



**BUSINESSatOECD**

THE BUSINESS AND INDUSTRY ADVISORY COMMITTEE



**Business at OECD (BIAC)**

# Trade as a Priority for All

## BARRIERS & OPPORTUNITIES FOR TRADE

Rising protectionist rhetoric and action risk undermining the achievements from open economies and the liberalization of cross-border goods and services flows, and raise concerns about the future of the global trading order. At the same time, efforts are needed to support more vigorous economic growth across the globe, and a reduction of barriers to trade is critical to achieve this goal. Ultimately, open markets will strengthen economic development in advanced and developing economies alike and help create and sustain new and better jobs.

OECD research and analysis on trade liberalization clearly demonstrate the economic benefits of trade for better productivity and growth—through work on global value chains, trade in value-added, and the flow of services. These insights should be major guidance for policymakers and also help inform the public. Business at OECD (BIAC) and its members encourage the OECD to further demonstrate and deepen its work on the value of trade and open economies. As a forum where governments come together to develop integrated policies supporting growth and jobs, the OECD is in a unique position to shape the debate on the value of trade for all.

Drawing on the practical experience of a wide and regionally diverse business constituency, this paper provides Business at OECD's considered assessment of priority issues that affect its members' ability to benefit from open, international trade. As such, Business at OECD strongly encourages to OECD to examine these priorities as part of its trade agenda. There is no ranking in these priorities as their implementation is equally important. As trade and investment are inextricably linked, this paper also corresponds closely with Business at OECD (BIAC)'s proactive investment agenda.



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## 1. COMMUNICATING THE BENEFITS OF OPEN MARKETS

Facing a growing populist narrative across OECD economies, communicating the benefits of trade and open markets has become a key factor for maintaining sustained growth. Governments, the OECD and the private sector need to do a better job explaining how trade liberalization benefits citizens as consumers, creates and sustains jobs, and strengthens economies as a whole. While future OECD research might be able to further identify measures that ensure that trade benefits are more widely shared within economies<sup>1</sup>, effective communications of existing insights are needed to counter the current populist backlash against international trade and globalization more generally.

### An Enabling Business Environment Requires:

- *Tariff elimination, trade and investment liberalization, and the enforcement of non-discriminatory and predictable trade rules fostered by an enhanced understanding of the functioning and importance of open markets.*
- *Conclusion and transparent implementation of trade agreements.*

### Business Recommendations to OECD:

- *Develop materials that communicate the OECD's work on Global Value Chains, Trade in Value-Added, Services Trade Restrictiveness and the adverse consequences of protectionism more effectively to public audiences and governments, providing easy-to-understand messages, experiences, and concrete facts.*
- *Deepen fact-based analysis on the importance of tariff elimination and the removal of trade and investment barriers to help countries reap the benefits of open markets and support integration in global value chains.*
- *Provide additional analysis and recommendations on policies that ensure opening trade and investment markets will deliver the widest benefits to the most people.*

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<sup>1</sup> OECD (2017): Making Trade Work for All. <http://www.oecd.org/TAD/events/making-trade-work-for-all.pdf>

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## 2. DIGITAL TRADE AND DIGITALLY ENABLED TRADE

Today, many services are provided fully digital and hardly any economic activity in services, manufacturing, and agriculture can be conducted without digital operations in one way or another. In the future, the impact of digital trade will continue to increase with new technologies and developments in Cloud Computing, Big Data, Internet of Things and Industry 4.0. Digital trade covers all types of cross border economic activities –whether they are B2C, B2B and intra-corporate. They reach from internet product search, online purchases via e-commerce platforms, to delivery logistics and global collaboration over inter and intra corporate wide area networks. An approach to digital trade policy that reduces cost for the private sector and enhances intellectual property (IP) rights will shape opportunities also for SMEs and their integration into global value chains.

### **An Enabling Business Environment Requires:**

- *Facilitation of a supportive policy and regulatory environment for the future of the digital economy including enhanced connectivity for all market players and the creation of a competitive level playing field for providers of cross-border business communications and ICT solutions.*
- *Effective protection and enforcement of intellectual property rights.*

### **Business Recommendations to OECD:**

- *Establish and promote a taxonomy of digital trade in the near term based on an active and regular dialogue with relevant stakeholders.*
- *Undertake analysis to demonstrate the link between effective IP enforcement and the growth of an innovative economy.*
- *Further develop work on the impact of regulatory policies that are more trade restrictive to digital and digitally enabled trade than necessary.*

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### 3. CROSS-BORDER DATA FLOWS

Cross-border data flows facilitate an increasing amount of international trade and global value chains, and are essential for consumers and businesses of all sizes in a digital world. National governments increasingly adopt particular responsibilities in this context, which can lead to more trade restrictiveness than necessary. Forced localization measures are not the right answer to data security and privacy issues and will damage the potential that the digital economy can deliver for both citizens and business. Instead, developing technological solutions and processes to better protect data, complying with data protection and security laws and regulations, and building higher levels of trust of consumers is essential.

