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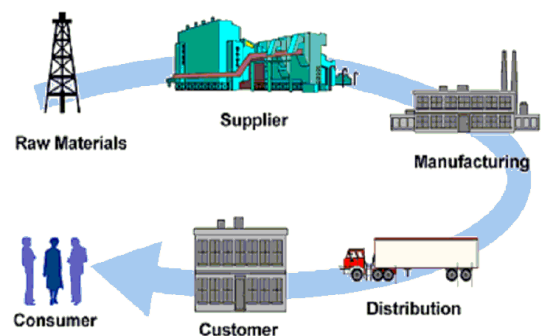
Global Value Chains

for Trade and Investment



The value chain can be simply described as the full range of activities conducted by people and enterprises to bring a product from its conception to its end use and even beyond. These activities encompass the entire production process from the design of a product, to where and how its raw materials are sourced, its intermediate inputs, its marketing, its distribution and even its support to the final consumer. The value chain can include activities occurring within a single firm or can account for activities divided among several different firms, contained in a single geographical location or spread out among several different territories. When goods or services are produced by multiple entities dispersed across several regions, such activities can be described as the Global Value Chain (GVC).

Within the realm of international trade, several terms have been used to describe GVCs, and are synonymous with the concept if ever encountered. Trade in value-added, production sharing, supply chains, outsourcing, offshoring, vertical integration, and fragmented production have all been used to describe GVC activities. The concept of GVC has in recent



years become a mainstream topic in international trade policy, and directly concerns international organizations such as the World Customs Organization (WCO), and consequently its member administrations. The WCO, has the unique task of formulating and updating international tools to secure all aspects of the GVC, while facilitating trade along the supply chain. This balancing of trade facilitation and trade security, rests within the hands of each customs administration, which through partnership and collaboration with the trade, can achieve its objectives and positively contribute to the efficiency of GVCs.



International Production in GVCs

With the advent of globalization, the production of goods and services will most likely occur in territories where the skills necessary to deliver a service is most cost effective, and the materials required for the production of goods are of a high quality and are competitively priced. GVCs have become a dominant feature of the world economy, and involves several countries with varying degrees of development, participating in the different stages of goods production. The increasing fragmentation of the production process enables the poorest, as well as the most advanced countries to collaborate across borders, fostering greater prospects for international trade and investments, while offering increased opportunities for economic growth, development and job creation.

GVC Linkages to the Trade Facilitation Agreement

International production, as well as trade and investments are increasingly organized within GVCs. Companies are increasingly restructuring their operations internationally, through outsourcing and offshoring activities across the globe. Over the past few decades, key GVC activities such as design, production, marketing and distribution have been and continues to be dispersed internationally, especially amongst larger enterprises. GVC activities are directly linked to the formulation of trade policies and serve to generate greater focus on international trade and policy decisions made at the multilateral level. This serves to strengthen the policy initiatives and decision making process of international organizations such as the World Trade Organization (WTO).



WTO DG - Roberto Azevêdo and WCO SG - Kunio Mikuriya

One significant decision made at the multilateral level is the WTO's Trade Facilitation Agreement (TFA). Consensus was achieved at the signing of the TFA, which seeks to address trade efficiency among Members, specifically facilitating border clearance processes. The provisions of the TFA largely relate to customs procedures and are geared towards improving efficiencies at the borders, which reduces transaction costs associated with trade. The WCO has endorsed the TFA, reiterating the importance of using its trade related tools and instruments to help its members to implement the Agreement. Technical Assistance and Capacity Building (TACB) is also available to WCO members, through implementation of its tools and instruments which have been identified as complementary to the TFA. Connecting the world through efficient supply chains is a top priority of both the WTO and the WCO, which acknowledges the importance of GVCs, to each Member's economic growth and development.

Global Value Chains for Trade and Investment



Small and Medium-sized Enterprises (SMEs) are said to be fundamental to the economic growth and development of a country, and have often been described as the drivers of economies worldwide. However, SMEs have been traditionally disadvantaged in accessing GVCs, largely due to uncompetitive administrative costs and their relative size. With the increased efficiencies and reduced trading costs that the TFA promises, SMEs are positioned for greater gains and increased opportunities in accessing the GVCs. Since larger enterprises typically dominate GVCs, the TFA

creates a more level playing field for smaller enterprises, to access markets and to increase their opportunities for growth and participation in the global supply chain. The full implementation of the TFA will also increase trade opportunities for countries, especially developing countries which can be more readily integrated into GVCs. Developing countries stand to benefit the most in becoming apart of GVCs due to the rapid expansion of trade, and will continue to benefit as their share in global trade increases. Implementation of the TFA will also help developing countries to attract more foreign direct investments (FDIs), increase customs revenues, reduce incidences of corruption and complement more comprehensive GVCs that encompass the different countries of the world.



Global Value Chains Development and Cooperation (APEC Model)

In an effort to understand and support the activities surrounding adding value to the final products that cross borders, the countries of the Asia-Pacific Economic Cooperation (APEC) have formulated a strategy for realizing a more effective policy and regulatory infrastructure for global trade. Efficient and workable GVCs within and between each of the APEC economies have accordingly become a key focus for economies at all levels of development.

