

Dhaka Roundtable on  
**Reviving the Multilateral Trading System:  
*Post-Bali Issues***

*23 – 24 November 2014, Bangladesh*

Session 5

**Participating in the Global Value Chain: How Low-income Countries  
can Maximise the Potential Benefits?**

**Global Value Chains:  
An opportunity for developing countries**

by

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CENTRE FOR POLICY DIALOGUE (CPD)  
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# Global Value Chains: An opportunity for developing countries

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# The rise of global value chains


## The new business reality:

- ▶ International production sharing – production processes can be separated into distinct stages and may exist in the comparative advantage of countries over a manufacturing chain (Ng & Yeats, 1997)
- ▶ Vertical specialisation – vertical trading chain stretching across many countries, with each country specializing in particular stages of a good's production sequence (Hummels, Ishii & Yi, 2001)
- ▶ Fragmentation of production – lower *marginal* costs of total production (Jones & Kierzkowski, 2001)
- ▶ Second unbundling – expanding markets allow firms to exploit scale of economies (Baldwin, 2006)


# Definition of global value chains

“The value chain describes the full range of activities that firms and workers perform to bring a product from its conception to end use and beyond. This includes activities such as design, production, marketing, distribution and support to the final consumer. The activities that comprise a value chain can be contained within a single firm or divided among different firms.”

Gary Gereffi and Karina Fernandez–Stark (2011), “Global value chain analysis: a primer”, Center on Globalization, Governance & Competitiveness, Duke University.



# The cores of global value chains

- ▶ Describing the process of production, from raw materials to final products
    - What are the production stages?
  - ▶ Mapping the supply network and the distribution channels
    - What are the countries and firms involved?
  - ▶ Analysing the governance structure of the value chain
    - Who is the lead firm and who controls the chain?
  - ▶ Understanding the institutional context
    - What is the role of local conditions and policies?
  - ▶ Key concept: “upgrading” (economic and social) → values
- 

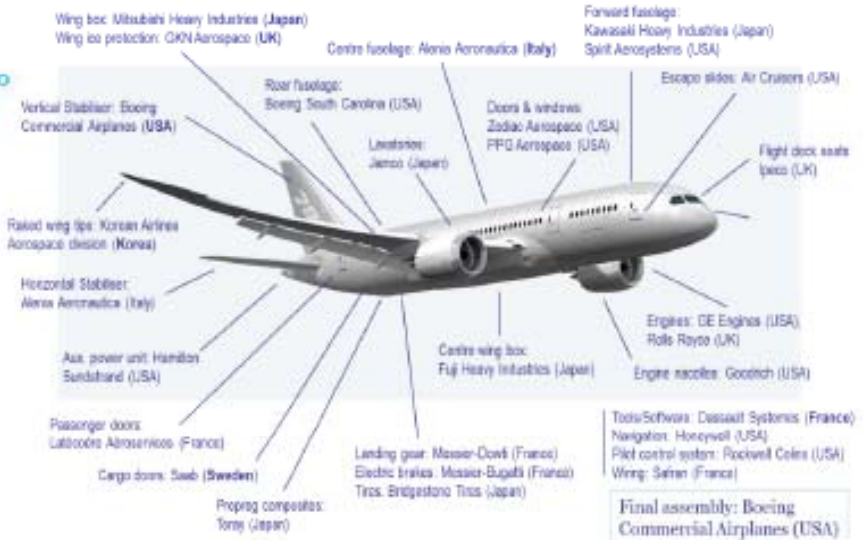
# The values are created in many places

## Sport shoe: 100 EUR (final retail price)



Source: Trudo Dejonghe (Lessius)

