“The 14th GCET” 18-19 Oct 2013, Kyoto, Japan

Ecological Tax & Fiscal Reform for Sustainable Development

Rae Kwon CHUNG
Director, Environment and Development Division
chung1@un.org
ESCAP

- Parliament of Asia and the Pacific
- Norm setting for Economic and Social Development
- Adopted Green Growth as a new norm in 2005/Green Bridge in 2010
- GG as an implementing strategy for Sustainable Development
My Role

- Interface Academia with Policy making
- Perspective from User Point of view on ET
Vicious cycle/Maximizing Short Term GDP Quantity

Exploiting

- Human Capital
- Natural Capital

Worsening social exclusion
- Low labor productivity
- Widening income gap

High resource intensity
- Low resource efficiency
- Ecological unsustainability

Low economic dynamism/resilience
- High economic vulnerability

Undermining economic vitality
Virtuous cycle/Long Term Quality of Growth (GDP)

Investing

- Human Capital
- Natural Capital

Reinforcing economic vitality

High economic Dynamism/ resilience
Low economic vulnerability

High labor productivity
Social inclusion
Equitable income distribution

High resource efficiency
Low resource intensity
Ecological sustainability

Enhancing
Exploiting vs Investing in Human & Natural Capital

- **Exploiting**: going by the cheapest market price based only on short term supply and demand
- **Investing**: recognizing long term Social and Ecological value
SD Model: Purple & Green Growth

Investing → Human Capital → Inclusive Purple Growth

Investing → Natural Capital → Ecological Green Growth

SD
Sustainable Development Model: Purple & Green Growth have to go hand in hand (integration of 3 pillars)
To achieve SD, we need

- Eco-Tax Reform to invest in Planet
- Social Tax Reform to invest in People
- Both Reform at the same time
Time Gap

- **SD**: Long Term
- Current Policy Making: Short Term
- Short Term Exploitation of People & Planet
- **vs**

Long Term Investment in People & Planet
Price Gap

- Short Term Market (economic) Equilibrium
- vs
- Long Term Social and Ecological Equilibrium
Issues at Rio+20

- Why only Green/Planet?
- What about People?
- ETR cannot go alone
- Needs to link it with Poverty and Social Inclusion
- ETR to be supported by Social Tax Reform
Post2015 Development Agenda

- 5 transformative agenda
  1. From “reducing” to “ending” extreme poverty, leaving no one behind;
  2. Putting SD at the core of the development agenda;
  3. Transforming economies to drive inclusive growth;
  4. Building good governance
  5. Forging a new global partnership
Decent job, social protection/inclusion, closing income gap, energy/water security, ecological sustainability, disaster resilience,

Lots of ideas for goals but not much debate on HOW to achieve these goals??

ETR: can it be a tool for new development path?
Environmental tax/fiscal reform: shifting tax base from income/labor to resource consumption/pollution → Double Dividend but only in the long run

Total tax burden remains same

Tax “Bads” not “Goods”
ETR: Relevance for DCountries

- Shifting tax base from Income to Resource Consumption
- Avoid repeating Environmental Kuznets Curve “Grow first clean up later” but “Grow Clean”
- Revenue Neutrality
- Double Dividend: only in the long run
- Strategy for shifting from “EXPLOIT” to “INVEST”
Double Dividend; in the long run

- Critical in promoting political acceptance of ETR & shifting from “Exploit” to “Invest”
- In closing Price Gap: ETR
- In closing Time Gap: EFR (Ecological Fiscal Reform)
“Green”/”Climate” has to be

- “Opportunity” not “Burden”
- Mitigation has to be “Opportunity” sharing rather than “Burden” sharing
- Climate: Nick Stern: 1-2% global GDP
- IPCC: 3% global GDP, will reduce global GDP
We need a message that

- Investing 2-3% of global GDP in climate will even **raise not reduce** the GDP growth in the long run (DD)
Double Dividend of Green Economy: higher growth in the medium and long run

Will it be possible for developing countries?

- Not much study done for developing countries
- We need studies on HOW we can apply ETR in developing countries & generate DD, what are the conditions for DD of DC?
# ETR for 7 countries in AP

<table>
<thead>
<tr>
<th>Country</th>
<th>CO₂ reduction</th>
<th>GDP impacts</th>
<th>Employment</th>
<th>Recommended taxes to be reduced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>-3.01, -2.77</td>
<td>+0.08, +0.22</td>
<td>-0.03, +0.04</td>
<td>CPR, LAB or CON</td>
</tr>
<tr>
<td>Korea</td>
<td>-8.64, -7.30</td>
<td>-0.22, +0.74</td>
<td>-0.13, +0.08</td>
<td>CPR, LAB or CON, CON</td>
</tr>
<tr>
<td>China</td>
<td>-21.10, -15.58</td>
<td>-1.85, +1.91</td>
<td>-0.44, +0.68</td>
<td>CPR, CON, CPR</td>
</tr>
<tr>
<td>India</td>
<td>-14.97, -17.68</td>
<td>-0.97, +0.54</td>
<td>-0.31, +0.32</td>
<td>CPR, CON, CON</td>
</tr>
<tr>
<td>Thailand</td>
<td>-6.72, -3.77</td>
<td>-0.81, +1.53</td>
<td>-0.36, +0.54</td>
<td>CPR, LAB, LAB</td>
</tr>
<tr>
<td>Malaysia</td>
<td>-9.37, -7.24</td>
<td>-0.81, +1.46</td>
<td>-0.53, +0.42</td>
<td>CPR, CON, LAB</td>
</tr>
<tr>
<td>Cambodia</td>
<td>-10.86, -8.60</td>
<td>-0.39, +1.01</td>
<td>-0.27, +0.26</td>
<td>CPR, LAB, LAB or CON</td>
</tr>
</tbody>
</table>
ESCAP’s Low Carbon Green Growth Roadmap for Asia and the Pacific May 2012

