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WTO Public Forum 2015

Geneva, September 30 - October 2, 2015

WTC Mumbai and AIAI Working Session

Global Value Chains and Changing Patterns of Value Added Trade in Developing Economies

REPORT 2015

WTO Public Forum 2015, Geneva
Trade Works

WTO Public Forum 2015 marked the twentieth anniversary of World Trade Organization (WTO) with the theme "Trade Works." The Public Forum was held from September 30 – October 2, 2015.

The Forum focused on how trade works through the multilateral system to boost growth , lift people out of poverty, increase access to goods and services, and promote peaceful mutually beneficial relationship between nations. The Forum looked at those areas where trade can work better and looking forward what role WTO can play.

The opening plenary debate was addressed by a distinguished panel of experts comprising **Ms Lilianne Ploumen,** Minister for Foreign Trade and Development Cooperation of the Netherlands; **Ms Amina Mohamed**, Cabinet Secretary for Foreign Affairs and International Trade, Kenya; **Ms Yuejiao Zhang**, Appellate Body Member of the WTO; **Ms Susan Schwab**, Former United States Trade Representative; **Ms Anabel Gonzalez**, Senior Director, Trade and Competitiveness Global Practice, World Bank Group, **Mr. Roberto Azevedo**, Director General of the World Trade Organization and moderator **Ms Lerato Mbele**, Journalist at BBC Africa.

The Forum organized 88 powerful sessions over three days covering wide range of subjects focusing on trade as a tool of growth and development.

Opening the Public Forum, **Mr. Roberto Azevedo**, Director General, WTO expressed that trade works to leverage economic growth and development resulting in huge benefits. But trade works if it is accompanied by right policies; if countries are supported to build the capacity they need to compete and; if the world promotes a transparent system of rules which are agreed together and are enforced in a fair , open and cooperative way. And WTO strives to create that platform.

Reflecting on the gains over the last twenty years, Mr. Azevedo said that tariffs were brought down half and trade volumes doubled. Benefits of trade extended to millions more people as developing countries' share in global merchandise trade surged from 27 per cent to over 43 per cent. And through the Aid for Trade initiative, 245 billion dollars were disbursed to help countries improve their trading ability.

Further, the Trade Facilitation Agreement and the important decisions on Agriculture and in support of Least Developed Countries were significant outcomes at Bali in 2013. The Trade Facilitation Agreement will make trade work better for everyone. It will cut the cost of moving goods across borders. And the majority of the benefits will accrue to the developing and the least developed countries, Mr. Azevedo averred.

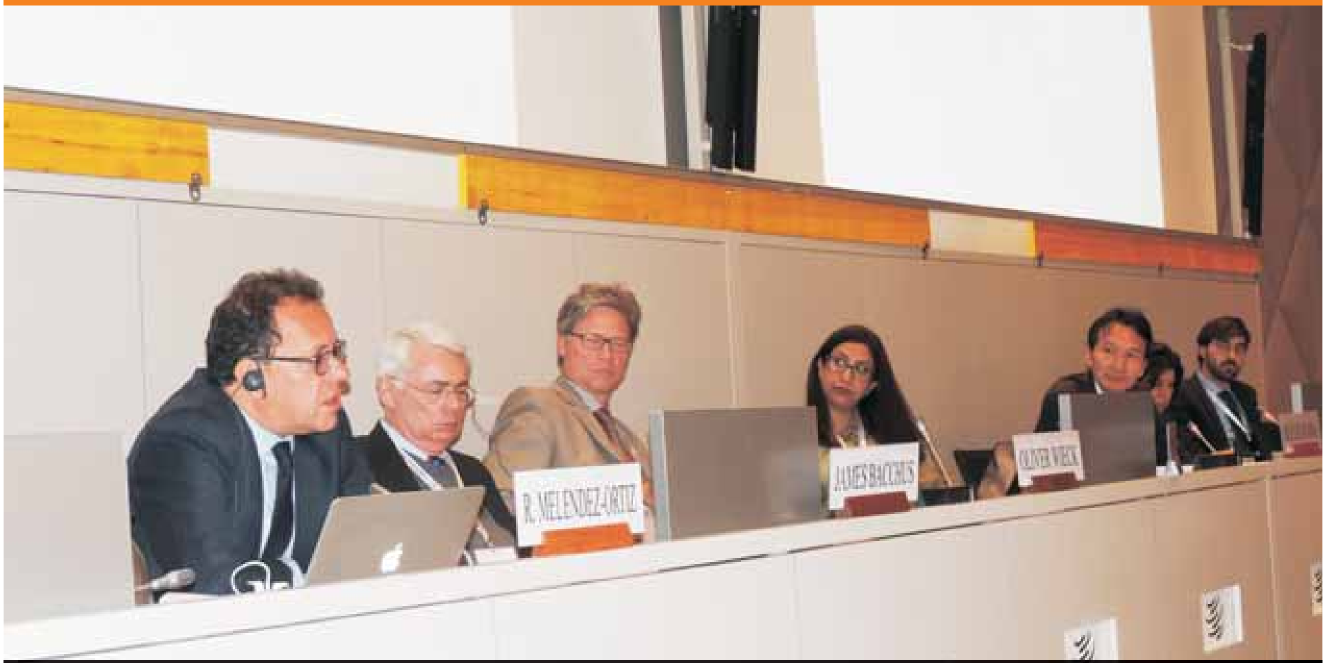
Likewise, the recent advances in the negotiations to expand the Information Technology Agreement is a welcome move. This will eliminate tariffs on over 200 IT products - worth approximately 7 per cent of global trade, Mr. Azevedo observed.

