

Is sustainability in trade stalling?

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Understanding the priorities shaping global trade and supply chains is no easy task. Geopolitical conflicts, rising protectionism and the impact of climate change vie for the attention and resources of businesses. Political pushback suggests that environmental sustainability could be losing ground. Donald Trump rolled back climate-related regulations on his first day in office; meanwhile, the European Union (EU) hesitates to require stricter sustainability disclosures from businesses trading with the bloc. Yet, businesses are not retreating from sustainability goals in their supply-chain operations. Some are stepping up.

Sustainability still in green

According to our Trade in Transition survey, sustainability, far from being sidelined, remains a growing priority for global businesses. Over 62% of respondents in our survey say that sustainability in supply chains remains at least as important as it was a year ago. And despite the political pushback, sustainability initiatives are being driven more by regulation than climate change effects. About 25% of respondents cite the tangible impact of climate change on supply chains as their chief motivation, while almost 38% point to tougher regulatory requirements as their primary driving force (see Figure 1).

Figure 1: Is sustainability still a business priority?

Higher priority due to regulatory requirements



Higher priority due to climate change impact



The same priority as last year



Lower priority due to other issues



Lower priority due to financial constraints



Source: Economist Impact Trade in Transition survey, August-November 2024

Regulation prompts firms to act because investors demand compliance. Sustainability-linked financial products, from green bonds to ESG-screened funds, are reshaping capital allocation, reinforcing the financial case for action. The EU’s Corporate Sustainability Reporting Directive, among others, is making clear that sustainability is no longer an optional initiative but a fundamental aspect of corporate governance and risk management.¹

Firms are responding. To bolster climate resilience, 38% say they are investing in technologies to identify risks and 34% are strengthening collaboration with suppliers (see Figure 2). These actions are not merely reactive. Many companies are proactively aligning their supply chains with sustainability goals. For

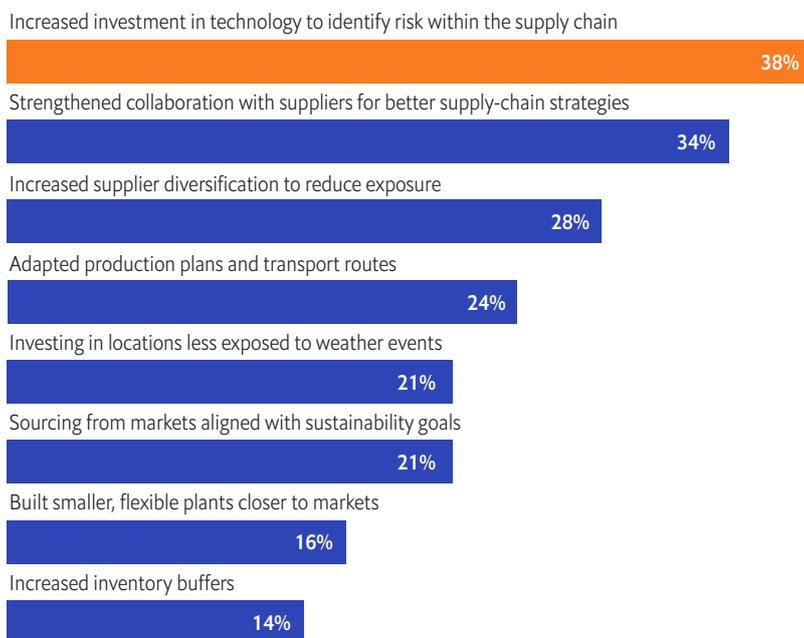
instance, 28% report diversifying their supplier bases to spread exposure to weather-related disruptions, 21% are sourcing from greener markets and some are redesigning production and transport routes to cut carbon emissions. In short, sustainability considerations are firmly embedded in the long-term strategies of a large number of firms.

Extreme political winds

Whether businesses stay on course will depend on how regulations evolve, amid signs that governments may be backtracking. On his first day back in the White House, Mr Trump withdrew America from the Paris climate agreement for a second time while also weakening environmental regulations imposed by his predecessor, Joe Biden—a pattern likely to continue. As part of his campaign rhetoric, he signalled enthusiasm for imposing hefty tariffs on green imports which could stall global regulatory efforts to reduce greenhouse gas emissions. Bottom-up efforts may maintain some of the momentum: a coalition of businesses, states and cities under the banner of “America is All In” has pledged to uphold climate commitments independently of federal policies.² But nonetheless, a slowdown can be expected.

