UNCTAD Comments for Session 1

ESCAP Regional Consultation 17 December

Thank you for this opportunity to share with the Regional Consultation the findings from Monday's ESCAP/UNCTAD Workshop on Financing and Implementing the Green Transition: National and Regional Policy Essentials, on the topic of strengthening domestic public resources.

The session's theme is extremely timely, as the Asia/Pacific region faces a challenging global economy and declining finance from external sources. The ESCAP/UNCTAD Workshop on Monday heard that only 4% of total global financial flows are currently going into "emerging" economies, and even less into other developing countries. At the same time, a very large amount of domestic capital continues to flow out to investments in the North. Experts at our Workshop noted that developing countries sent out as much as $16 trillion over the last two decades, representing a significant opportunity cost for their own economies.

Another costly example where domestic resources go in the wrong direction for climate-aligned development concerns the trillions of dollars spent on fossil fuel subsidies. Global fossil fuel subsidies last year totaled more than $1 trillion, which represents ¼ of the amount of finance deemed needed per annum to meet the SDGs. Some countries in Asia/Pacific currently spend as much as 1% to 3% of the GDP on such subsidies. Re-directing these public expenditures, whilst at the same time providing alternative support for the low-income households that rely on them, would liberate significant public funds for investment.

Speakers at the Workshop said that one reason finance flows out of the Asia/Pacific region is the perceived lack of safe, investible places for private and public national investors. Asia has a high savings rate but the returns on savings are low and the perceived currency risks are high; hence the holders of capital send it outside the region. Hence, much needs to be done to keep the finance in the region and to direct it to productive investment.

Solutions raised at the Workshop included national-level policies to better support public and development banks, as these are the institutions with the mandate to finance long-term development investments that may not attract private investors and yet can yield important catalytic impacts. They can raise additional finance including through bond and private capital markets, and on-lend it. Such banks could also potentially act to hedge currency risks, and enable much needed local currency or multi-currency lending. Sovereign Wealth Funds could invest more in their home countries and the region, and this should help create the broader, diversified and more stable economy that would provide tax revenues for government and reduce their need to focus on macroeconomic stabilization. Other suggestions included broadening the investment base through digital and fund pooling policies, so individuals could buy bonds or portions of bonds through their cellphones, as is already happening in some countries. Local authority reform could also help, by changing the way in which Asia's cities receive and raise finance.

However, while national level policies can do a lot, what is really needed is collaboration at the level of the region. Experts noted that Asia/Pacific already has the positive experience of creating the ASEAN bond market, the Chiang Mai Initiative, the AIIB, Pacific Resilience Fund and a regional network of Central Banks; these offered positive examples to build on. Regional public banks have a particularly important role to play, alongside national ones, but are under-financed for what is needed. To create local currency and multi-currency lending, regional rather than national initiatives will likely be needed. Regional banks could also play an important role in the creation or distribution of regional SDRs. Another gap concerns the financial safety net; experts noted that not all countries are covered by the existing regional mechanisms such as CMIM and may not readily negotiate bilateral swaps if needed; middle-income countries are ineligible for important sources of concessional lending and may be forced to go to costly international capital markets in the absence of regional solutions. Moreover, these sources are pro-cyclical, and not counter-cyclical as needed in times of crisis. Further, the emerging regional network of Central Banks could build on its role to share experiences further and help national central banks utilize more effectively their role as the apex of the financial sector, to scale up and guide finance. Some central banks in the region have long been using variable reserve ratios and interest rates, climate disclosure requirements and other regulations.

Finally, while much attention is typically paid to the question of scaling up finance, the Workshop discussed the equal importance of industrial policies to create the demand side of the equation for long-term climate aligned development. Countries in the Asia/Pacific region have a long history of effective use of industrial policy at the national level, and now these policies need to be revisited to incorporate ecological and climate-aligned production and trade, based on three principles of de-carbonisation, de-materialisation and more sustainable use of materials, and development. Again, while national policies can do a lot, they need to be supported by regional policies and it is at the regional level that impact can be greatest. The Workshop considered policies to create or green regional value chains, where individual countries could potentially specialize in particular parts of the value chain and so avoid duplication. Similarly, regional agreements for treatment of water, waste and pollution would be helpful as national level policies cannot deal with problems that cross borders; as would be regional agreements to avoid costly races to the bottom in terms of tax incentives or environmental regulation. Such a framework of regional mechanisms can help address the problem that for some countries where immediate development needs are not financed, it is difficult to prioritise financing long-term climate-aligned transformation. Regional public banks and regional industrial policies aligned with national ones could help provide both financial resources and the stream of investible projects to create jobs, trade and revenue-generating opportunities.

Diana Barrowclough

Senior Economist, GDS, UNCTAD

.