Referring to the forthcoming 10th Ministerial Conference in Nairobi in December Mr. Azevedo said, this is the first time that WTO holds such a conference in Africa, signaling a move to reach out to support growth and development in Africa.

Finally, trade played an important part in the Millennium Development Goal to cut extreme poverty by half that was reached by 2010 – well before the 2015 deadline.

WTC Mumbai and AIAI working session

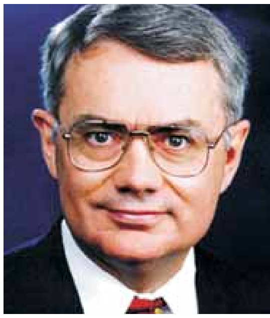
Global Value Chains and Changing Patterns of Value Added Trade in Developing Economies



Speakers on the dais (L-R) Mr. Ricardo Melendez – Ortiz, Chief Executive Officer, International Centre for Trade and Sustainable Development (ICTSD) ,Mr. James Bacchus, Chair, Commission on Trade Development and Investment Policy, International Chamber of Commerce , Mr. Oliver Wieck, Secretary General, ICC Germany, Ms Rupa Naik, Executive Director- AIAI and Director- Projects, World Trade Centre Mumbai , Dr. Ikuo Kuroiwa, Executive Senior Research Fellow, Bangkok Research Centre, JETRO Bangkok, Ms Luisa Santos , Director, International Relations, BUSINESSEUROPE , and Dr. Javier Lopez Gonzalez , Policy Analyst, Trade and Agriculture Directorate, OECD

World Trade Centre Mumbai and All India Association of Industries participated in the WTO Public Forum 2015 and conducted a session on the theme " Global Value Chains and Changing Patterns of Value Added Trade in Developing Economies" on September 30, 2015 .The session was addressed by eminent experts drawn from prestigious organizations of international repute. The Panel comprised of **Mr. James Bacchus**, Chair, Commission on Trade and Development and Investment Policy , International Chamber of Commerce; **Mr. Oliver Wieck,** Secretary General, ICC Germany; **Mr. Ricardo Melendez-Ortiz**, Chief Executive Officer, International Centre for Trade and Sustainable Development (ICTSD) ; **Dr. Ikuo Kuroiwa,** Executive Senior Research Fellow , Bangkok Research Centre, JETRO Bangkok; **Ms Luisa Santos**, Director, International Relations, BUSINESSEUROPE and **Dr. Javier Lopez Gonzalez**, Policy Analyst, Trade and Agriculture Directorate, Organization for Economic Cooperation and Development (OECD). **Ms Rupa Naik**, Executive Director, All India Association of Industries and Director – Projects, World Trade Centre Mumbai moderated the session.

The panelists discussed key issues of global value chains and examined the effects of GVCs on value added trade. The discussion focused on strategies to integrate developing countries into the GVCs to maximize their competitiveness in global markets.



Mr. James Bacchus

In his opening remarks, Mr James Bacchus, Chair, Commission on Trade Development and Investment Policy of International Chamber of Commerce (ICC) sought to establish a linkage between sustainable development goals, poverty alleviation and global value chains .All countries agreed by consensus to sustainable development goals – the ambitious goals of our times. The first goal is to eliminate poverty everywhere in 15 years by helping those who have the least to get more. How to do that? Every country has to decide for itself based on its sovereign decision making as to how it is going to achieve this goal. One way is to work together with other countries and the best way to engage is international trade and investment.

