

# Sticking to the Job

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Key Trade Policy Considerations for  
the G20 Hamburg Summit and Beyond



July 2017

International Centre for Trade  
and Sustainable Development

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## List of Abbreviations

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APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
B20	Business 20
B2B	business-to-business
B2C	business-to-consumer
BIT	bilateral investment treaty
CEPR	Centre for Economic Policy Research
CETA	Comprehensive Economic and Trade Agreement
COP21	Twenty-First Session of the UNFCCC Conference of the Parties (Paris)
DDA	Doha Development Agenda
DFQF	duty-free and quota-free
DIE	Deutsches Institut für Entwicklungspolitik (German Development Institute)
DSU	Dispute Settlement Understanding
DWA	Decent Work Agenda
E15	E15 Initiative
ECIPE	European Centre for International Political Economy
ECSG	Electronic Commerce Steering Group
EU	European Union
FDI	foreign direct investment
G20	Group of Twenty major economies
G7	Group of Seven
GATS	General Agreement in Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GTA	Global Trade Alert
GVC	global value chain
ICT	Information and communication technology
ICTSD	International Centre for Trade and Sustainable Development
ICSID	International Centre for Settlement of Investment Disputes
IIA	international investment agreement
ILO	International Labour Organization (ILO)
ISDS	investor-state dispute settlement
L20	Labour 20
LDC	least developed country
MC10	Tenth WTO Ministerial Conference (Nairobi)
MC11	Eleventh WTO Ministerial Conference (Buenos Aires)
MIA	multilateral investment agreement
MTS	multilateral trading system
NAFTA	North American Free Trade Agreement
NAMA	non-agricultural market access
NDC	nationally determined contribution
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development

RCEP	Regional Comprehensive Economic Partnership
RTA	regional trade agreement
SDG	Sustainable Development Goal
SME	small and medium-sized enterprise
T20	Think 20
TEPAV	The Economic Policy Research Foundation of Turkey
TFA	Trade Facilitation Agreement
TiSA	Trade in Services Agreement
TIWG	Trade and Investment Working Group
TPP	Trans-Pacific Partnership
TPRM	Trade Policy Review Mechanism
TTIP	Transatlantic Trade and Investment Partnership
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
US	United States
WEF	World Economic Forum
WTO	World Trade Organization



# What Now All Pretence Has Gone? The G20 and Protectionism after Baden-Baden

**Simon J. Evenett**

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At the conclusion of their March 2017 meeting in Baden-Baden, G20 Finance Ministers and Central Bankers issued a communiqué that included the following statement on trade: "We are working to strengthen the contribution of trade to our economies."<sup>1</sup> Even by the standards of international diplomacy, this sentence shows a distinct poverty of imagination. Worse, at the insistence of American officials, the communiqué dropped reference to resisting protectionism.

If the high priests of orthodoxy, for in most nations that is what finance ministries and central banks represent, cannot bring themselves to condemn protectionism, then all pretence of restraint has gone. For sure, many of us have been sceptical about G20 promises to maintain open borders but, as *The Economist* recently noted in this context, "hypocrisy is the tribute vice pays to virtue" (*The Economist* 2017). The message from Baden-Baden was clear: maintaining open borders has been demoted as a G20 policy priority.

## So What Next?

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In the light of Chancellor Merkel's recent trip to the White House, little positive can be expected from engaging with the most senior levels of the US government on protectionism. In this regard, it seems Italian attempts to encourage G7 members to take a firm line on protectionism at their summit in Sicily in May 2017 will almost certainly come to nothing (Politi 2017). We should not be surprised, then, if Ms. Merkel concludes that it is not worth risking a showdown over protectionism at the G20 Leaders Summit in Hamburg. Consequently, the most likely outcome is that the language on protectionism in the Hamburg summit declaration will be watered down significantly or dropped entirely.

## So What?

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The analyst in me cannot help noting that the proponents of the G20 process are going to face their own protectionism-related stress test. If the G20 leaders' statements about eschewing protectionism had the force that supporters of this form of non-binding international economic governance believe, then surely after Baden-Baden they should be worried. After all, the logic of their argument suggests that abandoning pledges of protectionism now should weaken governmental restraint and result in more trade distortions being imposed in the future. Yet curiously, at least on my reading, the analysts and academic proponents of the G20 process have not been issuing warnings about protectionism since the Baden-Baden meeting.

## Don't Count on the WTO to Hold the Line Against Protectionism

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Ah, but won't the WTO hold the line, even if G20 promises fall to one side? The key problem with relying on the WTO to restrain protectionism is that its current rule book allows so much leeway to governments that, realistically speaking, it is difficult to understand how it could restrain protectionism. The mistake made by many analysts is to let their support for a rules-based trading system blind them to the deficiencies of the WTO. We need a system that works in practice, not just in theory.

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1 The full text of this communiqué can be found at <http://www.g20.utoronto.ca/2017/170318-finance-en.pdf>.

For comparison's sake take the infamous Smoot Hawley Tariff of 1930 that resulted in the average tariff rate paid on imports into the United States rising from 13.48 percent in 1929 to 19.80 percent in 1933 (US Census Bureau 1970).<sup>2</sup> It may surprise many readers to know that eight<sup>3</sup> of the G20 members could today hike their average tariff rates by more than the Smoot Hawley increase without breaking their WTO obligations (WTO 2016).<sup>4</sup>

Mexico, the target of so much ire during the 2016 US Presidential election, could raise its import tariffs across the board by 29.1 percent without falling foul of WTO rules. It would be unwise for Mexico to do so, but there is nothing in Mexico's WTO obligations that prevents such a tariff hike. What too many analysts and government officials have overlooked is that, while China, Russia, and many industrialised countries have little leeway to raise their tariffs under WTO rules, this is not true for all of the G20. Had the focus here been on leeway in agricultural subsidies rather than tariffs, the story would have been reversed—here the industrialised countries have plenty of room to engage in a subsidy war without worrying about breaking WTO rules.

The best that can be said for the WTO is that it channels protectionist pressure towards policy instruments less constrained by international rules. It is not for nothing that so much has been written about the rise of murky protectionism since the onset of the global economic crisis.<sup>5</sup> Governments have become very creative in finding new subsidy, public procurement, localisation, and export promotion schemes that tilt the playing field towards domestic firms in national and world markets. The appendices of the *Global Trade Alert's* reports show how much trade is affected by these trade distortions. In the case of this year's G20 host, a detailed product-by-product and market-by-market analysis revealed that, by the end of 2015, when competing in foreign markets 90.07 percent of German exports faced one or more trade distortions imposed since the G20 leaders first promised not to engage in protectionism in November 2008 (Evenett and Fritz 2016, 74). Germany's experience is far from unusual in this respect.

The last line of defence for those straining to defend the WTO is its Dispute Settlement Understanding. The deficiencies of this much oversold system of dispute settlement have been laid bare in recent years, not least by members of the WTO Appellate Body.<sup>6</sup> Given the frequency with which trade distortions have been introduced since the crisis began, few cases are ever brought to the WTO—suggesting a “glass houses” syndrome is at work.<sup>7</sup> The small number of cases brought now appears to have overwhelmed the system, creating significant delays (which

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2 See page 888 of [http://www2.census.gov/library/publications/1975/compendia/hist\\_stats\\_colonial-1970/hist\\_stats\\_colonial-1970p2-chU.pdf](http://www2.census.gov/library/publications/1975/compendia/hist_stats_colonial-1970/hist_stats_colonial-1970p2-chU.pdf)

3 The eight include Argentina, Australia, Brazil, India, Indonesia, Mexico, South Africa, and Turkey.

4 See the difference between the bound and applied rates of tariffs on all imported goods reported in the “All Products” table on page 8 of *World Trade Profiles 2016* (WTO 2016). What is being referred to here is the so-called water in national tariff schedules.

5 As of this writing, there are 668 studies in the Google Scholar database that refer to murky protectionism.

6 See, for example, the 2016 speech by then Chairman of the Appellate Body, Thomas R. Graham, titled “Speaking Up: The State of the Appellate Body.” I have no idea whether Mr. Jordan would agree with any of the critique of the WTO Dispute Settlement Understanding presented in this chapter.

7 Recall the proverb: People who live in glass houses should not throw stones.

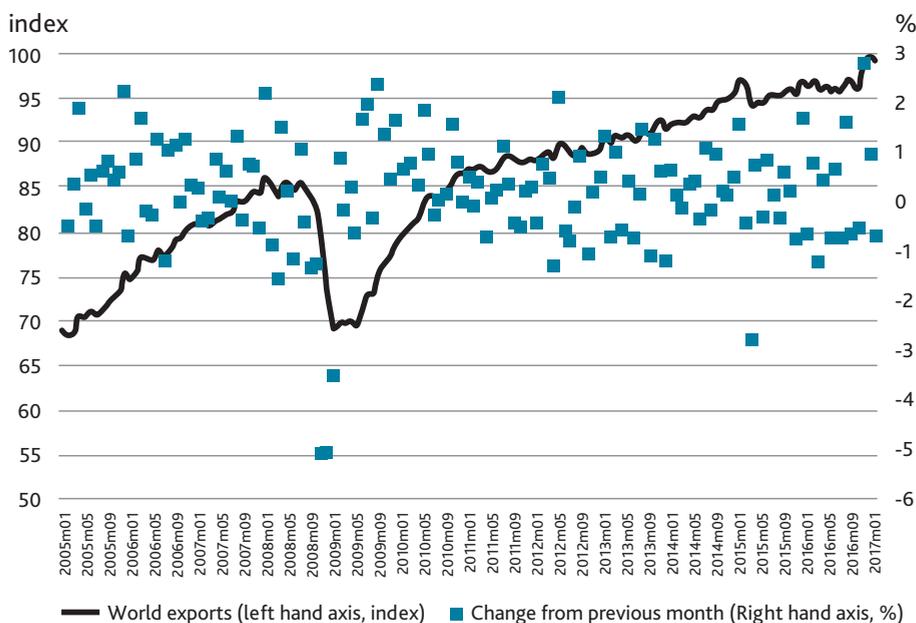
Korea has openly complained about).<sup>8</sup> Lastly, even when judgements are rendered, during the crisis governments have taken steps to circumvent them.<sup>9</sup>

Officials would be well advised to revisit any assumptions they have about the bite of WTO rules and its dispute settlement procedure. A reality check is in order: The current WTO rules were devised 25 years ago before the rise of emerging markets, the spread of internet technologies, and the widespread resort to outsourcing and supply chains. Furthermore, clever officials and private sector counterparts have had plenty of time to figure out how to game the system. Under these circumstances, with the onset of the global economic crisis, is it any wonder that the weaknesses in our current rules-based trading system would be so cruelly exposed?

## But Isn't World Trade Growing Again?

For those senior officials determined to bury their heads in the sand, some recent data and press reports afford a misplaced opportunity for complacency. Some recent press reports have noted that, according to the latest data on world trade volumes, global trade is growing again. In an article on its front page on 31 March 2017, the *Financial Times* came up with this impressive statistic: "Global trade volumes grew at their fastest pace since 2010 in the three months to January" (Kynge and Hale 2017). One can imagine the following reaction to this news: If world trade is growing so fast, then surely protectionism isn't a problem and we can set this awkward matter aside for the G20?

**Figure 1: Job done? But for an unusual jump in November 2016, world trade volumes would still be stuck.**



Source: Author's calculations based on World Trade Monitor database

8 Recall the expression: Justice delayed is justice denied.

9 For actual examples and a discussion of their implications, see Evenett and Jara (2014).

The data source used by the *Financial Times* is well reputed<sup>10</sup>—that is not the point of contention. What is at issue is the extent to which global trade growth has been bolstered by a single month's data. Figure 1 sheds light on this matter. Indexing world export volumes to 100 at their peak, the chart shows the jump in trade in Q4 2016. But for that jump world export volumes, which had reached a plateau in January 2015, would still be treading water.

Figure 1 also reports the month-on-month changes in world export volumes since January 2005. The jump in export volumes in November 2016 is the largest recorded increase in over a decade. A much smaller increase was observed in December 2016 and a fall observed in January 2017. The November 2016 increase accounted for 89.5 percent of the total increase in world export volumes during the past three months, which is the period the *Financial Times* chose to highlight. In short, the last three months' data on world export volumes do not point to a sustained turnaround in global trade growth.

When data on the export volumes of the leading trading nations and regions are examined, which ought to be of concern to the G20 nations, the pattern is far from settling. Figure 2 reports the export volumes of the United States, the Eurozone, Japan, and "Emerging Asia,"<sup>11</sup> where an index has been created for each exporter, which takes the value of 100 at the maximum value observed since January 2005. Doing so allows us to compare whether recent export volume data are close to their peak.

The main message from Figure 2 is that, of the large exporters considered here, only the sluggish Eurozone has seen consistent growth in export volumes since 2010. Even with recent growth, Japan's export volumes are well below their peak. By early 2017 US export volumes appeared to have recovered to levels last seen in 2014. Even Emerging Asia, which is credited by the *Financial Times* and others as being behind the recent growth in world trade, has yet to recover to the peak witnessed in early 2015. All in all, it would seem premature to put the champagne on ice. The plateau in global trade may well be over but no one in their right mind would want to go to the wall defending that proposition with the currently available data.

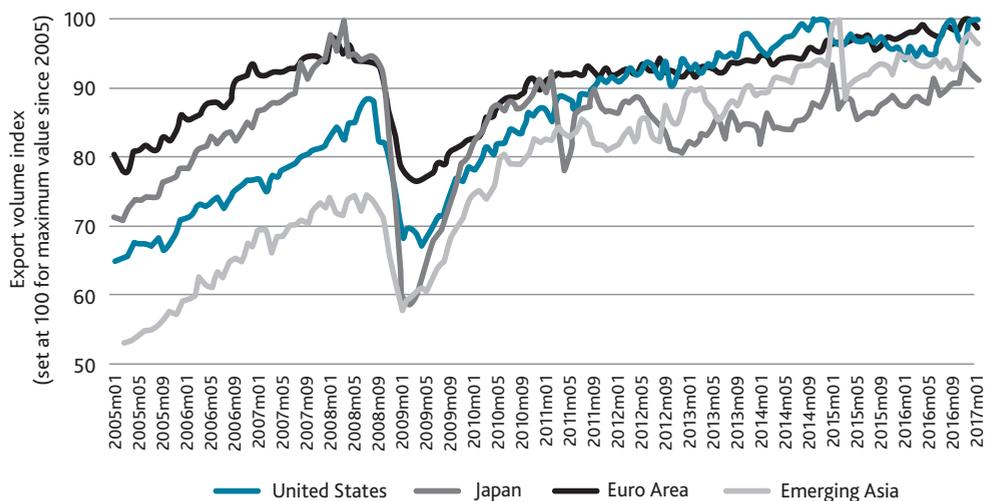
Let's recap the argument so far. First, all pretence of G20 restraint on protectionism is gone. In particular that should worry anyone who thought this crisis-era innovation in global economic governance had some bite. Second, crisis-era experience to date suggests that it would be unwise to count on WTO rules to restrain desperate governments. There are so many holes in WTO rules that the pertinent question is how it could ever prevent a determined government from tilting the playing field—not whether the WTO has limited protectionism by its member governments in recent years. Third, recent heartening news about global trade growth does not rest on a sufficiently strong foundation to ignore the evident limits of international accords on governments tempted to engage in protectionism. The world trading system is not out of the woods yet.

