

GVCs in the Asia-Pacific: Mapping and Policy Implications

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Free Trade in the Asia-Pacific
High Level Roundtable Discussion

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Overview

- Thinking GVCs and mapping them
- The relative neglect of services
- Policy perspectives

Thinking GVCs and mapping them

Internationalized production and consumption

- Societies and nations have always traded, and supply chains have existed for many hundreds of years, so what has changed?
 - Interdependency has grown in intensity
 - So has our understanding of it - measuring trade in value-added terms
- Technology, business models and policy have been the great enablers, especially over the last three or four decades.

The transformative force of value-added measurement



GVC-intensity of production

- Around two-thirds of global trade is in intermediates
- Participation in GVCs
 - Backward linkages (import content of exports)
 - Forward linkages (domestic inputs in third country exports)
- On this basis, more than half of trade is involved in GVCs
- Trade is better understood as tasks, rather than being industry-specific

Determinants of GVC participation levels

- All regions participate, especially Asia and Europe
- Larger economies tend to have more forward linkages
- Other determinants of participation:
 - Resource endowments
 - Degree of development and industrialization
 - Distance
 - Policy

Disruptors in a fast-changing GVC world

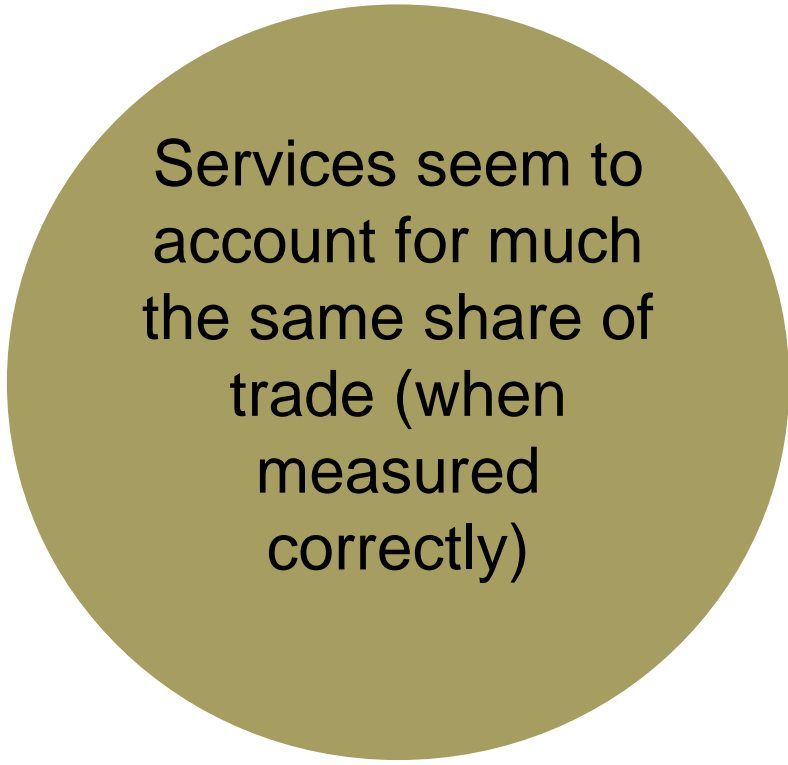
- Shifting patterns of supply and demand
- Consumer expectations (influence of ICT)
- New sources of risk (natural disasters, man-made disasters, policy)
- Challenges of sustainability
 - Environmental
 - Social
- Advances in technology (digitization, 3D printing, robotics)

