Promote Foreign Investment by Reducing Trade Barriers – Policy Implications of ‘Trade-Investment’ Nexus

Submitted by: WTO
Promote Foreign Investment by Reducing Trade Barriers

--- Policy Implications of ‘Trade-Investment’ Nexus

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APEC Workshop on Optimizing Investment
11-12 April 2019, Shanghai
New pattern of trade highlights ‘trade-investment’ nexus

Trade is not just goods and services crossing borders, it is increasingly companies and factors of production crossing borders. Unbundling and globalization of value chains.

20th century trade

21th century trade

Connecting factory & doing business abroad: The “trade-investment-services nexus”

1) Two-way flows of goods, ideas, technology, capital, and technicians.
2) Investment and application of technical, managerial and market know-how abroad.
Trade and investment (T&I) have been interlinked for a long time – both contribute to efficient allocation of economic resources (K, L, knowledge).

Relationship between T&I rapidly evolving and, in certain aspects, blurring, as a result of technological developments, economic liberalization, and new ways of organizing production and distribution.

Since mid-1990s, 3 related developments:
1. Spread and continuing evolution of global value chains
2. Rise of services in both, global trade and investment
3. Rise of the “digital economy” = new age of globalization
   - digital manufacturing, 3D printing, digital products, online transactions, cloud services, Internet of Things, big data, etc.
Trade and Investment interdependence evolving in global value chains

- Globalization of production and distribution of goods and services organized around GVCs = key driver of growing T&I interdependence

- Today, **over half of world manufactured imports** are **intermediate** goods (primary goods, parts and components and semi-finished products), and **over 70% of world services imports** are **intermediate services**.

- 80% of world trade takes place within **international production networks** of multinational enterprises (MNEs).

- T&I have become two sides of the same strategy for producing, distributing, marketing, selling and delivering goods and services across multiple foreign markets.
Services: deepening interdependence between trade and investment

Services make an increasingly important contribution to world GDP, trade and FDI – accounting for:

- **70% of world GDP** (+10% since 1995)
- **Half** of world trade on a value-added basis
- **64% (nearly two-thirds)** of global inward FDI stock is in services

The digital economy has important implications for both trade and investment and creates new dynamics for ‘trade-investment” nexus:

- Digital technologies are transforming MNEs international operations; digital MNEs make about 70% of their sales abroad (cross-border trade) with only 20-40 % foreign assets.

- Adoption of digital technologies in global supply chains across all industries have profound effects on international production and trade. They also affect investment drivers and determinants.

- The digital economy is further blurring the line between trade and investment.
### Impacts of trade measures on investment: goods trade

<table>
<thead>
<tr>
<th>Trade measures</th>
<th>Potential investment effects</th>
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<tbody>
<tr>
<td>➢ Import tariffs</td>
<td>➢ Effect on export-oriented investment</td>
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<tr>
<td>➢ Non-tariff measures (e.g. technical barriers to trade, sanitary and phytosanitary measures)</td>
<td>➢ Effect market-seeking or import substitution investment</td>
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<tr>
<td>➢ Trade facilitation</td>
<td>➢ Effect on export-oriented or market-seeking investment</td>
</tr>
<tr>
<td>➢ Preferential treatment (e.g. rules of origin, GSO, DFQF)</td>
<td>➢ Effect on foreign investment in preference-recipient countries</td>
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<td>➢ Trade remedies (e.g. anti-dumping, safeguards and countervailing duties)</td>
<td>➢ Effect on export-oriented investment in the country affected by the measure</td>
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## Impacts of trade measures/barriers on investment: services trade

<table>
<thead>
<tr>
<th>Trade measures/barriers</th>
<th>Potential investment effects</th>
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<tbody>
<tr>
<td>➢ Restrictions on entry into and establishment in the services market;</td>
<td>➢ Effect on market-seeking investment</td>
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<td>➢ Restrictions on ongoing services operations;</td>
<td>➢ Effect investment consolidation</td>
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<td>➢ Discriminatory treatment against foreign service suppliers;</td>
<td>➢ Effect on market-seeking investment</td>
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<tr>
<td>➢ Non-transparent laws, regulations, rules, and procedures affecting services suppliers;</td>
<td>➢ Effect on market-seeking and efficiency-seeking investment and investment consolidation</td>
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<tr>
<td>➢ Burdensome and/or anti-competitive regulatory requirements and practices.</td>
<td>➢ Effect on market-seeking and efficiency-seeking investment and investment consolidation</td>
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**Investment measures captured in services trade agreements: GATS as an example**

