



Note

Trade-related Measures in Nationally Determined Contributions

State of play in South and Southeast Asia

By Kensington Speer

Summary

This note examines trade-related measures in Nationally Determined Contributions (NDCs) of South and Southeast Asian countries. It starts by outlining the main linkages between trade and climate change, before identifying relevant trade measures in the region's NDCs. Suggestions are also made towards better mainstreaming trade into NDCs, e.g. by adding a dedicated section, enhancing research and data collection capacities, harnessing relevant international knowledge-sharing platforms, and leveraging trade agreements to advance harmonization of environmental standards.

Introduction

In the coming decades, South and Southeast Asia (S&SEA) countries will experience severe consequences of climate change including heat waves, drought, loss of biodiversity, and more intense weather events like monsoons and tropical storms.¹ The agricultural sector and other climate-dependent industries will likely be the most affected by climate change, especially in developing countries and Least Developed Countries (LDCs).² Climate change may increase the vulnerability of international supply, transport, and distribution chains. Climate change is expected to cause hundreds of billions of dollars in annual damages by 2030 and tens of millions of people to migrate by 2050 in the region,³ making climate action and adaptation crucial to the sustainable development of S&SEA countries.

Developing countries are some of the most vulnerable to climate change and typically contribute less to greenhouse gas (GHG) emissions than developed countries. The Paris Agreement recognizes that the peaking of emissions will take longer for developing country Parties, and that emission reductions are undertaken based on equity, and in the context of sustainable development and efforts to eradicate poverty, which are critical development priorities for many developing countries.⁴

Since its signing in 2015, each party to the Paris Agreement is required to outline its Nationally Determined Contributions (NDCs), which indicate

national climate change adaptation and mitigation goals.⁵ Governments typically fulfil their NDC commitments through relevant national ministries along with partnerships with businesses, academia, and civil society.⁶ Parties are required to update and ratchet up aggregate and individual ambition of their NDCs every 5 years.⁷ The first assessment of progress on the Paris Agreement goals will take place in 2023.⁸ Parties are not currently on track to meet their collective goals.

Linkages between climate change and trade

International trade represents 20-30% of global GHG emissions and can deplete natural resources and encourage pollution havens, making it a critical target area for climate policies and regulations. A few sectors, including energy and transportation, account for more than 75% of the GHG emissions embedded in international trade.⁹

International trade rules can clash with climate response measures, for example when introducing trade restrictions or protective measures to support burgeoning low-carbon industries.¹⁰ Conversely, international trade and multilateral trade agreements can also lead to better climate-related policies and development of green technologies, such as increased cross-border trade in renewable energy and its related

¹ Roome, John. (2022). "SouthAsia4Climate: Solutions to tackle climate change in South Asia." *World Bank Blogs*, World Bank Group. [https://blogs.worldbank.org/endpovertyinsouthasia/southasia4climate-solutions-tackle-climate-change-south-asia#:~:text=South%20Asia%20sits%20precariously%20on,vulnerability%20has%20long%20been%20apparent;WorldBankGroup.\(2021\).%20SouthAsiaClimateRoadmap.https://www.worldbank.org/en/region/sar/publication/south-asia-climate-roadmap#:~:text=The%20South%20Asia%20Climate%20Roadmap,over%20the%20next%20five%20years](https://blogs.worldbank.org/endpovertyinsouthasia/southasia4climate-solutions-tackle-climate-change-south-asia#:~:text=South%20Asia%20sits%20precariously%20on,vulnerability%20has%20long%20been%20apparent;WorldBankGroup.(2021).%20SouthAsiaClimateRoadmap.https://www.worldbank.org/en/region/sar/publication/south-asia-climate-roadmap#:~:text=The%20South%20Asia%20Climate%20Roadmap,over%20the%20next%20five%20years)

² Brenton, Paul and Chemutai, Vicky. "The Trade and Climate Change Nexus: The Urgency and Opportunities for Developing Countries." World Bank Group, 2021. <https://openknowledge.worldbank.org/bitstream/handle/10986/36294/9781464817700.pdf?sequence=5&isAllowed=y>

³ Roome, 2022; World Bank Group, 2021.

