



New opportunities from participating in agro-food global value chains and the role of agricultural policies

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Outline

- What are the **new opportunities** for linking **rural areas** to **domestic and global markets**?
 - Supply or value chains
 - The landscape of agro-food global value chains (GVCs) and the place of China
- Getting the most out of **GVCs participation**: what is the role of **policies**?
 - **Agricultural policies**
 - **Enabling environment** for broad rural development



What we mean by supply or value chains

» Global Value Chains – what are they?

Value chains: describe a production process for a final good

- Full range of activities from concept to final good
- Represent all the **links between industries**

Global value chains focus on the international linkages ⇒ relate to trade

- But there are also significant **domestic linkages** and impacts on **domestic value added**
- And products are often delivered to final demand

Rising **importance in trade globally**

- Unbundling of demand and supply and/or tasks within supply
- Countries contribute parts instead of whole
 - Others' and own policies influence outcomes collectively
 - Greater interdependence

» How do we **measure** GVCs? Concept of **backward** and **forward** linkages

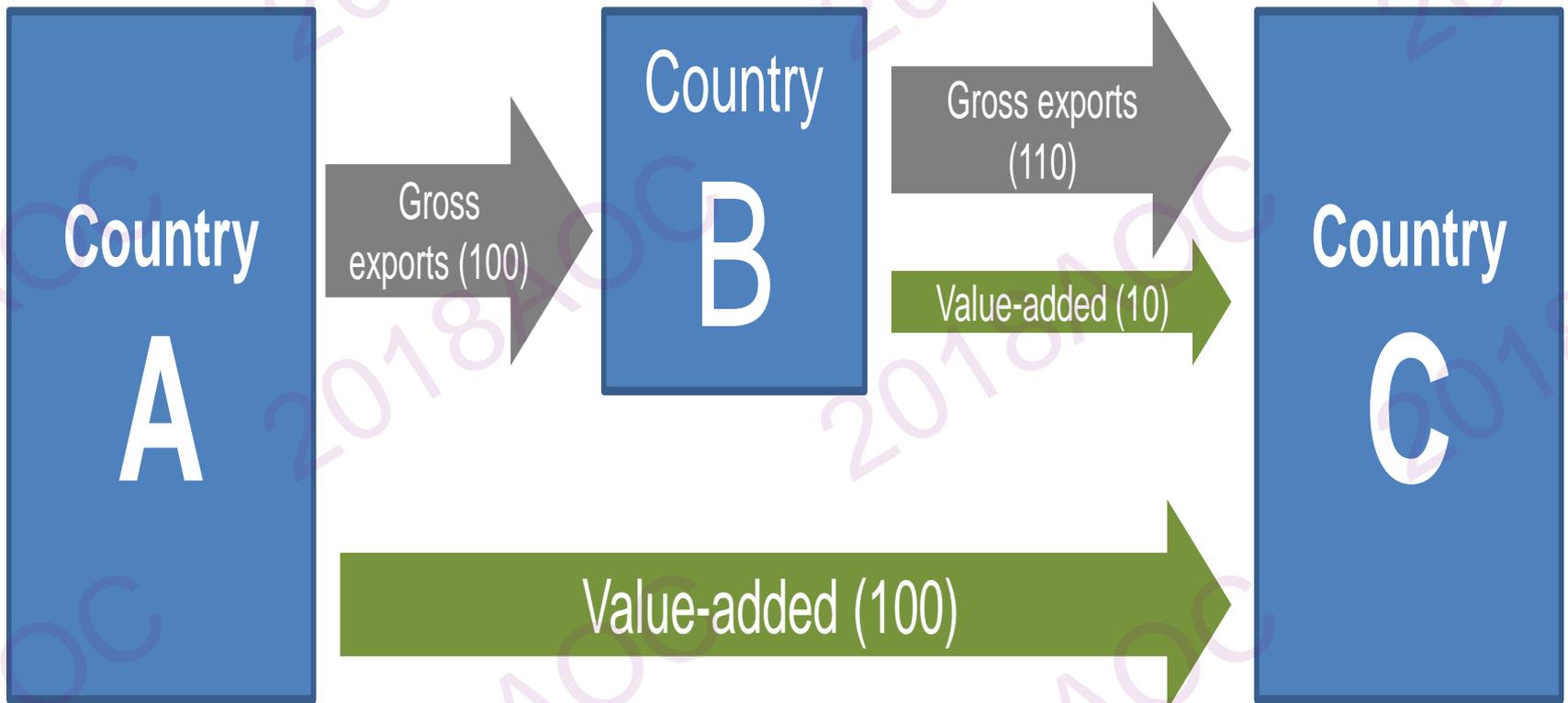
Backward linkages: *buying from GVCs*

- Measures the amount of foreign value added embodied in exports
- Comes through intermediate input usage

Forward linkages: *selling into GVCs*

- Measures the amount of domestic value added that forms part of *another* country's exports
- Domestic value exported can be either *direct* (own exports) or *indirect* (exports from other domestic industries that make use of the outputs produced, e.g. processing sector exports using agricultural production as inputs)

» How to think about **trade in value added**





The landscape of agro-food GVCs and the place of China

What does the agro-food GVC landscape look like?

Agro-food GVC hubs: EU, China followed by ASEAN, USA

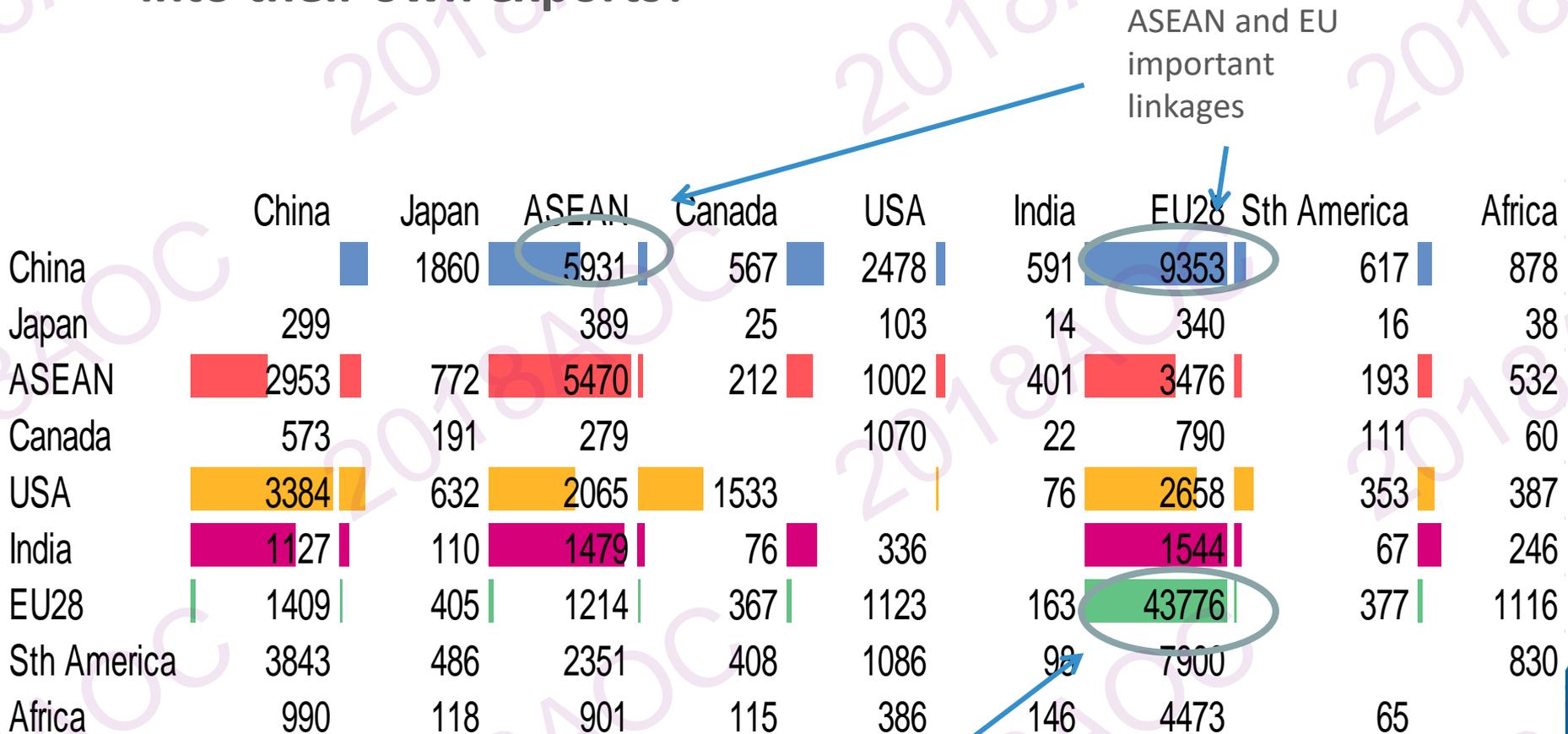
Column shows source of foreign value added in own exports:
Buying from GVCs

