1. The session seeks to discuss trade- and investment-related policy measures that will enhance value-added in manufacturing production for emerging economies. One additional issue that should be addressed is the relationship between industrial production (IP) and employment in manufacturing industries. Altug, Gencer, and Tan (2012) examine the joint behavior of industrial production and employment using Markov chain methods for 20 developed and emerging economies, and show that not are IP growth and employment growth “de-coupled” for developed versus emerging economies but also that IP growth and employment growth are “de-coupled” from each for the emerging economies. This raises the issue of designing policy measures that create employment growth simultaneously as enhancing IP growth through value-added. Lin (2011) discusses the process by which value-added growth and the process of structural transformation in large emerging economies such as China, India, and Brazil may lead to employment growth in other developing countries lower down the value-added chain.

2. Another issue that has not been addressed is the environment in which trade- and investment-related policy measures will operate. For many developing countries, even if legal restrictions on trade and investment flows are relaxed, implicit constraints in the form of the nature of work force, i.e., human capital may bind. Many developing that would stand to benefit most increased investment flows typically suffer from low levels of human capital; see that attached graph.

Prominent among countries with lower levels of human capital are Turkey and India, where the average level of education is less than 7 years. Indeed, it is 6.5 years in Turkey, to be precise, giving the name for the blog from which the graph was borrowed. However, even in China where the average level of educational attainment is between 7-9 years, the relative scarcity of skilled labor is now said to be entering as a constraint on China’s quest to move up the value-added chain in terms of high-technology goods; see http://yaleglobal.yale.edu/content/short-skills Achieving the right mix of skilled and educated workers for sustainable development may, in turn, depend on such factors as i) fiscal space to allow greater spending on education; ii) the demographic structure of the country – favorable for India but less so for China; iii) the prevailing employed/unemployed profile inducing employers to favor industries that hire from existing pool of unskilled workers, for example.
3. A third constraint on the efficacy of any trade or investment pact is the existence of broader institutional constraints. Indeed, the Regional Comprehensive Economic Partnership (RCEP)\(^1\) states that it “will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement/legal and institutional issues and other issues to be identified during the course of negotiations.” Hence, the status of a country’s legal system, its dispute resolution mechanisms, the ability to enforce agreements regarding intellectual property constitute important potential impediments to making the best use of the potential investment flows accruing under such agreements.

References


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\(^1\) RCEP is a FTA negotiation that has been developed among 16 countries: the 10 members of ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam) and the six countries with which ASEAN has existing Free Trade Agreements (FTAs) – Australia, China, India, Japan, Korea, and New Zealand. In relation to RCEP these six non-ASEAN countries are known as the ASEAN Free Trade Partners (AFPs).