

PROCUREMENT MARKETS: WHAT TRADE RECIPROCITY MEANS FOR TRANSITION ECONOMIES



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Increasingly, public procurement is being shaped by trade reciprocity rules and industrial policy objectives, with restrictions on market access fragmenting procurement markets. For transition economies, this can both limit export opportunities and complicate vital projects financed by multilateral development banks (MDBs), where co-financing means that geographical eligibility requirements may apply or projects may be subject to multiple procurement regimes. This article argues that closed or discriminatory procurement markets can increase costs and reduce the quality and affordability of public infrastructure and services, without necessarily delivering the expected industrial benefits. It concludes that MDBs have a critical role to play in both promoting international trade rules for government procurement and keeping transition economies connected to international trade and investment, while improving project outcomes.



INTRODUCTION

In public procurement, “market access” refers to the ability of foreign companies to bid on government contracts, either directly across borders or through local subsidiaries established in the country where the public tender is launched. Market access involves opening government contracts up to international trade and competition in order to foster growth and innovation. In public procurement markets, “reciprocity of access” is becoming a key term. Countries are expanding their networks of trade agreements while simultaneously reviewing existing partnerships to improve market access and supply-chain resilience. What does this trade policy shift imply for transition and developing economies? What impact would closed public procurement markets have on their trade and economies? With global trade becoming more fragmented and transition economies facing increasing challenges, it is more important than ever for multilateral development banks (MDBs) to continue promoting open procurement in the projects they finance within these economies.

A MACROECONOMIC ARGUMENT FOR OPEN PUBLIC PROCUREMENT MARKETS

Despite macroeconomic arguments in favour of open global markets, we can see from current trade dynamics that geopolitics, strategic resources and supply-chain security are increasingly shaping economic policy. Developed economies are competing to secure critical inputs for the energy transition and high-tech industries, creating new forms of bilateral trade arrangements, including deals that link tariff reductions to investment commitments. Trade and procurement policies have become strategic instruments shaped by geopolitical competition, regulatory standards and supply-chain security. Efficient global supply chains are essential to underpin global growth, and they themselves require accessible and reliable infrastructure. Citizens and businesses depend on public services and infrastructure, which in turn rely on national public procurement laws and procurement practices. Economic globalisation has gone far beyond imports crossing borders: the combination of technological advances and economic reforms facilitating new types of commerce means that goods, services, employees, customers, investments and intellectual property all cross borders at an ever-increasing rate. Given the scale of global investment and the expansion of supply chains, closing government procurement

markets reduces competition, increases prices and diminishes the advantages of international trade and foreign investment. Public procurement rules and practices affect development priorities that are important for the promotion of sustainable growth. A key prerequisite for better economic performance – affordable, efficient and accessible public infrastructure and services (public transport system, information and communications technology (ICT) infrastructure, water supply, drainage and sanitation system, energy supply, and so on) – is absent at a local level in many regions. Consistent access to efficient public services is fundamental to the performance of national economies, social cohesion, and national safety and security.

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Poor or inefficient infrastructure imposes enormous economic costs – both visible and hidden – on businesses. It not only raises transport costs but also generates other costs, such as higher inventory levels, reduced productivity and higher prices for consumers, with implications for the international competitiveness of domestic firms forced to operate in this environment. Public procurement is vital for cross-border trade and plays a significant role as an instrument of regional and global economic integration. The results of empirical studies suggest that maintaining open procurement markets under the World Trade Organization (WTO) Agreement on Government Procurement (GPA) has had a positive impact on trade in both goods and services between parties to the agreement, as well as on outward foreign affiliate service sales. A small marginal

negative effect on trade in goods has been observed in a few countries, but exports of services (including construction) rise the more open markets there are among parties to the WTO GPA, constituting an important argument in favour of open procurement markets.

