

Navigating the political economy of carbon pricing in developing countries

PMI Knowledge Forum 2023

Pricing carbon: A political economy challenge

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Enter Policy
Agenda

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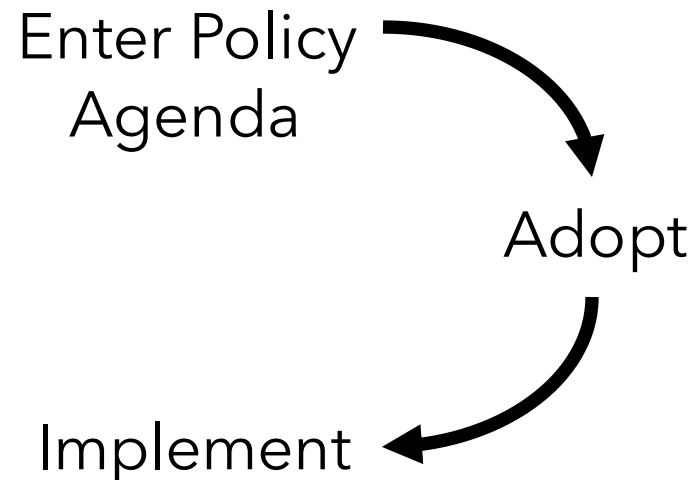
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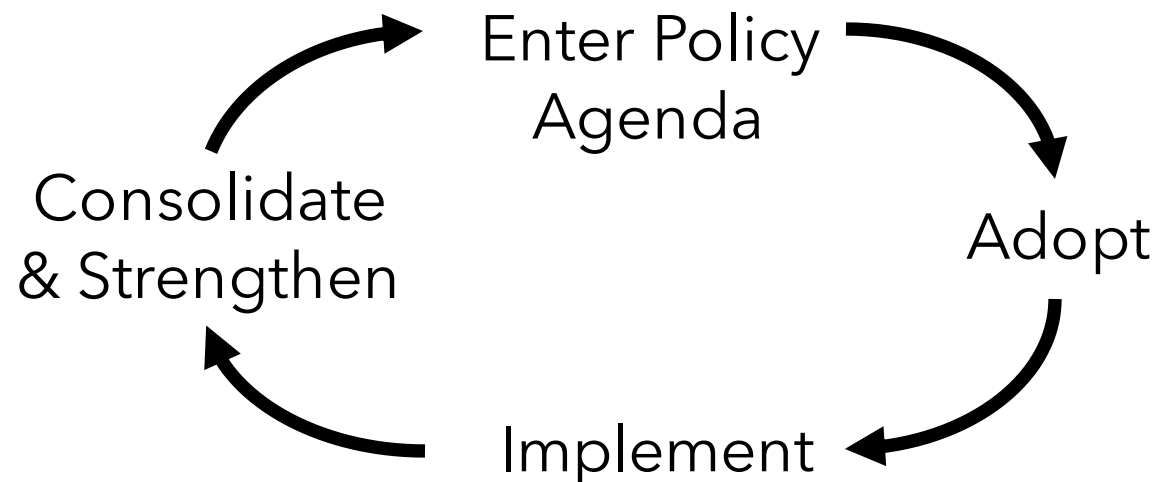
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Momentum is building in developing countries

