

How the G20 Can Help Sustainably Reshape the Global Trade System

A Compilation of Analysis



International Centre for Trade
and Sustainable Development

October 2018

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Foreword

The world economy is stuttering towards the end of 2018 in an environment of heightened uncertainty.

The number of new trade-restrictive measures introduced by major economies has surged. Monetary policy in advanced economies is not “normalising” in a coordinated manner with that of other economies. Disruptive technologies are creating opportunities while giving rise to unresolved issues related to employment and other public policy objectives.

Moreover, the rules-based multilateral trading system—which celebrated its seventieth anniversary in October 2017—is being challenged and undermined in a manner that could lead to a full-blown crisis. Some members of the World Trade Organization believe that existing rules and agreements remain fundamental, while others suggest that an overhaul is required.

Ensuring that the international community effectively cooperates towards finding durable and sustainable solutions to these issues and tensions is a vital task for policymakers and governments.

In the lead-up to the G20 Leaders' Summit to be held in late 2018 in Argentina, and three months before Japan takes the helm of the rotating G20 presidency, ICTSD has asked experts from a selection of G20 economies to put forward recommendations on how the G20 can help build a constructive agenda for global economic governance, and in particular trade governance. This compilation of short essays represents a third volume to follow the publications released ahead of the 2016 G20 Hangzhou Summit and the 2017 G20 Hamburg Summit.

This series, which draws on varied perspectives and covers different issue areas, is conceived to encourage debate on the role of the G20 in advancing international economic cooperation.

We hope that the ideas and recommendations contained in this volume provide timely and useful inputs into present and future G20 processes in the pursuit of inclusion and sustainability in the world economy.



Ricardo Meléndez-Ortiz

Chief Executive, International Centre for Trade and Sustainable Development (ICTSD)

Overview

Gathering in Mar del Plata in September 2018, G20 trade and investment ministers agreed to “step up dialogue and actions to mitigate risks and enhance confidence in international trade.” The global trade and investment system is in need of such a boost. Trust in the multilateral trading system, for example, is diminishing as economic heavyweights increasingly apply trade measures and practices that undermine the principles and rules that underpin the World Trade Organization (WTO). Key functions of the WTO, including its dispute settlement system, are at risk of paralysis and require urgent attention if the rules-based multilateral trading system is to be safeguarded.

Reviving and modernising the WTO necessitates a set of actions. First, the major players in the world economy need to be convinced that trade tensions are best dealt with in a multilateral context based on internationally agreed rules. Second, discrepancies between the stances of the United States and China regarding the trade regime need to be addressed in a constructive manner and through open discussions on the difficult and contested issues behind the bilateral tensions. Third, the WTO needs to respond to recent technological disruptions that are rapidly transforming the global economy, and to key international objectives, such as the adoption of the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement on climate change. Without an updated rulebook, the WTO will struggle to maintain its relevance in tomorrow’s global trade and investment order.

At this critical juncture in international economic relations, the G20—representing 75 percent of international trade and 80 percent of global investment—provides an ideal forum for leadership and vision. The G20 benefits from its manageable size, diversity, and thematic reach that enable its members to endorse, promote, and coordinate economic policies that are well embedded in other international frameworks such as the SDGs or the rules and agreements stemming from the WTO.

In this context, and ahead of the 2018 Buenos Aires G20 Leaders’ Summit and the Japanese presidency in 2019, ICTSD has assembled a collection of short papers that explore how the G20 can reshape the world trading system. The contributions provide inputs around sustainability and systemic concerns in trade-related policymaking and seek to enable leaders from G20 economies, and decision-makers and policy researchers around the globe, to identify and address key challenges that prevent the trade and investment system from being inclusive and sustainable. To this end, the contributing authors survey relevant trends in economic policymaking, zoom in on regional dynamics, and provide short- and medium-term practical recommendations for G20 leaders.

The publication is divided into four sections. The first, on global economic governance, proposes a series of recommendations on how the G20 can sustainably strengthen global trade governance. The authors include Hector Rogelio Torres, Amrita Narlikar, Wang Wen, and Soledad Leal Campos. The second section focuses on the multilateral trading system and features contributions by Wang Huiyao, Constanza Negri Biasutti and Fabrizio Sardelli Panzini, and Michitaka Nakatomi. The aim of this section is to identify proposals on how the G20 can address protectionism and strengthen the WTO. The third section focuses on the natural environment and draws inspiration from the Argentine Government’s decision to choose “a sustainable food future” as one of the key priorities of its G20 presidency. Accordingly, the contributions by Eugenio Díaz-Bonilla and Victoria Callaway, Jonathan Hepburn, and James Bacchus focus on trade and investment policies for sustainable agricultural production and a regime that is adapted to meet the challenges posed by climate change. The final section consists of contributions by Dan Ciuriak and Ali Parry, Wilma Viviers, and Susara J. Jansen van Rensburg that explore trade governance through the lens of the digitally enabled economy.

Abbreviations

AI	artificial intelligence
AMIS	Agricultural Market Information System
BRICS	Brazil, Russian Federation, India, China, South Africa
DETF	Digital Economy Task Force
DSB	Dispute Settlement Body
EU	European Union
FAO	Food and Agriculture Organization
FDI	foreign direct investment
FTAAP	Free Trade Area of the Asia-Pacific
G7	Group of Seven industrialised countries
G20	Group of Twenty major advanced and emerging economies
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
ICT	information and communication technology
IMF	International Monetary Fund
LDCs	least developed countries
MC11	Eleventh World Trade Organization ministerial conference
OECD	Organisation for Economic Co-operation and Development
RCEP	Regional Comprehensive Economic Partnership
RTA	regional trade agreement
SDG	Sustainable Development Goal
SMEs	small and medium-sized enterprises
T20	Think 20 research and policy advice network for the G20
TFA	Trade Facilitation Agreement
TIWG	Trade and Investment Working Group
TPP	Trans-Pacific Partnership
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
US	United States of America
WTO	World Trade Organization

**GLOBAL ECONOMIC
GOVERNANCE**

Reshaping Cooperation on Trade: A Paramount Challenge for the G20

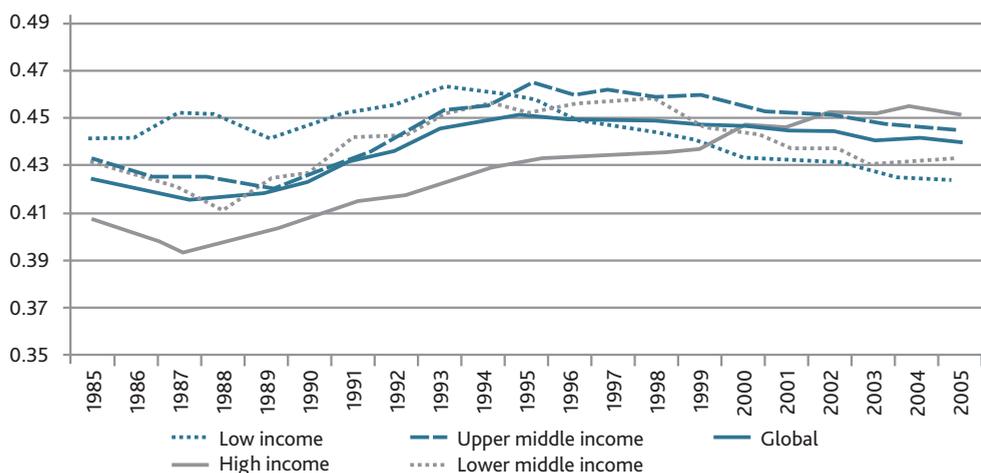
Hector Rogelio Torres

The income gap between countries is narrowing, but within countries income inequalities are widening. The finger is pointed at trade as the main culprit, and a backlash against globalisation is shaping domestic politics in societies where income distribution used to be more egalitarian. Reconciling people with trade will require structural reforms and fiscal distributional policies, but as both come at a cost, the first mover bears a risk. In an integrated world economy, countries must match their policy choices with those of their trade partners. However, while promoting policy coherence in economic policymaking is crucially important, it is also increasingly difficult. This is the G20's most important challenge. This article makes four recommendations that the G20 could consider.

Introduction

The income gap between developed and developing countries has narrowed, but in the former inequality is at its highest level in decades (Figure 1) (Milanovic 2016; Dabla-Norris et al. 2015).

Figure 1: Evolution of Gini coefficient for countries in different income groups



Note: Zero expresses perfect equality; 1 expresses maximal inequality.

Source: Adapted from Furceri, Davide, and Prakash Loungani. 2015. *Capital Account Liberalization and Inequality*. IMF Working Paper WP/15/243. Washington, DC: International Monetary Fund. <https://www.imf.org/external/pubs/ft/wp/2015/wp15243.pdf>.

These apparently opposed trends are in fact two sides of the same coin. Trade liberalisation and the resulting economic interdependence between countries are assumed to be the culprits. Several authors have tried to stand up for trade by allocating most of the blame to technological innovations. However, technological progress and trade are intimately intertwined, and their effects on income are difficult to distinguish (Pavcnik 2017).

Regardless of trade's share of responsibility for income inequality, the real issue is that where inequality rises, acceptance of globalisation falls. This is undermining growth (Dabla-Norris et al. 2015) and breeding potentially dangerous nationalistic and nativist sentiments.

In our integrated world economy, policymakers have an increasingly complex job. Beyond calibrating national policies to domestic circumstances, they must also ensure that their policy choices match with those of their trade partners.

Reconciling people with trade will require containing and reversing the trend of an ever more unequal income distribution. This will mean structural reforms and distributional policies. However, both come at a cost and the first to move bears a risk. Leading countries can afford to take that step, because others will follow; but the "America first" doctrine has left global leadership vacant and the world wondering whether the name of the new game is "each country for itself."

In these circumstances, promoting policy coherence in economic policymaking is both crucially important and extremely difficult. This is the G20's most important challenge.

Economic Nationalism: an Aberration in an Integrated World Economy?

Information and communication technologies are making the world a tightly integrated place. Transborder data flows are growing at staggering rates,¹ and a significant part of trade is already being delivered digitally. Ironically, while this happens, economic nationalism and protectionist pressures are on the rise. Countries that were traditionally open to immigration and championed trade liberalisation and free capital movements are raising walls, trade barriers, and restrictions on foreign investment. Others vocally stand up for free trade and the liberal, rules-based system but use centrally planned policies to prop up their national champions.

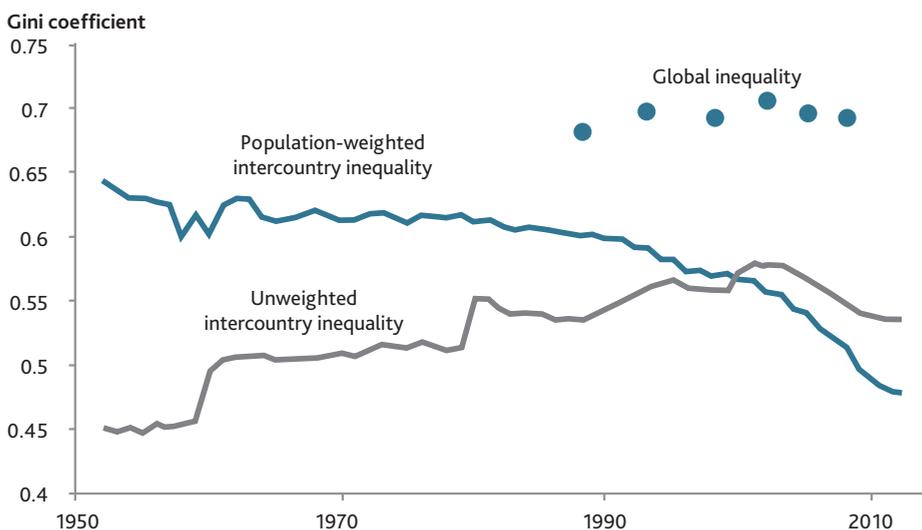
While globalisation has pulled millions out of poverty (World Bank and WTO 2015), with the income gap between developed and developing countries narrowing (Milanovic 2016), it has also intensified competition and augmented income inequality within countries (Figure 2).²

Wages are no longer performing the central redistributive role they once did, as productivity has been rising much faster than real wages (ILO et al. 2015). The share of national income going to labour has declined in almost all G20 countries (McKinsey Global Institute 2016), and the middle classes have been squeezed in many countries, developed and developing alike.

The entry of labour-abundant countries into the world economy has benefited consumers; it has also capped and repressed labour's share of income in high- and middle-income economies (ILO et al. 2015, 21). Not surprisingly, economic nationalists have made strides, promising to renegotiate or withdraw their countries from "unfair" trade agreements and impose trade restrictions on "abusers" (i.e. countries running bilateral trade surpluses).

1 According to CISCO, a networking company, internet traffic in 2019 is projected to be 64 times that of 2005; between 2010 and 2014, global internet bandwidth more than quadrupled (from less than 50 terabytes per second to more than 200 terabytes per second) and total cross-border internet traffic increased 18-fold from 2005 to 2012. See Pepper, Garrity, and LaSalle (2016), referring to Manyika et al. (2014).

2 Lang and Mendes Tavares (2018, 4, 26) note that globalisation has narrowed the income gap between countries, but they unambiguously conclude that "economic globalization [trade and capital flows] is strongly and robustly related to rising income inequality."

Figure 2: Global inequality and the distribution of income

Source: Dabla-Norris, Era, Kalpana Kochhar, Nujin Suphaphiphat, Frantisek Ricka, and Evridiki Tsounta. 2015. *Causes and Consequences of Income Inequality: a Global Perspective*. IMF Staff Discussion Note SDN/15/13. Washington, DC: International Monetary Fund. <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf>.

Note: Coefficient of 1 expresses maximal inequality. Unweighted intercountry inequality calculated across gross domestic products obtained from household surveys of all countries in the world, without population weighting. Population-weighted intercountry inequality considers population weights. Global inequality focuses on individuals instead of countries (calculated based on household surveys with data on individual incomes or consumption).

Table 1: Shares of the global top 1% in global income and wealth

Estimate of income and wealth share	Around 2000	Around 2010
Top 1% share in global income based on household surveys alone	14.5	15.7
Top 1% share in global income based on surveys and adjustments for underreporting	29	28
Top 1% share in global income based on surveys, adjustments for underreporting, and adjustment for hidden wealth	–	29
Top 1% share in global wealth	32	46

Note: Top 1% for wealth refers to the richest 1% of adults.

Source: Milanovic, Branko. 2016. *Global Inequality: a New Approach for the Age of Globalization*. Cambridge, MA: Belknap Press of Harvard University Press.

Raising new trade barriers would fail to improve living standards as it would forgo the aggregate welfare benefits from globalisation.³ Restoring the “social contract” and reconciling people with trade will rather require a combination of structural reforms and income distribution policies (Lang and Mendes Tavares 2018, 34–36). However, if a country implements such policies in isolation, it could hinder its international competitiveness and calls for protectionism could resound even louder.

³ Dewan and Suedekum (2017) show that whereas a protectionist agenda could shield certain groups from trade losses, it would come at the cost of forgoing aggregate welfare benefits from globalization, thereby failing to improve living standards at large.

Globalisation's Time Inconsistency

Globalisation has fostered technological innovation, and global value chains have allowed many developing countries to increase their exports and develop world-class industries, creating new better-quality jobs (Baldwin 2016).

While millions of people have been pulled out of poverty, many manufacturing jobs have been lost in advanced economies and in middle-income countries.⁴ Displaced workers often find it hard to be rehired as the equipment they used to operate is obsolete and their skills are no longer in demand. Long periods of unemployment are quite common as new job openings are often out of reach, either because of lack of skills or because they are in distant places where property prices are unaffordable (Avent 2017).

While opening markets for trade boosts growth and increases welfare over the long run,⁵ in the short run it creates losers. No wonder that frustration with globalisation is gaining ground and some well-respected scholars believe that it has been pushed too far (Summers 2016; Thomas 2016).

Has Globalisation Gone Too Far?

There is no question that income inequality can breed frustration. But as the scope of international trade commitments has progressively expanded into areas that used to be left to the discretion of national legislation,⁶ many feel that trade agreements have eroded their capacity to shape their societies (Haley 2018). Democratic governments will ultimately need to articulate this tension, otherwise the global expansion of markets could be perceived as causing the retrenchment of democracies.

Immigration pressures have put that feeling on steroids, blending it with mistrust of "outsiders." Imports and immigrants are perceived as a menace to relatively well-paid jobs and the benefits of the welfare state.

Frustration with relatively flat or falling income and fear of challenges coming from the outside make a politically corrosive cocktail.⁷ In this context, fiscal policies to tax trade-winners and compensate trade-losers can help, but they will not suffice. This was eloquently and succinctly explained by Peter Navarro, President Trump's main trade adviser: "We prefer pay checks to welfare checks for the American people" (Donnan 2017).

4 IMF (2017b) notes that the decline in manufacturing jobs and labour's share in income in the United States was deeper in industries more affected by increasing imports, and participation in global value chains is one of the factors explaining the offshoring of labour-intensive activities from advanced economies to emerging markets and developing countries (see IMF 2018).

5 If the price of tradable products is not distorted by subsidies or the manipulation of exchange rates or other policy interventions.

6 Such as obligations to ensure the free movement of capital, the right of investors to sue governments in international courts, and protection of intellectual property rights.

7 According to the McKinsey Global Institute (2016, Executive Summary, 6), citizens (in rich countries) who held the most negative views on trade and immigration were those who felt that their incomes were not advancing and did not expect the situation to improve for the next generation.

Is It More Technology Than Trade?

Trade and technology are synergetic.⁸ Economic openness encourages innovation, and technological developments facilitate economic integration. Efforts to “demonstrate” that technology has more distributional consequences than trade are no more than an intellectual distraction. For people whose jobs have gone offshore, it is trade that is in the dock. Unsurprisingly, no politician has ever reached office by proposing to stop technological innovation, whereas some have won elections by promising to stop imports (and migrants).

Despite its lack of popularity, preserving trade is indispensable. It makes growth sustainable⁹ and helps in dealing with immigration pressures. Nationalism and “economic patriotism” can stop legal imports, but they are not good at stopping illegal immigrants. If would-be economic migrants cannot sell abroad what they produce at home, they will keep jumping on boats or paying “coyotes” to smuggle their families into promised lands.

Affording Local Costs for Global Benefits?

Trade brings important benefits, but it also creates social frictions stemming from changes in the distribution of economic activity and income across regions or industries within an economy (IMF 2017a). Mitigating these adjustment costs is essential to buttressing political support for trade.

A joint report prepared by the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO) offers a menu of structural reforms and fiscal compensatory policies that countries can implement to mitigate adjustment costs and improve the public attitude towards trade (IMF, World Bank, and WTO 2016). Yet, structural reforms trade immediate costs for long-term benefits, and fiscal compensatory policies may require new taxes and increased debt. This makes it risky for governments to “go it alone,” and there is not enough research on the capacity of governments to tax winners to compensate losers without infringing on international competitiveness (Goldberg 2018).

Who Can Broker a Concerted International Effort?

The G20 is well suited to facilitating an exchange of experiences and efforts to minimise negative spillovers stemming from inconsistent domestic policies. However, as the G20 has avoided setting up a permanent bureaucracy and its chair changes every year, it largely depends on the support of international organisations. Not all international organisations have an equal capacity to buttress the G20 in this effort, but all their respective managers should be ready to undertake political risks.

The WTO is central to preserving a cooperative environment in international trade, and it has a mandate to promote policy coherence.¹⁰ As it regularly reviews the economies of its 164 members,

8 Milanovic (2016, 109–10) argues that lower prices of capital goods, technological change, and replacement of routine labour “could have only occurred under conditions of globalization,” noting that technological change and globalization are “wrapped around each other, and trying to disentangle their individual effects is futile.”

9 Berg and Ostry (2011, 10–11) find that trade is correlated with longer spells of growth.

10 WTO, Article III (5) of the Marrakesh Agreement.

it has gathered valuable comparative experiences of successful and failed trade policies. The WTO could (and should) play an important role in helping governments understand the potential trade spillovers of different policy choices, without passing judgement on their consistency with WTO obligations. However, its (quasi) judicial role in adjudicating trade disputes inhibits its director-general from recommending specific policies whose consistency with WTO obligations could be challenged.

The World Bank and the IMF do not have the WTO's limitations, and both have competence and skills to help countries choose and implement policies with potential trade implications. The World Bank is focused on combating poverty, and fostering development and trade is central to its activities.¹¹ The IMF has a broader mandate. According to its Articles of Agreement, the IMF must "promote the long-range balanced growth of international trade and ... contribute ... to the promotion and maintenance of high levels of employment and real income." It must also "promote exchange stability" and "avoid competitive exchange depreciation."¹²

Furthermore, recommending policies is the bread and butter of the IMF's business, and Managing Director Christine Lagarde has shown a strong determination to defend trade and the system of multilateral rules (Lagarde 2018). This puts the IMF in a privileged position to help countries phase in domestic structural reforms and fiscal policies that could respond best to their national circumstances, while minimising negative spillovers.

