UNITED STATES
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Global Value Chain Research: Implications for Policy Development

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Global Value Chains: Quo Vadis?

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These comments are my own and do not reflect the views of the USITC or any of its Commissioners.

Theme 1. Future prospects for GVC Analysis

- Great Demand for GVC insights
- Significant policy applicability – Trade negotiations, currency issues, trade and factor links…
- Cutting the data
  - Bilateral by sector interest
    - Sectors below current datasets level of detail
    - Need for integrating micro based survey data – Costa Rica, OECD, USITC efforts
      - SMEs, Gazelles – role of access to international markets directly and/or indirectly
- Rules of Origin – trying to understand linkages and implications.
- Excess demand for insights - We cannot meet demand for insights from databases due to limitations in human capital and data availability.
  - Frequent requests from highest levels for insights. Pushing for ever more insights.

- The data supplements traditional trade data
  - Traditional data still very, very important
    - Its official, timely, detailed, practical
    - What were wheat exports last month?
    - What were petroleum imports last month?
    - Tariff collection – efficient, impossible to discern chain on millions of day to day transactions. With low or zero tariffs GVC content doesn't matter much for revenue, costs.
  - But we think its important that GVC data link to traditional trade data tightly, as well as NIPA data – hence KWW.
    - If there is a mismatch at intersection points GVC data credibility will be undermined.
  - Sorting out uses – still in the research and development phase for applications
    - But hopefully will continue to provide better insights on trades' link to factor markets – a critical policy issue, see WIOD work.
    - Hopefully better inform, clarify national interests

Theme 2. GVC analysis and trade policy

- Main policy implications?
  - With fragmented linkages clarity, quality, and stability of institutional and economic policies are critical.
  - Trade costs remain important element – including tariffs, but must look at and behind borders.
- 21st century trade Policy?
  - ALL countries have need to ensure broad set of policies and institutions are adapting to new needs and realities.
  - Can't ignore increase in supply of "effective" labor, increased mobility of capital and technology.
  - Samuelson – may not be win/win (depending on metric) for developed economies in all dimensions, but closing borders and insulating is certainly a worse outcome.

Implications for multilateral and regional regional agreements.

- Are the FTAs or EPAs?
- US approach is deep
  - Tariffs and behind border issues
  - Tough issues, difficult to negotiate
  - But potentially big and positive results
  - Helps US with its needs re reforms

Effects of the TPP

(Equivalent variations in 2025, US$2010) from Petri…

- Big gains: Viet Nam, Malaysia, Japan
- Modest losses
  - $62 total diversion (22% of gains)
- Large effects
  - Income up $223 bill. (1% GDP)
  - Trade up $315 bill. (4% trade)
  - FDI stocks up $255 bill. (3% FDI)
  - of which China $35 bill. (0.2% GDP)

TPP and Petri

Table 1 Income gains under alternative scenarios

Economy	GDP, 2025 (billions of 2007 dollars)	Income gains in 2025 (billions of 2007 dollars)			Percent change from baseline		
		TPP track	Asian track	FTAAP	TPP track	Asian track	FTAAP
TPP track economies	26,502	128.7	7.8	405.4	0.49	0.03	1.53
United States	20,273	77.5	2.5	266.5	0.38	0.01	1.31
Australia	1,433	8.6	0.2	26.4	0.60	0.02	1.84
Canada	1,978	9.9	0.4	26.2	0.50	0.02	1.32
Chile	292	2.6	0.1	6.5	0.90	0.02	2.23
Mexico	2,004	21.0	4.2	67.7	1.05	0.21	3.38
New Zealand	201	4.5	0.3	5.8	2.25	0.13	2.86
Peru	320	4.5	0.1	6.3	1.42	0.04	1.98
Asian track economies	20,084	–55.9	304.2	844.4	–0.28	1.51	4.20
China	17,249	–46.8	233.3	678.1	–0.27	1.35	3.93
Hong Kong	406	–0.8	42.7	84.9	–0.19	10.51	20.91
Indonesia	1,549	–3.5	12.8	38.0	–0.23	0.83	2.45
Philippines	322	–1.1	5.5	15.9	–0.35	1.72	4.95
Thailand	558	–3.7	9.9	27.4	–0.67	1.78	4.91
Two-track economies	8,660	245.9	210.7	483.4	2.84	2.43	5.58
Brunei	20	0.2	0.6	1.1	1.10	2.77	5.45
Japan	5,338	119.4	103.1	228.1	2.24	1.93	4.27
Korea	2,117	45.8	87.2	129.3	2.16	4.12	6.11
Malaysia	431	26.3	8.3	38.4	6.10	1.93	8.90
Singapore	415	8.1	–2.0	13.6	1.95	–0.49	3.28
Vietnam	340	46.1	13.5	72.9	13.57	3.97	21.46

