

# Overcoming Negative Spillover Effects: The G20's Role in Support of Global Sustainability

Research Paper

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The Sustainable Development Solutions Network (SDSN) Germany promotes sustainable development in and through Germany. It works in a cross-sectoral manner and acts as a platform bringing together perspectives by leading German scientific organisations, civil society (science-civil society-policy interface) and businesses. The Members of SDSN Germany are also Members of the global SDSN that was founded in 2012 under the patronage of the Secretary General of the United Nations.

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In recent years, the G20's importance as an international forum to promote the implementation of the 2030 Agenda for Sustainable Development has become increasingly evident. In 2016, the G20 leaders adopted a G20 Action Plan on the 2030 Agenda for Sustainable Development, which shall guide the actions of the G20 as a whole (Scholz & Brandi, 2018). The Action Plan has been updated by subsequent presidencies. Not surprisingly, India, which holds the G20 Presidency in 2023, has put sustainable development as part of the LiFE (Lifestyle for Development) concept on top of its agenda. As a forum of high-level policymaking, the G20 can help to achieve the SDGs through actions at the level of its member states, through international policy coordination and by supporting non-G20 countries.

Despite the focus on the SDGs, the G20 neglects one important factor that hinders other countries, especially countries of the Global South, from achieving the SDGs: negative spillover effects. Negative spillover effects are understood as undesirable external economic, social, environmental and security effects on other countries that can undermine efforts to achieve sustainable development (SDSN, 2023).

Although negative spillover effects may be a rather new concept in discourses on global sustainability, the problem itself is not. These relationships are described as "negative externalities"<sup>1</sup> in economics, "ecological footprint"<sup>2</sup> in environmental sciences or as a "Do-No-Harm" principle<sup>3</sup> in the context of development cooperation.

Concrete examples of negative spillover effects include the outsourcing of emission-intensive production processes; the demand for raw materials (e.g., palm

oil) whose cultivation can endanger local biodiversity; the toleration of poor labor standards in global supply chains; or detrimental effects of tax havens and banking secrecy (SDSN, 2023).

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The G20 should be concerned about these effects: While high-income countries are at the top of SDG rankings (Germany was 6<sup>th</sup> out of 163 in 2022), countries of the Global South are rather at the bottom (Sachs et al., 2019). This ranking is upended when focusing on spillover effects (Figure 1). Here, industrialized countries repeatedly perform poorly (Germany was 149<sup>th</sup> out of 163 in 2022), while countries from the Global South lead the ranking.

The year 2023 marks the halfway point in the implementation of the 2030 Agenda and its SDGs. As a result of the pandemic, armed conflicts and financial crises, the global community is far from achieving the SDGs. With this year's High-Level Political Forum (HLPF) on Sustainable Development<sup>4</sup> and the SDG Summit<sup>5</sup> taking place in New York in July and September respectively, an important political window of opportunity exists to realize the

Rank	SDG-Index	Rank	Spillover-Index
6	Germany	13	India
7	France	42	Brazil
11	United Kingdom	48	Indonesia
19	Japan	68	Argentina
25	Italy	76	China
27	Republic of Korea	78	Turkey
29	Canada	83	Mexico
38	Australia	97	South Africa
41	United States	111	Russian Federation
45	Russian Federation	120	Saudi Arabia
53	Brazil	123	Republic of Korea
54	Argentina	125	Italy
56	China	134	Japan
71	Turkey	140	Canada
74	Mexico	141	Australia
82	Indonesia	142	United States
96	Saudi Arabia	149	Germany
108	South Africa	152	United Kingdom
121	India	154	France

Figure 1: 19 of G20 members compared in SDG Index and Spillover Index rankings (excluding the EU)

Source: Sachs et al, (2022)

crucial acceleration of sustainable development. This, however, will only succeed if high-income countries acknowledge their responsibility and take concrete action to manage the negative spillover effects they cause.

