G20 GERMANY 2017
BUSINESS 20 DIALOGUE

Creating Benefits for All

Driving Inclusive Growth through Trade and Investment

B20 TASKFORCE

TRADE & INVESTMENT

POLICY PAPER 2017

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Foreword by Taskforce Chair Emma Marcegaglia

Free, fair, and rules-based trade and investment contribute to welfare all over the world.

Globalization – particularly its economic side through the exchange of goods, services, ideas, labor, and capital – has driven global development and growth over decades. Free, fair, and rules-based trade and investment contribute to welfare all over the world, independent of geography or developmental status.

However, we have to observe that globalization is increasingly under attack. Recent political developments in many countries – including G20 members – risk fraying the consensus of the international community that global exchange and cooperation are to the benefit of all.

The G20 and the global business community need to address these developments and stand up for effective multilateralism as well as underline the well-established benefits of exports, imports, and investment flows. Still, the global business community is acutely aware that rising protectionism is not a new phenomenon accompanying the recent political discourse but has been increasing for years since the global financial and economic crisis.

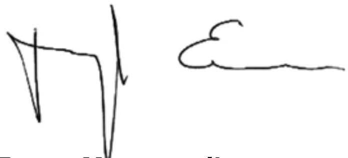
Notwithstanding the proven benefits of open markets, we have to address the existing malaise in some communities concerning globalization. Therefore, ensuring that the benefits of trade and investment are even more inclusive than they already are is at the core of the B20's recommendation. This includes three elements: First, domestic and international policies need to enable everyone to take part in the benefits of globalization, for instance through adjustment assistance, better and target-oriented (re)qualification programs, capacity building, and the reduction of red tape.

Second, issues that would be especially beneficial for inclusiveness should be prioritized in trade and investment negotiations and policies. This includes digital trade, which can be a boost for trade participation of SMEs and developing countries, as well as investment facilitation.

The third basis for inclusiveness is that trade and investment are determined by rules that ensure fair competition. Therefore, we have to strengthen the global open trading and investment system. Addressing these factors would not only help to raise the acceptance of globalization but also boost wealth, employment, innovation, and welfare.

Because one thing is certain: protectionism and mercantilist policies can in no way propose a solution to concerns about inclusiveness. Quite the contrary, they hurt the poorest the most.

Sincerely,



Emma Marcegaglia

Chair of the B20 Trade & Investment Taskforce

President, BusinessEurope and Chairwoman, Eni

Recommendations

Recommendation 1: Strengthen an Open and Inclusive Trading System – The G20 should confirm its unconditional commitment to open and inclusive trade that is underpinned by transparency and robust adjustment assistance programs, resistance to protectionism in all forms, and a strong, nondiscriminatory rules-based global trading system.

Policy Action 1.1: Enhance Communication and Inclusiveness – The G20 should establish a common understanding of the effects and benefits of trade, communicate trade issues better, improve assistance for those displaced by trade, and put a focus on making trade more inclusive.

Policy Action 1.2: Implement Protectionism Standstill and Rollback – G20 members urgently need to honor their commitment to halt and roll back protectionist measures, improve their track record of related notifications, and provide greater transparency on the damages of trade barriers.

Policy Action 1.3: **Advance Liberalization under the WTO Framework** – G20 members should pursue further negotiation tracks, preferably under the WTO umbrella, including negotiations on sectoral and plurilateral agreements.

Recommendation 2: Make Use of Digital Trade Potential – The G20 should facilitate an enabling environment for digital trade by accelerating capacity building, encouraging implementation of interoperable and nondiscriminatory e-commerce-related policies, and calling for a WTO negotiation mandate on digital trade.

Policy Action 2.1: Accelerate Capacity Building – G20 members should accelerate the inclusive buildup of e-commerce capacities, especially in developing countries and for MSMEs.

Policy Action 2.2: Ensure Sound E-Commerce-Related Policies – G20 members should ensure that e-commerce-related policies are interoperable as well as nondiscriminatory and strengthen the regulatory dialogue with all relevant stakeholders.

Policy Action 2.3: Adapt Trade Rules to the Digital Age – The G20 should instigate a WTO negotiation mandate on digital trade at the next WTO Ministerial Conference, which should address free cross-border data flows, trade in digital products and services, trade facilitation, regulatory coherence, and other identified legal gaps.

Recommendation 3: Foster Investment Facilitation – The G20 should foster a reliable legal environment, enhance sustainable investment facilitation, and identify the benefits and drawbacks of a multilateral investment framework.

Policy Action 3.1: Strengthen a Reliable Legal Environment – The G20 should further develop and build on the G20 Guiding Principles for Global Investment Policymaking, make progress on a concrete G20 Investment Facilitation Package, and support the resumption of a dialogue in the WTO on strengthening the coherence of trade and investment policies.

Policy Action 3.2: Support Sustainable Investment Facilitation – The G20 should enhance international support programs for investment in developing countries to meet the Sustainable Development Goals (SDGs).

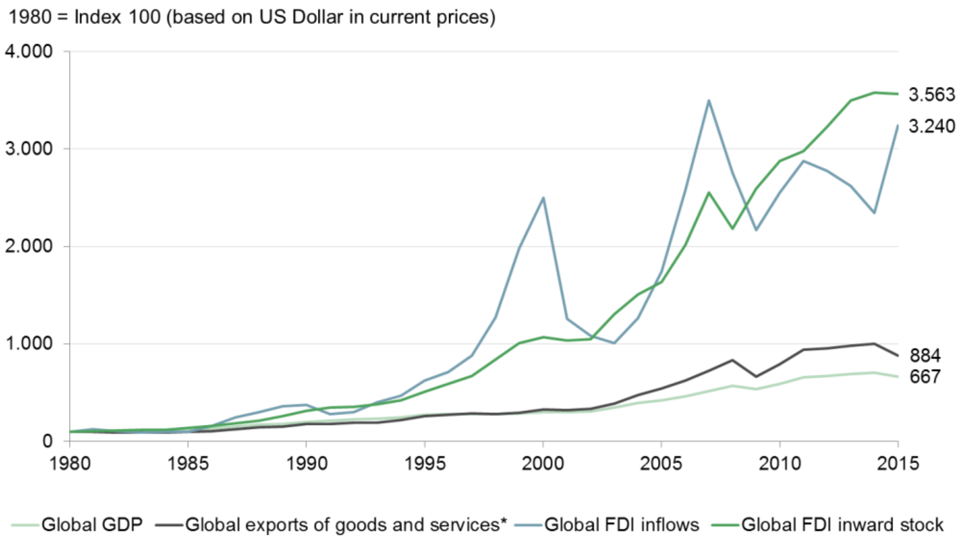
Policy Action 3.3: Explore a Potential Multilateral Investment Framework – Building on the Guiding Principles for Global Investment Policymaking, the G20 should mandate the OECD, UNCTAD, UNCITRAL, and the WTO to prepare a study on the benefits, challenges, drawbacks, and potential components of a multilateral investment framework.

Introduction

Open and inclusive trade and investment are prerequisites for a future-oriented, sustainable global economy. They have been the growth engines of the global economy over a long period: Both exports and imports boost productivity by enhancing economies of scale and specialization, as well as by lowering input prices, and by increasing competition. Furthermore, imports significantly contribute to consumer welfare and purchasing power, as trade provides access to a more diverse range of goods and services at lower prices. This is especially beneficial for lower-income households. The fact that trade and investment can play a crucial role for human and economic development has been exemplified by the impressive growth in East and Southeast Asia over the past 20 years, particularly the evolution of the Chinese economy following its integration into the World Trade Organization (WTO).

The 2030 Agenda for Sustainable Development acknowledges the significant potential of trade and investment for inclusive economic growth and poverty reduction. Trade and investment foster a resilient, responsible, and responsive global economy by boosting purchasing power and productivity as well as technology and knowledge exchange. Thus, they are in direct support of the SDGs number 8 ("promoting decent work and economic growth"), 9 ("building resilient infrastructure, promoting inclusive and sustainable industrialization, and fostering innovation"), and 10 ("reducing inequality within and among countries").[1] Also the Addis Ababa Action Agenda underlines that international trade is an engine for inclusive economic growth and poverty reduction, contributing to the promotion of sustainable development.[2]

Exhibit 1 | Global Evolution of GDP, Trade, and FDI since 1980



Sources: WTO, *WTO Statistics Database*, accessed February 8, 2017, http://stat.wto.org (*metrics of services exports changed in 2006); World DataBank, *World Development Indicators*, accessed February 8, 2017, http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators; UNCTAD, *UNCTADstat*, accessed February 8, 2017, http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en. Note: Nominal decline of global exports and GDP in 2015 is due to exchange rate fluctuations.

Between 1985 and 2007, volumes of merchandise exports grew at about twice the rate of the global gross domestic product (GDP). However, growth rates for trade have slowed in recent years, driven by an uneven global recovery and lingering uncertainty.[3]

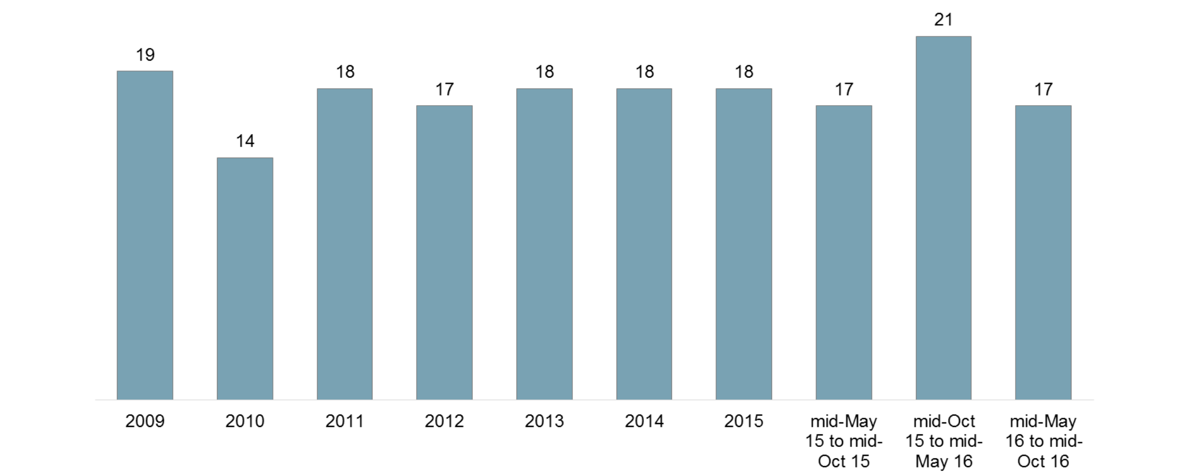
[1] UN, *SDGs*, accessed February 8, 2017, https://sustainabledevelopment.un.org.
[2] UN, *Addis Ababa Action Agenda* (2015), 37–43, accessed February 8, 2017, http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf.
[3] WTO, *WTO Statistics Database*, accessed February 8, 2017, http://stat.wto.org/; World DataBank, *World Development*

From 2010 to 2015, global exports grew by an annual rate of only two percent.[4] In 2016, global merchandise exports are expected to have grown slower than global GDP for the first time in 15 years.[5] Economic uncertainty and political instability in developed countries since the financial crisis have coincided with lower growth rates in emerging markets, leading to reduced global demand. Furthermore, the expansion of global value chains has significantly slowed down, while protectionism has risen and trade liberalization at the multilateral level has decelerated considerably.

For decades, the liberalization of trade has been a success story. Over the course of 70 years, the average applied global weighted tariff fell from as high as 22–40 percent in 1947 – according to diverging estimates – to between two and five percent in recent years, reducing the cost of goods and services across the globe.[6] While in some sectors, especially agriculture, tariffs still constitute a major barrier to trade, in other sectors the largest potential benefits lie in eliminating existing non-tariff barriers (NTBs). These include protectionist policies such as localization requirements, discriminatory procurement procedures, and barriers to trade in services. Increasingly, obstacles to trade also emerge in areas that are not traditionally linked to trade policy, such as regulatory divergences and complex licensing procedures. While in many cases these trade barriers might be unintentional, more and more public policies are deliberately being used as a form of veiled protectionism. Since they are often incorporated as part of other, nontrade-related policies, NTBs are more difficult to detect and eliminate.

While G20 members committed to halting new protectionist measures and rolling back existing measures in 2008, according to the WTO they have implemented over 200 new trade-restrictive measures per year since 2009 (see Exhibit 2).[7] The alarming development has been acknowledged by the G20 and addressed by previous B20 cycles. However, the attitude of G20 members towards this issue has not significantly changed. In addition to an increased number of protectionist barriers, a worrisome rise in unfair competition and trade distortion, driven by subsidies and state-directed economic activities, can be observed. The latter have also led to excessive overproduction in some areas, for instance in the steel sector.

Exhibit 2 | Newly Introduced G20 Trade-Restrictive Measures (Average per Month)



Source: WTO, *16th Report on G20 Trade Measures* (November 2016), 20, accessed February 8, 2017, https://www.wto.org/english/news_e/news16_e/g20_wto_report_november16_e.pdf.

Indicators, accessed February 8, 2017, http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators.
[4] Ibid.
[5] Ibid.
[6] Chad Brown and Douglas Irwin, *The Urban Legend: Pre-GATT Tariffs of 40%* , VOX (December 2015), accessed January 6, 2017, http://voxeu.org/article/myth-40-pre-gatt-tariffs.; UNCTAD, *Key Statistics and Trends in Trade Policy* (2013), 3, accessed February 8, 2017, http://unctad.org/en/PublicationsLibrary/ditctab20132_en.pdf.
[7] WTO, *16th Report on G20 Trade Measures* (November 2016), 20, op. cit.

In addition to dealing with traditional barriers, decision-makers need to acknowledge that, in recent years, the way trade is defined has evolved. The classic image of cargo ships loaded with containers now represents just one facet of the overall landscape of trade. Services play an increasingly large role in global exchanges, and the rise of the Internet has made cross-border data flows one of the most important issues in international commerce. E-commerce has opened new opportunities for small businesses to trade across borders at lower costs.

Foreign Direct Investment (FDI) flows and stocks have been growing considerably faster than trade and GDP in the past 30 years.[8] But since the 2007/2008 financial and economic crisis, FDI flows have been fluctuating significantly while the overall level remains below precrisis levels. In 2016, global FDI inflows fell by 13 percent to $1.5 trillion, after a strong increase in 2015 due to corporate restructuring transactions with little real impact on productive assets. In 2017, FDI inflows are estimated to increase by ten percent.[9]

Exhibit 3 | Per Capita Income Gains Due to Increasing Globalization 1990–2014

Country	Average annual per capita income gain in euros, weighted for PP*	Cumulative per capita income gain in euros, weighted for PP*	Globalization-induced per capita income gain in 1990–2014 compared to per capita GDP in 1990 in %
Argentina	150	3,700	51
Australia	930	22,400	96
Brazil	290	7,000	79
Canada	780	18,700	71
China	220	5,300	406
France	750	18,100	76
Germany	1,270	30,400	123
India	80	2,000	128
Italy	1,040	25,000	101
Japan	1,030	24,600	95
Mexico	190	4,600	49
Russia	450	10,800	99
South Africa	450	11,700	119
South Korea	1,250	30,000	262
Turkey	440	10,600	127
United Kingdom	700	16,900	71
United States	490	11,700	37

PP*: Purchasing Power

Source: Bertelsmann Stiftung, *Globalization Report 2016 – Who Benefits Most from Globalization?* (2016), 17–19, accessed February 8, 2017, https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/NW_Globalization_Report_2016.pdf.
Note: Indonesia and Saudi-Arabia N/A.

