



**Asia-Pacific
Economic Cooperation**

Advancing Free Trade
for Asia-Pacific **Prosperity**

Workshop on Trade and Investment Inter-dependencies in Global Value Chains (GVCs): Are Policy Frameworks for Trade and Investment, such as Trade and Investment Agreements keeping apace?

Viña del Mar, Chile | 9-10 May 2019

APEC Committee on Trade and Investment

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**REPORT
CTI 12 2018A**

Workshop on Trade and Investment Inter-dependencies in Global Value Chains (GVCs): Are Policy Frameworks for Trade and Investment, such as Trade and Investment Agreements keeping apace?

Vina del Mar, 9-10 May 2019

It is clear that Global Value Chains (GVCs) play a prominent role in the international production system of all APEC economies. The evolution of GVCs has become an important initiative for APEC as an effort to the goal of supporting both regional economic integration as well as sustainable and inclusive growth and prosperity in the Asia Pacific – Region.

In addition, GVCs have bolstered the inter-dependencies between trade and investment and enhanced their complementary effects. Yet, the patterns, levels of correlation and channels through which this relationship works are still not fully understood, and thus are to a certain degree not taken into account in policy reform efforts, such as trade policy and liberalization. This is noticeable in the international regime, where trade and investment rules are sometimes perceived to be insufficiently comprehensive or inter-linked to address the reality of production models pursuing joint trade and investment strategies.

In this context, Chile held on the 9-10 of May, within the margins of the SOM 2 meeting, the APEC Workshop on Trade and Investment Inter-dependencies in Global Value Chains (GVCs): Are Policy Frameworks for Trade and Investment, such as Trade and Investment Agreements keeping apace?

The latter was an APEC funded project and was organized with the support of other APEC economies, such as the United States and China, as well as the OECD and other international organizations, like the World Bank Group and the United Nations Economic Commission for Latin America and the Caribbean.

The workshop was attended by close to 50 people from 17 of the 21 APEC Economies as well as experts from international organizations (OECD, World Bank and ECLAC), think tanks (Brooking Institution and the International Trade Center), academia (The University of International Business and Economics (UIBE - China), Universidad de La Frontera (Chile) and Universidad Catolica de Valparaiso (Chile), and the private sector.

The workshop main objective was to improve the understanding of how companies combine trade, in the most comprehensive manner, taking into consideration issues relating to trade in intermediate goods and TiVA, and investment with other cross border activities in GVCs, with a view to enhance the design of trade and investment policies that can be applied to enhance future trade negotiations within APEC. The latter, with a view of producing an APEC/OECD checklist on trade and investment policies for the next generation of GVCs (or checklist of GVCs-friendly provisions in trade and investment agreements).

The workshop was structured on 4 modules: Trade beyond the traditional concept; Modern corporate strategies in GVCs (Trade and Investment disciplines in the concept of changing business models' comprehensive approaches to trade and investment policy); APEC/OECD checklist of GVCs friendly provisions in trade and investment policy frameworks; and, Further reflections on modern elements for GVCs.

Module 1: Trade beyond the traditional concept

This module focused on issues such as the measurement of GVCs through trade in value added (TiVA) within the APEC region and its implication for trade policy, specifically in terms of the efforts made by APEC economies to develop an APEC TiVA database as part of the implementation of one of the workstreams of the APEC Strategic Blueprint for Promoting Global Value Chains Development.

Another issue that this panel focused on was the digital economy and how the latter could create trade opportunities, describing the characteristics and taxonomy of what is known as the 4th industrial revolution and industry 4.0, its implications for GVCs and how to create value within this new paradigm, as well as the implications for trade policy within the GVC framework.

The final focus of this panel was related to sustainable and inclusive value chains, where the idea of how GVCs can create opportunities for global trade to become more sustainable and inclusive, given by the demands not only by the final consumer but also by the intermediate consumer, in order to guarantee traceability through the whole Chain. Additionally, discussions also were directed how the issue of gender is related to GVCs from an e-commerce perspective, and how e-commerce has become a tool towards a reduction of the gender gap and a greater engagement and inclusion of women entrepreneurs into GVCs.

Module 2: Modern corporate strategies in GVCs:

The main focus of this module was to discuss whether policy frameworks for trade and investment, such as trade and investment agreements keeping pace? The latter within the framework of trade and investment disciplines in the context of changing business models' comprehensive approaches to trade and investment policy.

In this context, it was expressed that GVCs are also the consequence of investment decisions and that lead firms in GVCs are often multinational enterprises (MNEs). Thus, indicates that trade and investment are in a more complex relationship, and consequently, new work has to emphasize the complementarity between these two elements. This in consideration of new realities, such as globalization slowdown, bringing with it a slowdown in trade and investment related to shifting strategies of firms. Additionally, the digital economy and changes in firm strategies, mostly driven by digital transformations, and policies that add new restrictions based on specific concerns like security, trade imbalances, etc. Finally, inclusive growth, where impact of trade and investment on workers depends on strategies of MNEs and interdependencies between trade and investment.

The latter leave the following questions: what is the purpose of comprehensive trade and investment agreements? What are the new policy tools needed to take into account trade and investment interdependencies in GVCs? What does "deep integration" mean? Should policies be 'neutral' with respect to firm strategies? And how to address strategic partnerships?

Another point expressed was that it should also be taken into consideration that APEC members differ widely in their development levels, economic and demographic size, institutional settings, and so on. Some are deeply integrated in global and regional production networks, while others are not. GVCs mean different things for an industrial

powerhouse like Korea and for a commodity exporter like Chile. Therefore, caution is advised against trying to craft overly prescriptive, “one size fits all” GVCs frameworks. Those frameworks must be flexible enough to reflect local capabilities and priorities.

Additionally, the changes in technology and business models brought about by the fourth industrial revolution are so disruptive that we can only guess what the GVCs of the future will look like. So, when we are discussing the best policy frameworks we are aiming at a moving target, which means we should be very humble in terms of what can be achieved.

Module 3. APEC/OECD Check list of GVCs friendly provision in trade and investment policy frameworks.

In order to develop a Checklist, prior to the workshop, the Chilean GVC Division, with the assistance of the OECD Investment Division of the Directorate for Financial and Enterprise Affairs, circulated, between APEC economies, a questionnaire regarding possible areas that a future “APEC/OECD Check list of GVCs friendly provision in trade and investment policy frameworks” should cover and the main issues that it should address.

After receiving feedback to the questionnaire from different member economies, the organizers tabulated the results and presented the outcomes during the workshop for preliminary comments. In this context, it was agreed that a revision of the draft checklist is attached to this report for comments by CTI members, with a deadline for comments until the July 5th in order to be able to circulate a new version for endorsement prior to CTI 3, in August.

Module 4. Further reflections on modern elements for GVCs.

The fourth and final module of the workshop addressed the following issues:

1. Trade in services and investment climate: where questions were raised in terms of GVCs in the digital era, specifically addressing new disruptive technologies, servitisation of trade in goods and mass customization regarding the movement of data. In this context, several questions were raised in terms of the need for a more consistent trade regime between goods and services, possible changes in customs valuation or rules of origin given the increase in servitisation, is an argument that trade in services is becoming more restrictive, and if so, should there be new initiative to liberalize trade in services?
2. The digital economy: which spoke to the facts that the internet has changed the way we communicate and interact, modifying economic and industrial structures and thus transforming GVCs in terms of a significant reduction of costs considering coordination of supply chains; the development of means of manufacturing such as 3D printing, IA and big data; the bridging of the gap between goods as services; and enabling global platforms as catalyzers for innovation and creativity.
3. Inclusion of Women, Remote and Indigenous Communities into GVCs: the issues addressed were how the perception of FTAs have changed in economies like New Zealand, where there has been a consensus in the past regarding FTAs, but in the light of the recent CPTPP, the political scenario has changed. Thus, has brought about change where the main lessons learned through the inclusion, both of women

and indigenous communities, is that the support for trade and GVCs policies is fragile. It needs continual nurturing. Empirical evidence on the distribution of costs and benefits can cut through the rhetoric. Consultation needs to be seen as an investment, not as a transaction cost and what the authorities say matters in terms of addressing broader issues that are beyond mere export and import growth.

4. Impact of GVCs on Developing Economies and SMEs: the focus of these discussions were related to how the surge of GVCs have disrupted global trading patterns and industry location, favoring in many senses developing economies and SMEs within the region, and also being responsible in part of a certain degree of deindustrialization in some economies, such as the US due to offshoring. Thus, provoking protectionist sentiments in the pursuit of relocating industries. However, it has been proven that even if reallocation did occur due to protectionist measures, the benefits would be offset by other factors such as higher prices to consumers, and therefore the best way to attract industries is through enhanced competitive advantages as well as trade adjustment programs.
5. Policy Governance and GVCs: the module ended with a presentation specifically focused on how government policy can influence the formation and development of GVCs, thus analyzing the different policy options such as: lowering trade costs, lowering barriers to trade in services, domestic subsidies, policies for inbound foreign direct investment, enforcement of contracts and the rule of law, or special economic zones. In this context, both the pros and cons were addressed, reaching the conclusion that there are no size fits all solution and positive results for the development of GVCs will depend on a certain mix of public policies in accordance to the economic and social reality of each economy.

The workshop finalized with a brief wrap up sessions by the organizers, recognizing the valuable inputs provided by all speakers and participants. In regard to the APEC/OECD Check list of GVCs friendly provision in trade and investment policy frameworks, all attending economies were reminded of the following steps mentioned above in this report.

APEC CHECKLIST ON TRADE AND INVESTMENT POLICY FOR THE NEXT GENERATION OF GVCS

I.- Background

During the APEC Workshop on Trade and Investment Inter-dependencies in Global Value Chains (GVCs): Are Policy Frameworks for Trade and Investment, such as Trade and Investment Agreements keeping apace? held on the 9-10 of May 2019, the development of a Check list of GVCs friendly provision in trade and investment policy frameworks was discussed.

In this context, and in order to develop the above mentioned Checklist, prior to the workshop, the Chilean GVC Division, with the assistance of the OECD Investment Division of the Directorate for Financial and Enterprise Affairs and the Trade and Agriculture Directorate, circulated among the participants from APEC economies a questionnaire regarding possible areas that a future Checklist should cover and the main issues that it should address.

After receiving feedback to the questionnaire from different member economies, the organizers tabulated the results and presented the outcomes during the workshop for preliminary comments. In this context, it was agreed that a revision of the preliminary checklist would be circulated for comments by the APEC Committee on Trade and Investment (CTI) members, in order to produce a consensus document to be endorsement by the Committee prior to it meeting during the Third APEC Senior Officials Meeting in August 2019.

II. - Context

Global Value Chains (GVCs) have sharpened the interdependencies between trade and foreign direct investment (FDI). 21st century business strategies employ trade and investment to organise the supply of inputs, to access knowledge and to provide services to consumers. Yet, the patterns and channels through which this relationship between trade and investment works are still not fully understood, and thus are to a certain degree not taken into account in policy reform efforts.

New evidences suggest that trade and investment inter-dependency is widely prevalent, particularly in services and high-technology sectors. In the era of global production, trade and FDI are not parallel and independent models of internationalisation, but constitute mutually dependent activities to support international production, distribution and competitiveness.

Strategies vary significantly across industries and between firms within the same industry. Some industries (e.g., food sector, banking) are highly intensive in FDI, whereas other value chains (e.g., automobiles, telecommunications equipment) rely more heavily on trade, and yet others (e.g., apparel and footwear, internet services) deploy trade and FDI with equal intensity. However, within the same industry, direct competitors can employ different combinations of trade and FDI.

In addition, changes in the digital economy and technological advances in production methods continue to influence international business strategies. Digitisation is increasing the international mobility of services without the need for local presence (establishment).

Taking into account the complex and heterogeneous interlinkages observed in modern firm strategies, regulatory measures, barriers and distortions to trade and FDI have spill-over effects, magnifying costs and can potentially prevent firms from pursuing an optimal organisation of production networks. This suggests that policies related to trade and FDI cannot be pursued in isolation. A broader spectrum of policies also influence trade and investment performance and impacts. All these provide a strong rationale for policy consistency that could be translated in more comprehensive and deeper trade and investment agreements.

III. - Objective of the Checklist on Trade and Investment Policy for the Next Generation of GVCs

The Checklist consists in a series of questions that policymakers should ask themselves and during public consultations when they design trade and investment policies and when they negotiate comprehensive trade and investment agreements. The questions highlight key issues to be considered. As such, the Checklist is a guideline that APEC economies could use when they review their trade and investment policies or when they negotiate trade and investment agreements.

There are no good or bad answers. The Checklist is designed having in mind policies that can maximise the benefits of GVCs and ensure a positive outcome for societies. But governments can aim at other economic and social objectives. The Checklist is a guideline provided for a self-assessment of policy options and should not be regarded as a normative instrument or a model for specific provisions in trade and investment agreements.

The Checklist is based on a taxonomy of GVC-related provisions aimed at ensuring clarity and consistency across different measures adopted within Regional Trade Agreements (RTAs) and across other agreements, i.e. other Preferential Trade Agreements (PTAs), Bilateral Investment Treaties (BITs), Double Taxation Treaties (DTTs), etc. The taxonomy starts from core investment provisions that are typically included in such agreements. It then links these provisions to related measures in other policy areas (such as trade in goods, trade in services, movement of business persons, intellectual property rights, etc.) which are complementary and needed by multinational enterprises (MNEs) in order to operate across economies.

To be more operational and to take into account the fact that trade and investment linkages in GVCs are mostly dealt with within trade and investment agreements, the Checklist refers to 'agreements' and 'provisions' in such agreements. But it remains useful for the assessment of domestic or unilateral trade and investment policies. Most questions are relevant for such policies and one can replace the expression 'agreements' by 'policies' or 'provisions' by 'measures' without altering the applicability of the Checklist.

In the longer term, the Checklist could be regularly updated to reflect new practices and policies that were identified as successful. The improvement of the Checklist over time would then translate in a better guideline for governments to assess the consistency of their trade and investment policies.

IV. - Structure of the Checklist

1. Comprehensive approaches to trade and investment policy

- a. Does the agreement effectively address barriers to operations of firms in global value chains?
- b. Are there specific trade and investment provisions that promote access to GVCs?
- c. Are all provisions needed for operations of firms in GVCs covered under the agreement framework (see Section IV)?
- d. Are there provisions addressing broader societal concerns, such as responsible business conduct and linkage of MNEs with SMEs?
- e. What steps is your economy taking in terms of investment facilitation?
- f. What measures are being taken to ensure trade and investment provisions cover all sectors of the economy?
- g. Do your trade agreements take into account impacts on regional integration?

2. Addressing the needs of different firms in GVCs

- a. Are provisions liberalizing trade and investment adapted to different strategies addressing different ways that firms serve markets and organize supply chains?
- b. Are investment provisions dealing with the various modes of investment (e.g. greenfield vs. M&A, horizontal vs. vertical FDI, etc.)?
- c. Do agreements cover strategic partnerships and other non-equity-based relationships between firms, such as licenses, franchising, contractual relationships, in addition to trade and investment?
- d. Are there specific provisions encouraging the participation of SMEs in GVCs?

3. Consistent trade and investment provisions

- a. What steps are taken before and/or during the negotiation of the agreement to ensure consistency between trade and investment provisions and/or strengthening their complementarity?

- b. How does the agreement deal with the overlap between Mode 3 trade in services and investment in services?
- c. How is consistency achieved with similar provisions found in other trade and investment agreements?
- d. What steps should be taken to ensure regulatory consistency when negotiating trade and investment provisions?
- e. What steps are taken in order to address the issues of domestic regulations in services?

V. - Understanding the importance of linkages between trade and investment policies

Trade and investment agreements today not only address core trade disciplines on goods but also provisions on trade in services and investment. They also deal with a variety of other policy areas such as competition, intellectual property or regulatory co-operation. These agreements are intended to improve the business environment and maximise the benefits of trade and investment liberalisation for societies. The following provisions are potentially relevant:

- Market access and national treatment for services
- Cooperation on global and regional value chains
- Temporary entry of business persons
- E-commerce
- Capital movement and exchange rates
- Trade and investment facilitation
- Enforcement of intellectual property rights
- Anti-bribery and anti-corruption
- Responsible business conduct (e.g. environment, labor, human rights)
- Co-operation on competition
- Regulatory co-operation
- Harmonization and mutual recognition of standards
- Transparency
- Financial services (banking and insurance)
- Commercial operations of SOEs
- Licensing of professionals and recognition of qualifications
- Rules of origin

VI. - Other elements to take into account

In implementing the checklist, APEC economies should also take into account:

- The APEC non-binding Investment Principles

- Other domestic policies to spur productivity and value added, including attracting knowledge base assets
- Strengthen policies that increase the positive impact on societies of trade and investment agreements

FAMILY PHOTO



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- I. Trade Integration and Business Realities from Trade in Value Added Perspective. William M. Powers, U.S. International Trade Commission.



UNITED STATES
INTERNATIONAL TRADE COMMISSION

Trade, Integration, and Business Realities from a Trade-in-Value-Added Perspective

William M. Powers
U.S. International Trade Commission

Workshop on Trade and Investment Inter-Dependencies in GVCs—
Trade Beyond the Traditional Concept I:
Understanding GVCs in an Integration 4.0 Context

May 9, 2019
Valparaiso, Chile

The views expressed here are solely those of the presenter. This presentation is not meant to represent the views of the USITC or any of its Commissioners.

1



Agenda

- Trade growth and global integration have declined since 2011
- What will trends be in future? Is the slowdown a permanent change?
- What factors drive trade and integration now and in the future?
 - Macroeconomic factors
 - Policy: tariffs and nontariff measures (NTMs)
 - Regulation
 - Technology

2



Trade growth has slowed

World Trade Outlook Indicator



Source: WTO, February 2019

APEC Trade and GDP Growth, 2000–19



Source: APEC PSU, November 2018

Potential causes of trade slowdown since 2011

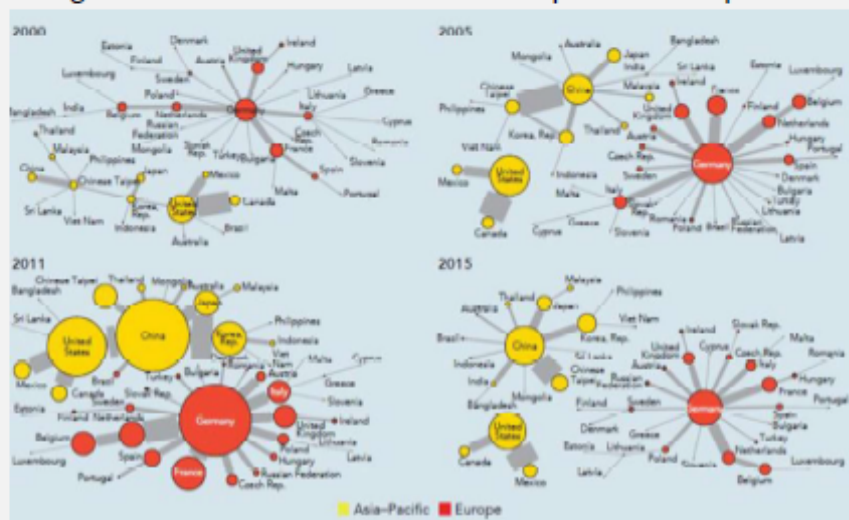
- Cyclical causes: strength of global demand
- Structural causes
 - Pace of trade liberalization / trade barriers
 - Changes to global value chains

3



GVC integration has declined

Foreign Value Added In Manufactured Exports in Complex GVCs



Source: IDE-JETRO, OECD, UIBE, WB, and WTO, "Measuring and Analyzing the Impact of GVCs on Economic Development," 2017

4



What drives trade and integration?

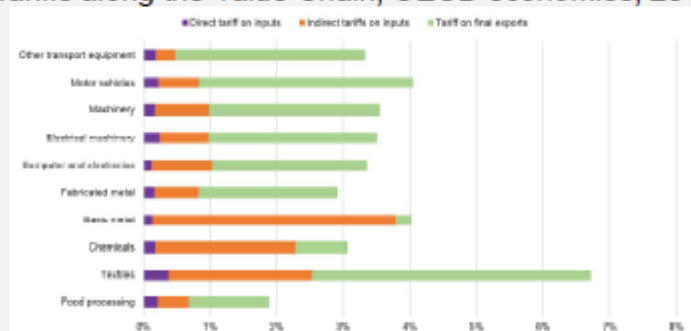
- **Macroeconomic factors:**
 - Capital accumulation
 - Infrastructure development
 - Labor force change (e.g., wages and skills)
- **Policy measures**
 - Tariffs
 - Non-tariff measures at the border and behind the border:
 - e.g., administrative procedures at border and regulations behind the border
- **Trade costs:** improving border administration and infrastructure could have larger effect than global tariff elimination (Ferrantino et al. 2013)
- **Technology:** new technologies are driving down costs but are not always trade-promoting

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Tariffs along the value chain

Tariffs along the Value Chain, OECD economies, 2015



Source: OECD, "Trade Policy Implications of Global Value Chains," 2018

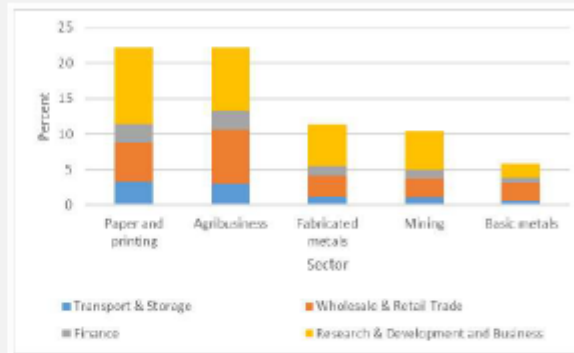
- Costs accumulate as inputs cross multiple borders
- Companies optimize costs along the supply chain
 - Statistics reflect how goods actually travel; "paths not taken" may have much higher cumulative costs
- Reducing barriers benefits companies all along the chain 6



Regulatory reform can benefit GVC participants

- Services play an important role in manufacturing value chains
- Transport sector has large downstream effect on competitiveness of perishable products
- Chilean regulatory reform in transport sector boosted domestic performance
 - Entry regulations (helping companies begin operations) and conduct regulations (lowering cost of doing business)
 - Result: 7% increase in domestic value added in exports

Services Value Added in Chilean Exports, 2011



Source: APEC PSU, "Case Study on the Role of Services Trade in GVCs", 2016

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New technology reduces trade costs but does not always increase trade

- New technologies can reduce trade costs and speed up trade...yet they have ambiguous effect on trade in GVCs
- Factors promoting trade growth
 - + E-commerce platforms lower transaction costs
 - + Improved broadband, smartphones lower communication costs
 - + Tracking components with technology reduces inventory management costs, simplifies logistics
 - + Blockchain and AI can shorten time in customs, eliminate paperwork, reduce verification costs (?)
 - + Digital technologies increase quality and variety of services
- Factors potentially slowing trade growth
 - Automation has facilitated "reshoring" of some production tasks
 - Companies have moved production closer to final demand
 - Shift from mass production to mass customization
 - Local value chains more able to adapt to changing demand (?)

Source: WTO World Trade Report 2018; Ferrantino and Koten 2019

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Ambiguous effects of new technology on trade: 3-D printing

- **3-D printing may shift global trade and investment**
 - Can shift location and types of investment (Abeliansky et al 2015)
 - May shorten GVCs and eliminate unskilled labor-intensive stages in GVCs (Ferrantino and Koten 2019)
 - However, 3-D printing increased trade in at least one sector: hearing aids (Freund, Mulabdic, Ruta 2018)
- **3-D printing can complement traditional GVCs**
 - Adidas opened fully-automated shoe factory with 3-D technology in 2016
 - Goals: individualize products, react quickly to consumer needs, and speed up delivery
 - Unit costs of individualized products may be higher than mass produced
 - Not everyone wants personalization
 - Adidas sales goals require mix of new technologies and traditional supply chains

Source: Lehmacher and Schwemmer, World Economic Forum 2017

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Future trends in trade and integration?

