

Sustainable Strategies: Leading Through Climate and Trade Shifts

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Introduction

The world trading system of the mid-2020s is vastly different from the rules-based multilateral system that was established after World War II. Competition is being reshaped by two seismic shifts: the mainstreaming of climate policy into trade law, and a structural shift in supply chains due to geopolitical fragmentation. Sustainability is not a subset of corporate social responsibility for business leaders; it is the main topic on which competitive advantage is won or lost. Since 2015, trade-related climate measures have grown by more than 300%, with the European Union's Carbon Border Adjustment Mechanism (CBAM) coming into force in 2023 and driving a strong rise in climate measures covering trade. Since 2015, trade-related climate measures have more than tripled, with a significant acceleration since the implementation of the European Union's Carbon Border Adjustment Mechanism (CBAM) in 2023 [4]. At the same time, according to the Global Risks Report 2024 by the World Economic Forum (WEF), failure to act on climate change and natural disasters is among the top five most dangerous risks to the world economy over the next decade [2]. All of these macro-level changes are demanding organizations to reimagine

sourcing, production, logistics, and governance – simultaneously.

The Climate–Trade Nexus: Understanding the New Landscape

Carbon Borders and the Regulatory Revolution

The EU Carbon Border Adjustment Mechanism (CBAM) is the most substantial overhaul of global trade rules in decades. The EU has effectively set up a new type of non-tariff barrier, based on environmental policy, by pricing the carbon in imports, starting with steel, cement, aluminium, fertilizers, hydrogen and electricity. According to the International Monetary Fund [1], CBAM will impact global exports from the major emerging economies by around USD 36 billion per year, leading to a domino effect in the global value chains that should be prepared for. The International Monetary Fund estimates that CBAM will impact global exports from the major emerging economies at about USD 36 billion annually, and that should be expected to cause a chain reaction in the redesign of global value chains. It's a regulatory evolution that calls for a detailed carbon footprint review for cross-border businesses at every level of the supply

chain. The increasing risk of regulatory fines and reputation damage is faced by firms that do not measure Scope 3 emissions, which are emissions outside the direct scope of activities. According to a McKinsey study cited by the WEF, as much as 90% of a company's carbon footprint could come from Scope 3 emissions, but less than 30% of Fortune 500 companies currently measure them with sufficient granularity.

Geopolitical Trade Fragmentation and the Green Transition

Addressing geopolitical trade fragmentation and the Green Transition. In addition to the climate policy revolution, there has been a steady buildup of geopolitical tensions, which has intensified the 'friend-shoring' and 'near-shoring' of supply chains (Figure 1).

Strategic Pillar	Core Challenge	Leadership Response	Expected Outcome
 Carbon Compliance	CBAM & carbon pricing exposure	Full Scope 1–3 carbon audit; CBAM readiness roadmap	Regulatory immunity; competitive pricing
 Supply Chain Redesign	Friend-shoring & near-shoring costs	Supplier diversification; regional hub strategy	Resilience & reduced geopolitical risk
 Clean Technology Adoption	Capital intensity of green transition	IRA/green subsidy leverage; green CapEx planning	Cost reduction; innovation leadership
 Stakeholder Accountability	Investor & NGO ESG pressure	Integrated sustainability reporting (IFRS S1/S2)	Access to green capital; brand equity
 Trade Policy Intelligence	Rapid regulatory change	Dedicated trade-climate monitoring function	Policy anticipation; first-mover advantage

Figure 1: Integrated climate–trade leadership framework

Source: Author’s synthesis based on WEF (2024), IMF (2023), and WTO (2024) [3].

Strategic Leadership Responses

Embedding Sustainability into Trade Strategy

The most able to withstand are the ones that have adopted sustainability as an integral part of their trade strategy and are no longer simply meeting compliance targets. But there has to be leadership alignment at the highest level, and boards and C-suites must make explicit the link between environmental performance and access to markets, capital, and supply chains. WEF (2024) suggests four characteristics that define sustainability integrated trade leaders: (1) setting science based targets aligned to 1.5°C pathways; (2) conducting dynamic materiality assessment that links climate risk to financial outcomes; (3) actively engaging with policy makers to help shape (and not just react) to climate-trade rules; and (4) investing in building capacity of suppliers to decarbonise activities beyond their own operations.

Supply Chain Transformation as Competitive Advantage

Increasingly, there are indications that sustainability investments in the supply chain are capital-intensive in the short term but have measurable returns over medium to long periods of time. According to the IMF (2023), companies that had verified low-carbon supply chains saw a drop in trade finance costs of 15 to 20 % and much better access to markets in the regulated areas, such as the EU. On the other hand,

carbon-intensive supply chains are becoming a stranded asset threat to institutional investors.

