International Supply Chains, Trade in Value-Added and Economic Development: 
*Policy Perspective*

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Outline of the Presentation

I. Introduction:
   - New Trade & Development opportunities
   - Some policy relevant stylised facts

II. The national T&D policy perspectives
   - Upgrading challenge: The options from the business perspective
   - Upgrading challenge: The options from a policy perspective

III. The international trade policy perspectives
   - Global Value Chains and Trade Policy
   - Regional vs. Multilateral Trade Agreement

IV. Conclusions
I. (a) New Opportunities:
Trade in Tasks creates trade flows and activities that would never have existed before

**Classic comparative advantages model:** countries exchange final goods and commodities

- Risks of ‘regressive specialization’: Import Substitution or Natural Resources Based Industrialization.
- Small developing economies not able to successfully implement similar policies.

**Global Value Chains:** outsourcing of tasks and trade in intermediates inputs

- **Trade creation:** Today’s trade concern also intermediate goods connecting various segments of the global manufacturing process
- **Trade in tasks** enables small countries to develop competitive industrial activities with have the size for full-fledged industries
What factors have been driving the increase in intl. outsourcing?

- Better global and corporate governance
  - Gradual easing of East-West tensions
  - End of financial crisis and lost-decade, Uruguay Round...
  - New business models (modular “Toyota” model)
- Fall in trade costs
  - Tariffs
  - Transport and communication costs
  - Time cost of transport
- Reliability/timeliness of delivery has improved (through better infrastructure and logistic services)
- Technological improvements
  - IT advancements made it possible to separate geographically an increasing number of services tasks
Before GVCs: Traditional Trade Pattern in Textile & Clothing

- Design and Branding
- Yarns, Fabric, Manufacturing
- Shipment

Cotton

Consumers
International fragmentation of Textile & Clothing

- Design and Branding
- Merchanting Supply-chain management
- Consumers

- Cotton
- Yarns Knitted Fabrics
- Pattern-Cutting Sewing

Countries involved: Egypt, China, Hong Kong, Cambodia
1. The role of services is better understood
Implications of GVCs and TiVA on trade policy (1/2)
A better evaluation of the role of services in GVCs
A re-evaluation of the dichotomy tradable vs. non-tradable

Services dominate world trade when the sectoral origin of value-added is properly identified
Implications of GVCs and TiVA on trade policy (a)

A better evaluation of the role of services in GVCs (2/2)

Added Value

Services

Standardization

Innovation

R&D

Design

Manufacture

Assembly

Logistics

Marketing

Brand

Customer services

Source: WTO, based on Shih S., Business Week (May 16, 2005)
2. Trade policies implications are better understood

- National dimensions
- Multilateral dimensions

(to be discussed today)
Export performance increases with imported content

Manufacturing sector, 1995-2007

Based on WIOD data

Imports create Exports
Rules of Origin can be divided in two categories:

**Preferential Rules of Origin:**
- Related to the granting of preferences
- No strict rules about how to determine preferential Rules of Origin

**Non-preferential Rules of Origin:**
- Are used for the application of an MFN tariff, safeguard measures, non-preferential quotas, anti-dumping and countervailing duties
- No strict rules about how to determine non-preferential Rules of Origin

**What does «country of origin» mean?**

Determination of origin depends on:
- Whether a product was obtained in one country within the concept of “wholly obtained in one country”
- Whether a product was obtained in more than one country leading to the rule of the last substantial transformation

In other words, if inputs come from non-Agreement countries, Rules of Origin explain what must happen to these inputs in order for the final product to be considered as originated in a country.
Measuring Trade in Value-Added: Stylized facts and policy implications

3. Trade and development linkages and policies are better understood (our main topic today)
Global Value Chains call for re-orienting many economic policies—new priorities for “industrial development” policies

Today: Emphasis on developing economies
Joining and Upgrading Strategies
(a) the basics:
Countries do not trade in GVCs, firms do
Public-Private articulation

• **Attracting GVC and FDI:**
  – Export-oriented policies (incl. EPZs),
  – Adequate trade, investment and regulatory policies (beyond EPZs)

• **GVC and “Industrial” policy:**
  – Trade in tasks blurs the frontier between manufacture and services
  – Calls for transversal/horizontal policies rather than vertical/sectoral ones
  – Must be rooted in a sustainable business/public policy perspective

• **Fostering inter-industry linkages** to create **density**:
  – ‘**Industrial clusters**’ of complementary firms coordinated to produce marketable output (agro-industry, tourism, mining, …)
  – Look beyond manufacture for strong upstream and downstream linkages
(b) Joining Global Value Chains: Role of Trade Facilitation

- TF: one of the main Bali outcomes
- TF and GVCs: insights from a OECD/WTO 2012-13 monitoring exercise

- Public sector (132 replies)
  - Partner countries (80), donors (43), South-South assistance providers (9)
- Private sector (697 replies)
  - Developing country suppliers (524) and lead firms (173)
  - Agrifood (257), Information and communication technology (ICT) (125), Textiles and apparel (106), Tourism (113), Transport and logistics (96)
What are the main barriers for developing country firms to participate in value chains? (I)

Source: OECD/WTO Aid-For-Trade Questionnaire 2013
What are the main barriers for developing country firms to participate in value chains? (II)

Source: OECD/WTO Aid-For-Trade Questionnaire 2013
Which type of aid is “very effective” according to developing partners?

