



Trade Policy Implications of Global Value Chains

Javier Lopez Gonzalez, Trade and Agriculture Directorate, OECD

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Outline

- What are GVCs?
- How can countries and firms benefit from GVCs?
- What role for policy and, in particular, regional approaches?



WHAT ARE GLOBAL VALUE CHAINS?

» What are Global Value Chains?

*“...the full range of activities that firms and workers perform to bring a product from its **conception to end use and beyond**.
(Gereffi and Fernandez-Stark, 2011)*

- GVCs refer to these activities or tasks **taking place across multiple countries**.
- Though not new, their **greater expansion towards developing and emerging economies** has been fast-paced:
 - *In the early 1990's G7 countries held 67% of global GDP, by 2010 this fell to around 50%.*
 - *Countries can now join existing value chains rather than have to master all the processes in the production of a good.*
- GVCs are dynamic and challenge the way we think about trade (and trade policy).

» Two waves of globalisation

1 st Unbundling	2 nd Unbundling
Separation of production and consumption across international borders (traditional trade)	Unpacking of factories across international borders
Spurred by: reductions in transportation costs	Spurred by: Reductions in ICT and coordination costs
Mainly about selling (market access)	Mainly about producing (trade-investment-service-knowledge)

Baldwin (2011)

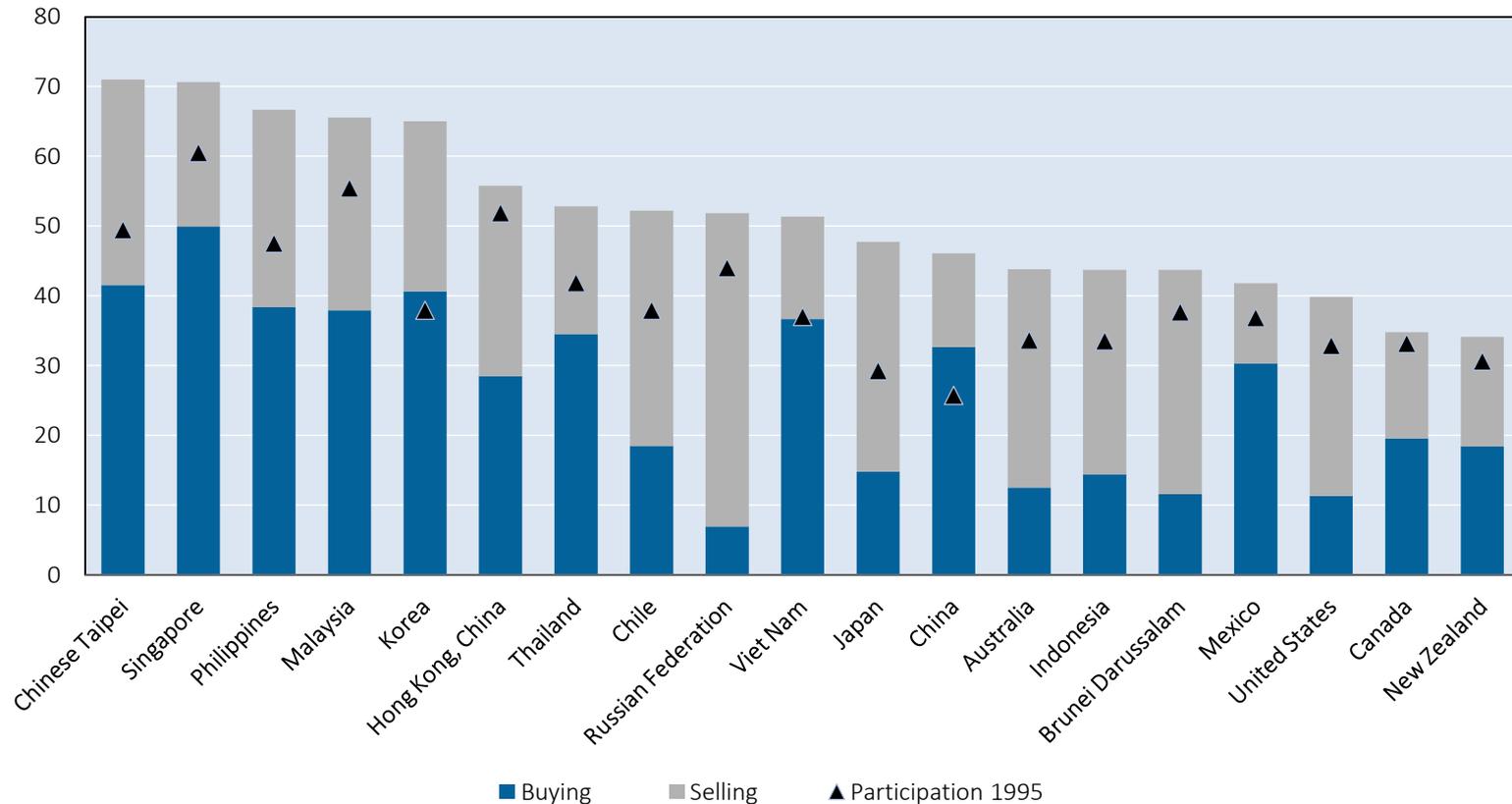
» Capturing participation using TiVA

- Inter-country input-output (ICIO) tables:

OECD-WTO Trade in Value Added (TiVA) database

- Statistical approach used to **estimate** the source(s) of value (by country and industry) that is added in producing goods and services.
- Current revision: 61 countries, 34 sectors, 7 points in time (1995, 2000, 2005, 2008, 2009, 2010, 2011).
- Indicators of GVC participation:
 - Backward Participation: foreign value added content of exports (*buying* element of GVCs); and
 - Forward Participation: the domestic value added sold to other countries for these to produce exports (*selling* element of GVCs)
- Captures one aspect, but there are more indicators and other issues that cannot be assessed with the data (governance, knowledge transfer)

» Participation is growing across the board...



Note: OECD-WTO TiVA database (values for 2011)

Leading to a redistribution of global production...

Domestic Value Added embodied in foreign final demand	France	Germany	United Kingdom	Rest of EU	Turkey	South Africa	Russian Federation	India	China	Korea	Japan	Rest of Asia	Australia	New Zealand	South America	Mexico	United States	Canada	RoW	Total	
France				1%																1%	4%
Germany	1%		1%	3%														1%		1%	8%
United Kingdom				1%														1%		1%	4%
Rest of EU	2%	2%	1%	5%			1%	1%										2%		3%	20%
Turkey	Factory Europe																				1%
South Africa																					1%
Russian Federation				1%																1%	3%
India									Factory Asia											1%	2%
China				1%							1%	1%						2%		1%	8%
Korea																					2%
Japan									1%			1%						1%		1%	5%
Rest of Asia								1%			1%	1%						1%		1%	7%
Australia																					2%
New Zealand																					0%
South America																					3%
Mexico																					2%
United States		1%	1%	2%				1%			1%	1%					1%		1%	2%	12%
Canada																		2%			3%
RoW	1%	1%	1%	2%				1%	1%		1%	1%							3%	1%	13%
Total	5%	6%	5%	19%	1%	1%	2%	3%	6%	2%	5%	5%	2%	0%	2%	2%	16%	3%	15%	100%	

» ... creating **jobs** at home and abroad.

- Jobs related to exporting activities grew over 2 times faster than total jobs, but jobs associated to producing intermediates used in GVCs **grew just over 6 times faster.**

country	2011			Changes 1995-2011		
	total employment	Employment in exports	Forward GVC jobs	total employment	Employment in exports	Forward GVC jobs
BRN	188 000	37 442	9 047	47%	72%	156%
SGP	2 826 000	1 509 607	378 667	66%	60%	156%
KHM	8 235 000	2 615 104	463 168	81%	105%	46%
MYS	12 012 000	5 528 904	1 287 411	51%	60%	91%
PHL	37 534 000	8 361 848	2 238 441	47%	47%	150%
THA	38 842 000	16 502 280	3 677 286	24%	75%	148%
VNM	52 108 000	23 246 610	5 348 009	39%	203%	336%
IDN	108 725 000	19 089 300	5 519 080	31%	18%	97%

- Importantly **the exporting success of a country benefits partner countries** → 14 million workers in other countries provide intermediates that ASEAN uses...

