

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**THE GREEN ECONOMY:
TRADE AND SUSTAINABLE DEVELOPMENT IMPLICATIONS**



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Executive summary

The concept of a green economy has emerged as a new potential development engine and this paper will address some of its trade and sustainable development implications as well as its potential opportunities and challenges for developing countries.

In the long term, a green economy can be defined as an economy that results in improved human well-being and reduced inequalities, while not exposing future generations to significant environmental risks and ecological scarcities. It is, therefore, an enabling component of the overarching goal of sustainable development. In a consolidated green economy consumers value the full range of benefits (basic needs, material usage, health and environmental aspects) that are associated with the purchase of goods and services.

During a transition phase, a green economy seeks to bring long-term societal benefits to short-term activities aimed at mitigating environmental risks, but that alone does not necessarily or automatically imply higher levels of output and employment when compared with a “brown” economy. It is worth noting that in the discussion of a green economy, several developing countries (for different reasons) do not consider a green economy intrinsically sustainable; nor is it considered intrinsically pro-development or pro-poor. While the traditional development emphasis has been put in economic growth, a green economy (initially) emphasizes the environmental pillar of sustainable development. Consequently, there is an important policy-relevant work to be done in ensuring that paths to a greener economy are socially inclusive and contribute to equitable economic and social development.

Simply stated, sustainable development addresses simultaneously the economic, social and environmentally sound development imperatives so that future generations can enjoy the same benefits as current ones. Trade by itself is not intrinsically good or bad for sustainable development; it all depends on how the gains and losses from trade are distributed among the members of society, and how trade impacts the use of natural resources and the quality of the environment.

Traditionally, trade-driven trade-offs between the three pillars of sustainable development have been resolved by prioritizing the economic pillar. But even in this case little attention is generally paid to compensate those sectors of society that lose with trade, i.e. due to labor displacement or bankruptcies that could result from trade liberalization. Pursuing a sustainable development agenda, implies more than macroeconomic growth, it entails a more leveled valuation among economic, social, and environmental development objectives.

Even under the best of the circumstances, trade could result in significant economic gains, but it is up to domestic authorities to ensure that these gains have a positive impact on alleviating poverty, improving health conditions, enhancing universal education prospects, and the overall standard of living of the population. At the same time, adequate environmental regulations and a long-term view of the value of natural resources and environmental services are necessary conditions to ensure a sustainable growth. The adverse impacts of global climate change is a wake-up call

for a longer-term, inclusive and truly sustainable development approach in economic and trade policymaking.

Gains from trade are usually evaluated by accounting the gains and losses for the different economic agents, which in a simplified world refer to producers, consumers, and governments. However, this assessment falls short in terms of (a) measuring the distribution of the costs and gains from increased trade, (b) evaluating the social cost, and (c) the environmental impacts.

Sustainable trade is not only about trading *green* goods and services but also ensuring that trade contributes positively to the three pillars of sustainable development. These include the sharing of the domestic cost and gains from trade, and the contribution to sustainable development of the direct and indirect activities linked to trade.

In the past 50 years we have seen trade playing an ever-increasing role in the development agenda. More specifically the pursuit of an export-led growth strategy has been a common feature in development strategies of developing countries.

In the last two decades the world economy has experienced unprecedented economic growth, largely as a result of export-led growth. From 1990 to 2007, the world's export volume has multiplied by a factor of three and the share of exports in the world GDP has increased from about 12 to 21 per cent.¹ In that same period, developing countries have on average outperformed developed economies in terms of their rate of growth in GDP per capita. The per capita GDP grew in developing countries by 3.42 per cent a year, while in developed countries the rate was only 1.34 per cent a year. Such growth rate was not uniform among developing countries. The rate of growth for the group also known as the BASIC countries (Brazil, South Africa, India and China) has grown at a rate of 5.56 per cent per year, while the growth rate in all the other developing economies has only been 2.06 per cent a year.²

Despite outperforming the rate of growth of developed countries, the income gap between developed and developing countries continues to widen and remains significantly large. Although higher than developed economies, developing countries' rates of growth are not high enough to compensate for the larger economic base of the developed countries.

Developing countries continue to rely heavily on the exports of primary commodities.³ The only exception seems to be the BASIC countries where a significant shift has occurred towards a greater share of exports of manufactured goods. In fact, trade data⁴ shows that during the recent export-led growth period these countries have been able to reduce their reliance on primary commodities and were able to significantly increase their manufacturing exports as well as their contribution to total exports.

¹ WTO-UNEP (2009). Trade and Climate Change. WTO-UNEP Report, WTO publications, Geneva, Switzerland.

² UNCTAD, GlobStat UNCTAD Statistics, August 20, 2010.

³ Ibid.

⁴ Ibid.

Developed economies are still the largest market for developing countries' exports. However, since 1990, the share that developing countries export to each other has grown from 31 to 46 per cent, although such increase is less dramatic if one excludes the BASIC countries. In this case, the share grew from 24.7 to 30.0 per cent.⁵

From the standpoint of global poverty, the last two decades have shown considerable progress. Rapid economic growth in China, India, and a few other Asian countries resulted in an absolute reduction in the number of people living in extreme poverty. It is worth noting that China and India – while increasing their reliance on market forces – have maintained highly unconventional policies: high levels of trade protection, limited privatization, extensive industrial policies, and lax fiscal and financial policies.⁶

An export-led development strategy assumes that there is an unlimited demand for exports particularly from developing countries. However, current evidence shows an increasing degree of price competition among developing countries to access developed country markets. So even in the absence of a protectionist wave in developed countries, the export-led model is showing signs of exhaustion.⁷

For most developing countries, the path toward sustainable long-term development needs to strike a better balance between domestic-led and export-led growth. Such a balance may also allow growth with equity, as labor income becomes a crucial element of aggregate demand and not merely a cost to be minimized in the interest of external competitiveness.⁸ In this context, a well targeted transition towards a green economy may indeed offer a more integrated approach to economic growth and sustainable development. Moreover, the pressing need of addressing the potential negative impacts of global climate change adds a sense of urgency to the green economy.

Turning to the multilateral trading system as the policy environment that enables and underpins the dominant export-led growth model, one observes that the last 20 years has seen the transformation of the General Agreement on Tariffs and Trade (GATT) into the World Trade Organization (WTO). This transformation represented a paradigm shift from a system based on negotiating market access (at the border) for tradable goods, to one that seeks to impose binding multilateral disciplines, with a common enforcement mechanism, both at the border and in some cases on domestic economic policies.

Before the Uruguay Round trade negotiations, there was ample policy space available to use several trade-related instruments in the quest for sustainable development. It has been argued that many of the new agreements brought by the creation of the WTO have deeply reduced policy space for using such policy

⁵ Ibid.

⁶ Rodrik, Dani. *Goodbye Washington Consensus, Hello Washington Confusion?* Harvard University January 2006.

⁷ Blecker, Robert A. and Arslan Razmi (2010). Export-led growth, real exchange rates and the fallacy of composition. In Mark Setterfield (ed.), *Handbook of Alternative Theories of Economic Growth*, Northampton, MA: Edward Elgars

⁸ Ibid.

instruments, especially those regulating trade such as the Agreements on Subsidies and Countervailing Measures (SCM) and Trade-Related Aspects of Intellectual Property Rights (TRIPS) and to a lesser extent the General Agreement on Trade in Services (GATS).

Despite the lack of progress in trade negotiations under the Doha Development Agenda, there is no doubt about the need for a rules-based, multilateral trading system that seeks to apply predictable, equitable norms to world trade. None of WTO's basic principles need to be put into question – non-discrimination, transparency and the peaceful settlement of disputes are all fundamental tenets of a trading system devoted to serving sustainable development. Importantly, expanding access of developing country goods to main foreign markets remains an imperative, if only to enable poor countries to offer their citizens an acceptable quality of life.⁹

What needs to change is the way in which priority is assigned to sustainable development and long-term economic prospects within national and global trade policies. Trade policy formulation is almost always thoroughly dominated by short-term commercial considerations. As a result, trade policy advances a very narrow aspect of the national sustainable development interest. There can be no doubt that the interests of national exporters and national producers are a legitimate focus of trade policy. However, the problem arises when trade expansion remains the exclusive focus of development policy. Additionally, issues of common global concern (and interest) such as climate change receive virtually no attention from decision-makers involved in the promotion of export-led growth. Yet, in the long run, short-term national commercial interest is often neither in the global interest nor even in the national interest.¹⁰

In an export-led development strategy, the multilateral trading system seeks to provide the favourable environment for economic gains, while domestic policies are tasked with sharing the benefits within the economy and to manage those gains towards sustainable development. In a global trade system with sustainable development as the central focus, the global system should encourage inclusion of all economic actors and equally seek social and environmental benefits. This would lead to a system not solely based on the principle of commercial reciprocity but also on the search for global sustainable development.

Moving towards a green economy implies not only the mainstreaming of green niches in specific sectors of the economy but to change the overall social construct. The sustainable development challenge for a green economy is to be able to produce more wealth, employment and better social services, coupled with a lower absolute use of natural resources, greater reliance on less carbon-intensive and renewable energy, and without causing regional displacements due to uneven endowment of natural resources.

The transition to a green economic would imply significant investments to revamp and structurally change (a) the production function of the economy, (b) its infrastructure, and (c) spur investments for continuous technology development. It

⁹ Halle, Mark. Preface to Cosby, Aaron (2009). A Sustainable Development Roadmap for the WTO, International Institute for Sustainable Development (IISD).

¹⁰ Ibid.

will also imply the transformation of the consumption patterns to adequately synchronize them with the full value of the welfare benefits that consumers receive from goods and services. It is difficult to imagine a transition phase in which, at least in the early stages, the internalization of the environmental and social costs do not result in a reduction in real income. Obviously, developed economies would have at hand greater financial, human resource and technological means to navigate this transition with relatively lower costs. Conversely, developing economies could be disproportionately left with higher transition costs to a greener economy. Hence, there is a real basis to argue for a net transfer of financial resources so that developing countries can leapfrog to a higher degree of sustainable development.¹¹ This holds particularly true if one admits that a more sustainable, green and less carbon-intensive world economy is essentially a “global common good” that provides benefits for all humanity. Short of accepting this, the mere internalization of environmental costs is a costly extra effort that many countries, developing and developed countries alike, may not be willing to voluntarily make or undertake in isolation.

With regards to the social and human well-being aspects of the transition phase to a green economy, new mechanisms to share the costs will be required. Transition costs could affect segments of society in different ways; not only in terms of labour force re-training, but mostly in adapting to the new (higher post-internalization) market price levels. If the last 20 years have provided a lesson in this regard, it is that adequate and due compensation to the under-privileged is not an automatic mechanism available in most countries. Well-targeted and innovative policies to address these market failures are therefore required.

As climate change is one of the key drivers behind the urgency to promote a transition to a green economy, the cost of this transition should be assessed in contrast with the economic, social, and environmental (adverse) impacts of global climate change. In this regard, it is perhaps the uncertainty associated with climate change impacts (their geographical distribution, intensity, scale and timeline) that creates one of the biggest obstacles for a bolder and more ambitious public policy response that would speed up the transitioning to a green economy.

Trade is an important tool in a strategy leading to sustainable development. However, an export-led growth strategy will not automatically provide incentives to developing countries in their search for sustainable development. The urgency of addressing global climate change and its potential dramatic social and environmental impacts requires a much more integrated approach based on the concept of a green economy. Whether a green economy has the potential to become the basis for a new development push will depend on how its benefits are perceived and how the burden of the transition costs is ultimately shared.

¹¹ By way of illustration, in paragraph 8 of the Climate Change Copenhagen Accord (which was not adopted and carries no legal standing) political leaders referred to the total cost of \$100 billion a year to meet mitigation and adaptation costs associated with the limitation of a 2 degrees Celsius increase in mean global temperature. Raising \$100 billion a year on the global capital market from 2020 does not seem to be such an unrealistic goal in view of the size of the global stock and loans market, which traded in 2009 a value of more than \$100 trillion. The global GDP in 2009 stood at around \$57 trillion. Hence, \$100 billion today in relation to the overall values at hand are less than 0.1 per cent of the capital market value or less than 0.2 per cent of global GDP only. In 2020, the global GDP in nominal terms should have doubled [internal UNCTAD memo].

1. Introduction

The concept of a green economy has emerged as a new potential development engine and this note will try to address some of its trade and sustainable development implications, and discuss its potential opportunities and challenges for developing countries.

In the long term, *a green economy can be defined as an economy that results in improved human well-being and reduced inequalities over the long term, while not exposing future generations to significant environmental risks and ecological scarcities.*¹² It is therefore an enabling component of the overarching goal of sustainable development. In a consolidated green economy consumers value the full range of benefits (basic needs, material usage, health and environmental aspects) that are bound to the purchase of goods and services.

Additionally, a green economy can be understood as one in which producers internalize environmental (and social) costs into their production decision-making. Pollution levels are made compatible with sink functions of nature even in face of uncertainty. In a green economy both upcoming growth and existing stocks of capital are subject to transformation, meaning decreasing or no additional harm to socio-environmental systems.

During a transition phase, a green economy seeks to bring long-term societal benefits into short-term activities aimed at mitigating environmental risks, but that alone does not necessarily imply higher levels of output and employment than a “brown” economy. It is worth noting that in the discussion of a green economy, several developing countries (for different reasons) do not consider a green economy intrinsically sustainable; nor is it considered intrinsically pro-development or pro-poor. While the traditional development emphasis has been put in economic growth, a green economy (initially) emphasizes the environmental pillar of sustainable development. Consequently, there is an important policy-relevant work to be done in ensuring that paths to a greener economy are socially inclusive and contribute to equitable economic and social development.

