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**Participating in the Global Value Chain: How Low-income Countries
can Maximise the Potential Benefits?**

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by

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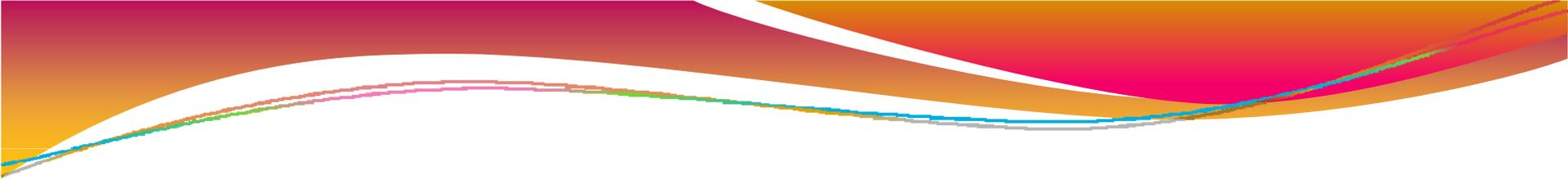
CPD, Dhaka



CENTRE FOR POLICY DIALOGUE (CPD)
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Participating in the Global Value Chain: How Low-income Countries can Maximize the Potential Benefits?

Presentation by
Khondaker G Moazzem
Centre for Policy Dialogue



1. Introduction

- Presentation highlights on
 - How low-income countries can maximize the potential benefits?
- Discussion on global value chain is overwhelmingly dominated by trade and investment framework
 - Hoekman (2014): trade cost, vertical specialization in terms of intermediate inputs, components and services, supply chain trade analysis, process specialisation, know how, technology, R&D design, branding, and distribution network
- There are issues which are difficult to discuss under trade frame



1. Introduction

- Three kinds of issues
 - More participation (Horizontal issue)
 - Better participation (Vertical issue)
 - Sustainable Development (Diagonal issues)
- Priorities are on: More participation (Horizontal issue)
- Discussion highlights: ‘LDCs’ instead of ‘Low-income countries’



2. More Participation of LDCs

- GVC participation index: LDCs remain at the bottom (only 8% of total value added)
- LDCs are heterogeneous set of countries
 - Average out the concerns of many LDCs
 - 29 countries (out of 49) have GNI less than US\$1000
 - Experienced with different kinds of structural transformation
 - FDI flow is very low: US\$27 billion (2013)
 - Only half of LDCs have export over US\$1 billion
 - Two countries accounted for 53 per cent of total export
- What kinds of value chain would be functional in such LDCs?



2. More Participation of LDCs

- 95 value chains found in LDCs
 - 70% is related with primary agricultural products and mineral resources
 - South-South Trade: China is the largest destination for LDCs export
 - Is it policy of these countries that facilitate LDCs trade?
- Domestic policy of developed and developing countries
 - Positive but unequal impact of preferential market access
 - May not necessarily a 'positive' some game for LDCs
- High trade cost is a major barrier
- Challenges in different segment of the value chains for different types of products
- Manufacturing VCs: lack of technology spillover, limited skills of workers, poor health and safety condition, inconsistent quality, unfavourable tariff structure and shortages of skilled manpower



2. More Participation of LDCs

- Logistical challenges: land lockedness, poor connectivity, political volatility
- Infrastructural challenges
- Technological issues
- Challenges in the business processes
- Participation of limited number of firms: SMEs outside; 'sub-contracting' or tier 3 firms



3. Better Participation

- Limited scope for diversification: 93% primary commodities; captive nature
 - Manufacturing base primarily of labour intensive and resource intensive
- ToT Issue: More participation does not necessarily ensure better return to LDCs

Terms of Trade				
YEAR	2000	2005	2010	2011
LDCs	100.00	121.55	138.75	146.51
LDCs: Africa and Haiti	100.00	131.35	161.87	177.91
LDCs: Asia	100.00	99.56	90.94	87.82
LDCs: Islands	100.00	89.01	86.81	85.97