Source: Own computations from OECD-WTO TiVA database 2015 and ILO data

» GVCs take advantage of **different costs** associated with labour endowments and skills

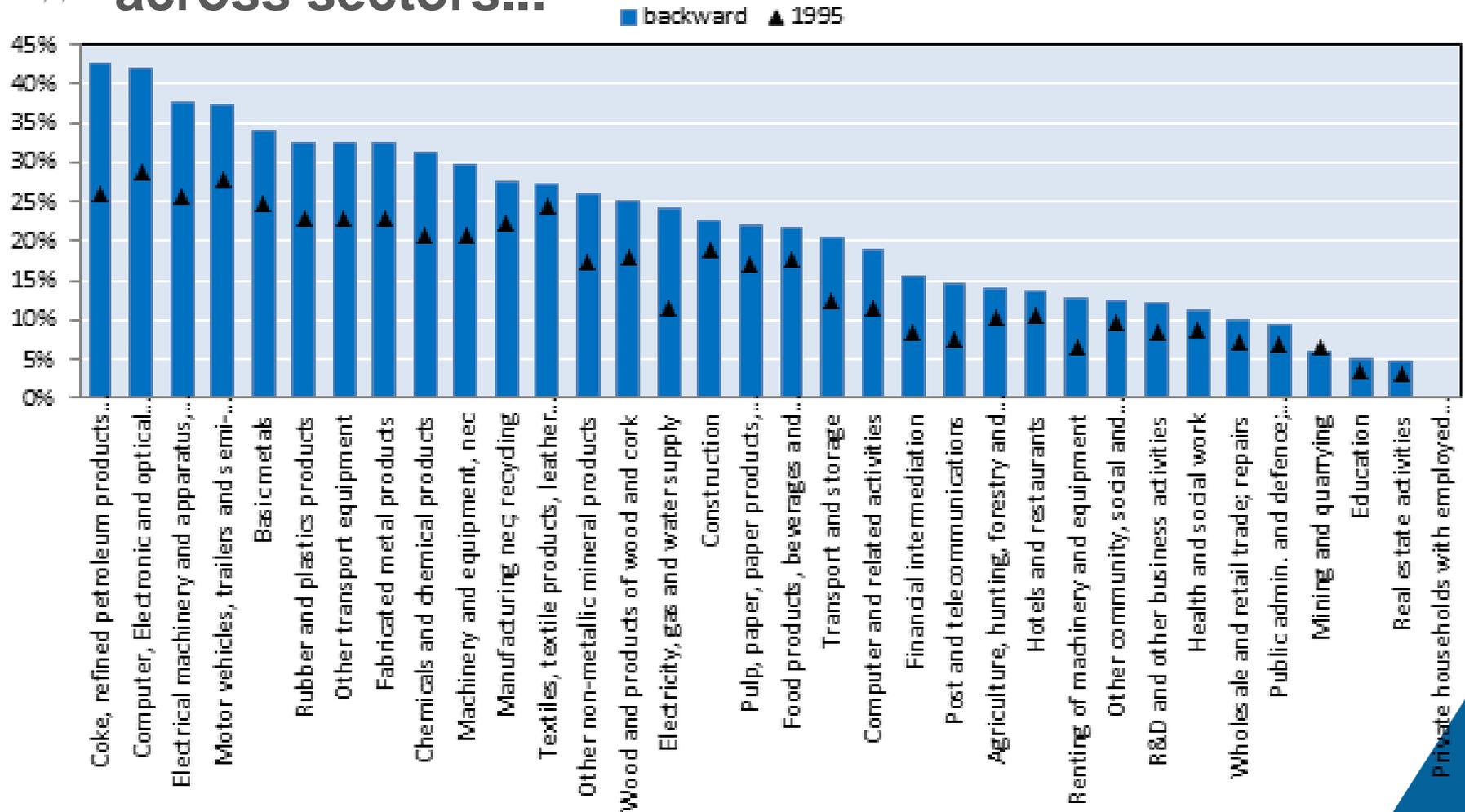
Country	Domestic workers making exports	Domestic workers making <u>exported</u> intermediates	<u>Foreign workers</u> used to produce domestic exports
ZAF	34.9	44.9	38.6
RUS	30.8	36.8	33.6
IND	5.0	5.7	56.9
CHN	7.7	8.7	73.6
KOR	48.0	70.0	32.3
JPN	92.8	124.9	27.1
ASEAN	10.3	13.5	27.3
RoAsia	47.6	71.4	29.4
ANZ	141.6	176.2	36.6
LatAm	24.9	28.8	39.0
MEX	24.2	31.1	49.6
USA	106.8	131.1	33.1
CAN	112.0	135.5	48.1

- GVCs partly driven by productivity (or wage) differentials.
- High wage source from low-wage (and vice versa) reflecting complementarities.
- ASEAN and attractive offshoring destination.

Note: numbers show the value added per worker engaged in different types of production in thousand USD. The first column identifies domestic workers engaged in producing gross exports whilst the second identifies those that are exclusively engaged in producing intermediates used by other countries to produce exports (those engaged in forward participation). The final column shows the average value added per *foreign* worker used to produce exports. All values are estimates derived from a model that combines the information in the TiVA ICIO with ILO data on employment by sector

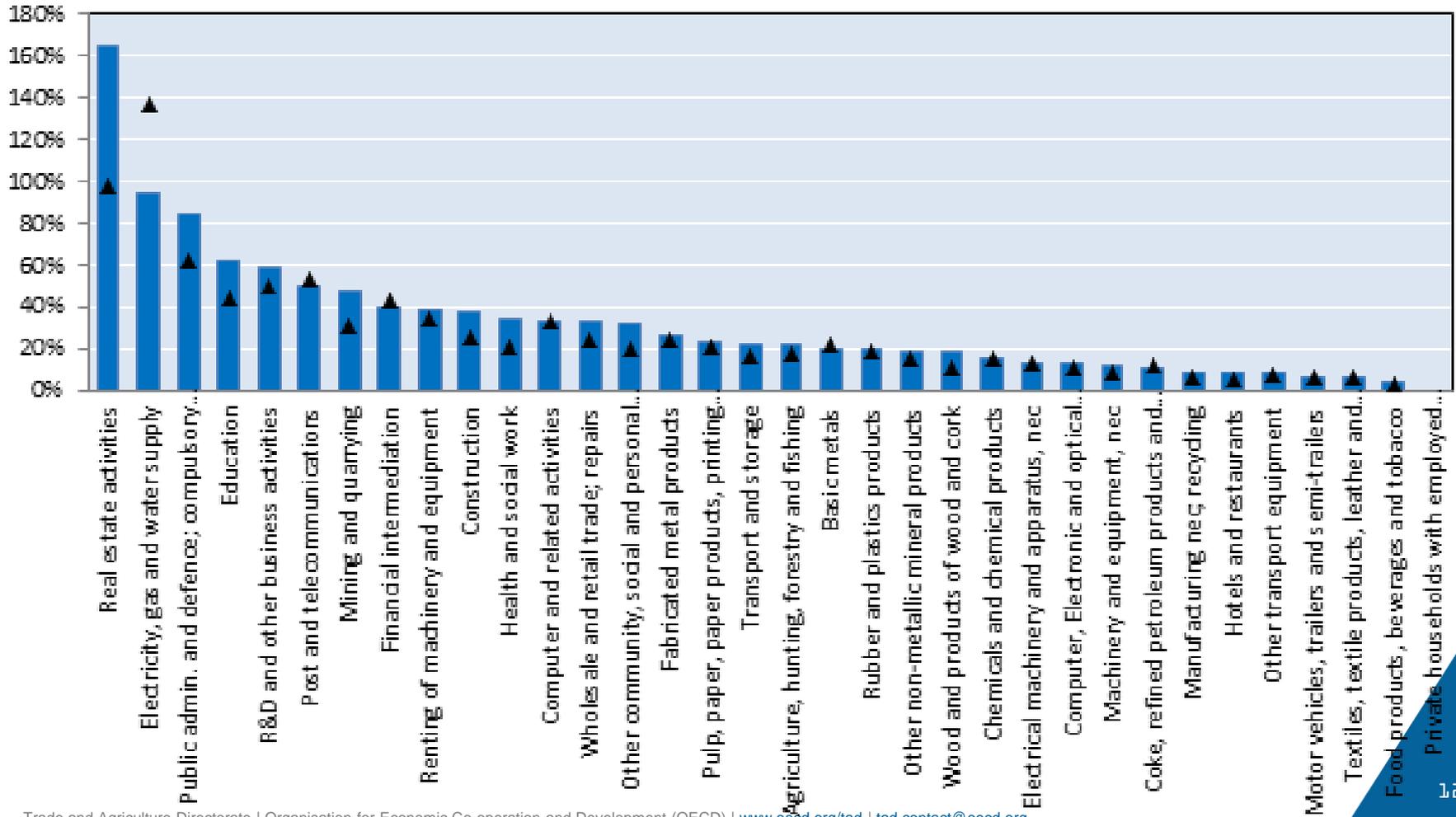


Backward participation varies considerably across sectors...



