

Transformative Strategies and Financing Policies for a Circular Net Zero Economy

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Synopsis

- Past climate actions of ASEAN and East Asia economies have entailed progressive bottom-up sectoral low carbon initiatives that are relatively fast and easy to implement and provided incremental co-benefits.
- As countries move toward long-term deep decarbonization and circular Net Zero economy, the pandemic recovery and stimulus packages offered a rare opportunity to realign the energy, innovation, trade and fiscal policies into macro-economic planning and national budgets.
- Meeting of Net Zero Future by 2050 - and National Determined Contribution (NDC) targets by 2030 will require the crowding in of much higher levels of private finance and investment. Regulatory, market and taxonomy barriers exist.
- Policy makers have a major responsibility to harness the potentials of regional cooperation based on the market principles and mandates which will reduce the cost of transformation.

Introduction

Resetting long term policy measures in support of net zero circular economy growth during the pandemic recovery is critical for three reasons. First, developing countries in the global south need to regain its battle on climate change interrupted by the COVID-19 pandemic. Heat waves, droughts, floods, and cyclones have become more intense and frequent in developing countries. Recent research found that impacts of climate change on agriculture, tourism, energy demand, and labour productivity collectively result in loss of about 8-11% of the world's combined annual economic growth by the end of the century (IPCC, 2017). Second, stimulus policies when combined with appropriate skill development programs generated more jobs in low -carbon sectors such a renewable energy and resource efficient and services development. For example, Garrett-Peltier (2017) and Engstrom, Gars, Jaakkola, Lindahl, Spiro, and Benthem (2020) found that every \$1 million spent on renewable energy created 7.5 full time jobs and every \$1 million spent on spent on energy efficiency create 7.2 full time jobs, which is significantly more than the 2.7 jobs generated from the same number of investments in fossil fuels during 2008 financial stimulus packages. Third, policies that support internalising externalities such as carbon pricing can strengthen long-term competitiveness of industries in emerging markets that cater the needs of advanced economies that are increasingly demands low-carbon products (WEF, 2020). Setting right policies would also ensure foreign direct investments from growing number of multinational companies that have made public commitments to move toward a Net Zero future (ETC, 2020). However, economic recovery measures announced by several of developing countries are not well harmonized to combat climate change and achieve the co-benefits such as job creation not because of ignorance but due to the complex nature of policy making and implementation (Anbumozhi, 2021). Figure 1 shows the categorisation of policy initiatives

undertaken during the emergency and recovery phases of the Pandemic in Association of Southeast Asia Nations (ASEAN)

Figure 1. Categorization of policy measures implemented in South East Asia during the pandemic recovery (April 2020 to March 2021)



FIT: Feed In Tariff; RPS: Renewable Portfolio Standard; R&D: Research & Development

