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Trade and Investment Linkages and Policy Coordination: Lessons from Case Studies in Asian Developing Countries

By

Yann Duval*

*Yann Duval, Trade Policy Section, Trade and Investment Division, ESCAP. A previous version of this paper was presented at and included in the official documentation of the OECD Global Forum on International Investment, Paris, 27-28 March 2008. The paper is based on findings from country case studies and surveys coordinated by the author and conducted by Bhattacharya, Debapriya and Tazeen Tahsina, Center for Policy Dialogue (CPD, Bangladesh), Jayawardhana, Tilani, Institute for Policy Studies (IPS, Sri Lanka) and Khanal, Dilli Raj and Prakash Kumar Shreshta, Institute for Policy Research and Development (IPRAD, Nepal), in their respective countries. Comments and suggestions received from Tiziana Bonapace, Michael Gestrin and Rien Sikkel among others, are gratefully acknowledged. The opinion figures and estimates are the responsibility of the author and should not be considered as reflecting the views or carrying the approval of the United Nations and ARTNeT members. The author may be contacted at duvaly@un.org

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Introduction

Asia has undoubtedly benefited greatly from globalization, with many countries of the region relying to a significant extent on international trade and investment as their main engine for economic growth and development. As the economies of the region continue to grow at the fastest pace of any other regions in the world, however, some have begun to question how well the gains are shared within the countries themselves. Indeed, there is some evidence that higher economic growth has led to increases in inequality in the countries of the region. This in turn has led to the realization that trade, investment and related domestic policies, which are de facto developed and implemented independently by various government bodies, need to be made more coherent if one is to achieve a more sustainable and inclusive growth, as well to maintain a country or a region's competitiveness in the global economy.

In that context, the Asia-Pacific Research and Training Network on Trade (ARTNeT)[1] launched an exploratory study on trade and investment policy linkages and coordination in 2007[2], which included exploratory surveys of private sector stakeholders in three South-Asian countries (Bangladesh, Nepal and Sri Lanka) on the need for improved trade and investment policy coordination and coherence based on the Policy Framework for Investment (PFI) developed by OECD. Following a short overview of trade and investment linkages from an Asian perspective, this paper summarizes the key findings from the exploratory surveys and draw preliminary policy implications.

[1] ARTNeT is a network of policy research institutions in developing countries of Asia and the Pacific, with the Secretariat provided by UN-ESCAP and financial support provided by IDRC, Canada, WTO, UNDP and other core partners. See www.artnetontrade.org for details.
[2] Some of the papers undertaken as part of the regional study are available in ESCAP (2007).

I. Trade and investment Linkages and Coordination: Some evidence from Asia

The link between trade and investment, particularly foreign direct investment, has been extensively discussed in the literature. FDI can be a substitute for trade, e.g., when a firm decides to invest and produce in a foreign country to serve customers in that country. FDI can also be a complement to trade as efficiency-seeking firms look for the best location from which to produce and export their products.

As trade barriers have fallen over the past two decades in most parts of the world and as intra-firm trade between countries have increased, a strong relationship has been observed between foreign trade and investment flows, including in Asia. For example, an ARTNeT study by Chaisrisawatsuk et al. (2007), studying the linkages between trade and FDI flows of ASEAN and OECD countries[3], finds strong positive and self-reinforcing relationships between bilateral trade and FDI flows, with trade inducing FDI as well as FDI inducing trade – the latter to a lesser extent, however (see table 1).

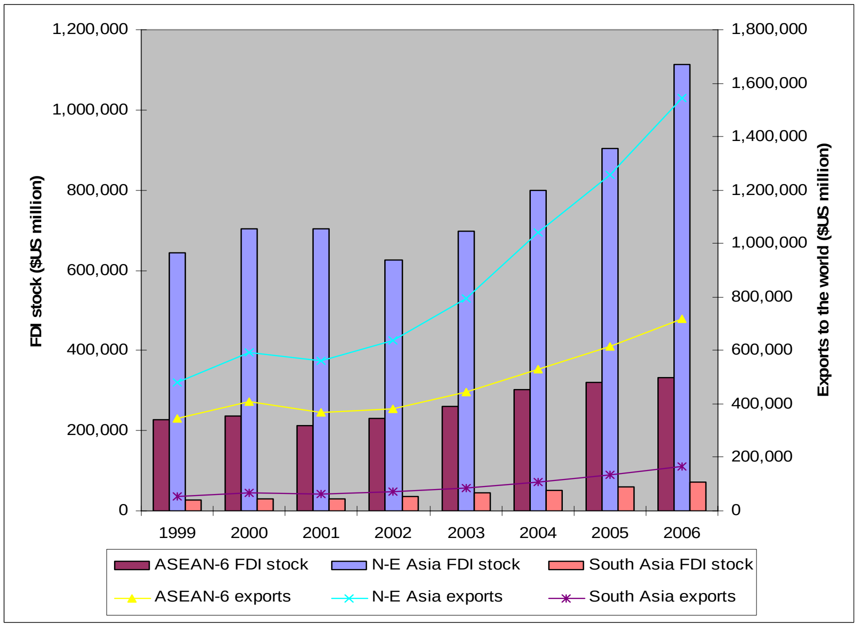
Table 1 - Summary of bilateral trade and investment relationships

	Effect of FDI inflow (FDI_{ij}) on Trade	**Effect of trade on FDI inflow (FDI_{ij})**
Total trade between home and host country	++	+++
Exports from home to host country (EX_{ij})	+	+++
Exports from host to home country (EX_{ji})	+	+
Imports of home from host (IM_{ij})	++	++
Imports of host from home country (IM_{ji})	++	+++
Exports from home country to ROW (EX_{io})	-	++
Exports of host country to ROW (EX_{jo})	--	+
Imports of home country from ROW (IM_{io})	+	+++
Imports of host country from ROW (IM_{jo})	+	++

Note: + and – signs represent the directions of the effect; the number of + or - signs for each relationship indicates the strength of the effect. ROW: rest of the world
Source: Chaisrisawatsuk et al. (2007)

[3] Dataset included OECD and ASEAN-6 countries bilateral trade flows and bilateral FDI inflows from 1980-2004

Figure 1 - Exports and FDI stocks in Asia (1999-2006)



Source: calculated by the author; data compiled from WITS, ITC trade-map and investment-map.
Notes: (1) N-E Asia: North East Asia flows include only China, Hong-Kong, China, Taiwan Province of China, Rep. of Korea, and Mongolia export and FDI flows; (2) South Asia includes Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka

Figure 1 illustrates this positive link between trade and investment flows in Asia, where sub-regions that exports most are also the ones where foreign direct investment flows are highest[4]. Interestingly, although the South Asian grouping includes the fast growing economy of India, manufacturing exports from that region remain small compared to those of other Asian sub-regions. The figure also suggests that exports of Southeast Asian countries might not be keeping up with those of North-East Asia.

