Report

Exploring spaces for economic transformation in the Sustainable Development Goals

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Key messages

- The Sustainable Development Goals (SDGs) reflect a balanced agenda of economic, social and environmental goals and targets.
- In achieving the SDGs, countries will need to acknowledge the existence of potential trade-offs, develop ways to alleviate them, and to identify complementarities which can accelerate progress.
- Technological capabilities, climate-resilient infrastructure and effective labour market institutions will be central to alleviating the trade-offs and achieving the three core pillars (economic, environment and social) of the SDGs.

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Introduction

In 2016 the Sustainable Development Goals (SDGs) of the United Nations (UN) will replace the Millennium Development Goals (MDGs).

The MDGs were a product and reflection of the understanding of what constituted development in the late 1980s. They acknowledged the limitations of development focused solely on economic and income growth, and called for a broader understanding of development that would place humans at the forefront. Consequently, their focus was largely on social development.

The SDGs are swinging the spotlight back to economic development issues, while still including the social pillar and adding a focus on the environment.

This shift has raised expectations that the SDGs should promote economic transformation. For instance the Common African Position on the Post-2015 agenda stated: "…therefore, we affirm our collective interests, which include the pursuit of structural economic transformation for inclusive and people-centred development."

This paper looks at what economic transformation means in practice, and suggests some of the ways that it can be achieved without sacrificing, but rather complementing, social and environmental objectives

Key findings

- Analysis of the proposed targets reveals the dominance of those pertaining to social transformation (40.2%), but also a relatively strong presence of those relating to economic issues (38.5%). This suggests that the SDGs will strike a balance between the three dimensions, but that the distinctive social sector orientation of the MDGs remains in the SDG agenda.
- Smart targeting (i.e. focusing on a certain indicator or indicators) may have a multiplier effect. For example, an increase in female participation in the labour force driven by wage employment in the formal sector may have positively-gendered impacts on income poverty reduction, improvement of nutritional intake, access to reproductive health, girls' education, and women's empowerment and voice.
- There is evidence that the trade-off between environmental, social and economic outcomes can be overcome through the use of: appropriate technology, mitigating policies, proper sequencing, labour market strengthening, and appropriate regulation.

1 From the Millennium Development Goals to the Sustainable Development Goals

The MDGs were a product and reflection of the understanding of what constitutes development in the 1990s (Nayyar, 2011). In the decades immediately following World War II, development was defined primarily in economic terms and measured by growth in countries' gross domestic product (GDP) and per capita incomes (Sen, 2000; ul Haq, 2003). In the late 1980s and early 1990s, however, several authors presented a different thesis on what constituted development, conceptualised as 'human development' (Desai, 1991; Streeten, 1994; ul Haq, 1995). It was argued that development must be about human well-being, and enlarging people's choices and freedom. According to this view, economic growth, though important, is not sufficient. As Sen (2000: 44) argues, 'The basic point is that the impact of economic growth depends much on how the fruits of economic growth are used.' Concerns about distributional consequences of economic growth led to the popularity of such concepts as 'pro-poor growth' and 'inclusive growth' (Ranieri and Ramos, 2013).

Informed by the above literature, the MDGs emerged as a global contract to promote what was essentially the expansion of the core principles of human development (Saith, 2006).

The MDGs served as a signal to donors, as an advocacy tool for campaigners, and as a planning framework for governments. The focus on human development objectives meant that, particularly for donors, these were increasingly prioritised over economic objectives. For aid-dependent countries, this has meant fewer resources to meet their own goals for economic transformation – goals that will be crucial for maintaining human development outcomes in the long term. For progress in social sectors, such as health services, to be sustainable, countries will have to depend increasingly on domestic resource mobilisation, which is in turn dependent upon tax collections from new higher-yielding activities.

Economic issues are not completely absent from the MDGs. MDG 1 has a target on full employment, added some years after the MDGs were agreed. And MDG 8 has targets on improving the trading environment for developing countries.

Neither of these issues has seen great progress in the lifetime of the MDGs however, although employment, particularly youth unemployment, and the phenomenon of jobless growth is a

significant political and policy issue in many developing countries. Jobs and economic issues consistently rank among the top concerns for people in developing countries.[1]

Trade is a more complex picture. In 2012, the UN (2012) showed that if progress is measured in terms of the indicators on market access (Goal 8.6–8.9), at face value the outcomes meet the target. But beneath the surface, progress remains questionable. Developed countries, and increasingly developing countries as well, have extended duty-free, quota-free market access to least developed countries (LDCs). But the coverage is not 100%, and, given that LDCs have limited exports, what remains excluded makes all the difference (United Nations Conference on Trade and Development (UNCTAD), 2010). Average tariffs on agricultural exports from LDCs dropped from 3% in 2004 to 1% in 2010, but those on textiles remained largely unchanged (UN, 2012). Non-tariff barriers – the standards imposed by many countries or companies – remain significant barriers to export. (WTO, 2012: Section D).

