

The Role of Government in the Green Transition: A Policy Agenda for a Sustainable, Net-Zero Future

Introduction to the Green Transition

The green transition refers to “a process towards a new development model that ensures environmentally sustainable and fairer societies” (European Training Foundation). This transformation process is critical for addressing pressing issues such as human-induced climate change, environmental degradation (water, land, forests, and the atmosphere), and the loss of biodiversity. In order to effectively tackle these issues, a comprehensive and multifaceted approach is needed. Green transition policies aim not only to prevent climate change, but also strengthen societal resilience and eliminate inequities within society. The ultimate objective of a green transition is to create a clean, vibrant economy that leaves no one behind, while simultaneously promoting fairer society as a whole.

The Government's Role in the Green Transition

Governments have a pivotal role in directing the green transition, laying down the foundation for systemic change by establishing various ambitious climate goals, carrying out supportive initiatives, and the introduction of necessary reforms. Governments can increase their effect by working with local and international organisations to pool their collective expertise and resources to amplify their impact. In Malaysia, the government has outlined various strategies and policies to guide the nation towards sustainability, such as the Malaysian Green Technology Master Plan 2021-2030, the National Policy on Biological Diversity 2022-2030, and the Sustainable and Circular Economy Roadmap 2023-2040. These frameworks showcase our country’s ongoing commitment to environmental sustainability and present a roadmap for integrating green technology into national development.

Governments play a crucial role in setting clear and objective targets for cutting greenhouse gas emissions and transitioning to renewable energy sources. For instance, Malaysia aims to achieve a 45% reduction in greenhouse gas emissions intensity by 2030, compared to 2005 levels, as stated in its Nationally Determined Contribution (NDC) under the Paris Agreement (Prime Minister’s Office of Malaysia). This target serves as a benchmark and guides the implementation of policies and initiatives across various sectors.

Furthermore, governments must implement reforms to align economic activities with sustainability goals. Government regulations, such as stricter emissions standards and energy efficiency mandates, can encourage firms to adopt more environmentally friendly practices. Governments should encourage local firms to cooperate with international entities and set out climate initiatives. For instance, many public and private universities in Malaysia align themselves with the principles set out in the UN Sustainable Development Goals (UN SDGs) while simultaneously educating their student bodies to practise it (Siew-Mun Ang).

Fiscal Policies for the Green Transition

Fiscal policies are instrumental in incentivising green practices and disincentivising environmentally harmful practices. Through fiscal policies, governments are able to promote sustainable development and accelerate the green transition.

One of the most effective fiscal tools for the green transition is carbon pricing. Carbon pricing is set out to determine a “social cost of carbon”. Despite this, the exact “social cost of carbon” is difficult to be determined, so often carbon prices are set at a level where policymakers think will help them meet certain environmental goals (MIT Climate Portal). Implementing carbon taxes or cap-and-trade systems can provide economic incentives for reducing emissions. For example, the European Union's Emissions Trading System (EU ETS) has been successful in reducing emissions from power plants and industrial facilities (Laing et al.). Malaysia could explore similar mechanisms to encourage businesses to adopt cleaner technologies and reduce their carbon footprint.

Governments can also accelerate the green transition by providing subsidies and incentives for renewable energy projects, energy-efficient technologies, and sustainable practices. Malaysia's Sustainable Energy Development Authority (SEDA) has been instrumental in promoting renewable energy through feed-in tariffs (FiT) and other incentives. For instance, the FiT allows individual homeowners to produce renewable energy to be feeded into the electricity grid and be compensated for it (Solar Panel Malaysia). By expanding these programmes and introducing new incentives, the government can further stimulate investment in green technologies.

