

*Policy Dialogue on Post-WTO Accession  
Implementation Strategy/ Road-map  
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# Trade in Services and Value Chains: Case of Afghanistan

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# Purpose of this session is to:

- Define some new concepts and
- Discuss if and how trade policy and regional integration can
  1. contribute (or not) to economic transformation, create jobs and improve productivity and;
  2. enhance countries' / region's performance in linking up to regional/ global value chains





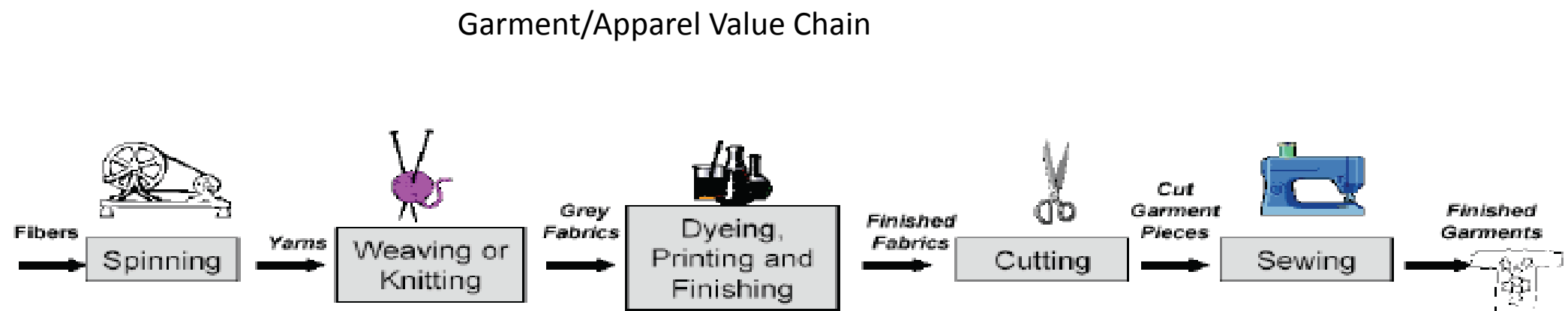
# Global value chains (GVCs)

- Today, more than half of global manufacturing imports are intermediate goods traveling within supply chains while over 70% of the world's services imports are intermediate services.
- Intermediate services embedded within a value chain include, not only transportation and distribution to move goods along, but also research and development, design and engineering, as well as business services such as legal, accounting, or financial services.
- Global value chains have expanded and redefined the role that services play in international trade and increased the number of jobs that are tied directly and indirectly to international trade.



## Global Value Chain (GVC) defined

- Full range of value-added activities involved in conception, design, procurement, production, marketing, distribution, after sale service, etc.
- Firm can focus on one or more activities in a VC.
- When activities are geographically dispersed across borders to multiple countries the value chain becomes global or regional

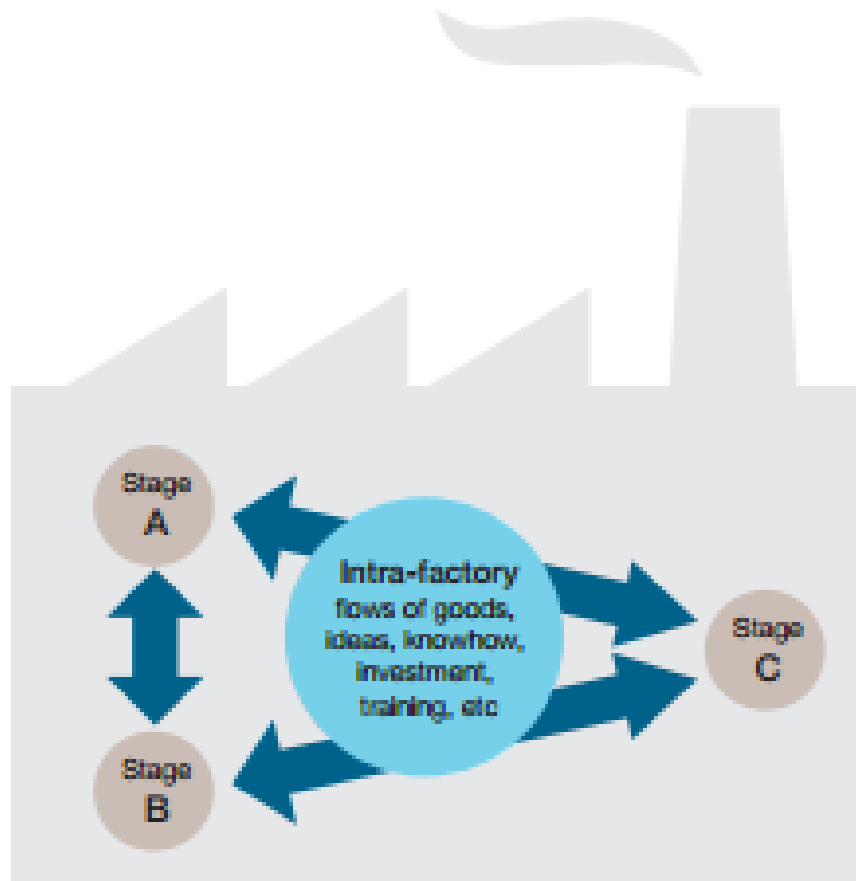


(Source: Compiled by the U.S. Trade Commission.)

