

POLICY BRIEF



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Strategic Competition, Sustainability, and Inclusion: The Future of Global Supply Chains

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01

Trade and
Investment



Abstract

The intensification of geopolitical rivalries, particularly between major powers, has reshaped global trade dynamics, leading to the fragmentation of supply chains and the emergence of economic blocs. This realignment poses significant challenges for global value chains, including increased trade barriers, rising costs and potential disruptions. However, it also presents opportunities to foster sustainable and inclusive economic growth by incentivising the creation of diversified, regionally integrated and resilient supply chains.

This policy brief examines how strategic competition between major economies can act as a catalyst for supply chain realignment to prioritise sustainability and resilience. By addressing the intersection of geopolitical rivalries and supply chain dynamics, it offers actionable insights for the G20 to shape a cooperative, sustainable and inclusive global trade system.

Keywords: Global Value Chains, Preferential Trade Agreements, Deep Trade Agreements, Regionalisation, Inclusive Development, Sustainable Practices

Diagnosis

Trade Agreements, Sustainability, and the Future of GVCs

Literature highlights global value chains (GVCs) tend to develop regionally, particularly among countries involved in preferential trade agreements (PTAs).¹ These transactions are highly sensitive to trade barriers, especially for intermediate goods crossing borders multiple times.² Stable, open trade environments are crucial for GVC development in complex industries.³

The new generation of deep trade agreements extends beyond tariff elimination by incorporating regulations for duty-free goods. Recent research highlights their role in integrating emerging economies into agri-food value chains, emphasising broader impacts beyond advanced sectors.⁴ Standards and foreign investment facilitate integration, while intellectual property rights and geographical indicators can create barriers. Rules of origin, services and investment commitments influence firms' cross-border decisions. Policymakers must design agreements to maximise participation and benefits.

Environmental sustainability regulations are common in PTAs but are less effective when imported components lack equivalent standards. Trade among countries with aligned sustainability commitments is more efficient, highlighting the need for harmonised environmental policies to strengthen partnerships.⁵

¹ De Backer, Koen, Philippe De Lombaerde, and Lelio Iapadre. "Analyzing Global and Regional Value Chains." *International Economics* 153 (2018): 3–10. <https://doi.org/10.1016/j.inteco.2018.01.003>.

² Miroudot, Sébastien, and Håkan Nordström. "Made in the World? Global Value Chains in the Midst of Rising Protectionism." *Review of Industrial Organization* 57 (2020): 195–222. <https://doi.org/10.1007/s11151-020-09781-z>.

³ Laget, Edith, Alberto Osnago, Nadia Rocha, and Michele Ruta. "Deep Trade Agreements and Global Value Chains." *Review of Industrial Organization* 57 (2020): 379–410. <https://doi.org/10.1007/s11151-020-09780-0>.

⁴ Kim, Dongin, Sandro Steinbach, and Carlos Zurita. "Deep Trade Agreements and Agri-Food Global Value Chain Integration." *Food Policy* 127 (2024): 102686. <https://doi.org/10.1016/j.foodpol.2024.102686>.

⁵ Scholvin, Sören, Ivan Turok, Jarryd Visagie, and Javier Revilla Diez. "Regional Value Chains as New Pathways to Development?" *Area Development and Policy* 7, no. 2 (2021): 177–186. <https://doi.org/10.1080/23792949.2021.1978299>.

The Global Value Chain Development Report 2023⁶ defines greening GVCs as reducing emissions, biodiversity loss and resource overuse. Though sustainability can raise costs and deter investment, aligned trade policies and incentives can offset this. Conversely, multilateral frameworks and global cooperation are key to addressing this issue.

Foreign investment in green technologies can drive sustainability in host countries, especially when involving tacit knowledge. This creates a virtuous cycle, improving standards and encouraging more firms to join GVCs. Policymakers should attract such investments to support emerging economies' integration.

