



Chapter 2.

On the Road to Net Zero

Highlights

- Climate change mitigation—avoiding and curtailing greenhouse gas emissions to prevent global warming—is among the most critical issues to confront policymakers around the world. The global commitment under the Paris Agreement of 2015 to reduce the Earth’s temperature increase to well below 2 degrees Celsius carries significant long-term growth consequences for the ASEAN+3 region, which itself is home to some of the world’s largest emitters of greenhouse gases.
- The transition to net zero—where the amount of carbon dioxide (the main greenhouse gas) produced is balanced by the amount removed from the atmosphere—by the 2050 goal set by the Paris Agreement implies a complete transformation of how the ASEAN+3 region produces, consumes, and allocates existing resources. Shifting from fossil fuel use will demand an unprecedented public and private investment and impact economies’ macroeconomic fundamentals.
- The key to climate change mitigation is to put an appropriate price on carbon emissions. However, with ASEAN+3 economies relying mainly on fossil fuels for energy, doing so would see sustained pressure on medium- to long-term inflation if alternative energy supplies are not available at affordable prices. Yet, not doing so could reduce the region’s competitiveness if major trading partners with more stringent carbon pricing policies impose border adjustments to equalize the price of carbon embedded in their domestic products and imports. Deep and rapid adjustments away from use of fossil fuels also mean that some economies in the region face substantial risks to financial stability if policy actions to promote the net zero transition spark a sudden and disorderly adjustment in market expectations.
- The sooner that scalable, reliable, and affordable low-carbon alternatives become available for ASEAN+3, the less painful and costly the shift from fossil fuels will be. Indeed, the road to net zero is rich in opportunity. Abundant renewable energy resources, carbon storage potential, and critical minerals provide ASEAN+3 economies an enormous advantage in meeting growing global demand for clean energy, low-emission products, carbon-removal technologies, and carbon offsets, among others. Many of region’s economies are already well-placed to leverage their comparative advantage in technology, manufacturing, natural resources, and financial services to reap economic benefits from the transition.
- Mobilizing private capital will be key for the ASEAN+3 region to realize the economic gains from the transition to net zero while minimizing its negative impact on growth. Financial markets are increasingly adopting new instruments and practices to accelerate green and transition finance activity, but the region remains confronted by a huge funding gap. Development of comparable standards, frameworks, and taxonomies across the region for sustainable finance instruments will be crucial in accessing much-needed financing.
- The region must employ well-designed fiscal, financial, and monetary policy tools to bring about an orderly transition while managing climate-related risks effectively. More important, regionally coordinated action will achieve a greater impact than economies acting alone. Enhanced cooperation and exchange among the ASEAN+3 economies—especially in cross-border energy trade, innovation and new technology, and green financial networks—would expedite and smoothen the region’s journey toward net zero.