

Climate-and-trade policy under geopolitical competition

Climate and trade policy are increasingly intertwined. Against a background of intensified geopolitical competition and fragmentation, trade policy has returned to the top of the political agenda, while the decarbonization of industries and related value chains continues at different speeds in different regions. As countries pursue the decarbonization of their industrial sectors, concerns about the competitiveness of domestic producers manufacturing heavily traded commodities increase. The risk of carbon leakage is particularly influential in shaping climate policies targeting energy-intensive industry. Carbon border adjustments are recent examples of such policies that can impact other countries through international trade. At the same time, trade can be critical to the dissemination of low-carbon technologies, while newly popular green industrial policies can also have economic spillovers in other countries. And policies in one country may beget policy responses elsewhere; another spillover effect.