Leading companies are now exploring how to leverage the digital twin to model carbon footprints of the supply chain as it happens, and optimize sourcing, routing, and production schedules in real time. It was concluded that by 2025, a number of multinationals had started to incorporate carbon pricing into internal transfer pricing, thereby establishing carbon market signals for decarbonisation across their operations [3].

Policy Engagement and Trade Intelligence

The process of climate-trade policy evolution is rapid and difficult, and the first-mover advantage can be significant for those that invest in a climate-trade intelligence function. This includes the ongoing tracking of progress on CBAM implementation, WTO dispute rulings on green subsidies, bilateral trade deal progress and in-country policy changes in important markets. By knowing the rules in advance, companies can adapt their procurement, investment and market entry plans in advance of the competition – turning regulatory risk into competitive opportunity.

Figure 2 shows the sustainability-integrated trade leaders vs laggards in five key business metrics (2024-2025). Bar value is an indexed value or percentage increase. Compiled from WEF (2024), IMF (2023), and WTO (2024) datasets.

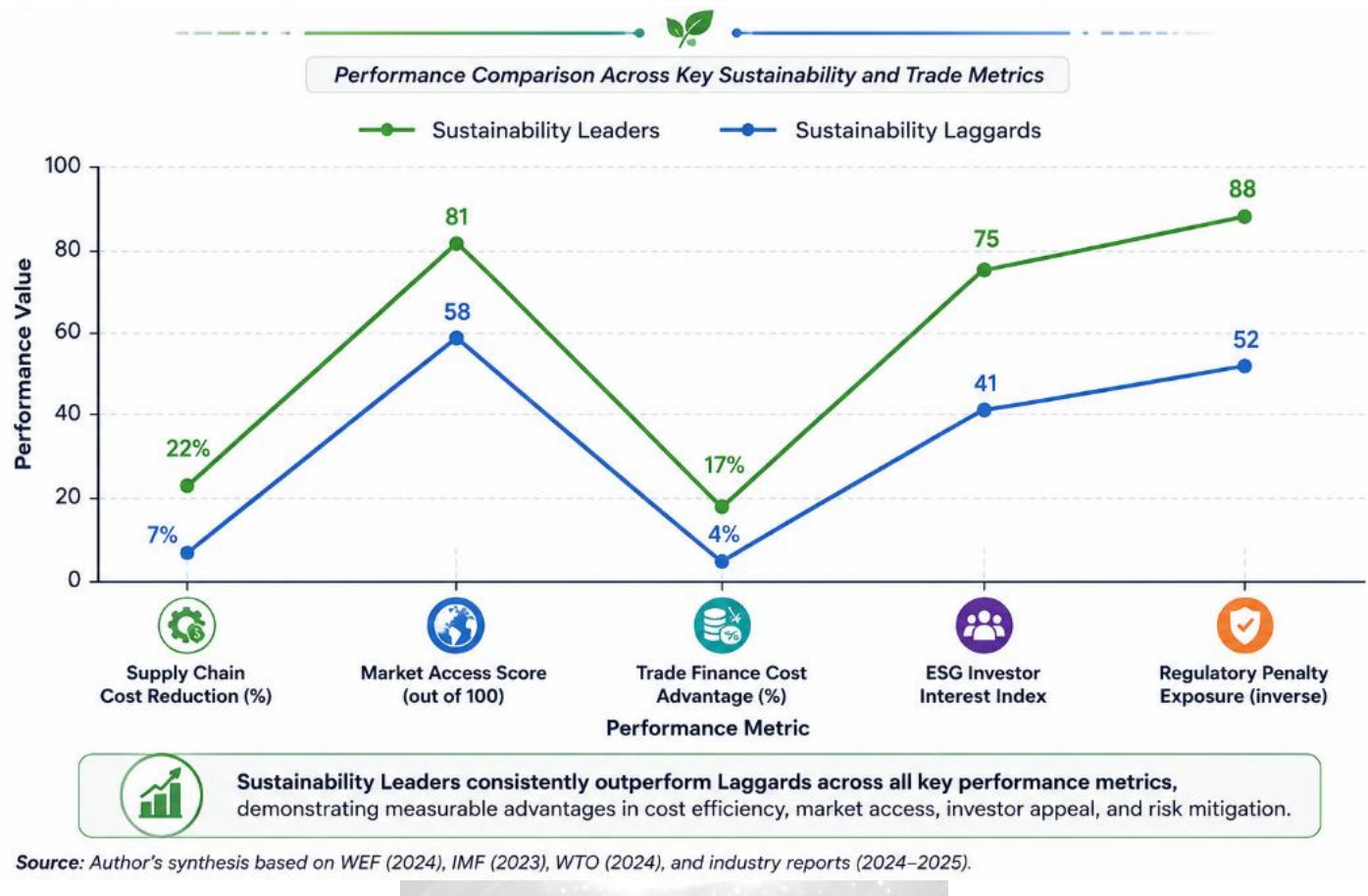


Figure 2: Sustainability leaders vs. laggards; key performance metrics (2024–2025)

Evidence and Data Analysis

Experience-based evidence for sustainability-integrated leadership of trade is growing. The following table captures some of the main statistics from reputable sources on who is leading the way in sustainability, and who is falling behind in relation to trade, finance and operations. These data, in

combination with figure 2, emphasize the rising performance gap between proactive climate-trade policy and a non-climate-trade policy.

