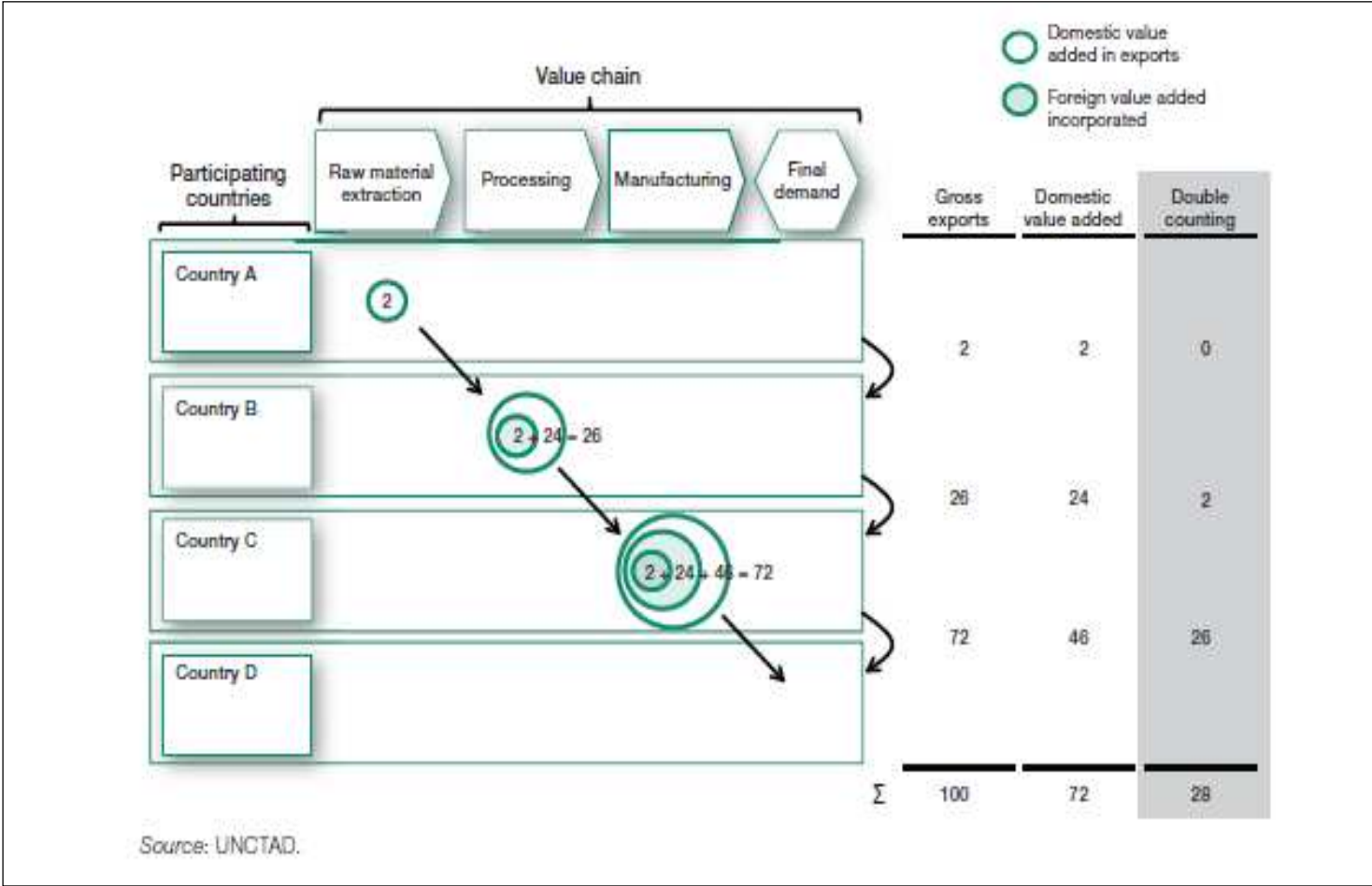


Global Value Chains: Investment and Trade for Development

UNCTAD Course on Global Value Chains

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Understanding value added trade data

