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# Must developing countries sacrifice growth to save the planet?

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'The poorest countries should not have to sacrifice growth to tackle climate change – a problem caused mainly by rich countries. But they will need to rethink their growth strategies if they are to maximise their future growth prospects'

The high levels of economic growth we have seen in many countries since the industrial revolution have delivered much higher standards of living and welfare for those countries, but have also resulted in significant growth in carbon emissions. This has resulted in the climate change problems that we all now face. Modelling suggests that the stabilisation of climate change requires significant cuts in emissions (by both developed and developing countries), so it seems that we now need to slow or reverse economic growth – which is politically unpalatable – or to urgently find ways to grow that do not result in higher carbon (or greenhouse gas) emissions. In other words, we need to seek out new, low carbon growth strategies.

Because poor countries have experienced slower growth, they have also contributed far less to climate change than the rich world. Yet they are being hit first and hardest by its affects. Few would question that developing countries should have the opportunity to grow their way out of poverty. But how can this be reconciled with the need to reduce global carbon emissions?

Some argue that rich countries should bear the brunt of the necessary adjustment by accepting much lower or even negative rates of growth if developing countries are to have the necessary space to grow their way out of poverty. But that would be difficult politically. It may also be unnecessary: Nick Stern recently argued that rich countries may need to reconsider their pursuit of continued economic growth, but only in the longer term. But the evidence suggests that the biggest developing countries will also need to reduce carbon emissions relative to GDP in order to avoid what are considered to be 'dangerous' levels of climate change in future.

So there has been an increased focus on finding ways for countries to achieve low carbon growth, and some are beginning to develop strategies along those lines. A selection have been reviewed in a new report by ODI (Ellis et al., 2009).

## Domestic mitigation measures

Mitigation policies – designed to reduce emissions – constitute a key part of most low carbon growth strategies, but may slow growth at least in the short term, as they raise the cost of using energy. The extent to which developing countries should be asked to bear the costs of mitigation is highly controversial, and will be a key focus of the negotiations taking place under the UNFCCC process. The most important developing country players in this negotiation – the largest emitting countries such as China – have been speaking out about their willingness to contribute to international efforts to tackle climate change, and are developing policies to do so. However the extent to which they will be prepared to make binding emission reduction commitments as part of a global deal remains to be seen.

But mitigation brings opportunities as well as costs. This could be the case if, for example, there is fast growth in demand for environmental goods and services, from which some developing countries can benefit. China, for example, is the world's biggest producer of photovoltaic cells (which convert sunlight into energy), and Brazil is a world leader in bioethanol production and associated technologies, both of which are likely to provide substantial export opportunities for these countries.

Other possible benefits associated with mitigation could occur if there are strong synergies between green technology change and general technological progress, which is a key source of growth. Policies designed to promote green technological innovation and technology transfer could, therefore, also increase growth. In addition, some mitigation policies generate revenues (e.g. carbon taxes), providing opportunities to stimulate growth through the judicious use of the revenues raised.

## International mitigation measures

International mitigation policies will also generate both opportunities and threats for develop-

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ing countries. Many of the most cost effective mitigation opportunities are in the developing world, and this could allow some developing countries to capitalise on potentially huge new sources of finance through carbon markets and other mitigation mechanisms. An appropriate policy framework will be important in securing both public and private finance through such mechanisms. If used well these financial inflows could contribute to higher growth rates in those countries.

These international mitigation mechanisms will need to be developed, reformed and scaled up significantly. The Clean Development Mechanism (CDM) is one such initiative but, to date, its impact has remained relatively low, and focused within specific geographical regions. Previous ODI research found that over half of all registered projects were based in India or China – which have received considerable financing for large energy related industrial projects – while only 2% were located in sub-Saharan Africa.

The CDM could be expanded to provide incentives for developing countries to avoid deforestation in future, in conjunction with mechanisms such as REDD (Reduced Emissions from Deforestation and Degradation), and could unlock enormous resources for countries with forests. Guyana has developed a growth strategy predicated on the future development of such mechanisms, and is trying, actively, to influence international progress towards this goal.

Some developing countries are, therefore, positioning themselves to take advantage of the opportunities afforded by international mitigation efforts. But not all countries will be able to do this, such as those without carbon assets, or with few existing sources of emissions to mitigate. And even countries with the required assets may find it hard to capitalise on these opportunities, because of the same kinds of issues that have constrained growth in general, such as: low human capital; poor investment climate; market failures; lack of institutional capabilities; organisational challenges; and lack of access to finance. These are challenges that have stunted growth in many countries to date, and are unlikely to be resolved quickly.

International mitigation policies may also pose a threat to some existing sources of growth in developing countries. For example, if mitigation policies succeed in driving down the demand for oil, and thereby its price, this will generate a net loss for oil exporting countries (though conversely a net gain for oil importers). Air transport taxes might reduce demand for tourism or for air freighted exports such as fruit and vegetables. And border taxes may be introduced to discourage the import of carbon intensive products, which could reduce export income from certain industries. The impact of these policies will vary significantly by country, depending on their sectoral composition. The analysis of the potential impact of different kinds of mitigation policies is fairly limited to date and the subject of a forthcoming ODI study.

## The need to reassess growth strategies

Regardless of whether a country wants to undertake mitigation itself, or seeks a low carbon growth path, optimal growth strategies will need to be reassessed in light of the changes that will be brought about both by climate change itself and by international mitigation efforts. Developing countries will need to find climate resilient growth strategies (i.e. growth strategies that are achievable despite the impact of climate change). They will also need to identify and manage opportunities (such as new markets or sources of finance) and risks (such as trade barriers or changing patterns of demand) that arise from international mitigation efforts, if they are to maximise their future growth prospects.

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