# SYNTHESIS OF THE ANALYSIS AND RECOMMENDATIONS OF TASK FORCE 4 FROM THE T20

## TF4 – THE TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH

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Think Tanks 20 (T20) is one of the Engagement Groups of the G20. T20 created six Task Forces to discuss and propose recommendations to the G20. One of them, TF4, was charged with the important issue of Trade and Investment[3]. It invited 20 experts not only to analyze this issue but also to select 50 Policy Briefs from among 72 proposed by experts around the world. This material became the basis for TF4's recommendations. The final version of the Policy Briefs and the final

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version of TF4 Recommendations are published on T20 site – www.t20brasil.org

Here is one synthesis of TF4 discussions.

## 1. Introduction to Task Force´s mission and priorities

Task Force 4 aims to leverage trade and investment mechanisms to achieve the Sustainable Development Goals (SDGs). It intends to put forward innovative, research-based ideas for the Trade & Investment Working Group and other related G20 Working Groups. The first step is to acknowledge that the world is facing serious challenges. Geopolitics are dominating economic decisions and affecting trade and investments.

## 2. Diagnosis

Geopolitical tensions are feeding trade conflicts, causing the dismantling of the rules-based trade and investment systems. Tariffs, subsidies, technical and environmental standards, services, and intellectual rights are being used as trade-war instruments. The consequences can be seen already: stagnating trade and investment growth, income concentration, inequality, poverty, and hunger.

Climate and environment crises are posing another existential challenge: extreme temperatures, floods, droughts, destruction of cities and forests.

A Trade and Investment System – based on rules to be respected – is essential to attend many of these challenges. The existence and support for the World Trade Organization – WTO, as a multilateral forum for trade and investment negotiations for rules enforcing and monitoring is imperative to face the present dysfunctional moment.

This Task Force, formed by 20 trade and investment experts, from all world regions, defined priorities and formulate a series of recommendations concerning the challenges of the present world: poverty, food security, the role of women, MSME, digital transformation and neoprotectionism.

## 3. General Recommendations

- G20 leaders must instruct their ministers to prioritize the reform of the WTO as the main forum for trade and investment, in particular to support the transition toward sustainability and to manage the digital transformation.

- G20 must safeguard the rule-based trade system agreeing on common regulations and standards in order to expand agricultural production to help fight hungry and environment damages.
- G20 should negotiate more flexibilities on trade rules to allow developing countries to combat climate changes and integrate into value chains.
- G20 should negotiate a common agenda to support the contribution of women in trade.
- G20 should agree on a common framework for International Investment Agreements that eliminates barriers to capital flows and explicitly deals with environment protection.

## 4. Diagnosis and Recommendations from each of the TF Topics

### *TF 4.1 - Trade and Investment to Fight Inequality, Poverty, and Hunger, and Foster Social Inclusion*

#### Diagnosis of main problems

There has been considerable turbulence in the global economy over the past few years. As a result of financial crises, heightened geopolitical tensions, wars, pandemics, and an increase in extreme weather events, trade integration and investment flows have been challenged regarding their role in reducing inequality, reducing poverty, fostering social inclusion, and eliminating hunger.

In recent years, the number of malnourished individuals in the world has increased, according to the Food and Agriculture Organization (FAO). According to recent data, the world's population suffering from hunger increased by 122 million between 2019 and 2022, prior to the outbreak of Covid-19. This increase is largely concentrated in less developed countries, where women are more vulnerable.

Furthermore, these countries are also those that have suffered the most from a combination of rising debt, instability in investment flows, slow export growth, inflation, and a compression of fiscal space for social expenses.

As far as job creation is concerned, there are also new challenges arising due to the diffusion of industry 4.0, led by developed countries, which has reorganized several global value chains. As a result of this scenario, developing countries are at risk of experiencing increased difficulties in promoting structural change towards high productivity sectors and promoting economic and social development.

