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Pathways to Sustainable Development^{*}

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Abstract required from the author

I would venture to broaden the scope of sustainable development to include shared growth. After innumerable debates and discussions among the academic, practitioners and civil society organizations, it has now been established that the concept of economic growth synonymous with increases in per capita income is too narrow and limiting. Various alternative conventional concepts such as Quality of Growth, Pattern of Growth, Growth with Redistribution, and Inclusive Growth have entered the vocabulary at several periods of time. One of the lessons we have learnt from the experience of the past few decades is that rapid economic growth has led to income inequality, regional disparity, and gender differentials (Muller 2014)¹. All the boats have not risen on the strong tides of economic growth (Ostry and Berg, year?)². We have therefore to design pathways that have broad based sharing of the benefits of economic growth so that a large segment of the population is the ultimate beneficiary.

As I would show, there has been some progress towards sustainable development in the last three decades but very little has been done to tackle inequalities. Since 1987 after the Brundtland Commission more formally known as Commission on Sustainable Development, a lot of attention has been focused on raising awareness and tracing the consequences arising

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¹ Jeremy Muller, "Capitalism and Inequality" Foreign Affairs March-April 2013, Finance and Development "50 years of Development", IMF, September 2014

² J. Ostry and A. Berg, Inequality and Growth, Finance and Development September 2014 (Washington, D.C., IMF) (Year, date of access?)

from liberalized consumption on natural capital and environment. It was argued that the replication of western living standards by the populations of emerging and developing countries would create a disaster as non-renewable natural resources such as minerals, metals, oil and gas are quickly depleted. In the meantime, the growing evidence gathered by the Intergovernmental Panel on Climate Change (IPCC) highlighted the issue of global warming and climate change. Carbon dioxide emissions from energy use have increased by about 3% per year in the 2000s around twice the pace in 1981-2000.

In the beginning, adversarial positions were taken by environmentalists and economists, by developed and developing countries, by the U.S. and Europe. But slowly and gradually these divisions are beginning to dissipate. Cost-benefit calculations have convinced the economists that the desirable course of action is mitigation and adaptation and Stern Review of 2006 provided the intellectual underpinnings of this change in the views held by mainstream economists. Policy makers have also begun to make some headway in tackling this problem seriously. In October, the EU announced plans to cut emissions by 40% from 1990 levels by 2030. Although those at the right of the ideological spectrum particularly in the US are still dragging their feet, the Obama Administration's recent announcement to cut down carbon emissions of 2005 level by up to 28% by 2025 has brought the U.S. one of the largest emitters on the same wave length as Europe. Chinese government's commitment to reach the peak emissions by 2030 has ignited some optimism as it is expected that other developing countries will also follow China's example. The rigid division between developed and developing countries that was so apparent in 2005 at the time of Kyoto Protocol is beginning to yield to greater convergence of views and actions among the two groups. The argument that developed countries were responsible for the greenhouse gases in the atmosphere historically and should have obligation to cut emissions has weakened as China has now become the largest emitter of carbon dioxide. Many multinational enterprises have made commitments to cut emissions and adopt low carbon technologies. It is, however, too early to summarize whether these commitment are likely to be fulfilled. A new Green Climate Fund has been established to help the poor countries cut emissions and adapt to the impact of climate change.

More recently, a Global Commission on the Economy and Climate has produced a report that more or less sums up the current consensus on this subject. The Lima Conference that is going on this week did not make any breakthroughs but the intellectual case for growth under changed climatic conditions along with policy recommendations has been well

articulated in the report of the Global Commission. What struck me as an economist was the consensus that many of the policy and institutional reforms needed to revitalize growth and improve well-being can also reduce climate risk.

The Commission begins by fully recognizing that rapid technological progress, a large rise in trade and major structural changes have transformed the global economy in the last 25 years. Developing countries now account for more than two-fifths of world's Gross Domestic Product (GDP). Poverty dropped at the fastest rate ever in the last decade. However, since the great recession of 2008-09, countries at all income levels have struggled to achieve fast, equitable growth in output, jobs and opportunities. Vigorous and deliberate reforms are therefore needed to sustain broad-based prosperity.

The next 15 years are critical for taking climate rise as the choices made will either lock in a future with growing pollution and worsening climate change or help move the world onto a more sustainable, low carbon development path. Potential “win- win” reforms in urban, land use and energy system would involve correcting market and government failures that now make economies less efficient than they could be. This can be materialized by building broad political consensus that can create urgency to reform cities, land use and the energy sectors. These are not easy times and will require real effort. The Commission estimates that at least 50% and with broad and ambitions implementation – potentially up to 90% of the actions needed to get onto a 2°C pathway could be compatible with goals of boosting national development, equitable growth and broadly shared improvements in living standards

The rest of the section is devoted to the analysis of these findings on the South Asia region.