## A commercial airplane assembled in the US



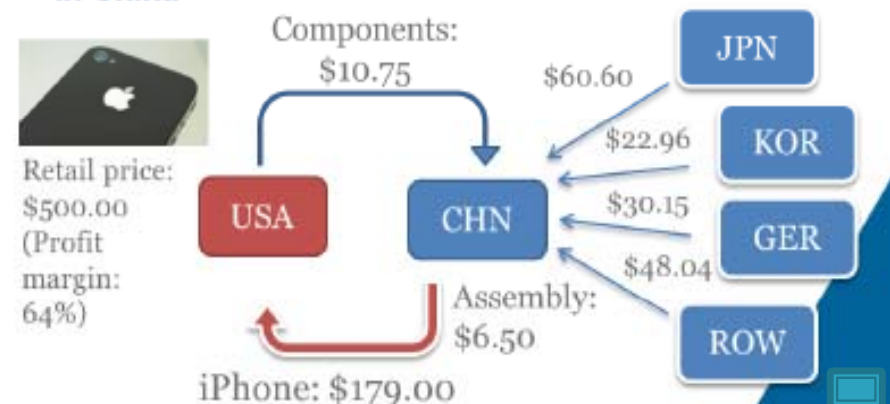
Source: www.newairplane.com

## A suit made in China, sold in the United States



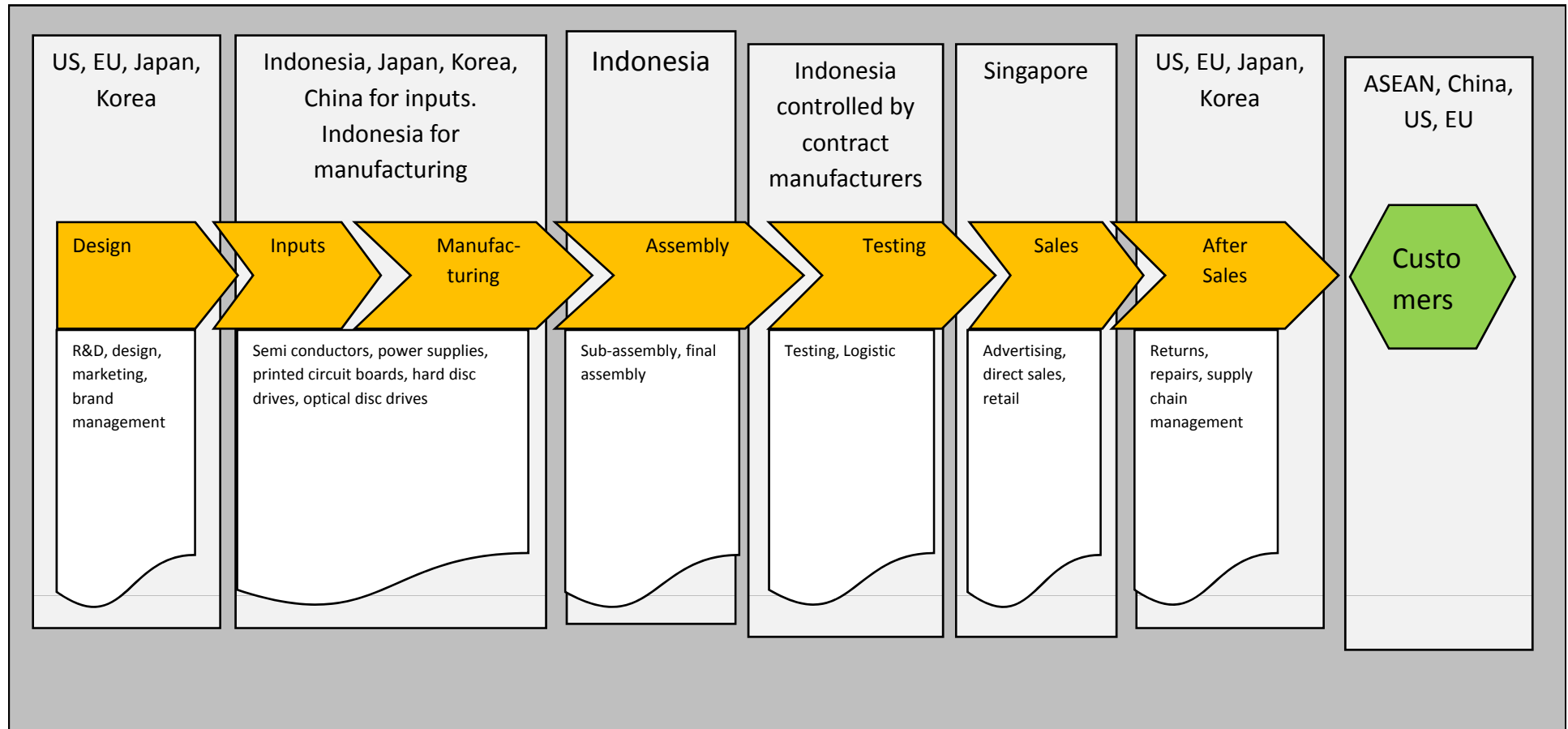
Source: Fung Global Institute