So does forward participation...

■ forward ▲ 1995



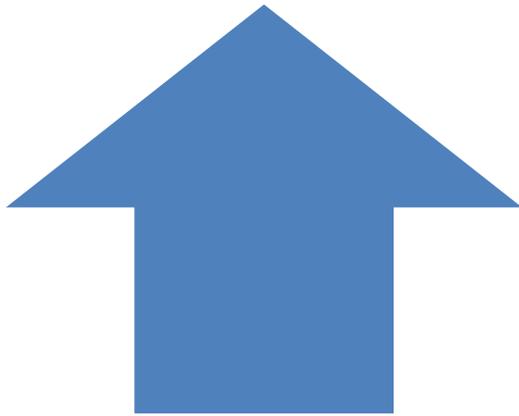
» Services: the glue that enables GVC activity

- Services supply inputs to virtually every economic activity.
- Enables economic linkages to operate locally and internationally
 - Without services GVCs simply could not happen
 - Transport, telecoms, financial services, business services, distribution, marketing, design and R&D
 - Embodied and embedded services
 - “Servicification”
- Global value chains are developing in services as well
 - Services firms attempt to move up the value chain and outsource non-core services functions



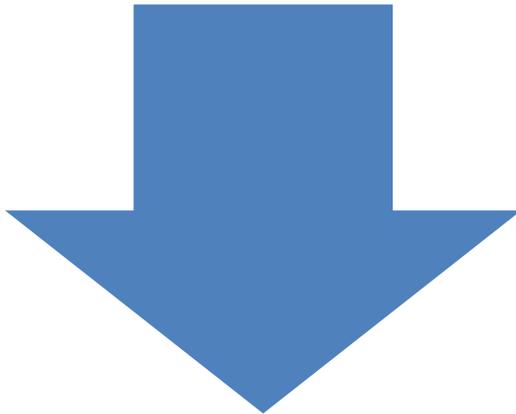
BENEFITTING FROM GVCS

» How can countries/firms **benefit** from GVCs?



Selling side:

No longer having to master the entire production process of a good and **slotting into different segments of 'global production'** according to comparative advantages.

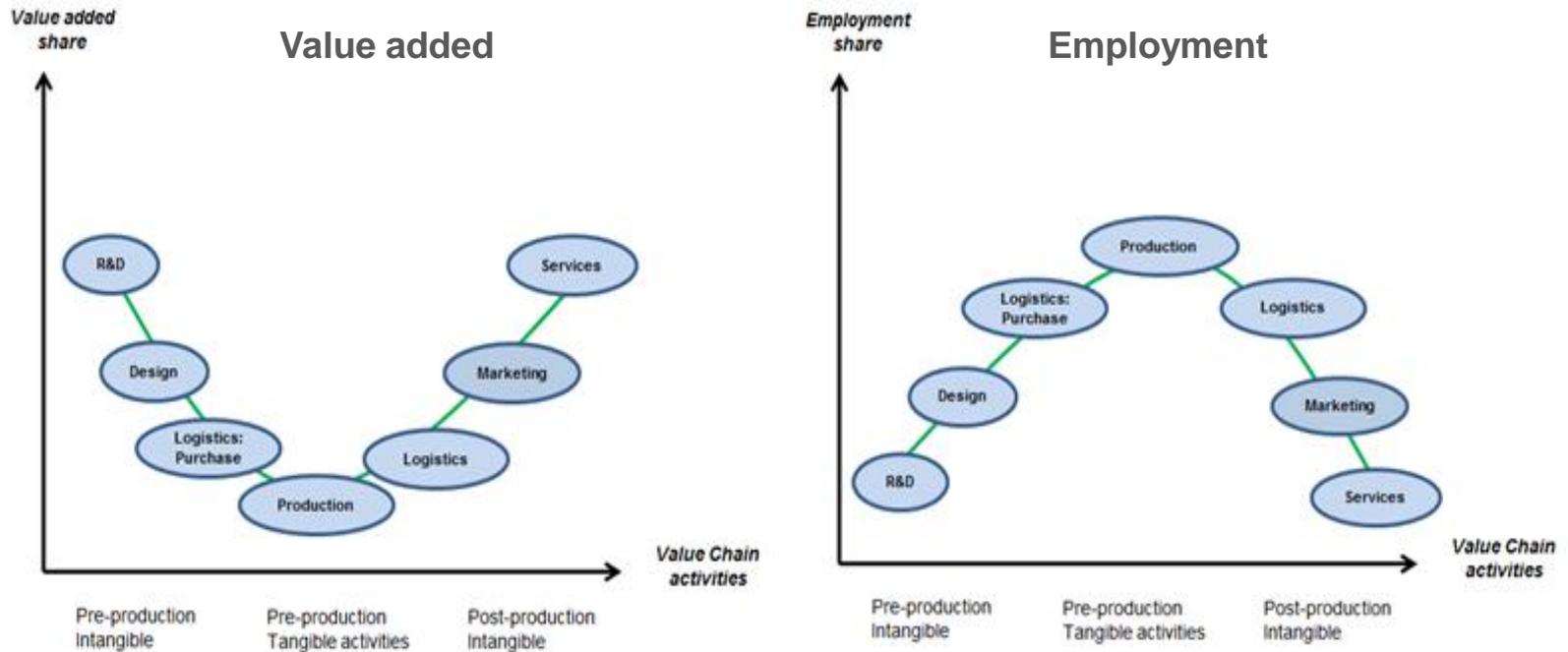


Buying side:

Having **wider access to** more sophisticated and competitively priced imported **intermediates** (often neglected).

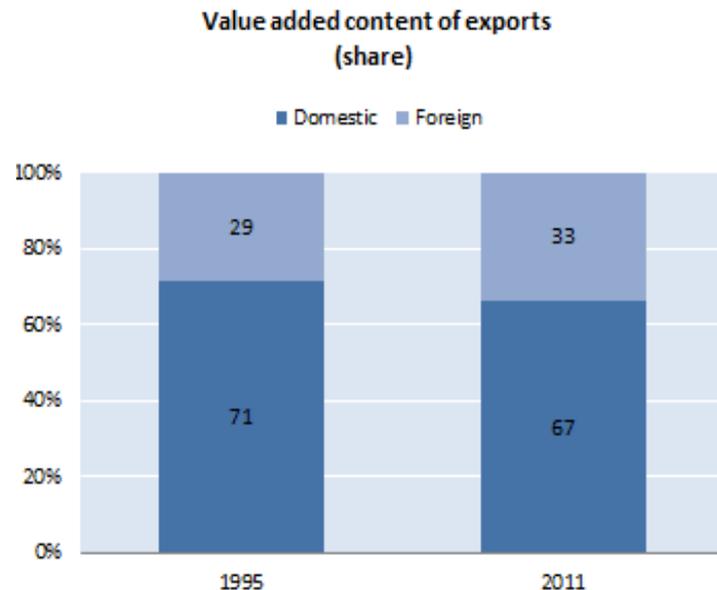
Joining or upgrading in value chains?