In analysing the implication of a transition to a green economy, this note will begin by looking at the institutional progress of sustainable development in the UN framework. Then, a quick overview at the links between trade and sustainable development will follow. The next section will focus on a brief analysis of the export-led growth strategy and a review of some of challenges observed in the multilateral trading system, in terms of policy space and developing countries interests. The fourth section will provide some data on the current state of the green economy. The fifth section starts with a summary of the mayor concerns expressed by developing countries, and the follows an analysis of trade instruments that might be part of a transition to the green economy, and how to address potential concerns of green

¹² UNEP, Green Economy Report: A Preview. Brochure originally published on occasion of the first session of the Preparatory Committee for the United Nations Conference on Sustainable Development (17-19 May 2010).

protectionism and conditionality. The concluding section includes a series of questions to deepen the debate on the trade and sustainable development implications of the green economy.

2. Trade and sustainable development links

A discussion on the implications of the green economy cannot be performed without framing it in the context of sustainable development as a central pillar for development policy. It took the international community almost four decades since the Stockholm Conference in 1972 to define and adopt at both the international and national levels the concept of sustainable development as the ultimate long-term development policy goal. Simply stated, sustainable development addresses simultaneously the economic, social and environmentally-sound development imperatives so that future generations can enjoy the same benefits as current ones. A brief description of the evolution of the concept of sustainable development is provided in annex 1.

The prominence of the trade in the global economic agenda, and the proliferation of free trade agreements have contributed to the misconception that trade is a goal rather than an instrument for development. Trade by itself is not intrinsically good or bad for sustainable development; it all depends on how the gains and losses are distributed among the members of society; how trade impacts the economic, social, and environmental pillars of sustainable development and how these are managed by local authorities.

Sustainable trade is as much as trading *green* goods and services, as it is about ensuring that trade contributes positively to the three pillars of sustainable development. Freer trade induces efficiency in the economy, that is reduces the costs of production and provides consumers with cheaper goods. But is this enough to drive sustainable development?

The economic activity that exports bring to the economy is beyond what the domestic market would have been able to generate, and is therefore a net addition to the overall production, employment, and income in the economy. From here, the impacts on sustainable development will depend on how the benefits from the additional economic activity are distributed, and how the additional production impacted the use and quality of natural resources and the environment, and how these impacts were or are managed.

If the increase of exports becomes an enclave within the economic and the social structure of the country, it will be challenging to argue that the gains from these exports are contributing to sustainable development, unless there are public policies in place to ensure a wide transfer of these gains to the population of the country. Also, if the increase in exports is generating economic or social conflicts from the use of natural resources with current users or local communities, one could question the contribution to sustainable development. A similar logic could be drawn from the use of natural resources, and whether or not the increase in exports is jeopardizing the long term availability of resources like fisheries or soil productivity. At the same time, given the need for development and poverty alleviation in developing countries, it is

important to consider the specific conditions of a country in order to achieve an adequate balance in the three pillars of sustainable development.

The search for competition in world markets implies a constant pressure to reduce costs of production to ensure global participation. However, this search for increased competitiveness could risk becoming a race to the bottom in terms of social rights, social investment, and environmental performance. This is particularly significant when the source of competitiveness is based on the cost and abundance of labour, and/or in the exploitation of natural resources.

At a macroeconomic level, a dynamic and well integrated export sector could pull the economy as a whole and help generate the resources, including government revenues and foreign exchange earnings, which public authorities would need in order to invest in the infrastructure and social capital and services such as education and health, among others. The risk is to concentrate investments in the same based export sectors, and delay investments linked with domestic market infrastructure, and in social investments which usually impact negatively on the poor.

When considering the contributions of imports to sustainable development, one needs to consider the impacts on business and local productive activity, effects on the real income of the population, and again the social and environmental impacts.

If the structure of the local market is such that there is lack of competition and monopoly market power exists, then imports will force the local industry to reduce margins, and become more competitive. However, when local production activities cannot compete with imported goods, they will tend to disappear or “restructure” to become more efficient. In many instances this results in the loss of local productive capacity and the consequent loss of jobs, usually referred to as *resource adjustments*. The cost of adjustment could not only be the loss of jobs, but could also include a reduction in the wages and social benefits of workers, as the costs of the local industry are reduced to match import prices. Social indicators could also suffer as these adjustments usually occur without any compensation or re-training of the work force. A sector that is especially vulnerable to low price imports is agriculture; a sector that employs a significant portion of the work force, and also contributes significantly to the gross domestic product.

Market liberalization through tariff reduction could result in the potential loss of fiscal revenues. If the volume of imports increases by a percentage higher than the percentage reduction in tariffs, then the total collection may even increase. Otherwise, tax revenues may severely affect government income, and consequently social expenditures and investment in infrastructure. In any case, even when tax revenues increase as a result of higher import volumes, increased consumption, and/or increase of net gains in employment and economic activity, the way in which those additional revenues are spent will ultimately determine the impact on sustainable development.

An integral part of the process of trade liberalization is the relocation of industries, usually from developed countries to developing countries, in search of increased competitiveness (through lower costs, proximity to raw materials or final markets, or lower environmental regulations). Developing countries are rich in labour and (many) in natural resources; important elements in attracting foreign investment.

However, as a result of relocation these relocations, domestic regulation should be up to date to ensure that the increased economic activity, also results in improved environmental performance.

Gains from trade are usually evaluated by accounting the gains and losses for the different economic agents, which in a simplified world refer to producers, consumers, and governments. However, this assessment falls short in terms of (a) measuring the distribution of the costs and gains from increased trade, (b) evaluating the social cost, and (c) the environmental impacts.

The trade impacts on sustainable development can also be impacted when domestic policies of major trading countries impact world prices. Depending on the direction of the impacts in price, and whether the country is an exporter or importer of the particular good or service, the final balance is positive or negative.

Sustainable trade is not only about trading green goods and services; it is also about ensuring that trade contributes positively to the three pillars of sustainable development. These include the sharing of the domestic cost and gains from trade, and the contribution to sustainable development of the direct and indirect activities linked to trade.

3. Major trade efforts since Rio

The last 20 years, and maybe even more, have seen trade at the centre of the development agenda. More specifically the pursuit of an export-led growth strategy has been a common denominator among developing countries; this was encouraged by multilateral financial organizations and some Organization for Economic Cooperation and Development (OECD) countries. Many agreements and discussions in the multilateral trading system were aimed to institutionalize the changes promoted by the structural adjustment programmes promoted by the World Bank (WB) and the International Monetary Fund (IMF).

This section will briefly review the export-led growth strategy, and some of its limitations. The objective is to start building the case for the need to integrate trade into a more broad development strategy; later, the question will be raised as to whether or not a green economy could embody this new development agenda.

In any case, a multilateral trading system that seeks to apply predictable and equitable norms to world trade is highly desirable. The traditional GATT principles of non-discrimination, transparency and the peaceful settlement of disputes are still relevant and fundamental tenets of a trading system devoted to serving sustainable development. In this context, the role of the multilateral trading system most important efforts and their implications for developing countries will be assessed with the purpose of identifying the challenges that a broader development agenda would need to address. The discussion will eventually lead to ask the question as to whether or not a green economy offers a pathway towards overcoming some of the obstacles found in many of the efforts.

3.1 Export-led growth

The emphasis on trade, and in particular trade liberalization, did not come as a result of the GATT or the WTO negotiations, but as a result of the structural adjustment programmes that the IMF and the World Bank were applying around the world during the 1980s and 1990s.¹³ The application of these programmes indeed was – in most cases – a macroeconomic success; it got rid of inflation, reduced fiscal deficits, increased private and foreign investments, and balanced trade deficits. However, it did it in many cases at a very high social cost.

In the last two decades, the world economy has experienced an unprecedented growth in trade. From 1990–2007, the export volume has tripled and the share of exports in the world GDP has increased from about 12 per cent to 21 per cent.¹⁴ In the same period, developing countries have outperformed, on average, developed economies, in terms of rate of growth of GDP per capita 3.42 per cent per year compared to 1.34 per cent. However, within developing countries the growth has obviously not been uniform; the group known as the BASIC countries (Brazil, South Africa, India, and China) experienced a rate of growth of 5.56 per cent per year. Excluding the BASIC countries, the rate of growth of developing economies fell from 3.42 per cent a year to only 2.06 per cent. On the other hand, least developed countries (LDCs) grew at a rate of 2.46 per cent.¹⁵

Despite outperforming the rate of growth of developed countries, the income gap between developed and developing countries continues to increase as shown in figure 1. Only in the last year of the period 1990–2007, does the gap decrease, specifically as a result of the current economic slow down of the economy, which is affecting developed economies more severely. Although higher than developed economies, developing countries rates of growth are not high enough to compensate for the larger economic base of the developed countries.

Regarding the composition of the export value of developing countries, figure 2 indicates that rather than a process of diversification, what has occurred is a process of concentration in the export of primary commodities. In 1990, primary commodities provided 32.8 per cent of the value of total exports; in 2008 this percentage was 37 per cent. It is important to note that through 2002 there was a clear decline, as the price of commodities increased, the share of primary commodities also increased. Only in the case of the BASIC countries has a significant shift occurred. As their economy, and manufacturing sector grew the participation of primary commodities in the export value decreased, from 27.0 per cent in 1990 to 17.3 per cent in 2008. This indicates that during the export-led growth period, these countries have been able to reduce their reliance on primary commodities, as they have been able to increase their manufacturing exports, and their overall contribution to total exports.

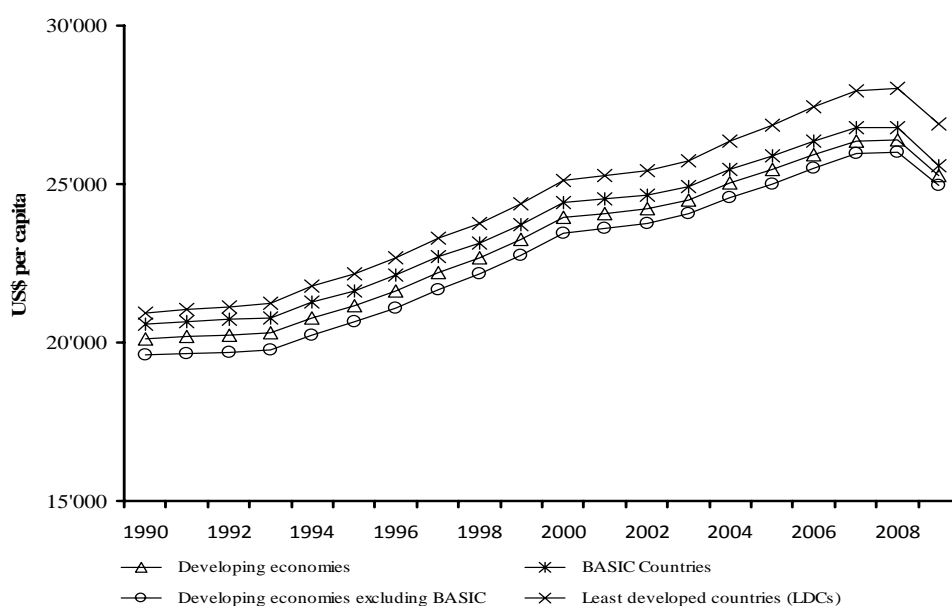
¹³ The instruments applied in those programmes were reflected in what is known as the Washington Consensus, based on the core principles of stabilization, privatization, and liberalization. Three Washington-based institutions – the International Monetary Fund (IMF), World Bank, and the United States Treasury – sought to promote those principles, especially in Latin America, Eastern Europe, and Sub-Saharan Africa.

¹⁴ WTO-UNEP (2009). Trade and Climate Change. WTO-UNEP Report, WTO publications, Geneva, Switzerland.

¹⁵ UNCTAD, GlobStat UNCTAD Statistics, August 20, 2010.

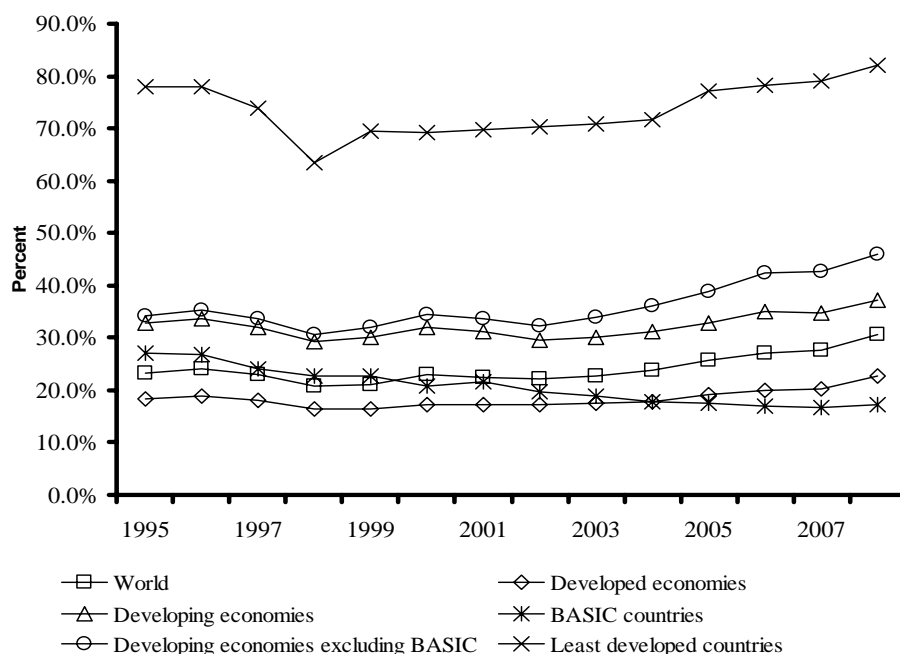
Developed economies are still the largest market for developing countries exports. However, since 1990, the share that developing countries export to each other has grown from 31 to 46 per cent; although the growth is less dramatic if the BASIC countries are excluded, then the share only grew by 5.3 per cent points (from 24.7 to 30.0 per cent). This is an indication that the BASIC countries are a growing market for other developing economies.

