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International Trade and Sustainability

In terms of sustainability, global trade is already better than its reputation suggests – but a clear set of rules can further improve this.

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- The concept of sustainability encompasses the ecological, economic, and social dimensions in a holistic way.
- If we look at international issues such as trade, we also need to consider the effects at the local, regional, and global level.
- While international trade appears to be mostly beneficial for the economy and society, action is required when it comes to ecology.
- Globally valid and implemented rules are a prerequisite for sustainable international trade. The EU strengthens these rules, for example by including sustainability in free trade agreements.
- Voluntary certifications such as Fairtrade can effectively reinforce sustainable trade beyond binding rules.
- A globally valid levy on non-sustainable behaviour would be the most effective instrument for strengthening sustainability globally by means of international trade.
- States with endemic corruption can only be persuaded to engage in sustainable behaviour through trade policy instruments to a limited extent.

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International Trade and Sustainability

Current discussions, such as those surrounding the Supply Chain Act or the WWF's study on the connection between deforestation and consumption in the EU[i], clearly highlight how international trade can hardly be viewed in isolation from sustainability issues. This is not a new insight. Sustainability has long been part of free trade agreements that the European Union brokers with third countries. Certifications on sustainable trade such as *Fairtrade* have been around for the last three decades, too.

Having said that, the current debate often seems to use the concept of "sustainability" in a restricted way, resulting in premature conclusions. The following therefore aims to clearly define "sustainability" in relation to trade, to then evaluate how sustainable international trade currently is, and what instruments can improve it where needed.

Definition of Sustainability in Trade

The common definition of sustainability is as follows: existing resources are used in such a way that present generations can live well, and these resources also remain available and usable in good quality for future generations. Sustainability therefore only makes sense as a holistic concept that includes at least the three dimensions of ecology, economy, and social issues. If one of these three dimensions is not sufficiently taken into account, the concept will fail to take hold. That's why it makes little sense to develop solutions for just one dimension. If anything, this often leads to new problems which can be even worse.[ii] If, as with trade, we take account of the international context, then the spatial dimension also needs to be considered. This should then ensure sustainability at the local, regional, and global level in equal measure. Solutions that, for instance, promote sustainability at the local level may lead to redirection effects that are no longer sustainable at the regional or even global level.[iii]

International trade cannot directly determine how a product is produced in a country of origin. After all, international trade is, by definition, about dealing with producers from other, sovereign states and having no leverage to enforce compliance with agreed rules. Ultimately, only lawmakers or consumers can decide whether a product is authorised to cross the border, whether and how to tax it and whether it will be bought.

To some extent, technical controls (testing for chemical residues and adherence to technical standards etc.) can assess whether imported goods comply with rules concerning goods on the domestic market. Yet in other areas it is not possible to check the delivered product, for example when it comes to compliance with labour standards or the amount of emissions produced during

production. To a large extent, this can be ensured through standard-setting agreements and associated independent inspections on-site. Nevertheless, as such agreements involve sovereign states, a sufficient degree of trust in local standards, laws and inspection capacity is needed. We can now see what happens when this trust erodes with the example of China and cotton production in Xinjiang. The Chinese authorities refuse to enter into any discussion as to whether Uyghur forced labourers are deployed in cotton production; it is not yet even possible to talk about sending independent inspectors. It has thus become clear that, in this context, it cannot be proven which region in China produces cotton, and hence we can never rule out the possibility that this "includes" forced labour.

Positive and Negative Effects of Trade

In order to provide an assessment, a comparison of the positive and negative effects of international trade on the three dimensions of sustainability is provided below. Some arguments may contradict one another because a specific case depends on the respective framework conditions.

Ecological Dimension

Positive aspects	Negative aspects
The availability of environmental protection technologies is increasing, and they are becoming cheaper.	
Trade ensures growing prosperity. As prosperity flourishes, economic growth is increasingly decoupled from resource consumption.	Due to rising prosperity (and/or availability of cheaper products), there will be increased and more varied consumption. This increases the absolute demand for necessary resources.
Trade enhances the possibility of exerting influence on sustainable measures abroad.	There is a danger that production will be directed to regions in which production is least sustainable if this is cheaper.
Trade and the associated specialisation increase efficiency and thus production can save more resources. When appropriate regulations (for example CO2 prices) are put in place, production will be redirected to the most CO2-efficient regions.	Transport releases emissions. Proportionally, these are low per traded good, but the absolute emission quantities owing to transport are considerable and on the rise. In order to achieve defined climate goals, high efficiency gains and rapid innovations are necessary in the transport sector if a quantitative limitation of transport is to be avoided.

Social Dimension

Positive aspects	Negative aspects
Trade increases the possibility of exerting a positive influence on local working conditions, minimum standards.	In the absence of regulations, treating and paying workers badly may be considered a comparative advantage.
Jobs will be created in export-oriented industries.	In economic sectors that are more exposed to global competition through trade, competition may lead to job cuts. This affects certain sectors and may cluster in individual regions.