Globalization has generated tremendous benefits for countries worldwide, independent from region, state of development, or current account balance (see Exhibit 3). Furthermore, research shows that

[8] UNCTAD, *UNCTADstat*, accessed February 8, 2017, http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en.
[9] UNCTAD, *Global Investment Trend Monitor No. 25* (February 2017), 1; 6, accessed March 8, 2017, http://unctad.org/en/PublicationsLibrary/webdiaeia2017d1_en.pdf.

globalization might have actually decreased relative income inequality.[10] However, it cannot be ignored that an increasingly large number of people feel disadvantaged by globalization. As one consequence of the growing antitrade sentiment, protectionism is on the rise. This negatively impacts growth, employment, and innovation. Part of the negative perception of trade is due to a lack of transparency and understanding of its effects on employees and consumers worldwide. Hence, to strengthen the acceptance of globalization, more needs to be done to deepen inclusiveness and assist those deprived of the benefits of trade and investment.

As more countries have joined the WTO and tariffs have been abolished to a large extent, multilateral liberalization has become more difficult. The conclusion and ratification of the Trade Facilitation Agreement (TFA), which the B20 strongly welcomes, stands as one exception. No comprehensive multilateral trade round has been completed since the conclusion of the Uruguay Round more than 20 years ago. Due to the significant slowdown of multilateral trade liberalization, many of the most important structural and technological shifts in the global economy are not sufficiently captured by the multilateral trading regime. Consequently, emerging opportunities cannot be fully seized, challenges are not adequately addressed, and efforts to make trade more inclusive, sustainable, and rules-based are hindered.

One prominent example of this is digital trade. Digital trade can reduce transaction costs immensely, thus enabling significant efficiency gains as well as facilitating the integration of developing countries and micro, small, and medium enterprises (MSMEs) into global value chains. However, a precondition for these benefits is a significant improvement in e-commerce readiness, which in turn is driven by effective information and communication technology (ICT) infrastructure, an appropriate legal framework, and a citizenry with suitable digital skills. The potential of digital trade is considerably hampered by the increasing number of barriers being enacted, such as discriminatory and incompatible standards and regulations affecting e-commerce, localization requirements, and limitations on the free flow of data. These barriers reduce growth potential and harm consumers.

While trade dominates much of the conversation surrounding global commerce, investment is equally important to enhancing global growth. The G20 has made significant progress on investment facilitation in 2016 by developing its Guiding Principles for Global Investment Policymaking. The challenge moving forward will be to ensure that members respect them and expand on them to agree on a more concrete and ambitious set of common principles. Investment plays a fundamental role in the development of sustainable, dynamic, and innovative economies. Private investments in least-developed countries can fill the gap left by the lack of domestic funds and should therefore be incentivized. In addition to clarifying rules on an individual country level, investment could potentially be promoted further by a multilateral framework. Currently, the global investment system remains a complex system of bilateral and regional treaties. While these generally foster investment flows, the disparity of agreements creates ambiguity and unnecessary costs for both firms and governments.

[10] Miguel Niño-Zarazúa, Laurence Roope and Finn Tarp, *Income Inequality in a Globalising World*, VOX (2016), accessed February 2, 2017, http://voxeu.org/article/income-inequality-globalising-world.

Recommendation 1: Strengthen an Open and Inclusive Trading System

The G20 should confirm its unconditional commitment to open and inclusive trade that is underpinned by transparency and robust adjustment assistance programs, resistance to protectionism in all forms, and a strong, nondiscriminatory rules-based global trading system.

Policy Actions	
1.1 Enhance Communication and Inclusiveness – The G20 should establish a common understanding of the effects and benefits of trade, communicate trade issues better, improve assistance for those displaced by trade, and put a focus on making trade more inclusive. • The G20 should adopt a report annexed to the G20 Communiqué in 2017 in which they establish consensus of their views of the impacts of trade on growth, employment, and welfare. • G20 members should share best practices and opportunities to develop evidence-based and targeted policies for better education, (re)qualification, and life-long learning, especially for displaced employees. • The G20 should develop best practices, incorporating opinions and viewpoints from businesses for greater inclusiveness of trade benefits, monitor progress, and regularly publish the results in a report.	
Owner G20 members,[11] OECD	**Timing** 2017-2018
1.2 Implement Protectionism Standstill and Rollback – G20 members urgently need to honor their commitment to halt and roll back protectionist measures, improve their track record of related notifications, and provide greater transparency on the damages of trade barriers. • The G20 should mandate the WTO to refine its current protectionism monitoring and G20 Trade Measures Report. The G20 Trade Measures Report should contain a more detailed categorization of trade barriers, include a qualitative impact assessment of specific prevalent trade barriers, and encompass root cause analyses. • The G20 Trade Measures Report should regularly include B20 assessments on the evolution and impacts of trade barriers. • G20 members need to honor their WTO notifications commitments on trade measures.	
Owner G20,[12] G20 members, WTO, B20	**Timing** 2017
1.3 Advance Liberalization under the WTO Framework – G20 members should pursue further negotiation tracks, preferably under the WTO umbrella, including negotiations on sectoral and plurilateral agreements. • The G20 should support a swift and ambitious conclusion of the remaining Doha Round goals. • G20 members should lead the implementation of the TFA and ITA-II and support efforts to further expand their membership. • G20 members should advance the expansion of GPA coverage and support a reopening of WTO negotiations on transparency in procurement. • G20 members should support further negotiation tracks at the WTO and agree on the most promising areas for sectoral or other plurilateral initiatives.	
Owner G20, G20 members, WTO, WTO members	**Timing** 2017-2019

[11] Ownership by G20 members: Differentiated action by individual governments in their own right.
[12] Ownership by G20: Collective action via the G20 process (such as commitments, principles, action plans, or toolkits).

Context

Throughout much of the second half of the 20th century, trade was considered by many policy-makers to be an almost exclusively positive phenomenon. It contributed to boosting growth, employment, productivity, and consumer welfare in both the developing and developed world, and drove the creation of global supply chains, creating quality products at lower prices. However, in recent years the positive perception of trade has deteriorated. This development was exacerbated by the prolonged downturn and uneven recovery in the wake of the 2007/2008 financial and economic crisis. The increasing antitrade sentiment has led to a rise in protectionist measures and unfair competition among many countries from all levels of development. Further liberalization has become markedly more difficult as many trade negotiations are opposed by significant portions of the public. This also hampers the adoption of new trade disciplines to make global trade more sustainable, inclusive, transparent, and rules-based.

In response to antiglobalization pressures, G20 members should work to enhance the understanding of the benefits that trade brings and to strengthen inclusiveness. At the national level, governments and businesses need to frame holistic concepts for education and life-long learning that offer employees opportunities to adopt relevant new skills and adapt to changing needs. To complement these actions, it is crucial that G20 members act on their commitment to halt and roll back protectionist actions. They should continue to enhance global market access by strengthening a rules-based multilateral trading system with a stronger focus on inclusiveness.

Policy Action 1.1: Enhance Communication and Inclusiveness

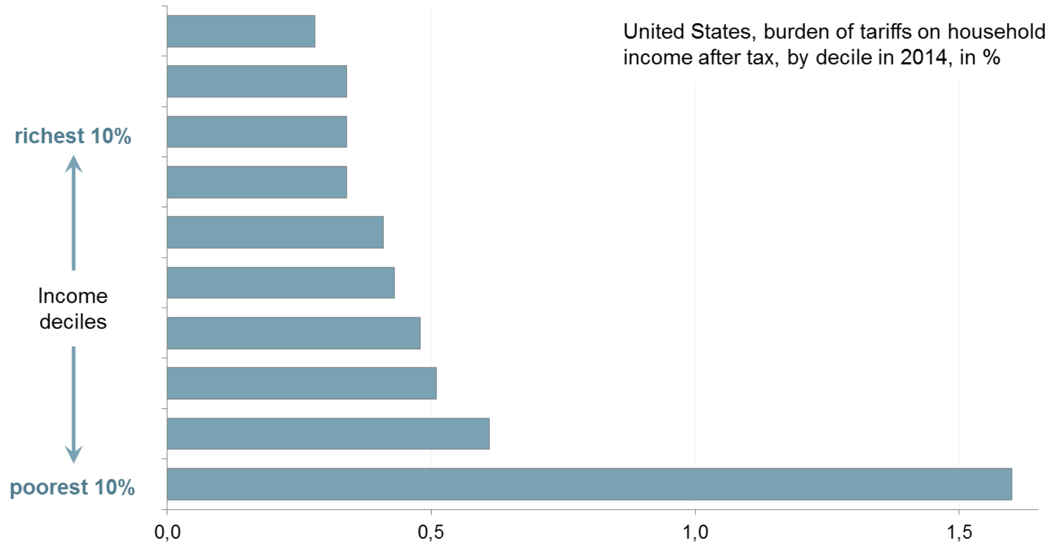
The G20 should establish a common understanding of the effects and benefits of trade, communicate trade issues better, improve assistance for those displaced by trade, and put a focus on making trade more inclusive.

Too often, the public discourse on trade benefits focuses solely on exports. Imports, too, greatly contribute to growth and economic well-being. They facilitate innovation and productivity by raising the level of competition, allowing economies to specialize, and providing access to higher-quality production inputs at lower costs. By lowering consumer prices and increasing consumer choice, imports contribute tremendously to wealth and welfare – especially for low-income groups. A study of 40 countries found that the richest consumers would lose 28 percent of their purchasing power if cross-border trade ended today, but those in the bottom tenth would lose 63 percent.[13] Trade barriers such as tariffs impose a much heavier burden on low-income than on high-income households (see Exhibit 4).

Mercantilist policies aiming to maximize export surpluses are thus misguided: they destroy innovation, wealth, and growth potential. Rather, the goal of trade policies needs to focus on removing discrimination and unnecessary trade barriers to both exports and imports while ensuring fair competition, sustainability, and inclusiveness through a rules-based global trading system.

[13] Pablo D. Fajgelbaum and Amit K. Khandelwal, "Measuring the Unequal Gains from Trade," *The Quarterly Journal of Economics* (2016), 1116–1117, accessed February 8, 2017, www.econ.ucla.edu/pfajgelbaum/mugft_qje.pdf.

Exhibit 4 | Burden of Tariffs on Income in the United States



Source: Jason Furman, Katheryn Russ, and Jay Shambaugh, *US Tariffs Are an Arbitrary and Regressive Tax*, VOX (2017), accessed February 2, 2017, http://voxeu.org/article/us-tariffs-are-arbitrary-and-regressive-tax.

Pressure from populist misrepresentations of trade impacts has contributed to the rise in protectionist measures. We therefore ask that G20 members draft a common report annexed to the G20 communiqué 2017 to establish a common understanding on the impact trade has on growth, development, employment, and consumer welfare – both the benefits and potential drawbacks. Such a public G20 report would be a valuable reference for G20 members' evaluation of trade. It would do more than contribute to transparency and better communication. The consensus-building exercise would also help the member states to find a collective working hypothesis on how trade policies and rules should evolve in the future to increase their positive effects and mitigate negative ones.

Global competition can add to shifts in production patterns, causing certain industries to raise and others to lower employment demand in a respective country. However, this is not the only factor influencing labor markets. In fact, many of the job losses blamed on trade are actually driven by changes in technology and increases in automation that eliminate jobs formerly done by people. For instance according to recent research 88 percent of the job losses in the U.S. manufacturing sector from 2006 to 2013 are attributable to productivity growth.[14] G20 governments and businesses need to listen to the concerns of citizens, while also doing a better job of communicating the benefits of trade and the variety of factors that are leading to economic disruption.

In aggregate, trade is an engine for job creation. Nevertheless, those employees who are negatively impacted by production shifts due to greater competition need sustainable support. Governments, working with business, need to formulate a clear policy response to effectively provide assistance to the workforce in adjusting to changing skill demands. In the G20 Employment Plans, which will be updated in 2017, G20 members should develop a structured approach for better education and life-long learning and training that provide relevant skills for the jobs of tomorrow. This could also build on the aforementioned G20 report on the impacts of trade. Holistic concepts for life-long learning should facilitate adaptation to shifts in market needs by providing the opportunity for retraining. These concepts should also be incorporated into adjustment support for people who are temporarily unemployed due to changing production structures (see Exhibit 5). It would be helpful to have the Organisation for Economic

[14] Center for Business and Economic Research, *The Myth and the Reality of Manufacturing in America* (2015), 6, accessed February 8, 2017, http://conexus.cberdata.org/files/MfgReality.pdf.

Co-operation and Development (OECD) provide an analysis on the effectiveness of alternative policies for addressing temporary unemployment due to production shifts caused by globalization.

Exhibit 5 | Trade Adjustment Assistance and European Globalisation Adjustment Fund

The Trade Adjustment Assistance (TAA) of the United States and the European Globalisation Adjustment Fund (EGF), respectively, provide support and benefits to employees who have lost their jobs due to trade and international competition. Each has their own strengths and shortcomings.

The TAA is a federal program designed to support employees who lose their job as a direct result of U.S. trade agreements. Employees who qualify for the program receive a variety of benefits, including expanded unemployment insurance, subsidized training to develop new skills, and funding for employees to move to new areas where job prospects are higher. Some older employees can also opt to receive wage insurance if they move into a new job with lower pay instead of pursuing training, and can get up to half the difference in salary between the old job and the new job paid by the government for up to two years.

In the European Union (EU), the EGF, established in 2007, is a €150 million fund that can cover up to 60 percent of the cost of projects designed to help employees find another job or set up their own business. Projects run for two years and are implemented by national or regional authorities.

While these programs directly acknowledge the need to support employees that have lost their jobs to trade and globalization, both suffer from key shortcomings that limit their effectiveness. The TAA has strict eligibility criteria that lead to low enrollment in the program. To qualify for the program, applicants need to prove direct harm from an increase in competitive imports or a shift in production to a foreign country – they cannot just argue general harm caused by globalization. Furthermore, applications for the program must first be certified for a specific group of employees before individuals in the certified group can apply for benefits, meaning that individual employees cannot apply without organizational support such as from a union or state government. In the United States, only 47,335 unemployed received TAA in 2015.

Similarly, the EGF suffers from several key restrictions that limit its impact. The program can only be used if over 500 employees are laid off by a single company, or if a large number of employees are laid off in a particular sector. As a result, like the TAA, it offers limited help to individuals who lose their jobs to globalization unless they are part of a larger organized movement. Additionally, it relies on national or regional governments to partially fund and fully implement the program. So if a national/regional government does not want to accept EGF funding, or coordinate the logistics to implement programs, it offers little help to the employees in that country.

Sources: European Commission, *European Globalisation Adjustment Fund*, accessed February 8, 2017, http://ec.europa.eu/social/main.jsp?catId=326&langId=en.; U.S. Department of Labor, *Trade Adjustment Assistance Annual Report 2015* (2015), 24, accessed February 8, 2017, https://www.doleta.gov/tradeact/docs/AnnualReport15.pdf.

Moreover, G20 members should focus on making trade more inclusive: The focus cannot only be economic growth but must always also include ensuring broad-based and sustained progress in living standards. G20 members should work towards implementation of their commitment reiterated in 2016 to foster integration of developing countries and MSMEs in global value chains and e-commerce so that they can reap the benefits trade offers. In order to further deepen the inclusiveness of trade and related benefits, G20 members should take three concrete steps: First, a yearly report on the trade inclusiveness of G20 members should serve as a means to provide transparency. This can be done in cooperation with the OECD, which has already undertaken substantial work in this area.[15] Second, a series of best-practice measures should be developed and made available to all WTO members that further illustrate the multilayered topic of income and nonincome inequalities. Third, the G20 should aim to build support in the WTO to install a monitoring mechanism to illustrate progress in trade inclusiveness – including the participation of MSMEs in global trade – as well as measuring the effects inclusive trade has on economic development.[16]

[15] See for example: OECD, *All on Board – Making Inclusive Growth Happen* (2015), accessed February 8, 2017, https://www.oecd.org/inclusive-growth/All-on-Board-Making-Inclusive-Growth-Happen.pdf.
[16] For further concrete proposals how to increase benefits of trade for small firms, please see the B20 Germany SME Cross-Thematic Group Policy Paper.