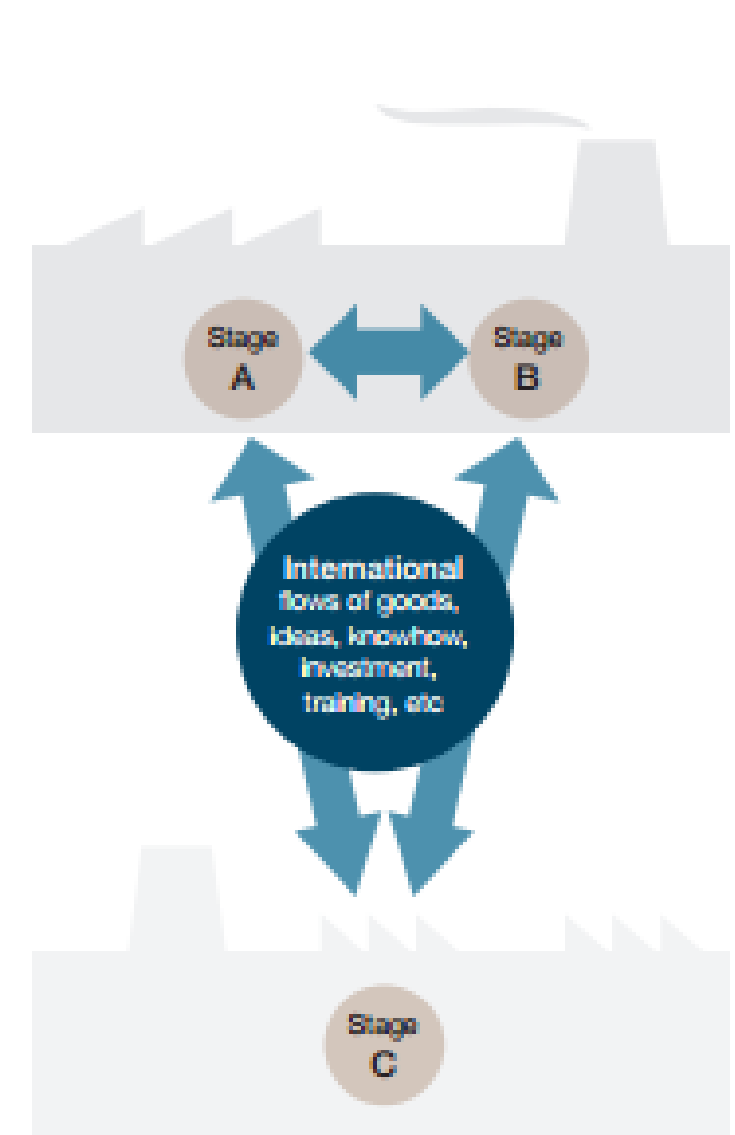
# Changes in the global production and trade landscape

Figure 1: GVCs turn intra-factory flows into international commerce

Traditional production



GVC production



# Characteristics of GVCs

- A lead firm (a larger enterprise/a multinational) regulates a GVC with specific competences, making a higher profit
  - Brands, resources, technology, expertise and/or goodwill
  - Customer vs. Production vs. Natural Endowment driven value chains
- Inviting outside experts on specific functions to manage complicated tasks to maximize the efficiency and effectiveness of the entire GVC

# Characteristics of GVCs (cont.)

- Contracting with a selected number of capable SMEs typically as subordinate partners for specific tasks or functional support
- Integration of business process, coordinated behaviours and information sharing among independent firms
- Mutual investment into business process and long-term relationship

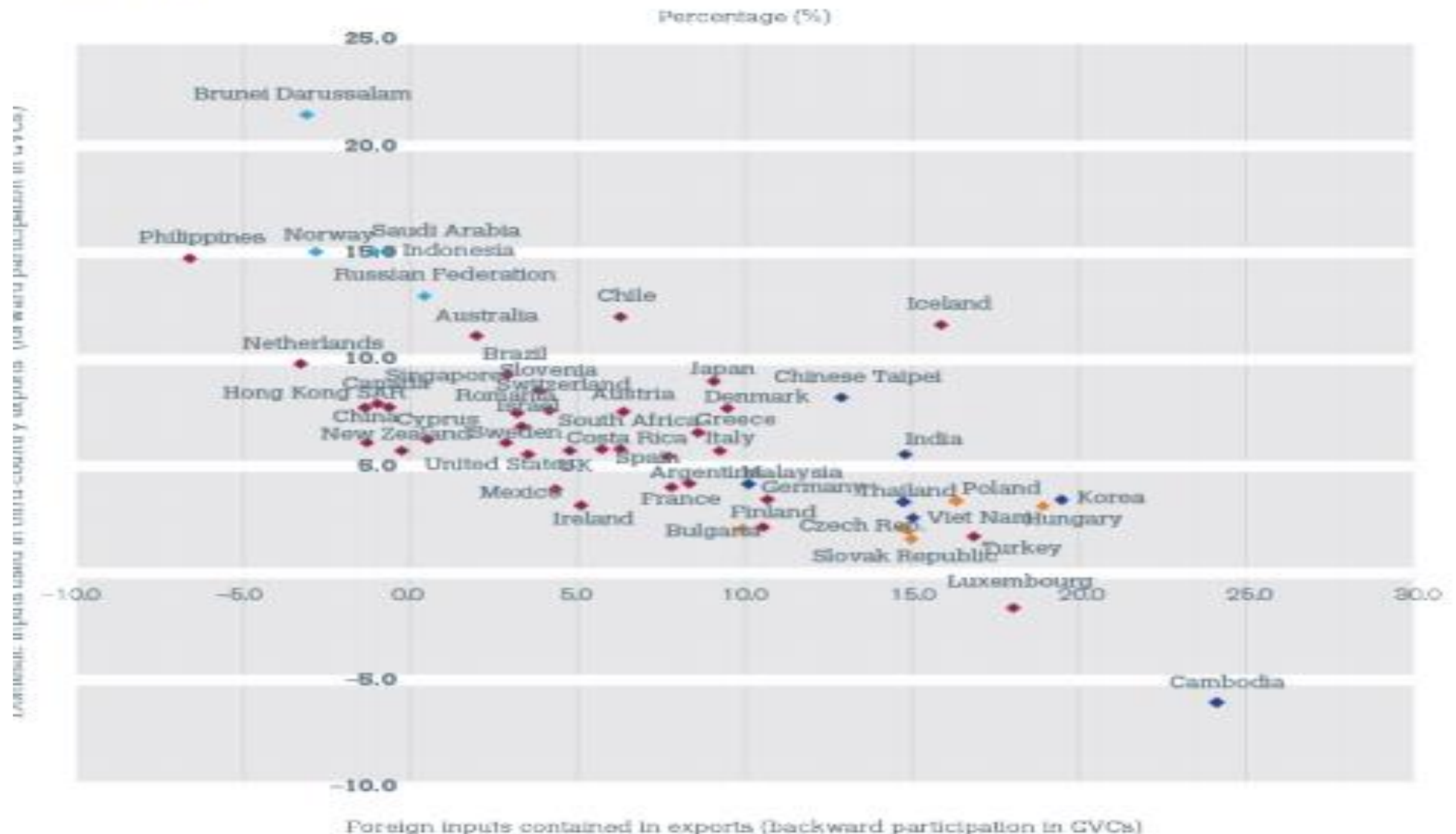
# Emergence of GVCs: Drivers

- Multilateral liberalization and regional free trade agreements
- Regulatory policy approximation and liberalization
  - Trade, investment, capital & finance, HR
- Selected compliance with local content requirements
- Technological innovation
  - Transportation and ICT
- Increasing competition (pressures for lower cost, higher efficiency/quality etc.)
- New management strategies
  - JIT, e-commerce, ERP, supply chain management



# Stylized facts:

Participation in global value chains by selected economies, 1995-2011



WTO, 2015 and for Asia-Pacific see APTIR 2015

# Large number of services involved

Figure 2: Services Needed by Sandvik Tooling to Sell and Ship a Product



Source: Swedish National Board of Trade 2010





# GVCs and services

- GVCs with services playing a vital role due to growing importance of services inputs in manufacturing sectors' exports (servicification trend)
- Dual role of services in GVCs:
- Enablers/ GVC facilitators
- Services traded in their own right
- Food for thought: Do GATS' four modes of supply adequately cover this type of indirect services value-added trade? Or should a 5th mode be created?



