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Navigating the Climate-Security-Trade Nexus:

Ensuring the U.S. Approach to Asia Accelerates All-Around Climate Progress

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Summary

Asia is critical for making progress toward the Paris Agreement's goals, especially given the region's massive emissions profile, manufacturing prowess, and critical resources. In many ways, the Biden administration has prioritized climate action in its approach toward Asia, including by embedding climate cooperation into bilateral and multilateral relationships and pursuing bespoke deals to accelerate progress and clean energy investments in target geographies. Yet the administration's objectives to bring jobs back to the United States and to secure critical clean technology supply chains introduce competing interests to U.S. foreign policy that could impede climate goals.

As part of its Asia Spotlight: 2024 conference in Washington, D.C., the Asia Society Policy Institute convened a select group of experts to discuss strategies and policy options to ensure that U.S. foreign policy in Asia maximally accelerates progress toward U.S. and global climate goals. The private roundtable aimed to identify tensions in the climate-security-trade nexus and to identify recommendations for navigating them in order to maximize climate progress.

Key Takeaways

- **Leverage partnerships to anchor COP28:** The Global Stocktake outcome agreed at COP28 in Dubai created useful hooks for global climate progress, including for the world to transition away from fossil fuels and triple renewable energy capacity. This year, 2024, will be a moment of truth for climate ambition given upcoming deadlines for a new goal on global climate finance and updated country-level climate commitments. While trade and security issues have created conflicts for climate progress, they have also given rise to new partnerships that could be leveraged. Enhancing international cooperation could help overcome trust deficits to ensure progress at speed and scale.
- **Develop tools to share the benefits of industrial policy:** While U.S. competitiveness with China was a key factor giving rise to the United States' cornerstone climate policy, the Inflation Reduction Act (IRA), it has also adversely impacted cooperation with other Asian partners on climate change. There is a need for greater efforts to foster a productive dynamic going forward such that climate progress does not become "sequenced," with some countries achieving progress at the expense of others. Skepticism from Asian countries toward the ability of the United States to deliver on the IRA could be mitigated by greater efforts to build the right

partnerships and devise tools for concrete progress on investments and deployment of technologies.

- **Create a comprehensive strategy to make trade policy equitable:** Trade policies, such as carbon border adjustment mechanisms (CBAMs), are now being used as tools for climate progress. However, there are real concerns from developing countries in Asia as to whether these policies are equitable. Practitioners agree that these disputes need to be addressed, but there is a lack of consensus regarding the best venue for doing so. More innovative thinking and new partnerships, such as the German-led Climate Club, could help play a role in resolving current conflicts. There is a window of opportunity to work together with developing countries in Asia to address industrial policy and trade in a comprehensive, integrated way.
- **Assess the climate and political value of policies:** The broader political dynamics remain challenging, and the U.S. election in 2024 creates even more questions. When considering forward-looking options, it will be important to assess which policies are set in stone and which can still be shaped, including ahead of key political and other deadlines. More efforts are needed to understand the real impact of policies on climate progress in both the United States and Asia, as well as on the overall state of interregional politics. Practitioners should avoid talking about Asia as a homogenous block, or forcing countries in the region to choose to work with the United States at the expense of forgoing other partnerships that they may want or need.

Post-COP28 Priorities for Accelerating Global Climate Progress

The world is moving incredibly close to the 1.5-degree Celsius limit on global temperature rise set forth by the Paris Agreement. The threat of climate change and its knock-on impacts are only becoming more urgent. Several participants expressed concern about how little climate change had featured in the conference's main sessions and noted the importance of this dedicated discussion in light of this. At the same time, significant progress has been made on the technology front, including record investment and deployment of climate technologies at speed and scale.

The first-ever Global Stocktake outcome agreed at the recent 28th UN Climate Conference (COP28) in Dubai, UAE, provides a number of constructive hooks that can be anchored and taken forward. These include the first-ever negotiated reference to transitioning away from fossil fuels; a global goal to triple renewable energy capacity by 2030; and the clear embrace of net zero by 2050, which is a step ahead of previous timelines in the Paris (2015) and Glasgow (2021) texts. The next round of Nationally Determined Contributions (NDCs) that will set emissions reduction targets out to 2035 needs to be even more ambitious, including covering all sectors and greenhouse gasses, and aligning with a 1.5-degree pathway. The first quarter of 2025, when these updated NDCs are due to be submitted, may function as an effective "moment of truth."

