GVCs: Quo Vadis?

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Theme 1

Future Prospects for GVC Analysis: Policy Applicability, Limitations, and Issues to Tackle
Small country (4.7 million people; 51,100 km²) but highly integrated in GVCs (about 40% of goods exports)

Currently integrated in several GVCs:
- Offshore services
- Electronics
- Medical devices
- Aeronautic/aerospace
- Automotive
- Filming devices
Measuring goods trade flows in value added complements and enriches traditional gross-value measurements

Trade flows of goods integrated in GVCs should be measured in value-added with the aim to:

- Avoid international double counting of exports
- Have a clearer picture of world output structure (“China factory” or “China assembly”?)
- Update Rules of Origin upon actual trade patterns
- Gross-value measurements can continue to deliver relatively accurate estimates for products like agricultural commodities

Let’s not forget about improving statistics on trade in services!
Initiatives to Expand Costa Rica’s Capabilities for the Analysis of GVCs

Integration in international IOTs

- Construction of CR’s domestic IOT (Late July 2013)
- Integration in international AIOTs (project with IDE-Jetro)
- Integration in TiVA database
- Integration in regional IOTs for Latin America (prospective project with ECLAC)
Project on micro-data linking (MDL)
- Construction of an integrated database at the firm-level (trade + other variables)
- Developed jointly by COMEX, the National Statistics Institute (INEC) and UN-SD

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Challenge: tackling the confidentiality issue
- INEC is legally entitled to receive firm-level data from other agencies
- Before releasing the data set, INEC shall replace actual firm IDs and names by encrypted IDs

Prospective integration in OECD’s MDL initiatives
Theme 2

GVC Analysis and Trade Policies: What Are the Main Policy Implications? Where Should They Be Headed to?
GVCs Broadened the Focus of Trade Policy

20th century trade policy:
- Single flows
- Focus on final goods trade
- One-dimensional trade negotiations
GVCs Broadened the Focus of Trade Policy

21st trade policy: need for updating multilateral rules

- Multiple flows: intermediate inputs, outsourced services, knowledge, capital, labor and final goods
- Multi-dimensional trade negotiations
A Renewed Approach for Trade Policy in GVCs

- Trade policy can be the driver of comparative advantage and competitiveness (OECD, 2012)
- New approach: exports are good ... and imports are essential!
- From trade in products to trade in processes
- From selling goods to coordinating and synchronizing processes
- Trade and investment are complementary: liberalizing investment is as important as eliminating tariffs!
- The intertwining of different areas: the trade-services-investment-IP nexus (Baldwin, 2012)
What Else Besides Trade Policy?

- “Moving up” (either upstream or downstream) in GVCs requires developing capabilities

- Attracting FDI
  - Importance of a sound policy environment
  - Risks of using local content requirements

- Internationalizing firms
  - Entry into export markets can drive firms to innovate

- Other policies are essential: innovation, education, labor markets, immigration, etc.
Trade Policy: A Cornerstone of Costa Rica’s Development Strategy

- Integration in GVCs resulted from the outward-looking development strategy implemented
  - Trade liberalization and export platform
  - Strong focus on FDI attraction
  - Enhanced by other factors:
    - Longstanding investment in education resulted in high-skilled and easily-trainable workforce
    - Strategic location (proximity to the US; middle of the Americas; access to both the Pacific and the Atlantic)
    - Social, economic and political stability
Costa Rica’s Trade Liberalization Process

- **Mid 1980’s**
  - Unilateral tariff cuts

- **1990**
  - Accession to GATT

- **1995**
  - WTO accession and FTA with Mexico

- **1997**
  - WTO’s ITA

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**Today:**

- 11 FTAs in force with 18 countries (US, China, Singapore, Canada, Mexico, Chile, Peru, etc.) covering 73% of total goods trade
- 3 FTAs signed and expected to enter into force shortly with 33 countries (EU, EFTA, Colombia), covering 13% of total goods trade
- Ongoing negotiations: Expanded ITA, TISA and WTO’s TFA
- Prospective negotiations: Pacific Alliance and TPP
Lessons learned from Costa Rica’s case – applicable to (small) developing countries:

- GVCs can truly foster participation in sophisticated manufacturing and services activities.
- Absence of raw materials / lack of a manufacturing “tradition” are no longer obstacles for industrialization.
- Integration in GVCs pushes for improving public policies and poses challenges for upgrading.
- Policies should focus primarily on trade liberalization (for both goods and services), FDI attraction/enabling (e.g. re-training and certifications), and trade facilitation.
THANK YOU!

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