# Towards a G20 Strategy for Promoting Inclusive Global Value Chains

**Prepared by OECD, the WBG, and the ITC**

for submission to
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(The views expressed in this paper do not necessarily represent those of G20 members.)

# TOWARDS A G20 STRATEGY FOR PROMOTING INCLUSIVE GLOBAL VALUE CHAINS

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This paper has been prepared further to the first meeting of the G20 Trade and Investment Working Group, convened by China on 28-29 January 2016, and represents an initial step towards developing a G20 strategy for promoting inclusive Global Value Chains (GVCs). It was distributed by the G20 presidency at the G20 Trade Ministers Meeting in Shanghai on 9-10 July.

The paper draws on the *Inclusive Global Value Chains* report submitted by the OECD and the World Bank Group to G20 Trade Ministers in October 2015, refining and prioritising the options contained therein. The original report proposed a holistic approach to promoting more inclusive GVCs spanning: (i) trade, investment and domestic policies both in G20 nations and in trade partner countries; (ii) investment in expanding the statistical basis and technical analysis of participation in GVCs; and (iii) sharing knowledge on best practices on rules, policies and programs (see Annex). This paper also takes into account relevant policy documents published since October 2015, including insights obtained from recently published reports on Aid for Trade.[1]

While maintaining this holistic approach, this paper also reflects the focus of the G20 Trade and Investment Working Group and elaborates priority actions in three key areas:

- Priority policies for improving SME and developing country participation in GVCs primarily in the area of trade and investment;
- Targeted capacity building initiatives for better GVC integration in developing countries;
- Priority actions to expand data and analytical capacity.

Concrete actions can be taken by G20 governments to facilitate more inclusive GVCs by removing current constraints on SME participation in G20 countries themselves, and by further demonstrating global leadership through political support to a range of technical assistance measures provided by international organisations for SMEs and for firms in developing countries, as well as new measures to develop much needed data and analytical capabilities in many countries and across many sectors.

[1] OECD and WTO: Aid for Trade at a Glance 2015 : Chapter 7 ; ITC and WTO (2014): "SME Competitiveness and Aid for Trade"; ITC (2015): SME Competitiveness Outlook 2015.

**Draft G20 Strategic Plan for Promoting Inclusive GVCs**

**1. Priority policies for improving SME and developing country participation in GVCs**

***Relax policies on rules of origin in G20 countries***

- Consider mechanisms that can be used to alleviate unnecessary costs of RoO with a view to identifying priority actions in the G20 countries. For example:
    - Commit to MFN liberalisation of remaining tariffs;
    - Commit to removing all RoO requirements on tariff flows with preference margins of less than then the estimated compliance costs (e.g. 5%) in PTAs involving G20 countries and advocate such reforms in PTAs involving third countries.
    - Consider expanding *de minimis* provisions;
    - Commit to adopting the most efficient RoO flexibility mechanisms (i.e. cumulation and certification simplification) in existing PTAs involving G20 countries;
    - Commit to take actions on preferential rules of origin for LDCs pursuant to the WTO Ministerial Decisions of 2013 and 2015.

***Further the trade facilitation agenda through completing the ratification process of the WTO Trade Facilitation Agreement (TFA) and by complementary improvements in hard and soft infrastructure and in logistics services quality***

- Ratify the WTO Trade Facilitation Agreement and commit to regular reporting on its implementation and on progress on complementary improvements in hard and soft infrastructure and in logistics services quality;
- Monitor TFA implementation support and its effectiveness, including through reporting to the G-20 on the Aid for Trade pledge and through WTO-OECD Aid for Trade Reviews;
- Support the creation of National Trade Facilitation Committees as a vehicle of consultation and co-ordination among traders, government and other relevant stakeholders.

***Promote existing efforts to target dedicated technical and financial support to: improve SME information about procedures and regulations to be met to export and import; and increase their ability to comply with international and national standards (e.g., environmental, labor, and quality), technical regulations and conformity assessment procedures***

- Promote existing efforts by IOs to:
    - Back Trade and Investment Support Institutions notably by strengthening their capacity to provide market intelligence and information on trade-related procedures and regulations to SMEs.
    - Facilitate SMEs' cross-country accreditation of international standards & certifications by providing capacity building and financial support to firms. The assistance should be geared to ease SMEs' understanding and fulfilment of international standards, certification programs, and skill development. This approach could draw on lessons drawn from the WTO-OECD Aid for Trade Review, diagnostic tools like the World Bank NTM Toolkit, the new World Bank GVC Firm-level Survey, and the Practical Guides for SMEs on complying with ISO standards jointly published by ISO and ITC. *[Note: including this recommendation assumes that the WBG or the ITC are prepared to implement it.]*
    - Enhance transparency on procedures, standards (including private standards) and regulations by leveraging existing or new national, regional and global e-platforms and global depositories (such as ITC's Standards Map for the submission of information on private standards)

- Consider developing a list of NTMs by G20 countries whose streamlining would have the greatest impact on SME and LIDC participation in GVCs. In this respect, G20 could draw on the on-going OECD project on International Regulatory Co-operation - Better rules for globalisation;
- Target dedicated technical and financial support to the strengthening of national laboratories and other institutions involved in compliance demonstration.
- Support international collaborative efforts towards mutual recognition agreements among accreditation bodies.

