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Trade & Competitiveness

Recent Developments in Trade and Investment

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Stucture of the presentation

I. Trends in global trade: causes and consequences of the recent slowdown

II. Trends in cross-border investment: a call for greater policy coherence

III. Sustaining a commitment to open markets: thinking beyond trade and investment policy

I. Trends in global trade: causes and consequences of the recent slowdown

- **What is happening?**
- **Why?**
- **Does it matter?**

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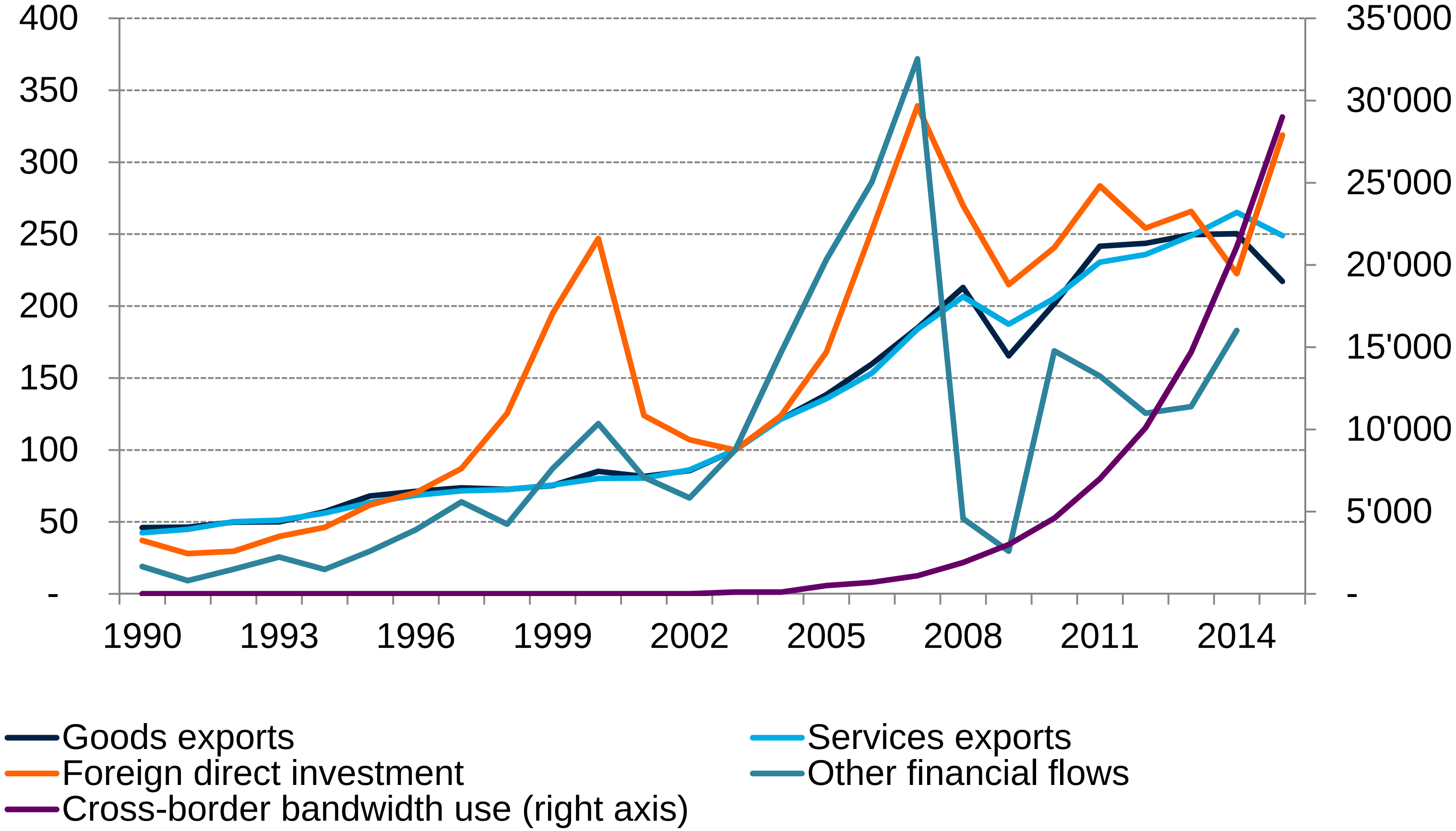
Except for digital flows, all types of cross-border flows have decelerated after the 2007-08 crisis

Global flows of goods and services, foreign direct investment, other financial flows and cross-border data, 1990-2015

(*Index: 2003=100 and terabytes per second*)



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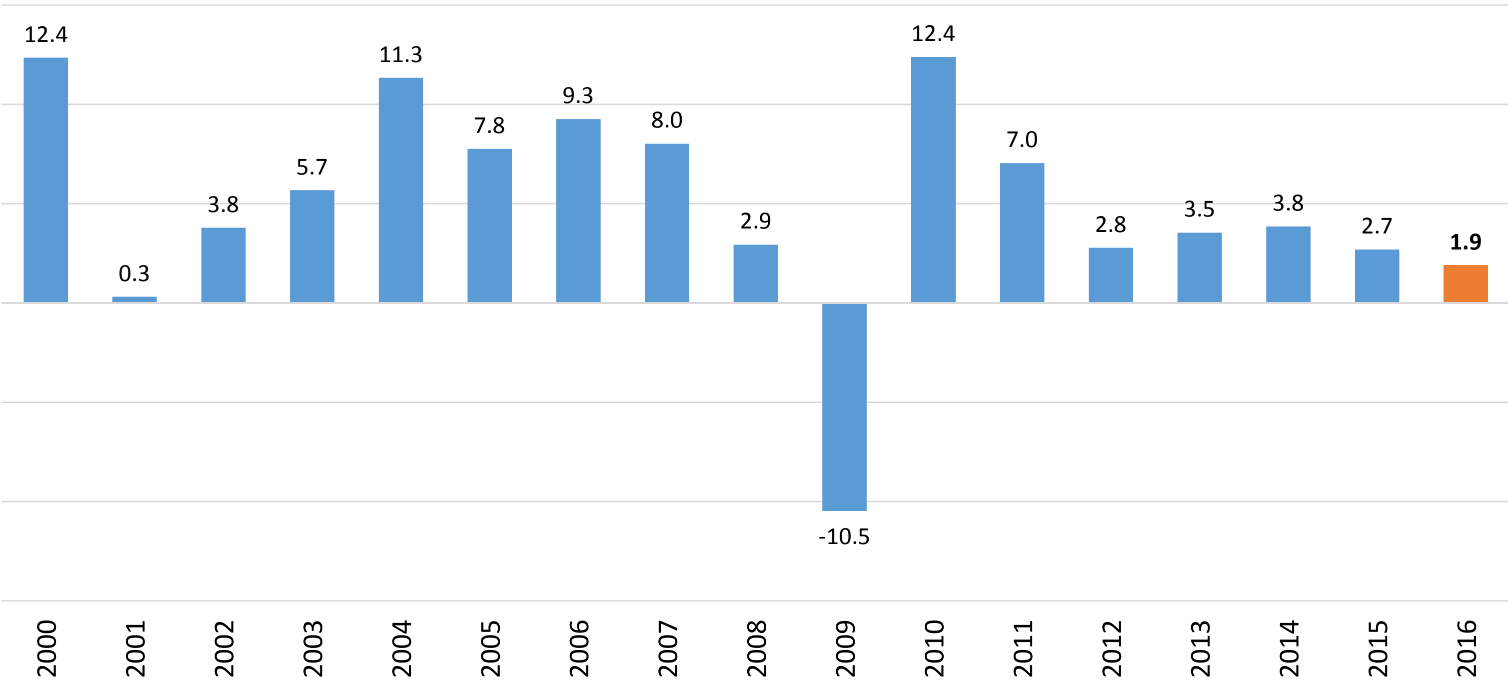
World trade growth in 2016 was the weakest since 2010