Source: ERIA, 2022

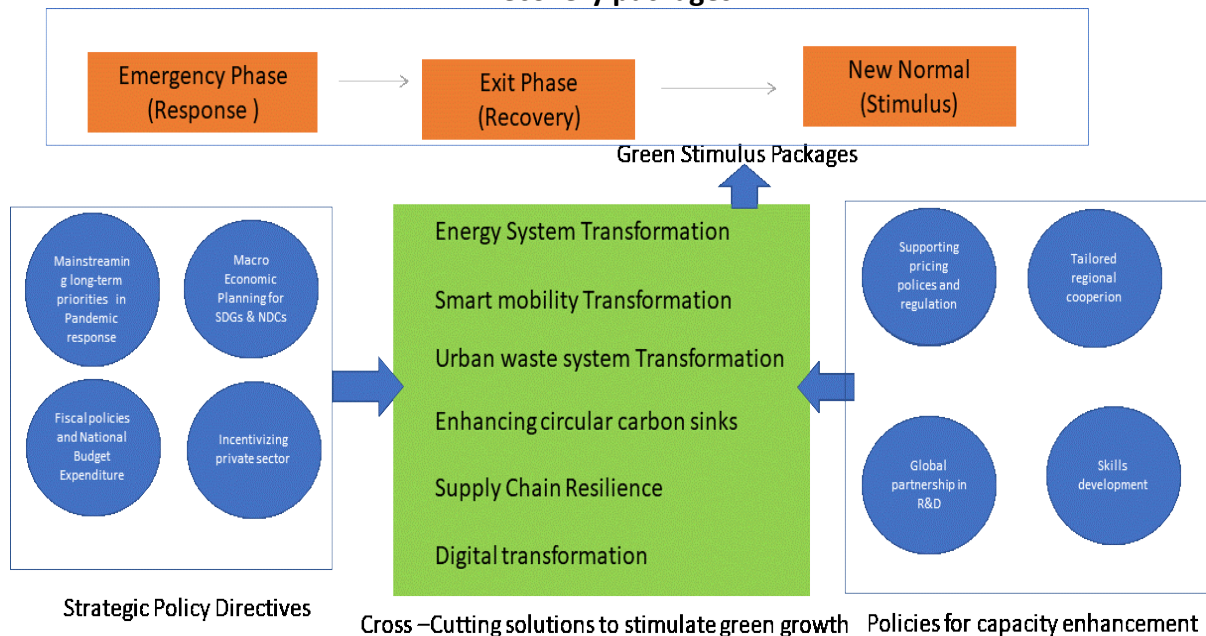
The global pathway to meet Paris Agreement targets by 2030 and the net zero emissions by 2050 requires all governments, to significantly strengthen and then successfully implement their energy, climate, economic and fiscal policies. During the pandemic, leading economies have announced economic stimulus packages that will pump approximately US\$ 3.7 trillion directly into sectors that have a large and lasting impact on carbon emissions and nature, namely agriculture, forestry, industry, waste and energy and transport (Vivid Economics, 2021). However, the Greenness of Stimulus Index (GSI) shows that developing economies in ASEAN and East Asia to date have largely failed to harness the opportunity. Packages in parts of Europe, South Korea and Canada offer more promise for green growth.

Designing transformative elements that bring low carbon circular economy benefits

The quality, content and strength of the stimulus investments will determine both socio-economic and environmental outcomes, for decades to come. The right investments will need to be fast, labour intensive in the short run, and have higher multiplier co-benefits in the long run. Investments with these characteristics include low-carbon energy infrastructure such as renewable assets, building energy efficiency, smart transport,

innovations in green technologies, urban waste management, and restoration of degraded forests. Implementing investment decision on those assets will maximise co-benefit in at least three major ways namely boosting demand, creation of jobs for local work force and maximizing pollution prevention (Anbumozhi, Kalirajan and Kimura, 2018).

Figure 2. An outlook for integrating smart and green growth objectives in pandemic recovery packages



Source: ERIA, 2022

A well-articulated smart and green growth strategy, as shown in Figure 2 that is designed to harness emerging digital technologies and principles of circular low carbon economy, with strategic policy directives for inclusive growth and capacity building has the potential to bring tangible long-term benefits. In this regard, the South Korean stimulus packages place emphasis on green and digital investments. But there are challenges and trade-offs in aligning short term stimulus measures with long-term sustainability goals. In countries with inadequate or less ambitious climate mitigation targets and financing policies, new short-term investments are likely to reinforce unsustainable trajectories. Almost all developing countries entered the pandemic emergency phase still producing significant carbon emissions, air and water pollution. Many countries also lack sectoral targets to absorb targeted technology interventions. Common challenges include the required behavioural changes by households and affordability of new low-carbon technologies (Cable, 2016).

