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International Trade and Sustainable Development: The Future of Climate and Biodiversity Governance

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Policy challenge

International trade acts as the conduit through which nations engage economically, facilitating the exchange of goods, services, and capital across borders. This dynamic framework enables countries to leverage their respective advantages, resources, and production capabilities, fostering global economic interdependence and specialisation. However, the benefits of trade are intricately linked to the challenges of managing shared environmental resources, often referred to as commons.

In the context of climate change and biodiversity loss, the management of common resources such as the atmosphere, oceans, and forests is paramount. Greenhouse gas emissions from economic activities, as well as other activities, such as logging and monoculture, are exacerbated by international trade,

which increases demand and contributes to global warming as well as environmental degradation, impacting communities worldwide. Thus, while international trade offers opportunities for economic growth and development, it also presents challenges in ensuring the sustainable use of shared resources and mitigating the negative externalities associated with production and consumption.

There is a global and urgent need to address human-induced climate change and halt biodiversity loss.ⁱ Efforts under the Paris Agreement have fallen short of producing a unified global strategy to limit global warming to below 2 degrees Celsius. In fact, current trends indicate a trajectory towards 3 degrees Celsiusⁱⁱ warming unless industry takes more substantial action.ⁱⁱⁱ Such warming would devastate natural ecosystems and exacerbate biodiversity loss, diminishing

nature's capacity to maintain stability and provide essential resources. Yet, it is not too late. Taking prompt action now can keep warming to below 2 degrees Celsius.

For companies climate change has shifted from solely an environmental concern to one of global financial stability and matters concerning trade liberalization. This transformation is propelled by advancements in climate science and evolving expectations from stakeholders, such as investors and regulators. Company directors must now incorporate climate-related risks and opportunities into their considerations, akin to their treatment of other financial matters, to safeguard the organisation's interests.

The policy challenge lies in the necessity for coordinated global action alongside national and sub-national efforts to influence industry decisions in support of these objectives.^{iv}

ⁱThe views expressed here are the author's alone and not those of the Institute for International Trade.

