



T20
INDONESIA
2022 THINK

T20 TASK FORCE NOTES

**OPEN TRADE, SUSTAINABLE
INVESTMENT AND INDUSTRY**

Background

Amidst the constrained economic recovery and geopolitical uncertainty, the trade-investment-and-industry nexus should be the catalyst to achieving robust and sustainable economic growth, especially for least-developed countries (LDCs) and developing countries. Moreover, the supply chain disruptions that occurred after the COVID-19 outbreak have provided justification for governments to shift from multilateralism and adopt nationalist, protectionist and unilateral policies and measures, as well as forgoing bilateral and regional agreements, thus accelerating the ongoing pattern of fragmentation. Therefore, a call for international cooperation in trade, investment and industry is imperative to address pressing challenges such as the global health crisis, climate change and supply chain disruption.

In this regard, the G20 Trade, Investment and Industry Working Group (TIIWG) has discussed six priority issues, i) WTO reform; ii) the role of the multilateral trading system in strengthening the achievement of Sustainable Development Goals (SDGs); iii) trade, investment, and industry response to the pandemic and global health architecture; iv) digital trade and sustainable global value chains (GVCs); v) spurring sustainable investment for a global economic recovery; and vi) sustainable and inclusive industrialisation via industry 4.0. These issues are crucial to providing future clear direction and agenda-setting for policymakers around the world from the perspective of developing countries.

As the ideas bank of the G20, T20 Indonesia has released the T20 Communique and the T20 Policy Briefs that present evidence-based ideas from researchers/experts around the world. These T20 Task Force Notes on Open Trade, Sustainable Investment and Industry provide policy recommendations tailored to the G20 TIIWG, by following the six priority issues discussed in the working group. These notes also discuss specific recommendations on food supply-chain issues as critical issues that need to be addressed in the G20.

Taking concrete action toward the WTO Reform effort

1. **Refine the procedures of plurilaterals.** The G20 could suggest a hierarchical framework that can provide sufficient flexibility to WTO members from the Global South. Only a plurilateral process embedded with adequate flexibilities can ensure greater and more effective participation by the Global South in participating effectively. Furthermore, coalition-building to protect the interests of the developing world, generating greater awareness about the benefits of the Joint Statement Initiatives (JSIs), and developing capacities in the Global South can also help strengthen efforts in this context.

2. **Take first steps to revitalise the Dispute Settlement Mechanism of the WTO.** The G20 members should aim to ensure the G20 Bali Leaders' Declaration prioritises the need for expeditious reforms of the WTO. The G20 members should convey the importance of revitalising the WTO Dispute Settlement Mechanism (DSM) by eliminating outdated rules and processes, as well as the long-standing imbalances/asymmetries between developing and developed countries. Following the conclusion of the G20 Indonesia meeting, the G20 members should start gathering support for DSM reforms through their respective regional trade, economic and political associations.
3. **Avoid the temptation to raise unnecessary trade barriers and refrain from illegal subsidies.** Regional trade agreement (RTA) negotiations and implementations should be carried forward with enhanced transparency. Key global players (in particular the European Union, the United States and China) should continue to be engaged in the WTO (the US more than in the past), as well as in the multilateral export control regimes and international standard-setting organisations (also to achieve a level playing field and a management/governance process in relevant multilateral institutions based on an equal footing).
4. **RTAs should be designed to avoid fortress scenarios.** It has become imperative to analyse RTAs, particularly from a perspective of identifying provisions in them that have the potential to be multilateralised, as well as formulating a mechanism to include them in the multilateral trading system. It is also vital to compare such an analysis with the lessons learned from the Tokyo Round Codes that were multilateralised as well as the expansion of plurilaterals such as the Information Technology Agreement. Attention needs to be paid to specific details of deep trade agreements that can change the opportunities in terms of the arrangement of the global value chain.

Trade and Sustainable Development Goals

1. **Endorse the WTO-negotiated Environmental Goods Agreement definition of green products.** The G20 could be a driving force in supporting the Environmental Goods Agreement (EGA) as an instrument that leads to decisive cuts or even eliminating tariffs on climate-preferred goods that can be of benefit economically and environmentally, not only for the most significant economies. In addition, a wide array of participants should be engaged to make standards effective. Thus, as a part of the WTO's reform, a strengthened Committee on Trade and the Environment (CTE) should be responsible for studying the relationship between trade and the environment.