<table>
<thead>
<tr>
<th>Investment measures</th>
<th>Relevant GATS provisions</th>
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<tr>
<td>➢ Joint venture requirements</td>
<td>➢ Article XVI:2 (e)</td>
</tr>
<tr>
<td>➢ Entry and establish requirements</td>
<td>➢ Articles XVI and XVII (market access and national treatment)</td>
</tr>
<tr>
<td>➢ Export performance requirements and local content requirements</td>
<td>➢ Article XVII (national treatment)</td>
</tr>
<tr>
<td>➢ Local employment requirements and restrictions on hiring key foreign personnel</td>
<td>➢ Articles XVI and XVII (market access and national treatment)</td>
</tr>
<tr>
<td>➢ Training, transfer of technology and R&amp;D requirement</td>
<td>➢ Article XVII (national treatment)</td>
</tr>
<tr>
<td>➢ Investment promotion including financial and fiscal incentives, subsidies, regulatory concessions in SEZs</td>
<td>➢ Articles II and XVII (MFN and national treatment)</td>
</tr>
<tr>
<td>➢ Investment facilitation (registration, licensing procedures, etc.)</td>
<td>➢ Article VI (domestic regulation)</td>
</tr>
<tr>
<td>➢ Bilateral investment treaties (BITs)</td>
<td>➢ Article II (MFN)</td>
</tr>
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</table>
Investment measures captured in GATS schedules as limitations on market access and national treatment

[Bar chart showing modes of market access: Cross-border, Consumption Abroad, Commercial Presence. The chart indicates the percentage of measures captured as limitations, with categories ranging from Unbound to Full.]
Improving GATS commitments would benefit foreign investment
Challenges for trade and Investment policies in the digital economy

- Digital technologies present opportunities and challenges for both trade and investment.
- Factors affecting digital trade affect foreign investment as well, including:
  - internet infrastructure, electricity supply and cost, ICT skills availability, data flow restrictions and service blockages, etc.
- Policy and regulatory considerations in the digital economy relevant for both digital trade and investment, which are aimed at addressing:
  - cost of connectivity; lack of trust and security; disruptive effects on jobs and income distribution; dominant players’ abuse of market power, etc.
2019 Internet Minute

- Google: 3.8 Million Searches
- Facebook: 1 Million Logging In
- YouTube: 18.1 Million Texts Sent
- Netflix: 694,444 Hours Watched
- Google Play: 390,030 Apps Downloaded
- Instagram: 347,222 Scrolling
- Snapchat: 2.1 Million Snaps Created
- Snapchats: 41.6 Million Messages Sent
- Giphy: 4.8 Million Gifs Served
- Amazon Echo: 180 Smart Speakers Shipped
- Spotify: 41 Million Music Streaming Subscriptions
- Twitch: 1 Million Views
- Gmail: 188 Million Emails Sent
- Twitter: 87,500 People Tweeting
- Tinder: 1.4 Million Swipes
- Tinder: 180 Million Transactions

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Evolving and deepening ‘trade-investment’ nexus: what are the policy and regulatory implications?

Need to strengthen synergies between trade and investment and avoid policy incoherence at both national and international levels.

Need to address international regulatory fragmentation and build new coherence:

- Policy obstacles in one area risk becoming obstacles across all other areas;
- Existing trade and investment agreements contain inconsistency in application and gaps in coverage;
- There are about 270 RTAs dealing with both trade and investment issues, which offer lessons for future trade and investment rule-making.
- As transition to the digital economy has become a policy priority, trade and investment promotion policies should be part of digital development strategies and related policy/rule-making.
THANK YOU

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