



Task Force 04

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

## Protectionism and Rising Challenges to Ensuring the Developing World's Priorities in the G20 Agenda

Camila Amigo, International Analyst, Brazil-China Business Council (Brazil)

Carlos Coelho, Researcher, BRICS Policy Center/PUC-Rio de Janeiro (Brazil)

Julia Ganter, Programme Director, Koerber Stiftung (Germany)

Steven Gruzd, Head of African Governance and Diplomacy Programme, South African Institute of International Affairs (South Africa)

Ganeshan Wignaraja, Professor, Overseas Development Institute / Gateway House: Indian Council on Global Relations (Sri Lanka)

TU Xinquan, Professor, University of International Business and Economics (China)





## Abstract

The G20 represents more than 85% of global economic output and approximately 75% of international trade, as well as roughly two-thirds of the world's population. Ever since the breakdown of the Doha negotiations, globalization backlash, rising nationalism, the global pandemic, and recent conflicts have created a perfect storm that led to increasing protectionism that is challenging WTO's practices and disproportionately affecting developing countries. Newly acquired data through a survey with approximately 1000 experts in Brazil, India, South Africa, and Germany reiterates how protectionism is undesirable. However, a novel set of subsidies and legislation in trade-leading countries has created a race to the bottom that can dramatically curb the participation of developing countries in trade and make their sustainable development efforts more costly. They are rhetorically characterized as green, geopolitical, or based on security concerns, but in practice, test the limits of the agreed-upon international trade regulatory framework. The G20 New Delhi Leaders' Declaration reaffirmed that a rules-based, non-discriminatory, fair, open, inclusive, equitable, sustainable, and transparent multilateral trading system, with WTO at its core, is indispensable. It is in this light that we offer recommendations towards (1) advancement of plurilateral agreements and a revised role for building international trade and WTO capacity in developing countries ensure the development underpinnings of international trade to them and to sustain the G20 commitment towards discouraging protectionism and market-distorting practices; (2) re-globalization through a revised and specific agreement on subsidies; (3) increased transparency on the issue through a review of the notification process. This includes a fresh look at the effectiveness of the core WTO functions as we believe the prescribed recommendations will assist in diminishing trade costs for low and middle-income countries which are presently 27% higher than for others, according to the WTO Trade Cost Index.

**Keywords:** Protectionism, Subsidies, Trade, Development, Re-Globalization, WTO Reforms



## Diagnosis of the Issue

The post-1945 international economic order underpinned by the Bretton Woods System was built on the idea that interdependence among nations through increased trade and economic ties would foster development, prosperity, and peace. However, fast forwarding nearly eight decades, suggests that the future of an open, tradable, and predictable global economy is under threat as de-globalization and protectionism gain strength (WTO 2023, 6). Financial crises, trade wars, recent conflicts, and the COVID-19 pandemic have led to increasing protectionism that is challenging international trade and the World Trade Organization's practices and disproportionately affecting developing countries.

Newly acquired data from a survey with approximately 1,000 experts in Brazil, India, South Africa (IBSA), and Germany demonstrate how protectionism is undesirable (Ganter et al 2024). What respondents have in common is their attitude towards protectionist measures, which they all oppose, even as views on approaches to trade differ between IBSA. While almost equal share of respondents from Brazil say that they would like to see support of WTO and multilateral trade agreements (43%) or a diversification of trade partners through bilateral agreements (49%) as their country's approach to trade, respondents from India (70%) and South Africa (62%) prefer a diversification through bilateral agreements. The preferred approach by German respondents is instead the support of multilateral trade agreements (59%) (Ganter et al, 2024, p.23). This diversity of views presents an opportunity for constructive dialogue and the potential for positive change through multilateral trade agreements.