Across the Atlantic, the European Union positions itself as a regulatory leader. Yet even the EU faces challenges. Its Carbon Border Adjustment Mechanism (CBAM), designed to impose tariffs on carbon-intensive imports to the bloc, remains mired in hesitancy, with businesses struggling to comply with its requirements.³

Figure 2: How are firms bolstering climate resilience?



Source: Economist Impact Trade in Transition survey, August-November 2024

¹ European Union, Corporate sustainability reporting. Available at: https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

² America Is All In initiative. Available at: <https://www.americaisallin.com/>

³ Financial Times, World-first carbon border tax shows teething problems. Available at: <https://www.ft.com/content/92b56c0b-663e-4820-90b1-533f1f36f08b>

More than 80% of EU companies liable for the tax are set to be exempt under planned reforms.⁴ In our survey, 38% of executives in Europe say they do not fully understand the CBAM. The primary issue hindering compliance is data collection. About 44% of European firms find it difficult to collect accurate emissions data from within their own business, while 31% face difficulties in collecting emissions data from suppliers. About 36% cite the financial burden of compliance. These issues have prompted European policymakers to consider delaying or scaling back the CBAM’s full implementation.⁵

Just talk?

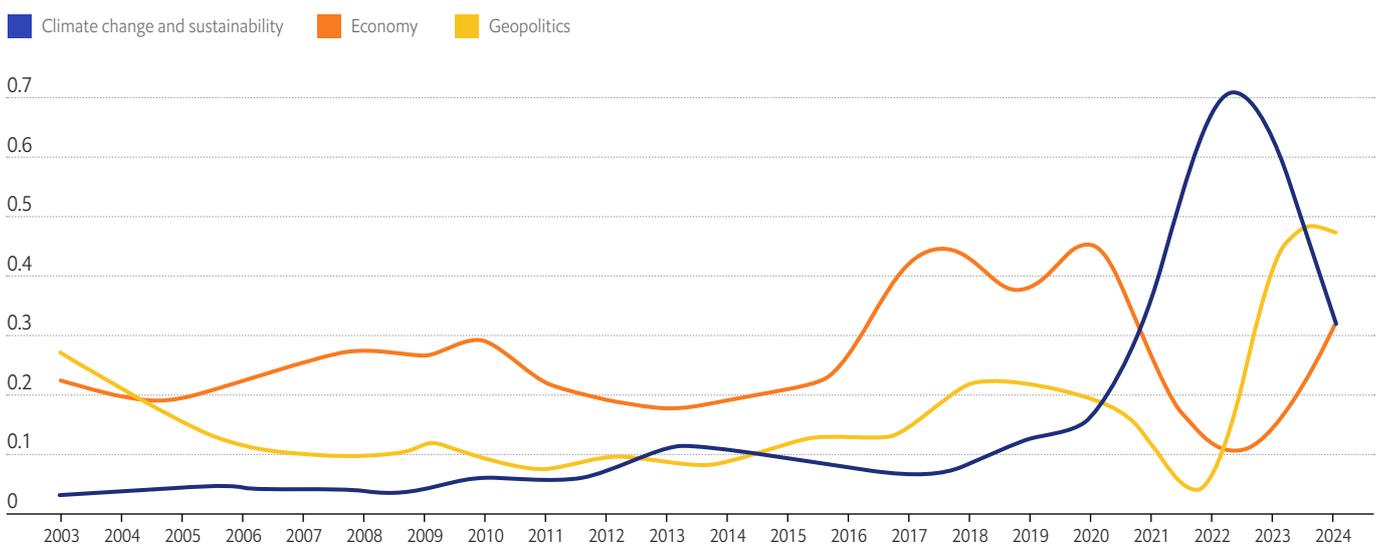
To validate these shifting trends, Economist Impact analysed reports from the World Trade Organization (WTO) spanning two decades, examining the interplay between broad discussions on three main areas: the

economy, climate change and sustainability, and geopolitics. The results are telling (see Figure 3).

While purely economic concerns formerly held a large share of attention in WTO trade reports, the past five years have witnessed a notable shift. Geopolitical issues—represented through terms such as ‘security,’ ‘trade war’ and ‘protectionism’—have surged in importance, reflecting a world grappling with rising geopolitical tensions. Nonetheless, sustainability—captured through terms such as ‘environmental impact,’ ‘emissions,’ ‘climate change,’ and ‘renewable energy’ (in its various forms)—has carved out a substantial presence, surging since 2018 and reaching new peaks in 2022. Additionally, and notwithstanding a slight dip in 2023-24, environmental concerns received more comparative attention than those related to economic issues, in a significant win for sustainability-advancing trade and supply chains discourse.