Conclusions

Trade between countries with very different endowments and wage levels entails not only economic benefits but also social and political consequences. While poverty has dropped sharply in developing countries (notably in China), inequality within countries has increased and the average income in developed countries has remained stagnant or fallen. Not surprisingly, many rich societies, where income distribution used to be more egalitarian, are experiencing a backlash against globalisation.

The escalation of trade tensions is undermining international cooperation, and no effort should be spared to preserve that cooperation. It is the responsibility of the chair of the G20 and of managers of international organisations to preserve a positive cooperative environment. They should be ready to do whatever it takes to de-escalate trade tensions.

G20 economies are interdependent, and their domestic policies, regardless of their consistency with WTO obligations, necessarily have spillover effects on all others. It would be wrong and hopeless to blame any country for the escalation of trade tensions.

G20 countries will need to implement domestic reforms to reconcile people with trade and economic interdependence. However, these may come at a cost and affect countries' competitiveness. The G20 should facilitate these reforms by promoting coherence in economic policymaking.

11 World Bank, Article I (iii) of the Articles of Agreement.

12 IMF, Article I (ii) and (iii) of the Articles of Agreement.

Recommendations

- A high-level policy dialogue needs to take place among G20 policymakers. The G20 chair could convene this in an informal and amicable and un-committal setting. Such a meeting should aim not to produce yet another communiqué but rather to build up consensus on the need to implement domestic reforms to reconcile people with trade and economic interdependence. A roadmap of conversations could be agreed.
- Managers of international organisations should support the G20 chair and assist by providing a toolbox of incremental domestic reforms that could maximise positive spillover effects on the G20 economies.
- The creation of a G20 Policy Coherence Task Force would facilitate the continuity of G20 efforts to ensure coherence in the implementation of economic reforms.
- To facilitate coherence in economic reforms, the G20 Policy Coherence Task Force should agree on a blueprint that countries could use, before implementing domestic reforms, on how to assess potential spillovers on trading partners.

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Global Trade Governance and the G20: Negotiating Across Deepening Fault Lines

Amrita Narlikar

The cumulative difficulties faced by the multilateral trading system today are tantamount to a full-blown crisis. There is a temptation on the part of policymakers and pundits to look immediately at recent causes, particularly the trade wars launched by President Trump. In fact, the crisis has far deeper roots and several sources. The G20 may be an ideal forum to address some of the problems that global trade governance faces, and offer some solutions. In this article, I trace the sources of the crisis, highlight the opportunities and risks facing the G20, and offer recommendations for actions that the G20 could take to its own advantage and also the benefit of non-members.

Introduction

For all the uncertainties that surround international trade in our times, 2018 will probably go down in history as a particularly difficult year for global trade governance.

Morale was already very low in 2017, a year that began with the signing of an executive order by President Donald Trump withdrawing the United States (US) from the Trans-Pacific Partnership negotiations. Through much of 2017, the Trump administration repeatedly expressed its scepticism towards multilateral trade, and the rules governing it. The World Trade Organization (WTO) was already in poor shape, given the persistence of deadlocks in the Doha negotiations since their launch in 2001. The organisation had already hit a new low in December 2017, when its ministerial conference in Buenos Aires ended without a declaration. But in 2018, things took a dramatic turn for much worse.

On 2 March 2018, President Trump declared on Twitter, "Trade wars are good and easy to win," and announced that the US had plans to slap tariffs on steel and aluminium imports. Not only did the US follow through on this threat against major trading partners and allies (thereby triggering a series of retaliatory and counter-retaliatory measures from different sides), but it also chose to hold up the appointments of judges to the WTO's Appellate Body. Both the negotiating and dispute-settlement arms of the WTO now risk paralysis, a proposition that should be alarming in its own right but is all the more so in a world of escalating trade wars.¹ Is there anything that the G20 can do under these dire circumstances?

In this article, I identify the sources of the problems the system is facing. I then highlight the strengths of the G20, and also some of the risks confronting it. Finally, I identify the next steps in terms of policy measures and offer specific policy recommendations.

Understanding the Crisis of Global Trade Governance

It is all too easy—and perhaps even fashionable—to blame President Trump for the crisis that global trade governance faces today. But to do so is to confuse symptom with cause. There are at least three reasons why we are seeing institutional paralysis within the WTO and escalating trade wars outside, and all three illustrate deeper and more fundamental problems with the system.

¹ The costs of this systemic failure will be high for all parties; see Narlikar (2018).

First, Trump's narrative of "America first" is backed by a significant portion of the US electorate that believes that the gains of globalisation have passed them by. They attribute increasing inequality in their society, and the job losses and declining wages they personally face, to the costs of international trade. Usually, the pernicious hardships endured by these groups have several causes, ranging from technological change to the inadequacy of welfare mechanisms that could have allowed a better distribution of the gains of globalisation. But trade is often the scapegoat, especially as blame can easily be attributed to the international level, and in addition, imports are somewhat easier to control and curtail than technological change. The current US administration has harnessed this discontent very effectively—perhaps even fanned it further by building a narrative that links domestic inequalities and poverty within the US to global trade governance. But the scepticism towards different aspects of globalisation—including international trade—had been building up, even before Trump's arrival on the scene.²

Second, while few major trading partners have escaped his ire, China has attracted particularly scathing accusations from President Trump for not playing by the rules. Here, too, it is worth recalling that this blame game is not new, and prior US administrations have also pointed their fingers at the rising powers in the course of the Doha negotiations. Susan Schwab, former US Trade Representative, for instance, famously compared the unwillingness of the rising powers to make concessions to "elephants hiding behind mice." As the BRICS countries (Brazil, the Russian Federation, India, China, and South Africa)—and especially China and India within this group—have acquired greater economic clout and political weight in the WTO, the expectation that they should take on greater global responsibilities has risen. Amidst the changing international balance of power and the domestic discourse of discontent, it is perhaps not surprising that the ability of the large middle-income countries to use and misuse loopholes in the trading system appears galling to the developed countries. Local content requirements, violations of intellectual property rights, and the use of subsidies might have been tolerated in the early years of the Chinese accession to the WTO, but with China's emergence as the world's second largest economy and dominant geopolitical power in Asia, they now attract hostility.

Third, discontent with the trading system is not unique to the US or other developed countries. The rising powers and other developing countries have also had much to complain about. Brazil, for instance, has long pointed to the hypocrisy of the US and the European Union (EU) in demanding market access in developing countries while keeping their own markets in agriculture highly protected. India has argued that the agricultural negotiations of the Doha Development Agenda disregard the food security concerns of its poorest farmers. Nor is the disagreement between the established and the rising powers simply a low-level one over specific negotiating demands. Rather, when they have been accused of free-riding on the system, rising powers such as India have retorted that they cannot be expected to provide for global public goods that they had no voice in identifying in the first place (Narlikar 2013). The development focus of the Doha negotiations, in fact, revealed just how polarised the trade debate is between countries that often have very different visions of development, and

² It is worth bearing in mind that the US is not the only country where we are seeing a backlash against globalisation. The rise of right- and left-wing populism in Europe are examples of this backlash, as is the result of the Brexit referendum in the United Kingdom.

of how development might be achieved with reference to individual governance structures, social priorities, and histories and cultures.

The persistence of the Doha deadlocks is an important indication of just how dissatisfied virtually all parties are with the workings of the WTO. Global trade governance has long been in desperate need of fundamental reform. Trump's actions, seen in this light, are little more than the match that sets a powder keg ablaze. Can the G20 do anything to rescue the situation?

Potential of the G20 and Risks

There are at least two very good reasons to believe that the G20 might still be able to initiate a sensible and constructive discussion on reforming the global trading system.

First, the G20 enjoys several strengths that are unique to this forum. Always intended as a rapid-response force to crisis, it enjoys the agility and flexibility to adapt to the urgent needs of the day.³ As a leaders' level summit, it offers critical opportunities for heads of state to meet eye to eye, which can be especially important in building trust in times of crisis. Additionally, the format also allows for issue-specific meetings—for instance, of finance ministers, agricultural ministers, trade ministers, and so forth, in advance of the summit—and thereby can facilitate the right mix of visionary leadership and technical implementation. Unlike the G7, it brings together a critical mass of economies from both the north and the south. Host countries can play an especially proactive role in further engaging with diverse groups of non-state actors, and also guest countries.⁴ Perhaps the biggest strength of the G20 lies in the fact that it is not a formal organisation of global governance, but a forum where key actors can come together and try to engage in collective agenda-setting. At its best, the G20 can develop innovative ideas (for example, through the innovations that it offered in the aftermath of the 2008 financial crisis, or indeed ideas such as the Compact with Africa that it developed as part of the German presidency), which can serve as useful focal points in the more formal organisations of global governance.

Second, for all the economic turmoil faced by the world today, the G20 still holds considerable promise due to the important achievements of the previous summit. The Hamburg Summit in 2017, in spite of all the demonstrations and riots outside, has several successes to its credit. Its biggest—and unprecedented—contribution was to start a discussion on making globalisation fair and sustainable (Narlikar 2017). The Hamburg G20 Declaration acknowledged that “the benefits of globalisation have not been shared widely enough” and also offered some concrete measures to shape globalisation in order that it might “benefit all people” (G20 Leaders 2017). On trade, the Hamburg G20 continued with the tradition of prior summits in committing all members to fight protectionism and reinforce a rules-based system. But it broke new ground by recognising that the fight against protectionism would also include a fight against “unfair trade practices” and recognised

3 While its subsequent efforts to expand into a “steering committee” for the global economy led to multiple criticisms along different lines, appealing to different normative principles of legitimacy and efficiency, the primary and original role of the G20 as a “crisis committee” was much less contested (e.g. see Rimmer 2015; Sidiropoulos 2011; Cooper 2010).

4 Despite all the criticism that it attracted from some segments of civil society, the Hamburg Summit in 2017 marked a qualitative jump in improving the inclusiveness of the G20 process; see Narlikar (2017).

"the role of legitimate trade defence instruments in this regard." The Leaders' Declaration addressed at least some of the issues that had been raised by the US via its clause on excess capacities in industrial production: "We urgently call for the removal of market-distorting subsidies and other types of support by governments and related entities. Each of us commits to take the necessary actions to deliver the collective solutions that foster a truly level playing field." The clauses relating to labour and environmental standards and human rights took into account an EU-led agenda. Besides the Compact with Africa, the Declaration included general provisions that recognised the importance of enabling people to "seize the opportunities and benefits of economic globalisation." Measures to achieve this included exchanging experiences on the "mitigation of the adjustment costs of trade and investment liberalisation and technological change."

It might have been expected that given the scale of its ambition and the many different constituencies that it tried to accommodate, the Hamburg Declaration and Action Plan would produce only limited compliance. In fact, the Hamburg Summit has been awarded the highest compliance score thus far in comparison to all previous G20 summits (G20 Research Group 2018). The demand for a rethinking and renegotiation of globalisation—of which international trade, and the rules governing international trade, form a major part—is loud and clear from all sides. This is as true of the BRICS countries, which would like to see the WTO's rules accommodate their concerns (arguments that take different shapes, but broadly translate into the demand to accommodate their different trade and industrial policies as developing countries) as it is of the US (e.g. its demands that the rules be tightened to prevent their misuse by countries such as China) and the EU (e.g. its long-standing demands on improved labour and environmental standards). The Hamburg Summit set this process of reform under way, and this should give us reason to be at least cautiously optimistic. Optimism, however, must not give way to complacency, especially as there are at least four risks that make the task of the G20 especially difficult in Buenos Aires and beyond.

First, while polarisation levels were already high in the Hamburg Summit, we have seen a considerable heightening of tensions in 2018, especially in the context of the trade wars under way. The threat of tensions in international trade is usually easier to address in comparison to the task of getting countries to climb down from positions they have already locked themselves into (as is now the case with the US, China, India, and others).

Second, within the G20, the context is rendered even more difficult by the fact that the greater share of its membership now comprises populist and authoritarian governments. Orlik and Jimenez (2018) argue that populists "now manage the largest bloc of the G-20 economies." They further demonstrate that populist and authoritarian governments potentially create barriers to growth, either by adopting policies that "damage growth potential" (e.g. in the case of Brexit in the United Kingdom) or by damaging international and domestic institutions (e.g. Trump in the case of the G7, or Erdogan's appointment of his son-in-law to a key position in government, thereby undermining accountability).

Third—contra the argument "It's the economy, stupid!"—underlying at least some of Trump's actions are fundamental concerns that relate to security. The administration's attempts to justify tariffs

against European allies by presenting German car imports to the US as a threat to national security were (rightly) ridiculed. But the case of US tariffs and investment restrictions targeted against China is less straightforward, especially when seen in light of the Chinese geo-economic expansion via its Belt and Road Initiative and String of Pearls strategy. Even as China attempts to balance (at least on the issue of tariffs) against the US by increasing cooperation with the EU, we have also seen a growing wariness in some European countries regarding Chinese investment and the potential security risks they entail (Deutsche Welle 2018). The growing importance of these geo-economic concerns risks producing negative issue-linkage, and considerably complicating the tasks of the G20 (which has, at least thus far, been primarily an economic forum).

Finally, and partly related to the previous point, the fault lines within the G20 are deepening. Even within the so-called “west,” new fault lines are evident—witness the fractures that have emerged within the “exclusive” G7 club. The BRICS Summit in July 2018 marked the tenth anniversary of the grouping, and produced a joint declaration with several paragraphs dedicated to trade (BRICS Summit 2018). But in reality, even among the five BRICS countries there are important differences that go beyond democratic versus authoritarian regimes. It is hard to see how China and India would be able to paper over their differences, especially in the context of China’s geopolitical expansion in their shared region. While China has increasingly tried to present itself as a guardian of globalisation, it is not at all clear whether “globalisation with Chinese characteristics” (Eichengreen 2018) would be palatable even to its allies in the BRICS group, let alone the EU or the US.

The Next Steps

Can the G20 negotiate across the deepening differences and fault-lines identified here? I suggest three sets of policy measures for the upcoming negotiations.

Target unfair trade

For all the differences among G20 members, almost all of them share one concern: a recognition that international trade needs to become fairer, as do the rules that underpin it:

- The G20 could go a long way in developing a consensus around the Hamburg Summit agenda.
- Such a consensus would help to create space and encouragement for domestic policies within countries to cope better with the displacement created by trade, and also strengthen the international rules in ways to prevent their misuse.

Find ways to revive and reform the WTO

While the recent turn towards tariff wars is an unfortunate development, it provides us with a powerful reminder of the importance of reviving and reforming the WTO:

- As a first step, the G20 would do well to go beyond its usual anodyne statements highlighting its commitment to the rules-based multilateral trading system.

- The second step would involve coming up with concrete proposals for reform. Even if the G20 is unable to come up with specific recommendations towards this (due to the divergence of interests and values within its own membership), it could at least acknowledge the shortcomings, as seen from different sides.
- Such a recognition may go some way to potentially reigniting the interest of the US in multilateralism, and it would also be the right thing to do given the long-standing stasis in the system (which predates Trump).
- The process of developing a reform agenda would ideally have to work hand in hand with a moratorium on bilateral deals (e.g. in the form of export restraints by which countries affected by US actions try to appease it) and any further unilateral actions (e.g. by the US or others). Such a moratorium would be an important signal that countries are committed to using the proper channels to de-escalate the ongoing trade wars, and reinforce members' commitments to the WTO and its reform process. Every attempt needs to be made by all sides to use the proper WTO channels to de-escalate the ongoing trade wars.

Achieve a coalition of multilateralists

Germany's Foreign Minister, Heiko Maas, has called for an Alliance of Multilateralists. This idea has relevance for the G20 too:

- Ideally, the entire membership of the G20 should stand for multilateralism.
- But, given the divergent pulls of populism and authoritarianism today, a group of like-minded and liberal democracies within the G20 could make a vital difference by coalescing and taking the lead on an agenda for reform.
- Such a coalition would need to define the "west" or "liberalism" more broadly, and may need to steer clear of issues such as human rights (which are not only divisive but also have not formed a part of the G20's traditional mandate). Instead, it could seek common ground across the north and south on other shared values, including free and fair trade, the rule of law (domestically and internationally), climate change mitigation, and sustainable globalisation.

Globalisation—and specifically trade that is both free and fair—needs strong and committed champions. The G20 still has a critical mass of countries that could work together to champion this cause, to their own advantage and also to the advantage of many developed and developing countries outside the G20.

Recommendations

- Target "unfair trade" by developing a consensus around the 2017 Hamburg Summit agenda. This would give space and encouragement to domestic policies within countries to cope better with the displacement created by trade, and also strengthen the international rules to prevent their misuse.
- Produce concrete proposals for reform of the WTO, or at least acknowledge the shortcomings in a way that might reignite the interest of the US in multilateralism. Developing a reform agenda should work hand in hand with a moratorium on relevant bilateral deals and any further unilateral actions as an important signal that countries are committed to using the proper channels to de-escalate the ongoing trade wars.
- Develop a coalition of multilateralists, defining the "west" or "liberalism" more broadly and seeking common ground across the north and south on shared values such as free and fair trade, the rule of law (domestically and internationally), climate change mitigation, and sustainable globalisation.

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G20 Vision and Leadership on Global Trade and Investment

Wang Wen

With the current prevalence of trade protectionism and sluggish international investment, global trade and investment are facing severe challenges. The G20 should give full play to its leadership in solving global economic problems in these major areas, and take measures to establish and develop an inclusive global trade and investment framework, in order to create a healthy global trade environment, promote international and domestic investment policy coordination, curb trade protectionism, and advocate for the use of new technologies to promote strong, sustainable development of the global economy.

Introduction

As one of the most significant global platforms for international economic cooperation, the G20 has been discussing the impact of trade on global economic growth and the coordination of international trade and investment policy, providing guidance on specific trade measures and supporting the improvement of the global trade and investment framework.

Currently, there are serious challenges for global trade and investment. It is critical for the G20 to maintain its role in actively creating an open, transparent, and sound global trade environment, to promote coordination of domestic and international investment policies, and to establish an inclusive global trade and investment framework.

Challenges to Global Trade and Investment

The current international political and economic situation has been in constant flux. Rampant protectionism is making a global recovery, in a setting that is already difficult and getting more complicated, global demand is still weak, and the global environment for trade and investment is languishing.

Deteriorating trade relations

The World Trade Organization (WTO) released its monitoring report on G20 trade measures on 4 July 2018 (WTO 2018). The report shows that G20 countries applied 39 new trade-restrictive measures during its review period, which equates to 6 per month on average and includes certain measures such as increasing tariffs and tightening customs procedures. The trade coverage of the import-restrictive measures amounted to US\$ 74.1 billion.

On the other hand, 47 trade-facilitating measures, including eliminating tariffs, or 7 per month on average, were applied during that period. The trade coverage of trade-facilitating measures reached US\$ 82.7 billion. However, the scale of the impact of the trade-facilitating measures decreased by 50 percent, while the scale of the impact of the trade-restrictive measures increased by 150 percent year on year.

As an overall evaluation, significant increases in trade restrictions applied by G20 economies and a continuous deterioration in international trade relations mean that the situation is likely to worsen, and this has brought uncertainty to global recovery and global economic prospects.

A rising trend of anti-globalisation and trade frictions triggers global trade war

Since January 2018, trade tensions among major economies have risen. In the first conflict, the United States (US) imposed global safeguard tariffs on imports of solar panels and washing machines. In the second, it applied 25 percent on steel and 10 percent on aluminium on national security grounds, targeted at all trading partners with exemptions for those negotiating a deal. The third conflict is very much focused on China's alleged unfair trade practices in technology and intellectual property, and the US decided to impose 25 percent tariffs on US\$50 billion of Chinese products, including machinery, mechanical appliances, and electrical equipment. China responded with countermeasures. The fourth ongoing conflict is targeted at autos as a national security threat; the final result of this negotiation was not known at the time of writing.

Whether or not the current situation is called a trade war, many G20 economies have been inevitably involved in the escalated trade friction. It is arguably true that the interests of all parties may be hurt as production and distribution chains are now global. It is also true, and more fundamental, that major economies have different views about what free, fair, and reciprocal trade should look like in a context of rising domestic discontent about globalisation. It was not just for show, for example, in the WTO General Council that the US called China a state-led mercantilist that was violating the spirit of WTO rules, and China argued that US unilateralism and protectionism violated the letter of the WTO rulebooks.

