

The future of global value chains in Asia

“East Side Growth Stories”

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Reasons behind GVC: *trade liberalisation*

Asia at the center of GVC

Implications of GVC

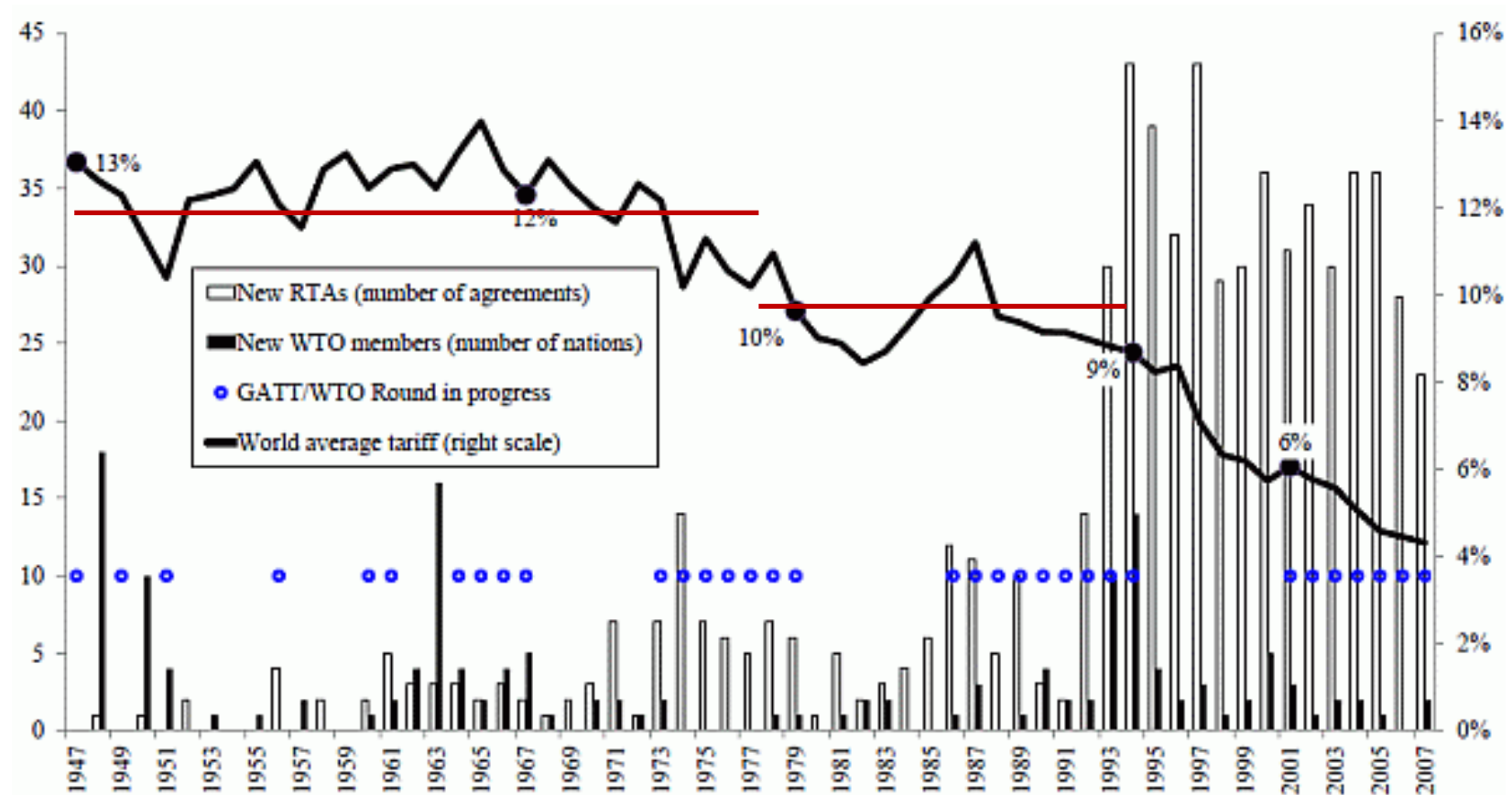
Conclusions

Trade liberalisation accelerated since mid 90s although increasingly at regional/bilateral level

Global trade liberalisation (1947-2007)

"21st Century Trade and the 21st Century WTO", Baldwin (2012)

