TOWARDS BETTER TRADE POLICIES

OECD Work on Trade

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Better policies, supported by stronger evidence and communications, are needed for trade to deliver more benefits for more people...and to begin to restore public confidence in international economic co-operation.

Ken ASH,
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Even as the pace of global trade growth has been slowing, public scepticism about the benefits of trade, and of globalisation more generally, has been growing. While the causes of this scepticism are diverse, the consequences are clear – governments and societies risk forgoing the benefits of open markets if current inequalities, in particular within countries, are not addressed, and if trust in international economic co-operation is not restored.

In this context, OECD work on trade policy aims to address the policy priorities of its member and partner countries and seeks to anticipate key emerging issues. The Organisation places a high priority on enabling a frank exchange on concerns about trade, and on moving towards a new consensus to ensure that all parts of our societies benefit more equitably from trade.

A more integrated approach to formulating trade, investment, and domestic policies would better reflect the reality that the impact of global trade on people depends very much on the domestic policy settings of the countries in which they live. OECD will continue advancing analytical work in several areas to highlight this relationship.

Creating environments where expected benefits can materialise. Policies can help to create the conditions at home that allow the potential benefits of open markets and technological progress to materialise. This can mean strategic investments in education, skills, innovation, and physical infrastructure, along with supportive labour market policies, well-functioning financial systems, effective public institutions and predictable rule of law. Effective domestic policies can equip more people to benefit from evolving economic opportunities. Governments can also act individually and collectively to reduce unnecessary costs that policies can unintentionally impose on individuals and firms. Improving inefficient customs procedures and addressing regulatory inefficiencies, including restrictions on services suppliers that underpin efficient manufacturing sectors, can be particularly beneficial.

Bringing everyone along. Policies also need to recognize that jobs and livelihoods will be disrupted, whether due to new trade and investment flows, new technologies, or for other reasons, and that people can need help to adjust. Targeted social safety mechanisms can assist families through this transition. Inclusion is also about having a voice, and trade and investment policy-making can be made more open, allowing more people to inform and to be informed by the debate, and to feel a greater sense of confidence that the decisions made will benefit them.

Harnessing international co-operation tools. How countries manage their trade and investment relations is part of the larger web of economic interactions among countries. Building a more inclusive global trade and investment system requires integrating existing international cooperation, whether this is reflected in legally-binding multilateral agreements, voluntary guidelines and codes of conduct, ‘best endeavour’ measures, or simply shared commitments to improve policy transparency and dialogue. Increased co-operation can help ensure that international trade and investment are governed by fair rules and that all businesses adhere to high standards of conduct, that labour and environmental standards are respected, that cross-border tax arrangements are transparent and fair, that corruption is combatted, and that financial markets function effectively.
Analysis has shown that open economies grow faster than closed economies. Trade has helped to pull hundreds of millions of people out of poverty by providing better employment opportunities and by helping household budgets go further with reduced prices and increased choice. Salaries and working conditions are almost always better in companies that trade internationally than in those that do not. While the opening of markets can lead to structural adjustment and job loss in specific firms or sectors, it also creates more economic opportunities and, over time, new jobs. Protectionism, on the other hand, has significant negative employment effects; for example, by cutting off access to quality inputs for domestic industries, constraining innovation, and inviting retaliation.

To provide evidence-based analysis that supports opening markets and introducing effective domestic policies, several years ago the OECD spearheaded the International Collaborative Initiative on Trade and Employment (ICITE) with ten international organisations to take a fresh look at the relationship between trade and jobs. The findings from ICITE underscore the benefits of globalisation for inclusive employment and income growth, but also emphasise that trade opening must be complemented by other policies in order to ensure inclusive growth, including for example, education, active labour market policies, labour market flexibility, infrastructure development and social protection. The OECD published a report in 2017, “Making Trade Work for All”, that builds upon existing analysis and deepens the evidence base to identify measures that ensure that the benefits of trade are more widely shared.
International trade is dominated by global value chains (GVCs), wherein services, raw materials, parts and components are exchanged across countries before being incorporated into final products that are shipped to consumers all over the world. Exports from one country to another reflect complex interactions among a variety of domestic and foreign suppliers, generating income for firms and workers across widely separated locations. Even more than before, trade is determined by international strategies of firms that engage in foreign outsourcing, foreign direct investment, and carry out their activities wherever the necessary skills, infrastructure, and materials are available at competitive cost and quality.

