T20 Policy Brief

Task Force 1
Macroeconomics, Trade, and Livelihoods: Policy Coherence and International Coordination

A BROADER TRADE FACILITATION APPROACH FOR RESILIENT AND SUSTAINABLE GLOBAL VALUE CHAINS

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Abstract

The COVID-19 pandemic underscored the risks that international shocks pose to global supply chains. It also highlighted the importance of digitalisation and sustainability in mitigating the impacts of future shocks and promoting societal inclusivity. The G20 has pursued the agenda of resilient and sustainable supply chains through various initiatives, under which trade and transport facilitation has been a prominent theme. Sustainable trade facilitation that also incorporates transport measures and the use of technology should be a priority under India's G20 presidency.

This policy brief proposes four key recommendations: (i) collaborate on governance within and across countries for trade and transport facilitation, (ii) improve the implementation integrity of emergency protocols built into the World Trade Organization's Trade Facilitation Agreement to enhance disaster preparedness, (iii) enhance digital trade and access to finance for greater inclusivity, and (iv) integrate sustainability parameters into trade facilitation components of global value chain development by defining 'common' sustainability and climate indicators. These recommendations can be reflected in statements from the G20's trade and investment and digital working groups, and the Business20 and Think20 engagement groups.

The Challenge

1

Global value chains (GVCs) account for 70 percent of international trade,[1] and are of key importance to economic growth, trade, and job creation. An estimated 1 percent increase in GVC participation could increase the per capita income of developing countries by more than 1 percent, compared to just 0.2 percent income gain from regular trade.[2] Developing economies can gain significantly by integrating into GVCs. As they venture into new markets, they can potentially lower trade costs and gain new technology and knowledge.[3] Trade and transport connectivity and facilitation are key enablers to lower trade costs and strengthen GVCs. While trade facilitation helps to address issues at the border, transport facilitation improves both hard and soft (regulatory) infrastructure that goes beyond the border.

Recent events call for a fresh look at the issue of trade and transport facilitation that enables seamless operations of GVC-based supply chains. The COVID-19 pandemic, for example, sparked fear among policymakers that GVCs exposed local manufacturing to cross-border supply chain risks. The lockdowns, border closures, and health protocols of the pandemic restricted the movement of transport, goods, and people, with significant social consequences. Globally, it resulted in 114 million employment losses in 2020[4] and is expected to push between 88 million to 115million people into extreme poverty by 2021, bringing the total tally to 150 million people living in poverty.[5]

Conflict between Russia and Ukraine has also caused supply chain breakdowns in the energy and agriculture product markets. The two countries are major exporters of basic agro-commodities, including wheat, maize, barley, and sunflower oil, and fertilizers. A squeeze in the supply of these products raised prices, leading to worries over food insecurity in importing countries in Africa and West Asia.[6]

Currently, as unsettled geopolitics and factors like pandemics and natural disasters are fueling global debate about the future of GVC and supply chains, there is a growing consensus for the need to boost supply chain resilience to future shocks. To this end, countries need to focus on three key aspects. The first is to acknowledge and address rising climate change risks and their impact on GVC and supply chains. The second is the need to introduce and implement new technologies to enhance flexibility of supply chains to future shocks. The third is to develop comprehensive and collaborative governance models for trade and transport connectivity and facilitation across borders and agencies. But there are significant challenges to achieving these goals.

First, while there is growing discussion on mechanisms to address climate-change risks (such as the carbon border adjustment mechanism, the European Union Supply Chain Due Diligence Directive, and others), there are a number of factors that prevent the understanding of sustainability impacts on the components of GVCs. This happens due to (i) differences in awareness of sustainability parameters across stakeholders and countries, (ii) low capacities in countries to respond and adapt to the changing sustainability landscape, (iii) complex value chains that run into several tiers comprising organised and unorganised entities hindering accountability and traceability, and (iv) inadequate representation of stakeholders from emerging economies in determining sustainability priorities in GVCs.[7]

Second, the pandemic highlighted the role of technology as a crisis mitigation tool and a resilience-builder for improved trade flows and sustainable supply chains, driven by GVCs. It was observed that the countries that invested in digital infrastructure and regulations at the border and among port authorities, shippers, and freight forwarders, navigated the disruptions better than the ones who failed to use technology for clearing border measures.[8] There are resource and capacity constraints in developing countries that limit their ability to use digital means to enhance trade. This raises not only inefficiencies and trade costs, but also deters inclusive trade outcomes.

