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**Economic and Social Commission for Asia and the Pacific****Seventy-sixth session**

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Item 5 (g) of the provisional agenda\*

**Review of the implementation of the 2030 Agenda for Sustainable Development in Asia and the Pacific: macroeconomic policy, poverty reduction and financing for development****Transforming economies to make them consistent with the ambitions of the 2030 Agenda for Sustainable Development****Note by the secretariat***Summary*

The Asia-Pacific region has undergone rapid economic transformation over the past decades, which has helped to reduce extreme poverty. At the same time, the growing challenges of environmental degradation, climate change and inequality call into question the current growth paradigm.

In the 2020 *Economic and Social Survey of Asia and the Pacific* (forthcoming), a transition towards a sustainable growth path is proposed which requires all stakeholders to urgently align their own goals with social and environmental goals by internalizing externalities linked to their actions; constraints facing various stakeholders, namely governments, businesses and consumers, are identified; and a holistic policy package to overcome these challenges is provided. Governments can embed sustainability in long-term policymaking and implementation. Businesses should integrate sustainability in their core functions and consumers should transition towards sustainable lifestyles. Governments will have a key role in influencing business and consumer behaviour. Action at the national level must go hand in hand with regional cooperation to coordinate more ambitious region-wide solutions for sustainable consumption and production.

The Commission may wish to discuss the findings and policy recommendations and provide guidance to the secretariat on the further analysis of these aspects.

**I. Introduction**

1. Economic policymaking in Asia-Pacific developing countries has, understandably, long been focused on maximizing economic growth, given the imperatives of poverty reduction and job creation. The strong case for focusing primarily on economic growth cannot be gainsaid. However, when this focus comes at a cost that undermines the long-term sustainability of economic growth itself, it becomes imperative to shift the focus to longer-term development issues.

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\* ESCAP/76/L.1/Rev.1.

2. This situation is evident in the Asia-Pacific region, where decades of high economic growth have transformed the socioeconomic landscape, lifting one billion people out of extreme poverty in the past two decades and raising the living standards of countless more. However, this economic growth has been accompanied by the growing inequality of income and opportunities and is beginning to breach planetary boundaries, endangering the well-being of future generations.

3. The top 10 per cent of earners in the region receive nearly half the total income. Meanwhile, material use in the region tripled between 1990 and 2017. As of 2017, the region used two thirds of the world's resources for its production activities. Factors underlying this substantial increase in demand for resources include growing populations, rapid urbanization, expansion of manufacturing production and changing consumption patterns.

4. The heavy reliance on resources has given rise to pressing domestic environmental threats such as air pollution. Pollution as measured by particulate matter 2.5 (PM<sub>2.5</sub>) emissions exceeds the limit established in World Health Organization guidelines in most countries in the region. In fact, 97 out of the top 100 air-polluted cities in 2018 were in Asia and the Pacific. The region is also facing a serious problem of waste generation, including solid waste, food waste, hazardous waste, electronic waste and plastic waste. For example, 8 of the 10 rivers with the highest levels of plastic waste in the world are in the Asia-Pacific region.

5. Heavy resource use has contributed to the region's rising greenhouse gas emissions, which have doubled since 1990. More than half of the world's greenhouse gas emissions now come from Asia and the Pacific. Greenhouse gases contribute to global warming and add to climate change risks. Countries in Asia and the Pacific are particularly vulnerable to climate risks. The region is home to 5 out of the 10 countries most affected by climate change: Bangladesh, Nepal, Sri Lanka, Thailand and Viet Nam. Asia and the Pacific is also home to more than one third of global urban agglomerations located in flood-risk coastal zones. Over the past 50 years, the region has sustained more than \$1.5 trillion in losses purely due to climate-induced natural disasters.

6. The worrying situation of progress in sustainable development is evident in the fact that the Asia-Pacific region will not achieve any of the 17 Sustainable Development Goals by 2030 if it continues on its business-as-usual pathway, according to the *Asia and the Pacific SDG Progress Report 2020*, prepared by the Economic and Social Commission for Asia and the Pacific (ESCAP). Indeed, the region has either stagnated or regressed on several environmental Goals. The region's largest regression is on Goal 12 (Responsible consumption and production), and this calls for a reassessment of the economic-growth-centric development approach.

7. For this reason, in the 2020 edition of the *Economic and Social Survey of Asia and the Pacific*, the case is made for a transition towards sustainable consumption and production, given their fundamental role in economic activities and broad link with social and environmental well-being. Such a transition requires all stakeholders, namely governments, businesses and consumers, to align their own goals with social and environmental goals by internalizing externalities linked to their actions. The constraints facing different stakeholders are also identified in the forthcoming publication, and a holistic policy package to power through these challenges is provided.