⁴ UNFCCC. (2022) "Nationally Determined Contributions (NDCs)." United Nations, <https://unfccc.int/process-and-meetings>

[/the-paris-agreement/nationally-determined-contributions-ndcs/nationally-determined-contributions-ndcs](https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs/nationally-determined-contributions-ndcs)

⁵ United Nations. (2022) "All About the NDCs." <https://www.un.org/en/climatechange/all-about-ndcs>

⁶ Ibid.

⁷ UNFCCC, 2022.

⁸ UN, 2022.

⁹ WTO. (2021). "Trade the Climate Change." https://www.wto.org/english/news_e/news21_e/clim_03nov21-4_e.pdf

¹⁰ Zaidi, K. (2021). Trade Aspects of Nationally Determined Contributions in South and Southeast Asia. Geneva: CUTS International, Geneva, p.3. <https://www.cuts-geneva.org/pdf/SSEA2021-Study-TradeAspectofNDCsinSSEAsia.pdf>

technologies.¹¹

Many NDCs rarely or never explicitly mention trade, although many of their commitments and plans directly link to it.¹² Common trade-related measures in NDCs include:¹³

- increasing subsidies for green industries such as renewable energy and decreasing subsidies for fossil fuel industries that can level the playing field with imported conventional goods not taxed for their full environmental damage;
- taxes on carbon, fuel, and inefficient technologies and tax reductions and incentives for green and energy-efficient products that could temporarily shield decarbonising national firms from foreign competitors, although carbon taxes might merely create pollution havens for carbon-intensive industries in developing countries where such taxes are weakly enforced;
- border carbon adjustment (BCA) and export rebates on climate-related charges applied to domestic exports in foreign markets that can help even-out carbon pricing across jurisdictions, although protectionist abuse of BCA can cause Small and Medium Enterprises (SMEs) and high carbon foreign producers in developing countries and LDCs to bear the brunt of the costs of such policies;
- green government procurement which allows countries to promote regional trade and integration while scaling up their

climate actions by stimulating demand for environmental goods and services, supporting infant green industries, and promoting technology transfer;

- indirect trade-related measures, like GHG emissions standards, demand-side management provisions, building codes, carbon standards, and labelling requirements that work towards NDC goals, although diversity of standards and labels increase the costs of compliance for importers, which can prevent the participation of small producers in the market.

Trade-related measures in developing S&SEA country NDCs

Many developing S&SEA countries' NDCs¹⁴ reflect the general trends listed above, with common policies being renewable energy subsidies, tax incentives and standards for industrial-sector energy-efficient technology use and labelling to improve efficiency in construction and buildings. The trade-related NDCs of these countries focused most on the energy and transport sectors, with some countries also focusing on agriculture if the sector is still a major employer of the workforce, providing livelihoods and food security. Each countries' targets for these measures depend on their existing reliance on fossil fuels and renewable energy potential. Most developing S&SEA countries' NDCs consist of vaguely worded actions rather than specific policy interventions.¹⁵

¹¹ OECD. "Trade and the environment." <https://www.oecd.org/trade/topics/trade-and-the-environment/#:~:text=Economic%20growth%20resulting%20from%20trade,pollution%20or%20degrading%20natural%20resources>.

¹² Zaidi, 2021, p.3.

¹³ Ibid, pp.5-6.

¹⁴ Countries studied: Bangladesh, Cambodia, Lao People's Democratic Republic, Nepal, Pakistan, Sri Lanka, and Viet Nam

¹⁵ Ibid.

