B20 India Secretariat

Confederation of Indian Industry

B20 INDIA 2023

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Equitable

TASK FORCE ON

Inclusive GVCs for Resilient Global Trade and Investment

Policy Paper

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Policy Paper

Published by

Confederation of Indian Industry (CII)
The Mantosh Sondhi Centre; 23, Institutional Area,
Lodi Road, New Delhi 110003, India

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Foreword: Chair of the Task Force

Mallika Srinivasan
Chair of the Task Force on Inclusive GVCs for Resilient Global Trade and Investment and Chairman and Managing Director, Tractors and Farm Equipment (TAFE) Limited

India's B20 vision of "R.A.I.S.E" – "Responsible, Accelerated, Innovative, Sustainable, Equitable Businesses" resonating with India G20 theme of "Vasudhaiva Kutumbakam"– "One Earth–One Family–One Future", is a reiteration of India's commitment and is a clarion call towards collaborative partnerships and an inclusive global economic and social world order.

The B20 deliberations during India's G20 Presidency are taking place amidst shifting dynamics that have impacted industries, companies, nations, and the international system. These dynamics have been both challenging and transformative, leading to disruptions that have reverberated across borders and impacted all aspects of our lives. In response, businesses and nations have shown adaptability and innovation, while recognising the increasing influence of climate change and technology on businesses. Their efforts now go beyond sustaining economic and growth activity to also create inclusive and sustainable transformative opportunities. As a result, resilience, transformative thinking, and cross-border collaboration have taken centre stage as key focal points in the B20 deliberations.

The Task Force on 'Inclusive GVCs for Resilient Global Trade and Investment', focuses on the trends and concerns faced by the global business community and recommends a path towards value chains characterised by resilience, inclusivity, innovation, technology, and sustainability.

As we reflect on the significant economic events that have shaped the global economy in recent years, it is evident that resilience is at the heart of our survival and growth. Time and again, our ability to withstand shocks, adapt to changing circumstances, and bounce back stronger has proven critical. From financial crises to pandemics and geopolitical shifts, resilient trade systems have acted as pillars of stability, guiding us through uncertain times. Our recommendations, therefore, emphasise the importance of robust and collaborative frameworks, agile regulations, and adaptive strategies to enhance trade resilience against future challenges. The Task Force focuses on four priority themes:

- Building resilient and sustainable global value chains (GVCs)
- Technology & Trade 4.0: Crossing Borders with Industry 4.0
- Diversifying and Advancing Services Trade
- Fostering Inclusive Trade for LDCs, MSMEs, Women and Youth

The heightened focus on sustainability presents a unique opportunity for nations to transition to greener and more environmentally sustainable economies. Growing consumer demand for environmentally friendly products and services opens doors for investments in renewable energy, circular economies, and green infrastructure. By embracing sustainable practices across nations, and enhancing cross border collaboration on ESG standards, carbon measurement and pricing, we can not only mitigate the risks associated with climate change but also unlock new avenues for job creation, technological advancements, and sustainable economic prosperity.

Rapid advancements in technology continue to present the global economy with a multitude of opportunities. The digital revolution has ushered in an era of seemingly limitless potential, where the boundaries of trade in goods as well as services and investments have expanded well beyond traditional confines. As supply chains recast themselves to become more integrated digital supply networks, rapid advancements in areas such as Artificial Intelligence (AI), Machine Learning (ML), Distributed Ledger Technology (DLT) and Blockchain, namely Trade 4.0, have unleashed opportunities for innovative solutions in trade that drive efficiency, productivity, and competitiveness. Further, digital technology when complemented appropriately through partnerships from developed nations has the potential to enhance inclusivity through empowering developing economies and LDCs, MSME, Women and Youth, thereby fostering a more equitable global trade ecosystem.

The increasing digitalization and inter-connectedness of businesses across borders have propelled the growth of services trade and redefined the nature of economic transactions (digital trade). To fully harness the potential, it will be essential to foster cross-border collaboration on data, as this has become a vital enabler of digital and physical trade.

Furthermore, cybersecurity concerns are emerging as a serious threat to businesses and are expected to disrupt global trade in future as well. This calls for significant efforts from nations to collaborate on a global level to effectively address the increasing vulnerability towards cybercrime thereby enhancing resilience. Facilitating the secure flow of data through addressing regulatory standards, while ensuring privacy and cybersecurity safeguards at the same time can unlock new avenues of growth and create an environment conducive to innovation and entrepreneurship. Collaboration among nations will be crucial in identifying contribution of services in global value chains, enabling a comprehensive understanding of the true interconnectedness of economies, and enhancing it further

Trade is undoubtedly an engine of economic growth and technology offers the opportunity to propel LDCs and sections of society namely MSMEs, Women and Youth, that have historically been under-represented in the world economic system into the economic mainstream. Diversity of talent, perspectives, skillsets, and innovation that these participants bring adds to the richness of the tapestry in global trade and true inclusiveness in the new world order. A concerted, collaborative, and cohesive effort through inclusive trade and investment policies would be in the true spirit of the concept of world as one family.

As we look forward, by harnessing the power of human creativity and drive, we can shape a future where trade and investment flourish, creating a more prosperous, inclusive, and resilient world. Together, let us seize these opportunities and work towards a brighter and more sustainable economic future for all.

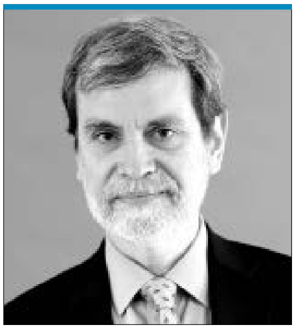
Messages from Co-Chairs

Resilient supply chains and Global Value Chains (GVCs) are critical for the global economy, including India, as they drive international trade and foster economic growth. GVCs have enabled countries to industrialize earlier and participate in the global marketplace, leveraging their comparative advantages. The recent disruptions, such as the pandemic, have highlighted the importance of building resilience into supply chains to ensure stability. Resilient supply chains minimize disruptions, mitigate risks, and support faster recovery. The B20 Task Force report on GVCs, therefore is timely in the context of India's G20 presidency, as it addresses the need for inclusive, resilient, and sustainable economic activities within and across countries, promoting openness, integrity, and stability in GVCs. It provides a comprehensive framework to enhance GVC participation, drive actions, and strengthen supply chain management, aligning with India's focus on building robust and resilient global value chains. The issue of building inclusive and resilient global value chains remains more relevant today than ever before.

VIR S. ADVANI
Vice Chairman & Managing Director, Blue Star, India

Despite the combined negative impact of the pandemic shock and of the Russian aggression of Ukraine, global exchanges of goods are growing but global markets remain heavily unbalanced with increasing inequalities and different prospects of development deepening the existing cleavages among countries, regions, and businesses, where women and small businesses continue to be those most affected. Trade and investment should be drivers of inclusive growth, stability, and liberal values but they have become so interlinked with geopolitics that economic security priorities prevail on market access and liberalization objectives, while tariff and technical barriers remain on the rise, and no shared reform plan for the WTO is yet available to ensure a sound multilateral governance. The recommendations conveyed with this paper to the India G20 Presidency focus on meaningful goals and propose actionable policy tools to overcome many shortcomings, highlighting the ever-strong commitment of business to a free, equitable, inclusive, and resilient rules-based trading system.

BARBARA BELTRAME
Vice President, Confindustria, Italy



The G20 is a unique high-level forum for global sustainable development. The most important priority is resilient and sustainable GVCs and the inclusion of developing economies and LDCs within them. However, this goal remains challenging in light of the huge differences in governments' capabilities to provide incentives when compared to their developed country counterparts, among other issues. As such, our B20 India business representation provides a substantive set of policy recommendations that build upon past cycles. These comprise not only the advancement of multilateral rules but also consensus policies that need to be implemented at the national level. Crucially, we also suggest KPIs and benchmark indicators to identify best practices and helpful measures of advanced performance.

FERNANDO LANDA

President, Argentina Chamber of Exporters (CERA), Argentina

Transparent, rules-based international trade and investment flows are essential to overcome the ever-evolving challenges of the world economy, by promoting productivity and innovation. These topics have been at the centre of the G20 since the beginning, and the work conducted by the B20 in these areas continues to play a key role in contributing to the formulation of effective policies in our countries. Under India's leadership, and with the strong engagement of all Co-Chairs, this Task Force on Inclusive GVCs for Resilient Global Trade and Investment has been able to produce a robust set of recommendations for G20 policymakers looking ahead for restoring growth and prosperity. We are convinced that the wide range of themes covered are important not only for fostering trade and investment, but also for improving inclusivity.

FRANCISCO GOMES NETO

Chief Executive Officer, Embraer, Brazil

The global response to the Covid-19 pandemic has served as a powerful reminder of the interdependence and interconnectedness of nations. As we collectively curb the impact of the pandemic, the world is now presented with a renewed sense for a true global collaboration. In the spirit of B20 collaboration, let us all join together and chart a course towards a future where inclusivity and global cooperation thrive, enabling a resilient and equitable global value chain (GVC). We believe that by embracing innovative small and medium enterprises, smallholder farmers, youth, and women–led businesses into the GVCs, we will unlock the full potential of trade and investment for the betterment of all. Let us harness our collective strength, share knowledge and expertise among us, and forge meaningful partnerships, so that together we can ensure global economic stability underpinned by global food and energy securities in an ever-evolving world.

ARIF RACHMAT

Executive Director, Triputra Group, Indonesia

In the last few years, disruptions to GVCs caused by the Covid-19 pandemic, natural disasters and geopolitical shocks have revealed the fragility of Global Value Chains (GVCs). In a vastly interconnected and globalized world, international supply chains were subjected to unforeseen severe and persistent stress at the national and global levels. The uncertainties resulted in disruptions in production and flow of essential goods and services (especially of food and fuels) across borders, causing unforeseen inflation and rising unemployment at global level. Further, real and financial spillovers from major economies became a threat to financial stability in emerging market economies, heightening the risk of global recession. In this context, the B20 Task Force report on GVCs is highly relevant and a comprehensive reference point for all issues related to building resilient supply chains.

SATISH REDDY

Chairman, Dr Reddy's Laboratories, India

Global Value Chains (GVCs) play an important role in the functioning of the world economy having a share of more than 70% in international trade. GVCs have helped countries in rapid economic expansion through industrialisation, trade and businesses and have provided competitive cost advantage to countries with lower labour costs or locational benefits. However, after the pandemic, the G20 countries have forecasted an output gap for 2023 compared to the pre-Covid trend. The disruptions to supply chains exacerbated the tendencies of trade fragmentation and initiated attempts to impose sanctions on trade and re-locate established production chains by firms governed by considerations of lowering dependence and shared values. Against the above backdrop, the GVC Task Force report of the B20 emphasises the importance of technology-enabled mechanisms for the early detection and mitigation of trade crises. By harnessing real-time data, advanced analytics, and predictive models, businesses and nations can proactively identify potential risks and take preemptive measures to minimize disruptions.

S.N. SUBRAHMANYAN
Chief Executive Officer, Larsen & Toubro, India

VIRAT BHATIA
Managing Director, Apple India, India

Recommendations: Executive Summary

Recommendation 1: Building resilient and sustainable global value chains (GVCs)

In recent years, the global business environment has witnessed a range of challenges, including the pandemic and geopolitical developments, which have impacted several macroeconomic factors such as inflation, interest rate hikes, and decelerating growth. These elements, combined with increased environmental concerns, have had a significant economic and operational impact on governments, businesses, and the global economy at large. Consequently, there is an increasing recognition of the need to enhance the resilience of supply chains, moving beyond traditional goals of efficiency and cost, while ensuring sustainability, security, transparency, and inclusivity in the global value chains. In this regard, B20 India recommends the following policy actions:

Policy Action 1.1: Foster global co-ordination for crisis mitigation and resilience

Nations and businesses are faced with the need to build greater predictability and resilience in GVCs. An early warning system for the detection and mitigation of potential trade disruptions through tech-enabled mechanisms, in addition to proactive stress testing to identify points of vulnerability in critical value chains could help boost preparedness of GVCs across nations. Facilitating cross-border collaboration and risk-mitigated procurement through partnerships between the private sector and governments are crucial levers in mitigating the disruptions caused by unanticipated crisis. While government initiatives, such as simplifying policies and regulations, investing in infrastructure and logistics, and promoting international cooperation are vital, private sector initiatives like risk-mitigated sourcing, and opting for substitutability of materials whenever possible are equally critical in enhancing resilience. Further, easing procedures for green lanes to ensure the smooth flow of "critical goods", with an emphasis on food security (staples), remains key in averting future humanitarian crises.

Policy Action 1.2: Strengthen systemic and operational resiliency through continued multilateral reforms and international cooperation on reducing trade restrictive measures

Previous B20 cycles have advocated for the meaningful reform of the WTO, including the reinstatement of the Appellate Body for dispute settlement. B20 India reiterates these calls and encourages all members of the G20 to work constructively on a WTO reform package, to appoint high-quality Appellate Body members to fill ongoing vacancies and address any other bottlenecks to pave the way for prompt settlement of disputes. Additionally, involvement of business communities in the reform process is important. B20 India reiterates B20 Italy and B20 Indonesia's call with respect to protectionist measures and review of the Agreement on Subsidies and Countervailing Measures.

Policy Action 1.3: Encourage global frameworks for sustainably de-carbonising GVCs and enhancing investment attractiveness

Environmental, social, and governance (ESG) topics are creating both new challenges and opportunities. Supporting the development and deployment of a globally aligned approach towards ESG reporting, recognising the differential development status of nations is crucial in moving towards the goal of sustained economic growth. In accelerating the net zero transition, a consistent consensus-based methodology for carbon emission measurement aligned across nations would ensure comparability and foster equal participation. The B20 urges G20 to encourage an approach for carbon pricing that improves cooperation and promotes transparency and predictability. Any carbon border adjustment measure should be implemented in a manner that is multilaterally compliant and fair to all nations keeping in mind the principle of common but differentiated responsibilities as committed to in the Paris Agreement.

Policy Action 1.4: Facilitate FDI flows towards green, sustainable, and circular business models

Foreign direct investment (FDI) in sustainable businesses and circular business models can help improve the competitiveness of economies by promoting technology development, improving resource efficiency, and reducing the environmental and social impacts of economic activities. The B20 calls for policies to encourage FDI flows into sustainable businesses and circular business models. The B20 also emphasises the importance of nurturing and supporting LDCs to shift towards sustainable business models, to foster equitable growth.

Recommendation 2: Technology & Trade 4.0: Crossing Borders with Industry 4.0

The digitalization of processes and adoption of advanced technologies is transforming global trade. Such technologies (including Artificial Intelligence (AI), machine learning and blockchain) referred to in this paper as Trade 4.0 can potentially further the efficiency of global trade. These offer a wide range of benefits, reduce trade costs and complexity, foster sustainability, and enable developing countries and MSMEs to participate in global trade. However, countries are at varying stages of digital maturity and engagement, with disparities in digital infrastructure and adoption of technologies. In addition to digital infrastructure, a lack of interoperability and disparity in rules and regulations on digital trade and cross-border data flows can also hinder the adoption of Trade 4.0. To this end, B20 India recommends the following policy actions to ensure equitable access to digital technologies globally.

Policy Action 2.1: Establish requisite digital infrastructure and drive technology adoption to accelerate cross-border trade and efficiency

To enhance technology adoption by businesses and countries in cross-border trade, requisite infrastructure and expertise in trade and technology need to be built equitably. The B20 calls upon G20 to encourage cross-border investments and facilitate nations to incentivise investments in digital infrastructure, including mobile money infrastructure, in emerging economies and in poorly connected regions. In addition to nurturing public-private & other partnerships to boost digital infrastructure in emerging markets, G20 nations should also focus on incubating the development of digital skills and trade expertise in emerging economies through a knowledge centre of excellence.

Policy Action 2.2: Facilitate creation of interoperability in standards and protocols for digitising and exchanging data, thus streamlining digital trade transactions

The B20 urges the G20 nations to adopt technology at scale, and across borders for the efficient flow of goods and services. G20 nations must work towards continued digitalization of border procedures, establishing seamless transport corridors in customs and other border agencies, and implementing cross-border paperless trade measures. They must also foster awareness across nations by sharing knowledge and guidelines on potential technologies including best practices on implementation. This will pave the way for enabling digital trade through adoption of Industry 4.0 technologies.

Policy Action 2.3: Facilitate establishment of legal frameworks that promote transparency and ease of doing business, keep pace and evolve with technological advancements

B20 calls upon G20 to accelerate international coordination for cross-border data flows keeping in perspective cybersecurity, legal regulations, and preferences of individual nations. It is desirable for nations to cooperate to address cybersecurity concerns on a larger scale through agreements and partnerships between trading partners. Nations need to work towards interoperability of standards for data management while respecting national, individual privacy requirements and protecting confidential business information.

Recommendation 3: Diversifying and Advancing Services Trade

The trade of services is a rapidly expanding and significant component of global cross-border trade. As of 2022, services trade accounted for 25% of overall global trade, which represents a substantial increase from 9% share in 1970. The growth of services has surpassed that of goods trade in the last decade. A rising share of the services embedded in exports of manufactured goods, is also observed, with the contribution ranging from 25% to 40% of the total value. According to the World Trade Organisation (WTO), services trade could potentially account for half of the overall trade by 2040, highlighting its growing importance. Despite the growth, there are certain unique challenges that the services sector faces, including but not limited to classification ambiguity, data measurement inconsistency and issues regarding the regulatory environment. Additionally, LDCs are under-indexed in the sector. To this end, B20 India recommends the following policy actions:

Policy Action 3.1: Encourage streamlining of services classification and improved data collection (Including establishment of global frameworks for servicification of manufacturing)

The methodologies for classifying services, unlike goods, are not fully harmonised, leading to scope for ambiguity. This holds immense significance in service trade negotiations. It encompasses defining and scheduling services commitments, as well as the subsequent implications for consistent collection, reporting, and analysis of detailed data. The B20 calls for addressing challenges in the application of the current services classification system, establishing a framework to disaggregate embedded services within manufactured goods, and encouraging visibility through improved sources and collection of statistical data around services trade.

Policy Action 3.2: Enable conditions conducive to services trade by easing regulatory requirements and bringing in transparency in trade-related policies

The B20 policy action recommends improving trade in services by easing regulatory frameworks, fostering better trends by encouraging cross-border flow of transactional data, and ensuring transparency by fostering awareness of compliance information and procedures digitally. Such efforts should facilitate and enable countries to better leverage the benefits of the global services sector.

Policy Action 3.3: Promote investments in services

Services trade has typically faced higher FDI restrictions relative to goods trade. FDI restrictions can be both direct such as limitations on foreign ownership in certain sectors, as well as indirect, such as mandatory screening and approval procedures. Recognising the importance of investments to promote services trade, the B20 calls on the G20 to encourage nations to work on easing these constraints to further promote investments across all modes of services.

Policy Action 3.4: Accelerate the role of LDCs in GVCs by fostering enhanced capabilities and opening new opportunities

The challenge for LDCs span across infrastructure development, access to trade financing facilities and skill gaps in knowledge intensive sectors. Enhancing the involvement of LDCs in international services trade will drive synergistic benefits and forward linkages across sectors. The B20 calls upon the G20 to drive efforts towards providing active mentorship, support, investment, and partnership to LDCs to create the necessary skills and opportunities for inclusive participation in the global services value chain.

Recommendation 4: Fostering Inclusive Trade for LDCs, MSMEs, Women and Youth

The inclusivity agenda is at an inflection point today. Economic slowdown, rising inflation, threat of pandemics, and risks emerging from geopolitical conflicts, if left unaddressed, can trigger millions being pushed into extreme poverty. LDCs, remain on the fringes, contributing only ~0.9% to global exports. Similarly, while Micro, Small, and Medium Enterprises (MSMEs)represent about 95% of all companies globally, they have significantly lower rates of participation in international trade when compared to large firms. Women and youth remain under-represented in global trade. Thus, it is critical to bridge the economic divide faced by marginalised segments such as LDCs, MSMEs, youth, and women through the creation of opportunities, institutions, platforms, skill-building, and appropriate regulation. To this end, B20 India recommends the following policy actions:

Policy Action 4.1: Develop inclusive ecosystems by identifying transformative opportunities for enhanced participation of LDCs, MSMEs, women and youth in global trade

Developing countries, LDCs and all marginalised trade participants can benefit greatly through enhanced participation in trade. This will require strengthening of their capabilities and productive capacities. The B20 urges G20 to augment GVC participation of all marginalised groups through mentoring, investment, financial assistance, strategic partnerships and favorable policies on trade and development. The G20 should also facilitate investments in digital technologies and skills to increase employment potential of women and youth.

Policy Action 4.2: Enable infrastructure development & trade financing for enhanced GVC participation of LDCs, MSMEs, women and youth

B20 India urges the G20 to establish digital, physical, and financial infrastructure, elevate digital literacy, and promote fintech inclusion and trade finance access for LDCs, MSMEs, and marginalised groups. Additionally, G20 nations should look to anchor an inclusive standards regime, enable easier access to globally recognised certifications for enhanced export market opportunities, and promote digital literacy and vocational skills, while reimagining education and training curricula to enhance GVC participation for LDCs, MSMEs, women, and youth.

In this evolving era, significant changes in technology, geopolitics, and climate patterns are transforming the landscape of global trade and investment. Understanding the criticality of effective coordination and alignment, the B20 India Task Force on Inclusive GVCs for Resilient Global Trade and Investment puts forth a comprehensive and feasible collection of policy recommendations to address these developments. By collectively implementing these policies on a global scale, we aim to enable resilient, sustainable, and inclusive trade, ultimately driving accelerated progress for all.

Introduction

Trade plays a key role in the global economy by bringing about global prosperity and growth through efficient resource allocation. Global trade dynamics have witnessed a consequential shift in recent years driven by rising protectionism and bilateral trade tensions. Growth in international trade was on the decline in the years leading up to the pandemic. The contribution of trade to global GDP initially grew by 2% between 1990-2010; between 2010-2020, it declined at a rate of ~0.2%[1] ; this decline was further exacerbated by the pandemic.

At the same time, global trade has proven remarkably resilient, growing by 2.7% in 2022. The global value of trade in goods and services reached a record level of over USD 30 trillion in value in 2022, signaling resilient global demand. Trade in goods contributed ~USD 25 trillion (or 75%). Trade in services posted an increase of over 15% year on year in 2022 compared to a 10% increase in global goods trade in the same period. Vulnerable economies were able to find substitute products and suppliers to obtain essential food supplies, driven in part by an open and inclusive multilateral trade system.

In 2023, global trade growth is expected to be subdued (~1.7%) due to external pressures stemming from geopolitical tensions, monetary policy tightening, market uncertainties, and inflation and related measures[2]. Even as the global economy recovers from external shocks, a significant output gap is to be expected in 2023 for most G20 countries.

Geopolitical and market uncertainties have stifled chances of early or near-term reversal of the slowdown in trade growth. Upward pressures on prices and the historically high prices across commodities have further hindered this reversal. Fuel prices increased by ~80% from March 2021 to the first half of 2022 compared to the previous year. Prices for other commodity groupings also increased year on year for the same period. As a result, the UNCTAD Commodity Price Index (UCPI) reached its highest levels in August 2022 since the index was originally computed and published in 1995[3].

The slump in global trade was further impacted by falling global value chains (GVC) participation, resulting in lower GVC contribution to global GDP. The years 2018–2020 revealed important risks that threatened the normal functioning of GVCs and trade[4] . Trade uncertainties were driven by increasing restrictions and sanctions, while natural calamities devastated major centres of the GVCs.

GVCs have been instrumental in anchoring the global economic development; over 70% of global trade is in intermediate goods and services and in capital goods. GVCs have thus provided an avenue for countries to industrialise at a much earlier stage of development as producing firms choose to offshore fragments of the production value chain to countries where labor is cheaper or where other locational advantages confer a competitive cost advantage. It is necessary to build resiliency into global value chains to ensure that they continue to drive the global economy.

While aggregate trade of late has picked up, it masks considerable differences across products, economic sectors, and trading relationships. Impacts across goods, services and trade partners have been diverse and accordingly created pressures on supply chains. In 2022, trade in services recovered faster than merchandise trade.

Within services, the global exports of digitally delivered services[5] recorded an almost threefold

1 UNCTAD and IMF World Economic Outlook, July 2021 https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021

2 World Trade Organisation (WTO), Global Trade Outlook and Statistics, 2023 https://www.wto.org/english/res_e/booksp_e/trade_outlook23_e.pdf

3 UNCTAD Commodity Price Index (UCPI), 2022 (https://unctad.org/system/files/official-document/unctadstatcpbinf2022d8_en.pdf)

4 WTO, GVC development report, 2021 (https://www.wto.org/english/res_e/booksp_e/00_gvc_dev_report_2021_e.pdf)

5 Digital delivery includes services traded cross-border through computer networks, that is through the Internet, apps, emails, voice and video calls, and increasingly through digital intermediation platforms such as online gaming, music and video streaming, and remote learning.

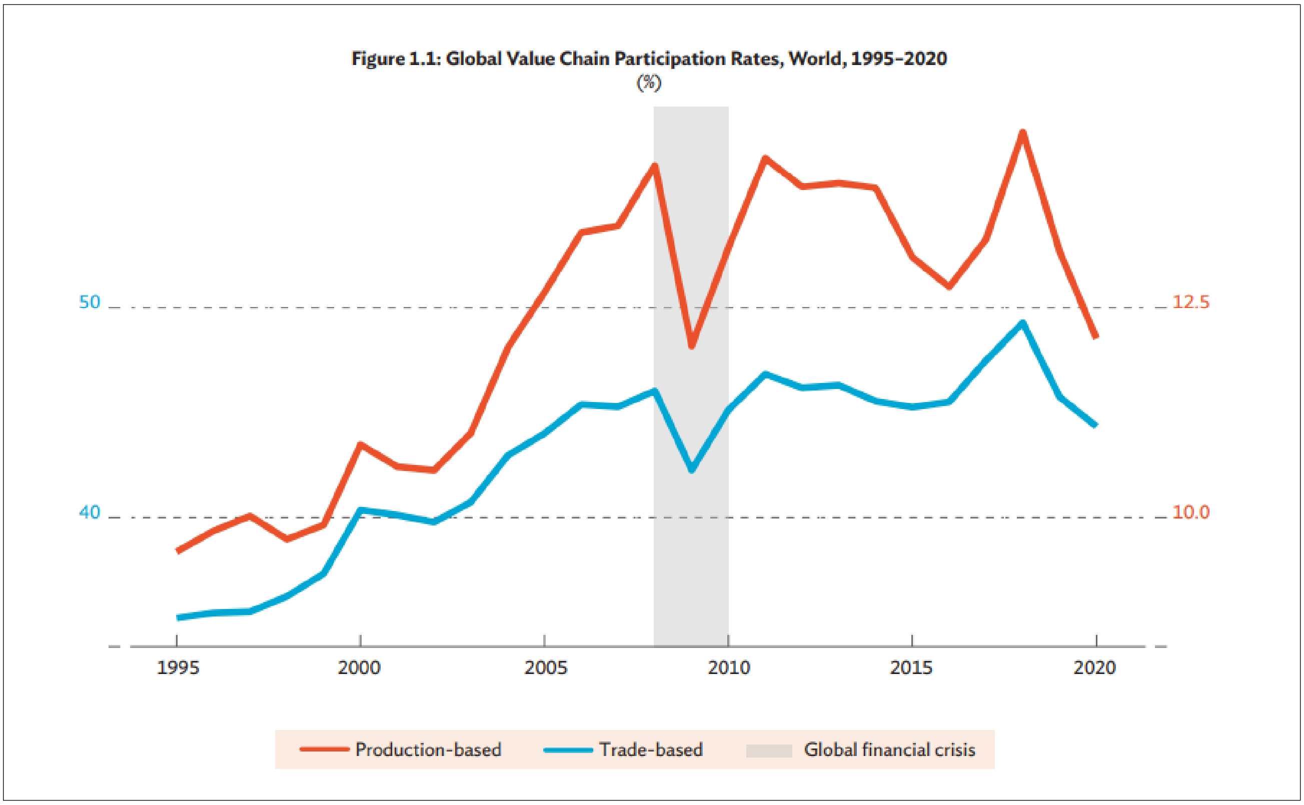


Figure 1. Global Value Chain participation rates (%) globally, 1995-2020
(Source: World Trade Organisation (WTO), Global Trade Outlook and Statistics, 2023, https://www.wto.org/english/res_e/booksp_e/trade_outlook23_e.pdf; Global Trade outlook, WTO (Year 2005-2022))

increase in value since 2005, rising 7.0% on average per year in the period 2005-2022, outpacing goods (5.2%) and total services exports (5.7%). During the pandemic, while tourism and other services requiring cross-border mobility of people fell, digitally delivered services exports continued to rise, reaching USD 3.8 trillion in 2022. These services often underpin inter-firm collaboration, B2B and B2C connectivity, and digital trade.

