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Review of the implementation of the 2030 Agenda for Sustainable Development in Asia and the Pacific: trade and investment

Leveraging trade and investment to address climate action in Asia and the Pacific

Note by the secretariat

Summary

The links between trade, investment and climate change are complex. The key is to ensure that the positive effects of trade and investment are maximized, for example by promoting trade and investment in renewable energy and low-carbon technologies, while minimizing the adverse effects, by digitalizing trade and transport systems. The Asia-Pacific region has become the largest emitter of greenhouse gases in absolute terms and there is room for all economies in the region to make trade and investment more climate smart.

The present document contains highlights of the analysis and recommendations in the publication *Asia-Pacific Trade and Investment Report 2021: Accelerating Climate-smart Trade and Investment*, prepared by the secretariat with the United Nations Conference on Trade and Development and the United Nations Environment Programme.

The Economic and Social Commission for Asia and the Pacific may wish to consider the policy recommendations contained in the document and provide guidance for the future work of the secretariat.

I. Introduction

1. International trade and investment have been indispensable engines of economic growth in Asia and the Pacific and remain essential means of implementation for implementing the 2030 Agenda for Sustainable Development. However, this economic growth has come with significant social and environmental costs, including the rapidly worsening climate crisis.

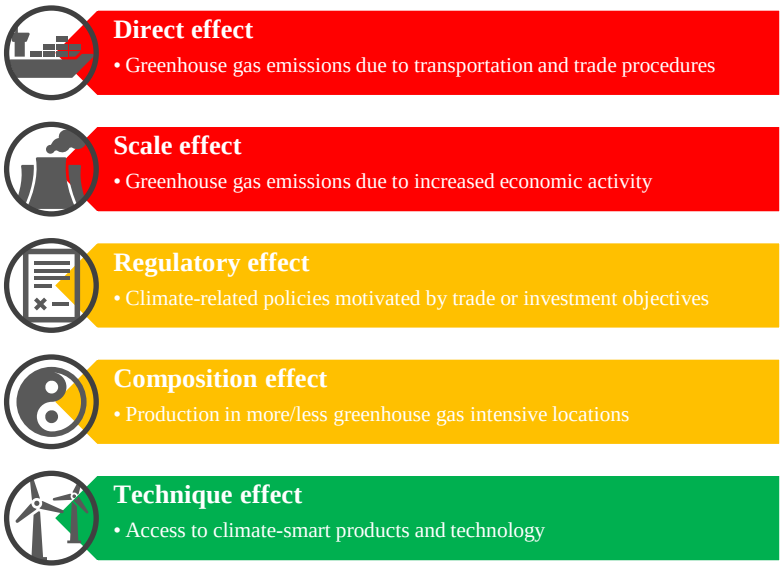
2. Even though climate action is an integral part of the 2030 Agenda, most explicitly addressed in Sustainable Development Goal 13, the Asia-Pacific region has regressed on this Goal. Between 1990 and 2018, while greenhouse gas emissions increased by nearly 50 per cent globally, in the Asia-Pacific

* ESCAP/78/L.1/Rev.1.

region, they more than doubled. Despite the region being known as the "factory of the world", the primary source of growth in emissions is increased consumption, in line with rising standards of living in developing countries. Still, there is an urgent need for economies in the region to reduce greenhouse gas emissions, including to maintain their trade competitiveness as carbon taxes at borders become more likely.

3. Trade and investment have a complex relationship with climate change, including through their various effects on greenhouse gas emissions (see figure I). While transportation and increased economic activity due to trade tend to increase greenhouse gas emissions, trade is also crucial for spreading technologies to attain green economies and reduce emissions. Some impacts are less clear-cut. What products a country specializes in producing may also affect their overall emissions. This can be net beneficial to climate action if a country with a greener energy system produces more energy-intensive products, but it could also be detrimental if a country seeks to produce similar products in a less environmentally friendly way.

Figure I
Effects of trade and investment on greenhouse gas emissions



Source: Asia-Pacific Trade and Investment Report 2021: Accelerating Climate-smart Trade and Investment for Sustainable Development (United Nations publication, 2021).

