



**Asia-Pacific  
Economic Cooperation**

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## **Understanding the Nexus Between Trade Liberalisation, Growth and Development**

Submitted by: OECD



**Symposium on How Free Trade  
Agreements and Regional Trade  
Agreements Can Contribute Towards  
Economic Growth  
Port Moresby, Papua New Guinea  
18 August 2018**



# UNDERSTANDING THE NEXUS BETWEEN TRADE LIBERALISATION, GROWTH AND DEVELOPMENT

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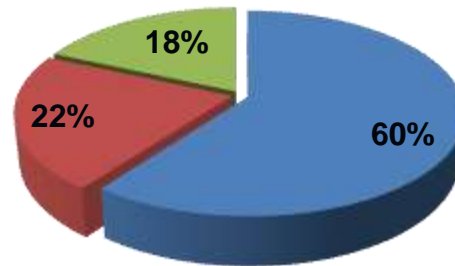
*SOM Symposium on How FTAs and RTAs can Contribute Towards Economic  
Growth*, 18 August 2018, Port Moresby



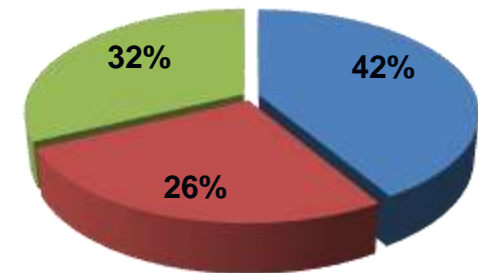
# GVCs are complex systems in which MNEs organise their operations



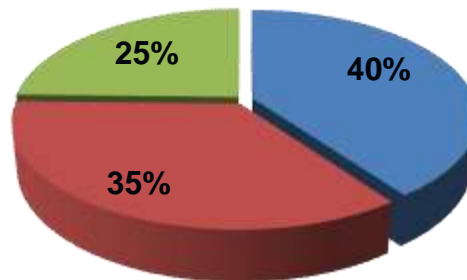
**Facebook  
(internet services)**



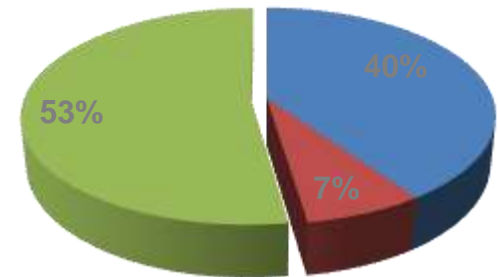
**Ericsson  
(electronics)**



**Les Laboratoires Servier  
(pharmaceuticals)**



**Nestle  
(food)**



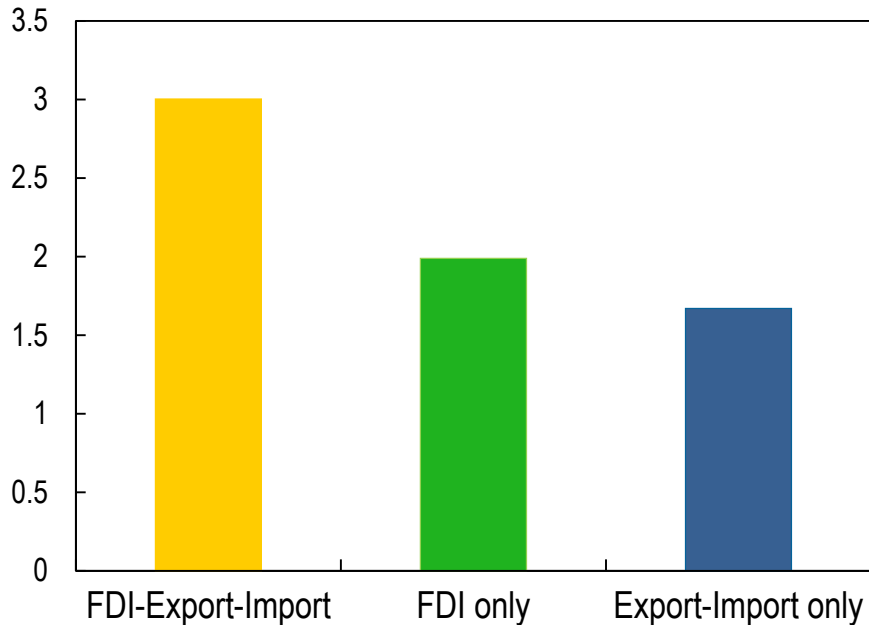
■ Trade ■ Strategic partnerships ■ Investment