2. **Consider suitable mechanisms to implement capacity-building programmes and technical assistance to foster green trade.** There should be joint decisions and mechanisms in international forums to protect the most vulnerable developing countries regarding carbon taxes in trade. Developed countries should provide support, e.g. technical and financial, to enable developing countries to reduce carbon emissions. The G20, which embraces fossil-fuel-reliant economies like China and India, can pave the way for advancement in this regard. Facilitate bringing together technology providers and developed and developing countries to work on a few models for transferring technology to developing countries and LDCs.
3. **Work towards harmonisation of standards and minimise variations in domestic regulations on environmental norms.** Mainstreaming green trade at the international level should be focused also on selected liberalisation of trade in green goods and the use of sustainability standards throughout value chains. The G20 could initiate a discussion on basic environmental and climate standards by streamlining certification or by the facilitation of logistics.

Trade, investment, and industry response to the pandemic and global health architecture

1. **Refrain from using export restrictions and other non-tariff measures during global crises.** The COVID-19 pandemic underscored the importance of keeping borders open and trade policies and regulations transparent during and in the aftermath of global crises. It is especially important to refrain from using export restrictions and other trade restrictions during global crises. Countries should prepare contingency plans to facilitate the flow of essential goods and services during emergencies while they continue to prioritise implementation of the WTO's Trade Facilitation Agreement.
2. **Facilitate trade of essential goods and services during global crises.** Governments need to keep supply chains open and increase economic cooperation to facilitate the trade of essential goods as well as essential services such as logistics-related services. They should prioritise trade facilitation, lowering trade barriers, simplifying border procedures, and enhancing provision of hard and soft infrastructure to improve distribution of essential goods, such as food, medical products, personal protection equipment (PPE) or vaccines, across borders. International support and cooperation for continuous supplies of critical medical goods are particularly important, given the need for funding and logistics support for low- and low-middle-income economies.

3. **Improve transparency in supply chains especially for medical and other essential goods and services.** The trade ecosystem can be better measured, monitored and regulated by leveraging digital technology. The pandemic has quickened the move to digital and paperless trade, but digitalisation of trade and supply chains can be further enhanced by building an enabling environment conducive to technology adoption and sustainable investment in information and communications technology (ICT) infrastructure. Customs authorities should also work together to leverage information and communication technologies to streamline customs procedures and electronic exchange of information, implement national and regional single windows for document submission and clearance, and introduce e-registration of travel documents.
4. **Recognise significant role RTAs have to play in reversing or at least mitigating the adverse impact of the COVID-19 pandemic on the cross-border flows of these goods and services.**¹ Countries with RTAs were more likely to have mitigated the initial adverse impact of the pandemic on the exports of vaccine supply chain products and test kits and were more likely to also import those essential medical products from RTA partners involved in the primary and secondary packaging and distribution stages of the vaccine value chain. Tariff barriers remain fairly low in developed and developing countries, but, exceptions remain, even in preferential trade agreement tariffs, for specific products among essential COVID-19-related medical goods, in PPE products, and in the vaccine value chain, such as Sorbitol, a key vaccine ingredient. The following is thus proposed as policy recommendations.
 - **Governments should identify multiple source countries for imports of these goods and enhance investment in their production to diversify the risks.** Much of the production and trade of essential COVID-19 medical goods is concentrated among a few developed countries and a handful of developing countries, i.e., the high- and middle-income ones. A majority of developing economies are highly dependent on imports and lack manufacturing capacity to produce them locally. Governments could look for bilateral or regional cooperation to institutionalise ties with more developed economies, thus reducing the possibility of supply chain shocks. In this regard, RTAs such as the AEC, ASEAN+1 Free Trade Agreements, and the RCEP are important. Bilateral regional cooperation also increases opportunities for trade and improves access to these goods.

¹ Das, S.B. and Sen, R., 2022. Trade Interdependencies in COVID-19-Related Essential Medical Goods: Role of Trade Facilitation and Cooperation for the Asian Economies. *ADB Economics Working Paper Series*, (666).

