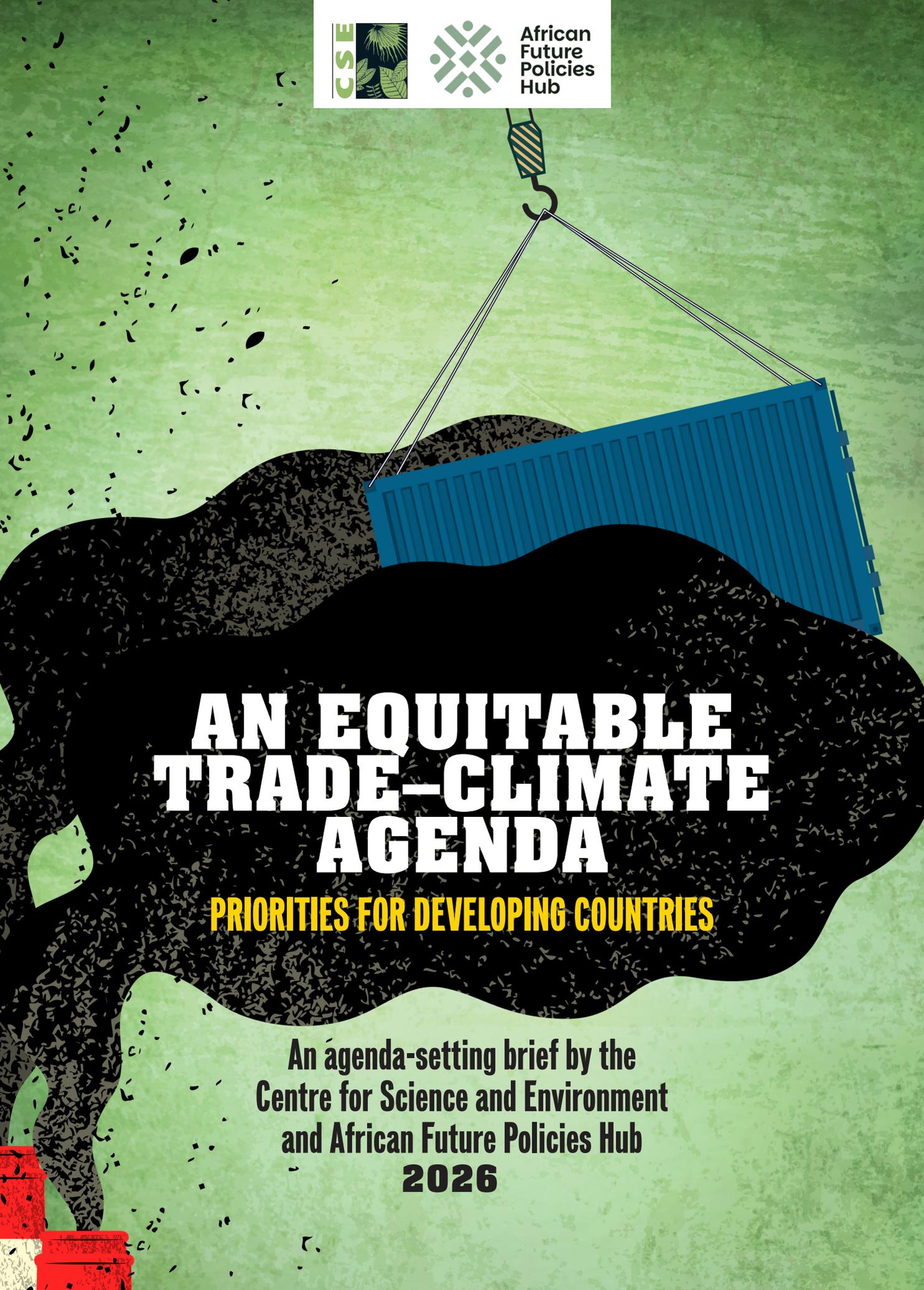




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# AN EQUITABLE TRADE-CLIMATE AGENDA

**PRIORITIES FOR DEVELOPING COUNTRIES**

An agenda-setting brief by the  
Centre for Science and Environment  
and African Future Policies Hub  
**2026**





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# Executive summary

Climate and trade agendas are becoming increasingly intertwined. As countries pursue decarbonisation while also navigating competitiveness pressures, the measures they adopt are generating spillovers across trade flows, industrial policy, and global governance systems. This is reflected in the rise of trade-linked climate measures, such as carbon border adjustments, and the expansion of cross-border clean technology value chains. These dynamics are now surfacing in multilateral forums, particularly the UNFCCC, where debates on unilateral trade measures highlight concerns around competitiveness and equity. Extending beyond such measures, the trade–climate interface spans critical minerals, industrial policy, and technology access.

For developing countries, this convergence presents a structural challenge. Many remain dependent on primary commodities and low-value-added manufacturing, limiting their ability to benefit from emerging green value chains. While advanced economies leverage fiscal space, technology, and industrial policy to lead in clean technology production, developing countries face constraints, including high cost of capital, limited access to technology, weak industrial bases, and restrictive trade and intellectual property regimes. These asymmetries risk locking them into extractive roles in the new green economy, while exposing them to new trade barriers and compliance burdens.

This brief identifies key systemic gaps in the current global governance architecture. First, **policy gaps** arise from the mismatch between trade rules and climate objectives, particularly in areas such as emissions-based measures, technology access, and industrial policy tools. Second, **governance gaps** stem from the lack of an institutional platform to address trade–climate interactions holistically, with the WTO and UNFCCC operating under distinct and often incompatible mandates. Third, **knowledge gaps** persist regarding the distributional impacts of trade-related climate measures, especially on developing economies and vulnerable sectors.

In this context, the newly established trade and climate dialogues under the UNFCCC, alongside discussions in other multilateral fora, present a critical opportunity to address these challenges. The brief proposes thematic areas for structured engagement, including trade in critical minerals and clean technologies, green industrial policy space, climate-related trade measures, and investment governance.

It concludes by outlining key principles for an equitable trade–climate agenda:

- Placing development and structural transformation at the centre;
- Operationalising differentiation;
- Preserving policy space for green industrialisation;
- Treating climate technologies as global public goods;
- Prioritising multilateral, cooperative approaches over unilateral measures.

