The Political Risks of a Low-Carbon Transition

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The geopolitical risks of climate change come not only from the physical impacts of a changing climate but also from the rapid pace of the transition, government spending on green recovery, and climate-related trade policies. Here, I would like to highlight three drivers of such risks to the United States and its allies.

Green Recovery

The U.S. and the E.U. are both investing heavily in fast-growing green industrial sectors through recovery programs in the aftermath of the coronavirus pandemic. Support for low carbon technologies has always been the focus of China's industrial strategy to drive its industrial transition from carbon-based resources. Against the background of a race to become a leader in the decarbonized economy, government subsidies for green technologies have the potential to amplify existing threats to the open global trade regime if subsidized industries are perceived to result in domestic job losses. This could raise trade barriers and slow the adoption of green technologies globally.

To avoid such risks, key producers of green tech should coordinate a set of guidelines establishing what type of government support counts as fair trade based on a detailed consideration of just transition issues at platforms such as the G20 or World Trade Organization.

Decline of Petrostate

The energy transition will, indisputably drive long-term changes in fossil fuel prices. However, some governments may not be ready to adapt to the pace of change required for a safe climate. Take electric vehicles as an example. For the world to stay on the pathway to reach net-zero emissions by 2050, 60% of all car purchases would have to be electric by 2030 (5% today). The rapid electrification of the transport sector could drive instability in countries that are heavily dependent on revenue from oil to balance their budgets. Countries with relatively high breakeven production costs will be exposed early.

The U.S. and its allies should recognize the risks from rapidly adopting renewable technologies in their security strategies and work with the International Monetary Fund (IMF) to assess the risks posed to the macroeconomic stability of oil producers.

Carbon border tax

Despite rising geopolitical tension, most decision-makers across the Atlantic agree that they should work alongside China on issues related to global public goods, such as addressing pandemics and climate change. However, some have argued for a more competitive approach to address China's emissions in the form of a carbon border tax.

Proponents of a border tax believe the measure would bring jobs back to their soil and put pressure on manufacturing nations such as China to decarbonize their industries. But such a measure risks driving a deeper wedge between developed and developing nations if not properly designed. Poor countries that are most at risk from climate change should be exempt from carbon border measures and the revenues raised by such taxes should be used to support decarbonization efforts in the most climate-vulnerable countries.

A carbon border measure that fails to demonstrate solidarity with poor countries could be seized upon by China and other emerging emitters to fall back into their status quo positions as a defender of the developing world, and stall efforts to galvanize support for a more ambitious deal at the pivotal Glasgow climate summit this year.