THE FUTURE OF AID FOR TRADE:
GLOBAL VALUE CHAINS?

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Outline

• The rise of global value chains
• The development potential of GVC
• Constraints in linking to GVC
• Aid for trade and GVC
• Conclusions
The rise of global value chains

Drivers of change:

• Falling trade costs;
• Declining transport costs;
• Advances in ICT;
• International standards
The rise of global value chains

Effects of change:

• International production networks;
• Network of activities;
• Reallocation of resources;
• More specialisation;

A new paradigm, or a next phase?
The rise of global value chains...
...imports are increasingly important.
Share of non-OECD regions in world manufacturing

Value added

- East Asia excl. China
- China
- South Asia
- South East Asia
- Latin America excl. Mexico
- Mexico
- Middle East and North Africa
- Sub-Saharan Africa excl. South Africa
- South Africa

%: 1990, 2000, 2010
Share of non-OECD regions in world manufacturing

employment

1990  2000  2009

% 40 35 30 25 20 15 10 5 0

East Asia excl. China  China  South Asia  South East Asia  Latin America excl. Mexico  Mexico  Middle East and North Africa  Sub-Saharan Africa excl. South Africa  South Africa
## GVC and their development potential

<table>
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<tr>
<th>PHASE 1</th>
<th>PHASE 2</th>
<th>PHASE 3</th>
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<tr>
<td>PREDATION</td>
<td>SEGMENTATION</td>
<td>CONSOLIDATION</td>
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- **Sourcing of raw materials and DCs**
- **Import of processed goods and services**

- **Local production for local consumption:** adjustment of the production process and products
- **Imported innovation**
  - “Bottom of the pyramid”
  - “Just enough”

- **Local innovation and production for DCs export of processed goods and services**
  - “Reverse innovation” NB: less beneficiaries but higher development content
The thickness of borders (1)

Source: World Bank
The thickness of borders (2)

TRADE CHAINS

EXPORTING COUNTRY

To the border
- Infrastructure
  - Soft
  - Hard

At the border
- Costs
  - Direct
  - Indirect
  - Hidden

IMPORTING COUNTRY

Behind the border
- Regulations
- Institutions
- Services

TRANSPORT
Aid for Trade Facilitation

Commitments (USD million, 2010 constant)

Source: OECD/CRS
Donor support for the private sector
Aid for Trade Development

Commitments (USD billion, 2010 constant)

Source: OECD/CRS
Case stories about TF and GVC
Moving up the value chain...
Conclusions

• Linking to GVC needs a broad-ranging agenda including:
  – Skills and innovation;
  – Structural policies; and
  – Trade policies.

• Aid for trade can help low-income countries to link and move up the GVC.

• Imports increasingly important for exports
  (the end of mercantilism: “exports are good, imports bad”)
Thank you