At the regional level, the realization that trade, investment and other economic policies were inextricably interlinked has led governments in the region to re-think the way economic cooperation agreements were negotiated. The tendency is now to negotiate broader economic cooperation agreements and the many bilateral preferential trade agreements that have flourished in recent years in Asia now include investment provisions (see, e.g,, Kumar, 2007; Sauve, 2007).

At the national level, although some form of overall economic policy coordination mechanisms are in place in all countries, the extent to which trade and investment policies are actually coordinated, and the extent to which they are developed through inclusive consultations, often remain unclear. Information obtained from Asian ESCAP member countries during an ARTNeT Consultative Meeting held in July 2007 show that the institutional mechanisms vary greatly from country to country (see Annex 1). Four of the eleven developing countries who provided inputs - for example, Malaysia - appear to have one reportedly have one ministry or department responsible for both trade and investment policy issues, while others - for example, Thailand - deal with trade and investment through two distinct institutions.

[4] The figure also suggests that FDI lags exports by one to 2 years – e.g., the slowdown in export in 2001 seem to correspond to a slowdown in FDI inflows in 2003- , although this would need to be confirmed by a more rigorous analysis

All countries readily recognized the need for extensive consultations among ministries and agencies, as well as the private sector, in order to develop appropriate trade and investment policies. While little detail is available on the consultation processes in place in each country at this stage, it appears that consultations in some countries take place only at a relatively high level, thus possibly excluding relevant but less organized stakeholder groups in the discussion, such as small businesses, local governments, as well as unaware line ministries. In addition, consultations with the private sector appears to take place through chambers of commerce and business associations, implicitly assuming that those organizations are truly representative of the needs of the private sector, which may not always be the case. Finally, involvement of non-government stakeholders other than from the business sector seems limited in most of the countries, although experts from academia seem to be involved in some of the apex policy planning bodies.

II. Business perceptions on trade and investment policy coherence in Bangladesh, Nepal and Sri Lanka[5]

Small scale perception surveys were conducted among investors, importers and exporters in all three countries. The design of the initial survey instrument was inspired from the OECD Policy Framework for Investment (PFI), as this framework was thought to provide an appropriate basis for the development of more comprehensive and integrated trade and investment policy frameworks in countries of the region. The pilot survey/interview instrument is provided in Annex II.

A. On the importance of trade relative to other policies for investment

One important objective of the exploratory surveys was to identify the importance of policies other than investment policies and related investment promotion activities on investment. The results suggest that both trade and tax policies play a crucial role in influencing investor’s decision to continue to invest (see table 2). Infrastructure and financial sector development as well as public governance are also perceived as very important by investors, followed by human resource development policies. In contrast, competition policies, corporate governance policies and responsible business conduct policies are ranked as relatively less important investment-related policies by investors in the three countries. Those results are broadly consistent with expectation, as these policies, and the last two in particular, may be seen as likely to reduce the freedom of investors[6]. In addition, the non-existence or weakness of these policies in the countries studied, as in many other developing countries in the region, may lead investors to undervalue their importance and potential benefits.

[6] This argument is less compelling for competition policies as investors may assess these policies differently depending on market structure and their relative market dominance. Competition policies can indeed be seen as increasing investor’s freedom to compete and enter new markets.

Table 2- Importance of selected policies for investors in three South Asian countries

Policies	BANGLA DESH	NEPAL	SRI LANKA	*Overall Rank*
Trade Policy	1	1	2	*1*
Tax Policy	2	2	1	*2*
Infrastructure and Financial Sector Development	2	3	4	*3*
Public Governance	4	4	2	*3*
Human Resource Development Policies	4	4	4	*5*
Competition Policy	7	8	4	*6*
Corporate Governance Policy	7	4	7	*6*
Responsible Business Conduct Policies	4	7	8	*6*

Source: ARTNeT pilot surveys conducted by IPS, CPD and IPRAD, 2007

The difference in importance between the first four policy areas that may affect investors is not large, suggesting that investors on average value an integrated and balanced approach to the development of a favorable investment environment. This result points to the need for regular assessment of the various policy areas from the investor point of view to monitor which may be becoming the "weakest link" for investment.

The results of the exploratory survey also suggest that the priority and importance of various components of a holistic/comprehensive policy framework are likely to vary substantially across stakeholder groups, including among investors themselves. For example, results from Bangladesh indicate that foreign investors put the same emphasis on trade and tax policies, while domestic investors emphasized mainly trade policy. Non-exporting domestic producers also stressed the importance of tax policy relative to trade policy, in contrast to exporters. Interestingly, multi-national corporations seemed to perceive all policy areas as equally important, while other private stakeholders' ranking of the importance of policies varied much more substantially – the absolute ranking in importance of the policies remained similar, however.

The regular assessment of the various policy areas within an agreed comprehensive trade and investment policy frameworks, as suggested above, would therefore need to involve a balanced representations from the various investors (e.g., based on size and export orientation), as well as from consumer and other stakeholder groups (which are likely to emphasize competition policies and corporate governance)[7].

B. On the complementarity between trade and investment policies

The perception of the business sector stakeholders interviewed support the idea of complementarity between trade and investment, with 92% of Sri Lankan respondents, 88% of Bangladeshi respondents and 80% of Nepalese respondents agreeing that

[7] It may be worth noting in that context, that it is unlikely that any government agencies could conduct this assessment in an unbiased manner, and that it may therefore be more appropriate to leave these assessments to independent research institutions to the extent possible.

"policies relating to trade in goods and services can support more and better quality investment by expanding opportunities to reap scale economies and by facilitating integration into global supply chains, boosting productivity and rates of return on investment".[8] The perception of the business sector is consistent with findings based on econometric analysis, such as in Chaisrisawatsuk et al. (2007) and Lee and Lee (2007)[9]. The differences in perception across the three countries may provide an indication of the business sector's readiness for further liberalization.

C. On Businesses' satisfaction with trade policy measures for investment

While business sector stakeholders overwhelmingly recognize the importance of the trade and investment link, they generally indicate that they are only "somewhat satisfied" with trade policies and measures taken by their governments and which may affect investment.

Table 3 - Investors' satisfaction with trade related policies and measures

Private sector satisfaction with:	**BANGLADESH**	**NEPAL**	**SRI LANKA**	**Average**
The mechanisms in place to consult investors and other interested parties on planned changes to trade policy	2.2	**2.0**	**1.9**	***2.0***
The level of trade policy and regulatory certainty and predictability	1.9	2.4	2.0	*2.1*
The customs, regulatory and administrative procedures at the border and related compliance costs	**1.8**	2.1	2.4	*2.1*
The Government efforts to enter into market-expanding international trade agreements (including implementation of WTO commitments)	2.1	2.1	2.6	*2.3*
The measures seeking to address weaknesses in sectors of importance to traders (e.g., Gov. support to export finance and import insurance schemes)	2.2	2.3	2.5	*2.3*
Overall level of satisfaction	***2.0***	***2.2***	***2.4***	***2.2***
Note: 1=not satisfied; 2=some what satisfied; 3= satisfied; 4= very satisfied; 5= fully satisfied				
Source: ARTNeT pilot surveys conducted by IPS, CPD and IPRAD, 2007				

As shown in table 3, *Uncertainty and unpredictability of trade policy and regulations* (TPM1)[10] may be more of an issue in Bangladesh, while the *mechanisms in place to consult investors on planned changes to trade policy* (TPM2) appear to be of most concern in Nepal and Sri Lanka. Among the trade policy/regulatory areas included in the survey, *customs, regulatory and administrative procedures at the border* (TPM3) is the one for which the Nepalese business sector seem to be least satisfied.