Figure 3: The shifting of WTO trade discourse

Normalised frequency of terms

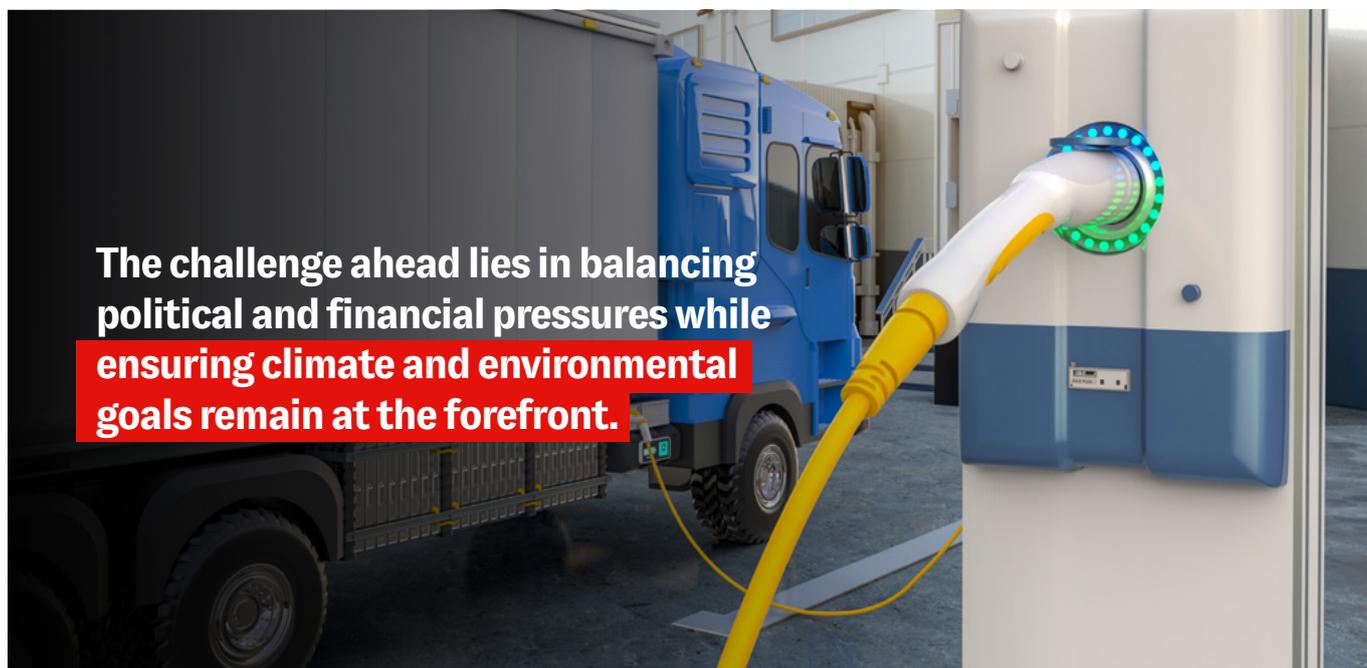


Source: Economist Impact Trade in Transition survey, August-November 2024

Note: Natural language processing (NLP) was used to identify term frequencies. The data was then normalised and a Gaussian filter was applied to highlight broader trends over time.

⁴ Financial Times, Brussels to exempt most EU companies from carbon border tax. Available at: <https://www.ft.com/content/c6102135-eefa-488f-81c2-4aa8eaf95644>

⁵ Le Journal du Dimanche, Le grand entretien avec Michel Barnier. Available at: <https://www.lejdd.fr/politique/exclusif-le-grand-entretien-avec-michel-barnier-150791>



Trading towards tomorrow

That recent dip suggests environmental prominence may now be overshadowed by pressing geopolitical concerns and political pushback. Is interest in sustainability within trade discussions now waning, or merely experiencing a temporary shift driven by the current global political climate? Sustainability remains significant, as evidenced in businesses continuing to integrate climate priorities into their strategies and institutions like the WTO becoming more

active on environmental issues. Its continued importance and development over the coming years, however, will depend on the extent to which policymakers and global organisations maintain momentum amid competing priorities. For the private sector, progress will depend not just on regulation but on the powerful incentive of clear financial benefits of green trade, such as cost savings and revenue opportunities. The challenge ahead lies in balancing political and financial pressures while ensuring climate and environmental goals remain at the forefront.

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