	China	Japan	ASEAN	Canada	USA	India	EU28	Sth America	Africa
China		1860	5931	567	2478	591	9353	617	878
Japan	299		389	25	103	14	340	16	38
ASEAN	2953	772		212	1002	401	3476	193	532
Canada	573	191	279		1070	22	790	111	60
USA	3384	632	2065	1533		76	2658	353	387
India	1127	110	1479	76	336		1544	67	246
EU28	1409	405	1214	367	1123	163		377	1116
Sth America	3843	486	2351	408	1086	98	7900		830
Africa	990	118	901	115	386	146	4473	65	

Row shows how exported value added is used in other country exports: **Selling to GVCs**

Source: OECD estimates.

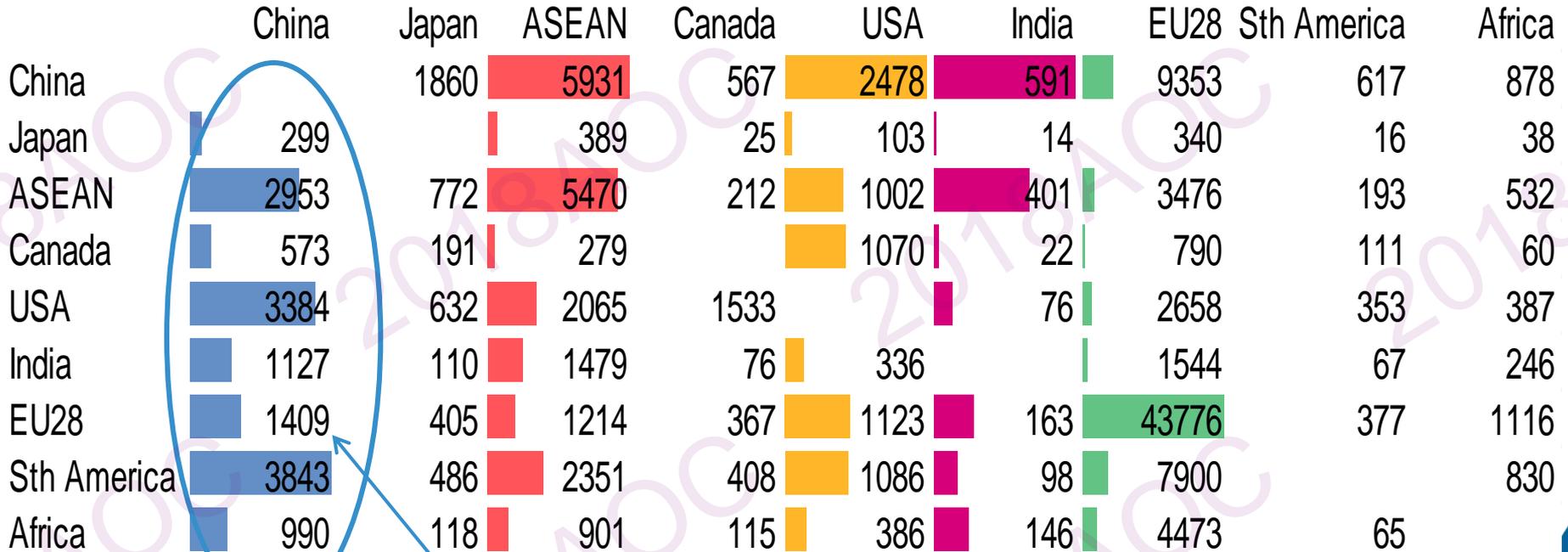
Example: Who uses China's agro-food exports as inputs into their own exports?



For EU, GVCs are internal to the common market

Source: OECD estimates.

Example: Where does China source from for its own exports?

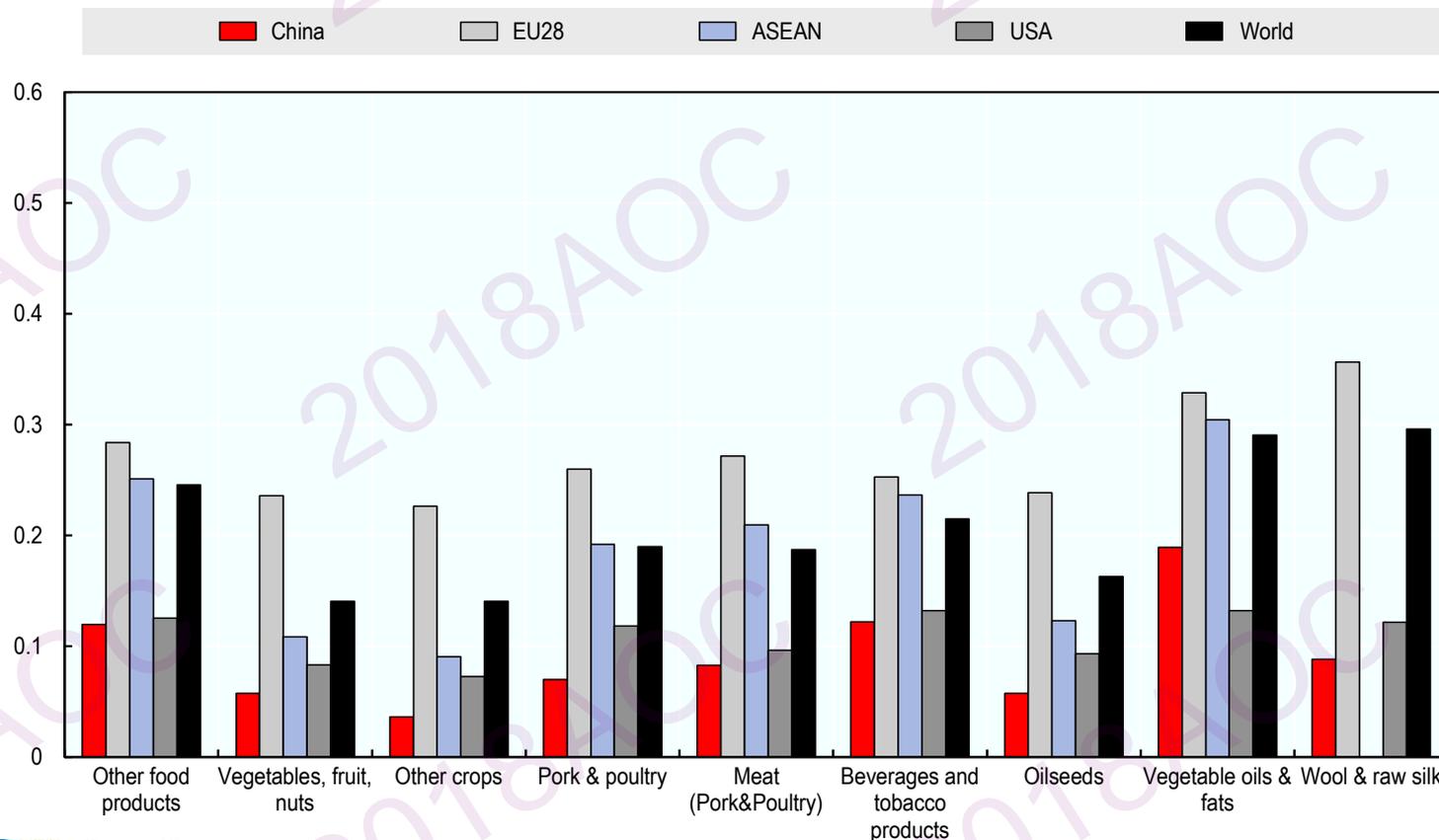


China sources globally, with key links to USA, South America and ASEAN

Source: OECD estimates.

