# Introduction

*Swarnim Waglé and Kanni Wignaraja*

The years 2020 and 2021 gave us a glimpse of the universe of complex development policy issues we will likely deal with in this century – issues unprecedented in scale and unpredictability. Let us begin with three vignettes that have profound implications for the themes covered in this volume.

First, the year 2020 marked a momentous tipping point from a planetary perspective. For the first time in the 4.5-billion-year history of the Earth, the weight of human-made materials will likely exceed that of all life on the planet. Artificial materials, such as metals, concrete, bricks and plastic now outweigh the biomass of all living plants and animals (Elhacham et al., 2020). Specifically, this is a once-in-an-epoch event where the anthropogenic artificial mass will exceed the trillion tons (1.1 teraton) of living biomass. The United Nations Development Programme's (UNDP) 2020 *Human Development Report* explains the costs of such effects and details the enormous pressure we have placed on our fragile planet (UNDP, 2020). We may indeed be exiting the Holocene lasting the past 12,000 years, and entering the Anthropocene, a proposed geologic epoch in which humans have become the dominant force shaping the Earth (not the other way round).

Second, partly as a result of human squeezing and straining of local ecosystems, livestock and wildlife, an unfamiliar cellular microbe triggered the COVID-19 pandemic. Over five million people have died and the global economy lost at least US$10 trillion in unrealized output in 2020 alone (*The Economist*, 2021). Further economic damage and collateral social and health costs will continue to accumulate, as will the pandemic's impact on stretched state capacities and governance.

Third, the year 2020 marks a decisive shift in global geopolitics. The 'Rebalance' has accelerated, with countries of the Asia-Pacific now accounting for close to half of world output (a phenomenon last seen before the Industrial Revolution). In this regard, many economic historians see the past two centuries as a 'detour' for Asia, but a major difference exists between the pre-industrial era of Asian dominance and the present (Maddison, 2007; UNDP, 2013). Throughout human history until

the 19th century, the average annual economic growth rate, rounded down to one decimal place, stood at zero. It took centuries for average incomes to double and for the quality of life to noticeably improve across generations. Because of the Industrial Revolution, it became conceivable by the early 20th century that living standards would increase by 50 to 75 per cent within a single human lifespan. The more recent Green Revolution of the 1950s and 1960s extended progress for large parts of the Asia-Pacific population, heavily dependent on the agricultural sector, by increasing yields and addressing food scarcity. At the economic growth rates seen in Asia over the past few decades, living standards for its growing population do not simply double in a single human life span, but rise 100-fold, or 10,000 per cent.

With this rapid economic rise comes growing prestige, power, voice and influence in the region, and therefore new possibilities for accelerating human progress. These three vignettes imply that we must leap into new ways of living, working and cooperating, within the Asia-Pacific Region and well beyond. Governments' roles remain central, together with a renewed role for other actors and institutions. Mechanisms of scalable action need undergirding with robust norms and incentives to become effective. To echo Jean Monnet, "nothing is possible without humans. Nothing is sustainable without institutions".

With greater voice will come a responsibility to contribute to universal solutions. While a more multipolar world will probably check the excesses of a mono- or duo-polar world, it also brings a risk of inaction and indecisiveness, if multiple actors squabble to serve only their national interests. As seen in the growing challenges of climate change, some of the larger Asia-Pacific economies have voluntarily reconsidered the principle of 'common but differentiated responsibilities' (CBDR); meanwhile, decades-long measures and definitions of 'developing' call for refreshing, as reality shows the lack of equality within the Global South. The growing economic powerhouses and large carbon emitters, both North and South, will have to step up to carry larger responsibility for regional and global actions.

This backdrop informs the ethos of the chapters contained in this policy compendium. It documents lessons that can underpin current policy dialogues and outreach to governments, thinktanks, social movements and the private sector on development priorities leading to 2030. The 13 chapters address three major themes: policy shifts accelerated by the pandemic, including climate change, sovereign finance, digitalization, global value chains and productivity growth; measures and aspirations for improved human conditions, such as equality of opportunities, multi-dimensional poverty, human security and vaccine equity; and new modes of state capacity and international governance, including global public goods, regional cooperation and lessons from pandemic governance. A summary follows of each chapter's essential insights.