Addressing the trade–climate nexus through these principles is essential to ensure that the global transition to a low-carbon economy is not only rapid, but also just and inclusive for developing countries.

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# Introduction

As countries deploy increasingly varied climate policy tools to achieve their decarbonisation goals in service of the Paris Agreement, spillover impacts are felt across multiple sectors and policy regimes, including financial governance, countries' industrial strategies, and the global trade regime. In particular, the climate and trade regimes are increasingly seeing convergence owing not only to the rollout of climate-related trade measures such as carbon border taxes, but also as the need to scale up diffusion of clean technologies witnesses growing cross-border trade of the same, from concentrated production centres to diverse demand hubs.

This growing entanglement between trade and climate has begun to surface within formal climate diplomacy itself, culminating in renewed debates at the United Nations Framework Convention on Climate Change (UNFCCC) on how trade-related climate measures should be understood, governed, and contested. At the Conference of the Parties (COP), the discussion has recently reemerged alongside the rollout of the European Union's Carbon Border Adjustment Mechanism (CBAM), a carbon tariff on industrial goods imported into the EU based on the carbon intensity of manufacturing in their countries of origin. In COP discussions, this is clubbed under unilateral trade measures (UTMs), along with other policies such as the Deforestation Regulation and the Methane Regulation (also announced by the EU).

The trade–climate nexus extends far beyond UTMs to considerations of trade in critical minerals, the suitability of current trade rules to support green industrialisation through industrial policy tools such as subsidies and export controls, intellectual property rules governing access to climate-relevant technologies (including under the WTO TRIPS Agreement), and the impact of weaponised tariffs on the ability of countries to pursue their climate and development goals unhindered.

Moreover, the role of trade is now documented within countries' Nationally Determined Contributions (NDCs) under the Paris Agreement. By examining 60 developing countries, UNCTAD identified 680 trade-related measures within NDCs, including renewable energy and energy-efficiency provisions, technical regulations, and green value chain development plans. These measures illustrate how climate plans increasingly incorporate policies with trade implications as part of broader climate action strategies.

## EVOLUTION OF TRADE MEASURES AT THE UNFCCC

The recent institutionalisation of trade–climate discussions did not emerge in a vacuum. The relationship between trade and climate has been present—though often implicit—since the inception of the climate regime. Understanding this evolution is critical.

The 1992 UN Framework Convention on Climate Change, in Article 3.5, states that measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade, pointing to a recognition of the interaction between trade and climate measures at the very commencement of the current climate governance regime.

Between the establishment of the Convention in 1992 and the 2015 Paris Agreement, acknowledgement of this overlap existed as emissions trading systems emerged under the Kyoto Protocol, and renewable energy subsidies entered WTO disputes. Tensions around carbon border taxes also featured. Within the UNFCCC process, related concerns also surfaced under discussions on response measures, including through the Katowice Committee of Experts on the Impacts of the Implementation of Response Measures (KCI), where trade-related impacts were occasionally raised, though often more as part of last-minute political bargaining than as a sustained forum for structured dialogue.

In the post-Paris era, however, the issue has resurfaced in tandem with the rollout of the European Union’s Carbon Border Adjustment Mechanism (CBAM), and other unilateral trade measures (UTM).

The recent spotlight on UTM at the COP emerged with a proposal by the BASIC bloc of countries (Brazil, South Africa, India, and China) in 2024 to place UTMs on the official conference agenda. The issue was also raised at UNGA, BRICS, and G20, spearheaded by developing countries. Subsequently, at the COP, blocs such as the Like-Minded Developing Countries (LMDC), the Arab Group, several African nations, and eventually the wider G77 and China embraced the push for the agenda, culminating in the establishment of a new dialogue series at COP30 in Belem. The conference resulted in the adoption of the Belem Political Package, Paragraph 57 of which cements trade formally within the climate talks:

*Requests the subsidiary bodies to hold a dialogue at their sixty-fourth, sixty-sixth (June 2027) and sixty-eighth sessions (June 2028), with the participation of Parties and other stakeholders, including the International Trade Centre, the United Nations Conference on Trade and Development and the World Trade Organization, to consider opportunities, challenges and barriers in relation to enhancing international cooperation related to the role of trade, taking into account paragraph 56 above, decides to exchange experiences and views on related matters at a high-level event in 2028 and requests the subsidiary bodies to present a report summarizing the discussions at the high-level event.*

In the COP process, developing countries framed measures like the CBAM as a UTM, stating that it could contravene the cooperative spirit of climate governance, particularly when presented as climate action despite having significant trade implications. They voiced concerns that trade-linked climate policies like the CBAM favour industries in the Global North, along with undermining the multilateral process.

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At the multilateral level, the recent establishment of the trade and climate dialogues under the auspices of the UNFCCC, decided at COP30 in Belem, marks the first formal contemporary recognition of the intersection of these issues in the post-Paris era. The first annual dialogue will be held in Bonn in June 2026 and offers a useful starting point to raise the broad landscape of issues under this heading. This must not be limited to the UNFCCC process, however, and various parts of this discussion are being pursued at the World Trade Organization (WTO), UN Trade and Development (UNCTAD), processes like the Group of Twenty (G20) and BRICS, and the UN General Assembly (UNGA).

It is necessary to use this opportunity to outline how countries can navigate the trade–climate nexus, a discussion that will only become more pertinent going forward. While the COP30 decision notes that these dialogues will consider the opportunities, challenges, and barriers related to trade, it leaves open questions about scope, substance, and approach. In this context, it becomes important to examine how trade and climate have come to intersect in this way, the challenges that have emerged, and what the newly mandated dialogues could do to engage government and other stakeholders constructively.

This brief seeks to contribute to that effort by situating current trade–climate tensions in their broader political and institutional context, with particular attention to the implications for developing countries.

# 1. Trade and climate agendas are converging

The convergence of the trade and climate agenda is reflected in the use of trade instruments to pursue climate goals, as well as the growing influence of the green transition on trade competitiveness. For instance, the use of unilateral trade measures such as border carbon measures and technical standards extends the regulatory reach of ‘rule-making states’ beyond their borders.<sup>6</sup>

More broadly, large regulatory jurisdictions increasingly shape global market rules through domestic regulations that acquire extra-territorial effects, requiring firms and governments in other countries to adapt in order to retain access to those markets. For instance, the pursuit of clean technology has elevated industrial policy through subsidies, public procurement, local content requirements, and finance as an important component of the green transition. A 2023 UNCTAD analysis of climate-related non-tariff measures identified 2,366 non-tariff measures that were related to climate change mitigation—representing 2.6 per cent of all non-tariff measures and affecting 26.4 per cent of global trade.

