World Bank Group work in investment policy and trade facilitation

Jonathon Kirkby
Senior Operations Officer
IFC, Pacific
October 13, 2016
Outline

IFC and why we are involved in trade and investment

Reforming investment policy

Improving trade facilitation
IFC in the World Bank

IFC is a member of the World Bank Group

Our role within the World Bank Group is to:

- Mobilize other sources of finance for private enterprise development
- Promote open and competitive markets in developing countries
- Support companies and other private sector partners where there is a gap
- Help generate productive jobs and deliver essential services to the poor and the vulnerable
What Our Client countries Want

TWIN GOALS
End poverty. Share prosperity.

More, better paying jobs

Rapid private sector-led growth

Economic integration
Competitiveness

Identify new sources of growth
Lift microeconomic constraints to growth
Trade and Investment flows are crucial for private sector development

• Investment – domestic and foreign – results in jobs and incomes, brings new technologies and knowhow, increases productivity

• Inward trade flows provide goods and services that are essential to wellbeing and development and provide inputs for export related industries

• Outward trade flows generate incomes and are essential to pay for goods and services from abroad

• Economic integration: in an increasingly globally connected world, maximising the economic connections with the world allows participation in new economic opportunities

• Competitiveness: Competitive, efficient markets are essential to maximising opportunities for trade and investment

• Inclusive growth: FDI isn’t enough. Need to ensure that benefits are shared

• **Immediate drivers in the Pacific:** Pacer Plus and WTO Trade Facilitation Agreement
<table>
<thead>
<tr>
<th>What we do</th>
<th>Core offerings</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRADE</td>
<td>Trade policies and integration</td>
</tr>
<tr>
<td></td>
<td>Trade facilitation and logistics</td>
</tr>
<tr>
<td></td>
<td>Trade performance</td>
</tr>
<tr>
<td>INVESTMENT CLIMATE</td>
<td>Business environment reforms</td>
</tr>
<tr>
<td></td>
<td>Investment policies</td>
</tr>
<tr>
<td>COMPETITIVE SECTORS</td>
<td>Sector policies and growth</td>
</tr>
<tr>
<td></td>
<td>Spatial growth and investment strategies</td>
</tr>
<tr>
<td>INNOVATION AND ENTREPRENEURSHIP</td>
<td>Innovation and technology</td>
</tr>
<tr>
<td></td>
<td>Entrepreneurship and small and medium size enterprises (SME) development</td>
</tr>
<tr>
<td>CROSS-CUTTING TOPICS</td>
<td>Global value chains</td>
</tr>
<tr>
<td></td>
<td>Catalyzing firm productivity</td>
</tr>
<tr>
<td></td>
<td>Private sector development in fragile and conflict-affected states</td>
</tr>
</tbody>
</table>
Outline

- IFC and why we are involved in trade and investment
- Reforming investment policy
- Improving trade facilitation in the Pacific
Foreign direct investment is the largest source of development finance.

FDI, remittances and ODA to developing economies, 2000-2012

(Billions of dollars)

Source: UNCTAD for FDI and remittances and OECD for ODA.

Note: ODA from DAC members.
FDI is not only about finance, but also innovation and productivity

In 1776 the wealthiest country in the world was 4 times richer than the poorest. Today the gap has increased almost by a factor of 100...

Countries grow because they produce new and improved goods and services…

Or because they find better ways to produce those goods and services

And they retain more of the value added…

How do countries learn how to produce new goods and services?

More than at school, productive knowledge is transmitted by experience and people’s interaction in the productive process…
Different types of investment not only generate different socio-economic impacts but also different trade patterns.
Natural resource-seeking FDI

Driving factors
• Location, quantity and quality of natural resources

Historical perspective
• Oldest type of FDI
• Developing countries’ first vehicle to integrate with international markets

Political economy issues
• Fair distribution of gains derived from exploitation of resources
• Sovereignty over natural resources
• Environmental matters
• Enclave economics: resource-seeking FDI may not always generate strong in-country spillovers;
• Need to focus on developing input industries/services

Relationship with trade
• This type of FDI tends to be export oriented, but value added tends to be limited
Natural resource-seeking FDI: Can it lead to development?

