

Trade is critical to achieve the Sustainable Development Goals.

- Trade can drive economic growth, job creation and poverty alleviation, especially when it translates into economic diversification. Domestic complementary policies are also needed to address constraints faced by the poor.
- Trade has a crucial role to support adaption and mitigation to climate change. Trade in environmental goods and services should be enhanced by eliminating tariffs and implementing best practices trade facilitation measures.
- Potential adverse impacts of trade liberalisation on the environment or social welfare can and should be readily mitigated by complementary domestic policies.
- Assessing trade sustainability requires a rigorous and transparent methodology to reflect the complexity of trade flows. Studies based on incomplete methodologies risk presenting a highly distorted view of global trade's impact on sustainable development

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Introduction

Assessing the sustainability of trade and global value chains is challenging as the relationship between trade, climate change, economic growth and social justice is complex, multifaceted and unequivocal. All interact with each other. Consequences in the short-term can differ from the long-term. Although it has been demonstrated that global trade is a source of growth and poverty reduction, the gains from trade liberalisation may differ across regions, industries, and demographic groups.

The purpose of this analysis is to highlight two points: (i) trade is a means of implementation of Sustainable Development Goals (SDGs), and (ii) methodologies to assess the nexus between trade and SDGs should properly reflect the complexities and multidimensionality of global trade. This analytical piece will cover the trade linkages with SDGs associated with the International Chamber of Commerce's workstream. Therefore, we will focus on the impact of trade on the following SDGs: poverty (SDG1, Ending poverty), economic growth (SDG 8 — Promote decent work and economic growth), responsible consumption and production (SDG 12 — ensure sustainable consumption and production patterns), climate change (SDG 13 — Take urgent action to combat climate change and its impacts).

In the first section, we will briefly explore how trade can be an engine of economic growth and poverty reduction. The second section will demonstrate how trade is essential in the fight against climate change. Then, we will examine the role of complementary policies to ensure inclusive growth and mitigate the adverse impact of trade. Finally, we will reflect on the methodological approach to assess the linkages between trade and SDGs.

1. Trade can boost economic growth, create jobs, increase income, and reduce poverty.

The relationship between trade openness and poverty reduction is a complex one. There are a number of channels through which trade openness affects sustainable development goals. In this section, we will mainly focus on the following channels: economic growth; changes in employment and income; and poverty. They all directly relate to SDG 1 (Ending poverty) and 8 (Promote decent work and economic growth).

a) Trade and economic growth

Countries that are open to international trade tend to grow faster. By providing access to new markets and improving resources allocation, trade opening helped spur economic growth. Trade can facilitate the transfer of technology, driving innovation and productivity. Evidence showed that countries that liberalized their trade regimes between 1950 and 1998 experienced average annual growth rates that were about 1.5 percentage points higher than before liberalization (Wacziarg and Welch, 2008). Over the past two decades, emerging and developing countries (especially China, Brazil and India) have experienced high and sustained economic growth while opening their trade and increasing their participation into global value chains.

b) Trade, employment and income

Trade can also lead to job creation and increase in real income. By allocating resources to the most productive sectors, trade involves shifts in the concentration of employment (and thus wages) in specific sectors. The empirical literature shows trade openness can increase employment in the long term, although it might lead to an increase of unemployment in the short run (OECD, 2018). Using data from 20 OECD countries, Felbermayr et al. (2009) find that a 10% increase in trade openness reduces unemployment by nearly 1%. Furthermore, trade liberalisation can enable formalisation processes while raising wages over the longer term, especially when it is associated with greater trade diversification (Bacchetta and Bustamante, 2009). Finally, trade liberalisation will increase the consumer purchasing power by offering more affordable goods and services and fostering competition.

