

# The future of global value chains in Asia

“East Side Growth Stories”

EmNet Meeting, OECD Development Centre

Paris, 20 January 2014

Alicia García Herrero

Chief Economist Emerging Markets, BBVA

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## Reasons behind GVC: *trade liberalisation*

Asia at the center of GVC

Implications of GVC

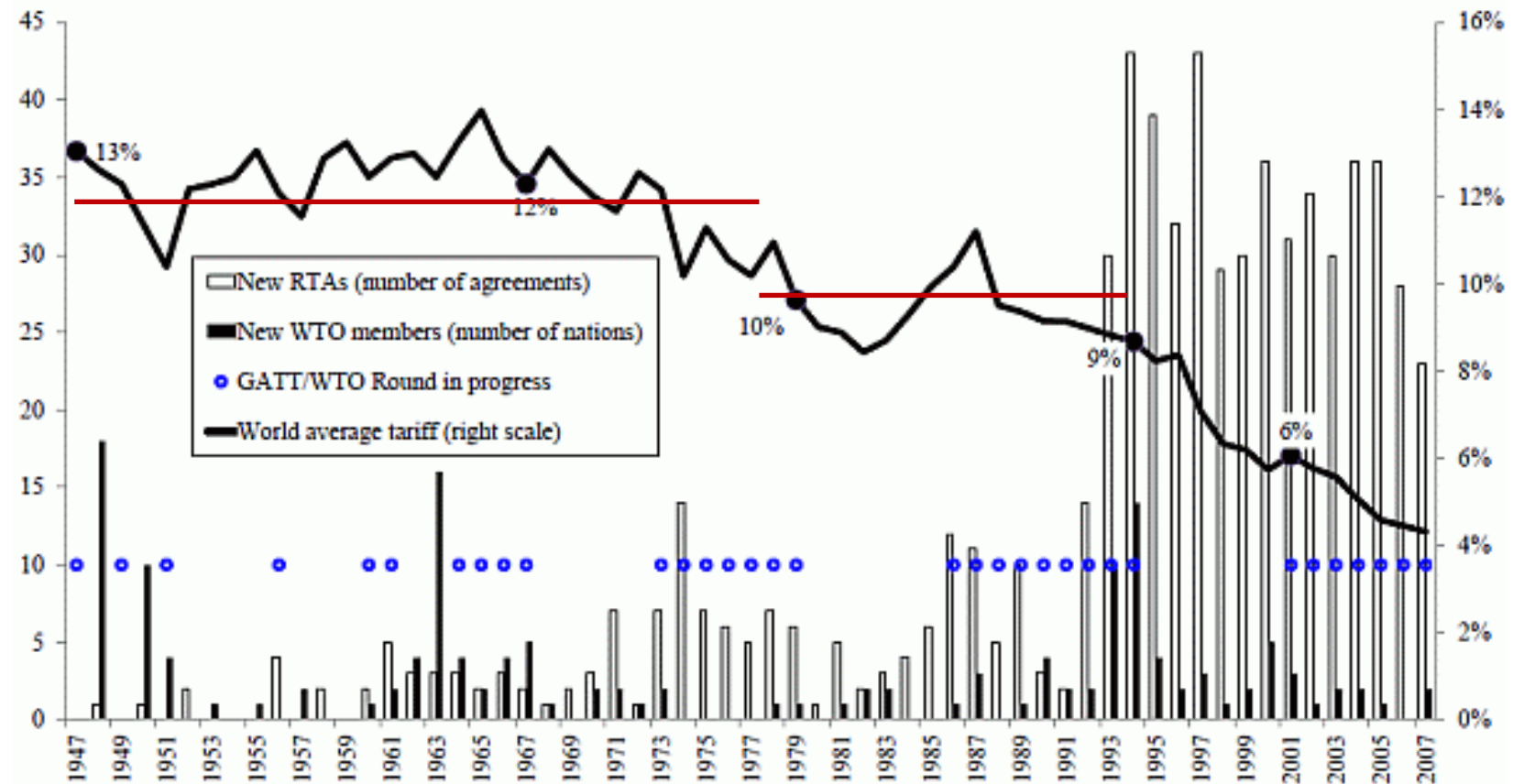
Conclusions

# Trade liberalisation accelerated since mid 90s although increasingly at regional/bilateral level

## Global trade liberalisation (1947-2007)

"21<sup>st</sup> Century Trade and the 21<sup>st</sup> Century WTO", Baldwin (2012)

[http://www.rieti.go.jp/en/special/p\\_a\\_w/O14.html](http://www.rieti.go.jp/en/special/p_a_w/O14.html)