World goods and services trade volume (percent change)



Source: International Monetary Fund World Economic Outlook (2000-2014: IMF WEO Oct. 2016; 2015-2016: IMF WEO Jan. 2017).
Note: Simple average of growth rates for export and import volumes (goods and services).

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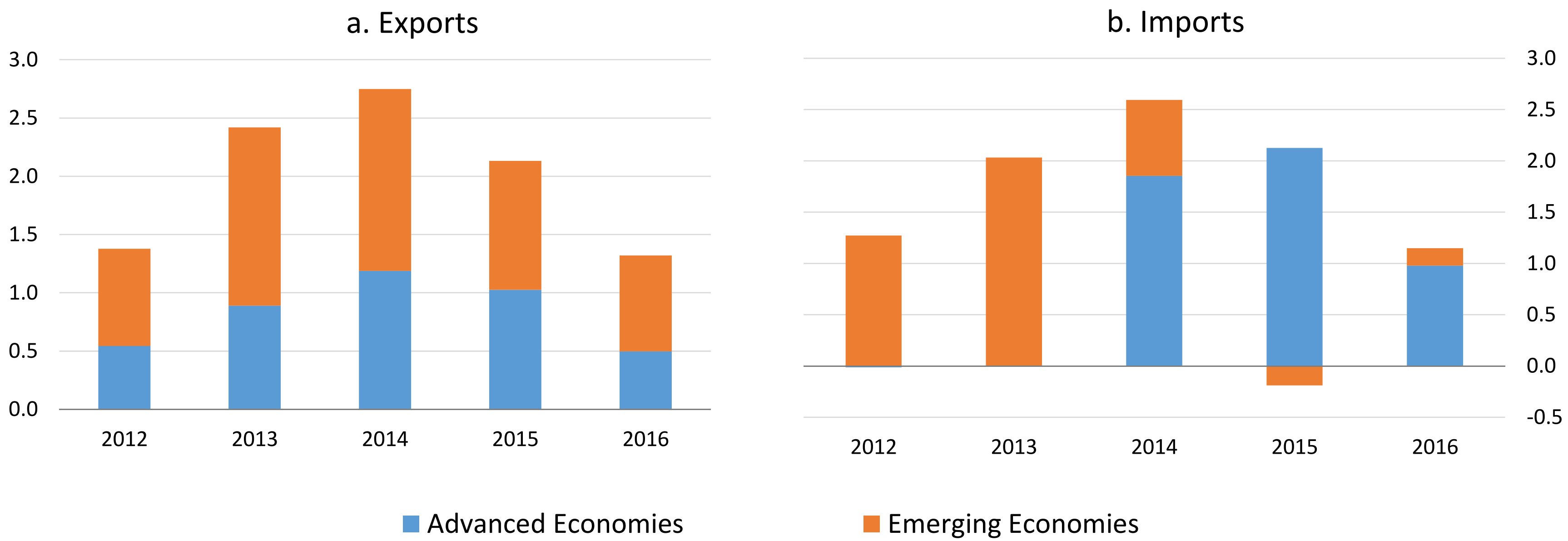
Trade sluggishness in 2016: a characteristic of both advanced and emerging economies

Contributions to growth in merchandise trade volume (percentage points)



Source: CPB Netherlands Bureau of Economic Policy Analysis and staff calculations.