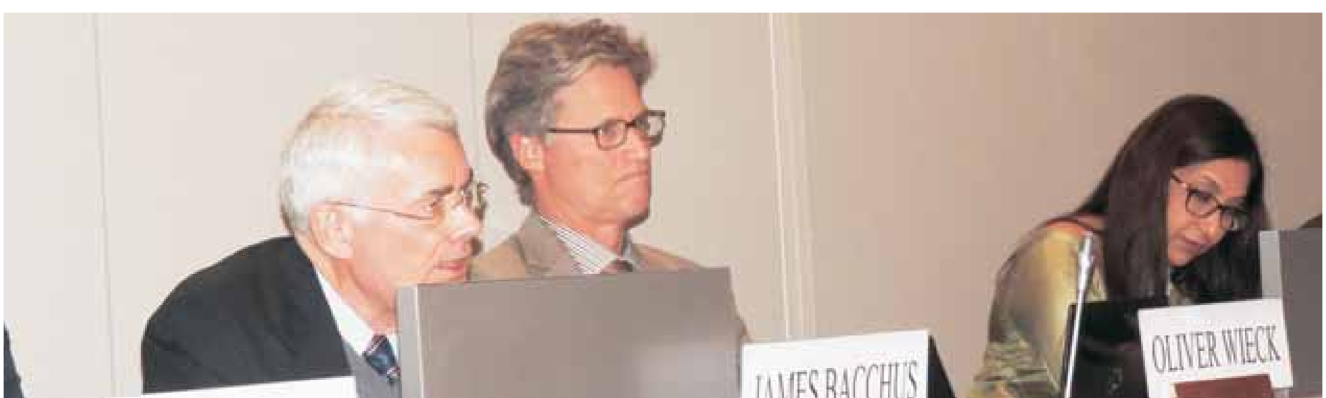
History reveals that no country has ever grown and sustained its growth in any other way other than by opening up its economy to wider world and keeping it open and making it even more open. GVCs are the best way to begin helping the lowest among these to pull out of poverty.

In India and elsewhere all over the world, particularly in developing countries, the best way for small and medium sized enterprises to connect with global economy and become more prosperous is by becoming a part of global value chains. SMEs can piggy back on the efforts of bigger companies to engage in the wider world, increase productivity, increase growth and prosperity. That is the real issue.

Referring to the benefits of trade facilitation Mr. Bacchus said, trade facilitation is one of the best ways to smooth trade along global value chains by eliminating inefficiencies and by enhancing the capabilities of developing countries to participate in global economy .It is important that it should be fully implemented as early as possible The potential gains are $1 trillion annually added to global GDP with most of it going to the developing economies.

A key answer for SMEs who want to connect to GVCs and participate in global economy is that they need finance to be able to do so. Worldwide, especially in the developing world trade financing is getting scarce. In Asia and Africa there is growing priority for making trade financing available and finding better ways to finance trade and in more significant amounts . For ICC this is imperative, Mr Bacchus observed.

ICC has Chapters in 130 countries, vast majority in developing countries, representing six and a half million companies worldwide. vast majority of these are SMEs. One of the best ways ICC can advance growth of these companies, advance the spread of sustainable , inclusive prosperity is by helping them connect with the global value chains, Mr. Bacchus said.



(L-R) Mr. James Bacchus, Chair, Commission on Trade Development and Investment Policy, International Chamber of Commerce , Mr. Oliver Wieck, Secretary General, ICC Germany, and Ms Rupa Naik, Executive Director- AIAI and Director- Projects, World Trade Centre Mumbai

Mr. Oliver Wieck

According to Mr. Oliver Wieck, Secretary General, International Chamber of Commerce Germany, in the last three to four decades, government and business have been part of a far-reaching economic transformation, made possible by remarkable advances in information, communication and transport technologies. The proliferation of global supply chains has changed the economic and political landscape in fundamental ways.

Advances in technology and an enabling policy environment have allowed businesses to internationalize their operations across multiple locations in order to increase efficiency, lower costs and speed up production.

Business today looks to add value in production where it makes most sense to do so; indeed this has become a key element of corporate competitiveness.

For their part, some governments – though not all – recognize that participating in global value chains will bring value and opportunities to their workers and economies. For many economies today imports are increasingly a key-complement of local production and exports. For example in Asia, since the year 2000 intermediate goods have comprised over 50 per cent of exports and over 60 per cent of imports,.

That is also why it is important to look not only at the gross figures of trade but also in value added

(L-R) Mr. Oliver Wieck, Secretary General , ICC Germany, Ms Rupa Naik, , Executive Director , AIAI and Director – Projects, WTC Mumbai and Dr. Ikuo Kuroiwa, Executive Senior Research Fellow, Bangkok Research Centre, JETRO Bangkok

terms. When we measure exports in terms of their import content it becomes clear that many products today comprise inputs from a number of countries. Products today are "made in the world", rather than made in a single country.

These production relationships embody the interdependence among nations that characterizes our world today. But when we look around us, it is not difficult to conclude that we should be managing our interdependency better.

The predominance of supply chains in the economies of many countries calls for a careful consideration of where we are heading as a global community. We should be thinking about how to

A section of the audience

influence developments positively where we can, and adapt to them where we cannot.

What are some of these changes? Not so long ago it was common to assume that production took place in the East for consumption in the West.

With the growth of the middle classes in Asia and Latin America and more policies to support domestic demand, however, the momentum for consumer growth is more likely to be in these regions than in the West. Companies must adapt their strategies and supply chains as a result.