- **Factors promoting growth of trade and integration**
 - + Rising production capacity in developing economies
 - + Regulatory reform
 - + Trade policy and falling barriers
 - + Risk aversion: GVC diversification
 - + Burgeoning regional markets
 - + Technology
- **Factors slowing growth of trade and integration**
 - Rising production costs in developing economies
 - Trade policy and rising barriers
 - Risk aversion: GVC consolidation
 - Burgeoning regional markets
 - Technology

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Thank you!

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- II. APEC Workshop on Trade and Investment Interdependencies in GVCs. Dr. Joshua Meltzer, Brookings Institution.

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APEC Workshop on Trade and Investment Inter-Dependencies in Global Value Chains

Dr. Joshua P. Meltzer
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BROOKINGS

2

Digital Economy and Trade Opportunities

- **Global data flows raised GDP by 3.5%**, or ~\$2.8 trillion in 2014 and up to \$11 trillion by 2025 (McKinsey 2016)
- **Ecommerce sales were over \$27 trillion** in 2017 (UNCTAD 2019)
 - 88% B2B, 12% B2C
- **India's ICT enabled exports** in 2016-2017 were \$103bn or 63% of total services exports
 - » 80% delivered via mode 1 - over the internet

Characteristics of Industry 4.0

- Low marginal cost of digital
- Networks: platforms provide scale and global scope
- Data: Connects machines, materials, suppliers and customers
- Changes how things are designed, made, and serviced

Industry 4.0 and GVC Impacts

- Open Innovation
 - » Global innovation networks
- Strengthen GVC
 - » More efficient
 - » Open to participating by specialized service suppliers (e.g. R&D, design, data analytics)
- Localized production?
 - » 3D
 - » Small & customized production

Creating value in a GVC

- Cloud levels IT (industry 3.0)
- Intangibles and knowledge are key
 - tacit knowledge, R&D, management, coordination
 - Innovation
 - Productivity gaps between firms
- Growing importance of IP and services

Trade policy for GVC in a 4.0 Context

Intangible	Description	Trade Element	Trade Commitment
License	Right to use IP e.g. software	Trade in IP	<ul style="list-style-type: none"> • Services liberalization • IP commitment • Data flows
Investment	Invest in IP	Services Mode 3	<ul style="list-style-type: none"> • Services liberalization • Investment liberalization and protection • Data flows
Outsourcing	Contract with vendor	Services e.g. Mode 1 (online)	<ul style="list-style-type: none"> • Services liberalization • Data flows
Collaboration	Innovation platforms	Service such as cloud computing	<ul style="list-style-type: none"> • IP commitment • Services liberalization • Data flows
Consulting	Service contract	Service, may involve IP	<ul style="list-style-type: none"> • Services commitment • IP Commitment • Data flows

Digital Economy and Trade Project

www.brookings.edu/digital-economy-and-trade-project/

- III. GVCs Policy Implications: The Case of China Exports to the U.S. Lin Guijun, UIBE Academy of China Open Economy Studies.

GVC Policy Implications: the case of China exports to the US

Lin Guijun
**UIBE Academy of China Open Economy
Studies**

I. Importance of policies in the Ricardo era diminished

1. China exports to US: by foreign VA

	1995	2005	2013	2014
1	JPN	JPN	JPN	JPN
2	USA	KOR	ASEAN 6	USA
3	TWN	USA	USA	KOR
4	KOR	TWN	KOR	ASEAN 6
5	ASEAN 6	ASEAN 6	TWN	TWN
6	DEU	DEU	DEU	DEU
7	HKG	SAU	AUS	AUS
8	RUS	AUS	SAU	SAU
9	ITA	FRA	RUS	RUS
10	FRA	GBR	GBR	GBR

2. TOP 10 Exports to US by China, 2014

	Products	Exports (\$bn)	Ratio of foreign VA	Top VA contributors
1	Office MACH etc	166.3	41.00	JAP, KOR, TWN
2	Wholesale retail	68.4	2.80	US, JAP, KOR
3	Textiles, footwear	62.8	21.17	US, KOR, JAP
4	Machinery Eq.	39.1	16.63	JAP, DEU, US
5	Electric MACH	27.6	36.43	JAP, DEU, US
6	MFG n.e.s	20.7	18.13	US, JAP, DEU
7	Rubber and plastic	17.7	23.62	US, JAP, DEU
8	Chemical	16.1	25.86	US, AU, SAU
9	Fabricated metals	13.8	20.26	AU, SAU, RUS
10	Motor vehicles	12.3	24.58	DEU, JAP, KOR
All		503.5	29.90	JAP, US, KOR, ASEAN

3. Implications for trade policies

- 1. If China catches cold, other countries would sneeze;**
- 2. Traditional distorted trade policy of antidumping and subsidy is not desirable as**
(1) third country may be affected by anti-dumping action;
(2) benefits of subsidy diminishing ;
- 3. Elasticity of exports WRT exchange rates declines;**

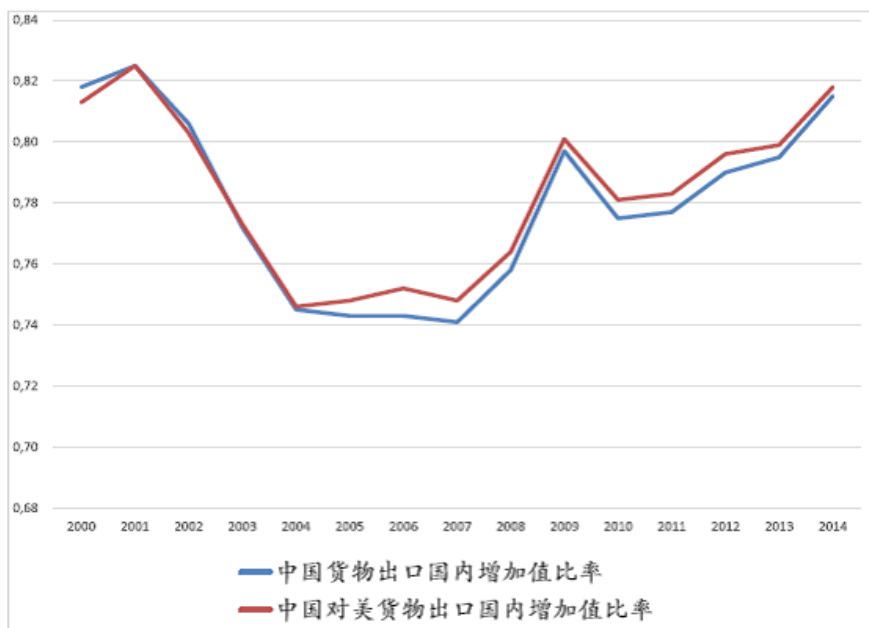
- 4. Protecting raw materials and intermediate goods undermine export competitiveness;**
- 5. Tariff on intermediate goods from a large-economy exporter may shift demand away to a small economy exporter;**
--but tariff on final goods may not develop domestic industry throughout the value chain as modern GVCs are too sophisticated.

6. Synchronization of service liberalization and manufacturing FDI

- Exports contain much service value added;
- There are services outsourced, in-house and bundled with goods.
- Lack of synchronization in liberalization involves risks;

II. Global value chains shortened ?

1. Domestic VA of China exports



2. Correlation: ratio of China's Domestic VA and inward FDI



1. Policy implications

- As share of domestic VA in China's exports rise, It may indicate:
- (1) investors prefer to locate plants nearby the markets for final sales;
- E-commerce may better aggregate demand;
- It may also indicate (3) development of AI and 3D printing would encourage reshoring.

- There is a high risk that the global digital platform may split into pieces.
- A compromise over the policies of freedom of data flows, privacy and national sovereignty is essential to hold the online world together.

谢谢！

- IV. Gender, E-Commerce and GVCs in South East Asia and the United States. Michael Ferrantino, World Bank Group.

Gender, E-Commerce and GVCs in South Asia and the United States



WORLD BANK GROUP
Macroeconomics, Trade & Investment

Michael Ferrantino,
APEC SOM 2
Viña del Mar, Chile
May 9, 2019

Three big ideas

1. Business-to-business e-commerce is particularly suited for GVCs
2. Female entrepreneurs in Southeast Asia are particularly suited for e-commerce
3. E-commerce creates a profitable exchange between the genders in the United States (unpaid household time for paid labor)

About 90 percent of global e-commerce is B to B

Table II.4. Top 10 economies by total, B2B and B2C e-commerce, 2015, unless otherwise indicated

	Economy	Total		B2B		B2C
		\$ billion	Share in GDP (per cent)	\$ billion	Share in total e-commerce (per cent)	\$ billion
1	United States	7 055	39	6 443	91	612
2	Japan	2 495	60	2 382	96	114
3	China	1 991	18	1 374	69	617
4	Republic of Korea	1 161	84	1 113	96	48
5	Germany (2014)	1 037	27	944	91	93
6	United Kingdom	845	30	645	76	200
7	France (2014)	661	23	588	89	73
8	Canada (2014)	470	26	422	90	48
9	Spain	242	20	217	90	25
10	Australia	216	16	188	87	28
	Total for top 10	16 174	34	14 317	89	1 857
	World	25 293	..	22 389	..	2 904

Source: UNCTAD Information Technology Report 2017

2

The United Kingdom reported that about 60 percent of e-commerce in 2016 was Electronic Data Interchange B to B

Mode	Sector	Value in 2015 (billion UK £)	Percent of grand total
All modes	Total	533	100
	B2B*	412	77.3
	B2C	119	22.7
Electronic Data Interchange (EDI)	B2B* (by definition)	318	59.6
Website	Total	215	40.3
	B2B*	94	17.6
	B2C	119	22.3

Source: UK Office of National Statistics

3

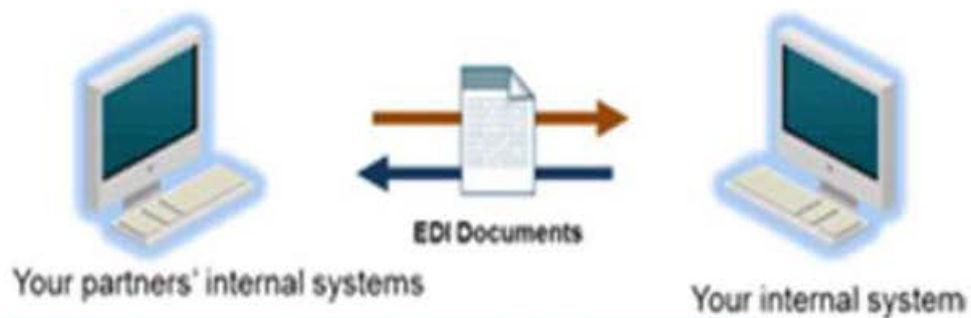
Ordering and purchasing without EDI



12



Ordering and purchasing with EDI



EDI is an old technology (some applications go back to the 1960s)

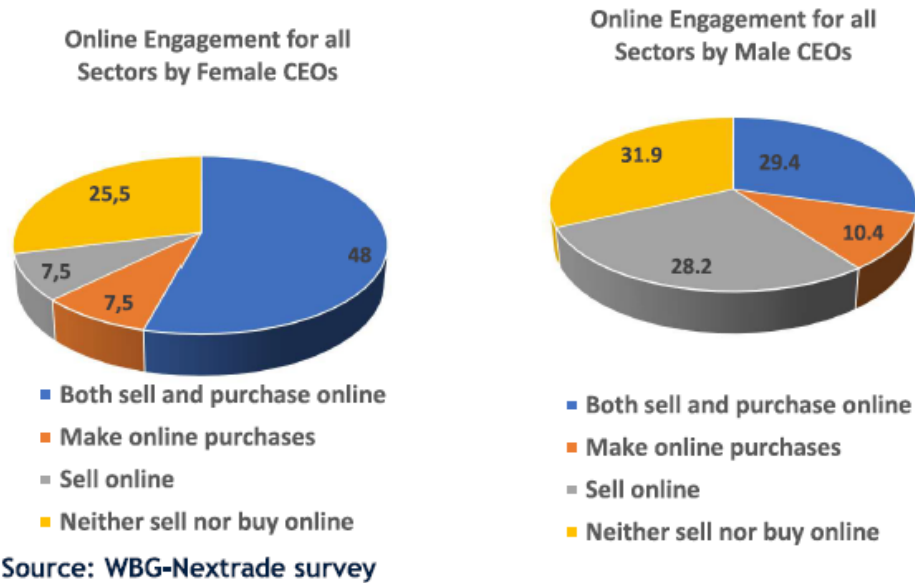
But it facilitates the most current supply chain management technologies

As well as B-to-G applications (customs)

13



In South Asia, Female entrepreneurs are more likely to engage in two-way online trade



6

Female entrepreneurs are more likely to view the e-commerce enabling environment positively



7

In South and Southeast Asia, female-headed firms are more likely to buy and sell online, and they export in all sectors

Are SAA women more e-commerce savvy?

IS CEO gender related to online presence?



In which sectors are female exporters more active?



*Saving 6 minutes a day on shopping
= 11.8 billion hours a year to do something else with!*



Source: BLS American Time Use Survey

9

B to C E-Commerce substitutes paid market time for household shopping time, improving human welfare, and with gender implications



11.8 billion hours a year saved in buying goods and services – transition during 2007-2012

350,000 additional workers in warehousing, storage, and express delivery 2011-2016

Source: BLS American Time Use Survey, BLS Current Population Survey, and authors' calculations

10

Robots and humans in warehouses – substitutes or complements?



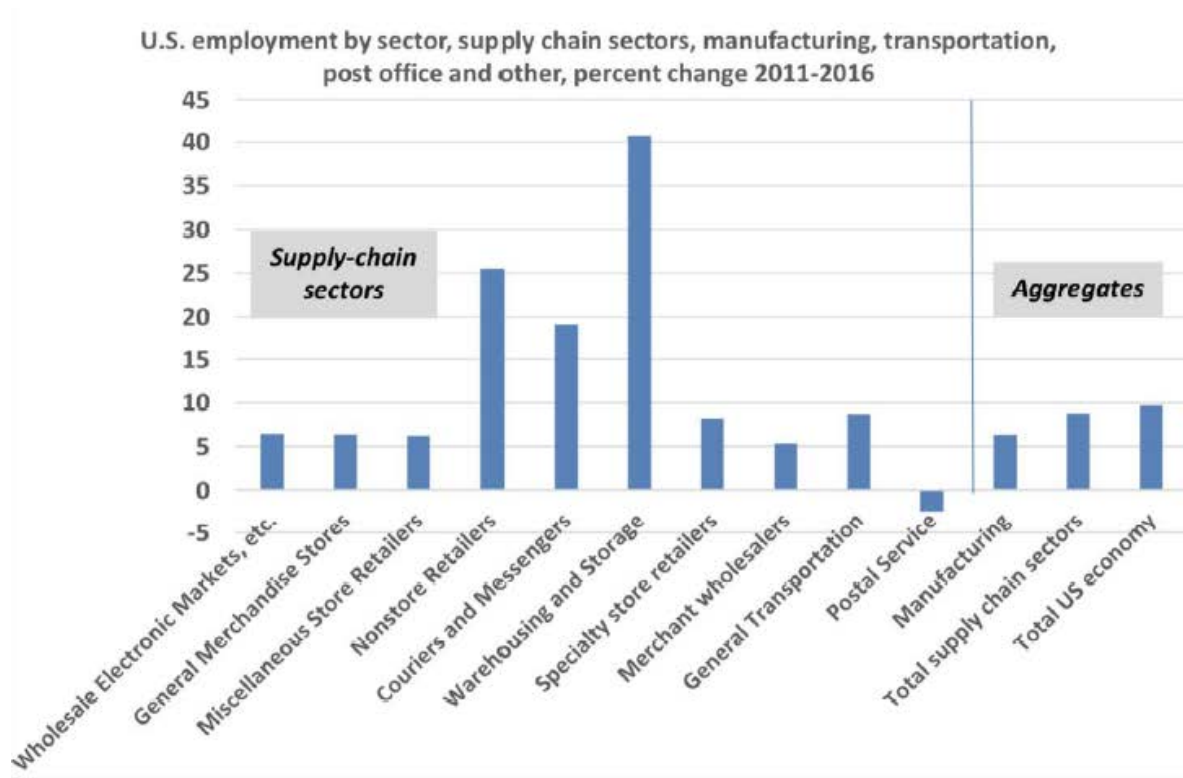
Robots at a Denver warehouse of Staples (IEEE Spectrum, July 2, 2008)

Amazon worker pushing robots around with a metal rod (Seattle Times, August 11, 2017)

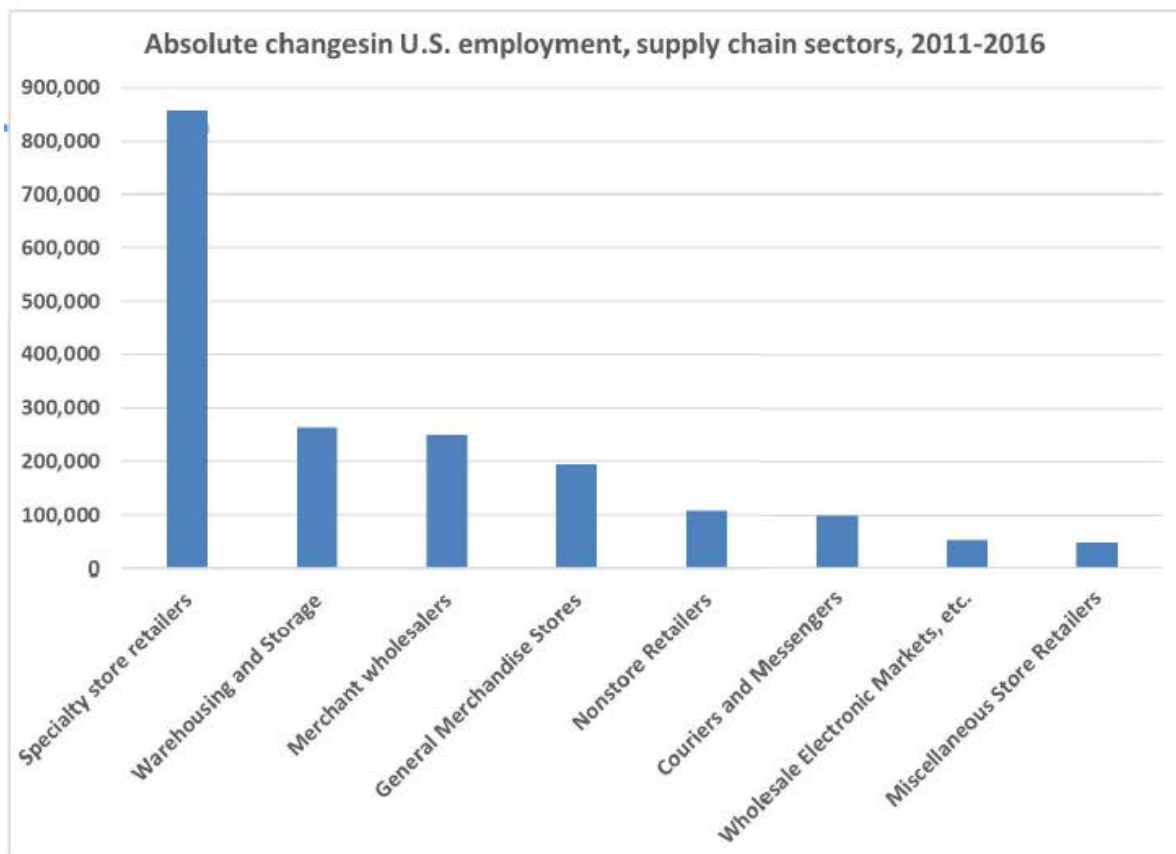


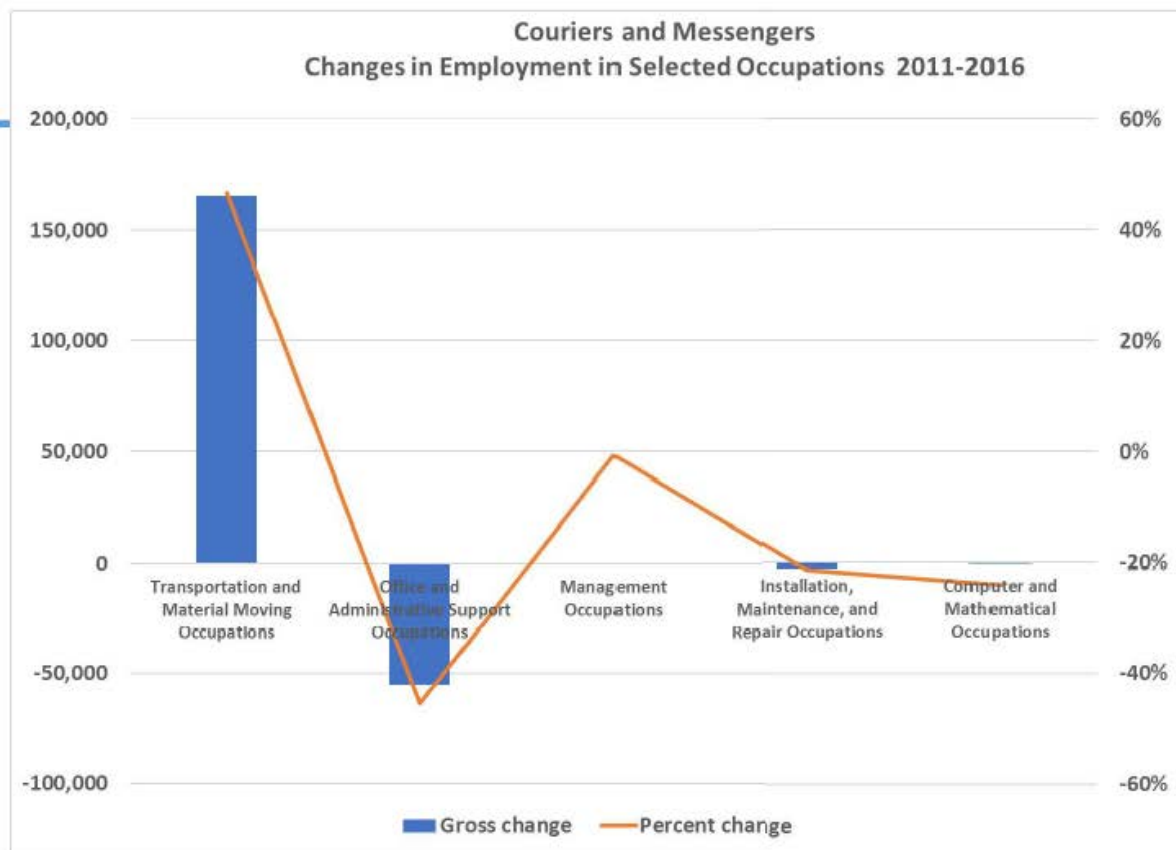
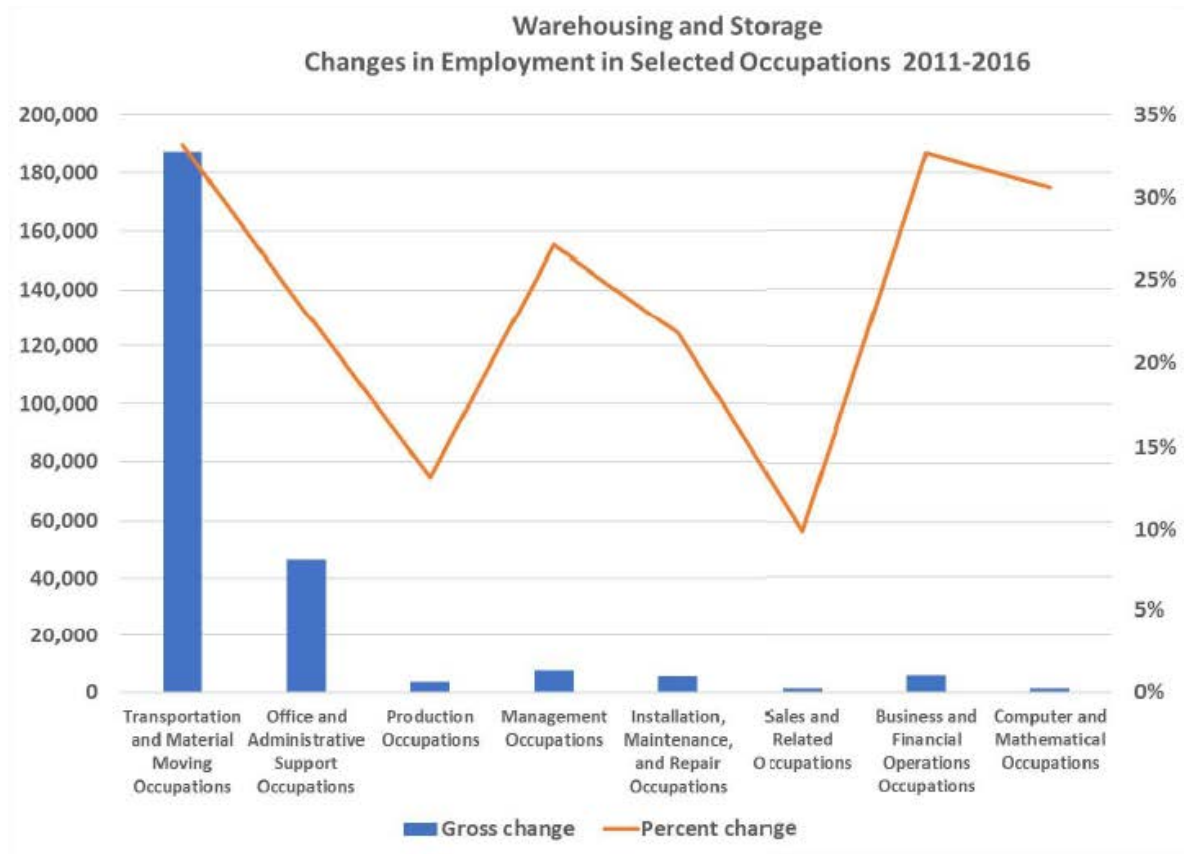
Amazon worker watching over robotic arm (New York Times, December 11, 2017)

