

# Changing Pattern of Trade, RTAs, and Employment in Asia

Saman Kelegama

[www.ips.lk](http://www.ips.lk)

Presentation to the IHD and ILO organized seminar on  
Trade and Employment in Asia, Delhi, India

16-17December 2015

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# Global Value Chains

- Fragmentation of the production process has become a new feature of international trade
- Global trade has become unbundled with countries trading in tasks such as design, assembly, rather than goods
- 80% of global trade is accounted for by MNCs linked to GVCs
- Intermediate goods and services account for 60% of global trade
- Import content of exports have increased from 20% in the 1990s to 40% today and will reach 60% by 2030 (WTO)

# Global Value Chains (contd)

- GVCs have doubled between 1995 and 2010 – 6 fold income increase for China, 5 fold increase for India
- Developing country participation in GVCs have increased from 20% in 1990 to 30% in 2000 to over 40% today, however many poor countries are still left out from GVCs
- Active participation in GVC s require technology dissemination, skill development, good connectivity, low tariffs, minimum NTBs, etc.

# Trade Facilitation

- Research indicates that TF can be as important as tariff reduction to improve trade flows
- Studies show that in some developing countries trade procedures related costs can be high as 16% of the cost of production
- TF which was outside the WTO agenda till the July 2004 WTO package, made rapid in-roads to the WTO and finally became an WTO Agreement at the 9<sup>th</sup> MC of the WTO in 2013
- Successful participation in GVCs depends crucially on efficient TF -- goods cross borders multiple times, first as inputs, then as final products – rapid clearance is important for the smooth operation of supply chains

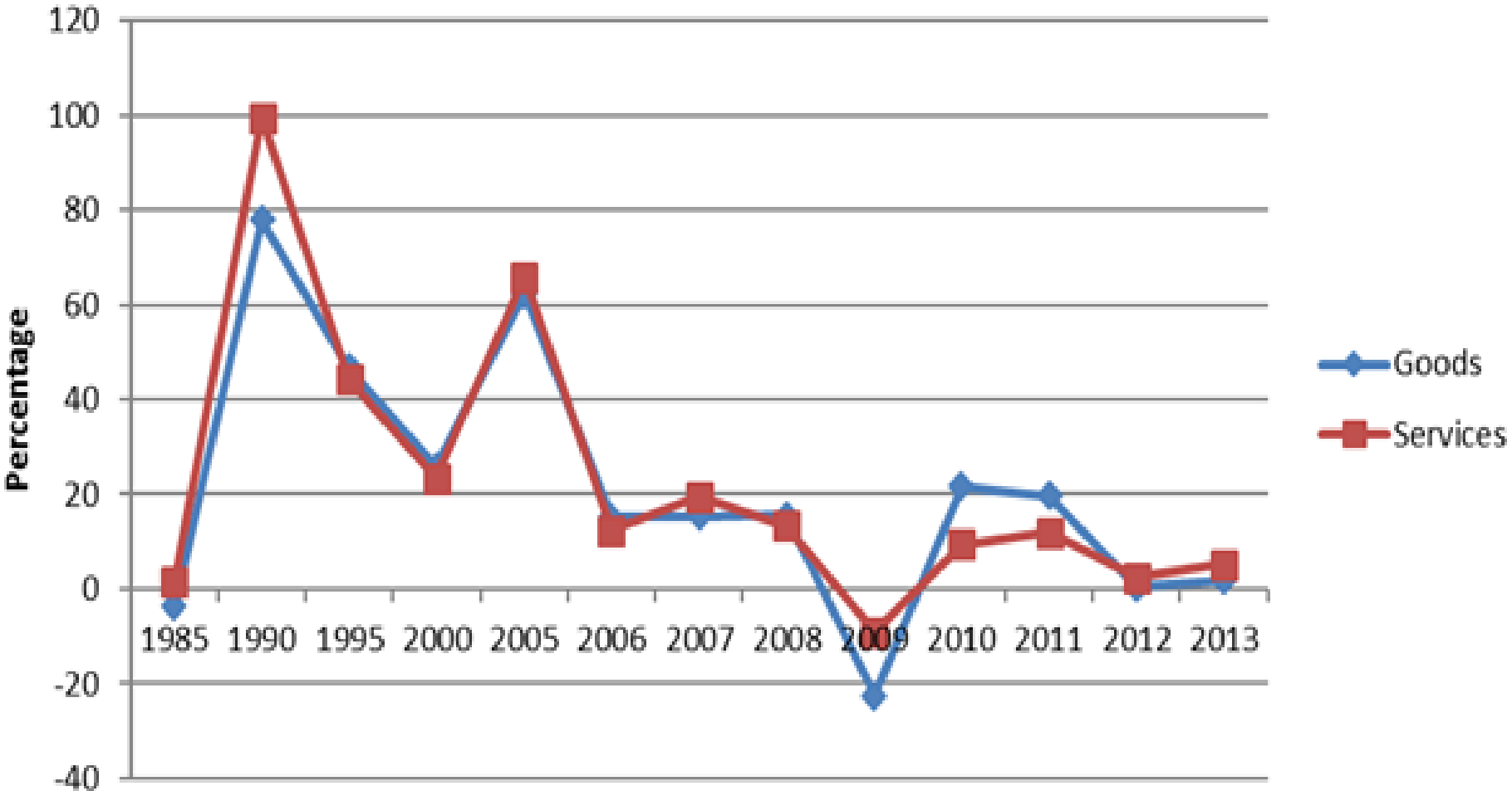
# Trade Facilitation (contd)

