Interconnected Economies
Benefiting from Global Value Chains

[Image of a globe with interconnected lines and the OECD logo]

oe.cd/gvc
What does the OECD work add?

- Large literature on GVCs
  - Rather conceptual
  - Rather focused on developing economies
- GVCs are not new... started already in the 1960s
- Size, scale and complexity of GVCs are new

- OECD work on measuring GVCs – Trade in Value Added
- OECD work on GVC policies: so what – question?
Global Value Chains – case studies

OECD work on Trade in Value Added (1)

Final consumption

Final assembly

Trade in final goods

Trade in inputs (first tier suppliers)

Trade in inputs (second tier suppliers)
OECD work on Trade in Value Added (2)

Decomposition of gross exports

Final consumption

Final assembly

Trade in final goods

Trade in inputs (first tier suppliers)

Trade in inputs (second tier suppliers)

Value added in the country of final production

Value added by first tier suppliers

Value added by second tier suppliers
OECD work on Trade in Value Added (3)

- Global Input-Output Model: national IO tables linked by bilateral trade statistics
- Official statistics – making it mainstream work
- Large and growing coverage
  - 57 countries
  - > 95% of GDP, > 90% of world trade
  - China; processing and non-processing trade
- First release (of results) on 16 January 2013 – new release during OECD Ministerial Meeting (May 2013)
- Trade flows in value added and applied indicators
- Further work: employment and skills, income, firm heterogeneity...
Research rewrites global trade data

OCDE et OMC affinent la vision du commerce mondial grâce à de nouvelles données

L’OMC et l’OCDE rebattent les cartes du commerce mondial

Research reshapes debate on global trade policy

OECD und WTO messen Welthandel neu

Trade’s added value

New statistics reveal glorious interdependence of countries

NASDAQ

THE IRISH TIMES

Les Echos

der standard

the guardian

la Repubblica

THE WALL STREET JOURNAL

LE DEVOIR

Revolutionary Trade Database Launched by OECD and WTO

OECD/WTO ‘Value-Added’ Trade Measure Shows Exchange Rate Issues Overstated

Bloomberg

Measuring only the added value of services in creating goods. Whilst there are, at present, limitations to the widespread calculation of trade in value-added data, this OECD-WTO initiative is to be applauded for providing a more revealing look into global trade and integration, and for paving the way for further development in this area.

The Washington Post

China Daily

Expansión

El Financiero

Handelsblatt

Ces produits qui bouleversent le commerce mondial

REUTERS

THE ECONOMIC TIMES

Foxi

The Guardian

The Wall Street Journal

Le Devoir

Les Echos

The Independent

The Irish Times

World Economics

FT.com

FINANCIAL TIMES

Scoop

INDEPENDENT NEWS

8
Foreign value added of world exports
Domestic value added of exports
Large differences across member states…

Foreign value added of exports
.. and across industries

Foreign value added of exports
Domestic/foreign value added in final demand (manufacturing and market services)
Domestic/foreign value added in final demand (manufacturing and market services)

Belgium

[Bar chart showing the domestic-direct, domestic-indirect, and foreign contributions to the value added in final demand for various sectors in Belgium.]
Export partners, EU27
Bilateral trade balances, EU27

2009 Gross Trade surplus/deficit (TSGR)  2009 Value Added surplus/deficit (TSVAFD)
Services content of exports, EU27

- Domestic content
- Foreign content
- Total 1995
How to promote the competitiveness of national economies? (1)

- **Tension** between the national focus of government policies and international character and strategies of companies;

- Increasing **divergence** between competitiveness of national economies and the competitiveness of domestic companies

- Rising leakage of domestic stimuli and support packages

- Activities instead of products/industries: today, **what you do** matters more for growth and employment than what you sell.
Effectiveness of industrial policy at the national level?

Foreign value added content in final demand in % of GDP

Imported intermediates in % of production
How to promote the competitiveness of national economies? (2)

• Competitiveness increasingly depends on exports and imports; offshoring/outsourcing reinforces countries’ competitiveness.

• **Old-style support policies** ignore the interconnected nature of production in GVCs and the need for international competition and openness. Moreover, they raise risks of protectionism.

• The *manufacturing* of goods remains a core activity in GVCs and it increasingly drives on efficient *services*.

