets of prosperity, on the other. Worldwide, over 1 billion people continue to live in extreme poverty, under unacceptable conditions for any fellow human. Furthermore, progress has bypassed hundreds of millions because of their gender, age, disability or ethnicity. Out of the more than 7 billion people on the planet in 2011, 1,011 billion people (16.99 per cent of the world population) lived on less than US$1.25 per day, 20 per cent lived in conflict States and over 10 per cent experienced chronic hunger. In lower-middle income countries, and in particular in LDCs, poverty has been pervasive and is decreasing slowly. In some countries, the number of people living in extreme poverty has even increased. Inequalities also persist or have widened further, oftentimes linked to the same forces that have helped raise our capacity to generate wealth, while the gains from globalization have been unevenly distributed. Islands of prosperity surrounded by poverty are incompatible with the world that we strive for. New vulnerabilities and risks have emerged, linked in particular to the rise of “casino capitalism” and an unhealthy dependence on debt. Financial shocks and crises have become more frequent, setting back development prospects by years and, in some extreme cases, by decades.

13. A key reason for this continues to be the challenges in many, if not most, developing countries in diversifying their economies and their failure to translate growth into sufficient poverty reduction and more and better jobs. This challenge is the greatest for those countries with limited productive capacity and financial resources. Even the more fortunate years of economic and export growth, in part fuelled by the commodity boom, did not translate growth into sufficient poverty reduction and more and better jobs. In fact, most of the world’s extreme poor today live in middle-income countries. Many more people may not live below the poverty line, but they lack the necessary means to improve their circumstances and the lives of their children. For instance in Latin America, the most unequal region of the world, it is estimated that 28 per cent of the population was still living below

national poverty lines in 2014.[4] This undermines prosperity and erodes the social contract. It is also incompatible with the world of dignity we strive for.

14. Narrowing the inequality and prosperity gaps is critical and will require more concerted efforts. At the same time, current global economic conditions are more challenging than at the beginning of the millennium. Recent years were marked by the outbreak of the greatest financial and economic crisis the world economy has faced in the post-war period. The ramifications of the crisis continue to haunt us today. Growth remains sluggish due to a persistent contraction in global demand. Trade is now growing at a slower rate than global output, and – if it does not recover soon – growth in trade for this decade runs the risk of being the lowest in the post-war period. Similarly, the road to global FDI recovery remains bumpy, and FDI still needs to reach the poorest in order to contribute to their sustainable development. All of this implies important constraints on the opportunities for the future growth of developing and transition economies. It will make our task of eradicating poverty and reducing inequality even more difficult to achieve. The economic challenges are compounded by environmental challenges and climate change, as well as by peace, security and humanitarian challenges arising from conflicts and terrorism.

15. As shown by the recent crisis, financial instability and economic volatility pose a threat to the improvements in prosperity that have already been achieved. With growing interdependence between countries, financial crises due to lack of proper regulation may quickly propagate through contagion across the global economy, threatening well-being in all countries. Large and predominantly speculative capital flows continue to put at risk the debt sustainability and macroeconomic stability of a number of developing countries. Similarly, some 70 per cent of developing countries – and 85 per cent of LDCs – are heavily exposed[5] to volatile commodity markets, leading to large fluctuations in foreign exchange revenues. In LDCs, this is compounded by an over-reliance on often unpredictable aid flows. For many developing countries, but also developed ones, as the recent crisis illustrated, economic volatility often entails increased vulnerability and high social costs.

16. In the absence of genuine economic recovery, and more stable financial conditions, bridging the "prosperity–poverty divide" among and within

[4] United Nations, Economic Commission for Latin America and the Caribbean, 2014, *Social Panorama of Latin America* (Santiago, Sales No. E.15.II.G.6), p. 16.

[5] The term "heavily exposed" is defined as meaning that commodities represent at least 60 per cent of a country's total merchandise exports. See also UNCTAD, 2015, *The State of Commodity Dependence 2014* (Geneva, United Nations publication).

nations will be increasingly challenging. Furthermore, continuing recent trends in global income distribution will certainly make eradicating poverty all that much harder. Post-crisis growth remains predominantly "wage-less" as well as "jobless". The long-term trend of a declining wage share has continued after the crisis. The number of formal jobs lost since the crisis currently stands at 62 million jobs, with few indications of reversing. At the same time, taking into account new entrants into job markets especially in developing countries, no fewer than 280 million new jobs will have to be created by 2019 simply to return to the employment levels preceding the crisis. This deficit in decent work is not only an economic challenge, it is also a tragedy for those affected and entails serious societal challenges, especially in those countries – most of which are among the poorest – with burgeoning youth populations. Across the world, urbanization is taking place at a very fast and unsustainable pace, driven more by the lack of decent work opportunities in rural areas than by opportunities in cities. This has created a ballooning informal sector with low productivity leading to low quality jobs in and around urban centres. Today, such precarious jobs constitute 61 per cent of urban employment in Africa. Worldwide, the informal sector is estimated to account for half of the global labour force. And, just as the lack of decent work creates pressures for internal migration, it also drives people in developing countries to take enormous risks, even to the point of risking their lives, to seek employment opportunities in richer countries, including in better-off developing nations. It is clear that new pathways have to be found, entailing a better distribution of the benefits of global growth.

17. Climate change and environmental degradation are today probably the biggest growing threats to our way of life, our economies and indeed humanity. The increase in global average temperatures and destruction and elimination of earth's biological resources affect all of us, regardless of income levels. They even pose an existential threat to some States. It remains an urgent challenge to find the political will to deal with negative externalities and provide incentives for producers and consumers to move towards less carbon-intensive production and consumption patterns. There is a tremendous challenge of decoupling economic growth from wasteful resource use and greenhouse gas emissions without imperilling economic progress. Otherwise, future shared prosperity will remain an elusive goal.

18. We need to finish the task we started at the dawn of the millennium. Much work remains. Yet there are also emerging challenges to prosperity, dignity and a better planet for all that jeopardize the progress we have made, and the world we want to build by 2030. This calls for new global action.

III.

RAISING THE BAR:
THE SUSTAINABLE DEVELOPMENT GOALS

19. In the face of these remaining and emerging challenges, the sustainable development goals, to be adopted in New York (United States of America) in September 2015, form a new global consensus on ensuring dignity for all, prosperity for all and a sustainable planet for all by 2030.

20. The sustainable development goals will call on countries to harness the synergies between the economy, society and environment in pursuit of inclusive and sustainable global development. This is the ultimate motivation of the ambitious and universal post-2015 agenda. The goals enshrine the consensus that equitable societies are good for growth and prosperity; that protecting the environment is necessary to ensure more inclusive and sustainable livelihoods, indeed to preserve the existence of all nations; and that the economic engines of prosperity can and must benefit society at large as well as the planet.

21. The post-2015 sustainable development agenda raises the bar and demands unprecedented actions and efforts. No one must be left behind: islands of prosperity surrounded by poverty, injustice, climate change and environmental degradation are neither sustainable nor acceptable. It is not enough to reduce poverty, we must eradicate it. Poverty can only be eradicated, however, if it is eradicated everywhere. This requires raising the minimum consumption floor in global and national redistribution to the poverty line of US$1.25 per day.[6] The real litmus test for achieving this goal will be the LDCs. For LDCs, ending poverty by 2030 requires a bigger economic miracle than that of China. To put the scale of this challenge into perspective, the level of extreme poverty in China in 1994 was about the same as the current level in LDCs (46 per cent). In the following 15 years, China achieved an annual per capita GDP growth rate of 9.4 per cent. Despite this impressive level of growth performance, it was able to reduce the level of extreme poverty not to 0 per cent but to 11.8 per cent. LDCs are expected to reduce their poverty rate from 46 to 0 per cent in the same

[6] Recent estimates suggest that the minimum level of consumption in the global economy has not increased for 20–30 years (see M Ravallion, 2014, Are the world's poorest being left behind?, Working Paper 20791, National Bureau of Economic Research, Cambridge, United States, table 1, p. 32). In some rural areas of LDCs, minimum consumption as less than US$0.10 per day (B Losch, S Fréguin-Gresh and E Thomas White, 2012, *Structural Transformation and Rural Change Revisited: Challenges for Late Developing Countries in a Globalizing World*, World Bank, table 3.5, p. 104), requiring an increase by a factor of 14 even to reach the extreme poverty line, and in just 15 years.

time span (15 years) if they are to achieve the sustainable development goals by 2030. In other words, LDCs will need to do much better and achieve a bigger economic miracle than China.