http://www.rieti.go.jp/en/special/p_a_w/O14.html

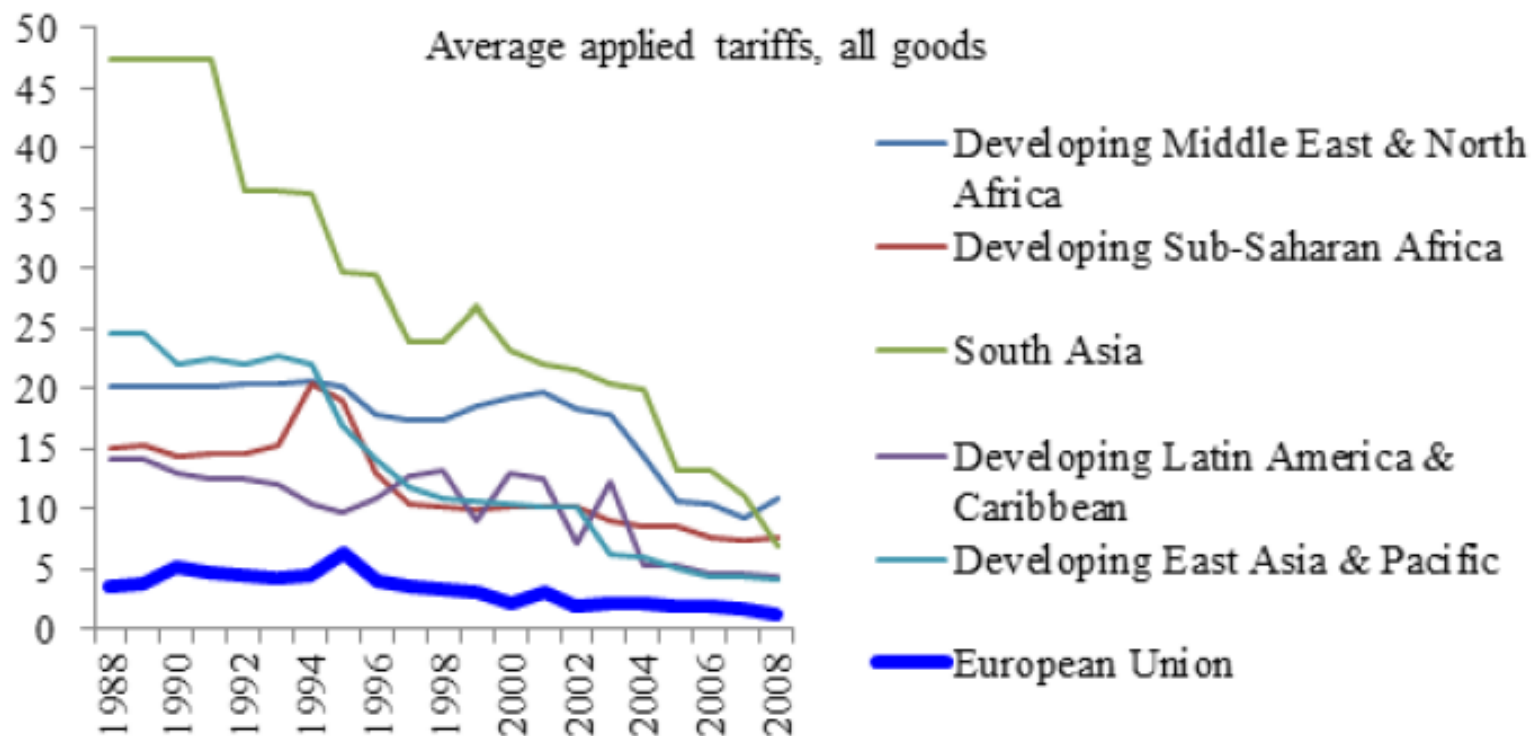


Asia among most benefited regions...

Average applied tariffs by region (%)

“Unilateral tariff liberalisation”, Baldwin (2012)

<http://www.voxeu.org/article/unilateral-tariff-liberalisation>

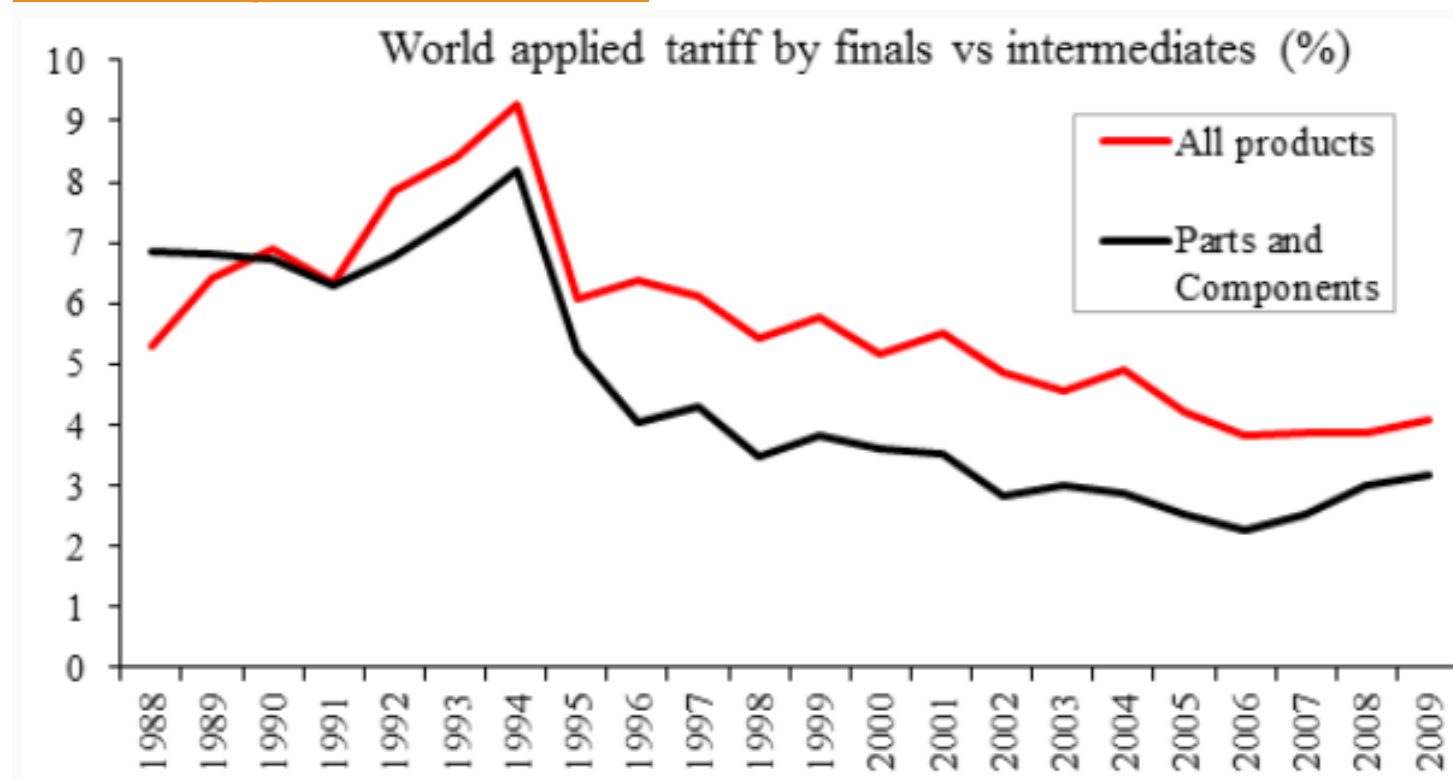


Specially for parts and components

World applied tariffs by product (%)

“Unilateral tariff liberalisation”, Baldwin (2012)

<http://www.voxeu.org/article/unilateral-tariff-liberalisation>



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Reasons behind GVC: *presence of FDI*