Trade increases overall prosperity while also reducing poverty. Thus, until the outbreak of the Corona crisis, not only was the percentage of people living in absolute poverty at an all-time low, but there is also evidence that the poorer classes benefit more than most from open markets. Other poverty indicators, too, such as illiteracy or life expectancy, have significantly improved, especially in the poorest countries. [iv] However, the Corona crisis has posed a massive challenge to this progress in recent months.	

Economical Dimension

Positive aspects	Negative aspects
The possibility of producing for a larger market enables production to scale up, resulting in efficiency gains and promising higher revenue for producers.	Foreign competition is putting companies in global markets under pressure.
Trade makes more efficient technologies available, which may in turn lead to more efficient production. However, this only works if local institutions promote this (level of training, infrastructure, administration, corruption).	

Implications for the Social and Economic Dimensions

When weighing up the advantages and disadvantages, the benefits of international trade seem to outweigh the downsides as regards the social and economic fields. The fact that in the last 20 years, during which the highest trade volumes of all time were recorded, not only global GDP has dramatically increased, but also that in almost all states, illustrates how the economic dimension has undergone a very positive development.

On the social side, as highlighted above, there is a wealth of evidence to show that people in almost all countries around the world are in a far better situation than they were 20 or even 50 years ago. This is mainly due to the availability of much cheaper everyday products. Of course, there are also losers and vulnerable groups that need to be protected. Disadvantages that arise for individual groups due to structural change expedited by trade can be mitigated by good social, educational and infrastructure policies. Yet this is the responsibility of the sovereign states and is thus incredibly difficult to achieve via trade policy. If a state is ruled by corrupt elites, whose priorities lie in the extraction of resources for their own profit, even the best trade policy can only have a limited impact.

However, even this is a case where compliance with certain fundamental standards for protecting the most vulnerable groups can be addressed through corresponding international trade policy regulations. This is already taking place, for instance by references to the ILO Core Labour Standards, arrangements in free trade agreements as well as through supply chain laws. Voluntary certifications such as the Green Button, Fairtrade etc. are effective as non-state pillars. Reporting in international media also forces internationally producing companies to ensure themselves that at

least basic standards are respected, because otherwise they risk expensive damage to their reputation. Pressure from state and non-state actors on governments in producing countries may therefore compel them to improve key conditions on the ground. Still, trade policy measures alone do not turn autocracies into democratic welfare states.

Implications for the Ecological Dimension

In the ecological dimension, a largely positive effect of international trade is not obvious at first. After all, international trade leads to greater prosperity and lower product prices and thus to more consumption. Only through cheap global trade is it possible to supply Europe with chocolate, tea, coffee, textiles, or meat at what are currently very low prices, and thus import them in corresponding quantities. This, for instance, results in large areas being deforested for the cultivation of respective raw materials for export in far-away countries.

But how can we react to this in the interests of sustainability? A discontinuation or radical reduction of trade would not represent a sustainable solution here, as this would disrupt social and economic sustainability in the affected regions. If people in tropical regions lose their economic livelihood, an obvious strategy would be to fend for themselves with illegal activities to the detriment of the rainforest (such as exporting illegally logged timber, charcoal production, subsistence agriculture on cleared areas). This would do nothing to help the environment. Negative effects in the economic and social dimensions ultimately have a negative impact on the ecological dimension.

At the same time, it is often overlooked that the population in the Global South has undergone immense growth over recent decades. For example, in 1980 only around 120 million people were living in Brazil, whereas now there are well over 210 million people living there. The intensive cultivation of agricultural commodities like soy is an extremely efficient strategy for feeding the population. In a global division of labour, Brazil produces agricultural commodities that grow best there and sells them on the world market. Instead, staple foods that do not thrive there are imported from regions where the conditions are better. Each year, Brazil imports over ten billion dollars' worth of food, the largest proportion of which is wheat.

This is where the spatial dimension of sustainability comes into play: if European animal feed producers were to import less soy from South America, either meat consumption in Europe would have to decrease accordingly, or the missing feed would have to be cultivated on other areas of land. Although there are alternatives, protein-rich soy is currently one of the most efficient feed materials for which there is no immediate replacement. In the worst case, land usage could therefore even increase on a global scale. At the same time, Brazil would have to use the freed-up land in order to cultivate food, for the import of which no more money would be available. Thus, a reduction in imports of agricultural products from Brazil would not lead to land – which is used for soy today – becoming completely freed up for rainforest again.

Trade at least gives rise to the fact that in agriculture, too, production takes place in the country where conditions are best, and thus the highest yield per unit area can be achieved. On the whole, this consumes less land than if cultivation were mixed all over the world. This not only applies to huge monocultures, but also to sustainable cultivation.

