

**Multi-year Expert Meeting on Investment, Innovation and Entrepreneurship for
Productive Capacity-building and Sustainable Development, tenth session**

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**Recent developments, challenges, and opportunities in sustainable economic
diversification**

**Introductory Remarks by Angel González Sanz, Head of Technology, Innovation and
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Excellencies,

Distinguished experts,

Ladies and gentlemen,

A warm welcome to all of you.

As the Deputy Secretary-General has set the scene and Mr. Neffke has shared his insights on the recent developments, challenges and opportunities in sustainable economic diversification, I will elaborate more on the analysis and policy recommendations of the background document to facilitate discussion in the coming four sessions.

To begin with, I would like to echo the message highlighted by the DSG that we are at the beginning of a green technological revolution and developing countries must catch it early. Otherwise, they are likely to be left further behind, as it happened in the previous waves of technological change.

To date, developed countries are seizing most of the green opportunities, as reflected by the unequal pace of trade expansion. Total exports of green technologies from developed countries jumped by a factor of 2.6 from around 60 billion US dollars in 2018 to over \$156 billion in 2021, while those of developing countries increased only by a factor of 1.3 from \$57 billion to about \$75 billion.

In order to capture the gains associated with green windows of opportunity, developing countries need to enhance their innovative and productive capabilities in a timely fashion, as timing influences success in this endeavour.

The background document highlights three main routes that developing countries could leverage green technologies for sustainable economic diversification, namely (i) development and deployment of renewable energy technologies; (ii) greening of global value chains; and (iii) diversification towards more complex and greener sectors.

[Development and deployment of renewable energy technologies]

On the first green pathway, the depth of capacities in latecomer countries to produce, distribute and use renewable energy technologies varies by country and sector.

Countries are in a better position to open green windows of opportunity when there are strong preconditions in terms of national capabilities and infrastructure related to the targeted green sector. Having said that, policy responses are still required to exploit such preconditions.

The best scenario with regard to opening green windows of opportunity is the one in which strong preconditions are combined with strong responses. For example, Brazil is in a strong position for biofuel as it has a long history of sugarcane cultivation while also creating demand and establishing a supportive policy framework.

More importantly, weak preconditions do not necessarily mean that opening green windows of opportunity will not be possible. It can be compensated by strong policy efforts.

Notwithstanding weak preconditions, Thailand is able to develop the biomass sector through incentive measures that include subsidies, tax incentives and mandatory purchasing of electricity generated from biomass.

Successful experiences suggest that governments must first identify opportunities and focus on targeted technologies, then employ a policy mix that is adequate to local circumstances.

Also, different policy domains have to be aligned in order to develop renewable energy sectors and at the same time stimulate industrial development.

[Greening of global value chains]

Regarding the second green pathway, moving to greener production depends on trade and placement in global value chains.

Countries can diversify economies and upgrade production through participation in global value chains by taking advantage of the push for greater sustainability.

The greening of global value chains can take place through two approaches, both of which can be supported by digital technologies. The first one is to produce inputs for green production, such as solar photovoltaic panels and wind turbines, whereas the second one is to green traditional manufacturing industries, such as garments and textiles.

Digital technologies can support the greening of global value chains in multiple ways. For example, data processing technologies and the use of big data analytics can aid in the reduction of carbon emissions in production processes or practices.

Meanwhile, governments can support the greening of global value chains by establishing the necessary policies, infrastructure, digital competencies and funding.

Specifically, ensuring the necessary funding is often a challenge in developing countries.

Since firms are mostly motivated by investment returns, the public sector should ensure that demonstration projects take place to advise firms, for example, in terms of how the greening of global value chains can promote more efficient production processes and the better use of materials.

Such initiatives can be supplemented by foreign direct investment, which can be attracted by public investment in infrastructure and the provision of incentives to companies that adopt digital and green technologies.

[Diversification towards more complex and greener sectors]

As for the third green pathway, economic diversification is a path-dependent process, since it consists of a steady move towards new sectors that build on already existing activities.

If a country already has the capacity for manufacturing high-technology products, it is in a stronger position and can move in a number of directions. But if it is largely producing primary products, it has fewer starting points.

To assist countries in diversifying towards more complex and greener sectors, UNCTAD has produced indices of economic complexity and carbon footprints for over 43,000 products traded in international markets.

Based on an assessment of the country's existing technological and productive capacities as well as the availability of natural resources, an initial list of potential products could be identified for further assessment, including the alignment with national priorities.

Countries that aim to develop production capacity in new sectors need to support infant firms to reach the levels of productivity required to compete with more technologically advanced countries. With the industry becoming more competitive, protection policies should be phased out so competition and market incentives can guide further productivity increases.

[International collaboration for sustainable economic diversification]

So far, we have discussed how developing countries can seize opportunities from the green revolution. We should note that the success of national policies also depends on international cooperation.

As the DSG highlighted, the international community has an active role to play in supporting developing countries to build local innovation capabilities and marshal the necessary technologies, especially given the widening gap between the Global North and the Global South in green innovation.

There are six directions that I want to draw your attention.

First, official development assistance (ODA) targeting STI capacities and green technologies, as well as more international funding sources, can help ease financial constraints in developing countries.

Second, international trade rules should permit less technologically capable developing countries to protect emerging green industries through tariffs, subsidies and public procurement – so that they not only meet local demand but also reach economies of scale that make exports more competitive.

Third, extending more flexibilities to less technologically advanced countries in the context of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) for environmentally sound technologies would increase the opportunities for emulation, making the multilateral trade regime more consistent with international climate change agreements.

Fourth, there should be a partnership-oriented approach to green technology development under the philosophy of common contributions to common goods to close the North–South divide in knowledge creation and management.

Fifth, there should be greater support for multilateral and open innovations. While cooperation among developing countries is often limited, more technologically advanced developing

countries can lead the way in promoting regional and South–South cooperation on green innovation.

Lastly, there should be a more general multilateral system for assessing new technologies based on the opportunities and risks they offer to different countries, thereby supporting developing countries in using such technologies effectively.

[Conclusion]

Excellencies, distinguished experts,

Regardless of which pathways to sustainable economic diversification are selected, governments in developing countries have to act fast and decisively.

National efforts should also be supported by the international community.

What we need is timely and well-coordinated policies to build the capacities in developing countries to diversify towards more complex and greener sectors.

I look forward to the discussion to generate ideas on the ways forward to leverage technologies to build a more productive and sustainable economy.

Thank you.