This year, 2024, will also be critical for addressing unfinished work to scale up climate finance, including through the G20, implementing the World Bank's evolution roadmap, and agreeing an ambitious and feasible New Collective Quantified Goal (NCQG) at COP29. More investments are needed in Asia, especially to match corresponding progress on trade policies. The Just Energy Transition Partnerships need to be delivered to maintain trust with recipient countries, including Indonesia and Vietnam.

Trade, which has helped move critical products around the world to facilitate climate progress, is highly implicated in the fight against climate change from a number of standpoints. These include the need to diversify and secure green supply chains from potential threats, as accelerated by Russia's illegal invasion of Ukraine. The European Union's carbon border adjustment mechanism (CBAM) presents both challenges

and opportunities as a means of protecting the competitiveness of domestic industries that must comply with stricter emissions standards and preventing carbon “leakage.”

Apart from raising ambition, COP28 also highlighted the need to enhance international cooperation—although it fell short of providing guidance on how to do this. Some participants thought this could open up space to ensure that trade works for climate. For instance, the global goal to triple renewable energy could prompt the United States, China, the European Union (EU), and potentially India to come together to avoid trade barriers, or the EU's CBAM could be repositioned as an opportunity to gain access to markets, rather than a concern. Resistance to the CBAM has been far less than that to a proposed tax on aviation more than a decade prior, yet some contend the UN climate negotiations should avoid touching trade at all or using it as a lever.

International cooperation could help drive greater ambition forward. The G20 discussions are a critical platform for setting the global bar on expectations for updated targets. Brazil, which is hosting the G20 in 2024 and COP30 in 2025, could play a unique role as a bridge builder on trade concerns, especially given its strong ties with both the United States and China. The intersection of climate with economic security has also given rise to new groupings, such as the German-led Climate Club launched at COP28 with 37 members committed to accelerating climate action and industry decarbonization. These and other new partnerships could be platforms to resolve trade- and security-related issues.

While discussants questioned whether security referred to supplies of critical products or economic competitiveness, the discussion coalesced on both as underpinning a broader conception. Even so, one participant noted that “one person’s resilience is another person’s protectionism.” There was some concern about whether the Washington Consensus has gone too far, with the Indo-Pacific Economic Framework for Prosperity (IPEF) and recent opposition to a Japanese takeover of U.S. Steel raised as two examples of whether rhetoric around friendshoring is working in practice. Such challenges have also given rise to skepticism from some Asian countries on the U.S. ability to actually implement the IRA and reindustrialize.

It is important to avoid talking about Asia as a homogenous block. Nuance is also important for the U.S.-China relationship, which, on one hand, has driven the shift toward industrial policy as a means of climate progress but, on the other, has also benefited from cooperation on climate change. Given the leadership transition with Chinese climate envoy Xie Zhenhua and his U.S. counterpart, John Kerry, both leaving their posts, it will be important to find new ways to ensure cooperation can be sustained. One suggestion was to shift from focusing on cooperation to considering the dynamic that needs to be fostered between the U.S. and China—ideally, one that is clear about what both the United States and China need to be compelled to do.

Recommendations

- **Leverage international cooperation.** For instance, the global goal to triple renewable energy could be a hook for the United States, China, the EU, and India to come together to avoid trade barriers.
- **Actively seek out and center Asian perspectives:** United States foreign policy and climate policy communities are somewhat removed from Asian perspectives, which are often not actively considered in policymaking. Groups such as the Asia Society Policy Institute could play a role in facilitating more exchanges.
- **Foster a constructive U.S.-China dynamic.** Shift from focusing purely on cooperation to considering the dynamic that needs to be fostered between the United States and China. This would

prioritize what needs to be done together, while leaving space for what needs to be done well, but not necessarily in cooperation.

Ensuring That U.S. Industrial Policy Can Benefit Asia

Although historically there has been a tendency to overemphasize the importance of COPs, the United States now has a broader playbook through which to accelerate global progress on climate change. Other parts of the government have been deployed on climate, including investment arms, such as the U.S. International Development Finance Corporation (DFC), and trade agencies. Levers such as commercial diplomacy, supply chain coordination, and climate clubs and other plurilateral platforms have all been brought into play.

