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Ecological Tax & Fiscal Reform for Sustainable Development



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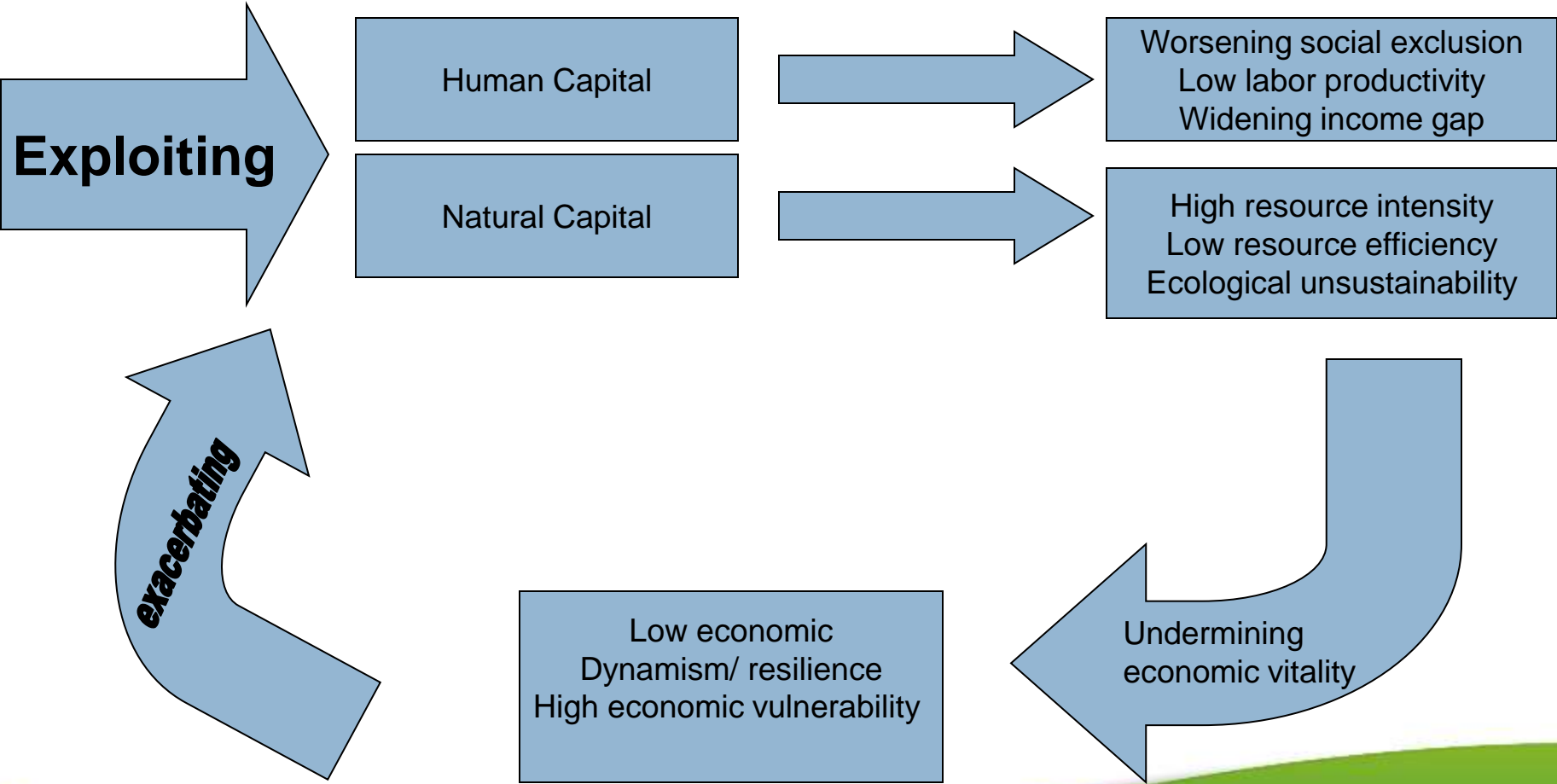
ESCAP