# Measuring content of services

- With appearance of GVCs, traditional statistics (measure trade flows on a gross basis often double counting intermediate goods that cross borders numerous times) no longer reflect the reality
- Emergence of trade statistics on a value-added basis (OECD–WTO Trade in Value-Added (TiVA) database)
- Volume of trade in services generally under estimated

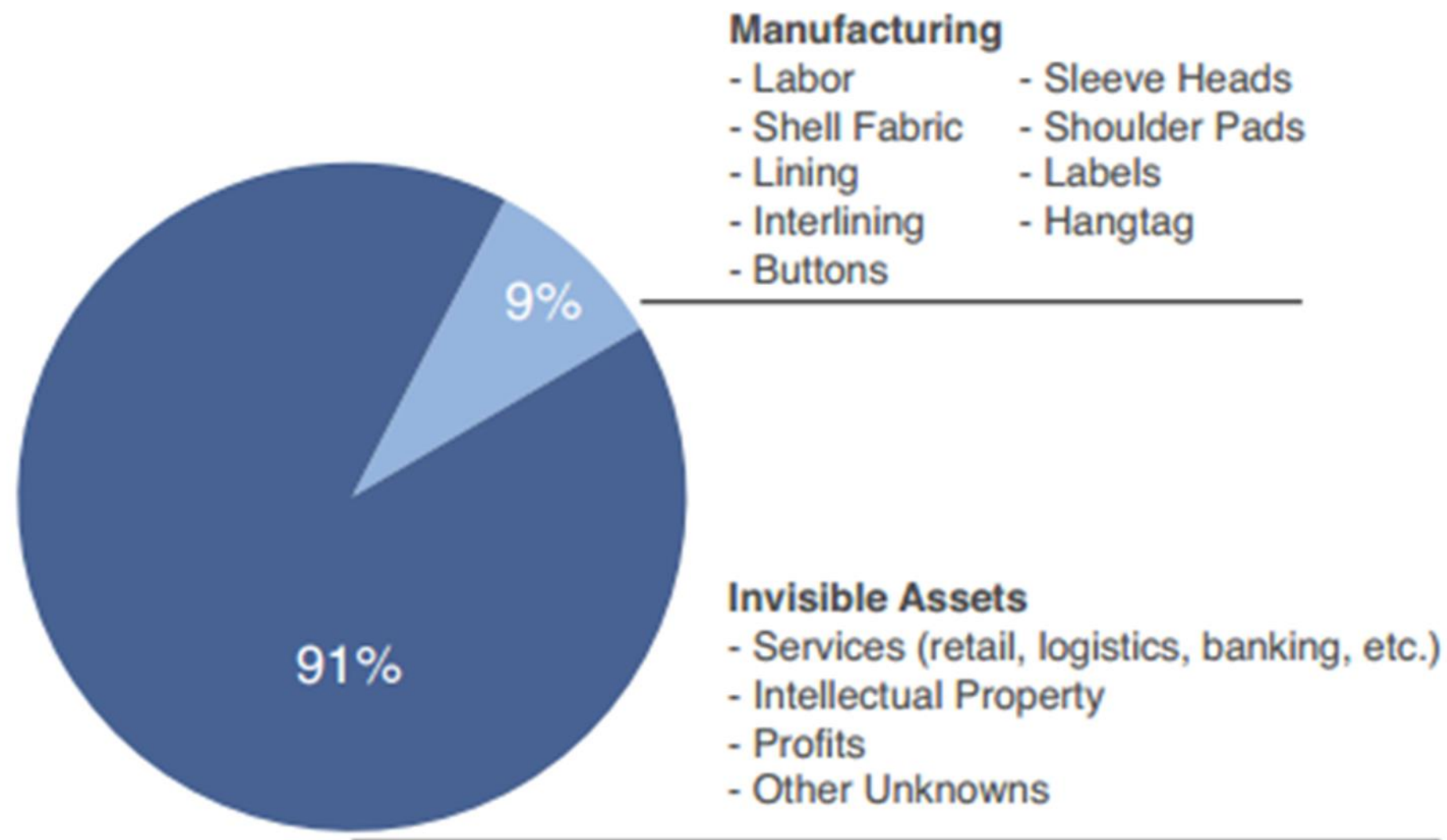
## Explanation:

- services normally comprised of less import content than goods exports → when calculating trade in Value-Added terms, share of services in total export much larger
- Intangibility of services → disguised in statistics
- increasingly blurred distinction between goods and services (i.e. computer software)
- Underestimating the importance of trade in services can have unwanted consequences:
  - Harm of barriers to trade underestimated → detrimental policies