Figure 1. Per capita income gap between developed countries



Source: UNCTAD, GlobStat UNCTAD Statistics, August 20, 2010.

Figure 2. Share of primary commodities on total export value



Source: UNCTAD, GlobStat UNCTAD Statistics, August 20, 2010.

From the standpoint of global poverty, the last two decades proved the most favourable ever experienced. Rapid economic growth in China, India, and a few other Asian countries has resulted in an absolute reduction in the number of people living in extreme poverty. The paradox is that China and India – while increasing their reliance on market forces – have maintained highly unconventional policies: high levels of trade protection, lack of privatization, extensive industrial policies, and lax fiscal and financial policies, hardly the principles of the Washington Consensus.¹⁶

There are doubts about the future contribution of export-led strategies; these arise from the growth slowdown in the advanced economies associated with the financial crisis of 2007–2008, the likely unwinding of global current account imbalances, and the threat of increased protectionism in the advanced countries.¹⁷ While these potential obstacles to future export-led growth are real, recent research shows that the export-led growth model already suffered from a significant internal contradiction even before these new problems arose.¹⁸ While such a model could work well for a small number of countries without too many competitors, such as the four Asian tigers in the 1970s and 1980s, the diffusion of the model to a large number of countries in the 1990s and 2000s made it likely that they would face an adding-up constraint or fallacy of composition.

For most developing countries, the path toward sustainable long-run development needs to emphasize internal markets and domestic demand much more than it has during the ascendancy of export-led strategies in the past few decades. Such a redirection of development policy may also allow growth with equity, as labor income becomes seen as a crucial element of aggregate demand and not merely a cost to be minimized in the interest of external competitiveness.¹⁹

The need for a new more flexible approach is reflected in the statement by World Bank Vice-President Gobind Nankani, “there is no unique universal set of rules.... [We] need to get away from formulae and the search for elusive ‘best practices’....” (p. xiii).²⁰

3.2 Multilateral Trade System

In the global institutional area, the 20 years has seen the transformation of GATT into WTO, and WTO into the most prominent multilateral organization, if only because WTO is the only organization with the mechanisms to monitor and enforce trade agreements its members reach. The transformation of GATT into WTO has

¹⁶ Rodrik, Dani. *Goodbye Washington Consensus, Hello Washington Confusion?* Harvard University January 2006.

¹⁷ Rodrik, Dani. *Is Export Led Growth Passé?* Daily News Egypt, 12 September, <http://dailystaregypt.com/article.aspx?ArticleID=16429>.

¹⁸ Blecker, Robert A. and Arslan Razmi (2010). Export-led growth, real exchange rates and the fallacy of composition. Forthcoming in Mark Setterfield (ed.), *Handbook of Alternative Theories of Economic Growth*, Northampton, MA: Edward Elgars

¹⁹ Blecker, Robert A. and Arslan Razmi (2010). Export-led growth, real exchange rates and the fallacy of composition. Forthcoming in Mark Setterfield (ed.), *Handbook of Alternative Theories of Economic Growth*, Northampton, MA: Edward Elgars.

²⁰ Rodrik, Dani. *Goodbye Washington Consensus, Hello Washington Confusion?* Harvard University January 2006.

represented a paradigm shift from a system based on negotiating market access at the border for trade in goods, to one that seeks to impose binding multilateral disciplines, with a common enforcement mechanism, on both at the border and in some cases on domestic economic policies. The regimes for trade-related investment measures, trade-related intellectual property rights and trade in services, lodged in WTO, coincide closely with the interests of transnational corporations which are capital-exporters, technology-leaders and service-providers in the world economy. It would seem that, wherever cross-border transactions are dominated by international firms, governance is being moved as much as possible from national policies and rules to international institutions and rules.²¹

This section seeks to review the main areas of policy space reduced by WTO Agreements after the Uruguay Round, the status of discussions in relation to the expansion of policy space and actions taken to address them.

3.2.1 Subsidies

Subsidies have historically played a role in industrialization and the development of the services sector. Examples include textiles, energy, aircraft and the automobile industry.²² Where certain industries have stimulated growth and created forward and backward linkages, governments have sought to subsidize them.²³ Subsidies have also been used to promote positive externalities to maximize social returns. Local content requirements have proved to be useful in fostering the growth of certain domestic industries.²⁴ The WTO Subsidies Agreement has specifically prohibited subsidies directed toward export performance and those requiring local content incorporation. Other subsidies could be considered actionable under the SCM Agreement if they harm the domestic industry of another member.

Certain subsidies were allowed under the SCM in order to support human capital development, SME development, regional development, technology development and transfer, R&D, and environmental technology upgrading.²⁵ Under the discussion on implementation issues which ran in parallel to the initiation of the Doha Round Negotiations, developing countries sought to reinstate and expand non-actionable subsidies²⁶ that promote regional growth, technology research and development funding, production diversification and development and implementation of environmentally-sound methods of production.²⁷ The Decision of Implementation-Related Issues (2001) has directed these discussions towards the Doha Negotiations on rules and agreed that during those negotiations, governments will exercise due restraint in challenging these subsidies of developing countries.

²¹ Nayar, Deepak (2010). *Reinventing globalization: fair is feasible*. Background paper prepared for World Economic and Social Survey 2010: Retooling Global Development.

²² UNCTAD (2010). Evolution of the international trading system and of international trade from a development perspective: The impact of the crisis-mitigation measures and prospects for recovery. TDB/57/3.

²³ Ibid.

²⁴ Ibid.

²⁵ Ibid.

²⁶ Subsidies excluded from the application of disciplines of the SCM agreement.

²⁷ Ibid.

Exploring a clearer statement by members on the use of this instrument for environmental purposes in current WTO treaties could facilitate a faster transition to a low carbon economy.

Today, as a consequence of the governmental stimulus packages seeking to reinvigorate the economy after the recent financial crises, there is a revalorization of the use of so-called green subsidies. Most stimulus packages are being implemented by developed countries but also some developing ones such as China, Brazil and South Africa. It has been estimated that about 15 per cent of the resources from the \$2.8 trillion stimulus packages can be associated with broadly defined “green sectors”, or investments targeted at stabilizing and cutting global emissions of greenhouse gases.²⁸ Also in the transition to a lower carbon economy many subsidies to consumers will be needed to ensure that the internalization of costs is implemented in a progressive manner.

3.2.2 Agreement on Agriculture

The completion of the Uruguay Round meant that for the first time agricultural trade was subjected to global trade negotiations. Although a very complex agreement, the Agreement on Agriculture (AoA) introduced GATT trade principles and disciplines, and defined the characteristics and limits of the instruments that could be used to protect and support agricultural products. It also sought to improve market access, ban the use of export subsidies, while setting limits on the level of support that countries could provide to domestic agricultural producers, particularly in the EU and the United States.

This was especially important because of the role that agriculture plays in terms of poverty reduction and maintaining food security; 3 billion out of 5.5 billion people that populate developing countries live in rural areas.²⁹ Of these 3 billion, 2.5 billion belong to households whose livelihoods depend on agriculture, and 1.5 billion of these are from small-holder households. Many living in poverty are undernourished. In 2002, 854 million people were undernourished, with 820 million of them living in developing countries.³⁰ Regarding the environmental performance, the data indicates that while anthropogenic greenhouse gas (GHG) emissions from forestry and agriculture have not grown as fast as emissions from the energy supply and transportation sector, they do account for 30.9 per cent of total emissions.³¹

Given the almost exclusive emphasis on agriculture as a source of foreign exchange, the increase in productive capacity in many developing countries over the past 20 years has been in the production of high value products, such as fruits and vegetables, which are primarily for export to high-income countries. High value agricultural commodities such as oilseed and livestock have originated from a handful

²⁸ HSBC (2010). A climate for recovery: the colour of stimulus goes green.

²⁹ World Bank. (2007). World development report 2008: Agriculture development. World Bank, Washington, DC.

³⁰ Food and Agriculture Organization of the United Nations (FAO). (2006). The state of food insecurity in the world 2006: Eradicating world hunger—taking stock ten years after the World Food Summit. Rome, Italy: FAO. <http://www.fao.org/docrep/009/a0750e/a0750e00.HTM>.

³¹ Intergovernmental Panel on Climate Change (IPCC). (2007). Fourth Assessment. Intergovernmental Panel on Climate Change, Geneva, Switzerland. <http://www.ipcc.ch/ipccreports/ar4-wg1.htm>.

of countries (Brazil, Argentina, Malaysia and South Africa) and are exported to markets in developed countries and China. In fact, more than 70 per cent of the global increase in soybean exports went to China. During times of pressure in the food supply, it is unlikely that the production capacity of developing countries would play any significant role in alleviating food supply or price pressures.³²

After almost 20 years, full implementation of the AoA has not occurred, to a large extent bogged down by issues concerning the few major agricultural exporting countries; leaving on the sidelines most developing countries whose agricultural sector provides a large share of their GDP and employment. It is perhaps in agriculture where the differences between commercial interests and livelihoods are most obvious. But at the same time, it is questionable whether the full implementation of the agreement would have resulted in enhancing agriculture's contribution to employment generation, income and the environment of most developing countries.

3.2.3 Trade-related intellectual property measures

Technology and innovation are key ingredients for value addition, economic diversification and competitiveness. The crucial issue regarding intellectual property rights (IPRs) is how they help or hinder developing countries gaining access to technologies that are required for their development. Weak intellectual property (IP) regimes have been used as a means to gaining access to foreign technologies and developing them using imitation and reverse engineering, thereby enhancing indigenous technological capacity before the arrival of the TRIPS Agreement.³³ The TRIPS Agreement reduced the policy space of countries for technological imitation, absorption and upgrade. For example, before TRIPS, countries could exclude from patentability certain inventions or technology fields considered strategic for development such as pharmaceuticals and chemicals. Granting patents for production processes, and not for the final product, as food and pharmaceuticals, were used by industries to identify alternative process to produce the same products in certain European countries in order the built local industries.³⁴ The TRIPS Agreement also limited differentiated terms of protection in patents or copyrights which could be less than 20 or 50 years respectively, allowing longer transition of knowledge and creations into the public domain.

The TRIPS Agreement has been one of the most controversial WTO agreements. Main criticism is linked to the fact that IP rules could be of great value in industrialized economies but not necessarily so in countries that still need to undertake fast technological upgrade. In that sense, it has been argued that the IP regime should not be a one size-fit-all set of rules and that it should allow differentiated treatment according to different levels of development. Also, concerns have been expressed about the lack of benefits from the regime to developing countries. Using World Bank data, the share of royalties and licensing fee payments by developing countries have shown an increase from 6 per cent in 1996 to about 20

³² World Bank. (2007). World development report 2008: Agriculture development. World Bank, Washington, DC.

³³ UNCTAD (2010).

³⁴ Ibid.

per cent of world total payments in 2008.³⁵ Figures show an increased transfer of technology and know-how on a profit basis but also increased economic efforts to keep and improve competitiveness. The TRIPS Agreement could have also generated incentives for higher royalty payments to industrialized countries as most of the holders of patents and copyrights are found there.

As international efforts toward a transition to a low-carbon economy advance, new and existent technologies could generate a high impact in reducing green house emissions. According to the International Energy Agency (IAE), aggressive assumptions on early availability and commercialization of key technologies such as carbon capture, renewable energy, electric vehicles and low carbon and cement heavy industries underline the most optimistic scenarios for emission reduction in the near future. Not all the necessary technology for curbing carbon emission is there yet. There are several needs that still have not being addressed, such all mass scale alternatives to nuclear and hydroelectric energy production, as is the case of carbon capture and nuclear fusion. Many others are just in the R&D, product development and testing phase, such as hydrogen full cells and the second generation of biofuels. Others are already in commercialization but production cost cannot always be fully supported by the consumers, such as home photovoltaic cells and building insulation. This situation calls for a more cooperative framework on technology as there is not only an issue of transfer and dissemination but also of basic research, product development and commercialization. In this new framework, specific mechanisms to promote transfer of technology and additional flexibilities inside the IP system to make clean technology available should be explored. For example, there are ongoing discussions in the United Nations Framework Convention on Climate Change (UNFCCC) to develop a new technology mechanism backed by a technological fund. These types of initiatives could move members from the traditional rhetoric on transfer of technology clauses to an actual enforcing mechanism and incentives to make it happen.

3.2.4 Trade in services

The General Agreement on Trade in Services (GATS) in WTO was a product of the Uruguay Round. Among the main objectives of the agreement were to promote economic growth and the expansion of trade in services. Progressive services liberalization, while keeping a balance with the right to regulate and national policy objectives, has been the main instrument of achieving these objectives. GATS is considered one of the most flexible agreements in WTO. However, once full commitments without limitations are deposited in a particular sub-sector, the capacity to limit market entry or discriminate between national and foreigners disappears. The level of services liberalization consolidated in the Uruguay Round has characterized as “low” in level of deepness. For example, on average across all WTO members, only one-third of all services sectors have been included in current schedules of commitments; and many entries have been combined with significant limitations on market access and national treatment or with the complete exclusion of particular

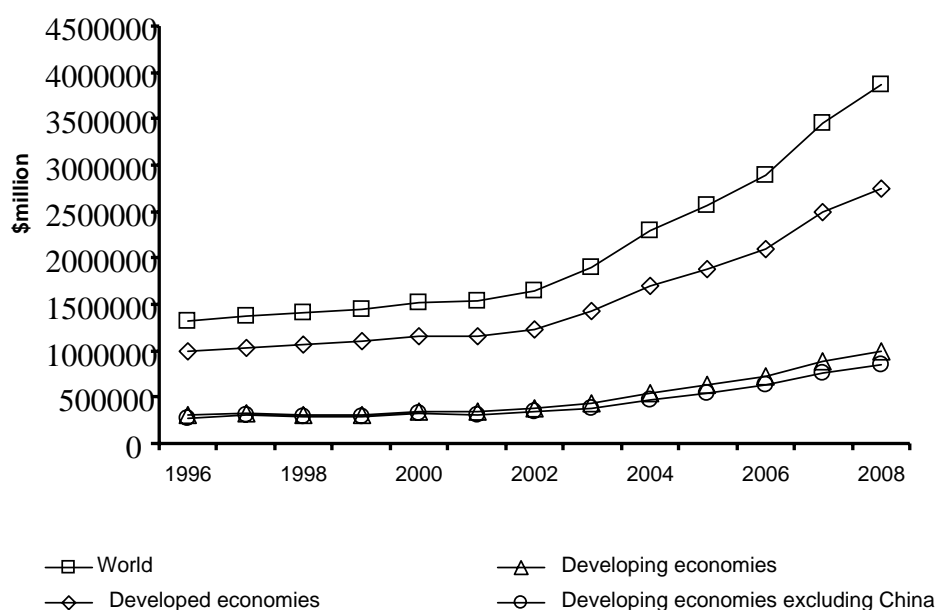
³⁵ Calculations made using data from the World Development Indicators by the World Bank.

types of transactions (modes of supply) from coverage.³⁶ However, levels of commitments – in particular sectors such as tourism, finance, business and telecommunications – could be considered as “intermediate to high”, depending on the case.³⁷ Besides the levels of consolidated liberalization, GATS offers important policy space in terms of setting national regulatory frameworks and does not yet have subsidies or government procurement disciplines, allowing the use of these as policy tools for sustainable development purposes.