Manuel Montes and Arnico Panday take on two distinct, and relatively less-explored, facets of the climate emergency. Montes reviews how the upside of Asia's

rise, or 're-emergence,' has spawned an accelerating pattern of environmental costs, many induced by enlarged manufacturing activities, increased incomes that have, in turn, expanded consumption baskets, and urbanization. If climate change charts a path of technological, social and economic development, the question becomes one not of reducing *costs* but instead accelerating *investment* in pursuit of development ambitions. Montes examines how the Asia-Pacific Region might reorient investment and its financing as forms of climate action, focusing on economic restructuring, a strengthened care economy and technological development as key problems. He warns that the hazardous features of the international financial system, without the ability to secure long-term financing, may frustrate actions against climate change.

Panday presents the Himalayas (The Third Pole) as Exhibit A of climate change. Even with the increase in global average temperature capped at 1.5˚C above pre-industrial levels, glaciers in the region will lose one third of their ice volume by the year 2100. The region contains the world's third largest storage of frozen water: Its glaciers feed into ten major river systems affecting agriculture, drinking water and hydroelectricity production. Food grown in these river basins reaches three billion people. The melting of the Third Pole, however, does not take place in isolation. It is closely connected to the same human activities and drivers that also pollute the region's air, driving global climate change and raising sea levels. To move to net zero emissions of greenhouse gases, we must shift away from fossil fuel use in energy, transport and other sectors, while changing diets and agricultural practices. The countries of the region also need to reduce emissions of black carbon and other short-lived air pollutants that have a climate impact. Distilling the latest science, Panday shows that addressing many of the same combustion sources provides climate, air quality and health co-benefits.

The pandemic highlighted the urgency of efforts to close the digital divide. It showed that we have not aimed high enough. Basic connectivity targets simply lead to greater inequalities in basic and enhanced capabilities. In his chapter on accelerating digital connectivity, Paul Garnett argues that new goals should reflect where technology is going, not where it is today or where it was a decade ago. Regulatory, marketplace and technological hurdles impede current efforts to achieve universal affordable broadband access across the Asia-Pacific Region. Technological options exist to deliver cost-effective, affordable connectivity to underserved communities. Garnett provides a comprehensive overview of different approaches that both the private and public sectors could adopt for financing the extension of affordable broadband access.

Global value chains (GVCs) drew massive policy attention during the pandemic. As industrialized economies moved away from domestic supply chains, the GVCs failed to rise to the unprecedented demands of the early days of the COVID-19 pandemic. The chapter by Ben Shepherd discusses how trade policies dictate GVC development and why the GVC paradigm of the future must become more resilient

to shocks. He cautions that the pandemic experience was unusual because of the strong correlation among country-level shocks across all regions. Under normal conditions, the ability to diversify risk by relying on multiple suppliers in multiple countries becomes an advantage of the GVC system. While a much stronger case exists for using public sector resources to maintain inventories of critical equipment in circumstances where the private sector cannot do so optimally, that would involve forward-looking purchase arrangements between governments and GVCs.

As developing countries come out of the pandemic, and in view of the unfolding climate and inequality crises, Palma and Pincus argue that development approaches need to turn away from orthodox economic policies whose potential to drive growth has been exhausted. Their chapter presents compelling evidence of a premature slow-down in productivity growth across the emerging countries of Southeast Asia, comparing them to stagnant middle-income Latin American countries. Palma and Pincus recommend that countries revive productivity growth, decrease income inequality and mitigate climate damage by adding value to exports: processing raw commodities domestically, strengthening backward and forward linkages, and enhancing the sophistication of assembly operations in manufacturing.