## A smart phone designed in California and assembled in China



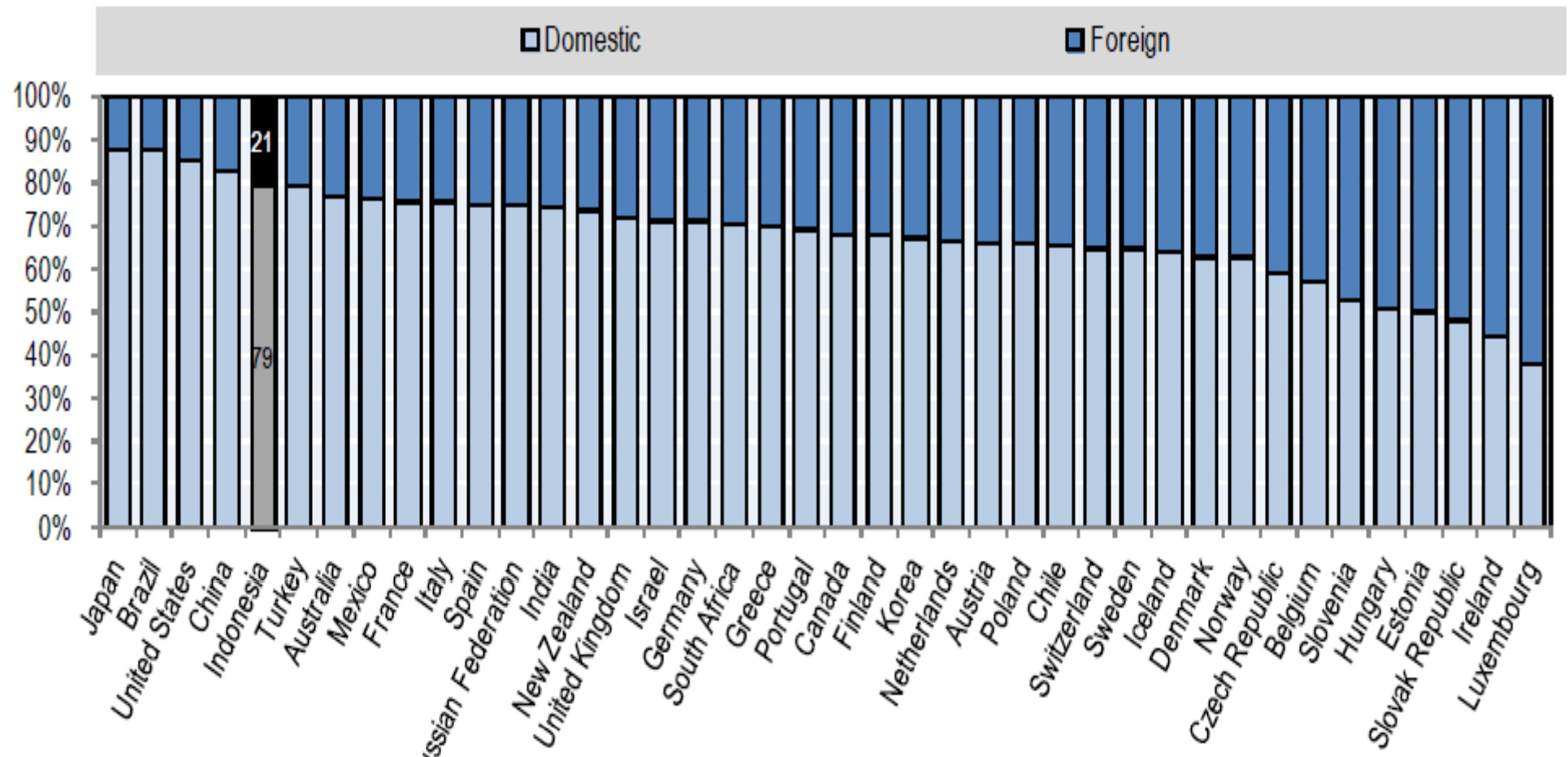
Source: Xina and Detert. 2010

# Indonesian electronics in the global value chain



Source: Oktaviani & Puspitawati (forthcoming)

