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Women Shaping Global Economic Governance

Edited by Arancha González and Marion Jansen



European
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International
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Women Shaping Global Economic Governance

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Centre for Economic Policy Research
33 Great Sutton Street
London, EC1V 0DX
UK

Tel: +44 (0)20 7183 8801

Email: cepr@cepr.org

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Edited by Arancha González and
Marion Jansen

A VoxEU.org eBook

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The Centre for Economic Policy Research (CEPR) is a network of over 1,200 research economists based mostly in European universities. The Centre's goal is twofold: to promote world-class research, and to get the policy-relevant results into the hands of key decision-makers.

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The European University Institute (EUI), located in Florence, Italy, was founded in 1972 by the European Community Member States to provide advanced training to Ph.D. and LL.M. researchers and to promote research in the social sciences at the highest levels.

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The Institute is also home to the Robert Schuman Centre for Advanced Studies (RSCAS), which is devoted to high-quality research on the dynamics of European integration, broadly defined, and Europe's global role. The RSCAS hosts dozens of international research projects focusing mainly on the areas of Integration, Governance and Democracy; Regulating Markets and Governing Money; and 21st Century World Politics and Europe.

The EUI is also home to the Historical Archives of the European Union, the official repository for the EU institutions.

International Trade Centre (ITC)

The International Trade Centre (ITC) is the only development agency that is fully dedicated to supporting the internationalization of small and medium-sized enterprises (SMEs).

This means that the agency enables SMEs in developing and transition economies to become more competitive and connect to international markets for trade and investment, thus raising incomes and creating job opportunities, especially for women, young people, and poor communities.

Established in 1964, the International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.

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Foreword

Angela Merkel

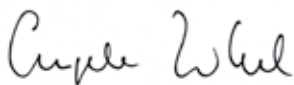
Federal Chancellor of the Federal Republic of Germany

Globalisation influences our lives, our work and economy, our food and clothing, our communication and, yes, even the way we think. It is precisely for this reason that many people feel overwhelmed by it. I hope that, instead of focusing on the risks of globalisation, we can perceive and take advantage of the opportunities it presents.

Approaches based on a spirit of partnership, such as the 2030 Agenda for Sustainable Development, show us the way. It is up to us to strengthen global forums in order to develop multilateral guiding principles and to act together accordingly.

The International Trade Centre looks at four key areas of globalisation in this publication: financing, trade and investment, the labour market and the global economy. The International Trade Centre – very much in line with its SheTrades initiative – gives exclusively female experts from around the world the opportunity to weigh in on these issues. Their contributions to the discussion and ideas are not only an expression of their expertise, but also reflect women’s aspiration to shape globalisation as equal partners. This publication therefore also makes an important contribution to realising gender equality as a fundamental prerequisite for shaping globalisation fairly.

With this in mind, permit me to wish you a stimulating read and many new insights – as well as a great number of readers for this book!



Angela Merkel
May 2019

Preface

Brigid Laffan and Beatrice Weder di Mauro

Director, Robert Schuman Centre for Advanced Studies, EUI; President, CEPR

The multilateral institutions established following World War II provided a framework that supported the reconstruction and development of countries devastated by the war, and in recent decades has helped many developing countries to pursue policies that reduced the incidence of poverty and per capita incomes. Increases in trade and foreign direct investment flows, official development assistance, regional integration efforts by nations in all parts of the globe, and technological changes that reduced transport costs for goods, services, and people have been drivers of growth.

Global economic governance has centred around a network of multilateral institutions, including the United Nations and its many specialised bodies and sectoral organisations, the Bretton Woods institutions, and the European Union. Some of these entities are celebrating their 100th anniversary (for example, the International Labour Office, or ILO). Others are of more recent vintage, such as the World Trade Organization (WTO). Some have just been established, for example the African Continental Free Trade Area. International cooperation has become a core feature of international affairs, comprising a mix of formal and informal, often with varied membership, addressing new themes and challenges that arise as a result of technological change and the integration of the world economy. Examples include cooperation between countries to exchange information to combat tax evasion and the recent effort launched by a large group of WTO Members to establish rules of the game for e-commerce and digital trade.

Although cooperation continues to be pursued in many areas, global governance has become more contested. The current trade war between the United States and China, and more generally US dissatisfaction with many multilateral institutions and greater pursuit of unilateral action in a variety of policy areas are examples. In Europe, the European integration process has become more politicised and there is significant opposition to the goal of ever closer union. Nationalism and populism are on the rise in many parts of the world, including Europe.

This is a time when informed analysis and expertise is needed more than ever. This volume brings together insights from experienced leaders in the fields of finance, trade and investment, labour policy, political science, environment, and digital technologies. Some are academics, others have been senior civil servants and politicians. Contributors to this volume include heads of government, ministers, and managers of international organisations.

The contributors come from over 20 different countries, some small, others large; some rich, others poor. Together they provide a very rich overview of the challenges confronting decision makers across the globe in addressing common problems – and a varied set of often innovative proposals on how to tackle them.

A distinguishing feature of the volume is that all the contributors are women. This reflects a specific purpose – all the contributors share a common goal: to encourage everyone, including the 50% of the global population that are female, to contribute to the debate on global economic governance and to bring their experience and views into the discussion.

This purpose is one we share and that is supported by the organisations we lead. For example, the Centre for Economic Policy Research (CEPR) is formalising its efforts to improve female representation in the economic profession with the creation of the Women in Economics Initiative. The aim is to redress gender imbalances and to celebrate women within the field. At the European University Institute (EUI), gender studies have been a long-standing focus of attention, starting with the launch of a Gender Studies Programme by Yves Mény in 2000, then Director of the Robert Schuman Centre. Today the EUI features multiple research initiatives around gender.

CEPR and the Robert Schuman Centre at the EUI are very pleased to have been able to support the publication of this book. Arancha González and Marion Jansen have brought together an outstanding group of experts, and we are sure this book will make a significant contribution to the current debate on global governance.

The views expressed in the book are those exclusively of its authors and do not represent those of CEPR, which takes no institutional positions on economic policy matters. CEPR and EUI are delighted to provide a platform for an exchange of views on these important topics.

Introduction

The economy according to her

Aranha González and Marion Jansen

Executive Director, International Trade Centre; Chief Economist, International Trade Centre

We are living at the intersection of three tectonic shifts: a digital revolution, which is changing the way we produce, trade, and work; an environmental revolution, as the strained ecological boundaries of our planet oblige us to review how we produce and consume; and a social revolution, as economic insecurity drives angry politics and a mismatch between expectations and reality fuels voter dissatisfaction across the world. On top of these three revolutions, geopolitics are back: growing strategic competition between the United States and China threatens to derail progress achieved in the last 70 years. How we respond to these changes will shape our future.

For those of us who have spent years in global economic governance, some of these changes are unsettling. At the global level, a trading system based on rules is in danger of giving way to one based on deals. Instead of deepened integration, the emphasis in trade negotiations appears to have shifted towards avoiding the dismantlement of the multilateral trading system. Tackling climate change, the existential threat to our planet, desperately requires more, not less, global cooperation.

At the same time, though, international collaboration is emerging around themes where it previously did not exist. The Group of 20 leading economies have agreed on common principles around international investment and taxation. Information exchange and coordination is flourishing in the field of digital regulation. The United Nations Sustainable Development Goals have gathered significant momentum around the world.

After decades during which international economic cooperation focused narrowly on setting rules for goods, services, and capital flows, social and environmental issues are rising up the agenda. This shift reflects an accurate sense of urgency to pre-empt problems imposed on society by rapid change.

In this publication you will find contributions from leading policymakers and thought leaders on global economic governance, with concrete proposals for how to navigate this period of turbulence.

Readers who paid attention to the title of the volume will be unsurprised to see that all the authors are women and that they come from all around the world. This of course is not a coincidence. Women have an important role to play in shaping the policy responses that the world needs at this inflection point. But this is not a book about women; it is a book by women. The decision makers and thinkers who have contributed their views attest to the growing role in economic governance of women in government, academia, business, the media, and international organisations – even if gender equality remains a considerable distance away.

With this volume we wish to respond to the question: where are the women experts in economic governance issues? The answer is partial as you will only find 28 of them in this volume. We therefore invite everyone to look out for the other experts and listen to what they have to say. Their voices will be important for shaping the world in which future generations will live.

The volume is organised around four sections. The first three sections evolve around three markets that are intimately interlinked in open economies: markets for goods and services (trade), capital markets, and labour markets. These interlinkages were already recognised in global governance documents of the post-World War I and post-World War II periods, such as the Philadelphia Declaration and the Havana Charter.

The fourth section brings together a number of newer topics that have taken their place on the global governance agenda. Climate change has put environmental questions at the forefront of public debate. Rapid technological change goes hand in hand with increased challenges in the area of digital regulation and education. Discontent with the existing system has led to significant changes in voter behaviour in many advanced economies and to a new era of power politics at the international level.

The four sections are introduced by Christine Lagarde, Cecilia Malmström, Sharan Burrow, and Ngozi Okonjo-Iweala. Each brings views informed by their experiences as leaders of key international and national institutions. A common thread running through their contributions is the call for a rethink of international economic governance in this period of change. Christine Lagarde, Managing Director of the International Monetary Fund, explains the role new financial instruments can play in facilitating a better distribution of the gains from open markets. Cecilia Malmström, European Commissioner for Trade, emphasises the role of new partnerships in maintaining the momentum for global integration. Sharan Burrow, General Secretary of the International Trades Unions Congress (ITUC), invites us to rethink the role of the century-old International Labour Organization along with that of its – significantly younger – counterpart, the World Trade Organization (WTO). The Africa-focused introduction by Ngozi Okonjo-Iweala, Chair of the GAVI Alliance Board and former Finance Minister of Nigeria, is a reminder that in some parts of the world change is welcomed, not feared, and is contributing to new and strongly positive dynamics.

With the stage set by the lead authors, each section offers a set of more specific contributions.

Four concepts recur throughout the volume. In our view, they constitute key characteristics of the next generation of economic governance. We urgently need to restore trust in globalisation and maybe even in democracy itself. For this to happen, governance will have to credibly signal that societal concerns are fully embraced in the design of policy. In other words, governance will have to go beyond ‘policy coherence’, the narrower emphasis on making sure policy initiatives in different areas do not undermine each other. Doing so will demand bold new thinking, which in turn will require new partnerships.

Restoring trust

The concept of ‘trust’ appears throughout the volume, but in particular in the sections focusing on finance and on labour markets. Where trust in economic governance has been lost, voters demand change.

Sharan Burrow refers to a generalised fracturing of trust in globalisation, and considers it a determinant of several political phenomena currently observed in the industrialised world. She warns that if trust in institutions is not restored, people may lose faith in democracy itself. In her piece on populism, Erica Owen, Assistant Professor at the University of Pittsburgh, concurs, pointing to distrust in both globalisation and national governance as key determinants of voter behaviour.

Trust is the lifeblood of the financial system, notes Christine Lagarde, reminding us that the term ‘credit’ stems from the Latin word for ‘trust’. Without trust, financial systems cannot function, and this explains the conscious efforts that have taken place over the past years to rebuild trust in global finance. One such initiative is on international tax cooperation. Monica Bhatia, Head of the Secretariat of the Global Forum on Transparency and Exchange of Information for Tax Purposes, emphasises the importance of effective taxation for more inclusive and sustainable growth.

Building trust is, however, not easy. Elvira Nabiullina, Governor of the Central Bank of the Russian Federation, and Linah Kelebogile Mohohlo, former Governor of the Bank of Botswana, remind us how much time and work it takes to build trust in institutions that previously lacked it. Based on their experience as central bank heads, they describe in detail the steps and persistence required to build a reputation for being the ultimate guardian of stability. Reading their contributions, it becomes very clear that it is much easier to lose trust than to restore it. The task ahead of restoring trust in global economic governance is therefore not to be underestimated.

The media plays a key role in building and maintaining trust. The role of traditional and social media in influencing opinions and election outcomes is currently on every policymaker’s mind. Soumaya Keynes, US Economics Editor for *The Economist*, explains what this implies for journalists focusing on evidence-based news. In her piece, she highlights the importance of always taking into account the interests of the source of evidence or information.

Beyond coherence

To restore trust, the next generation of economic governance will have to fully integrate new areas of concern. Multiple contributions to the volume suggest that ensuring coherence across different areas of policy will no longer be enough. To restore trust, it will be necessary to credibly signal that societal concerns are built into economic policies. More comprehensive governance is likely to imply a blurring of the lines between ‘hard’ economic themes such as finance and trade and ‘soft’ societal themes such as gender and the environment.

This becomes explicit in the contribution by Kathy Matsui, Vice Chair and Chief Japan Strategist for Goldman Sachs. She argues that one of the biggest game changers in Japan’s attitude towards gender issues was the shift from diversity being a human rights or social issue to an economic and business imperative. This drew corporate managers’ attention to the fact that gender diversity can play a role in driving growth.

Comprehensive approaches are also the way forward in international policymaking. Cecilia Malmström highlights the importance of trade being beneficial ‘to all’, and of trade contributing to positive change in areas such as gender equality. Ana Novik, Head of the Investment Division at the Organisation for Economic Co-operation and Development, looks back on early attempts to build multilateral investment agreements and argues that future efforts should pay more attention to the sustainability and distributional effects of investment. Institutionally, this may imply closer alignment among institutions that in the past were worlds apart. This would, for instance, be the case if the financial system were required to contribute to achieving the Sustainable Development Goals, as suggested by Christine Lagarde.

Vera Songwe, Executive Secretary of the UN Economic Commission for Africa, contributes to this discussion from a somewhat different angle – that of a region that appears to be embracing integration more enthusiastically than ever before. Yet she establishes a clear order of priorities by putting her contribution squarely under the heading of poverty reduction.

Bold new thinking

Fixing systems and institutions that are in ‘crisis’, a term used by several contributors, needs bold new thinking – and action.

This is the case for the WTO’s dispute settlement system. Yuejiao Zhang, former member of the WTO Appellate Body, presents a list of concrete possible actions that could bring what many call the ‘crown jewel’ of the multilateral trading system out of its current conundrum, caused in part by the blockage of appointments of new Appellate Body members.

Where governance has to become more comprehensive, thinking out of the box may be required. With a view to increasing the role of finance for sustainable development, Stephany Griffith-Jones, Financial Markets Director at the Initiative for Policy Dialogue, argues in her piece in favour of a larger role for national development banks.

This would, in her view, help create a financial system that is more diversified and that better serves the needs of the real economy and society, contributing to more dynamic, greener, and fairer economies.

Bold thinking is also necessary in another field of public policy that has been drawing a lot of public attention in recent years: migration. Here, Leila Baghdadi, Associate Professor and WTO Chair at Tunis Business School, invites readers to no longer see migrants as people who have left a home country to live in a host country but as people who are ‘here and there’. This reflects how modern technology and reduced transport costs allow migrants to have links to both their homes and host countries. She points to the potential of migrants as agents for increased trade and investment. Bold thinking in terms of recognising the substantial social and economic contributions made by migrants to their host societies is also encouraged by Sara Pantuliano, Acting Executive Director of the Overseas Development Institute in London, though she also recognises the political and economic complexities of large-scale migration.

The difficulty of the tasks ahead is compounded by dramatic technological change. A new industrial revolution may indeed have already started, with important implications for our societies. According to Anabel González, former Minister of Trade for Costa Rica, “the time for business as usual is over”. In her view, the ongoing technological disruption requires a rethink of the global governance structure, including an entirely new role for competition policy, given the levels of market power in high-tech markets.

In her contribution, Nuria Oliver, a Fellow of the Royal Academy of Engineering, makes concrete policy proposals for the global governance of the internet. She organises her proposals around the term “FATEN”: fairness, accountability, transparency, education, and non-maleficence. One particularity of this technical revolution is that it has triggered new contributions to regulation and policymaking from across the globe, as illustrated by the case of Rwanda, a front-runner in the regulation of drone transport, as described by Ngozi Okonjo-Iweala.

Rapid action combined with bold new thinking may also be required in the field of education. Despite many developing and emerging economies having not yet built “schools for the 20th century”, it is essential to start building schools for the 21st century, according to Cláudia Costin, Director of the Center for Excellence and Innovation in Education Policies in Brazil. She stresses the urgency to start preparing future generations for the technological disruptions that have already begun.

New partnerships

The complex new agenda leaders confront will likely require a rethinking of partnerships in order to meet new challenges. Cecilia Malmström describes the European Commission’s efforts to keep alive the spirit of international collaboration through negotiations with new partner countries in different parts of the world. Partnerships are absolutely critical for small states, as described eloquently by Mia Amor Mottley, Prime Minister of Barbados. Her contribution illustrates what it takes for a small state to navigate an increasingly power-based international system.

New types of partnerships between the public and the private sector may also be required. Indeed, taking social and environmental imperatives into account may increasingly become a necessity for business. Teresa Ribera, Spain's Minister for Ecological Transition, emphasises that environmental objectives and commercial objectives are increasingly aligned, and that business is starting to realise that climate change should be seen as an opportunity to move into new lines of business.

Both national governments and private business have roles to play in restoring trust in the social aspects of globalisation. The role of national governments is emphasised by Gabrielle Marceau, Senior Counsellor at the WTO, who examines the linkages between trade and labour through a WTO lens. Drusilla Brown, Director of the International Relations Program at Tufts University, hints at the role that private initiatives can play in building trust, focusing on the social aspects of global value chains. Erica Owen goes further, arguing that it is in the private sector's vital interest to contribute to trust building. Both agree that governments also have a central role in building trust.

Ways forward to redefine global economic governance

In sum, new partnerships, bold thinking and comprehensive approaches to policy will be necessary to rebuild trust in international cooperation and to reinvent a system of global governance that ensures globalisation is both inclusive and sustainable.

At the International Trade Centre (ITC), we believe that inclusive globalisation implies that women are full and equal participants in our economies. This is why in 2017, at the 11th WTO Ministerial Conference, we spearheaded the Buenos Aires Declaration on Trade and Women's Economic Empowerment. We are also proud to host the SheTrades initiative, which seeks to connect three million women-owned businesses to international markets by 2021. We see this volume as an additional contribution to making economies more inclusive.

We want to thank German Chancellor Angela Merkel for her foreword for this book and Brigid Laffan and Beatrice Weder di Mauro of EUI and CEPR, respectively, for partnering with us in this attempt to stimulate new thinking and committed action.

Part I

Governing finance

Introduction

Governing finance: Redefining a broader sense of purpose

Christine Lagarde

Managing Director, International Monetary Fund

When Hollywood created a sequel to the original Mary Poppins film, the producers introduced a new character: a villainous banker who could give everybody a good scare.

But why exactly is the banker the villain? After all, a healthy economy requires a healthy financial sector that is at the service of people as they pursue better lives for themselves and their children.

You might call it the ‘everyday magic’ of finance: helping families buy a home or save for retirement, helping businesses raise capital to support growth and employment, and helping ordinary people manage risks and prepare for a rainy day. That is what most financial professionals do every day, with dedication and a sense of pride.

And yet, across the political spectrum, there is a deeply felt sense of unease about the role of finance in today’s world. It does not take magic to trace much of this current frustration back to the global financial crisis and the steady drip-drip of financial scandals and misconduct that have occurred all over the world.

And of course, in the run-up to the global financial crisis, it was financial engineering that helped drive a frenzy of reckless risk taking. So, when Lehman Brothers collapsed, policymakers were facing what I once referred to as a ‘holy cow moment’.

The question today is whether financial systems are safer. The short answer is that they are safer, but not safe enough.

Above all, we must be concerned about increasing efforts to roll back some post-crisis regulations. Countries need to resist these pressures. Indeed, they need to push on because more work and political will is required to fully implement the existing reforms.

And even as policymakers are still internalising the lessons from the last crisis, they need to be vigilant about new risks. For example, the International Monetary Fund (IMF) has recently estimated that cyber-attacks could potentially lead to net income losses in the global banking system of up to \$350 billion (Lagarde 2018).

Or think of a sharp adjustment in asset prices that could affect the fast-growing shadow banking sector. That part of the financial world comes with many regulatory blind spots that should be addressed. For instance, we believe that countries need to regulate underwriting standards in high-risk debt markets, including leveraged loans.

Of course, making finance safer and more trustworthy is not just about good innovation and better regulation. It is also about a broader sense of individual and collective responsibility.

Because the reality is that even the toughest legal sanctions and the smartest compensation and governance rules cannot be substitutes for a strong individual and collective responsibility. For it is not just the ‘tone from the top’ but the ‘response from the bottom’ that creates a better and more trusted corporate culture.

That is why the financial industry needs what I call an ‘ethics upgrade’. For financial professionals, this simply means doing the right thing, even when nobody is watching. It sounds so simple, and yet it is perhaps the hardest thing to do.

The word ‘credit’, as we know, comes from the Latin word for ‘trust’, which is the lifeblood of the financial system. But trust itself cannot be manufactured or mandated. It must be earned through virtuous behaviour that is intrinsically motivated – again, done even when no one is watching.

For financial firms, the ethics upgrade means redefining a broader sense of purpose, a broader common responsibility for today’s stakeholders and future generations. A good example is the sustainable investing boom that is likely to gain further momentum.

Over the next 15 years, \$24 trillion of wealth will be inherited by millennials, and they are more than twice as likely as other generations to invest in companies or funds that target social or environmental outcomes.

The financial industry has seized this opportunity, but more can be done to help invest for the global common good. This includes mobilising substantial private-sector investments to help tackle climate change and to achieve the United Nations Sustainable Development Goals (SDGs).

These goals, endorsed by the global community, are aimed at eliminating poverty by 2030 and, more than this, making the planet a better place for our children and grandchildren.

Health, education, and low-carbon infrastructure are but a few of the sectors in which financial firms can play an essential role. The key is for public and private investments to be complements, not substitutes. Think of so-called blended finance, which brings together grants, concessional financing, and commercial funding.

Another possibility is to launch new investment products that encourage companies to align their business models with the SDGs. Fund managers could also work with policymakers to create global standards for sustainability accounting and reporting. This would boost transparency and strengthen the credibility of sustainable investing.

The stakes are high – climate change and high economic inequality are already affecting the livelihoods of too many individuals and communities, including in the UK. And there are growing economic debates over the likely effects of climate change on productivity, migration, financial stability, even monetary policy.

The bottom line is that a broader common responsibility is not just morally just; it is economically right. By fostering a financial sector that is ethically sound, we can help deliver on what our 21st century so badly needs: higher employment, greener growth, and good living standards for all.

That spirit could also help the financial industry attract the right kind of talent. The question is whether young people today should even consider joining the financial industry. For many of them, the answer comes down to finding a broader sense of purpose – much like Mary Poppins.

The genius of her character is that she is serving others, with dignity, with a kind heart, with honesty, and with a wicked sense of humour. I think that this is a good description of what the financial industry should be all about. Serving others, not yourself – that is the real magic of finance.

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The challenges of macroeconomic stability in developing countries: The case of Botswana

Linah K Mohohlo

Investment Coordinator, Ministry of Investment, Trade and Industry;
Chancellor, University of Botswana; Former Governor, Bank of Botswana

In a bid to achieve lofty national socioeconomic goals, including rising and equitably distributed incomes, low unemployment and poverty reduction, developing countries are well advised to embark on a sustainable growth path in the medium to long term. With this in mind, the way forward is to adopt good policy choices that will achieve macroeconomic stability. This chapter outlines the importance of attaining macroeconomic stability in a developing economy context, with a focus on the case of Botswana.

For some years now, Botswana has received third-party recognition for the sound management and rapid growth of its economy. Indeed, the average rate of economic expansion in the decades following independence¹ was among the highest in the world. More recently, the authorities' commitment to macroeconomic stability has ensured the country's resilience in times of economic turmoil, most recently during the 2008 global financial crisis.

Reports by credit-rating agencies have regularly noted that Botswana's economy exhibits strong fundamentals of fiscal soundness and solvency, monetary stability, benign price developments, and balanced growth.

The country's success has received plaudits from, among others, the International Monetary Fund, the World Bank, and major sovereign credit rating agencies (as testified by the country's investment sovereign credit rating of 'A', which has been maintained for 18 years in a row since 2001 by both Standard and Poor's and Moody's Investors Service).²

1 Botswana became independent from Great Britain in 1966.

2 The sovereign credit rating is the highest in Africa and compares favourably with those of many competitor countries in Europe and elsewhere.

Although Botswana's economic success is often attributed to the discovery and subsequent exploitation of minerals, it is really prudence in the management of the economy that has enabled the country to avoid the pitfalls that many mineral-led economies have suffered. The primary objective has been, and continues to be, to maximise the returns from minerals and re-invest them in productive activities such as infrastructure (schools, hospitals, clinics, roads, etc.) and human resource development. This strategy has included using some of the mineral revenues to stimulate the development of the non-mining economy. In addition, the strategy of prudent macroeconomic management sought to avoid 'Dutch disease' – a situation where a currency becomes over-valued, making local production of non-mining tradeable goods unviable.

More importantly, real improvements have been recorded in some key socioeconomic indicators. As the country made inroads from being one of the poorest countries in the world to upper-middle-income status, the incidence of poverty declined from 59%³ of the population in the mid-1980s to just over 20%,⁴ according to the most recent estimates. More generally, the economy has been transformed from a dependence on farming and migrant remittances in the 1960s and then on mining in the 1980s and 1990s, which contributed about 75% to GDP during that period. Mining now accounts for about 20% of GDP, while the share of services (excluding government) is almost 40%. This is indicative of progress towards economic diversification, which remains an indisputable imperative.

Despite these achievements, severe pockets of abject poverty remain, especially in remote rural areas. The converse of this is income inequality, which, at the national level, means a lack of sufficient opportunities for many to participate meaningfully in economic activity. Indeed, Botswana faces the daunting task of making a dent in chronic unemployment, which has stubbornly remained at around 20% of the active labour force since the early 1990s. Unemployment is especially high among the youth, and increasingly so among those with higher levels of education. In addition, the economic growth rate has slowed considerably in recent years, although it has begun to pick up lately.

Against this background, it is instructive to make some observations and suggest some general approaches that could contribute towards addressing some of the challenges to be faced if macroeconomic stability is to be attained on a sustainable basis. This applies to any country aspiring for a stable macroeconomic environment.

One observation is that concern about the current economic marginalisation of segments of the population is more than just a matter of social justice. The broad picture points to poverty, inequality and unemployment, which may suggest that available human resources are not used efficiently – a situation that threatens social cohesion. It goes without saying, therefore, that solidifying the implementation of inclusive growth

3 1985/6 Household Income and Expenditure Survey.

4 2009/10 Botswana Core Welfare Survey.

initiatives is the way forward. These initiatives should be accompanied by efforts to attract investment, including a welcoming disposition for investors, in the interest of increasing employment opportunities, earnings, and tax revenues.

A related point is that planning for, implementing, and monitoring inclusive growth requires the availability of reliable and up-to-date data. Without reliable data, even the Millennium Development Goals and the 169 targets of the Sustainable Development Goals cannot be implemented and monitored successfully. Increased investment in improving the coverage, analysis, and quality of national statistics is therefore an indispensable component of a strategy for promoting inclusive growth. Data inform policy effectiveness, permit the identification of policy gaps, inform the choices and mix of targeted versus broad-based policy thrust, and guide a broader community strategic planning.

It is also a fact that market-oriented economic growth is predicated on the efficient use of scarce resources. On the face of it, this may seem to imply minimal labour absorption, but experience has shown that a market-based economy can be harnessed and nurtured to generate employment, reduce poverty, and benefit the majority of people who were previously economically excluded. This is who the world-renowned economist, Sir Paul Collier of the University of Oxford, has referred to as the “bottom billion” (Collier 2007).

A further observation is that governments of resource-rich countries should guard against squandering receipts from non-renewable endowments. These resources should be channelled efficiently into productive investment, which includes human capital development, as a solid foundation for sustainable future socioeconomic wellbeing. It is also advisable to consider establishing a sovereign wealth fund⁵ with a view to generating income in the longer term for use in underpinning a stable and sustainable macroeconomic environment.

Furthermore, it is in any country’s best interest to aim for broad-based, export-led economic growth by producing a range of goods and services for export to regional and international markets. This will require renewed focus on enhancing productivity, efficiency, cost minimisation, and competitiveness.

Some of the policy interventions to consider in the quest to attain macroeconomic stability in a developing economy context relate to financial inclusion. Botswana has made gains in this area; according to the latest figures,⁶ the proportion of the adult population with an account at a financial institution increased from just over 33% in 2001 to 51% in 2017. Despite this discernible progress, it is disconcerting that 49% of the population is still unbanked. Moreover, among the poorest 40%, the level of financial inclusion is as low as 33.5%. This undesirable state of affairs should not be allowed to persist.

5 Botswana established the Pula Fund in 1994, which is a long-term fund for future generations to rely upon in times of need.

6 World Bank Global Financial Inclusion Index (2019).

Further advances in financial inclusion depend on technological developments, including the widespread use of mobile communication and reductions in the cost of electronic transactions. Low-cost electronic payments, money transfers, and mobile communication tend to enhance financial inclusion and, in turn, bring rural and urban economies closer. These developments have the potential to stimulate much-needed rural economic activity. Technological advances will need to be buttressed with effective financial education and strengthened trust in financial institutions.

Another point is that sustainable socioeconomic development requires the active involvement of private businesses in wealth creation. There is, therefore, a need to establish appropriate government policies to create a favourable business climate. In particular, governments must continuously review the regulatory environment to strike an appropriate balance between fostering a healthy business environment and throttling business initiatives. Regular reviews of the regulatory infrastructure and content will contribute to the continuous nurturing of a process that will free the economy from the 'middle-income trap' and lead to a higher level of efficiency.

Promoting and managing the transition from a 'middle-income' country to an 'economy in transition' and then to 'developed' status is a major challenge. The transition implies a structural shift from resource dependence to generating income via a services-cum-knowledge-driven economic base. Botswana has recognised the importance of a knowledge-based economy. Over the years, several research institutions have been established to expand the 'knowledge canvas', with recent examples being the Botswana International University of Science and Technology and the Botswana Innovation Hub.

It is worth concluding with the crucial role of adequate social safety nets. It is common knowledge that, no matter how dynamic the economy, there will always be those who miss out through no fault of their own. Admittedly, there is no universal prescription. Each country has to cut its own social safety net 'cloth' according to the nature of the prevailing challenges and available resources. In Botswana's case, considerable efforts and resources continue to be devoted to combatting the HIV/AIDS epidemic and its adverse socioeconomic consequences. This remains an enduring challenge with which the government has to contend, in partnership with the private sector.

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The role of international tax cooperation in achieving the Sustainable Development Goals

Monica Bhatia

Head of the Secretariat of the Global Forum on Transparency and Exchange of Information for Tax Purposes

“Effective taxation is essential to promote a more inclusive and sustainable growth. It is fundamental to making globalisation work for all. It is crucial for achieving the Sustainable Development Goals.”

Ángel Gurría, Secretary-General of the OECD

Taxation is a critical source of domestic revenue for all governments. This is particularly the case for developing countries, which generally raise far less revenue from tax, relatively speaking, than developed countries. Developing countries struggle to raise sufficient revenue to provide basic services such as road infrastructure, healthcare, and public safety. Research indicates that revenue equivalent to at least 15% of GDP is necessary to finance these basic services, but in almost half of the world’s 75 poorest countries, tax revenues are below this threshold. Revenue generation is impacted directly by tax evasion, which is a particularly acute problem in developing countries. Strengthening tax policy and administration, and providing tools to fight tax evasion, therefore takes centre stage in the Sustainable Development Goals (SDGs) framework.

The international movement of money illegally or illicitly generated in developing countries has also become a major issue on the development agenda. The term ‘illicit financial flows’ (IFFs) is often used to refer to the international movement of money that is ‘earned, transferred or used’ in contravention to existing law. IFFs can be associated with the earnings of criminal enterprises or with criminal and financial crimes such as corruption, tax evasion, currency regulation evasion, and so on. A wide range of channels can be used to transfer money internationally, including bulk cash smuggling, shell corporations, informal value transfer systems as well as the formal financial system. Various estimates have been made of the scale of the problem, all of which suggest that developing countries are disproportionately affected. While IFFs relate to various offences, the tools to fight tax evasion are a significant component of efforts to stem the flows.

It is in this context that Antonio Guterres, Secretary General of the United Nations, called upon the international community to establish effective mechanisms to combat tax evasion, money laundering, and illicit financial flows so that developing countries could better mobilise their own resources.

Over the past few years, globalisation and technological advancements have blurred geographical boundaries, enabling taxpayers to hold and manage their assets and investments, via financial institutions and other entities, outside their country of residence and to move money around at the click of a button. These amounts are often not known to domestic tax authorities and go untaxed. While taxpayers have been operating across borders, tax administrations have been limited to national borders.

Over the years, media reports of data leaks have exposed the widespread use of secrecy, shell companies, and offshore accounts by large numbers of people across a range of countries. Many of these uses are for illegal purposes with the aim of hiding activities or assets from law enforcement agencies. The reports have angered a populace that is already concerned about the widening gap between the rich and the poor, and have brought political attention at the highest levels to the problems posed by opaque regimes. The complex web of structures spanning the globe, and the ease with which money can be moved across multiple jurisdictions, imply that no country is strong enough to overcome this problem on its own.

International efforts to strengthen the international tax system in order to tackle cross-border tax evasion and illicit flows have focused on improving international cooperation by removing the secrecy that surrounds legal structures and financial transactions, and by promoting transparency and the exchange of information for tax purposes. The Global Forum on Transparency and Exchange of Information for Tax Purposes (henceforth, the 'Global Forum'), hosted by the Organisation for Economic Co-operation and Development (OECD), has been leading this work by ensuring the effective implementation of the internationally agreed standards of transparency and exchange of information.

The Global Forum on Transparency and Exchange of Information for Tax Purposes

The exchange of information is a critical tool for fighting cross-border tax evasion as it strengthens the capacity of tax administrations and systems to investigate, detect and prosecute tax offences, and it empowers tax administrations by upgrading their tools to cope with an increasingly globalised world. For decades, taxpayers were able to hide their offshore assets in secrecy jurisdictions across the world which, for the most part, would not cooperate with other countries. As a result, tax administrations struggled to investigate their taxpayers and collect their due revenues. In 2009, following the global financial crisis, the G20 leaders called for an end to the era of bank secrecy and for the strengthening of international cooperation. Following this call, and in the context of the OECD's work on addressing the risks to tax compliance posed by non-

cooperative jurisdictions, the Global Forum (the continuation of a forum created in the early 2000s) was restructured to strengthen implementation of internationally agreed tax transparency standards.

The Global Forum now has 154 members on an equal footing, including a large number of developing countries, and 18 international bodies as observers to its work. It is the premier international body for ensuring the implementation of the two complimentary standards of transparency and exchange of information in the area of tax: exchange of information on request, and automatic exchange of financial account information. Through an in-depth monitoring and peer review process, supplemented by intensive technical assistance, the Global Forum ensures that its members fully implement the standards they have committed to implementing. It also works to establish a level playing field to ensure that countries do not take advantage of their non-participation in global efforts. A large part of the Global Forum's work is focused on capacity building for developing countries so that they are fully able to participate in, and benefit from, global progress.

By facilitating global cooperation on the implementation of these two forms of information sharing between tax authorities, the Global Forum assists jurisdictions around the world in fighting tax evasion and avoidance, tackling illicit financial flows, mobilising domestic tax revenues, and reinforcing the public's confidence in tax systems. The efforts over the past few years have brought about a sea change in the way tax authorities operate, raised huge amounts of revenues for participating jurisdictions, and opened gateways for fighting other forms of financial crimes such as money laundering and corruption.

The international standards

As mentioned above, there are currently two internationally agreed complimentary standards on transparency and exchange of information for tax purposes: exchange of information on request (EOIR) and automatic exchange of financial account information (AEOI).

Exchange of information on request

Exchange of information on request allows tax authorities to request and obtain specific information from their counterparts in another jurisdiction. The scope of information that can be exchanged is extremely wide. The EOIR standard requires a tax authority to provide, on request, any "information foreseeably relevant" for the administration or enforcement of the domestic tax laws of another tax jurisdiction, or for carrying out the provisions of a relevant tax agreement. Information that is commonly requested through EOIR exchanges includes legal and beneficial ownership information of all legal entities and arrangements, accounting records, information on tax payments in another country, residency status, and banking details. The standard rests on three pillars: a requirement for jurisdictions to ensure availability of relevant information, access to this information by tax authorities, and a wide network of exchange agreements for the purposes of exchanging this information. All jurisdictions undergo a peer review to

assess their implementation of the standard and are assigned compliance ratings. Where gaps are identified in the course of this peer review, recommendations are issued and the jurisdictions are expected to address the gaps and report back to the Global Forum. Not only do these ratings carry reputational implications, but they are also taken into account in the investment policies of multilateral development banks and the various listing processes of the OECD/G20 and European Union.

While very effective thanks to the wide variety of information obtainable for tax purposes that can support cross-border tax investigations, the EOIR standard has a built-in constraint. The tool applies primarily when an inquiry or investigation is ongoing in the requesting jurisdiction, which provides the necessary grounds to make a request, and when tax authorities have some knowledge about the information available from the other country. The new standard of AEOI creates additional means through which tax administrations can effectively detect instances of tax evasion or avoidance even before an enquiry is commenced.

Automatic exchange of information (AEOI)

The Standard for Automatic Exchange of Financial Account Information in Tax Matters – also known as the AEOI standard or Common Reporting Standard (CRS) – was developed by the OECD, working with G20 countries, in 2014. Recognising its capacity to complement the EOIR standard, the Global Forum adopted the AEOI Standard soon after and launched a global commitment process. It called on all Global Forum members – except developing countries without financial centres – to commence exchanges by 2018, and for those exchanges to take place with “all interested appropriate partners” (i.e. all those interested in receiving information and that meet the required standards of confidentiality and the proper use of data). This approach enabled the delivery of a level playing field, preventing taxpayers from moving their assets to other (non-committed) jurisdictions in an attempt to avoid information sharing with the jurisdiction of their tax residence. Developing countries were not required to commit, in recognition of their lower capacity and the low risk they posed as destinations for illicit flows. It was recognised, however, that developing countries have a lot to gain from participating in AEOI, and they are being supported with intense capacity building to enable them to benefit from the new standard.

The AEOI standard requires financial institutions to automatically disclose information on financial accounts they maintain for non-residents to their tax administrations under the globally agreed CRS, which in turn exchanges this information with the tax authorities of the account holders’ country of residence. The standard incorporates legal and technical requirements, creating a complete and standardised model for automatic exchange of financial account information, including information on assets and accounts held by banks, certain insurers, and investment entities (such as funds and certain trusts).

In 2018, nearly 90 jurisdictions commenced exchanges under the AEOI standard, marking a major victory for the international community in its efforts to fight tax evasion. It is also a game changer in the global efforts to fight financial crimes. Many developing countries are now beginning to participate and the total number of jurisdictions which have made a commitment to start automatic exchanges within a specific timeframe stands at 108.

Impact

Since the work on tax transparency picked up pace, not only has the geographical scale of tax cooperation expanded but also the scope of information that is being shared between tax administrations. New milestones are reached year by year with benefits to both individual jurisdictions and the world economy as a whole. Some of the changes to the global tax transparency landscape are highlighted below.

Stronger cooperation at the intergovernmental level

The number of jurisdictions that recognise the benefit of international cooperation in the field of tax transparency and EOI and are now members of the Global Forum has grown from 90 in 2009 to over 150. Each year, members meet for an annual plenary session to discuss the progress achieved and set priorities for the coming year. In addition, nearly a dozen working-level meetings take place over the course of the year. This close and ongoing collaboration ensures consistent progress, which gradually expands the reach of tax transparency.

There is also growing political support for the EOIR and AEOI standards in developing countries, highlighted by two recent ministerial-level declarations: the Yaoundé Declaration¹ signed in 2017 by African finance ministers, and the Punta de Este Declaration² signed in 2018 by Latin American ministers.

The Yaoundé Declaration, which now has 23 signatories,³ calls for a more intense pursuit of the tax transparency agenda in Africa. It encourages African countries, with the support of the Global Forum, to explore with the African Union, the UN Economic Commission for Africa (UNECA), Regional Economic Communities, and the African Development Bank a collaboration aimed at boosting these countries' efforts towards implementing the international tax transparency standards and using EOI tools to improve their domestic resource mobilisation.

In the Punta de Este Declaration, Latin American ministers acknowledged the importance of pursuing the SDGs through better domestic resource mobilisation efforts and affirmed the need to redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them, including by combating tax evasion

1 See <https://www.oecd.org/tax/transparency/yaounde-declaration.pdf>.

2 See <https://www.oecd.org/tax/transparency/Latin-American-Ministerial-Declaration.pdf>.

3 The list of signatories is available at <https://www.oecd.org/tax/transparency/technical-assistance/declaration/yaounde-declaration-list-of-signatories%20.pdf>.

and corruption through strengthened national regulation and increased international cooperation. The declaration sets out a vision for further strengthening international collaboration and establishes a Latin American initiative to maximise the effective use of the information exchanged under the international tax transparency standards to tackle not only tax evasion and avoidance, but also corruption and other financial crimes using the full range of possibilities under the relevant international agreements.

A wide network of EOI relationships

The overall number of jurisdictions which can exchange information has dramatically increased. In the past decade, thousands of new EOI relationships have been created. This progress has been largely driven by signatures to a multilateral instrument, the multilateral Convention on Mutual Administrative Assistance in Tax Matters (the MAC), which has achieved remarkable success in facilitating cross-border tax cooperation. In 2009, fewer than 20 jurisdictions were participating in the MAC, but as of 29 November 2018, a total of 126 jurisdictions had access to this powerful international instrument.⁴

In addition, a further 12 jurisdictions have submitted a request to join and are currently engaged in the process to sign the MAC, which will lead to even wider coverage. The signatories include all G20 countries, all of the BRIICS,⁵ all OECD countries, all major financial centres, and an increasing number of developing countries. This instrument enables all forms of information exchange – on request, automatic, and spontaneous – and allows for other forms of enhanced cooperation, such as assistance in collection of taxes and joint audits by tax administrations of cases which may have cross-border implications.

Other instruments used to enable cross-border EOI between tax administrations include double tax treaties and bilateral tax information exchange agreements. The number of these instruments has also been growing steadily, albeit at a slower pace. For smaller jurisdictions and developing countries that frequently face resource constraints in negotiating bilateral instruments, or are under pressure to give up taxing rights in exchange for administrative assistance, the MAC has proven particularly useful.

Intensification in the use of EOI instruments

Due to the ever-expanding infrastructure of cooperation, the number of requests received by jurisdictions has increased by around 40% in the past decade. Despite this growth, cooperation levels have remained high and jurisdictions are now successfully answering around 98% of the requests made. The AEOI standard became global in 2018 and countries now exchange information on millions of financial accounts of taxpayers

4 The up-to-date chart of participating jurisdictions in the multilateral Convention on Mutual Administrative Assistance in Tax Matters can be accessed at http://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf.

5 Brazil, Russia, India, Indonesia, China, and South Africa.

each year. The information received will be processed by receiving tax administrations and, where non-compliance is suspected, it is expected to trigger further investigations, which in turn will rely on effective EOIR.

Improvements in regulation, transparency and EOI

Jurisdictions are making substantial changes to their legal and regulatory frameworks and practices in order to effectively implement the international tax transparency standards. Such changes include eliminating bank secrecy provisions, removing bearer share regimes,⁶ and improving the availability of, and access to, beneficial ownership information.

Pressure to conform to the EOIR standard has resulted in almost all jurisdictions with bank secrecy rules lifting restrictions and making room for cross-border information sharing between tax administrations. By 2017, the number of jurisdictions that have eliminated strict bank secrecy had reached 69. This represents the near universal extinction of bank secrecy for EOI purposes in the jurisdictions that were reviewed by the Global Forum between 2010 and 2016. As a result, there are fewer and fewer places left for taxpayers to hide their wealth from legitimate government investigations.

The various data leaks over the last few years have exposed the widespread use of corporate structures to conceal true ownership. Many of the schemes involve bearer shares. The Global Forum has repeatedly warned of the dangers that bearer shares and obscure corporate regimes pose to effective law enforcement and has convinced many jurisdictions to do away with such regimes, leaving only a handful in place. This work is ongoing, with new Global Forum members removing these instruments from circulation.