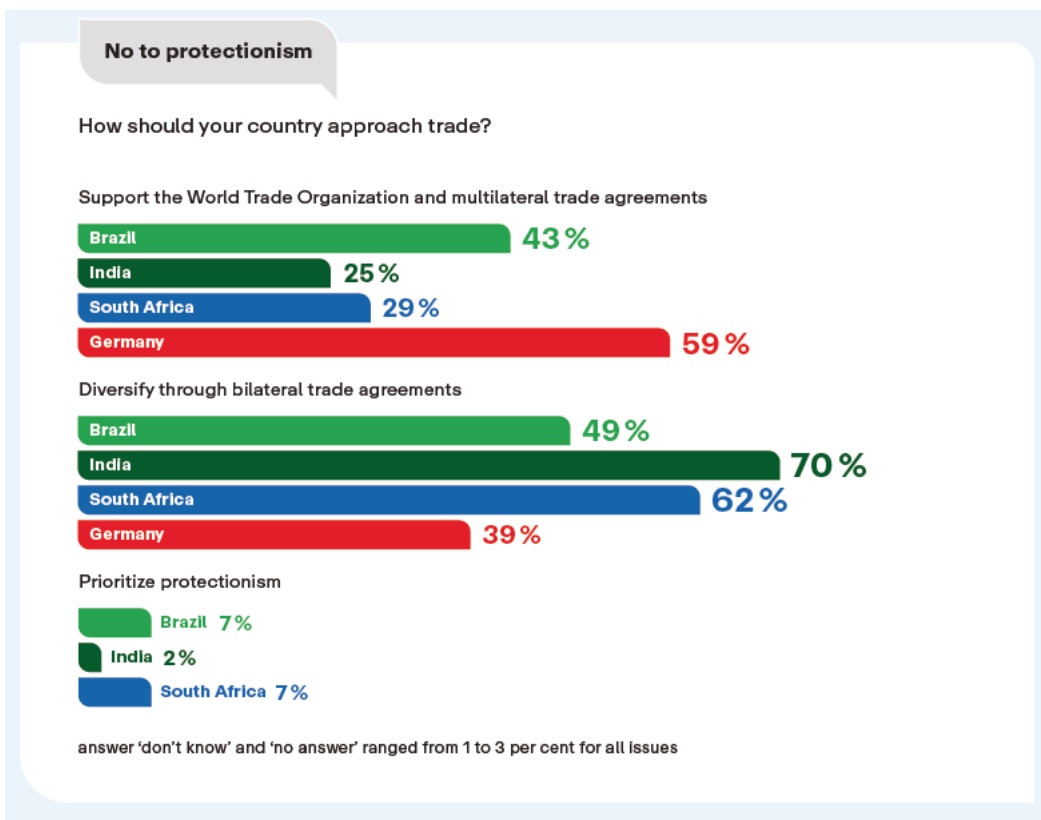


FIGURE 1. No to protectionism

Source: Ganter et al 2024, 23

In the wake of protectionism, governments have started to reconsider external dependencies and look closer to home, favoring national production. Within this scenario, a novel set of subsidies and legislation in trade-leading countries has created a race to the bottom that can dramatically curb the participation of developing countries in trade and make their sustainable development efforts more costly.

Information from the IMF, OECD, World Bank, and WTO indicate that after the financial crisis of 2008, subsidies were the most frequent form of intervention, surpassing measures such as tariffs and other non-tariff measures (IMF 2022, 8). As defined by the WTO subsidies can take many forms, including direct government expenditures, tax incentives, equity infusions, soft loans, government provision of goods and services, procurement on favorable terms, and price support.

The Global Trade Alert reports that most recorded subsidy programs are implemented by leading trading economies—the ones with the potential and power to influence global markets, which are all members of the G20. When a major player introduces a subsidy, other economies typically respond within six months with their subsidy (IMF 2022, 8). A ramping up of subsidies by the world’s largest economies contributes to a significant increase in global trade tensions, affects the participation of developing countries in trade and disrupts the playing field unilaterally and unfairly. This situation underscores the urgent need to address the negative impact of protectionism and subsidies on developing countries.

This phenomenon takes place against the backdrop of a much-challenged World Trade Organization, which is struggling to find its central role in world trade. Nonetheless, the relevance of the World Trade Organization for IBAS and Germany is rated almost identically at 7.7 on a scale of 1 (not at all relevant) to 10 (extremely relevant). When comparing the WTO with other institutions or groupings, all respondents consider the G20 more relevant (8.3) (Ganter et al 2024, 27).