Third, continued high global trade costs remain a topic of discussion. Within such costs, transport and travel costs and differences in trade policy and regulatory practices constitute the highest share of trade costs.[9] This implies that measures to raise efficiency at the border (such as customs and border infrastructure facilities) and beyond the border (such as transport connectivity, regulations, non-tariff barriers, and others) need greater attention and a new approach. A recent study highlighted the need for more comprehensive work on these trade and transport facilitation issues.[10] Fragmented design and implementation of public policies around customs modernisation, cross-border transport connectivity, and inconsistent regulations have resulted in poor coordination in developing trade infrastructure.

The G20's Role

2

The G20 have been pursuing the agenda of improving trade efficiency and lowering costs through different initiatives (see Table 1).

The G20's Trade and Investment Working Group is focused on promoting dialogue and building consensus on global trade and investment issues. The group focuses on key issues and interventions including simplifying customs procedures, cooperation among authorities, trade and digital economy, trade finance, and GVCs. The G20 member countries and their international organisations have provided technical and capacity-building support to various developing countries for successful implemen-

Table 1: G20 Initiatives for trade and transport facilitation to boost GVCs

Year	Presidency	Initiatives
2016	China	• Established G20's Trade and Investment Working Group, which focuses on GVCs and covers issues of trade facilitation and connectivity • Launched the Trade Facilitation Support Program to support countries in implementation of trade facilitation commitments
2017	Germany	• Launched the initiative on supporting investment in least developed countries, particularly to promote investments in trade facilitation infrastructure • Emphasised the importance of digital trade
2018	Argentina	• Focused on modernising the multilateral trading system, promoting trade facilitation • Launched the Buenos Aires Declaration on Trade and Women's Economic Empowerment
2019	Japan	• Launched the G20 Principles for Quality Infrastructure Investment, which included sustainable transport infrastructure and connectivity
2020	Saudi Arabia	• Prepared the 'Synthesis Report of Members' Best Practices and Lessons Learned on Trade in Services' that discussed improving trade facilitation for services
2021	Italy	• Developed the policy toolkit on inclusive and digital trade, focusing on micro small and medium enterprise participation
2022	Indonesia	• Emphasised complete implementation of World Trade Organization Trade's Facilitation Agreement to enable the continuity of trade flows during economic crises

Source: Authors' compilation from various publications[11] and G20 documents.[12]

tation. This support includes the establishment of initiatives such as the Global Alliance for Trade Facilitation which brings together governments, businesses, and international organisations to share best practices and provision for funding of training programmes. The G20 has also called on businesses to adopt sustainable and inclusive practices in their value chains, such as reducing greenhouse gas emissions, respecting human rights, and promoting gender equality.

The group has also supported the implementation of World Trade Organization Trade's Facilitation Agreement (TFA). The agreement aims to simplify customs procedures, enhance transparency, decrease trade costs, and improve predictability within international trade.[13] As part of the implementation, the G20 established the TFA-Needs Assessment and Prioritisation initiative providing funding and technical support to developing countries to assess their needs and priorities while developing trade facilitation agreements.

The group further supported the development of the World Customs Organization's Framework of Standards to Secure and Facilitate Global Trade, outlining standards and procedures to balance security with trade facilitation. The group also recognizes the need for technology in trade facilitation and has highlighted the importance of digital trade and encourages the use of emerging technologies such as blockchain and artificial intelligence for transparency in trade.