# Services often create larger value than manufacturing:

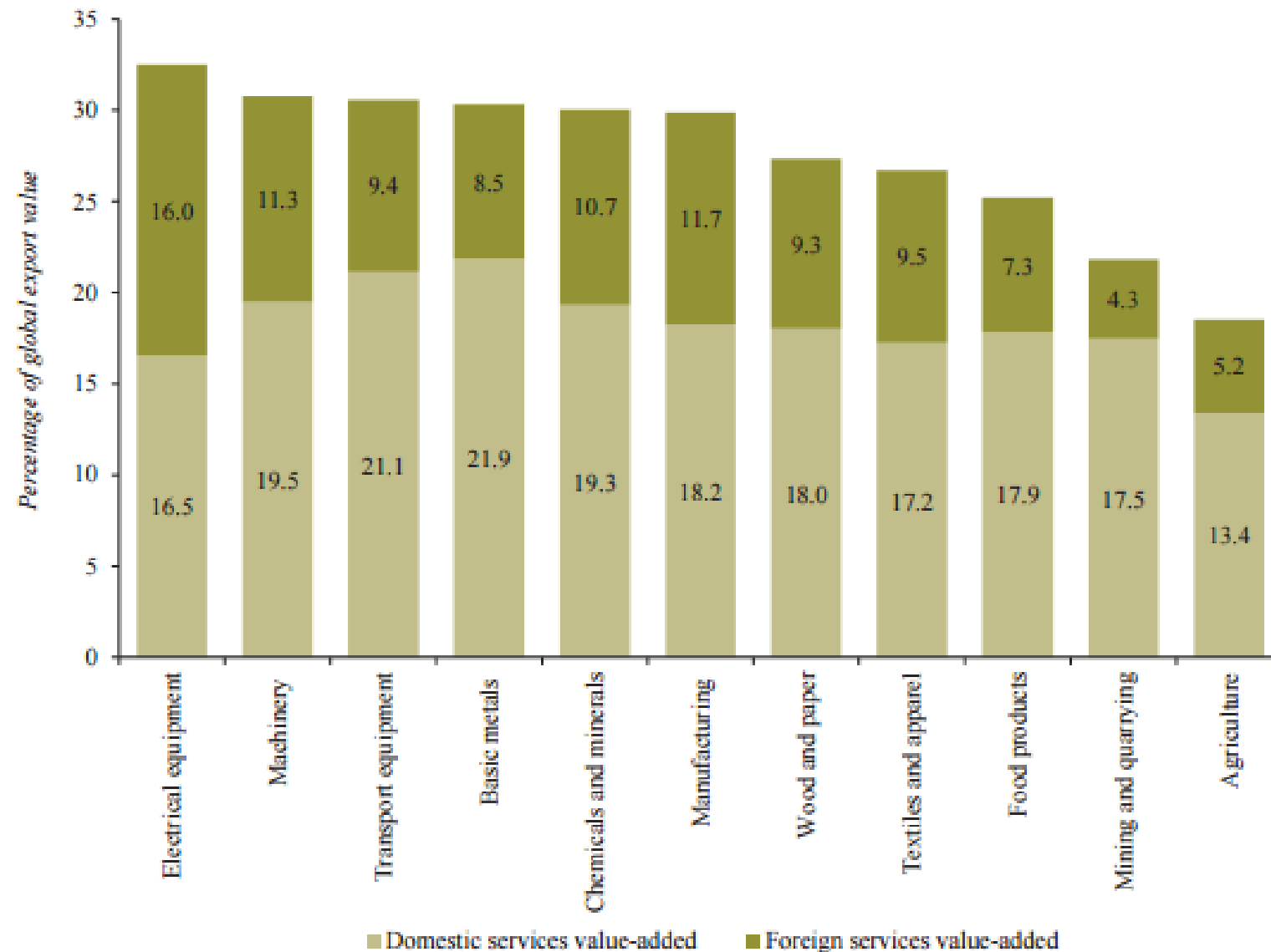
Manufacturing Cost and Invisible Assets of a Jacket



Low, 2016



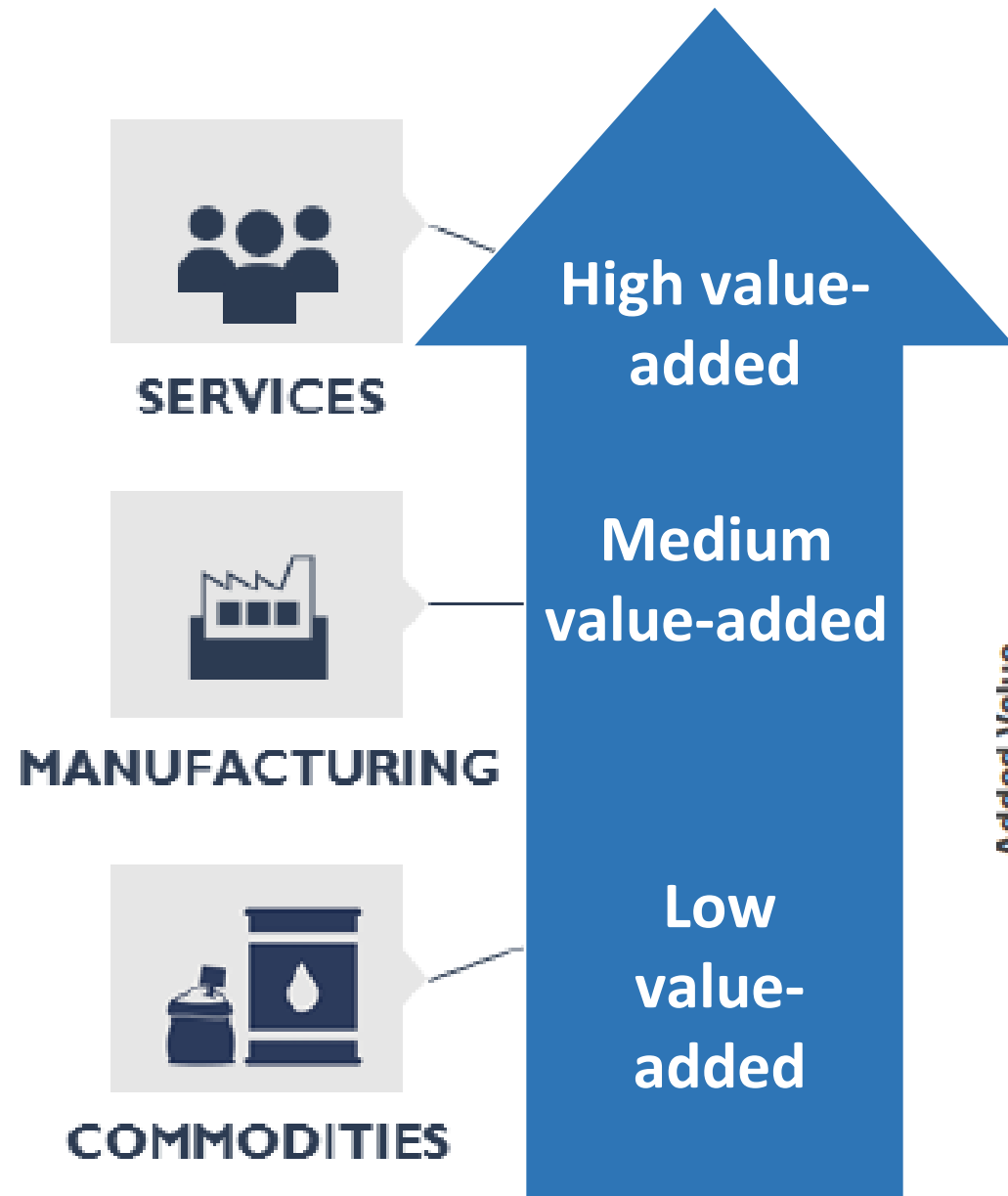
# Services content in gross exports of Asia-Pacific economies, by industrial sector, 2009