# Domestic and foreign value added in final demand across countries, 2009



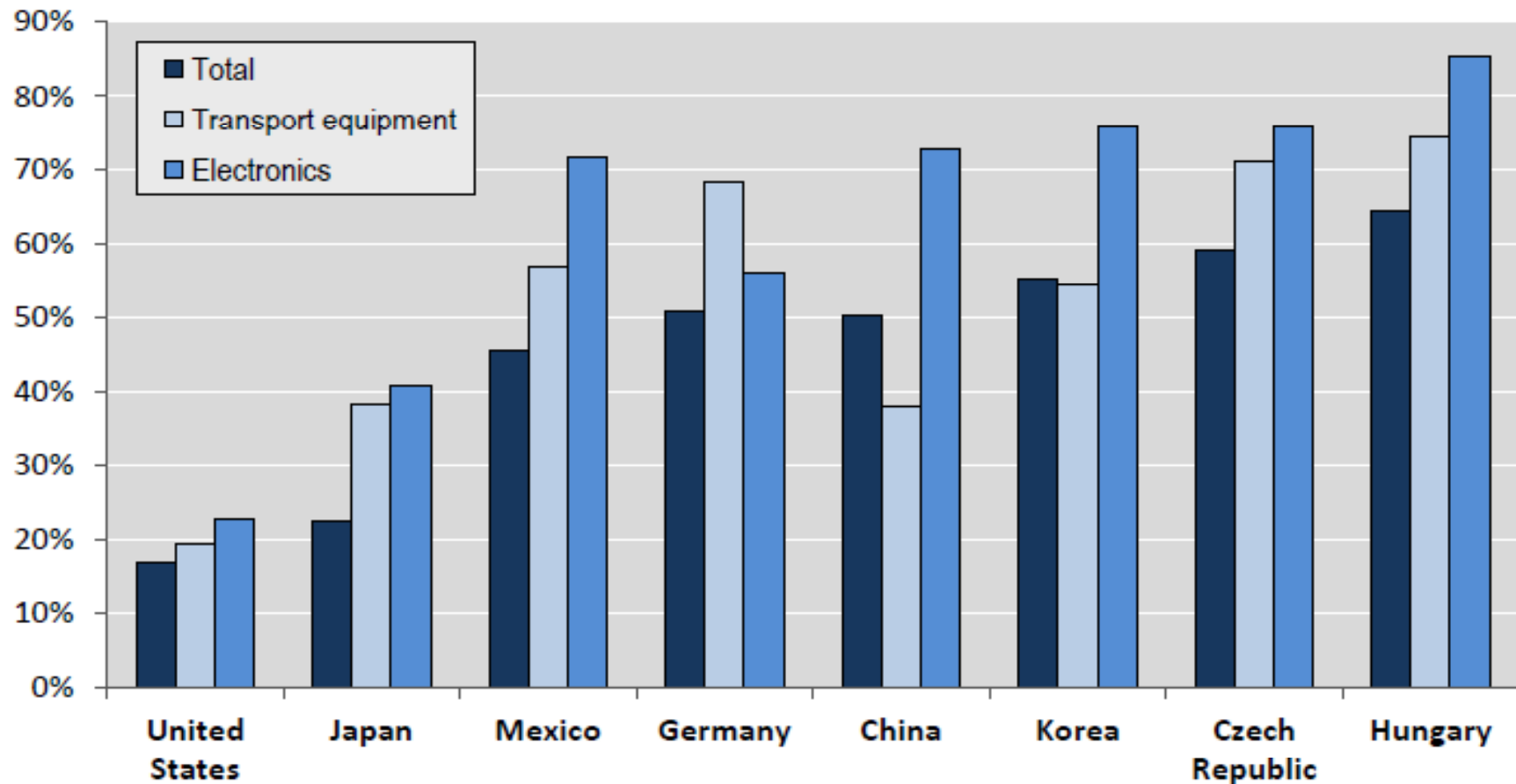
Source: OECD Trade and Agriculture Directorate (2014)