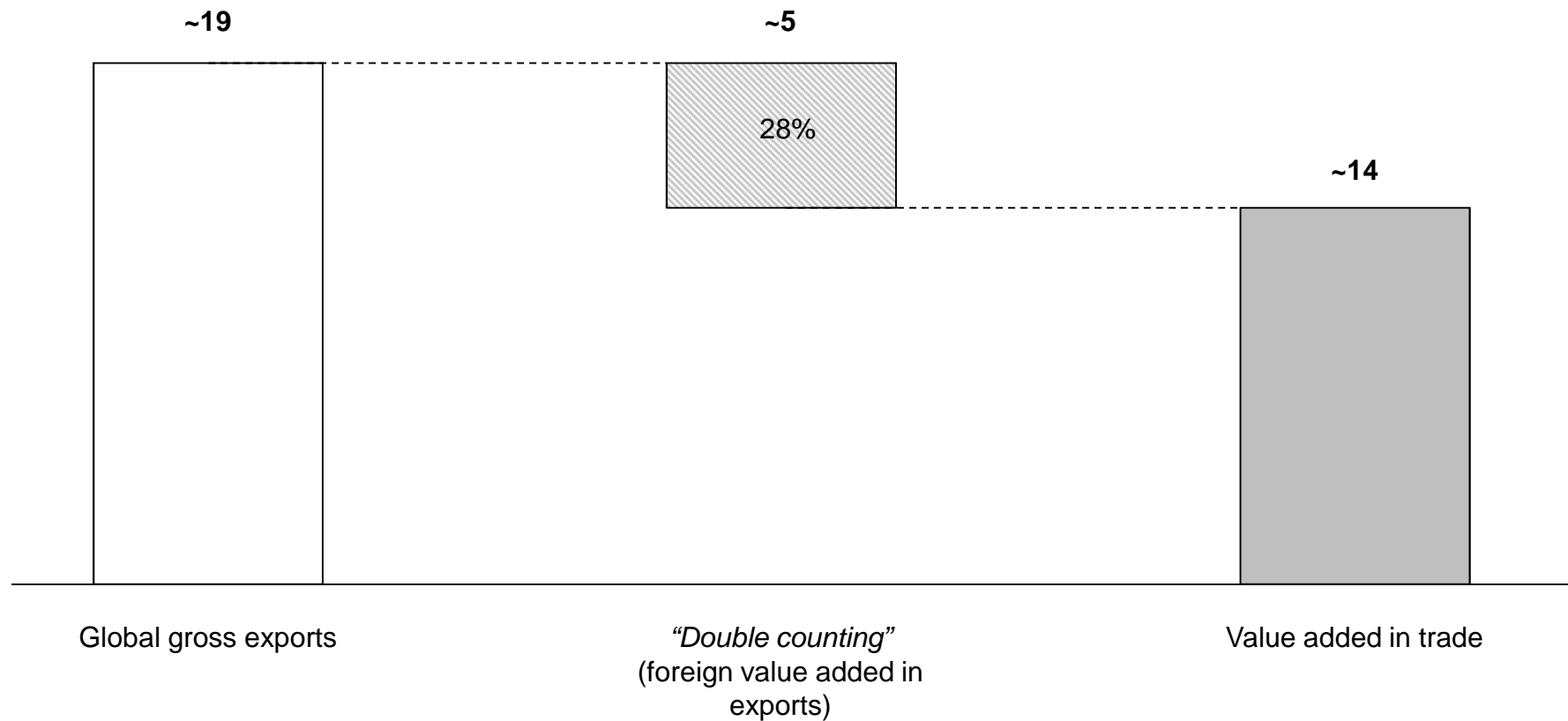


Trade is increasingly driven by global value chains (GVCs), leading to a significant amount of double counting

Value added in global trade, 2010

(Trillions of dollars)

ESTIMATES



Integration into GVCs varies by region

Foreign Value Added as a share of export, by region, 2010

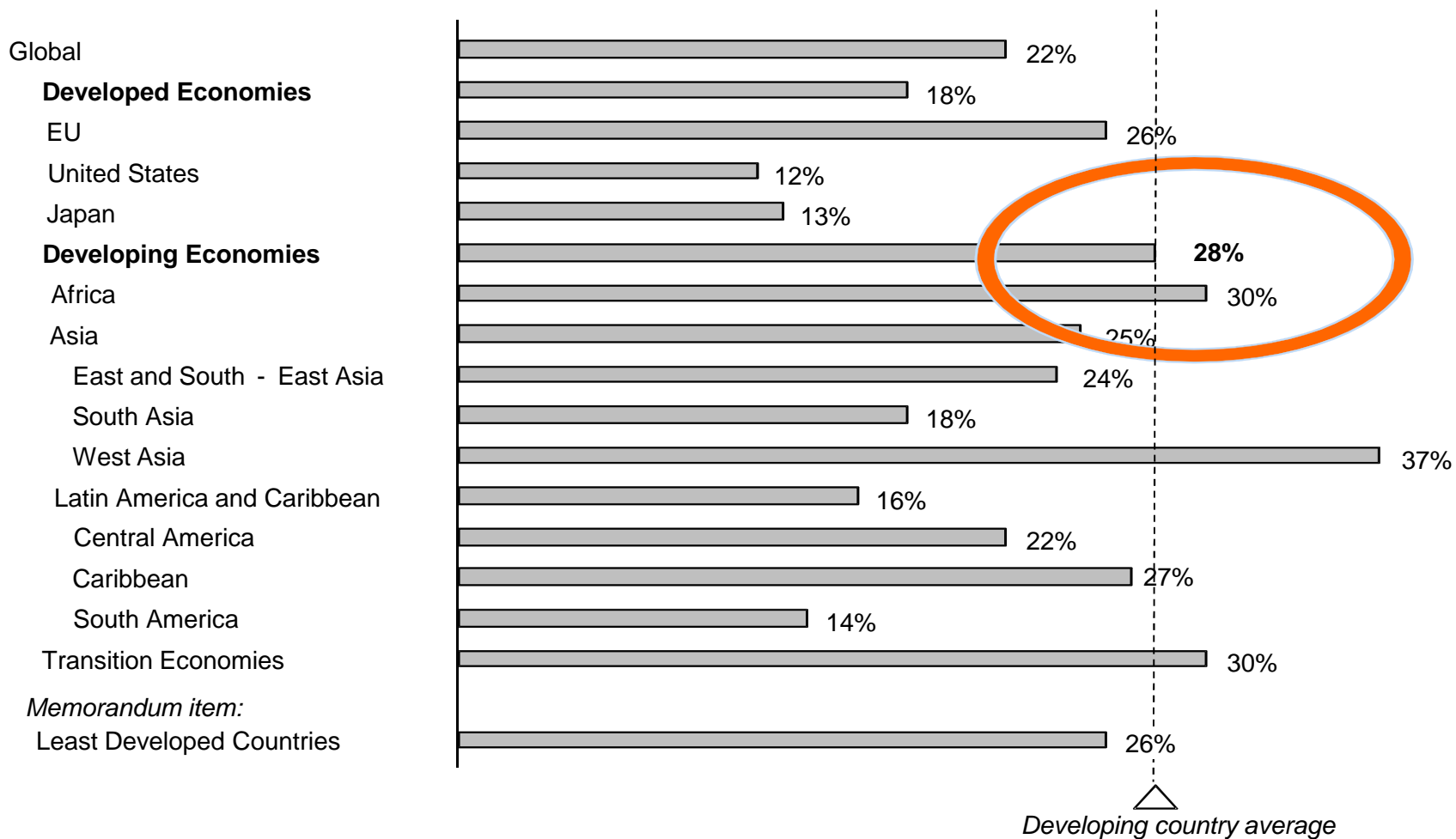
(Per cent)