Current trends in the growth of ICT and digitally delivered services present a unique opportunity to drive the adoption of technology in trade, basis the development of digital infrastructure in developing economies and especially Least Developed Countries (LDCs). This could present an alternative to the high dependence on natural resources leading to a concentration of low value-added activities in LDCs.

Growth in trade can bring about rapid economic growth, reduce income gaps, and lower inequality within and across countries. The 2030 UN Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) make a specific reference to the contribution of trade in reducing inequality. Global trade can positively benefit LDCs, MSMEs, and marginalised groups including women- and youth-led businesses. By participating in GVCs, participants can enhance their cross-border trade, attract foreign investment, generate jobs, and create economic opportunities. Trade can also enable LDCs to reduce their commodity dependence (in 2020-2021, natural resources and agriculture contributed 65% of the exports of LDCs[6]). G20 countries can play an important role in diversifying and enhancing GVC participation of LDCs. Bangladesh is an example of how participation in global value chains (GVCs) can support economic growth and structural change. In 1988, Bangladesh's exports of apparel and footwear were negligible, accounting for less than 1% of the global total. Since then, the business of exporting apparel made from imported textiles has grown on average by ~18% a year. Bangladesh now exports 7% of the world's apparel and footwear, next only to

6 UNCTAD Stat database, 2022 (https://unctadstat.unctad.org/)

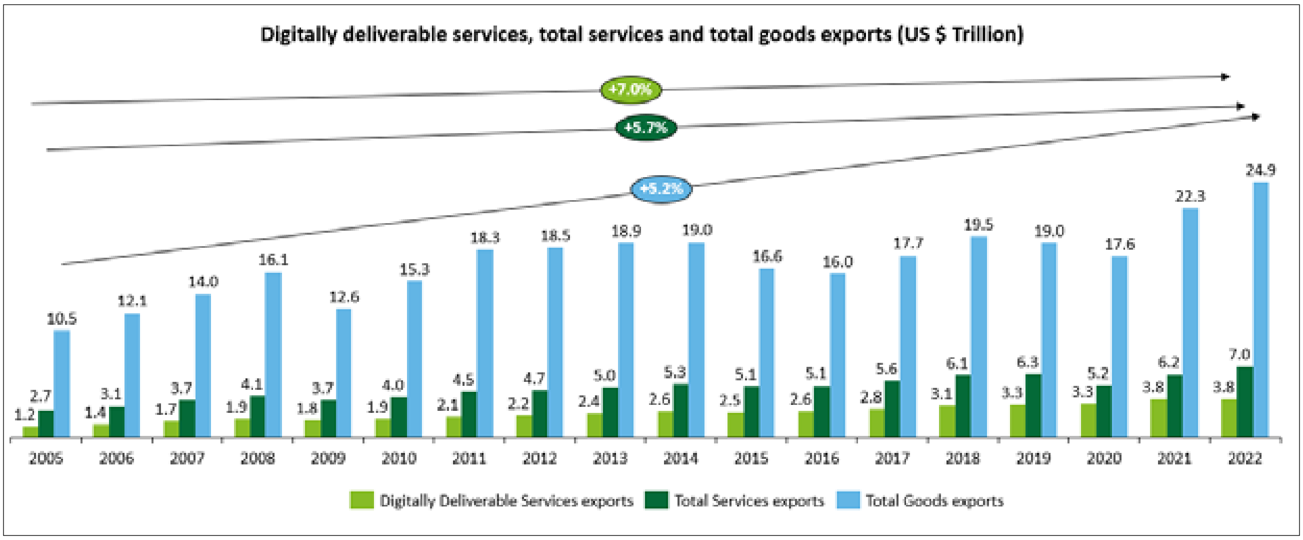


Figure 2: Digitally deliverable services outpacing the growth in total services and goods exports
(Source: UNCTAD stat database https://unctadstat.unctad.org/EN/ and Global Trade outlook, WTO (Year 2005-2022))

China and Vietnam. The sector accounts for 89% of the country's exports and 14% of GDP, and it employs 3.6 million workers, 55% of them women[7].

However, the effect of trade on inequality may not be uniform; differences in outcomes also depend on national and multilateral policies. For instance, uneven sharing of profits across value chains in a trade scenario and the rules governing market access and entry conditions could unevenly benefit some countries while having an adverse impact on other countries. In addition to these, rising inequalities, exacerbated by the pandemic and trade disruptions, and progress towards attainment of SDGs necessitates a re-think in global approaches to trade policy.

India's presidency of the G20 comes at an opportune time; the global economy is progressing its way out of the slump to achieve high degree of resilience. India has been at the forefront of taking the global economy ahead by leading the cause during the Covid-19 pandemic. The objectives of The B20 India Task Force on Inclusive GVCs for Resilient Global Trade and Investment are inclusion, resilience, and sustenance of economic activities within and across countries. This will also enhance and accelerate GVC participation and trade, and promote openness, integrity, stability, and security of GVCs. With this context, focus is on four major themes for G20 countries to collaborate and drive actions:

- **Building resilient and sustainable GVCs** Global value chains have increasingly become vast and more complex; disruptions to the value chains have also increased. Stronger supply chain management, greater transparency, and resilience, with desired robustness, are necessary to help prevent such disruptions. Additionally, methods to mitigate disruptions and respond rapidly to them should be encouraged. G20 need to work towards development and deployment of best practices for organisations and countries to mitigate supply chain shocks and to increase supply chain resilience. Experience with the recent pandemic demonstrates that international supply chains will continue to be subjected to unexpected disruptions. Promoting interoperability of standards and enabling seamless data flow are vital to reduce value chain vulnerabilities. Focus should be on building intelligent and resilient GVCs that are risk-aware, secure, transparent, adaptive, and optimised.

- **Technology and Trade 4.0 – Crossing borders with Industry 4.0:** Digitalization and Industry 4.0 are the major drivers of economic value add for goods and services and adoption of technology

7 WTO data, LDC report 2022 (https://unctad.org/publication/least-developed-countries-report-2022)

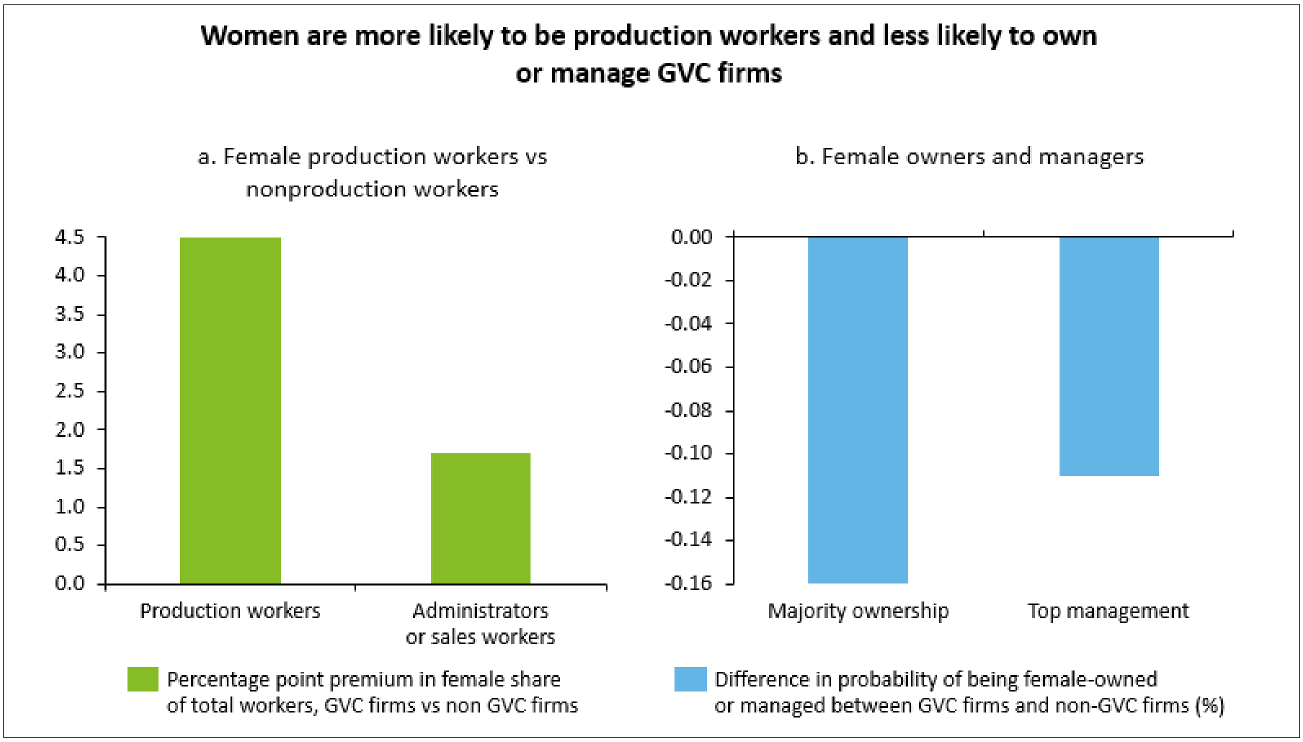


Figure 3. Female production workers vs non-production workers (left); Female owners and managers (right)
(Source: ITC, NTM Business survey, 2015 (https://ntmsurvey.intracen.org/more/events/a4t-2015/)

would be critical to integrate into GVCs. Under Trade 4.0, supply chains fundamentally shift from traditional linear ones to integrated, digital supply networks characterised by multidirectional communication between nodes of the network. These changes would bring new opportunities including better integration of MSMEs in trade. Trade 4.0, coupled with the wave of transformations brought in by Industry 4.0 can change all facets of international trade.

- **Diversifying and advancing services trade:** Services have become the backbone of the international economy and perhaps the most dynamic component of international trade. Since 2011, services trade had grown faster than trade in goods. Services account for approximately three quarters of GDP in developed economies and many developing economies are becoming service-oriented owing to the advancements in technology. G20 countries need to deliberate on diversification of services trade globally to address disparities in the share and mode of services trade.
- **Fostering inclusive trade for LDCs, MSMEs, Women and Youth:** Inclusivity in global value chains can be a driver of resilience and competitiveness. Inclusive trade through integration of LDCs and MSMEs can foster resilience by diversifying GVCs and mitigating adverse economic shocks. Similarly, women and youth represent a major part of the population but have been traditionally insufficient in the workforce and even more scarce in leadership and entrepreneur roles. Data suggests that having more women-led businesses leads to greater women participation[8]. Enhancing meaningful women and youth participation in GVCs can create alternate opportunities for sustainable growth of international trade. The G20 must work towards making global trade more inclusive for LDCs, MSMEs, women and youth to create equitable opportunities for growth resulting in upliftment of underrepresented segments globally.

8 ITC, NTM Business survey, 2015 (https://ntmsurvey.intracen.org/more/events/a4t-2015/)

Recommendation 1
Resilient and sustainable GVCs

Policy Actions

Policy Action 1.1 Foster global co-ordination for crisis mitigation and resilience

Policy Action 1.2 Strengthen systemic and operational resiliency through continued multilateral reforms, international cooperation on restrictive trade measures

Policy Action 1.3 Encourage global frameworks for sustainably de-carbonising GVCs and enhancing investment attractiveness

Policy Action 1.4 Facilitate FDI flows towards green, sustainable, and circular business models

SDG Goals Impacted

Recommendation 1 contributes to achieving UN SDGs: **2. Zero Hunger, 3. Good health and well-being, 7. Affordable and clean energy, 8. Decent work and economic growth, 10. Reduced inequalities and 17. Partnerships for the goals.**

Leading Monitoring KPIs

Monitoring KPI	Baseline	Target	Sources
Percentage of G20 imports impacted by restrictive measures	10.4% (2021)	2% (2026)	World Trade Organisation (WTO)
Percentage of World FDI covered by WTO Investment Facilitation for development	65.8% (2020)	95% (2026)	World Trade Organisation (WTO), World Bank
Human Development through Food Security	9% (2020) 768 million (2020) *undernourished people globally*	9% (2020) 768 million (2020) undernourished people globally	FAO[1] Annual report on Food Security and Nutrition in the world

1 Food and Agriculture Organisation of the United Nations (https://www.fao.org/3/cc0639en/cc0639en.pdf)

CONTEXT

Emergence of resilience as a key GVC priority

The pandemic, geopolitical developments and their effect on trade flows have disrupted global value chains sharply

Trade and investment have long served as the backbone of global economic growth. Global Value Chains have played a key role in propelling innovation, employment, economic growth, investments, and human development.

The recent pandemic, geopolitical developments and trade tensions have significantly impacted the global economy and supply chains. While the Covid-19 pandemic drove USD 8.5 trillion[1] loss of global GDP output over a two-year period, recent geopolitical challenges are expected to cost the global economy ~USD 2.8 trillion in lost GDP by the end of 2023[2]. Global forecasts expect weaker GDP growth in 2023, relative to pre-pandemic years (2017-2019) as well as 2022.

Trade barriers have escalated trade frictions and obstructed free trade amongst nations

New tariff and non-tariff barriers have continued to be imposed by nations over the last few years, escalating trade protectionism. The trade coverage of G20 import restrictions has seen growth in the last ten years increasing from around 1.0 % of G20 trade in 2010 to over 11.2 % in 2021, impacting ~USD 1.4 trillion of trade.

The compounded impact of the pandemic, geopolitical developments, and the impact on trade flows have caused disruptions to global supply chains and brought forth high levels of uncertainty amongst nations and in businesses and their GVCs - regarding

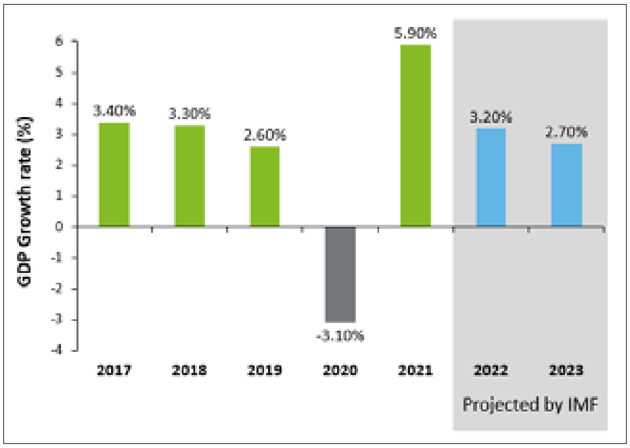


Figure 4A: Growth of GDP over years (%)
(Source: World Bank Data, IMF)

access/availability to essential commodities and their prices. Blocked ports and sanctions and other actions have put supply of key commodities and raw materials at risk, resulting in higher prices globally, lower availability and food crises in certain economies.

Between Jan 2020-Jan 2023, the UNCTAD Food Price Index (measuring inflation) recorded an increase of 28%, having reached 50%+ levels between Mar–Jul 2022. Export restrictions affected 16.4% of LDC food imports, in calories, between Jan-Mar 2022, mostly impacting countries with the highest concentration of hungry people[3]. Similarly, the logistics sector was also impacted as the cost of transport of dry bulk goods such as grains increased by nearly 60% between Feb-May 2022. The prices of fertilizers also surged by 30% in the

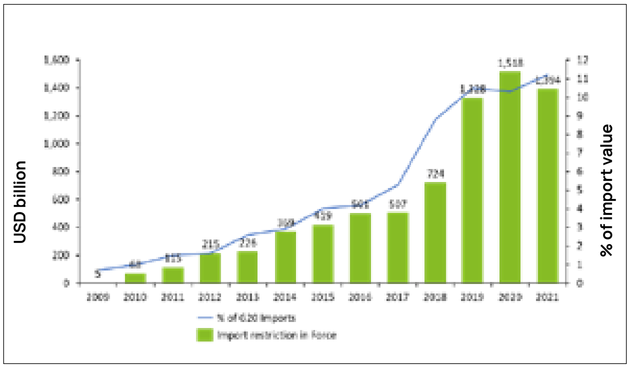


Figure 4B: Cumulative trade coverage of G20 import-restrictive measures on goods in force since 2009
(Source: WTO report: 2021 https://www.wto.org/english/news_e/news21_e/report_trdev_nov21_e.pdf)

1 United Nations, https://www.un.org/en/desa/covid-19-slash-global-economic-output-8.5-trillion-over-next-two-years

2 OECD Economic Outlook, Interim Report Sept 2022 (https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2022/issue-1_ae8c39ec-en)

3 Afghanistan, the Democratic Republic of the Congo, Ethiopia, and Yemen. UNCTAD Data https://unctad.org/topic/least-developed-countries/chart-march-to-june-2022

first half of 2022, with the spiked price surpassing previous peaks, leading to concerns about food security. The disruptions were not restricted to the agrifood industry alone. The automotive, consumer electronics, and telecommunications industry were also impacted by semiconductor shortage leading to supply chain disruptions, price hikes and production delays globally. Customs overload impacted shipping delivery efficiency, as the average time for clearance activities increased by almost thirty times worldwide during the Covid crisis[4] .

These wide-ranging global trade and supply chain disruptions have compelled governments and corporates alike to recognise and act towards the need for greater trust, predictability, and resilience in GVCs. Concrete steps focused on building long term resilience of GVCs are of paramount importance.

Disparity witnessed in sustainability reporting across organisations

Environmental, social, and governance (ESG) strategy of organisations is creating new challenges as well as opportunities for leaders to drive sustainable, inclusive growth. Companies globally are implementing ESG strategies that seek to minimise the environmental impact of their firms on climate and nature, enhance their contribution towards social fairness, and drive the quality of their corporate governance processes. For more and more firms, these are key imperatives, and necessitate a focus across dimensions such as sustainability, net-zero emissions, culture and values, talent, and diversity & inclusion, among many others.

There is an accelerated interest in ESG reporting, for nations and businesses alike, for reasons of improved transparency, attracting investors and financing, meeting stakeholder demand, and being consistent with evolving ESG-related regulatory requirements.

Sustainability of GVCs is an area of focus for G20 countries – however, there are roughly 600 different ESG approaches used today[5], with each nation having multiple standards with varying areas of emphasis, and new concepts within that are ever evolving. This complicates the selection of standards and reporting for larger firms driving high levels of effort and compliance cost. It also creates challenges for MSMEs and developing countries seeking to participate in GVCs.

An aligned approach, recognising differential national development statuses would enable GVCs to account for their environmental, social and governance impact truly and fairly. Such an aligned

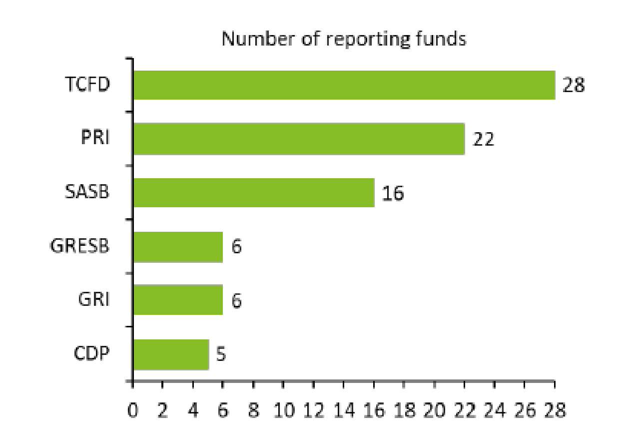


Figure 5: Relevant sustainability related standards used by funds, 2021
(Source: The Future of Sustainability Reporting Standards, 2021- Oxford Analytica)

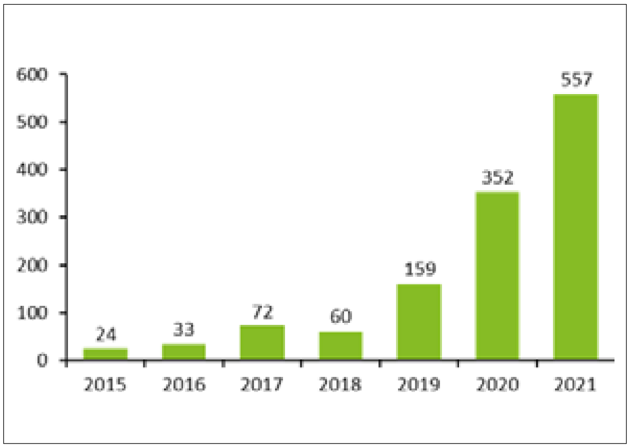


Figure 6: Net flows to sustainable funds (USD billion)
(Source: The Future of Sustainability Reporting Standards, 2021- Oxford Analytica)

4 WCO (World Customs Organisation- WCO Annual Report 2019-20 (https://www.wcoomd.org/-/media/wco/public/global/pdf/about-us/annual-reports/annual-report-2019_2020.pdf). Example- Parcels inbound clearance timeline moved from 2 hours to 64 hours due to additional inspections

5 The Future of Sustainability Reporting Standards, 2021- Oxford Analytica (https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/sustainability/ey-the-future-of-sustainability-reporting-standards-june-2021-v2.pdf?download)

approach would also make it easier for smaller companies and developing countries to participate in global trade more effectively.

Sustainable finance spending has increased over past years but is skewed towards developed nations

Investment flows in sustainable businesses and circular business models are crucial in the transition towards a more sustainable and resilient economy. These types of business models focus on addressing environmental and social challenges such as climate change, resource depletion, and waste, while promoting economic growth through the creation of new jobs and the development of innovative products and services. FDI flows, augmenting national investment in such firms and programs can provide the resources and expertise needed to scale up sustainable and circular business models.

UNCTAD estimates that the net flow to sustainable funds was USD 557 billion in 2021, up ~60 % from 2020 (Figure 6). With the rise of sustainability-themed financial products, governments around the world are stepping up their efforts to develop regulatory frameworks for sustainable finance.

However, such sustainable investments are skewed with investment in SDG sectors in LDCs being very low. The share of total SDG investment in LDCs decreased from ~8% in 2019 (~USD 13 billion of USD 159 billion) to ~1% (~USD 6 billion of USD 557 billion) in 2021[6] . Much of the SDG investment remains concentrated in developed markets, with Europe dominating with 81% share.

Policy Action 1.1: Foster global coordination for crisis mitigation/ resilience

Encourage building of resiliency in GVCs through risk mitigated sourcing, government initiatives and cross border partnerships

6 UNCTAD World Investment Report, 2022 (https://unctad.org/publication/world-investment-report-2022)

Value chain disruptions have caused unpredictable direct and indirect consequences, leading to volatility – indirect supply impacts can occur when production in one location requires inputs from another location that is directly impacted by a shock or where the disaster does not affect the production of inputs but rather the intermediary means of transportation. Therefore, a shock not only exerts a direct impact on a firm, an industry or region, but also indirectly affects the overall economy through input-output linkages to sectors both upstream and downstream from the point of shock.

Building resilience in GVCs thus gains paramount importance and requires coordinated efforts from both the private sector and governments, keeping in mind the differential developmental status of nations. Private sector initiatives can include risk-mitigated sourcing and planning, such as diversifying suppliers, building contingency plans, implementing supply chain management practices, and promoting substitutability of resources to reduce the impact of disruptions. Government initiatives, on the other hand, could focus on creating enabling policies and regulations, promoting financial resilience, investing in infrastructure and logistics, and promoting international cooperation to enhance the resilience of GVCs. The initiatives could also focus on building partnerships across nations to de-risk supply chains for critical goods and services (e.g., medicines, vaccines, staples for food security) for crisis mitigation purpose. In addition to the private sector and governments, the role of international organisations such as WTO should also be better leveraged to build more inclusive and resilient GVCs.

Logistics infrastructure can be a key enabler of resilience - economies with robust logistics infrastructure and procedures are attractive to GVCs, offering twin benefits of reliability and efficiency. As a result, investments in multimodal logistics infrastructure (such as highways, ports, high-speed rail, transport corridors, advanced handling equipment) as well as new-age logistics technologies (such as blockchain shipping solutions and autonomous loading of trucks at ports) have the potential to significantly advance the attractiveness and resilience of value chains. Similarly, streamlining procedures related to import and export, paperless systems for trade clearances can help foster a business-friendly environment.

Thus, the B20 advocates initiatives and cooperation between the G20 governments and the private sector to move towards cost-effective, risk-mitigated sourcing with due consideration to consistent supply of critical goods and services.

Implement tech enabled mechanisms for early detection and mitigation of potential trade crisis (e.g., a supply chain early warning solution) including proactive stress tests to identify critical value chain pressure points

Implementing technology-enabled mechanisms for early detection and mitigation of potential trade crises and sharing of this information would help organisations to improve their supply chain reliability, reduce their exposure to risk, and maintain the continuity of their operations. With the fast-paced and rapidly changing global business environment, technology is becoming an increasingly critical tool for organisations to manage the risks associated with trade operations. It is essential that nations use the crises over last few years as a learning opportunity and focus on the importance of early detection during the slow shift towards the new normal.

Having the means to detect and analyse any potential risk sprouting up within a region is crucial to properly foresee and respond to disruptions. Technology provides organisations with real-time information, automates risk assessments, and enables insights into trade patterns and trends. AI and ML algorithms find applications in analysing large amounts of data and identifying early warning signs of potential trade crises. Early detection can make a substantial difference in managing sickness hazards, enabling governments to detect, assess, and prepare for new, latent crises. The most cutting-edge businesses have “control towers” that enable them to monitor input flows in real time and foresee interruptions.

There are multiple examples of how governments and the private sector have come up with solutions to handle crisis and post crisis scenarios. For example, the World Bank and partners have launched the Famine Action Mechanism (FAM), a global partnership of international organisations and leading technology companies, dedicated to preventing future famines. The FAM partnership aims to shift global action from a mode of crisis response to crisis prevention by building capabilities to predict future crises through the gathering and analysis of data on the risk of famine. This shift towards preventive measures is expected to save millions of lives and reduce the cost of crisis intervention by up to 30 %.

Nations should drive efforts to build more resilient GVCs by collecting and sharing information transparently as mutually agreed upon by trading partners on potential concentration and bottlenecks upstream, developing stress tests for essential supply chains and creating a conducive regulatory environment which is not a source of additional uncertainty. Proactive stress tests would simulate different scenarios and help organisations to understand how their trade activities would be affected, allowing them to take proactive measures to reduce the risk of trade disruptions.