- 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

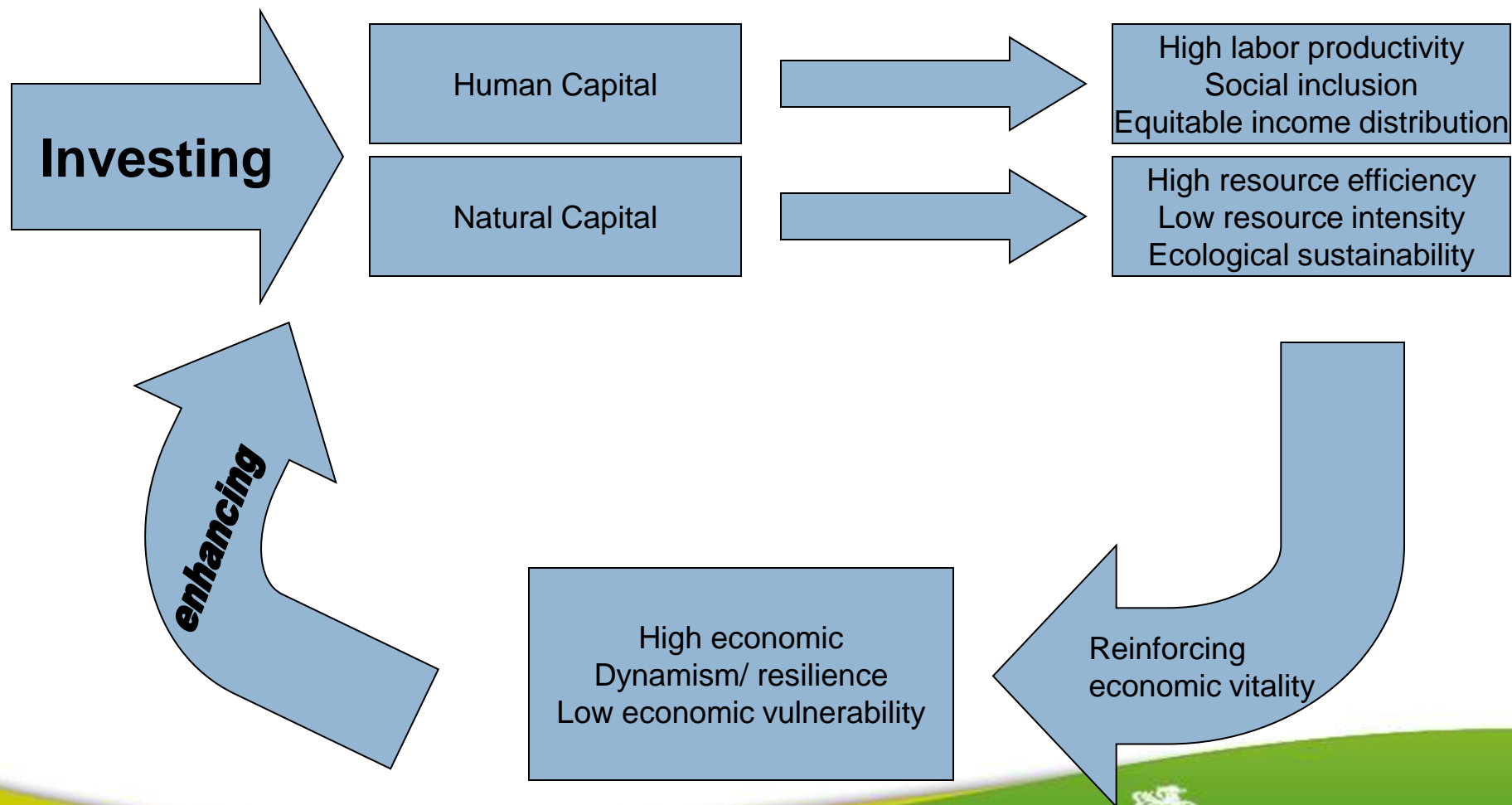
My Role

- **Interface Academia with Policy making**
- **Perspective from User Point of view on ET**

