

POLICY BRIEF



Promoting Sustainable and Inclusive Global Value and Supply Chains: Bridging the North-South Gap

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Trade and
Investment

Abstract

The Global Value Chains (GVCs) account for nearly 70% of international trade and are increasingly seen as a key avenue to address environmental, labour, and human rights issues, among others. Over the past three decades, this has led to the proliferation of Voluntary Sustainability Standards (VSS) and other voluntary commitments. On top of these, mandatory approaches (including due diligence requirements, certifications, and others) have more recently emerged, mostly in the Global North, with the adoption of demand-side measures and unilateral approaches such as the Carbon Border Adjustment Mechanism (CBAM), the EU Corporate Sustainability Due Diligence Directive (CS3D), and the European Union Deforestation Regulation (EUDR).

While regulations are key in promoting supply chain sustainability, the current framework generates a complex landscape of multiple coexisting and overlapping commitments and obligations, with uncertain potential impacts, within a turbulent and volatile global context. Some studies highlight excessive and, in some cases, infeasible compliance costs on Emerging Markets and Developing Economies (EMDEs), which might generate exclusionary effects, market segmentation, and loss of competitive advantages. While these new compliance challenges come on top of the existing ones that EMDEs face in integrating into GVCs, as recognised by the “G20 Generic Framework for Mapping GVCs”, some argue that they could lead to market access advantages. It is important to find ways to foster inclusiveness and to avoid goods that cannot meet these regulations being redirected to markets with lower sustainability requirements.

The WTO has not made enough progress in fostering discussions on the implementation and resolution of conflicts regarding these new sustainability-linked trade regulations. Consequently, global governance institutions need to evolve to surpass these trade challenges and provide adaptive and collaborative responses.

This policy brief recommends the G20 to launch a G20-backed “Global Coalition for Sustainable and Inclusive Trade” that will serve as a dedicated platform to share knowledge, foster dialogue, and align efforts for sustainable and inclusive trade. Ultimately, the Coalition will strengthen global governance and support businesses, especially Micro, Small and Medium Enterprises (MSMEs), in their integration into GVCs, which is crucial in an increasingly uncertain and fragmented global regulatory landscape.

Keywords: Global Value Chains (GVCs), Sustainability Trade Regulations, Emerging Markets and Developing Economies (EMDEs), Micro, Small and Medium Enterprises (MSMEs), North-South and South-South dialogue, Global Governance.

Diagnosis

Global Value Chains (GVCs) account for nearly 70% of international trade¹ and are increasingly seen as a key avenue for addressing environmental, labour, and human rights issues, among others. Over the past three decades, this has led to the proliferation of Voluntary Sustainability Standards (VSS) and other voluntary commitments (Marx, Depoorter, et al., 2024,² Papendieck and McNamara, 2024³). On top of these, mandatory approaches (including due diligence requirements, certifications, and others) have more recently emerged, mostly in the Global North, with the adoption of demand-side measures and unilateral approaches such as the CBAM, the EU CS3D, and the EUDR, addressing issues as broad as climate change, respect for human rights or deforestation (UNCTAD, 2025⁴).

While regulations are key in promoting supply chain sustainability, the current framework generates a complex landscape of multiple coexisting and overlapping commitments and obligations, with uncertain potential impacts, within a turbulent and volatile global scenario. Some studies highlight excessive and, in some cases, infeasible compliance costs⁵ on EMDEs, which might generate exclusionary effects, market segmentation, and loss of competitive

¹ "Global value and supply chains," OECD, accessed April 2, 2025, <https://www.oecd.org/en/topics/global-value-and-supply-chains.html>.

² Marx, Axel, Charline Depoorter, Santiago Fernandez de Cordoba, Rupal Verma, Mercedes Araoz, Graeme Auld, Janne Bemelmans, et al. "Global Governance through Voluntary Sustainability Standards: Developments, Trends and Challenges." *Global Policy* 15, no. 4 (2024), <https://doi.org/10.1111/1758-5899.13401>.

³ Sabine Papendieck and Brian McNamara, "Environmental Concerns and Agricultural Trade: Building a Responsible and Effective Relationship," in *Navigating the Trade Landscape: A Latin American Perspective Building on the WTO 13th Ministerial Conference*, eds. Valeria Piñeiro, Adriana Campos, and Martin Piñeiro (2024), chap. 8, 99–120, <https://hdl.handle.net/10568/151918>.