Perhaps unsurprisingly, given their focus, progress in achieving the MDGs in LDCs has not only been uneven, but has also not been accompanied by commensurate changes in the composition of GDP in favour of the productive sectors (Bhattacharya and Khan, 2014).

As noted earlier, the MDGs were shaped by an intellectual movement in the late 1980s and early 1990s that sought to correct the previous imbalances in development thinking and practice. But in doing so it created a new imbalance, in which social development, largely fuelled by aid, became the focus of donor thinking, without due regard to the importance of structural changes in the economies that were receiving ODA (Basnett and Keane, 2013).

In those developing countries where economic development has taken place alongside the achievement of the MDGs, further progress is being made and sustained. In many low-income countries (LICs) and LDCs however, where economic development is yet to take root, the future of any such achievements is precarious. If the SDGs succeed in driving a shift in donor, advocacy and political agendas towards a greater focus on economic transformation, they will have helped to sustain improvements in the long term. This will involve a further adjustment of the intellectual pendulum on development, particularly in relation to the form and content of international development cooperation.

[1] http://afrobarometer.org/sites/default/files/publications/Briefing%20paper/AfrobriefNo10.pdf

2 SDGs: delivering sustainable development?

2.1 Do the SDGs provide incentives for sustainable development?

Sustainable development could be thought of as a process in which rising material well-being achieved through economic transformation is accompanied by equity and a healthy environment – the three core pillars of the SDGs.

The SDGs look likely to include 17 goals and 169 or so targets. A comparative review of the MDGs and the draft SDGs points to five distinguishing features of the latter (Bhattacharya, 2015b):

1. A universal agenda – not one targeted solely at LICs – which goes beyond an aid relationship.
2. An integrated or holistic package which builds on economic, social and environmental pillars.
3. The inclusion of issues related to inequality – including inequality among countries – discrimination and marginalisation.
4. A greater emphasis on productive capacity building, sustainable income and decent work.
5. The incorporation of means of implementation (MoI) under each of the goals, and as a separate goal.

While conceptually the SDGs are built on three pillars, many of the individual goals proposed by the OWG are multifunctional in nature. In an attempt to categorise them, Bhattacharya et al. (2014) judge that, of the 17 proposed goals, six each are primarily social and environmental, and five primarily economic.

Analysis of the targets proposed reveals a roughly even split between those relating to social transformation (40.2%), and those relating to economic issues (38.5%), with slightly fewer targets relating predominantly to environmental objectives.

The SDGs are clearly constructed to give due attention to all three elements of sustainable development. However, with such a complex agenda, the interplay between different targets will be critical in determining how countries implement the SDGs and with what outcomes. There is a widespread view that there are inherent trade-offs between the different pillars of sustainable development, and in particular between the economic and environmental pillars. This paper looks instead at where different targets complement each other and at how any trade-offs can be minimised, in order to help countries and institutions as they start to consider how to implement the new agenda.

2.2 Complementarities in the SDGs

Much attention has been given to trade-offs between goals. However, complementarities are equally important when it comes to implementation. While all the goals are to some extent complementary by definition, as they add up to a universal agenda for progress, in specific terms some targets will have a much greater effect in combination with others than individually. For example, acting simultaneously on girls' education, gender parity in nutritional intake and women's access to health services, may create greater benefits than doing each individually, as they mutually reinforce each other. In the same way, an increase in female participation in the labour force driven by wage employment in the formal sector may have positively gendered-impacts on income poverty reduction, improvement of nutritional intake, access to reproductive health, girls' education, and women's empowerment and voice.

In order to exploit complementarities among the SDGs, each country will have to review the numerous targets - and indicators - to identify the ones most likely to be catalytic as well as those that have multi-pronged and scaled-up impact, while also aiming to implement the complete agenda. This choice will necessarily have to be informed by country priorities (regarding economic transformation) and resource availability.

It is also worth noting that because of the complementarities of many of the SDG goal and target areas, a single indicator may serve to measure progress across more than one target.

2.3 Trade-offs among the SDGs

A trade-off involves sacrificing one quality or aspect of something in return for gaining another quality or aspect. Economists often use the concept of the 'opportunity cost incurred' to characterise such a situation. Issues relating to trade-offs – for instance, that implementation of one goal may decrease results in another, particularly in a situation of limited availability of resources to pursue multiple objectives – have been little discussed in the context of the post-2015 agenda. Rather, it appears that both the designers of and commentators on the SDGs hope that the three pillars, and therefore all the proposed goals, can be pursued simultaneously and do not involve any trade-offs between them.