To discourage hiding of income and wealth, jurisdictions are implementing stronger rules on the disclosure and exchange of beneficial ownership information. A beneficial owner of an entity is the natural person that ultimately controls or profits from that entity. The Global Forum, using a standard set out by the Financial Action Task Force (FATF), calls for all jurisdictions to have access to information regarding the beneficial ownership of entities and legal arrangements operating in their jurisdictions, and to allow for the international exchange of this information for tax compliance purposes. This area has been a focal point for the Global Forum's work since 2016.

6 A bearer share is a share owned by whoever holds the share certificate, hence the name 'bearer' share. They lack the control of ordinary shares because the owner is not identified in the company's share register or corporate registry. A bearer share can be transferred simply by handing the share to another person. Creating corporate structures involving bearer shares makes it very difficult to identify the real owners of corporate vehicles.

Additional tax revenues generated by transparency

The impact of AEOI has already been felt. As reported by the OECD to the G20 in July 2017, in response to disclosure initiatives and similar measures put in place prior to the start of automatic exchanges, approximately 500,000 individuals have already disclosed offshore assets worldwide and some €93 billion in additional tax revenue has been collected (OECD 2017). Below are some examples of the specific gains that have been publicly reported by governments:

- Brazil reported that the total value of previously undeclared taxable foreign income disclosed during the fiscal year through a legislative or administrative disclosure mechanism or practice reached nearly R\$170 billion in 2016. The total tax, interest and penalties collected as a result amount to almost R\$47 billion (approximately €12 billion).
- France launched a voluntary disclosure programme in 2013, prior to implementing the AEOI standard. As of September 2017, more than 50,000 taxpayers had voluntarily disclosed a total of €32 billion in hidden assets and €7.8 billion in tax had been recovered.
- Indonesia recently recovered more than \$10 billion in tax under an amnesty scheme developed prior to introducing the AEOI Standard. Almost one million taxpayers disclosed \$366 billion of previously undisclosed assets.
- Hungary reported that over €20 million was collected in 2017 as a result of a voluntary disclosure programme.
- Nigeria recovered \$83 million from its tax amnesty programme in 2018, which was announced alongside the country's intent to participate in AEOI.
- Luxembourg collected over €50 million as a result of a voluntary disclosure programme in 2016-17.
- Mexico gained the equivalent of €826 million through a voluntary disclosure programme in 2017.
- Sweden collected over €60 million as a result of a voluntary disclosure programme in 2016-17.
- Switzerland has received 3.8 billion Swiss francs in additional tax payments as a result of voluntary disclosures by 138,092 people.

The volume of additional taxes collected as a result of the EOIR standard has also been increasing, although this is harder to quantify as information requests support ongoing tax investigations, so are best seen as a supplementary tool. Nevertheless, the following examples illustrate the potential gains associated with the effective implementation and use of the EOIR standard:

- Australia reported that EOI requests helped to collect additional tax revenue in the amount equivalent to approximately €130 million in 2016-17.

- Burkina Faso set up an EOI unit in 2015, with the first seven requests sent in 2017. As of September 2017, the tax administration estimated it would recover over \$2.4 million in taxes from the first requests sent.
- Sweden recovered over €44 million with the involvement of EOIR in 2016-17.
- Since its inception in March 2014, an EOI unit in Uganda has sent over 30 information requests and responded to several requests. The country recovered over \$9 million in taxes as a result of EOI in 2015-2016.

Developing countries: Bridging the gap

The advances in tax transparency and EOI over the past decade have given tax administrations the opportunity to fight tax evasion and increase domestic revenue mobilisation. In turn, enhanced mobilisation capacities will support domestic revenue collection, the delivery of essential public services such as health, education, and social protection, as well as meeting the SDGs. But although the tools are available, many developing countries lack the resources and capacity to benefit from them. These countries are disproportionately exposed to the risks of cross-border tax evasion and avoidance, and their need to access the world's information exchange systems is therefore proportionately greater. By not participating in EOI, they risk losing out in the fight against abusive tax practices. On the other hand, by being part of the global move towards greater tax transparency, they stand to gain the most from the generation of additional tax revenues, which are critical to delivering the most fundamental public services and fighting poverty.

The main barriers to developing countries benefiting fully from the global progress in tax cooperation include lack of awareness, lack of capacity across ministries of finance and justice as well as tax administrations, competing resource pressures, and lack of political will.

To ensure that the new environment of tax transparency and international collaboration delivers benefits to all of its members, including developing countries, the Global Forum operates a comprehensive technical assistance programme. This programme aims at breaking down all of the barriers to providing developing countries with access to effective tax cooperation and to fighting tax evasion, and at creating a legacy of effective tax cooperation for the purpose of protecting these countries' revenues. This is being achieved through activities targeted at engaging the entire chain of stakeholders, including building political will through engagement with ministries of finance and justice, facilitating expressions of political commitment through declarations such as the Yaounde Declaration and the Punta Del Este Declaration, and engaging with regional bodies such as UNECA and the African Union.

The strategy also includes making skills and expertise available to support countries to put in place the required legal and regulatory framework necessary for transparency and the exchange of information, as well as practical advice for making this framework operational. One of the key elements of this support is training tax auditors to use the global infrastructure of information exchange in pursuing their investigations.

Increasingly, support is focused on enabling developing countries to exchange financial account information automatically and to obtain information about their taxpayers from the countries where these taxpayers hide their money or assets, or which are destinations for illicit financial flows.

By making use of all available tools for achieving domestic resource mobilisation goals and fighting illicit financial flows, developing countries can fulfil their commitments to the SDGs. The objective of the Global Forum is to make available all of the assistance required for these countries to achieve their goals, both by facilitating a global infrastructure of effective cooperation and through capacity building and targeted support that enables developing countries to make full use of this infrastructure.

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Central bank strategies to boost investor confidence in an era of volatility, rapid economic transformation, and uncertainty

Elvira Nabiullina

Governor, Central Bank of the Russian Federation

Macroeconomic stability and financial stability are the key preconditions for building investor confidence. All investors, portfolio and direct alike, invest in those countries that can guarantee a certain level of policy predictability and whose economies are largely resilient to shocks. Meeting these two conditions reduces the macroeconomic risks for projects, allowing a country to attract more long-term investments as well as investors from the complex sectors of the economy. On the other hand, portfolio investments themselves can be a source of volatility. Therefore, in order to guarantee price and financial stability, central banks should have a consistent and predictable monetary policy framework in place that includes a range of financial stability instruments and can manage risks to both domestic and reserve currency liquidity.

The Russian economy has been hit by severe external shocks on a few occasions over the last two decades. First was the sudden stop of 1998, when Russia's fledgling market economy suffered both a devaluation of its currency and a default on public debt. This was followed by the global financial crisis of 2007-2008, which had a large negative effect on Russia's fast-growing, export-oriented economy, leading to a significant, although short-lived, recession. Finally, the plunge of oil prices, coupled with other external financial shocks, fuelled the recession of 2014-2015.

Importantly, each time the authorities were better prepared for the stressful events compared to the previous crisis. Gradual improvements in governance and decision-making mitigated market volatility and maintained investors' trust in macroeconomic stability.

These episodes have, of course, taught us quite a few lessons. Overall, a volatile environment requires the central bank to act decisively in times of crisis, to be persistent in its attempts to reach long-term goals, and to be effective in its communications, paying special attention to managing the expectations of the market, businesses, and the public.

Resolve

Central banks around the globe are subject to criticism related to their policies, which stems from the trade-offs they have to make that are not so obvious to the general public. Even if the overall goal of reaching low inflation is well understood, the connection between the chosen instrument – i.e. the interest rate – and the target may not be so clear and sometimes can be perceived as counterintuitive. Choosing the exchange rate regime also implies a significant trade-off. While a flexible exchange rate regime has clear advantages in that it allows for faster and easier adjusting of the economy to external shocks, particularly those related to current account balances, such regimes are often unpopular because of their effect on the balance sheets of businesses as well as the public. Flexible exchange rate regimes are also believed to increase the general uncertainty resulting from shocks. Due to these issues, it is not uncommon for central banks to leave it quite late to make difficult decisions.

The Russian experience of 2014 offers a good illustration of this trade-off. Russia switched to inflation targeting in late 2014, requiring a significant increase in the interest rate. While the consensus today is that inflation targeting has benefited the Russian economy, this was not so obvious back in 2015-2016. At that time, many critics of the new policy focused on the short-term benefits of opting for lower interest rates, both allowed the Russian economy to advance towards a more resilient future.

The switch to a floating exchange rate regime was another step towards implementing inflation targeting. Both entrepreneurs as well as households had seen a fixed exchange rate as the main anchor since the 1990s, and the transition to a floating rate did not come easy. In late 2014, the oil price slump exerted huge pressure on the foreign exchange rates of many oil-exporting countries, including Russia. The Bank of Russia decided not to protect the nominal exchange rate; instead, it allowed the exchange rate to absorb a significant part of the shock. In practice, the weaker exchange rates made Russian exporters and domestic-market firms more competitive compared to their foreign counterparts. Although this decision was unpopular among the public, not only did it open the door for a strategic switch to inflation targeting, but, more importantly, it allowed the economy to adjust to the new trading environment in a relatively short time. The negative effect on the economy was also relatively small, with a 2.5% decline in 2015 before the economy got back on track in 2016.

In times of crisis, central banks are usually forced to make unpopular monetary policy decisions, but financial stability presents a slightly different challenge. Here, resolve is crucial. The central bank should aim to quickly come up with both a diagnosis of the problem and a proposed instrument to solve it. The set of instruments can vary depending on the specifics of the problem, so it is critical that the central bank mandate allows it to use the whole range of instruments for financial stability purposes. Often (but not always), measures implemented by central banks in times of crisis for financial stability purposes are not considered that unpopular, but they can be interpreted as

a detour from their long-term policies. Therefore, the key challenge when choosing and implementing such instruments is to find the right balance between stabilising the market in the short run and not destabilising long-term expectations .

The Russian experience of the recent years provides several good examples of such trade-offs. In 2014-2015 we introduced several forms of foreign currency (FX) lending, a measure needed to reduce the shocks experienced by the market because, at the time, some Russian companies and banks had to rapidly repay a significant amount of their debt. However, in the interests of long-term market stability it was also important to use these FX lending operations as short-term anti-crisis instruments and to require banks to start repaying them after the peak debt-repayment period was over. In practice, we required banks to pay back the overall amount in around two and a half years.

A second example are the regulatory forbearance measures that were implemented at the end of 2014. The exchange rate had depreciated by 40% since the summer of that year and was extremely volatile. At the same time, banks had significant levels of FX deposits and loans on their balance sheets and the banking sector was facing certain risks related to financial stability.

The Bank of Russia decided to introduce temporary regulatory forbearance measures to provide banks with an opportunity to adjust to the new environment. We chose an exchange rate between the level observed before the depreciation at the beginning of 2014 and the level at the end of 2014, allowing banks to calculate regulatory requirements guided by this artificially created exchange rate. If this measure was not revoked several quarters later, it would imply an effective decrease in capital and other regulatory requirements, and weaker banks in the long run. Since it was a short-term measure, it decreased financial stability risks by allowing banks to adjust to the new circumstances but did not affect the banking sector's long-term solvency.

A third example of the temporary measures that had to be taken is the postponement of FX purchases for the budget reserve fund, which the Bank of Russia had to enact in the second half of 2018. A budget rule introduced in Russia in 2017 required that the oil- and gas-related revenues that would be collected if the oil price was higher than \$40 per barrel be invested in FX. The central bank works as an agent here, performing operations on the market as per the government's instructions.

In August 2018, when the US Congress began discussing the introduction of new sanctions against Russia, volatility on the Russian market increased. This was partially related to the withdrawal of foreign investment from the government debt market, and partially to a general increase in depreciation expectations and public concerns regarding the safety of their savings. There was much criticism of the budget rule and its role in enhancing volatility in this environment.

The Russian central bank responded to this situation by temporary postponing purchases, first until the end of September and then until the end of 2018. Financial stability considerations triggered this measure and became the key trade-off, but if wrongly interpreted (i.e. as a retreat from the budget rule) this measure could have changed the overall macroeconomic framework.

In this case, just as in the previously described cases, clear communication that this was only a temporary measure and that the budget would remain intact was absolutely crucial. When the central bank recommenced purchases in January 2019 it did not come as a surprise to the market, so there was no increase in market volatility. Throughout this episode, the exchange rate remained consistent to the situation, with the budget rule actually working, rather than being placed 'on hold'.

Persistence

There are, of course, many reasons for a central bank to be persistent in implementing its policy and building market and investor trust. For monetary policy, the logic of such actions is based on the paradigm of dynamic inconsistency. Even if a central bank manages to make economic agents 'believe' in something (for example, low inflation amid high budget deficits that can only be financed through money printing), it can only do this once. Indeed, the winners of the 2004 Nobel Prize in Economics, Finn E. Kydland and Edward C. Prescott, showed in the 1970s that central bankers are tempted to try and make the public believe in low inflation. Once the public is finally convinced that inflation will be low, however, central bankers conduct ultra-loose monetary policy to increase economic activity beyond what would be normally expected under the current economic conditions. This policy results in high inflation *ex post* compared to the *ex ante* low inflation expectations.

This phenomenon has been known for a long time and is still quite common, particularly in the case of emerging market (EM) central banks that may not be sufficiently independent in their decision-making. Even if, in times of crisis, these central banks manage to act decisively and switch to a relatively tight monetary policy that helps to stabilise the market, they tend to weaken their policy too quickly afterwards. As a result, market inflation expectations remain unanchored, and weak policy may lead to another crisis in a matter of only a few years.

If a central bank is persistent in its attempts to fulfil its long-term target, it can achieve significant results in terms of decreasing and anchoring inflation expectations even when the economy is experiencing major changes to the trading environment and capital account shocks. The Bank of Russia announced the complete introduction of inflation targeting at a time when inflation was approaching 17%, so our target of 4% was hardly taken seriously by either the market or the public. However, when, after two years of conducting relatively tight monetary policies, inflation was historically low and started to approach the target, the perception of both the market and the public started to change. We can say that today, five years later, the inflation expectations of market analysts are anchored despite the recent inflation shocks due to a VAT increase, and public expectations are significantly lower than they were when inflation targeting had just been introduced. We still think that this achievement is not enough to claim victory in decreasing and anchoring inflation expectations, however, and we believe we should be cautious and not underestimate the risk of public expectations still being rather high.

As far as financial stability is concerned, policy persistence and the ability to set policy based on long-term goals is also very important. Financial stability measures should include not only those aimed at stopping a panic when it has already started or is about to start, but also measures aimed at preventing the accumulation of vulnerabilities that may provoke such a panic in the first place. In fact, unpopular measures should be implemented to prevent, for example, financial bubbles even when nobody believes there is any risk of a bubble forming. In such moments, a central bank's policy can be interpreted as an obstacle to economic growth.

After the financial crisis of 2008-2009, central banks and governments began to pay special attention to this issue and to use so-called macroprudential instruments to deal with it. The short-term effect of a tightening of macroprudential measures is a slowdown in credit growth, with corresponding effects on aggregate demand and economic growth.

As I mentioned earlier, at the end of 2014 the Russian economy faced potential financial stability risks due to the high dollarisation of banks' balance sheets. We had to use temporary regulation forbearance measures to deal with this issue, and at the same time we started to encourage banks to reduce the FX component of their balance sheets. The respective measures included an upward revision of risk ratios for FX loans and reserve requirements for FX deposits. As far as FX loans were concerned, we used differentiated reserve requirements which depend on the level of borrowers' involvement in international trade. We set risk weights for exporters lower because of natural hedging, while risk weights for construction and real estate were highest as these sectors proved to be the ones bearing the greatest risks.

One of our major concerns was related to unsecured consumer lending. First measures were introduced in this market back in 2013 when its growth rate exceeded 60%, interest rates were outrageously high, and debt service ratios, particularly for poor borrowers, were becoming a matter of serious concern. These measures helped to stop the bubble from growing and, although it did go through a number of problems, the market segment survived the 2014-2015 shocks without major consequences. In 2018, the market started booming again. We then took a number of measures, mainly against loans with high interest rates, for which we significantly increased risk weights. As banks exhaust all possibilities to reduce the rates on such loans, the current growth rates may lead to a sizeable increase in household debt burdens similar that registered in 2011-2014. We therefore have plans to further develop the Bank of Russia's macroprudential policy beyond simply improving current mechanisms and introducing new instruments. As of 1 October 2019, we will introduce the calculation of a new risk profile for retail loans, the payment-to-income ratio (PTI). The introduction of a unified approach to calculating the PTI in the banking sector should improve the assessment of borrowers' risk by banks and curb lending to heavily indebted borrowers. The Bank of Russia will also start using PTI in its regulation to limit credit issuance to borrowers who cannot afford it.

Mortgage lending is still underdeveloped in Russia, so we do not view the 27% growth rate observed last year as a risk to financial stability. However, we would still like to see this sector enjoying balanced growth and not accumulating vulnerabilities in high-risk segments. Therefore, we recently increased risk weights for loans with a loan-to-value ratio above 80%. Data from the 2008-2009 crisis show that such loans presented significant risks for banks. We do not believe that these risks have decreased significantly even after the banks introduced more sophisticated and fine-tuned risk-assessment models. Therefore, we have taken measures to decrease the share of such loans in the new mortgages issued by banks, which exceeded 40% last year.

Expectations management

For central banks, predictability and consistency, as well as transparency in monetary policy, have become key aspects of ensuring the stability of both the economy and financial markets in the wake of sudden capital reversals. Much has been said on this topic already. In the case of both monetary and macroprudential policies, policy goals should be well understood by the market and, to a certain extent, by the public as well. The Russian experience shows that anchoring long-term expectations is more important than the full alignment of expectations for short-term actions. We operate in a highly volatile environment, and the Bank of Russia was forced to surprise the market several times with our actions. However, after we achieved a high level of general understanding in the market of our policy goals and managed to anchor market analysts' expectations, such policy-related 'surprises' stopped causing any significant destabilising effects on the market. There is no room for complacency in this area, though. Building confidence is a long process, while losing it can happen in a blink of an eye. This is exactly why effective communication requires continuous attention and refinement; especially when it comes to communicating the policy trade-offs and interdependencies. For example, as I mentioned before, during periods of shock it is important to explain to the market not only shifts in monetary policy, but also the purpose of short-term financial stability measures and their interactions with long-term policy.

Final thoughts: The only game in town

Transparent and persistent monetary policy and effective financial stability measures are equally important when preserving investor confidence in volatile environments. International experiences, including the Russian experience, show that central banks that have a sufficient level of independence and pay significant attention to building effective communication are able to maintain investor confidence even in difficult times. However, it should be noted that as far as investor confidence is concerned, central bank policies cannot be the only game in town. A good investment climate, effective governance and infrastructure, and the constant development of the domestic financial market are no less (and maybe even more) important to building and maintaining high levels of investor confidence.

National Development Banks for inclusive and sustainable development

Stephany Griffith-Jones

Financial Markets Program Director, Initiative for Policy Dialogue,
Columbia University

Support for National Development Banks (NDBs) as well as for Multilateral Development Banks (MDBs) has grown worldwide, especially in the aftermath of the financial crisis of 2007-2009 and the euro area debt crisis. A basic reason is that the crises showed once again that the private financial system is pro-cyclical – lending too much in booms and rationing credit during crises – and that this pro-cyclicality can be extremely damaging for the real economy. Previous crises had revealed these problems in the developing world, but it became apparent in 2007-2009 that pro-cyclicality of private finance was also a problem in advanced economies, even those with the most developed and deepest financial markets.

Furthermore, the private financial sector is often incapable of providing adequate finance to small firms and of delivering sufficient funding for innovative companies and infrastructure. It provides insufficient support for the investment urgently required for the transformation to a more dynamic, inclusive, and sustainable economies. While this is particularly true in low- and middle-income countries, it is also relevant for the most advanced economies, especially when they are engaged in a major structural transformation such as the transition to an ecologically sustainable economic model.

The inability of private financial markets to deliver adequate funding has prompted many governments to rely more on NDBs. These banks are an important feature of financial sectors of most developed and middle-income countries, especially the most successful ones such as China, Germany, India, and South Korea. These governments see NDBs as helping to ensure that sufficient stable and long-term financing is available to promote sustainable growth – compatible with the limits of the planet – and dynamic growth that increases productivity and thus generates enough well-paid jobs.

The World Bank and regional MDBs sharply increased their financing during and after the global financial crisis. This included the largest MDB, the European Investment Bank (EIB), which saw its paid-in capital doubled and its role further increased by the European Fund for Strategic Investment (EFSI), the main pillar of the ‘Juncker

Plan', which is expected to generate, directly and indirectly, €500 billion in additional loans and an equivalent amount of investment in the period 2015-2020. The European Commission expects that in the period 2020-2027, the successor programme, InvestEU, will generate up to €650 billion in additional investment.

The increased long-term funding provided by MDBs and regional RDBs, aimed at funding long-term investment, was complementary to the valuable, but more short-term, balance of payments finance provided by the International Monetary Fund (IMF) during and after the global financial crisis and euro area debt crisis.

The recent creation of two large multilateral development banks, the Asia Infrastructure Investment Bank (AIIB) and the BRICS¹ New Development Bank, also reflects the shift in the development finance paradigm towards a more balanced public-private mix. China and, more broadly, the BRICS have been playing a lead role in this.

A number of European countries (including Portugal and Ireland) have created new NDBs while others have expanded existing ones (for example, BPI in France). Several African and Asian countries have also recently created NDBs, and others are increasingly interested in doing so.

The scale of existing NDBs is extremely large and they therefore have a significant impact, in particular in some emerging and developed economies. The total assets of NDBs reached approximately US\$5 trillion in 2015, which is significantly higher than those of MDBs. It is important to stress, however, that NDBs and MDBs are highly complementary. This is illustrated by the Juncker Plan, where the EIB works very closely, and often channels funds through, European NDBs.

In a recent book I co-edited José Antonio Ocampo (Griffith-Jones and Ocampo 2018), five crucial roles that NDBs play in the development process are defined: (i) counteracting the pro-cyclical behaviour of private financing by providing counter-cyclical finance; (ii) promoting innovation and structural transformation, which is essential for economic growth; (iii) enhancing financial inclusion; (iv) supporting the financing of infrastructure; and (v) supporting environmental sustainability, in particular combatting climate change.

NDBs were very clearly counter-cyclical in the wake of the global financial crisis. According to World Bank data, they increased their lending by 36%, from \$1.16 trillion to \$1.58 trillion, between 2007 and 2009. This increase in lending in hard times was far higher than the increase in private bank credit in the respective countries.

Although they have paid-in capital provided by governments, many development banks raise their funds on national and international private capital markets. Typically, their loans are also co-financed by private agents. Leveraging public resources with private

¹ Brazil, Russia, India, China, and South Africa.

ones is especially valued in the context of limited fiscal space, both real and perceived, that is typical during and after a crisis. Furthermore, NDBs mainly lend to private enterprises, thus encouraging private investment.

It is very important that 'good' development banks are promoted. This means institutions with clear mandates that are well governed and well run, with highly professional staff, so they fulfil their functions well. Their main objective is to maximise their development impact, rather than their profits, though assuring minimal returns.

In Griffith-Jones and Ocampo (2018), we analyse NDBs in seven countries. We conclude that, overall, the banks tend to be successful at what they do. They have been broadly efficient development policy instruments in the various countries studied, helping overcome major market failures in a flexible way over time. Furthermore, they have played important roles in funding national development strategies, which is especially helpful in promoting inclusive and sustainable development.

NDBs have been innovative in several aspects. First, they have gone into new activities, supporting innovation and entrepreneurship. China's CDB and Germany's KfW have supported technological innovation, for example, while others have supported entrepreneurship (an example being Chile's CORFO, through its Start Up Chile programme that supports Chilean entrepreneurs as well as foreign entrepreneurs investing in Chile).

Second, NDBs have played an important role in supporting key new sectors, such as renewable energy and energy efficiency. KfW was initially the sole lender to private companies investing in solar energy in Germany, with private banks following later. In China, CDB helped design broad policy to encourage investment in renewables, especially solar, as well as playing a major role in initial funding. Germany and especially China have been major actors in promoting the spread of solar energy worldwide at a cost that is increasingly competitive with that of fossil fuel energy.

Third, NDBs have developed new instruments – including guarantees, equity (including venture capital) and debt funds, as well as new instruments for financial inclusion, such as correspondent stores – whilst also using more traditional instruments, such as long-term loans including both first-tier (direct) and, more frequently, second-tier (indirect via financial intermediaries) loans. In Mexico, Nafinsa operates an interesting online reverse factoring system called Productive Chains, which allows small and medium-sized enterprise (SMEs) to sell their accounts receivables from large companies to private banks and receive the money immediately. The programme, which provides working capital to SMEs, is considered very successful and is now being implemented in other Latin American countries.

Finally, NDBs have also started developing new functions, such as funding foreign trade in times of financial crisis (in the case of Brazil's BNDES) or more generally (in the case of BPI in France), encouraging foreign direct investment (FDI) by national companies abroad (KfW, CDB and BNDES), and helping attract foreign investors to the country (CORFO).

A key question, however, is whether, given major current development challenges, NDBs are large enough for the development needs of their countries. This seems a particularly valid question in several Latin American and African countries, but is also relevant to other regions.

The need for NDB activity on a larger scale is two-fold. First, levels of both private and public investment are low. In the case of private investment, this is linked in part to limitations of private finance, in particular its capacity to fund long-term investment. Furthermore, many countries have little real or perceived fiscal space, limiting public sector investment. The leverage of public resources provided by NDBs is therefore particularly attractive for boosting investment.

Second, there is a need for greater investment in most countries worldwide – with the exception of some countries, such as China, where investment rates are already high – as the challenges of structural transformation become more urgent. These challenges are linked to the need for a radically different economic model which is more dynamic, greener (to ensure growth is consistent with the needs of the environment), smarter (with improved innovation and adaptation to increase productivity more rapidly), and more inclusive (to reduce the large income inequality that is pervasive in so many countries).

NDB finance, which has the virtue of being long-term (over 50% of NDB lending is for over ten years' maturity), is therefore needed on a significant scale. This has been well understood in the highly successful economies of Germany and China, where the level of NDB assets relative to gross domestic product (GDP) is fairly high.

A key conclusion is that, in many countries, the scale of NDB operations should be significantly increased so they can have a more significant impact on investment for structural transformation and development. This does not necessarily imply large government resources, as the only public contribution would be an increase in paid-in capital. The NDBs could fund their operations on the private domestic market – where these are deep enough – as well as international capital markets and/or with funding from regional MDBs or the World Bank.

Another common insight gained from our research is that the broad context in which development banks operate is key for their success. Good macroeconomic policies – in particular, active counter-cyclical policies, relatively low inflation, fairly low real interest rates, and competitive exchange rates – are essential to the success of NDBs. The operations of BNDES in Brazil, for example, have been constrained in recent years by the country's macroeconomic problems. A well-functioning financial sector is another important pre-condition for the smooth functioning of an NDB. It is interesting to note, however, that NDBs can help develop a deeper capital market. For example, CDB played a key role in the development of the Chinese bond market. More generally, a number of NDBs have helped the introduction of local currency and/or green bonds in their own local capital market.

An NDB can operate far more effectively if the country has a clear development strategy, ideally linked to a modern industrial policy or, more broadly, to modern production sector strategies. These should focus on promoting innovative sectors and guaranteeing their competitiveness in natural resources, manufacturing and/or services, depending on relevant comparative advantages and accumulated capacities. Development banks such as KfW, CORFO and CDB, for example, operate in a context of a clear strategic direction. Clear policy mandates are particularly valuable (provided they do not change too much with different governments), giving continuity and allowing for long-term planning by NDBs and in their support for development, as the German example notably indicates.

Expanding the role of NDBs in countries where they already exist, and introducing them where they do not, would help create a financial system that is more diversified and better serves the needs of the real economy and of society, contributing to a more dynamic, greener, and fairer economies.

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Part II

Governing trade and investment

Introduction

Bringing trade policy up to date for a changing world

Cecilia Malmström

European Commissioner for Trade

Sometimes I get a strong feeling of *déjà vu*. Back in 2014, the United States dominated our trade agenda as negotiations for a Transatlantic Trade and Investment Partnership (TTIP) were in full swing. Today, much of my time is also taken up with the transatlantic relationship, although of course in very different circumstances.

This example is a telling demonstration of the changes that the global economy has undergone in recent years. New geopolitical challenges have arisen and some old ones have intensified. Meanwhile, technology is swiftly changing how we deliver goods and services, and the deteriorating state of the environment is a pressing issue that affects every area of our politics.

“Crisis” is a word thrown about an awful lot at the moment. Certainly, when we look at the World Trade Organization (WTO) – the backbone of the global trade order – we see a vital institution pushed to breaking point. This should worry us all. Nevertheless, if you look beyond the headlines it is clear that between 2014 and now there have been some important shifts in European Union (EU) trade policy and that there is much to celebrate.

Growing our circle of friends

On 1 February 2019 the Economic Partnership Agreement between the EU and Japan entered into force. A few weeks later, Members of the European Parliament (MEPs) gave their green light to trade and investment agreements with Singapore. We are already seeing the fruits of our agreement with Canada, applied since September 2017. The EU is still negotiating on many fronts and will continue to do so until the very last day of the Juncker Commission. We hope to formally conclude a new pact with Mexico by then, as well as reaching political agreement with the four members of the South American trade bloc Mercosur and New Zealand.

The EU now has 40 trade agreements with 72 countries around the world – the largest world trade network. Signing a trade agreement with a country binds us together economically, bringing our businesses and citizens closer together. It also demonstrates shared values and a common outlook on the benefits of open trade. This is especially important when, in a wider context, some of the major players seem to have lost faith in the rules-based system.

Bringing values and transparency into the trade debate

Trade encourages growth and supports jobs. Our most recent jobs report shows that trade with countries outside the EU supports the employment of 36 million Europeans (Arto et al. 2018). However, in a trend captured in our “Trade for All” strategy paper back in 2015 (European Commission 2015), we also recognise that Europeans do not just care about jobs and GDP; citizens also care about values and they want trade to reinforce high standards at home and abroad.

Since our first ‘modern’ agreement with Korea, every comprehensive free trade agreement now includes a trade and sustainable development chapter with legally binding commitments on labour rights and the environment. Specifically on the climate, our agreement with Japan was the first of its kind to include a specific commitment on the Paris climate accord.

Following a wide debate, we unveiled our new revamped approach to sustainable development in 2018.¹ We presented 15 concrete, practical proposals to make these chapters more effective, including enabling civil society to play a bigger role in implementation and enforcing the provisions more assertively. As an example of the latter, we recently launched a dispute with Korea on workers’ rights issues based on commitments they had made in the trade agreement – the first dispute of its kind.

On transparency, the TTIP experience showed us that the old way of doing things was no longer acceptable or in fact desirable. Since then, we have radically changed the way that we negotiate trade agreements. The public is brought in at an early stage through consultations. In addition, our default setting is now to share our documents with the wider public early and often. Compared to other countries, we are streets ahead on this and – contrary to what some initially thought – it actually strengthens our position in trade negotiations. This is because public support is crucial to be able to deliver a deal, and nobody likes to feel that decisions that affect their lives are being taken behind closed doors.

¹ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1803>

Updating our policy toolbox

Citizens have also shown to us in recent years that they want the EU to stand up for them and to make sure that European companies are given a fair chance. Last year we completed the first overhaul of our trade defence instruments since 1995. This means that we can react quicker and impose more appropriate measures when others are not playing by the rules – either through dumping or subsidising their companies unfairly.

In addition, we recently agreed to set up the EU's first ever framework for the screening of foreign investments. Over the course of the last few years there has been a growing public debate about the role of certain investments from abroad in our critical public infrastructure. The new legislation will ensure that the EU and its Member States have the means to protect their essential interests while remaining one of the most open investment regimes in the world.

Trade as a catalyst for positive change

Since the very beginning, I have been a strong supporter of the SheTrades initiative of the International Trade Centre (ITC). In 2017 we hosted a joint conference on women and trade. That forum produced a number of ideas that we are already putting into practice (for example, we have strengthened the gender analysis in our sustainability impact assessments of our trade deals). In addition, this year our jobs report specifically considered gender for the first time – 14 million European women are in employment supported by foreign trade. In our negotiations with Chile, we are also negotiating specific provisions on trade and gender – another first.

Outside Europe, trade is also empowering women and other marginalised groups. On a recent trip to South Africa I met some extraordinary female entrepreneurs in the wine sector. One of these was Denise Stubbs, Director of the Thokozani Wine Estate, who showed me around her vineyards with immense pride. Some 80% of her business is owned by the workers, the majority of whom are black and female. It was clear that the EU market of 500 million thirsty consumers was an enormous opportunity for their company. Thanks to the opportunities put in place by the Economic Partnership Agreement between the EU and the Southern African region, overall exports to the EU grew by 13% in the first year, and by 14% in the second year, compared to the three-year average before the entry into application of the agreement.

Helping vulnerable economies, sticking to our principles

Our policy towards developing countries also shows that trade can play an important role in improving citizen's lives around the world. Through our Generalised Scheme of Preferences (GSP), the EU offers privileged access to our market for products from developing countries. To benefit, the countries must respect international conventions on human and labour rights. Our latest analysis showed that this scheme is delivering. For example, in the Philippines the EU trade preferences were a powerful argument

against re-introducing the death penalty and reducing the age for criminal responsibility to nine years of age. The government knew that going ahead would have economic ramifications, as it would have put their access to the EU market in jeopardy.

Indeed, in some cases we are not afraid to act when countries are not playing by the rules. Due to the deteriorating human rights and labour rights situations in Bangladesh, Myanmar, and Cambodia, we have stepped up our engagement with those three countries. With Cambodia, we have launched the formal withdrawal procedure which could lead to the removal of their privileged access to the European market if the government fails to tackle the issues that we have identified.

Looking forward to future challenges

There is no way of knowing what is around the corner. Who in 2014 would have guessed that TTIP would be deep in the freezer by now, and that the entire global trading system would be under threat? Nevertheless, although bookended by difficult issues, the work done over the last four years has made the EU better equipped than ever to deal with the challenges of tomorrow. Whether on artificial intelligence or on reducing CO₂ emissions, an open values-led approach will help ensure that citizens are anchored at the centre of our policy decisions.

In a world where we sometimes need to act to ensure fair competition, we now have the tools to do so. By expanding our circle of friends, we will have allies to turn to when we need global solutions. And finally, by realising the potential of trade as an incentive to improve human rights and good governance, we can continue to support the EU's foreign policy objectives.

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Protecting the WTO's crown jewel: Appellate Body reform proposals

Zhang Yuejiao

Professor of Law, Shantou University and Tsinghua University; former member, World Trade Organization Appellate Body

It has been almost three years since I returned to Tsinghua University after serving more than eight years as a member at the Appellate Body of the World Trade Organization (WTO). I miss the WTO dispute settlement mechanism, which has earned a reputation as the 'crown jewel' of the WTO system, as well as my former colleagues and friends at the Appellate Body. Since the decision-making process in dispute resolution evolved from a 'consensus' approach under the General Agreement on Tariffs and Trade (GATT) to a 'negative consensus' approach under the WTO, it has become almost automatic for panels to be established and reports to be adopted. In 1995, an independent Appellate Body was set up to hear and correct any legal errors, particularly in relation to legal interpretation and application, in the panel reports.

The WTO dispute settlement mechanism has heard over 550 cases since its establishment 23 years ago, approximately twice as many as passed through the hands of the GATT panels in nearly 50 years. In terms of the average time taken to close a case, the procedures of the WTO dispute settlement mechanism are faster than those of the International Court of Justice (ICJ) and the International Centre for Settlement of Investment Disputes (ICSID). Implementation of the Dispute Settlement Reports is generally good, and it is widely agreed by its 164 Members that the dispute settlement mechanism is the most successful of the WTO's four main functions.

The WTO dispute settlement mechanism provides security and predictability by allowing the rules-based multilateral trading system to resolve disputes promptly and positively. The mechanism ensures consistent and correct interpretation and implementation of the 60 coverage agreements which are recognised as international law by the WTO's 164 Members, thus significantly reducing the fragmentation of international law and contributing to the international rule of law.

Unfortunately, the selection of Appellate Body members has been blocked several times recently. Three of my former colleagues have come to the end of their terms of office and have not been replaced by new members. Then, in the last week of August 2018, came news from Geneva that the Mauritian judge, whose first term was due to expire at the end of September 2018, had not been granted a renewal. As a result, there

are now only three judges left on the Appellate Body – the minimum number required for the system to function. At the same time, the number of appeals is increasing. By the end of December 2019 only one judge will be left on the Body, as the judges from the United States and India will have completed their two terms. The Appellate Body is about to become paralysed.

As decision-making in the WTO dispute settlement system is characterised by ‘negative consensus’, the panels and the Appellate Body are indispensable. If the Appellate Body is abolished and, in turn, the ‘negative consensus’ decision-making mechanism fails, the WTO system will be out of balance. The dispute resolution mechanism will be undermined and will have to return to the ‘power-oriented’ procedure of the GATT period some 70 years ago. The unanimous ‘consensus’ resolution of disputes resembled a slow and protracted game of tug-of-war. It would be a severe shock for the world’s legal community if the successful dispute settlement of the WTO were to suddenly collapse, as well as a regressive step and a big loss for international economic governance.

The Appellate Body of the WTO is unique and, to this day, the most successfully operated multilateral appeal system among all international dispute settlement organisations. The experience of the WTO Appellate Body’s 24 years of practice and procedure, the rules, and the lessons learnt are very relevant for the current international investment dispute settlement reforms being undertaken by the United Nations Commission on International Trade Law (UNCITRAL) and others. My friends and colleagues working in the field will share my feelings of sorrow and regret if the Appellate Body were to collapse by the end of this year. Judge James Crawford of the International Court of Justice said that for international trade dispute settlement, this would be going “back to square one”. In his farewell speech, my former Appellate Body colleague Peter van den Bossche said: “History will not judge kindly those responsible for the collapse of the WTO dispute settlement system”.

We must do everything we can to save the WTO Appellate Body and to protect the WTO’s advanced dispute resolution mechanism. Nothing is perfect, of course, and the dispute settlement system has to keep up with the times, constantly improving and reforming itself. In the rest of this chapter, I offer some modest personal views on various potential reforms.

1. The documents issued by the WTO Appellate Body and the written submissions by the parties should be reader-friendly. The legal paperwork and documents from WTO dispute settlements are getting longer and longer, and some of the reports are difficult to read. All the reports should be concise and reader-friendly, and written submissions by the parties should be shorter with page limits set by the Dispute Settlement Body (DSB). Panel and Appellate Body reports should focus on a prompt and positive resolution to the dispute by presenting ‘correct, clear and concise’ reports and avoiding the inclusion of advisory opinion.

2. Certain provisions of the covered agreements require modifications or legal interpretation. For instance, Article 17 of the Dispute Settlement Understanding (DSU) provides that the Appellate body “shall” complete its report in 90 days, whereas Article

12 of the DSU stipulates that the panel “should” complete its report within nine months. What is the difference in requirement between “shall” and “should”? Is the latter not a mandatory legal obligation? The answer should be unambiguous. Additionally, the DSU says that the proceedings of the Appellate Body shall be confidential. But what is the legal basis for public hearings? I also believe that the General Agreement on Trade in Services (GATS) should provide definitions for “similar services” and “likeness”, otherwise it is impossible to determine whether a service measure violates most-favoured nation (MFN) obligations. As the highest decision-making body of WTO, Ministerial Conference decisions – such as targeting on the authoritative interpretation – should be given more weight.

3. The 90-day time limit for appeal proceedings should be reconsidered. As stated above, the DSU provides that the Appellate Body shall finish its report within 90 days. The number of appeals is increasing, however, and the legal issues are becoming much more complex. Often the Appellate Body cannot complete its report within the 90-day period.¹ I propose that the DSU clarify that the 90-day limit refers to working days (i.e. not including holidays and weekends) and also does not include time for translation. I expect that more than 95% of appeal cases can be closed within 90 working days. The quality of outcomes should be the first consideration of dispute settlement proceedings, and in some exceptional cases, such as large civil aircrafts dispute, the Appellate Body requires more than 90 working days. In such cases, the Appellate Body must consult with the parties and apply to the DSB for an extension .

4. The DSB should not interfere by interpreting its members’ internal law, which is always considered as fact. For instance, municipal law may serve as evidence of facts and may provide evidence of state practice. To avoid any confusion, the DSU should make a distinction between “facts” and “law”, and clearly state how the internal law of a member can be regarded as “fact”. According to Article 17.6 of the DSU, the Appellate Body limits its analysis to the legal issues and their interpretation in the panel report. In theory, the factual finding, as well as the admissibility and credibility of the evidence, is outside the jurisdiction of the Appellate Body. But how can a “fact” and “law” be distinguished? And how can a “fact” be separated from “law” if it is a legal characterisation? For instance, the examination of whether a panel has made an objective assessment of a matter and the evaluation of the consistency between a municipal law and the relevant agreement are legal characterisations. Both are legal issues to be heard by the Appellate Body. In short, the distinction between law and facts should be made more specific.

5. The Appellate Body should have the legal capability and competence to complete a legal analysis. As the WTO does not provide the Appellate Body with the power to remand cases (i.e. to send them back to the panel), when the Appellate Body reverses a legal interpretation or the relevant legal conclusions of a panel and there are insufficient factual findings or undisputed facts in the panel report to enable the Appellate Body to address and decide on resulting outstanding issues, the dispute remains unresolved.

1 After the Appellate Body’s report to the DSB, an extension of the 90 days applies.

The result of no substantial ruling by the Appellate Body, which is the highest and final stage of a WTO judgement, is not fair to the parties involved and neither is it in line with the DSU's undefined principle of prompt and positive resolution of disputes .

The quality and speed of dispute resolution would not be improved, however, if remand proceedings were established. The procedure of the Appellate Body returning an open case and the process of reorganising the panel would be complicated and time-consuming. Importantly, when a party to an appeal knows that its measure may violate a WTO-covered agreement and the measure is about to return to a panel, it is unlikely that the party will provide further evidence to suggest that the measure is illegal.

If, instead, the fact-finding were done properly at the panel stage with the parties signing a "statement of facts", after overturning a legal analysis and the relevant conclusion of a panel report the Appellate Body could then go on to complete the legal analysis. In addition, the DSU should formally recognise that the Appellate Body has the competence for a "complete legal analysis".

6. A person who ceases to be a member of the Appellate Body should be able to complete a current appeal if approved by the DSB. The members of the Appellate Body can continue to hear their current cases, with the authorisation of the Appellate Body and upon notification to the DSB, after they leave office. This provision is specified in the Working Procedure of the Appellate Body but has not been unanimously adopted by the WTO Members. In my opinion, former members of the Appellate Body should go on to complete the disposition of the appeals to they were assigned, since they are in the best position to deal with the disputes. Thus, I recommend that the relevant provision in the Working Procedure of the Appellate Body be approved according to the WTO decision-making procedure.

7. The term of office for an Appellate Body member could be extended. The term of office for members is currently four years. This may be renewed for a second term, for a total period served of up to eight years. Due to the lack of clear rules in the DSU on the conditions and procedures for renewal at the end of the first term, Appellate Body members may be in the dark before the end of the first term and there is a great deal of uncertainty, which affects the work of the Appellate Body. To avoid threats by some political powers to the independence of the quasi-judicial system, the provisions for selection and appointment could be modified to accommodate a shorter time frame through the introduction of a six-year term instead of two four-year terms.

8. The WTO dispute settlement mechanism should have the right to issue "urgent and provisional measures" to reduce the damage caused by deliberate illegal measures, such as raising tariffs. The mechanism was crafted without rules for provisional suspension or injunction, and the WTO legal remedy has no retrospective effect. The winning party in a lawsuit therefore does not receive full compensation for its loss. The dispute settlement mechanism could include a system of "urgent and provisional measures" to fix this systematic defect, as well as to guarantee the interests

of Members acting in good faith. In addition, the dispute settlement mechanism of the WTO could adopt an expedited procedure, encouraging parties to settle disputes promptly and efficiently.

9. The experts, judges and lawyers should be broadly representative of the WTO Membership. For instance, according to the Article 8.10 of the DSU, when a dispute is between a developing country Member and a developed country Member, the developing country Member may request that one panellist be from a developing country. Importantly, in order to close the gap in legal expertise between developed and developing Members in the WTO, it is necessary to train legal practitioners, and increase the use of legal professionals, from developing countries and new Members.