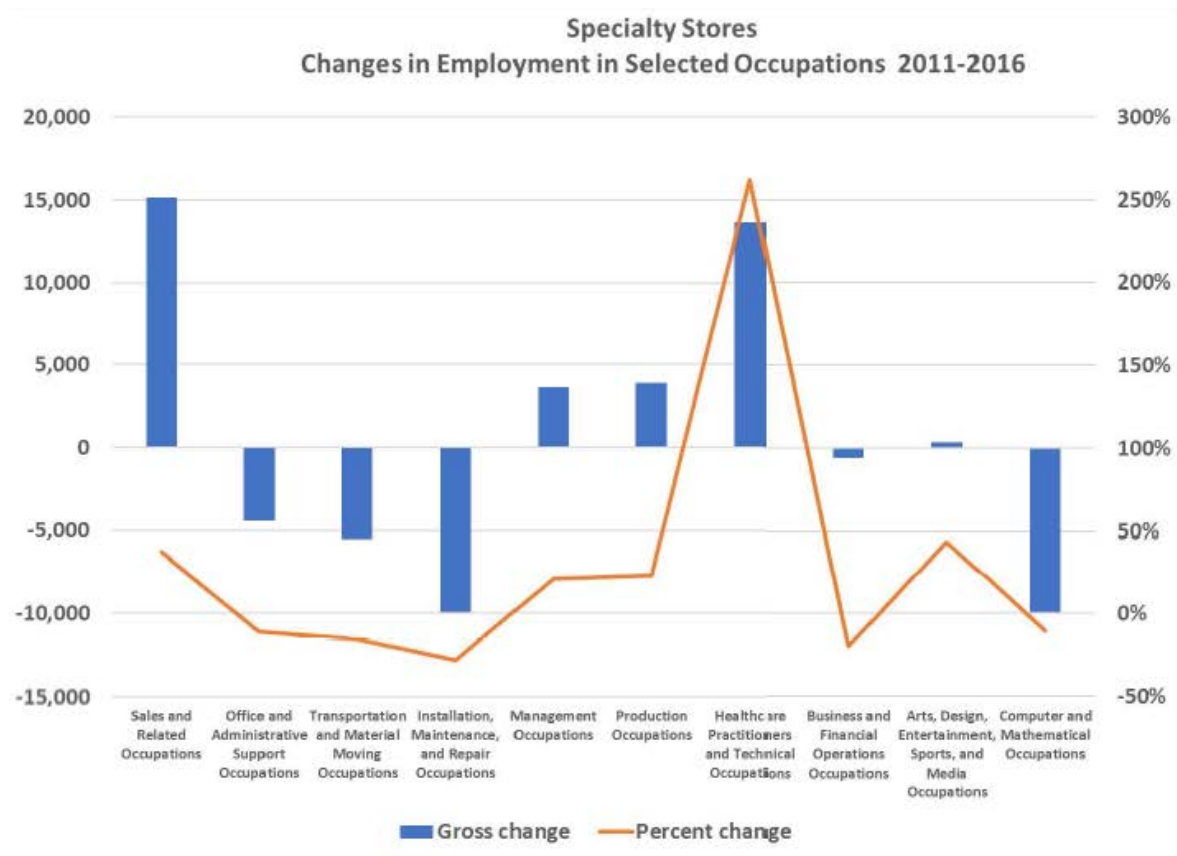
11



12







More customer service in specialty stores –
e.g. healthcare clinics in pharmacies



Thank you!

mferrantino@worldbank.org

- V. Trade Beyond the Traditional Concept: GVCs and Social Challenges. Viviana Araneda.
Head GVCs Division, Undersecretariat of International Economic Affairs, Chile.



The slide features a background image of a worker in a blue hard hat and safety vest. In the top right corner is the DIRECON logo, which includes the Chilean coat of arms and the text 'DIRECON', 'Ministerio de Economía y Desarrollo', and 'Gobierno de Chile'. The main title is 'TRADE BEYOND THE TRADITIONAL CONCEPT: GVCs AND SOCIAL CHALLENGES'. Below it is the subtitle: 'WORKSHOP ON TRADE AND INVESTMENT INTER-DEPENDENCIES IN GVCs: ARE POLICY FRAMEWORKS FOR TRADE AND INVESTMENT, SUCH AS TRADE AND INVESTMENT AGREEMENTS, KEEPING APACE?'. At the bottom, it says 'VIVIANA ARANEDA – HEAD GLOBAL VALUE CHAINS DIVISION - DIRECON'.

**TRADE BEYOND THE TRADITIONAL CONCEPT:
GVCs AND SOCIAL CHALLENGES**

WORKSHOP ON TRADE AND INVESTMENT INTER-DEPENDENCIES IN GVCs: ARE POLICY FRAMEWORKS FOR TRADE AND INVESTMENT, SUCH AS TRADE AND INVESTMENT AGREEMENTS, KEEPING APACE?

VIVIANA ARANEDA – HEAD GLOBAL VALUE CHAINS DIVISION - DIRECON

- I. GLOBAL VALUE CHAINS DIVISION – DIRECON
- II. CHILE'S ENGAGEMENT IN GVCs AND CHALLENGES
- III. LOCAL INTEGRATION APPROACH
- IV. REGIONAL VALUE CHAINS
- V. FROM PRODUCTIVE LINKAGES TO GVCs TO PROMOTE REGIONAL INSERTION OF MSMEs INTO GVCs



CHILE'S TRADE INTEGRATION

- Chile is possibly one of the most successful cases of international trade liberalization
- Its commercial policy has been a pillar of economic growth

26

Trade
Agreements

64

Markets



64.1%

World
population

86.3%

Global GDP

GVC DIVISION

“

DESIGN, FORMULATE AND PROMOTE
STRATEGIES, TRADE POLICIES AND
ACTIONS THAT SUPPORT CHILE IN IT'S
INSERTION INTO GLOBAL VALUE
CHAINS, HIGHLIGHTING THE
ARTICULATION OF REGIONAL VALUE
CHAINS.

”

GLOBAL VALUE CHAINS DIVISION

INNOVATIVE TRADE POLICY



Government Dimension

19 Government agencies involved in the Inter-Ministerial Group on GVC



Public-Private Committee

28 guilds, companies and chambers of commerce participate in the Public-Private Group on GVC



Studies and transfer of Knowledge

Capacity building and international cooperation and high level seminars



Trade Negotiations

Studies on potential productive linkages

SCENARIO FOR GLOBAL VALUE CHAINS

VOLATILE GLOBAL SCENARIO

Technological war
Astro-politics

DISRUPTIVE TECHNOLOGICAL CHANGES

Digital Economy

INCLUSION AND SUSTAINABILITY

Demographic issues

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CHILE'S ENGAGEMENT INTO GVCs



UPSTREAM POSITION

In comparison to other OECD
economies (OECD,2015)



BACKWARD INTEGRATION

Low



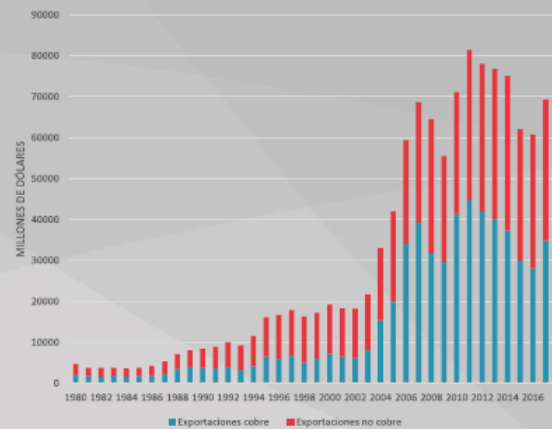
FORWARD INTEGRATION

Relatively high

THERE IS ROOM FOR IMPROVEMENT

- The concentration of exports is high in Chile and has intensified in the last decade (copper minerals and cathodes represent more than 50% of Chile's total exports)
- Low added value
- Low diversification in the number of products
- Low diversification towards the markets
- Low diversification over time (survival)
- Low diversification companies in exported amount
- Low diversification in companies size

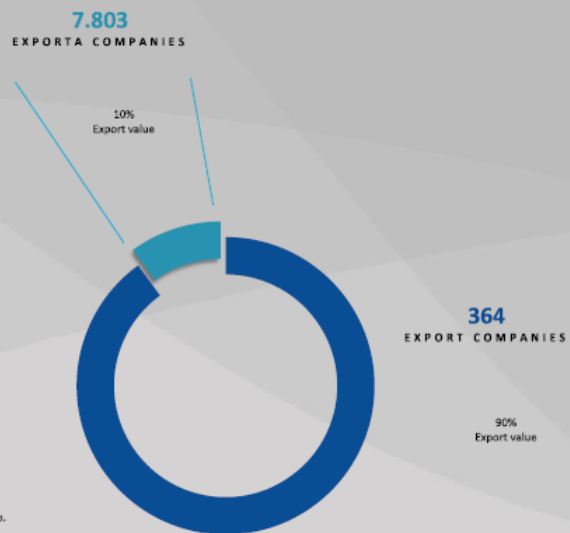
CHILE: COOPER AND NO COOPER EXPORTS (1980 - 2017)



Source: DIRECON

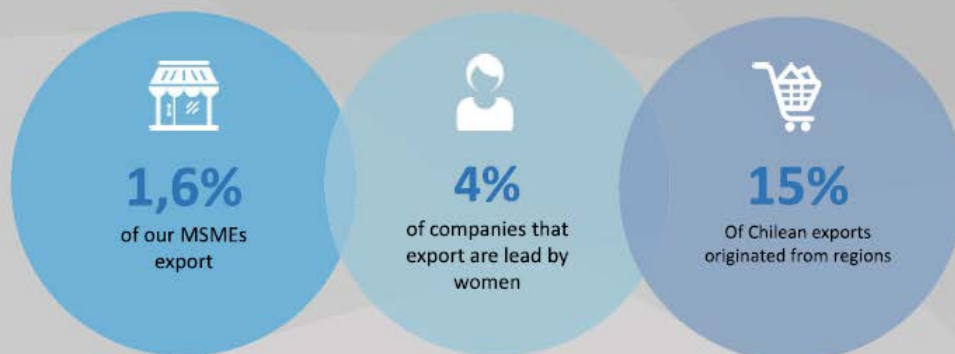
CHALLENGE: OPORTUNITIES

- 364 companies generated 90% of the total value of Chilean exports in 2017.
- 7.803 companies generated 10% of the total value of Chilean exports in 2018.



Source: Department of Trade Information, DIRECON-ProChile, based on data from TradeMap.

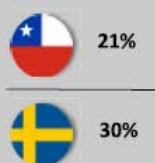
CHALLENGE: INCLUSIVE TRADE



Source: Información Comercial, DIRECON-ProChile, con cifras del Servicio Nacional de Aduanas y del Servicio de Impuestos Internos.

CHALLENGE: LOW VALUE ADDED IN EXPORTS

Contribution of mining services to the overall exports of the sector



Participation of primary products in agricultural sector



Source: PRODUCTION TRANSFORMATION POLICY REVIEW OF CHILE, OCDE 2018

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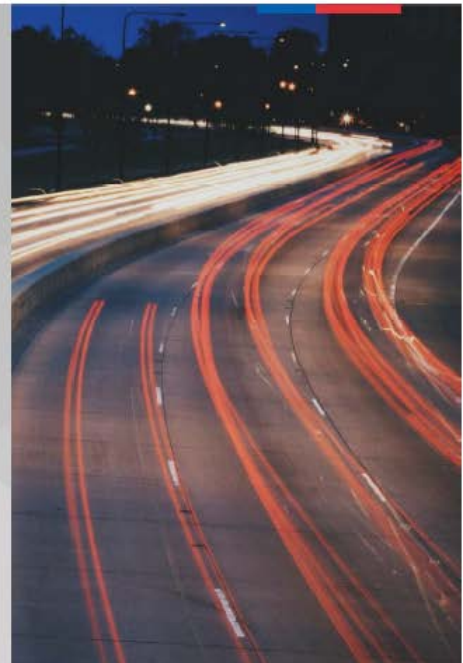
IV. REGIONAL VALUE CHAINS

V. FROM PRODUCTIVE LINKAGES TO GVCs TO PROMOTE REGIONAL INSERTION OF MSMEs INTO GVCs



NEW LOCAL INTEGRATION APPROACH

- Regions within Chile have different realities due to resources endowments, demographics and geography
- Therefore there is no one size fits all approach
- Different realities must be taken into account
- Working and hand with local authorities and stake holders that have a better grasp of those realities



PILOT PLAN FOR REGIONAL INTEGRATION IN GVCs – ARAUCANIA REGION

- Located at the south of Chile, the Araucania Region is, according to the last economic and social census, the poorest region of Chile, doubling the national average
- Poor infrastructure, logistical isolation and an ongoing conflict between the central Government and the indigenous people (Mapuches)
- DIRECON (GVC Division) together with Prochile Araucania, the Regional Government, the academy, indigenous business community and the private sector are working on a pilot plan to promote the integration of the Araucania into GVCs



PILOT PLAN FOR REGIONAL INTEGRATION IN GVCs – ANTOFAGASTA REGION

- Located at the north of Chile, the Antofagasta Region produced in 2017 55% of all copper Chile exported to the world accounting for approximately 11% of Chilean GDP (Chilean Central Bank)
- DIRECON (GVC Division) together with CORFO Antofagasta, Integrated Territorial Program (PTI), ProChile Antofagasta, the Regional Government and private sector representatives have established a pilot plan

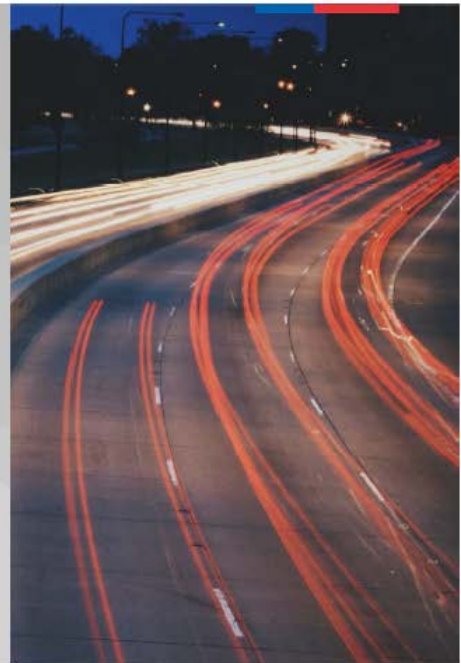


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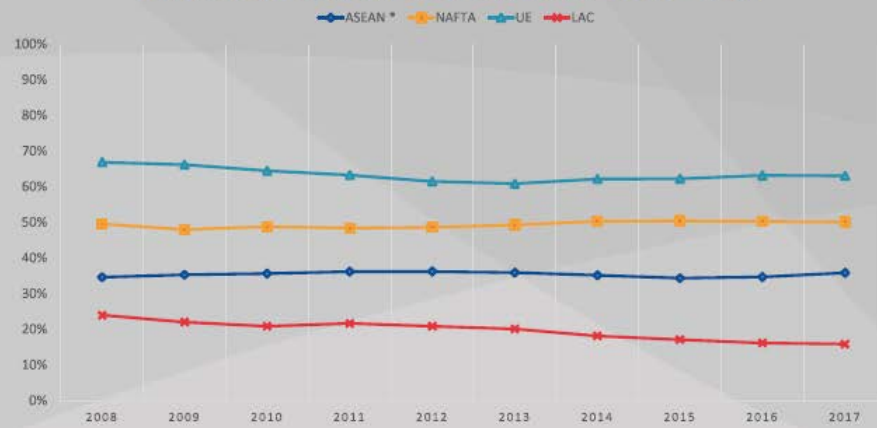
REGIONAL VALUE CHAINS

- Chile is not in a vacuum, it is within a region
- GVCs tend to be regional
- Latin America weighs little in foreign value added content in terms of world exports
- Foreign value added weighs little in Latin American exports to the world
- In particular, regional added value weighs little on Latin American exports



REGIONAL VALUE CHAINS

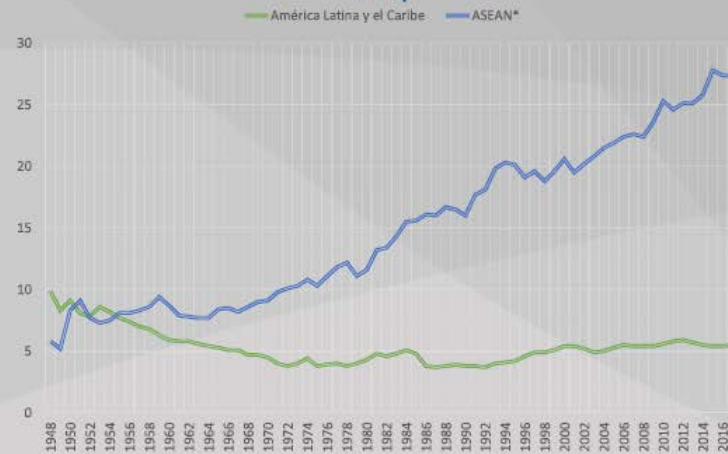
LATIN AMERICAN INTER-REGIONAL TRADE (2008 – 2017)



(*) ASEAN plus China, Japan y ROK / Source: UN COMTRADE

REGIONAL VALUE CHAINS

PERCENTUAL PARTICIPATION OF THE REGION IN GLOBAL EXPORTS (1948 – 2017)



(*) ASEAN plus China, Japan and ROK / Source: UN COMTRADE

PROMOTE REGIONAL VALUE CHAINS

PROMOTE REGIONAL VALUES CHAINS
THROUGH REGIONAL ECONOMIC
INTEGRATION

- Expert group on GVCs within the PA
- Research on bilateral productive linkages
- MOU on Productive Linkages: Argentina, Panama, South Korea
- Chapter in FTA with Brazil
- Cooperation on GVCs: FTA China and Argentina



I. GLOBAL VALUE CHAINS DIVISION –
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CHALLENGES

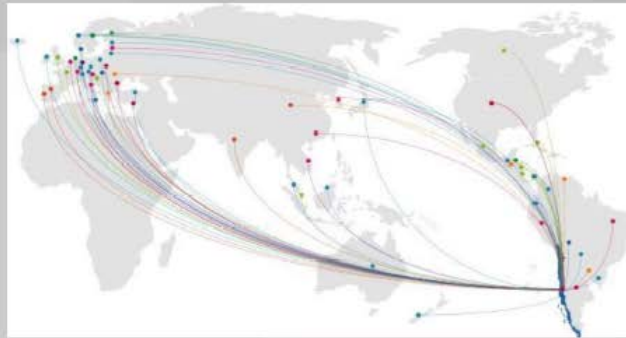
III. LOCAL INTEGRATION APPROACH

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CHILE AS A PLATFORM ECONOMY FOR THE REGION: FROM PRODUCTIVE LINKAGES TO GVCs



64

ECONOMIES

86%

GLOBAL GDP

63%

GLOBAL
POPULATION

Source: Department of Trade information, DIRECON-ProChile, based in data from the IMF, WEO April 2018

MODEL FOR PRODUCTIVE LINKAGES



A good originating
from economy A



Productive
transformation in
a platform
economy



Export to a
third
economy



A CHILEAN COMPANY IN CGV



Source: Renault Group

PRODUCTIVE LINKAGES



PRODUCTIVE LINKAGES



VIVIANA ARANEDA

VARANEDA@DIRECON.GOB.CL



- VI. Modern Corporate Strategies in GVCs: Are Policy Frameworks for Trade and investment Keeping Apace? Sebastian Miroudot, OECD.



Modern Corporate Strategies in GVCs: Are policy frameworks for trade and investment keeping apace?

