



Task Force 04

**TRADE AND INVESTMENT FOR SUSTAINABLE AND
INCLUSIVE GROWTH**

A Just, People-Centered, and Green Trade System for the 21st Century

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Abstract

This policy brief recommends pathways to reform the global trade system to promote sustainable development, fight climate change, and build an inclusive, people-centered global economy. Our analysis draws on the findings of a two-year, multistakeholder research project that brought together over 400 thought leaders and produced over [60 white papers](#) that were distilled into a comprehensive vision for trade reform entitled the *Villars Framework for a Sustainable Trade System (Villars Framework)*. It advances recommendations for trade system reform in support of a just transition to a low-carbon future, a restructured WTO approach to subsidies, strategies for ensuring that developing countries and marginalized populations are provided fair opportunities to benefit from the trade system, and proposals to make global value chains more inclusive and equitable.

In this brief, we examine how a regeared trading system aligned with sustainable development can accelerate many of the key action items on the G20 agenda, to:

- harness the trade system to promote the transition to net-zero greenhouse gas emissions
- reform the WTO's approach to subsidies to promote sustainable development
- facilitate developing country participation in a sustainable economy
- make supply chains more equitable and resilient during global crises
- align the trade system's structure with climate finance in the developing world



Diagnosis of Issue

Over many decades, the international trade system has contributed in important ways to uplift the lives of people worldwide. But the trade regime cannot hope to optimize its contributions to social welfare if it operates in isolation from the broader challenges of the global society. In this regard, globalization and trade liberalization have become the subject of pervasive political pushback in many countries, and the multilateral trade system is challenged to contribute to sustainable development.

Critics fault the current structure of the trade system for failing to contribute to efforts to address environmental threats and challenges to planetary boundaries, including climate change, a worldwide loss of biodiversity, increased air and water pollution, contamination of the oceans, improper waste disposal, and the despoilment of the land through extractive industries and unsustainable agricultural practices. They also call out the system for its failure to address the gaping social inequities of our time. Simply put, the trade system is widely perceived to have failed to fulfill its potential to address critical environmental issues or to advance progress on the social dimensions of sustainability, including inequality, poverty, gender parity, worker impacts, labor rights, and shared public health challenges.

But a sharper critique has also been leveled at the trade regime based on the very fact that the reduction of barriers to trade, without adequate account of the full social costs of the economic activities that are thus promoted, risks accentuating harm to people and the planet. Indeed, many of the enterprises that have thrived in international trade have business models that entail spillovers of pollution or other harms that undermine progress toward a sustainable future rather than supporting action on climate change and other fundamental challenges such as those highlighted in the UN Sustainable Development

Goals (SDGs). If the global system permits these uninternalized negative externalities to persist – with enterprises and states not being held to account for the full social costs of their actions – then the promise of welfare gains from trade cannot be assumed.

Alongside these broad concerns over the trade system’s perceived shortcomings, there has been a parallel, and at times more contentious, debate over whether the system has paid adequate regard to the special needs of developing countries seeking reliable pathways to sustainable development. In this regard, two parallel risks must be avoided. First, failure to take up the sustainability agenda threatens to inflict *inaction* costs globally with a disproportionate burden of climate change, biodiversity loss, and other impacts falling on developing nations. Second, if the sustainability agenda is advanced in anything less than a careful, scientifically grounded, and analytically rigorous manner with due attention to the developing world, many nations may face unfair new obstacles to their participation in international markets and diminished export prospects.



Recommendations

The G20, comprising the world's leading economies, can kickstart a transformation of the global trade system so that it better advances sustainable development across the world -- and the interests of developing countries, MSMEs, marginalized communities, and workers in particular. It can do this by agreeing in principle to critical reforms of global trade rules and institutions, which in turn can serve as a foundation for a regeared WTO that is sustainable, inclusive, and equitable.

1. Harness the trade system to promote the transition to net zero Greenhouse Gas (GHG) emissions.

The G20 should launch work streams at the WTO to:

- create processes for gauging the equivalence and interoperability of climate change policy approaches – in cooperation with agencies such as the United Nations Framework Convention on Climate Change (UNFCCC), the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC)
- organize dialogues to define measurement protocols for GHG emissions associated with traded goods – on a sectoral basis and in association with partners, including the ISO, UNFCCC, and relevant industry associations
- establish foundations for a global social cost of carbon (or GHGs) in cooperation with the World Bank, IMF, UNCTAD, and OECD, among others

- develop principles for any GHG border adjustment mechanisms that include equivalence arrangements, a scientifically valid GHG measurement protocol, appropriate arrangements to remit border adjustment proceeds to the country of origin for approved climate change management activities, and suitable arrangements to reflect just transition principles

The G20 should instruct the WTO Secretariat to work closely with the UNFCCC to align countries' trade-related actions to their NDCs in COP29.

