# Paradigm Shift: A New Era for Trade, Sustainability, and Development

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**Summary**: There is a manifest need for a paradigm shift in global economic governance broadly, and the trade regime in particular, to advance a just, sustainable transition to a climate-safe world. This framing paper outlines the context around this challenge, identifies a number of policy tools and reforms that could help address it, and considers the question of how to build political coalitions within and across countries to advance this paradigm shift. Throughout, the paper considers, in particular, the interests of developing countries and their agency to drive change.

**Context: The paradigm is shifting. Will we shape it?**

The COVID-19 pandemic set the world back several years in reaching the 2030 Sustainable Development Goals.[1] Perversely, the most vulnerable countries, lacking fast access to vaccines, and without the financial resources to buffer their economies, suffered the greatest setbacks. As the pandemic recedes, many of these same countries—as well as others—now face mounting debt crises, many linked to the fuel and food shocks that followed the Russian invasion of Ukraine. Meanwhile, the impacts of climate change grow each year, creating many more crises to come. According to one estimate, climate impacts have already cost developing economies about 7% of their average national income from 1992 to 2013, exacerbating other challenges.[2]

The confluence of crises has led to a new degree of recognition that fundamental shifts in the global economy are both *needed* and—more than we previously thought—*possible*. Though the changes we have seen to date remain too partial and limited to rise to the challenges we face, the fact that they also go beyond what conventional wisdom deemed feasible just a few years ago bolsters the case for even bolder action going forward. From this tension emerges the real possibility of driving a far-reaching shift in the rules and institutions governing the global economy as we aim to make a just transition to sustainability and resilience.

This shift will be the biggest economic opportunity of our lives, but it is by no means obvious that it will lead to a fairer and more just world. A shift of this magnitude is fraught with the potential for very different outcomes for "winners" and "losers" of the transition,

[1] WB, 'COVID-19 to Add as Many as 150 Million Extreme Poor by 2021' (World Bank Group, 7 October 2020), https://www.worldbank.org/en/news/press-release/2020/10/07/covid-19-to-add-as-many-as-150-million-extreme-poor-by-2021; UN, 'UN Report Finds COVID-19 Is Reversing Decades of Progress on Poverty, Healthcare and Education | UN DESA | United Nations Department of Economic and Social Affairs' (United Nations, 7 July 2020), https://www.un.org/development/desa/en/news/sustainable/sustainable-development-goals-report-2020.html.

[2] Christopher W. Callahan and Justin S. Mankin, 'Globally Unequal Effect of Extreme Heat on Economic Growth', *Science Advances* 8, no. 43 (28 October 2022): eadd3726, https://doi.org/10.1126/sciadv.add3726.

generating sharp political contestation both between and within countries. This contestation will become increasingly existential as both climate impact and decarbonization progress.[3] Indeed, these tensions have already become the subject of high politics, as seen in the geopolitical conflict over the future of the green economy between US and China, and in the competitive industrial policy, e.g. between the US and the EU. While we also see developing countries launching and scaling their own development-focused initiatives such as the expansion of BRICs and Africa seeking a seat at the G20, the bulk of present discussions on the green transition are either North-North, or framed around the competition between the US and its allies and China.

In this context of heightened economic competition, people, communities, and countries with the least power—many of whom have also contributed least to global sustainability challenges—risk being cut out of the new green economy. Negative scenarios are easy to imagine. The pace of transition could be slowed by trade tensions and geopolitical rivalry. "Green fortresses" could emerge in the Global North, where carbon border measures protect the transition domestically but undercut it globally. Countries could be left largely on their own to address climate impacts, with those that spill across borders, particularly the movement of people, increasingly securitized. Moreover, the risk of stranded assets, especially fossil fuel resources, and the intensifying geopolitical contest for the control of critical minerals necessary for the transition, may undermine a just transition should the concerns and interests of developing countries not be taken into account.

This workshop is premised on the idea that we can do better. Repeated calls for "a new Bretton Woods" have largely not yet been matched by serious political discussions on fundamental reforms. However, one bright spot has emerged around the Bridgetown Agenda

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[3] Jessica Green, Thomas Hale, and Jeff Colgan, 'The Existential Politics of Climate Change | Global Policy Journal', *Global Policy Journal*, 21 February 2019, sec. GP Opinion, https://www.globalpolicyjournal.com/blog/21/02/2019/existential-politics-climate-change.

for the Reform of the Global Financial Architecture, a bold initiative launched by Barbados to provide immediate liquidity to debt distressed countries, to expand Multilateral Development Banks (MDB) climate lending by $1 trillion USD, and to issue new SDRs to fund climate resilience.[4] Against formidable odds, this idea has been at the top of the agenda at COP27 and the 2023 Spring Meetings, and gives impetus to a major summit in June 2023.