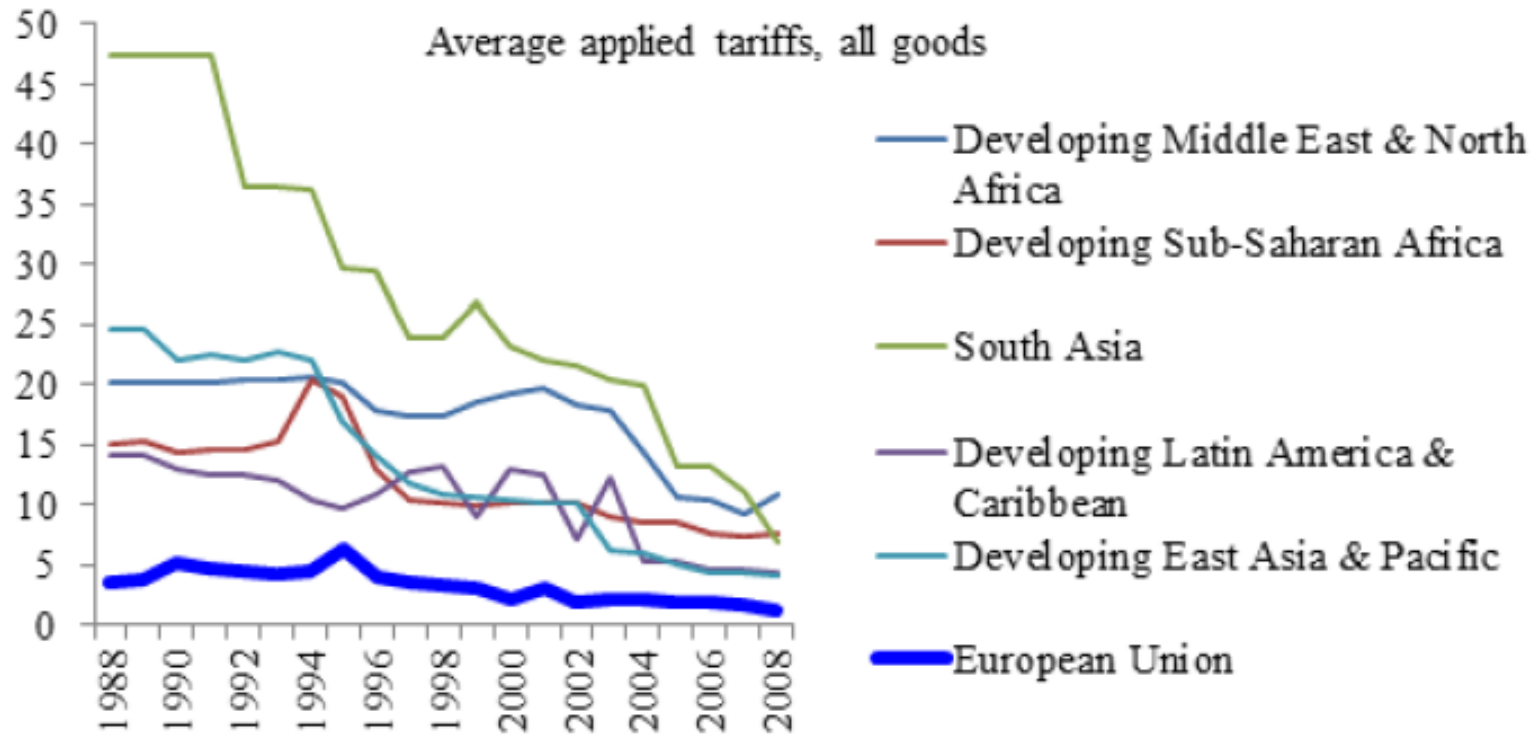


# Asia among most benefited regions...

## Average applied tariffs by region (%)

“Unilateral tariff liberalisation”, Baldwin (2012)

<http://www.voxeu.org/article/unilateral-tariff-liberalisation>

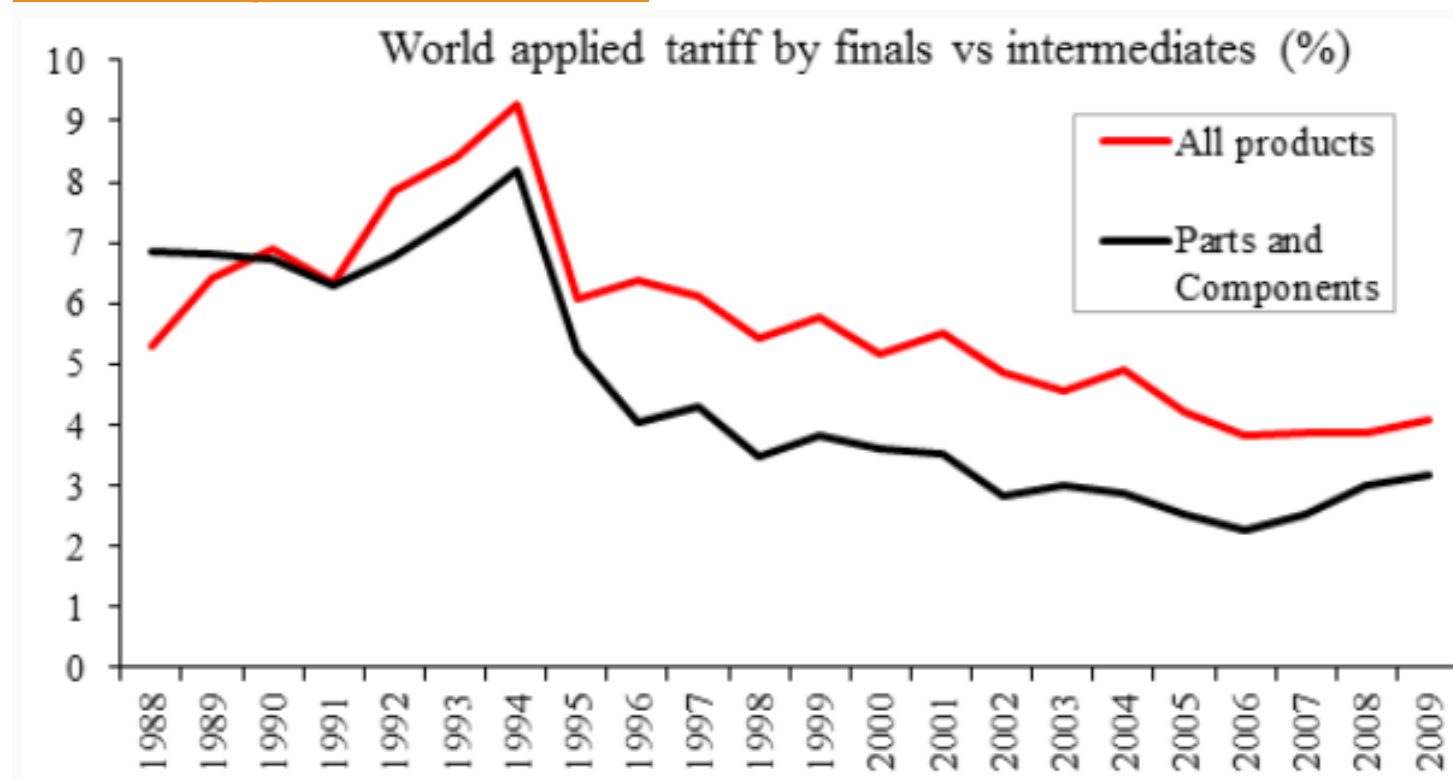


# Specially for parts and components

## World applied tariffs by product (%)

“Unilateral tariff liberalisation”, Baldwin (2012)

<http://www.voxeu.org/article/unilateral-tariff-liberalisation>



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## Reasons behind GVC: *presence of FDI*