***Consider Eliminating "nuisance tariffs" and establishing customs de minimis levels in G20 countries within a set timeline***

- Define "nuisance tariff level";
- Perform sensitivity analysis, study the impact of suspending all nuisance tariffs at MFN and preferential levels (at different arbitrarily defined echelons e.g. 3% or less, 5% or less) on goods imported by the G20 using a quantitative model-based assessment and review of previous nuisance tariff removal initiatives already implemented by G20 and other countries;
- Commit to the elimination of "nuisance tariff levels" in G20 countries within a set timeline;
- Raise customs de minimis levels to enable e-commerce, which could be of particular value for SMEs.

**2. Targeted capacity building initiatives for better GVC integration in developing countries**

***Promote efforts to better understand how to increase SME and LIDC firms' productivity and boost innovative capacity to facilitate upgrading of these firms in value chains through spillovers from FDI***

- Promote ongoing IOs' investments in strengthening micro-level data collection and country and region-specific analysis of firms in LIDCs to identify the factors that foster long-term links between MNEs and local SMEs, as well as the channels through which MNEs help SMEs to entry or upgrade their participation GVCs (e.g., technology transfer, knowledge sharing, financial support, access to inputs, etc.). Relevant work in this area is already being pursued the ITC, World Bank Group, OECD and UNIDO;
- Support discussions involving the B20—in particular of its taskforce members, i.e. Accenture, the B20 Secretariat, and the World SME Forum—and IOs to: i) lead the discussion on forging links between SMEs and MNEs; ii) form value chain MNEs-led consortium and help matching SMEs with these potential buyers and suppliers; iii) prioritize reforms in each country; and iv) ask each G20 country to put in place a strategy based on the two above inputs.

***Increase SME productivity and boost innovative capacity to upgrade in value chains through access to ICT, SME-friendly IPR system and addressing informality***

- In the context of the already existing digital economy pillar of the G20 Framework for Innovative Growth, G20 should establish an action plan to empower SMEs to leverage the digital economy, including better ICT infrastructure and services sector efficiency to reduce SMEs' costs, both physical ("hard infrastructure") and digital (sharing of available information), as well as improvement in the regulatory environment for digitally enabled activities;
- Develop a set of good practice polices to make IPR systems overall more SME-friendly;
- Establish a G20 mechanism to improve access to information on IPRs in G20 countries. More comprehensive information on IP systems among the G20 could be provided by national IP bodies to better inform and assist SMEs seeking to internationalise. This mechanism could also be used to raise awareness among SMEs about the variety of IP instruments and their strategic objectives;
- Ask each G20 country to put in place a strategy based on the above inputs.

***Strengthen collaboration and dialogue across countries, with a view to establishing global platforms for information exchange, learning, and support to capacity building; and financing instruments well adapted to GVCs***

- Consider a feasibility study on the applicability of a framework for strengthening collaboration and dialogue among countries participating in GVCs. This may take inspiration from the G20 Agricultural Market Information System (AMIS) framework and could build on the experiences gathered through existing global platforms for policy dialogue and knowledge sharing (e.g. the OECD Initiative on Global Value Chains (GVCs), Production Transformation and Development)
- Consider a feasibility study to create customizable knowledge and learning instruments and support existing or new global, regional, and local platforms that can facilitate SMEs capacity building and/or the dissemination of knowledge and exchange of best practices and relevant information for SMEs.
- Consider preparing a strategy for facilitating financing of firms in GVCs, through promoting financing policies that have a multi-pronged approach, including for example, regional connectivity between countries engaged in the same GVCs but at different level of development, private-public partnerships and engagement, cross-border projects and sectoral coverage, non-punitive provisions for failure and bankruptcy, account of intrinsic know-how, pool of talent, distribution channels, business relationships, business models, and access to technology in valuation of repayment ability; etc.
- Ask each G20 country to put in place a strategy based on the above inputs.

**3. Priority actions to expand data and analytical capacity**

***Capitalise on existing, and invest in strengthening, micro-level data of firms in LIDCs and G20 countries***

- Support IOs' efforts to invest in strengthening micro-level data collection and analysis of firms in LIDCs and G20 countries to provide granular information for GVC evidence-based policy making.
- Develop an inventory of available firm-level data sources and similarities and differences between them with a view to identifying data collection and the associated funding needs that could provide, in particular, the basis for developing extended supply-use tables.

## Context

Global value chains (GVCs) have become a dominant feature of the world economy, involving different economic actors and countries at all levels of development. The production of goods and services increasingly involves sourcing and co-ordinating tasks and inputs originating from multiple locations and offering the most competitive costs and quality. These activities are typically led by large multinational enterprises (MNEs) primarily from the G20 countries. Many developing country firms and SMEs also participate in GVCs but they continue to face various disproportionate challenges and constraints. Removal of some of these constraints can generate benefits for all: large and small firms (including innovative start-ups which create the most employment and play an important role for innovation) in developed and developing countries. This can be particularly true if accompanying policies that promote responsible business conduct and enable the needed public and private investments, in particular in people, in innovation, and in strategic physical infrastructure, help ensure that the benefits are shared widely.