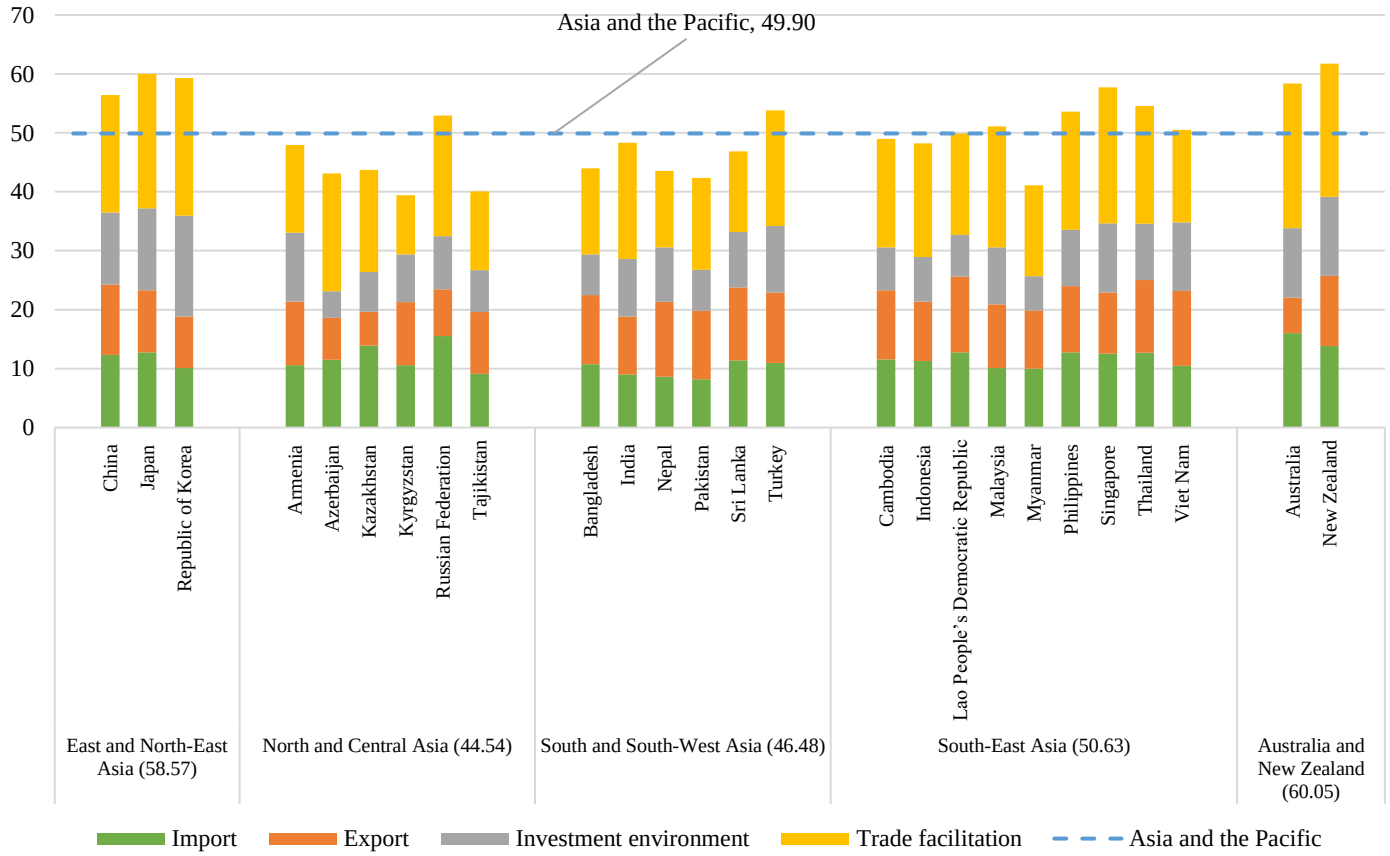
4. The present document provides a look at how climate-smart trade and investment-related policies can help to address climate change, taking into account the ongoing coronavirus disease (COVID-19) pandemic. Climate-smart trade and investment policies are defined as any government regulation aiming to reduce or limit net greenhouse gas emissions that can affect foreign trade and investment.

II. Trade and investment in Asia and the Pacific need to be climate smart

A. How climate smart is trade and investment in the Asia-Pacific region?

5. Figure II shows the scores of selected Asia-Pacific economies on the climate-smart trade and investment index, which measures the performance of trade and investment-related activities that contribute towards climate change exacerbation or mitigation and support or hinder climate action. The economies that performed the best in 2019 – in other words trade, investment and associated policies most addressed climate change in the region – were New Zealand, Japan, the Republic of Korea, Australia and China.