- In recognition of the importance of TF, OECD has developed a range of TF indicators to identify areas where action is needed
- Minimizing documentation, automation and streamlining trade procedures are some of the crucial areas for policy focus
- TF measures can reduce trade cost by 3% in LDCs and 2.3% in LICs and improve the competitiveness of products

# Expansion of Trade in Services

- With technological advancement many services have become tradable – some say “commoditization of services”
- Services account for 20% of global trade today
- Global services have been growing faster than global goods trade
- Services are playing a key role in expanding GVCs –almost 46% of value added in exports linked to GVCs are contributed by service sector

# Growth Rates of Trade in Goods and Services: 1985-2013





# Trade in Services (contd)

- “Servicification” of manufacturing is increasing
- Since GATS (2000) in the WTO is at a standstill, services trade has made in-roads to FTAs, RTAs and 33% of RTAs cover services
- Plurilateral negotiations led by US is progressing outside the WTO at present

# Changing Pattern of FDI

- Investment follows trade
- With the emergence of trade in services we find that 60% of global FDI now is in services
- The growth of GVCs also have influenced this trend with FDI mostly controlled by MNCs
- In 2012, for the first time, developing countries attracted above 50% of global FDI (52%)
- Developing countries also contributed to 33% of global FDI outflows

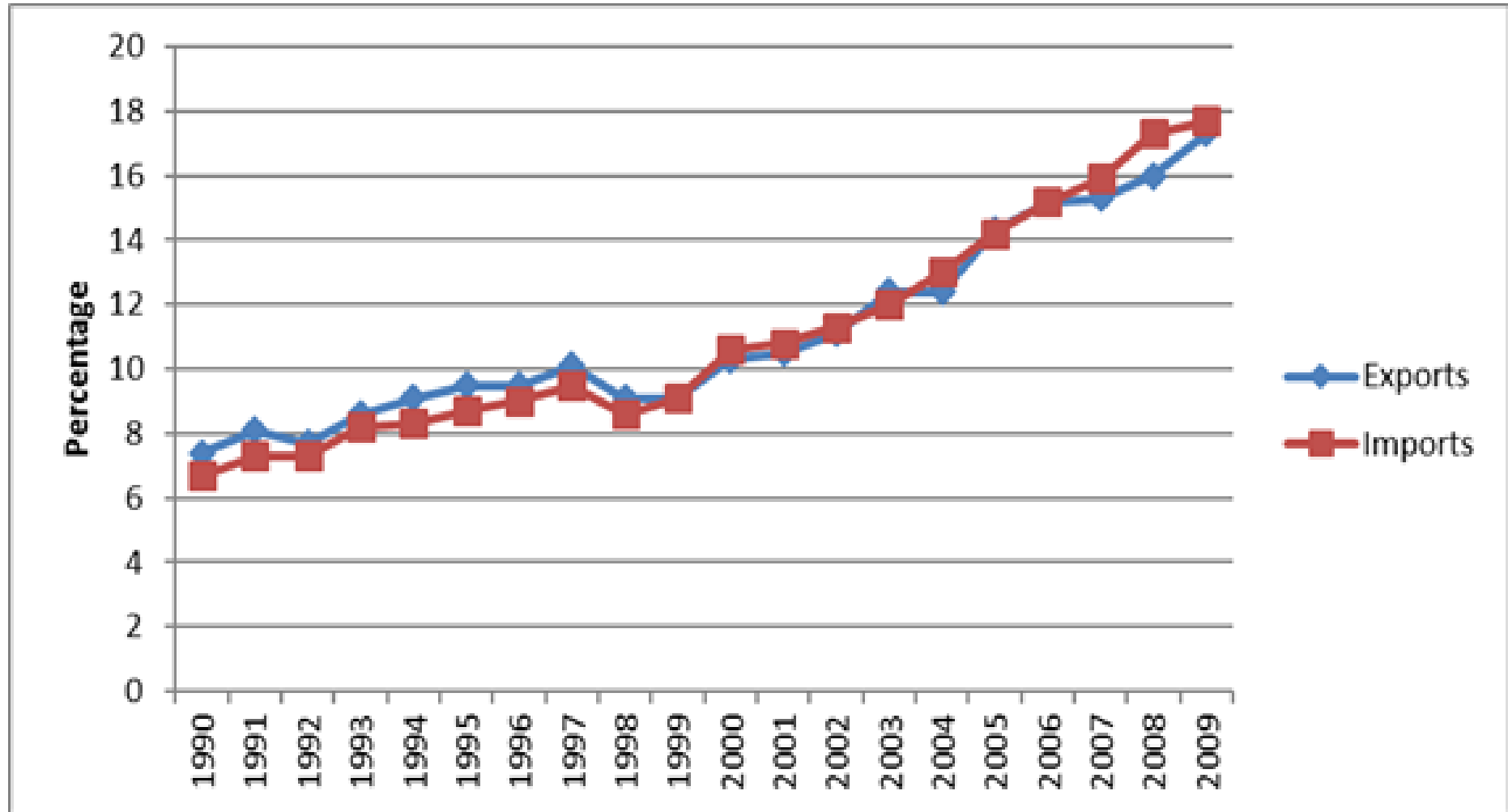
# Shift of Global Trade to Asia

- Exports and Imports of the region have grown at twice the rate of the rest of the world over the past decade
- The share of Asian exports doubled from 18% in 1980 to 36% in 2013 while Asian imports increased from 13% to 33% for the same years
- By 2030 Asia will account for 40% of global exports and 30% of the global imports
- China is the largest exporter and the second largest importer of the world

# Increasing South-South Trade

- Asia's intra-regional trade (IRT) has increased from 45.2% in 1990 to 55.6% in 2010 and this has happened mostly due to IRT increase in East Asia and South East Asia
- IRT in these two regions have a got a boost from manufacturing exports closely linked to GVCs
- It is Asia's trade that has really boosted South-South trade in recent years