Geopolitical rivalries and regulatory challenges

While PTAs among partners have contributed to efficient GVC development, global trade rules and alliances are undergoing a disruptive transformation driven by geopolitical rivalries, neo-protectionism, security conflicts and strategic competition. These forces increasingly undermine inclusive and sustainable GVCs.⁷

The past decade saw a shift from globalisation to fragmented trade models.⁸ While friendshoring seeks to secure supply chains through politically aligned partnerships, it can also inadvertently fragment trade by reducing the space for cooperation.⁹

This shift poses heightened risks for emerging economies reliant on global markets for growth, employment and stability. While new trade opportunities may

⁶ WTO. *Global Value Chain Development Report 2023: Resilient and Sustainable Global Value Chains*. Geneva: WTO, 2023. https://www.wto.org/english/res_e/publications_e/gvcreport2023_e.htm.

⁷ OECD. *The Return of Industrial Policies: Implications for Global Trade*. Paris: OECD Publishing, 2024. <https://www.oecd.org/industry/the-return-of-industrial-policies.htm>.

⁸ WTO. *Global Trade Outlook and Statistics 2024*. Geneva: WTO, 2024. https://www.wto.org/english/res_e/statis_e/trade_outlook24_e.htm.

⁹ Think20 (T20) India. *Supply Chain Resilience, Friend-shoring, and the Pursuit of Non-Economic Objectives*. New Delhi: T20 India Secretariat, 2023. https://t20ind.org/wp-content/uploads/2023/06/T20_PolicyBrief_TF1_Friend-shoring.pdf.

emerge, the transition is complex, involving trade barriers, higher costs and prolonged adjustment periods.¹⁰ In response, the private sector is prioritising regulatory alignment and reliability across its supply networks.¹¹

The weaponisation of trade tools is escalating – tariffs, export controls and investment restrictions are now routinely used for geopolitical leverage. According to the World Trade Organization (WTO), these measures could reduce global GDP by 5% in 2025, disproportionately harming emerging economies.¹²

Countries are also increasingly using “soft” barriers – such as investment restrictions and security-driven policies – to reshape supply chains. Regulations like the US CHIPS and Inflation Reduction Act seek to onshore and friendshore critical industries – semiconductors, clean energy and high-tech manufacturing – while the EU’s Carbon Border Adjustment Mechanism imposes tariffs on carbon-intensive imports, incentivising trade with low-carbon regulatory blocs.¹³

Environmental standards are likewise driving a shift towards more regionalised supply chains, with countries and firms prioritising trade partnerships that share similar carbon and resource management standards. According to the Global Value Chain Development Report 2023, sustainability provisions in trade agreements promote local environmental progress and GVC participation.

Despite this, the adoption of strict environmental standards can sometimes discourage reshoring tendencies, especially when domestic production is less efficient or more carbon-intensive than existing foreign suppliers. Conversely,

¹⁰ WTO. *Global Value Chain Development Report 2023: Resilient and Sustainable Global Value Chains*. Geneva: WTO, 2023. https://www.wto.org/english/res_e/publications_e/gvcreport2023_e.htm.

¹¹ OECD. *The Return of Industrial Policies: Implications for Global Trade*. Paris: OECD Publishing, 2024. <https://www.oecd.org/industry/the-return-of-industrial-policies.htm>.

¹² WTO. *Global Trade Outlook and Statistics 2024*. Geneva: WTO, 2024. https://www.wto.org/english/res_e/statis_e/trade_outlook24_e.htm.

¹³ European Commission. *Carbon Border Adjustment Mechanism: Reducing Carbon Leakage*. Brussels: European Commission, 2023. https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en.

when environmental goals align with industrial policy, reshoring can reinforce sustainability goals. Ensuring coherence between trade and environmental frameworks is therefore critical to avoid unintended trade-offs.

Additionally, greening supply chains raises costs, making the alignment of trade policies, investment incentives and technology mechanisms essential. Economies with strong sustainability frameworks – backed by PTA provisions – could become preferred partners in future GVC realignments.

Finally, while green regulations promote sustainability, they can also function as soft trade barriers, complicating GVC access for emerging economies.¹⁴ In this context, growing geopolitical uncertainty tests PTAs' effectiveness as protectionist policies threaten the inclusivity and stability of the global trade system.