But of course the financial architecture, though fundamental, is not the only realm where deep rethinking of the rules governing the economy is needed. Trade accounted for 34% of global GDP in 2022, some $32 trillion USD, growing 3.5% from the previous year despite the war in Ukraine and predictions about the 'death of globalization.'[5] Moreover, the trade regime, broadly understood—meaning the World Trade Organization, the hundreds of preferential trade and investment agreements, the trade finance and insurance sector, the related standard-setting and dispute settlement bodies, etc.—includes a myriad of rules and institutions that influence the entire economy. The path to a sustainable, just transition must run through, recast, or remove these structures.

**The question is therefore**: *How can we make the trade regime, broadly understood, fit for purpose for this new era? What would an initiative to rethink the trade regime in the spirit of the Bridgetown Agenda look like?*

Sustainability questions have of course long been addressed within the trade regime. But the paradigm now is in some ways qualitatively different because the social purpose that governments and societies are asking the trade regime to support is changing. The old paradigm put economic liberalization as the goal and asked: *how do we responsibly manage*

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[4] GoB, 'The 2022 Bridgetown Initiative' (Government of Barbados, 2022), https://www.foreign.gov.bb/the-2022-barbados-agenda/.

[5] Rana Foroohar, *Homecoming: The Path to Prosperity in a Post-Global World* (New York: Crown Publishing Group, 2023); Michael O'Sullivan, *The Levelling: What's Next After Globalization* (New York: PublicAffairs, 2019); KNC, 'Globalisation Is Dead and We Need to Invent a New World Order', *The Economist*, 28 June 2019, https://www.economist.com/open-future/2019/06/28/globalisation-is-dead-and-we-need-to-invent-a-new-world-order.

*the externalities of liberalization?* The new paradigm instead puts sustainable development as the priority and asks: *how can trade help us achieve a just transition to this goal?*

This shift is occurring at a moment when the trade regime itself faces deep challenges.The political economy that underpinned its creation has shifted substantially. Major economies are moving to give the state a greater role in the economy, turning to industrial policy both to advance the green transition but also to deliver greater resilience and national security, and to address domestic inequality. Rising geopolitical competition reduces the incentive to harmonize around common rules that apply to all. Developing and emerging countries are also revitalizing or establishing new economic institutions that in some ways challenge the traditional global economic regime. African countries adopted the landmark African Continental Free Trade Agreement (AfCFTA) in 2018, while the BRICS countries are strengthening the New Development Bank. In these revamped and new economic institutions, the core priority is addressing pressing development challenges such as poverty eradication and infrastructure development, with sustainability issues embedded to varying degrees within this broader framing. In this context, the trade regime requires deep changes to retain relevance and legitimacy. Putting sustainable development at the core could underpin a powerful new mandate for governance around cross-border economic exchange.

Finally, it is critical to consider not just what a new sustainable paradigm for the trade regime might be, but also who designs it. The Bridgetown Agenda has caught the world's attention in part because it shows the agency of developing countries, even though much of the decision-making that is needed to deliver it remains in the hands of developed economies. Thinking about proactive strategies that developing countries can lead, in partnership with allies around the world, can perhaps point us toward new solutions.

**Lenses on the “just transition”**

How can we think of the “just transition”? The term emerged from the labor movement, advanced by organizations keen to ensure that the process of decarbonization did not leave behind the people and communities intertwined with the use of fossil fuels. As the idea has gained power, tensions can be identified between a domestic just transition, which aims to protect workers at home, and a global just transition, aimed at including all countries in the new green economy. For example, policies like the US IRA or the EU CBAM that seek to address the domestic needs of decarbonization, may have implications for the ability of countries far beyond their borders to benefit from the green economy. Finding ways to enable policies that drive a just and politically attractive transition in all countries, and across the world as whole, is therefore a core challenge.

It is therefore useful to consider different ways of thinking about a just transition. While there is no agreed definition, we can consider the just transition as the need to undertake ambitious climate action but in a fair and just manner. Several “lenses” can be drawn on.