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10 The source in question being the World Trade Monitor (CPB Netherlands Bureau for Economic Policy Analysis 2017).

11 A grouping of countries created by the World Trade Monitor.

**Figure 2: With the exception of the sluggish Eurozone, export volumes of the world's major trading regions are stuck in established ranges.**



Source: Author's calculations based on World Trade Monitor database

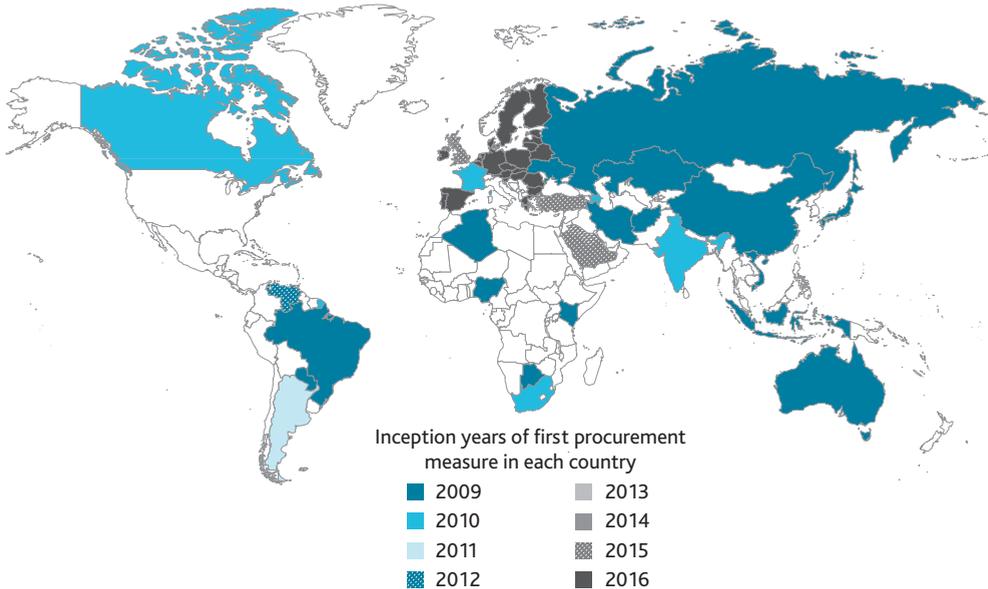
## Populism and the Threat of Copy-cat Protectionism

The challenge to world trade from contemporary protectionism is not just that the leader of a major trading nation evidently embraces economic nationalism. It is that such a reaction has occurred after a sustained bout of beggar-thy-neighbour activity by G20 members which, in turn, could provide the pretext for a government inclined towards protectionism to retaliate against the alleged sins of others. The recent signing of a US Executive Order that requires documentation and study of the effects of foreign trading practices may yield enough evidence for some to act (The White House 2017). There is a real risk of copy-cat protectionism in the months and years ahead.

This is not a hypothetical scenario. There are depressing crisis-era precedents to point to. Perhaps one of the most high-profile examples came early in the crisis when governments decided to implement fiscal stimulus packages to stabilise their economies. On the face of it, such packages are fine. However, when combined with requirements that state funds only be used to buy locally produced goods then, from the point of view of international trade policy, problems arise as market opportunities are denied to foreign firms.

In February 2009 the US Congress passed such a stimulus package with so-called Buy America provisions. As Map 1 below shows, within one year a large number of the US's trading partners, including many G20 members, had included similar local purchasing requirements in their budget legislation. Copy-cattling Buy America provisions continued through to 2016, as the map indicates. A world trading system without a proper system of restraint is particularly vulnerable to copy-cat protectionism.

**Map 1: A wave of discriminatory public procurement policies followed US enactment of new "Buy America" provisions in 2009**



Source: Author based on Global Trade Alert database

## Concluding Remarks

Pretence can serve a useful role in international economic diplomacy—to set a benchmark for good behaviour by sovereign states that face few other effective external sources of restraint. When it is gone, however, there is less to obscure reality, and copy-catting bad practice becomes all the more tempting.

Current trade policy dynamics suggest this is a particularly inauspicious moment to let down the G20's guard on protectionism. Far too often national security is invoked as a reason to take action against competitive foreign rivals. Moreover, terms associated with the trade frictions of the 1980s and 1990s, namely, unfair trade and trade deficits, are being revived by some as a pretext for unilateral action. Threats to renegotiate trade deals, and difficulties in ratifying regional trade agreements, have cast shadows over key bilateral trading relationships. With the risks associated with cross-border commerce growing, no one should be surprised if more companies shorten the distance between their customers and production facilities—in the process forgoing cost efficiencies, and with it a key benefit of globalisation.

Should G20 leaders abandon their pledge on protectionism at the Hamburg summit then the world trading system will enter a new, more troubling phase at a time when global trade flows have plateaued and foreign direct investment is in retreat. There doesn't have to be another Smoot Hawley-like episode for beggar-thy-neighbour policy to seriously distort global commerce—termites live underground as well.

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# How Can the G20 Help Reshape the Global Trade Agenda?

**Dawei Wang**

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The G20 Trade and Investment Working Group (TIWG) convened its third meeting on 4–5 May 2017 in Berlin, Germany.<sup>1</sup> This meeting was intended to prepare a set of agreed outcomes in the area of trade for the Hamburg Summit. Unfortunately, it did not achieve this goal. With the exception of the G20 Priorities on Digital Trade agreed at a previous meeting, the TIWG failed to reach consensus on most of its objectives set by the rotating G20 presidency earlier this year. This result was not entirely surprising. Signs actually emerged two months earlier at the G20 Finance Ministers and Central Bank Governor's meeting in Baden-Baden in March. Upon conclusion of the meeting, media reports focused on the "watered-down commitment to free trade" that "reflected [an] anti-globalization mood," rather than on financial or monetary policy matters (Fleming and Jones 2017).

In the communiqué released after the Baden-Baden meetings, commitments to resist all forms of protectionism were dropped, suggesting that there was only a narrow chance of seeing it committed to at the July summit. Still, the G20's "standstill" commitment on protectionism has symbolic significance. Since 2008, this commitment has been the cornerstone and major outcome of the G20 in resistance against international financial crisis. Now in the post-crisis period, as the core of global economic governance, what can the G20 deliver in reshaping global trade agenda beyond its standstill commitment? This article aims to shed some light on this topic by exploring outstanding global trade issues and envisioning possible G20 contributions to global trade agenda.

## The Global Trade Agenda at the Crossroads

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Though "the direction and composition of world trade is quite different from what it was a generation ago" (Krugman and Obstfeld 2009), trade remains a key driving global force. According to the World Bank, in 2015 global merchandise exports of US\$16.576 trillion accounted for around 22.3 percent of the world's GDP. This figure is much higher than what it was a half-century ago. In 1960, the ratio was just 9.1 percent. If we take into account the rapid growth of commercial services trade in past decades, the difference of the ratio would be even more dramatic. From 1977 to 2007, trade in global merchandise increased from US\$1.096 trillion to US\$14.116 trillion, with an average annual growth rate of around 8.9 percent—higher than GDP growth over the same period. These figures stand as a testament to the contribution of trade to global growth in recent history. However, since the 2008 global financial crisis, the growth of global trade has been remarkably sluggish. For example, the volume of merchandise exports in 2015 amounted to US\$16.576 trillion—almost the same as that seen in 2008 (US\$16.267 trillion).<sup>2</sup>

This drastic change can be explained by multiple structural and cyclical reasons, but changes in the policy environment are also an essential part of this story. We can observe the policy changes from different angles. At the national level, 1,671 trade-restrictive measures were recorded for the G20 members since 2008, which "remains worryingly high," according to the latest G20 monitoring report (WTO 2016).<sup>3</sup> At the regional level, a proliferation of regional trade agreements (RTAs) has attracted

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1 Before returning to university for his mid-career education, the author worked for the Ministry of Commerce of China as deputy director with a portfolio focusing on multilateral economic and development affairs.

2 Figures are from the World Bank database. The drop is mainly due to sharp declines in 2009 and in 2015.

3 The figure comes from the report issued in October 2016. The WTO released a new report on June 30th of 2017, in which 42 new trade-restrictive and 42 trade facilitating measures are recorded since October 2016. According to the WTO, the number of restrictive measures "represents a slight increase over the previous period, but still remains lower than the longer-term trend overserved from 2009-2015 of seven per month."

much attention from all major economies and even triggered some strategic competition. However, finalising significant "mega-RTAs," including the Trans-Pacific Partnership (TPP), Transatlantic Trade and Investment Partnership (TTIP), and Regional Comprehensive Economic Partnership (RCEP), has

not yet been a reality. Furthermore, the unfavourable attitude of the current US administration to free trade agreements has led to uncertainty looking forward. On the international level, negotiation of the World Trade Organization's Doha Development Agenda (DDA) has failed to reach a "balanced and ambitious conclusion which has inevitably damaged, or at least questioned, the credibility of the WTO's negotiation function (G20 2010). The effectiveness of the governance and decision-making structure of the WTO has also been questioned as a result.

If we compare the above policy trend with three decades ago, we can easily see some outstanding changes. In the 1980s and 1990s, General Agreement on Tariffs and Trade (GATT) members endeavoured to push forward a successful conclusion of the historic Uruguay Round negotiations. And as the WTO, a formal international organisation, replaced the GATT, a new round of ambitious multilateral negotiation was to be launched. The Asia-Pacific Economic Cooperation (APEC) forum was proposed and established at this time as a natural result of the dynamic economic integration in the Asia-Pacific region—and European integration was on a fast track with the Euro successfully created as a new currency. Some developing countries, particularly China, began to open their market unilaterally to participate in international production and trade networks. The globalised world was quickly flattening, as many people observed just a decade ago (Friedman 2005).

We cannot conclude that changes seen since 2008 will bring about a reversal or termination of globalisation. However, the observed shift in policy trends does indicate a possible transformation of the global trade agenda in the future. The following four outstanding issues might need our particular attention.

- (1) **Beneficiaries of international trade.** Which countries and groups will benefit most from trade? The Ricardian model could explain basic reasons why countries engage in international trade such as benefits achieved from exchanging difference and achieving economies of scale. However, as political scientists have observed, relative gains also matter. Countries do care who benefits more from international trade. On the national level, trade causes the income redistribution. The sectors that are damaged due to opening domestic markets do need to be adjusted or reformed. But this process has never been easy, and usually poses great challenges to governments. Sometimes, the transformation period can generate serious political impacts. Who benefits from trade? How can policy frameworks ensure that trade benefits the group at the bottom of the social pyramid? The future trade agenda should reflect on and respond to these questions.
- (2) **The role of the multilateral trading system (MTS).** Is the WTO still functional and relevant? Does it need reform? In past years, some debates about the efficiency and effectiveness of the WTO have emerged within G20 discussions and in public or academic debates. The opinions are divergent. The MTS has achieved great success over the past six decades and certainly remains a major pillar of global economic governance today. However, challenged by proliferation of RTAs and the failure of achieving a major breakthrough in the DDA negotiations, it might be time for the WTO to rethink its role and governance and make appropriate reform so as to adapt better to the future trade pattern and landscape. As reform may be a sensitive issue both inside and

outside of the WTO, both the discussions and actions should be conducted in a pragmatic and prudent way. But the topic should not be taboo.

- (3) **Opportunities and challenges caused by new technologies.** E-commerce has become a topical trade policy issue. According to research conducted by the United Nations Conference on Trade and Development (UNCTAD), business-to-business (B2B) and business-to-consumer (B2C) e-commerce exceeded US\$15 trillion and US\$1.2 trillion respectively in 2013. Furthermore, estimates suggest that B2C volume could double in 2018. This rapid growth is "transforming the way in which enterprises are interacting among each other as well as with consumers and governments"—which means that the trade model could also be changed dramatically (UNCTAD 2015). Beyond changes in means of transaction, new technologies such as artificial intelligence and remote intelligence could change trade more fundamentally, particularly for the future of offshoring (Baldwin 2016). How will trade policy and negotiations reflect the changes triggered by these revolutionary technologies?
- (4) **The trade and investment nexus.** As some have argued, with the development of global value chains (GVCs), twenty-first century trade concerns the complex international flows of goods, services, ideas, capital and people that arise when production processes are internationalised. This is different from traditional trade, which mainly concerns goods (Baldwin 2014). These new features indicate that trade and investment are intertwined more closely than before. However, due to myriad reasons, investment remains out of the multilateral negotiation process.<sup>4</sup> With the dynamic development of GVCs, the future trade agenda may need to address the trade investment nexus and ensure policies are complementary and mutually reinforcing—which would be both opportunities and challenges for the WTO or other international organisations like UNCTAD (G20 2016).

## How Can the G20 Help Reshape the Global Trade Agenda?

The G20 has been designated as the "premier forum for our international economic cooperation" (G20 2009). Some argue that the G20 should provide global public goods in six areas: macroeconomic interdependence, financial-sector interdependence, trade, energy and climate, development, and economic governance in the global system (Dervis and Drysdale 2014). Compared with actions seen in macroeconomic and financial areas, the G20's work has been relatively moderate so far on trade issues.

The current G20 summit mechanism originates from a previous financial platform at the ministerial level, which was created in 1999. In 2008, when financial crisis broke out and major economies needed to coordinate their actions to prevent beggar-thy-neighbour policies, the G20 was "upgraded" to the leader's level. Born out of the crisis, discussion topics developed a strong "crisis management" flavour. Before 2016, the G20 discussion on trade issues normally included three topics: anti-protectionism, the MTS and DDA negotiations, and GVCs.

Anti-protectionism is the most important achievement of the G20 in the trade area. In the first Washington Summit (2008), the G20 agreed to a "standstill" commitment which prevents member

4 The reasons might involve two aspects: On the one hand, some developed countries seem to prefer a bilateral approach to maintain high standards of rules. On the other hand, investment rules negotiation entails many behind-the-border issues, which may concern many developing countries that would like to maintain adequate domestic policy space.

countries from introducing new protectionist measures. The commitment has been renewed or reiterated at each following summit. As a supporting action to this standstill commitment, the G20 mandated the WTO, the UNCTAD and the OECD to monitor trade and investment policy measures so as to generate peer pressure among members. It is difficult to determine if the commitment was strictly honoured, but the standstill commitment was credited with successfully preventing a 1930s style scenario.