Services in GVCs

The growing prominence of services



Services account
for around
70% of
production

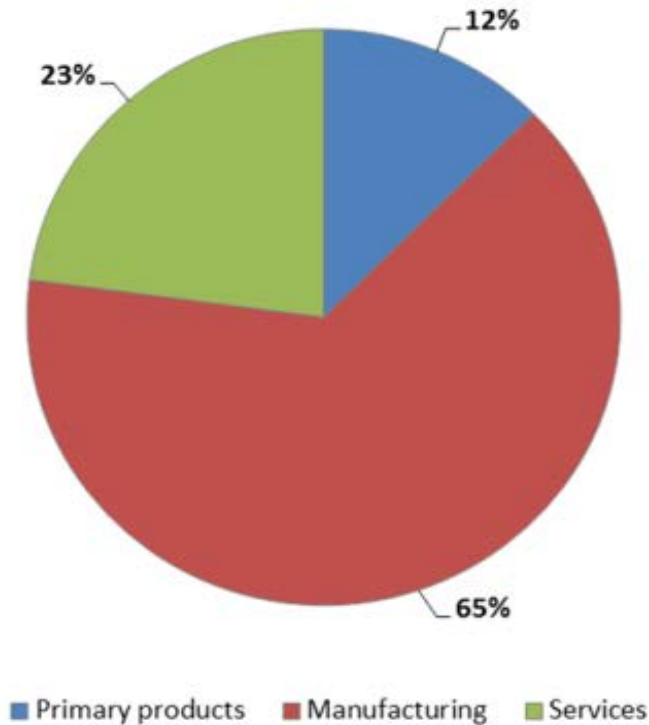


Services seem to
account for much
the same share of
trade (when
measured
correctly)

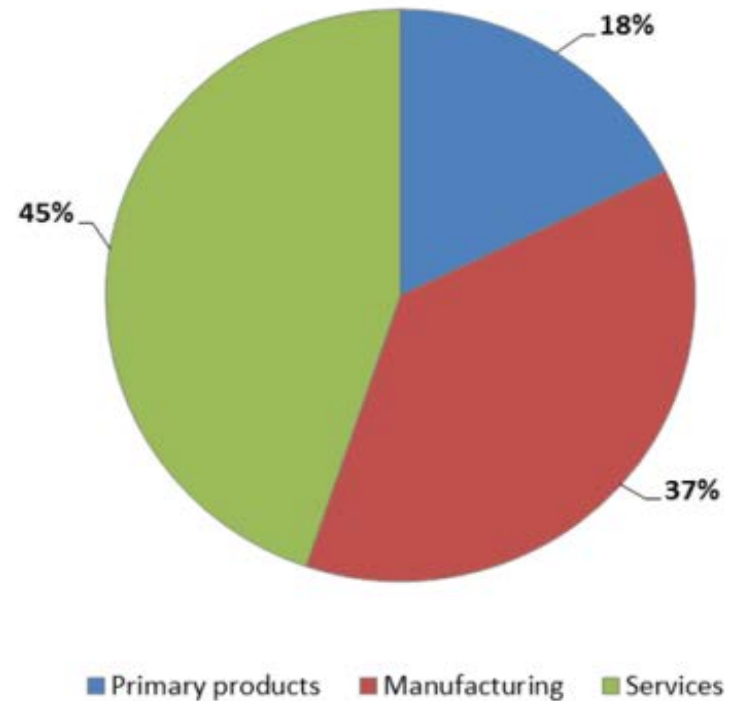
Sectoral contribution to total trade, gross and value-added measures (2008)

(Source: WTO Secretariat estimates based on OECD-WTO data)