*Equity*

In climate policy equity entails ‘using’ the atmosphere’s resources equally. The principle of equity has been enshrined in international law, especially through the principle of Common but Differentiated Responsibilities and Respective Capacities (CBDR&RC), which is central to the climate change change regime and others.[6] Trade rules can therefore advance equity by

[6] Lavanya Rajamani, ‘The Principle of Common but Differentiated Responsibilities and Respective Capabilities in the International Climate Change Regime’, in *Research Handbook on Climate Disaster Law*, ed. Rosemary Lyster and Robert Verchick (Cheltenham, UK and Northampton, MA: Edward Elgar, 2018), 46–60, https://www.elgaronline.com/view/edcoll/9781786430021/9781786430021.00009.xml; Sonja Klinsky et al., ‘Why Equity Is Fundamental in Climate Change Policy Research’, *Global Environmental Change* 44 (1 May

ensuring that accounting for the different costs of benefits of climate action amongst countries and other actors, analogous to many existing trade rules that create exceptions and preferences for certain categories of countries. It also includes acknowledging the development needs of low income economies.

*Climate justice*

Climate justice focuses less on the 'use' of the atmosphere and more on the impacts of climate change, recognizing that the countries that are the most vulnerable to climate change are also the least responsible has led to call for climate justice.[7] It points to both the imperative for emitters to stop damaging the climate (and therefore those most vulnerable) and to be held accountable for that harm, and also the need to take proactive measures to address injustices. The trade regime can advance climate justice by considering how trade rules can support more ambitious climate action to reduce climate impacts, support those who are vulnerable to adapt to the impacts, and relate to compensation for those who are already suffering from climate impacts.

*Just transition*

Just transition, the concept of primary focus, entails addressing the uneven costs and benefits of decarbonization. It recognizes the need for ambitious climate action, while emphasizing the need to do so in a just manner.[8] While much of the attention has been on the varying

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2017): 170–73, https://doi.org/10.1016/j.gloenvcha.2016.08.002; Aurélie Méjean, Franck Lecocq, and Yacob Mulugetta, 'Equity, Burden Sharing and Development Pathways: Reframing International Climate Negotiations', *International Environmental Agreements: Politics, Law and Economics* 15, no. 4 (1 November 2015): 387–402, https://doi.org/10.1007/s10784-015-9302-9.

[7] James Goodman, 'From Global Justice to Climate Justice? Justice Ecologism in an Era of Global Warming', *New Political Science* 31, no. 4 (1 December 2009): 499–514, https://doi.org/10.1080/07393140903322570; Chukwumerije Okereke, 'Climate Justice and the International Regime', *WIREs Climate Change* 1, no. 3 (2010): 462–74, https://doi.org/10.1002/wcc.52.

[8] Dimitris Stevis, *Just Transitions: Promise and Contestation* (Cambridge, MA: Cambridge University Press, 2023), https://www.cambridge.org/core/elements/just-transitions/AE1A61FF8C637A72C13DC3F43113DC64.

pathways for just transition at the country level, it is important to also consider its international dimensions. At the same time, it is important to recognize the uneven impacts of decarbonization amongst communities within countries.[9]

Amongst countries, debates on the just transition have tended to center on the differentiated phase out of fossil fuels. Here, the key question is whether low income countries should be granted greater leeway to utilize fossil fuels while industrialized countries undertake a faster phaseout.

*Capabilities*

Finally, an underexplored but potentially useful just transition lens looks at capabilities; that is, how can we give everyone the capability to have a good future? Capability, at least in the manner articulated by Amartya Sen and elaborated by Martha Nassbaum, entails equipping actors with the ability to express and enjoy their freedoms. Sen famously expressed the notion of capabilities in the form of "development as freedom".[10]

Given the role of the trade regime in shaping economic welfare, trade rules and tools that support low income countries to realize their right to development can be considered to be enhancing capabilities. As many of the low income countries are shifting their focus on industrial policy as the main tool for economic transformation, the importance of capabilities becomes more important.[11] Put differently, trade governance can enhance the capability of developing countries to secure a strong place in the emerging green economy. In this sense,

[9] Cherono Sego, 'An Explainer on Just Transition in Climate Governance' (San Francisco: Climateworks Foundation, 12 May 2022), https://www.climateworks.org/wp-content/uploads/2022/06/An-explainer-on-Just-Transition_ClimateWorks-Foundation_final2_6.13.22.pdf.

[10] John M. Alexander, *Capabilities and Social Justice: The Political Philosophy of Amartya Sen and Martha Nussbaum* (Ashgate Publishing, Ltd., 2008); Martha Nussbaum, 'Capabilities and Social Justice', *International Studies Review* 4, no. 2 (1 June 2002): 123–35, https://doi.org/10.1111/1521-9488.00258; Amartya Sen, *Development as Freedom* (OUP Oxford, 2001).

[11] Calestous Juma, 'Exponential Innovation and Human Rights: Implications for Science and Technology Diplomacy', SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, 27 February 2018), https://papers.ssrn.com/abstract=3131243.

capability-enhancing trade policies that give developing countries the opportunity to thrive in a changing economy would drive a just transition.