- **Cross-continental trade agreements are crucial because at this juncture much of the trade for vaccine manufacturing, ingredients and packaging materials for distribution and administration are happening among developed and developing countries.** APEC measures and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) have a strong role to play in building strategic relationships between developing Asian countries and the US and Europe. Availability of vaccines and timely testing of cases will help this region’s economies to recover from the pandemic. Governments should work together to lower or eliminate trade barriers, including tariffs, customs inefficiency and other infrastructure problems to strengthen the value chain of vaccine manufacturing.
- **Explore new models of RTA provisions to facilitate trade during health crises.** G20 governments should prioritise reducing regulatory heterogeneity among members, through mutual recognition or other types of cooperation. The development of specific provisions in RTAs to respond quickly and efficiently to health crises and enhance countries’ preparedness should be further explored. Drafting guidelines could cover areas such as definitions of a “public health emergency” or “shortage” of essential goods and services, classification of “essential” goods and services, and adoption of international standards for regulatory cooperation.

Digital trade and sustainable GVCs

1. **Review digital regulatory regimes and standards.** G20 members should set a global example by undertaking public reviews of regulatory settings to ensure that they build user confidence in the online environment by facilitating innovation, minimising trade costs and enabling cross-border digital interoperability. The time has come for all G20 members to contribute to the global dialogue on digital trade governance, ensuring an inclusive dialogue as a robust global digital market is built. In addition, G20 members should support international digital standards, and actively participate in international standards-setting processes. Governments should also be willing to offer guidance to businesses, especially small and medium enterprises (SMEs), in adopting international standards.
2. **Promote regulatory interoperability for GVC connectivity.** As data becomes a key strategic asset and resource, some governments have swayed towards increasingly opaque and heavy-handed domestic regulations that reinforce digital sovereignty agendas and exacerbate cross-jurisdictional regulatory fragmentation. Increasing divergence in regulatory regimes for cross-border data flows results in escalating compliance costs especially for small businesses and start-ups, reducing digital trade

performance. There is a strong global correlation between restrictive digital regulatory environments and poor digital service trade performance.

- 3. Encourage regulatory cooperation and convergence.** G20 members should leverage the recent WTO JSI on Services Domestic Regulation to stake out paths towards regulatory interoperability, including processes and procedures for mutual recognition and regulatory equivalence. Jointly and individually, G20 members must also show the way through forward-looking domestic regulatory reform, aiming for international standards, where relevant. The G20 should continue to engage with the OECD in developing best practices for regulatory processes through recommendations and guidelines, as well as benchmarking and reviews. Regulatory cooperation is a dynamic process in which regulators draw on advances in academic research on regulation, adjust regulation to technological changes and learn from each other. In addition, technical assistance and capacity-building initiatives are instrumental to the success of regulatory cooperation. Given the lack of binding commitments on capacity building in digital trade agreements, the G20 has a unique opportunity to announce open and inclusive initiatives in collaboration with relevant multilateral and multistakeholder institutions to address the specific challenges and needs of developing countries in integrating into the global digital economy.

Spurring sustainable investment for global economic recovery

- 1. Unify corporate disclosure standards and enhance of the transparency, commensurability and coverage of environmental, social and governance metrics.** The G20 should host discussions on the unification of the corporate disclosure standards so that policymakers and stakeholders can objectively assess each initiative. The Inclusive Wealth Index² by UNEP, which represents the social value of all capital assets including natural, human and produced capital, could provide a scientific foundation. Furthermore, G20 members should discuss the transparency, coverage and commensurability of the environmental, social and governance (ESG) metrics used in the market for listed companies, and also encourage the development and application of ESG evaluations for

² In 2009, at the request of the French government, Nobel laureate Joseph Stiglitz and colleagues published a report on new and more expansive indicators of wealth to replace GDP (Stiglitz, 2009). The Stiglitz report discusses indicators related to quality of life and other alternatives to GDP to measure production in order to evaluate well-being (happiness and welfare). In the United Nations, alternative indicators were further developed and favorably received in 2012, when the United Nations Conference on Sustainable Development (Rio+20) held a meeting on "Green Economy" and "Institutional Framework" and presented a new Inclusive Wealth Index (IWI). Figure 1 depicts the three capital model of wealth creation of IWI. This index was subsequently compiled in reports in 2014 and 2018 (UNU-IHDP and UNEP, 2014; Managi and Kumar, 2018). Since then, IWI has been applied at country level and municipality levels in various countries.

SMEs so that policymakers and stakeholders including financial intermediaries can objectively assess the sustainability of different investments.

