

Green new deal in the West. What about the rest?

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Announcing Europe's new growth strategy, Ursula von der Leyen, President of the European Commission, stated, "The old growth model that is based on fossil fuels and pollution is out of date, and it is out of touch with our planet." The new model for European growth envisions a cleaner planet based on innovative technologies and greener new jobs by prioritizing "the most vulnerable regions and sectors."¹

UK Prime Minister Boris Johnson also announced the country's own green industrial revolution: "My Ten Point Plan will create, support and protect hundreds of thousands of green jobs, whilst making strides towards net-zero [emissions] by 2050." The initiative aims to create 250,000 new jobs. Among other things, the Ten Point Plan includes turning London into the global center of green finance, encouraging cycling and walking instead of fossil fuel-based public transportation, and quadrupling the production of wind energy.²

Similarly, across the Atlantic, Joe Biden, the new President of the United States, undertook three actions to remedy his predecessor's indifference to the serious challenges associated with climate change. First, Biden ratified the Paris Agreement on climate change. Second, he announced that a Leaders' Climate Summit

will convene in the White House on Earth Day.³ Lastly, Biden established a Climate Innovation Working Group in the White House as part of the National Climate Task Force, which will support the creation of a new Advanced Research Projects Agency-Climate (ARPA-C), spearheading a generation of new jobs, technologies, and tools to empower the US to innovate and lead the world in dealing with the climate crisis.⁴

»The old growth model that is based on fossil fuels and pollution is out of date, and it is out of touch with our planet.«

Thus far, post-pandemic economic growth strategies on both sides of the Atlantic are climate friendly. However, the green transformation does not solely rely on climate policy; it equally relies on a new industrial policy. In its most basic form, green transformation is about applying new low-carbon technologies to existing economic sectors. This pairing will eventually reduce carbon emissions. In parallel, it will particularly increase the international economic competitiveness of the West. Our planet could witness carbon-free growth, breaking free from traditional pollution-based economic growth and job creation. This appears relatively easier to accomplish in developed economies.⁵

The possibility outlined above could leap forward on the agendas of the developing economies, where tackling climate change trails behind the level of welfare in the West. The catch? Inducing change requires investment. In the case of green transformation, implementing change is dependent on large-scale investments by governments and companies in fixed capital investments. This is where the West and the Rest, the prospects of advanced and developing countries, diverge.

Economic growth generating jobs with smaller carbon footprints bears greater potential where there are negative interest rates in the early post-pandemic period. The aforementioned transformation is therefore much more feasible for advanced economies in the West. The Rest, namely developing economies, still face higher interest rates because of higher risk premiums (CDS) (See Figure 1). This is due in large part to the Rest's "Original Sin," the inability to borrow money in their own currencies.⁶ Furthermore, developing countries are highly indebted, making it harder for them to kick-start their economies in the post-pandemic period. Consequently, developing countries risk losing their relative economic competitiveness. Hence, green transformation has the capacity to deepen the digital and technological divide between advanced and developing countries, leading to deeper global inequalities. Lastly, highly indebted companies and troubled banking systems in the Global South would render the implementation of such adjustments impossible. Take Turkey for example: a developing economy with high CDS risk premiums, highly indebted private companies, and troubled bank balance sheets. Kicking off the green trans-

formation in a country like Turkey is similar to shopping at Whole Foods while debt collectors are carting away your fridge. Put differently, Turkey’s situation, a model of countries in a greater pool, is merely one example of rising global inequalities.

