

The GVC space Seminar

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February 11, 2015

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With Lucian Cernat and Fredrik Erixon

Outline

- Introduction
- The GVC map
 - Where is your country located?
- Policies can explain the map
 - “Toolkit” for policy makers
- Where to move your country?

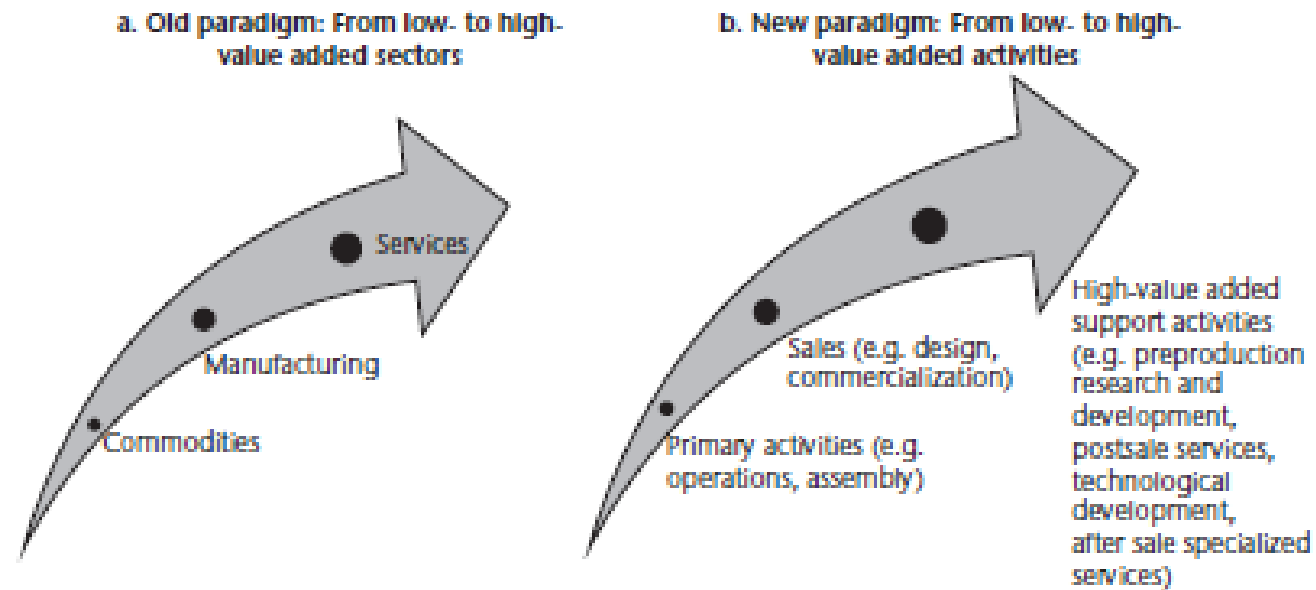
- Discussion Lucian Cernat
 - Wider perspective i.t.o. EU policy

Introduction

- GVC provides new paradigm
 - Is it really something new?
- Ever refinement of trade policy
 - Takes into account “production” \neq trade
 - Simultaneously, and closely related: trade in value added
- Policies beyond traditional trade policy important
 - Policies related to trade *and* production (i.e. specialization)

Global Value Chains (GVC)

- Domestic value added embodied in gross exports (and its growth)
- Imports of inputs: technology transfer for exports in *what* GVC?



Source: Adapted from Cattaneo and Miroudot 2013.