c) Trade and poverty reduction

Trade can be an engine for poverty reduction when economic growth is inclusive. China's WTO accession in 2001 increased on average household incomes. Workers in urban areas benefitted from more and better paid job opportunities (related to sectoral shifts in employment) whereas in rural areas workers gained from new job opportunities and remittances. (World Bank and DRC, 2022) Economic growth associated with trade opening is key for job creation and poverty reduction, but not sufficient. Indeed, the pattern of economic growth across sectors matters for poverty reduction. Greater trade openness also implies greater exposure to external shocks — especially in exporting industries. Pro-poor growth depends on complementary domestic policies that allow poor households to participate in and benefit from growth (see [Part III](#)). These policies should tackle access to credit, market connectivity, transport and transaction costs. When trade drives economic diversification this is likely to increase the positive impacts for the poor. A lack of economic diversification is often associated with increased vulnerability to external shocks that can undermine prospects for longer-term economic growth (OECD and WTO, 2019).

2. Trade is essential in the fight against climate change.

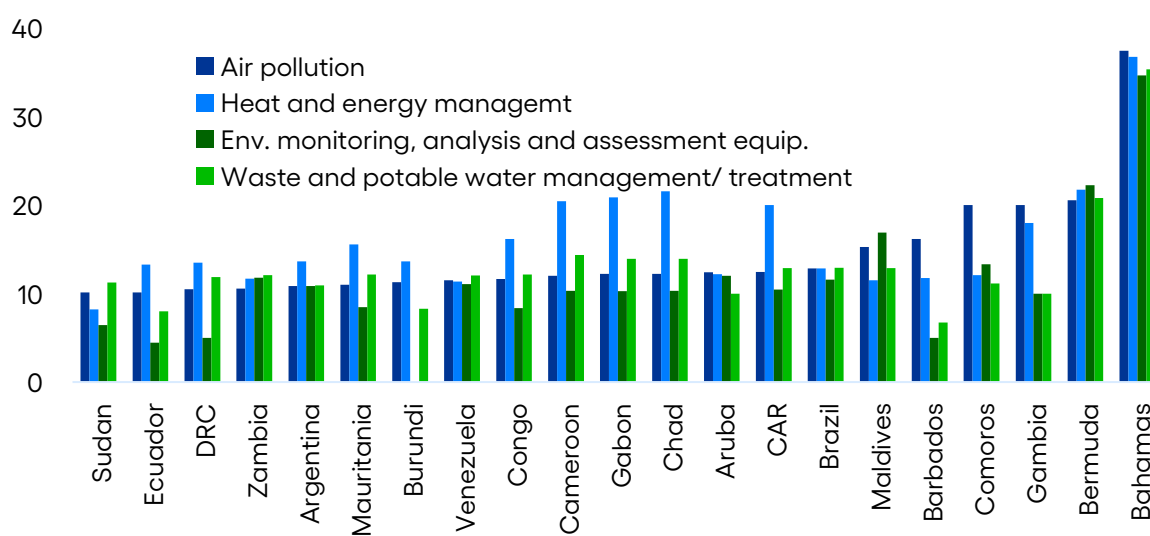
While trade in some circumstances may adversely impact the environment, it is also widely recognised as a central part of the solution to climate change (SDG 13 take urgent action to combat climate change and its impacts) — enhancing both mitigation and adaptation. Several advanced and emerging economies already pledged to reduce their carbon emission by 2030 and become carbon neutral by 2050 (the European Union, the United States, Chile, Argentina, Australia, ect) or 2060 (China, India, Russia, Brazil). Emissions Trading Systems and trade in environmental goods and technologies are essential to the energy transition, especially in developing economies, and should be enhanced and facilitated. Similarly, trade facilitation make trade more efficient and sustainable by reducing their carbon footprint.

a) Trade in environmental goods and services and access to low-carbon technologies

The reduction or removal of tariffs and nontariff barriers on environmental goods and services could enhance climate change mitigation and adaptation strategies.

