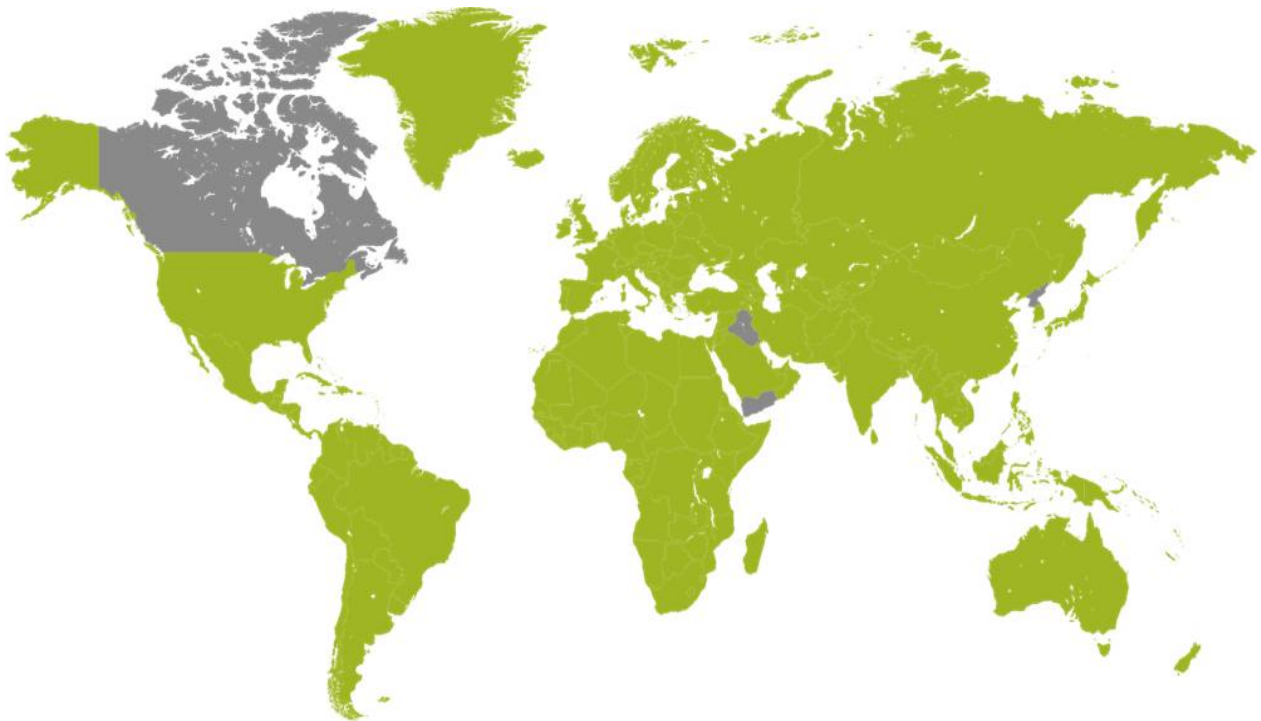


Report on the GCP Growth & Sustainability Survey 2020

With the cooperation of the Global Chamber Platform

January 2020

Growth & Sustainability Survey 2020



Global Chamber Platform

The GCP Sustainability and Growth Survey 2020 was conducted during December 2019 and January 2020 among members of the Global Chamber Platform. The Survey intends to gather a qualitative assessment from GCP Members on growth perspectives and sustainability issues. Thus, conclusions drawn from the answers reflect the majority opinion of GCP Members, without prejudice to diverging opinions of single members, which are sought to be highlighted in the report where appropriate.

The Global Chamber Platform (GCP) brings together the 16 major national and transnational Chamber organizations from the four corners of the globe. Its key objective is to facilitate trade and market access internationally as well as developing coherent and innovative answers to the challenges of globalization that the shift in global economic realities brings about for all players involved.

