GLOBAL BUSINESS REALITY AND TRADE POLICY

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Closing the gap: what policymakers can do?

- Understanding what is “business as usual” in the context of global value chains
  - Trade in value-added
  - New GVC indicators: length of GVCs, participation and position of countries
  - Income flows

- What’s new for trade policy?
  - Imports matter for competitiveness
  - The “magnification” effect and cumulative impact of trade barriers
  - Specialisation in production stages rather than industries

- Implications for trade negotiations
  - Dealing with trade, services, investment and competition and involving the private sector
  - Neutrality vis-à-vis sourcing strategies of firms and forms of market access
  - A new case for multilateralism
  - Towards a more granular approach
New GVC indicators

Trade in value-added: decomposition of gross exports

Value added by second tier suppliers
Value added by first tier suppliers
Value added in the country of final production

Trade in final goods
Trade in inputs (first tier suppliers)
Trade in inputs (second tier suppliers)

Final consumption
Final assembly

Distance to final demand: position of a country in the value chain

Length of the value chain: number of production stages
Imports matter for competitiveness

• Where is China’s competitiveness situated exactly?

Source: OECD (2012)
The magnification effect and cumulative trade costs

- The impact of protectionist measures depends on the participation and position of countries in the value chain.

- There is a magnification effect along the value chain: upstream suppliers are more impacted than downstream producers.

Source: USITC (2012)
Specialisation in production stages

- Being stuck in the middle? Value created upstream and downstream – what does ‘moving up the value chain’ mean?
- Emerging economies: making sure that value ‘sticks’
- Developed economies: retaining value creation
- Importance of knowledge based assets

Implications for trade negotiations

- Dealing with trade, services, investment and competition
  - “Deep integration” agreements covering all dimensions of market access
  - Including “private” barriers
- Involving the private sector in trade negotiations
  - From “commitments” to actual policies facilitating business
- Neutrality vis-à-vis sourcing strategies of firms and forms of market access
  - Outsourcing versus vertical integration
  - Modes of supply
- A new case for multilateralism
  - International production networks vs. the spaghetti bowl of RTAs
- Towards a more granular approach
  - Heterogeneity of GVCs
  - More targeted approaches for policies to have an impact on firms
For more information

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