2. **Facilitate the implementation of product- and service-level ESG evaluation.** Product- and service-level ESG impact assessments remain one of the most undervalued ESG issues despite the significant level of risk they present to companies. Considering the importance of the issue, product- and service-level ESG impact should be a critical ESG disclosure requirement for companies. A life cycle sustainability assessment (LCSA) can identify hotspots in the supply chain, and/or compare the adverse impacts between products and services. Product- and service-level ESG impact assessment through LCSA is a fast-developing field, thus in order to ensure adequate implementation, globally applicable guidelines and protocols for the implementation of product- and service-level ESG evaluation is needed. Therefore, the authors propose that the G20 host discussions for the development of the guideline.
3. **Adopt climate foreign direct investment policies and measures.** G20 members should adopt cutting-edge policies and measures to support climate foreign direct investment (FDI). These are measures specifically designed to attract, facilitate, protect, and retain climate FDI across the investment lifecycle. G20 policymakers can individually consider adopting them and use them to foster common G20 steps to help grow FDI for climate action.
4. **Create a COP taskforce on climate investment policy and endorse the Paris Aligned Investment Initiative and encourage G20 firms to follow the Net Zero Investment Framework.** The G20 economies should call for a COP taskforce on climate investment policy, to create a standing mechanism for dialogue and cooperation on climate FDI. This would facilitate collaboration between public and private actors on climate FDI. It would also be complementary to the existing Taskforce on Access to Climate Finance ³, given that finance and investment policy are symbiotically connected: policies help mobilise finance, and the availability of finance helps motivate policy reforms. In addition, G20 members should endorse new approaches that help mobilise investors in support of climate goals, including the Paris Aligned Investment Initiative (PAII)⁴ and the Net Zero

³ UK COP 26, "Finance", <https://ukcop26.org/cop26-goals/finance/>

⁴ Institutional Investors Group on Climate Change, "Paris Aligned Investment Initiative", May 2019, <https://www.iigcc.org/our-work/paris-aligned-investment-initiative/>

Investment Framework ⁵, and encourage G20 firms to follow this framework. The Net Zero Investment Framework, published in March 2021, provides a common set of recommended actions, metrics and methodologies through which investors can maximise their contribution to achieving global net-zero global emissions by 2050 or sooner.

Sustainable and inclusive industrialisation via Industry 4.0

1. **Adopt technological and distribution innovation, focusing on creating mechanisms that make accessing intellectual property rights easier and facilitating the adoption of technologies (especially digital and green technologies).** Information gathering and distribution are important, especially regarding (i) best practices on digitalisation and the green transition and (ii) scientific information, technology and data on crisis detection and resilience. These ideas can either be implemented by countries jointly as a G20 initiative or individually within each country's regulatory domain in tandem.
2. **G20 members should promote the T20's evidence-based approach to Industry 4.0 policy formulation taking into account the key multi-faceted enablers of digital competitiveness i.e. human capital; digital readiness and infrastructure; entrepreneurial innovation; and efficient interoperable digital regulatory regimes.**⁶ Each of these factors is heavily impacted by domestic policies and digital regulations. The global guidance provided in the T20 framework for digital industrial transformation is designed to help find a balance between competing industry, employment and sustainability objectives, data protection and national security goals and the need to ensure international competitiveness, participation in GVCs and openness to digital trade and investment.
3. **Upgrade digital skills, talent development and employment.** Trade and technology can come together to generate inclusive growth if the right skills are in place. The G20 must ensure universal access to basic ICT skills. Strengthening social skills, creativity, strategy and management are equally important. In these areas, human intelligence has comparative advantage over technology and there is strong potential for job creation.

⁵ Institutional Investors Group on Climate Change, "Net Zero Investment Framework Implementation Guide", March 2021, <https://www.parisalignedinvestment.org/media/2021/03/PAIL-Net-Zero-Investment-Framework-Implementation-Guide.pdf>

⁶ Chanda, R., Damuri, Y. R., Drake-Brockman, J., Narjoko, D. A., Nordås, H. K., Mishra, N., Stephenson, M., and Yokazawa, M. (2022). Digital Industrialization Building Internationally Competitive Digital Industries with Global Value Chain Connectivity. Retrieved 14 September 2022, from https://www.t20indonesia.org/wp-content/uploads/2022/09/TF1_Digital-Industrialization-Building-Internationally-Competitive-Digital-Industries-with-Global-Value-Chain-Connectivity.pdf