## II. Need to build resilience to current economic challenges

8. According to the findings of the survey, in an increasingly uncertain global environment, the economic growth of the developing Asia-Pacific region weakened to a greater degree than expected in 2019 and is expected to remain subdued in 2020 and 2021. Prolonged trade tensions have weighed on China's economic growth prospects and that of related trade-dependent countries. The novel coronavirus (COVID-19) and related containment measures bring mounting uncertainties for the region's productive activities, with spillovers in trade, tourism and finance.

9. Policymakers should maintain accommodative macroeconomic policies to sustain the economic health of the region, as it is fundamental to sustainable development. In the wake of the virus pandemic, fiscal and monetary policies should be focused on upholding economic activities by supporting affected enterprises and households and preventing economic contagion. Fiscal spending can also play a significant role in enhancing the ability of health responders to monitor the spread of the pandemic, care for infected people and improve health emergency preparedness. In countries that are not directly affected by the pandemic, accommodative monetary and fiscal policies are still needed to address weak aggregate demand and business sentiment in an increasingly uncertain economic environment and amid unresolved trade tensions.

10. However, policymakers should not lose sight of long-term sustainability. The current economic shock due to the pandemic can serve as a lesson learned that a lack of long-term vision (such as ex ante investment to enhance emergency preparedness) not only hurts short-term economic growth but could also derail the progress of future development. Hence, resilience needs to be built into every decision when designing macroeconomic policy responses. For instance, ESCAP estimates that by 2030, the region needs to invest an additional \$880 million, or the equivalent of 0.003 per cent of its 2018 gross domestic product in 2018, in emergency preparedness, risk management and response as part of the overall strengthening of the health system.<sup>1</sup> One positive aspect of tackling the current economic slowdown is that the region still has sufficient policy space, owing to a relatively low-inflation environment and moderate levels of fiscal deficit and public debt. Governments in the region should also take this opportunity to reassess the carrying capacity of economic systems and the composition of stimulus measures in support of a more sustainable and inclusive economy.

11. Hence, the current economic weakness should not slow the region's transition towards sustainable patterns of production and consumption, the lack of which has contributed to a massive increase in greenhouse gas emissions and led, in turn, to the region's climate emergency. If progress on decarbonization and inefficient resource utilization continues at its current pace, the region is expected to continue on the same unsatisfactory track, which could further heighten climate risks and fail to improve human well-being. The resulting rising temperatures and extreme weather events would bring significant economic losses, disrupt financial stability and wipe out human development gains.

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<sup>1</sup> *Economic and Social Survey of Asia and the Pacific 2019: Ambitions beyond Growth* (United Nations publication, Sales No. E.19.II.F.6).

### **III. Policy and market failures constrain stakeholders from moving along a sustainable path**

12. Given that the costs of the nature of economic expansion in the region are already highly evident, the question is why more is not being done for the planet. The problem is related to short-term thinking on the part of three major stakeholders in the economy: Governments, businesses and consumers. These stakeholders face different but complementary challenges.

13. Faced with competing priorities, Governments favour fragmented policies to boost short-term economic growth over well-balanced cross-cutting policy actions that promote sustainable development. Additionally, the free rider problem associated with environmental degradation and the resulting greenhouse gas emissions makes tackling these issues harder, both nationally and internationally. Given that the benefits of reducing local greenhouse gas emissions are global, while the costs to reduce them are borne locally, there is an incentive to free-ride and rely on others to cut emissions.

14. In addition, conflicting incentives make government actions to pursue decarbonization insufficient. Fulfilling the commitments contained in the Paris Agreement requires the transition to a decarbonized economy and the phasing out of fossil-fuel-based production and industries, which Governments may be reluctant to implement owing to vested interests in fossil fuel and construction companies and financial institutions that finance high-carbon projects. For instance, a large concentration of fossil fuel industries in the region are State-owned enterprises and, therefore, actions taken by Governments to promote decarbonization, such as reducing fossil fuel subsidies, would directly impact their fiscal revenues. Most State-owned enterprises generate high revenues and employ people in large numbers, which makes it difficult to disentangle the phasing out of fossil fuels from economic activities.