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8 Chapter 3, OECD Policy Framework for Investment.

9 While Lee and Lee (2007) also find exports and FDI to be generally complementary, they find the relationship between exports and FDI of Korean multinational firms to be more complementary when their affiliates are located in a less developed country – as opposed to in a developed country.

10 TPM1-5: Trade Policy Measures suggested in the OECD PFI.

Government *efforts to enter into market-expanding international trade agreements* (TPM4) is the area in which the highest level of satisfaction is reached in Sri Lanka. Businesses also seem to be relatively more satisfied with *Government measures seeking to support overall trading activities* (TPM5), potentially suggesting that they find that these specific trade support measures (e.g., Government backed trade finance) may not significantly affect investment, as opposed to tackling broader systemic issues.

Stakeholders satisfaction with policies appear to also depend on the sector in which they operate. In particular, companies or representatives of traditional manufacturing sectors appear to be relatively more satisfied than the companies operating in fast growing service sectors. For example, in Sri Lanka, 78% of the services companies in the sample agreed that government tended to be unpredictable and discouraged further investment, while government policy was only seen as a problem by 35% of the textile and clothing manufacturing companies.

D. On prioritizing actions and trade policy measures to improve the overall policy framework for investment

The priorities identified by the business sectors generally reflect quite directly there levels of satisfaction discussed earlier. The highest priority identified in both Nepal and Bangladesh is to reduce compliance costs of regulatory and administrative procedures. Reducing trade policy uncertainty and consulting investors and other interested also receive high priority.

Priority rankings in Sri Lanka are different, reflecting in part its higher level of economic development. Reducing regulatory compliance costs only comes fourth in terms of policy priority. Increasing trade policy predictability appears to be highest priority, with 90% of the business sector asking for this issue to be tackled as part of a national policy framework on investment. Implementation of trade policy measures that address sectoral weaknesses in the country is also seen as high priority, followed by the need to consult investors on planned trade policy changes.

Interestingly, results in all three countries indicate that "*increasing investment opportunities through market-expanding international trade agreements*" should receive a low priority relative to the other trade policy measures identified in the survey (i.e., TPM1, 2 ,3 and 5). This result is striking given the time and resources governments in the region have allocated in recent years to the negotiation of trade agreements, particularly and increasingly at the bilateral level, and puts into question the effectiveness and need for these agreements.

III. Conclusion and implications

Results presented and discussed in this paper should be interpreted with caution as they are mainly based on small scale exploratory pilot surveys in three countries. More extensive and structured data collection efforts would be needed in both the three countries studied, as well as in other countries in Asia, to confirm the results and draw strong policy conclusions for either individual country in the region.

That being said, the three country case studies suggest the following trade-related policy directions to improve trade and investment policy frameworks in developing countries of the region:

- *Reduce uncertainty/increased predictability of trade policy as well as related policies*. This can be achieved by increasing lead time and information provided to stakeholders before a policy change is made and making sure that the policy changes do not occur too frequently. Simplification of trade policies, for example by simplifying tariff schedules, may also be helpful in this regard. More effective use of the WTO and its rules-based system could also be made as a means to lend predictability and irreversibility to trade policy-making and trade policy reforms.
- *Review existing institutional mechanisms in place for trade and investment policy making, and revise them as necessary to ensure more integrated and inclusive trade and investment policies*. The mechanisms should, to the extent possible, engage all relevant stakeholder groups in developing policies regularly and consistently. Efforts to identify individuals and organizations truly representative of the private sector or consumers may be particularly beneficial. Relying on independent research institutions to identify private sector and consumer interest may be necessary given the difficulty associated with identifying representative samples. In the context of identifying consumers' interest, regional and comparative analysis of consumers' well-being (i.e., of their purchasing power in various sectors) may be highly relevant and could be facilitated by Governments.
- *Allocate resources to strengthening policy implementation and enforcement, as opposed to developing new policies*. For example, as suggested by the results in this study, reducing human and capital resources spent on negotiations of bilateral agreements and increasing resources that go into border trade management and facilitation may be considered in many developing countries in the region.
- *Build capacity and develop institutional mechanisms to regulate emerging or fast growing sectors, particularly in services*. While many governments have significant experience in regulating the agricultural and manufacturing sectors that were gradually opening, many have much less experience dealing with fast growing and sometimes fast-opening national service sectors. Services sectors (e.g., health, transport, finance, and telecommunication) often involve ministries and agencies that have not been routinely or closely involved in international trade and investment policy issues, leading to a lack of coherence and policy predictability in these sectors.
- *Take a holistic, as opposed to a narrow or negotiation's based approach to international trade and investment policy making*. Business representatives surveyed perceived that many non-trade policy and non-investment policy issues affect their ability and willingness to trade and/or invest. Focusing more on developing business facilitation and competitiveness policies - regardless of whether the businesses are

domestic or foreign owned – may actually be more effective in increasing trade and generating investment.

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Annex I

Trade and Investment Policy Coordination in Selected Asian Developing Countries

This annex is a collection of unedited inputs collected from Government participants to the ARTNeT Consultative Meeting on Trade and Investment Policy Coordination, organized by ESCAP on 16-17 July 2007 in Bangkok, Thailand. Inputs from the following 11 countries are available in this Annex:

- Bangladesh
- Bhutan
- Cambodia
- Lao PDR
- Malaysia
- Mongolia
- Nepal
- Pakistan
- Philippines
- Sri Lanka
- Thailand

Trade and Investment Policy Coordination in Bangladesh[11]

National level

The overall trade and investment policy of the country is composed of a number of policies, in particular a) Bangladesh Industrial Policy, b) Bangladesh Export Policy, c) Bangladesh Import Policy, d) Taxation Policy. However, various Ministries and organizations are involved in formulating and implementing these policies.

According to the Rules of Business of the government, Ministry of Industry deals with investment issues, Ministry of Commerce deals with import and export policies and Ministry of Finance is involved with the fiscal and taxation policies. In the process of formulation and implementation of these policies, the concerned Ministry holds consultations with all the related government bodies, private sectors, stakeholders, think tanks, research organizations, academics, NGOs, members of the civil society and other related persons. In addition to holding consultation meetings, written comments are also sought from important agencies and bodies. Even in the process of implementation consultation meetings are being held on specific issues as and when necessary. There are also few standing bodies which meet regularly to review the issues and take decisions on various on-going issues. In fact, this is the system how trade and investment policies are being coordinated in our country. Though this system of coordination is going on in our country for a long time, sometimes it does not work up to the mark. Many important issues fail to be addressed properly just due to lack of proper coordination.