Supporting the WTO and Doha Agenda is another recurring topic. The G20 leaders called several times to conclude the DDA. They even set out a timeframe for completing negotiations at the Pittsburgh Summit (2009) and again at the Seoul Summit (2010). The commitment to concluding negotiations became weaker after 2012. Since the St. Petersburg Summit (2013), the "conclusion of DDA" has not appeared in the summit declarations. Nevertheless, the role of the WTO in the world economy has been continuously reiterated by the G20.

The topic of GVCs was introduced to the G20 in 2012, when the first G20 Trade Ministers' Meeting (TMM) was convened. International organisations presented a research report upon the request from G20 members in several following summits.

The year 2016 marked a milestone in the G20's discussion of trade issues. During the Chinese presidency, the Trade and Investment Working Group (TIWG) was established as a vehicle to strengthen the G20 trade work stream. On top of mechanism building, G20 trade topics were substantially expanded in 2016. Apart from traditional topics on anti-protectionism and supporting the WTO, the Hangzhou Summit outcome on trade issues also included a trade growth strategy, investment policymaking guiding principles, and e-commerce/digital trade, among others.

In 2017, Germany proposed focused trade topics, particularly highlighting digital trade and investment facilitation. The German topics are indeed relevant in responding to those emerging issues. What is even more interesting is that Germany introduced discussion on the benefits of trade, trying to encourage broad domestic support for continued trade integration. However, it appears that it has been difficult to achieve full deliverables as planned.

## Recommendations for Future G20 Trade Topics

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As some experts have argued, the elevation of the G20 to the leaders' level strengthened the legitimacy of global economic leadership and made the G20 the best vehicle to deliver the political commitment to move the trade agenda (Nellor and Pangestu 2014). At the current juncture, it is appropriate for the G20 to expand its trade topic discussion and contribute to the transformation of the global trade agenda, particularly in the following three aspects:

- (1) **Promoting inclusive globalisation and trade liberalisation.** Given the income redistribution effect of trade, it is crucial to make trade liberalisation more inclusive. Building on the German presidency and previous outcomes, the G20 could continue its discussion on the benefit of trade. On the one hand, the G20 may encourage knowledge and best practice sharing to explore sound domestic policy and ensure that trade benefits all. On the other hand, against the backdrop of the UN 2030 Agenda, "trade, investment and industrial policy challenges should be approached in an integrated fashion as part of a broader development vision" (Kozul-Wright and Fortunato 2015). Therefore, the G20 should enrich its discussion on trade and development, aiming to realise the

full potential of trade as a development engine. For example, it may consider mainstreaming trade across its work streams and engagement groups to encourage policy coherence.

- (2) **Supporting multilateral trading system.** Throughout the years, the MTS was seen as the most successful international regime, with the most legalised procedures and the ability to achieve its announced objectives (liberalisation and non-discrimination). Such success is partly attributed to its "club-like" institutions, referring to the negotiation structure conducted amongst a small group of officials and experts (Keohane and Nye 2008). However, the premise of the functioning club model requires that there is adequate political support and that policy trends are relatively stable, like the first six decades of the MTS. Nowadays, the WTO should be more open and proactive to respond to questions from the public and to pursue wide political and public support. The G20 is the premier forum to provide such support. It may conduct candid and deep discussion and provide guidance (or advice) on the role and governance of the WTO, which may include interaction between the MTS and RTAs, institutional reform, and emerging negotiation topics.
- (3) **Redefine the substantial topics.** The G20 may harness its unique position to set the substantial trade negotiation agendas or propose topics to respond to the opportunities and challenges from new business models, changing public opinions, shifts in policy trends, and rapid technology evolution. The G20 might not be an appropriate forum to conduct technical debate or negotiate concrete rules, but it is a perfect place to coordinate the positions of major economies and generate new, but actionable, ideas or guidance. These ideas could lay a solid foundation for the further work by international organisations. As response to the key issues for the global trade agenda, the G20 TIWG discussions should centre on issues such as trade and development, digital trade, e-commerce, and the trade-investment-nexus.

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# Multilateralism and Global Trade: Challenges, New Narratives, and Ways to Boost the System

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## Major Challenges to the Global Trading System

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The global trading system currently faces substantial challenges. First, the Doha Round of multilateral trade negotiations have stalled and efforts to revive it have been futile for more than a decade. The Nairobi Ministerial Conference in 2015 underscored a deep division among member states about its future. The World Trade organization (WTO) has produced only meagre results in multilateral liberalisation with minor examples of success.

Second, following the global financial crisis in 2008, trade protectionism has been on the rise—flouting the disciplining effect of the WTO. Almost all G20 members headed for restrictive trade policies to shield national firms or jobs, or to resolve imbalances that actually stem from domestic failures, rather than trade divergences. The global landscape of protectionism shifted increasingly towards measures covering bail out/state aids, import tariffs, trade defence measures, and export taxes and restrictions. In the post-crisis era, the pace of global trade has slowed (from an average of over 7 percent between 1990 and 2008 annually, to less than 3 percent between 2009 and 2016).

Yet, cyclical reasons shall not suffice to explain the trend. A Global Trade Alert study reveals that more and more new restrictive measures are added each year, despite the waning effects of the global crisis. Moreover "both industrialised countries' and emerging markets' trade volumes have plateaued" meaning that world trade is not just "slowing down," but is in fact not growing at all (Evenett and Fritz 2016). Indeed, the financial crisis has highlighted the need for more regulatory changes to the global economy.

Third, the WTO, the core body of the multilateral trading system, has long been questioned in terms of effectively carrying out its functions. The stalemate in the Doha Round had a definite unfavourable impact on the reputation of the institution that inflated frustrations among its supporters (Braga and Hoekman 2016). The failure in bringing further liberalisation through a large-scale round is largely attributed to its flawed internal factors (i.e. decision-making structures). Many believe that the ultimate source of the problem is linked to its "consensus-based" principle, which has become elusive" (Jones 2015). Others consider that the "WTO lost its centrality," not because liberalisation has not been achieved (at least, not in the multilateral venue), but the system cannot deliver new rules that the trade patterns in 21st century crucially needs (Baldwin 2009). In this context, many have argued that trade agreements must refer to non-tariff issues and behind-the-border measures that the WTO has not effectively taken on. Hence, the contested boundaries of the WTO need to be better defined to actively deal with developments in the global economy. More profound analysis brought forward the need for increasing legitimacy and accountability of the WTO system to reflect the realities of the changing power relationship in the global economy (Steger 2010). In line with previous efforts,<sup>1</sup> arguments within the trade policy and scholarly communities pointed out deficiencies in the system while also failing to question the principles, norms, and potential gains from trade.

However, a novel stream of challenges is directly undermining the "WTO's existence" from a different angle, characterised by an anti-trade rhetoric advanced by political activism that reflects holistic ideas of mercantilism. The global public view changed sharply to question the contribution

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1 These efforts include the Sutherland Report in 2004 and the Warwick Commission Report in 2007. These documents were released before the start of the global financial crisis.

of trade to economic welfare, jobs, or growth. Political actions to resist any free trade deals, be it at the multilateral or regional levels, are common: some members did not re-affirm the Doha mandates at the Nairobi Ministerial Conference, the US withdrew from the Trans-Pacific Partnership (TPP), the Trump Administration asked to re-negotiate the North American Free Trade Agreement (NAFTA), and in Europe there are calls for stopping the Comprehensive Economic and Trade Agreement (CETA) and Trade in Services Agreement (TISA). Apparently, the new US administration's approach is to deal with trade difficulties via "creative new approaches" outside the WTO (Donnan 2017).

The narrative circulating in trade policy circles refers to "saving Doha," "bringing the WTO back in," "reconciling multilateralism with RTAs," and "boosting global trade." This language is likely to be replaced by "saving trade agreements and the central pillars of the WTO itself."

The G20 Finance Ministers' communiqué in Baden-Baden in March did not agree on a joint pledge to "resist protectionism." Though such statements have so far proven to be inoperative, completely removing phrases like "rules-based" or "open trading system" from the communiqué is not a simple process.

## Ways and Means Used to Bring New Rules and Openness

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Institutional problems and failure to successfully conclude the Doha Round of multilateral trade negotiations led to alternative ways of achieving further liberalisation and to defining new policy areas. The first of these alternative approaches are regional trade agreements (RTAs). Issues that were addressed ineffectively and inappropriately in the multilateral venue made RTAs more fashionable among trading partners. They are expected to deliver higher levels of trade liberalisation and to provide deeper regulations in more comprehensive areas ranging from regulatory harmonisation in public health or technical standards to issues like taxation, competition, labour laws, and many other behind-the-border areas. More ambitious mega-RTAs like the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) have been perceived to better reflect strategic and economic considerations of transnational corporations and the dynamics of trade patterns than the crippling WTO (Braga and Hoekman 2016). It is debatable whether RTAs will invigorate multilateralism by providing innovative rules to negotiations in Geneva, or if they are discriminatory arrangements with more debilitating implications on the WTO system. Nonetheless, RTAs do not have the magnitude of the multilateral system because the WTO has functions beyond its negotiating pillar. The WTO is more inclusive—bringing sovereign equality among its members. It also functions much more comprehensively in terms of settling disputes by providing transparency and monitoring.

Second are plurilateral agreements that have not fallen victim to the stringent consensus-based approach and do not require a "single-undertaking." It becomes wise to break the trade agenda down into smaller issues such as services, information-technology products, or environmental goods. However, plurilaterals may not be effective when it comes to large issues like trade in agriculture or non-agricultural market access (NAMA) negotiations that require trade-offs among major trading powers.

Plurilaterals and RTAs are both effective approaches to trade liberalisation, but they are under attack. Consequently, the elixir lies in the multilateral system itself—which must be re-designed to bring the WTO regime back to the top and ensure that new approaches are avoided.

## Boosting the Multilateral Trading System and Re-instituting the WTO's Central Role

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The following six points can be investigated further to achieve an effectively functioning WTO system, and ensure that its norms and principles such as non-discrimination, reciprocity, and transparency, remain intact.<sup>2</sup>

First, the functioning of a "rules-based" trading system is a global public good that anyone benefits from even though they may not contribute (Narlikar 2011). The multilateral system requires, more than ever, leadership to bring the "good." The American hegemony is over, and the new US approach has no self-confidence and does not readily provide unilateral commitments. The EU does not live in a festive era due to internal conflict over issues such as Brexit, the Euro-crisis, and institutional legitimacy problems. Also, a group of middle-powers like Australia, Canada, and Japan have seemed to secede from their consultative roles in past negotiations. China, which has the most to gain from the system, has a gap in leadership amidst its needs of domestic reforms in areas like the financial system, the market economy, state aids, and exchange rate management. Emerging economies like Brazil, India, and South Africa have played strong regional roles, while their global leadership has so far been blocking rather than providing consensus (Jones 2015). Therefore, a consensual approach in the WTO calls for assurance of a collective leadership under all possible means, including the G20.

Second, the leadership and WTO members must focus on the future agenda when conveying results, delicately balanced between small and deliverable issues to demonstrate that the system works and major issues that deliver meaningful outcomes. The Bali Ministerial Conference in 2013 was a good example of achieving "doables" like trade facilitation, duty-free and quota-free (DFQF) treatment, and export subsidies. On the other hand, G20 Trade Ministers "reaffirmed their 'strong commitment' to advance negotiations on remaining DDA issues, including agriculture, NAMA and services...," in Shanghai in 2016 (WTO 2017). A compromise is needed, but the Doha Round experience demonstrates that incremental progress is better than a big deal.

Third, the prominent role of the WTO as a global public good prevails over trade liberalisation among the trade policy community. Key issues at play here are mainly transparency in dialogue, dispute settlement, and multilateral rule-writing (Trommer 2017). The first two of these functions are largely perceived as successfully running in the WTO: Notifications and a trade-policy review mechanism (TPRM) as well as a vigorous Dispute Settlement Understanding (DSU). Nevertheless, transparency does not work in a political vacuum and needs better capacity and binding components. In terms of disputes, nothing is perfect when DSU is criticised "for failing to deter violations of the WTO provisions" and is regarded "to exceed its mandate by imposing new obligations on parties" (Bolton 2016). While these allegations may have merit, they require more ambition to confront effectively. The next element is the rule-writing, which calls for a consensus to set up new multilateral agreements or new rules under existing agreements. Such consensus is accessible by means of a collective leadership.

Fourth, countries will continue negotiating new RTAs, or re-negotiating them despite any woes. Despite their disadvantages compared to the multilateral system, the following points could boost harmony between the two. The members of the WTO must recognise that RTAs must be

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2 Consider the functions of the WTO as stipulated in Article III of the WTO Agreement.

designed to be open with plausible accession mechanisms for future members and be inclusive with trade adjustment mechanisms for larger parts of domestic society. They should have more standardised trade and regulatory rules and be transparent with upgraded monitoring and review at the multilateral level. The regional arrangements need to be measurable through multilateral impact assessment tools and be relevant to the Sustainable Development Goals (SDGs).<sup>3</sup>

Fifth, the process of engaging private sector interests can provide the market pragmatism in trade negotiations. Remember that gigantic steps like establishing the European Single Market, completing the Uruguay Round, or initiating TTIP (despite the current interruption in the Trump era) were taken only with the blessing of market actors. As such, views from business can provide another point of engagement if policymakers read them clearly.

Finally, trade adjustment is becoming the core. Trade negotiations are essentially in favour of liberalisation to reap the gains from trade. But trade openness is no longer perceived as inarguably beneficial by everyone. As the G20 Insight Paper of the T20 Task Force on Trade and Investment observes correctly, "inequalities within countries" need further attention to overcome a growing unease of the public with economic globalisation (T20 Trade and Investment Task Force 2017). Naturally, trade agreements are not a zero-sum game where everyone ends up better off. This brings us to a dimly forgotten function of the WTO: greater coherence in global economic policymaking (T20 Trade and Investment Task Force 2017). Trade agreements must go hand-in-hand with trade adjustment policies so they become viable and sustainable. The G20 must recall this function and remember that competitiveness is only possible through domestic adjustment policies rather than trade policies. Therefore, the G20 must highlight that the WTO or any other trade agreement is for achieving an overall welfare through "free and fair" trading principles. Trade agreements should not prevent nations from implementing needed domestic policies. The connection between trade and related policies should be handled in line with developing a coherent strategy among trading and other regimes.

