



T20 Brasil 2024
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T20 Policy Brief

Task Force 04

TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH

Enhancing Trade Sustainability and Inclusivity Across the G20

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Abstract

Our global trade system is under greater stress than at any other time in the post-war era. Our current approach is not producing desired outcomes and is generating a backlash against rules-based open trade. A different approach is needed to help ensure that trade remains open and vibrant and delivers for all. Sustainable and inclusive trade focuses on the conduct of policy in a manner that not only generates economic growth but also strengthens social capital, provides environmental stewardship, and seeks to ensure that trade contributes to better social outcomes.

Diagnosis of the Issue

The imperative to conduct trade on a more sustainable basis is particularly acute as G20 membership includes countries at a variety of income and developmental levels, many of which rely heavily on trade for growth to manage large natural resource endowments and deliver social cohesion and bolster inclusivity. All G20 members are struggling with difficult short-run trade-offs between economic, social, and environmental pillars of trade sustainability.

The concept of sustainable trade is based on the landmark work of the 1987 UN Brundtland Commission (World Commission on Environment and Development, 1987), which first laid out the three pillars of sustainability. Sustainable trade refers to engaging in commerce in a way that not only generates balanced economic growth but also strengthens social capital and provides for adequate environmental stewardship.

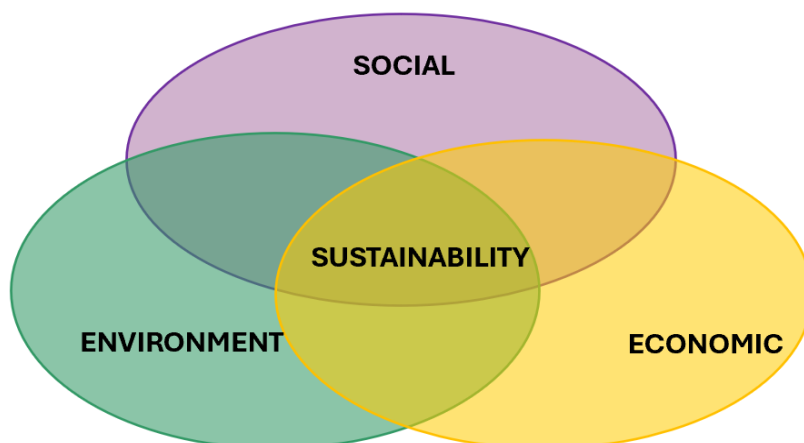



FIGURE 1. The Three Pillars of Sustainable Trade

Source: Authors



Under the economic pillar, countries work to reduce trade costs, invest in technological and physical infrastructure, diversify their trade relationships, and minimize trade restrictions. The basic objective is to maintain openness while ensuring that the fundamental building blocks are in place to facilitate the ability of citizens to participate successfully in international trade. As illustrated during the pandemic, countries also need to avoid over-dependence on a limited number of partners, either as export markets or as the source of supply for critical imports.

Under the social pillar, countries demonstrate high levels of political stability, maintain quality educational systems and strong labor protections, minimize economic inequality, and commit to inclusion. The objective is to develop societal capital, warranting civil society support for trade by making sure the benefits are dispersed rather than concentrated. The current backlash against trade is partially driven by the perception that trade benefits large multinational corporations and financial institutions at the expense of workers. Strengthening social capital also ensures that the workforce has the skills and capacity to compete successfully in international trade.

Under the environmental pillar, countries agree to high environmental standards in trade agreements, minimize transfer emissions, and strengthen air and water pollution standards. Importantly, it is not simply a matter of having as clean an environment as possible but a question of engaging in trade in a way that promotes rather than diminishes greater environmental sustainability on a global basis. Countries that have low levels of domestic air pollution simply because they have outsourced their dirty industries to other countries are not engaging in sustainable trade.

Sustainable trade issues run literally from the village level to multilateral institutions. Small farming communities in Indonesia, for example, face strong pressures to engage in more sustainable agricultural practices but have few practical alternatives to the

environmentally destructive practice of burning forestland. Fishing communities in Brazil face similar pressures but do not always have the resources to procure the more environmentally friendly equipment required to export their catch to many developed countries. Other economies, such as Saudi Arabia, have been historically centered around the extraction of a non-renewable natural resource. Reorienting a national economy cannot be done quickly.

The desire to address legitimate social and environmental concerns must be balanced against the need to avoid acute economic dislocations in vulnerable communities. In the pursuit of greater trade sustainability, care must be taken not to jeopardize the fundamental benefits trade can bring. Access to trade has been a transformational development tool for countries in every corner of the globe. Social and environmental issues—however legitimate—should not be used as a pretext to disenfranchise those who need trade most. Sustainable trade is all about evaluating complex trade-offs and striking the best available balance across the economic, social, and environmental pillars.



Recommendations

There is presently a lack of attention to the necessity of a broad-based focus on sustainability when developing and implementing trade policy. This Policy Brief puts forward four recommendations for concrete ways to address this at the level of the G20.

