
New Dynamics in the Global Trade and Development Landscape

The global/regional value chain interface and role
of the EIF

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The Commonwealth

Outline

1. New Dynamics in the Global Trade Landscape

- Future fragmentation
 - Regional value chains
 - Services

2. Dynamics at the Regional Level

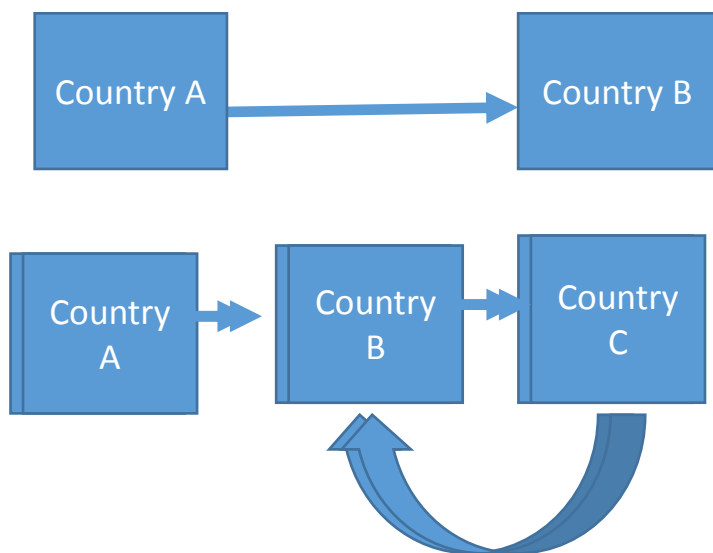
- Relationship with policy variables
- Technological capability indicators & institutional variables

3. Interaction with the SDGs and 2030 Agenda

Cross-cutting nature of trade targets: LDC performance, critical
Sustainability impact assessments: useful dynamic f/w

Micro-foundations of trade and regulatory frameworks

1a. New Dynamics: Ascendancy of GVCs



1990s wave of the GVC literature

Concepts: Rents, Barriers to Entry, Governance, Upgrading, Value distribution.
e.g. Kaplinsky and Morris (2000), Gereffi et al. (2005)

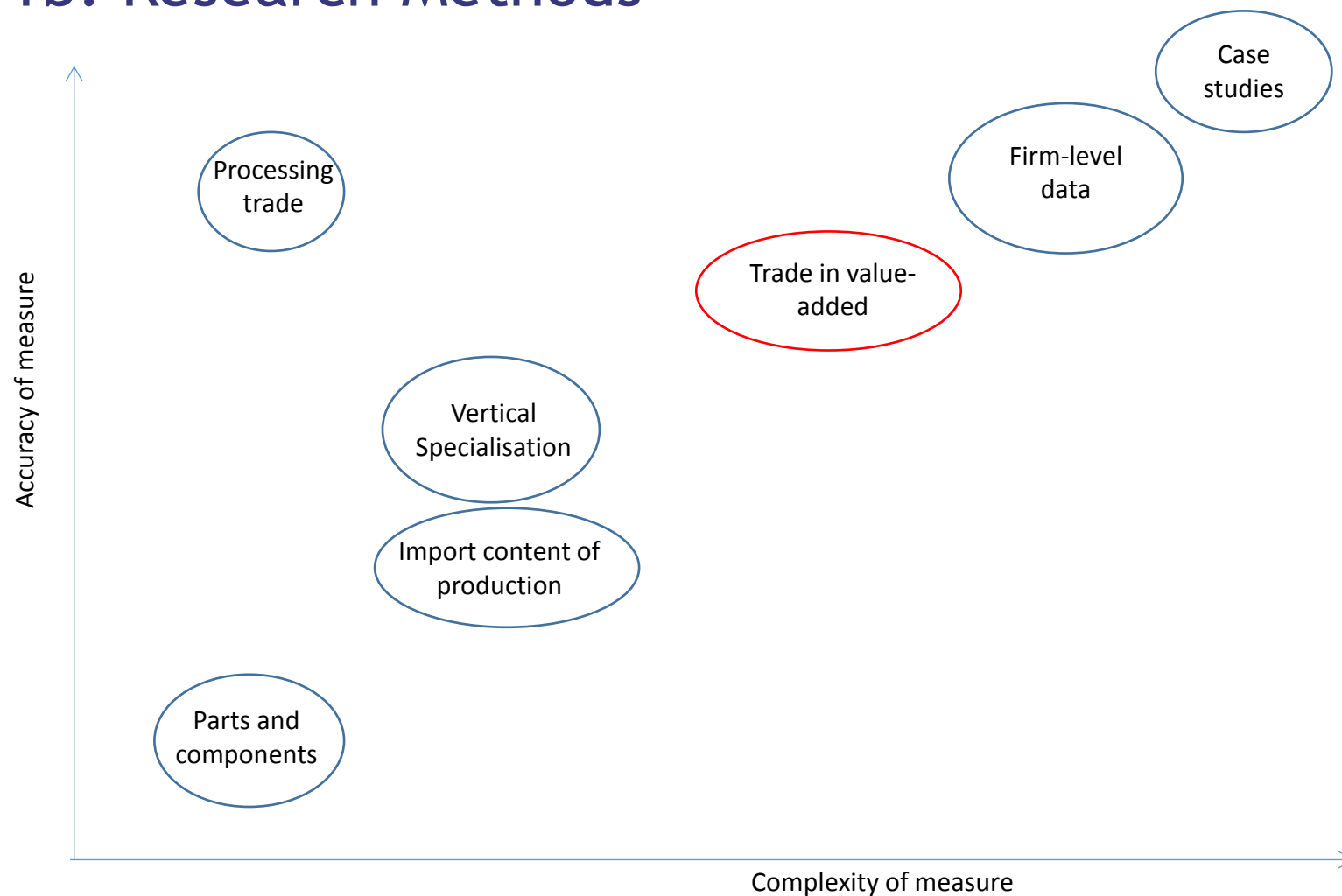
Late 00's wave (post GFC)

