Global Britain Briefing Note

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Global Value Chains (GVCs) account for 80% of global trade

In trade statistics, the importance of "goods" is overstated & that of "services" understated

- ***Most of global trade is done by multinationals***

Today's global economy is characterized by global value chains[1] (GVCs), in which intermediate goods and services are traded in fragmented and internationally dispersed production processes. These have led to the emergence of "borderless" production systems which can be sequential chains or complex networks at global or regional levels.

The putting together of GVCs often comes about through FDI – "Foreign Direct Investment" – in which a corporation acquires or creates or invests in a corporation established in another country.

GVCs are typically coordinated by TNCs (transnational corporations), with cross-border trade of inputs and outputs taking place within their networks of subsidiaries, affiliates, contractual partners and arm's-length suppliers. TNC-coordinated GVCs account for some 80 per cent of global trade.

- ***Current statistics on trade, & on national balances of payments, are flawed***

GVCs contribute to a significant amount of double counting in national, regional & global trade statistics. It is estimated that such double counting amounted to around 28 per cent or $5 trillion of the $19 trillion in global gross exports in 2010 – because intermediate inputs are counted several times in world exports, whereas they should be counted only once as "value added in trade".

- ***In trade statistics the importance of "services" in global trade is severely under-estimated, & that of "goods" severely over-estimated***

The widespread use of GVCs also means that, under the historic & current methods of trade measurement, the contribution of services to total trade is heavily underestimated. When measured in value-added terms, services are estimated to account for 45% of total trade, almost twice as much as the corresponding share measured in gross terms. The contribution of "goods" in total trade, 77% in gross terms, is correspondingly much smaller at 55% using value-added measures.

Trade and balance of payments statistics continue to be compiled under the traditional "gross" convention. However, the World Trade Organisation (WTO) & the Organisation for Economic Cooperation and Development (OECD) are jointly developing new indicators of trade in value-added, in order to improve the interpretation & understanding of traditional trade & balance of payments data.[2]

- ***Customs duties in developed countries are tending to zero***

WTO data show that in 2010 the "weighted average of effectively applied tariffs" imposed by developed countries on imports of non-agricultural goods was 1.25% (one point two five per cent). That percentage is close to the UK figure of 1.5%[3] and helps to explain why most developed (and indeed developing) countries choose to conduct their international trade through free trade agreements, not customs unions.

As Global Britain has pointed out before, the EU Customs Union is the developed world's only customs union. Customs unions are redundant: overly-bureaucratic trade-distorting relics from the 1950s, economically pointless, since the duties they raise probably cost as much to collect as the amounts collected.

- ***International trade is mainly concentrated in the hands of small numbers of big multinationals***

There is increasing evidence that international trade is mainly driven by a relatively small number of big trading firms, and that in individual countries a very small proportion of all firms are actually directly involved in exporting.

In the USA, for example, it is estimated that the top one per cent (of numbers of firms) accounts for more than 80% (by value) of all US exports, while the top 10% of numbers of firms accounts for more than 96% (by value) of all US exports.

Similarly, in developed countries such as the USA, France & the UK, those firms that do export ship a small share of their total shipments abroad.

Notes & Data Sources

This Briefing Note is based on reports published during 2013 by two Geneva-based bodies, the World Trade Organisation & UNCTAD:-

i) *World Trade Report 2013: Factors shaping the future of world trade*; World Trade Organisation, ISBN 978-92-870-3859-3: www.wto.org

ii) *World Investment Report 2013,* United Nations Conference on Trade & Development ("UNCTAD"): ISBN: 978-92-1-11268-0: www.unctad.org > Publications > World Investment Report 2013. See especially Chapter IV: "Global Value Chains: Investment & Trade for Development", pp 121-196

1. Synonyms for "Global Value Chains" include "global supply chains" (the term used by the WTO) & "international production networks". Looser descriptions include "vertical specialization", "offshore outsourcing" & "production fragmentation".

2. More information can be found at www.wto.org/miwi

3. See Global Britain Briefing Note No 81: *UK Customs Duties very low on average & reducing*, 28.9.12, www.globalbritain.org > Briefing Notes

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