Trade, investment and development

Issue

The G20 has a key role to play in ensuring an open global economy that will facilitate cross-border trade and investment by business to nurture the economic recovery, job creation and sustainable development.

Analysis

The Doha Round

Over the past 60 years, the multilateral trading system has contributed to improving the standard of living of billions of people across the world by creating new economic opportunities and providing greater choice and lower prices to consumers. An open international trade and investment environment is fundamental to foster economic growth, job creation, and prosperity.

The value of the rules-based multilateral trading system as an insurance policy against protectionism cannot be overstated. Without it helping governments resist strong protectionist pressures, open trade commitments would have been eroded even further than they have since the onset of the recent global crisis. The latest WTO-OECD-UNCTAD report reveals G20 governments implemented more *new* trade restrictive measures in the last six months than in any other previously reported period.[1] Of those measures, 30 consisted of new export restrictions, despite the 2010 Seoul commitment to rollback any new protectionist measure that may have arisen, including export restrictions. The G20 Seoul Summit Leaders' Declaration that "[w]hat we promise, we will deliver" has not borne true. In fact, the exact opposite is taking place.

The joint report further confirms an ICC-commissioned study, released by the Peterson Institute for International Economics in 2010, stating that all G20 countries have implemented protectionist trade measures since 2008.[2] G20 countries applied discriminatory measures worth US$1.6 trillion, or 10% of all world trade, in 2008 alone.[3] Therefore, locking in new multilateral trade liberalization commitments and strengthening WTO rules is especially needed to reign-in strong protectionist pressures in the global economy. WTO members must take a long-term view of what is at stake in the Doha Round and remind themselves of their individual and collective responsibility as custodians of the rules-based multilateral trading system.

A sustainable economic recovery hinges upon job creation. The International Labour Organization (ILO) estimates that unemployment rose between 30 and 50 million in the course of 2009. Despite the recovery of global GDP growth in 2010, labour markets have started to improve only recently – and only marginally. Thus, unemployment remains very high compared to historic levels. The WTO, OECD, ILO and World Bank predict further trade liberalization will lead to long-term employment growth worldwide, with lower-skilled employment rising from 0.9 - 3.9% and that of skilled workers rising by 0.1 – 4.0 %.[4] Domestic policies that help accompany labour market adjustments should be implemented in conjunction with trade opening. In an era of high budget deficits, a multilateral agreement on trade constitutes a fiscally-responsible method of creating employment.

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[1] *Reports on G20 Trade and Investment Measures (Mid-October 2010 to April 2011)*, OECD, ILO, WTO, released 24 May 2011.

[2] Figuring Out the Doha Round", Policy Analyses in International Economics 91, by Gary Clyde Hufbauer , Jeffrey J. Schott and Woan Foong Wong, June 2010 • 128 pp. ISBN paper 978-0-88132-503-4.

[3] Global Trade Alert. www.globaltradealert.com

[4] *Seizing the Benefits of Trade for Employment and Growth*, OECD, ILO, World Bank, WTO Final Report submitted to G-20 Summit in Seoul (November 2010).

A failure to reach agreement on a future work programme by the December WTO ministerial conference would cause serious damage to the credibility of the WTO and the multilateral trading system more generally. The absence of progress on Doha combined with the proliferation of preferential trade agreements (PTAs) may lead to: a weakening of the multilateral trading system's capacity to deliver effective non-preferential global trade rules; the danger that such an environment could significantly restrict trade opportunities for developing countries; and an increasingly complex regulatory environment for companies engaged in cross-border trade. Businesses base their activity and competitiveness largely on a global network which require long-standing commitments. A multilateral trade agreement can best guarantee the needed predictability of the business conditions upon which such investment decisions are made. G20 leaders acknowledged in Seoul that uneven growth and widening imbalances fuel the temptation to diverge from global solutions into uncoordinated actions, but that such uncoordinated policy actions only lead to worse outcomes for all. PTAs should be viewed as a complement to the WTO, not a substitute.

Current WTO rules lack the effective checks on PTAs that have the potential to promote regional economic gains at the expense of multilateral trade. Efforts to make relevant WTO provisions more explicit and comprehensive with regards to PTAs have yielded limited practical results, yet only on a provisional basis. The role PTAs play in conjunction with the multilateral trading system fundamentally calls into question the founding precepts of the WTO. Given the proliferation of PTAs, both governments and businesses should seek effective ways to ensure complementarity between multilateral and preferential trade rules and remind themselves of the primacy of multilateral rules-based trade.

