

Dialogue on Trade and Investment Coherence:
Enabling Thai SMEs for AEC 2015
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Trade, Investment and Public Policies
Coherence and Coordination: What, why, for
whom and by whom?

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Participants of this session will be

- reminded of what is understood by policy coherence and why coherence is necessary
- explained the evolving paradigm of trade and investment and what are the implications for coherence
- Informed about role of ESCAP



WHAT IS POLICY COHERENCE?



Coherence referred to as:

- **Objectives** within a given policy framework are **internally consistent** and **attuned** to objectives pursued within **other policy frameworks** of the system (OECD)
- A conscious effort by policymakers to **coordinate** with each other in the process of designing and implementation of policies in various sectors (UNCTAD)
- A result of policymakers achieving greater **harmony** between trade policies and other economic policies, e.g. macroeconomic, financial and development (WTO)



We suggest a combined definition:

- **Systematic promotion of mutually reinforcing policy actions across government departments and agencies creating synergies towards achieving the agreed objectives (ESCAP)**
- Coherence is needed as an **organizing principle** for different policies which will ensure a greater interaction between policies through a cross-disciplinary coordination



Economic theory

- Economists follow the so-called “Tinbergen rules”:
 - Each goal requires at least one policy or instrument
 - There must be a recognition of inter-linkages between different policies
 - Policies must be coordinated
- A **conflict** between **goals and policies = incoherence**

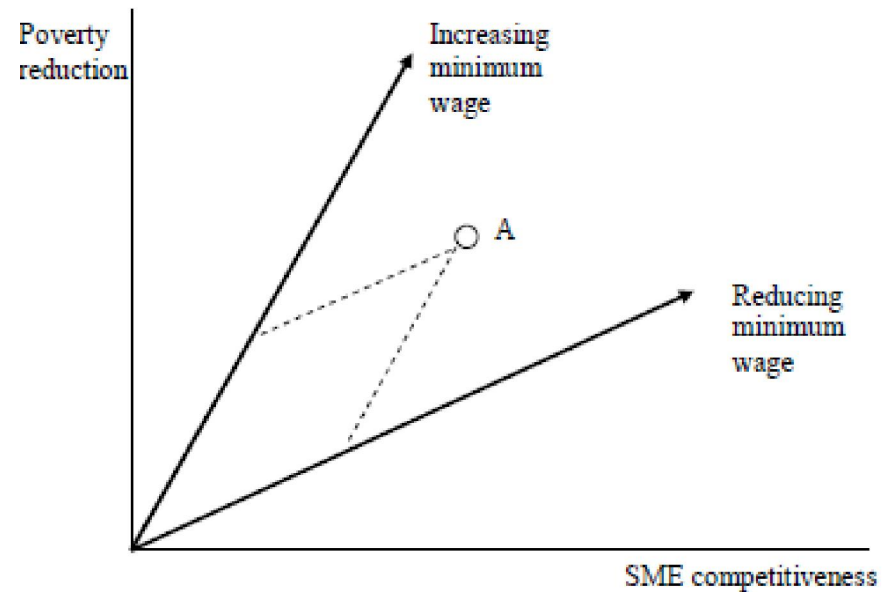


Figure: Coherence with two goals and two policies (inspired by Winters, 2000)

FDI has direct link with exports through

- augmenting domestic capital for exports
- helping transfer of technology and new products for exports
- facilitating access to new and large foreign markets
- providing training for the local workforce and upgrading technical and management skills
- however, linkage between FDI and exports depend on country, sector and type of FDI and is not always positive