In order to better account for the internationalisation and fragmentation of production, the OECD partnered with the WTO to develop new trade statistics that identify the value added by each country in GVCs. First launched in 2013, the OECD-WTO Trade in Value Added (TiVA) database illustrates the fragmentation of production across borders, and highlights the need for countries to have an open, predictable and transparent trade and investment regime. In a world dominated by GVCs, tariffs, non-tariff barriers and other restrictive measures affect not only foreign suppliers, but also the competitiveness of domestic producers. The OECD will launch updated TiVA indicators and analysis in 2018.

The rise of GVCs also has implications for other policy areas as well. For one, GVCs affect an economy’s competitiveness through skills, knowledge-based assets and spill-overs to technology and productivity. A recent joint project between the OECD and the World Bank looked at the challenges of making GVCs more “inclusive” for small and medium-sized enterprises and low-income developing countries. The OECD will continue work to enable governments to better overcome hurdles and assess their vulnerability to adverse shocks (e.g. natural disasters) along global value chains, and prepare appropriate responses.
The internationalisation of production has given rise to complex cross-border flows of goods, know-how, investment, services and people. These flows are influenced to varying degrees by both policy- and non-policy-related trade costs. Among those, the significant effect of border procedures on the ability of firms to enter and compete effectively in global value chains is often highlighted. To help governments improve their border procedures, reduce trade costs, boost trade flows, and reap greater benefits from international trade, the OECD developed a set of Trade Facilitation Indicators (TFIs) that identify areas for action and enable the potential impact of reforms to be assessed. Covering the full spectrum of border procedures for over 160 countries, and updated every two years, the OECD TFIs correspond generally to the provisions in the WTO Agreement on Trade Facilitation (TFA).

Using this data, OECD analysis reveals that harmonising and simplifying documents, streamlining border procedures, and automating processes are the most beneficial areas for many countries to prioritise reforms. Lengthy or unpredictable export and import times not only reduce trade, but can even preclude trade in time-sensitive products or perishable products. Most recent analysis shows that implementing the TFA could reduce worldwide trade costs by between 12% and 17%, with greatest benefits going to low and lower-middle income countries. It also pays to be ambitious – countries that implement the TFA in full stand to gain almost 4% more benefits than those that only do the minimum required by the Agreement. The reduction of trade costs promotes integrity in trade transactions by removing corruption incentives, while the transparency and accountability brought by trade facilitation provisions also minimizes the opportunities for corrupt behaviour of government officials and institutions.

OECD analysis finds that the implementation of the WTO Trade Facilitation Agreement could reduce worldwide trade costs by between 12% and 17%. The opportunities for the biggest reductions in trade costs are greatest for low and lower middle income countries.
Services generate more than two-thirds of global GDP, employ the most workers in major economies, and create more new jobs than any other sector. Efficient services sectors are important not just for the service component of economies, but are essential for the competitiveness of manufacturing sectors as well. However, international trade in services is often impeded by barriers and domestic regulations.

The OECD has invested considerably in developing the OECD Service Trade Restrictions Index (STRI), launched in 2014. The STRI is a unique, evidence-based diagnostic tool that demonstrates the level of services restrictiveness at the national level for 44 countries across 22 major services sectors, representing over 80% of global services trade. It provides comprehensive and comparable information for policy makers to scope out reform options, benchmark them, and assess their likely effects; for trade negotiators to clarify those restrictions that most impede trade, growth and employment; and for businesses to shed light on the requirements that traders must comply with when entering foreign markets.