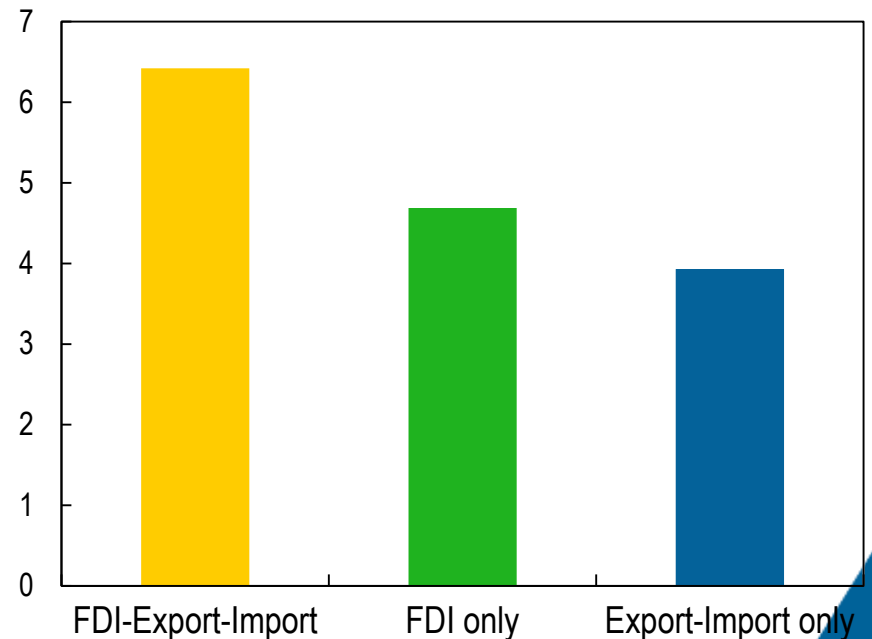
# Trade and FDI working together: why care?