#### **An Enabling Business Environment Requires:**

- *Inclusiveness, predictability, and transparency in the regulatory development process.*
- *Regulatory cooperation to help businesses and authorities manage effective outcomes in a global economy driven by international trade.*

#### **Business Recommendations to OECD:**

- *Gather and develop evidence on the adverse effects of forced localization and other measures that restrict cross-border data flows, and highlight the impact on international trade and investment.*
- *Provide guidance to governments to support an effective response to the proliferation of data localization – including enforcement of existing trade rules and establishment of additional international trade disciplines to restrict such measures.*
- *Work with governments and business to identify best practices in policy formulation that allow for the needed cross-border flow of data and that address concerns for security and privacy.*
- *Promote policies among governments that enable the open flow of business data to end unnecessary rises in operational costs and to support business models that rely on data flows.*

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## 4. LOCALIZATION BARRIERS TO TRADE

Some governments are increasingly setting requirements vis-à-vis foreign companies to localize investments, production, services, procurements or other activities as a condition for doing business. Many of these non-tariff measures present new and more complex hurdles that preclude businesses from effectively competing in the global market and prevent countries from taking economically beneficial roles as leading players along global value chains.

### **An Enabling Business Environment Requires:**

- *Significant easing — or abolition — of localization requirements, such as the following:*
  - *requirements to balance imports with exports*
  - *certain percentages of a service to be provided by a local service supplier*
  - *tax or financing incentives allotted to products with a certain percentage of local content*
  - *market access being contingent on local investments*

### **Business Recommendations to OECD:**

- *Work with OECD governments and key partners to highlight the deleterious effects of localization barriers and identify conditions for an enabling trade and investment climate.*
- *Deepen analysis on how localization barriers to trade undermine the ability of international business to undertake long-term investments beneficial to both host countries and investors – whether they are imposed formally or otherwise.*

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## 5. GOVERNMENT PROCUREMENT

Public procurement represents a significant share of government spending — 13% on average in OECD countries<sup>2</sup> — and an engine for economic growth. However, these business opportunities are often reserved exclusively for local businesses and can be lacking in transparency and clarity. This situation not only limits the market for international businesses, it also reduces competition, resulting in higher prices and lower quality products for taxpayers.

### An Enabling Business Environment Requires:

- *Independent oversight bodies* capable of managing potential conflict of interest situations and ensuring a level playing field.
- *Assurance of non-discrimination* through close cooperation and partnerships with competition authorities as well as formal risk management policies to ensure non-discrimination in the procurement process.
- *Policies that allow and encourage international competition* in government procurement activities.

### Business Recommendations to OECD:

- *Quantify the impact that restrictive procurement policies have on public expenditures and international trade flows.*
- *Undertake new work to examine the importance of mediation and the role of trust and non-discrimination in national procurement strategies.*

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<sup>2</sup> OECD (2015): Government at a Glance 2015, General government procurement as percentage of GDP and as share of total government expenditures, 2013, p.137

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## 6. TRADE IN SERVICES & MOVEMENT OF BUSINESS PERSONS

Services and the movement of international business persons are essential inputs for manufacturing and indispensable to international trade. Increased regulation and the imposition of vast quantities of restrictions on services negatively affect the competitiveness of international markets. At the same time, visa requirements and processing times remain significant impediments to the free movement of business persons.

### **An Enabling Business Environment Requires:**

- *Accurate, regular and comparable data* on the international flow of services, including the scale and scope of imports and exports of services.
- *Policies that acknowledge lessons from the data*, and that support the competitiveness of international services markets through smart regulation and minimizing unnecessary restrictions.
- *Free movement across borders*, for business purposes and mutual recognition of credentials in key professions in the visa application process.

### **Business Recommendations to OECD:**

- *Broaden the STRI scope to include more non-OECD countries*, and support joint efforts with WTO to highlight the role of services in international trade.
- *Study the evolution and economic impact of policies affecting the movement of business persons*.
- *Evaluate the significance of business services inputs to global value chains and the impact of non-tariff barriers in those sectors*.

