Update of the Policy Framework for Investment

Draft chapter: Trade policy

Context

Since the PFI was developed in 2006, new forces have reshaped the global investment landscape, including the global economic and financial crisis, which started in 2008 and from which many economies have still not recovered, and the emergence of new major outward investors within the G20, the spread of global value chains. Numerous lessons have also been learnt through the use of the PFI, particularly in developing and emerging economies. To reflect new global economic fundamentals, an update of the PFI was launched in 2013 and is due for completion in 2015.

Invitation to contribute

Experts, business and civil society representatives, international organisations, and the general public are invited to contribute comments on this draft chapter. Comments should be sent to **investment@oecd.org** by 31 December 2014.

A compilation of comments received will be published online at the end of the consultation period.

Contact

If you have any questions regarding the consultation, please email **investment@oecd.org**.

Find out more about the update of the PFI: **www.oecd.org/investment/pfi-update.htm**

TRADE POLICY

1. Trade policies influence the size of markets for the output of firms and hence can shape both foreign and domestic investment. Over time, the influence of trade policies on the investment climate is growing. Changes in technology, liberalisation of host country policies towards trade and investment and the growing importance of trade within global production chains have all served to make trade policy an important ingredient in encouraging both foreign and domestic investment and in maximising the contribution of that investment to development.

2. Trade liberalising measures, undertaken unilaterally or as part of binding multilateral and preferential trade and investment agreements, can improve allocative efficiency, provide access to larger markets, allow for greater scale economies and hence lower costs.

3. Open, predictable and transparent trade and investment policies are also necessary to remain competitive in a world where global value chains (GVCs) are a dominant feature of world trade. More than one half of world manufacturing imports and 70% of service imports are intermediate goods and services. When production is fragmented in this way and goods and services cross borders many times, tariffs, non-tariff barriers and other restrictive measures impact not only on foreign suppliers, but also on domestic producers (see questions on linkages in the chapter on investment promotion and facilitation). Fast and efficient customs and border procedures and well-functioning transport, logistics, finance, communication and other business and professional services are particularly important. Open trade and investment regimes, including streamlined and efficient customs procedures help ensure that inputs are competitively priced and that trade costs are reduced.

4. Ensuring that trade policies and practices contribute fully to a favourable investment climate also requires the same emphasis on transparency, policy stability and predictability, public consultations and periodic evaluation and review found in other policy areas and described in the opening chapter to the PFI. Governments additionally need to ensure that customs, and trade-related regulatory and administrative procedures are no more burdensome than necessary to achieve their stated policy objectives while reducing transaction costs for firms. The speed and ease of trading goods and services across borders has a direct impact on attractiveness of particular economies and industries to investors, particularly in the context of regional and global value chains.

5. Governments sometimes use trade policy instruments, such as import tariffs (including tariff peaks and escalating tariffs) and other measures (such as local content requirements, exports restrictions), to promote investment in targeted industries. But the growing interdependence of economies, as well as the sectoral linkages within economies (for example the role of quality services to support a competitive manufacturing sector), requires a keener awareness on the part of policy-makers of the costs and benefits of using trade policy to achieve objectives that other, more efficient policy instruments may be suitably equipped to pursue in the areas of labour market, education, innovation and SME development policies.

Home country policies

6. Beyond offering reciprocal market access through trade agreements, the international community can contribute in other areas of trade policy to improving the quantity and quality of investment in a given country. For least developed countries, preferential access to larger markets can allow them to participate in global trade, when they ease access for goods and services produced by LDCs.

7. Governments can also provide assistance to a given country, via aid for trade and other assistance, to help its firms comply with sanitary, phytosanitary and other standards, build capacity to negotiate and implement trade agreements , address other supply side constraints that affect the trading environment and market failures related to trade finance and credit insurance and guarantees. Markets that facilitate cross-border transactions, including those that hedge against risks attached to exchange rate movements and payment defaults as well as those for transit insurance and export finance, can all enhance both trade and investment.

Key questions

[Horizontal questions related to transparency, predictability, periodic review and public consultation are consolidated in an earlier chapter]

1. What recent efforts has the government undertaken to reduce the compliance costs of customs, regulatory and other administrative procedures at the border?

2. To what extent has the government addressed behind the border barriers to trade, particularly services regulations?

3. Has the government evaluated how trade policies can be applied to facilitate the participation of local firms in global value chains, particularly through lowering the costs of inputs?

4. How actively is the government increasing investment opportunities through market-expanding international trade agreements and ensuring consistency of its policies with its WTO commitments?

5. Does the government use trade policy to favour investment in some industries and discourage it in others? How are these policies reviewed with a view to reducing the costs associated with these distortions?

6. Do home countries provide sufficient market access for host country exports to encourage domestic and foreign investment in that country? Do they provide aid for trade to assist in addressing supply side constraints to taking advantage of market access opportunities?

7. How do home countries help to address market failures which might inhibit exports from developing or emerging economies (e.g. export finance, working capital, and import insurance)?