Policy Action 1.2: Implement Protectionism Standstill and Rollback

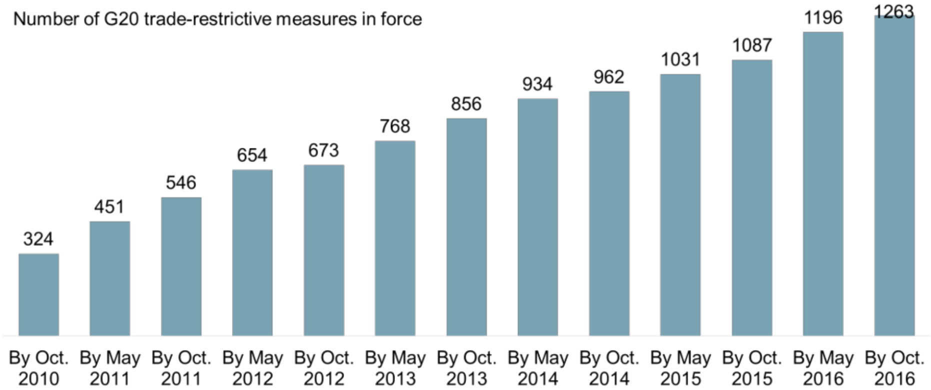
G20 members urgently need to honor their commitment to halt and roll back protectionist measures, improve their track record of related notifications, and establish a common understanding of the effects of trade barriers.

The agreement on the protectionism standstill and rollback in the immediate aftermath of the global financial crisis was one of the most important – and could have been one of the most impactful – decisions the G20 ever took. It was owed to the realization that raising barriers to trade, mercantilist policies, and unfair competition exacerbate problems. Protectionism destroys jobs, reduces growth potential and welfare, while throttling innovation and productivity. The fatal consequences of protectionist measures and self-reinforcing retaliations have been aptly demonstrated during the Great Depression in the 1920s and 1930s.

However, the protectionism standstill on trade barriers also stands for one of the biggest failures of the G20. Against the spirit and the letter of the agreement, G20 members have continuously increased the stock of trade barriers, while the implementation of trade facilitating measures has been modest. Even though G20 members, year after year, recommit to the protectionism standstill and acknowledge the detrimental consequences of its lack of implementation, there is no apparent change in this trend. On the contrary, from October 2015 to May 2016 the rate of monthly implementation of new trade barriers by G20 economies has reached the highest monthly average registered since the monitoring began in 2009. A B20 survey on businesses' views on trade barriers confirms that since 2011 not only the quantity of trade measures has increased but also trade restrictiveness (see Exhibit 7).

For too long the G20's action on antiprotectionism has been restricted to hollow endorsements. The B20 urges the G20 to take concrete actions to strengthen the implementation of the protectionism standstill and rollback. The main instrument of the G20 in this regard – the WTO monitoring and its biannually published G20 Trade Measures Report (see Exhibit 6) – can play an important role. In order to increase its impact, the B20 calls for the WTO monitoring to be strengthened and refined. The G20 Trade Measures Report offers a reliable common reference. If reinforced, it can provide the urgently required transparency that allows for a sober view on which to base future policies and build up peer pressure on governments that deviate from their commitments. A refined WTO monitoring could thus help to identify collective working hypotheses about how to effectively engage in antiprotectionism and trade facilitation. The WTO monitoring and report on G20 trade measures should 1) enhance greater transparency, 2) include more detailed analyses on root causes, and 3) include more practical analysis and a stronger impact-focused qualitative component.

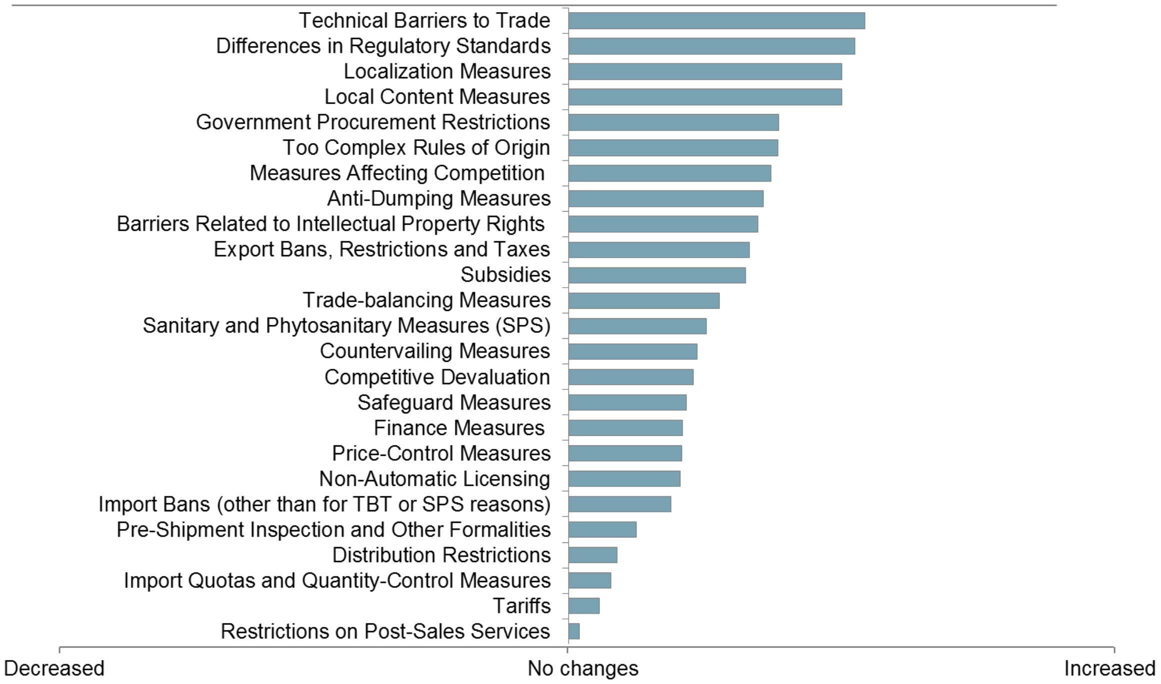
Exhibit 6 | Stock of G20 Trade-Restrictive Measures Imposed Since October 2008



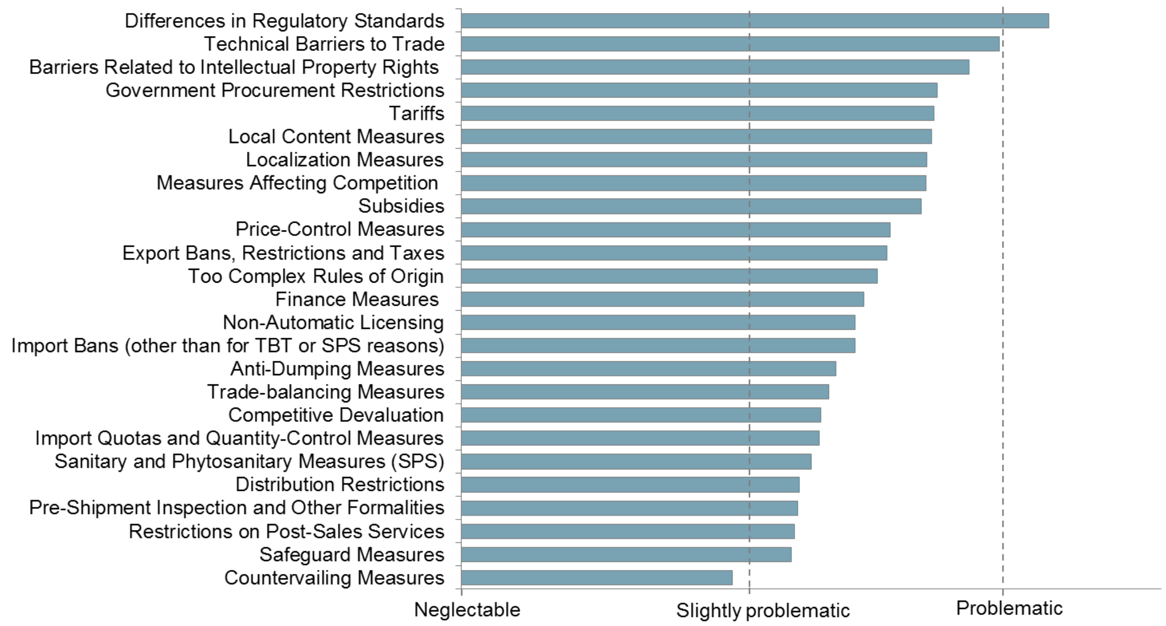
Source: WTO, *Report on G20 Trade Measures* (November 2016), 26, op. cit.

Exhibit 7 | B20 Survey on Trade Barriers

How did trade barriers evolve since 2011?



What barriers currently affect trade the most?



Source: Survey with Members of all B20 Germany Taskforces and Cross-Thematic Groups (2016).

To provide the right assumptions and increase transparency, the G20 Trade Measures Report should give a more detailed and differentiated analysis of trade barriers. The current classification in four categories ("trade remedy," "import," "export," and "other") does not promote a clear view of current trends in trade policies, notably NTBs. Therefore, the B20 calls for the WTO report on G20 trade measures to include a much more concise categorization of observed NTBs. A common, agreed-upon basis might be the classification of NTBs of the United Nations Conference on Trade and Development (UNCTAD).[17] This could be enhanced by adding further specific sections on trade in services. Expanding the information available on these barriers to trade would allow for more detailed discussions and conclusions. The OECD has also been doing helpful work in this area, for instance on procurement and localization.

Furthermore, the G20 Trade Measures Report should include a more detailed analysis of the developments of trade measures. They should explore potential causes for a substantial increase/decrease of specific trade-restrictive measures. In recent years this would have included analyses of the rise in government procurement restrictions, local content requirements and localization, as well as trade remedies. The analysis might have found, for instance, that legal gaps in WTO rules, deficient implementation of mandatory trade rules, or a rise in unfair competition have contributed to the increase in specific trade barriers. This kind of root cause analysis would foster the establishment of a common working hypothesis about how trade-restrictive measures can be tackled in the most effective way.

Finally, the G20 Trade Measures Report needs to have more practical and qualitative analyses. The quantity of trade-restrictive or trade-facilitating measures alone does not necessarily tell us much about their impact. Therefore, the B20 recommends that the WTO report on G20 trade measures includes impact assessments of specific trade-restrictive or trade-facilitating measures regarding imports, exports, growth, and jobs. In this regard the WTO could cooperate with international organizations, such as the OECD, the International Trade Centre (ITC), and others. This would allow for the necessary commonly accepted reference as to which barriers/facilitation have the most harmful/beneficial impact and whose tackling/introduction should therefore be prioritized by G20 members. The basic prerequisite for the WTO monitoring to be effective is that G20 members honor their notification requirements. The reporting and transparency of certain countries' trade-related policies have been highly unsatisfactory. Reports by members of academia and trade analysts – such as Global Trade Alert – regularly indicate a significantly higher number of trade barriers than the WTO report. The B20 firmly welcomes the G20 commitment to improve the track record of notifications related to standstill and rollback efforts included in the Shanghai Trade Ministerial Meeting Statement in 2016 and calls upon all G20 members to act accordingly.

[17] UNCTAD, Classification of Non-Tariff Measures (February 2012), accessed February 8, 2017, http://ntb.unctad.org/docs/Classification%20of%20NTMs.pdf.

Exhibit 8 | Trade Barriers Beyond Protectionism: The Need for Regulatory Cooperation

Sometimes trade barriers are unintended. For example, due to economic, political, or cultural reasons, different countries regulate goods and services in different ways. They may have diverging safety standards for cars, different rules regarding product labeling, or separate requirements for licensing and qualifications. When countries enact these rules, they very rarely take into account the fact that national regulations affect international trade and create competition distortions for companies. Regulatory divergence often creates an unnecessary burden for companies operating on a cross-border basis. All regulated sectors and sizes of companies may potentially be affected by this. But there is no doubt that it is more burdensome for MSMEs, which do not have the same capacity and budget to comply with the multitude of different requirements in various export markets. Recent research has shown that a 10 percent increase in the burden of NTBs reduces export revenues of large firms by 1.6 percent but export revenues of small firms by 3.2 percent.

Regulatory divergence is a complex issue and cannot be completely tackled at the multilateral level. Nevertheless, countries can agree on certain principles that could contribute to global cooperation towards harmonization, convergence, or mutual recognition.

- Whenever it is possible and adequate, regulatory cooperation should be promoted through international fora and standards should be adopted. For example, the OECD Trade and Regulatory Policy Committees have been undertaking joint work on international regulatory cooperating in the context of trade.
- Sector-specific regulatory cooperation between governments should be intensified in the WTO Committee on Technical Barriers to Trade (TBT), including on e-commerce, to facilitate regulatory interoperability. The WTO Working Party on Domestic Regulation is equally well placed to engage this topic.
- A horizontal mechanism for mediating concerns over NTBs, as initially discussed in the Doha Round, would be helpful for discussing and clarifying potential disputes in a time-efficient and effective manner.
- In-line with existing WTO disciplines, relevant international standards should be adopted as a basis for regulation to avoid unnecessary and inefficient regulatory divergences.
- In designing and developing regulations, governments should take into account other parties' regulatory approaches, relevant international standards, and their impact on international trade and investment. They should promote an efficient, procompetitive regulatory environment that must be predictable and transparent for citizens, consumers, and economic operators.
- A systematic dialogue between legislators should be promoted, so that harmonization, convergence, or equivalence of future legislations is facilitated (for example, in the area of green products or new technologies).

Source: International Trade Centre, *SME Competitiveness Outlook 2016: Meeting the Standard for Trade* (2016), XIX, accessed February 8, 2017, http://www.intracen.org/uploadedFiles/SMECO2016.pdf.

Exhibit 9 | Reducing Trade Barriers Through Anti-Corruption

Corruption at customs constitutes a significant NTB and may squander trade facilitation efforts. It leads to inefficient economic decisions, competitive disadvantages, security risks, loss of revenue for governments and businesses, as well as delays in the movement of goods and services.

To further combat corruption at customs, the following actions should be considered by G20 members and businesses, while building on existing initiatives, such as the *G20 Guiding Principles to Combat Solicitation* and *Resisting Extortion and Solicitation in International Transactions*:

- G20 members should support the global implementation of the TFA, which could significantly reduce opportunities for corruption if specific attention is given to following stipulations:
    - increase clarity and transparency in import and export procedures and requirements;
        - standardization, streamlining, and prompt publication of import, export, and transit procedures, appeals procedures, and required forms and documents;
        - publication of all fees or other charges, the reason for their imposition, the authority responsible for imposing them, and when and how payment is to be made.
    - advance rulings on a good's tariff classification and origin;
    - implement appeal and review procedures of customs officials' decisions;
    - ensure rapid release of goods and reduced time and cost of compliance.
- G20 members should strengthen cooperation to develop and harmonize customs regulations that promote the use of electronic tools in customs transactions to increase transparency and mitigate corruption:
    - implement rules on paperless trading through bilateral, regional, and WTO trade agreements;
    - establish a platform under a multilateral organization – such as the OECD – with the participation of national representatives to determine minimum standards at the international level;
    - develop corresponding measures to improve national customs regulations and coordinate their implementation.
- Explore how further automating the customs process (inbound and outbound) will assist in mitigating corruption:
    - develop pilot projects in coordination with the World Customs Union (WCO) and regional customs authorities.
- Further strengthen collaboration among key sectors of the trade chain (e.g., beneficial cargo owners, logistics providers, airport and port authorities) and relevant government authorities:
    - identify existing corrupt conduct and best practices to counter these from a governmental and private-sector perspective.
- Continuation of ongoing G20 work to identify trends and practices in fighting corruption at customs:
    - establish best practices including supply chain due diligence (set forth, e.g., in the OECD Guidelines for Multinational Enterprises and relevant sectoral guidelines);
    - consider (dis)incentives for the private sector to refrain from actions that reinforce corrupt practices at customs.