Lack of coherence and unity among regional trade and investment agreements

Various parallel regional trade or investment agreements vary widely in terms of their clauses, openness of market access, and level of protection for investors, leading to the coexistence of multiple trade regulations and the fragmentation of global regulation.

Although regional trade agreements help to reduce regional trade costs, while improving the trade and investment environment between specific countries, the lack of scale and scope effects and insufficient internal stability increase the uncertainty of the global trading environment.

Sluggish foreign investment and lack of uniform international investment regulations

International investment has been in a downturn since the global financial crisis of 2008, and G20 member countries have also shown a declining trend of inward and outward investment. The United Nations Conference on Trade and Development's *World Investment Report 2018* shows that global foreign direct investment was US\$1.43 trillion, and it decreased 23 percent in 2017 (UNCTAD 2018). Several reasons are believed to be behind the shrinking of foreign direct investment. The first is that some host countries strictly protect certain sectors that are viewed as sensitive for their national interests. Second, foreign investors are concerned that domestic investment dispute settlement mechanisms are not sound enough to protect investors' legitimate rights. Third, lack of political trust hinders international investment flow, in particular in sectors where technology and other innovation elements are subject to geopolitical concerns or vulnerable to intellectual property infringement.

Priorities for the G20 to Improve Global Governance in Trade and Investment

Against this backdrop, the G20 should give full play to its unique role in promoting the inclusive and sustainable development of the global trade and investment regime, by coordinating the positions of major economies. It is also advised that G20 economies discuss a viable trade and investment agenda for rule-making negotiations in future.

Control trade protectionism and build the free trade platform

The G20 has played a key role in curbing the spread of global protectionism since the first Washington summit in 2008. Under the impetus of G20 members, the WTO has strengthened its monitoring of global trade policies.

The G20 economies need to discuss solutions to mitigate the risk of a full-blown trade war by addressing the fundamental concerns of all members, including the blocked process of filling vacancies in members of the Appellate Body of the WTO, possible rules over states' roles in the overall economy and trade, technology transfer, and issues of development and so on remaining from the Doha Round.

G20 leaders also need to have discussions about the positive value of imports so as to rebalance the anti-trade narratives that have been fanned by political populists and economic nationalists. In this regard, the China International Import Expo to be held in November 2018 in Shanghai may make a small contribution and thus be welcomed or followed as an example by other G20 economies.

Support the multilateral trading system and strengthen regional trade agreements and coordination of the multilateral trading system

As core members of the WTO, G20 members are important participants in, contributors to, and beneficiaries of the multilateral trading system. They have primary responsibility for maintaining the multilateral trading system, which is also in line with the common development interests of G20 members and countries around the world.

Given the fact that all G20 economies have been extensively involved in various regional trade agreements, the G20 collectively should promote the transparency of these agreements with a view to reducing transaction costs and non-tariff barriers for signatories, while avoiding damage to the trading environment of non-signatories of specific regional trade agreements. In this regard, special attention should be drawn to the possible negative implications of G20 economies' regional trade agreements for the most vulnerable economies. It is suggested that the G20 reviews experience in this field and builds up knowledge of best practices.

Strengthen multilateral investment policy coordination and improve the global investment cooperation framework

With the dynamic development of global value chains, the future trade agenda may need to focus on improving trade and investment cooperation among countries and formulate corresponding policy measures. The G20 members account for 70 percent and 80 percent of global inward and outward foreign investment, respectively, and the enhancement of cooperation among G20 countries in the area of investment can help to reduce obstacles to investment regulation at the global level.

The G20 should increase the transparency of investment policies, actively improve and promote the creation of a fair, inclusive, and sustainable environment for trade and investment, and continue to strengthen the coordination of multilateral investment policies to provide long-term institutional leadership for the promotion of global investment growth. It should further refine the Global Investment Cooperation Framework to provide guidance for countries to coordinate the formulation of domestic investment policies and negotiate foreign investment agreements.

The institutionalisation of the G20 Trade and Investment Working Group set up in 2016 has played and should continue to play a positive role in strengthening cooperation in trade and investment among G20 economies, and this mechanism should be continued in the future.

Promote an inclusive trade and investment growth strategy and establish an inclusive trade system

The 2018 G20 Argentina summit attaches special importance to trade inclusiveness, emphasising that trade and investment must benefit all humankind, and stressing the need to consider the further integration of small and medium-sized enterprises (SMEs) in international trade.

First of all, G20 members should continue to expand trade contacts with developing countries and continue to integrate developing countries into the global value chain, giving room to the comparative advantages of different countries in resource endowment, so that G20 members can reap economic benefits on a wider scale.

Second, G20 economies should initiate discussions on new rules on trade in services. The share of trade in services in the global trading system has increased year on year. According to the Trade in Value Added database provided by the Organisation for Economic Co-operation and Development and the WTO, the service category accounts for 42 percent of G20 countries' exports and 50 percent of the exports of other countries (OECD, WTO, and UNCTAD 2013). In the future, the G20 should actively promote the improvement of the corresponding international rules and the liberalisation and facilitation of trade in services.

Third, the G20 should continue capacity-building in the global value chain and help SMEs to integrate into the global value chain's division of labour. Against the background of trouble in the multilateral trading system and stalemate in the WTO Doha Round negotiations, cross-border e-commerce has greatly lowered the threshold for enterprises to enter international trade. It has especially enabled SMEs to participate in global trade and actively integrate into global value chains, and also refined service trade rules.

Integration of New Technologies and Their Impact into the G20 Trade Governance Framework and Agreements

The 2018 G20 summit in Argentina emphasises the need for the G20 and other countries at the world level to collectively address the challenges and opportunities brought with globalisation, innovation, and technological progress. The G20 should actively advocate the use of new technologies to promote and upgrade trade. The development of advanced technologies such as artificial intelligence and digitisation has had a fundamental impact on global trade. For example, cross-border e-commerce is becoming the most important support for the digital economy in the context of globalisation.

Technological change means a shift in the trade pattern, and new patterns have also brought new demands, which have had a great impact on the traditional trade rules established under industrial economic conditions. For example, in the face of new tax collection standards and pressures brought by the development of the digital economy, the G20 should promote the conclusion of digital economic trade rules. In the future, G20 countries should consider new trends in technological and economic development and develop new trade governance frameworks and agreements considering the innovative trade model.

Conclusion

The escalation of trade conflicts since the beginning of 2018 provides a challenging context for the G20 summit in 2018 and maybe also 2019. It can be an opportunity if G20 leaders are able to have a thorough and frank dialogue about some fundamental rationales behind such tensions, and take decisive measures to further deepen trade integration and promote global economic growth in line with domestic reform in various economies.

The G20 should continue to implement the global trade growth strategy and the guiding principles of global investment. It is crucial for the WTO to enhance the implementation of the WTO Trade Facilitation Agreement, formulate a strategic plan for building global value chain capacity, set up the G20 guidelines on e-commerce and other innovative trade development principles, and promote the establishment of an inclusive trade system.

Among the G20 countries, China is one of the economies that are keen to further liberalise their trade and investment regimes. On the fortieth anniversary of its reform and opening up, China advocates the implementation of structural trade reforms, the reduction of trade barriers, and comprehensive trade cost reductions (State Council Information Office 2018). It is suggested that China and other G20 economies invest more resources in open and inclusive trade negotiations, for example in the development of innovative technology and trade facilitation platforms such as cross-border e-commerce. It is also suggested that China and all G20 economies take active measures to combat protectionism, including all unfair trade practices, pushing for a negotiated settlement of disputes within the framework of the WTO.

Recommendations

- The G20 should take action to jointly oppose trade protectionism and strengthen the inclusiveness, synergy, and effectiveness of the multilateral trading system through dialogue and effective use of the multilateral and bilateral economic communication mechanisms of the WTO to enhance understanding, expand consensus, and promote the establishment of a healthy and orderly trading environment.
- The establishment of an inclusive global trade and investment growth strategy, trade between developed and developing countries, and integration of SMEs into the global value chain system should be promoted by the G20.
- The impact of new technologies on global trade and investment, including digitalisation and artificial intelligence, needs adequate attention. The G20 should address intellectual property issues by modernising trade rules and adopt innovative agreements on e-commerce and digital services to speed up the growth of international trade under the latest technology conditions.

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G20 Priorities to Tackle the Challenges of Global Trade Governance and Pursue the 2030 Agenda for Sustainable Development

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On its seventieth anniversary, the multilateral trading system faces heightened risk and policy uncertainty. In the face of these risks, G20 leaders have an historical responsibility to preserve the gains derived from global economic integration, including increased living standards and productivity, technology diffusion, and, most importantly, global peace and security. This article highlights concrete steps that G20 members could take in support of a rules-based system, global economic governance, and the 2030 Sustainable Development Agenda.

Introduction

This year, 2018, marks the seventieth anniversary of the multilateral trading system, which, according to Renato Ruggiero, the first director-general of the World Trade Organization (WTO), "ranks among the greatest economic achievements of the post-World War II era" (WTO 1998).

Indeed, the negotiations that led to the entry into force of the General Agreement on Tariffs and Trade (GATT) in 1948 aimed to ensure post-war stability and avoid actions such as the Tariff Act of 1930 (commonly known as the Smoot-Hawley Act), which increased United States (US) import duties on 20,000 products "as the world was tumbling into the Depression" (The Economist 2008). The imposition of these tariffs by the US and the subsequent retaliatory response from other trading nations "led to the virtual halting of international commerce" (Bown 2009).

Through successive rounds of negotiations between 1948 and 1994, the GATT "presided over periods that saw some of the highest growth rates in international commerce" (WTO 2018a; Santana 2017). The establishment of the WTO in 1995 was the culmination of a long journey towards the creation of a multilateral organisation in charge of international trade as part of a broader system of global economic governance. The WTO provides its members with a forum in which to negotiate, solve disputes, and monitor the implementation of commitments under the WTO agreements. Today, 98 percent of world trade is conducted under its rules.

While the benefits from international trade under a rules-based system are generally acknowledged (higher living standards, increased productivity, and technology diffusion), surprisingly less emphasis is placed on its central role in enabling global peace and security: "the undeniable driving force behind the creation of the post-war economic rules and architecture" (Nottage 2018).

For the past 70 years, the multilateral trading system has been shaped by the principles of national treatment and most favoured nation treatment that, in turn, have provided the transparency and predictability for international trade to flourish. Currently, these principles, together with the mechanism to protect their effective implementation, are under threat.

The Multilateral Trading System under Threat

Pressures on the multilateral trading system manifest themselves in various ways. For instance, the Dispute Settlement Mechanism, in particular the functioning of the WTO Appellate Body, is being weakened by the US blockage of all appointments to vacant (Judge) positions. Under the current circumstances, the Appellate Body would function with only three members and, as they leave

office, it would be forced to halt its duties. Such a situation would deprive the system of its capacity to adopt panel decisions and enforce trade rules.

Furthermore, in January 2018, the US increased tariffs on solar panels from China. Subsequently, citing "national security" concerns, it also increased tariffs on steel and aluminium products, from Canada, the European Union (EU), and Mexico, among others. Members have questioned how these measures could be justified under GATT Article XXI (which provides for exceptions to protect "essential security interests"). These unilateral measures have prompted retaliatory responses from those members who consider them a breach of the US obligations under the WTO. At the time of writing, President Trump has threatened to withdraw the US from the WTO.

The current trading environment could hardly be under more pressure. WTO Director-General Roberto Azevêdo highlighted this reality in his mid-year report to the Trade Policy Review Body, noting that "the uncertainty created by a proliferation of trade-restrictive actions could place economic recovery in jeopardy" (WTO 2018c, 2). In his remarks on the report, after urging WTO members to refrain from implementing new trade-restrictive measures and to reverse existing ones, Azevêdo reminded them: "Growth, jobs and recovery are at stake—as well as the health of the trading system on which we all rely" (WTO 2018b).

On the investment front, the *World Investment Report 2018* from the United Nations Conference on Trade and Development (UNCTAD) notes, among other developments, a decline by 23 percent in global flows of foreign direct investment in 2017 and the stagnation of growth in global value chains (UNCTAD 2018, xi).

Furthermore, the report highlights that the prediction of a "very modest" recovery for 2018 and the negative trend in foreign direct investment (which remains the main external source of finance for the developing world) is "a long-term concern for policymakers worldwide, especially for developing countries, where international investment is indispensable for sustainable industrial development" (UNCTAD 2018, iii). The report also emphasises the risks and policy uncertainty and the negative impact that "escalation and broadening of trade tensions" could have on investment in global value chains, as well as the effect that tax reforms in the US, and "greater tax competition," can have on global investment patterns. It therefore underlines the importance of a "conducive global investment environment, characterized by open, transparent and non-discriminatory investment policies."

Going Forward

Against this background, the G20 leaders and policymakers have a crucial role to play in reducing policy uncertainty, in making multilateralism prevail over unilateralism, and in mobilising resources and forging partnerships to advance the 2030 Agenda for Sustainable Development. Together, G20 countries account for 85 percent of global gross domestic product (GDP) and 75 percent of international trade; therefore, the impact of their policy decisions cannot be emphasised strongly enough. G20 leaders and policymakers should de-escalate tensions and lead by example in making sustainable policy choices. This article contends that these choices should focus on three strategic elements.

Adjusting rules for a changing balance of power

In the current circumstances of tension, WTO members should seek a new balance for international trade rules that reflects the changing power dynamics without modifying the WTO consensus rule. The coming change from unipolar to multipolar power dynamics has become more visible in recent years. Forecasts such as *Global Trends: the Paradox of Progress* from the US National Intelligence Council chart these dynamics and preview the consolidation of multiple geopolitical powers across different regions (NIC 2017, 87). In the context of international trade, diplomatic initiatives are starting to confront this new reality. The initiative announced by French President Emmanuel Macron to call an initial conference between the US, the EU, China, and Japan in November 2018 to address the reform of the WTO is a positive development (Reuters 2018). While details of the proposal are still to be disclosed, this process should be broadened to include all G20 members who have the responsibility to raise their voice in defence of multilateralism.

Unblocking the dispute resolution system at the WTO

The functioning of the WTO Dispute Settlement Mechanism has been highlighted by President Macron as one of the main items of the proposed conference (Reuters 2018). Any potential outcome in this area must respect and preserve the letter and the spirit of the Dispute Settlement Understanding and aim at restoring and securing the sustainable functioning of the Appellate Body. G20 members should support concrete proposals aimed at finding a solution to unblock the impasse there.

Forging partnerships for sustainable development

Developments in the trade and investment field require action by the G20 to bring certainty, transparency, and predictability back into the system. Solid and effective partnerships are necessary to tackle these challenges and reduce policy uncertainty, not least to achieve the Sustainable Development Goals (SDGs). G20 leaders can shape new alliances at the WTO and make it remain a forum to forge partnerships for sustainable development, in line with SDG 17.

Specific Priorities

Urgent action from G20 members is required on two fronts: first, on the implementation of commitments and on the negotiation of new provisions; and second, on more systemic issues. The first set of actions means continuing to work on and support the implementation of the Trade Facilitation Agreement (TFA); successfully concluding current negotiations on fisheries subsidies; and supporting initiatives on investment facilitation and e-commerce. The second set of actions includes an urgent call to de-escalate tensions, unblock the Appellate Body, and preserve the integrity of the multilateral trading system.

Support full implementation of the Trade Facilitation Agreement

WTO members have continued to work towards the implementation of the TFA, which has the potential to reduce global trade costs between 10 percent and 18 percent (OECD 2018). Currently, the TFA has a rate of implementation of approximately 60.6 percent (WTO 2018d), which suggests that

much remains to be done. G20 members should continue working towards the full implementation of the TFA and supporting capacity-building, for instance to strengthen the functioning of the National Committees on Trade Facilitation.

Adopt new disciplines on fisheries subsidies

At the 11th WTO Ministerial Conference, WTO members agreed to continue working towards an agreement on disciplines that prohibit certain forms of fisheries subsidies that contribute to overcapacity and overfishing, and to eliminate subsidies that contribute to illegal, unreported, and unregulated fishing (WTO 2017a).

G20 members, which include some of the biggest fishing nations, should express their full support to the efforts led by the chair of the Negotiating Group on Rules, Ambassador Roberto Zapata from Mexico, to successfully conclude the negotiations on fisheries subsidies, as agreed. Such an outcome would be a "triple win" in terms of trade (elimination of trade-distorting subsidies), environment (protection of fisheries resources), and development (provisions on special and differential treatment). A WTO agreement on fisheries subsidies would be one of the most meaningful contributions of the WTO membership to SDG 14.

Support investment facilitation

The Joint Ministerial Statement on Investment Facilitation for Development calls for the beginning of "structured discussions with the aim of developing a multilateral framework on investment facilitation" (WTO 2017c). Among other elements, the initiative aims at improving the transparency and predictability of investment measures and streamlining and speeding up administrative procedures and requirements.

G20 members should welcome this initiative as a positive development and support these discussions. The G20 Trade and Investment Working Group could identify areas to deepen the analytical work in support of the investment facilitation initiative. The OECD policy brief *Towards an International Framework for Investment Facilitation* (Novik and de Crombrughe 2018) would represent a very meaningful contribution to such analysis.

Enable countries to benefit from e-commerce

The "new industrial revolution" and the agenda around the "digital economy" can be an opportunity to forge partnerships and to assist developing and least developed countries in the design and implementation of sustainable policies for the digital economy that contribute to their development objectives.

G20 members should explore ways to help these countries benefit from this new source of trade, through a coherent and inclusive agenda, and enable their participation in the exploratory work "toward future WTO negotiations on trade-related aspects of electronic commerce," called for in the Joint Ministerial Statement on Electronic Commerce (WTO 2017b).

G20 members could draw inspiration from the preparatory work for the negotiations on trade facilitation that included a clear scope for the negotiations; the acknowledgement of the need to enhance technical assistance and support for capacity-building; innovative special and differential treatment provisions beyond the “traditional transition periods” for implementing commitments; and identification of needs and priorities (needs assessment) “as an integral part of the negotiations.”

Once the scope of the negotiations has been determined, G20 members should support needs assessments initiatives. One possible action could be to increase their support to the UNCTAD e-Trade Readiness Surveys, among other capacity-building activities, in close coordination with other relevant international organisations.

Call for Action

The priorities described require strong leadership, a solid legal framework, and a politically conducive environment if they are to have a significant impact on the current situation. It would be virtually impossible for WTO members to engage in new discussions or undertake new commitments in the absence of predictable and transparent rules and when confronted with the turmoil of risk and policy uncertainty.

G20 leaders should live up to their responsibility at this crucial time in history and reiterate their support to the multilateral trading system. As a matter of priority, they should collectively acknowledge the role of the WTO as a fundamental pillar of global economic governance and its contribution to global peace and security; take the necessary steps to de-escalate trade tensions and remove unilateral measures; and restore the functioning of the WTO's Appellate Body. They should also support partnerships at the WTO on trade and investment facilitation, e-commerce, and fisheries subsidies and engage in an inclusive and coherent WTO reform process that contributes to a stable and predictable rules-based system, without modifying the consensus rule.

The 2018 G20 Leaders' Declaration must restate the value of multilateral cooperation to tackle the urgent global challenges we are facing and acknowledge that a rules-based system is needed, not only to preserve the gains from global economic integration but also to be faithful to the core objective that underpinned its creation: to contribute to global peace and security.

Recommendations

The first front of particular areas where action is needed includes the following:

- Support the full implementation of the Trade Facilitation Agreement.
- Adopt new disciplines on fisheries subsidies.
- Support investment facilitation.
- Enable countries to benefit from e-commerce.

The second front is system-wide. G20 leaders have an historic responsibility to stand up in support of the multilateral trading system. As a matter of priority, they should:

- Acknowledge the role of the WTO as a fundamental pillar of global economic governance and its contribution to global peace and security.
- Take steps to de-escalate trade tensions and remove unilateral measures.
- Restore the functioning of the WTO Appellate Body.
- Support partnerships at the WTO on trade and investment facilitation, e-commerce, and fisheries subsidies.
- Engage in an inclusive and coherent WTO reform process that contributes to a stable and predictable rules-based system, without modifying the consensus rule.

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MULTILATERAL TRADING SYSTEM

Reinvigorating Global Governance: G20 and the Future of Multilateralism

Wang Huiyao

The current global governance structure suffers from three serious deficits, in democratic representation, institutional structure and functions, and responsibility. The three deficits that have emerged are linked to major trends: the rise of the G20 as a new body of global governance, the changing role of the United States (US), and the ascent of China. Recognising that US global leadership is waning and that no single country can deal with today's global challenges on its own, this article calls for a revival of the global governance system based on the G20 under the shared leadership of the US and China, and provides recommendations.