Vicious cycle/Maximizing Short Term GDP Quantity



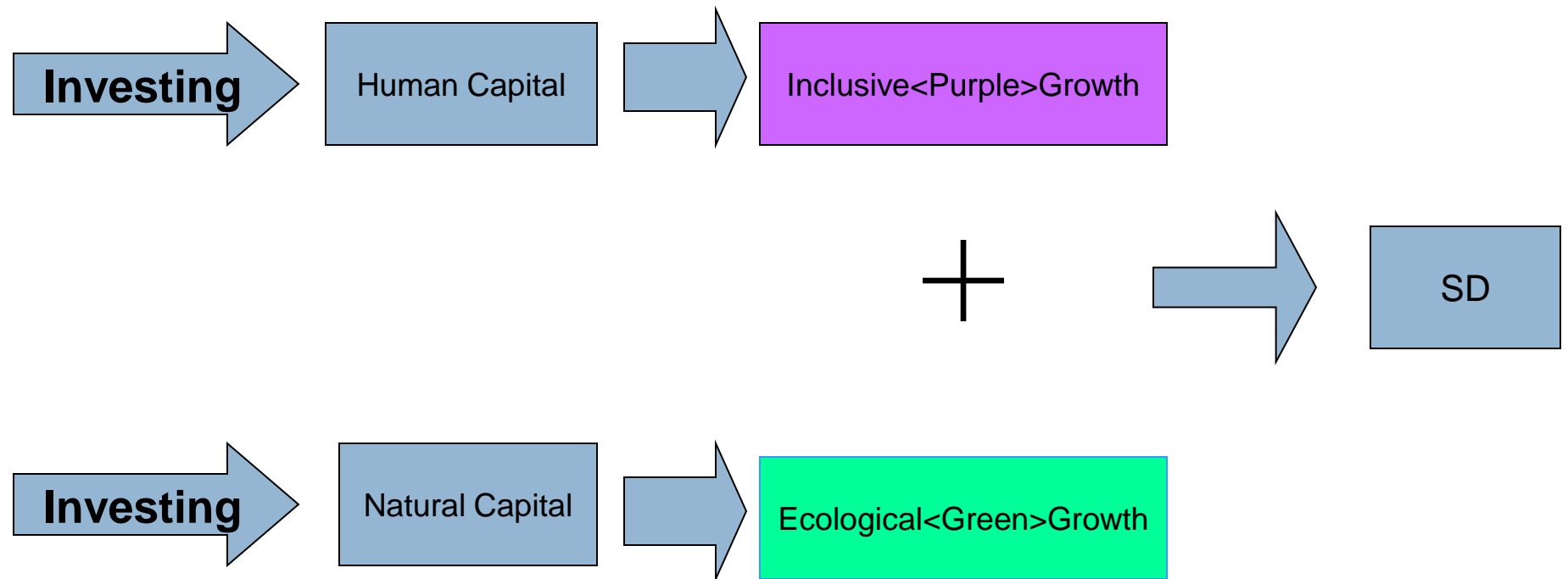
Virtuous cycle/Long Term Quality of Growth (GDP)