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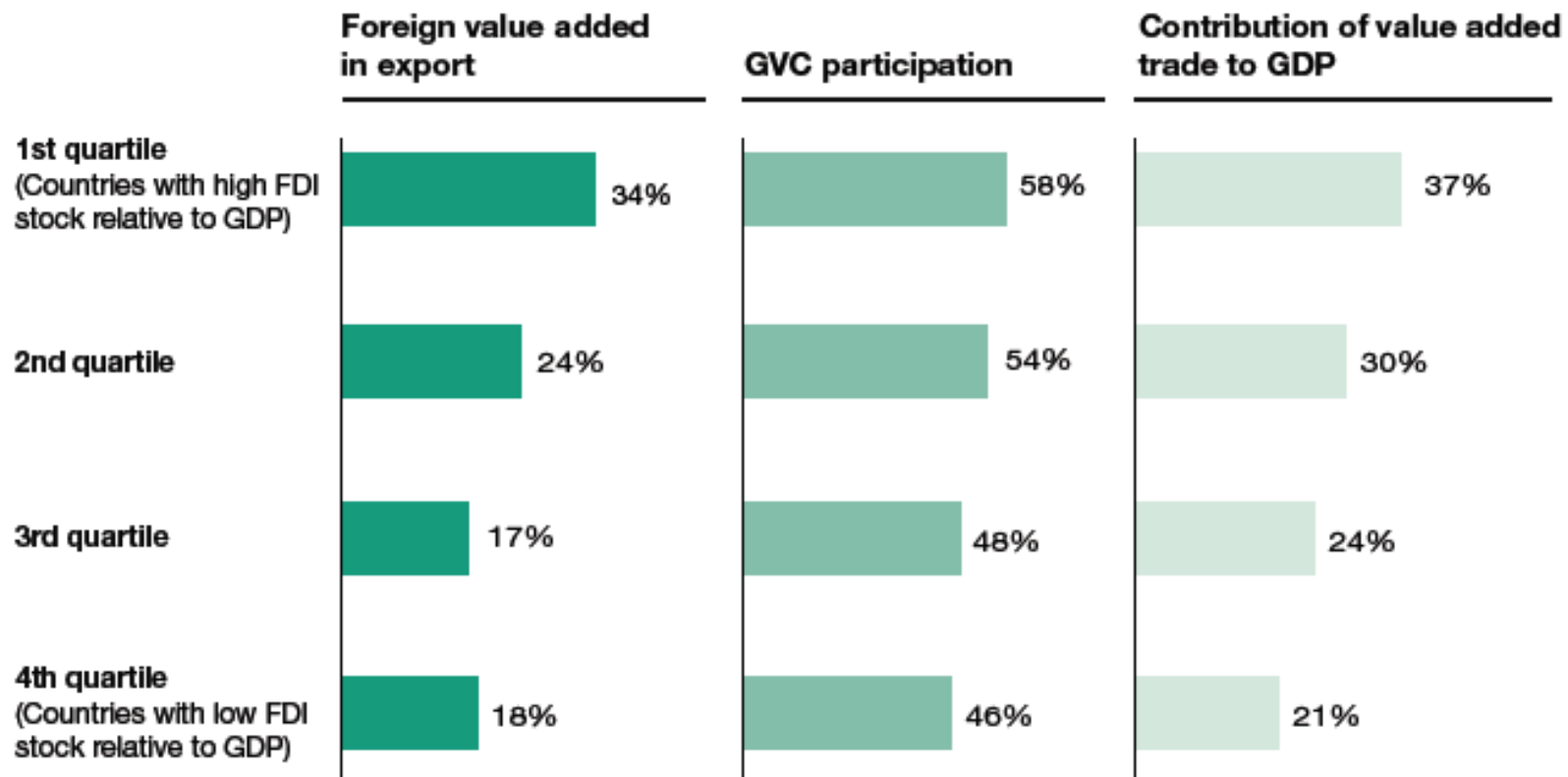
Conclusions

# An avenue to gain access to GVCs?

## Key value added trade indicators, by quartile of inward FDI stock relative to GDP (2010)

"Global Value Chains and Development" (UNCTAD 2013)

[http://unctad.org/en/PublicationsLibrary/diae2013d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf)



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Reasons behind GVC

**Asia at the center of GVC**

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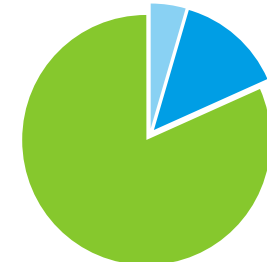
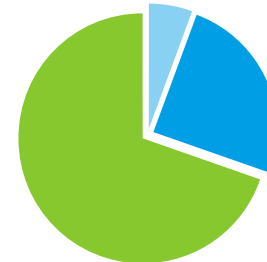
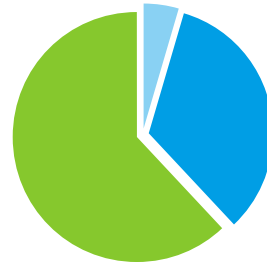
# China, the world factory

## World production of manufactures in 2011 (% of total nominal USD)

Source: BBVA Research, WIOD

■ China (1995) ■ China (1995-2011 change) ■ RoW (2011)

Footwear,leather (52%) Opt.,elec.Eq. (38%) Machinery (30%) Food,bev.,tobacco (18%)

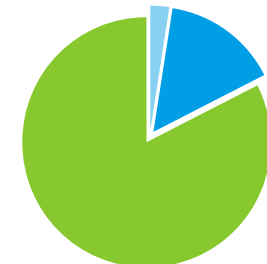
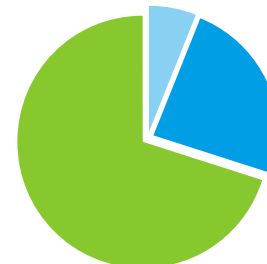
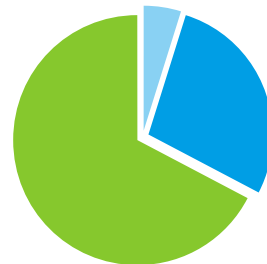
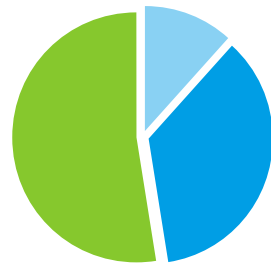


Textile (47%)

Wood,cork (33%)

Plastics,rubber (30%)

Transp.Eq. (18%)

