POLICY DIALOGUE ON AID FOR TRADE

MAKING GLOBAL VALUE CHAINS ACCESSIBLE TO ALL

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TRADE AND AGRICULTURE DIRECTORATE
TRADE COMMITTEE

MAKING GLOBAL VALUE CHAINS ACCESSIBLE TO ALL

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This item is submitted for discussion under Item 12 of the Agenda. It is intended to initiate an open exchange of views on the precise nature of the value chains phenomenon, and on the emerging trade policy challenges and perspectives that it presents.

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MAKING GLOBAL VALUE CHAINS ACCESSIBLE TO ALL

1. Global value chains (GVCs) have become a dominant feature of today's global economy, encompassing emerging as well as developed economies. This growing process of international fragmentation challenges our conventional wisdom on how we look at and interpret trade and, in particular, the policies that we develop around it. But the consequences of GVCs impact on a wide range of policy domains, not just those related to trade policy. Amongst others, they have far reaching impacts on what we understand about competitiveness, industrial policy, skills, access to markets, the role of capital and the use and protection of intellectual property.

2. This note gives a brief overview of the trade-related work currently undertaken at OECD on these issues and initial thoughts about the trade policy implications of GVCs. ***The aim is to initiate an exchange of views amongst participants, with a view to contributing to an improved mutual understanding.***

Who makes what and for whom? New evidence for policymaking

3. The rise of GVCs changes the notion of what economies produce and trade. It is increasingly less relevant to talk about the gross goods or services that are exported when economies trade primarily intermediate inputs. To complement conventional trade statistics, one needs to measure the value added by each economy along the value chain. OECD will produce at the end of the year in co-operation with WTO new statistics measuring trade in value-added terms.

4. What these statistics will demonstrate is that countries tend to specialise in specific tasks and stages of production in the value chain. They will also help to get a clearer picture of the role of each country in global trade and production. For example, gross statistics for downstream economies providing assembly services for high-tech goods will typically reveal a relative comparative advantage in this sector. But this reflects significant value created in other economies, and, so, can paint a misleading picture of an economy's competitiveness. Stages matter more than sectors. Competitiveness can no longer be solely assessed in terms of gross export performance, the narrative should be as much about imports as exports.

5. Tracing value-added as it flows through GVCs is but one part of the story. The other is to consider what GVCs mean in terms of jobs and skills. For example between 1995 and 2009 increased demand from Chinese consumers supported nearly 1,000,000 jobs in the United States, amounting to nearly 10% of total US employment growth in that period. But even that figure understates the relationship between jobs and trade. Additional jobs rely on income flows that compensate for intellectual property such as brands that may not be recorded in the conventional trade statistics and also retail jobs that exist in the US (and elsewhere) to sell products made abroad. The OECD has plans to capture these flows too.

What are the implications for trade policy?

6. Value chains do mean that the trade policies of different countries have become more interdependent and, perhaps more importantly, more immediate and pervasive in their effects. Of course, interdependence *per se* is nothing new. Endeavouring to manage the consequences for one country of another country's policies has been the essence of trade policy and diplomacy for a very long time. What is

at issue is essentially a matter of the degree to which things have changed and the ways in which they have changed.

7. What this higher interdependence via value chains means concretely for trade policy is still to be definitively determined under the OECD work programme. A range of views is on the table: some argue that GVCs may, at most, provide new arguments in favour of (or against as the case may be) old nostrums when it comes to liberalization and its forms; others aver that what we already know tells us that there will be substantively new issues to deal with or old issues that at least require substantially new treatment; still others see incremental changes to an established agenda.

8. Based on initial work from the Secretariat that will be discussed later this year, there are a few elements emerging. Acknowledging that this is still work in progress, the following points can help to start the discussion:

- Despite low nominal rates, tariffs still matter in the context of GVCs. They can add up to significant trade costs when goods cross borders multiple times, due to a magnification effect. Departing from conventional trade policy analysis, countries seeking to improve their export competitiveness could consider removing tariffs on intermediate goods. Even a unilateral removal of tariffs can improve welfare as it allows access to more efficient and cheaper inputs, boosting the productivity of domestic firms.

- There is a large potential for efficiency gains from streamlining administrative and customs procedures at the border. Procedural reforms improving information about administrative requirements and reducing the time required to inspect and process shipments yield large gains for importers of intermediate goods. They enable upstream suppliers to save on the cost of delayed sales, and allow for better inventory management and a smoother operation of supply chains.

- As meeting technical standards has become an increasingly important condition for entry into foreign markets, efforts towards harmonisation or mutual recognition agreements should be pursued regarding both technical specifications and certification procedures. More uniform product standards will particularly enhance the ability of small-scale exporters to participate in GVCs as components suppliers.

- Global production networks rely on the logistics chain, which requires efficient network infrastructures and competitive complementary services. Reaping the full benefits of participation in GVCs involves the liberalisation of domestic services markets to alleviate the burden of domestic regulations on the provision of inputs such as transport, finance and business services.

- Trade agreements can reduce trade costs and maximise the productivity gains from production sharing when they facilitate not only the movement of goods but also services, people and capital, through chapters on trade in services, investment, competition and the temporary movement of business persons. However, trade policy should remain neutral with respect to firms' strategies to access foreign inputs and markets, i.e. not favouring one mode of access over the others.

- More than before, multilateral trade liberalisation is the first best solution to maximise the gains from trade, as barriers between third countries upward or downward in the value chain matter as much as the barriers put in place by direct trade partners. Regional trade agreements can help if they cover a sufficient number of economies, are consistent with regional production networks, do not introduce distortions with third countries and are progressively multilateralised. Rules of origin could be simplified and adjusted to allow for a greater foreign content when production is split across several countries.