Note: Input to this Exhibit was provided by the B20 Germany Cross-Thematic Group on Responsible Business Conduct and Anti-Corruption

Exhibit 10 | The Case of Antidumping Measures

Of the G20's trade-restrictive measures observed by the WTO, the large majority are trade remedies, notably antidumping (AD) measures: From May 2016 to October 2016, 72 percent of newly introduced G20 trade restrictions were trade remedies according to the G20 Trade Measures Report. WTO rules explicitly allow for AD measures in cases where a product is exported at a price lower than the price it normally charges in its own home market (different metrics may apply for nonmarket economies). Additional criteria are that this causes material injury to a domestic industry and that there is a causal link between the dumped imports and the injury. The WTO AD Agreement sets forth substantive requirements that must be fulfilled in order to impose an AD measure. Furthermore, there are procedural requirements regarding the conduct of investigations, the imposition of AD measures, and their maintenance in place. Although they are trade-restrictive, AD measures that are in-line with WTO rules cannot be considered protectionism. AD measures that are WTO-compliant are an important trade policy tool to ensure that trade is fair. However, in some cases AD measures may be abused as a protectionist tool if they are imposed even though dumping does not actually take place or the AD tariff is higher than the dumping margin. In this regard, lack of transparency in the initiation and conduct of AD investigations is problematic.

Source: WTO, *Report on G20 Trade Measures* (November 2016), 26, op. cit.

The reason for the high number of AD measures initiated is disputed. According to some, it is the consequence of an increase in unfair competition, such as production or export subsidies. In this view, the rise of imposed AD measures is thus fair trade defense that does not constitute protectionism. Others contend that the increase is due to AD measures being abused as a protectionist tool to shield domestic markets. Regardless of the veracity of either view, the high number of AD measures underline the need to strengthen the rules-based global trading system, including through stipulations in trade agreements on competition, state-owned enterprises, and export restrictions, as well as addressing overcapacities. Clearer WTO disciplines on effective, transparent, and fair conduct of AD and similar investigations would also be helpful.

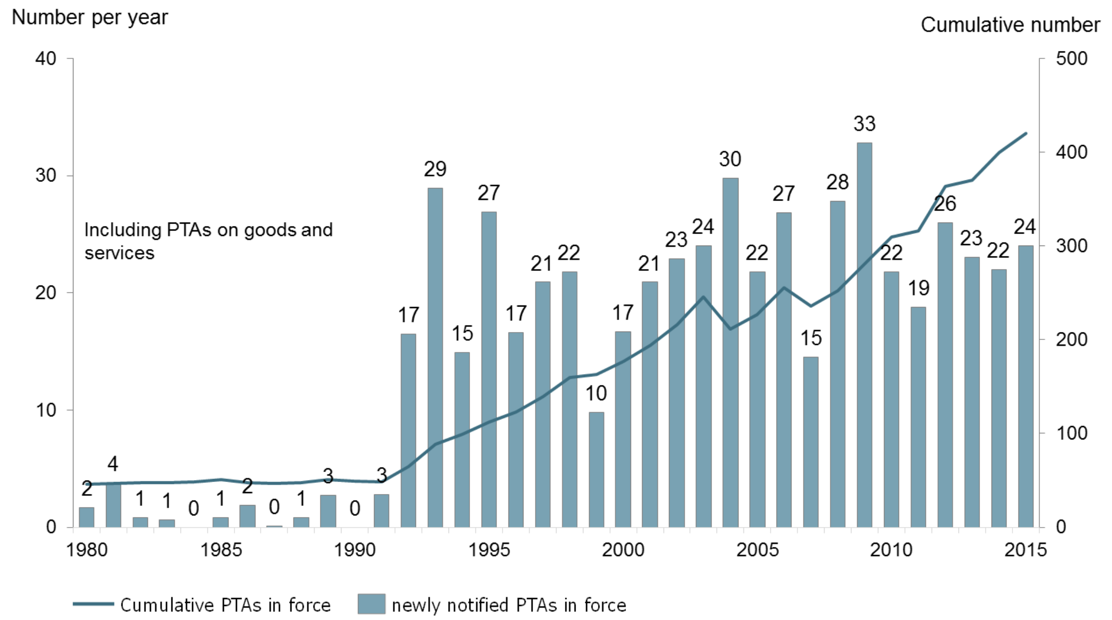
According to the B20 survey (see Exhibit 7) businesses see many other trade barriers as more problematic than AD measures. Because they are targeted, AD measures might usually have less of an impact on trade than barriers that concern entire market segments, such as localization barriers or regulatory divergences. This underlines the need for a qualitative analysis of trade restrictions rather than a quantitative one, which currently is the focus of the G20 Trade Measures Report.

Policy Action 1.3: Advance Liberalization under the WTO Framework

G20 members should pursue further negotiation tracks, preferably under the WTO umbrella, including negotiations on sectoral and plurilateral agreements.

In recent years, the number of concluded bilateral or regional preferential trade agreements (PTAs) has increased continuously (see Exhibit 11).[18] If done ambitiously and in coherence with WTO principles, PTAs can be extremely beneficial by increasing liberalization and advancing a rules-based trade regime – especially if stipulations can be pluri- or multilateralized at a later stage.

Exhibit 11 | Number of PTAs in Force



Source: WTO, *Regional Trade Agreements – Facts and Figure*, https://www.wto.org/english/tratop_e/region_e/regfac_e.htm (accessed February 8, 2017).

However, multilateral liberalization and rule setting under the WTO remain the ideal solution and entail many benefits: ensuring a global, level playing field and fair competition, avoiding costs due to complexity of diverging rules, legal security, and access to the WTO dispute settlement. SDG 17 and the Addis Ababa Action Agenda explicitly call for the promotion of a "universal, rules-based, open, nondiscriminatory and equitable multilateral trading system" to achieve sustainable and inclusive development.[19] Today, it is more imperative than ever to strengthen the WTO. The WTO Ministerial Conference in Buenos Aires in December 2017 is an opportunity to lay the groundwork for the future multilateral trade agenda. The advancement of multilateral liberalization negotiations should be accompanied by the expansion of existing plurilateral initiatives as well as the initiation of negotiations on further issues.

The B20 supports the goals of the Doha Round and asks G20 members to strive for an ambitious and rapid conclusion of the remaining topics, including liberalization of trade in agricultural goods and rules for agricultural subsidies. Furthermore, G20 members need to actively support the implementation of

[18] The WTO uses the term "Regional Trade Agreement" (RTAs) for reciprocal trade agreements between two or more partners instead of PTAs.
[19] UN, *SDG 17 – Strengthen the Means of Implementation and Revitalize the Global Partnership for Sustainable Development*, accessed February 8, 2017, https://sustainabledevelopment.un.org/sdg17.

the agreements concluded in Bali and Nairobi, the foremost of which is the further implementation of the TFA and the expanded Information Technology Agreement (ITA-II) (see Exhibit 12). If fully implemented, the TFA, which went into force in February 2017, can reduce worldwide trade costs by 12.5 to 17.5 percent, especially for developing countries and MSMEs.[20] It has the potential to be a major instrument for increasing trade inclusiveness. The B20 calls on all WTO members who have not already done so to ratify the TFA. G20 members have to take the lead in fully implementing the TFA in-line with B20 recommendations made by B20 Turkey and B20 China.[21] Business will – and already does – play an active role in supporting full implementation, for instance through the Global Alliance on Trade Facilitation.

ITA-II shows that plurilateral initiatives can play an important role to ensure that the global trade regime is strengthened and remains relevant to today's opportunities, challenges, and needs. Plurilateral initiatives should be seen as an intermediate step whose scope should subsequently be multilateralized. The expansion of existing plurilateral agreements can be an effective and time-efficient way to further liberalization and strengthen a rules-based trading system.

In addition to ITA-II, specific attention should be given to the further expansion of the Agreement on Government Procurement (GPA) of which many G20 members are not yet a part. Governmental authorities are often responsible for a substantial part of market demand, particularly in future-orientated sectors such as ICT goods and services. According to the revised GPA of 2014, negotiations on a further reduction of discrimination and expansion of coverage would need to be launched in 2017. G20 members that are not yet part of the GPA should use this occasion to conclude or initiate their accession process. Furthermore, the G20 should support the reopening of WTO negotiations for an agreement on transparency in procurement, which can be an important intermediate step for GPA accession.[22] The B20 survey (see Exhibit 7) showed that one major concern of businesses in procurement is the opaqueness and arbitrariness of discrimination.

It is imperative that the G20 pushes for a forward-looking trade policy agenda, independent of the conclusion of remaining Doha issues and other ongoing negotiations. The G20 should agree on the promising areas for new plurilateral initiatives under the WTO umbrella that advance a rules-based global trade regime. The negotiations and agreements should ensure the possibility of subsequent multilateralization. All sectoral or other plurilateral agreements should be negotiated and implemented in a transparent manner and be open to all countries. They have to enhance rather than divert trade and ideally also address NTBs. A special focus should be put on inclusive growth, particularly regarding SME participation in global trade (see B20 Germany SME Cross-Thematic Group Policy Paper). Therefore, G20 members should aim to build support in the WTO to advance proposals on digital trade (see Recommendation 2 in this paper) and negotiations on trade facilitation for services. The latter could incorporate topics such as streamlining taxes and fees on cross-border services, simplification of procedures for temporary entry of service employees, digitized services, and basic elements related to domestic regulations. Other plurilateral initiatives could include negotiations on regulatory coherence, which could draw on the TPP and TiSA texts, sectoral agreements for the chemicals sector and the engineering/electrical sector. Sectorals would be beneficial because while, overall, tariffs have decreased substantially, sectoral tariff spikes and the closed intertwinedness of supply chains still make them a substantial barrier to trade, economic growth, and welfare (see Exhibit 7 for the B20 survey; see

[20] OECD, *Implementation of the WTO Trade Facilitation Agreement: The Potential Impact on Trade Costs* (2015), 1, accessed February 8, 2017, https://www.oecd.org/trade/WTO-TF-Implementation-Policy-Brief_EN_2015_06.pdf.
[21] B20 Turkey, *Trade Taskforce Policy Paper* (2015), 7–14, accessed February 8, 2017, http://b20turkey.org/policy-papers/b20turkey_trade.pdf; B20 China, *Trade & Investment Taskforce Policy Paper* (2016), 14–19, accessed February 8, 2017, http://upload.b20-china.org/upload/file/20160810/1470806629271080772.pdf.
[22] Resources such as the OECD's work to develop a taxonomy of measures affecting government procurement can assist countries in assessing the current state of the government procurement regulations, and thus improve transparency.

Exhibit 4 for the impact of tariffs on household purchasing power).

The Environmental Goods Agreement (EGA) is the plurilateral agreement under the WTO framework in which negotiations are the most advanced. As underlined in the 2016 G20 Leaders' Communiqué, core concerns need to be addressed to ensure a successful EGA. An ambitious, future-orientated EGA could contribute to economic growth. It is essential that the outcome complies with WTO rules and principles and preempts negative effects such as new administrative costs.

Other plurilateral agreements outside the WTO framework such as TiSA would be an important intermediate step towards strengthening the multilateral trade regime. Recently, uncertainty has increased as to the advancement of TiSA negotiations and other plurilateral trade agreements. Therefore, it is even more crucial for G20 governments to continue an open and productive dialogue on the subject.

Exhibit 12 | Overview of TFA and Select Plurilateral Agreements

Trade Facilitation Agreement (TFA): The TFA entered into force in February 2017. It is the first true multilateral agreement adopted since the creation of the WTO in 1995. The TFA focuses on removing barriers and red tape linked to the movement, release, and clearance of goods.

Information Technology Agreement (ITA): The ITA is a plurilateral agreement within the WTO. The original ITA was reached in December of 1996 among 29 participants and required them to eliminate and bind customs duties at zero for a list of IT goods covered in the agreement. The agreement has since grown to 82 participants covering 97 percent of word trade in IT goods. In 2012, negotiations began to expand the ITA to new categories of goods that had been developed in the years since the initial agreement (ITA-II). In July 2015, 24 participants representing 53 members agreed to expand the ITA to an additional 201 goods in the ITA-II. The products covered in ITA-II, including new-generation semiconductors, optical lenses, GPS navigation equipment, and new medical technologies, account for $1.3 trillion in trade per year, approximately seven percent of all global trade. The ITA-II applies on an MFN basis – all concessions made by parties to the agreement have to be accorded to all WTO members, including those that are not party to ITA-II. The ITA of 1996 remains in force.

The Agreement on Government Procurement (GPA): The coverage of the GPA – a WTO non-MFN-based plurilateral agreement signed in 1994 – was updated in 2014 among 47 WTO members, with an additional nine members acceding to the agreement. Government procurement has historically been one of the most closed areas of global commerce, with country governments heavily biased towards purchasing from domestic producers – both for economic and security reasons. The GPA aims to open government procurement markets for parties to the agreement, making an additional $1.7 trillion worth of commerce open to global competition. Each member country has made its own commitment as to what topic areas will be open to competition through a unique public "coverage schedule." According to the revised GPA, further negotiations to reduce discrimination and expand coverage should start no later than three years after its entry into force. Therefore, negotiations for a GPA-update would need to be launched in 2017.

Environmental Goods Agreement (EGA): 18 WTO parties – representing 46 members – are negotiating the plurilateral EGA under the WTO framework. EGA talks currently focus on removing tariffs on goods that directly contribute to environmental protection and climate change mitigation. What constitutes an "environmental" or "green" good and whether product inputs along the supply chain should also be considered in this regard is disputed. The intention is for the EGA to become a living agreement, which would allow the addition of new goods in the future. Certain negotiation parties aim for a more comprehensive agreement that would also include services linked to exports of "environmental" goods and to tackle NTBs, such as local content requirements or restrictions on investment. If concluded, the EGA would be MFN-based.

The Trade in Services Agreement (TiSA): The TiSA negotiations have been conducted since 2013 among 23 parties that account for approximately 70 percent of world trade in services. TiSA would be a major update to the rules created by the 1995 General Agreement on Trade in Services (GATS). TiSA would include rules focused on many new issues surrounding trade in services that have developed in the past two decades, such as those surrounding telecommunications and technology services, as well as the free flow of data. Although TiSA is not negotiated within the WTO system and is not MFN-based, it would have the potential to serve as the basis for a subsequent effort to create a multilateral update to GATS within WTO – either by building on TiSA itself or using TiSA as a template for a new WTO agreement. However, TiSA negotiations have recently been put on indefinite hold over disagreements among major negotiation partners on issues such as cross-border data flows.

G20 Ratification Status of TFA, ITA-II, GPA | G20 Parties to EGA, TiSA negotiations

Country	TFA	ITA-II	GPA	EGA	TiSA
Argentina	×	×	×	×	×
Australia	✓	✓	× *	✓	✓
Brazil	✓	✓	×	×	× **
Canada	✓	✓	✓	✓	✓
China	✓	✓	× *	✓	× **
EU	✓	✓	✓	✓	✓
India	✓	× (ITA)	×	×	×
Indonesia	×	× (ITA)	×	×	×
Japan	✓	✓	✓	✓	✓
Mexico	✓	×	×	×	✓
Russia	✓	× (ITA)	× *	×	×
Saudi Arabia	✓	× (ITA)	× *	×	×
South Africa	×	×	×	×	×
South Korea	✓	✓	✓	✓	✓
Turkey	✓	× (ITA)	×	✓	✓
United States	✓	✓	✓	✓	✓

* China, Russia, and Saudi Arabia committed to join the GPA in their WTO accession protocols. Negotiations on Chinese GPA accession started in 2007, negotiations on Russian GPA accession started in 2016. Australia initiated GPA accession negotiations in 2015. Saudi Arabia has yet to begin GPA accession negotiations.