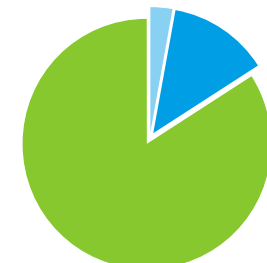
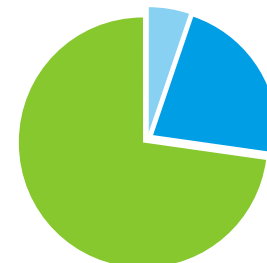
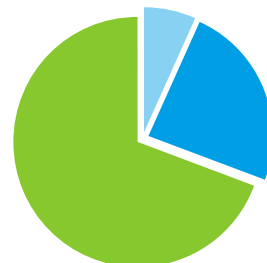
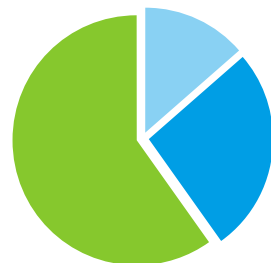


Non-met. minerals (40%)

Metals (31%)

Chemicals (27%)

Woods,pulp (16%)



## World share of Chinese manufactures

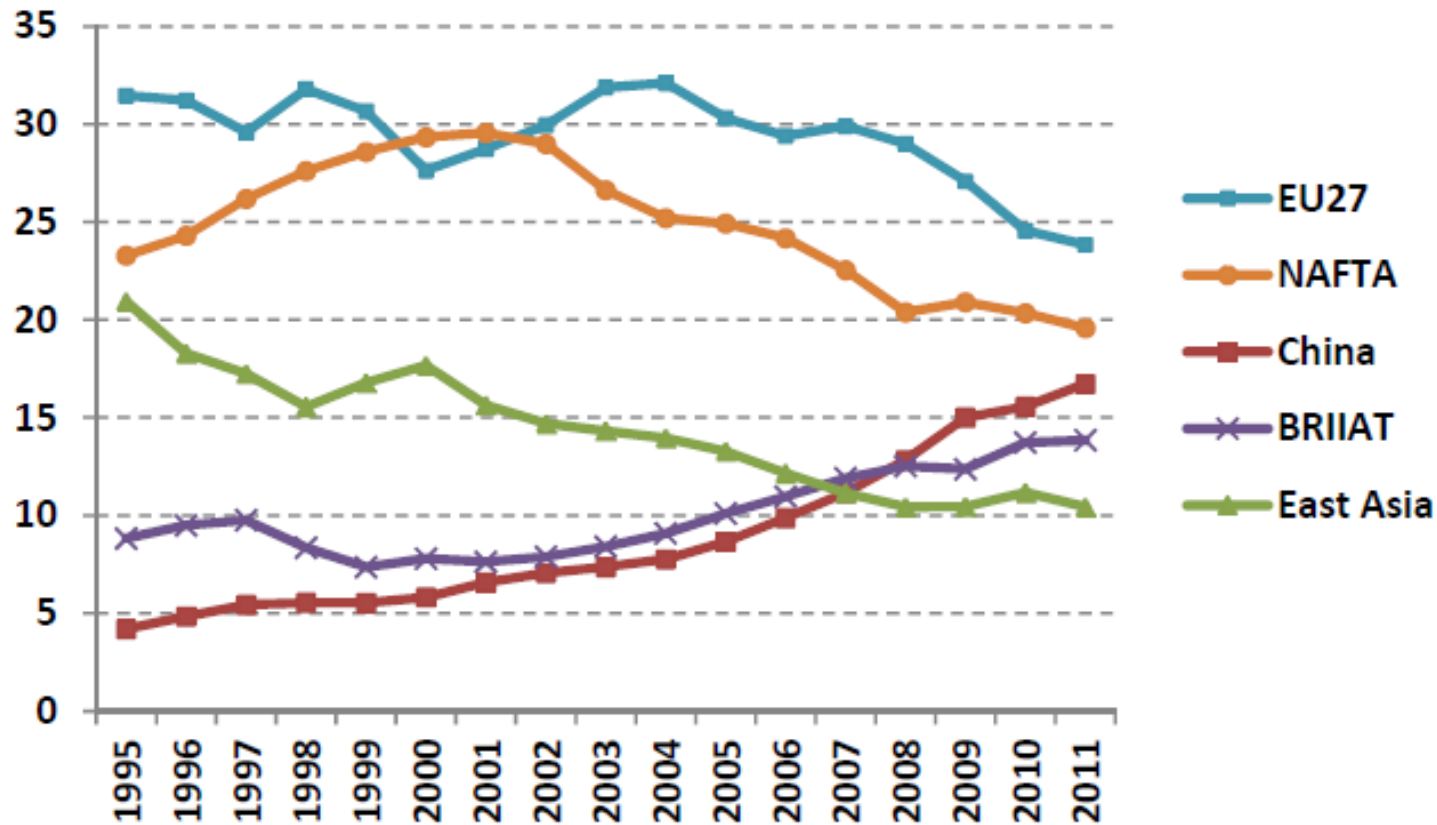
1995 5%  
2011 27%

# China has clearly changed the global picture of GVC

## Regional shares in GVC income for all manufacturers (%)

"Fragmentation, Income and Jobs. An Analysis of European Competitiveness" (ECB 2013)

[www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1615.pdf](http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1615.pdf)