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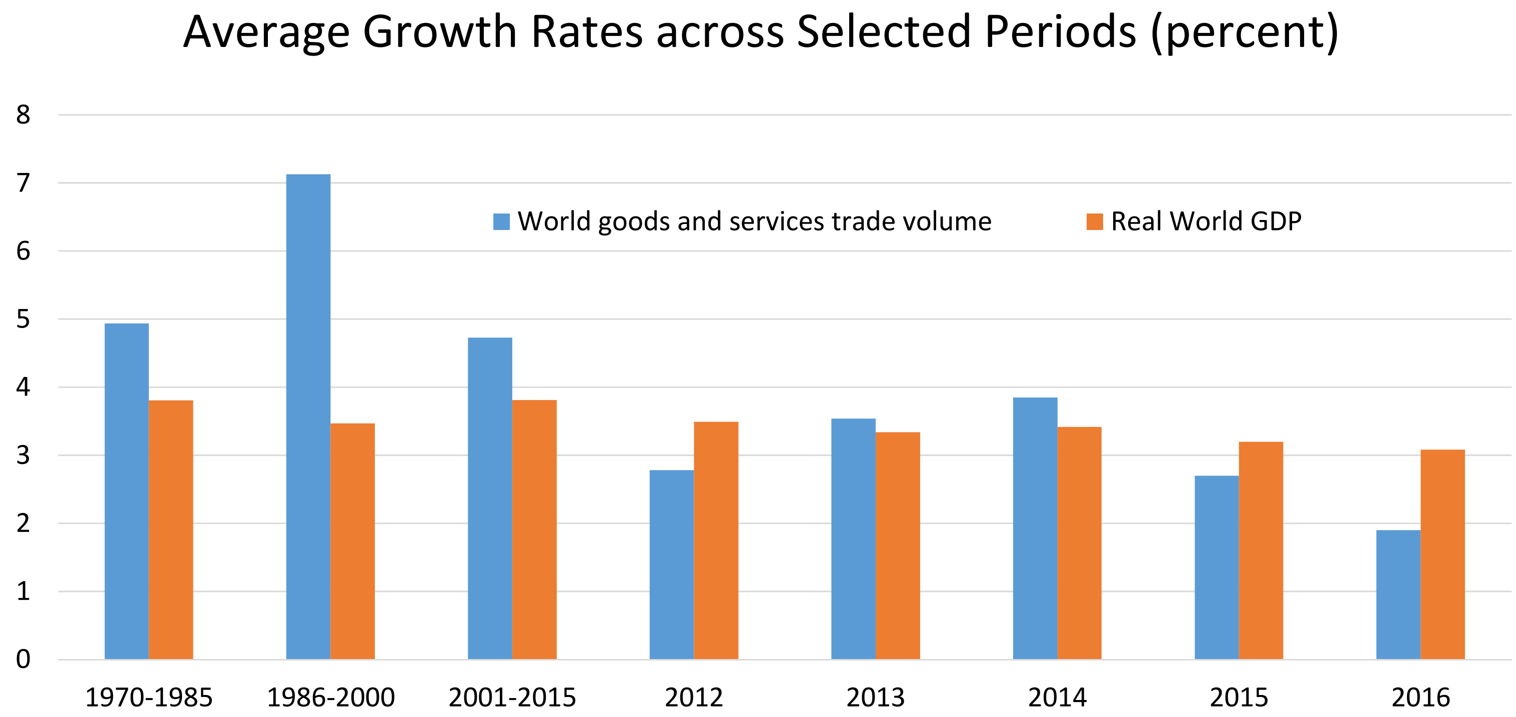
The relationship between world trade and income has changed in recent decades



Source: IMF World Economic Outlook.
Note: GDP growth aggregation based on GDP at PPP rates. Trade growth is the simple average of growth rates for export and import volumes (goods and services).

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The trade slowdown: cyclical and structural factors

Cyclical factors

- Sluggish worldwide growth
- Changes in the composition of aggregate demand (the shift from C+I to G)
- Policy uncertainty
- Rising trade and investment protectionism, though held in check by closer multilateral surveilance

Structural factors

- The end of the commodity super-cycle
- The shift to services (and the growing influence of FDI-led integration)
- An ebbing momentum in *negotiated* market opening, esp. mega-regionals
- The slowing pace of international vertical specialization/GVCs
- Pressures to onshore-reshore and bring back jobs «lost» to trade: the combined influence of technology (robotics, AI), politics, and environmentalism

The end of the global value chain revolution?

- Unwinding international production networks, especially in manufacturing, cannot be achieved easily nor without major disruptions to cross-border patterns of trade and investment and the sourcing networks (and suppliers) of MNEs.

- Doing so would also unwind an international division of labor that has generated far-reaching pro-poor benefits for workers and their families in the developing world in recent decades, alongside major consumer welfare gains globally.

- But stagnating GVCs have implications for (lower) productivity - and hence income - growth worldwide, as a major source of gains in cross-border allocative efficiency loses its influence.

Interim conclusions

- The slowdown in trade warrants policy attention as it weakens a key engine of global growth and heightens vulnerability to protectionism in major economies.

- Restoring momentum to trade and investment liberalization is important for reinvigorating global growth and advancing an inclusive trading environment.

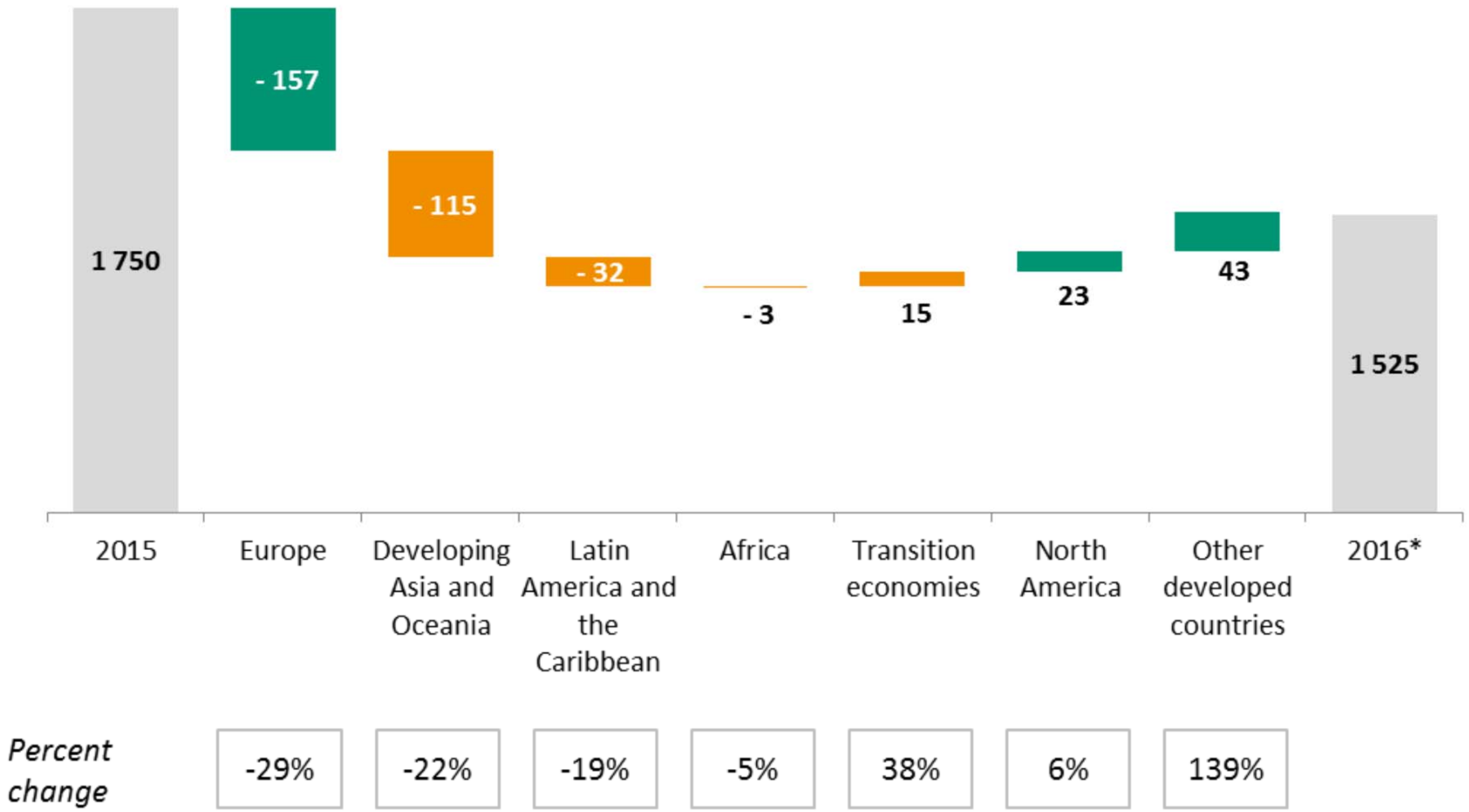
- Tackling the substantial barriers to cross-border activity that remain in large and growing areas of the global economy, such as services and digital trade, can make a particularly strong contribution to growth.