Amidst these dynamics, multilateral institutions such as the WTO and UNFCCC are increasingly confronted with policies that fall between established mandates. While WTO rules allow countries to adopt trade-related environmental measures, provided they meet conditions that prevent arbitrary or protectionist misuse, there remains uncertainty over how newer climate-specific instruments will be treated in practice. At the same time, climate institutions lack avenues to address trade impacts.<sup>7</sup>

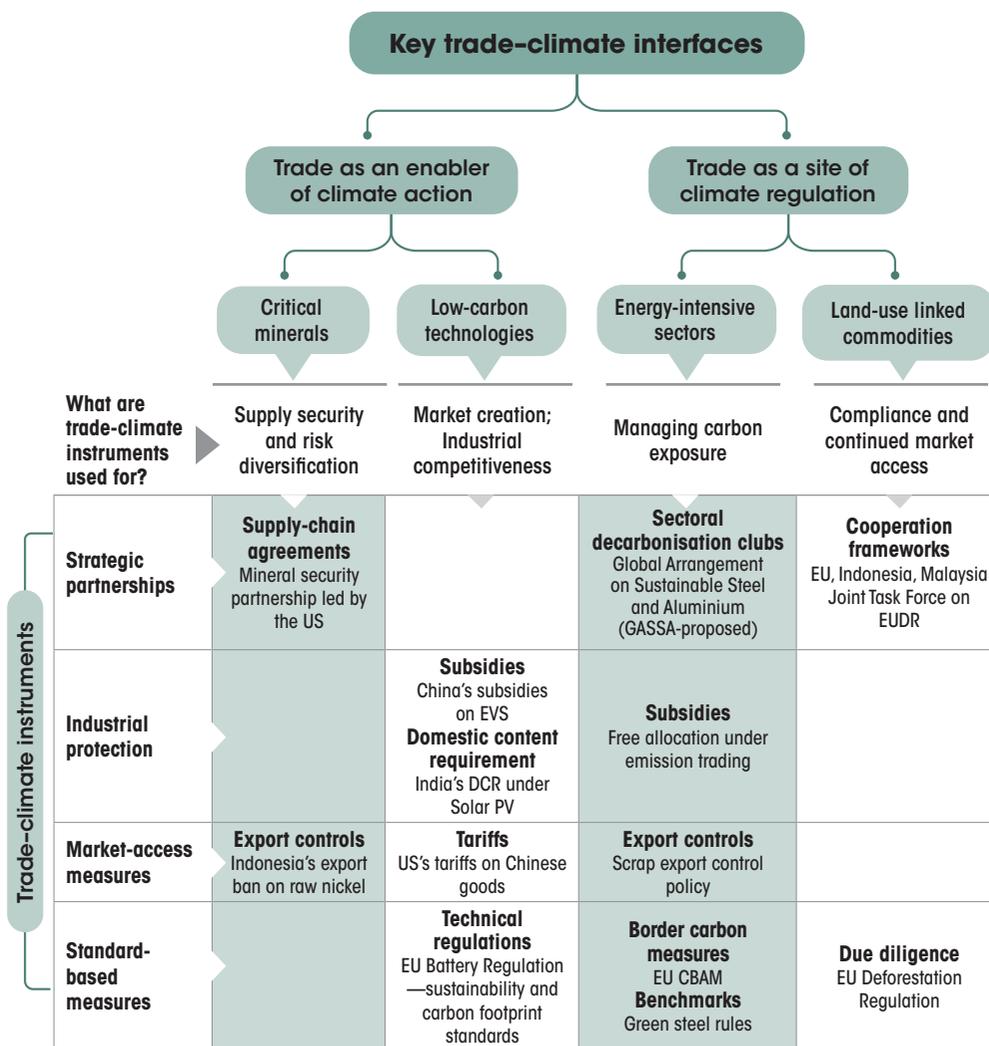
These intersecting policies redistribute costs and benefits across actors. It is therefore useful to map who gains, who loses, and who bears adjustment costs.

## 1.1 Key trade–climate interfaces

The convergence of trade and climate agendas is not confined to a single policy domain, but spans multiple sectors, instruments, and levels of governance. It is therefore useful to identify the key interfaces through which trade and climate policies interact, and the instruments that shape these interactions (see *Figure 1: Mapping trade and climate interfaces and associated policy instruments*).

**Figure 1: Mapping trade and climate interfaces and associated policy instruments**

Trade and climate policies are coming together as trade tools are increasingly used to protect sectors important to meeting climate goals or that are affected by them



Source: Authors' depiction

## 1.2 Mapping stakeholders in the trade-climate interface

As trade and climate agendas increasingly meet, their effects ripple across states, industry, workers, and institutions in different ways. The stakeholder mapping below illustrates the concerns, actions, and impacts on each actor within this relationship. Taken together, the stakeholder mapping illustrates the complexity of the trade-climate interface and the multiplicity of actors that shape its outcomes. States, industries, financial actors, workers, and multilateral institutions engage with trade-climate policies from different structural positions and with distinct interests. With policies deployed through instruments such as unilateral trade measures and green industrial policy tools, costs, opportunities, and adjustment

burdens are redistributed across countries and sectors. The result is a policy landscape in which climate objectives, trade competitiveness, development priorities, and institutional mandates intersect, often producing tensions that must be understood to design effective governance approaches.