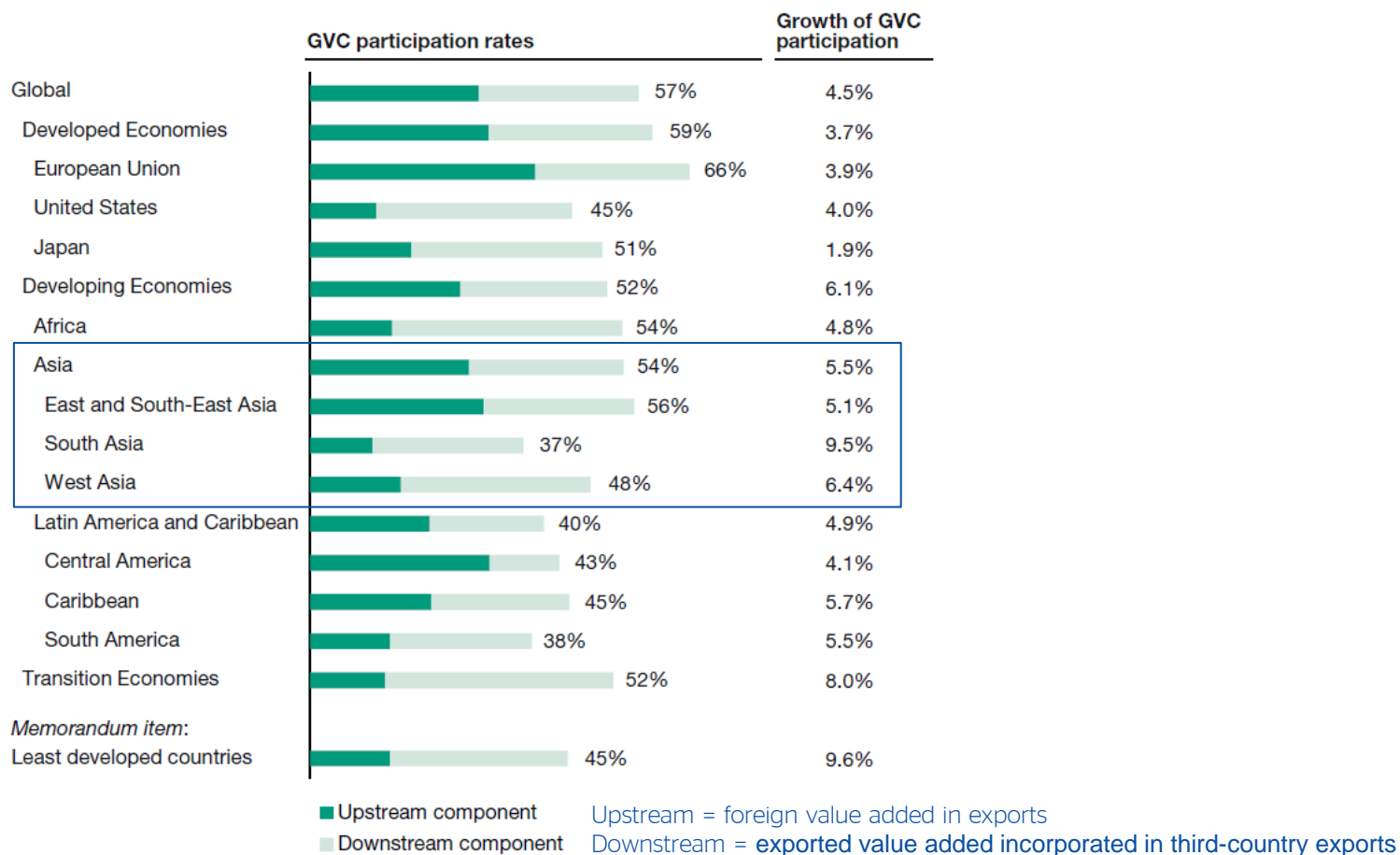
\* BRIIAT = Brazil, Russia, India, Indonesia, Australia and Turkey

# Asia's integration among fastest

## GVC participation rates (2010) and growth rates (2005-2010) (% of total exports)

"Global Value Chains and Development" (UNCTAD 2013)

[http://unctad.org/en/PublicationsLibrary/diae2013d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf)



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Reasons behind GVC

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**Implications of GVC: *boost for South-South trade***

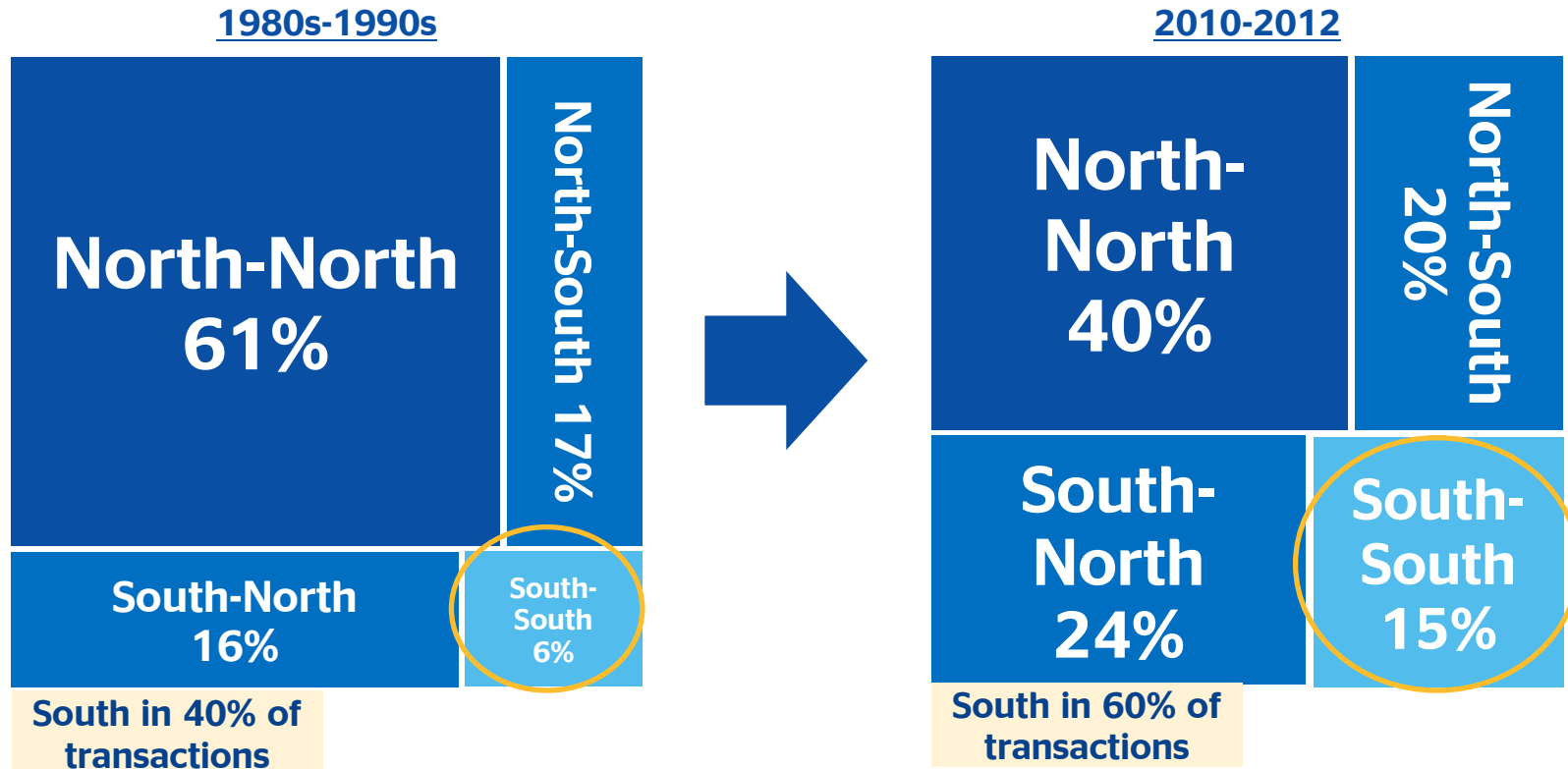
Conclusions

# Rapid growth in emerging countries increases South-South relations

## Distribution of world exports according to origin and destination

(% of total exports)