For example, in each of our export policy projection, government declares few sectors as thrust sectors and keeps various provisions of facilities with a view to attracting investment in these sectors and increasing exports. However, every time it is found that expected outcome could not be achieved. One of the main reasons for not achieving the expected result is lack of proper coordination. So, I think we need to improve this system through which trade and investment issues could be better coordinated.

Bilateral, Regional and Multilateral levels

The international framework for financial and economic transactions has significantly changed with the presence of various multi-lateral, regional and bi-lateral trade agreements. Bangladesh is an active member of the World Trade Organization (WTO). Moreover, it has also been pursuing liberalization through many regional free-trade agreements like South-Asian Free Trade Area (SAFTA), BIMSTEC (comprising of Bangladesh, India, Myanmar, Sri Lanka and Thailand, including new members-Nepal and Bhutan) Free Trade Agreement and the Asia Pacific Trade Agreement (APTA). Bangladesh has also signed Preferential Trade Agreement with D-8 member countries. It is expected that all these RTAs will facilitate foreign investment and industrial relocation in Bangladesh. One of the objectives behind pursuing trade through these RTAs is to attract more foreign and local investment in the export oriented industries of the country. With this end in view every negotiating position is formed by consulting with the government and private sector bodies, along with other stakeholders, which are related to investment.

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[11] Based on inputs by Golam Mostakim, Amitava Chakraborty and Muhammad Amin Ullah, ARTNeT Consultative Meeting, July 2007

Trade and Investment Policy Coordination in Bhutan[12]

National level

Since the early 1990s the Royal Government of Bhutan has placed particular emphasis on the development of the private sector in Bhutan. Various measures have since been taken to support the growth of the private sector. One such initiative is the establishment of the Private Sector Development Committee (PSDC). Among other things, the PSDC is involved in synchronizing various policies, rules and regulations affecting the trade and investment sectors.

Bhutan has further taken numerous legal, policy and institutional reforms to foster a strong private sector and to prepare for our integration into the global economy. The National Assembly in June 2006 enacted the Media Bill, Office of the Attorney General Bill, Audit Bill, Anticorruption Bill.

Bilateral, Regional and Multilateral levels

Bhutan is actively pursuing accession to the WTO.

At the regional and multilateral level Bhutan is a member of the South Asian Association for Regional Cooperation (SAARC) and BIMSTEC. The National Assembly in June 2006 ratified the South Asian Free Trade Agreement (SAFTA). Discussions are underway within the SAARC framework for investment rules and procedures.

In pursuance of the Royal Government's trade policy to integrate into the regional and the global economy, Bhutan has been active in the South Asia Free Trade Area (SAFTA) and the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC) negotiations. The SAFTA agreement for Trade in Goods has been concluded and implementation is underway since January 2006. The Agreement on Trade in Goods under the BIMSTEC Free Trade Area is in an advanced stage and the Agreement on Trade in Services and Agreement on Investment are scheduled to be concluded in December 2007. We have also renewed the Agreement on Trade, Commerce and Transit with India in July 2006.

[7] Based on inputs by Om P Nirola, ARTNeT Consultative Meeting, July 2007.

Trade and Investment Policy Coordination in the Cambodia[13]

National level

Decision Making Body
Chairman: Samdech Prime Minister
1st Vice Chairman: Sr. Minister, Minister of Economy and Finance
Vice Chairman: Sr. Minister, Minister of Commerce
Vice Chairman: Sr. Minister, Minister of Commerce
Secretary General of CDC
Secretary General of CIB (Private Investment)

Council for the development of Cambodia(CDC)/
Cambodian Investment Board(CIB)

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Relevant Working Groups for dialogue with private sector*

*Working Group on Agriculture and Agro-industry; Working Group on Tourism; Working Group on Manufacturing and Distribution; Working Group on Legislation, Taxation and Governance; Working Group on Services including Banking and Finance; Working Group on Energy and Infrastructure; Working Group on Export Processing; Vocational and Training.

The Government issued a Decisions to create working groups representing the Royal Government in 8 sectors, each Working Group comprises of members of the government (Ministers and Secretary of States), policy makers and technical staff. The composition itself reflects the need to ensure coherent between trade and investment policy as well as to obey the general policy of the government at macro level. The Working Groups which were primarily created to facilitate the public-private dialogue are set to meet monthly to discuss any outstanding issue/new issues. Each Working Group has its respective co-chair, one from the government side and another represent private sector group. Some of the issues have been solve at this level, however, in case could not solved at this level, the issues will bring to the attention of Prime Minister during Public-Private forum which is scheduled to hold every six month.

From the text of Prime Minister's decision itself, each working group has the following main tasks: (i) to discuss and share views/inputs with the private sector partner in order to resolve outstanding issues within their field of responsibilities and, where necessary, submit them to relevant competent authorities for consideration and action; (ii) to consult with private sector on strategic initiatives to improve the performance of existed investment enterprises and to attract new investments; reports to the Royal Government the result of works to form the basis for Prime Minister's decisions during Government-Private Sector forum; to handle other pertinent works within respective responsibilities as tasked by the Government. The Council for the Development of Cambodia has been acting as focal point for handling all communications among working groups and submit a summary report to the Royal Government.

The forum thus far has been viewed as effective and fruitful. Most of the importance decisions have been taken during this procedure. Among examples, following Prime Minister's recommendations, progresses have been made: the establishment of a joint permanent Customs-Camcontrol focal point to facilitate and accelerate the inspection and clearance process in garment factories which employed more than 2,000 employees; the number of steps have been reduced from eleven to eight steps regarding the procedure and processing application for the issuance of certificate of origin, visa on commercial invoice, and export license; there has been a

13 Based on inputs by Yuvaroath Tan, ARTNeT Consultative Meeting, July 2007.

significant and reduction in fees; the reduction in the minimum capital requirement from US$5,000 to $1,000; the cost of registration down from $615 and 30 days to $177 and 10.5 days; the development of a single administrative document, etc.

Strong leadership of the Prime Minister, good will from both Government officials at all level and Private Sector group in solving the problem based on common interests and mutual respect are among key factors to the success of the mechanism.

Bilateral, Regional and Multilateral Levels

According to an official of the Cambodian Investment Board, the negotiations of preferential trade and preferential investment agreement (bilateral investment treaties) are very well coordinated.

There are mechanisms for ensuring coherent between trade and investment policy. At the minimum, in the process of preparing for Negotiation overseas, given budget constraint, there usually an inter-ministerial meetings (an internal process to ensure the country's interests being observed) in which all interested parties come together to provide a general comments, inputs and/or suggestions on their relevant parts of responsibilities and competencies. At the higher terms, the officials from relevance agencies are invited to take part in the negotiating team which normally led either by officials from Cambodian Investment Board.

Cambodia has signed bilateral treaties with 19 countries. Among those are member countries of ASEAN, France, Japan, China, Republic of Korea, United States, etc. Cambodia has engaged in regional initiative, in the context of ASEAN Investment Area and in the Negotiation of alike in the framework of ASEAN plus three (People's Republic of China, Republic of Korea, and Japan) and with Australia-New Zealand.