## Conclusions

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The WTO is a member-driven organisation whose success depends on the willingness and ability of its members to reach consensus. Consensus-making hinders the WTO from proceeding with many of its functions. Consensus within the WTO will be even harder to achieve under the prevailing political circumstances. Institutional reforms and more flexible steps, such as the critical-mass approach, plurilaterals, and multilateralisation of best practices in RTAs, can still be considered in light of the above points. They can provide modest improvements to the functioning of the multilateral system.

If member countries (especially those of the G20) are still fixated on the supremacy of WTO multilateralism, they should not forget that the rules-based system can gradually transform into a power-based one in which every nation juridifies through unilateral correction tools (e.g. protectionism as leveraging; retaliation with WTO-incompatible trade laws, re-balancing by means of aggressive unilateral actions). But this shift will not pose lasting solutions. In the end, creative approaches outside the WTO system are temporary and can become a slippery slope to systemic intricacy.

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3 It is worth mentioning here the RTA Exchange ([www.rtaexchange.org](http://www.rtaexchange.org)), jointly implemented by the International Centre for Trade and Sustainable Development (ICTSD) and the Inter-American Development Bank (IDB).

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# The G20 and the Reform of the International Investment Regime

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The international investment regime is currently undergoing a turbulent phase of criticism and structural change. This article argues that the G20 should play a key role in the ongoing reform of this regime. The G20 is important as the international investment regime lacks a multilateral forum comparable to the World Trade Organization (WTO) that facilitates negotiation, consensus-building, and monitoring in the international trade system. Furthermore, the importance of the G20 stems from the fact that it brings together 19 economically significant countries plus the European Union (EU) representing different regional perspectives and income levels. Reform proposals that find consensus within the G20 have a high chance to serve as a basis for broader-based initiatives.

This article is structured as follows. The next chapter compiles the three main arguments levelled against the current system of international investment agreements and demonstrates that countries have responded very differently to the alleged legitimacy crisis of the international investment regime. Chapter 3 substantiates further the claim that the G20 can potentially play a crucial role in the reform of the international investment regime. This chapter shows that while there has been a convergence within the triangle, including the US, China, and the EU, of international investment policymaking, divergence has been the defining characteristic beyond the triangle. The concluding chapter 4 argues that the G20 is well equipped (as a result of setting up a dedicated working group) and strategically oriented, towards a set of nine guiding principles for investment policymaking, to drive the process of international investment regime reform. While important steps have been made during the Chinese G20 presidency, it is up to Argentina, which takes over the chair of the G20 in December 2017, to lead the process.

## The Shake-up of the Global Investment Regime

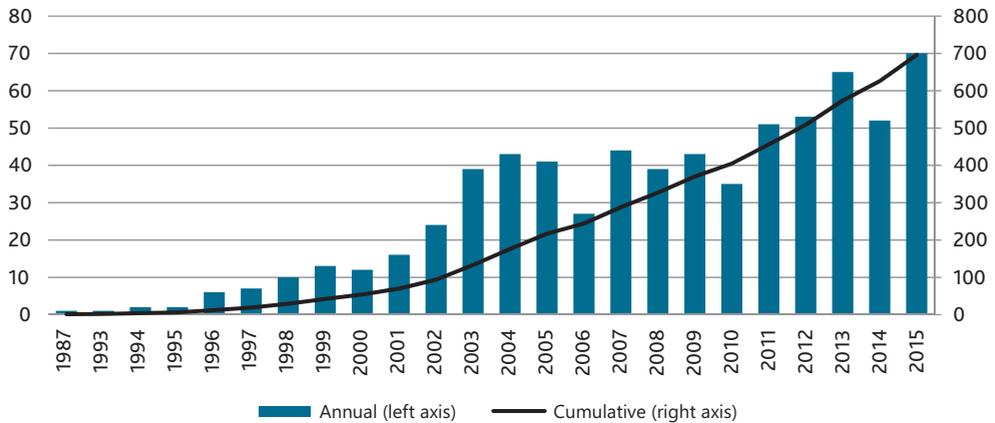
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Criticisms articulated against the current system of international investment treaties abound. First of all, built on more than 3,300 mainly bilateral treaties (UNCTAD 2016), many observers argue that the system is overly fragmented. In contrast to the world trade system, all attempts to establish a multilateral investment agreement (MIA) have failed so far (Berger 2013). Despite this fragmentation, investment treaties include a number of provisions, such as broad investor definitions and most-favoured nation treatment, which create systemic links between treaties leading to a de-facto multilateralisation of investment law (Schill 2009). These two properties of the system, the fragmented treaty bases and the legal multilateralism, make broad-based reforms difficult as foreign investors can pick and choose between the most beneficial provisions from different investment treaties.

Second, on a more substantive level, the current international investment regime is criticised due to the one-sided focus of most international investment agreements, especially the bulk of treaties negotiated during the 1990s, on the protection of foreign investors. Investment treaties' core provisions, such as fair and equitable treatment, full protection and security, compensation in the case of expropriation, and the free transfer of funds have been designed in the 1950s and 1960s in response to a historically unique problem—namely the expropriation and discriminatory of foreign investors. Interestingly, the traditional template was used until well beyond the turn of the millennium to negotiate investment treaties (Berger 2015a). Efforts to negotiate investment treaties that include provisions to strike a better balance between the protection of foreign investors and the preservation of host countries' policy space started only after a number of capital exporting countries were confronted with investor-state dispute settlement (ISDS) cases.

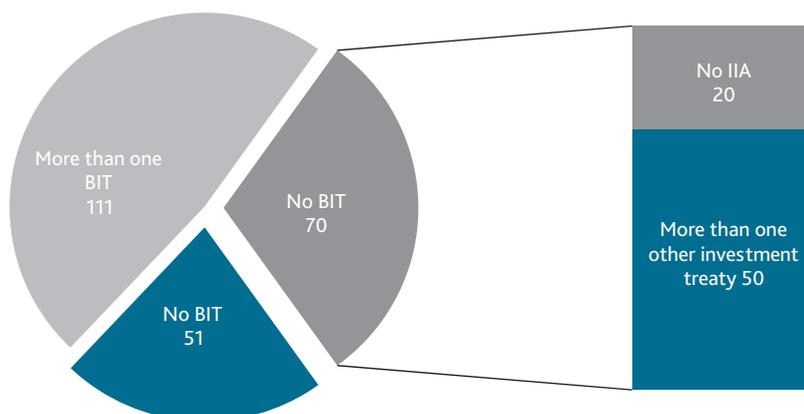
Thirdly, it is the rising number of ISDS claims since the late 1990s that provoked criticism. In 2015, ISDS claims initiated by foreign investors against their host states reached a new height with 70 newly filed claims. Until the end of 2015, the overall number of ISDS claims reached almost 700 (Figure 1). The ISDS system is criticised for its private and ad-hoc arbitration logic that is typically associated with opaque procedures, conflict of interests of arbitrators, and lacking appeals mechanisms to name just a few arguments (van Harten 2007). Notwithstanding the fact that the outcomes of ISDS cases do not indicate a pro-investor bias (Nunnenkamp 2017), many countries that have been hit by an ISDS claim nevertheless had second thoughts (Poulsen 2015).

**Figure 1: Rising ISDS claims, 1987–2015**



Source: Author based on data from UNCTAD (2017c)

Countries have reacted differently to the alleged "legitimacy crisis" of the international investment regime (Berger 2015a). The most salient feature is that the negotiation of new bilateral investment treaties (BITs) has slowed down considerably. A large number of countries have stopped negotiating new BITs. At the same time many of these countries have instead negotiated other investment treaties, in particular preferential trade agreements with comprehensive investment chapters (Figure 2). There are a small number of countries that have opted to exit the system either by denouncing the main arbitration forum for ISDS claims, the International Centre for Settlement of Investment Disputes (ICSID), or by unilaterally terminating investment treaties (Berger 2015a). Other countries have adopted various reform initiatives, such as the reformulation of treaty templates, negotiation of more balanced and detailed investment treaties, renegotiation of existing treaties, adoption of joint interpretations, or the conclusion of multilateral rules on transparency of investor-state arbitration. While these reforms are underway it is still an open question where the international investment regime is heading. While the establishment of a fully-fledged multilateral investment agreement seems elusive at the moment, calls for a multilateral dialogue process, for example facilitated by the G20, on the reform of the international investment agreement are put forward by experts (Sauvant and Ortino 2013).

**Figure 2: Participation in the international investment regime, 2010–2014**

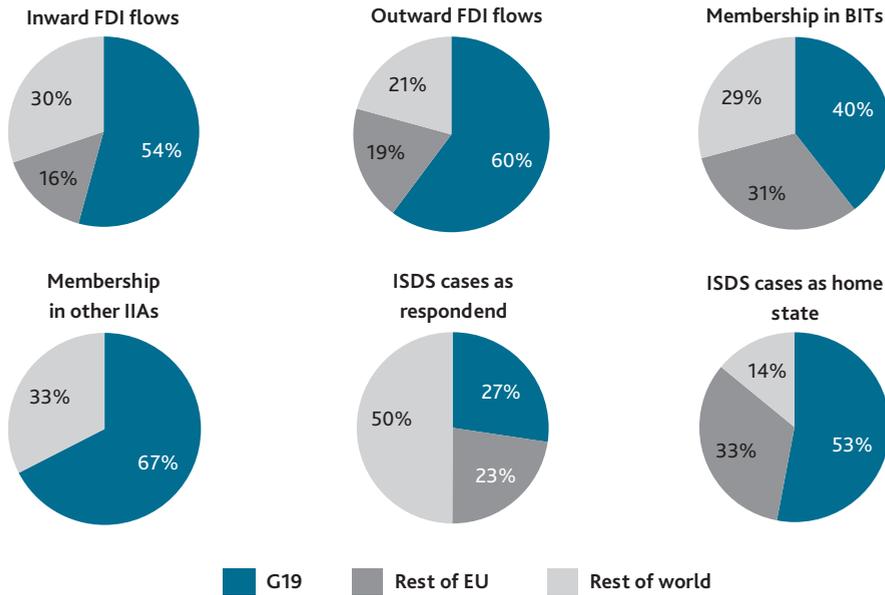
Source: Author based on data from UNCTAD (2017d)

## The Importance of the G20

The importance of the G20 for the reform of the international investment regime from an economic, political, and legal perspective cannot be overstated (Figure 3). Economically, the 19 G20 countries account for an average of 54 percent of global inward FDI flows and 60 percent of global outward FDI flows between 2013 and 2015. If one adds the rest of the EU, which has a seat at the G20 table, this share increases to 70 percent and almost 80 percent respectively. Politically, the G20 is the dominant stakeholder in the system of international investment treaties. The 19 G20 countries are party to 40 percent of the global BIT network. If one adds the rest of the EU countries and their signed BITs, this share increases to 71 percent. The G20 including the EU is a member of 67 percent of signed IIAs. Legally, the 19 G20 countries are the home state of claimants in 53 percent of global ISDS claims. If one adds the rest of the EU, this number increases to a staggering 86 percent of ISDS claims that are initiated by foreign investors based in G20 countries. The G20 is a bit less important from the perspective of respondents in ISDS cases. The 19 G20 countries have been the respondents in only 27 percent of all ISDS claims. Adding the rest of the EU countries this number increases to 50 percent. Despite this relatively low number, G20 countries have been on the forefront in terms of reforming the international investment regime.

To understand the dynamics within the G20 toward the reform of the international investment regime, it is useful to focus first on the triangle of international investment policymaking. At the tip of the triangle, the main driver of the reform of treaty templates and the negotiation of more balanced investment treaties have been the US since the early 2000. This rethinking of investment treaty design was a result of a number of ISDS claims against the US and its North American Free Trade Agreement (NAFTA) partners Canada and Mexico (Gagné and Morin 2006; Alvarez 2010). These developments in the NAFTA area inspired similar reforms of the other two sides of the triangle, namely in China and the EU, that initiated a “NAFTA-isation” of their investment treaties (Berger 2015b; Chaisse 2012).

**Figure 3: The Importance of the G20 for the reform of the international investment regime, 2013–2015**



*Note: The G20 includes 19 countries and the EU. As the EU has the competency on investment, the remaining 24 EU members, though they are not part of the G20, are included in the graphs but are highlighted in different colours. FDI flows are displayed as a three-year average of the years 2013–2015.*

*Source: Author based on data from UNCTAD (2017d) and UNCTAD (2017b)*

Beyond the triangle, other G20 countries responded differently to the alleged legitimacy crisis. A number of countries are following the reforms adopted by China, the EU, and the US. Others pursue more diverging approaches. Some, such as India, Indonesia, and South Africa, announced the termination of their BITs. Others, such as Brazil, adopted investment treaty templates that focus on the facilitation of foreign investment rather than investment protection. A study of G20 countries' networks of investment treaties showed that approaches converge with regard to the traditional elements, such as the asset-based investment definition, admission clause, national and most-favoured nation treatment, unqualified fair and equitable treatment, and the free transfer of funds (Polanco 2017).<sup>1</sup> More divergence can be observed in the more recent approaches with regard to the inclusion of more balanced provisions in the international investment treaties of G20 countries (Polanco 2017). Given this variety of reform initiatives, the G20 can serve as a microcosm to initiate an overall reform process of the international investment regime.

<sup>1</sup> Based on a forthcoming publication by Polanco (2017).

## The G20 and Investment Policymaking

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The G20 did not play a prominent role in the international investment regime until recently. Until the Chinese presidency in 2016, the role of the G20 was confined to the publication of reports prepared by the WTO, the Organisation for Economic Co-operation and Development (OECD), and the United Nations Conference on Trade and Development (UNCTAD)—monitoring trade and investment restricting measures. At the Antalya Summit in 2015, G20 leaders decided to set up a dedicated Trade and Investment Working Group (TIWG) (G20 Turkey 2015). The TIWG met for the first time in January 2016 in Beijing and for a second time in April in Nanjing followed up by a Trade Ministers meeting in July in Shanghai (G20 China 2016). The terms of reference of the TIWG are rather broadly defined including the implementation of trade and investment-related commitments from previous G20 summits and cooperation on and discussion of trade and investment issues of common interest (G20 Information Centre 2017).

The Chinese G20 presidency, supported by the OECD and UNCTAD, made good use of the newly-established TIWG and initiated a process that led to the adoption of the G20 Guiding Principles for Global Investment Policymaking (UNCTAD 2017a). The adoption of the nine non-binding principles have been described as a “landmark event” as, for the first time, a large and diverse group of economically significant countries have agreed on a set of principles that have the potential to kick-start a global reform process of national and international investment policies (Zhan 2016).

The German G20 presidency decided to not continue the work on the guidelines and the reform of the international investment regime focused instead on investment facilitation at the domestic level. A possible reason for this shift of focus away from the implementation and operationalisation of the guiding principles is the fact that Germany is part of the EU's common commercial policy, which also covers foreign investment. A pro-active role of Germany on international investment policy matters could potentially create tension with the large majority of EU member states that are not part of the G20. Another possible reason for the focus on the rather technical issue of investment facilitation is the fact that the German public has been critical of the international investment rules and in particular ISDS mechanisms in the context of the Transatlantic Trade and Investment Partnership (TTIP) negotiations between the EU and the US.