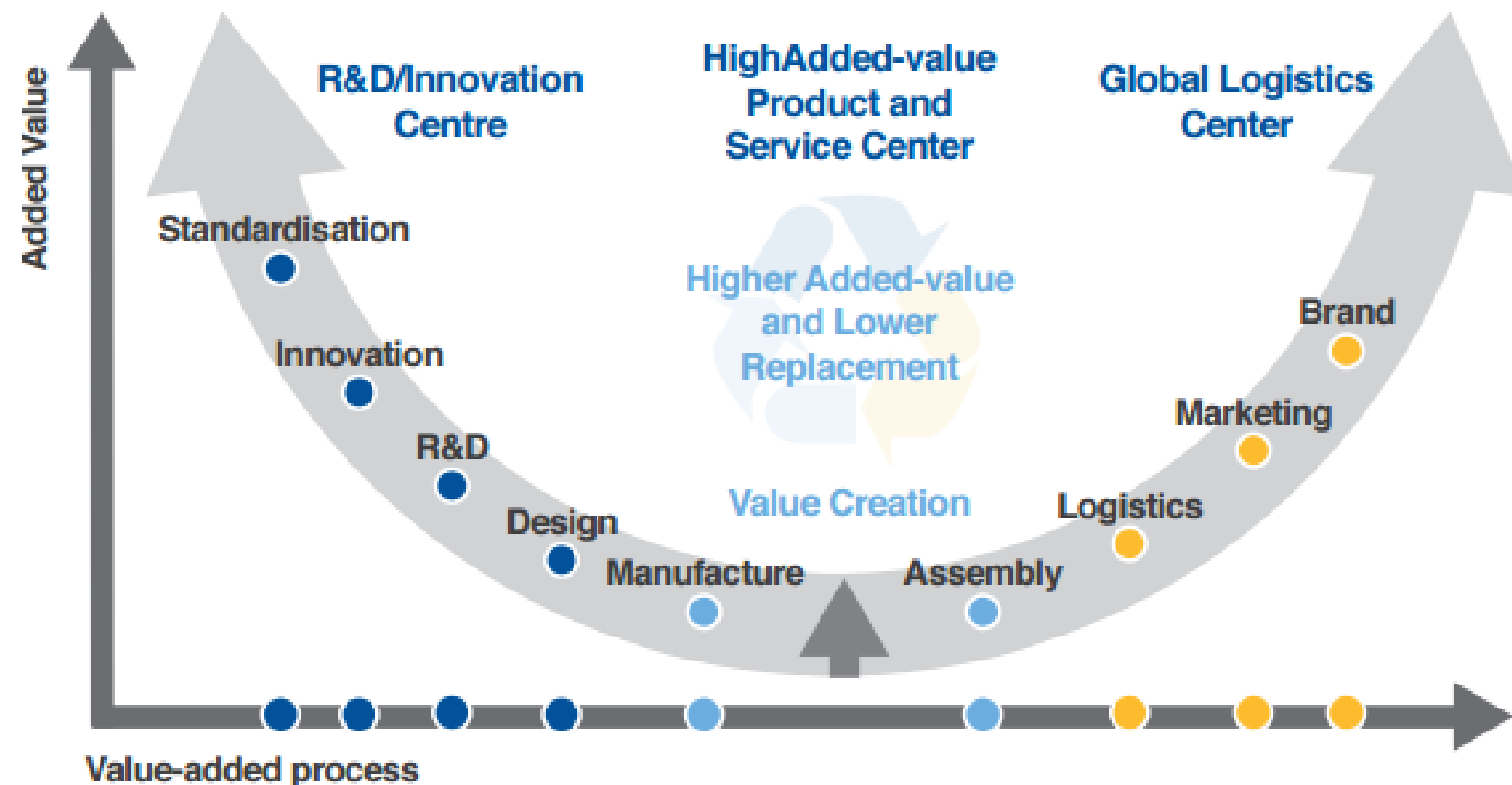
Source: ESCAP calculation based on the OECD-WTO TiVA database (accessed in March 2015).

# Implications on the opportunities for economic diversification

## Old paradigm: Sectoral upgrading



## New paradigm: Functional upgrading





# Policies

- For goods - control is through border measures (e.g. tariffs)
- For services - control is through regulations – no tariffs (remember how services are supplied? )
- Restrictions are with the importing country- behind the border barriers, many in form of Government regulations (which are often prudent and necessary; examples?)
- Concern exists when regulations are applied in a discriminatory and unnecessarily restrictive manner that limit market access; many come in form of restricting FDI (mode 3) or temporary movement of providers and consumers of services (modes 4 and 2).
- More recent barriers that are related to digital trade and data flows include forced “localization” of trade (e.g. requiring locally based servers or no transfer of own data)