Structure of world exports in gross terms, 2008

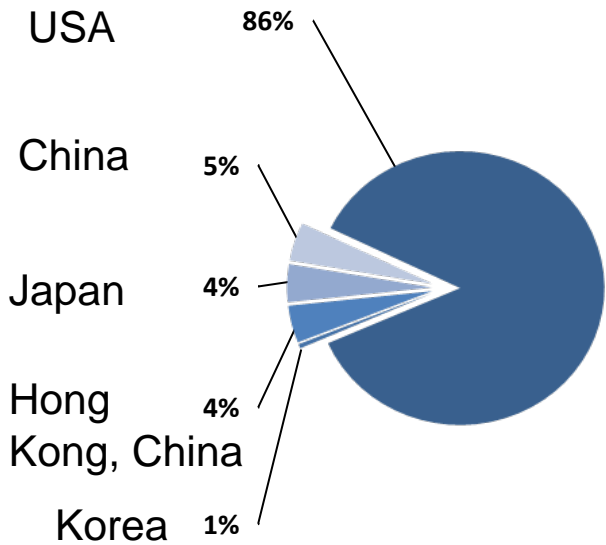


Structure of world exports in value added terms, 2008

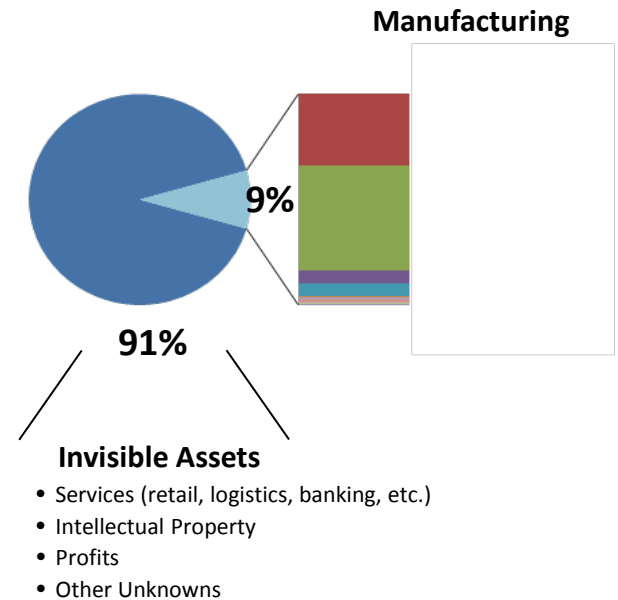


Case Study: A suit made in China and sold in the US

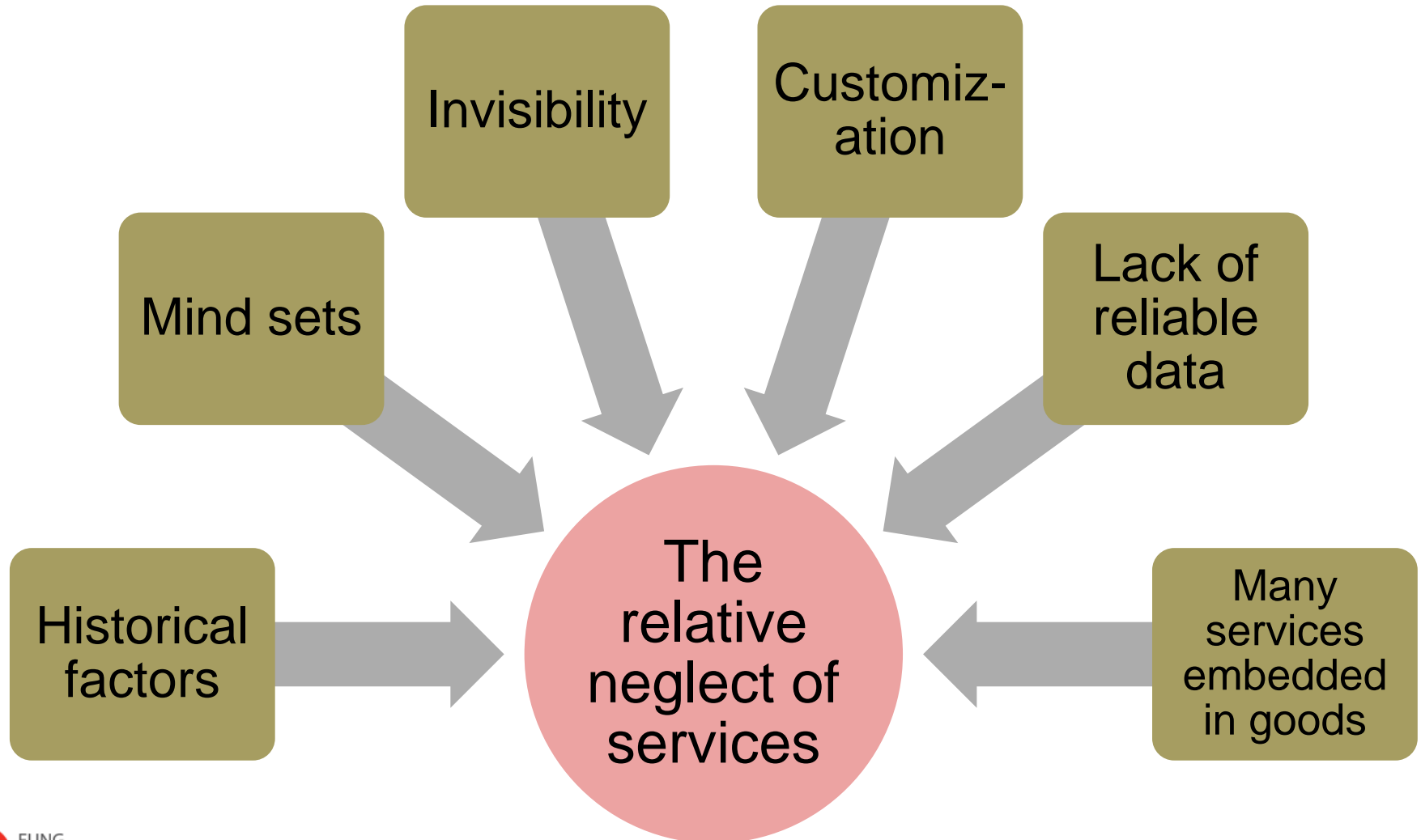
Cost Breakdown by Economy



Manufacturing Costs and Invisible Assets



Why have services been neglected?



The role of services in GVCs

- Growing prominence of services – “servicification”
- Trade in tasks and services – more than just a nomenclature challenge
- Bundling
- Outsourcing
- Services as a source of innovation

Servicification: what is it?

- Greater prominence of services in economies:
- On the consumption side:
 - Typically services consumption rises with income levels
 - Services offer more variety and product choice than goods
 - Services are typically more customized than goods
- On the production side:
 - Globalization, or the internationalized economy, has increased demand for services, especially along GVCs
 - As output expands, there is a more than proportionate demand, right across every activity in the economy, for certain kinds of services – telecoms, ICT, finance, insurance, energy, transport etc.

Bundling

- Bundling is when different goods and/or services are combined in a single product offering
- Bundling is quite frequently seen in outsourced offerings, and at the beginning and end of whatever GVC is being examined
- Bundling can:
 - Differentiate products and accrue more value addition
 - Facilitate cost-minimizing mixes where scale of component supply a factor
 - Confer tradability on otherwise non-tradable services
- Innovation and bundling may well go together