** Governments have expressed interest in joining TiSA negotiations.

Recommendation 2: Make Use of Digital Trade Potential

The G20 should facilitate an enabling environment for digital trade by accelerating capacity building, encouraging implementation of interoperable and nondiscriminatory e-commerce-related policies, and calling for a WTO negotiation mandate on digital trade.

Policy Actions	
2.1 **Accelerate Capacity Building –** G20 members should accelerate the inclusive buildup of e-commerce capacities, especially in developing countries and for MSMEs. • G20 members should develop and implement country-specific initiatives to improve e-commerce readiness and digital literacy of developing countries and MSMEs. • G20 members and international organizations should streamline existing Aid for Trade initiatives towards capacity building for digital trade. • G20 members should actively support the eTrade for All initiative and develop an action plan on how to support each of the initiative's seven key policy areas. • In support of and in complementarity with already existing initiatives such as Aid for Trade, governments should set up frameworks that allow for further funding sources for e-commerce capacity building, such as foreign investments and public-private partnerships.	
Owner G20 members, UNCTAD, WTO, business, development community	**Timing** 2017-2018
2.2 **Ensure Sound E-Commerce-Related Policies –** G20 members should ensure that e-commerce-related policies are interoperable as well as nondiscriminatory and strengthen the regulatory dialogue with all relevant stakeholders. • G20 members need to align e-commerce-related policies with existing international standards and guidelines. • G20 members should establish regulatory dialogues on national e-commerce-related policies among each other as well as with non-G20 members. • G20 members should engage in a dialogue with private stakeholders in the eWTP.	
Owner G20 members, business, eWTP, WTO, OECD	**Timing** 2018
2.3 **Adapt Trade Rules to the Digital Age –** The G20 should instigate a WTO negotiation mandate on digital trade at the next WTO Ministerial Conference, which should address free cross-border data flows, trade in digital products and services, trade facilitation, regulatory coherence, and other identified legal gaps. • The G20 Trade and Investment Working Group should establish consensus for the need of a digital trade agreement and the potential components of negotiations. • WTO members should review the WTO telecommunications annex and its reference paper to reduce barriers to trade in telecommunications services. • The G20 should push for a revitalization of the WTO Work Programme on Electronic Commerce.	
Owner G20, G20 members, WTO, WTO members	**Timing** 2017

Context

The global expansion of digital technologies and the ability to move data across borders fuels global trade and facilitates the development of new business models. Despite the emergence of digital issues as a centerpiece of global trade, a single, universally accepted definition of digital trade has yet to be developed, and better metrics are needed to fully appreciate its economic impact (see Exhibit 13).

Exhibit 13 | Definition of Digital Trade

Digital trade is a wide-ranging term for which no single generally accepted definition exists. Depending on which definition is used, it relates to one, several, or all of the following areas:

- Trade in ICT goods and services that can be delivered either physically or digitally. This area ranges from telecommunications infrastructure to over-the-top content (OTT) services.
- Cross-border e-commerce: trade in goods, services, and products that is conducted partly or wholly over the Internet (websites, apps, and electronic data interchange [EDI]). E-commerce takes place between businesses and consumers (B2C), between businesses (B2B), between businesses and public authorities (B2G), and between consumers (C2C). E-commerce can be further classified into the following:
    - Physical e-commerce
        - The process of selling physically delivered services and goods over the Internet
    - Digital e-commerce
        - Products that in the past were physically delivered but can now be digitally distributed (for example, digitalized software, music, and films; hereinafter "digital products")
        - Digital delivery of services
- Cross-border data flows: the transfer of all kinds of electronic data. This includes noncommercial transactions and thus does not qualify as foreign trade. However, cross-border data flows are closely intertwined with any digital trade, are increasingly used in the management of global value chains, and enable vast areas of business activity.

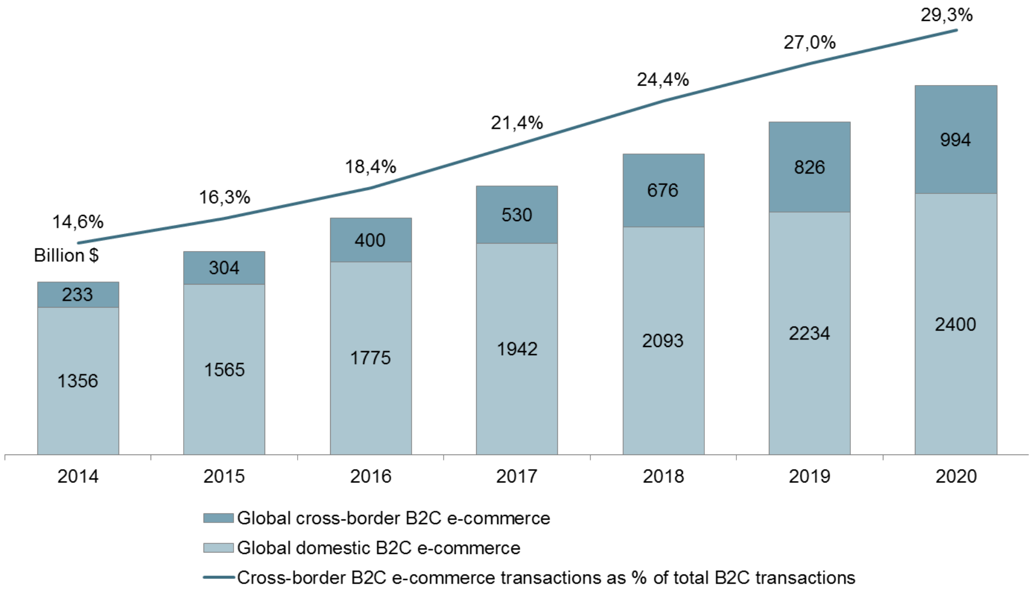
These three areas of digital trade overlap with one another extensively. Trade in ICT services takes place for the most part via e-commerce and any form of cross-border e-commerce involves data flows. Neither international e-commerce nor data transmission is possible without networkable ICT infrastructure and end-user devices. However, each area has its own trade-policy issues that require specific solutions.

There is still disagreement within both the business and policy community as to the exact definition of digital trade. Both communities would be well suited by establishing a common definition of digital trade and refined assessments about its impact and future potential.

Studies have estimated that by 2020 cross-border B2C e-commerce alone is expected to reach approximately $1 trillion per year (see Exhibit 14).[23] B2B e-commerce, for which no reliable cross-border estimates are available, is much larger: according to UNCTAD global B2B e-commerce (domestic and cross-border) stood at $19.9 trillion in 2015, more than nine times the figure of global B2C e-commerce.[24] Cross-border data flows grew by 50 percent annually from 2005 to 2014.[25] However, assessing merely the volume of data flows alone is not sufficient, as the size of a data flow does not necessarily correlate with its economic value. And focusing only on e-commerce transactions leaves out a large portion of digital economic activity. Therefore, better metrics need to be developed to fully apprehend the structure and value of digital trade. The B20 commends the G20/OECD efforts in this regard.

[23] AliResearch, *Global Cross Border B2C Ecommerce Market 2020* (2015), accessed February 15, 2017, http://www.alizila.com/cross-border-e-commerce-to-reach-1-trillion-in-2020.
[24] UNCTAD, *New Initiative to Help Developing Countries Grasp $22 trillion E-Commerce Opportunity*, accessed February 15, 2017, http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1281.
[25] McKinsey Global Institute, *Digital Globalization: The New Era of Global Flows* (2016), 30, accessed February 15, 2017, https://www.mckinsey.de/files/mgi_digital_globalization.pdf.

Exhibit 14 | Cross-Border B2C E-Commerce in 2014–2020



Source: AliResearch, *Global Cross Border B2C Ecommerce Market 2020* (2015), op. cit.

Digital trade provides a variety of benefits to economies and consumers. New technologies nurture new business models – including in rapidly expanding services sectors – and locally adapted products. Digital trade provides access to the global marketplace at much lower fixed costs than traditional trade, and thus has a lower threshold for economies of scale. Furthermore, it lowers transaction costs among trade partners: Research has shown that costs linked to physical distance might be around two-thirds lower in cross-border e-commerce compared to traditional trade.[26] MSMEs using e-commerce platforms are around five times more likely to export than those that do not.[27] Another benefit is that digital trade fosters consumers' access to diverse goods and services. In addition, digital trade broadens trade relationships. For example, some services that previously required physical presence in a country can now be conducted across national borders using the Internet, such as online courses or telemedicine.

However, substantial – and in some cases rising – barriers prevent the potential benefits of digital trade from being fully exploited. First, the lack of e-commerce readiness impedes many citizens in developing countries, as well as many MSMEs, from participating in digital trade. Second, discriminatory or incompatible national policies on e-commerce increase costs, reduce the marginal benefits to cross-border e-commerce, and prevent the development of new trade relations. Third, the lack of clarity in existing trade rules and legal gaps in the global trade regime can foster uncertainty and lead to digital protectionism. Customs procedures appropriate for conventional container trade can become a barrier to MSMEs shipping single, low-value shipments. An increasing number of countries are imposing localization requirements that force businesses to use local servers and data centers, increasing business costs and hindering the ability to provide certain cross-border services. Furthermore, joint venture and technology disclosure requirements, for instance of software source code, threaten intellectual property and trade secrets.

From the B20 perspective, several policy actions should be considered to enhance digital trade. First,

[26] Andreas Lendle et al., *There Goes Gravity: eBay and the Death of Distance* (2013), 1, accessed February 15, 2017, http://value-chains.org/dyn/bds/docs/851/How_eBay_reduces_trade_costs.pdf.
[27] WTO Business Focus Group, *MSMEs and E-Commerce* (2016), 2, accessed February 15, 2017, https://cdn.iccwbo.org/content/uploads/sites/3/2016/09/WTO-Business-focus-Group-1-MSMEs-and-e-commerce.pdf.

G20 members should support the development of e-commerce capacities and enhanced connectivity in developing countries and of MSMEs. The B20 Digitalization Taskforce developed recommendations on important enablers of cross-border e-commerce such as ICT infrastructure and cybersecurity. Second, G20 members should encourage implementation of interoperable and nondiscriminatory frameworks to be used as the basis for national e-commerce-related regulations. In addition, they should strengthen the regulatory dialogue with all relevant stakeholders at both the national and international level. And third, global trade rules need to be clarified and adapted to the digital age in order to fully reap the potential benefits of digital trade.

Policy Action 2.1: Accelerate Capacity Building

G20 members should work towards an accelerated and inclusive buildup of e-commerce capacities, especially in developing countries and for MSMEs.

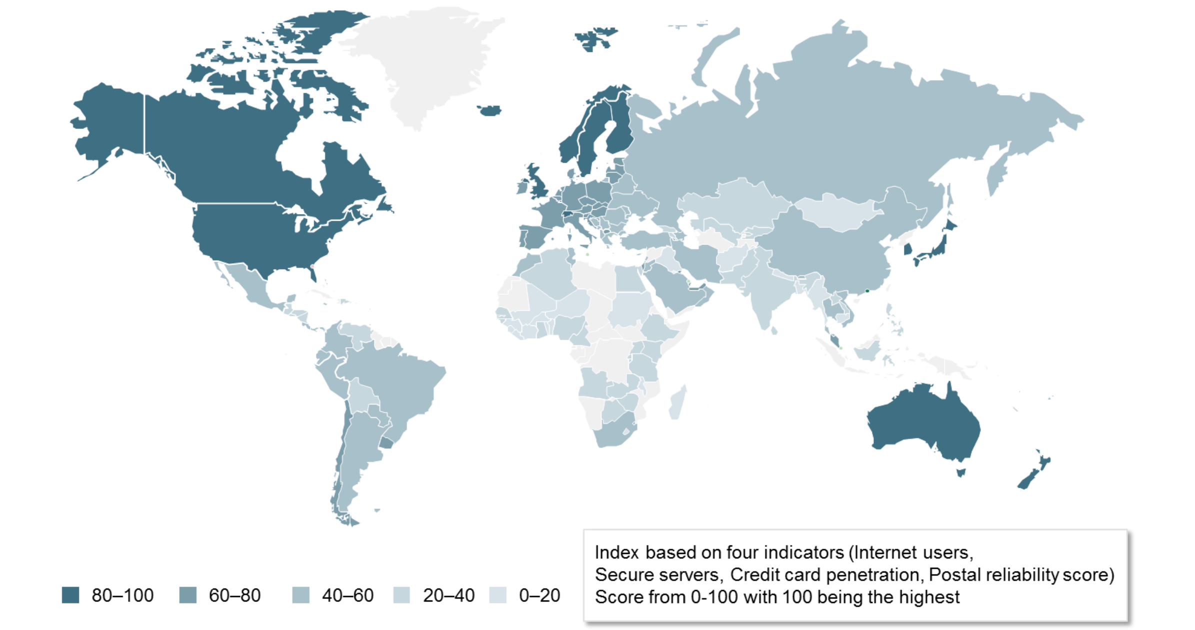
Digital trade helps in overcoming barriers that previously made it expensive and inefficient for many businesses in developing countries to engage in cross-border trade. Problems that are often faced by these businesses include a lack of access to essential business inputs (legal, accounting, research, and financial services) as well as a large distance to consumer markets and high costs linked to engaging with them (for example, marketing, information, and on-site distribution).[28] While digital trade aids in reducing these barriers more easily, e-commerce readiness – such as a country's Internet use penetration, secure servers per one million inhabitants, credit card penetration, and postal reliability – remains a precondition to take full advantage of these advances in technology (for estimates of e-commerce readiness, see Exhibit 15). Of the nearly one billion people living in the world's least-developed countries (LDCs), around 850 million do not use the Internet.[29] Beyond the critical need to address infrastructure and access gaps, legal and regulatory efforts are required in low-income economies to create the enabling environment for digital trade. In some cases, developing countries need to adopt baseline laws to facilitate cross-border e-commerce, and in other instances further regional and international efforts for regulatory coherence are required to remove barriers to digital trade.

Countries with a lack of capacity need coordinated support to facilitate their participation in digital trade, so that e-commerce can become a driver of their economic development. In recent years, some developing countries have made significant progress in the development of their e-commerce ecosystem, but the majority is still lagging behind. Several development partners, foundations, and private-sector players are working from different angles to unlock the power of the Internet for economic development in these countries. However, current efforts are often fragmented and lack sufficient scale.

G20 members should provide support to build up digital capacities by proposing and supporting country-specific initiatives centered on improving e-commerce readiness and digital literacy of developing countries and MSMEs. Both can be partly achieved by providing financial resources, access to trade finance, or educational support on-site. This can be done, for example, through coding clubs in schools, cross-border exchange of staff within multinational companies, or professional training companies offering computer courses, e-commerce seminars, and other skill development programs.

[28] ICTSD, *Maximizing the Opportunities of the Internet for International Trade* (2016), 11, accessed February 15, 2017, http://e15initiative.org/wp-content/uploads/2015/09/E15_ICTSD_Internet_International_Trade_report_2016_1002.pdf.
[29] Roberto Azevedo, *Remarks at MIKTA Workshop on Electronic Commerce* (July 2016), accessed February 15, 2017, https://www.wto.org/english/news_e/spra_e/spra132_e.htm.

Exhibit 15 | UNCTAD B2C E-Commerce Index 2016



Source: UNCTAD, *B2C E-Commerce Index 2016* (2016), 21–25, accessed February 15, 2017, http://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d07_en.pdf.