**Challenges**

- Dutch disease
- Diversification difficult
- Most developing countries have had limited success depending only on this type of investment
- Need to promote forward linkages, diversification and use of surpluses to develop other sectors

**Success stories**

- Norway
- Chile
- Canada
- Australia
- New Zealand
Market-seeking FDI

Driving factors
• Market dimensions and income per capita
• Market growth
• Consumers’ specific preferences
• Vehicle to serve goods and services where proximity to consumers is needed:
  • Perishable goods, beverages
  • Many services: retail distribution, financial services, etc.

Historical perspective
• Import-substituting industrialization spurs so-called “tariff-jumping” FDI
• Push for first wave of regional integration in the 1960s

Political economy
• Determined by its effect on domestic production - import competing interests are likely to resist new entry

Relationship with trade
• This type of FDI may be import-substituting, but in smaller economies generates needs for imported inputs
# Market-seeking FDI

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Success stories</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Success occurs if there is strong competition, need for authorities preventing protectionist policies and private practices</td>
<td>• Countries that have markets big enough to grow on the basis of internal demand</td>
</tr>
<tr>
<td>• Tends to not generate exports -until the domestic market is internationally competitive and saturated to push investors abroad</td>
<td>• United States</td>
</tr>
<tr>
<td>• Useful to diversify domestic economy, but is rarely single engine of sustained growth</td>
<td>• European Union</td>
</tr>
<tr>
<td></td>
<td>• China</td>
</tr>
<tr>
<td></td>
<td>• Japan</td>
</tr>
<tr>
<td></td>
<td>• Other BRICs</td>
</tr>
</tbody>
</table>
Trade liberalization: a key factor for the expansion of efficiency-seeking investment & international production

Source: Baldwin 2011
Efficiency-seeking FDI

Driving factors
- Export-oriented efficiencies
- Variables that increase global competitiveness, including
  - Low cost skills
  - Proximity to markets
  - Low relocation costs

Relationship with trade
- Export-oriented; leverages GVCs
# Efficiency-seeking FDI

## Challenges

- Due to its potential impact to transform exports and generate new GVCs and jobs, most countries in the world are constantly seeking to attract this type of FDI
  - Key clear and well articulated promotion strategies

- Competitiveness and investment climate of the host country is crucial, as it has to ENABLE firms to compete on the world market
  - Countries must enable investment entry and manage to retain FDI
  - Countries must allow movement of technical personnel, experts, traders, and people

- Countries must have means to ensure predictability and stability regarding export market access to investors who will turn to be importers and exporters
  - Importance of PTAs
  - Trade logistics for goods and services become crucial

- Long term sustainability of model requires to foster linkages between leading firms and domestic suppliers
  - Need to upgrade capacity of domestic private sector

## Success stories

- China
- Hong Kong
- Dubai
- Mexico
- Malaysia
- Turkey
- Singapore
- Thailand
- Ireland
- Costa Rica
Strategic asset-seeking FDI

Firm specific assets
- Branding
- Know how
- Human Capital
- Distribution networks

Country specific assets
- Natural beauty
- Cultural heritage
- Historical interests
- Strategic locational assets

Firm Assets

Country Assets

Tourism

Location

Brand

Management

Technology
Strategic asset-seeking FDI

Driving factors

• Internationalization of firms
• Increasingly globalized markets and competition
  o Historically “North-to-North”, but now more “North-South”, “South-South” and “South-North” dynamics

Political economy and challenges

• Tends to be focused on M&A; may be politically sensitive depending on the size and type of assets acquired

Relationship with trade

• May be trade-generating by way of GVCs
Why the type of investment matters? Because each type generates different kinds of jobs and value.