In addition, the G20 recognises the importance of trade finance—particularly for micro, small, and medium-sized enterprises (MSMEs)—in developing countries and has taken steps to support their development by providing access to finance, technology, and training. The group also realises the particular challenges MSMEs and women face when participating in GVCs and has focused on measures to support them through access to finance, capacity building, and mentoring. In 2018, the G20 launched the Women Entrepreneurs Finance Initiative to generate US$1 billion in financing to support women-led SMEs in developing countries. Additionally, the Women's Empowerment Working Group focuses on promoting women's participation in international trade. More recently, G20 countries have been providing best practices on policies and initiatives to low-income countries for building more inclusive value chains.

Recommendations to the G20

3

Boosting collaborative governance for trade and transport facilitation

- **Cooperation within countries:** To promote international trade and implement improved trade and transport facilitation measures, it is critical to have effective coordination across all relevant government departments and agencies, as well as efficient collaboration between the public and private sectors. A coordinated trade ecosystem within a country will help in streamlining trade procedures and improve predictability, thus making it easier for enterprises to engage in international trade.

- **Cross-country cooperation:** Despite the recognised benefits of trade facilitation, cross-border cooperation between countries is lacking. Often improvement in border infrastructure at one side is not matched by equally improved trade infrastructure and procedures on the other side. There is a lack of capacity to build digital infrastructure to facilitate trade, especially among developing countries. Development of border infrastructure and transport connectivity needs to be improved significantly in a coordinated fashion.

The Trade and Investment Working Group should develop appropriate policy priorities by setting up a trade facilitation agenda that includes not only at-the-border reforms but also infrastructure connectivity. Additionally, it should encourage countries to raise domestic and cross-border agency collaboration to enhance international trade and GVCs. The group should encourage development of national logistics and supply chain infrastructure portals to integrate various modes of transport and build a seamless logistics networks. India can use its G20 presidency to share best practices and lessons from the Gati Shakti portal and encourage discussions about developing integrated governance structures to bring transport and trade facilitation together across countries.

Enhancing disaster preparedness by improving implementation of TFA emergency protocols

Global uncertainties have serious impacts on supply chain networks. It has been found that a natural calamity can erode around 2 percent of a country's service exports, destroy physical infrastructure, and block ports and restrict goods marine shipments.[14] The

COVID-19 pandemic created several unanticipated disruptions in global trade and supply chains, and various other natural catastrophes resulted in US$270 billion in economic damages in 2020.[15]

Evidence shows that during the pandemic, most nations resorted to ad hoc measures to limit negative trade consequences. Chile, for example, passed special legislation to streamline and assure business continuity at ports, airports, and border crossing points (for instance, physical inspection without broker presence and suspending paper documents). Similarly, Cameroon eased restrictions on humanitarian aid consignments, allowing prompt collection, pre-arrival completion of customs processes, immediate departure of commodities following inspection on the quayside/runway, and pre-arrival declaration procedures.[16]

The TFA already includes processes for accelerating product movement, release, and clearance, and goods in transit. It also establishes protocols for effective collaboration on trade facilitation and customs compliance between customs and border authorities, as well as other relevant agencies.

The WTO has proposed a three-phase crisis response and resilience structure that may be implemented in trade and transportation facilitation frameworks (see Table 2).

India should use its G20 presidency to focus on the implementation of the spirit of the TFA, along with sound emergency protocols. The trade and investment, disaster risk reduction, and environment and climate sustainability working groups should work together to build emergency protocols and disaster management frameworks to limit the impact of global and environmental uncertainties on GVCs and supply chain networks, while safeguarding the interests of the most vulnerable and marginalised stakeholders.