4. **Support digital infrastructure financing and investment facilitation.** An essential support for Industry 4.0 is inward FDI which brings capital, business know-how and technology. Given the nature of new digital business models, some adjustment may be required in policy and regulatory settings to attract digital FDI. Survey results suggest that investors look closely at data security regulations, copyright laws and data privacy regulations. Other factors are availability of e-payment services, support for starting digital businesses and support for local digital skills development. Investment in digital infrastructure is influenced by the ease of receiving licences, availability of skilled local engineers and other workers and the extent of international coordination in infrastructure investment. G20 members should draw on these findings in devising roadmaps to facilitate inward digital FDI.

5. **Strengthen country digital framework conditions for entrepreneurship.** The G20 members can adopt an entrepreneurial ecosystem approach to SME and entrepreneurship policy by nurturing regional communities of entrepreneurs and supporting an enabling ecosystem for them. As a start, the G20 members could use a common index or toolkit such as the Asian Index for Digital Entrepreneurship Systems (AIDES) to identify strengths and weaknesses in a country's digital framework conditions for entrepreneurship to conduct comparisons with selected peers and identify relative strengths and weaknesses of self and peers. Finally, the G20 members should discuss open-source digitalisation systems and frameworks that are being positively viewed and adopted in developing and developed countries, and are especially beneficial for SMEs and entrepreneurs.

Securing the food supply chain

Trade is a fundamental part of ensuring food security. Countries need to keep food markets open and to avoid both import protection and export controls.

1. **Keep markets open.** There is ample evidence that global food price spikes are mostly caused by state interventions and misplaced regulations. The G20 should end restrictions on the food and fertiliser trade and provide leadership in the WTO to refrain from imposing trade barriers. The Bali Leaders Declaration should assert this commitment in order to maintain sufficient food distribution globally.

2. **Intensify technological and logistical cooperation on food security.** One reason behind the policy of imposing restrictions is concerns over the availability of food supply at regional and global levels. The G20 can develop a monitoring platform for potential production and availability of supply in various regions. This would help countries to identify food-supply

issues at a global and regional level, to ensure the right domestic policy. Digital and remote sensing technology could help provide timely and accurate information. In addition this should be supported with smooth and efficient logistics that can be achieved by greater cooperation on trade facilitation and transportation services.

3. **Address food and nutrition insecurity by diversification of food sources, supply and output markets, through diversifying production, producing more nutritious foods.** The G20 should invest in innovation on food diversification to reiterate its calls on countries to refrain from imposing restrictions on the food and fertiliser trade and provide leadership with the WTO to reinvigorate agricultural trade negotiations and establish an internationally coordinated framework for repurposing of agricultural support with the WTO's rules of engagement and multilateral climate agreements. The G20 could further promote multilateral coordination in the diversification of food sources for any given country and region. This coordination would involve, inter alia, the development and maintenance of robust food transport networks to guarantee physical access to nutritious food across countries and export policy reforms reflecting the competitive conditions on a level playing field for producers and exporters in developing countries.

4. **Enhance the agri-food supply chain through integration into nature-positive GVCs.** The G20 should support agriculture policies that encourage nature-positive production such as by protecting natural systems from new conversions for food production, sustainably managing existing food-production systems and restoring degraded farmland. Trade, environmental standards, improved practices and technology can contribute to productivity growth and adequate food availability, while taking into account the impact of agri-food systems on climate change and natural resources. The G20 should anchor supply chains in an effective regulatory environment, recognise and protect small-scale and indigenous fisher interests in supply chain resource ownership, and ensure investment in and upgrading of aquaculture and fishery supply chains.

About T20 Indonesia Task Force 1

The T20 Task Force (TF) 1 on Open Trade, Sustainable Investment and Industry aims to formulate robust policy briefs that promote enabling environment and partnership for international trade, investment, and industry to drive a resilient, inclusive, and sustainable post-COVID world. This TF consists of some policy areas such as WTO reform agenda, resilient, inclusive supply chain, open, fair and green trade, sustainable investment, digital trade & digitally enabled services. Thus, the TF aims to deliver a robust, independent, and inclusive research-based policy platform for experts and impactful policy options for the G20 policy-making process.

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