Source: BBVA Research and IMF/DOTS

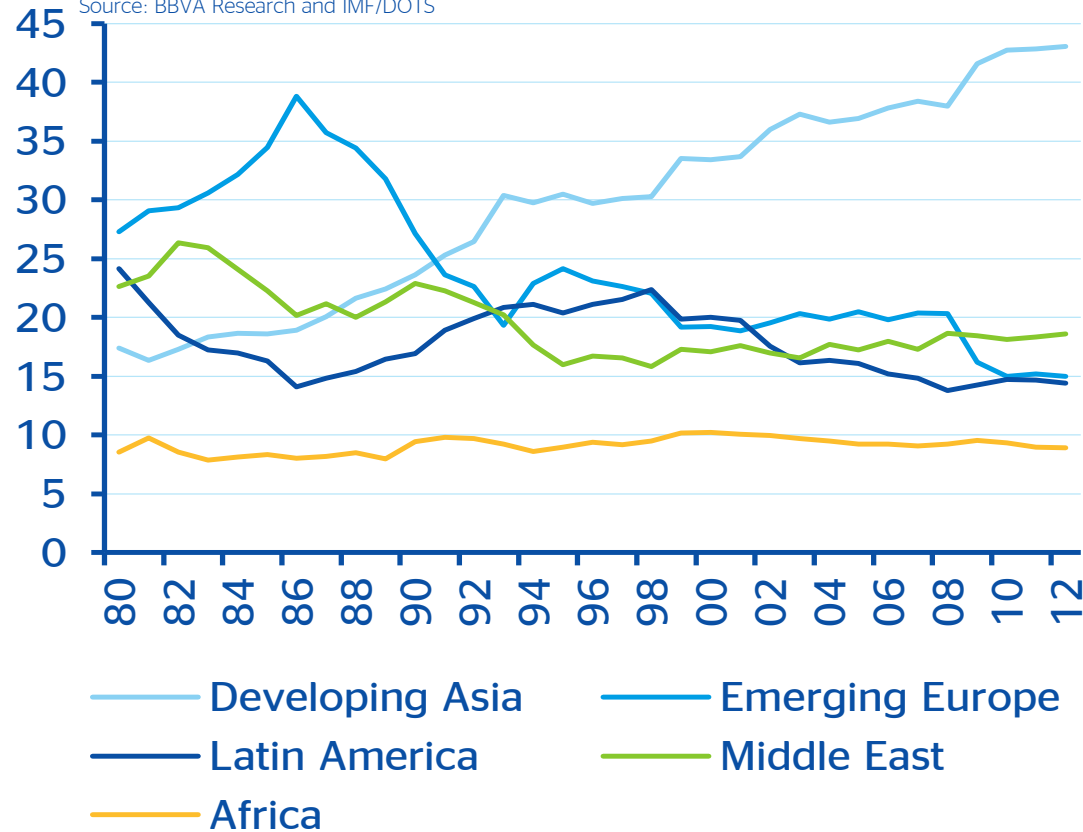


Read more at: "Asia-driven South-South trade intensifies specialization patterns in the rest of emerging regions"  
[www.bbvarsearch.com/KETD/fbin/mult/EWSouthSouthTrade\\_i\\_tcm348-390302.pdf?ts=3082013](http://www.bbvarsearch.com/KETD/fbin/mult/EWSouthSouthTrade_i_tcm348-390302.pdf?ts=3082013)

# Asia leads South-South trade

**Share of South-South trade flows by region  
(1980-2012) (% of total exports)**

Source: BBVA Research and IMF/DOTS



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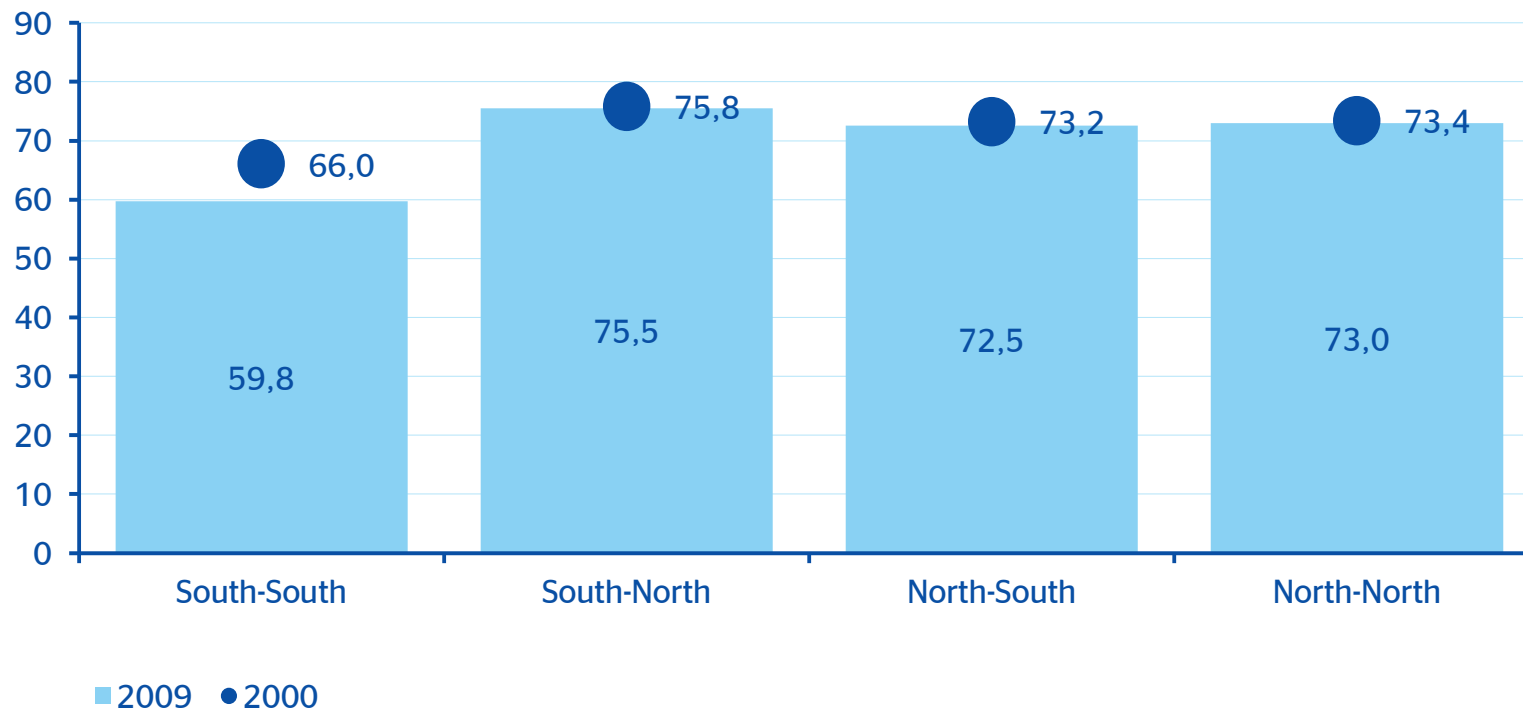
Implications of GVC: ***new reading required for trade figures***