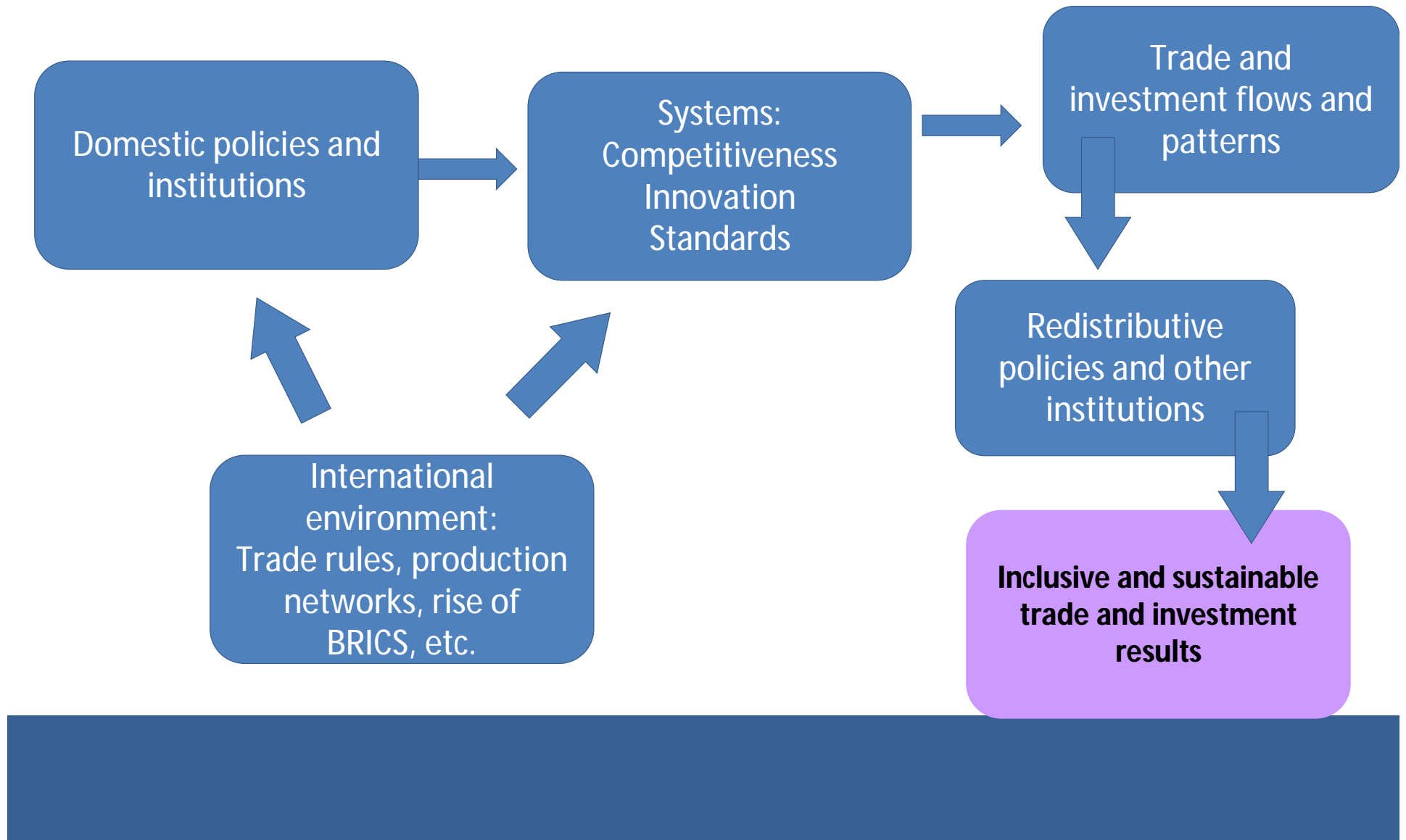
Trade and investment policies should be closely coordinated

- Trade and tax policies remain the main determinants for FDI
- Trade policy (including FTAs) should take into account vertical relationships between buyers (e.g. MNCs) and suppliers (e.g. domestic SMEs)
- Investment policy needs to be aligned with export policy (especially for EPZs)
- Need to involve local stakeholders in policy making in particular local SMEs

Two levels of coherence:

- Nationally (horizontally), coherence arises between different
 - Types of policies (trade, investment, competition, labour, etc)
 - Levels of government (federal, regional, local)
 - Stakeholders (farmers, industry; exporters, importers, consumers; etc)
- Internationally (vertically), a coherence is known as the so-called *policy coherence for development* (not our focus today)


Simplified framework for trade and investment policy coherence



WHY POLICY COHERENCE?



Potential benefits of increased coherence

- At the most simple level, enhanced trade and investment
BUT also
 - To avoid duplication, tensions or unnecessary conflict between policies
 - To ensure balance between incompatible goals
 - To promote interdisciplinary approach in dealing with complex problems such as crises and natural disasters
 - To ensure stability and resilience of economies
 - To promote adaptation of the national economy to the regional and global markets
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How to achieve coherence?