2. Reform the trade system's regulation of subsidies to prohibit subsidies that jeopardize sustainable development, and to promote subsidies that enhance sustainable development.

The G20 should lead WTO Members to revise the GATT, the Subsidies and Countervailing Measures (SCM) Agreement, and the Agreement on Agriculture to specify that where a subsidy has significant negative sustainable development effects, even if it causes little trade distortion, it should be found illegal. This characterization would reflect the trade system's core commitment to sustainable development. This presumption could be rebuttable through a demonstration that the policy goals underlying the government intervention justifies the sustainable development harm (e.g., an overriding national security concern or the possibility that, while there are negative sustainable development impacts in one area, other SDGs will be advanced significantly). Where the subsidy causes both negative sustainable development effects and significant trade distortion, it must be withdrawn on a short schedule (with greater flexibility for less

industrialized countries) and it would be countervailable (i.e., subject to countervailing duties in the importing state).

Conversely, the G20 should lead WTO Members to revise the GATT, the SCM Agreement, and the AoA to make clear that subsidies that have positive expected sustainable development effects and little trade distortion effects are permitted. Still, if they have major trade distortion effects, they are prohibited if a complaining state sustains the burden of proof that the expected trade distortive effects are disproportionate in relation to the expected sustainable development effects. Permitted subsidies would not be countervailable.

3. Facilitate developing country participation in a sustainable economy

Effective participation in global trade requires regarding and repurposing the trade-related processes and institutions that currently assist developing countries in meeting their technical capacity and training needs. The WTO, UNCTAD, and ITC have all made significant strides in mainstreaming the Sustainable Development Goals (SDGs) into their activities, but there is substantial opportunity to join their capacity-building mandates and rationalizing their technical capacity-building resources to expand sustainable trade opportunities for developing countries and MSMEs.

The G20 should accordingly agree to develop a work program aimed at strengthening the trade system's effectiveness in building capacity for sustainable trade. We propose three broad reforms that could be explored in this work program:

- re-charter the ITC to coordinate assistance as the Sustainable Trade Center to play a pivotal coordinating role in technical capacity-building efforts of the WTO and UNCTAD, and to support a sustainable private sector in developing countries
- establish a Sustainable Development Impact Assessment mechanism to provide timely analysis to support transparency, participation, and effective negotiations in international trade agreements and decision
- create a Sustainable Trade Transition Fund, administered jointly by trade-related international organizations

In addition, the G20 should spearhead a Sustainable Development Impact Assessment (SDIA) mechanism at the WTO to provide timely analysis to support transparency, participation, and effective negotiations in international trade agreements and decisions. The SDIA should be designed to focus attention on social issues, especially those relating to MSMEs, gender, indigenous communities, and labor. Negotiators and policymakers should undertake *ex-ante* and *ex-post* assessments that include consideration of whether distributive, representational and recognitional components of justice are being/have been adhered to in the course of negotiating trade agreements. This can be achieved by ensuring that *procedural* elements, including adequate representation and recognition of relevant groups, interested communities, and states, are included in the SDIA.

4. Make supply chains more equitable and resilient during global crises

The COVID-19 pandemic and the Ukraine War demonstrated that modern supply chains, while marvels of efficiency, are also highly fragile and, in some cases, lack resilience. This has prompted some policymakers in some major economies to voice

support for onshoring, near-shoring, and friend-shoring of supply chains deemed critical to national security or economic vitality. But a shift away from global supply chains is not a viable approach for many countries, especially those in the Global South that cannot meet their basic needs through domestic sources and lack the economies of scale and market power to restructure existing supply chains to hedge against future disruptions. In practice, low levels of economic development are punished with inequitable access to essential goods in the event of an unexpected demand spike or supply shock.