**Table 1: Stakeholder categories and core concerns in the trade–climate nexus**

CATEGORIES		STAKEHOLDERS	CONCERNS
States		Industrial ministries    Environment ministries Trade ministries    Finance ministries	<ul style="list-style-type: none"> <li>Balancing growth needs with climate priorities</li> <li>Export competitiveness of goods</li> <li>Managing exposure to trade measures</li> <li>Access to critical inputs</li> <li>Policy space under international rules</li> <li>Risk of retaliations</li> </ul>
Domestic industry and business actors (incumbents)		Heavy industries    Auto manufacturers MSMEs integrated in supply chains	<ul style="list-style-type: none"> <li>Protection from import competition</li> <li>Access to subsidies and concessions</li> <li>Regulatory stability, predictability</li> <li>Ease of compliance</li> <li>Gradual transition</li> <li>Cost-pass through to consumers</li> </ul>
Export-oriented firms	Manufacturing firms	Clean-tech exporters Intermediate goods suppliers	<ul style="list-style-type: none"> <li>Avoidance of tariff and non-tariff barriers</li> <li>Cost and complexity of compliance</li> <li>Predictability of trade rules</li> <li>Access to inputs and technologies</li> </ul>
	(Primary commodity/raw material suppliers)	Critical minerals    Agriculture/forestry	<ul style="list-style-type: none"> <li>Sensitivity to trade and access to markets</li> <li>Land use, environmental and social compliance costs</li> <li>Volatility of demand and supply</li> </ul>
Workers, trade unions and labour organisations		Labour ministries and governing bodies Industrial labour unions    Informal sector workers Skill-building institutions	<ul style="list-style-type: none"> <li>Just transition policy</li> <li>Job security</li> <li>Reskilling and social protection</li> <li>Trade agreements and foreign competition</li> </ul>
Multilateral institutions		World Trade Organization    UNFCCC Regional trade blocs and plurilateral governance	<ul style="list-style-type: none"> <li>Rule-based order</li> <li>Preventing fragmentation</li> </ul>
Financial and investment actors		Development Finance Institutions    Credit agencies Private investors    Sovereign wealth funds	<ul style="list-style-type: none"> <li>Policy certainty</li> <li>Bankability of green manufacturing projects</li> <li>Sensitivity to trade rules, frameworks, accounting rules</li> </ul>
Consumers		Institutional consumers    Individual consumers	<ul style="list-style-type: none"> <li>Affordable energy and goods</li> <li>Jobs and economic security</li> <li>Environmental benefits</li> </ul>

Source: Authors' compilation

**Table 2: How trade-based climate policy tools transmit impact across various actors in rule-making and rule-taking states**

	UNILATERAL TRADE MEASURES (UTMs)		GREEN INDUSTRIAL POLICY (GIP)	
	Rule-making state	Other state	Rule-making state	Other state
<b>States</b>	<p><b>Action</b></p> <ul style="list-style-type: none"> <li>▶ Shape standards in the interest of their domestic constituencies</li> <li>▶ Externalise climate policies</li> </ul>	<p><b>Impacts</b></p> <ul style="list-style-type: none"> <li>▶ Compliance costs,</li> <li>▶ Market access risks</li> <li>▶ Reduced policy autonomy</li> </ul>	<p><b>Action</b></p> <ul style="list-style-type: none"> <li>▶ Use policy instruments such as subsidies to build competitive advantage</li> </ul>	<p><b>Impacts</b></p> <ul style="list-style-type: none"> <li>▶ Seek policy space for catch-up, constrained by fiscal and rule limits</li> </ul>
<b>IMPACTS</b>				
<b>Domestic industry and business actors</b>	▶ Benefit from protection against imports	▶ Face adjustment and compliance burdens	▶ May receive transition support but face pressure to decarbonise faster	▶ Loss of competitiveness
	▶ Gain as first movers and preferential market access	▶ Face barriers to entry	▶ Major beneficiaries of subsidies, procurement, and scale effects	▶ Struggle to compete without comparable fiscal support
<b>Export-oriented firms</b>	▶ Risk of retaliatory impact	▶ Face tariffs, carbon-costs, compliance costs and administrative barriers	▶ State backed competitiveness	▶ Risk displacement, lose export competitiveness
<b>Workers, jobs</b>	▶ Gains in protected sectors	▶ Job insecurity in exposed industries	<ul style="list-style-type: none"> <li>▶ Gains in new sectors</li> <li>▶ Just transition for workers in traditional sectors</li> </ul>	▶ Adjustment costs, Job loss risk as traditional sectors are threatened
<b>Multilateral institutions</b>	<ul style="list-style-type: none"> <li>▶ Lack mechanism to reconcile rules</li> <li>▶ Limitations due to institutional mandates</li> <li>▶ Lack of coordination and lack of coherence</li> </ul>		<ul style="list-style-type: none"> <li>▶ Dysfunctional multilateral space</li> <li>▶ Risk fragmentation of multilateral spaces</li> <li>▶ Outdated structures to handle industrial policy</li> </ul>	
<b>Financial and investment actors</b>	<ul style="list-style-type: none"> <li>▶ Challenge to align with climate rules</li> <li>▶ Privileged access enabling influence over policy design</li> </ul>	<ul style="list-style-type: none"> <li>▶ Climate-trade risks priced into investment decisions</li> <li>▶ Higher cost of capital for trade exposed sectors</li> </ul>	<ul style="list-style-type: none"> <li>▶ Regulatory certainty</li> <li>▶ Role in shaping which sectors are bankable</li> </ul>	<ul style="list-style-type: none"> <li>▶ Regulatory uncertainty</li> <li>▶ Capital diversion to rule making states</li> </ul>
<b>Consumers</b>	<ul style="list-style-type: none"> <li>▶ Pay a high price for carbon costs</li> <li>▶ Perceived fairness gains from accountability</li> </ul>	▶ Indirect welfare impacts from employment, income and inflation impacts	▶ Long-term gains from cheaper access to green goods	▶ Slower access to affordable green goods

Source: Authors' compilation

## 2. This is important, especially for developing countries

Although the trade–climate convergence affects all countries, the capacity to deal with its consequences is highly asymmetric. Countries with diversified manufacturing bases and fiscal space can turn these shifts into a competitive advantage. Commodity-dependent and late-industrialising economies, by contrast, face risks of lock-in—remaining confined to low-value-added and carbon-intensive segments of global value chains—and exclusion from emerging green markets. This asymmetry is why the nexus is particularly consequential for developing countries.

Faced with persistent socioeconomic challenges, they often find themselves at a crossroads, balancing the imperatives of climate action against competing priorities such as poverty reduction, job creation, and industrialisation. This reality is underscored by the deepening nexus between trade and climate, against a backdrop of continued commodity dependence in many developing economies.

### 2.1 Structural vulnerability: Commodity dependence and low-value-added manufacturing

There are striking structural constraints entrenched in most developing countries, and this makes them heavily dependent on primary commodities. The trap of commodity production and low-value-added trade in value chains lingers as a critical bottleneck. Commodity dependence remains very widespread in developing countries.