SUPPLEMENTAL QUESTIONS

Trade facilitation measures	• What has the government done to reduce transaction costs for firms engaging in trade by: – simplifying and increasing transparency and predictability of customs and other border procedures? – using risk-management techniques to optimise border control (selectivity criteria and post-clearance audits)? – introducing electronic customs clearance systems and Single Windows for Trade? – harmonising and simplifying documents and streamlining procedures? – using periodic audits of regulations or built-in sunset clauses to take account of changed contexts? – performing ex ante reviews of proposed regulations and consulting with stakeholders to ensure their optimal design? – applying internationally-agreed standards and streamlining conformity assessment procedures? – co-operating with regional and international peers?
Services and other regulations	• What has the government done to reduce services barriers to trade? • In what specific services sectors have barriers been reduced? • Has the government raised barriers to trade in services; if so in what sectors? • Does the government ensure that regulatory measures are (*i*) based on objective and transparent criteria such as competence and the ability to supply the service, (*ii*) not more burdensome than necessary to ensure the quality of services and (*iii*) in the case of licensing procedures, are not in themselves a restriction on the supply of the services? Has the government entered into agreements with other governments to cooperate on regulations that affect trade? • See also chapter on public governance on regulatory reform.
Trade liberalisation and international trade agreements	• How important is multilateral, regional and unilateral liberalisation of goods and services in the government's strategy to increase market opportunities? • How is the government increasing capacity and resources to negotiate and implement trade agreements? • To what extent does the government consult with stakeholders on proposed trade reforms? • Does the government evaluate in advance the costs and benefits associated with entering the legal commitments present in international trade agreements (see the questions on international investment agreements in the chapter on investment policy)? • What does the government do to help business, particularly SMEs, to identify and pursue trade and investment opportunities opened up through trade agreements?

Trade promotion	• Does the government have a mechanism to assess impediments to exports of local firms and the means of addressing them? Is there the same mechanism for imports? How do government programmes support the objective of diversification of sourcing- and export products and markets? • What does the government do to foster cooperation between investment and trade promotion agencies, especially by providing various forms of market intelligence to SMEs? • How does the government identify capacity-building priorities in relevant government ministries and agencies and direct attention to the capacity development needs of SMEs? • How does the government assist domestic enterprises to conform to standards in key export markets, including sanitary and phytosanitary (SPS) requirements? • Does it help businesses benefit from trade and investment promotion activities, such as through participation in trade fairs?
Targeted trade policies	• To what extent does the government use import tariffs or other trade-related policies to promote investment in targeted industries? • On what basis are these sectors selected? • Does the government engage in public consultations when deciding on policies to promote or protect particular sectors? • Does the government assess the impact of these policies on the competitiveness of other sectors which rely on these imports as inputs for their own exports, as well as on the overall investment climate? • Does the government make use of regulatory impact assessments for these purposes? • Does the government consider alternative methods of promoting industrial development in priority sectors which would not discriminate against foreign competitors? • See chapter on investment policy on non-discrimination, chapter on Competition policy on the competitive implications of industrial policies and chapter on public governance on regulatory impact assessments.
Global value chains	• What efforts has the government undertaken to foster the participation of local firms in global value chains? • Does the government offer duty exemptions on imported inputs? • Does the government measure the importance of intermediate inputs, including services, in overall exports and the effective rates of protection in these sectors? • Has the government evaluated how services trade policies could help firms enter global value chains through lowering entry costs. • See Chapter on investment promotion for a discussion of how to increase local value addition and linkages with local firms, including SMEs.
International cooperation	For importing countries: • Does the importing country government consider external costs on trading partners when evaluating domestic trade policy measures? • How can domestic policy makers safeguard the need of regulatory authorities to address legitimate domestic policy objectives without recourse to needlessly burdensome trade measures? • Does the government fulfil the requirements of the WTO Technical Barriers to Trade and SPS Measures Agreements in terms of not making regulatory measures more trade restrictive than necessary?

	• Do specific provisions exist in the context of an RIA that would require or encourage regulators to avoid unnecessary trade restrictiveness with a view to minimising potentially adverse effects on trading partners? • Does the government provide aid for trade to help development partners address supply side constraints to trade?
Export finance and risk mitigation	• How does the government ensure adequacy of available trade finance solutions for local firms interested in trade opportunities? • Do local financial institutions participate in the World Bank's Global Trade Finance Programme and/or the trade finance programs of regional development banks? • Do they take advantage of trade finance training opportunities?

ADDITIONAL RESOURCES

Web pages

www.wcoomd.org

www.oecd.org/trade/facilitation

www.wto.org;

www.wto.org/english/thewto_e/coher_e/tr_finance_e.htm

www.oecd.org/industry/ind/global-value-chains.htm

Principles, standards

Kyoto Convention on the Simplification and Harmonisation of Customs Procedures

WTO Agreement on Technical Barriers to Trade

APEC Trade Facilitation Principles

Publications

Global Value Chains: Challenges, Opportunities and Implications for Policy (OECD-WTO-World Bank, 2014)

Global Value Chains in Africa: Potential and Evidence (OECD, 2014)

Interconnected Economies: Benefits from Global Value Chains (OECD, 2013)

Global Value Chains: Investment and Trade for Development (UNCTAD, 2013)

Enhancing the Role of SMEs in Global Value Chains (OECD, 2008)

Implications of Global Value Chains for Trade, Investment, Development and Jobs, (OECD, WTO, UNCTAD, 2013)

Tools, Guidance, Manuals

Reforming the Regulation Procedures for Import and Export: Guide for Practitioners (World Bank)

Guidebook on Trade Facilitation (APEC)

Designing and Implementing Trade Facilitation in Asia and the Pacific (ADB)

Indicators and benchmarking

OECD Trade Facilitation Indicators

WCO Time Release Study

WCO Customs International Benchmarking Manual

World Bank Doing Business – Trading across Borders

OECD Services Trade Restrictiveness Index