Information about the supply chain and the degree of risk at various stages is crucial for choosing the best strategy. It is important to ensure transparency in the value chain, with adequate data on suppliers - and the suppliers of suppliers - at every stage, possibly including an evaluation of stockpiles for essential components. Having an early understanding of the level of exposure and vulnerabilities can be invaluable in developing informed resilience strategies. One way to do this is by monitoring logistical disruptions, which serve as key early warning signals. During a crisis, timely data on shipping bottlenecks, such as congestions, arbitrary rollovers, and concentration corridors, can be used effectively to detect and minimise trade uncertainties. Analytical frameworks that use maritime freight transport indicators have proven useful and have been advocated by research bodies as a leading

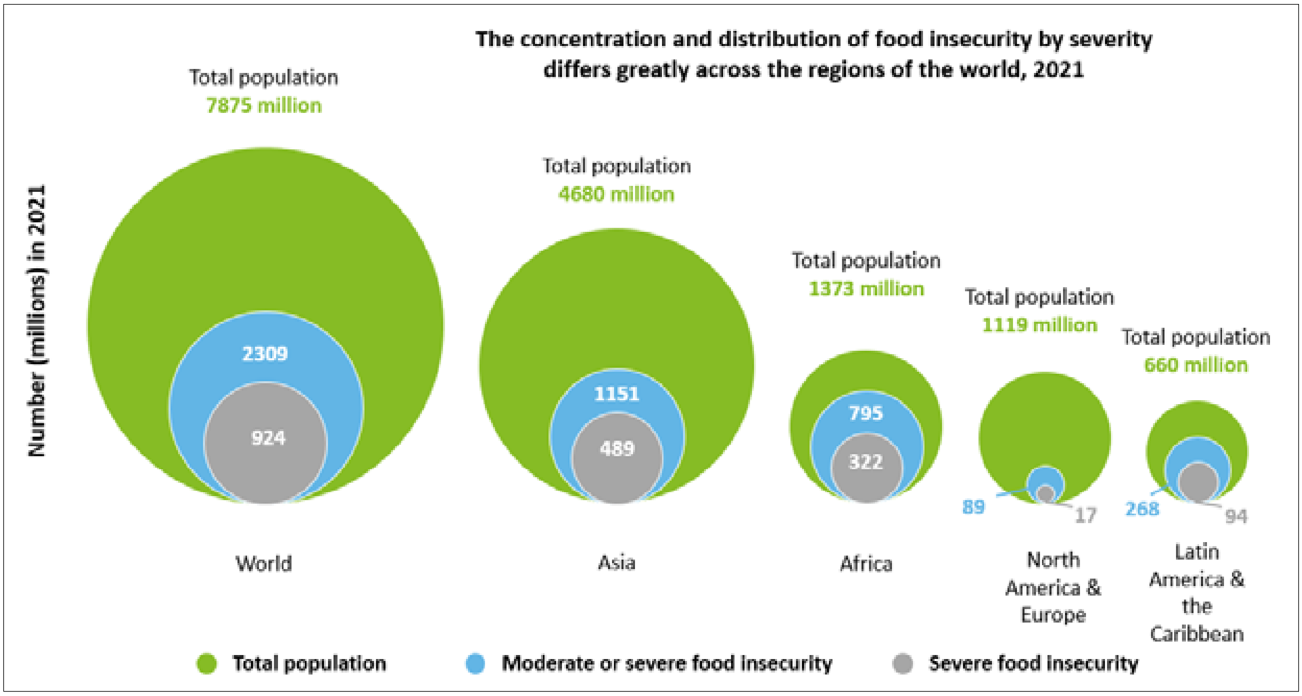


Figure 7: Concentration and distribution of food insecurity by severity differs greatly across regions
(Source: FAO, 2021: https://www.fao.org/3/cc0639en/online/sofi-2022/food-security-nutrition-indicators.html)

indicator[7]. Collaborations with leading maritime and inland logistics bodies can enable real-time analysis and generate insights by facilitating the exchange of information among transport decision makers and civil society. Such data can be used by nations and businesses to predict disruptive situations and create mitigation strategies.

Leaders in government as well as in businesses thus need to promote proactive and frequent stress testing of their entire value chain to identify areas most vulnerable to shocks in times of crisis and improve transparency in supply chain communication. B20 advocates for the G20 nations to work in partnership with the private sector as well as leading logistics bodies[8] on tech enabled predictive models to collect, synthesise and share data, including from past crises, and set up collaboration pathways for generating and sharing early warning signals for future crisis mitigation.

7 ˋ Review paper 2017: Increasing supply chain resilience by applying early warning signals within big data analytics by Judit Nagy and Pavel Foltin (https://www.researchgate.net/publication/301249134_The_role_of_Big_Data_in_explaining_disaster_resilience_in_supply_chains_for_sustainability)

8 Such as World Shipping Council, International Maritime Organisation, International Transport Forum etc.

Ease procedures for green lanes to ensure smooth flow of "critical goods" (medicines, vaccines, food, inputs of production, etc.) with an emphasis on food security (staples) being a key priority to avoid humanitarian crises

Previous editions of the B20s have emphasised the need to commit to an open and frictionless flow of critical goods during future crises, in the light of significant gap in availability and distribution of vaccinations faced during the pandemic. Tariff and non-tariff restrictions on goods, primarily critical healthcare supplies, food and raw material tend to further exacerbate the divide between developed, developing and Least Developed Countries (LDCs).

Compared to >80% in high-income nations, only ~20%9 of persons in low-income countries have availed of both doses of vaccinations till date. Limitations in terms of production capacity, logistics disruptions and increase in trade barriers have played a role in reducing the ability to obtain vaccines for all economies, especially low-income nations. In

9 World Coronavirus Vaccination tracker - March 3, 2023- https://www.nytimes.com/interactive/2021/world/covid-vaccinations-tracker.html

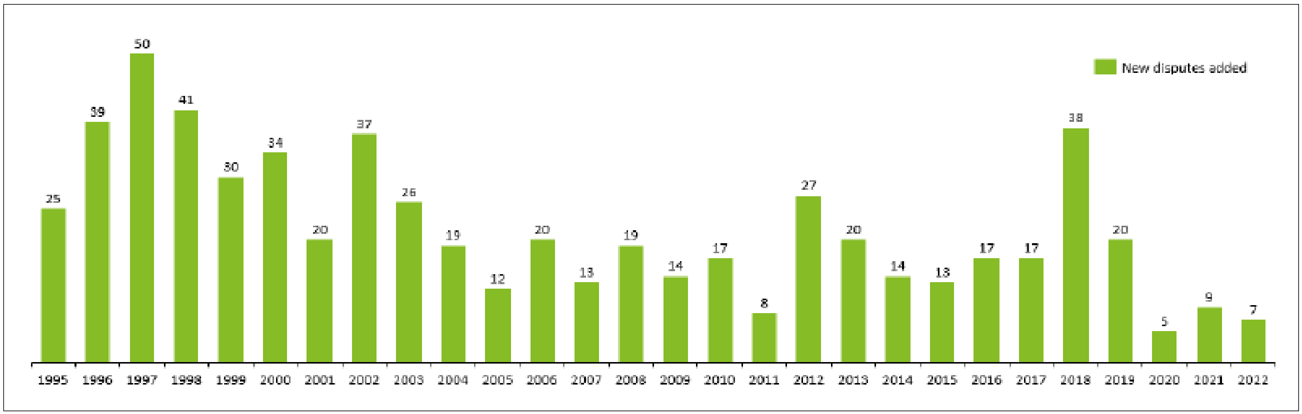


Figure 8A: Historical data on number of disputes added each year
(Source: WTO, https://www.wto.org/english/tratop_e/dispu_e/dispustats_e.htm)

the face of worldwide disruptions, despite global international cooperation, critical goods movement could not happen smoothly.

The global food market is highly interconnected, and disruptions in one region can have a cascading effect on other markets. The recent geopolitical conflict has led to higher food prices and created unpredicted pressure on the supply chain and nourishment levels on low-income countries as highlighted earlier. Such experiences have reiterated the need to establish green lanes[10] for staple food supplies and critical goods such as vaccines and medicines. By simplifying the procedures for green lanes, countries can ensure that such supplies continue to flow across borders and establish smooth logistics pathways, even during times of increased border checks and restrictions. Easing procedures and establishing pathways for green lanes among countries can help to emphasise food security. In addition to streamlining procedures, international cooperation in sharing agri-tech developments across countries could lead to resilient and equitable global food system and enhance food security.

To ease procedures for green lanes and ensure the smooth flow of those commodities, B20 urges the G20 to simplify and streamline documentation required for shipments for critical goods and essential food supplies to ensure food security across nations. Alignment on common procedures and use of technology will also reduce complexity, reduce time by creating smooth pathways and cost associated with such green lanes, and improve predictability of customs procedures, especially for emergency supplies. B20 also urges the G20 to advocate for various regulatory, budgetary, quality, logistics and political dimensions to be duly addressed at national, regional, and international levels to counter any bottlenecks.

Policy Action 1.2: Strengthen systemic and operational resiliency through continued multilateral reforms and international cooperation on reducing trade restrictive measures

Encourage meaningful multilateral reforms to revitalise trade liberalization, ease protectionist measures and reactivate the dispute settlement process

The World Trade Organisation (WTO) is at the heart of the global trading system, being the key body for framing international trading rules and the overall system comprises of a complex web of interconnected multilateral, plurilateral[11] and bilateral agreements. The aim of the system is to liberalise trade and make the business environment stable and predictable. Importantly, the WTO contains a Dispute Settlement Mechanism, which is also referred

10 Green lanes refer to dedicated channels for essential goods, including food, to be transported across borders without facing the normal delays and restrictions of border checks.

11 "Plurilateral" refers to an agreement among several nations.

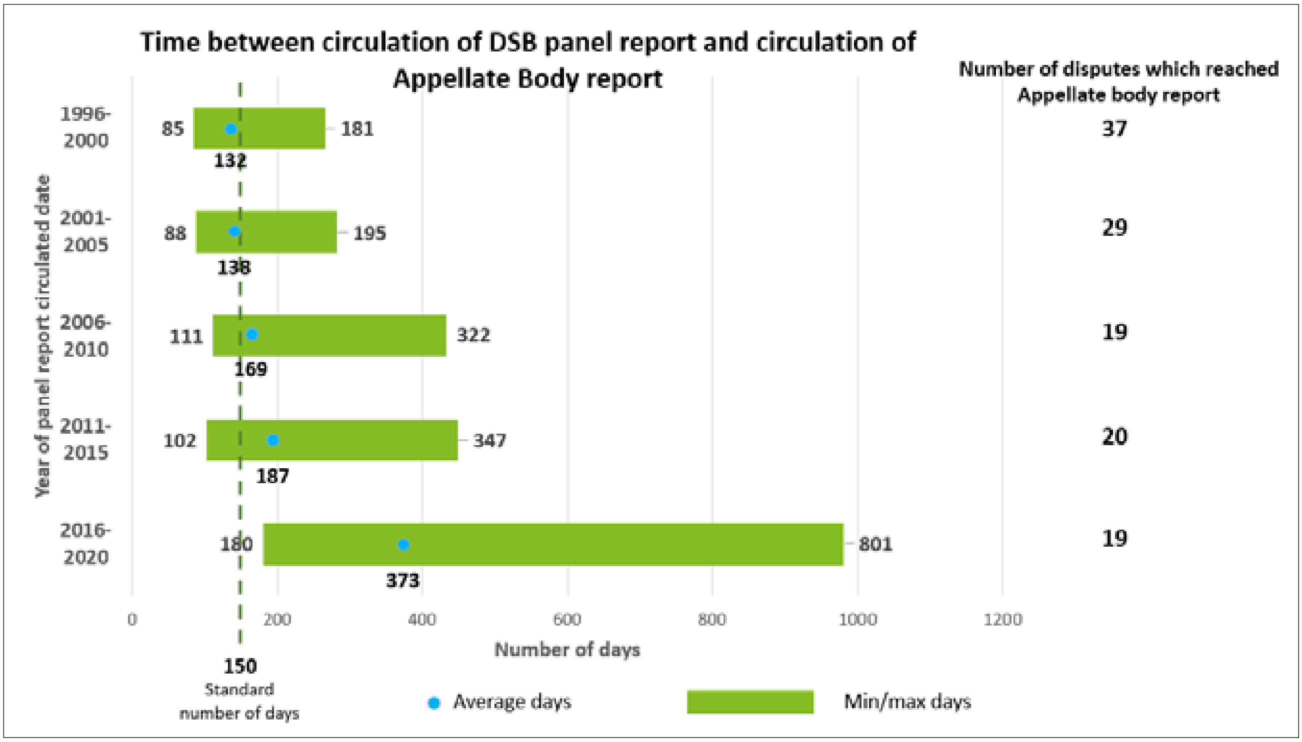


Figure 8B: Dispute settlement timelines trend (1995-2019)
(Source: WTO, https://www.wto.org/english/tratop_e/dispu_e/dispustats_e.htm)

to as "Jewel in the Crown" of the system. Since the inception of WTO in 1995, global trade and investment levels have grown significantly, as businesses relied on a stable trading environment.

More recently, however, the global trading system has been challenged by increased geopolitical and economic tensions, and efforts to further liberalise trade via the WTO have stalled. In addition, the WTO dispute settlement process has become a point of contention, particularly around the increasing length of decisions pending (See Figure 8B), and on questions of jurisprudential practices. As a result, a general downward trend is observed in the use of the process (See Figure 8A).

The average number of days between Dispute Settlement Board (DSB) panel report and Appellate Body report circulation has been consistently higher than the mandated 150 days. The figure represents the number of cases which have reached the Appellate Body report stage (Figure 8B).

Previous B20 cycles have called for the meaningful reform of the WTO, and for the reinstatement of the Appellate Body for dispute settlement, as a pivotal first step. Overcoming the impasse on the appointment of new Appellate Body members has become imperative. B20 India 2023 reiterates these calls and encourages all members of the G20 to work constructively on a WTO reform package with a view to achieving consensus at the Ministerial Conference 13 (MC13) in Abu Dhabi in February 2024. B20 calls upon the G20 to support improvements to reactivate the Dispute Settlement Mechanism, fill current vacancies by appointing high quality Appellate Body members, and address any other bottlenecks for prompt settlement of disputes (finances, coordination etc.).

Also, considering global trade policies have a drastic impact on businesses of all sizes, B20 calls upon G20 to encourage further participation of business community in the WTO reform process by way of an open and collaborative communication system between the WTO, governments, and the business community across all sectors, including MSMEs. This can provide more visibility and enrich the evidence-based policy making process and outcomes. Thus, B20 India reiterates B20 Indonesia's and B20 Italy's call on the G20 members to advocate the ongoing process of initiating a formal and permanent business advisory council as part of the WTO reform process, that can comment on the respective impact of negotiations, obligations and agreements pertaining to the private sector.

Another matter requiring attention is the rise of protectionist and trade restrictive measures globally. B20 2021 introduced a KPI to monitor and control the impact of trade restrictive measures on the import value of G20 nations. In the spirit of continuity, B20 calls upon the G20 to consider removal of discriminatory measures as appropriate and monitor the protectionist measures currently in place, in a manner that will foster greater participation in global trade of all economies, as per their differential developmental status.

The B20 could urge WTO members through G20 to review the Agreement on Subsidies and Countervailing Measures (SCM) to improve member compliance and the transparency and effectiveness of its provisions. Considering the different starting points and local economic conditions between developed and developing countries, the review could generally aim at ensuring a level-playing field and competitive neutrality conditions whereby no economic operator has privileged access to non-commercially available benefits or has been discriminated against.

Policy Action 1.3: Encourage global frameworks for sustainably de-carbonising GVCs and enhancing investment attractiveness

Support the development and deployment of a globally aligned approach on ESGs, recognising differential development status of nations

ESG is important from investors' perspective because of several factors such as risk management on their investments, long-term sustainability, transparency, and compliance. According to an UNCTAD report[12], 98

funds have a clear vision for sustainable investment and 89 funds have internal policies or guidelines regarding ESG/SDG integration as of 2022.

Net inflows of investment into exchange-traded funds with ESG traits totaled USD 128 billion in 2021, up 57 % from USD 81.3 billion in 2020. Despite this growth, there is no universally accepted standard framework for companies to report on ESG metrics, and the ESG market itself has mushroomed into several different types of structures posing challenges for inclusive value chains and growth of trade.

Lack of alignment amongst trading partners on sustainability reporting can lead to challenges such as inability to access financing from international investors. Streamlining frameworks of ESG reporting can be beneficial in several ways, including ease of comparison of performance, assessment of risks and opportunities, driving inclusivity of firms, safety of workforces, ethical business practices and a more holistic view of the impact of company activities on society and environment. Such streamlining efforts must provide due consideration to the differential development status of economies and their NDCs (Nationally Determined Contributions) in line with the Paris Agreement. Beyond addressing sustainability, ESG standards should also address businesses' social commitments to all sections of society and promote ethical and socially conscious themes such as diversity, inclusion, community-focus, social justice, and corporate ethics, while ensuring compliance with robust governance practices.

With increased interest from investors and climate stakeholders alike, B20 calls upon the G20 to recommend all member nations to work towards aligning on a common and comprehensive ESG framework that generates positive socio-environmental and governance outcomes, gives due weightage to differential development status of economies, and encourages businesses and

12 UNCTAD World Investment Report, 2022- International tax reforms and Sustainable Investment (https://unctad.org/publication/world-investment-report-2022)

countries to introduce consistency across ESG standards.

Ensure carbon border adjustment measures are implemented in a manner that is multilaterally compliant and fair to nations, keeping in mind the principle of common but differentiated responsibilities as committed to in the Paris Agreement

Decarbonization efforts and any carbon border adjustment measures could be implemented in a manner that are multilaterally compliant and fair to all nations. This is important for several reasons, including coordinated efforts to reduce global greenhouse emissions, improved competitiveness, promoting inclusiveness and international cooperation towards sustainable efforts. The principle of common but differentiated responsibilities outlined in the Paris Agreement means that all countries have a duty to take climate action, but the nature of these actions will depend on their respective national circumstances.

Differing starting points of nations, and their unique experiences with climate change necessitate the adoption of different mitigation strategies. A consistent consensus-accepted methodology for carbon emission measurement aligned across nations would ensure comparability and foster equal participation, while clearly reflecting the effectiveness of different carbon mitigation approaches.

Furthermore, the number of carbon pricing initiatives being implemented around the world is increasing rapidly, with 60+ initiatives already implemented across 46 national jurisdictions. Carbon pricing can take different forms, such as cap-and-trade emissions trading systems or carbon taxes and have a wide range of unit prices (ranging from Euro 2/ton to Euro 83/ton of CO2) across different nations, further increasing trade complexity of coordination across nations. The B20 urges G20 to encourage an approach that improves cooperation and promotes transparency and predictability.

Given the global nature of GHG emissions, international coordination is needed to attain sustainability goals at a more rapid pace and mitigate long-term climate change impact. Cross-border cooperation towards facilitating enhanced data collection, sharing of information on emission reduction policies, policy analysis and mutual learning can be key catalysts in accelerating the transition to net-zero.

Thus, in summary, the B20 advocates for the G20 to coordinate efforts on establishing a measurement methodology that is consistent across geographies to facilitate transparency in carbon/GHG emissions reporting for countries and businesses, support an approach that fosters cooperation and predictability, and respect the principle of common but differentiated responsibility, considering the specific circumstances and differing marginal costs of decarbonization for various countries.

Facilitate development of clean energy research and technology and promote investments in clean energy infrastructure including evolving technologies

Access to clean energy research and technology and the promotion of clean energy infrastructure are crucial for ensuring a sustainable energy future for all. Advanced and cleaner fossil-fuel technology, on the other hand, provides an interim transitional solution towards a low-carbon future while meeting increasing energy demand. Investing in clean energy research and technology drives innovation and helps to develop new, more efficient, and cost-effective solutions.

Building clean energy infrastructure, such as wind and solar farms, energy storage facilities, and transmission lines, integrating renewable energy into the grid, focusing on evolving technologies like green hydrogen, Li-ion batteries, and others are gaining importance.

Both developing and developed nations are stepping forward and prioritising movement to clean energy resources. For example, India ranked third in renewable energy country attractive index in 2021 and 4th globally in Renewable Energy Installed

Capacity (including Large Hydro). China's overall share of renewable[13] energy sources (solar, wind and hydropower combined) in overall energy consumption has doubled in the last decade. Among developed nations, some European countries have shown leadership in accelerating their renewable energy capacity. Several EU members have high levels of renewable sources in their gross final consumption of energy, such as Sweden at ~60%, Finland at ~44% and Latvia at ~42%[14]. A few nations are also introducing legislations for organisations to mandate practices to meet sustainability targets.

Overall, a comprehensive approach that includes policy and regulatory support, investment, and stakeholder engagement is crucial to advance clean energy and achieve a sustainable energy future.

As things stand, today's energy investment trends show a world falling short on climate goals, and on reliable and affordable energy. Without a massive surge in spending on efficiency, electrification, and low-carbon supply, rising global demand for energy services will simply not be met in a sustainable way. In addition, there is a host of non-market barriers that policymakers need to tackle as part of urgent efforts to expand and strengthen clean energy supply chains. B20 calls upon the G20 to encourage collaboration towards fostering progressive liberalization of trade in environmental and low carbon goods and services across trading partners.

An upsurge in investment in R&D and incentivising clean energy adoption by way of favorable regulations to individuals and companies should form a starting point for nations. B20 calls upon the G20 nations to develop and implement policies to support the clean energy transition. Encouraging clean energy innovation & transition and promoting energy efficiency and advancing cleaner fossil fuel technology are also some of the methods nations should prioritise to reduce carbon footprint.

13 Renewable energy sources include solar, wind and hydropower combined. The sentence refers only to renewable sources of energy and does not refer to non-fossil fuel sources which can include nuclear sources as well.

14 European Commission, Ec.europa.eu, 2022

Policy Action 1.4: Facilitate FDI flows towards green, sustainable, and circular business models

Encourage FDI flows into sustainable businesses and circular business models with robust definition of 'Green FDI', data, and indicators; nurture LDCs and other developing economies to shift towards sustainable business models

FDI in sustainable businesses and circular business models can help to improve the competitiveness of economies by promoting technology development, improving resource efficiency and reducing the environmental and social impacts of economic activities. By investing in these businesses, investors can also help build a more sustainable future and create long-term value for their investors, customers, and communities. Additionally, the World Bank and regional development banks must play a crucial role to complement private capital to mobilise the necessary volume of investments required for the green transformation.

Limited attention has been paid to the role of FDI as a contributor to green growth and there is currently no agreed definition of Green FDI. There have been a few prior attempts to define Green FDI by multiple organisations, including UNCTAD, OECD, Climate Bonds Initiative, etc. but these have had limited adoption.

B20 advocates for the G20 to emphasise the need for an aligned definition of Green FDI across nations, not only to bring coherence in procedures, streamline and simplify compliance procedures, reporting, and complementing private capital, but also to improve transparency and create tangible goals towards a sustainable world economy.

Additionally, G20 countries could lead by example by incentivising investment across borders in sectors promoting sustainability. Consistent FDI facilitation schemes and reinforced Investment Promotion Agencies (IPAs) can foster higher economic and environmental standards, with FDI representing a social vehicle for increased integration, and laying the foundation for a more sustainable world economy.

The G20 could consider playing an important role in nurturing Least Developed Countries (LDCs) and other developing economies to shift towards sustainable business models and value chains by providing financial and technical support to these countries. The support could be in several forms, including access to capital, technical assistance, and capacity building, among others. The global community must recognise the need for collective action to support LDCs to have access to reliable and affordable energies. Initiatives promoting financing partnerships by developed/developing nations for LDCs to facilitate gradual transition to a green economy would also emerge as potential options. G20 could also support in developing local supply chains within LDCs and other developing economies, that would provide new opportunities for sustainable economic growth in these countries. Nations should be encouraged to share experiences, knowledge, best practices, and market opportunities on sustainable business models with LDCs and developing economies. A key step in enabling this would be for nations to refine their frameworks for investment facilitation towards the goal of enhancing inclusivity and ensuring that LDCs and lesser developed economies also get a chance to become part of regional production networks.

In summary, the B20 advocates that the G20 nations could lead by example by creating an environment that fosters investments in sustainable business activities, nurtures LDCs and other developing economies by way of investments and skilling and ensures their growth and improved participation in the SDG sectors. Additionally, investors should face minimum barriers while investing, irrespective of the sector. We call upon the G20 to also encourage rules-based investment systems that safeguard investor rights, a rules-based approach for dispute resolution, and an environment to attract more private investments.

Recommendation 2
Technology and Trade 4.0: crossing borders with Industry 4.0

Policy Actions

Policy Action 2.1 Establish requisite digital infrastructure and drive technology adoption to accelerate cross-border trade and efficiency

Policy Action 2.2 Facilitate creation of interoperability in standards and protocols for digitising and exchanging data, thus streamlining digital trade transactions

Policy Action 2.3 Facilitate establishment of legal frameworks that promote transparency and ease of doing business, keep pace and evolve with technological advancements

SDG Goals Impacted

Recommendation 2 focuses on the UN SDGs of **8. Decent work and economic growth, 9. Industry, innovation, and infrastructure, 10. Reduced inequalities and 17. Partnerships for the goals**

Leading Monitoring KPIs

Monitoring KPI	Baseline	Target	Sources
World population engaging in online purchases	1.48 billion (2019)	3 billion (2026)	UNCTAD, based on national data
Percentage of population using the internet in LDCs	27% (2021)	65% (2026)	ITU Global Connectivity Report
Percentage Implementation of paperless trade measures in TFA	64.81% (2021)	85% (2026)	UNCTAD

CONTEXT

The digitalisation of processes and adoption of advanced technologies is transforming global trade. Over 60% of global GDP today is digital[1]. The digital economy is growing 2.5 times faster than the GDP of the "physical only" world[2]. Global e-commerce is estimated to have reached USD 26.7 trillion in 2019[1]. Of the 1.5 billion people who shopped online, one in four shoppers made cross-border purchases.

World-wide, Internet users grew by ~8% in 2022, to reach an estimated 5.3 billion people or 66% of the global population. Digital adoption by businesses was on the rise in 2022; 44% of businesses across 79 countries reported an increase in their adoption of digital technologies[3].

An increase in connectivity has directly benefited digital trade – studies suggest that a 10% increase in 'bilateral digital connectivity' raises goods trade by nearly 2% and services trade by over 3%[4]. Besides, connectivity and technology adoption have boosted trade by expanding the avenues of e-commerce and digital trade[5].

The growth of digital trade has had a significant impact on the growth of digitally delivered services. In general, digital trade has driven higher growth in services compared to goods trade[6]. Digitally delivered services have grown sharply to contribute ~63% of global services export in 2022, up from ~51% in 2018[7]. They exhibited remarkable resilience even during the pandemic, growing from ~USD 3.3 trillion in 2019 to USD 3.8 trillion in 2021, in contrast to the sharp decline seen in other services exports.

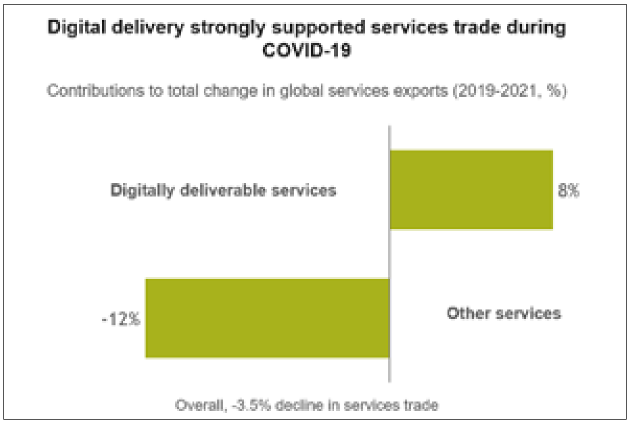


Figure 9: DDS contribution to total change in global services exports
(Source: UNCTAD digital economy database 2021: https://unctad.org/topic/ecommerce-and-digital-economy/digital-economy-report)

The adoption of technology in trade offers wide benefits in fostering inclusivity and sustainability. Digitalization in the trade ecosystem can reduce trade costs and complexity, enabling developing countries and MSMEs to participate in global trade. Additionally, studies suggest that digitalization has the potential to reduce global carbon emissions by up to 15%; emissions saved through paperless trade implementation can average 36 million tons, equivalent to planting one billion trees per year[8].

An increase in digitalization also contributes to boosting investments due to the FDI lightness[9] of internet platforms and digital solutions. The business model is easily scalable across countries and does not require physical capital investment in each market. Given these capital asset efficiencies, it offers an unparalleled opportunity to recast GVCs, widening their inclusivity and making them more resilient.

