

## 8. Sustainable Trade: The Scope of Voluntary Sustainable Standards in India

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Traditionally it is believed that international trade leads to economic growth. But gradually the environmental effects of trade were realized. It is well accepted that trade can have negative environmental effects in the form of environmental pollution and degrading natural resources. Liberalized trade may lead to pollution-intensive activities in some countries if environmental policies are liberal. In this background, at the global level initiatives have been taken to make the international trade environment responsive or sustainable.

Sustainable trade is the exchange of goods and services that creates environmental and social benefits beyond just the formation of economic value. Concerning this, in the year 2013, United Nations Forum on Sustainability Standards (UNFSS) published its 1st report which introduced Voluntary Sustainability Standards.

This paper analyses the need for sustainable trade in India and its prospects concerning voluntary sustainable standards or Private Sustainable Standards. The secondary data is analyzed to study the prospects of voluntary sustainable standards in India.

The literature regarding Voluntary Sustainable Standards in India is very sparse. The purpose of this research is to put together the research in this area and to fill the gap.

The study observes that India has better prospects to build Voluntary Sustainable Standards to develop standards for sustainable international trade.

**Key Words:**– Trade, sustainable trade, Voluntary sustainable standards, environment, India

### Introduction

India is the fifth-largest economy in the world in terms of nominal GDP as per IMF estimates. International trade has contributed to economic growth in India. India's share in world trade increased after trade liberalization in 1991. (RBI, Data Base on Indian Economy) Liberal policy for Foreign Direct Investment (FDI), raised FDI inflows in India. (Ministry of Commerce & Industry, 2022)



But rapid economic growth in India caused rapid resource utilization and depletion. Depletion of natural resources like water, minerals, and forests further caused environmental degradation. This suggests that economic growth that leads to natural resource depletion affects environmental degradation. (Amjad Ali, Marc Audi 2021)

In the economics literature, the relationship between environmental degradation and economic growth was established by Simon Kuznets. According to him initially, per capita income growth leads to environmental pollution but economic growth leads to technological advancement in the later phase and environmental quality improves. (Simon Kuznets 1955)

Environmental Kuznets Hypothesis was tested for developing countries and India. Many studies rejected the environmental Kuznets hypothesis for India and suggested that the Pollution heaven hypothesis (PHH)<sup>1</sup> holds good in India. (Adamu, Ul Haq, and Shafiq 2019, Pata and Kumar 2021b) K.V. Bhanu Murthy and Sakshi Gambhir observed that gains of green technologies are

being wiped out by the over-consumption of environmentally unfriendly goods. (Murthy and Gambhir 2018) It is observed that 20-30% of total carbon dioxide emissions are associated with international trade. (Peters et al. 2011, Zhang et al. 2020) But international trade may help for the adoption and transmission of green technologies, including carbon-efficient technologies and may have a positive impact on decarbonization. (WTO Information Brief 2021)

In 2013, the United Nations Forum on Sustainability Standards (UNFSS) published its 1st Flagship Report which presented a range of salient voluntary sustainability standards.<sup>2</sup> India's Voluntary Sustainability adoption score is 43.08 with 4<sup>th</sup> rank among 192 countries in the year 2020. (UNFSS 2020) The VSS can be helpful to reduce unwarranted effects of international trade on the environment.

In this background, this research study wants to explore the mechanism of VSS in India and its importance in sustainable trade.

The paper is organized as – section two discusses literature about the need for sustainable trade. Section three describes the background and procedure of Voluntary Sustainable Standards. Section four takes the overview of VSS in India Section five examines the scope of Voluntary Sustainable Standards. Section six marks observations.



## 2. Literature Review

This section reviews literature related to trade and environment and voluntary Sustainable Standards. (Hereafter VSS) There is ample literature regarding the effect of trade or FDI on the environment. But the literature regarding VSS is very sparse.

Joysri Acharya( 2009) examined the effects of FDI on growth and environmental pollution for the period of 1980 to 2003. The study observed that FDI had a very marginal positive impact on economic growth, but the long-run effect of FDI on CO<sub>2</sub> emission is much larger.

Pata and Kumar (2021) investigated carbon status in India and China. They pointed out that in India FDI and coal consumption accelerated carbon emission.

Erik Dietzenbacher and Kakli Mukhopadhyay (2007) Examined the pollution heaven hypothesis for India. They suggested that additional exports, generate additional CO<sub>2</sub>, SO<sub>2</sub>, and Nox emissions.

