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Task Force 04

TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH

The Impact of Trade and Investment Policies on Sustainable Development Goals

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Abstract

Trade and investment are part of the bedrock of sustainable development, especially in developing countries. The importance of the improvement in trade and investment flows to the development aspirations of countries cannot be overemphasised as it significantly impacts employment, hunger, poverty, inequality, and, in extension, social integration and inclusion. However, in practice, there are buckets of trade and investment restrictions, such as voluntary export restraints, technical and non-technical measures, investment security, volatile economic environment, etc., that impact the facilitation of trade and investments, particularly in developing countries. The aftermath of the COVID-19 pandemic, the Russian invasion of Ukraine, the climate crisis, rising food and energy prices and the extant Middle-East crisis have brought to the fore the threat of food insecurity and investment security. This is due to the rise in trade and investment restrictions that have aggravated investment gaps and impacted the achievement of sustainable development goals (SDGs) 1,2,8,9 and 10 in developing countries. The implemented import restrictions in G20 by 2023 have amounted to 12% of its imports; the imposed export restrictions have risen since 2020 due to exogenous shocks, while the investment gaps have widened from $2.5 trillion to $4 trillion per year that lead up to 2030. The preponderance of trade and investment policy impediments would not only affect global trade and investments, but also developing countries' attainment of SDGs, particularly hunger, poverty and inequality.

To this end, this policy brief abstract proposes that: (1) the G20 should show restraints in the implementation of new trade restrictions and roll back the existing ones; (2) investment mobilisation ability toward sustainable development must be enhanced in developing countries by the G20 through investment-enhancement policies.

Keywords: Trade Policies, Investment Policies, Global Crises, SDGs

Diagnosis of the Issues

The global economy has been facing multidimensional crises in recent times, which led to food insecurity threats and the inability to attain Sustainable Development Goals (SDGs), particularly in Africa, Asia and Latin America. The successive crises have stimulated the disruption of international investment flows, supply chains and global value chains, especially for agri-food and foodstuffs. The consequences are inadequate access to goods that impact prices, food security and poverty. The aftermath of the recent crises such as the COVID-19 pandemic, the war in Ukraine and Gaza and catastrophic climate change, as well as energy and food price spikes, rising geopolitical tensions, etc., is the retweaking of geo-economic strategies of many countries, including the G20. WTO (2023) and OECD-UNCTAD (2023) affirm that the G20 has modified its trade and investment policies to reflect the extant global challenges.

Thus, the emergence and festering of the global shocks-cum-crises have propelled the G20 to initiate and implement economic policies, particularly trade and investment policies, that are national treatment-oriented and restrictive. The policies shield the G20 economies from these crises' impact, particularly the food shortage scare, and ensure a sustainable supply of necessary goods. In the second half of 2023, the G20 introduced less trade-enhancing policies than trade-protective policy measures on goods, and though the trade coverage of the former is still higher than the latter, the gap has narrowed. The trade coverage of the trade-restrictive measures increased by 180%, from $88 billion in the first half of 2023 to $246 billion in the second half of 2023 (WTO, 2023). The average monthly new trade restrictions (9.8) in the G20 exceeded the trade enhancement (8.8), the first time since 2015, in the last half of 2023 (WTO, 2023). Moreover, the intensity of global investments has been diminishing, which has decapacitated foreign direct investment (FDI) and expanded the investment gaps to achieve SDGs. The G20 trade and investment measures have contributed to the widening of the scope of unemployment, food insecurity, poverty, inequality and social exclusion in developing countries.

The magnitude of import restrictions in force in the G20 indicates little or no sign of abatement as of 2023, as these restrictions impact more than $2 billion (12%) of the G20 goods imported and 9% of the world imports between 2009 and 2023 (OECD-WTO-UNCTAD, 2023). The G20 import restrictions have been increasing since 2009, and their share doubled between 2017 and 2019 in the G20 imports (from 5% to 10%) and in world imports (from 4% to 8%). The increasing import restrictions are having a devastating impact on the attainment of SDGs 1, 2, 3, 8 and 10 in developing countries, as the share of agricultural employment[1] in total employment in Africa decreased from 58% in 2000 to 48% in 2021 (FAO, 2023). Moreover, over 1.1 billion multidimensional poor people are now living in 110 developing countries[2], out of which half are currently living in SSA, and one-third are from South Asia (UNDP, 2023).