Status of carbon pricing instruments in developing countries



21 adopted

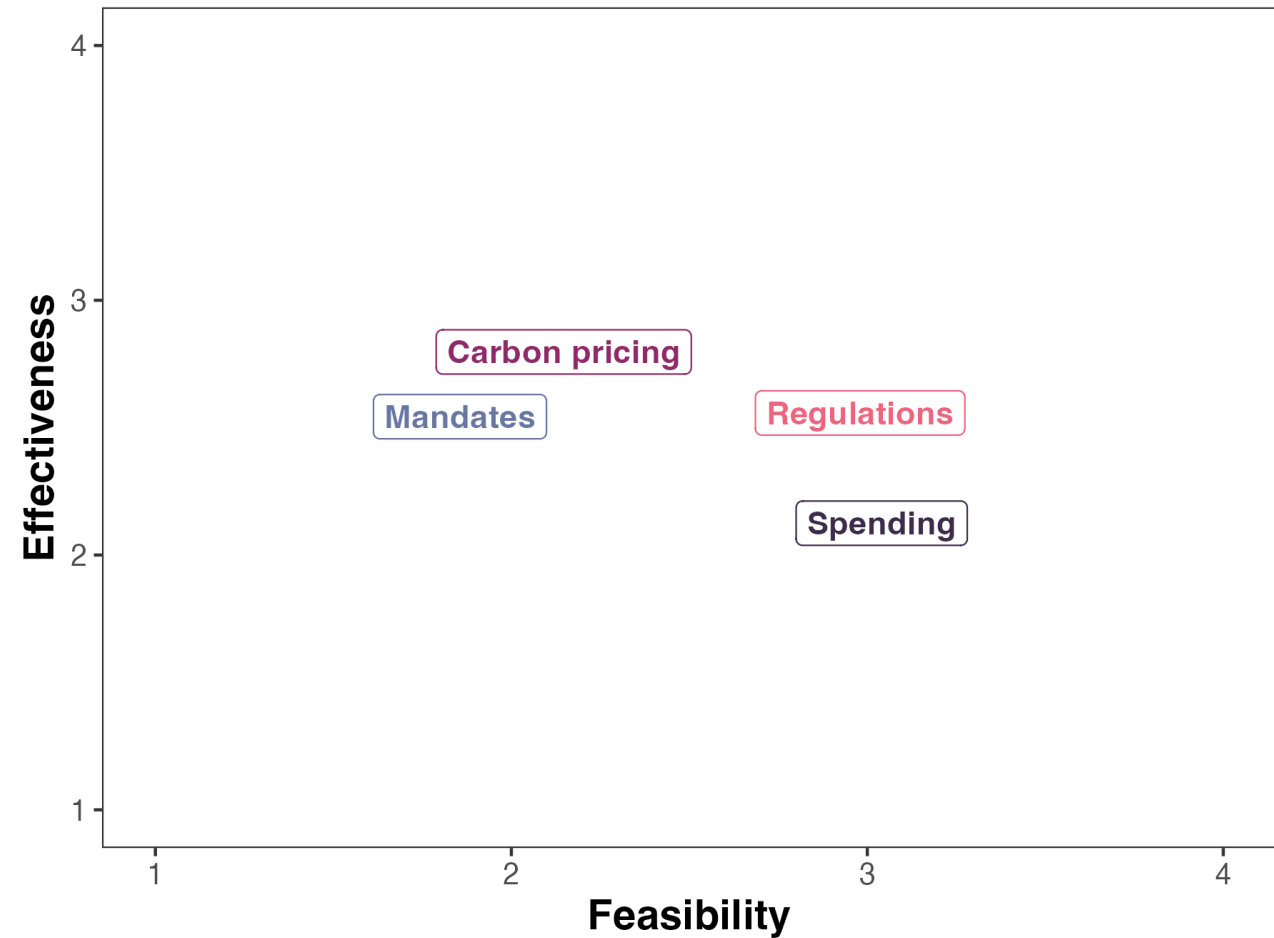
22 under consideration

Ukraine (2011), Beijing (2013), Guangdong (2013), Kazakhstan (2013), Shanghai (2013), Shenzhen (2013), Tianjin (2013), Chongqing (2014), Hubei (2014), Mexico (2014), Fujian (2016), Chile (2017), Colombia (2017), Zacatecas (2017), Argentina (2018), South Africa (2019), Baja California (2020), Mexico (2020), China (2021), Tamaulipas (2021), Uruguay (2022)

Botswana, Brazil, Brunei Darussalam, Chile, Colombia, Cote d'Ivoire, Gabon, Indonesia, Indonesia, Jalisco, Malaysia, Morocco, Nigeria, Pakistan, Senegal, Serbia, Shenyang, Taiwan, Thailand, Turkey, Ukraine, Vietnam

Data: World Bank Carbon Pricing Dashboard (2022)