Concepts: Input:Output Tables, Trade in Value Added, “Spiders” and “Snakes”, Hubs,
e.g. Baldwin (2012), Baldwin and Venables (2012)

Policy makers alerted 2008/9 -- global trade shock

Former WTO DG and IDE-JETRO “Made in the World” Initiative

1b. Research Methods



1c. Drivers of GVC Dynamics

- Shifts in Manufacturing Value Added (MVA): Factory “US”, “EU”, “Asia” (Baldwin, 2012)
 - Increased Trade in Value Added (TiVA): intermediates
- UNCTAD (2013) 80% TNC networks; 30% intra-firm – tracing ownership structures

Table 1: Shifts in Global Manufacturing Value Added 1995 and 2008 (Share, %)

Loss of % GVA	Country					Gain of % GVA	Country
23.0	United States					48.4	China
54.6	Japan					9.1	Russian Federation
9.7	Germany					3.1	Brazil
3.6	France					5.1	India
4.8	United Kingdom					5.0	Mexico
1.8	Italy					1.6	Turkey
1.9	South Korea					27.4	Rest of world
0.3	Netherlands						
100	Total					100	Total

Shift of Global Manufacturing Value Added

1d. Post-Global Financial Crisis Dynamics

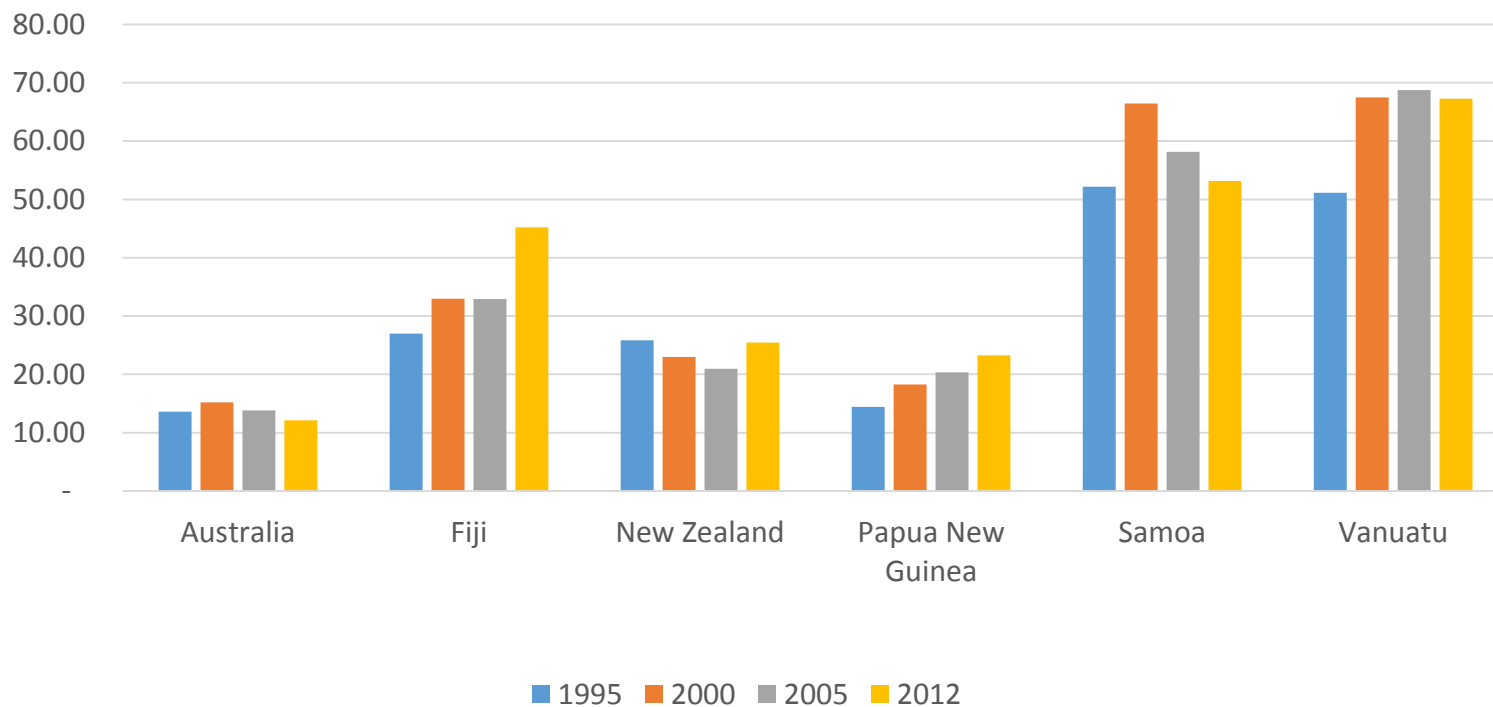
- Structural shifts in the trade-growth-investment nexus
 - Prior to the 2008-9 crisis a one percent increase in global growth (GDP) resulted in a two percent increase in global trade.
 - Post 2008/9: now 1-1 relationship ~ global fragmentation process reached its limit (Hoekman, 2015; Kaplinsky, 2016).
- Intra-regional value chain development ~regional underpinnings