Trade processes stand to benefit through the adoption of technology

Trade 4.0, also referred to as TradeTech by the WTO, is a set of technologies and innovations that has

1 Defined by the UNCTAD, WTO, and WCO as 'all trade that is digitally ordered and/or digitally delivered' (https://unctad.org/publication/digital-trade-opportunities-and-actions-developing-countries)

2 World Bank Database, 2022 and ITU's Measuring digital development: Facts and Figures 2022 (https://data.worldbank.org/)

3 World Bank, World Bank Business Pulse Survey 2022 (https://www.worldbank.org/en/data/interactive/2021/01/19/covid-19-business-pulse-survey-dashboard)

4 OECD - Development Co-operation Report 2021: Shaping a Just Digital Transformation (https://www.oecd-ilibrary.org/development/development-co-operation-report-2021_ce08832f-en)

5 Connectivity Improves User Adoption of E-commerce for Evolving Product Categories like FMCG, Nielsen

6 International Trade in a Digital Age, UNESCAP, 2016 (https://www.unescap.org/sites/default/files/aptir-2016-ch7.pdf)

7 Policy Brief No. 92, UNCTAD, January 2022 (https://unctad.org/publication/digital-trade-opportunities-and-actions-developing-countries)

8 A primer on quantifying the environmental benefits of cross-border paperless trade facilitation, UNESCAP, 2021 (https://www.unescap.org/kp/2021/primer-quantifying-environmental-benefits-cross-border-paperless-trade-facilitation)

9 The ratio of share of foreign sales to the corresponding share of foreign assets

	Total sales increase (%)	FDI lightness		
	2016-2021	2016	2021	Change (%)
Traditional MNEs	36	1.00	1.01	2
Tech MNEs (from top 100)	73	1.50	1.45	-3
Top digital MNEs	**159**	**1.37**	**1.58**	**15**
Internet platforms	212	2.25	2.32	3
Digital solutions	110	1.85	2.21	20
E-commerce	225	1.03	1.21	17
Digital Content	68	1.32	1.12	-15

Figure 10. Sales growth rates and FDI lightness: Comparison between top 100 MNEs, tech MNEs, and top digital MNEs
(Source: UNCTAD, World Investment Report, 2022, https://unctad.org/publication/world-investment-report-2022)

the potential to enable global trade to become more efficient, inclusive, and sustainable. It comprises of two levels: the first transforming internal systems and processes within countries and firms from analog to digital; the second dealing with trade process optimization and synchronization between different parties. The ambit of Trade 4.0 spans the adoption of advanced technologies such as the Internet of Things (IoT), Distributed Ledger Technology (DLT)/ Blockchain and AI/ML to the digitalization of border processes in trade.

The benefits from Trade 4.0 are multi-faceted – ranging from trade enablement to efficiency gains and reduced costs, to greater transparency and resilience of supply chains. For example, partial implementation of cross-border paperless trade measures could result in an export increase of USD 36 billion annually, while a full implementation would unlock a potential export increase of USD 257 billion in the Asia-Pacific region alone, according to UNESCAP. These measures can also reduce the time required to export, falling on average by 24% in case of partial implementation and 44% in case of full implementation[10]. (This can foster inclusivity in trade – the average time spent in compliance for exports and imports on border transport in Sub-Saharan Africa was 188 & 239 hours respectively, contrasted to 15 & 12 hours in the OECD countries. Developed countries also incurred 70-80%[11] lower costs of compliance). Further, integrating technologies like Cloud, IoT, Blockchain and AI with trade can increase transparency and coordination.

Given the disruptive benefits, Trade 4.0 is a pressing priority for governments and businesses alike. To unlock the benefits of Trade 4.0, it is necessary for nations to ensure global access to digital infrastructure, a supportive ecosystem, and international coordination. This journey to unlock Trade 4.0 benefits has several progressive stages.

Countries are at varying stages of digital maturity and engagement. Disparities in digital infrastructure and adoption of technologies remain

A wide divergence can be seen in digital trade engagement across nations. While several nations have made significant strides towards becoming

10 Estimating the benefits of cross-border paperless trade in Asia and the Pacific, UNESCAP, 2014 (https://www.unescap.org/sites/default/files/Benefits%20of%20Cross-Border%20Paperless%20Trade.pdf)

11 World Bank Doing Business. The average time in compliance in Sub-Saharan Africa is impacted by the logistics infrastructure, skill issues etc. (https://archive.doingbusiness.org/en/doingbusiness)

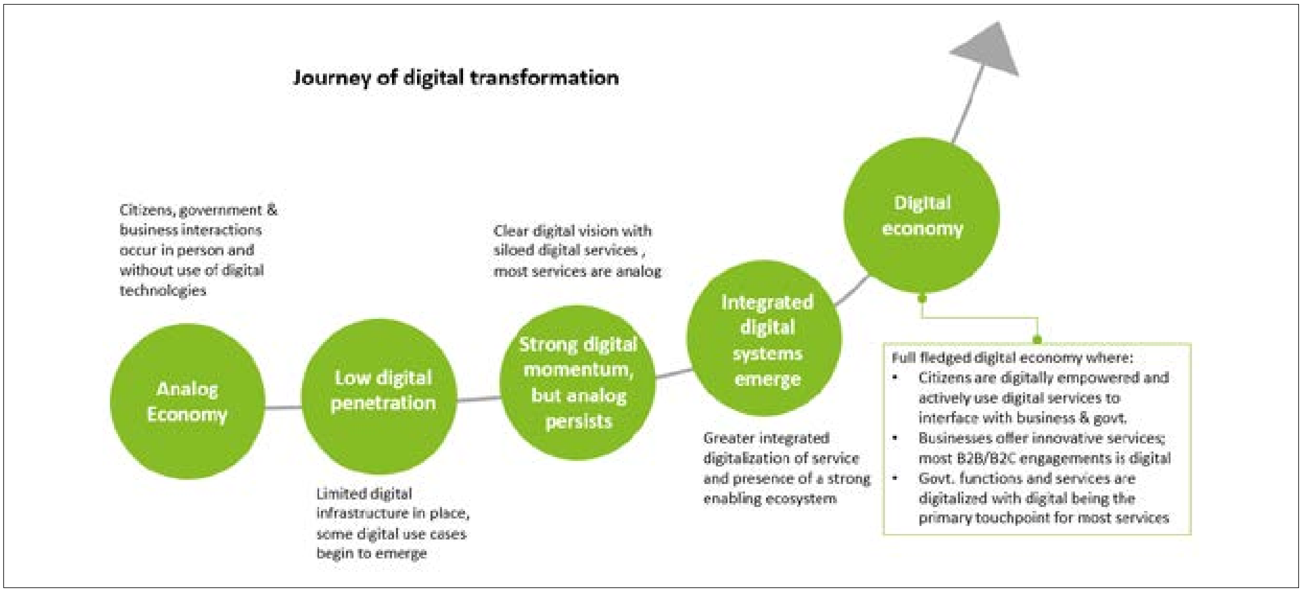


Figure 11: Stages in journey to unlock Trade 4.0 benefits

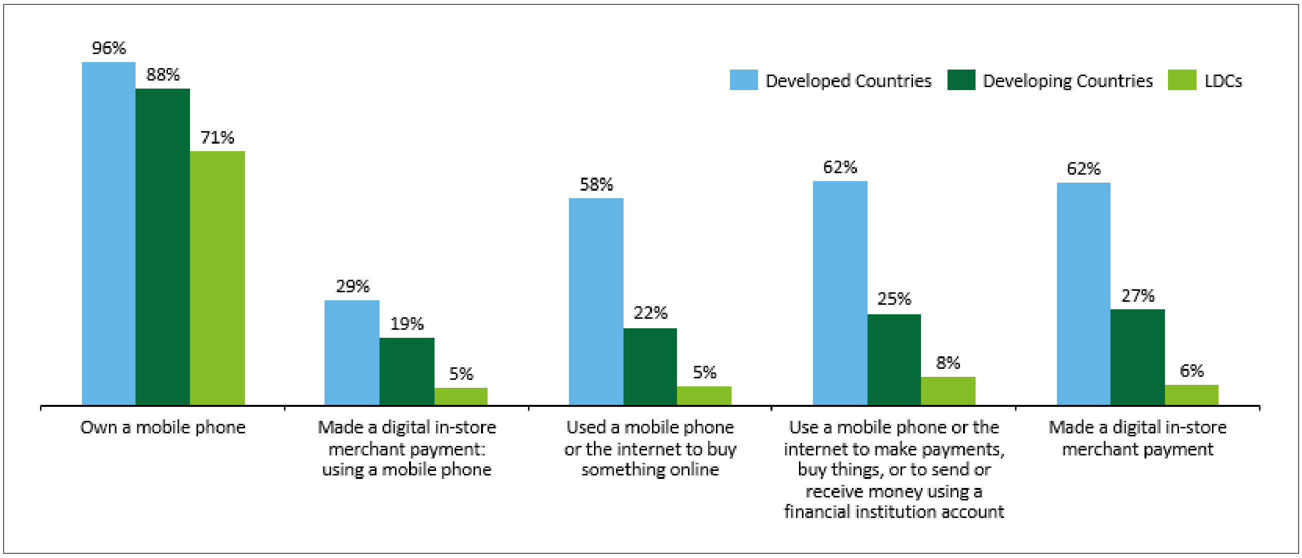


Figure 12: Disparity in digital trade engagement, 2021
(Source: UNCTAD, 2021, https://unctad.org/system/files/official-document/der2021_en.pdf)

'digital economies', LDCs and several developing countries are still in early stages of readiness and engagement.

Several nations continue to face the fundamental issue of 'coverage gap.' Despite rising connectivity, 2.9 billion people are still offline, 96% of whom live in developing countries. Regional disparities show that Africa is the least connected region, followed by Asia-Pacific and the Arab States[12]. While internet penetration stood at 90% in developed countries, that of developing countries and least-developed countries stood at 57% and 27% respectively.

Trade 4.0 leverages modern technologies, requiring high bandwidth connectivity across the supply chain. The ITU's Broadband Commission for Sustainable Development requires all countries to have funded National Broadband Plans or Strategies (NBP) with the aim of expanding broadband access. However, the number of countries with NBPs has decreased from 165 in 2021 to 155 in 2022 as plans have expired or not been renewed. Additionally, there

12 ITU Percentage of individuals using the internet, 2021 (https://www.itu.int/itu-d/reports/statistics/facts-figures-2021/)

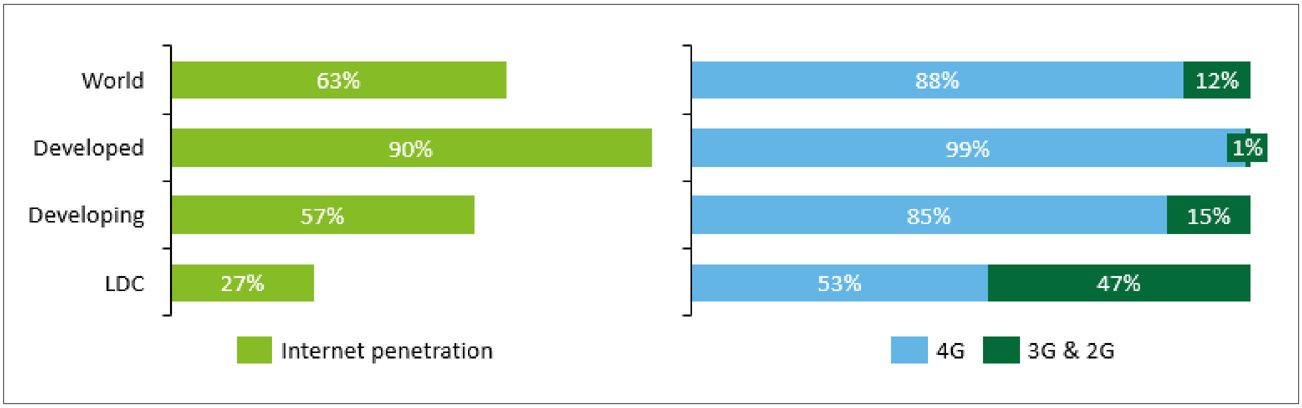


Figure 13: % of people using internet and 4G,3G & 2G coverage for population using internet
(Source: UNCTAD, 2021, https://unctad.org/system/files/official-document/der2021_en.pdf)

is a large variation in quality globally - while the world has achieved 88% 4G coverage as of 2021, LDCs are lagging at 53% 4G coverage, forcing them to continue with legacy architectures and technology processes.

The second level of challenge that confronts several economies is the 'usage gap' - despite having connectivity access, there is a limited adoption of internet services and digital trade. Some key barriers to adoption include lack of access to networks and enablers, affordability, knowledge, and relevance.

Solving the dual problems of "access gap" and "usage gap" is critical in furthering the adoption of digital trade. Enhanced digital infrastructure, access and usage can facilitate greater engagement in digital trade, reduce trade costs for marginalised groups, and increase efficiency of cross-border flows.

In addition to digital infrastructure, a lack of interoperability and disparity in rules and regulations on digital trade and cross-border data flows can hinder the adoption of Trade 4.0

With the growth of digital trade, it becomes necessary to adopt new rules and review existing regulations to make sure that global frameworks can facilitate and keep up with the rapidly evolving nature of the digital ecosystem. Ensuring global interoperability of trade processes and frameworks for cross-border data transmission can enable the adoption of Trade 4.0. However, the cross-border use of electronic transactions and documents is currently limited. When systems are not interoperable, information sharing is costly and time-consuming with potential security risks.

Additionally, legislation on key aspects of digital trade varies from country to country. 35% of LDCs have no data protection and privacy legislation in

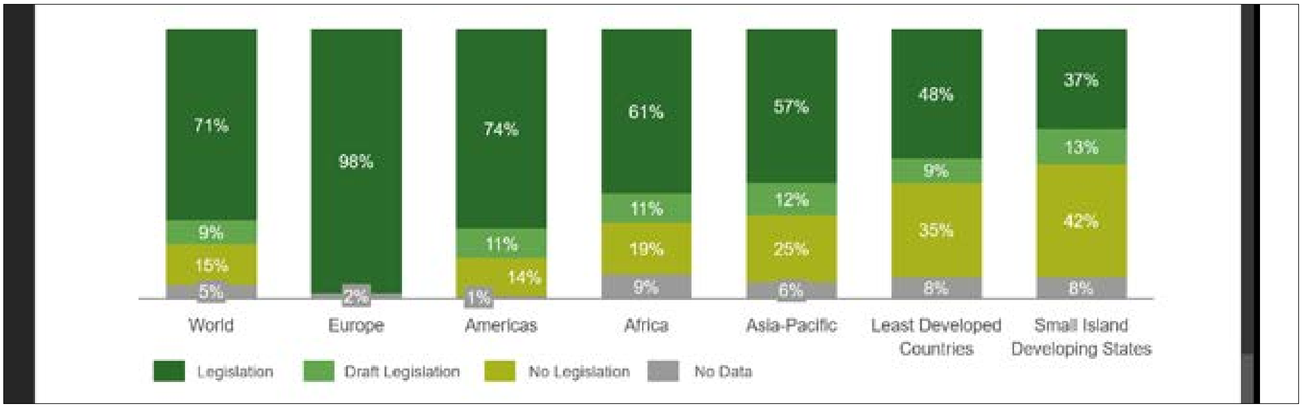


Figure 14. Data Protection and Privacy Legislation (2021)
(Source: UNCTAD Global Cyberlaw Tracker, 2022 (https://unctad.org/topic/ecommerce-and-digital-economy/ecommerce-law-reform/global-cyberlaw-tracker)

place and 22% of LDCs have no cybercrime legislation. Similarly, 71% of countries have data protections laws, 81% have e-transaction laws, 80% of cybercrime protection laws, and only 59% of countries have online consumer protection laws[13].

The absence of mutual recognition, interoperability, and divergent rules between countries can create additional costs that may be difficult for MSMEs and LDCs to manage, thus diminishing inclusivity. Aligned, mutually recognised standards for cross-border data flows can eliminate costly market conflicts. Global standards also help create a level playing field for enterprises from emerging nations to enter new markets.

To this end, the B20 calls for the G20 to:

1. Drive equitable access to digital infrastructure and participation in global trade through cross-border investments and public-private partnerships
2. Digitalise trade processes while ensuring interoperability in standards, data collection and processing, amongst trade partners with due protection of privacy requirements and confidential business information
3. Encourage the development of legal frameworks that keep pace and evolve with technological advancement to promote transparency and ease of doing business.

Policy Action 2.1: Establish requisite digital infrastructure and drive technology adoption to accelerate cross-border trade and efficiency

Champion cross-border investments and efforts for inclusive digital infrastructure access

The International Telecommunication Union (ITU) estimates that nearly USD 428 billion is needed to connect the remaining 2.9 billion people (aged 10 years and above) to broadband internet by 2030. Financing universal access requires alternate funding models to enable digital transformation for underserved groups with area-specific connectivity solutions.

The G20 should encourage establishing, renewing, or refreshing National Broadband Plans (NBP)and increasing access to broadband pan-nation, while focusing on last-mile connectivity and adoption. Furthermore, the G20 should facilitate and encourage nations to incentivise investments in digital infrastructure in emerging economies and in unconnected regions - benchmarking as well as compilation of best practices to enable efficient cross-border investments can help streamline efforts in this regard.

The B20 further urges G20 nations to encourage investments in mobile money infrastructure in trade. Mobile money accounts are an example of inclusive digital infrastructure with significant uptake in Sub-Saharan Africa and South Asia. Penetration in Sub-Saharan Africa is over 50% of the population; Asian countries also exhibit higher adoption than other countries. Integrating mobile money with trade can drive financial inclusion and increase accessibility to global trade.

Nurture public-private and other partnerships to boost digital infrastructure in emerging markets

Public-private partnerships can boost investments in digital infrastructure. This model would enable accelerated deployment and adoption of digital technologies in developing countries and LDCs, leading to increased opportunities to engage in trade. Global companies can partner with local companies that are working in digital infrastructure and services to provide access to underserved communities in developing countries. This could also involve funding and technical assistance for the roll-out of broadband internet services in rural areas, as well as result in the creation of new jobs and business opportunities.

Numerous countries are focusing on public-private efforts to promote e-commerce in their economies. As an example, India has emerged as a leader in Digital Public Infrastructure (DPI) with the

13 UNCTAD Global Cyberlaw Tracker, 2022 (https://unctad.org/topic/ecommerce-and-digital-economy/ecommerce-law-reform/global-cyberlaw-tracker)

Unified Payment Interface (UPI) reaching 300 million users. UPI has enabled financial transformation in India and reduced cross-border remittance costs (also being accepted in some other countries). Moreover, since its launch in 2017, UPI has helped India improve financial inclusion at a CAGR of over 5%. Similarly, Turkiye has a specialised e-commerce council for road-mapping solutions pertaining to e-commerce participation. In Bangladesh, the IT and e-commerce industry associations are working in close cooperation with the government to facilitate e-commerce adoption. Innovative public-private partnerships can secure robust results by leveraging insights from the existing work of the private sector[14].

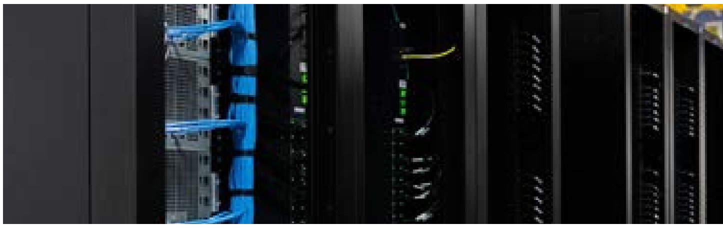
The B20 urges G20 governments to promote partnerships, drive multi-stakeholder coordination and cooperation, and encourage network infrastructure development plans. G20 nations should advocate business collaboration on digital trade with governments from LDCs, emerging markets, and developing countries to enhance their digital infrastructure, literacy, and skills. Furthermore, G20 nations can lead by example and encourage large businesses and global companies to digitise their supplier ecosystem, support with financing, and provide training programs for MSMEs in their ecosystem.

Incubate development of digital skills and trade expertise in emerging economies through a knowledge centre of excellence

To enhance technology adoption by businesses and countries in cross-border trade, expertise in trade and technology needs to be built uniformly, reducing knowledge and skills asymmetry. Building 21st century digital and ICT skills is a critical step towards bridging the "usage" gap.

Establishing a knowledge centre of excellence that can mentor organisations and government agencies in emerging economies on the best practices of adopting technology in trade, encourage research and innovation, and promote 21st century digital skills development is an important step in ensuring equitable access. Additionally, such a centre could foster awareness, acceptance, and adoption of cutting-edge Trade 4.0 technologies besides informing policy making. The G20 could support the establishment of such a knowledge centre of excellence to develop digital skills and trade expertise, proposed to be anchored as part of a larger initiative in India.

The setting up of such a centre would necessitate collaboration across G20 nations to compile information, innovation, and best practices relating to Trade 4.0. G20 nations should identify the skills required for engaging in digital trade, conceptualise upskilling roadmaps and partner with academia to foster such skills globally through the centre.



Policy Action 2.2: Facilitate creation of interoperability in standards and protocols for digitising and exchanging data, thus streamlining digital trade transactions

Adopt technology at scale, at and across borders for efficient flow of goods and services – maximise links with all border agencies and trading communities

Traditionally, the flow of goods and services across borders requires high regulatory oversight with minimal use of technology. Every step of the process of logistics and delivery was time consuming with high costs for the parties involved in the cross-border trade as well as the regulatory authorities.

According to World Bank data, the time spent in compliance for exports and imports on border

14 Public-Private Priorities for Aid for Trade in the Digital Era, WTO, 2017 (https://www.wto.org/english/res_e/booksp_e/aid4trade17_chap10_e.pdf)

	Exports		Imports	
Region	Time spent in compliance (hours)	Cost of compliance (US$)	Time spent in compliance (hours)	Cost of compliance (US$)
East Asia and the Pacific	124.1	499.6	136.1	542.4
Europe and Central Asia	55.9	305.2	53.2	279.8
Latin America and Caribbean	115.8	636.9	144.3	803.5
Middle East and North Africa	136.9	708	206.8	806.9
OECD high-income countries	15.1	185.3	12.2	137.2
South Asia	136.4	549.3	218.5	979.6
Sub-Saharan Africa	187.9	807.2	239.4	986.9

Compliance includes both border and documentary compliance for a shipment of goods.

Figure 15. Border bottlenecks by region
(Source: World Bank Data: https://data.worldbank.org/indicator/IC.EXP.TMBC?view=map)

transport in Sub-Saharan Africa (which includes multiple LDCs) was the highest at 188 and 239 hours, while that of developed regions like OECD was much less at 15 and 12 hours with 70%-80% lower costs.

Transforming the traditionally paper-based documentation system in trade into an electronic format can speed up trade, ease the cost of doing business, and improve transparency. Globally, the implementation of paperless trade measures in the Trade Facilitation Agreement (TFA) stood at 64.8% as of 2021. The most implemented measure was 'automated customs system' with an overall implementation rate exceeding 84% globally. In contrast, 'electronic application and issuance of preferential certificate of origin' had been fully implemented in less than 20% of countries.

While most IT border systems in developed and emerging economies can be used for electronic data interchange, this is still under implementation in many low-income countries[15]. Implementation of the TFA's cross-border paperless trade measures stood at 36% globally. These measures seek to enable the exchange and legal recognition of trade-related documents between stakeholders along the entire international supply chain. To derive the benefits of Trade 4.0, the G20 should advocate for nations to target complete implementation of the TFA's cross-border paperless trade measures, lending appropriate support to LDCs as needed. The implementation of these measures directly impacts the time required to cross borders and the cost of compliance of engaging in cross-border trade. To that end, the B20 looks forward to the publication of the World Bank's Business Enabling Environment index, which will enable countries to baseline their performance with regards to these measures on cross-border trade.

G20 nations need to work towards continued digitalization of border procedures, establishment of seamless transport corridors in customs and other border agencies, and implementation of cross-border paperless trade measures as specified in the TFA. Several G20 nations like Japan and China have launched initiatives in this regard. As G20 nations continue to push in this area, they could invest in technological innovations and data management solutions that enhance connectivity between stakeholders in global value chains, while ensuring

15 OECD-WTO Sixth Global Aid for Trade Review, 2017 (https://www.wto.org/english/tratop_e/devel_e/a4t_e/a4tmonit_6gr_e.htm)

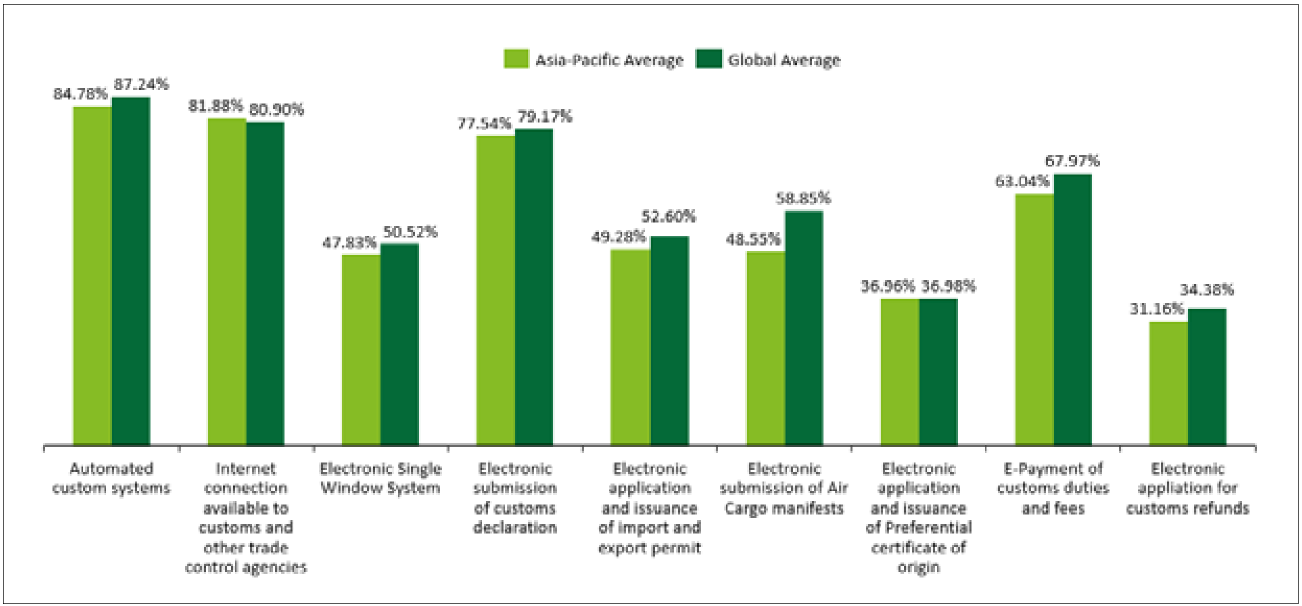


Figure 16A: Global and Asia-Pacific implementation of paperless trade measures.
(Source: UNCTAD 2020 Paperless Trade Facilitation (https://unctad.org/news/advancing-digitalization-trade-partnerships-national-trade-facilitation-committees-platform)

confidentiality and privacy. G20 nations can also facilitate broadening adoption of cross-border transferable electronic records, encouraging mutual recognition of electronic records between customs agencies and the trading community.

As part of paperless trade facilitation, only ~65% of the countries have fully or partially implemented the electronic single window system while it is in pilot stage in 10% of the countries[16]. However, despite an increase in electronic single windows for processing trade documents, the interoperability of these single windows remains a concern in the face of growing regional single windows. While efforts have been made to standardise single windows in trading blocs, the G20 must ensure interoperability within member states towards more efficient, transparent, and resilient trade. G20 nations shall further encourage their border agencies to coordinate on testing and certification, establish single windows, and explore their mutual recognition.

16 UNCTAD 2020 Paperless Trade Facilitation (https://unctad.org/news/advancing-digitalization-trade-partnerships-national-trade-facilitation-committees-platform)

Enable digital trade through adoption of Industry 4.0 technologies such as AI, ML and DLT[17]

Technologies such as DLT/Blockchain can create an incontrovertible and indelible record of supply chain transactions, shorten the time required for verifying and processing documents, and reduce document-based fraud. DLT can be used to create secure and transparent trade platforms that can build trust, increase efficiency, and reduce trade costs. IoT can be used through ubiquitous sensors which measure and transmit data in real-time, capturing quantitative measures to enable operating decisions, troubleshooting, and emergency alerts. AI and ML can be used to optimise and automate supply chain management, reducing errors. They can also identify and manage risks associated with international trade and analyse data to identify trends and patterns.