Sébastien Miroudot
OECD

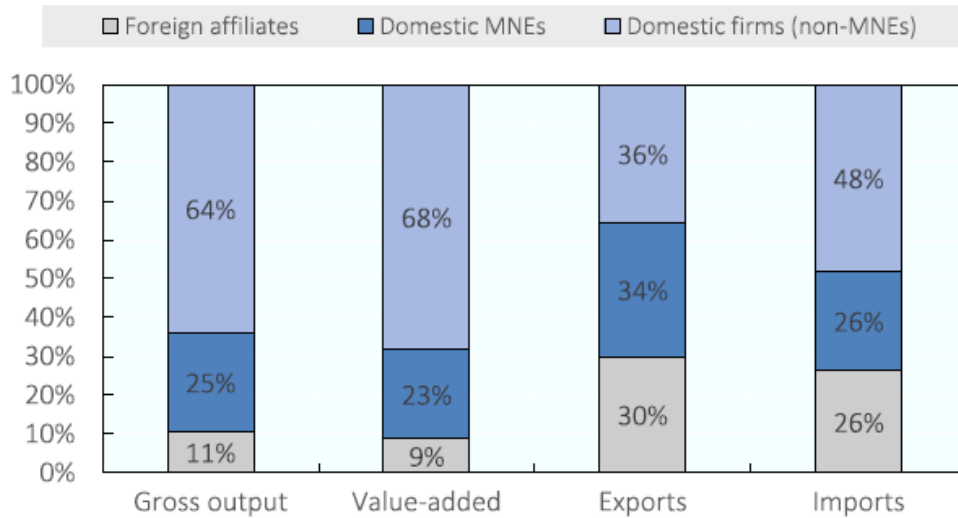
APEC Workshop on trade and investment interdependencies in GVCs
9-10 May 2019
Valparaiso, Chile



Towards a new narrative on trade and investment in global value chains (GVCs)

- OECD work has documented the rise of GVCs and described value-added trade flows within global production networks
 - New analysis and policy implications based on the Trade in Value-Added (TiVA) database
- But GVCs are also the consequence of investment decisions and lead firms in GVCs are often multinational enterprises (MNEs)
 - New work has now integrated the dimension of ownership in TiVA: the OECD analytical AMNE database
 - The framework can also be extended to look at income flows and repatriated income for a more comprehensive analysis of the impact of multinational production: combining TiVA and FDI statistics
 - The macro analysis needs to be complemented with micro-evidence: business insights from firm-level data
- This new work emphasises the complementarity between trade and investment but also indicates that trade and investment are in a more complex relationship than originally thought

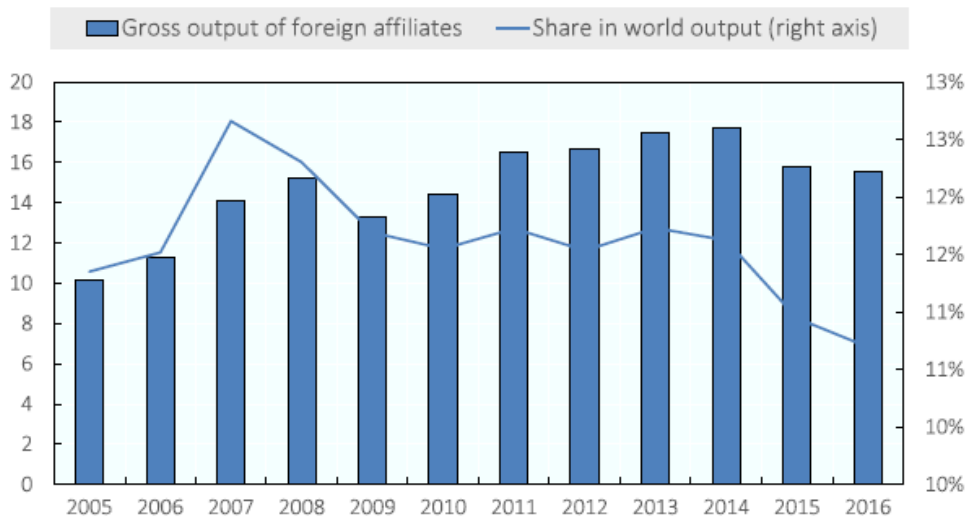
The prevalence of MNEs in world output, value-added, exports and imports (2016)



Source: OECD Analytical AMNE database

3

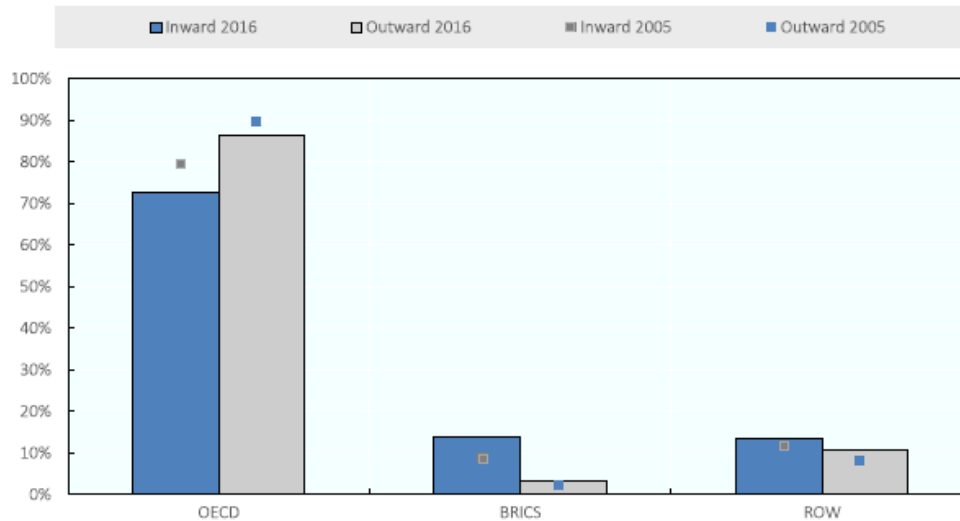
World production by foreign affiliates (USD trillion)



Source: OECD Analytical AMNE database

4

Production of foreign affiliates, by region, 2005 and 2016, inward and outward, %



Source: OECD Analytical AMNE database

5

Why do linkages between trade and investment matter from a policy perspective?

- Globalisation slowdown
 - Slowdown in trade and investment is related to shifting strategies of firms
- Digital economy
 - Changes in firm strategies are currently mostly driven by digital transformations
- Policies adding new restrictions based on specific concerns (e.g. security concerns, trade imbalances, etc.)
 - Companies adjust to a change in tariffs or investment restrictions by considering alternative strategies for market access
- Inclusive growth
 - Impact of trade and investment on workers depends on strategies of MNEs and interdependencies between trade and investment
- Levelling the playing field / competition concerns
 - Distortions between trade and investment restrictions/incentives affect competition

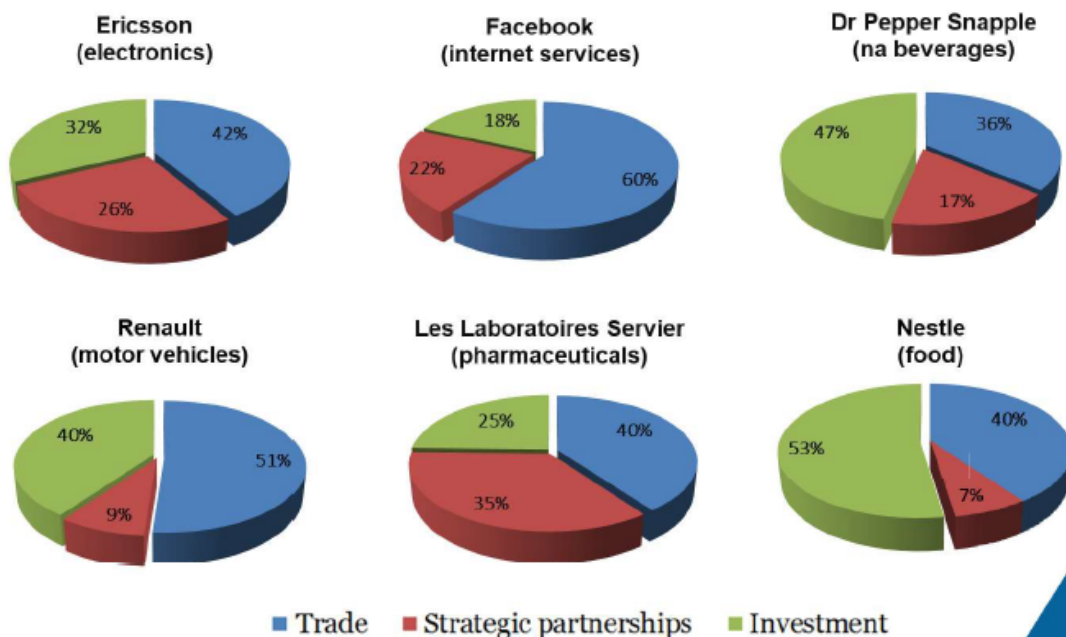
6

What is new? Insights from recent OECD work

- Linkages between trade and investment have been known for a long time
 - But their prevalence and nature is different in GVCs
 - Still 'new' when it comes to policies
- Trade and investment described as 'two sides of the same coin'
 - A more nuanced picture from the new evidence gathered
- Key findings:
 - Heterogeneity in firm strategies
 - New prevailing motives for FDI
 - Role of strategic partnerships
 - Role of the network (market 'thickness' / 'connectedness')

7

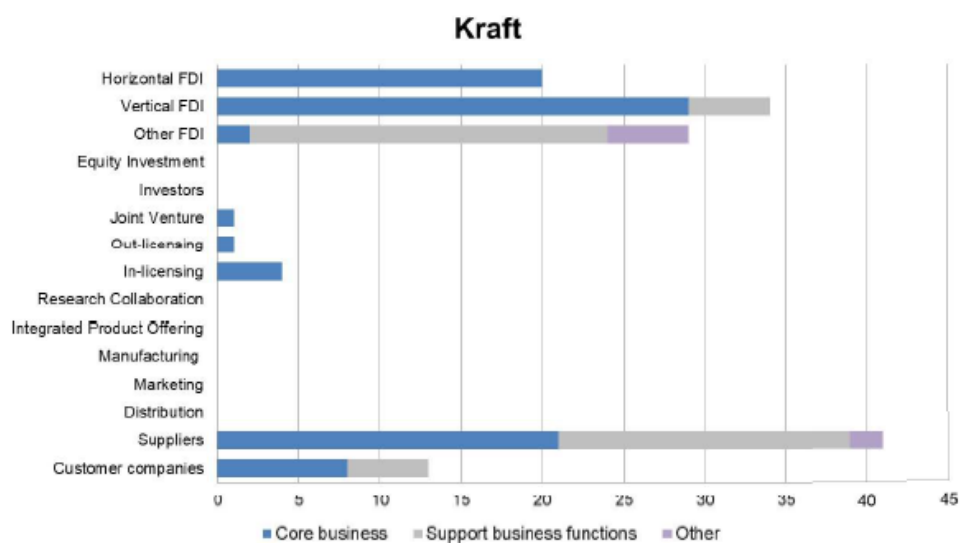
MNE activities are a combination of trade, investment and strategic partnerships – but heterogeneity prevails



Andrenelli, A., et al. (2019)

8

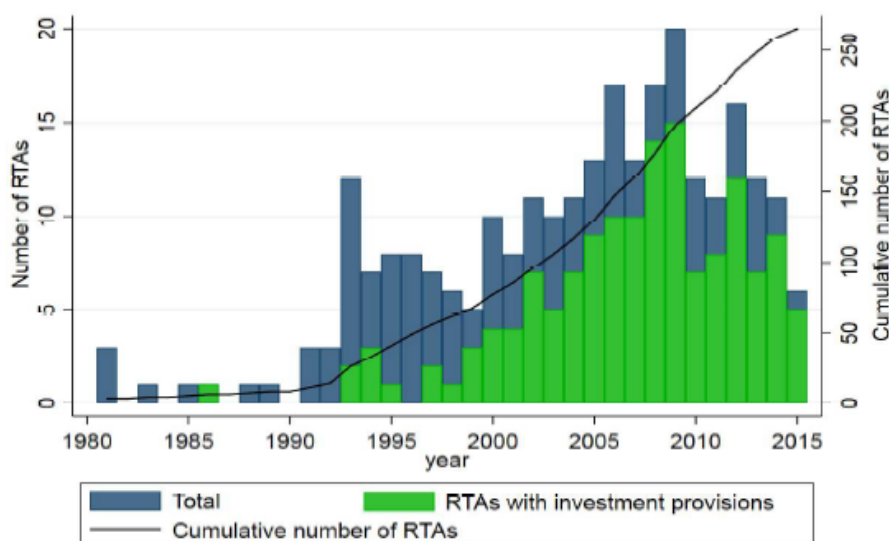
Investment performs various functions in GVCs



Andrenelli, A., et al. (2019)

9

Policy frameworks: RTAs are bringing trade and investment disciplines under a common umbrella



10

Mapping linkages between trade and investment in RTAs

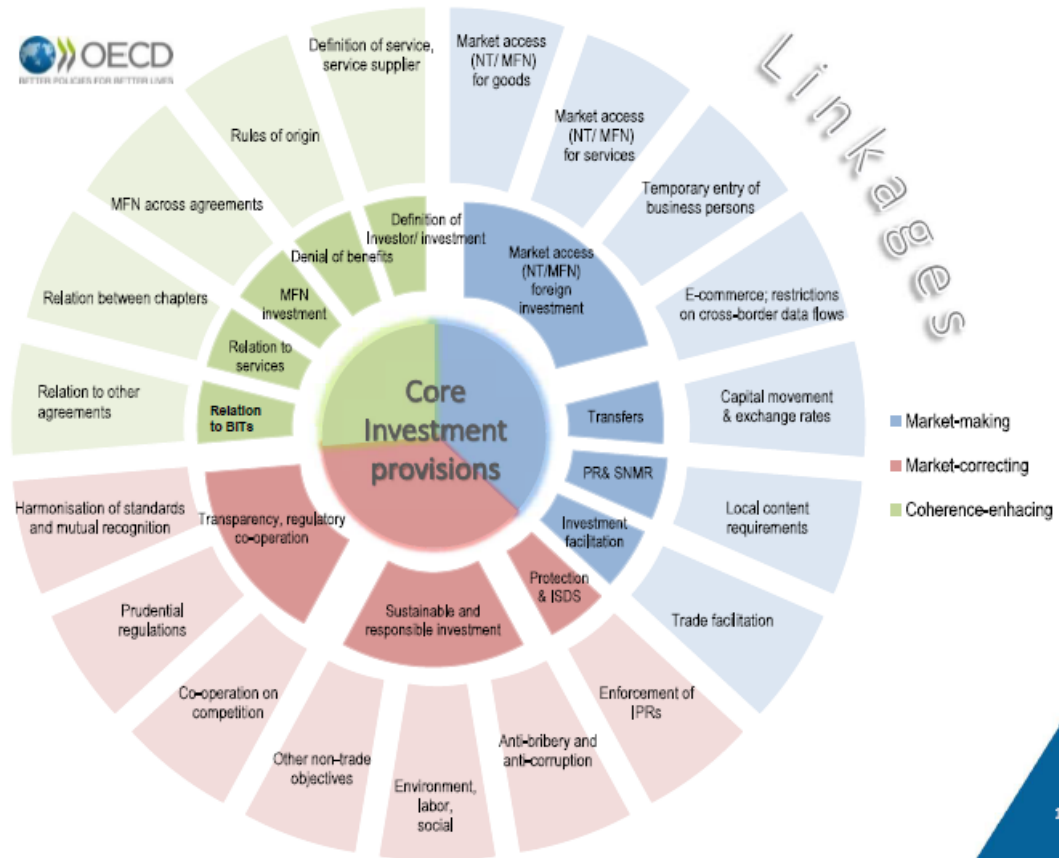
- Objectives:
 - Breaking down 'silos' or policy-specific approach to offer a more transversal mapping of investment-related measures
 - Taking into account firm strategies and firm behaviour
 - Providing insights to policymakers on the interactions between measures that have an impact on the organisation and benefits derived from GVCs
- A new taxonomy of investment-related provisions in RTAs:
 - Core investment provisions and linkages with other policy areas

11

OECD taxonomy of investment-related provisions in RTAs

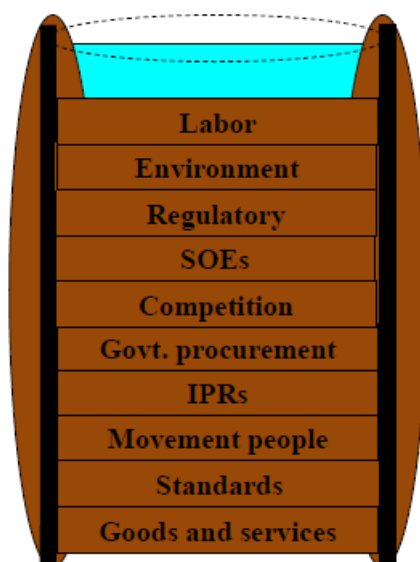
- Distinction between three types of provisions (both for core investment measures and respective linkages):
 - **'Market-making'**
Provisions aimed at eliminating or reducing discriminatory and restrictive measures in order to liberalise markets and avoid distortions in economic transactions
 - **'Market-correcting'**
Provisions aimed at addressing externalities and other market failures, as well as the provision of public goods and institutional frameworks
 - **'Coherence-enhancing'**
Provisions aimed at ensuring clarity and consistency across different measures adopted within RTAs and across other agreements (other RTAs, BITs, DTTs).

12

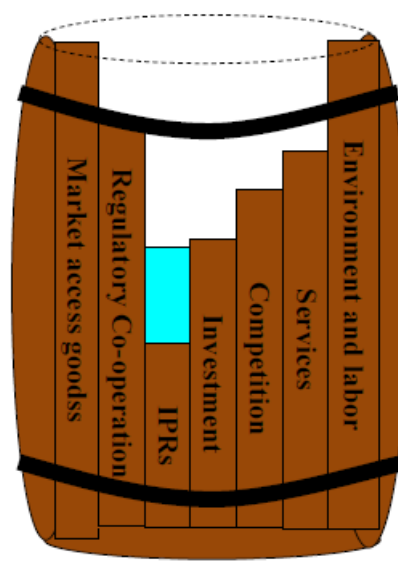


New approach for policy coherence

Additive effects:
Assumption of independence



Complementary effects:
Assumption of inter-dependencies



To conclude: policy questions

- What is the purpose of comprehensive trade and investment agreements?
- What are the new policy tools needed to take into account trade and investment interdependencies in GVCs?
- What does “deep integration” mean?
- Should policies be ‘neutral’ with respect to firm strategies?
- How to address strategic partnerships?

- VII. Modern Corporate Strategies in GVCs: Are Policy Frameworks for Trade and investment Keeping Apace? Sebastian Herreros, U.N. Economic Commission for Latin America and the Caribbean.

APEC Workshop on Trade and Investment Inter-Dependencies in GVCs

Session 3: Modern corporate strategies in GVCs: Are policy frameworks for trade and investment, such as trade and investment agreements, keeping apace?

Viña del Mar, Thursday 9 May 2019

Sebastian Herreros (International Trade and Integration Division, UN ECLAC)

Good afternoon everybody; it is a great honor being with you today. I would like to thank DIRECON, APEC and the OECD for inviting me to participate in this distinguished panel.

As I understand it, this workshop seeks to identify “GVC -friendly” frameworks for APEC members, and the focus of this session is on how those frameworks should adapt to changing business models. That’s a lot to unpack, so I will start by recalling two basic points.

First, we should always bear in mind that APEC members differ widely in their development levels, economic and demographic size, institutional settings, and so on. Some are deeply integrated in global and regional production networks, while others are not. GVCs mean different things for an industrial powerhouse like Korea and for a commodity exporter like Chile. Therefore, I would caution against trying to craft overly prescriptive, “one size fits all” GVC frameworks. Those frameworks must be flexible enough to reflect local capabilities and priorities.

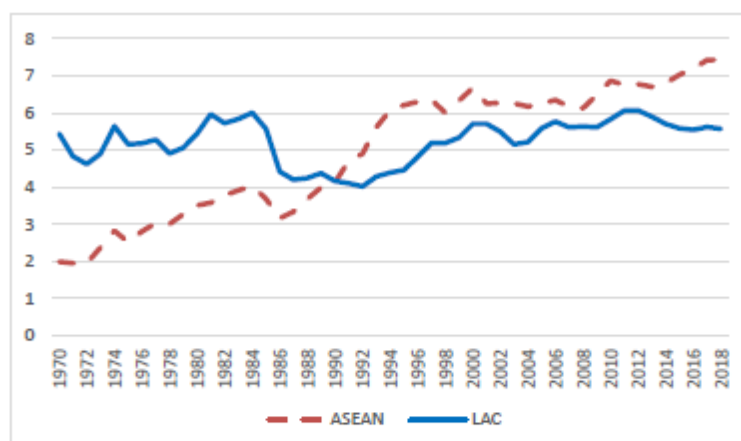
Second, the changes in technology and business models brought about by the Fourth Industrial Revolution are so disruptive that we can only guess what the GVCs of the future will look like. So, when we are discussing the best policy frameworks we are aiming at a moving target, which means we should be very humble in terms of what we can achieve.

I will now focus on the three Latin American members of APEC in the rest of my intervention. Let me show you a few charts to put some context in the discussion.

As you can see here, Latin America has had a disappointing performance in global trade for the last fifty years. In fact, its share of global merchandise exports in 2018 (5.6%) was almost the same it had back in 1970 (5.4%). Compare that with the performance of the 10 members of ASEAN, which together have almost the same population and half the GDP of Latin America¹: between 1970 and 2018, their collective share of world merchandise exports increased by 5.4 percentage points, from 2% to 7.4%.

¹ US\$ 2,77 trillion vs US\$ 5,46 trillion current dollars in 2017.

Figure 1. ASEAN and LAC's share in world merchandise exports, 1970-2018 (%)



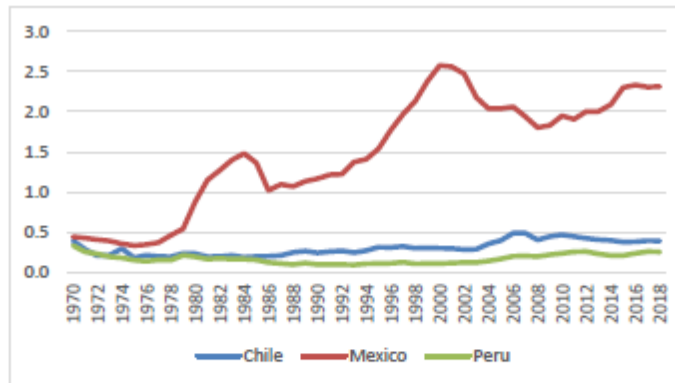
Source: UNCTADSTAT database.

One of the most striking things here is that Latin America's share of global exports hasn't improved despite shifting from an inward-looking model in the 1970s and 1980s to a drastic opening to trade and FDI from the 1990s onwards. Unlike the three "world factories", Latin America also shows persistently low levels of intraregional trade: just 17% of its exports go to the regional market, versus over 60% in the EU and about 50% in North America and the Factory Asia.

Now, let's look at the three Latin American members of APEC. The long-run story here is very different for Chile and Peru than for Mexico. In the case of Chile and Peru, it's a story of stagnation: in 2018 their shares of global exports were equal or even lower than the ones they had in 1970². Compare that with Mexico's performance: over the same period, its share of world merchandise exports grew more than fivefold, from 0.4% to 2.3%. What factors might explain these two very different stories?

² Chile: unchanged at 0.39%; Peru: from 0.33% to 0.25%.

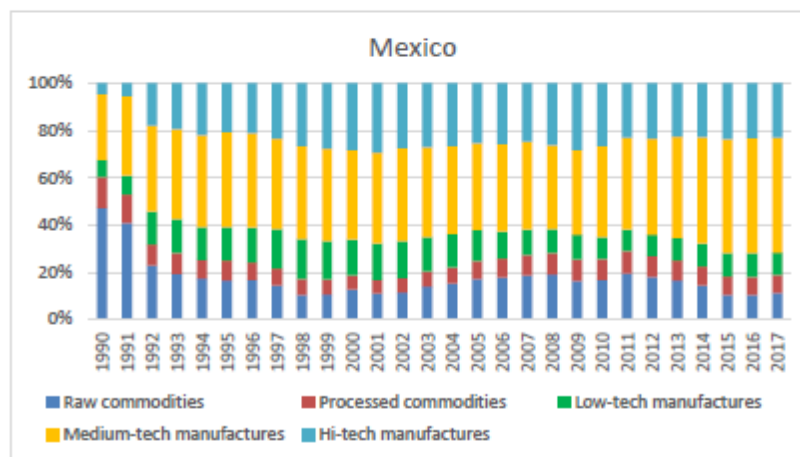
Figure 2. Chile, Mexico and Peru's share in world merchandise exports, 1970-2018 (%)



Source: UNCTADSTAT database.