- Two-thirds of developing countries—**95 out of 143**—were commodity-dependent between 2021 and 2023 (UNCTAD).
- **73** of these countries, mostly in **Africa** and **South America**, earned over **80 per cent** of their export revenues from primary commodities.
- Commodity dependence is especially high in Sub-Saharan and Western Africa, where most countries derive more than 80 per cent of export earnings from raw materials.
- Developing countries' exports are **highly concentrated**, relying on a small number of primary products and remaining vulnerable to price volatility and external shocks.

## COMMODITY DEPENDENCE

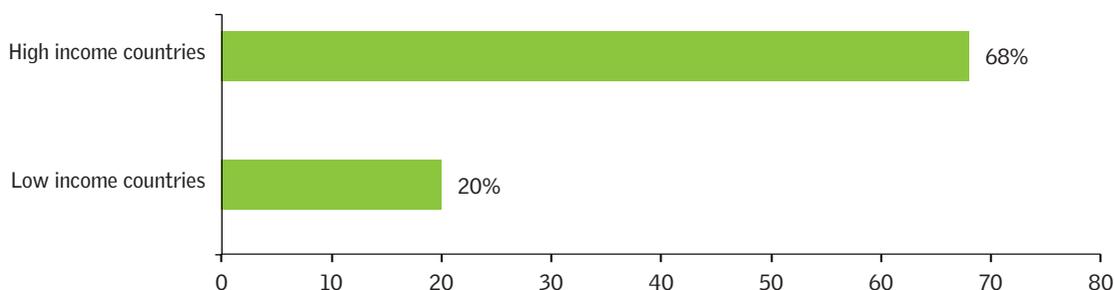
On a conceptual basis, the widely accepted definition of commodity dependence is provided by the United Nations Conference on Trade and Development (UNCTAD). A commodity-dependent economy is one in which commodities account for more than 60 per cent of total merchandise export earnings. Such economies rely heavily on raw materials—energy, mining, and agriculture—for export revenue.

According to the UNCTAD State of Commodity Dependence Report 2025, commodity exports fall into the following three main groups:

- Energy products—crude oil, natural gas, petroleum products, coal
- Mining products—metals (e.g., copper, cobalt, gold), minerals, precious stones
- Agricultural products:
  - » Food items (e.g., cereals, meat, fish, fruits, vegetables)
  - » Agricultural raw materials (e.g., cotton, tobacco, timber, rubber)

Source: Authors' construction based on UNCTAD's report *The State of Commodity Dependence 2025*

**Graph 1: Manufacturers' exports as a percentage of merchandise exports**



Source: World Bank, 2025, World Development Indicators

The disparity in export structures between developed and developing countries becomes even more evident when examining the share of manufactured goods in total exports (see *Graph 1: Manufacturers' exports as a percentage of merchandise exports*).

In this context, underdevelopment in developing countries is widely attributed to their continuous dependence on the production and export of primary products. This is a role that was historically assigned during colonisation in some countries, but then continued in the post-colonial era through skewed investment, technology, and financial arrangements. In addition to historical legacies, developing countries face inadequate infrastructure that falls short of the critical needs of processing plants. There is also a scarcity of local skilled labour, limited finance,

and institutional and policy capacity constraints. Understanding these realities is crucial for designing plans aimed at accelerating a low-carbon transition among developing countries.<sup>8</sup>

Developing countries' limited competitiveness in global markets is largely a consequence of export structures dominated by low-value-added, technologically unsophisticated, and low-quality products. Inauspiciously, during the second half of the twentieth century, only a handful of developing countries used the 'golden age' of international trade to spur their economic development. The majority of countries did not benefit from the liberalisation in the global trade regime brought about by the General Agreement on Tariffs and Trade (GATT). In some cases, countries deepened their existing role as exporters of primary commodities rather than diversifying into higher-value-added manufacturing.<sup>9</sup> Consequently, the gap between developed and developing countries continued to grow.

## GREENING OF TRADE

The relationship between environmental protection and international trade has long been marked by tensions, especially from the perspective of developing countries. As early as the 1990s, analysts in the Global South warned that the greening of trade could be a new lever of influence in international economic relations. As an early analysis from the Centre for Science and Environment suggests, trade restrictions framed around environmental concerns could have very different implications for countries with weaker bargaining power and fewer resources to comply with new standards.<sup>10</sup> High-profile disputes from this era reflect this reality.

A prominent example was the shrimp–turtle dispute of the late 1990s.<sup>11</sup> The United States banned imports of shrimp from countries that did not require their fishing vessels to use 'turtle excluder devices' to reduce the accidental capture of endangered sea turtles. India, Malaysia, Pakistan and Thailand jointly challenged the measure at the WTO in 1997, arguing that it conditioned access to the US market on adopting US environmental regulations and imposed discriminatory trade restrictions on their exports. The WTO ruling was noted to have adverse implications for developing countries, particularly in how evolving interpretations of WTO rules could expand the scope for environmental trade measures to affect market access.<sup>12</sup>

The linkage between trade and environmental issues also became evident during the 1999 WTO Ministerial Conference in Seattle, where massive protests by labour unions, environmental groups and civil society organisations coincided with deep disagreements between developed and developing countries, ultimately contributing to the collapse of negotiations.<sup>13</sup>

These experiences shaped the negotiating stance of many developing countries in subsequent trade and environmental discussions. During these negotiations, developing countries warned that environmental provisions in trade agreements could become disguised trade barriers if they were used to impose production standards, eco-labelling requirements, or other regulatory conditions on exporters from the Global South. Concerns were particularly strong regarding the use of process and production methods (PPMs) and other environmental criteria that could restrict market access for developing-country exports without providing adequate technology transfer, finance or capacity-building support.