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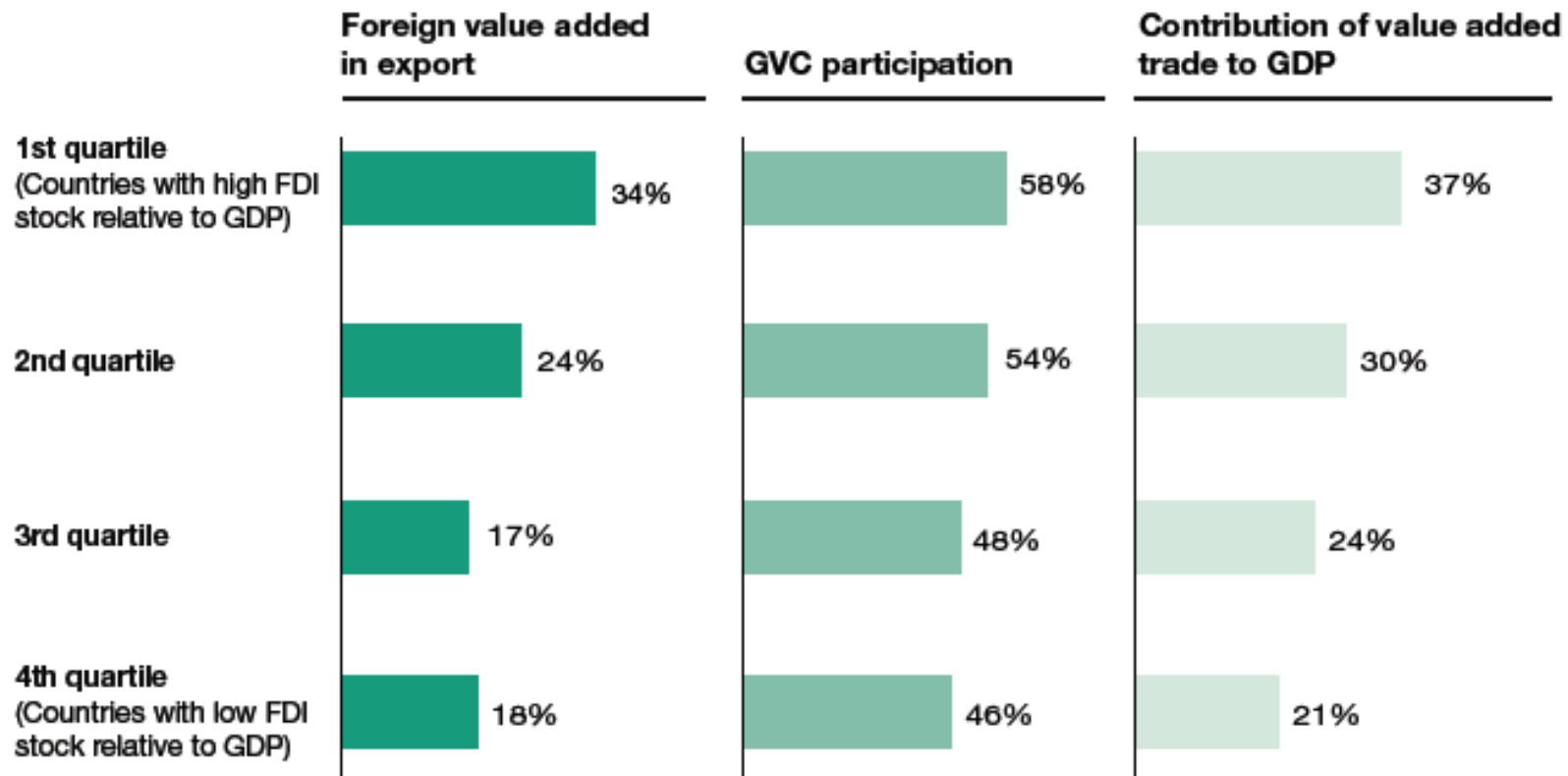
Conclusions

An avenue to gain access to GVCs?

Key value added trade indicators, by quartile of inward FDI stock relative to GDP (2010)

"Global Value Chains and Development" (UNCTAD 2013)

http://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf



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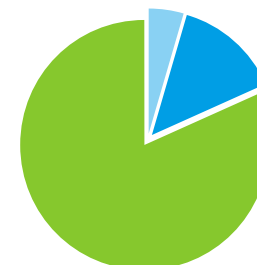
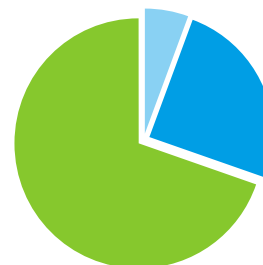
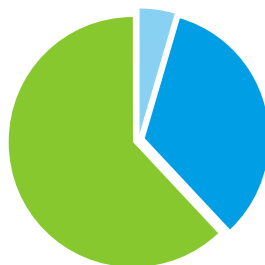
China, the world factory

World production of manufactures in 2011 (% of total nominal USD)

Source: BBVA Research, WIOD

■ China (1995) ■ China (1995-2011 change) ■ RoW (2011)

Footwear,leather (52%) Opt.,elec.Eq. (38%) Machinery (30%) Food,bev.,tobacco (18%)

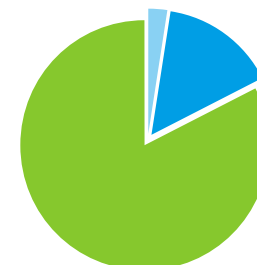
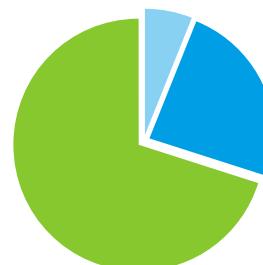
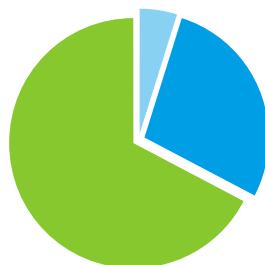
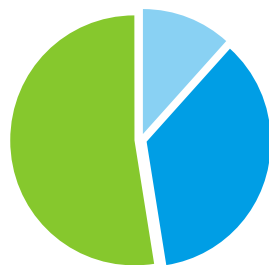


Textile (47%)

Wood,cork (33%)

Plastics,rubber (30%)

Transp.Eq. (18%)