Main motivations for engaging in services liberalization by developing countries besides traditional trade-offs during the Uruguay Round were an interest in attracting foreign direct investment (FDI) in certain sectors, improving efficiency in infrastructure services such as telecommunications and financial services, generate higher levels of competition and lock-in internal reforms in order to make them stable.

Today, services account for 27 per cent of all world exports. Developing countries increased their share of world services from 22 per cent in 1996 to 25 per cent in 2008. The figure 3 below shows the tendencies of services trade from 1996 until 2008. Most of this growth has occurred in the so-called BASIC countries. Regardless of this small increase, developed countries still are the main players in the services trade.

Figure 3. Trend in export of services (\$ millions)



Source: UNCTAD, GlobStat UNCTAD Statistics, August 20, 2010.

Not much has been done regarding further expansion of existing policy space under GATS. Many observers consider the existing levels of commitments and

³⁶ WTO (2005). Turning hills into mountains? Current commitments under the GATS and prospects for change. Rudolf Adlung and Martin Roy.

³⁷ Ibid.

flexibilities under GATS as being sufficient. Only in the case of LDCs has a set of negotiating modalities been adopted so that LDCs are not expected to make additional commitments that go beyond their institutional, regulatory and administrative capacities. It seems that the main concerns for developing countries within the Doha Negotiations is how to ensure industrialized countries adhere to their commitments and that the right to regulate does not significantly affect discussions on disciplines on domestic regulation.

3.2.5 *Environmental goods and services*

The global market for environmental goods and services (EGS) was estimated at \$700 billion in 2007.³⁸ Negotiations on EGS are perceived to make an important contribution to internalize environmental costs, expand current supply and technological upgrade of goods and services, and make such goods more affordable to consumers. While the Doha Declaration calls for a reduction, or as appropriate, elimination of tariffs and non-tariff barriers (NTBs) on EGS, the lack of a universally accepted definition and the impossibility to get a common classification scheme for environmental goods caused by the “due use” problem (which implies that the same product can be used for environmental and non-environmental purposes at the same time) impeded negotiations.

Not only is it an artifact to talk about environmental goods, there are simply not enough environmental markets or these markets are weak in many developing countries. Environmental services, such as water and wastewater management, are essentially a development issue rather than a trade issue. And it is *markets* rather than *trade* that inform the main policy concerns in these areas. Clearly, environmental markets are mostly driven by domestic interests. Trade policy plays only a minimal role. In some cases, it may facilitate the development of these markets, without being causative. What is the point of having opportunities if there are no capabilities? Even full market access does not mean climate-friendly goods will suddenly flow into countries in dire need of them. In fact, turning these needs into effective demand remains the main objective and in the pursuit of this objective, market creation should take precedence over market access.

The development of environmental markets is mainly about investment, rather than trade. And while the developing countries may be concerned about the erosion of tariff protection, developed countries are more concerned about the erosion of protection for their companies. Indeed, once environmental companies move in and set up their business, they may not necessarily be interested in any imports; successfully invested companies have little interest in opening up the markets to their competitors.

Even a cursory look at the interface between the environmental and energy industries reveals a basic asymmetry: while the developed countries are looking for winning propositions in terms of market access, for developing countries, it is market creation that is more important. Logically, this means that environmental benefits

³⁸ Vicente Paolo Yu III. (2007). WTO Negotiating Strategy on Environmental Goods and Services in the WTO. ICTSD.

should mainly go to one set of countries and trade gains to another. Negotiations based on reciprocity defy this logic.

Environmental infrastructure services, such as water and wastewater management, are of vital importance to the economy and society, be it in terms of public good, public interest or public ownership. Liberalization may lead to increased participation of domestic and foreign private actors in these sectors and raise issues of ownership of and control over essential environmental resources. This question takes on particular importance owing to the emergence of public services transnational corporations in the water sector, which is partly influenced by other public utilities, especially electricity. Although governments' right to regulate has been reaffirmed in the Doha Declaration,³⁹ a country's ability to regulate is relative to its economic and negotiating capacity.

Liberalization efforts in WTO should be considered in connection with possibilities to finance these efforts. No institutional linkages have been established between the negotiations and ways to provide development finance and assistance. There are constraints on the supply side to which WTO is ill equipped to respond. The question is, how can we promote coherence between the negotiations in WTO and environmental infrastructure projects financed by multilateral financial institutions, in terms of meeting financial needs and building capacity as opposed to pre-empting negotiating margins and forcing premature liberalization?

3.2.6 WTO dispute settlement system

The WTO dispute settlement (DS) mechanism has long been considered to be the most effective and enforceable one at the international level, as the winning Party may resort to trade sanctions to ensure compliance. So far, 410 cases have been initiated under WTO and developing countries, especially emerging economies, are becoming more active participants of the system in defending their trade interests under various WTO agreements.

Many observers consider the DS system as the "jewel in the crown" of WTO as it gives adjudicating bodies the competence to resolve differences among parties regarding potentially WTO inconsistent measures. Continuous decisions have also provided certain common interpretations of WTO law and important levels of predictability. A common initial criticism in the past regarding the DS mechanism was that it would seek to enforce WTO agreements without taking into consideration other international treaties. However, since early jurisprudence, WTO decisions have indicated that interpretative rules under Article 31 of the Vienna Convention had attained the status of customary or general international law and that WTO law was not to be "read in clinical isolation from public international law" (United States–Gasoline case, 1996).

³⁹ See Elements for Negotiating Guidelines and Procedures. Communication from Argentina et al. Council for Trade in Services, Special Session. S/CSS/W/13, 24 November 2000.

Since then, WTO adjudicating bodies (panels and appellate body) have incrementally addressed and incorporated environmental concerns in their decisions. For example, the US Shrimp Turtle case (1996) allowed for the first time in WTO import restriction measures to support the conservation of natural resources outside border of the imposing country, departing from earlier jurisprudence against extraterritorial application of national environmental legislation in the United States–Tuna–Dolphin case (1991) under old GATT. The interpretation of WTO agreements, including exceptions, have also become friendlier to measures addressing environmental concerns, provided that they provide a “material contribution” to the environmental policy objective as indicated in Brazil Retreaded Tires case (2009).

Main limitations for developing countries when using the system include lack of legal and institutional capacities to assess and undertake cases, cost linked sustaining the litigation process (which can go in most cases above \$500,000), and several procedural hurdles in current DS procedures. One important post-litigation concern is related to the difficulties faced by weak trade partners to effectively ensure compliance by stronger ones, even if retaliation is possible option. The EC–bananas with Ecuador (1997 and 2008) and United States–gambling (2005) cases are clear examples of this situation. In the current DSU review, several proposals have been put forward by members to address some of these concerns. These include the following: (a) support for litigation costs through an “aid fund”; (b) longer time-frames for making submissions and the implementation of recommendations by developing countries; and (c) more effective rules on compliance such as a facilitated cross retaliation, collective compliance mechanism, and compensation. Due to the stalemate of the Doha Round, discussions have been slowed down and a comprehensive reform seems to be out of sight.

3.3 Aid for Trade

Aid for Trade (AfT) is development assistance provided to developing countries’ to support their efforts to develop the basic economic infrastructure and tools needed to expand their trade, leading to economic growth and development, whilst allowing these countries to participate more effectively in the global trading system.⁴⁰ The objective should be to diversify export products and markets, increase investment and generate jobs in developing countries, and in particular least developed countries (LDCs). AfT is part of the overall official development assistance (ODA) and not a new aid category, and as such diverts resources for other priorities. However, with in the dominant export led view of economic growth, this diversion of funds seems logical and justifiable. By prioritizing trade and keeping it on the political agenda, donors will be more likely to mobilize additional, predictable, sustainable and effective financing and identify recipients. AfT has emerged in recognition that without removing developing countries’ supply-side and infrastructural constraints to competitiveness, internal trade-related reforms and improved market access abroad will not lead to economic development and poverty reduction

⁴⁰ WTO (2005).

Efforts to mobilize resources for AfT have been successful in recent years. Between 2002 and 2005, donors committed approximately \$21 billion per year towards AfT. In 2008, AfT totaled \$41.7 billion, shared amongst various AfT sectors and across income groups.⁴¹ The largest share of AfT went to Asia (44 per cent), with Africa following closely behind (35 per cent). Asia's dominance is driven by substantial allocations to economic infrastructure. Most of this amount came from bilateral donors or through multilateral finance and development organizations such as the World Bank, International Monetary Fund (IMF) and regional banks.⁴²

Measuring the impact of AfT at the global level is not easy given the varying political, economic and social circumstances in different countries. Some donors have evaluated their AfT programmes, concluding that a number of positive outcomes include an increased awareness of trade-related knowledge and strengthened national dialogue, whilst partner countries have undertaken self-assessments reporting that they have fully mainstreamed trade well throughout action plans and by prioritizing their needs.⁴³

However, there have been many challenges in implementation, particularly pertinent to the delivery of aid in an effective manner. Lack of coordination and cooperation between different donors and aid agencies is a major weakness of existing AfT in the international context, as attempts so far have been unable to create positive synergies between various interventions.⁴⁴ Bilateral programmes and policies differ among donors, and this can contribute to ineffective and untimely delivery of aid at the country level. It has been suggested that donors should focus on their comparative advantages in different assistance areas as a formula for delegating responsibility for carrying out specific aid programmes in which a donor is better suited.⁴⁵ For example, the European Commission has performed well in managing programmes that contain large investment components rather than programmes that focus on processes such as capacity-building and should therefore continue to concentrate on managing the specific area that they are best at.⁴⁶

There is also a need to address the issue of ownership. Lack of country ownership is an important factor of poor effectiveness.⁴⁷ Ownership – that is, developing countries exercising strong and effective leadership over their development policies and strategies – is the “fundamental tenet” of the Paris

⁴¹ OECD and WTO. *Aid For Trade: Is It Working?* Available at: <http://www.oecd.org/dataoecd/30/36/45581702.pdf>.

⁴² World Trade Organization (WTO). *Aid For Trade fact sheet*.

⁴³ OECD and WTO. (2009). *Executive Summary*. *Aid For Trade At A Glance 2009: Maintaining Momentum*. Available at: http://www.oecd.org/document/56/0,3343,en_2649_34665_42835064_1_1_1_1,00.html.

⁴⁴ “In practice, donors on the ground have had little success in designing and implementing complementary trade-related interventions through an integrated approach. Many donors often programmed their activities in isolation rather than in the framework of a broader comprehensive TRA/CB programme” (OECD, 2007).

⁴⁵ This conclusion emerges from the 2005 EC Annual Report on its External Assistance, based on data originating from the result-oriented monitoring system.

⁴⁶ Marti, D. F. and Rampa, F. (2007). *Aid for Trade- Twenty Lessons from Existing Aid Schemes*. Discussion Paper No. 80, p. 33. South Centre and European Centre for Development Policy Management (ECDPM).

⁴⁷ OECD. (2006). *Trade-related Assistance: What Do Recent Evaluations Tell Us?* OECD Development Dimension. Paris.

Declaration on Aid Effectiveness.⁴⁸ Yet many developing countries have argued that offers of technical assistance have focused on assisting local bureaucracies to participate in trade negotiations with donor countries, rather than focusing on practical obstacles faced by local producers and individual enterprises. Donors must ensure that aid complements and solidifies an individual country's programmes, plans and structures, rather than weakening them through donor-led management.⁴⁹

Additionally, as trade involves all sectors of the economy, mainstreaming it with a country's overall development and poverty reduction strategies can be an immense challenge, yet essential. Trade plays a crucial role though few governments have the operational support to integrate trade into national priorities. Programmes must be linked into existing national development strategies and complement development priorities. Therefore a need for a broader approach in the formulation of trade and development policy, involving effective communication and dialogue with all key stakeholders including the international development community, is imperative to harness the potential of trade integration with other social and economic policies.⁵⁰ The Paris Declaration on Aid Effectiveness principles of local ownership, harmonization and alignment, as well as management of results should underline the delivery and implementation of effective AfT programmes.⁵¹

3.4 Some lessons learned for sustainable development

An export-led development strategy presumes an unlimited demand for exports particularly from developing countries. However, current evidence shows an increasing degree of price competition among developing countries to access developed country markets. On the other hand, except for primary commodities and raw materials, the largest and fastest growing developing economies are not able to significantly absorb manufacturing exports coming from most developing countries. So even in the absence of a protectionist wave in developed countries, the export-led model is showing signs of exhaustion.

