

To Enhance China's Status in the Global Value Chains is a Long-term Process

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Processing trade, an import-turned-export trade model, is an inevitable thing for China to incorporate into the global value chains which are mainly dominated by multinationals. But so far China is more of a passive participation. So it makes sense to see that the country has been positioned at the low end of the global value chains over a rather long period of time. In recent years, lots of industries in China are showing a rise along the value chains, and in general, the value added of a trade unit is on the way to increase. However, even more industries of the country, for example some of the electronics, are still positioned in the low-end. Although the products marked with "Made- in-China" are seen everywhere all over the world, main core technologies are still developed from advanced economies. To fundamentally reverse the trend, it is a long way to go for China.

Reporter: Nowadays, global value chain has become a focus of governments, academia, and international organizations. What is the current situation of

Asia-Pacific economies in terms of their benefit distribution in the global value chains?

Yang Cuihong: Asia and Pacific region contains a lot of countries and economies. It includes both developed economies and developing economies. In fact, it is a microcosm that to some extent reflects the whole picture of the world. These developed and developing economies are widely distributed along global value chains. Some developed countries are often positioned higher. For China, due to its larger proportion of processing trade and lack of core technologies, so in general it is still positioned at the low or middle end of the global value chains, though its trade volume is very large.

Reporter: How can China change its low-end position in the global value chains?

Yang Cuihong: The processing trade in China has developed fast, particularly in the period after the reform and opening up. It can be safely to say that the processing trade is an inevitable thing for China to incorporate into the global value chains, which are mainly dominated by multinationals. But so far, our country is more of a passive participation. So it makes sense to see that the country has been positioned at the low end of the global value chains over a period of time. In recent years, lots of industries in China are showing a rising trend along the value chain, and in general, the value added of a trade unit is on the way to rise. However, even more industries, for example some of electronics, are still positioned in the low-end. Although the products marked with "Made- in-China" are seen all over the world, main core technologies still come from advanced economies. To fundamentally reverse the trend, it is a long way to go for China.

What we should do then? Twofold: First, passive participation by which to enhance technological content of our products, thus to change our low-end position in the

global value chains. And also, we can carry out independent research and development to increase China's proportions of high-tech products in the processing trade.

Second, take proactive measures to move up our positions along the global value chains. For example, the Belt and Road Initiative which is now very popular, its ultimate goal may be to form one or more new value chains. China could play a leading role in this Initiative. In essence, it is a proactive measure taken to enhance our position in the value chains. Specifically to say, it is to form multinational companies through our external investment activities that will help us establish our leading role in the value chains. Besides, for the proactive measures, we have begun taking actions in this regard. For example, China's investments in foreign countries are growing rapidly. By establishing our own multinationals, we can somehow form a portfolio of our own leading products, so as to enhance our own position in the global value chains.

Reporter: On the other hand, you also have pointed out: "Although the values added by the processing trade are low, it can play multiple roles to drive China's economic development. In fact it has played its part of important role to incorporate China into the global value chains, and will continue playing the important roles." Can you specifically talk about what important roles the processing trade plays in the economy?

Yang Cuihong: The processing trade has many positive impacts on the economy. First, the most direct role is it drives up China's export-oriented economy, while stimulating job creations. The number of jobs created by the processing trade is quite impressive.

Second, it stimulates the development of China's other related industries. This is an intangible and positive impact.

Third, our technologies can get improved gradually. As we introduce technologies and equipment, we are required to hire operators and technicians who in turn will

gradually grow up their techniques and skills. In essence, this actually is a process helping train a large number of export-oriented high-quality management personnel and technical personnel. Although, originally, processing trade began with the labor-intensive industries, such as garments OEM, and was relatively low-end positioned, with time going, the proportion of the capital-intensive and technology-intensive products is on the way to increase. In fact, what we have got improved is not only the technologies of a particular industry, but a spectrum of industries as a whole.

Fourth, it promotes adjustment of industrial structure. A large proportion of the processing trade is foreign-invested enterprises. At some industries, foreign-invested enterprises occupy a large proportion that can be as large as 80%, and play a very important role in the entire cycle of the processing trade. Motivation of foreign investments often comes from the comparative advantages we have, such as labor advantage. On the one hand, compared to other developing economies, China has a relatively high-quality labor force; on the other hand, labor costs here are generally low. After introduction of foreign investments, it effectively accelerated the optimal allocation of resources, which is effectuated due to the full use of the labor force. In addition, some industries need to form clustering so they can truly support the development of processing trade. This has also played an important role for optimization and upgrading of industries.

