

Side Event:

“Measurement of Trade in Value Added in the Americas”

Introductory remarks by Minister Anabel Gonzalez

(read by Irene Arguedas on behalf of Minister Gonzalez)

Good afternoon ladies and gentleman. My name is Irene Arguedas, I am the Director of Investment of the Ministry of Foreign Trade of Costa Rica. First of all, I would like to express Minister Gonzalez’ deepest apologies for not being able to be here today. She had to fly back to Costa Rica early this morning to attend other commitments and therefore, requested me to read on her behalf the following message:

Dear friends,

Change continues to be the only true constant we have to face every day of our lives. Right after Michael Porter’s theory of competitive advantages had explained how firms could achieve more easily economies of scale if they integrated in clusters, the revolution of the information and communication technologies led to a dramatic reduction of coordination and monitoring costs and the structure of world production started a rather sharp shift to a radically different scheme, in which production processes were divided into

several sub-processes or steps that were shipped around the globe in search for the places where the conditions of the business climate allowed for the maximum efficiency.

This way, a huge wave of efficiency-seeking activities being allocated around the world gave rise to the phenomenon we know as global value chains. These global production sharing schemes have completely transformed the structure of global production and have created several interesting opportunities for developing countries.

What are then the immediate consequences of this new approach to globally efficient production? First, the shape and content of global trade flows has changed dramatically: trade is no longer concentrated on either final consumption or capital goods, but rather on intermediate goods. Most of what countries trade nowadays corresponds to intermediate inputs that are imported into one country, then either transformed or combined with other inputs, and finally shipped to another country where subsequent transformations may take place. Thus, we live in the era of trade in intermediate inputs.

Second, the traditional measurement of trade flows in total value is no longer useful for analyzing the structure of world output. The early and widely known paper on the domestic value of an iPod manufactured in China provided a valuable first insight that an alternative way of measuring trade

flows would be necessary for having a better understanding of the way global production is organized.

Third, the emergence of global value chains has created several windows of opportunity for developing countries, but their chances of taking advantage of the new conditions do not lie in what they have done, but rather on what they are doing and what they will do in the near future. In this sense, the design and successful implementation of the right set of public policies should be a top priority on the development agenda. However, the appropriate crafting of such policies requires first a sensitive analysis of where each country stands in the existing global value chains, where it aims to be in the near future and what are the necessary conditions to pursue the upgrading trajectory.

From Costa Rica's standpoint, we have initiated some research initiatives in which our partners are some of the experts participating in this event, including representatives from the Center on Globalization, Governance and Competitiveness of Duke University, Japan's IDE-JETRO, the Statistics Division of the United Nations and the OECD.

I would like to commend the leading role the WTO has been playing in persuading its membership, several international organizations, the academia and many other members of the international community about the enormous importance of developing an alternative way of measuring trade flows in value added.

I would particularly like to acknowledge this afternoon the role being played by the team of the WTO's Economic Research and Statistics Division, particularly by Huberth Escaith. This division of the WTO has been making outstanding contributions to the research on global value chains, not only in terms of producing high quality working papers on the matter, but also through coordinating research efforts with other institutions and agencies, such as, but of course not limited to, the OECD, the World Bank, IDE-JETRO, ECLAC and the United Nations. The best proof of what I am saying is that we are sitting here this afternoon.

Global value chains are still a relatively young research topic and many new efforts are being made to get to understand them better. Latin America must be part of such efforts, as part of our chances to continue growing and developing in the future will depend on our capacity to take advantage of the opportunities that global production sharing schemes offer. Therefore, I encourage you all to be part of this effort.

I would like to thank again the WTO for their excellent work on this field and I reiterate Costa Rica's commitment to continue working hard on all the efforts aimed at providing a more robust technical background to the design and implementation of successful public policies that allow for an increased, more diversified and more sophisticated participation in global value chains. Receive my best wishes for an enjoyable and fruitful event this afternoon. Thank you very much.