**POLICY INITIATIVES TO ADDRESS NEGATIVE SPILLOVER EFFECTS**

While we still have a long way to go to comprehensively address negative spillover effects, the G20 can draw on some

best practice examples, both at the level of strategies and concrete legislative initiatives. Germany states in its German Sustainability Strategy that it represents “the principal framework for the implementation of the 2030 Agenda in, by and with Germany” (Bundesregierung, 2021, p.18), and thereby indirectly addresses the problem of negative spillover effects. At the European Union level, it is also recognized that a revision of trade policy is necessary to achieve the SDGs and the

Green Deal and to avoid negative spillover effects (Malik et al., 2021).

Various policy instruments have been developed to reduce negative impacts from the actions of high-income countries elsewhere, especially in countries of the Global South. One approach is to establish policies and guidelines aimed at supporting sustainability in global supply chains for reducing the negative impacts of cross-border trade. At the EU level, a Corporate Sustainability Due Diligence Directive (CSDDD) is being discussed that aims at regulating the human rights and environmental obligations of companies. Although the directive has not yet been implemented at the EU level, there are already several laws at the national level, for example, the Loi de vigilance in France, the Wet Zorgplicht Kinderarbeid in the Netherlands or the Supply Chain Law in Germany (European Commission, 2022).

In addition, there are sector-specific policies that focus on the avoidance of negative spillover effects. Examples include the EU Timber Regulation (EUTR), which prohibits products from illegally harvested timber, the EU Conflict Minerals Regulation, which aims to stop trade in tin, tantalum, tungsten and gold, or the proposal for an EU regulation on batteries. As part of the EU Green Deal, there is also the Farm to Fork strategy, which advocates a fair, healthy and ecological food system.

Another approach is the use of quality labels and certificates to create incentives for sustainable production and, at the same time, to create transparency on the demand side and trigger behavioral changes. Examples include initiatives to certify palm oil, coffee or cocoa in the

food sector and the EU Ecolabel in the textile sector (Beyers, Leventon & Heinrichs, 2023; Malik et al., 2021).

However, there is criticism that these approaches are not sufficient to counter negative spillover effects. For example, while the EU Due Diligence Regulation is a powerful approach in principle, member states such as Germany inhibit its implementation and call for a lighter version. The German Due Diligence Act is criticized in terms of its effectiveness, in particular with regard to insufficient consideration of negative environmental impacts in supply chains. It is described as “a law disputed for being too much of a compromise with little consequences” (Elbel & O’Reilly, 2023, p.3). To address these problems, it is important to adopt more stringent regu-

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lations and use forums, such as the G20, to share best practices and scale-up effective initiatives.

### **AN AGENDA FOR ACTION**

In order to design new legislative and regulatory initiatives to address negative spillover effects, it is highly important to consider the perspectives of affected countries. So far, policy making in high-income countries to regulate negative spillover effects is usually not accompanied by dialogue and consultation processes involving relevant partners from the Global South. Without such dialogue processes, the implementation of due diligence laws with transboundary impacts may lead to a rejection by countries of the Global South, which experience the adverse impacts of the activities of multinational enterprises (Luthango & Schulze, 2023, p.6). Only through the principle of procedural

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fairness can grievances be remedied effectively and, on an equal footing, new procedures and standards be developed. It is thus essential to consider their perceptions on how to reduce negative spillover effects without jeopardizing parallel objectives, such as poverty reduction or food security.

In addition to adopting regulations at national level, high-income countries should also seriously support initiatives being promoted by countries of the Global South. While the political will to move from voluntary standards to more binding regulations and laws is increasing, it is not enough to set legislative initiatives at the national or regional level without participating in multilateral negotiations. One such initiative, currently negotiated, is a legally binding instrument on business and human rights that goes beyond the present non-binding United Nations Guiding Principles (Luthango & Schulze, 2023).

Collaboration is also important when it comes to improving data to measure negative spillover effects. Even though there is, for example, the Spillover Index already mentioned above, the data on which countries produce spillover effects in what ways and where is still very poor. Thus, the index currently maps negative spillover effects using fourteen indicators (e.g., measuring victims of modern slavery or CO<sub>2</sub> emissions embodied in imports), but still offers room for further development and refinement. Above all, it must be complemented by more and improved data, because only with concrete knowledge can appropriate solutions be found. Measures for realization include better equipment and closer cooperation with federal statistical offices, but also with other insti-

tutions that collect data. In doing so, the ability to collect relevant data must be improved not only among polluters, but also among those affected. There should also be further incentives and obligations for companies to provide detailed data on their activities. In addition, creative ways – such as the involvement of civil society in the polluting and in the affected countries, for example Citizen Science – also offer an opportunity to improve the data situation.