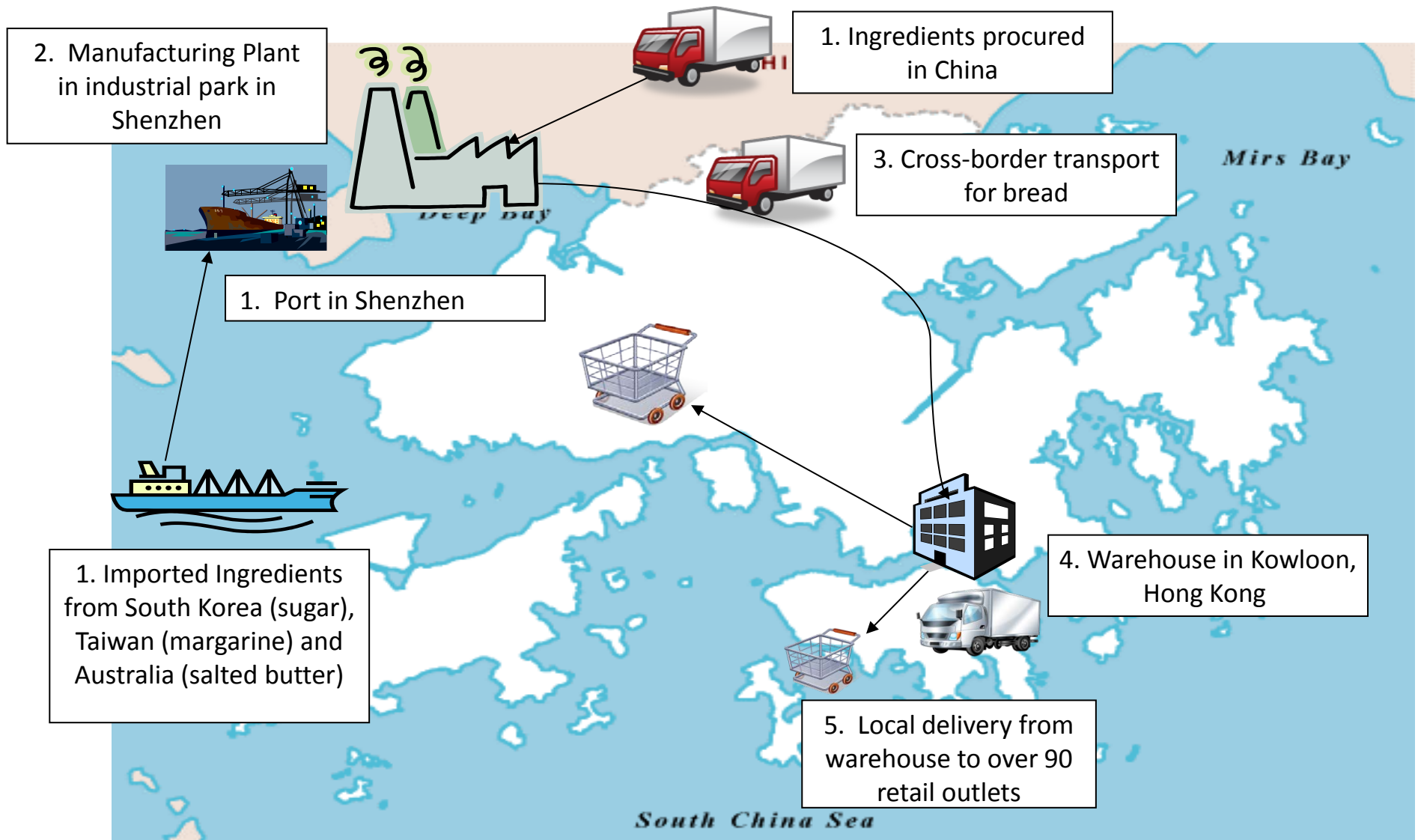
Outsourcing

- A key to fuller participation in GVCs, especially for SMEs
- Reasons for outsourcing:
 - Standard cost (competitiveness) considerations
 - External scale advantages – various forms of networks, networking associated with skill sets (e.g, security services, recruitment, customs agents)
 - Specialized skills and fixed costs
 - Government requirements
- Reasons for not outsourcing are not always cost-driven
 - Protection of proprietary information, pivotal pieces of the GVC, and other risk management factors
- Not just a matter of cost minimisation—cost and efficiency not always the same thing

Innovation

- Most innovation in services appears to be about changes in processes or organizational arrangements that improve efficiency and reduce costs, with or without technological discoveries/adaptations
- Literature suggests that this is a promising source of productivity growth, especially in emerging economies
- Limited evidence so far of new technology- driven sources of productivity growth in case studies