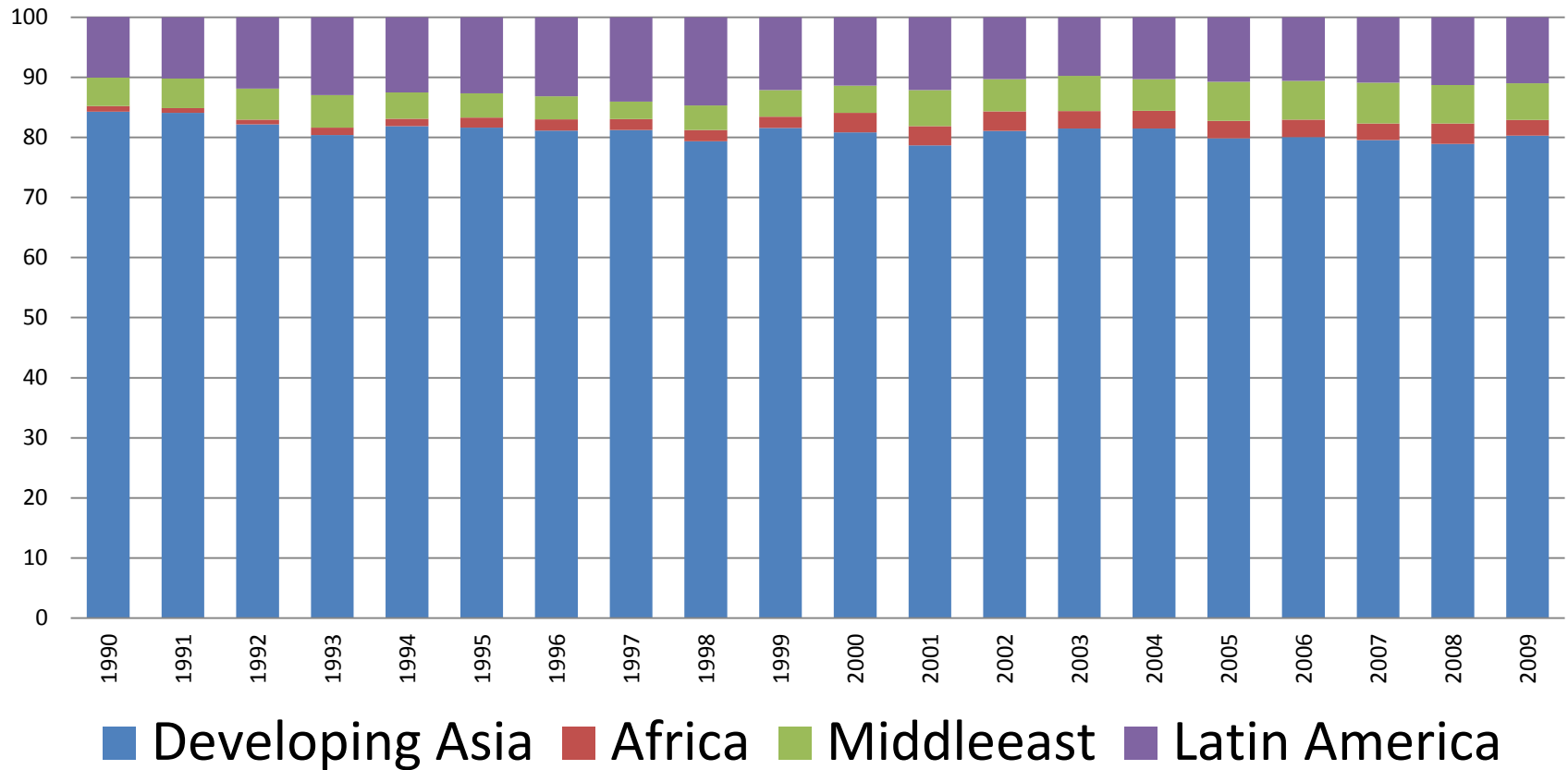
# South-South Trade in World Trade, 1990-2009



# Intra-regional Trade Shares (Percentage): 1990-2010

Region	1990	1995	2000	2005	2010
EU	65.7	65.4	64.1	64.9	64.9
North America	37.2	41.9	46.8	43.0	40.0
Asia	45.2	52.5	53.2	55.1	55.6
East Asia	28.6	35.4	36.8	36.9	36.8
Southeast Asia	16.9	21.0	22.7	24.9	24.6
South Asia	1.9	4.1	3.9	4.3	3.1
Africa	7.8	9.4	8.3	9.3	10.4
Latin America	14.8	18.6	15.4	18.0	19.3