Investing in green infrastructure and research and development (R&D) is also critical for driving innovation and facilitating the green transition. Public investment can catalyse private sector involvement and create a fostering environment for sustainable development. In Malaysia, government-linked investment companies like Permodalan Nasional Berhad (PNB), Khazanah Nasional, and Johor Corporation (JCORP) have the potential to play significant roles in funding green projects and supporting R&D in sustainable technologies. For example, PNB has committed to invest a total of RM10 billion in new green and transition assets as part of its commitment to achieve a Net Zero Enterprise by 2025 and Net Zero Portfolio by 2050 (The Edge).

Issuing green bonds is another viable way to finance the green transition. Green bonds function similarly to conventional bonds but the funds collected from investors are exclusively used to finance green projects that benefit the environment. The green bond market has grown significantly ever since its inception by the European Investment Bank in 2007, with countries such as China and the United States now leading the way in the issuance of the capital market instrument (World Economic Forum). Malaysia has also made strides in this area, with initiatives such as the Green Sukuk, a fusion between green bonds and Islamic finance, which funds renewable energy and green infrastructure projects (World Bank).

Complementing Fiscal Policies with Monetary Policies

Monetary policies can work alongside fiscal policies to create a strong and robust framework for the green transition. Central banks and financial regulators can play a crucial role in promoting sustainable finance and addressing climate-related challenges.

Green quantitative easing (QE) involves the central bank purchasing green bonds or other sustainable assets to inject liquidity into the economy. This approach can support the financing of green projects and stimulate economic activity. A working paper published by the European Central Bank (ECB) has corroborated that central banks, as a monetary authority, can effectively contribute to mitigate climate change through quantitative easing, setting an example for other central banks to follow through (Abiry et al.). In a more local context, the Bank Negara Malaysia (BNM) can adopt similar strategies, prioritising the purchase of green bonds and promoting sustainable finance.

Overcoming Challenges and Seizing Opportunities

While the green transition presents significant opportunities to combat climate change, it also poses rigorous challenges that must be addressed. Transitioning to a sustainable economy requires substantial investments, technological innovation, and change in consumer behaviour. Governments must navigate these complexities through strategic planning, public-private cooperation, international cooperation, and continuous evaluation of policies.

One of the most difficult challenges for an economy is to strike a balance between economic growth and environmental sustainability. Developing countries such as Malaysia must ensure that the green transition does not impede on economic development or exacerbate economic and social inequalities. Fiscal and monetary policies should be designed to promote economic growth and provide support to the vulnerable segments of our society while simultaneously ensuring a green transition in our industries.

Technological innovation is crucial for the green transition, enabling the development and deployment of sustainable solutions. Governments can foster innovation through targeted R&D funding, public-private partnerships (PPP), and support for green startups and small and medium-sized enterprises (SMEs). SMEs are the backbone of our nation's economy as they form 97.2% of the total number of business establishments while employing close to 70% of the country's workforce (The Star). Therefore, SMEs cooperation is vital for our country to succeed in the ongoing effort of green transition.

Global challenges require global solutions, and international cooperation is crucial for the green transition. Governments should engage in multilateral initiatives, share best practices, and collaborate on research and development. For instance, government entities such as the Energy Exchange Malaysia (Enegem) facilitate such cooperation. By facilitating cross border green electricity sales through the interconnection of the electricity grid between neighbouring countries (New Straits Times), Enegem has been successful in promoting economic growth by boosting revenue through sales of electricity while fostering the development of sustainable energy.

Conclusion: A Cleaner, Greener Future

The green transition represents a monumental shift towards a sustainable, net-zero future, fueled by the collective efforts of governments, businesses, and communities. Governments can accelerate this evolution by executing a comprehensive policy agenda that encompasses fiscal and monetary policies, as well as international collaboration. Malaysia's commitment to sustainability, as evidenced by its various national policies and initiatives, underscores the country's potential to be a leader in the green transition.

A cleaner, greener future is not only possible but within reach, provided that we harness catalytic capital and employ the carrots and sticks of economic policy. With visionary leadership, strategic planning, and unwavering commitment, we can create a world where economic prosperity and environmental sustainability go hand in hand, assuring a vibrant planet for future generations..

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