⁴ UNCTAD, *The Future of Sustainable Trade: Due Diligence Initiatives, Voluntary Sustainability Standards and Developing Countries* (New York: United Nations Conference on Trade and Development, 2025), https://unctad.org/system/files/official-document/ditctab2024d5_en.pdf.

⁵ Other studies suggest that compliance is feasible. See: Gerard Rijk and Barbara Kuepper, *EUDR Compliance Costs: Economic Analysis of EUDR Cost Implications for Companies and Consumers* (Amsterdam: Profundo, 2024), <https://hwkvufmtfxjkrhbrfqki.supabase.co/storage/v1/object/public/PUB/Report-EUDRCompliance-5Feb2025.pdf>.

advantages (Zhunusova et al., 2022⁶; Cesar de Oliveira et al., 2024⁷). While these new compliance challenges come on top of the existing ones EMDEs face in integrating into GVCs, as recognised by the [G20 Generic Framework for Mapping GVCs](#), some argue that it could lead to market entry advantages. It is important to find ways to foster inclusiveness and to avoid goods that cannot meet these regulations being redirected to markets with lower sustainability requirements (Bastos Lima and Schilling-Vacaflor, 2024⁸).

Simultaneously, the current global trade landscape is marked by significant challenges and uncertainty following the political outlook of the new U.S. administration. President Trump's "Liberation Day" tariffs⁹ could result in trade wars with broad impacts, disrupting global markets and increasing uncertainty in international trade (Auray et al., 2025¹⁰). Multilateralism and rules-based systems are losing protagonism as coerced decoupling and political fragmentation rise (Bradsher, 2025,¹¹ Bremer, 2025¹²). Moreover, ongoing amendments on some sustainable supply chain regulations such as the EU CS3D through the current Omnibus proposal or the postponement of the full applicability of the EUDR add to the general regulatory instability. Together, these dynamics create costs for producers and consumers and increase overall uncertainty for businesses and

⁶ Zhunusova, Eliza, Vianny Ahimbisibwe, Le Thi Hoa Sen, Azin Sadeghi, Tarin Toledo-Aceves, Gillian Kabwe, and Sven Günter. "Potential Impacts of the Proposed EU Regulation on Deforestation-Free Supply Chains on Smallholders, Indigenous Peoples, and Local Communities in Producer Countries Outside the EU." *Forest Policy and Economics* 143 (2022): 102817. <https://doi.org/10.1016/j.forpol.2022.102817>.

⁷ Cesar de Oliveira, Susan E.M., Louise Nakagawa, Gabriela Russo Lopes, Jaqueline C Visentin, Matheus Couto, Daniel E Silva, Francisco d'Albertas, Bruna F Pavani, Rafael Loyola, and Chris West. "The European Union and United Kingdom's Deforestation-Free Supply Chains Regulations: Implications for Brazil." *Ecological Economics* 217 (2024): 108053. <https://doi.org/10.1016/j.ecolecon.2023.108053>.

⁸ Bastos Lima, Mairon G, and Almut Schilling-Vacaflor. "Supply Chain Divergence Challenges a 'Brussels Effect' from Europe's Human Rights and Environmental Due Diligence Laws." *Global Policy* 15, no. 2 (2024): 260–75. <https://doi.org/10.1111/1758-5899.13326>.

⁹ On April 2, 2025, the U.S. introduced a universal 10% tariff on all imports and "reciprocal tariffs" with higher rates targeting specific countries, including a 34% additional tariff on Chinese goods.

¹⁰ Auray, Stéphane, Michael B. Devereux, and Aurélien Eyquem (2025), "Tariffs and Retaliation: A Brief Macroeconomic Analysis," NBER Working Paper 33739. <http://www.nber.org/papers/w33739>

¹¹ Keith Bradsher, "'The W.T.O. Is Toast.' What Happens to Global Trade Now," *The New York Times*, February 14, 2025, <https://www.nytimes.com/2025/02/14/business/trump-tariffs-world-trade-organization.html>.

¹² Ian Bremmer, "Trump's Tariffs Are Not a Negotiating Tactic," *Project Syndicate*, March 10, 2025, <https://www.project-syndicate.org/commentary/trump-tariff-wall-aims-to-dismantle-postwar-economic-order-by-ian-bremmer-2025-03>.

investment decisions worldwide, resulting in potential supply chain disruptions and hindering economic growth.