However, the existence of some trade-off between economic and social development on the one hand, and the preservation of the environment on the other is well established in the economic literature (Toman, 1994). Referred to as the environmental Kuznets curve, it is assumed that at low levels of income growth has an adverse impact on the environment, but this relationship improves at higher levels of income where additional growth does not necessarily mean environmental degradation.

If true, this suggests the existence of trade-offs between SDGs. Getting the balance right between achieving high levels of economic growth that contribute to poverty reduction and the preservation of the environment could be difficult. For instance, stringent environmental regulations imposed on low carbon emission economies with low energy-intensive consumption may stifle not only economic growth but also social welfare. The industrialisation taking place in many land-scarce countries has resulted in reductions in arable land or forested areas, often leading to loss of biodiversity.

Possible trade-offs may be also identified even within one particular goal. For example, Goal 8 calls for a 'higher level of productivity of economies through diversification, technological upgrading and innovation, including through a focus on high value added and labour intensive sectors'. There may be a contradiction between technological upgrading and development of labour-intensive sectors, as technology- and innovation-driven productivity growth may not always create additional jobs for the displaced labour within the same sector. The construction

of physical infrastructure (e.g. highways, dams and bridges) may displace people living in the neighbourhood of the projects.

Similarly implementation of SDG Goal 14.6 regarding fisheries subsidies may involve a trade-off between social (and economic) benefits and environmental and ecological balance. Poor people in coastal areas extract marine resources, including fish, for their livelihoods, and many developing country governments provide subsidies to their fishery sectors - albeit much lower than those in developed countries - which may lead to overfishing and endanger the marine ecosystem.

2.4 How to alleviate these trade-offs – the conceptual elements

But there is also a view that 'It is by [sic] pursuing our economic, social and environmental goals separately that has resulted in repeated trade-offs between goals. Sustainable development is about progressing them together,' (Endl et al., 2012). This school of thought considers that trade-offs between economic and social, economic and environmental, and social and environmental transformations are a false dichotomy, and that appropriate institutional and policy interventions can mitigate any imbalances arising in the process of transformation.

Here we suggest some possible ways this could be actualised upon SDG implementation.

First, there is substantial evidence that the trade-off between environmental and economic outcomes can be overcome through the use of **appropriate technology** (Gradus and Smulders, 1993; Mazzanti and Zoboli, 2008; UNCTAD, 2012). For instance, technology and innovation can help increase economic outputs and productivity without a commensurate increase in environmental degradation.

There are a number of ways of transferring that technology to poorer economies, trade being one of the most important. However, it should be recognised that global trade rules are not conducive to technology transfer. On the one hand, WTO rules call on developed countries to incentivise their enterprises and institutions to transfer technology to LDCs (Article 66.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights). A study by the International Centre for Trade and Sustainable Development, which examined 79 reports submitted by developed countries between 1999 and 2010, found that 'business remains as usual' (Moon, 2011: 19) – i.e. very little technology transfer has taken place. On the other hand, WTO rules prohibit LDCs from placing technology transfer as a performance requirement on foreign investors. It remains to be seen whether the SDGs, as part of the means of their implementation, can deliver more on this front – the debate is a live one.

Similarly, **environmentally-efficient infrastructure** can allow for increased economic output and productivity (SDG Goal 9: 'Build resilient infrastructure'). Infrastructure will also be important for increasing the economic and social networks that allow people and goods to reach markets at low economic and environmental cost. At present there exists a huge gap in infrastructure need and finance.[2] Bhattacharya et al. (2012) point out that infrastructure investment in developing countries will need to increase from US$0.9 trillion to US$2.3 trillion per year by 2020. These figures include the US$200–$300 billion to ensure that infrastructure entails lower emissions and more resilience to climate change.

Next, the literature also points to the importance of **regulation** that supports and incentivise firms to adopt new, cleaner technologies (Porter and van der Linde, 1995; Mazzanti and Zoboli, 2008). Drawing on the experience of the paper industry in Finland, Karvonen (2001) finds that situation-specific and flexible policies helped improve firm-level competitiveness and

[2] See: http://www.cccep.ac.uk/Publications/Policy/docs/PP-infrastructure-for-development-meeting-the-challenge.pdf

impact on the environment. This implies that governments should prioritise regulation in pursuit of the renewable energy goal.

The SDGs seek to ensure equity and inclusivity in economic growth. One path for ensuring that growth is both equitable *and* inclusive is through **raising the levels of productivity**. The quality of economic growth will matter as much as the quantity. But translating growth into employment creation will rest on the effectiveness of labour market institutions and policies (Freeman, 2009). In many developing countries, weak and neglected labour market institutions reduce the impact of growth on employment and poverty reduction.

