Organisation de Coopération et de Développement Economiques
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Sustainable Development

ROUND TABLE ON SUSTAINABLE DEVELOPMENT

CHAIRMAN'S SUMMARY NOTE OF THE 19 NOVEMBER MEETING OF THE ROUND TABLE ON SUSTAINABLE DEVELOPMENT

Sustaining Whose Development? Measuring the International Effect of National Policies

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The Twelfth Meeting of the Round Table on Sustainable Development at the OECD
was held on
Wednesday 19 November 2003 at 9:30 am in Room Roger Ockrent, OECD Chateau La Muette

The following is a short summary note (issued under the Chairman's responsibility) of the discussion on 19 November. Please note that in keeping with Round Table procedures a detailed note of the meeting will not be circulated.

The focus of the meeting was on the policy utility of trans-boundary measures of sustainability as a complement to traditional nationally-based approaches. To this end the Round Table had independently raised funding for an eight month pilot project which would test the feasibility of a trans-boundary approach. Participants considered nine data sets related to the environmental, economic, and development aspects of sustainable development. The meeting concluded that there is real interest in continuing the work on trans-boundary measures. The following were the main points arising from the discussion.

Environmental Measurements

- *Embedded Carbon*: This data set measures the amount of CO_2 generated by consumption as compared with the amount generated by production.

  - The issues of energy efficiency and technology transfer to developing economies are highlighted by this data set. While the 'snapshot' provided suggests carbon leakage is not a big problem, one has to be wary of drawing a conclusion based on data available for a single year. Further work to develop a time series was required.

  - Measuring embedded carbon could be especially illuminating for multilateral processes and agreements such as the Kyoto Protocol. As a supplementary approach which successfully links problems of climate change to economic growth, a full picture of both carbon production and consumption can potentially direct further discussions in a more effective manner. It was important to emphasise, however, that this was a *complement* to production measures, *not* a replacement

  - Discussion of embedded carbon work should be cautious of the tendency to draw a protectionist conclusion from the data. The high carbon content of many imports could, for instance, be mis-used to support trade barriers. Finding a balance between this reaction and the need for greater carbon abatement highlights the need for strengthened international institutions and cleaner production/energy use processes, such as the utilization of renewable energy.

  - Greenhouse gases other than CO_2 should be considered in the future. Some agricultural exports emit methane during the production process. Though difficult to quantify, measuring such pollutants would add value to the overall picture of the sustainability of consumption.

  - *Areas of potential future work:* developing a time series dataset, linking the dataset with investment flows and carbon sequestration, and measuring the content of other GHGs in consumption. Examination of the impacts of technology on production within a country should also be undertaken thereby allowing an analysis of demands on the environment with a more pronounced time dimension showing the consequences of each of the following three factors, (i) less harmful production techniques, (ii) changes in consumer demand, (iii) changing patterns in international trade. In addition, the effects of domestic policy responses to international arrangements, including the Kyoto Protocol need to be considered.

- *Natural Resource Transfers*: This data set measures the changing patterns of natural resource flows, particularly carbon-based resources over time.

  - The changing patterns indicated by the data set are the result of disposable income growth in developing economies. In this context, the current so-called "dirty" course of development for most of these economies is unlikely to change. This data therefore helps highlight the inter-connected nature of the issues and the need for cost-effective technological breakthroughs, wider dissemination of best practice sustainable development approaches and technology transfers.

  - Market interventions can sometimes generate momentum for a change away from fossil fuels. Germany, for instance, was able to quickly develop a wind power sector as the result of a Government intervention. Resource policy, including subsidies may need to be better targeted to research on renewable energy as a way of decreasing the reliance on finite and polluting resources.

  - The issue of 'carrying capacity' needs to be linked to discussions of biodiversity. As growth continues in the developing world, the transfer of natural resources will have an effect on the earth's carrying capacity with implications for the planet's biodiversity. These should be understood as interrelated phenomena.

  - *Areas of future work*: linking the trend in natural resource flows, including those resources other than carbon/energy resources, to changes in biodiversity in particular.

- *Environmental Demands of Agricultural Production*: This data set measures the demand for different agricultural products across different countries.

  - The data set highlights the point that development from agricultural production and expansion will have an effect on the natural environment. Understanding these changes will be useful for future analyses of global sustainability.

  - The results of the work underline the problem of agricultural subsidies in developed countries. Removal or reduction of such support would improve the development prospects of developing countries.

  - It must be recognized that many agricultural practices have negative environmental effects regardless of whether they are subsidised or not. New Zealand illustrates the phenomenon. No subsidies exist, yet environmental damages associated with agriculture production continue. This highlights the need for a longer term perspective and an expansion of environmentally friendly agricultural practices and research.