The second cluster of chapters look at the human development impacts and implications at this present juncture. John Roemer and Avidit Acharya make a renewed case for equalizing opportunities (not outcomes) as a measure of development. They postulate three categories of inputs that determine 'fairness.' The first set of factors are the individual's *choices*, which includes the effort she puts in, the decision of which sector to work in, and so on. The second set includes *circumstances*: all individual-specific factors relevant for success but not chosen, such as ethnicity, gender and socioeconomic status. Roemer and Acharya argue that individuals should be held accountable for their choices, but not their circumstances. Public policy, therefore, should blunt the effect of circumstances, while amplifying the relative importance choices have in an individual's success. When individuals consider fairness, they think not just about entitlements but responsibilities. They argue that the reason, or source, of inequality matters. With equalized opportunities, how well individuals do in achieving shared objectives does not depend at all on their circumstances. If opportunities remain unequal, then public policy must seek to equalize them by neutralizing the effects of the circumstances. This intervention moves the collective towards a fairer society.

The chapter by Sabina Alkire and Alexandra Fortacz presents policy insights from an international measure of acute poverty, one covering simultaneous deprivations in ten indicators related to health, education and living standards. Their chapter examines how the Multidimensional Poverty Index (MPI) helps identify the most vulnerable people, reveal poverty patterns within countries and over time, and enable policymakers to target resources effectively. The use of new metrics to design integrated policies, and to manage and measure change, is still in

its initial phase in the Asia-Pacific Region. However, both the global MPI and national-level MPIs have permitted more granular analyses of poverty that dovetail with national efforts to achieve the United Nations' Sustainable Development Goals (SDGs). Alkire and Fortacz urge countries in the region to change what they measure in order to innovate quickly and skilfully, in turn helping end abject conditions while empowering impoverished persons and communities as agents and leaders.

In his chapter, A. K. Shiva Kumar revisits the idea of human security to note that the COVID-19 pandemic has exposed the fragility of development achievements accrued over decades. He positions the debate on the provisioning of basic social services by arguing that no country has managed to provide universal healthcare or universal schooling without the dominant policy presence and investment of the public sector. Differentiated strategies under the umbrella of universal coverage could ensure that the most disadvantaged groups also gain access to basic social services and social protection benefits. Many schisms in society have roots in misconceptions and entrenched belief systems that obstruct the building of social cohesion and solidarity behind common purpose. He urges policymakers to seek active citizen engagement on the sustainable development agenda. Governments can incentivize change in norms and behaviour, promote agency through participatory approaches and introduce laws that encourage desirable innovation. Kumar emphasizes an all-of-society approach because high incomes alone cannot guarantee human security. In fact, countries do not have to become rich before reducing vulnerabilities and promoting human dignity.

The chapter on vaccine access and equity by Partha Mukhopadhyay anticipates policy challenges for the future even with mass vaccination against COVID-19 underway (unevenly) across the world (at the time of this volume's completion). Will getting through this first global vaccination campaign suffice to check the pandemic, or will it need repeating year after year? Would we have the resources and the delivery capacity to do so? As long as substantial numbers remain unvaccinated, a reservoir will remain for the virus to recoup and to develop variants that could overcome immunity from existing vaccinations. Experts warn that severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2 causes COVID-19) may likely, or very likely, become endemic. No disease in the history of humankind with a strong zoonotic component – in origin or transmission – has ever disappeared completely. If SARS-CoV-2 does indeed become endemic, will the same degree of global cooperation displayed in manufacturing the vaccine apply to administering it to holdout populations? The precautionary principle requires us to consider this question about the future, to examine how we can build on our successes in order to prevent or address future SARS-CoV or other pandemics.

The final chapters focus on state capacity, regional and global governance, and lessons for development policy and institutions. Inge Kaul revisits the agenda of global public goods (GPGs) in the current context. Communicable diseases, climate change and financial stability to cybersecurity, safe use of new technologies,

including artificial intelligence, nuclear non-proliferation and cross-border terrorism – all require a renewed international cooperation. The under-provisioning of GPGs raises questions about basic adequacies in the present system of multilateral cooperation. Kaul calls for a reinvigorated universal multilateralism made 'fit for purpose,' replacing power politics with a primary operating principle of mutual compatibility between international cooperation and sovereignty. She proposes recognizing GPGs as a new type of policy challenge and ending their conflation with development assistance; adopting a mission-oriented approach to resolving GPG-related challenges; and promoting autochthonous organizations from all regions in the system of global governance as meso-level intermediaries. Does this represent a case of idealism trumping reality? Kaul suggests that the post-pandemic impetus must witness a massive rethinking, propelled by an apparent broad-based and strong ambition 'to do better' among policymakers and the global public alike.

