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

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11-12 April 2019**



Promote Foreign Investment by Reducing Trade Barriers

--- Policy Implications of 'Trade-Investment' Nexus

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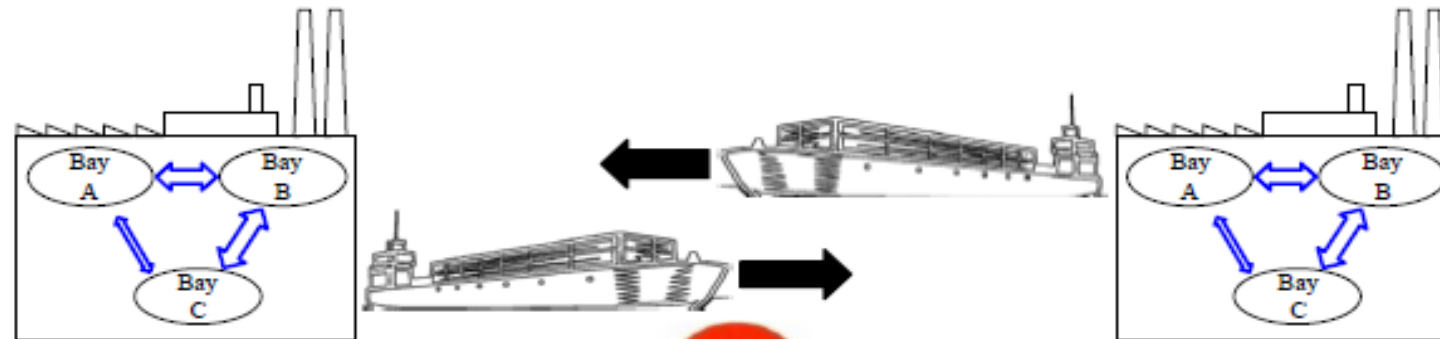
APEC Workshop on Optimizing Investment

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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



21st century trade



Evolving and deepening 'Trade-investment' nexus

- 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

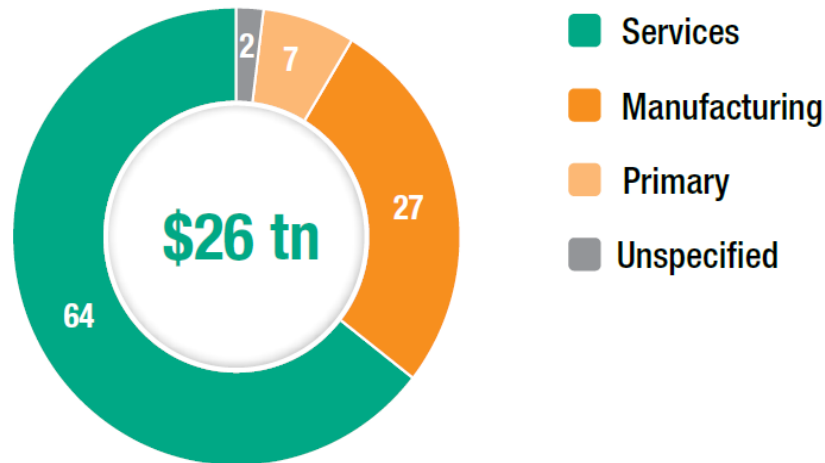
- Globalization of production and distribution of goods and services organized around GVCs = key driver of growing T&I interdependence
- Today, **over half of world manufactured imports** are **intermediate** goods (primary goods, parts and components and semi-finished products), and **over 70% of world 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:

Figure I.11. Global inward FDI stock, by sector, 2014 (Trillions of dollars and per cent)



🌐 **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

(Source: UNCTAD, World Investment Report 2016).



Digital economy: new dynamics for ‘trade-investment’ nexus

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

Trade measures

- Import tariffs
- Non-tariff measures (e.g. technical barriers to trade, sanitary and phytosanitary measures)
- Trade facilitation
- Preferential treatment (e.g. rules of origin, GSO, DFQF)
- Trade remedies (e.g. anti-dumping, safeguards and countervailing duties)

Potential investment effects

- Effect on export-oriented investment
- Effect market-seeking or import substitution investment
- Effect on export-oriented or market-seeking investment
- Effect on foreign investment in preference-recipient countries
- Effect on export-oriented investment in the country affected by the measure

Impacts of trade measures/barriers on investment: services trade

Trade measures/barriers

- Restrictions on entry into and establishment in the services market;
- Restrictions on ongoing services operations;
- Discriminatory treatment against foreign service suppliers;
- Non-transparent laws, regulations, rules, and procedures affecting services suppliers;
- Burdensome and/or anti-competitive regulatory requirements and practices.