A country's position depends on its comparative advantage or the mix of skills and resource endowments it brings to international production

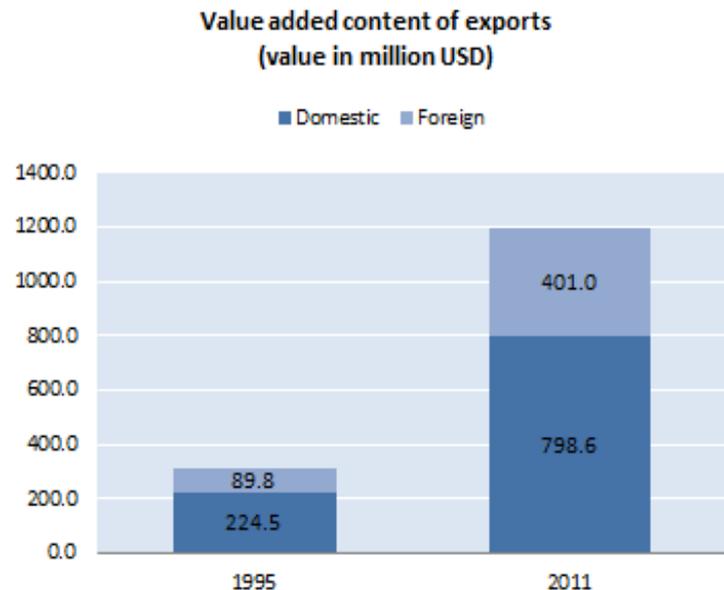


» Enjoying a smaller share of a bigger pie

- Ultimately, the benefits of engaging in GVCs do not relate to the position held within the value chain, but rather on to **the extent to which companies can leverage this position to attain greater efficiency**
→ **higher value added**

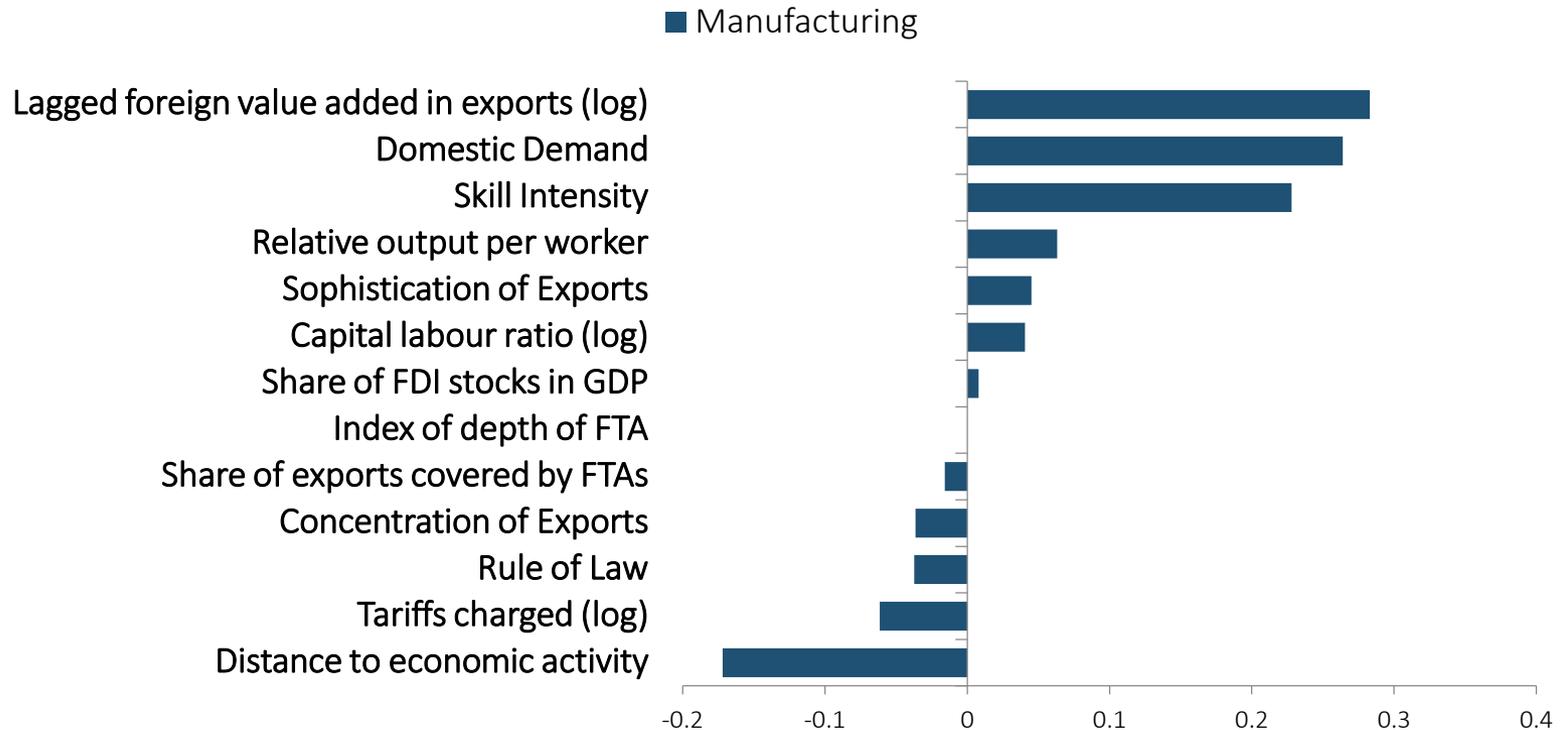


Note: values for ASEAN region



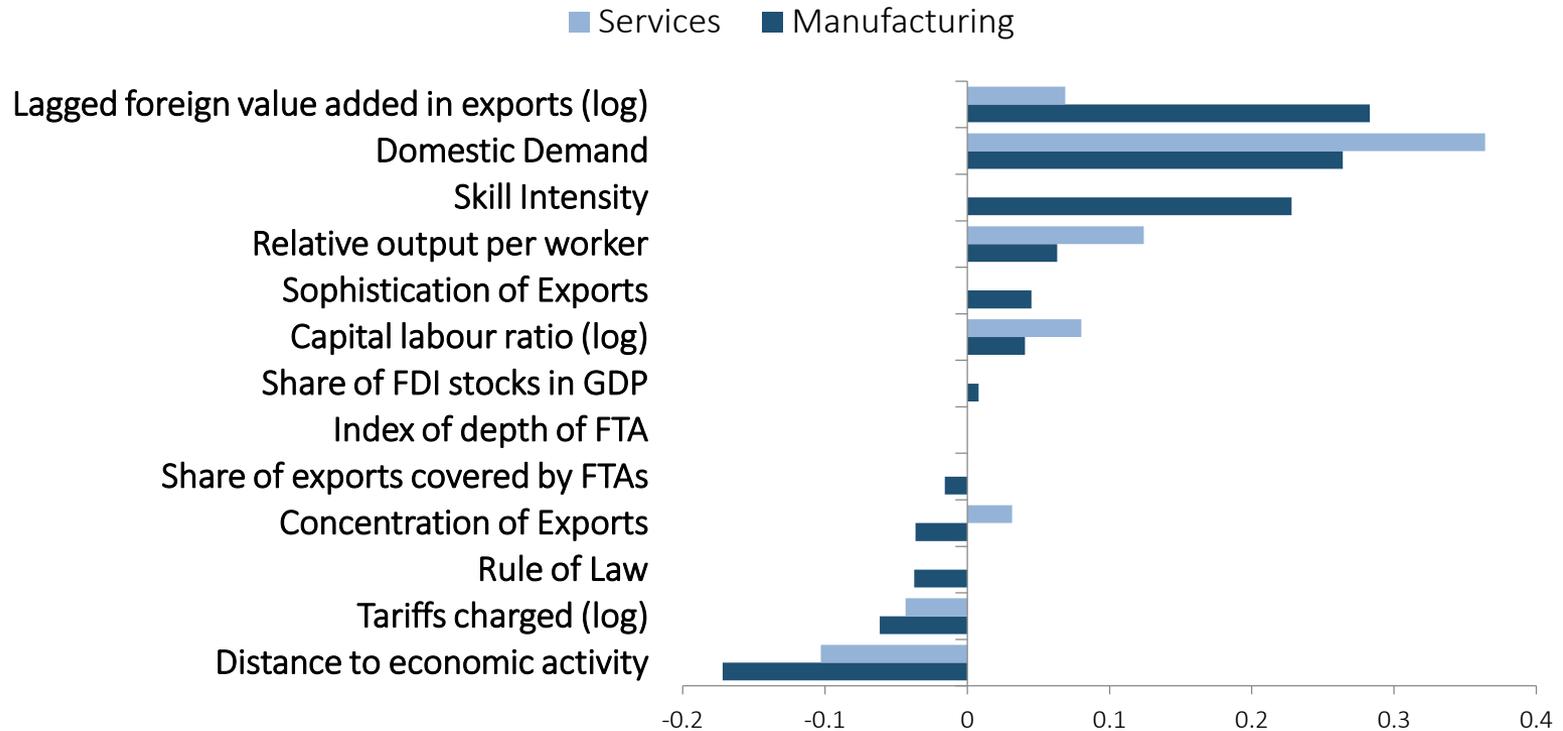
Importing is an essential component of export competitiveness