create better jobs and add more value to host economies

**Wage premium relative to domestic firms**  
cross-economy average

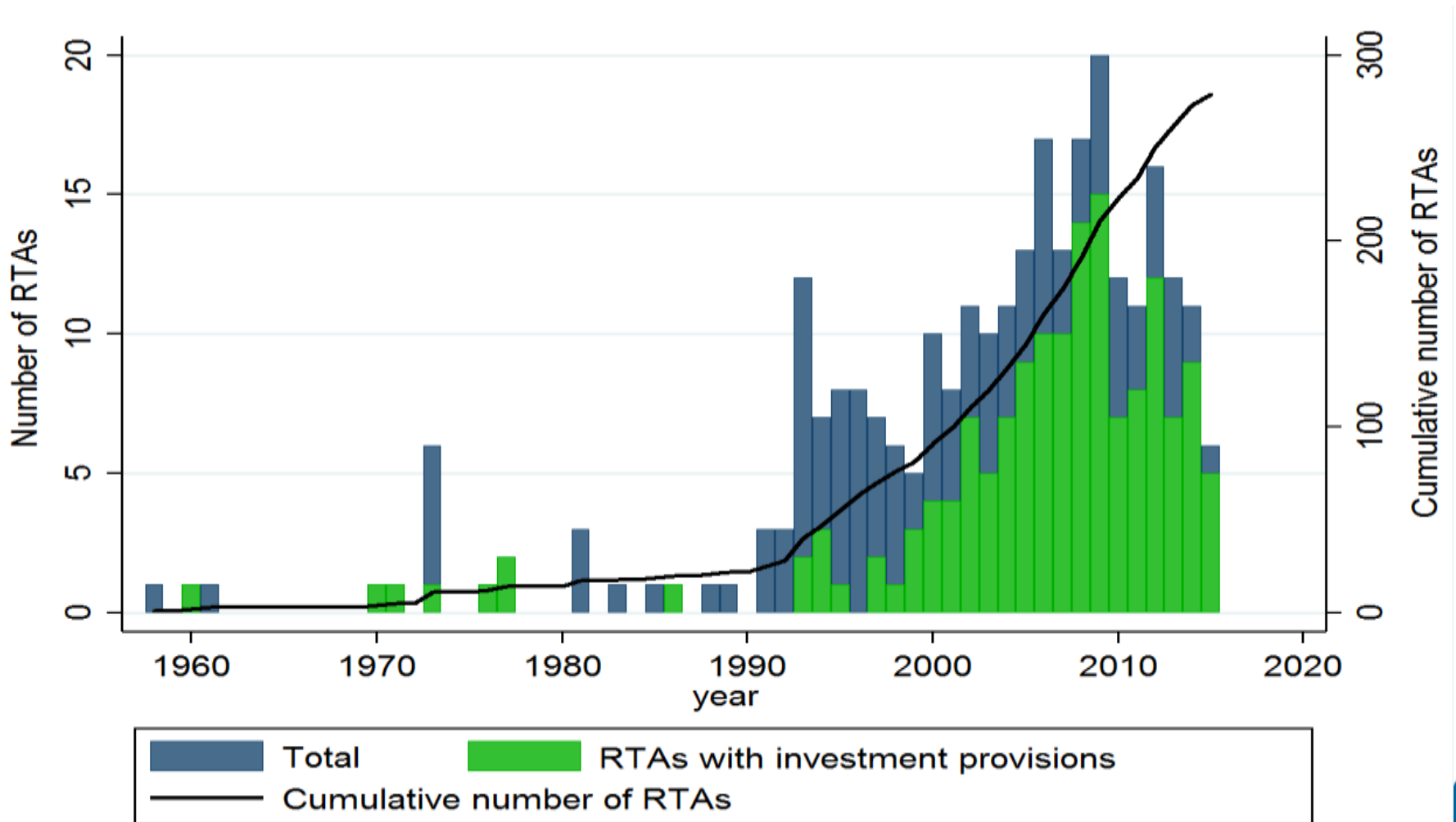


