APEC Public Private Dialogue on building Asia Pacific partnership through Global Value Chains Collaboration

Qingdao, 12 May 2014
Jane Drake-Brockman
“Strengthening APEC Cooperation on GVCs”
Strengthening APEC Cooperation on GVCs

• First, recap lessons learned from the global TiVA data and check whether findings hold true for the APEC area (bearing in mind that Peru and PNG are not included in the database)

• Second, consider the national and regional policy implications of the findings

• Third, envisage an action agenda for APEC

• And remember why this is a priority

As partners in the APEC process, how can PECC contribute? How can ITC contribute?
1. Trade in intermediates is more important than trade in final products (and has been for a long time)

World Trade by End Use 1990-2010

Source: Sebastien Miradout, OECD, 2011 (export flow)
2. APEC economies are actively participating in GVCs

GVC Participation Rate as % of gross exports, 2009
Domestic value added as a % of gross exports, 1995-2009
Share of Foreign Value Added in gross exports by region, 2010

- Transition Economies: 13%
- South America: 14%
- Caribbean: 21%
- Central America: 31%
- Latin America and Caribbean: 21%
- West Asia: 16%
- South Asia: 11%
- East and South-East Asean: 30%
- Asia: 27%
- Africa: 14%
- Developing Economies: 25%
- APEC: 26%
- Japan: 18%
- United States: 11%
- European Union: 39%
- Developed Economies: 31%
- Global: 28%

Developing country average
3. Services share of APEC exports more than doubles to 38%

- Services share of global exports in BoP terms 24%
- Global average is 45% / OECD average is 48% / ASEAN average is 34%
For comparison, some non-APEC economies ....
4. Services are important to manufacturing

Source: OECD Trade and Agriculture Directorate
5. SMEs have a role in GVCs

- The purchasing and investment decisions of lead multinational corporations may have been driving the creation of GVCs worldwide, but the most numerous players, to which activities are outsourced, are SMEs.

- The services supply chain story in particular is about SMEs. Firm size and production scale tend to matter less in services markets than “nimbleness” and project by project flexibility, presenting particular opportunities to smaller firms. OECD evidence that since 1997, more services SMEs have been involved in international alliances than manufacturing SMEs; by 2000, there were nearly 4 times as many services SMEs engaged in international alliances than manufacturing SMEs.

- Benefits of participating in GVCs have not been evenly spread. Trade barriers and regulatory cost burdens impact particularly heavily on smaller firms; they have fewer internal resources and face greater difficulties in access to trade financing, identifying partners for GVC operations; processing international payments and meeting qualifications, licensing and technical standards and procedures.
6. There is a strong regional dimension to the GVC phenomenon, which the TiVA data allows us to picture more clearly.
8. But the rest of the world remains important also

Motor vehicle sector: imported intermediates make a sizeable value added contribution to exports (Singapore 54%, Malaysia 49%, Thailand 45%, China 43%, Cambodia 41%, Vietnam 41%, Philippines 35%, Korea 32% Indonesia 17%, Japan 14%). APEC content is dominant, but intermediate imports are sourced also from Europe and the rest of world.

Source: Miradout, OECD 2013
9. Imports help grow exports

Source: Hubert Escaith, WTO 2012

Source: Yose Rizal Damuri, CSIS, 2014
Over 40% of China’s gross exports of electronics and over a third of Germany’s gross exports of transport equipment reflect foreign value-added...

Source: OECD Trade and Agriculture Directorate
10 Bilateral trade imbalances are resized and 11 new competitiveness strengths and weaknesses are revealed

The TiVA data show that a country’s competitiveness in any industry depends (1) on the competitiveness of other domestic sectors and (2) on imported inputs. The data shows eg China to have less overall revealed comparative advantage than the balance of payments statistics suggests; the same is true for Mexico. Eg Japan, Korea and Chinese Taipei, on the other hand, register improvements in revealed comparative advantage. The data provides powerful potential insights to policy makers, but is not yet useable with respect to services.

Source; Escaith, WTO 2013
12. FDI enhances GVC activity

The TiVA data provides information on the role played by foreign affiliates in generating exports. FDI is seen as a fundamental component of the financing and governance of outsourcing activities, often described as “captive outsourcing”, captive implying potentially less footloose or more “sticky”. UNCTAD data indicates that participating in GVCs generally requires investment regimes that allow lead foreign firms to establish in-country.

How does FDI affect countries’ GVC participation?

Source: UNCTAD 2013
There is lively debate on likely future industry trends, but the general evidence suggests the production process will continue to fragment across borders.

Boeing has transformed itself into a systems integrator and has outsourced an increasing proportion of its aircraft production:

- **737 Classic at start of production**: 10% outsourced
- **747 series at start of production**: 20% outsourced
- **787 Dreamliner at start of production**: 80% outsourced

SOURCE: International Association of Machinists and Aerospace Workers; Boeing; Reuters; McKinsey Global Institute
GVCs magnify the costs of protection

- Tariffs accumulate across tier 1, 2, 3 goods suppliers and beyond (direct tariffs on inputs plus indirect tariffs on inputs plus the direct tariff on the final export (OECD estimates suggest that the latter, which is the only visible part, tends to account for relatively little of the total tariff impact)); NTMs
- Direct and indirect border restrictions on services inputs plus very high behind-the-border regulatory barriers to market entry (OECD STRI data released earlier this week)
- Disconnects in rules of origin in FTAs criss-crossing the region add to costs of doing business
APEC action plan to alleviate GVC choke-points, improve GVC resilience and increase the GVC readiness of APEC economies, across all sectors of the economy.

- Effort at country-specific and all-of-APEC level to undertake cross-sectoral analysis and build understanding of the new TiVA data
- Deeper commitment to connectedness with the global and regional market (even more openness to trade, investment, information, people movement)
  - much bigger focus on services
  - attention to “new issues”/ e commerce/ data transfer/ localisation requirements/ competition policy/ movement of natural persons / “industry” policies
- Implementation of WTO Trade Facilitation Agreement to cut trade costs at customs and border points
- Renewed focus on regional transport links and logistics
- Greater connectivity of standards, including mutual recognition for services providers
- Intensified effort on domestic regulatory efficiency and best practice benchmarking and public private dialogue for GVC enabling environment
- New mechanisms to help meet GVC trade finance needs, including for services SMEs
- Renewed focus on key ingredients for climbing the value-added ladder (human capital, skills, digital infrastructure, collaboration for innovation)
- Support for (national and regional) mechanisms for services sector stakeholder consultation, especially to give voice to services SMEs
- Harmonisation of regional rules of origin for both goods and services
- Regional collaboration among TPOs to facilitate SME access to GVCs.
Today’s Globalized Toy

Topper the Trick Terrier is a robotic dog that can talk and stand on its head. But the real trick is where its parts come from. This year 75,000 copies of the dog were made by Qualiman Industrial Co. in Nanhai, China for a Li & Fung American customer, the Original San Francisco Toymakers. It sells for $29.99 in the U.S.

PLASTIC EYES:
Shenzhen, China

PLASTIC BODY:
Malaysia

MICROFIBER FABRIC
FOR COAT:
Korea

SPAKER FOR TOY’S VOICE:
Dongguan, China

TRANSISTORS:
Shenzhen, China

IC CHIPS:
Taiwan

WIRING:
Dongguan, China

PACKAGING:
Hong Kong

Sources: Qualiman Industrial Co. Ltd.; Li & Fung.