The geographical distribution of respondents that participated in the 2020 GCP Sustainability and Growth Survey allows for a snapshot of the global business perspective on key issues in this topic.

EXECUTIVE SUMMARY & RECOMMENDATIONS

I. Macroeconomic Outlook & business confidence

2019 was a very challenging year for the global economy, with 90% of advanced economies and 60% of emerging markets affected by various degrees of decelerating growth.¹ Both the International Monetary Fund and the World Bank downscaled 2020 projections following a post-crisis low in 2019.² GCP respondents affirmed that assessment, as their projections were lower than the original 2020 growth projections in the previous year.³

However, respondents from the Global Chamber Platform remain **cautiously optimistic for 2020**. They project that growth in advanced economies would continue at a modest rate, while emerging economies, especially those that had been affected by strong contractions of their economic growth in the previous year, would be growth drivers in 2020. In this sense, GCP respondents from India, Turkey, Latin America, and Russia have signaled some of the most optimistic growth forecasts for 2020 when compared to recent World Bank projections. The United States also showed strong optimism for its economy in 2020.

Business confidence is also perceived as slightly more positive than in 2019. In line with global growth projections for 2020, a majority of GCP members expect business confidence to rise this year. Meanwhile, EU respondents were split between either expecting a constant or falling business confidence, reflecting the current volatile international economic and political environment.

II. Circular Economy

With the Circular Economy concept being an important solution to transition towards a more sustainable economy, more concrete measures for its implementation will need to be assessed across the globe. For GCP respondents, innovation support and trade facilitation are key: **financial incentives for innovative initiatives** aimed at waste reduction in the production cycle was coined as the most effective initiative, followed by the elaboration of **common standards** for secondary

¹ World Bank, January 2020. *Global Economic Prospects: Slow growth, Policy Challenges*. Available at: <https://www.worldbank.org/en/news/feature/2020/01/08/january-2020-global-economic-prospects-slow-growth-policy-challenges>

² International Monetary Fund, October 2019, World Economic Outlook, Global Manufacturing Turndown, Rising Trade Barriers. Available at: <https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>

³ World Bank, June 2019. *Heightened Tensions, Subdued Investment*. Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/31655/9781464813986.pdf>

raw materials. **Funding for capacity training** to make businesses fit for a sustainable economy as well as **the reduction of legislative barriers to cross-border trade of secondary raw materials** came in third place.

III. Climate Policy & Carbon Border Tax

With the presentation of the European Green Deal, the EU aims to assert its role as a key player for climate policy issues but also proposes measures with a variety of potential global impacts. On the issue of a potential **carbon border tax**, almost all respondents, including those from the EU, expressed strong views that any **carbon border measure must be WTO compliant**. In the eyes of GCP respondents, a crucial point if the EU wants to maintain its standing as leader of free and fair trade on the global scene.

Moreover, some respondents expressed fear of a retaliatory chain reaction of measures in response to a unilateral imposition of an EU Carbon Border Tax hampering global trade. EU respondents were particularly sensitive about the potential retaliation repercussions of such an initiative. At the same time, and absent global solutions on the matter, some GCP members saw potential in implementing a similar measure in their region to avoid competitive distortions.

Global action was seen favorably by the GCP when addressing the issue of carbon leakage. A vast majority of respondents agreed that in order to prevent such leakage, a **global carbon pricing mechanism would be needed**, as this would ensure a level playing field for businesses across the globe.

IV. Sustainable Finance

The private sector is a key player in creating more sustainable opportunities in the global economy. With investments in “greener” management assets, the private sector can play a vital part in the transition towards a more sustainable economy. With the European market representing more than half of the global sustainable assets managed, it becomes clear that there is a large potential across the globe to increase interest in sustainable investment opportunities.

GCP respondents were overwhelmingly supportive of measures that positively incentivize the private sector to choose sustainable options, be it through attractive fiscal advantages or better financing conditions. A **green risk correction factor** that provides more favorable financing conditions for sustainable activities, as well as where possible globally aligned **fiscal advantages** for green products and services would make such investments more attractive.