Finally, many developing countries lag behind in international investment in renewable energy despite strong global investment growth. Foreign direct investment in renewable energy projects around the world is crucial, especially in less developed countries.

## Key recommendations to the G20

- Strengthen global collaboration around food security and eliminating hunger:

Foster collaboration between the Global Alliance against Hunger and Poverty and the G7-led Global Alliance for Food Security, to amplify the impact of their mutual goal: reducing global hunger. Implement specific measures to protect food trade and food supplies from geopolitical events, specially to poor net food importing countries. Identify measures to achieve food security through global trade by facilitating and promoting trade agreements and additional measures from the international community.

- Promote balance between needs to address the climate emergency and domestic needs for agricultural products and food:

Global food production is dependent on the utilization of natural resources and climate conditions. Concerns on climate and environmental needs are creating trade standards that negatively affect food trade. Identify how these concerns can be addressed by international cooperation and funding. Special products that promote social inclusion, especially women, should be considered. Adopt measures to avoid price volatility, reduce risk and promote the balance between global issues and domestic needs in agricultural products in a context of the climate change.

- Promote flexibility in multilateral discussions to foster inclusive and sustainable production chains:

Facilitate multilateral discussions to give developing countries more policy space in the face of geopolitical challenges related to industrial sectors, particularly with regard to the Agreement on Trade-Related Investment Measures (TRIMS) and Trade Related Aspects of Intellectual Property Rights (TRIPS). Improve global tax justice and corporate transparency, identify corporate and financial regulatory measures that create imbalances and asymmetries between and within countries. International investment agreements must include guarantees that States can effectively regulate and contribute to the sustainable energy transition and promote investment and technology transfer in that regard.

*TF4.2 - Trade and Investment, Food Security and Climate Action*

**Diagnosis of the main problems**

The world faces a triple crisis involving food, energy, and climate security. Over two dozen countries have responded by implementing measures that restrict international food trade, including export bans, taxes, quotas, and distorting export subsidies. Additionally, the EU has recently introduced the Carbon Border Adjustment Mechanism (CBAM) and the EU Deforestation Regulation (EUDR). These measures represent groundbreaking efforts to shift toward climate neutrality and more sustainable trade and corporate practices. However, they have raised legitimate concerns in developing countries due to the equity and implementation challenges associated with them.

Evidence indicates that compliance with these non-tariff barriers can increase import prices of agricultural products by nearly 15% ad valorem equivalent with low-income countries potentially facing up to 18% (FAO, 2022). Beyond discouraging trade, the consequences of these actions have far-reaching effects, impacting vulnerable populations and exacerbating global food insecurity. At the same time, climate change provisions to address the negative environmental effects of free trade agreements remain poorly enforceable and not adopted by the largest greenhouse gas emitters (Morin and Jinnah, 2018). Regional approaches to integrating climate change into trade agreements, such as the Regional Economic Communities (RECs) in Africa offer much promise, but member states still face limited capability to implement the commitments.

**Key recommendations to the G20**

- Promote open markets with standards and regulations that foster collaboration to expand sustainable agricultural production models and ensure food security:

Agriculture, regardless of the data source, ranks as the second-largest contributor to global greenhouse gas emissions. Policy directions should prioritize supporting the most vulnerable consumers, ensuring accessible markets, and applying non-distorting measures for rural producers. Policies should also focus on promoting open markets with standards and regulations that encourage collaboration to expand sustainable agricultural production models while ensuring food security.

- Consider climate change-related provisions in trade agreements and bilateral investment treaties in the face of a just transition:

International collaboration should also provide a better framework for unlocking capital and investment in sustainable-oriented production. This approach involves establishing standards and metrics that consider different regional contexts while maintaining interoperability. Similarly, multilateral cooperation is key to addressing the tensions brought about by unilateral measures such as CBAM and the EUDR and their implications for equity and justice, especially for developing and least-developed countries. Much more is also needed to address the potential spillover effect of trade and investment agreements on climate change. Strengthening the link between the trade and investment regimes to support the just transition is critical.