Recommendations

To address fragmentation in GVCs and enhance sustainability and inclusive growth, the G20 could adopt the following measures:

1. Harmonise multilateral frameworks on green and ethical standards

The G20 could initiate the development of coordinated multilateral frameworks designed specifically to harmonise green and ethical supply chain standards. This involves standardising carbon, biodiversity and resource management rules across G20 nations, using WTO and Organisation for Economic Co-operation and Development (OECD) frameworks. Clear compliance metrics and monitoring would reduce regulatory gaps, lower costs and encourage firms to adopt greener practices without risking competitiveness.

¹⁴ European Commission. *Carbon Border Adjustment Mechanism: Reducing Carbon Leakage*. Brussels: European Commission, 2023. https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en.

Aligning sustainability rules and green production practices can provide a competitive advantage in strategic industries, making environmentally responsible firms and nations more attractive trade partners. The G20 should encourage bilateral and multilateral trade agreements that integrate sustainability provisions, ensuring that environmental standards are upheld across partnerships and reducing the likelihood of a race to the bottom in compliance.

To foster cooperation, the G20 could institutionalise a Green Trade Task Force, composed of policymakers, trade negotiators and industry representatives to harmonise sustainability standards, create standardised frameworks and monitor compliance across countries. By leveraging existing multilateral platforms, such as the WTO and OECD including the WTO Trade and Environment Committee, this task force could align environmental regulations, reduce duplication and strengthen international cooperation on sustainability and ethical supply chain practices.

2. Promote inclusive partnerships and technology transfers for emerging economies

G20 nations should launch dedicated programmes fostering partnerships between advanced and emerging economies, explicitly focusing on integrating developing countries into alternative supply chain networks. Targeted incentives, partnerships and sustainable investments can support capacity building, training and technology transfer. A green supply chain fund offering finance and technical aid – especially for high-tech and renewable sectors – would help developing economies integrate and promote balanced growth, likely under the leadership of the World Bank that could partner with regional development banks for local implementation.

To stay effective, trade agreements must lower barriers, ease compliance and avoid disadvantaged Global South economies facing high adaptation costs. Policymakers should ensure financial and technical support, with the G20 partnering and working as a catalyst with institutions like the World Bank and the International Monetary Fund to fund green infrastructure and boost supply chain resilience.

Additionally, the G20 could promote the development of sustainability hubs in emerging economies, where green technology transfer, research and production can be concentrated. These hubs would serve as centres of innovation, fostering collaboration between local businesses and multinational corporations. By leveraging the expertise of developed economies and providing financial incentives for firms that invest in sustainable manufacturing, these hubs can accelerate the adoption of green production practices in emerging markets.

3. Leverage G20 platforms for dialogue to mitigate trade tensions

Given rising geopolitical tensions and the resulting fragmentation of supply chains, the G20 should proactively utilise existing dialogue mechanisms to address conflicts and encourage solutions. Specifically, G20 summits and ministerial meetings should include regular, structured dialogues dedicated explicitly to trade tensions, soft trade barriers and supply chain resilience. Establishing a permanent G20 Supply Chain Stability Forum, where economic and trade ministers meet regularly, could facilitate open discussions aimed at preventing and resolving trade disputes before they escalate. The forum should include representatives from the private sector and international organisations (such as the OECD and the WTO) to ensure policy coherence, inclusive policy making and transparency.

The G20 must also take an active role in addressing the geopolitical use of trade policies, particularly export restrictions, tariffs and investment limitations, which threaten supply chain stability. By fostering diplomatic engagement on trade security, the G20 can help mitigate the negative impacts of economic fragmentation and ensure that trade remains an instrument of shared prosperity rather than geopolitical competition.

The G20 can demonstrate global leadership by promoting sustainable and inclusive supply chain practices and creating a predictable environment for trade and investment. These measures will not only enhance economic resilience but also ensure that sustainability and inclusivity remain at the core of global trade policies.

T20 South Africa Convenors



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