Introduction

The international order that emerged after the Second World War is coming under increasing strain in trying to deal with today's global challenges. Supranational institutions such as the United Nations, the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO) have been central to this post-war order. States ceded sovereign rights to these institutions and followed the rules and norms set by "western" countries, most prominently the United States (US). Global governance under the leadership of the G7 emerged in the 1970s in the wake of the oil crisis and collapse of the gold standard and functioned well into the 1990s. However, it is now increasingly clear that the current global governance structure suffers from three serious deficits.

The first is a democracy deficit. Developing countries have grown in relative importance in the world but still lack a voice (Nye 2001). The second deficit concerns the multilateral system itself. The structure and functions of existing institutions have failed to evolve in response to major changes that have occurred over the past few decades. Attempted reforms have been stymied, while new multilateral institutions have emerged to deal with issues but remain underdeveloped and will take time to mature. Third, the current global governance system is hamstrung by a deficit of responsibility. While developed countries continue to dominate multilateral institutions, waves of populism in these countries mean that many are seeking to retreat from their international obligations (Erskine 2003, 2, 4). At the same time, developing countries have yet to gain a voice commensurate with their economic rise.

The three deficits that have emerged are linked to major trends: the rise of the G20 as a new body of global governance, the changing role of the US, and the ascent of China. Following a brief tour of these themes, this article closes with a look to the future and recommendations to revive the multilateral system.

G20 and the "Rise of the Rest"

The 2008 global financial crisis marked a turning point for the post-war order, sparking the decline of the G7 and the rise of the G20. The crisis also coincided with the economic ascendancy of China and other emerging markets. In the 1990s the US and G7 countries overall on average contributed 29.1 percent (Ycharts 2018) and 56.8 percent (Kose et al. 2017). This continued the pattern from the previous three decades. For the period 2008–2016, the equivalent contributions fell to 23 percent (Ycharts 2018) and 48.9 percent (Kose et al. 2017). Conversely, contributions to global growth in

the 1990s by the EM7 countries (Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Turkey) were only 14 percent but have risen to 24 percent over the period 2010–2016 (Kose et al. 2017). Also, the EM7 countries have surpassed the G7 countries in terms of their contribution to global growth: in 2016, while the EM7 accounted for 1 percentage point of the 2.4 percent growth rate of the world economy, the G7 contributed 0.7 of a percentage point (Kose et al. 2017). These figures reflect an upending of the global growth structure and the gradual shift of economic power from west to east (Giles 2017).

Following this historic trend, the period after the global financial crisis has seen the rise of the G20, a more inclusive and representative body whose members account for 80 percent of global gross domestic product (GDP) and two-thirds of the world's population. The first G20 meeting in Washington, DC in November 2008 saw China and a group of emerging markets enter the core decision-making circle for global governance. The G20 has since replaced the G7 to become a primary platform for global governance (Kircher 2016, 491).

Challenges for the G20

While a step forward for representative global governance, the G20 still faces many challenges. First, in contrast to the smaller G7, which consisted of all high-income economies, the G20 is made up of a larger, more diverse group of developed and developing nations. This makes achieving consensus more difficult, weakening the G20's efficiency in the decision-making process (Kircher 2016, 494–495). When decisions are made, the G20 often lacks the capacity to carry them out. Unlike the United Nations, the G20 is not endowed with enforcement mechanisms, making it a mere discussion forum in the eyes of many.

Furthermore, the G20 also faces headwinds from populist waves in developed countries, with an upsurge in nativism, protectionism, and opposition to migrants and foreign aid. G20 effectiveness is also complicated by geopolitics, particularly the great power dynamics between China, the US, and the Russian Federation. The complexities of Middle East politics, terrorism, and Europe's refugee crisis have also made G20 cooperation more challenging.

More importantly, the current global governance system is weakened by the G20's most powerful player, the US (Bradford and Linn 2011, 15). The US has contributed much to global development over the past 50 years; however, it is now often seen as a source not of public goods but of "public bads." For many years, Washington has vetoed capital increase proposals to reform the World Bank, impairing its ability to meet financial needs for development around the world (Bernanke 2005). US influence was seen in the 1997 Asian financial crisis. At home, the unchecked proliferation of financial derivatives laid the ground for the 2008 subprime mortgage crisis, which triggered a worldwide economic recession.

The US has also had a major hand in creating imbalances in the global economy. The US dollar became a global reserve currency in the 1970s after the country abandoned the gold standard. Rather than undertake timely structural reforms to resolve domestic imbalances, Washington continued to use

the US dollar's reserve status to run large trade deficits, contributing to the lopsided trade patterns we see today. While the provision of the US dollar as global liquidity has helped fuel global trade and growth, the current Trump administration is using trade deficits that have resulted from this system as a premise to unilaterally impose tariffs on the country's trading partners outside the WTO system.

China and the World Order: from Isolation to Global Power

China's international role has changed dramatically since the founding of the People's Republic of China in 1949. Until the late 1970s, China was seen as a revolutionary power and remained largely outside the international system. Beijing gradually aligned itself with more international rules and institutions during the Reform and Opening period, culminating in WTO entry in 2001. Following several decades of rapid growth, China under President Xi is now playing a more active role in global governance. China hosted the G20 summit in 2016 and has launched initiatives to spur global development, including the Asian Infrastructure Investment Bank, the BRICS New Development Bank, and the Belt and Road Initiative.

China is also playing a larger role in established multilateral institutions, including through greater financial and personnel contributions to the United Nations. Since 2012 China has provided more troops to United Nations peacekeeping operations than all of the other Permanent Five members of the Security Council combined and currently covers 10 percent of the entire United Nations peacekeeping budget.

The rapid rise of China has prompted ongoing debates among western observers over the implications for the existing liberal international order. Some criticise China for throwing its weight around and invoke the Thucydides Trap, which sees conflict between a rising power and an established dominant power as inevitable (Huang 2017). On the other hand, China was for a long time accused of being a "free rider," unwilling to take on international responsibilities. However, when Beijing does take the initiative and adopt a more active role, suspicions are raised as to whether China wants to challenge US dominance.

Rather than the Thucydides Trap, leading international relations scholar Joseph Nye believes there is more risk of a situation in which no global power is willing and able to provide public goods—the so-called "Kindleberger Trap" (Huang 2017). Today, the relative decline of US power and Trump's inward turn has again contracted provision of global public goods. Against this backdrop, China has accelerated moves to play a more prominent role in global governance and attracts raised expectations from countries around the world (Patrick and Thaler 2010).

Reinvigorating Global Governance

Recognising that US global leadership is waning and that no single country can deal with today's global challenges by itself, Richard Haass (2017), President of the Council on Foreign Relations, has called for the establishment of a new global operating system. In this World Order 2.0, Haass hopes that all countries can work together in building the international system. The China–US relationship

will be the most important bilateral relationship in this new order. Despite structural tensions, the two economies are deeply intertwined and "doomed to cooperation," with imperatives for both competition and collaboration growing by the day.

As leading powers that now account for almost 40 percent of world GDP, the US and China also have a joint responsibility to promote global peace and prosperity, as recognised in the United Nations 2030 Sustainable Development Agenda and Beijing's vision for a "community of shared future for all mankind." To fulfil this responsibility and ensure that the US–China relationship is a positive force in the world, the following areas should be explored to revive the global governance system.

Increase support for the WTO and promote reform of the multilateral trading system

Under the WTO framework, the G20 should work to uphold the centrality of the WTO and implement remaining elements of the Doha Round. It should also help prepare for talks on rules to deal with the new technologies and forms of trade that have emerged. The WTO trade agenda should be reoriented to focus more on concrete issues and trade development. At the same time, the authority of the WTO should be strengthened to ensure supervision over regional trade agreements, which are growing in number and scope. Efforts should also be made to enable the full and fair participation of all countries, enhancing the openness and transparency of multilateral negotiations and ensuring a balance is struck between the interests of developed and developing countries.

Promote the Free Trade Area of the Asia-Pacific and integration of the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership

First proposed to Asia-Pacific Economic Cooperation leaders in 2004, the Free Trade Area of the Asia-Pacific (FTAAP) is an ambitious project that would create major gains for the region and each member country. It is estimated that the FTAAP would bring China benefits 2.7 times that of the Regional Comprehensive Economic Partnership (RCEP), while the US would stand to gain 2.5 times the benefits that would accrue under the Trans-Pacific Partnership (TPP) (Basu Das 2015, 170). There are two routes to realising the FTAAP. One is to eventually integrate the TPP and the RCEP into the FTAAP. The second is to turn the FTAAP into an umbrella agreement that provides standards to bridge between the TPP and the RCEP on issues such as tariff reductions, service sector liberalisation, and rules on intellectual property (Basu Das 2015, 169). This would create a multilevel free trade system for the Asia-Pacific region.

Build on stronger China–United States ties to innovate global governance

Given the importance of China–US relations, a new mechanism for bilateral dialogue and cooperation should be created that can overcome strategic mistrust and cultivate a new type of major-power relations (Patrick and Thaler 2010). At the same time, China should emphasise the need for all countries to share responsibilities for global governance, embedding this spirit of cooperation into initiatives such as the Belt and Road.

Based on these principles, the two nations can seek cooperation over emerging issue areas of global governance, such as cross-border e-commerce, cybersecurity, space exploration, and global

talent migration. These are increasingly important fields in which China and the US both have their own strengths and shared interests, while existing multilateral mechanisms are thin (Patrick and Thaler 2010). Creating new institutions to address key issues in these sectors would reinvigorate multilateralism and expand opportunities for China–US cooperation. In turn, this would help to dispel fears of a “China threat” and avoid a slide towards the Thucydides Trap. By playing an active role in upgrading the global governance system, China will be able to contribute more to global public goods, helping the world to avoid the Kindleberger Trap in the march towards a brighter future.

Recommendations

- The G20 should increase support for the WTO and promote reform of the multilateral trading system.
- The G20 should promote free trade by supporting the FTAAP and integration of the TPP and the RCEP.
- The G20 should call for stronger China–US ties to innovate global governance.

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Free and Fair Trade Will Not Come as a Self-Fulfilling Prophecy: The G20 as a Catalyst for Action

Constanza Negri Biasutti and Fabrizio Sardelli Panzini

This article addresses the role of the G20 in promoting the opening up of trade and demonstrates how its commitments have failed to prevent the growth of restrictive measures. The current context of trade war is a new test for the economic group. If G20 leaders want to avoid a major step backwards in global economic governance, they will have to go beyond rhetoric to tackle the danger of a protectionist downward spiral and promote the reform of the multilateral trading system. The article provides three policy recommendations for the G20 to be poised as a catalyst for action, from improved monitoring to guidance on both substantive and procedural aspects of World Trade Organization reform.

Introduction

Historically, G20 countries have already dealt with a severe situation of decline in world trade during the global economic crisis of 2008–2009. The current context of trade war, though, imposes a completely new test for the G20, since its roots lie in deeper aspects, such as the lack of trust in the multilateral trading regime.

The G20 leaders' declarations constantly refer to the most important topics that affect international trade. Nevertheless, in spite of some specific progress in trade finance and the monitoring of trade barriers, G20 commitments have failed to promote significant changes, especially when it comes to preventing the growth of protectionist measures, the hottest subject at the moment.

Thus, if the G20 wishes to be coherent with its declarations and remain relevant to its objective of promoting the opening up and integration of trade, there is no other way but to be a catalyst for action, starting with its leaders' meeting in 2018.

A Different Context: Trade War and Lack of Trust in the Multilateral Trading System

From 2008 to 2009, G20 countries had to deal with a severe situation of decline in global trade and the adoption of protectionist measures by members. However, the current landscape differs since it is related not to an international recession but more to the lack of trust of some countries in the multilateral trading system.

Since the G20 summit in July 2017, world trade has been turned upside down. At that time, some signs of tension were already clear, as were some of the actions of the United States (US), such as withdrawal from the Trans-Pacific Partnership and the renegotiation of preferential agreements in the North American Free Trade Agreement. However, the cycle of unilateral trade measures and retaliations had not yet begun.

From October 2017 to August 2018, there was a series of investigations, measures taken by the US, and retaliations from other countries involving nine G20 economies. Among threats and tariffs effectively applied to imports in 2018, the potential impact on global trade reaches at least US\$ 500 billion (Table 1) across various sectors, from machinery to oil, and from auto parts to food and agricultural products in general (Bown and Kolb 2018).

As a consequence, no fewer than 13 trade disputes involving 7 G20 countries were initiated at the WTO Dispute Settlement Body (DSB). Curiously, the body is currently facing an institutional deadlock, with a shortage of arbitrators and delays in its decisions.

Table 1: Measures applied or under investigation and their estimated potential impact on trade

Measure applied or under investigation	Potential impact (US\$ billions)	Retaliation to applied measure	Potential impact (US\$ billions)
Safeguards applied by US against solar panels and washing machines	10.3	178.6% anti-dumping tariffs imposed by China on US sorghum imports	1
US imposes 25% tariff on steel and 10% tariff on aluminium under Section 232 (national security)	60.0	Canada, China, Mexico, European Union, and Turkey retaliate in various sectors such as aluminium waste and scrap, pork, nuts, fruits, steel, and aluminium	16
US launches investigations into what are considered unfair technology and intellectual property practices carried out by China, and proposes two lists of tariffs to China, including auto parts, electronics, and furniture	100	China retaliates by threatening US with its own list of tariffs (later revised), including cars, aeroplanes, food, and agriculture	100
Ongoing investigation into auto parts under Section 232 (national security)	208.0		0
Total	378.3		117

Source: Bown, Chad P., and Melina Kolb. 2018. *Trump's Trade War Timeline: an Up-to-Date Guide*. Washington, DC: Peterson Institute for International Economics, 15 August 2018. Latest updates at <https://piie.com/system/files/documents/trump-trade-war-timeline.pdf> (elaborated by the authors).

This negative landscape was confirmed by the WTO quarterly outlook indicator, released in August 2018, which signals a clear slowdown in world trade driven by a lower demand for exports (–5.3 percent), especially in the automotive sector (WTO 2018). The director-general of the WTO warned that “whether or not you call the current situation a trade war, certainly the first shots have been fired” (Reuters 2018b).

This context shows how G20 countries are constantly violating their commitments to free trade. However, given the scale of the current trade war, the group will have to face the issue in the next summit between leaders.

History of the Declarations by the G20 on World Trade

The main challenges to international trade have been present in every G20 communiqué since the organisation's first summit, in Washington, DC in 2008 (G20 2018). During the first meetings, which took place in a context of major contraction in global trade, the group managed to successfully act to maintain the levels of trade finance, within a broader strategy of policies to improve the global financial system.

Additionally, other trade-related topics have been put forward and reiterated in all 12 G20 communiqués. Among the points often highlighted, five recur the most frequently:

- the importance of a robust multilateral trading system;
- commitments to avoid protectionist measures and measures that are inconsistent with WTO rules;
- support and incentives for the monitoring of restrictive measures on trade and investment;
- commitment to the conclusion of the WTO Doha Development Agenda negotiations;
- commitments to increase transparency on regional trade agreements (RTAs) at the WTO.

Table 2 summarises the prevalence of these topics in the G20 world leaders' summits. References to the core importance of the multilateral trading system are present in virtually all of the reports, explicitly in at least 9 of the 12 communiqués. Commitments to prevent countries from adopting protectionist measures were included in all statements. Besides that, the G20 was responsible for encouraging other organisations—the Organisation for Economic Co-operation and Development (OECD), the WTO, and the United Nations Conference on Trade and Development (UNCTAD)—to jointly monitor the application of trade and investment measures.

Another very frequent topic is the balanced conclusion of the Doha Development Agenda. It was stressed in the first nine summits, but was left out in the past three years, a result of greater scepticism and perhaps as a consequence of the way the WTO started to operate, based on punctual deliveries (early harvest principle).

In the past few years, it is worth noting the recurring mention of issues that are important to businesses, such as trade facilitation, e-commerce, small and medium-sized enterprises (SMEs), and investment. These topics might reflect the interest of the G20 chair country or the current trade environment. The 2017 communiqué brought reference to legitimate instruments of trade defence, unusual in these declarations.

The analysis of communiqués leads to the conclusion that the main issues affecting international trade have been at the centre of G20 discussions. Nevertheless, except for some specific progress in areas such as trade finance and the monitoring of trade barriers, there is a significant distance between what is said and what is done. G20 members have fallen short of their commitments, particularly in preventing an increase in restrictive measures.

The Way Forward: Which Role for the G20?

G20 economies are now confronted with even more serious challenges on the trade front compared with previous summits. The WTO faces its greatest crisis, while unilateral measures leading to countermeasures or to mercantilist deals, in some cases, are becoming widespread.

Against this backdrop, a twofold approach is needed by G20 leaders. On the one hand, it is crucial to avoid falling into a protectionist downward spiral; on the other hand, it is imperative to pave the way for the reform of the multilateral trading system.

If G20 leaders want to avoid a major step backwards in global economic governance, they will have to go beyond rhetoric to tackle these two aspects. In light of this, the G20 should do the following.

Table 2: G20 priorities and commitments in trade by summit

Summit	Importance of multi-lateral trading system	Standstill from protectionist measures	Monitoring of trade and investment measures	Transparency on regional trade agreement notification at WTO	Doha Development Agenda round conclusion	Other trade issues mentioned
2008, Washington, DC, US	X	X			X	Support from World Bank for trade finance
2009, London, United Kingdom		X			X	Support of US\$250 billion for trade finance; trade facilitation
2009, Pittsburgh, PA, US	X	X	X		X	Aid for Trade; US\$250 billion trade finance plan; mention of main topics at WTO negotiations
2010, Toronto, Canada		X	X		X	ILO, WTO, OECD, and World Bank reports on free trade benefits; Aid for Trade; trade facilitation
2010, Seoul, Republic of Korea		X	X		X	ILO, WTO, OECD, and World Bank reports on free trade benefits for jobs; Aid for Trade; trade finance for developing countries; trade Facilitation
2011, Cannes, France	X	X	X		X	
2012, Los Cabos, Mexico	X	X			X	UNCTAD, WTO, and OECD to work on benefits of free trade; global value chains in trade; improvement of dispute settlement system at WTO
2013, St Petersburg, Russian Federation	X	X	X	X		
2014, Brisbane, Australia	X	X		X	X	Define WTO work programme on remaining issues of Doha Development Agenda
2015, Antalya, Turkey	X	X	X	X		Aspects of small and medium-sized enterprises; agreement on creation of supporting working group for ratification of Trade Facilitation Agreement
2016, Hangzhou, China	X	X	X			G20 Trade and Investment Working Group; World Trade Outlook indicator; G20 Guiding Principles for Global Investment Policymaking
2017, Hamburg, Germany	X	X	X	X		Roadmap for Digitalisation; G20 Priorities on Digital Trade; role of legitimate trade defence instruments

ILO, International Labour Organization; OECD, Organisation for Economic Co-operation and Development; UNCTAD, United Nations Conference on Trade and Development; WTO, World Trade Organization.

Source: G20 website (elaborated by the authors).

Reinforce the monitoring mechanism

As stated by Evenett et al. (2018) in their Think 20 (T20) policy brief, trade frictions will not disappear just because the G20 collectively turns a blind eye to protectionism. On the contrary, the monitoring mandate to the WTO, OECD, and UNCTAD needs to be renewed, reinforced, and broadened to include the full range of policy measures that affect not only goods but also services and foreign direct investment.

Such monitoring should also be extended to cover the impacts of the unilateral and countermeasures adopted since January 2018 in terms of damage to trade and job losses around the globe.

Establish an agenda to unlock the Dispute Settlement Body impasse

The DSB is currently under serious threat of deadlock, since members do not agree on basic issues, such as the appointment of new Appellate Body members. If action is not taken soon, the enforcement pillar of the system will be undermined. The G20 should step up efforts to secure a compromise to improve the functioning of the DSB and avoid the impasse. The DSB is a central pillar of the international trade regime as it works to guarantee that rules are enforced and that the system is predictable. The G20 cannot turn a blind eye to this.

During the Doha Round negotiations, WTO members agreed to a number of practical changes to the DSB that would result in faster decisions, greater opportunities to settle without going to final judgment, and more transparency for hearings and submissions (Berger and Brandi 2016). Working on these procedural aspects could restore confidence and help to focus discussions on a number of substantive concerns shared by major players.

New blueprint for WTO reform

Concrete forward-looking actions should be taken by the G20 to reshape the global trading system. This should take the form of a roadmap containing the main guidelines in order to achieve a system aligned with the twenty-first century. The roadmap should address key issues related to governance, such as alternative methods for decision-making and strengthening of the notification system in order to improve compliance. In addition, the WTO should update its hardware by introducing new and broader disciplines on the most relevant issues.