Investment policy covers the entire investment cycle

- Elimination of performance requirements
- Opening FDI in services
- Behavioral incentives
- Non-equity modes of investment (NEM)

- Upgrading investment protection guarantees
- Mechanizing investment retention and confidence
- Improving investment aftercare

- Investment promotion
- Locational incentives
- Eliminating barriers to FDI
- Streamlining entry procedures
# Investment vision and strategy through an Investment Reform Map

## Objective

Assist clients in designing and implementing an investment policy reform agenda.

## Components

- Diagnostic and identification of policy challenges to maximize benefits of each type of FDI:
  - natural resource-seeking
  - market-seeking
  - efficiency-seeking and
  - strategic asset-seeking

- Dialogue with Government to prepare a reform agenda to address various challenges

- Identification of client’s needs on different stages of investment life cycle

- Investment Reform Memo and/or Investment Policy Statement
Ideas for next steps

*Our mission is to catalyze investment climate reforms that foster business competitiveness, connect firms to global markets, maximize the benefits of private investment, and create jobs.*

### Activities
- Assisting governments in identifying and prioritizing investment policy and promotion measures
- Concrete recommendations
- Supervision/implementation support

### Outcomes
- Updating regulatory frameworks
- Streamlining administrative and regulatory frameworks
- Developing systems that foster transparency and predictability.
- Incorporation of new technologies to improve government delivery of services

### Impacts
- Increase in generation of domestic and foreign investment
- Increase in investment retained
- Cost savings for investors and host countries resulting from reforms
- Greater regulatory transparency and strengthening of rule of law
Outline

- IFC and why we are involved in trade and investment
- Reforming investment policy
- Improving trade facilitation
Why is trade facilitation important?

- Globalization and the desire to be part of global networks
- Attracting private investment is a key objective for developing countries
- Faster, leaner & responsive supply chains essential for competitiveness
- Enhanced trade

Governments and private sector energized to improve trade logistics services
Trade facilitation leads to Big global gains

- If all countries reduce supply chain barriers halfway to global best practice (i.e. Singapore), global GDP could increase by **4.7% or US$ 2.6 trillion** and world trade by **14.5% or US$ 1.6 trillion**, far outweighing the benefits from the elimination of all import tariffs (WEF).

- Each additional day that a product is delayed prior to being shipped reduces trade by more than 1 percent.

- Improving the quality of physical infrastructure increases exports by **more than 10 percent**.

- Adopting electronic documentation for the air cargo industry could yield **US$ 12 billion** in annual savings and prevent **70-80%** of paperwork-related delays.

- Full implementation of the Trade Facilitation Agreement is tentatively estimated to result in global gains of **$210 billion per year** through reductions in time spent at customs, with a more certain lower bound estimate of **$101 billion**, These estimates range from **$16 to $33 annually per resident** of WTO member countries.

World Bank Group is a major provider of trade related assistance

Support to trade facilitation related projects increased from $322 million in 2004 to $7 billion in 2015

Two thirds devoted to low or lower middle income countries

Program includes:
- Analysis, Diagnostics
- Technical Assistance
- Financing of major trade infrastructure and institutional reform projects
- Research and data products (LPI/Doing Business)
- Global advocacy and partnerships

Over 120 customs and border management projects over past 20 years

In recent years shift from pure customs projects to border management, agency reform and modernization
## WBG Trade Facilitation Program Work Streams

### Border Management reform in alignment with the WTO TFA
- Simplify & harmonize trade procedures and documentation
- Conduct legal and regulatory reforms
- Integrate risk management systems into border inspections and clearance
- Support the implementation of electronic processing/automation and Single Window Systems
- Improve transparency and predictability for traders in global value chains

### Agribusiness Sector Focus
- Improve trade logistics in agribusiness supply chains
- Bridge the gap between food production and food security by creating and linking growth nodes and markets.
- Streamline NTBs, thus offering market access for key agribusiness products and GVCs in client countries.
- Improve import and export processes to reduce the time and cost necessary to access global markets for firms and suppliers in global value chains.

