Growth, Investment and the Low-Carbon Transition

In the context of the German G20 Presidency, the OECD is bringing together the growth and climate agendas to better understand the economic and investment implications of the transition to a low-carbon, climate-resilient economy

Invigorating economic growth in the short-term does not necessarily equate with investing in emissions-intensive infrastructure and locking in a high-carbon pathway.

Many G20 countries are caught in a low-growth trap. Low economic growth has persisted since the financial crisis, with recession in some countries. Chronic underinvestment has left its mark on infrastructure and productivity growth has slowed down in many economies. Global trade growth has been stalling and increasing inequality is prevalent. Market conditions appear unlikely to deliver more vigorous growth in the near term.

At the same time, countries are seeking to accelerate an urgent low-carbon economic transformation, spurred by the global Paris Agreement on climate change and rapid advances in technology. The urgency, scale and speed of the required economic transformation are unprecedented, and infrastructure choices made over the next few years will be crucial. Yet the national plans put forward for the Paris Agreement are collectively insufficient to meet the global goals that have been agreed. This disconnect is in part due to concerns over the implications of climate action for economic growth and development.

A key step in escaping from the low-growth trap is implementing proactive policy to stimulate investment. But going for the wrong sort of growth would be to miss a major window of opportunity. Pro-growth reform measures, combined with measures to mobilise investment in low-emission and climate-resilient infrastructure, can spur growth and improve well-being while also achieving climate goals. Rather than adding to economic challenges, decisive action to accelerate the transition could form an integral part of effective economic growth plans.

Bringing together the growth, climate and development agendas. The OECD's Growth, Investment and the Low-Carbon Transition project combines the OECD's capacity for economic analysis with its climate and broader policy expertise to explore the case for co-ordinated policy action on growth and climate. It demonstrates that invigorating economic growth in the short-term does not necessarily equate with investing in emissions-intensive infrastructure and locking in a high-carbon pathway. Escaping the low-growth trap now does not mean embracing a high-carbon future. On the contrary, falling into the high-carbon trap would be to lock-in future downward pressure on economic growth and welfare from environmental damages due to irreversible climate change, and out-dated, uncompetitive economies.

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The OECD project will be addressing a number of key questions surrounding the transition to a low-carbon economy:

1. WHAT DEVELOPMENT PATHWAYS WILL GET US TO THE PARIS AGREEMENT OUTCOMES?

1

What do low-emission, climate-resilient development pathways consistent with the scope of the transformation required by the Paris Agreement look like? What kind of assumptions can be made about future changes in land-use, agricultural production and the potential for negative emissions? How do these assumptions impact on required energy sector emission reductions? What kind of low-emission infrastructure investment profiles would match low-emission, climate-resilient pathways?

2. HOW DO INVESTMENT FLOWS NEED TO CHANGE TO GET US THERE?

2

To what extent are existing growth and infrastructure investment and financing patterns already consistent with a low-emissions, climate-resilient future? What data can be gathered to estimate planned infrastructure "pipelines" in G20 countries? How big are the investment gaps, and in which sectors?

3. WHAT ARE THE GROWTH AND STRUCTURAL IMPLICATIONS OF GOING LOW-CARBON?

3

Can pro-growth policies oriented towards low-emission infrastructure help to stimulate growth while closing low-carbon investment gaps? What does macroeconomic modelling indicate about the economic consequences of long-term climate action, including internationally co-ordinated action? What are potential implications of structural shifts and sectoral reallocation resulting from the transition, including potential impacts on income distribution, employment and competitiveness in the short-term?

4. HOW CAN GOVERNMENTS CREATE THE CONDITIONS TO DRIVE A PROSPEROUS TRANSITION?

4

What packages of policies are necessary to drive the transition? How can governments address broader policy misalignments and structural challenges? How are different policies suited to differing country contexts? How can governments design policies to be inclusive and overcome political barriers? What steps can governments take to mobilise the public and private investment and financing needed for the transition?

AN INCLUSIVE PROCESS RELEVANT TO ALL G20 COUNTRIES

The project is guided by an Advisory Council of 14 high-profile academic, government, business and civil society members and benefits from the input of a number of partner organisations to ensure its relevance to all members of the G20.

A series of expert workshops is being held with members of the climate, economic and finance communities to secure cutting edge technical input and to help tackle data, methodological, analytical and interpretative challenges associated with the project.

A final report entitled *Investing in Climate, Investing in Growth* will be delivered in conjunction with the Petersberg Climate Dialogue on 23 May 2017 and the results of the analysis will be fed into the G20 process during the German G20 presidency.

FURTHER INFORMATION

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