Potential investment effects

- Effect on market-seeking investment
- Effect investment consolidation
- Effect on market-seeking investment
- Effect on market-seeking and efficiency-seeking investment and investment consolidation
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Investment measures captured in services trade agreements: GATS as an example

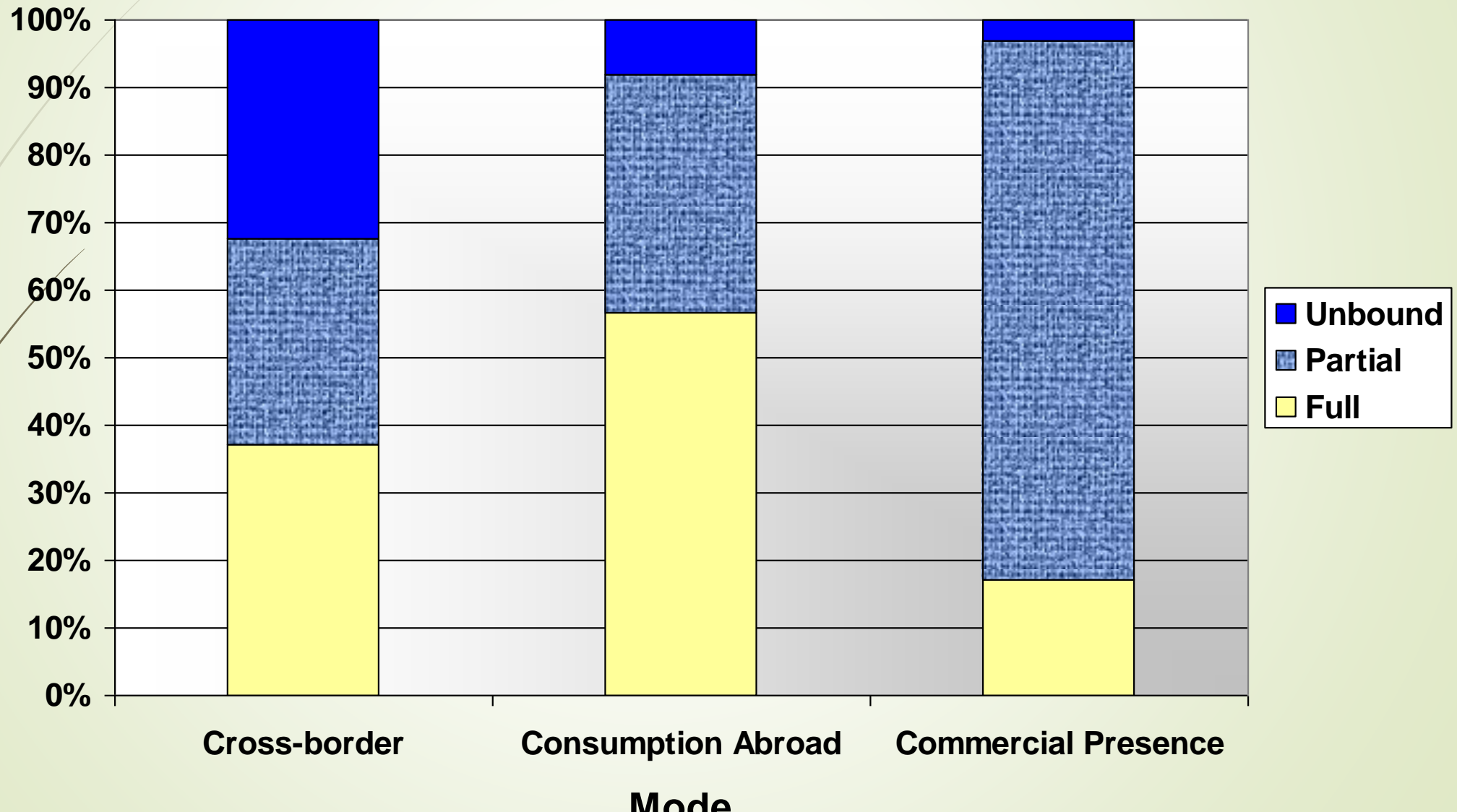
Investment measures

- Joint venture requirements
- Entry and establish requirements
- Export performance requirements and local content requirements
- Local employment requirements and restrictions on hiring key foreign personnel
- Training, transfer of technology and R&D requirement
- Investment promotion including financial and fiscal incentives, subsidies, regulatory concessions in SEZs
- Investment facilitation (registration, licensing procedures, etc.)
- Bilateral investment treaties (BITs)