  - Understanding the interconnectedness of agricultural production with other environmental effects is important. As land use intensifies in developing countries, corresponding problems of biodiversity, sustainable water-use, and run-off must be considered within the overall frame of sustainability.

  - *Areas of future work:* The trans-boundary economic, social and environmental consequences of subsidies needs further work. The project should complement the ongoing work in OECD, including on environmentally harmful subsidies and by extending an examination of the consequences of barriers to trade. Progress in the quantification of the effects of specific tariffs and other trade restrictions as well as providing a simulation framework within which to explore alternative policies.

Economic Measurements

- *Foreign Direct Investment, Official Financing and Debt Repayment*: Three interrelated data sets were discussed: trends in FDI flows, including the extent to which profits generated locally were repatriated abroad; the amount of official debt repayment underwritten by the government as a proportion of tax revenue; and the amount of new borrowing being used to repay official debt.

  - Private sector investments cannot be directed by Governments. Investments will only go to those areas where there is significant return on investments. The question is not how to direct private funds to those areas that are currently investment-impoverished, but how to make these areas more desirable for private sector funds seeking a high return.

  - While the data set is useful and should be further developed, some of the tables present a somewhat misleading impression that there has not been sufficient progress. A comparison between FDI flows and individual countries' GDP may be more revealing. It was acknowledged, however, that in absolute terms FDI flows to LDCs were extremely low.

  - The issue of market access is important. Agricultural subsidies remain the key problem. Countries which may have a comparative advantage in a given product, but are not able to sell that product for export (usually because of trade barriers and distortionary support) will not receive the type of investment that contributes to overall growth and economic expansion.

  - Synergies between FDI and ODA should be exploited. ODA should be better targeted in ways that make a nation more desirable for private investment. This can also be done on the grassroots level, with ODA augmented efforts for rural financing, the establishment of micro-credit institutions, etc.

  - The quality of investment as well as the quantity should be explored. Many middle income countries receive considerable amounts of investment, but the evidence indicatrs ongoing poverty and income inequality.

  - *Areas of future work:* provide an assessment of the quality of investment. How much investment helps sustainability? How much does not? It was acknowledged, however, that this information is not readily available. It was also noted that lending is always negotiated in 'hard currency.' Levels of international debt and the burden on countries of consequential interest and repayment flows change, however, as a result of exchange rate fluctuations (including through dramatic devaluations in response to domestic/international crises). Future work should seek to distinguish the effect of these factors from flows resulting from new lending and existing loans not subject to these changes.

- *Amount of ODA compared with MDGs*: This data set examines the extent to which ODA has been targeted at specific Millennium Development Goals.

  - The data assembled presents a stark picture of progress. In a sense it illuminates the wrong question. The issue is not whether ODA is targeted to specific goals nor absolute levels of expenditure. The real question is *how* this money is being used. It may be useful to understand, for instance, the quality of the ODA. Are ODA funds targeted to help developing countries expand their primary education systems or are the main beneficiaries scholarship recipients who will study in OECD countries? More detailed information is therefore required about the quality of ODA expenditures. Absolute numbers tell an insufficient story on their own.

Development-related Measurements

**Note: Due to time constraints, the discussion of the final two measurements was limited*

- *Services:* This data set measures the expanding role of services in developing economies and their increasing importance in exports.

  - The data assembled was welcomed as new and interesting. In particular, the hard data on where developing country interests might lie was considered potentially useful for trade negotiators seeking to make good on their Doha-related commitments to 'promote economic growth in developing countries.'

  - It was disappointing to hear of the tourism and travel restrictions which prevented developing countries from achieving sustainable economic growth.

  - Future discussions should also consider the important role of maritime services as a source of generating significant income for developing countries. It was acknowledged however that this was difficult. Data and other information was limited and controversial, not least because of security-related concerns which had blocked meaningful discussions in other for a, including the WTO.

- *Remittances*: This data set measures the pattern of flows of remittances between different groups of countries, classified by income level and region.

  - This was a striking data set and the information that seven of the top nine remittance recipients were OECD countries was surprising and of concern.

  - It was unclear why France ranked second as a recipient of remittances. It was noted that the data had been rigorously cross-checked and that the category of 'border workers' significantly inflated the figure. Even if the figure was halved to reduce this, it was worth noting that France still remained in the top group.

  - This 'snapshot' was interesting, but a time series was required to see whether the results were simply an anomaly.

  - *Areas of future work*: It was noted that new data will shortly be forthcoming as a result of a round of population censuses held at the start of the decade. This will enable these estimates to be updated and allow the development of time series showing the changing patterns of migration and remittance flows.