More generally, while the Just Transition has mainly been framed around climate mitigation, other dimensions such as adaptation, loss and damage, and the broader context of sustainable development can also be included. A closer conceptual link between the just transition and the right to development can advance such a framing.[12]

## Tools for aligning the trade regime to a just, sustainable transition

Aligning the trade regime to a sustainable, just transition requires dozens, if not hundreds of reforms. One aim of the workshop is to identify and discuss some of the most promising of these mechanisms. Here we note just some of these tools, a number of which are explored further in the other inputs to the workshop. Our focus is on how these tools can simultaneously deliver both a just transition and sustainable development. We especially note the potential interests of, and implications for, developing countries.

### *Border carbon adjustments*

Border carbon adjustments (BCAs)—a variety of measures that create some kind of cost at the border for goods based on their carbon content—are coming into force in the EU and are very much 'on the table' in the UK, US, and elsewhere. BCAs have however raised normative concerns, especially on their implications for the differentiated approach to multilateral climate governance, and the socioeconomic impacts on developing countries.

[12] Kennedy Mbeva et al., *Africa's Right to Development in a Climate-Constrained World* (London, UK: Palgrave Macmillan, 2023), https://link.springer.com/book/9783031228865.

Proponents BCAs as ways to prevent “carbon leakage” (ie, to prevent climate policies in one jurisdiction from simply displacing emissions to other jurisdictions) and, potentially, as a way for high-ambition jurisdictions to exert pressure on lower ambition jurisdictions. Critics fear that they may disguise protectionist objectives and, from an equity perspective, unilaterally impose emissions reduction requirements on countries that have not historically contributed to greenhouse gas accumulation. Numerous debates have arisen on these disagreements, as well as on the more operational details of how BCAs can be designed and implemented (e.g. measuring the carbon content of goods), as well as how they interact with current trade law.

To date, the EU BCA has been driven principally by domestic political considerations. EU economic interest groups would not consent to the bloc’s ambitious climate targets without protection from high carbon external competitors. Because ambitious action from the largest economies is vital, BCAs can be seen as helpful to the extent they allow for greater ambition than would otherwise exist. But because climate change will not be solved if only a few leading jurisdictions decarbonize, it is important to further consider how a BCA maximized not domestic political support, but instead global decarbonization. Moreover, on the equity considerations, there is substantial scope for imagining how revenues from BCAs could be invested in the green transition globally, potentially raising a new source of climate finance.  Developing countries have raised concerns over BCAs at the WTO, focusing on the implications for the principles of equity and common but differentiated responsibilities (CBDR). India has proposed an alternative BCA based on per capita emissions, emphasizing equity and justice. Trade rules and BCAs that address these normative concerns can drive ambitious climate action in a fair and just manner, while contributing to broader development goals. Further, the impact of BCAs on the revenue collection capacity of developing countries has been raised, with some developing countries worrying that accurately measuring carbon in their products will exceed the technical ability of many firms.[13]

*Sectoral clubs*

There is a significant role for high-ambition, climate-focused, sector-specific coalitions that use a mix of economic policy tools to accelerate the climate transition. Such coalitions can not only contribute to meeting climate policy goals such as mitigation and resilience, but also link to the broader economic agenda such as supporting green industrial policy in developing countries. To date, however, they have been largely driven by developed countries, leaving their potential for driving a greater just transition under-explored. in developing countries.

The announcement of an EU-US deal on steel and aluminium shows that such coalitions are already emerging. While economy-wide decarbonization is ultimately needed, the climate-trade nexus is concentrated in a relatively small number of carbon-intensive, traded sectors. The sectoral level provides a much more feasible scale on which to build alignment around shared economic and climate objectives than economy-wide efforts. For example, though US-Japan trade tensions in the 1980s covered many issues, a bilateral deal on cars relieved one of the sharper conflicts in the relationship. Technologies and lessons from these first-mover coalitions can then be diffused to developing countries through various financing and technology transfer mechanisms.