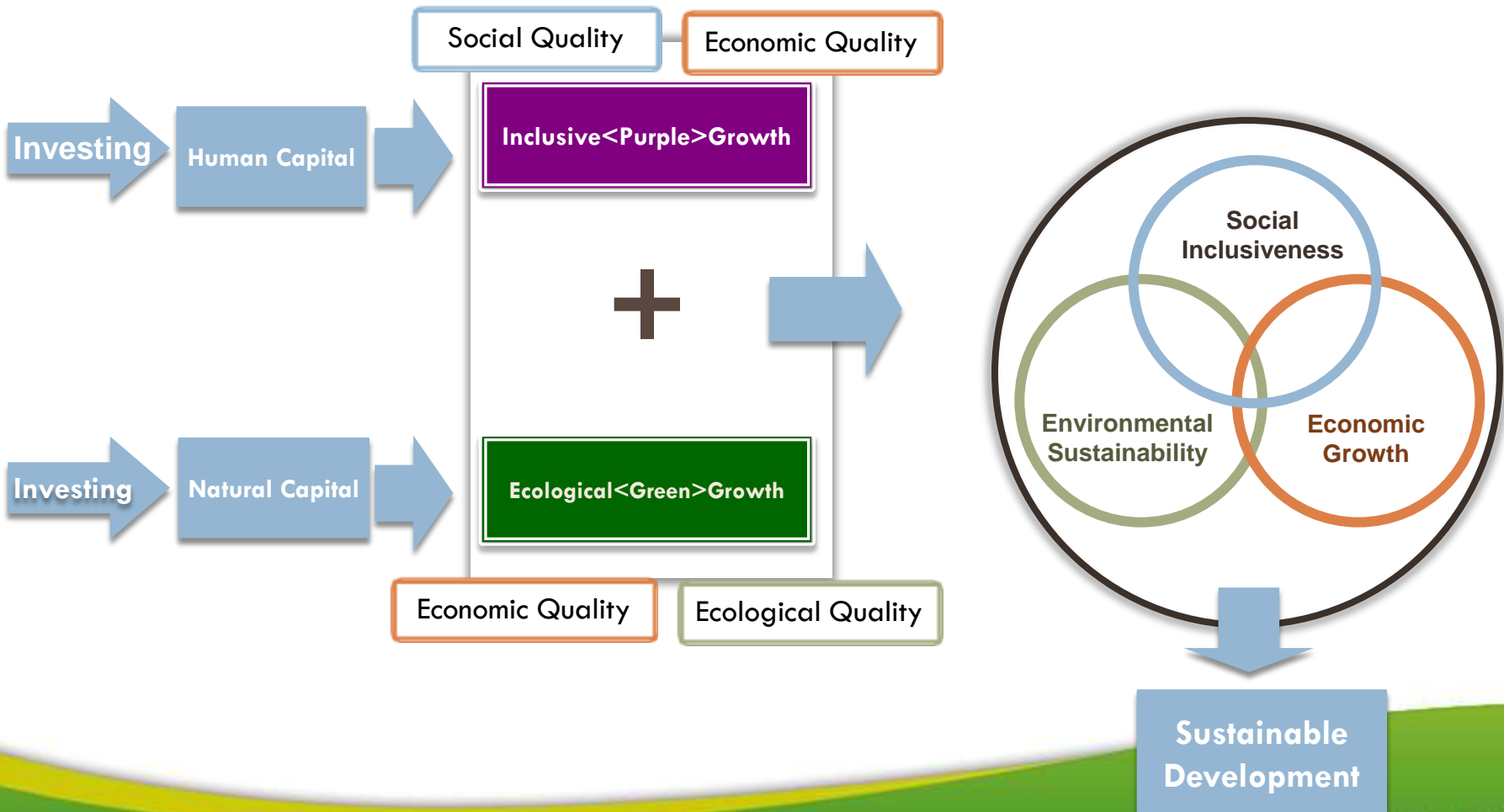
<Exploiting> vs <Investing> in Human & Natural Capital

- **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



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

SDG

- 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



**REVENUE
NEUTRALITY**

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)