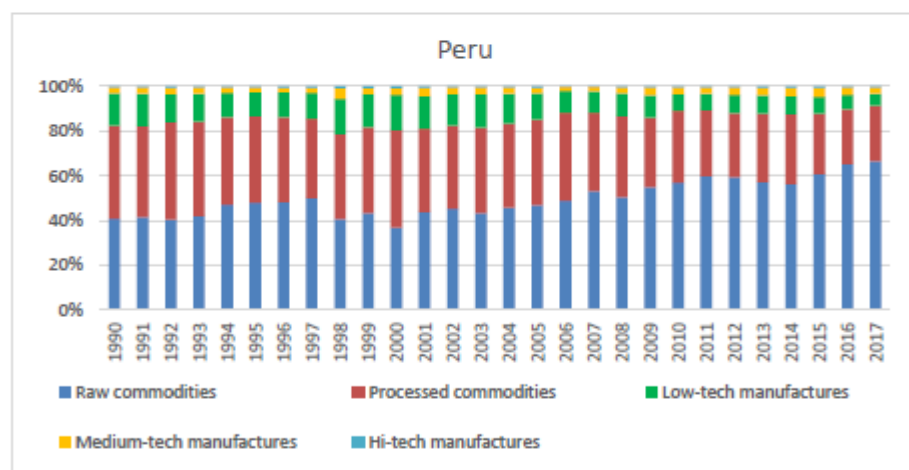
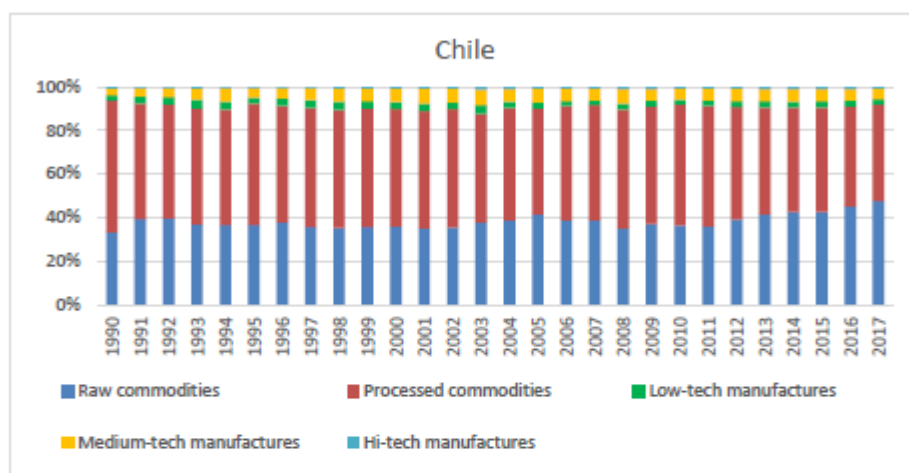
Participation in GVCs (in fact, RVCs) played a key role. Mexico's share in global exports increased after it joined the GATT in 1982, and then again in the 1990s after joining NAFTA. Mexico opened up, attracting a lot of FDI. It stopped being basically an exporter of oil and became deeply linked to US-centered production networks in auto and auto parts, electronics and textiles and clothing. This shows up in the structure of its exports: while in 1990 manufactures accounted for just 40% of total exports, by the end of that decade their share had more than doubled to 83%!! By joining Factory North America, Mexico essentially reinvented itself as an industrial exporter.

Figure 3. Structure of Chilean, Mexican and Peruvian exports by technology intensity, 1990-2017 (%)



What about Chile and Peru? The story is very different. Raw and processed commodities (mostly in mining) make up more than 90% of total exports in both countries. Since 1990, the share of manufactures in Chilean exports has fluctuated between 6% and 12% (now it's 8%), and in the case of Peru it has fallen by

9 percentage points, from 18% to 9%. Same as Mexico before 1990, Chile and Peru have historically depended on the exports of commodities, although to a larger extent. Same as Mexico, they are very open economies and participate in many deep FTAs, with the US, the EU, Japan, and now the TPP-11, among others. In the terminology of this workshop, the three countries have put a lot of effort in implementing “GVC-friendly” frameworks for trade and FDI. So, what explains their different trajectories?



Geography is a crucial part of the answer. Mexico’s turnaround was not only the result of lowering barriers to trade and FDI: sharing a long border with the US was also decisive. By contrast, Chile and Peru are far away from the economies at the center of international production and consumption networks, and thus remain providers of raw materials for those economies. Technically they are part of GVCs, but they remain stuck upstream. This situation is compounded by the lack of an integrated Latin American market for Chilean and Peruvian manufactures.

So, what takeaways can we get for the design of trade and investment frameworks in APEC?

Firstly, having the right policy framework (including deep trade and investment agreements) can play a crucial role in fostering participation in GVCs/RVCs (think of Mexico or Costa Rica), but it is by no means a sufficient condition.

Secondly, the need for flexibility: the industrial value chains in which Mexico participates are very different from the ones in which Chile and Peru participate, which are much more focused on natural resources. This means that the right policy framework is also likely to differ from country to country.

Thirdly, and directly linked to the above, “deep” FTAs that involve a large degree of harmonization towards developed country standards are not necessarily the best way forward for all countries. For example, very high standards of protection for IPRs can make a lot of sense for technologically advanced economies, but probably not so for lagging economies trying to catch up. Actually, adopting “high ambition” frameworks is no guarantee of moving up the GVC ladder.

Fourthly, digitalization and automation will bring new challenges to developing countries that have managed to join GVCs/RVCs, or that are trying to do so. Breakthroughs such as additive manufacturing are labor-saving. As they become more widespread, they may encourage reshoring from developing to developed countries in the coming years. Therefore, increasing preparedness to participate in the digital economy should be an integral part of the GVC policy framework in developing countries.³

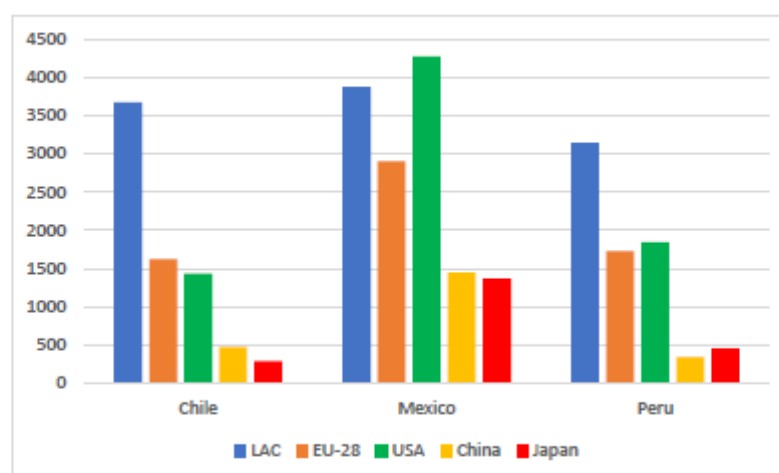
Fifthly, we need to strike a better balance of rights and obligations between foreign investors and host states. To attract FDI and join value chains, developing country governments have often ended up conceding too much policy space in RTAs and BITs. Simply put, all obligations have been for host states and most rights have been for foreign investors. This bargain is being increasingly -and rightly- questioned, both in developed and developing countries. Some key players -notably the EU- are exploring alternative models that merit a proper discussion within APEC, including on reforming the ISDS regime.

Lastly, joining GVCs can be a complement but not a substitute for RVCs. For almost all Latin American countries, intraregional trade has a larger share of manufactures than exports to extraregional markets. It also includes a higher number of products ([look here at Chile's and Peru's figures](#)) and exporting firms. Moreover, RVCs are easier to create and join than GVCs. The three world “factories” have high levels of intraregional trade, unlike Latin America. So, increasing the density of RVCs should remain a top priority for LAC countries, for example through gradual convergence between the Pacific Alliance and MERCOSUR. Stronger RVCs may also increase the chances of LAC countries to join GVCs with partners from Asia or other regions.

Thank you.

³ According to UNCTAD estimates, in 2017 just 4% of the world's 3-D printers were in Latin America and Africa.

Figure 4. Number of products exported by Chile, Mexico and Peru to selected markets, 2018 *
(At HS-6 level)



Source: Comtrade database.
* Data for Peru are from 2017.

- VIII. US-Mexico- Canada Agreement, Likely Impact on the U.S. Economy and Specific Industry Sectors. William M. Powers, U.S. International Trade Commission.



UNITED STATES
INTERNATIONAL TRADE COMMISSION

U.S.-Mexico-Canada Agreement: Likely Impact on the U.S. Economy and Specific Industry Sectors


William M. Powers
U.S. International Trade Commission

Workshop on Trade and Investment Inter-Dependencies in GVCs—
Modern Corporate Strategies in GVCs: Are policy frameworks for
trade and investment, such as trade and investment agreements
keeping apace?

May 9, 2019
Valparaíso, Chile

The views expressed here are solely those of the presenter. This presentation is not meant to represent the views of the USITC or any of its Commissioners.

1



USMCA: A Broad Agreement

It would...

- Establish commitments to open flows of data
- Strengthen automotive ROOs
- Strengthen worker rights
- Reduce the scope of the ISDS mechanism
- Deter certain potential future trade and investment barriers
- Reduce nontariff measures
- Harmonize regulations
- Strengthen IPR protections
- Increase agricultural market access

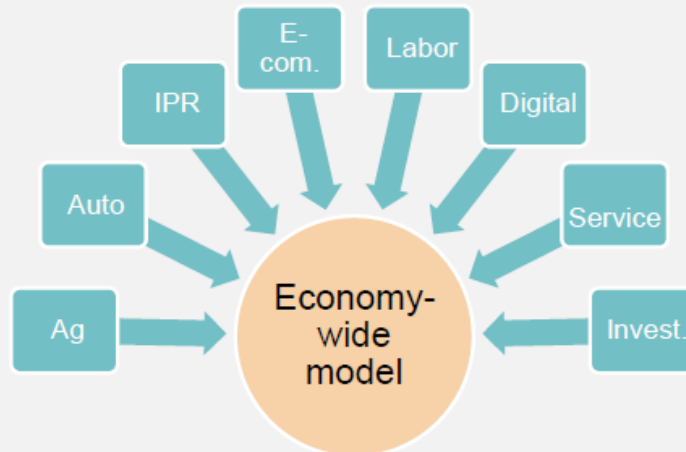
In blue: provisions that would have the most significant effects on the U.S. economy

2



Modeling Approach

- 8 stand-alone, detailed models of industry-specific and crosscutting issues
- Combined into an economy-wide model



3



USMCA would have a positive impact on many aspects of the U.S. economy

- U.S. real GDP would increase by **\$68.2 billion** (0.35%)
- U.S. employment would increase by **176,000 jobs** (0.12%)
- Trade between USMCA partners would grow
- All broad U.S. sectors would grow
 - Manufacturing/mining would grow the most in percentage terms
 - It benefits the most from the auto ROOs' changes
 - Services would grow the most in absolute terms
 - Services benefit the most from the data provisions

4



Estimated Impact of Provisions that Alter Current Policies

- **Auto ROOs** – More restrictive requirements that increase U.S. production of parts, increase prices of vehicles, and decrease consumption of vehicles
- **Labor** – Increased collective bargaining in Mexico that raises Mexican wages, production costs, and incomes
- **Agriculture** – Increased market access for certain products between U.S. and Canada; Canadian export taxes that reduce exports

5



Estimated Impact of Provisions that Alter Current Policies

- **IPR** – Stronger IPR protections that increase trade in medical device and scientific instruments
- **E-commerce** – Higher de minimis thresholds that increase low-value e-commerce shipments
- **Investment (ISDS)** – Reductions in the scope of ISDS reduce that foreign affiliate sales in Mexico

6



Estimated Impact of Provisions that Reduce Policy Uncertainty

- **Data-transfer** – Commitments to free data transfers that increase trade in all industries
- **Services** – Increased market access and nonconforming measure commitments that increase trade in certain services industries
- **Investment (commitments)** – Increased market access and nonconforming measure commitments that increase foreign affiliate sales in certain services industries.

7



International Data Transfer Provisions

- New provisions largely **prohibit restrictions on the cross-border transfer of data**
 - Remove current restrictions in the Canadian banking and insurance industries
 - Reduce uncertainty for other economies and sectors
- Estimated impact equivalent to a trade cost reduction of **0.6 to 4.5** percentage points, depending on the sector
 - Highly impacted sectors include financial services, ground and water transport, construction, and insurance
 - All sectors of the economy (both goods and services) are estimated to experience some benefit

8



E-commerce and De Minimis

- De minimis levels would increase for U.S. express shipments to Canada and Mexico
 - **Canada:** parcels up to **\$30 would be sales tax free**, up to **\$117 would be duty free** (both up from \$15)
 - **Mexico:** parcels up to **\$117 would be duty free** (up from \$50)
- U.S. e-commerce shipments of low value to Canada and Mexico are estimated to increase

Estimated change in:	Canada	Mexico
Price of U.S. e-commerce shipments	–1.4%	–1.1%
Value of U.S. e-commerce shipments (million \$)	+332.3	+91.3

9



Intellectual Property Rights

- **Greater protections** in major IPR categories
 - Trade secrets, biologics data protections, patent and copyright terms, GI review, and enforcement
 - Stakeholders have expressed diverging views (some firms would benefit, others would lose)
- IPR protections estimated to **increase trade** in two IPR-intensive sectors: scientific instruments and medical devices

10



Thank you!

William M. Powers

Chief Economist

U.S. International Trade Commission

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- IX. APEC Workshop on Trade and Investment Interdependencies in GVCs: Checklist of Trade and Investment Policy for Next Generation of GVCs. Ana Novik, Trade and Investment Division, OECD.



APEC Workshop on Trade and Investment Interdependencies in Global Value Chains (GVCs):

Checklist of Trade and Investment Policy for the Next Generation of GVCs

Ana Novik, Head of the Investment Division

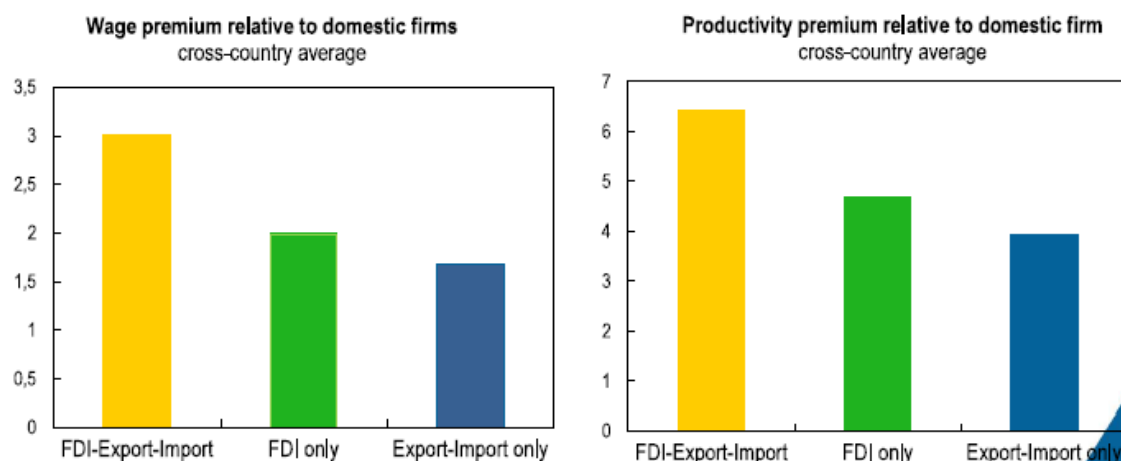
Valparaiso, May 9-10, 2019



CONTEXT

» Trade and FDI working together: why care?

**Firms that can combine trade with foreign ownership
create better jobs and add more value to host economies.**



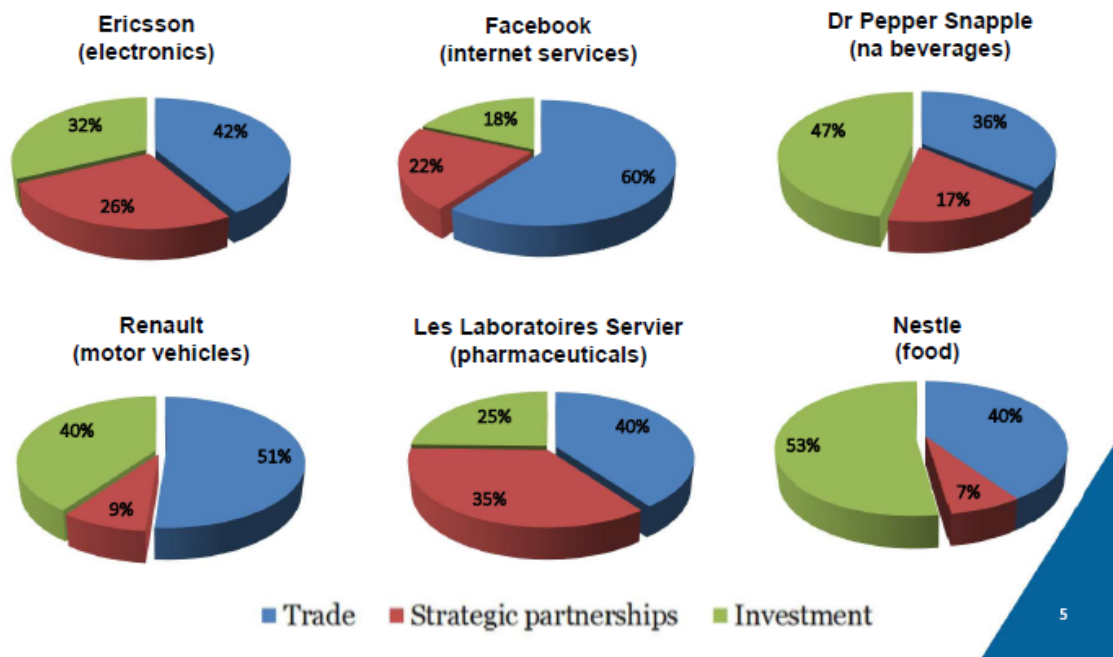
Source: OECD, based on data from World Enterprise Survey

3

Firms combine trade and FDI in GVCs: need policy frameworks that are coherent and comprehensive



1. MNE activities are a combination of trade, investment and strategic partnerships



Findings from new evidence on Firm strategies in GVCs

- **Complex and heterogeneous interlinkages**
 - Trade and investment not a binary choice; variation in business strategies; trade and investment strategy evolve.
- **Rising Importance of Strategic Partnerships**
 - Particular in innovation-driven, knowledge intensive sectors in GVCs
- **New motivation for Investment**
 - Investments in GVCs goes beyond traditional horizontal or vertical motivation ("conglomerate FDI" and "knowledge seeking")

=> Comprehensive approach to trade and investment Policy



TAXONOMY

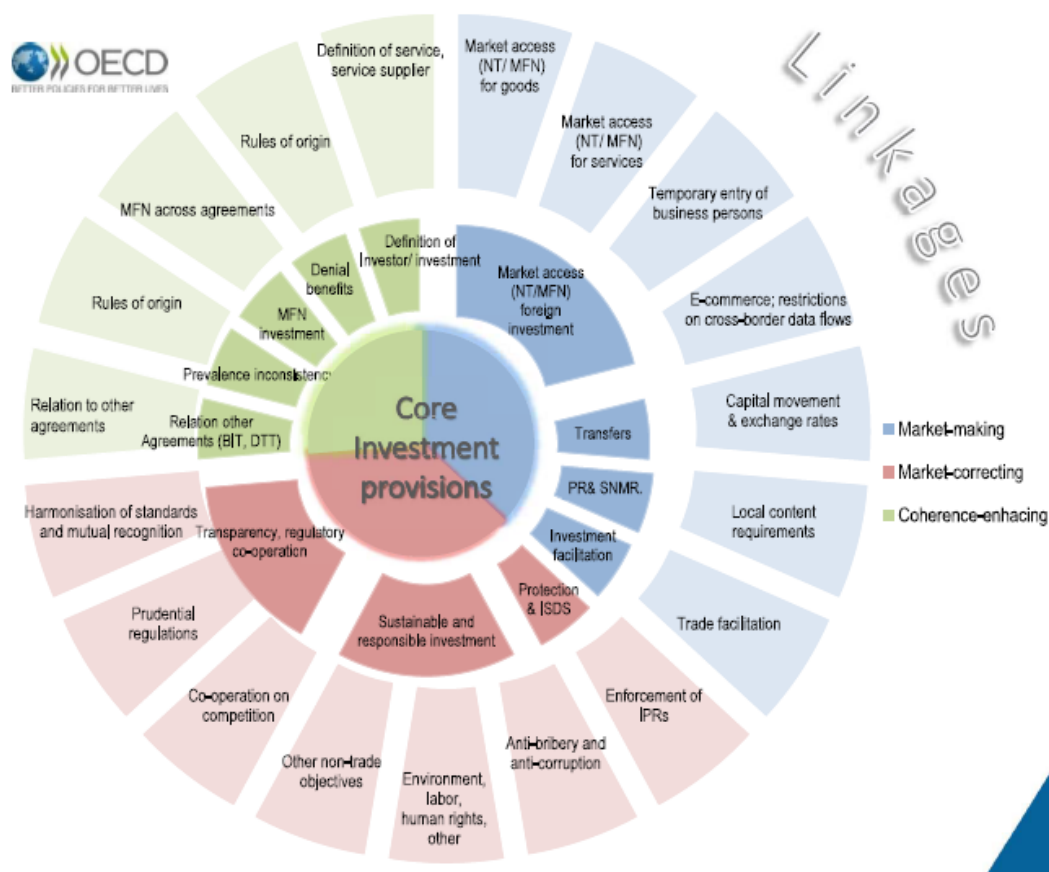
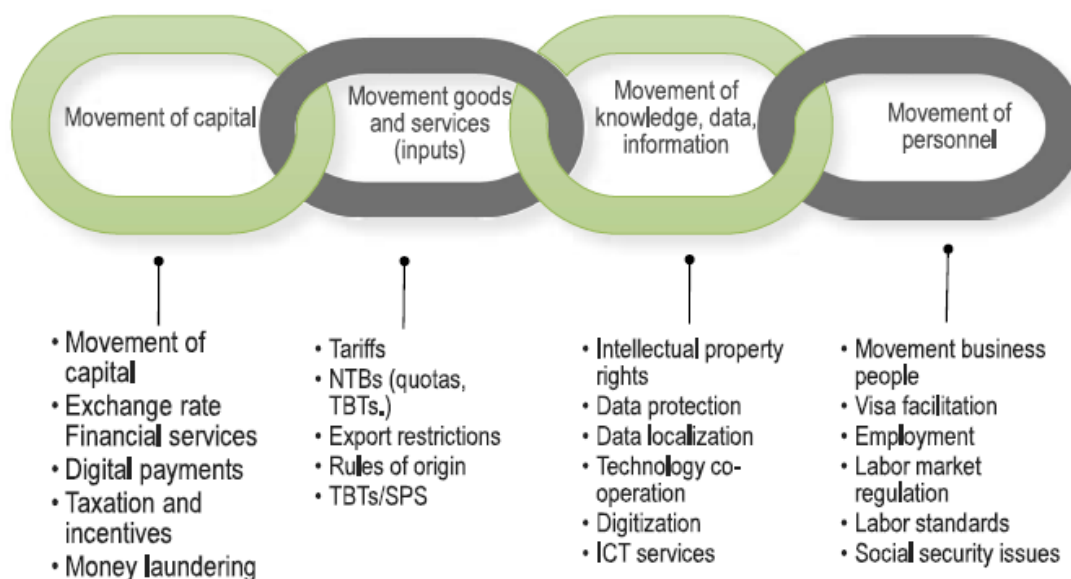


» Why a new taxonomy?