I. MACROECONOMIC OUTLOOK OF THE GLOBAL ECONOMY

1) Macroeconomic Outlook of the Global Economy

After a very challenging last year for world economic growth, the global economic outlook continues to be cautious. Global trade and investment were affected by a sharp contraction in 2019 – falling from 4% in 2018 to 1.4% last year⁴. 90% of advanced economies as well as 60% of emerging markets and developing economies experienced different levels of deceleration.⁵ Added to a rise in protectionism and underperforming in key industries, growth expectations had to be downgraded for the global economy. Against this backdrop, the GCP has issued a cautiously optimistic assessment for growth expectations in 2020, although collectively growth expectations by GCP respondents have been signaled to be slightly lower than the original World Bank projections for 2020.

Additionally, both the International Monetary Fund and the World Bank, while somewhat optimistic that global growth will pick up from the post-crisis low in 2019, have noted that faster growth would occur asymmetrically between advanced economies and emerging economies.^{6,7} The IMF surmises that countries that experienced a strong economic contraction will be a driving factor in improving overall global economic growth rates, such as Turkey, India or Russia.⁸ Advanced economies are expected to grow at modest rates, while China is projected to slow down to a more “sustainable” growth level.⁹

This assessment is in line with the GCP responses from the present survey. Compared to the most recent World Bank figures, especially TOBB, AICO, FICCI and TPPRF estimated more optimistic growth forecasts for their economies in 2020. In line with IMF projections, it seems that the main drivers of growth could come from countries strongly affected by a deceleration in 2019, while EU respondents largely expect the same modest level of growth for 2020 as projected by the World Bank. The United States projected a more optimistic outcome than World Bank figures, similar to the level of emerging economies, in this survey.

⁴ World Bank, January 2020. *Global Economic Prospects: Slow growth, Policy Challenges*. Available at: <https://www.worldbank.org/en/news/feature/2020/01/08/january-2020-global-economic-prospects-slow-growth-policy-challenges>

⁵ Idem.

⁶ Idem, p. 5.

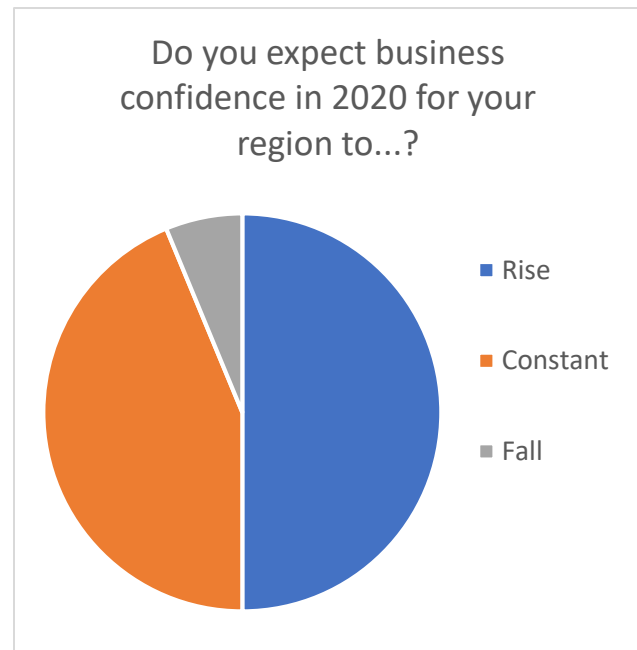
⁷ International Monetary Fund, October 2019, World Economic Outlook, Global Manufacturing Turndown, Rising Trade Barriers. Available at: <https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>

⁸ Idem, p. 12.

⁹ Idem.