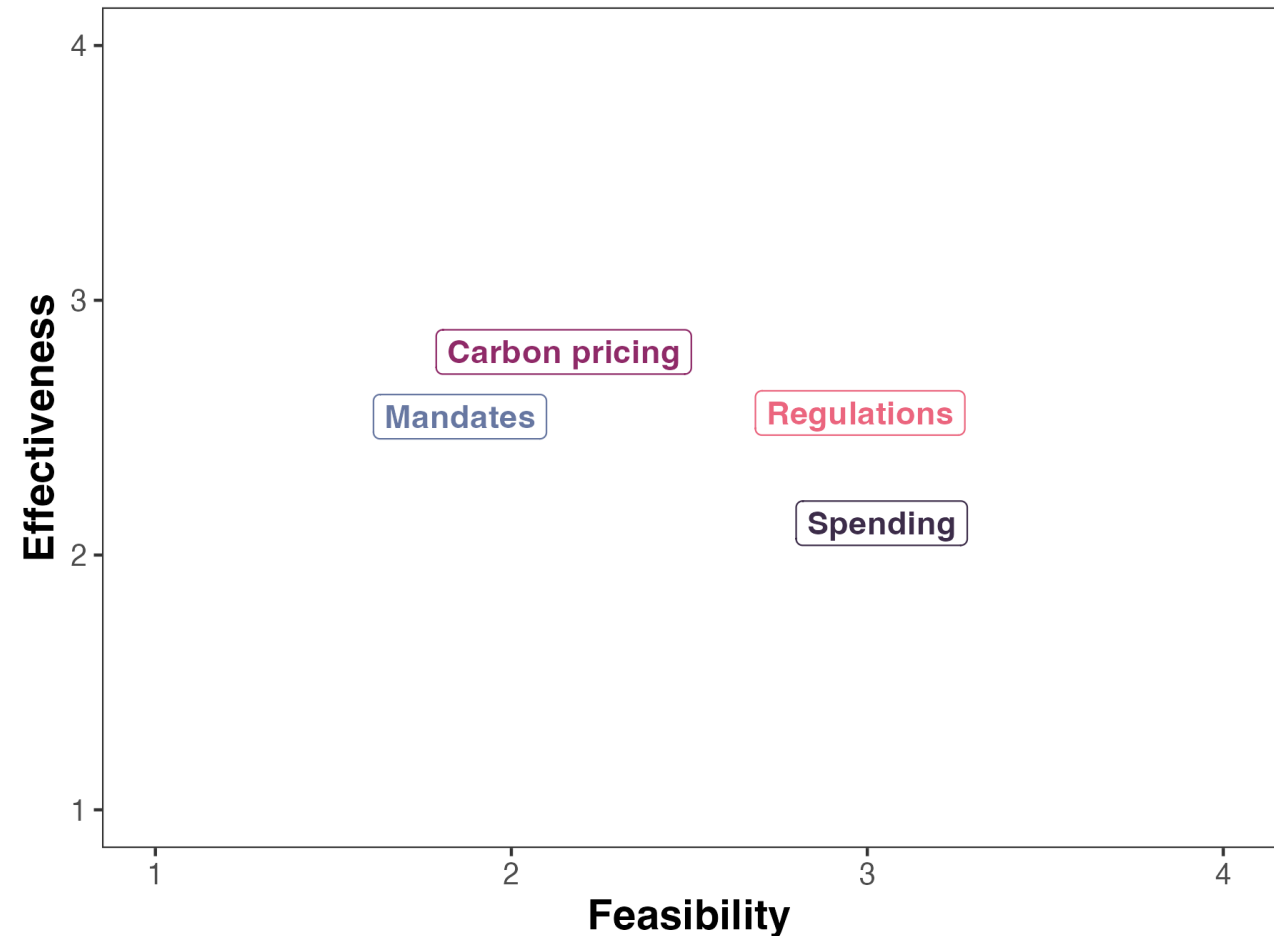
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Feasibility concerns include