Three G20 members, the European Union, Canada, and India, have already made public their interest and engagement in this process by adopting concrete proposals and convening discussions.¹ This could serve as a starting point for the G20 to leverage and try to find consensus on a number of core proposals.

In the short term, it is important to maintain the WTO's capacity to deliver on the negotiations pillar. In this regard, the G20 should seek to bring business and the WTO closer through the Trade Dialogues initiative, focusing on the priorities identified in this forum that are feasible to reach in

¹ For Canada, see Reuters (2018a).

the short run. This is the case for an e-commerce agreement and particularly for an investment facilitation agreement, which could increase the practical support for foreign investors by providing facilitated information and reducing red tape.

Undoubtedly, finding common ground will not be easy, but this reform cannot be kicked into the long grass any longer and the G20 is the right forum to address this reform.

Also, addressing these issues in the 2018 final declaration will not be enough. G20 trade ministers and leaders should recognise their role as a catalyst for action and have their Trade and Investment Working Group engage actively on these three priorities. This would transform the working group from a cooperation platform into a stronger work mechanism for trade and investment, avoiding an ad hoc and intermittent approach to central issues.

Recommendations

- The G20 should reinforce and broaden the monitoring mandate to the WTO, OECD, and UNCTAD, not only to include the full range of policy measures that affect trade but also specifically to cover the impacts of the current trade war in terms of damage to trade and job losses around the globe.
- G20 leaders should step up efforts to secure a compromise to improve the functioning of the DSB and avoid the impasse. The DSB is a central pillar of the international trade regime as it works to guarantee that rules are enforced and that the system is predictable.
- The G20 should adopt a roadmap containing the main guidelines in order to reform the multilateral trading system. This roadmap should address key issues related to governance as well as new and broader disciplines on the most relevant issues.

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The G20's Potential Role in Fighting Against Protectionism and Advancing WTO Reforms

Michitaka Nakatomi

In light of strong concern about ongoing protectionist measures by major global economic players, finding durable, collective solutions will mean that members of the World Trade Organization (WTO) will have to refrain from introducing unilateral and arbitrary measures. At the same time, the WTO itself will need to evolve to accommodate fluid and dynamic changes in the business environment. In particular, WTO reform to regain its rule-making function is essential. The G20 needs to play a role in tackling the proliferation of protectionism and consolidating common positions for the courses of action ahead.

Challenges Facing the Global Economy

High risks of proliferation of trade protectionism

As the global economy regains its footing after the financial crisis, we are entering new turbulence in the form of rising trade tensions. This is marked by the unilateral raising of tariffs above bound rates on the basis of domestic investigations, compounded by trading partners' countermeasures without authorisation from the WTO. It is argued that major players are circumventing the WTO and misusing permitted exceptions to its rules in an effort to recover what is perceived as a lost global edge for their domestic industries. This risks the creation of a new unrestrained norm and the triggering of copycat behaviour.

Not only is the number of instances of trade restrictive measures rising,¹ but also their scope and nature are evolving. This is giving way to new ways to tip the commercial playing field against trading partners beyond the sweeping tariffs affecting goods trade that characterised the Depression-era Smoot Hawley Act (Evenett et al. 2018). Efforts to tackle protectionism should stem from the recognition that in the twenty-first century, trade patterns, business models, and structures of production involve increasing interaction with intangible components and extend beyond goods to the exchange of services and ideas in either discrete or bundled forms. Under these circumstances, data and intellectual property are assets on which firms can capitalise, raising matters of jurisdictional control and throwing traditional economic conceptualisations of trade as win-win off-kilter (Ciuriak 2017).

While global trade is rebounding, voters are more concerned with living standards and opportunities than traditional measures of growth and macro-indicators. Their concerns lie more often with the uneven distribution of welfare gains from trade, and with the infringement of globalisation on national sovereignty, including the imperative to leave policy space for domestically determined industrial and societal goals to dictate outcomes (Rodrik 2018). These factors are degrading the long-term political support for the multilateral trading system, with existing frameworks charged with failing to deliver.

Much can be done in the G20 to promote continued trade recovery and ensure some of these unmet needs are provided for by the trading system. As a group of the world's largest economies, it is natural that much of G20 protectionism is directed within the grouping itself. However, uncontrolled

¹ The WTO *Report on G20 Trade Measures* released in July 2018 reports an average of six trade-restrictive measures (including tariff hikes, tightened customs procedures, export duties, and other taxes) applied by G20 economies per month from October 2017 to May 2018—double the figure for the previous review period (WTO 2018).

protectionism in the G20 also carries implications for other regions, leading to "reshoring" and stagnation of the global value chain. It threatens the attainment by developing and least developed countries of the Sustainable Development Goals by limiting the potential contributions of trade to transforming economic structures, promoting job creation, and stimulating inclusive growth (Evenett et al. 2018).

In view of growing protectionist measures by major players, including the United States (US), it is essential for the G20 to send the strongest possible message to fight against protectionism and show the firmest support for the multilateral system enshrined in the WTO. In doing so, G20 members will need to (i) speak out against the use of unilateral measures based solely on the judgements and criteria of the countries concerned, and (ii) support taking measures when necessary based on the international rules embodied in the WTO.

"Slowness" and "narrowness" of the WTO functions

The surge in unilateral measures has been, at least in part, triggered by inefficiency and defects in the WTO regime. At the same time, with efforts to update the rules of the multilateral trading system stalled, governments must fall back on the existing rulebook to defend against current trade tensions. The fight against protectionism should therefore advance hand in hand with WTO reform. Such action must come from WTO members in a bottom-up process to restore functionality in the face of these challenges and to de-escalate the situation. As this article explains, WTO rules are under serious constraints characterised by "slowness" and "narrowness."

The WTO is a vehicle for trade liberalisation, rule-making, enforcing legal frameworks, and reducing and containing disputes. In this way, the WTO serves as a public good, ensuring the rules of trade follow from progressive liberalisation and non-discrimination rather than national interest and allowing for broad participation in rule-making. However, as widely acknowledged by its members, the rule-making function of the WTO has been paralysed, with the Trade Facilitation Agreement remaining the only multilateral agreement to be successfully concluded by the WTO in its 23-year history. The WTO's monitoring arm is beleaguered by insufficient notifications and compromised transparency, and the core of the dispute settlement system threatens to be immobilised in the near term.

At the heart of the problem, while world trade has changed dramatically since 1995, the WTO has not. With the stalemate of its Doha Round coinciding with a period of intense transformation of the world economy, can the multilateral trading system still be considered adaptive and fit for purpose? As the WTO squares up to the demand to accommodate different priorities and paces of change across its membership and confront the evolving strategic interests around trade among major members, "slowness" is the WTO's most serious defect. The time frame of the WTO does not match the speed of technological innovation and changes in the global economic, political, and social environments surrounding its members. It does not meet the demands of global business, the era of global value chains, and the digital economy designed in the fourth industrial revolution.

In addition to the "slowness," the other serious deficiency of the WTO is its "narrowness." The scope of the Doha Round has been narrowed down fundamentally to deal with old market access issues.

Such important issues as “trade and investment” and “trade and competition” have already dropped from its coverage. Newer issues such as digital trade are not covered at all, though members did agree to continue the work under the Work Programme on Electronic Commerce at the 11th WTO ministerial conference (MC11) in December 2017.

To some extent, unilateral measures have been triggered by the sluggish rule-making process in the WTO and a lack of effective trade rules meeting the changing economic environments surrounding the member countries. Unilateralism and resorting to such undefined and dangerous concepts as “national security” should (and can) be contained if the WTO rules can develop quickly to meet the needs of the global trade regime.

As recent deliberations on the functions of the Appellate Body and the selection of its members clearly show, the dispute settlement system in the WTO is also facing institutional fatigue. A major cause stems from problems in the rule-making function, where panel judgments are becoming difficult. For the panel, it is like making judgments on the basis of the Magna Carta, where the rules have not kept pace with the evolving dynamics of global trade relationships. Absent new rules, WTO judges have to manage with evolutionary interpretations of legal decisions (Baldwin and Nakatomi 2015). As often analysed, the dispute settlement system has performed relatively well since the establishment of the WTO. In digital trade areas, for example, the panels have interpreted and clarified the application of existing trade rules in several reports (such as the internet gambling case).² However, this type of interpretation has its limitations. Some members are not happy for WTO judges to write reports without basing their judgments on concrete negotiated text. The tension is expected to be very high in the areas where technological and business development is very fast, as in the case of digital trade.

All the while, a pronounced incongruence between the complexity and volume of the workload and scarcity of resources is leading to significant delays for the panellists and Appellate Body members, with grave implications for the effectiveness of the dispute settlement system. As more Appellate Body members leave office while new appointments are being blocked, the ensuing crisis will increasingly undermine the operation of the dispute settlement system as a whole.

To save the dispute settlement system, the quest for WTO reform, including on decision-making, again becomes essential. Without the requisite reform, protectionist actions will continue, and there is a serious danger that major player(s) eventually could cease to observe the decisions of the panel. G20 members should therefore confirm the necessity of dealing with the paralysis of the functions of the WTO, and above all the decision-making system.

Lack of multilateral rules in addressing the digital economy

Without tackling these limitations and achieving WTO reform, it is too optimistic to think we can regain support for the WTO system. The policy friction is perhaps the most severe in emerging issues such as digital trade, where multilateral rules to shape the nature and outcomes of digitisation are still lacking, and even where rules are in place, their application is ambiguous. Digital trade is a

2 DS285. United States—Measures Affecting the Cross-Border Supply of Gambling and Betting Services. https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds285_e.htm.

predominant form of economic activity, covering both physical transactions by electronic means and transactions performed entirely online. Rule-making can help to eliminate unjustified barriers to digital trade and support the achievement of a variety of regulatory goals, including consumer protection and privacy.³

Conversely, a lack of global cooperation in this area risks resulting in new, unsustainable economic structures, where diversified approaches will continue to emerge in line with national interests (Ciuriak and Ptashkina 2018), causing fragmented development. This includes the case of digital protectionism, where larger emerging countries are most likely to implement digital trade-inhibiting policies, while small, open, and services-oriented countries tend to be the least disposed to restrictions (Ferracane, Lee-Mikayama, and van der Marel 2018). These types of measure can range from data localisation requirements to discrimination against foreign data service providers.

The digital economy has potentially far-reaching and deep benefits for sustainable development and inclusive growth, reducing transaction costs to enable broader participation in trade and providing opportunities for boosted productivity, particularly for small and medium-sized enterprises and entrepreneurs. Technological developments can help governments radically improve the delivery of good-quality public services and extend their reach and effectiveness in remote areas. New technologies can also be applied to improve the efficiency of traditional economic sectors ensuring improved traceability through the supply chain.⁴

However, at the same time, technological change risks creating winner-takes-most markets, where “superstar” firms can maintain competitive advantages and benefits can accrue disproportionately to technology and platform developers rather than users. The effects of digital commoditisation mean that, with widespread adoption and use, having a digital technology becomes a ticket even to compete in a given market as opposed to a competitive advantage (Arbache 2018). Thus entrants face new obstacles to taking on incumbents; and persistent global institutional, regulatory, and knowledge asymmetries, as well as limitations on digital infrastructure and connectivity, could further widen a gaping digital divide.

In order to realise the benefits of digital technologies, while tackling their challenges, appropriate policies have to be in place, including the aim of removing the barriers preventing developing countries from engaging in the digital economy. This approach will need to take into account the complexity of the issue and the interlinkages with other policy agendas, including competition, innovation, services, regulatory coherence, and education.

For the G20, the commitment by ministers in Salta, Argentina in August 2018 to promote policies and actions that catalyse digital transformations and associated discussions on how to strengthen a digital agenda for development already represents a promising trajectory. The G20 Digital Government Principles build on earlier strides towards consensus, including the Roadmap for Digitalisation under the German presidency, and encourage continued sharing of experience among G20 governments and exchange between the G20 work on trade and that on the digital economy.

3 See Meltzer (2016) and Meléndez-Ortiz et al. (2018).

4 Improved logistics management would cut out an estimated 33 percent of global food waste (Beliz 2017).

Following the joint statements agreed at MC11, exploratory work has been undertaken and constructive proposals circulated on the issues of domestic regulation of services, e-commerce, and investment facilitation, but further efforts are required to update the WTO rulebook. Active deliberation has begun on the proposals around such issues as market access commitments, data flows and localisation, consumer protection, trade facilitation, and proprietary information.

For digital trade, WTO reform is essential to realising WTO rules in an holistic manner since the issues relate to many agreements, including the General Agreement on Tariffs and Trade, the General Agreement on Trade in Services, the Trade-Related Aspects of Intellectual Property Rights Agreement, and the Agreement on Technical Barriers to Trade, and the necessity to have a quick solution is very high from a business and economic point of view. Though various rules covering digital trade are already in place in the WTO (in the services area, they are often explained using the term “technological neutrality”), they were negotiated before the internet was fully developed. WTO rules negotiated before 1993 do not match technological and social development since. Holistic (re)writing of the rules for digital trade is absolutely necessary in a society characterised by the Internet of Things, big data, artificial intelligence, and the fourth industrial revolution.

In view of the (unfortunate) likelihood that building multilateral agreement on new issues in the WTO will take a long time, the quest for rule-making and liberalisation should (and can) take multiple and different paths where further delays are intolerable from the point of view of both business and regulators.

Regional trade agreements (RTAs), and more recently mega-regionals, have proliferated as an alternative front for liberalisation and new international rule-making in policy areas vital for trade in the twenty-first century.⁵ Of the 164 members of the WTO, approximately half have entered into at least 1 RTA with an e-commerce provision (Wu 2017).⁶

Recommendations

- On protectionism and unilateralism, the G20 should send the strongest message possible to fight against protectionism and show the strongest support for the multilateral system embodied in the WTO. In doing so, the G20 should speak out against the use of unilateral measures based solely on the judgements and criteria of the countries concerned, and support taking measures when necessary based on the international rules embodied in the WTO.

5 In addition to ordinary country-based RTAs, issue-based RTAs such as the Trade in Services Agreement (which is cross-sectoral) may be used. In digital issues, the feasibility of a digital free trade agreement is worth studying (Nakatomi forthcoming).

6 A plurilateral approach is another way forward. See, for example, Warwick Commission (2007) and Nakatomi (2013).

- The G20 should confirm the necessity of initiating the actions on WTO reform, including the decision-making system and the plurilateral approach. Support for open plurilateral initiatives would provide the opportunity to advance on issues where free-riding concerns are either non-existent or easily addressed. Ideally, the outcome will not discriminate between adherents and non-participants in the application of benefits, and the WTO would still act as the enforcer of the rules for those implicated.
- The G20 should send the message that multi-pillar rule-making and liberalisation are necessary in addition to the WTO, with clear reference to using regional trade agreements, plurilateral frameworks, and regulatory harmonisation. Hand in hand with the quest for WTO reform, urgent systemic trade issues such as digital trade should be discussed and the rules in those areas should be updated by mobilising all relevant tools such as plurilateral agreements, RTAs, and regulatory harmonization, including mutual recognition agreements.
- The G20 should select key area(s) of urgency such as digital trade on which members should work together and identify courses of action ahead.

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NATURAL ENVIRONMENT

The G20, Global Trade and Investment Regimes, and a Sustainable Food Future

Eugenio Díaz-Bonilla and Victoria Callaway

After reviewing the complexity and challenges in building food systems to help achieve the Sustainable Development Goals (SDGs), this article presents some suggestions for strengthening specific aspects of trade and investment policies. These are likely to require collective action on behalf of G20 countries through the Trade and Investment Working Group and related bodies. They include (i) considering better categories for trade negotiations; (ii) encouraging public expenditure reviews focused on sustainable food and agricultural systems and the related SDGs; (iii) promoting a full review of rural financial markets and the financing of value chains and food systems in order to remove the obstacles to the funding of the required transformations; and (iv) creating a project preparation and support facility to develop projects that scale up the use of climate-smart agricultural technologies among small and family farms, and to help mobilise private sector resources.

Background

Much has changed in the global food and agricultural system over the past half-century. Food supply chains are longer and food systems more complex than ever before, encompassing a large number of landless workers, some 500–600 million farms, and a variety of small, medium-sized, and large enterprises related to agri-food in inputs, equipment, processing, transportation, and retail. Considering the agricultural-based food and non-food systems in their entirety, total employment is nearly 1.8 billion people, or half of worldwide employment, with almost a billion of these in primary agriculture alone.

On the positive side, thanks to increases in agricultural productivity, the world is producing 25 percent more calories and 27 percent more proteins per capita in the 2010s compared with the 1960s, while using just 25 percent more agricultural land, even though global population increased by more than 140 percent. Also, adjusting for inflation, the prices of these food and agricultural products are about 20 percent lower than in the 1960s and 1970s. Along with other influences, the result has been a drop in global hunger numbers by about 200 million people since the early 1990s.¹

However, there are currently over 800 million people who are still chronically undernourished, mainly in developing countries in Asia and in sub-Saharan Africa. Poverty still affects some 2 billion people worldwide, and except in regions with higher levels of urbanisation such as Latin America, they live mostly in rural areas. Moreover, “hidden hunger”—the number of people suffering from micronutrient deficiencies—stands at around 2 billion worldwide, while the global prevalence of obesity and being overweight continues to rise alongside the incidence of nutrition-related noncommunicable diseases such as diabetes and cardiovascular diseases. Collectively, they result in the “triple burden of malnutrition” (Pinstrup-Andersen 2007).

At the same time, the world food system (from agricultural production and land use changes to all processing, transportation, retail, and consumption activities) is estimated to generate some 30 percent of global greenhouse gas emissions (Vermeulen, Campbell, and Ingram 2012). Deforestation related to agricultural and food production also affects biodiversity and the proper functioning of ecosystems.

¹ Calculations by authors based on data from FAO (2018) and World Bank (2018).

Therefore, the operation of food systems has direct implications for most of the United Nations Sustainable Development Goals (SDGs), and not only SDG 2, which commits all countries to “end hunger, achieve food security and improved nutrition and promote sustainable agriculture.”²

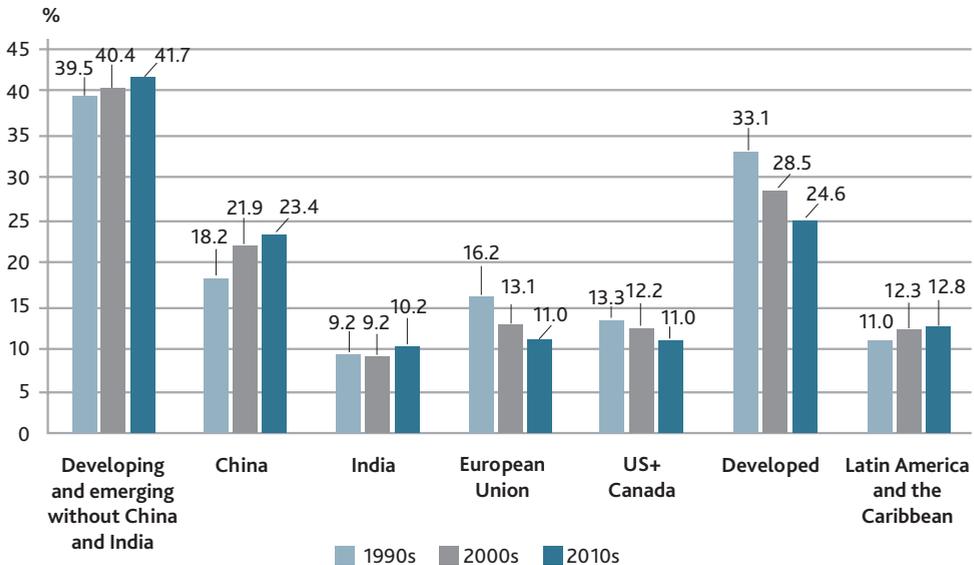
With just over a decade remaining before the 2030 deadline, current trends are not positive, and strong, concerted action is needed now if the SDGs are to be reached.

Many policy, institutional, technological, and investment innovations will be needed at the global, national, and local levels to build more dynamic, equitable, nutrition-oriented, and sustainable agri-food systems. This article presents some suggestions to strengthen specific aspects of trade and investment policies to help achieve the SDGs. They are likely to require collective action on behalf of G20 countries through the Trade and Investment Working Group and related bodies.

Trade-Related Proposals

The previous decades have witnessed some major structural transformations in developing countries, particularly in Asia and Latin America. The share of world agricultural production (measured in purchasing power parity) from developing and emerging countries increased steadily between the 1990s and the present, while the participation of developed nations dropped (Figure 1).

Figure 1: Share of world agricultural production across various countries and regions (in percentages by decade)



Source: Authors, using data from FAOSTAT. 2018. Rome: Food and Agriculture Organization. <http://www.fao.org/faostat/en/>.