At the same time, relative efficiencies and cost structures are changing, and production is becoming more complex. Changes in the location of production are underway as some new locations open up and others seem less advantageous. These shifts in the global distribution of jobs and economic opportunity carry with them many challenges for governments, business and society at large.

Referring to supply chains Mr Wieck said, supply chains can be varied depending on what they produce, how they produce and where they produce. Some supply chains involve mass market consumer products; some lower turnover and smaller markets, often with a stronger technological component. Others still focus on capital goods and are more producer than consumer driven. Then there are the agricultural and natural resource supply chains. And not to forget service supply chains.

Each of these varieties of supply chain has quite different characteristics, facing different challenges, and requiring different operating and policy environments. But supply chains also have much in common, especially when we try to understand how they are affected by rapid change particularly in patterns of consumption and production .

Another driver of change arises from faster communication and the spread of knowledge and information through the internet. Today consumers can find out the location and conditions in which a good is produced, and this power of information can influence their buying decisions. As a result, consumers and civil society are placing new demands on business and governments to meet their expectations. This makes for a better world, but clearly a more challenging one.

According to Mr. Wieck there will be other challenges as well. Production and consumption is increasing all over the world as living standards rise and populations become better off. This is certainly a good thing.

However, it also places new demands on the environment and depletes natural resources. Clearly, traditional growth models and patterns of consuming natural resources may be unsuited for a changing world, particularly one which will have 9 billion people by 2050.

These issues require attention from both business and government. We need to produce and consume more sustainably, and foster innovation. Solutions lie in the design of appropriate policies, which are properly administered, and achieve essential public aims while still enabling production and value creation in the private sector.

Sustainability has another important side – that of social inclusion and distributional equity. It is essentially about fairness. In terms of global value chains, it is about ensuring that those who manufacture and assemble goods also share the benefits. It is about creating an environment in which small and medium-sized enterprises can participate in supply chains, without being shut out by costly regulation, poor administration or exclusionary behavior. More generally, it is about addressing growing inequality within and between societies, Mr Wieck opined.

Governments clearly have a major role in these matters, supported appropriately by business. If we are not more successful in ensuring the legitimacy of our production, we will be threatened by much bleaker alternatives with consequences unwelcome to all.

A further challenge is how to manage a world with greater risk. Business faces a number of economic risks relating to production models, market uncertainties and unpredictable consumer behavior. But risk can also come from many other directions.

Natural risks like floods or earthquakes need to be managed adequately through contingency planning and building redundancy into the supply chain. Political risks like international terrorism call for constant vigilance. Financial risks emerge from fragile financial systems and the uncertain costs and availability of trade finance.

While government or business may be in the front line in respect of one or the other of these sources of risk, acting on shared responsibilities can make much difference to our capacity to prepare for and react to an uncertain environment.

In this context Mr. Wieck stressed on the need for convergence of interests between smart policy, designed and executed in the public interest, and a long view taken by businesses reaching beyond next quarter's bottom line. This is a natural partnership in the quest for good governance and a better life for people everywhere, Mr. Wieck averred.

Dr.Javier Lopez Gonzalez

Dr. Javier Lopez Gonzalez, Policy Analyst, Trade and Agriculture Directorate, Organization for Economic Co-operation and Development (OECD) highlighted on the import side of GVCs and how firms and SMEs demonstrate by importing more sophisticated and more competitively priced intermediates.

Firms and SMEs are not just exporting and slotting into global production .Global value chains are reshaping global economic activity. What is new about them is their greater expansion towards developing and emerging economies .This becomes evident from global GDP . In the early 1990s, G7countries held 67% of global GDP .By 2010 this fell to around 50%. That trend is continuing.

A lot of it is happening regionally. The regional component is also important. GVCs are underpinned by three factory systems - Factory Europe, Factory Asia and Factory North America.

That has implications in terms of the regional integration efforts that are taking place. Deep agreements are taking place within the factory systems.

The general perception is that of value added, inclusiveness and jobs upgrading productivity. Global value chains are creating and sustaining a lot of jobs. Jobs related to export activity are growing much faster than domestic jobs in general. Jobs related to exporting activities grew nearly 2.2 times faster than total jobs. But jobs associated with producing intermediates used in GVCs grew over 6 times faster.

So how can developing countries benefit from GVCs? Developing country firms are no longer having to master the entire production process of a good and are slotting into different segments of 'global production' according to comparative advantages. On the input side, having access to more sophisticated and competitively priced imported intermediates has a technological component that helps firms. Importing is essential for export competitiveness but also for selling in domestic market.

So participation in GVCs is growing and value chains are very heterogeneous. Natural resource producers that generally engage in selling help add value to other countries production and of exports and other economies such as China, Mexico, Korea , Singapore, Thailand which are mostly engaged in buying.

Implications of participation in value chains is clearly evident.