Trade and Investment Policy Coordination in Malaysia[14]

National level

The Ministry of International Trade and Industry is the lead agency with regard formulation of policies on external trade and investments in the manufacturing and non-Government services sectors. In formulating policies, be it on trade or investment, the Ministry of International Trade and Industry continues to engage in consultations with the agencies listed in the respective columns in the figure below, including private sector participation through the various related trade and industry association. All policies are approved by the Malaysian Cabinet.

CABINET

MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY

TRADE POLICY	INVESTMENT POLICY
Malaysia External Trade Development Corporation	Malaysian Industrial Development Authority
Economic Planning Unit Prime Minister's Office	Economic Planning Unit Prime Minister's Office
Ministry of Finance	Ministry of Finance
Ministry of Plantation Industries and Primary Commodities	Trade and Industry Associations
Ministry of Agriculture and Agro-based Industries	
Ministry of Domestic Trade and Consumer Affairs	
Trade and Industry Associations	

Bilateral, Regional and Multilateral Levels

All negotiations of trade and investment treaties are led and coordinated by the Ministry of International Trade and Industry. Malaysia's involvement in regional or multilateral initiatives on investment rule-making, among others include:

- Conclusion and implementation of the ASEAN Investment Agreement.
- Participation in two meetings of the OECD task force on a Policy Framework for Investment.

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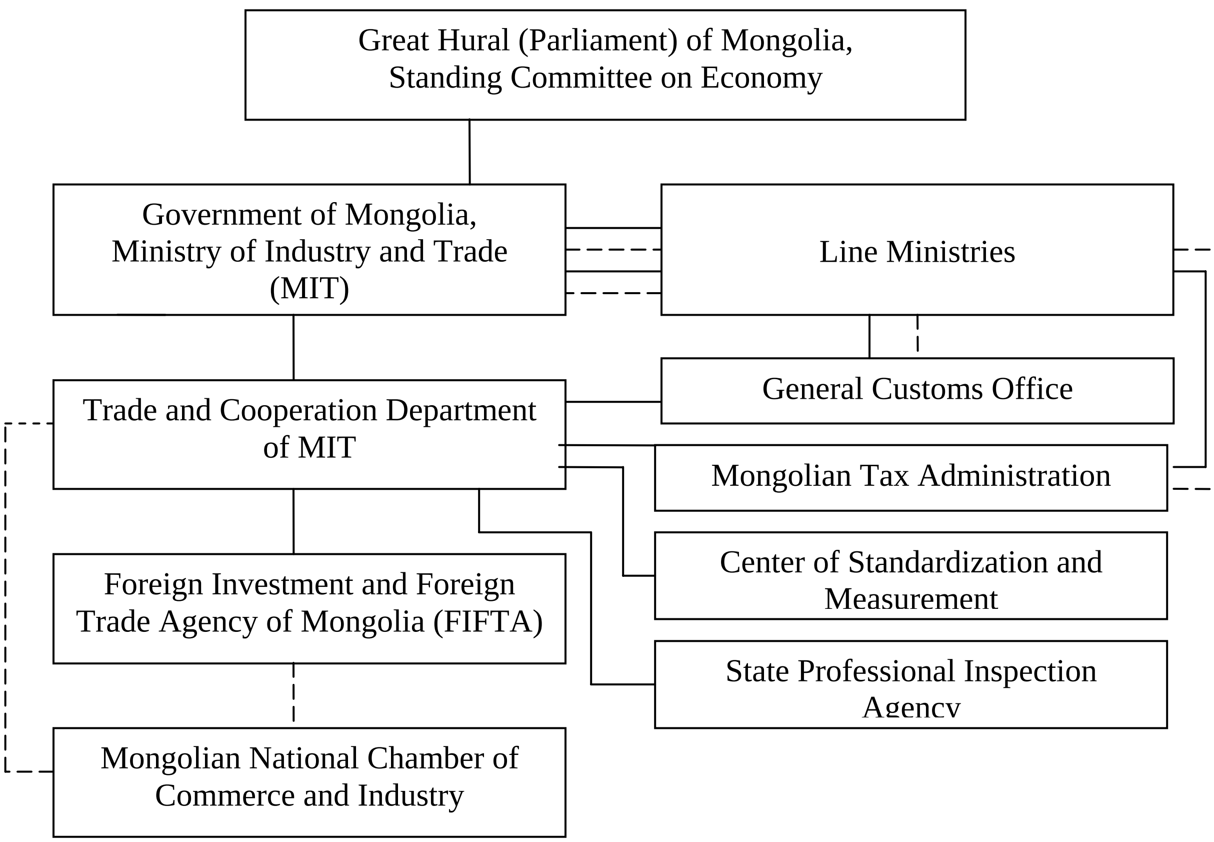
14 Based on inputs Khuruddin Bin Said, ARTNeT Consultative Meeting, July 2007

Trade and Investment Policy Coordination in Mongolia[15]

National level

Parliament of Mongolia, its Standing Committee on Economy is responsible for approval of laws related to trade and investment among wide issues on economy. Government of Mongolia, Ministry of Industry and Trade – for strategic planning and policy coordination of on trade and investment issues. Foreign Investment and Foreign Trade Agency of Mongolia (FIFTA), a governmental implementing agency responsible for the promotion and facilitation of foreign direct investment and foreign trade in the country. Mongolian National Chamber of Commerce and Industry as representative of private sector presents their comments and suggestion on trade and investment issues informally.

Figure 1. Organizational chart for trade and investment policy coordination



Bilateral, Regional and Multilateral levels

To date Government of Mongolia concluded bilateral investment treaties (BITs) with 39. BITs are concluded by Ministry of Foreign Affairs with consultation of Ministry of Industry and Trade, relevant ministries and agencies. Mongolia is not involved in any related Regional or Multilateral initiative on Investment rule-making.