### Regional composition of South-South trade (%)

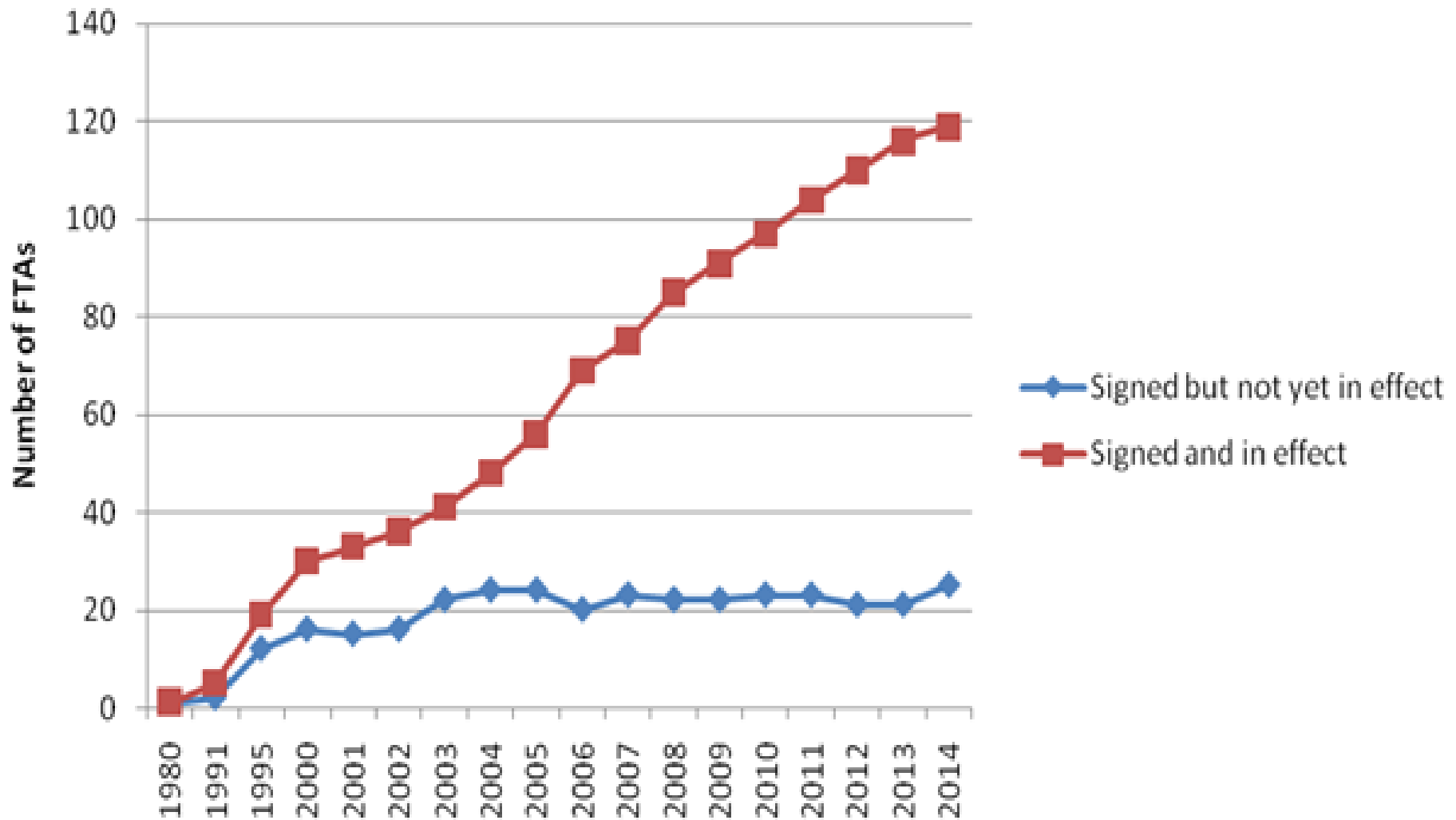


# RTAs/FTAs

- For GVC operations high tariffs are an impediment since tariffs become cumulative when intermediate goods are traded across borders multiple times. Firms pay tariffs on imported inputs and then face tariffs of final exports – thus tariffs can amount to a significant sum when the product reaches the consumer. This will lower demands and affect production and investment in all stages of the value chain. Thus tariff reduction is essential for the smooth functioning of international production now dominated by GVCs. Since tariff reduction has come to a standstill under the WTO there is a concerted effort to reduce tariffs either via RTAs or FTAs