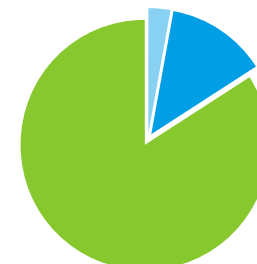
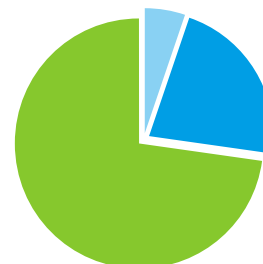
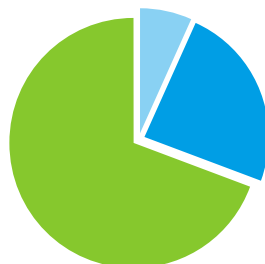
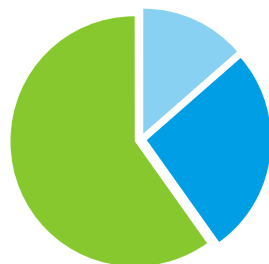


Non-met. minerals (40%)

Metals (31%)

Chemicals (27%)

Woods,pulp (16%)



World share of Chinese manufactures

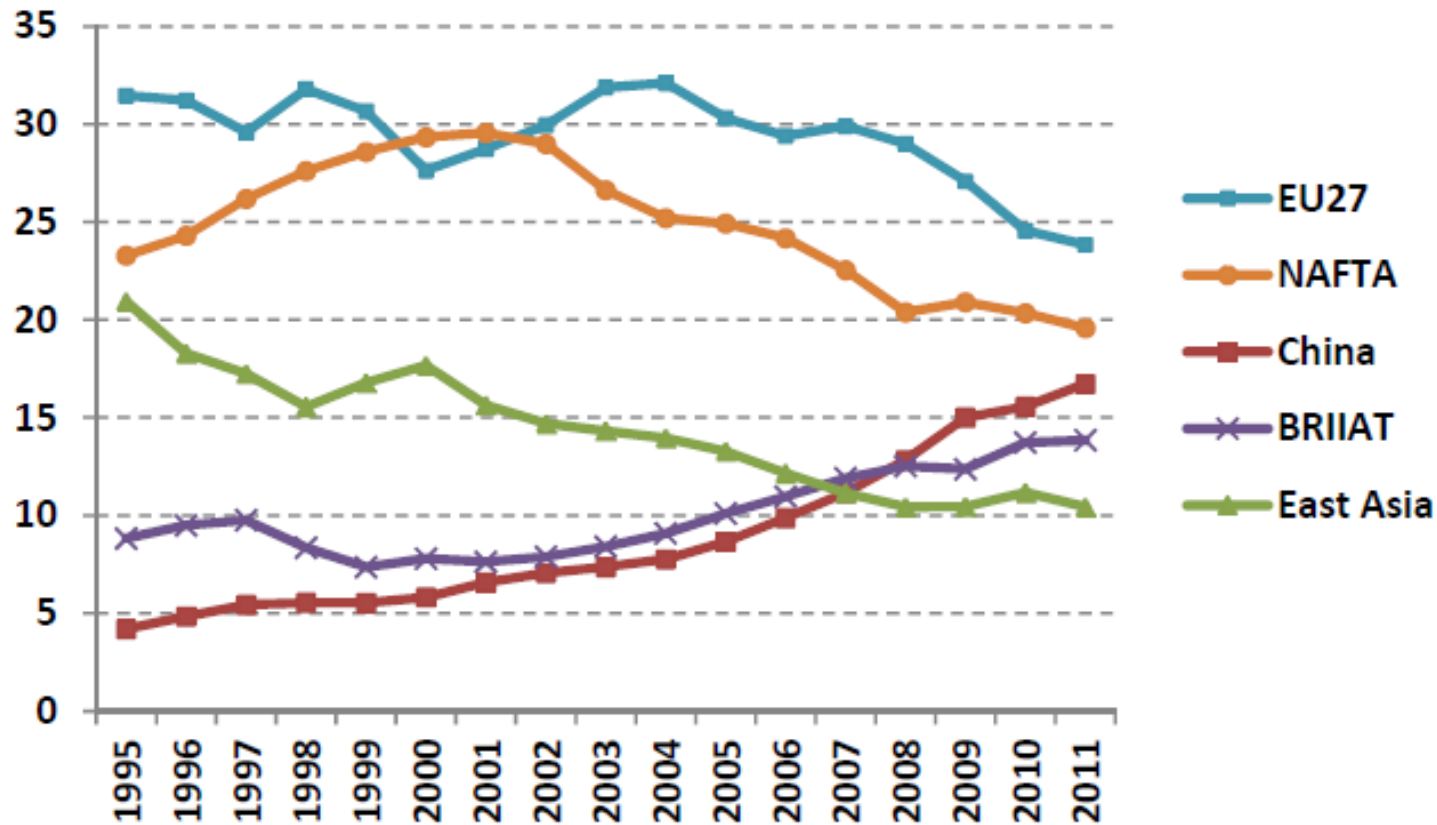
1995 5%
2011 27%

China has clearly changed the global picture of GVC

Regional shares in GVC income for all manufacturers (%)

"Fragmentation, Income and Jobs. An Analysis of European Competitiveness" (ECB 2013)