2) Business Confidence Assessment

A slight majority of respondents are expecting a constant or rise in business confidence, while the European Union is had a more cautious outlook. Half of the EU respondents are expecting business confidence either to remain constant or to fall. This is in line with the EUROCHAMBRES European Economic Survey results from last year that indicated an ongoing downward trend in business confidence among EU businesses.¹⁰ Conversely, TOBB, CACCI, and FICCI expressed business confidence to rise, which would correspond to their more optimistic economic forecast in 2020. Compared to the overall 2019 Global Economic Survey results, this would constitute a more optimistic outlook of the global business community as expressed through the GCP responses.



II. CIRCULAR ECONOMY

3) What effective means could help to promote circular economy across the world regions and ensure a sufficient uptake of secondary raw materials in international value chains?

With the rising importance of the concept of Circular Economy among global policymakers and the completion of the Circular Economy Action Plan by the European Union,¹¹ the question arises how this concept could best be promoted across the globe. In order to ensure the measures taken by policy-makers are both sustainable and feasible for the economy, the input of the business community is vital.

¹⁰ EUROCHAMBRES, 2019. *European Economic Survey*. Available at: <http://bit.ly/EES2020Report>

¹¹ See DG ENVI, *Circular Economy*. Available at: <https://ec.europa.eu/environment/circular-economy/>

A clear favorite among GCP respondents is the introduction of financial incentives for innovative initiatives aimed at waste reduction in the production cycle, followed by the elaboration of common standards for secondary raw materials. The third most supported option is a draw between funding for capacity training on switching to make businesses fit for a sustainable economy and the reduction of legislative barriers to cross-border trade of secondary raw materials.



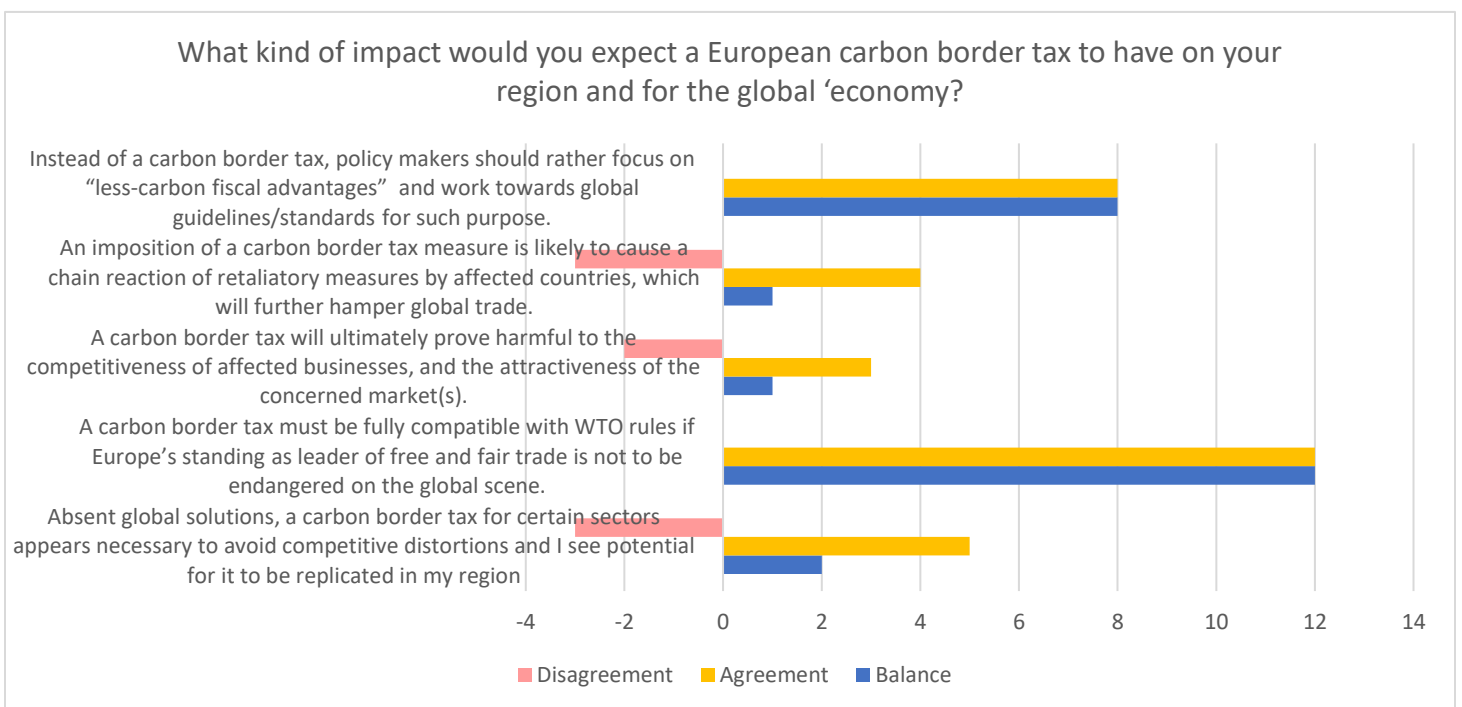
The results show that the business community strongly supports measures that will facilitate innovation and trade of secondary raw materials. The most popular answer enables innovation by providing additional funding, while common standards and the reduction of legislative barriers reduces the administrative overhead for businesses. As global investment levels remained low in 2019,¹² policymakers could help bridge the gap towards a circular economy with appropriate funding opportunities.

