TRANSFORMATIVE

Making trade and investment work for people

by

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Both the UN Sustainable Development Goals (SDGs) and the OECD New Approaches to Economic Challenges (NAEC) explicitly recognise that trade and investment are not goals in themselves, but are a means to an end. That desired end is stronger and more inclusive growth, better jobs for more people, and improved societal well-being. Trade and investment policies cannot deliver these outcomes alone, but they can contribute as part of a wider package of comprehensive structural policy reforms, designed in light of the specific situation in countries at various stages of development.

Global value chains (GVCs) account for an increasing share of world income, reflecting the high degree of economic interdependence among nations today. All countries have increased incomes associated with GVCs, in particular major emerging economies, but these benefits do not accrue automatically. The fragmentation of production across borders highlights the importance not just of open, predictable and transparent trade and investment policies, but also of effective complementary policies that enable less developed countries (LDCs) and small- and medium-sized enterprises (SMEs), in particular, to participate in and to benefit from GVCs. In brief, making trade and investment work for people requires a coherent and well integrated public policy agenda.

GVCs magnify the costs of protection. As goods, services, capital, data and people cross borders multiple times, the cumulative effect of a number of individually small costs imposes a significant burden on traders and on investors. These costs can result from explicit restrictions, such as tariffs, from inefficient or unnecessary border procedures, and from constraints on the flow of capital. Where foreign investment is a driver of export capacity, the cumulative effect may even discourage firms from investing, or maintaining investment, in the country. As a result, production facilities, technologies and knowhow, and jobs might move elsewhere.

In a world dominated by GVCs, there is a tendency for more, and more demanding, regulatory standards, driven by the imperative to ensure reliability, quality, and safety. The right to regulate and to protect consumers is not in question, but regulations should be science-based, proportionate and non-discriminatory. Any
unnecessary costs imposed by excessive regulatory burden falls most heavily on SMEs and firms in LDCs, where the capacity to adapt is often limited. In too many cases, this can preclude effective participation in GVCs.

There would be no GVCs without well-functioning transport, logistics, finance, communications, and other business services to move goods and co-ordinate production along the value chain. Today, services represent over 60% of GDP in G20 economies, including 30% of the total value added in manufacturing goods. The supply of these services is often provided through investment, yet services markets remain relatively restricted in many countries, imposing high costs on domestic as well as foreign firms, limiting productivity growth, and constraining participation in GVCs unnecessarily.

GVCs also strengthen the case for unilateral policy reform. Domestic firms benefit from the expanded export opportunities that are often the aim of trade negotiations, but they also benefit from access to world class imports of intermediate goods and services. Opening your own markets, in particular for intermediate inputs, can benefit your own firms and workers. But the gains are even greater when more countries participate and markets for goods, services, capital, technology, data, ideas, and people are opened on a multilateral basis.

GVCs make evident the necessity of more coherent rules for trade and investment; this twin engine of development can only reach its full potential if other policy areas are also better aligned and in co-ordination with those on trade and investment. These areas include macroeconomic, innovation, skills, social and labour market policies among others. The nature of the enabling environment and complementary policies to accompany trade and investment opening depends on country specificities; while there is no ‘one size fits all’ policy recipe, there are a number of common ingredients.

Trade and investment opening are necessary but insufficient conditions for stimulating much needed and more inclusive growth, development and jobs. Accompanying policies that promote
responsible business conduct and enable the needed public and private investments, in particular in people, in innovation, and in strategic physical infrastructure, help ensure not just that growth is realised, but that the benefits are shared widely.

Useful links


OECD work on investment: www.oecd.org/investment

OECD work on trade: www.oecd.org/trade