www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1615.pdf



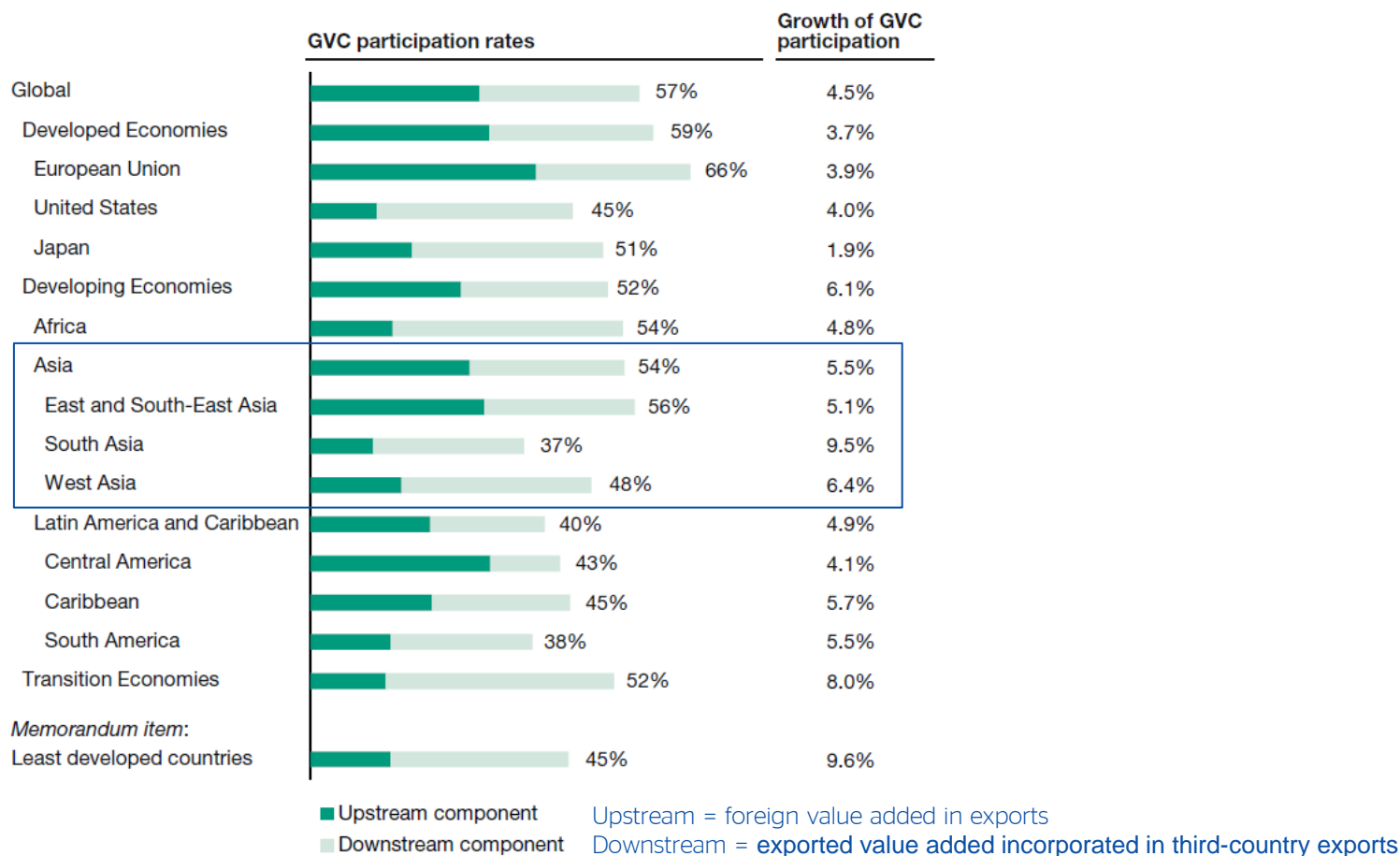
* BRIIAT = Brazil, Russia, India, Indonesia, Australia and Turkey

Asia's integration among fastest

GVC participation rates (2010) and growth rates (2005-2010) (% of total exports)

"Global Value Chains and Development" (UNCTAD 2013)

http://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf



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Implications of GVC: *boost for South-South trade*

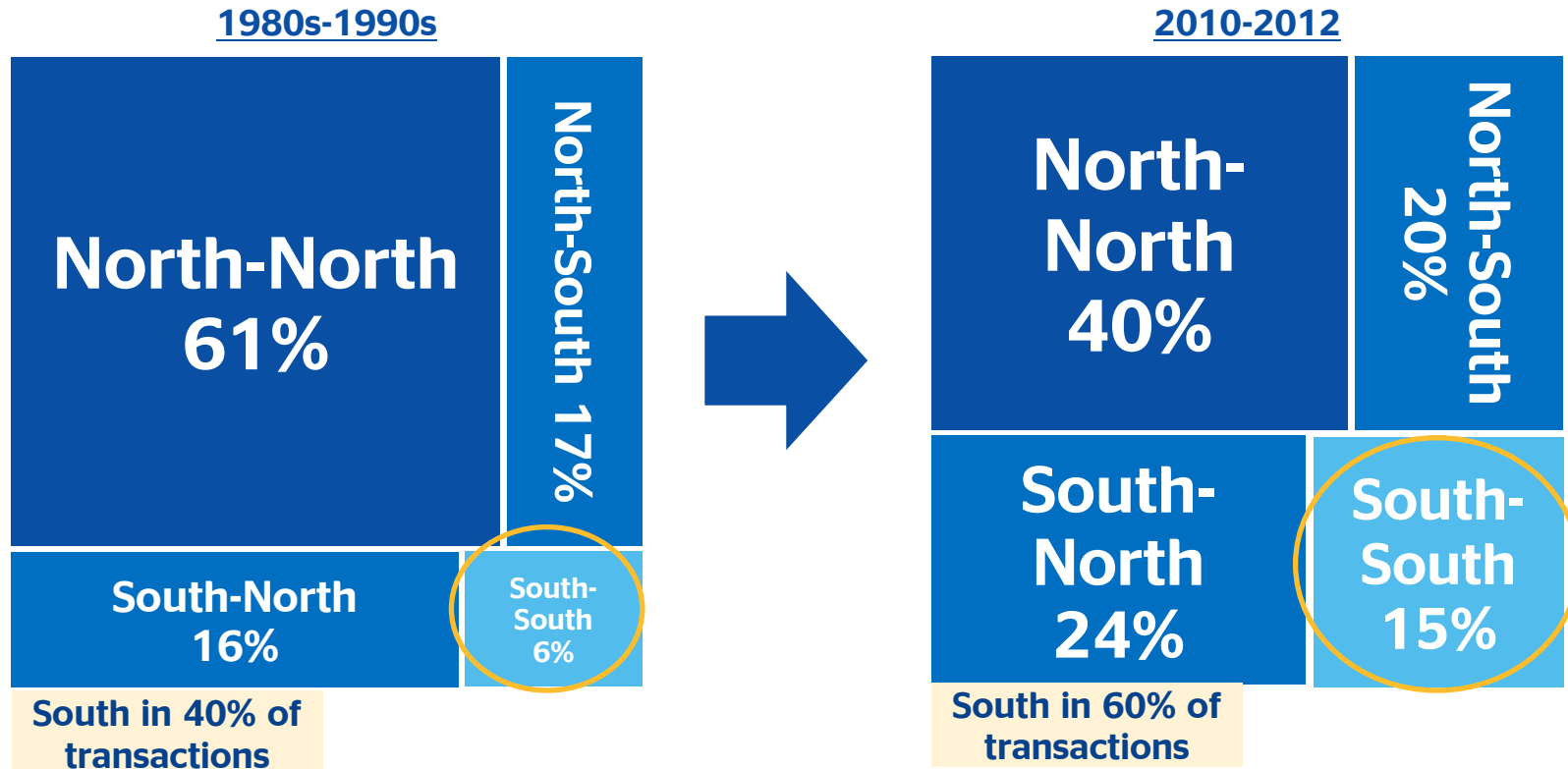
Conclusions

Rapid growth in emerging countries increases South-South relations

Distribution of world exports according to origin and destination

(% of total exports)

