

Unleashing Economic Potential through South Asia's Green Transition: A Path to Resilient and Sustainable Economies

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When viewed from the perspective of a country's finance minister, it is entirely understandable (and not unfounded) to occasionally entertain thoughts such as, "Don't we have more urgent economic issues to address?" or "Haven't we already established numerous such goals and aspirations?" when receiving advice on emissions reduction. Countries like Pakistan whose population is considerably large emit very small amounts of emissions. But one must not forget the economic benefits one can reap from such green efforts if done properly. A path to a resilient and sustainable economy is not a universal and/or a linear one. The approach that must be taken by South Asian economies would not work for their Latin American counterparts. Green transition is an achievable goal but unleashing economic potential from the same can be challenging. From welfare analysis to the possibility of decoupling and to that of de-growth the discussions surrounding the same goes on and on.

South Asia falls behind the rest of the world in the adoption of cutting-edge energy-efficient technology, using twice as much energy to create each unit of output as the average.¹ The most recent climate change scenarios like Shared Socio-economic Pathways (SSPs) do not have a scenario where economic potential is boosted via green transition. All the scenarios have kept an aim for a green transition and are moulding the economic framework accordingly. One of the world's most vulnerable areas to many direct and indirect consequences of climate change is the Indian subcontinent. The effects include rising sea levels, increased cyclonic activity, altered ambient temperature, and altered precipitation patterns, with Bangladesh likely to be most affected. Hence need for a resilient and sustainable South Asia is not just desirable but inevitable.

In the dynamic landscape of South Asia, the prospect of decoupling economic growth from environmental degradation presents a transformative pathway toward resilient and sustainable economies. However, the empirical results on the same show how South Asia is far from the prospect of decoupling. The author opines that the starting point for South Asia's green transition must be strong relative decoupling trends.

One particular market mechanism very much in discussion in the sphere of growth incentivising green transition is carbon pricing. Blackman, Milivojevic & Mylonas (2023)² checks the impact of introducing a US\$25/ton CO₂-equivalent carbon tax in South Asian economies and the results suggest that “monetised welfare co-benefits net of efficiency costs from such a tax—regardless of what other

¹ World Bank. (2023). South Asia Development Update, October 2023: Toward Faster, Cleaner Growth.

² World Bank. (2023). Policy Research Working Paper 10462: Are Carbon Taxes Good for South Asia?

economies or regions do are resoundingly positive, at 1.4 percent of GDP in 2030.” The estimated carbon tax revenue in 2030 is 1.3% of GDP, a significant amount for a region with a low tax-to-GDP ratio. Hence such market interventions are imminent and are necessary for South Asia’s green transition. However green fiscal measures often end up ineffective because they fail to integrate and maintain the same in budget planning as such measures must remain in place and not change following every political cycle.³

The discussion surrounding green transition cannot ignore the potential impact that it might have on public finances for which BIS⁴ stated in its annual economic report that "the long-term outlook is grim," that it could lead to a rise in a country's debt-to-GDP ratio in addition to other variables. A number of issues, including the commitment to support a transition towards a sustainable global economy in response to climate change, are anticipated to put pressure on public finances.⁵ Even with favourable assumptions, debt-to-GDP ratios are expected to climb steadily and endanger safety margins unless strong restructuring efforts are taken. The situation is further complicated by the impending additional burdens associated with aging populations, the green transition, and geopolitical concerns.

The shift in South Asia towards renewable energy will profoundly affect the labour market, potentially leaving numerous workers stuck in pollution-intensive jobs which are usually characterised by lower-paying, informal and low-skilled roles as transition to green jobs which are mainly occupied by higher-skilled, well-compensated, and formal-sector workers is not possible. Currently, pollution-intensive jobs outnumber environmentally friendly positions in most South Asian nations. Implementing a diverse set of policies is crucial to support the required labour market adjustments and safeguard vulnerable workers. “South Asia has strong potential for renewable energy. The number of jobs in the region related to the production of renewable energy is already almost as high as in the United States, although both are far lower than in China. Most of the region’s renewable energy jobs are in India’s and Pakistan’s hydropower sectors, but there is significant potential for employment growth in the region’s wind and solar energy sectors (Triyana, 2023).”⁶ It is also to be noted that the green transition in South Asia may contribute to inflationary pressures. As the region shifts towards sustainable practices and renewable energy, the costs associated with transitioning infrastructure, adopting new technologies, and ensuring environmental compliance can lead to increased prices for goods and services.

Efforts in South Asia to promote the greening of the financial sector have significantly advanced in recent years. Banks across South Asia are mainstreaming environmental risk analysis, adapting their

³ India, for instance, adopted a long-term climate action strategy including schemes for low-carbon and climate-resilient development.

⁴ Bank of International Settlements

⁵ Some nations, including Sri Lanka, are looking into debt-for-nature swaps as a way to assist address their economic and climate challenges as the threat of climate change has grown.

⁶ Triyana, M. (2023). Stranded jobs? The energy transition in South Asia’s labour markets.

lending criteria, and incorporating green practices into their balance sheets. Investors in the region are progressively integrating sustainability factors into their investment decisions, while insurance companies are including ESG⁷ risks in their underwriting and investment strategies. Notably, initiatives like the Principles for Responsible Investment (PRI) count over 1,700 signatories globally, representing 50% of assets under management, including a growing participation from South Asian financial entities. Consequently, there are ripe opportunities for South Asian multinational enterprises to leverage support from an increasingly sustainability-sensitive financial sector. Simultaneously, investors in South Asia can strive to ensure that the MNEs they support adhere to green finance principles, thus fostering and expanding the demand for sustainable financial practices in the region.

Facilitating a green transition in South Asia through international trade involves the strategic negotiation of Green Trade Agreements, incentivising environmentally friendly practices and fostering collaboration on sustainable technologies. Moreover, governments in the region can actively champion the promotion of green exports. Offering financial incentives, tax breaks, or streamlined regulatory processes to businesses engaged in eco-friendly industries can boost their competitiveness in the global market, unleashing great economic potential. Capacity building is critical, requiring initiatives that enhance industries' capabilities to meet international environmental standards through training, technology transfer, and financial support. Collaboration with international organisations and other nations enables the exchange of best practices and accelerates the adoption of sustainable measures. Integrating environmental criteria into trade policies ensures that imported goods adhere to recognised environmental norms, promoting responsible trade practices. Financial support from international institutions further catalyses green projects, reinforcing South Asia's momentum towards a more sustainable future.

South Asia has the capacity to greatly increase its production of zero-carbon resources. It boasts a burgeoning regional power market, an abundance of renewable energy resources, and governments determined to act decisively. The World Bank's recently released South Asia Climate Road Map and Climate Change Action Plan 2021–2025 showcases the long-term benefits of energy sector decarbonisation which includes increased energy security, decreased home energy costs, growth in the manufacturing sector and employment opportunities, and a major reduction in the effects of climate change.

⁷ Environmental, Social, and Governance