To what extent does Paris Agreement affect the whole world economy?

Introduction

The Paris Agreement within the United Nations Framework Convention is an agreement on Climate Change (UNFCCC) dealing with greenhouse gas emissions, adaptation and finance(UNCC 2007).The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping the global temperature rise well below 2 degrees Celsius from pre-industrial levels and by pursuing efforts to limit this increase even stricter to 1.5 degrees Celsius. Additionally, the agreement aims to strengthen the ability for countries to deal with the impacts of climate change and to make finance flow consistently with a low carbon emission on a climate-resilient pathway. To reach these goals, appropriate mobilization and provision of financial resources, new technology framework , and enhanced capacity building are to be put in place, thus supporting action by developing countries, and the most vulnerable countries should be in line with their own national objectives. The Agreement also provides a more transparent framework for action and support.

The Paris agreement came to be on the 15th of December in 2015 when 195 nations of the world came together in Paris to conclude the first ever universal treaty on climate change (Streck, 2016). The main aim of the agreement was to prevent global warming due to carbon emissions from all the countries. Recently, Palestine joined the agreement and became the 196th nation (Streck, 2016). However, in June, 2016, the United States President Donald Trump made the announcement that he was planning to pull out the country from the agreement which had been ratified by the former president Barack Obama. It was the only country that wanted to opt out of the agreement, and this action cannot be formally done until the month of November in 2020 (Dimitrov, 2016). Climate change is a major global issue due to global warming which are now being faced worldwide. This is the reason for countries coming together to form the Paris agreement. As much the ban on carbon emissions has several benefits to environment and economy, as the cost of achieving this goal is not cheap, and it is very likely that countries will face some negative impacts on the economy (Clemencon, 2016). However, from long time scales , benefits will outweigh the short-term negative impacts. This will be the main subject covered in this paper. Donald Trump in addition to several other scholars cited some major negative impacts that the Paris agreement will have on the individual economies of the countries. These negative impacts will be covered in this paper for countries like China, the United States,the European Union, and an analysis of the developed and the developing economies alike. In the end, the benefits of the Paris agreement towards the global economy will also be discussed

Broadly speaking, the world economy or global economy is the economy of the world, considered as the international exchange of goods and services that is expressed in monetary units of account. (N.p., n.d. Web. 02 Jan. 2015.) Paris Agreement might contribute to the world economy in various ways. Paris Agreement advocates that this Agreement would benefit the world economy in the long term by conserving nature resources for next generation to utilize (UNFCCC). However, Paris Agreement critics such as President Trump argued that the agreement was a pernicious threat to the economy and American sovereignty (Plumer et al., 2017). Therefore, With this research question, this essay aims to find out the relationship between Paris Agreement and the world economy, which investigates the possible connection between the Paris Agreement and its effect on the World economics.

Description of the Paris agreement

The main aim of this agreement was the prevention of the worst case scenarios of global warming. In addition to Palestinian authority, Nicaragua has also joined the agreement which leaves just Syria and the United States as the only two countries that do not wish to be part of the agreement (Streck, 2016). The main goal of the agreement which was agreed upon by all the countries in the pact was to keep the levels of global warming below two degrees Celsius in terms of the pre-industrial revolution levels and to keep the levels to 1.5 degrees Celsius in terms of pursuing the climate change efforts. The smaller goals were due to the risk of the smaller and poorer countries which were affected by the rising sea levels and the effects of climate changes.
The countries made a pledge to reduce their carbon emissions (Savaresi, 2016).
According to the agreement, by the second half of this century, there needs to be a balance between the emissions which resulted from potentially harmful human activities such as farming and production of energy and the amount of carbon which can be absorbed by the sinks such as storage technology and the forests (Savaresi, 2016).
The progress of the agreements and pledges will be tracked every five years whereby each of the countries will take stock of the entire impact that their efforts have had in the fight against global warming. The agreement required all the countries in the pact to update the pledges made on cutting emissions by 2020 and this should then be done after every five years from 2020 onwards. Some countries such as the United States set their emission targets for 2025 while others set their targets for the year 2030 (Zhang, 2017).
In terms of financing, developed and richer countries are required to provide finances that would help the poorer or developing countries cover the costs of shifting to energy sources that were much cleaner and they were also required to shore up the mechanisms on the consequences of climate change (Dimitrov, 2016). The nations providing the funding were required to create donor reports every two years on their levels of financing that is the current level and the intended levels (Zhang Y. X., 2017).

