EXECUTIVE SUMMARY

The 2019 Survey calls upon the Asia-Pacific region to prioritize ambitions beyond economic growth and invest in people and the planet

Although the region has emerged as an economic powerhouse, increases in wealth have not been shared widely, and intensive use of natural resources has come at steep financial and environmental costs. To move towards a more harmonious path of development, characterized by synergies rather than trade-offs, the region needs to urgently address investment shortfalls in people and the planet. This would require a reallocation of capital of about 4-5 per cent of GDP, on average, in the region. Doing so would put the region on track to achieve the Sustainable Development Goals by 2030. It would also support productivity growth and improve the long-term health of the regional economy.

The *2019 Survey* consists of four chapters. Chapter 1 lays out the rationale for going beyond economic growth. Chapter 2 takes stock of economic conditions and policy challenges that the region is facing. Chapter 3 estimates the investment needed in people, prosperity and the planet to achieve the 2030 Agenda, and suggests how to fulfil those ambitions through integrated planning and financing. Chapter 4 concludes, with emphasis on partnership and regional cooperation.

Short-term ambitions cannot override long-term sustainability

The Asia-Pacific region has seen tremendous economic and social progress over the last 50 years, as average income levels more than tripled and life expectancy at birth increased from 46 to 75 years. However, in the light of heightened inequality and environmental degradation, keeping the old paradigm of prioritizing GDP growth at all costs is neither feasible nor desirable. The region is now at a crossroad, and it must go beyond growth to pursue, holistically, human well-being and planetary health, through a change in mindset and policymaking.

Prudent macroeconomic management is needed to address near-term risks to the economic outlook and create an enabling environment for sustainable development

Economic health is of course the foundation for sustainable development, as without growth there is no basis for social well-being. Therefore, prudent economic management is necessary for creating an enabling environment for sustainable development, as recognized in Sustainable Development Goals 8 and 17.

The *2019 Survey* finds that overall economic conditions in the Asia-Pacific region are stable, with an estimated average GDP growth of 5.3 per cent in 2018 and projections of 5 and 5.1 per cent growth in 2019 and 2020, respectively, for developing countries in the region. However, export-oriented sectors face headwinds from weaker demand in Europe and possibly the United States, as well as uncertainty over United States-China trade tensions. It was estimated in the ESCAP *Asia-Pacific Trade and Investment Report 2018* that threatened tariffs could cause a net loss of at least 2.7 million jobs in the region.

Compared with 2018, countries in the region may now have greater monetary policy space to support the economy, given the pause in monetary policy normalization in the developed world and relatively stable global oil prices. However, this should be accompanied by macroprudential measures, especially in countries with relatively high household and corporate debt, such as China, Malaysia, the Republic of Korea and Thailand, or distressed bank assets, such as India.

In general, fiscal policy should play a more proactive role in supporting near- and long-term development needs, from social expenditures to infrastructure outlays and climate action. Average fiscal balances have improved since 2016, and average public debt as a share of GDP among developing countries in the region is projected to remain at a moderate level over the next five years. Moreover, what matters most is where and what the deficit and debt are being used for, as discussed further in chapter 3 in the context of achieving the Sustainable Development Goals.

Economic policies should support structural transformation towards sustainable development

The region's medium- to long-term prospects depend on structural transformation and broad-based productivity growth. The *2019 Survey* cautions against countries shifting from an agriculture-based economy to one in which services play a dominant role, bypassing the manufacturing sector. New frontier technologies may reduce the scope for industrialization in "late entrant" developing countries, while high-value-added services require skilled workers. This is all the more reason to invest in people and enabling infrastructure. At the same time, boosting agricultural productivity and rural industries would be important for ending poverty, as discussed in the forthcoming ESCAP *Countries with Special Needs Development Report 2019*.

The next phase of structural transformation in the region must be environment-friendly. The *2019 Survey* illustrates that investments to speed up the transition to more resource-efficient systems of production and consumption would not only reduce carbon emissions by a tenth compared with the historical trend scenario, but also deliver high economic returns and over time reduce the net financial cost to zero. It would certainly be less costly compared with the cost of inaction on climate change and resource depletion.