In addition to country-specific support, the G20 should align existing Aid for Trade initiatives towards capacity building for digital trade. In this context, the G20 should actively support UNCTAD's eTrade for All initiative (see Exhibit 16) as well as complementary elements of the Aid for Trade initiative of the WTO, integrating inputs from business on the most promising measures.[30] The G20 should develop an action plan on how the members should support each of the seven key policy areas of the eTrade for All initiative: e-commerce readiness assessment and strategy formulation, ICT infrastructure and services, trade logistics and trade facilitation, payment solutions, legal and regulatory frameworks, e-commerce skills development, and access to financing. The Sixth Global Review of Aid for Trade at the WTO is an additional opportunity to profile G20 actions on accelerated development of e-commerce capacities. Analysis prepared for the Sixth Global Review should feed into the G20's work on these themes.

Exhibit 16 | How eTrade for All Supports the SDGs

There are clear benefits to digital trade, particularly for MSMEs and developing countries. However, individuals and companies may not have the awareness or resources necessary to begin participating in the global digital economy.

The eTrade for All Initiative seeks to support developing countries, especially their MSMEs, in their efforts to develop capacity to conduct e-commerce. The goals of the effort are to:

- raise awareness about the benefits of e-commerce in developing economies, track the challenges that groups in developing countries face, and develop solutions to better facilitate e-commerce in developing countries;
- mobilize resources to support e-commerce in developing countries; and
- strengthen synergies among the various organizations supporting e-commerce development to avoid duplication of work and improve aid efficiency.

[30] UNCTAD, *About the eTrade for All Initiative*, accessed February 8, 2017, http://unctad.org/en/Pages/DTL/STI_and_ICTs/eTrade-for-All/eTrade-for-All-About.aspx.

The main tool that will be used to accomplish this effort will be the eTrade for All Online Platform. This platform, which is scheduled to launch in April 2017, will serve as a hub to help developing countries identify e-commerce assistance, help donors find relevant projects to support, and provide all parties with information about best practices and resources.

The eTrade for All Initiative will contribute to the SDGs' targets of maintaining per capita economic growth (target 8.1) and enhancing capacity building (target 17.9). Increasing awareness of, and access to, digital trade opportunities for individuals and companies will drive business development and contribute to sustainable economic growth. And by using a unified digital platform to support capacity-building efforts, the eTrade for All Initiative will ensure effective cooperation and knowledge transfers between developed and developing economies.

In support of and in complementarity with already existing initiatives such as Aid for Trade, governments should consider setting up a framework that allows for different funding sources for e-commerce capacity building, such as foreign investments and public-private partnerships. For example, entrepreneur development programs and cross-border exchange of both professional and students could not only be funded by different types of sources, but also serve as platforms for multinational capacity building initiatives.

Policy Action 2.2: Ensure Sound E-Commerce-Related Policies

G20 members should ensure that e-commerce-related policies are interoperable as well as nondiscriminatory and strengthen the regulatory dialogue with all relevant stakeholders.

Businesses and consumers alike need national regulations that allow them to use reliable and safe digital transactions. The current global structure of incompatible and partly discriminatory national standards and regulations creates many barriers for the further expansion of cross-border e-commerce. Interoperable and nondiscriminatory standards are critical for aspects of e-commerce such as electronic signatures, authentication, contractual validity, electronic and online payments, consumer protection, cross-border taxation, cross-border use of e-IDs and e-signatures for digital onboarding and transactions, and restrictions on e-commerce sales by foreign suppliers.

G20 members should align their e-commerce-related policies with existing international principles and guidelines. The United Nations Commission on International Trade Law (UNCITRAL) Model Laws on Electronic Signatures and Electronic Commerce, the United Nations Convention on the Use of Electronic Communications in International Contracts, the OECD Guidelines for Consumer Protection in the Context of Electronic Commerce, and guidelines created by regional organizations such as the Asia-Pacific Economic Cooperation forum, among others, provide helpful frameworks to ensure that national regulations are compatible. An analysis of legal inadequacies with the assistance of international organizations such as UNCTAD and ITC could be helpful to further foster e-commerce readiness and enable digital trade.

Uncertainties and complexities linked to cross-border disputes and applicable consumer protection rules deter both businesses and consumers from engaging in cross-border e-commerce. Also unresolved questions linked to cross-border taxation can impinge on digital trade (see Exhibit 17). Therefore, the B20 welcomes the G20 members' commitment in the Digital Economy Development and Cooperation Initiative to develop dispute resolution approaches for cross-border e-commerce.

The B20 Digitalization Taskforce developed policy proposals on cybersecurity as well as data protection in cross-border data flows, which – while not directly related – are important aspects for cross-border e-commerce, since trust is a precondition for engaging in digital trade. The B20 Financing Growth & Infrastructure Taskforce developed recommendations on how to ease the rollout of digital innovation in finance and financial services, which might also concern cross-border activities.

Exhibit 17 | E-Commerce Taxation

E-commerce has led to new growth opportunities for companies around the world. It also has created some challenges regarding indirect taxation. Since participants in e-commerce can easily buy and sell products and services across borders, uncertainty can arise about how these transactions should be taxed. This also has generated questions about whether producers or consumers of e-commerce goods and services should bear the responsibility for collecting and remitting these taxes. Additionally, different countries have varied tax legislation surrounding e-commerce. For example, in the United States many (but not all) states collect a state-level sales tax on sales of products or services over the Internet, while in the EU vendors selling products to consumers must pay a value-added tax. These differences across countries can add considerable information, legal, and compliance costs, erecting a barrier to MSME exports.

In the late 1990s, the OECD established the Taxation Framework Conditions, a set of principles that laid out best practices for the treatment of e-commerce, such as nondiscrimination, fair sharing of the tax base, and pursuing goals through intensive dialogue. This has been complemented over time by the continued work of OECD technical assistance groups (TAGs) focused on taxation and the establishment of resources such as the OECD model tax treaty. As a result, there are resources available for streamlining tax systems between different countries. The next step is to get more countries to adopt best practices, and to provide resources for MSMEs that cannot afford professional tax advice.

The G20 should ask member countries that have not already implemented OECD best practices for e-commerce taxation to do so. This will provide the best possible government structure to ease e-commerce tax burdens. Additionally, the G20 should ask the OECD to make available best-practice guides to help ease MSME compliance with e-commerce tax burdens. Many MSMEs simply do not have the resources to navigate multiple countries' tax systems. By becoming a one-stop shop for resources and best practices on e-commerce tax compliance, the OECD can help more countries engage with the global digital marketplace.

To identify further best practices and ensure interoperability, G20 members should strengthen regulatory dialogues on e-commerce-related policies and technical standards among each other, as well as with non-G20 members – for instance in the WTO TBT Committee. The regulatory dialogues should take into account elements related to e-commerce in WTO Trade Policy Reviews. The development and utilization of global and international standards can reduce costs and simplify procedures. This should be coupled with consistent efforts to review member countries' e-commerce-related policies to determine areas where unnecessary regulatory divergences or discriminatory practices should be eliminated. In this context, G20 members shall seek a dialogue with private stakeholders by engaging in the electronic World Trade Platform (eWTP), which is currently being established following the recommendations of the B20 China SME Development Taskforce (see Exhibit 18).

Exhibit 18 | Electronic World Trade Platform

The concept eWTP was initiated in 2016 by the B20 China SME Development Taskforce. The goal of the eWTP effort is to establish a platform bringing together the different perspectives of public and private constituencies as well as the different efforts around e-Trade.

The eWTP would be open, transparent, and not for profit. It would promote the following three main goals:

- promotion of public-private dialog to improve the business environment, including simplification and regulation on standards, and harmonization of taxes;
- cooperation with international organizations such as the WTO to prioritize e-trade development needs;
- facilitation of cross-border e-Trade and the digital economy through development of e-trade infrastructure and adoption of best practices such as cross-border e-commerce experiment zones.

The eWTP will engage with all relevant stakeholders, including, but not limited to, MSMEs, the business sector, MSME-focused organizations, governments, international organizations, industry associations, consumer associations, and academia.

Source: B20 China, *SME Development Taskforce Policy Paper* (2016), 6–10, accessed February 8, 2017, http://upload.b20-china.org/upload/file/20160810/1470799105296044614.pdf.

Policy Action 2.3: Adapt Trade Rules to the Digital Age

The G20 should call for a WTO negotiation mandate on digital trade at the next WTO Ministerial Conference, which should address free cross-border data flows, trade in digital products and services, trade facilitation, regulatory coherence, and other identified legal gaps.

Digital trade adds many dimensions to the world of trade, for example new type of products, new channels of trading, new types of global value chains, and new trade participants. Entire industries have seen shifts in their fundamental operating models, with the result that trade rules written 20 years ago are not entirely relevant for today's realities.

While also striving for coherent rules on digital trade in their bilateral and regional trade initiatives, G20 members should push for an advance towards a WTO negotiation mandate for digital trade at the next WTO Ministerial Conference in Buenos Aires (MC11). The negotiation mandate should be holistic and address questions related to information flows, digital products and services, and trade facilitation. It should reaffirm the applicability of rules and provide solutions for identified legal gaps. The agreement should incorporate a mandate for steady negotiations on coverage expansion – like the GPA does – to keep up with the fast-changing environment of digital trade. This will ultimately increase reliability and help reduce protectionism. While a multilateral outcome would be the preferred approach, a plurilateral initiative on digital trade might be a necessary intermediate step.

The negotiations should strive for guarantees that governments do not prevent transfer, access, and storage of data across borders and ban forced localization of data, servers, or other ICT infrastructure – without prejudice to clearly defined exceptions for the protection of privacy and security.[31] The B20 Digitalization Taskforce developed policy proposals on how to facilitate cross-border flows of personal data without prejudice to existing privacy and data requirements by fostering interoperability, and facilitating the use of the accountability principle. Furthermore, WTO members should perpetuate the customs moratorium on electronic transmissions. Digital products should neither be subject to customs duties, nor should foreign suppliers be discriminated against in other ways. Negotiations should strive to clarify whether digital products are to be treated as goods under the General Agreement on Tariffs and Trade (GATT), as services under the GATS or if a new category of rules needs to be developed. The negotiation outcome should explicitly rule out policies that make the sharing or transfer of software source codes or encryption keys criteria for market access. Exceptions for national security and critical infrastructure would need to be clearly defined and transparent. Finally, the negotiations should endorse an appropriate liability regime for Internet intermediaries and telecommunications service providers in-line with the OECD Internet Policymaking Principles.[32] It is important to ensure that online platforms can fully facilitate trade while respecting other legitimate interests and helping to deter illicit trade.

WTO negotiations on digital trade should also address the trade facilitation of e-commerce, paperless trading, and transparency and digitalization of customs and tax procedures. These efforts should include an assessment of current de minimis thresholds for customs used by different countries with a view towards establishing a global standard. Addressing simplified processing for low-value or low-risk shipments, provisions to encourage electronic payments of customs and duties, and the use of application and programming interfaces (APIs) for customs and duties payment that can be incorporated directly into e-commerce websites would also especially benefit MSMEs that usually trade low-value goods.

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[31] GATS XIV: Exceptions, e.g., for privacy and security can exist if measures are not applied in a manner that would constitute a means of arbitrary or unjustifiable discrimination between countries where like conditions prevail, or a disguised restriction on trade in services.

[32] OECD, *Principles for Internet Policy Making* (2011), accessed February 8, 2017, https://www.oecd.org/sti/ieconomy/oecd-principles-for-internet-policy-making.pdf.

Furthermore, the G20 should foster the removal or reduction of barriers to trade in telecommunications services, particularly those due to regulatory divergences, by supporting a review of the WTO telecommunications annex and its reference paper.

Negotiations should also address regulatory cooperation (see policy proposal 2.2). Within the scope of negotiation preparations, regulatory regimes related to digital trade should be analyzed in regards to their level of liberalization. Higher levels of liberalization tend to increase the number of domestic digital trade operators, which in turn gain access to new international capacity and new technology.

Certain aspects of these recommendations, particularly those related to services and cross-border data flows, were addressed in TiSA negotiations by participating G20 members, although those negotiations have since slowed down.

Finally, the WTO Work Programme on Electronic Commerce needs to live up to its mandate. The proposals made in July/August 2016 by several WTO-members of different regions and levels of development for potential topics to be addressed by the Work Programme are highly relevant and should be supported as a roadmap by the G20 (see Exhibit 19). A revived Work Programme that operates in conjunction with a potential negotiation mandate on digital trade could substantially help to prepare the ground for successful outcome of negotiations.

Exhibit 19 | A Potential Agenda for the Work Programme

Regulatory frameworks

- Enhanced transparency
- Consumer confidence enhancing measures such as regulatory frameworks for consumer, privacy and cyber security protection
- Trade facilitating measures such as open networks and access and use of the internet, addressing licensing and authorization procedures and electronic payments

Open markets

- Liberalization commitments such as services, goods and prohibition against custom duties on electronic transmissions
- Measures ensuring openness such as disciplines ensuring cross border data flows and disciplines with respect to localization (local presence, including of computer servers and local content) and addressing the transfer of and/or access source code

Initiatives facilitating the development of e-commerce

- Trade Facilitation Agreement / further custom facilitation measures / paperless trading
- Aid for Trade / Technical assistance
- Regulatory cooperation among members and their regulatory authorities

Enhanced transparency of the multilateral trading system

- Greater focus on e-commerce at the occasion of Trade Policy Reviews
- Monitoring Report on protectionism could include a digital focus
- Exchange of information through e-commerce agenda items of the regular WTO Committees

Source: WTO, *Work Programme on Electronic Commerce – Communication from Canada, Chile, Colombia, Côte d'Ivoire, the European Union, the Republic of Korea, Mexico, Montenegro, Paraguay, Singapore and Turkey* (2016), accessed February 8, 2017, https://docs.wto.org/.

The Work Programme should systematically analyze the applicability of existing WTO rules for digital trade. A clear reaffirmation and interpretation, where necessary, of the rules under WTO agreements, such as the GATS, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and the TBT Agreement, would help all WTO members to gain clarity and reinforce technological neutrality of the global trade regime.

Exhibit 20 | Intellectual Property Rights and Digital Trade

The intellectual property rights (IPRs) system underpins the creation, production, distribution, and consumption of goods, services, creative content, data, and other digital products. IPRs promote innovation by incentivizing investment in knowledge-based assets and encouraging the diffusion of knowledge across the digital economy. IPRs establish a secure legal framework for investment in and commercialization of the digital innovation and creativity. The risk of losing control of the intellectual assets of the business through infringement keeps many design-led MSMEs away from cross-border trade on digital platforms. Moreover, IP theft in the form of copyright piracy and trademark counterfeiting cause significant economic losses to businesses large and small, while reducing consumer trust. At the same time, many businesses rely on appropriately balanced copyright exceptions to develop innovative digital tools and next-generation trading platforms.

Challenges brought by digitalization to the intellectual property system need to be addressed through dialogues among IP stakeholders both at a national and international level, including key actors of the digital value chain. International cooperation on building an effective IP system, including information and experience sharing, should be strengthened by the international community.

Recommendation 3: Foster Investment Facilitation

The G20 should foster a reliable legal environment, enhance sustainable investment facilitation, and identify the benefits and drawbacks of a multilateral investment framework.

Policy Actions

3.1 Strengthen a Reliable Legal Environment – The G20 should build on the G20 Guiding Principles for Global Investment Policymaking, make progress on a concrete G20 Investment Facilitation Package, and support the resumption of a dialogue in the WTO on strengthening coherence of trade and investment policies.

- The G20 should advance towards more ambitious and implementable set of common principles with support of the OECD, UNCTAD, and WTO.
- The G20 should agree on an ambitious and implementable G20 Investment Facilitation Package.
- G20 members should act on their acknowledgement in 2016 of the crucial importance of the trade-investment nexus.
- All G20 members should reduce market access barriers to investment in conjunction with the G20 protectionism standstill on investment and the G20 Investment Measures reports.

Owner G20, G20 members, UNCTAD, WTO, WTO members, WBG **Timing** 2017/2018

3.2 Support Sustainable Investment Facilitation – The G20 should enhance international support programs for investment in developing countries to meet the SDGs.