### Regional Integration
- Harmonization of import-export procedures and risk management systems for border clearance and inspections
- Encourage compliance with international standards for trade facilitation through regulatory review, drafting of amendments at regional level
- Simplify and streamlining documents and procedures for transit cargo
- Create a mechanism for information and data exchange among various inspection/control agencies within the region
- Implement a coordinated border management approach to risk management among countries in the region

### Trade Supply chain
- Improve efficiency of cargo movement at ports, airports & dry-ports
- Improve access for the private sector to invest in logistics and distribution services
- Improve logistics and services along the supply chain and/or specific Value Chains
## Objective & Benefits of the WTO TFA

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Benefits for Traders</th>
<th>Benefits for Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency + Fairness</td>
<td>• Predictability</td>
<td>• Better compliance</td>
</tr>
<tr>
<td></td>
<td>• Reduced time/costs</td>
<td>• More informed decisions</td>
</tr>
<tr>
<td></td>
<td>• Creation of mechanism of accountability for the government</td>
<td></td>
</tr>
<tr>
<td>Better Governance</td>
<td>• Reduced costs</td>
<td>• Better compliance</td>
</tr>
<tr>
<td></td>
<td>• Reduced delays</td>
<td>• More effective government</td>
</tr>
<tr>
<td></td>
<td>• Reduced complexity</td>
<td>• More efficient government</td>
</tr>
<tr>
<td>Modernized Border Procedures and Controls</td>
<td>Reduce clearance times and costs</td>
<td>• Align with modern business practice</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• More effective government</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• More efficient government</td>
</tr>
</tbody>
</table>
WTO-TFA Preparation & Implementation Support - Trade Facilitation Support Program (TFSP)

Objective

Assist developing countries in reforming and aligning their trade facilitation laws, procedures, processes & systems to enable implementation of the WTO TFA Requirements.

Vision

- Implementation focused
- Rapid response capability
- Deep engagement with the private sector
- Strong monitoring, evaluation & results framework
- Complementary & sequenced Technical Assistance (TA) activity
- IFC-WB presence in most countries, project components included at national and regional levels
- Global expertise
Trade Facilitation Agreement - Priority Requests

- National Trade Facilitation Committees
- Legal Analysis & Review
- Customs Measures including
  - Advance Rulings
  - Risk Management
  - Post Clearance Audit
- Time Release Studies
- Support to Other Government Agencies on a host of measures
- National Trade Portals
Common Challenges for Full and Effective trade facilitation reform

Challenges around prioritization and sequencing of reforms:
- Challenges exist with building consensus around reform priorities amongst all relevant stakeholders

Technical Challenges:
- A general lack of awareness of processes and procedures exists among traders
- Mandatory documents and official fees and charges are often not published or made easily accessible
- Excessive manual processes and outdated legislation
- Lack of an integrated ICT environment & inefficient logistics
- Lack of an integrated approach to risk management for border clearance across border agencies
- Multiple checking of documents and duplication in data entry and recording

Long delays at checkpoints
Six WTO members in the Pacific (PNG, Fiji, Solomon Islands, Vanuatu, Tonga, Samoa)

TFA assessments were undertaken in all six countries in 2015

In addition, TFA assessments in Timor-Leste, Kiribati, FSM and about to be undertaken in Marshall Islands

Assessments involve:

- Analysis of legislation
- Assessment of publicly available information
- Consultation meetings with public and private sectors
- Site visits
WBG TFA Assessment in PNG - Key Findings

- Significant gaps in the trade related information available and easily accessible to traders across all agencies.
- Limited resources and capability within agencies to establish and maintain websites with trade related information.
- Lack of alignment between clearance processes of Customs and NAQIA resulting in the requirement for traders to undertake two clearance processes and possibly multiple inspections.
- Risk management principles in the cargo processing environment are not fully applied by operational staff.