B20 recommends to the G20 nations to foster awareness and adoption of Industry 4.0 solutions by sharing knowledge and guidelines on potential technologies, impact on trade, and best practices on implementation; they need to facilitate the usage and dissemination of secure, risk-free technology solutions by leveraging knowledge sharing platforms,

17 Distributed Ledger Technology – example blockchain

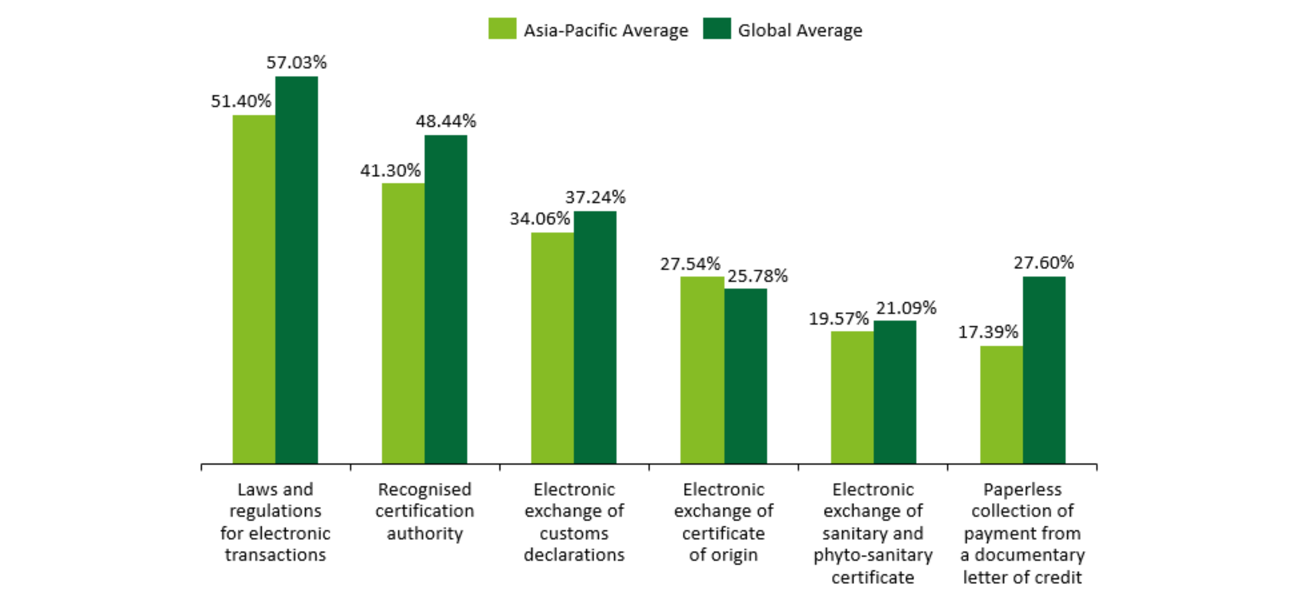


Figure 16B. Global and Asia-Pacific implementation of cross-border paperless trade measures
(Source: UNCTAD 2020 Paperless Trade Facilitation (https://unctad.org/news/advancing-digitalization-trade-partnerships-national-trade-facilitation-committees-platform)

and support from academia and private organisation networks.

Additionally strategic partnerships and technology infrastructure should be developed to progress further in the journey to unlocking Trade 4.0 benefits. Official development assistance programs to developing countries can also be an important enabler mechanism in this regard.

Policy Action 2.3: Facilitate establishment of legal frameworks that promote transparency and ease of doing business, keep pace and evolve with technological advancements

Encourage global coordination for cross-border data flows keeping in perspective cybersecurity, legal regulations, and preferences of individual nations

Global coordination for cross-border data flows between trade partners through mutually agreed upon mechanisms is an important aspect of Trade 4.0. The implementation of cross-border paperless trade remains low with challenges on data treatment across borders. Countries with less comprehensive legislation, weaker infrastructure, and lower IT capacity can face hurdles in implementing paperless systems. Implementing many trade digitalization measures is linked to the quality of cooperation and information sharing among various government agencies across countries[18].

As manufacturing and related processes become digital, and individuals in low- and middle-income countries shift to an inclusive digital economy, elements like legal regulations, protection of digital knowledge flows, digital identity, privacy, and cybersecurity become increasingly important. The lack of robust guidelines for cross-border collaboration towards cybersecurity makes GVCs and businesses engaging in cross-border trade vulnerable to cybercrime, resulting in potentially critical disruptions in global trade. While robust national policies on cybersecurity are necessary, cross-border collaboration in cybersecurity practices should also be encouraged, so that global policies and regulations can keep pace with the increasing risk posed by cybercrime to global trade.

To this end, G20 nations should encourage multilateral/plurilateral dialogue between governments, international organisations,

18 OECD - Digital Government Strategies for Transforming Public Services In The Welfare Areas (https://www.oecd.org/gov/digital-government/Digital-Government-Strategies-Welfare-Service.pdf)

businesses, and other stakeholders of digital society to create robust guidelines for cross-border data flows. G20 nations are encouraged to cooperate to ensure the addressal of cybersecurity on a larger scale through agreements and partnerships between trading partners. The B20 urges the G20 to align on clearly articulated rules and frameworks to enhance cross-border data flows between trade partners, while respecting data privacy and security concerns. The G20 could reference the groundwork done by international institutions in developing such rules.

Encourage interoperability of standards for data collection, processing, exchanging, and handling while respecting national and individual privacy requirements and protecting confidential business information

The significance of data as an economic and strategic resource is increasing rapidly. For parties to exchange and reuse data, key information needs to be clearly defined and be unambiguous from a semantic and syntactical perspective. Trading partners wanting to exchange data should agree on the meaning of individual data elements to ensure that they process information in the same manner, while respecting the privacy and confidentiality requirements of individuals, businesses, and countries.

Multilateral bodies and international institutions of repute—including several United Nations Organisations, G20 initiatives, and the World Customs Organisation—have developed semantic libraries for cross-border data flows. The focus now needs to be on globally agreed methods for sharing data across heterogeneous systems and the exchange between systems of information about the syntaxes (data formats) being used. Consider the example of e-transaction laws: although many countries have e-transaction laws, regional disparities exist. 158 countries have adopted such laws of which 79 are developing countries and 29 are LDCs[19]. The adoption is lowest with LDCs at ~63% while that of developing counties is 90-100%.

To facilitate trade by increasing interoperability of standards for data collection and processing, G20 countries should engage in cross-country collaboration for integration of various digital systems for seamless flow, reducing friction in transactions, increasing ease-of-use for consumers, and reducing costs for platform operators. G20 countries can also consider interoperability of digital identity systems and establishing robust, well-defined guidelines on individual privacy treatment during cross-border data flows. Besides, the G20 nations can look to fast-track regulatory changes in areas such as interoperability, mobile money adoption, and digital identity. This will help reduce trade barriers and transaction costs, improve the efficiency and transparency of cross-border trade, and promote inclusive economic growth and sustainable development.

19 UNCTAD E-transactions Legislation Worldwide- https://unctad.org/page/e-transactions-legislation-worldwide

Recommendation 3
Diversifying and advancing services trade

Policy Actions

Policy Action 3.1 Encourage streamlining of services classification and improved data collection (Including establishment of global frameworks for servicification of manufacturing)

Policy Action 3.2 Enable conditions conducive to services trade by easing regulatory requirements and bringing transparency in trade-related policies

Policy Action 3.3 Promote investments in services

Policy Action 3.4 Accelerate the role of LDCs in international services trade by fostering enhanced capabilities and opening new opportunities

SDG Goals Impacted

Recommendation 3 addresses the UN SDGs of 8. Decent work and economic growth, 9. Industry, innovation and infrastructure, 10. Reduced inequalities, 12. Responsible consumption and production, 16. Peace, justice and strong institutions and 17. Partnerships for the goals

Leading Monitoring KPIs

Monitoring KPI	Baseline	Target	Sources
FDI in services – Announced greenfield projects	USD 350 billion (2021)	USD 700 billion (2026 – 15% CAGR)	(UNCTAD – FDI trends by sector, 2022)

CONTEXT

Services form a significant and fast-growing share of global cross-border trade

The global economy has gone through a significant shift towards services, spurred by rapid advances in technology and global internet penetration. In 2022, services trade contributed ~USD 7 triliion (Fig 17) to the world economy, representing a ~25%[1] share of global trade. This is significant growth from the 9% share in 1970. According to the WTO, services could account for one-third of global trade by 2040, representing ~50% increase in the share of services in global trade in just two decades[2].

Cross-border trade in services has expanded at a faster pace than trade in goods – services trade witnessed a higher growth rate (CAGR ~4%) between 2011-2019[3] contrasted to a growth rate of ~1% CAGR for goods. Services today also attract over two-thirds of foreign direct investment[4]. While sectors such as tourism suffered most during pandemic on account of lockdowns, the same have rebounded to similar levels in the past few years post crises and are expected to grow further.

Thus, expanding the services trade will be an important pillar of growth, economic diversification,

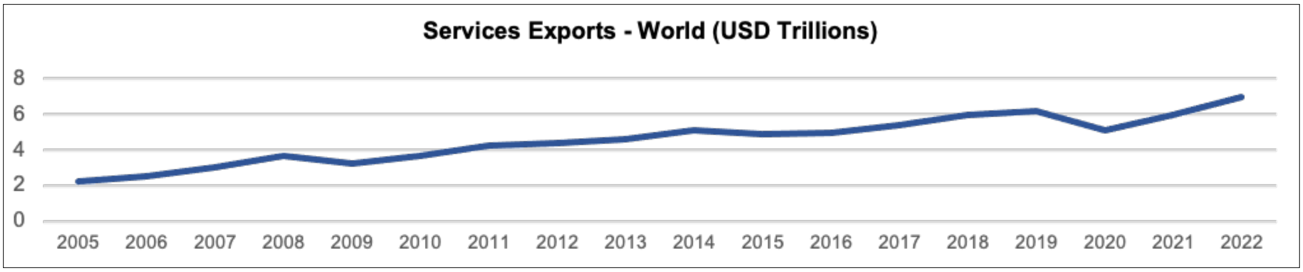


Figure 17. Growth of services exports globally
(Source: UNCTAD Book of Statistics, 2022 (https://unctad.org/publication/handbook-statistics-2022)

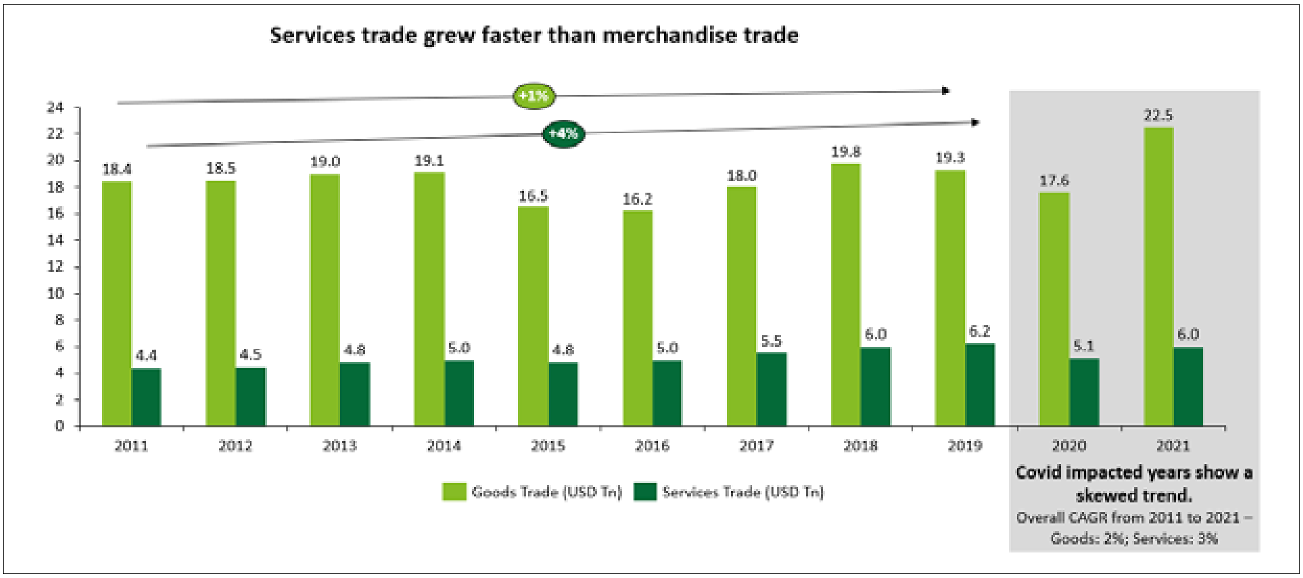


Figure 18: Services trade growth rate as compared to goods' trade
(Source: UNCTAD, https://unctad.org/statistics)

1 Source: UNCTAD Book of Statistics, 2022 (https://unctad.org/publication/handbook-statistics-2022)

2 WTO Trade Report 2019: Future of Services Trade (https://www.wto.org/english/res_e/booksp_e/01_wtr19_0_e.pdf)

3 Trend considered for years not impacted by Covid-19 (2011-2019)

4 G20 T&I Discussion Paper 2020: Saudi Arabia

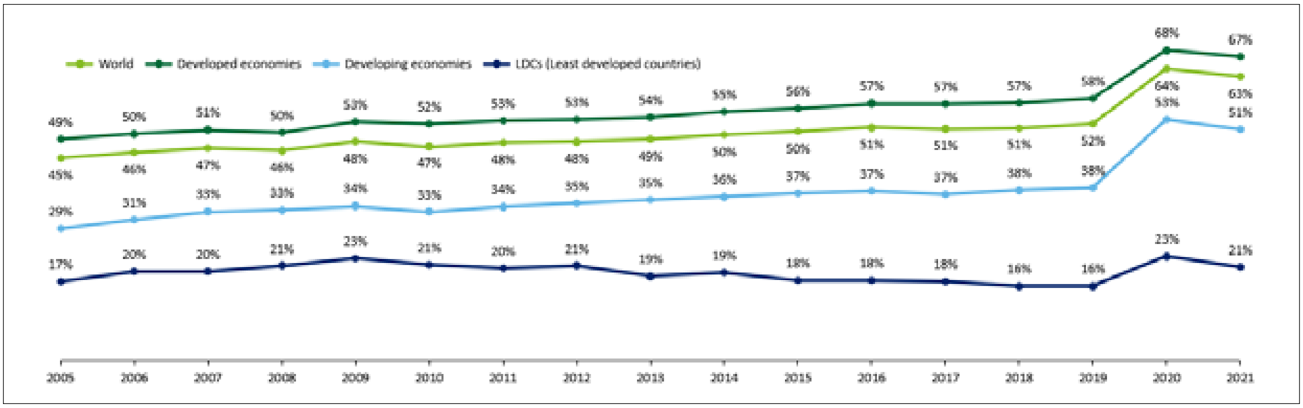


Figure 19: Share of digitally deliverable services exports (as a % of total trade in services) by income levels
(Source: UNCTAD: Digitization of services- What does it imply to trade and development, 2022 (https://unctad.org/publication/digitalization-services-what-does-it-imply-trade-and-development#:~:text=Consumers%20may%20further%20benefit%20by,costs%20compared%20to%20the%20analogue)

inclusivity, and achievement of sustainable development goals.

Growing importance of digitally delivered services

Services have come to the forefront of several national economies and are playing a bigger role in the global economy as well. Many factors are driving this – including consumption, liberalization, and investment – but the game-changer is digital technology. New data networks, digital tools, and platforms have enabled services providers to expand their customer base beyond their national boundaries. Consequently, the structure of world cross-border trade in services has also changed. The share of travel and transport services has diminished considerably, while that of telecommunications, computer, and information services that can be supplied electronically has increased at an average annual rate of over 10%[5].

With strong digital infrastructure and internet penetration, developed countries (high income economies) dominate the export of digitally deliverable services (DDS) accounting for 85% of global DDS exports[6]. Contribution of DDS in total trade has also been increasing for developed economies while developing economies follow (Fig 22). The divergence in DDS trends across different income group economies may be attributed to the difference in digital readiness, access, and literacy.

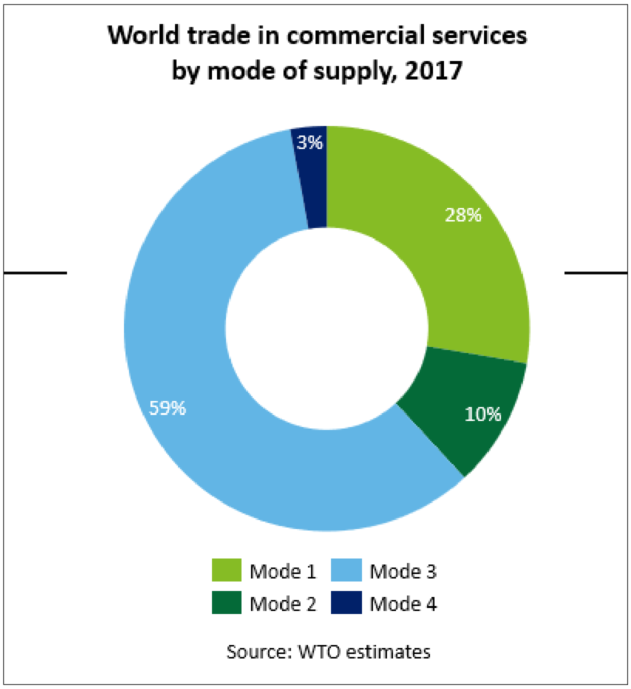


Figure 20: World Trade Services trade by mode of supply, 2017[6]

5 International trade in digitally deliverable services (DDS), or services that can be delivered over information and communication technologies (ICT) networks, include ICT services themselves, sales and marketing services, insurance and financial services, professional services, back-office services, research and development (R&D), and education and training services, among others

6 Source: UNCTAD: Digitization of services- What does it imply to trade and development, 2022 (https://unctad.org/publication/digitalization-services-what-does-it-imply-trade-and-development#:~:text=Consumers%20may%20further%20benefit%20by,costs%20compared%20to%20the%20analogue.)

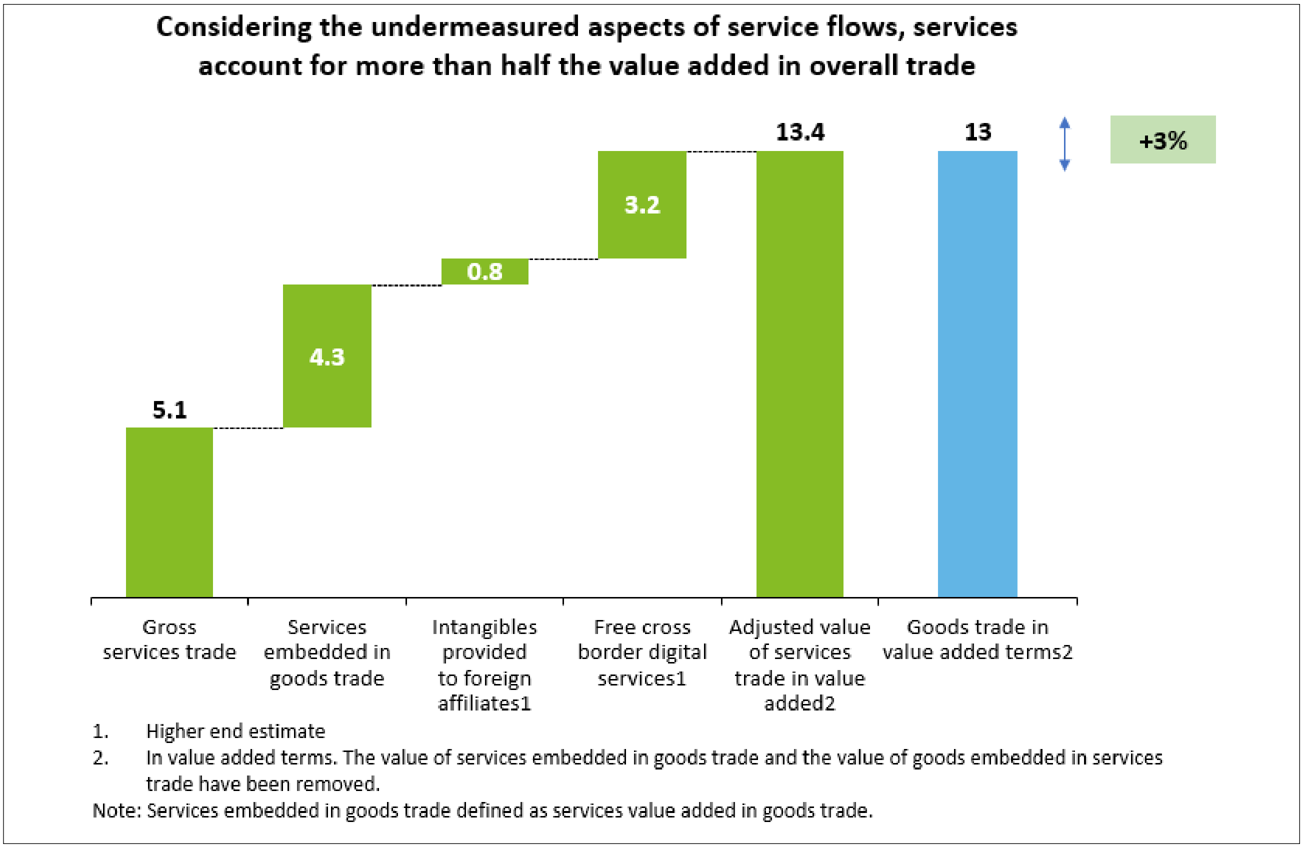


Figure 21: Undermeasured aspects of services (USD trillion)
(source: Data published as of 2017 only. Source: Capital IQ, WTO, IMF, World Input-Output Database, Alexa Web Information Service)

Broader role of services in world trade: Also embedded within manufactured goods, contributing more than a quarter of value added

The WTO's General Agreement of Trade in Services (GATS), of which all member-countries are signatories, aims to promote greater international trade in services by reducing barriers to trade. It defines services under 4 "Modes of Supply". At a global level, trade through commercial presence in another country by way of foreign affiliates (Mode 3) is the dominant method for services trade today (Fig 20).

Measuring services trade has become more challenging with the advent of digitization and the intangible and inseparable nature of services. Services embedded in manufacturing have been gaining importance and some have argued that it should be defined as "Mode 5 Services" to keep pace with evolving technology and innovation, but the nomenclature has yet to achieve consensus at the WTO[7]. There is a rising share of the services embedded in exports of manufactured goods, with the contribution ranging from 25% to 40%[8] of the total value.

The role of services can sometimes be obscured in traditional trade statistics. First, services go into traded manufactured goods, for example- R&D services. Second, there are intangible assets that global companies send to their affiliates around the world including software, branding, design, etc. Finally, trade statistics do not capture the increasing cross border flows of free digital services, including email, video conferencing, and social media. Together, services account for potentially more than half the value added. (Fig 21)

7 Services embedded within manufacturing are not defined separately under existing defined modes of supply by WTO. These services are exported as part of goods and are referred to as 'Mode 5 services.

8 TiVA database (Trade in Value added), 2018

Unique challenges faced by services trade: Classification, data measurement & regulatory environment

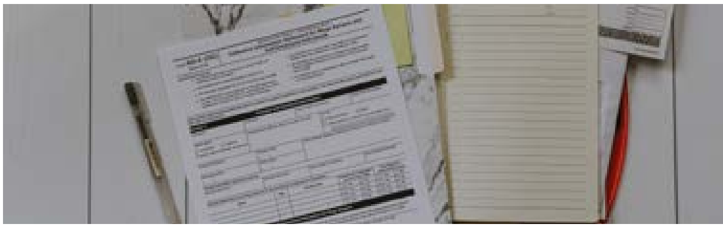
Classification of services is of paramount importance in any trade negotiations on services, for defining and scheduling of services commitments, and the subsequent implication on consistent granular level data collection & reporting/analysis. While for goods, there is a Harmonized System (HS) code followed worldwide, no single standardised method exists for services classification. This ambiguity can impede the defining of a clear scope of service commitments by nations, including market access and national treatment, thereby harboring a risk of non-compliance and/or disputes. There are multiple standards of services classification, some popular ones being Services Sectoral Classification (SSC, based on Central Product Classification [CPC])[9], International Standard Industrial Classification (ISIC)[10] and regional systems[11].

Unlike the classification of goods under the Harmonised System owned by the World Customs Organisation, which has 21 sections, and 97 chapters are global level (i.e., 2-digit level) and cascades down to a 6-digit level for greater product specificity, the currently in-use systems for service classifications are less specific and not standardised to one system followed globally. For example, there are multiple systems mentioned above like SSC, ISIC, regional systems and within that, Services Sectoral Classification (SSC), based on UN Stats Division and CPC list, has 12 sectors and only 150 sub-sectors defined at the granular level. Most nations restrict themselves to the first level of classification, due to which the usefulness of existing international trade in services statistics for analysis, policy making is reduced, and it hinders the ability to link Balance of Payments (BoP) and National Accounts data at a national level.

Another important consideration in services trade is regulatory requirements. The measures affecting the international supply of goods – such as tariffs, quotas, or technical standards – are simpler and easier to address than the equivalent measures affecting the international supply of services – such as professional standards, licensing requirements, investment restrictions, or work visas – which are more complex and politically sensitive.

To address the increasing importance of services trade globally and the accompanying challenges, the B20 urges the G20 to:

- Encourage streamlining of services classification and improved data collection including establishment of global frameworks for servicification of manufacturing
- Enable conditions conducive to services trade by easing regulatory requirements and bringing in transparency in trade related policies
- Promote investments in services
- Accelerate the role of LDCs in international services trade by fostering enhanced capabilities and opening new opportunities.



Policy Action 3.1: Encourage streamlining of services classification and improved data collection including establishment of global frameworks for servicification of manufacturing

Address challenges in the application of current services classification system

Classification of a sector/sub-sector can have significant implications for member countries as it can determine the nature and scope of any given

9 Services Sectoral Classification List (SSC): Product based classification based on UN Stats Division and System of National Accounts (SNA), adopted in 1991 to support GATS negotiations. Based on CPC

10 International Standard Industrial Classification (ISIC) rev. 4: From UNSD (UN Stats Division) and System of National Accounts (SNA); Activity based classification.

11 Regional systems like Eurostat: Is also based on SNA and rev 2. Is aligned with ISIC rev. 4. Activity based classification

commitment which is undertaken and therefore any disputes that may arise.

Growing fragmentation of production processes and the rise of digitalisation require additional information that is not available within the current balance of payments framework. Technological advancements, increasing value add of services in global trade and the economic impact through services trade GVC integration calls for accurate measurement and classification for effective policy making. The CPC[12] code list (which is followed by most nations) is designed to be exhaustive and to facilitate trade negotiations on services, but it has been understood to omit multiple details[13] which create ambiguity. Ambiguity in the origin, end use, intrinsic materials, technology used, nature of service provider, etc., have been noted, as follows:

- Clubbing of multiple service sub-sectors under one head (for example, "other business services" currently clubs R&D, professional and management consulting, trade related services, operating leasing services, technical and other business services. Similarly, telecommunication, computer and information services are bracketed into one sector, which could result in uncertainty)
- Services with multiple end-uses pose challenges in drawing delineation line between sectors/sub-sectors, due to overlaps. For example, ambiguity whether "Data processing services" should fall under "Computer and Related services" or "Telecommunication services"
- Ambiguity around recognition of 'new' services in the existing categorization, given technological advancements are leading to new and complex services which may not fit in the existing classification set (for example, ICT related services such as cloud computing, social media, online games, etc).

A few changes in the services classification would enhance the analytical use of the information for organisations and nations by improving correspondence between Balance of Payments and CPC, streamlining commitments, and solving negotiation challenges to reach shared understandings during trade among nations.[14] The approach of disaggregation relates to breaking down the elements of a sector/sub-sector to result in lesser number of disputes and allow for more specific and targeted commitments.