2. Trends in cross-boder investment: a call for greater policy coherence

Global FDI flows slipped in 2016

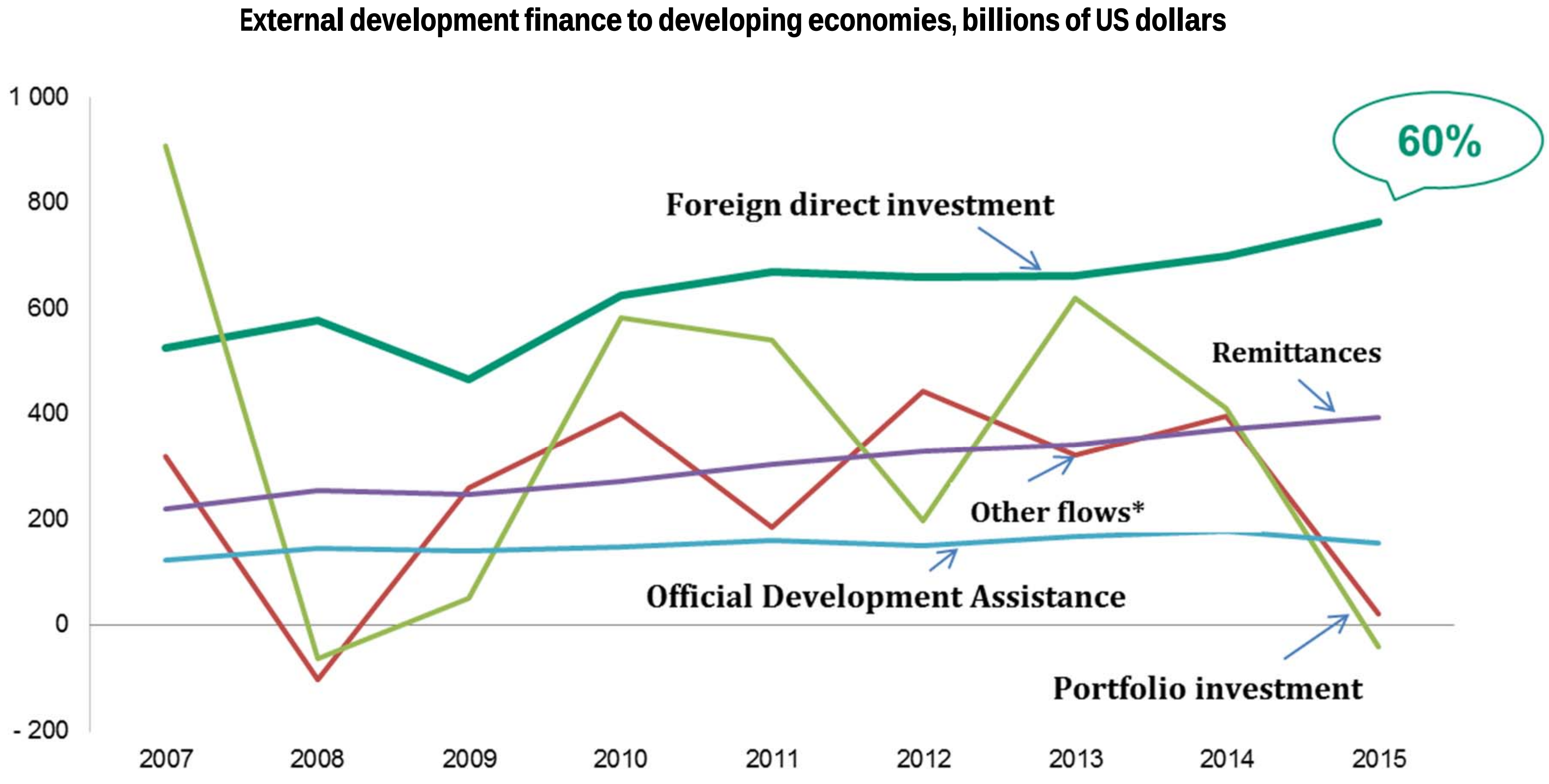
- Global FDI flows fell 13% in 2016, reaching US$1.52 trillion according to UNCTAD estimates, amidst weak global economic growth and world trade anemia.
- FDI flows have yet to recover levels reached prior to the Great Recession.
- The decline in aggregate FDI flows was far from homogeneous across regions, reflecting the asynchonous nature of global economic conditions.
  - FDI flows to *developed economies* dipped by 9% in 2016, to an estimated US$872 billion, reflecting weak European economic activity in particular.
  - Slowing economic growth and falling commodity prices weighed on FDI flows to *developing economies*, which reached US$600 bn in 2016.

Regional contribution to global FDI flows, 2015–2016
(Billions of US dollars)



Source: UNCTAD

But FDI remains by far the leading source of external funding for development…



Source: UNCTAD, based on based on data from IMF (for portfolio and other investment), OECD (for ODA) and the World Bank (for remittances).

* Other flows are loans among non-affiliated enterprises.

