

**"GLOBALIZATION OF  
INDUSTRIAL  
PRODUCTION CHAINS  
AND MEASUREMENT  
OF TRADE IN VALUE ADDED"**



Measuring international trade in value added for  
a clearer view of globalization



Proceedings of a joint conference by  
the Senate Finance Commission and  
the Secretariat of the World Trade Organization (WTO)  
held in Paris on 15 October 2010.



"How can we do things better when we don't really know what we're doing?" Leaders whose task is to manage public policies ask this question against a background of economic imbalances and systemic crisis which have led to a dramatic fall in confidence.

Today, the notions underlying trade statistics must be viewed differently. With the development of international production chains, more and more products are "Made in the World" rather than "Made in a single country". The notion of "relocation", which made sense in the past when referring to the production of a good or service at a single location, has lost much of its meaning, as the value chain has now become multi-located, from the design stage through to the manufacture of a product.

If we continue to base our economic policy decisions on incomplete statistics, our analyses could be flawed and lead us to the wrong solutions. When new phenomena are measured using old methods, paradoxes and misunderstandings arise.

**The purpose of the Conference held on 15 October 2010** was, in the words of Mr Lamy, to reflect on "the right statistical bridges between the different national accounting systems" in order to provide a clearer view of the reality of globalization and promote sound decision making by politicians. French and international experts in trade statistics and international economics discussed with policy makers the results and implications of their research, which often run counter to certain received or a priori ideas.

The mistake is to confuse the apparent value of world trade in terms of production and trading transactions and the domestic value added integrated into trade. If the segmentation and overlapping of production processes are not taken into account, such confusion can affect many areas of economic analysis.

**The first part of the Conference**, entitled "International and French experience", was devoted to the presentation of research results showing how a value-added approach to trade can re-establish the truth about the globalization of trade and production, and to the description of methodological advances already made or still required in this area.

**The second part**, entitled "Statistical and economic implications of globalization", looked at how a value-added approach is useful for understanding a broad range of economic issues, and also provided an opportunity, in the context of a concluding round table, to examine the practical issues and challenges of this approach for States.

## Key findings

**Measuring competitiveness.** Traditional measurements of competitiveness can be biased. Where outsourcing and offshoring are frequent, measuring unit wage costs gives only an approximate idea of the country's real cost-competitiveness, which also depends on the cost of products that have been manufactured abroad and reimported into the country.

**Measuring comparative advantages.** Where comparative advantages are measured on the basis of export structure, the error is substantial. Increases in extensive and intensive margins should be analysed with great care due to the range and level of the import content of exports.

**Economic cycles.** The overlapping of production processes gives rise to highly interdependent cycles.

**Designing trade policy.** The conduct of an effective government policy on international trade requires specific knowledge of where value is located. Measuring trade in value added enables political decision-makers to make measured and informed decisions. It confirms the growing interdependence of countries and sectors in a globalized economy, a situation which makes calls for protectionism useless and costly, and demands greater global economic and market access stability.

**Improving world governance.** In choosing between multilateralism and regionalism it is crucial to measure trade accurately, since there is a need to understand the offensive and defensive interests of countries and group of countries vis-à-vis the rest of the world, or to know how to enforce rules of origin in the context of trade within a given area.

Trade in value added is complementary to vertical trade: for an exported product, one must calculate all the value added it contains and subtract the value added of imported inputs so as to avoid double counting along the production chain.

### **Consequences of the shift to measuring trade in value added**

**in value added.** A majority of bilateral surpluses and deficits are reduced; bilateral balances are modified, sometimes considerably. The existence of world value chains considerably distorts the traditional measurement of trade. A shift to measuring trade in value added modifies bilateral balances, but does not affect the global trade balance of an economy.

**Sectoral comparative advantages.** The domestic value added included in traded goods can be broken down by sectoral origin. This makes it possible to determine the extent to which each sector's production is dependent on other sectors of the economy. Value-added measurement identifies new comparative advantages in certain sectors (e.g., business services) and dilutes advantages in other sectors (manufacturing). It can show how many jobs in the services sector are attributable to exports by industry.

**Measuring trade in value added reduces the extent of regionalization.** Measuring trade in value added reduces the importance of regional trade because vertical trade is more frequently conducted at local level, to reduce transport costs or to benefit from cultural proximity.

**Measuring trade in value added poses no major methodological problem.** The theoretical tools required are, in general, well known; the main challenge concerns data collection, which is, at present, non-exhaustive and geographically and sectorally limited. Efforts to make the collection of data more efficient aims at correlating microdata and macroeconomic indicators.

They are currently focused on the following three areas: (i) ad-hoc case studies and surveys; (ii) pairing business registers with trade statistics to calculate the import content of exports for individual companies; (iii) developing international input-output tables compiled from official statistics. In all cases, customs authorities play a central role by compiling the microdata needed by economists and statisticians.



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The "Made in the World" initiative has been launched by the WTO to support the exchange of projects, experiences and practical approaches in measuring and analysing trade in value added.