Figure II
Climate-smart trade and investment index scores, by subregion, 2019



Source: *Asia-Pacific Trade and Investment Report 2021: Accelerating Climate-smart Trade and Investment for Sustainable Development* (see figure I).

Note: A higher value implies that trade, investment and policies contribute less towards the exacerbation of climate change and more towards its mitigation and adaptation to the impacts.

6. According to research by the Economic and Social Commission for Asia and the Pacific (ESCAP), all economies in the region have significant room to make their trade and investment more climate smart. Barriers to trade in environmental goods are more prevalent than barriers to trade in carbon-intensive fossil fuels. In 16 out of 26 economies examined in the Asia-Pacific region, the average applied tariffs on carbon-intensive fossil fuels

appear to be lower than those on environmental goods.[1] Apart from a few notable exceptions (Japan, Kyrgyzstan, the Lao People's Democratic Republic, the Philippines and Nepal), 21 out of the 26 economies applied more non-technical non-tariff measures (non-tariff barriers) on imports of environmental goods than on imports of carbon-intensive fossil fuels.

7. More concerning is that, on average, Asia-Pacific economies have increased the share of carbon-intensive fossil fuels in their trade since 2015.[2] Wasteful and regressive fossil fuel subsidies continue to contribute to greenhouse gas emissions in the region. Their timely abolishment – and replacement – with more targeted support policies could provide much-needed finance for social and environmental policies in addition to the reduction in emissions.

8. Progress towards a climate-friendly investment environment has been mixed. In more than half of the economies in the region, the share of coal in electricity generation has increased since 2015.[3] The Asia-Pacific region accounts for 75 per cent of global coal-fired generation capacity.[4] However, many economies in the region have a large share of renewable energy in electricity generation; a share that has increased since 2015. Some reports suggest that fossil fuel power demand has peaked globally, and that it is now more cost-effective to invest in green power.[5]

9. While many countries in the region have already set mandatory emissions standards on imports of vehicles, require energy ratings labels and ban trade in chlorofluorocarbons (which are potent greenhouse gases), more should consider doing so, as well as taking additional steps to address trade in illegal timber (which contributes to deforestation). Mandatory requirements of climate-friendly production processes may run contrary to the current non-discriminatory principles of the World Trade Organization (WTO). In such cases, Governments may encourage voluntary eco-labelling in lieu of imposing non-tariff measures.

10. On the positive side, ESCAP analyses show that there has been steady progress in trade facilitation in the Asia-Pacific region. The transparency and efficiency of trade procedures have improved significantly since 2015, and the latest data from the United Nations Global Survey on Digital and Sustainable Trade Facilitation confirm that the region continued to advance between 2019 and 2021. While much remains to be done, implementation of cross-border paperless trade – the electronic exchange and legal recognition of trade-related data and documents across borders – has picked up. This can be partly attributed to the COVID-19 pandemic and the resulting physical distancing requirements.

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1 ESCAP calculations based on data from World Bank, World Integrated Trade Solution database. Available at https://wits.worldbank.org/ (accessed on 10 June 2021).

2 ESCAP calculations based on data from UN Comtrade Database. Available at https://comtrade.un.org/ (accessed on 1 August 2021).

3 ESCAP calculations based on data from Asia Pacific Energy Portal. Available at https://asiapacificenergy.org (accessed on 1 August 2021).

4 *Coal Phase Out and Energy Transition Pathways for Asia and the Pacific* (ST/ESCAP/2936).

5 Carbon Tracker, "World at peak fossil generation as emerging markets adopt renewables", 13 July 2021.

B. Climate-smart business and investment

11. Climate pledges by several countries in the region need to be underpinned by policies and measures to drive the transformation towards lower-carbon economies, including in the private sector. Such a transformation would facilitate a surge in investments, including in clean energy and energy efficiency measures in the industrial, building and transport sectors. These investments, in turn, would drive structural change in which jobs in old industries are replaced by those in new sectors. Recent estimates suggest that 16 million new jobs would be created in clean energy, energy efficiency, engineering, manufacturing, and construction industries, more than compensating for the estimated loss of 5 million jobs by downscaling industries.[6]

12. While government policies, such as carbon pricing and energy performance standards, are key to driving this transformation, ambitious corporate action is also needed to proceed at the scale and pace required. To integrate climate considerations into business decisions, companies may adopt internal carbon prices, publish transparent sustainability reports, disclose emissions, and commit to emission reduction goals in line with a 1.5-degree trajectory. Notably, such private sector action to reduce emissions is increasing in the region – albeit from a low level – in particular with regard to sustainability reporting. Adoption of new technology, such as blockchain, can dually serve to better enable small and medium-sized enterprises to report their sustainability progress and link into regional and global supply chains that are led by corporations seeking to increase the sustainability of the chains they lead.