The G20 was created to promote multilateralism and international economic cooperation. The multilateral trading system is the most successful example of international economic cooperation and there is simply no substitute to this system for locking-in the benefits of trade liberalization through effective rules and commitments that benefit all WTO members. G20 leaders must demonstrate the necessary leadership and collective will to deliver a substantive political response to the ten years of work on the Doha Round. Failure to do so would constitute an abdication of responsibility on the part of G20 governments, and an unfortunate admission that the G20 is not yet able to live up to its ambitions of being "the premier forum for international economic cooperation".

Working towards a framework for FDI

Global FDI flows have risen rapidly in the past two decades.[5] FDI inflows worldwide more than quintupled from US$208 billion in 1990 to US$1.1 trillion in 2009. The total stock of inward FDI rose at the same time from just under US$2 trillion to nearly US$18 trillion by end-2009.[6] In that year, this stock generated sales by foreign affiliates of about US$29 trillion – almost twice the value of world exports (US$16 trillion). In other words, FDI has become critical in the delivery of goods and services to foreign markets.

The major changes in FDI patterns preceding the financial crisis will likely continue and gain momentum; the relative weight of developing and transition economies as both destinations and sources of global FDI will continue to increase as these economies lead current FDI recovery. While the majority of FDI continues to go to developed countries, that share has been dramatically eroded to 51% by end-2009. Simultaneously the share of FDI going to developing countries has more than doubled from 17% to 43%. Additionally, the outward FDI flows from developing

[5] UNCTAD, *World Investment Report 2010 Overview: Investing in a Low-Carbon Economy* (Geneva: UNCTAD, 2010).
[6] UNCTAD FDI statistical database http://stats.unctad.org/

countries rose from 5% in 1990 to 21% in 2009 and that of transition economies increased from a negligible amount to 5% of global FDI outflows during the same period.[7]

G20 leaders should recall that FDI and local investment are not alternatives to each other. Rather, they are complementary in a mutual partnership of cooperation and competition, with a key role for FDI in improving the growth impact of overall private investment. Successful and sustainable investments by companies enable employees, suppliers, customers/consumers, communities and host countries to participate in the value generated by these investments.

A concrete step for G20 leaders to take would be to build on efforts of past G8 and G20 Summits aimed at "creating a predictable and stable climate for investment" and elaborate a reference framework for international investment, as a practical tool to help countries review their international investment agreements.

Such a non-binding framework could help to build common ground and understanding, and provide more clarity, predictability and transparency for companies investing across borders. Agreement on shared principles may serve as a basis for a more structured and wider process towards an agreed common multilateral framework in the long-term.

Given the evolving nature of the international investment law regime and its multi-faceted, multi-layered nature, a first step toward such a reference framework would be to examine to what extent agreement already exists on key elements.

From a global business perspective, key elements to include in a reference framework for international investment would be:

- the absence of violent conflict,
- a broad definition of investment;
- transparency and predictability;
- a negative list approach for pre-establishment, including national treatment, MFN treatment and market access provisions;
- national treatment and MFN treatment in the post-entry stage;
- a high standard of investment protection;
- provisions for comprehensive and unrestricted transfer of funds; and
- a requirement to provide for investor-to-state dispute settlement procedures.

Strengthening the business contribution to sustainable development
Business contributes resources, skills, infrastructure, goodwill, and technological innovation in support of economic and social development, even in the most adverse circumstances. Examples of sustainable business solutions that expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways include: the creation of employment opportunities either directly or through companies' value chains as suppliers, distributors, retailers and service providers; the supply of affordable products and services to meet basic needs for food, water, sanitation, housing and health care; and innovative business models to enhance the access to key development enablers such as energy, communications, financing and insurance.

[7] "Encouraging and Strengthening Foreign Direct Investment", B20 Working Group II Seoul, Korea (November 2011).

The challenge now is to scale-up these models to make faster progress in wealth creation and sustainable development. Meeting the needs of the developing world, and especially those of the so-called “bottom-half of the pyramid”, represents a huge opportunity for business, given long-term demand for investment, infrastructure, products and services in these regions. Business is committed to sharing the benefits of such opportunities by creating jobs, building skills, developing new technologies and investing in communities.

