

Impacts of the increasing geographical fragmentation of production process on Regional Trade Agreements

Made in the World



Facts and Implications for Trade Policies



Hubert Escaith, WTO



WTO PUBLIC FORUM 2011



SEEKING ANSWERS TO GLOBAL TRADE CHALLENGES



Based on the findings from
- 3 recent reports, and
- the 2011 edition of the
WTO



World Trade Report 2011

The WTO and preferential trade agreements:
From co-existence to coherence

- » What are the current trends in preferential trade liberalization?
- » Why is deep integration gaining momentum?
- » What are the patterns of trade liberalization?



TRADE PATTERNS AND GLOBAL VALUE CHAINS IN EAST ASIA: From trade in goods to trade in tasks

A joint co-publication by the World Trade Organization (WTO) and the Institute of Developing Economies - Japan External Trade Organization (IDE-JETRO)



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



Proceedings of a joint conference by the Senate Finance Commission and the Secretariat of the World Trade Organization (WTO) held in Paris on 13 October 2010.



1. Some facts:

When measuring trade in value added...

- **Most bilateral imbalances are reduced**

Large bilateral deficits/surpluses are reduced. But measuring trade in value added does not affect the global trade balance of an economy.

- **The weight of regional trade is reduced**

Double counting: Vertical trade is more frequently conducted with neighbouring countries, to reduce costs or to benefit from cultural proximity.

- **Sectoral comparative advantages change**

How much of exported goods depends on other sectors of the economy? Identifying new comparative advantages (services), diluting older (manufacturing).

- **Employment contributions are identified**

Measuring the indirect sectoral contribution indicates how many jobs in other sectors (e.g., services) are attributable to exports by industry.

2. National Policy Implications

- **Measuring competitiveness**

Competitiveness also depends on the competitiveness of:

(i) other domestic sectors, and *(ii)* of inputs imported into the country. *Reducing transaction costs* (tariffs, transport and communication, red tape) greatly improves competitiveness.

- **Measuring comparative advantages**

Comparative advantages based on export structure are blurred: Increases in extensive margins should be analysed with regards to the import content of exports. But Global Value Chains offer *potential for upgrading*.

- **Designing trade policy**

Conduct of effective government policy requires knowledge of where value added is located.

Interdependence of countries and sectors: protectionism is useless and costly.

Trade is now more closely inter-related with production:

- Foreign investment policy and trade policy are to be seen as mutually supplementary.
- Trade policy has to be defined from a long-term perspective

2.b Multilateral Policy Implications

- **Many Global Value Chains are regional**

Negotiating regional trade agreements (RTAs) is often more about harmonizing “behind-borders” regulatory systems than lowering tariffs.

- Convergence of regulatory systems
- Bottom-up approach to defining norms
- Reducing red-tape and facilitating trade and investment

- **Economic cycles**

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

Less room for “beggar thy neighbours” policies

- **Improving multilateral governance**

Reassess the offensive and defensive interests of countries and group of countries *vis à vis* the rest of the world.

Avoid large divergence between Regional Trade Agreements and the Multilateral Trading System and use them as *building blocks*.

Made in the World



Thank you

***Facts and Implications
for Trade Policy***