- Comprehensive economic agreements may require greater co-ordination efforts, so that issues are not addressed in isolation.
 - Breaking down 'silo' or policy-specific approach to offer transversal mapping of investment-related measures
- Inter-connections between trade, FDI and other cross-border relationships need to be mapped at the level of the firm
 - Taking into account firm strategies and firm behaviour in GVCs in a dynamic setting (e.g. digital economy)
- Quality of RTAs is often assessed by the breadth and/or depth of "WTO-plus" or "WTO-beyond" measures, rarely by consistence
 - Assessing the level of consistence, across chapters of RTAs and across agreements (other RTAs, BITs, DTT, WTO)

Governance of GVCs calls for stronger linkages across complementary measures

Establishing factories abroad requires the cross-border mobility of various production factors and assets.





CHECKLIST



Before going to the Checklist.....

Please answer two questions in the link:

Go to www.menti.com and use the code **95 86 06**

1.- What are the main barriers faced by companies in Global Value Chains ?

2.- What are the most relevant provisions to strengthen trade and investment linkages

» Feedbacks from Participants

	China	Indones.	JP	MY	Rusia	Thailand	Philip.	US	Vietnam
Context						clarify		Draft (change title)	
Objective usefulness	+	+ (inv non binding pples)	+	+ not prejudge	+	+	+	+ linked with TOR	+ some extent
Structure	+	+ explain questions	+	+ clarify /explain	+	+ clarify questions	+	+ clarify/ change questions	+ answer
Linkages	+ add issues	+ delete local content	+	+	+ add issues (plus general)	+ prioritize	+ capacity building	+ add issues, draft	+ prioritize
Examples	No examples	Examples not only for business	CPTPP example	Examples in many areas	FTAs in general	No examples	No examples	No examples / redraft	No examples

13

» Structure of the Checklist: 1.- Comprehensive approaches to trade and investment policy

- Are agreements covering all the policy issues relevant to **effectively address barriers to the global value chain for 21st century business strategies?**
- Are there specific **trade and investment** provisions that **promote access to** ~~should be included for trade and investment in the context of GVCs?~~ Should all relevant **issues provisions** be covered under the **included in FTAs/RTAs framework?**
- ~~Is the impact of GVCs on societies taken into account (e.g. responsible business conduct, inclusion of women)?~~ **Are there provisions of agreements that address broader societal concerns, such as responsible business conduct and linkage of MNEs with SMEs?**
- Are trade and investment facilitation **also** considered **jointly when designing trade policy?**
- How is the agreement addressing the need for a wide country and industry coverage for trade and investment disciplines in the context of GVCs?

14

» Structure of the Checklist: 2.- Addressing firm heterogeneity

Are provisions liberalising trade and investment ~~neutral with respect to~~ **fit for different** to firms' strategies?

Are investment provisions addressing the different motivations for investment (e.g. greenfield vs. M&A, horizontal vs. vertical FDI, knowledge-seeking FDI, etc.)?

~~Are~~ **Do** agreements covering strategic partnerships, such as licences, franchising, contractual relationship, in addition to trade and investment?

Are there specific provisions ~~for~~ **to encourage** the participation of SMEs in GVCs?

15

» Structure of the Checklist: 3. **Consistence** ~~Coherent~~ trade and investment provisions

- What are the mechanisms in the agreement to ensure the ~~coherence~~ **consistence** between trade and investment provisions **and/or to strengthen the complementarity**?
- ~~How is the overlap between~~ **Do agreements treat** Mode 3 trade in services and investment in services sectors **differently** ~~dealt with~~?
- How is ~~coherence~~ **consistence** achieved with respect to other trade and investment agreements?
- How is ~~coherence~~ **consistence** achieved with respect to domestic regulations (i.e. **particular for services, do you grant "behind the border" regulation preferences**?

16

» Importance of linkages between trade and investment policies: Relevant Provisions

- Market access and national treatment for services
- Temporary entry of business persons
- E-commerce and data flows
- Capital movement and exchange rates
- ~~Local content requirements~~ Localisation requirements
- Trade and investment facilitation
- Enforcement of Intellectual Property Rights
- Anti-bribery and anti-corruption
- ~~Non trade objectives (e.g. —~~ Responsible business conduct:
 - environment, labour, human rights
- Co-operation on competition
- Prudential regulations
- Regulatory co-operation
- Harmonisation and mutual recognition of standards
- Transparency
- Financial Services
- Licenses of Professionals
- State Owned Enterprises

17

» Last Questions.....

1.- Title: **APEC OECD CHECKLIST OF GVC-FRIENDLY PROVISIONS IN TRADE AND INVESTMENT AGREEMENTS ON TRADE AND INVESTMENT POLICY FOR THE NEXT GENERATION OF GVCS**

2.- Should the checklist prioritize which relevant provisions strengthen the linkages?

3.- Should the checklist include examples of relevant provisions and approaches in existing trade and investment agreements?

(capacity building, outward investment to LDC plus relation with other spheres (human resources, infrastructure, innovation etc.)

=> Only a comprehensive approach covering different issues may guarantee an effective participation of the economy in GVC

18



**Thank you for your attention
and comments**

Contact:

Ana Novik (ana.novik@oecd.org)
Head of the Investment Division, DAF



- X. Further Reflections on Modern Elements for GVCs: Trade in Services and Investment.
Sebastian Miroudot, OECD.



Further reflexions on modern elements for GVCs: Trade in services and investment

Sébastien Miroudot
OECD

APEC Workshop on trade and investment interdependencies in GVCs
9-10 May 2019
Valparaiso, Chile



GVCs in the digital era

- New disruptive technologies (AI, 3D printing, nanotechnologies, blockchains, etc.)
 - What is the impact on costs?
 - Interaction with trade costs
 - More cross-border trade?
 - FDI for knowledge acquisition
- Servitisation
 - Trade in goods AND services
 - Lines between goods and services are blurring
 - Modes of supply of services: overlap between trade and investment
- Mass customisation
 - Linked to services and the servitisation
 - Movement of data

De-globalisation or a new kind of globalisation relying less on trade?

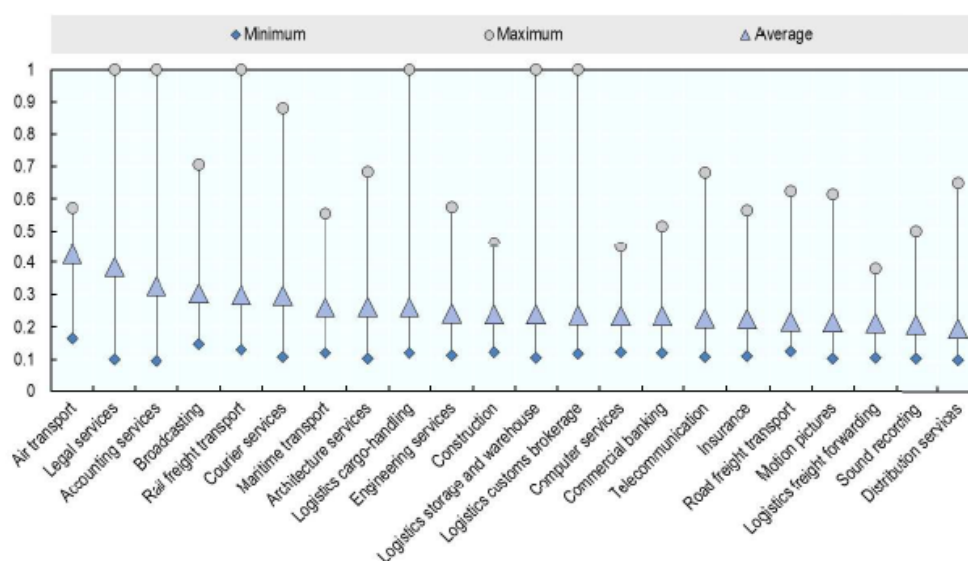
Global import intensity of production (1970-2017)



Source: OECD based on data from TIVA, UN COMTRADE, IMF and World Bank.

3

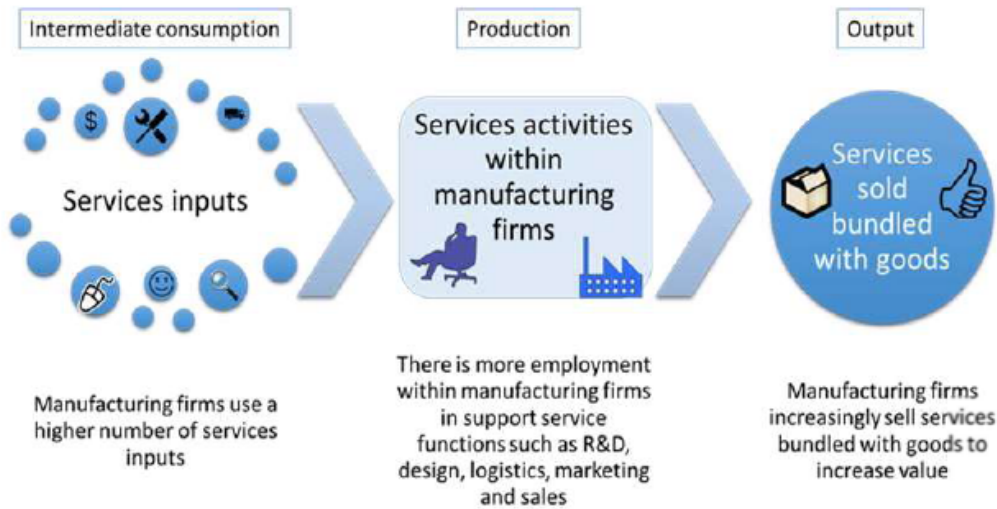
Average, minimum and maximum STRI scores by sector (2018)



Source: OECD STRI database.

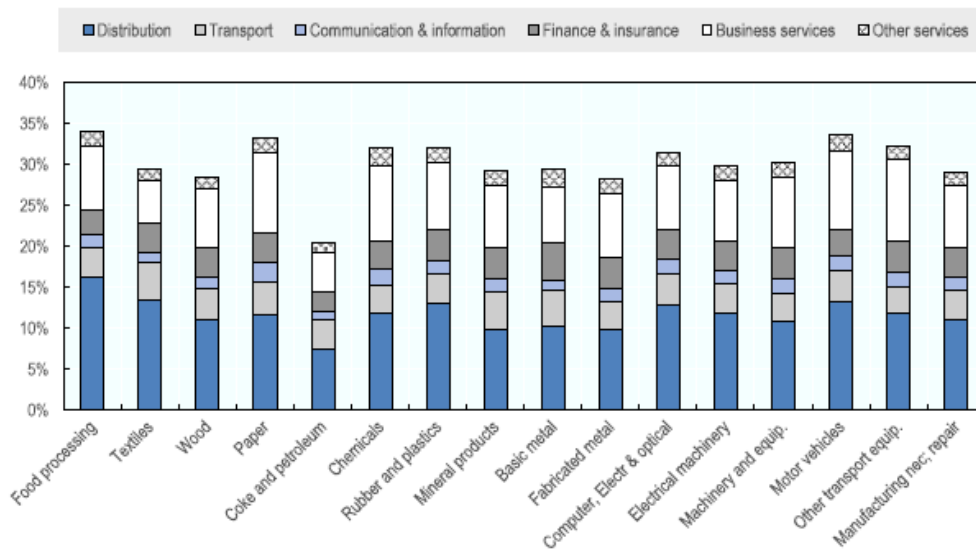
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» Servicification of manufacturing: using, producing and selling services



5

» Services content of manufacturing, by industry and type of service, 2016

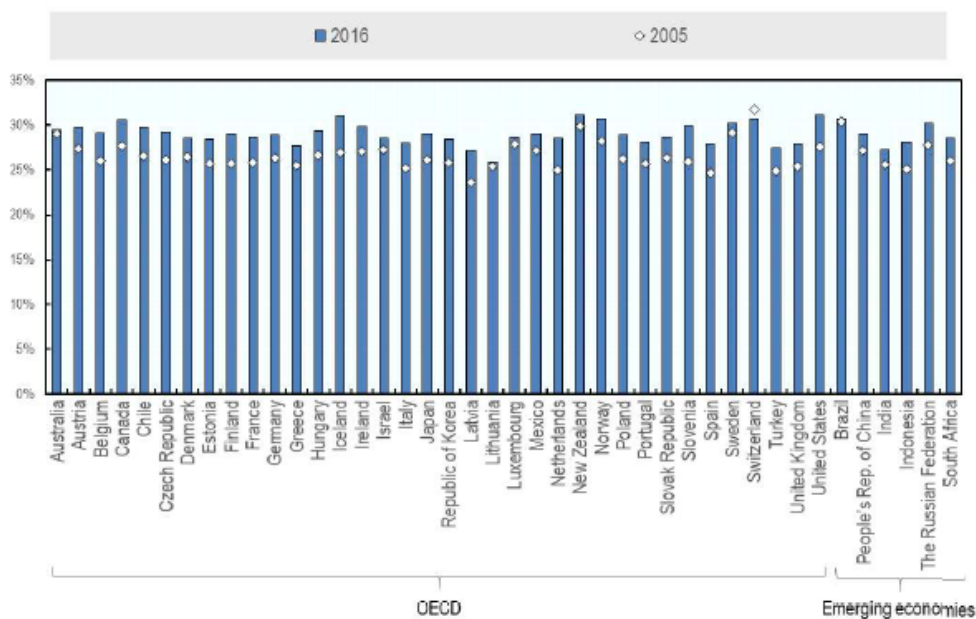


Source: OECD TIVA database.

6

Services inputs: implications in terms of customs valuation

Tariffs paid on services inputs, as a percentage of tariff revenues, 2016 and 2005



7

Blurring lines between goods and services

- Framework for trade statistics and the trade regime



- Business reality



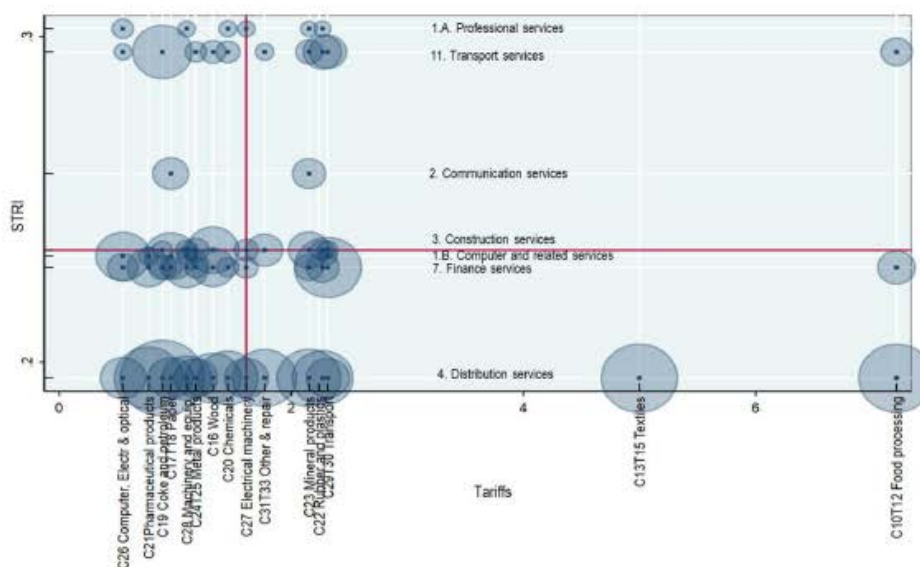
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The product-service continuum



9

Joint trade restrictiveness for goods and services



Source: Cadestin and Miroudot, forthcoming.

10

Not so ‘modern’ but still there: the overlap between trade in services and investment

- At the multilateral level, trade in services includes trade ‘through commercial presence’ (mode 3 in GATS)
 - Overlap with investment
- Regional trade agreements follow different approaches:
 - Some RTAs follow the model of GATS and deal with mode 3 trade in services in a chapter that covers all modes of supply
 - Some disciplines on investment in services may still be found in the investment chapter
 - Or there is no investment chapter (and an establishment chapter for goods)
 - Some RTAs follow the model of NAFTA where the services chapter is only for ‘cross-border trade’ and all disciplines on investment in services sectors are in the investment chapter
 - An alternative found in some EU agreements is to have an establishment chapter that covers mode 3 trade in services but is not a full investment chapter (i.e. it does not include the provisions generally found in BITs on investment protection)

11

Important differences between the GATS-inspired and NAFTA-inspired approach

- The definition of service suppliers and investors
 - Investment chapters generally have a broader asset-based definition of investment
- Dispute settlement
 - Investment chapters generally have an investor-state dispute settlement
- Market access and quantitative restrictions, domestic regulation (‘GATS’ concepts)
 - Different ways for NAFTA-inspired agreements to deal with disciplines beyond national treatment and MFN treatment
- Senior management and board members, performance requirements (‘NAFTA’ concepts)
 - Some disciplines not found in GATS that can be extended to mode 3 trade in services
- GATS-minus elements in some NAFTA-inspired RTAs:
 - Exclusion of subsidies
 - Exclusion of barriers at the sub-federal or sub-national level
 - But can also be found in GATS-inspired RTAs
- However, the level of investment protection does not depend on the architecture of agreements

12

» And... the scheduling of commitments

- GATS approach = Positive list
- NAFTA approach = Negative list
- But RTAs can mix the two:
 - Different approach for each partner (e.g. People's Republic of China-Australia)
 - Different scheduling for investment/cross-border trade in services or market access/national treatment
- In theory, the same level of liberalisation can be achieved with a positive and a negative list
- It is also what empirical studies suggest
- But the negative list approach is still seen as more favourable to trade liberalisation
 - Ratchet mechanism
 - New sectors (provided that they are not excluded through a reservation) => important with the digital economy

13

» Are legal bindings in services (and investment) RTAs useful?

- The literature suggests that there is no 'genuine' liberalisation in RTAs but additional commitments that remove the 'water' in GATS commitments
- OECD work suggests that services commitments have a positive impact on trade:
 - For professional services, an increase in trade of 8% is found when going from the average level of commitments in GATS to the average level of commitments in RTAs
 - Moving to a RTA fully binding the existing regime with a ratchet provision implies a 11% increase
 - Full commitments with no restrictions bring the increase to 20%
 - The same exercise for telecoms services indicates an increase of 12% and for financial services 10% when going from the average in GATS to the average commitments observed in RTAs

14

Liberalising trade in services?

- Not a single round of multilateral trade liberalisation for services concluded after GATS
 - Request-offer approach in the Doha Round
 - TISA
- RTAs are GATS+ but still legal bindings
 - Often binding the existing regime, very few preferences. Water in RTAs.
 - Additional disciplines (domestic regulation)
- The issue often pointed out: trade negotiators versus regulators
 - Negotiations between regulators?
 - But are regulators less in favour of open trade?

15

Concluding remarks


- A uniform or more consistent trade regime between goods and services?
- Some changes in customs valuation or rules of origin to account for the 'servicification'?
- With the shift to services, is trade becoming more restrictive?
- New initiatives to liberalise trade in services?
 - ITA for services?
 - Regulators rather than trade policymakers?

16

- XI. Digital Economy and GVCs. Nicolas Schubert, Services and Investment Division, Undersecretariat of International Economic Affairs, Chile.



{**Digital Economy**: Why are we doing this?}

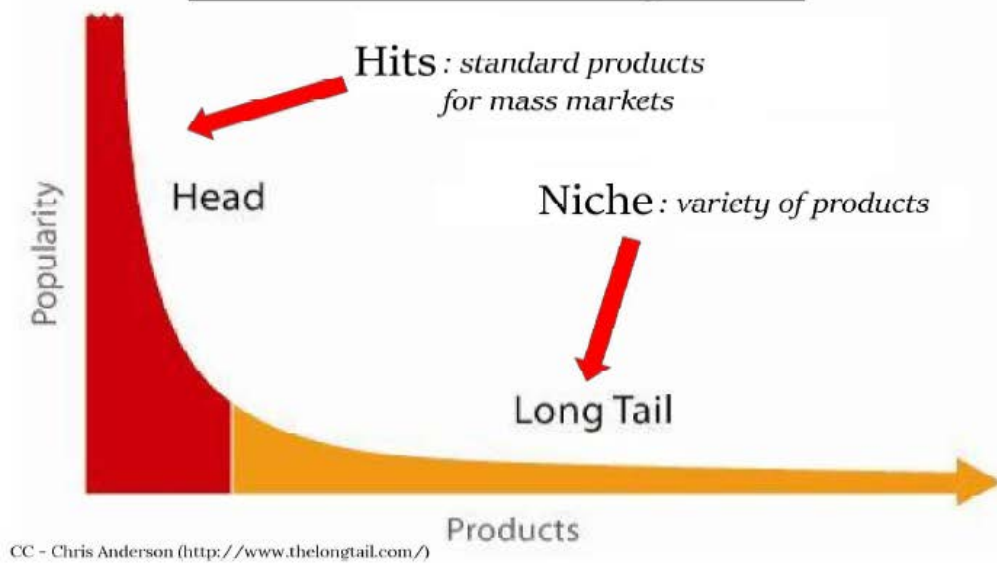
- 
- Internet has changed the way we **communicate**, **access information**, **knowledge** and **culture**
 - Has modified **industrial and economic structures**



Characteristics of the Internet and Digital Economy

- Decreasing average production costs
- Low reproduction, storage and distribution costs
- Modest capital requirements
- Wide range of products

The new marketplace



So?

More

opportunities!!



The technical side of things

7



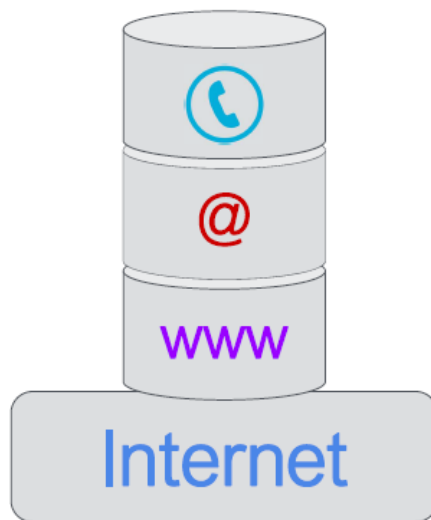
Internet is not
a cloud



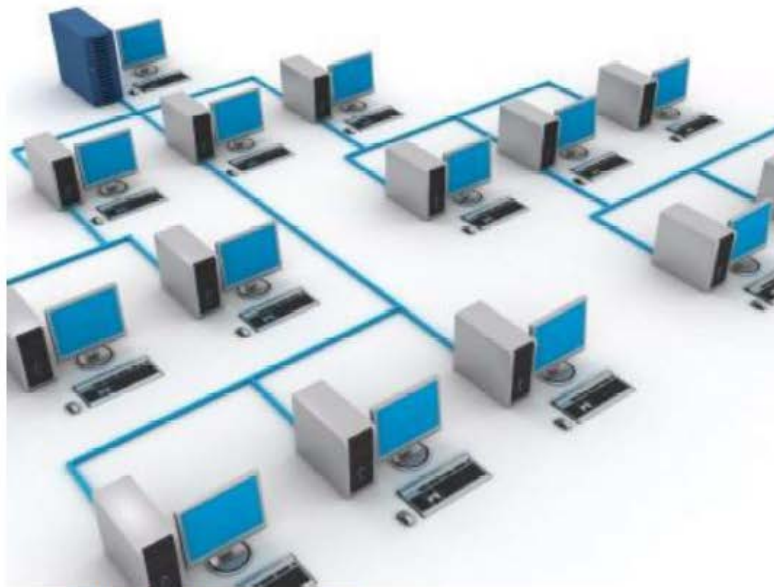
Internet

≠

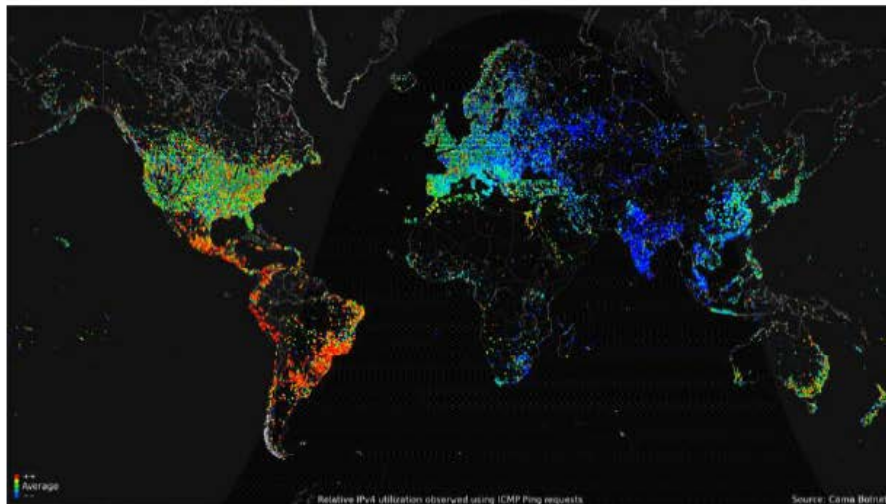
WWW



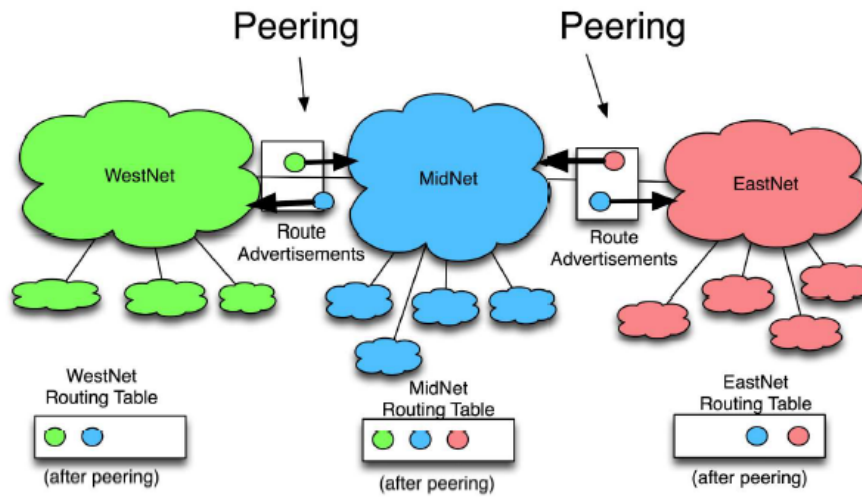
Internet is a global resource and a platform



¿What is the Internet?