The B20 encourages the G20 to adopt a minimum agreeable, common, and comprehensive methodology by aligning on selective changes[15] and disaggregation, as well as new additions in existing classification systems within all sectors/subsectors/ emerging sectors.

Encourage visibility through improved sources and collection of statistical data around services trade

The status of visibility of services trade globally is mixed. On one hand, there is a rising understanding of the significance of the trade in services, and there is a greater emphasis on gathering and disclosing data on this trade, which raises awareness of this crucial facet of the global economy. On the other hand, the quality of statistics on the trade in services can still be a problem, especially in developing nations where the mechanisms for gathering and reporting data may be unreliable.

Additionally, the fact that many economies only compile the first-level balance of payments[16]

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12 Central Product Classification (CPC) code was devised to separate 11 broad sectors, 150 subsectors with residual categories coming under "Others" in each sector. The combination of W/120 and CPC codes is used to define what is covered by the listed services.

13 IMF Committee on Balance of Payments Statistics: BPM6Update https://www.imf.org/en/Data/Statistics/BPM
- Current Account Task team- For public review: Trade in services classification Moderate restructuring in classification list suggested in the paper
 a. Supplementary breakdown of travel and construction and separate identification of both sectors
 b. Split of telecommunications, computer, and information services into two standard, first level categories- 1. Telecom; 2. Computer and Information Services
Disaggregate 'other business services into five first level, standard items namely: R&D services, professional & mgt consulting service, trade related service, operating lease service and others

14 IMF Committee on Balance of Payments Statistics: BPM6Update-Current Account Task team- For public review: Trade in services classification. Moderate restructuring as suggested in Note 17

15 IMF Committee on Balance of Payments Statistics: BPM6 Update-Current Account Task team- For public review: Trade in services classification: Selective restricting suggested in the paper

16 There are 12 sectors (first level) and 150 sub-sectors (second level) currently defined in the services classification. Most Nations record

service categories hinder the ability to link balance of payments and national accounts data at national level. This results in limiting the possibility of conducting cross-country, integrated analyses of the macroeconomic accounts at the adequate level of detail. The growing fragmentation of production processes and the rise of digitalization (leading to rise in cross-border commerce) requires additional information to perform detailed statistical analysis of data and further targeted decision making that is not available within the current balance of payments framework. Details regarding the parties involved in the transaction or how the transaction took place are also useful to perform such analysis.

Improving the sources and collection of statistical data around services trade can help encourage visibility by providing a more accurate picture of the global services trade landscape. A comprehensive and standardised framework can help ensure that all services trade data is collected and reported in a consistent manner. High quality data can enhance visibility, transparency, competitiveness, and openness in the market, leading to better informed decisions. In practice, many countries are unable to compile the full Balance of Payments classification and produce data only till the first-level breakdown (12 main standard service categories), which limits the usefulness of existing international trade in services statistics for analysis, policymaking, and identification of opportunities in partner markets, which could further aid the growth and development of services trade globally.

A few moderate changes in the classification of services have already been suggested in the above-mentioned policy action. The innate idea is to ensure that once this classification and sub-classification is improved, all G20 nations should adopt the improved classification to ensure consistency, transparency, and comparability of the data.

B20 calls upon the G20 to encourage all nations to align on a consistent and detailed sub-sector level recording and reporting of services trade data to enhance visibility, analysis and decision making on services trade globally.

services only at the first level

Establish framework to disaggregate embedded services within manufactured goods ('Mode 5 services)

Measuring the role of services in global value chains is increasingly complex as manufacturing and services, become intertwined components of the final goods. The services embedded within manufactured goods are proposed to be known as "Mode 5 services". They can be simply defined as the services content embodied in goods exports. Typical "Mode 5 services" include, among others, design, engineering, and software that are incorporated and traded as part of manufactured products.

As an example, to produce a car, there is a need for engineering, consulting, and design services as well as electricity and logistics services to operate the car factory and to purchase necessary inputs. The same consulting services in a standalone context or embedded in a different product would attract differential treatment.

The OECD Trade in Value Added (TiVA) database (2018) shows that services represent more than 50% of the value added in gross exports at a global level, and over 30% of the value added in exports of manufacturing goods.

Although services can contribute significant value to manufactured goods, it is challenging to quantify their impact due to their inseparable and intangible character. In a knowledge-based economy, the contribution of services is complex and growing in significance. Measuring the value of output in various fields has become more challenging as the digital economy has expanded.

Current trade rules, instead of facilitating services trade along global supply chains, may stifle them. A good example that illustrates the inconsistencies of current trade rules when it comes to "Mode 5" services trade is that the same service (e.g., software) can be traded internationally under GATS (e.g., under Mode 1) but in case of manufactured product trade, the software is embedded in that product. There is a need to recognise these services and disaggregate the same to bring consistency and transparency in services trade and to understand the true contribution of services to global trade.

B20 proposes to the G20 to formulate and align a minimum agreeable and consistent framework for recognition and disaggregation of services within manufactured goods and promote alignment on regional trade agreements among trusted partners.

Policy Action 3.2: Enable conditions conducive to services trade by easing regulatory requirements and bringing in transparency in trade related policies

Improve services trade by easing regulatory frameworks

Enabling services trade by improving regulatory frameworks is an important way to promote economic growth, increase competition, and provide consumers with more choices. However, it is a complex and challenging task that requires cooperation and coordination among different stakeholders at the national and international levels.

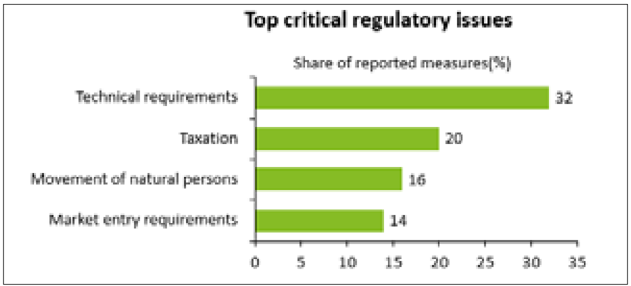


Figure 22: Top critical regulatory issues cited by ICT and Logistics companies
(Source: ITC, 2022: https://intracen.org/file/itcsmeco-2022pdf)

Gaps in trade rules and the global trade regime can create uncertainty and result in increased oversight and contractual cost. Further, trade costs[17] have been observed to be higher in services than in manufacturing. Overall, governance quality, trade policy and regulatory differences can account for more than a quarter of bilateral trade costs in services[18].

Top critical challenges often cited are related to technical requirements (32%); taxation (20%); movement of natural persons (16%); and quality control measures such as licenses, qualifications and registrations related to market entry (14%)[19] (Figure 22).

Overcoming these challenges would require sustained efforts and cooperation among different stakeholders, including governments, businesses, civil society, and international organisations. Regulations have often lagged technological advancements and need to keep pace.

Improving regulatory frameworks can help to promote a more open and competitive environment for services trade. B20 calls upon the G20 to create an enabling and conducive regulatory environment to improve ease of services trade. G20 nations should seek to promote cooperation among stakeholders at the regional, national as well as international levels to promote inclusive benefits to all stakeholders involved.

Foster better trends in global services trade by encouraging cross-border flow of transactional data

Cross-border data flows can play a key role in improving global services trade. However, ensuring that data flows are conducted in a secure and orderly manner requires clear understanding amongst trading partners. Developing data protection and privacy standards can help build trust and facilitate cross-border data flows. This would require clearly defined responsibilities and effective coordination across many different entities, including privacy, data, technology, business units, and regulatory affairs.

Most countries have data and privacy protection laws, with Europe leading with maximum percentage of legislations defined and in action, as compared

17 The trade costs in services include trade policy related, costs imposed by regulatory frameworks, transport & travel costs and information and transaction costs.

18 Source: WTO Estimates, 2019

19 According to the ITC NTM Business Survey, 2019 (non-tariff measures (NTM))- https://ntmsurvey.intracen.org/home

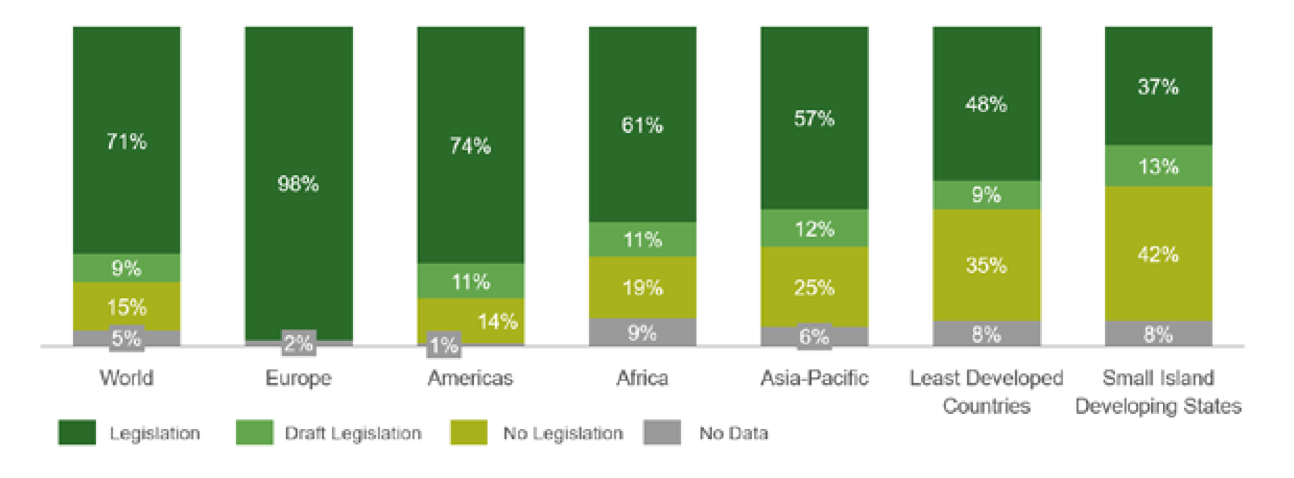


Figure 23. Most countries have data and privacy protection laws
(Source: UNCTAD Global Cyberlaw Tracker, 2022, https://unctad.org/topic/ecommerce-and-digital-economy/ecommerce-law-reform/global-cyberlaw-tracker)

to a lower number in LDCs. Although the number of e-transaction and data privacy laws have been increasing over the years, there remains significant scope of work to be done in this area. Promoting interoperability can help ensure that data can be exchanged and used across different systems and platforms. This can help facilitate cross-border data flows and improve the efficiency of global services trade.

The effective use of transactional data can augment the growth of various service sector organisations. To increase data sharing among countries, there is a need to streamline the data protection laws to avoid uncertainty, promote data privacy standards to boost confidence and forming regional/bilateral/multilateral agreements to share data while preserving privacy.

B20 calls upon the G20 to align on clearly articulated rules and frameworks to enhance cross border data flows, while respecting national security, privacy and protection of data.

Ensure transparency in services trade by fostering awareness of compliance information and procedures (digitally)

Compliance requirements are critical as they enable trade by sharing important information related to safety, consumers, environmental preservation etc., but at the same time, they can present a set of challenges.

Having the right compliance information at the right time and place is important for suppliers of services trade to be more efficient in their operations. Using digital modes of disseminating information about compliance requirements in real time can be highly effective, efficient and improves transparency. While respecting the differential starting points of each G20 nation, compliance processes through digital channels should be encouraged to ensure transparency and ease of complying with such requirements. Creation of digital platforms for procedures, capacity building by training participants of international trade on adherence to rules and standards, and routine updates on digital channels would help ensure a smooth transition to digital and efficient processes.

A few key areas of importance for services trade in this space include single-point business registration across government agencies, digitising government compliance and procurement processes, e-Tenders, e-billing, e-tax, and other compliance procedures. Integrating digital technologies to all back-end operations would drive ease of doing business.

B20 recommends that G20 governments promote the leveraging of digital systems to their full potential for growth, efficiency, sustainability, traceability, and transparency to ease trade process compliance requirements in services.

Policy Action 3.3: Promote investments in services

Facilitate investments to scale services trade across all modes

Services trade has witnessed more FDI restrictions than goods trade. While some FDI restrictions tend to be quite direct, such as limitation of foreign ownership in certain sectors, others can take softer forms. Regulatory restrictions like obligatory screening and approval procedures can limit FDI. This similarly holds true for restrictive measures such as a constraint on foreign nationals either to manage companies or invest in specific sectors.

Recognising the importance of investments to foster services trade, the B20 calls on the G20 to swiftly recognise these constraints, and further promote investments in trade in services across all modes through the following measures:

- **Investment in technology and nurturing of startup ecosystem**: Facilitating and promoting investments in digital infrastructure and e-commerce platforms can facilitate seamless cross-border service trade across nations, and further boost Mode 1 and "Mode 5" services. Similarly, nurturing an innovative start-up ecosystem is key to developing advanced services capabilities. Innovations by start-ups in sectors such as Agri-Tech, Fin-Tech, and Health-Tech utilising digital modes of delivery are increasing efficiency, reducing costs, and have transformative potential to boost trade
- **Simplification of regulatory provisions:** Improving regulatory processes and simplifying investment policies would benefit nations to foster investments in services sector and enable cross-border trade. For example, making visa procedures easier, lowering access obstacles, stabilising regulatory environment, and enhancing transparency would help scaling of Mode 2 and 3 services
- **Investment in human capital:** Increased spending on skilling and training will result in creating a qualified workforce capable of providing high-end services and would enable Mode 4 services
- **Promotion of international cooperation:** Promoting better market access for firms by facilitating international collaboration and coordination to minimise trade restrictions with trading partners would help scale Mode 2 and Mode 3 services
- **Support development of Micro, Small and Medium Enterprises (MSMEs)**: MSMEs can gain from targeted assistance and funding for participating in the global services market. This will help increase the overall size of services sector especially in the LDCs, and particularly " Mode 5" services through integration in GVCs.

The B20 urges the G20 to further ease the regulatory environment in FDI in services trade and promote overall investment flow in services trade across all modes of supply.

Policy Action 3.4: Accelerate the role of LDCs in GVCs by fostering enhanced capabilities and opening new opportunities

Provide active mentorship, support and partnership to LDCs to create upskilling infrastructure, and create opportunities for inclusive participation in global services value chain

Developing economies (excluding LDCs) have gained a significant share in global trade, reaching USD 4.5 trillion in global services exports. By contrast, in the same period, LDCs' share in global services exports accounted for only 0.3 % or USD 38.3 billion[20], despite contributing ~12% of world population[21].

However, within LDCs, the salience of services

20 UNCTAD, World Trade Report, 2019; 2019 numbers. 2020-2021 numbers will be skewed because of pandemic (https://unctad.org/publication/trade-and-development-report-2019)

21 UNCTAD, World Trade Report, 2019 (https://unctad.org/publication/trade-and-development-report-2019)

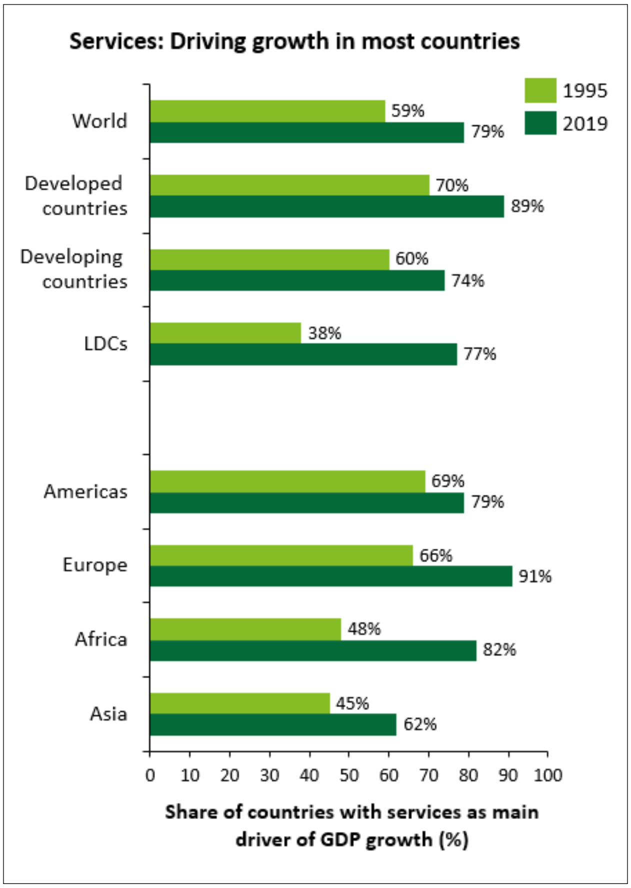


Figure 24: Services are driving significant share of growth in LDCs

(Source: UNCTAD, World Trade Report, 2019, https://unctad.org/publication/trade-and-development-report-2019; ITC, 2022)

has grown multifold, in both direct and connected services. Significantly, they also stimulate economic activity by supplying services to other sectors, creating forward linkages, thus an important imperative for GVCs.

The services sector was the main driver of higher GDP in more than three-quarters of countries in 2019. The share of LDCs in which the services sector was the main engine of economic growth more than doubled from 38% in 1995 to 77% in 2019.

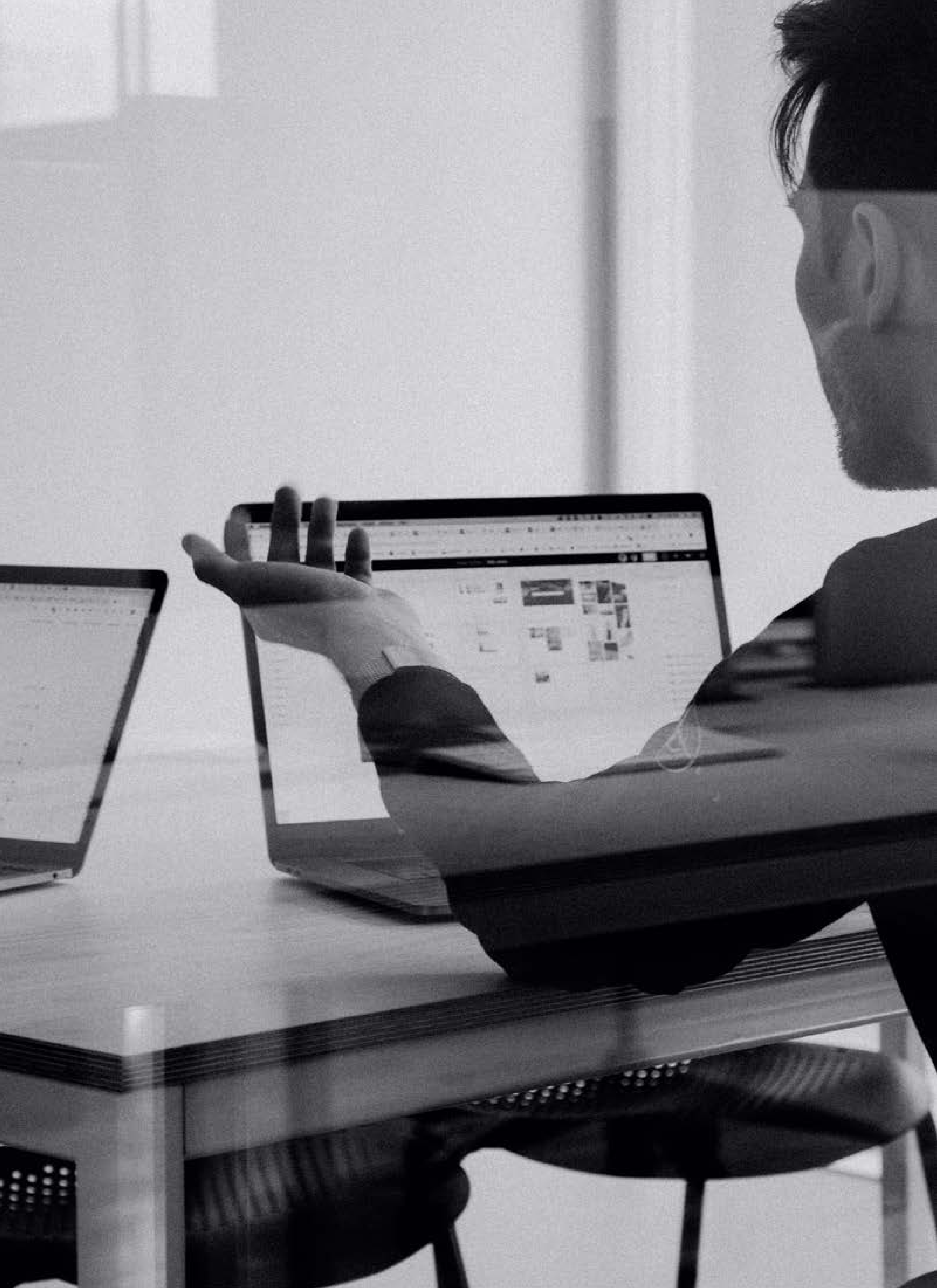
Between 2005 and 2018, the value added to total exports by connected services grew faster than value added by manufacturing. In LDCs, export growth of connected services outpaced that of other services between 2007 and 2019 and was faster than in the rest of the world.

- The Bhutanese economy has moved from agriculture toward services. Agriculture decreased from 28% of GDP in value-added terms in 1995 to 16% in 2019. Services made up 43% of GDP in 2019, up from 34% in 1995.
- In Zambia, there has been a similar transformation. In 1990, agriculture and services made up 38% and 22% of GDP, respectively. In 2019, agriculture's contribution to GDP fell to 23%, and services rose to 52%.

However, economic vulnerability of LDCs, especially small Island LDCs, remains higher than even the developing countries. While infrastructure development for LDCs remains the primary challenge, there are several others such as low access to trade financing facilities and skill gaps in knowledge intensive sectors.

The developed and developing nations can help accelerate the growth journey of LDCs in services trade not only by promoting investment in human capital and accelerating infrastructure development by way of aid and multilateral funding programs, but also by opening of new opportunities in services trade through trading partnerships. This can enable LDCs to embark upon a strategic journey to strengthen their position in the global market and become future-ready destinations for services exports.

Considering the yet untapped potential of LDCs, the B20 urges the G20 to promote the direct participation of LDCs in services GVC by providing active mentorship, support, and partnership in accelerating infrastructure development, assisting in upskilling and creating opportunities for inclusive participation.



Recommendation 4
Fostering inclusive trade for LDCs, MSMEs, women and youth

Policy Actions

Policy Action 4.1 Develop inclusive ecosystems by identifying transformative opportunities for enhanced participation of LDCs, MSMEs, women and youth in global trade

Policy Action 4.2 Enable infrastructure development & trade financing for enhanced GVC participation of LDCs, MSMEs, women and youth

SDG Goals Impacted

Recommendation 4 enables UN SDGs: **8. Decent work and economic growth, 9. Industry, innovation and infrastructure, 10. Reduced inequalities and 17. Partnerships for the goals**

Leading Monitoring KPIs

Monitoring KPI	Baseline	Target	Sources
Percentage LDC share in global exports (goods and commercial services)	0.93% (2021)	1.5% (2026)	UNCTAD
USD trillion of Trade Finance Gap (Demand-Supply)	USD 1.7 trillion (2020)	USD 1 trillion (2026)	Asian Development Bank
Formal MSMEs in developing countries with unmet financing needs[1]	41% (2018) 131 million formal MSMEs	20% (2026)	International Finance Corporation (World Bank)

1 Updated every four years

CONTEXT

Inclusivity in the digital age

Trade is a powerful engine for boosting economic growth of a country and therefore reducing poverty. Countries and individuals have historically benefited from integration into the global economy through export growth and diversification[1].

The digital revolution in trade, particularly e-commerce, brings disruptive opportunities for enhanced inclusivity through increasing financial inclusion and market opportunities for LDCs, and boosting services sectors, where many women are employed. Digital trade and tools are enabling the youth through new economic opportunities, knowledge and skills, and are helping small businesses compete with larger establishments by linking to suppliers or customers. They are also helping to bring more workers from the informal economy into the economic mainstream.

However, unless harnessed effectively, the digital revolution risks exacerbating inequality. We are already witnessing rise of inequality in some countries, driven by disparities in access to the skills and infrastructure required to use digital technologies. Developing countries that lack the tools to compete in the new digital environment are in danger of being left even further behind. Small and medium sized enterprises (SMEs) have less access to digital technologies than do large firms, and women have less access to digital technologies than do men[2]. Adoption of Industry 4.0 technologies (IoT, DLT, Robotics, 3D printing and AI) poses skills and infrastructure challenges for the underdeveloped.

The inclusivity agenda is at an inflection point today - the economic slowdown, rising inflation, threat of pandemics and risks emerging from geopolitical conflicts – if left unaddressed, can trigger millions being pushed to extreme poverty. Thus, it is critical to bridge the economic divide faced by marginalised segments such as LDCs, MSMEs and women though the creation of opportunities, institutions, platforms, skill-building, and regulation.

LDCs continue to remain under-represented in global trade, critical to provide support

The UN recognises 46 developing economies as Least Developed Countries (LDCs), based on their socioeconomic development status[3]. These economies unfortunately remain on the fringes of global trade, contributing ~0.9% to global exports[4] despite comprising ~12% of global population, and have remained at stagnant levels (since 2011). Imports stood at ~1.4% of global exports in 2021, thus contributing to a negative current account deficit for the LDCs as a collective (~6.8% of GDP). In 2018, LDCs accounted for only 0.9% of global air freight[5], with the share of LDC container port traffic at a further lower 0.01%. In terms of global GDP too, LDCs' share currently stands at a low of ~1.3%. In the Istanbul Program of Action in 2010, the world came together and pledged to boost LDC contribution to global exports to 2% by 2020 – however this has remained elusive, with fewer than a quarter of all LDCs meeting their targets. LDCs' share of world goods exports has remained at ~1% since 2000 while their share in world commercial services exports stood at ~0.5% in 2021, lower than their overall export share.

As many as 38 out of 46 LDCs remain commodity-dependent, relying on primary commodities for over 60% of their exports, rendering them vulnerable to trade shocks. Apart from commodities, textile and clothing remains an important export category, driving export growth in Asian LDCs like Bangladesh, Cambodia, Lao PDR, Myanmar, and Nepal.