G20 countries have long recognised the potential of trade and competition for boosting economic growth, living standards and employment opportunities. At the Brisbane Summit in November 2014 they expressly acknowledged that one important way for countries to connect to the global economy and develop is through GVCs. They also called for identification of "policies that take full advantage of global value chains and encourage greater participation and value addition by developing countries." In response to this request, the Organization for Economic Cooperation and Development (OECD) and the World Bank Group (WBG) prepared the *Inclusive Global Value Chains* report, submitted to the G20 Trade Ministers Meeting in Istanbul in October 2015, which identifies policy options in trade and investment and complementary areas for GVC integration by SMEs and LIDCs.

## Proposed priority actions

### 1. Priority policies for improving SME and developing country participation in GVCs

***Relax policies on rules of origin in G20 countries***

Rules of origin (RoO) are key factors shaping trade, foreign direct investment (FDI) and value chain location decisions in preferential trade agreements (PTA) and trading partners. RoO define the origin of products for the purposes of their preferential treatment and preventing trade deflection under PTAs. They are thus critical elements of PTAs. Nevertheless, different RoO can be applied in similar contexts (i.e. similar objectives for preferential treatment but different methodologies for determining origin) and some of them can severely narrow the choices firms have for locating segments of their production abroad, discouraging the use of cheaper parts and materials from third countries and becoming a significant brake on competitiveness. RoO can increase production and administrative costs to the point where they exceed the benefit of the preferences conferred by the agreements thereby reducing their utilisation.

Existing estimates of such RoO compliance costs range from 1.5 to up to 8% ad valorem equivalents, which suggest that they significantly reduce the take up of preferential schemes. Complications associated with RoO increase with the number of PTAs signed and the number of exported and imported intermediate and final products, as firms have to keep track of and work around the multiple RoO. These costs are of fixed nature in putting together accountability systems and thereby affect disproportionately those operating on a lower scale, i.e. SMEs and firms in LIDCs.

Recent research shows that while RoO impede trade in general the impact is particularly strong for trade in intermediate products. Intermediate trade is estimated to be reduced by a presence of at least one type of RoO by some 20% and trade in final products by 6%. The equivalent average impact of removal of external tariffs of 8% suggests that for some products RoO more than outdo the effects of any tariff preferences. Countries which are below the level of GVC participation that would be suggested by various structural and other policy factors tend to also be those where firms face more restrictive RoO.

The simplest way of dealing with RoO, especially when preferential margins are small, is MFN liberalisation of remaining tariffs, which can be undertaken unilaterally or in different negotiating contexts. If this first best option is not feasible, different flexibility mechanisms such as *de minimis*, cumulation schemes and simplification of certification can be adopted to alleviate the RoO burden. For example, *de minimis* provisions allow for a specified maximum percentage of non-originating materials to be used without affecting origin. Importantly, cumulation schemes can help deal with overlapping sets of RoO. When three countries have three bilateral PTAs but no common PTA they can trade at reduced costs only between each pair of countries but not within the whole area.

Depending on the level of complication and differences between the RoO in the bilateral agreements, the so-called diagonal or cross-cumulation schemes can facilitate trade across the overlapping agreements with positive effects on third countries. Simplification of methods for certifying origin of goods—including dealing with cumulation schemes where they already exist—can also decrease administrative costs for exporters, particularly for smaller firms. Adoption of preferential rules of origin for LDCs (as stipulated in the WTO Ministerial Declarations form 2013 and 2015) could alleviate some the burdens on the most vulnerable traders.

*Proposed actions:*

- Consider mechanisms that can be used to alleviate unnecessary costs of RoO with a view to identifying priority actions in the G20 countries. For example:
    - Commit to MFN liberalisation of remaining tariffs;
    - Commit to removing all RoO requirements on tariff flows with preference margins of less than then the estimated compliance costs (e.g. 5%) in PTAs involving G20 countries and advocate such reforms in PTAs involving third countries.
    - Consider expanding *de minimis* provisions;
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***Further the trade facilitation agenda through completing the ratification process of the WTO Trade Facilitation Agreement (TFA) and by complementary improvements in hard and soft infrastructure and in logistics services quality***

The WTO Trade Facilitation Agreement (TFA), concluded in Bali in 2013 aims at expediting the movement, release and clearance of goods. By improving the efficiency of border control procedures, removing duplicative formalities and documentation requirements and clarifying opaque administrative fees and charges the TFA can reduce the significant deadweight economic costs incurred by traders at the border. OECD calculations of the potential impact of the agreement show that these reductions can range between 12% and 14% of total trade costs, depending on the income group of concerned countries. A more ambitious effort aiming at worldwide best practices could entail additional cost reductions of between 2 and 4 percentage points compared to a conservative implementation of just the mandatory provisions of the agreement. The analysis also points to a strong positive correlation between trade facilitation performance improvements on the one hand and participation in GVCs on the other, in particular for value-added originating in medium-low tech industries, such as mining and quarrying or basic metals sectors, or in high and medium-high tech industries, such as transport equipment, chemicals and electrical and optical equipment.

TFA state of implementation data shows that several provisions of the agreement appear to be already implemented by several countries across all income groups, while expenses for improving hard and soft infrastructure and putting in place new measures have benefitted from substantial technical and financial assistance for trade facilitation over the last decade. The expected entry into force of the agreement in the coming months should further reinforce this momentum.