10. A strict code of conduct should be observed by all personnel involved in dispute settlement. It is a unanimous view among WTO Members that the members of the Appellate Body should not be affiliated with any government and should not participate in the consideration of any disputes that would create direct or indirect conflicts of interest. Independence, impartiality, high moral standards, professionalism, and a strong dedication to the multilateral trading system are the key requirements for all Appellate Body members, panellists, lawyers, and staff working on WTO dispute settlement, who should be aiming to make their judgements with objectivity, justice, fairness, promptness, lower costs, and enforceability.

Concluding remarks

The WTO dispute settlement is central to the rules-based international trading system. It has been the most successful element of the multilateral trading system since the establishment of WTO. Any reforms of the WTO and its dispute settlement mechanism should observe the principles of unconditional MFN, tariff concessions and bound rates, “national treatment on internal taxation and regulation”, the “general elimination of quantitative restrictions”, fair trade, “special and different treatment” for developing countries, multilateral settlement of disputes, and so on. Specifically, reforms should do no harm to the fundamentals of the WTO and its well-established dispute settlement mechanism. With the ongoing internal reforms and further improvements to the Appellate Body, as well as to the dispute settlement mechanism, the mechanism will better serve WTO Members in the peaceful resolution of their disputes. Any unilateral approach would be harmful to the WTO and its dispute settlement mechanism. Instead, multilateral efforts will bring all members on board with WTO reform. A modern and efficient dispute settlement mechanism will contribute an even better function to the robust institution of the WTO.

Global guiding principles for investment governance: The bumpy road to multilateral investment rules

Ana Novik

Head of Investment Division, Organisation for Economic Co-operation and Development

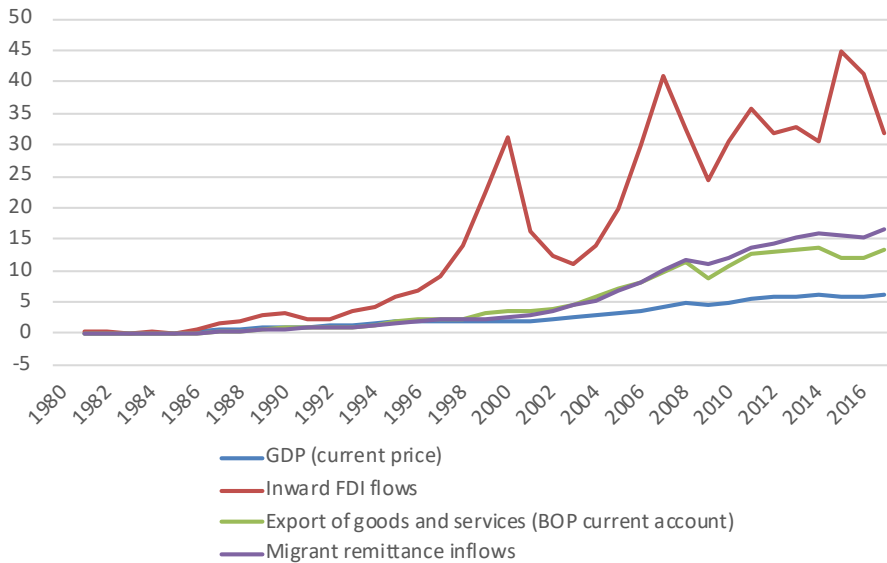
Introduction

Sustainable economic growth is essential to improve people's living standards. International trade and investment are important engines of growth and development. While multilateral rules for trade exist, establishing multilateral rules on investment and linking these rules with trade has been challenging. Paradoxically, global economic governance started on the right foot, with the 1948 Havana Charter for an International Trade Organization (ITO) containing provisions on both trade and investment. In particular, art. 12 used language that still sounds relevant today. It was based on the recognition that a stable, non-discriminatory international trading system could be better achieved through a single set of legally binding multilateral rules. It also referred to the value of common principles "regarding the conduct, practices and treatment of foreign investment".

As it turned out, the Havana Charter was never adopted. Over the next seven decades, and in particular in the past quarter of a century, international investment has come to epitomise globalisation. Foreign direct investment (FDI) flows have grown much faster than other metrics – including gross domestic product (GDP), trade (here expressed as exports), and remittances – and the proportion of FDI to world GDP has increased six-fold in two decades, reaching 40% of GDP in 2018. However, the financial crisis in 2008 gave rise to a sharp decline in global FDI flows and the recovery in the last ten years has been uneven, with levels decreasing in 2017 and 2018.

In parallel, the interactions between international trade and investment have become more complex and dynamic, with the explosion of global value chains and intra-firm trade, the emergence of new multinational actors (from global state-owned enterprises to start-ups), the growing relevance of services, and the rapid digitalisation of the economy, to mention just a few of the structural changes.

Figure 1 Forty years of globalisation (base=1980)



Source: IMF; OECD and World Bank

There have also been dramatic changes in the perception of foreign investors, among the public and policymakers alike. First there was scepticism, if not outright rejection, as multinationals were deemed to be malicious forces; then foreign capital was deified as a panacea. In the most recent period, an even more complex picture has emerged. The global community recognises that private investment is needed to confront major global challenges such as the Sustainable Development Goals (SDGs) and the Paris Agreement, while also harbouring mounting doubts over the ethics of global capitalism.

However, one fact remains unaltered: we have not been able to achieve binding multilateral instruments containing comprehensive rules on investment, despite the various attempts and many initiatives at the bilateral, regional, and global levels. As a result, we face an international investment policy regime that is fragmented and characterised by different approaches towards its governance and regulation, including with respect to openness, scope, and the balance of regulatory space.

Since the early 1990s, I have been part of this bumpy road to achieving multilateral investment rules, and this contribution builds on my 25 years of experience, as Chilean negotiator first and then as Head of the Investment Division of the Organisation for Economic Co-operation and Development (OECD) since the end of 2014. Based on

my experience, I would like to argue that multilateral investment rules could be useful in the global world in which we are living, but we should re-think their processes and design.¹

Active negotiations of bilateral investment treaties and an unsuccessful supporter of multilateral rules on investment

In the 1970s, the debate in most countries (including my country, Chile) on the role of foreign capital was incredibly heated due to the widespread perception that multinational enterprises (MNEs) cared a lot about their own benefits and those of their home countries and very little about the negative externalities of their actions, let alone the wellbeing of host countries. Following the 1973 military coup in Chile, which was actively supported by MNEs, a process of unilateral opening of the economy and reduced state intervention began, which proved very influential in the rest of Latin America and beyond. In the 1990s, when Chile was reborn as a democratic country, we began to establish a new class of diplomatic and economic relations with the rest of the world. Negotiations of bilateral, regional, and multilateral trade and investment agreements were an important tool in this new era.

I was part of the group of young negotiators that joined the government in the early 1990s. Chilean exports and GDP per capita rose steadily through 1980; in this context, the democratic government did not question the economic model of unilateral openness. There was a recognition that it had reduced the level of poverty in Chile, but there was also a political commitment to complement the unilateral openness with predictable and transparent rules negotiated at the bilateral, regional, and multilateral levels. We strongly believed that global rules benefit smaller countries that are otherwise at the mercy of the large trading nations and blocs; in addition, regional and multilateral negotiations increase their individual power.

Chile and many other countries, particularly in the region, started negotiations on preferential trade agreements, first among Latin American countries. Very soon, influenced by the conclusion of the North America Free Trade Agreement (NAFTA) in 1994 and General Agreements on Trade in Services (GATS) in Geneva, Chile started including services, investment, and intellectual property in its agreements. This was a new area of negotiation; the models were NAFTA and GATS, we tried to identify ‘offensive’ service interests (i.e. areas where we have competitive advantages) because the Chilean economy was already more open in the service sectors than the majority of our trading partners. We expected that including specific provisions in free trade agreements would attract more international investment; this proved to be the case, as FDI flows increased in the 1990s. At the same time, we started negotiating various bilateral investment treaties (BITs), mainly with OECD countries and with protection clauses. This trend was not exclusive to Chile; in all regions the number of BITs

1 This chapter builds freely on the activities of the OECD Investment Division, which serves as Secretariat to the OECD Investment Committee. The second part of the chapter, in particular, draws on research that is freely available at www.oecd.org/investment.

exploded in the decade to the mid-2000s, with the total number reaching more than 3,000 today. Honestly speaking, at the time we were not aware of the implications of the investor-state dispute settlement (ISDS) mechanism that lies at the core of BITs. Then, in 1997, we had our first case (the claimant was a Spanish publisher, Victor Pey, whose newspaper had been seized in the wake of the coup). This experience taught us that investment provisions and ISDS disciplines had to be negotiated carefully.

In 1995, the Multilateral Agreement of Investment (MAI) negotiation in the OECD was launched and Chile, though not yet part of the OECD, participated as an observer. The expectation was that, once approved, the MAI would be open to participation by non-OECD countries and our plan was to adhere. In this context, Chile engaged in discussions with other members and our comments on most-favoured nation (MFN) and positive versus negative list approaches were considered, in particular by Canada, Mexico, and the United States. Negotiations were discontinued in April 1998, due in part to the lack of consultation at the governmental level and with civil society. Although more than 20 years have passed, the ‘ghost’ of the MAI is still alive in the OECD. In this context, considerable and often innovative work on investment treaties has not translated into global standards, best practices, or rules. Of course, this is not only the lasting legacy of the MAI but also the consequence of OECD countries having different models.

In 1996, the World Trade Organization (WTO) Ministerial meeting in Singapore launched four working groups with the aim of introducing multilateral rules on non-trade issues. One of them was to cover trade and investment, and Chile was a strong supporter of this work stream. Little happened, and we tried to bring these issues back when the Doha Round was launched in 2001. I was posted in Geneva at the time and, with Australia, Canada, Colombia, Costa Rica, Singapore and the EU, among others, we started some discussions on how to bring the four Singapore issues back into multilateral negotiations. We were only successful with investment facilitation and transparency on government procurement, while competition and investment were left outside the scope of the Round.

In sum, during the 1990s and the early 2000s, many developing countries, including Chile, came to see the value of international investment, alongside foreign trade, for economic growth and development. The focus was on openness, liberalisation, and investment protection. In this context, we thought that rules – bilateral, regional, and multilateral – that increase openness, predictability, and transparency were useful. For a variety of reasons, however, we failed to develop multilateral investment rules.

OECD work sheds light on increasing trade and investment integration at the business level

The world is changing at an ever-quicker pace. Some of these changes – such as the speed, prevalence and impact of digital changes on MNEs and the importance of emerging and developing countries as outward investors – directly affect the organisation and location of global production and the interactions between trade and investment.

MNEs are engaged in both horizontal and vertical investments abroad. Many studies have been written regarding MNEs' motivations, which include access to large and fast-growing markets or natural resources, or access to technology or specific financial and tax legislation. In addition, with the digital changes, MNEs are increasingly making use of arm's-length contracts with independent partners (i.e. non-equity relationships). At the OECD, joint research between trade and investment experts has corroborated this hypothesis with new evidence that trade and investment are not simply 'two sides of the same coin', but serve different functions along the supply chain. Multinationals enter into many strategic partnerships and arrangements – such as franchising, licensing, research collaboration, and long-term contracts – that influence their trade and investment patterns and their impact on the growth trajectories of both home and host countries.

In addition, changes in the digital economy and technological advances in production methods continue to influence international business strategies, forcing strategies for trade and investment to evolve constantly. Digitisation is increasing the international mobility of services without the need for market presence or establishment, potentially reducing FDI in services sectors. In addition, MNEs establish their operations across multiple countries and regions in integrated production networks.

Other OECD research has showed that another motivation for MNEs is investment in digital assets; firms acquire and generate knowledge from foreign firms, reflecting the fact that research and development (R&D) and innovation are being internationalised, along with production. Although FDI has generally been considered a source of technology transfer, new FDI is becoming a vehicle for technology acquisition. This new motivation has prompted new policy responses, one of which has been for some countries to review their frameworks on investment policies and national security.

All these findings make evident the complexity and heterogeneity of the linkages between trade, investment, and strategic partnerships. Regulatory measures, restrictions on trade, and FDI have bigger impacts on ways of organising production than 20 years ago. This implies that although we are analysing the need for investment multilateral rules, policies related to trade and investment should not be pursued in isolation. It is not only measures on trade impact investment and vice versa that should be considered, but also a broader spectrum of policies such as competition, tax, subsidies, services, digital, intellectual property, and so on.

Furthermore, emerging and developing countries are increasing relevant as outward investors. This has changed the traditional paradigm of the 1980s and 1990s, where developed countries invested abroad and developing countries were the hosts of those investments. In the current reality, with increasing flows of both South-South and South-North investments and the realisation that this may create benefits not only for the home economy but also the host economy, emerging and developing countries are as interested in open, non-discriminatory and predictable rules as developed economies. Of course, China accounts for 50% of these investments, but the relevance and importance of outward flows particularly among Latin American countries and among Asian countries have increased in the last 15 years.

Bilateral and regional investment rules are changing, but the probability of achieving multilateral rules remains low

All these facts explain the inclusion of investment chapters in many free trade agreements (FTAs) negotiated in the last years, such as the 11-country (including Chile) Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU, and many bilateral agreements. They also explain why this investment discipline is part of broader agreements that include, in addition to trade, other disciplines to respond better to the complexity of global production and global challenges, as well as to societal demands concerning companies' 'licence to operate'.

In 2016 the G20 agreed, under the Chinese Presidency, the G20 Guiding Principles for Global Investment Policymaking. These principles recognise the critical role of investment as an engine of economic growth and the importance of non-discriminatory, predictable, and transparent rules; at the same time, they recognise that investment policies should aim at fostering investment consistent with the objectives of sustainable development and inclusive growth.

At the WTO, a new attempt at multilateral investment rules, albeit narrower in terms of scope and participants, started at the 2017 Buenos Aires WTO Ministerial. Over 70 WTO Members issued a joint statement calling for a "structured discussions with the aim of developing a multilateral framework on investment facilitation". In March 2019, structured discussions on investment facilitation started based on a checklist of issues under three main pillars: transparency, predictability, and international cooperation. It is not clear whether the WTO will succeed in this attempt but even if it does, the scope of the multilateral investment rules agreed will not be comprehensive.

Some elements to take into account

Digitalisation and the increase in the number of investment actors are raising awareness of interconnections and of the need for multilateral investment rules, but also uncertainty and frustration, with low job growth in some industries and regions, growing income

and wealth inequalities, and the explosion of the social compact. In this context, any initiative to develop multilateral investment rules should pay more attention to social and development dimensions and the disruptions to which globalisation can give rise.

In addition, scrutiny with respect to business behaviour has increased; firms are expected to respect human rights, meet their fiscal responsibilities, and manage environmental and social risks throughout their operations and supply chains, even in countries with weak governance. Companies are carrying out risk-based due diligence processes to take care of society's expectations (due diligence is the process that companies undertake to identify, prevent, mitigate, and account for how they address their actual and potential adverse impacts). These expectations have been reflected in the development of broadly recognised international standards, such as the OECD Guidelines for Multinational Enterprises and Due Diligence Recommendations, the United Nations Guiding Principles for Business and Human Rights, and the International Labour Organization's Tripartite Declaration. At the same time, businesses are increasingly aware that environmental and social issues, including human rights issues, can pose material risks to their business operations, including serious reputational damage. These issues are mentioned in some trade and investment agreements, but serious considerations on how international investment rules should be linked with responsible business conduct (RBC) standards is an area that needs more analysis.

Furthermore, during the last few years, the inclusion of investment provisions in the context of preferential trade agreement negotiations has been disputed. ISDS cases with interpretations that go beyond the intention of negotiators, covering sensitive areas of regulatory policies and involving huge awards for damaged investors, have raised concerns not only from civil society and anti-globalisation activists, but also among the very policymakers that negotiate these treaties.

In this context, a few major economies have exited existing agreements; others are introducing, or at least advocating, increased transparency through institutional changes such as arbitrator codes of conduct, investment courts, and appellate tribunals with government-appointed judges. In addition, many are reviewing and updating their approaches to investment treaties to address issues such as their impact on the right to regulate or on sustainable development. Ensuring that investment treaties play, and are seen to play, a positive role in the global economy has become a major challenge.

In summary, interconnections and global production, together with the need for and benefit of investment flows in economies, call for not just predictable, transparent, and non-discriminatory rules but also a more comprehensive approach. At the same time, the need for caution in developing international rules has also been recognised. Perhaps it will be necessary in the future to develop frameworks that not only attract and protect investment but also reinforce the positive impact of investment on the environment and society.

What else could be done?

We face a complex integrated world. Companies have managed to operate without global rules on investment, but international cooperation and global rules could better address the common challenges of climate change, global production in supply chains, and the rapid pace of digitalisation. Global rules on investment could smooth business operations, create a level playing field for all companies, and ensure that the benefits of trade and investment are more widely distributed. As has been described above, some attempts have been made to move investment discussions to the multilateral level, but concerns regarding the current investment system should be taken seriously. At the same time, from a geopolitical perspective, the world is experiencing shifts in power and the arrival of leaders that value international cooperation less, making it more difficult to agree on multilateral rules.

In this context, what else could be done?

- It will not be possible to achieve multilateral investment rules in the short term. However, private investment is needed for sustainable development; current investment levels of low greenhouse gas (GHG) energy sources fall well short of what is needed to meet global climate goals. Likewise, the levels of investment needed to realise the SDGs are significantly greater than the current levels and the private sector has a role to play here. In addition, trade and investment are closely linked in this digital era, and more integrated approaches at the global, regional, and bilateral levels could be an important tool to facilitate both. Countries should support multilateral initiatives to facilitate investment in the WTO and to discuss, and negotiate, ways to improve investment provisions in the UN Commission on International Trade Law (UNCITRAL), the UN Conference on Trade and Development (UNCTAD), and the OECD. Comprehensive free trade agreements that include provisions beyond trade and investment respond better to the business reality. Outside the scope of investment, there are many other issues that are being regulated, such as taxes and digitalisation. These rules have a considerable effect on investment and their interactions should be better analysed.
- To ensure investment has a positive impact, governments need to go beyond investment-specific policies and put in place a broader investment-related institutional framework and policies. At the same time, businesses need to take actions to include sustainability criteria and to manage the risks in their direct and supply chain operations. This need is behind the OECD's and other international organisations' efforts to encourage business to implement instruments for corporate governance (such as the G20/OECD Principles of Corporate Governance) and responsible business conduct (such as the OECD Guidelines for Multinational Enterprises, Recommendations on Due Diligence and the UN Guiding Principles for Business and Human Rights). It is also the logic behind the work of the OECD with governments on investment policy reviews based on the Policy Framework for Investment (PFI), including ten policies that help governments to put in place domestic policy frameworks that are conducive to sustainable FDI. A more

inclusive approach that considers domestic policies on skills, innovation, linkages with the domestic economy, and coherence on all policies should be at the heart of every government's actions to enhance its country's attractiveness to sustainable investment, not only foreign but also domestic.

In summary, the road to achieving multilateral investment rules will continue to be bumpy. To pave the way, we will need to think outside the box and develop an investment multilateral framework that builds on what has been negotiated on investment liberalisation and protection provisions (and on what has been learned from their implementation), but that adds a building block approach. The complexity of the new economic reality that countries are living today requires different approaches to those taken in the past. We need to mix different policies and be more aware of the cross-cutting effect of these policies. For example, digital regulations (regarding databases, intangibles assets, artificial intelligence, etc.) will impact investment flows, as will regulations on taxes and competition. Furthermore, addressing social, environmental, and business conduct issues will strengthen the sustainability impact of investments. We need to develop holistic frameworks that consider economic and social impacts at the same time. The OECD and some governments are starting to do this, but more needs to be done.

Facing the future while reflecting on the past, I will say that Chile made the right decision in choosing to be part of the world economy. International trade and investment have lifted thousands of people out of poverty. In my time at the OECD, I have had more time to read, analyse, and lead research on trade and investment, including their linkages and sustainable impacts. If I had my time again, I would spend more time linking what we were negotiating on trade and investments with other areas (within and outside of treaties) and working more with domestic policies to ensure that the benefits of openness are better distributed.

Trade policy for prosperity: The value of open markets

Vera Songwe¹

Executive Secretary, United Nations Economic Commission for Africa

Introduction

In the last two decades, the narrative on Africa has moved from that of a “lost continent” to one of “Africa rising”.² This positive perspective on Africa and its potential is very welcome since this is after all the continent with some of the fastest growing economies in the world, taking four of the top five places in 2017.³ It is true that since the early 2000s, Africa’s growth has been influenced by commodity prices. But improved macroeconomic management, investment, and diversification of trade and investment ties both within the continent and towards emerging economies have also made an impact.

The strengths should be examined together with the challenges. It is well understood that achieving Sustainable Development Goal (SDG) 1 to “End poverty in all its forms everywhere” will largely depend on progress made by Africa and South Asia, where 80% of the world’s poor are concentrated.⁴ In Africa, the poverty headcount ratio has reduced from nearly 56% in 2002 to 41% in 2013. This has been encouraging progress, but the rate of decline in poverty has been lower than in other regions. As a result, over 50% of world’s poor are in Africa (ECA 2017a). The elasticity of poverty is also lower in Africa than elsewhere in the world, meaning that growth is not translating as effectively into poverty reduction (Cadot et al. 2016).

To understand what is driving the missing link between growth, poverty reduction and development in Africa, it is necessary to unpack the data. Analysis has shown that as expected, rising incomes on the continent have resulted in employment moving away from agriculture. However, this change has not been associated with higher productivity and an increase in the share of employment in manufacturing and high value-added services. Employment has instead been reallocated to lower productivity services, often

1 This chapter benefitted greatly from contributions by David Luke, Heini Suominen, Ngone Diop, and Gonzaque Andre Rosalie.

2 As posited by *The Economist* in 2000 and 2011, respectively.

3 Based on World Bank Global Economic Prospects data, available at <http://www.worldbank.org/en/publication/global-economic-prospects>.

4 The Agenda 2030 for Sustainable Development Goals, available at <https://unstats.un.org/sdgs/report/2017/goal-01/>.

in the informal sector.⁵ In fact, Africa has gone through a period of deindustrialisation, with the share of manufacturing value added in gross domestic product (GDP) declining in most African countries between 2000 and 2015 (ECA 2017a).

Stagnating productivity and negligible structural transformation have thus limited the impact of growth on overall economy. Furthermore, Africa has been not been able to adequately tap into global resources to accelerate transformation. While global foreign direct investment (FDI) flows have been increasing, Africa has fallen behind. The continent accounted for 3.4% of global FDI in 2016, compared with approximately 5% between 2012 and 2014. In addition, just five countries⁶ accounted for nearly 57% of the continent's total inflows (ECA 2017b). Against the backdrop of Africa's young population, this is a worrying picture. According to estimates, African countries need to create jobs for 122 million labour force entrants by 2020 (Fine et al. 2012). The manufacturing sector has to gain enough prominence to provide the large quantities of employment required, or growth will not convert into improved incomes on the ground.

The majority of African countries are small economies, meaning that national markets are not enough to realise adequate economies of scale for industrialisation. Trade is therefore a key driver of growth and development. In recognition of this, the continent has embarked over the years on many initiatives for regional integration. The culmination of the vision of an integrated continent was the signing of the African Continental Free Trade Area (AfCFTA) in March 2018, bringing together a market of over one billion people. In terms of numbers of participating countries, the AfCFTA will be the world's largest trade pact since the formation of the World Trade Organization (WTO).

This chapter argues that the AfCFTA, if fully implemented, will be a game-changer for African development. The following section will make the case for the boosting of intra-African trade and introduce the AfCFTA. It will be followed by a description of the key characteristics of the African private sector, highlighting the challenges they face in accessing regional markets. The chapter will then discuss ways in which the AfCFTA can support their engagement in trade. Finally, the concluding section will put forward recommendations on how the AfCFTA process could be managed to ensure widely distributed benefits.

Intra-African trade can drive diversification

The improvement in Africa's export diversification over the years has been marginal, with exports from Central and Northern Africa becoming even more concentrated (Songwe 2019). This has occurred despite access to multiple unilateral preferential market access arrangements, such as the African Growth and Opportunity Act and the Everything But Arms initiative. In 2017, Africa accounted for 2.4% of global merchandise exports, which is half of its contribution in 1973 (WTO 2018). Therefore,

5 This trend has been particularly strong for women, with around 87% of the decrease in the share of agriculture in employment explained by rise in services employment (ECA calculation, based on ILO Stat)

6 Angola, Egypt, Ethiopia, Ghana, and Nigeria.

while the SDGs explicitly link trade policy to various dimensions of sustainable development, the current dynamics with the global market do not seem promising for Africa's transformation. Extractive sectors, which currently dominate exports, are less labour-intensive than manufactures and agricultural goods and have not driven adequate job creation.

Intra-African trade, on the other hand, tells a remarkable story. In 2014, manufactured goods made up 41.9% of regional exports, compared to 14.8% of external exports. The regional market is therefore ripe for scaling up industrial production. Furthermore, trade in intermediate goods is the most dynamic part of intra-African trade, indicating the emergence of regional value chains. Until now, African companies have faced difficulties in connecting with global value chains beyond the lowest rungs. The global market is dominated by large leading companies, which set requirements for their suppliers that African producers struggle to meet. The benefit of regional value chains is that by engaging with the continental leaders, which produce goods and have standards that are closer to the experience of African companies, more producers engage in trade, develop their capacity, and create employment. Geographic proximity also reduces the barriers to productive linkages created by poor transport networks, and improves access to market information.

Despite the potential, the level of intra-African trade has been low compared to other regions. Within-continent trade stood at 17% in 2017, compared to 59% in Asia and 68% in Europe.⁷ Relatively high tariffs between African countries belonging to different regional economic communities (RECs) are part of the problem, but non-tariff barriers (NTBs) also play a significant role. On the World Bank's Doing Business Index, only nine African countries make it into the top 100 for trading across borders.⁸ In terms of customs performance, the average score for African countries in the World Bank's Logistics Performance Index is just over half that of the top country, Germany.⁹ The cost of export per container in Africa is 41% higher than the world average.¹⁰

The need to address these challenges has framed Africa's trade agenda in the recent years. In 2012, the African Heads of State adopted the Action Plan for Boosting of Intra-African Trade (BIAT), a continental framework with priority actions to bring down barriers to intra-African trade in seven areas, ranging from trade policy, to infrastructure, to finance. At the same time, they took the decision to fast-track the AfCFTA. In its scope, the AfCFTA is very ambitious. In addition to the liberalisation of trade and services, the agreement covers investment, intellectual property rights, and competition policy. It is also complemented with other continental initiatives, including the Protocol on Free Movement of Persons, Right to Residence and Right to Establishment.

7 Based on UNCTADStat (<http://unctadstat.unctad.org/EN/>).

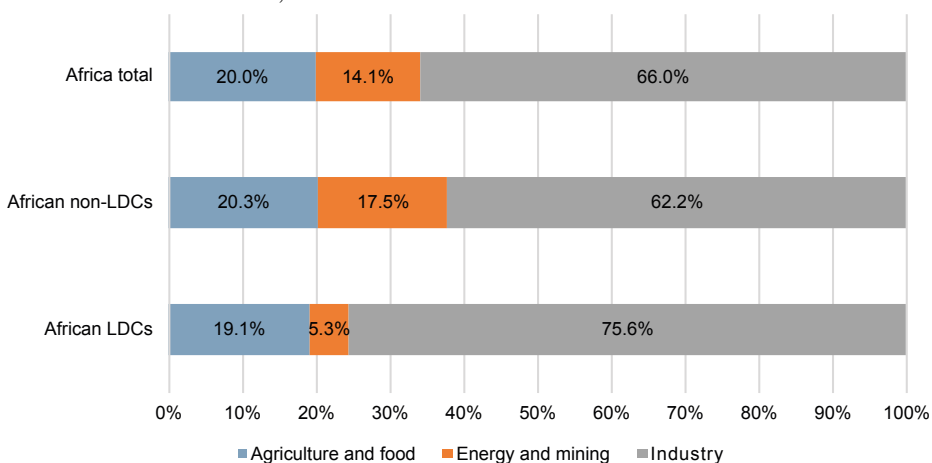
8 Available from: <http://www.doingbusiness.org/>.

9 Calculation based on the Logistics Performance Index of the World Bank (<https://lpi.worldbank.org/>).

10 Excluding North Africa; based on World Bank Doing Business database.

The case for the AfCFTA is clear. During the negotiations, the countries agreed on setting the level of liberalisation at 90%. To ensure that this level captured a meaningful share of trade, an additional requirement was introduced which limited the products categorised as sensitive or excluded from liberalisation to 10% of the value of intra-African imports. Estimates by the Economic Commission for Africa (ECA) show that with this double-qualification approach, the increase in the value of intra-African trade will be between 15% and 25%, with the share of intra-African trade rising to above 50% of all trade. The benefit will be felt in particular in industrial products, which will account for two thirds of the benefit for African countries and over 75% of the benefit for African least developed countries (Figure 1). Previous ECA analysis also showed that when combined with trade facilitation measures, the benefit of the AfCFTA could double (Mevel and Karingi 2012).

Figure 1 Share of total gains in Intra-African exports under double qualification, by main sectors, 2040



Note: LDC = least developed country.

Source: ECA's calculations based on MIRAGE CGE model.

The negotiations for the AfCFTA were undertaken between June 2015 and the beginning of 2018, a remarkably short time for a major agreement between 55 African Union member states. This testifies to the commitment to bring the continent together as a megamarket. The AfCFTA agreement was signed in Kigali on 21 March 2018. At the time of writing, little over a year after the Kigali Summit, 23 African Union member states had ratified the agreement (Figure 2), paving the way for the entry into force and operationalisation of the agreement.

Figure 2 AfCFTA ratifications

Chad	Congo	Côte d'Ivoire	Djibouti
Egypt	Eswatini	Ethiopia	Gambia, The
Ghana	Guinea	Kenya	Mali
Mauritania	Namibia	Niger	Rwanda
Senegal	Sierra Leone	South Africa	Togo
Uganda	Western Sahara	Zimbabwe	

The AfCFTA presents benefits, but they should not be assumed automatic

The benefits of the AfCFTA will flow through several channels. The elimination of most tariffs will enhance the competitiveness of African products on the African market. The integrated market will provide more opportunities for economies of scale and promote productive linkages in goods and services. The liberalisation of services will also have wider benefits, as it will promote harmonisation of standards and regulations. The liberalisation of priority services sectors – such as transport – will have indirect benefits elsewhere in the economy in the form of more efficient supply chains. The second phase of negotiations, focusing on investment, competition, and intellectual property, will contribute towards improved incentives for innovation and intra-African investment.

However, it is important to understand who will have access to these new opportunities. Large African companies can already trade across the continent. Trade agreements in general benefit only the formal sector, as the provisions address formal barriers to trade. Movement of service providers across borders can require formal qualifications and certifications. These factors suggest that it may not be obvious that the benefits will be distributed in a way that touches the majority of Africans.

As elsewhere in the world, the private sector in Africa is dominated by small and medium-sized enterprises (SMEs). According to some estimates, SMEs represent more than 90% of businesses and employ 60% of workers.¹¹ African SMEs have also been estimated to generate about 80% of new jobs. In agriculture, which is still the largest employer on the continent, small-scale farms form about 80% of production (ECA and FES 2017). The contribution of small producers to livelihoods in Africa is therefore significant.

African SMEs are smaller than their counterparts in other regions. A company that employs fewer than 250 people is considered an SME in the European Union. In most African countries, a business with more than 100 employees is a 'large' company (South Centre and ECA 2017). The small scale of the majority of businesses poses challenges to their participation in trade. The considerable barriers, both tariff and non-tariff, are in relative terms higher for these firms. Small size can limit ability to scale up production

¹¹ Ejose et al. (2010), as quoted in ITC (2018).

for export due to more limited access to finance, among other factors. Furthermore, many SMEs are owned by women, who face even higher barriers to trade due to the structural inequalities in access to assets. According to ECA research, African female-owned enterprises are almost exclusively focused on national and local markets (ECA 2017c). As exporting SMEs are found to grow faster than non-exporting ones (ITC 2018), the gender inequalities in the ability to develop business are thus enforced and deepened.

Another particular feature of African economies is the important role the informal sector plays in providing livelihoods. According to the estimates of the African Development Bank, the informal sector generates about 55% of Africa's GDP¹² and employs around 80% of the labour force (AfDB 2013). Informality is driven by many factors, including low levels of formal education and skills, limited access to credit, and inadequate job creation in the formal sector (ECA 2015). In trade, the informal sector emerges as a response to the barriers that exist in formal trade. For example, in the Southern African region average custom delays can be up to 12.1 days. Researchers observing a line of informal cross-border trade in Malawi and Botswana were told by customs officials, however, that everything would make it through in several hours on average (ECA and FES 2017). Faced with this reality, using informal channels is an understandable choice from an individual trader's point of view.

Figures on the share of informal trade can be difficult to come by, but all point to the significance of the sector. It has been estimated that informal cross-border trade makes up 70% of the economy in many African countries outside of North Africa. Proving that there is room for improvement in trade liberalisation and facilitation within RECs as well, it has been estimated that 30-40% of intra-regional trade in the Southern African Development Community (SADC) and approximately 40% of trade in the Common Market for Eastern and Southern Africa (COMESA) is informal (ECA and FES 2017). To overcome some of these challenges, several RECs have already introduced simplified trading regimes, which allow traders duty-free access on an agreed list of products under a specified threshold value. These initiatives have been applauded as contributing in particular to improved conditions for female traders, who form an estimated 70-80% of informal traders (Brenton and Soprano 2018).

The characteristics above point to the need to carefully consider how the majority of Africans will be able to benefit from the expanded market. While increased trade by those who trade already is beneficial, to see more widely spread benefits it is necessary that the increase in trade is driven by groups of entrepreneurs previously excluded or limited in the intra-African markets. While equality is a goal in itself, it also makes economic sense to maximise benefits from trade policy by boosting participation by disadvantaged providers.

¹² Excluding North Africa.

Despite the challenges, there are several channels through which the AfCFTA can significantly promote market participation in intra-African trade by small-scale business

If effectively implemented, the AfCFTA can provide relatively large benefits for smaller businesses, as barriers impact them more in marginal terms. In addition to the obvious benefit of tariff reductions, the AfCFTA incorporates several institutional elements that support facilitation of trade and benefit SMEs in particular. First, the provisions on trade facilitation and transit will aim to simplify and harmonise international trade procedures and logistics to expedite trade. The provisions largely follow the good practices set out in the Trade Facilitation Agreement, meaning the implementation of the two agreements support each other. The customs cooperation annex also aims at harmonisation of customs formalities between African countries. This will address the time and financial cost of export and reduce the cost of information, which is frequently highlighted as a barrier to trade for smaller businesses. The reduction of formal barriers and simplification of processes is likely to have a significant impact also on the incentives for smaller traders to access markets through formal channels.

The AfCFTA commits African countries to establishing a mechanism to monitor, report, and resolve NTBs. This initiative builds upon the good results already achieved by Africa's RECs and the NTB mechanism established in the context of the Tripartite Free Trade Area. Such a mechanism will provide traders with a channel for reporting obstacles they encounter on the ground, and countries with an institutional structure for understanding and resolving practical barriers. This direct linkage will address the often weaker ability of SMEs to influence policy and to bring their concerns to the attention of the relevant authorities. Female traders, who often face intimidation and discrimination at borders, may find it easier to report gender-specific barriers through an online or mobile reporting facility that removes the need to confront authorities in person.

Several other channels will contribute towards improved communication between policymakers and the private sector. It has been proposed that national AfCFTA committees be set up to guide the implementation of the agreement. This will be an opportunity for stakeholders to exchange information to resolve barriers. Additionally, the African Business Council (ABC), to be established as a part of the institutional framework, will provide a forum for African business at all levels for consultation and feedback on the implementation of the agreement. The ECA initiative to develop an AfCFTA Country Business Index will provide a robust monitoring and evaluation framework for the impact of the AfCFTA on the private sector.

Finally, e-commerce has great potential to bring sellers and buyers closer. Through online platforms, small-scale goods and services providers can reach wider audiences and cater for customers they would not be able to target through traditional trade. It has been estimated that e-commerce could account for 10% of retail sales in the continent's largest economies by 2025 (Manyika et al. 2013). Consideration should therefore be given to how the AfCFTA could boost intra-African e-commerce. Due to

these factors, and the rise of the e-commerce agenda on the global trade policy forums, the ECA has been advocating for e-commerce to be considered in the second phase of the AfCFTA negotiations, either independently or as a part of the services liberalisation commitments.

The next steps will be crucial for the AfCFTA to deliver for Africa

The AfCFTA text explicitly links the agreement to Agenda 2063, structural transformation, and sustainable and inclusive socioeconomic development on the continent. The objectives of the agreement therefore go beyond trade, and the responsibility is on the African countries to ensure that the immense new opportunities created by the integrated market contribute towards prosperity and poverty reduction. This process will not be automatic, and strategic policy actions will be required. The challenge is not unique to Africa – the recent rise in anti-trade sentiment in developed countries has been largely driven by the unequal distribution of benefits from trade liberalisation.

Key to the transformative power of the agreement will be its ability to create jobs and generate income. The private sector on the continent is dynamic but dominated by small-scale businesses, which have had limited opportunities to trade so far due to the large tariff and non-tariff barriers to accessing African markets. The expected boost to industrial exports provided by the AfCFTA will contribute to prosperity through enhanced economic stability, especially in natural resource-rich countries vulnerable to the fluctuations in global markets. Increased demand for industrial products will provide employment in labour-intensive manufacturing sectors. The lower barriers to intra-Africa trade will encourage the seeking of opportunities beyond national markets by a greater number of African companies, promoting the creation of cross-border production networks and the expansion of African SMEs.

The first step towards the realisation of potential has to be the urgent ratification of the AfCFTA agreement by the African Union member states. The agreement will not benefit anyone before its text is turned into reality. The optimism expressed by the African Union seems in this regard to be justified – the momentum on the signatures has already been impressive and has surpassed all expectations.

The African Union member states have committed to the development of national AfCFTA strategies to support the effective implementation of the agreement. These national plans will be crucial in ensuring inclusive results and job creation. Trade liberalisation alone will not address the barriers faced by smaller producers and traders and the structural inequalities in national markets. Programmes and policies will need to be implemented to ensure that African businesses of all sizes have the skills and means to access the new opportunities. Targeted support could be used to boost particular skills, such as compliance with sanitary and phytosanitary requirements and standards. The national strategies will also be an opportunity to institutionalise gender equality

in trade policy, by incorporating analysis on the differential impact the agreement will have on men and women in different sectors and measures that can be used to address the particular barriers faced by female entrepreneurs and traders.

Efforts are also required to address the wide informality of trade in Africa. While informal trade can be very efficient and is undeniably a significant source of income on the continent, it does mean that the cost of trade is highest for those that are disadvantaged, including women. This increases inequalities in trade and hinders the potential developmental impact of the AfCFTA. The competitiveness of informal trade against formal trade is partly driven by the formal barriers being higher than the informal ones. Once the formal barriers are brought down, informal traders may find their operating space expanded. This will encourage some to formalise their business, which will provide them with greater security and improve access to institutional support such as insurance. Some will need support to make the transition, however, or they will risk losing out. Implementing border reform measures will further enhance incentives for formalisation.

For the benefits of the AfCFTA to be felt, advocacy will play a key role. It is crucial that the advocacy efforts go beyond big business, which already has the linkages and influence to access trade policymakers. To illustrate this, in the case of simplified trading regimes, it has been found that informal cross-border traders often lack the information on the benefits granted to them through the schemes. This results in the traders paying fees that they should be exempt from, as well as unnecessary bribes to address barriers which in fact do not exist (Fundira 2018). In a similar way, the information on the new rights and responsibilities under the AfCFTA may not reach all. The African Union Trade Observatory, designed to be the repository for trade information and trade data on the continent, will be an important resource in this regard. Advocacy on the AfCFTA and available support for accessing new market opportunities will also be particularly important for female traders, who have more limited networks and face a higher cost to access information.

Lastly, it is important that the AfCFTA is not seen as an isolated trade policy initiative, but as part of Africa's wider integration and development agenda. Trade officials are important in the AfCFTA process, but the agreement will fail to deliver results without the support of the wider policy framework. The BIAT Action Plan already gives an indication of important trade-related areas of intervention. However, the dynamic changes in Africa's trade will impact how the continent moves, thinks, and produces. Education, health, and information policies, as well as many others, will need to adjust to ensure that Africans are ready to take advantage of the new opportunities. The private sector, civil society, academia, and citizens all have the responsibility to hold African policymakers accountable for the implementation of the agreement in a way that promotes prosperity across the continent.

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Confrontation, disruptive technologies, and geostrategic rivalry: The quest for renewed global trade governance

Anabel González

Non-resident Senior Fellow, Peterson Institute for International Economics; Former Minister of Trade of Costa Rica; Senior Director, World Bank Trade & Competitiveness Global Practice; Director for Agriculture, World Trade Organization

With trade spats, new technologies, and geopolitical competition reshaping the global economy, the trade and investment policy landscape is rapidly changing. While different scenarios are playing out, managed trade is gaining traction, rules are increasingly fragmented in competing spheres of influence, and global trade governance is weakening. The World Trade Organization (WTO) is under significant strain, while the business environment has become more uncertain and volatile and increasingly power-driven. Amid these conditions, the quest for a renewed global trading system is critical to support growth, technological advancement, and world stability.

The task at hand is difficult, not least because it takes place against the backdrop of the trade confrontations between the United States and China on the role of market versus state capitalism. In moving towards WTO modernisation, countries face the challenge of reconciling the objectives of preserving the rules-based nature of the system and making sure all major economies remain part of it. WTO Members are already presenting proposals to unpack the issues under consideration. Traction, however, is yet to be achieved in the negotiation of new rules on key topics underlying current tensions, the solution to the dispute settlement mechanism's eminent halt, and an outcome to the complaints associated with China's non-market economy status for the application of antidumping duties and the use of the national security tariffs by the United States. The clock is ticking.

The changing landscape

For the past 70 years, global trade has been governed by a set of rules based on non-discrimination, transparency, and binding and enforceable commitments on tariffs and other policy instruments, which have brought greater certainty, stability, and increased market openness. At the heart of the system, the WTO – and before it, the General Agreement on Tariffs and Trade (GATT) – ensures that trade flows as smoothly,

predictably, and freely as possible. This global framework of trade rules has helped create an unprecedented extent of prosperity across the world. Trade has long been a driver of global growth – increasing 27-fold between 1950 and 2008, three times more than the growth in global GDP. The expansion of global value chains (GVCs) has facilitated the integration of developing countries into the world economy and has enabled a billion people to move out of poverty. And during the global financial crisis, the WTO helped prevent the Great Recession from becoming another Great Depression as, by and large, WTO Members continued to comply with their obligations. The system has worked overall because countries have seen a functioning WTO as being in their own self-interest “rightly understood” (Bacchus 2018).

Today, in the wake of longer-run trends of diminished trade opening since the 2000s, prospects for trade and investment liberalisation at the global level have weakened and are actually going in different directions, with increasing trade and investment confrontations. The United States and China are at the centre of these high-stakes conflicts, but underlying systemic issues amplify the impact beyond the two countries; other sources of tension, like the threat of US tariffs on auto imports, further add to the concerns over escalation and retaliation. Current frictions are undermining confidence in the world economy and global trade, while investment and output remain under threat from policy uncertainty. Failure to resolve differences would not only increase costs for producers and consumers, but would lower business investment, disrupt supply chains, and slow productivity growth (IMF 2019), all while eroding the rules-based global trading system. The possible spillover into foreign direct investment, immigration, and cross-border sharing of information and scientific data risks rolling back globalisation (McKinsey Global Institute 2019).

Meanwhile, emerging technologies are spurring the development of new production techniques and business models that will fundamentally transform global production systems (Table 1). They also have the potential to profoundly transform the way trade takes place, who trades, and what is traded (WTO 2018). While some of these technologies, such as robots, are not new, their adoption is spreading faster than before. Competition to lead in these new technologies is fierce. Governments and firms across the globe are engaging in legitimate – and illegitimate – acts to get a foothold in a particular technology, to pioneer commercial application, and to gain share in new markets. Advanced economies, which for many decades have pushed the boundaries of technological development, are now joined by China and the growing presence of other emerging economies in the cutting-edge technology scenario (CSIS 2019). In a ‘multi-polar’ technology world, commercial friction has increased, taking centre stage in the trade arena. While escalating unilateral actions to respond to such tensions are disrupting trade and investment flows, and straining the multilateral trading system, they are also eroding the business environment for progress in innovation and increased productive economic activity (González 2018a).