Determinants of changes in domestic value added in exports



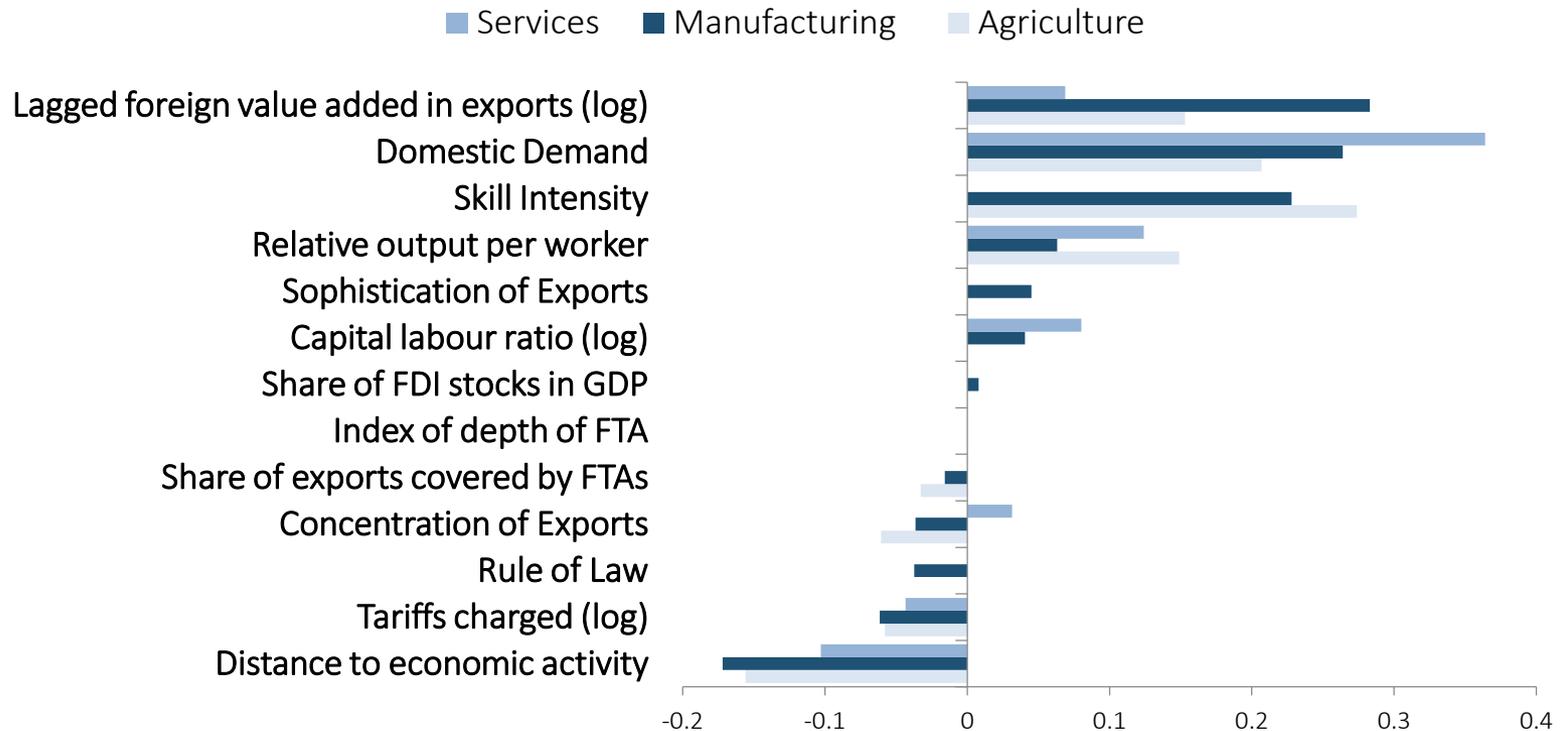
Importing is essential for export competitiveness