Dinamic group of public & private
networks

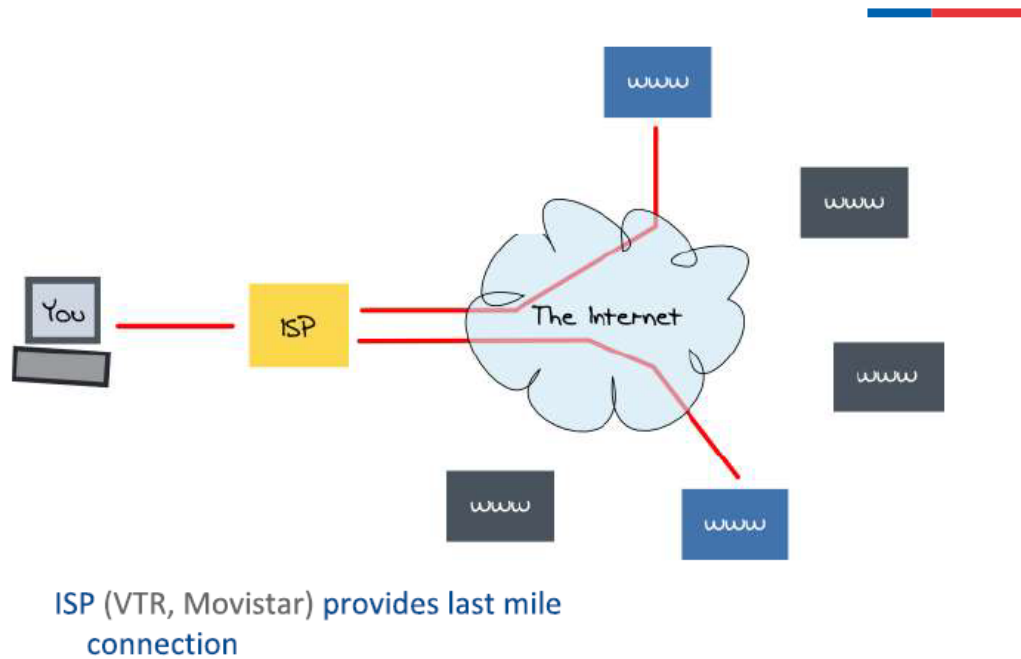


Peering: voluntary interconnection of networks to Exchange traffic

How do different networks communicate?



Transmission Control Protocol / Internet Protocol



Implications for GVCs

- Coordination costs are greatly reduced
- New developments (3D printing, IA and Big Data, new competitors, R&D)
- Digital products (Dicotomy of goods and services is no longer useful (SaaS); Data Analysis; Tech platforms change the way people interact; Supporting industries)
- Enabling global platform as catalyzer for innovation and creativity

Chile's recent FTAs

2 layers (chapters):

1.- Infrastructure
(Telecommunications)

2.- Contents and applications
(E-commerce/Digital Trade)

1. Telecommunications Chapter

- **Platform for multiple uses**, present and future, by serving as an innovation platform, and socially, by facilitating the widest variety of interactions between people
- Ensuring **competition**



2. E-commerce Chapter

- Respecting the technical architecture
- Non-discrimination of digital products



Thanks

- XII. Towards Progressive and Inclusive GVC Policy: New Zealand “Trade For all Strategy’s.
John Ballingall, SENSE Partners, New Zealand.



Towards progressive and inclusive GVC policies

New Zealand’s emerging ‘Trade for all’ strategy

John Ballingall

Presentation to Workshop on Trade and Investment Inter-Dependencies in Global Value Chains (GVCs): Are Policy Frameworks for Trade and Investment, such as Trade and Investment Agreements Keeping Apace?

9-10 May 2019

Viña del Mar, Valparaíso, Chile

 **SENSE PARTNERS**
DATA LOGIC ACTION




What do you
know New
Zealand for?





3



And hopefully as a pioneer of trade liberalisation...

4

Our collective free trade faith was shaken by (CP)TPP...



5

THE TPPA:
LABOUR'S BOTTOM LINES

WE WILL NOT SUPPORT THE TPPA IF THESE PRINCIPLES ARE NOT UPHELD:

- ❑ PHARMAC MUST BE PROTECTED
- ❑ CORPORATIONS CANNOT SUCCESSFULLY SUE THE GOVERNMENT FOR REGULATING IN THE PUBLIC INTEREST
- ❑ NEW ZEALAND MAINTAINS THE RIGHT TO RESTRICT SALES OF LAND AND HOUSING TO NON-RESIDENT FOREIGN BUYERS
- ❑ THE TREATY OF WAITANGI MUST BE UPHELD
- ❑ MEANINGFUL GAINS ARE MADE FOR OUR FARMERS IN TARIFF REDUCTIONS AND MARKET ACCESS

 Authorised by Andrew Little MP, National Business Strategist **Labour**

We stand for
democracy.

That's why we
can't support
the TPPA.

Agree? **SHARE**

 **Labour**

Authorised by Andrew Little MP, National Business Strategist



...as was our long-held bipartisan approach to trade policy

6



7



"We want to hear Kiwis' views on how trade policy can contribute to sustainable, progressive and inclusive economic development for the benefit of all of us."

Source: <https://www.beehive.govt.nz/release/progressive-and-inclusive-trade-all-agenda-launched> 8



Māori outreach has also been extensive



Have your say at www.haveyoursay.mfat.govt.nz or send a submission to tradeforall@mfat.govt.nz

- What areas of opportunity do you see for Māori businesses?
- Are there specific initiatives relating to the Māori economy you would like to see reflected in New Zealand's trade policy?
- What do you think are areas of focus for connections between Māori and other indigenous groups?

Indigenous intellectual property and taonga protection	<div style="width: 22px;"></div>	22
Global indigenous economy (GIE)	<div style="width: 21px;"></div>	21
Agriculture and farming	<div style="width: 17px;"></div>	17
Greater involvement of Māori in trade negotiations	<div style="width: 12px;"></div>	12
Wai 262 reflection in trade	<div style="width: 10px;"></div>	10

Source: <https://www.mfat.govt.nz/assets/Uploads/Trade-for-All-Summary-of-Feedback.pdf> 10

CHAPTER 19
COOPERATION ON INDIGENOUS ISSUES

Article 1
Objectives

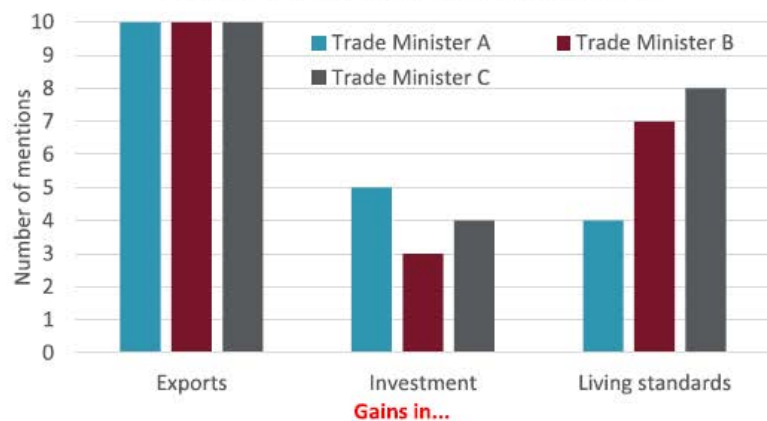
The objectives of this Chapter are to:

- (a) seek to enhance cultural and people-to-people contacts between the indigenous peoples in the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu and New Zealand's Māori; and
- (b) expand and facilitate trade and economic relations between the indigenous peoples in the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu and New Zealand's Māori.

11



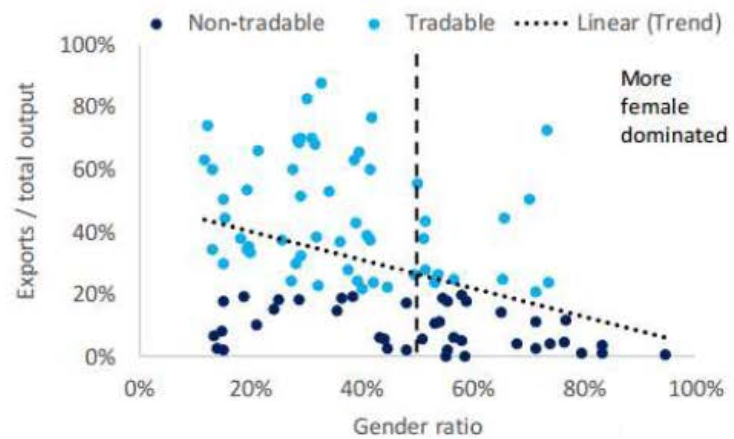
Mentions of gains from trade and GVCs in last 10 media releases by successive Trade Ministers



The trade & GVC narrative is slowly changing...

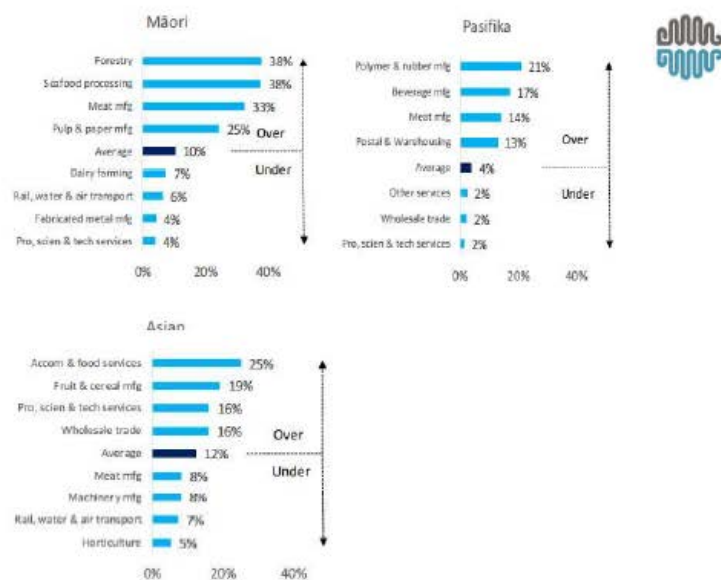
12

Women are under-represented in New Zealand's tradable sectors



Source: NZIER. 2018. 'Distributional aspects of New Zealand's tradable and non-tradable sectors'. 13

Ethnic participation in GVCs varies considerably



Source: NZIER. 2018. 'Distributional aspects of New Zealand's tradable and non-tradable sectors'. 14

Remote communities
are well-
engaged in
GVCs



Source: NZIER. 2018. 'Distributional aspects of New Zealand's tradable and non-tradable sectors'. 15

How inclusive are your GVC policies?

Inclusion pillar	Description	Weight	Score/5 for NZ
Domestic consensus	Degree of societal acceptance by W/IP/RC about trade policy	20%	3
Clear, beneficial and deliverable objectives	Trade policy delivers tangible economic, environmental and social outcomes for W/IP/RC	25%	4
Transparency and accountability	Trade officials openly share information with, and learn from, W/IP/RC stakeholders	15%	3
Fairness	Trade policy embraces different types of organizational scale, NGOs, consumers	10%	3
Future focus	Trade policy considers implications for W/IP/RC of digital economy, new ways of production, AI, etc.	15%	4
Implementation	Clear work programme published on W/IP/RC issues; outcomes measured, monitored, reported	15%	2
		100%	3.25

Note: W/IP/RC = Women, indigenous people and remote communities

Source: Framework based on Henig, D. 2018. 'Assessing UK Trade Policy Readiness' ECIPE Policy Brief 4/2018.

16

Key lessons on GVC inclusiveness from New Zealand



Support for trade and GVC policies is fragile – it needs continual nurturing



Empirical evidence on the distribution of costs and benefits can cut through the rhetoric



Consultation needs to be seen as an investment, not a transaction cost



What Ministers say matters – enough with the Mercantilism already!

He aha te mea nui o te ao. He tāngata, he tāngata, he tāngata

What is the most important thing in the world? It is people, it is people, it is people



SENSE PARTNERS
DATA LOGIC ACTION

- XIII. Protectionism, GVCs and Industrial Location. Fernando Parro, John Hopkins University and NBER.

Protectionism, GVCs and Industrial Location

APEC Workshop On Trade and Investment Inter-Dependencies in GVCs

Fernando Parro
Johns Hopkins University and NBER

Santiago
May 2019

Introduction

- More than two-third of world's trade occurs through global value chains (GVCs)
 - ▶ This phenomenon has relocated industries and labor across space
- GVC-related trade has translated into average welfare gains
 - ▶ Fueled by reductions in transportation and communication costs and declining trade barriers
- But, at the same time, it has distributional consequences
 - ▶ For instance, large decline in manufacturing jobs in the United States, in part, due to China's trade expansion
- In part, this has been a driver in the backlash against globalization and the rise of protectionism

Introduction

As a result, protectionism has materialized in countries like the United States

- Over the course of 2018, the Trump administration imposed import tariffs ranging between 10% and 50%.
 - ▶ In response, U.S. trading partners, especially China, have retaliated with tariffs averaging 16%

What are its consequences?

- Can protectionism bring industries back home?
- Is the country better off? Does it have distributional consequences?
- How long it takes for production to relocate?

In “The Quantitative Effects of Trade Policy on Industrial and Labor Location”, (joint with Lorenzo Caliendo, Yale) we provide a quantitative framework to study these and other questions

Protectionism and industrial location

Reasons for trade protectionism:

- Terms of trade manipulation (neoclassical trade theory)
- Political economy (Grossman and Helpman, 1994)
- Trade protectionism brings industries back home
 - ▶ Many historical examples on the latter reason (Baldwin et al. 2003)

Relationship between protectionism and industrial location are found in the new economic geography theory

- Protectionism relocates firms back and the price index could fall, provided this relocation effect is large enough
- Theoretical possibility in most of previous work (Venables 1987, Roger and Martin 1995, Baldwin et al 2003, among others)

Quantitative implications could be different:

- Location comparative advantage, how costly is to relocate firms, how costly is to relocate labor, capital supply, among other mechanisms

▶ Examples

Protectionism and industrial location

Economic mechanisms that shape the impact of protectionism

- Profits across locations influenced by demand, local factor prices, and **trade policy**
- Changes in economic conditions can create incentives to relocate production
 - ▶ Relocation of production is costly, easier for firms to locate in places with capital structures abundance
- Locations can have incentives to build structures
- Workers must decide where to supply labor
 - ▶ Based on future real wages, mobility frictions, and preferences
 - ▶ Workers prefer to be near firms but relocation can take time
- Location comparative advantage
- Input-output linkages

Protectionism and industrial location

We build a quantitative framework with all these ingredients

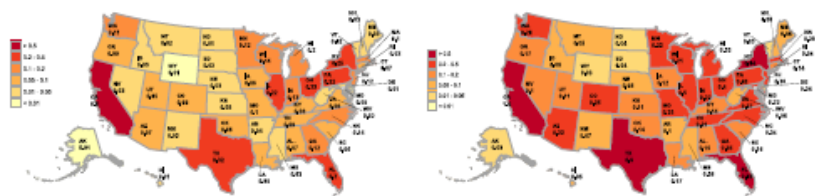
- Use the model to study the effects of increased unilateral protectionism in the U.S, but mechanisms are applicable to EMEs
 - ▶ Model taken to 38 countries, 50 U.S. states, multiple industries
 - ▶ Data on trade policy, international trade, internal trade, firms demographic
- We study the effects of a unilateral increase in U.S. manufacturing tariffs to 25% from an average initial level of about 3.5% (also did increases to 10% and 15%)

Firms across space: selected countries

Mass of firms N_t^{ij} (2015, % of total)				
	Manufacturing	Construction	Wholesale	Services
United States	4.67%	8.51%	7.30%	11.96%
China	6.51%	1.19%	0.97%	2.52%
France	4.34%	9.13%	4.70%	7.03%
Brazil	5.55%	1.75%	9.12%	2.43%
Germany	4.11%	5.7%	3.38%	5.51%
Spain	3.15%	6.62%	4.46%	5.18%

► examples

Firms across space in the U.S. (2015)



(a) Manufacturing

(b) Services

► other sectors

Effects of trade protectionism on industrial location

Take aways:

- Positive location effect of trade protectionism, but relocation of labor and production takes time
- The magnitude of this location effect depend on how well-prepared they are to receive industries
 - ▶ Mobility of labor across industries and regions
 - ▶ Capital structures
 - ▶ Location comparative advantage
- Still, positive effects of bringing industries back home could not offset the increased in cost of purchasing intermediate and final goods from other countries
- There could be adverse distributional consequences

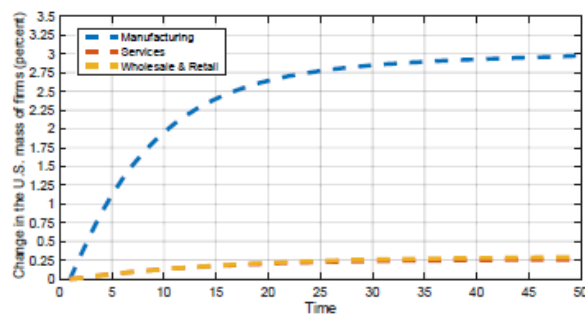
▶ Baseline ▶ US firms evolution ▶ short run ▶ long run ▶ other countries ▶ prices

Conclusion

- GVCs bring aggregate welfare gains
 - ▶ Allows for specialization, save on trade costs etc.
- GVCs has distributional consequences
- Protectionism is not the best tool to redistribute the gains from trade
- Help brings industries back, but does not guarantee an increase in the life standard
 - ▶ Increases in prices due to higher barriers may more than offset the positive effects of increasing “local” firms
 - ▶ Has distributional consequences itself
- Countries must attract firms by strengthening comparative advantages
- Adverse distributional consequences from GVCs must be addressed with other tools
 - ▶ For instance, trade adjustment programs

Gracias!

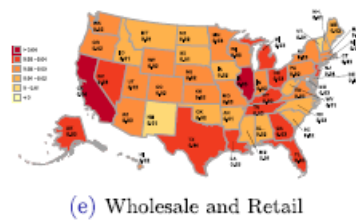
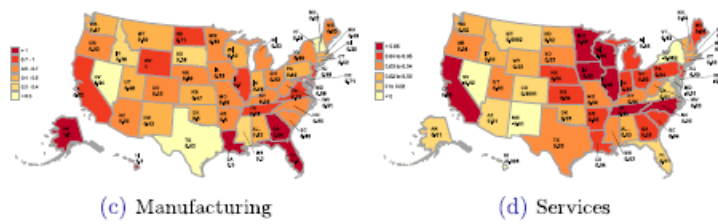
Impact on U.S. firms



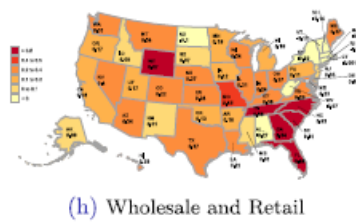
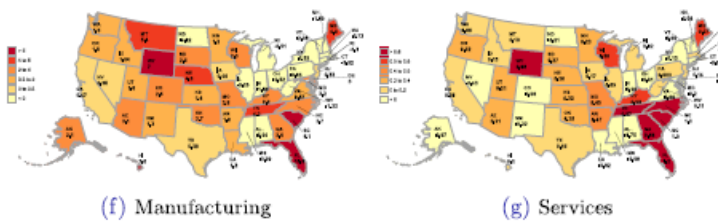
- U.S. mass of manufacturing firms increases by 0.61% ($\approx 1,680$) in the short run and by 3.2% ($\approx 8,700$) in the long run
- U.S. mass of services firms increases by 0.03% ($\approx 1,460$) in the short run and by 0.26% ($\approx 11,900$) in the long run
- U.S. mass of whole sale and retail firms increases by 0.07% (≈ 990) in the short run and by 0.39% ($\approx 5,300$) in the long run

[Back](#)

Short-run effects on U.S. firms

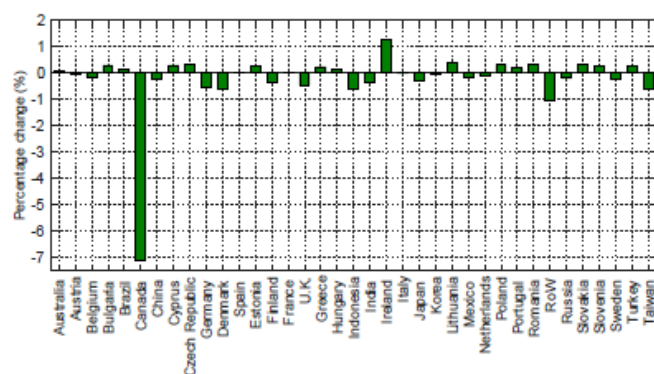


Long-run effects on U.S. firms



[Back](#)

Change in the mass of firms across countries in the LR



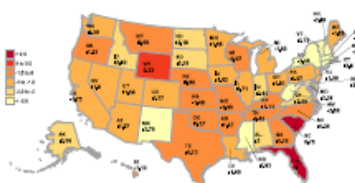
(i) Manufacturing

[► Back](#)

Prices and real wages



(j) Price index



(k) Real wages

[► Back](#)

Introduction

*“Every **decision on trade**, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families. We must protect our borders from the ravages of other countries making our products, **stealing our companies**, and destroying our jobs. **Protection will lead to great prosperity and strength**”*

President Donald Trump’s Inaugural Speech, January 2017

- In the 18th century, the U.S. President Hamilton advocated for high tariffs as a means to shift industrial production from Great Britain back to the U.S.
- The former U.S. presidential candidate Ross Perot argued against U.S.- Mexico free trade, stating that it would result in jobs going south.