**Productivity premium relative to domestic firm**  
cross-economy average





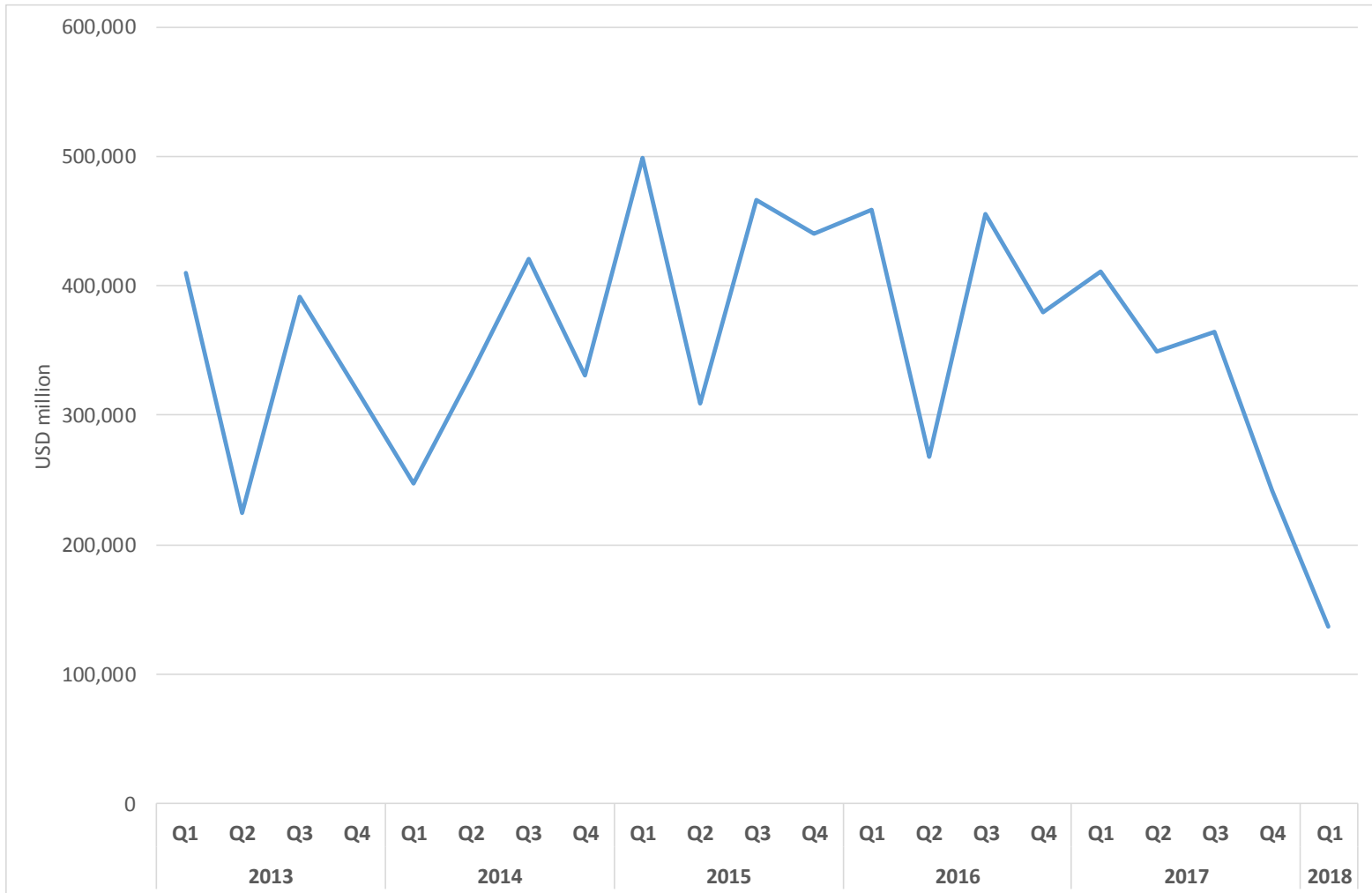
# FTAs include more investment provisions