The contribution of GVCs to economic growth can be significant

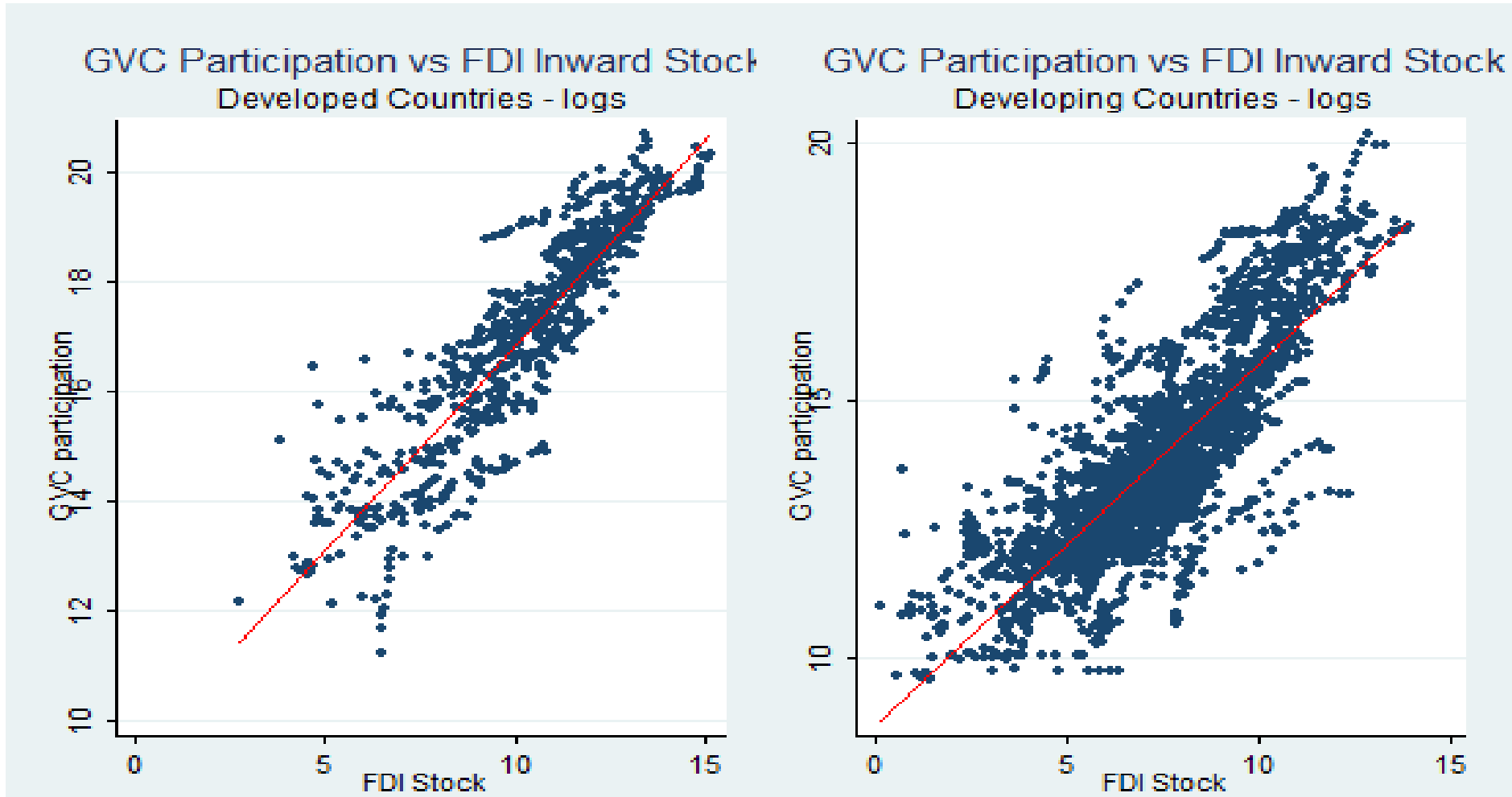
Domestic value added in trade as a share of GDP, by region, 2010