Case Study – Bread Value Chain



Case Study – Bread Value Chain

- Key findings

30

- Number of different services identified in the value chain

72%

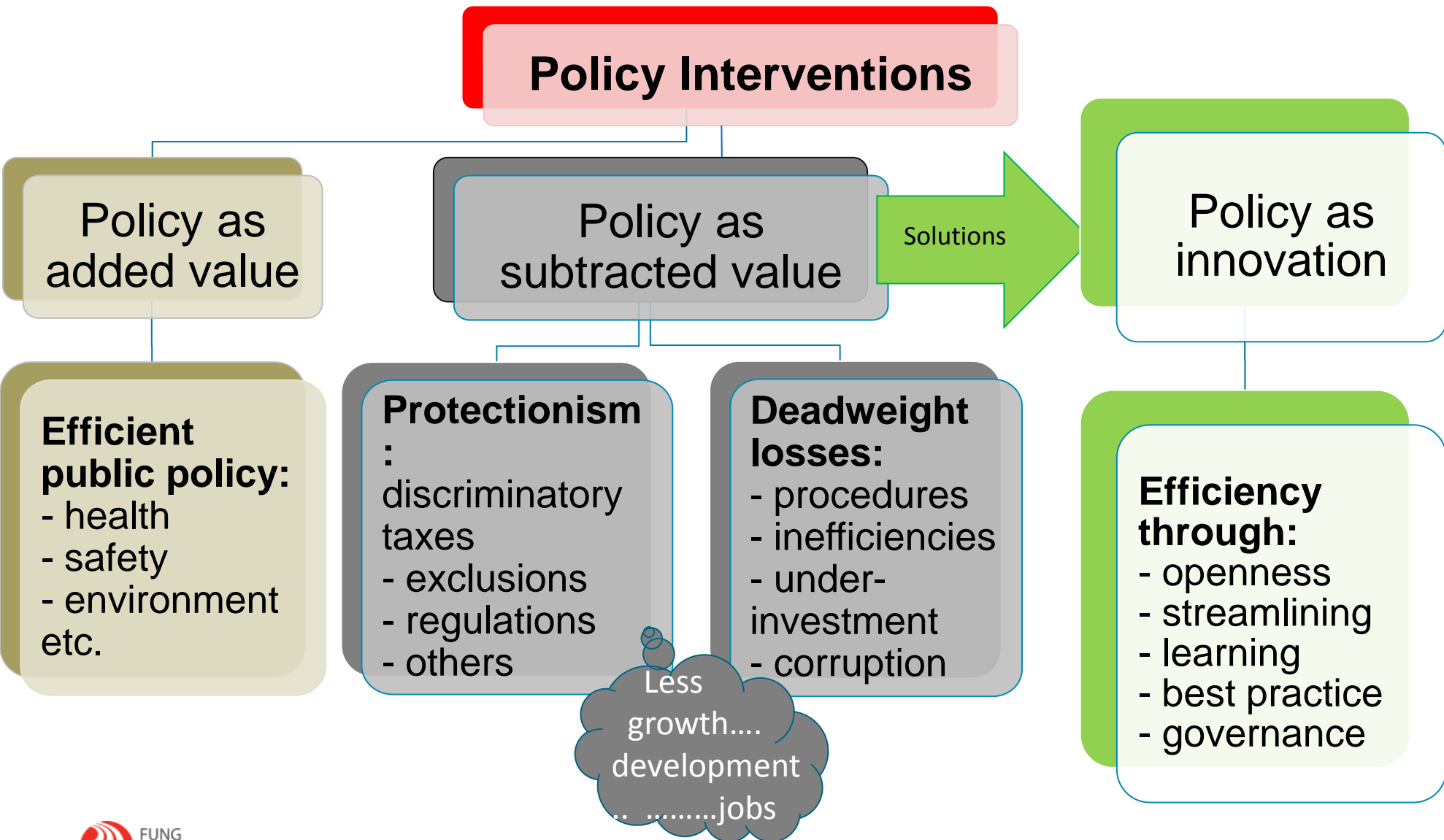
- Value of the product contributed by services