Khalil Hamdani's chapter on regionalism reminds us of its use as an effective vehicle in past crises, from the Chiang Mai currency swap initiative that eased balance-of-payments difficulties in the 1997 Asian financial crisis, to a global framework for risk reduction that addresses national-level vulnerabilities to natural disasters. In the post-COVID-19 era, regional cooperation that 'builds forward better' should help economies safely reopen to one another, restoring travel, trade and supply-chains; it should revive domestic economies through cross-border connectivity and access to regional finance and investment. Hamdani reminds us that effective regionalism has assisted the least developed and developing landlocked and island economies in finding opportunities to advance sustainability, address climate change and devise new forms of multi-country cooperation to reduce vulnerabilities. How much this will work to build resilience to future shocks remains to be seen. Hamdani suggests a delineation of regional public goods, involving coordination and collaboration on regulatory standards in multiple areas, such as public health, trade, finance and technology.

Sakiko Fukuda-Parr focuses on diverse national responses to highlight the wide-ranging impacts of COVID-19 on implicit and explicit social contracts, rights and freedoms, and divergent conceptions of individual and collective welfare. She also signals the power asymmetries that played out based on resource ownership. She argues that most Asian-Pacific countries fought the pandemic quite successfully without the abundance of technological assets and financial resources found in Europe and North America, stressing the critical role played by their capacity strengths in governmental and societal institutions. She calls for the redoubling of efforts aimed at redressing the underfunding of public health infrastructure and the under-provisioning of global public goods, and shines a light on the harsh neglect of low-wage workers in the global economy. Like Kumar, Fukuda-Parr highlights the nuanced distinction between institutional capacities and capabilities.

In the final chapter on lessons emerging from the worldwide experience of fighting COVID-19, Sanjay Reddy offers major takeaways for rejuvenating development policy and institutions. The shockingly diverse pandemic-induced economic and health outcomes that we see today, even for countries at comparable levels of income, suggest a fundamental distinction between state 'capacity' and 'capability'. Using the unforeseen ill-timed release of the 2019 Johns Hopkins rankings on global health security, it is noted that countries that had the best capacity still proved unable to deploy this capacity into capabilities, the latter having to do with the ability to apply capacities in a given context to achieve a desired outcome. Reddy also argues that adaptive and integrated policymaking narrows the trade-off between efficiency and resilience. Policymaking constantly informed by feedback loops, self-learning, humility and transparency probably saved lives. Countries with these successes in pandemic policy also exhibited greater public trust in scientific expertise and in state authority, data and information.

According to the World Bank, at least $800 billion globally was invested in 1,400 social protection measures in the first nine months of 2020, but cash transfer programmes lasted just 3.3 months on average, and average spending per capita in low-income countries was only $6 (Gentilini et al., 2020). This supports Reddy's inference that a standing architecture for social safety nets provides a more secure buffer for vulnerable people than ad-hoc measures, and that traditional fiscal constraints need not limit social choices. This set of chapters uses different arguments and illustrations to come to a shared conclusion – that in an interconnected world, it will take more regional and international cooperation, not less: Cooperation with mutually assured benefits will prove indispensable to achieving the Sustainable Development Goals.

In September 2019, the UN Secretary-General called on all sectors of society to mobilize for a decade of action (2020–2030) on three levels: *global action* to secure greater leadership, more resources and smarter solutions for the Sustainable Development Goals; *local action* embedding needed transitions in the policies, budgets, institutions and regulatory frameworks of governments, cities and local authorities; and *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 (United Nations, 2021). Even before COVID-19 upended the world, this decade has been called "the most consequential in human history". We now have the means – capital, technology, policies and the scientific knowledge – to choose a path of reconstruction and regeneration, in contrast to the constraints faced by earlier generations (Carrington, 2020).