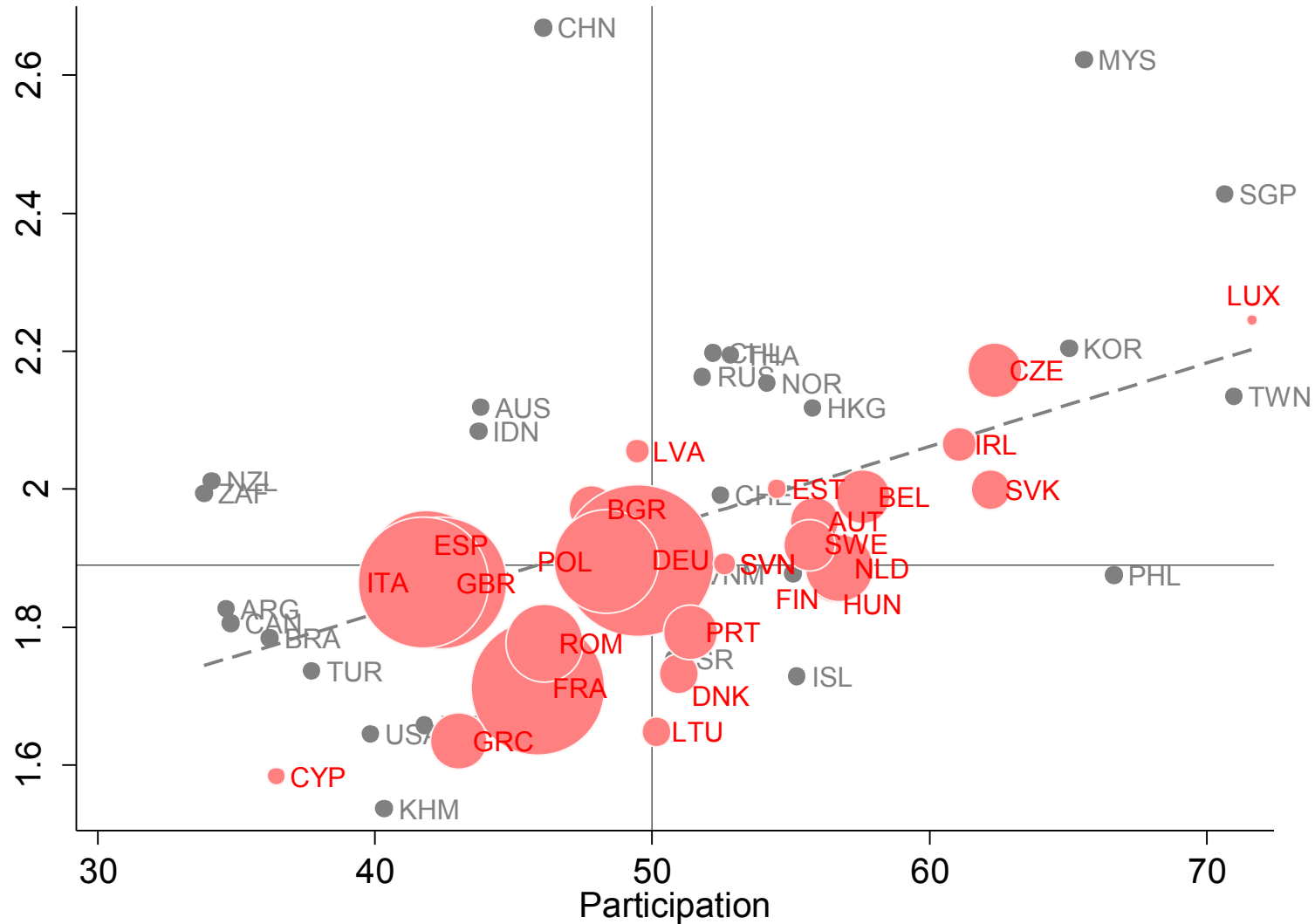
Trade-side

- GVC participation
 - Extent to which a country is involved in importing and exporting inputs
 - Even in third countries' exports
 - Bigger countries just trade relatively less
 - And smaller countries just trade more
 - But policy is likely to influence this as well (China)
 - Fally (2011); Antras et al (2012) and DeBacker and Miroudot (2012)

Production-side / Specialization

- Distance to final demand
 - A country's specialization point in the supply chain, based on the 'slice' of the value chain in which it 'adds' value (i.e. produce): upstreamness
 - Are we at the beginning of the production process?
 - Are we close to the final consumer in the process, i.e. downstream?
 - Role of services tends to become important at both extremes (smiley)
 - Location of production determines "location" of trading

GVC space



What can explain location?

Nature of Policy	Policy Disciplines	Participation	Distance Final Demand
Structural forces and endowments	ln(GDP) per capita	0.1967	0.0097
	GDP per capita squared	0.3322**	0.0664
	ln(Population)	-0.3439***	-0.054
	Human Capital	0.3248**	0.0436
	Internet	0.3374**	0.0059
	Physical capital / GDP	0.0762	0.2762**
	ICT-related capital / GDP	0.1619	0.4307***
	Knowledge capital / GDP	0.4339	0.4477*
	Rule of Law	0.266**	-0.0117

What can explain location?

Nature of Policy	Policy Disciplines	Participation	Distance Final Demand
Traditional trade and regulatory barriers	Trading across Borders	-0.3598***	-0.1433
	Doing Business (rank)	0.1802	-0.1237
	Trade Enabling (rank)	0.2753**	0.0859
	Logistics Performance	0.2722**	0.1866
	Product Market Regulations	-0.3329**	0.1881
	Barriers to Entrepreneurship	-0.1758	0.0891
	Barriers to Investment	-0.4556***	0.1572
	Barriers Services Mode 3	0.0553	0.3216**
	Barriers Services Mode 4	0.0758	0.3145**

What can explain location?

Nature of Policy	Policy Disciplines	Participation	Distance Final Demand
New issue areas	FDI restrictions	-0.2225	0.5114***
	FDI restrictions in services	-0.2344	0.5049***
	Management score	0.0202	-0.2933
	Financial Credit availability	0.0925	-0.0697
	Labour Market efficiency	-0.3522***	-0.2826**
	Innovation climate	0.2926**	0.0054
	R&D spending / GDP	0.2749*	-0.0414
	Competition policy	0.0668	0.3690**

Case study: France motor vehicle industry

- Comparative advantage based on value added
 - Pyramidal structure, tangible and non-tangible investments (KPMG, 2010)
- Participation: high (7.2); Distance to final demand: average (1.8)
 - Yet, higher distances seen in KOR, JPN
- Based on its **no. of production stages (length)** in this sector, FRA could expand more, but already has high input trade in this sector
 - Longer the chain, more potential to reap value added

What can France do?

- Already high participation, i.e. input trade
 - Production-side: moving downstream or upstream
 - *Process, product, functional* and *inter-sectoral* GVC upgrading (Taglioni)
- Shifting to *end* of the supply chain:
 - Services policy: Rail (closed); road freight (high barriers), heavy industry
 - FDI restrictions: lower, smaller distance to final demand (FRA almost non left)
- Shifting to *beginning* of supply chain:
 - ICT-related capital: France scores low compared to DEU, JPN, USA
 - Knowledge capital: average score, but US has higher share
 - Labour market: low efficiency scores; industry needs (volatility)

Where to go, France?