Summary

Our current system therefore already provides a plethora of starting points and instruments with the potential to contribute towards more sustainable trade. Firstly, EU trade policy is leveraged to influence sustainable behaviour by the governments of trading partners. At the second stage, government agencies specify and monitor whether statutory minimum requirements are met (such as exposure to toxic substances, health hazards, and in future, working conditions abroad). At the third stage, voluntary certificates enable consumers to decide whether they want to take the next step and pay a higher price for a more sustainable product.

Nevertheless, these instruments can only solve part of the problem and steer international production onto the most sustainable path possible. Whether this will suffice to keep the planet in balance in the face of a continually growing global population, seems uncertain. It is clear that we also need to promptly reduce land usage in agriculture as well as greenhouse gas emissions in industry and transport. There appear to be two possibilities for this that are not mutually exclusive: consumer restraint and innovation.

In terms of innovation, the areas of digitalisation and the related precision agriculture alone appear to harbour enormous potential for sustainable products, which above all could curb resource consumption. Market-driven incentive systems based on clear rules are certainly the most effective way to create the necessary framework enabling highly innovative German SMEs to participate in the development process of these and further innovations.

Consumer behaviour cannot be controlled centrally either. Policy makers can call on citizens to exercise "moderation", as Ludwig Erhard once did. State control of consumption beyond that is certainly not desirable, however, and contradicts the concept of a liberal market-economy involving empowered, responsible citizens.

That's why clear and robust rules are needed for international trade. Germany and the EU should continue to actively shape them. In this context, a universally valid price mechanism seems to be the fairest and most effective way of addressing non-sustainable behaviour as early as the production and transport stages. Since, as illustrated above, this currently seems to be necessary primarily in the ecological dimension, a transparent and globally valid pricing of greenhouse gas emissions (also including agricultural emissions) represents an obvious first step.[vi] Market-based incentives to steer manufacturers away from socially damaging production processes could also be developed at a further stage. From a regulatory standpoint and as regards efficiency, this would certainly be more effective than resorting to fragmented prohibition and sanction instruments that are difficult to fully implement owing to differing sovereign rights.

This would be fair because non-sustainable behaviour incurs costs that are still rarely borne by the culprit. And this would have two other positive effects on sustainability: On the one hand, rising prices would either decrease consumption commensurate to purchasing power, or innovations would be developed that would allow unchanged consumption with lower emissions. On the other hand, there would also be an incentive to produce intensively for the world market in places where this is most sustainable. This way, even poor regions of the world can further participate in global trade, and the social and economic dimensions of sustainability will not be thrown off balance.

[i] Stepping Up - The continuing impact of EU consumption on nature worldwide. WWF 2021

[ii] The classic example for this is the "Dodd-Frank Act", which aimed to prevent the trade of conflict minerals from the DR Congo. Here, only the social dimension was considered as it was assumed that limiting trade in minerals from mines operated by warlords would reduce the warlords' income and thus impair their ability to wage war. This was meant to have a positive impact on the lives of local people. In fact, it led to a collapse of the region's entire mining industry, where mining minerals using simple techniques represents one of the few sources of income for the local population. As a result, smuggling and conflicts involving other sources of income such as charcoal and deforestation of the rainforest sharply increased as people sought alternative sources of income. Cf. for example Manhart/ Schleicher 2013: "Conflict minerals - An evaluation of the Dodd-Frank Act and other resource-related measures" Institute for Applied Ecology, Freiburg.

[iii] From a local perspective, for instance, it is good in terms of greenhouse gas emissions if as many solar systems are installed in Germany as possible. However, as this demand increases the price of solar systems worldwide, fewer solar plants will be installed in poorer regions with more favourable weather. Since more electricity could be produced there with the same systems, it might be better for the global climate (taking account of other factors) if Germany abstained from installing photovoltaics for the benefit of these countries.

[IV] The Chinese authorities refuse to enter into any discussion as to whether Uyghur forced labourers are deployed in cotton production; it is not yet even possible to talk about sending independent inspectors. It has thus become clear that, in this context, it cannot be proven which region in China produces cotton, and hence we can never rule out the possibility that this "includes" forced labour.

[v] This is illustrated by the so-called Environmental Kuznets Curve. One recent subject of criticism has been that the main reason for a decrease in emissions in rich countries is the shift of emission-heavy production to poorer countries. Still, we can assume that introducing a mechanism to limit the "export" of emissions would mean these emissions are not shifted back again, as there is no longer acceptance for this in rich societies. Savings would then have to be achieved through innovations.

[vi] Cf. for instance Konrad Adenauer Stiftung, 2021 "Ein Plädoyer für den Freihandel", Chapter one, in relation to pp. 15 to 20 or UN data on the SDG 1 "end poverty": Other factors have also contributed towards improvements, but free trade cannot be separated from this.

[vii] If a global solution, which has been developed for some 30 years with some success, does not materialise, a Carbon Border Adjustment Mechanism would also be an option for a transitional phase in the EU. This should, however, be designed in such a way that it does not unnecessarily complicate future global solutions (or at least those covering other regions outside the EU).

Imprint

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