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The pitfalls of commodity dependence are well documented. In the post–Second World War era, it was widely claimed that the growth in demand for raw materials, primary commodities, and food stimulates exports and growth in developing countries. This argument was quickly challenged by seminal frameworks developed by Prebisch (1950) and Singer (1950), in what is commonly referred to as the Prebisch–Singer hypothesis. Despite the contestations and varied empirical evidence that followed, the Prebisch–Singer hypothesis provided a widely accepted and highly influential perspective on long-run trends in the commodity terms of trade for commodity-dependent developing countries. Prebisch and Singer popularised the idea that the ratio of export prices to import prices (terms of trade) of underdeveloped countries tends to deteriorate for the following reasons:<sup>14</sup>

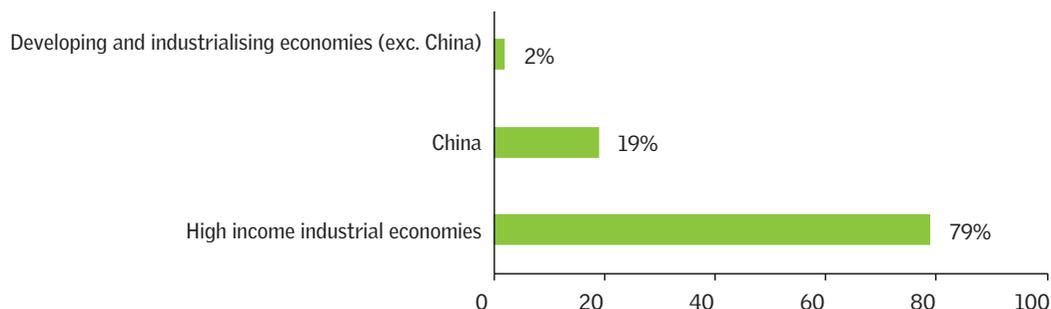
- Lower rates of technological progress in primary sectors;
- Lower income elasticity of demand for primary commodities relative to technology-intensive products, consistent with Engel’s law;
- Low price elasticity of primary commodities, limiting demand responses to price reductions; and
- High substitutability of commodity exports, intensifying price competition.

These structural features—commodity dependence, weak manufacturing bases, and constrained technological capabilities—shape how developing countries enter the green transition. As the global economy reorganises around low-carbon production, these preexisting vulnerabilities influence whether countries can move up value chains or risk remaining suppliers of raw materials.

## **2.2 Effects on participation in the new, green economy**

In the wake of the global transition to a low-carbon economy and the push for trade-related climate measures, the challenge faced by developing countries is double-barrelled: decarbonisation while simultaneously undergoing structural transformation and industrialisation. The high-carbon-emitting industrial pathways hitherto used by the Global North, are no longer viable for various reasons. The solution lies in green industrialisation, specifically by building domestic manufacturing capacity for clean technologies. However, structural constraints in developing countries hinder green industrialisation and relegate them to the role of raw material suppliers or low-value-added manufacturers, reinforcing dependency on external markets and hindering the development of resilient economies. The growing use of trade-related climate measures with extra-territorial scope aggravates these disparities. Due to their trifling investment in green industrialisation, developing countries stand to lose market access for their exports.

**Graph 2: Green patent shares by countries of current owners, manufacturing firms, 2023**



Source: Authors' elaboration based on ORBIS-IP

The current green industrialisation agenda is already one of dominance. For instance, green technologies—measured through patent activity—remain highly concentrated among high-income economies (see *Graph 2: Green patent shares by countries of current owners, manufacturing firms, 2023*).

The global shift to green industrial policies and the use of trade-related climate measures present several risks to developing countries, such as:

- Being locked into extractive roles;
- Exporting raw materials or energy carriers without involvement in higher-value production activities; and
- Limited benefits of the green transition to local communities reinforce existing patterns of unequal development.

Notably, the rise of green industrial policies in the Global North is often accompanied by domestic support measures such as direct state aid, production subsidies, tax breaks, and local content requirements, all of which may distort developing-country export competitiveness and access to markets. Such measures raise compliance costs and create uneven playing fields, making it hard for developing countries to compete.

In theory, developing countries may have competitive advantages in green industrial value chains, such as an abundance of critical minerals needed for clean technologies and high renewable energy potential. However, in practice, it is very difficult to take advantage of these. This is because they lack infrastructure, supporting policy frameworks, access to finance, access to technology, and skills. On the other hand, the progress made by developed countries in clean technology is not accidental. It is a result of industrial policy tools, including massive subsidies, public procurement, tax cuts, and R&D funding.

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For developing countries, various structural barriers persist, key among them being:

- Developing countries face a much higher cost of capital, with the Weighted Average Cost of Capital (WACC) for wind and solar averaging 12 per cent vis-à-vis 4 per cent in developed economies.
- This financing gap is driven by real and perceived risks such as political instability, currency volatility, and underdeveloped financial markets.
- The global financial architecture remains outdated and inflexible, characterised by fragmented mandates and financing instruments that do not adequately support developing countries' needs. While capital is abundant globally, it is often not channelled toward productive investments in developing economies due to risk perceptions, return expectations, and structural constraints in the international financial system.
- Climate finance delivered within and outside UNFCCC mechanisms remains inadequate in both scale and quality for supporting developing country transitions.
- High debt burdens and fiscal constraints leave developing countries with no fiscal space to compete with the large-scale green subsidies deployed by developed economies.
- Small domestic markets and the absence of strong regional cooperation mechanisms often leave developing countries little choice but to pursue industrialisation through export-oriented objectives.

Also, developing countries are systematically blocked from using a suite of industrial policies that the Global North and China used. Through WTO rules like the Agreement on Subsidies and Countervailing Measures (ASCM) and Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), developed countries have had their policies struck down, leading to the concentration of technologies among developed countries. Despite access to technology through trade, Foreign Direct Investment (FDI), licensing, and labour mobility, many developing countries remain stuck at basic technology acquisition, unable to advance to adaptation and endogenous innovation. Structural, financial, human, and institutional barriers have sustained a wide technology gap, constraining progress on sustainable development and effective climate action under the UNFCCC and the Paris Agreement.

Exploring the trade–climate nexus is critical because it exposes the real economic and structural barriers that prevent developing countries from translating climate ambition into low-carbon development. Only by addressing these intertwined constraints can global climate policy become both effective and equitable.

## 3. Multilateral fora must spotlight systemic gaps

The aforementioned structural conditions highlighted mean that the trade–climate convergence is not a neutral technical issue, but shapes development trajectories. Multilateral discussions, including the dialogues in Bonn, must therefore address not only specific measures but also the systemic gaps that reproduce these asymmetries.

A few key gaps are explored below, paired with probing questions to surface in discussions at various fora. They are illustrative entry points, rather than exhaustive agendas.