Source: OECD, based on World Bank, WTO and WTI RTAs databases



# Global FDI outflows tumbles 44% in Q1 2018

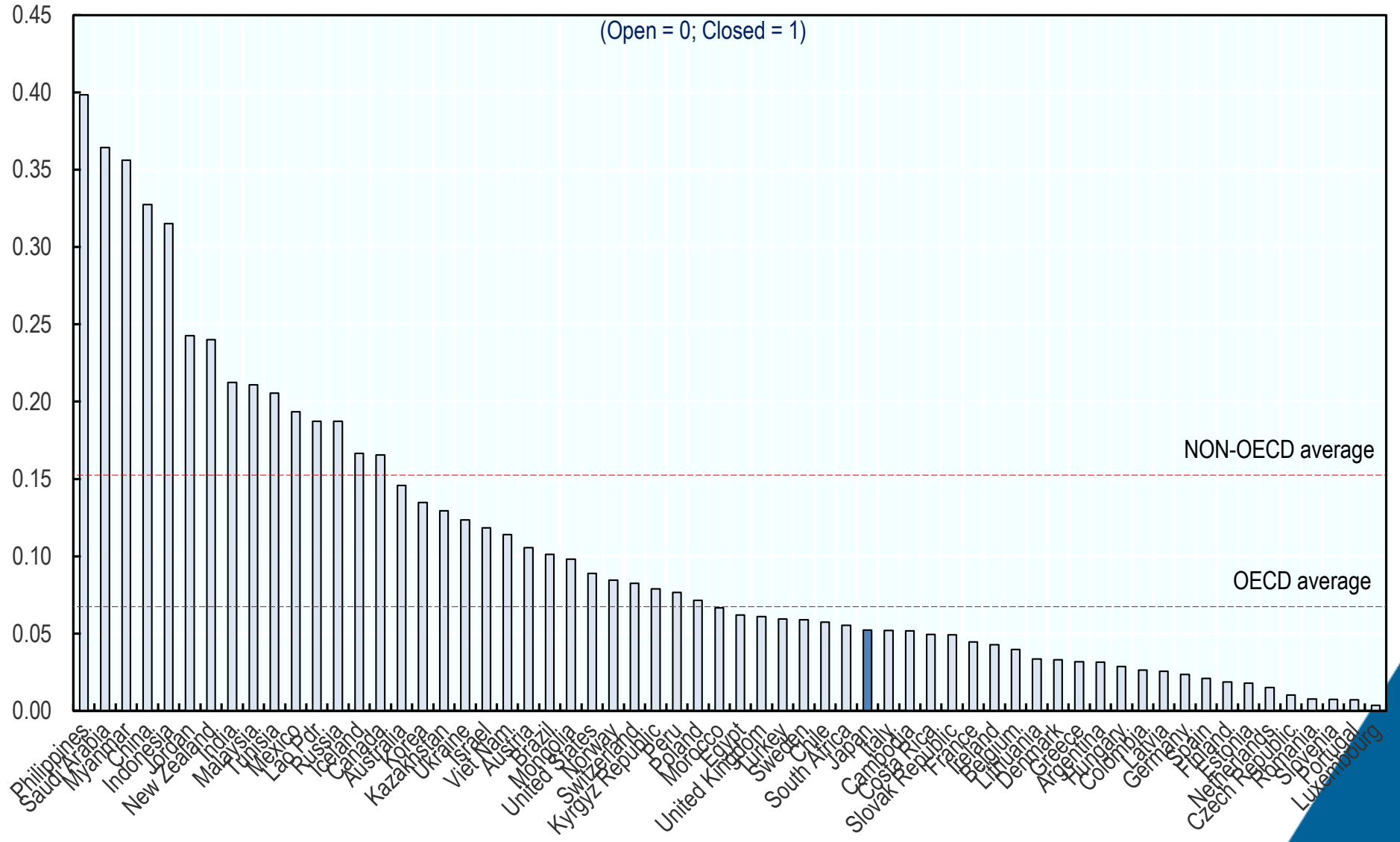


\*: <http://www.oecd.org/investment/investment-policy/FDI-in-Figures-July-2018.pdf>