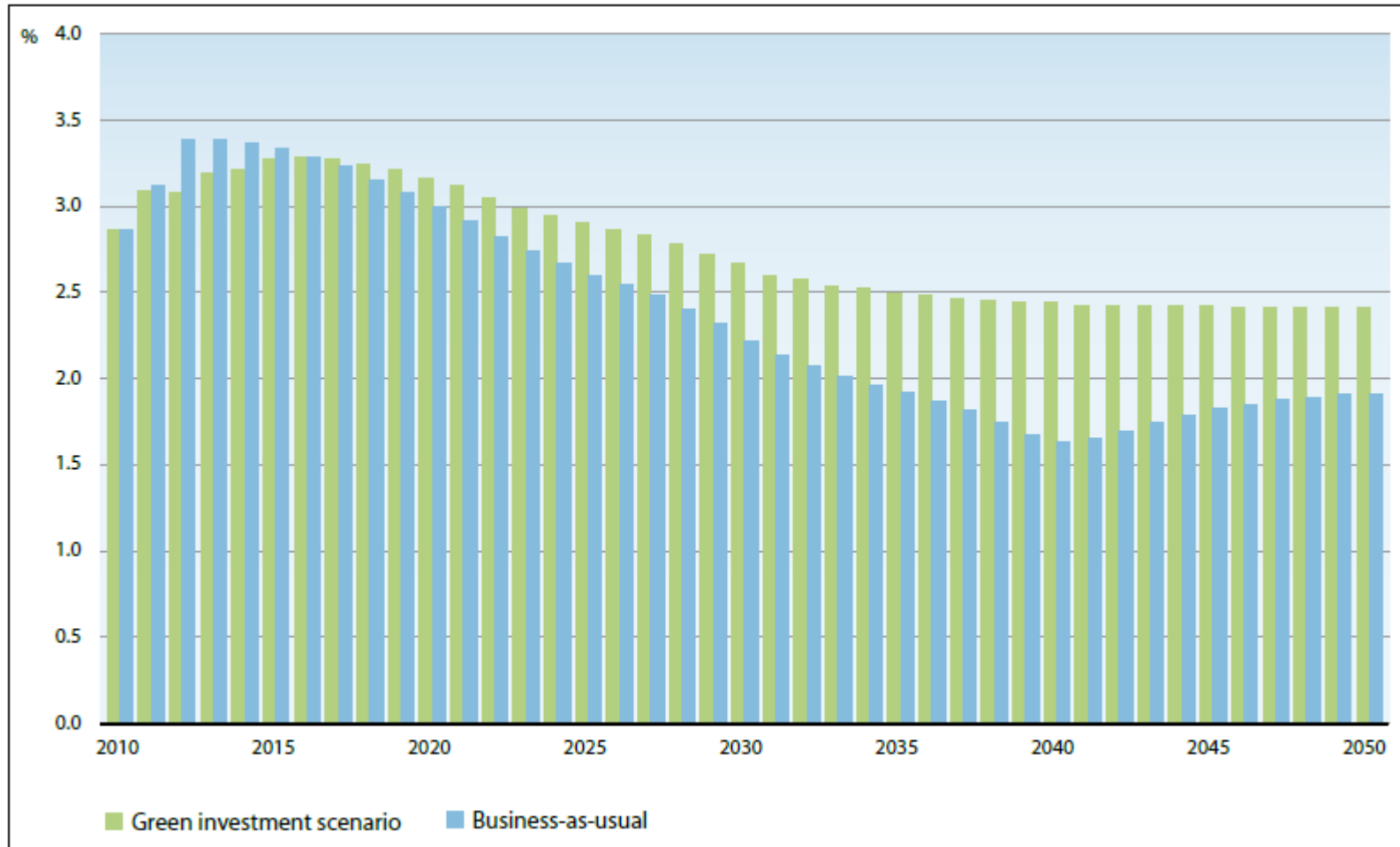
“Green”/”Climate” has to be

- **“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



Source: UNEP Green Economy Report (2011)



Will it be possible for developing countries?

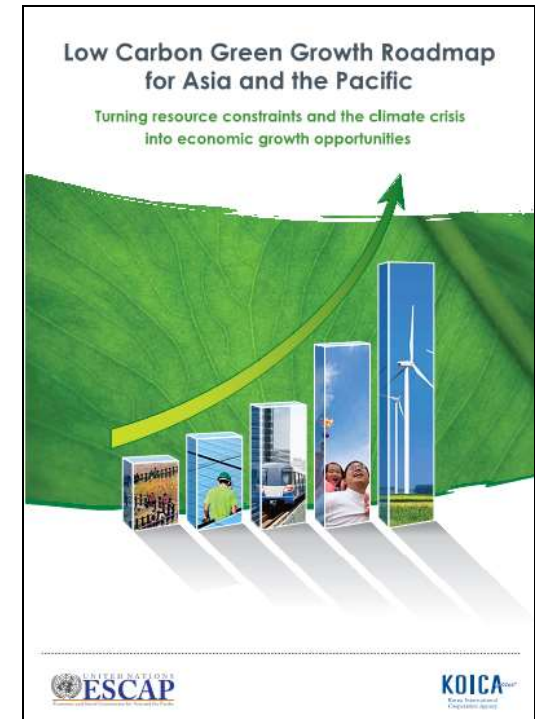
- Not much study done for developing countries
- We need studies on HOW we can apply ETR in developing countries & generate DD, what are the conditions for DD of DC?

ETR for 7 countries in AP

Country	CO ₂ reduction	GDP impacts	Employment	Recommended taxes to be reduced		
				GDP	Employment	Utility
Japan	-3.01, -2.77	+0.08, +0.22	-0.03, +0.04	CPR	LAB	LAB or CON
Korea	-8.64, -7.30	-0.22, +0.74	-0.13, +0.08	CPR	LAB or CON	CON
China	-21.10, -15.58	-1.85, +1.91	-0.44, +0.68	CPR	CON	CPR
India	-14.97, -17.68	-0.97, +0.54	-0.31, +0.32	CPR	CON	CON
Thailand	-6.72, -3.77	-0.81, +1.53	-0.36, +0.54	CPR	LAB	LAB
Malaysia	-9.37, -7.24	-0.81, +1.46	-0.53, +0.42	CPR	CON	LAB
Cambodia	-10.86, -8.60	-0.39, +1.01	-0.27, +0.26	CPR	LAB	LAB or CON