Is in this context and exacerbated by the global financial crisis that the green economy may offer a more integrated approach to economic growth and sustainable development. Moreover, the need to address the potential negative impacts of global climate changes adds a sense of urgency to the green economy.

Much of the global trade negotiations have been about reducing domestic policy space, and the institutionalization of the changes brought about by the Washington Consensus. High on the agenda were issues related to corporate interests – intellectual property, technology protection, investment protection, trade in services – as if securing multinational corporate interests would provide the capital and

⁴⁸ *Paris Declaration on Aid Effectiveness*. (2005). High Level Forum, Paris, February 28-March 2 2005, p. 3.

⁴⁹ Stiglitz, J.E. and Charlton, A. (2006). *Aid For Trade*. A Report for the Commonwealth Secretariat. Available at: http://works.bepress.com/cgi/viewcontent.cgi?article=1008&context=joseph_stiglitz.

⁵⁰ OECD and WTO. (2009). *Aid For Trade: Is it Working?* Available at: <http://www.oecd.org/dataoecd/30/36/45581702.pdf>.

⁵¹ OECD. *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action*. Available at: <http://www.oecd.org/dataoecd/11/41/34428351.pdf>.

technology necessary to increase competitiveness for developing countries at the global level.

The economic and political asymmetries among country members are evident throughout, and although of long historical roots, multilateral efforts have not been able to successfully deal with them. Even in a process where agreements are based on unanimity by the membership, members can not fully exercise their right. The interlinked set of coalitions formed as a result of the negotiations, while an attempt to coalesce interests, is not a match for the size and influence of the major trade players. The dispute settlement mechanism, the “jewel” of WTO, cannot escape the asymmetries among the trading partners.

Agriculture, a sector that provides for the livelihood of almost half of the world population and the food for the whole, cannot be reduced to short-sighted interests of a few commercial partners dominating the trade in agricultural commodities. The biggest gain in agriculture for developing countries has been the establishment of a very dynamic sector that exports high value products – fruits and vegetables – to the high income market of developed countries, leaving aside a significant portion of agriculture not linked to this type of production.

Mechanisms created to support the ability of developing countries to expand exports have implicitly judged that the best way to spend ODA is through expanding the export capabilities of the recipient country that the donor was interested in “developing”. It is in this area where the management ability of developing countries becomes a key asset in taking full advantage of the ODA.

Trade as the goal or objective (export-driven trade) implies the prevalence of commercial interests over sustainable development goals. The expansion of exports is market access and low cost competition; there is no explicit room for the social and environmental pillars. In fact, these two pillars are often sacrificed to achieve the commercial objective.

Despite the lack of progress in implementation, funding, negotiating or the shortcomings for developing countries, there is still a need for a rules-based, multilateral trading system that seeks to apply predictable, equitable norms to world trade. None of WTO’s basic principles needs to be put into question: non-discrimination, transparency and the peaceful settlement of disputes must all be fundamental tenets of a trading system devoted to serving sustainable development. And of course expanding access to rich country markets for developing countries is still an imperative – if only to allow poor countries to offer their citizens an acceptable quality of life.⁵²

What would change is the way in which priority is assigned within national and global trade policy. Policy-setting in the trade sphere is now almost thoroughly dominated by narrow commercial considerations and by the key commercial actors. As a result, trade policy advances a very narrow concept of the national interest. There can be no doubt that the interests of national exporters and national producers

⁵² Halle, Mark. Preface to Cosbey, Aaron (2009). *A Sustainable Development Roadmap for the WTO*, International Institute for Sustainable Development (IISD).

are a legitimate focus of trade policy; the trouble is that they are today essentially the exclusive focus of this policy. Other areas of national policy priority are largely ignored. Worse still, issues of common global concern receive virtually no attention. Yet in the long run, short-term national commercial interest is often neither in the global interest nor even in the national interest.⁵³

In a commercial export-led development strategy, the global system attempts to provide for economic gains, and then the domestic political apparatus seeks to manage those gains towards sustainable development. In a global trade system with sustainable development at the centre, the global system should encourage inclusion of economic actors and seek social and environmental benefits; a system not based in reciprocity, but based on the search for global sustainable development.

The challenges that a green economy needs to essentially address include:

- (a) Does it have the ability to overcome the global limitations of an export-led growth model, including by enhancing its positive impact on sustainable development?
- (b) What is the role of trade as an effective instrument for sustainable development?
- (c) Moreover, how can trade help steer (instead of create obstacles for) the transition to a green economy?

4. The current state of the green economy

A green economy is not only an evolving concept, but also a developing reality. Although there are not green economies to follow, there are attributes that green economies are likely to have, and should at least guide the transition process. This section begins by identifying the country leaders of the green economy, what attributes to look at, and what are the challenges for sustainable development.

4.1 Who are the leading green economies?

The fact that we do not yet have an established green economy (GE) – but rather transitioning States – implies that leaders will be those responsible for ensuring progress in the transition phases towards the attainment of a GE. Today’s leading GEs would be those in which markets already incorporate a considerable amount of environmental externalities in production and consumption patterns. That said, leading green economies can also be seen as the ones which spearhead climate mitigation efforts, not only through environmental measures but also by being highly productive and efficient, guaranteeing the delivery of economic output per unit of resource (physical or energy) consumed in a rate that is larger than the brown baseline.

But are the leading green economies necessarily confined to national borders? This session attempts to address this issue, and show that countries rank very differently in their level of “greenness” according to the indicator used. Finally, this section also points out that leading green economies are not necessarily national, but rather successful sectoral examples which have made good usage of enabling

⁵³ Ibid.

instruments to achieve a larger degree of environment protection with positive socio-economic spillovers.

4.1.1 Aggregate perspective

The identification of today's leading GEs is dependant on indicators. While the identification and definition of indicators (and boundaries) can be subject to debate, some consensus can be found on five characteristics that should be present in part of any classification of leading GEs:

- (a) High share of renewable energy in the energy matrix;
- (b) Low carbon-intensity of the economy;
- (c) High productivity and high energy-efficiency;
- (d) Low water intensity of the economy; and
- (e) Operate within biocapacity limits.

In this sense, leading GEs will have a large share of renewables that are responsible for their primary energy supply, while at the same time displaying low GHG emission levels per unit of output. A leading GE should be efficient in dual terms: by using as little energy as possible per unit of output and by being highly productive, meaning a high per-capita output which facilitates the attainment of social welfare.⁵⁴ Leading GEs would also incorporate water management and infrastructure in order to reduce the pressure on water resources, and will operate within limits supported by ecosystems (biocapacity).

In order to better illustrate how countries perform in each of the indicators mentioned above, four graphical representations are made (figures 4–7). For analytical purposes, a basket of countries and regions were selected for this section, to provide diverse geographic and economic representation.⁵⁵

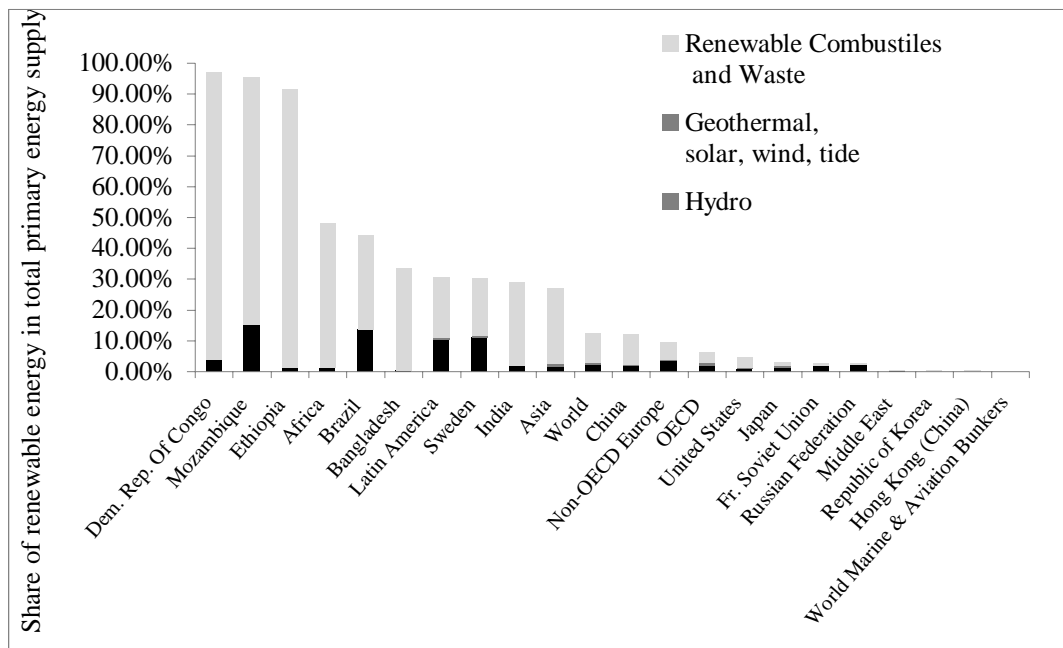
Data indicate that the highest shares of renewable energy in any given national economy are located in the Democratic Republic of the Congo, Mozambique and Ethiopia, respectively. Needless to say, this information alone does not mean that these countries are leading GEs, as the high shares of renewables observed are mainly due to unsophisticated biomass utilization, especially firewood for cooking needs. The data also does not establish whether the high usage of renewable resources in these countries is within the replenishment capacities of natural ecosystems, as the over-exploitation of firewood is a contributing factor to deforestation. In addition to that, the combustion of conventional biomass often represents a health hazard for populations (especially women and children) who are exposed to smoke and particulate from their usage as cooking fuel.

⁵⁴ Data is based on the IEA Statistical Database (2009) and IEA Renewables Information 2009.

⁵⁵ Macro-regions based on classification used by the International Energy Agency (IEA): OECD Pacific, OECD Europe, EU27, OECD North America, Latin America, Africa, Asia, Middle East, Non-OECD Europe and Former Soviet Union. Additionally, the following economies were used: United States, Sweden, Brazil, China, India, Bangladesh, Japan, Hong Kong (China), Republic of Korea, Democratic Republic of the Congo, Mozambique, Ethiopia and the Russian Federation. The same basket of countries/regions could not be used on all figures due to data limitations.

Brazil and Sweden appear as countries with a significant share of renewable energy (44.4 per cent and 30.3 per cent, respectively), in which the utilization of renewable combustibles (mostly biomass) is done at higher levels of sophistication. Brazil is known for its economic utilization of liquid biofuels and Sweden has a carbon-tax system which has enabled an advanced forestry industry to cater for a large share of the heating needs in the country.

Figure 4. Share of renewable energy in total primary energy supply, subdivided by fuel source



Source: Based on data from IEA Renewables Information (2009).

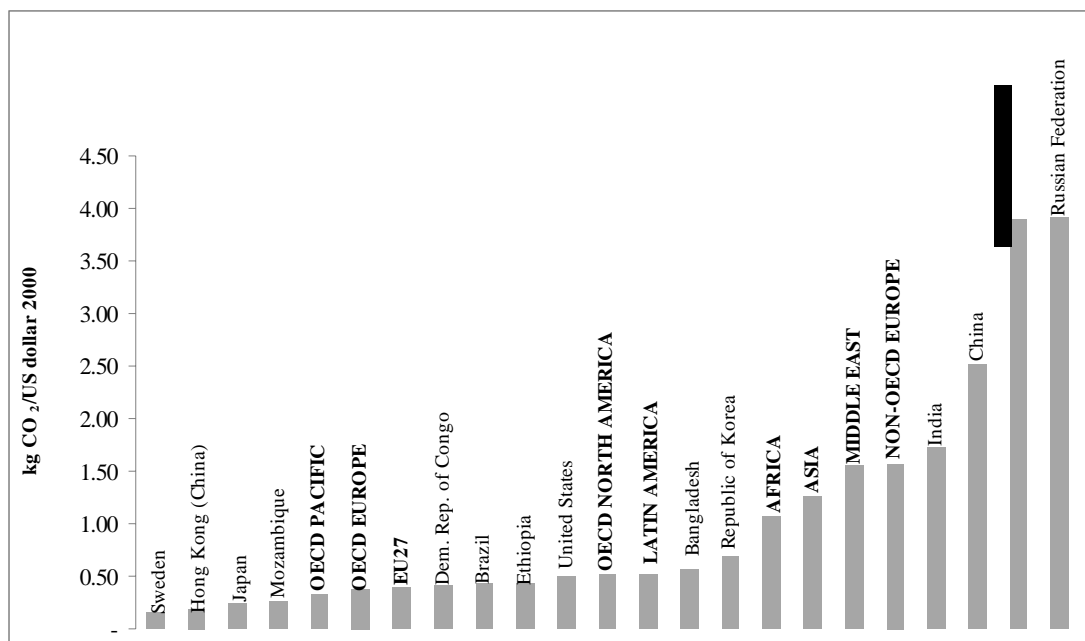
The energy used to operate world trade comes from fossil sources. As of 2009, fuels used for long-distance transport and trade (aviation and bunker fuels) have had no measurable contribution of renewable energy.

The share of renewable energy in a given economy is not the only indicator which can be used towards identifying leading GEs. The carbon intensity also plays a key role in the environmental performance of a national economy, as output should ideally be attained with the lowest possible carbon emissions (figure 5).

Interestingly, a number of countries which ranked low in renewable energy utilization are among those with the lowest carbon footprints (Hong Kong (China), Japan, OECD countries). Sweden ranks positively with a relative high share of renewable energy (figure 4) and also with a low carbon intensity (figure 5). Mozambique, the Democratic Republic of Congo and Ethiopia also have low carbon emissions. But what lies behind these numbers?