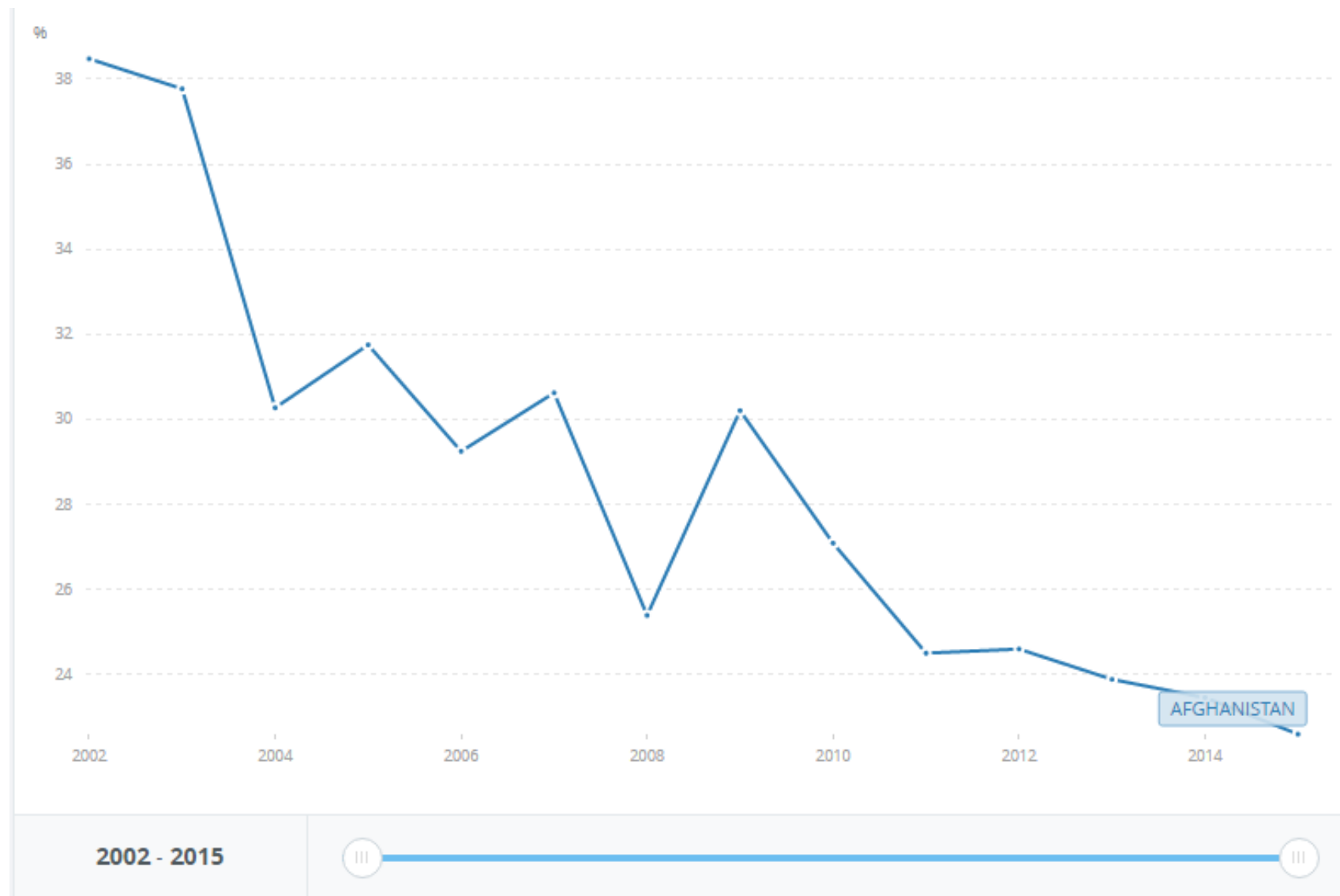


# A holistic approach in trade policy

- Efficient access to services is critical for the improvement of productivity, growth, and jobs, especially in hi-tech industries.
- Policy formulation needs to treat goods and services together, and not separately.
- Removing obstacles for both goods and services.
- Defensive positions on certain goods or services sectors could have greater consequences than expected.
- Manufacturing companies are key stakeholders in services negotiations both as users and producers.
- Need to be consulted on the formulation of services trade policy.
- Servicification strengthens the case for unilateral, comprehensive liberalisation of services.
- Modes of supply often complementary - trade in one mode stimulates trade in others.
- Liberalisation across sectors and modes.

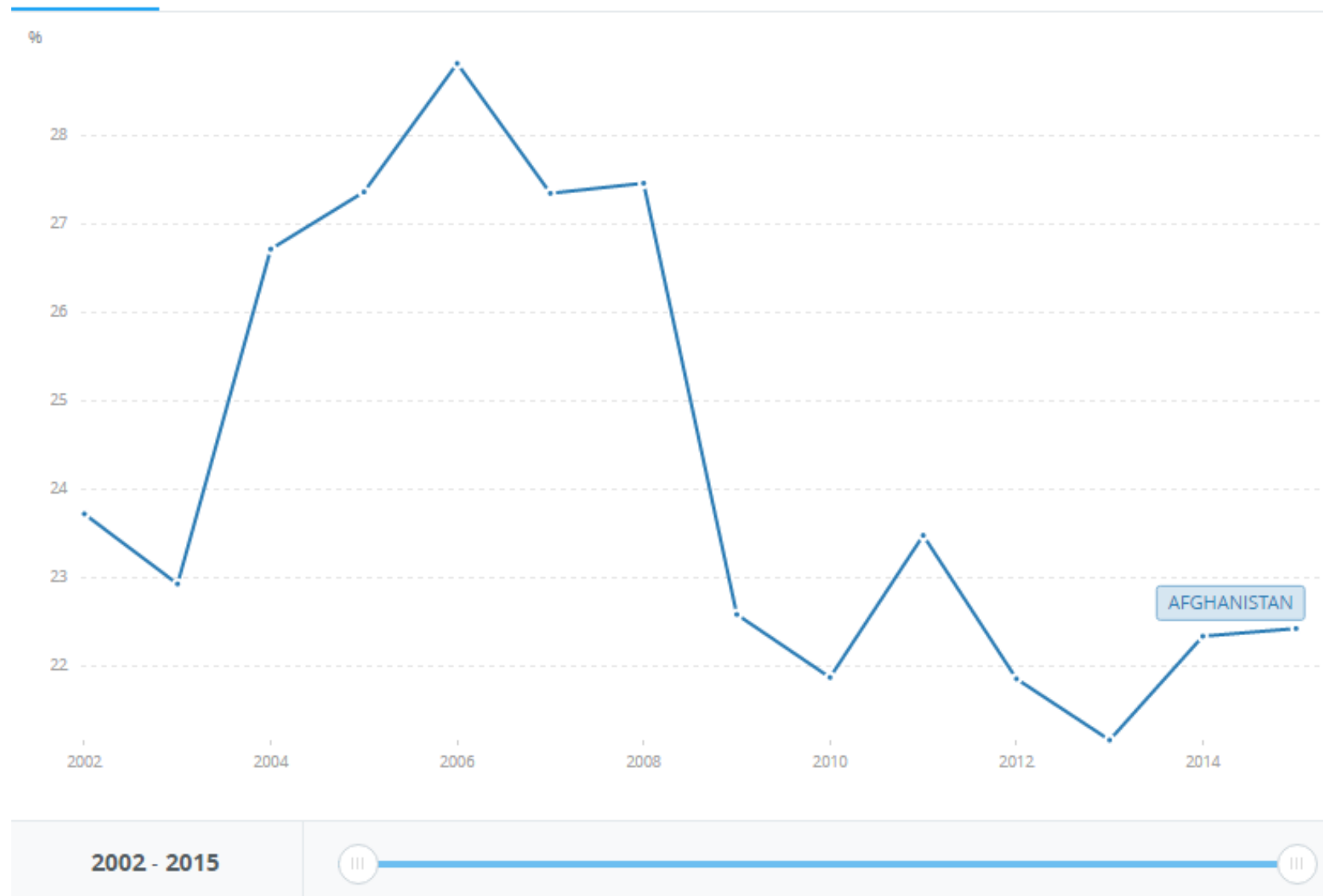
# Afghanistan

Agriculture, value added (% of GDP)