» How does China's buying from GVCs compare with the rest of the world?

Foreign value share (from all sectors) in gross export value

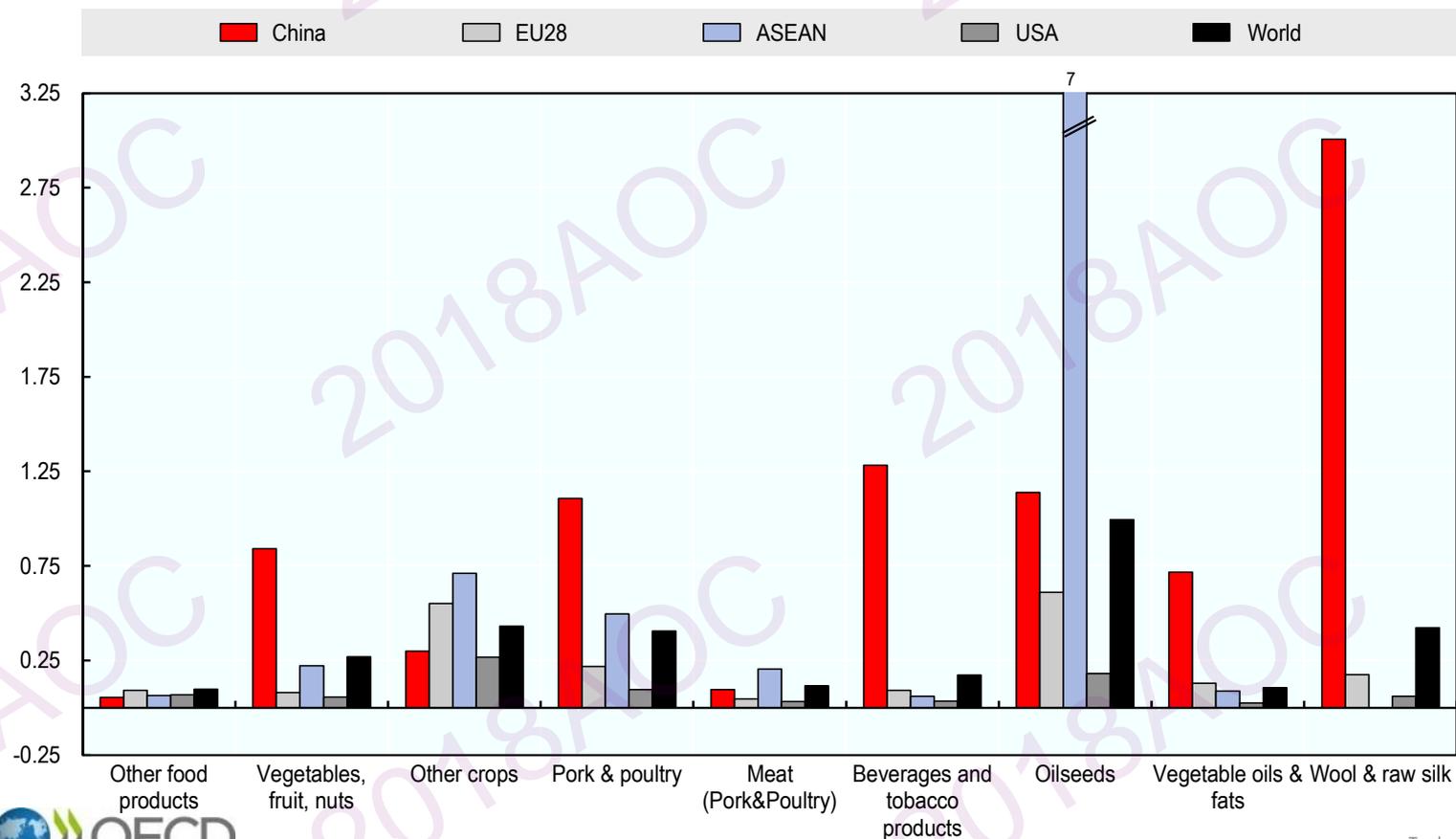


Backward linkages low for China's main exports

- Large domestic market
- Policy settings

» How does China's selling to GVCs compare with the rest of the world?

Domestic value added in other countries' exports as share of direct export value



For forward linkages much higher:

- Exports intermediates
- High amounts of indirect exports



Getting the most out of GVCs participation

» Getting the **most** from GVCs

What is **'success'** in GVCs?

- GVC participation creates economic opportunities for agricultural producers, but also for other sectors ⇒ **rural economy**
- Getting into GVCs opens doors to new markets

GVCs can have **'feedback'** benefits

- Participation is linked with higher levels of productivity
- Employment effects

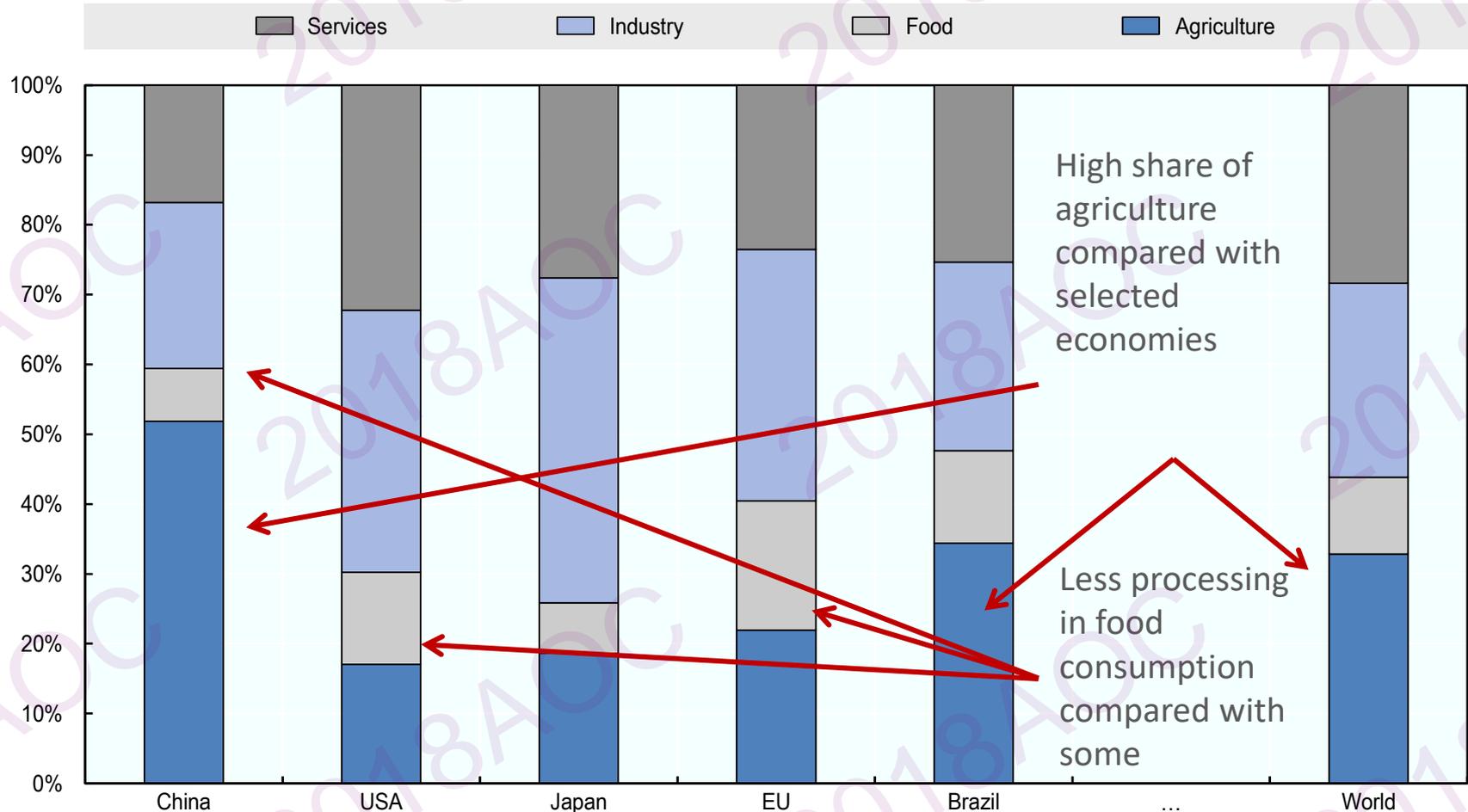
» Getting the most from GVCs: enhancing **domestic value added**