Agreement gains estimates billion $ in out year

Agreement	TPP	Asia	FTAAP	TTIP
US (Petri)	$77.5	$2.5	$266.5	-
%	*0.38*	*0.03*	*1.53*	*13.38*
China	-$46.8	$233.3	$678.1	-
%	*-0.27*	*1.35*	*3.93*	*-0.39*
Japan	$119.4	$103.1	$228.1	-
%	*2.24*	*1.93*	*8.90*	*-5.9*
EU	-$3.4	$4.7	-$32.6	-
%	*-0.02*	*0.02*	*-0.44*	*~4.6*

Kawasaki

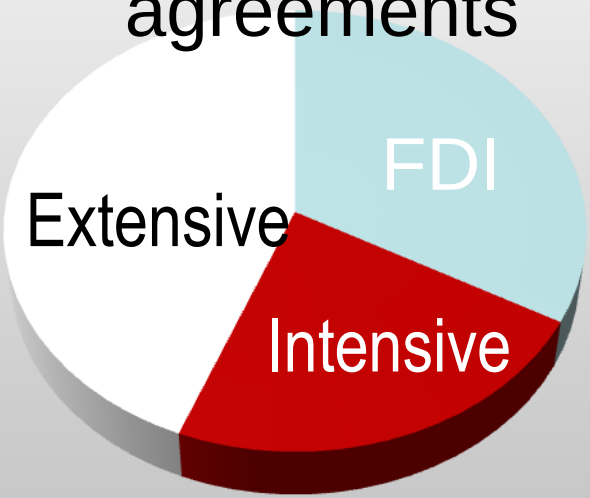
Table 1: Impact of regional trade liberalization on real GDP

(%)

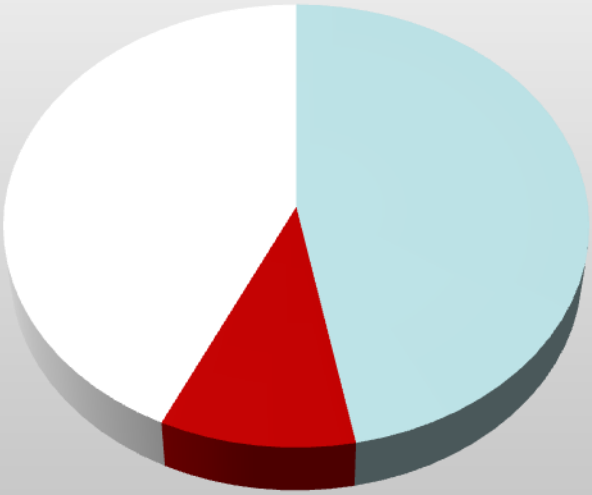
	Worldwide	FTAAP	ASEAN+6	ASEAN+3	Japan, China and Korea	TPP
Japan	1.25	1.36	1.10	1.04	0.74	0.54
China	7.35	5.83	3.43	3.16	2.27	−0.30
Korea	8.68	7.10	6.34	5.94	4.53	−0.33
Hong Kong, China	3.19	2.65	−0.24	−0.10	−0.30	−0.22
Chinese Taipei	7.51	6.44	−1.88	−1.73	−1.18	−0.33
Singapore	3.53	2.42	3.15	2.71	−0.42	0.97
Indonesia	4.71	3.64	3.69	3.00	−0.32	−0.36
Malaysia	12.34	9.43	8.27	7.53	−0.52	4.57
Philippines	6.00	6.07	4.60	4.42	−0.75	−0.39
Thailand	26.35	20.24	17.03	16.31	−1.19	−0.89
Vietnam	37.50	34.75	23.42	23.13	−0.50	12.81
LCM	12.95	−1.78	9.21	9.04	−0.23	−0.35
India	8.39	−0.91	2.99	−0.29	−0.16	−0.22
Australia	2.46	2.08	2.44	−0.04	−0.11	1.16
New Zealand	4.86	3.80	2.29	−0.19	−0.24	2.15
U.S.	0.35	0.26	−0.07	−0.03	−0.05	0.09
Canada	0.71	0.71	−0.02	0.03	−0.02	−0.24
Mexico	4.46	3.03	−0.10	−0.07	−0.08	−0.42
Chile	1.57	1.35	−0.13	−0.02	−0.13	0.40
Peru	1.88	0.94	−0.06	−0.02	−0.04	0.64
Russia	5.45	1.50	−0.05	0.06	−0.08	−0.17
EU	0.87	−0.31	−0.12	−0.05	−0.09	−0.14
Switzerland	2.30	−0.10	−0.09	0.01	−0.04	−0.08

