edie Live explores sustainability megatrends

PART 5 - REALISING THE BUSINESS CASE FOR SUSTAINABLE ECONOMIC GROWTH

edie's series of exclusive thought-leadership articles on the global impact of megatrends culminates with New Climate Economy's programme director *Helen Mountford* exploring how businesses and governments are developing more sustainable models of economic growth that are fit for the future.

Everywhere we look, the world is changing.

Global warming is increasing at a pace not experienced for the past 1,000 years.

We are standing on the brink of a technological revolution that will fundamentally change the way we live, work and relate to one another.

Our global family is projected to rise by more than a billion people by 2030, and more than 1.5 million people are being added to the urban population every week.

The economy is not immune to any of these changes. In fact, the financial performance of international markets is so closely intertwined with all of the megatrends featured in this series that it is all but impossible for current economic models to remain stable or continue growing without radical, adaptive change.

New economic landscape

As the Business Commission reports, "signs of failure and imperfections in today's markets are everywhere". Violence and armed conflict cost the world the equivalent of 9% of gross domestic product (GDP) in 2014, while lost biodiversity and ecosystem damage cost an estimated 3%. Social inequality and youth unemployment is worsening in countries across the world, median real wages remain stagnant in developed economies and total debt remains uncomfortably high.

But "we could be at a turning point", according to the International Monetary Fund (IMF).

The world's second-largest economy, China, saw its economy grow by 6.7% in 2016, compared with America's 1.6%. The 19-member Eurozone, meanwhile, has posted 14 consecutive quarters of growth, outpacing the US with a rate of 1.7% last year. Even Brazil and Russia – two emerging economies that have suffered from the fallout of international and domestic political difficulties – are forecast to see stronger growth over the next 12 months.

Fast-forward to 2050 and a new economic landscape will have emerged: the global economy is predicted to more than double in size, far outstripping population growth, due in part to technologically-driven productivity improvements. Emerging markets are anticipated to grow twice as fast as advanced economies and, as a result, six of the seven largest economies in the world are projected to be emerging economies, led by China (1st), India (2nd) and Indonesia (4th).

But this will not just be growth for growth's sake. One thing that is becoming increasingly apparent is that the future of the global economy will be based on a 'quality, not quantity' philosophy. Businesses, governments, and therefore entire economies are beginning to shift their focus so that any growth is sustainable and responsible – whether that is through tackling pressing global issues, helping to increase productivity, or delivering socially desirable outcomes such as improved standards of living and poverty alleviation.

Risks and rewards

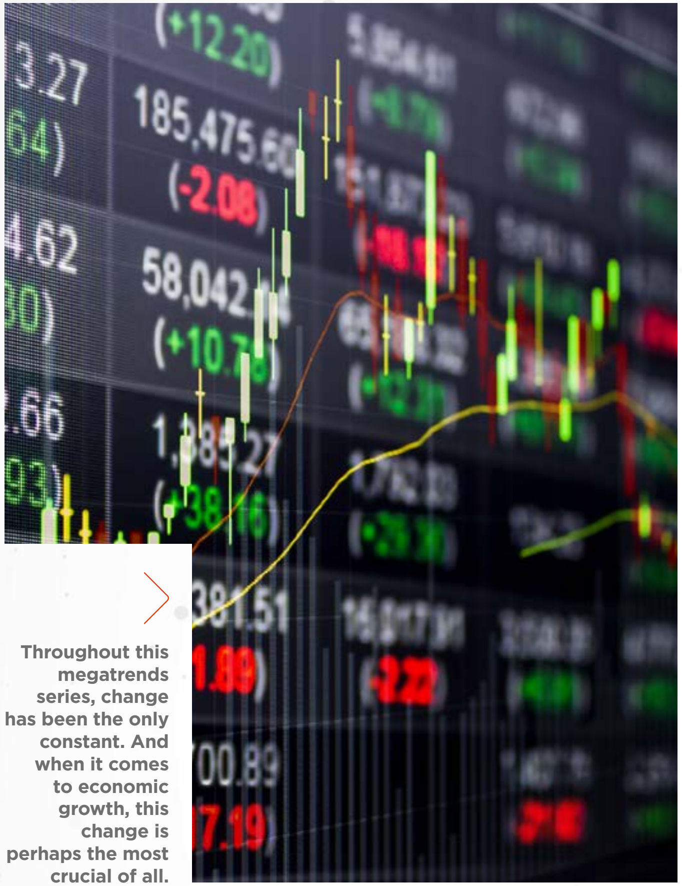
Climate change is a prime example of a major financial risk that must now be factored into economic growth. A study in the journal Nature concluded that business-as-usual industrial emissions throughout the 21st century would decrease per-capita GDP by 23% – this study did not factor in the additional economic impacts of sea level rise, poor air quality, extreme weather events or any other potential climate change effects beyond warming, so there is a significant possibility of an even larger financial impact than what this study estimates.