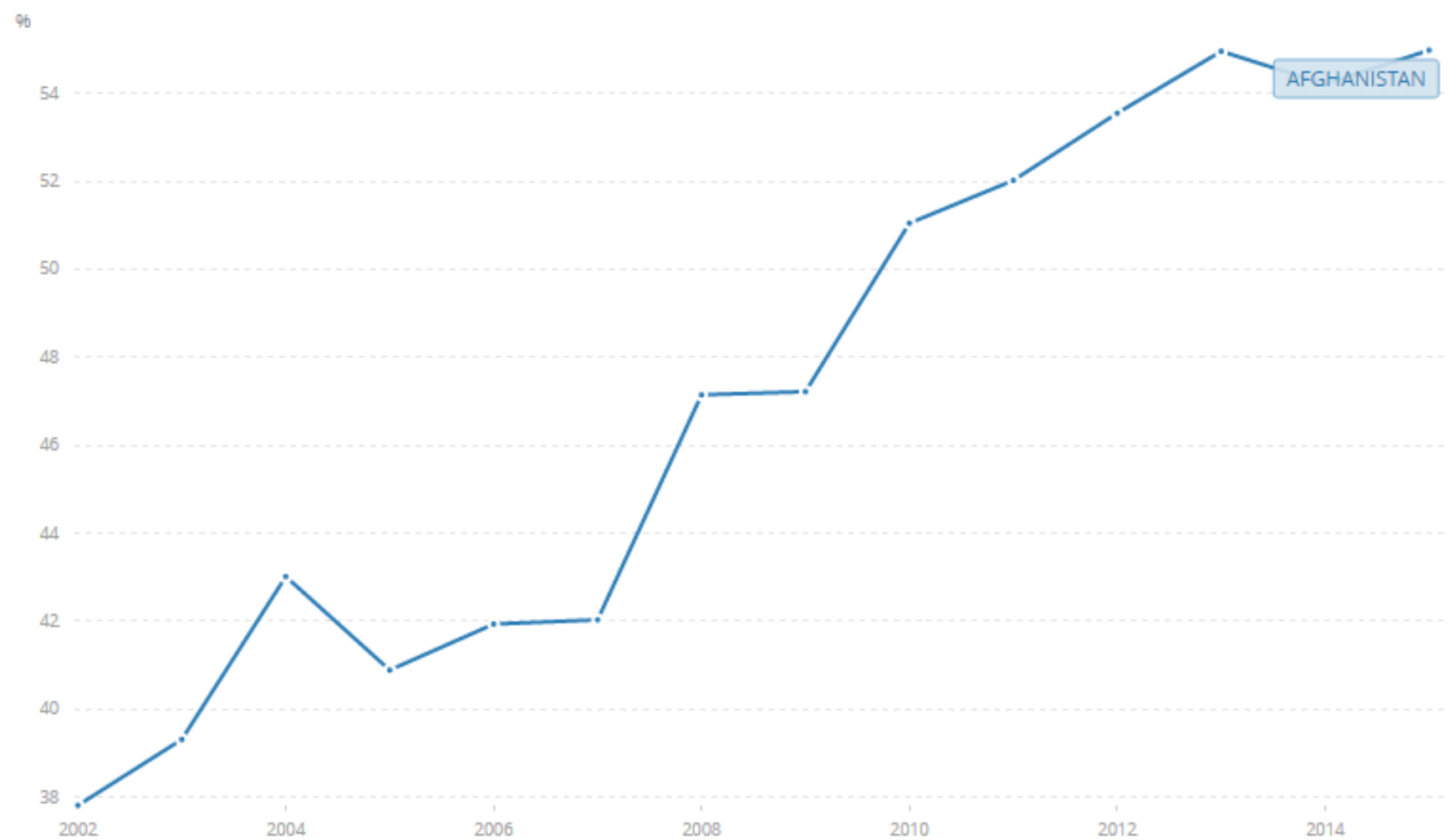
# Afghanistan

Industry, value added (% of GDP)



# Afghanistan

Services, etc., value added (% of GDP)