22. Similarly, the sustainable development goals will require resource mobilization, from all different sources, on an unprecedented scale. Developing countries alone will need to invest on the order of US$3.3–US$4.5 trillion per year in basic infrastructure, food security, climate change mitigation and adaptation, health and education. Current levels of investment leave a gap of US$2.5 trillion annually in real terms. Investment in infrastructure provision since 1990 per year is dwarfed by the rate needed to achieve the sustainable development goals. For example, under the Millennium Development Goals, the rate at which people in LDCs gained access to infrastructure services more than doubled for electricity, and increased by more than half for water and nearly a quarter for sanitation. Achieving the sustainable development goals, though, will require a much greater improvement, increasing the rate of progress by a factor of two for water and a factor of five for electricity and sanitation. We will need more and better investment, more and better aid, and more and better involvement of the private sector.

23. The challenge of achieving sustainable development goals will be exacerbated by uncertainty in the external environment as the global economy continues to struggle in the wake of the global financial crisis. Economic recovery in both developed and developing countries remains tentative and fragile, and the return to greater market confidence is taking time. Achieving the sustainable development goals will require a conducive global economic environment. Countries, regions and the international community as a whole need to use the sustainable development goals as a blueprint for concerted actions to achieve the future we envision by 2030. Going from decisions to actions in pursuit of the sustainable development goals will require determination and proactive policies, at all levels and across all policy areas, attuned to the new goals. It will involve revitalizing national, regional and global partnerships for development and building new approaches, not only between Governments, but also with civil society and the business community through multi-stakeholder engagement. It also presupposes enhanced accountability, policy coherence and a stronger enabling environment at all levels. Countries will need to take a “whole-of-

Government" approach to policymaking, just as regional and international organizations will need to take a coherent and integrated approach to delivering public goods. Similarly, there must be a massive effort to increase the availability of relevant data and statistics to provide accountability and to facilitate evidence-based improvements.

24. Mobilizing all available policy instruments for the sustainable development goals will be critical. The political declaration to be adopted in New York, the 17 sustainable development goals and their related 169 targets, as well as the Addis Ababa Action Agenda, agreed at the third International Conference on Financing for Development in July 2015, will together lay a comprehensive global framework for ensuring adequate means of implementation. UNCTAD is, and will continue to be, a major institutional stakeholder in this process.

25. Thus, 2015 is a critical year for multilateralism, for development and for our common future. This year, we are defining the contours of the world we want to realize by 2030. The International Conference on Financing for Development, sustainable development goals summit, twenty-first session of the Conference of the Parties of the United Nations Framework Convention on Climate Change, Tenth Ministerial Conference of the World Trade Organization (WTO) and World Summit on the Information Society +10 are all part of our efforts to set the compass for the future we envision. Furthermore, UNCTAD XIV, scheduled for March 2016, will be the first United Nations ministerial conference of the post-2015 development era. As such, it must represent a starting point to translate our determination and aspirations, as set out in the sustainable development goals, into actions. Much needs to be done. UNCTAD, within its mandate and core competences, needs to do its part.

IV.

THE UNCTAD POST-2015 ACTION LINES

26. In light of the half-century of experience of UNCTAD in development issues and as confirmed by the Addis Ababa Action Agenda, UNCTAD and the policy areas for which it is the focal point within the United Nations system – trade and development and the interrelated issues of investment, finance, technology and sustainable development – play a critical role in ensuring the fulfilment of the sustainable development goals.[7] UNCTAD must complement the efforts of the international community in our collective quest for a world of shared prosperity, not only for ourselves, but for future generations. To this end, the fourteenth quadrennial ministerial conference must set out a robust set of actions for UNCTAD to shoulder its responsibility.

27. The specific action lines where UNCTAD can and should make maximum contributions for the post-2015 era are fourfold:
    (a) Building productive capacity to transform economies;
    (b) More effective States and more efficient markets;
    (c) Tackling vulnerabilities, building resilience;
    (d) Strengthening multilateralism, finding common solutions.

    For these action lines to be transformative, and to contribute substantially to our pursuit for the sustainable development goals, they need to be pursued in tandem, in a coherent manner, and operate at all three levels of governance: national, regional and international.

A. BUILDING PRODUCTIVE CAPACITY TO TRANSFORM ECONOMIES

28. To achieve the sustainable development goals, it is essential to build productive capacity and provide economic transformation. Eradicating poverty by 2030 requires a massive acceleration in the development of productive capacities, especially in LDCs. We need to increase productivity within and across sectors. We need to diversify economies by shifting resources from less productive and environmentally unsustainable sectors to more productive and sustainable ones. We must also do this in such a way as to create enough higher-quality jobs and economic opportunities to allow everyone to generate incomes above the poverty line. This will mean putting

[7] The Addis Ababa Action Agenda reiterates and commits to strengthen the important role of UNCTAD as the focal point, within the United Nations system, for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development.

structural transformation, environmental sustainability and decent work at the core of actions taken to apply any of the available economic tools.

29. Investment, trade, technology and entrepreneurship, and the nexus between them, can be important means to help build critically needed productive capacities (see chapter IV). For the post-2015 agenda, these tools – accompanied by complementary measures and as part of a broader industrial development strategy – must be utilized more and better, and be more fairly and equitably at the disposal of all countries.

1. Mobilizing resources for productive capacity-building

30. We cannot build productive capacity and transform economies without investment. Resource mobilization to bridge an annual investment gap of at least US$2.5 trillion is a daunting challenge, but it is achievable. It will require public and private resources, as well as domestic and external resources.

31. Domestic resource mobilization for investment is, and will continue to be, key. Limited domestic public resources and capacities in many developing countries generally reflect low incomes, poverty, large informal sectors, inefficient credit markets and subsistence production. Notwithstanding, there is ample scope – and urgent need – to broaden tax bases, strengthen collection capacity, reduce tax evasion and avoidance, and stem capital flight and illicit financial flows. For example, had the resources that left African countries as capital flight from 2000 to 2010 been invested instead, poverty in the region could be 2.5 percentage points lower.

32. Resource mobilization for investment also requires better harnessing of private resources, domestic and foreign, through effective regulation and facilitation, and by developing new financial vehicles and incentives suited to building productive capacity and transforming economies. Similarly, FDI now constitutes an important source of external financing for developing countries and can, if harnessed correctly, play an important role in raising incomes and enhancing productive capacities and employment opportunities. However, tax avoidance practices by transnational corporations, as well as the tax exemptions that countries sometimes offer in order to attract investments, substantially curtail government revenue in developing countries. It is imperative that such practices are properly tackled at the national, regional and global levels, while ensuring that efforts do not undermine existing and future investment flows.

33. There is also a need to increase official development assistance (ODA) to internationally committed levels and reorient it according to the relative means and needs of countries, in line with the development strategies of recipient countries. For a number of developing countries, particularly LDCs, ODA remains crucial as a source for investment. Since LDCs account for some 40–50 per cent of global needs to meet the sustainable development goals, in terms of extreme poverty and increased access to water and electricity, aid should be prioritized towards these countries, as envisioned in the Addis Ababa Action Agenda. A still higher target might be considered appropriate in light of the particularly limited domestic financing capacity of most LDCs, at least while these countries improve their domestic tax collection capabilities.

34. Nevertheless, resource mobilization is not only a matter of quantity; the quality of investments has to be significantly improved as well. The structural transformation and job creation needed to make the sustainable development goals achievable, and progress towards them sustainable, will require quality investment targeted towards building productive capacity. In a post-2015 world, there is an immediate need to formulate strategies and concrete action plans for mobilizing resources – public and private, domestic and foreign – and channelling them into the sustainable development goals.