13. Moreover, as the world moves towards a net zero economy, the finance sector will need to enable this transformation by ensuring that climate and environmental factors are fully integrated into financial decision-making. However, while financial institutions increasingly launch sustainable finance products, only a quarter of surveyed financial institutions disclose their portfolio emissions, and less than half align their portfolios well below the 2-degree pathways.[7] While the net zero movement is picking up steam through initiatives such as the Principles for Responsible Banking and the United Nations-convened Net-Zero Banking Alliance, both of which have emerged in the past couple of years, the largest banks in developed and developing countries that have signed these pledges continue to finance expansion projects in the oil and gas sectors.[8] Granted that more and more financial sector actors – governments, multilateral development banks and private sector entities – have declared their intention to stop funding coal and other fossil fuels in recent years, more concrete action is required to better support a net zero transformation. This could, for instance, include requiring clients seeking support for investments to provide energy transition plans and commit to implementing across-the-board restrictions on funding fossil fuel-based projects, including new and expansion activities.

[6] International Energy Agency, *Net Zero by 2050: A Roadmap for the Global Energy Sector* (Paris, 2021).

[7] Joseph Power and others, “Time to green finance: CDP financial services disclosure report 2020”, Nicolette Bartlett and Emily Kreps, eds. (London, CDP, 2020).

[8] Xavier Lerin, Jeanne Martin and Kelly Shields, *Oil and Gas Expansion a Lose-lose Bet for Banks and Their Investors* (London, ShareAction, 2022).

C. Regional trade and investment agreements: tools to promote climate-smart trade and investment

14. Regional trade and investment agreements can help to address climate change. The number of such agreements involving countries in Asia and the Pacific has increased rapidly, with more than 200 signed or in force and another 97 under negotiation, as of November 2021.[9] These agreements typically go beyond commitments made under WTO agreements, making them useful for dealing with environmental issues, including climate change. Over time, there has been a general trend towards including a higher number of environmental provisions in regional trade and investment agreements, broadening their scope and making them more stringent.[10]

15. The vast majority – 85 per cent – of the regional trade agreements signed after 2005 by at least one Asia-Pacific country contain one or more climate-related provisions. The regional trade agreements with the most climate-related articles that include an Asia-Pacific economy most often involve the European Union, the Republic of Korea and Japan. Similarly, international investment agreements, particularly bilateral investment agreements, with the most climate-related provisions in the region have been concluded with countries of the European Union, Japan, the Republic of Korea and the United States of America.[11] While the empirical evidence on the impact of environmental provisions in regional trade agreements is minimal, it does suggest that such provisions do not substantially reduce exports from developing countries, but they do promote green exports.

16. Climate-related provisions vary greatly across agreements and are typically statements of intent or cooperation, with few concrete, binding commitments. In the Asia-Pacific region, regional trade agreements mainly call for climate action (34 per cent) or promote environmental goods, services and technologies (27 per cent). Very few refer to fossil fuel subsidies or carbon markets. The two new mega-regional trade agreements, the Regional Comprehensive Economic Partnership Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, vary markedly in terms of their level of ambition in this area. The Regional Comprehensive Economic Partnership Agreement barely touches on the environment or climate change. In contrast, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership contains provisions requiring parties to effectively enforce domestic environmental laws and prohibiting the loosening of environmental laws to encourage trade and investment.

17. Looking to the future, countries could use regional trade agreements to realize climate goals by including provisions covering climate-friendly public procurement, carbon markets and border carbon adjustment taxes, and to limit fossil fuels. To be effective, climate-related provisions should specify precise, measurable and binding commitments. Regional trade agreements should also

[9] ESCAP, "Preferential Trade Agreements in Asia and the Pacific", Asia-Pacific Trade and Investment Trends 2021/2022 (Bangkok, 2021).

[10] In an analysis of 20 sample international investment treaties, ESCAP found that environmental provisions were more present than any other type of sustainable development provision in international investment agreements, appearing in 19 of the 20. *Foreign Direct Investment and Sustainable Development in International Investment Governance*, Studies in Trade, Investment and Innovation, No. 90 (United Nations publication, 2019).