Source: BBVA Research and IMF/DOTS



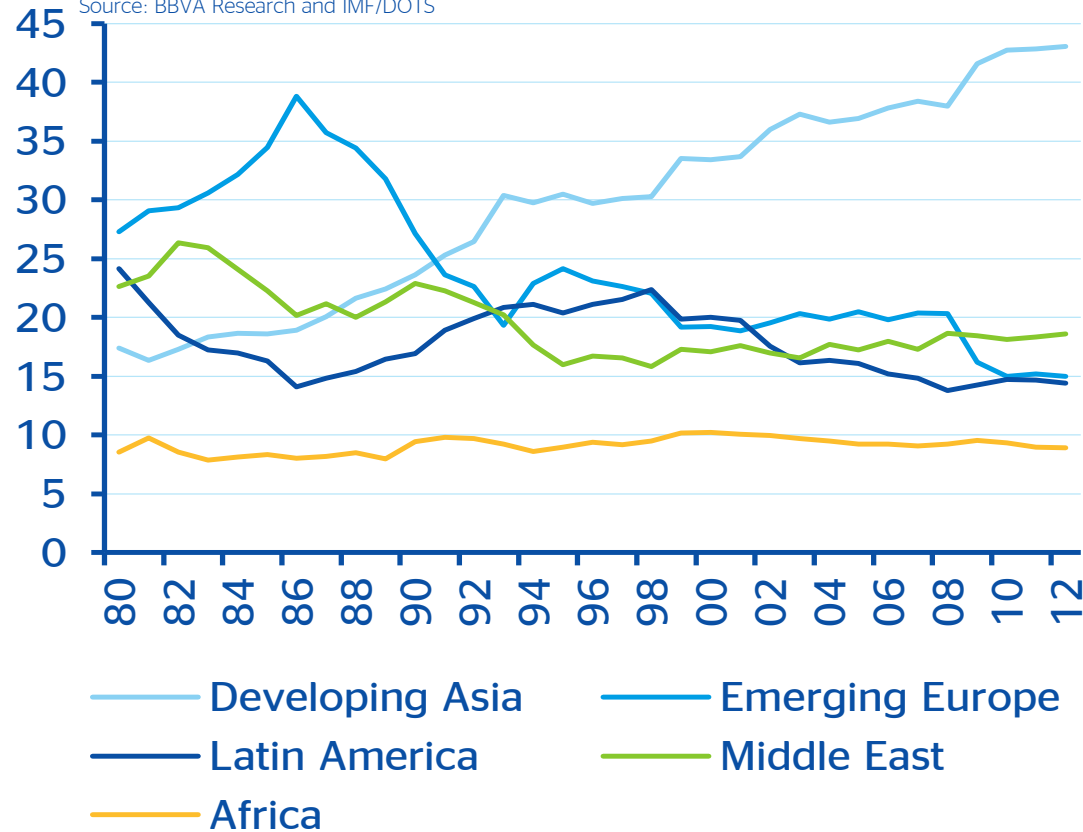
Read more at: "Asia-driven South-South trade intensifies specialization patterns in the rest of emerging regions"

www.bbvarsearch.com/KETD/fbin/mult/EWSouthSouthTrade_i_tcm348-390302.pdf?ts=3082013

Asia leads South-South trade

**Share of South-South trade flows by region
(1980-2012) (% of total exports)**

Source: BBVA Research and IMF/DOTS



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Implications of GVC: ***new reading required for trade figures***