15. Moreover, the mispricing of carbon leads to the overuse of fossil fuels. While carbon pricing has become more widespread in the region over the past decade, current rates and coverage are far below what is required for a significant shift towards a greener, low-carbon economy. Fewer than 10 Governments currently have an explicit carbon pricing scheme in place, but 26 have expressed interest in using market-based approaches, such as emissions trading schemes, in the context of their nationally determined contributions. Carbon prices vary considerably across existing schemes in the region, ranging from about \$1 to \$29 per ton, but these prices are substantially lower than the required range estimated in most studies, such as the \$40 to \$80 range estimated by the High-Level Commission on Carbon Prices. Even more concerning is the fact that fossil fuel subsidies remain prevalent in some countries in the region, amounting to \$242 billion in 2018, which far outweighed government environmental expenditures in these countries.

16. In addition, current business regulations fall short in measuring companies' carbon footprints. Most countries do not have a consistent standard to guide sustainable investment. Shareholders and regulators are demanding improved data and disclosures from businesses to track the impact of their activities on the environment. While carbon emissions remain the most commonly reported metric, demands for other types of data, for example on water and deforestation, are increasing. Importantly, the lack of standards enables many businesses to "greenwash." Greenwashing occurs when companies use misleading labels and advertising material to create an image of environmental responsibility without actually becoming more responsible.

17. Furthermore, the current consumption patterns of an increasingly wealthy population, made up of consumers who are unaware of the impact of their consumption on the environment, are pushing the planetary boundaries. In addition to a quantitative increase in consumption, there is a change in the content of consumption, with a shift towards less-sustainable products. A lack of information and awareness about sustainable products is one reason why consumer behaviour is proving detrimental to sustainability. Furthermore, a general lack of consumer knowledge means that consumers often believe that sustainable products are more expensive and of lower quality than less-sustainable goods.

18. Finally, many resources are not used in an efficient manner, which has led to unnecessary waste. For example, one third of the food produced globally is wasted each year from spoiling due to poor harvesting or transportation. Many resources are also underutilized. For example, possessions like cars are left parked 95 per cent of the time and only 5 per cent of toys owned are used daily.

#### **IV. Building a stakeholder economy can pave the way to a sustainable future**

19. It is clear that the business-as-usual path is no longer an option, and it is necessary to consider what all stakeholders need to do in order to keep economic activities within planetary boundaries. Building on the call in the 2019 *Economic and Social Survey for Asia and the Pacific* for the region to raise its ambitions beyond growth, the 2020 *Survey* includes the call for concerted policymaking to put people and the planet first. Tackling the unsustainability of current consumption and production patterns (Sustainable Development Goal 12) is a basic condition for addressing the deficiencies of the growth-centric model for two reasons: first, because production and consumption are the basic economic activities; and second, because the region has regressed further on Goal 12 than on any other Goal. Given the interlinkage between Goal 12 and many other Sustainable Development Goals, progress on Goal 12 is one of the most cost-efficient and effective ways to achieve economic development, reduce impacts on the environment and advance human well-being.

20. As the decade that will culminate in the deadline for the 2030 Agenda for Sustainable Development begins, it has become clear that efforts made so far have been insufficient. In September 2019, the Secretary-General called on all sections of society to mobilize for a decade of action on three levels: local action embedding the needed transitions in the policies, budgets, institutions and regulatory frameworks of governments, cities and local authorities; people action, including by youth, civil society, the media, the private sector, unions, academia and other stakeholders, to generate an unstoppable movement pushing for the required transformations; and global action to secure greater leadership, more resources and smarter solutions for the Sustainable Development Goals. Hence, policy recommendations for each level are presented below.

21. Local action led by Governments is required on three fronts: (a) embedding sustainability in long-term policymaking and implementation; (b) transitioning out of fossil fuels; and (c) creating green financial market mechanisms.

22. Embedding sustainability in long-term policymaking and implementation requires mainstreaming the Sustainable Development Goals into economic decisions. First, an assessment must be made to determine whether the country is on track, lagging or regressing with regard to progress towards the Goals. This will involve understanding trade-offs and synergies and

how much additional investment is required. Second, an assessment must be made to determine vulnerability to climate risks and understand how to incorporate these considerations into long-term planning. Third, these results must be mainstreamed into policy actions. Policymakers will have to take account of the interconnectedness and complexity of policies and their impact on societal welfare. There is a need for an integrated approach, with planning and close coordination among economic, finance and other ministries and with subnational governments.

23. Transitioning out of fossil fuels requires first committing to decarbonization by preparing a transition action plan. The plan should be carried out in phases, with dedicated resources allocated to implementing the divestment strategy. Governments can start with a mix of legislative and non-legislative actions regarding fossil fuels. Second, carbon pricing should be adopted to incentivize a shift towards clean energy, reduce the competitiveness of polluting industries and increase the use of green technologies and energy. Policymakers can ensure that such policies do not disproportionately impact the poor and workers by simultaneously providing financial support for a just transition. Third, the domestic competitive advantage of renewable energy should be harnessed by shifting the \$242 billion of annual subsidies from fossil fuels to green energy sources. In the decade of action, governments in Asia and the Pacific must commit to eliminating fossil fuel subsidies.