Table 1 Twelve key emerging technologies

Artificial intelligence and robotics	Development of machines that can substitute for humans, increasingly in tasks associated with thinking, multitasking and fine motor skills
Ubiquitous linked sensors	Also known as the ‘internet of things’; the use of networked sensors to remotely connect, track and manage products, systems and grids
Virtual and augmented realities	Next-step interface between humans and computers involving immersive environments, holographic readouts and digitally produced overlays for mixed-reality experiences
Additive manufacturing	Advances in additive manufacturing, using a widening range of materials and methods; innovations include 3D bioprinting of organic tissues
Blockchain and distributed ledger technology	Distributed ledger technology based on cryptographic systems that manage, verify and publicly record transaction data; the basis of cryptocurrencies such as Bitcoin
Advanced materials and nanomaterials	Creation of new materials and nanostructures for the development of beneficial material properties, such as thermoelectric efficiency, shape retention and new functionality
Energy capture, storage and transmission	Breakthroughs in battery and fuel cell efficiency; renewable energy through solar, wind, and tidal technologies; energy distribution through smart grids; wireless energy transfer; and more
New computing technologies	New architectures for computing hardware, such as quantum computing, biological computing or neural network processing, as well as innovative expansion of current computing technologies
Biotechnologies	Innovations in genetic engineering, sequencing and therapeutics, as well as biological computation interfaces and synthetic biology
Geoengineering	Technological intervention in planetary systems, typically to mitigate the effects of climate change by removing carbon dioxide and managing solar radiation
Neurotechnology	Innovations such as smart drugs, neuroimaging and bioelectronic interfaces that allow for reading, communicating and influencing human brain activity
Space technologies	Developments allowing for greater access to and exploration of space, including microsatellites, advanced telescopes, reusable rockets and integrated rocket-jet engines

Source: World Economic Forum (2018).

Current trade and technology spats layer on geostrategic considerations, ranging from the military advantage that dominance in some of these technologies may bring about (Ciuriak 2018) to increasing cybersecurity-related trade conflicts at the global level (Madnick et al. 2019). Moreover, a redistribution of global economic might has given rise to a new era of great power rivalry, the use of economic tools to achieve strategic goals, and the assertiveness of some governments in trying to unilaterally reduce or manage their exposure to the interdependence underlying the global economy (Roberts et al. 2018). One view is that current frictions run much deeper than the trade confrontations and have more to do with control of over technologies such as artificial intelligence, key inputs such as energy sources for electric vehicles, and command over connectivity, both physical and digital (Choer Moraes 2018).

The future of trade and investment¹

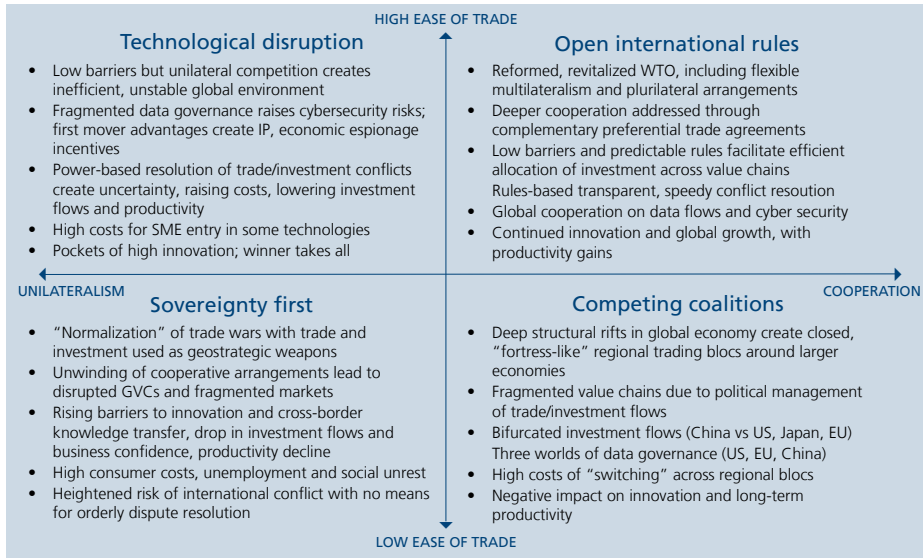
The trade and investment policy scene is in a state of flux as governments and firms try to cope with the challenges associated with current trade confrontations, disruptive technologies and geostrategic rivalry. There are several plausible scenarios for the future depending on the interplay of key geopolitical and economic factors, in particular whether countries choose international cooperation or opt for a ‘unilateral’ path, and whether the world will move in the direction of higher or lower ease of cross-border movement of goods, services, capital, and people. Tan and González (2019) draw four scenarios in stark terms to sharpen the risks and trade-offs involved, while recognising that reality may end up somewhere in between or in a combination of parts:

1. **‘open international rules’**, where countries cooperate to address issues through a revitalised WTO and complementary international frameworks;
2. **‘competing coalitions’**, where countries collaborate but are often drawn into competing spheres with regional blocks outside the WTO;
3. **‘technological disruption’**, where countries cannot cooperate and technological disruption races ahead of regulation, creating a borderless world for some but with great uncertainty and inefficiencies; and
4. **‘sovereignty first’**, where in the absence of cooperation, prohibitive unilateral barriers lead to inefficiencies, high economic risks, and a decline in productivity and innovation.

Figure 1 summarises the defining features of each of the potential set-ups proposed by the authors.

¹ This section draws on Tan and González (2019).

Figure 1 Four scenarios for the future of trade and investment



Source: Tan and González (2019).

Managed trade, rules fragmentation, and the weakening of global trade governance

While the landing zone of current spats is still at play, from the perspective of trade and investment policy, three features are surfacing.

First is the revival of managed trade, a policy focused on achieving concrete outcomes through government intervention. This includes the return of ‘the tariff’ and other measures, such as voluntary export restraints, utilised to pursue national economic and security objectives. This is not minor – 40% of total US imports could be subject to new tariffs (Bown 2018). Duties are being used as a bargaining chip for a variety of purposes, one of which is to move manufacturing back to the United States (Lawrence 2018), in what is considered national economic security. Affected trading partners have activated the WTO dispute settlement mechanism to counter US tariff hikes and, at the same time, have unilaterally retaliated with tariffs of their own on imports of US products. In deals to suspend or avoid new US tariffs, commitments to import more natural gas, agricultural products, and others are playing a role (Elliott 2018).

Managed trade is complemented by other policies in the areas of investment, export controls, and taxes, the combination of which may lead to a ‘decoupling’ of the US from the Chinese economy (Lee 2018). Revised and strengthened investment-screening mechanisms, in the case of the US by the Committee on Foreign Investment in the United States (CFIUS), are discouraging the acquisition of US firms in sectors deemed sensitive from the national security perspective. Investment-screening rules have also

been adopted by the European Union (EU) (Blenkinsop 2018), as well as by other countries (UNCTAD 2018). Expanded export controls to address concerns regarding the release of critical technologies to end uses, end users and destinations of concern are part of the package as well in some countries (Akin Gump 2018). On the fiscal front, the adoption of the Tax Cut and Jobs Act of 2017 (TCJA) in the United States was intended to free accumulated overseas retained earnings of US multinational companies for repatriation and investment back home (Hufbauer and Lu 2018).

The second feature is greater fragmentation of trade rules, with a flurry of activity leading to new or revised agreements with potentially competing spheres of influence. The number of preferential trade agreements (PTAs) in force has more than doubled from fewer than 150 in 2005 to more than 300 in 2017 (UNCTAD 2019). This upward trend is accelerating as countries are redoubling efforts to negotiate or renegotiate regional and bilateral agreements – in some cases as an offensive strategy to secure market access and rules-based frameworks, and for the defensive reasons of restricting trade or expanding spheres of influence in others (Box 1). While WTO-consistent PTAs provide a strong underpinning for GVCs, competing visions in areas like the digital economy risk bringing in differentiated standards and further consolidating emerging divisions in what has been dubbed a potential ‘splinternet’ (Kharpal 2019).

The third feature to surface is the weakening of global trade governance. Two immediate actions have brought the WTO to confront its most fundamental crisis since coming into force in 1995: the adoption of the national security tariffs by the United States on imports from several trading partners and the responses in kind of those countries, and the US blockage of the nomination of members to the WTO’s Appellate Body. While these actions risk the system’s breakdown, problems in all three functions of the WTO – negotiations, dispute settlement, and monitoring – have been brewing for some time, impairing its ability to keep up with the challenges of the evolving trade landscape, the role of emerging countries in the global economy, and technological change. Unless WTO Members take decisive action to reform the organisation, it is only a matter of months before the uncertainty about its future and increasing antagonism amongst the major players brings it to a halt, spurring commercial chaos at a time when GVCs and the digital economy require more – not less – policy cooperation.

Three concerns underline current tensions in the multilateral trading system. The most significant is being played out in the sphere of market versus state capitalism, with the key question centred on whether and how to redefine the level playing field to better address market-distorting state intervention in the economy, through subsidies, state-owned enterprises, technology transfer measures, and so on. In addition, against the backdrop of the digital economy and technological innovation, a second point is whether existing arrangements are fit to govern new issues – including cross border e-commerce, cross-border data flows, and cybersecurity considerations, among others – or whether new rules are to be negotiated. And finally, in light of the increasing role of emerging countries in the global economy, what should be their contribution to global

trade and investment (González 2018b)? These are complex issues and even if short-term patches may be found, uncertainty will accompany investors as the duration and outcome of this confrontation will take time to be sorted out.

Box 1 New or revised regional trade agreements and ongoing negotiations

Most major countries and regions are actively engaged in trade negotiations or revising existing trade partnerships. Key decisions by the United States to date include the withdrawal from the Trans-Pacific Partnership (TPP), later renamed the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) by the remaining 11 members; the suspension of negotiations of the Trans-Atlantic Trade and Investment Partnership (TTIP) with the EU and preliminary talks to engage in a narrower goods agreement; the renegotiation of the Korea–United States Trade Agreement; the renegotiation of the North America Free Trade Agreement (NAFTA), leading to the United States–Mexico–Canada Agreement (USMCA); and plans to negotiate with Japan, the EU, and potentially with the United Kingdom (UK).

Elsewhere, the UK's post-Brexit repositioning would involve the dismantling of deep integration ties with the EU and agreeing on new rules of engagement for a future partnership. The EU, Japan, China and others are also moving ahead with bilateral or regional agreements, of which the EU–Japan Economic Partnership Agreement and CPTPP, as well as the negotiations to conclude the Regional Cooperation Economic Partnership (RCEP) among the Southeast Association of Asian Nations (ASEAN) and China, Japan, Korea, India, Australia, and New Zealand, are particularly important by virtue of their scale and political relevance, as is the Africa Continental Free Trade Agreement (AfCFTA). The Chinese-led Belt and Road Initiative (BRI) merits a special mention since it is the most ambitious initiative to promote deeper regional economic integration, beyond trade and investment.

Not business as usual anymore

In a world of managed trade, greater rules fragmentation, and weaker global governance, today's trade and investment operating environment for firms has become more uncertain and volatile and increasingly power-driven, with some quick wins and many more losses, lots of moving pieces, and increased transition costs. In a September 2018 McKinsey Global Executive Survey, 33% of companies highlighted uncertainty over trade policy as their top worry while recent tariff increases were the main concern for 25% of respondents. Examples abound of companies cancelling export plans, reducing operations or simply finding workarounds to minimise tariff costs (McKinsey Global Institute 2019). This is as true for enterprises as it is for most countries – from the larger economies in the midst of the clashes to the smaller countries standing on the sidelines – trying to avoid collateral damage and negative spillovers.

While the impact of current trade spats at the firm level varies depending on the microeconomics of a specific product and its supply chain, the dynamics of the market, the duration and outcome of the confrontations, and the new rules or solutions to be developed, it is clear that “the business of business is not just business anymore” (Reeves and Harnoss 2017). Larger firms are better positioned than small and medium-sized firms to navigate this complex environment, and are increasingly preparing for alternative policy scenarios not only at the product level but also as part of their broader strategy, strengthening capacity to analyse and operate in this evolving context, and moving quickly to mitigate risks (Ketels and Reeves 2018).

The road towards renewed global trade governance

The need to act in order to sustain a global trading system that continues to support global growth, enable continued technological advancement, and temper escalating power confrontations is pressing. The urgency is greater in a context in which managing and mitigating tensions associated with changing patterns of globalisation and the move towards the digital economy require more – not less – global policy cooperation.

WTO reform is challenging. The fact that it will take place in the charged context of the broader US–China confrontation adds complexity to the task. Unfortunately, the crisis at the WTO limits an important channel for resolving conflicts between the two countries, one that has been effectively used by each of them to address trade controversies against the other: the United States has activated the system to solve 23 trade conflicts with China, whereas China had brought 15 cases against the United States (Schott 2019).

Two objectives are critical in guiding WTO modernisation: first, the rules-based nature of the system must be preserved; and second, all major economies are to remain part of the system. Failure to achieve either goal would significantly limit the role of a multilateral trade organisation that supports growth, innovation, and stability. The crux of the challenge is precisely to reconcile both objectives.

WTO Members are beginning to unpack priority issues for consideration, with proposals submitted to safeguard and strengthen the dispute settlement system and improve the monitoring of existing rules (Van den Bossche 2019). While very valuable in fostering discussion and engagement in the WTO context, they have not yet gathered traction among all major economies, in part because solutions to the dispute settlement’s eminent impasse cannot come without parallel efforts to address the concerns underlying current tensions, as specified above. This requires the negotiation of new multilateral rules on industrial subsidies and state-owned enterprises, foreign investment, technology transfer, and export controls. In this context, the ‘trilateral process’ launched in December 2017 between the United States, the European Union and Japan to draft new disciplines on these topics is critical – though, even if successful, results will not translate automatically into progress with other trading partners or in the WTO context. Much more work would be required, particularly to fully incorporate China and other key WTO Members in the conversation and to define the format and

enforcement mechanisms of potential agreements (Bown 2019). It may also require adding other topics, such as agricultural subsidies, to the mix. Finally, bringing the WTO out of the emergency room would entail sorting out two sets of cases currently under the dispute settlement mechanism: China's complaints against the European Union and the United States regarding its non-market economy status (for purposes of antidumping investigations), and several cases associated with the US imposition of national security tariffs on steel and aluminium.

The clock is ticking. Absent agreement on unblocking the nomination of WTO Appellate Body members before the end of 2019, WTO Members will not have recourse to appeal, effectively bringing the system to a halt. It may be that things get worse before they get better, but they do need to get better – international cooperation is indispensable to sustain growth, innovation, and peace.

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Part III

Governing the global labour market

Introduction

What future for the WTO?

Sharan Burrow

General Secretary, International Trade Union Confederation

The fact that multilateralism is in crisis should hardly come as a surprise. The fractured trust in globalisation comes in large part from the dominant model of global trade and the resulting inequality it has created over the last 40 years. The exploitative model of global supply chains has taken a machete to the social contract in country after country and perpetrated unbalanced development to the point where inequality is now a global risk. Notwithstanding this, I am still shocked to hear government ministers and trade negotiators say regularly “*but trade is not responsible for this*” or “*the wealth can be distributed afterwards*”!

Trade is necessary for all economies and it has generated massive growth in global wealth, but it is the separation of trade from labour rights, from environmental standards, and from financial regulation that is the problem. And with no coherence, no social or environmental floor and without effective compliance, including for workers, at all levels of cross-border trade, the greed of the corporate model has not only dominated but captured governments through the threat of losing foreign investment.

Then there is the threat of the global monopolies like Amazon that expose the failure of competition policy. The denial of workers’ rights, living wages, and secure work by these giants, who simultaneously threaten the viability of business on Main Street, cannot be ignored by governments, consumers, or business.

By comparison, the surprise is that it took so long for Mark Zuckerberg to say “regulate us”! The risk to his business model is loss of client trust, and that is rapidly breaking down as the misuse of people’s data and hate speech explode.

Indeed, it is necessary to see global agreement on the governance of data and privacy both to build trust and to avoid the dangers of monopoly power with greater social division.

Without rules, big technology monopolies will continue to put both fair competition and people at risk as they consolidate monopoly power with largely unconstrained access to global and local markets. They will further embed exploitative business models based

on extracting and controlling personal, social, and business data around the world – without permission or dividends to asset owners, in particular the individuals who generate the data which is the core of their business model.

The dangers of locking in deregulation and evading future regulation are already evident as governance deficits grow. For workers, this is just facilitating the expansion of the dehumanising exploitation on which the current model of supply chains is based. And the avoidance and evasion of taxes further undermines universal social protection, vital public services, and public infrastructure.

There are enormous benefits for society to be had from digitalisation and there are risks and challenges too. Our first demand is for just transitions, for both climate and technology shifts to ensure we leave no one behind. And we call for governments to break up Amazon and other emerging giants with effective monopoly power.

Competition policy is failing, with these companies escaping regulation because they are perceived as ‘too big to touch’. This is not only a huge risk for business itself but also for governments via tax avoidance, and for people via unregulated labour markets. Current competition frameworks are also failing workers who are dependent on platform work with constraints that prevent unions from bargaining collectively for minimum contract prices to ensure people can access a minimum living income.

And now we see the World Trade Organization (WTO) promoting another agreement, this time on e-commerce in isolation from global agreement of standards for data protection and ownership and from a social agenda with the compliance mechanisms necessary to effect remedy for human and labour rights abuses.

The current rights deficit of the trade model will just be perpetuated, with increased capacity for surveillance and extraction of data from individuals with no recourse to remedy.

Our view is that the WTO in its current form, whether through global or plurilateral agreements, is not fit for purpose. Without reform including labour rights and environmental standards to ensure a fair competition floor, the mistakes of the late 1990s and the early 2000s, which saw the dismissal of social demands put forward in Seattle, Singapore, and Doha, would simply be repeated. This means that once again profit will win at the cost of social responsibility and shared prosperity.

Without these deficits being fixed, a plurilateral agreement on e-commerce trade alone will merely add to the failed economic model of profit first – profit for the wealthiest and most powerful countries and individuals. This can only deepen global division and already-unbalanced development. And the result is greater inequality. Without human-centred governance, this new era of trade can only expand the economic risk and the social division we see in today’s age of anger, as people lose trust in institutions and indeed in democracy itself.

In the absence of a competent multilateral authority to regulate the use of data, to protect the value of data for those that generate them, and to guarantee privacy standards, maybe it's time for a new United Nations treaty.

With legal frameworks people can trust, it might then be possible to consider matters of global trade based on digitalisation.

Further, in today's world of distrust, without genuine social dialogue with business and labour shaping the future of a just system of trade and a compliance system that allows third-party intervention to seek remedy for exploitation or environmental devastation, we will not rebuild trust in a fair globalisation. The rules are stacked in favour of corporations and will remain so until workers can obtain remedy.

Why not have a tri-partite consultative structure with employers and workers? Why not involve other parties at the WTO? Why not have significant reform of the WTO dispute mechanism to allow third-party intervention such that unions can seek remedy for exploitation or for employers concerned about genuine, real economy issues such as contract or property rights disputes? Why not ensure remedy for depletion or destruction of natural resources or tax-dodging? With political will, real reform is possible. New architecture can bring with it new levels of trust and genuine trade justice.

The rules of the game already exist. Both human rights and labour standards exist and environmental standards such as the targets derived from the Paris climate agreement are vital to just and sustainable trade. And for labour, while the emerging forms of business that evade a regulatory framework exploit the workers on whom they depend for their profits, we can find the answers to protect all workers through established fundamental rights and compliance on occupational health and safety. Compliance is the key to the next chapter of the WTO. And the work of the International Labour Organization (ILO) must be central to the conditionality for a fair competition floor.

With the 100th Anniversary Conference of the ILO approaching, we need to draw some lessons from our history. There can be no surprise that we have, to date, failed to do so.

The debate on a new ILO Centenary Declaration must be as visionary as the Constitution that set up the ILO in 1919 in the wake of World War I, and the Philadelphia Declaration following the further social devastation of the Great Depression along with the destruction of World War II. These two iterations of the social contract were intended to prevent yet another global conflict by ensuring shared prosperity. The challenges today are as severe as those the world saw in 1919. We face historic levels of inequality, a failed model of globalisation, increasing conflict and military spending, displacement of people at levels never seen before, the climate crisis, and massive disruption from technology.

The magnificent vision of leaders 100 years ago and the social and economic successes built through the respect for the unique tripartite mandate of the ILO to establish a floor of global labour standards that would guarantee the dignity of work are floundering. Since the 1980s, we have seen the erosion of this social contract. And the model of global trade today has contributed to this deterioration.

Consequently, while the world is more than three times wealthier than 30 years ago, inequality is now an overwhelming global risk. More people go to bed hungry than have been lifted out of extreme poverty. The concentration of wealth has been fuelled by a corporate greed that has dire effects on both people and sustainable economic futures. Up to 94% of workers in global supply chains make up a hidden workforce obscuring the low-wage, insecure, often unsafe work with even informal work and modern slavery at the heart of profit from global trade. Add to this the evidence of a global slump in wages and collective bargaining, and we have both stagnant demand and emerging social unrest in many countries.

The floor of security with minimum wages is far below the promises of the ILO Constitution and the Declaration of Philadelphia for living wages because the rights to freedom of association and collective bargaining are increasingly denied. Sixty percent of the global workforce is in informal work and with progress for women stagnant, working people have lost trust in institutions, in globalisation, and even, in too many cases, in democracy itself.

This model of corporate greed and corruption has also been at the centre of the theft of tax dollars and the consequent denial of universal social protection floors and vital public services.

And the economic outcome all this has underpinned is the growing cracks in a global economy where demand is undermined and unbalanced growth has denied development.

The failure of the social contract with this model of globalisation has quite simply put both people and the global economy, along with multilateralism, at risk.

We need a New Social Contract with a floor of a Universal Labour Guarantee. This was a central recommendation of the ILO Global Commission on the Future of Work and is the only measure that can ensure *all* workers are able to realise the promise of decent work and have access to justice.

With multilateralism in crisis and the trust of people and many developing economies broken, the central question is: how do we get agreement on new and enabling global governance for social justice? A good start would be an ILO strengthened for the 21st century and at the centre of shaping a human-centred future. Can we achieve the consensus of today's leaders across government, employers, and trade unions to ensure the rights and social justice envisioned by the ILO Constitution and by the Philadelphia Declaration, with new standards to meet the challenges of this century?

The WTO must build a trade model that respects this social contract with a compliance system to enforce it as part of a fair competition floor, along with global rules, agreed through the UN System, concerning data privacy and the rights of individuals as asset owners of the data they create.

Will the WTO surprise us with an appetite for real reform? Will it chart a sustainable future or continue to sow the seeds of national retreat?

Working conditions in global supply chains

Drusilla Brown

Associate Professor of Economics and Director of the Tufts International Relations Program, Tufts University

Globalisation has been roiling labour markets for two centuries. The face of human suffering in global supply chains is sometimes horrific, as in the 2013 building collapse at Rana Plaza, in which more than 1,100 Bangladeshi apparel workers were crushed to death. Equally troubling is the quiet but devastating erosion of the wellbeing of whole communities due to China's accession to the World Trade Organization (WTO), an event that has been costly in terms of lives lost to suicide, opioid addiction, children living in poverty, and single-parent households (Autor et al. 2018). Our collective failure to address the human consequences of globalisation is now, in turn, eroding a commitment to democratic values and basic human decency and increasing polarisation in domestic politics.¹

As of this writing, conflicts between workers and factory owners over working conditions are raging, with Bangladesh being a prime example. In January 2019, workers striking principally for higher pay were met with tear gas and rubber bullets. Factory managers fired between 5,000 and 7,000 workers in an attempt to intimidate striking workers.²

A century ago, we resolved the tension between the collective benefits of globalisation and the adverse effects on labour with the 'labour compact' (Huberman 2012). Free trade in goods was accompanied by labour protections. Underlying the labour compact were two strongly held beliefs: cross-border goods and services markets work well and should be allowed to function relatively freely; labour markets work poorly across many dimensions and require intervention.

In the words of George Campbell, Eighth Duke of Argyll, "During the 19th century two great discoveries have been made in the science of government: the one is the immense advantage of abolishing restrictions on trade; the other is the absolute necessity of imposing restrictions on labor. And so the Factory Acts, instead of being excused as

1 See, for example, Autor et al. (2017). The more exposed to trade a congressional district is, the more likely a moderate was to be replaced by a conservative Republican or liberal Democrat.

2 Al Jazeera, 30 January 2018 (<https://www.aljazeera.com/news/2019/01/5000-garment-workers-sacked-bangladesh-strikes-190129121804896.html>).

exceptional and pleaded for as justified only under extraordinary conditions ought to be recognized as in truth the first legislative recognition of a great Natural Law, quite as important as Freedom of Trade, ..." (Campbell 1867: 367).

And yet, over the past quarter century, we have walked away from the simple but powerful logic underlying the labour compact. Simply put, most agents in global supply chains accept the logic of the race to the bottom. Labour protections raise costs and should be resisted at every turn. Remarkably, Anner (2015) finds evidence that institutions of labour repression have been at least as important as labour costs in determining the international allocation of apparel production. Factory managers who perceive competitive pressures are quick to blame labour protections. Amengual et al. (2017), analysing responses from 19,000 firms in 82 developing countries, find that managers of export-oriented firms who report competitive pressures view labour regulations more negatively than managers of other firms.

The adverse effects of these beliefs about the cost of labour protections are amplified by a peculiar cognitive dissonance in the minds of consumers and the international buyers that bring goods to market. They claim to be concerned about the conditions of work but, at the moment of purchase, price and quality become over-riding considerations (Anner et al. 2013, Anner 2018, Blasi and Bair 2019). Locke and Samel (2018) particularly note the role of international buyers and their sourcing practices in contributing to poor conditions in global supply chains. While concerns about working conditions lurk in the back of the minds of consumers, purchasing goods produced under abusive conditions is seen as morally acceptable because, however harsh conditions of work are in sweatshops, the alternatives to sweatshop work are believed to be worse.

International institutions have also been structured to limit considerations for worker protections. At the time of the formation of the WTO in 1995, labour standards in the WTO proper were limited to the prohibition of imports made by prison labour. The enterprise of establishing labour standards was relegated to the United Nations Guiding Principles on Business and Human Rights, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, and the International Labour Organization (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

Despite the current tensions in global supply chains, the past two decades have produced an abundance of data and analysis on the relationship between globalisation and labour market outcomes and experimentation with an array of strategies intended to improve conditions of work in global supply chains. Below, I review major recent findings.

Let's begin with two central questions. First, does work in a global supply chain improve outcomes for their employees? Surprisingly, and perhaps shockingly, the conventional wisdom on this question may be incorrect. Evidence from a randomised controlled trial on varying work possibilities indicates that unregulated work in global supply chains may actually be worse than informal work.

Second, is improving working conditions costly to firms? Both natural experiments and randomised controlled trials suggest not.

The answers to these two questions leave us with a pressing third question. If improving working conditions is not costly, then why don't firms spontaneously choose more humane conditions of work? The answer is that managers in developing countries leave a lot of money on the table. In experiments in which entrepreneurs systematically explore a range of production configurations, they do not correctly identify the most productive and efficient choices.

Finally, I turn to interventions that might help factories adopt more humane practices. I consider first whether private actors can remedy the inefficiencies in developing country firms that produce poor work outcomes. I then consider multi-stakeholder approaches that lie outside the domain of free markets.

Work in global supply chains: Better than nothing?

There is a well-established conventional belief that, as harsh as work in global supply chains is, the alternatives are worse. For example, in the wake of Rana Plaza, anecdotal evidence suggested that the greatest fear of Bangladeshi workers was that apparel jobs would disappear.

There is also important evidence that the apparel sector, in hiring predominantly women, has a significant role in empowering women and advancing the education and health of their daughters. Heath and Mobarak (2015) find that Bangladeshi girls exposed to garment sector jobs delay marriage and child birth. Young girls are more likely to be in school and older girls are more likely to be at work. Such findings support the Washington Consensus view that simply gaining access to work in global supply chains is all that is necessary to put developing countries on a growth trajectory.

However, in a startling editorial in the *New York Times*, development economists Christopher Blattman and Stefan Dercon declared that “Everything We Knew About Sweatshops Was Wrong”.³ Their conclusion was based on a randomised controlled trial they conducted in Ethiopia. As reported in Blattman and Dercon (2018), workers applying for jobs at a set of five apparel firms were randomly assigned to one of three treatments. One group was hired in an apparel firm, one group was given \$300 and training on developing their own informal business, and the remainder were treated as controls.

The group that fared best were those who received the cash and training – earnings increased by 33% and they had steady work hours.

Among the group assigned to an apparel job, most quit within months. Factory employment helped them weather negative income shocks, but the factory jobs had adverse health outcomes and did not provide the foundation for long-term human capital formation.

3 *New York Times*, 27 April 2017.

The findings of Blattman and Dercon strongly suggest that a development model built on access to global supply chains must be accompanied by interventions that improve the quality of those jobs. The evidence I discuss below indicates that we can, in fact, make these jobs safer and more humane.

Improving conditions of work: Costly or not?

Given that abusive conditions of work are harmful to workers, the logic of profit-maximisation requires that, if poor conditions of work persist, firms must benefit. Growing evidence, however, suggests the contrary.

We have known for decades that more successful firms have more complex, socially compliant resource management systems. In a recent example, Distelhorst and McGahan (2018) find that factories that have a weak social compliance record also have higher defects and lower revenue per worker, and are more likely to deliver late.

Until recently, however, the direction of causality had not been established. Did success lead to the choice of compliant human resource management, or did social compliance make firms more successful? Levine et al. (2012) exploited a natural experiment to determine that the direction of causality is from compliance choice to improved firm outcome.

The state of California conducts random occupational safety and health (OSH) audits. Levine et al. compared firms selected for audits to a similar selection of unaudited firms. They found that the audited firms went on to experience a drop in accidents, resulting in fewer injury-related costs. Benefits were achieved without reducing sales or employment – in other words, the OSH inspections actually made the firms safer *and* more profitable.

Similarly, Antolin et al. (2019) recently concluded a study of the impact of social compliance, as assessed by Better Factories Cambodia (BFC), on Cambodian apparel and footwear firms in which the timing of firms' assessments was randomly assigned. Participation resulted in a 15% increase in productivity after the first assessment and an additional 32% after the second.

Do developing country firms make efficient labour management choices?

The answers to our first two questions leave us in a quandary. Sweatshop conditions are bad for both workers and firms. Is it really possible that firms in developing countries are inefficiently managing their factories?

Bloom et al. (2013), studying Indian textile firms, find that inefficient practices can persist for decades. Factories in their study were randomly assigned to one of two conditions: one group was provided a package of consulting services, the other served as controls. Information provided to the treatment group increased productivity by 17% in

the first year. Treatment firms improved quality, efficiency, and inventory management. Three years after the intervention, factories in the treatment group were more likely to become multi-plant firms.

Even when factories are induced to experiment in production system innovations, they often fail to draw the most straightforward conclusions from the evidence. In an intriguing experiment, Hanna et al. (2014) attempted to induce Indonesian seaweed farmers to use systematic experimentation to discover the most efficient harvesting method. Remarkably, farmers failed to draw the most obvious conclusion from their own experiments.

Factories do not draw obvious conclusions from data on working conditions either. Babbitt and Brown (2018) provided factory managers with evidence that nearly half of workers in their factories felt verbally abused. Yet, when asked in a follow-up survey how common verbal abuse is in their factories, managers overwhelmingly responded that it rarely or never occurs. Interestingly, the only group that was willing to acknowledge the prevalence of verbal abuse were those managers who also thought that verbal abuse is appropriate. These results indicate that if there is a conflict between actual abusive conditions of work and personal values, factory managers will simply deny the presence of the abuse.

Can private market actors improve conditions of work in global supply chains?

For over two decades, reputation-sensitive international buyers have been attempting to improve conditions of work in their supply chains through monitoring and technical assistance. Factories in many global supply chains have come under intense pressure from their key buyers to improve social compliance.⁴

Analysis of recent data indicates that a record of social compliance may even be rewarded with increased orders. Distelhorst and Locke (2018) analyse sales and compliance data for 2,000 firms in 36 countries. Newly compliant firms experience an increase in sales of about 4%. Rather than a race to the bottom, we have evidence of a race to the top with compliant firms acquiring market share.

However, there are limits to the ability of private actors to drive a process of continuous improvement. International buyers find it difficult to extract additional improvement in compliance from vendors who have acquired market power within the supply chain because they provide essential production components (Amuengual et al. 2019).

Perhaps more concerning, mechanisms for ensuring audit quality are weak. Short et al. (2015), analysing 17,000 audits by private auditors, find that auditing function is particularly ineffective when inspectors are poorly trained and when the factory itself paid for the audit. Kuruvilla et al. (2019) and Kuruvilla and Fisher-Daley (2019) assess third-party audit quality by analysing repeat audits conducted at a single facility. They

4 Oka (2018) and Locke (2013) provide significant evidence for both the range and limits of brand advocacy.

find that audits conducted just days apart, even when both are conducted by the same firm, yield strikingly different results. More troubling, some auditors do not uncover even the most basic violations. A comparison of audit data to payslip data indicates significant violations related to pay and hours not reported by the auditors. Finally, auditors appear to substitute their own personal standards for customer standards on issues such as the living wage.

Global governance and conditions for success

So, how do we solve the problem of abusive conditions of work in global supply chains? The mounting evidence is that change is most likely to be brought about in multi-stakeholder capacity-building initiatives that are embedded in global governance (Sabel et al. 2000, Locke et al. 2009, Bair 2017). The Bangladesh Accord on Building and Fire Safety (henceforth, ‘the Accord’), formed in the wake of the Rana Plaza building collapse, is an example of a working conditions initiative that relies on tripartite bargaining bringing together worker organisations, their employers, and the lead firms of a supply chain (Blasi and Bair 2019).

Embedding labour standards initiatives in a strong intergovernmental organisational context appears to be key to success. Toffel et al. (2015) find that firms are more likely to comply with labour standards when they are embedded in states that actively participate in the ILO, face more stringent domestic labour law, and have high levels of press freedom. Similarly, the United Nations Global Compact spread only in country contexts in which the Compact was embedded in intergovernmental organisations (Berliner and Prakash 2012).

In multi-stakeholder initiatives, labour regulations are ‘co-enforced’, where the co-enforcers might be worker rights organisations, unions, and government regulators (Amengual and Fine 2017).⁵ Engagement begins by identifying the root cause of poor working conditions. Actors then follow with problem-solving, information exchange, and diffusion of best practices (Locke et al. 2009).

Interestingly, actors may take on very specific rolls. In an analysis of enforcement efforts related to contracts and minimum wages in Indonesia, Amengual and Chirot (2016) find that unions collaborate with state regulators to promote enforcement while global governance agents resolve ambiguities in the law. Co-enforcers may even adopt a ‘good cop, bad cop’ strategy. In the Brazilian sugar sector, Coslovsky and Locke (2013) argue that public regulators prohibit the worst abuses while private auditors engage in trust building to bring about structural organisational change.

Evidence of the potential for multi-stakeholder initiatives embedded in the ILO is provided by Babbitt et al. (2019). They conducted a quasi-randomised controlled trial of 57 Cambodian firms participating in Better Factories Cambodia, a joint

⁵ See also Posthuma and Gignami (2014) for an example of co-enforcement in apparel value chains in Brazil.

project of the ILO and the International Finance Corporation (IFC). BFC conducts annual assessments, provides consultation on improving working conditions and firm performance, and publicly discloses points of noncompliance.

As a consequence of participation in BFC, wages increased and overtime decreased, resulting in large increases in both worker job and life satisfaction. BFC also had a significant impact on sexual harassment. There was a decrease in worker reports of managers and supervisors trying to have a sexual relationship with them and workers reported that sexual comments were less common. Antolin et al. (2019) find that firms also benefit, with increases in individual productivity.

Additional leverage can be acquired through international trade agreements. While labour provisions are largely excluded from the WTO proper, advocates for labour protections have found points of entry in the international trading system. Over the past four decades, labour standards provisions have proliferated in regional trading arrangements. Provisions most commonly appear simply requiring that countries enforce their own labour laws, but more aggressive provisions appeared in the now defunct Trans Pacific Partnership (TPP). For example, in the TPP agreement Vietnam agreed to respect freedom of association and collective bargaining (Tran et al. 2017) and the agreement provided for penalties in the event of noncompliance. Trade provisions in EU preferential trading arrangements similarly allow for the possibility that trade preferences may be withdrawn in the event of human rights violations, including labour rights violations. It should be noted, however, that while there are often threats of punishments, governments rarely revoke trade preferences for labour rights violations.

The behaviour of consumers is also critical. Factories have higher social compliance if their main customers serve markets where consumers are wealthier and more socially conscious (Short et al. 2015).

However, changing the calculus within global supply chains remains a heavy lift (Alford et al. 2017). Persuading developing country firms to resist *race-to-the-bottom* thinking has proven to be challenging. The Bangladeshi apparel manufacturers association (BGMEA) and government have been pressing to limit the ability of the EU and international buyers to establish minimally acceptable conditions of work. Over the last five years, international brands have worked with factories, the Bangladeshi government, the ILO, and unions to remedy the occupational health and safety defects that resulted in the building collapse at Rana Plaza. In the wake of Rana Plaza, international buyers created the Alliance for Bangladesh Worker Safety ('the Alliance') and the Accord to inspect factory buildings and remediate safety hazards. However, Bangladeshi factory owners have grown weary of inspection activities that they perceive as an intrusion in business operations and that they feel pressure them to include the workers' voice in factory decision-making. During the second half of 2018, the Bangladeshi government attempted to put an end in particular to activities of the Accord.

Supporting humane workplaces with technical capacity building

Many social auditing programmes are complemented with deeper engagement, particularly in building technical capacity within firms. An emphasis on capacity building rests on the argument often advocated by development economists that poor working conditions are a reflection of low productivity (e.g. Rossi 2013). Capacity building also reduces the probability of firms being adversely affected by social compliance. Common strategies for promoting productivity are introducing productivity-linked pay incentives, improving human resources function, and increasing engineering knowledge.

Lollo and O'Rourke (2018) analyse the impact of a pay experiment in which workers were offered incentives, the factory aligned incentives with productivity and defects, and there was a pay target. They find that pay increased by between 4.2% and 11.6% and productivity increased by seven to twelve percentage points. Profits increased on five of the six production lines and costs associated with workforce turnover were avoided.

Babbitt et al. (2018) conducted a randomised controlled trial of a human resource intervention in 14 Myanmar apparel factories. They find that six sessions with the HR manager resulted in significant improvements in an array of interactions between workers and supervisors and a rise in job satisfaction. Workers had a better understanding of how their pay was calculated and believed that their pay was fairer. These perceptions were shown to be important for worker wellbeing. When workers understood how their pay was calculated and felt comfortable asking questions about their pay, they had greater job satisfaction and thought less about quitting. Workplace dynamics also improved. Workers felt more confident in resolving conflicts at work, that they produced high quality work, and that their managers were effective at their jobs.

Distelhorst et al. (2017) analyse the impact of lean manufacturing methods on social compliance and find an improvement in social compliance following the adoption of lean techniques.

Some concluding comments

The argument over working conditions is commonly represented as a choice for workers between the Scylla of abusive conditions of work and Charybdis of scavenging for food on the mounds of steaming trash in Phnom Penh.⁶ According to this line of reasoning, abuse at work is an inevitable consequence of economic development.

Yet, we now know that the conventional wisdom offers a false choice. Rather, the evidence is pretty clear that working conditions can improve without adversely affecting the business performance of firms. Socially compliant firms are more

6 "Where Sweatshops are a Dream", *New York Times*, 14 January 2009.

productive and receive higher orders. However, the market will not reliably uncover these Pareto-improving innovations. Firms in global supply chains are systematically under-investing in human resource management systems, resulting in low productivity and harsh conditions of work.

Evidence also suggests that improvement is most likely to occur with a full court press involving consumers, international buyers, governments, unions, and international governance with a focus on monitoring and capacity building. Private actors on their own are unlikely to have more than a marginal impact on labour standards.

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Instances of international coherence in the international social and economic order: The integration of trade and labour considerations

Gabrielle Marceau

Associate Professor, University of Geneva and Visiting Professor at a range of universities; Senior Counsellor, World Trade Organization

Introduction

It is a well-accepted principle of international law that states are presumed to undertake their international obligations in good faith so they can all be implemented without conflict. Ideally, each state acts as one unified legal entity, simultaneously respecting all obligations to all the international organisations it is part to, coherently, without leading to situations of legal awkwardness. Why, then, would some argue that there is a need to address social or labour issues in the World *Trade* Organization (WTO) if these are already addressed by the International *Labour* Organization (ILO)? If members were coherent in their commitments to the respective international organisations, then surely there would be no need to have the WTO deal with labour issues. However, such a perfect model is nowhere to be found and this has given rise to the ‘trade and...’ debate concerning the need to have trade actions that also respect other policies, of which ‘trade and labour’, the subject of this chapter, is an extension.

Some believe that WTO obligations somehow encourage, authorise or permit the violation of wider social considerations and human rights, and that the WTO treaty should therefore be condemned. Recent backlashes against globalisation and the rise of protectionism arguably show that there is a gap between economic growth and the reduction of poverty and inequality for individuals. This begs the question whether existing institutions lag behind the need for more inclusive and ‘equitable’ globalisation. In this context, can the WTO be an institution that allows its Members to link trade actions to labour rights? Can WTO Members formulate policies and regulations that treat differently products that are otherwise physically similar, or even identical, in order to promote societal values? Could, for example, two basketballs that look identical and are made of the same materials be treated differently in the WTO just because one was produced as a result of child labour and the other not? Are trade prohibitions the best

instrument to influence other countries' labour policies and, in the case of our example above, disincentivise the country that is resorting to child labour in the production of basketballs from committing labour rights violations?

In following this debate, one should always remember that the WTO has a very specific mandate in the international legal order, which is to promote the liberalisation of international trade and fight protectionism. The GATT and WTO rules were not drafted to address labour problems and policies. Nonetheless, in this chapter I will suggest that WTO law allows for regulatory distinctions based on non-product considerations, and that labour and other social considerations can justify deviations from market access rules or condition preferences on compliance with relevant labour considerations. In this regard, the symbolism of the wall fresco illustrating the respect for workers which is found in the current WTO building that once housed the League of Nations' International Labour Office reminds us that enduring principles of social justice permeate trade actions, as I will demonstrate.

Trade and labour at the multilateral level: Independent or interdependent systems

While it is undisputed that countries can benefit economically through trade liberalisation by capitalising on areas of comparative advantage, trade liberalisation does produce winners and losers. Indeed, some are concerned that because of the global mobility in goods, services, and capital increases, low labour standards maintained in exporting countries may undermine higher labour standards in importing countries, eventually leading to a 'race to the bottom'. Governments then tend to turn to protectionism for fear of job losses or outsourcing. On the other hand, developing countries fear that they might be put under undue pressure to raise their minimum standards in a way that could damage their competitiveness. This situation leads to a deadlock, bringing the negotiation process at the multilateral level for including labour into trade actions to a halt. The reality is, however, that further trade liberalisation at both the regional and multilateral levels should be carried out through international coordination on a broad set of issues, including reform to social and labour protection.

Reforming the multilateral trade system so as to encompass labour considerations would not be a novel idea. Indeed, the drafters of the 1948 Havana Charter – created by the United Nations Conference on Trade and Employment after World War II – envisioned that trade and labour would go hand in hand.¹ To recall, the Havana Charter aimed at establishing the International Trade Organization (ITO), whose mandate included, among other things, regulating and facilitating labour standards. The ITO itself was designed to act as a forum to facilitate a regular exchange of views and cooperation between Members that would lead to striking the right balance between trade and labour. The Havana Charter was never ratified, however, and the GATT (which entered into force in 1948 on a provisional basis) remained the only multilateral trade agreement

1 "Havana Charter for an International Trade Organisation", UN Doc E/CONF.2/78, Sales No 1948.II.D.4.

until the WTO. Explicit mention of labour-related considerations, which were present in the Havana Charter, were not included in the wording of the GATT provisions, apart from a passing reference to the goal of full employment in the preamble. In the same vein, the WTO today contains very few obvious references to labour-related matters but, importantly, in addition to the goal of full employment, the preamble of the WTO Agreement mentions the new goal of "... sustainable development".² It is well-known that sustainable development includes economic development, environmental and social components.