### 3.1 Current gaps

#### Policy gaps

##### **The trade regime does not recognize emissions**

*Climate policies foreground emissions-based criteria that sit outside existing WTO disciplines*

A key challenge at the intersection of trade and climate policy is the lack of agreed multilateral frameworks to deal with climate instruments that affect trade.<sup>15</sup> This becomes particularly challenging when climate measures rely on criteria such as how a product is made, its embedded emissions, or differentiated treatment of countries based on capacity or historical responsibility. The problem is not entirely new. The long-running debate on process and production methods (PPMs) in the WTO and the wider trade regime centres on countries seeking to set red lines on environmental conditions and labour conditions, etc.<sup>16</sup> Climate-based criteria, such as embedded emissions and decarbonisation standards, belong to this category of issues that sit outside existing WTO disciplines.

##### **Trade rules hinder rapid climate transition**

*Trade agreements are ill-suited to enable the diffusion of technologies critical for the energy transition*

An important gap concerns climate technologies and intellectual property rights. Climate policies require the rapid and widespread deployment of clean technologies, yet the Intellectual Property Rights (IPR) regime prioritises

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monopoly protections. While the TRIPS Agreement (such as Article 66.2) obliges developed countries to promote technology transfer to developing countries, implementation has remained weak due to non-enforceability and lack of clarity.<sup>17</sup> For many developing countries, access to climate technologies continues to depend on bilateral arrangements and high or uncertain costs, rather than predictable multilateral mechanisms. If climate technologies are to be accessible at the scale and speed required, the trade and IPR regime needs to adopt a climate-technology-specific approach, including options such as greater flexibility in patent rules, compulsory licensing and/or targeted exceptions for climate-critical technologies.

Trade rules also constrain the use of industrial policy tools important for the green transition and the rapid scaling of clean technologies. The latter has relied heavily on subsidies, public procurement, and, in some cases, regulating the supply of critical inputs. Given that the focal point of the prevailing WTO regime is trade liberalisation, current rules discipline the use of subsidies and trade regulation in general. While advanced economies and China have used extensive subsidy programmes to build clean-technology manufacturing capacity, many developing countries face legal uncertainties along with other constraints.<sup>18</sup> This creates particular challenges for developing countries seeking to move beyond raw material exports towards local processing, manufacturing, and higher value addition, as localisation measures, such as supporting domestic manufacturing or incentivising downstream processing, are often viewed as violating trade rules, even though they are central to structural transformation in late-industrialising economies and to sustainable development.

Questions for further discussion:

- What are the trade–climate instruments that incorporate climate-based criteria (e.g., emissions)?
- How can aspects of historical responsibility and common but differentiated responsibility that are fundamental to emissions accounting be factored into trade–climate policies?
- How can ongoing WTO reform discussions, particularly on Special and Differential Treatment (S&DT), be aligned with the needs of developing countries to pursue climate transitions and green industrialisation?
- What measures or recourse need to be explored to address barriers to green technology diffusion, such as IPR?
- How should trade rules be reinvented for a climate-risked world to support green technology production and the industrialisation aspirations of countries?

## PATENTS, POWER, AND LIMITS TO TECHNOLOGY ACCESS

The phase-down of hydrofluorocarbons (HFCs) in the lead-up to the Kigali Amendment to the Montreal Protocol shows how intellectual property regimes have disadvantaged developing countries in the diffusion of environmental technologies. A study conducted by CSE<sup>19</sup> before the amendment showed that substitutes used in air conditioning were protected by a dense set of processes, equipment, and broad application patents held by a few multinational firms. This limited independent manufacturing and innovation in developing countries, and forced reliance on costly, firm-specific licensing arrangements.

A similar situation occurred in Korea when firms wanting to replace CFCs with suitable HFCs in compliance with the Montreal Protocol faced difficulties with patents acquired by foreign companies in Korea.<sup>20</sup>

## Governance gaps

A central governance challenge in the trade–climate interface is the absence of a unified multilateral space to address climate measures that have trade effects. Neither of the two core regimes is institutionally equipped to deal with the full set of issues at stake.

### *Trade and climate interactions fall between institutional mandates*

While the WTO provides a forum to address trade, it is not designed to engage with development transitions, equity, or differentiated responsibilities. Conversely, the UNFCCC does not address issues such as market access, competitiveness impacts, or trade retaliation arising from climate policies. Another set of trade-relevant issues evolving as impacts of the implementation of climate measures, such as carbon leakage and externalisation of carbon pricing, are absent in the discussion on both platforms.<sup>21</sup> This imbalance creates the risk that trade objectives, such as competitiveness or protection of domestic industries, are pursued through climate-related instruments.<sup>22</sup>

This concern is particularly visible in the case of unilateral trade measures such as CBAM, which are labelled as climate measures but carry trade and competitiveness implications. In the current institutional setup, it remains contested as to which multilateral forum is most appropriate to deliberate on their systemic impacts—the WTO, the UNFCCC, or another platform.

## TRADE AND CLIMATE GOVERNANCE REGIMES OPERATE UNDER DIFFERENT LOGICS

**Table 3: Contrasting institutional logics of the WTO trade regime and the UNFCCC climate regime**

WTO (trade regime)	UNFCCC (climate regime)
<ul style="list-style-type: none"> <li>• Focus is on trade liberalisation and market access</li> <li>• Legally binding and enforceable</li> <li>• Non-discrimination is foundational</li> <li>• Differentiation is exceptional and temporary (S&amp;DT)</li> <li>• Generally restrictive towards subsidies, local content requirements, and industrial policy tools</li> <li>• Views state and policy making as a potential distorter of market</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on climate action, emission reduction</li> <li>• Voluntary and consensus-based</li> <li>• Differentiation is foundational (CBDR-RC)</li> <li>• Supportive of public finance, subsidies, and state support for climate action</li> <li>• Views the state as a central actor in climate action, finance, and regulation.</li> </ul>

Source: Authors' compilation

*There is limited space to contest impacts or raise systemic concerns about unilateral climate-related trade measures.*

With the use of unilateral climate-related trade measures and in the absence of a platform for engagement, countries resort to bilateral negotiations or retaliatory responses. Dispute settlement mechanisms, such as those at the WTO, are ex post and adversarial. Consider recent developments around the EU CBAM, where the EU reportedly considered flexibilities or alternative treatment for US exports, raising concerns about differentiated treatment and potential inconsistency with WTO non-discrimination principles. Thus, countries require a forum to raise collective grievances, assess the impacts of such measures, and explore cooperative alternatives beyond bilateral engagement.

