Local preferences: Which are the avenues for increasing efficiency in international procurement markets?*

Zornitsa Kutlina-Dimitrova, PhD
Chief Economist and Trade Analysis Unit
European Commission

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*The opinions expressed in this presentation are the author's own and do not necessarily reflect the views and opinions of the European Commission.
Contents

- Why international public procurement?
- Economic research on local preferences
- Other determinants of direct cross-border procurement
- Modalities of international procurement
- Taxonomy and quantification of local preferences
- Conclusions and ways forward
Why international public procurement?

- **Size of the markets**: public procurement accounts for 6-25% of GDP on a world basis and for 19% in 2013 in the EU including procurement of utilities.

- **Large potential impact**: limited commitments at the bilateral and/or multilateral level.

- **Increasing importance**: Public procurement becomes increasingly important in a low tariff environment and thus turns into major impetus for trade policy.
Public Procurement composition

*No complete data on Australia, Chile and Turkey.
Public procurement provisions in RTAs

Source: WTO, list of all RTAs, 4/12/2014
Local preferences in public procurement

- Theoretical economic literature shows that local preferences i.e. 'home-bias' in public procurement can distort international specialisation and affect trade flows, output and prices, see Evenett and Hoekman (2005), Trionfetti (2001), Miyagiwa (1991).

Other determinants of international public procurement (1)

Kutlina-Dimitrova & Lakatos (2016) explore all public procurement awards in EU Member States in the period 2008-2012 and assess econometrically the factors determining the probability of a cross-border award and find significant evidence that:

- **Product market regulation indicators** such as: (i) scope of public enterprises; (ii) regulatory protection of incumbents; and (iii) barriers to foreign direct investment (FDI) have a negative impact on the propensity of governments to source goods and services from abroad.
Other determinants of international public procurement (2)

- **Macro-economic factors** such as trade openness and per capita GDP influence positively the probability of a cross-border award. Governments with more liberal trade regimes and of wealthier countries are expected to procure relatively more from abroad.

- There is a strong negative relationship between the public procurement purchases at **local level** versus **central/federal level** and the probability of a cross-border award. This finding is supported by the fact that, internationally, there are almost no commitments of government entities at the local level in bilateral agreements and the plurilateral GPA.
Other determinants of international public procurement (3)

- **Contract value:** There is a strong positive relationship between the above threshold contract value and the propensity of a foreign firm winning a contract. This finding is intuitive as foreign companies are expected to face higher costs related to monitoring the foreign market and to compliance with tender specifications.

- **Other factors:** There are other factors such as the type of procedure and number of bids submitted which impact on the propensity of a foreign award.
Local preferences may affect all modalities of international procurement

✔️ **Direct cross-border international procurement:**
Foreign companies may win public procurement tenders directly from abroad.

✔️ **Commercial presence procurement:**
Domestic subsidiaries of foreign companies may be awarded locally public contracts.

✔️ **"Value-added" indirect international procurement:**
Foreign companies participate indirectly along the value-chain as subcontractors in a tender which can be won by a foreign or a domestic company.
Taxonomy of local preferences

There is a need for a systematic collection and encoding of local preferences i.e. taxonomy of public procurement barriers. This should consider:

- Explicit (de jure) barriers like Buy-local provisions;
- Implicit (de facto) barriers such as conduct of procurement and qualification criteria;
- Distinction between below- and above-threshold barriers;
- Inclusion of bilateral preferential market access granted through FTAs and GPA agreement.
Quantifying the impact of local preferences

- So far there is lack of economic assessment of the impact of local preferences.

- At micro level the taxonomy of public procurement barriers is a first step to a quantification of the trade distortive impact of local preferences.

- At macro level a proper database featuring an MRIO and a split in public and private investment as well as general equilibrium procurement specific model is required.

- The lack of data is one of the major obstacles towards quantification of local preferences' impact in respect to all modalities of international public procurement.
Conclusions and looking forward

- International procurement gains in importance in WTO and in bilateral trade negotiations.
- Economic research suggest that not only 'home-bias' but also other factors play a crucial role in shaping the size and patterns of international procurement. Policy strategies targeted at fostering trade openness in respect to FDI and NTBs as well as removing competition barriers may be other important drivers.
- There is a need for internationally recognized taxonomy of public procurement barriers.
- Last but not least economic research has a long way to go before we can assess the economic impact of local preferences at micro and macro level due to severe data shortcomings.
Thank you for your attention!