

Laying the foundation in the UNECE region for economic integration and sustainable development towards 2030

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Background note

Introduction

1. We live in uncertain times with strong divisive forces and global processes at play. This makes it even more important to collectively develop a vision of the future towards sustainable and inclusive economic prosperity in our region. Amid this uncertainty, the 2030 Sustainable Development Agenda provides a strong vision that defines our ambitions and is shaping policy actions –at the national, regional and global levels.
2. This Conference will provide some initial elements to the ongoing process of building a Vision 2030 for our region - a collective reflection on what the future holds and how we can shape it – drawing on multiple inputs from a variety of stakeholders and sources.
3. There is a potential for increased economic interaction among UNECE member States that remains untapped. The Conference aims to identify areas where regional cooperation towards the year 2030 could yield more benefits and discuss the barriers and bottlenecks that are preventing closer integration in the region. In view of current trends, and taking into account various alternative economic and technological possibilities, it will explore different scenarios for future regional integration and cooperation based on peaceful coexistence and respect for international law. This will facilitate a discussion on the possible policy responses.
4. Vibrant economies thrive on the efficiency gains that trade makes possible, high levels of innovation and the ability to mobilise resources to tackle different infrastructure needs. Further integration within transport and energy is key in facilitating connectivity and sustainable development in the region. This integrated approach to future cooperation in the region can shed light on linkages and interdependencies and provide a more informed basis for future policy interventions.

Sustainable development in the UNECE region: visions for prosperity towards 2030

5. The set of institutions, policies and factors that determine the level of productivity of a country – its competitiveness- are the main driver for current and future economic prosperity. Productivity dynamics are key in explaining long-term growth while productivity differences are behind the disparity of income levels across countries.
6. Productivity has been stagnating in developed countries. The reasons behind this poor performance are complex, but several explanatory factors seem to be at play: the slowdown in investment, the lack of progress on integration and the fact that the diffusion of innovation from higher-productivity firms to lower-productivity firms is not working as well as in the past. At the same time, in recent years there are many instances in which productivity and income catch-up between the most advanced countries and the rest has stalled or is proceeding at a slower pace than before the 2008 financial crisis.

7. Raising productivity in order to increase living standards in a sustainable way will require addressing infrastructure needs –including those derived from the transition to the green economy-, promoting a more efficient use of resources through trade, facilitating the generation and diffusion of innovation and ensuring the necessary investment to make these changes possible.
8. Success in external markets is both a test and a determinant of competitiveness. Factors that allow domestic companies to increase productivity to levels that are consistent with an international presence contribute to enhance competitiveness. Market size is an important competitiveness dimension, as it makes possible reaching economies of scale. Integration arrangements, which may take different forms, have an influence on market size, as they define an economic space in which companies can work. Moreover, competitiveness is no longer determined primarily by local production costs but by the ability of firms to effectively participate in global value chains. In the presence of highly fragmented production chains, gross trade flows do not capture fully the intensity and quality of economic links between countries or competitiveness' dynamics. Addressing the formation of these global value chains goes well beyond traditional trade issues.
9. The contours of globalization are being redefined. The puissance of regionalism, the questioning of multilateralism, the attempts to wrestle back national economic sovereignty, strategies of economic nationalism and large geo-economic shifts... they are all part of this changing landscape. This changing context increases the importance of a commitment to international cooperation, including through closer collaboration in the framework of existing integration arrangements, to enhance economic prosperity and sustainable development in the region.