The STRI database is updated on an annual basis (2017 data are now available) to ensure the quality, relevance and integrity of the data with a view to maximising its utility for policy-makers and services exporters. Analytical efforts more recently have focused on using the STRI to better understand the relationship between services trade restrictions, cross-border trade in services and trade in downstream manufactured goods, and on developing a better understanding of trade costs associated with services trade restrictions. In-depth country studies using the STRI to suggest areas for policy reform, have also begun to complement the work of the Committee, and respond to the needs of participating governments.

Quick read
- Services Trade Restrictiveness Index Overview
- STRI Country notes and Sector Analysis
- 21st Century Trade Agreements and Regulatory Coherence

In-depth
- Services Trade Policies and the Global Economy
- STRI database
- Compare Your Country and Policy Simulator
- Services trade costs
- Services in Global Value Chains
- STRI: The Trade Effect of Regulatory Differences
- The Impact of Services Trade Restrictiveness on Trade Flows
- The Role of Services for Competitiveness in Manufacturing
- The Role of Services for Economic Performance in the Brazilian Economy
- Services and Performance of the Indian Economy: Analysis and Policy Options
The annual meeting of the OECD Council at Ministerial level includes as well a meeting of Trade Ministers from OECD and partner countries, the World Trade Organization, and representatives from both business and labour. This event provides a non-negotiating forum to consider current and emerging trade policy priorities of widespread interest.

The OECD-WTO Trade in Value Added (TiVA) database in 2013 highlighted the trade policy implications of global value chains. An essential message from TiVA is the need to eliminate unnecessary trade costs so that firms are able to improve their productivity by accessing needed import and export markets.

The results from TiVA also revealed the significant importance of services. In 2014, the OECD released a much-anticipated Services Trade Restrictiveness Index (STRI), which allows countries for the first time to benchmark their individual service sectors, and to pursue desirable policy reforms. The STRI also provides insights to trade negotiators and businesses seeking information about requirements in export markets.

To help governments improve their border procedures, reduce trade costs, boost trade flows, and reap greater benefits from international trade, the OECD developed a set of Trade Facilitation Indicators (TFIs) that identify areas for action and enable the potential impact of reforms to be assessed. Covering the full spectrum of border procedures for over 160 countries, and updated every two years (2013, 2015, and 2017), the OECD TFIs correspond generally to the provisions in the WTO Agreement on Trade Facilitation.

As the global trade agenda continues to evolve, so too will discussions amongst Trade Ministers. Building on the foundation provided by the OECD’s evidence-base, policymakers have a more accurate picture of trade flows as well as bottlenecks, both at and behind borders. Future discussions amongst Trade Ministers will build on these analytical efforts, focussing on how to best ensure that all parts of our societies can more fully enjoy the benefits of global trade.
The growing evidence on the degree of integration of firms and countries in GVCs highlights both the importance of having a liberal trade and investment regime as well as the need for complementary policies – education, skills development, infrastructure investment, access to finance, innovation – that enable firms (small and large), countries (advanced and developing), and people (highly-qualified and those who need to be trained or re-trained) to be active players in international trade, and in due course, to make the most of globalisation.

Angel GURRÍA
Secretary General of the OECD (June, 2015)
Virtually all economic activities depend one way or the other on natural resources. Many raw materials are traded across borders numerous times, from the extraction and refining processes to the final product. As restrictions on exports of raw materials have become more prevalent, the OECD has explored alternative ways for governments to achieve their domestic goals while ensuring less trade-distortive policy outcomes. The OECD’s Inventory of Restrictions on Exports of Raw Materials identifies export taxes, prohibitions, licensing requirements, and other measures that regulate the export of industrial raw materials (minerals, metals and wood) and primary agricultural products.

In support of international efforts to phase out the use of fossil-fuel subsidies, the OECD identifies, documents, and estimates all budgetary transfers and tax breaks that governments in 40 countries use to support the production or consumption of fossil fuels. The Inventory of Support Measures for Fossil Fuels includes around 800 support policies that collectively cost taxpayers USD 160-200 billion a year. The inventory supports dialogue at the OECD, and contributes to discussion and commitments in the G20, G7, and APEC. The OECD has chaired the G20 fossil-fuel subsidy peer reviews of China and the United States (2016) and Germany and Mexico (2017), and will likewise chair the fossil-fuel subsidy peer reviews of Indonesia and Italy in 2018.

