

The Effects of Trade Agreements: Global Value Chains, Digitization and the Trade in Tasks

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Traditional view of trade policy

- Value chains are local
 - ➡ Firms trade to reach foreign consumers
 - ➡ Mercantilist trade policy
 - » Export promotion
 - » Import protection
 - ➡ Free trade agreements are tool to exchange export promotion

Foreign components in Bombardier CSeries



Today's Globalized Toy

Topper the Trick Terrier is a robotic dog that can talk and stand on its head. But the real trick is where its parts come from. This year 75,000 copies of the dog were made by Qualiman Industrial Co. in Nanhai, China for a Li & Fung American customer, the Original San Francisco Toymakers. It sells for \$29.99 in the U.S.

PLASTIC EYES:
Shenzhen, China

PLASTIC BODY:
Malaysia
**MICROFIBER FABRIC
FOR COAT:**
Korea

MOTOR FOR LEGS:
Shaoguan, China
PLASTIC LEGS:
Taiwan

**VOICE-RECOGNITION
REQUIREMENTS:**
San Francisco
**VOICE-RECOGNITION
PROGRAMMING:** Taiwan

SPEAKER FOR TOY'S VOICE:
Dongguan, China

TRANSISTORS: Shenzhen, China
IC CHIPS: Taiwan
WIRING: Dongguan, China
PACKAGING: Hong Kong