[11] *Foreign Direct Investment and Sustainable Development in International Investment Governance*.

incorporate credible mechanisms for the enforcement of these provisions. In addition, including commitments in the agreements to reduce tariff and non-tariff barriers to trade on environmental goods and services and incorporating binding commitments on reducing environmentally harmful subsidies, including fossil fuel subsidies, would be a good starting point.

D. Climate-smart trade and transport facilitation

18. The link between trade facilitation and climate change is not well recognized. Multilateral and regional trade facilitation agreements do not seek to exploit the potential synergies between trade facilitation and climate change efforts. Trade facilitation – in addition to boosting trade – can also help to mitigate the negative impacts on climate by making the trade transaction process less carbon-intensive. As e-commerce and the COVID-19 pandemic has led to explosive growth in shipments of small parcels across borders, reducing carbon emissions associated with trade procedures has become even more important.

19. There is evidence that digital trade facilitation, such as implementation of automated customs and paperless trade systems, can contribute to reducing carbon dioxide emissions. For example, the electronic single window in Vanuatu reduced carbon dioxide emissions by 5,827 kg by eliminating the use of papers in two trade procedures.[12] Trade information portals have also been found to be an efficient tool in reducing energy consumption as they increase transparency and make it easier for traders to access the information needed to fulfil administrative trade requirements.

20. In addition to lowering the costs of sourcing emission-intensive goods from producers with a smaller greenhouse gas emissions footprint, trade facilitation can also ease trade in environmental goods – which is essential for addressing climate change. The critical role of trade facilitation in the movement of essential goods became evident during the early stages of the COVID-19 pandemic when countries scrambled to facilitate trade in personal protective equipment. Facilitation measures put in place for essential goods during the pandemic may be extended to environmental goods to address the climate crisis.

21. As a major consumer of oil, transport typically accounts for the largest portion of emissions associated with any given trade transaction. Freight transport contributed approximately 6 per cent of global greenhouse gas emissions, on average, over the past decade, with road transport accounting for the largest share.[13] Reductions in transport emissions comprised more than half of the historic fall in global energy-related carbon dioxide emissions during the first year of the COVID-19 crisis in 2020 (-5.8 per cent).[14]

22. Regulation of transport emissions is increasing, and the transition to climate-smart transport entails significant changes in transport operations. Reducing emissions in this sector is particularly difficult as it is the least

[12] See *Asia-Pacific Trade and Investment Report 2021: Accelerating Climate-smart Trade and Investment for Sustainable Development* (United Nations publication, 2021).

[13] United Nations Environment Programme (UNEP), *Emissions Gap Report 2020* (Nairobi, 2020).

[14] International Energy Agency, “Global energy review: CO2 emissions in 2020”, 2 March 2021.

diversified energy end-use sector, there is continuous growth of global demand for transport, and there are technical limitations to replacing oil-based fuels.

23. Digitalizing transport networks has become a priority in the Asia-Pacific regional policymaking agenda, because of the COVID-19 crisis, with significant potential to reduce emissions and increase trade resilience. For example, under the Association of Southeast Asian Nations regional recovery guidelines, digitalized and smart solutions are identified as a priority to shift to sustainable transport. Regional approaches play an important role in shifting to more sustainable and resilient transport systems and in leveraging digitalization to address interoperability issues and additional costs and threats arising from diverging technical and operational standards.

E. The impact of switching to climate-smart trade and investment

24. Tackling climate change, including through climate-smart trade and investment, comes with a significant price tag. The costs of inaction, however, are estimated to be orders of magnitude greater, by some estimates as high as $792 trillion by 2100 if the Paris Agreement targets are not met.[15] Cutting fossil fuel subsidies to provide a level playing field for trade and investment in cleaner energies would reduce global emissions by an estimated 3.2 per cent; a much more significant reduction than all existing carbon price schemes globally. As real gross domestic product (GDP) does not decline when subsidies are removed, eliminating global subsidies is a win-win situation with gains in economic welfare accompanying reductions in emissions. Reducing fossil fuel subsidies would increase real GDP in all subregions of the Asia-Pacific region except North and Central Asia, which is heavily dependent on fossil fuel production and exports.

25. Modelling the impact of existing carbon pricing schemes reveals that they reduce global GDP by $46 billion, while reducing greenhouse gas emissions by only 2.18 per cent. Almost half of the effect in emissions is due to schemes within Europe.[16] The largest cuts in emissions in the Asia-Pacific region have been in East and North-East Asia where several countries have implemented national carbon pricing schemes. All subregions have benefited from increased investment in existing carbon pricing schemes.