(Per cent)



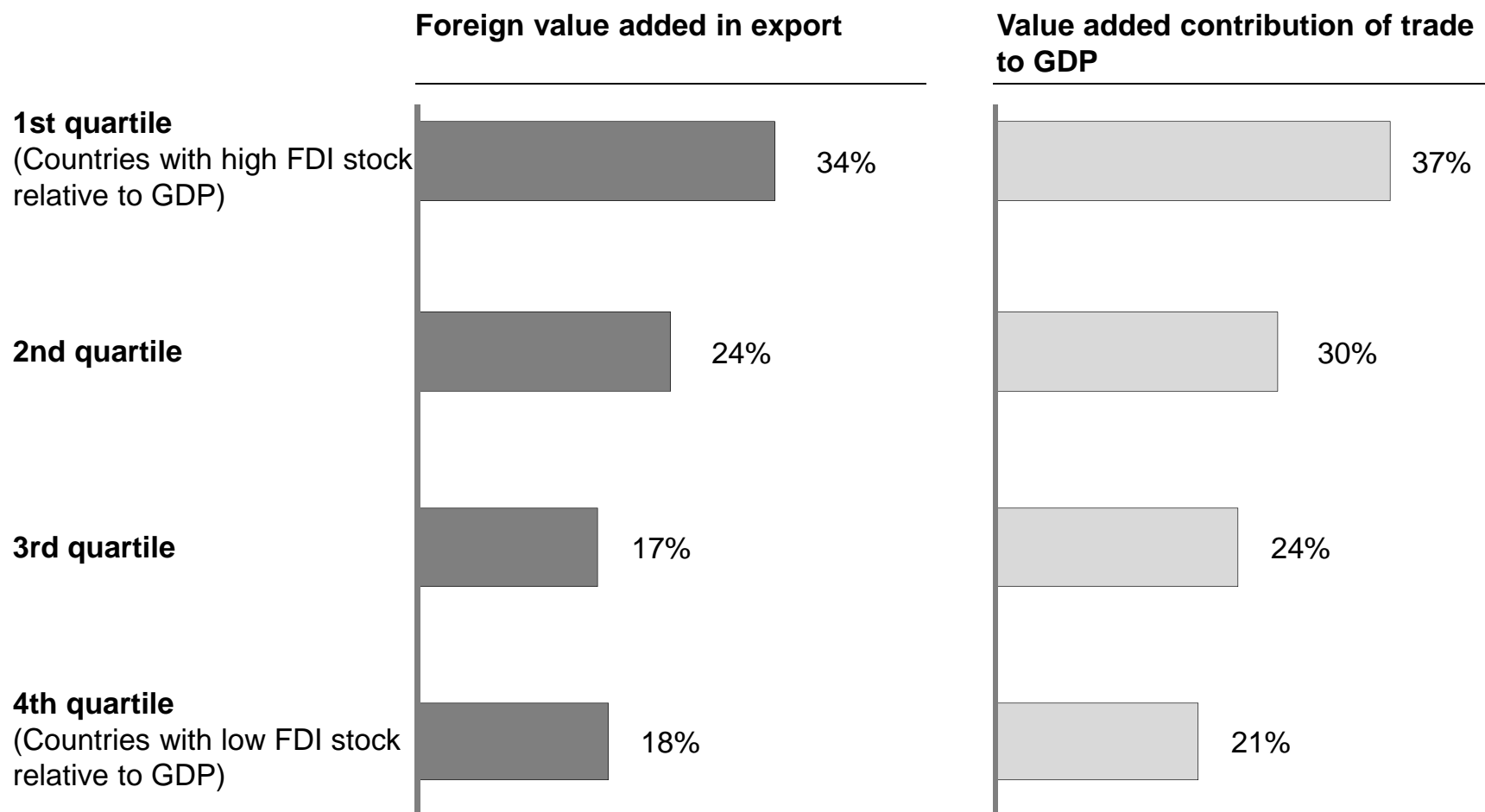
The presence of TNCs drives GVC participation