2 While much the same can be said for the non-food agro-industrial system, the discussion that follows will focus on food systems.

Trade patterns also changed, with Latin America and the Caribbean emerging as the world's largest net exporter region, followed closely by the group of the United States (US), Canada, Australia, and New Zealand (Figure 2). Overall, Asia is the world's largest net agricultural importer region, driven by China and Japan, despite India having recently become a net exporter.

The larger economic, production, and trade importance of emerging economies and developing countries has been accompanied by increased agricultural support for producers. Figure 3 shows the sample of countries covered by the Organisation for European Co-operation and Development, with estimates of producer support.

Producer support estimates in developing countries reached US\$ 300 million in the period 2010–2015, about 15 times the average amount of 1995–2000, and nearly three-quarters of this growth is attributable to China.³ Meanwhile, producer support in developed countries has remained relatively stable but still at high levels (US\$ 211.8 million).

The international trade regime has been under pressure, particularly since the 2008 financial crisis, with uncertainties related to the World Trade Organization (WTO), changes in some important regional trade agreements, the resolution of Brexit negotiations, and the escalation of trade wars.

These developments must be viewed against the backdrop of one of agriculture's key structural features—the large difference in farm size that exists across and within countries, and that complicates domestic policymaking and international negotiations. Overall, it has been estimated that of the more than 570 million farms in the world, about 84 percent are less than 2 hectares and occupy just 12 percent of all farmland (Lowder, Scoet, and Singh 2014). There is a significant gap between the large exporters from English-speaking and South American countries (with farm sizes largely above 100 hectares per unit) and most of the countries in Africa and Asia (where averages are usually below 2 hectares per farm), with European countries in between.

This variety in landholding structures is important to consider, both for domestic policies and for international negotiations. Regarding domestic policies, it means that a majority of small farmers at the world level are net buyers of food while also being vulnerable producers, lacking the scale and the flexibility to adjust to economic shocks. Balancing these two issues has been the core of the basic food policy dilemma and a source of many contradictory policies across several countries, since governments desire both high prices for producers and low prices for consumers to help support food security and poverty reduction.

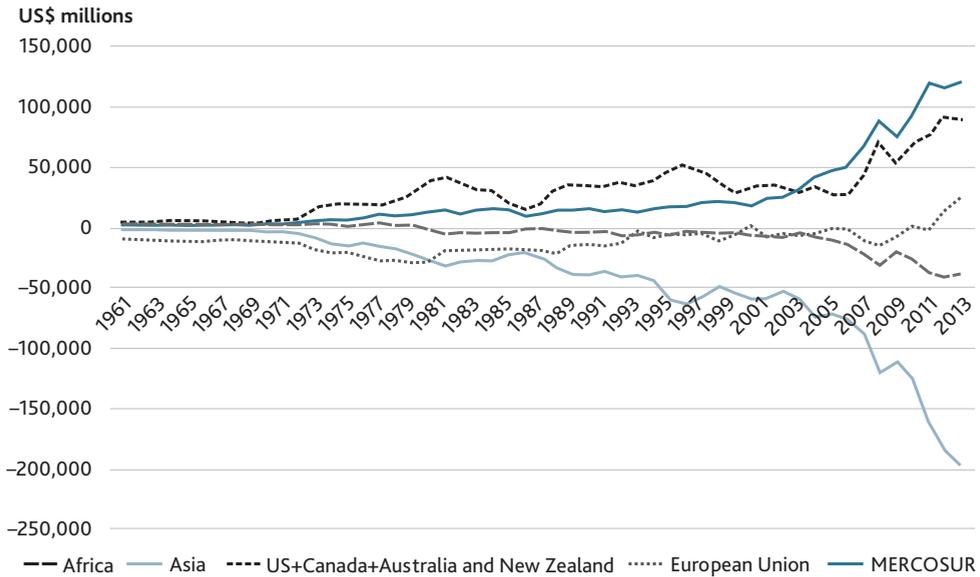
For international negotiations, those asymmetries and the basic policy dilemma should also be considered when defining categories of countries and commitments.

What then can be done? As an important coordinating body for international economic cooperation, the G20 has a crucial role to play in promoting the collective action needed to address (in part) the challenges described and to achieve a sustainable and inclusive food future worldwide.

Our proposal is that the G20 countries could support the creation of more adequate categories for international negotiations within the WTO. The current separation between “developed” and “developing” (with the latter being unhelpfully self-determined), not to mention the classifications

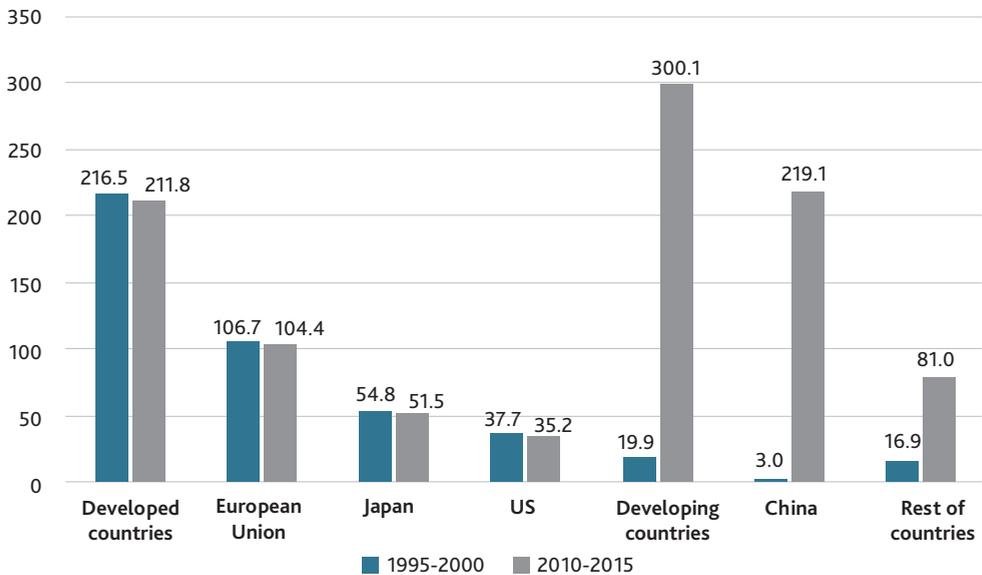
3 India is not included.

Figure 2: Net trade of agricultural products across regions



Source: Authors using data from FAOSTAT. 2018. Rome: Food and Agriculture Organization. <http://www.fao.org/faostat/en/>.

Figure 3: Producer support estimates across various countries and regions



Note: The countries included are only those in the Organisation for European Co-operation and Development (OECD) estimates. They do not include all countries in the world. Coverage can be found in <http://www.oecd.org/tad/agricultural-policies/producerandconsumersupportestimatesdatabase.htm>. "Rest of countries" refers to developing countries, other than China, included in the group of countries analysed by the OECD.

Source: Authors, using data from the OECD PSE Database.

of least developed countries (LDCs), net food-importing developing countries, and small, vulnerable economies, may not draw sufficiently objective distinctions when determining policies for trade negotiations for agriculture.

We believe that at least two broad categories should be distinguished. On the one hand, it is important to consider those countries that are "systemically important" because of their levels of production, exports, or imports:⁴ the European Union, which is still the largest protected market by value in the world; the US, which despite its advantages in climate, infrastructure, institutions, and farm size, uses subsidies and protection for a variety of products; some high-income countries in Asia, Europe, and elsewhere that keep significant levels of protection; large countries such as India and China, which have systemic impacts on global markets and on other countries but face their own serious rural development challenges, namely a large population of impoverished, small farmers; large exporters mainly from Latin America and the Caribbean and Asia; and some large importers.

These countries should have stronger obligations of transparency (with improved and updated notifications), agree to commitments to avoid sudden policy changes and to provide advanced notification of them, and perhaps craft a plurilateral agreement within the WTO that can eventually be multilateralised. The high-income countries of this group should move to a more liberalised trade system and use income transfers for specific purposes that are completely decoupled from production.

On the other hand, the creation of an official category for food-insecure countries based on objective indicators⁵ would better target some of the structural challenges discussed before. United Nations-designated LDCs certainly deserve substantial "special and differential treatment," as many of them are poor, agrarian, and food insecure. But LDCs are not the only countries that fit that profile, since several developing countries, particularly in sub-Saharan Africa and Asia, appear food insecure according to objective metrics. These differences are not necessarily captured by other categories, such as net food-importing developing countries and small, vulnerable economies.⁶

Generally, countries with a large population of small farmers worry about the impact of a fully liberalised trade regime on their rural populations. But their large numbers of poor consumers—split between the urban poor and rural producers who are net food consumers—suggests that their use of protection should be limited. Policymaking should focus on transparent income transfers to both consumers and producers for poverty reasons, prioritising the welfare of people and not the support of commodities. To this end, if a country wishes to increase agricultural productivity and create the urban–rural linkages that would allow small farmers to supply urban food demand while reducing national dependence on food imports, it has a variety of policies, investments, and types of expenditure at its disposal that should be considered before resorting to extreme protectionist measures.

Overall, developing countries should accept a more detailed, narrowly defined categorisation with respect to WTO disciplines in exchange for developed countries moving themselves to more market-based agricultural and trade policies.

4 See also the proposal in Huang, Piñeiro, and Piñeiro (2018).

5 Such as those used in Díaz-Bonilla et al. (2000) and Díaz-Bonilla and Thomas (2016).

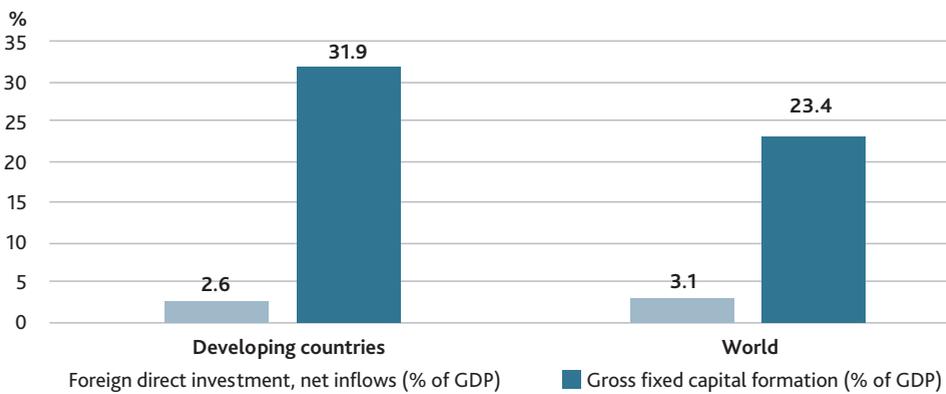
6 See the discussion in the papers cited in Díaz-Bonilla et al. (2000) and Díaz-Bonilla and Thomas (2016).

Investment-Related Proposals

Typically the costs of building the ideal food systems that lead to the achievement of the relevant SDGs fall in the range of US\$ 1.5–2.5 trillion per year of additional investments within developing countries (Schmidt-Traub 2015).

How can the world finance these investments? Experience suggests that global investment regimes are important, but cross-border investments pale in comparison to current levels of domestic investment (Figure 4). As a result, policies for both foreign and domestic investments must be considered.

Figure 4: Comparison of foreign direct investment and gross investment as a percentage of gross domestic product (GDP)



Source: Authors, using data from the World Bank database of World Development Indicators.

With a focus on developing countries, the discussion that follows will outline three action items that the G20 can pursue.⁷ These options presuppose improvements in the international investment regime and an appropriate domestic macroeconomic and legal framework.

First, the G20 could encourage public expenditure reviews focused on sustainable food and agricultural systems (or the related SDGs) to realign priorities and spending in developing countries, but also in developed countries. A second recommendation for developing countries should be to review rural financial markets and financing of value chains in order to remove some of the obstacles impeding the funding of the required food system transformations. This would entail expanding the work of the Global Partnership for Financial Inclusion to include a more comprehensive view of the topics involved. The fiscal sector and banking system together represent the largest source of money available for financing these investments, since the average value in the 2010s of government expenditure in emerging and developing countries was about US\$ 8.5 trillion, while total credit to the private sector from financial intermediaries in developing countries amounted to about US\$ 20.3 trillion during the same period. An adequate allocation of both sources of funds will be crucial to building the food systems desired.

⁷ For a broader view, see Diaz-Bonilla (2018).

A third action item could be the creation of a project preparation and support facility to develop a pipeline of projects that scale up the use of climate-smart agricultural technologies among small and family farms.⁸ The cut in global greenhouse gas emissions needed to maintain the world within safe levels while ensuring the additional production required by a larger, wealthier population will not be achieved without a significant contribution from agriculture. This group can be operated jointly by the Consultative Group on International Agricultural Research and the Food and Agriculture Organization, and would help design country-specific projects, structure financial vehicles for broader participation from global investors, measure impacts, and provide technical assistance to producers.

Conclusion

In conclusion and based on this discussion, we put forward four recommendations for the G20. We consider that these proposals would go a long way to helping to build a more adequate global food system and the achievement of the related SDGs.

Recommendations

- Consider better categories for trade negotiations, distinguishing on the one hand systemically important countries, and on the other hand food-insecure countries, using objective criteria. This would imply going beyond the developed/developing dichotomy.
- Encourage public expenditure reviews focused on sustainable food and agricultural systems and the related SDGs, to realign priorities and spending worldwide.
- Promote a full review of rural financial markets and the financing of value chains and food systems in order to remove the obstacles impeding the funding of the required transformations in the food system.
- Create a project preparation and support facility to develop a pipeline of projects that scale up the use of climate-smart agricultural technologies among small and family farms, and help mobilise private-sector resources.

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⁸ For the full proposal, see Díaz-Bonilla et al. (2018).

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How Can the G20 Support Trade's Contribution to a Sustainable Food Future?

Jonathan Hepburn

*This article aims to contribute to the discussion of how the G20 can best contribute to the achievement of a "sustainable food future"—one of the priorities of Argentina's G20 presidency. It examines succinctly the role of trade in contributing to this objective; reviews the G20 discussions on food security to date; and identifies three key proposals for the G20 to consider in moving forward.**

A Sustainable Food Future

The Government of Argentina highlighted a "sustainable food future" as one of three top priorities for its 2018 presidency of the G20, building on the group's ongoing focus on issues related to food security and sustainability.

Agriculture ministers meeting in Buenos Aires in July 2018 emphasised that a sustainable, integrated, and inclusive future for food systems "can only be achieved on the basis of collaboration" among governments. They also recognised the importance of "an open and transparent multilateral trading system, based on rules as agreed by WTO members" for achieving the objectives of a sustainable food future, job creation, eradication of hunger and poverty, and inclusive economic growth (G20 2018).

The G20's focus on a sustainable food future echoes the importance that world leaders placed on this issue when they committed through Sustainable Development Goal (SDG) 2 to end hunger, achieve food security and improved nutrition, and promote sustainable agriculture.¹

Trade is identified in SDG 2 as a key "means of implementation" for these objectives, representing a pledge on the part of governments to correct and prevent trade restrictions and distortions in world agricultural markets.²

However, this alone is insufficient for the achievement of a sustainable food future. To meet the ambitious targets of SDG 2, the global food system must be considered holistically—including by taking into consideration the other goals and targets under the United Nations 2030 Agenda for Sustainable Development (Díaz-Bonilla and Hepburn 2016).

G20 leaders could take three practical steps in this regard. First, they could build on the agriculture ministers' declaration by reiterating the relevance of trade and investment policies to a sustainable food future and the achievement of Agenda 2030. Second, they could direct competent international agencies to conduct analysis on sustainable food production, trade, and consumption patterns, with outcomes presented to the World Trade Organization (WTO) and the United Nations Framework Convention on Climate Change (UNFCCC). Third, they could ensure that the relevance of trade for a sustainable food future remains a focus of G20 work under the 2019 Japanese presidency and

* This article is adapted from an earlier policy brief: International Centre for Trade and Sustainable Development. 2018. *How Can the Argentinian G20 Presidency Support Trade's Contribution to a Sustainable Food Future?* Geneva: International Centre for Trade and Sustainable Development.

- 1 The 1996 World Food Summit established a widely used definition of food security: "Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life" (FAO 1996).
- 2 Specifically, SDG 2.B stipulates that governments will "Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round" (United Nations 2015).

beyond, by agreeing to make this issue a focus of other key agenda-setting meetings on the farm policy calendar, such as the Global Forum for Food and Agriculture held in Berlin each January.

Trade's Role in the Global Food System: More Than Just Agricultural Markets

Governance frameworks affecting agricultural trade are certainly key to achieving the SDGs, not least because so many of the world's poor people depend on farming for a living, and many of those going hungry are, paradoxically, also smallholder farmers.

Trade in agriculture itself is, however, only part of the story when it comes to the role of trade in achieving food security and rural development.

Policies affecting trade in farm inputs, such as seeds, fertilisers, and farm equipment, are important in determining how markets function. Services markets—such as transportation and logistics, storage, and financial services—also affect the rural economy. Trade and trade governance are in fact important across the entire food value chain, from production to processing sectors and through to consumption, food loss, and waste (Meléndez-Ortiz 2016).

None of this means that long-standing concerns over agricultural trade are unimportant. To the contrary, the ambition of Agenda 2030 means "business as usual" is not an option on issues such as trade-distorting farm subsidies, measures impeding the flow of goods across borders, and unfair competition in export markets (ICTSD 2017a).

Efforts to achieve progress on these issues at the WTO have moved forward only slowly, despite an agreed objective to establish a fair and market-oriented trading system enshrined in the trade body's existing treaties.³ Long-running trade talks as part of the Doha Round, launched in the Qatari capital in 2001, led to incremental steps forward on specific issue areas in 2013 and 2015, but the WTO conference in December 2017 ended with no clear consensus outcomes or roadmap for the way ahead (ICTSD 2017b).

The G20, as a key part of the global governance architecture, can play a constructive role in charting a way forward both on the traditional issues currently deadlocked in the WTO and also more broadly by building an holistic policy conversation around trade's contribution to the global food system.

Climate Change and Global Food Markets

Meanwhile, the danger of inaction is becoming clearer, as climate change raises the prospect of significant changes in global food markets in years to come. The G20 agriculture ministers' declaration from July 2018 highlights the importance of this issue, while noting the decision of the United States (US) to withdraw from the Paris Agreement on climate change, and the view of the other G20 members that the Paris Agreement is "irreversible."

3 Article XX of the WTO Agreement on Agriculture (1994) provides for ongoing negotiations with a view to continuing the reform process and makes reference to this objective; see https://www.wto.org/english/docs_e/legal_e/14-ag_02_e.htm.

Climate change is expected to change temperature and precipitation patterns—but also to increase the incidence and intensity of extreme weather events, such as droughts and floods. More volatile food and agricultural markets are likely to create new challenges for poor producers and consumers in particular. Indeed, the G20 agriculture ministers' declaration affirms that "better-functioning markets can contribute to reducing food price volatility and enhance food security."⁴

The previously positive trend towards reducing hunger is thought to have been reversed recently, with the Food and Agriculture Organization (FAO) citing climate change, along with increased conflict, as factors. Globally, FAO figures indicate an estimated 815 million people are undernourished (FAO et al. 2017).

Governments have committed in SDG 2 to bringing this number down to zero—a huge challenge, compounded further by climate change. Moreover, in addition to overcoming undernourishment by 2030, governments have agreed to end all forms of malnutrition. This will mean that micronutrient deficiencies and the prevalence of overweight and obesity also need attention if the SDGs are to be achieved.

Food Access, Availability, Stability, and Use

A better-functioning global trading system is needed not only to help move food more easily from food-surplus regions to those where there are shortages. While this would help improve food availability, it would not in itself tackle the other three components of food security: access, stability, and use.

Indeed, at the global level, there is no shortage of food as measured in terms of calorific availability. The persistence of undernourishment is more a function of inadequate access to food, particularly economic access due to low levels of purchasing power. Concerning the other two dimensions of malnutrition, problems associated with a lack of key nutrients and vitamins or with obesity are instead associated with non-diversified diets containing high levels of sugars, fats, and salt.

Improving how trade and markets function can have a direct impact here by helping create jobs and raising incomes, especially in rural areas. And although agriculture will remain critical to fighting poverty in many world regions, the reliance of many poor households on off-farm income means that policies affecting markets beyond the farm sector also need serious attention from governments.

Issues around food trade and stability have come to the fore following unexpected food price spikes in 2007–2008 and again in 2011–2012. Consumers in low-income food-importing countries are particularly vulnerable to policy interventions such as export restrictions in major exporting countries, which can exacerbate shortages on global markets (Anania 2014).⁵ At the same time,

4 Similarly, SDG 2.C commits leaders to "adopt measures to ensure the proper functioning of food commodity markets and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility."