A discussion of the hidden components behind carbon emissions deserves some attention. Generally, developed countries tend to have higher overall energy efficiency embedded in physical capital and processes, due to a number of factors, especially technology and regulatory stringency. On the other hand, many of the developed countries which rank low in carbon emissions can do so because economic growth in the last decades has been greatly due to an expansion in the service sector, which has low-carbon intensity when compared to industry and agriculture, for example.

Figure 5. Carbon emissions for selected countries and regions, per unit of GDP



Source: Based on data from IEA statistical database.

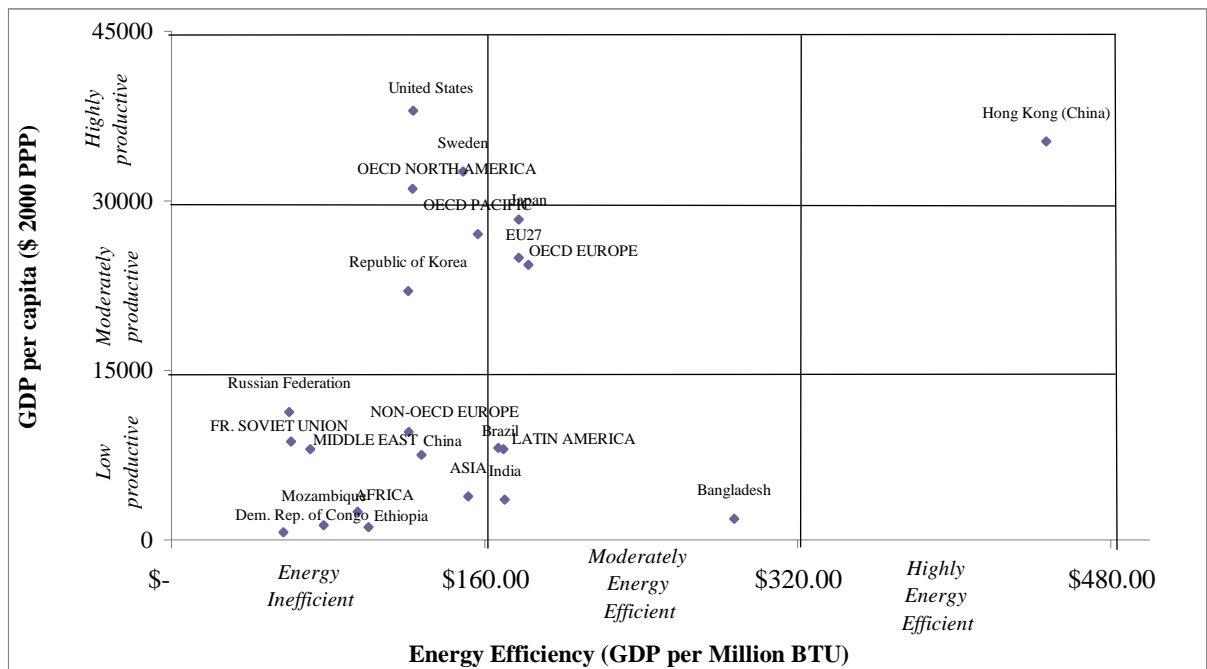
A third point which lies behind carbon emissions is the issue of ownership. In the case of tradable goods, conventional statistical conventions link greenhouse gas emissions to the country of production, but not where consumption occurs. This said, at least part of the emissions attributed to countries where exports play a major role (China, India) would be for goods which are consumed abroad. This allows importing countries to statistically “outsource” carbon emissions to other region, a phenomena known as carbon leakage.

In addition to renewable energy and carbon intensity, a leading green economy would ideally be energy-efficient and productive, meaning that it not only safeguards the environment, but also enhances the social and economic pillars of sustainable development, via higher wealth and employment creation. Figure 6 illustrates a relationship between productivity (GDP per capita) and energy efficiency (output delivered per energy unit). While there is a large gap in productivity between developed and developing economies, the energy efficiency of economies appear to be quite similar between developed and developing nations. While only Hong Kong

(China) figured as both highly productive and energy efficient, other countries provide interesting insights. Bangladesh is very energy-efficient, while having a remarkably low productivity per capita. Economies in transition, especially former members of the Soviet Union, are among those which display low energy efficiency and low productivity.

Many of the countries which have low carbon intensities associated with their economies (Japan, Sweden and the United States) are also highly productive. Contrasting with figure 4, the leaders of renewable energy utilization (Mozambique, the Democratic Republic of the Congo and Ethiopia) figure among those which are simultaneously energy-inefficient and have low per capita productivity. Sweden figures among the most productive economies in the world, but at the same time ranks behind the EU-27 average in terms of energy efficiency.

Figure 6. Economic productivity vs. Energy efficiency of economies.



Source: Based on data from IEA statistical database (2009).

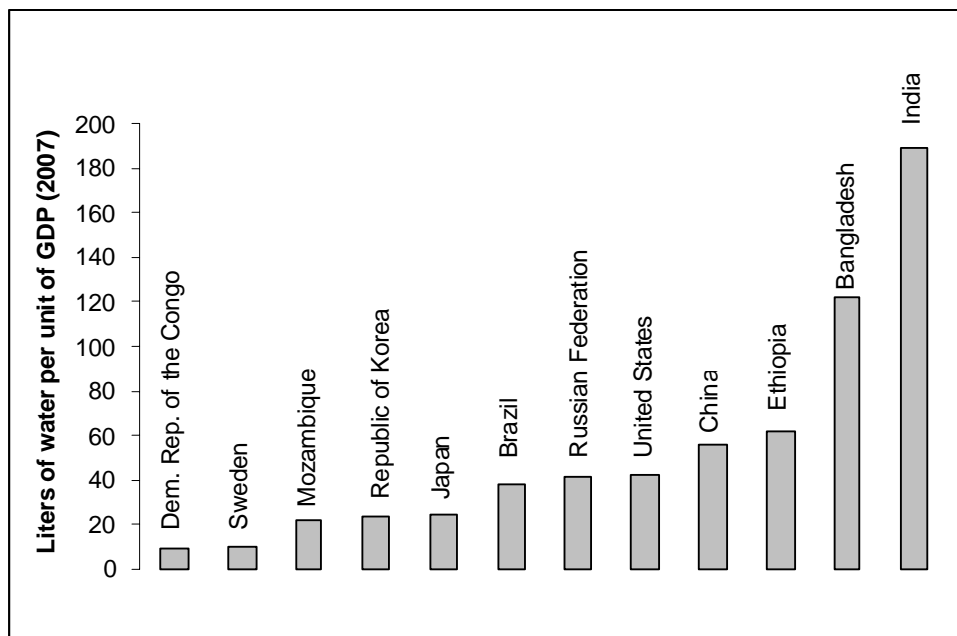
Two additional aspects should not be overlooked: Green economies should display low water intensities and should operate within biocapacity limits. These are illustrated in figure 7. Water is a basic input for a broad range of economic activities, notwithstanding its social, health and environmental importance. Using water beyond natural replenishment capacities can cause large costs through either scarcity or the need for additional infrastructure.

With regards to biocapacities, ecosystems provide a given area of natural assets endowment (cropland, forest, fishing grounds, etc). Economic activity puts these natural assets at the service of societies, which use the natural endowment for virtually all transformations. The amount of biocapacities used corresponds to the

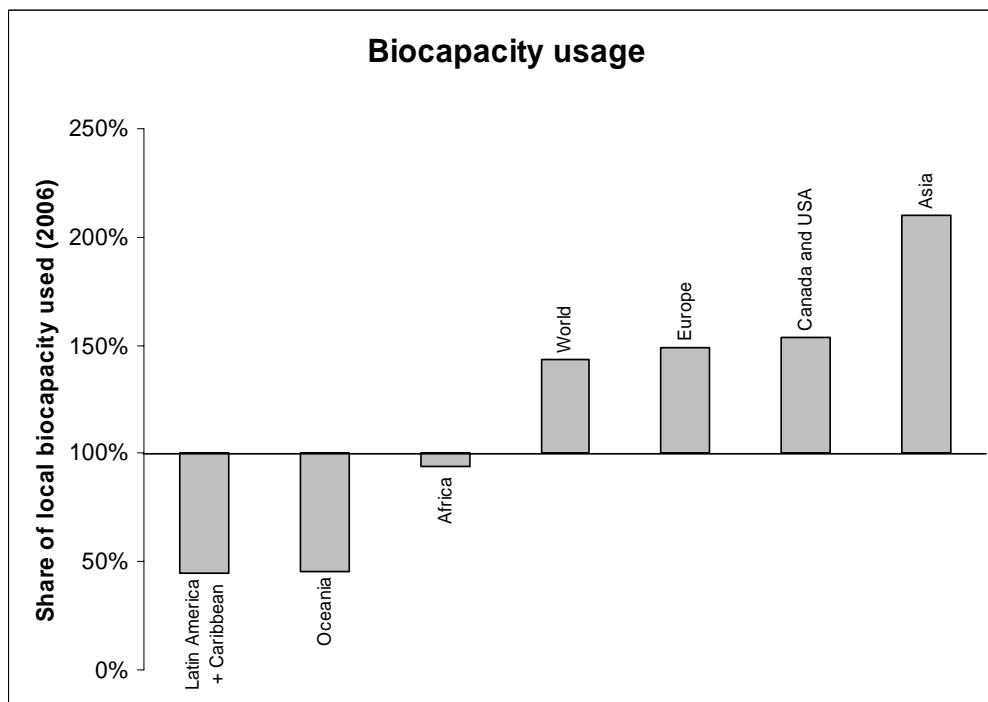
ecological footprint, measured in global hectares per capita. Also in figure 7 is a representation of the ecological footprint of different world regions, meaning how much of the available natural assets are being used at each region.⁵⁶

If more biocapacity is used than what is locally available, two effects might occur: usage of biocapacities from other regions and/or over exploitation of resources at a rate that is not sustainable, meaning future depletion (or reduction) of endowments. Both are worrisome, meaning that GEs should operate within their limits, not above. Still, based on empirical data, both developing and developed nations are using more than their biocapacity endowments (figure 4). Only Latin America and Oceania still have considerable stocks of biocapacities to exploit, but as other regions already tap into these reserves, the average biocapacity usage in the world is almost 50 per cent above what can be sustainably provided by ecosystems.

Figure 7. Water intensity (water consumption per unit of GDP) and biocapacity usage (global hectares per capita, as a share of the local biocapacities available)



⁵⁶ For an overview of Ecological footprint and Biocapacity definitions, see: www.footprintnetwork.org



Sources: Based on data from the Food and Agriculture Organization of the United Nations (FAO) (Aquastat) and Global Footprint Network.

After going through all three relevant indicators that would identify leading green economies, it is evident that there is a lack of direct correlation between figures 1 through 4. Different countries figure in different rankings, depending on the indicator. As data suggests, no single country or region is leading the green economy. Another insight is that conventional indicators often fail to capture hidden dimensions of sustainability, such as the level of sophistication of biomass usage, extraction and replenishment rates of biocapacities, relative weight of the service sector in the economy, etc. This leads to the perception that today's leading green economies are scattered among various sectors, not bound to any specific nation. That does not mean that a country cannot develop a green economy – examples of green sectors provide a rich collection of successful experiences which can be expanded and adapted in other regions.

4.2 Sectoral leaders

The previous session pointed out that the transition to a green economy is not being led by any specific group of countries, but rather dispersed among various nations. As green economy components currently do not obey national borders, a sectoral approach is more adequate to survey valuable experiences. That said, under this section we attempt to use a more disaggregated approach, highlighting the leading

countries in key green economy sectors according to classification proposed by the United Nations Environment Programme (UNEP).⁵⁷

Market-borne technologies have certainly contributed to best-practice examples showcased in table 1. But in addition to technical feats, regulatory instruments were also a key enabling factor behind success stories.

⁵⁷ Green Economy Report focal areas. See:
<http://www.unep.ch/etb/publications/GreenEconomy/GER%20Preview%20v2.0.pdf>.

Components of the green economy dispersed among leading sectoral examples, using classification proposed in UNEP's Green Economy Report: A preview

<p>Agriculture Organic agriculture in Uganda ^a Certified sustainable agriculture in Hawaii (United States) ^b</p>	<p>Fisheries Sustainable native fish management in Peru ⁱ Sustainable tuna fishing ^j</p>	<p>Transport Car-lift (<i>mitfahrgelegenheit</i>) and car-sharing in Germany ^q Road congestion pricing in Santiago (Chile) ^r</p>
<p>Buildings Energy-efficient buildings in Los Angeles (United States) ^c Zero-energy buildings in Germany ^d</p>	<p>Forests Sustainable forestry practices for pulp & paper production in Brazil ^k REED+ programme in Zambia ^l</p>	<p>Waste <i>Pfand</i> system (recycling) in Germany ^s National Programme on Energy Recovery from Urban and Industrial Wastes in India ^t</p>
<p>Cities/urban planning Sustainable urban planning in Curitiba (Brazil) ^e Sustainable urban planning in Vällingby (Sweden) ^f</p>	<p>Manufacturing Lean manufacturing in Japan ^m Low-carbon supply chains (Global) ⁿ</p>	<p>Water Freshwater ecosystem services in Ecuador ^u Water management systems in Persian Gulf countries ^v</p>
<p>Energy Micro-hydro power generation in Nepal ^g Low-carbon biofuel production in Brazil ^h</p>		<p>Tourism Sustainable sea tourism in Honduras ^o Conservation charging in Abrolhos Islands (Brazil) ^p</p>

Sources: ^a UNEP Green Economy: Developing countries success stories. ^b Food Alliance, United States of America. ^c United State EPA (2009) Energy Star labeled buildings. ^d IEA information paper 2008: Energy-Efficiency Requirements in building codes, energy efficiency policies for new buildings. ^e UNEP Green Economy: Developing countries success stories. ^f Hardenius et al (1999) Guide till Sveriges historia, pp 216-219 ^g. Mr. Brijesh Mainali, Consultant in micro generation systems. ^h Brazilian Ministry for Mines and Energy. ⁱ UNCTAD Biotrade Initiative. ^j Marine Stewardship Council. ^k Programme for the Endorsement of Forest Certification (PEFC) certification by Brazilian company Suzano Papel and Celulose BR007572-1. ^l UN-REED+ Programme for Zambia (3 August 2010). ^m Toyota Production System. ⁿ Carbon Trust (2006) Carbon footprints in the supply chain: the next step for business. ^o Coral Reef Alliance. ^p IBAMA. ^q Mitfahrgelegenheit.de and Bremen car-sharing initiative. ^r Costanera Norte freeway administration (Chile). ^s German Packaging Regulation (Verpackungsverordnung) of 1991. ^t Indian Ministry for New and Renewable Energy. ^u UNEP Green Economy: Developing countries success stories. ^v United Nations ESCWA (2008) Sustainable Water Supply and Sanitation for All People.

