

Executive summary

New thinking is urgently required to show how international trade can become a positive force for sustainable development, particularly in the South. Although awareness is growing of the need to integrate environment and development priorities into policy and marketplace decisions on trade, significant obstacles remain. Chief amongst these is the climate of distrust that has grown up in policy discussions on trade, environment and development, most notably within the World Trade Organisation. The last decade has been marked by intensifying disagreements between North and South over the rights and wrongs of linking trade with social and environmental requirements. Sustainability issues are generally viewed as new non-tariff barriers to trade by governments and producers in the South. And new opportunities for developing country producers to generate export earnings from high social and environmental performance continue to be constrained by a lack of investment capital and uncertain governance for international supply chains. All these factors came to a head at the November 1999 trade ministerial in Seattle, where trade and environment tensions were partly responsible for the failure to reach agreement on a new round of trade negotiations.

This report is the product of a global review of trade practice to understand the conditions under which more *sustainable trade* could take place between developing countries and their industrialised country export markets: trade which generates economic value; which reduces poverty and inequality; which regenerates environmental resources; and which is carried out within an open and accountable system of governance. It is based on research carried out with partner organisations in Asia and Africa, and highlights the practical issues facing producers in specific sectors in four countries: garments, leather and shrimp in Bangladesh; cocoa and pineapples in Ghana; textiles and garments in India; and tourism in South Africa.

A first lesson is the profound disconnection that appears to exist between policy discussions on trade and environment and the marketplace realities facing growing numbers of developing country producers. While the policy arena is deadlocked, social and environmental factors are starting to become essential elements of supply chain strategies of major corporations in the industrialised world, notably in the agriculture, apparel and forestry sectors. Unlike importing governments, companies are not constrained from specifying production and process methods of their suppliers and they are free to set detailed quality, environmental and social standards. Buyers in the North are also rationalising their supplier base to improve quality and reduce costs, and poor social and environmental performance is now becoming a reason for de-listing suppliers. As a result, supply chain requirements—in turn driven by rising public expectations of corporate responsibility—can become a more effective force

for good practice than local regulatory efforts in some cases (for example in the spread of integrated pest management practices).

But the country case studies also demonstrate that progress towards sustainable trade is patchy and far from uniform across sectors. In some cases, such as leather production in Bangladesh, there is little international interest in the severe local sustainability impacts. Yet, in the same country, international pressure on child labour has led to significant changes in the garments sector, while an import ban by the EU on Bangladeshi seafood has provided the impetus to improve processing and hygiene standards.

In India, the success of Tirupur as an apparel exporting region has had negative impacts on both water quality and availability which have led to local pressures for change. In contrast, buyers' sustainability concerns has focused on the phasing out of potentially carcinogenic dyes, driven by European legislation, although production methods are also now being scrutinised more carefully.

The declining fortunes of Ghana's traditional export, cocoa, contrasts with the rapid expansion of pineapple exports to Europe. In the cocoa sector, the challenge is to increase the returns to farmers and, thereby, provide the incentives for both environmental rehabilitation and attracting the younger generation to continue cocoa farming. Here, there have been some innovative linkages established with European fair trade organisations, as well as signs of interest from major chocolate producers in more sustainable practices. The growth of pineapple exports has had negative environmental and social impacts and the producers' lack of awareness of market requirements has contributed to their loss of market share to competitors.

In South Africa, there are high hopes for tourism as a foreign exchange and employment generator and a mechanism for rural development and community empowerment. Policymakers are vigorously promoting responsible community-based tourism but, with marketing a crucial missing link, there seems to be a mismatch between tourism development policy and the demands of visitors.

It is clear from these studies is that export production can face serious sustainability constraints—and there is little evidence of systematic attempts to identify and address the social and environmental issues affecting different trading chains. Strategic investment packages to improve performance in specific export clusters are often missing. Although trade can indeed be a powerful mechanism for reducing environmental and social impacts, it can also be a 'double-edged sword', raising serious questions about decision-making in global product regimes. Corporate requirements tend to arise from a desire to manage business risk and reputation and so tend to focus on issues that have domestic public resonance. These will not necessarily coincide with local priorities in supplier countries.

The agenda now needs to shift from the question of *whether* to integrate trade and sustainable development to *how*. The challenge is to find ways of developing better systems of governance along the supply chain, which bring together the key stakeholders in order to build partnerships based on trust. At the same time, there is a need for action that reconnects policy frameworks with market-led initiatives to improve the sustainability of trade. Central to this will be identifying the changes that are needed in regulation, corporate practice and citizen action, both on the demand-side within importing countries and also on the supply-side in the developing world to deliver sustainable development.

The reality of sustainable trade is the first output of IIED's *Stimulating Sustainable Trade* project, which aims to provide practical guidance on how to encourage exports of sustainable goods and services from the developing world to the European Union. The next phase of the project will involve more in-depth supply chain assessments, seeking to define a local vision of what sustainable trade would look like in each country, developing case studies of good practice and identifying the actions needed to move forward.