

How GPNs are changing our thinking on trade and investment

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Introduction

Global production networks (GPNs) are an invisible hand integrating the world economy ...

Global production networks have

- challenged the implications of conventional trade statistics and illustrated the importance to measure trade in value added (Xing and Detert, 2010);
- transformed the relations of trading economies and questioned the validity of conventional trade rules and principles;
- provided a new path for developing countries to achieve industrialization.

Trade in Value Added: the Case of the iPhone

According to conventional trade statistics, in 2009 China exported \$2.0 billion 3G iPhones to the US and the iPhone trade resulted in \$1.9 billion trade deficit for the US.

However, the GPN of 3G iPhone shows that primarily 9 companies in China, Japan, Korea, Germany and the US were involved in manufacturing the iPhone and China contributes only \$6.5 value added to each 3G iPhone exported.

In terms of value added, China's iPhone export to the US would be a merely \$73 million and the corresponding trade surplus 3.6% of \$1.9 billion (Xing and Detert, 2010).

The iPhone trade is NOT unique. All processing trade, accounting for about 50% of China's exports contain more than 50% of foreign value added (Xing, 2014)

Conventional trade statistics fail to identify the cross-country distribution of the value added and greatly inflate trade volume and bilateral trade balances.

The Complexity of Trade Relations under GPNs

- Bilateral trade relations have turned into multilateral.
- The relations between two trading economies have been developed beyond simple producer-consumer relations and evolved into partnership.
- Innovations and outsourcing activities of multinational enterprises have been performing a decisive role in creating and amplifying global trade flows, thus reshaping geographic trade patterns and balances.
- ❖ *Protectionism would undermine the welfare of all countries involved in GPNs. Not only consumers but also producers of the country imposing trade protection measures would suffer. Unilateral actions may not be effective in solving bilateral imbalances.*

Exchange Rates and Trade along GPNs

The textbook theory on the nexus of exchange rates and trade no longer holds for GPN trade.

➤ The production costs/prices of goods produced with GPNs are less sensitive to exchange rates of a single country involved in GPNs. The appreciation/depreciation of a country's currency can only impact the domestic value added embedded in its exports, not all gross value of the exports (Xing and Detert, 2010).

➤ Along GPNs, countries import intermediate inputs from others for further processing and exports. If the appreciation of their currencies leads their processed exports to decrease, the corresponding imports should decrease too.

➤ It is estimated that a 10% real appreciation of RMB to the US dollar would reduce China's processing exports by 9.1% and processing imports by 5% (Xing, 2012).

❖ A moderate appreciation/depreciation has no effect on competitiveness and bilateral trade balances.

How to Define Rules of Origin?

Rules of origin are the criteria needed to determine the national source of a product and used to implement trade measures and preferential treatments

➤ However, for goods produced with GPNs, it is difficult, in many cases almost impossible, to define the country origins.

➤ If no country in production networks produces more than 50% value added of a product, how should we define the country origin?

❖ *Requiring high percentage of local value added in FTA negotiations has a risk to exclude the firms located at low value added segments of GPNs from FTAs.*

Opportunities for Developing Countries

It is unrealistic and inefficient for developing countries to build up domestically complete industries which would be competitive globally.

Opportunities offered by GPNs

- Accessing global distribution networks and markets;
- Taking advantages of technology innovations of advanced countries;
- Enjoying the growing global markets due to the innovations of developed countries;
- Benefiting brand images of multinational enterprises;
- Reducing information costs of reverse engineering and catching up.

❖ Plugging into GPNs established by multinational enterprises is an alternative path leading to industrialization.

The Successful Cases of participating in GPNs

China— a global assembly center for information communication technology products;

Thailand—an emerging auto export-hub in Asia and No.3 commercial vehicle producer in the world;

India— a global information technology software sourcing destination;

Philippine— No.1 voice (call Center) outsourcing destination

The successes of these countries are achieved through participating in GPNs. The comparative advantages of these countries have been effectively utilized with the participation in GPNs.

Thank you!

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