



International Institute for  
Trade and Development

# Towards Low-Carbon Cities

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# Interlinkages between trade and climate change

**Trade openness**



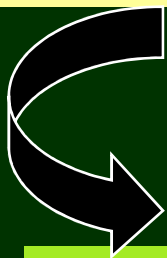
Scale  
effect



Composition  
effect



Technique  
effect



**Climate Change**

# Scale Effect

Scale effect refers to the increase in greenhouse gas emissions due to an expanded level of economic activity.

**Scale effect**



**Greenhouse Gas**



# Composition Effect

- If emission-intensive sector (comparative advantage sector) expands, then GHG emission will increase.
- If it contracts, then GHG emission will be lower.

**Composition  
effect**



# Technique Effect

- More open trade will increase the availability and lower the price of climate-friendly goods and services.
- More open trade leads to higher income so the general public demand more of low GHG emissions.

**Technique  
effect**



**Scale  
effect**

**Composition  
effect**

**Technique  
effect**

+

+/-

-

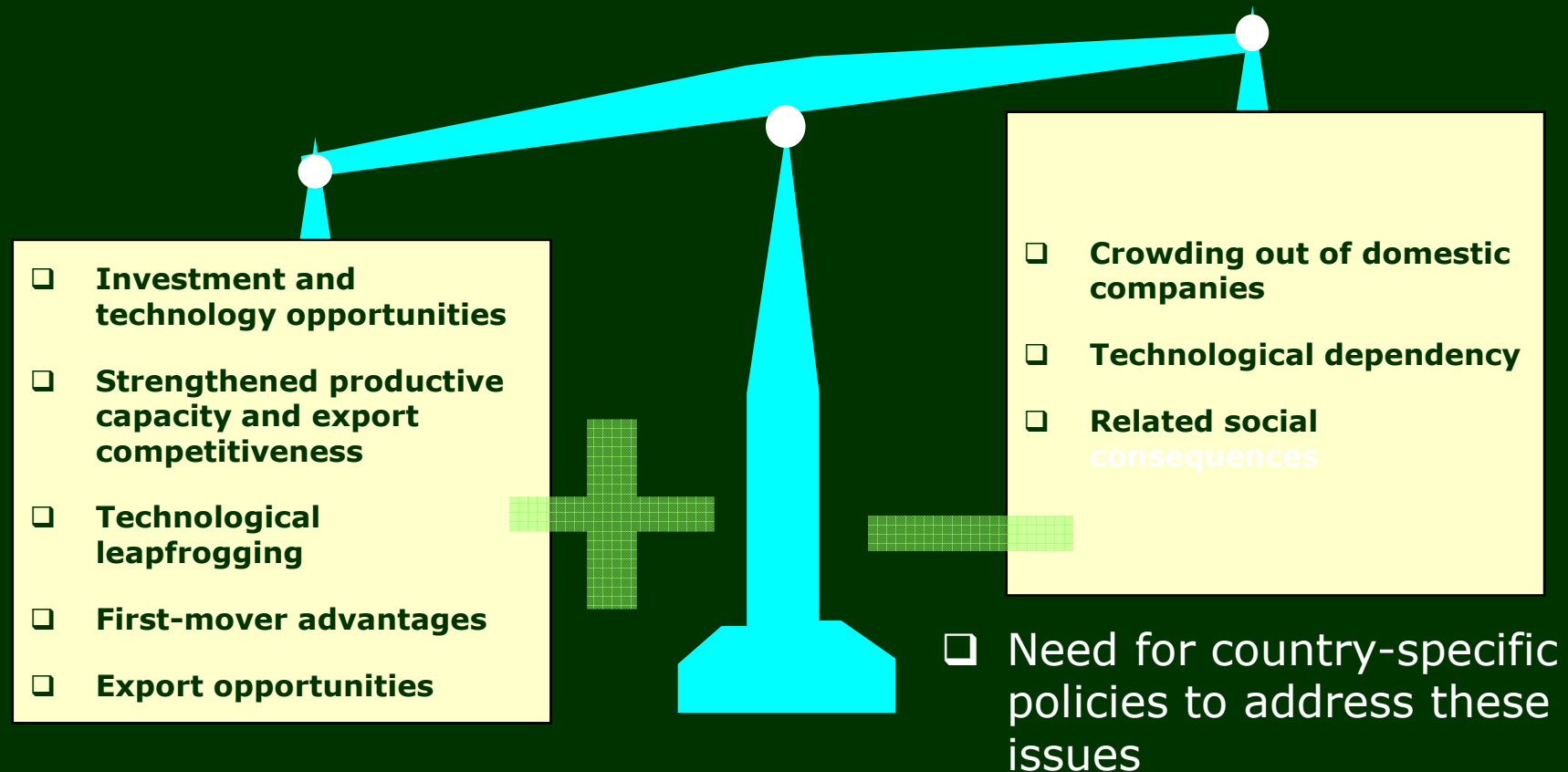
So.....net effect.....??

depends on **magnitude.**

## FDI in low-carbon business is growing rapidly...

- ❑ FDI flows in alternative/renewable electricity generation, recycling, and manufacturing of environmental technology products *alone* reached some \$90 billion in 2009.
- ❑ Some 40% of low-carbon FDI projects, by value, during 2003–2009 were in developing countries.
- ❑ Established TNCs are major investors, but new players are also emerging.
- ❑ TNCs from other industries are expanding into low-carbon business areas.
- ❑ About 10% of identifiable low-carbon FDI projects in 2003–2009 were generated by TNCs from developing and transition economies, many targeting other developing countries.

# Weighing the pros and cons of low-carbon foreign investment for developing countries



# Strategizing national clean investment promotion