Furthermore, the WTO has not made enough progress in fostering discussions on the implementation and resolution of conflicts regarding these new sustainability-linked trade regulations. Although the WTO was created to facilitate dialogue and support a predictable trading environment, there is substantial scepticism regarding what the institution can do in this scenario after years of functioning without the Appellate Body of its dispute settlement system (Butler, 2025,¹³ Soguel, 2025¹⁴). Plurilateralism has emerged to bypass the absence of such a body as crystallised in the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) in 2020.¹⁵

The G20's role

As the premier forum for international cooperation, the G20 holds a unique position to drive coordinated action among its members. Together, they account for approximately 85% of global GDP, over 75% of world trade, and around two-thirds of the world's population, including countries from both the Global North and Global South.¹⁶

During India's G20 Presidency, the G20 emphasised the inherent fragility of GVCs and adopted the [G20 Generic Framework for Mapping GVCs](#) to help members identify risks and enhance resilience. At the same time, they affirmed that GVCs should promote sustainable and inclusive development, with particular focus on

¹³ Creon Butler, "The International Trading System Needs Urgent Support to Survive," *Chatham House*, February 12, 2025, <https://www.chathamhouse.org/2025/02/international-trading-system-needs-urgent-support-survive>.

¹⁴ Dominique Soguel, "Can the WTO Live Up to Its Mission?" *SWI swissinfo.ch*, March 12, 2025, <https://www.swissinfo.ch/eng/international-geneva/trade-war-trump-tariffs-wto-geneva-china-us-eu-canada-mexico/88985586>.

¹⁵ Pauwelyn, Joost. "The WTO's Multi-Party Interim Appeal Arbitration Arrangement (MPIA): What's New?" *World Trade Review* 22, no. 5 (2023): 693–701. <https://doi.org/10.1017/S1474745623000204>.

¹⁶ "G20 Members," *G20 South Africa*, accessed April 2, 2025, <https://g20.org/about-g20/g20-members/>.

developing countries, which often lag in their participation in GVCs (Kowalski et al., 2015¹⁷).

More recently, during Brazil's G20 Presidency, the G20 endorsed the [G20 Principles on Trade and Sustainable Development](#) as guidelines for the design and implementation of measures related to trade and sustainable development, highlighting that policies should consider that countries face different constraints at different levels of development. Additionally, the [G20 Rio de Janeiro Leaders' Declaration](#) emphasised the importance of maintaining a rules-based, non-discriminatory, fair, open, inclusive, equitable, sustainable and transparent multilateral trading system, with the WTO at its core.

The current South African Presidency, guided by the theme of "Solidarity, Equality, and Sustainability", should build on these previous G20 initiatives and facilitate concrete solutions for better trade.

In a moment when the relevance of multilateralism is under strain, these challenges offer a chance to reaffirm and revitalise it.¹⁸ Despite the difficult context, it is precisely in such moments that opportunities arise to shape policy beyond traditional structures. The G20, as a forum grounded in the political commitment of its member countries rather than rigid bureaucratic procedures, offers a unique space to advance transformative agendas that might otherwise be blocked by the resistance of existing systems.

Recommendations

The international playing field remains uneven, with Global South and Global North countries facing disparities in influence. Multilateral organisations and

¹⁷ Przemyslaw Kowalski, Javier Lopez Gonzalez, Alexandros Ragoussis, and Cristian Ugarte, *Participation of Developing Countries in Global Value Chains: Implications for Trade and Trade-Related Policies*, OECD Trade Policy Papers, no. 179 (Paris: OECD Publishing, 2015), <https://doi.org/10.1787/5f331fw0xxn-en>.

¹⁸ Mazzucato, Mariana, *Principles for an Inclusive and Sustainable Global Economy: A discussion paper for the G20*, Institute for Innovation and Public Purpose, 2025. Available at: <https://www.ucl.ac.uk/bartlett/ucl-institute-innovation-and-public-purpose/principles-inclusive-and-sustainable-global-economy-discussion-paper-g20>.

global institutions are predominantly shaped by major economies, leaving Global South countries with limited space to voice concerns on pressing global issues, including global governance and economic policies that disrupt international trade, investment flows, and GVCs.

The G20 can play a pivotal role in amplifying the voices and influence of Global South countries through both North-South and South-South dialogue and collaboration (Arias Mahiques et al., 2024,¹⁹ Hoch et al., 2023²⁰). A prime example of this is the [Global Alliance Against Hunger and Poverty](#), launched during the G20 Summit in Rio de Janeiro in November 2024 under Brazil's Presidency. This initiative illustrates how the G20 can elevate the needs and priorities of the Global South by fostering collaboration to address issues like food insecurity and poverty that disproportionately affect Global South countries.