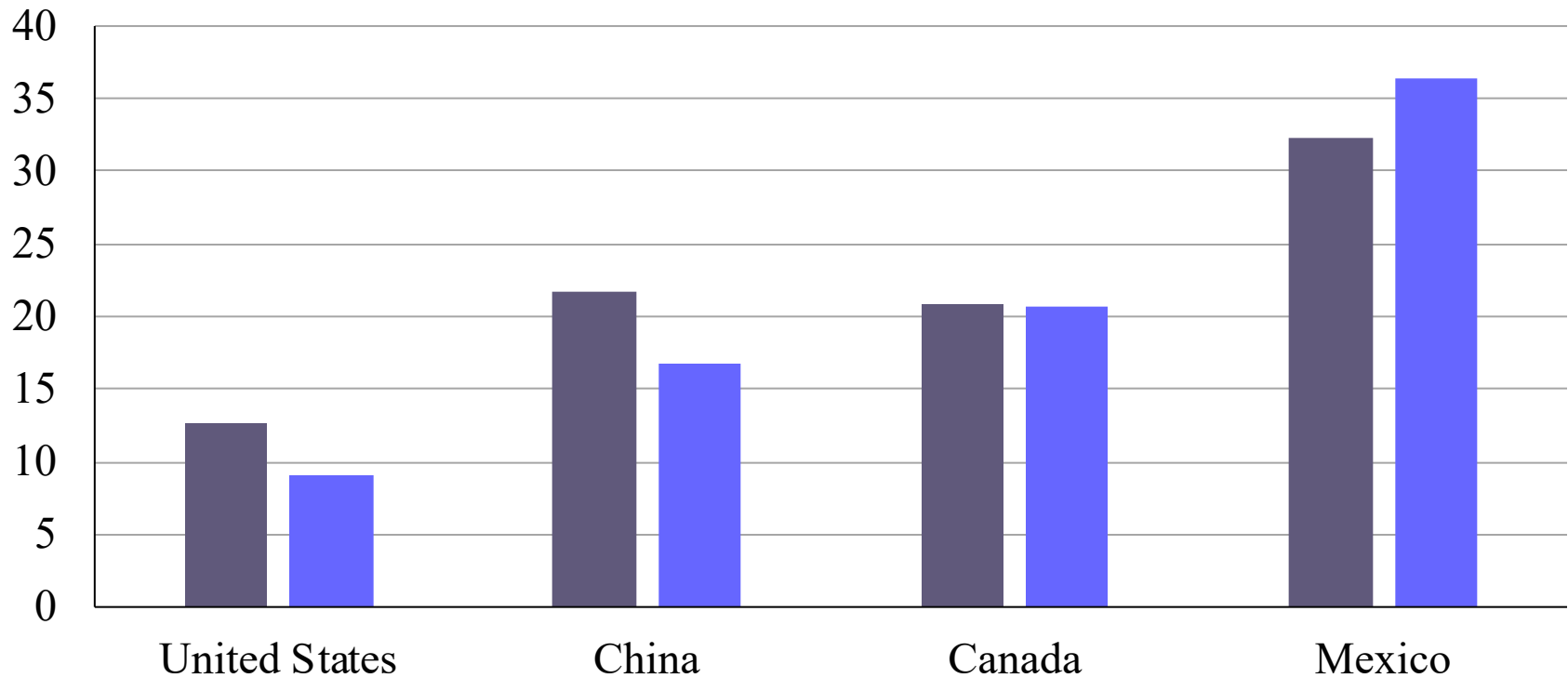


Sources: Qualiman Industrial Co. Ltd.; Li & Fung.