Correlation between inward FDI stock and GVC participation, 187 countries, 1990 – 2010



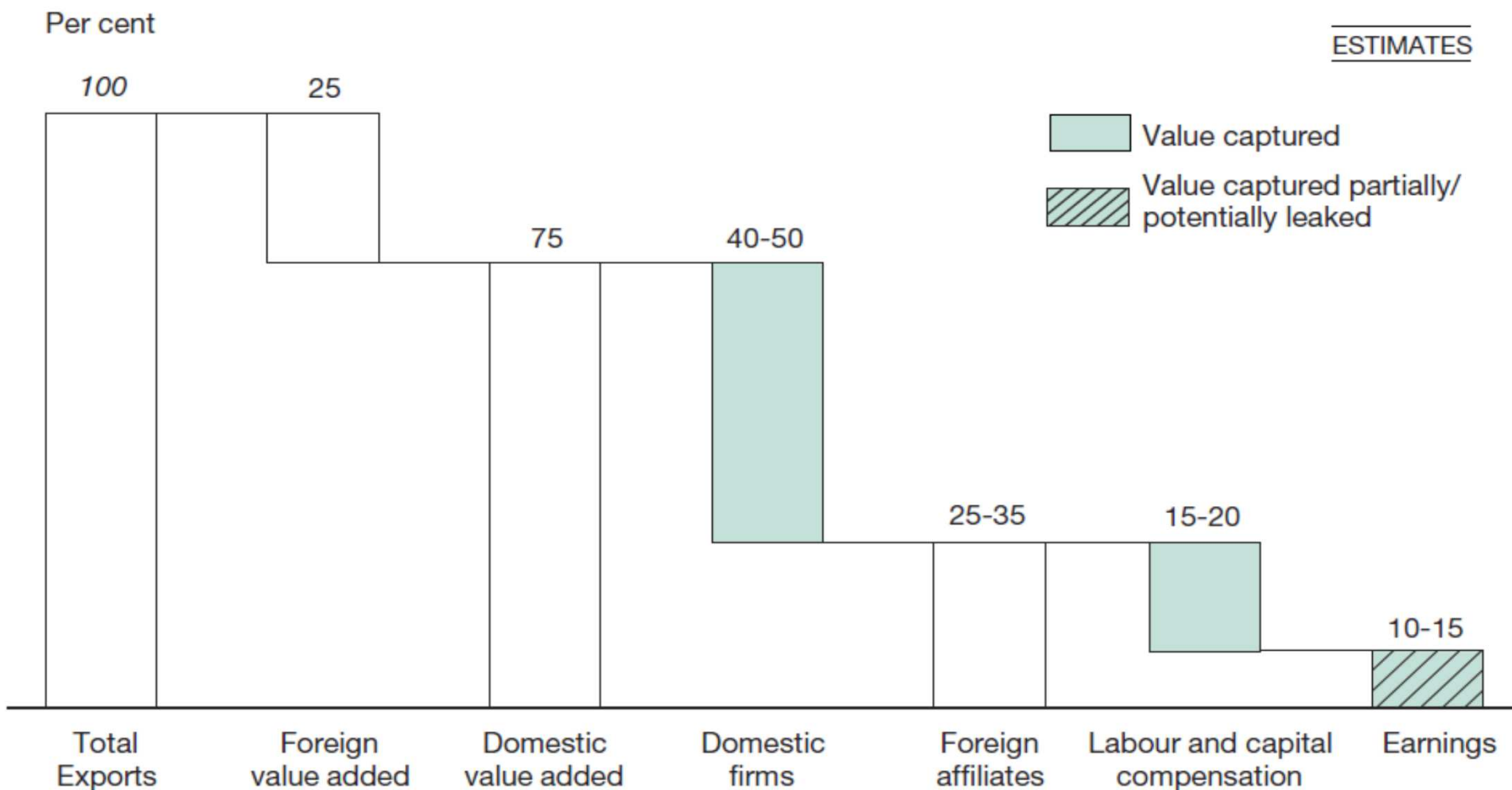
FDI shapes patterns of value added in trade

Key value added trade indicators (median values), by quartile of FDI stock relative to GDP, 2010