*Proposed actions:*

- Ratify the WTO Trade Facilitation Agreement and commit to regular reporting on its implementation and on progress on complementary improvements in hard and soft infrastructure and in logistics services quality;
- Monitor TFA implementation support and its effectiveness, including through reporting to the G-20 on the Aid for Trade pledge and through WTO-OECD Aid for Trade Reviews;
- Support the creation of National Trade Facilitation Committees as a vehicle of consultation and co-ordination among traders, government and other relevant stakeholders.

***Promote existing efforts to target dedicated technical and financial support to: improve SME information about procedures and regulations to be met to export and import; and increase their ability to comply with international and national standards (e.g., environmental, labor, and quality), technical regulations and conformity assessment procedures***

Survey evidence collected in the context of the OECD and WTO Aid for Trade Monitoring and Evaluation exercise in 2015 suggests that "access to information about procedures to be followed and regulations to be met in order to export or import" represents one of the most important bottlenecks to trade for small and medium sized enterprises. While such information costs are not necessarily high from the point of view of large firms, they can easily be prohibitive for small and medium sized exporters and firms in low income countries. Access to such information can be improved by strengthening the role of national and international institutions in the collection and tailored dissemination of relevant information. At the national level trade and investment support institutions can play an important role in this regard.[2]

Since many SMEs participate in GVC indirectly, through links with larger firms (often MNEs), compliance with international standards becomes particularly relevant. Consumers and final-good producers around the world increasingly demand products and services that are simultaneously good for the economy, for the environment, and for society—the triple bottom line of sustainable growth. Indeed, low labour and production costs are often an insufficient motivation for lead firms to invest and source from SMEs. While the need to protect and inform consumers and producers through appropriate quality standards is clear, the complexity and above all the heterogeneity of such standards have been identified as one of the main barriers to insertion into GVCs. The ability to adhere to environmental, labour, and quality standards matters greatly, especially for SMEs, which typically face more difficulty in meeting them than large companies.

Divergence from international standards, discordant national standards, unnecessary technical regulations and unduly burdensome conformity assessment procedures impose disproportionate costs on foreign SMEs. They are often required to test and certify their products in each of the countries where they export. These tests and certifications are costly and their multiplication increases costs. Rejection of local certification further adds to the costs, with negative competition effects. WTO (2012) finds that conformity assessment-related factors have a significant negative impact on the probability of entering a market. Absence of or weaknesses in the technical infrastructure at the national level to assess and certify compliance with foreign standards and regulations are one of the main reasons why compliances procedures represent a bottleneck for exporters. Increased support to the strengthening of commensurate technical environments and increased international collaborative efforts in support of mutual recognition agreements among accreditation bodies can contribute significantly to reducing trade costs.

Streamlining NTMs, and harmonising them between trade partners and within regions, and providing support to improve information and ability to meet international standard can have a significant impact in lowering trade costs, and therefore significantly improve GVC participation of SMEs and LIDCs.

*Proposed actions:*

- Promote existing efforts by IOs to:
    - Back Trade and Investment Support Institutions notably by strengthening their capacity to provide market intelligence and information on trade-related procedures and regulations to SMEs.
    - Facilitate SMEs' cross-country accreditation of international standards & certifications by providing capacity building and financial support to firms. The assistance should be geared to ease SMEs' understanding and fulfilment of international standards, certification programs, and skill development. This approach could draw on lessons drawn from the WTO-OECD Aid for Trade Review, diagnostic tools like the World Bank NTM Toolkit, the new World Bank GVC Firm-level Survey, and the Practical Guides for SMEs on complying with ISO standards jointly published by ISO and ITC. *[Note:*

*including this recommendation assumes that the WBG or the ITC are prepared to implement it.]*

- o Enhance transparency on procedures, standards (including private standards) and regulations by leveraging existing or new national, regional and global e-platforms and global depositories (such as ITC's Standards Map for the submission of information on private standards)
- o Consider developing a list of NTMs by G20 countries whose streamlining would have the greatest impact on SME and LIDC participation in GVCs. In this respect, G20 could draw on the on-going OECD project on International Regulatory Co-operation - Better rules for globalisation;
- o Target dedicated technical and financial support to the strengthening of national laboratories and other institutions involved in compliance demonstration.
- o Support international collaborative efforts towards mutual recognition agreements among accreditation bodies.

***Consider Eliminating "nuisance tariffs" and establishing customs de minimis levels in G20 countries within a set timeline***

Nuisance tariffs comprise import duties that are so low that it costs governments more to collect them than the revenue they generate and those that do not have any protective or other economic effect. While they are an inefficient source of revenue and may matter little for competition in final product markets, they can be significant for complex GVCs with intermediate goods crossing borders many times. In addition, even small non-MFN tariffs have compliance costs which, similar to RoO, NTMs and other regulations (discussed below), are of fixed nature, thereby disproportionately impacting on small-scale operations.

Elimination of nuisance tariffs has long been on the trade policy agenda and has been supported on several occasions by the business community. Some G20 countries have introduced successful initiatives to eliminate nuisance tariffs but not all. For example, according to WTO data, in some G20 countries the percentage of tariff lines or imports where applied tariff rate lies between zero and 5% are still as high as 40%.