- Strengthen the capability of countries to harness the potential of trade and investment for just transition and food security:

Cooperation on trade, environment, and climate policy should not be limited to the export of regulatory standards or the imposition of sanctions, but should also advance the broader sustainable development objectives, especially of developing and least developed countries. Importantly, linking the trade regime to climate policy should consider and strengthen the capability of countries to harness the potential of trade and investment for just transition and food security. Similarly, the investment regime can support climate-compatible foreign investments to support climate objectives such as mitigation and adaptation. Addressing the risks posed by the threat of investment treaty arbitration to phasing out fossil fuels is also key to supporting and ensuring a just transition.

*TF4.3 – Women in Trade*

**Diagnosis of main problems**

Despite increasing attention to women and trade issues, significant barriers to their participation in trade persist. For instance, women still own only around 20 percent of businesses that export goods and services. Additionally, there is a disconnection between the barriers exacerbated by the distributive impacts of trade liberalization and the policy solutions offered in trade policies and agreements. Many of them still fail to create binding gender-based obligations on States. Key barriers to women's participation in trade, such as access to finance and productive resources, as well as access to e-commerce and digital trade opportunities, remain largely unaddressed.

The lack of accurate and consistent data to understand the intersection between trade and gender issues, between gender and other intersectional factors that impact trade performance (including class and race), as well as between trade, gender and areas arising under the economic, environmental, and social sustainability agenda, hinders the diagnosis and assessment of the effectiveness of policies designed to address the lack of women's trade participation. Moreover, inconsistent approaches across countries to definitional issues, such as what constitutes women-led/owned businesses, complicate data collection efforts internationally.

A significant challenge highlighted in the implementation of the World Bank Group's Gender Strategy is the need to shift from viewing gender equality policies as mere routine administrative and cooperation-based tasks to mainstreaming gender in policymaking across various government spheres and include women's concerns in substantive trade or market access related pillars of trade policies and agreements.

### Key recommendations to the G20

- Create, collect, and analyze gender-related trade indicators and data.

This should take into account intersecting factors such as race and class, as well as the new areas of the sustainability agenda, and standardize definitions and methodologies. This should consider and take account of varying levels of data collection capacity across a wide variety of countries (that is, including developing and developed countries) and include engagement with regional and international organizations that possess expertise in data gathering and impact analysis.

These organizations can provide technical assistance and services to developing countries.

- Encourage engagement between G20 member negotiators to build negotiation capacity on trade and gender issues and consult with women in the private sector:

This will help negotiators and policymakers to understand the barriers women face in their jurisdictions and identify appropriate policy solutions for trade negotiations, making trade agreements a more effective vehicle for empowerment on this subject.

- Create a consultative unit at the G20 to foster interactive dialogue among trade and gender policymakers:

This means of exchanging best practices and experiences among G20 countries and with private stakeholders at large. This unit should also promote capacity building among G20 negotiators on trade and gender issues.

- Establish and enforce a minimum quota of women participants:

This includes leadership of trade policymaking government agencies and interagency mechanisms (e.g., task forces, committees, etc.).

*TF 4.4 - Trade and Digital Transformation*

**Diagnosis of main problems**

Concerns with respect to personal data protection and national security are some of the drivers of a rising regulatory divergence that creates costs for businesses and risks undermining the trust of consumers in digital trade.

These considerations underscore the importance of the WTO as a forum to address these challenges and promote regulatory convergence at the global level.

The WTO is well positioned to coordinate discussions about the effectiveness of rules regulating the international digital economy to achieve non-economic policy objectives while being least trade restrictive. This should include identification of best practices and use of innovative mechanisms to foster interoperability between different models of regulations, including through mutual recognition.

A further area for policy action may be found in digital facilitation of access to trade finance. This is particularly important for small and medium sized enterprises in developing countries where digital tools may assist in responding to regulatory requirements and facilitate the on-boarding of clients. Policy steps toward digitization of customs processes and alignment of documentary requirements would contribute to inclusiveness for businesses seeking to tap into the benefits of trade and to foster investment in the digital economy.