Collaboration between business, government and civil society, especially through public-private partnerships, has succeeded in furthering the objectives of poverty reduction and sustainable development. Business is convinced that substantial private investment will flow to countries that can establish conducive business environments and a level playing field. Business can do more if it is more embedded in the economic fabric of societies and has a greater stake in their future development. This will only happen if companies have a predictable stable investment and policy environment. In this regard, business has consistently emphasized the importance of mobilizing domestic resources, encouraging local entrepreneurship and fostering foreign direct investment.

Business alone cannot develop sustainable market-based solutions to poverty challenges. The support of government to establish sound enabling frameworks and new innovative funding mechanisms, which to be deployed successfully, requires collaborative action on issues such as:

- promoting open and competitive markets based on the principles of non-discrimination and national treatment;
- establishing regulatory frameworks that uphold property rights, accelerate entry to the formal economy and root-out corruption;
- providing capacity building and general education;
- facilitating access to finance and investment mitigation instruments, in particular for SMEs;
- securing the necessary investments into core infrastructure, such as roads, energy systems, telecommunications and ports; and
- creating a catalytic fund for new public-private partnership cooperation models, whereby financial support should be focused on those fields where there is a particular need for action and whereby those means are necessary to deploy cost-efficient and highly innovative approaches by companies on the ground. In particular, the financial and public support is needed to reduce and jointly share the investment risks for business and to enhance the regulatory framework and set standards, where necessary.

Business has a critical role to play in accelerating progress towards sustainable development as an engine of economic growth and employment, as a key contributor of government revenues, and as a driver of innovation, capacity building and technology development. The success of sustainable development and poverty alleviation depends upon actively engaging the private sector. Business commits to partnering with governments to build capacity and supports strengthening the policy tools and indicator framework of the Inter-Agency Working Group on the private investment and job creation pillar of the G20 Multi-Year Action Plan on Development.[8]

Recommendations

- ICC strongly recommends that the G20 take concrete decisions that will lay the ground for an ambitious, balanced and comprehensive Doha Round agreement under a single

[8] “Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains”, Interim report to the High-level Development Working Group (June 2011)

undertaking approach as originally envisaged, if possible. At the very least, the G20 should agree to implement a future work programme at the WTO's December 2011 Ministerial Conference.[9] At the same time, G20 governments should re-engage substantively in negotiations among themselves and with other WTO members to produce better offers on agriculture, industrial goods, and services.

- G20 leaders should build on efforts of past G8 and G20 Summits aimed at "creating a predictable and stable climate for investment" and elaborate a reference framework for international investment, as a practical tool to help countries review their international investment agreements. Agreement on shared principles may serve as a basis for a more structured and wider process towards an agreed common multilateral framework in the long-term. From a global business perspective, key elements to include in a reference framework for international investment would be:
  - the absence of violent conflict,
  - a broad definition of investment;
  - transparency and predictability;
  - a negative list approach for pre-establishment, including national treatment, MFN treatment and market access provisions; and
  - national treatment and MFN treatment in the post-entry stage; and
  - an investor-to-state dispute settlement mechanism.

- The G20 should create the conditions for scaling-up the business contribution to sustainable development through public-private partnerships and the creation of conducive business environments. Business commits to partnering with governments Business is committed to partnering with governments to develop solutions, build capacity and empower people to find the pathway out of poverty. Business also supports the G20 strengthening the policy tools and indicator framework of the Inter-Agency Working Group on the Private Investment and Job Creation Pillar of the G20 Multi-Year Action Plan on Development through, among others:
  - technical assistance;
  - investment policy reviews;
  - exchanges of best policy practices;
  - fostering linkages between foreign investors and domestic enterprises;
  - advisory services on streamlining of investment facilitation;
  - advisory services on improvement of governance in investment promotion; and
  - advisory work on international investment agreements to ensure coherence with national policy objectives.[10]

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[9] Schott, Jeffrey J. "What Should the United States Do about Doha?" Policy Brief 11-8, Peterson Institute for International Economics (June 2011).
[10] "Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains", Interim report to the High-level Development Working Group (June 2011)