But from this risk comes an economic opportunity. As demonstrated through the Paris Agreement, clear political and business action is now being taken to curb global warming. Some 40 countries and more than 20 cities, states and provinces around the world are now using carbon pricing mechanisms – covering around 13% of global emissions. China, meanwhile, is gearing up to roll out its own emissions trading system which will take that percentage up to 25% of global emissions. For corporations, emitting carbon is therefore a

rising cost, so energy efficiency improvements and additional investment in clean energy are becoming attractive options to balance growth. Meanwhile, technological advancements have led to dramatic reductions in the price of renewables, which are now becoming financially competitive with coal and gas in many countries. The International Renewable Energy Agency (IRENA) reported that doubling the world's clean energy systems by 2030 would increase global GDP by 1.1%, improve global welfare by 3.7% and increase employment in the sector to more than 24 million people.

Soil degradation is another case in point. Productive land is becoming increasin gly scarce, with degradation costing the world as much as £8.3trn per annum – equivalent to 17% of GDP – through lost agricultural production, diminished livelihoods and the lost value of ecosystem services. Sustainable land management is therefore a huge economic opportunity for the private sector, with reports showing that as much as $59trn could be added to the global economy every year through new jobs and increased agricultural output driven by sustainable land management practices.

A capitalist agenda based on unbound profitability is being challenged by a new wave of economies focused on sustainable and responsible growth



Throughout this megatrends series, change has been the only constant. And when it comes to economic growth, this change is perhaps the most crucial of all.

And we're already seeing corporations seizing upon these opportunities. The Tropical Forest Alliance (TFA) 2020 is one example of a global public-private partnership that has been formed to help tackle deforestation, and a recent study from the coalition found that "better models for local economic growth that preserve forests are possible, with sustainable land use and local economic prosperity going hand in hand, generating significant investment opportunities".

There is also a clear reputational risk underlining the importance of this 'quality' growth across all nations and industries. These global issues of climate change and resource scarcity are shifting into mainstream awareness and, in this social media age of immediacy, failing to take the path towards sustainable and responsible growth can have a significant impact on a company's reputation among customers, staff, suppliers, shareholders and regulators. So it is areas like this, where financial and reputational risks can be turned into valuable economic opportunities, that highlight how continued economic growth is possible, so long as profitability can be effectively matched with sustainability, and so long as governments are able to collaborate with corporations to deliver positive social outcomes through inclusive growth.

Fit for the future

For the developing world, there is an equally incredible opportunity to harness this 'quality' economic growth by leapfrogging some of the mistakes we have seen developed countries make. Building cities that are inherently more compact and offer better transport connections can reduce the associated costs of road-building, congestion and air pollution, for instance, while skipping fixed-line telephone systems and moving straight to mobile technology requires much less infrastructure.

One real-life example is Uganda, where the New Climate Economy has been working with the country's Finance Ministry to develop a green growth development strategy. The strategy seeks to mainstream climate change in key sectors of the Ugandan economy, and to allow the nation access to international funding to achieve low-carbon, resource efficient development. A report produced as part of that partnership revealed that this sustainable, responsible and socially-inclusive growth could increase Uganda's annual GDP by 10%, or an estimated £2.7bn by 2020 and £9bn by 2040.

Throughout this megatrends series, change has been the only constant. And when it comes to economic growth, this change is perhaps the most crucial of all. Up to this point, unbound economic growth has been diametrically opposed to the sustainability of our planet, with industries feeding on our natural resources and polluting the air around us. But there is now a strong enough business case to transform this dynamic. The Business Commission recently concluded that achieving the UN's Sustainable Development Goals opens up £9.4trn market opportunity across food and agriculture, cities, energy and materials, and health and well-being – underlining just what can be achieved if sustainability is aligned with profitability. Organisations and governments therefore need to rapidly rethink their purpose and reinvent what is meant by 'growth', and sustainability professionals have a key role to play in that reinvention. ■

Sustainability megatrends at edie Live 2017

This new series of thought-leadership pieces will provide an overview of the environmental and social impacts of the world's megatrends; exploring how they are helping to shape the low-carbon, resource-efficient business of the future.

The series will culminate with a high-level discussion focused on megatrends at the Strategy and Innovation conference on day 2 of edie Live at the NEC Birmingham, 24 May 2017. From climate change and resource scarcity to socio-economics and technology as an enabler, this half day addresses the top level trends that answer the question 'Why act and what happens if we don't?

Find out more about edie Live 2017 and get your free two-day pass here.

Helen Mountford is programme director for the New Climate Economy project. She previously worked for the OECD (Organisation for Economic Co-operation and Development), where she worked for over 16 years as an environmental economist advising governments on policy reforms.

Helen holds Masters degrees in Environmental Economics from University College London and in Environmental Management from University of Melbourne. She has a BA in Philosophy and History.