The value chain of a Burger

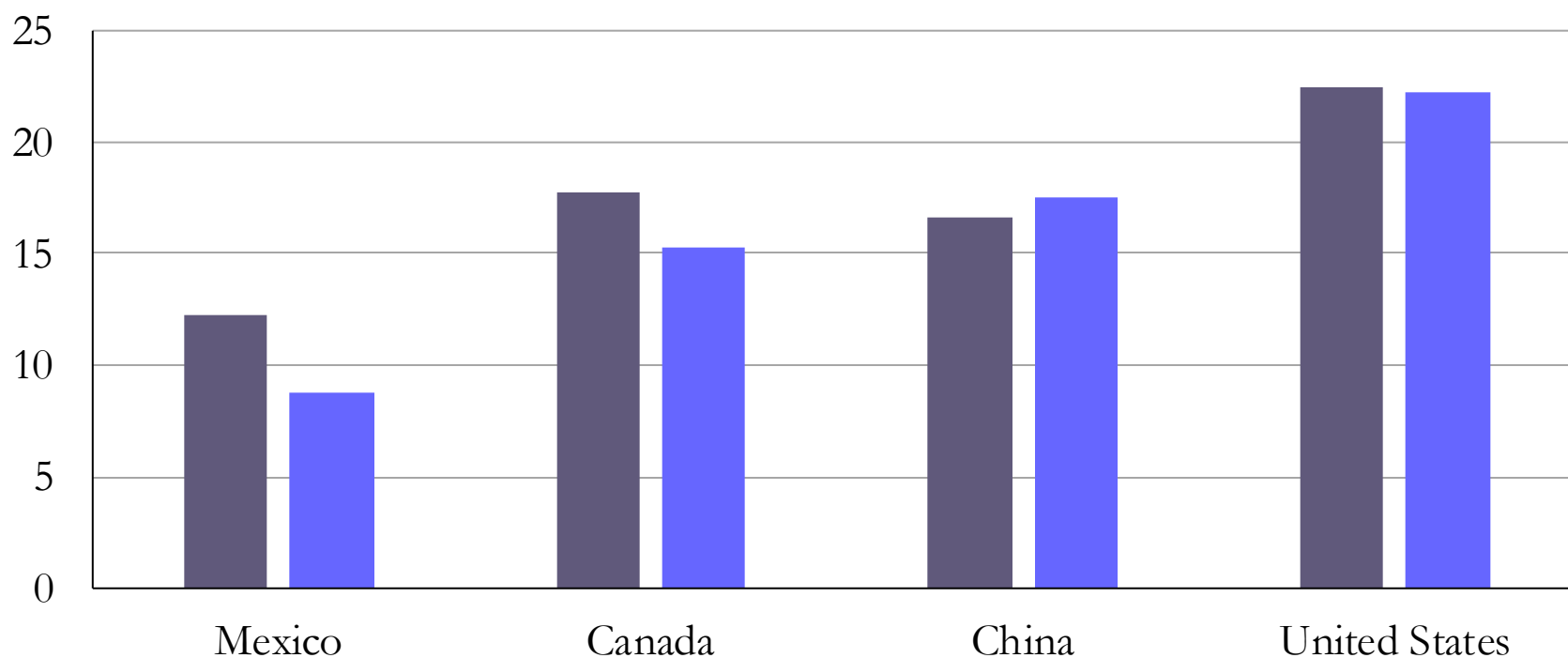


Foreign content share of gross exports, 2011 and 2016



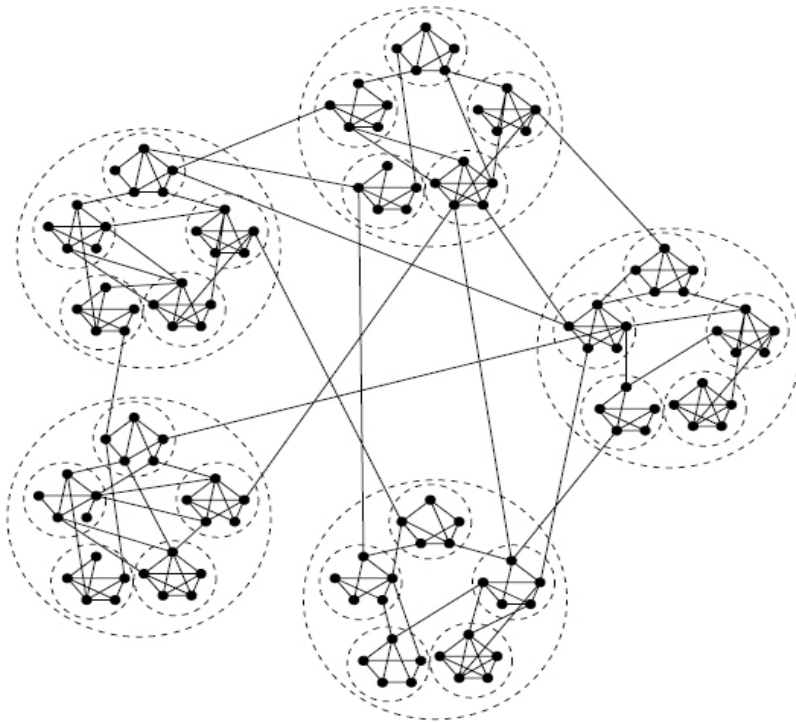
Data Source: OECD Trade in Value Added

Domestic value added embodied in foreign exports as a share of gross exports, 2011 and 2015



