# Global Value Chains, International Trade Statistics and Policymaking in a Flattening World

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## Key points

- The growth in global value chains has blurred country borders and the distinction between industrialised and developing economies, and has had a major impact on the study of trade statistics.
- Growth in the developing economies' share of international trade far exceeds the increase in their relative economic size because trade data are not corrected for the double-counting impact of global supply chains.
- Improved trade statistics can throw new light on the extent and distribution of global imbalances and consequently on the relevance of trade and exchange rate policies.
- The WTO has launched the 'Made in the World Initiative' to support the analysis of global manufacturing issues and to provide a better understanding of the relationship between international trade and job creation.

## Introduction

For many years, the study of merchandise trade statistics was considered a 'mature' subject, where progress meant introducing better administrative procedures at the custom offices, while conceptual debates focused on

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the proper classification of new electronic devices such as flat screens or multifunction scanner/printer/copiers. Things began to change more than five years ago when the profession realised that the nature of trade itself had changed dramatically and that what national custom statistics used to measure was not enough to have a correct picture of the situation. This mutation – some analysts even advanced a paradigm shift (Grossman & Rossi-Hansberg 2006) – was caused by the globalisation of production networks, giving rise to global value chains that are closely knitting together firms from many different countries, blurring not only the official country borders, but also the traditional distinction between industrialised and developing economies.

This new phase of globalisation made possible by the convergence of significant changes in the technological as well as in institutional and political domains, was 'flattening the world' (Friedman 2005). It also brought back to the same drawing table the analysts and the trade statisticians who had comfortably lived more or less separately since the late 1950s. Indeed, the fact that the present article is co-authored by characters as disparate as a lawyer and a statistician may provide some ground to the paradigm-shift hypothesis, a situation where expertise in a single field can no longer provide for an adequate understanding of the situation at hand.

The changes induced by the rise of global production networks are indeed much deeper and more multi-dimensional than those of the late 1950s, with the first wave of foreign direct investment, when some large corporations became multinational enterprises, opening plants abroad to produce and sell in these foreign countries. This first trans-nationalisation of domestic firms amounted to substituting cross-border trade with direct sales, by building a physical presence in the foreign market to get closer to the final consumer. The present globalisation of production of goods and services goes far beyond, creating new trade channels instead of substituting them. Today, internationalisation aims not only at incorporating foreign consumers but, more importantly, at getting closer to foreign workers in order to benefit from their comparative advantage and subcontract specific tasks. The value-added generated by each differentiated task along the supply chain is embedded in a buoyant intra-industry exchange of intermediate goods, such as parts and components and other goods for

**Trade in intermediate goods amounts to more than half of world trade, excluding oil.**

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