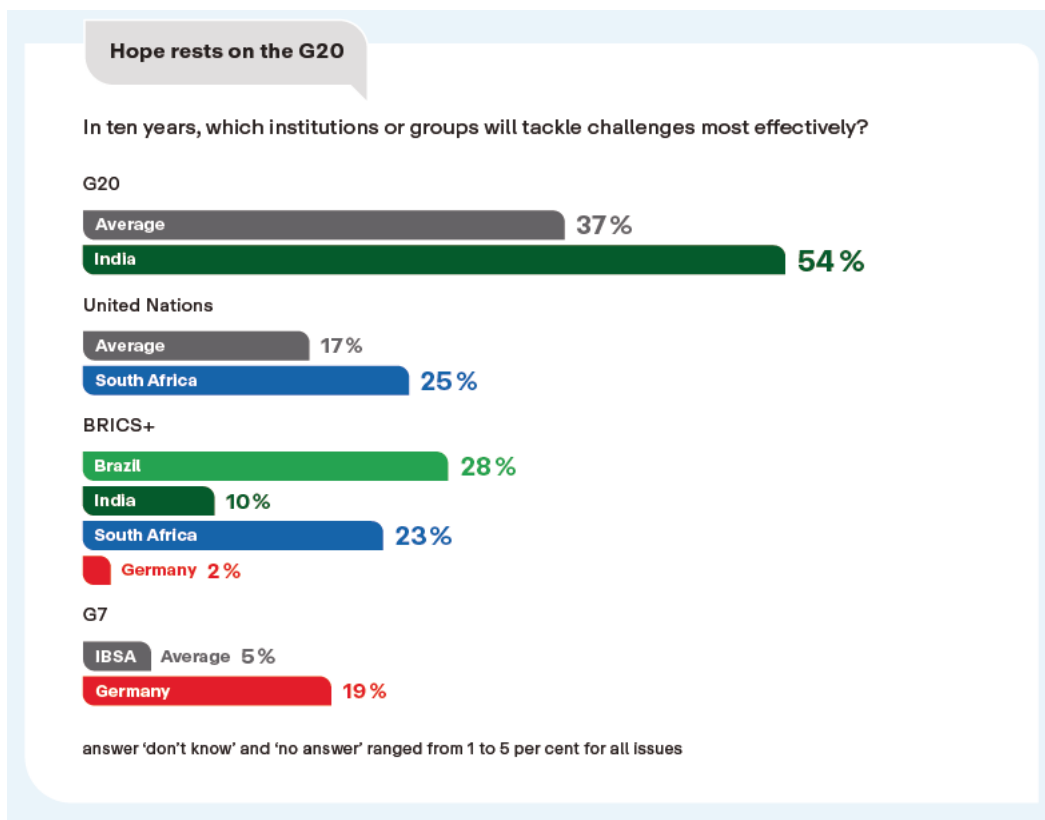


FIGURE 2. Hopes rests on the G20

Source: Ganter et al 2024, 27

Historically, the G20 advocates for open and fair international trade and the reforming of the WTO as a key to strengthening the multilateral trading system. The G20 New Delhi Leaders’ Declaration reaffirmed that a rules-based, non-discriminatory, fair, open, inclusive, equitable, sustainable, and transparent multilateral trading system, with WTO at its core, is indispensable. On that, the wording of the declaration almost mirrors, word-by-word, those expressed the year before, in Bali.

One of Brazil’s strategic guidelines for the Trade and Investment Working Group during its G20 Presidency is “Reforming the WTO and Strengthening the Multilateral Trade System.” Protectionism and subsidies are among the leading causes of international trade tensions, therefore, dealing constructively with subsidies in global trade is central

to G20 leaders' goal of reforming and strengthening the multilateral trading system and the role of the WTO.

In putting forth our recommendations, the attempt is to provide ways in which the G20 can advance its stated goals already set out in Bali and New Delhi (and expected in Brazil) so that it does not become an automatic, annual paragraph that is disconnected from the existing trade reality.