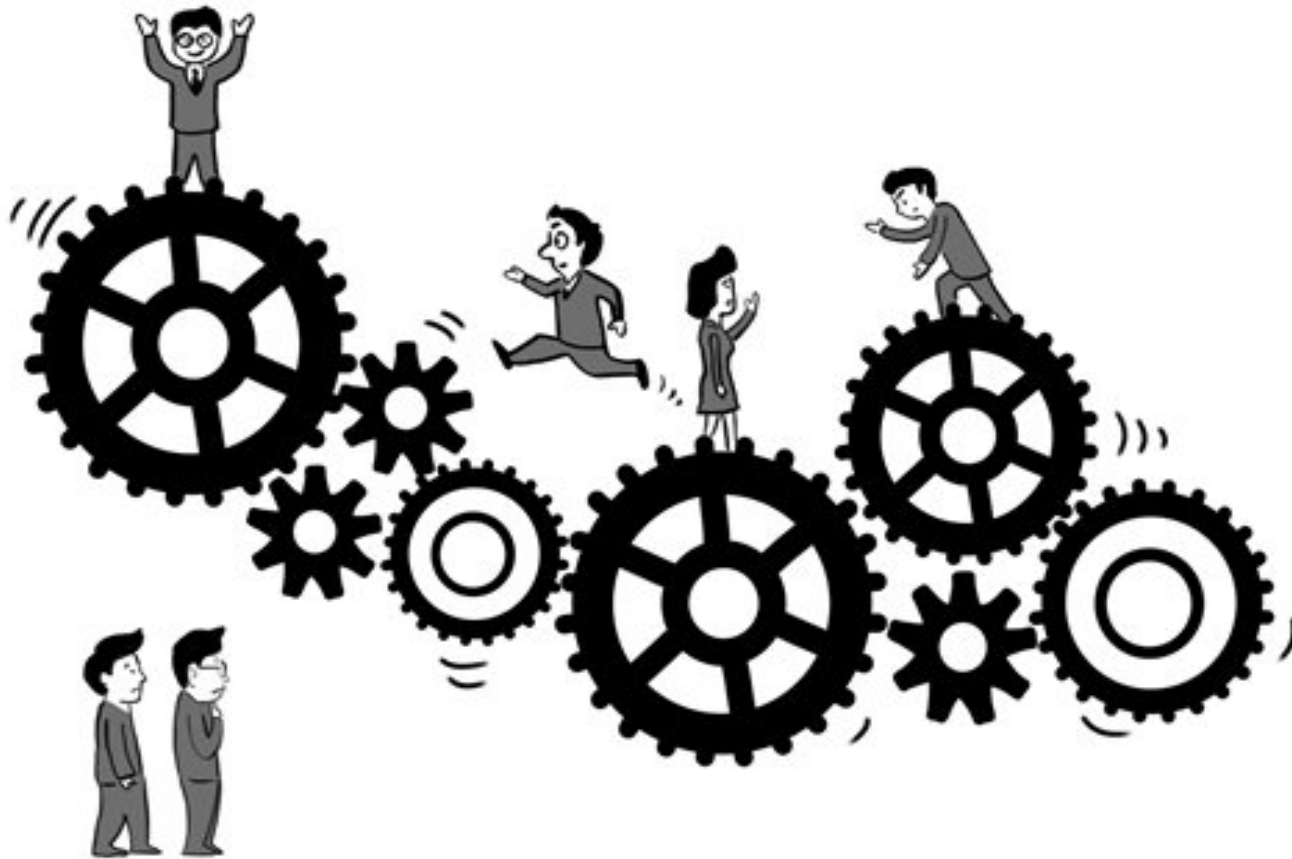
Data Source: OECD Trade in Value Added

Towards a network view of trade



- Canadian firms are part of a network of local linkages, which is embedded in a larger global network of linkages that spans across countries.
- Global trade arena is not a battleground, but a place for value co-creation.
- Competition between regional value chains, not between national firms.

Efficiency-seeking motive



Porter's value chain



Source: Porter (1985)