Closely related to trade in natural resources are concerns that trade and investment liberalisation imply a lowering of environmental standards, as countries compete to lower production costs and attract multinational firms. OECD work shows, however, that countries entering into bilateral or regional trade agreements typically include provisions that increase environmental co-operation, and commitments not to loosen environmental regulations. Since the 1990s, the OECD has provided a large body of analysis in support of plurilateral and multilateral efforts to lower barriers to trade in environmental goods and services.
OECD’s annual measurement and monitoring of domestic and trade policy developments, and analysis of the medium-term outlook for markets, together provide context for the discussion of international trade policy issues in food and agriculture, including comparable “benchmarking” indicators of protection. OECD work provides a solid evidence base in support of domestic reforms that are non-production and non-trade distorting and would permit beneficial market opening, while at the same time enabling legitimate domestic policy goals to be achieved.

Particular attention is being paid to the role of domestic production, regional stocks, and trade in achieving food security, with methods tailored to the situation in individual countries, in particular in Southeast Asia. The OECD has also examined export restrictions in depth, with a view to proposing less damaging, alternative policy approaches to mitigate the impact of price peaks on consumers. Agricultural-specific aspects of international regulatory cooperation, trade facilitation and global value chains are also being explored.

Efforts towards negotiating a multilateral trade agreement on fisheries subsidies at the WTO have taken on new impetus. The OECD is supporting this process by improving the evidence base, including through better reporting of policies in the Fisheries Support Estimate (FSE) database, but also through work to better understand the impacts of support to fisheries on overfishing and overcapacity, the two overarching concerns of global action on fisheries subsidies.

OECD’s Codes and Schemes for International Trade continue to facilitate trade in seeds, tractors and fruits and vegetables and have a widening membership beyond the OECD.

Many current food and agricultural policies are ineffective in increasing global production and improving global food security, while hindering trade opportunities for competitive farmers around the world.
The emergence of global value chains (GVCs) highlights the increased interconnectedness of all our economies, and OECD work is examining the implications for policies in several areas.

To better understand the changing nature of the interdependencies between trade and investment, OECD is investigating what motivates firms’ investment strategies, and how domestic policies and trade agreements might be affecting firm behaviour. Analytical efforts are also addressing policy developments in the areas of state owned enterprises, intellectual property (trade secrets), and government procurement.

Efforts will likewise continue to identify practical actions that might improve regulatory performance. International regulatory co-operation offers a significant potential to reduce unnecessary trade costs. At the same time, governments universally respect the “right to regulate”. OECD is exploring experiences to date and practical new actions that might improve regulatory performance and desired outcomes.

While technological innovation continues to transform the global economy into a digital one, creating new opportunities, it also raises new challenges for governments and for society. New OECD work is just beginning to probe the trade-related implications of digitalisation.

Many of these emerging trade issues are increasingly addressed in bilateral and regional trade agreements (RTAs). While multilateral market openness remains the best way to achieve substantive and equitable global outcomes, many economies are turning to RTAs as a means to advance the rules-making agenda. The OECD has examined regional provisions that deepen and expand multilateral commitments across a broad range of policy areas, and identified a set of attributes that could allow them to be more amenable to multilateralisation.

In a context of stubbornly slow global growth, the digital transformation of our economies and society holds huge promise for innovation and productivity, as well as prosperity and wellbeing.

Angel GURRÍA
Secretary General of the OECD
The OECD has a long tradition of rulemaking in the area of officially-supported export credits, serving as the key multilateral negotiating forum where international disciplines are agreed, implemented and monitored. The organisation provides a forum where Members can share information on products, services and transactions, and discuss a range of good governance issues.

Members have established due diligence processes for addressing the environmental and social issues relating to the projects to which export credits support are destined. Export credit agencies review projects’ environmental and social performance and benchmark them against relevant international standards. Similarly, Members have developed disciplines to deter bribery in transactions benefitting from export credits support, and undertake due diligence on those in which they have reason to believe bribery may have been involved. Members have also established sustainable lending principles and guidelines in support of the World Bank-IMF Debt Sustainability Framework for Low Income Countries.