Provisions in existing regional and bilateral digital economy agreements (e.g., as pioneered by Singapore and its trade partners) have illustrated benefits of such alignment. They help combat potential fragmentation in the digital economy and support market openness that is needed for greater inclusivity. The WTO can benefit from these experiences, including in the pursuit of an ambitious outcome of the negotiations of the Joint Statement Initiative. The WTO should maintain the current moratorium on customs duties, avoiding the introduction of new frictions in the conduct of digital commerce in exchange for modest gains in government revenue.

The WTO should also foster effective governance for artificial intelligence (AI). Attempts to adopt AI technical standards at national level have extra-territorial implications. It is important for the WTO (via its Technical Barrier to Trade Agreement for goods and the GATS for services) to contribute to avoiding that national technical standards become barriers to trade. These efforts can also build upon the experience of negotiations in regional trade agreements that have adopted digital trade chapters that include AI relevant commitments.

### Key recommendations to the G20

- Underscore the urgency of accelerating achievable, stepwise actions on digital trade at the WTO:

Geopolitical tensions, environmental stress, and economic underperformance in some regions weigh heavily. Given the pace of technological development and growth in the digital economy, rising policy fragmentation could prove costly including with respect to achievement of the Sustainable Development Goals.

- Support WTO as the core institution for negotiating and administering global trade agreements covering digital trade:

Given its broad membership, it has the potential to provide an inclusive, basic, global, rules-based framework for the conduct of digital trade and directly related aspects of investment. In addition, the WTO plays a key role in monitoring national trade policies affecting these matters, providing technical assistance, and offering a forum for handling disputes.

- Foster dialogue and developing a shared agenda on digital trade, responding to risks of regulatory fragmentations:

The G20 is uniquely positioned to promote policy alignment and an inclusive digital economy beyond what is feasible at the WTO in the area of digital trade policy development, including through the G20s enhanced engagement with the African Union.

*TF 4.5 - Promoting Greater Participation of MSMEs in Trade and Investment*

**Diagnosis of main problems**

Micro, small, and medium enterprises (MSMEs) are engines of innovation, growth, job creation and social mobility in high income and emerging economies. In low-income developing countries they have been considered the backbone of economies and hold the potential to transform economies and contribute to sustaining livelihoods, in particular working poor, women, youth, and groups in vulnerable situations. However, MSMEs still encounter major barriers to integrate into global value chains, embrace sustainable business practices, and upgrade their technical skills and knowledge to manage the green and digital transitions.

MSMEs lack awareness and technical capacity to meet complex and multiple sustainability standards, climate targets, regulations, and requirements to measure and report on social and environmental reporting. The digital divide and poor access to technology hampers MSMEs' competitiveness and the ability to leverage digital solutions for measurement, efficiency, traceability, and transparency in their operations and value chains. There is a growing concern that MSMEs in emerging economies may be left behind in the transition towards a greener future. This has significant implications for achieving the Sustainable Development Goals (SDG). The G20 is uniquely positioned to enable MSMEs to become catalysts for a green and inclusive future.

**Key recommendations to the G20**

- Balanced Sustainability Standards for MSMEs:

The G20 should consider developing a globally recognized standard designed specifically for MSMEs to prevent redundancy in reporting requirements. Existing frameworks like the Global Reporting Initiative (GRI) Standards and the Sustainability Accounting Standards Board (SASB) offer guidelines but may be complex or costly for resource-constrained MSMEs to implement. Also, MSMEs face multitude of data requirements which increase their reporting obligations and put barriers for access to financing. A fit-for-purpose and simple standard would balance comprehensiveness with ease of implementation, ensuring MSMEs can meet industry-specific compliances and effectively participate in global trade while promoting sustainable practices. Such a standard would foster transparency, facilitate due diligence processes, and enhance the competitiveness of MSMEs in the global market. Traditionally, standards and sustainability regulations have been driven by developed countries without adequate cognizance of the unique needs and challenges of the Global South. The G20 is strategically placed to ensure a more balanced dialogue and integration of different viewpoints in the development of the standards.