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## 7. CUSTOMS FACILITATION AND TRADE IN GOODS

Comprehensive liberalization and facilitation of trade in goods remains an important part of the trade agenda. Streamlining and simplifying rules and practices at the border can foster the establishment and further integration of global supply chains. This becomes even more important as the continued growth of online commerce is changing the nature of shipments. The traditional model of large shipments by specialized import-export companies is complemented by a model of individual generally low-value, small box parcels that directly reach the end customer. Entry-into-force and robust country implementation of the WTO Agreement on Trade Facilitation is fundamental. In a time of rising protectionist rhetoric, an evaluation of comprehensive liberalization approaches including unilateral country initiatives towards enabling further customs and trade facilitation efforts remains crucial.

### **An Enabling Business Environment Requires:**

- *Coordination in international customs and trade facilitation programs, which could further reduce and possibly eliminate the high cost for companies through better administrative synergies and efficiency.*
- *Sustained efforts by governments to comprehensively liberalize trade in goods.*

### **Business Recommendations to OECD:**

- *Disseminate best practices on customs procedures and global industry-led standards that have been successful in facilitating trade flows.*
- *Highlight best practices on customs procedures which ensure an easy and efficient flow of goods by aligning appropriate national infrastructure investments.*
- *Facilitate assistance and support for capacity building in LDCs to ensure full implementation of the provisions of Section I of the WTO Agreement on Trade Facilitation.*
- *Study the role and impact of de minimis threshold levels in the context of a changing nature of shipments.*

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## 8. STATE-OWNED ENTERPRISES

Competition from state-owned enterprises (SOEs) is an area of growing concern to the business community. The absence of similar rules for SOEs operating in a commercial arena undercuts the ability of private companies to build key elements of their global supply chains. Private businesses are facing this imbalance both in the SOE home market and in third country markets.

### **An Enabling Business Environment Requires:**

- *Policies that ensure the rules apply to SOEs acting commercially in the same manner as their private competitors.*
- *Significant easing – or abolition – of policies that confer preferential treatment to SOEs such as “preferred supplier” status, access to subsidies and low-cost financing, and special exemptions from regulatory enforcement.*

### **Business Recommendations to OECD:**

- *Deepen OECD cross-committee policy work to ensure competitive neutrality and further analyze implications of SOEs for OECD member and key non-member countries.*

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## 9. INTERNATIONAL REGULATORY COOPERATION

The proliferation of national standards and regulations can result in duplicative or conflicting regulations that impede business activity and trade globally. Greater clarity of regulatory standards will lead to savings—of both time and money—for both business and governments.

### **An Enabling Business Environment Requires:**

- *Regulatory cooperation* to help businesses and authorities manage effective outcomes in a global economy driven by international trade.
- *High common standards and disciplines*, including non-discriminatory rules, for preferential trade agreements that yield maximum market access.
- *Inclusiveness, predictability, sound science basis and transparency* in the regulatory development process.

### **Business Recommendations to OECD:**

- *Develop a work program* to promote coordinated best practices and guidance to guarantee effective regulations that do not hinder sound trade and investment flows.
- *Compile best practices* from other provisions and/or sectors in regional trade agreements that could be synchronized or multilateralized.

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## 10. POLICY COHERENCE

Trade policy intersects across various policy areas, and can positively contribute to a number of national and international policy objectives, such as in environment, health, innovation, and human rights. However, there are trends being pursued in several national and international organizations aimed at developing regulation or policy recommendations that would, while pursuing policy objectives in areas such as health and environment, appear to be in conflict with international trade rules and interfere with open markets for trade and investment.

### An Enabling Business Environment Requires:

- *Policy coherence to help businesses and authorities manage effective outcomes in the national and international arena.*
- *Inclusiveness, predictability, and transparency across policy areas.*
- *Effective and proportionate regulation that fosters trade.*

### Business Recommendations to OECD:

- *Disseminate analysis of the role of trade with other policy areas to achieve greater policy coherence.*
- *Collaborate with other OECD directorates and international organizations to ensure that policy recommendations are not more restrictive than necessary for the achievement of their policy objectives.*

## GOING FORWARD

Business at OECD (BIAC) members are convinced that a better understanding of the way companies do business and the hurdles they face at the border and in global markets will improve policymaking and create better conditions for private sector-led growth, innovation and job creation. Fighting protectionism and improving international policy coordination requires joint action, and we look forward to continuing a fruitful collaboration with the OECD, with the B20 and the G20 in the years to come.



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Business at OECD (BIAC) speaks for business at the OECD. Established in 1962, we stand for policies that enable businesses of all sizes to contribute to growth, economic development, and prosperity. Through Business at OECD, national business and employers federations and their members provide expertise to the OECD and governments for competitive economies, better business, and better lives.

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