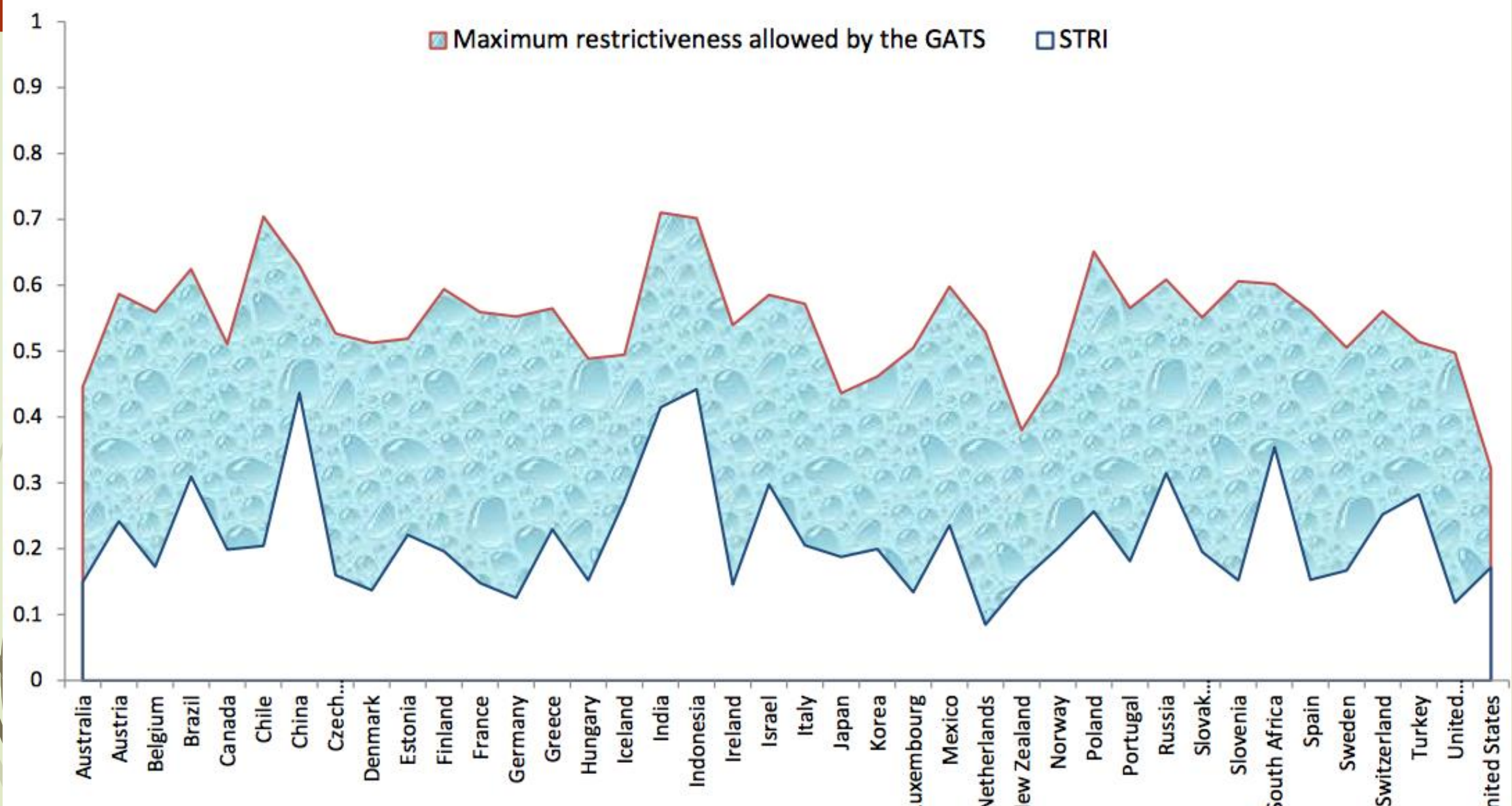
Relevant GATS provisions

- Article XVI:2 (e)
- Articles XVI and XVII (market access and national treatment)
- Article XVII (national treatment)
- Articles XVI and XVII (market access and national treatment)
- Article XVII (national treatment)
- Articles II and XVII (MFN and national treatment)
- Article VI (domestic regulation)
- Article II (MFN)