# A significant share of intermediate imports is used in exports

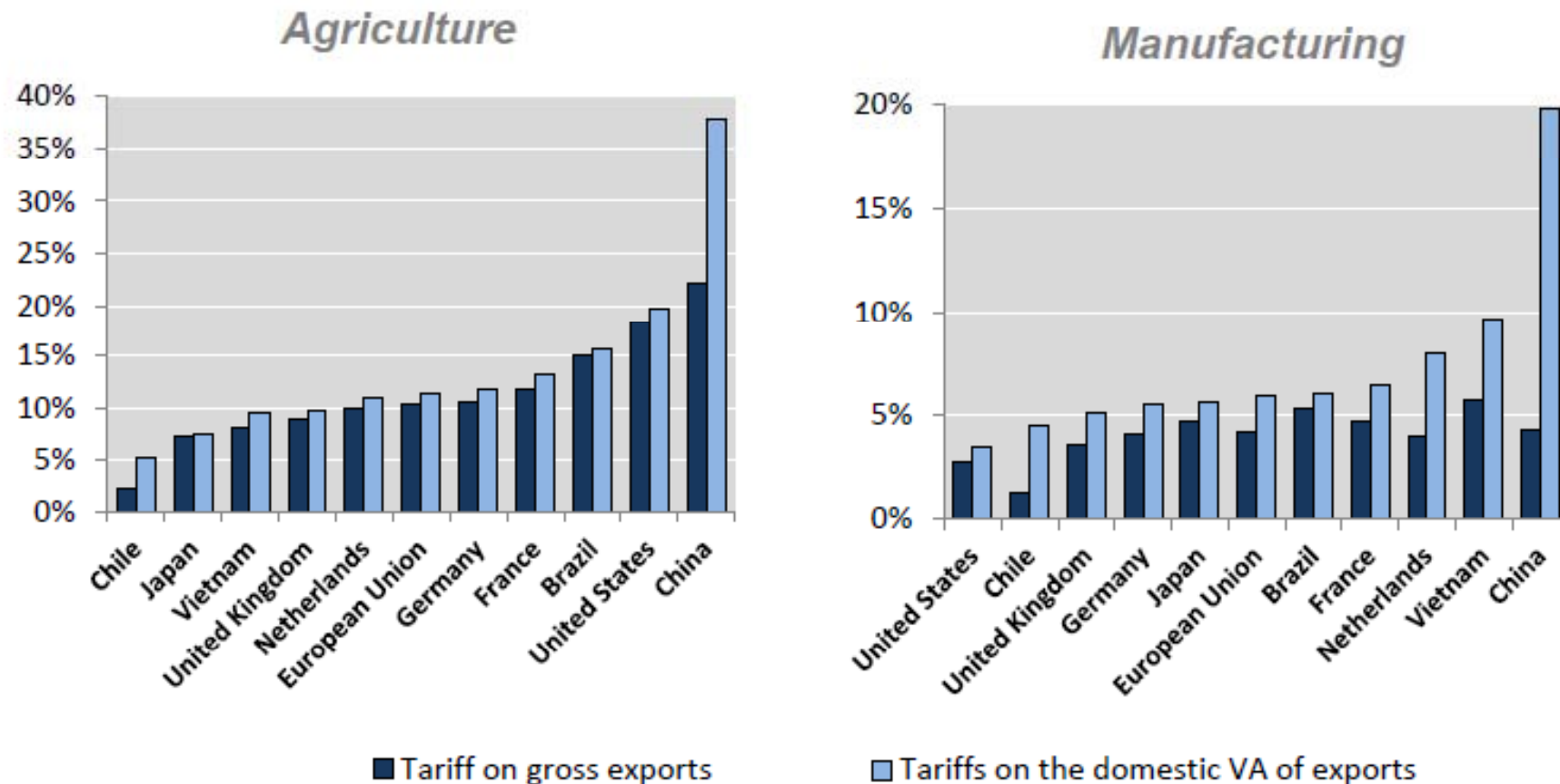
*Intermediate imports embodied in exports, 2009*

*% of total intermediate imports*



OECD Trade and Agriculture Directorate (2014)

# The costs of protection are magnified in a world dominated by GVCs



Source: OECD Trade and Agriculture Directorate (2014)