Given the G20's focus on investment facilitation in 2017, it will come down to the Argentinean chair to pick up the work on investment policy reform that was initiated under the Chinese G20 presidency. Argentina looks back at a turbulent recent history including a deep economic crisis that started in 1998 that was followed by a debt default. As a direct result, Argentina was sued in 59 ISDS cases to date—the highest number of any country. The current reform-minded government therefore does not only know about the potential economic benefits of foreign investments, but is also acutely aware of the political and legal effects of international investment agreements.

Given Argentina's experience with the ISDS system and its current orientation on economic reforms and international integration it could play a key role in pushing a multi-year agenda of the G20 on investment policy reform. This agenda should include a commitment of the G20 to play an active role in investment policymaking. The guiding principles are an important first step in this direction, but further discussions are needed to develop a joint vision on how they can serve as a catalyst for the reform of the international investment regime. A logical next step could therefore be to set

up a policy dialogue and peer-learning process on experiences with various reform options among G20 countries. This process could be facilitated by the international organisations and supported conceptually by the T20. In order to lead to a multilateral consensus on investment regime reform, the G20 should reach out to non-G20 countries and stakeholder communities.

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# Challenges Ahead? G20 Efforts to Boost Digital Trade for Inclusive Growth

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Digital technologies have changed the way that we work, shop, and live, allowing us to interact as easily with people across the globe as with people across the street. Technological change brings significant benefits to consumers, businesses, and economies, but it can also be disruptive. In international trade, the key question is, as the German G20 Presidency has formulated it, how to “put people at the centre and ensure that everyone benefits from globalisation, (...) with a view to ‘reshaping the interconnected world.’” This short piece suggests that when thinking about boosting digital trade for inclusive and responsible economic growth, careful assessment of aspects of digital trade is necessary to ensure they are bolstering, rather than hampering, inclusive growth for countries, firms, and people.

In some circles, globalisation is viewed negatively. Loss of “traditional” jobs focused on muscle power and skills with tools, combined with low wage prospects in low and medium skilled service sectors, has resulted in many workers and families feeling left behind (and in some cases, left out of the modern economy) as elections in 2016, notably in the referendum on EU membership in the United Kingdom and the Presidential elections in the United States, attest. Much of their dissatisfaction is directed at globalisation and particularly international trade, commercial integration, and immigration, which they believe are the main drivers of lost job opportunities and/or stagnating wage growth.

Most economists argue that while trade expands the overall size of the economic pie it also creates winners and losers, with distributional effects across sectors and factors of production. Some sectors gain from access to foreign markets and additional capital and labour flows, but other sectors face increased competition from imports, lose factors to growing sectors, and are likely to shrink. Economists generally find that the gains far outweigh the losses, but the distribution of those gains may not be even and, too often, there is no compensation for those that lose from the necessary adjustments in economic activity, as trade theory suggests should happen. Autor et. al (2014) have found that recent losses from adjustments may be more concentrated in some regions, last longer than expected, and create greater social costs than previously experienced. Their work on rising imports from the sudden China productivity surge suggests that US labour markets have not been working as well as in the past in facilitating adjustment.

## The Impacts of Technological Change and Digitisation

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Their findings, while surprising in the magnitude of the effect of trade compared to past analysis, does not overturn the evidence that other forces, particularly technological change, are by far the bigger drivers of job loss in the US. In manufacturing, for instance, technological change is thought to account for 80 to 90 percent of the job losses over the long-term, but only 75 percent during the 2000's. Overall job churn, much, much larger than any estimated losses from trade in developed economies, is driven by many other factors and most employment occurs in services sectors, which face far less competition from imports.

Although technological change, particularly technological change driven by the digital economy, is a major driver for these negative outcomes, virtually no one would recommend curtailing it. Indeed, technological change, and the rapidly evolving digital world, improves living standards for most people across the globe. Further, many people perceive the digital world as a potential great equaliser—providing easy access to vast amounts of information, bringing people together from around the world to study, conduct research, and work with little need to be co-located with their colleagues, and giving small firms access to much larger potential markets.

It is important, however, to understand the disruptions resulting from technological change and which groups may be harmed. Recently, when asked about their concerns related to Brexit, a group of United Kingdom Chief Executive Officers of retail firms identified digitisation as their top concern, followed by exchange rate movements (the weakening of the Pound raising import costs), then access to needed skills and talent from the continent, and finally, fourth on their list, changes in tariffs and regulations around trade in goods and services. Rapid technological change from digitisation was their biggest immediate concern—not the traditional microeconomic effects of tariff changes.

Concerns about the fast evolution of the digital world are not new. The Organisation for Economic Cooperation and Development (OECD) produced a comprehensive and thoughtful study in 1999 on “The Economic and Social Impact of Electronic Commerce.” The study concluded that “Electronic Commerce has the potential to radically alter some economic activities and the surrounding social environment” (OECD 1999). This prescient study identified a number of areas for which outcomes were not so clear. It suggested that new digital technology could have distributional effects through mechanisms, such as anti-competitiveness, benefitting small companies disproportionately, changing labour market conditions through the skills workers need, and placing new demands on educational systems.

The study emphasised the importance of business-to-business e-commerce activity as by far the largest source of e-commerce activity, beyond the business-to-consumer segment which is most evident to the average person. The business-to-business dimension has been a critical element in the evolution of domestic, regional, and global value chains. Another potentially important aspect is the within-business data flows. Businesses, ranging from manufacturing to electronic gaming, increasingly use information generated by their products or within their digital environment to deliver better consumer experiences and to extract more value from their product.

The world has indeed experienced many radical and fast changes in many sectors of the economy, with concomitant social implications as some sectors expand, some decline, and some experience significant changes in how they function. It is not clear how well the historical regulatory processes or current policies support or monitor firm behaviour in this new environment. Firms worry that there are not enough workers with the necessary digital skills, and workers displaced from other industries cannot easily transition to high-tech jobs. Digitisation challenges not only educational systems, but also social safety nets for the unemployed and underemployed.

## The Effects of Digitisation and Trade on Inclusiveness

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Developments in trade theory help examine the effects of digitisation and trade from the angle of inclusiveness at the level of countries, firms, and people. Trade theories have evolved from looking at competition among countries to sell final goods on the basis of either innate differences in productivity or endowments of resources, to recognising the importance of scale economies and product differentiation in driving trade. Theory then moved to focus more on firms explicitly, and now recognises that not all firms are the same and that some firms are more productive than others and better able to overcome the costs of entering foreign markets. Trade theory then moved to examining the ability of firms to fragment production geographically. More modern theories still account for countries, but now focus much more on firm behaviour, consumer preferences, and fragmentation of production. The economic geography literature also examines the impacts of

agglomeration, which highlights the importance of co-located economic activity in reducing costs and raising productivity (Trujillo and Parilla 2016).

Countries with appropriate modern infrastructure may appear to have an advantage over countries that are lacking. However, given that many firms' comparative advantages seem to reflect their abilities to use this technology to fragment production and tap into global markets with ease, the effectiveness of a country's commercial and regulatory policies in influencing firm behaviour and driving social policy outcomes is possibly as important in determining the impacts of digitisation. Perhaps surprisingly, digitisation, which many thought would mitigate geographic fragmentation, has apparently not had the effect of broad geographic distribution of economic activity within countries. Despite its ability to allow workers and firms to easily tap into global information and production processes, digitisation appears to support the global distribution of activity primarily in pockets of concentrated economic activity in cities, rather than in more deeply integrated rural areas. Thus, the gains from globalisation and economic growth are seemingly concentrated in cities, leaving rural areas and residents lagging behind.

The effect of digitisation on firms is also not clear in terms of inclusiveness. Modern trade theory predicts that high productivity firms are more likely to trade as they are able to overcome the costs of entering foreign markets. Trade data and empirical work clearly demonstrate that large firms are indeed more productive than small firms and account for the vast majority of global trade, although many small and medium sized enterprises (SMEs) participate in international trade indirectly through domestic supply chains for larger firms. Trade data do not clearly demonstrate that the expectation that technological advances like e-commerce would disproportionately benefit small and medium size firms has been fulfilled. While SMEs can use digital technology to source inputs and sales markets more broadly, many operate through large platform providers such as E-Bay or Alibaba. Research on SMEs that use these platforms show they perform better than those that don't, but it is not clear if SMEs are benefiting disproportionately compared to the platform providers. Many digitally-intensive firms start small, but if successful, quickly scale up and become quite large in terms of market value (though not always in terms of employment). And competition authorities appear increasingly concerned about large digital firms using market power to limit new entrants and to protect margins (CEA 2016). Thus, digitisation at this point seems to be a mechanism that provides a competitive advantage to some SMEs over others, but also presents challenges for competition authorities as enterprises quickly grow.

Finally, what does digitisation mean in terms of inclusiveness for people? People are represented in trade models as consumers and factor owners, such as capital and labour. Traditional theory indicates consumers generally benefit from trade due to lower prices and greater variety. If, as noted above, increased concentration of digital firms results in less competition and higher margins for firms, consumer price benefits may not be as large as expected or socially optimal. Technological change affects prices, in some cases reducing them through significant productivity gains, and improves the quality of goods, but not all of those benefits may be passed on to consumers.

Theory is not so clear on returns to factor owners, generally predicting winners and losers. In developed countries, much of the recent debate over trade focuses on the divergence of returns to labour (job losses and flat wages) and capital (which appear to have increased) and the resulting increase in income inequality. However, wage growth appears to differ dramatically between skilled

and medium to unskilled labour: skilled labour wages have risen while those for medium to unskilled labour have been weak. A somewhat similar pattern is observed in developing countries also, though overall wage growth has been higher than in developed countries. The divergence in wage growth for skilled versus unskilled labour is generally attributed to skill-biased technological change. Most modern technology has a strong digital component to it and requires skills using software and computer based devices. In many cases this new technology increases demand for labour, but generally for skilled labour. Thus, while trade and technology are both thought to increase overall well-being in an economy, both forces can have significantly different effects on people depending on if the kind of labour or capital they supply benefits from their impacts. While many people gain, and the gains appear large, there are also losers from the adjustment process.

## Upcoming Challenges

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As Nayef Al-Rodhan (2015) points out, fast evolving technology can create significant ethical and regulatory challenges. This piece provides an overview of some of the forces that may determine whether increased digital trade results in more inclusive growth for countries, firms, and people. While there is much reason for optimism around overall gains for society from the digital economy and from further globalisation, economic theory, and observed outcomes in the real world clearly indicate a need for policy makers to be aware of broad distributional effects that will likely exclude some countries, firms, and people from sharing the gains. They must examine whether government competition and other regulatory policies are keeping pace with technology driven changes in business models and consumer engagement, and whether the educational system is aligned with firms' needs for skilled workers and with workers' needs for re-training. Given the geographic flexibility of production, there may be a role for greater global policy coherence and cooperation. Ensuring policy coherence across innovation, labour markets, competition, safety nets, education, and international trade will be critical to ensuring all benefit.

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# What Trade Rules Are Needed to Support Growth in the Digital Age?

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*"Il n'est pas certain que tout soit incertain  
(Translation: It is not certain that everything is uncertain)"  
-Pascal Pascale (17c. writer and mathematician)*

The global economy has been transformed over the past two decades by rapid technological change and digitisation. Through the rise and spread of the Internet, new business models have emerged, company functions altered, and incumbent industries disrupted. Digital platforms allow more players, both consumers and business, to trade goods and services at scale and reap the benefits of globalisation directly. Cross-border data flows are at the core of technological change fusing physical, digital and biological spheres described by the World Economic Forum as the Fourth Industrial Revolution. The Industrial Internet (of Things), for example, is growing twice as fast as the consumer Internet (Botwright 2017). Further, anticipated efficiency gains from the Industrial Internet alone could prompt substantial savings in fuel and energy, while associated improvements in productivity could add some US\$10-15 trillion to global GDP – around the size of the US economy – in the next two decades (General Electric 2013). More generally, McKinsey estimates that data flows enabled economic activity that boosted GDP by US\$2.8 trillion in 2014 alone.

Policymakers have an imperative to respond and to shape a global economic architecture supportive of today's growth and innovation drivers. Such efforts will clearly also need to be balanced by measures to address shifting labour markets in the face of new technologies – or risk losing social consensus for technological advancement. According to the World Economic Forum's Inclusive Growth and Development Report 2017, no country yet excels across five key areas of human capital formation needed to navigate the expected changes ahead (WEF 2017).

## Grappling with Invisible Borders

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The pace, scale and nature of the current digital transformation pose challenges for all regulators – with the trade community no exception. There is a coordination challenge as digital policy issues cut across sectors, ministerial portfolios and jurisdictional boundaries. Further, questions around trust, privacy and security loom large in debates on the governance of cross-border data flows, conflating national security, commercial and civil liberty priorities.

To make matters more complex, common definitions of "digital trade" are notoriously elusive, with various forums deploying different mandates. In the context of the WTO – the key multilateral organisation governing the flow of goods and services across borders – work has been underway since 1998 on e-commerce understood to mean "the production, distribution, marketing, sale or delivery of goods and services by electronic means" (WTO 1998). In practice this covers vast areas of policy ranging from services to telecommunications regulation, with a WTO work programme mandating discussions on e-commerce through specific councils focusing on trade in services, trade in goods, intellectual property and trade and development.

Beyond definitions, identifying what trade rules might apply to digital trade both now and in the future is also no straightforward task. For example, 3D printing could be a digitally delivered service – so governed by WTO Members commitments under the General Agreement in Trade in Services (GATS) – or, with physical product properties, could be subject to General Agreement on Trade in Tariffs (GATT) rules. Efforts by the Organisation for Economic Cooperation and Development (OECD)

to advance a comprehensive typology for digital trade following a mandate from the G20 nations is a welcomed initiative that could help to clarify discussions.

Further, policymakers must additionally decide when and how to strategically intervene on digital trade, which may again be more complex than it looks on the surface. Analysis from E15 Initiative experts, a joint endeavour to advance forward-looking trade policy options from the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum, finds that many aspects of digital trade already fall within the scope of WTO rules.<sup>1</sup> However, many other dimensions of digital trade are either not addressed at all by existing rules, or their applicability may be uncertain. For example, e-transaction laws are not regulated by the WTO, services commitments may need updating to cover new innovations and obstacles to data flow barriers have emerged. On the latter, while efforts by the OECD and the Digital Trade Estimates Project by the European Centre for International Political Economy (ECIPE) have made headway on capturing the incidence and types of barriers to data flows, continued work is needed to enlighten associated policy trade-offs.