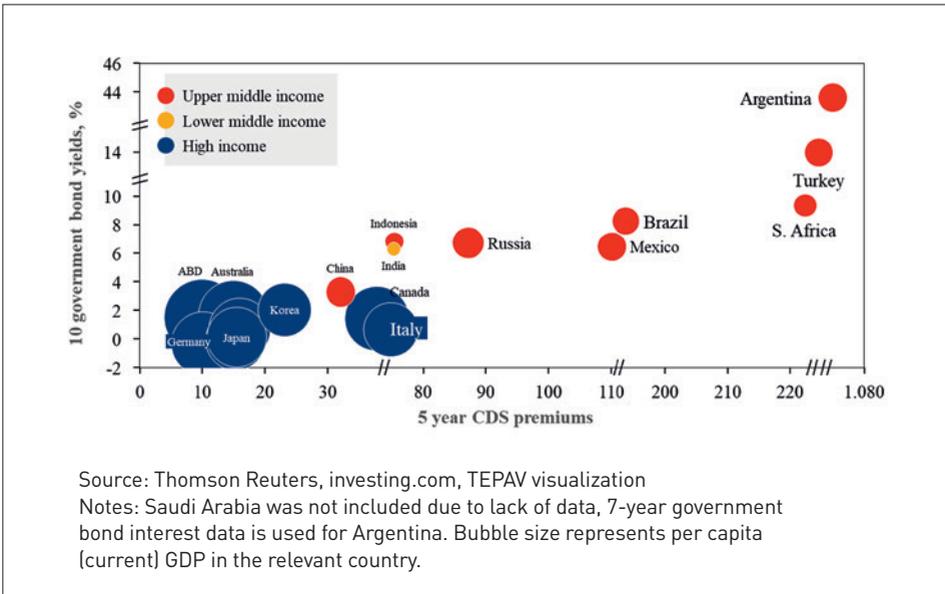
There is another aspect to tackling climate change. Implementing green transformation in the West will inevitably lower advanced economies’ reliance on hydrocarbons. In the long term, oil-producing developing countries would be at the frontline of the hit in demand. In similar countries, lower oil and gas prices mean less growth and fewer new jobs, as experienced during the COVID-19 outbreak. The mobility restrictions and closure of economic facilities imposed a tough reality on oil-producing countries. For example, the

economies of net exporters of oil and gas in the Middle East and North Africa (MENA) region are expected to shrink by 6 percent compared to 1 percent for net importers.⁷ Therefore, the stakes in fossil-fuel producing countries, predominantly developing countries, are high.⁸

If there are no long-term policies to mitigate the implications of hydrocarbon-based growth strategies, then such economies are likely to suffer from dwindling prospects at home. This, combined with weak institutions, may unleash instability. People living under such circumstances may be forced to emigrate. In Latin America, Venezuela is a telling example.

Needless to say, instability in developing countries around the world, whether due to conflict or severe economic hard-

Figure 1: CDS Risk Premiums and Government Bond Rates in G20, 2021



ship, has led to the displacement of millions. This is the common denominator for the 6.6 million Syrians, 3.7 million Venezuelans, 2.7 million Afghans, 2.3 million South Sudanese, and the one million Rohingya. Their neighbors, which also happen to be developing countries, host the majority of refugees: 3.6 million in Turkey, 1.8 million in Colombia, 1.4 million in Pakistan, and 1.4 million in Uganda.⁹ The exception is Germany, Europe's strongest economy, hosting 1.1 million asylum seekers and refugees thanks to Chancellor Angela Merkel's "we can do it" policy in 2015.¹⁰

»The most vulnerable regions and sectors.«

Here, the problem is twofold. In countries of origin, the key issue is managing makeshift camps for internally displaced persons (IDPs). In hosting countries, it is a matter of effectively integrating refugees into the labor market, a troublesome prospect as tensions rise due to high domestic unemployment rates. In both cases, however, the problems are regional while the solutions are global, which should not be asymmetric. Turkey, the world's largest hosting country of forcibly displaced migrants, has so far received EUR 4 billion from the European Union to care for the 4 million asylum seekers and refugees.¹¹ On the other hand, the European Union supported Greece with EUR 2.97 billion to look after 120,000 asylum seekers and refugees.¹² The math is straightforward: it

costs EUR 1,000 to support a forcibly displaced migrant in Turkey, while it costs EUR 24,750 to do so across the Aegean. This discrepancy is yet another form of inequality.

Pursuing green transformation depends on new climate and industrial policies, along with the generation of new technologies. However, it has geopolitical implications on two fronts. The first is the loss of a business model for oil-producing countries, which will require institution-building reforms, including fiscal and financial systems, together with social security measures. The second is the rising need for rare earth (RE) minerals. These are essential elements to producing many new green transformation technologies, including electric cars, smartphones, wind turbines and military hardware. Globally speaking, China is in a unique position. It is the largest source of rare earth minerals, with 58 percent of mine production and over 37 percent of world reserves.¹³ In other words, one could say that China has a monopoly over the rare earth industry. This position has allowed China to incorporate its riches as a foreign policy tool, for example against Japan, and as leverage for attracting foreign direct investment (FDI).¹⁴ Moreover, China supplies the US with 80 percent of its demand for rare minerals¹⁵ – a position that led Donald Trump to sign an executive order to boost domestic production of rare earth minerals and reduce the world's largest economy's dependency on its direct competitor.¹⁶

Hence, igniting a race with a potential to further widen global inequalities.

