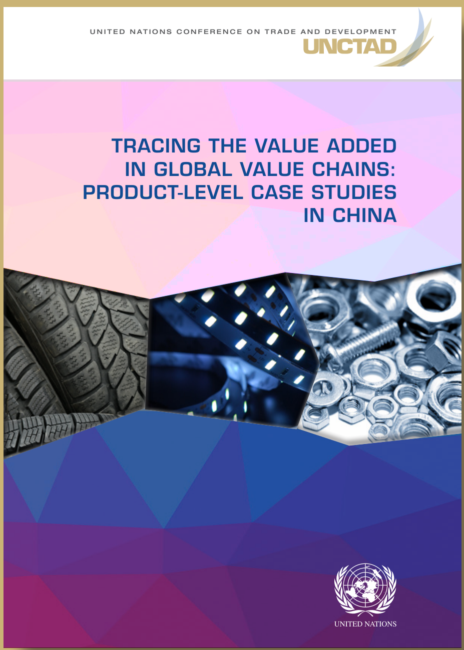
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

Tracing the Value Added in Global Value Chains: Product-level Case Studies in China



The rise of the global value chains (GVCs) is reshaping the whole structure of worldwide trade flows. It is no longer true that all, or even the bulk of the value of a country's exports can be assumed to be domestically produced. Balance of payments and traditional statistics based on gross levels of trade are still indispensable tools to measure a country's financial position vis-à-vis the rest of the world, which is in turn a key factor in determining its overall macroeconomic equilibria, but they are increasingly inadequate as indicators of the true position of each country in the international division of labour, and thus of its true present and perspective comparative advantages. Therefore, policymakers need new and more detailed information in order to properly formulate adequate development strategies.

Following the methodology of utilizing industry-level sales income as an adaptation to the commonly used data aggregation formula based on the identification of the bill of materials (BOM) and other cost categories, three product-level case studies were conducted to identify where China is placed within the GVCs and to find out what and to what extent value is added in China. A few assumptions are made, some of which might imply overstatement of the DVA (for example, the assumption that a particular factor is purchased from a domestic supplier in case of unavailability of relevant information on its origin).

The three case studies relate to rubber tyres, light-emitting diodes (LEDs) and fasteners. They reveal that the selected industries are based mostly on mid-level technologies, and that China is generally in the midstream of the GVC with its comparative advantage in labour cost vis-à-vis its developed trading partners. As the case studies on rubber tyres, LEDs and fasteners have revealed, the activities a country can take up in a GVC are primarily determined by the comparative advantage of that country. This is because GVCs have essentially been a product of cost-reduction strategies of multinational companies to relocate production processes to different countries, with a view to increasing their productivity at minimum costs, thereby maintaining their competitiveness in the relevant industry.

It is clear that an effective participation in GVCs requires a set of integrated policies and measures which create synergetic effect to make a country become attractive for GVC activities. No single policy plays a determinant role in promoting a country's participation in the GVCs.

China's trading partners benefit from China's participation in the GVCs. For example, profiting from China's increased tyre production and export are natural rubber suppliers from countries/economies such as Cambodia, Indonesia, Malaysia, Myanmar, Thailand and Viet Nam; synthetic rubber suppliers from Belgium, Canada, France, Germany, Japan, the Republic of Korea, the Russian Federation, the United States and Taiwan Province of China; and foreign enterprises investing in China in the tyre framework materials industry from Belgium, Japan and the Republic of Korea. For Cambodia and Myanmar, where natural rubber is an important item in their export baskets, China is their major export market. Participation in the tyre GVC by exporting natural rubber to China offers them an opportunity to earn foreign exchange and create employment, and is thus conducive to poverty alleviation.

UNITED NATIONS
UNCTAD

For further information, please contact:
Trade Negotiations and Commercial Diplomacy Branch, DITC
tncdb@unctad.org
For a complete version:
unctad.org/services