Similarly, within services exports, exports were mostly driven by transport (37%), followed by other commercial services (ranging from computer services

1 Trade overview, World Bank, 2022 (https://www.worldbank.org/en/topic/trade/overview)

2 WTO and World Bank, 2020: https://blogs.worldbank.org/digital-development/digital-age-being-gender-blind-not-option

3 The UN utilises three criteria to identify LDCs: (a) Gross national income (GNI) per capita; (b) Human assets index (HAI); and © Economic vulnerability index (EVI)

4 UNCTAD Data 2022 (https://unctadstat.unctad.org/)

5 Of which Ethiopia as an air-connectivity hub contributes ~30%

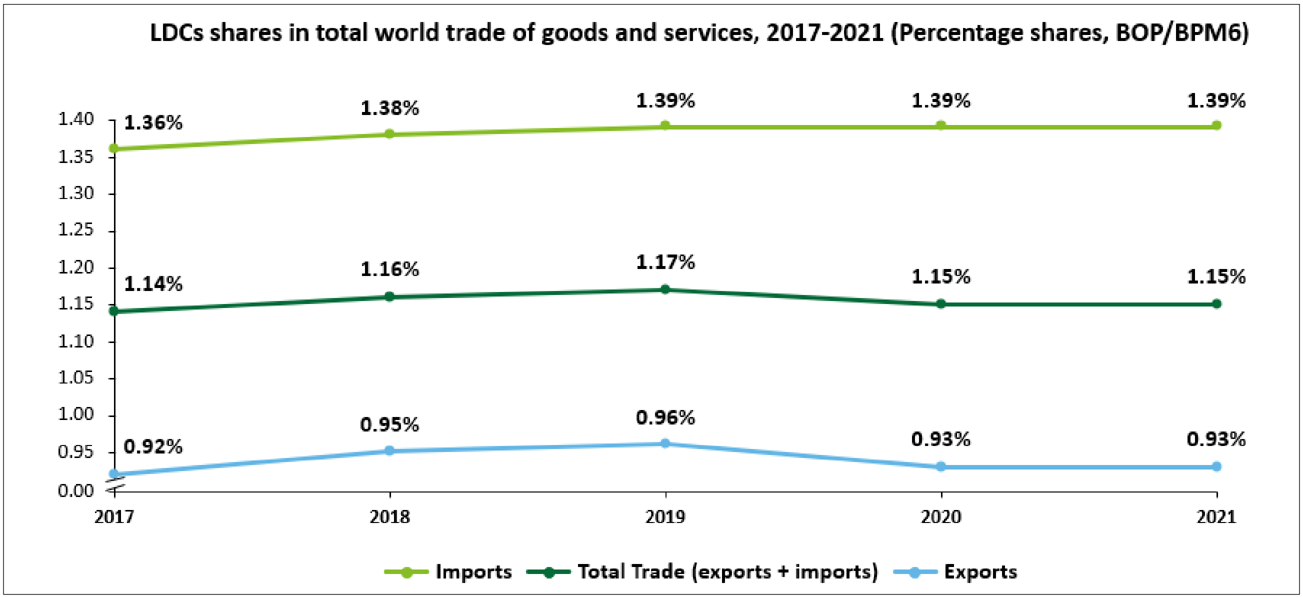


Figure 25: LDCs' shares in total world trade of goods and commercial services
(Source: WTO & UNCTAD estimates)

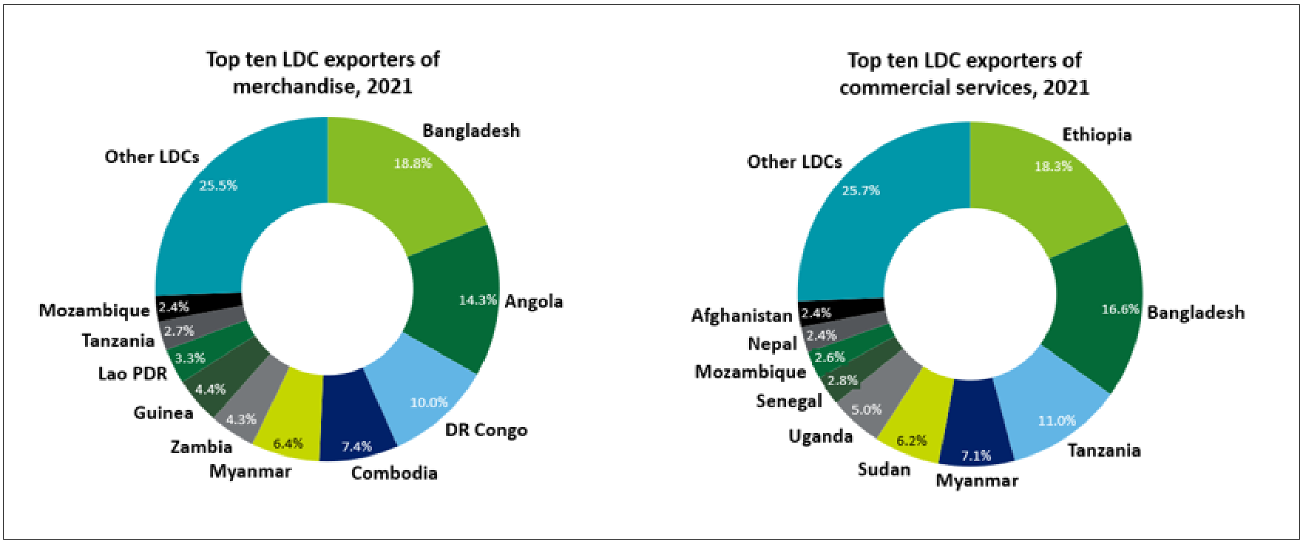


Figure 26: Top ten LDC exporters of merchandise and services, 2021
(Source: Trends in LDC Trade, 2021, https://www.wto.org/english/tratop_e/devel_e/trendsinldcstrade_e.htm#:~:text=In%202021%2C%20LDC%20services%20exports,down%20from%200.53%25%20in%202020)

to construction, 29.4%), and travel (26.8%)[6].

To increase their engagement in international trade, LDCs need to boost their productive capabilities, which comes at a significant cost. The average annual investment required to double the share of manufacturing in GDP of LDCs (SDG 9.2) is estimated at USD 1,051 billion[73]. This is more than triple the current investment in LDCs and vastly exceeds LDCs' available resources[7]. Thus, the international community has an essential role to play in supporting LDCs in their efforts to mobilise adequate resources

6 WTO, Trends in LDC trade, 2022, https://www.wto.org/english/tratop_e/devel_e/trendsinldcstrade_e.htm

7 UNCTAD, The least developed countries in the post-COVID world: Learning from 50 years of experience, 2021, https://unctad.org/publication/least-developed-countries-report-2021

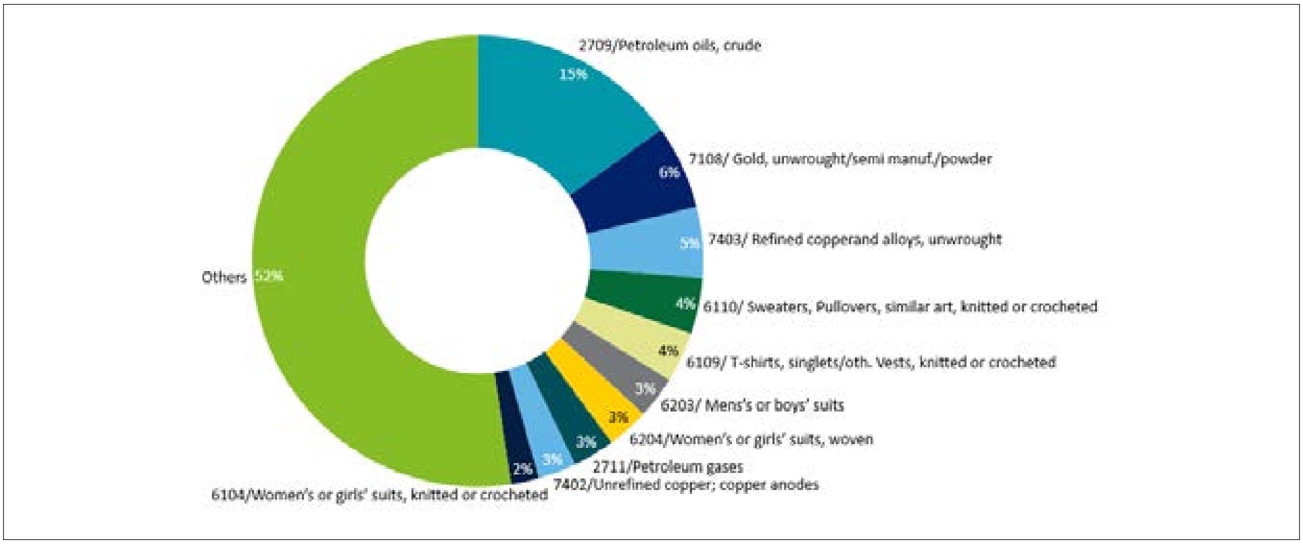


Figure 27: Top ten products of LDC merchandise exports, 2021 (Source: Trends in LDCs trade, 2021)

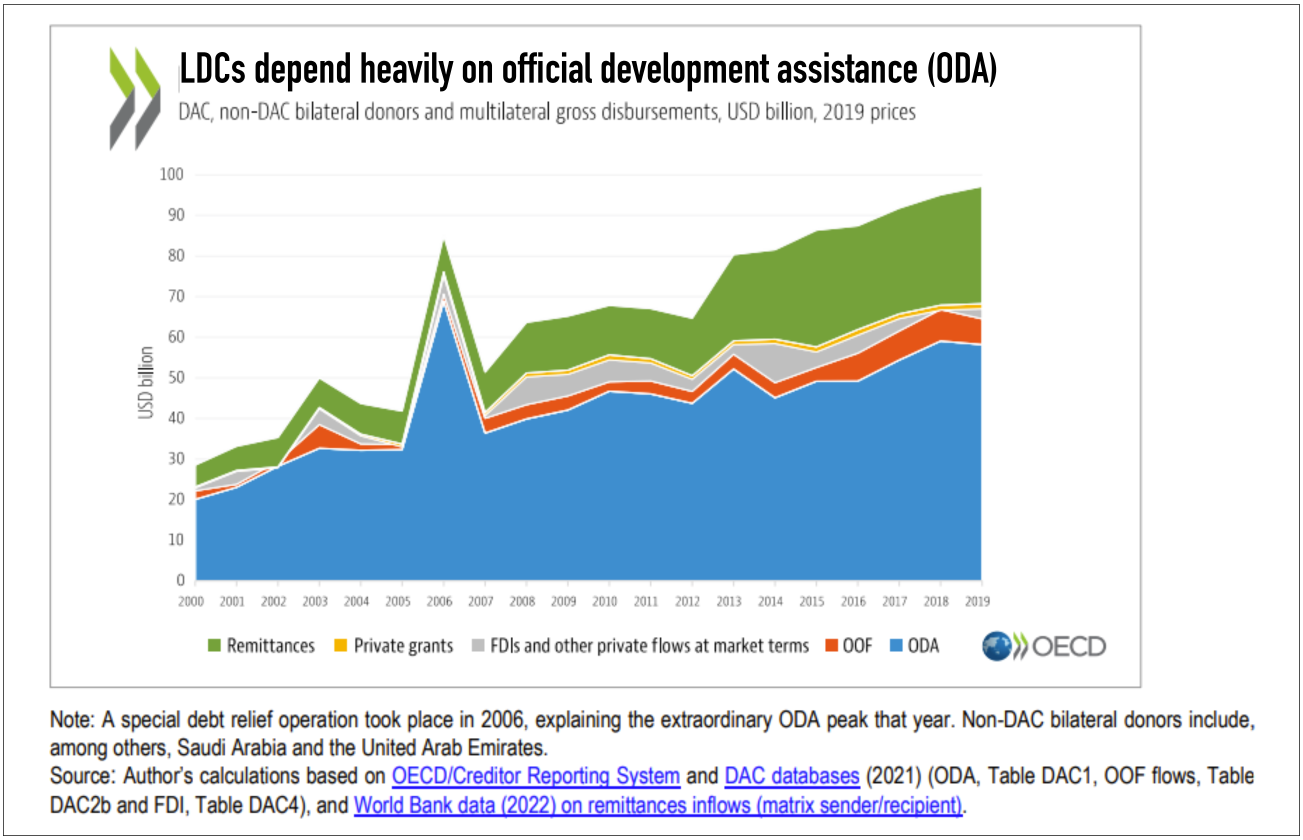


Figure 28: External financing to LDCs

for their development needs.

LDCs depend heavily on external financing and, ODAs (Official Development Assistance)[8] account for a major share of financing (61% contribution of net funding as of 2019). Only 18-20% of overall global ODA currently goes to LDCs. However, the ODA directed to LDCs has fallen short of the target of 0.15% set by

8 Government aid offered by the Development Assistance Committee that promotes and targets the economic development and welfare of developing countries

IPoA, standing at ~0.1% from 2012-19.

In 2021, 3 Development Assistance Committee (DAC) countries contributed nearly 60% to the total ODA (of USD 31.7 billion) to LDCs[9]. ODA disbursements to LDCs were also concentrated in specific LDCs with Afghanistan, Ethiopia, Bangladesh being the top three recipients. African nations received relatively less funding.

Similarly, between 2011 and 2019, the WTO-led Aid for Trade[10] initiative also fluctuated. The LDC share of total Aid for Trade commitments contracted from 36% in 2018 to 31% in 2019. Aid for Trade to LDCs also remains concentrated in terms of recipients and development partners. The top five recipients – Bangladesh, Afghanistan, Ethiopia, Tanzania, and Mozambique – account for over 45% of total Aid for Trade disbursements to LDCs. The top five development partners provide nearly two-thirds of Aid for Trade to LDCs[11].

MSMEs offer significant untapped potential for GVCs, but face obstacles limiting trade participation

Micro, Small, and Medium Enterprises (MSMEs) – defined as firms employing less than 250 individuals[12] – represent about 95% of all companies globally and 60% of total global employment (WTO, 2020). However, MSMEs have historically had much lower rates of participation in international trade than large firms.

In developed countries, MSMEs represent ~74% of exporters and ~90% of all firms but represent only ~34% of exports on an average. Meanwhile, MSMEs in developing countries exhibit even lower participation in exports. MSMEs in developing countries often have to overcome deficits in trade infrastructure – while large businesses have the financial means to bridge this deficit, small businesses lack the resources to overcome infrastructural deficits on their own. When MSMEs do engage in trade, they are impacted by obstacles such as access to information, border procedures, and lack of financing[13]. They often do not have the resources or the ability to absorb the risks associated with the export market. Collaborative and inclusive business models can also create competitive advantages for marginalised groups. Consider the example of co-operative societies (or co-operatives) which provide jobs to 10% of the employed population; the world's 300 largest co-operative enterprises represent collective revenues of over USD 2.2 trillion[14]. Not only do these organisations contribute substantially to trade; they can also drive inclusion and make global trade accessible for marginalised groups. The people-centric business model adopted by co-operatives can increase access to capital and market power, enhance growth and development at the grassroot level, enabling higher participation in trade and representation in decision-making bodies. The versatility of the model permits shared innovation and resilience through rapid response to crises.

Access to information, compliance with standards, costly border procedures, and other non-tariff barriers pose significant fixed costs to MSMEs. The International Trade Centre (ITC) finds that increases in regulatory burdens hit the revenues of MSMEs twice as hard as larger firms. A 10% increase in the frequency of regulatory trade obstacles encountered decreases the export value of large firms by 1.6% and of MSMEs by 3.2%.

Similarly, trade finance is not easily accessible for MSMEs, despite nearly 80-90% of world trade relying on trade finance. Over half of the trade finance requests by MSMEs are rejected, compared to just 7% rejections for multinational companies[15]. The

9 OECD Data base, https://data.oecd.org/oda/

10 Aid for Trade is a WTO-led initiative that started in 2005 at the Hong Kong Ministerial meeting, it intends to help developing countries connect the trade priorities of developing countries with trade capacity building assistance

11 WTO, Boosting trade opportunities for least-developed countries, 2021, https://www.wto.org/english/res_e/booksp_e/boosting_trade_opportunities_for_ldcs_e.pdf

12 WTO, firms with up to 10 employees are referred to as micro-enterprises

13 WTO, Micro, small and medium-enterprises – MC11 in brief, https://www.wto.org/english/thewto_e/minist_e/mc11_e/briefing_notes_e/bfmsmes_e.htm

14 International Co-operative Alliance (ICA), WTO

15 WTO, Trade finance and SMEs: Bridging the gaps in provision, 2016 (https://www.wto.org/english/res_e/publications_e/tradefinsme_e.htm#:~:text=This%20publication%20provides%20a%20set,parties%20involved%20in%20trade%20finance.)

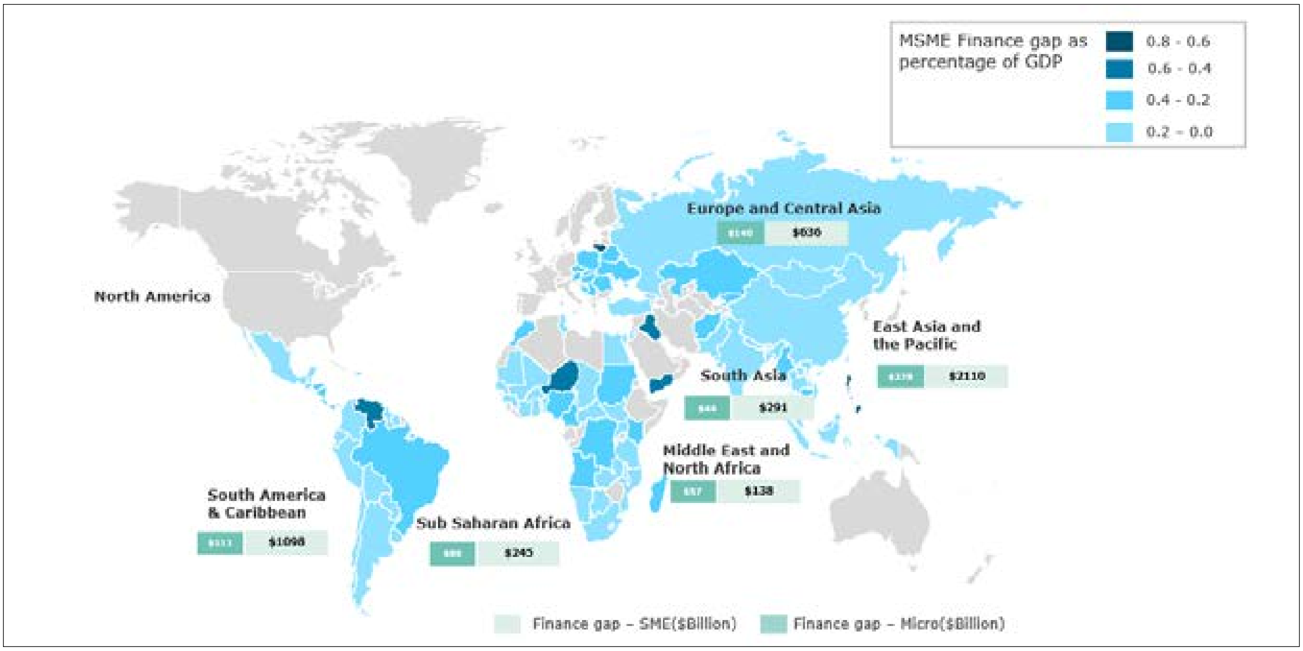


Figure 29: Formal MSME Finance Gap in Developing Countries
(Source: World Bank, SMEs Finance, n.d., https://www.worldbank.org/en/topic/smefinance)

International Finance Corporation[16] estimates that 131 million firms (or 40% of formal MSMEs) in developing countries have an unmet financing need of USD 5.2 trillion every year which is equivalent to 1.4 times the current level of global MSME lending[17].

The financing gap also varies across countries – SMEs in East Asia and Pacific [18]account for nearly 46% of the total global finance gap[19]. In terms of demand, SMEs in Latin America, the Caribbean, the Middle East, and North Africa have the highest proportion of the finance gap and are unable to meet 87-88% of their financing needs.

This gap is worse for LDCs: the estimated value of unmet demand for trade finance in Africa is USD 120 billion (one-third of the continent's trade finance market), and USD 700 billion in Asia. Bridging these gaps can unlock the trading potential of many individuals and businesses around the world.

Trade can empower women; however, women are unable to benefit from trade due to barriers limiting their participation.

Current trends in global trade, such as the rise in services, GVCs, and the digital economy, are creating important economic opportunities for women. Increased participation in trade can dramatically improve women's lives by enabling economic empowerment and higher wages[20]. Export-oriented sectors tend to have high levels of female employment. In developing countries, women make up ~33% of the workforce of exporting firms, compared to just 24% of the workforce of non-exporting firms[21]. For example, in Cambodia, ~85% of the workers in the export-oriented garment sector are women[22]; and they enjoy a wage premium compared to women in other sectors.

Women employed in sectors with high levels of

16 IFC, the private-sector financing arm of the World Bank

17 World Bank, SMEs Finance, n.d., https://www.worldbank.org/en/topic/smefinance

18 As defined by the World Bank:

19 Followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%)

20 World Bank, 2020

21 WTO and World Bank, Women and Trade: The Role of Trade in Promoting Gender Equality, 2020 (https://www.worldbank.org/en/topic/trade/publication/women-and-trade-the-role-of-trade-in-promoting-womens-equality)

22 UNESCO, UNESCO Promotes Women's Leadership in Cambodia's Garment Sector, 2022, https://en.unesco.org/news/unesco-promotes-womens-leadership-cambodias-garment-sector

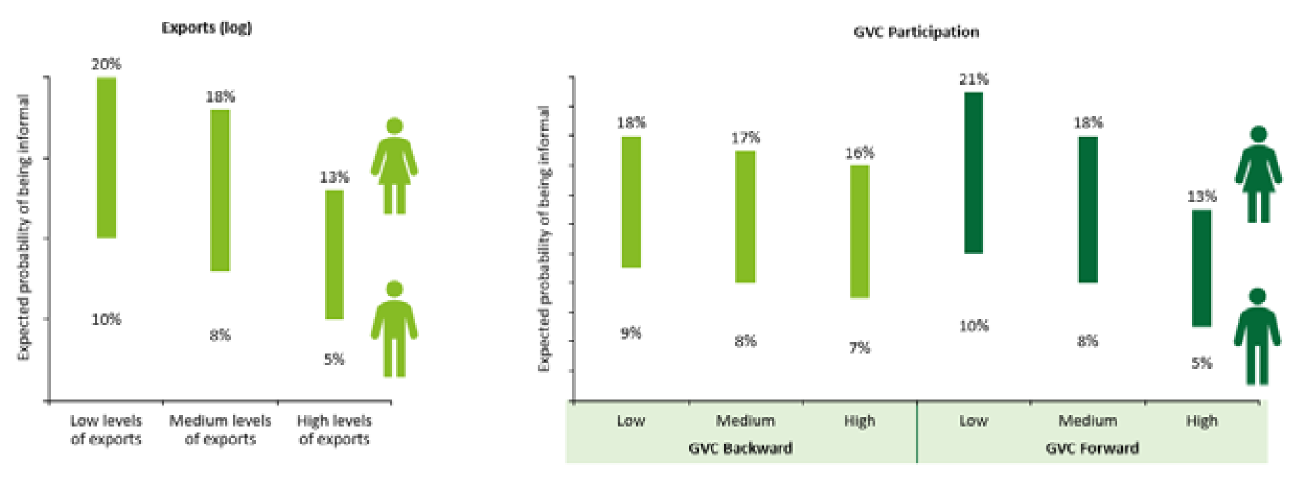


Figure 30: Women are less likely to be in informal jobs if they work in trade-integrated sectors
(Source: UNESCO, UNESCO Promotes Women's Leadership in Cambodia's Garment Sector, 2022, https://en.unesco.org/news/unesco-promotes-womens-leadership-cambodias-garment-sector)

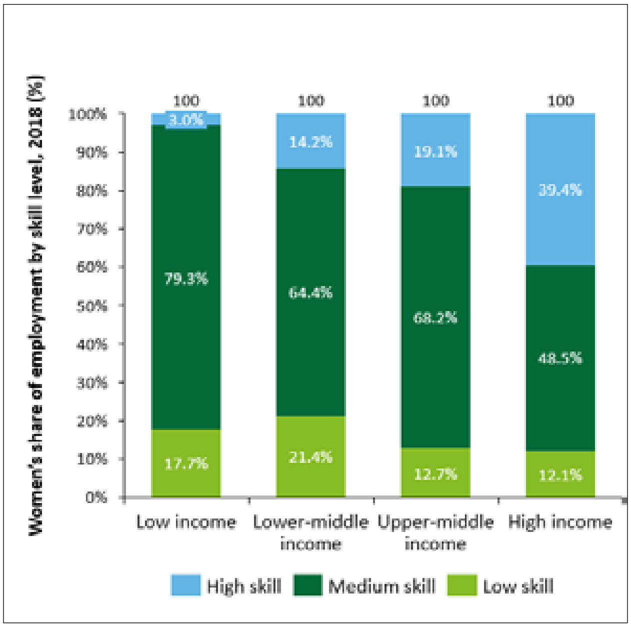


Figure 31: Women's share of employment by skill level
(Source: https://www.wto.org/english/res_e/booksp_e/women_trade_pub2807_e.pdf)

exports are also more likely to be employed in formal jobs, thus providing better benefits, training, and security.

However, in the absence of policies, women's participation in trade can be concentrated in low-skilled jobs. Low-income countries tend to have fewer women in high-skilled jobs; women comprise only 3% of all highly skilled workers in such countries[23].

23 Defined as managers, professionals, technicians, and so on: https://www.wto.org/english/res_e/booksp_e/women_trade_pub2807_e.pdf

Moreover, women are often not the direct beneficiaries of trade and engage as workers more often than as owners. The International Trade Centre[24] finds that far fewer women-owned businesses are engaged in international trade than men-owned businesses. Only ~20% of the exporting companies are woman-led.[25] Over 50% of women-owned businesses are concentrated in sectors with high-barriers to cross-border trade in both goods and services[26]. This represents a significant loss in terms of productivity – women-owned businesses that export are 3.5 times more productive than women-owned businesses that do not export, and 1.2 times more productive than male-owned businesses that export.

Globally, youth unemployment and under-employment are on the rise

The UN and the WTO define "youth" as those between ages 15 and 24. There are 1.2 billion youth aged 15-24 around the world, accounting for 16% of the global population[27]. As of 2021, 17.9% youth were unemployed globally. Meanwhile, the share

24 A multilateral agency which has a joint mandate with the WTO and the UN through the UNCTAD

25 International Trade Centre Business Survey 2022- https://ntmsurvey.intracen.org/home

26 WTO, 2020

27 (UN, 2021)

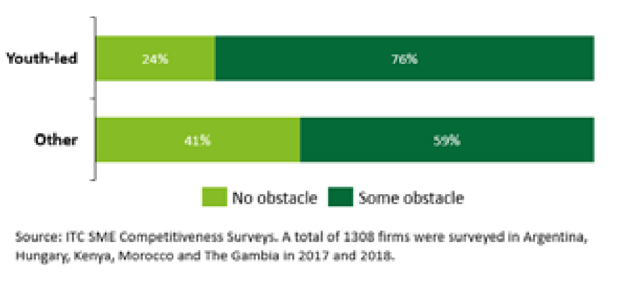


Figure 32: Access to finance is a major obstacle for youth-led firms
(Source: ITC, SME Competitiveness Surveys)

of youth not in employment, education, or training (NEET) reached 23.3% in 2020[28], an increase of 1.5 percentage points from the previous years. The share of unemployed youth (not in education, employment, or training) in 2021 also varied across countries, with a higher share contributed by the global south[25].

Moreover, young women are less likely to be employed than young men, exhibiting a lower employment-to-population ratio than young men. In 2022, 27.4% of young women globally were projected to be in employment, compared to 40.3% of young men – a difference of 12.9 percentage points. This gap is wider in lower-middle-income countries at 17.3 percentage points (ILO, 2022).

The upward trend in youth unemployment indicates that nearly 600 million jobs will be needed by 2028 to absorb the current number of unemployed youths. The magnitude and importance of this challenge have been introduced in the UN's 2030 Agenda for Sustainable Development, which calls on the international community to substantially reduce the proportion not in employment, education, or training.

In developing countries, youth often engage in entrepreneurship. Nearly 40% of the youth in Senegal is engaged in entrepreneurship (WTO). This has multiple positive externalities: young entrepreneurs tend to be more export-oriented[29] and hire more young workers. However, youth-owned firms face obstacles that limit their participation in trade: access to trade finance is a significant challenge for youth-owned firms in developing countries.

In addition to unemployment, underemployment is also an issue plaguing youth: many young people are engaged in low-paying, precarious, or informal work. The challenges of securing and retaining decent work are even more serious and complex for vulnerable and marginalised youth, including young women, youth with disabilities, and migrant youth.

Research underscores the risks posed by large numbers of unemployed and underemployed young people. Young people can be a positive force for development and can contribute to a productive economy when provided with the knowledge and opportunities they need to thrive (UN).

The inclusion of LDCs, MSMEs, women, and youth in trade can benefit GVCs by reducing cost in the long-term, bringing in efficiency, and opening new possibilities. To increase the participation of these groups in trade, the B20 calls for the G20 to:

1. Develop inclusive ecosystems by identifying transformative opportunities for enhanced participation of LDCs, MSMEs, women and youth in global trade
2. Enable infrastructure development and trade financing for enhanced GVC participation of LDCs, MSMEs, women and youth.