5 Anderson (2012) has shown that changes in import tariffs and policies also contributed significantly to the shocks.

many developing country governments have argued in favour of temporary safeguards to protect poor producers from sudden import surges or price depressions. Reforms in this area are critical, but require the impetus of G20 leadership (Morrison and Mermigkas 2014).

The G20, Trade, and Food Security: History and Current Dynamics

The ambition of the SDGs contrasts starkly with deep-seated tensions and scepticism about multilateral institutions apparent at the international level.

Major players, including the US, have questioned the efficacy of the WTO's transparency and enforcement mechanisms around agricultural trade, largely disengaged with most negotiations, and increasingly sought to address trade barriers for their producers through bilateral, regional, or plurilateral means.

Talks at the G20 have not been immune to tensions over multilateralism. In 2017, sherpas and then leaders tussled over language reiterating commitments from previous summits—including wording that hitherto had been seen as innocuous.

However, past G20 summits have succeeded in delivering concrete outcomes on food security. In particular, the French G20 presidency in 2011 saw countries agree to a raft of new initiatives (ICTSD 2011). Among these was the launch of the Agricultural Market Information System (AMIS), which seeks to improve transparency and data availability in a bid to reduce the likelihood of further food price spikes. The agriculture ministers' declaration confirms their commitment to strengthen AMIS, including through providing regular and reliable information and through providing adequate resources for the secretariat.

While the Mexican G20 presidency the following year focused on the challenges facing small family farms, and in 2015 Turkey highlighted the issue of food loss and waste, attention to food security issues has been somewhat haphazard. Not all G20 presidencies have included meetings of agriculture ministers and their deputies, and linkages with trade and investment have not always been made explicit even where seemingly obvious—largely because food security questions have traditionally been dealt with under the Development Working Group.

Food Security, Trade, and Soils

As part of its G20 presidency, Argentina has highlighted the importance of soil health as a key component of G20 work on a sustainable food future. While not seemingly connected in any direct way to trade, the topic relates to a number of deep-seated concerns about food security, markets, and climate change among producers in different world regions.

Many farmer and environmentalist groups, particularly in the European Union (EU), have expressed concern that further trade liberalisation could expose producers to unfair competition from competitors who do not abide by high standards of environmental protection. They have raised

concerns about tropical deforestation, genetically modified farm goods, lower animal welfare standards, and greenhouse gas emissions associated with various agricultural practices and in particular with livestock farming (Garnett et al. 2017).

At the same time, producer associations in other world regions, and especially in Latin America, have emphasised the role of high tariff barriers and trade-distorting subsidies in contributing to a suboptimal allocation of global resources, and in disincentivising sustainable farming that would otherwise be commercially competitive (ICTSD 2018).

Soils and soil health are central to this debate. In Latin America, farm groups have emphasised the progress made using "zero till" agriculture and production techniques such as intercropping, which are designed to increase carbon sequestration and yields (Regúnaga and Tejeda Rodriguez 2015).

With widely differing views persisting in this area, the G20 could usefully request competent international agencies such as the Consultative Group on International Agricultural Research and the FAO to conduct analysis on the scientific basis needed to inform evidence-based policymaking on specific topics in this area, such as the greenhouse gas emissions associated with various agricultural practices, including livestock farming. Conceivably, this could build on the interagency report led by FAO and the Organisation for Economic Co-operation and Development that was prepared at the request of Argentina (FAO and OECD 2018), as well as the forthcoming FAO report on the state of agricultural commodity markets. It would also be coherent with G20 agriculture ministers' call for international agencies to share more widely "lessons learnt" on agricultural productivity and sustainability.

Charveriat (2018) has similarly suggested that the G20 request competent agencies to generate a report on sustainable food production, trade, and consumption patterns; that G20 countries use the forum to exchange domestic experiences in designing pathways forward in this area; and that complementary initiatives be undertaken at the UNFCCC and the WTO. The outcome of this work could usefully contribute to the UNFCCC's Koronivia joint work programme on agriculture and be presented to farm trade officials at the WTO.⁶

Food Security and Trade: Rebuilding Consensus

With G20 talks on trade, investment, and food security largely taking place under separate tracks, the Trade and Investment Working Group (TIWG) could spur collaboration by recognising the relevance of policies in these areas for food security.⁷ G20 agriculture ministers have indicated that they will take into consideration the TIWG's findings.

G20 recognition should help galvanise political momentum for progress towards the SDGs, including by re-energising talks at the WTO. Moreover, broader acknowledgement of the value of both agricultural and non-agricultural trade for food security ought to be helpful in reframing and

6 For more detail of the UNFCCC's Koronivia joint work programme, see http://unfccc.int/files/meetings/bonn_nov_2017/application/pdf/cp23_auv_agri.pdf.

7 Díaz-Bonilla (2018) explores some of the issues around a sustainable food future and investment.

reconceptualising the policy agenda towards addressing emerging challenges affecting global value chains, including climate change.

In order to ensure that the relevance of trade for a sustainable food future remains a focus of G20 work in 2019, governments could agree to address this issue at other key agenda-setting moments on the farm policy calendar. This could include the Global Forum for Food and Agriculture held in Berlin in January. With the WTO's twelfth ministerial conference now due to be held in mid-2020, the Global Forum for Food and Agriculture could provide a useful opportunity to assess outstanding issues in agriculture and fisheries and to review progress under relevant plurilateral initiatives.

Recommendations

- The G20 should build on the agriculture ministers' declaration by reiterating the relevance of trade and investment policies to a sustainable food future and the achievement of Agenda 2030,
- The G20 should direct competent international agencies to conduct analysis on sustainable food production, trade, and consumption patterns, with outcomes presented to the WTO and the UNFCCC.
- The G20 should ensure that the relevance of trade for a sustainable food future remains a focus of G20 work under the 2019 Japanese presidency and beyond, by agreeing to make this issue a focus of other key agenda-setting meetings on the farm policy calendar, such as the Global Forum for Food and Agriculture held in Berlin each January.

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How the G20 Can Help Reconcile Trade and Climate Change

James Bacchus

During the depths of the global financial crisis nearly a decade ago, the heads of state of the G20 group declared the G20 “the premier forum for our international economic cooperation.” Cooperative actions of the G20 during the crisis rescued the global financial system and helped restore global economic stability. Comparable cooperative actions by the G20 are needed now to spur a transition in the global trading system to confront the challenge of climate change. This article sets out how this can be achieved and puts forward a set of recommendations to this end.

Since the financial crisis, in succeeding summits the G20 has evolved into a would-be steering committee for a whole array of international institutions and global initiatives. And it has widened its scope to include the overall and overarching goal of achieving global sustainable development.

In 2016 the G20 embraced the United Nations 2030 Agenda for Sustainable Development as the centrepiece for its ongoing global work. In 2018 the G20 can advance the 2030 Agenda with actions to further international economic cooperation framed by a mutual understanding that the global economy exists within the global environment, and that the only economic development that can create a lasting global prosperity shared by all in the world is sustainable development.¹

One action the G20 can take in furtherance of accomplishing the 2030 Agenda is to trigger an essential transition in the World Trade Organization (WTO) that will begin to modernise the rules for trade by reconciling those rules with the rapidly enveloping reality of climate change.

There is an inescapable nexus between trade and climate change. Trade measures affect the climate. Climate measures affect trade. Thus, trade is a climate issue, and climate change is a trade issue. Economically, environmentally, and legally under international law, the two are intertwined. Yet the essential realisation that trade and climate change are inextricably intertwined is not yet reflected in the agendas of either the WTO or the United Nations Framework Convention on Climate Change (UNFCCC).

Climate change is not on the WTO's agenda. Trade is not on the UNFCCC's agenda. Thus, the two international regimes are on a legal collision course. Without the negotiation of new WTO rules on the overlap in the Venn diagram of global efforts to liberalise world trade and to respond to climate change, a legal clash will soon occur in WTO dispute settlement over a national measure purportedly taken in response to climate change that restricts international trade. Any such legal collision will threaten to undermine the legitimacy and the efficacy of the ongoing work of both the trade and climate regimes.

The members of the G20 account for about 85 percent of gross world product, 80 percent of world trade, and two-thirds of the world population. Their combined economic clout is certainly sufficient to do much to sway both these reluctant international institutions towards confronting the nexus of trade and climate change.

At its next summit, the G20 should initiate actions intended to spur global rule-making to prevent an approaching collision between trade and climate change, and, moreover, to move both the WTO and

¹ For a lengthier discussion of this topic, see Bacchus (2018).

the UNFCCC towards more affirmative actions to reimagine trade rules to support increased trade while also furthering the fight against climate change. Such a bold move by the G20 would greatly enhance the chances of adding these urgently needed actions to the agenda of global governance.

As Brandi (2017) has reported, "Trade-related elements feature prominently in climate contributions under the Paris Agreement," and "around 45 percent of all climate contributions include a direct reference to trade or trade measures." As these and other national measures are applied for the professed purpose of addressing climate change, and as they impose a variety of distorting trade restrictions, the WTO and the UNFCCC alike will be faced squarely with a divisive issue they have not found the will so far to confront.

What is more, without a reimagining of trade rules to address the inescapable reality of climate change, a vital opportunity will be missed to take affirmative trade actions to facilitate mitigation and adaptation to climate change. Trade can be employed to smooth a green transition for the world. Tariffs and non-tariff barriers to trade in environmental goods and services can be eliminated. Trade can be facilitated in products made with lower carbon emissions. Market-distorting fossil fuel subsidies can be disciplined and market-correcting green subsidies can be permitted.

These and other trade actions can demonstrate that trade need not be an obstruction to the necessary confrontation of climate change. Quite the opposite. Through a reimagining of trade rules, trade can be a crucial means of fighting climate change.

Without question, the most pressing need in facilitating the necessary global transition from a global economy heavily dependent on the cheap and abundant fossil fuels that emit carbon and warm the earth's atmosphere in a hothouse of greenhouse gases is to put a price on carbon. The climate and other environmental harms caused by the use of fossil fuels in the production of traded goods must be included in their market prices. Otherwise, the market will not receive the price signal sorely needed to inspire a shift away from carbon to climate-friendly renewable fuels.

Where there is no price on carbon, emitters are free to continue to pour more carbon into the atmosphere at will—without paying the costs of the societal and environmental harm that is done. But where there is a price on carbon, emitters have an incentive to reduce their carbon emissions, and to do so at the lowest possible cost.

Where there is a price on carbon, energy and other producers have an economic incentive also to invest in the development and deployment of cleaner and, therefore, more efficient technologies. The introduction of a carbon tax into the mix of economic decision-making helps spur and speed the shift of the green transition to a decarbonised world.

Trade rules do not prevent carbon pricing, but they also do not facilitate it. They must. It is not enough that trade rules do not prevent carbon pricing. Trade rules must facilitate and advance carbon pricing. Our response to climate change must be integrated into all our economic policy, including our trade policy, and therefore including our trade rules.

Climate change is a uniquely unprecedented global concern. Because carbon emissions present a unique threat to humanity and to the entire planet, it follows that carbon must be treated uniquely in our rules for trade. Thus, unique ways must be found to craft and to construe trade rules to advance the flow of trade while also imposing a price on trade when it is fuelled by carbon through the continued use of fossil fuels.

Towards this end, carbon taxes and other trade restrictions in climate response measures arising from distinctions made on the basis of the amount of carbon used or emitted in making traded products must be permissible under WTO trade rules. At the same time, such climate-motivated trade restrictions must not be permitted to undermine, through some form of green protectionism, the foundations of the WTO-based multilateral trading system that underpin the abiding hope for continued liberalisation of world trade.

To start, the G20 must urge WTO members to agree on a legal interpretation clarifying that a carbon tax is a "border tax adjustment" exempt from the national treatment obligation of non-discrimination as a charge on imported products and as a remission on exported products under trade rules.² Also the G20 must urge that, in this legal interpretation, WTO members should confirm that a tax on inputs that are not physically incorporated into an end product is a tax that can also be adjusted at the border.

But this is only the start. To address climate change as it must be tackled, WTO rules must be reimagined. Among several possible solutions, the solution that would provide the most benefit for the climate while posing the least risk to trade and the trading system would be the adoption by the members of the WTO of a climate waiver (Bacchus 2017). G20 actions should therefore urge the adoption by the WTO of a waiver of trade rules to help facilitate and further national and international climate actions.

The core of a WTO climate waiver should be to permit trade discrimination when it is a climate response measure taken in compliance with a national pledge under the Paris Climate Agreement or when it otherwise addresses climate change by restricting trade on the basis of the carbon used or emitted in the making of a traded product.

This part of a WTO climate waiver will work best if the UNFCCC defines a legitimate "climate response measure" as part of its current effort to fill in the missing pages in the Paris climate rulebook. If the climate negotiators do not reach a consensus on this definition, WTO judges will be obliged to do so to resolve a future WTO dispute.

Other subjects that should be included in the needed reimagining of WTO rules through the adoption of a climate waiver are the facilitation and support of carbon markets and climate clubs, the end of duties on environmental goods and services, the establishment of new disciplines on fossil fuel subsidies, and the legitimization of some renewable energy and other green subsidies.

² Article II:2(a), General Agreement on Tariffs and Trade 1994.

Also included could be a sectoral agreement to support sustainable energy. As it is, there is no overarching framework for global energy governance. Likewise, there are no WTO rules that specifically relate to energy trade. WTO rules apply to energy products as they do to all other traded products, but there are no specific WTO rules related to the energy sector. A new enabling framework of trade rules for sustainable energy could help speed the green transition.

Outside the WTO, the G20 could help inspire climate actions in the climate regime and other arenas to address the consumption and the production of carbon, improve energy efficiency, promote sustainable agriculture, and more. In particular, the G20 could help build the global consensus needed to initiate a joint effort by the WTO, the UNFCCC, and other relevant international institutions to establish an agreed international standard for calculating the amount of carbon used or emitted in making traded products.

To trigger this transition, the G20 should begin by reaffirming the central role of the WTO in global trade governance, reaffirming the necessity for more international cooperation to forestall climate change in fulfilment of the Paris Agreement, and using the convening power of its combined global economic clout to bring the trade and climate regimes together to seek the international legal reconciliation that is required.

Recommendations

- One action the G20 can take in furtherance of accomplishing the United Nations 2030 Agenda for Sustainable Development is to trigger an essential transition in the WTO that will begin to modernise the rules for trade by reconciling those rules with the rapidly enveloping reality of climate change.
- Both trade and the fight against climate change can be furthered by enacting a waiver from trade obligations for certain climate measures that affect trade.
- The G20 should reaffirm the central role of the WTO in global trade governance, assert the necessity for more international cooperation to forestall climate change in fulfilment of the Paris Climate Agreement, and then cooperate as members of the WTO and the Conference of the Parties to the UNFCCC in reconciling the trade and climate regimes to achieve the goals of both.

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DIGITAL ECONOMY

From Digital Trade Wars to Governance Solutions: The G20 and the Digitally Enabled Economy

Dan Ciuriak

The progressive shift of economic activity into the digital realm, including through digital and digitally enabled trade, not only poses a wide range of conceptual issues that require discussion to support a shared understanding of risks and benefits, but also promises to create perhaps unprecedented incentives for strategic trade and investment policies. These incentives, in turn, drive already escalating frictions within the trading system. The G20 brings together the main protagonists in this unfolding drama and so can help by maintaining a constructive dialogue and brokering cooperative solutions. Key areas for engagement include building a shared understanding of the role of data and its governance; measuring the digital economy and the value proposition in digital economy chapters in trade agreements; sharpening the disciplines on strategic trade and investment behaviour in the data-driven economy while accommodating the flow of technology to developing economies; brokering mutual accommodation of policy measures to ease the manifold transitions necessitated by the digital transformation; and building towards a consensus on systemic issues such as competition policy, the regulation of digital platforms, and industrial policy in an age of accelerated change and heightened business uncertainty.

The Digital Governance Challenge

With the digital transformation, an increasing share of economic activity is accounted for by digital or digitally enabled modes. Digital disruption is being felt pervasively: digital versions of products or services compete with physically embodied versions; digital distribution and facilitation business models compete with traditional models; and entirely new modes of trade have been enabled, including trade between households mediated by digital platforms, and non-monetised barter exchange of digital services in return for the value of data as an asset.

With datafication, when virtually every aspect of economic and social interaction is recorded and stored as data, a new type of economy is taking shape, evolving from the knowledge-based economy that characterised the advanced economies from the 1980s. In this data-driven economy, which is discernible in at least nascent form in the period since the great recession of 2008–2009, data play various fundamental roles. Data are the medium for commercial transactions in digital space (including coordination of intra- and inter-firm international production networks), the facilitator for digitally enabled trade, the essential capital stock for data-driven business models, and the soft infrastructure of a digitised world. The different roles of data come with different policy imperatives: a requirement for free flow to facilitate cross-border commerce in digital and digitally enabled forms; compensation for their asset value in trade; and security for the economy's digital infrastructure. The reconciliation of these potentially inconsistent objectives is a conceptual and political challenge of the first order.

Layered on this policy architecture challenge are the myriad regulatory concerns raised by the digital transformation. These include preservation of personal privacy, integrity of democratic processes, maintaining the tax base to fund public goods, and economic regulation to address market failure. Even the very definition of national production is at issue, given the ability to locate intangible capital anywhere internationally at the discretion of companies (e.g. to take advantage of low corporate tax regimes). This was highlighted by the 2015 accounting "surge" in Ireland's gross domestic product to reflect returns to intellectual property following the shift by a number of large multinational firms

of their tax domicile to Ireland.¹ A similar issue is raised by Estonia's e-residency programme, which enables entrepreneurs anywhere in the world to set up and run a location-independent business on Estonia's business governance platform.

Importantly for the international community, the data-driven economy promises to serve up market failure in abundance. This reflects, *inter alia*:

- powerful economies of scale and scope, and network externalities in the digital sphere, which give rise to superstar firms;
- pervasive information asymmetries, inherent in the training of artificial intelligence (AI) on big data, between human and machine, between companies that have proprietary data and AI capability and those without, and between countries due to the digital divide;
- the production of what might be termed "machine knowledge capital," which complements and competes with human capital just as robots complement and compete with unskilled labour.

To underscore the significance of the last point, whereas robots are expensive and take time to build and deploy, machine knowledge capital can be expanded at near-zero marginal cost and distributed globally with almost frictionless ease and thus features the "replicator economics" of *Star Trek*. The deployment of machine knowledge capital on a massive scale promises to generate similar effects on returns to human capital in the advanced economies as the entry of China and India into the global division of labour and the robotisation of routine production had on blue-collar jobs and wages. By making robots more effective, it will also intensify the impacts of robotisation on unskilled labour. But the effects will be more pronounced and felt much more rapidly due to the industrialisation of learning itself (Ciuriak 2018a). Returns will flow to owners of machine knowledge capital, which will likely constitute the most valuable rent-generating assets of the data-driven economy, enabling the concentrated capture of global rents flowing to this new factor of production.

The combination of these sources of market failure creates powerful inducements for strategic trade and investment policy, which in turn inevitably gives rise to international friction. This is already very much in evidence over, for example, China's ambition to achieve strategic advantage in AI and other advanced technology spheres by 2025, and the adoption by the United States (US) of countermeasures on trade and its application of new screening for foreign direct investment (FDI) into its national technology sectors. Other economies are throwing their hats into the ring, including smaller open economies that have an interest in gaining a foothold in the data-driven economy, while at the same safeguarding the integrity of their socioeconomic systems (e.g. the Digital 7 discussions²).

1 Many multinational firms domicile their intellectual property in subsidiaries in Ireland to take advantage of its low corporation tax rates. Sales and production generated from the use of intellectual property domiciled in Ireland are deemed to contribute to Irish gross domestic product (GDP) rather than to the GDP of other countries. In 2015 a shift of US\$ 300 billion of corporate assets to Ireland resulted in a 25 percent increase in Ireland's GDP (Burke-Kennedy 2017).

2 The Digital 7, or D7, was initiated in 2014 by Estonia, Israel, New Zealand, the Republic of Korea, and the United Kingdom to discuss and share best practices in digital government. Canada and Uruguay joined in February 2018. See <https://www.digital.govt.nz/digital-government/international-partnerships/d7-group-of-digital-nations/>.

The digital trade wars have begun (Ciuriak and Ptashkina 2018), and there is a need for an institutional response to mediate and help identify the terms for a new sustainable trade bargain for the digitally enabled economy. The G20 is ideally situated to take up this challenge since it is small enough to be nimble, and yet counts in its membership all the major economies driving the digital transformation.

