Improving participation of LLDCs in Regional and Global Value Chains by reducing trade costs

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Why is increased participation in GVCs desirable?

- International organization of production, trade and investments where the different stages of the production process are located across different countries.
- Since a country needs only to develop capacity in producing a part rather than whole product, GVCs make it easier to:
  - Export to foreign markets;
  - Attract foreign investment;
  - Gain access to technology.
GVC participation is positively associated with GDP per capita

- Countries with high GVC participation (red line) tend to have higher per capita income than those with low GVC participation (blue line).

Source: WTO secretariat calculations based on UN Comtrade data and Penn World Table 8.0.
... and industrialization

- A number of developing countries were able to industrialize through GVC integration ...

- ... and now are major players in global manufacturing.

Share of import of parts and components, 1996-2012

Source: UN Comtrade, WTO secretariat.

Share of global manufacturing GDP

Source: unstat.un.org, 2005 prices; 6EMs = China, India, Indonesia, Thailand, Turkey and Poland; Korea (which gained 3 points) is in RoW.
High trade costs impede participation in GVCs

- Trade costs are “all costs incurred in getting a good to a final user other than the marginal cost of producing the good itself”.

- Cumulation effect*
  - This is because goods produced in GVCs have to cross national borders several times

- Magnification effect*
  - These costs are paid out of the share of value added


High high are trade costs?

- Trade costs are high particularly in developing countries:
  - Ad valorem equivalent of 200% for “lower middle income countries” and more than 250% for “low-income countries” (Arvis et al, 2013)
- Inefficient trade procedures constitute a significant part of trade costs
- The WTO Trade Facilitation Agreement (TFA) offers enormous development opportunity
Implementing the TFA will reduce developing countries’ trade costs

- On average, TFA implementation would reduce trade costs by about 14.5% (WTO, 2015)
  - Trade costs in developing countries will fall by between 13%-15%
  - Trade costs in LDCs will fall by 17%
Certainty in trade policy making fosters GVC participation

- Trade policy certainty is increasingly important in GVC world, because of large investments to relocate production
  - New technologies require new investment AND new (imported) inputs: uncertainty on input costs discourage investment
  - May developing countries be hurting themselves, e.g. by preserving the “water” in their tariffs for trade negotiation purposes

Table C.9: Bound status, bound rate and imports under bound regime, 2009-2011 (average)

<table>
<thead>
<tr>
<th>Bound lines (per cent)</th>
<th>Bound rate (per cent)</th>
<th>Trade under bound (per cent)</th>
<th>Average water</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>Low participation</td>
<td>81.2</td>
<td>19.7</td>
<td>78.6</td>
</tr>
<tr>
<td>High participation</td>
<td>92.4</td>
<td>13.9</td>
<td>89.3</td>
</tr>
</tbody>
</table>

Source: UN Trains and IDB.
Thank you!