2. Exploiting the trade–investment nexus for diversification

35. It has become increasingly rare that goods or services are produced entirely in an integrated production process, in one location and by one entity. Rather, the production of goods, and even services, involve an increasingly complex process with intermediate inputs and supporting activities sourced globally from wherever it is most efficient to do so. These complex international production arrangements, together with improvements in transport infrastructure, logistics and cross-border trade facilities, as well as improvements in business environment, trade and related investments, have enabled some developing countries to deepen their trade through integration into regional and global value chains.

36. The benefits of regional and global value chains, though, are not automatic. Furthermore, accessing regional and global value chains and, more importantly, climbing the value addition chain is neither an automatic nor

an easy process. To link into regional and global value chains successfully, cutting overall trade and investment costs, including through improved soft and hard infrastructure, is necessary. Implementation of trade facilitation measures is central in this regard. For some developing countries, in particular, landlocked developing countries, getting a product from factory to international markets may take too long and is often costly. Trade facilitation and customs automation, combined with investment in enabling infrastructure, can increase the prospects of developing countries to link into and benefit from regional and global value chains.

37. In the last two decades, a number of developing countries, notably in East and South-East Asia but also elsewhere, have succeeded in transforming their economies, moving rapidly from reliance on exports of commodities and lightly processed materials to higher value added and more technologically sophisticated manufactured goods and services. Together with upgrading transport infrastructure, logistics and cross-border trade facilities, as well as improvements in the business environment, trade and related investments have enabled these countries to deepen their productive capacities, especially through better integration into regional and global value chains. They have thereby increasingly been able to access the fastest growing segments of trade, i.e. intra-firm trade and trade in intermediate goods and services. Services are a key element of regional and global value chains: the value addition of services represented almost 40 per cent of the gross value of developing country exports and more than 40 per cent of developed country exports in 2011; and, as of 2014, roughly 60 per cent of global FDI stock was in services.

38. These measures are in themselves, though, not sufficient to access and climb regional and global value chains. A country's existing productive capacity also determines what it can export and what FDI it is likely to attract, and thereby what potential benefits it can derive from regional and global value chains. Those developing countries with limited productive capacities can remain trapped in, and competing for, the lowest value added activities at the bottom of regional and global value chains, particularly production of primary commodities, with hampered potential to move up the value chain or to upgrade through technology transfer and learning. Many LDCs, landlocked developing countries and small island developing States belong to this group. Many middle-income countries, though, also face challenges in progressing upward in regional and global value chains.

39. Breaking out of those traps requires active policies to boost productive capacities, widening the product base and making it more competitive. These policies are crucial to harness the full potential of regional and global value chains for inclusive and sustainable development. Countries that produce more sophisticated products, or goods and services with higher value added content, tend to grow faster and benefit more from regional and global value chains.[8] Diversification of production and exports provides a broader and more robust base for development, as does attracting investment and harnessing technology to exploit new economic opportunities beyond existing comparative advantage, for example in services, agro-processing, greener goods, creative industries or the "blue economy".

40. In commodity-dependent countries in particular, export and investment diversification is also essential to reduce exposure to volatile international commodity markets. Extractive industries have tended to generate relatively little employment and few spillovers into the wider economy. Developing and transition economies need to ensure that they get a greater share of the profits from extractive activities, to spread the benefits of resource rents to the economy at large, develop upstream and downstream sectors and help local communities to take advantage of the resulting opportunities, through infrastructure investments, capacity-building and training in transferable skills. The creation of appropriately designed sovereign wealth funds could also help countries dependent on extractive industries to minimize the risks associated with the so-called natural resource curse.

41. Much remains to be done in order to more effectively draw benefits from integrating into regional and global value chains, as well as to better access and climb regional and global value chains. Tariffs in product segments of interest to developing countries tend to be higher and escalate with increased product sophistication, throwing sand in the wheels of increased value addition in poorer countries. Agricultural exports face particularly large hurdles and distortions, as do fisheries. In addition, while LDCs have been granted significant preferential access, even complete duty-free, quota-free treatment in some key import markets, they continue to face challenges in utilizing this access in a number of markets due to complicated and restrictive rules of origin. Also, all countries, including LDCs, have been negatively affected by new restrictive measures in the

[8] R Hausmann, J Hwang and D Rodrik, 2007, What you export matters, *Journal of Economic Growth*, 12(1): 1–25.

areas of trade and investment following the financial crisis. Similarly, non-tariff measures are playing a greater role in global trade, affecting many developing countries, particularly LDCs. As public and private standards, production processes and other non-tariff measures become ever greater determinants of market access, product quality is increasingly important. Compliance costs are generally high, however, and both LDC exporters and small and medium-sized enterprises at large face problems in meeting the requirements of non-tariff measures cost-effectively. All of these non-tariff measures require focused attention on addressing the constraints that limit upgrading of product quality and diversification into new products and linking into regional and global value chains.

3. Leveraging technology for productive capacity

42. Technological upgrading is critical for enhancing productivity and the development of productive capacities. Average productivity in LDCs is about 10 per cent of that in the European Union and 7 per cent of that in North America. Even in other developing countries, it is 45 per cent of the European Union average and 32 per cent of the North American average. Technological gaps are an important part of the reason for this, and closing them will be essential to reduce the prosperity–poverty gap between nations. Spreading technological advancements more effectively is also key to achieving sustainability. Even a few years ago, environmentally friendly technologies were widely seen as unattainable luxuries for developing countries. Now, thanks to their increased availability and affordability, they offer the prospect for inclusive green growth to an ever increasing number of countries.

43. FDI and trade can make an important contribution in disseminating knowledge and technologies to domestic companies. This, however, requires domestic enterprises with the capacity to absorb and use those technologies. In turn, this underscores the need for investment in indigenous technological capabilities and sustained and proactive science, technology and innovation policies that promote technological absorption. Currently, developing countries invest far too little in research and development. Median research and development investment is 0.57 per cent of GDP in developing countries and typically below 0.2 per cent in Africa. In developed countries, it is 2.82 per cent. Beyond research and development (and investing much more in education), science, technology and innovation policies promote the development of sophisticated national systems of innovation, with dense

networks of human and institutional capabilities, increasingly interconnected by collaborative linkages and operating in an economic environment that provides incentives for innovation and entrepreneurship.

44. Increased access to ICT has led to improvements in productivity, especially when accompanied by complementary investment and organizational change. Developing countries should actively foster ICT adoption, especially among microenterprises and small firms, to increase their productivity and to help them overcome barriers to their growth. Governments and other actors involved in private sector development can also use ICTs to make their interventions more effective and inclusive. ICTs can be leveraged in the transport sector to improve operations, logistical efficiency and energy efficiency, reducing transport and trade costs as well as environmental impacts. Similarly, ICTs can be leveraged for enhanced trade and investment. For instance, the shift towards online commerce is also enabling more countries to participate in global value chains. One example is India, where exports of information technology and information technology-enabled services have surged from US$24 billion in 2005 to more than US$84 billion in 2013.

45. As ever more economic activities move online, adequate policy responses in developing countries are essential to seize the potential benefits and mitigate risks, and to ensure that technological change narrows existing divides rather than widens them. Affordable broadband access can facilitate services exports; and cloud computing, big data and three-dimensional printing could all have a profound impact on economic transformation.

4. Promoting private sector enterprise development

46. Enterprise development and fostering entrepreneurship capability are core elements of productive capacity-building and, as such, they can promote structural transformation, encourage inclusive growth, create jobs and expand opportunities for all, including women and youth. Entrepreneurs often drive economic growth and innovation, but can also be important for improving social conditions and helping to address environmental challenges.[9] To enhance the role of the private sector in the post-2015

[9] The importance of entrepreneurship in the context of the sustainable development goals has been reinforced by the work of the General Assembly and the recent General Assembly resolutions 67/202 and 69/210 on entrepreneurship for development.

agenda, further efforts are needed towards a comprehensive, coordinated and policy inclusive approach involving all stakeholders, as well as an improved regulatory environment.