Towards a G20 Agenda for the Digitally Enabled Economy

Measuring the digital economy: G20 priorities

The G20 has engaged the digital economy through two streams:

- the Digital Economy Task Force (DETF), which is addressing the issues related to measuring the digital economy, the implications of the data-driven economy ("Economy 4.0"), digital infrastructure, digital government, and issues of inclusiveness;
- the Trade and Investment Working Group (TIWG), which is addressing the trade and investment linkages, with a focus on small and medium-sized enterprise engagement.

The DETF work on measuring the digital economy should give a high priority to measuring the value of data. Statistical agencies, including Statistics Canada and the US Bureau of Economic Analysis, are engaged in integrating data as an asset into economic accounts, developing typologies that sort out what has value from what does not, assigning ownership and location, developing techniques for measuring the value of data as an intangible asset, and identifying the role of data in growth and productivity. The DETF would be an ideal forum to invite presentations and discuss and stimulate parallel work on this on a G20-wide basis. Understanding the value of data is essential to enabling informed policymaking on issues related to the flow of data across borders.

Second, building on this work, the DETF should consider the question of alternative architectures for reconciling the needs for cross-border data flows for trade purposes, capturing value of cross-border flows for trade negotiation purposes, and the need to secure data in their role as economic infrastructure. For example, the 2016 Trans-Pacific Partnership banned data localisation and committed the parties to the free flow of data across borders, albeit with allowance for restrictions necessary to achieve a legitimate public policy objective. Given the role of data in developing AI and machine knowledge capital, "free" cannot be understood as synonymous with "uncompensated." Moreover, there is much work to do in elaborating reasonable interpretations of the "legitimate public policy objective" carve-out for data localisation.

Third, the DETF could usefully take up the issue of how fast machine knowledge capital is being created and deployed, which sectors it is impacting initially, which sectors are actively exploring the uses of data for this purpose, how machine knowledge capital could be rapidly deployed in developing countries to alleviate skills gaps, and how to fairly share the returns to machine knowledge capital, given that it will be developed on data generated by whole populations.³

3 See e.g. Mazzucato (2018) and Wylie (2018) on data as a public good.

For its part, the TIWG could usefully build on the preliminary work done for the G20 on the typology of digital and digitally enabled trade flows (OECD 2016), refining typologies to facilitate the mapping of trade restrictions and developing approaches to ensuring neutrality of taxation and market access across technological platforms (Ciuriak and Ptashkina 2018), and mobilising the work in identifying and classifying barriers to digital trade (Ferracane, Lee-Makiyama, and van der Marel 2018).

Further, the TIWG could usefully seek to extend recent work in constructing digital trade balances (Nicholson 2018) to provide a fuller picture of bilateral trade relations in the digital age. Key elements to factor into flows would be the implied value of data acquired by platform companies in exchange for "free" internet services, and the misdirection of flows of payments internationally due to tax strategies of the major internet corporations (e.g. licence fees and royalties flowing to Ireland but ultimately destined for beneficial owners elsewhere, and other similar examples), integrating the work done by the Organisation for Economic Co-operation and Development in this area under its base erosion and profit shifting programme.

Finally, the TIWG could also address the possible need for mutual accommodation, especially in labour market adjustment, to proliferation of machine knowledge capital—for example, a peace clause on policy measures designed to ease pressures on labour markets that affect international trade.

Revisiting foreign direct investment policy

An emerging flashpoint for the digital economy is the role of FDI into technology sectors. In the industrial economy, FDI was generally understood as a source of an inward flow of technology and advanced management practices, reflecting the fact that firms capable of investing abroad tend to be the dominant firms in their home base (e.g. Helpman, Melitz, and Yeaple 2004). Foreign-invested firms also tend to undertake more research and development than purely domestic firms (Rao, Souare, and Wang 2010), even if the bulk of it tends to be done by multinational firms at headquarters (National Science Board 2010).

In the technology sectors, however, investment—especially of the mergers and acquisition type—typically aims to acquire and often to expatriate knowledge assets. Even locating research facilities in research hubs has the prime intent of extracting knowledge rather than introducing it into the hub. This is leading authorities to apply a new public policy filter for screening inward FDI, particularly in instances where the inward FDI is from a state-owned enterprise or is acquiring technology that might have security implications, but also more broadly given the incentives for international rent capture through strategic trade and investment policies in the knowledge-based and data-driven economy.

Additional relevant and conflicting policy considerations for a G20 review of FDI policy include the following.

- Extraction of knowledge capital from a research hub diminishes its dynamism by reducing knowledge spillovers within the hub. Based on conventional economic arguments regarding

externalities, public intervention would be warranted where the appropriable private returns to an individual start-up from selling to a foreign firm do not reflect the externalities that the start-up firm's presence in a given innovation location generates for the location—in other words, there is a public interest in the transaction that goes beyond the private interest (Ciuriak 2018b).

- For emerging markets, economic development is arguably almost entirely about technology acquisition. Outward, technology-seeking investment drives overall economic development, which in turn drives demand for other goods and services. In a nutshell, the growth of China's imports of goods and services ranging from soybeans to autos (and the growth of payments for technology) was contingent on China moving towards the technology frontier. Other developing countries that have not had China's singular focus on technology acquisition have not matched China's development trajectory.

An open discussion in the G20 about these tensions with the objective of narrowing and sharpening the grounds for intervention while acknowledging the differences in the dynamics of FDI in technology versus traditional industrial sectors would help to contain the potential conflict.

Systemic issues

Three systemic issues can be singled out as warranting attention in a G20 dialogue on the digital economy:

- **Competition policy:** the tendency in the data-driven economy towards concentration at a global level implies more frictions globally over restrictive commercial practices by companies with market power and cross-border mergers and acquisitions that create issues for third countries. For the G20, a useful contribution would be in terms of identifying modalities to provide competitive access to data for firms in smaller economies and in developing economies in order to alleviate the problem of asymmetric information that is endemic in the data-driven world to promote competition in a dynamic sense.
- **Regulation of digital platforms:** the role of platforms as utilities in the digital sphere has led to calls to regulate them accordingly in order to allow the efficiencies that flow from scale under natural monopoly conditions.
- **The role of the state in investment:** the acceleration of the pace of change in the data-driven economy necessarily shortens the time horizon over which investment needs to be recouped. In turn, this implies that private investment will hesitate on a range of risks that previously would have found ready and willing investors, which will place a commensurately greater onus on public sector risk-taking. Mazzucato (2013) has argued generally for an entrepreneurial role for the state; in the data-driven economy, this role becomes more rather than less needed.

Modalities for Cooperation

The progressive shift of economic activity into the digital realm poses a wide range of conceptual issues and creates perhaps unprecedented incentives for strategic trade and investment policies,

which are already escalating frictions in international trade and investment. While evolving rapidly, the governance of data and the digital economy is not yet “treaty ready” (Ciuriak 2018a), and a robust architecture for the data-driven economy has yet to be established. The G20 brings together the main protagonists in this unfolding drama and can make a valuable contribution to international governance in this area by maintaining a constructive dialogue focused on narrowing the scope for conflict and brokering cooperative solutions through transparency.

Recommendations

- The G20 should expand and accelerate its programme on the digital economy, addressing issues related to governance architecture, measurement of the digital economy, and adjustment/adaptation stresses.
- The G20 should address the need for revised disciplines on strategic trade and investment policies, with particular attention to the impact of inward FDI on the dynamism of local innovation ecosystems.
- The G20 should maintain a dialogue on the systemic issues that feature prominently in the data-driven economy, including the dynamics of competition, the regulation of digital platforms, and the role of the state as risk-taker.

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Southern Africa and the Digital Challenge: How the G20 Can Influence a Digital Turnaround in the Region

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The economies of southern Africa all face significant development challenges, not helped by the fact that many of these countries are ill-prepared for the demands of the rapidly advancing digital era. Given its heterogeneous membership and therefore sensitivity towards the awkward dynamic between traditional and new technologies, the G20 is well placed to assist southern Africa in leveraging the power of the digital economy and making the transition into the future. This article provides an overview of southern Africa's digital readiness and offers a number of practical recommendations on how the G20 might help the region effect a digital turnaround.

The Digital Revolution

The world is in the grip of a technological revolution—particularly in the digital arena, which has been induced by dramatic advances in the field of information and communications technology (ICT). In fact, in many parts of the world, little economic activity is possible without a digital component, which has given prominence to the term “digital economy.” The influence of the digital economy is so widespread that many people could not imagine life without internet connectivity, smartphones, and mobile apps that enable them to stay in touch with people, ideas, events, and business opportunities anywhere in the world.

“Digital” has strong connotations of intangibility and is therefore frequently associated with services that have no physical character, such as Twitter or LinkedIn. Yet innumerable tangible products are “digitally enabled,” such as motor vehicles with digital controls and diagnostic tools, and drones that collect data for surveillance purposes. Even regular products such as books, clothing, and household items that are bought online under e-commerce arrangements are digitally enabled.

The increasing digitisation of information is having a transformative effect on economies. Not only is it creating new business opportunities for entrepreneurs by making data and information more accessible and removing the traditional barrier of distance to markets, but it is also helping to streamline production processes and generally lower the cost of doing business. Yet the digital economy is also disruptive and creates uncertainty since its impact can be difficult to anticipate or control. For example, the pervasive influence of the internet has raised questions about the integrity of the contractual process in the absence of traditional paperwork. It also poses risks to people's and companies' proprietary rights to information, with “data mining” and cyber-attacks becoming matters of growing concern. Of course, the digital economy is also bringing new dynamics to the employment market, with more and more people under pressure to upskill or diversify into other occupations, or face redundancy.

Digital Trends in Southern Africa

According to broad measures such as the World Economic Forum's Networked Readiness Index, southern Africa trails behind the rest of the world in terms of its digital preparedness, although performance varies from one country to the next (WEF 2016). Sharp differences also exist within countries. South Africa, for example, is seen to be the powerhouse of the region, but its financial and commercial sophistication are juxtaposed with widespread poverty and underdevelopment, making

the country one of the most unequal in the world. A deep digital divide is all too evident in South African society. When the advantages of the digital economy are felt by only a privileged few, it suppresses economic and trade potential.

This raises the question: has the advent of the digital economy intensified inequality in South Africa and other southern African countries, or is it actually helping to forge greater inclusiveness in society and lay the foundation for a more sustainable future? People are divided on the matter. Some are of the view that the rapid spread of mobile and digital technology is allowing countries to “leapfrog” traditional economic development patterns, centred on manufacturing, into more knowledge-driven economic pursuits, including services. It is estimated that in 2017 there were 444 million unique mobile phone subscribers in sub-Saharan Africa, a penetration rate of 44 percent, which compares quite favourably with the global average of 66 percent. In South Africa, the penetration rate was 90 percent (GSMA Intelligence 2018). The spread of mobile money services in several southern African countries shows how it is possible to skip some of the conventional steps involved in building a financial services industry.

However, while mobile phones have become ubiquitous, internet penetration rates, by contrast, are worrying. Countries such as the Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mozambique, and the United Republic of Tanzania have internet penetration rates of 20 percent or less. Even South Africa registered a penetration rate of only 52 percent in 2017, after Seychelles at 58 percent and Mauritius at 63 percent (We Are Social 2017). This is a sign of deeper, more fundamental problems. According to Bill Gates, “No one can suggest that great technology is in any way a substitute for good governance. I certainly don't think giving everyone computers helps their malaria or solves the problem of the teacher not being there or not having a schoolroom” (Pilling 2018). In other words, digital technology cannot smooth over the effects of poor leadership.

There are many stories of entrepreneurs in southern Africa using the power of technology to create ingenious products and services in the health, agricultural, environmental, and other fields. Yet inadequate investment (in efficient infrastructure and affordable internet access), skills and capacity shortcomings, and weak enforcement of policies and regulations often lead to economic sectors underperforming. As a result, inclusive and sustainable growth and development remain elusive goals. Whereas private initiative can and often does produce technological breakthroughs, society as a whole is unlikely to benefit unless an accountable and effective government is engaged in the process, providing support or correcting market failures where necessary.

In today's interconnected world, the dividing line between domestic and international trade is becoming increasingly blurred. Yet the natural links between the two often escape policymakers. Pierre Sauv , senior trade specialist at the World Bank Group, spoke of a paradox when it comes to digital trade in the developing world. He said that despite all countries recognising the transformative properties of the digital agenda in a national context, there is often a refusal to accommodate, let alone speed up, digital reforms from a trade policy perspective (Sauv  2017). This is particularly apparent in southern Africa, where individual countries and the region as a whole are often deprived

of the opportunity to use the power of the digital economy to build more competitive industries and boost trade.

According to Sauv , reasons for the limited interest in pursuing a more aggressive digital trade agenda range from governments' desire to protect local industry against the potential onslaught of foreign domination in the ICT field, and their comfort in maintaining the status quo, to significant skills and capacity shortcomings that hamper decision-making and committed action. Another problem is that policymaking often takes place in silos, with paperless trade, electronic signatures, cybertechnology and security, and other issues remaining outside the traditional parameters of trade policy. As a result, these issues tend to fall off regional and international trade negotiation agendas (Sauv  2017).

Role of the G20 in Fostering a Stronger Digital Culture in Southern Africa

The G20 is well placed to provide both guidance and practical assistance to the countries of southern Africa—at the individual country level and the broad regional level—so that they can build on existing strengths in the digital arena and narrow the digital divide that is to a greater or lesser extent suppressing their economic potential. As a collection of countries with varying economic circumstances, the G20 is already sensitive to the difficulty of juggling a range of competing economic priorities. South Africa, in particular, with its relatively strong institutions and policymaking machinery, is likely to derive early benefits from G20 policy advice and other interventions, and could set an example for its regional neighbours.

Providing assistance in policy and strategy implementation

In southern Africa, which faces so many development challenges, a strong policy environment is essential if the ground is to be prepared for more inclusive and sustainable growth, trade, and development across all viable economic sectors.

A common lament in southern Africa (but also elsewhere in the developing world) is that whereas some policies are well formulated, they are often poorly implemented. For example, South Africa's digital strategy is called Digital Society SA and maps out how the country intends to leverage the digital economy in the period 2017–2030 (South African Government 2017). It is an impressive document covering important priority areas, from infrastructure and universal access to security and skills development. However, the challenge will be to effectively roll out the strategy in the midst of fiscal constraints, insufficient coherence across a number of other national and sectoral policies and strategies, and a general climate of policy uncertainty in the country. Other countries have formulated equivalent strategies and face similar challenges.

The G20 members' experience and assistance in turning a broad vision of a more digitally enabled society into practical initiatives and outcomes, while keeping inclusive and sustainable development as the overarching goal, would be very valuable for southern Africa.

Encouraging a regional approach to digital development and trade

In recent years, there has been a shift in the approach of many developing countries to trade policy formulation from a national level to a regional one. For example, South Africa has been placing increasing emphasis on its African regional integration agenda, while also advancing the positions and priorities of the African Union and actively supporting the African Continental Free Trade Area. Not surprisingly, South Africa has a natural affinity with the African observers in the G20.

Promoting the regional interests of South Africa and its southern African neighbours would enable the G20 to influence policymaking in the region. It may also be appropriate for the G20 to encourage countries in the region to consider the development of regional strategies for digital development and trade and to encourage more transparent and harmonious digital trade rules. In this regard, other G20 members' experiences could be leveraged. A number of organisations have already done excellent work in this area, such as the United Nations Economic Commission for Latin America and the Caribbean, which could provide useful lessons for southern Africa.

Helping to build more knowledge and capacity

There is an inherent risk that the digital economy, with its emphasis on complex and ever new technologies, will leave people increasingly unprepared for the challenges of the changing world of work, or deprive them of work altogether. Skills training and longer-term professional development are becoming essential features of human resource management, both in government and in the private sector. Unfortunately, investment in human capital often takes a back seat when budgets are squeezed—an all-too-familiar phenomenon in South Africa at present, given its lacklustre economic performance in recent years. Other southern African countries, perhaps with the exception of Mauritius, which has long prioritised upskilling and job diversification, are grappling with similar constraints.

The G20, using its collective experience and expertise, could provide valuable assistance by sharing best practices on how to build skill sets that are essential for the development of a robust digital economy. Such assistance could include various forms of technical assistance (from conferences and seminars to more focused development programmes), mainly directed at government entities tasked with formulating policies, strategies, and regulations. Specific emphasis should be placed on how to ensure that a national or regional digital vision straddles all key policy areas (including adopting a relatively open approach to technology imports) and that the necessary steps can be taken by capable and accountable individuals. This will prevent inertia from setting in.

Much work has been done by international organisations such as the International Monetary Fund, the World Trade Organization, the World Bank, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development, and the International Telecommunication Union on how to effectively leverage the digital economy through knowledge, capacity-building, and technology transfer, and this could form part of the core offerings. In Africa, Rwanda has boldly set its sights on becoming a knowledge economy within the next few years, investing in innovation hubs and prioritising ICT education at universities. It appears to be succeeding in areas where other countries are largely paying lip service.

Supporting research in digital trends and prospects for trade and development

Government policymaking and commercial activity in southern Africa have long been constrained by the relatively limited amount of research conducted into industry conditions, local and international markets, best practices in different parts of the world, and many other issues. As a result, decision-making in the public and private sectors is at risk of being an ad hoc affair.

The digital economy in a southern African context—its opportunities and constraints, the regulatory environment, investment prospects (particularly in high-potential services sectors), and the impact of the digital divide—is a particularly neglected area of research. For instance, in South Africa, the services sector is the main source of employment, particularly for women (Farole 2016) and in 2014 contributed nearly 70 percent to gross domestic product (Purfield, Farole, and Im 2014). Yet the interrelationship between services and the digital economy is not well understood. More research is needed on how the digital economy could be used, not only to expand services trade but also to protect certain types of jobs in the services sector. For example, advances in digital technologies will increasingly replace more qualified (and better-paid) workers in more developed parts of the world with lower-paid workers in other regions (Baldwin 2018).

Facilitating more research would help to fill serious information gaps, thereby enabling southern African countries to better understand and exploit the opportunities presented by the digital economy, both domestically and in regional and global value chains.

Adopting a Partnership Approach to Digital Development

Given their development challenges and the amount of catching up that is needed, the countries of southern Africa—as with many other countries that are not optimising their potential—cannot afford to delay their digital transformation. This is not an option if they are to clear their critical development hurdles (poverty, joblessness, and poor health and education), heal the sharp divisions in society, and keep pace with the fast-changing trade and investment environment.

Achieving inclusive societies that are able to sustain themselves well into the future should continue to be the overarching goal. There is much ground to cover and the challenges will multiply as the world becomes more technologically complex. But by working with the G20 and other international bodies, the southern African region will be able to walk the digital path with more conviction and confidence.

Recommendations

In summary, it is recommended that the G20 use its collective expertise to assist southern Africa in the following priority areas (according to countries' different capacity levels and needs):

- implementing national digital development policies and strategies, supported by strong monitoring and evaluation systems;
- developing region-wide digital strategies and more harmonised trade rules to encourage and simplify intra-regional trade in digital goods and services;
- building knowledge in both the public and private sectors about digital technologies and their many applications, and building the capacity of government entities tasked with formulating digital policies, strategies, and regulations to enhance trade;
- promoting and facilitating more research on the opportunities and threats presented by the digital economy in southern Africa, which will inform domestic and regional policies and priority areas for financial and/or technical assistance.

The Trade and Investment Working Group and the G20 Digital Economy Task Force would probably be the best groups to incorporate these recommendations into their respective work programmes, upon the necessary endorsement by the G20 ministers.

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How the G20 Can Help Sustainably Reshape the Global Trade System

A Compilation of Analysis

Gathering in Mar del Plata in September 2018, G20 trade and investment ministers agreed to “step up dialogue and actions to mitigate risks and enhance confidence in international trade.” The global trade and investment system is in need of such a boost. Trust in the multilateral trading system, for example, is diminishing as economic heavyweights increasingly apply trade measures and practices that undermine the principles and rules that underpin the World Trade Organization (WTO). Key functions of the WTO, including its dispute settlement system, are at risk of paralysis and require urgent attention if the rules-based multilateral trading system is to be safeguarded.

In this context, and ahead of the 2018 Buenos Aires G20 Leaders Summit and the Japanese presidency in 2019, ICTSD has assembled a collection of short papers that explore how the G20 can reshape the world trading system. The contributions provide inputs around sustainability and systemic concerns in trade-related policymaking and seek to enable leaders from G20 economies, as well as decision-makers and policy researchers around the globe, to identify and address key challenges that prevent the trade and investment system from being inclusive and sustainable. To this end, the contributing authors survey relevant trends in economic policymaking, zoom in on regional dynamics, and provide short- and medium-term practical recommendations for G20 leaders.



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