Key quantitative indicators that can differentiate trade firms based on their level of sustainability integration as shown in table 1. Green values represent “leader outperformance”. Data sourced from IMF (2023), WEF (2024), and WTO (2024).

Table 1: Comparative performance indicators — sustainability leaders vs. laggards (2023–2025)

Indicator	Year	Sustainability leaders	Laggards	Source
Trade finance cost (avg.)	2023–24	3.8% APR	6.1% APR	IMF, 2023
Supply chain carbon intensity (tCO ₂ e / \$M revenue)	2024	48 tCO ₂ e	112 tCO ₂ e	WEF, 2024
EU market access compliance rate	2024	94%	61%	WTO, 2024
Green investment attracted (USD bn, top 100 firms)	2023	\$4.2 bn	\$0.9 bn	IMF, 2023
Scope 3 emissions measurement adoption	2024	78% of firms	22% of firms	WEF, 2024
Average CBAM compliance cost (% revenue)	2024–25	0.4%	2.1%	WTO, 2024
Long-term resilience score (index 0–100)	2025	73/100	49/100	WEF, 2024
ESG bond issuance growth (YoY)	2023	+31%	+7%	IMF, 2023

Leadership Imperatives for the Climate-Trade Era

Combined, the data in table 1 and figure 2 lead to one conclusion: enterprises that take a proactive approach to embedding climate strategy in their trade operations perform much better than those that leave sustainability on the fringes. The performance gap is apparent in the trade finance costs, market access, regulatory compliance, and long-term resilience – all indicating that sustainability leadership is systemic, not episodic. Rather than the sophistication of their sustainability programs, what separates leaders from laggards is the extent to which environmental performance is part of the business decision-making process. Leaders implement internal carbon pricing to inform their sourcing decisions, link executive compensation to their Scope 3 reduction targets, and take a proactive approach to working with regulators and influencing climate-trade policy. The behaviours demonstrated here represent a new way to understand what a competitive strategy

looks like within the urgency of creating a more resilient planet. The implications for developing leaders are far-reaching as well. In a new climate-trade framework, leaders will be expected to be multi-disciplinary (e.g. have an understanding of environmental science, international trade law, supply chain engineering and stakeholder communication), and able to interweave them into meaningful stories. Therefore, business schools and corporate training programs are under increasing pressure from all parties to develop large volumes of this new type of leader. Lastly, the social equity aspects of this transition must be addressed. Developing countries with inadequate resources or infrastructure to support decarbonization efforts will face barriers to market access (CBAM-related) that are increasingly prevalent and complex. The WTO warns that climate-trade policies may serve to further entrench the divide between rich and poor nations, rather than provide help and assistance to bridge that divide if they are not properly designed and enforced with adequate technology transfer and capacity

building measures (WTO, 2024). This sustainable business leadership model calls for a just and equitable green transition that creates opportunity along the entire spectrum of the global trading system.

Conclusion

Restructuring the global trading system through climate policy on the overall spectrum of strategy for business leaders in the 2020s represents the most significant strategic challenge for business leaders over the next decade. This strategy has outlined the evolution of organizations from a compliance orientation to a competitive advantage orientation and how they can utilize the benefits of sustainability as a source of competitive advantage. Clearly, organizations that incorporate climate strategy as part of their overall business strategies, invest in carbon reducing technology in their supply chains, and proactively react to their evolving regulatory environment will achieve long-term superior performance relative to the vast majority of metrics available. The following represent recommendations based on this analysis. First, organizations should perform comprehensive Scope 1-3 carbon audits and utilize these audit findings to develop implementation plans for CBAM and develop carbon pricing plans. Second, organizations should establish two primary co-equal targets (i.e., reducing carbon intensity and possess resiliency from geopolitical disruptions) when re-engineering their supply chains. Third, organizations must

develop a relationship between executive compensation and sustainability performance at the C-Suite/board level. Fourth, organizations should develop capabilities to monitor relevant public policy and organization intelligence that would enable an organization to anticipate regulatory changes, so they are positioned first from a competitive perspective. The fourth area for companies to focus on investment in 2020 is developing intelligent policies capabilities to understand and anticipate what is happening in legislation/prioritize these efforts based on future opportunities; this will allow these companies to represent themselves before implementation by being proactive (i.e., “forward-thinking”) rather than reactive (waiting until after regulation has occurred). As the technology continues to advance, those businesses that develop/create/assist/encourage/enforce new regulations in the same manner will continue to have competitive advantages as they redefine the marketplace over the next decade.

References

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