- The need for policymakers to be aware of the possible impacts of the policies they are proposing/designing
 - When designing domestic policies, Government should actively look for ways to exploit the potential for positive spillovers and consequences
- Coordination between different parts of government and other local stakeholders
- Balanced co-existence of various policies
- Importance of separation of power between different actors

EVOLVING NEW TRADE AND INVESTMENT PARADIGM AND IMPLICATIONS FOR POLICY COHERENCE




Reasons for a new paradigm

Collapse of trade and FDI due to global financial crisis and increased inequality caused:

1. rethinking of trade-led growth, and
2. rethinking of dependence on market-led social and economic outcomes

Therefore, two areas of change important for coherence:

1. Content (scope) and objectives of trade and investment policy - widening coverage (multiple goals?) of policy and thus of policy coherence
 2. Democratization and broadening of process (involved parties) for policy design and monitoring
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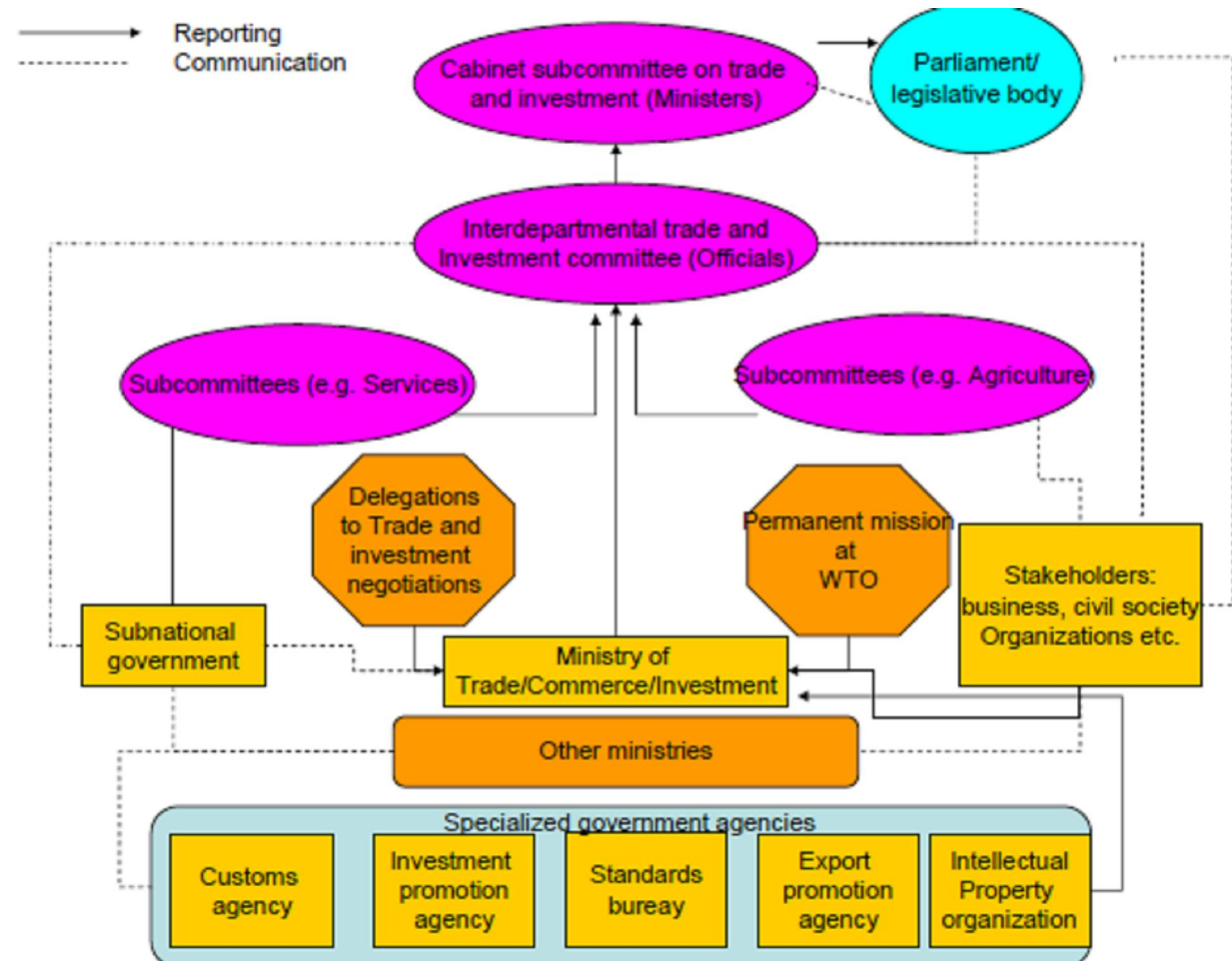
Scope for trade and investment policies

- Trade, investment and related policies were traditionally about border instruments; now encompass behind the border or regulatory areas
- Multiple objectives (focus no longer only on an increase in trade and investment (if it ever was only about that) but also
 - Job creating
 - Poverty reducing
 - Reflecting participatory process of design
 - Culturally rooted
 - Environmentally friendly