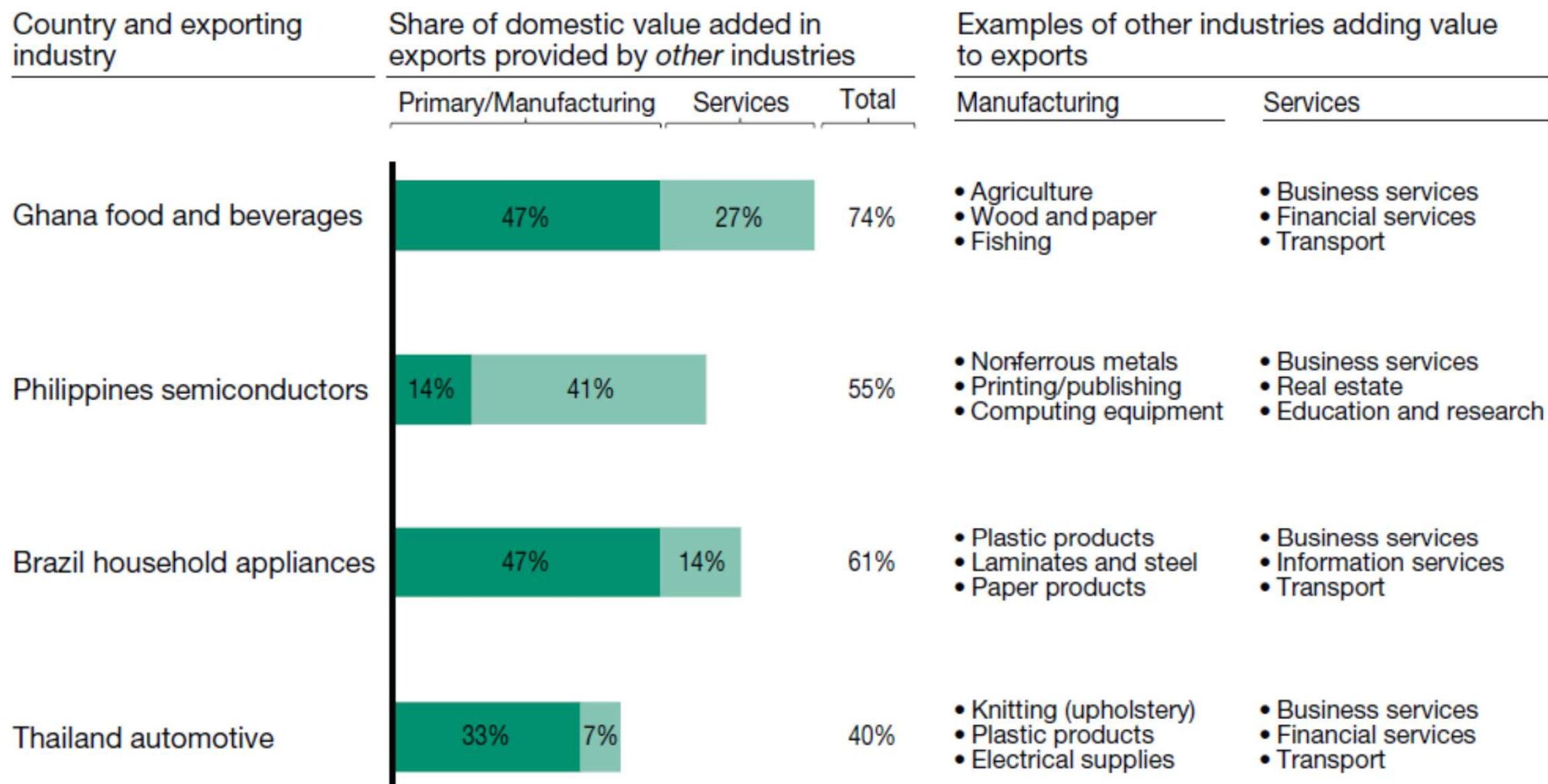


Value capture in GVCs depends on several factors

Value capture in GVCs: value added trade shares by component, developing country average