While fundamentally competitive, the sectoral sphere also creates opportunities for coordination on macro goals and milestones. For example, as China and the US both seek to

[13] UNCTAD, 'A European Union Carbon Border Adjustment Mechanism: Implications for Developing Countries' (Geneva, Switzerland: United Nations Conference on Trade and Development., 2021), https://unctad.org/system/files/official-document/osginf2021d2_en.pdf; Robyn Eckersley, 'The Politics of Carbon Leakage and the Fairness of Border Measures', *Ethics & International Affairs* 24, no. 4 (ed 2010): 367–93, https://doi.org/10.1111/j.1747-7093.2010.00277.x; Clara Brandi, 'Trade and Climate Change: Environmental, Economic and Ethical Perspectives on Border Carbon Adjustments', *Ethics, Policy & Environment* 16, no. 1 (1 March 2013): 79–93, https://doi.org/10.1080/21550085.2013.768395.

create policy incentives to shift toward electric vehicles, their efforts mutually reinforce each other in setting market expectations and driving technological innovation, even as they compete for market share. This allows coordination without necessarily requiring cooperation. In this context, there is significant potential for sectoral coalitions to make tangible progress on decarbonization, despite geopolitical and geoeconomic tensions. Relatively small groups of climate-ambitious economies should develop shared sectoral targets and roadmaps for carbon-intensive sectors (e.g. cars, steel, energy, hydrogen). For example, a common phaseout date for new fossil fuel car sales along with national implementation packages. Such targets and roadmaps exist to varying degrees across a range of institutions (e.g. Major Economies Forum, Clean Energy Ministerial and Mission Innovation 2.0, COP26-related Transition Councils, etc.). Countries adhering to the common targets would agree not to challenge each other's trade measures within those sectors. For example, if the EU had a carbon tax on steel, and the US had a subsidy programme for green steel production, neither side would take trade action against the other. Such agreements could be formalized as bilateral or plurilateral agreements, or simply as political statements.

As an example of "pseudo-clubs,"[14] sectoral initiatives risk replicating some of the exclusionary aspects of BCAs. To the extent they serve to set common standards or create networks through which technology is shared, actors with access to and influence over decision-making stand to reap benefits that others will not obtain.

Importantly, however, sectoral initiatives can also address some of the development challenges faced by developing and emerging countries that are consciously designed to do so. In the energy and industrial manufacturing sectors, green hydrogen is emerging as a viable option that can not only fulfil development goals, but it can also enable countries to do

[14] Jessica Green, "The strength of weakness: pseudo-clubs in the climate regime," *Climatic Change*, 144(1), 41-52, 2017.

so in a sustainable manner. A salient example is the Africa Green Hydrogen Alliance, with the objective of "connecting existing initiatives and leadership efforts, with the potential to generate new industry awareness, opportunities and action".[15]

*Net zero, resilient trade finance*

Aligning all financial flows to sustainability goals is imperative to achieve sustainability goals, and radically increasing financial flows to developing economies is essential for a just transition. While this topic is at the top of the agenda for development finance institutions (not least because of the Bridgetown Initiative) and a number of commercial financial entities (e.g. the members of the Glasgow Financial Alliance for Net Zero), trade finance has lagged behind. Trade finance is a major lubricant of international economic exchange, with a sizeable volume of trade depending on specialized financial instruments and other support.. Trade finance can also support countries to achieve their net zero targets in ways that incorporate equity, justice and domestic and regional contexts. Indeed, many developing countries are already seeking to advance these goals. Asian countries, under the auspices of the Asian EXIM Banks Forum, recently adopted a declaration where ten member countries committed to integrating climate policy into their Export and Import (EXIM) bank mandates and operations.[16] The Afriexim Bank, in partnership with major fossil fuel producing countries in Africa, have established the African Energy Transition Bank to support a just transition in the member countries.[17]

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[15] UNFCCC, 'Africa Green Hydrogen Alliance', Climate Champions, 2023, https://climatechampions.unfccc.int/africa-green-hydrogen-alliance/.

[16] JBIC, 'Joint Statement with Asian Export and Import Banks on Efforts to Address Climate Change | JBIC Japan Bank for International Cooperation', 17 November 2022, https://www.jbic.go.jp/en/information/press/press-2022/1117-016993.html.

[17] Afriexim, 'Afreximbank Signs Memorandum of Understanding with the African Petroleum Producers Organization to Establish an African Energy Transition Bank', African Export-Import Bank, 20 May 2022, https://www.afreximbank.com/afreximbank-signs-memorandum-of-understanding-with-the-african-petroleum-producers-organization-to-establish-an-african-energy-transition-bank/.

A proposed Net Zero Export Credit Alliance (NZECA) could help drive momentum by supporting major ECAs to align their trade finance with climate goals. Lessons from NZECA and other initiatives related to trade finance, such as Net Zero Banking Alliance and the Net Zero Insurance Alliance, could catalyse similar initiatives at the multilateral level, especially at the Berne Union, and open the opportunity for the engagement of developing countries.