➔ Political opposition

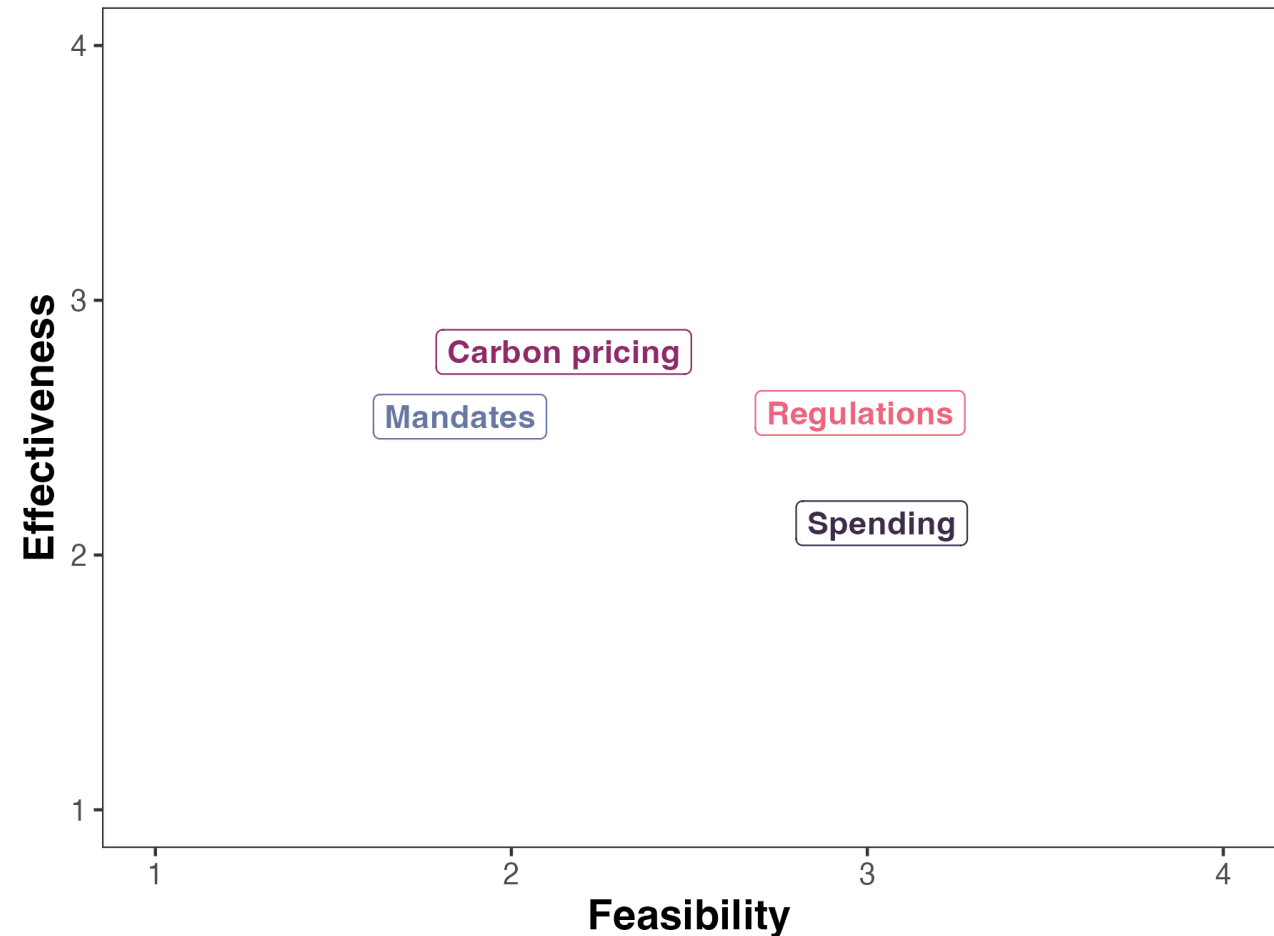


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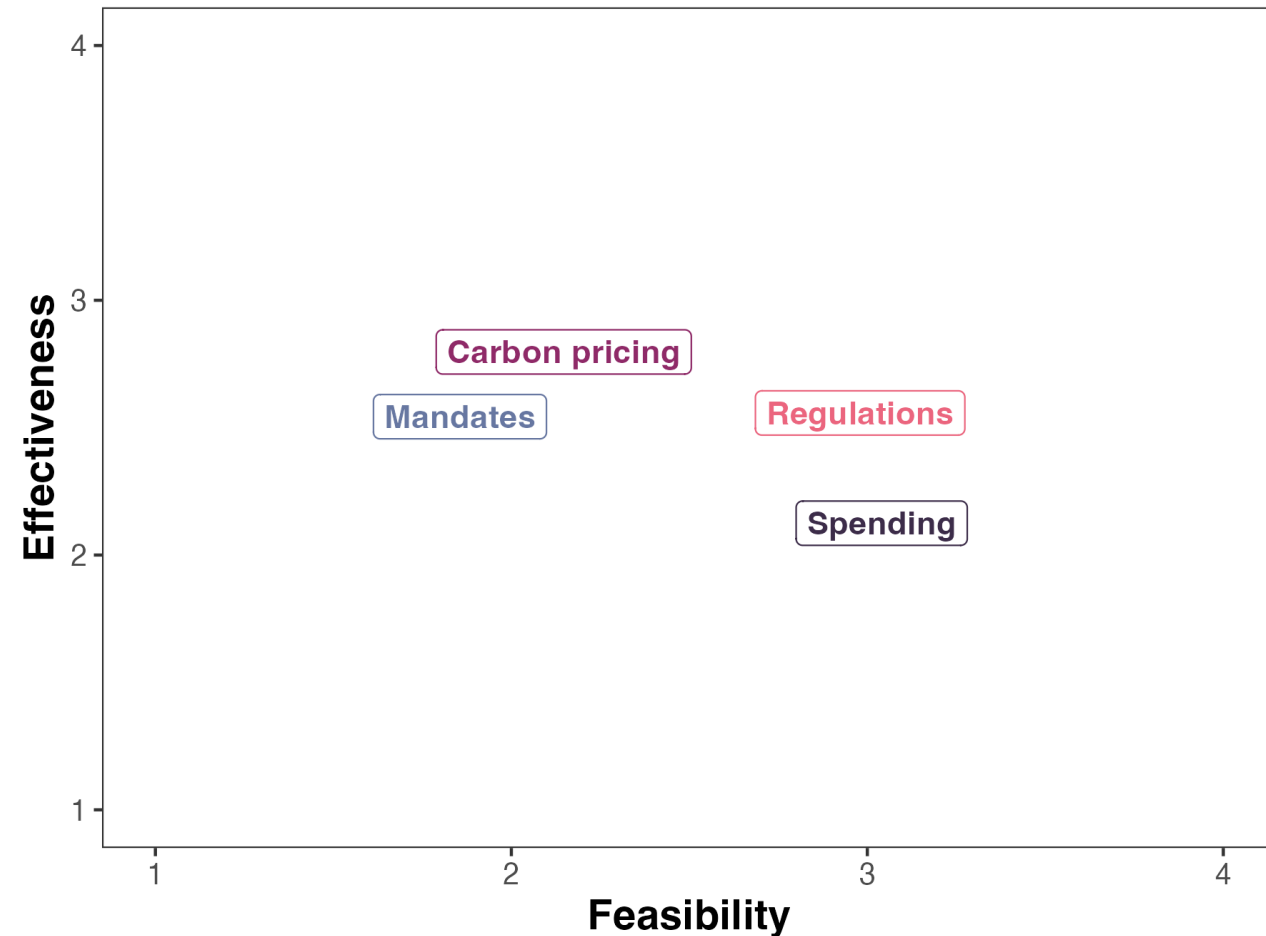
