

Incheon Communiqué (26/02/21)

Sustainable Development Transformation Forum, 2020-21

We, the participants in the 2020-21 Sustainable Development Transformation Forum co-organised by the United Nations Office for Sustainable Development in Incheon, Republic of Korea and the Asia Europe Foundation (ASEF) and broadcast virtually world-wide, having met during the week of 22-26 February 2021 to reflect on the topic of “Building Back Better and Greener: Sustainable, Low-Carbon Industrialisation”, issue this Incheon Communiqué to share our policy-relevant conclusions with the international community, national governments and other stakeholders.

The global health and economic crises caused by the COVID-19 pandemic are overlaid on other global challenges, such as climate change, and threaten to set back countries’ efforts to achieve the UN Sustainable Development Goals (SDGs) by 2030. The world economy is expected to forfeit at least one year of economic growth. Poverty and food insecurity are on the rise, and life expectancy has fallen even in developed countries. Low-income developing countries face the additional risk that their recovery may be delayed without stronger international solidarity to accelerate access to vaccines through COVAX and other channels.

Crises can also present opportunities. This is as true of the COVID-19 crisis as it is of the climate crisis. As countries invest in recovery and re-energizing their economies, they have an opportunity to evaluate critically their pre-pandemic development trajectories and to change course. The imperative of global decarbonisation by 2050 requires that countries reorient their economies away from fossil-fuel dependency. This reorientation will need to happen in developed and emerging economies but also in countries that are just embarking upon sustained industrial development.

Oil- and gas-rich developing countries face the challenge of diversifying into new industrial sectors, using the revenues from hydrocarbons to support such diversification. Other countries will also want to seize new opportunities associated with decarbonisation to grow new industries in pursuit of green, low-carbon industrialisation.

Countries with large young populations need robust job creation, often including promotion of relatively labour-intensive manufacturing. Even with growing automation of production, late industrialisers may still capture investments from countries with fast-rising incomes – notably in Asia, including China – that are relocating labour-intensive industries away from their own shores. Governments seeking such investments need to be proactive. Learning by doing through experimentation can help. Ethiopia, for example, is setting up industrial parks for both foreign and domestic investors. These are easily replicable should they prove successful.

Jumpstarting industrial development is complex and difficult; adding *low-carbon* to the mix compounds the problem and no country has yet succeeded in decarbonising their industrial economies. While some progress has been made in developed countries, this has been in part

by sourcing carbon-intensive goods from emerging economies. Still, there are examples of progress towards genuine decarbonisation in both developed and developing countries.

The challenges are particularly great for the most carbon-intensive global industries, like steel and cement and concrete manufacture. Various routes to reducing the carbon intensity of a tonne of cement have been successfully pursued by industry leaders in the past 30 years, and innovations are continuing, both in concrete manufacturing processes and in the materials themselves. This is making it possible to produce low-cost, high-quality homes using new processes and new materials even in low-income countries like Malawi. So far it has been on a small scale; such production will need to be scaled-up to meet growing demand in coming decades.

Sustainable, low-carbon industrialisation requires forward-looking and adaptive governance based on medium- and long-term planning. Governance models must emphasise more broad-based consultative mechanisms, moving away from hierarchical governance. This is particularly important to build political consensus for hard decisions needed to move towards decarbonised economies and industries. Governments need to support vulnerable groups to ensure a just transition.

Substantially increased investments must be mobilised if the SDGs are to be achieved globally, and the financing gap has significantly increased with the COVID-19 pandemic. It will not be possible to mobilise adequate investments without tapping the enormous pools of capital controlled by institutional investors. Greater efforts will be needed to address the barriers that have so far limited the ability of multilateral development banks (MDBs) to tap such pools and direct them to sustainable development investments, especially greenfield infrastructure and industrial investments in developing countries.

Partnerships are a highly flexible vehicle for bringing together key stakeholders to tackle specific sustainable development challenges. They can mobilise varied types of resources and expertise: one area for strategic partnership introduced during the Forum is that linking institutional investors with multilateral development banks (MDBs) as conduits for financing of strategic investment funds, green banks and other downstream actors in developing countries. An inventory of existing partnerships and identification of key missing partnerships would be valuable in constructing a balanced SDG-targeted partnership portfolio in each country.

While at a macroeconomic level financing is not scarce (witness the historically low global interest rates), it is not being made available where it is most needed to achieve the SDGs, nor is it adapted to the needs of innovative smaller-scale enterprises in developing countries – largely because private investors do not see attractive risk-adjusted returns and public investment is insufficient to fill gaps. Innovators are frustrated before they can launch products in the market. Public support through public-private partnerships and blended finance to mobilise adequate venture and risk capital can be part of the solution.