- The G20 and international organizations should use the G20 Investment Facilitation Package to develop best-practice policy recommendations and capacity-building efforts in developing countries.
- Implementation of the Investment Facilitation Package and adherence to the G20 Guiding Principles on Investment Policymaking should be integrated in the Compact with Africa, which the G20 is currently developing.
- G20 members should work with the Global Infrastructure Hub to enhance and consolidate the quality and availability of information about target countries for FDI.
- G20 members should support public-private partnerships to attract investors, including long-term investors, institutional investors and financial investors, with a focus on developing countries.

Owner G20, G20 members, UNCTAD, WBG, GIH **Timing** 2018/2019

3.3 Explore a Potential Multilateral Investment Framework – Building on the G20 Guiding Principles for Global Investment Policymaking, the G20 should mandate the OECD, UNCTAD, UNCITRAL, and the WTO to prepare a study on the benefits, challenges, drawbacks, and potential components of a multilateral investment framework.

- The G20 should ask UNCTAD, UNCITRAL, the OECD, and the WTO to jointly conduct an evaluation of potential areas for harmonization or consolidation of stipulations in existing investment agreements.
- The G20 should ask UNCTAD, UNCITRAL, the OECD, and the WTO to evaluate the potential of a multilateral investment framework, while taking into account the functioning of existing international frameworks related to investment.

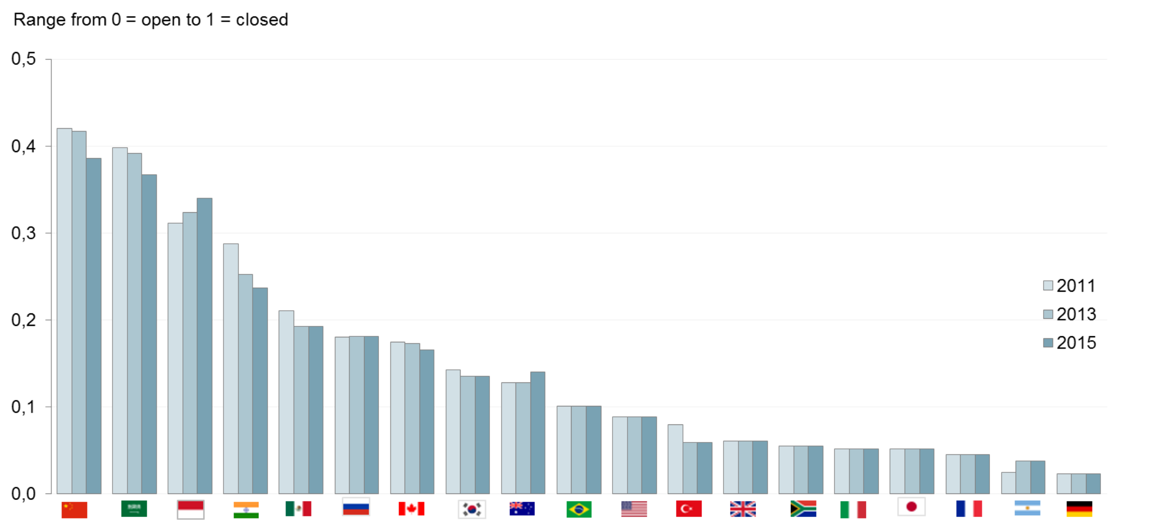
Owner G20, UNCTAD, OECD, UNCITRAL, WTO **Timing** 2018-2020

Context

The exponential growth of FDI flows and stocks over the past decades has driven globalization, boosted trade, and fostered the intertwining of economies through global value chains. FDI is important for all countries, but can be particularly beneficial for developing countries. It creates jobs in local markets, supports infrastructure development, and allows for the production and sale of new goods in circumstances where trade may not be feasible due to prohibitive costs, policies, or other factors. Investment broadly, and FDI specifically, can play a critical role in realizing the SDGs. According to the World Investment Report 2014, at current levels of investment in SDG-relevant sectors, developing countries alone face an annual gap of $2.5 trillion.[33] The Addis Ababa Action Agenda places significant emphasis on mobilizing private finance to support the implementation of the SDGs.[34]

Even though – in comparison to trade – the protectionism standstill for investment measures has been largely respected by G20 members, the rollback of protectionism through investment-restrictive measures and discrimination is barely advancing (see Exhibit 21). The most recent OECD-UNCTAD Report on G20 Investment Measures affirms that the overall direction of G20 investment policy measures, both specific and not specific to FDI, remains oriented towards further liberalization and easing of conditions for international capital flows.[35] However, the report shows that multiple restrictions to international investment remain in many sectors of G20 members' economies, explicitly in rules and less explicitly in the application of discretionary policies.

Exhibit 21 | OECD FDI Restrictiveness Index for G20 Members

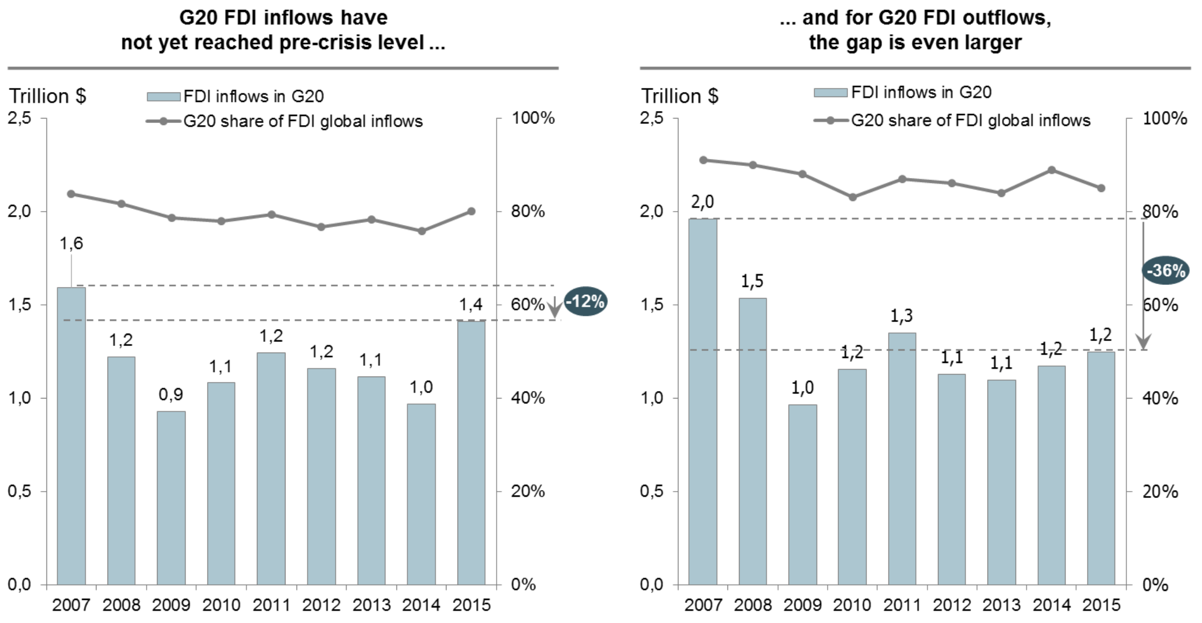


Source: OECD, *FDI Regulatory Restrictiveness Index*, accessed February 8, 2017, http://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX#. The FDI Regulatory Restrictiveness Index (FDI Index) measures statutory restrictions on foreign direct investment, focusing on four types of measures: equity restrictions, screening and approval requirements, restrictions on foreign key personnel, and other operational restrictions (such as limits on purchase of land or on repatriation of profits and capital). The discriminatory nature of measures is the central criterion.

The lack of a comprehensive set of rules at the global level is hampering growth-conducive FDI. The continuous existence of market access barriers, discrimination of foreign investors, and lack of investor protection, as well as a complexity linked to bilaterally diverging legal environments are part of the reason why FDI flows still have not recovered to precrisis levels (see Exhibit 22).

[33] UNCTAD, *World Investment Report 2014* (2014), xi, accessed February 8, 2017, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf.
[34] UN, *Addis Ababa Action Agenda* (2015), 37–43, op. cit.
[35] UNCTAD and OECD, *16th Report on G20 Investment Measures* (November 2016), accessed February 8, 2017, http://unctad.org/en/PublicationsLibrary/unctad_oecd2016d16_en.pdf.

Exhibit 22 | Evolution of FDI Flows



Source: UNCTAD, *World Investment Report 2016* (2016), 196–199, accessed February 8, 2017, http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf.

Furthermore, investment facilitation is critical to fostering growth-inducive investments. By investment facilitation, we mean efforts to remove barriers to FDI, whether they are policies, administrative obstacles, logistical barriers, or efforts that include technical support to improve investment capacity. These efforts have broad benefits: they help investors as well as recipient markets and complement countries' unilateral efforts to encourage FDI inflows. Investment facilitation is thus also crucial for the achievement of the SDGs.

To date, investment facilitation has received relatively little attention compared to trade facilitation. While many countries have national efforts aimed at investment promotion – like image building, the provision of market information or incentives – between 2010 and 2015 less than a quarter of the measures involved touched on investment facilitation.[36] In addition, international investment agreements (IIAs) have relatively few components aimed at investment facilitation. As a result, enhancing national and international initiatives to facilitate investment remains an area with a lot of room for action, and a high potential for positive returns for both businesses and countries.

[36] UNCTAD, *Global Action Menu for Investment Facilitation* (September 2016), 3, accessed February 8, 2017, http://investmentpolicyhub.unctad.org/Upload/Documents/GlobalActionMenuForInvestmentFacilitation.v4.16.09.2016.pdf.

Policy Action 3.1: Strengthen a Reliable Legal Environment

The G20 should build on the G20 Guiding Principles for Global Investment Policymaking, make progress on a concrete G20 Investment Facilitation Package, and support the resumption of a dialogue in the WTO on strengthening coherence of trade and investment policies.

In 2016, G20 members agreed on investment policy-making principles "with the objective of 1) fostering an open, transparent, and conducive global policy environment for investment, 2) promoting coherence in national and international investment policymaking, and 3) promoting inclusive economic growth and sustainable development" (see Exhibit 23).[37] This is the first time in some decades of international investment policy-making that consensus has been reached among all G20 members. A continuous deepening and strengthening of these principles is critical for a long-term sustainable global investment environment, including in non-G20 countries, especially as long as there is no global investment governance body to guide and facilitate investment policy-making.

Therefore, the G20 should build on the G20 Guiding Principles for Global Investment Policymaking, making them as concrete and implementable as possible and reflecting the realities of the 21st century. In this context, the current version of the principles shall be seen as the starting point for further action and policy initiatives that the OECD, UNCTAD, and WTO should be mandated to propose. They should accompany these proposals with case studies on potential benefits and best practices for implementation. The first priority should be the adoption of a G20 Investment Facilitation Package. This could be based on the preparatory work already carried out in the G20 Trade and Investment Working Group, or modelled on UNCTAD's Global Action Menu for Investment Facilitation.

Further attention should be paid to the nexus of trade and investment when implementing the Guiding Principles for Investment Policymaking. In 2016, G20 trade ministers acknowledged the importance of trade and investment policies being complementary and mutually reinforcing. To achieve the G20 goal to identify and address policy inconsistencies or gaps, and develop suggestions to improve policy coherence, the G20 should support the resumption of a dialogue at the WTO on strengthening the coherence between trade and investment policies.

Moreover, the G20 should encourage and foster a regular dialogue on FDI between its members. This would help G20 members to address all relevant investment-related protectionist developments and raise awareness on the most urgent topics to be dealt with. The freedom of investment dialogue by the OECD Investment Committee can serve as an example for an annual conference. Otherwise, this current format could add non-OECD members to increase the scope and relevance of the outcomes of these regular roundtables. The World Economic Forum investment dialogues could also provide such a venue.

In addition, G20 members should continue to reduce investment market access barriers, honor the protectionism standstill on investment, and take the findings of the OECD/UNCTAD Report on G20 Investment Measures into account during investment policy development.

[37] G20, *G20 Guiding Principles for Global Investment Policymaking* (2016), accessed February 8, 2017, http://trade.ec.europa.eu/doclib/docs/2016/july/tradoc_154790.pdf.

Exhibit 23 | G20 Guiding Principles for Global Investment Policymaking

I. Recognizing the critical role of investment as an engine for economic growth in the global economy, governments should avoid protectionism in relation to cross-border investment.

II. Investment policies should establish open, nondiscriminatory, transparent, and predictable conditions for investment.

III. Investment policies should provide legal certainty and strong protection to investors and investments, both tangible and intangible, including access to effective mechanisms for the prevention and settlement of disputes, as well as to enforcement procedures. Dispute settlement procedures should be fair, open and transparent, with appropriate safeguards to prevent abuse.

IV. Regulation relating to investment should be developed in a transparent manner with the opportunity for all stakeholders to participate and embedded in an institutional framework based on the rule of law.

V. Investment policies and other policies that impact investment should be coherent at both the national and the international level and aimed at fostering investment, consistent with the objectives of sustainable development and inclusive growth.

VI. Governments reaffirm the right to regulate investment for legitimate public policy purposes.

VII. Policies for investment promotion should, to maximize economic benefit, be effective and efficient, aimed at attracting and retaining investment, and matched by facilitation efforts that promote transparency and are conducive to investors' establishing, conducting, and expanding their businesses.

VIII. Investment policies should promote and facilitate the observance by investors of international best practices and applicable instruments of responsible business conduct and corporate governance.

IX. The international community should continue to cooperate and engage in dialogue with an attitude of maintaining an open and conducive policy environment for investment, and to address shared investment policy challenges.

Source: G20, *G20 Guiding Principles for Global Investment Policymaking* (2016), op. cit.

Policy Action 3.2: Support Sustainable Investment Facilitation

The G20 should enhance international support programs for investment in developing countries to meet the SDGs.

FDI can play a crucial role in the growth of a country's economy. In particular, developing countries rely heavily on inward investment. For example, infrastructure and capital-intensive industries need funds from foreign investors that fill the gap left by a lack of domestic funds. Achieving the SDGs will require investment from a variety of private-sector partners across many industries, and support from governments to provide guidance, benchmarking, and best practices.

The G20 should thus support initiatives that provide assistance to developing countries and their efforts to attract FDI. Many developing countries would benefit from a defined investment facilitation plan to deliver their value proposition, but do not have the internal capacity to develop one. The G20 has already established itself as a thought leader in the area of best practices for investment facilitation with the Guiding Principles for Global Investment Policymaking in 2016. These principles, in conjunction with UNCTAD's Investment Policy Framework for Sustainable Development, as well as the OECD's Policy Framework for Investment, compile many best practices for investment promotion and facilitation.[38] G20 members can further enhance these efforts by directly supporting best-practice policy

[38] UNCTAD, *Investment Policy Framework for Sustainable Development*, accessed February 8, 2017, http://investmentpolicyhub.unctad.org/; OECD, *The Policy Investment Framework*, accessed February 8, 2017, http://www.oecd.org/investment/pfi.htm.

recommendations, as well as capacity-building efforts in developing countries to create individualized investment facilitation plans. This should include increasing transparency and the availability of information surrounding their investment policies, work to simplify permits and procedures, remove unintended barriers to FDI, and support links between foreign investors and domestic firms. The G20 Investment Facilitation Package that is currently under discussion should take these needs and opportunities of developing countries specifically into account.

G20 countries can provide further guidance on how to best leverage foreign investment to increase its sustainable development impact. Where possible, G20 members and the Global Infrastructure Hub (GIH)[39] should also support efforts to enhance and consolidate the quality and availability of information about target countries for FDI. A variety of existing rankings and databases, for example the World Bank's "Doing Business" reports and the "Investment Competitiveness Report," provide insight into the strengths and areas of improvement for emerging economies. The GIH should contribute to efforts to compile relevant information on developing countries for investors.