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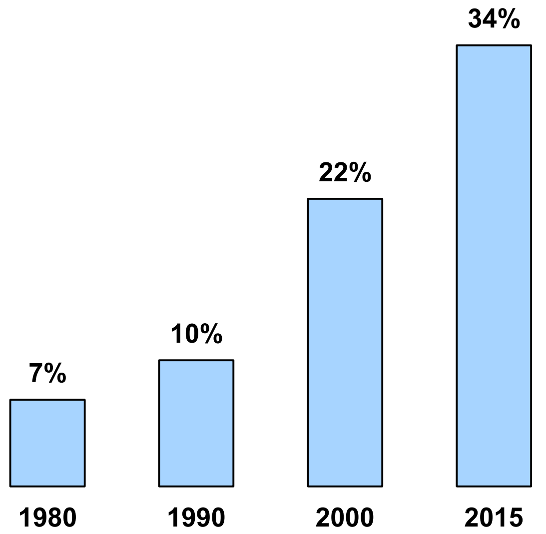
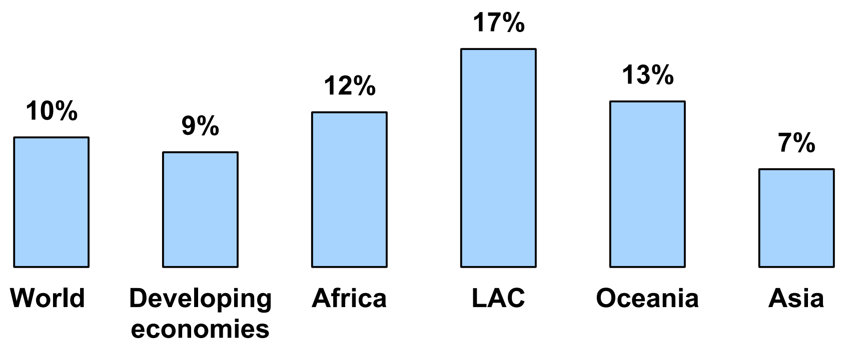
…and FDI makes an increasing contribution to capital formation in developing economies

Global FDI stock as a share of GDP



Global FDI flows as a share of GFCF, 2015



	1980	1990	2000	2015	World	Developing economies	Africa	LAC	Oceania	Asia
FDI stock (US$ billions)	701	2 197	7 488	24 983		8 374	740	1 719	29	5 886
FDI flows (US$ billions)	54	205	1 359	1 762		765	54	168	2	541

Source: UNCTAD.
GFCF=Gross Fixed Capital Formation

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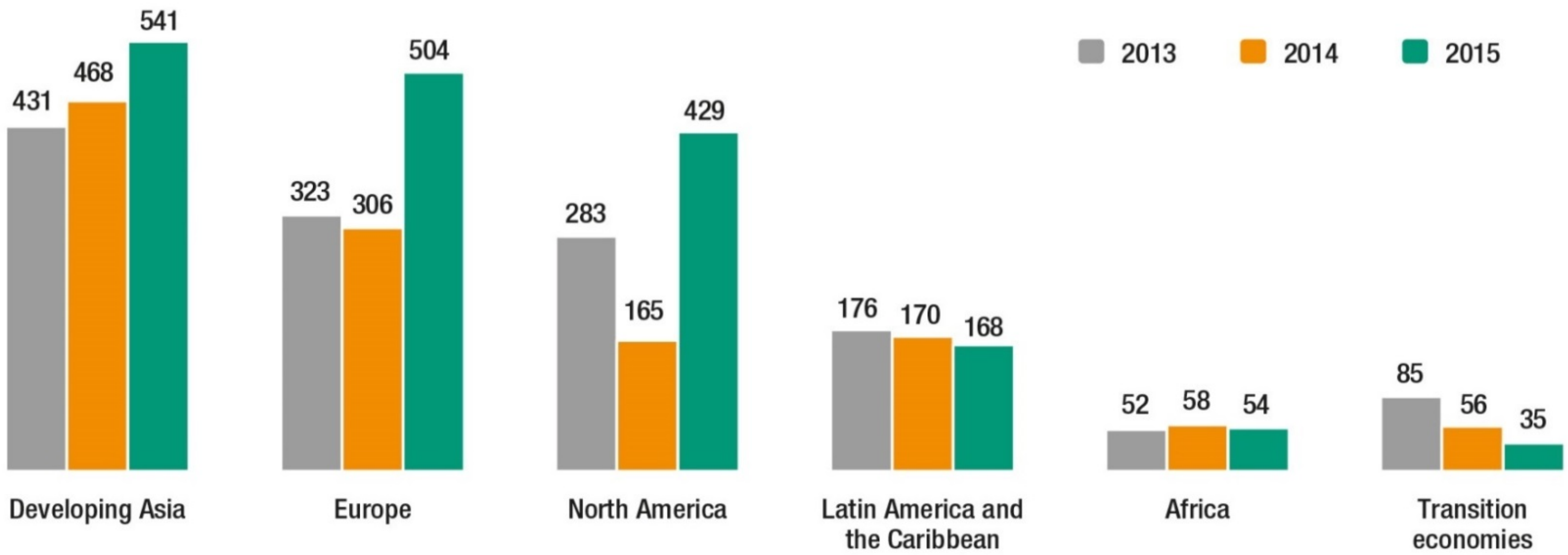
Developing Asia, a region characterized by a continued push towards deeper integration, remains the largest FDI host

FDI inflows, by region, 2013–2015 **(Billions of dollars)**



Source: UNCTAD.

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FDI remains concentrated: mega-groupings absorb a predominant share

FDI inflows in selected mega-groupings, 2014 and 2015

(Billions of dollars and per cent)

