How world trade can spur a recovery

By Ken Ash, Director, OECD Trade and Agriculture Directorate

A little over a year ago the OECD and the World Trade Organization (WTO) launched Trade in Value-Added (TiVA), a new database on trade measured in value-added terms. The evidence that we have unlocked using TiVA has begun to revolutionise our understanding of what is happening in global trade, investment and production. Take global value chains (GVCs), which are a dominant feature of the global economy today. Goods produced in the European Union (EU) and exported to the United States may include raw materials from China and Malaysia, and use services from Japan and India. Goods and services are no longer produced by a firm in one country and sold to consumers in another; production is fragmented around the world, while components cross borders multiple times as value is added to output along the way.

Why does this matter to policymakers?

First, inefficient customs and other border procedures impose unnecessary costs on traders every time an import or an export crosses a border: OECD estimates that a 1% reduction in these trade costs would generate benefits of about US$40 billion. The WTO Trade Facilitation Agreement (TFA), reached in Bali, offers an immediate opportunity to reduce these unnecessary costs. More recent OECD analysis estimates that trade costs could be reduced by as much as 15% in some countries if the TFA is implemented. It is in every country's interest to act now (see chart below).

Second, most trade today is in intermediate inputs—over 50% of goods trade and almost 75% of services trade. Firms rely on access to world-class inputs in order to increase their productivity growth, to improve their competitiveness, and to export successfully. In today's interconnected world it is important not only to avoid introducing new forms of protectionism, but also to begin winding back restrictive measures to help firms get on with importing and exporting. Doing so can stimulate business activity and economic growth.

Third, OECD analysis also shows that services sectors play a vital role in well-functioning GVCs. In fact, they account for 80% of employment, 75% of GDP, and 50% of value-added exports in emerging and advanced economies. Services, from finance to logistics, also provide essential contributions to competitive manufacturing sectors. The new OECD Services Trade Restrictiveness Indices (STRI) allow the world's major services suppliers to benchmark their performance against global best practices and to identify opportunities to perform better (see chart).

Finally, we need to recognise that participation in GVCs is not automatic and some less developed countries and smaller firms are at risk of being left behind. Effective flanking policies to accompany trade and investment opening are essential. The nature of these policies varies by country, its stage of development, its resource endowments, and so on. But there is at least one common element: investments in people, in education and skills, in active labour market policies that match labour supply with demand, and in adequate social safety nets for those facing difficulties in adjusting. Trade opening creates potential opportunities, and wider structural policy reforms can help turn this potential into reality. Sector-specific support policies, by contrast, are often aimed at “picking winners”, tend to distort international competition and have not been very successful.

For all of these reasons the OECD strongly supports the G20’s efforts to better integrate trade and investment as essential elements of a strong, balanced and sustainable framework for inclusive growth, more and better jobs, and widespread development.

Looking beyond national structural policy reforms and the G20 process itself, the WTO plays the central role in ensuring a well-functioning, rules-based, multilateral trading system. This is clearly the “first best” option for boosting trade, growth and jobs.

But because progress in trade negotiations at the WTO remains stalled, many countries are turning their attention to plurilateral and regional trading arrangements (RTAs) as second-best options for opening markets. The OECD has examined the nature of existing RTAs and finds that many go beyond multilateral rules on investment, movement of capital and persons, competition and state-owned enterprises, e-commerce, and anti-corruption. There is a notable trend towards adopting such “WTO-plus” commitments by an increasingly representative number of WTO members. This greater degree of convergence of interests augurs well, at least from a technical perspective, for the possibility of also adopting these
commitments on a multilateral basis. Recent mega-initiatives, such as the Transpacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP), and the Regional Comprehensive Economic Partnership (RCEP) among ASEAN countries, also have the potential to address essential trade policy questions across a much wider geographical scope. Whether on a unilateral, regional or multilateral basis there is widespread interest in doing more to ensure that trade, investment and complementary policies can contribute a much-needed stimulus to global economic activity. But that interest needs to be turned into policy action.

References

See www.oecd.org/trade

The OECD-WTO Trade in Value-Added (TIVA) Database can be accessed via the OECD’s Statistics Portal http://stats.oecd.org/ under the theme “International Trade and Balance of Payments” and through the WTO’s portal www.wto.org/miwi

See http://oe.cd/JC

See http://oe.cd/JD

See http://oe.cd/JB


OECD, WTO and World Bank Group (2014), Global Value Chains: Challenges, Opportunities and Implications for Policy, G20 report.


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See also:

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