47. Governments should create an enabling policy framework for the development of microenterprises and small and medium-sized enterprises. Four key areas of enterprise development and entrepreneurship for inclusive and sustainable growth require particular attention:

(a) Greening the economy through promotion of the concept of "green entrepreneurship" has the potential to create 15–60 million additional jobs globally, with a 1.5 per cent improvement in productivity by 2020 rising to 5 per cent improvement by 2050,[10] while reducing poverty for approximately 400 million smallholder farmers in developing countries.

(b) Youth entrepreneurship can contribute to overcoming the employment gap and promoting inclusive development by enabling young people to generate income through self-employment.

(c) Appropriate incentives and support systems for women's entrepreneurship could add as much as 1–2 percentage points to GDP in many countries, by lowering economic, sociocultural and legal barriers faced by women entrepreneurs in accessing inputs, land, credit and asset ownership.

(d) Social entrepreneurship can help to alleviate poverty and catalyse social transformation, through direct engagement with disadvantaged groups to strengthen their productive capacities or by producing goods and services accessible to them.

48. These inclusive business and entrepreneurship models, particularly those relevant for the poor, safeguard the quality and inclusiveness of public services while supporting local entrepreneurs and improving their capacity. They can also promote inclusive access to technology and finance, e.g. through dedicated credit schemes targeting financially excluded small and medium-sized enterprises and smallholders. For example, Equity Bank in Kenya has developed financial products targeting smallholders in rural areas and demonstrated that even private commercial banks can make a profit while addressing the needs of market segments usually considered un-bankable by traditional banking.

[10] International Labour Organization, International Labour Office, 2012, *Working towards Sustainable Development. Opportunities for Decent Work and Social Inclusion in a Green Economy*, Geneva, p. 168.

B. MORE EFFECTIVE STATES AND MORE EFFICIENT MARKETS

49. To achieve the sustainable development goals, many countries and particularly developing countries will need to take wide-ranging economic, environmental and social actions and ensure that markets work more efficiently for their people. The State remains the only institution that can manage large-scale societal changes, such as those envisaged in the sustainable development goals. This is particularly so in developing countries whose markets are still weak; a “developmental State” is needed to direct resources from low to higher productivity sectors. It is crucial to ensure that the State remains efficient and effective through targeted industrial policy and incentive measures for strategic sectors. Governments must be competent in the provision of basic services, transparent, accountable and responsive, and provide a voice for the poor in determining government policy. Effective States are better able to mobilize domestic resources through taxation and revenue collection and better able to use available resources to provide needed public services.

50. Effective and development-focused States are also needed to create the right incentives and regulations for markets to responsibly deliver growth and development in the interest of the population at large. Markets, of course, can play a useful role in many respects. Leaving both national and international markets to their own devices and without proper regulatory mechanisms, though, would be a fallacy. Citizens in most developing countries are confronted by persistent market failures, compounded by inadequate State provision of services and the prevalence of the informal sector. Therefore, reforming or adapting markets at all levels must be a priority in order to ensure that markets work more effectively and sustainably. The State can and must correct market failures and, beyond that, play an enabling role (through incentives, policies and institutional support) for market actors to increasingly commit to long-term productive investments for development, social and environmental objectives, in line with public interests. Markets and regulations can, in such circumstances, be two sides of the same coin, such as in the provision of infrastructure network services. Ensuring a level playing field, through pro-competitive regulations, is especially important.

1. Enhancing competition and consumer protection

51. Fair and robust competition is the bread and butter of a functioning market that benefits consumers and provides the increasing productivity and innovations necessary for growth. Yet, despite important improvements

in the business and competitive environment in recent decades, many developing countries find themselves in a vulnerable position. Poor business infrastructures, regulatory complexity and market barriers, combined with a lack of pro-competitive regulation, may be exploited by local or foreign companies to abuse their market power, crowding out new businesses, not least small and medium-sized enterprises, and overcharging consumers. Inadequate enforcement of existing competition rules, often due to capacity constraints or sometimes regulatory capture, also prevent the State from effectively detecting and tackling these anticompetitive behaviours. As a result, it is not surprising that many developing countries have had, at best, mixed experiences with market outcomes.

52. The need for national competition policy and consumer protection, as well as international cooperation in these areas, has increased with the expansion of global markets which, together with the rise of mega-corporations, has in some cases resulted in anticompetitive practices at the international level that distort competition at the national level. Furthermore, expanding global markets has not only promoted legal cross-border trade, it has also boosted various forms of illicit trade. In developing countries in particular, the problem of mislabelled, substandard or even outright falsified products is significant. Aside from deceiving consumers and posing economic challenges, such products are of growing concern from a security, health, social and environmental perspective. The ICT-revolution, specifically the Internet as a platform for commercial transactions, has also added new challenges to the protection of consumers and their privacy.

53. More and more developing countries have responded to these domestic and global challenges to competition and consumer protection by establishing national rules, regulations and authorities and by promoting international collaboration. This is welcomed and necessary. Consumers need to be protected to be confident in markets. Sound competition in markets also needs to be preserved if consumers are to benefit. Similarly, international cooperation allows States to more effectively address the challenges to enforcement of competition and consumer protection laws in an increasingly globalized or even virtual (in the case of the Internet) world. Regional organizations among developing countries can be especially important in this regard: there is ample scope to develop a decentralized application of common competition law within member States. Also, more use should be made of intelligence gathering and sharing between competition agencies, including through the sharing of best practices and establishment of a databank on competition cases that may affect more than one country.

2. Scaling up infrastructure services

54. Infrastructure services – encompassing financial services, transport and logistics, telecommunications, water and energy – are of critical importance to economic development. Such services function as lubricants for the economy as a whole, potentially resulting in significant positive spillovers on the productivity and functioning of other sectors. They can also contribute to addressing physical infrastructure deficits in many developing countries, thereby promoting inclusive growth. Similarly, infrastructure services provide and support basic services (i.e. electricity, gas and potable water), which will be critical to achieving the sustainable development goals.

55. Inadequate basic infrastructure often physically disconnects many people in developing countries from market opportunities. This hampers production as well as raises trade costs. Efforts must be made to improve investment in infrastructure and related services, at both the national and regional levels. There is a need to promote an enabling environment that attracts private and institutional productive investments, as well as a need to promote innovative sources and mechanisms of finance (such as infrastructure bonds, green bonds, climate finance, public–private partnerships, etc.). This can help to scale up the required funding for development of infrastructure and related services. With the increasing integration of infrastructure systems across continents, as in Africa through pan-territorial initiatives (e.g. the Programme for Infrastructure Development in Africa of the Africa Union), and common electricity markets, there are potentially significant benefits from economies of scale and shared resources. The integration of infrastructure systems, though, will also require effective regional collaboration and regulation.

56. Lack of access to financial services, as one of many infrastructure services, can represent a major impediment to opportunities for income and the economic welfare of individuals, particularly for the poor, women and youth, rural populations, migrants and those engaged in the informal economy, as well as for firms, particularly small and medium-sized enterprises and microenterprises. For example, only 20 per cent of rural Africans, as compared to 38 per cent of urban residents, have a bank account. Raising the financial literacy of these population groups, and of small and medium-sized enterprises, is important, just as is proactively promoting the provision of financial services to all. Similarly, established property rights, which enable the provision of collateral against which people can borrow and invest, is essential in building markets that work for everyone. Land

reform, providing secure access to land and other productive assets are examples of government policy reforms that improve access to markets. Financial services can also facilitate remittances, an important source of development finance for a number of developing countries.