# “Modern” (global) value chains and poor producers

- ▶ Quality standards and company strategies to secure timely and consistent supplies and to save on transaction costs lead to :
  1. new trade barriers
  2. the marginalization of small, poor producers
  - with negative impacts on global welfare and poverty.
- ▶ But, growth of modern supply chains, including extensive vertical coordination creates important opportunities, even for small and poor farms



# How to measure costs–benefits of GVCs

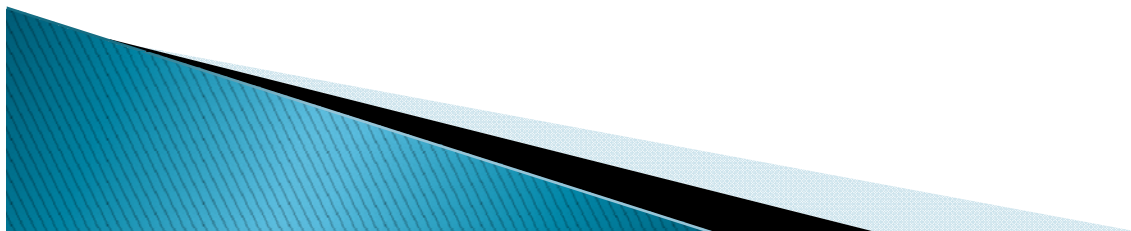
Two main approaches:

- ▶ Macro -- Assessing competitiveness from the macro perspective
  - Gaining or losing market shares
  - Price and non–price competitiveness
  - Changes in current account
- ▶ Micro -- Assessing competitiveness from the firm level perspective
  - Welfare gains related to reallocation of market shares across firms and impact on aggregate productivity → the reallocation towards allocative efficiency
  - Within–industry productivity heterogeneity (Syverson 2004)
  - How to explain the large dispersion of productivity within sectors



# Reflection from GVCs' evolution in Asia

- ▶ The inter-industry network moved from a simple hub and spokes cluster, centered on Japan in 1995, to a much more complex structure in 2005 with the emergence of China but also the specialization of several countries, such as Singapore or Malaysia, as secondary pivots (FGI, NTU & WTO 2013) --- related to specific policies, trade facilitation policies.
- ▶ While the East Asia region is well ahead of the rest of developing Asia, there is still a wide margin of progress in order to close the gap with best international practices, in terms of administrative arrangements.



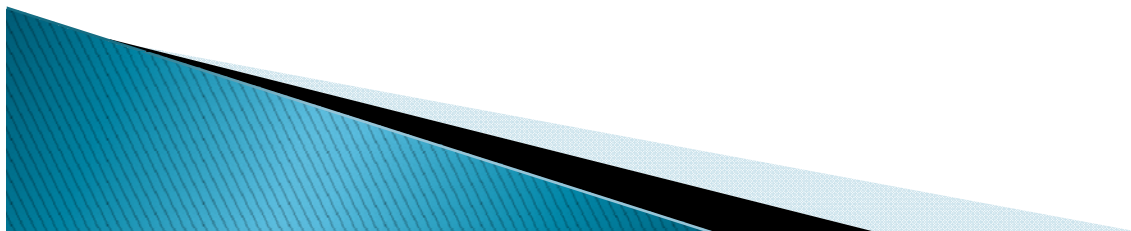
# Changing structure of world trade

Share in Agri-Food Exports (%)	World Exports		Developing Country Exp	
	1980/81	2000/01	1980/81	2010/11
<b>TROPICAL products</b> (Cocoa, tea, coffee, sugar, ...)	22.0	12.7	<b>39.2</b>	<b>16.7</b>
<b>TEMPERATE products</b> (Meat, milk, grains, ...)	46.3	38.3	28.8	27.0
<b>SEAFOOD, FRUIT &amp; VEGs</b>	19.8	31.0	<b>21.6</b>	<b>44.1</b>
<b>Other PROCESSED</b> (tobacco, beverages, ...)	11.9	17.9	10.4	13.2
<b>Total</b>	100.0	100.0	100.0	100.0

Source: Swinnen 2014

# Some notes

- ▶ The gains from GVC participation for each economy will depend on the productive activities taking place in its jurisdiction and their linkages to the domestic economy
- ▶ Maximizing the gains from GVC participation depends not only on policy design, but also on policy consistency and coherence, effective implementation, and coordination (Tijaja & Faisal 2014)



Thank you