Table 2: Three-phase crisis response and recovery framework

	Phase 1: Immediate Response	Phase 2: Recovery	Phase 3: Resilience
Trade related measures: Goods	• Facilitate customs processes and procedures • Ensure the quality and safety of relief items • Temporary suspension of regular customs charges on the entry of relief items • Access to goods of primary necessity: food supplies	• Financial support to enterprises to recover from damages • Modification of tariff protection policies • Resumption of exports • Ensure the quality and safety of products exported by the disaster-affected country	• Define in advance domestic customs disciplines to be implemented in the event of a disaster • Integrate disaster risk reduction measures into construction and restoration of buildings and physical infrastructures (Build Smarter approach)
Trade-related measures: Services	• Entry of foreign relief service providers • Allocation of frequencies necessary for use of Information and Telecommunication equipment • Access to cash aid resources	• Financial support to local service suppliers • Supply of services needed for reconstruction • Procure goods and services needed for recovery • Procurement for the purpose of providing international assistance	• Ensure automatic recognition of professional qualification of foreign relief service providers • Encourage supply of services needed in disasters such as telecommunications, insurance, and environmental services (e.g., waste collection, processing, and disposal) • Improve supply of weather-related services

Source: Authors' compilation from WTO's Trade and Climate Change: Information Brief No. 3[17]

Enhancing digital trade and access to finance

- **Enable equitable access to development and deployment of appropriate technologies**: An overhaul of the electronic and technological infrastructure will enable quicker and more efficient trade transactions, improving operational efficiencies. Many nations face severe shortfall in finances and skills to research, develop, and implement new technologies. This often leads to inefficiencies in the trade transaction process, resulting in greater trade expenses. The increased costs make trading with these nations 'unfavourable', thus leaving them unable to join global trade networks. Additionally, to promote technology adoption, the G20 should focus on providing developing countries with access to equitable finance. Further, the Trade and Investment Working Group should provide capacity-building support and technical assistance to developing countries.

- **Greater use of technologies to build flexibility and resilience to combat disruptions:** New technologies such as artificial intelligence (AI), cloud computing, and blockchain are assisting in the transformation of international trade. The integration, innovation, and deployment of such critical technologies require investment in digital infrastructure and workforce training. A strategic plan to create and implement these technologies and predict potential obstacles in their deployment will help achieve transformative digital growth and maximise rewards for international trade.

- **Trade finance:** MSMEs represent about 90 percent of businesses and more than 50 percent of employment worldwide.[18] But there is an approximately US$5 trillion financing shortfall for such businesses.[19] Narrow access to finance holds back market potential to fuel economic progress. Still, resilient and sustainable MSMEs have been a key area of focus for the G20 in economic recovery and the following provisions could enhance access to finance: enable MSME and women's access to finance; export credit insurance tools with lower administrative costs; introduce online trade finance facilities and provide digital solutions to finance trade; provide a single window mechanism to enableeasy access to finance; improve banking practices and exchange controls to enable global regulatory harmonisation and improved trade.

Establishing a roadmap for sustainable GVCs

India should take the lead during its G20 presidency to develop a broad action plan for promoting sustainable GVCs. It should consider the following:

- Defining a set of 'common' sustainability and climate indicators emphasising the interests of the most vulnerable and marginalised groups in the GVCs and supply chains. These indicators can be guided by national frameworks such as the National Guidelines on Responsible Business Conduct[20] (published by India's Ministry of Corporate Affairs) and international frameworks such as the Sustainable Development Goal Agenda,[21] the Organization for Economic Cooperation and Development guidelines,[22] and the International Labour Organization principles.[23]

- Developing a financing roadmap for sustainable and resilient GVCs and supply chains with a special focus on small enterprises, women, and small holder farmers. The roadmap should focus on providing potential financial recourse in the event of future disruptions.

- Driving collaboration for dialogue and capacity development by establishing forums for exchange of knowledge, good practices, and technical knowhow, peer-to-peer learning among different stakeholder groups, and policy dialogue between the Global North and the Global South on the broader approach to trade facilitation supporting sustainable and inclusive GVCs.

Attribution: Sanchita Basu Das et al., "A Broader Trade Facilitation Approach for Resilient and Sustainable Global Value Chains," *T20 Policy Brief*, June 2023.

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