We hope this policy compendium provides a glimpse into a range of issues that have a significant call on the policy choices and directions for sustainable development in the Asia-Pacific Region. Many of these issues animate policy debates currently

underway; they imply that national-, regional- and global-level policy influencers must set more ambitious targets and act on bolder recommendations, if this vast and dynamic region is to play its part in ensuring a safer and more sustainable world.

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# 1 Aligning Sovereign Debt Financing with Climate Action in the Asia-Pacific Region

*Manuel F. Montes*

All my life, though some have changed,
Some forever, not for better.
—*In My Life* by John Lennon and Paul McCartney (1965)

## Introduction

A 2011 study projected that if the Asia-Pacific Region (APR) continues its upward trajectory, by 2050 it could account for more than half of global gross domestic product (GDP), trade and investment (ADB 2011). One could see this as a kind of 'Great Re-emergence', since the territories in the APR had accounted for this same proportion of the global economy before industrial development began in the West. Whole swaths of the APR have undergone permanent change, accompanied by corresponding disruptions and widespread adjustments in social and political arrangements.

These permanent transformations have been enabled by decades of vigorous economic growth, and these growth trends have, themselves, spawned an accelerating pattern of environmental costs, many induced by enlarged manufacturing activities, increased incomes that have in turn spurred expanded consumption baskets, and urbanization. Global climate change, interacting with the APR's achieved economic successes, threatens to increase the steepness of the climb towards development. Without the necessary course corrections in its current growth path, which has relied heavily on installing the fossil-based technology of the West's industrial dominance, development in the APR may stall sometime in this century.

This chapter argues that acting now, both as individual nations and on a regional basis, can both avert this stall and mitigate the human and economic costs of the action itself. In fact, if climate change marks out a path of technological, social and economic development, the question becomes one not of reducing costs but instead

of accelerating investment in pursuit of development ambitions (UN, 2011, 2015; Stern, 2015).

The ongoing COVID-19 pandemic offers a window into the developmental and climate action issues facing countries in the APR. First, the pandemic highlights the heightened degree of interdependence among economies in the APR arising from commerce, travel, financial flows and shared geography. With its network of global value chains, the APR has more intense economic integration than other regions of the world (Baldwin, 2016). With increasing urbanization and the region's dependence on ports for trade and on food production from coastal and river-basin areas, climate change presents a clear threat to the economic model. How can societies reorient their investment decisions (and mobilize the necessary finances) to sustain growth and the degree of interdependence among the APR's nations? Second, the pandemic reveals that economies in the APR depend upon their social provisioning and care sectors, the capabilities of which may either hinder or stimulate their development successes. Will societies in the APR summon the social and political resolve to steadily upgrade these sectors in tandem with their economic growth to keep their populations safe and thriving in a climate-warming world? Third, the pandemic exposes the human limits of technological capabilities needed to respond to natural events. Will capabilities in the APR advance rapidly enough in all societies to access, adapt and innovate with the technologies required for climate change?

This chapter examines how the APR might reorient investment and its financing as forms of climate action, focusing on economic restructuring, a strengthened care economy and technological development as key problems. It warns that the hazardous features of the international financial system may frustrate the climate actions needed to keep the APR on its development trajectory. It also notes that these hazards would pose problems even in a non-warming climate and demonstrate the need for thoroughgoing reforms in global finance. The first section surveys the climate challenges confronting the APR and their corresponding economic costs. The second section examines the limitations of the current financial system in generating the kind of finance required for climate action. The third section offers recommendations for further unpacking the question of climate-action investment and financing in the APR.

## Climate Challenges in the Asia-Pacific Region

Asian-Pacific countries find themselves confronting escalating development costs because of three forces: natural disasters; domestic pressures, such as those arising from public health concerns and the need to reverse environmental degradation; and the combination of national requirements and international obligations, such as commitments in the United Nations Framework Convention on Climate Change (UNFCCC), to reduce their greenhouse-gas emissions. Global climate change