Participation indicators only provide some indirect evidence on benefits

Domestic value added generated provides a more direct link

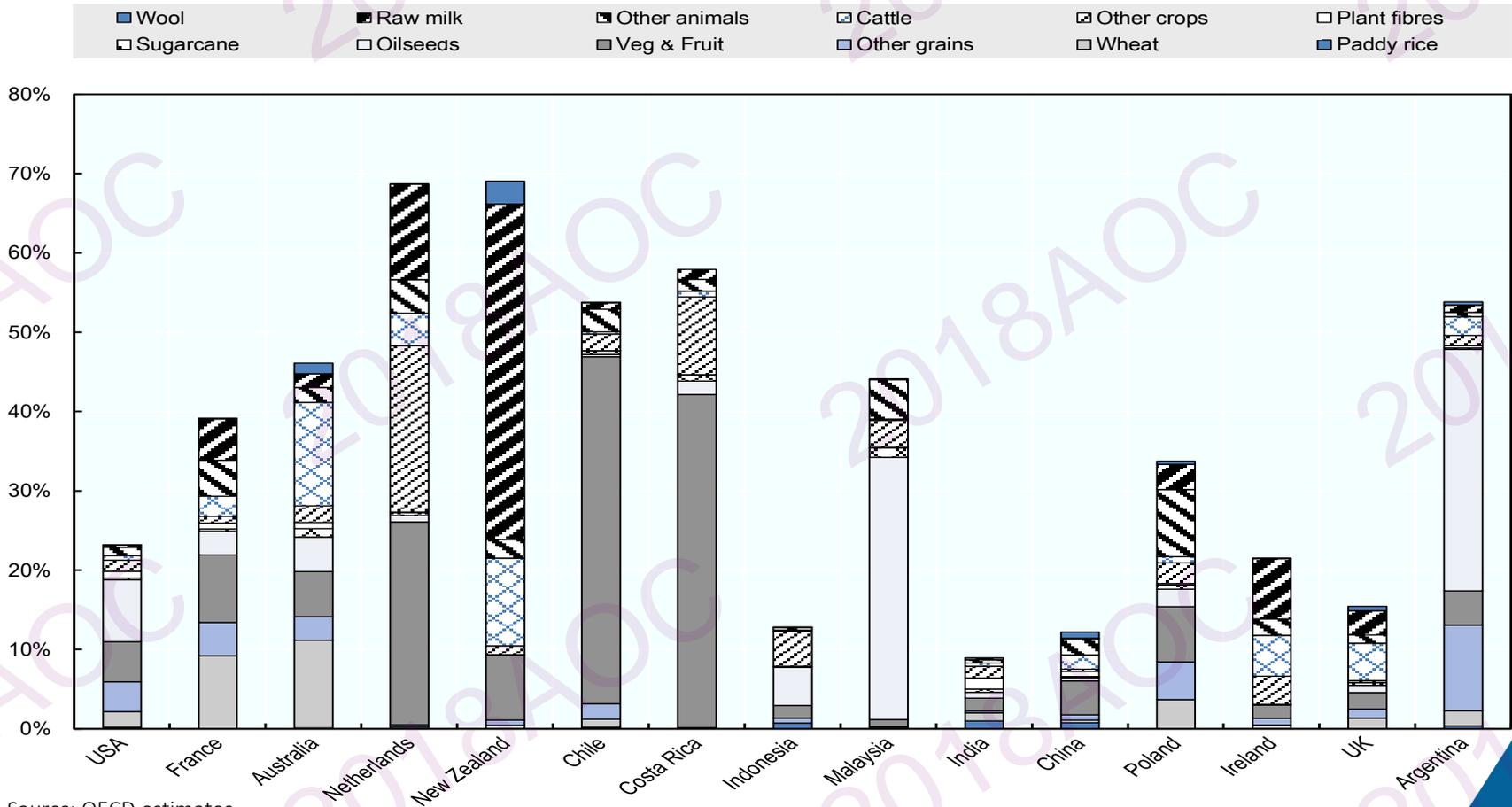
- **Domestic value added** represents the return from being involved
- It represents the **returns to labour and capital**, along with taxes paid to governments (but less subsidies)
- It picks up the benefits to the *entire* economy from the activity
 - Both within the sector and to all who contribute

» Where is value added created in agro-food in China: final \$1



Significant **employment** effects for some economies

Share of total agricultural workforce returns from GVC participation



Source: OECD estimates.

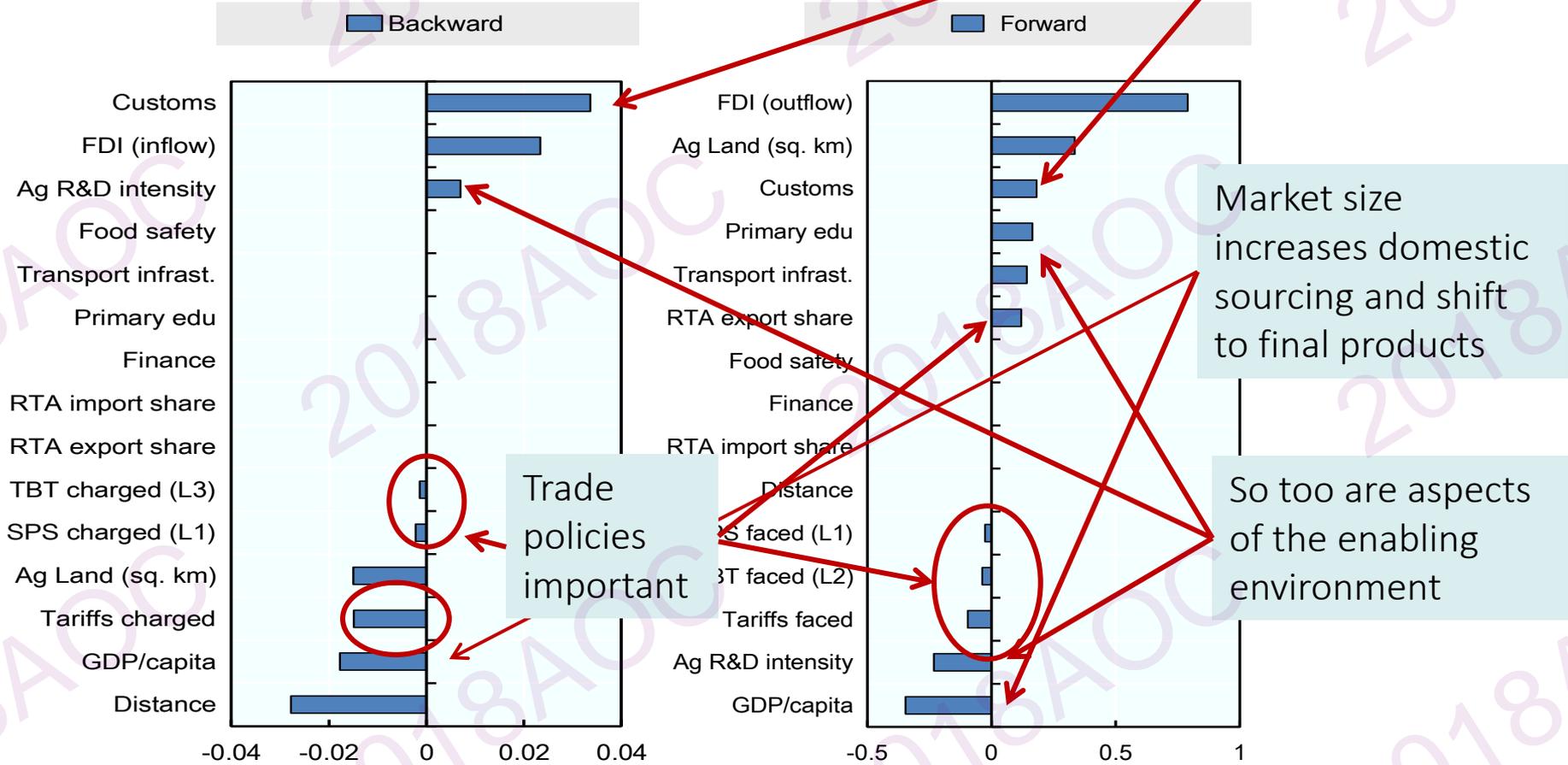


What is the role of policies?