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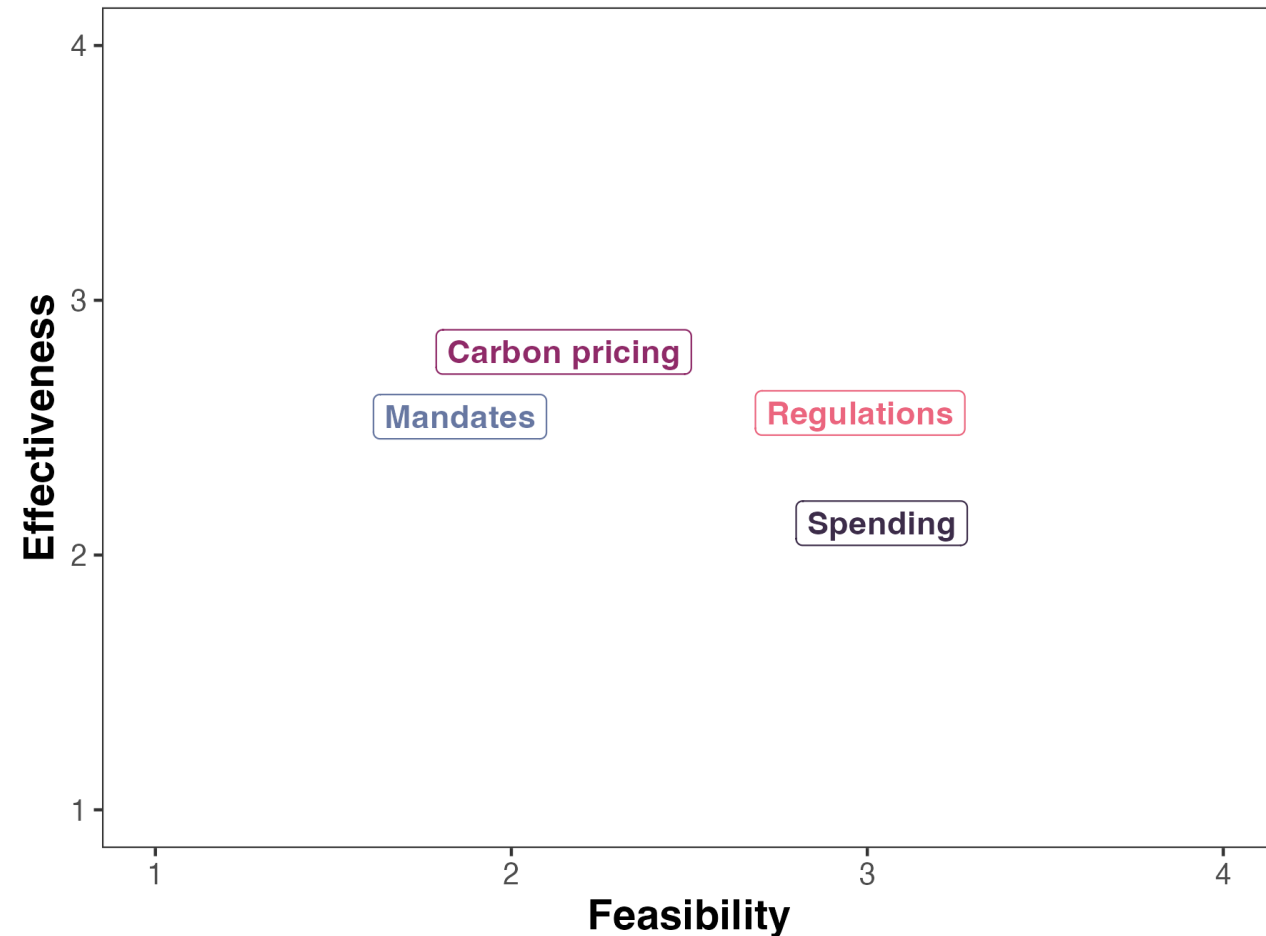
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- ➔ Impacts on vulnerable groups