57. For infrastructure services to improve the functioning of markets and contribute successfully to economic and social development, the institutional and regulatory environment must be supportive. Many infrastructure services are typically dependent on networks that tend to be owned by a single entity, whether public or privately owned or local and/or national, or are dominated by one or a few services providers. The type of ownership – whether State, private, public–private partnership or joint venture – may vary, as long as it contributes to a Government's development objectives. Due to their nature, though, economic regulation needs to address concerns about competition, including asymmetries of information and abuse of dominance, and protect consumer interests (for example, universal access, affordability, quality and safeguarding of the environment). Regulatory independence is an equally important element of effective infrastructure services provision. Governments must develop a sound regulatory and institutional framework that envisages efficient markets and equitable and affordable access to infrastructure services.

3. Fostering an appropriate business environment

58. The actions of the private sector shape the market and influence how well it functions. Regulations, such as competition policy, labour laws and environmental protection, are necessary to remove unacceptable behaviours and set a floor for acceptable business practices. There is also ample scope to proactively foster "best practices". We need to enhance the contribution of the private sector, and individual businesses, towards sustainable development. This requires creating the right business environment, and incentives, so that companies can develop competitive advantages from doing more and doing better.

59. Corporate reporting has an important role to play in this regard. More information, and more reliable information, contributes to fostering the confidence of investors and other stakeholders and enhances good corporate governance. It facilitates investment flows and at the same time helps to reduce corruption and mismanagement of resources.

60. From the point of view of the sustainable development goals, in order to better promote responsible business practices, we must also make companies and organizations accountable for their social and environmental impacts. This requires that corporate reporting includes a non-financial information component, i.e. environmental, social and corporate governance reporting. When companies disclose sustainability information such as their use of energy or water, gender equality policies and quality of work conditions of their employees etc., investors and other stakeholders are able to make decisions and allocate resources towards companies and projects that truly support sustainable development. However, to achieve credibility and usefulness, we need harmonization and comparability of corporate reporting based on international requirements and best practices.

61. Stock exchanges can be particularly instrumental for fostering sustainable business behaviour. They are at the intersection of investors, companies and capital market regulators. That means that they are perfectly placed to promote better reporting. The Sustainable Stock Exchanges initiative of the United Nations has proved to be a useful peer-to-peer learning platform for exploring how stock exchanges can work together with investors, regulators and companies to enhance corporate transparency, and ultimately performance, on environmental, social and corporate governance issues and encourage responsible long-term approaches to investment.

62. One specific area where more transparency is essential, including through reporting, is that of extractive industries. As a number of resource-rich developing countries have experienced, significant revenues from resource extraction have sometimes vanished due to either corruption or tax fraud and tax avoidance, or to both. Vanishing revenues of this type deprive entire generations of the resources to build better lives for themselves and for their children. They can also, as seen in a few cases, fuel political instability and conflicts, often with grave atrocities that are violations of human rights. Important initiatives have been launched to tackle this problem, for example through the Extractive Industries Transparency Initiative.

4. Investing in skills and leadership development

63. The sustainable development goals involve important actions to be taken by Governments. Strategies and policies will have to be formulated and adopted; laws and regulations may have to drafted and revised or enacted; and institutions will need to be improved upon or even perhaps built. All of

this will be done by politicians and their staff in ministries or agencies. While it is important to promote efficient markets and responsible businesses, there is equally a need to improve technical and leadership skills in Government to enhance its effectiveness and capacity to deliver.

64. Greater investment in the human capacity of Governments will thus be essential. We need to ensure the right skill sets, technical expertise and updated knowledge base of staff in developing countries, in the face of the immense challenge of achieving the sustainable development goals. This will also require technical assistance (including training), more exchange of experiences, development of impact assessment tools and building of databases, statistical capacity, software and other instruments to facilitate informed, evidence-based decision-making.

65. One of the chief constraints on effective Government, which holds back successful national development strategies, is a disconnect between national political leadership and technical expertise of national administrations. The sustainable development goals presuppose an entirely new level of policy coherence within Governments, both between ministries and within ministries at the political and administrative levels. This cannot be taken for granted. The development of leadership skills in Government is required to meet the increased demands for sound development strategies, policy coherence and coordination and policy implementation.

C. TACKLING VULNERABILITIES, BUILDING RESILIENCE

66. Being vulnerable implies being less capable to deal with sudden changes, crises and shocks. One of the great injustices in our world is that those that are poor are more often the most vulnerable – both in terms of people and nations. As such, they tend to carry the brunt of the cost of economic, social and environmental crises. For some crises, as in the case of climate change, this may even boil down to a question of life or death. This is not only questionable from a moral perspective, it is also directly incompatible with the ambitions of eradicating poverty and achieving the sustainable development goals.

67. Vulnerabilities, especially of the poor, must therefore be a global concern and a shared obligation to address. In order to enhance sustainable development prospects that genuinely benefit all, countries, regions

and the international community need to tackle the specific challenges of weak economies, address financial instability, combat climate change and empower the more vulnerable groups within societies. Of course, prevention is the best cure. Still, we also need mechanisms to ensure that when crises erupt, countries are able to manage them effectively.

1. Overcoming financial and economic volatility

68. The current global economic situation, with the continued repercussions from the financial crisis, compounds the challenges of financial and economic volatility. This volatility, short-termism and boom and bust cycles not only threaten to delay recovery, but can also make countries slide back in their economic development, especially if there are new crises. In part, the fundamental problem lies with the systemic instability that accompanies unregulated financial markets. Rapid swings in asset markets, property values and exchange rates are likely to increase investment uncertainty, shorten planning horizons and promote defensive and speculative strategies which can adversely influence the pace and direction of economic growth and employment creation. This is particularly true in sectors that are susceptible to herding behaviour such as residential and commercial real estate investments, although it can also happen in the productive sectors.

69. Thus, a key driver of economic vulnerability in recent years has been unregulated global financialization and the large and predominantly short-term capital movements that this has given rise to. Of course, increased financial integration has the potential to enhance access to external financing for development. To date, though, there has been only a weak link between the integration of most developing and transition economies into global financial markets and their long-term development. This link has experienced further strains in recent years due to excessive liquidity generated by integration into global financial markets. The promise of higher returns on capital flows in developing countries, and perceptions that they pose lower risks than before, have made developing countries an attractive alternative for international institutional investors. Increasingly large and volatile international capital flows, especially short-term speculative flows, has exposed developing countries to the risks of financial boom and bust cycles.[11]

[11] Although middle-income countries tend to be more integrated into the global economy and, as such, seemingly more exposed to the effects of financialization, the magnitudes, relative to GDP, and macroeconomic effects of capital flows discussed in this chapter apply to all developing and transition economies.

70. This growing influence of financial markets affects domestic macroeconomic policy. Specifically, the excessive short-term financial flows alter core macroeconomic prices and influence policy in ways that can compromise the potential for sustainable growth and development. As seen in recent financial crises, Governments eventually and universally tend to assume the risks and costs generated by private speculation and market failures. Thereby, citizens end up paying the bill.

71. In this light, there is a need to better manage financialization and its macroeconomic effects, as well as strengthen the link between fiscal and monetary policies and development goals. Strong regulation at the domestic and global levels needs to be at the core of efforts to harness the benefits of international *finance*. It is increasingly recognized, including by international financial institutions, that a judicious combination of capital controls and exchange rate management, including by influencing the amount and composition of capital inflows, could help maintain access to productive external finance while also encouraging domestic investment. Proactive fiscal and industrial policies are also essential for generating the structures and circumstances that support domestic productivity growth and the expansion of aggregate demand. Considering that States can end up taking on private debt, not least through bailouts in financial crisis, countries need to carefully weigh the potential risks of such borrowing and pursue active debt management, especially when there are significant exchange rate and maturity mismatches. This will also require continued efforts to strengthen the capacity of developing countries to analyse their debt portfolios, for which technical assistance is essential. All of these domestic measures must go hand in hand with more determined regional and global actions.

