EMs need to scale up green investment

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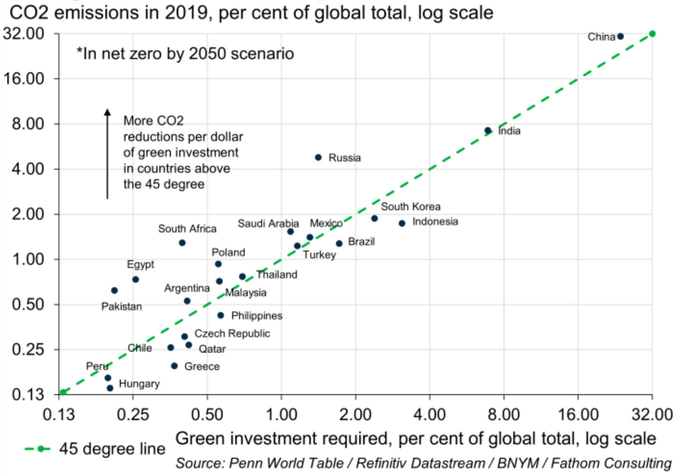
- With the effects of climate change becoming ever more apparent in lower-income countries like Pakistan, the COP27 climate conference has an understandable focus on making finance available for ‘loss and damage’ and adaptation
- But limiting warming to well below 2.0ºC will require emerging markets (EMs) to step up their investment in non-polluting assets significantly; our analysis (presented in a co-authored paper with BNY Mellon Investment Management published on 25 October 2022) found that collectively, EMs are required to make more than half of the total global mitigation-related investment to achieve net zero by 2050
- EMs will require a larger share of global green investment than their current share of global capital stock or GDP, since they are further behind in their transitions (and have more catching up to do) and are generally expected to grow faster than AEs
- Some EMs face a high cost of capital, or lack access to it altogether, creating a headwind to achieving the Paris climate goal and suggesting that capital will be needed from elsewhere
- Multilateral institutions and philanthropists can provide some of these funds, but the EM net-zero spending needs also create opportunities for investors and corporates from advanced economies (AE), as well as those focused on ESG factors

EMs green investment required* vs CO2 emissions

CO2 emissions in 2019, per cent of global total, log scale



Source: Penn World Table / Refinitiv Datastream / BNYM / Fathom Consulting

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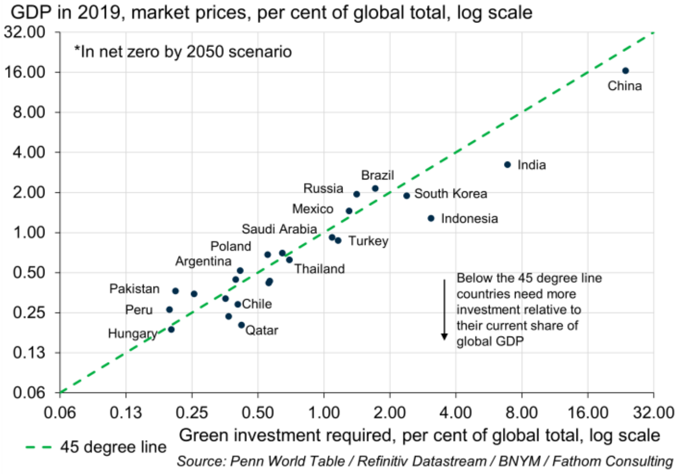
EMs green investment required* vs GDP



Source: Penn World Table / Refinitiv Datastream / BNYM / Fathom Consulting

- Such investors should note that per dollar spent, green investment in EMs can achieve more decarbonisation than the equivalent amount spent in an AE, notwithstanding the usual EM-related investing risks such as policy, governance, exchange rate, etc.
- The transition would entail some decentralisation of energy markets, which might be resisted by vested interests and political elites in poorly managed countries, who may prefer to maintain centralised, fossil fuel-powered electricity systems
- Some EMs will benefit as demand soars for minerals used in renewable energy infrastructure (e.g., Bolivia, which has abundant lithium reserves), although others (such as some countries in the Middle East, which are well-endowed with fossil fuel reserves), may be relative losers – Fathom is currently undertaking work to score countries based on their exposure to such risks and opportunities; more information on that in due course
- Finally, commentators often assert that EMs are less likely to transition than AEs; but research shows that they stand to lose more from global warming, and therefore have more incentive to transition quickly – they want to do it, and need all the help, finance and technological assistance they can get

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Green investment, net zero 2050 scenario, per cent of global total					
Rank	Country	Required investment spending	Current GDP, USD, market exchange rates	Current CO2 emissions	Current capital stock, USD, market exchange rates
1	China	23.8	16.4	30.7	17.4
2	US	17.0	24.5	14.8	19.1
	European Union	16.2	17.9	8.5	22.4
3	India	6.9	3.2	7.3	2.9
4	Japan	3.9	5.9	3.3	6.7
5	Germany	3.5	4.5	2.1	4.8
6	Indonesia	3.1	1.3	1.7	1.7
7	UK	2.6	3.3	1.1	3.7
8	France	2.5	3.1	0.9	4.2
9	South Korea	2.4	1.9	1.9	2.2
10	Italy	2.1	2.3	1.0	3.9
11	Australia	1.9	1.6	1.2	1.7
12	Spain	1.8	1.6	0.8	2.3
13	Canada	1.7	2.0	1.7	2.1
14	Brazil	1.7	2.1	1.3	2.2
15	Russia	1.4	1.9	4.8	2.2
16	Mexico	1.3	1.5	1.4	1.5
17	Turkey	1.2	0.9	1.2	0.8
18	Saudi Arabia	1.1	0.9	1.5	0.9
19	Iran	1.0	0.8	1.9	1.0
20	Netherlands	0.9	1.0	0.5	1.2

Advanced economy
Emerging market

Source: Penn World Table / Refinitiv Datastream / BNYM / Fathom Consulting

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This series of notes summarises the key findings of Fathom Consulting and BNY Mellon Investment Management's pioneering, in-depth report An investor's guide to net zero by 2050*, on the spending on fixed capital to achieve net-zero carbon emissions by 2050*

In a report that was aimed primarily at investors, we also assessed the opportunities and risks likely to emerge from what is set to be the largest redeployment of capital in history

An investor's guide to net zero by 2050*, by Brian Davidson, head of climate economics at Fathom Consulting, and Shamik Dhar, chief economist at BNY Mellon Investment Management, was published on 25 October 2022. This in-brief highlights aspects relating to EMs will be created by the transition to a net zero economy by 2050. This information comes from topics contained in our in-depth report on the investment needs to reach net zero carbon emissions by 2050. More detail on EM-specific considerations can be found in sections 2 and 4 of the main report.*

Access the full report

Further reading:

Spotting net zero's investment opportunities

Net zero transition may require scrapping $20 trillion of 'dirty' assets

$100 trillion needed to meet Paris goal – in context

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