► Back

Firms across space: Example

Entry rate $\varphi_t^{Oj,nj}$ (2015)				
	Manufacturing	Construction	Wholesale	Services
United States	4.25%	10.71%	6.73%	11.78%
China	6.06%	1.31%	0.84%	2.89%
France	4.23%	7.25%	4.70%	6.66%
Germany	2.10%	3.26%	2.59%	3.93%
Spain	2.72%	5.41%	4.72%	4.90%

► Back

Firms across space: Example

Continuation rate φ_t^{nj} (2015)				
	Manufacturing	Construction	Wholesale	Services
United States	93.15%	86.32%	95.58%	97.61%
China	93.31%	92.81%	92.81%	91.78%
France	95.63%	94.61%	94.49%	94.87%
Germany	96.04%	93.07%	92.41%	92.16%
Spain	93.33%	90.74%	90.74%	92.19%

• Back

Firms across space in the U.S. (2015)

/Users/fparro/Dropbox/CP16/Code_data/

(l)

Construction

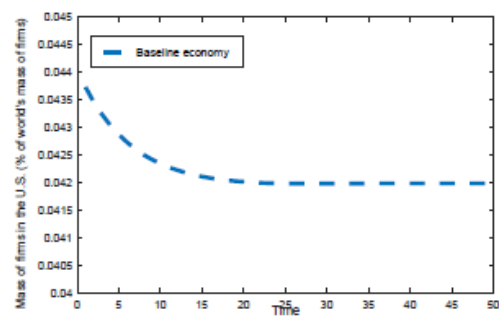
/Users/fparro/Dropbox/CP16/Code_data/

(m)

Wholesale
and Retail

• Back

Baseline economy: U.S. manufacturing firms



[Back](#)

National policy with regard to GVCs



WORLD BANK GROUP
Trade & Competitiveness

With major support on SEZs and other matters from Thomas Farole, Douglas Zhihua Zeng, Michael Wong, Abhishev Saurav, Vicky Chemutai, and Maria Filipa Seara a Pereira. All errors in fact and interpretation are my own.

Michael J. Ferrantino
APEC SOM 2
Viña del Mar, Chile
May 9, 2019

How can government policy influence the formation and development of GVCs, for good or for ill?

Lowering trade costs

- Tariffs and non-tariff barriers
- Border procedures
(cost, time, predictability)
- Logistics and connectivity
- In GVCs, trade costs can compound along the value chain

Lowering barriers to trade in services

- Especially 3PLs, express delivery, retailing, business services

Domestic subsidies can reshape GVCs (often in a zero-sum way)

Policies about inbound FDI

Enforcement of contracts/rule of law

- Especially important for services linkages
- Complementary with **skills development**

Special economic zones: Killer app or boondoggle?

Much tariff liberalization has been unilateral

Worldwide, MFN tariffs fell about one-third from 2001 to 2013 (Bureau, Guimbard and Jean 2013)

Over half of that was unilateral action on the part of countries – not RTAs or WTO commitments

Large unilateral cuts in the 21st century have included

Libya – replaced almost all tariffs (average 25.9 percent) with an across-the board 4 percent customs processing fee

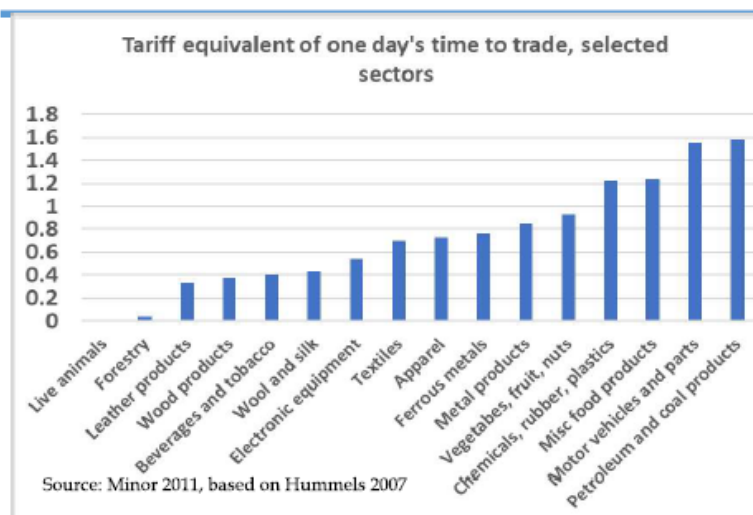
India, Morocco, Nigeria, Peru, and Tunisia – between 10 and 20 percentage points ad valorem

Bangladesh, Kenya, and Morocco – between 5 and 10 percentage points ad valorem

There is scope for a lot more of this – as well as regional and multilateral action

3

Time is money



The cost of time delays is generally greater for complex (GVC-ish) products than for simple primary products. Until very recently, most of SSA has not participated in vehicles, electronics, or even apparel for export.

The remotest countries with the worst time delays export things like timber (Chad) or uranium ore (Niger) which are not time sensitive, and are outside of GVCs.

National interventions:

Improving customs and border procedures

Breaking up cartels in road transport

Improving port infrastructure and governance

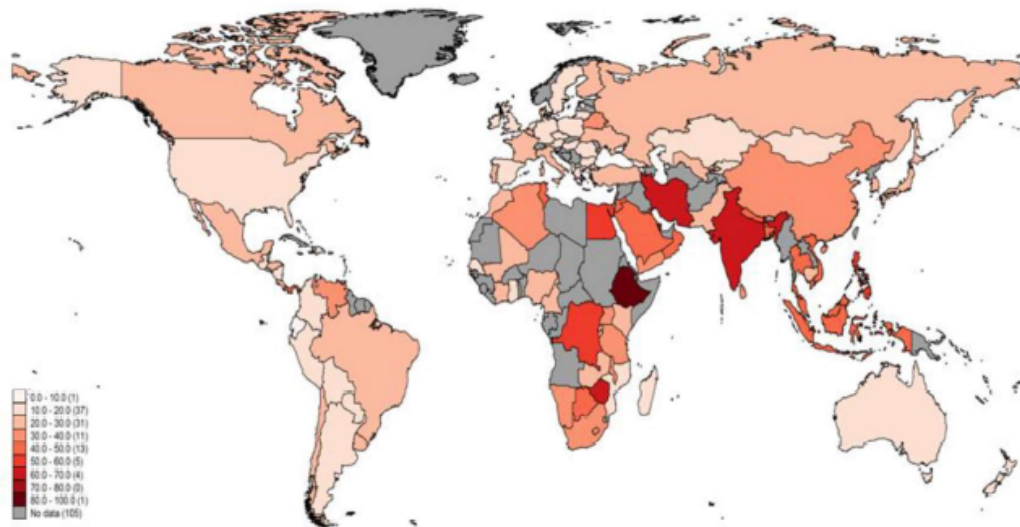
Some of these may be multilateral issues:

Anticompetitive conduct in shipping and air markets

Low connectivity in remoter countries

4

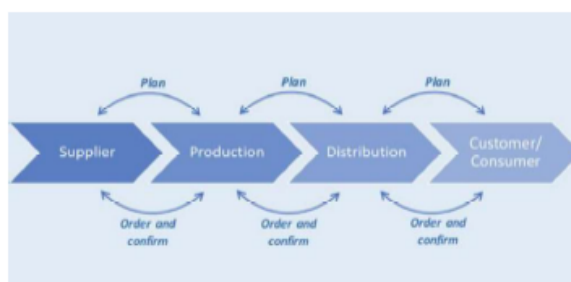
Services trade remains restricted in a number of countries (2008-10)



Key services for GVCs: **third-party logistics (3PL), express delivery, retailing** (often the lead firm), **business services, telecom services**

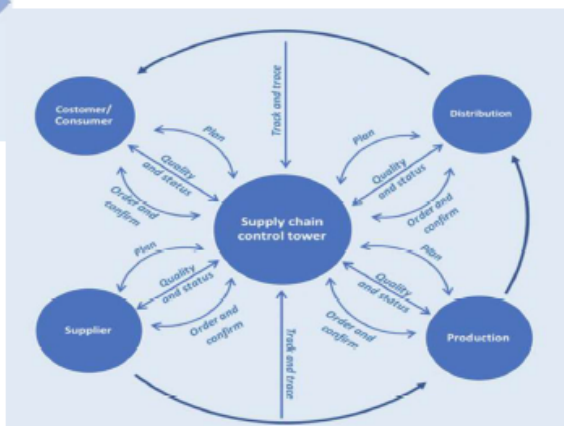
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Policies on data flows and localization are important to lead firms.



Even the best management of linear supply chains in the 1990s still faced coordination failures

Under Supply Chain 4.0, the “supply chain control tower” approach, driven by big data, permits optimization across the GVC, re-strategizing, and fast reaction among suppliers, producers, distributors, and consumers, giving consumers more leverage



Capturing the gains requires ***both*** enabling the data flows ***and*** granting market access to the most-enabled firms.

Source for figures: Price Waterhouse
Coopers 2016

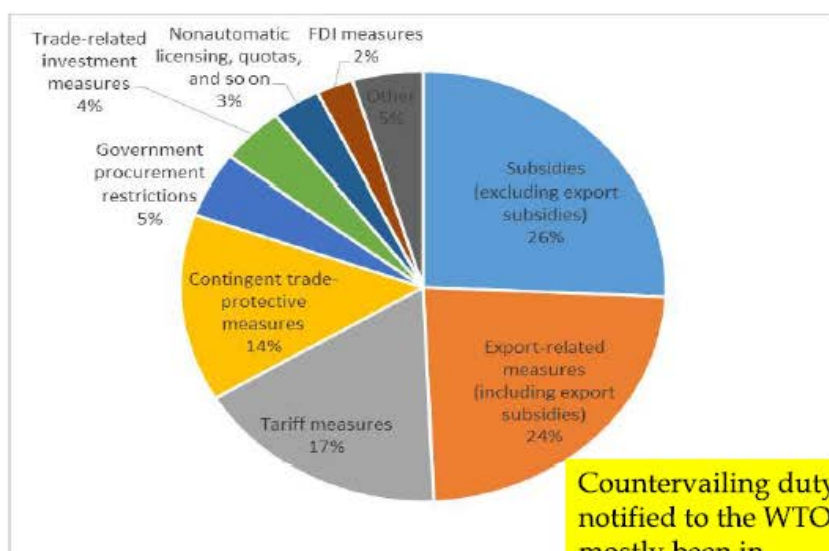
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Inditex-Zara – an example of Supply Chain 4.0 in action



7

Governments increasingly use distortionary subsidies and export promotion policies

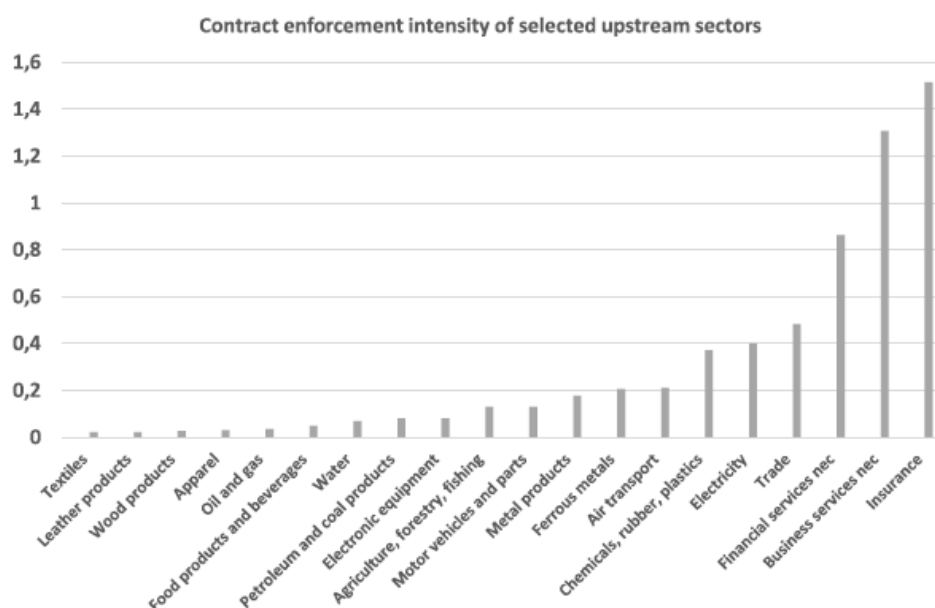


Countervailing duty cases notified to the WTO have mostly been in metals/metal products and chemicals/rubber/plastics

Source: Global Trade Alert. Data are for 2007-2016.

8

Weak contract enforcement can inhibit purchases of advanced services intermediates...

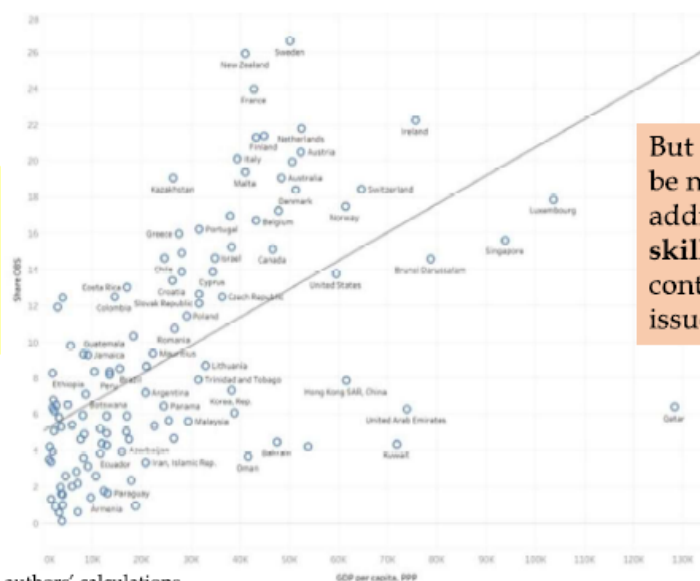


With consequences for productivity (Boehm 2018)

9

...and could be one reason why the use of business services is so scarce in poor countries

Share of
"other business
services" in total
intermediate
inputs



Inbound FDI is important to GVC formation: thus, FDI attractiveness is important

Many policies to promote FDI are similar to features found in successful SEZs.

However, countries also impose FDI restrictions, which could also shape the way GVCs look.

- **Types of FDI incentives**
 - Fiscal incentives
 - Liberalized importing and exporting regimes
 - Financial incentives (loan guarantees, risk insurance)
 - Subsidies for infrastructure and services
 - Preferential government contracts
 - Liberalization of capital controls for foreign investors
- **Types of FDI restrictions (performance requirements)**
 - Prohibited by WTO TRIMS agreement
 - Local content requirements
 - Trade-balancing requirements
 - Firm-specific foreign exchange restrictions
 - Export controls linked to FDI
 - Not explicitly prohibited
 - Technology transfer requirements
 - Requirements to engage in joint venture with domestic partners
 - Requirements for domestic equity participation
 - Requirements to do R&D in the host country
 - Requirements to employ a certain share of domestic workers or managers

Source: Dunning and Lundan 2008. List not exhaustive.

11

Why SEZs? What makes them “special”?

A special economic zone is a geographically restricted area where trade policy and customs procedures may be liberalized, taxes reduced, regulations streamlined, and special infrastructure created, or complementary resources provided.

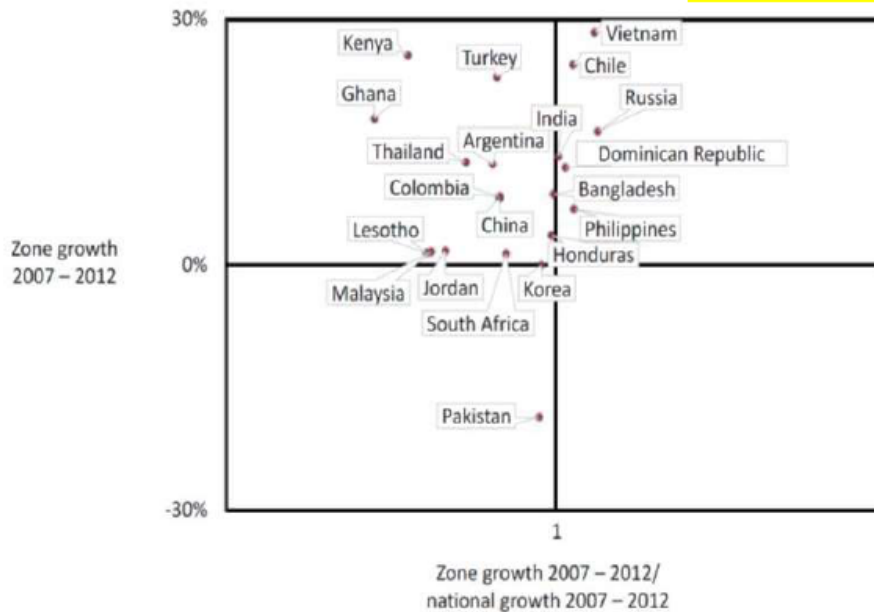
Name	Definition
Free Trade Zones	FTZs (also known as commercial-free zones) are fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations.
Export Processing Zones	EPZs are industrial estates aimed primarily at foreign markets. They offer firms free-trade conditions and a liberal regulatory environment. There are in general two types of EPZs: one is a comprehensive type, open to all industries; another is a specialized type, only open for certain specialized sectors/products.
Comprehensive Special Economic Zones	Comprehensive SEZs (also called “Multi-functional Economic Zones”) are zones of a large size that have with a mix of different, industrial, service and urban-amenity operations. In some cases these zones can encompass a whole city or jurisdiction, such as Shenzhen (city) and Hainan (province) in China.
Industrial Parks	Industrial Parks (also called “Industrial Zones”) are largely manufacturing-based sites. Some multi-functional ones similar to “Comprehensive Special Economic Zones” (listed above) exist, but usually operate at a smaller scale. The parks normally offer a broad set of incentives and benefits.
Bonded Area	Bonded Areas (also known as “Bonded Warehouses”) are specific buildings or other secured areas in which goods may be stored, be manipulated, or may undergo manufacturing operations without payment of duties that would otherwise be imposed. To some extent, a “bonded area” is similar to a “free trade zone” or “free port.” However, the major difference is that a “bonded area” is subject to customs laws and regulations, while a “free trade zone” is exempt from these provisions.
Specialized Zones	Specialized Zones include science/technology parks, petrochemical zones, logistics parks and airport-based zones.

12

“Night lights” data show it’s challenging to have SEZs grow faster than the overall national economy

Source: Frick, Rodríguez-Pose, and Wong (2018)

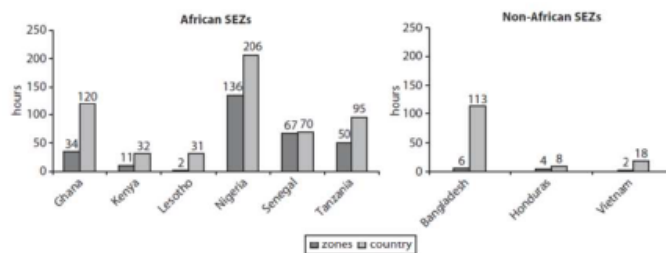
Geography matters a lot – incentives, not so much



13

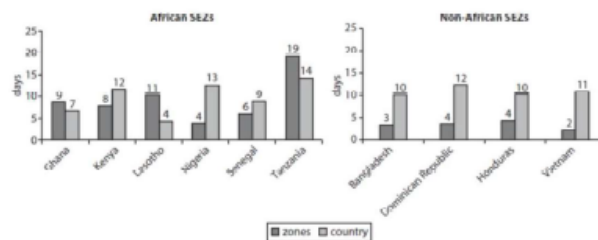
Problems like power outages and port customs clearance weren’t always solved (and sometimes got worse)

Figure 5.1 Average Downtime Monthly Resulting from Power Outages



Sources: “Zones”—SEZ investor surveys; “Country”—World Bank Enterprise Surveys.

Figure 5.2 Average Time Needed for Imports through Main Seaport to Clear Customs



Source: Farole 2011

Sources: “Zones”—SEZ investor surveys; “Country”—World Bank Enterprise Surveys.

14

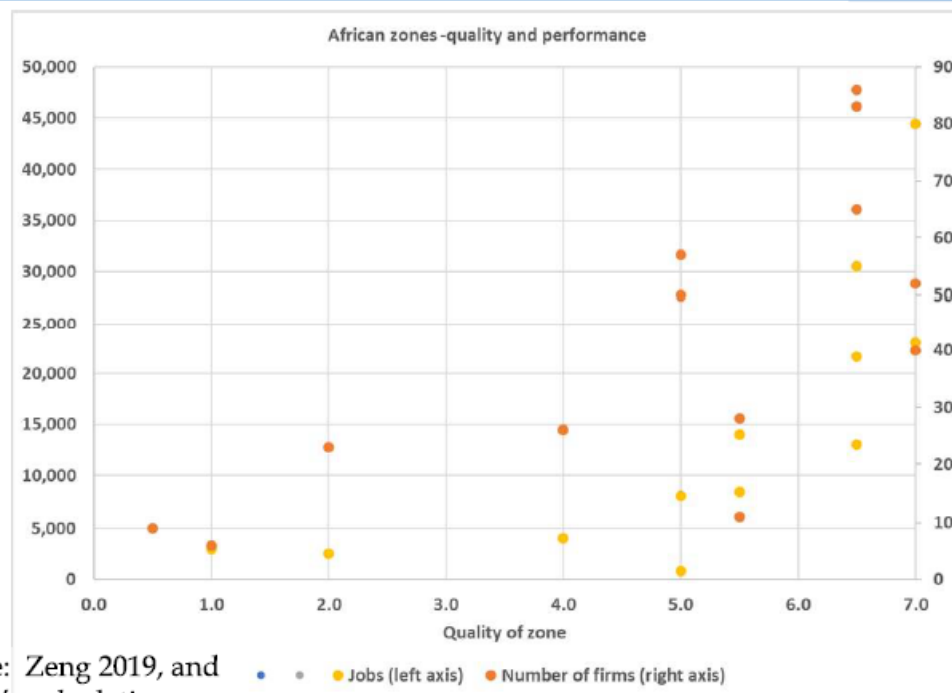
Zeng (2019, for us) rated 13 African zones by “specialness”

Name	Legal & Reg. Framework	Government Support	Zone-Level Governance	Industrial Infrastructure	Location & Connectivity	Human Resources	Market Demand
Lekki FTZ	Poor	Average	Good	Average	Good	Good	Good
Ogun Guangdong FTZ	Poor	Poor	Good	Average	Good	Average	Good
Tinaba Free Zone	Poor	Poor	Poor	Poor	Poor	Average	Poor
Tema EPZ	Good	Good	Good	Average	Good	Good	Good
Eastern Industrial Zone	Good	Average	Good	Good	Good	Good	Good
Hawassa Industrial Park	Good	Good	Good	Good	Good	Good	Good
Bole Lemi IP I	Good	Good	Average	Average	Good	Average	Good
Garri Free Zone	Poor	Poor	Poor	Poor	Poor	Average	Average
Kigali SEZ	Good	Good	Good	Good	Good	Average	Good
Coega IDZ	Good	Good	Good	Good	Good	Good	Good
Chambishi MFEZ	Average	Average	Good	Good	Good	Average	Good
ZCCZ	Average	Average	Good	Average	Good	Average	Good
Namibia EPZ	Poor	Poor	Poor	Poor	Good	Average	Average

Blue = “Growing” Green = “Potential” Brown = “Stagnant”

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Scoring the case study information shows some correlation with performance



Thank you!

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