2. Addressing climate change and biodiversity loss

72. Climate change is the greatest shared challenge of our time. The recognition by the international community that sustainable development has to be at the heart of the development agenda in the coming years is a concrete response to this challenge. Furthermore, by identifying common global goals (i.e. the sustainable development goals), the international community has started to realize that market-based solutions pursued in the recent past have not been able to offer solutions to the threat. However, in an uneven global economic playing field, multilateral solutions must build on the recognition of the principle of common but differentiated responsibilities

across the international community. They must also provide sufficient space to allow countries to pursue their policy agenda according to the specific challenges and constraints that each face. Climate change, even in the most favourable scenarios,[12] will directly impact economic activities worldwide. For trade, climate change will aggravate the transport and logistical problems of landlocked developing countries and small island developing States, and of remote, vulnerable areas in other countries. Transport infrastructure and services are central to globalization and trade-led development. At the same time, rising sea levels, extreme weather events and rising temperatures could cause delays and disruptions to critical transport links, such as ports and airports, and thereby have important economic repercussions. We need to enhance the climate resilience of key transport infrastructure until we find a longer-term sustainable development strategy.

73. It is also possible that actions to significantly reduce global carbon emissions directly or indirectly increase the cost of transportation. This could also negatively impact on developing countries' exports. For instance, UNCTAD data show that developing countries in Africa and Oceania, including many small island developing States and landlocked developing countries, already pay on average 10 to 30 per cent more for the international transport of their goods and services than the world average. For commodity-exporting countries, the share of transport costs in the price of exported goods is particularly high. There is a need to ensure that any additional costs to trade and transportation necessary to combat climate change do not disproportionately fall on the poorest.

74. Biodiversity is also under serious strain as a result of human activity. We have already seen massive extinction of species, and many more species are under threat. Climate change will only accelerate these worrying trends further. Reduced biodiversity negatively affects societies, economies and the environment, including through increased food insecurity and the undermining of future economic and growth prospects. For example, the depletion of fish resources through harmful and unsustainable practices threatens the livelihoods of millions of sea-based communities and longer-term food

[12] For recent climate projections, see Intergovernmental Panel on Climate Change, 2013, *Climate Change 2013: The Physical Science Basis. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* (Cambridge University Press, Cambridge, United Kingdom of Great Britain and Northern Ireland and New York, United States of America).

security in the world overall. The health of the oceans and seas is also under grave threat by the accumulation of carbon dioxide in sea water, multiple sources of pollution (from oil spills to plastic waste), rising water temperatures and sea levels, and mineral extraction that damages the seabed.

75. An essential challenge for the next 15 years is shifting from harmful economic activities and incentives that impact on global biodiversity to new sustainable activities that provide a real economic alternative to countries and communities rich in biological resources. Promoting sustainable trade in biodiversity products and services can be a key tool to induce investments in the protection of species. It creates incentives to ensure the viability of biodiversity. It also counters the market forces that have tended to assign no cost to the loss thereof. Sales in “biotrade” reached US$5.2 billion in 2012, showing a clear transition from a previously niche green market to a more robust subsector of the economy of many developing countries. There is still space for further growth.

76. Likewise, mitigation and adaptation offer possibilities to enhance investments and modernize critical infrastructure. A shift to a low-emission pathway to economic growth can provide potential new “green industries” and “green jobs”, beyond reducing exposure to climate change impacts. There is high demand among consumers today for environmentally friendly green goods and services, such as organic food, which can support diversification into more green products and exports. More extensive use of renewable energy technologies can also be used to enhance access to energy for all citizens, since energy from such technologies can reach rural and remote areas without connection to energy grids.

3. Diversification in the most vulnerable and weak economies

77. Vulnerability and structural weakness are particularly acute in LDCs, landlocked developing countries, small island developing States and post-conflict States. Their vulnerability is both a cause and a consequence of their persistent economic underdevelopment. To address this trap, all structurally weak economies need to develop sound strategies that build resilience.

78. At its core, economic resilience implies building productive capacity in a manner that diversifies the economy, thereby inducing more job creation, better income generation and improvements in sustainable livelihoods. Well-diversified economies tend to withstand better external shocks and create more opportunities for inclusive growth through decent work.

79. Key to the diversification process in LDCs, landlocked developing countries and small island developing States is the quest for a “smart product mix” to respond to evolving international demand. Examples of successful economic specialization choices based on natural and cultural assets would include product mixes of exportable goods and services in areas such as processed mineral products (e.g. from bauxite, diamonds, etc.), organic food products (including raw and canned fruits and vegetables), specialized international tourism services (including health services and cultural services), provision of transport, logistics and transit services, exported business-related services and outsourced services. A smart product mix may have a stimulating effect on a wide spectrum of economic actors and may encourage foreign and domestic investment in other goods or services. For example, developing state-of-the-art air transport facilities would not only be a sensible move for competitiveness in international tourism, it could also serve as a powerful incentive for foreign direct investors to explore economic opportunities in other economic sectors.

80. Building resilience through economic diversification is also critical as countries plan their graduation from LDC status. The Istanbul Programme of Action (Programme of Action for the Least Developed Countries for the Decade 2011–2020) set the explicit target of enabling half of LDCs to meet the graduation criteria by 2020. To date, however, only four LDCs have graduated in 44 years. Much more is needed to foster the necessary structural transformation of LDCs. Losing LDC status also comes at a cost. This makes it all the more imperative that countries about to graduate have built up resilience to manage the transition over the long term.

4. Transforming rural economies to end poverty

81. Although global poverty has declined, progress has been uneven. In most developing countries, poverty is mainly concentrated in rural areas. With three quarters of the world’s extreme poor in rural areas, rural development will be central to achieving the sustainable development goals. There is also an important untapped potential for structural transformation and, thereby, poverty eradication in rural economies. Such transformation will benefit cities too by slowing the flow of rural–urban migration and keeping the pace of urbanization sustainable.

82. Agriculture remains critical, particularly in employment and food security. In Africa, for example, agriculture appears to be by far the sector with the highest elasticity with respect to growth, suggesting that investments

should target this sector. Small-scale agriculture, as the mainstay of the rural economy, must inevitably play a key role in growth. Boosting the productivity of small-scale agriculture is necessary to allow increased staple food production for household consumption and for the market when challenges to improving infrastructure are addressed. Food security could be improved through actions that respond to the immediate needs of vulnerable groups (safety nets) and contribute to longer-term resilience, as enunciated in the twin-track approach of the High-level Task Force on the Global Food Security Crisis of the United Nations.

83. Small-scale farming alone, however, is not likely to be sufficient for the future food needs of rapidly growing and urbanizing populations; nor is it in itself a sufficient engine for growth. Larger-scale investments in agriculture will also be essential while ensuring the Principles for Responsible Agricultural Investment are adhered to.

84. Yet agriculture is only part of the picture. The diversification of rural employment into non-agricultural activities will be essential to accelerate poverty reduction. Growth of non-farm activities is often driven by agricultural growth and can stimulate local employment creation. Closing the gender gap in education and access to productive resources can also substantially boost women’s empowerment and agricultural incomes.

85. Ensuring rural transport and logistics networks is equally important. Many developing countries face significant transport infrastructure deficits in rural areas, as well as logistical services, which may hamper their competitiveness. Connecting poor producers in agriculture, forestry and fisheries beneficially with regional and global markets for their products is important. Sectors such as biotrade, biofuels, organic agriculture, sustainable forestry and forest products and fisheries can contribute to development, poverty reduction and sustainability.

5. Leaving no one behind, empowering women

86. Rising inequalities have become prominent features of the global economy for the last 30 years, raising concerns not only of an economic but also a social and political nature. Gender inequality is an important and integral part of economic inequality, and it takes multiple forms, including in the labour market where women are generally paid less. In some countries, women are paid on average 30 per cent less than men. In other countries,

they are prevented from certain employment opportunities altogether. Worldwide, 53 per cent of all working women, some 600 million people, are in vulnerable jobs in self-employment, domestic work or unpaid family labour. Such gender disparities both arise from and perpetuate persistent gender segmentation in economic activities, unequal burdens of care work and household responsibility and unequal access to resources.