Today, it is worth recalling that the two systems of trade and labour, and therefore the two respective institutions (the WTO and ILO), do not formally share any common forum where joint matters can be discussed in a similar manner to the ITO. The collaboration between the ILO and WTO mainly consists of technical exchanges between the institutions' secretariats, including joint research and publications (e.g. Bacchetta and Jansen 2011).

While there has been pressure from some Members to expand the WTO's mandate to include labour standards, this has never translated into positive normative action. Instead, Members adopted the 1996 Singapore Ministerial Declaration that apportioned trade and labour to their distinct specialised organisations – the WTO and ILO, respectively. The Declaration acknowledged that the comparative advantage of countries, "particularly low-wage developing countries, must in no way be put into question" and flagged the potential abuse of labour-standards for protectionist purposes as undesirable.³ Nevertheless, this did not mean that trade turned a blind eye to labour violations, and, in the same Declaration, WTO Members affirmed their commitment to fair labour standards.⁴ The 1996 Declaration can thus be said to have signalled that labour and trade governmental actions can co-exist legally, consistently, and harmoniously, but it is still not clear how (closely) trade and labour can be inter-linked under the WTO disciplines.

More than a decade after the Singapore Ministerial Declaration, the importance of having a world trade regime infused with the social dimensions of trade was given a boost in 2008 when the ILO Members adopted by consensus the ILO Declaration on Social Justice that recognised the effect of trade policies on employment. In a nutshell, this Declaration declared that fair labour should be at the heart of economic policies. Importantly, it noted that violations of fundamental labour rights could never be justified as protecting developing countries' comparative advantage: "the violation of fundamental principles and rights at work cannot be invoked or otherwise used as a legitimate comparative advantage" (ILO 2008).

2 "Marrakesh Agreement Establishing the World Trade Organization", 15 April 1994, 1867 U.N.T.S. 154, 33 I.L.M. 1144 (1994), Preamble.

3 Singapore Ministerial Declaration, WT/MIN(96)/DEC, adopted on 13 December 1996, para. 4.

4 Singapore Ministerial Declaration, WT/MIN(96)/DEC, adopted on 13 December 1996, para. 4.

In this context, it is worth recalling the words of the former Director General of the WTO, Pascal Lamy, who stated that “some WTO Members tried to bring labour into the trade world of the WTO and other Members said no, so now the ILO Members have brought trade into the labour world of the ILO”. This move by ILO members was of great importance since, ironically, bringing trade into the labour world can have spillovers for labour considerations being included the trade world, leading to the idea that the two systems are, in fact, interdependent.

If it is clear that the 2008 ILO Declaration cannot be used as a basis for bringing a dispute before the WTO,⁵ it can potentially be used in the context of interpretation and application of WTO provisions to justify labour-related trade restrictions or preferences. Indeed, it was repeated several times that the provisions of the WTO cannot be read in “clinical isolation” from the rest of international law.⁶ When reading and interpreting WTO provisions, the general principles of law as well as other relevant international rules applicable between the parties can be taken into account, even if they originate in other fora, pursuant to Article 31 of the Vienna Convention on the Law of Treaties (VCLT).⁷

Therefore, since the ILO Social Justice Declaration was adopted by the consensus of, by and large, the same states as those Members of the WTO,⁸ and it deals in part at least with the same subject matter as some WTO exceptions, it could be argued to constitute “relevant applicable law between the parties” pursuant to Article 31(3)(c) of the VCLT to be used to interpret relevant WTO exceptions and justifications (as well as “qualifying” the Singapore Declaration). For example, if a WTO Member’s labour-related restriction was challenged, it can very well be argued that this Member is entitled to use the 2008 Social Justice Declaration to interpret WTO exceptions in order to justify its (*a priori*) inconsistent measure, especially if the challenged measure aimed at protecting one of the ILO’s “fundamental principles and rights at work” mentioned by the ILO Declaration.

More generally, in light of the 2008 Declaration and increasing awareness of social injustice, the existing flexibilities of the WTO trade disciplines may be interpreted and applied to include trade restrictions based on labour considerations – to justify import trade restrictions, to provide legitimacy to regulatory distinctions, or to allow for trade incentives, as I discuss below.

5 Note that only claims of violation of the provisions of the WTO covered agreements can be brought before the WTO adjudicating bodies.

6 Appellate Body Report, *US – Standards for Reformulated and Conventional Gasoline*, WT/DS2/AB/R, adopted 20 May 1996, page 17.

7 For example, in the case of *United States – Import Prohibition of Certain Shrimp and Shrimp Products*, the Appellate Body interpreted the terms “exhaustible natural resources” in GATT Article XX(g) to include both living and non-living resources. In doing so, the AB referred to the Preamble of the WTO but also to other environmental agreements such as Agenda 21 adopted by the United Nations Conference on Environment and Development, the UNCLOS, or the Convention on Biological Diversity.

8 See the ILO website at <https://www.ilo.org/public/english/standards/realm/country.htm> (accessed 14 February 2019) and the WTO website at https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (accessed 14 February 2019).

Reading WTO rules in light of the ILO 2008 Justice Declaration

The basic principle of WTO law remains that of non-discrimination. Traditionally, in the context of the GATT/WTO prohibition of discrimination between like products, distinctions between otherwise similar or identical products could not be based on their process and production methods (PPMs), hence on whether their production complied with internationally recognised labour standards. However, the GATT has always included policy-based exceptions to allow its members to justify inconsistent measures – under certain conditions. Labour concerns can be read into GATT Article XX, which lists the exceptions allowing WTO Members to set aside WTO market access and non-discrimination rules so as to prioritise non-trade concerns. Respect for labour standards could be read into the wording of Article XX(a) as being part of “public morals”. In the *US – Gambling* dispute, the exception for “public morals” of the General Agreement on Trade in Services (GATS) (similar to that of Article XX(a) GATT 1994) was defined to include “standards of right and wrong conduct maintained by or on behalf of a community or nation including measure for public order preserving fundamental interests of a society, as reflected in public policy and law”.⁹ Reading respect for labour standards in Article XX(a) would thus not come as a surprise, especially since recent jurisprudence (*EC – Seal Products*)¹⁰ has taken account of strong public concerns against animal cruelty. In this context, an evolutive interpretation of the term “public morals” may facilitate the integration of labour considerations, with the provisions of GATT exceptions by virtue of Article 31(3)(c) of the Vienna Convention on the Law of Treaties (VCLT) (Marceau 2018a). In a similar vein, trade restrictions relating to work-related abuses could also be justified pursuant to GATT Article XX(b) as measures for the protection of health (of workers) or, in some circumstances, as measures taken pursuant to Article XX(c) relating to forms of prison labour.

Perhaps the most notable instance where labour-related considerations could be integrated into trade in goods regulations is the WTO Agreement on Technical Barriers to Trade (TBT Agreement) as it accommodates the need of Members to give priority to any legitimate policies other than trade and allows Members to distinguish products according to their process and production methods.¹¹ Indeed, the TBT Agreement generally allows for PPM regulatory distinctions (including therefore labour-related distinctions), so long as they are legitimate; ILO-supported labour-related distinction can only be legitimate aiming at sustainable development. One could thus envisage such a regulatory distinction stemming from the 2008 ILO Declaration. This policy space can therefore offer flexibility to Members to base their regulations on labour considerations, since these would most certainly be considered “legitimate regulatory distinctions”.

9 Appellate Body Report, *United States – Measures Affecting the Cross-Border Supply of Gambling and Betting Services*, WT/DS285/AB/R, adopted 20 April 2005, footnote 34, paras 286-296.

10 Appellate Body Report, *European Communities – Measures Prohibiting the Importation and Marketing of Seal Products*, WT/DS400/AB/R, adopted 18 June 2014.

11 For a detailed discussion on this issue, see Marceau (2018b).

Furthermore, the TBT Agreement also provides that when a Member adopts a domestic standard that fully complies with an existing international standard, that domestic standard is presumed to be justified and WTO-consistent, even if it restricts trade.¹² It could be argued that such international standards include relevant ILO standards if they are found to be compliant with the governing TBT provisions on standards.¹³

In the context of trade in services, GATS Article XIV includes exceptions allowing WTO Members to take measures necessary for the protection of public morals or public order, or for the protection of the health of people, animals, and plants. In addition, the integration of labour considerations could take place in the GATS Schedule of Commitments where WTO Members list the areas in which they commit to liberalise trade and the related conditions. For example, labour considerations could potentially come up as a condition modifying the national treatment obligation, restricting market access or as an additional commitment. In its footnote to a horizontal commitment, for example, the GATS Schedule of the EU refers to obligations on service suppliers to conform to “all other requirements of Community and Members States’ laws and regulations regarding entry, stay, work and social security measures...including regulations concerning period of stay, minimum wages as well as collective wage agreements”.¹⁴ So far, this entry has not been challenged. While Members such as Brazil and India have generally expressed the view that service suppliers should not be obliged to respect minimum salaries in place in the destination Member, what they seem to have challenged is the *level* of social protection, not the reference to social considerations per se. Sustainable labour-related considerations may thus find a place in a Member’s GATS Schedule of Commitments.

Labour considerations in trade preferences

Another instance where trade and labour are intertwined is in the context of trade preferences granted under the Enabling Clause where compliance with labour rights serve as a ‘carrot’, an incentive to get better market access. Under these rules, a developed country WTO Member can grant tariff preferences to imports from developing countries subject to their compliance with requirements that take account of developing countries’ needs – whether development, trade, or financial – and so long as such requirements are applied objectively and countries in similar conditions are treated identically.¹⁵ This is the WTO legal basis for the ‘generalised system of preferences’ (GSP).¹⁶ State practice shows that additional tariff preferences have been granted if the receiving Members

12 TBT Agreement, Article 2.5.

13 If a standard complies with the requirements of Annex 1.2 TBT, it would benefit from the presumption of conformity with WTO law.

14 “European Communities and Their Member States”, Schedule of Specific Commitments, GATS/SC/31 (15 April 1994).

15 Appellate Body Report, *European Communities – Conditions for the Granting of Tariff Preferences to Developing Countries*, WT/DS246/AB/R, adopted 20 April 2004, para 154.

16 GATT, “Differential and More Favourable Treatment – Reciprocity and Fuller Participation of Developing Countries, Decision of 28 November 1979”, L/4903 (3 December 1979), fn 3.

conformed with core labour and human rights standards. Conversely, these donor countries have suspended, or threatened to suspend, these preferences if the receiving countries violated fundamental labour standards.

For example, for a country to be designated as a US GSP beneficiary, it “must implement any commitments it makes to eliminate the worst forms of child labour” (USTR 2016). Furthermore, the president of the United States can take some other discretionary criteria into account relating to internationally recognised workers’ rights, such as the right of association and acceptable conditions of work with respect to minimum wages, hours of work, and occupational health and safety (USTR 2016). There is indeed precedent of countries whose trade preferences were suspended or withdrawn because of evidence of labour violations. One such instance was Bangladesh after the Rana Plaza incident in which more than 1,000 garment workers died and more than 2,000 were injured as a result of poor working conditions. In the aftermath of the catastrophe, the United States suspended the benefits that had been previously offered to Bangladesh (Kibria et al. 2016).

More recently, the European Commission considered withdrawing GSP benefits for Myanmar as a result of the Commission’s investigation of the country’s forced labour practices.¹⁷ The European Union has initiated discussions with Myanmar on their human and labour rights standards and should cooperation efforts fail to reach results, a withdrawal is envisaged. Such cuts and suspensions hamper the prestige of a country and can lead to the loss of its credibility as a business partner. In this regard, trade preferences can incentivise governments to push harder on labour reform in order to receive certain trade advantages in return.

Labour considerations in regional trade agreements

Finally, labour rights commitments have been appended to regional and bilateral trade agreements in recent years, each with a differing institutional design and enforcement potential. The WTO explicitly authorises its Members to conclude regional trade agreements (RTAs) that include free trade agreements (FTAs) and customs unions whereby they exchange reciprocal preference subject to some conditions. GATT Article XXIV and GATS Article V lay down the legal framework that authorises WTO Members to enter into RTAs for trade in services. These RTAs could potentially represent a fruitful step towards reconciling trade with labour-related concerns.¹⁸ Links between labour and trade have been implemented in RTAs pursued by major economies such as the European Union and the United States. Interestingly, almost 64% of the trade agreements with labour provisions came into existence after 2008, the year of the ILO Social Justice Declaration (ILO 2017: 2).

17 On the implications of such a move, see <https://www.bangkokpost.com/business/news/1566338/hanging-by-a-thread> (accessed 12 December 2018).

18 See “Regional Trade Agreements Information System” on the WTO website at <http://rtais.wto.org/UI/publicsummarytable.aspx> (accessed 2 December 2018).

A relevant example in this regard is the newly signed United States–Mexico–Canada Agreement (USMCA), designed to replace the North American Free Trade Agreement (NAFTA), which includes a new chapter specifically addressing labour issues.¹⁹ Other examples of FTAs that include labour provisions are the Dominican Republic–Central America FTA (CAFTA-DR) and the United States–Bahrain FTA, both containing labour chapters with an accompanying enforcement mechanism in case of violation.²⁰ The Comprehensive and Progressive Agreement for Trans-Pacific Partnership also refers to the ILO Declaration on Fundamental Principles and Rights at Work and it commits the parties to protect and promote labour rights as established therein.²¹

Labour provisions in EU FTAs have also “widened and deepened” over the past decade. The EU has now 77 trade agreements that include labour provisions, covering 136 economies.²² Pertinent examples include the EU–Singapore FTA, foreseen to enter into force in 2019,²³ and the EU–Korea FTA,²⁴ both containing provisions that refer to continued and sustained efforts towards ratifying and effectively implementing the fundamental ILO Conventions.²⁵

Conclusion

In conclusion, although the WTO does not explicitly refer to labour standards, the ‘space’ which is left by the existing legal framework for Members to promote labour and social objectives is significant. WTO Members can find ways to comply efficiently and effectively with both their trade and labour regimes, in the form of legitimate regulatory distinctions, ‘punishment-type’ import trade restrictions, or incentives for market access preferences.

The challenge of globalisation, which constantly modifies relative situations between Members, cannot be met simply by applying static formulas. Instead, as pointed out in a report from the ILO Director-General (ILO 2007: paras 96–108), it calls for dynamic answers consonant with the dynamic nature of the phenomenon. Trade is no longer a singular issue; it raises issues such as labour, environment, and intellectual property rights, among others. While the WTO system has integrated intellectual property norms and treaties through the Agreement on Trade-Related Intellectual Property Rights

19 United States–Mexico–Canada Agreement (USMCA) (2018), Chapter 23, available at <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cusma-aceum/text-texte/toc-tdm.aspx?lang=eng> (accessed 1 February 2019).

20 US–Bahrain Free Trade Agreement (2006), Chapter 15, Article 15.2 available at <https://ustr.gov/trade-agreements/free-trade-agreements/bahrain-fta/final-text>; Central America–Dominican Republic–United States Free Trade Agreement (CAFTA-DR) (2004), Chapter 16, Article 16.2, available at https://ustr.gov/archive/assets/Trade_Agreements/Regional/CAFTA/CAFTA-DR_Final_Texts/asset_upload_file320_3936.pdf. Note also that Article 15.7 of the US–Bahrain FTA and Article 16.8 of the CAFTA–DR provide a list of internationally recognised labour rights.

21 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (2018), Chapter 19, Article 19.3.

22 See the European Commission website at <https://ec.europa.eu/social/main.jsp?langId=en&catId=88&eventsId=1181&urtherEvents=yes> (accessed 1 February 2019).

23 EU–Singapore Trade Agreement, Chapter 12, available at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=961> (accessed 31 January 2019).

24 EU–South Korea Free Trade Agreement, Chapter 13, available at <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=OJ:L:2011:127:TOC> (accessed 31 January 2019).

25 EU–Singapore Trade Agreement, Chapters 12; EU–South Korea Free Trade Agreement, Chapter 13.

(TRIPs) and environmental or health concerns are considered as legitimate defence justifying trade restrictions under certain conditions, labour considerations in the WTO system have not been much discussed yet.

The WTO is clearly not *the* forum where labour standards are negotiated. Nevertheless, governments can, in a WTO-consistent manner, support and promote labour standards in trade actions. The primary responsibility for ensuring the coherent development of public international law in the area of trade and labour remains with states. Dialogue among intergovernmental organisations also has an important role to play in building coherence, but that is not sufficient. What is needed are more dynamic interactions between trade and labour in domestic regulations, provisions of regional trade and investment agreements, and between international institutions.

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Migration, trade, and investment

Leila Baghdadi

Associate Professor of Economics and World Trade Organization Chair,
Tunis Business School

Remittance flows to low- and middle-income countries (LMICs) reached \$466 billion in 2017, an amount which is three times the size of official development and is larger than foreign direct investment (FDI) for all LMICs excluding China (World Bank 2018). In addition to sending money home, migrants also play a role in promoting trade and fostering investment between their country of origin and their host countries. Nonetheless, migrant transfers do not seem to be enough to bring a structural change to their economies of origin, as the remittances are mainly intended to improve the daily lives of stay-behind families. The positive effects of migrants on trade and investment could be more impactful if better organised. Lately, the idea has emerged from members of diasporas that transfers should also support the creation of firms or fund investment and trade in order to create more jobs. With this in mind, several initiatives and policies have been enacted by both sending and receiving countries, as well as diasporas themselves, to ensure migrants' long-lasting impact on the development of their countries of origin.

In this chapter, I review the various roles played by migrants as agents of trade, investment intermediaries, and direct investors, highlighting some policies and initiatives that have been implemented either by host countries, sending countries, or diaspora members to mobilise funds and to sustain trade and investment. I use a mix of evidence-based findings, reports, and interviews with private sector leaders, public sector leaders, and civil society leaders in Tunisia. As a Tunisian economist based in a country going through a transitional phase where its diaspora could play a major role, I put particular emphasis on describing initiatives taken to empower diaspora members as trade and investment agents who are able to transform the Tunisian economy structurally.

Migrants as trade agents

Migrants have been proven to impact trade positively through two main channels. The first is the information channel. Migrants carry the knowledge of their country of origin to the host country. They offer better information on products, tastes, and partners in their home countries – information that is not available or only available at high cost. By transferring knowledge to their host country, migrant networks lower information costs and increase trade.

Governments in the country of origin and the host country, along with members of the diaspora themselves, are increasingly becoming aware of the important role played by migrants as trade agents, and several initiatives have been taken to benefit fully from it. For instance, migrants multiply networking opportunities through the organisation of events. This is the case of the Nigerian diaspora in the United States, who organise 'trade mission' events to connect Nigerian business owners to American investors.¹

Along the same lines, other diasporas try to encourage domestic companies to expand abroad through the diaspora. This is the case of the Trade for Export programme set up by Argentines with a mission to facilitate and increase the volume of exported goods produced by entrepreneurs in Buenos Aires by connecting them to engaged members of the Argentinian diaspora who could help incubate their products (Rodriguez 2012). Furthermore, some government agencies and private firms in Africa are trying to tap into their diasporas to provide market information through the establishment of diaspora trade councils, participation in trade missions, and business networks. For instance, the Ethiopian, Kenyan, and Ugandan embassies in London and Washington support forums that are dedicated for business and trade to attract diaspora investors and to match suppliers with exporters (Plaza and Ratha 2011).

The second channel is immigrants' creation of demand for ethnic goods in their host countries and their influence on other groups to consume these goods. For example, Nigerian movies have been able to penetrate the western markets thanks to the Nigerian diaspora (Heilbron et al. 2017). The Nigerian experience shows that a diaspora not only raises demand for domestically produced products, but also influences other groups within the host country to consume exported products from sending countries.

Aziz Mebarek, co-founder of Africinvest, a leading private equity investor in small and mid-sized African companies, considers the potential for ethnic goods to be far from just anecdotal.² The role of migrants in this segment should be fully exploited, considering the significantly positive trade consequences for both countries. Initiatives such as complying with host country certifications and standards are therefore fundamental to increase exports of ethnic goods. Members of diasporas could furthermore help to integrate channels of distributions in host countries.

Mebarek also points out that trade and investments in services are one of the most profitable sectors where diasporas could more fully play their role. Services such as real estate, health, and education could bring high profits to home countries. Several initiatives could help to unlock the potential of these sectors, including certification, accreditation of universities, and the twinning of home-based universities with host-based universities. Services targeting diasporas that hold to their expectations in terms of quality and standards should be more visible. Branding strategies should be devised

1 See <https://www.usnigeria.org/trade-missions/>

2 Source: Interview with Aziz Mebarek.

to reach this objective. Mebarek cites the case of Morocco, which recently completely transformed its vision toward its migrants, proposing a large spectrum of real estate services specifically targeting the diaspora.

Migrants as investment intermediaries

Migrants exert a positive influence on foreign investors by providing costly, specific, and private information (Leblang 2016). In addition, migrant networks reduce the transaction costs of entering new markets, since migrants reduce asymmetries of information between source and destination countries. The case of China is informative. Investment from the Chinese diaspora has been the major source of China's FDI inflows (Buckley and Meng 2005, Buckley et al. 2007). Indeed, it is estimated that half of the \$336 billion in FDI came from the Chinese diaspora between 1980 and 2004 (Chand 2010).

Recently, diaspora-led investments have become more dynamic. The reasons behind this are numerous. First, the vision of migrants concerning their investment is evolving. They are more and more interested in productive investment that helps left-behind families to become more autonomous. They are also interested in economic opportunities in their country of origin. Second, the increasing presence of mobile payment systems in developing countries provides an alternative to traditional banks, which are not always present at home. Mobile payment enables migrants to send more remittances and therefore increase investment. Several ongoing initiatives are leveraging the positive investment impact of diasporas by mobilising transfers of migrants towards funding small and medium-sized enterprises (SMEs) in home countries. For instance, Venture Capital for Africa (VC4A),³ a pan-African platform, was founded in 2007 with the objective to fund firms and start-ups via diaspora investment.

One of the initiatives that has been funded by VC4A is the Southern Africa Trade and Investment Hub, which aims to promote two-way trade with the United States under the African Growth and Opportunity Act, to attract investments that contribute to commercial expansion within the region, to increase Southern Africa's share in global markets, and also to deepen economic integration within Africa. Similarly, in 2019, Club Efficiency, an economic network of members of the African diasporas active in European countries, created an investment fund – the Efficiency Africa Fund (EAF) – which is open to the general public, businesses, institutions, and especially the African diasporas present in France and the rest of Europe. The EAF allows African diasporas established in Europe and any interested party to invest in African SMEs, with the aim of promoting the economic take-off of the continent.

Crowdfunding digital platforms are also a path explored by diasporas. These allow the funding of projects by young entrepreneurs in home countries thanks to donations or equity from the diaspora. Cofundry⁴ and Afrikwity⁵ are two examples that were

3 "Connecting African Startups to Opportunities", Venture Capital for Africa (<https://vc4a.com>).

4 See <http://www.cofundry.com>

5 See <http://www.afrikwity.com>

both created by Thameur Hamdane, a Tunisian-French national. Interestingly, these initiatives are the outputs of a project led by a Tunisia-based civil society organisation, the Confederation of Citizen Enterprises in Tunisia (CONNECT), and are funded by the European Commission with the objective of identifying top talent, entrepreneurs, and investors among immigrants from the Senegalese, Moroccan, Tunisian, and Algerian diasporas and business networks to help their countries of origin. Douja Gharbi, entrepreneur and Vice-President of CONNECT at the time, was convinced by the importance of such platforms in countries of origin in drawing investments from migrants and teamed up with Hamdane to work on drafting a law on crowdfunding in Tunisia.⁶ They set up a task force to which all the concerned ministries and civil society groups were invited. Successfully presented to the Minister of Industry and Small and Medium Enterprises at the end of 2018, the bill is now on track to be passed in Tunisia despite having faced several difficulties. Tunisia will be the first country in the region with such regulations. Gharbi believes that crowdfunding is without a doubt a good tool to invest in social and solidarity projects, and it can have a great impact on regional development in Tunisia.

Migrant as direct investors

Migrants are also direct investors in their home country, an activity that is often referred to as diaspora direct investment (DDI). Diasporas can directly invest through two channels (Rodriguez-Montemayor 2012). First, those working at a senior level in a firm abroad can use their expertise to persuade the firm's stockholders to invest in their corresponding home countries. Second, diaspora members working as managers or owners of firms in the destination country can mentor startups in their corresponding home countries to help them develop commercially viable projects (Mugano 2018).

DDI also includes collective remittances. For example, the first Afghan shopping mall, funded by the Afghan diaspora, is considered a DDI project (Osaghae 2018). These sources of investment can be crucial to the development of countries that rely on FDI but are facing a drop in investment because of the various factors that can play against a country's inflow of foreign investments. It is often advanced that diasporas are more likely than foreign investors to invest in a country of origin despite weak business enforcement and poor governance simply because diasporas tend to have better understanding of local practices and the business environment (Malouche et al. 2016). Thus, DDI is shown to be more stable than FDI, and a more reliable source of financial inflows to a country.

For this reason, many governments have started initiatives to encourage diaspora investing back in their home countries. The governments of Ethiopia, Nigeria, and Tunisia have tried to maximise their diaspora investments through both direct and indirect instruments. Direct instruments are mainly diaspora bonds and special bank

⁶ Source: Interview with Douja Gharbi.

accounts in foreign currency for diaspora members, but they also include reforms in the banking sector, exchange regulation, and regulatory frameworks of financial institutions (Mugano 2018).

Tunisia's example is telling. Rim Kolsi, Director of the Monetary Policy Strategy at the Central Bank of Tunisia, said that the central bank has undergone several reforms in its exchange and regulatory framework to attract foreign and diaspora investments.⁷ Currently, it is preferable to hold foreign currency accounts in Tunisia than abroad, given the higher remuneration granted to such deposits. Another initiative is digitised investment files, which make it possible to reduce the transaction costs for the diaspora during the investment process and mean they do not have to interact physically with several administrations. Instead, they can satisfy all of the administrative procedures by completing an investment sheet on an online platform.

According to the Governor of the Central Bank of Tunisia, Marouane Abbassi, the digitalisation of investment sheets is only the first achievement in a process being undertaken by the central bank to revamp its exchange code to favour investment by the diaspora. Both Rim Kolsi and Aziz Mebarek underline the great potential of short-term investments: non-residents can purchase treasury vouchers that are well-paid at 9% or 10%. These short-term investments are attractive for investors who want to invest without facing the country risk associated with high political instability. They also have the possibility to place their investments on an annual basis. Given the conditions in Tunisia, this short-term investment option is very attractive.

Diaspora bonds are long-dated securities that a country can only redeem upon maturity, and thus constitute a source of foreign financing that is long-term in nature. The governments of India, Israel, and Ethiopia have issued diaspora bonds in order to raise funds from their nationals living abroad (Ketkar and Ratha 2007, Mugano 2018). The Ethiopian diaspora bonds are an interesting case study. They were issued for the purpose of constructing the Grand Ethiopian Renaissance Dam, which will be the largest hydraulic power plant in Africa and, according to Mugano (2018), will help Ethiopia achieve its goal of industrialisation. Mugano further explains that this plant will allow Ethiopia to become a major exporter of electrical power (African Development Bank 2011). To date, the diaspora has contributed the equivalent of US\$33 million, which is remarkable but is still below their full potential to contribute given their financial situation abroad (Tsfaye 2016).

According to Rim Kolsi, a diaspora bond would be a very interesting option for Tunisia, but it would first be necessary to ensure consistent governance of the numerous institutions involved with diaspora investments, such as the central bank, the Ministry of Trade, the Ministry of Industry, the Ministry of Finance, the diplomatic missions, and so on. Regulatory reform in exchange rates policies is also needed. There should also be political will at the highest level, followed by concrete actions.

7 Source: Interview with Rym Kolsi.

No longer “Should I stay or should I go?”, but “I am here and there”

For a long time, migrants only saw themselves as transiting in the host country and returning home as soon as possible. This is also how both host and home countries looked at them. This vision has shifted with the recognition of the powerful role that diaspora members can play. Migrants are no longer asking the question, “Should I stay or should I return?”, but have instead emerged as transnational networks, channelling information and opportunities between countries. The ongoing digital transformation and the decrease in transportation costs are playing a large role in this shift, with the development of new financial tools also playing an important role. In this context, home countries should rethink their strategies and put in place diaspora-centred trade and investment policies. In many ways, trade, investments, and the transfer potential of migrants are still untapped.

In Tunisia, a number of initiatives are going in this direction. For instance, the country has implemented several structures to maintain links with Tunisians abroad, including an *Office des Tunisiens à l’Etranger* (OTE) in the Ministry of Social Affairs and Solidarity, which was established in 1998 with a mission to ensure active participation of Tunisians abroad in the development of Tunisia. The OTE facilitates investments, savings, and business development and entrepreneurship activities for the Tunisian diaspora while keeping track of the necessary data and information on Tunisians living abroad to formulate policies. The Tunisian government has also maintained a platform on which a dialogue between government and the diaspora is held to share common areas of concern over the country’s future (Mugano 2018). Diaspora members are represented in the Tunisian parliament, voicing their needs and visions.

Despite these efforts, transfers and investments are still below expectations, mainly because migrants still face many bureaucratic obstacles to doing business in Tunisia. An effort is needed to empower the OTE with a diaspora trade and investment council that brings together all ongoing initiatives under the same umbrella (diaspora bonds, crowdfunding initiatives, investment in services, increasing the outreach of Tunisian goods abroad, and investment funds, among many other possible actions). Governance and political will are thus fundamental to put in place a successful diaspora policy.

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The future of education in the developing world

Cláudia Costin

Director, Center for Excellence and Innovation in Education Policies

At the UN General Assembly in September 2015, the Sustainable Development Goals (SDGs) were approved. They replaced and broadened the scope of the goals for the millennium that were issued at the end of the 1990s in order to prepare countries for the 21st century. More ambitious than the previous goals, the SDGs address new problems afflicting the planet. Although there have been improvements in some social indicators and a slight reduction in the damage we are causing to the environment and to our planet's future, the slow pace of policy and the lack of political boldness and creativity in the solutions provided by decision makers have been exacerbated by the advent of the Fourth Industrial Revolution.

This new process can be translated as an acceleration of automation and robotisation, with artificial intelligence replacing human work with algorithms. This can be a blessing or a curse, depending on the regulatory response and policies implemented. If well coordinated, the process can help eliminate indecent and unhealthy work, as happened in some cases with the mechanisation that preceded it. At the same time, it may bring about a reduction in the destruction of natural resources, while also fostering production processes that generate less waste and emissions.

On the other hand, despite the fact that in previous stages of automation job creation outpaced job destruction, there is some scepticism today that the same will happen again. Will there be work for everyone and, if so, are we will have to face an increase in income inequality? We don't know yet for certain, but there are strong indications that even if there is a positive net creation of jobs, they will require a different set of skills, which may result in instabilities and uncertainties in the world of work.

The toxic combination of unemployment and social inequality promises neither social cohesion nor a sustainable future, in the broader sense of the term.

Advances in biotechnology, which play an important role in the prevention and cure of disease and thus promise a longer and healthier life, could also represent a risk if we lose sight of the importance of the balance of the ecosystems and of what makes us human. Is it really worth extending our lives by transforming ourselves into machines or automatons if the result is the eventual loss of our capacity to feel anger, sadness, or even passion?

I am going to restrict myself here, however, to two questions that are relevant for the next 25 years: How should we endow the next generations with the skills needed for life in society, especially for work and global citizenship? And how can we instil in these next generations, through education, the values that will contribute to ensuring that their existence does not pose a threat to present and future inhabitants of our planet?

Education in the Sustainable Development Goals

Sustainable Development Goal 4 establishes that by 2030, we will ensure inclusive, equitable, and quality education and offer lifelong learning opportunities for all.

There is in this statement an attempt to balance two issues that are very important in education: excellence and equity. In other words, there is a promise here that quality will not be achieved by means of exclusion.

The targets under SDG4 make this objective even more evident. The aim to ensure that every pupil not only attends primary and secondary school but also completes his or her secondary education is quite challenging for the developing world (in Brazil, the country where I live, we still don't have all students attending upper secondary school, let alone completing it). Target 4.1 states that the education offered in schools should be "free, equitable and of quality" and should translate into "relevant and effective learning outcomes". In other words, it is not enough for all pupils to complete their secondary studies – the education provided should not be of good quality for some and not for others. We need a quality education for everyone.

One target of SDG4 that is very important for equity is Target 4.2, which states that by 2030 quality early childhood programmes – including preschool – will be offered to all to prepare children for further schooling. As we know, early childhood is the period when it is easier to level the playing field and to ensure a healthy life and future opportunities, especially for the most vulnerable populations.

Other targets refer to equality of access to all levels of schooling for boys and girls, different ethnic groups, and youths from vulnerable populations or with disabilities. In many cases, affirmative action will be required to provide additional support to schools or students that need it the most. SDG4 also includes a target to ensure a significant increase in the proportion of youths and adults that have abilities that are relevant for employment and entrepreneurship, including technical skills. This will be crucial in the context of the Fourth Industrial Revolution and the resulting destruction of jobs.

But it is not enough to ensure rights and qualifications for accessing the world of work. Education also has a major role to play in building a society that respects life, promotes peace, and will allow future generations to enjoy a proper environment on our planet.

Thus, Target 4.7 states that by 2030, we will ensure that "all students acquire the necessary knowledge and the skills to promote sustainable development", learning to develop sustainable lifestyles promoting human rights, gender equality, and "a culture of peace and non-violence, global citizenship and the respect for cultural diversity".

Yes, it is essential to develop in young people basic competences such as literacy, numeracy, and a scientific mindset and to offer them a relevant cultural repertoire. Yet, it is worthwhile remembering that in the 20th century, people that had received a solid formal education according to the standards of the time, including attending university, were capable of committing the worst atrocities in the name of national pride or some exclusive dystopia. Preparing global citizens to be able to see the humanity in others, to be empathic, and to avoid destroying the planet's resources through greedy consumerism (perhaps justified by antiscientific theories) is an essential role of the school in the 21st century.

Trends in 21st century education and the drive for sustainability

When thinking about education for the next 25 years, we have to consider two areas of analysis: What will education be like, or what should it be like, in 25 years? And can we prepare students for the reality that they will be living in 25 years?

I believe that the two are linked and the normative aspect implicit in the first question provides answers to the second. After all, the education of the future depends on what we do with the schools of today, especially if our focus is on sustainability.

There is today an arsenal of prospective studies that attempt to identify trends in education, but not for a more distant future. It is hard to know, for instance, whether advances in bioengineering will lead to the transfer of knowledge through chips or genetic manipulation. Evidently, this would have terrible consequences for the richness of learning as a socially built process and would announce what Martin Rees calls a “post-human era” (Rees 2018).

I will limit myself here to projections for 2030 and eventually try to extrapolate trends for subsequent years.

In the OECD report *Trends Shaping Education 2019* (OECD 2019), certain movements taking place in the world are identified as forces that might mould the education of the future. It is important to understand these if we want to predict the possible future configuration of the area.

Among these trends, the following are worth emphasising:

- increased mobility, which favours the creation of a global market but, at the same time, makes an intensification of migrations possible, bringing about logistic and cultural difficulties in educating displaced populations;
- automation and the advent of artificial intelligence, with the accelerated destruction of jobs and the consequent risks of higher income inequality and unemployment, which might make access to some levels of schooling difficult and would certainly demand a different set of skills from the education system;
- the shift of the economic global centre with the emergence of giant economies, especially India and China; and

- ageing societies and the resulting reduction in school-age populations, especially in developed countries but also in some developing ones.

To face these trends, education must be transformed in a significant way. If we consider in particular the scenario of accelerated automation and robotisation, it is important to note that while new jobs may end up being created, they would require different (probably more sophisticated) skills to those required for employability today. This suggests that in schools we should emphasise the development of abilities that distinguish us from machines or robots and make us essentially human, such as empathy or critical thinking.

Furthermore, we will need to offer an education that allows us to advance in the direction of the precepts of SDG4, in particular to ensure autonomy, employability and/or entrepreneurship and global citizenship to help confront some of the risks associated with an increase in social inequalities, such as the emergence of populist or authoritarian governments.

With this in mind, the main characteristics of the education of the future should be:

- a focus on collaborative and creative problem solving, an ability that has already caught the attention of the Programme for International Students Assessment (PISA) and has led to the OECD creating a specific test on the subject;
- personalisation of teaching, which would allow learning to be customised to each student's needs and interests, considering her deficiencies and potential, by means of adaptive platforms with the support of artificial intelligence;
- flexible curricula and interdisciplinary approaches to learning to avoid fragmentation of areas of knowledge in subjects, which can lead to superficial approaches and reduces the likelihood of deep understanding;
- the promotion of the development of '21st century skills' such as social and emotional abilities, experimentation, autonomy and student agency, and the association of these with cognitive abilities;
- mastery of critical and systemic thinking, which, according to Joseph Aoun in his magnificent *Robot-Proof: Higher Education in the Age of Artificial Intelligence* (Aoun 2017), is essential in all levels of education but especially tertiary, since in the future artificial intelligence will not only replace human labour but will demand much more abstract reasoning to outperform robots and to be able to cooperate with machines in a productive and autonomous way;
- the promotion of cultural agility that will allow students to navigate the most diverse of contexts, understanding the values and norms of each social group without falling into ethical relativism and preserving human rights and the conquests of humanity;

- the creation of an education ecosystem consisting of schools, universities, digital platforms, TVET¹ centres, training centres and skills advisory agencies for students and adults;
- an education in global citizenship for children and adolescents that promotes empathy, non-violent communication, and social interaction and combats xenophobic, racist, and discriminatory visions; and
- the promotion of a sense of responsibility for the future of the planet in children, youths and adults and the adoption of more sustainable lifestyles and consumption habits.

The Brazilian education system: Catching up and looking to the future

In my own country of Brazil, it took a long time to expand access to education and there are still challenges in this regard. In 1930, only 21.5% of children in Brazil were in primary education, compared with 62% in Argentina and 73% in Chile. The proportion of boys and girls attending primary school still had not surpassed 40% by the end of the 1960s, and universal access to a primary education was only achieved in the country at the end of the 1990s. Some years later, we succeeded in doing the same with lower secondary education.

Even today, around 1.3 million youths aged 15 to 17 – i.e. of upper secondary age in Brazil – are out of school and the net school attendance rate at this level of education is 87.2%, although many are still attending lower levels of schooling. Indeed, only 59% of students complete their upper secondary education by the age of 19 (i.e. within two years of the targeted age for completion).

But Brazil's problems are not limited to access to and delayed schooling. We face what the World Bank referred to in its *World Development Report 2018* as a “learning crisis” (World Bank 2018). Yes, growing numbers of children and adolescents are in school, but they are not learning as expected.

The results from PISA 2015, the international assessment of the quality of education organised by the OECD and applied to 15-year-olds in various countries, reveals that Brazil is in a dire situation in terms of learning. Among the 70 economies that had their scores published, we ranked 63rd in science, 66th in mathematics and 59th in literacy. Countries with a much lower income than ours achieved better scores.

If we analyse the results taking into account students' socioeconomic status, the performance of the richest children in the Brazilian sample was mediocre, to say the least. There are serious flaws in our educational system and this might provide lessons for other countries.

1 Technical and vocational education and training.

The teaching profession is particularly unattractive in Brazil. Young people do not want to become teachers; when asked at the age of 15, in the questionnaire that came together with the PISA exam of 2015, what their dream career was, only 2.9% answered 'teacher'. Many end up going into pre-service teacher education not because they want to teach, but because entry to university is less competitive for these courses. The fact that some future teachers come from amongst the least prepared high-school students does not help in ensuring social recognition for the profession. In addition, although salaries have increased in recent years, they are not comparable to those in other careers that require a university degree.

Another reason for the deficiencies in learning is the fact that the pre-service education that future teachers receive is completely disconnected from the needs of the classroom. The courses are overly theoretical and relevant internships are very rarely provided. There is an urgent need to increase salaries, professionalise the career, and provide a solid preparation for teachers' performance. In other words, for every student to learn, with equity and high expectations for all, we must invest urgently in teachers and conclude the task of building schools for the 20th century.

However, this will not be enough in a world facing accelerated change and volatility, where new skills are required to be able to access decent work and incomes and to avoid being replaced by robots. Thus, we will have to build simultaneously schools for the 20th century and for the 21st century.

For this reason, and to confront the risks of the 21st century that are already becoming visible in Brazil – such as an increase in inequality, accelerated automation and robotisation with resulting job destruction, the emergence of populism, and increasing damage to the environment resulting from consumerism and inadequate production processes – we must transform the Brazilian education system with a sense of urgency. Some proposals in this direction, even if insufficient, are already being implemented, including the following:

- Recently approved Brazilian standards that establish the core competences to be developed at all levels of K-12 education (i.e. from kindergarten until 12th grade) in schools across the country, taking a very contemporary approach and including the skills for the 21st century. These standards, which are now being translated into subnational curricula, include education on sustainability and global citizenship.
- Draft standards for the teaching profession that seek to establish good practices and to bridge the current gap between theory and practice in pre-service education for teachers in the country, and also aim to influence university curricula to prepare future professionals for effective teaching of critical and systemic thinking, as well as social and emotional learning.
- Effective learning assessments that can identify challenges and advances across the country in ensuring quality and equity in education and support school systems in the country in advancing towards formative assessments linked to a more personalized approach to learning, which is still in an early stage of development.

We still have not built a school system fit for the last century, let alone for the next 25 years, and we don't have the luxury of being able to take one step at a time. To do so, we will need to:

- create a school that combines excellence with equity, with high expectations for all;
- make the teaching profession more attractive, with good salaries, less fragmentation in contracts, and social recognition of the profession;
- use technology, including artificial intelligence, to support teachers in offering personalised learning;
- extend the school journey, including time for deeper learning, connecting different subjects and leaving some space for student agency and the discussion of the dreams and life projects of each learner;
- create skills counselling agencies for students at different levels of education as well as for workers in job transition;
- incentivise a hybrid education, using distance learning, allowing learners autonomy, and promoting lifelong learning to ensure, as suggested in the report of the Global Commission on the Future of Work (ILO 2019), “a lifelong active society”;
- invest in bioengineering to support the education of children and youths with disabilities and to improve their quality of life;
- engage students at all levels in transformational projects to repair the environment and to protect the planet against future damage.

This list is not exhaustive and is not an attempt at a precise exercise in futurology. It is based on what has already started to happen, with the support of emerging technologies.

Concluding remarks

The speed of the changes we are living through does not allow us to anticipate in detail what might happen to humanity over the next 25 years, particularly in an area as complex as education. In this chapter, I have simply tried to identify some of the challenges that we can address in this time span to put us on a better trajectory towards facing some present trends and risks that the future might bring.

For reasons of space, I have focused on K-12 education, dealing mostly with young children and adolescents. I have also taken my own country, Brazil, as a case study of the challenges faced by developing countries today and, even more so, as they prepare for an uncertain future. Most of the risks and problems described here also affect, to varying degrees, other education systems in the South.

In order to keep this chapter short, I have listed only a few transformations that are expected to take place in the coming years.

In future work, it would be worthwhile to analyse the changes that could happen in technical and vocational education and in universities.

The future depends on what we do now and, in the case of education, how we prepare the new generations with the accumulated knowledge of those that preceded us but also in a way that make them ready to be disruptive so as to build a new and better path, there needs to be a sense of urgency. The future is now!

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The integration of immigrants in domestic labour markets

Sara Pantuliano¹

Acting Executive Director, Overseas Development Institute

The scale of global mobility is staggering: according to the International Organisation for Migration (IOM), there were 258 million international migrants in the world in 2017, equivalent to almost 3.5% of the global population (GMDAC and IOC 2018). Another 66 million adults had plans to move permanently to another country in 2015. People leave their home countries for a host of reasons, often in combination and often for different reasons at different points along the journey: in search of a better life for themselves and their families; to support families back home through remittances; for a better education; or, for the 25 million refugees in the world today, to escape violence, war, and persecution. For many of these people, their journeys are costly, hazardous, or even deadly: in 2017, at least 6,000 migrants lost their lives or went missing during their journey. Thousands more are vulnerable to abuse, detention, harassment, trafficking, and modern slavery. One study on Darfuri migration to Europe documented systematic abuse, exploitation, discrimination, and physical violence at every stage of the journey from Sudan (Jaspars and Buchanan-Smith 2018).