 - Value chains focused on regional production for regional markets: cultural similarities, lower capability gaps, greater opps for launching own brand products.
 - Functionally interconnected regional operations that supply global markets (e.g. Asia, pre-crisis): driven by efficiency seeking FDI.
 - Distinction between **additive** & **vertically fragmented** value chains (Kaplinsky and Morris, 2015).
- Shift towards trade in services
 - Fragmentation of some types of services (e.g. codified, through Mode 1) barely begun.
 - Mode 1/ Mode 3 VC engagement and modal neutrality (Low, 2016).
 - Loss of Mode 3 investments b/c of restrictive policies.

2a. New Dynamics and GVC/RVC participation

- **Value added and skill components of trade:** country by country ~ country by industry.
 - Firms internationalisation strategies
 - Technological sophistication of products, skills of employees, remuneration
 - Social and economic upgrading indicators
 - Environmental considerations – public policy f/ws (2030 agenda)
- **Relationship with policy variables:** description v's incentives; power/control (e.g. Mode 1/3)
- **Institutional variables & GVC participation**
 - **Technology infrastructure:** internet penetration, telephone penetration, electricity consumption; patents, scientific articles.
 - **Human capital:** tertiary science and engineering enrolment, mean years of schooling, literacy rate.
 - **Institutional quality:** Rule of law, National Innovation Systems.