To achieve the Sustainable Development Goals by 2030, Asia-Pacific developing countries need to invest an additional $1.5 trillion per year

The *2019 Survey* reveals that achieving the Sustainable Development Goals by 2030 would require an annual additional investment of $1.5 trillion for Asia-Pacific developing countries – equivalent to 5 per cent of their combined GDP in 2018, or about 4 per cent in terms of the annual average GDP for the period 2016-2030. This is based on a broad definition of investment, which includes expenditures if they deliver clear social returns. At less than a dollar per person per day, such an investment is worthwhile as it would deliver the following:

- An escape for more than 400 million people from extreme poverty and malnutrition (Goals 1 and 2)
- Basic health care for all (Goal 3)
- A quality education for every child and youth (Goal 4)
- Improved access to transport, information and communications technology, and water and sanitation (Goals 6, 9, 11 and 17)

- Universal access to electricity and clean cooking (Goal 7)
- Increased use of renewables (Goals 7 and 13)
- Energy-efficient transport, buildings and industry (Goals 7 and 13)
- Climate/disaster-resilient infrastructure (Goals 9 and 13)
- Fundamental changes in the manner of producing and consuming (Goals 8 and 12)
- Protection of nature's wealth (Goals 14 and 15).

People- and planet-related interventions would account for most of the additional investment, with $669 billion needed to support basic human rights and develop human capacities, and $590 billion to secure humanity's future and live in harmony with nature. The remaining $196 billion would be for enabling infrastructure.

For a region as large and diverse as Asia and the Pacific, the composition of the investment gap would vary considerably across subregions and country groups. *Least developed countries* and *South and South-West Asia* would need to scale up investments to end poverty and hunger and reach health and education targets, whereas *East and North-East Asia* would need to step up on clean energy and climate action. Given their high vulnerability to climate change, the *Pacific island developing States* would need additional investments in disaster-resilient infrastructure.

Investing in people is about realizing basic human rights and human capacities

Ending poverty and hunger is a matter of basic human rights. The *2019 Survey* proposes and costs four major interventions to reach these Goals: (a) *targeted cash transfers to eliminate poverty*, based on international poverty thresholds in accordance with target 1.1; (b) a *social protection floor for all ages*, based on national poverty thresholds and covering benefits for child, maternity, unemployment, disability and old-age pensions in accordance with targets 1.2 and 1.3; (c) *nutrition-specific interventions* to address wasting, breastfeeding, anaemia and stunting in accordance with target 2.2; and (d) *rural investments* to double agricultural productivity and small farmers' incomes, consisting of interventions ranging from primary agriculture and agroprocessing to R&D and extension in accordance with target 2.3. Taking these four areas together, the *2019 Survey* estimates an investment gap of $373 billion per year, based on costing models and studies referenced in chapter 3.

The 2030 Agenda is also about giving everyone the chance to realize their full potential in life. This entails, among other things, making substantial advances in health-care services and quality education for all. Based on the *SDG Health Price Tag* of the World Health Organization, the *2019 Survey* estimates that an additional investment of $158 billion, or $38 per person per year, would be needed to scale up health systems ambitiously towards achieving Goal 3 targets. The package includes clinics and hospitals, doctors and nurses, supply chain and information systems, and commodities and supplies. On education, in extending the model of the United Nations Educational, Scientific and Cultural Organization to increase country coverage, the *2019 Survey* estimates that an additional investment of $138 billion per year would be needed for providing universal pre-primary to upper-secondary schooling of a certain quality, as measured by teachers' salaries and the pupil-teacher ratio. The cost also includes an additional budget for reaching the marginalized.

Investing in the planet is about securing humanity's future and living in harmony with nature

Climate change presents the single greatest threat to sustainable development. The *2019 Survey* estimates the additional investment required for climate change mitigation and adaptation. Based on the World Energy Model of the International Energy Agency, the *2019 Survey* estimates the cost of shifting from fossil fuel to renewable energy and enhancing energy efficiency in the transport, building and industry sectors, as well as achieving universal access to electricity and clean cooking. Such investment would deliver co-benefits in the form of reduced air pollution and associated premature death. Additionally, for building climate resilience into the transport, information and communications technology, and water and sanitation sectors, the *2019 Survey* applies a markup on the total capital and maintenance costs for new and existing infrastructure in those sectors. Taken together, an additional investment of $434 billion per year would be needed for clean energy and climate-resilient infrastructure. The *2019 Survey* finds that, in the Pacific island developing States, the average annual loss associated with natural disasters is about 18 per cent of total infrastructure investment, or 9 times higher than the regional average.