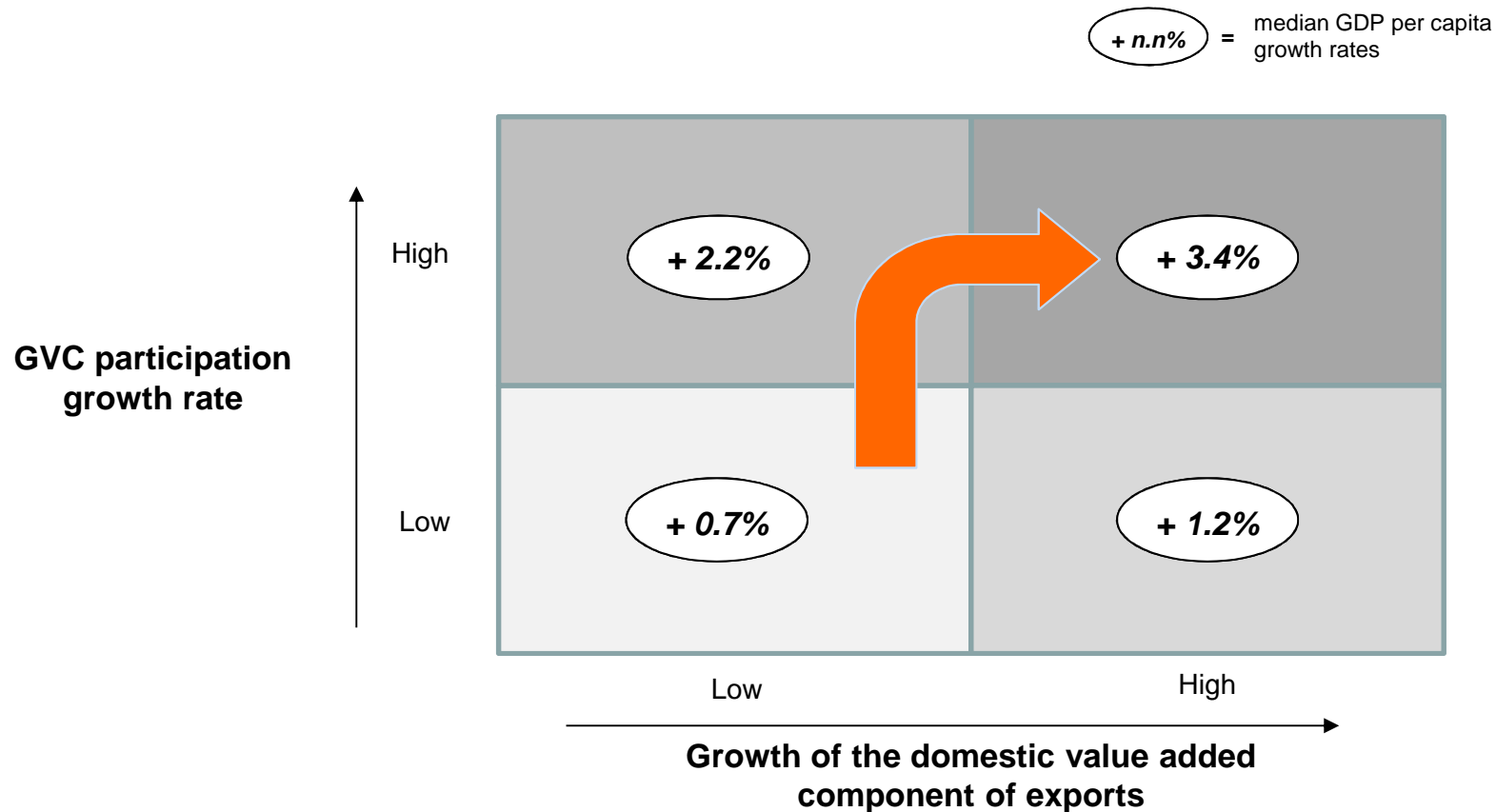


The potential for business linkages can be high both in manufacturing and in services



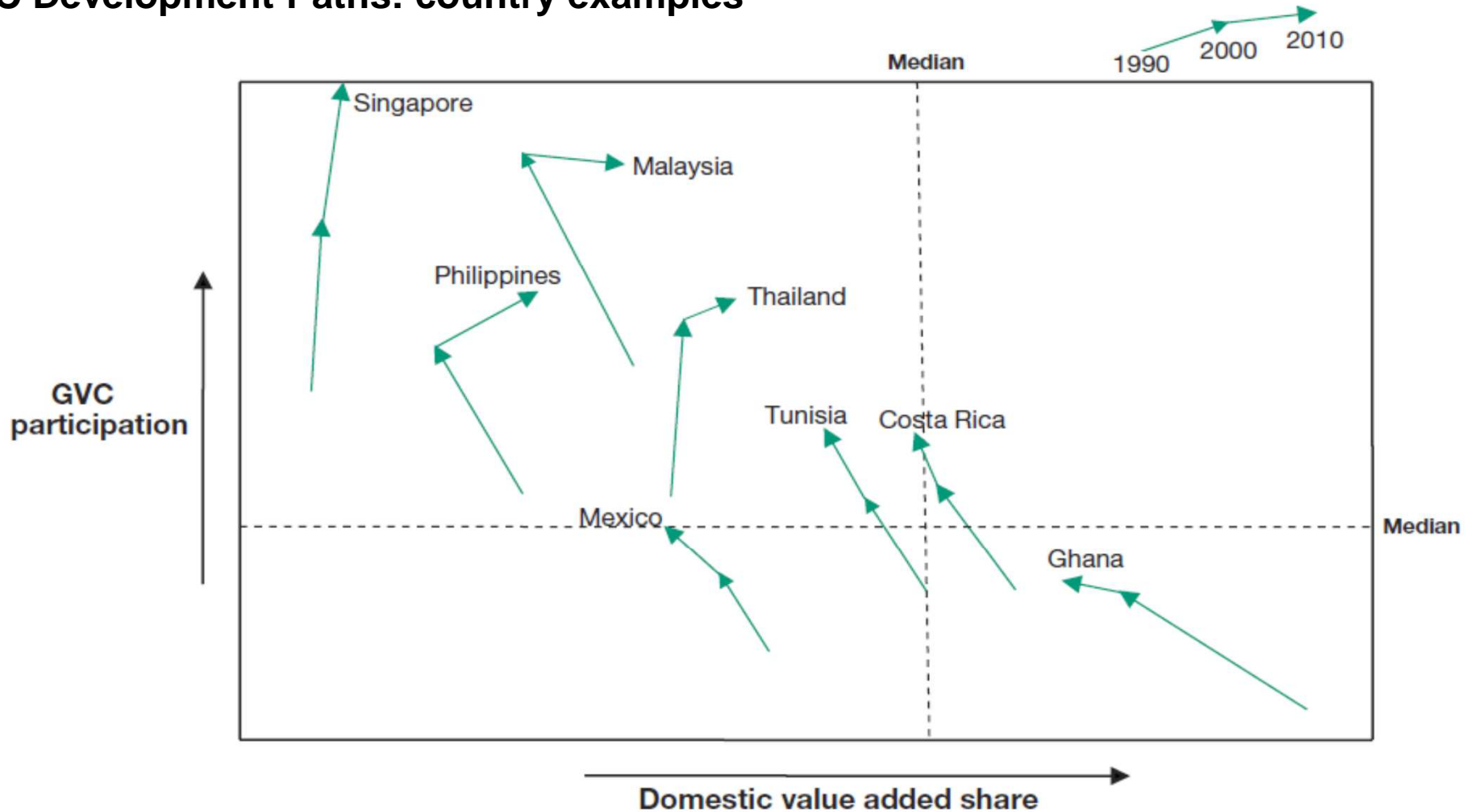
Longer term, the ideal development path involves not just participation but also domestic value added creation