Pursuing green transformation has geopolitical implications and could be interpreted as a new foreign policy tool for the

West, especially in the context of a technology race between the West and China. The race has the potential to expand the digital divide between the West and the Rest further to include China. If the West is serious about evening out global inequalities, particularly going into the COVID-19 recovery period, then the impact of the green transformation on developing countries must be considered more carefully. Therefore, the debt and high risk premiums of the Rest should be considered as a global problem. To bring the Rest on board with green transformation, effective financial partnerships must enter into effect so that developing countries can rehabilitate their fiscal situation. This necessitates boosting and integrating the digital economy of the Rest with the West. Equally important is investing in the infrastructure of

the Rest to set the stage for the future of work. What is more, incentivizing the Rest to follow the Paris Agreement on climate change entails extending conditional loans and grants in line with the requirements of the green transformation.

To contain global warming, the world needs a truly global and comprehensive plan that brings everyone on par and includes the developing world in the process of green transformation, to avoid further deepening the divide. Environmentalists need to think less about electric cars and more about the balance sheets in the low- and middle-income countries. As global warming and the COVID-19 pandemic indiscriminately affect the whole world, it is up to the G20 in 2021 and beyond to find effective solutions to deal with these issues – by taking the entire world into account.

¹ Press Remarks by President von der Leyen on the Occasion of the Adoption of the European Green Deal Communication https://ec.europa.eu/commission/presscorner/detail/fr/speech_19_6749

² PM Outlines his Ten Point Plan for a Green Industrial revolution for 250,000 Jobs <https://www.gov.uk/government/news/pm-outlines-his-ten-point-plan-for-a-green-industrial-revolution-for-250000-jobs>

³ Fact Sheet: President Biden Takes Executive Actions to Tackle the Climate Crisis at Home and Abroad, Create Jobs, and Restore Scientific Integrity Across Federal Government <https://www.whitehouse.gov/briefing-room/statements-releases/2021/01/27/fact-sheet-president-biden-takes-executive-actions-to-tackle-the-climate-crisis-at-home-and-abroad-create-jobs-and-restore-scientific-integrity-across-federal-government/#:~:text=The%20order%20reaffirms%20that%20the,a%20new%20position%2C%20the%20Special>

⁴ Biden-Harris Administration Launches American Innovation Effort to Create Jobs and Tackle the Climate Crisis <https://www.whitehouse.gov/briefing-room/statements-releases/2021/02/11/biden-harris-administration-launches-american-innovation-effort-to-create-jobs-and-tackle-the-climate-crisis/>

⁵ The Long-Run decoupling of Emissions and Output: Evidence from the Largest Emitters <https://www.imf.org/en/Publications/WP/Issues/2018/03/13/The-Long-Run-Decoupling-of-Emissions-and-Output-Evidence-from-the-Largest-Emitters-45688>

⁶ The Pain of the Original Sin <https://eml.berkeley.edu/~eichengr/research/ospainaug21-03.pdf>

⁷ Regional Economic Outlook: Middle East and Central Asia <https://www.imf.org/en/Publications/REO/MECA/Issues/2020/10/14/regional-economic-outlook-menap-cca>

⁸ World Economic Situation Prospects https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP2020_Annex.pdf

⁹ Refugee Data Finder. United Nations High Commissioner for Refugees (UNHCR) <https://www.unhcr.org/refugee-statistics/>

¹⁰ Angela Merkel defends Germany's handling of refugee influx <https://www.theguardian.com/world/2015/sep/15/angela-merkel-defends-germanys-handling-of-refugee-influx>

¹¹ The EU Facility for Refugees in Turkey https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/frit_factsheet.pdf

¹² EU Financial Support to Greece https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/202012_managing-migration-eu-financial-support-to-greece_en.pdf

¹³ National Minerals Information Center <https://www.usgs.gov/centers/nmic>

¹⁴ China's Dangerous Monopoly on Metals <https://www.wsj.com/articles/chinas-dangerous-monopoly-on-metals-11555269517>

¹⁵ U.S. Companies Vie for funds in Race to Build Rare Earths Industry <https://www.nytimes.com/2020/08/14/us/politics/rare-earths-american-companies.html>

¹⁶ Trump Executive Order Targets Rare Earths Minerals and China <https://www.defensenews.com/congress/2020/10/01/trump-executive-order-on-rare-earths-puts-material-risk-in-spotlight/>