Global Value Chains: Preliminary evidence and policy issues (agenda point 4)

WPGI- meeting
19 May 2011

Koen De Backer
Objective of the paper

- Storyline paper – CIIE policy work/WPGI analytical work
- Existing research – future (possible) work
- Cooperation:
  - inside OECD: STI, TAD, STD...
  - outside OECD: Eurostat, ECLAC, China,...
1. What is a GVC?
   - firm strategies of offshoring
   - international production networks
   - MNEs

2. What is so special about GVCs?
   - different level of analysis
   - specific economic benefits
   - regional integration
GVCs and emerging countries (1)

Strong export performance of especially China... also in HT-industries... may need to be qualified:

1. GVC developments
   - assembly of imported intermediates, often controlled by foreign MNEs
   - limited value created in and by China

2. Export competition: price or quality?

But what in the future?
GVCs and emerging countries (2)
GVCs and emerging countries (3)

Share of processing exports in total exports, China

Source: Van Assche (2009).
RCA total exports and RCA intermediate imports, China, 2007

GVCs and emerging countries (4)
### Share of export value that is made in China

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total exports</strong></td>
<td>47.6</td>
<td>49.4</td>
</tr>
<tr>
<td><strong>Non-processing exports</strong></td>
<td>94.3</td>
<td>88.3</td>
</tr>
<tr>
<td><strong>Processing exports</strong></td>
<td>17.7</td>
<td>17.7</td>
</tr>
</tbody>
</table>

*Source: Koopman et al. (2008).*
Value creation and capturing (in USD) for Apple’s iPhone4 (retail price = USD 600)
Bilateral trade balance between the United States and China for one iPhone4 (merchandise goods, in gross output and value added)

US trade balance with | CHINA | KOREA | GERMANY | FRANCE | JAPAN | ROW | WORLD |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td>-169.41</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-169.41</td>
</tr>
<tr>
<td>Value added</td>
<td>-6.54</td>
<td>-80.05</td>
<td>-16.08</td>
<td>-3.25</td>
<td>-0.7</td>
<td>-62.79</td>
<td>-169.41</td>
</tr>
</tbody>
</table>
What do GVCs mean for policy? (1)

1. Other policies?
2. Need for better policy evidence
   - International competitiveness
   - Trade in value added
3. More specific or more general policies?
4. Integration into GVCs
   - Trade
   - Investments
   - Infrastructure: transportation and ICT
   - Logistics
   - Supply capacity of domestic firms (SMEs)
   - ...
5. Capturing value in GVCs
   - Innovation
   - Desindustrialisation – manufacturing policy
   - Intangibles

6. GVCs and development
   - Moving up the value chain?
   - Broader economic effects to national economies

7. International trade
   - Imbalances (total vs bilateral)
   - Exchange rate
   - ...
8. Managing risks

- Business risk, e.g. dependence on single or few suppliers
- Policy and strategic risks - risk of losing/outsourcing core national strengths, e.g. loss of core manufacturing capabilities.
Proposed timeline of GVC work

**WPGI-meeting, 19-20 May 2011**
- STI Working Paper ‘Internationally Comparative Evidence on GVCs’
- scoping paper ‘Mapping of GVCs’
- draft paper ‘What explains the export performance of countries/GVC integration’
- draft paper ‘Export competition: price of quality’

**CIIE-meeting, 7-8 November 2011**
- report on WPGI meeting
- report on interim results

**CIIE-meeting, March 2012**
- report on interim results (including ‘trade in value added)
- first draft of policy report on GVCs – link with project New Sources of Growth

**WPGI-meeting, May 2012**
- draft paper on ‘Trade in value added’
- final draft ‘Competitiveness and international specialisation’
- final draft ‘Mapping of GVCs’
- final draft ‘Import trade policy and export competitiveness’
- first draft of final report on GVCs (analytical and policy)

**CIIE-meeting, October 2012**
- final report on GVCs (analytical and policy)
QUESTIONS

Do the objectives and overall structure address the key policy interests of countries in this area?

What other policy questions/issues should be added?

How can the Secretariat best ensure that countries are fully engaged in the project? Are you willing to contribute directly, e.g. through case studies, analytical work, policy examples, etc.?