A Perspective on Trade and Sustainable Development

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Overview

• The Key Ingredients for Sustainable Growth

• Macroeconomic, Structural, Trade and Investment Dimensions

• Where are the Rules?

• Conclusion
Challenges to Sustainable Growth

**Finance**
- Volatility and capital flight
- Global imbalances
- Unsustainable debt

**Governance**
- Corruption, crony capitalism, and SOEs
- Inequality and social unrest
- Under-investment in enabling environment

**Trade**
- Rising protectionism
- Regionalism: ‘Spaghetti-Bowl’ of FTAs
- Competitiveness challenges
Sustainable Development Requires a Comprehensive Approach... Domestically

**Finance and Investment**
- Sound macroeconomic environment
- Strong and stable financial sector
- Efficient and competitive tax system

**Governance**
- Improve economic infrastructure
- Undertake structural reforms
- Enhance inclusivity and equality

**Trade**
- Build on trade’s contribution to GDP
- Promote value chains
- Deepen integration
Sustainable Development Requires a Comprehensive Approach...Internationally

Finance and Investment
- Financial, fiscal and monetary sector coordination (IMF, FSB etc.)
- International coordination

Governance
- Effective peer review (UNCTAD etc)
- Doing business (World Bank)

Trade
- As an enhancer of growth and development: (WTO and regionally)
Sound macroeconomic policies:

- Appropriate fiscal and monetary policies
- Deep and liquid financial markets

Cross-cutting issues require coordination between Bretton Woods institutions:

- Global imbalances
- Currency manipulation
- Capital controls

**Global Imbalances**

As a % of World GDP

- US
- OCADC
- Oil Exporters
- China and Emerging Asia
- Germany and Japan
- Rest of World
- Discrepancy

Source: IMF World Economic Outlook Database (April 2014)
Fiscal Adjustment Needed

Addressing the Debt Challenge
(Gross Debt as % of GDP)

Selected Tax Yields (2011 or latest)
(Yield = Tax Revenues in % of GDP Divided by Standard Tax Rate)

Source: IMF World Economic Outlook Database (April 2014)

Source: IMF Regional Economic Outlook – Asia and Pacific (2013)
Economic Infrastructure Needed

Physical Infrastructure in Asia and Pacific

Source: Asian Development Bank: Key Indicators for the Asia and Pacific (2013)
Structural Reforms Needed

Number of Procedures Required to Start a Business
(WEF Global Competitiveness Ranking of 148 Countries)

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<th>COUNTRY/ECONOMY</th>
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<td>Venezuela</td>
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Relationship between Legal System and Property Rights and Growth
(Measured by Fraser Index of Economic Freedom. Higher index scores indicate less restriction)

GDP Per Capita (log)

- Advanced Economies
- Emerging Economies
- Low Income Countries

Source: IMF: Anchoring Growth (December 2013)
Enabling Sectors

FINANCE

TRANSPORTATION

TELECOMMUNICATIONS

ENERGY
Enabling Value Chains

To thrive, GVCs also require an enabling environment:

- Trade and services infrastructure
- Supportive business conditions
- Sound fiscal and monetary polices
- Good governance

Main Barriers to Developing Countries Participating in Value Chains

Source: OECD, 2013
Inclusivity and Equality

Unemployment Rate
(% of Labour Force)

Population Below Selected Poverty Lines
(% of population, latest country data)

Source: IMF: World Economic Outlook Database (April 2014)
Source: World Bank: Poverty and Equity Databank (2013)
Structural Reform Must Include People!

**Figure 24 - Knowledge Economy Indicator**

- **Africa**
- **North Africa**
- **Sub-Saharan Africa - Resource Rich**
- **Sub-Saharan Africa - Resource Scarcely Coastal**
- **Sub-Saharan Africa - Resource Scarcely Landlocked**
- **Middle East**
- **Latin America**
- **East Asia and the Pacific**
- **South Asia**
- **Western Europe**


**Changing Structure of Employment as Economies Develop**

- **Agriculture**
- **Services**
- **Industry**

Source: IMF, 1997
How to Finance Structural Reforms?

- New infrastructure needed to increase trade, growth and development
- Regulatory reform requires capacity building
- Education and skills development requires investment

Source: Asian Development Bank - Key Indicators 2014
Over 80% of world trade is linked to the production networks of multinational firms.

Firms, investment, and employment will gravitate to facilitating environments:
- Open investment policies
- Predictable and transparent regulation
- Competitive services industry
- Labour costs balanced to value-added production

Where are the Mandates? (I) The Macro Dimension

- **The IMF**: Articles of Agreement, e.g., no restriction on exchange of domestic money for foreign money; mandatory surveillance

- **Bank for International Settlements**: regulates capital adequacy and transparency of reserve requirements

- **Financial Stability Board**: Recommendations to improve financial markets, e.g., strengthened prudential oversight of capital, liquidity and risk management; enhancing transparency and valuation; changes in the role and uses of credit ratings; arrangements for dealing with stress in the financial system.

- **Basel Committee on Banking Supervision**: Supervisory Standards and Guidelines, e.g., statements of best practice in banking supervision (Basel III)

- **Financial Action Task Force**: Recommendations for combating of money laundering, financing of terrorism and proliferation of weapons of mass destruction
Where are the Mandates? (II) Structural Reforms

• **The World Bank, Regional Development Banks**: Integrated approach to infrastructure and regulatory reform; Doing Business Report

• **OECD, APEC**: Sharing best practices, policy analysis

• **Independent Entities**: Transparency International, World Economic Forum
Where are the Mandates? (III) Trade and Investment

- **The WTO**
  - Marakkesh Agreements
  - TBT Code of Good Practices; Ministerial Decisions

- **Investment**
  - Bilateral Investment Treaties
  - OECD Guidelines for Multinational Enterprises
  - UNCTAD Investment Framework for Sustainable Development

- **Trade-related Rule-Making**
  - World Customs Organization: “Harmonized System”
  - Sectoral Institutions: IMO, ICAO (transport); ITU (telecommunications): IEA (energy)
  - ISO (manufactured goods, services); Codex Alimentarius, (Codes of practice, guidelines, recommendations relating to food safety); International Organization on Epizootics (animal health and safety), International Plant Protection Commission on Phytosanitary Measures
  - Private Standards
National Architectural Issues in Rule-Making

Legislation
Regulation
Agency Delegated Authority
SROs
Police – Prosecution – Criminal Code - Competition
Finance:  CB’s– FSAs – SXC’s
Trade:  Trade Administration – Tax – Customs
Voluntary/Ad Hoc (eg Rating agencies, industry standard-setting)
Conclusions

• Good macro policies, structural reforms, and the embrace of trade must accompany each other for sustainable growth

• Rule-making, both hard and soft, is an inherent element of the development agenda

• Think national-international, and across institutions