Countries are increasingly relying on foreign value added to produce their export and share of domestic content of exports is falling. However, even as the share of domestic content of exports has fallen, its value has grown considerably over the last decade. For example in the case of electrical and optical exports of China , the share of domestic content of exports fell from 87% in 1995 to 57% in 2009 while the value of exports has risen sharply from 19 billion in 1995 to 248 billion in 2009.

Importing is a complement rather than a substitute to domestic value creation. The impact of Importing differs both in terms of import from different sectors whether manufacturing or services and also whether it is emerging economies or developed countries. Importing activity is also associated with increases in productivity; growing product sophistication and also to diversification of export bundles.

So what can policy do?

Participation in GVCs is strongly driven by structural factors such as country endowments, geographical location or levels of development. Trade and investment policy also play an important role. Tariff costs (and other restrictions) are magnified when products cross many borders to reach final consumers. Regional integration initiatives, and particularly those dealing with behind the border measures also help (without neglecting multilateral liberalization). The open investment climate in Singapore has increased its participation by nearly 20 percentage points.

According to Dr. Gonzalez, the efficient functioning of GVCs really depends on the circulation of productive resources, not just about trade and investment policy. A whole range of other policies are needed to facilitate movement of capital, people, ideas and technologies.. Further, to benefit and participate in GVCs, a whole- of –the – supply- chain approach is needed. True for big firms and small firms.

Some of these policy measures are necessary but not sufficient condition to further participation, for e.g. logistics performance , intellectual property protection, infrastructure availability and quality, quality of electric supply , R&D expenditure ,institutional quality matter a great deal. These need to develop in tandem with those traded investment tools.

Finally, developing countries can gain from engaging more widely in value chains on the input side through trade liberalization. Enhancing connectivity by promoting deeper agreements will facilitate stronger engagement in value chains. Developing countries need to target issues related to trade facilitation and promote a more liberal investment climate. Engaging in wider and deeper multilateral liberalization is essential for integrating in global value chains.

Concerns related to upgrading remain, but evidence suggests that specialization attained through using advantages offered by sourcing, is likely to help .

Dr. Ikuo Kuroiwa

Dr. Ikuo kuroiwa, Executive Senior Research Fellow, Bangkok Research Centre, JETRO Bangkok presenting a case study of Thailand's automobile GVCs focused on four key areas viz. , the automobile industry in Thailand, industrial policy of Thailand, automobile GVCs in Asia and the challenges faced by Thailand and other Asian countries.

Highlighting on the evolution of the automobile industry in Thailand , Dr. Kuroiwa mentioned that with the liberalization of economy of Thailand in mid 1980s, the automobile production grew rapidly. But subsequently the economic crisis brought down the production drastically. Again with the revival of the economy driven by export, auto production picked up. Japanese companies have very high shares in the Thai auto sector . But due to tough competition as a result of regional integration, market shares may alter in the future.

In 1960s, CKD production started replacing the imported vehicles in Thailand. In 1970s local content policy was introduced. Due to these policies, a lot of local parts suppliers participated in the automobile value chain.

In 1990s and 2000 and beyond liberalization and regional integration were promoted. Consequently, Thai automobile industry became competitive. Exports grew rapidly because of rapid production growth. The supporting industries also developed. As a result, Thailand could become Detroit of South East Asia. Thailand became the 9th largest producer of automobiles in South East Asia. Automobile sector is very important for Thailand in terms of share of exports, share of valued added and share of employment.

Speaking on the automobile GVCs in Thailand, Dr. Kuroiwa said that because of the development of the local parts suppliers and promotion of regional integration, the share of domestic local content increased in this period. Also, the share of ASEAN countries in terms of the procurement internally increased during this period.

According to Dr. Kuroiwa, South East Asian countries including Thailand have high foreign content of automobile exports implying that in order to export automobiles, they have to import a lot of intermediate input from other countries. In Japan, EU and China, foreign content is very low because they procure the best from local part suppliers. These countries hardly depend on foreign imports. The foreign content has been increasing in automobile exports implying the deepening of automobile GVCs in many countries of the world.

Deliberating on the changing profile of the foreign content in Thailand auto exports Dr. Kuroiwa said, new patterns are emerging. In 1995 Thailand had high shares of intermediate inputs from Japan, EU, USA . During 1995 – 2011, there was rapid increase in the share of inputs from China and South East Asia, in particular Indonesia and Phillipines. Thailand became more dependent on import from South East Asian neighbouring countries rather than developed countries.

However, there are challenges. Thailand is not facing the middle income trap. The top priority of

Government of Thailand is to avoid middle income trap. To do so, Thailand needs to upgrade to GVCs shifting from production hub to innovation hub in South East Asia.

Economic growth has slowed down since 2008. Government of Thailand is trying to invite FDI, R & D falicities at regional headquarters and Thailand Government is now promoting the eco-car project.

