DOHA DATELINE

Dr R. Seetharaman

GVC — key for future trade and investment

IN THE WORLD TRADE Organisation (WTO) ministerial meeting in Bali in December 2013, members had agreed to finalise on trade facilitation agreement (TFA) and find a permanent solution to implementation of food security scheme so that these programmes did not attract any multilateral scrutiny. As per the agreed stand in Bali, by July 31, 2015 the WTO members have to implement the TFA. Under the TFA, countries are required to improve their trade systems, including by applying common customs procedures and uniform documentation requirements. The improvements are expected to reduce red tape and ensure the smooth flow of goods.

Trade facilitation should become a central issue in G-20 summit as G-20 countries accounted for 80 per cent of the world's gross domestic product (GDP). The slow progress after Bali could hamper the realisation of the global growth target. The success and rapid implementation of the agreement is critical. Developed economies were still putting too much emphasis on trade facilitation at the expense of agriculture and issues concerning least developed countries (LDCs). The US, Australia and the EU want to have greater access to Indian agricultural markets and they also want India to reduce its food subsidies, which include publicly funded food grain purchases. India has stated it will not agree on TFA without finding a permanent solution to issues concerning food security.

Trade facilitation can help countries participate in Global Value Chains (GVCs) by cutting costs, avoiding unnecessary delays, and reducing uncertainty. The potential reduction in trade costs of fully implementing the WTO agreement on trade facilitation is as high as 14 per cent for some developing countries. The GVC involves activities involved in creating, producing and delivering a product, among various companies across the world. According to a recent OECD-WTO-World Bank report, the growth of GVCs has increased the interconnectedness of economies and led to a growing specialisation in specific activities and stages in value chains, rather than in entire industries. Over 70 per cent of global trade is in intermediate goods and services and in capital goods. The income created within GVCs has doubled, on average, over the last 15 years.

Some countries participate in many, either as the host country to lead firms or as suppliers of very specific tasks, while others participate very little. The varying degrees of connectedness are determined by fixed considerations, such as a country's geographic location and resource endowment. The others factors which affect the connectedness includes country's human capital, physical infrastructure, and overall investment climate. In order to engage in specific GVCs, countries require policies that go beyond broad initiatives focused on fostering competitiveness and investments.

> “ GVCs offer an opportunity to integrate in the world economy at lower costs

GVCs are particularly sensitive to the quality and efficiency of services, accounting for 42 per cent of the value-added in the exports of G-20 economies. Trade-related participation in GVCs contributes to economic growth through the gains that firms achieve from specialisation and improved productivity for both imports and exports. In the case for investment the nature of the interaction between foreign firms and domestic producers can explain more of the potential productivity spill-overs, from technology, knowledge or superior management than the level of FDI.

Developing countries are increasingly involved in GVCs which offer an opportunity to integrate in the world economy at lower costs. But the gains from GVC participation are not automatic. Strong social, environmental, and governance frameworks and policies are important to maximising the positive impact of GVC activities and minimising risks in all countries, especially in developing economies. GVCs benefit from sound public institutions that enforce contracts, adequately secure property rights and investor protection, ensure an impartial judiciary, and reduce corruption. For firms to upgrade in GVCs, countries should develop an efficient innovation system that facilitates investments in knowledge, technology dissemination, skills upgrading and entrepreneurship.

The rise of GVCs has produced a new "trade-investment-services-know-how nexus," or the intertwining of trade in intermediates, the movement of capital and ideas, and demand for services to coordinate the dispersed production and distribution of goods and services. GVCs are becoming increasingly influential in determining future trade and FDI patterns, as well as growth opportunities. Policy needs to respond to this new reality and promote a business environment that not only makes a country attractive for location of GVCs, but also facilitates upgrading opportunities over time. Global Value chain is the key for future trade and investment.

The writer is the group chief executive officer at Doha Bank. Views expressed by him are his own and do not reflect the newspaper's policy.