Trade and Standards: putting in place the building blocks of commerce

10. Despite many advances in reducing formal trade barriers in the UNECE region, the benefits of closer economic interaction among its members are far from being fully realised and trade remains below what could be expected in view of their geographical proximity.
11. Effective participation in global value chains remains a challenge for many companies wishing to enter global markets, in particular in low and middle income countries. The reasons behind this weak performance are complex and reflect multiple circumstances. At the same time, one common factor explaining these difficulties is the comparatively high trade costs in those countries in comparison with more advanced economies.
12. Trade facilitation and the adoption of internationally agreed standards can contribute to addressing the barriers that prevent closer integration and its accompanying benefits such as improved participation in global value chains and in international cross-border production. They also help to dispel uncertainty in economic relations and reduce the cost of trading across borders. At the same time, standards may also impose a direct cost on companies which needs to be considered when assessing potential benefits and speed of adjustment to new requirements.
13. Reducing the cost of trading enhances the competitiveness of national economies. Increased trade leads to a more efficient use of resources and supports the generation and diffusion of innovation. These are positive factors both for the overall economy and the transition to a green economy.
14. Trade, as a source of employment, knowledge exchange and technology transfer, can make an important contribution to long-term growth and increased prosperity. Fostering trade would have a positive impact on several Sustainable Development Goals through its influence on economic growth and efficiency. Trade can help progress on meeting goals on “no poverty” (SDG 1), “zero hunger” (SDG 2), “decent work and

economic growth” (SDG 8), “industry, innovation and infrastructure” (SDG 9) and “responsible consumption and production” (SDG 12). The promotion of an open, rule-based, predictable and non-discriminatory and equitable trading system is one of the targets to strengthen the means of implementation and revitalize the global partnerships for sustainable development (SDG 7).

15. Trade is a significant source of productivity gains, as it facilitates specialisation and the diffusion of knowledge. On the other hand, the observed relation between output growth and trade has weakened, both globally and in the UNECE region, as trade is trailing behind increases in output. International cooperation can contribute to: rebuilding this relationship between trade and growth; realising the benefits of increased trade; and creating a more conducive environment for cross-border investments. The development of international standards and the mechanisms for the harmonization or recognition of standards are central aspects in this cooperation.

Transport and Infrastructure: the future of connectivity

16. The integration in the transport sector across the UNECE region, fostered by the development of technology, could facilitate and accelerate the transformation to a more accessible, affordable, safer, and environmentally sustainable transport system that would ensure seamless connectivity for goods and passengers. Advancing in this direction would require addressing a variety of regulatory, physical-infrastructure and policy aspects.
17. Improvements in the regulatory framework for the transport sector at the international level are slow but ensure consistent and harmonious development thus, inter alia, facilitating individual mobility, international movements, reduced energy consumption and better traffic safety. They enhance connectivity and mobility, facilitate crossing of borders and reduce costs of international transactions.
18. Physical connectivity, including both cross-border and domestic dimensions, remains a condition sine qua non for economic and social development, in particular for low-income countries. However, in low- and middle-income economies, transport infrastructure and its maintenance in particular, largely lag behind their needs. In contrast, for a large number of advanced economies a well-developed transport infrastructure has already been put in place a long time ago. However, some of these countries have to cope with an aging infrastructure, a problem that is becoming increasingly evident in some well-developed industrial economies.
19. Although national circumstances differ, the need for co-ordinated and technically harmonised development of transport infrastructures is widely shared. This development would enhance connectivity and interoperability, thus facilitating mobility. This is particularly important in view of the emergence of new technologies and the potential offered by intelligent transport systems. When implemented in a co-ordinated way, these technologies could facilitate connectivity and speed up integration processes, but they could also create adverse effects if their implementation is not carried out in a consistent manner.
20. Integration of transport systems and infrastructure is an important precondition for stronger economic integration and sustainable development. Coordination failures have definite direct and indirect economic costs, although it may not be easy to identify their full extent. At the same time, there are multiple alternatives for the development of an integrated transport infrastructure. From a policy point of view, it is particularly important to identify those elements that are bottlenecks and represent binding constraints. They should be the initial focus of intervention when sequencing actions.
21. Improved traffic safety, environmental performance, energy efficiency, and efficient service provision remain the ultimate goals of an integrated and sustainable transport system. Improvements in the transport

regulatory framework and stronger policy integration at the international level are important components of economically, socially and environmentally more sustainable transport.