Source: Bhattacharya and Moazzem, 2014

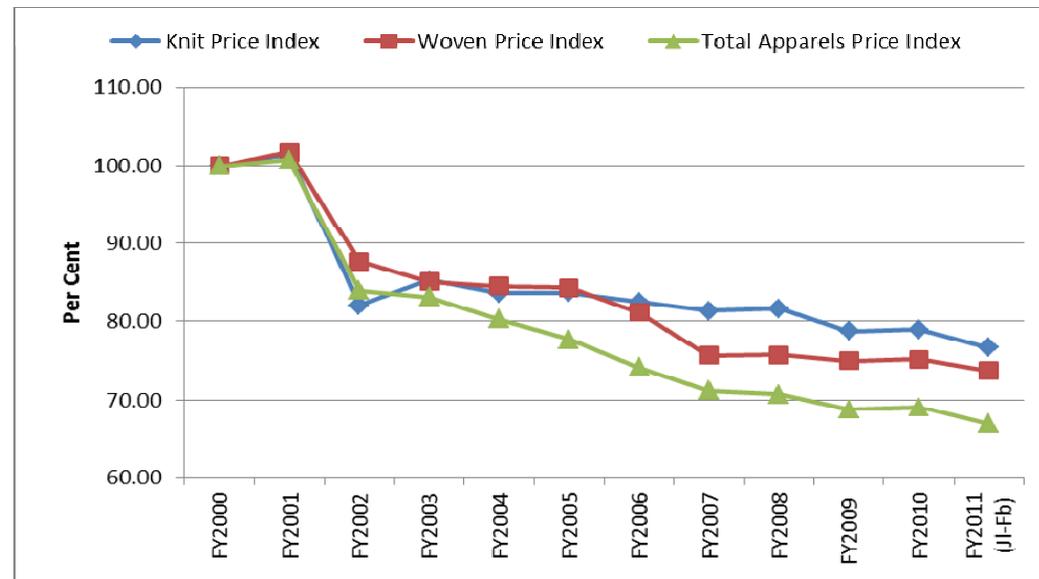
3. Better Participation

Terms of Trade of Bangladesh

Year	Export Price Index	Import Price Index	Commodity ToT
FY2000	120.31	136.17	88.35
FY2001	123.15	146.41	84.11
FY2002	126.23	157.76	80.01
FY2003	135.19	164.15	82.36
FY2004	139.6	169.96	82.14
FY2005	142.38	176.66	80.6
FY2006	149.28	183.09	81.53
FY2007	165.7	232.52	71.26
FY2008	171.29	241.15	71.03
FY2009	178.23	248.33	71.77
FY2010	190.07	264.27	71.92

Source: CPD (2012)

Trends in Apparel Price index



Purchasing Power of Exports

Items	Dozens of RMG				Tonnes of Jute Goods			
	2006	2009	2010	2011	2006	2009	2010	2011
1 barrel of oil (fuel)	2.29	1.77	2.96	3.77	0.11	0.11	0.13	0.16
1 Mt of rice	10.76	15.93	18.21	19.39	0.53	0.95	0.83	0.85
1 Mt of wheat	6.92	6.43	8.33	12.76	0.34	0.38	0.38	0.56
1 Mt of soybean oil	20.75	24.35	37.42	51.52	1.02	1.45	1.70	2.26

Source: CPD (2012)



3. Better Participation

- Economic upgrading: process upgrading, product upgrading and functional upgrading
 - Could ensure better return; uncertain
- Policy challenge between upgradation and employment generation
- Exchange rate volatility
- Distribution of margin: High margin in less competitive segment (R&D, fashion & design)
 - More at buyers' end (RMG value chain, BD: 67 per cent)
- Lack of compliance due to low level of margin
 - Due to weak judicial governance and poor external governance



4. Development of Sustainable Value Chain

- Social upgradation in value chain: better working environment, work place safety and security, better living for workers and movement in ladder and necessary attention to environmental issues.
 - To what extent economic upgradation could ensure social upgradation?
- Weak judicial governance
 - Weak domestic regulatory regime in developing countries
 - Buyers/retailers follow code of conduct and pursue social audit and others : faulty
 - ‘ethical buying vs. ethical sourcing’



4. Development of Sustainable Value Chain

- MNCs investment needs to ensure social progress
 - Nonbinding clauses of IIAs: Technology transfer, employment generation
- Environmental concerns are very important in extractive industries
 - Corruption is another important concern



5. WTO Framework for GVCs: Outcome of Bali Package

- Comprehensive framework for GVCs for LDCs and other low-income countries
- WTO framework would facilitate participation of LDCs
 - Content of the agreement
 - Process of implementation
- Bali Package
 - DF-QF market access; Preferential rules of origins; Operationalisation of service waivers; Monitoring mechanisms on S&D treatment; Trade facilitation; Cotton



5. WTO Framework for GVCs: Outcome of Bali Package

- The process issues in the context of WTO are more depressing
- Mega-regional blocs may have adverse impact on LDCs
- Bilateral FTAs as those signed by developed and developing countries would erode LDC preferences



6. Addressing the Challenges in Promoting Global Value Chain in LDCs

- Enhanced Participation of LDCs (Horizontal Issues)
 - Strengthening industrial and trade policies
 - Develop the ‘critical’ minimum for operating GVC
 - Better policy support (fiscal and budgetary policies)
 - Preferential market access in developed and developing countries
 - Flexible RoO; Regional Cumulation
 - Facilitation through overcoming natural barriers such as land lockedness, remoteness and limited connectivity
 - Streamlining investment regimes including setting up one stop investment services
 - Open regionalism for trade and investment
 - Special measures targeting SMEs