2002 - 2015





# This definition is now generally known as the four modes of trade in services:

**Mode 1:** cross-border provision (25-30%)

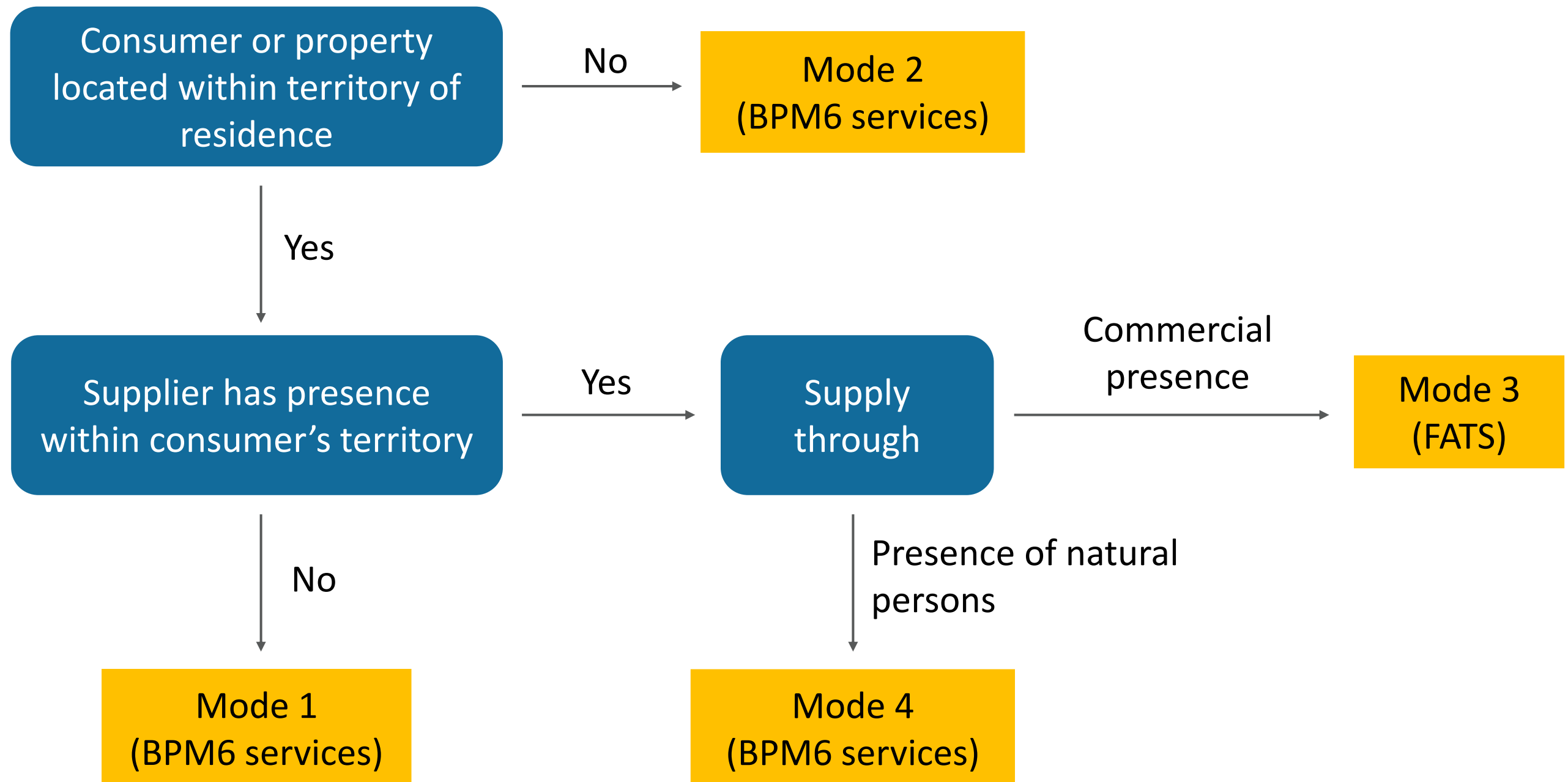
**Mode 2:** consumption abroad (10-15%)

**Mode 3:** commercial presence (55-60%)

**Mode 4:** a temporary movement of natural persons (<5%)

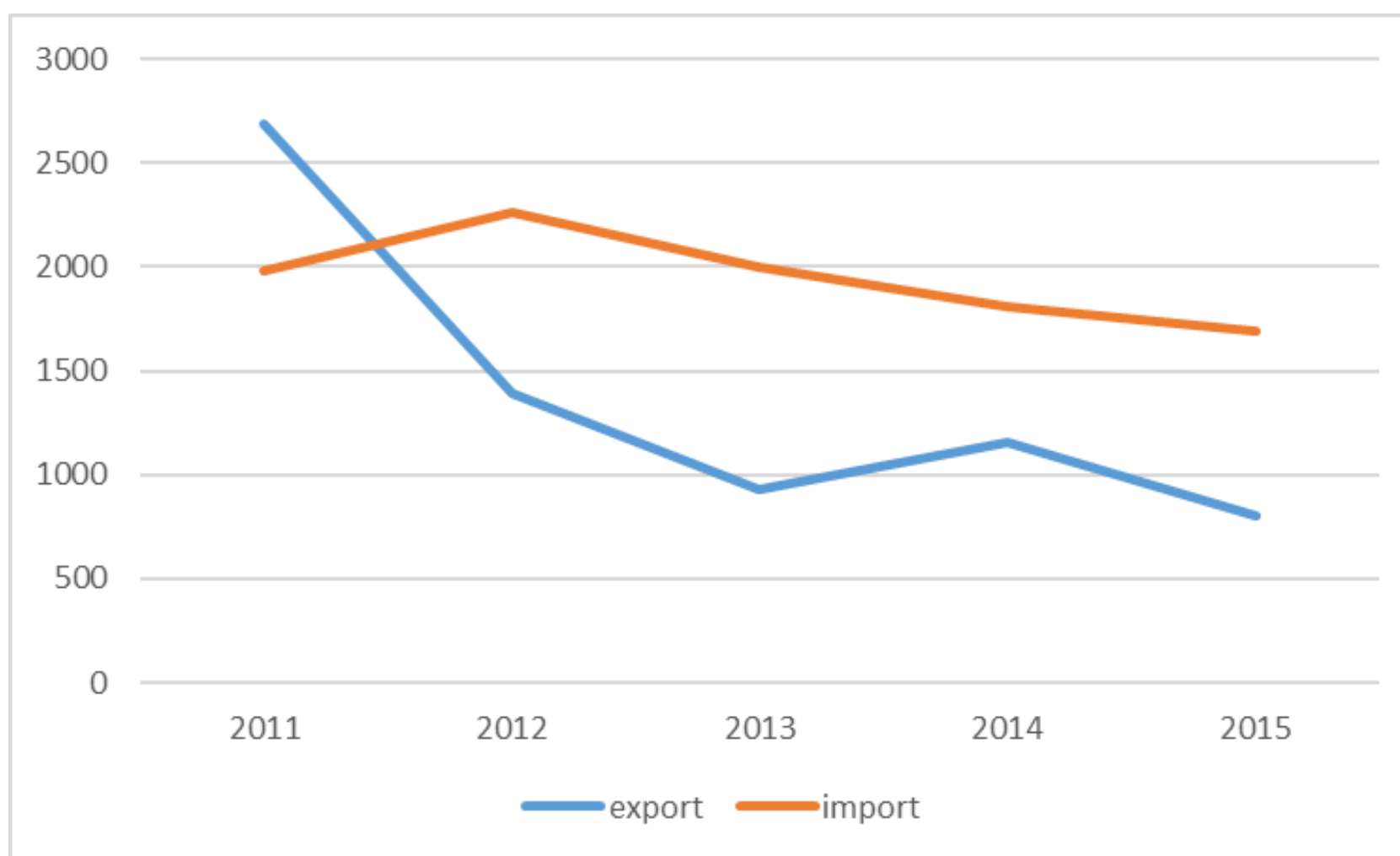


# Defining and measuring services



Source: Manual on Statistics of International Trade in Services 2010.

# Trade in commercial services (USD)





# Thank you

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Q&A

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