Labor-intensive

Smile of value creation

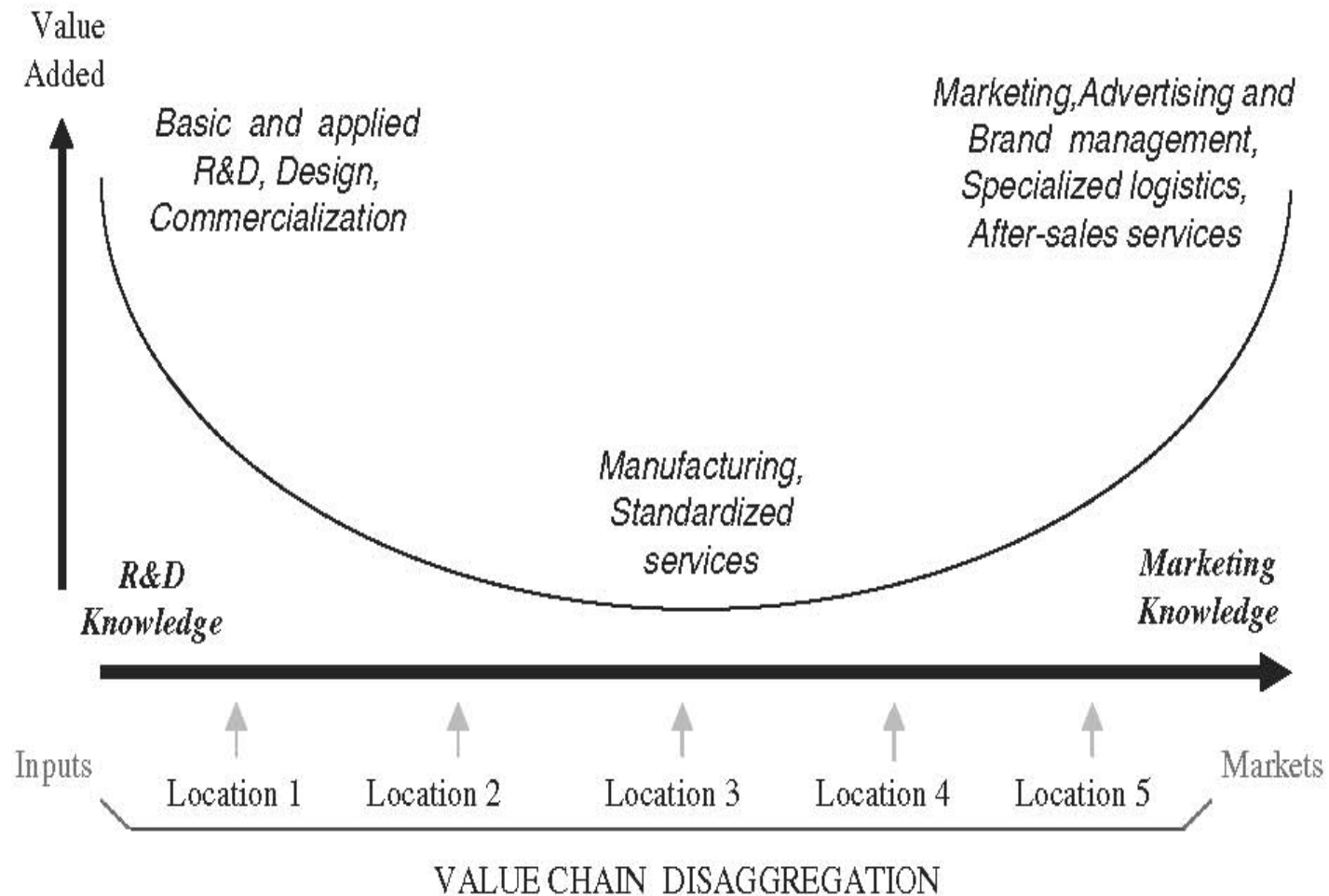
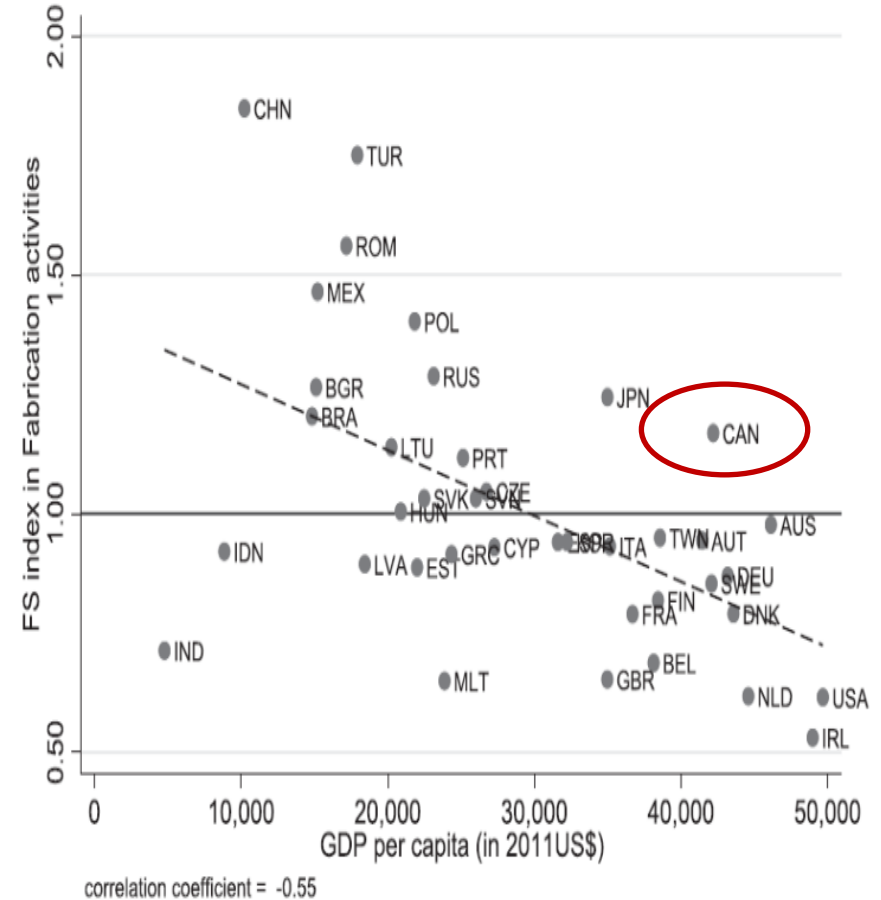
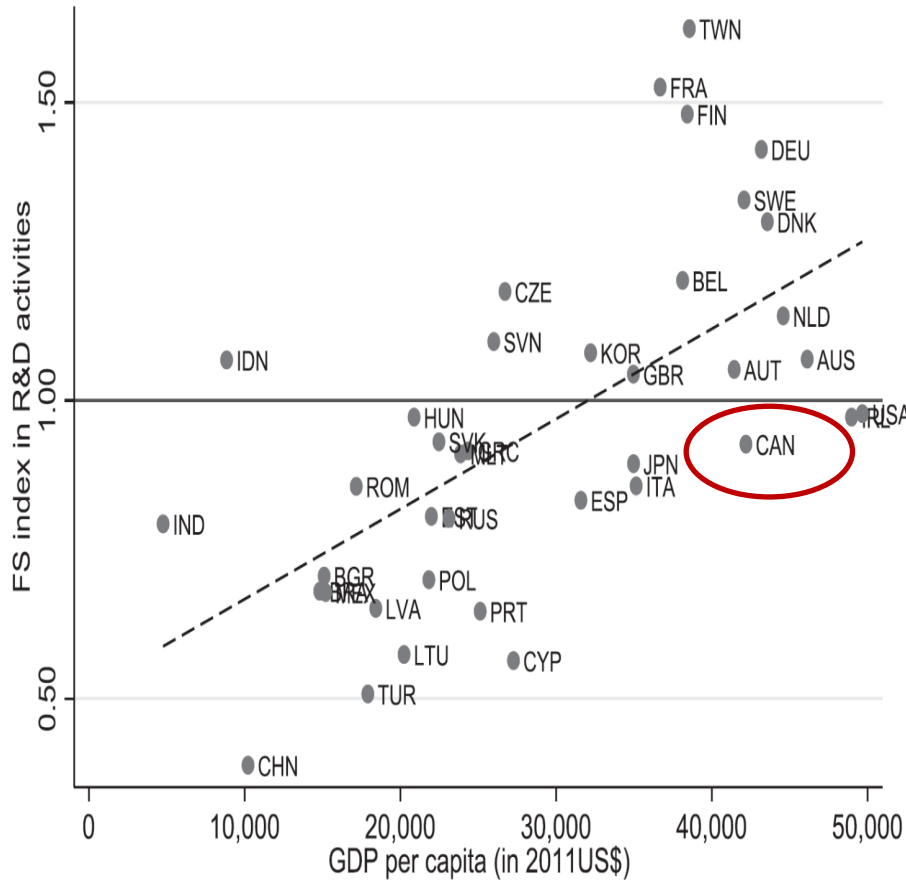