6. Addressing the Challenges in Promoting Global Value Chain in LDCs

- Measures for better participation (Vertical Issues)
 - Better ToT/better return through upgradation of the chain: ?
 - Measures for better access to inputs and logistics
 - Financial and technical support under 'Aid for trade'
 - Measures for building productive capacity
 - Financial and technical support under 'Aid for trade'
 - More access of LDC firms in high-value activities
 - Measures for development of trade-related infrastructure
 - Financial and technical support under 'Aid for trade'
 - Better external governance: buyers' end, developed countries regulations on MNC activities, international organisations
 - Domestic rules and regulations: Labour, environment, social compliance, corruption



6. Addressing the Challenges in Promoting Global Value Chain in LDCs

Aid for Trade

	Aid Disbursement (US\$ million)			
	2006	2007	2008	2009
Aid for Trade to LDCs	5 185.2	6 284.3	7 132.2	8 285.4
Aid for Trade, Total	20 746.5	23 049.1	25 911.0	29 135.8
Share of LDCs in total Aid for Trade	25.0%	27.3%	27.5%	28.4%

6. Addressing the Challenges in Promoting Global Value Chain in LDCs

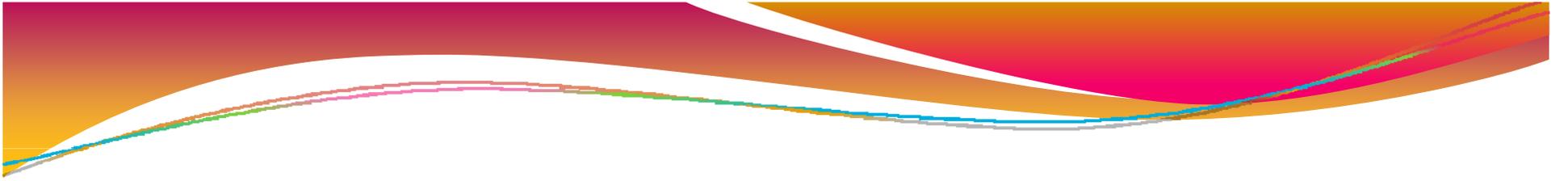
Aid for Trade

Disbursements, USD million (2009 constant) and %								
	2006	2007	2008	2009	2006	2007	2008	2009
	AID FOR TRADE TO LDCs				SHARE OF LDCs IN TOTAL AFT			
BUILDING PRODUCTIVE CAPACITY (1)								
Business and other services	620.9	781.8	523.7	364.1	37.70%	39.50%	27.90%	24.40%
Banking and financial services	197.5	275.2	326	723.6	12.20%	12.10%	11.80%	17.00%
Agriculture	1 172.3	1 411.6	1 631.6	2 460.2	33.30%	34.20%	33.80%	41.40%
Forestry	91.6	63.7	65.5	84.3	18.00%	11.10%	11.20%	12.80%
Fishing	96.9	78.2	97.5	92.4	40.40%	29.70%	26.00%	21.60%
Industry	224.1	291.1	288.5	238.5	18.40%	20.80%	21.30%	17.50%
Mineral resources and mining	86.3	62.5	94.4	79.6	10.80%	41.00%	40.40%	29.30%
Tourism	6.9	8.9	9.8	13.3	11.60%	12.40%	11.00%	10.40%
SUB-TOTAL	2 496.5	2 972.9	3 036.9	4 056.0	26.00%	27.40%	25.10%	27.90%
ECONOMIC INFRASTRUCTURE								
Transport and storage	1 911.4	2 142.5	2 596.5	2 723.4	32.10%	35.30%	35.80%	33.60%
Communications	119.7	100.2	107.7	97	23.70%	24.40%	20.40%	18.40%
Energy supply and generation	587.5	851.3	1 188.6	1 257.3	14.30%	17.60%	23.10%	25.00%
SUB-TOTAL	2 618.6	3 094.0	3 892.9	4 077.7	24.80%	27.30%	30.10%	29.90%
TRADE POLICY AND REGULATIONS								
Trade policy and admin. management	49.7		150.4	80	12.80%	31.80%	25.80%	15.80%
Trade facilitation	7.2	13.6	15.4	18.9	9.60%	10.70%	10.90%	14.00%
regional trade agreements	10.1	10.3	4.5	15.8	14.00%	8.60%	5.90%	8.50%
Multilateral trade negotiations	2.2	1.9	3.8	3.8	12.50%	7.20%	13.30%	8.40%
Trade education/training	1	2.2	2.3	2	9.50%	7.90%	8.30%	7.00%
SUB-TOTAL	70.2	217.3	176.4	120.5	12.50%	24.20%	20.60%	13.40%
TRADE-RELATED ADJUSTMENT (2)								
Trade-related adjustment	..	26	31.2			0.00%	97.80%	86.40%
SUB-TOTAL	..	26	31.2			0.00%	97.80%	86.40%



6. Addressing the Challenges in Promoting Global Value Chain in LDCs

- Measures for Sustainable GVC Development(Diagonal Issues)
 - Measures for social upgrading: living wage, work place safety, labour rights, livelihood issues
 - Not covered under AfT
 - Both financial and technical support required
 - IIAs with rules on technology transfer, environmental issues and social compliance
 - Environmental concerns



Thank you.