

EXECUTIVE SUMMARY

The 2020 Survey outlines the path to a sustainable future for Asia-Pacific countries

Economic policymaking in Asia-Pacific developing countries has understandably long been focused on maximizing economic growth in view of the imperatives of poverty reduction and job creation. There is no gainsaying that there is a strong case for focusing on economic growth but when this comes at costs that undermine the sustainability of growth itself over the long term, it is time to ask questions.

This is evident in the Asia-Pacific region, where decades of high economic growth have transformed the socioeconomic landscape – lifting a billion people out of extreme poverty in the past two decades and raising living standards of even greater numbers. However, such growth has been accompanied by growing inequality of income and opportunity and is beginning to breach planetary limits, thus endangering the well-being of future generations. Indeed, according to the ESCAP 2020 report on Sustainable Development Goals progress, the Asia-Pacific region is not on track to achieve any of the 17 Goals by 2030 if we continue on our business-as-usual pathway; the region has either stagnated or regressed in efforts to realize several environmental Goals. The largest regression is in Goal 12: Ensuring sustainable consumption and production patterns. This situation calls for a rethink of the economic growth-centric development model.

The 2020 Survey proposes a transition towards sustainable consumption and production, given consumption and production's fundamental role in economic activities and its broad link with social and environmental well-being. Such a transition calls for all stakeholders, namely Governments, businesses and consumers, to urgently align their own goals with social and planetary goals through internalizing externalities linked to their actions. The 2020 Survey identifies the constraints that different stakeholders face and provides a holistic policy package to power through the challenges.

There is a need to build resilience to current economic challenges

The 2020 Survey finds that, in an increasingly uncertain global environment, economic growth of the developing countries and territories in the Asia-Pacific region weakened more than expected to 4.3 per cent in 2019, a sharp slowdown from 5.3 per cent in 2018, and is expected to slow further in 2020 and pick up moderately in 2021 as the shocks fade away. Prolonged trade tensions have weighed on China's growth prospects and that of related trade-dependent countries. The novel coronavirus (COVID-19) pandemic and the ongoing containment measures have created mounting uncertainties for the region's productive activities with spillovers through trade, tourism and financial links.

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 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. For 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 amid an increasingly uncertain economic environment and unresolved trade tensions.

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 lack of long-term vision, such as ex ante investment to enhance emergency preparedness, not only hurts short-term growth but could also derail the progress towards future development. Hence, when designing macroeconomic policy responses, resilience must be built into every decision. The bright side when tackling the current economic slowdown is that the region still has sufficient policy space due to a relatively low inflationary environment and moderate levels of fiscal deficit and public debt. Countries should take the opportunity posed by these challenging times to rethink the carrying capacity of ecological and economic systems and the composition of stimulus measures in support of a more sustainable and inclusive economy.

Despite current economic weaknesses, policymakers should not slow the transition to sustainable and low-carbon development actions

In accordance with these aspects, the current economic weakness should not slow the region's transition towards sustainable patterns of production and consumption. The current unsustainable patterns have contributed to massive increases in greenhouse gas emissions and, in turn, has put the region into a climate emergency. A continuation of the current pace of progress on decarbonization and inefficient resource utilization is expected to keep the region on the same track, which will further heighten climate risks and fail to improve human well-being within the planetary boundary. Rising temperatures and extreme weather events will bring about significant economic losses, disrupt financial stability and wipe out human development gains.

Policy and market failures constrain stakeholders from moving along the sustainable path

The three major stakeholders in our economy – Governments, businesses and consumers – face different but complementary challenges.

First, faced with competing priorities, Governments put into place fragmented policies to boost short-term economic growth over well-balanced cross-cutting policy actions that promote sustainable development.

Second, conflicting incentives make government actions towards decarbonization insufficient. Although the Paris Agreement requires transition to a decarbonized economy and phasing out fossil fuel-based production and industries, Governments may be reluctant due to vested interests in fossil fuel and construction companies and financial institutions that finance high-carbon projects.

Third, mispricing of carbon leads to 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.

Fourth, current business regulations fall short in measuring a company's carbon footprint. 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.

Fifth, current consumption patterns of an increasingly wealthy population are pushing planetary boundaries as consumers are unaware of the impact of their consumption on the environment.

Finally, many resources are not used in an efficient manner, which has led to unnecessary waste and underutilization of resources.

It is clear that business as usual is no longer an option and building a stakeholder economy can pave the path to a sustainable future

Going forward, what is required is an alternative development approach that overcomes these challenges, so that actions are consistent with the ambitions of the 2030 Agenda for Sustainable Development. In particular, a transition to a more sustainable economic model is needed, with cleaner production and less material-intensive lifestyles, supported by enabling policies. Every part of society will have to be a stakeholder in this transition and will have a role to play.

The Decade of Action has just begun...

As we enter the decade that culminates in the deadline for the 2030 Agenda, it has become clear that our efforts so far have not been sufficient. In September 2019, United Nations Secretary-General, António Guterres, called on all sections of society to mobilize for a *Decade of Action* on three levels:

Local action, embedding the needed transitions into 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 achieving the Sustainable Development Goals.