4.3 Developing countries' concerns surrounding a green economy⁵⁸

Although there is no generally accepted definition of a green economy, the green economy could be viewed as a pathway to sustainable development, rather than an alternative concept that would redefine the traditional meaning of sustainable development within the context of the UNCSA. Therefore a commonly agreed upon definition of what a green economy constitutes needs to be first developed by the international community, whilst acknowledging that a green economy cannot be a one-size-fits-all model for sustainable development.

A green economy needs to go beyond simply shifting to a low-carbon economy, and it must reinforce the interdependence between the economic, social and environmental pillars of sustainable development. Disparities between developed and developing countries need to be reflected in the transition towards a green economy, and enough policy space should be provided for States wanting to pursue their chosen national policies.

Equity needs to be a fundamental part of the green economy and any in-depth dialogue should continue to uphold the principle of Common but Differentiated Responsibilities – on which many financial agreements between developed and developing countries have been based. The concept of the green economy should not lead to the commodification and privatization of nature, and it is essential that developed countries change their unsustainable consumption and production patterns in order to achieve a “green society”, rather than a “green economy”.

A transition to a green economy, and any resulting green economic policies made should result in an abandonment of trade protectionism, fairness in international markets and not lead to any conditionalities that may restrict trade, financing, official development assistance (ODA) and other forms of international assistance. The green economy should not legitimize types of subsidies that would lock in the competitive advantage for certain developed countries through creating dependency on particular modes of production.

An enabling environment would be needed, with developed countries providing adequate technologies, financial assistance and market access to developing countries. The multilateral trading system would need to facilitate a transition to a green economy with a heavy emphasis being placed upon technology transfer to, and financial investments in, developing countries. It is essential that developing countries get the financial and technological support needed to overcome development challenges associated with transitioning to a green economy. There is a need to promote private and public sector investments, and South–South cooperation and trilateral initiatives have to also be fostered.

Rio +20 should therefore be used as an opportunity to make use of an enabling environment and provide a platform to effectively integrate the three pillars of

⁵⁸ This summary was prepared from the interventions made by Developing Country representatives during the First Preparatory Committee meeting in New York, May 2010, and does not represent an agreement reached, or particular view of any individual country.

sustainable development. It should not turn the sustainable development summit into a green economy summit.

4.4 Challenges for a green economy

Moving towards a green economy implies not only the mainstreaming of green niches in specific sectors of the economy but changing the overall social construct. The sustainable development challenge for a green economy is to be able to produce more wealth, employment and better social services, coupled with a lower absolute use of natural resources, greater reliance on less carbon-intensive and renewable energy, and without causing regional displacements due to uneven endowment of natural resources.

The transition to a green economic would imply significant investments to revamp and structurally change (a) the production function of the economy, (b) its infrastructure, and (c) spur investments for continuous technology development. It will also imply the transformation of the consumption patterns to adequately synchronize them with the full value of the welfare benefits that consumers receive from goods and services. It is difficult to imagine a transition phase in which, at least in the early stages, the internalization of the environmental and social costs do not result in a reduction in real income. Obviously, developed economies would have at hand greater financial, human resource and technological means to navigate this transition with relatively lower costs. Conversely, developing economies could be disproportionately left with higher transition costs to a greener economy. Hence, there is a real basis to argue for a net transfer of financial resources so that developing countries can leapfrog to a higher degree of sustainable development.⁵⁹ This holds particularly true if one admits that a more sustainable, green and less carbon-intensive world economy is essentially a “global common good” that provides benefits for all humanity. Short of accepting this, the mere internalization of environmental costs is a costly extra effort that many countries, developing and developed countries alike, may not be willing to voluntarily or make in isolation.

With regards to the social and human well-being aspects of the transition phase to a green economy, new mechanisms to share the costs will be required. Transition costs could affect segments of society in different ways, not only in terms of labour force re-training, but mostly in adapting to the new (higher post-internalization) market price levels. If the last 20 years have provided a lesson in this regard, it is that adequate and due compensation to the underprivileged is not an automatic mechanism available in most countries. Well-targeted and innovative policies to address these market failures are therefore required.

⁵⁹ By way of illustration, in paragraph 8 of the Climate Change Copenhagen Accord (which was not adopted and carries no legal standing) political leaders referred to the total cost of \$100 billion a year to meet mitigation and adaptation costs associated with the limitation of a 2 degrees Celsius increase in mean global temperature. Raising \$100 billion a year on the global capital market from 2020 does not seem to be such an unrealistic goal in view of the size of the global stock and loans market, which traded in 2009 a value of more than \$100 trillion. The global GDP in 2009 stood at around \$57 trillion. Hence, \$100 billion today in relation to the overall values at hand are less than 0.1 per cent of the capital market value or less than 0.2 per cent of global GDP only. In 2020, the global GDP in nominal terms should have doubled.

As climate change is one of the key drivers behind the urgency to promote a transition to a green economy, the cost of this transition should be assessed in contrast with the economic, social and environmental (adverse) impacts of global climate change. In this regard, it is perhaps the uncertainty associated with climate change impacts (their geographical distribution, intensity, scale and timeline) that creates one of the biggest obstacles for a bolder and more ambitious public policy response that would speed up the transitioning to a green economy.

5. Concluding remarks

Trade is an important tool for a strategy leading to sustainable development. However, an export-led growth strategy will not automatically provide incentives to further drive developing countries towards a quest for sustainable development. The urgency of global climate change and its potential dramatic social and environmental impacts require a much more integrated approach based on the concept of a green economy. Whether a green economy has the potential to become the basis for a new development push will depend on how its benefits are perceived and how the burden of the transition costs is ultimately shared.

Trade is the mechanism in which domestic markets are linked in a global and interconnected economy. A lot has been invested, economically and institutionally, in the last 20 years to enhance trade's potential to play a positive role towards sustainable development. There is a need to define what role trade and trade rules should play in the context of a green economy. The following are a few questions to stimulate the debate in this context:

- Among the three pillars of sustainable development, the economic has been considered as the “pull” for the other two pillars: social and environmental. Are the risks from the impacts of global climate change high enough to tip the balance in favour of the environmental pillar?
- In the last 20 years, trade has expanded dramatically. How could future gains from trade expansion be more closely linked to improvements in the social and environmental pillars of sustainable development?
- Can the green economy enhance trade's contribution to the process of achieving sustainable development?
- What attributes of a green economy should be prioritized (in the transition process) in order to create sustainable development opportunities for developing countries?
- Access to technology remains one of the biggest obstacles facing those countries attempting to move to a greener economy. How can the multilateral system tilt the playing field in favour of developing countries?
- The greening of an economy, or the transition to a greener economy, would require that global markets send the right signals to producers and consumers.

What are the potential risks for developing countries and how could they be addressed?

- To what extent should trade instruments and/or agreements be used/adapted to provide the necessary incentives for the transition to a green economy?
- Information on price, quantities and measurements are constantly provided in the trade world. Should other indicators also be included, such as carbon content of goods and services? How could this be done in a way that imposes no unreasonable cost on developing countries?
- Should domestic or global conditionalities on foreign direct investment and/or financing be used in a way that directly contributes to the transition to a green economy?
- To what extent can the principle of reciprocity prevalent in trade negotiations be relevant in a global framework to induce a transition to a green economy?
- What should the role of UNCTAD be in fostering the transition to a green economy?

Annex 1

Sustainable development since Rio-92

A discussion on the implications of the Green Economy cannot be performed without framing it in the overarching goal of sustainable development (SD). This annex presents the evolution of the United Nations work on SD. We present the legal framework in which the discussions and treaties have been based, taking the United Nations Conference on Environment and Development (UNCED, or Rio-92) as the moment of the institutionalization of sustainable development in the United Nations system. The major milestones are presented, as well as the current institutional framework that supports sustainable development.

Background leading to Rio

The United Nations first considered environmental issues as part of its main political agenda at the forty-fifth session of the Economic and Social Council, when in resolution 1346 (XLV) of 30 July 1968 it recommended that the General Assembly consider convening a United Nations conference on “problems of the human environment”.⁶⁰

In response to the Economic and Social Council’s recommendation, the General Assembly at its twenty-third session adopted resolution 2398 (XXIII) of 3 December 1968 convening a United Nations Conference on the Human Environment, noting the continuing and accelerating impairment of the quality of the human environment and its consequent effects on the condition of man, his physical, mental and social well-being, his dignity and his enjoyment of basic human rights, in developing as well as developed countries”, thus relating the Charter to emerging environmental issues. The resolution also recognized that “the relationship between man and his environment is undergoing profound changes in the wake of modern scientific and technological developments”.⁶¹ The city of Stockholm, Sweden, was chosen to host the conference.

In the run-up to the Stockholm conference in 1972, the conference secretariat organized a preparatory event, bringing together experts on environment and development issues in a dedicated conference in Founex, Switzerland, in 1971. The conference aimed to discuss the growing awareness of linkages between development and environmental degradation, laying the foundation for the concept of sustainable development.

With inputs from Founex and the presence of delegates from 113 countries, the United Nations Conference on the Human Environment took place in Stockholm from 5 to 16 June 1972. The conference produced two main results: the *Stockholm Declaration*, which was the first document in international environmental law to

⁶⁰ Although other initiatives such as the Ramsar Convention on Wetlands (1971) were adopted before the Stockholm conference, these were multilateral agreements negotiated and established outside the United Nations system.

⁶¹ See <http://www.un.org/depts/dhl/resguide/specenv.htm>.

recognize the right to a healthy environment, and the establishment of the United Nations Environment Programme (UNEP), which has since led the United Nations' work on environmental issues.⁶²

By way of Resolution 38/161 of 19 December 1983, the General Assembly welcomed the establishment of a special commission to report on the environment up to the year 2000 and beyond. The commission became known as the World Commission on Environment and Development (WCED) and was headed by Gro Harlem Brundtland. In 1987, WCED submitted its report (also known as the Brundtland Report) to the General Assembly. The report, based on a four-year study, defined the broad concept of sustainable development as one which meets the needs of the present generation without compromising the ability of future generations to meet their own needs.

UNCED (Rio-92)

Pursuant to the report of the World Commission in 1987, the General Assembly adopted resolution 44/228 of 20 December 1988, convening the United Nations Conference on Environment and Development (also known as the "Rio-92" or the "Earth Summit") to elaborate strategies and measures to halt and reverse the effects of environmental degradation. The resolution listed nine areas of major concern for maintaining the quality of the Earth's environment and especially in achieving environmentally sound and sustainable development globally. These areas were: climate change, water resources, oceans, land resources, biodiversity, biotechnology, waste, poverty and health.⁶³ As a consequence of the resolution, the Earth Summit took place in Rio de Janeiro from 3 to 14 June 1992. It gathered representatives from 172 countries, as well as a number of United Nations agencies, non-governmental organizations and civil society representatives. At Rio-92 three major agreements were adopted:

- Agenda 21, a global plan of action to promote sustainable development;
- The Rio Declaration on Environment and Development, a series of principles defining the rights and responsibilities of States;
- The Statement of Forest Principles, a set of principles to underpin the sustainable management of forests worldwide.

In addition, two legally binding instruments were opened for signature:

- The United Nations Framework Convention on Climate Change (UNFCCC); and
- The Convention on Biological Diversity (CBD).⁶⁴

The Rio Conference led to the establishment of the Commission on Sustainable Development, whose objective is to ensure effective follow-up to the UNCED. Rio-92 called for several major initiatives in other key areas of sustainable

⁶² Among a number of activities, UNEP has been since 1975 the administrator of the secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

⁶³ See: <http://www.un.org/documents/ga/res/44/ares44-228.htm>.

⁶⁴ In 2000, the First Extraordinary Meeting of the Conference of the Parties (EXCOP1) from the CBD adopted the Cartagena protocol on Biosafety which entered into force in December 2003.

development, such as a global conference on Small Island Developing States (SIDS); a Convention to Combat Desertification and an agreement on highly migratory and straddling fish stocks.

Post-Rio developments

After Rio-92, trade dimensions were also addressed under the sustainable development imperative. In 1994, the International Institute for Sustainable Development (IISD), in a separate effort, published a paper on sustainable development principles for trade, which became known as the Winnipeg principles.⁶⁵ These aimed at guaranteeing that trade worked in favour of sustainable development, not against it. The Winnipeg principles were: efficiency and cost internalization, equity, environmental integrity, subsidiarity, international cooperation, science and precaution and openness.

In 1997, the General Assembly, in its resolutions 47/190 and 51/181, convened a special session on the environment (also known as Earth Summit +5), to review and appraise the implementation of Agenda 21. In the session's final document (resolution S-19/2), Member States recognized that time was of the essence in meeting the challenges of sustainable development, and made a pledge to continue to work together, in good faith and in the spirit of partnership, to accelerate the implementation of Agenda 21. The same year also marked the adoption of the Kyoto Protocol to fight climate change, which entered into force in 2005.