26. The limited impact of these schemes on emissions is explained by their limited implementation. As of June 2021, approximately 21.5 per cent of global greenhouse gas emissions – and only 7.8 per cent of emissions in Asia and the Pacific – were covered by some sort of carbon pricing initiatives, with a global average price estimated at $2 per ton of carbon dioxide.[17] Carbon prices of existing schemes vary from $1 to $100, and the schemes also vary greatly in terms of coverage of emissions. For example, the scheme deployed by Japan covers more than 75 per cent of total emissions, whereas existing state-level schemes in the United States of America cover only 5 per cent of the country's emissions.

[15] Yi-Ming Wei and others, "Self-preservation strategy for approaching global warming targets in the post-Paris Agreement era", *Nature Communications*, vol. 11, No. 1624 (April 2020).

[16] Specifically, in this section referring to the countries of the European Union and Iceland, Liechtenstein, Norway, Switzerland and the United Kingdom of Great Britain and Northern Ireland.

[17] World Bank, Carbon Pricing Dashboard. Available at https://carbonpricingdashboard.worldbank.org/ (accessed on 1 August 2021).

27. A potential consequence of carbon pricing policies implemented in one country or region is carbon leakage, which occurs when high emission production activities move to economies with less stringent policies. Some governments, particularly in the European Union, are either discussing or proposing the introduction of carbon border tax adjustments, which are also aimed at addressing the concerns of producers whose competitiveness is eroded by carbon pricing when competitors are not similarly taxed. European Union carbon pricing schemes contribute to a reduction of 360 tons of carbon dioxide, whereas resultant carbon leakages represent about 12 per cent of that amount.[18]

28. The economies in Asia and the Pacific that have carbon pricing schemes are estimated to experience relatively small increases in emissions due to existing European pricing schemes. Nevertheless, modelling results show that border tax adjustments are effective at stemming carbon leakages. The increases in emissions in least developed countries expected to be exempted from border tax adjustments in Europe total less than half a ton of carbon dioxide.

29. A global carbon pricing scheme would make border tax adjustments unnecessary. Setting a global carbon price would reduce emissions much more effectively for a much smaller economic cost than unilateral carbon prices in myriad unconnected schemes. Imposing a global carbon price of only $10 would reduce emissions in the Asia-Pacific region much more significantly than existing unilateral and regional schemes – at a cost of 0.07 per cent of real GDP. Still, a global carbon price greater than $50 and covering more than half of global emissions would be necessary to keep global warming under 2 degrees Celsius, highlighting the need to exploit all possible strategies to reduce emissions.

30. Carbon pricing and elimination of fuel subsidies will have a greater impact on the economies that rely heavily on fossil fuel and carbon-intensive manufacturing sectors. Marked negative employment effects in the carbon-intensive fuel sectors can be expected, indicating a need for stronger social safety nets and multilateral cooperation to ensure that no one is left behind.

III. Recommendations

31. Addressing climate change has become an increasingly urgent global priority. Climate-smart considerations need to permeate activities and decisions by all actors. The trickle-down effects of trade and investment alone are not enough to ensure non-economic aspects of sustainable development, including those of climate change, are achieved.

32. The relationship between trade and investment and climate change is complex. On one hand, trade potentially makes it possible to bypass climate policies by providing access to relatively more polluting sources of goods. Similarly, uninhibited investment can create incentives to invest in destinations with lax climate regulations. Long distances and inefficient logistics can exacerbate the problem through excessive transport emissions. On the other hand, purchasing from foreign suppliers with more carbon-efficient production processes may more than offset transportation emissions. Most importantly, trade and investment are indispensable in climate action for diffusion of environmental goods and services and transfers of green technologies. The key,

[18] See modelling results in chapter 6 of *Asia-Pacific Trade and Investment Report 2021*.

therefore, is to maximize the benefits offered by trade and investment to address climate change, while minimizing their risks and costs.

33. As they ramp up to address climate change, major economies within and outside the Asia-Pacific region are implementing policies to address erosion of competitiveness and carbon leakages to jurisdictions with less stringent climate policies. Such policies can adversely affect the economic well-being of the developing economies in the region, as they face difficulties in adapting to the additional trade and other costs generated by these new policies, at least in the short term. Special considerations aside, policymakers in the Asia-Pacific region need to better understand and brace themselves for a trade and investment policy environment that seeks to address the looming climate change crisis. To prepare their economies for this new market environment, countries need to be proactive and seek regional cooperation.