## Uncertain Trade Landscape

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The trade and investment landscape has shifted significantly over the past 12 months following a backlash against globalisation that has swept through many advanced economies – with consequences for digital trade governance. The US withdrawal from the 12-nation Trans-Pacific Partnership (TPP) is accompanied by signals that the Trump administration will likely pursue bilateral trade relationships as an economic strategy. The TPP contained a number of important new provisions specific to e-commerce facilitation and cross-border data flows, as well as relevant supportive measures codified in the services, financial services, intellectual property, investment and telecommunications aspects of the deal.

Questions abound as to how best to salvage these advances through alternative platforms. TPP parties minus the US agreed in Hanoi in May to examine avenues for keeping the deal alive. The updating of the 1992 North American Free Trade Agreement (NAFTA) could include an e-commerce chapter – with the US, Mexico and Canada all having been party to the TPP process – while Japan has pushed for the resurrection of TPP e-commerce provisions through the ASEAN-plus Regional Comprehensive Economic Partnership (RCEP) talks. A Trade in Services Agreement (TiSA) that could have included elements on cross-border data flows is currently in the deep-freeze, however, as are negotiations for a Transatlantic Trade and Investment Partnership (TTIP).

Some digital trade provisions are present in other bilateral trade agreements as well as regional integration initiatives such as Asia Pacific Economic Cooperation (APEC) – where an Electronic Commerce Steering Group (ECSG) has developed instruments on data flows vis-à-vis data privacy regulation – and most recently through the Pacific Alliance.<sup>2</sup> At the multilateral level, while the past

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1 Among other things, these could provide grounds to prohibit discriminatory data flow restrictions (GATS and its Telecoms Annex), address access to public telecommunication networks and spectrum (Telecoms Annex and the Telecoms Reference Paper) and encourage the digitisation and streamlining of customs procedures (the Trade Facilitation Agreement). For more, see Meltzer (2015) and Porges and Enders (2016).

2 The Pacific Alliance Additional Protocol includes provisions relevant to non-discrimination of digital products regardless of origin, to ensure the cross-border flow of information for electronic media and to prohibit data or ICT infrastructure localisation as a condition for conducting business activities. The data localisation provision (13.4bis) also specifies that nothing should prohibit parties adopting measures to achieve a legitimate public policy objective, as long as such measures are not applied in an arbitrary and unjustifiable manner, or a disguised restriction on international trade.

twelve months have seen a renaissance in e-commerce discussion,<sup>3</sup> a cloud of uncertainty hangs over potential outcomes for the Eleventh WTO Ministerial Conference (MC11) in Buenos Aires, Argentina in December 2017.

## Steps Forward

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With no major regulatory leap forward in the shape of a multilateral or plurilateral digital trade agreement likely in the short term, interim knowledge and capacity-building steps by the G20 could be taken to boost the enabling environment for online goods and services trade, and keep alive conversation on the importance of a global economic architecture supportive of digitally enabled growth.

There is a general need for a much deeper international cross-community dialogue around best practices for governing data flows (Mitchell, Andrew, and Hepburn 2017). Efforts should be made to unpack the motives behind data flow barriers and elaborate norms for exceptions to cross-border information flows such as those related to personal data and privacy protection, national security and so on. This would be helped by a more granular understanding on the types of data flow barriers and data localisation requirements as well as how these impact company operations. Doing so would enable policymakers and stakeholders to make nuanced and informed decisions on the trade-offs between information facilitation, data protection and cybersecurity. Work along these lines by the World Economic Forum on operational impact and subsequent multi-stakeholder discussion on appropriate principles, policy and practice – involving public, private and civil society actors from a range of communities – would benefit from G20 member economy engagement. The group could eventually advance greater policy coherence on digital data management. The borderless nature of the topic implies that international collaboration is critical both from growth and societal perspectives.

On e-commerce, G20 members could provide space for regulatory dialogue between themselves and non-G20 member economies on interoperable e-commerce-related policies, supported by analysis from international organisations on current legal shortcomings (G20 Germany 2017a). There is a need for deeper knowledge-sharing between the trade policy community and other international policy forums, such as UNCITRAL, on where trade tools can contribute to lower barriers to e-commerce and related activities. While several free trade agreements already refer to existing international principles and model laws, a global consensus on how these contribute to the e-commerce enabling environment, or indeed what classifies as best practice and why, remains absent.

Dialogues involving governments, civil society and the private sector across multilateral, regional or the G20 setting could help advance this consensus, while initiatives such as the RTA Exchange<sup>4</sup> could help to identify common approaches on select e-commerce facilitation elements – such as paperless trading, electronic transaction laws, e-signatures and e-authentication and electronic payments. According to the WTO, about 20 percent of notified regional trade agreements (RTAs) have e-commerce chapters, and have been concluded by a range of countries, 18 involving developing economies. In the medium-term, G20 members could consider developing a set of principles that

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3 Over dozen non-papers have been put forward by some 30 WTO Members at varying levels of development, including, among others, the United States, China, Brazil, Australia, Singapore, Japan, Pakistan, Mexico and Nigeria. The majority of these are limited to outlining potential e-commerce areas for further discussion.

4 The RTA Exchange, jointly implemented by ICTSD and the Inter-American Development Bank, is a platform born out of the E15Initiative ([www.e15initiative.org](http://www.e15initiative.org)) to collect and share information on RTAs – both existing and under negotiation – while promoting dialogue on the interface between RTAs and the WTO.

target e-commerce facilitation as a way of boosting the recent WTO Trade Facilitation Agreement (TFA)'s implementation.<sup>5</sup> Care should be taken that such principles do not inadvertently set a lower bar on commitments or principles than those found in existing WTO Agreements (ECIPE 2017). In time, these principles could inform future regional or multilateral commitments.

As a priority the G20 should advance a digital trade agenda that addresses the needs of small and medium-sized enterprises (SMEs) that are the beating heart of the global economy. These formally account for up to 45 percent of total global employment and create around 4 out of 5 positions in developing countries (World Bank 2015). Ensuring small businesses have the opportunity to grow through digital trade will require cutting transaction costs associated with excessive customs paperwork – already targeted by the TFA – regulatory divergence, administrative burdens and lack of transparency. As recommended by the B20 Cross-Thematic Group on SMEs, G20 members should adapt their e-commerce-related policies, such as on digital authentication, online payments and consumer protection to international standards and best practices (G20 Germany 2017b). This call adds weight to the recommendation above to expand global consensus on what best practices and interoperability for e-commerce-related policies looks like. Limitations on cross-border data flows or data localisation requirements should be carefully assessed so as not to become impassable barriers for small businesses to deliver goods and services internationally.

## E-commerce Readiness

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A systemic element to advancing digital trade will be capacity building for least developed countries and emerging economies to build up affordable Internet access and other elements of e-commerce readiness – including e-transaction laws, credit card penetration, postal reliability, skills and relevant content. Failure to do so would risk further entrenching economic inequalities. Although Internet access is growing worldwide, some four billion people are not yet online, with about 75 percent of these concentrated in 20 developing countries (Meltzer 2015). Internet for all<sup>6</sup> is a precursor to advancing an inclusive digital economy. As recommended by this year's B20 Taskforce on Trade and Investment, G20 economies should develop an action plan to support the seven policy areas of the UNCTAD-led eTrade for All initiative – which covers areas such as ICT infrastructure, trade logistics, skills and so on – as well as channelling Aid for Trade funding towards similar objectives. Policymakers should consider e-commerce readiness – or the lack thereof – as a barrier to today's growth opportunities.

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5 The TFA already addresses some important elements of digitising customs that can facilitate trade. For example, it compels members to accept, where appropriate, paper or electronic copies of supporting documents required for import, export or transit formalities. Advancing understanding of what specifically would be TFA-plus in terms of e-commerce facilitation, or customs improvements 2.0, could be one useful contribution by the G20.

6 The World Economic Forum's Internet for All establishes and facilitates physical and digital multistakeholder platforms and partnerships at the global, regional and national level that will create hundreds of millions of new internet users, with a focus on the hardest to reach.

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# Trade and Climate Change—Can the G20 Step Up to the Challenge?

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## After the Year of Multilateralism, Time for Effective Collaboration?

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2017 is a difficult moment for global governance. If 2015 was the year of multilateralism, with the successful adoption of the landmark Sustainable Development Goals, the conclusion of the Addis Ababa Action Agenda, and the gaveling of the world's first universal Climate Change Agreement in Paris at COP21, 2016 was rather characterised by some of the world's leading nations increasingly turning inwards. Indeed, with all the nuances and differences between the Brexit-vote in the UK and the election of President Trump in the US, it is indisputable that they have in common traits of nationalism and even selective protectionism. The terrorist attacks in Europe, the war in Syria, and unrest in much of the Middle East and Northern Africa and resulting migratory flows, also led even traditionally open countries to become wary of the downsides of globalisation. As we move into 2017, recent elections in Austria, the Netherlands, and France, however, offered some comfort in rejecting the populist candidates.<sup>1</sup>

When it comes to the major overhaul of current patterns of production and consumption, which is necessary to urgently address the threat of climate change, the world is also facing uncertainty. On the one hand, there is a binding climate change agreement. On the other hand, it is uncertain to which extent the world's largest economy and second biggest emitter, the United States, will honour its commitments under that agreement. Climate change being an outcome of a "tragedy of the commons"-type of challenge, a possible drop out or non-implementation by any key actors also begs the question of how other countries would respond. Such uncertainty must be minimised. Indeed, the industry, which will operationalise the shift to a low-emissions trajectory, needs stability and predictability so as not to be distracted and steered off course—but rather to make long-term investments with the confidence that they will not be undermined by a roll-back of policy.

In light of these challenges, is there a role for the G20 to play? I will argue that yes, the G20 is the perfect actor to step up, and to do so now. In fact, any binding rule-making in the UNFCCC and the WTO to address issues in the trade-climate interface, however necessary, would seem a stretch at this particular point in time. Rather, the moment is particularly well-chosen for discussion, intelligence, mutual sharing of experiences and best practice, collaboration, and for building partnerships around common challenges.

Indeed, looking at the substantive focus of the G20, it is about ensuring that fiscal, monetary, trade, and structural policies are mutually supportive. As such, it has gained public support for acknowledging the perils of an uncoordinated global economic system while responding to emerging global challenges, not least the financial crisis in 2009. It is appropriate to recall in this context that climate change is not a mere environmental issue, but rather it "is by far the greatest economic challenge of the 21st century" (Lagarde 2013), as stated by the Managing Director of the International Monetary Fund.

Moreover, the G20 includes the world's major emitters, which together account for 74 percent of global carbon emissions (Lagarde 2013), and 80 percent of energy related greenhouse gas emissions

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<sup>1</sup> This essay draws upon ICTSD (2017). The author is grateful to Ricardo Meléndez-Ortiz, Thomas L. Brewer, Wallace S. Cheng, Mahesh Sugathan, and Sonja Hawkins for inspiration from that paper. Project funding from the KR Foundation—Denmark is also acknowledged.

(IEA 2017). This implies that actions of individual member countries significantly impact climate change. Joint mitigation, allowing to leapfrog the low-carbon transition by addressing issues of free-riding and exploiting synergies, is therefore potentially more powerful. With an increased ambition, the G20 could lead by example.

## Trade-Climate Interlinkages

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Trade can contribute to driving climate change. Trade-related transport emissions are growing, and trade also induces growth, which in itself can cause an increase in demand and hence emissions. At the same time, more wealthy consumers may shift their preferences for a more sustainable consumption. On the other hand, trade may also hold parts of the solution to climate change. It is only through trade and investment that we will be able to roll out clean energy and other climate friendly technologies at a sufficient pace and scale to abate emissions. Moreover, trade could enable relatively emissions-efficient products to replace more emissions intensive alternatives, and could provide access to basic goods as productive capacities change due to climate change.

Climate change itself, as well as the broad range of climate policies, will have impacts on production and consumption patterns, and hence on trade flows. In addition to the impact on yields, climate change is also directly destroying trade-relevant infrastructure, such as roads and ports. Climate policies, such as carbon pricing (including the perverse effects of subsidising the most polluting industries through free allocation of emission allowances), carbon standards and labels, subsidies to the clean energy industry and regulation, may alter supply and demand. In addition, proposed measures such as border carbon adjustment would directly target international trade. While trade is not an end in itself, it is an important driver of growth, which is a crucial element for eventually reaching the Sustainable Development Goals.

If left unaddressed, there is a risk that opportunities for trade to positively contribute to climate action, as well as to growth, are missed. Indeed, if there is no broad understanding of the role of global value chains in pushing down the cost of clean energy technologies, or of the potential for sourcing goods and services from carbon-efficient producers, mitigation will be slowed down. Similarly, if the impacts on global competitiveness of asymmetric carbon pricing are not effectively addressed, it may lead to misguided climate policies which may unnecessarily restrict trade and hence opportunities for growth, while missing the core of the problem with respect to emissions.

## Three Areas of Action for the G20

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What more specifically could the G20 do about it? I would like to suggest three concrete options of measures that the G20 could look into, without having to pass by complex legal reforms in the WTO or the UNFCCC.

First, the G20 needs to make a serious effort to get the prices of energy related emissions right. This should begin by the G20 honouring its commitment to phase out fossil fuel subsidies, putting a price on carbon emissions, and fostering the scale-up of clean energy and energy efficiency technologies. Fossil fuel subsidies could indeed impact trade flows, but more importantly they clearly distort competition between clean- and fossil energy. As energy combustion is the main cause of climate change, getting the prices right between different sources of energy is imperative.

The G20 played a pivotal role when it succeeded to put fossil fuel subsidies on the global agenda, and made an initial commitment to phase out fossil fuel subsidies already in 2009. This has been reiterated several times ever since. In spite of this, all G20 countries continue to subsidise the production of fossil fuels (Bast et. al 2015). Unlike the G7, the G20 has so far been unable to agree to a timeline for the phase-out.

With respect to the link to trade, there are options for the G20 which could be explored imminently, without requiring any reform of existing legal systems. For example, G20 countries could work within the WTO framework, including the subsidies agreement (SCM), to comply with the requirement to notify subsidies as spelled out in article 25. Notification in general is lagging, so the G20 could begin by notifying fossil fuel subsidies as a matter of priority. Furthermore, the trade policy review mechanism (TPRM) and the Committee on Trade and Environment (CTE) are avenues that are available to all members, which could be employed for enhancing transparency and assessing possible trade implications. The G20 could raise questions with regard to fossil fuel subsidies in individual TPRs, and could take the initiative to put fossil fuel subsidies on the agenda of the CTE. This is being done by a group of countries called the "Friends of Fossil Fuel Subsidy Reform," and the G20 countries, given their long-standing commitment, should follow suit.