At the firm level, the G20 members have identified limited access to information, finance, and markets as key challenges faced by Micro, Small and Medium Enterprises (MSMEs) in integrating into global trade.²¹ On top of these obstacles, suppliers and exporters worldwide are struggling to navigate an increasingly complex and fragmented regulatory landscape, shaped in part by new sustainability-linked trade measures. Many businesses, especially MSMEs in the Global South, lack the technical capacity or financial resources to comply with these evolving standards and regulations and are at risk of being further excluded from international trade and GVCs.

Building on the G20's past experiences and its unique position uniting both upstream and downstream countries from the Global North and Global South, we recommend launching a G20-backed "Global Coalition on Sustainable and

¹⁹ Maria Victoria Arias Mahiques, Marcello De Maria, Leonardo Park, Ángeles Sancisi, Sabine Papendieck, Valeria Piñeiro, et al., *Advancing Fair and Sustainable Trade: Strategies for G20 Action in the Wake of Environmental Regulations*, T20 Policy Brief (Rio de Janeiro, Brazil: T20 Brazil, 2024),

https://www.t20brasil.org/media/documentos/arquivos/TF04_ST_02_Advancing_Fair_and67506453c8963.pdf.

²⁰ Elisabeth Hoch, Maximiliaan Tetteroo, Rijit Sengupta, and Sabarish Elango, *Driving Sustainable Consumption through Policy Innovations in Value Chains*, T20 Policy Brief (India: T20 India, 2023), https://c4rb.org/wp-content/uploads/2023/06/T20_Policy-Brief_TF-3_350_Sustainable-Consumption.pdf.

²¹ G20, G20 Trade and Investment Ministerial Meeting Outcome Document and Chair's Summary, August 25, 2023.

Inclusive Trade". The Coalition would serve as a dedicated platform to share knowledge, foster dialogue, and align efforts for sustainable and inclusive trade.

Knowledge hub

The Coalition will establish a **knowledge hub** to monitor emerging sustainability-linked trade regulations, assess their impacts, compile best practices and policy approaches (including implementation strategies and compliance experiences), and publish regular reports to inform decision-makers.

Moreover, the Coalition will enhance **information accessibility** by encouraging the provision of technical assistance, technology and skills transfer, and development of digital public assets such as datasets, records, certifications, and catalogues of available digital tools. Tailored support to MSMEs is essential to address the specific needs of different supply chains.

Inclusive dialogues

The Coalition will facilitate **inclusive dialogues** —North-South, South-South, and public-private— through regular forums and stakeholder consultation platforms, to foster regulatory convergence, advocate for a “common language”,²² and ensure active participation of Global South countries in rule-making processes, moving beyond passive adaptation to pre-set standards. For such dialogues, in particular for South-South dialogues, we propose promoting regional meetings, shared digital infrastructure, and co-authored guidance on sustainable trade practices.

Rather than aiming for full harmonisation, the G20 countries could support **sector-specific pilot initiatives** (eg, in agriculture or textiles) to explore practical pathways

²² For example, the [G20 Sustainable Finance Roadmap](#), launched under Italy's Presidency in 2021, emphasizes taxonomy-based approaches to facilitate international interoperability and encourages jurisdictions to use a “same language.” Key initiatives in this direction include the [EU-China Common Ground Taxonomy](#) (2021), developed jointly by the EU and China under the International Platform on Sustainable Finance (IPSF), and the UK Green Technical Advisory Group's (GTAG) report [“Advice on the Development of a UK Green Taxonomy”](#) (2022), which recommends an “adopt some and revise some” approach to align the UK taxonomy with the EU framework.

for alignment. These pilots could be co-led between the G20 and the G77 as part of their joint work on trade, to reflect diverse regulatory realities and foster South-South learning and innovation. This incremental approach would allow stakeholders to test interoperability, share lessons, and build trust across jurisdictions. It would also help identify scalable models for regulatory cooperation while respecting the varied capacities and priorities of G20 members and their partners.

Conclusion

Ultimately, the Coalition will strengthen global governance and support businesses, especially MSMEs, in their integration into GVCs, which is crucial in an increasingly uncertain and fragmented global regulatory landscape. Through knowledge generation and inclusive dialogues, the Coalition will empower EMDEs and Global South countries, while fostering regulatory alignment by encouraging cooperation, interoperability, coherence of sustainability-linked trade systems, and mutual recognition of frameworks. In this way, the negative externalities of demand-side measures and unilateral approaches, such as exclusionary effects, sustainability leakage, market segmentation, and trade and investment fragmentation, could be minimised.

T20 South Africa Convenors



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