Some participants raised concerns about the sequencing of progress, and whether prioritizing emissions reductions in the United States through the IRA, which focuses on onshoring and domestic job creation, would effectively stall much-needed progress in other regions globally. Some developing countries believe that the IRA creates just another “rich country problem” that developing countries now have to deal with. Similarly, some countries believe they have to choose between China and the United States, a choice that is complicated by the latter’s poor track record in offering tangible infrastructure at speed and scale.

Another speaker pushed back against the narrative that the world, especially the Global South, is still angry at the unforeseen consequences of the IRA. This perspective holds that the United States has adjusted its strategy in the wake of the IRA’s adoption to help other economies adopt similar policies. Clean energy supply chain cooperation platforms and other initiatives reflect the desire of major developing countries to remake the economics of decarbonization together with the United States. However, the world is in a “messy middle” between preventing widespread adoption of cheap clean technologies that lack standards and involve human rights abuses and avoiding massive trade barriers that slow down decarbonization progress. From this perspective, the United States is genuinely trying to create clean energy manufacturing in a way that defends its own interests and then work with other countries to align. Yet there is a premium to pay for diversification—it is hard and more expensive to make sure all countries benefit from the green transition. The United States cannot simply achieve the same sort of industrial dominance as China because such dominance was also highly wasteful, even though it also worked.

Others thought that while the Global South might be angrier about explicit trade measures such as the EU CBAM or EU deforestation law, concerns about the IRA persist. The “green subsidies race” has limited resources. Several examples were raised, including in Namibia, where a clean energy project was ready to go, but funds were then redirected back to the United States, and another where Kenya was seeking debt for climate swaps but did not have the fiscal space. Another participant argued that, in fact, Kenya did not have the fiscal space because it has debt—thus if international financial institutions (IFIs) are not effectively positioned to make systemic changes, then developing countries will continue to lack fiscal space and keep turning to China, which in turn may further exacerbate their debt challenges.

In response to a question about the most important public tools for helping developing countries develop their own clean energy, one speaker expressed the need for more concrete tools to help them reap the benefits of the IRA. More tools and resources could be helpful to aid relevant bodies such as the DFC, the Export-Import Bank of the United States (EXIM), and the United States Agency for International Development (USAID) to ensure that finance and investment are replicable, and not just a one-off. However, linking up and coordinating resources to countries that need them is location- and technology-specific work that takes up significant capacity. The “corridor concept” from the Partnership for Global Infrastructure and Investment (PGII) was raised as an example of overcoming these challenges—by connecting a number of supply chain segments, it could create a chain reaction that builds on itself. Another

participant added that it is still important to prioritize among various goals. For instance, battery mineral supply chains might be difficult to protect quickly, but the United States could move faster on some other, more boutique minerals that are also important.

Recommendations

- **Develop more concrete public tools to help developing countries.** Work together with partners to create investable tools that take U.S. resources and make them bigger and more sustainable. Link up and coordinate resources in formats that can be replicated and scaled up across different geographies.
- **Prioritize among various security goals.** Identify where the United States could secure supply chains on its own and move quickly on them, while working with NATO and other partners where cooperation is critical for implementation.

Remaking Global Trade to Work for the Climate

Another major focus of the discussion was how the global trade regime could impede or accelerate emissions reductions. With the advent of the EU's CBAM and similar legislative proposals in the United States, which could be powerful tools for accelerating decarbonization, it will be critical to ensure such policies are equitable. Some proposed that the World Trade Organization (WTO) set such standards for the world; others believed that doing so would not be feasible in practice. Relatedly, while supply chain diversification will be important for deploying clean energy solutions, the trade regime is not organized to incentivize this diversification. A mutual understanding of green industrial policy and related aspects, such as carbon accounting, could help address this. Still others contended that such supply chain issues fall in the bucket of industrial policies, which should be considered separately from more conventional trade policies.

One participant with deep experience in trade negotiations remarked that, historically, the politics prevented meaningful progress on any attempts to link trade and climate. U.S. congressional design was another factor for why it has been difficult to link climate and trade policies, with trade negotiations historically banning mention of climate or participation from climate negotiators. The inability of negotiators to agree to the Environmental Goods Agreement in 2016 squandered a window of opportunity when the politics were aligned. Now, with the CBAM and the Global Arrangement on Sustainable Steel and Aluminum (GASSA), negotiators are in the dark as to what they are actually negotiating.