Determinants of changes in domestic value added in exports



Importing is essential for export competitiveness

Determinants of changes in domestic value added in exports

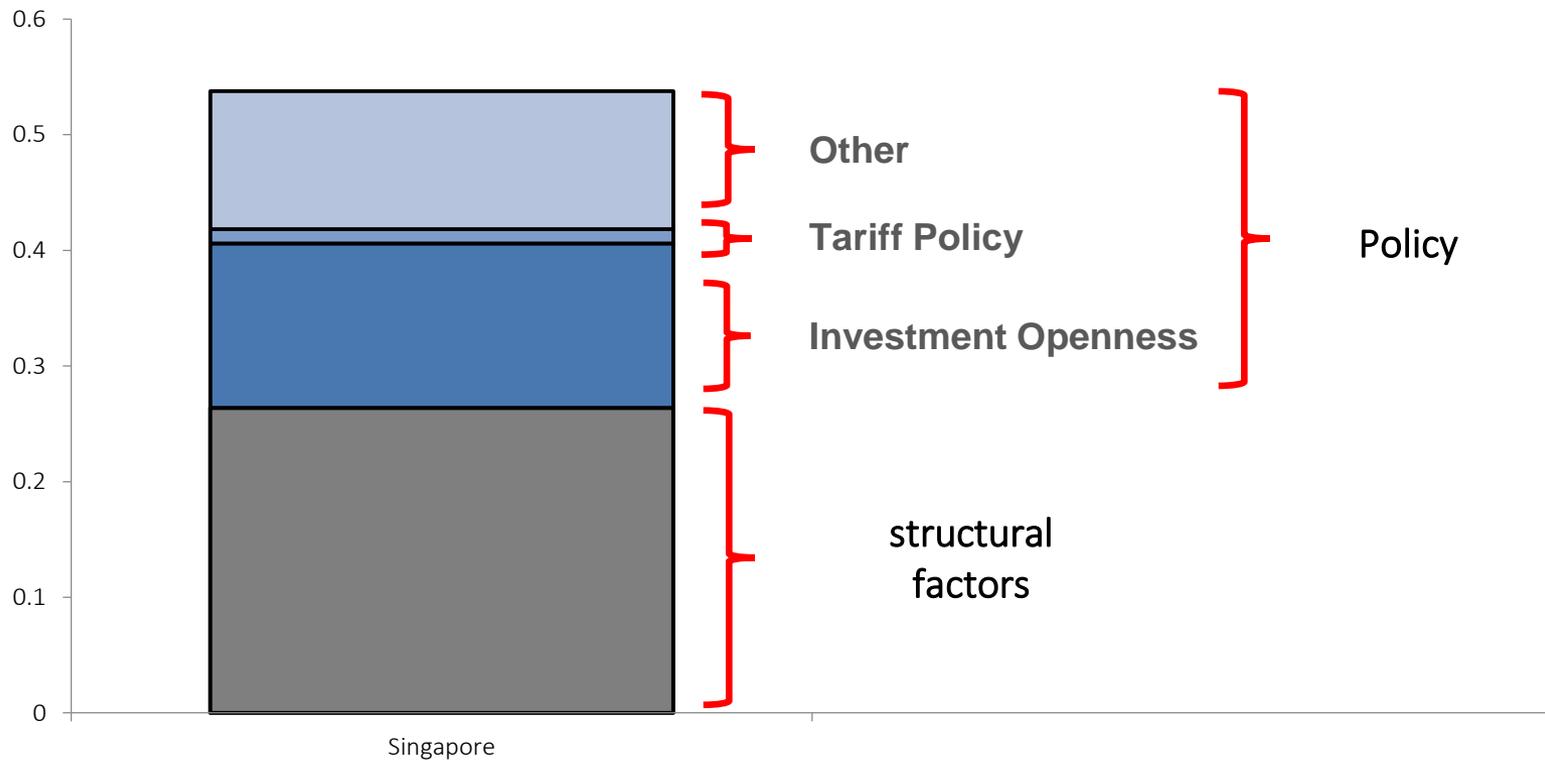




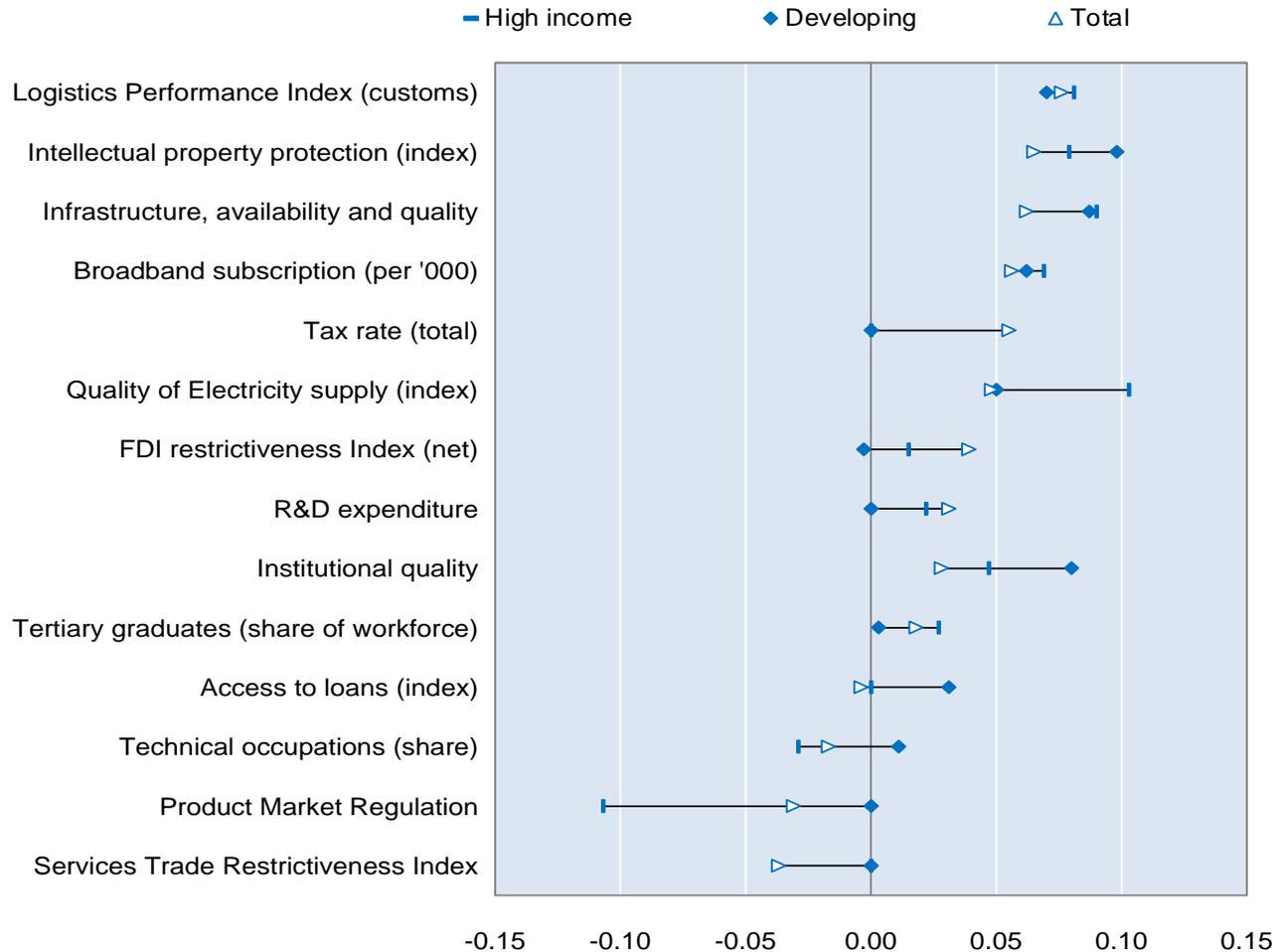
WHAT ROLE FOR POLICY?

So what role for **policy**?

What determines participation?



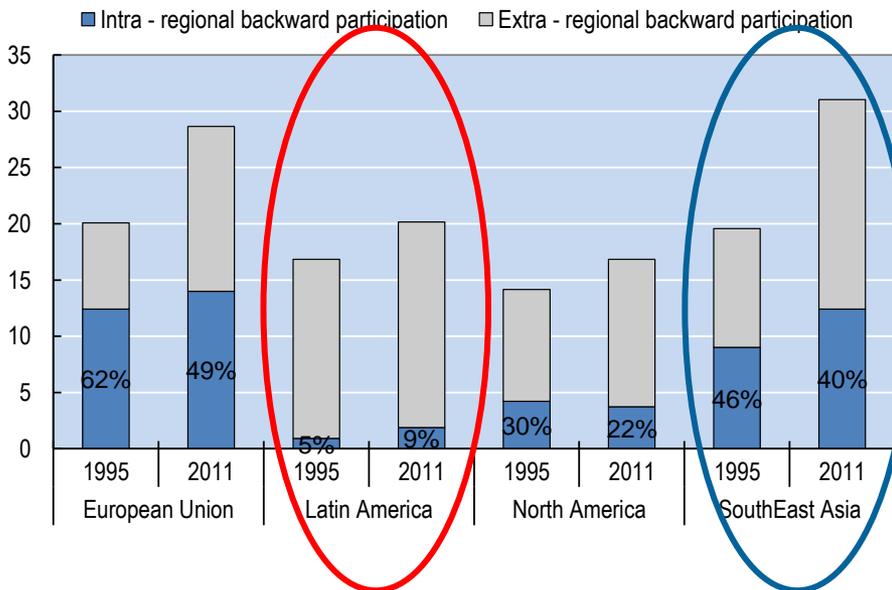
Whole-of-the-supply-chain approach



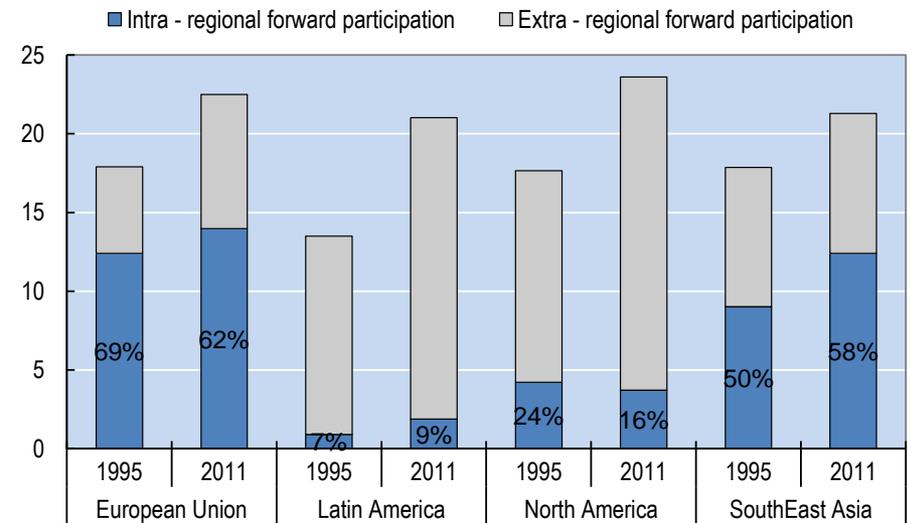
Source: OECD(2015)

» GVC participation growing in both regions, but regional performance differs...