Figure 1. The smile of value creation (Mudambi, 2007).

Source: Timmer, Miroudot & De Vries (2018)



Flexibility-seeking motive



“On a Friday in early September 2006, the South African government announced that it would be imposing strict quotas on Chinese imports in two weeks. Li & Fung had orders already in production for South African retailers that would be affected by these changes. Managers began to look at contingency plans to move production to factories in different countries and even to move the last stage of existing orders to different end countries to satisfy non-China country-of-origin rules.”

Source: Fung, Fung & Wind (2008)

Donald J. Trump, May 13, 2019



Their [sic] is no reason for the U.S. Consumer to pay the Tariffs, which take effect on China today. [...] Also, the Tariffs can be completely avoided if you by [sic] from a non-Tariffed Country, or you buy the product inside the USA (the best idea). That's Zero Tariffs. Many Tariffed companies will be leaving China for Vietnam and other such countries in Asia. That's why China wants to make a deal so badly!...

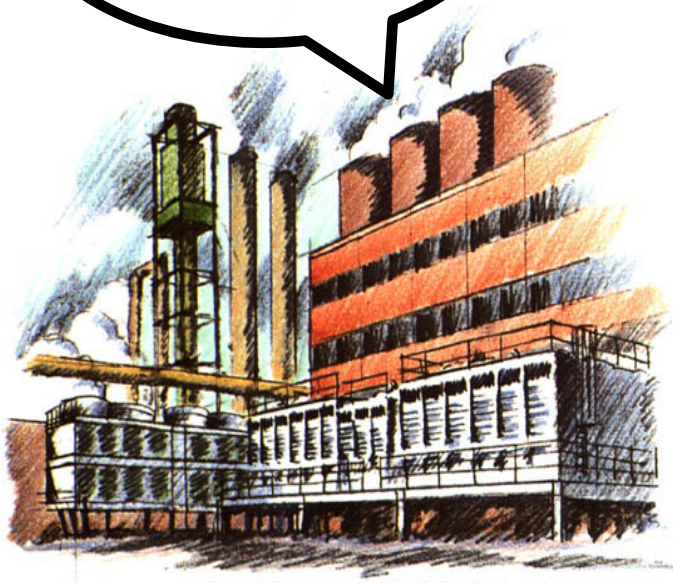
Footwear Distributors and Retailers of America, May 20, 2019