The impact of suspending nuisance tariffs is likely to be minimal for G20 economies as a whole but significant for SMEs (including those in G20 countries) and LIDC firms. Defining nuisance tariff levels with a view to their subsequent abolition may have to take into account country and market specificities (e.g. the efficiency and organisation of customs and other sources of revenue collection) and therefore sharing of past experiences in this area across G20 members can be a worthwhile exercise.

A complementary action that should be considered is raising customs *de minimis* levels. Customs *de minmis* are thresholds for streamlined border clearance and exemption of customs duties and other taxes. This category of imports typically encompasses large numbers of relatively small shipments which are costly for customs to process, do not endanger border security and do not generate much customs revenue. Like nuisance tariffs, they are however disproportionately harmful for e-commerce and small businesses.

*Proposed actions:*

- Define “nuisance tariff level”;
- Perform sensitivity analysis, study the impact of suspending all nuisance tariffs at MFN and preferential levels (at different arbitrarily defined echelons e.g. 3% or less, 5% or less) on goods imported by the G20 using a quantitative model-based assessment and review of previous nuisance tariff removal initiatives already implemented by G20 and other countries;
- Commit to the elimination of “nuisance tariff levels” in G20 countries within a set timeline;
- Raise customs de minimis levels to enable e-commerce, which could be of particular value for SMEs.

**2. Targeted capacity building initiatives for better GVC integration in developing countries**

***Promote efforts to better understand how to increase SME and LIDC firms’ productivity and boost innovative capacity to facilitate upgrading of these firms in value chains through spillovers from FDI***

The broader challenge for many SMEs is to increase productivity and strengthen internal capabilities to innovate in order to move up the value chain. Co-operation with partners upstream and downstream is critical in this respect and can improve the firm’s efficiency via knowledge spill-overs.

Attracting foreign direct investment (FDI), facilitating outward investment with highest spill-over and forging strong links between MNEs and their local suppliers tends to result in diffusion of knowledge, technology adoption, and know-how from foreign investors. GVCs generate demand and assistance effects in the countries in which they are present and these in turn translate into diffusion of knowledge and technology in the supplier industry and into increases in the availability and quality of inputs in the buyer industry. The presence of larger MNEs therefore provides (and indeed, often, means) incentives for local suppliers to upgrade their technology, which may in turn also lead to knowledge spill-overs to other local firms (e.g. through labour movements).

The ability of SMEs to take advantage of the presence of large MNEs within value chains is affected importantly by the value chains’ governance structure as well as by the wide range of factors mentioned earlier in this action plan and in the report *Inclusive GVCs* (e.g. firms’ managerial capacity, firm-level access to market information, ability to comply with standards, access to finance, skills and markets, and ability to innovate). For most of these factors successful integration and strengthening participation in GVCs have been demonstrated to depend a combination of firm-level characteristics, geographical and sectoral characteristics, and policy. Hence there is scope for engaging in diagnostic studies at country and regional level in order to identify which policies actually work and under what conditions have the highest potential for investment spill-overs.

Maximising the potential for creating links between MNEs and local firms and for the diffusion of the most up-to-date and productive technology requires also supporting the absorptive capacity of firms in host countries, as well as improving the business climate and institutions, including financial and labour markets. To generate spill-overs, policies need to ensure the quality of inputs and outputs, in particular education, skills development, product standards, innovation, and environmental, social, and labour standards.

*Proposed actions:*

- Promote ongoing IOs' investments in strengthening micro-level data collection and country and region-specific analysis of firms in LIDCs to identify the factors that foster long-term links between MNEs and local SMEs, as well as the channels through which MNEs help SMEs to entry or upgrade their participation GVCs (e.g., technology transfer, knowledge sharing, financial support, access to inputs, etc.). Relevant work in this area is already being pursued the ITC, World Bank Group, OECD and UNIDO;
- Support discussions involving the B20—in particular of its taskforce members, i.e. Accenture, the B20 Secretariat, and the World SME Forum—and IOs to: i) lead the discussion on forging links between SMEs and MNEs; ii) form value chain MNEs-led consortium and help matching SMEs with these potential buyers and suppliers; iii) prioritize reforms in each country; and iv) ask each G20 country to put in place a strategy based on the two above inputs.

***Increase SME productivity and boost innovative capacity to upgrade in value chains through access to ICT, SME-friendly IPR system and addressing informality***

Improving SMEs' and LIDCs' access to and use of ICTs and other digital technologies will also help boost innovation and upgrading in value chains. This involves fostering good Internet connectivity of SMEs (e.g. high-speed broadband) and ensuring an open Internet so that SMEs can benefit from the full breath of digital services and applications. At the same time, the development of policies to increase ICT adoption within SMEs—for example targeting big companies to increase ICT adoption in SMEs that are part of big companies' supply chains—are important, as is the promotion of digital skills. All of these issues will be covered in the digital economy pillar of the G20 Framework for Innovative Growth.

Another important dimension for innovating to upgrade in value chains is the ability of SMEs to manage and protect their intellectual assets. IPRs are important for SMEs to position themselves competitively vis-à-vis larger firms in global markets; signal current and prospective value to competitors and partners; and to access knowledge networks. Governments can make the IPR system overall more SME-friendly by streamlining procedures and reducing application time, adequately structuring fees and costs, and by improving litigation and enforcement mechanisms. Governments can also improve access to information on IPRs, including foreign IP systems and raise awareness about the variety of IP instruments and their strategic objectives.