87. While too often neglected, women can play a major role in all sectors of the economy. Currently, they already play a major role in agriculture, rural non-farm economies and labour-intensive manufacturing. Addressing gender constraints to realizing women's potential more effectively, and for the economy at large, is therefore critical to economic transformation. Failure to do so both reduces efficiency and impairs supply responses. If women worldwide had the same access to productive resources as men, they could increase yields on their farms by 20–30 per cent, raising global agricultural output by 2.5–4 per cent. Proactive policies are needed to break existing patterns of exclusion, to allow women to fulfil their potential and build more dynamic economies and societies.

D. STRENGTHENING MULTILATERALISM, FINDING COMMON SOLUTIONS

88. Seventy years ago, the peoples of the world embraced multilateralism to prevent a recurrence of the Great Depression and the Second World War through more effective global collective action and a new global economic architecture. In 2015, multilateralism is at a crossroads. The need for global collective action to tackle cross-border challenges is at an all-time high. Yet collective solutions are in short supply.

89. Multilateralism is pivotal for delivering these collective solutions. Only multilateralism can avert global environmental catastrophe. Only multilateral cooperation can countermand recent economic mismanagement, which caused the Great Recession, and set the world economy on the path to genuine recovery. Only multilateral cooperation can reduce to zero the social deprivations that keep millions locked in extreme poverty or held back by inequality.

90. The sustainable development goals, and the universal ambitions that they embody, offer the international community the opportunity to turn the page and put multilateralism and robust global economic cooperation back on track.

1. Supporting global economic governance and reform of the international financial system

91. Multilateral support is vital for a stable global economic environment. More inclusive and better coordinated international economic cooperation can strengthen the global economy, result in better reforms to international financial institutions, improve financial regulation and help implement key economic reforms. Global economic governance should complement State capabilities. Reforms to the international financial system should be undertaken with a view to greater collective engagement of countries at different levels of development.

92. We recognize that incremental progress is being made towards more equitable institutions for global economic decision-making. The creation of the Group of 20 following the crises of the late 1990s acknowledged the need to look for collective solutions to international financial stability that integrate the perspectives of key developing and transition economies. Yet, despite efforts to coordinate a global response to the 2008/09 global crisis, which began in and most seriously damaged advanced economies, global economic decision-making is still far from being effective or inclusive. The non-Group of 20 developing countries remain relatively marginalized. Furthermore, long-awaited reforms to the international financial architecture remain stalled, thus limiting the degree to which developing countries can meaningfully participate in global economic governance.

93. Seven years on, despite initial progress, the global response to the 2008/09 world economic and financial crisis reveals worrying signs of a reversion to “business as usual”. To date, it has focused on damage limitation without genuine financial system reform. Similarly, the current deflationary policy mix has weighed on growth prospects, public finances have not recovered and wider economic recovery, where this has taken hold, has been mediocre. Many countries have been tempted to employ protectionist measures and competitive devaluations to maintain competitiveness in the absence of productivity growth. Multilateral supervision and monitoring of these issues are important in this regard, particularly to ensure an inclusive perspective on efforts to coordinate strong, sustainable and balanced global growth.

94. Correcting current protracted global stagnation will require coordinated international monetary, fiscal and structural policies. Policy priorities include efforts to boost demand through expansionary fiscal policies and programmes to strengthen skills and credit expansion channelled towards

real investment and short-term consumer needs. They also include consistent policies to raise labour income and increase consumption without adding to household debt and international coordination to inject additional global demand, while minimizing the risk of financial crises arising from disproportionate external imbalances.

95. Continued vigilance and innovative multilateral solutions are needed to ensure debt sustainability and to work towards a multilateral sovereign debt restructuring mechanism that protects the rights of borrowers and lenders and promotes orderly workouts in case of crisis. Given the low-interest rate environment globally, many developing countries, particularly newly middle-income countries, are increasingly turning to sovereign borrowing at market rates. In the last five years, some dozen former heavily indebted poor countries have made recourse to sovereign debt markets. This reflects the growing ability of countries to obtain financing without need for international assistance, yet the danger remains that external shocks or an abrupt increase in interest rates could threaten the debt sustainability of these countries. We also need orderly sovereign debt workout procedures, drawing on the experience of national bankruptcy laws.

96. Achieving economic stability will also require reform of the international financial system. The current global environment is characterized by historically low interest rates, a shortage of demand, declining wage shares and massive underutilization of labour, on the one hand, and by a huge debt overhang, rising profit shares, excessive financial leverage and large, short-term and volatile financial flows, on the other. Continued financial volatility has led to precautionary reserve accumulation and may warrant macroprudential regulations and management of capital flows to ensure that global recovery and trade growth are not threatened by an excessively unstable international financial system. In this regard, further efforts towards developing coherent, consistent and transparent financial systems are critical.

2. Strengthening global partnerships for development cooperation and development finance

97. For aid-dependent countries, particularly LDCs, ODA remains crucial. Development Assistance Committee donors need to meet their longstanding commitment of 0.7 per cent of donors' gross national income, in addition to continuing to improve the quality and effectiveness of aid. It is essential that

the principle of additionality with respect to ODA is respected and that some of the new and innovative sources of financing under discussion do not end up diluting that commitment. The composition of aid flows can be more purposefully directed towards economic sectors that enable recipients to mobilize their own resources for development and create new productive capacities, without taking resources away from the social sectors. The productive capacities and structural transformation needed for economic sustainability of human development require a substantial increase in resource allocations to productive sectors. The 2005 Aid for Trade initiative remains of particular significance in the context of trade and development. To ensure that aid for trade is also aid for development, the initiative's effectiveness can continue to be improved, and its priorities can continue to be better aligned with the binding constraints in recipient countries.

98. While developed countries should remain a primary source of development finance, developing countries in a position to do so should also play a more active role in development financing, not least through various South–South mechanisms. The emergence of new South–South development banks provides a new beginning for alternative long-term financing. Today's global economy might be better served by a more robust network of institutions that includes new and existing regional development banks, while national development banks and multilateral financial institutions play complementary and mutually reinforcing roles.

3. Making the multilateral trading system more effective in the coming decades

99. The world trading system has been an important driver for the integration of developing countries into the global economy, and it has provided a rules-based forum for resolution of trade disputes and for small economies to voice their concerns. It has also attracted new members, thereby moving the system further towards universality. Despite recurrent setbacks, therefore, the multilateral trading system remains a crucially needed global public good. However, in the seven years since the global crisis, trade growth has not rebounded to its pre-crisis levels, and trade policy has come under increasing scrutiny. Its impact on development is also being brought into question. In the light of twenty-first century development challenges, reinvigorating the multilateral trading system as a global public good with renewed momentum and relevance is thus essential for the sustainable development goals.

100. The international trading system underpins the potential role of trade to foster sustainable development. During the past 20 years, multilateral cooperation has been instrumental in working towards an open, predictable, rules-based and non-discriminatory as well as equitable international trading system, improving trade governance and fostering economic growth. Challenges remain in addressing asymmetries in the system. At the national and regional levels, trade policies coupled with broader development strategies will improve the trading environment and catalyse inclusive and sustainable development. At the global level, the WTO through the implementation of WTO agreements and conclusion of the Doha Development Agenda, with its development dimension intact, can help to engender more sustainable trade.

101. The Ninth Ministerial Conference of the WTO in 2013 was a timely gain with the agreement of the “Bali package”, including the Agreement on Trade Facilitation and decisions on agriculture, cotton and development and LDC issues. All of these are important from a development perspective. Nevertheless, this must only be a first step to reinvigorate WTO and its longstanding negotiations on the Doha Development Agenda. Conclusive steps forward on other key issues of the Doha Development Agenda, with priority given to development issues, can and should be made at the upcoming WTO Ministerial Conference to be held in Nairobi in December 2015.

102. Harnessing global trade for development today goes beyond traditional market access issues and, indeed, sometimes beyond the current negotiating agenda of the WTO. Trade patterns and policies are today more complex and multifaceted. Product characteristics and requirements help to protect health and the environment but affect trade and have a disproportionate effect on LDCs. There is a need, at the regional and global levels, to better advance transparency and regulatory convergence on non-tariff measures. This should help developing countries, and in particular LDCs, to cope with the challenges that non-tariff measures pose to market access and to use non-tariff measures as instruments to make progress in areas such as food security and environmental protection.