Since trade finance is integral to mega infrastructure initiatives which are of paramount importance to developing countries, expanding its scope to include climate and sustainable development goals can open up opportunities to foster climate-compatible development. It could also contribute to closing the climate finance gap. Crucially, trade finance can also contribute to building climate resilience especially through trade insurance and de-risking instruments.

*Supporting inclusive green industrial policy*

Countries are increasingly turning to industrial policy to advance climate goals, national security objectives, etc. Trade rules have traditionally sought to limit unfair competition around industrial policy, but governments are now asking how they can use trade institutions to support industrial policy objectives. In this new context trade institutions have an important role to play, less as "constrainers" and more as "enablers" of smart, fair industrial policies. One particular role they can play is ensuring that developing countries, or others who cannot subsidize their way to a new economy, gain a seat at the table.

One proposal to promote inclusive industrial policy would be a declaration at ministerial or head of state /government level that outlines the importance of inclusive green innovation and industrial strategy in addressing climate change could help remove the potential chilling effect countries experience. The declaration could:

- Reaffirm the role of green innovation and industrial policy in the just transition and sustainable development;
- Define the nexus of green innovation, industrial policy and the just transition;
- Identify the most important strategies, demonstrate their potential contribution to public aims, and note potential barriers and problems in deploying green innovation and industrial strategies;
- Outline a set of political principles to guide problem-solving in this domain, including greater transparency on green industrial policy to prevent "greenwashing"; increased ambition to meet climate and development goals; and the centrality of equity and fairness in attaining the goals; and
- Frame green industrial policy in a way that speaks to the trade community (e.g. note links to circular economy, trade procurement, trade finance).
- Call for a process or forum (potentially in the context of the WTO) in which developed and developing countries could jointly discuss the international effects of green industrial strategies, a place for developing countries to have a regular seat at the table.

This declaration could be a joint outcome of a G-7/20 process or other relevant grouping, or a declaration at a relevant multilateral forum, such as UNCTAD,ECOSOC, or the WTO.

*Reform of harmful subsidies*

One of the biggest ways to reshape the economy and mobilize greater resources for the sustainable transition is to flip harmful subsidies into positive investments. Two enormous opportunities are:

- Converting existing agricultural subsidies to support people and nature while reducing their trade distorting effects;

- Shift fossil fuel subsidies to support a just transition to renewables for energy access and security.

There is therefore a need to identify possible rules prohibiting specific types of harmful subsidies on the basis of their climate impacts (as well as possible exceptions based on development priorities). This could inform both concrete discussions in the context of the Agreement on Climate Change, Trade and Sustainability (ACCTS), but may also advance discussions on the role of the WTO in promoting fossil fuel subsidy reform. This could also be more expressly about including state-sponsored investment protection through risk insurance and investment treaties as a fossil fuel subsidy. Lessons could be learned from recent breakthroughs in fisheries subsidies.

Subsidy reform is a common goal of developed and developing countries, but the latter face the constraints of possessing 1) less fiscal capacity to deploy subsidies; 2) more vulnerable populations for whom support for basic needs (e.g. food, power, fuel) functions to keep populations from slipping into poverty. Therefore potentially trade rules constraining harmful subsidies need adequate “guardrails” for essential development objectives.

*Harmonization of standards and regulations*

Countries are adopting a wide range of standards and regulations on business to align their economies to their net zero goals. For example, rules on corporate disclosure, transition plans, advertising claims, competition law, product standards, and procurement increasingly have a climate lens. However, many of these standards and regulations are not consistent with each other across regulatory domains and jurisdictions. This lack of rigor and coherence creates friction that slows the transition.

The uneven growth of regulation also risks excluding developing countries from key decisions that effect them. For example, climate disclosure rules in the EU and the UK (and proposed in the US) would apply to companies' entire value chains, creating extraterritorial effects. Lack of harmonization can also increase the compliance costs of developing country exports to markets with more stringent climate regulations. On the positive side, becoming leaders in adopting climate-aligned standards and regulations could enable developing countries to attract investments in climate technologies that reflect their domestic contexts.

Significant alignment has emerged in the voluntary standards space through initiatives like the UN Race to Zero campaign and the ISO's Net Zero Guidelines. However, greater coherence around regulations in particular is needed to ensure the ground rules of the economy align to global climate goals. Bringing the issue to a more multilateral setting, for example in the proposed Task Force on Net Zero Regulation, could both enhance cohesion and give developing countries a forum in which they could influence this important trend. However, greater multilateralization may also run the risk of generating "least common denominator" outcomes or gridlock.

*Reforming the investment regime*

Aligning the investment regime with climate policy goals is critical to ensuring the just transition. A major challenge for developing countries is inadequate investments in climate technologies and infrastructure. In theory, the investment regime can contribute to unlocking the necessary capital and complementary instruments such as political risk insurance.