Source: OECD Foreign direct investment statistics database and IMF

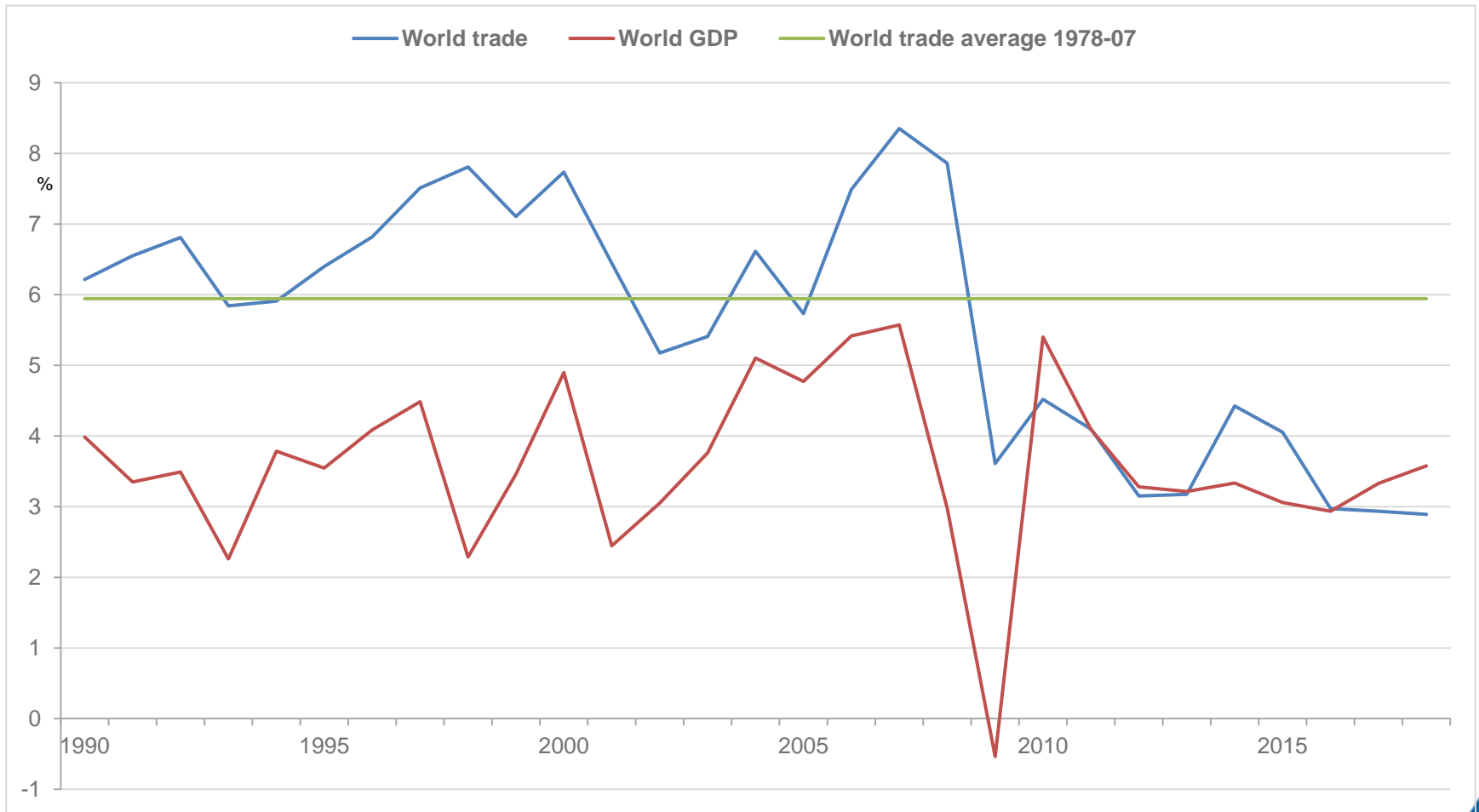


# The FDI Regulatory Restrictiveness Index shows that for traditional international investment policy we are doing ok...





# Trade growth has slowed significantly since the crisis and is yet to recover







# Some people are being left behind

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- **Inequality *within* economies** is rising.
  - Across the OECD and non OECD economies, the average income of the richest 10% of the population is growing. In OECD economies, it is about nine times that of the poorest 10%, up from seven times 25 years ago. This is driven in part by a surge in incomes at the top end, and especially among the top 1%.
- We are seeing **inequality of opportunity** as low income households struggle to invest in human capital.
  - socio-economic background matters for educational attainment: a one level increase in parents' education is associated with an average of an additional 20-30 score points in literacy proficiency.
- Some **regions are getting left behind**.
  - lagging regions that would theoretically need to quadruple their growth rates to catch up by 2050.



An integrated policy approach, both at home and internationally, to make the system work better for more people

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1. **Create an environment where benefits can materialise for more people**
  - Cut the costs: ***domestic regulatory environments that promote competition, innovation and opportunity***
    - Trade facilitation reforms can reduce the costs of trading by 12 to 18%.
    - Services trade restrictions impose costs on local firms that make them less competitive in export markets, equivalent to a sales tax of between 3% and 38% depending on the sector
  - ***Invest in capacity: infrastructure and human***
    - Physical -- and digital -- infrastructure
    - Education and skills -- from early childhood to lifelong learning.
      - Not just technical skills; cognitive, social and emotional skills for digitisation.
      - OECD evidence is that these are investments in both equity and growth.



An integrated policy approach, both at home and internationally, to make the system work better for more people

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## 2. Bring everyone along

- Provide active labour-market policies, adequate social-safety nets
- Pay special attention to lagging regions where the impacts of globalisation hit hardest, and options are often limited
- Look again at the toolkit; new social contract will be needed to opportunities and challenges (automation) from the digital transformation
  - On average across economies, 9% of jobs are at high risk of being automated, while for another 25% more jobs, 50% of the tasks will change significantly because of automation.
- Make trade and investment policy-making more open, allowing more people to inform and be informed by the debate



An integrated policy approach, both at home and internationally, to make the system work better for more people

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### **3. Make the international system work better for a fair global economy, using the full range of economic cooperation tools**

- Ranges from binding rules, to voluntary standards to dialogue and transparency
- Fill the gaps in the existing rules of the road
- Ensure that rules are enforced



## Where could more international co-operation improve the trade and investment climate?

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For example:

- Cross-border M&A has grown rapidly but competition policy still mainly implemented at national levels;
- Globalisations of SOEs
- Bribery and anti-corruption efforts
- Tax
- Economies improve domestic regulatory environments but regulatory incoherence across countries holds back investment;



# Responsible Business Conduct

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- Good progress on promoting responsible business conduct, like Guidelines for MNEs, but uneven coverage;
- Disruptions in global value chains can be limited with proper due diligence guidance but support for companies is uneven across sectors and countries;



THANK YOU

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