Financial Pathways and Enhancing Regional Cooperation Frameworks for Accelerating the Transition

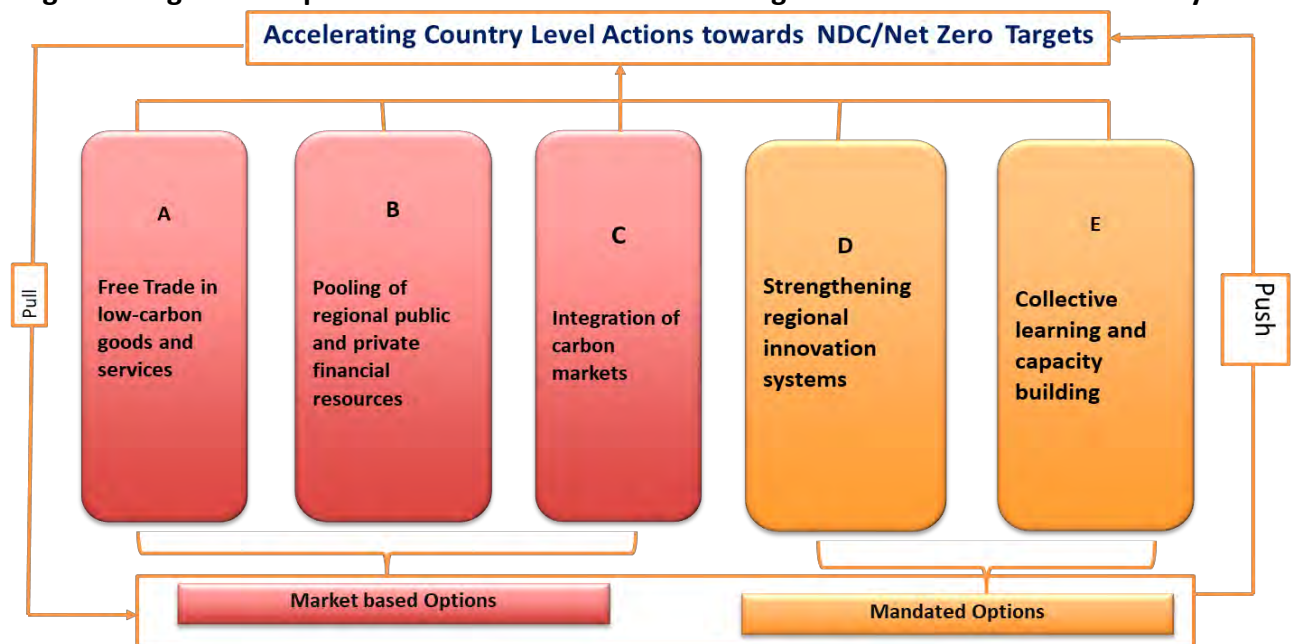
NDCs committed by the most of developing countries are conditional, that is subject to availability of an estimated US\$1 trillion international finance (IEA, 2021). Developing countries are grappling with long term debt and liquidity crisis, aggravated by the COVID -19 pandemic crisis. But the international finance will not flow in a vacuum. There is a close relationship between the way in which incentives are handled and increased investments. So, the public sector needs to focus on efficiency of the finance industry to support channelling

the private savings into investments which will not just give investors a return in the short run but will ensure that those returns are economically sustainable in the long term. The good news is that the financial industry is not short of savings to invest. At the global level, some US\$ 300 trillion is represented in capital markets, a little more than half from commercial banks, the rest from insurance and institutional investors.

Moreover, most private investments on climate change in developing countries of global south are not made by financial institutions but by big corporations. And most of the time they do not come to their bankers but pay for new investments with the retained profits. Huge economic reward could be gained, if they are directed towards low carbon investment by pricing the carbon in the markets.

Same is true for accounting standards. Even though they claim to be prudent, they do not question the value of stranded assets. The risk measures used to manage banks are backward looking and are ill adapted to foresee climate risks which lie ahead. Investment institutions, which owe a fiduciary duty of care towards their stakeholders, often ignore the effects of climate change on the population for which investment decisions are made. Shareholders, citizens, and policy makers alike need to ensure that financial systems are fit for the purpose to achieve Net Zero targets. In short, significant, coordinated effort by constructing a regional framework as shown in Figure 3 is necessary to meet the Paris climate goals by 2030 and a Net Zero economy 2050.

Figure 3 Regional cooperation framework for accelerating transition to net zero economy



Source: Anbumozhi, Kalirajan and Kimura, 2018

There can be no going back to old normal by ASEAN and East Asia, if the above five interconnected actions are taken up and mainstreamed into policy making process.

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