Source: OECD/WTO Aid-For-Trade Questionnaire 2013
Aid for trade and other development finance flows

Most important sources of finance to connect firms to value chains according to partner countries

Source: OECD/WTO Aid-For-Trade Questionnaire 2013
## Specific policies to promote sectoral GVCs:

### The business perspective

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<th>Agri-food</th>
<th>Information, Communication and Technology (ICT)</th>
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<td>• Standards compliance</td>
<td>• Trade policy and regulatory issues</td>
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<td>• Business and policy environment</td>
<td>• National supply-side constraints, including</td>
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<td>• Access to finance</td>
<td>‘hard’ and ‘soft’ infrastructure</td>
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| Transport and Logistics                                                 | The above are some of the broad categories that  |
|--------------------------------------------------------------------------| emerged out of the sector specific surveys where  |
|                                                                           | support would be most effective in helping      |
|                                                                           | developing country firms connect to the sector   |
|                                                                           | value chains                                     |
| • Customs and other border procedures                                   |                                                  |
| • Infrastructure bottlenecks                                            |                                                  |
| • Monopolies and private sector development                             |                                                  |

**Source** WTO-OECD, AFT Survey for LDCs, Sector-specific findings
(c) Challenges: what after joining GVCs?

- **Joining** a GVC is already a challenge for most lesser developed countries (gaps in infrastructure & administrative environment)

- Most LDCs join GVC based on cheap labour (assembly): value-added per unit is low.

- Next challenge is **up-grading**: define enabling economic policies to foster investment and trade and incorporate higher value-added (know-how and technology).
Upgrading Strategies: *Firms are not Countries*

**Firms:**
- *Value-Added* not the main criterion: *return on investment*
- *Internal GVC governance:* may limit possibilities of moving to new segments (if competing against other GVC partners)

**Countries:** role of public policies

1. **Attract GVC and FDI:** export-oriented policies (incl. EPZs)
2. **Foster inter-industry linkages** to create density:
   - ‘*Industrial clusters*’ of complementary firms coordinated to produce marketable output (agro-industry, tourism, mining, ...)
   - Look beyond manufacture for strong upstream and downstream linkages:
     *Trade in tasks* blurs the frontier between manufacture and services
UPGRADING STRATEGIES: “A TALE OF TWO SMILEYS”

- **On the intensive margin**: economies of scale and scope
- **On the extensive margin**: Higher value-added per unit of output

Source: Escaith, 2013
III. The international trade policy perspectives

Global Value Chains and Trade Policy
Regional vs. Multilateral Trade Agreement

(a) Why is deep integration through RTAs gaining momentum?

- International production networks call for deeper integration

  • Complementarity between:
    - Trade (shallow, border measures) and
    - Investment (deep, regulatory frameworks) policies

  • Complementarity between trade and business governance which is at the root of the flourishing of deep agreements.
PTAs, DEEP INTEGRATION AND GLOBAL PRODUCTION NETWORKS: SOME EMPIRICS

• WTR 2011 tests the two-way link between deep integration *PTAs and production networks* (Using trade in *parts and components* as a proxy for global production sharing)

• Preliminary results show that:
  – Greater trade in *parts and components* increases the level of depth of newly signed agreements between PTA members
  – PTAs increase trade in *parts and components* by 35% among country members
  – The greater the level of depth of an agreement, the bigger the increase in trade between member countries
(b) Global Supply Chains: Lessons for the Multilateral Trading System

- Domestic market is no more key for developing an industry
  - Optimal tariff policy is consistent with industrial objectives
- Domestic production and international trade are increasingly interconnected
  - My partners’ problems/successes are also my problems/successes:
  - “Beggar thy neighbours” strategies backfire quickly
  - Harmonized regulatory frameworks, trade facilitation and infrastructure matter more than market access
- Global problems require global solutions
  - Global Supply Chains are both regional and international
  - From regionalism to multilateralism?
Deep integration provisions are often non-discriminatory
- Changes in regulations are difficult to make partner-specific (e.g. investments, services, competition policy)

Mechanisms supporting further liberalization are found in PTAs
- Non-party MFN clauses
- Spread or replication of liberalizing provisions (NAFTA telecomm competition rule)

Caveat: mechanisms generating negative systemic effects
- Trade remedies (PTA provisions on anti-dumping and global safeguards)

Other effects
- Reluctance of developing countries (preference erosion, difficulty to adapt regulatory frameworks)
- Regulatory “lock-in”
Summary of main points

Global Value Chains

* **New paradigm? Possibly!**
  
  **Requiring New Data? Certainly!**

* **New Trade and development opportunities**

  - New options for economic policies
    - Trade Facilitation
    - Beyond the Border regulations
    - Up-grading and economic policies
    - Education and other horizontal policies (infrastructure, etc.)
    - Transversal/Cluster approach (private-public dialogue, SMEs as second-tier suppliers, competitiveness dimensions)

  - Reconsider Trade - Business relationship
    - Role of services (second-tier suppliers; competitiveness)
    - Comparative and competitive advantages (again, role of second tier suppliers, business environment)

* **International governance: new challenges**

  - Regional Supply Chains and RTAs / Rules of Origin
  - Regional Supply but Global Market: Transaction costs and Systemic risks

  -> **Need for increased multilateral coordination**