Strengthened labour market institutions will be important in the achievement of SDG Goal 8 ('Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all'). By altering incentives, facilitating efficient bargaining and increasing information, communication, and trust, they can have important implications on growth and employment (Freeman, 2009).

While there is an emerging consensus that there needs to be a balance between labour market flexibility and employment security, evidence on what is the right balance – and one that is suitable for developing countries –remains inconclusive. Cazes and Verick (2010) argue that Europe's 'flexicurity'[3] provides a lighthouse agenda for balancing labour market flexibility and efficiency as well as employment security. In examining the impact of employment protection legislation in sub-Saharan Africa, they find no conclusive evidence on its impact on job creation. They argue that job creation is associated more strongly with policies that address binding constraints and increase levels of productivity.

Then, **mitigating and adjustment measures** to neutralise the negative fallouts or externalities of an institutional and/or policy intervention can be considered. But implementation of these also entails some costs – and whether these can be met depends on what other demands there are on limited financial resources, and the priority given to them. SDG Goal 12.4 includes 'by 2020 achieve environmentally sound management of chemicals and all works throughout their life cycle'. This target will achievable only if money (and technology) can be found (or reallocated) to underwrite the cost – money which could have been used for alternative, no less pressing, social or economic needs. The benefit accruing to society has to be higher than the cost incurred in mitigating the negative externalities.

Finally there is the question of **sequencing**. Most trade-offs involve a policy choice between short-term or mid-term gains. Pressing development needs often force LICs and LDCs to opt for the former. However, effective international development cooperation can help developing countries achieve their immediate priorities of generating jobs and increasing incomes while also mitigating the environmental externalities.

[3] 'Flexicurity' seeks to balance flexibility for enterprises with protection (income and social) for workers at the societal level. See Cazes and Verick (2010) for full discussion.

Industrial development and global value chains

The SDGs seek to promote inclusive and sustainable industrialisation, as well as build resilient infrastructure and foster innovation (Goal 9). The importance of infrastructure and innovation has been discussed above. Inclusive and sustainable industrialisation will be important in creating jobs and for late-industrialisers to catch up with industrialised countries in living standards. The changes in the global production and trade landscape will influence the opportunities, and the challenges, for late-industrialisers.

Advances in technology, transportation and communication are constantly reorienting the pattern of global trade. They have contributed to the global fragmentation of production processes and have allowed firms to source competitively as well as to add value to factors of production located at a distance. As a result, global trade increasingly consists of *trade in tasks*. In other words, while in the past the vast majority of trade took place between producers and consumers (i.e. in final products), 80% of world trade is now between producers or firms.

This changing context of global production and trade will have important implications for developing countries and producers located within them (Basnett and Pandey, 2014). As external markets for exports change, so too will opportunities for production and trade at home. This makes it necessary to look at global trade from the outset through the refined lens of global value chains (GVCs). Policy makers and firms in developing countries will need to assess linkages to, and location within, GVCs as well as the productive capacities needed to move up the value chain. The governance of a GVC, likely to be defined by the lead firm, will determine the terms of participation in it as well as the benefits it will confer.

Participating in and moving up GVCs will be important for economic development. It will help to generate productive activities, which in turn will contribute to increasing income and employment. It could also lead to dynamic benefits such as investment and upgrading of productive capacity, contributing to economic diversification and resilience, and backward linkages leading to broad-based economic growth and knowledge creation that helps increase skills. Effective industrial policy will be critical in increasing the competitiveness of an economy to participate in GVCs.

While large developing economies have leveraged GVCs for their economic growth and diversification, smaller economies have been less successful in doing so. This raises an important development concern about global convergence and divergence being shaped by GVCs, and the risk of further marginalisation of smaller economies. Furthermore, effective participation in global and regional value chains will place a premium on having effective trade policy and production capabilities, as well as managing trade costs (Keane and Basnett, 2015).

3 Conclusion

The SDGs have carved out a global vision for development that seeks to converge in a virtuous cycle of economic, social and environmental progress. In analysing the core pillars of the SDGs, there are clear complementarities among the SDGs but also important trade-offs that will need to be addressed if the world is to meet the SDGs in their entirety.

Building technological capabilities and resilient infrastructure, improving labour market institutions and promoting industrial development compatible with the rise of global value chains will be central in alleviating the trade-offs in the SDGs. These elements are contained in the existing goals, but are dispersed – which may dilute their ability to mutually reinforce each other in addressing potential trade-offs.

Alleviating the trade-offs is likely to be most effective at the national level, as development capabilities and priorities will be context specific. While this paper highlights the presence of the trade-offs in SDGs at the conceptual level, and points to specific measures that could help alleviate them, further work on exploring the trade-offs at the national level, and designing strategies based on a historical understanding of development in the country concerned, would greatly help increase the possibility of simultaneously achieving the three core pillars of the SDGs.

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