Finally, after we develop to a certain stage, it is surely we will not be satisfied with the industries that are still lowly positioned in the global value chains. Last year when I was in France for a visit, a retired EU minister pointed out: "China may face more intense competitions. As we know that in the past, it mainly produced complementary products that developed economies reduce to produce or no longer produce; but as some of its clothing and electronic goods gradually got improved to the high-end, it has to start competition directly with competitive products from developed economies." In fact, his words essentially reflect the enhancement of China's industries

along the industry chains. And this competition process also plays a very important role to enhance the global value chains.

Reporter: As you said the employment number the processing trade created is huge. Does it mean that, in the course of trade structural adjustment, it will inevitably produce a negative impact on employment?

Yang Cuihong: Not necessarily. Indeed, the processing trades can drive economic growth and employment growth. But in comparison, the job creation by it, in general, is far less than that by general trades, and in fact, even less than a third of the latter. So, in terms of export-based job creations, processing trade is not the major force to create jobs.

In scenario analysis of structural adjustment, one of the scenarios is that with decreasing in processing trade, the proportion of general trade would generally increase. Here, the compensation effect is actually positive.

Another scenario is changes will also happen in the proportion of trade in services, not only to the goods trade that combines both the processing trade and the general trade. The job creation by the service trade is not only higher than the processing trade, but far higher than the general trade. So, in short run, a structural adjustment may be negative in effect, but it is not necessarily so in the longer run. Therefore, we should pay attention to the prominent role of the service trade; in this trade, per unit of the export of high value-added services often generates higher value added.

Reporter: Last year, China for the first time proposed the topic of global value chains into the APEC cooperation agenda, and the Statistics on Trade in Value Added (TiVA), a brand new accounting method, has been paid more and more attentions. Do you think that compared to traditional accounting method to account gross flows of goods and services, what is the advantages the accounting

measure has?

Yang Cuihong: The main advantage is it can provide a clearer picture to depict the distribution of trade advantage, trade volume and value chain of a country along the global value chains. For example, China's current total exports actually contain a lot of imports, that is to say, it contains the values that other economies created. In the gross-value statistical framework, it cannot break down which values are created by our own country and which are not. In particular, in countries like China and Indonesia who are with a higher proportion of processing trade, the inflated numbers massively existed. But now, if we use the method to measure TiVA, we will know the exact numbers we have, for example, if there are a thousand dollars in our export, maybe only six hundred US dollars belong to us, and the rest four hundred US dollars may come from other economies. According to the new measurements, we can more accurately understand where we stand in international trades, rather than face a misleading, foggy, very large figure.

For a long period of time, the traditional measuring way to calculate gross trade has played an important role to measure the trade scale. Under which, it seems we have large export volumes in products like the electromechanical products, but in fact it brings us very little profit. Without understanding specific true figures behind scene, it is easy to make Chinese blindly optimistic, and mislead decision makers to make irrelevant policies for related industry.

Reporter: Last year in May, APEC trade ministers have adopted the "Strategic Framework on Measurement of APEC TiVA under GVCs". How would it impact the Asia-Pacific region, and the research work in China?

Yang Cuihong: It has great push for researches. The Academy of Mathematics and Systems Science of China is responsible for accounting of the TiVA (trade in value-added) and conducting the systematic research of related issues in our country

which I also personally take part in. After adoption of the Strategic Framework, we very soon started taking actions. We first set up a core working group to promote construction of the databases of the APEC TiVA (trade in value-added). After that, we conducted the research on a lot of issues between APEC economies, including the economic ties, employment, transfer of carbon emissions, and transfer of energy consumption, through a variety of analytical methods. To finish the job, it requires us to build a large team. The Ministry of Commerce, General Administration of Customs, the National Bureau of Statistics, the SAFE and other agencies are involved, and we also gather together a number of outstanding researchers. In according our researches, we see the economic ties among some of APEC economies loosened in previous years. To observe the time series variation, it is helpful in analyzing and reasoning the loosening ties. As for how to promote effective cooperation among APEC economies, the database will play a more important role in the future.