Sources of gains (%) - Petri

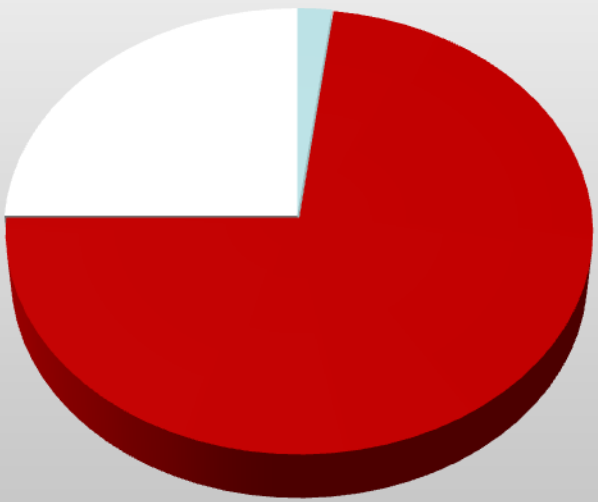
World: all agreements



United States: TPP

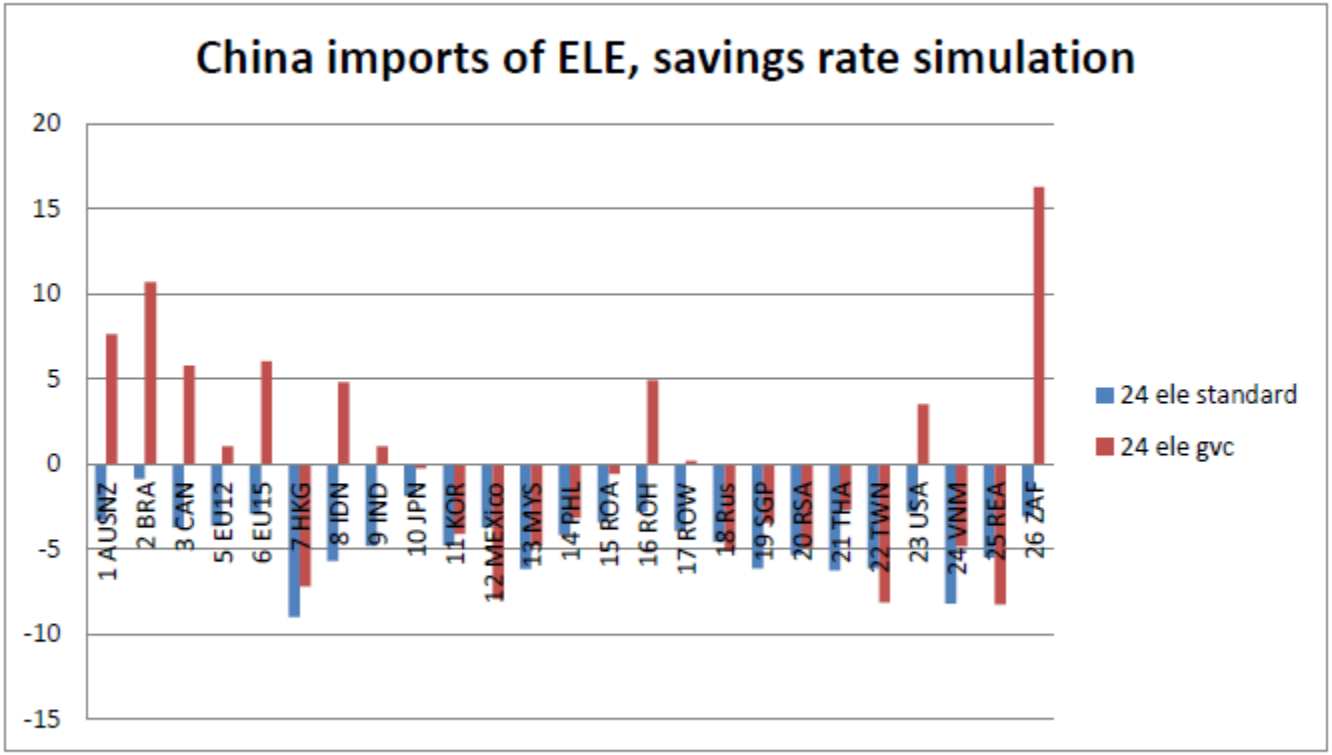


Viet Nam: RCEP



GVC models and data suggest geographic and sectoral impact differences

Figure 6: Chinese imports of electronics



Source: Authors' calculations.

Hard to make the case…

- On aggregate numbers – welfare as a percentage of GDP important to economists and policymakers
  - But when the politician/policymaker talks to constituents it is about what happens to specific economic activities where they live.
- GVCs can help us get there…
  - Distributed sector impacts illustrating linkages
  - Geographic impacts cross borders and within borders.