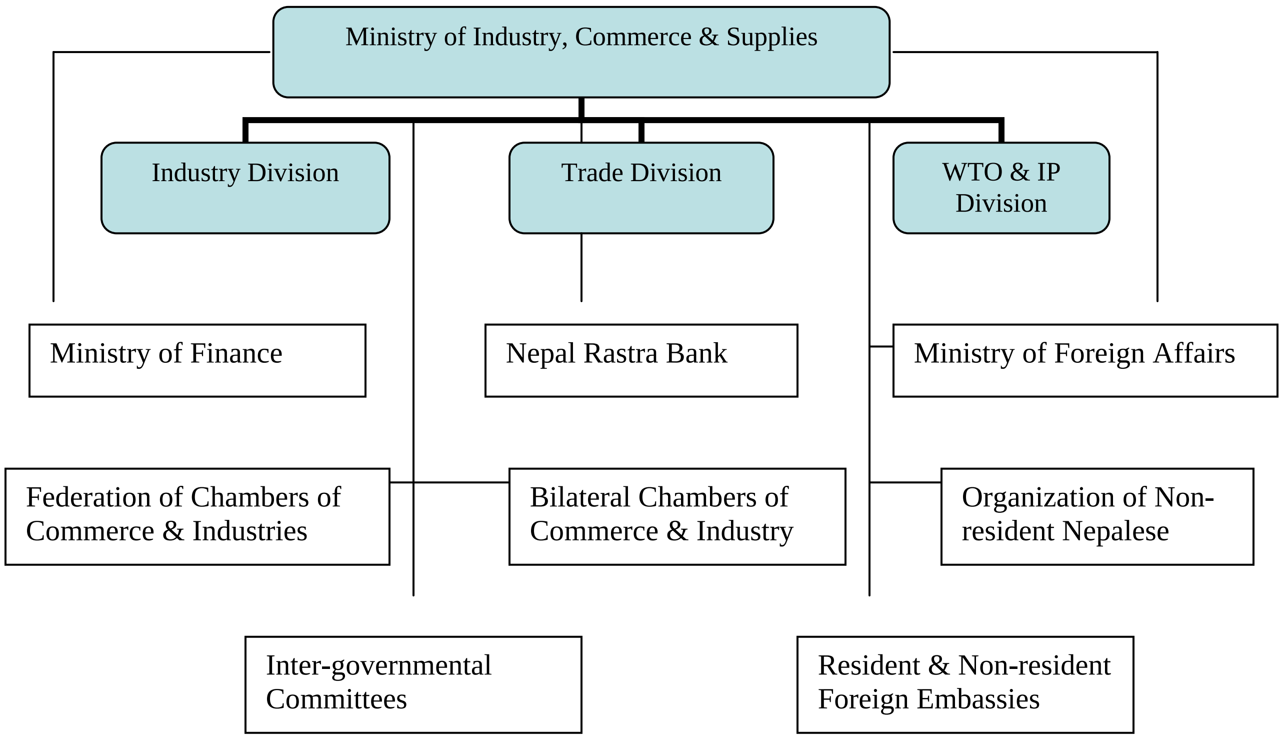
Trade and Investment Policy Coordination in Nepal[16]

National level

[15] Based on inputs by Dashnyam Nachin, ARTNeT Consultative Meeting, July 2007

[16] Based on inputs from Prachanda Man Shrestha and Shanti Ram Sharma, ARTNeT Consultative Meeting, July 2007.

The following figure depicts the institutional/consultative mechanism dealing with trade and investment policy coordination in Nepal.



The mechanism instituted by the Nepal Government for trade and investment policy coordination includes 3 divisions of the Ministry which are core divisions of the Ministry acting on industry, investment and trade policies, the Ministry of Finance, Nepal Rastra Bank (the central bank), and the Ministry of Foreign Affairs, which insert effects on investment and trade policy through fiscal and monetary policies and economic diplomacy. The mechanism includes also the main institutional players like FNCCI, bilateral chambers of commerce and industries and Organization of Non-resident Nepalese, which through their own channels, affiliation and mechanism, take on the issues of investment and trade with their foreign counterparts. Bilateral inter-governmental committees instituted by the Nepal Government and the respective governments, mainly for the purpose of resolving trade and investment related outstanding issues also sit regularly. The Ministry also takes up dialogues with residential foreign embassies when and where necessary on outstanding economic issues.

It is the practice in Nepal that when BIPPA proposals or proposals on trade and transit agreements are received or forwarded, the negotiation team constitutes representatives of all government stakeholders with the backing up of private sector agencies. This mechanism helps building national standings on these matters. Failing to reach consensus among stakeholders on such issues may be disastrous.

Bilateral, Regional and Multilateral Level

Coordination is maintained at bilateral level, when there is an international trade issue affecting respective countries. For example, issues relating to trade facilitation, favoured nation treatment, doing away with non-tariff barriers on trade are some of the example, in which bilateral, regional and global consultation has been a regular phenomenon among group of nations aspiring for such arrangements.

Presently, SAARC nations are working on concluding regional investment treaty and representative of our Ministry is in the regional level negotiation team under the aegis of SAARC Secretariat. Likewise, we are pursuing BIPPA with Egypt, Denmark and India and at the moment, there has been bilateral talks on this subject. Presently, Nepal is seeking duty-free access of its product to Chinese markets and there are talks to this effect at different bilateral levels in order to reduce huge trade imbalance. Further, Government and Chambers are also initiating dialogues with respective Chinese counterparts to increase Chinese FDI into Nepal with a view to make up for the trade gap.

Nepal is a member of LDCs Club, lobbying in WTO negotiation rounds presently for the implementation of integrated framework and differential treatment for LDCs. Bilateral Inter-governmental Committees meet regularly to resolve cropping up and outstanding trade and investment issues.

Trade and Investment Policy Coordination in Pakistan[17]

National level

Pursuant to a regular public private consultative mechanism, Board of Investment (BOI) Secretariat drafts a certain investment policy with all stake-holder Ministries, provincial governments, Chambers of Commerce & Industry, multinational companies, and private sector on board. With certain rounds of the consultative process, the draft proposal is submitted to the Cabinet/ Cabinet Committee on Investment (CCOI) for approval. The CCOI is composed of:

1)	The Prime Minister of Pakistan	Chairman
2)	Minister for Commerce	Member
3)	Minister for Communication	Member
4)	Minister for Food, Agriculture and Livestock	Member
5)	Minister for Industries, Production and Special Initiatives	Member
6)	Minister for Information Technology and Telecom.	Member
7)	Minister for Petroleum and Natural Resources	Member
8)	Minister for Privatization and Investment	Member
9)	Minister for Textile Industries	Member
10)	Minister for Tourism	Member
11)	Minister for Water and Power	Member
12)	Advisor for Finance and Revenue	Member
13)	Minister for State for Privatization and Investment	Member
14)	Deputy Chairman Planning Commission	Member
15)	Chairman Board of Investment	Member

The same consultative process is followed up in case of drafting up of the trade policy but this time instead of BOI, the Ministry of Commerce acts as a secretariat and coordinates with all stakeholder Ministries, Chambers of Commerce & Industry, multinational companies, and business/ manufacturers' associations. The draft, thus, is submitted to the Cabinet headed by the Prime Minister of Pakistan for approval.

National decisions on trade and investment policy involve a range of public institutions and agencies with a variety of economic, social and regulatory mandates that must work together to ensure that trade and investment exchanges contribute to development. Consultation and consensus building among ministries and agencies involved in trade and investment policymaking and negotiations is essential to good economic governance, ensuring commitment to trade reform and full understanding of the reform's legislative, regulatory, and financial implications, as well as its effects on human resources.

Bilateral, Regional and Multilateral

Pakistan has signed Bilateral Investment Treaties (BIT) with 48 countries. Similarly, at regional level, Pakistan is member of Economic Cooperation Organization (ECO) and South Asian Free Trade Agreement (SAFTA).