» Policies are particularly important for GVC participation

Effect on standardised coefficients: direction of effect is important, not size

Trade facilitation important



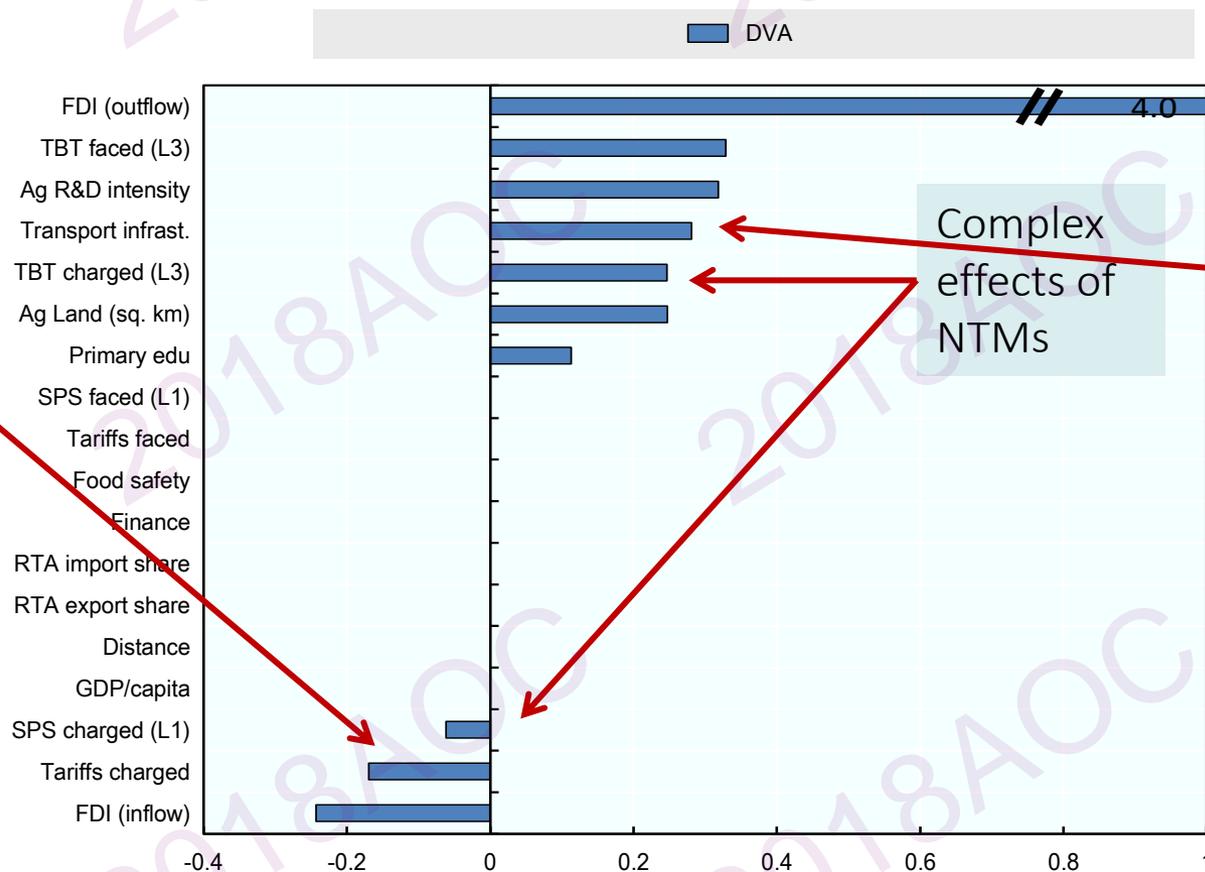
Market size increases domestic sourcing and shift to final products

So too are aspects of the enabling environment

Trade policies important

» What influences **outcomes: Domestic Value Added** creation

Effect on standardised coefficients: direction of effect is important, not size



Imports important for export value creation

Complex effects of NTMs

Robust enabling environment also important

» Agricultural policies potential impacts

General services to agriculture

- Infrastructure
- Agricultural innovation and knowledge systems
- Marketing and promotion
- Inspection and control
- Public stockholding

Payments to individual producers

including:

- related to output
- market price support
- variable input use



backward linkages
forward linkages



can

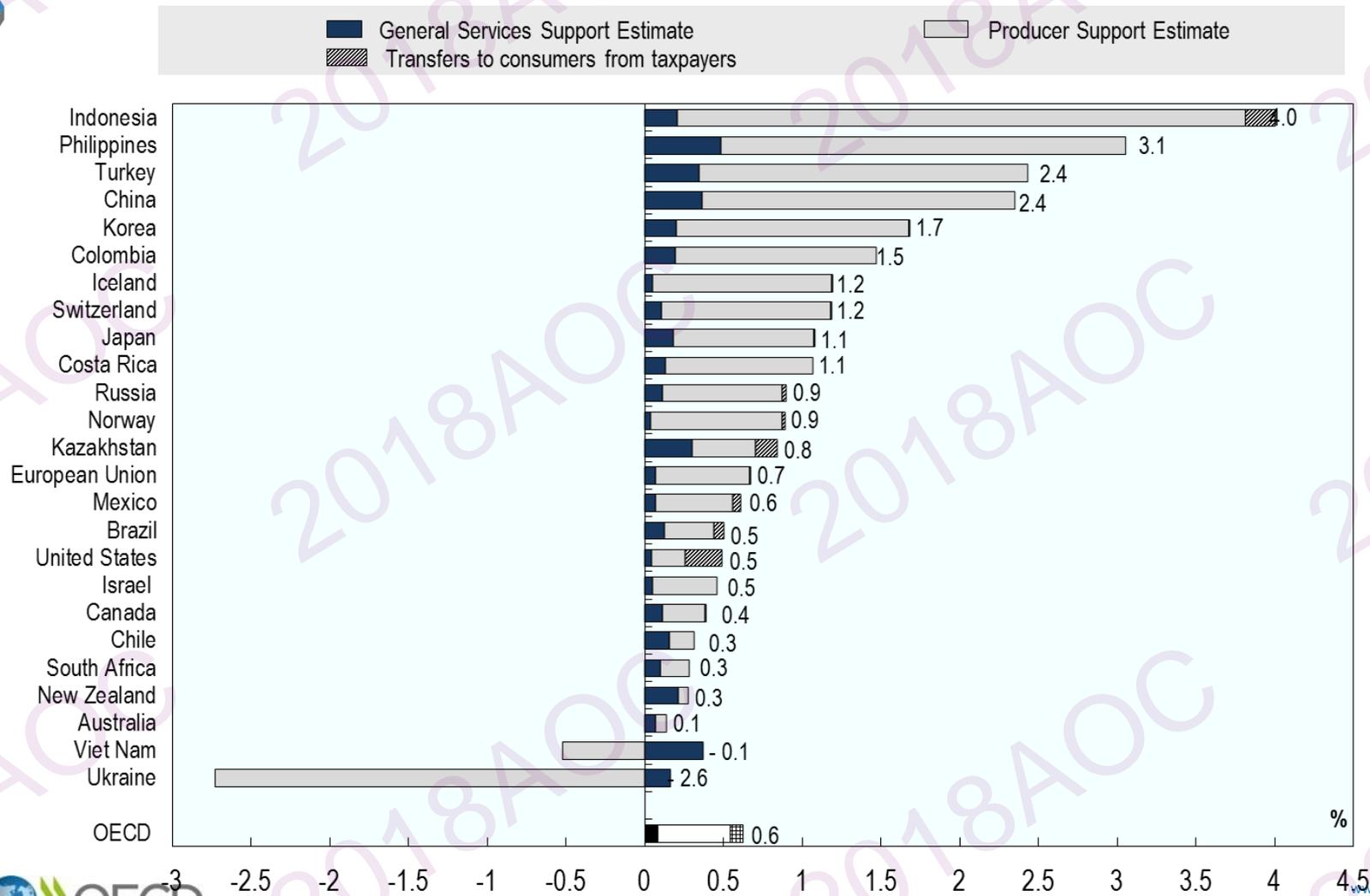
forward linkages



but at the cost of
domestic value added

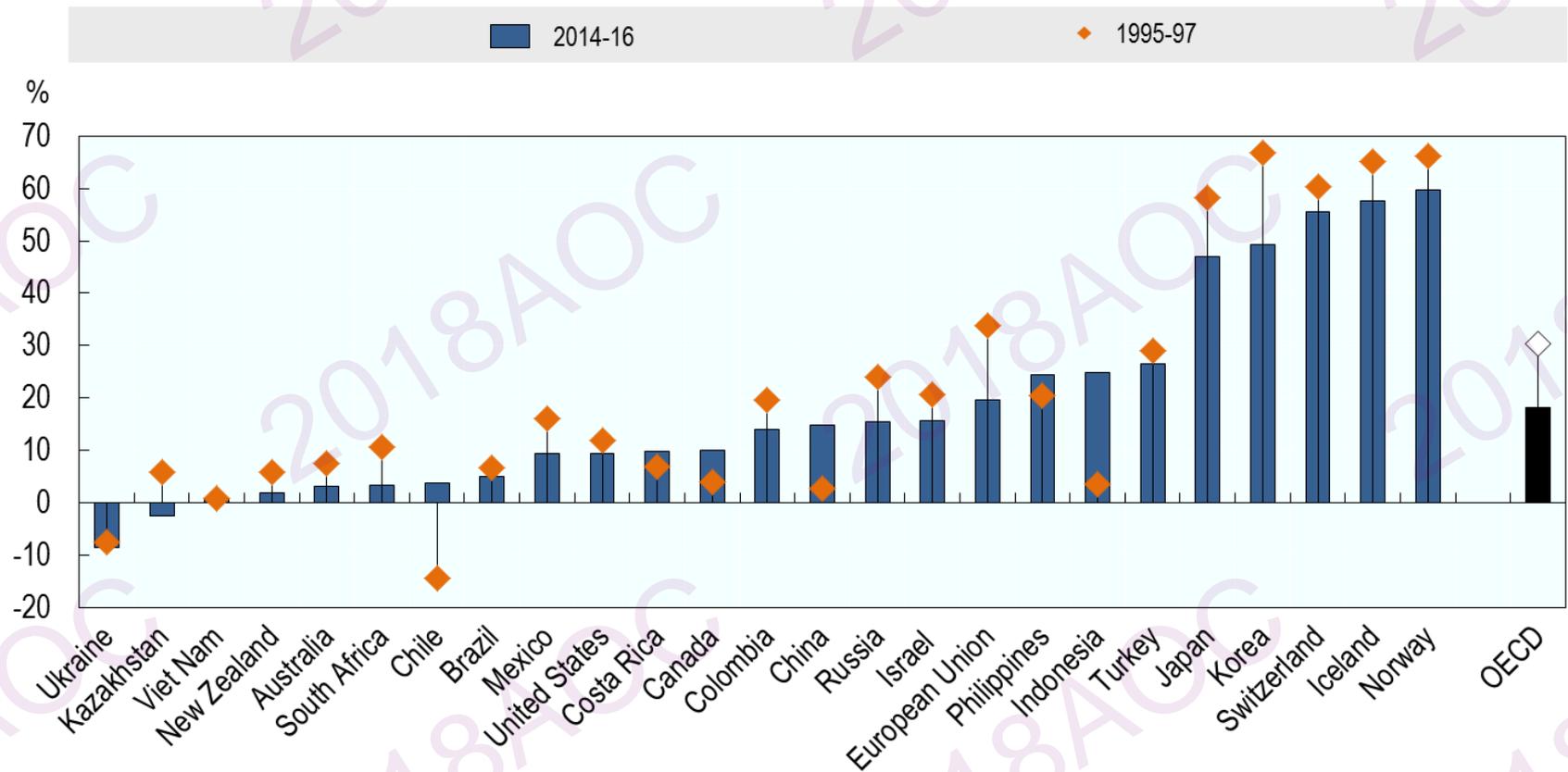
Composition of public policy support to agriculture matters

Percentage of GDP, by country, 2014-16



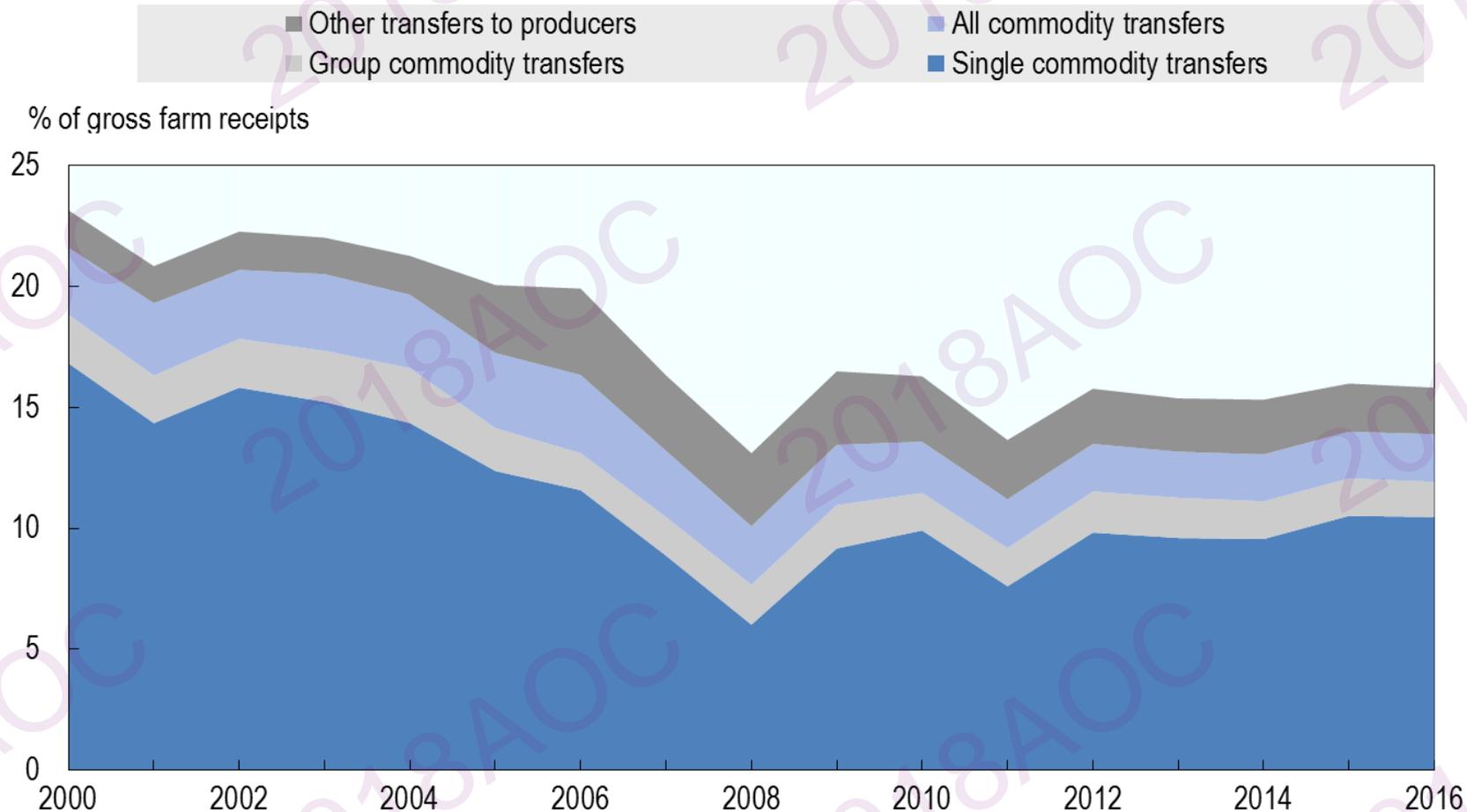
Levels of support to individual producers continue to vary widely across countries