A more durable and just response to supply chain fragility is to leverage the global trade system to promote cooperation, coordination, transparency, and sustainability around access to needed goods. To that end, the G20 should undertake collaboration around aligning supply chains with a resilient, low-carbon, inclusive global economy. We propose three focus areas in this effort:

- develop principles around subsidization of supply chains of certain essential goods in response to exceptional events such as pandemics, natural disasters, or interstate conflict
- pursue an *ex-ante* agreement limiting export restrictions of essential goods in emergencies, with appropriate incentives for compliance
- strengthen traceability of intermediate goods and raw materials through regulatory coherence and global cooperation in data collection and data sharing across value chains at the product level

5. Align trade with climate finance in the developing world

There is consensus in the international community that underinvestment in developing nations – including resources to fund the SDGs – constitutes a major barrier to

development that threatens to lock them out of the emerging sustainable economy. For example, a recent UNCTAD report found that over 30 developing countries have not yet registered a single utility-sized international investment project in renewables.

For some leading developing economies, trade has helped overcome this barrier by creating market opportunities that attract investment. Even so, across important parts of the Global South, trade has not been as strong a mechanism for sustainable development as it might have been. This gap represents a major missed opportunity. With that in mind, the G20 should seek pathways to make investing in the Global South more attractive and sustainable. Key areas for action include:

- provide developing countries preferential market access for their sustainable products/services (through their [Generalized System of Preference](#) schemes or a special waiver like the [WTO Least Developed Country Services Waiver](#))
- endorse collaboration between the trade system and the UNFCCC to align countries' trade-related actions to their Nationally Determined Contributions (including recognizing ambitions and action on carbon markets)
- promote information sharing and exchanges of best practices for driving innovation and encouraging discussions on how to increase technology transfers and innovation in developing countries
- engage the World Bank and International Monetary Fund on reform initiatives to increase investment in technology and other material capacities of developing countries to produce traded goods and services in a sustainable manner

Scenario of Outcomes

As the outcome of the 13th WTO Ministerial (MC-13) in February demonstrated, the WTO itself is unlikely to deliver the kinds of transformative reforms outlined in this policy brief through its existing processes and mechanisms. Implementing the recommendations set out above will be contingent on parallel reform of the governance and negotiation and decision-making processes of the WTO, as set out in more detail in the [Villars Framework](#). Such institutional reforms must, by necessity, include measures to enhance the agility of trade system deliberation and decision-making, facilitate new modes of negotiation that reflect the nature of global public goods (going beyond the mercantilist and zero-sum bargaining undertaken in the context of tariff reductions), and break down silos between trade institutions and actors in the international system, such as those concerned with climate, nature, labor rights, and development. These, too, will not be light lifts, but, in our assessment, without them, the global trade system will drift to the periphery of global governance.

With this in mind, we envision a number of possible scenarios that would follow from the adoption of the recommendations in this paper:

Accelerated decarbonization of the energy and transportation sectors in developing countries. The measures in this paper would ensure developing countries have better access to the goods, technologies, and investments needed to pursue sustainable development pathways and avoid a choice between meeting climate goals and delivering inclusive growth for their citizens.

Rapid reduction of sustainability-reducing subsidies for fossil fuels, and for harmful agricultural and fisheries practices. Repurposing of these subsidies for sustainable



development and ensuring that developing countries and marginalized populations are accorded a just transition.

A more durable and just response to supply chain fragility to leverage the global trade system to promote cooperation, coordination, transparency, and sustainability around access to needed goods. Countries will cooperate by developing principles around subsidization of supply chains for essential goods; by limiting export restrictions of essential goods in emergencies, with appropriate incentives for compliance; and by strengthening traceability of intermediate goods and raw materials through cooperation in data collection and data sharing.

More successful integration of developing countries and marginalized populations into the global trade system. Developing countries will have better market access for their sustainable goods and services; their trade-related actions under the UNFCCC and the WTO will be more aligned, and the trade-related rules for technology transfer will be buttressed. The WTO and UNCTAD will cooperate to re-charter the ITC to improve the technical capacity-building efforts of the WTO and UNCTAD, as well as to support a sustainable private sector in developing countries. A Sustainable Trade Transition Fund will be established to fund a just transition in trade, including improved market penetration by developing countries and marginalized population goods and services. New multilateral and plurilateral trade agreements will be infused with sustainable development through negotiation support provided by Sustainable Development Impact Assessments to support transparency, participation, and effective negotiations in international trade agreements and decisions.

A more effective and credible WTO. The measures proposed here could kickstart a long overdue (and long frustrated) WTO reform process that is needed if the institution is to avoid obsolescence because its rules are artificially separated from sustainable

development needs. To remain relevant, the WTO must demonstrate that it can contribute to meeting the great challenges of the twenty-first century, above all the climate imperative and sustainable development. The work programs and reforms suggested above would send a powerful message that the WTO is a force for positive change.



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