Adapting to a Hotter Future in Asia – Sustainability Now

Transcript

Mike Disabato:

What's up everyone? And welcome to the weekly edition of Sustainability Now, where we cover how the environment, our society, and corporate governance affect—and are affected by—our economy. I'm your host, Mike Disabato, and this week we discuss the need for investment in climate adaptation technology in Asia. Thanks as always for joining us. Stay tuned.

When we talk about climate change and businesses that are trying to address it, the mind immediately goes to things like clean energy or infrastructure that will actively reduce carbon emissions. And there's a lot of reason for that—one being it's literally where most of the money currently goes. If you're looking at the money put into climate-themed funds globally, they've amassed around 632 billion US dollars in assets as of 2023, and 90% of that is in funds focused on reducing greenhouse gas emissions.

But that poses a problem. Yes, it is vital—some would even say existentially important—that we are putting as much money as we can into lowering our collective emissions. But since those emissions continue to go up, there's a growing need for what is called adaptation investment. A warmer world means more extreme weather events, more floods, and a general increase in climate-related physical risks that cause significant economic damage. We need tools to deal with this new reality. This is a problem for all regions, but some regions have it more dire than others.

Asia, for example, has seen warming in some areas at triple the global average. And according to my guest and colleague today, Umar Ashfaq of the MSCI Sustainability Institute, that warming is being exacerbated by some of the region's existing risk multipliers.

Umar Ashfaq:

So, 2024 was the first year where global average temperatures exceeded 1.5 degrees Celsius above the pre-industrial level. So, it is, of course, getting hotter everywhere. But in Asia, this increased warming coincides with certain socio-economic realities. There is a higher population employed in agriculture than anywhere else in the world. There's rapid urbanization and rural-to-urban migration, and there are significantly fewer social and physical safety nets provided by governments.

Additionally, with rising populations and rising incomes—a demographic challenge faced globally but much more pronounced in Asia—the governments have not implemented cohesive adaptation plans to help the population and cities respond to climate change.

Mike Disabato:

So what Umar set out to do was figure out what sort of changes would likely be seen in a region facing climate-induced physical risks alongside a rising middle class—a middle class that will have to spend to mitigate discomforts and very real health risks caused by heat stress. The goal was to identify how communities could thrive in a region that is warming rapidly.

Because of all this, a set of solutions may be required—solutions that Umar lays out in a report titled How Adaptive Finance Can Help Asia Withstand a Hotter Future.

Umar Ashfaq:

So what we are trying to understand is: who are the solution providers, what exactly are those solutions, and how is the expected market for those solutions going to increase going forward?

Given that we're focusing on Asia and the APAC region, there are certain demographic characteristics that will accelerate demand for some of these products. The knee-jerk reaction might be to think of solutions like heating, ventilation, and air conditioning. But there are many others.

We highlight 10 companies providing such solutions. These include heat-resistant clothing, drought-resistant agriculture, fire suppression products, and heat-reflective paints. The demand for all of these is expected to rise if current temperature trends continue.

Mike Disabato:

The report includes a list of those 10 companies and what they do. There's one that makes hybrid seeds or adaptive building materials, another that produces fire protection and suppression products, and one that specializes in water management and rainfall forecasting—using predictive modeling to deal with erratic patterns that can cause flash floods. Fascinating stuff.

But a word of caution: those company names are not exhaustive. They are illustrative—examples that highlight a broader investment quandary often faced in sustainable investing. That is, the criteria for what is or isn't "sustainable" is much broader than what's typically discussed or included in many climate-related or sustainability portfolios.

If you're only focused on greenhouse gas emissions, you could potentially exclude some of these companies, since they vary widely in their Scope 1, 2, and 3 emissions. If your focus is labor or human rights, your view might also shift, as a few of these companies have been flagged for supply chain labor issues or tax concerns. Still, when building a portfolio around climate change, trade-offs often come into play.

And yes, some of you are asking: "What about lowering our emissions?" We shouldn't throw up our hands and say, "climate change is here, let's just adapt." Because there are small island nations that could literally be swept away if we don't change course. And every small percentage of carbon reduction helps.

Umar Ashfaq:

Mike, I completely agree that mitigation is important. Every ton of carbon we don't emit helps reduce physical risk. But what about the here and now?

If we think about this from a financial risk perspective, the time value of risk means that risks and damages happening right now are worth more than those in five or ten years. Take Pakistan in 2022: floods affected 33 million people. For a fiscally constrained country like that, does it make sense to invest in carbon abatement that will benefit them later, or in adaptation measures that can help now?

Investors need to broaden their aperture when thinking about climate finance. It can't be just about emissions mitigation. The needs are very much here, and capital must be deployed to meet those needs.

Mike Disabato:

What Umar's report ultimately shows is that both are needed. The impacts of climate change will continue to intensify. The physical risks from a warming world are going to demand robust investment in adaptation and resilience—especially in Asia, where, as Umar noted, urbanization is rapid, the population is growing, and incomes are rising. That means more demand for infrastructure, more need for cooling, and a growing awareness of climate vulnerabilities.

But there's an imbalance. Of the over 630 billion US dollars invested in climate-themed funds, 90% is going toward mitigation. Only 10% goes toward adaptation. That's far from one-to-one.

This also presents an opportunity: companies with relevant products could meet the demand for resilience-based solutions and work with governments and communities in adapting to this changing world.

The difficult truth is, even if we decarbonize quickly, some effects of climate change are already locked in for generations. Adaptive technologies need to be made accessible to more people, especially in developing regions facing the worst effects. Right now, products like triple-pane UV-filtering windows remain unaffordable to many. But investing in companies that create these solutions might help scale and reduce their cost, making them more accessible for vulnerable populations.

Of course, I wish it weren't this way—that we could reverse the damage. But that doesn't seem reconcilable with the future we're heading toward.

Mike Disabato:

And that's it for the week. I want to thank Umar for talking with me about the news from a sustainability angle. If you liked what you heard, don't forget to rate and review us—it helps others find the show. And if you want to hear more, don't forget to subscribe. Thanks again and talk to you soon.

Speaker 3 (Legal Disclaimer):

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