OPEN PROCUREMENT MARKETS ACROSS THE WORLD

Unfortunately, public procurement markets are not open as standard. In both developed and developing economies, public procurement rules discriminate against suppliers and products from foreign countries. The taxonomy of measures affecting trade in government procurement developed by the Organisation for Economic Co-operation and Development (OECD) identifies several direct and indirect trade barriers in public procurement. Globally, spending from state budgets and government procurement markets have historically been kept outside the global trade system. The General Agreement on Tariffs and Trade (GATT)/WTO process and the most-favoured nation (MFN) principle do not apply to government procurement.

The United States of America has a long history of implementing a “Buy American” policy in public procurement, favouring domestic producers. The US domestic content threshold increased to 60 per cent in 2022, before rising

The US domestic content threshold is due to reach **75%** in 2029

further to stand at 65 per cent in 2024, and it is due to reach 75 per cent in 2029. On 20 January 2025 President Donald Trump issued an executive memorandum on a new “America First trade policy”,¹ instructing the United States Trade Representative to review the impact of all trade agreements, including the WTO GPA, on US federal procurement, with a view to ensuring that such agreements are implemented in a manner that favours domestic manufacturers.

In the European Union (EU), public procurement regulation has evolved from fragmented national rules into a harmonised, digitalised and strategic regulatory framework aimed at fostering the EU single market. Until now, the EU has operated the world’s most open procurement market, with key EU policy milestones including the 2004 public procurement directives, the updated 2014 versions of these directives and the 2022 International Procurement Instrument. However, a policy shift may be emerging through the proposed Industrial Accelerator Act (IAA), currently under discussion at the European Commission (see Box 1).

The predominance of domestic preference schemes in the United States and the fact that the EU has an open procurement market but low market penetration is undermining the opening up of public procurement markets to international trade. It is also encouraging transition economies to maintain protectionist measures against foreign enterprises.² Discriminatory public procurement policies favouring domestic bidders are in place in India, Indonesia, Brazil, Thailand, Saudi Arabia, South Africa, Tunisia, Morocco, Colombia and Australia, either across the public procurement

In March 2026,
the WTO Agreement
on Government
Procurement 2012
was binding on
49
WTO members

market as a whole or in specific sectors.³ For decades, China has used legislative measures to favour domestically produced goods and services in public contracts. In December 2024 the Chinese Ministry of Finance released new draft standards for government procurement that include, among other things, a 20 per cent price preference for domestic products.⁴

THE WTO GPA 2012 AND FTAS: GLOBAL AND REGIONAL TRADE INSTRUMENTS ENSURING ACCESS TO PUBLIC PROCUREMENT MARKETS

Explicit discrimination against foreign suppliers in public procurement remained a regulatory standard until 1994,⁵ when the WTO code on fair practices for government purchases, the Agreement on Government Procurement, was signed under the GATT. The WTO GPA aims to liberalise and expand international trade, facilitate integrity in government procurement systems and foster the efficient and effective management of public resources. Revised in 2012, the WTO GPA remains voluntary and plurilateral. Effectively, a subset of WTO members have agreed to give other signatory countries access to their government procurement markets. In March 2026, the WTO GPA 2012 was binding on 49 WTO members. Among MDBs, the World Bank, the EBRD and the International Finance Corporation (IFC) act as observers to the agreement.

¹ See The White House (2025).

² See Križić (2017).

³ See Cernat (2023).

⁴ See Global Trade Alert (2024).

⁵ See Baldwin and Richardson (1972).

Across the world, selected bilateral and regional free trade agreements (FTAs) include government procurement-related commitments, but procurement market access is not a standard component of such agreements. When FTAs do include public procurement, they open it up to foreign competition by ensuring non-discrimination and transparency, within or below the thresholds adopted under the WTO GPA 2012 rules. Parties to FTAs agree to open up public contracts to each other's suppliers and guarantee treatment that is "no less favourable" than that extended to domestic suppliers.

THE QUESTION OF RECIPROCITY

Reciprocity of access to public procurement markets means that foreign companies can only bid on public contracts if their home country offers equal access to companies from the procuring country under the WTO GPA 2012 or dedicated FTAs that cover the public procurement market.