- a comprehensive blueprint for policymakers

Roadmap consists of:
- Main report
- 63 fact sheets
- 51 case studies
- 8 policy papers
Restructuring both the:

- **Visible structure** (physical infrastructure, (urban design/land use planning/buildings/transport/energy/water infra/waste system)
- **Invisible structure** (market prices, fiscal policies, institutions, governance and lifestyles)

- **Only Governments** can jump start System Change
  → Market cannot deliver system change
  → Political leadership & commitment critical.
ESCAP Roadmap proposes 5 tracks as conditions for maximum DD

1. Quantity to Quality of Growth
2. Invisible System Change
3. Visible System Change
4. Promotion of Green Business
5. Developing Low Carbon Development Strategy
TRACK 1: Improving the **Quality of growth** and maximizing **Net growth**;

differ from **Quality of Life, Well-being**→3 qualities of growth

**Economic Quality**
Low unemployment, high value-added, competitiveness, resilience against external shocks (financial crisis, oil and commodity price hike)

**Ecological Quality**
eco-efficient growth, decoupling growth with energy consumption, Resilience to climate change, dynamic eco-system, water security, investment in natural capital etc.

**Social Quality**
Inclusive, income equity, employment, quality of life, happiness, well-being, social safety net, gender equality etc.
High Growth results in High hidden GDP losses
- E.g. Traffic congestion: 2 to 3% of GDP loss

Net Growth = Nominal Growth – Hidden GDP loss

By reducing hidden GDP loss & by focusing on improving Quality of Growth; higher Net Growth

Focusing only on Quantity of growth will end up lower Net Growth

Focusing on Quality of Growth will raise Net Growth
Maximizing **Net Growth** by reducing hidden GDP loses
GG: Green Quality of Growth

- Economic & Ecological Quality of Growth
- GG: need to be supplemented by Social Quality of Growth
- GG: need policy frame focusing on Quality of Growth & Beyond Quantity of GDP Paradigm
Asia-Pacific: Pioneer of GG/GE

- ESCAP first proposed Green Growth
- adopted at the 5th Ministerial Conference on Environment and Development in Asia and the Pacific (MCED-5) March 2005
- Korea, China, Cambodia, Kazakhstan, Viet Nam, Mongolia
- Financial crisis of 2008 has provided both challenges and opportunities for the promotion of green growth
- The 6th MCED-6 adopted the “Astana Green Bridge Initiative” in Oct 2010
Green growth chronology

2005-2013
Countries start adopting Green Growth:
Korea (2008), Cambodia (2009),
Kazakhstan (2010), Viet Nam (2013)

Mar 2005
ESCAP proposes Green Growth, adopted as key strategy at MCED 5

Sep 2010
Astana Green Bridge Initiative adopted at MCED 6

2007-2008
Financial crisis
Food-fuel crisis

2008
Green New Deal
UNEP Green Economy

Jun 2009
OCED Green Growth Declaration

Nov 2010
G20 Green Growth

May 2011
OCED Green Growth Strategy

Globally
Green Economy here to stay but requires fundamental system change

- Green growth is taking root in Asia-Pacific and will remain as one of socio-economic development policies in the decades to come
- Demand for energy, materials and other resources will continue to grow, as countries in the region seek to fuel economic growth and maintain high growth rates
- So will grow the urgency of pursuing Green Economy
- Green Job, Trade and investment opportunities exist

But opportunities will depend policy choices for economic system change
Economic system change for Shifting from `<Intensive>` to `<Efficient>` Pattern of Growth

- **Current Growth Pattern:**
  energy/resource/carbon *intensive*

- **Green Growth Pattern:**
  energy/resource/carbon *efficient*

**GG:** a strategy to *sustain growth* necessary to reduce *poverty* while coping with *resource constraints* and *climate impact*, a *new development paradigm* that requires a *fundamental economic system change*
Link ETR with Poverty reduction and Social Inclusion

- **GG**: a strategy to sustain growth necessary to reduce poverty while coping with resource constraints and climate impact, that requires a fundamental economic system change

- But no automatic guarantee: benefit of the green growth could be evenly distributed, thus to be supplemented by Inclusive Growth approach

- But neither for current Brown Growth
Way Forward for ETR:

- promote as a tool for SD
- Shifting from EXPLOITING to INVESTING in Planet and People
- Shifting from SHORT term to LONG term time frame
- Shifting from QUANTITY to QUALITY
- Focusing on DOUBLE DIVIDEND (DD)
- Economic system change to maximize DD
ETR will be critical

- First Step in shifting from burden ➔ opportunity, exploit ➔ invest
- By promoting DD and introducing system change necessary for promoting SD &
  New development trajectory not repeating EKC/ Grow first and clean up later
Thank you for your attention
chung1@un.org