“There have been suggestions that industries should quickly shift sourcing to countries other than China in the wake of these additional tariff threats. While our industry has been moving away from China for some time now, footwear is a very capital-intensive industry, with years of planning required to make sourcing decisions, and companies cannot simply move factories to adjust to these changes. Any action taken to increase duties on Chinese footwear will have an immediate and long-lasting effect on American individuals and families. It will also threaten the very economic viability of many companies in our industry.”

Paradigm shift:

Rise of a supply chain mindset

Market access,
market access,
market access!



Connectedness,
connectedness,
connectedness!

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Sources: Qualiman Industrial Co. Ltd.; Li & Fung.



New trade policy demands

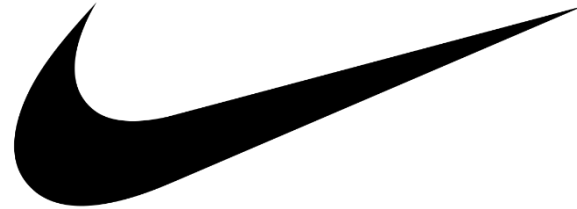
- Liberalize trade not only on the exports side, but also on the import side.

Nike versus New Balance

It is already 25 per cent to 35 per cent more expensive to produce in the United States than in Vietnam and so a tariff reduction will only chip away at the tariff buffer that allows New Balance to produce in America



The question comes down to, is one kind of job more important than another? What are the jobs for the 21st century? They're not necessarily jobs that existed 30 years ago



Why New Balance turned on Trump over China tariffs



By [Katie Lobosco](#), CNN Business

Updated 1100 GMT (1900 HKT) June 17, 2019

New trade policy demands

- Liberalize trade not only on the exports side, but also on the import side.
- Help companies identify and connect with strong global value chains.

Financial Post, April 23, 2015

EDC loans Volkswagen \$525 million in bid to open doors for Canadian suppliers

It is absolutely incredible that a Canadian Government agency is helping to facilitate and accelerate the migration of the continental auto industry to Mexico.



This financing is really about relationship building, both for EDC and for Canadian small and medium-sized enterprises in the tooling and automotive supply industries. The value here is that qualified Canadian SMEs get a real chance to be considered by a major industry player, where they might not have an opportunity to gain that kind of access on their own.