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countries around the world have trade agreements with the EU covering reciprocal access to public procurement markets

The WTO GPA 2012 serves as the main global framework for reciprocal opening of public procurement markets among WTO members. FTAs applicable to public procurement markets incorporate the standards established by the WTO GPA 2012 and extend them to parties that are not signatories to the WTO GPA 2012 or members of the WTO.

The EU has concluded trade agreements containing binding legal obligations regarding reciprocal access to public procurement markets with 38 countries globally – estimated to be the largest network of such agreements outside of the WTO GPA 2012 system.

KEY TERMS IN TRADE RECIPROCITY: MARKET ACCESS AND LOCAL CONTENT

Public procurement attracts attention from policymakers in the context of industrial policy debates. The idea behind the strategic use of public procurement for industrial policy purposes is that public spending that is specifically directed towards domestic suppliers will lead to a revival of certain sectors of the domestic economy. In addition to reciprocity of trade opportunities, the key terms in these political discussions are "market access" and "rules of origin" for goods and services that are purchased under procurement contracts.

Rules of origin in public procurement determine the "economic nationality" of goods and services purchased by the public sector. The aim is to ensure that specific criteria must be met in order to qualify as domestic or originating from a preferred trade partner. In essence, rules of origin determine which goods are treated as domestic for public tender purposes. Rules of origin prevent "trade deflection" – where goods are simply shipped through a particular country to gain preferential access – and are used to enforce local content requirements, anti-dumping duties, or to apply national treatment exceptions in trade agreements.

Applied together, rules of origin and market access determine who can participate in public tenders and which goods and services can be offered to public-sector clients in a specific country.



RECIPROCITY IN PUBLIC PROCUREMENT AND TRANSITION ECONOMIES

What trade reciprocity means in practice for developing and transition economies is perhaps best illustrated by a recent EU industrial policy initiative (see Box 1), as well as challenges that could be encountered in the procurement of complex projects financed by MDBs in such economies (see Box 2).

“ In the past, favouring domestic suppliers has failed to achieve the desired goals, and it is unlikely that current policymakers will see different results. ”



Box 1.

Impact of industrial policies

The Industrial Accelerator Act (IAA) is a proposed EU regulation aimed at boosting industrial capacity and decarbonisation in strategic sectors such as steel, cement, aluminium, cars and net-zero technologies.⁶ To this end, it introduces “made in EU” and low-carbon requirements within public procurement, including for public-private partnerships and concessions, and imposes conditions on large foreign direct investments of more than €100 million. These measures are designed to promote clean manufacturing and innovation across the EU’s single market, potentially reducing demand for imports that do not meet origin-based or low-carbon criteria.

The IAA builds on and is compliant with EU trade commitments under the WTO GPA 2012 and relevant EU FTAs. It grants reciprocal “trusted partner” status and enforceable market access to economic operators from countries that are parties to EU trade agreements.

A number of the transition economies where the EBRD operates qualify as trusted partners, thanks to their participation in the WTO GPA 2012 and/or FTAs concluded with the EU. The majority of the economies where the Bank invests do not have market access to public contracts in EU member states, however. The IAA also establishes strict rules of origin, requiring compliance with EU and low-carbon thresholds, and includes supply diversification requirements to reduce reliance on a single third country. Goods manufactured in the majority of the transition economies where the EBRD operates cannot be marketed or sold to public-sector entities in EU member states under public contracts – even if they are manufactured in compliance with EU low-carbon standards.

⁶ The IAA codifies EU case law on access to EU public procurement markets by economic operators incorporated in countries that are not parties to the WTO GPA 2012 and have no FTA with the EU covering public procurement markets (Court of Justice of the European Union (CJEU) Case C-652/22 (Kolin) and CJEU Case C-266/22 (CRRC Qingdao Sifang Co. Ltd)).



Box 2.