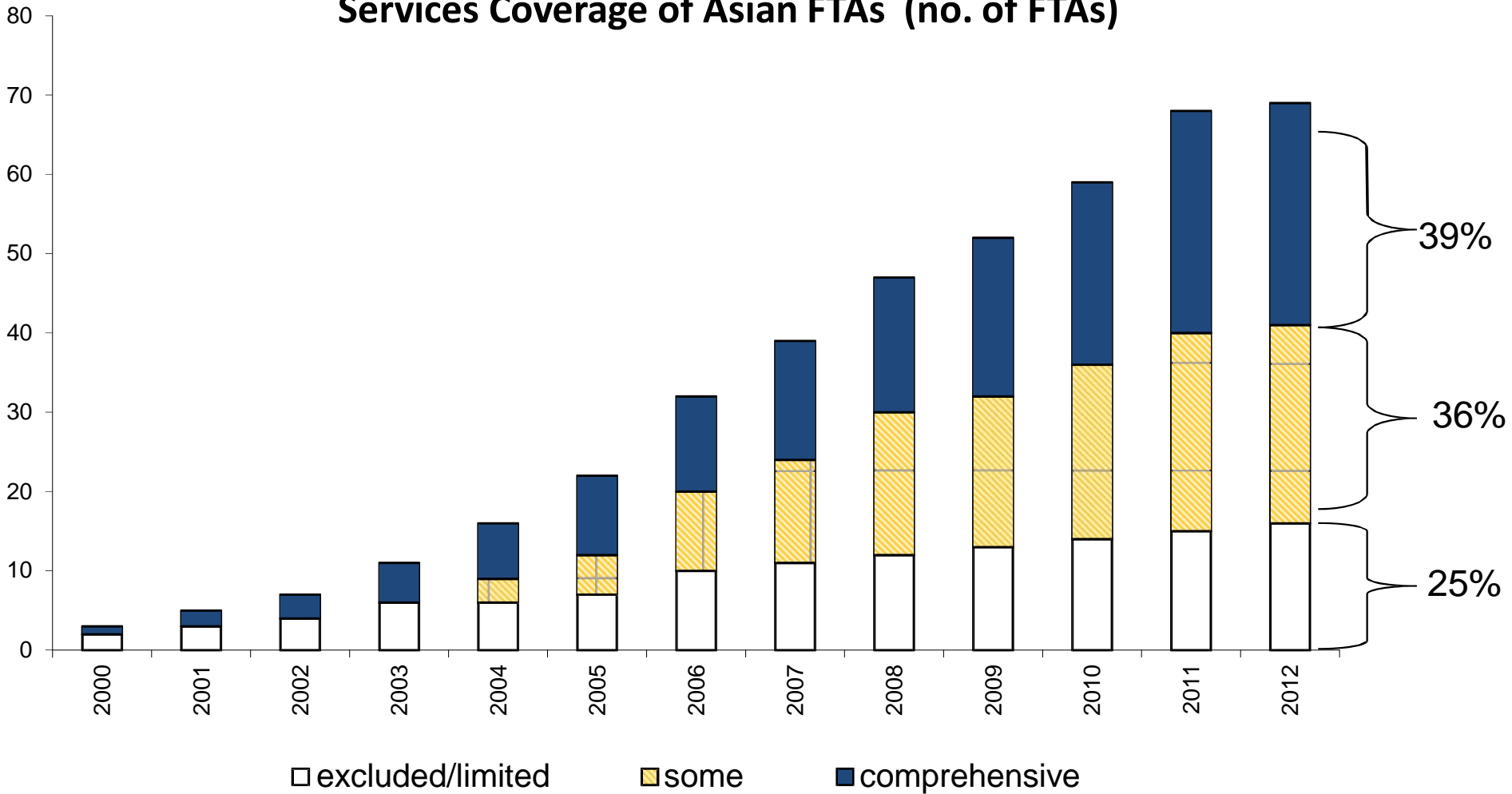
# Asian FTAs



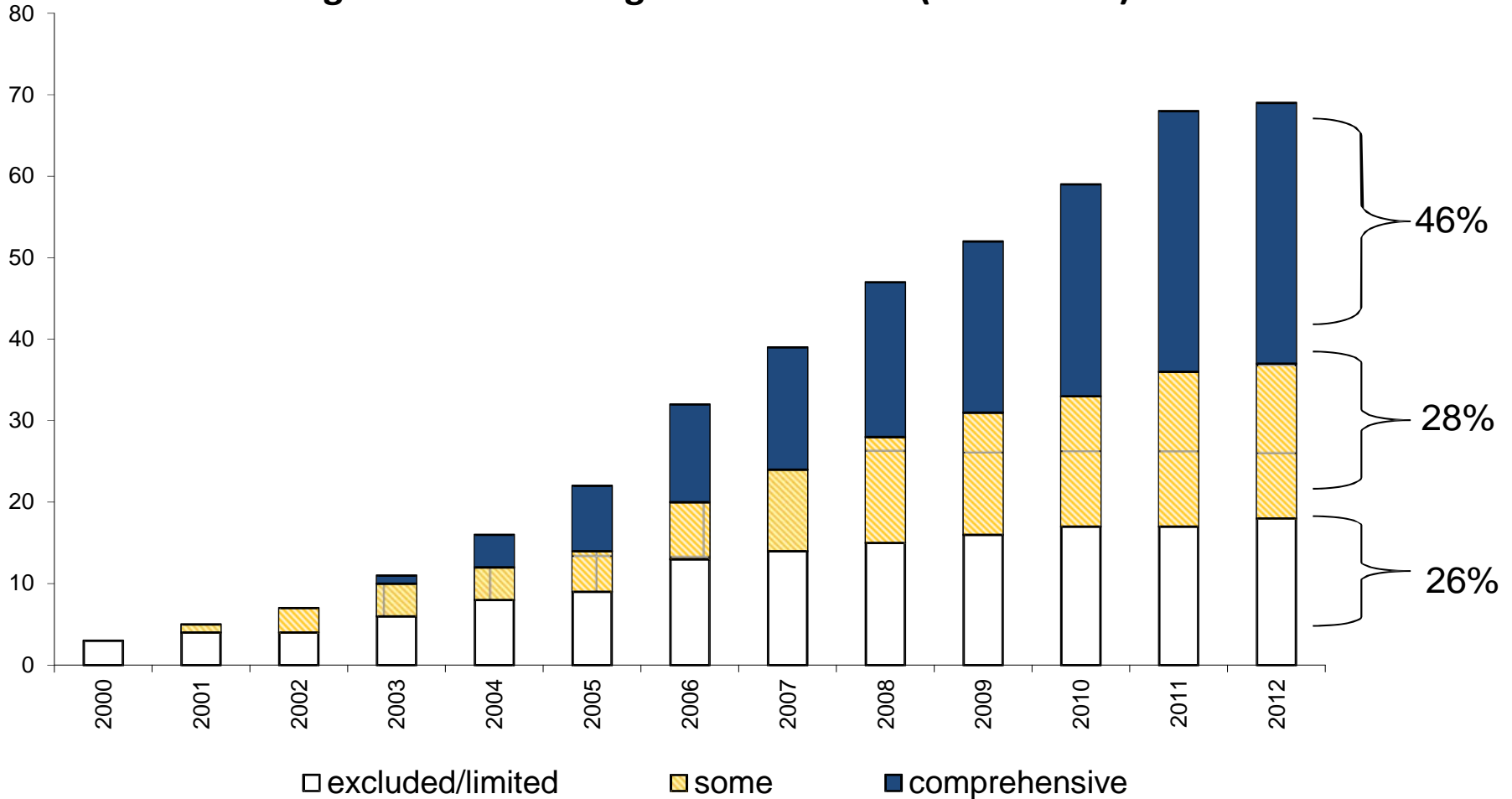
# RTAs/FTAs (contd)

- According to the WTO website there are 379 RTAs in operation by June 2014, 585 notifications of RTAs
- RTAs control about 46% of Asia Pacific imports and 37% of exports
- There are many RTAs/FTAs that have matured to EPAs, CEPAs, CECAs, and so on covering services and investment, in addition to trade in goods – around 80
- RTAs/FTAs have also matured to cover agriculture, WTO-plus issues, etc., over the years