While work is only one of a complex array of reasons why people move, it is one of the most important: of the world's 258 million international migrants, an estimated 150 million migrated in search of a job, and jobs and livelihoods are central to the integration of migrants in their destination societies (Mansour-Ille 2018). At the same time, migrants face significant barriers – legal, social, cultural, political, and practical – to integration within domestic labour markets. Restrictions on formal employment mean that the only source of income for many migrants is from irregular, unregulated, and informal work, usually on unfavourable and often exploitative terms; globally, four in ten workers are in vulnerable or precarious forms of work, a group within which migrants are disproportionately represented (Mallett 2018). For many migrants, even informal work may not be available, at least not consistently or reliably. According to the IOM, unemployment among migrants is almost four percentage points above

¹ This chapter draws extensively on case study material and analysis by scholars from ODI, the Refugee Studies Centre at Oxford University and the Centre for Research and Analysis on Migration at University College London for the World Commission on Forced Displacement. The author would particularly like to acknowledge the work of Roger Zetter and Christian Dustmann.

that for natives, but this overall figure masks wide national disparities; in Sweden, for instance, the figure is 11 percentage points. In Greece the migrant unemployment rate was over 30% in 2016.

A note on terminology

The vocabulary around migration is politically sensitive and can be used with imprecision. Labelling someone an ‘economic’ or ‘labour’ migrant tends to have a stigmatising effect, and can be inaccurate: an individual may initially move in search of work, but at some point along their journey, for instance for Darfuris in Libya, they may also be displaced by violence or conflict, and so become refugees if they cross an international border. While refugee status conveys a distinct set of protections under international law not available to people regarded as not having left their home country under duress, in practice it can be difficult to disentangle the various drivers behind mobility over the course of a journey, or whether migration is ‘forced’, ‘voluntary’, or some combination of the two (someone moving because their agricultural way of life has become unsustainable under the pressure of climate change, for instance, cannot be said to be moving voluntarily, even if they face no direct or immediate threat to their person). For convenience, in this chapter I use the terms ‘migration’ and ‘migrant’ to refer to international mobility in the round, including people displaced by violence or conflict, as well as on the move for other reasons, the linking feature being that they have crossed an international border (hence excluding people internally displaced within their home countries).

Obstacles to employment

Research by the Overseas Development Institute (ODI) on the lives and livelihoods of refugees in protracted displacement in Cameroon, Malaysia, Turkey, and Jordan highlights both the lengths people will go to in order to provide for themselves and their families, and the significant obstacles and uncertainties they face in doing so. Universally, refugees reported “working in low-paying jobs in insecure positions, regardless of their skills or desired sector of work, or in poor conditions; drawing on their networks to find better or more secure jobs; [and] having multiple family members working, in some cases including children, to increase household income and mitigate the risk of relying on a single income source” (Barbelet and Wake 2017). These findings are supported by work by the International Labour Organization (ILO) in ten countries across Latin America, Africa, and Central and South-east Asia, which found that “the quality of jobs immigrants take remains a concern because they often face a lack of decent work” (OECD and ILO 2018).

Recent estimates suggest that 16% of employed migrants in Organisation for Economic Cooperation and Development (OECD) countries are in low-skilled jobs, compared with 7% of nationals (Mallett 2018). It isn’t necessarily that migrants are under-qualified – in fact, they may well find themselves in jobs far more menial than their previous occupations at home; in Lebanon, for instance, Syrian refugees are officially restricted to three employment sectors (agriculture, construction and cleaning) regardless of their

skills, interests, or qualifications (Grandi et al. 2018). In part this is a structural problem inherent in the increasing flexibility of labour markets more generally, and their progressive deregulation. In countries like Jordan, where almost half of all employment is informal, it is almost inevitable that non-Jordanians too will find themselves working outside of the formal economy. Cultural attitudes from home can also have a bearing on what work migrants do, or whether they work at all; for women in particular, cultural expectations may make it very difficult to find work outside the home in some contexts. Language barriers can be another significant obstacle, which is one of the reasons why relatively welcoming destination countries such as Canada place the emphasis they do on language acquisition as part of a package of measures to encourage integration. In Argentina, immigration law provides for Spanish language classes and training courses (OECD and ILO 2018).

Politically, opening up labour markets to non-natives can be highly contentious. Formal restrictions on migrant employment vary enormously, from relatively liberal approaches to much more restrictive ones, and can change over time in response to changes in public mood or particularly large or noticeable migration inflows, as in Europe in recent years. The European Union is currently host to almost 21 million migrants from third countries, and since 2011 more than a million people have applied for asylum. While virtually every member of the European Economic Area (EEA) grants asylum-seekers the right to work at some point during their application process, it is extremely uncommon to grant immediate access to the labour market “for fear that such a right would be a pull factor and would encourage economic migrants to embark on the asylum route” (Mansour-Ille 2018). Waiting periods for a work permit vary enormously, from immediately in Sweden and Germany to a year in the UK. In Bangladesh, the government explicitly classes Rohingya refugees from Myanmar as ‘temporary migrants’, despite the evident truth that, given their understandable reluctance to return to a country that has systematically persecuted them for decades, they are likely to be in Bangladesh for some time. Effectively stateless, they are denied freedom of movement, the right to work, and the right to be educated in Bangladesh and have no recognised identity documents or legal status (Mosel and Holloway 2019).

Impact on labour markets

The impact of migrants and refugees on destination countries’ labour markets depends on the mix of skills between natives and immigrants, and the extent to which receiving economies can accommodate the type of skills immigrants bring. While findings are extremely context-specific, in broad terms refugees adversely affect the labour market opportunities of native workers who compete with them, and often have a positive impact on workers whom they complement in the production process. A small, open economy may also react to changes in available skills by changing the mix of goods produced or through technological changes. In that case, immigration may have no effects on the wages and employment of native workers. Native workers may move out of occupations that require skills supplied by immigrants, and into occupations that

require skills immigrants do not have; in Tanzania, to cite one example, the influx of Burundians and Rwandans prompted considerable changes in the type of occupations native workers performed.

The picture is mixed, however. In Kenya, refugees tend to be regarded as a burden and as competitors for Kenyan jobs. While no studies have been undertaken to quantify the impacts of refugees on the labour market in the country, there are indications that, contrary to claims that refugee camps represent an economic burden, Dadaab and Kakuma have increased trading and business opportunities, widened access to employment, services and education, and improved markets and infrastructure. In Germany, increases in employment are being outstripped by the increase in labour supply, leading to higher unemployment and lower wages for workers entering the labour market with lower qualifications. Jordan is, in this as in other ways, something of a special case: Palestinian refugees actually outperform (Trans)Jordanians economically; labour force participation is high, at least for men, at over 70%; and Palestinians dominate the private sector. By contrast, Syrian refugees of much more recent vintage than Palestinians are much less likely to join the labour market, and a significant proportion – up to half – are economically inactive, either not in work or not looking for work.

A desire to boost economic growth by attracting desirable labour can also be an important motivating factor in a receiving country's refugee and broader migration strategy. In Canada, the post-war resettlement of displaced people from Europe was judged to be a useful response to labour shortages in the country's growing economy (Troper 1993). In later decades, resettled Hungarian refugees and Czechoslovakians had relatively high socioeconomic profiles, and individuals were chosen for resettlement using the same selection criteria that were applied to economic migrants (Lanphier 1981, Dirks 1984).

Integration pathways

Fast, smooth integration into the labour market reduces immigrants' welfare dependence, maximises their economic contribution, and (probably) facilitates social integration. Acquiring key skills specific to the host country, such as language, is important in determining the speed and extent of refugees' labour market integration. Expectations about the duration of residence in a host country are a crucial determinant of immigrants' incentives to invest in these skills – the shorter the expected duration of the migration spell, the lower the incentive.

Data for European countries in 2014 indicate that refugees are far less likely to be employed compared to natives (by about 18 percentage points) and economic migrants. This is also the case when refugees are compared to natives with a similar gender, age, and educational profile. Where they are available, data also show that refugees can expect to earn less than host populations, though these differentials can fluctuate over time, and there can be significant differences between and within different cohorts. In Canada, ten years after arrival refugees earn on average C\$27,000, or about C\$14,000 below the average for Canadian-born workers; refugees who arrived prior to 1990

rely most heavily on unemployment benefits; and refugees commonly live under or at the poverty line. Female refugees in particular face pronounced obstacles to entering, staying in, and reaping the benefits of labour market participation.

In Kenya, one recent study suggests that almost 70% of refugees in Nairobi earn below the Kenyan national income average of 30,000 shillings (\$290) per month, and only 12% earn above 50,000 shillings (\$480) (Refugee Consortium Kenya 2015). Very poor households fall below the ‘survival threshold’ and do not have the means to meet their minimum food and non-food requirements. While less stark, income risks are also higher among refugee households in Germany, where in one study a third of refugees reported earning no income at all, double the rate in the non-migrant sample.

Programmes that provide language training and help refugees to become acquainted with their new institutional setting can have large positive effects on their labour market performance. In Canada, refugees’ access to language training has been recognised as “a cornerstone for successful integration into Canadian society” (Standing Senate Committee on Human Rights 2016: 33), and free English and French classes are available to refugees in the country. Research looking at southeast Asian refugees shows that most invested in learning English and achieved some fluency. However, the relationship between language and employment (and occupational mobility) among resettled refugees in Canada is complex, and the question of whether refugees should invest in learning and gaining fluency in an official language (in the hope of entering a training programme or the labour market at a higher level) or get work quickly (often in menial jobs, the only type they can attain with existing levels of language and skills) has been a long-standing dilemma.

Following the large immigrant and refugee influxes of recent years, the German government has invested heavily in language learning, and some German schools have introduced welcome classes and integration courses. The central importance of language competence is reflected in one survey, which found that at least half of employers consider a good mastery of German as essential even for low-qualified jobs. For skilled positions, 90% require a good level of German and 40% prefer excellent language proficiency.

The ability of the host country to absorb an inflow of unskilled refugees depends also on the characteristics of its labour market: countries with highly institutionalised markets and high minimum wages that require high levels of productivity may find it more difficult to absorb refugees with very low productivity. Conversely, countries with less institutionalised markets and larger shadow economies – such as Jordan and Kenya – can more easily absorb low-productivity individuals. In Jordan, refugees in urban areas – i.e. most – are primarily employed in the informal sector, where they compete with natives and economic migrants. Likewise, refugees living outside of Kenya’s camps have obtained a form of de facto integration as many are self-reliant thanks to employment in Nairobi’s thriving informal sector (Jacobsen 2001, Crisp 2004, Campbell et al. 2011).

Policy responses

Migration and human mobility have become more urgent global policy issues in recent years, propelled up the political agenda in no small part by public alarm at apparently unmanaged migration flows into Europe and an increasingly strident nationalist discourse around immigration, notably in Europe and the United States. Brexit and US President Donald Trump's Mexican wall are just two of the more visible signs of the potency of migration in political discourse, not just in the Western world, but also increasingly in the low-income countries that bear the greatest refugee burden (Hargrave and Pantuliano 2016). This anti-immigrant discourse is often conducted apart from any genuine consideration of the actual scale of labour migration: in the UK, for example, non-UK nationals accounted for 11% of total employment in the country at the end of 2018, meaning that the vast majority – almost nine in ten – of the UK's 33 million workers were British nationals. While the Brexit vote has seen the number of EU workers in the UK decline, the number of non-EU nationals in work in the UK increased by just under 9% over the previous year.²

At the same time, there is a growing recognition – at least in the humanitarian and development space, if not in global political narratives just yet – that restrictive approaches to migration aren't having the desired effect: physical barriers simply divert migrants onto other, usually more dangerous routes; tougher controls on legitimate entry tend to push people into irregular channels outside of the purview of national authorities; and policies that seek to create a 'hostile environment' for irregular migrants (for instance, by restricting their access to formal banking services, housing and public services, as in the UK) harm people's wellbeing but appear to have little effect in encouraging them to go home (Mallett 2018). Restrictive policies can also disrupt or block normal patterns of cyclical migration: research in Spain has shown that efforts to encourage non-EU migrants to return home as recession hit the country in 2008 failed because, quite rationally, migrants decided they would rather ride out the hard times than return home and risk not being able to come back to Spain once conditions improved (Mallett 2018).

If restrictive approaches are failing, then managing migration in a humane and constructive way ultimately means managing migrants' integration into their host societies. While integration is a complex process, and happens across a number of domains, including legal, cultural and social, finding politically palatable ways to provide migrants with fair and equitable access to domestic labour markets and decent work is a fundamental requirement without which little else can be possible.

The concept of decent work has a prominent place in the 2030 Agenda for Sustainable Development, adopted by the UN General Assembly in September 2015, which seeks to shift the focus away from the quantity of jobs created and towards "a consideration of how the quality of new and existing work opportunities might also be enhanced"

2 See <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployectypes/articles/ukandnonukpeopleinthelabourmarket/february2019>

(Mallett 2018). In particular, Sustainable Development Goal 8 calls for action to “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”. Agenda 2030 also recognises the role migration itself can play in promoting development outcomes across a range of areas in addition to employment, including poverty, urbanisation, gender, education, health, social protection, water and sanitation, energy, citizenship, technology, and climate change (Foresti et al. 2018). It also calls for the facilitation of “safe, regular and responsible migration” and the implementation of “well-managed migration policies”.

The following year, in September 2016, UN Member States met at the General Assembly in New York for the UN Summit for Refugees and Migrants. The New York Declaration that emerged from the summit included a pledge by states to work towards a Global Compact on Refugees (GCR), the first comprehensive review of the refugee regime since its inception almost 70 years ago, and a Global Compact for Safe, Orderly and Regular Migration (GCM), the first-ever global agreement on a common approach to managing migration. The GCM, which was formally approved in December 2018, contains 23 objectives for better managing migration, several of which are directly relevant to migrants’ integration into domestic labour markets.³

Unlike formal international legal frameworks such as the 1951 Refugee Convention, the GCM is a non-binding arrangement, and as such has no specific legal force on states. This means that its aspirations and objectives will depend fundamentally on international political will and moral suasion; as one ODI analyst closely involved in its development observed, “[i]t will be down to states but also political leaders, policymakers, mayors, businesses, activists, researchers and others to make good use of the ideas in the GCM and to put the text into action” (Foresti 2018). While there were some important absentees from the GCM process, notably the United States, and provisions on limiting or curtailing migration from home countries reflect a dominant political narrative around stopping migration at its source, the Compact is nonetheless a significant statement of international cooperation to address the reality of global migration – no mean achievement given the current political atmosphere around migration, and specifically migrants’ participation in domestic labour markets (Donoghue et al. 2018).

There have also been some important steps to regularise migrant and refugee employment in more practical ways, largely – though not exclusively – in response to the so-called ‘refugee crisis’ sparked by the civil war in Syria and the perceived need to find new approaches to the massive displacement that the war has generated. Under the Jordan Compact, signed in February 2016, Jordan agreed to improve access to education and legal employment for Syrian refugees on its territory in return for billions of dollars in grants and loans and preferential trade agreements with the EU (Barbelet et al. 2018). A second Compact with Lebanon, worth about \$470 million in EU aid, was also agreed, albeit “with considerably less fanfare and much vaguer terms” (Howden et

3 <https://undocs.org/en/A/CONF.231/3>

al. 2017). A similar programme in Ethiopia, funded by the European Investment Bank (EIB), the World Bank and the UK, aims to create more than 100,000 jobs, a third of them for refugees. In exchange, Ethiopia has committed to the gradual relaxation of restrictions on labour market access for refugees, including “legislative changes but also training, relocation, rehousing and protection measures”.⁴ In January 2019, the Ethiopian parliament revised the country’s refugee law to make it easier for refugees to obtain work permits. Other similar arrangements have been mooted for Turkey and Bangladesh (Huang 2018, Kirişci and Brandt 2019).

While governments and donors can set the framework, for example by easing restrictions on work permits, private sector investment will actually create the employment opportunities for refugees that are the core objective of this strategy. High-profile players, including Siemens, IKEA, and DHL, are increasingly finding ways of working in the risk-prone and fragile markets of major refugee-hosting countries, and are engaged in supporting refugee resettlement and integration, with initiatives in North America and Europe that attempt to better match refugees’ skills with employers’ needs in resettlement states. In Germany, a network of businesses comprising 300 companies supports refugee integration into the labour market through various initiatives. In Kenya, the Kalobeyei Integrated Social and Economic Development Programme (KISEDIP) in Turkana County has as one of its aims fostering private sector engagement to improve the socioeconomic conditions of refugees and host communities in Turkana County.

Despite their essentially transactional nature, frameworks such as the Compact demonstrate that restrictive policies governing refugee and migrant employment can be opened up if there is sufficient political will – and, arguably, economic, trade, or other inducements – to do so (Barbelet et al. 2018). These initiatives also represent at least a tacit acknowledgement that, like it or not, the bulk of migration and displacement in the world today is not a short-term phenomenon to be resolved through return; refugees and other migrants are likely to remain in their host countries for years, and managing their presence will require more constructive and open approaches to integration, and in particular migrant work.

In practical terms, the results of the Compact appear mixed: one recent assessment in March 2019 concluded that, “while important and significant progress” had been made, quotas restricted the number of non-Jordanians employers could hire and limited the range of roles they could recruit for, and work permits were still largely concentrated in construction, agriculture, and manufacturing, with home-based businesses (particularly important for women uncomfortable with leaving their homes for work) limited to food processing, handicrafts, and tailoring (Huang and Gough 2019). It is also worth noting that having the legal permission to work under the kind of permit scheme established in Jordan as part of the Compact is in itself no guarantee of fair and safe employment; in

4 See <https://devtracker.dfid.gov.uk/projects/GB-GOV-1-300393>

Spain, for example, seasonal agricultural workers are reportedly exposed to trafficking, exploitation, and abuse despite entering and working in Spain legally under contracts stipulating pay levels and working conditions (Kelly 2019).

Many destination countries have established migration schemes that “explicitly select immigrants based on their education, professional skills or other individual characteristics” (Dustmann forthcoming). These frameworks are usually designed to select immigrants with skills particularly in demand, or more generally to attract highly educated individuals expected to be more productive. But there is self-selection too: research suggests that one of the reasons why migrants choose a particular destination country over another is based on where they believe their skills have the highest value (Dustmann and Glitz 2011, Dustmann et al. 2011). In effect, countries where skills have a high value will attract immigrants with higher skills. In forced migration, self-selection mechanisms may be less relevant because migration is often not a choice, but migrants still make active choices even in the most constrained circumstances. In the study on Darfuri migration cited earlier, for instance, many migrants wanted to reach the UK because of its historical links with Sudan, the presence of relatives and friends, and because they believed that the prospects for education and work and respect for human rights were better in the UK than elsewhere (Jaspars and Buchanan-Smith 2018). In terms of labour market integration, the picture is complex and there are no easy answers. Individual circumstances are hugely different, and integration outcomes vary enormously depending on when people arrive, the skills and aspirations they bring with them, and the political environment they find themselves in.

More effective integration in labour markets is about more than legal issues around permission to work, socioeconomic status, education, aspiration, and the culture of the migrant household; it also means changing the political discourse around immigration in host societies. It is commonplace for politicians seeking to halt or reduce immigration to defend their position by pointing to public fears about the supposed effects of migration on communities, including wages and employment, as well as access to public services such as health and education. In fact, evidence on public opinion is contradictory and highly specific to locality, socioeconomic group, and circumstance, and it is very difficult to draw general conclusions, either around the state of public opinion over time and across societies, or on the most effective ways to influence and shape it. Public opinion is not fixed, either in place or over time, and even in relatively welcoming contexts particular incidents or events can unsettle public opinion and lead to a spike in concern around refugees more broadly.

Recent analysis (Dempster and Hargrave 2017) paints a mixed picture of public attitudes towards refugees and migrants, with groups strongly in favour or opposed sandwiching a larger part of the public falling within a ‘conflicted’ or ‘anxious’ middle who are “less ideologically motivated than groups most confidently ‘for’ or ‘against’ immigration, and much more ambivalent towards refugees and migrants and their impacts on society” (Purpose 2017, Katwala et al. 2014). Negative attitudes cannot simply be dismissed as racism or xenophobia; while there is certainly a racial element in the way some segments of a society feel about the presence of foreigners in ‘their’

schools, hospitals, and shopping centres, attitudes are much more fundamentally driven by genuine, real-world concerns around the economy, work, culture, identity, religion, and insecurity, linked both to the specific issue of migration and to anxieties around social change more broadly. Ensuring the effective and humane integration of migrants into labour markets in host societies means finding ways of engaging with these more intangible aspects of migration as well. Greater contact between hosts and migrants and an emphasis on shared values and aspirations – for example, providing for their family, supporting relatives back home, or ensuring safety and a decent education for their children – can certainly help to humanise what can sometimes be an abstract debate dominated by aggregate statistics and numbers, but traditional approaches to public engagement, such as ‘myth-busting’, may be counter-productive in reaching a public audience for whom facts and evidence may be less important than feelings and perceptions.

Conclusion

Migration has been a fact of human life since time immemorial; people have always moved, and networks of kinship, trade, and cultural and intellectual exchange have criss-crossed the globe for centuries.

Reframing the discourse surrounding migrants and refugees to recognise the substantial social and economic contribution they can make to their host societies is increasingly important in light of the current large-scale movement of migrants globally. The key policy issue confronting European countries, the United States, and others is not whether to accept migrants and asylum-seekers, but rather how to turn the associated challenges into opportunities through investment in integration policies.

Destination countries can facilitate the integration of refugees through the design of appropriate policies. Policies specifically designed to help immigrants to settle in the destination country have long been common in Nordic countries, though evidence on their effectiveness is scant. Labour market effects, fiscal consequences, destination choices, and the career profiles of migrants all interact to influence integration outcomes. Understanding the role that each of these factors plays in a given context will be key to helping improve immigrants’ integration in domestic labour markets. Modern migration is extremely complex and, given how politically fraught the debate around the movement of migrants and refugees is, progress is bound to be slow and incremental.

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Part IV

New challenges to global economic governance

Introduction

Africa in the Fourth Industrial Revolution

Ngozi Okonjo-Iweala

Board Chair, Gavi

The beginning of the 21st century has been marked by a global financial crisis and an increased recognition that globalisation has to take environmental and social imperatives into account. It has also been marked by rapid technological progress – which some have dubbed the Fourth Industrial Revolution – with potentially disruptive consequences for societies. Whilst in some quarters, this Fourth Industrial Revolution is observed with concern, I will argue in this introduction that it can contribute to overcoming the major economic and societal changes facing the continent of Africa.

The importance of the Fourth Industrial Revolution cannot be overstated. In years to come, people will look back and marvel at how interactions between seemingly disparate emerging technologies reshaped the world. Where steam once led to mechanisation, electricity to mass production, and IT to automation, the Fourth Industrial Revolution has the potential to go even further by using the smart fusion of different technologies to usher in huge improvements in the quality of life.

A provocative thought often occurs to me: can the Fourth Industrial Revolution actually benefit people living in poor countries as much as, or even more than, those in wealthy countries? The Fourth Industrial Revolution is changing lives in developed countries, making modern life easier and more convenient, partly due to the ubiquity of the so-called sharing economy. But, in developing countries such as those in Africa, the impact is likely to be far more profound and life-changing, and could potentially help lift hundreds of millions of people out of poverty.

The question people might ask is, how can a continent that still has not yet completed its Second or Third Industrial Revolutions skip ahead to the fourth? Only 58% of sub-Saharan Africa's population had access to electricity in 2016,¹ there is only 0.09km of road per square kilometre of land area in the region (World Bank 2017), and manufacturing value added is low at 10.17%.² Although health and education indicators

¹ According to World Bank Open Data, 42.84% of the sub-Saharan population had access to electricity in 2016.

² Source: World Bank Open Data.

have improved, 93 million children and youths are out of school and don't have access to basic education, and maternal and infant mortality rates are still high at 547 per 100,000 births and 53 per 1,000 births, respectively.^{3,4}

Despite such obstacles, I believe that not only is Africa ready for this Fourth Industrial Revolution, it is in desperate need of it. By positively disrupting some of the challenges that have long held the continent back, the Fourth Industrial Revolution can help it leapfrog previous revolutions and ultimately catch up with the rest of the world.

This is not just conjecture. I can say this with great certainty, because it has already begun.

Technology

The most obvious example is mobile phone technology. At the turn of the century, the whole of Africa had fewer fixed-line telephones than your average large American city. Within just a few years, mobile phone technology came in and quickly overtook fixed-line phones. In 2019, there are now more than 781 million mobile subscribers among Africa's population of 1.2 billion.⁵

The availability of this technology has opened new doors and helped bridge many more gaps, enabling Africans to access services that would not be possible otherwise, from simply accessing knowledge and data to mHealth platforms which notify mothers when their children's vaccinations are due, for example.

The fusion of mobile with financial technology, or 'fintech', has made Africa a leader in mobile payments. One of the most widespread and leading examples of this is the digital payment platform M-PESA, which started in Kenya. M-PESA is a mobile phone-based money transfer, financing, and microfinancing service. To many Africans, particularly women, it is more than just a means of transferring money from one person to another by phone. It is also a means of empowerment, because it enables women to start their own businesses or even just take control of their own finances for the first time.

Another example of how the Fourth Industrial Revolution is already positively disrupting Africa is the use of drones in Rwanda to improve healthcare delivery.

While the US Federal Aviation Administration was still scratching its head over drone regulations, the Rwandan government fully embraced the technology and launched the world's first autonomous drone delivery service in the field of medical supplies. Currently, vaccines and half of all blood in Rwanda are delivered through drones. This service allows the government to centralise supplies in its capital, Kigali, reducing

3 Source: [unicef \(https://www.unicef.org/progressforchildren/2007n6/index_41796.htm\)](https://www.unicef.org/progressforchildren/2007n6/index_41796.htm).

4 Source: World Bank Open Data for 2016.

5 Source: International Telecommunication Union (https://www.itu.int/en/ITU-D/Statistics/Documents/statistics/2018/ITU_Key_2005-2018_ICT_data_with%20LDCs_rev27Nov2018.xls).

waste to almost zero while also improving efficiency. And for people in remote, rural districts in need of vaccines or emergency blood transfusions, the waiting time has been cut from four hours to just 20 minutes.

It is also clear that technologies emerging as part of the Fourth Industrial Revolution can be deployed to help Africa realise its enormous agricultural potential. Africa has about 60% of the world's uncultivated arable land (McKinsey Global Institute 2010) but agricultural yields remain low. Biotechnology to improve crop yields, increase productivity, increase crop resilience, and deal with problems of storage and post-harvest losses can make a huge difference in African agriculture. The day will come when Africa can not only feed itself but also other parts of the world that are natural resource poor.

Energy

Fintech and drone service delivery solve real life problems on the continent and can be brought to scale. But can the new technologies of the Fourth Industrial Revolution help solve other difficult challenges that are holding Africa back? Take, for example, the issue of power.

Renewables offer Africa a low carbon emissions pathway to bring electricity to millions of households and small businesses through on- and off-grid solutions. Take solar, for example. For decades, investment in wind and solar power has been low, dwarfed by investment in fossil fuels. This is changing. Global agreements to tackle climate change by resetting global growth on a low carbon emissions pathway are leading to the search for clean off-grid and on-grid energy solutions. The cost of solar plummeted by 85% between 2009 and 2015 alone and is projected to drop by a further whopping 66% by 2040 (New Climate Economy 2018: 6). This drop-off in the cost of solar has made it competitive with conventional sources of power. As a result, investment in renewables is growing. By 2020, a quarter of the world's energy production will be from renewables, with developing countries making up two-thirds of this renewable energy expansion.

Africa will be an important part of this expansion. M-KOPA, a solar energy company in East Africa, now reaches 600,000 households in Kenya, Tanzania, and Uganda.⁶ Lumos, another company in West Africa, is powering small and medium-sized enterprises (SMEs) and households, providing electricity to over 400,000 people via their off-grid solar solution in Nigeria and Côte d'Ivoire.

Transparency and good governance

Moving to a completely different kind of challenge, Africa is being held back by poor governance arising from weak and non-existent institutions, systems, and processes leading to a lack of transparency and corruption in public and private business. Billions of dollars disappear in public contracts, illegal financial transactions, tax evasion, or even from government treasuries. The United Nations Economic Commission for

6 See <http://solar.m-kopa.com/about/our-impact/>.

Africa (UNECA) and Africa's finance ministers supported the famous Mbeki Report, which looked into licit and illicit financial flows in Africa and found in 2015 that Africa loses \$50 billion per annum due to illicit financial flows.⁷

During my time in Nigeria as Finance Minister, we used electronic technology platforms and biometric ID systems to try to tackle these issues with some success. It is now clear to me that new technologies of the Fourth Industrial Revolution can go even further by creating levels of transparency and accountability never before seen in Africa. Blockchain technology, in particular, holds the potential to enhance transparency in government, to block corruption in fiscal accounts, and to deliver social safety programmes targeting the poorest in our society in a way that is transparent and fair. Blockchain is already being applied by humanitarian organisations, such as the World Food Programme, which has led to reduced costs and improved security and privacy as potentially sensitive data no longer needs to be shared with banks or mobile operators.

Africa needs to leapfrog with blockchain and related technologies and remove the serious obstacles of corruption that blight the development of millions of its citizens.

Unemployment

Let me now touch on two areas of concern with respect to these new technologies and the Fourth Industrial Revolution. The first is the issue of unemployment.

What are the potential negative consequences of this new industrial revolution for Africans? As with any industrial revolution, there is the very real fear that it could lead to job losses. It has been estimated that by 2020, about 7 million jobs will be lost and 2 million gained (i.e. a 5 million net loss) in 15 major developed and emerging economies as a result of developments in genetics, artificial intelligence, robotics and other technological change (WEF 2016). Given current unemployment in sub-Saharan Africa and the continent's changing demographics, this is a real concern.

Africa is projected to have over 850 million youths by 2050. Finding jobs for these youths is an enormous concern. Otherwise, they may risk their lives crossing the Sahara and Mediterranean in search of what they hope is a better life.

If not well managed, the Fourth Industrial Revolution has the potential to exacerbate the issue of unemployment by automating low-level repetitive jobs that could migrate to the continent, or by making them redundant. To solve this, Africa must also use all the education technology available to skill its people. Doing so will make up for the job losses by creating an educated and skilled workforce that can innovate, be entrepreneurial, and create jobs, thereby feeding into a virtuous cycle of technological change.

⁷ See <https://www.opengovpartnership.org/stories/the-open-government-partnership-and-socio-economic-development-a-perspective-from-african-countries/>.

The second area of concern involves a cautionary note. While digital technologies have enormous scope to transform Africa, there is also potential for misuse. The global concern about major companies such as Google and Facebook harvesting and even trading data on their customers is a case in point. Big data has become the new gold, and has even been likened to having oil reserves. As Africa enters the digital world, we need to make sure that its people are not left vulnerable, that there is adequate and proper regulation and education so that people are protected. And we need to explore how Africans can benefit fiscally from their own data, perhaps through a tax or fee that can be put on companies, with the resources being directed towards improving access to technology. This will be especially critical for the poorest in the population so they are not left behind.

Conclusion

Despite the formidable challenges Africa faces, the Fourth Industrial Revolution is not only possible on the continent, it is happening now and will actually help our continent flourish and improve the quality of life significantly by allowing it to escape many of the problems that have long held it back.

It is not a question, therefore, of whether Africa is prepared for the Fourth Industrial Revolution; ultimately, Africa needs it if we are ever to catch up. It is more a question of how Africa's leaders and citizens can harness these technologies to make them work for the continent. We have shown that Africa is capable of this leap. It is now just a question of persistence, consistency, boundless curiosity, and scale if Africans truly wish to transform the continent.

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Prosperity requires a planet: Climate change matters

Teresa Ribera

Minister for the Ecological Transition, Spain

Climate change is a threat to prosperity. There is an increasing number of estimates of its impact. Perhaps the most well-known of these is the one that economist Nicholas Stern offered in the report he published in 2006 that climate change could damage the world's gross domestic product (GDP) by up to 20 percentage points (Stern 2006). In a context in which institutions are working hard to improve the prosperity of society, global warming can undo all that has been achieved in record time.

This is another of the great truths of climate change. However, despite its clarifying power, we run the risk of growing so accustomed to the headline that the emergency becomes blurred. We have a short memory as far as the climate is concerned. We base our idea of a 'normal climate' on the climatic events that have occurred in recent years, and we never go farther back than eight years. There is a real risk of normalising meteorological phenomena that do not form part of what is 'normal' vis à vis the available climatological data.

In the 2015 Paris Agreement, we defended the need to make every effort to ensure that the increase in the average temperature of the planet should not exceed 1.5°C. The data since then do not offer an optimistic picture. On the contrary, extreme phenomena continue to grow in intensity and frequency: the heat wave that swept across northern Europe in the summer of 2018, with record-breaking temperatures in many regions; devastating hurricanes in the Gulf of Mexico and also the category 3 hurricanes that reached Spain, and Europe, for the first time; extreme droughts in the Horn of Africa; widespread fires raging out of control in California; deadly floods in Asia... These phenomena threaten sustainable development, generate hunger and food insecurity, jeopardise survival, and cause death and disease. What's more, they do so in an unequal way, affecting to a greater extent the poorest members of our societies, vulnerable groups and, in particular, women (Reckien et al. 2017).

Spain is not immune to the impacts of global warming. We have seen warm years accumulating for some time now. In fact, 2017 was the warmest year in the country as a whole since studies began in 1965. Our summers are now five weeks longer than they were in the early 1980s; our winters are shorter and our snow reserves are dwindling.

The socioeconomic impact can be seen on the coast, in our rural areas, and, of course, in the cities. Key sectors such as agriculture and livestock, transport, and tourism are beginning to have concrete experiences that cannot be considered normal.

In his report, Nicholas Stern stated that the cost of acting – about 1% of the annual world GDP – is significantly less than the impact of looking the other way (the 20 GDP percentage points that have already been mentioned). Therefore, if we want to underpin a prosperous and equitable economic model in the future, we must address the challenge of climate change urgently, thoroughly, and structurally. The objective is to accelerate the decarbonisation of the energy system, and, due to the fact that they have greater room for manoeuvre and greater responsibility in the face of the problem, it is up to the developed economies to lead the way for emerging and developing economies.

In concrete terms, by 2030 we need to have eliminated at least a quarter of the 56 billion tonnes of CO₂ equivalent that we currently emit. The only way to make this global objective a reality is through a massive removal of coal from the energy mix. In the case of developed economies, this means the total removal of coal from energy uses by 2030, and in emerging economies, its reduction by at least two thirds of their current consumption.

At the same time, by 2030, the consumption of petroleum derivatives in transport and mobility must be reduced drastically by firmly backing public transport and by the disruptive penetration over the next decade of zero-emissions vehicles.

Turning these goals into reality means embracing a profound change in the patterns of growth and development that will lead to the prosperity and wellbeing of our citizens.

But to ensure prosperity within the planet's limits, we need to go beyond technological solutions and to focus on social solutions, especially in the case of more vulnerable communities or those affected by the change of model.

Fortunately, we can say that in 2019, the climate agenda is already part of the social agenda. It is necessary to take into consideration the issues of wealth distribution and cost sharing; the effects during the model transition; the global as well as the local impact. The debate on redistributive policies and solidarity is thus being updated to include elements of climate justice.

Fair transition strategies are an excellent support and accompaniment tool for people and territories that are especially affected by the change of the development model. They help to put in place the necessary measures to optimise the opportunities for the creation of employment and wealth linked to the change of model.

There can be no doubt that the maxim “leave no one behind” calls for early action and a rapid response aimed at the most vulnerable groups and communities, but the instruments to guarantee prosperity cannot be allowed to stop there.

The redistributive aspects of both wealth and the transition costs must be included in the solutions that are brought to the table. These will undoubtedly help to reverse situations such as the one highlighted in the latest report of the Organisation for Economic Co-operation and Development (OECD), in which it speaks graphically of the gradual decline of the middle classes, which it considers to be “squeezed” (OECD 2019).

The fact is that the climate agenda is also brimming with opportunities. Committing to this change means committing to innovation, competitiveness, quality employment, and the viability of business fabrics. In contrast, deferring decisions would mean having to assume more costs, which are more unfairly distributed, and renouncing opportunities to modernise our economy and our society.

The next 15 years will be studied in faculties of economics as a period of transformation and, of course, because of the mobilisation of resources in favour of the common good. Just one example will suffice: between now and 2030, investments of around \$90 trillion are expected in sustainable infrastructures at a global level – more than the current stock.

The markets and the private sector, in all its facets, have grasped the message. They are perfectly aware that failure to act is bad business. That is why we are witnessing an exponential transformation of their structures in order to integrate climate change – also as an opportunity – into their business strategies.

It is up to the public authorities at all levels of governance (from local to multilateral global agencies) to pull the levers needed to ensure that this unstoppable and positive transformation is also a guarantee of improved prosperity, characterised by the redistribution of wealth and effort with guarantees of equity and without leaving anyone behind.

The time has come to articulate, among all of us, a new social contract that reconnects us with nature – on which we depend for survival – and that places people at the centre of the action. It is a possible, necessary, and fair path. And above all, it is an exciting journey that has already begun.

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Is Womenomics working?

Kathy Matsui

Vice Chair and Chief Japan Strategist, Goldman Sachs

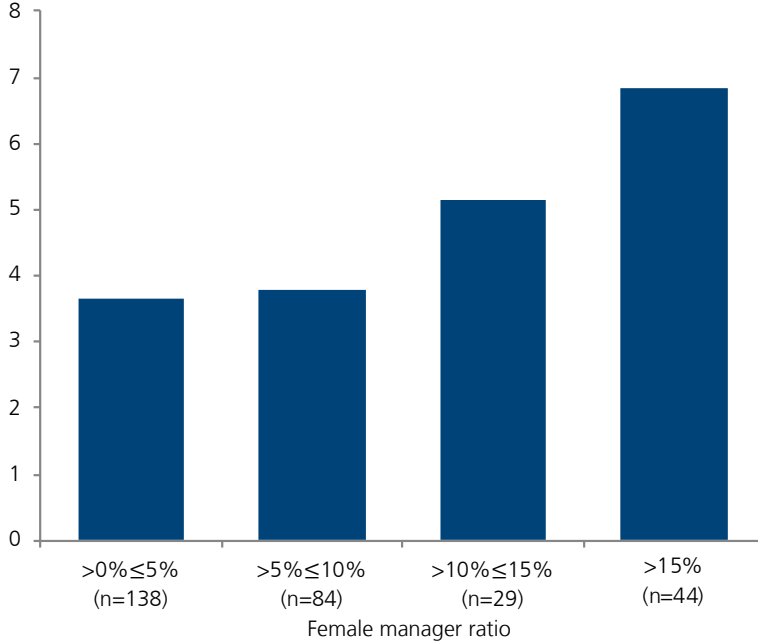
When we first broached the topic of Womenomics and Japan's need for greater gender diversity in 1999, our argument was not social or cultural, but rather a simple economic one. After all, the three key determinants of economic growth for any country are: labour, capital, and productivity. Since Japan's population is shrinking, capital is finite, and productivity gains will take time, unless radical steps are taken quickly, we argued that the nation not only faced the risk of a further decline in its productivity and potential growth rate, but eventually, lower standards of living as well.

Japan continues to face extremely challenging demographic headwinds. After peaking in 2008 at 128 million, the country's overall population had already shrunk by 1.5% to 126 million in 2018, and based on government projections, it is forecast to drop by 30% to just 88 million by 2065. More importantly, by 2055, Japan's workforce population is expected to shrink dramatically by 40%, from 75 million in 2018 to 45 million. Japan remains one of the few major countries where the number of registered pets (dogs and cats only) outnumbered children under the age of 15. Indeed, in 2018, the IMF warned that in the absence of meaningful structural reforms, demographic headwinds could cause the level of Japan's real gross domestic product (GDP) to decline by over 25% in 40 years relative to a baseline projection where productivity and population grow at their recent pace. How Japan chooses to manage its demographic headwinds over the next several years will serve as an important template for how other countries should (or should not) cope with their own aging societies.

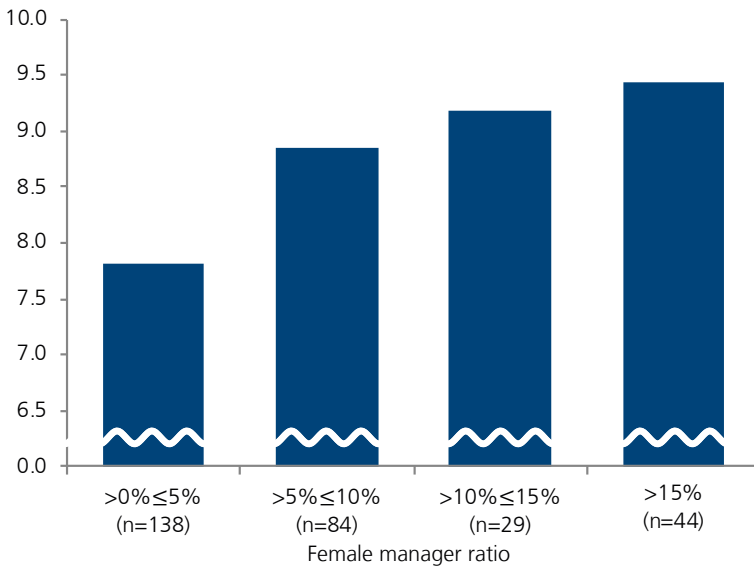
When we published our first Womenomics report in 1999 (Matsui et al. 1999), Japan's female labour participation rate stood at just 56% – one of the lowest in the developed world. Since then, however, the percentage has risen sharply to nearly 71% (as of February 2019), overtaking the United States (66%) and the euro area (62%). Growth in the number of working women has been particularly pronounced during the past six years of Abenomics, with the number of employed females surging by more than 3 million from 26.4 million in 2012 to 29.7 million in 2018.

Figure 1 Japanese firms with the highest ratios of female managers post higher sales growth and return on equity

a) Sales growth, five-year average (%)



b) Return on equity, three-year average (%)



Source: Nikkei Valuesearch, QUICK, FactSet, data compiled by Goldman Sachs Global Investment Research.

Economic and business case

The potential dividends from closing the gender employment gap for Japan are very significant. If Japan's labour participation rates for women (67% as of 2017) converged to that of men (83%), this would add 5.8 million more employees to the country's workforce. Since more workers generally means more income, we estimate the potential positive impact on Japan's GDP to be 10%. In addition, what if we also imagine a shift in the composition of female jobs whereby more women work in full-time roles (or longer hours than part-time)? As of 2017, the ratio of monthly regular working hours (excluding overtime) of Japanese women versus men was 81% (118 hours versus 145), while the average for Organisation for Economic Co-operation and Development (OECD) countries was 85%. If we assume Japan's ratio eventually rises to the OECD average, the country could enjoy an added GDP boost of 4%. In other words, under a 'blue-sky' scenario, Japan's GDP could rise by as much as 15%.

Besides the potential macroeconomic boost from higher female labour participation, there are also significant potential benefits at the micro, or company, level as well. For instance, based on data for 297 Japanese listed firms that disclosed their female manager (*bucho*) statistics during June 2018-April 2019, those that ranked in the highest group in terms of female manager ratios (>15%) boasted the highest (>6%) five-year average sales growth, as well as the highest three-year average return on equity (ROE) (>9% FY2010-FY2012), while firms in the lowest group had very low or negative average ROE (Figure 1). Progress since 1999

When we published our first Womenomics report two decades ago, there was little awareness of the topic of diversity. However, momentum grew after Prime Minister Shinzo Abe's second term began in 2013. One of the most impactful changes the Abe administration made was to shift the context for diversity away from a human rights or social issue to an economic and business imperative. Declaring "Abenomics is Womenomics" helped shift corporate managers' and societal attitudes to the critical role gender diversity can play in driving growth.

The Abe government's initial key performance indicators (KPIs) of the Womenomics agenda released in January 2014 included:

1. increasing the female labour participation rate between the ages of 25-44 from 68% in 2012 to 77% by 2020;
2. normalising the 'M-curve' by raising the percentage of women returning to work after their first child from 38% in 2010 to 55% by 2020;
3. targeting 30% female representation in leadership positions across Japanese society by 2020;
4. expanding childcare capacity, with the aim of eliminating children on daycare waitlists by 2017; and
5. lifting the percentage of fathers who take paternity leave from 2.6% in 2011 to 13% by 2020.

