Facilitating trade and investment jointly when international value chains matter

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In the era of Global Value Chains (GVCs)

The heart of 21st century trade is an intertwining of:

- **Trade in goods**, especially parts and components
- **International investment** in production facilities, training, technology and long-term business relationships
- The use of **infrastructure services** to coordinate the dispersed production, especially services such as telecoms, internet, express parcel delivery, air cargo, trade-related finance and customs clearance services
- **Cross-border flows of know-how** such as formal intellectual property and more tacit forms such as managerial and marketing know-how

To stress its **interconnectedness**, Baldwin (2013) calls this the **trade-investment-services-IP nexus**

Source: Global value chains in a changing world (WTO, 2013)
FDI and international trade are connected

Inward FDI has the following flow-on effects...

- Access to efficient infrastructure services
- Access to global supply chains.
- Access to technology and know-how

...which can lead to growth of exports of enterprises
PTAs frequently include investment provisions

Double taxation treaties on the rise
Trade and investment promotion organizations are merging

High income countries: 66% merged
Other income levels: 50% or less merged

Medium-sized countries: 67% merged
Small countries: 64% merged
What is good for FDI is good for competitiveness

- **Infrastructure** (roads, railways, seaports, airports and telecommunications) necessary to strengthen the competitiveness of firms and to help them integrate it into value chains;

- **Skills and education** required to meet foreign investors’ standards, to enable higher value-added production and to strengthen entrepreneurship;

- **Financial system** facilitating business by supplying credit, offering payment systems and risk-management solutions;

- **Public administration**, for example through increased efficiency, transparency and predictable regulations to strengthen competition;

- **Tax policy** that supports starting and running of internationally competitive enterprises.
Investment promotion

Generally encompasses four main types of activities:

- Image building
- Investment targeting/generation
- Policy advocacy
- Investment servicing
Image building (1/4)

- Investment attraction is typically linked to a **specific location**
- Investment decisions are often **sector specific**
- Building a strong image underpinned by **hard facts**, of the chosen location, sector or industry is imperative.
Major functions of an Investment Promotion Agency (2/4)

<table>
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<tr>
<th>Function</th>
<th>Investment targeting / generation</th>
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<tr>
<td>Objective</td>
<td>Create investment leads that target investment into specific <strong>sectors, development areas or companies</strong></td>
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| Activities        | **Identifying potential investors**  
                        **Matchmaking** |
Investment targeting/generation

- Pre-decision conversations with potential investors
- Facilitate `due diligence` by the potential investor
- Role of commercial counsellors in foreign embassies is imperative
- **Sector specific expertise** helps in targeting relevant potential investors.
Bringing **hard facts** on the way to matchmaking

- Identify new sectors or sectors with potential to grow
- Identify bottlenecks and strengths (image building; reform)
- Identify export ready companies
- Analyse sector firm specific value chain
- Matchmaking

**ITC**:
- Export potential and product diversification methodology
- SME competitiveness grid
- SME competitiveness survey
Country profiles in SME Competitiveness Outlook

- Sectors and products with export growth potential
- SME competitiveness: strengths ("selling points") and weaknesses (to be addressed, potentially with FDI) at:
  - Firm level
  - Immediate business environment (eco-system)
  - National level

Strategic snapshots
Facilitating trade and investment jointly when international value chains matter

ITC TOOLS

- Spotting products with export potential
  http://exportpotential.intracen.org

- Country profiles for image building and investment targeting
  http://www.intracen.org/smeoutlook/

- Assessing the health of your enterprises
  http://www.intracen.org/SMECS/