Bandyopadhyay and Rej (2021) Examined the linkages between gross domestic product, foreign direct investment inflows, nuclear energy consumption, trade openness, and CO<sub>2</sub> emissions for India over the period 1978–2019. They suggested environmental degradation due to FDI inflows.

Lin, Inglesi-Lotz, and Chang (2018) studied the relationship between CO<sub>2</sub> consumption and economic growth over the period 1969 to 2015. They stated that economic growth leads to higher CO<sub>2</sub> emissions.

Although empirical research on VSS is very limited attempts were made to identify the effects of VSS on trade. The literature suggests that VSS can help to expand sustainable trade.

Elamin and Fernandez de Cordoba (2020) Surveyed empirical literature on voluntary sustainable standards. They found that the empirical research in this area is very limited. They emphasized the need for empirical research in this field.

A positive effect of VSS has been identified by (Masood and Brümmer 2014)

Anderson (2019) pointed out that VSS certification can reduce variable costs and thereby can have a positive effect on imports.

The literature survey suggests that economic growth and international trade may lead to excessive use of natural resources and environmental pollution. This effect can be reduced



through sustainable trade. But it is necessary to assess the role of VSS concerning sustainable trade.

### 3. Voluntary Sustainable Standards Background and procedure

Voluntary sustainability standards (VSS) are standards that producers, traders, manufacturers, retailers, or service providers need to meet based on a range of sustainability metrics. The metrics can be economic social or environmental sustainability metrics which may consider processing methods. (UNFSS 2013)

Mostly, VSS are monitored by 1) an internal audit performed by the organization itself 2) an external audit performed on a supplier of goods or services, and 3) an external audit that is conducted by an independent organization.

Producers can showcase the sustainable characteristics of their products through VSS. But they also provide credible information to consumers, in the form of certifications or labels.

#### Phases of getting Sustainability Certificates

- The institutions that want to adopt sustainable standards, invite an inspector for a pre-audit or feasibility study to know whether the company or institution can be certified.
- An actual audit is conducted. The current management practices are examined against the standards and criteria. Detailed corrective action requests (CARs) are suggested.
- The certificate-seeking companies are required to implement the corrective actions or other suggestions.
- The new audit is performed, which contains more corrective actions to be implemented.
- The process is finalized, and the certificate is awarded.

Initially, the certificate is awarded for one year. Later it can be renewed for multiple years. After the certification, conformity with standards is assessed by certification bodies. Monitoring and auditing are done by professional accredited organizations and companies.

### 4. India and Voluntary Sustainable Standards

India launched the Indian National Platform on Private Sustainability Standards (PSS) in March 2016 with the Quality Council of India. The initiative to introduce this platform was originated by the Department of Industry Policy and Promotion, The Ministry of Commerce and Industry with support from UNCTAD and UNFSS. (UNFSS 2018)

Indian Private Sustainability Standards focus on Institution building, Knowledge creation, knowledge sharing, promotion of PSS for the achievement of SDGs, capacity