But there are inherent risks in the investment treaty regime that can undermine climate and development policy goals.[18] Putting climate at the heart of the Investor-State Dispute Settlement (ISDS) reform agenda is key to ensuring that developing countries have the necessary domestic policy space for climate action, and that they do not lose billions of

[18] Adebayo Majekolagbe and Olabisi Akinkugbe, 'International Investment Law and Climate Justice: The Search for a Just Green Investment Order', *Fordham International Law Journal* 46, no. 2 (1 January 2023): 169.

dollars to foreign investors in the form of awards to ISDS claims. For developing countries faced with numerous development challenges, ISDS claims can hinder climate action through a regulatory chill, and also undermine development initiatives through the reverse flow of capital to foreign investors.

Ongoing discussions at the OECD and UNCITRAL present an opportunity to not only insulate the climate regime from ISDS claims would guarantee that ambitious climate action is not challenged by investors. Short and medium-term interventions could include generating consensus around the need to ensure that investment treaties and reform outcomes support and do not undermine progress on climate; and produce climate-consistent provisions (e.g. those limiting protections for fossil fuels) for adoption. Reform proposals could be pursued include suspension of ISDS; termination of ISDS/investment treaties; counterclaims against fossil fuel investors; limiting damages recouped by fossil fuel players; adding a modernized preambular language; and a framework convention that can, inter alia, provide for those items above.[19]

*Climate-enhancing preferential trade agreements*

By including "best in class" substantive climate and sustainability commitments, Preferential Trade Agreements (PTAs) can actively promote green economic transformation. More than seven hundred PTAs have been concluded in the last eight decades, with newer ones increasingly incorporating climate and sustainability goals. Many legacy PTAs are however silent on these issues, or relegate them. Pioneering governments can instead develop PTAs that not only promote climate goals, but also incorporate the broader dimension of

[19] Lauge Poulsen and Geoffrey Gertz, 'Reforming the Investment Treaty Regime: A "backward-Looking" Approach', Briefing Paper, Global Economy and Finance Programme (London: Chatham House, March 2021), https://www.chathamhouse.org/sites/default/files/2021-03/2021-03-10-reforming-investment-treaty-regime-poulsen-gertz.pdf.

sustainable development. PTAs thus offer an alternative and perhaps complementary forum to the World Trade Organization (WTO).

Such a formulation would enable developing and emerging countries, and their trade partners, to have greater scope to promote the various sustainability dimensions. These could include a stronger impact assessment process both ex-ante and ex-post, including model methodology and process for assessment of climate impacts of agreements, as well as through assessment of global carbon footprint of national consumption (consumption-based environmental impact assessment of trade); Promoting green investment; Supporting technology transfer; Infusing provisions around state-owned enterprises and state subsidies with environmental priorities; Ensuring compliance with environmental standards; Incorporating environmental preferences in government procurement; Ensuring coherence between green industrial policies and trade agreements.

Already, some developing countries are leveraging their PTAs to foster climate action in ways that also contribute to their broader economic development priorities. In Africa, six of the eight regional economic communities (RECs) have elaborate climate strategies, which are linked to the continental climate change strategies. Through these climate strategies, the RECs have established institutional arrangements and policies to assist them in implementing their commitments under the Paris Agreement. In Asia, countries have leveraged the ASEAN REC to foster cooperation on climate change. A key challenge, therefore, is how to diffuse these proactive initiatives into the multilateral trading system.

**Building political coalitions to align trade to a just, sustainable transition**

Advancing the kinds of tools outlined above will take smart strategies and hard work. We do not propose a grand political strategy here, but instead close by outlining some potential building blocks toward coalitions that could help to advance the ambitious agenda the world needs.

We start from the observation, noted above, that most current debates on aligning global economic governance, particularly the trade aspects, is taking place in and amongst the Global North, driven by two macro political trends: the need to protect incumbent industries in the Global North and geopolitical competition with China.

In turn, many developing countries (with notable exceptions) have protested against the potential or actual discriminatory effects of green measures, and often sought to block such measures in the WTO and other fora. This blocking strategy, while never particularly effective, now risks complete failure in that 1) large economies are moving ahead on green trade measures regardless of resistance from developing countries in multilateral fora; 2) unless the trade regime aligns to sustainable development goals as part of a larger transition of the world economy, climate change will further devastate the economies of the Global South. A new, more proactive strategy is needed that outlines a positive vision for the developing world in the green transition, and carves out a place for developing countries amongst the "winners" of the transition.  Such a strategy could include elements such as the following.