- Leveraging MSME access to green finance:

G20 members should consider implementing: i) Enhanced financial support for low-carbon trade, such as export credit guarantees, longer-term green loans and grants linked with sustainability performance, to mitigate risks associated with international trade for MSMEs; ii) Supply chain finance facility, allowing MSMEs in the supply chains to leverage their receivables from large buyers to finance low-carbon process measures and investments for clean technology transition based on long-term off-take agreements with buyers for low-carbon products. Such programs should also include financial training and assistance to MSMEs to improve their financial literacy and management capabilities; iii) Digital platforms to facilitate interactions between large buyers, MSMEs, and green financial institutions. These platforms can streamline the financing process, reduce administrative burdens, and improve transparency in financial transactions.

- Create a G20 capacity building program for MSMEs designed to provide MSMEs with non-financial support to increase their awareness, measurement, reporting skills on sustainability and climate, and tailored to share existing best practices, tools, and knowledge products, building on the Jaipur Call to Action.

*TF 4.6 – Dealing with Neoprotectionism and the Changing Features of Global Value Chains*

**Diagnosis of the problem**

Neoprotectionism is understood as the surge on trade protection or restriction measures under a variety of forms and with different impacts on the economic actors affected by these policies as border restriction measures; industrial policies based on government subsidies; local content requirements, preference for domestic companies in government procurement and export credits, among others. The motivations for these measures can be divided into three broad categories:

- The first refers to public policies justified as instruments to neutralize "import dependency", to promote "self-sufficiency" and/or "national security" and to stimulate basic and high technology industries.
- The second is related to industrial targeting. International competition is increasingly technology driven. It has triggered a new wave of industrial targeting policies involving unprecedented amounts of government subsidies to direct investments mainly in North America, Asia, and Europe.
- The third refers to industrial policies to facilitate energy transition. In this context, it is necessary to evaluate the balance between global environmental concerns versus protectionist measures imposed unilaterally, with negative implications specifically for the developing world. It must be taken into consideration that, in many cases, these policies do not comply with WTO commitments.

**Key Recommendations to the G20**

- Reinforce multilateral cooperation and review the Subsidies WTO Agreement at the WTO:

Subsidies should be a priority of the G20's cooperation initiatives to face the challenges posed by the present industrial policy trends. The prominence of non-economic objectives as a motivation for adopting industrial policy mechanisms poses a major challenge to sustaining multilateral trade cooperation, especially in the context of growing geopolitical fragmentation. Whereas developed countries are discussing decoupling of their global value chains, many developing countries would prioritize a trade policy and economic agenda to strengthen their participation in global/regional chains to promote their industries. At the end, developing countries are the most harmed by subsidies policies, as they are unable to compete in this field with richer countries. To address the issue of trade-distorting subsidies, it is important to improve international comparable data on subsidies, under an international cooperation mechanism with the technical support of the WTO. Subsidies could be classified according to their degree of potential harm to third countries, considering how trade-distortive they are. This could be done by adopting the model set in the WTO Agreement on Agriculture.

- Cooperation on "Green Industrial policies":

The G20 should focus on international cooperation on green industrial policies, recognizing that climate change is the only non-economic motivation for industrial policies with a global impact. This initiative should involve an improvement in a transparent definition of green subsidies granted. The domestic prospects of long-term growth should be considered in the conceptual design of industrial green policies, in so far as transition to low carbon production require adaptations and innovation that may generate dynamic positive effects throughout the economy. Government industrial policies should aim to support and facilitate the transition to renewable production technologies, promoting long-term and sustainable economic growth and inclusive job creation. The G20 could stimulate negotiations under the WTO Agreement for climate change mitigation measures, and by doing so contribute to foster green technology adaptation, especially in the developing world.