As with most trading blocs, there is a push for regional economic integration which can be realized through a trade and investment agenda, beneficial to all member countries. Being developing countries and recognizing the diverse economic needs of each member, APEC encourages their participation in global trade networks. Having a strategic plan for accessing GVCs is prioritized as a beneficial policy initiative by APEC, where it is felt that active participation will enable sustainable, inclusive and balanced growth in the Asia-Pacific region. In 2013, the leaders of APEC agreed to *promote GVC development and cooperation in the APEC region*, which resulted in the formation of a strategic alliance. This was based on the need to facilitate an environment conducive to GVC development and cooperation, which led to the creation of a Strategic Blueprint.

APEC GVC Strategic Blueprint

- *Addressing trade and investment issues that impact GVCs.*
- *Cooperate on improving statistics related to GVCs.*
- *Realize the critical role of trade in service within GVCs.*
- *Enable developing economies to better participate in GVCs.*
- *Assist SMEs to benefit from GVCs.*
- *Improve the investment climate for GVCs Development.*
- *Adopt effective trade facilitation measures.*
- *Enhance resiliency of GVCs.*
- *Encourage public-private partnerships for GVCs.*
- *Strengthen collaboration with other stakeholders on GVCs.*

Global Value Chains for Trade and Investment



Aid for Trade for Accessing GVCs - A Caribbean perspective (excerpt from the Guyana Times - Aid for Trade - published April 23, 2015)

“The WTO has emphasized that Aid for Trade (Aft) must be deployed to assist developing countries to enter the Global Value Chain (GVC) in which production is spread among any number of countries and value is added at each stage of the transfer. Much of today’s global trade is in intermediate goods which are imported, value added and then exported.

The problem is that most value is captured in the design and conceptual stage of the value chain, as well as in the final sales and marketing end of the GVC. However, this is not where most developing countries are located. They are generally located in the lower value manufacturing section of the GVC, and even then, this is true for some, not all developing countries.

The benefit a country gets from participating in the GVC will depend on where a country is lined up in terms of its technological capacities; the depth of their manufacturing capacities; how developed their services sectors are; the size of their enterprises; their managerial expertise; their ability to meet the standards of the international markets, to name only a few criteria.

Due to these and other limitations, developing countries could open up, and they could become more integrated, but the quality of their integration may not be of real benefit. Mere liberalisation will not upgrade countries’ technological or services supply side capacities. Nor will Trade Facilitation Agreements – expediting the entry of imports through a range of customs procedures.



So the focus of Aft to increase trade via GVC’s has to be deepening the production capacities of developing countries so that they can garner a bigger share of the value added.

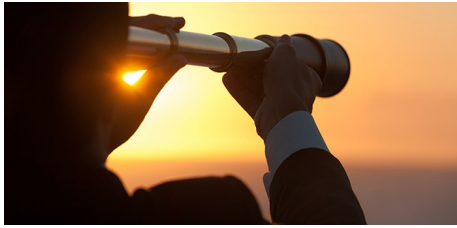
We suggest that the impetus must be more directed to engender the movement of our manufacturing capacities beyond being assembly lines; creating a more vibrant agricultural sector – including agro-processing and increased production capacities in a range of services sectors.

The latter is crucial because with the entry and exit of intermediate goods between countries, the service component of the GVC has grown exponentially. It now surpasses trade in manufactured goods.

Failure to engage in structural transformation especially of services and deepening of production capacities could mean that our countries will continue supplying raw materials or at best, sites for low value added manufacturing tasks.”



Global Value Chains for Trade and Investment



Looking Ahead with GVCs

The efficiency of the Global Value Chain is dependent on several entities working together in order to capitalize on the maximum benefits to be derived from this expansive trade linkage. A robust GVC network will boost world trade, and provide opportunities for both countries and enterprises, that are either lacking in size or capacity, to access the international supply chain. Both developed and developing countries stand to gain by strengthening their GCVs and contribute to the growth and development of their economies, through this globally linked trade system. Active participation in GVCs is encouraged by the WTO and WCO, who have responsibility for establishing and regulating multilateral trade policies. Through consensus achieved by the TFA, global processes regarding imports and exports are becoming more efficient, allowing more entities to access the GVCs. Customs and other regulatory border control agencies, in collaboration with the trading community, have prioritized various initiatives geared towards securing and facilitating international trade. These trade measures will enable greater participation in the GVCs, which has the potential to increase a country's share in world trade. A key driver to increasing a country's global trade share, is it's industries. Global trade presence is a desirable objective for most countries, as well as their enterprises, whether large or small. SMEs now have the potential to achieve this, by accessing the GVCs and reaping the potential benefits of the TFA. Global trade presence is also desirable for regional groupings such as APEC and CARICOM. This may be achieved through strengthening their collaborative capacities and maximizing their opportunities to enter or increase their participation in the GVCs.



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Country Above Self



The International and Industry Liaison Unit is committed to raising the level of awareness on topics relating to the Caribbean Community, as well as issues concerning the wider topic of international trade, to both our internal and external stakeholders. Our monthly newsletter seeks to highlight global trade topics and their importance to Customs Administrations worldwide and specifically how they affect the Jamaica Customs Agency. As we realize our vision of becoming a modern Customs administration delivering excellent service, we recognize the importance of knowledge transfer in delivering our objectives and use this forum as our way of contributing to the vision of the JCA. The International Liaison Unit is located at the Myers Wharf head office and our officers are available to respond to your queries and clarify any points of concern.

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