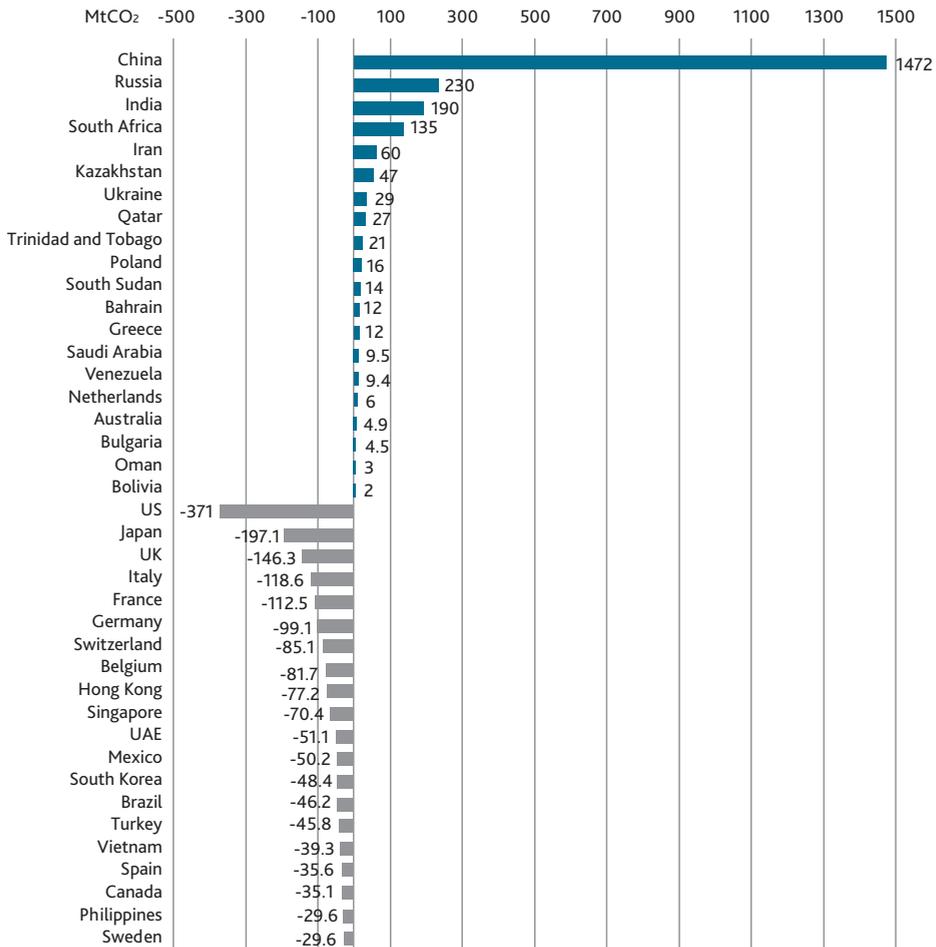
Second, the G20 could take steps to promote a better global understanding of the levels of embedded carbon in trade. In fact, in today's highly interconnected world, with specialisation, economies of scale, and fragmented global value chains, significant volumes of emissions embodied in internationally traded products flow between countries. Such embedded carbon accounts for one quarter of global emissions, with some countries being net exporters and others net importers of embedded carbon (Peters et al. 2012). Typically, developed countries have been able to slow the growth of their production-related emissions, while they have increased their consumption of emissions, a development enabled through trade.

Total global emissions will not be reduced if countries simply outsource production of carbon-intensive goods to others, while importing the carbon embedded in intermediate and final products. Countries, therefore, need to collaborate to systematically measure and monitor consumption-related emissions, and use this for informing the development of demand-oriented climate measures, to complement the current production-side climate measures.

While this for the moment has remained a somewhat academic discussion, it is to be expected that it will gain prominence in the policy-making world (Bacchus 2016). When that day comes, it would be important to have a solid base of information available, based on a collaborative effort undertaken among the key actors.

The G20 would be well-placed for initiating work to this end; first, because the initial focus would be on the building of knowledge, the sharing of expertise, and on coordination—tasks which are particularly suitable to this forum; second, because the G20 contains the world's leading exporters as well as importers of embedded carbon; third, the G20 could take action in the area of black carbon, a particulate matter resulting from fossil fuel, biofuel, and biomass combustion.

**Figure 1. Top 20 net exporters and importers of carbon in 2013**



Source: ICTSD (2017) based on data from the Global Carbon Atlas.

Although far less known to the general public than carbon dioxide, it is the second leading cause of climate change (Bond et. al 2013). Over a 20 year period, the impact of black carbon emissions per tonne is thousands of times greater than that of carbon dioxide (Brewer 2015). In addition to the perilous impact for the climate, black carbon is also responsible for serious, localised health effects.

A major source of black carbon emissions worldwide are diesel engines. Certain progress has been made in addressing black carbon emissions from road transport, but emissions of maritime shipping and aviation have been increasing in parallel and are expected to continue to rise for at least the next few decades. Since addressing emissions from transport is a particularly relevant measure in the trade-climate interface, it is necessary to scale up action in the area.

While the effects of addressing black carbon emissions, which is a short-lived pollutant, can be both immediate and with local benefits, and several effective technological solutions exist, policy responses have to date been largely inadequate or even absent. It is noticeable that black carbon is not covered by the UNFCCC at all, which rather focuses on greenhouse gases. The Climate and Clean Air Coalition, whose secretariat lies with UN Environment, has put in place a range of initiatives in the area of black carbon, which are promising although they need additional efforts. Important to notice here though is that the CCAC does not include all the G20 countries, and excludes several of the most important emitters of black carbon.

Therefore, the G20 should act to fill that gap. A recent paper by ICTSD recommends inter alia that the G20 encourages and funds the expansion of international knowledge-sharing and best-practice programmes among seaports and airports and that it facilitates transfer of black carbon mitigation technologies (ICTSD 2017).

## Final Remarks

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The G20 is concerned with macro-economic issues, primarily growth and stability. Climate change is a serious risk to those elements. Therefore, while climate action in itself may not be a priority for all G20 members, there is an opportunity to explore and pursue policies which would be beneficial for climate action while contributing to the G20's overarching goals of growth. Indeed, at the very heart of the issue lies competitiveness, and a better use of scarce resources. If by shifting to clean energy and scaling up energy efficiency we can cut energy bills and reduce support to fossil fuels, resources will be freed to be used for more productive purposes such as enhancing skills, innovation, and technology development. If by reducing emissions of black carbon we can address serious health hazards, we will take a step towards meeting SDG 3: "Ensure healthy lives and promote well-being for all at all ages."

In this piece a few possible areas of action have been discussed. Many more exist. While there is much the G20 can do directly, it would also need to use its weight to instruct other relevant bodies, such as the WTO, UNFCCC, ICAO, and the IMO, to take action which is more firm and binding.

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# International Trade and the 2030 Agenda for Sustainable Development: Fostering Coherence

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Trade and investment policies are at the heart of the G20 agenda. At the same time, the G20 has committed to other key goals, including the 2030 Agenda for Sustainable Development. One essential objective of the German G20 Presidency is to make progress on realising these goals. Against this background, one major challenge the G20 is facing is to promote coherence between the G20 trade and investment agenda and other G20 objectives.

While the G20 recognises the significance of policy coherence, there is a need for stepping up these efforts, especially in light of cross-sectoral and transboundary linkages, as well as the spillover effects of various G20 objectives and G20 members' policies (OECD 2016). In the following, the spotlight will be on how the G20 can promote coherence between international trade and the 2030 Agenda, focusing special attention on fighting climate change as a key sustainable development objective, and how the institutional setup of the G20 should be reconsidered.

The 2030 Agenda is essential for tackling the most pressing domestic and global challenges the world is facing. The 2030 Agenda should therefore be regarded as offering guidance across all work streams of the G20 (Brandi and Scholz 2017). Discussions among G20 countries on international trade should hence be embedded in the framework provided by the 2030 Agenda and the G20 Action Plan on the 2030 Agenda for Sustainable Development (Akman et al. 2017), which G20 leaders endorsed at the Hangzhou Summit in 2016 (see also Alexander et al. 2017).

To foster the effective implementation of the 2030 Agenda, and the 17 Sustainable Development Goals (SDGs) it enshrines, it is essential to assess the interlinkages among the SDGs. The "G20 Action Plan on the 2030 Agenda for Sustainable Development" makes a reference to a number of SDGs in the context of each of the 15 Sustainable Development Sectors, which the G20 Action Plan defines. One key next step is to continue breaking up both "policy silos" and "silos in government." The G20 has begun to take initiative in this regard, for example through the "Multi-Year Framework for Policy Coherence and Coordination on Human Resource Development between the G20 Development and Employment Working Groups." "Whole-of-government" approaches can overcome silos and provide the basis for designing and implementing coherent sets of policies that can otherwise fall under the auspices of one or several separately operating ministries, work streams or other administrative units (Alexander et al. 2017).<sup>1</sup> The G20 Action Plan on the 2030 Agenda underlines that such approaches are needed. At the same time, more can be achieved regarding policy coherence—for example, in the context of the G20 agenda on trade and investment.

## International Trade and the 2030 Agenda for Sustainable Development

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In light of the G20's Action Plan and the focus on "Trade and Investment" as one of the 15 Sustainable Development Sectors identified in the Action Plan, G20 members should support a more proactive approach in the context of trade and investment policies that support the implementation of the SDGs.<sup>2</sup> While the Annex of the G20 Strategy of "Global Trade Growth" underlines the need to generate coherence between trade policies and investment policies (G20 China 2016), it does not

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1 The T20 Policy Briefs were prepared by the T20 Taskforce on the 2030 Agenda for Sustainable Development, co-chaired by Imme Scholz (DIE, Bonn, Germany), Chen Dongxiao (SIIS, Shanghai, China) and Jann Lay (GIGA, Hamburg, Germany).

2 The following is based on Alexander et al. (2017).

indicate the need for policy coherence for sustainable development. Yet, trade and investment flows, of which G20 countries account for around 80 percent, shape the global patterns of production and have multiple impacts on and interlinkages with different SDGs.

Trade policies can entail many synergies: For instance, providing duty-free and quota-free market access for Least Developed Countries (LDCs) helps to achieve SDG 17.12 ("Realize timely implementation of duty-free and quota-free market access"), but can also contribute to the achievement of other goals, including SDG 8 ("Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all") (UNEP 2015). In addition, phasing out trade-distorting subsidies can promote sustainable development: Putting an end to distortions in world agricultural markets (SDG 2.a) can foster food security (SDG 2), prohibiting harmful fisheries subsidies (SDG 14.6) can help to conserve marine resources (SDG 14), and the reduction of fossil fuel subsidies can promote sustainable production and consumption (SDG 12) (Berger et al. 2017) and contribute to combating climate change (SDG 13, see also below) (Blumenschein et al. 2017).

At the same time, international trade policies can also generate trade-offs in the context of sustainable development. For example, in light of recent trends towards protectionism, the G20 should underline that protectionist trade policies put into question pathways for economic development (in particular SDGs 8 and 9). Taking the 2030 Agenda seriously can help to change the narrative around international trade ("leaving no one behind"), for instance, by underlining that losers from international trade policies should be supported through adjustment, education and social policies (Alexander et al. 2017).

In general, the 2030 Agenda offers an important framework for the international trading system. For example, Goal 17 promotes a universal rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization (WTO) (SDG 17.10). At the same time, the WTO is increasingly undermined by the ever-increasing importance of bilateral and regional trade and investment agreements.

Fostering coherence between trade and investment policies, the international trading system and the aspirations of the 2030 Agenda is a formidable challenge that cannot be tackled effectively by the WTO or UN alone. The G20 is a suitable forum to help these institutions bridge that gap (Berger and Brandi 2016). The G20 brings together most of the important trading nations and has an institutional structure, including the Trade and Investment Working Group, that can facilitate discussions about coherence and policy options in the context of international trade and investment policies (Alexander et al. 2017).

Against this background, the G20 should live up to its commitment to "integrate sustainable development at all levels of trade policy" (G20 China 2016). This requires integrating sustainable development objectives into domestic G20 policies related to trade and investment. At the international level, the G20 should underscore the importance of sustainable development as a key frame of reference for international trade and investment policies (Alexander et al. 2017). G20 leaders could ensure progress, for example, by supporting a WTO General Council interpretive statement that calls on WTO practice to interpret and promote trade rules, such that they are in line with the 2030 Agenda (Esty 2016).

Against the background of SDG 17, the G20 leaders should also renew their commitment to keep supporting the multilateral trade system. Moreover, the G20 should agree to facilitate trade rules that contribute towards supporting the implementation of the 2030 Agenda. Concrete options for

next steps include revitalising the WTO Environmental Goods Agreement or promoting duty-free and quota-free market access for LDCs. All in all, the G20 should commit to the following: an open global economy, curbing protectionism, and strengthening a rules-based, non-discriminatory and inclusive multilateral trading system with the WTO at the centre.<sup>3</sup>

## Trade, Climate Change, and the 2030 Agenda

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The remainder of this chapter puts the spotlight on fighting climate change as a key part of the onus of the 2030 Agenda, especially in the context of SDG 13. How can the G20 foster coherence between international trade and the 2030 Agenda in the context of the Paris Agreement?

At the UN Paris Climate Conference (COP21) in December 2015, 195 countries adopted the first-ever universal global climate agreement. In 2016, G20 leaders welcomed the Paris Agreement and underlined the importance of addressing climate change in the Hangzhou Summit Communiqué. Having celebrated the adoption of the Paris Agreement and its speedy ratification as a historical step, the world must now move to implementing the new treaty and the commitments it entails.

With its bottom-up approach and countries left free to determine their own climate targets and instruments, expressed in their nationally determined contributions (NDCs), the Paris Agreement increases potential interactions between international trade and climate (Droege et al. 2016). This renders the need to promote more coherent policymaking and to foster synergies between trade and climate objectives ever more urgent. There is a need to assess the role of trade in relation to the implementation of the Paris Agreement, and to harness international trade approaches that encourage and support the transformation to a low-carbon economy and sustainable development more broadly.

Analysis of the NDCs illustrates that trade-related elements feature prominently in climate contributions under the Paris Agreement. At the same time, there is great untapped potential:<sup>4</sup> While approximately 45 percent of all climate contributions include a direct reference to trade or trade measures, only around 22 percent include trade measures that are linked to climate change mitigation. Also, while some 6 percent of all climate contributions mention a reduction of trade barriers, around 11 percent entail a reference to the regulation of trade on climate grounds. Approximately 3 percent of contributions refer to timber trade and to response measures respectively, 6 percent indicate plans to reform fossil fuel subsidies, and 9 percent mention standards or labels. The most common trade-related elements are international market mechanisms, technology transfer and renewable energy. More specifically, 56 percent indicate an interest in using international market mechanisms, 63 percent indicate that their contribution is conditional on technology transfer, and almost all contributions mention renewable energy as a mitigation sector, with more than 50 percent referring to it as a priority sector. Some trade-related elements are thus mentioned only in some—others in virtually all climate contributions.