The connection between carbon emission, energy consumption, energy cost, and economic impacts

There is a huge connection between emission of carbon, energy consumption, the costs of the energy used and the global economy. To begin with, carbon emissions have various negative effects not only to the environment and people's lives but also to the national economies. For example, carbon emissions actually lead to damage of infrastructure and property (Ishikawa, 2017). This occurs due to the negative impacts of carbon emissions, commonly known as global warming responsible for occurrences such as floods, the rise in the sea levels, extreme storms and wild fires. When these natural disasters take place, repair needs to be done for the bridges, the homes, the railroad tracks among others and this requires a lot of money. It negatively impacts the economy of a country when such repairs have to be done constantly (Falkner, 2016).

In addition to this, increased carbon emissions also leads to loss of productivity. This is due to the disruptions of people's daily lives caused by the natural disasters that occur as a result of global warming and this affects the working population, tourism, agriculture, transportation and other sectors of the economy which leads to the loss of the economic productivity of a country (Falkner, 2016).

Coping with the impacts of climate change is not cheap. It requires a lot of money which negatively impacts the economy. If carbon emissions keep growing unabated, coping with the impacts can cost a nation a lot of money and a loss to its economic power (Zhang Y. X., 2017) .
2018)

One of the main determinants of increased levels of energy consumption is the income of the people. Energy consumption levels are driven by demand by the economies that are now emerging and this means that the supply side is becoming more stagnant. Studies show that what determine demand for oil is the income levels of the consumers thus if the income levels grow due to the economies of countries growing such as the developing countries, the demand for global demand for oil is also bound to grow (Wu, 2016). Growing economies such as India and China are linked with the rising demand for oil and this is because of the rise of the income levels of the residents of the two countries.

Rising energy costs now look like they might puts the global economy to collapse. The high prices of oil take a huge slice out of the economy and show nothing in return. The con-sumers of energy do not have salaries that increase with the increase in oil prices. This means that a majority of the energy consumer's specifically oil end up cutting back on spending on other products and services so they have enough money to spend on food and other products produced through the use of oil (Ollila, 2018). The result of these cutbacks is near recession or recession and less jobs available. Governments are also affected financially as they try to mitigate the impacts of the recessions with no enough tax revenue (Falkner, 2016) .
2017)

How the agreed emission reduction led various negative impacts on the economy of the United States

The US was a pivotal force to bring Paris agreement into fruition. One of the key elements to the U.S. commitment as part of the Paris agreement is the intended nationally determined contribution (INDC) to reduce greenhouse gas emissions. The Obama Administration's INDC aims to reduce U.S. greenhouse gas emissions by 26 percent to 28 percent below the levels in 2005 by the year 2025. Though the emission-reduction targets are nonbinding, the previous administration has initiated several domestic regulations to meet the target, such as the Clean Power Plan. The current administration, however, decided to withdraw from it in four years. President Donald Trump has repeatedly stated that "The Paris accord will undermine (the U.S.) economy," and "puts (the U.S.) at a permanent disadvantage. The main issue involves the energy sector and its direct and indirect impact on the US economy as a whole (Falkner,2016). Carbon-dioxide-emitting fuels, such as coal, oil, and natural gas, provided 87 percent of America's energy needs in the past decade, and have been the dominant supplier for over a century. Since traditional energy has become the engine for economic activities and opportunities, restricting the use of conventional energy sources as outlined by the Obama Administration's INDC will inevitably harm the U.S. economy.

Indeed, the benefits of global oversupply of oil in the past few years were not com-pletely passed to average Americans, as evidenced by the gas price at the pump, which has been hovering around the historical high level. Many Americans can feel the pain of higher energy prices not only directly, but also indirectly through almost all of the goods and services they buy, because energy is a necessary component of production and service. To make matters worse, higher energy prices will disproportionately hurt the poorest Americans, because they are the ones who spend the highest percentage of their budget on energy bills.