More so, voluntary export restraints (VER) have proliferated since the outbreak of COVID-19 in 2020, though some measures were rolled back. However, the G20 retained 28 out of 75 global export restrictions on food, feed and fertilisers (38%), while the G20 accounted for 55% of the remaining 20 COVID-19 pandemic-related VER on food, feed and fertilisers (WTO, 2023). Furthermore, because of the high-security implication of FDI in the G20, which has been rising since 2017 (OECD-UNCTAD, 2023), the G20 countries have modified their investment policies to curtail/manage any potential national security implication of the FDI. Besides, the volatility in the economic environment has

[1] Agriculture compasses agriculture, fishery and forestry.

[2] This was 18% of the 6.1 billion people in 110 developing countries.

impacted global investment drives, while the attainment of sustainable development goals in developing countries is affected by the continuous weakness in FDI.

All these policy measures have contributed to the exacerbation of uncertainty, price volatility, hunger, and poverty, as well as the proliferation of inequality in developing countries, especially in SSA and South Asia. Severe food insecurity in Africa has risen from 17% in 2015 to 22% in 2022, while it was 5% and 9% in Asia for the same period (FAO, 2023). This calls for targeted policy actions.

Recommendations

Trade and investment are part of the concrete channels through which countries can achieve sustainable economic development. Thus, this policy brief proposes the following policy recommendations for the G20, to enhance trade and investment flows in developing countries.

1. Implementation of Import-Enhancing Measures

The continuous implementation of restrictive import measures, such as sustainable standards, technical and non-technical measures, tariff quotas, etc., have implications for the G20 trade partners, particularly those from developing countries, development aspirations and the achievement of SDGs 1, 2, 3, 8 and 10. WTO (2023) shows that 417 import restrictions were imposed in the G20 between 2015 and mid-October 2023, with tariffs accounting for about 58%, while custom procedure represented 22%, and quantity restrictions were 12%. The import measures have put many low- and middle-income countries at a disadvantage because they impact market access. Rau (2015) affirms that the G20 received 80% of low-income countries' exports. The preponderance of these restrictions has a devastating impact on hunger and poverty in developing countries. Half of the 1.1 billion multidimensional poor people live in SSA, and one-third are from South Asia (UNDP, 2023). Part of the phenomenon is attributable to these import policies, which have stifled the income and job creation potential of the producers in developing countries and widened their inequality and social exclusion gap. Hence, the G20 needs to drastically reduce the extant protective import policies that inhibit the market access of developing countries and directly affect the attainment of their SDGs, by embracing more import-enhancing policies.

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2. Restraints in the Imposition of New Export Restrictions and Rolling Back the Extant Ones

The G20 VER has proliferated since 2020 because of the scare of domestic shortages of goods and disruption of the supply chains, especially for food, feed, fertilisers, and medicals, orchestrated by the multiple global crises. Some G20 countries have imposed VER as national security to the availability and accessibility of these products to reduce the domestic impact of the crises. For instance, concerning COVID-19 pandemic-related trade measures, of the total 458 stocks of these categories of measures introduced by WTO members and observers, 40% are attributed to the G20 (OECD et al., 2023). However, about 42% of them were trade restricting, with the trade coverage that is still in place estimated at $15.1 billion as of July 2023 (OECD et al, 2023). These policies have affected their trade partners, which are import-dependence or net importers of these products, particularly those from low- and middle-income countries whose bulk of imports originated from the G20. About 70% of the imports from low-income developing countries emanated from the G20 (Ruta, 2015). The number of undernourished people in developing countries had risen by 28%, from 572 million in 2017 to 735 million as of 2022, with South Asia and sub-Saharan Africa (SSA) having the highest hunger levels with GHI score of 27.0 a piece (Global Hunger Index, 2023). Thus, the G20 is enjoined to roll back fully the COVID-19 pandemic-oriented VER and should continually reduce the war-oriented measures to reduce food insecurity, particularly the prevalence of undernourishment in least-developed countries which has increased from 19% of the population in 2011 to 22% in 2021 (World Bank, 2024).

