Technological advances, less costly shipping and trade liberalisation have transformed the way in which companies make products and distribute them worldwide. Governments that become more open to trade and investment, and encourage innovation will help firms better integrate the global value chains that are driving growth in increasingly interconnected economies, according to new OECD research.

The OECD, WTO and UNCTAD were asked to report to the G20 Summit in St. Petersburg in September 2013 on the rising impact of global value chains (GVCs). As part of this process, the OECD is hosting a G20 Stocktaking Seminar on Global Value Chains, organized by the Russian Presidency, tomorrow Wednesday 29 May, where the findings of its analysis on Trade in Value Added (TiVA) will be discussed, as well as the policy implications.

Interconnected Economies: Benefitting from Global Value Chains discusses the challenges and opportunities facing advanced, emerging-market and developing economies as they seek to integrate into the global marketplace.

“Everyone can benefit from global value chains, but we will all benefit more if governments take steps to enhance the new business environment,” said OECD Secretary-General Angel Gurría at the OECD Forum in Paris. “It is essential to embrace freer trade and resist protectionism as countries seek out new investment, faster productivity enhancement and competitiveness. Encouraging the development and participation in global value chains is the road to more jobs and sustainable growth for our economies.”

The OECD report points out that the extent to which countries take part in GVCs varies widely. Small open economies like the Slovak Republic or Belgium rely heavily on foreign imports to make finished goods. Large economies, like the United States and Japan, are more active in upstream activities and produce intermediate goods that are included in the exports of countries further down the value chain (Read the 40 country notes).

Services, such as information communications technology, transport and logistics, account for over half of all value creation in GVCs in many OECD countries and over 30% in China. Upgrading the quantity of services and proceeding with its liberalisation would enhance the competitiveness of manufacturing firms and make it easier for them to take part in GVCs. Openness to trade is also essential, as import tariffs effectively act as taxes on exports by firms that use imported components to manufacture goods for export.

Countries that stimulate investment in innovation and intellectual capital, such as design, R&D and new business models, will help their firms move up the value chain.

Another report to be discussed by Ministers meeting at the OECD this week, New Sources of Growth: Knowledge-based capital, finds wide differences between countries in the levels of such investment. Knowledge-based capital includes computerised information (software and databases); innovative property (patents, copyrights, designs, trademarks); and economic competencies (including brand equity, firm-specific human capital, networks joining people and institutions, and organisational know-how that increases enterprise efficiency).

The United States, Japan and Sweden, for example, invest around 10% of GDP in knowledge-based capital, compared to less than 5% in Italy, Portugal and Spain. Some are also more successful at helping innovative firms attract investment: firms that patent their ideas raise four times as much capital in Sweden and the US than in Italy and Spain.

Well-functioning product, labour and risk capital markets are needed. Strong intellectual property rights encourage innovation but the rising costs of litigation are undermining the effectiveness of the patent system in many countries, according to the report.

Tax incentives and loans or grants for R&D boost investment in intellectual capital but are often poorly designed, especially for young firms which are an increasingly important creator of new jobs: between 2001 and 2011, firms less than five years old provided 18% of all jobs in OECD countries studied but accounted for 47% of all new jobs created.

Fuente: OECD