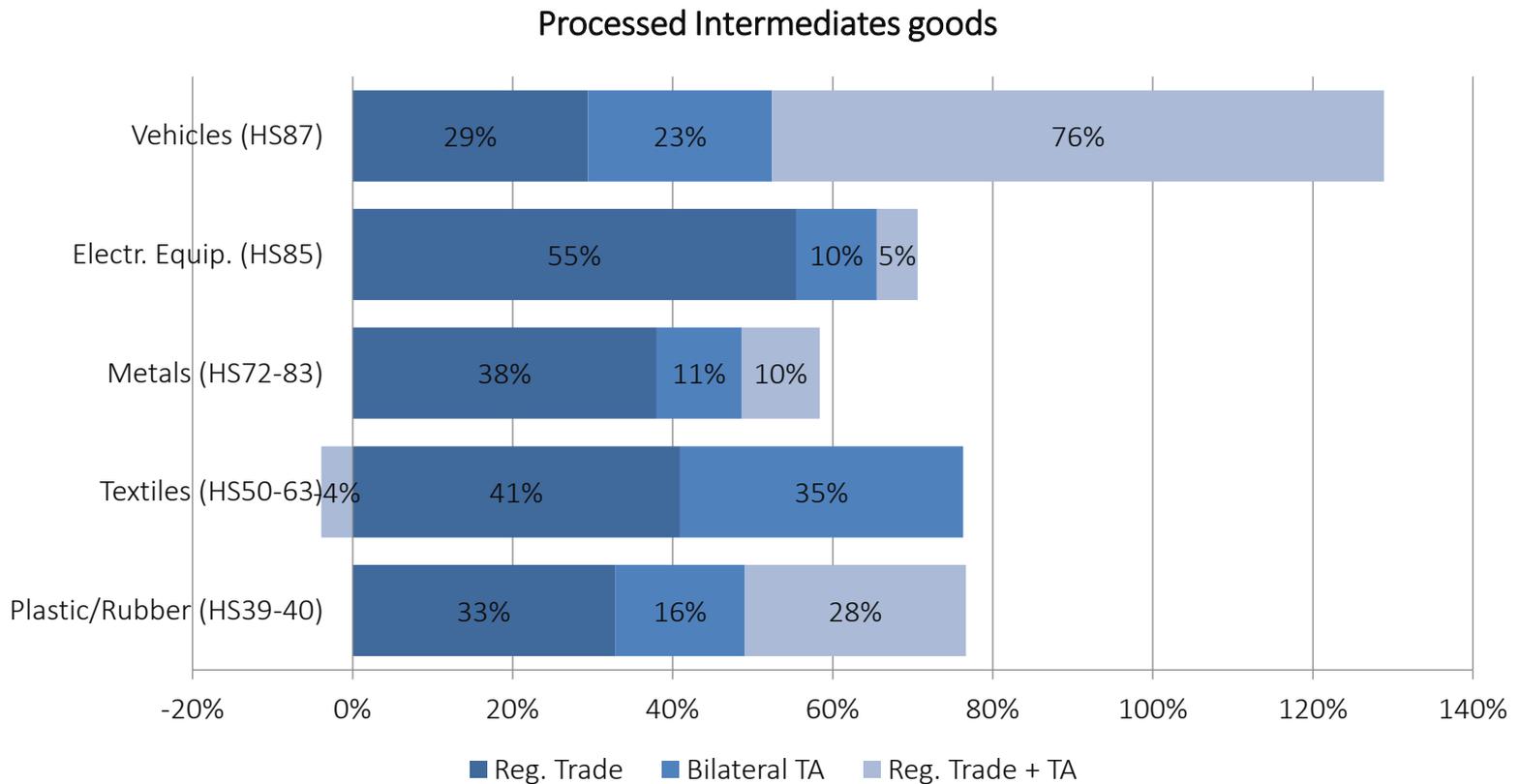
Panel A. Backward GVC participation



Panel B. Forward GVC participation

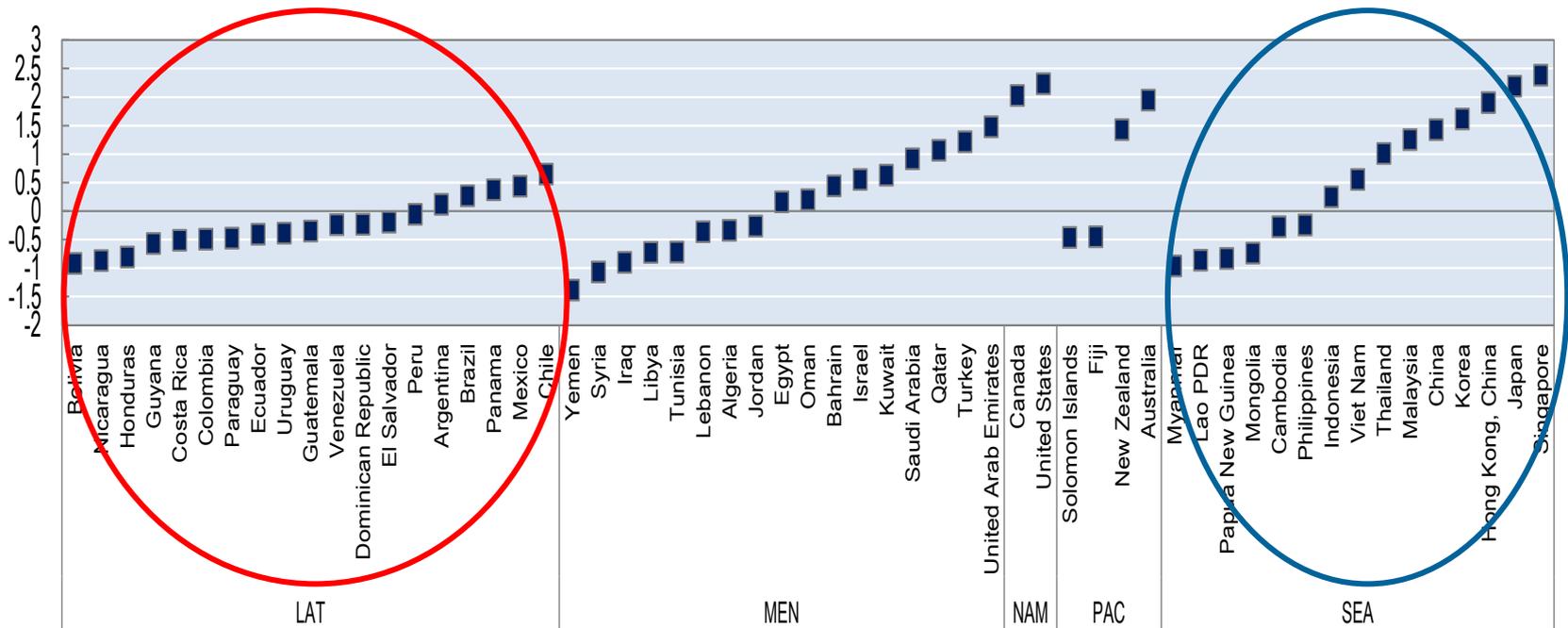


Regional trade agreements can help increase trade in intermediates...

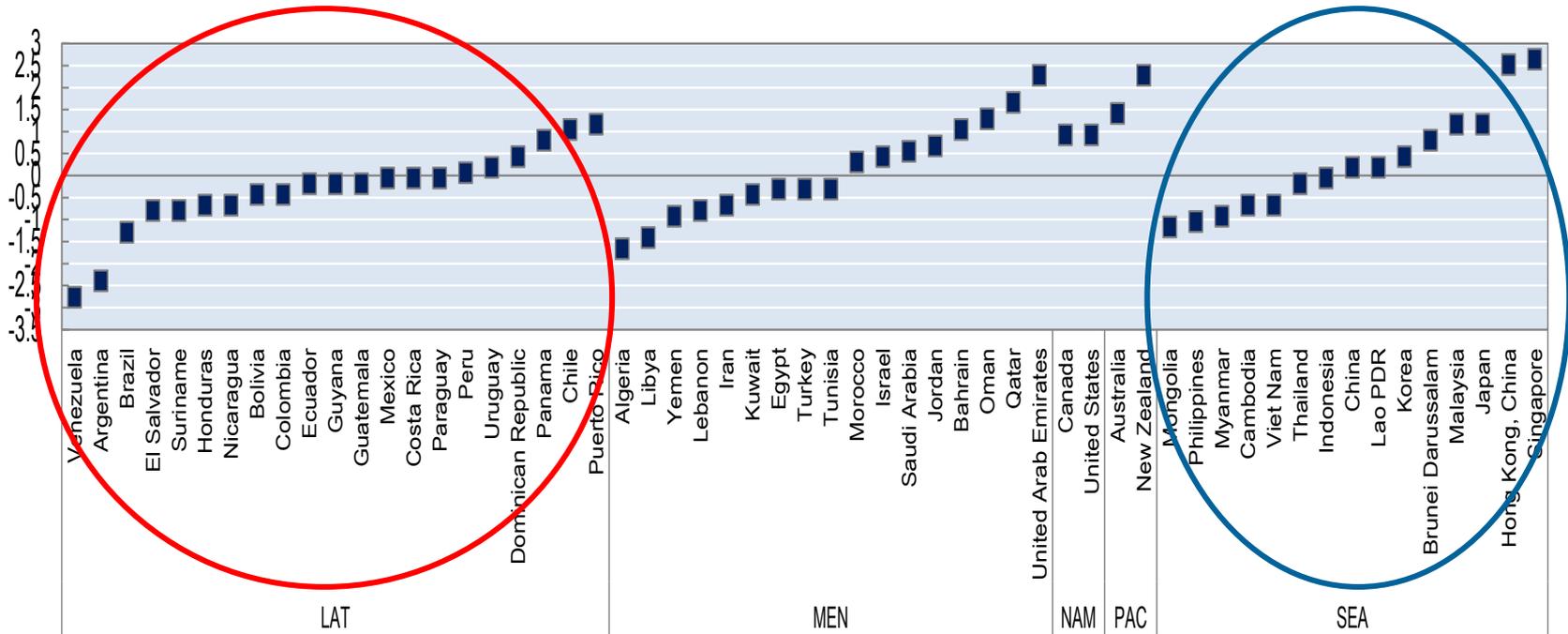


But other factors matter too...