Thus, the extent of the trade inhibition of such import and export restrictions is indicated in Figure 1, which suggests the consequential rise of food insecurity since 2020, with low-income food-deficient countries and Africa significantly more affected.

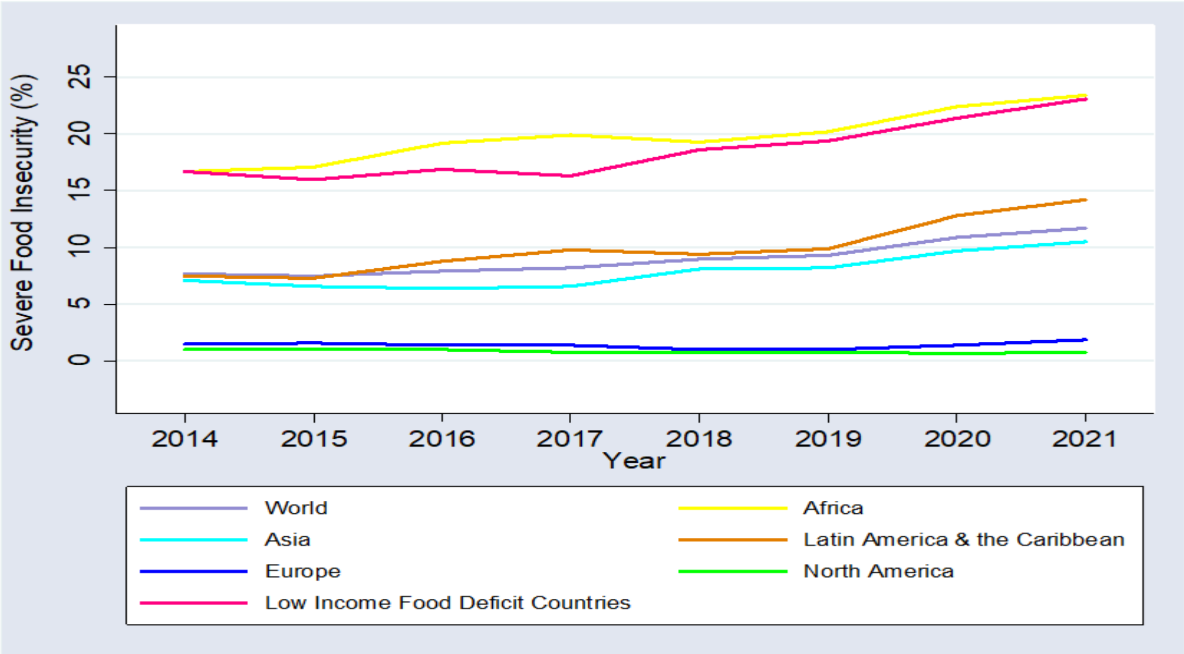

FIGURE 1. Severe Food Insecurity by Continent, 2014 to 2021

Source: Food and Agricultural Organisation (FAO) from Kareem and Kareem, 2023

3. Restraints in the Implementation of Foreign Investment-Oriented National Security Policy

The security implications of the FDI in the G20 have made it necessary to balance national interests against global interests. However, the modifications, in terms of management of potential security implications of the FDI (countries such as Germany, Italy, Russia and the US imposed these measures), that were made to the investment policies in the G20 are to protect their interest. Also, there are FDI measures implemented that have non-security implications, and international capital flows policy measures that are non-FDI specific. The investment policies have stifled upper-middle-income developing countries' investment drive that could enhance their foreign earnings and stimulate sustainable economic development. Further, the global crises-cum-challenges have impeded the G20's FDI and other investment portfolios to developing countries, which has increased the annual SDGs investment gap leading to 2030 to $4 trillion from $2.5 trillion. This shows that developing countries have a herculean task to mobilise the required investment to accomplish the SDGs.

Thus, the G20 should refrain from investment policies that stifle the flow of investment, especially to and from developing countries, to demonstrate their partnership and support for the achievement of SDGs, particularly SDGs 1,2,3,8 and 10.