Hence, policy recommendations are presented along the local, people and global levels.

Local action led by Governments is required on three fronts:

Embed sustainability in long-term policymaking and implementation

First, assess whether a country is on track, lagging or regressing vis-à-vis the Goals. Do this by understanding the trade-offs and synergies, and determining how much additional investment is required. **Second**, assess vulnerability to climate risks and understand how to incorporate these considerations into long-term planning. **Third**, mainstream these results into policy actions.

Transition out of fossil fuels

First, commit to decarbonization by preparing the transition action plan. The plan should take place over a period 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**, adopt carbon pricing to incentivize a shift towards clean energy to reduce the competitiveness of polluting industries and increase the use of green technologies and energy. **Third**, harness domestic competitive advantage of renewable energy by shifting the annual subsidies (worth \$240 billion) from fossil fuels to green energy sources. In the *Decade of Action*, Governments of countries in the Asia-Pacific region must commit to eliminating fossil fuel subsidies.

Create green financial market mechanisms

Central banks and financial regulators need to incorporate climate risks into their supervisory mechanisms. This action should include new systems of management and regulations that consist of monitoring and microsupervision of the financial sector. **First**, enforce environment-related disclosures and reporting that will address climate risks. **Second**, adjust inward and outward foreign direct investment (FDI) policy in order to channel investment into sustainable projects. This greening of FDI will reduce carbon-intensive investments and increase green technology transfers. **Third**, provide monetary and fiscal incentives to foster the growth of green capital market products, green lending and credit enhancement mechanisms.

People action requires businesses and consumers to move towards sustainability

Businesses should integrate sustainability into their core functions

First, understand sustainability as a part of business functions by factoring environmental, social and governance aspects into investment analysis and decisions. Businesses can consider joining the United Nations-supported Principles for Responsible Investment for greater integration of sustainability into business functions. They should adopt sustainability reporting rules, which have been set in financial regulations, in order to increase transparency and climate risk disclosure. **Second**, introduce internal carbon pricing as a tool to reduce emissions and mitigate climate-related risks to reap opportunities emerging from the transition to a low-carbon economy. **Third**, account for and disclose full value chain GHG emissions by enhancing resource efficiency through recycling, reusing and better designing and planning, leading to reduced waste. Governments must lead in reforming business regulations to move towards sustainable production.

Consumers should choose sustainable lifestyles

Increase self-awareness of the impact from our lifestyles on the people and our planet. Consumer awareness means knowing how we can make such choices. Governments must play a significant role in influencing consumer behaviour by nudging consumers to change their lifestyles. Nudges are positive reinforcements, small suggestions, or changes in choice, which consist of framing information, changing the physical environment and developing eco-labelling of products. Governments must incentivize the sharing of consumer goods and services which are underutilized by providing strong digital infrastructure and supporting businesses that have positive environmental impacts.

Global and regional actions are needed

The Asia-Pacific region is highly integrated into the global economy - decarbonization cannot happen in isolation. Governments need to develop long-term low-carbon transition plans in line with the Paris Agreement. **First**, put into place national-level climate standards, which need to be harmonized between countries. If climate-related standards and policies diverge significantly across countries, there is a risk of less robust incentives for businesses operating in globalized sectors and greater potential for trade friction. **Second**, replace coal plants with renewable sources of energy, such as solar, wind and hydropower. Transboundary power trade can help transmit energy from countries rich in renewable resources to those that are currently reliant on fossil fuels.

At the same time, linking the national and subnational carbon markets in the region would widen the range of emission reduction options and disincentivize carbon leakage to jurisdictions with less stringent climate policies. **Third**, implement the 10-year Framework of Programmes on Sustainable Consumption and Production Patterns at the regional level. Transboundary cooperation is required to scale up environmental trade and investments, sustainable procurement and eco-labelling, green supply chains, extended life of products, shared economy, and resource recovery and utilization.

Having achieved so much but also being at risk of losing so much, the Asia-Pacific region stands at a pivotal moment in its development journey. The next phase of its economic transformation should adopt green consumption and production systems. Such a vision is within reach through the power of collective action of all stakeholders!

The Survey is arranged in four chapters to highlight these key messages, as follows:

The economic growth-centric development model has failed to achieve broader social-environmental well-being and needs to change. (chapter I)

The journey towards the 2030 Agenda should not be deterred by the current economic slowdown. (chapter II)

It requires all stakeholders to move away from their short-term focus towards a long-term vision that deals with climate change. (chapter III)

... requiring large scale policy interventions as Governments design policies towards sustainable development – through long-term planning and internalizing externalities. (chapter IV, section 1)

This move will also require engaging with businesses and consumers – policies designed to influence their behaviours with changes in finance and accounting, as well as lifestyles. (chapter IV, section 2)

Regional cooperation is essential in avoiding race-to-bottom policies and in coordinating more ambitious region-wide solutions to climate change. (chapter IV, section 3)