1. Develop a G20 Framework on Sustainable Trade

A G20 Framework on Sustainable Trade (henceforth ‘Framework’) would serve to help guide policy decisions towards achievement of agreed sustainability objectives. While similar arrangements are already in place among smaller groups of countries,¹ the proposed Framework would represent a forward-thinking strategy at a more global level for G20 countries to solidify their commitment to sustainable and inclusive growth. It would provide an opportunity to address the triple challenge of improving economic, environmental, and social resilience without compromising on any of them. Through this arrangement, the G20 could lead by example, driving global progress towards a trade system that stands fully on three sustainable pillars.

The Framework would be based on agreed objectives as well as some key illustrative criteria to allow for the tracking of progress in meeting these objectives by G20 governments in the three pillars of trade sustainability. Suggested objectives, as well as

¹ For example, negotiation of the [Agreement on Climate Change, Trade and Sustainability](#) bringing together several small economies was launched in 2019, and negotiation of the [Indo-Pacific Framework for Prosperity Agreement Relating to Clean Economy](#) was finalized in November 2023.



key criteria in the form of relevant indicators that could potentially be included to track progress in meeting these objectives, are set out below.

➤ **Objectives of the Economic Pillar:** greater degree of trade openness; lower trade costs in goods and services; greater diversification of trade partners (shown by change in concentration of export and import markets over time); and higher degree of export sophistication embodied in the export portfolio of the G20 members.

Criteria to track these objectives: The discussion of policy evolution in the economic pillar could draw upon criteria from the World Bank-WTO Services Trade Restrictiveness Index (covering all of the G20 members) that indicates relative trade openness overall and by major sector (World Bank and World Trade Organization n.d.); the WTO Trade Cost Index that reflects implementation of the WTO Trade Facilitation Agreement and the WTO Services Domestic Regulation disciplines to track the evolution of trade costs (WTO n.d.); the change in number and concentration of export markets as shown in the statistics of the WTO Trade Profiles (WTO 2023); and the degree of export sophistication available in the World Integrated Trade Solution database (World Bank n.d.).

➤ **Objectives of the Environmental Pillar:** lower percentage and absolute use of fossil fuel subsidies and other support measures; lower percentage of greenhouse gas emissions; reduced tariffs on environmental goods; reduced deforestation to positively impact CO₂ emissions; and balanced use of forestry lands sustaining agricultural activities important for local communities and Indigenous populations.

Criteria to track these objectives: The discussion of policy evolution in the environmental pillar could draw upon criteria that track the implementation of agreed goals in two major areas reached at the UN Climate Change Conference (COP 28) in

December 2023 (UNFCCC, 2023). The first would be a measure of the reduction in use of fossil fuel subsidies and support measures by G20 members as they transition away from fossil fuels to renewables such as wind and solar power-based on a fossil fuel subsidy tracker of the OCED-IISD (OECD-IISD n.d.). The second would be a tracker of the change in greenhouse gas emissions drawn from the Energy Data Explorer of the IEA (IEA n.d.). Lower fossil fuel use and greenhouse gas emissions would translate into a lower carbon footprint in international trade. Exploitation of the world's forests would be tracked through the World Resources Institute statistics (World Resources Institute, 2024). The tariff levels on environmental goods (based on those products included in the APEC List of Environmental Goods) would also be tracked, as lower tariffs could encourage the use of more efficient environmental processes in output and consumption.

➤ **Objectives of the Social Pillar:** lower income inequality; greater inclusiveness of women in remunerated economic activities; inclusive educational systems; high levels of political stability; and stronger labor protections.

Criteria to track these objectives: The discussion of policy in the social pillar could draw upon data in the World Income Inequality database to track the evolution of income inequality as well as the share of women in labor income in the G20 members (WID.world n.d.). It could draw upon the ILO employment database to track the percentage of women employed in the active labor force; upon World Bank statistics on total and female

enrollment in secondary and tertiary educational institutions (World Bank DataBank n.d.); and on the Global Economy dataset for its index of political stability².

Periodic reports tracking the evolution of these illustrative indicators could be requested from the OECD, World Bank, and WTO to provide a basis for discussion by the G20 of the status of sustainable trade achievements under the three pillars of the Framework. Alternatively, the G20 could turn to an existing set of indicators that have already been developed for this purpose, namely the Sustainable Trade Index created and maintained by the Hinrich Foundation and IMD for 30 countries (Hinrich Foundation and IMD World Competitiveness Center, 2023). This database (which contains a somewhat different but similar set of indicators) could be extended to all G20 members as a common basis for a similar exercise evaluating the evolution of policy under the three pillars.

A recent major international report emphasized that the trade community can no longer refrain from being involved in environmental policy or sustainable development topics (Trachtman et al 2023). These are inextricably intertwined at present. The Villars Report discusses the numerous ways in which the trade system can contribute to addressing problems of sustainable development and what reforms will be needed for it to do so effectively. This T20 Policy Brief proposes a parallel, supportive track for G20 members to progress toward this objective.