Addressing informality in the economy is another priority to improve GVC participation. The majority of firms in most developing countries are informal. Therefore, harnessing the growth potential of dynamic and innovative firms operating in the informal economy by removing the disincentives from going to the formal market, particularly for informal businesses that prevail in the downstream parts of GVCs and in LIDCs, is a pre-condition to making GVCs inclusive.

*Proposed actions:*

- In the context of the already existing digital economy pillar of the G20 Framework for Innovative Growth, G20 should establish an action plan to empower SMEs to leverage the digital economy, including better ICT infrastructure and services sector efficiency to reduce SMEs' costs, both physical ("hard infrastructure") and digital (sharing of available information), as well as improvement in the regulatory environment for digitally enabled activities;

- Develop a set of good practice polices to make IPR systems overall more SME-friendly;
- Establish a G20 mechanism to improve access to information on IPRs in G20 countries. More comprehensive information on IP systems among the G20 could be provided by national IP bodies to better inform and assist SMEs seeking to internationalise. This mechanism could also be used to raise awareness among SMEs about the variety of IP instruments and their strategic objectives;
- Ask each G20 country to put in place a strategy based on the above inputs.

***Strengthen collaboration and dialogue across countries, with a view to establishing global platforms for information exchange, learning, and support to capacity building; and financing instruments well adapted to GVCs***

SMEs and LIDCs need capacity building that they can use to enter into, gain from, and upgrade within GVCs according to their own development strategies. Effective capacity building in developing countries requires interventions at the country level to facilitate the national agenda on productivity and competitiveness and for developing quality national infrastructure. Yet, a collective effort of relevant multilateral institutions, organisations and initiatives, as well as of the private sector and development partners is important, in particular in two areas. First, there is a need to establish global platforms for information exchange and learning. Disseminating best practices is critical for scale-up and replication across sectors and countries of initiatives that succeed in enhancing countries' economic and social improvement through integration in GVCs. Second, international coordination may help developing financing instruments adapted to the reality of GVCs.

*Proposed actions (in collaboration with B20 and WSF):*

- Consider a feasibility study on the applicability of a framework for strengthening collaboration and dialogue among countries participating in GVCs. This may take inspiration from the G20 Agricultural Market Information System (AMIS) framework and could build on the experiences gathered through existing global platforms for policy dialogue and knowledge sharing (e.g. the OECD Initiative on Global Value Chains (GVCs), Production Transformation and Development)
- Consider a feasibility study to create customizable knowledge and learning instruments and support existing or new global, regional, and local platforms that can facilitate SMEs capacity building and/or the dissemination of knowledge and exchange of best practices and relevant information for SMEs.
- Consider preparing a strategy for facilitating financing of firms in GVCs, through promoting financing policies that have a multi-pronged approach, including for example, regional connectivity between countries engaged in the same GVCs but at different level of development, private-public partnerships and engagement, cross-border projects and sectoral coverage, non-punitive provisions for failure and bankruptcy, account of intrinsic know-how, pool of talent, distribution channels, business relationships, business models, and access to technology in valuation of repayment ability; etc.
- Ask each G20 country to put in place a strategy based on the above inputs.

## 3. Priority actions to expand data and analytical capacity

***Capitalise on existing, and invest in strengthening, micro-level data of firms in LIDCs and G20 countries***

In recent years significant efforts, across a number of fronts, have been made to improve the statistical evidence needed to interpret and analyse GVCs. Well-known recent examples of improvements in macro-level measurement and analysis include measures of trade in value added, such as the Input-Output and Supply-Use tables that underpin the OECD-WTO TiVA initiative, and other related exercises (including WIOD, EORA MRIO, Asian Development Bank MRIO, IDE JETRO Asian International Input-Output Tables, EXIOPOL Multi-regional Database, World Bank Export of Value Added Database) as well as databases such as the World Bank Labour Content of Export (LACEX) database, which quantify the direct and indirect contribution of labour in different sectors and in GVCs. Concerning the OECD-WTO database, efforts are on-going to expand the coverage of countries included, in particular to LIDCs, where coverage remains sketchy, partly reflecting the availability (or rather lack-of) of national supply-use and input-output tables. WTO is increasingly active in this area, working to ensure data gathering efforts expand to developing and LDC members. National statistical institutions should be better involved in these efforts; indeed, the UN Statistical Commission highlighted in 2015 the importance of improving the coverage and quality of trade and business statistics. Considering the crucial role of the services sector in GVC upgrading and its potential for job creation, improving the coverage of services and trade in services in many developing countries remains a priority. The G20 could play a strong role here in supporting capacity building exercises to develop these tables.

But improving the quality and availability of macro data only partially responds to the GVC agenda and it is now readily accepted across the international statistical community that a 'whole of value chain' approach to GVC policy making requires a similar 'joined-up' perspective at the statistical level, that can provide the evidence needed for a holistic perspective; one that fully articulates the role of the different actors involved, including, in particular, MNEs and SMEs. Although, none of the macro-initiatives described above are currently able to respond to this challenge (as they provide a sectoral and not necessarily firm-based perspective), progress is being made. In 2013 the OECD launched an Expert Group to tackle this lacuna head on by developing extensions to standard national supply-use tables that capitalise on, and integrate, more granular conventional data sets, such as: (Structural Business Statistics (SBS, with breakdowns of activity by size class); Trade by Enterprise Characteristics (TEC, showing the activities of importing and exporting firms, again by size class); and Foreign Affiliate Trade Statistics (FATS). However, in LIDC countries, and even in some G20 countries, data constraints exist, fundamentally relating to the availability of firm-level data, in particular relating to foreign owned affiliates.