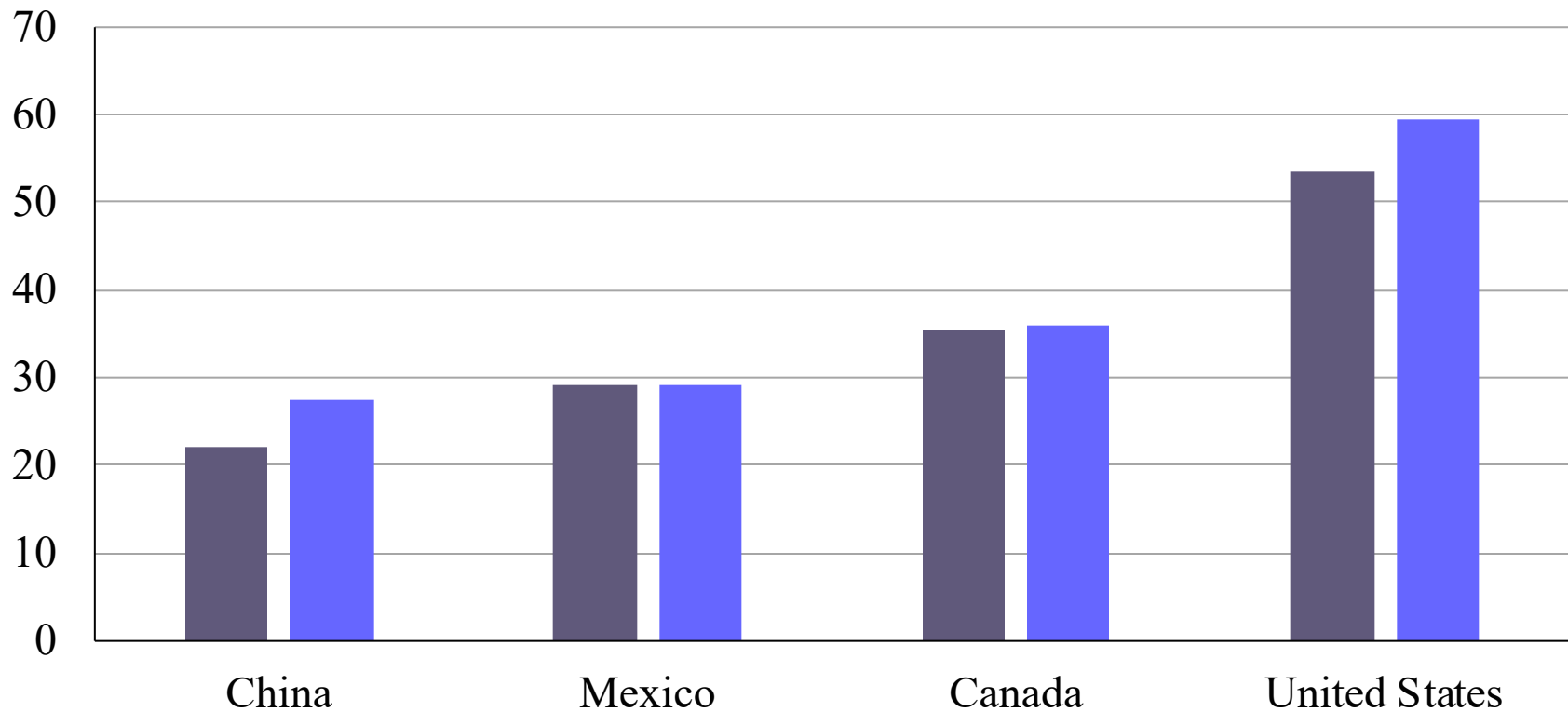
New trade policy demands

- Liberalize trade not only on the exports side, but also on the import side.
- Help companies identify and connect to strong global value chains.
- Facilitate the transmission of goods and information across borders
 - at-the border trade facilitation (e.g. WTO Trade Facilitation Agreement)
 - beyond-the-border trade facilitation (e.g. Belt Road Initiative)

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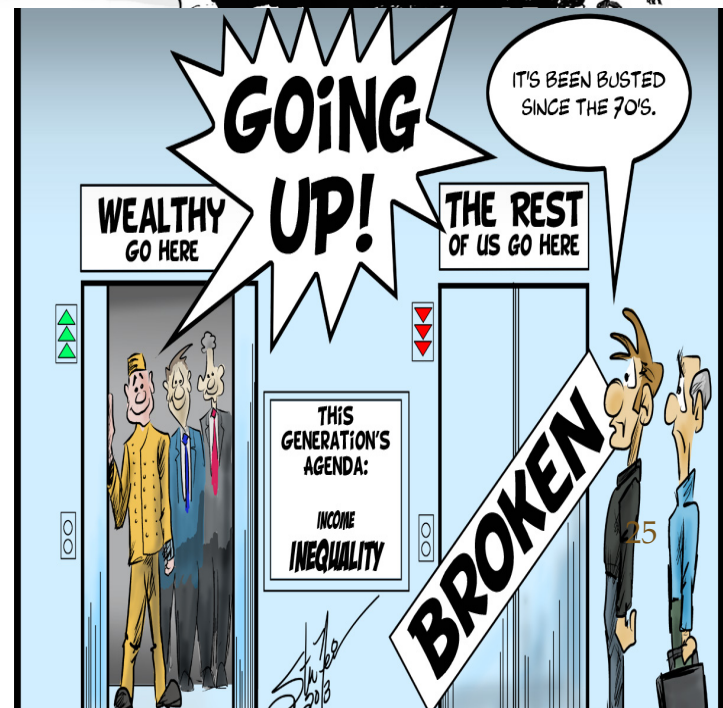
Domestic services share of gross exports, 2011 and 2016



Data Source: OECD Trade in Value Added

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- Develop a competitive services sector
- + • Negotiate free trade agreements with deep integration



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