18 out of
30

- Proportion of the services partially or fully outsourced to external suppliers

Policy perspectives

Policy as added value, subtracted value and innovation

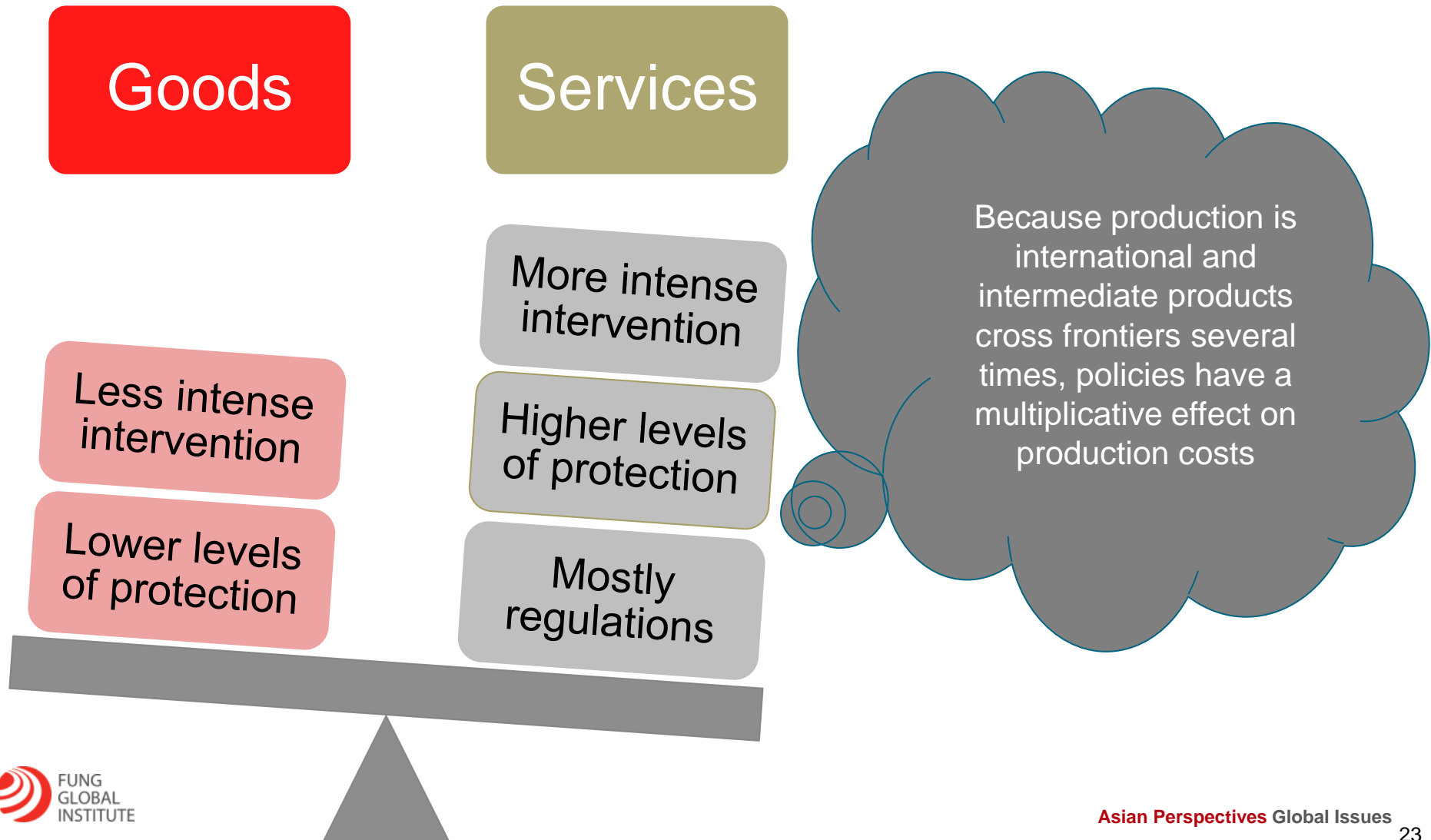


Neglect of services in policy discourse

- By calling services what they are not, the identification of policy effects is greatly complicated

Policy and Services in GVCs

- Policy intervention on goods vs. policy intervention on services



A hierarchy of international policy regimes

- Bilateral and plurilateral agreements – inter- and intra-regional
- Prospective mega-regionals
 - TPP
 - TTIP
 - RCEP
 - FTAAP
- WTO

Coherence challenges

Two primary challenges

- Managing geopolitics
- Going beyond trade opening and policy harmonization to economic empowerment and integrated economic communities

Practical challenges

- Overlapping membership
- Trade costs
- Discriminatory fallout (but MFN dividend too)
- Regulatory divergence, hard to reverse going up the hierarchy

Policy coherence in a GVC world

- The challenges of building an integrated policy framework
 - Border measures
 - Public policy NTMs
 - Investment
 - Competition
 - Intellectual property
 - Trade remedies
 - Goods and services



Thank you



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