Furthermore, higher energy prices will also hurt the employment prospect. Companies, besides passing part of higher costs on to consumers, will have to absorb certain costs, which prevents hiring and new investment. As prices rise, consumers buy less, and companies will downsize, close entirely, or move to other countries where the cost of doing business is lower. Therefore, American workers will have to deal with a bleak employment market, facing fewer opportunities, lower incomes, less economic growth, and higher unemployment.
Based on the Heritage Energy Model, policies adapted from domestic regulations, which were emphasized in the Paris agreement, will affect a variety of aspects of the American economy. It can be projected that by year 2035 the direct impact or those via rippling effect by Paris Agreement could include, although not limited to, the following:

- An overall average shortfall of nearly 400,000 jobs;
- An average manufacturing shortfall of over 200,000 jobs;
- A total income loss of more than $20,000 for a family of four;
- An aggregate gross domestic product (GDP) loss of over $2.5 trillion; and
- Increases in household electricity expenditures between 13 percent and 20 percent.

On the other hand, the environmental benefits brought by the Paris Agreement will be marginal. In fact, the climate change model developed by the researchers at the National Center for Atmospheric Research predicts that even if all carbon dioxide emissions in the US were eliminated, there would be less than two-tenths of a degree Celsius reduction in global temperatures. The model also predicts that even if the entire industrialized world could completely cut carbon emissions, the impact on global climate would still be less than fourteenths of a degree Celsius in terms of averted warming by the year 2100.
In a speech given by President Donald Trump, he used statistics from a study conducted by the National Economic Research Associates which showed that the Paris agreement was actually going to cost the country jobs worth 2.7 million dollars by the year 2025 (Ollila, 2018). This was a claim that also stated that the regulations of the Paris Agreement would also cut the production levels o paper industry by approximately twelve percent and the cement industry would be affected by twenty three percent. Other industries which the study claims would be affected are the industry by eighty six percent, the steel and iron industry by thirty eight percent. Trump also added that the country had made a pledge of 3 billion dollars to help to reduce the carbon emissions made by the developing countries which would not be good for the yearly expenditures of the country (Zhang H. B., 2017).
A report that was also produced by the United States chamber of Commerce made an estimate of the costs of reducing the carbon emissions to almost 50 billion dollars every year for the United States alone. The report also warned that the citizens would have to pay electricity bills that were much higher if the regulations of the agreement were to be implemented (Zhang H.

B., 2017).
The case study shows that if the costs of utilizing fossil fuels which emit carbon are to be increased, this would lead to the creation of a carbon tax and this tax tends to raise the costs of the production of goods and services especially for services such as transportation and electricity which account for huge amounts of carbon emissions. The carbon tax will give companies the incentive to manufacture products with clean energy which will results to higher costs in production and higher prices of the goods and services produced through such methods (Zhang Y. X., 2017).
If the carbon tax does not account for the use of the revenues that come from the tax, it will affect the economy negatively. The high prices of the products and serviced will reduce the purchasing power of individuals' earnings hence diminishing their real wedges. If the real wedges are lowered, this will ultimately affect the amount that people actually worked thus reducing the overall labour supply. Investments would diminish hence reducing the overall output of the economy.
In mean time, the Energy Information Administration's energy model further proves that restricting energy production to meet targets like those of the Paris agreement will significantly harm the U.S. economy. Bureaucratically administered mandates, taxes, and special interest subsidies will drive family incomes down by thousands of dollars per year, drive up energy costs, and eliminate hundreds of thousands of jobs. All of these costs would be incurred to achieve only trivial and theoretical impacts on global warming.

How the European Union and China's economy can be negatively impacted by the Paris Agreement
Based on the Paris Agreement, the European Union made a commitment to ensure that a fifth of the total energy used within the region would be coming from renewable sources by the year 2020. This was a target that led to huge ramp-up in the renewable energy sources across the region and countries such as Germany and Denmark actually began the shift to renewable energy sources almost twenty years ago (Falkner, 2016). Due to the increased demand for wind turbines and solar technology there has been a huge increase in the manufacturing output of the green energy technologies which have in turn led to diminishing costs. This has in turn fed the aggressive global growth.
The treaty that was made in Copenhagen had very weak outcomes and this prevented the European Union from making climate targets that were more ambitious because they did not want to destroy the industry (Streck, 2016). This was the last straw for the markets associated with carbon which were already being affected by the effects of the economic crisis that had reduced the output of the industry.
It is therefore very likely that the Paris agreement will have the same effect as that of Copenhagen treaty. The agreement will be the foundation of increased growth in renewable energy thus increasing the decline of the coal industry and other forms of energy that emit energy which form a huge part of the economy of the world. This leaves the markets that focus on carbon without a way forward which means loss of jobs and a huge industry not contributing to the global economy (Ollila, 2018). This then puts more pressure on regional developments for example the national scheme implemented in China and the increasing demand in Europe (Streck, 2016).