Mr. Ricardo Melendez-Ortiz

According to Mr. Ricardo Melendez – Ortiz , Chief Executive Officer, International Centre for Trade and Sustainable Development (ICTSD) value chains and more regional than global. Mr Melendez- Ortiz elucidated with examples of Factory North America, Factory US, Factory Japan, Factory China, Factory Europe and mostly Factory Germany where the drivers, the leading firms in value chains are located. In these regions the policy environment has been favourable for the development of value chains.

However, the issue is about integration of SMEs into global value chains . Even though small and medium enterprises make up nearly 95 per cent of all enterprises around the world, provide around 60-70 per cent of private sector employment , they continue to be very much behind participation in global markets with marginal contribution of 20-25 per cent of global GDP. And their ability to participate in global value chains is an area of particular concern.

Participation in value chains not only help capture the gains in terms of employment but also generate positive spill over in the economy in terms of technology ,innovation etc.

Have developing countries really benefitted from value chains? The phenomenon of GVC is evident mostly in the locations , regions (Factory North America, Factory US, Factory Japan, Factory China, Factory Europe and mostly Factory Germany) discussed above. Some developing countries have participated drawn by the many firms located in those countries and they have taken advantage particularly in the context of the preferential arrangements and other forms of economic integration . But most developing world continues to be absent in the phenomenon of value chains, Mr. Meledez – Ortiz pointed out.

Referring to the efficacy of trade policy approaches, Mr. Melendez –Ortiz said that WTO , OECD, UNCTAD and World bank have come

(L-R) Mr. Ricardo Melendez – Ortiz, Chief Executive Officer, International Centre for Trade and Sustainable Development (ICTSD) ,Mr. James Bacchus, Chair, Commission on Trade Development and Investment Policy, International Chamber of Commerce , Mr. Oliver Wieck, Secretary General, ICC Germany, and Ms Rupa Naik, Executive Director- AIAI and Director- Projects, World Trade Centre Mumbai together to do some work which is more of descriptive work. New initiative at the WTO and OECD have sought to do some analytical work based on a database relying on developments in the developing world to get better understanding of what is happening . The way in which negotiations take place.

The other aspect relates to the information from policy perspective. The trend has been towards free trade for number of years now. The way trade agreements are negotiated reflect an understanding of the world. For instance, compartmentalizing goods and services in negotiations or trying to negotiate agreements dealing with services area with activities that are integrated in a value chain are not really helpful to the value chain approach.

Mr. Melendez - Ortiz offered some proposals. Supply chain councils organized sectorally with the participation of private sector could inform the development of the value chain approach.

The objective is to map out in a better way not only how the fragmentation of production is happening but how goods, services, IPRs are bundled as it crosses borders to form the final product .

With regard to regulatory cooperation, the challenges are very steep. There are new ways and new approaches to think about regulatory cooperation that go beyond what has been achieved in respect of TBT, SPS and the current trade agreements including TPP. Some of these innovations may come from the TPPs and the negotiations particularly when we are looking at new areas of technology where new regulations are coming up such as nanotechnology, biotechnology etc.

The objective must be to get into some common approaches and regulatory systems so that the output that come out are more compatible.

Finally, how to strengthen regional value chains in the developing world. Not all value chains need to be led by firms in developed country factories, they can serve markets in developing world but they can also aggregate the scale and result in goods and services that are competitive at the global level.

Ms. Luisa Santos

Ms Luisa Santos, Director, International Relations, BUSINESSEUROPE expressed that today's businesses operate in an increasingly complex and challenging environment. Access to goods, services and information has become easier but at the same time new challenges have emerged for which businesses are not completely prepared. Increasing world competition and fragmentation of the supply chains, emergence of new economic and political powers, new technologies, rising social media, international trade as a tool to promote economic growth, as also other objectives such as development, sustainability, etc present some of the challenges.

In the past 20 years the digital revolution has led to a world that is better connected to the global value chains. Today's products and services are not produced in a single location, but are the result of a combination of tasks executed in different countries, with the lion's share of traded goods being intermediates. Businesses have new opportunities but many of them are outside traditional markets. By 2015 90% of world economic growth is expected to be created outside Europe- 1/3 alone in China. Developing and emerging countries are likely to represent nearly 60 % of world GDP by 2030 (< than 50% today).

According to Ms Santos, the emergence in the 80s and 90s of GVCs further promoted by the digital developments led to the development of new competitive clusters in many developing


(L-R) Dr. Ikuo Kuroiwa, Executive Senior Research Fellow, Bangkok Research Centre, JETRO Bangkok, Ms Luisa Santos , Director, International Relations, BUSINESSEUROPE , and Dr. Javier Lopez Gonzalez , Policy Analyst, Trade and Agriculture Directorate, OECD

economies. They have also contributed to the rise of emerging economies like China and India.

These competitive clusters have not all developed equally. Some of them were based only on cost/price factors and are therefore more sensitive to competition; others were based on existing raw materials, expertise or even geographic proximity.