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



LCGG: ESCAP proposal for fundamental system change

- 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

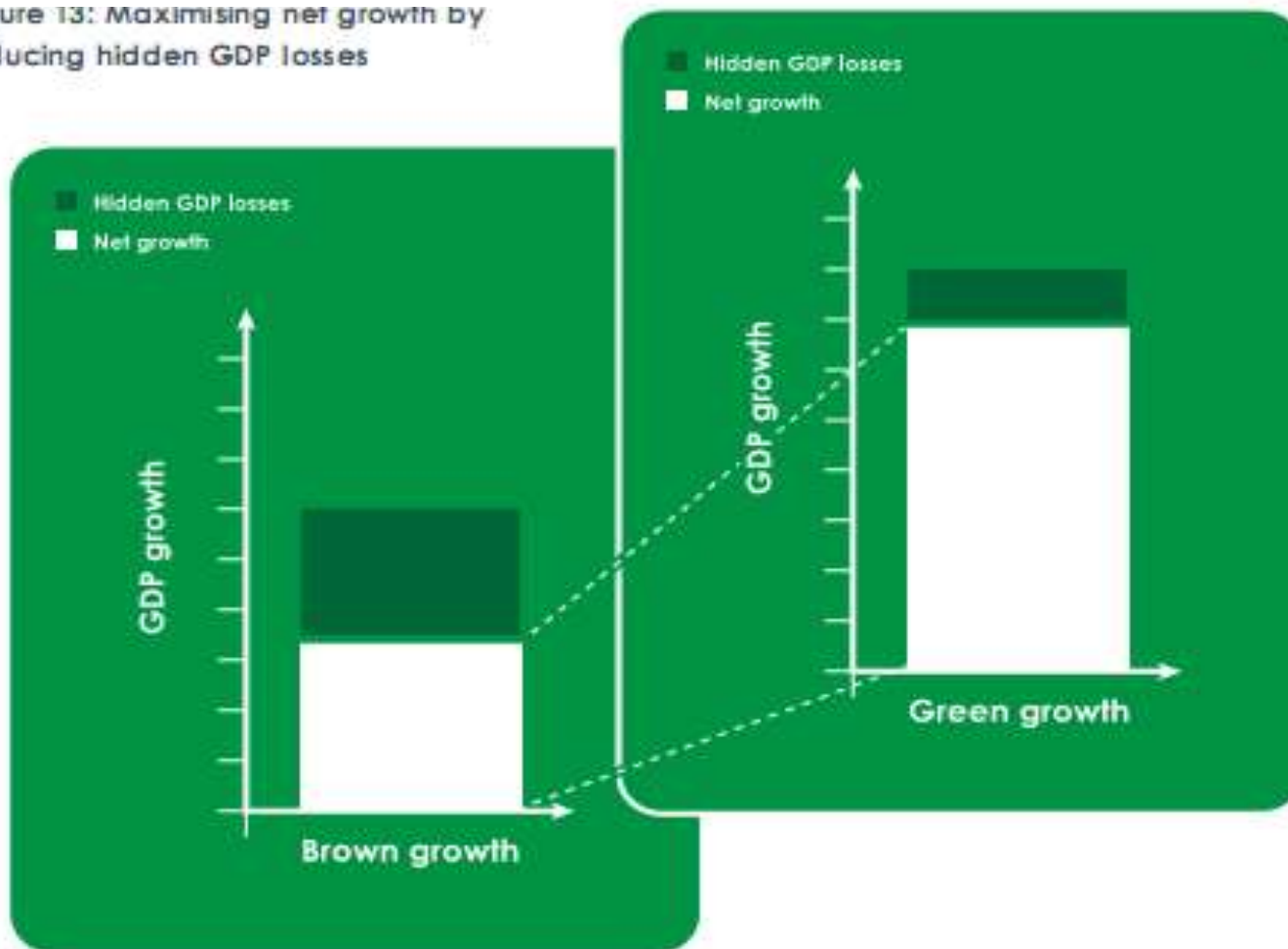
◆ **Focusing on Quality of Growth**

will raise Net Growth



Maximizing Net Growth by reducing hidden GDP losses

Figure 13: Maximising net growth by reducing hidden GDP losses



GG: Green Quality of Growth