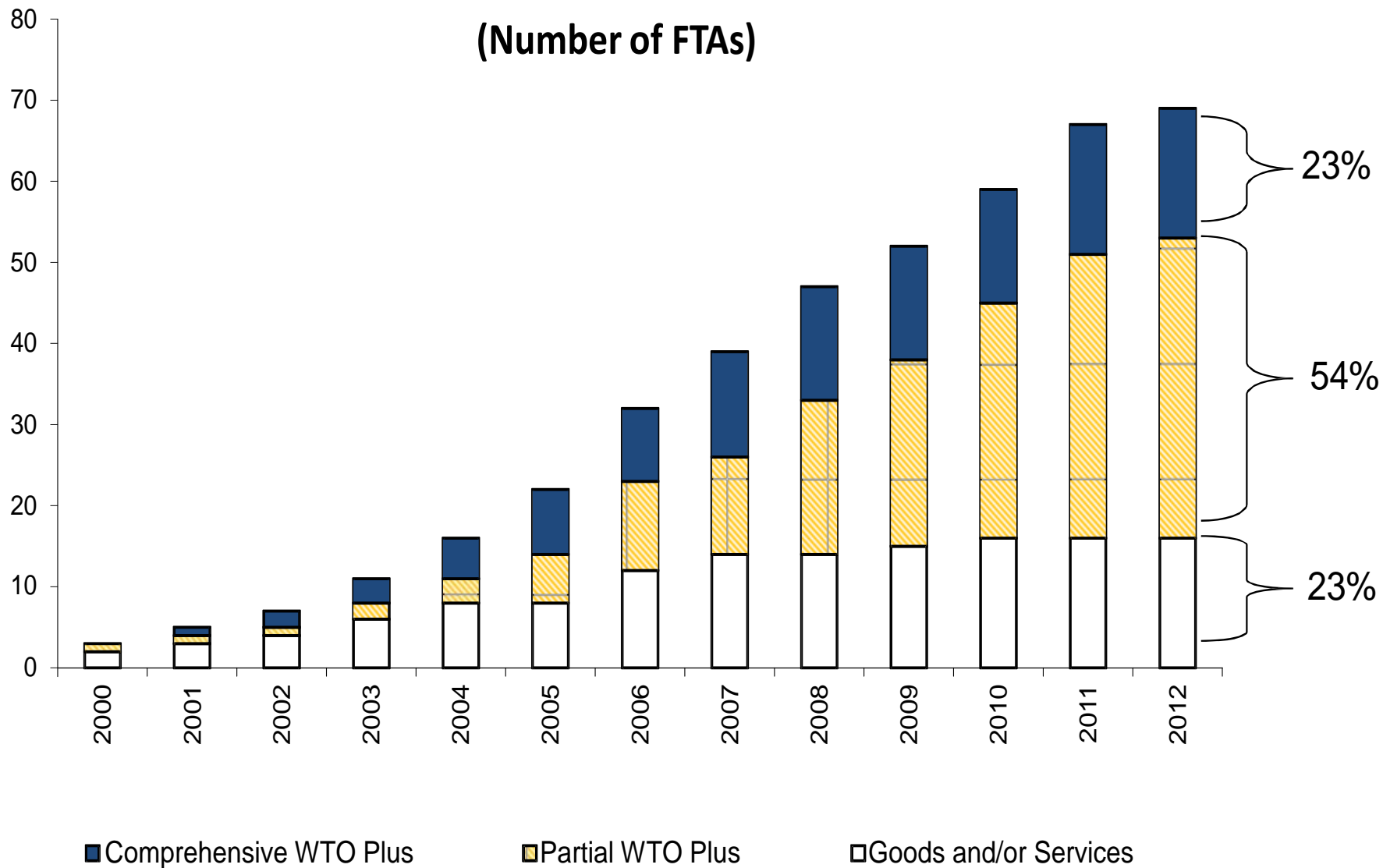
## Services Coverage of Asian FTAs (no. of FTAs)



## Agricultural Coverage of Asian FTAs (no. of FTAs)



## Scope of Concluded FTAs in Asia (Number of FTAs)



# Trade & Employment

- Changing pattern of trade and RTAs/FTAs have an impact on resource reallocation in the economy
- Trade can create as well as destroy jobs although it is argued that export-oriented industries creates more jobs than the losses in jobs in other sectors
- Trade can formalize as well as informalize the labour force
- Trade policies need to be under a regulatory framework to maximize its impact on employment creation

# GVCs and Employment

- GVC participation is linked to higher wages and skilled labour
- In pure processing trade linked to GVCs, they do not necessarily pay higher wages than domestic firms
- OECD study concludes that labour market impacts of GVCs are generally positive but highly case specific

# RTAs/FTAs: Employment

- Imports affect the domestic production and employment if products that are imported compete with domestic products
- Imports of inputs at low tariffs can make export products more competitive and thus benefit employment
- The Sensitive List in RTAs/FTAs have to be carefully designed to avoid large scale unemployment from such agreements



- Thank you