Policy response

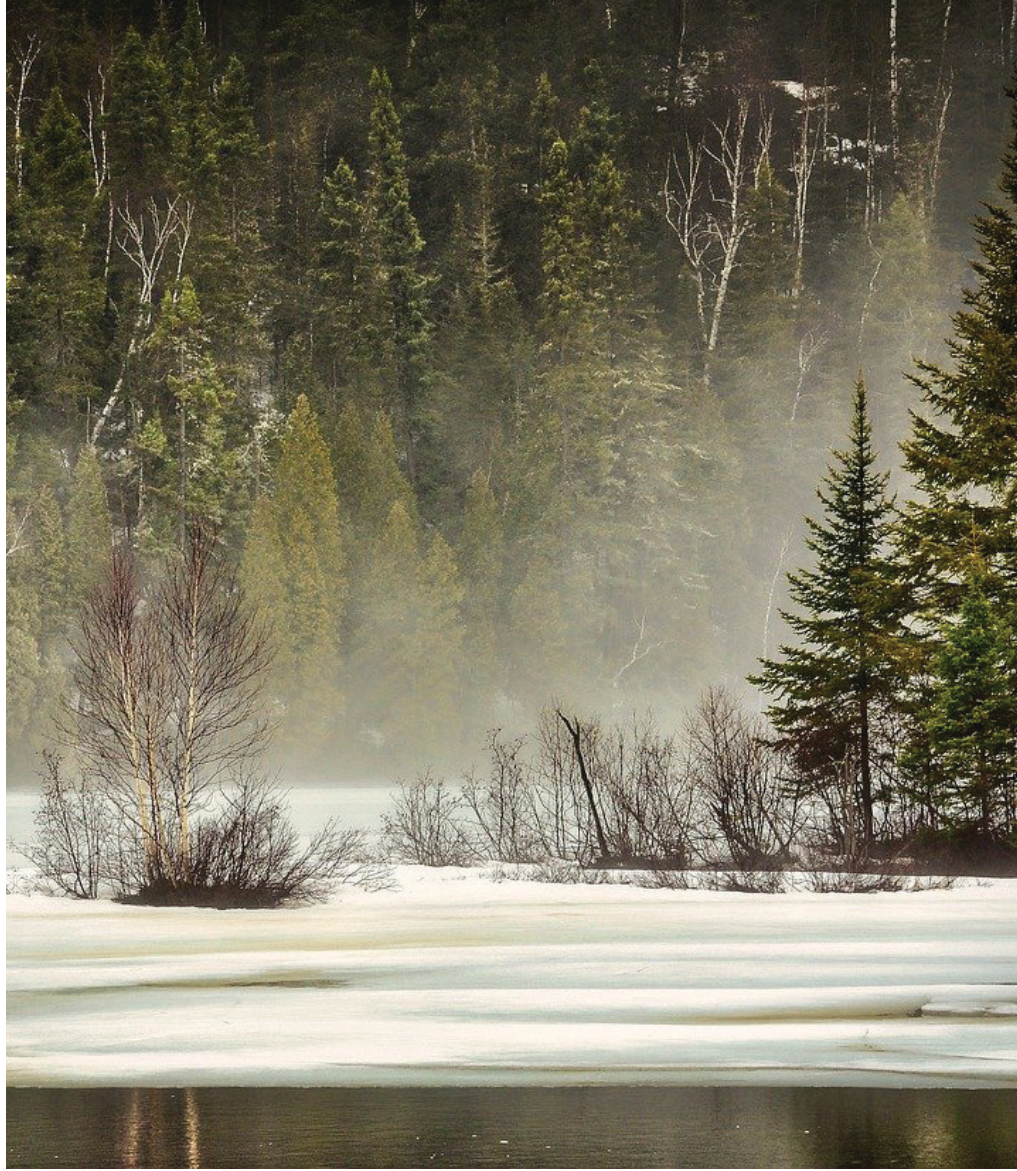
A new governance approach to climate and biodiversity is essential to ensure sustainable development. This approach must navigate the tensions between national interests and trade liberalisation to ensure a stable climate and natural environment for future generations. As set out in the preamble of the Agreement establishing the World Trade Organization, which aims “for the optimal use of the world’s resources in accordance with the objective of sustainable development”.^v

Addressing these challenges requires aligning trade policies with environmental objectives and principles of sustainable development (see Box), which is essential for the long-term health of people and the planet.^{vi} Furthermore, it also requires alternative governance forms, such as polycentric governance^{vii}, wherein multiple centers of authority, decision-making, and resource allocation coexist. This framework offers a means to navigate these complexities by advocating for sustainable practices through three key principles. Firstly, polycentric governance emphasises sustainable development within trade agreements by integrating environmental considerations. Secondly, it prioritises transparency and accountability in trade governance through enhanced reporting requirements and independent monitoring mechanisms. Lastly, polycentric governance aims to bring businesses, governments, and civil society together to support sustainable trade practices.

Collective responsibility for natural resource management in a global context: Dominant approaches

Commons were originally conceived as small-scale resources such as local grazing lands or fishing grounds, however, the idea has evolved into a much broader and more complex concept in the 21st century. The traditional commons were typically managed by local communities with a deep understanding of the resource’s needs and limits, fostering a sense of shared responsibility and collective stewardship. These local commons were often characterized by community self-regulation.

In contrast, the concept of commons as it is understood today encompasses resources that transcend geographical boundaries and are shared across continents and the globe.^{viii} This includes



Sustainable development concerns meeting the needs of the present without compromising the ability of future generations to meet their own needs.^{xxvi} It is enshrined in non-binding internal forums, such as the United Nations Sustainable Development Goals (SDGs)^{xxvii}, and involves an approach to economic, social, and environmental progress that seeks to balance and integrate these three dimensions.^{xxviii} The heart of sustainable development is said to address the tragedy of the commons that has arisen across the globe^{xxix}, a situation in which individuals, businesses, and organisations, acting independently to maximize their own short-term gains, deplete a shared resource, even though it would be better for all if they cooperated to ensure that it is used within ecological limits.

resources such as the atmosphere, and the open seas, which play a critical role in regulating Earth’s climate, sustaining global biodiversity, and supporting the well-being of all life on the planet. These global commons present significant management and protection challenges due to their vast size, the interconnectedness of their ecosystems, and the potential for overexploitation by multiple actors.