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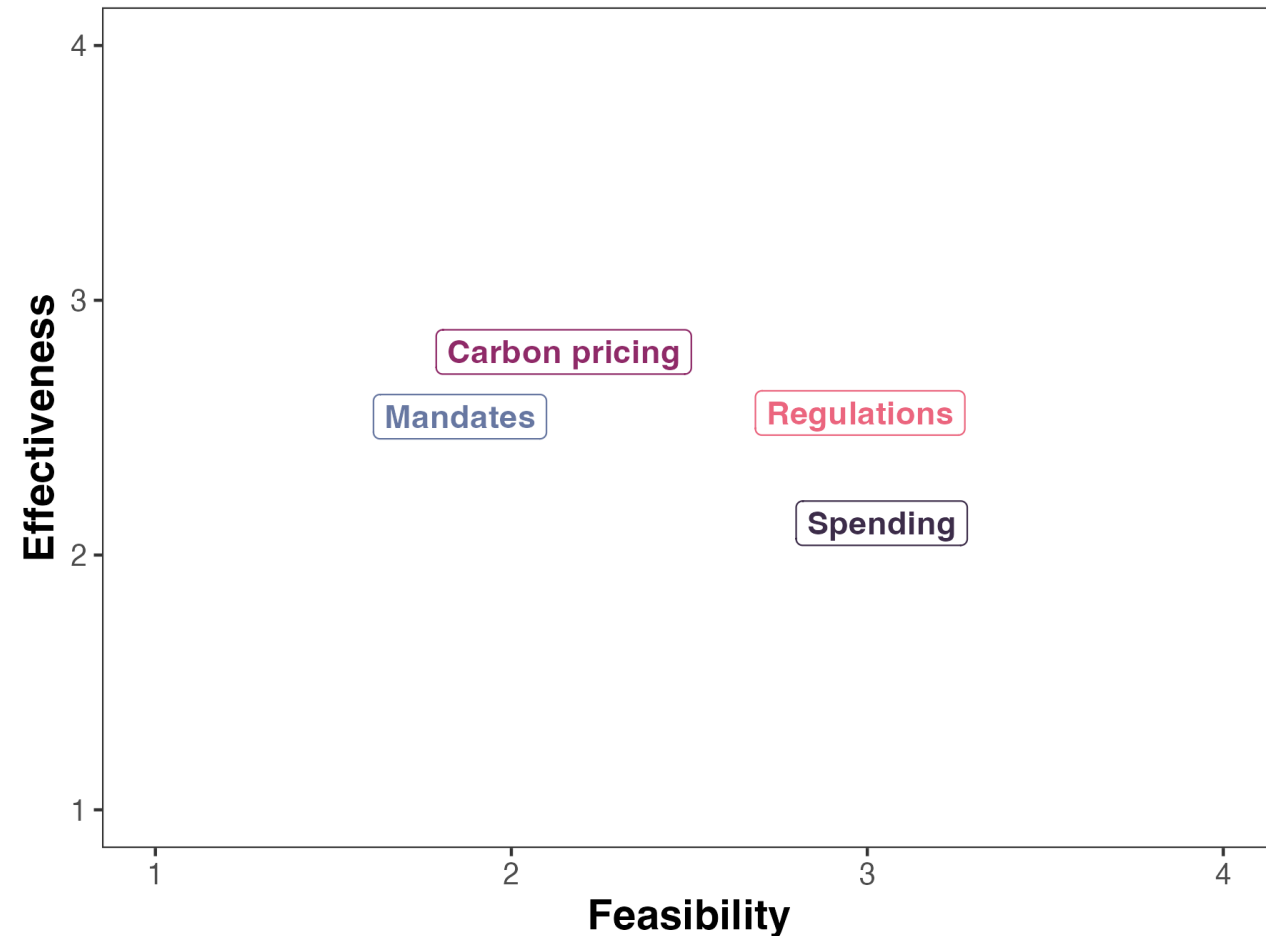
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- ➔ Political opposition
- ➔ Economic competitiveness
- ➔ Impacts on vulnerable groups
- ➔ Charges of “climate elitism”
- ➔ Dependence on carbon revenues