Investment measures captured in GATS schedules as limitations on market access and national treatment



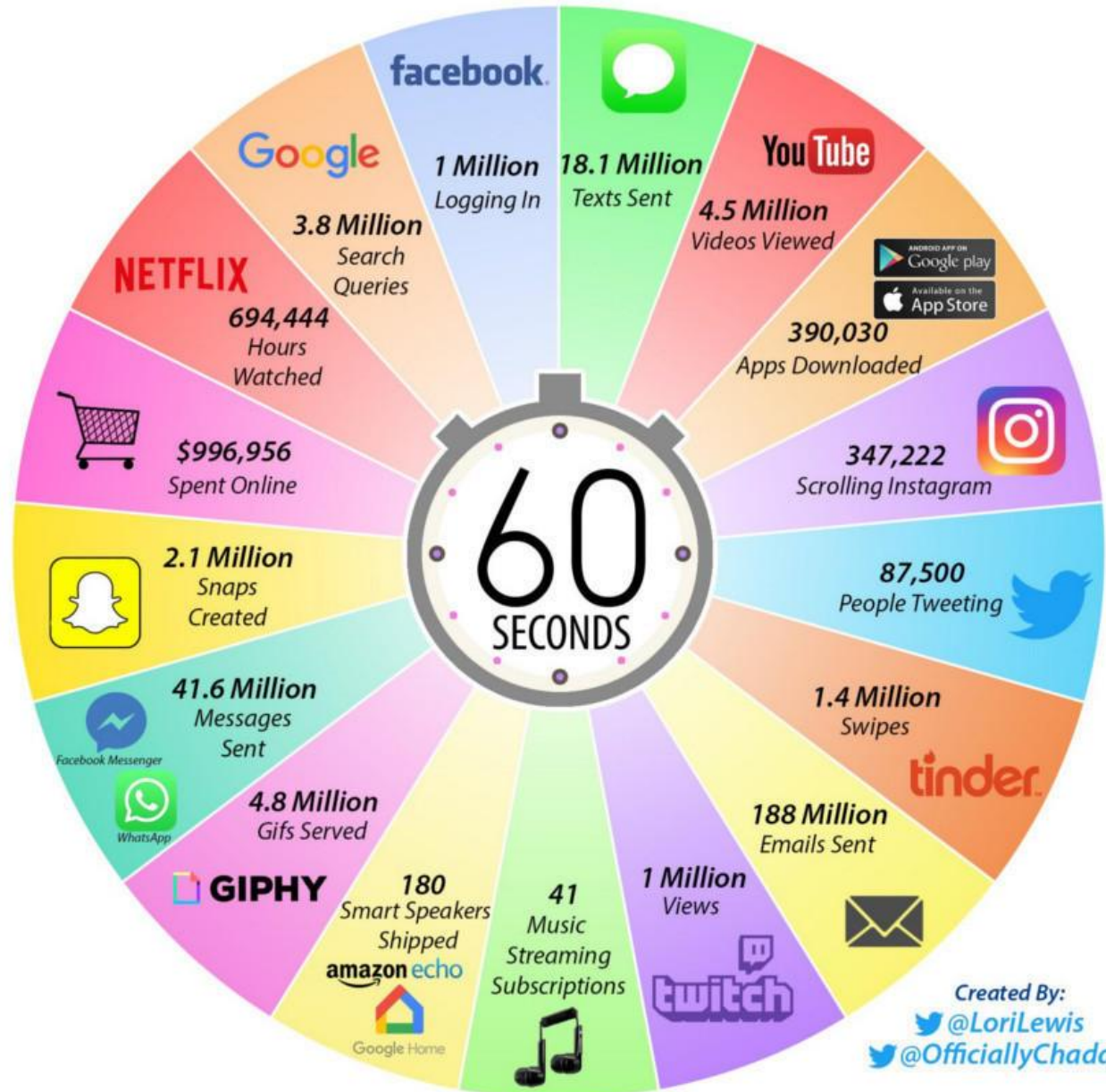
Improving GATS commitments would benefit foreign investment



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 *This Is What Happens In An* Internet Minute





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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