Trade and transport-related infrastructure quality

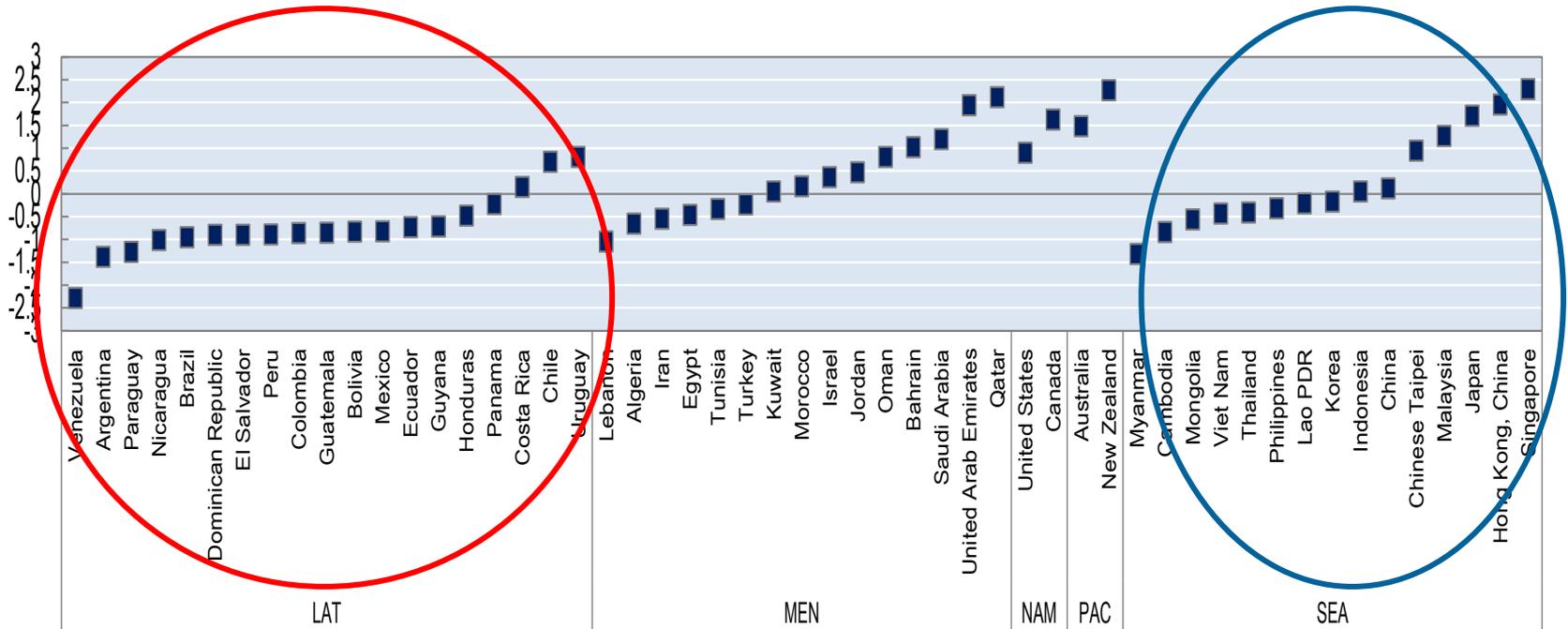


Efficiency of customs procedures



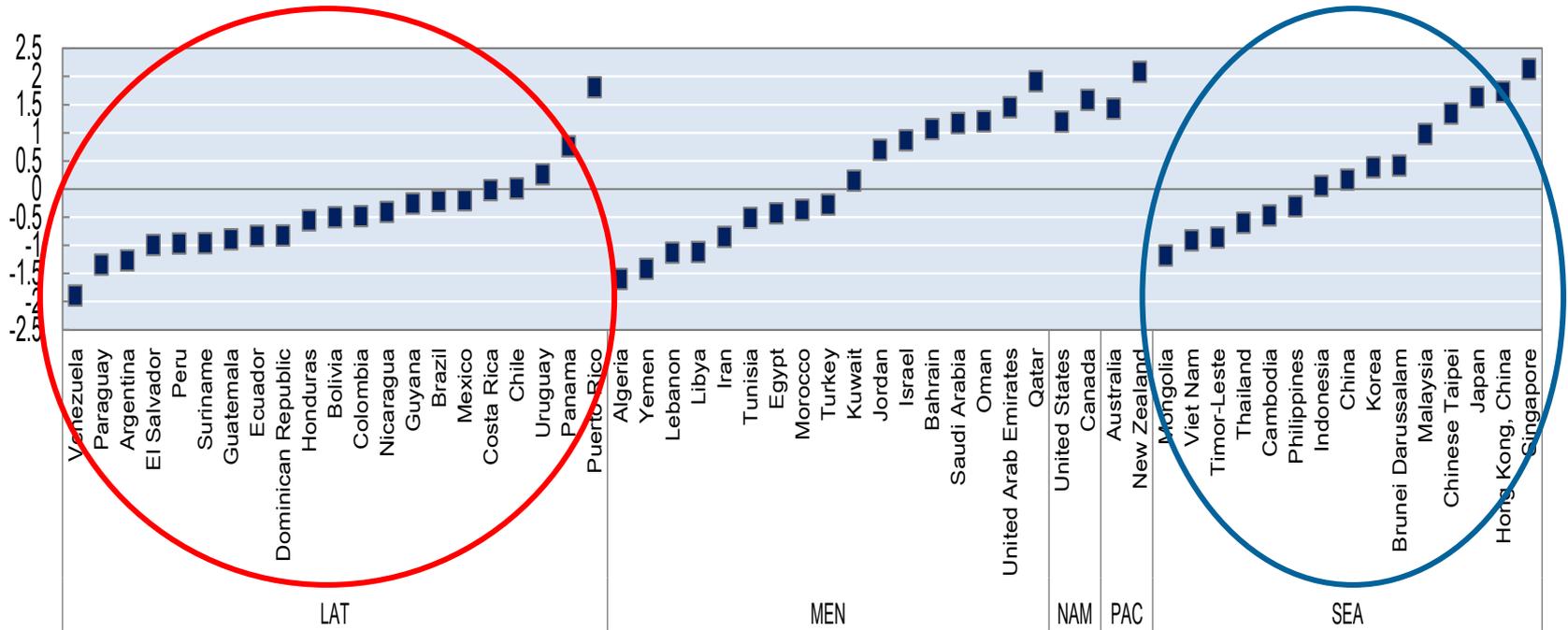
Source: WEF

» Institutional quality



Source: WEF

IP protection



Source: WEF

Trade Costs

	E28	ECA	ESA	LAT	MEN	NAM	PAC	SAS	SEA	WCA
E28	35									
ECA	67	62								
ESA	112	146	104							
LAT	110	159	189	94						
MEN	76	108	93	135	50					
NAM	66	102	125	92	72	15				
PAC	90	141	148	149	70	73	8			
SAS	95	139	162	184	61	89	107	92		
SEA	88	118	155	129	69	72	80	104	69	
WCA	108	165	94	128	115	105	143	100	162	104

Note: Figures show *ad valorem* equivalents of trade costs calculated from Arvis et al. (2013) using the trade cost measure proposed in Novy (2010). Since the data is bilateral, here we show trade weighted average costs of trade by region for the year 2010.

Source: Adapted from UNESCAP- World Bank Trade Cost Database



POLICY IMPLICATIONS

» Facilitating GVCs

- Buying and selling activities in **GVCs bring about significant economic benefits** (productivity, diversification and sophistication).
- In a GVC world **'no import' = 'no export'** → barriers to import are taxes on exports.
- **Open trade and investment regimes** become increasingly important (e.g. **barriers accumulate**). But a whole of the supply-chain approach needed (trade facilitation, intellectual property protection and competitive services):
- The efficient functioning of GVCs depends on the **easy and smooth circulation of productive resources within GVCs**: goods (final and intermediate), services, capital, people, human capital, technology and data.

» Creating an **enabling environment** through regional integration.

- Countries can gain by **reducing trade distortions through RTAs.**
- These should be supportive of the whole value chain and:
 - Be comprehensive: taking into account complementarities between trade and other policy areas such as investment, competition and movement of people.
 - Consider the centrality of services, including for goods trade
 - Carefully consider rules of origin (evidence for LAT suggests equivalent to 9-11% tariff).
 - Cover all significant partners in the value chain
 - Not neglect importance of multilateral commitments.

Contact us

We look forward to hearing from you!



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tad.contact@oecd.org



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