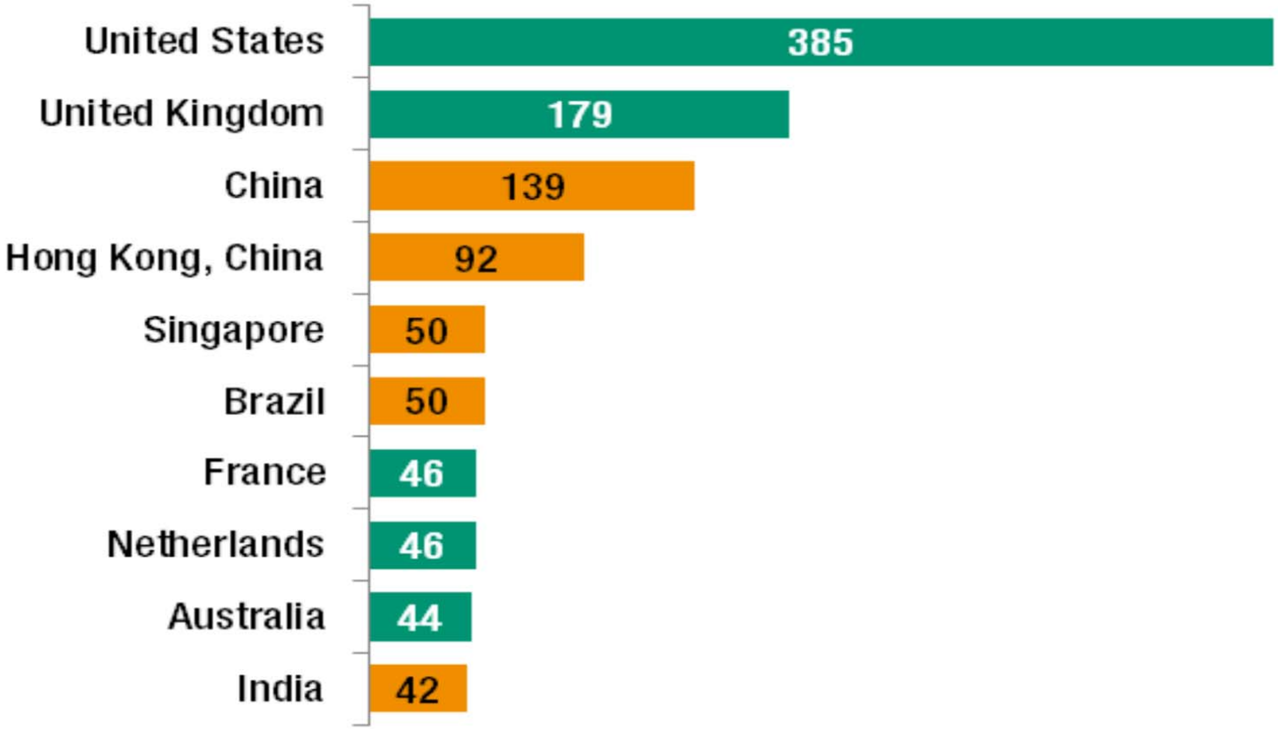
Megagrouping	FDI inflows 2014	Share in world FDI 2014	FDI inflows 2015	Share in world FDI 2015	Inward FDI stock
G20	652	51%	926	53%	14 393
TTIP	399	31%	819	46%	13 361
APEC	669	52%	953	54%	12 799
TPP	353	28%	593	34%	9 037
RCEP	341	27%	330	19%	4 156
BRICS	271	21%	256	15%	2 373

2014 2015

Source: UNCTAD

Developing economies account for half of the world's top-10 FDI hosts

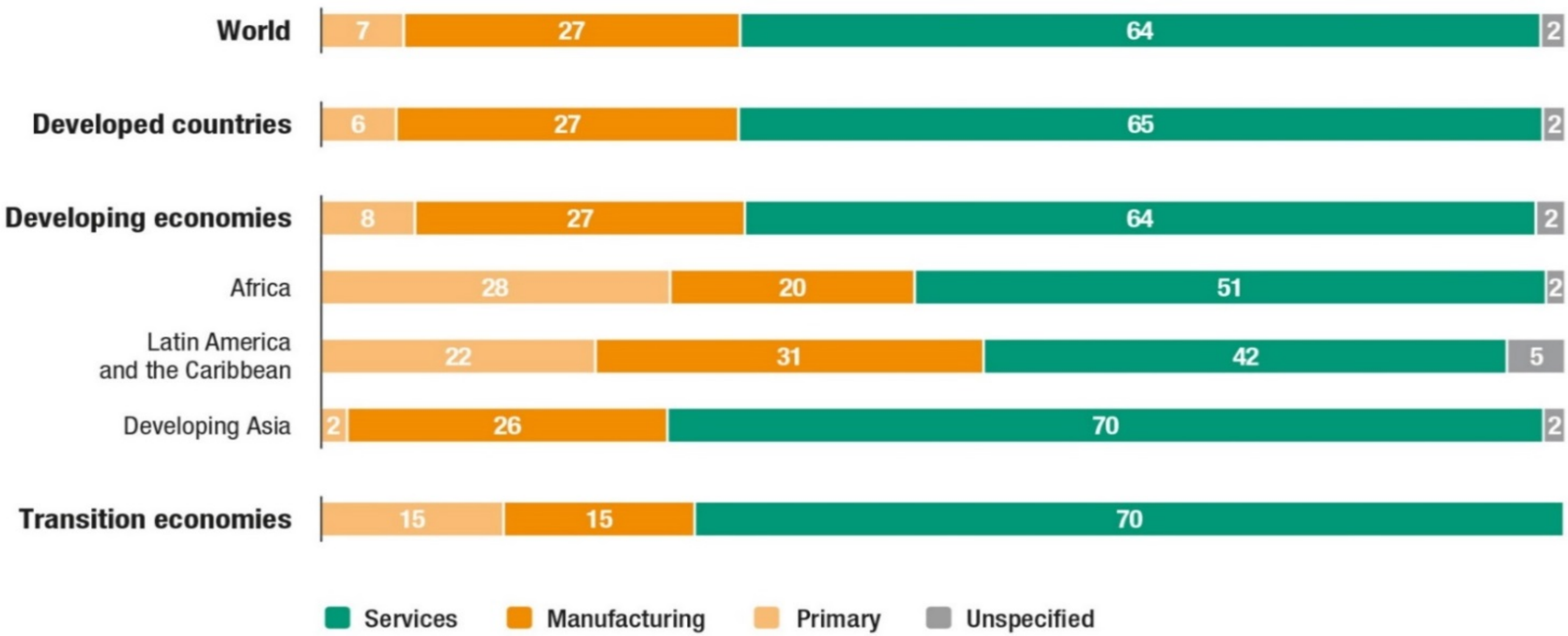
Estimated FDI inflows: top 10 host economies, 2016
(Billions of US dollars)



Source: UNCTAD

Services account for almost two thirds of the global FDI stock in developed and developing economies

Global inward FDI stock, sectoral distribution by grouping and region, 2014 (Per cent)



Source: UNCTAD.