Reducing tariffs and removing non-tariff barriers on environmental goods could help consumers and producers to acquire environmental technologies at lower costs and facilitate the energy transition. In general, tariffs on environmental goods are relatively low (global average of 5%), with important exceptions for certain products and countries. Indeed, tariffs for products on air pollution control, heat and energy management or renewable energy plant are well-above the global average and can exceed 20% in island states or economies such as Argentina, Brazil, Ethiopia, and the Central African Economic and Monetary Community countries (Figure 1). In the Asia-Pacific region, barriers to trade in environmental goods are more prevalent than barriers to trade in carbon-intensive fossil fuels (Asia-Pacific Trade and Investment Report, 2021). Non-tariff barriers such as regulations regarding transportation and storage of hydrogen also limit investments in cleaner energies, hindering the energy transition from fossil fuels (IEA, 2019).

Figure 1. Countries with average tariffs on environmental goods above 10%, in %



Source: OECD stats

At the same time, trade is a channel for environmental technologies diffusion, especially for developing economies. Developing low-carbon technologies is a slow, complex, and hard-to-replicate process. Knowledge and expertise on clean technologies are hard to transfer. Thus, only a small number of countries have a comparative advantage on these technologies. For instance, China's share in the manufacturing stages for solar exceeds 80% (IEA, 2022). As a result, developing economies often relies on imports to access clean technologies that will support the low-carbon transition. Therefore, trade in environmental goods provides access to technologies with a level of efficiency that cannot be replicated domestically in importing countries (Garsous and Worack 2021).

b) Emission trading system

Emission Trading Systems (ETS) can play a vital role to reduce greenhouse gas (GHG) emissions, by internalising the cost of pollution and incentivizing investments in technologies. ETS such as international carbon markets help countries to regulate the quantity of GHG emissions and internalise the environmental costs for energy-intensive sectors. For instance, the European Union ETS covers about one third of the EU's GHG emissions. By facilitating trading of emissions allowances, ETS are a tool for decarbonisation and help countries to achieve their emissions reduction targets ETS. Compared with a fragmented approach, ETSs can reduce mitigation costs by ensuring convergence in carbon prices. By putting a price on carbon emissions, international carbon markets give incentives to invest in low-carbon technologies. Nevertheless, their design, implementation and administration remain complex and costly.

c) Trade facilitation and digitalisation

Trade facilitation can also help mitigate the negative impacts on climate by making the trade transaction process less carbon intensive. Digital trade facilitation, such as implementation of automated customs and paperless trade systems, can enhance trade sustainability by reducing CO₂ emissions. In Vanuatu, the electronic single window has reduced CO₂ emissions by 5,827 kg by eliminating the use of papers in two automated trade procedures. Similarly, Timor-Leste has lowered of 14,492 kg its CO₂ emissions since the implementation of an automated system for customs data¹ (Asia-Pacific Trade and Investment Report, 2021).

3. Complementary policies play a crucial role to mitigate the adverse impact of trade.

More broadly, any analysis of the interrelationship between trade and sustainable development should recognise the important role of complimentary trade, environmental, and labour policies.

a) Environment provisions in Regional Trade Agreements

For instance, trade liberalisation may spur environmental degradation, especially when it encourages pollution-intensive activities. Globally carbon dioxide (CO₂) emissions associated with the production and distribution of traded goods and services (8 billion tons) constitute a quarter of total global emissions (33 billion tons) in 2015. Between 2005 and 2015, China was responsible for more than half the rise in CO₂ emissions, reflecting its increasing participation in global trade and the relative inefficiency of its productive systems in terms of emissions per unit of exported value added (Banque de France, 2020). More generally, advanced countries are net importers of CO₂ emissions, whereas emerging or commodity-producing countries are net exporters (Figure 2). At the global level, a feedback causal

¹ ASYCUDA world

relationship exists between participation in global value chains and CO2 emissions: the more integrated into global value chains a country is, the higher will be its share of foreign CO2 emission in its exports and imports. The *energy and waste, and chemicals and non-metallic minerals* sectors produce more than half the CO2 emissions embodied in international trade. They are followed by *transportation and storage and basic metals*, which both account for 12% of CO2 emissions based on production (Figure 3).