Policy champions need allies and opportunity

Policy champions (especially in government) are **essential** but **not sufficient**

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Emphasizing co-benefits broadens support

Improve public health and local environmental issues

Opportunity for international collaboration and leadership

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Preparatory policies create favorable conditions

Technology subsidies and mandates strengthen low-carbon interests

Climate targets can make climate action seem inevitable

International pressure is mobilizing support

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The EU's **Carbon Border Adjustment Mechanism** has provided significant impetus for trading partners to move forward on carbon pricing
Especially motivating for exporters and multinational firms

Low initial ambition can improve feasibility

Starting with a weak carbon price can ease initial resistance

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May be able to negotiate use of revenues

Preferred uses: green infrastructure and/or vulnerable groups

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Can **overcome remaining resistance** by

Rallying public support in electoral and education campaigns (rare)

Embedding the policy in larger, more popular reform packages

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Simplified reporting procedures (e.g., default emissions values)

Repurposing existing infrastructure (e.g., air quality monitoring)

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- Produce clearer and more detailed guidance

- Facilitates communication of responsibilities

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Phased implementation can build trust

- Pilot programs for help regulators and firms gain familiarity

- Gradually moving from more facilitative to more punitive enforcement

Consolidate and strengthen ambition over time

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Three strategies for updating carbon pricing

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Automatic - according to pre-set rules

Hybrid discretionary - require re-evaluation at regular intervals

Also requires **cultivating an enduring coalition** in support of carbon pricing

Reflects policy feedbacks, market conditions, and external policies

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- 2) **Complementary climate policies** are in place more widely
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- 4) Policy **actions by trading partners**
- 5) **Greater learning** of carbon pricing's technical and political aspects