The challenge for multilateral development banks' projects

MDBs invest in order to support transition and developing economies, and MDBs' procurement rules are aligned with these mandates/business objectives. MDBs promote open procurement markets through a range of approaches. Most MDBs moved away from tied aid some time ago and now use international competitive bidding by default. The core principles of their procedures are transparency, economy, efficiency and equal opportunity for suppliers from any country or any member country;⁷ in addition to strict eligibility criteria to ensure value for money and fairness. MDBs today actively innovate to offer faster, more cost-efficient and sustainable outcomes by developing harmonised procurement standards, entering into mutual reliance agreements and, where possible, relying on one another's procurement capacity to reduce transaction costs and accelerate project implementation.⁸

Addressing the global infrastructure gap and the growing investment needs of transition economies requires MDBs to mobilise financing alongside other funding partners. Owing to current global trade dynamics, the funding conditions of those partners may include trade reciprocity requirements and geographical eligibility restrictions in procurement (limiting access to procurement either at the initial tender stage and/or at the contract award stage), which is challenging for projects. Clients can be required to apply multiple procurement rules, which puts pressure on them, especially if the project is urgent. Increasing the complexity of projects in this way can also raise wider questions about the effectiveness⁹ of MDB financing.¹⁰

CONCLUSION

Governments are under pressure to maximise domestic resources and growth, and public procurement, which accounts for about 30 per cent of government spending on average, is one of the ways that countries can do more with the same – or less. This encourages protectionist changes to procurement policies, whether there is evidence of economic benefits or not.

Economic research indicates that public procurement markets differ from commercial trade markets. With open procurement markets, market penetration by foreign firms

On average, public procurement accounts for about **30%** of government spending

rarely mirrors the overall trade openness of the economy. In public procurement, distance and gravity matter much more than in the rest of the economy. Public procurement is strongly affected by home bias. While in global trade, the median trade distance for international business-to-business trade transactions is almost 5,000 km,¹¹ in public procurement, the distance between public buyers and their suppliers is far shorter. A study of the EU procurement market found that around 40 per cent of suppliers were located less than 500 km from the public procurement buyers, and less than 5 per cent of suppliers were located more than 2,000 km away from public buyers.¹² Since procurement markets are so strongly local, governments around the world do not really need to strengthen their trade reciprocity in public procurement.

⁷ See African Development Bank et al. (2025).

⁸ Ibid.

⁹ The negative impact that applying different procurement rules has on the effectiveness of development aid has been criticised by multiple individual authors and several reviews of MDB procurement rules. See Morlino (2019).

¹⁰ The harmonisation of procurement rules is linked to the objective of speed and simplification, one of the five priority areas for converting MDBs' operational models to support transformative investments. See IEG (2023).

¹¹ See Berthelon and Freund (2008).

¹² See European Commission (2021).



Local content rules can be linked to reductions in emissions and strengthening of the domestic manufacturing and processing of raw materials, thus achieving a positive development impact overall. However, limiting market access in contexts where beneficial ownership is not a mainstay of the procurement policy and tax havens are tolerated is unlikely to achieve the intended economic gains. In the past, favouring domestic suppliers has failed to achieve the desired goals, and it is unlikely that current policymakers will see different results.

MDBs are supranational institutions that play a pivotal role in shaping public procurement practices. They manage multiple layers of accountability: upwards to funders and boards, downwards to project beneficiaries and laterally to partner agencies and contractors. Over the past decade, MDBs have included sustainability goals in their procurement policies, encouraging their public- and private-sector clients to follow suit and thus shaping public procurement reforms

globally. The MDB open procurement market is an opportunity to mitigate global sustainability impacts, and a value-creation approach shifts the focus towards achieving impact and aligning procurement outcomes with sustainability objectives.

MDBs aim to enhance international trade and market access and foster cross-border economic integration. These improvements not only attract foreign investment for specific strategic projects but also facilitate increased trade flows, enabling businesses from both within and outside the EBRD regions to compete more effectively for public contracts. This approach strengthens the economic connectivity and trade capacity of transition and developing economies. Plurilateral agreements can be used to advance negotiations with such economies where consensus is difficult, while international public procurement policy standards include instruments protecting the interests of transition and developing economies.