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Chair's summary

Integration of developing countries in global supply chains, including through adding value to their exports

(Agenda item 5)

1. The secretariat introduced this item and the accompanying background note entitled "Integration of developing countries in global supply chains, including through adding value to their exports" (TD/B/C.I/16), elaborating on the note's main findings and policy conclusions. In particular, it was emphasized that for countries able to enter global supply chains (GSCs), the opportunities for export-led development were substantial. The secretariat highlighted the potential for the further liberalization of South–South trade and the reduction of tariffs on intermediate inputs, the need to properly address non-tariff measures, the need for a sound business environment and an effective government to establish the enabling environment to make domestic firms more attractive to global networks, the necessity for human capital development, and the relevance of transport and trade facilitation to GSCs.

2. The Commission's interactive discussion was facilitated by a panel comprised of Mr. Francisco Monge-Ariño, Negotiator, Ministry of Foreign Trade, Costa Rica; Ms. El Iza Mohamedou, Chief Regional Integration and Trade Officer, NEPAD, Regional Integration and Trade Department, African Development Bank; Mr. Carlos Grau Tanner, Director-General, Global Express Association; and Mr. Robert B. Koopman, Chief Economist, United States International Trade Commission. The deliberations focused on policy analysis and on the identification of practical solutions.

3. The role of trade policy was emphasized – in substantially helping even small developing countries to obtain better security and predictability for their exports, and in allowing for a substantial and rapid export diversification and increase in value addition. In that regard, both the multilateral trading system and regional and bilateral agreements could be of significant value, in combination with attractive foreign direct investment (FDI) policies. Export processing zones also made important contributions to favourable integration into GSCs.

4. It was noted, on the other hand, that participation in GSCs also posed great challenges, both for governments and for the private sector. Particularly in the case of LDCs and small and vulnerable developing economies – especially those in Africa – there was less leverage in creating strong relational linkages with lead (regional and multinational) firms. These countries were mostly trying to get involved in global (or regional) supply and value chains through agricultural products and some labour-intensive products, unlike other developing economies such as those in East Asia. These sectors were marked by insufficient linkages between producers and suppliers. For example, in the case of agriculture, there was discontinuity at different levels of supply chains. Several case studies were presented, including on the rice agribusiness and on post-harvest losses for African farmers.

5. Several participants emphasized that the development of regional supply chains depended on policies that influenced the overall business environment, as well as policies related to transportation and other infrastructure, competition, government efficiency, the rule of law, efficient customs procedures, fiscal incentives, and the development of human capital. With regard to trade policies, there were special challenges in effectively addressing non-tariff measures (NTMs) and trade financing mechanisms. In that regard, the vibrant South–South cooperation was of increasing importance. These efforts would

eventually help developing countries to integrate regionally, in line with strengthening production networks, and by following and implementing South–South trade and economic cooperation initiatives.

6. The increasing incidence of GSCs had equally significant implications for trade statistics. The method currently used for establishing trade statistics might be problematic for countries with a high share of processing exports. It was argued that a new method for calculating domestic content shares was necessary. For example, China – which was the archetype of an economy that was well integrated into GSCs – imported raw materials, equipment, and other intermediate inputs, and then exported 37 per cent of its output to the world market (in 2006), which was huge when compared to the figures for the United States (8 per cent) or India (13 per cent). With the reputation of a “world factory”, China was a top supplier of manufacturing outsourcing for many global companies. However, imported inputs used in the production of exports reduced the share of value added generated by domestic producers.

7. According to a recently developed statistical method, the share of domestic content in China’s exports was about 50 per cent, much lower than that of most other countries. The well-known example of the iPod was mentioned, where China assembled units for Apple which were then exported to the United States and other countries. In trade statistics, the Chinese export value for a 30GB video model in 2006 was about $150. However, the value added attributable to producers in China was recently estimated at only $4. It was noted that the share of domestic content was particularly low in sectors that were likely to be labelled as sophisticated, such as electronic devices and telecommunication equipment. This implied that the competitive pressure that China’s exports placed on skilled workers in high-income countries was likely to be smaller than a cursory look at the raw trade data might suggest.

8. Several participants highlighted the growing significance of express deliveries in GSCs. Express delivery services were growing at around 7–8 per cent per year between 2003 and 2008, as a result of economic growth and expanding GSCs. On average, there were 30 million express delivery shipments daily. In particular, time-sensitive cargo, ranging from documents to high-tech goods and pharmaceuticals, was increasingly moved by express shipment. It was predicted that by 2017, 36 per cent of all shipments by air would be express.

9. It was noted that express carriers had become a model for integrated, rapid and reliable global delivery services. They assumed end-to-end custody of the shipment, and offered an integrated service, from pick-up to delivery, which included customs clearance. A study, commissioned by the Global Express Association on how SMEs in developing countries could be assisted, had shown that exports from SMEs in developing countries were indeed delivered to clients all over the world. These enterprises used express airfreight to ensure integrity and timeliness in the delivery.

10. It was estimated that one day’s delay in releasing a shipment cost 0.5 per cent of its value. Since, in many developing countries, clearance time was still measured in days rather than hours, the cost of trading was still rather high. Specific measures – such as a single window, advance electronic processing, risk-based selectivity, and separation of release and clearance – were critical for better integration of developing countries into GSCs. Trade facilitation thus increased countries’ connectivity and made them more attractive to global manufacturing networks and FDI.

11. Participants complimented the secretariat on its background note and the analytical presentations of this item.

12. It was emphasized that UNCTAD should play a key role in addressing the evolution of GSCs – including South–South aspects of GSCs – through research, analysis, and technical cooperation on, inter alia, trade facilitation and non-tariff measures.

13. Summarizing this agenda item, the Chair reiterated that for countries able to supply GSCs, the opportunities for export-led development were substantial. As well as creating employment and often paying better wages, there was the advantage that suppliers could obtain information on productive know-how, management skills and technology. Low labour costs and preferential market access remained important in attracting GSCs, but these were not sufficient in themselves. Developing countries' participation in GSCs was hindered by relatively higher trade and transactions costs, and also by a less favourable business climate and higher information costs. Improvements to logistics infrastructures, so as to reduce overall trade costs and improve information flows, were essential in order to enter GSCs. These improvements should be pursued through trade facilitation programmes beneficial both to domestic and foreign firms. GSCs required technical and management skills that were often lacking in developing countries. Developing countries that had invested in human capital – especially technical education – were more attractive for localization of production within global networks. Upgrading along the value chain was important, as rents were higher at the top of the chains; however, some developing countries had also benefited by an approach based on low value-added but higher volumes of exports.