The development of the GVCs depends on many factors but some of them are more or less common-existence of good infrastructure, rules that facilitate business including FDI, abundance of labour especially qualified labour.

There are also other factors that can play a role depending on the markets-regional integration is key for smaller markets as GVCs are basically directed to exports(e.g. Pan-Euro-Med Textiles); sizeable market can attract investments in R&D and technology as the GVCs are also considering the domestic markets.

Speaking on the role of Governments in the GVCs development and sustainability, Ms Santos said, Governments tend to develop industrial policies taking into account existing GVCs. Of course this means that choices are being done, in many cases forsaking traditional industries in favour of new industries that in theory are more innovative and prepared for the future. Sometimes these choices don't have the expected results as they are designed without considering existing realities -- overcapacities, lack of skills or lack of infrastructure. Temptation to create domestic champions by protecting domestic markets from foreign competition will lead to uncompetitive sectors that are unable to compete at international level. The GVCs in the long run will tend to be unsustainable.

Promoting liberalization of trade and investment is key to ensure innovation and development that leads to more competitive industries and companies also able to survive in the long run even if the driving export markets face collapse.
New GVCs in emerging economies- In emerging economies with large markets GVCs are re-focusing on domestic consumption. GVCs are also developing new competences, promoting innovative products and services and in many cases are less dependent on the big international corporations that started the process- eg.

Foxconn Brazil. Initial partners in the GVCs that did not control the commercialization or development of the products are now taking further control and in many cases developing new GVCs.

Regional integration- This is important in smaller markets to create economies of scale. The countries can also be themselves GVCs specializing in different areas. On the other end in developing and fast growing economies regional integration can also lead to the creation of new GVCs. The ASEAN is a good example of how further integration can be helpful to develop existing GVCs but also potentially lead to new ones that were born initially to serve this market but have the potential to become global.

Sustainability concerns- consumers are increasingly aware of GVCs and they want to be ensured that certain environment and social standards are fully respected along the chain. The Rhana Plaza tragedy in particular has led to numerous initiatives that aim at ensuring high levels of social and environmental standards along the whole GVCs with more controls and best practices being at the centre of the debate not only in developed economies but also developing ones. This means that both Governments and Businesses have to work closely together to ensure that all the conditions are met. This also created pressure on some of the GVCs that were solely based on cost. Value Added, innovation and differentiation are increasingly driving the GVCs.

Role of services and digital economy- companies have tried to differentiate and gain market share by increasing value and adding services to products, leading to an integrated supply of goods and services.

As a consequence, industry needs improved market access not only for goods but also for services. The two areas are increasingly interconnected in trade and investment negotiations in key areas like regulatory cooperation or public procurement.

The digital sector plays an important role as a driver of economic growth. Interconnectivity is critical for both industry and services and ensures companies can effectively integrate in global value chains and do business across the world. The importance of the digital economy is being internationally recognized but it is also leading to an increased interest from governments to regulate and promote local champions, leading to new market barriers.

Data flows in particular are essential for international trade and investment. Companies need to move data to run internal processes and to ship goods and services, exchange data with headquarters and affiliates (including human resources data), manage their global investments and move data to and from R&D facilities abroad. The estimated value of EU citizens' data was €315 billion in 2011 and has the potential to grow to nearly €1 trillion annually by 2020.

In this context the right balance needs to be made between protecting citizens and companies' rights to privacy and security and the need to enable data flow as a precondition for business to take place. This can be achieved by clearly indicating that data transfers should comply with data protection rules in force in the country of residence of the data subjects. Furthermore, it is fundamental to avoid the imposition of forced data localisation requirements which can undermine data flows.

Ms Rupa Naik

Delivering her welcome address, Ms Rupa Naik, Executive Director, All India Association of Industries and Director-Projects, World Trade Centre said that now more than ever, SMEs in Asia have the opportunity to engage in international trade given the falling barriers to trade and fragmentation of production whereby the production of final goods is spread over firms located in several countries, with each one undertaking an individual "task" in the overall process. Firms no longer need to have the expertise to export to a modern market; instead, they can simply support the value chain as suppliers of intermediate inputs, such as parts and components, and act as subcontractors several levels down from the ultimate buyer.

SMEs that invest in technology and those with high labor productivity are more likely to be part of the GVC. The extent to which a firm actively engages in improving its technology, production, and processes positively influences its participation in GVCs.

According to Ms Naik, increased internationalization through trade and participation in GVCs provides SMEs in many developing economies the opportunity to achieve economies of scale, expand market share, and increase productivity. Additionally, participation in GVCs and cooperation within a network of upstream and downstream partners can enhance a firm's information flows and learning possibilities, as well as introduce new business practices and more advanced technology leading to greater growth and earning potential.