Government and international development partners have been availing increasingly of results-based financing, e.g., awarding prizes to innovations that solve a particular problem or address a particular development need. Examples from agricultural innovations in African countries were presented but results-based financing has broader applicability. Results-based financing is also gaining traction in financial markets in the form of social impact and green bonds, which offer a return to investors only when pre-defined performance benchmarks are achieved.

Beyond financing, strategic planning and policies will be crucial to fostering sustainable industrialization, looking not only to today's markets but to the markets of the future, including those created by a growing urban middle class and by new trade opportunities.

A realistic assessment is needed of sources of dynamic comparative advantage and avenues for value addition from existing activities, including through quality enhancement and processing of agricultural products, identification of new niche market opportunities, and the supply of industrial inputs to the agricultural sector, which remains the largest contributor to GDP in most low-income countries.

Focused policy support is needed where it is most likely to have multiplier effects and leverage private investment and innovation. This may be in pre-commercial R&D, government-supported incubators and industrial parks, and the provision of standards and testing laboratory services to ensure local products meet international quality and reliability standards.

Sustainable industrial transformation will require a broad range of skills beyond those of industrial engineers and skilled tradespeople. A knowledge of business and commerce is critical to enabling successful entrepreneurs, and legal training is important for contracts as well as for navigating the intellectual property system to secure adequate rewards for innovation. Naturally, IT skills permeate all sectors of a modern economy, including for maintenance of increasingly automated production systems.

While integration into global value chains has been a major driver of industrial development of many Asian countries, until now sub-Saharan Africa's global trade integration – mostly through preferential trade agreements – has been lopsided. For example, the USA's Africa Growth and Opportunity Act (AGOA) has supported a sizeable garment-exporting industry in Kenya, but the domestic market is flooded by cheap used clothing imports. Rwanda has banned such imports, but in the process has seen its AGOA 'textile and apparel' exports almost dry up. Meanwhile, large quantities of second-hand cars flood the African market, discouraging potential local manufacturing and raising pollution levels.

The African Continental Free Trade Agreement (AfCFTA) would shift the balance away from reliance on preferential market access to developed country markets towards continent-wide market access designed to stimulate intra-African trade which is likely to be more diversified than with current preferential arrangements, including a larger proportion of intra-industry trade. This should also enhance food security by facilitating cross-border trade to address localised shortages.

The transformation of the world economy towards zero net carbon will be minerals-intensive, and countries endowed with those minerals stand to derive significant benefits. However, mining produces sizeable local environmental damage alongside the employment opportunities and increased government revenues. Managing those negative impacts is happening with the more responsible mining companies, but governments and local communities need to ensure all mining operations achieve reasonably high environmental and safety standards. With COVID-19, mining operations have also moved to adopt more labour-saving technologies, which has raised concerns in local communities and governments over job losses. The revenues from mining need to be applied to ensuring the well-being of the population now and into the future, when mineral deposits are depleted but people will still need decent jobs and incomes.

As agriculture remains a dominant sector in low-income countries, the sector needs to be kept productive and to adapt in the face of climate change, while identifying opportunities to add value domestically for farming and agro-industries. Particularly promising has been the example of a landlocked country in South-East Asia that has developed a national framework to promote sustainable agriculture, to differentiate its agricultural sector from its larger and more competitive neighbours – for example, by producing niche products utilizing the international geographic identifier system to facilitate sale at a market premium, and by developing expertise and a reputation for “green agriculture”. Other countries have already been traveling this road, for example, with Ethiopian and other specialty coffees commanding a market premium.

Regarding a circular economy, globally, progress towards adoption of circular economy principles is accelerating, but at present materials recovery, recycling and re-use remain the exception rather than the rule outside of some materials and products where economics have provided incentives for high recycling rates – steel, aluminium cans, glass bottles, and paper for example. The concept of the circular economy is a means, a set of tools to help countries move towards inclusive and sustainable economies which offer their people a high quality of life. Scaling circular methods in developing countries offers the prospect of increasing economic return to waste-recovery jobs which currently offer many informal sector workers a ‘hand-to-mouth’ existence.

Circular economy efforts remain piecemeal and disconnected, instead of creating momentum across different stages in the production-consumption system. Plastic waste management often focuses on collecting, recycling and reusing plastic waste, but much remains to be done to develop good new substitutes. Continued fossil fuel subsidies in many countries complicates efforts to reduce reliance on petroleum and natural gas as feedstocks. Slow progress is being made in subsidy reform, removal. Korea is committed to significant scale-up of bio-plastics production and use in the coming decades.

The deep and fascinating presentations made to the 2020/2021 Sustainable Development Transformation Forum provided inspiration for policy makers and implementers to adopt evidence-based pathways towards low-carbon, green and adaptive industrialisation. While

many challenges are clearly visible and hurdles will need to be overcome, the Forum shed several rays of light on ways forward into a more sustainable and rational industrial future.