Policy Action 4.1: Develop inclusive ecosystems by identifying transformative opportunities for enhanced participation of LDCs, MSMEs, women and youth in global trade

Create transformational opportunities for augmented GVC participation through mentoring, investment and strategic partnerships - with LDCs by G20 countries and with smaller businesses and value chain partners from marginalised groups by MNCs

Developing countries and LDCs can benefit greatly through higher participation in trade. However, this requires strengthening of their capabilities and productive capacities. While LDCs prioritise economic transformation and diversification in their policies,

28 NEET 2022 - The latest year for which a global estimate is available
29 Schott et al., 2015

they have critically lacked the means necessary to progress towards their objectives.

A supportive international framework can facilitate smoother trade uptake in LDCs. For instance, the Generalised System of Preferences (GSP)[30] and other preferential agreements help developing countries – particularly LDCs – increase their participation in trade. Similarly, some global multi-donor programs exclusively help LDCs use trade as a vehicle for poverty reduction and growth. For example, the Enhanced Integrated Framework[31] is a multilateral partnership dedicated to identifying key trade-related assistance required in LDCs[32] and providing funding from donor countries[33].

Global shocks disproportionately impact LDCs; these countries can benefit from investments in infrastructure, processes, and other capacity enhancements that can further their participation in trade. The B20 calls upon G20 nations to develop and implement assistance as well as investment programs through international cooperation to enable LDCs to meet currently agreed-on trade targets, such as the targets specified by the Istanbul Program of Action. To enable this, continued periodic review of international agreements with targets for developed countries on investments as well as financial assistance & technology transfer to LDCs remain critical, to increase LDC contribution in global trade.

Despite the increasing reliance of LDCs on international assistance, external financing to LDCs is fluctuating. It is critical for G20 nations that are members of the Development Assistance Committee (DAC)[34] to meet the targets specified in the IPoA. Similarly, following through on Aid for Trade Commitments to LDCs and ensuring that aid is disbursed equitably across LDCs remains vital.

MSME participation in global trade can also be enhanced through business partnerships with large corporations that regularly engage in cross-border trade. The B20 urges G20 nations to promote such partnerships by large corporations in their countries and encourage them to support MSMEs and women- and youth-led businesses within their supply chains by sharing knowledge and offering mentorship, and financial and digital support. Large corporations can facilitate MSME engagement in GVCs by helping them build capacity to engage in global trade and comply with global standards, thereby increasing their market opportunities. Multinational enterprises can also support MSMEs and LDCs seeking to integrate sustainability in their businesses by engaging in energy transition partnerships and decarbonization initiatives. Additionally, large corporations can impart necessary skills and best practices to MSMEs as they deal with risks and build resiliency while engaging in global trade. Regional business associations and industry organisations can also be valuable partners in these efforts. Government support and encouragement to global companies would be vital in this regard, and thus policy levers are an important tool. The G20 should also encourage multilateral institutions to provide financial assistance and technology to MSMEs and small businesses led by marginalised groups as they engage in global trade and value chains. Moreover, G20 nations could increase MSMEs' and marginalised groups' access to technology by encouraging them to engage in cross-border partnerships and innovation-centric collaborations with research institutes.

The G20 Inclusive Business Framework[35], established by G20 Turkey in 2015, identifies recommendations on driving inclusivity by facilitating access to financial resources, information,

30 The GSP was instituted in 1971 by the UNCTAD to create an enabling trade environment in developing countries; 15 countries grant GSP preferences: Armenia, Australia, Belarus, Canada, the EU, Iceland, Japan, Kazakhstan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey, UK, and the USA

31 The EIF is a global development program affiliated with the UNCTAD

32 EIF, Trade partnerships driving impact for the LDCs, 2021, https://enhancedif.org/en/system/files/uploads/annual_report_infographic_eng.pdf

33 24 donor countries: Australia, Belgium, Canada, Denmark, Estonia, European Commission, Finland, France, Germany, Hungary, Iceland, Ireland, Japan, Republic of Korea, Luxembourg, Netherlands, Norway, Kingdom of Saudi Arabia, Spain, Sweden, Switzerland, Turkey, UK, and the USA

34 Member countries of the DAC do not include all G20 members. G20 members not in the DAC are Argentina, Brazil, China, India, Indonesia, Mexico, South Korea, Russia, Saudi Arabia, South Africa, and Turkey

35 Developed by G20 Turkey, 2015, http://g20.org.tr/wp-content/uploads/2015/11/G20-Inclusive-Business-Framework.pdf

raising awareness, and building capacity. These recommendations can be leveraged by countries and organisations in their partnerships to further enhance participation in global value chains.

Identify niche opportunities with competitive advantages for lesser represented segments to participate in global trade, with an emphasis on MSMEs

Commodity reliance in exports has been a long-standing concern in LDCs because of the limited developmental benefits as well as exposure to shocks, associated with a lopsided export specialization pattern. To encourage diversification, G20 nations can facilitate the adoption and implementation of a broad industrial policy framework in LDCs, geared towards developing domestic productive capacities and skill-building and fostering job creation in traditional industries using traditional strengths. Apart from commodities, many LDCs rely on clothing exports where they specialise in labor-intensive operations with the least value-added content compared to other parts of the textile and apparel GVC[36]. Encouraging LDCs to increase participation and contribution in GVCs by utilising their traditional strengths in higher value-adding activities and promoting investments in these sectors is of paramount importance.

There are opportunities for LDCs to increase their share of exports to the GVCs – they can join the group of successful exporters of traditional exports such as oil, copper, coffee, cocoa and groundnuts, and traditional arts and crafts industries which are typically not produced in developed countries. Additionally, there are important areas of non-traditional exports with significant growth potential for LDCs such as horticulture, fishing, and tourism[37]. For instance, in Ethiopia, the exports of cut flowers to the EU developed an export industry that now employs over 50,000 workers and generates secure wage employment. G20 nations can facilitate creation of platforms that showcase the traditional strengths, capabilities, and investment potential of LDCs[38]. Additionally, the B20 encourages G20 nations to facilitate the development of LDCs' productive capacities through technical and financial assistance to support their meaningful participation in international trade[39].

Regional cooperation, including trade integration, and transit cooperation, can facilitate LDCs integration into the global trading system by increasing the size of accessible markets, improving their competitiveness, and enhancing regional connectivity and intra-regional trade[40]. Hence, the G20 advocates the diversification of LDC economies, to make full use of untapped potential through deepened regional integration. Regional cooperation should also be made a priority in the assistance programs of G20s directed to LDCs.

While large corporations enjoy economies of scale through global sourcing, MSMEs often lack the resources and capabilities to do so. While the WTO's Trade4MSMEs platform is a tool that helps MSMEs find trade-related information required to engage in international trade, MSMEs can benefit substantially by collaborating globally and leveraging the benefits of scale. To that end, G20 nations could facilitate global MSME collaboration through measures such as a global and regional B2B e-commerce platform that connects MSMEs and enables them to source their industrial supplies internationally through digital means, resulting in cost efficient supply chains[41]. Such measures can also boost transparency and increase market opportunity. G20 nations can further equip such a platform with logistics and financing

36 WTO, Textiles and clothing in Asian graduating LDCs: Challenges and options, 2022, https://www.wto.org/english/res_e/publications_e/textcloth2022_e.htm

37 UNCTAD, 2008

38 Similar to India's export hub concept, which enables MSME's, small farmers and small industries to seek opportunities in foreign markets and shift focus on District-led Export Growth for self-sufficiency and self-reliance.

39 UNCTAD, Least developed countries remain marginalised in global exports, December 2021, https://unctad.org/topic/least-developed-countries/chart-december-2021

40 UN, Enhancing international trade of LDCs and regional integration, 2022, https://www.un.org/ldc5/sites/www.un.org.ldc5/files/theme_4_background_paper_on_trade_rev_ok.pdf

41 Similar to L&T India's platform 'SuFin', an integrated e-commerce platform for B2B industrial products and services

support along with working capital to MSMEs sourced from global banks and multilateral institutions.

Along with MSMEs, co-operatives form a major percentage of the workforce. While they can be large in scale, co-operatives especially in developing countries and LDCs face crucial challenges such as access to finance, access to markets, trade barriers and access to skilled labor. These barriers limit the GVC integration of co-operatives and thus limit their capabilities. The B20 thus urges G20 nations to recognise the importance of co-operatives and deploy policy levers to facilitate the participation of co-operative societies in global trade.

Enable participation of women and youth in GVCs, and specifically in the MSME ecosystem, enabled by G20 country policies on trade and development

The B20 advocates that G20 nations need to promote inclusive trade policies that advance equality in trade and women's economic empowerment. The G20 should adopt measures to encourage increased workforce participation for women, youth, and other marginalised groups including persons with disabilities. G20 nations can encourage women and youth to engage in entrepreneurial activities with a focus on trade-oriented sectors.

MSMEs have significant potential to create jobs for women and young people in developing countries. MSMEs engage upwards of 50% of a country's workforce and tend to employ the more vulnerable segments of society. ITC[42] surveys indicate that one in four employees in MSMEs is between 18 and 24 years old, indicating that MSMEs can be drivers of youth employment. G20 nations should focus on identifying individual best practices relating to programs, platforms, and opportunities to encourage women and youth participation in MSMEs[43], in specific

trade-oriented sectors, and especially in traditional strength industries. They should additionally look to encourage policies to correct financial market failures through credit guarantee programs, seed capital, and launch financial literacy initiatives – an important step in enabling the marginalised segments.

Approximately 12 million[44] of a total 40 million formal MSMEs are owned by women, of which nearly 7 million are in developing countries. However, disparities exist within regions: in East Asia and the Pacific, women own 50% of micro-enterprises and 59% of small and medium-sized enterprises (SMEs). In South Asia, women own 10% of micro-enterprises and 8% of SMEs. G20 nations should encourage women and youth to establish MSMEs and offer technical and financial assistance programs aimed towards female and youth engagement in MSMEs. Further, G20 nations should facilitate ecosystems that encourage women- and- youth owned MSMEs to participate in trade. G20 nations and businesses can play a critical role in advancing the participation of women-owned MSMEs in global trade by engaging in cross-border gender-responsive procurement when seeking services, goods, or civil work.

The growth of the digital economy is estimated to create 24 million new jobs globally, of which 6.4 million can be taken by young people[45]. G20 nations should enable the growth of digital-first industries which can potentially create new jobs and absorb young workers; the G20 should also facilitate investments in digital technologies and skills to increase employment potential of women and youth.

42 The International Trade Centre (ITC) is a multilateral agency which has a joint mandate with the World Trade Organisation and the United Nations through the United Nations Conference on Trade and Development.

43 WTO, Joint Declaration on Trade and Women's Economic Empowerment on the occasion of the WTO Ministerial Conference in Buenos Aires in December 2017 (https://www.wto.org/english/tratop_e/womenandtrade_e/buenos_aires_declaration_e.htm#:~:text=In%20December%202017%2C%20in%20the,in%20entering%20the%20global%20marketplace)

44 Access to Women owned SMEs in Southeast Asia- An assessment of five countries, 2015.
Access-to-Finance-of-Women-Owned-SMEs-in-Southeast-Asia-An-Assessment-of-Five-Countries1.pdf

45 ILO estimates: Achieving universal broadband coverage by 2030 can create new jobs

Policy Action 4.2: Enable infrastructure development and trade financing for enhanced GVC participation of LDCs, MSMEs, women and youth

Establish digital, physical and financial infrastructure, elevate digital literacy, and promote fintech inclusion, trade finance access through tailored products for LDCs, MSMEs, and marginalised groups

There remains a lot to be done in improving trade-enabling infrastructure for marginalised segments – both in terms of physical as well as digital infrastructure. While access to electricity has increased in LDCs at an overall level, disparities persist. In 2019, more than half the people living in LDCs lacked access to electricity, totaling to some 570 million people (or about 2/3rd of the total LDC population)[46]. Development efforts focused on transport infrastructure (including highways, ports, airports, and other logistics infrastructure) are also necessary for LDCs to access world markets and enhance global competitiveness.

With the advent of digitally enabled trade, digital infrastructure has become a key component of trade infrastructure. The B20 urges the G20 nations to facilitate investments in LDCs for improving infrastructure of ICT services, establishing secure online banking and payment systems, and enabling business and financial environment for e-commerce. Furthermore, G20 nations should drive inclusion through e-commerce with a focus on cross-border trade in LDCs and participation by MSMEs and women-led businesses. The B20 advocates G20 nations to identify critical trade-enabling digital infrastructure, share best practices on bridging infrastructure gaps and prioritise these in partnership and investment programs.

B20 Saudi Arabia 2020 acknowledged the availability of trade finance as a key element for an enabling trade environment. B20 India calls upon the G20 to facilitate accessibility and affordability of trade finance solutions for excluded groups; it reiterates B20 Indonesia, Italy, and Saudi Arabia's requests to the G20 to promote trade finance as a stand-alone asset class and increase support for MSMEs. G20 should also share risks to support trade finance (especially among Export Credit Agencies, multilateral development banks, and private sector banks), and further scale development bank schemes to countries that need it most. Export Credit Agencies (ECAs), in particular, play a critical role in supporting cross-border trade for firms looking for non-private sources of trade financing as well as for governments seeking to fill trade financing gaps. However, the resources and capabilities available with ECAs are not uniform across developed and developing countries. B20 India reiterates B20 Indonesia and B20 Italy's call on the G20 members to take measures that can ensure a level playing field among national ECAs through global coordination by referencing existing initiatives[47]. In addition, the G20 should help build the capacity of ECAs in developing countries as they are critical to national industrial strategies. They can facilitate government-backed loans, guarantees and insurance, and support development projects in some of the riskiest and most volatile markets of the world.

ICT can also enable access to financial services – technology can democratise access to finance and enable financial inclusion. Financial technology (or fintech) has the potential to reduce costs while increasing speed and accessibility. Over the last decade, 1.2 billion previously unbanked adults gained access to financial services, and the unbanked population fell by 35%, primarily boosted by the increase in mobile money accounts. Digital delivery channels have helped governments quickly and securely reach vulnerable consumers with cash transfers and emergency liquidity. The average global cost of cross-border remittances of nearly USD 600 billion in the form of cash is 6.8%, while a fully digital transaction drops the cost to 3.3% and reduces issues of liquidity. Hence, mobile money offers an

46 UNCTAD, Over half of the people in least developed countries lack access to electricity, 2021, https://unctad.org/topic/least-developed-countries/chart-july-2021

47 For instance, the OECD Arrangement on Export Credits

attractive option to facilitate remittance flows[48].

G20 nations need to adopt and promote digital solutions to facilitate development assistance in LDCs and to marginalised groups. Moreover, G20 nations shall identify fintech adoption in developing countries as a priority in their assistance programs with measures that encourage digital disbursement of remittances and government investments and aid.

Additionally, technologies such as Distributed Ledger Technology[49] (DLT) are being tested in developing markets to fulfil the twin roles of enhancing traceability and transparency, as well as enabling trade finance. The World Bank is working with the government of Haiti to export mangoes and avocados using DLT. This supports the supply chain and maintains symmetry of information, de-risking the investment of third parties that conduct quality control until final sale[50]. The B20 acknowledges the recommendation of B20 Indonesia and urges the G20 to promote the adoption of DLTs to support standardised trade finance processes across GVCs, while acknowledging the differential capabilities of nations.

Anchor an inclusive standards regime, enable easier access to globally recognised certifications for enhanced export market opportunities

An inclusive and mutually recognised standards regime can make it easier for marginalised groups and businesses in LDCs to gain access to the export market. One such device is the Authorised Economic Operator (AEO) program which aims to ease trade processes to AEO-certified operators through accelerated treatment and reduced verifications in meeting procedural requirements[51]. These have

proven beneficial in LDCs. For instance, the AEO program in Uganda has led to significant reduction in clearance time and has increased trade participation of AEO accredited firms[52]. Mutual recognition of these certifications and integration with customs agencies can ease cross-border trade processes across AEO certified operators while ensuring greater security, predictability, and competitiveness in cross-border trade.

Currently, there are 74 countries with operational AEO programs, 16 countries with AEO programs under development, and 86 Mutual Recognition Agreements (MRAs) are signed or in progress. Out of all LDCs, very few MRAs, AEOs, and similar programs[53] exist, primarily in African or Asian LDCs. Only 17 LDCs out of 46 had an AEO program or similar certifications, or an MRA concluded or under development[54]. Bringing LDCs to the global stage through inclusive standards and programs can only occur if mutual recognition of AEOs and similar certifications exists among a wider forum.

48 In countries where remittances account for at least 10% of the GDP, mobile use is widespread with penetration rates of at least 50 subscriptions per 100 people

49 DLT is a database of information that is shared and duplicated across a network of computers in different locations; it is a flexible system of recording information

50 World Bank, On fintech and financial inclusion, 2021, https://blogs.worldbank.org/psd/fintech-and-financial-inclusion

51 This is subject to AEOs maintaining security compliance requirements

52 https://www.researchgate.net/publication/328039608_THE_IMPACT_OF_AUTHORISED_ECONOMIC_OPERATOR_ACCREDITATION_ON_TRADE_FACILITATION_THE_CASE_OF_UGANDA

53 Customs Compliance Programs; Customs Mutual Assistance Agreements

54 WCO, AEO list, 2023, https://aeo.wcoomd.org/list

B20 calls upon the G20 nations to establish functional mutual recognition agreements that benefit participants for certifications and standards with LDCs for interoperability in trade standards and procedures. We urge the G20 nations to assist LDCs through best practices and frameworks to increase access to globally recognised certifications and standards for marginalised groups seeking to engage in trade. G20 nations can also include LDCs in wider (plurilateral) MRA programs to facilitate adoption of trade-enhancing standards.

Promote digital literacy, vocational skills, and re-imagine education and training curricula to enhance GVC participation for LDCs, MSMEs, women, and youth

Digital literacy can drive inclusion in emerging economies and increase individual employability. The G20 should aim to significantly boost digital literacy among LDCs, MSMEs, and other marginalised groups by establishing robust skilling roadmaps, transforming technical and vocational education at all levels, and promoting training (TVET) institutions and platforms to create a highly skilled labour force. Efforts must be made to bridge the gender in technology adoption, equip women in LDCs with digital skills, and engage with youth communities in LDCs to achieve innovation-led economies.

Women worldwide face greater challenges in accessing and participating in the digital world compared to men. In low-income countries, only 21% of women (vs. 32% of men) use the internet, while high-income countries show a usage of 92% (vs. 93% of men). Developing gender-responsive programs and promoting international collaboration are essential to bridge this digital gender divide.

Moreover, participants must be equipped with relevant knowledge and skills to keep pace with technological developments in trade, such as trade-enhancing technologies and advanced manufacturing processes. The B20 urges the G20 nations to focus on skill and technology development initiatives to develop requisite capabilities across countries, such as targeted training and skilling programmes that can drive the adoption of trade-related skills. A transformative vision and roadmap, conceptualised with the assistance of industry and academia, to boost skill building across all levels of education would go a long way in mitigating the skills divide and increasing employment opportunities for marginalised groups. G20 nations should also collaborate to identify broader social policy interventions along with skilling initiatives to equip women, youth, and other social groups with employment opportunities post-skilling, paving the way for a better future.

Acronyms

ADB	Asian Development Bank
AEO	Authorised Economic Operator
AI	Artificial Intelligence
BoP	Balance of Payments
CPC	Central Product Classification
DAC	Development Assistance Committee
DDS	Digitally Deliverable Services
DLT	Distributed Ledger Technology
DSB	Dispute Settlement Board
ECA	Export Credit Agencies
ESG	Environmental, Social, and Governance
FAM	Famine Action Mechanism
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FPI	Food Price Index
GATS	General Agreement of Trade in Services
GDP	Gross Domestic Product
GHG	Green House Gases
GSP	Generalised System of Preferences
GVC	Global Value Chain
HS Code	Harmonised System Code
ICT	Information Communication Technology
ILO	International Labor Organisation
ISIC	International Standard Industrial Classification
IoT	Internet of Things
IPoA	Istanbul Program of Action
ITC	International Trade Centre
ITU	International Telecommunication Union
LDC	Least Developed Country
MC13	Ministerial Conference 13
ML	Machine Learning
MNC	Multinational Corporation
MNE	Multinational Enterprise
MRA	Mutual Recognition Agreement
MSME	Micro, Small and Medium Enterprises
NBP	National Broadband Plans
NCA	National Cybersecurity Agencies
NEET	Not in Employment, Education or Training
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
REN21	Renewable Energy Policy Network for the 21st Century
RTA	Regional Trade Agreement
SDG	Sustainable Development Goals
SSC	Services Sectoral Classification
TVET	Technical and Vocational Education and Training
TFA	Trade Facilitation Agreement
TiVA	Trade in Value Added Database
UCPI	United Nations Commodity Price Index
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UN/CEFACT	United Nations Centre for Trade Facilitation and Electronic Business
UPI	Unified Payments Interface
WCO	World Customs Organisation
WTO	World Trade Organisation

Task Force Members

Ahmad Al Saleh	EQUATE Petrochemical Company	Kuwait/ UAE
Akhilesh Agarwal	The Hi-Tech Gears Ltd	India
Alessandro Somaschini	Condindustria	Italy
Alexande R Malaket	OPUS Advisory Services International Inc	Canada
Alice Slayton Clark	US Council for International Business	United States
Amita Batra	JNU	India
Amitendu Palit	Institute of South Asian Studies, National University of Singapore	India
Anand Patel	Edelman Global Advisory	India
Anders Ahnlid	Research Institute of Global Value Chains	Sweden
Angela Mans	German Association of the Automotive Industry eV (VDA)	Germany
Anna Kompanek	Center for International Private Enterprise	United States
Anne Patricia Sutanto	PT Pan Brothers Tbk	Indonesia
Artem Asatur	Russian Aluminium Association	Russian Federation
Arun Kumar	Marriott	India
Ben Butters	Eurochambres	Belgium
Ben Digby	HSBC Holdings Plc	United Kingdom
Bhairavi Tushar Jani	SCA Group	India
Bharat Joshi	Associated Container Terminals Limited	India
Bilal M Khan	Research Institute of Global Value Chains, Asian Infrastructure Investment Bank	China
Carolina Castro	Industrias Guidi	Argentina
Christopher Hugh Barnes	Australian Chamber of Commerce and Industry	Australia
Cynthia H Braddon	Braddon Group LLC	United States
David Kovacs	APEC-ECBA	Hungary
Deep Kapuria	The Hi –Tech Gears Ltd	India
Deepak Kumar Agrawal	Naman Merchandising Services	India
Delia Raquel Flores	Mercury Global Logistics	Argentina
Dominik Andre Kummerle	Business at OECD (BIAC)	Germany
Elizabeth Ann Vazquez	WEConnect International	United States
Emanuel Macedo De Medeiros	SIGA	Portugal
Florence Diao-Gueye	ICC	Paris

Gaphel Kongtsa	Canadian Chamber of Commerce	Canada
Giuseppe Del Villano	Terna SpA	Italy
Guggi Laryea	amfori	Belgium
Gursharan Singh	Micron Technology	Singapore
Hale Onursal Hatipoğlu	TÜSİAD - Turkish Industry & Business Association	Turkey
Hassan El-Houry	Menzies Aviation	United States
Helga Flores Trejo	Bayer AG	United States
Ichiro Hara	Keidanren	Japan
Jayita Mukherjee	Deloitte	India
Jehil Thakkar	Deloitte	India
Justin d'Agostino	Herbert Smith Freehills	Hong Kong
Kamal Bali	Volvo Group India	India
Karthik Jayaraman	Waycool	India
Kawaljit Sarin	KS World Ventures	India
Kiyotaka Morita	Keidanren	Japan
Koustuv Kakati	Tata Steel Ltd	India
Lalprasad B Bharathan	Softrays Power Solutions	India
Lim Ming Yan	Singapore Business Federation	Singapore
Linda Regina Kromjong	amfori	Netherlands
Lisa Schroeter	Dow	United States
Lys Vitral Vitral	MEDEF	France
Maram Saeed Aljishi	Sharqia Business Women Executive Council	Saudi Arabia
Marco Felisati	Confindustria - Italian federation of Industry	Italy
Marco Dung Foerster	Dezan Shira & Associates	Germany
Marina Isadora Barbosa Souza	Confederation Of the Brazilian Industry	Brazil
Marta Blanco	CEOE - Spanish Confederation of Industries and Employers	Spain
Matthias Krämer	Federation of German Industries	Germany
Max Bulakovskiy,	OECD	France
Michael McAdoo	Boston Consulting Group	United States
Ming Shan	China Council for the Promotion of International Trade	China
Mohit Dave	International Cooperative Alliance Asia and Pacific	India
Monisha Dewan	Marriott	India
Narayan Sethuraman	Sanmar Matrix Metals Ltd	India
Natasha Majumdar	amfori	India
Neslihan Yakal	Ethics And Reputation Society Teid	Turkey
Nicola Allocca	Autostrade per l'Italia	Italy
Nouf AlRakan	Alimtiaz Consulting	Saudi Arabia

Nusrat Khan	United Nations Development Programme	India
Pankaj Bohra	Pankaj Bohra & Co	India
Pasquale Salzano	Cassa Depositi e Prestiti	Italy
Patricia Gomes	ABIMAQ	Brazil
Patrick Robert Ivory	Ibec - Irish Business Employers Confederation	Ireland
Patrik Kovacs	Business at OECD	Hungary
Persis Khambatta	Walmart	United States
Pranav Kumar	Reliance Industries Limited	India
P S Easwaran	Deloitte	India
Quan Zhao	International Trade Centre	China
Raj Sahu	Samsung	India
Rajan Sudesh Ratna	United Nations ESCAP	India
Rajendra Karbhari Salve	Divvya CPP Pvt Ltd	India
Ratnakar Adhikari	Enhanced Integrated Framework (EIF) WTO	Geneva
Richard Lomas	Citi	United Kingdom
Robin Neal Abrams	Trade Finance Global	United Kingdom
Rupa Chanda	United Nations ESCAP	India
Sachin Kulkarni	Skoda Auto Volkswagon	India
Sanjay Budhia	Patton International Limited	India
Sanjay Kumar	Deloitte	India
Sanjeev Gokhale	Sanmar Group	India
Sean Doherty	World Economic Forum	Australia
Sergey Mikhnevich	Russian Union of Industrialists and Entrepreneurs (RSPP)	Russian Federation
Shota Watanabe	Nomura Research Institute Ltd	Japan
Shubham Gupta	Deloitte	India
Shubhankar Chatterjee	Cummins India	India
Siddharth Banka	KSE Electricals Pvt Ltd	India
Som Nath Singh	UN Global Compact Network India	India
S V Rajeeva Naag	Tractors and Farm Equipment Limited	India
Svetlana Gusarova	Plekhanov Russian University of Economics, Moscow, Russian Federation	Russian Federation
Tariq Lutfallah Alturkestani	Saee Solutions for Logistic Services	Saudi Arabia
T R Kesavan	Tractors and Farm Equipment Limited	India
Volker Treier	German Chamber of Commerce and Industry (DIHK)	Germany
Waleed S Abalkhail	Tradekey	Saudi Arabia

Knowledge partner

Deloitte.

About B20 India

Business 20 (B20) is the official G20 dialogue forum with the global business community. Established in 2010, B20 is among the most prominent Engagement Groups in G20, with companies and business organizations as participants. The B20 leads the process of galvanizing global business leaders for their views on issues of global economic and trade governance and speaks in a single voice for the entire G20 business community.

Each year, the G20 Presidency appoints a B20 Chair (an eminent business leader from the G20 host country), who is supported by a B20 Sherpa and the B20 secretariat. The B20 aims to deliver concrete actionable policy recommendations on priorities by each rotating presidency to spur economic growth and development.

The B20 bases its work on Task Forces (TFs) and Action Councils (ACs) entrusted to develop consensus-based policy recommendations to the G20 and to international organizations and institutions. The B20 officially conveys its final recommendations to the G20 Presidency on the occasion of the B20 Summit.

As India holds the Presidency of G20 in 2023, India will host the eighteenth G20 Summit in New Delhi. The Confederation of Indian Industry (CII) has been appointed as the B20 India Secretariat for India's Presidency. CII, as the B20 India Secretariat, will host the B20 India Summit in New Delhi from 25-27 August 2023.

For queries, reach us at **b20secretariat@cii.in**