Figure 2. CO2 emissions embodied in exports and imports for OECD and non-OECD countries In Tonnes, Millions

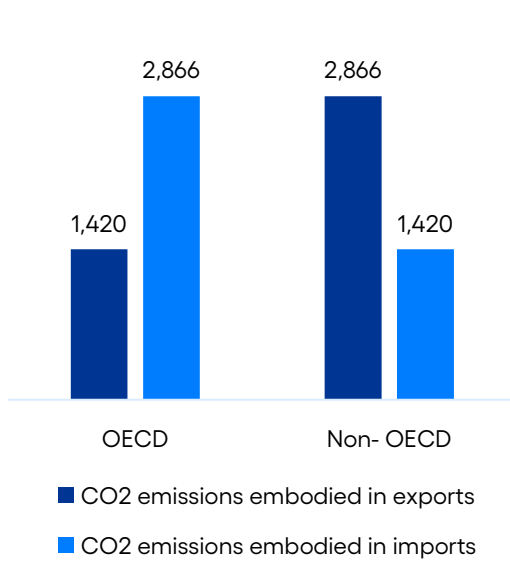
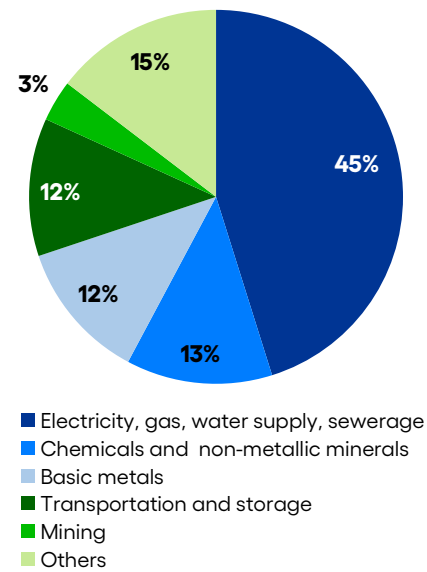


Figure 3. CO2 emissions based on production by sector % of total



Source: OECD stats

Nevertheless, the inclusion of precise and binding environment-related provisions in Regional Trade Agreements (RTAs) can lessen the negative impact of trade on the environment. The inclusion of climate-related clauses can serve as a vehicle to improve the environmental performance of traded goods and promote trade of environmental technologies. Nevertheless, there is no clear empirical evidence on the environmental effectiveness of provisions on climate change or environmental quality (Abman, Ryan. 2021, Martínez-Zarzoso, 2018). This may be explained by differences in the level of scope, precision and enforceability of current environment provisions in RTAs. Environmental provisions in RTAs need to be precise, measurable and binding to be effective. The World Trade Organization, for example, has concluded that environmental provisions should specify institutional arrangements such as committees, public accountability mechanisms, monitoring of commitments or mechanisms to resolve disputes to strengthen their effectiveness².

² WTO, Trade and Climate Information Brief n2

b) Active labour market policies

The institutional framework and labour policies plays also a crucial role to mitigate the social and employment costs associated with trade opening. The mobility and skills profile of workers also influence the impact of trade liberalisation on the levels and composition of employment: high-skilled and mobile workers will benefit more from trade liberalisation. Trade reform can improve or worsen compliance with labour standards. Active labour market policies (employment services, access to training) and unemployment insurance can help to reskill, compensate and reallocate workers across sectors and occupations. This could temporarily lower the adjustment cost for laid-off workers, increase the employment opportunities for jobseekers and to improve matching between jobs and unemployed workers.

c) International standards

International standards play a big role to promote responsible consumption and production (SDG 12). Globalization has highlighted the fragmentation of markets and platforms used by several industries and public sector agencies. Lack of clear, harmonised and coherent trade processes and requirements hinder trade by increasing transaction costs. As evidenced by Portugal Perez and al. (2010), European Union standards for electronic products that are harmonised to international standards have a significant and a positive net effect on trade. Clougherty and Grajek (2008) concluded that ISO 9001 quality standards helped resolving some issues of information asymmetry, signalling quality, and making it easier to communicate with other similarly certified firms and to resolve disputes. This has created the need for a far wider number of firms to adopt accepted international standards. That is why the ICC Digital Standards Initiative³ (DSI) is working towards establishing a globally harmonized, digitized trade environment — directly addressing the overreliance of trade flows on paper documentation and contributing to increasing sustainable trade process.