Citizens also play an important role, especially as consumers, when it comes to reducing negative spillover effects. While there are already sector-specific approaches that act on the demand side, such as the use of quality labels and certificates, they should lead to more conscious purchasing decisions. Here, the political and scientific community along with civil society also have the responsibility to raise awareness. Not only individual behavior must change, but above all a political and collective rethinking of our understanding of prosperity must take place. The prevailing understanding that takes GDP as the main indicator of progress and considers further economic growth as a systemic necessity is outdated, and has also led to current global resource consumption exceeding ecological limits. Promising approaches to measuring the well-being of societies beyond GDP, such as the Global Solutions Initiative's "Recoupling Dashboard" that illustrates the correlation of economic prosperity, social prosperity and environmental sustainability, need greater political attention.

### **WHAT IS THE ROLE OF THE G20?**

Without the G20 countries, the 2030 Agenda and the 17 SDGs cannot be achieved.

Collectively, the G20 countries are responsible for 80 per cent of greenhouse gas emissions and 75 per cent of world trade. As an informal yet powerful forum, the G20 brings a diverse set of economically significant countries together that both cause and have to suffer from negative spillover effects. While the G20 itself does not adopt international regulations, it serves as a leaders' forum that has the power to set agendas, coordinate national-level policy making and set strategy goals that are later implemented by international organisations. The G20 can also support multilateral decision-making processes such as the United Nations negotiations on a binding treaty on business and human rights.

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As it is clear that existing policy approaches are not sufficient to address all the multiple aspects and issues related to negative spillover effects, it is essential for the development of effective solutions to take into account different perspectives, especially of countries in the Global South. Furthermore, it is necessary to develop governance strategies, draft and implement laws, address data issues and mo-

tivate society to participate in the necessary changes. The best way to implement and achieve these basic requirements is through global dialogues and multilateral cooperation, tasks that fit the mandate of the G20.

However, in order to be effective as well as inclusive in contributing to setting a global agenda on tackling negative spillover effects, the G20 needs to reach out the countries not sitting at the table. The Indian G20 presidency should, for example, reach out to countries located in South and South-East Asia, like Bangla-

desh, Cambodia or Vietnam, and include them in deliberations on avoiding negative spillover effects.

This year, marking the half way point on the way to achieving the SDGs in 2030, provides an important opportunity to advance such an agenda. In light of set-backs in reaching the SDGs, the international community and especially the G20 need to accelerate action to support sustainable development not only at home but also in other countries. Tackling negative spillover effects is an important step in this direction.

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- <sup>1</sup> A negative externality is a cost that is suffered by a third party as a consequence of an economic transaction. In a transaction, the producer and consumer are the first and second parties, and third parties include any individual, organisation, property owner, or resource that is indirectly affected. Externalities commonly arise in situations where property rights over assets or resources have not been allocated, or are uncertain (Economics Online 2020).
- <sup>2</sup> The Ecological Footprint is the impact of human activities measured in terms of the area of biologically productive land and water required to produce the goods consumed and to assimilate the wastes generated. The Ecological Footprint can be calculated for a single individual, city, region, country and the entire planet (Global Footprint Network 2016).
- <sup>3</sup> In development cooperation the so called "Do-No-Harm" principle specifies that possible negative consequences of development cooperation should be identified, avoided and mitigated at an early stage (BMZ 2023).
- <sup>4</sup> The HLPF is the central United Nations platform for the follow-up and review of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) at the global level (UN HLPF 2023).
- <sup>5</sup> The SDG Summit marks the mid-point of the implementation of the 2030 Agenda. It will bring together political and thought leaders from governments, international organizations, private sector, civil society, women and youth and other stakeholders in a series of high-level meetings. They will carry out a comprehensive review of the state of the SDGs, respond to the impact of multiple and interlocking crises facing the world, and provide high-level political guidance on transformative and accelerated actions leading up to the 2030 deadline for achieving the SDGs (UN SDG Summit 2023).