2b. Pacific TiVA Results

Figure 5: Share of Foreign Value Added Embedded in Global Exports (Backwards Participation Index)



2c. Shifts in Foreign Value Added: regional/global contribution (% point change, 2000 and 2012)

	Australia	Fiji	New Zealand	Papua New Guinea	Samoa	Vanuatu	Rest of the World
% Change 2000 and 2012							
Australia	2.49	5.51	3.15	4.33	6.36	6.02	0.58
Fiji	0	-11.87	0.03	0	-0.08	-0.03	0
New Zealand	-0.2	1.36	-2.83	0.08	-0.42	-0.41	-0.02
Papua New Guinea	0	0.01	0.02	-5.62	-0.03	-0.01	0.01
Samoa	0	0	0	0	11.55	-0.01	0
Vanuatu	0	0	0	0	-0.02	-0.9	0
Rest of the World	-2.28	4.98	-0.36	1.21	-17.36	-4.67	-0.56
Total Pacific	-0.2	6.89	3.19	4.41	5.81	5.57	0.56

2d. Sectoral Shifts in FVA: 2000 & 2012 (% point change)

Sector	Australia	Fiji	New Zealand	Papua New Guinea	Samoa	Vanuatu
Agriculture	-1	6.8	1.3	8.3	0.5	12.4
Fishing	0	0.9	0.2	0.3	0.2	1.6
Mining and Quarrying	10.3	-0.6	-0.3	7.2	0	-0.4
Food & Beverages	-0.2	0	3.4	-0.5	-1.1	-
Textiles and Wearing Apparel	0.5	0	-0.9	-0.2	-0.5	-0.5
Wood and Paper	-0.2	-1.6	1.6	-0.5	-0.9	-1.1

Illustrative example

- Unable to make any value judgements
- Unable to link to shifts in regional/global FVA
- Need to link to firm level indicators
- Potential link to changes in institutional variables and trade policy

2e. Linking to firm-level data

Economy	All C's	EAP	Fiji	Micro. Fed. Sts.	Papua New Guinea	Solomon Islands	Timor- Leste	Tonga	Vanuatu	Samoa
Year			2009	2009	2015	2015	2015	2009	2009	2009
Firm Characteristics										
Age of the establishment (years)	16.5	15.5	23.3	16.3	27.7	16.8	10.7	12	15.6	19.9
Proportion of private foreign ownership in a firm (%)	8.6	11	8.5	18.9	61.6	38.5	1.6	3.9	30.3	12.7
Innovation and Technology										
Percent of firms with an internationally-recognized quality certification	17.6	12.2	22.8	6	23.8	6.4	5.5	7.8	27	31.3
Percent of firms using technology licensed from foreign companies*	14.9	17.8	20.3	0	34.5	33.4	23.3	65.8	0	19.3
Percent of firms having their own Web site	45.1	36.6	34.1	29.6	68.9	25.2	14.6	7	23.5	32.8
Percent of firms using e-mail to interact with clients/suppliers	72.6	60.5	86	85.1	96.9	83.7	43	56.5	83.5	86.5
Trade										
Percent of firms exporting directly or indirectly (at least 1% of sales)	19	14.4	19.1	16.4	8.4	18.4	39.5	5.2	4.3	26
Percent of firms using material inputs and/or supplies of foreign origin*	61.2	40.8	69.4	77.8	100	86	56.4	96.4	93.7	100
Workforce										
Percent of firms offering formal training	34.7	32.9	61	n.a.	73.7	42	1.9	11.1	47.5	79.1

3a. Interaction with SDGs and 2030 Agenda

- Public policy considerations: Ec, Soc, Env
 - Avoid race to the bottom: universal agenda
 - Micro-foundations of trade participation and regulatory frameworks
 - **Sustainability Impact Assessments** ~ useful dynamic approach, if used effectively
- Effective value chain development
 - Requires mixed methodological approaches, bridging the macro and micro
 - **Public/private sector dialogue:**
 - Identification of priority products in view of development objectives
 - Addressing coordination failures and information gaps, e.g. services & investment
- Action at the Regional level
 - Evidence of regional value chains ~ shifts in regional value added
 - Unknowns: product/market combinations + firm ownership structures
 - **Upgrading processes and strategies** ~ how more effectively supported

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