First South Asia is the least integrated region in the world. Political disputes, particularly the tension between India and Pakistan, have been mainly responsible for non-realization of the huge potential of trade, investment flows, people to people exchange and sharing of scientific and technological knowledge. It is ironical that the region also has the highest number of people below the poverty line. Any other region would have taken strong measures to remove this disconnect between untapped potential for growth and development and the large reservoir of poor people. Regional economic integration can play a critical role in poverty reduction and sustainable and equitable development and therefore becomes the utmost priority area for action.

Second, the region suffers from poor governance, pervasive rent seeking and low institutional capacity that together act as an impediment in implementing policies, programmes and projects for development. Countries in the region have been grappling with complex problems of structural change and institutional revitalization for a long time but with mixed results. A concerted effort in reforming the institutions and improving governance is sine qua non for structural changes that have been postponed due to political expediency. Short run political gains have been achieved at the cost of long term economic benefits.

Third, the water-food-energy nexus in South Asia is an area of major concern. Rapid population increase and growing urbanization have already put these countries in water-stressed category. Global warming that result in melting of glaciers in the Himalayas would aggravate water availability for agricultural purposes and energy generation in the region. Food production requires water and energy; and energy production requires water. Food prices are also highly sensitive to the cost of energy inputs through fertilizers, irrigation, transport and processing. In South Asia, integrated trans-boundary water basin management does not exist. The conflict and tensions and the blame game have vitiated the atmosphere. India and Pakistan agreed to the Indus River Basin Treaty in the 1960s that has held the grounds for the past fifty years but needs to be revisited in light of the impending glacial melting. Similarly, India and Bangladesh also have differences on water use that needs to be resolved. The nexus between energy, water and food production in light of the recent evidence about the climate change and uncertain future require urgent but careful attention. Nepal and Bhutan have enormous hydropower potential that can be exploited to serve the energy-deficient areas of India bringing revenues to the former while overcoming shortages in India.

Fourth, fossil fuel consumer subsidies in South Asia benefit the rich and well-to-do segments of the population and not the poor. Political economy considerations perpetuate these subsidies in the name of the common man while the facts are quite contrary to this. In Pakistan, for example, it is estimated that out of 20 million consumers of electricity, only one million consumers or 5% belong to the low income category while the remaining 95% who enjoy these subsidies belong to the middle income or high income groups. There is at the same time a well-documented database that identifies poor households generated under the Benazir Income Support Programme. Targeting these subsidies on these households would reduce fiscal deficit, lower the consumption of fossil fuel and thus lower CO₂ emissions. This

is an example of ‘win-win’ situation where economic growth and carbon emission goals do not collide but converge. If this is the case, why does not this happen?

Removal of these distortions is resisted by vested interests who are the beneficiaries of these subsidies. Politically influential and vocally articulate businesses and households are in the forefront of such resistance. They are vocal and make loud noise in the media and come out on the streets while the governments succumb to their pressures and continue with these costly subsidies that also add to carbon emissions.

Another case of complementarity between growth and environmental protection is the abatement of air pollution, water pollution and poor sanitation particularly from the large urban metropolitan areas. Most of the diseases in the urban areas are water-borne or respiratory which keep the poor out of work because of poor health conditions, sickness or absenteeism from regular work. Tackling the problems of air pollution, water pollution and sanitation would improve the productivity of the labour force, add to their incomes and contribute to higher growth. Public expenditures on curative health and expensive tertiary hospitals would also be reduced.

In the area of fiscal policy, carbon tax³ is not only an effective source of government revenue but also a strong brake on carbon dioxide emissions through fossil fuels and other carbon intensive industries. The yields from this tax can be utilized for subsidizing the development of alternate renewable energy sources. In the beginning, the costs of switching to wind, solar, biomass are relatively higher compared to the conventional fuels. To make up for this cost differential, time bound subsidies can be justified on ‘infant industry’ argument. Once these alternate sources gain economies of scale, then the subsidies could be removed. On the expenditure side, effluent treatment plants in the industrial zones, sewerage systems with treatment plants, solid waste management disposal differentiating between recyclable materials and pollutants, drinking water supply accessible to the majority of the population deserve priority. On the one hand, the direct and indirect benefits to society and business far exceed the costs incurred. On the other hand, rivers, coast lines, wildlife, fisheries, and plantations are all protected from the poisonous material and effluents that end up in these reservoirs.

³ The lobbies of oil marketing companies, exploration and production firms and refineries have not allowed this instrument to become effective.

Finally, research and development (R&D) and investment in innovations are public goods that have been badly neglected by the policy makers in South Asia. Some interesting small scale experiments have been carried out but their replication on a large scale gets stalled because the market incentives for climate-friendly innovations and clean technologies are almost non-existent. Finance ministers in South Asia, faced with day-to-day financial crisis situations under almost distressed conditions, find it difficult to allocate resources for R&D and innovative practices. The bias in favour of existing dirty technologies would remain unabated unless new clean technologies are developed on a commercially viable scale.

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