Percentage of gross farm receipts

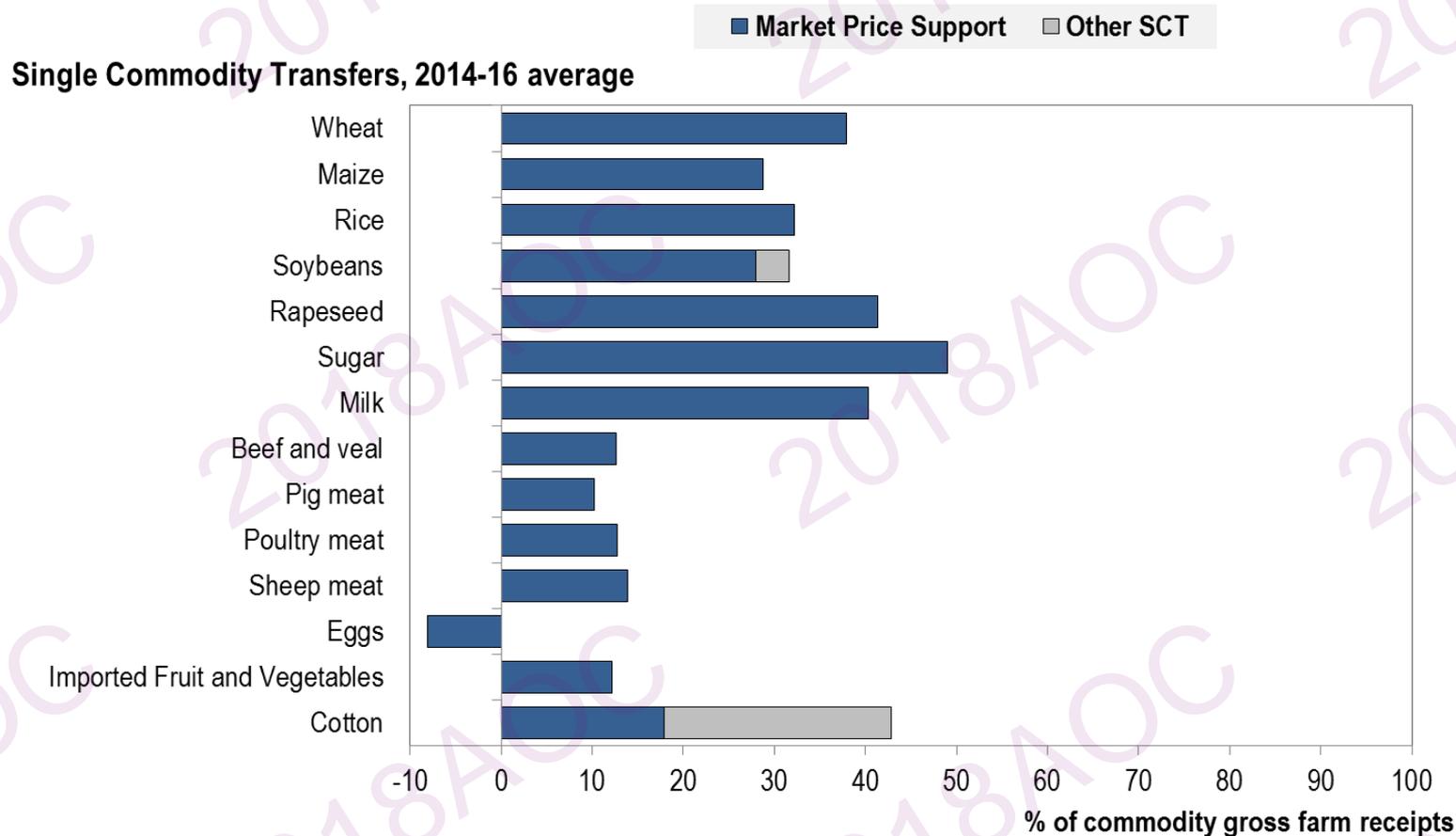


Support targeting **individual agricultural commodities** the largest component of support to farmers across countries