Through a complementary process, the Participants to the Arrangement on Officially Supported Export Credits have established a series of financial disciplines when providing official support for export credits. The text of the Arrangement is reviewed regularly to stay current with market developments, and includes sectoral annexes (called “Sector Understandings”) that cover export credits in the areas of ships, nuclear power plants, civil aircraft, renewable energy, climate change mitigation and adaptation, and water projects, rail infrastructure, and coal-fired electricity generation projects.

This work seek to foster a level playing field for official export credit support, in order to encourage competition among exporters based on the quality and price of the goods and services exported rather than on the most favourable officially supported financial terms and conditions. To this end, Participants have established disciplines for maximum repayment terms, minimum premium rates and minimum interest rates, as well as rules on the use of tied aid.

According to US estimates, participation in OECD Export Credits agreement saves US taxpayers an estimated $800 million per year and helps ensure a level playing field for U.S. exports.
The OECD Trade Committee was established in 1961 as one of the OECD’s founding policy committees. It oversees OECD work on trade policy and provides a unique forum for senior trade policy officials to discuss important policy issues and developments in trade relations. Committee delegates from capitals meet twice each year to share information and exchange views across OECD and partner countries and international organisations, focusing on the collective analysis of shared trade policy interests. As in other OECD bodies, convergence toward consensus is a primary objective. The Committee’s views on the evolution of international trade and trade policy are transmitted directly to participating government capitals and to the annual meeting of the OECD Council at Ministerial Level.

New Partnerships

Since 2010, the OECD’s membership has grown from 30 to 35, and a further three countries are currently undergoing active accession processes to become members (Colombia, Costa Rica, and Lithuania). The OECD has been forging close ties with key partner countries (Brazil, India, Indonesia, the People’s Republic of China, South Africa), and the major economies of Southeast Asia; stronger links are also being created with Latin America, the Middle East-North Africa, and Sub-Saharan Africa.

Mirroring these developments, the Committee has become increasingly more global in its efforts. G20 members are systematically invited to dedicated Committee sessions and to the Global Forum on Trade, where trade policy issues of global significance are discussed. Argentina, Brazil, and Hong Kong are full participants in the Committee’s work, and the Committee has collaborated closely with successive G20 and G7 presidencies. Close links are being developed bilaterally with the Association of Southeast Asian Nations (ASEAN) Secretariat and its member states, the Asia-Pacific Economic Cooperation (APEC), and the Economic Research Institute for ASEAN and East Asia (ERIA).

In recent years, the Secretariat has hosted visiting experts from Brazil, China, India, Indonesia, and South Africa.

Partnerships and collaboration with other international organisations are crucial to the work of the Committee. The World Trade Organization (WTO) is a key partner institution in policy areas such as trade in value added and global value chains, trade facilitation, aid for trade, agriculture trade, and trade in services. The Committee further supports the WTO by providing data and analysis relevant to ongoing multilateral trade negotiations. The OECD partners with an ever-growing range of other international organisations, including the World Bank Group, the United Nations Conference on Trade and Development, the United Nations Environment Programme, and the regional development banks.

New Methods and Approaches

The Committee continues to contribute to the OECD’s New Approaches to Economic Challenges (NAEC) initiative. As the complexity of the international trade landscape continues to evolve, the Committee is re-doubling its efforts to incorporate knowledge and insights from other relevant policy areas and disciplines. As a consequence, policy advice today is more concrete and relevant to trade policy makers, and is increasingly integrated as one component of wider economic policy considerations on a country-by-country basis.

A new global computable general equilibrium (CGE) model has been created, OECD METRO, incorporating the most recent OECD statistical developments. OECD METRO greatly enhances the ability of analysts to model movements of goods and services along global value chains and to isolate relevant policy implications. The Committee, in response to growing populism in many countries, is working to define a more progressive, more inclusive, more coherent package of trade, investment and domestic policies that can drive more inclusive growth.