Questions for further discussion:

- How can the UNFCCC's principle of common but differentiated responsibilities (CBDR) be recognised in the trade regime?
- How can the divergence between the WTO's legally binding and enforceable framework and the UNFCCC's largely voluntary and nationally determined approach be reconciled in addressing trade-climate measures?
- What kinds of institutional arrangements can bridge the gap between trade and climate policies globally?

## Knowledge gaps

### Knowledge gaps limit understanding of trade–climate interactions

The knowledge gap in the convergence of trade and climate policies reflects the absence of a shared understanding of how these agendas interact in practice and how their impacts are distributed across countries.

Most prominently, this gap shows up in the understanding of the effects of climate-related trade measures. These vary widely across sectors and value chains, depending on production structures, levels of industrialisation, and countries' positions in global markets. For instance, there is a scarcity<sup>24</sup> of granular data on distributional consequences, such as how policies like the EU's CBAM disproportionately impact the least developed countries, and the micro, small, and medium enterprise (MSME) sector in partner countries of the EU. As a result, different stakeholders experience and interpret these measures differently, making the issue highly context- and actor-specific.

This convergence also raises technical questions for which there is limited precedent or consensus. For example, studies differ<sup>25</sup> on the extent of carbon leakage risks associated with carbon pricing regimes in the absence of border adjustment mechanisms. There is also no commonly agreed approach to the treatment of process- and production-related issues, including how embedded emissions should be measured, reported, or compared across jurisdictions. Also, there is insufficient attention paid to the differences in emission profiles across regions. In many African countries, for instance, emissions are linked primarily to land use and agriculture, sectors where greenhouse gas measurements are difficult and uncertain.

In the case of industrial policy tools seen as necessary to scale up infant industries (a bracket that includes many clean technologies), the trade-distorting impact of green subsidies or export bans on energy transition minerals like nickel is the core issue of disputes. However, further study is needed to determine to what extent trade regulation can be a worthy trade-off for rapid production and deployment of clean technologies (enabled by these industrial policies) for the achievement of global climate goals.

Questions for further discussion:

- How can green standards, models, and assumptions across geographies be harmonised equitably and in line with national circumstances and country-specific climate and development goals?

- How can the distributional impacts of unilateral trade measures be assessed and discussed through multilateral channels?
- How can trade–climate policies be assessed through a development lens, including their implications for structural transformation, industrialisation, and value addition in developing countries?

### 3.2 Proposed thematic pillars for discussion

Addressing the systemic gaps identified above requires structured engagement rather than ad hoc disputes. Discussions at multilateral fora, including the UNFCCC, could be organised around a set of thematic pillars that reflect the most pressing areas of overlap between trade and climate (see *Table 4: Proposed thematic pillars for structured discussion on trade–climate interactions*).

**Table 4: Proposed thematic pillars for structured discussion on trade–climate interactions**

Clusters	Thematic Pillars	Description
Market and supply chains	Trade in primary commodities and transition-critical goods	Critical minerals, agriculture- and forest-based commodities, and other raw materials
	Clean technology trade and technology access	Trade in low-carbon technologies and components, including supply chains, market access, and intellectual property issues affecting technology diffusion.
Trade and industrial policy instruments	Climate-related trade measures	Unilateral or border measures adopted for climate objectives and their implications for development, trade competitiveness, and global climate cooperation.
	Green industrial policy and policy space	The role of subsidies, local content requirements, public procurement, and other industrial policy tools used to build domestic clean technology industries
Energy trade governance	Fossil fuels in trade systems	Subsidies, export controls, and trade implications of fossil fuel phase-down.
Investment governance	Investment rules and dispute settlement	Investment treaties, Investor-State Dispute Settlement, and their implications for climate and industrial policy.

Source: Authors' compilation

## 4. Conclusion: Principles for an equitable trade-climate agenda

The convergence of trade and climate agendas is no longer peripheral; it is reshaping production, competitiveness, and development. Whether it deepens existing inequities or enables equitable, low-carbon pathways for developing countries depends on how this interface is governed and how different fora address grievances and solutions. Developing countries enter this debate from structurally unequal starting points, characterised by commodity dependence, weak manufacturing bases, constrained technological capabilities and limited fiscal space. Multilateral regimes must therefore actively shape outcomes that support sustainable development, value addition, and just transitions.

- **Development as a central objective:** Trade-climate cooperation must explicitly recognise industrialisation, value addition, and structural transformation in developing countries as legitimate and necessary climate pathways.
- **Operationalising differentiation:** Principles such as common but differentiated responsibilities and special and differential treatment must be translated into concrete design features of trade-climate instruments.
- **Preserving and/or enlarging policy space:** Countries must retain the ability to deploy green industrial policy tools—subsidies, public procurement, localisation measures, and strategic regulation—to build domestic clean technology capacity.
- **Green technology as a global public good:** Rapid and affordable diffusion of climate-critical technologies requires greater flexibility in intellectual property regimes and proactive international cooperation.
- **Multilateralism over unilateralism:** Cooperative, transparent, and inclusive approaches must be prioritised over unilateral trade measures that risk fragmenting markets and deepening inequities.

The newly established trade and climate dialogues under the UNFCCC, alongside discussions in other fora, offer an opportunity to operationalise these principles. Their success should be judged not by the breadth of issues discussed, but by whether they help realign global rules to enable equitable, low-carbon development. The task ahead is therefore not simply to reconcile trade and climate regimes, but to reorient them toward a shared goal: a rapid, just, and development-centred transition.

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As trade and climate agendas increasingly converge, their interaction will reshape patterns of production, competitiveness, and development. This agenda-setting brief by the Centre for Science and Environment and the African Future Policies Hub highlights that the emerging trade–climate nexus risks deepening global inequities unless the Global South’s development concerns are prioritised.

Developing countries, constrained by commodity dependence and limited industrial capacity, face barriers to participating in the new, green economy. New trade-related climate measures may further restrict their competitiveness and policy space.

This brief calls for an equitable trade–climate agenda that safeguards policy space, supports green industrialisation, and enables a just, development-centred low-carbon transition for the Global South.



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