Single commodity support, all countries

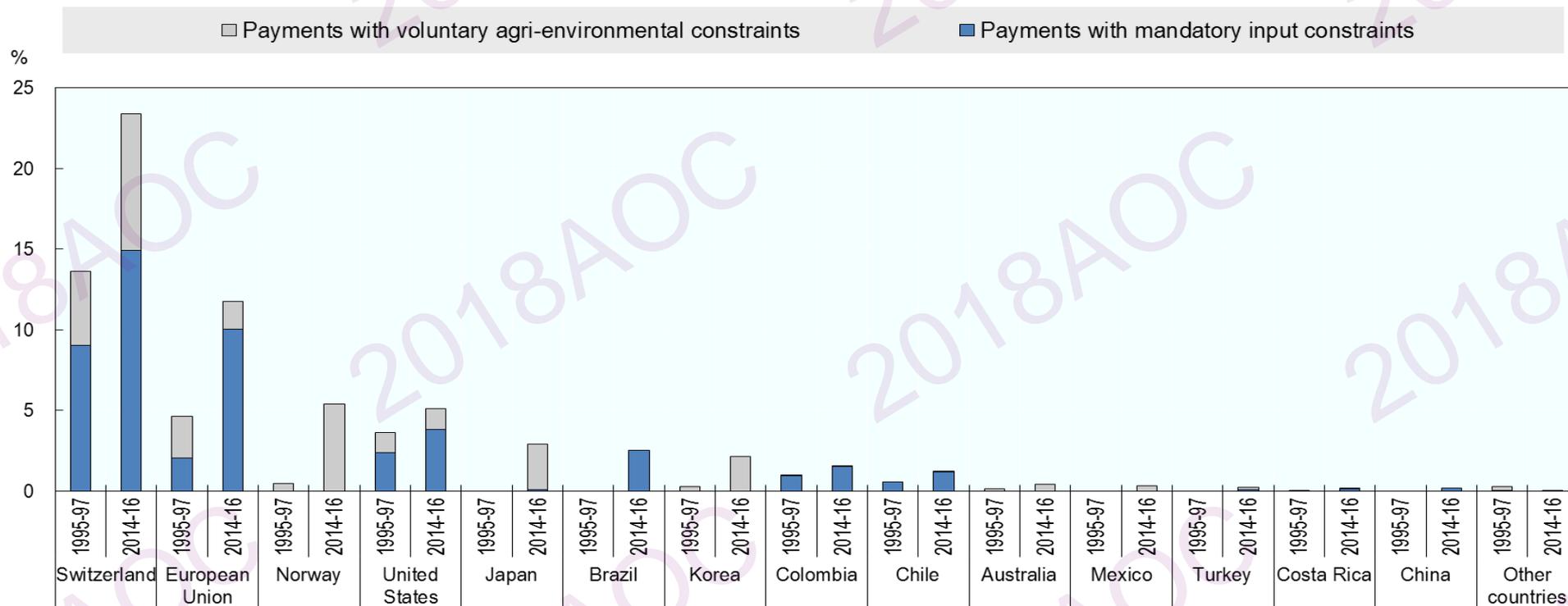


China's level of support is unequal across commodities

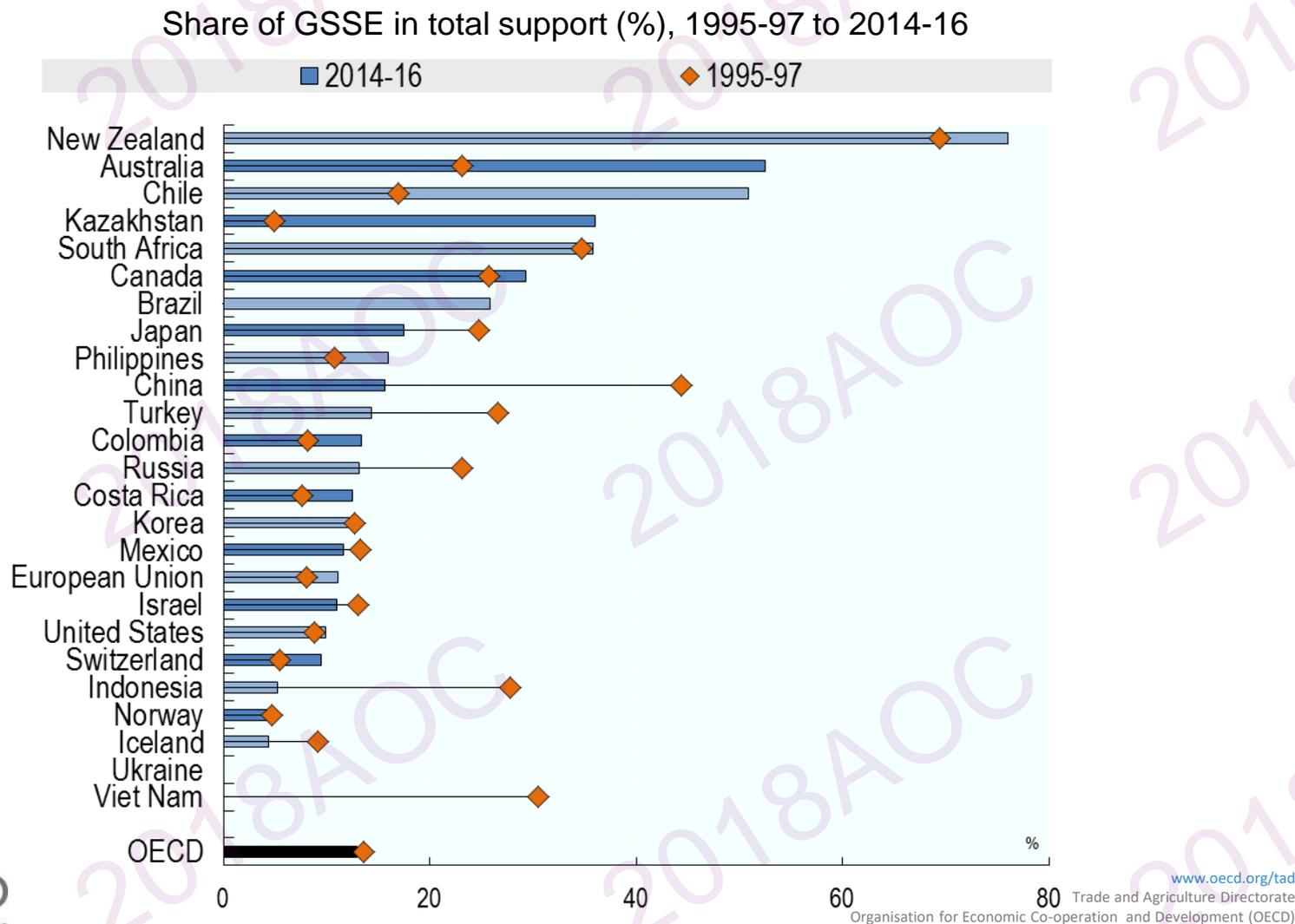


Payments increasingly tied to specific **production practice** but further efforts warranted

Percentage of gross farm receipts

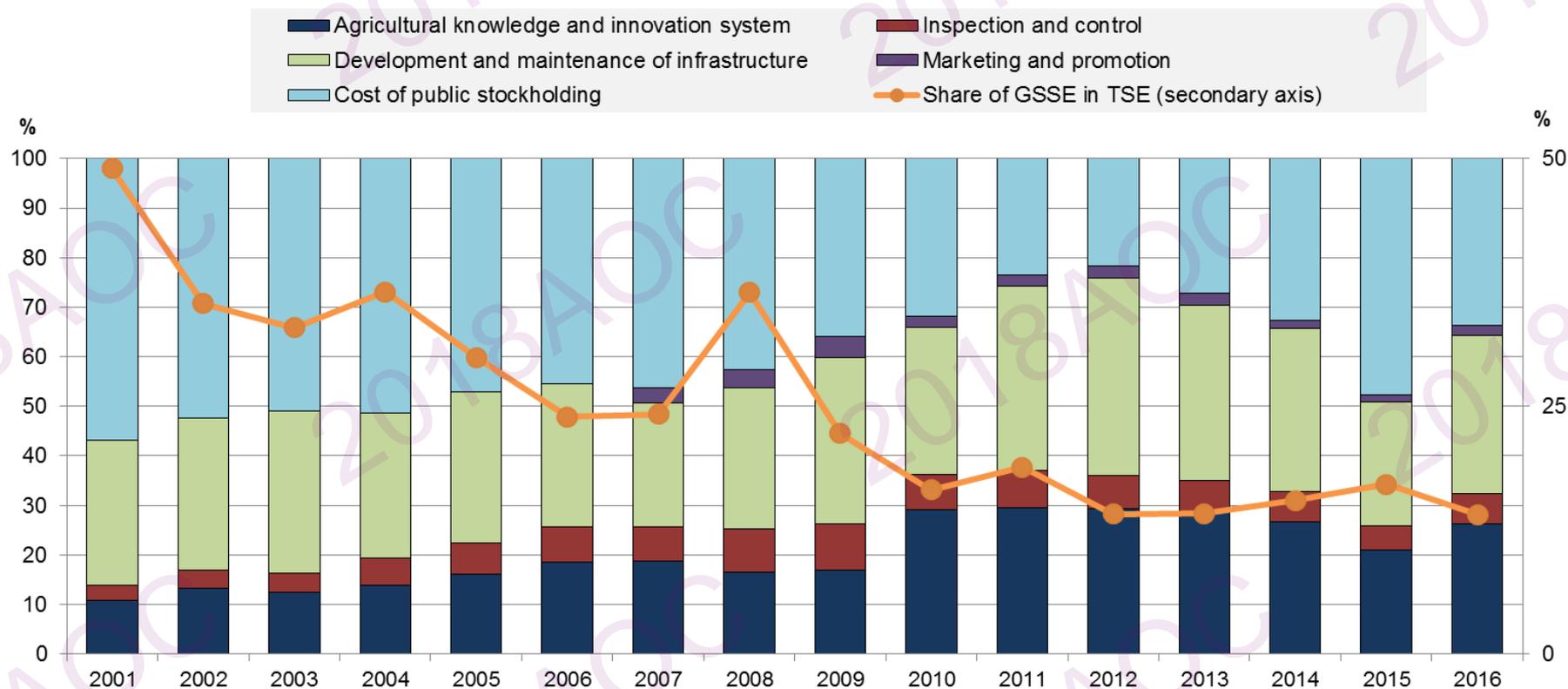


Support to general services continues to vary across countries



Composition of support to general services in China

Share of components in GSSE (%), 2001-16



What **policy packages** to benefit from these new **opportunities** while addressing pressing **challenges**?

- The **enabling environment** for agriculture matters
 - access to education, capital and physical infrastructure
 - functioning of goods, services, land and labour markets
- Greater efforts into supporting **key general services for the agricultural sector**
 - sector-specific infrastructure (including marketing)
 - agricultural knowledge and information system
- Rebalancing the portfolio of agricultural support to reflect priorities for long-term **productivity** growth, **sustainability** and **competitiveness** in the sector
 - coherence with agri-environmental policy objectives: encouraging the adoption of environmentally friendly production practices

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