24. To create green financial market mechanisms, central banks and financial regulators need to incorporate climate risks into their supervisory mechanisms. This should include new systems of management and regulations that consist of monitoring and micro-level supervision of the financial sector. First, environment-related disclosures and reporting should be enforced to address climate risks by following, for instance, the principles of the Financial Stability Board's Task Force on Climate-related Financial Disclosures. Second, inward and outward foreign direct investment (FDI) policy should be adjusted in order to channel investment into sustainable projects. This "greening" of FDI will reduce carbon-intensive investments and increase green technology transfers. Third, monetary and fiscal incentives should be provided to foster the growth of green financial markets and instruments. These include, for example, green bonds, greening of the banking industry, financial incentives such as special lending terms and conditions for green lending, and credit enhancement for new sustainable start-ups and technologies.

25. People action will require both businesses and consumers to move towards sustainability.

26. Businesses should integrate sustainability into their core functions. First, this requires understanding sustainability as a part of business functions by factoring environmental, social and governance aspects into investment analysis and decisions. Businesses can consider following the Principles for Responsible Investment for greater integration of sustainability in business functions. Second, adopting sustainability reporting rules which have been set in financial regulations should be adopted to increase transparency and climate risk disclosure. Third, internal carbon pricing should be introduced as a tool to reduce emissions and mitigate climate-related risks to reap opportunities emerging from the transition to a low-carbon economy. Fourth, it is necessary to begin to reduce greenhouse gas emissions in supply chains by adapting to a circular economy model which enhances resource efficiency through recycling, reusing, and better designing and planning, leading to reduced waste. Governments must take the lead in reforming business regulations to move towards sustainable production.

27. Consumers should choose sustainable lifestyles. This choice can reduce carbon footprints. The imperative for such a shift is evident in a recent analysis indicating that to ensure that the global temperature rise does not exceed the 1.5-degree target, people need to halve their carbon footprints to about 2.5 tons per capita by 2030 and 0.7 tons per capita by 2050. Governments can play a significant role in influencing consumer behaviour by nudging consumers to change their lifestyles. Nudges are positive reinforcements and small suggestions for change. This can consist of framing information, changing the physical environment and developing the eco-labelling of products. Governments must also incentivize the sharing of consumer goods and services that are underutilized by providing strong digital infrastructure and supporting businesses that have positive environmental impacts. Though many sharing modalities are global, regulations on these modalities are local. Regulations and effective monitoring need to be relevant to the locality to promote the availability of services, induce compliance and ensure clear boundaries between sharing and non-sharing businesses.

28. Global action requires regional cooperation. The Asia-Pacific region is highly integrated into the global economy, and decarbonization cannot happen in isolation. Governments need to develop long-term low-carbon transition plans in line with the Paris Agreement. First, they must put in place national climate standards, which need to be harmonized between countries. If climate-related standards and policies diverge significantly across countries, then there is a risk of less robust incentives for businesses operating in globalized sectors and potential for trade frictions. Second, coal plants would need to be replaced with renewable energy such as solar, wind and hydropower. Transboundary power trade can help transmit energy from countries rich in renewable resources to those reliant on fossil fuels. At the same time, linking the national and subnational carbon markets in the region would widen the range of emissions reduction options and disincentivize carbon leakage to jurisdictions with less stringent climate policies. Third, the 10-Year Framework of Programmes on Sustainable Consumption and Production Patterns needs to be implemented at the regional level. Transboundary cooperation is required to scale up environmental trade and investments, sustainable procurement and eco-labelling, green supply chains, extended product life, the shared economy, and resource recovery and utilization.

## V. Issues for consideration by the Commission

29. The issues and policies outlined above are examined in greater detail in the 2020 *Economic and Social Survey of Asia and the Pacific*. The Commission may wish to deliberate on the findings and suggested policies of the *Survey*.

30. The Asia-Pacific region stands at a pivotal moment in its development journey where the next phase of the economic transformation will need to be much more sustainable. As we embark on this decade, it is critical that we decisively shift towards more sustainable economies and avoid a climate crisis. Governments need to play a strong role to bring all stakeholders together. It requires them to shift their mindset from short-term policymaking to long-term planning and implementation.

31. The Commission may wish to discuss how best to embed long-term sustainability into policymaking so that governments are prepared for the next emergency.