A. Liberalize trade in climate-smart and other environmental goods and services

34. Priority must be accorded to liberalizing and otherwise facilitating trade in climate-smart and other environmental goods and services by reducing tariffs and other trade barriers. This can be done unilaterally or as part of regional or multilateral initiatives, possibly building on initiatives already being implemented by Asia-Pacific Economic Cooperation (APEC) members or the Governments negotiating the agreement on climate change, trade and sustainability, or by revitalizing related efforts at the WTO. Asia-Pacific countries may also consider how to prioritize removing tariffs on such goods and services under regional trade agreements that they are negotiating or are a party to.

B. Phase out fossil fuel subsidies

35. Asia-Pacific economies should, therefore, prioritize phasing out expensive, inefficient, regressive and environmentally damaging fuel subsidies, which would generate fiscal space for addressing other aspects of sustainable development. Importantly, the phasing out of subsidies should be accompanied by action to ensure that the most vulnerable segments of society that rely on them are supported in other ways, such as through direct cash transfers.

C. Adopt climate-smart non-tariff measures

36. Governments may consider implementing non-tariff measures to regulate the technical characteristics of traded goods so that their contribution to climate change during use and disposal is limited. Such measures can include requirements pertaining to high energy performance of household appliances, less polluting emissions from motor vehicles and fuel-powered equipment, restrictions to imported goods containing or emitting powerful greenhouse gases, and certification of legal and sustainable sourcing of timber and forest products. Relevant goods can be required to carry appropriate labelling. Importantly, such regulations should comply with the WTO Agreement on Technical Barriers to Trade and Agreement on the Application of Sanitary and Phytosanitary Measures and be put in place after careful sustainability impact assessments to avoid unintended consequences. In addition, or as an alternative to non-tariff measures, Governments may want to encourage adoption of relevant voluntary sustainability standards, such as eco-labelling of emission-intensive goods and food products.

D. Encourage climate-smart investment and private sector initiatives

37. To reduce emissions, production processes need to be more energy- and input-efficient and circular thinking should be applied. This involves large-scale structural transformation, with new markets and new jobs replacing old industries and niches. Governments can play an important catalysing role and lead by example by directing investment bodies under their control to reorient their funds to sustainable investing. They can also direct national and subnational investment promotion agencies, which are tasked with promoting and facilitating their country as an investment destination, to specifically target environmentally sustainable investments only. To support this, investment promotion agencies can implement the secretariat's sustainable foreign direct investment (FDI) indicators to ensure that the FDI project proposals they evaluate and approve are in fact climate smart. Governments can also step-up requirements for sustainability reporting of domestically operating companies and provide preferential access to finance, tax breaks or other incentives for implementing climate-smart initiatives, such as setting up internal carbon accounting systems. Reporting requirements and preferential access to incentives should also apply to FDI projects, especially greenfield FDI. To this end, Governments can consider creating a category of responsible sustainable investors; only investors that fall under this category and meet certain sustainability requirements, including those related to use of renewable energy resources, would be eligible to receive incentives. Furthermore, Governments should review existing and new international investment agreements to increase the scope for climate-related actions in these agreements. Relatedly, priority must be placed on building the capacity of country negotiation teams so that they are able to effectively negotiate such provisions into these agreements.

E. Accelerate trade digitalization

38. Streamlining trade procedures reduces trade costs and makes trade more inclusive, but it also significantly lowers carbon dioxide emissions associated with a given trade transaction. Paperless trade procedures are particularly promising, especially if trade-related data and documents can be exchanged and legally recognized across borders. Asia-Pacific Governments may, therefore, actively seek to accelerate customs and trade digitalization and adoption, including by leveraging tools and solutions available across the United Nations system and acceding to the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific, which entered into force in February 2021.

F. Transition to climate-smart transport

39. Governments should support a transition to cleaner or more resource-efficient transport systems, including by instituting policies to support investment in modes of transport that support high volumes of trade and operate with lower emissions. Digitalization of transport processes also holds great promise for reducing emissions by optimizing utilization of existing logistics infrastructure. Existing regional frameworks, such as the Intergovernmental Agreement on the Trans-Asian Railway Network, should be used as a platform to test and develop more interoperable and digitalized climate-smart transport systems. Regional cooperation is also important to ensure that new policies and regulations are put in place to support the transition to more climate-friendly international transport systems that do not unduly affect the ability of smaller and more remote economies to engage in international trade.