Subsequent to this agenda, the government added other policy goals, including:

- augmenting parental leave benefits;
- improving gender diversity transparency; and
- work-style reforms.

Figure 2 summarises the progress we have seen in each of these areas. The bottom line is that while Japan is still far from reaching its targets on female leadership representation, headway has been made in other areas.

Figure 2 The Abe government’s Womenomics policy goals: Progress report card

Progress report card of Womenomics proposals		
O	Raise female labour participation rates	Boost Japan’s low female labour participation rate (record 71% as of Feb. 2019, vs. 63% in 2013); more than 3 mn additional women are working vs. 2012
▲	Normalise the ‘M-curve’	Raise the percentage of women returning to work after their first child from 38% in 2010 to 55% by 2020 (currently 53%); lift the female labour participation rate between the ages of 25-44 from 68% in 2012 to 77% by 2020 (now: 74%, and new target: 80% by 2022)
X	Female leadership representation	Target 30% female representation in leadership positions across Japanese society by 2020
▲	Expand childcare capacity	Expand childcare capacity with the aim of eliminating children on daycare waitlists by 2020
▲	Lift paternity leave uptake ratios	Increase the percentage of fathers who take paternity leave from 2.6% in 2011 to 13% by 2020
O	Augment parental leave policies	By 1999, one year of paid maternity leave was made available to both parents, and by 2014, the government allowed for two-thirds of earnings to be replaced during the first six months of parental leave
O	Improve gender diversity transparency	2015 legislation requires public and private organisations to disclose their gender diversity conditions and action plans
O	Work-style reforms	Labour reforms introduced to limit overtime hours and mandate equal pay for equal work

Note: “O” = completed; triangle = in progress; “X” = slow progress.

Source: Goldman Sachs Global Investment Research.

Parental leave benefits

In order to encourage parents to have more children, the government augmented parental leave policies and, as a result, Japan’s parental leave benefits are now among the most generous in the world. Japanese mothers and fathers are eligible for up to one year of parental leave. During the first six months they can earn up to 67% of their existing salary (excluding bonuses) and they are eligible for 50% of their salary for the rest of their leave. Since social insurance premiums are waived during childcare leave, the actual amount paid is around 80% of pre-leave take-home pay.

Transparency

Through the enactment of the landmark 2015 legislation, “Act on Promotion of Women’s Participation and Advancement in the Workplace”, which took effect in April 2016, any organisation (public or private) with more than 300 employees is obliged to disclose gender diversity-related data and to publish “diversity action plans”. These plans should contain information on female participation in their workplaces as well as numerical targets (i.e. female manager ratio targets). As of December 2017, 99.7% of private sector corporations with more than 300 employees had submitted their action plans.

Work-style reforms

In order to improve overall Japanese work styles and boost labour participation rates, the government approved legislation on work-style reforms, which took effect on 1 April 2019. Since Japanese work hours are among the longest in the developed world, large firms must now comply with a new overtime hour restriction (effectively, 100 hours per month), and non-compliance is subject to penalties. The aim is not only to improve work-life balance, but to boost overall labour productivity as well.

Moreover, to improve the treatment of part-timers, employers must also comply with new “Equal Pay for Equal Work” regulations from April 2020 for large companies (and April 2021 for smaller firms). This new law prohibits unreasonable treatment of non-regular (fixed-term) employees, and obliges employers to offer the same level of basic pay to both regular and non-regular workers engaged in the same work and with equal skills, experience, and performance levels.

While there has been encouraging progress over the past two decades, there is still much room for improvement, in our view. Specifically, we see scope for improvement in:

1. the dearth of female leaders;
2. gender pay gaps;
3. inflexible labour contracts;
4. tax disincentives;
5. insufficient caregiving capacity; and
6. unconscious biases and gender role stereotypes.

Recommendations for government, corporations, and society

Learning from best practices around the world, we have compiled a list of concrete recommendations. While by no means an exhaustive list, we believe that since Japan's demographic challenges are increasing, the country should not delay in making changes.

Government

While the government has made progress in some of the recommendations we published in our 2014 report (Matsui et al. 2014), such as requiring gender-related disclosures, we see many other areas where it can further influence the behaviour of corporations and society.

More flexible labour contracts: Eliminating labour market duality

One of the biggest obstacles preventing more Japanese women from working (especially in a full-time capacity) is the rigidity of labour contracts and labour market duality, whereby labour contracts are either full-time (regular) or part-time (non-regular). One way to encourage more women to return to the workforce as regular employees and to reduce the hiring risks for employers is to introduce more flexible labour contracts.

Gender pay gap disclosures

Pay equity is a challenging topic in almost every country, but since Japan's gender pay gap is one of the largest in the OECD at 25%, there is considerable scope to narrow it to at least the OECD average of 14%. Non-regular workers have risen from 15% of Japan's workforce to nearly 40%, and they typically earn roughly 60% of the pay of regular employees. Since women account for as much as 70% of all non-regular workers, the new "Equal Pay for Equal Work" legislation should deliver material wage gains for females over time, thereby boosting labour productivity.

However, since Japan's pay gap is so large, more radical and immediate action should be considered. One solution that some countries have adopted is government-mandated reporting of gender pay discrepancies. A recent empirical study published in the *Harvard Business Review* on the impact of mandatory wage transparency showed that disclosing disparities in gender pay does in fact narrow the gender wage gap (Bennedsen et al. 2019).¹ It can also have other beneficial effects by (1) increasing the number of female hires, indicating that the supply pool of female employees increases as gender pay transparency improves; and (2) raising the number of women being promoted to more senior positions.

1 The study was based on Denmark's wage statistics before and after the introduction of its 2006 legislation, "Act on Gender Specific Pay Statistics".

Rectify tax disincentives

Current tax systems should be modified so they no longer discourage married women from participating fully in the workforce. The elimination of institutional exemptions on spousal income in the tax and social security codes should help encourage more married women to seek higher-paying, full-time jobs. Many other countries have already replaced family income taxation with individual income taxation, and reducing the tax burden for secondary earners can help boost female employment.

Parliamentary gender quotas

Since the National Diet determines the policies that affect the lives of all people in Japan, it is unjust that female political representation is so low. Clearly, more radical steps must be taken to rectify this chronic imbalance, and Japan should consider the introduction of temporary quotas for the Diet. Many nations have parliamentary quotas, and while there may be a backlash in Japan, we think it is necessary in order to design and implement policies that properly reflect the needs of the entire Japanese society.

Promote female entrepreneurship

Since it will take time for institutionalised corporate structures to change, promoting women-owned businesses can offer a more flexible and desirable career path for many Japanese women. Small and medium-sized enterprises (SMEs) account for over 99% of all enterprises in Japan and roughly 70% of all jobs, yet the level of female entrepreneurship remains extremely low.

The government can do much more to promote women entrepreneurs. A Ministry of Economy, Trade, and Industry (METI) survey on female entrepreneurship showed that among the obstacles faced by women when starting their businesses, “lack of management know-how” and “access to credit” were among the biggest challenges. The government should consider more robust programmes offering preferential treatment to women-owned businesses for government procurement, easier access to credit, and low-interest loans, as well as mentorship and networking programmes.

Loosen immigration rules to allow for more foreign caregivers

Japanese citizens and permanent residents are currently prohibited from sponsoring or hiring foreign domestic workers. While certain conditions could be applied, such as limited-term work visas and requiring wages to be no lower than those of their Japanese peers, there should be further deregulation to allow Japanese citizens and permanent residents to sponsor/hire foreign domestic workers and caregivers. As witnessed in other countries, the additional supply of foreign caregivers could go a long way towards filling the supply gap for childcare and much-needed elderly care in Japan.

Tighten gender diversity disclosure requirements

We applaud the Japanese government for raising diversity transparency through the 2015 “Act on Promotion of Women’s Participation and Advancement in the Workplace”, which requires public and private organisations to disclose gender diversity-related data and to publish diversity action plans. However, the problem is that there are no penalties for non-compliance, and since organisations have flexibility in determining what types of data to disclose, it is not standardised and therefore difficult to conduct cross-industry and cross-company comparisons.

We therefore recommend that for the private sector, gender-related disclosures and target-setting should be both mandatory and standardised within corporate governance reports. At a minimum, listed companies should be required to disclose their ratios and targets for female managers and board directors. Such disclosures will naturally create ‘healthy competition’ for female talent among firms in the same industry, and be helpful for domestic and overseas investors who are increasingly focused on gender diversity in the context of meeting environmental, social, and governance (ESG) targets.

Corporations

Japan’s private sector can offer greater leadership in promoting gender diversity in the following areas:

Leadership commitment and proactively managing women’s careers

In our numerous diversity discussions with Japanese corporations over the past 20 years, it is clear that one of the common denominators of those firms that have successfully ‘moved the diversity needle’ is that they don’t just talk about diversity, but continually make the business case and take concrete actions to create an environment where women and other diverse employees can maximise their full potential. Thereafter, companies need to create initiatives that deliberately prioritise gender diversity, including recruiting, retention and promotion.

Promote more flexible work environments

The reasons cited by Japanese mothers who off-ramp from their careers after giving birth are not limited to childcare availability or support for working mothers; for many, the main reason is inflexibility of working hours. Therefore, employers should promote more flexible work arrangements (including job-sharing and tele-commuting) and, importantly, employees with flexible work arrangements should not be discriminated against in terms of career opportunities or compensation.

Shift from seniority-based to performance-based evaluations

One of the root causes of Japan’s low female labour participation and low leadership representation is that evaluations at many traditional Japanese companies still tend to prioritise seniority and time over performance and output. This is also a key reason why

Japan ranks near the top of the developed world in terms of longest number of hours worked annually and among the lowest in terms of the amount of time Japanese fathers spend on household chores and child-rearing. Shifting towards more performance-based processes should not only drive higher productivity, but can boost motivation as well.

Gender diversity target-setting

In addition to government requirements for improved gender diversity-related disclosures from private sector firms, we believe companies can also be more proactive in setting and disclosing their diversity goals and targets for recruitment, retention, and promotion. Furthermore, to ensure progress, senior executives should be held accountable for monitoring progress and reaching these goals.

Engage male champions

In addition to women pushing the diversity agenda, it is also critically important to engage the majority, in other words, male leaders. In 2014, under the leadership of the Gender Equality Minister at the time, Masako Mori, a “Group of Male Leaders Who Will Create a Society in which Women Shine” was launched, comprised of over 100 diversity leaders throughout corporate Japan. Another successful global initiative involving male leaders has been 30% Clubs. The 30% Club was originally launched in the UK in 2010 with the aim of reaching a minimum of 30% female representation on FTSE 100 company boards. The organisation attracted over 60 chairmen of leading UK firms and since 2010, the initiative has proven very successful, with the number of women on FTSE 100 boards increasing from 12.5% to 31% as of March 2019. Given the success of the 30% Club, a chapter is expected to be launched in Japan in the Spring of 2019.

Society

Media: Avoid gender role stereotypes

As in any other country, Japanese media is enormously influential in shaping societal perceptions about gender roles. Specific recommendations include urging media companies to produce more content depicting working parents (as opposed to just working fathers), as well as more mindful usage of terms such as ‘sharing’ housework’ as opposed to ‘helping with housework’.

Education: Encourage more girls and women in STEM²

Despite the fact that more Japanese women hold university degrees than men, Japanese women account for just 20% of computer science majors and 18% of engineering majors. Since technology transformations are rapidly propelling the world toward a

2 Science, technology, engineering, and mathematics.

more knowledge-based and digitally based society, and women comprise a large share of the lower value-added occupations that may be vulnerable to future disruption, more girls and women should be encouraged to pursue education and careers in STEM fields.

Womenomics tailwinds: ESG and new millennial male attitudes

While the headwinds remain formidable, we remain in the ‘cup is half full’ camp on the future of Womenomics because, compared to 20 years ago, two critical tailwinds have emerged that should help promote gender diversity going forward: 1) the major expansion in ESG investment; and 2) shifting attitudes among younger-generation Japanese men.

In order to promote the United Nation’s Sustainable Development Goals (SDGs) within the investment world, there has been a heightened focus on ESG metrics. Diversity metrics are included in ‘Governance’ and ‘Social’ scores, and investors are now carefully tracking metrics such as management and board diversity.

Another important tailwind that should help advance gender diversity is the distinct shift in attitudes of younger Japanese towards work-life balance. For instance, in 1987, 38% of single men (aged 18-34 years) believed that their future spouse should be a full-time housewife, and only 11% a working mother. By 2005, however, the same survey showed a reversal, and as of 2015, 34% of men actually preferred their spouse to be a working mother, while only 10% wanted their spouse to stay at home. This suggests that attitudes of millennials and younger generations are already turning towards a positive direction, and the desire for greater work-life balance is no longer just among women, but among all of Japanese society.

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Economics of populism

Erica Owen

Assistant Professor, Graduate School of Public and International Affairs,
University of Pittsburgh

Populism encompasses many policy positions on the left and the right of the political spectrum, but it commonly includes anti-elite and anti-globalisation rhetoric. In recent years, many Western democracies have experienced a rise in populist sentiment and the emergence of populist movements. Most notably, populist pressures contributed to the election of Donald Trump and the referendum vote in favour of Brexit in 2016. In the period since, populist parties have experienced increased electoral success in many European countries, including the National Front (National Rally) in France and Alternative for Germany, as well as the formation of a populist coalition government in Italy in 2018. Based on data from the 1960s up to 2016, the vote share of populist parties in Europe more than doubled from 5.1% to 13.2% and the share of seats rose from 3.8% to 12.8% (Inglehart and Norris 2016: 2).¹

How are we to understand the rise in populist sentiment, and the emergence of populist movements, over the last decade in many advanced economies? One common answer points to economic shocks and insecurity. Those who are economically insecure are more likely to express support for populism (Inglehart and Norris 2016, Guiso et al. 2017). In many countries on both sides of the Atlantic, there is a sense that workers and the middle-classes are being left behind as a result of globalisation and automation. Workers have experienced several decades of slow or no growth in wages and increasing job insecurity, and in many countries financial crisis has led to crushing fiscal austerity. Yet another common theme points to cultural factors (e.g. Inglehart and Norris 2016). This includes perceived threats to one's own perceived status or the national identity, as well as attitudes toward outsiders. Together, these factors have generated a simmering resentment that entrepreneurial politicians have been able to mobilise.

In order to understand the demand for populism among voters and to develop policies that address those concerns, we must consider how the changing nature of production creates new vulnerabilities for workers. International trade is no longer characterised by trade in final goods, but rather by increasing trade in intermediate goods and services, and a large role for multinational firms. At the same time, we are witnessing increasing

¹ This support seems to be capped in the mid to upper teens (c.f. Austria Freedom Party); see https://static.nytimes.com/email-content/INT_5594.html?nlid=71599644.

automation and technological advances in artificial intelligence. These shifts in the nature of production have profound consequences for the welfare of workers and the communities in which they reside.

What these two economic forces have in common is that they break up the tasks performed by individual workers, and workers in certain occupations are more vulnerable to the negative labour market consequences created by these forces. This has several important implications for understanding the demand for populism and the policies to address it. First, the economic welfare of workers is now tied to the type of work they do – their occupation – rather than to the industry in which they work or their skill level. Second, the ability of firms to split up production and automate certain tasks means that the welfare of workers is no longer closely tied to the welfare of the firm. Finally, these shifts have increased the economic and political power of firms and reduced that of workers. Policymakers, as well as business leaders and advocates of labour interests, must champion policies that address these new realities for workers if the advanced economies are to stem the populist backlash against globalisation and the open international order.

Background

What are the sources of populist sentiment? Research on the sources of demand for populism focus on economic and cultural factors. In general, there is a consensus that those experiencing economic hardship or anxiety are more likely to support populist rhetoric and policies.² For instance, the shock of the 2008 financial crisis was felt acutely by some individuals and by some countries that continue to face stagnant economic growth, lack of opportunity, and fiscal austerity. The recovery has been slow and comes at a huge cost for many individuals in terms of their standard of living and opportunities for the future (Gamble 2019).

The losers from globalisation are often cited as a source of demand for populism. Indeed, we know that trade will benefit some workers and negatively affect others, creating shared interests in favour of either openness or closure. Traditional research predicts that advanced economies will have a comparative advantage in capital- and skill-intensive products, and a comparative disadvantage in labour-intensive ones (e.g. Rogowski 1989). This means that capital owners and skilled workers will benefit from trade, while less-skilled workers will be harmed by it. Survey research shows that less-skilled workers, especially those in import-competing industries, are more likely to support trade protection, while more skilled workers are more likely to favour free trade (e.g. Mayda and Rodrik 2005).

² A vast and growing literature in economics and political science seeks to answer this question (e.g. Inglehart and Norris 2016). It is also related to a large literature on the rise of far-right parties in Western Europe; for reviews, see Rodrik (2018), Hays (2018), and Frieden (2019).

Immigration is one of the most politicised aspects of globalisation, and anti-immigration platforms are very prominent among populist parties. Scholars have long debated whether attitudes toward immigration are based on economic factors or non-economic factors, as reviewed in Hainmueller and Hopkins (2014), Hays (2017), and Rodrik (2018). In terms of economic effects, immigration can increase labour market competition (i.e. immigrant workers competing with native workers) or place strain on the welfare state (a ‘fiscal burden’). Rodrik (2018) suggests that in Europe, immigration fuels populist sentiment due to concerns about strains on state resources. Yet, a lot of evidence at the individual level supports the argument that attitudes towards immigration are driven by social or cultural factors, including concerns about the impact on the national identity or hostility toward outsiders (e.g. Hainmueller and Hopkins 2014). Immigration is often cited as one of the most common reasons for far-right voting (Dal Bo et al. 2018).

Support for populism also appears to be driven by cultural or identity factors. Inglehart and Norris (2016), for instance, found that people who were more anti-immigrant and distrustful of government, and who held authoritarian values, were more likely to support populism. They suggest that this could be due to these people feeling threatened by changing social values (such as more cosmopolitan values). In the United States, Mutz (2018) finds that those who feel threatened (both in terms of their status in domestic society and in terms of the US position in the world) were more likely to vote for Trump in the 2016 election.

A number of scholars are trying to unpack how ideas and values matter, for whom, and under what conditions. Guiso et al. (2017) show that economic insecurity is both a direct source of support for populism and also an indirect source through its impact on trust and on views of migrants (as revealed in European survey data). That demand for populisms draw on a combination of economic and non-economic factors seems clear, but disentangling these factors is difficult.

Occupations under threat: A new source of populist sentiment

If we are to propose policy solutions to address the concerns that populist rhetoric stokes, we require a more precise understanding of the economic channels through which pressure on workers and communities is created, including shifts in welfare driven by global production and automation. The world economy and the nature of production have changed in fundamental ways that have important consequences for the welfare of workers (e.g. Baldwin 2006, Blinder 2009), and thus the sources of support for populism.

One important change has been the rise of fragmented production – i.e. the ability of firms to split production across borders – and the associated increase in trade in intermediate goods and services, as well as offshoring. Most importantly, the rise of fragmented production means that the competitive pressures generated by trade and the activity of multinational firms affect tasks, and thus jobs, differently. Tasks are the units of work used to produce a good or service; workers in different jobs perform different kinds of tasks. Global production means that workers now compete based on

how well workers in other countries can perform the same tasks (e.g. Grossman and Rossi-Hansberg 2008, Acemoglu and Autor 2011), because tasks performed by some occupations are now more easily provided from abroad.

To understand the competitive pressures of globalisation today, consider what a manufacturing worker, a call centre operator, a software developer, an accountant, and a radiologist all have in common. These are jobs with different skill levels and in different industries, but all are increasingly vulnerable to competition from lower-wage overseas workers through offshoring. The offshoring of manufacturing jobs from the United States and other advanced economies has been going on for decades, but ‘offshorable’ occupations – those that can feasibly be provided at a distance – now span industries and affect a wide range of employees. Increasing offshoring in software, accounting, other business, and medical services exposes new segments of the workforce to global competition for the first time, and negatively impacts workers who are typically more high skilled and often employed in exporting or non-tradable industries – in other words, precisely those workers that we would expect to benefit from (or at least not be harmed by) globalisation.

Which tasks will be performed offshore? Owen and Johnston (2017) argue that workers in routine task-intensive occupations will be negatively affected by trade because advanced economies have a comparative disadvantage in such tasks. Routine tasks are characterised by repetition or rule-following procedures, and are therefore more easily explained to foreign workers. Examples of routine task-intensive occupations include traditional manufacturing production jobs and clerical or data-entry work. Workers in more routine jobs are likely to experience lower wages and increased job insecurity as a result of trade and global production, especially when their jobs are offshorable. Thus, workers in routine task-intensive occupations are more likely to oppose globalisation, especially when they are exposed to offshoring. Characteristics of occupations can explain why a software developer (routine) and a software engineer (non-routine) – workers with similar levels of education, in the same industry, and perhaps even in the same firm – could have different preferences regarding openness, with the developer expected to be more protectionist than the engineer. Of course, trade also benefits some workers, which in advanced economies are likely to be those in more non-routine (e.g. creative and analytical) occupations.

The rise of offshoring signals two new developments in how trade affects the welfare of workers in advanced economies. First, higher-skilled workers employed in exporting or non-tradable industries are becoming increasingly vulnerable to offshoring, contrary to the common notion that these workers benefit from globalisation (or at least are sheltered from it). Those affected include, for example, software developers, accountants, and white-collar workers in business services, as well as some medical and legal professionals. Second, as global production becomes increasingly fragmented, competitive pressures are directed at specific jobs rather than industries or firms. This means that policies that benefit a firm do not necessarily benefit the workers in that firm.

Unfortunately, many workers who face competition from globalisation are also facing labour market pressure from automation. Automation has replaced many routine tasks performed by workers and although it also creates new jobs, these are typically filled by different workers than those who are displaced. Indeed, automation is often viewed as being responsible for the hollowing-out of the labour market, reducing demand for medium-skilled workers in both blue- and white-collar occupations (e.g. Acemoglu and Autor 2011, Levy 2018). Vulnerability to automation also shapes preferences, as workers in routine task-intensive occupations are more likely to support redistribution (Thewissen and Rueda 2019). These pressures are likely to continue and to intensify as technological innovation improves machine learning (Baldwin 2019). Together, these economic pressures create concerns about distribution, inequality, and fairness.

Implications for electoral politics

How do the above economic pressures affect the voting preferences of citizens and the behaviour of their elected representatives? In other words, when is support for populism likely at the ballot box? It depends on how the winners and losers are distributed across electoral districts. The composition (and concentration) of individuals with different preferences determines whether, overall, voters in a district are supportive of populist policies or continued openness. Districts with more losers from globalisation are more likely to demand populism at the ballot box and more likely to elect representatives willing to implement those policies.

Importantly, the backlash against globalisation does not only come from individuals who are directly vulnerable to globalisation and automation pressures; it can also come from other individuals in the same community. As Frieden (2019) elegantly puts it, the process of globalisation affects local communities (beyond those directly exposed) because the decline of the local economy creates problems for all members of the community (p. 47). Where the concentration of economic losers is high, there are negative consequences for the well-being of the local economy, the size of the tax base, and the quality of local government (Broz et al. 2019).

Indeed, a number of studies of elections find that globalisation losers have had their say in the ballot box. In the United States, incumbents are punished in presidential elections in those districts where more voters have been hurt by globalisation (e.g. Margalit 2011, Jensen et al. 2017, Autor et al. 2016); furthermore, these electoral pressures have resulted in increasing political polarisation (Autor et al 2016, Feigenbaum and Hall 2015). Outside of the United States, Colatone and Stanig (2018a) find that the Chinese import shock has increased support for nationalist parties in Western Europe, and that UK regions hit by harder by the shock were more likely to vote in favour of Brexit (Colatone and Stanig 2018b).³

3 In their study, the regional China shock also affects individual-level preferences toward Brexit even among those who are not considered to be losers from globalisation.

Elected officials are also responsive to the interests of their constituency, with the composition of winners and losers from globalisation influencing whether legislators vote in favour of free trade in the United States. For instance, legislators are less likely to vote in favour of free trade agreements when a greater share of their constituency is vulnerable to offshoring (Owen 2017). In addition, competition from trade and the activity of multinational firms shapes demand for redistributive policies in the United States, which in turn influences social spending (Owen and Quinn 2016).

An important note here is that this chapter focuses on the *demand* for populism. There is also an important role played by the *supply* of populism as political entrepreneurs (including Donald Trump) capitalise on this latent demand. Thus, another important dimension to understanding the rise of populism is the supply of populist parties and policy positions.

Policy implications: A way forward

There are a number of important considerations for policymakers and business leaders who seek to ameliorate demand for populism. In many countries, the populist backlash – and in particular the backlash against globalisation – points to a breakdown of the ‘embedded liberalism compromise’ (Hays 2017). In the case of the United States and the United Kingdom, social safety nets were not extensive enough and redistribution schemes were not generous enough (Scheve and Slaughter 2007). In the case of Sweden, a country with a more extensive welfare state, reforms to tax and social policies generated cleavages based on insiders and outsiders, which ultimately led to a tiered system that boosted support for the far right in the country (Dal Bo et al. 2018).

The precarious position of many workers due to global production and automation can be summed up in an example. In 2016, Carrier, a US air conditioning manufacturer, received \$7 million in state tax incentives to keep 800 jobs onshore for ten years. One year later, however, Carrier offshored 600 different manufacturing jobs, while at the same time investing \$16 million in plant automation to reduce labour costs. Even in services, as Baldwin (2019) argues, advances in technology and machine learning, coupled with globalisation, will generate job dislocations on the scale of those seen in the Industrial Revolution.

To move forward, we need new policies that will address the economic reality facing workers today. To do so, policymakers must acknowledge two things.

First, policies that benefit firms do not necessarily benefit the workers in those firms. Much of the debate in the United States around international trade, past and present, revolves around strengthening US-based production facilities and improving worker wellbeing. But those policies have been largely ineffective and will continue to be so in the future because they do not address all aspects of a firm’s production decisions, such as location or levels of automation. Simply adding new jobs in capital- and skill-intensive sectors will not help workers who face competition from overseas production

or automation, as the Carrier example demonstrates.⁴ The dilemma facing policymakers is that even if policies to incentivise keeping production onshore are offered, firms can choose to reduce labour costs through automation and robotics. Moreover, new trade pacts and other policies that focus on manufacturing overlook large segments of the labour force that are now vulnerable to globalisation.

Second, the economic welfare of workers in the same industry, and even in the same firm, may be affected differently. Workers may face dual pressures from globalisation and automation. Policies must be flexible to address this. Industry-based policies or rigid definitions of economic harm, as found in the US Trade Adjustment Assistance programme, will not be effective. My research suggests that instead of trying to manage trade to improve the lives of US workers, policymakers should work to broaden the safety net and make job training more widely available. Federal programmes that support workers harmed by trade should be expanded, and job retraining and educational programmes must target the non-routine jobs of the future that are most resistant to pressures from globalisation and automation. US workers are already competitive in such positions, and more Americans can gain the benefits and security they offer.

Overall, we need to protect workers, not jobs. Advances in technology and machine learning, coupled with globalisation, will generate job dislocations on the scale of the Industrial Revolution as job displacement occurs faster than job replacement; so we should expect demand for populism to increase (Baldwin 2019). Failure to implement the above policies will lead to a continued backlash and will threaten today's gains from globalisation. Large, productive firms, which are the most likely to benefit from globalisation and which are also most likely to be politically active,⁵ should therefore support policies that mitigate the demand for populist policies. A higher level of redistribution and a more generous safety net are better for businesses than closure and isolation. To see this, one needs only to look at the impact of Brexit on the UK economy thus far.

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4 For instance, the Trump administration favours trade rules intended to generate employment in the US auto sector. In the case of the United States–Mexico–Canada Agreement (USCMA), these rules can lead to higher costs and thus induce manufacturers to forgo zero tariffs and produce as cheaply as possible in Mexico. Moreover, as a result of automation, US domestic production could increase without boosting employment in general, and in particular among workers who previously lost their jobs.

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Governance in the era of data-driven decision-making algorithms

Nuria Oliver

Fellow, Royal Academy of Engineering

Massive streams of human behavioural data, combined with increased technical and analytical capabilities (in particular, data-driven machine-learning methods), are enabling today's companies, governments and other public sector actors to use data-driven machine learning-based algorithms to tackle complex policy problems (Willson 2016). Decisions with both individual and collective impact that were previously taken by humans – often experts – are nowadays taken by data-driven artificial intelligence systems (i.e. algorithms), including decisions regarding the hiring of people, the granting of credits and loans, judicial judgements, policing, resource allocation, medical diagnoses and treatments, and the purchase/sale of shares in the stock market. Data-driven algorithms have the potential to improve our decision making. History has shown that human decisions are not perfect – they are subject to conflicts of interest, corruption, selfishness/greed and cognitive biases, which result in unfair and/or inefficient processes and outcomes (Fiske 1998). The interest in the use of algorithms can therefore be seen as the result of a demand for greater objectivity in decision making and for a better understanding of our individual and collective behaviours and needs.

Data-driven algorithmic decision making may indeed enhance overall government efficiency and public service delivery by optimising bureaucratic processes, providing real-time feedback and predicting outcomes (Sunstein 2012). In his recent book, *Technocracy in America*, Parag Khanna argues that a data-driven direct technocracy would be a superior alternative to today's representative democracy, because it could dynamically capture the specific needs of the people while avoiding the distortions of elected representatives and corrupt middlemen (Khanna 2017).

The potential for data-driven algorithmic decision making to make a positive impact in the world is massive and certainly motivates my work on this area (e.g. Froelich et al. 2009, Bogomolov et al. 2014, Torres Fernández et al. 2014, Lepri et al. 2017). Numerous efforts worldwide are also exploring this potential, including:

- the New Deal on Data led by Alex Pentland at the World Economic Forum, which is focused on consensus policies and initiatives to give citizens control over the possession, use and distribution of their personal data;

- NGOs such as the Partnership on AI, Data-Pop Alliance (where I am Chief Data Scientist) and Flowminder, which are focused on leveraging large-scale data and machine-learning techniques for social good in areas such as financial inclusion, public health and climate change/natural disasters;
- United Nations initiatives including the World Data Forum, the Global Partnership for Sustainable Development Data and Global Pulse;
- OPAL, a project led by Data-Pop Alliance with the goal of taking advantage of big data and artificial intelligence for social good while preserving the privacy of people, in a sustainable, scalable, stable, and commercially viable way;
- private sector initiatives in telecommunication companies or banks;
- the GSMA Big Mobile Data for Social Good initiative, led by the GSMA and the United Nations Foundation, in which 20 mobile operators participate to contribute through the analysis of aggregate and anonymous mobile data to solve problems in the areas of public health and climate change /natural disasters; and
- the Expert Group on Business-to-Government Data Sharing at the European Commission (of which I am a member) and the AI for Good Global Summit of the ITU, an international summit of United Nations for the dialogue on artificial intelligence, aimed at identifying the practical applications of AI for the improvement of the sustainability of the planet. The latter is managed by the International Telecommunications Union (ITU) as a specialised agency of United Nations for information and communication technologies.

However, data-driven decision making is not without limitations. Plato's words of some 2,400 years ago are surprisingly relevant today: "*A good decision is based on knowledge, not on numbers*".

Algorithmic decision making for public policymaking may generate inefficiencies and negative consequences (Easterly 2014). Turning to the use, governance, and deployment of algorithmic and data-driven approaches in the public sector, we can draw several parallels with the 'tyranny of data' or the 'tyranny of algorithms' (Lepri et al. 2017).

At the heart of these issues is the fact that technology outpaces policy in most cases; mechanisms for the governance of algorithms have not kept pace with technological development.

When algorithmic decisions affect thousands or millions of people, important ethical dilemmas arise. For example, does this mean that automatic decisions are beyond our control? What level of security do these systems have to protect themselves from cyberattacks or malicious use? How can we guarantee that the decisions and/or actions do not have negative consequences for people? Who is responsible for these decisions? What will happen when an algorithm knows each one of us better than we know ourselves and can take advantage of that knowledge to manipulate our behaviour subliminally?

Beyond preserving human rights, the existing literature has proposed a set of ethical principles and working dimensions that will need to be addressed to ensure that data-driven decision making has a positive impact on society. I summarise these principles using the acronym 'FATEN' (Oliver 2018).

F is for Fairness

Fairness and non-discrimination should be central elements in the development of automatic decision-making (and action) systems based on artificial intelligence. Decisions based on algorithms can discriminate (Barocas and Selbst 2016) because the data used to train the algorithms might have biases that can give rise to discriminatory decisions, because of the properties of an algorithm itself, or through the misuse of certain models in different contexts. Algorithmic decisions can reproduce and magnify patterns of discrimination due to decision makers' prejudices or reflect biases already present in society (Pager and Shepherd 2008). A recent study by ProPublica of the COMPAS Recidivism Algorithm (used to inform criminal sentencing decisions by predicting recidivism) found that the algorithm was significantly more likely to label black defendants than white defendants, despite similar overall rates of prediction accuracy between the two groups (Angwin 2016). Along these lines, in her book, *Weapons of Math Destruction*, Cathy O'Neil details several case studies on harm and risks to public accountability associated with data-driven algorithmic decision making, particularly in the areas of criminal justice and education (O'Neil 2016). In addition, data-driven algorithmic decision-making processes may result in opportunities being denied to people not due to their own actions, but to the actions of others with whom they share certain characteristics. For example, some credit card companies have reduced the credit limit of their customers as a result of analysing the behaviour of other customers with a history of poor payments who made purchases in the same establishments as the customers concerned.

Although various solutions have been proposed in the literature to deal with algorithmic discrimination and to maximise justice, I would like to underline the urgency for experts from across various disciplines (including law, economics, ethics, computer science, philosophy, and political science) to create, evaluate, and validate different metrics of justice for different tasks in the real world. In addition to this empirical research, a framework of theoretical modelling is needed – supported by empirical evidence – that helps the users of these algorithms ensure that decisions are made as fairly as possible.

To the principle of fairness I would also like to add a principle of *cooperation*. Due to the transversal nature of data-driven algorithms and their potential application to all areas, a constructive exchange of resources and knowledge between the private, public, and social sectors should be encouraged and developed to achieve their maximum potential of application and competitiveness. This need for cooperation not only between different sectors but also between nations – given today's globalisation – has been emphasised by the well-known Israeli historian and thinker, Yuval Noah Harari (Harari 2018).

A is for Autonomy, Accountability and intelligence Augmentation

Autonomy is a central value in Western ethics according to which each person should have the ability to decide their own thoughts and actions, thus ensuring free choice and freedom of thought and action. Today, however, we can build computational models of our desires, needs, personalities, and behaviour with the ability to influence our decisions and behaviour subliminally. Therefore, we should ensure that autonomous intelligent systems always preserve human autonomy and dignity. For this, the systems need to behave in accordance with accepted ethical principles of the society in which they are used. There are numerous institutes and research centres created for this purpose, such as the AI Now Institute at New York University and the Digital Ethics Lab at the University of Oxford. This is an active area of research, however, and there is no single recognised method for embedding ethical principles into data-driven algorithmic decision processes. It is also important to highlight that all developers and professionals working on the development of artificial intelligence systems that affect or interact with people (algorithms for decision making, recommendation and personalisation systems, chatbots, and so on) should behave in accordance with a clear code of conduct and ethics defined by the organisations where they work. As Roy E. Disney wisely said, “It is not difficult to make decisions when you know your values”.

We also need to be clear about the *attribution of responsibility* for the consequences of the actions or decisions taken by autonomous systems, in the same way as happens with the rest of the products used in society. Transparency is often considered a fundamental factor in contributing to accountability, but transparency and audits are not enough to guarantee clear accountability. Computational methods can help provide clarity regarding the attribution of responsibility, as shown by Kroll (2015), even when some information is hidden.

Finally, it is constructive to have a synergistic vision between humans and data-driven decision-making systems. This is often referred to as ‘intelligence *augmentation*’, as such systems are used to increase or complement human intelligence, not to replace it. For example, an internet search engine can be considered a system to increase our intelligence, since it expands our knowledge with the capacity to process billions of documents and find the most relevant ones; an algorithm to automatically detect tumours in X-rays augments the intelligence of oncologists and radiologists by providing better-than-human detection capabilities which humans can use to make more informed decisions regarding their diagnoses and prescribed treatments.

T is for Transparency

Transparency here refers to the ability to understand a computational model, and it can be a mechanism that contributes to the attribution of responsibility for the consequences of the use of said model. A model is transparent if a person can observe and understand it easily, and this is not necessarily the case in algorithmic decision making (Zarsky 2016, Pasquale 2015).

Burrell (2016) proposes three different types of opacity (i.e. lack of transparency) in algorithmic decisions:

1. **Intentional opacity**, the objective of which is the protection of the intellectual property of the inventors of the algorithms. This type of opacity could be mitigated with legislation that would force the use of open software systems. The European General Data Protection Regulation (GDPR) with its right to an explanation is an example of such legislation. However, powerful commercial and governmental interests can make it difficult to eliminate this type of opacity.
2. **Illiterate opacity**, which arises because the vast majority of people lack the technical skills to understand how algorithms and data-driven computational models work. This type of opacity would be attenuated with educational programmes in digital competences – as explained in the next point – and by allowing independent experts to advise those affected by data-driven algorithmic decision-making processes.
3. **Intrinsic opacity**, which arises from the nature of certain machine-learning methods (for example, deep learning models; see LeCun et al. 2015). This opacity is well known in the machine-learning research community and is also referred to as the problem of interpretability.

It is essential that artificial intelligence systems are transparent not only in relation to what data they capture and analyse on human behaviour and for what purposes – which is contemplated in the GDPR at the European level – but also in relation to situations in which humans are interacting with artificial systems (e.g. chatbots) as opposed to with other humans.

E for Education and bEneficence

We need to invest in education at all levels, starting with compulsory education curricula by adding computational thinking as a core subject from primary school, coupled with an emphasis on nurturing our creativity and the abilities of our social and emotional intelligence. Education is also needed for our policymakers and politicians, for professionals – particularly those whose jobs will be affected by the development of artificial intelligence – and finally for citizens so they can make informed decisions. Computational thinking includes five core areas of knowledge: algorithms, programming, data, networks, and hardware.

Moreover, the use of data-driven algorithmic decisions should always focus on maximising its positive impact on society with sustainability, veracity, and diversity.

Sustainability

Technological progress in general, and artificial intelligence systems in particular, consumes significant amounts of energy, with a negative impact on the environment (Andrae 2017). Today's pervasive deep-learning techniques require high computing capabilities with prohibitive energy costs, especially if we consider the deployment of such systems on a large scale. It is increasingly important that technological development is aligned with the human responsibility to guarantee the basic conditions for life on our planet and to preserve the environment for future generations. At the same time, data-driven machine-learning algorithms will be key to enabling us to address some of the most important challenges in the context of the environment (climate change, the scarcity of resources, etc.) as well as allowing us to develop sustainable transportation (autonomous electric cars, for example) and more efficient and sustainable energy models (smart grids, for example).

Veracity

Today, it is possible for data-driven machine-learning algorithms to create synthetic content (text, photos, videos) that is indistinguishable from 'real' content. This ability to automatically generate fake content combined with the ability to micro-target individuals based on their profiles can be used to shift public opinion on important issues – such as who should be the next president of a country or whether or not a country should remain a member of the European Union – to favour the interests of those who generate and disseminate such content. The *veracity* of both the data used to train machine-learning algorithms and the content we consume is therefore of utmost importance.

Diversity

Given the variety of use cases in which data-driven machine-learning algorithms can be applied, it is important to reflect on the frequent lack of diversity in the teams that create such systems, which tend to be composed of homogeneous groups of computer scientists. In future, we should ensure that teams are diverse both in terms of their areas of knowledge and their demographics (in particular gender, given that women occupy fewer than 20% of technical positions in most technology companies).

Likewise, personalisation and recommendation algorithms often suffer from lack of diversity in their results and tend to pigeonhole their users based on certain patterns of tastes, which gives rise a 'filter bubble' (Pariser 2012). This lack of diversity in personalisation/recommendation is undesirable as it limits the opportunities of technology to help us discover 'content' – be it movies, books, music, news or even friends – that differs from our own tastes and that therefore would help us understand other points of view and encourage open-mindedness.

N is for Non-maleficence

The principle of non-maleficence refers to minimising the negative impact that the development of data-driven decision-making algorithms might have on society.

Reliability and security

The vast majority, if not all, of the systems, products, and goods we use (food, household appliances, vehicles, clothing, toys, medicines, medical devices, industrial machinery, etc.) are subject to strict quality, safety and reliability controls to minimise the potential negative impact that they may have on society. Data-driven algorithmic decision-making systems are also expected to be subject to similar processes. Beyond the theoretical processes of security, verification and reliability, it might make sense to create a European-level authority that would certify the quality, security and reliability of AI-based systems before they are commercialised or implemented within society. Also, autonomous systems should ensure the safety and integrity of the people who use them or are affected by their actions, and their own security against manipulation and cyberattacks.

Reproducibility

To generate confidence, systems should have consistency in their operation so that their behaviour is not only understandable by a human but is also reproducible – that is, it is replicable when subjected to the same input data or the same situation/context

Prudence

The development of data-driven machine learning-based algorithms requires professionals to meet strict requirements, such as ensuring the availability of sufficient (high-quality) data, the analysis of working hypotheses from different perspectives, and the availability of experts and resources to analyse and interpret the models and their results. The principle of prudence emphasises the importance of considering different options in the initial phases of the design of any system to maximise its positive impact and minimise the potential risks and negative consequences derived from its application.

Data protection and privacy

In a world in which data are generated and consumed in a ubiquitous and massive way, the rights to personal data protection and respect for privacy are constantly questioned and pushed to their limits. Numerous studies have focused on the misuse of the personal data provided by users of services and the aggregation of data from different sources by entities such as data brokers, with direct implications for people's privacy. An element that is often ignored, however, is that advances in machine-learning algorithms, combined with the availability of new sources of data on human behaviour (from social media, for example), allow the inference of private information – such as sexual orientation, political inclination, level of education, or emotional stability – that has never been explicitly revealed. In a recent research project we showed that from

non-personal data, it is possible to infer attributes as personal as some dimensions of personality, level of education, or interests (Park et al. 2018). This element is essential to understanding the implications of the use of algorithms to model, or even influence, human behaviour at the individual level, as was made clear in the recent Facebook/Cambridge Analytica scandal.

Certain attributes and characteristics (sexual orientation, religion, etc.) should remain in the private sphere and should not be or inferred or used by AI systems unless the person expressly decides otherwise. Europe has assumed some leadership in this with the recent implementation of GDPR, which adds rights such as the right to establish and develop relationships with other human beings, the right to technological disconnection, and the right to be free of vigilance. Other rights that could, or should, be added include the right to meaningful human contact – for example, in services operated exclusively by chatbots – and the right to not be measured, analysed, profiled, oriented, or subliminally influenced via algorithms.

Finally, humans should always be placed at the core. The potential of algorithmic decision making will only be realised when policymakers are able to analyse the data, to study human behaviours, and to test policies in the real world. A possible way forward is to build living laboratories – communities of volunteers willing to try new ways of doing things in a natural setting (Centellegher et al. 2016). These could provide a test-bed for designing and evaluating algorithmic policymaking approaches that encode societal values.

I believe that it is only when we respect these principles that we will be able to move forward and achieve a *model of democratic governance based on data and artificial intelligence, by and for the people*. The path forward must place humans and their societal values at the centre of discussions, as humans are ultimately both the actors and the subjects of the decisions made by algorithmic and human means. By involving people and ensuring that their values are upheld, we should be able to realise the immense positive potential of data-driven algorithmic decision making while minimising the risks and the possible negative unintended consequences.

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How do we ensure good reporting in the age of noise?

Soumaya Keynes

US Economics Editor, *The Economist*

I recently came across a definition of the job of a journalist, attributed to Jonathan Foster of the University of Sheffield: “When one person tells you it’s raining, and another tells you it’s dry, the job of a journalist is not to report them both. Your job is to look out of the f***ing window and work out which is true.”

That sounds simple. Journalists are supposed to be able to cut through conflicting opinions and confused facts to identify the truth. They are supposed to slice through political spin and inform readers whether it is wet or dry outside. But what if someone is yelling so loudly that hot air has misted the window?

