"Green, Sectoral Lighthizer-ism": Using Climate Policy to Advance Global Economic Governance Reform

Thomas Hale, Associate Professor of Public Policy, Blavatnik School of Government, University of Oxford

Global economic governance institutions are poorly aligned to three linked macrotrends: the decarbonization imperative; geopolitical contestation between the U.S. and China; and greater support for state intervention in the economy, especially industrial policy. In this short note, in bullet point format for brevity, I argue climate-focused, sector-based economic statecraft can provide a path forward amongst these shifting tectonic plates.

Contextual points

1. The U.S.-China "trade war" continues, with reciprocal tariffs still in place.
2. The E.U. is moving to adopt carbon border taxes in key sectors (steel, iron, cement, fertilisers, aluminium, and electricity). It is likely the U.S. will adopt various trade-related climate measures, though not necessary a carbon tariff. Both the E.U. and the U.S. need to assuage domestic interests that fear high-carbon external competition in order to create the domestic political conditions for ambitious climate policy.
3. U.S.-E.U. remain separated on a number of areas of trade policy, including their approach to China. The E.U. is more committed to current multilateral arrangements and less eager to pursue economic conflict with China, though it has shifted in the direction of the U.S. position to some degree. This year's German elections are key.
4. Other U.S. allies are less keen to link trade and climate (e.g. U.K., Japan, Korea, Canada, Australia). The developing world (notably India) fears such linkage will punish them for a problem they have done little to cause.
5. If the E.U. (and perhaps the U.S.) adopt green trade measures for domestic reasons, without cooperation with each other and allies, there is a risk of creating green islands of decarbonization that fail to solve the climate challenge because they do not bring enough of the world economy along with them.
6. China occupies a predominant position in key markets associated with decarbonization, notably batteries and solar panels. Building alternatives increases the cost of decarbonization.[1]
7. As we enter the "implementation phase" of the Paris Agreement, Climate cooperation increasingly unfolds in different sectoral fora, often mixing businesses and governments, around battery storage, green hydrogen, electric vehicles, shipping, or other areas.[2] The U.S., China, E.U., and others are rapidly attempting to establish leadership in these emerging technologies.

Analytic arguments

1. With China representing nearly 1/3 of global emissions, the most important global climate policy is to accelerate the pace of Chinese decarbonization.

This requires strengthening the Chinese leadership's incentives to pursue decarbonization more vigorously vis-à-vis recalcitrant domestic incumbent interests.[3]

2. U.S. direct economic leverage on China is non-trivial, but unlikely to drive fundamental changes in the political economy around decarbonization in China. Alignment between the U.S. and E.U. is the minimum necessary to give the Chinese leadership sufficient incentives to spend political capital furthering decarbonization. To the extent other allies join (e.g. Japan, Korea, Canada, U.K., etc.) such leverage becomes substantial.

3. While economy-wide decarbonization is ultimately needed, the climate-trade nexus is concentrated in a relatively small number of carbon-intensive, traded sectors.

4. 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 U.S.-Japan trade tensions in the 1980s covered many issues, a bilateral deal on cars relieved one of the sharper conflicts in the relationship.

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

Policy proposal - sectoral climate cooperation

1. **Shared sectoral targets and roadmaps.** Relatively small groups of climate-ambitious major 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.).

2. **Non-aggression pact.** Countries adhering to the common targets would agree not to challenge each other's trade measures within those sectors. For example, if the E.U. had a carbon tax on steel, and the U.S. a subsidy programme for green steel production, neither side would take trade action against the other.

3. **Common external tariffs.** More ambitiously, countries could adopt a common external tariff in sectors for which they had a shared decarbonization roadmap.[4]

4. **An open club with high standards.** While the level of ambition in sectoral targets and roadmaps should be commensurate to the urgency of decarbonization, any country that meets this standard should be allowed in.

5. **Support for the developing world.** Bringing the vast majority of developing countries on side will be key to ensure that sectoral cooperation creates a vector for broader global economic governance reform. Any sectoral roadmaps should therefore include transition pathways for Least Developed Countries, and any border measures should come with flexibility and support measures as part of a comprehensive new "green aid for trade" package.

Endnotes

The author would like to thank Adam Toozer for the phrase used in the title.

1 John Helveston and Jonas Nahm. 2019. "China's key role in scaling low-carbon energy technologies." Science 366 (6467): 794-796.

2 David Victor et al, "Accelerating the low carbon transition." Energy Transitions Commission, November 2019. Available: https://www.energy-transitions.org/publications/accelerating-the-low-carbon-transition/ ; Sebastian Oberthür, Lukas Hermwille, Tim Rayner, "A sectoral perspective on global climate governance: Analytical foundation," Earth System Governance, Volume 8, 2021, https://doi.org/10.1016/j.esg.2021.100104.

3 I expanded on these points in Thomas Hale, Climate Hawks Need Not Be China Doves". ISEP Policy Brief 2021/1, February 2021, available: https://sais-isep.org/wp-content/uploads/2021/02/Climate-Hawks-Need-Not-Be-China-Doves.pdf.

4 For a detailed proposal for such a mechanisms on steel, see Todd N. Tucker and Timothy Meyer, "A Green Steel Deal: Toward Pro-Jobs, Pro-Climate Transatlantic Cooperation on Carbon Border Measures." Roosevelt Institute, June 2021. https://rooseveltinstitute.org/wp-content/uploads/2021/06/RI_GreenSteelDeal_Working-Paper_202106-1.pdf