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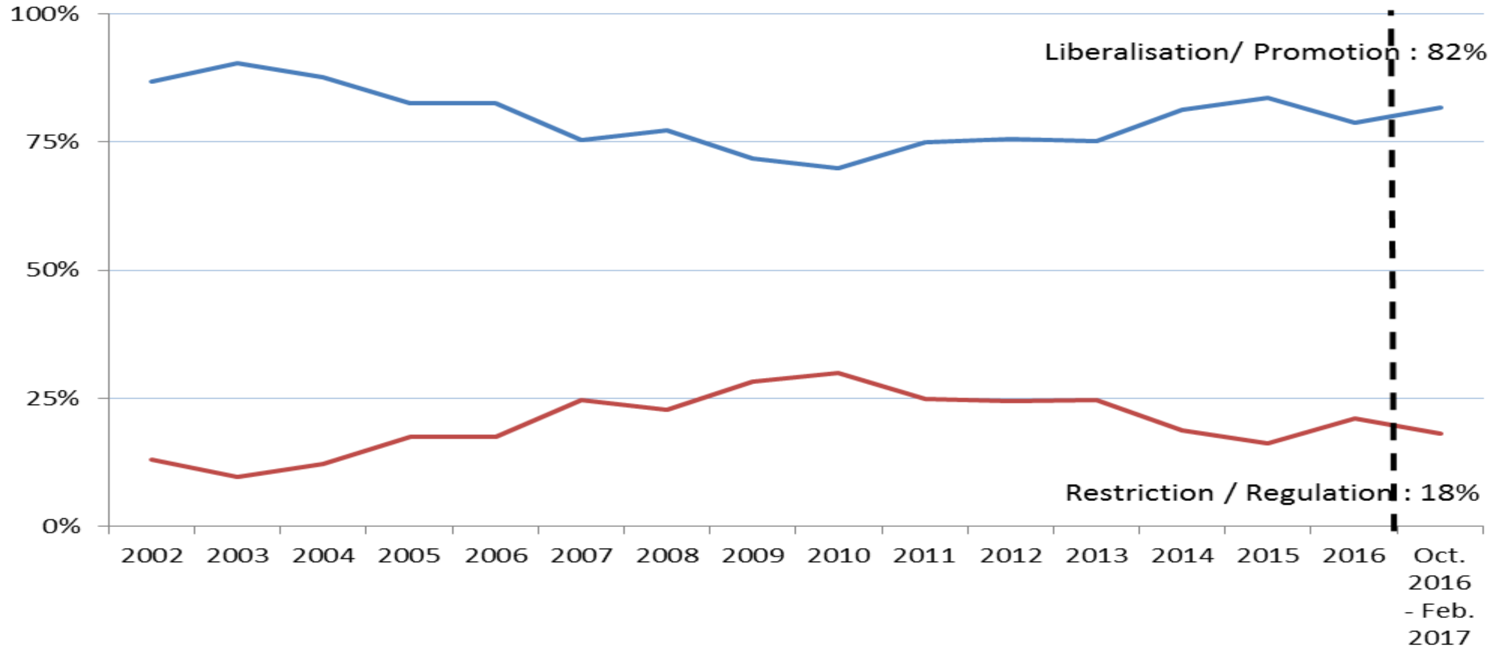
Trends in national FDI policies

Globally, investment liberalization and promotion measures continue to predominate over restrictive policies, reflecting a more globally contestable market to attract FDI, especially efficiency-seeking investment.

Changes in national investment policies, 2002−Feb. 2017 (%)



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Source: UNCTAD

On the rise: trade and FDI linkages

- Trade and investment were long substitute means of serving international markets.

- The success of the GATT-WTO (and of PTAs) in dismantling border impediments has led to a relationship of increasing complimentarity between trade and investment.

- The GVC revolution and resulting new geography of cross-border production and exchange has been largely driven by trade and investment linkages.

Looking ahead

- The ever closer links between trade and investment, including in the digital realm, call for greater policy coherence at the policy interface (also with competition law and policy).

- Newer generation PTAs all aim to harness trade-investment linkages.

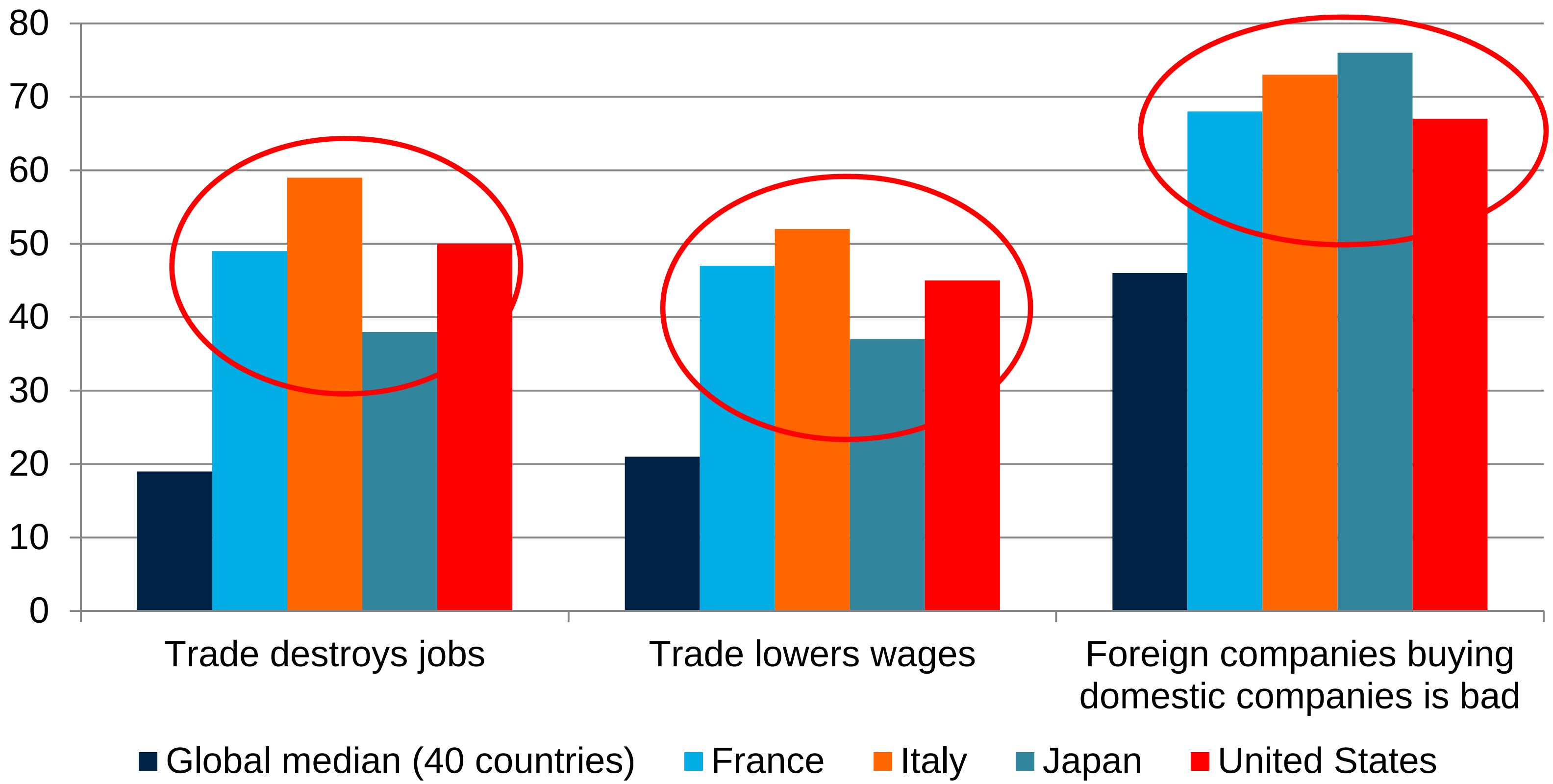
- How best to address such linkages in a multilateral context warrants renewed attention, all the more so as the geography of FDI – and the underlying political economy of FDI governance - have changed markedly in recent years.

