

SUMMARY OF KEY TAKEAWAYS



International Conference
Oct. 31st – Nov. 1st, 2012

Tapping into international value chains: Opportunities and challenges for Latin America

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1 - The fragmentation of international production: a new global landscape for trade and investment

Richard Boucher, OECD

Gary Gereffi, Duke University

Huberth Escaith, WTO

Anabel González, COMEX

Pat Romero Cronin, IBM

Greg Slater, Intel

2 - Global value chains: regional experiences and approaches

Joakim Reiter, Gov. Sweden

Juan Blyde, IADB

Huberth Escaith, WTO

Satoshi Inomata, IDE-JETRO

Beatriz Leycegui, ITAM

3 - Government strategies for enhancing global value chain competitiveness

Anthony O'Sullivan, OECD

Gabriel Duque, Gov. Colombia

Alejandro Faya, Gov. Mexico

Gary Gereffi, Duke University

Ricardo Monge, Gov. Costa Rica

Snapshot of the Conference

Objective:

- To identify public policies that allow Latin American countries to benefit more from international value chains.

Context:

- 3rd meeting of the OECD-LAC Investment Initiative
- Organized by the Ministry of Foreign Trade of Costa Rica (COMEX) and the Organization for Economic Co-operation and Development (OECD)
- Co-sponsored by the Inter-American Development Bank (IADB) and supported by the World Trade Organization (WTO) and the Institute for Developing Economies of Japan (IDE-JETRO)

Attendance:

- Around 200 participants from 25 countries
- Representatives from 11 Latin American governments



Global value chains present opportunities and challenges

resulting from a continuous search by companies of better business conditions and maximum efficiency. Global production schemes have prompted outsourcing of manufacturing and services, and are creating economic opportunities for developing countries. In this context, foreign direct investment brings different benefits depending upon which links of the value chain a country attracts. Developing countries have typically entered the value chain in low-value added manufacturing activities. However, their main interest is not only to integrate themselves into several global value chains (GVCs) but to enhance and upgrade their participation towards pre and post-manufacturing activities which add greater value.

Despite a few notable exceptions, Latin America has not been very successful in inserting itself into GVCs. Only 14% of global FDI comes to Latin America, and most of it is oriented towards the extraction of natural resources or to source domestic markets. In order to increase their integration to GVCs, Latin American countries will have to adopt a series of policies that can attract the right type of investors and projects. During the discussions that took place throughout the conference, these policies were divided into the following categories:

- 1 - Overarching competitiveness policies** that create an environment conducive to doing business.
- 2 - Trade policy** which increases market access in a context where imports are as important as exports and there are growing synergies between trade, investment and intellectual property.
- 3 - Education policy** which strengthens technical skills required to compete in high-value added activities.
- 4 - Policies to facilitate linkages to the domestic economy** which can magnify the benefit of FDI by helping multinational firms develop a local supply base.

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Case Study: Costa Rica's participation in GVCs



In 15 years Costa Rica has gone from being an agriculture-based economy to one based on the production of goods and the delivery of services in high-technology value chains, including electronics, medical devices, aeronautics, automotive and film devices. Costa Rica attracted large multinationals in these sectors, which started operations in low-value added activities such as assembly and have progressed towards higher value added activities such as engineering, testing and design.



Costa Rica's success in inserting itself into global value chains has been attributed to five main factors:

- An open trade stance which provides access to key global markets
- Inter-institutional coordination to promote FDI attraction
- Steady investment in human capital
- Economic and political stability
- Privileged geographic position that offers proximity to key markets

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4 - International value chains, insertion strategies and linkages with the local economy

Francisco Monge, COMEX

Flavio Díaz, DM Lawyers and Prs.

Isaías González, Hospira

Julio Lizano, Vitec Videocom Ltda.

Bo Meng, IDE-JETRO

5 - Trade policy in the context of global value chains

Ken Ash, OECD

Luis de la Calle, CMM Consulting

Anabel González, COMEX

Aranca González, WTO

Joakim Reiter, Gov. Sweden

Guillermo Valles, UNCTAD

6 - Integrating to the world with talent: the role of human capital in strengthening and enhancing participation in global value chains

Gabriela Llobet, CINDE

Greg Butler, Microsoft Public Sector

Alejandro Cruz, MICIT

Karina Fernández-Stark, Duke Univ.

Yasushi Ueki, IDE-JETRO

Applications to public policy for the region

1 - Overarching Competitiveness Policies

Cross-sector policies: These include the rule of law, solid institutions, macroeconomic stability and quality infrastructure.

Focus on strategic sectors: It is fundamental to achieve a sustainable position, maximizing knowledge transfer and taking advantage of opportunities in sectors that combine high-technology, high-value products and services. Policy should seek to resolve the constraints that affect strategic sectors the most.

2 - Trade Policy

Beyond trade: The synergies between trade, investment, services and intellectual property require conceiving of trade policy more broadly.

Trade agreements: Despite the benefits of regional trade agreements, upgrading the multilateral system is the preferred option. Plurilateral agreements should be explored as an efficient second-best alternative.

Non-tariff barriers: While significant progress has been made on tariff reduction, non-tariff barriers are still a significant challenge.

Private standards: Government's should help firms develop the capacity to meet private standards.

3 - Education Policy

Collaboration: Governments, educational institutions and firms should collaborate to build the skills necessary to compete in global value chains.

Basic skills: Firms value teamwork, critical and creative thought, problem solving and technological literacy.

Advanced skills: High-tech companies need engineers and technicians that have solid formal training and exposure to world-class operations.

4 - Linkages to the Domestic Economy

Start with services: The barriers to entry for local firms in services are much lower than in providing intermediate products (less capital investment is required).

Knowledge transfer: FDI should be leveraged for its knowledge transfer from multinational corporations to employees and providers.

Financing support: Financial markets are critical to the establishment of a local base of manufacturing suppliers.