Inclusive trade
and investment

Coordination process

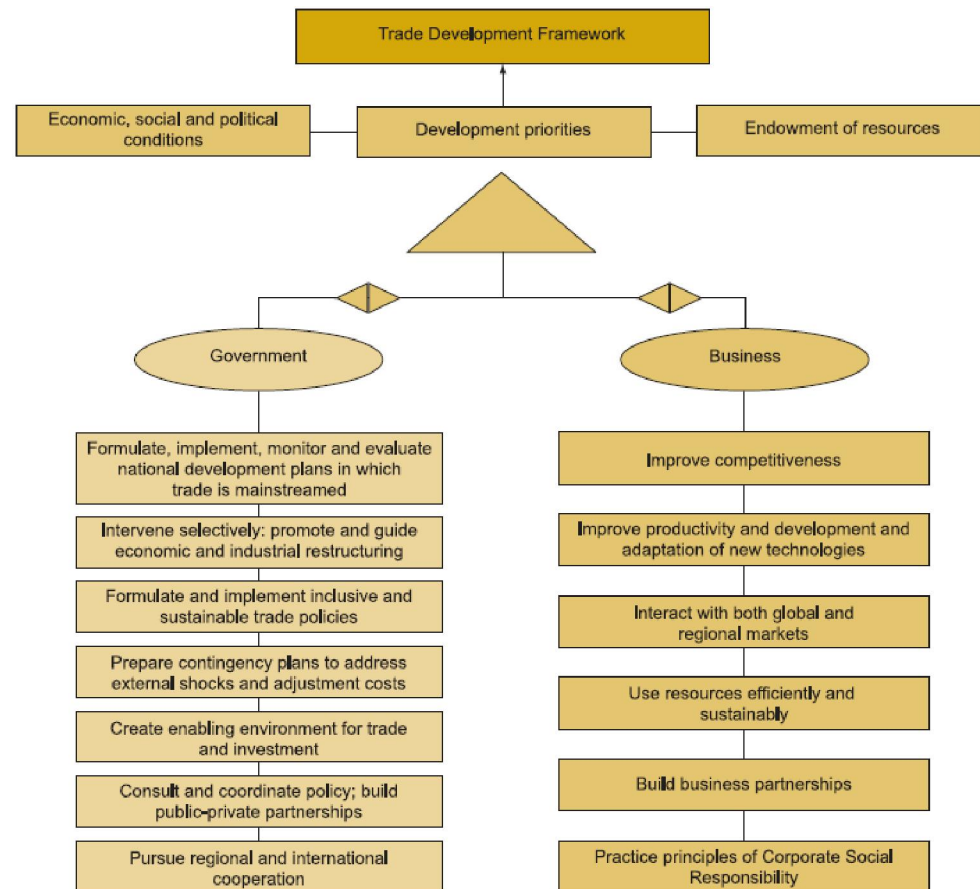
- Inclusive process
- Stakeholders now include active NGOs which can be helpful actor



APTIR, 2009

Also need to involve private sector

- In many cases, public-private partnerships need to be pursued to make trade work for development.
- Responsible business and social investment



APTIR, 2009

HOW CAN ESCAP HELP?



Role of ESCAP


- The UN ESCAP- regional development arm of the United Nations for the Asia-Pacific region, made up of 62 member States
- Trade and Investment Division's vision: To strengthen regional cooperation and integration in trade and investment for region-wide economic prosperity, social progress and environmental sustainability.
- Our work is done in 3 main areas:
 - capacity building and trainings focusing on connecting local research with policymakers
 - in-house analytical, normative and advisory work and services
 - networking and regional connectivity (ARTNeT, UNNexT, I4D)

For example, analysis by ESCAP /ARTNeT could help systematize answers to:


- Who is in charge of trade, investment, competition and other policymaking?
- The way synergies between trade, investment, competition, etc are taken into account
- How is the coordination between trade, investment , competition and other policies accomplished?
- How are potential conflicts or tensions between trade, investment, competition and other policies resolved?
- What is the role of trade, investment , competition and other policymakers in the negotiation of regional trade agreements?



Questions for discussion

- What are the main challenges in strengthening policy coherence?
 - Which tools could provide assistance in achieving policy coherence?
 - What are the best practices in introducing a system that ensures coherence between trade and (other) policies?
 - How does policy incoherence affect development objectives?
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In conclusion, this session

- ü Reminded that policy coherence is really a situation in which different policies are all pulling in the same direction, or at least, not pulling in different directions
 - ü Reminded that coherence is important as often without it we have suboptimal outcome; it adds synergy
 - ü Explained that coherence is for all stakeholders, and is provided by various actors if the government puts in place proper institutions/process
 - ü Informed about the role of ESCAP
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THANK YOU!