In the meantime in China, the country has made a commitment to reduce its overall carbon emission levels for every unit of its economic output and this is known as carbon intensity. This has now come up with the revelation that such a target is too ambitious and the fact that this target has to be met puts more pressure on the country's economy in addition to putting pressure on the demand for coal in the country (Zhang Y. X., 2017). Entrepreneurs of drain-off industry being interviewed shared this concern: The employment rate might be decreased as a result of the discourage of the exhaustion. Since government may impose taxes on firms to reduce exhaustion, the cost of production goes up, which will probably leads to cut of wages or reduction of employee numbers.

How developing and developed economies can be negatively affected by the Paris Agreement then? Financial issues form a major part of the discussion on climate change and mitigation mechanisms such as those proposed by the Paris agreement. Even though the developed countries shave pledged to help the developing countries in putting up infrastructure to reduce carbon emissions, the arising issue is how the developed countries are to ensure their own economic development while meeting the demands of the developing countries (Clemencon, 2016). The funding ratio was not agreed upon in addition to the funding process. This provides a big risk towards the economies of the developed economies.

One of the bigger tenets of the agreement was to have an environment that was fair for all countries in an effort to fight climate change (Zhang Y. X., 2017). Arguments were made to show that the financial burden by the developing economies should not be the same as the developed economies since the developed countries formed the major polluters in the world. However, this means that the developed economies would have to bear a huge financial strain in the fight against climate change (Zhang H. B., 2017). With the United States having mad the intention to pull out, this provided a huge strain for developing economies such as India and such developing economies will have to carry huge technological and financial burdens in reducing carbon emissions (Wu, 2016).

International-level economic impacts of the Paris Agreement

Many of the negative impacts that will affect the global economy of the world are only shortterm as the long term benefits might have be much greater towards development of the global economy. A study that was commissioned by Germany showed that the potential impacts of the Paris Agreement towards the global economy were actually more of positive than negative. The report stated that the renewable energy industry needed a lot of investments which would amount to approximately 19 trillion dollars globally. This is the amount that would be added on to the economy of the world (Dimitrov, 2016).

How the world economy benefit from the Paris Agreement

There are multiple economic benefits as a result of the regulations provided by the Paris agreement. Pollution of the environment costs huge amount of money, kills people and reduces productivity level. Reduction of environmental pollution will therefore lead to financial benefits. This is in addition to the money saved which is being used to combat the effects of climate change such as flooding, famine and drought, water shortages. All this will be money saved as a result of the agreement (Ishikawa, 2017).

The implementation of the regulations to reduce carbon emissions will require lots of innovation especially in technology. Innovation will lead to the creation of wealth. Even though the short term impacts might lead to the less of jobs, this does not necessarily have to be the case (Juma, 2018). In order to invent machines or systems that is environmentally friendly, jobs might be created to innovate technologies. “I predict that the unemployment rate will decrease efficiently due to the development of drain-off system industry as a result of the establishment of Paris Agreement ” said by economist, Euclid Juma. Reduction of car-bon emissions leads to increased innovation and the creation of better technologies which affect the economy directly in a positive manner and also create new jobs for the population. With the new regulations, companies will have to find the most cost-effective ways of meeting them and this will make the technologies for cleaner energy much cheaper (Ishikawa, 2017)

Conclusion

In conclusion, the Paris Agreement has both negative and positive impacts on the global economy. It should be noted that the negative impacts might be short-terms and could be mitigated with effective implementation of the treaty. With references from the United States, some negative impacts on the economy are mainly resulted from unemployment due to the collapse of coal industry and other carbon-emitting industry, “a strain placed on the developed economies to meet the demand of reducing carbon emissions in addition to the demand of the developing economies” (Ollila, 2018). Moreover, carbon tax may lead higher production costs and therefore increasing prices of the goods and services. However ,positive impacts on the economy are not overshadowed. Dealing with environmental pollution is very costly, especially in mitigating the impacts of climate change such as flooding, drought and other natural disaster. Reducing such occurrences will therefore have less strain on economy. In addition, new technologies to combat climate change and reduce carbon emissions will also create new job for the population.

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