The 2030 Agenda is also about environmental conservation. The Asia-Pacific region is home to the highest marine biodiversity in the world, with the longest and most diverse coral reef systems and more than half of the world's remaining mangrove areas. Based on the *Strategic Plan for Biodiversity 2011-2020* and associated targets, the *2019 Survey* estimates that an additional investment of $156 billion per year would be needed to conserve and restore ecosystems and biodiversity in the region, based on an underlying assumption of the business-as-usual approach in other segments of society. If progress is made on other Goals, including climate action, the financial needs can be reduced substantially.

To maximize impact, countries could harness synergies and prioritize Goals based on progress made and the investment required

How can various investments be translated effectively into desired outcomes? The answer will depend on countries' ability to harness synergies and address trade-offs through integrated planning. Health outcomes, for instance, depend not only on health-care services but also on nutrition, water, sanitation and air quality; thus, investments in these other areas could deliver health co-benefits. With good governance, such positive interactions are likely to intensify, resulting in a reduction in the long-term investment needed for achieving the Goals. At the same time, unless countries ensure that progress in one area does not come at the expense of another, long-term investment needs may increase.

Establishing priorities would require an understanding of where the region is on track, lagging or regressing vis-à-vis the Goals, and how much in the way of additional investments would be required in those respective areas. Based on the forthcoming ESCAP *SDG Progress Report,* Goals 1 to 4 are achievable but require sustained effort and targeted investment in certain aspects. Goals 7 and 13-15 are largely off-track and would require significant scaling up of investment – which is also likely to be the case for Goals 6 and 11, although precise requirements are less clear for urbanization. In comparison, progress in such Goals as reducing economic, social and gender inequality (Goals 5 and 10) and safeguarding peace and justice (Goal 16) hinges more on changes in vision, culture and other non-financial interventions.

Financing the investment gap requires a concerted effort driven by the assessment of fiscal space and leveraging the private sector

Some Goals are by their nature reliant on public funding, such as education, health, climate change adaptation and conservation, while others offer greater potential for private financing - infrastructure sectors, such as information and communications technology, power and renewable energy.

Public investment can be supported by increased tax collection or prudent sovereign borrowing. Given that the Asia-Pacific region has one of the world's lowest tax-to-GDP levels, better tax administration could increase those levels by 5-8 per cent in countries such as Cambodia, Myanmar and Tajikistan, for example. Wealth-based taxes and environmental taxes could contribute not only to revenues but also directly to the achievement of the Goals. While public debt levels are generally manageable, the *2019 Survey* reveals that countries with relatively wider investment gaps have limited access to international capital markets and face higher borrowing costs.

Aside from raising more fiscal resources, funds for the Goals can be increased by improving investment efficiency. Based on peer benchmarking, the *2019 Survey* estimates that Asia-Pacific developing countries can achieve similar levels of output and outcome in the health and education sectors using 30 per cent fewer resources than currently. Such inefficiencies arise, for instance, from the disconnect between schooling years and acquisition of basic skills. Potential savings are even higher in infrastructure sectors, at more than 50 per cent, where project appraisal, selection and management, coordination among government branches and a steady flow of resources for maintenance are important.

In terms of private financing, given the large amount of assets managed by the private financial sector – some $51 trillion in the developing Asia-Pacific region – the challenge would be to redirect funds to sustainable development projects through innovative financial instruments, such as green bonds, and promoting new investor classes, such as in impact investment. Countries could also arrange risk-sharing through public-private partnerships. To maximize impact and mitigate drawbacks of private investment in the Goals, a strong regulatory framework and standards would be important, as would effective stakeholder engagement.

The journey towards sustainable development is affordable, if countries work together through development partnership and regional cooperation

While the financial requirement for sustainable development is within reach for many countries, others face daunting challenges. The *2019 Survey* reveals that the funding gap is as high as 16 per cent of GDP for *least developed countries* and 10 per cent for countries in *South and South-West Asia*. Similarly, the *Pacific island developing States* face additional challenges given their high vulnerability to climate change, for which they are not responsible. Strong development partnerships can ensure that these countries are not left behind. Guided by the ESCAP *Regional Road Map* for implementing the 2030 Agenda, North-South, South-South and triangular cooperation, as well as strengthened multilateral financing mechanisms, will be essential to accelerating progress towards sustainable development in all of Asia and the Pacific.