4. Assessing trade sustainability requires a nuanced, multidimensional approach.

One recent study by Coriolis Technologies concluded that net-impact of trade on Sustainable Development Goals (SDGs) was negative. As reflected in the previous sections, it is crucial to have a broader and more nuanced understanding of the impact of trade. Therefore, studies on the nexus between trade and sustainability should adopt methodological approaches that properly reflect the complexities of global trade and its multidimensionality.

By only matching non-tariff measures (NTMs) and HS codes to Sustainable Development Goals (SDGs), Coriolis technologies' assessment of trade sustainability is insufficient and misleading.

Coriolis Technologies measured trade sustainability by matching NTMs and HS codes to SDGs⁴, as a proxy for ESG, and concluded that trade created more negative contributions to SDGs

³ <https://www.dsi.iccwbo.org/>

⁴ Basing their calculations on a methodology used by the UN ESCAP to evaluate non-tariff regulations (Kravchenko, A.; Semenova, M.; Lee, S. and Duval, Y, 2019)

than positive ones. However, this approach is severely misleading. Matching NTMs or HS codes with SDGs does not imply contribution or causality, but only direct (or indirect) linkages between the actual regulation and keywords in trade agreements. Indeed, authors of the original UN ESCAP studied lists of products, but almost exclusively when combined with texts of non-tariff regulations. They also clearly and precisely stated in their original study that NTMs and HS codes are neutral by definition. By extension, NTMs as policy tools are not inherently good or bad.

Furthermore, any methodology to address positive or negative relationship to SDGs should be transparent and rigorous to reflect the complexity of trade. In this regard, it is unclear how the Coriolis paper addresses positive or negative relationship to SDGs. Attributing a basic score of -1,0 and 1 to HS and NTMs codes to measure their sustainability is extremely misleading as it underestimates the complexity of trade flows. How would one, for instance, rate the sustainability HS codes for hybrid vehicles? Or, for that matter, minerals used by carbon intensive industries but crucial for the energy transition (such as aluminium, copper, cobalt, lithium)?

In addition, HS codes in combination with the same NTM codes and keywords in trade agreements may be relevant to more than one SDGs, sometimes in different directions. This could lead to an overestimation of the direct linkages, and thus by extension an inaccurate estimation of the overall impact of trade on sustainable development. Therefore, the impact of any NTM should be carefully evaluated. Finally, trade flows expressed in value terms reflect changes volumes and prices of exports and imports. Therefore, a positive (negative) variation of trade value can reflect an increase (decrease) in volumes but also in prices.

In short, any assessment presenting a highly distorted view trade sustainability should, in our view, be rejected as a basis for policymaking. Overlooking the complexity of trade and the multidimensional aspects of trade policy is not only puzzling but also could lead to poor policy recommendations. As ICC concluded in its 2021 report *ICC Standards for Sustainable Trade and Sustainable Trade Finance*, assessing the sustainability profile of trade requires a multi-level analysis encompassing: the buyer and seller, the goods traded, the intent of a given transaction and the mode of transportation.

Conclusion

In closing, international trade is a key engine of economic development and poverty reduction, facilitating access to differentiated goods and services, and increasing standard of living. Trade and trade policy are means of implementations of sustainable development SDGs. ICC is constantly working with governments, academics, and industry leaders to transform trade into an engine for sustainable development. The ICC Standards for Sustainable Trade and Sustainable Trade finance is a first step in this direction. By defining and setting standards for sustainable trade, the ICC aims to establish a comprehensive framework to measure and assess the sustainability of a given trade transaction. This will help businesses and financial institutions to design their ESG impact strategy and monitor their progress and assess their impact of sustainable development.

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