103. The proliferation of deep bilateral, regional, mega-regional and plurilateral trade agreements has raised questions about their relationship and coherence with multilateral processes and agreements. Almost all countries, naturally, are now party to one or more such arrangements, and

countries want to preserve the freedom to make use of available means to further their trading interests with partner countries. Even so, further efforts could be made to ensure that different rules in these agreements are more mutually consistent and supportive. This is particularly important when regulatory convergence pursued under regional trade agreements may affect developing countries that are not parties to these agreements. These countries need to be able to adapt to and mitigate any potential effects on market conditions that may arise. More generally, there is a need to ensure that regional and plurilateral agreements can serve as pragmatic building blocks for stronger multilateralism. The aim should be to promote open, rather than closed, regionalism to avoid a more fragmented and exclusive trading system. In parallel, we need to strengthen multilateralism itself, by making progress in WTO negotiations, as the most effective antidote to risks arising from inward-looking regional trade agreements.

4. Enhancing policy coherence for investment with sustainability

104. Today's international investment policy challenges arise from the sustainable development imperative, the greater role of Governments in the economy and the evolution of the investment landscape. Investment is a critical issue that cuts across the implementation of all sustainable development goals. International efforts can help mobilize funds, channelling investment in sustainable development goal sectors and ensuring sustainable development benefits, while rising to the challenge of meeting the US$2.5 trillion annual investment gap for financing of the sustainable development goals in developing countries. This calls for a new framework to guide investment policymaking coherently between the national and international levels as well as between investment and other public policies.

105. With respect to international governance of investment, there is also growing unease with the current functioning of the global, yet highly fragmented, regime of international investment agreements. While recognizing that the purpose of international investment agreements is to promote investment, it is also acknowledged that reform of the current regime of more than 3,000 international investment agreements is urgently needed. Reform actions include overcoming the systemic shortcomings of international investment agreements, addressing the imbalance between the rights and obligations of States and investors, revising the investor–State dispute settlement system and ensuring that investment agreements properly contribute to inclusive and sustainable development.

Such a reform process, also aiming at global convergence in approaches to investment, should harness investment for inclusive and sustainable development, while minimizing conflicts and maximizing synergies with other public policies, such as environmental protection and human rights. The Addis Ababa Action Agenda reaffirmed the importance of this reform and called on UNCTAD to provide the forum and mechanism for it.[13]

106. International investment policy coordination is also needed to regularly monitor and review national investment policy developments with a view to making investment work for development and keeping investment protectionism at bay. As such, it can facilitate exchange of best practices in investment policymaking.

5. Promoting a global enabling environment for technology

107. Multilateral cooperation for technology facilitation supports countries in establishing and developing knowledge, technology and innovation systems to underpin sustainable development strategies. It should also help balance the public and private dimensions of technology, innovation and knowledge to support a new framework for technology transfer that complements the building of domestic technological, innovative and knowledge capabilities; support the mobilization of domestic resources in developing countries to promote knowledge-intensive activities; and ensure access to the technologies required for achievement of the sustainable development goals, including a rapid transition from high- to low-carbon development paths.

108. As the sustainable development goals recognize, technologies are fundamental to the knowledge economy, contributing to human capacity development and affecting the competitiveness of firms and their participation in international trade. The sweeping and dynamic development of ICTs has offered enormous opportunities for countries. Yet far from all have been able to capitalize on these. Helping countries to access and make better use of ICTs requires, beyond national strategies, well-designed multilateral frameworks for collaboration. The transformational power of ICTs, and some of the challenges they entail, also calls for dialogue at the highest level on the global governance of the ICT sector. The General Assembly's review of progress in implementing the outcomes of the World Summit on the Information Society in December 2015 will provide a timely opportunity for such dialogue and reflection.

[13] See the Addis Ababa Action Agenda, para. 91.

V.

UNCTAD IN THE POST-2015 ERA
– A CALL FOR ACTION

109. In my first address to the Trade and Development Board as Secretary-General of UNCTAD, I stated: “At a time when the world economy is in protracted recession, when we are observing tectonic shifts in the global economy, when multilateralism is at a crossroads, when a financial crisis has put into question the prevailing development paradigm, and when we are working to define a post-2015 development agenda, there must be a role for UNCTAD.” I continue to believe that that role is needed now more than ever. UNCTAD’s rich heritage of development research and innovative thinking, its intergovernmental machinery, which has been a vital development forum for half a century, and its technical cooperation activities could serve as powerful tools for tackling the common challenges facing developing countries and economies in transition in the coming years.

110. The fourteenth ministerial Conference should reaffirm UNCTAD’s core mandates and the work programme that started in Doha, which must continue if UNCTAD is to fulfil its overall objective of assisting developing countries and economies in transition to achieve inclusive and sustainable development. Given the scale of the challenges that many developing countries are likely to face in implementing the sustainable development goals, the international community will have to find new approaches to inclusive and sustainable development that are qualitatively different from those applied in the past.

111. Building productive capacity to transform economies through macroeconomic policies and developmental industrial policies that promote growth and generate jobs should be high on the post-2015 development agenda. Equally important is increasing the fiscal space of Governments in developing countries through mobilization of resources, which is a prerequisite if the sustainable development goals are to be achieved. Developmental States that are efficient and promote market efficiency will have a central role to play in sustaining the development process in the long run. In particular, they are needed to support infrastructure development, leverage technology and investment for productive capacity-building and transform rural economies by investing in both physical and human capital. The role of the public sector will continue to be important where the private sector, particularly in LDCs and other low-income developing countries, is likely to be weak or absent. This is why between 55 and 75 per cent of infrastructure investment in developing countries is financed by the public sector. Widening the available fiscal space requires diversifying the sources

of financing of the public sector and strengthening domestic resource mobilization via broadening the tax base, improving the collection system and making the tax system more progressive.

112. This report has elaborated and outlined a range of actions that Governments need to take to achieve transformative growth and attain the sustainable development goals. While not an exhaustive list, they do nevertheless represent the specific action lines where UNCTAD has the core competencies and experience to support developing countries in implementing the post-2015 development agenda and operating at all levels of governance: national, regional and international.

113. In line with its core mandate, UNCTAD has a particular role to play in ensuring that the international economic architecture, which emerged some 70 years ago, continues to support the efforts of all countries, but particularly those in the developing world, to pursue these transformative, sustainable and inclusive growth strategies. Over the intervening decades many changes have taken place in the workings of the global economy, but asymmetries in the distribution of economic resources and power persist, and our increasingly interdependent world carries vulnerabilities as well as opportunities. Strengthened international cooperation across the community of nations remains key to guaranteeing a dignified and prosperous future for all.

114. The action lines, and corresponding broad policy areas, of that role are summarized below:

(a) Building productive capacity to transform economies:
  (i) Mobilizing resources for productive capacity-building
  (ii) Exploiting the trade–investment nexus for diversification
  (iii) Leveraging technology for productive capacity
  (iv) Promoting private sector enterprise development

(b) More effective States and more efficient markets:
  (v) Enhancing competition and consumer protection
  (vi) Scaling up infrastructure services
  (vii) Fostering an appropriate business environment
  (viii) Investing in skills and leadership development

(c) Tackling vulnerabilities, building resilience:
  (ix) Overcoming financial and economic volatility
  (x) Addressing climate change and biodiversity loss

(xi) Diversification in the most vulnerable and weak economies
(xii) Transforming rural economies to end poverty
(xiii) Leaving no one behind, empowering women

(d) Strengthening multilateralism, finding common solutions:
(xiv) Supporting global economic governance and reform of the international financial system
(xv) Strengthening global partnerships for development cooperation and development finance
(xvi) Making the multilateral trading system more effective in the coming decades
(xvii) Enhancing policy coherence for investment with sustainability
(xviii) Promoting a global enabling environment for technology.

http://unctad.org

Join us

@UNCTAD

unctad.org/facebook

unctad.org/youtube

unctad.org/flickr

unctad.org/linkedin