The Sustainable Trade Index and the Imperative of Foreign Direct Investment

Purpose: Information
Submitted by: Hinrich Foundation
The Sustainable Trade Index and the imperative of FDI
Sustainable global trade requires mutually acceptable terms and balanced economic, social and environmental outcomes.

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Founder and Chairman
Hinrich Foundation
The Hinrich Foundation is an independent Asia-based foundation focused on advancing sustainable and mutually beneficial global trade.
We support research and education programs that build knowledge and leadership in trade

Our research offers a better understanding of trade-related issues.

Our education programs build knowledge about sustainable trade and essential skills for better trade outcomes.
The Hinrich Foundation Sustainable Trade Index
Defining Sustainable Trade

Sustainable trade
Engaging in international trade in a way that not only generates balanced economic growth, but also strengthens social capital and provides for environmental stewardship.

- Although trade is an indispensable ingredient in economic development, it cannot be sustainably pursued without responsible environmental stewardship and a commitment to fully developing social capital.
- Based on UN Brundtland Commission’s 3 pillars of sustainability:
  - Economic
  - Social
  - Environmental
Sustainable Trade Index (STI)

• Evaluates 19 Asian economies + USA across 3 pillars
• Process
  • Based on literature review, expert consultations & workshops
  • Indicators reviewed and improved each edition
• Indicators’ structure
  • 15 indicators under economic pillar
  • 5 under social pillar
  • 7 under environmental pillar
• All pillars & indicators equally weighted

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2020 STI Results
STI 2020: Key findings

Sustainable trade in the Age of Covid:

• Key question: Will pandemic lead to more sustainable and resilient trade?
  • Reasons for both optimism and pessimism

• Economic distress raises temptation to cut labor/environmental protections, but...

• Business/investors now leading on sustainability and strong commitment to “build back better”

For more on the report, visit: https://www.hinrichfoundation.com/research/wp/sustainable/sustainable-trade-index-2020/
Clear Message from STI: FDI is the Key to Moving Forward

- Post-pandemic sustainability challenges will require responsible, mutually beneficial FDI
- The STI’s environmental, social, and economic pillars highlight areas where FDI can support sustainability:

  - **Advances environmental stewardship**
    - FDI brings advanced, environmentally friendly technologies and corporate environmental standards that are often more robust than those required by local law or regulation
  - **Strengthens social capital**
    - FDI pays higher wages and improves labor conditions
  - **Upgrades skills**
    - FDI transfers managerial know-how, mentors local suppliers, and creates connections to global markets that strengthen economic sustainability

 hinrich foundation
advancing sustainable global trade
Worrying trend: Declining FDI in developing economies

A marked decline in FDI and a worrying rise in policies that disadvantage FDI investors

FDI was in decline well before the pandemic

Globally, policy is turning against FDI

Source: Global Trade Alert
A role for APEC in the Sustainable Trade Index

- Planning to expand coverage in 2022 to include all APEC economies
- Seeking input/feedback on indicators from APEC members
- Creating dialogue and policy change on sustainable trade issues
Appendix A: 2020 STI Results
The 3 pillars of the STI

**Sustainable trade**
Engaging in international trade in a way that not only generates balanced economic growth, but also strengthens social capital and provides for environmental stewardship.

**Economic**
Measures the economic conditions that support trade, such as physical, technological, and financial infrastructure.

**Social**
The economies scoring best on the social pillar have lower inequality, high levels of educational attainment, strong labor standards, and are politically stable.

**Environmental**
The economies scoring best on the environmental pillar avoid over-reliance on natural resource exports, limit pollution, and pursue high environmental standards.
Overall results of 2020 STI

- Japan and the Republic of Korea are in a tie for the top spot.
- The US and China are 6th and 7th, but are separated by ten points.
- Notable backsliding in Viet Nam.
- Important to question the prevailing narrative about massive supply chain shifts.
Economic pillar

- Hong Kong, China tops the pillar but there are clear risks to this position.

- It’s the most tightly packed pillar in terms of the difference between the top and bottom.

- The Philippines moved up to 9th, but more because it held steady than because of substantial progress.

- The five lowest ranked economies all share some unfortunate traits, mostly related to the cost of trade.
Social pillar

- Chinese Taipei tops the pillar for the second time
- It has the largest gap between the top scores and the bottom scores
- And the gap has been expanding
- Inequality and how it is measured
- The new indicator on human trafficking has lowered the scores of China, India, Myanmar and Indonesia
Environmental pillar

- Japan tops the pillar
- Three of the top four having carbon pricing schemes in place (a new indicator)
- There are few bright spots at the bottom
- There is hope that the thin sliver lining from the pandemic of improved environmental conditions can at least be maintained when normal economic activity resumes
Appendix B: About the Hinrich Foundation
Understanding global trade through research

We initiate and publish original research on important trade issues.

We take an objective, fact-based approach to inform and stimulate discussion.

Media, policy makers and business leaders come to us for analysis, fresh thinking and strategic insights into the issues impacting global trade.
Building leadership in trade through education

Our education programs build the knowledge and skills required to advance sustainable global trade.

Our trade education programs include:

• Our signature Master of Global Trade program, delivered in partnership with RMIT University in Viet Nam.

• Graduate scholarships for students of business, journalism and international affairs.

• Short executive education courses for media, business leaders and policy makers.
Building an ecosystem of trade influencers and change-makers

Through our programs, we are building a diverse community of trade leaders, business thinkers, policy innovators and media influencers who can help advance sustainable global trade.

Together, we explore how to make trade more beneficial for all.

To learn more, visit:
www.hinrichfoundation.com
Partner with us

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