## Recommendations

It is in under the aforementioned scenario and diagnosis that we offer recommendations towards (1) advancement of plurilateral agreements and a revised role for building international trade and WTO capacity in developing countries ensure the development underpinnings of international trade to them and to sustain the G20 commitment towards discouraging protectionism and market-distorting practices; (2) re-globalization through a revised and specific agreement on subsidies; (3) increased transparency on the issue through a review of the notification process. This includes a fresh look at the effectiveness of the core WTO functions as we believe the prescribed recommendations will assist in diminishing trade costs for low and middle-income countries which are presently 27% higher than to others, according to the WTO Trade Cost Index.

### **1. Advancement of plurilateral agreements and building trade capacity in international trade and WTO**

International trade rules and institutions can have profound effects on the shifts of trade relationships in the Global South and internationally. The responsibility for global trade governance has rested with the WTO since its creation in 1995 as a successor to the GATT. The institution's central function is to provide a forum for international trade negotiations which results in WTO agreements. The other functions include administering WTO agreements, monitoring national trade policies, and providing technical assistance and training for developing countries.





### *1.1 Plurilateral agreements as a way of advancing trade rules*

The failure of the WTO Doha round trade talks in 2011 despite a decade of talks means that the era of ‘big bang’ type global trade deals involving all WTO members seems unlikely in the foreseeable future amid calls for WTO reforms. The narrow negotiating agenda and the failure of the WTO Doha Round may be partly due to the nature of the WTO’s decision-making mechanism and its underlying principles of consensus and single undertaking. In this vein, an important initiative at multilateral level may be greater use of plurilateral agreements (which focus on rule making and liberalization on a single trade issue) within the WTO framework.

Plurilateral agreements permit interested parties to freely choose the issue for an agreement and voluntarily participate in the negotiations. Well-designed issue-based plurilateral agreements can serve the needs of like-minded Global South and Global North countries alike, enhance the spread of foreign direct investment (FDI) driven global supply chains, and complement multilateral and FTA rule-making. Many preferential free trade agreements include rules to discipline subsidies, some incorporating provisions that go beyond WTO rules to address key challenges.

The WTO, which has been an organization heavily struck by criticism of its paralysis in recent years, must embrace the reality that the combination of its concept of consensus and single undertaking is no longer producing the necessary results. As a result, it must allow for a parallel plurilateral track of negotiations as a second-best scenario. Recently, on the issue of fisheries, while consensus could not be achieved, more than 100 countries agreed with the proposed draft text. Likewise, the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), thought out as a way to break the stalemate of the dispute settlement mechanism has presented a glimmer of hope for this much maligned area of international trade recently.

Embracing plurilateral agreements while continuing to seek multilateral consensus among all WTO parties can be an optimal path forward for the WTO and G20 countries have much to contribute, as they account for  $\frac{3}{4}$  of global international trade. Open accession is essential so that like-minded countries can join at a later date.

### ***1.2 Building trade capacity in developing countries***

With the rising trend towards protectionism globally, the WTO's technical assistance and training function for its members is in the spotlight – there is little evidence on the cost- effectiveness of short-term training courses, often provided in Geneva and delivered by WTO headquarters divisions. The time seems ripe to decentralize the WTO's technical assistance and training function from Geneva to different regions of the Global South by setting up a network of dedicated WTO training centers in Asia, Africa, Eastern Europe, Latin America and the Caribbean and the Pacific. Involvement of local experts from the Global South alongside international experts from the WTO will enrich the quality of training and technical assistance.

The G20 is already familiar with the capacity-building structure that exists with the International Monetary Fund and could emulate from that experience, which is present in the countries as indicated below.



FIGURE 3. IMF's Regional Capacity Development Centers Locations

Source: International Monetary Fund 2022

As designed by the IMF, those technical assistance centers focus on several key areas, including public financial management, revenue administration, tax policy, debt management, financial sector supervision, regulation and development, monetary policy and operations, economic and financial statistics, and training in macroeconomics (IMF 2011).