4. Engage in Mutual Recognition and Equivalence of Sanitary and Phytosanitary (Sps) and Technical Barrier to Trade (Tbt) Measures, While Curtailing the Preponderance of Trade Remedies

Among the G20, the usage of trade remedy measures, of which antidumping measures dominate, has proliferated (Table A1 in the Appendix). In addition, the G20 is the top notifier of SPS and TBT measures to the WTO. Concerning the latter, it has notified about 40% of the 133 SPS-related pandemic notifications (OECD et al., 2023). Besides, they have notified 62% of all TBT-related pandemic measures, constituting about 42% of the 229 total global TBT notifications. These measures, particularly TBT and SPS, are predominantly aimed at achieving trade objectives and can be trade-enhancing or inhibitive (Henson and Jaffee, 2008). However, evidence suggests that they have inhibited trade with the EU and other G20 countries (Kareem, 2016; Disdier et al., 2008, 2015). Moreover, in the case of SPS measures, which are levied on agri-food export, the impact can be inhibitive for African countries, many of which are food import-dependent (Kareem et al., 2017). Thus, the G20 can adopt mutual recognition of these measures in line with the WTO SPS equivalent principle, engage in more comprehensive trade agreements and reduce trade remedies proliferation to curtail the SDGs' impact.

Scenario of Outcomes

On engaging in the usage of trade-enhancing measures

While one of our recommendations hinges on the G20 implementing the trade-enhancing measures. However, this might be difficult in situations needing the G20 to take precautionary measures in response to abusive trade practices of its trading partners that could cause trade injury to G20 economies or its domestic producers. In this case, the usage of trade remedies becomes justifiable. Thus, implementing trade-enhancing measures in all situations might not be viable, particularly if such trade remedy measures are in line with the WTO rules and guidelines.

On restraining the implementation of foreign investment-oriented national security policy

It has been recommended that the G20 restrain the implementation of foreign investment-oriented national security policy, which can potentially widen the investment gasps in SDGs in many developing countries. However, the genuine concern about the security implications of FDIs in G20, as well as situations of hostile and uncertain economic environments of the G20 countries and beyond, might be justifiable for the restriction of FDI flows from and to developing countries. This is because international investment law enables countries to take the necessary safeguard measures to ensure security and order (OECD et al., 2023). Thus, it might be very difficult for the G20 to allow investment flows from and to third countries if such investments (ownership, acquisition, control, etc.) pose national security risks, irrespective of whether they have bilateral or plurilateral investment agreements with such third countries.

In this case, the affected developing countries need to look inward and mobilise domestic resources to finance SDG projects. However, the situations of the hostile economic environment, such as increasing debt burden and commodity price hikes, might make this difficult to achieve, especially for highly indebted and low-income countries, thereby widening the SDG investment gaps, which are already wide at an estimated yearly value of $4 trillion (OECD, 2022). Thus, both the G20 and the affected developing countries must weigh in factors such as national security and geopolitical factors when negotiating future bilateral/plurilateral investment agreements to avoid such hindrances.

On the mutual recognition of SPs and TBT measures as equivalent

The issue of facilitating the mutual recognition of SPS and TBT measures as equivalent can help reduce trade costs. However, this solution would only be viable if G20's trade partners have a high level of initial SPS and TBT measures, and a level of measures of similar quality and scientific justification as those of the G20 that can be deemed as potential candidates for equivalent to those of the G20. However, in many developing countries, this scenario is usually missing, which is a looming hindrance to facilitating the mutual recognition of SPS and TBT measures as equivalent by the G20. Thus, to enable members to realise the benefits of trading with them, G20's trade partners have to enact or adopt a high level of scientifically justifiable SPS and TBT measures before negotiating deep and comprehensive trade agreements, with provisions on the recognition of equivalence principle is a crucial first step.

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Appendix

Table A: G20 Trade Remedy Measures, Selected Years

	Anti-dumping			**Countervailing**			**Safeguard**		
	Initiations	**Measures**	**In force**	**Initiations**	**Measures**	**In force**	**Initiations**	**Measures**	**In force**
2010	137	122		9	17		10	0	
2015	175	168	122	31	15	19	4	4	10
2020	279	81	165	55	23	12	9	7	3
2021	153	225	218	18	40	21	1	6	11
2022	80	85	181	18	18	23	1	1	2

Source: OECD, WTO and UNCTAD, 2021 and 2023

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