In this context, the G20 could significantly support investment in strengthening micro-level data collection that would provide the basis for the development of extended supply-use tables and the analysis of firms in LIDCs and G20 countries. This includes leveraging existing tools such as the World Bank Group Enterprise Surveys, or new tools being developed, such the new World Bank Group initiative to develop firm-level surveys, which will delve deeper into the subject of GVC participation and upgrading, across all areas of relevance providing more granular information for evidence-based policy making, including issues such as: (i)sourcing practices to export performance and production costs; (ii) technology, innovation, and skills; (iii)- compliance with international standards (e.g., environmental, labor, and quality); and (iv) links between MNEs and SMEs. Other World Bank Group surveys on microenterprises, on the informal sector, and sector-specific and ad hoc surveys may also be leveraged.

Support from the G20 would also be useful in reinforcing additional data developments on services and trade in services statistics, where coverage is often imperfect, business demography statistics that would be particularly useful for analysis on SMEs, providing evidence on the prevalence of high-growth enterprises, gazelles, start-ups and exits across LIDCs (building on the OECD and Eurostat—the Statistical Office of the European Commission—work in this area), as well as on the development of new information relating to business functions undertaken within firms and the skills and occupations of employees within firms—an important component of any dataset that attempts to shed light on upgrading.

*Proposed actions:*

- Support IOs' efforts to invest in strengthening micro-level data collection and analysis of firms in LIDCs and G20 countries to provide granular information for GVC evidence-based policy making.

- Develop an inventory of available firm-level data sources and similarities and differences between them with a view to identifying data collection and the associated funding needs that could provide, in particular, the basis for developing extended supply-use tables.

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## Annex

### Priority areas identified in the 2015 OECD-World Bank report on Inclusive Global Value Chains

**1. Priority areas for trade and investment policy**

**What:** Establish a trade and investment action plan for inclusiveness defining clear and achievable objectives on trade and investment policy and identify the necessary complementary actions on the domestic agenda

**Why the G20 can help:** The G20 platform could address coordination failures between and within countries through a comprehensive action plan focusing on: treating trade and foreign direct investment, both inward and outward in an integrated framework; giving as much consideration to imports and timeliness as to exports and market access; and by streamlining import tariffs and simplifying export procedure. Systems in place in the G20 finance track can be of guidance.

| **Items for consideration to be included in the trade and investment action plan for inclusiveness** | **National initiative** | **Collective Action** |
|---|---|---|
| Further the trade facilitation agenda through completing the ratification process of the WTO Trade Facilitation Agreement (TFA) and by complementary improvements in hard and soft infrastructure, and in logistics services quality | ✓ | |
| Better harness the challenges for SMEs to be competitive in GVCs, by relaxing policies such as rules of origin, and by agreeing to bring other policies, such as competition principles or standards, to the international level of policy; and through dedicated funding to aid for trade or through other capacity building efforts supporting SMEs preparedness to comply with regulations | ✓ | ✓ |
| Reform, nationally and in coordination with other G20, business services sectors in key network industries such as logistics, supply chain management services, ICT-related services, e-commerce, and professional services, by removing barriers to entry and improving pro-competitive regulation | ✓ | ✓ |
| Engage GVC lead firms, turnkey suppliers, global buyers, and SMEs in identifying binding constraints and solutions to investment attraction and promotion, for improving investment climate and SMEs absorptive capacity, particularly in sectors known to generate strong upstream and downstream SME linkages, such as services, knowledge based industries, and manufacturing sectors where specialization and branding are important. | ✓ | ✓ |
| Establish a G20 platform for identifying and implementing measures for the reduction of contractual frictions that act as a disincentive to the outsourcing and offshoring of valuable innovative assets. Prioritize minimizing transaction costs for SMEs (both G20 micro-multinationals and investors and LIDCs users of imported IP) | | ✓ |
| While developing and implementing rigorous IP legislation in G20 countries to protect innovative assets and attract foreign owned technology, minimize transaction costs for SMEs by streamlining procedures and ensuring high-quality examination to increase IP signalling value | ✓ | ✓ |
| Address SMEs and LIDCs competition concerns regarding behaviour of large MNEs or anti-SMEs biases in the current functioning of supply chains though establishing a dialogue on inclusiveness in GVCs with the B20 | ✓ | ✓ |
| Enhance cooperation and coordination between development partners, at the multilateral, regional, and bilateral level, with a view to making aid work better for trade, investment, and inclusive growth | ✓ | ✓ |

| Jump-start the trade and investment action plan by few concrete actions |
|---|
| • Establish a trade and investment action plan for inclusiveness<br>• Commit to relaxing policies on rules of origin in G20 countries<br>• Aid for Trade and other programs could increase their focus on supporting SMEs preparedness to comply with trade and investment regulations<br>• Establish a collaboration with the B20 to identify key binding constraints and solutions for fostering supplier diversity, focusing on efficiency of logistics services delivery, and MNE-SME linkages |