Conclusions

# Value retention low (and even declining) for South-South trade

## Domestic value added embodied in foreign final demand (2000 and 2009)

(% of gross exports by trade flows)  
Source: BBVA Research and OECD

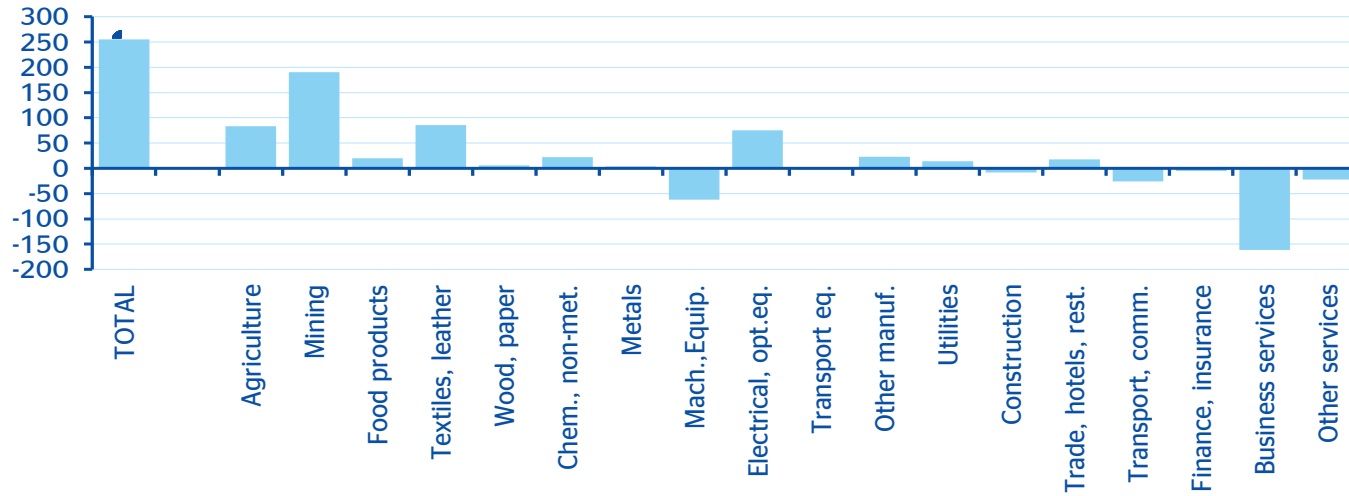


Read more at: "South-South Trade: A New Perspective Using Value-Added Data"  
[http://www.bbvarsearch.com/KETD/fbin/mult/1308\\_Eagles\\_SSTRADE\\_eng\\_tcm348-399034.pdf?ts=1692013](http://www.bbvarsearch.com/KETD/fbin/mult/1308_Eagles_SSTRADE_eng_tcm348-399034.pdf?ts=1692013)

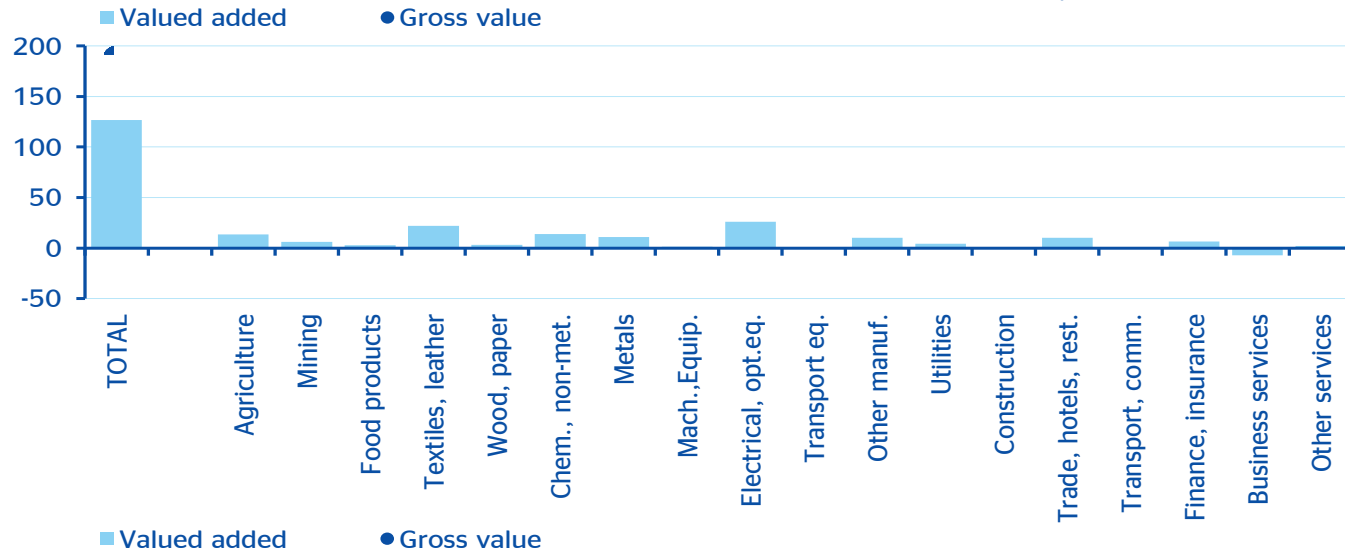


# Adjustment for value added shows a different trade picture

South-North trade balance



China-US trade balance



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Implications of GVC: ***increasing spillovers  
from trade***

