

## **Economic diversification, just transition of workforce and the role of trade**

The Paris Agreement opens up the prospects of a *collective transformation*. The extent and the pace of this transformation will be dictated in large part by the Nationally Determined Contributions (NDCs), which countries are making towards reducing their emissions as part of the Agreement.

From the trade perspective, the following features of this transformation deserve particular attention.

*First, it is the shared challenge of economic diversification.* And the approach here is changing from the one of allocating or shifting burdens among countries through trade-restrictive measures to figuring out ways in which countries could all take advantage of the benefits that would be generated by this transformation.

The trading system is increasingly used to make goods, not just to sell goods. Already, a considerable part of world trade takes place within value chains. And it is within value chains that countries will be looking for and finding fast tracks for economic diversification and upgrading. Value chains will also play an important role as transmitters of resource and environmental costs.

*Second, the transformation will require countries to change the way in which they seek to develop their energy sector.* Clearly, it is *markets* rather than *trade* that inform the core policy concerns in the field of energy. However, trade and trade policy are relevant.

Among the biggest challenges of climate change is not just promoting new innovations in generating and using energy, but transferring those innovations from market to market, especially into the developing world. One way of doing so is to create an open global market in environmental technologies. Bringing down the barriers to trade in energy efficient goods and goods used in conjunction with renewable energy sources would accelerate and bring greater clarity to the technology transfer agenda within the UNFCCC.

*Third, there is a challenge of making this transformation a just and equitable one.* In particular, countries do realize that changes set in motion by NDCs are bound to have an effect in terms of jobs to be gained - or lost. The need to generate decent *employment* through trade continues to be an important policy goal for many developing countries.

With the development agenda becoming an increasingly important component of climate change mitigation, the scope for mutual supportiveness or, to put it in the IPCC parlance, complimentary benefits, or *co-benefits*, is bound to increase. Along with finance and technology, trade has an important role to play in leveraging the various co-benefits, including social outcomes.

*Co-benefits*, or as they are known in trade policy *win-win* outcomes, do not mean there may be no losers. And the winners and losers will not necessarily be grouped by sectors and skill categories. Policy coordination and policy coherence are going to be crucial for achieving combined economic, social and climate objectives.

The Paris Agreement and the 2030 Development Agenda underpinned by the Sustainable Development Goals (SDGs) bring together the two grand frontiers - climate change and sustainable development. And while the governance structures may remain imperfect, the sense of priorities has never been more aligned. The Paris Agreement is applicable to *all* parties; the SDGs more explicitly address actions that are *universal*, while the multilateral rules cover the bulk of global trade.

Traditionally seen through the lens of a competitive relationship, trade has an enormous cooperation potential. It acts as an *enabler*, cutting across the various areas of climate policy and sustainable development, which is recognized in SDG 17 - Strengthening the means of implementation and revitalizing the Global Partnership for Sustainable Development. Now that UNFCCC parties are searching for the ways and means to unlock climate action, it is high time to take a look at trade as *part of the solution* and explore its potential in helping countries, particularly developing ones, diversify their economies and create jobs as they make their transition to the low-carbon future.