| 2. Priority areas for capacity building | | |
|---|---|---|
| **What**: Complement trade, investment and complementary domestic policy actions by providing the needed political leadership and support to collaboration across the public and private sector and establishment of global platforms for sharing bets practices.<br>**What role for the G20**: To help SMEs and LIDCs in developing new areas of growth and to engage in international markets, a shared strategic vision and greater collective action to target the major constraints are needed. The G20 can offer the needed political leadership and clout with the private sector to leverage GVCs for a "race to the top" in participating countries. | | |
| **Addressing informality** | **National initiative** | **Collective Action** |
| Harness the growth potential of dynamic and innovative firms operating in the informal economy by removing the disincentives of going to the formal market, particularly for informal businesses that seem to prevail in the downstream parts of GVCs in LIDCs. | ✓ | ✓ |
| **Policies for improving firms' productivity through learning, innovation, skill building, upgrading,<br>and peer exchange** | | |
| Foster the development of managerial skills and the adoption of sound managerial practices, vocational training, and lifelong education. | ✓ | |
| Remove regulatory and other barriers to the growth and scaling of SMEs, notably young and innovative SMEs, including barriers to entry, growth and exit of firms. | ✓ | |
| Encourage collaboration with lead firms and global buyers to train local staff as a more efficient means of knowledge transfer; information is up-to-date and corresponds to the needs of the lead firms. | ✓ | |
| Assist SMEs in the use of freely available technologies or the acquisition of technological licensing agreements. | ✓ | ✓ |
| Ensure that quality certification, technical regulations, standards, and conformity assessment procedures are non-discriminatory and do not create unnecessary obstacles to trade; aid for trade programs could also focus on building | ✓ | ✓ |

| | | |
|---|---|---|
| capacity in LIDCs and for SMEs for the adoption of standards that lead to quality, productivity, and welfare upgrading; facilitate public and private sector preparedness to standards upgrading; promote convergence of public and private voluntary standards so to reduce costs; inform above processes through national and international guidelines. | | |
| **Connectivity** | | |
| ICT and broadband connectivity: Strengthen broadband networks and improve access and competition. Foster services sector efficiency improvements and collective efforts to facilitate SMEs' and LIDCs' access to ICT networks | ✓ | ✓ |
| Provide assistance to SMEs and firms in LIDCs, including through electronic platforms that help domestic firms acquire foreign technology and commercialize their IP | ✓ | ✓ |
| Physical connectivity and logistics: Assist countries in effectively implementing all aspects of logistics and transport sector reforms; Support capacity building to customize approaches to meet specific needs, operational circumstances, and national connectivity priorities | ✓ | ✓ |
| Provide a continuum of potential support activities for both ICT and physical connectivity, from infrastructure building to logistics and e-commerce performance assessments, to the development of practical implementation plans, to the identification of sources of financing for implementation plans. | ✓ | ✓ |
| **Financing** | | |
| Enable finance that takes into account intrinsic know-how, pool of talent, distribution channels, business relationships, business models, and access to technology in valuation of repayment ability; | ✓ | |
| **Global platforms for capacity building:** | | |
| Establish, or support scaling up of global platforms for sharing best practices, learning, e-learning and exchange; foster private sector involvement on global platforms and use for exchange of goods, services, and for cross-border financing solutions. | ✓ | ✓ |
| Provide holistic, country-focused, multi-stakeholder approach to capacity building, sustained over time, including engagement of local and international private sector (local suppliers, global leads, buyers, advanced consumers) and of development partners and creation of private sector supplier base for advisory services on | ✓ | ✓ |

capacity building

| **Jump-start the domestic complementary measures to the trade and investment action plan by few concrete actions** |
|---|
| • Establish a collaboration with the B20 to identify key binding constraints and solutions for fostering supplier diversity, starting from addressing challenges in the areas of IP protection and technology transfer, quality, certification, standards, and efficiency of logistics services delivery<br>• Support mature local, regional, and global facilities in the dissemination and scaling up of best practices in the public and private sector sharing knowledge<br>• Establish an action plan for universal ICT and broadband connectivity and for empowering SMEs to leverage the digital economy |

**3. Priority areas for expanding statistical basis and analytics**

**What**: Provide political support for the establishment of a realistic multi-year plan to expand and upgrade the statistical foundation necessary to increase the capacity of all countries to identify and implement policies that can contribute to stronger, more inclusive and sustainable growth and development, globally.

**Why the G20 can help**: The G20 is ideally placed to foster and support the generation of improved evidence-based analysis and policy advice, at national and multilateral levels, through individual government action and through relevant international and regional organizations.

| | **National initiative** | **Collective Action** |
|---|---|---|
| Investments in strengthening micro-level data collection and analysis of firms in LIDCs and G20 countries, including by leveraging existing tools such as the World Bank Group Enterprise Surveys and the other World Bank Group surveys on microenterprises, on the informal sector, and sector-specific and *ad hoc* surveys. | ✓ | ✓ |
| Improvement in quality and availability of macro data in line with international standards, including Input-output and supply-use tables for the OECD-WTO TiVA databases well as SBS, FATS, BD and TEC. | ✓ | ✓ |
| Impact evaluations of policy interventions at the firm level | ✓ | ✓ |