² The GlobalEconomy.com database contains over 300 indicators for over 200 countries, drawn from multiple official sources, including the World Bank, the International Monetary Fund, the United Nations, and the World Economic Forum.



2. Incorporate Sustainability Provisions in all Future Trade Agreements Negotiated by G20 Members

Pursuing greater sustainability in trade also requires action at home that bolsters collective multilateral arrangements. In addition to the proposed Framework, this Policy Brief recommends that G20 members should make environmental sustainability and economic inclusion commitments or undertakings an integral part of all the bilateral and regional free trade agreements they negotiate and include as many binding provisions as possible in this regard. At present, only about half of the G20 countries are members of deep RTAs that contain sustainability and inclusivity commitments. A tracking of the evolution of RTAs with sustainability provisions could be provided to the G20 by the WTO, World Bank, and OECD.

In the negotiation of future trade agreements, the G20 members should ensure that:

- both the negotiating process as well as the implementation of sustainability provisions are transparent and inclusive. This means involving civil society, Indigenous communities, marginalized groups, and the private sector in consultations to foster broader support and ensure that their interests are met. Compliance should also be carried out in an inclusive and sustainable manner.
- a concerted effort is made to include binding provisions on both sustainability and inclusivity when negotiating future trade agreements, especially with other G20 members, ensuring that such provisions are actionable and subject to oversight and dispute resolution mechanisms, whenever possible.
- sustainability commitments are balanced for all parties in future trade agreements and subject to a progressive implementation process, with technical cooperation to be made available along with allocation of adequate resources for those requesting it.

3. Carry Out Supportive Actions and Initiatives at the National Level to Promote Sustainability in Trade


At the national level, G20 members should invest in capacity building around an understanding of sustainable trade and how it can help meet the UN Sustainable Development goals. This should include support for the development of institutional and technical capacities in all countries, particularly developing G20 members.

Actions to monitor and evaluate the environmental and social impacts of trade agreements as well as their economic impacts should be undertaken at the national level. These would include continuous evaluation and adjustment of policies to maximize their sustainability outcome. Cooperative capacity-building efforts among the G20 members themselves should be discussed and carried out upon request to further these objectives.

4. Embed a Dedicated Dialogue on Sustainable Trade into the G20 Process


Ongoing dialogue at the G20 level will be critical to ensure that sustainability objectives are advanced at the global, regional, and national levels. This dialogue should, importantly, include discussions of areas where cooperation related to sustainability objectives can be carried out.

The Policy Brief recommends that the G20 should set aside time at each of its meetings for discussion of sustainable trade, which would encompass a review of progress under the proposed Framework. This discussion could be facilitated by regular reports prepared by the WTO, World Bank, and OECD on the evolution of criteria under the three pillars in the Framework on Sustainable Trade, as suggested above. These G20 discussions could encourage the creation of sandboxes to test progressive policy options among a subset of members in various areas, such as cooperation in carbon markets and the creation of guidelines for the development of eco-labels and fair-trade labels. Policy initiatives



among smaller groups of G20 members could be discussed at the UN High-level Political Forum on Sustainable Development, the central platform for the review of the 2030 Agenda at the global level. These reviews cover several of the objectives set out above under the three pillars of sustainable trade.³

³ Several countries will be carrying out voluntary national reviews of their implementation of the 2030 Agenda at the UN High Level Political Forum session between 8 and 18 July 2024.



Scenario of Outcomes

Putting in place the proposed G20 Framework would result in several important benefits for the world economy. The Framework should help to:

- contribute to carbon-neutral growth with favorable social impacts, as the liberalization of trade in environmental goods and services would make these more affordable and encourage the technological adjustments necessary for carbon-zero growth,
- redirect resources from environmentally harmful and socially regressive subsidies into projects that will deliver positive economic, environmental, and social impacts,
- align with international objectives such as the Paris Agreement and the SDGs so that trade policies are seen as a driver of global efforts to combat climate change, promote sustainable use of resources, and reduce inequalities,
- promote and facilitate carbon market activities among G20 members to facilitate faster reduction of emissions and the move towards carbon-zero economies,
- provide flexibility and space for innovative solutions allowing for the incorporation of innovative approaches to sustainability, including the use of digital technologies for environmental monitoring, the promotion of circular economy practices, and the development of green supply chains, encourage multilateral cooperation on sustainability issues, recognizing that environmental degradation and social inequities are transboundary challenges that require collective action. This can strengthen international institutions and promote a more coordinated global response to sustainability issues.

If trade is going to continue to be a driver of economic development and rising standards of living, the concept of sustainable trade needs to be more deeply embedded in the G20's approach to trade. This will require a shift in mindset, a reordering of policy



priorities, and a focus on the ways in which the three pillars of sustainable trade can be used to achieve this objective.





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