The manifold references to different forms of trade-related elements show how the interaction between trade and climate is increasing in the wake of the implementation of the Paris Agreement. The inclusion of trade-related elements can generate opportunities as well as conflicts regarding the

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3 These recommendations are based on Alexander et al. (2017). See also Akman et al. (2017).

4 The following is based on Brandi (2017a) and Brandi (2017b). See also ICTSD (2017).

relationship between trade and climate objectives. They have to be taken into account in order to be able to better circumvent trade conflicts and promote coherent policymaking.

Overall, while trade-related elements feature frequently in countries' climate contributions, there is still tremendous potential to incorporate trade elements in the NDCs that has not been taken advantage of to date. There are not many direct references to the use of trade measures to foster climate protection, although trade elements offer substantial opportunities for increasing mutual supportiveness between trade and climate objectives. There is thus considerable room for a stronger emphasis on trade-related measures that promote policy coherence, especially amongst the major emitters and exporters of embedded carbon. This would ultimately help achieve the aims of the Paris Agreement and the Sustainable Development Goals, contributing to a more sustainable future for all.

There are a number of steps that can be taken to increase the potential of trade and trade measures to support climate protection and to foster synergies between the trade and climate regimes (Bacchus 2016): First of all, there are several options to ensure that future NDCs account for trade and trade-related elements more systematically. For example, the G20 leaders should strengthen climate-friendly trade elements in their country contributions under the Paris Agreement.

Moreover, the G20 should put the spotlight on the need to facilitate institutional interaction between the trade regime and the climate in order to help promote NDC implementation and reduce potential trade concerns and trade-offs in that context. In addition, G20 leaders should promote preferential trade agreements that offer opportunities for fostering climate action.

## Conclusion: Fostering Coherence across G20 Work Streams

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The structure of the G20, with the separate finance and Sherpa tracks, entails challenges for promoting policy coherence.<sup>5</sup> In order to foster policy coherence, this setup needs to be reconsidered. A reformed G20 framework could put a stronger focus on inter-tracks and inter-working group structures. Moreover, as laid out in the G20 Action Plan as well, there should be a reinforced mandate for the G20 Sherpas to support policy coherence: The Sherpas, together with Finance Deputies, should improve coordination across work streams and dialogue between working groups on activities that link to the 2030 Agenda on Sustainable Development in order to enhance the effectiveness of implementation strategies.

Without participation from G20 member countries, today's challenges cannot be successfully addressed. To make effective progress it is essential that an emphasis is placed on ensuring coherence across the G20 agenda. With that in mind, it is essential that emphasis is placed on promoting coherence between the G20 trade and investment agenda and climate and sustainable development objectives (WBGU 2016). This focus will help continue the momentum among the world's major economies for transformative change and help tackle some of the world's most urgent global challenges.

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<sup>5</sup> These recommendations are based on the T20 policy brief (Alexander et al. 2017).

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# Decent Work: The Key to Social Justice, Sustainable Globalisation— and Peace!

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*"Si vis pacem cole justitiam"—If you desire peace, cultivate justice!* This is the founding principle of the International Labour Organization (ILO) from 1919. After decades of globalisation based on neo-liberal economics, the resurrection of reactionary forces has brought this principle back to the pinnacle of political power—including in the G20.<sup>1</sup>

Just ask the Davos women and men listening to president Xi Jinping of China when he spoke to the annual meeting of the World Economic Forum on 17 January this year. In a speech celebrated as a strong defence of globalisation, the president of the world's most populous country stressed that "priority should be given to addressing poverty, unemployment, the widening income gap and the concerns of the disadvantaged to promote social equity and justice."

The president of China is not alone in recognising the importance of work. His counterpart in another G20 country bet his political future on employment, and lost, while the president of the United States moved into the White House on the backs of frustrated workers.

Global unemployment will increase to more than 200 million this year and vulnerable employment is pervasive. Meanwhile the reduction in working poverty is slowing down, according to the ILO's *World Employment and Social Outlook—Trends 2017*. At the same time, and partly as a consequence of these trends, the labour share of GDP is falling, and inequality between the rich and the rest is at a level hardly seen for one hundred years and keeps getting worse—feeding the backlash against globalisation.

Defenders of globalisation explain that trade, investment, and economic integration is for the greater good and benefits the vast majority of people around the world, pointing out that most jobs are lost to technology, not trade, and emphasising the need for appropriate adjustment policies at the domestic level. The "global establishment's" narrative is understandable. It leaves them off the hook. After all, a technological innovation in gadgets, machines, or robots is rarely a product of direct political decision. And domestic adjustment measures are up to each and every government to decide. Thus, both are outside the scope of the political discourse of global governance. The story is more complex, however. While technology certainly churns jobs, and domestic adjustment to tech and trade is necessary, both take place in a context of fierce global competition—facilitated by trade and investment policies, and a striking lacunae on international tax cooperation.

It is, therefore, very appropriate that Germany has the following objective among its priorities for the Hamburg Summit: "The G20 must play a role in enhancing good and productive work. [...] Sustainable global supply chains can help to further global economic and social development. The inclusion of internationally active companies and adherence to fundamental labour, social and environmental standards play an important role in this respect."

## Trade as a Means to an End

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The concerns about employment and the quality of work are universal, as expressed by the United Nations 2030 Agenda for Sustainable Development, where all heads of state and government confirm their goal to "promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all," in Sustainable Development Goal (SDG) 8.

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1 The views expressed in this article are those of the author. They do not necessarily reflect the policies of the International Labour Office.

It is important to note that the 2030 Agenda and the SDGs also refer to trade among the means of implementation agreed in SDG 17. In other words, trade is a means to an end, including a means to achieving full employment and decent work for all.

This represents a milestone and should be a turning point in the long and often contentious discussion of the relationship between trade and labour. No longer are employment and decent work seen as automatic or semi-automatic outcomes from economic policies in pursuit of growth, including open trade and investment policies. Decent work is now an explicit goal in itself, while trade is supposed to contribute to this goal.

What does this mean for G20 policymakers? To answer this question, it is helpful to remind ourselves what instruments they already have at their disposal.

The ILO is of particular value in this regard. Its constitution from 1919, as part of the Treaty of Versailles in the aftermath of World War I, recognises that "universal and lasting peace can be established only if it is based upon social justice." It also makes clear that "the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries." Note the recognition of international interdependence. Today this interdependence is global.

It is further important to recall that in 1944, when the ILO constitution was updated in response to the disaster of World War II, its mandate was modernised to include "a responsibility of the International Labour Organization to examine and consider *all* international economic and financial policies and measures in the light of this fundamental objective."

Against this background it is interesting to read the World Trade Organization (WTO) Ministerial Declaration from Singapore in 1996, where the members of the WTO, by negotiated consensus, make clear that the International Labour Organization is the competent body to deal with labour standards, while stressing that "we reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, in particular low-wage developing countries, must in no way be put into question."

This put to rest the question of labour standards in multilateral trade agreements to this day—more than 20 years later. In the meantime, however, several important developments have taken place.

## A Great Transformation

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Revolutionary technological developments like the internet have facilitated transnational integration of production, placing some large emerging countries at the heart of the global economy. While technology and reforms at the national level have been necessary, this great transformation would not have taken place at the speed and scale we experience today without important multilateral decisions.

China's accession to the WTO in December 2001 is by far the most important among these. This political decision has changed the world—for the better for most people, and for the world at large. While reduction of trade barriers like tariffs is the obvious and immediate effect of China's entry to the WTO, perhaps the most significant effect is that of legal certainty and predictability for traders

and investors. This not only facilitates trade in a traditional sense, but also facilitates transnational investments and integrated production. Thus, China has become the hub of many global supply chains over the past decade and a half; “the world’s factory,” as many now refer to the Middle Kingdom. And the results have been astonishing. From the WTO entry in 2001 to 2014, China’s trade in goods increased more than eight times, from US\$0.5 trillion to US\$4.3 trillion, contributing significantly to growing the country’s economy from US\$1.3 trillion to US\$10 trillion in the same period. Hundreds of millions of people have been able to escape poverty and many have joined the middle class, not only in China but also in other developing countries, which could increase their trade with China and the world. In fact, the average wage in G20 emerging economies increased by 6.4 percent per year between 2006 and 2013, according to the ILO’s *Global Wage Report 2014/2015*. This was more than 20 times faster than in G20 developed countries, where the average annual wage growth was a meagre 0.3 percent during the same period. While these differences are smaller now, wages continue to increase faster in developing and emerging G20 countries. But consumers everywhere, regardless of region and level of development, are gaining from access to less expensive products—thus partly compensating for the low wage growth in developed countries.

Another effect of China’s accession to the WTO, much less celebrated and discussed even though it may be the most important for the world at large, is the fact that 800 million people were added to the work force of the globalised economy. This came on top of the 500 million strong work force of India, which is more internationally available following the country’s economic reforms since the early 1990s. The two Asian giants together represent 40 percent of the global work force, which is now 3.3 billion. In other words, the integration of China and India has almost doubled the supply of labour in the globalised economy over the past couple of decades! Due to the relative shortage of capital to labour in these two countries compared with other major economies, this has had a tremendous impact on price (i.e. wages/salaries) and the balance of power in the labour market—a globalised labour market of deep interdependence.

## Fair Globalisation?

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The WTO is not the only multilateral economic institution making important decisions since the Singapore Ministerial Conference. So did the ILO. In June 2008, 187 member state governments, workers, and employers negotiated and agreed on the Declaration on Social Justice for a Fair Globalization, where the following decision is of particular importance to the trade and investment community: “[...] violation of fundamental principles and rights at work cannot be invoked or otherwise used as a legitimate comparative advantage and [...] labour standards should not be used for protectionist purposes.”

Here we see that the members of the ILO, which include the same governments who 12 years earlier had adopted the WTO ministerial declaration, now brought balance to the equation on trade and labour.

And last year, the International Labour Conference included the same language in its ground-breaking resolution on Global Supply Chains, in a paragraph calling on governments to “consider to include fundamental principles and rights at work in trade agreements...,” while instructing the ILO to “provide leadership and use the ILO’s convening power and unique added value to drive policy coherence among all multilateral initiatives and processes related to decent work in global supply chains.”

These decisions are taken in the context of proliferating regional and bilateral trade agreements as well as unilateral trade promotion measures, increasingly with labour provisions. In fact, over 80 percent of trade agreements that came into force since 2013 contain such provisions. And no wonder, since such agreements tend to improve labour markets while not reducing or diverting trade. This is contrary to warnings often heard from opponents of such provisions. Successful outcomes do, however, require the appropriate labour market institutions and active involvement of all relevant stakeholders, including workers and employers.

## The Decent Work Agenda

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In light of all this, the ILO's Decent Work Agenda (DWA) should be of great value in guiding G20 policymakers on trade and investment. Presented more than a decade ago, the DWA is a synthesis of four strategic objectives: Creating greater employment opportunities for women and men, extending social protection, promoting social dialogue, and last but not least, achieving universal respect for fundamental principles and rights at work.

The Social Justice Declaration and the Decent Work Agenda underscore that freedom of association and the effective recognition of the right to collective bargaining are particularly important to enable the attainment of all four strategic objectives. One could add that these particular rights, as enshrined in ILO Conventions 87 and 98 respectively, are enabling because they are empowering. They can contribute to a better balance of power in labour markets, helping to ensure a more fair distribution of the benefits of trade, investment, production and growth, including a more equitable distribution of income and wealth. As such, the full respect and application of these fundamental labour rights can be effective medicine to combat the increasing inequality which now seems to plague most countries and the world at large. But such a prescription will require significant efforts by all stakeholders, including governments, employers, and workers themselves.

A crucial challenge for governments will be to improve the level of policy coherence in their approach to trade and labour—to depart from the silos and break the barriers currently blocking the road to a more inclusive and sustainable trade, investment, and labour policy mix.

The G20 should take the lead in addressing this challenge and can do so by taking the following steps, some internal to G20, others at the multilateral level:

- 1) **Improve coherence between G20 work streams on trade and investment, employment and development.** Concrete measures:
  - Invite not only the B20, but also the L20 to advise on trade and investment
  - Include the ILO in the Trade and Investment Working Group
- 2) **Recognise that domestic adjustment policies like education/skills and social protection require solid public finances, thus policy space for sound taxation.** Concrete measure:
  - Initiate discussions with a view to negotiating a global tax treaty to avoid the current "beggarthy-neighbour" tax competition

- 3) **Support the ILO to take leadership in promoting policy coherence for decent work in global supply chains, including in closer partnerships with other multilateral organisations.**  
Concrete measures:
  - Engage the ILO in providing inputs to the Trade Policy Reviews at the WTO
  - Take the initiative to broaden the mandate of the WTO Committee on Trade and Environment to become the Committee on the 2030 Agenda for Sustainable Development
- 4) **Include fundamental principles and rights at work and decent working conditions in all trade agreements**

## Personal Afterthought Inspired by the Host Country of the Hamburg Summit

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One could certainly think that having meaningful labour standards in trade agreements would be obvious. After all, the ultimate purpose of trade and trade agreements is presumably to improve living standards around the world and across borders, including for all workers and their families who represent the vast majority of people in any country.

But that presumption may not hold, as we realise when recalling this writing on a squatters' wall in re-unified Berlin from early October 1990: *"Die Grenze verläuft nicht zwischen den Völkern, sondern zwischen oben und unten"* (The border isn't between the peoples, but between the top and the bottom).





# Sticking to the Job

## Key Trade Policy Considerations for the G20 Hamburg Summit and Beyond

Against the backdrop of a recovering yet fragile international economy and considerable political uncertainty, it cannot be overstated how important it is that the G20 “stick to its job” at the Hamburg Summit in July 2017 and beyond without diluting its focus.

When G20 developed and emerging economies came together to cooperate and coordinate their efforts in the wake of the 2008 financial crisis, they defined their action based on a set of core values and a shared sense of responsibility towards strengthened global governance and effective stewardship of the world economy.

Accordingly, successive G20 summits have focused on strategic “jobs” where the forum holds a comparative advantage and which can be better addressed than in alternative institutions or governance mechanisms. Two such advantages are the group’s composition and the ability to take a holistic approach to world financial and economic affairs.

This volume brings together a collection of short essays—a number of which were presented at an ICTSD workshop held in parallel to the G20 Trade and Investment Working Group meeting in Berlin in February 2017—that reflect on some of key areas where the G20 has a comparative advantage. The authors put forward a set of policy options for the G20 to support inclusive international trade and investment.



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