GDP per capita growth rates for countries with high/low growth in GVC participation, and high/low growth in domestic value added share, 1990-2010



For most developing countries an increase in participation in GVCs implied a reduction in domestic value added share

GVC Development Paths: country examples



The contribution of GVCs to development can be significant, however participation in GVCs also involves risks



- Value added trade contributes nearly 30 per cent to developing countries' GDP on average
- There is a positive correlation between participation in GVCs and growth rates of GDP per capita
- GVCs have a direct economic impact on value added, jobs and income
- Participation in GVCs can help countries' acquisition and dissemination of technologies and skills, and spread international best practices, including on social and environmental issues, e.g. through the use of CSR standards
- GVCs can also be an important avenue for developing countries to build productive capacity, opening up opportunities for longer-term industrial upgrading



- GDP contribution of GVCs can be limited if countries capture only a small share of the value added created in the chain
- Also, a large part of GVC value added in developing economies is generated by foreign affiliates of TNCs, which can lead to relatively low “value capture”, e.g. as a result of transfer pricing or income repatriation
- Technology dissemination, skill building and upgrading are not automatic. Developing countries face the risk of remaining locked into relatively low value added activities
- Environmental impacts and social effects, including on working conditions, occupational safety and health, and job security, can be negative
- The potential “footlooseness” of GVC activities and increased vulnerability to external shocks pose further risks

Policies matter to make GVCs work for development

A policy framework for GVCs and development

Embedding GVCs in development strategy

- Incorporating GVCs in industrial development policies
- Setting policy objectives along GVC development paths

Enabling participation in GVCs

- Creating and maintaining a conducive environment for trade and investment
- Putting in place infrastructural prerequisites for GVC participation

Building domestic productive capacity

- Supporting enterprise development and enhancing the bargaining power of local firms
- Strengthening skills of the workforce

Providing a strong environmental, social and governance framework

- Minimizing negative effects and risks associated with GVC participation through regulation, public and private standards
- Supporting local firms in complying with international standards

Synergizing trade and investment policies and institutions

- Ensuring coherence between trade and investment policies
- Synergizing trade and investment promotion and facilitation
- Creating 'Regional Industrial Development Compacts'

A number of factors and conditions may facilitate 'climbing' the GVC development ladder

(ii) Share of exports by level of technological sophistication



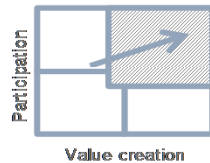
(i) Participation/ value creation archetypal moves

GVC development stages

Upgrading

(Focus on functional and chain upgrading)

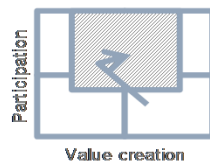
- Move to (or expand to) higher value segments in GVCs
- Move to (or expand to) more technologically sophisticated and higher value GVCs



Upgrading

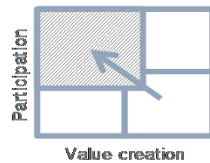
(Focus on product and process upgrading)

- Increase productivity and value added produced within existing GVC segments



Integrating

- Enter (increase relative importance of) more fragmented GVCs
- Increase exports of intermediate goods and services



Facilitating factors and conditions

- Effective national innovation system, R&D policies, and intellectual property rules
- Presence of TNCs capable of GVC coordination and a domestic and international supplier base
- Pool of highly trained workers

- Presence of domestic supplier base fully integrated in multiple GVCs (reduced reliance on individual GVCs)
- Absorptive capacities at higher technology levels, capacity to engage in R&D activities
- Pool of relatively low-cost skilled workers

- Availability and absorptive capacities of domestic supplier firms and partners
- Reliable basic infrastructure services (utilities and telecommunications)
- Pool of relatively low-cost semi-skilled workers

- Conducive investment and trading environment
- Basic infrastructure provision
- Pool of relatively low-cost workers

Thank You!