- A focus on investment facilitation may be a useful anchor in scaling up mutual understanding and confidence-building in policy circles.

3. Sustaining a commitment to open markets: thinking beyond trade and investment policy

Context matters: evidence of mounting dissatisfaction with globalization, especially in developed countries

(results from a Pew Research survey)



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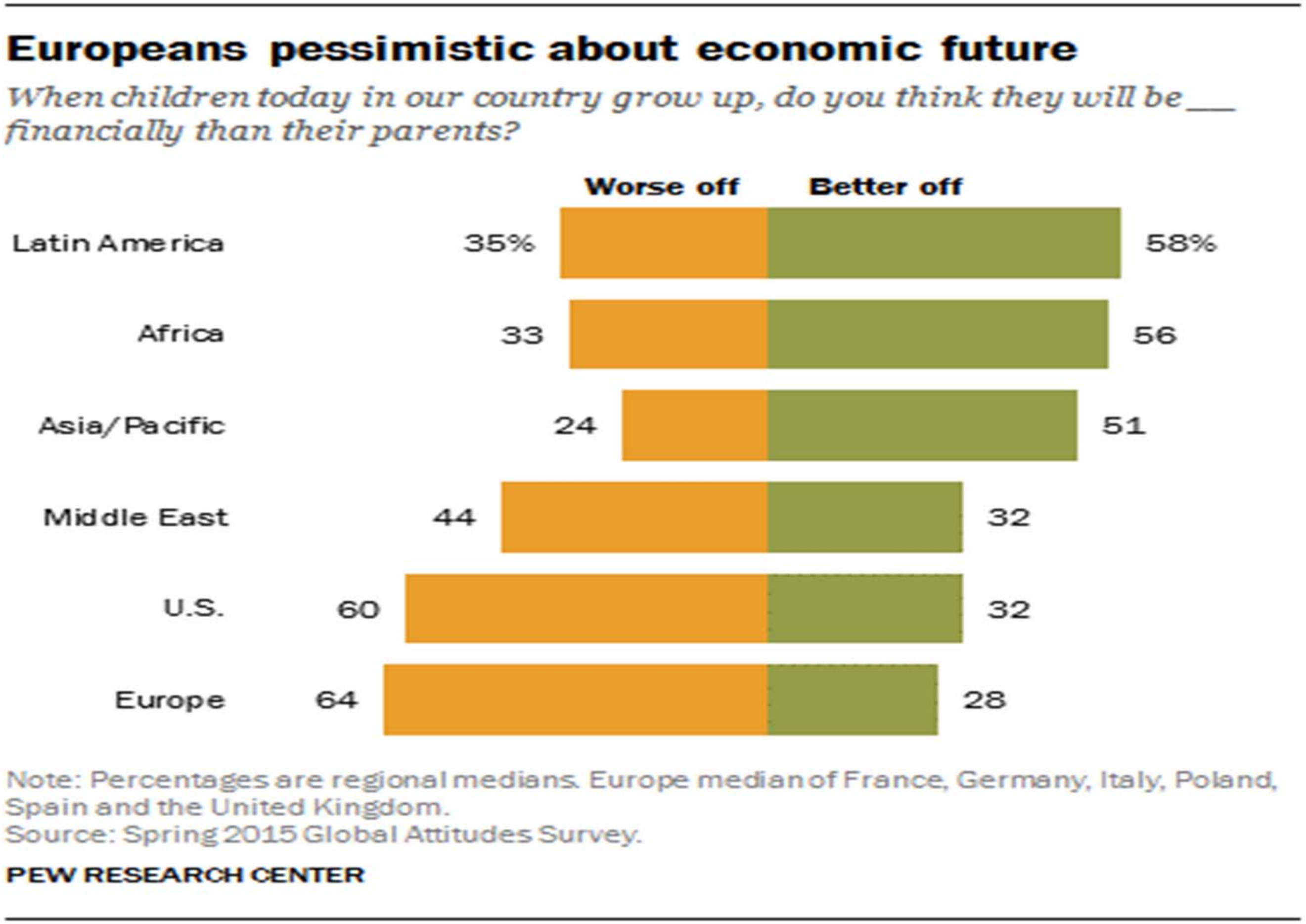
Needed: policies aimed at enhancing the resilience of workers most at risk from the multiple sources of change in open economies



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Addressing the distributional downsides of market openness

It is important to assign to trade and investment policy what they are best at: as means of promoting orderly, progressive, structural change of benefit to all.

Structural change, even when it is pursued in an orderly manner, always comes with distributional downsides for certain categories of industries, workers or regions.

Responding adequately to globalization-induced dislocation requires enhanced investments in adjustment assistance, skills upgrading and connectivity infrastructure, arguably a missing link in past liberalization efforts.

A sustained commitment to open markets requires better safety nets and a greater investment in human capital.

Domestic policies that address the short- and long-term adjustment costs resulting from trade - alongside other sources of disruptive change - are needed to ensure that trade and investment liberalization remain engines of growth for all.

Thank you!

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http://www.worldbank.org/en/about/unit/unit-trade-competitiveness