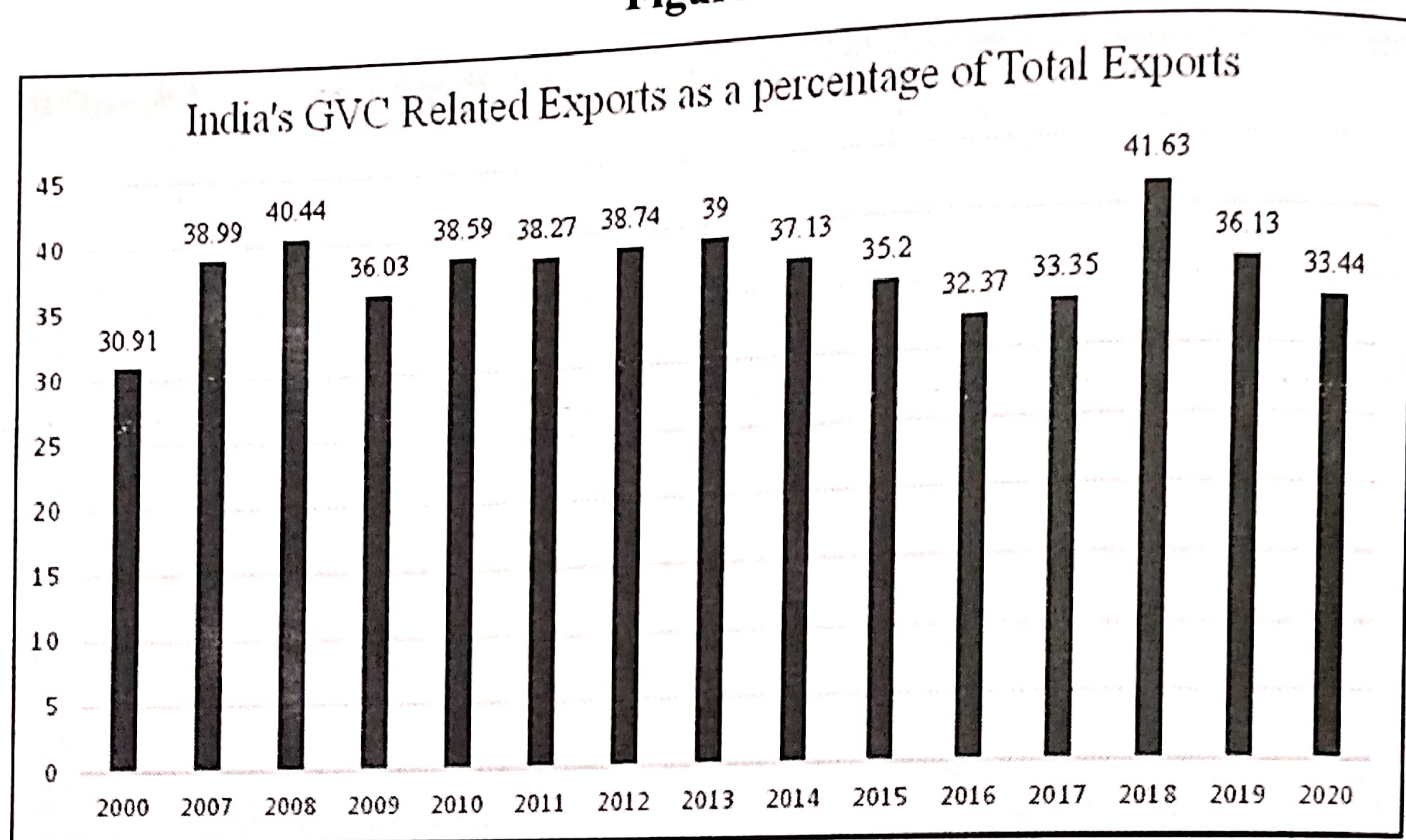


Due to the rise in GVCs international trade expanded rapidly after 1990. In developing countries, the production and trade activities of GVCs contribute to the GDP of the countries. Researchers have identified that participation in GVCs by the countries may reduce environmental pollution.<sup>4</sup>

Participation in GVC is essential for India to improve its competitiveness. Global buyers apply modern norms like ecological compatibility of the product, compliance with social and environmental norms along with the traditional norms like price, quality of the product, etc. Adoption of sustainability norms is possible through participation in GVC. India's GVC-related trade is increasing.

India's GVC-related Exports were 33.44% of the total exports in the year 2020. The following figure shows India's GVC-related exports.

**Figure 1**



**Source:** Computations based on WITS database <https://wits.worldbank.org/gvc/gvc-output-by-country.html>

As denoted in figure1 India's participation in GVC-related exports has stagnated since the recession of 2008, but again it is growing steadily except for the years of the Covid19 pandemic. India can take advantage by participating in GVC and has the potential to encourage the firms in GVCs to adopt sustainable development strategies and responsible business practices for social and environmental improvement.



GVCs provide the opportunity for the country to engage in that part of the value chain which is most advantageous. India can select that part of the value chain that will comply with the sustainable standards.

#### Discussion and Observations

International trade generates economic growth, but it also creates threats to the environment. Sustainable trade can provide a solution to the problem of environmental issues generated by trade because it generates social and environmental benefits which go beyond the mere creation of economic value. Consumers in developed as well as developing countries are showing growing concerns about the social and environmental conditions, Demand for environmentally and socially sustainable products is growing.

Voluntary Sustainable Standards introduced by UNFSS in 2013, have proved useful for the countries to attract consumers in the international market. There is a growing demand by Indian producers to adopt voluntary or private sustainable standards. The area of agricultural products covered under VSS is growing.

VSS adoption can be more useful in the participation of Global Value Chains. Indian producers can adopt VSS in that part of GVC where environmental production can be adopted. Such Participation in GVC will be useful to reduce unwanted environmental effects of international trade.

There is an increasing trend in India's sustainable trade. Trade can be made more sustainable through the adoption of VSS. Especially MSMSE sector needs more attention concerning the adoption of VSS.

Sustainable trade, adoption of VSS, and participation in GVC are interlinked. It is necessary to study them together to understand the real effect.

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Footnote

1. The pollution heaven hypothesis suggests that the countries with strict environmental policies shift polluting industries to the developing countries where environmental laws are not much stringent.