Furthermore, G20 members should provide support to public-private partnerships, with a focus on developing countries. Public funding is insufficient to meet many of the investment challenges that the world faces. The global infrastructure funding gap continues to grow, but governments frequently do not have the resources needed to adequately cover all of their country's needs. Investors are eager to put private capital towards projects that will provide long-term returns and also have a strong social impact. G20 members should provide support for public-private partnerships by 1) designing best-practice frameworks to support the expansion of public-private partnerships in relevant sectors, and 2) providing technical and skills-development support for governments of least-developed countries that may not have the capacity to develop their own public-private partnership capabilities.

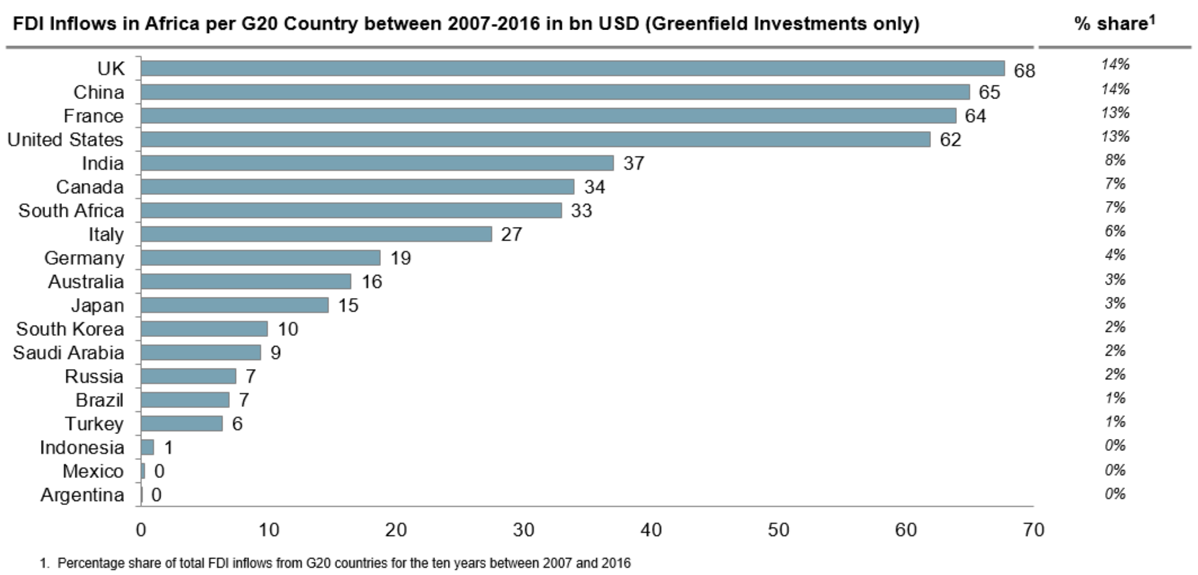
Exhibit 24 | Compact with Africa

As pointed out in the SDGs and the Addis Ababa Action Agenda, private investment and FDI flows are a precondition for successful socioeconomic development. The B20 welcomes the fact that the G20 presidency wants to tackle the existing investment gap in Africa through the Compact with Africa. The Compact is supposed to improve framework conditions to foster private investment, notably FDI, in African countries.

The African Union (AU) defined a collective roadmap in its Agenda 2063 in which investment occupies a central role to eradicate poverty, increase productivity, and improve innovation, education, and health. The Agenda 2063 sets a target of increasing intra-African trade and investment flows, as well as strengthening Africa's place in global trade. Also the trade-investment nexus, notably for trade facilitation, is recognized.

The B20 welcomes these ambitions as well as the acknowledgement of investment and trade as springboards for transformation. The G20 Compact with Africa should help to provide the missing implementation steps to advance towards the targets. The adherence of African countries to the G20 Investment Facilitation Package and the G20 Guiding Principles for Investment Policymaking could be crucial components of the Compact with Africa. Increased transparency and a more reliable legal environment would boost FDI flows into the region. If FDI is to be fostered, the importance of the trade-investment nexus, which the G20 itself noted in its 2016 communiqué, cannot be underestimated. The Compact with Africa should contain concrete roadmaps for ambitious implementation of the TFA by African countries. All actions of the Compact with Africa should be considered in conjunction with existing Aid for Trade, capacity building, and other development initiatives, for instance eTrade for All or the Global Alliance for Trade Facilitation.

[39] The GIH was launched by the G20 in 2014 with a mandate to grow the global pipeline of quality, bankable infrastructure projects.



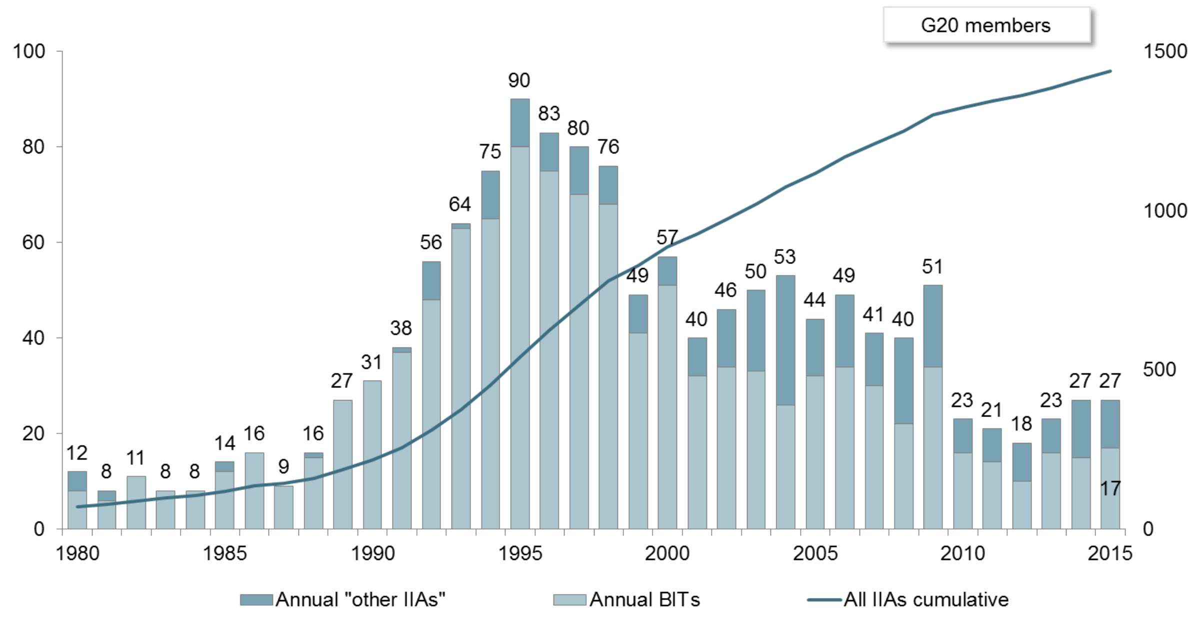
Source: Financial Times, *FDI Intelligence Database*, accessed on February 17, 2017, http://www.fdiintelligence.com/.

Policy Action 3.3: Explore a Potential Multilateral Investment Framework

Building on the G20 Guiding Principles for Global Investment Policymaking, the G20 should mandate the OECD, UNCTAD, UNCITRAL, and the WTO to prepare a study on the benefits, challenges, and drawbacks of developing agreements on the plurilateral and multilateral level.

The first bilateral investment agreement was signed in 1959 between Germany and Pakistan, establishing many of the concepts that are now included in nearly every investment agreement. In the decades since, a complex web of bilateral and regional agreements evolved to regulate global investment, each with slightly different provisions and rules (see Exhibit 25). Divergences between IIAs exist especially with regard to issues like investment promotion, corporate social responsibility, and transparency. Furthermore, it is also worth noting that there is discrepancy between G20 members in terms of the numbers of IIAs they have concluded and ratified. While some G20 countries, such as EU member states as well as China and South Korea, have signed about 100 IIAs, others, like Australia, Brazil, Japan and Saudi Arabia, have concluded substantively fewer agreements. To simplify the rules governing investment and improve the global business environment, OECD members attempted to negotiate a multilateral agreement on investment (MAI) from 1995 to 1998. However, when draft texts of the agreement were publicly released, they drew criticism from developing countries and civil society groups, resulting in the termination of negotiations.

Exhibit 25 | Cumulative Number of International Investment Agreements of G20 Members



Source: UNCTAD, *UNCTAD IIA Databases*, accessed February 8, 2017, http://unctad.org/en/pages/DIAE/.

The idea of a multilateral investment framework has resurfaced in recent years. Proponents of such a framework emphasize that this would substantially reduce complexity, information, and legal costs due to diverging stipulations between the numerous existing IIAs. By decreasing complexity, rising legal liability, and facilitating FDI a multilateral investment framework could thus lead to more efficient investment allocation, resulting in substantial beneficial effects on growth and development. There is, however, also still skepticism about the feasibility and desirability of a multilateral investment framework. Opponents contend that such a framework would limit the opportunities for governments to support national investment goals or would result in a least common denominator agreement with many exceptions. It would be useful to explore possibilities to bridge opposing views and work towards an ongoing dialogue.

Nonetheless, there are interim steps that the G20 could take to increase efficiencies compared to the status quo. The G20 should ask UNCTAD, UNCITRAL, the OECD, and the WTO to conduct a joint evaluation of potential regions for harmonization or consolidation of existing investment agreements (see Exhibit 25). Consolidating bilateral agreements into plurilateral agreements could serve to create a more unified set of rules among regions or groups of common investment partners, reducing the suboptimal effects of the current system. UNCTAD, UNCITRAL, the OECD, and the WTO should produce cost/benefit analyses for suggested harmonizations that have particularly high benefit levels, and run assessments for groups of countries that are interested in developing regional agreements.

In addition, these organizations should conduct an evaluation of the benefits and drawbacks of a potential multilateral investment framework building on the G20 Principles for Global Investment Policymaking. The evaluation could take into account the functioning of existing international frameworks related to investment such as the WTO Agreement on Trade-Related Investment Measures (TRIMS) and dispute settlement mechanisms under the International Centre for Settlement of Investment Disputes (ICSID) as well as UNCITRAL. It could also look at potential components of a framework such as a review mechanism and options for more efficient standards to settle investment disputes and facilitate access to dispute settlement for SMEs. Additionally, any efforts should take note of the shortcomings that led to the nonconclusion of the MAI and work to rectify those concerns. This work can build on previous efforts and existing research in this field.

To evaluate needs, components, and drawbacks of a multilateral framework, UNCTAD, UNCITRAL, the OECD, and the WTO should conduct a joint survey with stakeholders to validate the overall attitude towards a comprehensive approach to develop a multilateral mechanism for investment. This survey should cover the a) overall perception of investment barriers, b) willingness to consolidate existing bilateral investment treaties into larger regional agreements, as well as openness to a single multilateral agreement, c) evaluation of benefits and challenges of an investment framework, and d) proposals for overall regulatory best practices, for example derived from individual IIAs.

Annex

Acronyms

AD	antidumping
API	application and programming interface
AU	African Union
B2B	business-to-business
B2C	business-to-consumer
B2G	business-to-government
C2C	consumer-to-consumer
EDI	Electronic Data Interchange
EGA	Environmental Goods Agreement
EGF	European Globalisation Adjustment Fund
EU	European Union
eWTP	Electronic World Trade Platform
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GIH	Global Infrastructure Hub
GPA	Agreement on Government Procurement
ICSID	International Centre for Settlement of Investment Disputes
ICT	information and communication technologies
IIA	International Investment Agreement
IPR	intellectual property rights
ISDS	Investor State Dispute Settlement
ITA	Information Technology Agreement
ITC	International Trade Centre
MAI	Multilateral Agreement on Investment
MC11	WTO Ministerial Conference in Buenos Aires 2017
MFN	most-favored nation
MSMEs	micro, small, and medium enterprises
N/A	not available
NTBs	non-tariff barriers
OECD	Organisation for Economic Co-operation and Development
OTT	over-the-top content
PP	purchasing power
PTA	preferential trade arrangements
SDGs	Sustainable Development Goals
SPS	sanitary and phytosanitary measures
TAA	Trade Adjustment Assistance
TAG	Technical Assistance Group
TBT	technical barriers to trade
TFA	Trade Facilitation Agreement

TiSA	Trade in Services Agreement
TRIMS	Trade-Related Aspects of Investment Measures
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
WBG	World Bank Group
WCO	World Customs Union
WTO	World Trade Organization

Schedule of Taskforce Exchanges

#	Date	Location	Theme
1	November 3, 2016	Conference call	Discussion of taskforce focus topics
2	December 2, 2016	Berlin	Discussion of taskforce recommendations in first policy paper draft and exchange with G20 presidency representatives
3	January 23, 2017	Conference call	Refinement of taskforce policy proposals in second policy paper draft
4	February 24, 2017	Conference call	Refinement of policy paper following first G20 Trade & Investment Working Group Meeting
5	March 22, 2017	Paris	Discussion of final draft and exchange with OECD and G20 Sherpas

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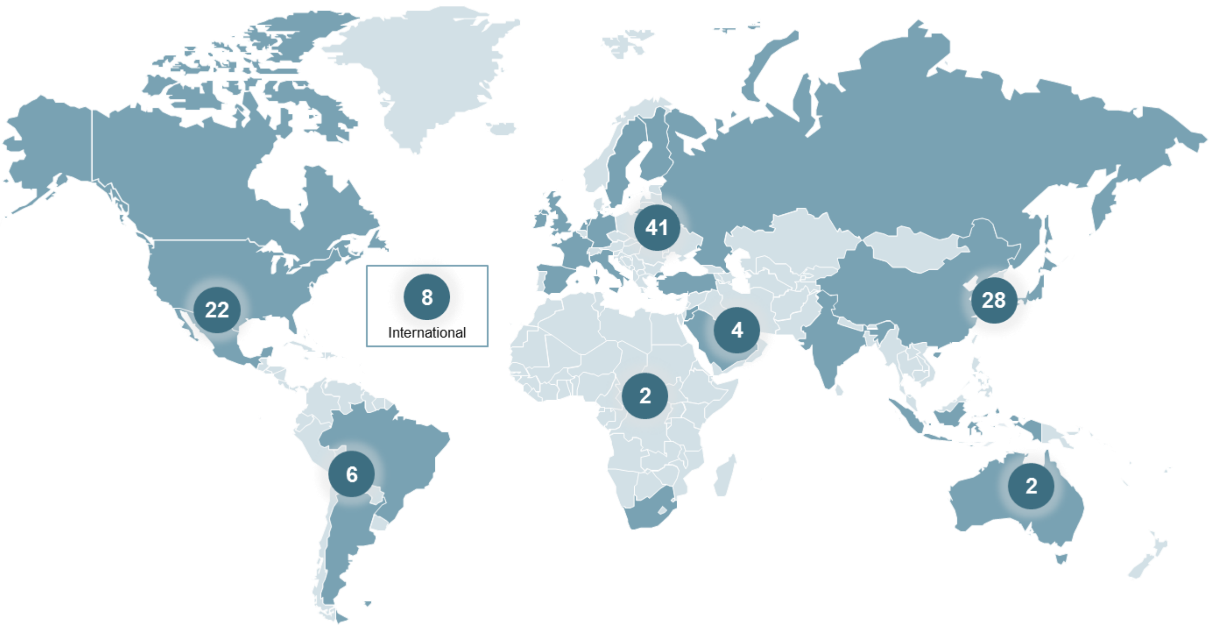
Country	#	Country	#	Country	#	Country	
Argentina	2	Germany	12	Mexico	1	United States	14
Australia	2	India	6	Russia	3	EU (other)	6
Brazil	4	Indonesia	1	Saudi Arabia	3	International	8
Canada	7	Italy	4	South Africa	2	Other	4
China	15	Japan	2	Turkey	3	Total	113
France	5	South Korea	2	United Kingdom	7		



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