Our belief is that the creation of such international trade building capacity is a non-controversial issue that could gather the support of all WTO members and assist developing countries' engagement with the global economy.

## 2. Revised and specific agreement on subsidies

The Inflation Reduction Act and the countermeasures taken by the European Union and others constitute a consequential development that might deliver the final blow to an already aching WTO. That does not serve anyone's purpose or interests. Recognizing the threat of these and similar policies, our recommendation is that negotiations begin immediately on clarifying the legality of such measures and to pursue a G20-led

agreement on such issue, which might include the redefinition of current subsidies existent rules.

Specifically, we believe it is important to further clarify and improve relevant WTO rules on subsidies and countervailing measures. Such improvements of rules include the clarification of rules relating to subsidy identification, calculation of benefits conferred and application of facts available to mitigate abusive applications of countervailing measures. These measures are recommended with the express goal of restraining the use of countervailing measures.

The second one is to reinstate the provisions on non-actionable subsidies and to expand their coverage. This will give more policy space to members to implement subsidies with the purpose of environmental protection, green transition, research and development and others. In linking to our proposal presented on 1.1, we believe that the G20 is in a unique position to advance such issue towards a common position that does not threaten the very existence of the international system of trade.

### **3. Increased transparency on the issue through a review of the notification process**

Much attention has been focused recently on the difficulties related to the dispute settlement mechanism of the WTO, which is often perceived as the core of the organization functioning. However, there are several other issues in which the organization could enhance its functioning and we address one of them at this time, which is the one relating to the notification of subsidies and transparency.

A few years ago, several countries, led by the United States circulated a proposal which would tackle what was deemed as "the chronic low level of compliance with existing notification requirements" (Miles 2017). Such proposal included possible administrative

punishments for non-compliance to requirements for notification and attracted moderate support from the World Trade Organization membership. However, it was met with criticism from some developing countries, which indicated quite expressly the need for more capacity-building and technical cooperation: “Given the challenging issue of resource constraints, developing countries cannot agree to any transparency obligations which go beyond existing obligations. Further, punitive approaches to enforce notification and transparency obligations are not acceptable. Any work in this area must support developing countries' ability to address their difficulties through inclusive and mutually agreed approaches, such as through simplified notification formats. In some situations, prolonged time-frames can also be considered. Technical assistance and capacity building must be central components (WTO 2019)”.

When it comes to notification of subsidies the most recent data (March 2023) from the World Trade Organization is that 88 members — more than half of the WTO membership — have still not submitted their 2021 notifications, which were due by mid-2021. In addition, 75 members still have not submitted their 2019 subsidy notifications, while 64 have still failed to submit their 2017 notifications (WTO 2023).

This is another area where progress could be achieved by increased commitment from G20 countries, who could commit to setting up the necessary technical assistance and capacity- building for requested by developing countries to end the stalemate on this topic. G20 countries could also merge the recommendation proposed under 1.2 of this policy brief to the present one, allowing the World Trade Organization to find some much needed relief and momentum on an agreement that should be within reach.



## Scenario of Outcomes

Our recommendations arrive with the recognition of a very difficult political environment, both domestically and internationally, for international trade. As such, it does not make proposals out of what would be ideal but rather, what can be achievable. As a result, it aims to provide realistic relief to a very pressured system of international trade.

The issue of development is often not prioritized and multilateral agreements often work until they stop working for those which are already developed – as is the case of the notable rise in protectionism measures. We have noted that the past G20 declarations and Brazil’s goals for its presidency have a clear and stated desire to preserve and protect a fair and just system of international trade. A scenario in which another declaration states the same desire without meaningful steps towards achieving such goals is one where the very capacity of the G20 to provide solutions to the world’s problems will be undermined, which will lead to more unilateralism, protectionism and a deviation from existing, agreed-upon international norms.

On a positive outcome, if progress can be achieved on the recommended proposals, the belief is that it can break the deadlock and generate enough momentum to gradually push against the current tides of protection and nationalism, so as to strengthen the case and preserve the many good, historically proven benefits of multilateral trade.

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