UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

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**

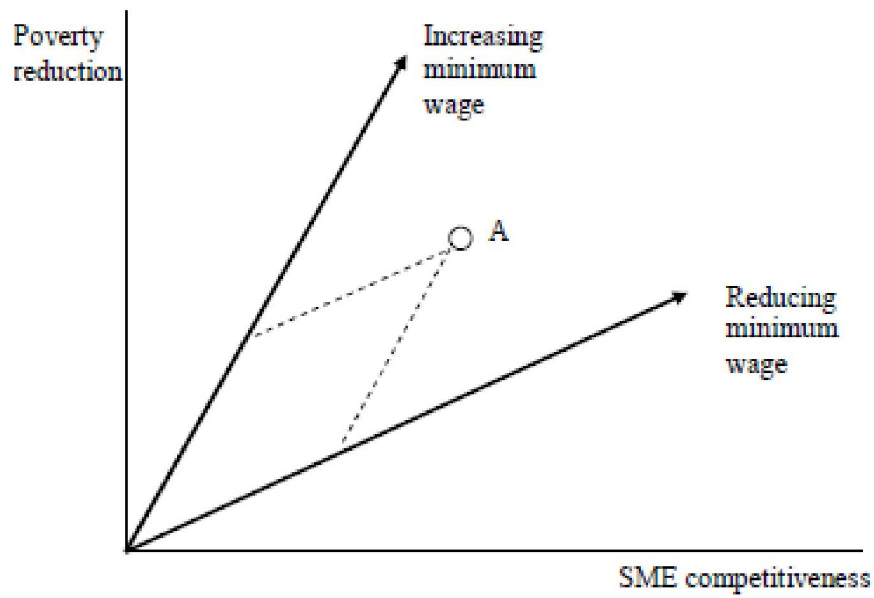

Figure: Coherence with two goals and two policies (inspired by Winters, 2000)

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

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