¹² World Bank, January 2020. *Global Economic Prospects: Slow growth, Policy Challenges*. p.5. Available at: <https://www.worldbank.org/en/news/feature/2020/01/08/january-2020-global-economic-prospects-slow-growth-policy-challenges>

III. CLIMATE POLICY & CARBON BORDER TAX

4) Impact of carbon border tax on the region and the global economy

With the announcement of the von der Leyen-Commission of a potential introduction of an EU carbon border tax for certain goods,¹³ the GCP survey puts the spotlight on the global repercussions such an EU initiative would have. In this regard, almost all GCP respondents, including the EU, plead strongly for a carbon border tax to be fully compatible with WTO rules if Europe’s standing as leader of free and fair trade is not to be endangered on the global scene.



Moreover, GCP respondents were supportive of exploring an alternative approach to a carbon border tax focusing on less-carbon fiscal advantages and to step up efforts towards global guidelines/standards for such purpose.

On the question whether an EU carbon border tax imposition could cause a chain reaction of retaliatory measures, some GCP respondents saw real risks of conflicts and a further hampering of global trade, although there was no conclusive consensus on that question among respondents.

¹³ Communication, European Green Deal, 2019. Available at: https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf

Interestingly, however, a majority of EU respondents showed strong concern about the danger of a retaliatory chain reaction.

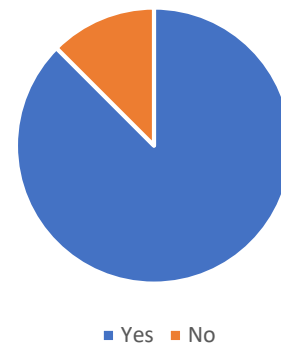
There is, however, some degree of agreement among GCP respondents that in the absence of global solutions. A similar measure could be replicated in other world regions to avoid competitive distortions.

Additionally, some GCP respondents provided extra comments on the issue, with one respondent noting that a unilateral carbon border tax could potentially hurt global climate negotiations, while another respondent suggested that any carbon border tax could be associated with measures for the internal market and start from a reform of the European Emissions Trading Scheme.

5) Global initiative against Carbon Leakage

While there are diverging views as to the degree of impact from carbon leakage, the results of the GCP survey show that carbon leakage is a matter of concern that can impact the competitiveness of affected businesses, and influence the decision-making process in implementing carbon pricing policies. In this regard, almost all GCP participants to the survey agreed that a level playing field for companies must be ensured by creating a global carbon pricing mechanism, in accordance with Art. 6 of the Paris Agreement. This result shows that there is support among the global business community to take global action to prevent carbon leakage to occur.