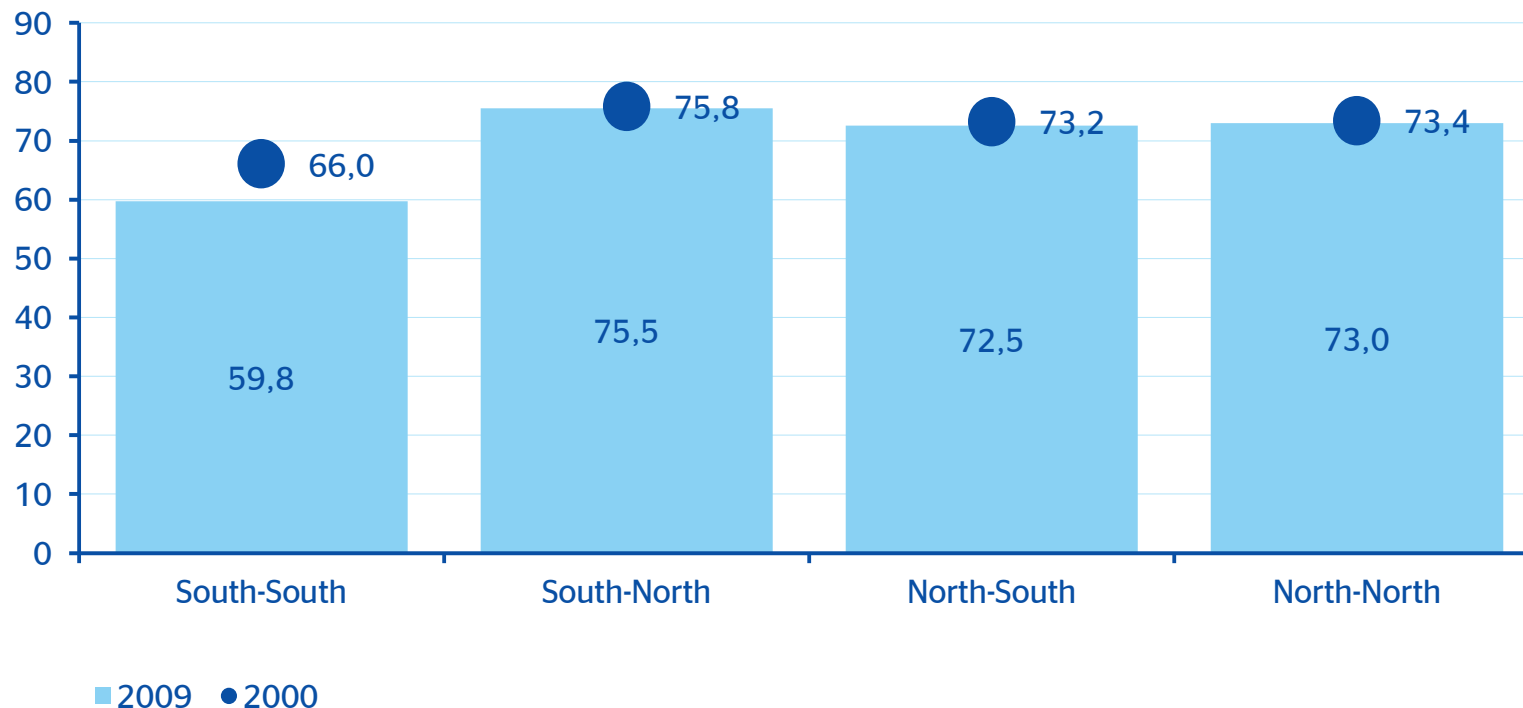
Conclusions

Value retention low (and even declining) for South-South trade

Domestic value added embodied in foreign final demand (2000 and 2009)

(% of gross exports by trade flows)

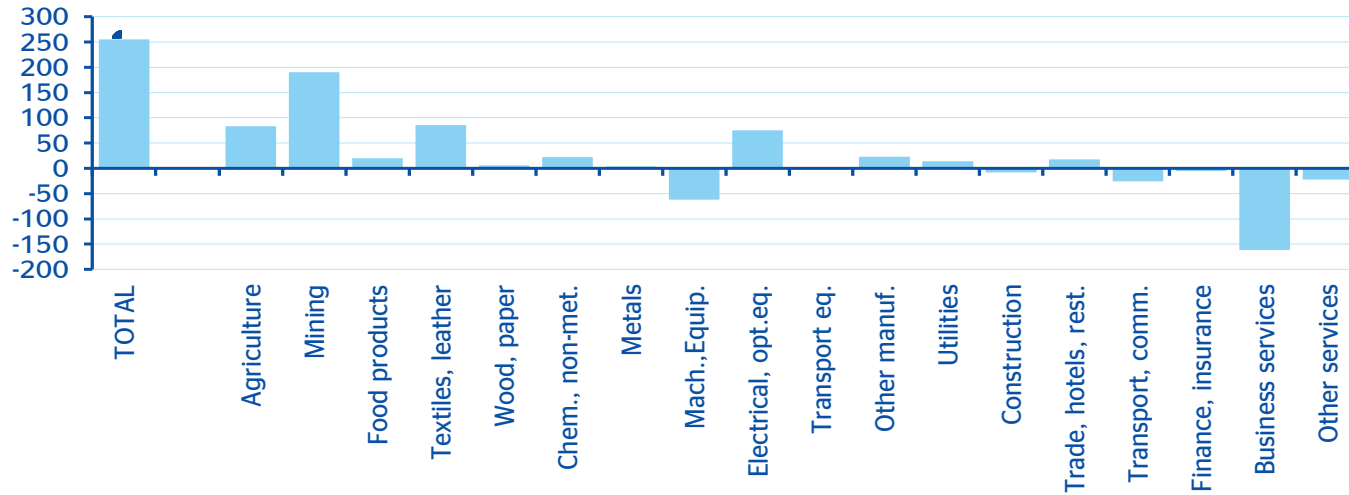
Source: BBVA Research and OECD



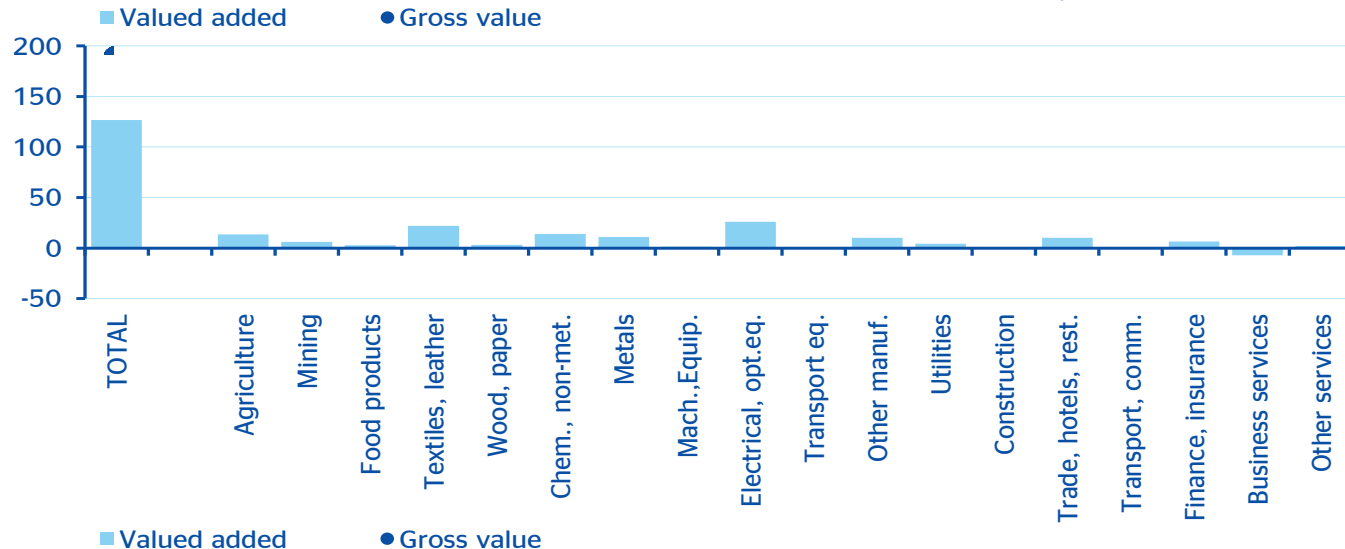
Read more at: "South-South Trade: A New Perspective Using Value-Added Data"
http://www.bbvarsearch.com/KETD/fbin/mult/1308_Eagles_SSTRADE_eng_tcm348-399034.pdf?ts=1692013