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17 Based on inputs by Manzoor Ahmad Kayani, ARTNeT Consultative Meeting, July 2007

Trade and Investment Policy Coordination in the Philippines[18]

National level

I. Mechanism for the Enactment of Investment Policies

STEP 1: Proposal of concerned agency (e.g. BOI, PEZA, SBMA, CEZA)
STEP 2: Congress – deliberation of the Lower House

Public Hearing with the private sector

STEP 3: Senate deliberation

Public Hearing with the private sector

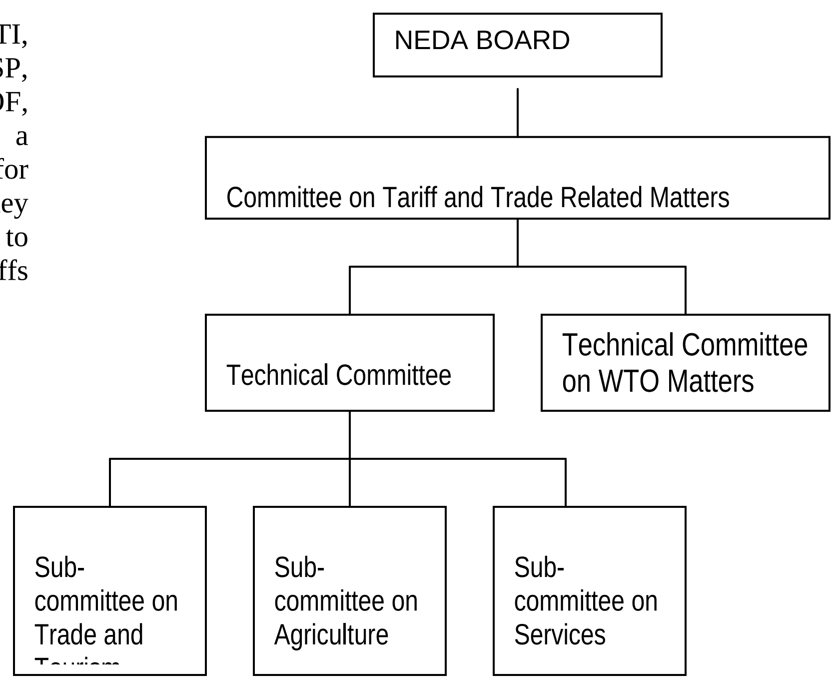
STEP 4: Bicameral deliberation
STEP 5: Investment policy enacted into law upon signature of the President

A proposal emanating from the concerned agency will be submitted to Congress for deliberation and will be subjected to a public hearing. Upon clearance/approval from the lower house and after the necessary amendments to the proposal arising from the deliberations and public hearing, the proposal will be forwarded to the Senate, following the same process. Upon clearance from both senate and congress, a bicameral meeting will finalize the proposal for submission to the President.

II. Trade Policy Decision

The NEDA Board, composed of DTI, NEDA, DFA, DA, DENR, DBM, BSP, TC, OP, DAR, DOLE and DOF, recommends to the president a continuous rationalization program for the country's tariff structure and they meet as often as necessary to address/resolve issues involving tariffs and trade.

The Sub-committees under the Technical Working Group meets with private sector organizations/ representatives to discuss issues at hand and gather information that would aid in the decision-making process.



18 Based on inputs by Kenneth T. Yap, ARTNeT Consultative Meeting, July 2007.

Trade and Investment Policy Coordination in Sri Lanka[19]

National level

The main bodies responsible for coordination of trade and investment policy issues are the Department of Commerce and the Board of Investment of Sri Lanka. These two institutions are always called for discussions, when policy decisions are taken by other institutions, such as the Ministry of Finance, National Council for Economic Development, which are at higher levels. Any institution formulating trade or investment policy measures, also usually conducts a series of discussions with all line Ministries, government institutions and, wherever possible, the private sector through industry associations and/or with trade Chambers. Sometimes, companies participate at those discussions directly by themselves when they are major stakeholders. The private sector therefore takes part in the process of policy formulation in trade and investment. As a result of the close cooperation at government and private sector levels, there are rarely clashes between trade and investment policy sectors.

However, occasionally, conflicts have arisen with government agencies not directly involved in the formulation of national economic policies, e.g., certain policies based on health, labour, environment, and the requirements of local authorities.

It is difficult to create an organization chart as a large number of Ministries and local government authorities are involved. All such institutions may take an active role in policy formulation from time to time, depending on the issues.

Bilateral, regional and multilateral levels

Sri Lanka trade and investment policies recognized the importance of regional, bilateral and multilateral agreements that can reduce barriers to trade and investment. The negotiation process of those agreements is based on numerous consultations with line Ministries and the government, taking adequate measures to obtain the consensus of the line Ministries before and during negotiations.

Sri Lanka has a low incidence of disputes at implementation stage. Comparatively, we are satisfied with the result we have achieved due to coordination in Sri Lanka with government agencies and the private sector.

Although Sri Lanka is keen on regionalism, it has always supported and adhered to a liberalized multilateral trading system that supports the need of developing countries.

19 Based on inputs by Dayasiri Palamandadige Fernando, ARTNeT Consultative Meeting, July 2007.

Trade and Investment Policy Coordination in Thailand[20]

National level

The ministries of Commerce and Finance have important responsibilities for most trade and investment related issues. However, trade and investment policy typically involve many ministries and agencies including, interalia, the central bank, the Board of Investment, The National Economic and Social Development Board (NESDB), as well as relevant line ministries such as the ministry of Agriculture, or Public Health, among others. All trade and investment policies and other economic development policies will have to be approved by the Prime Minister and his cabinet. The NESDB under the Prime Minister Office is the Planning and Advisory organisation comprising of many related ministers involved. The same applies to Thailand Board of Investment which has all economic ministers and representatives from the private sectors association including academic personal sitting as members of the Board. Now policy and regulations will be debated widely among these representatives.

Foreign and domestic investors and representatives of the private sector can make proposals or recommendations related foreign investment regulations through various mechanisms such as the Joint Public and Private Consultative Committee (JPPCC); Joint-Standing Committee on Commerce, Industry and Banking (JSCCIB) - which comprises the Board of Trade of Thailand, the Federation of Thai Industries, and the Thai Bankers' Association; Foreign Chamber of Commerce including each country's Chamber of Commerce; and several ad-hoc working groups consisting of representatives from public agencies and private sectors institutions. Memorandum of Understanding (MOU) had been signed among private sector organisations and served as guidelines for bilateral and multilateral cooperation on Trade & Investment Promotion as well as barriers elimination. Public hearing is a common channel through which the opinion of the private sector has representatives in the Board of Investment, which is responsible for establishing investment promotion policies and considering investment projects applying for promotion.

Bilateral, Regional and Multilateral

The Department of Trade Negotiations (Ministry of Commerce) is responsible for bilateral and multilateral trade negotiation, but consults extensively with other government agencies and non-government agencies.

Thailand's active engagement in bilateral, regional and multilateral economic arrangement reflects the readiness to integrate itself into the world economy. It is supportive of a multilateral trading system. It is also an original member of ASEAN, including the ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement Services (AFAS), ASEAN Industrial Cooperation Scheme (AICO), and ASEAN Investment Area (AIA). ASEAN members are also a pursuing bilateral cooperation with non-member states and other regional inter-government organization which include the Andean Council, The Australian-New Zealand Closer Economic Relations (CER), MERCOSUR, etc.,

Thailand is also a member of APEC, ASEM, BIMST-EC and participate actively in the GMS-EC forum. Thailand has signed a number of bilateral FTAs. FTAs that are under negotiation are ASEAN-China, ASEAN-India, ASEAN-Japan, ASEAN-CER, ASEAN-EU, BIMSTEC, Thai-India, Thai-EFTA.