On 29 January 2000, the Conference of the Parties to the Convention on Biological Diversity adopted a supplementary agreement to the Convention known as the Cartagena Protocol on Biosafety. The Protocol seeks to protect biological diversity from the potential risks posed by living modified organisms resulting from modern biotechnology. It establishes an advance informed agreement (AIA) procedure for ensuring that countries are provided with the information necessary to make informed decisions before agreeing to the import of such organisms into their territory. The Protocol contains reference to a precautionary approach and reaffirms the precaution language in Principle 15 of the Rio Declaration on Environment and Development.

In September 2000, world leaders gathered in New York for the Millennium Summit, which sought a future vision for the United Nations. At the event, 189 member countries agreed on the Millennium Declaration, which aimed at reducing extreme poverty and expanding development throughout the world. The Millennium summit produced the Millennium Development Goals (MDGs), which have since helped guide national and international policies towards achieving measurable progress in key areas of sustainable development.⁶⁶

At its 55th session, in 2002, the General Assembly adopted resolution 55/199, convening the World Summit on Sustainable Development (WSSD) (also known as

⁶⁵ See: http://www.iisd.org/pdf/2003/trade_sd_principles.pdf.

⁶⁶ The millennium development goals have set the year 2015 for the attainment of the following objectives: (1) Eradication of extreme poverty and hunger; (2) Universal education; (3) Gender equity; (4) Reduce child mortality; (5) Improve maternal health; (6) Fight HIV/AIDS; (7) Environmental sustainability and (8) Global partnership.

Rio +10), a 10-year review of progress achieved since 1992 in the implementation of Agenda 21. The summit was held in Johannesburg, South Africa, from 26 August to 4 September 2002 and its report (A/Conf.199/20 + Corr.1) includes a Political Declaration, in which Member States assumed a collective responsibility to advance and strengthen the interdependent and mutually reinforcing pillars of sustainable development, economic development, social development and environmental protection at the local, national, regional and global levels and a Plan of Implementation, in which Member States committed themselves to undertaking concrete actions and measures at all levels and to enhancing international cooperation.

After Johannesburg, in 2002, there were continued efforts towards strengthening the international commitment on sustainable development. The growing scientific evidence highlighting the risks associated with climate change and economic assessments of the potential costs of inaction all contributed to increased public awareness of the need to transition to a green economy. The most recent large-scale international environmental event that took place under the United Nations system was the 15th Conference of the Parties (COP15) held in Copenhagen, Denmark, in December 2009, which produced a political declaration stressing the need for continuity in international cooperation on climate change matters.⁶⁷

⁶⁷ See: <http://unfccc.int/resource/docs/2009/cop15/eng/l07.pdf>.

Annex 2

Interventions made by Developing Member Countries during the First Preparatory Committee Meeting for the United Nations Conference on Sustainable Development New York, May 2010

<u>COUNTRIES/ AFFILIATIONS</u>	<u>CURRENT STATUS OF PROGRESS IN IMPLEMENTING GREEN ECONOMY, IF ANY</u>	<u>KEY DEVELOPMENT CHALLENGES</u>	<u>TRADE IMPLICATIONS OF GREEN ECONOMY</u>	<u>RECOMMENDATIONS</u>
<p><u>G77 & CHINA</u></p> <p>Yemen</p> <p><i>GE is an imprecisely defined and abstract concept. GE can help in effectively implementing SD paradigm</i></p>		<p>Climate change and frequency of natural disasters; extreme poverty; gaps in finance, trade investment, capacity-building and technology transfer; no change in consumption and production patterns; food crisis</p>	<p>No single, universal model for a GE (need to consider individual country economic, environmental and social differences); underlying differences in development processes and structures between North and South; decline in ODA and FDI and systematic imbalances in international financial system; commitment to double aid to Africa by 2010 will not be reached; GE can lead to trade, ODA and finance restrictions; emergence of trade barriers leading to Green Protectionism that may counter the multilateral trading system</p>	<p>Regional and national level policy; international mechanisms in terms of global support; new and additional financial resources; ODA commitments from developed countries need to be fulfilled; debt cancellation and concessional financial flows necessary; capacity-building in developing countries, particularly scientific and technological capacities; technology transfer and dissemination; universal and equitable multilateral trading system; role of United Nations in IEG, urge UNCTAD to scale up efforts to integrate trade and development; role of public-private partnerships</p>
<p>Argentina</p>		<p>A global environment programme should adopt clear measures to also eradicate poverty; green economy antecedents are country-specific or provided by organizations of developed countries therefore, they might not be applicable under the conditions of</p>	<p>Environmental measures taken should be compatible with WTO rules, based on scientific evidence, hear all stakeholders and consider the limited capacities of developing countries; technology transfer, financing and capacity building must be comprehensive and non-discriminatory; green protectionism should not be created</p>	<p>Previous commitments on SD should be implemented; countries should have sovereignty to implement their own policies; no need for new concept of sustainable development, but to achieve this in an equalitarian manner; green economy should work to help eradicate poverty</p>

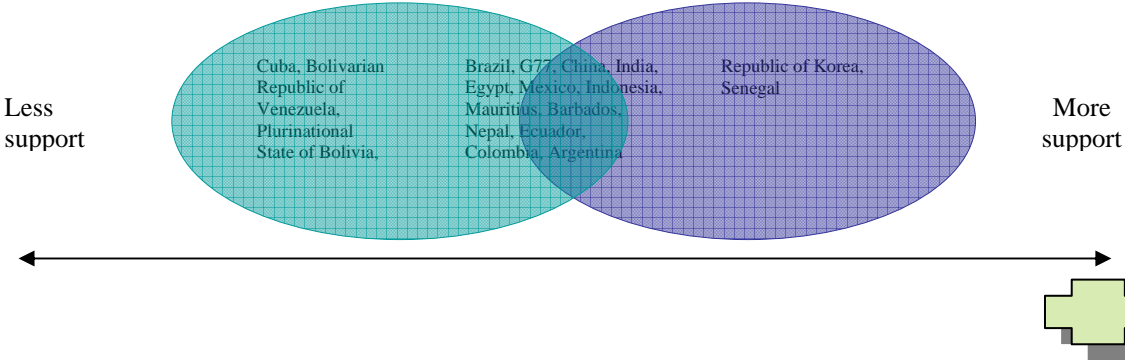
		developing countries		
Bolivia (Plurinational State of)	Bolivia will never accept proposals that privatize and commercialize nature	GE concept as new proposal to commercialize and privatize nature; crisis created by market rules which seek profit maximization before human welfare	GE seems to be a proposal for the commodification and privatization of nature; emphasis on profit-making rather than nature; UNCSD should assess potential impacts of trade and make recommendations; access to and transfer of technologies	Constitution of global tribunal for climate and environmental justice; United Nations should name access water as a human right; need for new indicators and goals dealing with inequality in wealth distribution; nature should be seen as a system in which humans are part thereof, not only as source of extraction
Brazil <i>Position of “constructive doubt”, unclear on definition of GE</i> <i>Aligned with G77 & China</i>		Translating concept of GE into nationally appropriate measures; no universally applicable solutions available; poverty alleviation; enhancing prosperity for individuals	Need to discipline the international trade system; eliminate subsidies; access to and transfer of technologies; incentives to sustainable innovation; new investment opportunities in green sectors; reform and regulation; capacity-building; prioritization of sectors and regions; creation of jobs, income and skill generation	Need to look beyond MDGs to further the development agenda; need long-term outlook (beyond 2015); finance and technology transfer required for developing countries; fostering of South–South cooperation and trilateral initiatives
China <i>Aligned with G77</i>	5¼% of GDP of stimulus package to green economy, job creation; \$73 billion on rail projects and emphasis on sustainable construction projects		Energy conservation; emission reductions; effective resource use; expand market demand; rise to new fields of economic growth	Green development policy mechanisms; culture of environmental conservation; sustainable consumption and production; opposition to trade protectionism and “green barriers”; technology transfer, financial assistance and market access for developing countries
Colombia	Johannesburg helped to define GE and GE as path to SD; have the means to transfer green technology and know-how to developing countries	Unsustainable production and consumption patterns	Transition to GE should be inclusive; A way to change to sustainable consumption and production	Discussion should not be based on a clash between GE and SD; focus on improving quality of life and on eradication of poverty
Cuba <i>Aligned with Bolivia (Plurinational State of)</i>		Lack of clarity within GE concept; limited progress in existing environmental agreements; crisis in neo-liberal economic model	Need consensus by the State on issues pertaining to GE; technology transfer and need for finance; developed countries should change unsustainable consumption and	New resources should not be subject to conditionalities; green instruments should be used to foster green economy; GE must respect Agenda 21, Johannesburg; GE must

		has worsened inequality, poverty and natural resource depletion	production patterns	improve income distribution
Ecuador	Country has long-term strategy to attain an economy which is not dependent on oil and makes rational usage of natural resources, including payments for ecosystem services; Ecuador uses its competitive advantage in eco-tourism for the attainment of social and economic needs	Redistribution of production means and consolidation of a social and economic system which generates and shares wealth	Need for technology transfers	Need for a clear and common definition of GE, including its boundaries and interrelations with sustainable development; avoid a green proposal to become monopolized; need for education in clean energy, low emission technologies both for rural and urban populations
Egypt <i>GE is not an alternative concept, is a means to achieving SD</i>			GE can generate wealth; lead to job creation; conservation of natural resources BUT... Economic, technological and social costs of GE including foregoing entire sectors for the benefit of others; green protectionism; artificial barriers to trade; conditionality to international support; legitimization of subsidies that benefit the wealthy; lock-in of competitive advantage for developed countries through creating dependency on modes of production; GE does not reflect disparities between countries	New and additional financial resources; transfer of appropriate green technologies; compensation for environmental damages; commission a study to analyze concept of GE
Indonesia <i>Aligned with G77 & China</i> <i>GE a vehicle towards achieving SD, an opportunity to redesign national and global economic policies</i>		Targets for SD are fragmented; Population growth; Natural disasters	Need to ensure green economic policies are not protectionist. Process Production Method (PPM) standards must not be a non-tariff barrier; Mutual Recognition Agreement (MRA) on green products and services between developed and developing countries; need to reduce tariffs on green products such as organic agricultural products and the elimination of	Internalize externalities costs in economic activities; bottom-up approach in implementing GE at a national rather than multilateral or international level to ensure cultural peculiarities are respected; redesign of national and global economic policies and strategies to implement concept of green growth and green economy; finance, technology transfer and capacity-building for

			agricultural subsidies provided to non-green farming	developing countries required; financial resources need to go beyond budgetary allocations and ODA; integrated reporting and monitoring system; mainstream all work on GE
Mauritius <i>Aligned with G77 & China, and AOSIS</i>	Concept of “ <i>Maurice Ile Durable</i> ” (<i>Mauritius Sustainable Island</i>) aimed at job creation and culture of entrepreneurship, inclusive growth and mitigation and adaptation to climate change	Economic architecture within the United Nations system	GE more than a low-carbon economy and has to include an ecosystem approach that places value on nature	Engagement of private sector; linkages with international financial institutions and multilateral trading system
Nigeria		Unfulfilled commitments since Rio; low rate of wealth generation in Africa; dumping of wastes in developing countries; weak support in implementation of environmental protocols and conventions		Full engagement of all key stakeholders (government, private sector, civil society, academia)
Senegal		Lack of convergence in improving environmental, economic and social indicators	GE is the only way to move forward after the economic crisis	Rio 2012 should be used as platform to strengthen the convergence between three pillars of sustainable development; reinforce environmental governance; UNCSD should effectively integrate three pillars of SD, not only a forum without assured outcomes
Uruguay <i>Aligned with G77 & China</i>			Definition of GE needs to encompass trade and not impose commercial restrictions which can impede markets	
Venezuela, Bolivarian Republic of	Committed to strengthening multilateralism	Food crisis; ecological crisis; commodification of nature; climate change; economic and financial crisis; North–South	GE seen as “green capitalism”; new conditionalities; financial speculation on the real economy; increased role of private sector in United Nations	Strengthen power of civil society; natural resource management; technology transfer and adequate financial resources to developing countries; alter consumption and

		disparities; poverty alleviation	activities (is weakening multilateralism)	production patterns in North through restrictions on commercial advertising; regulation of financial system; access to agricultural resources for poor people; taxes and penalties on polluters; establishment of basic rural infrastructure to support traditional markets; knowledge transfer; access to sanitation to improve human health
<u>BARBADOS</u> <i>Aligned with G77 & China and AOSIS</i>	Transition to GE is a national priority. Part of National Strategic Plan; community engagement in public policy		Facilitation of export market development for indigenous services; Development of competitive small and medium-sized enterprises; value-added in sectors such as agriculture, promotion of sustainable tourism; sustainable building and construction; job creation; poverty alleviation; GE promotes partnerships among stakeholders and promotes convergence of three pillars of SD	Promote public and private sector investments; ensure corporate social and environmental responsibility; South–South cooperation
<u>MEXICO</u> <i>GE is a new paradigm and should not lead to dramatic change in agenda and options for responding to SD challenges</i>	Engaged in active promotion of GE and green growth	Market failures; no precise definition of GE yet, will vary from country to country; loss of global biodiversity; transition to GE will not happen if basic markets continue to be flawed	Need to increase work opportunities and review subsidies for food production in developed countries; developed countries need to transfer technology to developing nations, as well as resources for their effective implementation	Technology transfers to developing countries to support abatement of environmental degradation; develop governance instruments which facilitate compliance of commitments to SD; economy as powerful tool for decision-making in biodiversity and ecosystems, bridging science, economy and governments; Tools include: eco-services charges, subsidy revision, regulatory changes, low carbon economy; need for indicators to measure water, waste generation and recycling
<u>REPUBLIC OF KOREA</u>	\$36 billion to green jobs creation plan; clean modes of		Green business tends to be employment-creating and conducive to social	GE needs to reinforce social element of development

	transport (rail)		development; addresses all three pillars of SD; GE will make growth sustainable	
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Country positions relative to the “Green Economy”