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Let's rethink the world

The G20's Role in Better Aligning Trade and Sustainability

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Introduction

Achieving the Agenda 2030 for Sustainable Development and the comprehensive set of 17 Sustainable Development Goals requires integrated policymaking to enhance coherence across different policy domains. This is especially true for world trade which has immense implications on economic, social and environmental conditions in producing and consuming countries. If properly regulated, trade can be a means to enhance sustainability by increasing the supply of cheaper environmental goods and services and by integrating female workers or micro-, small and medium-sized enterprises in global value chains. Trade, however, can also undermine efforts to support sustainable development. The economic activity associated with the production of tradeable goods and services leads to the emission of CO₂ which in turn is causing global warming impacting vulnerable communities the most. This is especially worrisome if the production of goods and services is re-located from highly regulated economies to economies with less stringent environmental standards. The same can be said about the level of labour standards applied – or not – in export oriented economies. Against this background it seems increasingly unjustifiable that trade policy is pursued in isolation notwithstanding the impact of trade on environmental and social matters. However, this separation of trade policy-making is still very much the rule rather than the exception in the multilateral trading system and the World Trade Organization (WTO) in particular.

The lack of integrated policy making at the multilateral level notwithstanding, we observe increased efforts to align trade and sustainability at bilateral and unilateral levels. More and more preferential trade agreements (PTAs) today include entire chapters on the environment and labour. However, the inclusion of such supposedly “non-trade”

disciplines is especially prevalent in PTAs negotiated by high-income countries. PTAs negotiated among low and middle-income countries (LMICs) tend to include fewer and less stringent environmental and labour provisions. A key reason for LMICs to favour such a light touch approach is that they fear that committing to higher environmental and labour standards negatively affects their competitive advantage. Moreover, complying with stringent environmental and labour standards requires additional capacity of businesses and governmental agencies which are in short supply in many LMICs.

In addition to negotiating environmental and labour matters in PTAs, high income countries increasingly resort to unilateral instruments to promote sustainability. Recent examples include the US' Inflation Reduction Act, the EU's Carbon Border Adjustment Mechanism and Deforestation Regulation. The goal of these major policy initiatives is to support the transition towards net-zero economies. Many stakeholders in LMICs, however, emphasise the trade distorting nature of such policies and argue that they equate to "green protectionism". Moreover, such policy initiatives are conceptualised and implemented in a largely uncoordinated way and the perspectives of affected economies and communities are often not considered.

This situation of highly dynamic yet largely uncoordinated policy making calls for a strong multilateral system that facilitates the negotiation of joint rules and standards, offers a platform for policy dialogue and joint learning and the adjudication of conflicts. However, important members in the WTO block progress on negotiating environmental and social aspects along economic concerns. While sustainability was a key topic of stakeholder discussions in the context of the 13th Ministerial Conference in Abu Dhabi (26-29 February 2024) it was a mere sideshow in the actual negotiations. A few influential members blocked the conclusion of the second phase of the fisheries negotiations and the

final declaration did not even mention the words climate change and labour.

Policy Recommendation

The G20 can and must be used as a platform to advance discussions on the better alignment of the three pillars of sustainability – economic, social and ecologic – in the WTO. Surely, the G20 brings together the key players that are also influencing progress – or lack thereof – at the WTO. However, the G20, as an informal governance institution, can play a crucial role in better aligning trade and sustainability. First of all, the G20 process culminates in a summit at the level of leaders with the potential to generate the political will necessary to achieve progress and bridge policy silos. Secondly, the G20 process offers informal platforms for line ministries and leaders that can be used to foster policy dialogues that may be harder to achieve in formal settings of multilateral institutions. With this potential role of the G20 in mind, what are the key policy recommendations of the T20 during Brazil's G20 presidency to advance the alignment of trade and sustainability?

First of all, a reformed WTO, among other things, is key to support the inclusion of sustainability matters in the multilateral trading system. This includes, among others:

- the reform of the negotiation function of the WTO, especially by the embrace of plurilaterals approaches that allow sub-groups of members to advance rule-making, e.g. on trade of environmental goods and services, while non-participating members are not negatively affected;

- the reform of the WTO's dispute settlement system to adjudicate an increasing number of trade conflicts related to the adoption of climate-related policies; if this is not possible in the short to medium term it will be necessary to foster dialogue to deescalate conflicts and commit to not appeal into the void (Akman et al 2024);
- the strengthening of the monitoring function of the WTO to increase transparency about unilateral policy measures, especially in view of resurgence of (green) industrial policy (Ibid).

Second, a reform of the WTO's rules system is needed to turn the ambition formulated in the preamble of the Marrakesh Agreement to align trade and sustainability into reality.¹

Among the existing agreements, the following reforms are key:

- clarify the meaning of reform of the general exception clause (Art. XX) in light of current trends of policy making;
- reform the Agreement on Subsidies and Countervailing Measures to make it more in sync with current trends in "green industrial policies". The adoption of a "box

¹ "Recognizing that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development."

system” similar to the agreement on agriculture may be a way forward (Akman et al 2024).

Third, in addition to the support of multilateral reforms, the G20 can play a key role in fostering policy dialogue on unilateral policy measures to support sustainability. The G20 brings together producing and consuming countries as well as economies from different income groups and it is therefore a suitable platform to exchange experiences on the effectiveness of different policy measures and their trade-offs.

Implementation Pathways

How can these policy recommendations turned into concrete actions at the level of the G20? Three pathways of different levels of ambition are conceivable:

First, joint ministerial meetings bringing together trade, environmental/climate and social/labour ministers may be a first practical step to engage in a discussion about the interface between trade and sustainability.

Second, a joint working group or task force should be established as a platform for deliberations on the interface between trade and sustainability and policy-learning on domestic policy measures and their impact. Such a working group does not have to start from scratch and should involve relevant stakeholders such as the TESSD process. Such a working group could also be the forum to better coordinate domestic action, e.g. to disclose subsidy policies and to develop guiding principles for green industrial policies (Kleimann et al 2024).

Thirdly, leaders' level commitment will be necessary to generate momentum to address the thorny issues related to institutional reform of the WTO including its dispute settlement, negotiation and monitoring functions. To achieve this, it will be necessary to keep the topic of trade and sustainability on the agenda of the G20 in the upcoming presidencies to foster mutual understanding of the challenges and policy options as a basis for a breakthrough on sustainable trading relations.

References

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