Turn up the volume

When it comes to trade, there is always someone who wants to shout. This is partly because it matters. Trade sits at the intersection of foreign and economic policy. Trade deals are one of the few ways policymakers have to harness the mighty forces of globalisation. Just ask a British civil servant, or an American farmer hit by Chinese tariffs, or a would-be exporter in a country trying to join the World Trade Organization (WTO). They know.

Passions are further inflamed by the fact that for many, openness is not just a policy stance, but a value. Advocates for more of it note that the trade blocs of the 1930s preceded military conflict, and that the more open two countries are to each other, the less likely they are to go to war. Seen from that angle, protectionists look like warmongers.

Adding further to the volume, bellowing about trade would make for excellent politics even if its practical consequences were not significant. A shiny new deal gives politicians something to boast about on the stump and append to their legacy. A trade deal implemented on 1 February 2019¹ between the European Union and Japan gave

¹ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1976>

European policymakers the chance to boast about how they had helped producers of Roquefort and Prosecco, and their communications staff to tweet out emojis of wine, steaks, and cheese.²

On the other side, trade involves foreigners, inviting an easy distinction between ‘them’ and ‘us’. ‘They’ represent change, disruption, or a loss of control. ‘They’ break the rules – or impose ‘their’ rules on ‘us’. The influence of corporate lobbyists is similarly easy to paint as nefarious. And at the WTO, a politician blocking a deal may be trying to show a domestic audience that they are standing up to powerful interests.

The high stakes and seductive politics all make the trade debate a noisy one at any time. But this chapter’s premise is that there has been a crescendo. Certainly, trade matters in economic terms more now than it did 50 years ago, and the sprawl of supply chains over the past few decades has generated greater economic interests in favour of maintaining openness. According to data from the World Bank, trade rose from 25% as a share of GDP in 1960 to more than 70% in 2017.³

There has been a more recent surge in attention. *The Economist* was founded to further the cause of free trade;⁴ the current editor and deputy editor have at different points both been the newspaper’s trade correspondent. But when I was first asked to take on the job, the patch was seen as a sleepy one and not expected to take up too much of my time. Needless to say, that has changed.

In the summer of 2017 I started Trade Talks, a weekly podcast about the economics of trade policy, with Chad Bown of the Peterson Institute for International Economics. At first, we were the only ones occupying what felt like a fairly small niche of the podcast market. Now there are three others also being recorded from Washington, DC.

Noise

The underlying sources of the extra racket are, of course, Britain’s vote to leave the European Union and Donald Trump’s ascendancy to the White House. Brexit is a reversal of decades of economic integration. President Trump has questioned the foundations of a global trading system that was built with US interests in mind.

Aside from the weight of these new problems, their nature has contributed too. As I write this, the Brexit debate has risen to a screaming pitch. Those wishing to point out the reality of a hard Brexit have been dismissed as scaremongers obstructing the will of the people. Having recently moved from Britain to the United States, I can say that the level of partisanship and personal attacks still seems lower in Britain. Still, in too many places, the quality of debate is extremely low.

2 <https://twitter.com/EUAgri/status/1091322241311232002>

3 <https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>

4 <https://www.economist.com/free-exchange/2007/01/29/the-economist-and-the-corn-laws>

Then there is the spice contributed by Mr Trump and his novel communications strategy. His teases on Twitter that he is on the brink of withdrawing from a deal, or that Mexico will pay for a wall, both alarm editors and demand stories, even if they are not based in reality. They create demands on journalists' time, which pulls them away from other developments that may be less public but are no less important.

Mr Trump's embrace of uncertainty makes the job harder too. Sometimes he likes tariffs, other times he likes deals. He cares about the stock market, but likes tariff revenues too. His decades-old fixation on trade policy suggests to some that he believes his own hype and reckons that trade wars are easy to win. Others see everything he does as a negotiating tactic, an act meant to extract concessions.

Particularly at the beginning of the Trump administration, dysfunctional government made it hard to uncover much truth. From the outside it seemed as though there was no strategy at all, only random policy measures with inconsistent methods and objectives. Why impose tariffs on imported steel coming from the US' allies if their support would be useful when tackling differences with China? Why complain that China was breaking the rules, while simultaneously undermining them?

I have a theory that although Mr Trump's own instincts are to be inconsistent, there are those with more coherent agendas working for him. At any given time, a different one might win the internal battle for the president's ear. And so, although the actions might seem random to an outsider, there may still be logic underlying each individual one. As a reporter, the trick is then to work out who is behind what. The risk goes the other way too – it is possible to assign too much logic and thought to some actions.

Some features of the reporting environment add their own special challenges. I hear from reporters who have been doing this job for longer than me that the United States Trade Representative is unusually tight-lipped, both relative to other agencies and under earlier administrations. This may be a wise political strategy on the part of Robert Lighthizer, the United States Trade Representative, as he tries to do his job rather than risk being caught up in some sort of media scandal. But it makes it harder to access those who are closest to the policy.

Inconvenient truths

I never planned to be a journalist, and instead had grand ambitions to be an economist. Before joining *The Economist* as its economics correspondent, I spent three years at the Institute for Fiscal Studies as a research economist, cleaning, analysing, and presenting data. And before starting at *The Economist* I remember being terrified of being asked to make pronouncements without enough data and evidence to back them up.

I still dislike writing about things I do not have deep expertise in, even though that is occasionally part of my job. (I can almost hear the daily journalists snort as they read this; I write for a weekly publication, and so am relatively underexposed to the demands of a busy news room.) As I have done the job for longer, a new kind of problem has cropped up, which is that the more I learn about something, the more it becomes obvious that there is no sharp distinction between rain and dry.

For example, take the estimates floating around of the impact of a trade deal on gross domestic product (GDP), jobs, or wages. These tend to be based on computable general equilibrium models, which are about as accessible to a general audience as their name suggests. And while they should be pretty good at predicting the response of manufacturing production to a cut in tariffs, they struggle to measure the impact of non-tariff barriers. Trade in services and the digital trade that is supposedly transforming the world are both nightmarishly difficult to measure, as are the barriers that allegedly hold them back.

Some definitions are fuzzier than one might like. The argument that the decline in manufacturing employment in the United States over the past few decades has been driven by technology and not trade is commonly heard. Some researchers have even attached numbers to the claim. While this is probably true, in practice the two may not be separable. What if pressure from import competition spurs a company to automate? What if the low cost of an imported input is the thing that allows a company to automate?

I think it is true that tariff and non-tariff barriers after Brexit will lower Britain's economic growth relative to what it could have achieved. I also think it is true that trade has received too much blame for disruption and job loss. But no press release has ever been sent out with the line "we're not really sure, and the real answer is probably unknowable, but this is our best guess".

This uncertainty poisons the debate in two ways. First, it presents an opportunity for those pushing a particular side to overstate their case. And second, it then robs others of the space to be completely open about the appropriate error bars. Being so open just invites the opposition to discount your answer altogether.

Deal with it

Coping with the din, and even cutting through it on occasion, requires effort and experience. It also equires working out the biases and incentives of one's interviewees. Trade negotiators in the middle of talks are fantastically knowledgeable about the details that matter. But they also may try to spin the talks one way, nudging you towards a disagreement that they think they will win and away from one on which they are planning to compromise. Politicians whose reputation is based on a successful negotiation years ago will be happier singing the deal's praises than being open about its shortcomings.

It also, obviously, involves working out what they do and do not know. I have on occasion been told that something is 'fake news', only for it to be confirmed days or weeks later. One member of the Trump administration is unlikely to know all of what is going on, and may not know what they do not know.

Wading through the swamp comes with its own delights. Lobbyists on behalf of the business sector can be fantastically knowledgeable about the provisions that are being discussed, and can provide nuance and detail about the businesses they affect. They are

hired in part for their communication skills, which makes them efficient to interview. But of course, they serve their paymasters and their incentive is to exaggerate the catastrophic consequences of anything that goes against their interests.

Experts within companies often know even more. But they can be harder to reach or to persuade to speak frankly, given the terror of Wall Street investors hammering their share price if they reveal just how exposed they are to a tariff war.

Of course, as an ex-economist, I also see academic research as an important source of information analysis. And although I would love to draw only on peer-reviewed articles published in top-quality academic journals, such things often do not exist on the topics I need them for. Some think tank sources are excellent, of course, though I try to avoid ones whose results I could have predicted from their funding structure.

Talking to people whose incentives are pure (beyond their desire to be quoted in *The Economist*, perhaps), I try to remind myself that even the most transparently funded and intellectually independent experts are not immune to bias. They might be afraid of offering nuance, in case the one quote selected by the journalist is the caveat they offered in defence of a policy they deeply disagree with. Or they might be so upset by Mr Trump's broader policy agenda that they are too quick to criticise his ones on trade.

I also try to be mindful of my own subconscious biases. White men are certainly overrepresented among my interviewees relative to their share of the population, and probably as a share of the people I could reasonably use as sources. While it might not matter much within any one article, given that men and women hold systematically different views on things like government intervention and the power of markets, it will imbalance the opinions I hear.

Story-telling

Good reporting goes beyond interviewing lobbyists or trade negotiators in Washington or combing through a dataset or an academic study. Averages are important, but they can obscure the humans they describe. If there is any single lesson from the research looking into the impact of import competition, it is that winners and losers from trade are not evenly spread. When those hurt by trade are all stuck together in one place, they can find it very difficult to recover.

In July of 2017 I departed my own urban bubble and went to Evansville, Indiana to do report on the people negatively affected by import competition. I picked the place because after the price of aluminium crashed in 2015, a local smelter had closed, throwing hundreds out of work. The federal government deemed the job losses to be due to trade and so the workers were eligible for Trade Adjustment Assistance (TAA), which gave them training and financial assistance.

My first stop was to meet some of the ex-smelters who were enrolled in retraining. I had contacted the local workforce centre, which was administering the programme, and asked if they might be able to put me in touch with some people they were helping. They kindly arranged for me to meet a group of ex-aluminium smelters and their case workers.

The people I met were probably not representative of the average person who had been laid off from the smelter. They had taken time out of their day to meet a journalist, mainly it seemed out of a desire to say nice things about their case workers (one affectionately named his as his “life coach”). Everyone was warm and friendly, leaving me wondering whether I had been shielded from grumpier types.

Those I spoke to were also unrepresentative in that they were all enrolled in some sort of retraining programme. I asked them about their former colleagues, and whether everyone had accepted the help offered. Not everyone had. When I asked why, they explained that some were still convinced that the smelter would reopen.

That seemed unlikely. By then, the smelter had been shut for over a year. Employment in the aluminium smelting industry had been plummeting for nearly a decade. The workers seemed to be part of a bigger trend, of automation and import competition.

Another stop on that trip involved a visit to the factory of Jerry Wirth, who owned a small business that had supplied the now closed aluminium smelter with parts. I wanted to talk to him because I thought he might help me illustrate the ripple effects of a factory closure. He had received no TAA.

Jerry met me at his factory with his daughter Sarah, and occasional interruptions from his baby grandson. They remembered hearing rumours of something going on at the smelter, but thought the plant might be expanding. They finally found out it would close on the seven o'clock news. After the announcement, despite knowing that the factory would close, the Wirths had one last order for 600 metal rods to fulfil. “It was a sad day watching that last shipment go out”, remembered Sarah.

Overnight, they lost a third of their business. “There’s a lot of focus on the workers, but a lot of small businesses get hit worse”, said Jerry. Separately, they lost another third when a nearby Caterpillar plant moved production to a different state. Jerry told me how he had turned to the local economic development board to get advice and information, and showed me a sheaf of papers he had received which explained the machinery parts market for him to identify its gaps.

Things had clearly been tough. He and his daughter described how they had “cried a little, prayed a lot”. “It’s been going difficult”, said Jerry, adding “right now it’s kind of slow”. A year and a half on from the plant closure, and his sales were only around half of where they were before.

Our conversation moved on to China and Trump. Jerry had survived through the Chinese competition. He used to make hot rods to go inside radiators, but said that one rod now costs \$50-100 more than an entire Chinese radiator. He said he could not buy

steel as cheap as the Chinese, but added that since he could not compete on price, he competed on quality and automated as much as he could. Jerry had voted for Trump, but because of his background as a business man, not because of any grievance about trade. He didn't think of himself as a Trump fanatic, though. "Do I think he's going to make America great again? Come on."

Jerry and Sarah were generous with their time, and tolerant of a nosy British journalist who had clearly not spent very much time on a factory floor. Their story illustrated many different points that I had backed up elsewhere in the data: the pressure of automation; the fact that many Americans do not prioritise trade when voting for the president; or the way that one factory closure can have far-reaching effects beyond the workers laid off directly. Small businesses represent around half of all employment in the United States, and yet it is the closure of the big ones that makes the news.

For various reasons, I never wrote about Jerry and Sarah for *The Economist*. An initial draft of my piece about TAA was too long; I think their story got lost in the trim. I did keep the metal nut they gave me on my shelf at work, though, as well as Jerry's business card, which reflected both his business role and his Sunday job as a pastor.

In February I got back in touch to see how they were faring. Sarah told me that things had become so tough that she and her father had nearly given up on the business and had started looking for work elsewhere. But mere months after my visit, they had received some good news. The aluminium company had, after all, announced that they would be reopening the smelter. Jerry and Sarah ended up getting their work back, as well as some new work for Caterpillar. "It went from nothing to overloaded in just a few weeks", she reported.

That had happened before the Trump administration had applied any tariffs on metals. So much for those dismissals of the workers who had skipped retraining to wait for their jobs to return.

The point of this extended anecdote is that, as it turns out, trade shocks are happening all the time. Sometimes they can reverse, and in the moment it can be difficult to distinguish the temporary from the permanent. Some things labelled as trade may have relatively little to do with trade. And sometimes our desire to tell stories tempts us towards sticking anecdotes into broader narratives that don't quite fit.

Clearly, one can never achieve perfect reporting; one can never see each individual raindrop, nor predict exactly where they will fall. One can look at as much data as possible, talk to as many people as possible and question one's own assumptions as often as possible. And one can hope that at the end of it all, there is a little bit less mist on the window, and a little more rain – or shine – in view.

Vulnerability and opportunity: What small states can teach the world

Mia Amor Mottley

Prime Minister of Barbados

Even giant oak trees grow from tiny acorns

We all come from small places: a neighbourhood, a street, a family home. We all work in small spaces: an office floor, an expert group, a project team. Big places are made up of small places – not the other way around. Small societies are the building blocks of larger ones.

In the international community of nations, there are many small states. Around 100, or over half of all the countries in the world, have a population of less than 10 million; over a quarter have a population of less than 1 million. Other ways of measuring size besides population include physical mass, liveable space, or economic size, but these measurements do not capture the essence of what ‘smallness’ means because that lies beyond data on population or gross domestic product (GDP). Smallness is vulnerability. It is about being defenceless in the face of greater risks than those faced by larger states.

Small states have played almost no part in the accumulation of greenhouse gases in the atmosphere that has contributed to the warming of the planet. However, it is the small, tropical, or coastal states who are suffering most from the impact of climate change, with rising sea levels and increased ferocity of hurricanes. When Hurricane Maria hit our neighbour Dominica in 2017, it caused losses equivalent to 226% of the country’s GDP in just four hours. Although they lost everything that money could buy, the most frightening thing for those living in Dominica through that hell – or those in Barbuda, or St. Maarten, or the British Virgin Islands during the 2017-hurricane season – was that there was nowhere to hide, nowhere that was safe. That is vulnerability. When the warming of the Atlantic Ocean causes thick, foul-smelling sargassum seaweed to pile up on Caribbean beaches, scaring away tourists and thereby threatening the livelihoods of a large chunk of the country that is a vulnerability. When, with the stroke of a pen, the Organisation for Economic Co-operation and Development (OECD) puts a small country which plays no part in global money flows on a blacklist, and as a result no international bank wants to have correspondent relations with its local financial institutions and suddenly there is no easy way to finance cross-border trade and investment, that is vulnerability.

The law of averages tells us that averaging GDP across a small population is going to be less representative and more prone to one-off distortions than averaging across a large population. But even more importantly than that, GDP per capita does not capture the kind of vulnerabilities to adverse external developments that we have just described. As long ago as 1994, at the first Global Conference on the Sustainable Development of Small Island States, it was recognised in what became known as the Barbados Programme of Action that small states faced particular and exceptional economic, environmental, and social developmental vulnerabilities. Consequently, graduating small states from development assistance simply because their GDP per capita levels have risen above an arbitrary threshold makes no sense; these are often the most vulnerable countries in the world, most in need of emergency help. Several objective, quantifiable vulnerability indices have been developed since the conference in 1994. The Environmental Vulnerability Index, created with the support of the United Nations Environment Programme, uses a weighted average of 50 indicators, from high winds, to sea temperatures, to land degradation. Barbados graduated from development assistance from the World Bank almost 20 years ago, but on the Environmental Vulnerability Index it ranks as one of the most environmentally vulnerable countries, alongside other small states such as St. Lucia, Tonga, and Kiribati.

Small states are the canaries of the international system, and we should listen for their song. A well-functioning global system – one with easy cross-border movement of people, goods, and capital; with the provision of international public goods such as humanitarian, peacekeeping, and development assistance; and governed by rules and legitimate processes – is of most significant benefit to small states. One of the signals that the last phase of globalisation was not all it seemed and was due for some correction or reaction was that its chief beneficiaries were large states, not small states. This was an indicator that we were not in a place where power had ceded to a rules-based, size-intolerant multilateral system. Power continued to reside with the large nation-states.

Today, the canaries are singing that the multilateral system is under severe threat. It is facing its most existentialist threat in a lifetime. Our job is to voice these concerns, but the world's leaders must lead the world instead of prioritising narrow, national, sectarian interests. One of the biggest enemies of a good future is forgetting the bad memories of the past, especially the breakdown of the international order that presaged world war. The end of peace – or even a few steps short of that, the collapse of international order – hurts everyone, large and small.

Is multilateralism dead?

We have returned to an Age of Populism. Politicians wrapped in national flags and espousing a 'strong man' rhetoric are triumphant in the polls. Internationalism and multilateralism are in retreat. Multilateral agencies are unpopular and multilateral ideals on the smooth movement of goods, services, and people are wantonly discarded. In such a world, it is increasingly hard for anyone to be good, to stand up for long-held principles of non-intervention in the internal affairs of others, of acting with respect for legitimate processes and international law such as the International Convention on

Human Rights and the Geneva Conventions on the conduct of war. The post-World War II international regime is unravelling before our eyes. The first post-war republic is under threat. A second waits in the wings.

However, these strong men of the Age of Populism are not riding a crest of military power. They rattle their sabres and bully smaller states, but there is no longer a single dominant military power in today's world of unconventional battlefields. The powerful nations are in a stand-off in the Pacific, have been embarrassed by bandits in Afghanistan and Iraq, and have proven vulnerable to hackers in their bedrooms. Large countries are flexing their muscles and bossing the small only to discover that they are no longer large relative to the new security and other challenges. They need a multilateral world as much as anyone else.

Climate change

Climate change is the issue of our age. It is the current manifestation of the struggle of inequality that, in the past, may have centred on a fight for land and homes and, in the future, may be a fight for clean air and water. Climate change is driven by the distance between its victims – small island states and low-lying coastal areas – and the beneficiaries who are presently emitting and who have previously emitted greenhouse gasses into the atmosphere. If the victims were the beneficiaries, a local deal would be reached. But the distance means that the victims scream and the beneficiaries nod in sympathy while neither changing their current behaviour nor compensating victims for past behaviour. If ever there was an issue crying out for, and desperately in need of, multilateral action, it is the warming of the planet. It will eventually affect everybody. There is no compartmentalising air or the oceans. We share them.

Voluntary agreements on restricting carbon emissions and grants and loans for climate mitigation and adaptation are good things and welcome. But they do not address this fundamental distance between current victims and current and past beneficiaries, and so climate change marches on. Despite all the self-congratulation of the Paris Agreement, efforts to keep the rise in global temperatures below 2°C have come up short. To close the gap requires a mechanism that compensates the victims from the proceeds of current and past beneficiaries of the activities that produced greenhouse gases. This would not only provide the financing needed for loss and damage, but would also provide the disincentive for the further accumulation of greenhouse gasses.

This is not a new idea. The Warsaw International Mechanism for Loss and Damage recognises the loss and damage of climate change. But it is a misnomer; it does not have a mechanism for funding compensation for loss and damage. Multilateralism is suffering from a critical shortage of ambition. We see little prospect today that the critical distance between victims and beneficiaries will be closed. The rich world is throwing small island states under the bus. Unless these mechanisms come into place, climate change will not stop there, and large countries will also suffer.

European Union blacklists

The blacklisting of non-cooperating tax jurisdictions by the OECD and the European Union (EU) represents the nadir of multilateralism. It is an affront to all the principles of multilateralism, internationalism, and natural justice. It is an icon of the new era. The United Nations is a treaty-based organisation, and its Committee of Experts on International Cooperation in Tax Matters is the appropriate body to reach inclusive international standards on cross-border tax matters. The OECD and EU have brushed them aside, which have taken it upon themselves to be the judge and jury over countries that are not members of the OECD or the EU while failing to hold their own member states to the same standards. This unlevel playing field and the application of non-participatory processes and shifting rules allow genuine non-cooperative tax regimes to exist within the OECD and EU. The world's largest off-shore financial centres, tax havens, and light reporting jurisdictions are in the OECD and EU, and they are growing larger as they never get blacklisted.

In a similar vein, the process of blacklisting non-cooperative regimes for anti-money laundering has become so political that none of the world's largest known centres for money laundering – London, Zurich, and New York – even gets listed. Yet the world's smallest countries with limited banking do. All this does is allow money laundering to concentrate in large places immune from scrutiny, allowing it to thrive and shallowing out the advanced economies, making them increasingly dependent on transactional finance rather than long-term investment.

Hyper-open economies

Small states are hyper-open economies; they are generally far more open than large developed economies. This hyper openness leads to their exposure and vulnerability to the world. One unforeseen weakness is population health. In recent years, there has been an explosion of non-communicable diseases (NCDs) in small states such as diabetes, heart disease, and asthma. This is related to the concurrent rise in obesity which, in turn, is a result of poor eating habits and the consumption of sweetened, processed foods (often imported) to the neglect of fresh food (often grown locally).

When we stopped protecting local agriculture in the name of freer trade, we inadvertently facilitated the switch from fresh to processed foods. We now have a public health disaster, which is being translated into a fiscal emergency, as public hospitals require more and more resources to treat patients with NCDs. Agricultural trade is a health issue. The solution is not a return to blanket protectionism of local agriculture. Today, we are working with the United Nations Conference on Trade and Development (UNCTAD) in the use of education, health, and fiscal policy to promote healthier eating by taxing processed foods and using the proceeds to subsidise fresh foods.

What do small states have to teach the world?

The frontier of economic possibilities can be pushed out further in countries where there is strong policy credibility. Traditionally, we think of policy credibility as stemming from a government being sufficiently hard and uncompromising for long enough that, later, they are believed more readily. Earning credibility through long adherence to hard policies often has an economic and social cost in the short run – higher unemployment. The alternative approach to policy credibility being pursued by my government is to share the economic adjustment evenly and, as a result, to engender national solidarity and common cause.

Barbados is currently going through a steep economic adjustment plan. The primary budget surplus, which was around 2.0% in 2017/18, is set to rise to 6% in 2019/20. Ordinarily, this scale of fiscal retrenchment would lead to a substantial shrinking of the economy, but the economy and financial system have so far been remarkably stable. This has only been possible due to the degree of national unity forged out of an acceptance that the economic burden has been shared and spread as evenly as possible. While this could be tried in many places, it seems a natural thing to do in a small country where many are connected. Our model of social partnership has stood us well, and we offer it as a lesson to others. In these troubled times, as the light dims, it is important to remember that small states have something to teach us all. They provide opportunity as well as vulnerability.

About the authors

Leila Baghdadi is Associate Professor of Economics at Tunis Business School, where she holds the World Trade Organization Chair and chairs the International Political Economy programme. She is a member of the Tunisian Council of Economic Analysis reporting to the Tunisian Chief of Government. She is also an Advisory Board member of the Economic Research Forum, Senior Fellow at NABES Lab, and an Associate Member of the EMNES Associate Committee. Her research interests include international trade, international political economy, development, migration and labour markets. Leila received her PhD from University Paris 1, Pantheon Sorbonne in 2008. In 2006, she was a PhD fellow at the World Trade Organization (WTO). She joined University of Rome Tor Vergata as a Marie Curie Researcher in September 2007.

Monica Bhatia joined the Organisation for Economic Co-operation and Development (OECD)'s Global Forum on Transparency and Exchange of Information for Tax purposes in 2012. Ms Bhatia is an officer of the Indian Revenue Service and before joining the Global Forum, she worked in the Indian government's Income Tax Department for 21 years in various capacities including as auditor, departmental representative, investigator, as well as being part of the Ministry of Finance looking after policy matters and international taxation. She is a civil servant by background. She received her law degrees from the Punjab University of Chandigarh, India, her MBA from the Zicklin School of Business of the City University of New York and her CPA from the State of Maine in the United States.

Drusilla Brown is an Associate Professor of Economics at Tufts University. She was Director of the Tufts International Relations Program from 2010 to 2016. Her primary area of research is in the application of large-scale general equilibrium models to the study of international economic integration in the Western Hemisphere. Professor Brown has also undertaken research on trade policy concerning international labour standards and child labour. Recent publications have appeared in the *Journal of Economics Perspectives*, *The World Economy*, and the *Review of International Economics*. She holds a PhD and MA from the University of Michigan and a BA from Indiana University.

Sharan Burrow is General Secretary of the International Trade Union Confederation. A passionate advocate for social justice, women's rights, the environment, and labour law reforms, she has led union negotiations on major economic reforms and labour rights campaigns in her home country of Australia and globally. She is a Board Member of the United Nations (UN) Global Compact, Panel Member of the UN Secretary General's High Level Panel on Women's Economic Empowerment, Vice Chair of the B Team, Commissioner for the New Climate Economy, Ambassador for the Food and

Land Use Coalition, Chair of the Just Transition Centre, and Member of the World Economic Forum (WEF) Global Future Council on the Future of Production. She was co-chair of the WEF Annual Meetings in Davos in both 2016 and 2018.

Cláudia Costin is the Director of the Center for Innovation and Excellence in Education Policies (CEIPE), a think and do-tank within the Getulio Vargas Foundation, a leading private university in Brazil, where she is also a Professor. Cláudia was a Visiting Professor at the Harvard School of Education until 2018. Prior to founding the CEIPE, she was a Senior Director for Global Education at the World Bank. Before joining the World Bank, Costin served as Secretary of Education of Rio de Janeiro. Her former positions include Secretary of Culture, Sao Paulo State and Federal Minister for Public Administration and State Reform. She has also held academic positions at the Catholic University of São Paulo, the Getulio Vargas Foundation in Sao Paulo, the INSPER Institute of Education and Research, and École Nationale d'Administration Publique in Québec. She is a member of the International Labor Organization Global Commission for the Future of Work.

Anabel González is a global expert in international trade, investment and development. She is currently Non-Resident Senior Fellow at the Peterson Institute for International Economics in Washington, DC. She has also been Senior Director of the World Bank's Global Practice on Trade & Competitiveness, where she led the Bank's work on trade, investment climate, competitiveness, innovation, and entrepreneurship. She previously served as Minister of Trade of Costa Rica, where she held the trade and investment portfolios and coordinated OECD accession. In her more than 15 years with the Ministry of Trade she held several positions, including Chief Negotiator and Vice-Minister. She has also served as Director of the Agriculture Division of the WTO, Senior Consultant on Trade and Investment at the Inter-American Development Bank, and Director-General of the Costa Rican Investment Promotion Board. Since 2012, she has been part of the WEF Global Network of Future Councils.

Arancha González, an expert in international trade issues with 20 years of experience, serves as Executive Director of the International Trade Centre (ITC), the joint development agency of the UN and the WTO, since September 2013. Before joining ITC, Ms González served as Chief of Staff to WTO Director-General Pascal Lamy from 2005 to 2013. During her tenure at the WTO, she played an active role in launching the Aid for Trade initiative and served as Mr Lamy's representative (Sherpa) at the G20. Prior to working at the WTO, she held several positions at the European Commission, conducting negotiations of trade agreements and assisting developing countries in trade-development efforts. Between 2002 and 2004, she was the European Commission spokesperson for trade and adviser to the European Union Trade Commissioner. Ms González began her career in the private sector as an associate in a German law firm advising companies on trade, competition, and state-aid matters. She holds a degree in law from the University of Navarra and a postgraduate degree in European Law from the University of Carlos III, Madrid. She co-chairs the WEF Agenda Council on the Future of Trade and Investment.

Stephany Griffith-Jones is Financial Markets Director at the Initiative for Policy Dialogue, Columbia University; Emeritus Professorial Fellow of the Institute of Development Studies; and Senior Research Associate at the Overseas Development Institute (ODI) in London. She has published more than 25 books and numerous articles on topics of development finance, private capital flows and their management, international financial architecture and its reform, as well as domestic financial sectors in Latin America, Africa, Asia, and Europe. She has been a consultant to many international organisations and national governments.

Marion Jansen is Director of the Division for Market Development and Chief Economist at ITC. From 1999 to 2009 and 2012 to 2014, Ms Jansen held various positions in the Economic Research and Statistics Division of the WTO. She played a key role in setting up the WTO's flagship publication, the *World Trade Report*. From 2009 to 2014, she led the Trade and Employment Programme at the International Labour Office (ILO). In that role, she facilitated the ILO's entry into the UNCEB Cluster on Trade and Productive Capacity. After her PhD, Marion Jansen spent a year in London working for Maxwell Stamp PLC on assignments related to trade policy, the UK housebuilding sector, and EU labour market policies. Ms Jansen holds a PhD in Economics from the Universitat Pompeu Fabra and undergraduate degrees from the Universities of Toulouse, Konstanz and Passau. She has lectured at the University of Geneva, the World Trade Institute, the Universitat Pompeu Fabra and the European University on international trade, the use of economics in trade disputes, socioeconomic effects of globalisation, and managerial economics.

Soumaya Keynes is the US Economics Editor at *The Economist*, based in Washington, DC, and the co-host of the Trade Talks podcast with Chad Bown (Peterson Institute for International Economics). She was previously *The Economist's* economics correspondent, based in London. She has been a research economist at the Institute for Fiscal Studies, and has also worked for HM Treasury in the United Kingdom.

Brigid Laffan is Director and Professor at the Robert Schuman Centre for Advanced Studies, and Director of the Global Governance Programme and the European Governance and Politics Programme at the European University Institute (EUI), Florence. Previously, Ms Laffan worked as Professor of European Politics at the School of Politics and International Relations University College Dublin (UCD). She was Vice-President of UCD and Principal of the College of Human Sciences from 2004 to 2011. Before that, she was the founding Director of the Dublin European Institute UCD from 1999 and in March 2004, she was elected member of the Royal Irish Academy. She is a member of the Board of the Mary Robinson Foundation for Climate Justice, the Fulbright Commission (until September 2013) and was the 2013 Visiting Scientist for the EXACT Marie Curie Network. In November 2018, she was ranked among the women who shape Europe by POLITICO and was awarded by the University of Limerick Alumni Association with its highest honour. In September 2014, Professor Laffan was awarded the UACES Lifetime Achievement Award, and in 2012 the THESEUS Award for outstanding research on European Integration. In 2010, Ms Laffan received the *Ordre national du Mérite* by the President of the French Republic.

Christine Lagarde has been the eleventh and first woman Managing Director of the IMF since July 2011. She was re-elected for a five-year term as of 4 July 2016. A lawyer by background, she practiced for 20 years with the international law firm Baker McKenzie, of which she became Global Chairman in 1999. In 2005, Christine joined the French government as Trade Secretary. Two years later, she became the first woman to hold the post of Finance and Economy Minister of a G7 country.

Cecilia Malmström has served as European Commissioner for Trade since 2014, having previously served as European Commissioner for Home Affairs from 2010 to 2014. In her current position, she represents the EU in the WTO and other international trade fora. She is responsible for negotiating bilateral trade agreements with key countries. Prior to her appointment as Commissioner, she served as Member of the European Parliament from 1999 to 2006, and as Swedish Minister for European Union Affairs from 2006 to 2010. She is a member of the Liberal People's Party, represented by the ALDE group in the European Parliament. Cecilia Malmström holds a PhD in Political Science from Göteborg University.

Gabrielle Marceau, PhD, is Senior Counsellor in the Legal Affairs Division of the WTO Secretariat. She joined the GATT Secretariat in September 1994. Her main function is to advise panellists in WTO disputes, the Director-General's Office, the Secretariat, and WTO Members on WTO-related matters. Prior to this position, she was legal advisor in the Cabinet of former WTO Director-General Pascal Lamy and Acting Director Officer of the Legal Affairs Division. She is also Associate Professor at the Law Faculty of the University of Geneva and has been Visiting Professor at the Graduate Institute in Geneva, the Sorbonne, Monash University, and the World Trade Institute in Bern, among others. Professor Marceau has published extensively on WTO law and international economic law. Before joining the GATT Secretariat, she was a member of the Quebec/Canada Bar and practiced privately in Quebec, mainly in labour, insurance law, and civil law.

Kathy Matsui is Vice Chair of Goldman Sachs Japan, co-Head of Macro Research in Asia and Chief Japan Equity Strategist. She is a member of the Asia Pacific Management Committee and Goldman Sachs Japan Co., Ltd. Executive Committee. Ms. Matsui was ranked No. 1 in Japan equity strategy by *Institutional Investor* magazine in multiple years, was chosen by *The Wall Street Journal* as one of the "10 Women to Watch in Asia" for her work on the theme of 'Womenomics, and was also named in *Bloomberg Markets*' "50 Most Influential" list in 2014. Ms Matsui has served on numerous government committees aimed at promoting gender diversity in Japan. She is a board member of the Asian University for Women Support Foundation, Chair of the Board of Councillors (Japan) of the US-Japan Council, Director of the Fast Retailing Foundation, member of the Council on Foreign Relations, member of The Nature Conservancy-Asia Pacific Council, and member of Keizai Doyukai. She also serves on the Advisory Council for the Japan Society Fund Against Breast Cancer. Ms Matsui earned an AB, *magna cum laude*, in Social Studies from Harvard University and an MA from Johns Hopkins University, School of Advanced International Studies.

Since her third re-election as Federal Chancellor on 14 March 2018, **Angela Merkel** has led the German government of the Christian Democratic Union/Christian Social Union (CDU/CSU) in coalition with the Social Democratic Party of Germany (SPD). She was Chairwoman of the CDU in Germany from April 2000 to December 2018. She also served as Chairwoman of the CDU/CSU Parliamentary Group in the German Bundestag from September 2002 until she was first elected as Chancellor in November 2005. From December 1991 until her election as General Secretary of the CDU on 7 November 1998, she held the post of Deputy Chairwoman of the CDU in Germany. She was simultaneously Chairwoman of the Mecklenburg-Western Pomerania CDU from May 1993 to May 2000. In late 1989, Angela Merkel joined “Demokratischer Aufbruch” (Democratic New Beginning). She soon became their Press Spokeswoman and then, following the first free elections to the People’s Chamber of the then German Democratic Republic on 18 March 1990, she was appointed Deputy Government Spokeswoman for Lothar de Maizière’s government. She has been a member of the CDU since August 1990, and a member of the German Bundestag for the constituency of Stralsund, North Western Pomerania, and Rügen since December 1990. From 1991 to 1994 she served as Federal Minister for Women and Youth, subsequently becoming Federal Minister for the Environment, Nature Conservation and Nuclear Safety, a position she held until 1998. She obtained her doctorate in 1986 with a thesis on calculating the velocity constants for simple hydrocarbon reactions.

Linah K Mohohlo was Governor of the Bank of Botswana for a period of 17 years to 2016, following a 23-year career with the Bank, during which she served in a number of operational and policy areas. She has also worked for the International Monetary Fund (IMF) under the Special Appointee programme and, in her capacity as Governor of the IMF for Botswana, has been a member of the International Monetary and Financial Committee, representing the Africa Group 1 Constituency. Ms Mohohlo served in the Commission for Africa and chaired the UN High-Level Panel on Recosting as well as the World Economic Forum on Africa. She is a member of the Investment Committee of the UN Joint Staff Pension Fund and is a recipient of a number of professional awards, including the Presidential Order of Honour, Botswana’s highest public service award for efficient and devoted service. Ms Mohohlo also contributed to the establishment of, among others, the Okavango Diamond Company and Mining Development Company. She currently works for the Ministry of Investment, Trade and Industry as Investment Coordinator, and is the Chancellor of the University of Botswana. She read Accounting and Business, Economics, Finance and Investments at the University of Botswana, the George Washington University, and the University of Exeter, respectively, and received executive management training from Yale University.

Mia Amor Mottley, QC, MP is a Barbadian politician and attorney and the current Prime Minister of Barbados. Mottley is the first woman to hold this position. From 1994 to 2008, she held a succession of ministerial portfolios including the post of Attorney-General of Barbados becoming the first woman to be appointed as such. She is also a member of the Inter-American Dialogue. Mottley was twice the Leader of the Opposition in House of Assembly of Barbados first from 2008 to 2010 then from 2013

to 2018. In 2018, the Mottley-led BLP won an historic landslide victory in the 24 May general election, securing all 30 seats in the House – making them the first party to accomplish this feat – in addition to winning 72.8% of the popular vote, which is the highest share ever achieved by a party in a general election.

Elvira Sakhipzadovna Nabiullina is a Russian economist and Head of the Central Bank of Russia. She was Russian President Vladimir Putin's Economic Adviser between May 2012 to June 2013 after serving as Minister of Economic Development and Trade from September 2007 to May 2012. In 2014, she was listed as the 72nd most powerful woman in the world by Forbes. She graduated from Lomonosov Moscow State University, where she obtained a degree in Economics. She was awarded a PhD in 1990.

Ana Novik is the Head of the Investment Division of the Directorate for Financial and Enterprise Affairs at the OECD. She supports the Director in the Division's contribution to the strategic orientations of the OECD, with a focus on improving the international investment climate and promoting good domestic policies to support investment and responsible business conduct. Prior to joining the OECD, Ms. Novik negotiated many free trade agreements and was Chilean Counsellor in Geneva for the Doha Round. She was also the Ambassador Director of Multilateral Economic Affairs in the Economics Directorate of Chile's Ministry of Foreign Affairs and Trade and represented Chile in international organisations, including the WTO, OECD and the Asia-Pacific Economic Cooperation (APEC), being part of the APEC Senior Officials' Meeting.

Ngozi Okonjo-Iweala, PhD, is a globally recognized economist and international development expert who has worked in Asia, the Middle East, Africa, Europe, and Latin America. She was twice Finance Minister of Nigeria from 2003-2006 and 2011-2015, and Minister of Foreign Affairs in 2006 – the first woman to hold both positions. Previously, she served for 25 years at the World Bank, rising to the number two position of Managing Director. She currently chairs the boards of Gavi, The Vaccine Alliance and the Africa Risk Capacity. She also serves on the boards of Twitter and Standard Chartered Bank, among others.

Nuria Oliver is a Fellow at the Spanish Royal Academy of Engineering and Chief Data Scientist at Data-Pop Alliance. She is an expert in artificial intelligence, ubiquitous computing, and the use of big data for social good. She was the first female Scientific Director at Telefonica and first Director of Research in Data Science at Vodafone. She is an advisor to six European universities, the Spanish and Valencian governments, the European Commission, and the WEF. She is the only Spanish female scientist to have been elected at the same time a Fellow of the Association for Computing Machinery, the Institute of Electrical and Electronic Engineers, and the European Association of Artificial Intelligence. She is an advocate of diversity in the field of technology and has contributed with her research for over two decades to the development of technology with a positive impact on society.

Erica Owen is an Assistant Professor in the Graduate School of Public and International Affairs at the University of Pittsburgh (effective September 2019). She was an Assistant Professor at Texas A&M University (2011-2018) and has been a visiting researcher at the University of Zurich and a post-doctoral research fellow at the Niehaus Center for Globalisation and Governance at Princeton University. She is a member of the Scholars Strategy Network.

Sara Pantuliano is Acting Executive Director at ODI. She is a member of the High-Level Group on Humanitarian Investing of the Forum WEF, Managing Editor of *Disasters Journal*, Trustee of The New Humanitarian and SOS Sahel, and Vice-Chair of the Board of Muslim Aid. She has also served on the boards of Oxford University's Refugees Studies Centre and the UN Association of the UK, and as a member of the Independent Team of Advisers to the United Nations Economic and Social Council (ECOSOC) on the reform of the UN Development System. She previously led a high-profile UN response in Sudan's Nuba Mountains, acted as an observer at the Intergovernmental Authority on Development (IGAD) Sudan peace process and lectured at the University of Dar es Salaam. She holds a PhD in Politics and has written extensively on conflict and humanitarian affairs.

Teresa Ribera has been Spain's Minister for the Ecological Transition since June 2018. Before then, she had been the Director of the Institute for Sustainable Development and International Relations in Paris (since 2014) and Spain's Secretary of State for Climate Change (from 2008 to 2011). She has also been an Assistant Professor in Public Law at the Universidad Autónoma de Madrid.

Vera Songwe is the United Nations Under-Secretary-General and Executive Secretary of the Economic Commission for Africa. She is the first woman to hold this position in 60 years. Listed by Forbes in 2013 as one of the "20 Young Power Women in Africa", chosen by Institut Choiseul for International Politics and Geo-economics as one of their "African leaders of tomorrow", described as one of the "Top 10 Female Business Leaders in Africa" by African Business Review in 2014, and listed once again in the New African Magazine's "100 Most Influential Africans of 2017", Dr Songwe has a long-standing track record of policy advice, results-oriented implementation in the region, and demonstrated strategic vision for the continent. She served as the International Finance Corporation's Regional Director for West and Central Africa; the World Bank's Country Director for Senegal, Cape Verde, Gambia, Guinea-Bissau, and Mauritania; and Adviser to the Managing Director of the World Bank for Africa, Europe, Central Asia, and South Asia. Dr Songwe holds a PhD in Mathematical Economics, a Master of Arts in Law and Economics, a Diplôme d'études approfondies in Economic Science and Politics, and a Bachelor of Arts degree in Economics and Political Science.

Beatrice Weder di Mauro is President of CEPR, Professor of International Economics at the Graduate Institute of Geneva and Research Professor at the Emerging Markets Institute of INSEAD. From 2001 to 2018 she held the Chair for International Macroeconomics at the University of Mainz and from 2004 to 2012 she was a member on the German Council of Economic Experts. Previously she had worked at the University of Basel and the International Monetary Fund and has held visiting positions at Harvard University, the National Bureau of Economic Research and the United Nations University in Tokyo. She has served as consultant to governments, international organizations and central banks. She is presently independent director on the board of Bombardier, UBS and Bosch and senior research fellow at the Asian Bureau of Finance and Economic Research (ABFER) in Singapore.

Yuejiao Zhang is Professor of Law at Shantou University and Tsinghua University in China. She is an arbitrator of the International Investment Dispute Settlement Center and arbitrator of China's International Trade and Economic Arbitration Commission. She also served as arbitrator to ICC and LCIA. She has been appointed as Expert of the International Commercial Experts Commission of China's Supreme People's Court. Ms Zhang also serves as Vice President of China's International Economic Law Society. Between 1998 and 2004, Ms Zhang held various senior positions at the Asian Development Bank. Prior to this, she held several positions in government and academia in China, including as Director-General of Law and Treaties at the Ministry of Foreign Trade and Economic Cooperation (1984-1998), where she was involved in drafting many of China's foreign economic laws such as the Foreign Investment laws and the Foreign Trade Law, the Anti-Dumping Regulation, and the Anti-Subsidy Regulation. From 1986 to 1997, Ms Zhang was one of China's chief negotiators on intellectual property and was involved in the preparation of China's patent law, trademark law, and copyright law. She also served as the Chief Legal Counsel for China's GATT resumption and WTO accession. Between 1982 and 1984, Ms Zhang worked as legal counsel at the World Bank. Ms. Zhang was a Member of the Governing Council of UNIDROIT from 1987 to 1999. She served as Director to the Board of IDLO from 1986 to 1999. She has a Bachelor of Arts from China High Education College and from Rennes University, and a Master's in Law from Georgetown University.

Women Shaping Global Economic Governance brings together contributions from leading policymakers and thought leaders from all across the world on how to shape our economies.

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Centre for Economic Policy Research
33 Great Sutton Street
London EC1V 0DX
Tel: +44 (0)20 7183 8801
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