G. Incorporate climate considerations in regional trade and investment agreements

40. Regional trade and investment agreements can be a powerful tool for bilateral and plurilateral climate actions. Governments in the region should explore how such agreements can be used to incorporate precise, replicable, and enforceable environment- and climate-related provisions that help to mitigate the negative impacts of trade on climate change and boost the positive impacts. Aside from cutting tariffs on environmental goods, regional trade agreements could include provisions related to most of the recommendations mentioned above, including binding commitments on fossil fuel subsidies. Provisions to facilitate green investment and for climate-friendly public procurement could also be expanded. Investor-State dispute settlement clauses should also be carefully drafted so that they do not inadvertently hinder the adoption of ambitious climate policy by Governments out of litigation concerns. Importantly, keeping in mind the costs involved in implementing climate-smart policies, regional trade agreements could also be used to provide adequate technical assistance and other resources to developing country trade partners.

H. Prepare for carbon pricing

41. There is a clear need to put a price on carbon, so that stakeholders internalize the environmental costs of carbon emissions when deciding whether to engage in a particular trade or investment activity. Carbon pricing instruments can be a powerful component of post-COVID-19 recovery packages, which can address greenhouse gas emissions and raise much needed revenue for fiscal spending. Global action aside, coordinated regional action will deliver more efficient results, reduce risks of carbon leakage and be more acceptable to the public, especially if the revenue collected is effectively redirected to those most affected by the carbon pricing.

42. Economies in the region with low carbon emissions embedded in their products can potentially reap the benefits of border adjustment taxes, but those with high carbon emissions must redouble their efforts when transitioning to more carbon emission-efficient production. This includes increasing the share of renewables in energy generation and considering internalizing costs of emissions through pricing mechanisms, particularly in export-related and emission-intensive sectors.

I. Incorporate climate consideration in coronavirus disease (COVID-19) crisis recovery packages

43. Given that most Asia-Pacific economies are increasing fiscal spending to boost their economies as part of the COVID-19 recovery, such spending should be aligned with climate action and the circular economy to the extent possible. Recovery packages could support sectors and activities that can help to reduce greenhouse gas emissions after the crisis, for example, by supporting the renewable energy industry or the adoption of more efficient and cleaner transport technologies. Notably, some of these support measures may be seen as discriminatory in nature and inconsistent with current multilateral trade rules. Governments should, therefore, strive to make further progress at WTO in aligning multilateral trade regulations with climate action – and environmental protection in general.

J. Strengthen capacity for climate-smart trade and investment policymaking

44. As countries around the world ramp up climate action, policymakers in the Asia-Pacific region need to upskill in order to design and negotiate climate-smart trade and investment policies and agreements that meet the needs of their countries and mitigate the impact of third-party climate-change policies. General trade and investment policy analysis skills remain scarce in many developing countries of the region, particularly in least developed countries. Only a few trade and investment analysts and policymakers have a sufficient understanding of the complex interlinkages between trade, investment, and climate change, given their interdisciplinary nature. There is also limited availability of and access to relevant data. Accordingly, specific capacity-building programmes should be considered, to take advantage of digital technologies and services to access knowledge and expertise abroad when necessary.

IV. Conclusions

45. Climate change mitigation policies will come with large benefits but also costs, affecting trade and investment opportunities and how trade and investment will be conducted. While these changes are necessary, special consideration and support must be placed on developing economies. Multilateral and regional cooperation is essential to ensure that no economy is left behind. The Commission, together with partners such as the United Nations Conference on Trade and Development and UNEP, will continue to collaborate and offer analytical, capacity-building and intergovernmental platforms to facilitate progress towards climate-smart trade and investment.

V. Issues for consideration by the Commission

46. Members and associate members of the Commission may wish to consider the recommendations included in the present document and share national experiences in leveraging trade and investment to address climate action.

47. The Commission may also wish to discuss and consider possible support for member States in the following areas:

(a) Using regional cooperation to address climate action in trade and investment, including by promoting climate-smart trade and investment, incorporating climate considerations into regional trade and investment agreements, and supporting the digitalization of trade and transport processes;

(b) Strengthening the capacity for climate-smart trade and investment policymaking;

(c) Identifying new and potential trade and investment policy areas in which climate issues can be taken into consideration and climate action can be implemented.