Energy and the green economy: shifting to a new paradigm

22. The transition to a green economy and the need for climate action will shape the energy sector's evolution toward 2030, as countries strive to advance the 2030 Sustainable Development Agenda. At the same time, the integration of energy markets in Europe can provide effective tools to address these challenges.
23. The Sustainable Development Goal 7 aims to ensure access to affordable, reliable, sustainable and modern energy for all. Target 7.a is aiming by 2030 to enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology. Enhancing access to modern energy must be ensured while significantly scaling up or efforts to tackle climate change in support of the Paris Climate Agreement and Sustainable Development Goal 13.
24. Expanding infrastructure and upgrading technology for supplying modern and sustainable energy services in the UNECE region would require substantial investments. Success in mobilising these resources depends on the creation of a suitable legal, policy and regulatory framework that facilitates the reduction of uncertainty and the sharing of risks and supports the creation of a market environment suitable for investments, including in a cross-border context. International cooperation will be an important factor driving the necessary changes.
25. Energy markets in several UNECE countries are facing a range of challenges: Many of the countries are net energy importers with high dependence on imported fossil fuels. Energy subsidies are rooted in all countries' energy systems. Furthermore, energy demand is projected to increase significantly over the coming two decades. The absence of sufficient and reliable energy supplies would undermine economic prospects. All this creates the need in the region to enhance the cooperation to boost energy efficiency, diversify energy supplies and promote new technologies towards deploying more renewables.
26. The UNECE region has the potential for an economic competitive advantage compared to other regions of the world, given the relatively modest distances between energy supply sources and energy demand centres. Full integration of the region's energy markets under an efficient framework would significantly improve the sector's technical, social, economic, and environmental contribution.
27. There is a real opportunity to enhance collaboration on technologies to accelerate the reduction in the carbon-intensity of the energy sector, to enhance the resilience of the energy system, and to improve quality of life for all, but seizing that opportunity will require a commensurate energy policy revolution that extends beyond national and sectoral boundaries. A closer collaboration would help countries to tackle cross-boundary issues related to sustainable development and climate change challenges in a more effective and integrated manner. This would provide an opportunity to achieve environmental goals while transitioning to a sustainable energy system and moving towards a green economy.

Investment and Innovation: making change happen

28. Innovation is the single most important driver of productivity and, hence, economic growth in the medium to long-term. Innovation is also essential to aligning economic growth with ecological sustainability and social inclusion. For innovation to succeed, an eco-system is needed in which new ideas can be generated, tested and grown. Strong innovation eco-systems feature intricate links and inter-dependencies between

universities and research facilities, entrepreneurs, small and large companies, financial intermediaries, and customers. Increasingly, innovation is an open and international process, in which research, development, financing and commercialization are undertaken by partners from different countries, and in which companies' strategies are aimed at international rather than national value chains and markets.

29. Goal 9 of the United Nations 2030 Sustainable Development Agenda calls for member States to work together to “build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation”. Beyond that, achieving most, if not all, of the sustainable development goals will require massive investments in innovation and infrastructure. The 2030 Agenda acknowledges that “private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation”, and calls “on all businesses to apply their creativity and innovation to solving sustainable development challenges.” The Agenda also calls upon member States to “encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships” (SDG 17, target 17.17).
30. The 2030 Agenda has a huge emphasis on implementation through partnerships, including Public-Private Partnerships (PPPs). For countries to compete successfully and sustainably in today's innovation-driven economies, infrastructure is critical. PPPs have a role to play in improving access to critical public services, including for marginalized populations, in reducing CO2 emissions, in contributing to climate change solutions, and in fostering economic growth.
31. There is a strong international dimension on investment and innovation, which concerns not only the mobilisation of resources or the cross-border exchange of experiences but also the definition of projects and initiatives of international significance. International cooperation can, therefore, including within the framework of existing integration arrangements, contribute to enhancing investment and innovation in the region and to harnessing their power for achieving sustainable development.