*A grand bargain on "trade for investment"*

Developing countries could accept developed country BCAs, but insist on preferential access for developing country products that are part of green supply chains, alongside reinvestment of BCA funds in green industrial policy in the Global South. In this way BCAs are not a unilateral tax on developing country exporters, but rather an investment vehicle that helps developing countries become part of global green supply chains. Establishing a multilateral "Transition Fund" could institutionalize such initiatives.

*"Leapfrog" sectoral clubs*

At present sectoral clubs tend to be built around countries with the largest market share in a given sector, which biases them against most developing countries. Developing countries seeking to build new green industries in a given sector could create complementary clubs that seek to move faster than incumbents to establish new market share. Such leadership coalitions would seek to establish favorable conditions for the most ambitious industry leaders in a given sector and collectively impose high standards, instead of being held back by incumbent interests.

*Working at the regional level.*

Building on regional initiatives can complement and bolster global reform efforts. Regional institutions are less characterized by power imbalances, thus providing a more level playing field for member countries to cooperate in mutually beneficial ways. Moreover, the smaller membership size of the regional institutions helps to overcome the gridlock at the multilateral trading system that arises from preference heterogeneity, where consensus on key climate initiatives has proven to be persistently elusive. Regional initiatives can therefore act as building blocks.

Africa's renewed regional economic integration, for example, is putting the sustainability agenda at the core of the initiatives. In a bid to strengthen their agency in a rapidly changing global economy, African countries recently adopted the African Continental Free Trade Agreement (AfCFTA) which is the engine for Africa's divergent globalization. To integrate and bolster trade and sustainability efforts, guidelines for the preparation of AfCFTA national implementation strategies include climate action and sustainable development. With the leadership of the AfrExim bank, African countries have also established an Energy Transition Bank to help African countries to transition from fossil fuel production.[20] Through a ministerial declaration, Asian banks have also committed to scaling the role and capacity of ECAs and EXIM banks to support ambitious climate action while advancing sustainable development.[21]

As building blocks, such integration initiatives can drive ambitious climate action and sustainability initiatives that are relevant to the context of the specific regions. Revamping continental, regional and national trade institutions such as regional economic communities, export credit agencies and export and import (EXIM) banks, and also public development banks, could expand the groundswell of regional initiatives. Trilateral regional partnerships that include Northern and Southern countries can replicate and scale such initiatives. Connecting the (cross-)regional initiatives can serve as heuristics and also add much needed impetus to multilateral and other global initiatives that have stalled or are facing diplomatic challenges.

*Linking fossil fuel, agricultural, and green subsidy reform*

Subsidy reform is one of the most politically difficult issues. Successful examples tend to be driven by domestic processes, with international tools playing only a limited or complementary role. To crudely summarize the status quo:

1. Fossil fuel subsidies: common in both developed and developing countries, strong pressure to reduce them from some developed countries.

[20] Afriexim, 'Afreximbank Signs Memorandum of Understanding with the African Petroleum Producers Organization to Establish an African Energy Transition Bank'.
[21] JBIC, 'Joint Statement with Asian Export and Import Banks on Efforts to Address Climate Change | JBIC Japan Bank for International Cooperation'.

2. Agricultural subsidies: common in both developed and developing countries, strong pressure to reduce them from many developing countries.
3. Green subsidies: quickly growing in developed countries, desire of developing countries to participate in them.

Countries may find more success by building unusual coalitions across sectors and jurisdictions. For example, an international coalition could advocate for greater acceptance of green subsidies in trade rules in return for tighter controls on fossil fuel and agricultural subsidies.

*Inclusive harmonization of standards and regulations*

Countries around the world—but particularly in the Global North--are rapidly adopting regulations to drive climate alignment in, for example, corporate disclosure, transition plans, procurement, advertising standards, etc. While such measures are critical for aligning the economy to climate goals, the rapid spread of net zero regulation faces challenges of coherence and rigor. Moreover, many of the rules adopted in the Global North have extraterritorial reach (for example, climate disclosure rules in the EU apply to companies' global supply chains, including SMEs in the Global South that have customers in Europe) meaning that there are critical questions around the legitimacy of some measures.

In response, at COP27 the UN Secretary General's expert group on net zero targets proposed a Task Force on Net Zero Regulation to drive inclusive harmonization. To date, governments have not acted on this recommendation. Instead of waiting for the major economies to act, a progressive coalition of developing countries could take up the idea, perhaps in the context of the Indian G20 meeting in 2023. Strong developing country ownership over, and involvement in, the proposed task force could help ensure that standards with global impact reflect global interests.