Headline: The economic imperative to act on climate change

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When COP26—the annual two-week conference of global leaders and stakeholders focused on addressing climate change— closed in Glasgow, Scotland, in November last year, it was met with mixed reactions. Some believed meaningful progress had been made to limit global warming, while others expressed concern that the commitments made during the conference were not enough to avert disaster, especially for the most at-risk nations.

The Philippines, in particular, has a lot riding on the concrete results of COP26, having been identified as one of nine countries with the highest risk of multiple climate hazards, according to the Global Peace Index 2019 published by the Institute for Economics & Peace. Our very own Department of Finance said that climate-induced hazards cost the country P463 billion in infrastructure alone from 2010 to 2019. In 2020, the damage was pegged at P113.4 billion.

Mostly everyone is in agreement that we need to take serious action now, but many hesitate over the cost of doing so. Also, given Asia-Pacific's share of the global population and emissions, and its vulnerability to the impact of climate change, we at Deloitte believe the fight against climate change will be won or lost in this region. This is why our economists and specialists have worked to reframe the conversation around climate action—we want to show stakeholders that the cost of taking bold action now is a necessary investment for a better future.

Our team at the Deloitte Economics Institute, along with climate and sustainability specialists around the region, developed Deloitte's uniquely calibrated Regional Computable General Equilibrium Climate Integrated Assessment Model, or what we call the D.CLIMATE model. Unlike dominant economic projections that do not account for the consequences of climate change, our model integrates the economic impact of physical climate change into a baseline economic trajectory. Using this model, our research team has made projections for various Asia-Pacific economies such as Japan and India, but I'd like to focus on the projections for Southeast Asia.

If no significant actions are taken to combat climate change and we continue to operate in an emissions-intensive global economy, then by Deloitte's estimates, Southeast Asia will experience climate change-induced economic losses of approximately $28 trillion in present value terms by 2070. This is in a scenario where global average temperatures increase more than 3 degrees Celsius above preindustrial levels by the end of the century. At COP26, scientists revealed that the Earth is on track to warm about 2.5 C—a full degree above the world's shared climate goal.

The economic losses projected by the D.CLIMATE model are linked to the following physical damage that will affect productivity and the stock of production factors: heat stress and human health damage to labor productivity; sea level rise damage to land and capital stock; capital damage; agricultural damage from changes in crop yields; and tourism damage to net inflow of foreign currency. The five most affected industries will be services, manufacturing, retail and tourism, construction, and mining and gas. In terms of economic activity, these industries comprise 83 percent of Southeast Asia's current output over the modeled period.

Faced with this grim future, we can only look at any cost we incur now to avert the worst impact of an altered climate as a necessary investment. And we have to act with urgency even as the changes that need to be made are considerable. Throughout Southeast Asia, policy and investment decisions need to be made now to reorient economic structures toward a low-emission future. INQ

(To be continued)

This article reflects the personal opinion of the author and not the official stand of the Management Association of the Philippines or MAP. The author is a member of the MAP and the managing partner and CEO of Deloitte Philippines. Feedback at [email protected] and [email protected].