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Is green growth relevant for poor economies?

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ABSTRACT

To be relevant to developing countries, green growth must be reconciled with the two key structural features of natural resource use and poverty in these countries. First, primary products account for the majority of their export earnings, and they are unable to diversify from primary production. Second, many economies have a substantial share of their rural population located on less favored agricultural land and in remote areas, thus encouraging "geographic" poverty traps. If green growth is to be a catalyst for economy-wide transformation and poverty alleviation in developing countries, then it must be accompanied by policies aimed directly at overcoming these two structural features. Policies and reforms should foster forward and backward linkages of primary production, enhance its integration with the rest of the economy, and improve opportunities for innovation and knowledge spillovers. Rural poverty, especially the persistent concentration of the rural poor on less favored agricultural lands and in remote areas, needs to be addressed by additional targeted policies and investments, and where necessary, policies to promote rural-urban migration.

1. Introduction

Much discussion is occurring in the international community about policy strategies for promoting a transition to a green economy, or "green growth" (OECD, 2011; UNEP, 2011; World Bank, 2012). A typical definition is that "green growth means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies" (OECD 2011, p. 9). In short, "in a green economy, growth in income and employment should be driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services" (UNEP, 2011, p. 16).

The international policy fora discussing green growth have multiplied in recent years. The Green Growth Knowledge Platform is one such multi-lateral initiative, established by the Global Green Growth Institute, the Organization for Economic Co-operation and Development (OECD), the United Nations Environment Programme (UNEP) and the World Bank (see http://www.greengrowthknowledge.org/). The Group of 20 largest and richest economies pledged at its 2012 Mexico summit to promote "a focus on inclusive green growth as part of our G20 agenda", which continues to be a policy topic at subsequent

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summits.[1] Greening the world economy was also a major theme of the June 2012 Rio + 20 conference on environment and development (UNCSD, 2012), which was attended by heads of state and finance ministers from most countries.

Recently, an important debate has emerged over whether the goal of green growth is relevant for low and middle-income countries, and if so, what additional policies may be needed to foster such a transition in developing countries (Barbier, 2012a,b; Dercon, 2012; OECD, 2013; Scott et al., 2013). This debate has raised concerns about the various challenges facing developing countries in implementing green growth, including a large informal economy, high levels of poverty and inequality, weak capacity and resources for innovation and investment, and inadequate governance and institutions. Given these challenges, "developing countries are understandably concerned that pursuing green growth could undermine their short-term economic growth and development" (OECD, 2013, p. 8).

This paper argues that this concern is justified, unless green growth can be reconciled with the key structural features of natural resource use and poverty in most developing countries, which underlie two stylized facts. The first is that, for many low and middle-income economies, primary products account for the majority of their export earnings, and one or two primary commodities make up the bulk of exports. The result is that these economies remain highly dependent on the exploitation of land and natural resources and are unable to diversify from primary production. The second stylized fact is that many of these economies have a large share of their rural populations located on less favored (marginal) agricultural land and remote areas. The result may be the persistence of "geographic" poverty traps in these remote rural regions.

The implications of these stylized facts is that green growth can be relevant for developing economies only if it includes policies that are consistent with these economies' key structural features of natural resource use and poverty. To explain why, the paper first argues that, if green growth is to have relevance to developing countries, it must be compatible with the most important development goal, which is poverty alleviation. Here, the evidence is mixed. Not only does green growth involve key policy tradeoffs, but any shift from growth to green growth will have distributional implications, and it will be important to identify those policies that will favor or hurt the poor, even if their overall impact is to increase economic output or welfare. Next, the paper reviews the evidence on the two stylized facts of the spatial distribution of rural populations on less favored and remote agricultural land and of the resource dependency of many developing economies. These two structural features further compound the relevance of green growth to poverty alleviation, as policies – "green" or otherwise – that focus solely on promoting growth of industries and highly commercialized agricultural and service activities in developing are unlikely to benefit the rural poor on less favored and remote agricultural lands or end the current "enclavism" predominating in primary production and resource-based activities of developing countries. Thus, additional policies are required to address the two stylized facts of rural poverty and resource dependency: targeted policies for the rural poor on less favored and remote agricultural lands, and policies to improve the efficiency and sustainability of primary production for more economy-wide gains.

The outline of the paper is as follows. The next section discusses the policy tradeoffs implied by green growth, and especially their relevance to poverty alleviation in developing countries. This is followed by a review of the evidence of the two key structural features of natural resource use and poverty in developing countries. The implications of these stylized facts for green growth are explained, especially the need for additional policies that tackle these structural features more directly. The paper concludes with some final remarks on green growth and developing countries.

2. Green growth, policy tradeoffs and poverty alleviation

According to the OECD (2013), emerging evidence suggests that green growth in developing countries can lead to poverty reduction, economic growth, reduced vulnerability to climate change and natural disasters, greater energy security, and more secure livelihoods for those directly dependent on the use of natural resources. The fact that proponents of green growth believe that it has the potential to deliver "win–win" outcomes that can achieve simultaneously several desired policy outcomes in developing countries is one of its most attractive features. In some ways, this viewpoint is supported by the conceptual framework underlying green growth, which tries to draw on several economic policy perspectives.

For example, Bowen and Frankhauser (2012) suggest that policies advocated to achieve green growth usually draw on four different policy perspectives in economics:

- Keynesian perspective—mitigate short-term macroeconomic fluctuations, unemployment, fiscal sustainability and global imbalances.
- Pigouvian perspective—implement market-based instruments, regulations, subsidy removal, etc. to "internalize" environmental externalities.
- Schumpterian perspective—innovation and research and development (R&D) to foster new "green" industries, technological change and development.
- Georgian perspective—mitigate resource scarcity, through substituting away from scarce resources such as fossil fuels and thus removing a constraint to long-term growth.

[1] "G20 Leaders Declaration", Las Cabos, Mexico, 18–19 June 2012. http://www.g20.org/images/stories/docs/g20/conclu/G20_Leaders_Declaration_2012.pdf. The members of the G20 include 19 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK and the US) plus the European Union.