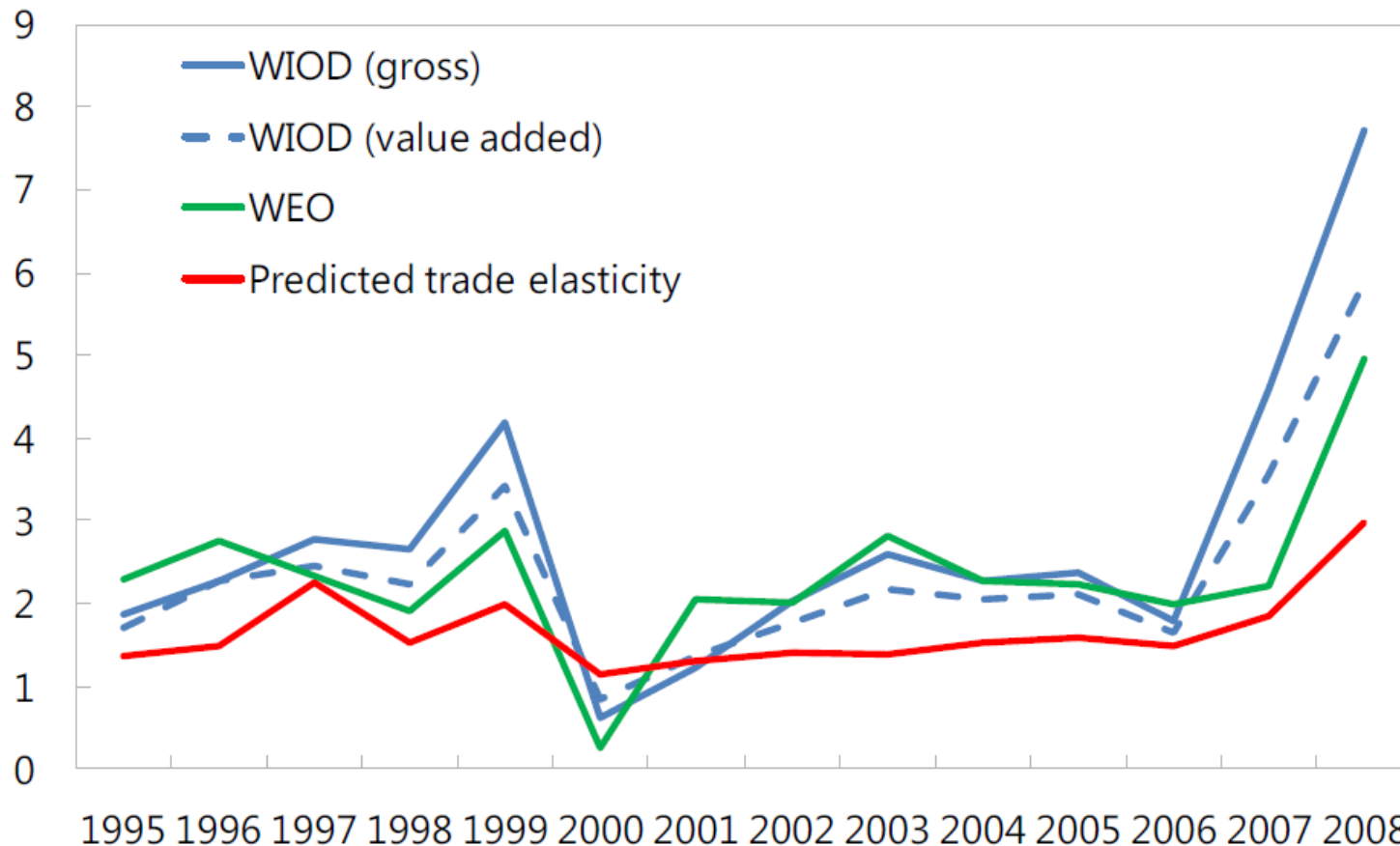
Conclusions

# Higher trade sensitivity to output during recessions

## Trade elasticity (real change in world exports relative to that in world output)

"Trade interconnectedness: the world with global value chains" (IMF 2013)

[www.imf.org/external/np/pp/eng/2013/082613.pdf](http://www.imf.org/external/np/pp/eng/2013/082613.pdf)



### Other factors behind higher trade elasticity during recessions:

- Inventories drawdown
- Protectionists policies
- Goods make the bulk of trade and services of GDP
- Demand home-bias (trust, financing problems)

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Implications of GVC: ***how to measure competitiveness?***

Conclusions

# Real exchange rates no longer a good measure

- The same level of real exchange rate appreciation is less of a problem in countries engaged in GVCs
- Exports harmed by real exchange rate appreciation but imports of parts and components cheaper
- Garcia-Herrero and Koivu (2011) estimate the price elasticity of Chinese exports and find it to be very low due to the impact of processing

# Not even wages

Chen, Fung and Garcia-Herrero (2014) find empirically:

- Quality of labor (human capital) more important for trade of parts and components than for trade as a whole
- Low wages not significant in increasing exports of parts and components

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**Conclusions**

# All in all

- Trade openness is not all, key to avoid:
  - Excessive concentration (say commodities)
  - Even if not concentrated, too low value added (lack of positive externalities)
  - Looking at gross trade figures clearly not enough, even focusing on share of share of high tech exports
- Garcia-Herrero, Martinez Turegano and Ortiz (2014) construct a synthetic index of the quality of exports based on these and other criteria (10 determinants)
- In a nutshell, key for trade to be growth enhancing, in a sustainable way, is to add as much value as possible
- How?: through human capital, soft infrastructure (quality of institutions) and hard one (specially transport and logistics related), not necessarily through wages



Thank you!

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