China, Japan, the Republic of Korea and Malaysia dominate Asia's GVC trade . India is also opening up to GVC activities in a significant way. The electronics sector is particularly exposed and is the key driver of these countries participation in these chains. Relatively good infrastructure, bureaucratic efficiency when dealing with multinational corporations, political stability, abundant cheap local and foreign labor, and an English-speaking labor force are some of the propellers that distinguish these countries from other countries for electronics firms looking to develop locations for labor-intensive assembly activities.

China is the largest exporter in the world and China is by far the main exporter in textiles both in value – added and gross terms.

India participates strongly in manufacturing GVCs for automobiles , chemicals , electrical equipment and other manufactures . India's participation in manufacturing GVCs is in general due to the sourcing of intermediates from abroad.

The majority of the final demand for manufactured goods and market services in Brazil represents value –added that has been created domestically.

Policy makers should think business and think global - or at least regional. A country cannot develop a competitive offer of goods or services in isolation. This implies that imports are not an expression of foreign competitiveness, but rather a means for firms to access the most efficient inputs and free resources to focus on core competences.

Following business practices, policy should treat trade and FDI, both inward and outward, in an integrated framework.

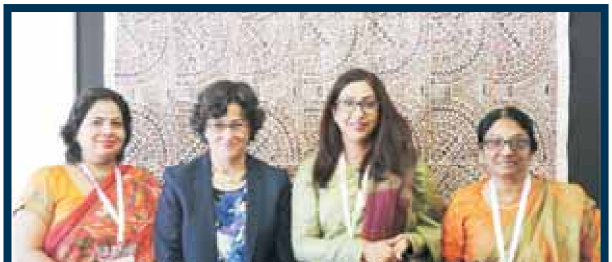
Official Meetings at Geneva

WTC Mumbai and AIAI officials held several meetings with key officials and experts at Geneva. They are:

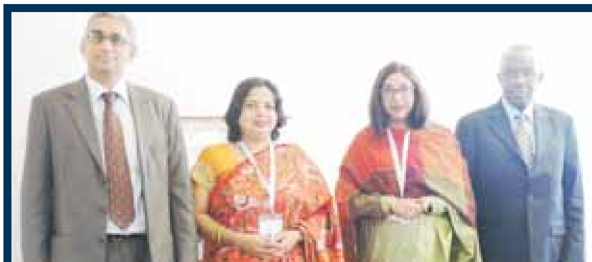
- Dr. Francis Gurry, Director General, World Intellectual Property Organization (WIPO) and Mr. Naresh Prasad, Assistant Director General, WIPO
- Ms Anjali Prasad, Ambassador and Permanent Representative of India to the World Trade Organization (WTO)
- Mr. Yonov Frederick Agah, Deputy Director – General, WTO and Mr. Harish Iyer, Counsellor, Development Division, WTO
- Ms Arancha Gonzalez, Executive Director, International Trade Centre (ITC)

(L-R) Mr. Harish Iyer, Counsellor, Development Division , WTO, Ms Debjani Chowdhury, Advisor, WTC Mumbai, Ms Rupa Naik, Executive Director , AIAI and Director – Projects, WTC Mumbai and Mr. Yonov Federick Agah, Deputy Director-General , WTO

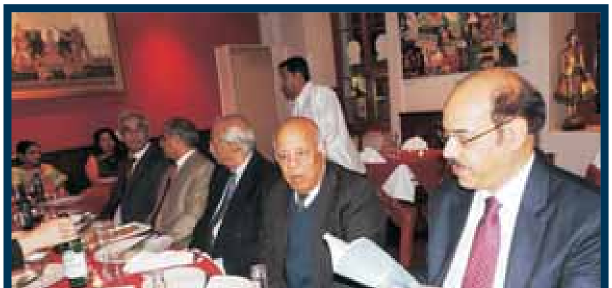
(L-R) Mr. Yonov Federick Agah, Deputy Director- General , WTO and Mr. Harish Iyer, Counsellor, Development Division , WTO



Ms Arancha Gonzalez, Executive Director, International Trade Centre (second from left) seen with Ms Yadnya Pitale, Joint Director- Research and WTI , WTC Mumbai , Ms Rupa Naik, Executive Director, AIAI and Director – Projects, WTC Mumbai and Ms Debjani Chowdhury , Advisor, WTC Mumbai



(L-R) Mr. Harish Iyer, Counsellor, Development Division, WTO, Ms Yadnya Pitale, Joint Director- Research and WTI , WTC Mumbai, Ms Rupa Naik, Executive Director, AIAI and Director - Projects, WTC Mumbai and Mr. Yonov Federick Agah, Deputy Director-General, WTO



Mr Naresh Prasad , Assistant Director General, World Intellectual Property Organization (WIPO) with guests at a dinner

WTC Mumbai and AIAI officials with guests at a dinner

Ms Anjali Prasad , Ambassador and Permanent Representative of India to World Trade Organization with guests at a dinner hosted by WTC Mumbai and AIAI

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