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20 Based on inputs Vasana Mutatanont, ARTNeT Consultative Meeting, July 2007

Annex II

Private Sector Survey Questionnaire (Bangladesh Sample)

This survey is conducted by The Centre for Policy Dialogue, Dhaka as part of a research study aiming at assessing the need to coordinate trade and investment (particularly FDI) policies to improve the overall investment climate in Bangladesh and the region[21]. The purpose of the survey is to collect the views of private sector stakeholder on this issue, on the basis of which policy recommendations will be formulated. Your answers will remain confidential and survey results will only be reported in aggregate form.

1. Your company is (check the one that describes your company most closely):

a. a state-owned company
b. a private domestic company
c. a subsidiary/affiliate/branch of a foreign company
d. a joint venture (% of foreign ownership: ______________)

2. Primary sector/industry/Product: __________________

3. Number of employees: ____

4. On average, what is the <u>import content</u> of the products you manufacture (in % of product value)?

❑Less than 20% ❑20 to 40% ❑40 to 60% ❑60 to 80% ❑More than 80%

5. On average, how many percent of your production is exported

❑Less than 20% ❑20 to 40% ❑40 to 60% ❑60 to 80% ❑More than 80%

6. For the purpose of this survey, do you consider yourself as representing (*circle all that apply, i.e., you may circle more than one*):

a. A foreign investor
b. A domestic investor
c. An exporter
d. An importer
e. An entire industry
f. Other (*please specify*): ___

PART I – IMPORTANCE OF SELECTED POLICIES AND ISSUES ON INVESTMENT DECISION

[21] This study is part of a larger regional research effort undertaken by the Asia-Pacific Research and Training Network on Trade (ARTNeT) with the support of the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP). For more information, please contact: artnetontrade@un.org .

A. Many factors affect your company's/ your industry's ability and willingness to invest in COUNTRY. Investment decisions are affected by various policies and issues which go <u>beyond</u> a country's basic investment policy. Please rate the importance you attach to the following policies/issues when making investment decisions *(circle the appropriate number: 1= not important, 2=somewhat important, 3=important, 4=very important, 5=most important.*

a. Trade Policy [*Policies relating to import and export of goods and services, such as tariffs, licensing, customs procedure]*	**1 2 3 4 5**
b. Competition Policy [*Competition policy generally help ensure that companies operate in more competitive markets, as opposed to more monopolistic markets*]	**1 2 3 4 5**
c. Tax Policy [*The level of the tax burden and the design of tax policy, including the way it is administered, directly influence business costs and returns on investment.*]	**1 2 3 4 5**
d. Corporate Governance Policies [*The existence of a corporate governance framework that set basic principles for sound corporate governance, possibly leading to reduce cost of capital and better functioning of domestic financial markets*]	**1 2 3 4 5**
e. Responsible Business Conduct Policies [*Policies that lead to the effective enforcement of laws on environmental protection, labour relations, financial accountability and human rights*]	**1 2 3 4 5**
f. Public Governance [*Regulatory quality/clarity and public sector integrity –i.e., absence of corruption – are two important elements of public governance*]	**1 2 3 4 5**
g. Infrastructure and Financial Sector Development [*lack of infrastructure and/or of a stable financial sector may impede the realization of investment*]	**1 2 3 4 5**
h. Human Resource Development policies [*policies that develop and/or maintain a skilled, adaptable and healthy population*]	**1 2 3 4 5**
i. Other (*please specify*):_____	**1 2 3 4 5**

B. **Of the above listed issues, which stand out as most important? _______________**
Please elaborate:

PART II – TRADE AND INVESTMENT POLICY COORDINATION

A. **It has been argued that *"policies relating to trade in goods and services can support more and better quality investment by expanding opportunities to reap scale economies and by facilitating integration into global supply chains, boosting productivity and rates of return on investment"*. Do you agree with the above statement?**

❑Strongly disagree ❑disagree ❑no opinion ❑agree ❑strongly agree

B. **As an investor (or recipient of investment), to what extent are you satisfied with the following:** *(circle the appropriate number: 1= not satisfied; 2=somewhat satisfied; 3=satisfied; 4=very satisfied; 5: fully satisfied*)

a. The customs, regulatory and administrative procedures at the border and related compliance costs	**1 2 3 4 5**
b. The level of trade policy and regulatory certainty and predictability	**1 2 3 4 5**
c. The mechanisms in place to consult investors and other interested parties on planned changes to trade policy	**1 2 3 4 5**
d. The Government efforts to enter into market-expanding international trade agreements (including implementation of WTO commitments)	**1 2 3 4 5**
e. The measures seeking to address weaknesses in sectors of importance to traders (e.g., Gov. support to export finance and import insurance schemes in the financial/insurance sectors)	**1 2 3 4 5**

C. Which of the following actions should be taken by trade policy makers in priority to improve the overall national policy framework for investment? (*please* <u>*rank*</u> *top three, with "1" as most important of the three top priority action***)**

Action/measure	**Priority Rank**
a. To reduce the compliance costs of customs, regulatory and administrative procedures at the border	
b. To reduce trade policy uncertainty by avoiding rapid and unpredictable changes	
c. To consult investors and other interested parties on planned changes to trade policy	
d. To increase investment opportunities through market-expanding international trade agreements (including implementation of WTO commitments)	
e. To implement trade policy measures that address sectoral weaknesses in the country (e.g., Gov. support to export finance and import insurance schemes in the financial/insurance sectors)	

D. Do you feel existing trade policies in your industry/sector unnecessarily raise the cost of input of goods and services, thereby discouraging further investment in that industry/sector?

❑Yes ❑No

E. If yes, please provide some specific example of a trade policy or regulatory measure in your sector/industry:

____

____

____

____

F. Do you feel that the existing Investment Policy in Bangladesh is discouraging for trade?
❑Yes ❑No

G. If yes, please provide specific example of an investment policy that became an obstacle for trade.

____

____

____

____

H. Based on your experience, can you illustrate the importance (or/and lack of) coordination between trade and investment policy in your industry/sector, possibly resulting in reduced competitiveness and investment, with a specific example of conflicting policy/regulation/action:

____

____

____

____

I. From your perspective, how important is harmonization of investment incentives and regulations across countries (e.g., multilaterally or regionally agreed level or cap on tax rebates given to foreign investors)?

❑Not important ❑Somewhat important ❑Important ❑Very Important ❑Don't know

Please elaborate:

____

____

____

Part III – Recommendations

A. List three major areas for improvement in trade policy of Bangladesh.

1. ______________________________
2. ______________________________
3. ______________________________

B. List three major areas for improving the existing investment policy of Bangladesh.

1. ______________________________
2. ______________________________
3. ______________________________