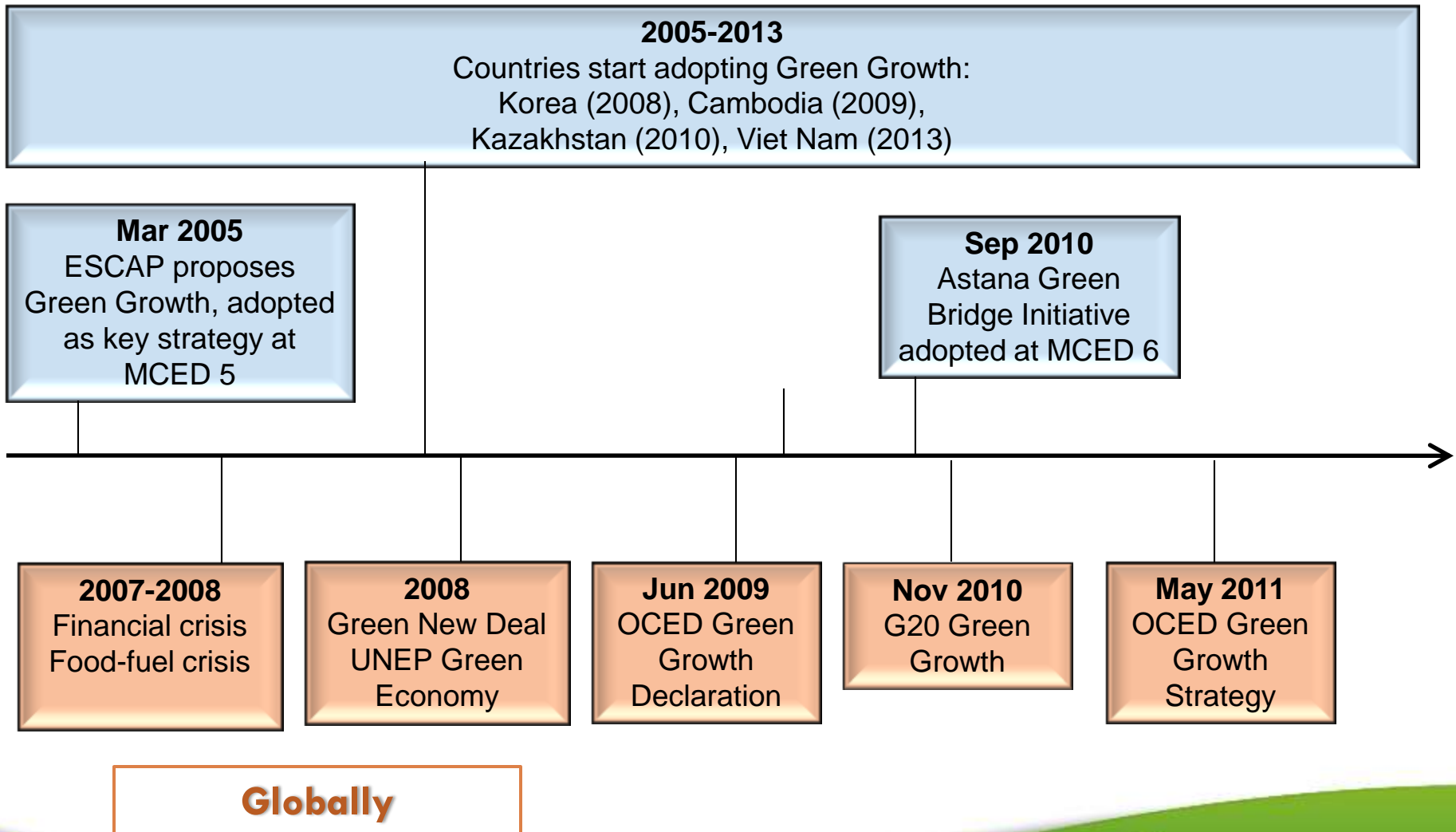
- Economic & Ecological Quality of Growth
- GG: need to be supplemented by
Social Quality of Growth
- GG: need policy frame focusing on
Quality of Growth &
Beyond Quantity of GDP Paradigm

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

In Asia-Pacific



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
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