However, the politics are changing such that it may now be possible to address climate and trade issues in an interlinked way. One proposal was that progress could be made by first convening technical experts to figure out how different policies could be harmonized and to align quantification methodologies for the embodied carbon in various goods. Most governments already have this data on hand, but there has not yet been enough investment in the convening spaces to figure out the technicalities of how this data would function in an international arrangement. Though many countries are not tracking this data comprehensively and misreporting is rampant, measures are not needed from all—just enough to devise standards. This, in turn, could avoid burdening developing countries with the administrative costs of measurement, which is part of the reason why they are so frustrated with the CBAM in the first place.

Several other ideas were raised on how to leverage trade for climate progress. The United States could turn to its existing set of free trade agreements (FTAs), although few of those are with countries in Asia. Lower tariffs could create more markets, and defensive tools could counter over-subsidization and dumping of goods. However, among these options, what would still be needed is a new paradigm that considers current politics and linkages between industrial policy and trade to look at these issues comprehensively, rather

than in an ad hoc way. For example, initiatives such as the CBAM and GASSA and those on critical minerals are perhaps loosely coordinating but not considering a broader strategy. There is a window of opportunity to work together with developing countries—especially those in Asia that are fundamental to clean technology supply chains—to create this strategy.

Another key discussion topic centered on the best venue to discuss trade measures multilaterally. Participants disagreed on the extent to which the WTO remains fit-for-purpose for discussing carbon-related tariffs. From one perspective, the EU has made it a priority to ensure that the CBAM complies with WTO rules, which reflects the continued importance of the WTO. The WTO is also important from a multilateral context to inclusively bring countries together, so there may be some creative ways to use it to make incremental progress. A “middle ground” view was that while the WTO is not irrelevant, overhauling it to consider climate is not feasible in practice—neither are instruments such as “peace clauses” for climate that would be difficult to negotiate.

In terms of alternatives, participants raised the role of unilateral, bilateral, and other plurilateral partnerships, such as the Organisation for Economic Co-operation and Development (OECD)—though some of these, such as the G7, may be viewed with suspicion by developing countries. Germany’s Climate Club was raised as another innovative platform for potentially addressing related issues, especially since it convenes a number of interesting partners from Asia, including Japan, Indonesia, and Singapore, together in one place.

A lack of progress in the WTO was also cited as one reason that trade issues were brought into multilateral climate negotiations at COP28. When that happened, there was widespread worry that they would become a bargaining chip for the final decision text. Ultimately this potential situation was averted, likely because Parties had other priorities—though a reference to concerns on unilateral trade measures did make it into the final decision text. Some participants noted the need to reconcile how equity plays out in parallel in the WTO and the UN climate negotiations, with reference to the “common but differentiated language” concept in the latter. A lack of progress toward global agreement may cause protectionism and additional tariffs to spark even greater fragmentation and efficiency losses.

Finally, some participants raised that it is important to look beyond the contentious politics of trade policies to their real impact on decarbonization progress. While there is a lot of loud political noncompliance with the EU’s CBAM from developing countries, there is also rapid movement toward commercial compliance on the ground. The CBAM has also received political attention disproportionate to its actual climate impacts. It will help reduce emissions but not as significantly as one might expect given the diplomatic battles over it. It is also playing a role in fast-tracking better emissions monitoring and reporting and the implementation of domestic carbon markets in several major emerging economies, such as India. One question is whether these on-the-ground efforts to comply with the EU policy will prevent emissions-intensive countries such as China and India from dumping more carbon-intensive products in the developing world, while selling clean products to the EU.

Recommendations

- **Use technical progress to overcome politics.** Progress could be made by first convening technical experts to figure out how different policies could be harmonized and to align quantification methodologies for the embodied carbon in various goods. Invest in the convening spaces to figure out the technicalities of how this data would function in an international arrangement.
- **Develop a comprehensive strategy to link industrial and trade policy.** This would look at these issues comprehensively, rather than in an ad hoc way. There is a window of opportunity to work together with developing countries in Asia on this.

- **Leverage new partnerships and plurilateral platforms.** For instance, the German-led Climate Club—with its 37 members committed to accelerating climate action and industry decarbonization—could be leveraged to resolve trade- and security-related issues.