• Competitiveness in GVCs involves strengthening *production factors that are "sticky"* and not susceptible to movement across borders - importance of *knowledge based capital*
## Offshoring and export specialisation/competitiveness (1)

<table>
<thead>
<tr>
<th>Variables</th>
<th>I</th>
<th>II</th>
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RCA in Gross Exports (symmetric)
## Offshoring and export specialisation/competitiveness (2)

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How to promote the competitiveness of national economies? (2)

• Competitiveness increasingly depends on exports and imports; offshoring/outsourcing reinforces countries’ competitiveness.

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• The manufacturing of goods remains a core activity in GVCs and it increasingly drives on efficient services.

• Competitiveness in GVCs involves strengthening production factors that are "sticky" and not susceptible to movement across borders - importance of knowledge based capital
Services value added content of manufacturing exports, 2009

[Diagram showing the percentage of services value added by country, with Belgium highlighted.]

- Wholesale, retail, hotels & rest
- Transport, storage & telecom
- Finance & Insurance
- Business services
- Other services
- 1995 total
How to promote the competitiveness of national economies? (2)

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Competitiveness – knowledge based capital (1)

The smile curve, electronics

Value added

Global Value Chain in the 2000s

Pre-production
Intangible

Pre-production
Tangible activities

Post-production
Intangible

R&D
Design
Logistics: purchase
Production
Marketing
Logistics
Services

Value chain activities

Source: based on Shih (1992), Dedrick and Kraemer (1999) and Baldwin (2012)
Competitiveness – knowledge based capital (2)

SPORT SHOES: 100 EURO (final retail price)

<table>
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<tr>
<th>Component</th>
<th>Cost (EURO)</th>
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<tbody>
<tr>
<td>Production</td>
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<td>Brand</td>
<td>33</td>
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<tr>
<td>Distribution</td>
<td>55</td>
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<tr>
<td>Raw material</td>
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<td>Wages</td>
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<td>Other expenses</td>
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<tr>
<td>Profits producer</td>
<td>2</td>
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<tr>
<td>Conception and design</td>
<td>11</td>
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<tr>
<td>Marketing and branding</td>
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</tr>
<tr>
<td>Profits brand</td>
<td>13.5</td>
</tr>
<tr>
<td>Transport and taxes</td>
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<tr>
<td>Retail margin</td>
<td>32.6</td>
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<td>VAT</td>
<td>17.4</td>
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A SUIT… MADE IN CHINA, SOLD IN UNITED STATES

Source: Fung Global Institute

© General Motors, Chevy Volt
OECD work on knowledge-based capital

- Computerised information
- Innovative property
- Economic competencies
Investment in knowledge based capital

Source: Corrado et al., (2012).
## Manufacturing competitiveness – knowledge based assets (2)

<table>
<thead>
<tr>
<th>Variables</th>
<th>RCA in Gross Exports (symmetric)</th>
<th>RCA in Value Added (symmetric)</th>
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</thead>
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<td>Domestic demand index</td>
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<td>(0.009)</td>
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<td>K endowment × K intensity</td>
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<td>Intermediates use intensity (broad definition)</td>
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<td>Intangible Capital endowment × High-skill intensity</td>
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<tr>
<td>Intangible Capital endowment × High-skill intensity × Imported intermediates use intensity</td>
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<td>R-square</td>
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</table>
GVCs and border policies (trade and investment)

- The efficient functioning of GVCs (hence the participation of countries in GVCs) depends on the easy/smooth circulation of productive resources within GVCs: goods (final and intermediate), services, capital, people, human capital, technology;

- No mercantilistic approach: GVCs is about imports and exports;

- Barries to import = taxes on exports

- Trade facilitation + efficient services

- Trade and investment liberalisation:
  - Multilateral vs regional vs bilateral agreements
  - Broad coverage
GVCs and economic development

- GVCs can help countries integrate in the global economy: **joining instead of building a value chain** (China, Costa Rica, Czech Republic, etc.)

- **Participation in GVCs**: border policies

- **Creating/capturing value in GVCs**: competitiveness, innovation, skills...

- **Adjusting to GVCs**: important effects on national economies due to reallocation of productive resources

- **Addressing risks**: interconnectedness between economies means also higher interdependency and vulnerability
CH. 1: The rise of GVCs
CH. 2: Measuring Trade in Value Added
CH. 3: GVCs and trade policy
CH. 4: GVCs and investment policy
CH. 5: GVCs and economic development
CH. 6: National competitiveness and GVCs
CH. 7: GVC upgrading and knowledge based assets
CH. 8: GVCs and global systemic risk
FOR MORE INFO:

koen.debacker@oecd.org

oe.cd/gvc