Table 1: Best Practices Integrating Trade Measures in NDCs

	Nepal ¹⁶	Vietnam
Revised NDCs published in 2020	<ul style="list-style-type: none"> • data-driven, high-quality climate plan • quantifiable targets, e.g. generating 15 percent of national energy demand from clean energy sources and cutting fossil fuel dependency and GHG emissions by 28 percent by 2030 • well laid out estimated funding costs • ability to easily track progress and enable international transparency of climate action and mitigation programs 	<ul style="list-style-type: none"> • increased projected emissions reductions by 34%¹⁷ • identified low-carbon energy, resilient transport, climate-smart landscapes, and green and resilient cities as four key transitions in NDC Implementation Program¹⁸ • legalised carbon emissions trading scheme, national greenhouse gas emission inventories, and the monitoring, reporting, and verification of emissions in November 2021¹⁹

Towards integration of trade in NDCs

Most developing S&SEA countries and LDCs have a long way to go before they will have robust and functional institutional frameworks essential for meeting their NDC targets.²⁰

The Bonn Climate Change Conference, running from 6 to 16 June 2022, saw minimal progress or discussion directly concerning NDCs; nothing specific to trade-related measures in the NDCs was discussed. In the opening and closing meetings, speakers urged countries to expand the ambition of their NDCs and called for enhanced climate finance for implementing NDCs, especially for developing countries and LDCs. The Subsidiary Body for Scientific and Technological Advice requested that the UNFCCC Secretariat

prepares informal technical papers on using certified emission reductions (CERs) in NDCs. There will be a new NDC Synthesis Report, compiled by the Secretariat, published later this year, expected to urge countries to strengthen their national climate change plans. Adding a specific section on trade-related actions in NDCs could provide more clarity as to next steps developing countries and LDCs can take to consider this in their own NDCs.²¹

Enhancing research and data collection capacities would enable developing S&SEA countries to create specific, quantifiable plans, including their financial needs, for meeting their NDC goals. When updating their NDCs, countries could further consider the interlinkages between trade and the environment, and strengthen their monitoring and review systems, which is necessary for greater transparency and better

¹⁶ Yadav, Abhishek; Dhakal, Manjeet; and Pandey, Sneha. (2020). "Nepal Leaps with High Quality 2020 NDC and Improved Development Ranking." *NDC Partnership*, World Resources Institute and UN Climate Change. <https://ndcpartnership.org/news/nepal-leaps-high-quality-2020-ndc-and-improved-development-ranking>

¹⁷ UN, 2022.

¹⁸ "Virtual Workshop on Good Practices in NDC Update and Implementation: Challenges and Lessons Learned from Asia, the Middle East, and North Africa." NDC Partnership, Regional Collaboration Centre - Bangkok, Regional Collaboration Centre - Dubai, 2021, p.25, https://unfccc.int/sites/default/files/resource/Day3-NDC_Workshop_AMENA.pdf

¹⁹ "Progress of NDC Implementation in Asia-Pacific: Methodological Framework and Preliminary Findings." *The Economic and Social Commission for Asia and the Pacific (ESCAP)*, UN, 2021. https://www.unescap.org/sites/default/d8files/knowledge-products/Technical%20Paper%20on%20Progress%20of%20NDC%20Implementation_final_0.pdf

²⁰ Ibid.

²¹ UNFCCC. (2022). "Countries Discuss How to Accelerate Climate Action at Bonn Conference." <https://unfccc.int/news/countries-discuss-how-to-accelerate-climate-action-at-bonn-conference>

assessment of progress.²²

Developing S&SEA countries could make the most of multilateral NDC knowledge and experience sharing platforms, such as the NDC Partnership and ClimateWatch's NDC Enhancement Tracker, to improve their NDC plans and identify potential areas for cross-national collaboration.²³

Regional and global trade agreements could harmonise GHG emissions standards, carbon standards, and labelling requirements to improve the effectiveness of these indirect trade-related NDC measures. Technology-sharing, reduction of trade barriers and cross-border infrastructure provision are a few ways to harness the potential

of trade to jointly foster sustainability in the region.²⁴

Climate finance plays a key role in enabling developing countries to meet their NDC goals, as it facilitates access to technical assistance, capacity building, and technology transfer.²⁵ Many developing S&SEA countries are currently in the early stages of identifying the financial resources required for NDC implementation.²⁶ Relevant support is critical to ensure the holistic inclusion of trade-related measures into the revised NDCs and leverage their full potential to contribute to climate action.



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²² ESCAP, UN, 2021, p.28.

²³ Ibid, p.27.

²⁴ Ibid, p.25.

²⁵ Ibid.

²⁶ ESCAP, UN, 2021, p.27.