Adjustment for value added shows a different trade picture

South-North trade balance



China-US trade balance



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Implications of GVC: ***increasing spillovers from trade***

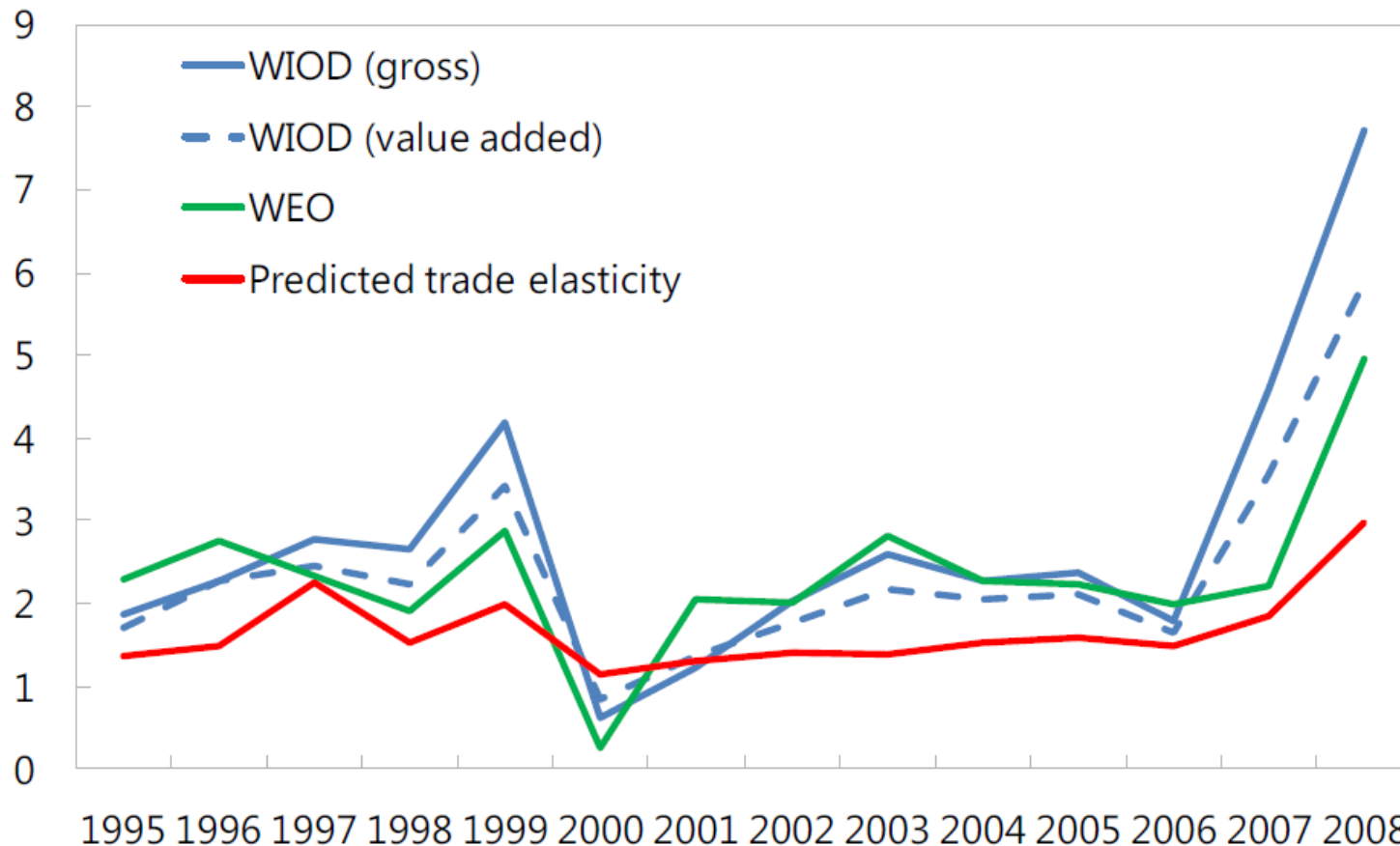
Conclusions

Higher trade sensitivity to output during recessions

Trade elasticity (real change in world exports relative to that in world output)

"Trade interconnectedness: the world with global value chains" (IMF 2013)

www.imf.org/external/np/pp/eng/2013/082613.pdf



Other factors behind higher trade elasticity during recessions:

- Inventories drawdown
- Protectionists policies
- Goods make the bulk of trade and services of GDP
- Demand home-bias (trust, financing problems)

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Implications of GVC: ***how to measure competitiveness?***

Conclusions

Real exchange rates no longer a good measure

- The same level of real exchange rate appreciation is less of a problem in countries engaged in GVCs
- Exports harmed by real exchange rate appreciation but imports of parts and components cheaper
- Garcia-Herrero and Koivu (2011) estimate the price elasticity of Chinese exports and find it to be very low due to the impact of processing

Not even wages

Chen, Fung and Garcia-Herrero (2014) find empirically:

- Quality of labor (human capital) more important for trade of parts and components than for trade as a whole
- Low wages not significant in increasing exports of parts and components

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All in all

- Trade openness is not all, key to avoid:
 - Excessive concentration (say commodities)
 - Even if not concentrated, too low value added (lack of positive externalities)
 - Looking at gross trade figures clearly not enough, even focusing on share of share of high tech exports
- Garcia-Herrero, Martinez Turegano and Ortiz (2014) construct a synthetic index of the quality of exports based on these and other criteria (10 determinants)
- In a nutshell, key for trade to be growth enhancing, in a sustainable way, is to add as much value as possible
- How?: through human capital, soft infrastructure (quality of institutions) and hard one (specially transport and logistics related), not necessarily through wages

Thank you!

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