

**We need global policy
coherence in trade
and investment
to boost growth**

by

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Mounting fears of another slowdown in the global economy call for bolder policy responses. Trade and investment are a case in point.

WTO forecasts suggest 2015 will be the fourth year running that global trade volumes grow less than 3%, barely at – or below – the rate of GDP growth. Before the crisis, trade was growing faster than GDP. In addition, global flows of foreign direct investment (FDI) remain 40% below pre-crisis levels. If we are to achieve the Sustainable Development Goals (SDGs) agreed in September 2015, and underpin broad-based improvements in living standards, we need to reignite these twin engines of growth and we need to do it for the ultimate goal of improving people’s prospects and wellbeing.

Trade and investment have always been intertwined in business, but they have never quite come together in policymaking. In a world of Global Value Chains (GVCs), characterised by the fragmentation of production processes across countries, the interdependencies between trade and FDI are sharper. Technological improvements, reductions in transport and communications costs, and regulatory developments allow firms to combine imports, FDI, movement of business personnel, and licenses to optimise their international business strategies.

The symbiosis between trade and investment is more complex than ever before. Multinational enterprises (MNEs) play a key role in this relationship, with their activities driving a large share of world trade. The decision of a firm to invest in a foreign country is influenced by the ease with which it can sell its products, but also by how easy it is to source inputs from its affiliates (intra-firm trade) or independent suppliers (extra-firm trade) abroad. Hence, trade barriers become indirect barriers to investment. In addition, “world factories” make emerging trade patterns more complex, as not only goods and services cross borders, but capital, people, technology, and data do too. Without a transparent framework, it is also difficult to upgrade and upscale responsible business conduct.

Services are an increasingly critical node in the relationship between trade and investment. The WTO’s General Agreement on Trade in Services (GATS) explicitly recognizes this by defining FDI in

services as one of the four ways in which services can be traded (mode 3, or “commercial presence”). This reflects how trade and investment interact with one another. Clearly, services will be central in any further efforts to liberalize investment and to improve the business environment. The OECD FDI Regulatory Restrictiveness Index shows that investment barriers are overwhelmingly in the services economy. Reforms in backbone services, notably digital services, transport, and logistics are key to unclogging GVCs. Domestic reforms to allow for more competition in the service sectors is also a source of growth and equality. Moreover, there is untapped potential in services value chains that could be realized if services markets were opened further. The OECD Services Trade Restrictiveness Index (STRI) provides a tool for identifying these barriers and measuring their costs, in order to prioritize and sequence reforms.

There is still no global set of rules governing investment and trade, however. Apart from GATS, two other WTO agreements – Agreement on Trade-Related Investment Measures (TRIMS) and Agreement on Subsidies and Countervailing Measures (SCM) – cover aspects of FDI, but they are not comprehensive. The OECD Codes are also a reference on capital flows, but does not address the link with the trade dynamics. The void has been filled with a complex network of nearly 3 000 bilateral investment treaties (BITs) of different quality and with different coverage... Investors and States need certainty. A uniform regime would help, providing a consistent interpretation of the rules that apply to investment flows, taking into account the interest of all stakeholders. We urgently need a clear, coherent and coordinated approach at multilateral level. Multiplying the number of BITs further muddies the water and moves us further away from the multilateral ideal. A better way forward may be to start consolidating and replacing BITs on the road to a comprehensive multilateral framework. We also need to take a hard look at investment dispute settlement mechanisms, transparently addressing stakeholders’ legitimate concerns.

Replace BITs with what? Regional Trade Agreements (RTAs) are already providing some closer policy linkages. Over 330 RTAs contain comprehensive investment chapters, reflecting more advanced thinking of how trade and FDI interact in the real economy. These

agreements also cover “deep integration” disciplines that are essential to investments, such as movement of capital, business persons, intellectual property rights, competition, state-owned enterprises, and anti-corruption. New generation RTAs are not perfect, but they are taking us several steps forward in addressing the services-trade-investment-technology nexus. Being regional, however, they are not applied uniformly at a global level, and create their own overlaps and incoherence. It would therefore be useful to create clearer rules for co-existence among RTAs and mega-regional blocs. Above all, it is important to foster information-sharing on emerging practices from these negotiations, so that good practices can be diffused more widely and uniformly, and provide a pathway for multilateral convergence. In this way, RTAs and mega-regionals can become the building blocks of an integrated and truly multilateral trade and investment regime.

We are at a critical juncture, both economically and politically. The global economy needs a helping hand for recovery from the global financial crisis and to give people the improvements they expect in their daily lives. At the same time, we have both an opportunity and obligation to upgrade the policy framework to meet the changing reality of how trade and investment are conducted across the world, to enhance policy coordination, and to ensure that both have a positive impact on people’s well-being. Mega-regional agreements like Trans-Atlantic Trade and Investment Partnership and Trans-Pacific Partnership are on track to deliver new frameworks over the coming months. These can be stepping stones towards the future of global trade and investment rules. As these mega-regional deals approach the finish line, the 10th WTO Ministerial in Nairobi in December is an opportunity to break the current impasse in the Doha Round. Finally, all of this is taking place as we enter a new “Post-2015” era with the new SDGs, where trade and investment are expected to do more of the heavy-lifting in global development.

Against this backdrop, the G20-OECD Global Forum on International Investment, held on 5 October 2015 in Istanbul, back-to-back with the meeting of G20 Trade Ministers, brought together the trade and investment policy communities – along with the business community – to reflect on the main axes of a pragmatic

strategy to enhance the international regime for investment, including through closer links with trade. The agenda cannot be delayed: trade and investment decisions must go hand-in-hand in policy, just as they do in global business.

Useful links

Original article: Gabriela Ramos, OECD Chief of Staff and Sherpa to the G20, “We need global policy coherence in trade and investment to boost growth”, OECD Insights blog, <http://wp.me/p2v6oD-2fi>.

OECD (2015), “G20-OECD Global Forum on International Investment”, www.oecd.org/investment/globalforum/.

OECD work on global value chains, www.oecd.org/sti/ind/global-value-chains.htm.

OECD work on international investment law, www.oecd.org/investment/oecdworkoninternationalinvestmentlaw.htm.

OECD work on regional trade agreements, www.oecd.org/tad/benefitlib/regionaltradeagreements.htm.

OECD work on trade facilitation, www.oecd.org/trade/facilitation/.



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