In a global context, collective responsibility for natural resource management means that all nations and people share the responsibility for managing the Earth’s resources for the benefit of present and future generations.^{ix} Businesses need to transition from reducing negative environmental impacts to promoting the well-being of nature and humans.^x This includes recognizing the interconnectedness of the Earth’s systems and the impact that human activities have on these systems. It also requires cooperation and collaboration among nations, businesses, and individuals to develop and implement practices aligned with the foundational ideas within sustainable development.^{xi}

There are several established ways that collective responsibility for natural resource management can be implemented in a global context, including:

- **Binding international agreements and treaties.** To establish common goals and principles for managing natural resources. These agreements can set limits on resource extraction, promote sustainable development, and provide a framework for cooperation and collaboration.
- **National and local policies.** Governments can develop and implement national and local policies that promote sustainable development, including resource management, within their own borders. These policies can include regulations on resource extraction, incentives for sustainable development practices, as well as education and awareness campaigns.
- **Private sector engagement.** The private sector has a significant role to play in ensuring resource management is aligned with sustainable development aims. Instead of debates on privatization of commons resources, or the dichotomy between private and common property^{xii}, businesses can adopt practices in their operations (e.g., by investing in renewable energy, biodiversity protection, and the transition to a circular economy) that support sustainable development.
- **Individual action.** Individual consumers can make choices that support resource management which aligns with sustainable development. This includes reducing consumption, choosing products that are sustainably produced, and supporting businesses that are committed to sustainable development.

Yet, despite attention to the above common resources remain depleted due to over or misuse, requiring new ways forward.^{xiii}

The future of climate and biodiversity governance

In the future balancing the aims of trade agreements (e.g., promoting economic growth through trade) and safeguarding the environment requires improved climate and biodiversity governance that can promote collective action. Put simply, the management of global commons requires cooperation and coordination among governments, businesses, and individuals on an international scale.^{xiv}

Managing climate and biodiversity risks requires organisations to transition from

firm focused to polycentric governance. As introduced earlier, polycentric governance represents a shift toward collective decision-making across organisations and jurisdictions and requires robust data collection mechanisms to achieve consensus through scenario planning and evaluation of efforts.^{xv} This approach aligns with SDG 17, which seeks to create improved ‘partnerships for the goals’,^{xvi} and is advantageous as it



considers natural resource management from a process view, accounting for interactions and evolution over time across action taken at an international, national, firm, and individual level.^{xvii}

Polycentric governance can broach the tensions that may arise between trade liberalization and environmental objectives by providing a governance framework that:

1. Emphasizes sustainable development as a key objective of trade agreements.

This involves incorporating environmental considerations into trade negotiations and dispute settlement mechanisms and promoting trade in environmentally friendly goods and services.

This requires a redefinition of the role and purpose of the firm to adopt a ‘no harm’ approach.^{xviii}

Sustainable development is already recognised as a key objective in some trade agreements. One example is the inclusion of trade and sustainable development (TSD). These chapters typically address issues such as environmental protection (e.g., to promote the development and use of green technologies) and labor rights

(e.g., requiring freedom of association, the right to collective bargaining, and prohibition of forced labor).

Since the European Union’s (EU) 2009 free trade agreement (FTA) with South Korea, its subsequent trade deals have included a dedicated chapter on trade and sustainable development (TSD), covering environmental protection, labor rights, and climate change. Recent scrutiny of the EU’s

trade policy has emphasized improving the execution and reinforcement of these sustainability provisions, particularly within TSD chapters. The European Parliament has persistently pushed for stronger enforcement of these commitments.