Do you agree with the need for a global carbon pricing mechanism to ensure a level playing field for companies?

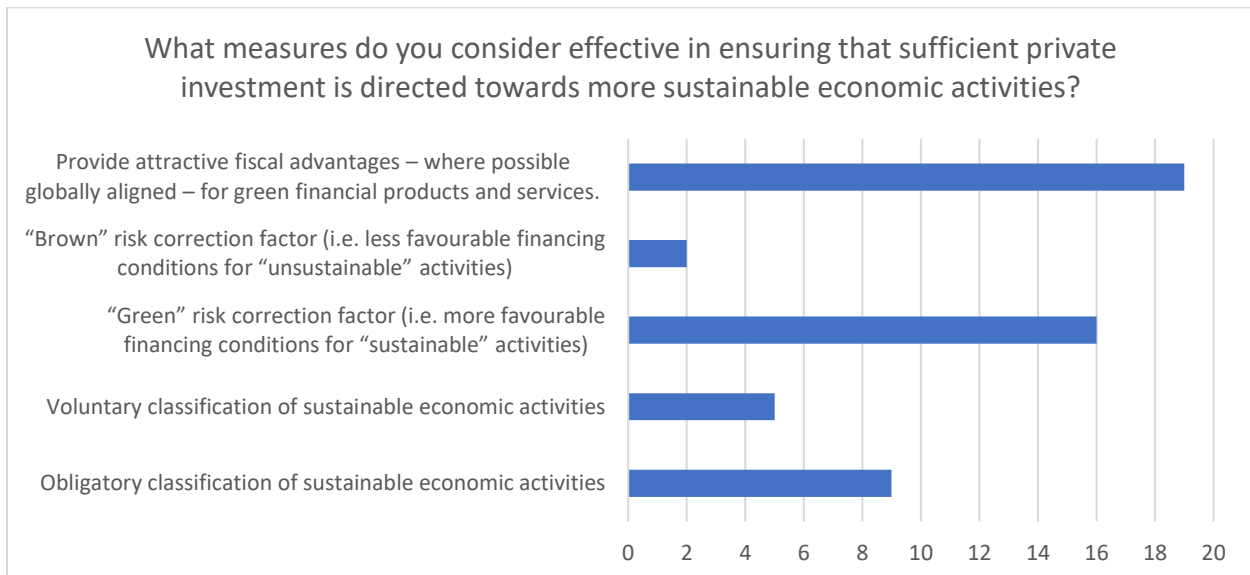


II. SUSTAINABLE FINANCE

6) Redirecting private investment towards more sustainable economic activities

Sustainable investments are increasingly gaining in value. In Europe, more than €11.1 trillion are in sustainable management assets.¹⁴ At the same time, the EU market for sustainable assets represents already more than half of the global market for sustainable investments.¹⁵ The European example highlights a large potential for the global economy in the field of sustainable asset investment, which should encourage more private investments across the globe in sustainable assets. To that end, it is key to assess what options would be the most effective to motivate private investors to “think green”.

GCP members were strongly in favor of a measure that incentivizes green investments rather than more punitive measures. Providing attractive fiscal advantages, where possible, globally aligned – for green financial products and services, was the preferred policy measure by the GCP. Almost all participants considered this option to be one of their top 3 policy recommendations. A close second is the introduction of a “green risk” correction factor, which would effectively provide incentives and create more favorable financing conditions for “sustainable” activities.



The results of the survey show that GCP members strongly prefer measures that positively incentivize the private sector to choose sustainable options, be it through fiscal advantages or better financing conditions, rather than punitive ones.

¹⁴ Bruegel, 2018. *Sustainable investing: How to do it*. Available at: https://bruegel.org/wp-content/uploads/2018/11/PC-23_2018.pdf

¹⁵ Idem.