In 2021 the European Commission initiated a review of the TSD approach outlined in a 2018 action plan. After a year-long consultation involving Parliament, the Council, and stakeholders, in 2022 the Commission unveiled a communication titled ‘The power of trade partnerships: together for green and just economic growth’. This new TSD approach bolsters the enforcement of TSD chapters by expanding state-to-state dispute settlement and allowing trade sanctions for substantial breaches of the Paris Climate Agreement and core labor principles. Stakeholders advocate for integrating this approach into ongoing and future trade agreements, using review clauses in existing agreements or other suitable mechanisms. The EU-New Zealand FTA, signed in July 2023, is the first agreement implementing this new TSD approach.^{xix}



2. Promotes transparency and accountability in trade governance.

This could involve strengthening reporting requirements for businesses and governments on their environmental impacts and creating mechanisms for independent monitoring and enforcement. The European Union's Corporate Sustainability Reporting Directive (CSRD) stands as a pivotal example of this.^{xxi} Its primary aim is to considerably broaden and standardize sustainability reporting among companies, building on the existing Non-Financial Reporting Directive (NFRD).^{xxi} The directive's vision aligns with the EU's ambitious goal to become a climate-neutral continent by 2050. It encompasses a range of Environmental, Social and Governance (ESG) metrics and will increase the number of businesses subject to mandatory ESG disclosures from 15,000 to over 50,000.^{xxii}

The CSRD will also impact non-EU domiciled companies that have substantial activity in the EU. While the focus on disclosures expands, companies face challenges in managing the complexity of data collection, aggregation, and consolidation. The directive underscores the need for comprehensive processes and controls to ensure the accuracy and completeness of reported data. The CSRD goes beyond compliance, aiming to drive a fundamental shift in organizational behavior and stakeholder engagement. It prompts companies to scrutinize their impact, dependencies, and externalities across ESG metrics, fostering a shift towards a more sustainable economic system.^{xxiii}

3. Supports multi-stakeholder initiatives that bring together businesses, governments, and civil society to develop

and implement sustainable trade practices. These initiatives align more closely with voluntary action^{xxiv} and could focus on areas such as climate resilient supply chains, that halt biodiversity loss and restore natural eco-systems where possible. To enhance stakeholder cooperation, reinforcing favourable policies and collaborative processes is essential. Achieving sustainable value creation and engaging stakeholders across different sectors involves identifying common interests and objectives, cultivating the capability and willingness to collaborate, and implementing practices that build trust among stakeholders.

For instance, the Hiedanranta area in Tampere, Finland, serves as an innovative local platform for global circular economy (CE) initiatives, enabling diverse stakeholders to converge around shared goals. This initiative actively pursues stakeholder cooperation to attain ecological, social, and economic sustainability.

Hiedanranta, a burgeoning neighborhood, emphasizes cross-sector collaboration involving the City of Tampere, businesses, educational institutions, global research and development organizations, citizens, and other regional entities. The City of Tampere takes an active role in its development, fostering new business ventures and technologies, like biocarbon production, that can be exported globally. A central pillar of the program is a body that fosters connections among businesses engaged in such initiatives.

This comprehensive approach illustrates how collaborative efforts in localized CE platforms can drive sustainable development across multiple dimensions.^{xxv}

Conclusion

History shows that existing approaches to international treaties, like the Paris Agreement, have not yet delivered adequate action to avoid catastrophic climate change by the turn of the century. A new approach to climate and biodiversity governance is therefore needed. Specifically, one that can consider tensions brewing across the principles of national interests and trade liberalism, and the critical issue of sustainable development that can ensure global economic stability and continued productive trade between nations.

About the authors

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Endnotes

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- iii. <https://www.un.org/sg/en/content/sg/speeches/2022-11-07/secretary-generals-remarks-high-level-opening-of-cop27>
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- v. <https://www.wita.org/atp-research/wto-agreement-preamble/>
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