



GLOBAL VALUE CHAINS AND MANUFACTURING

Koen de Backer

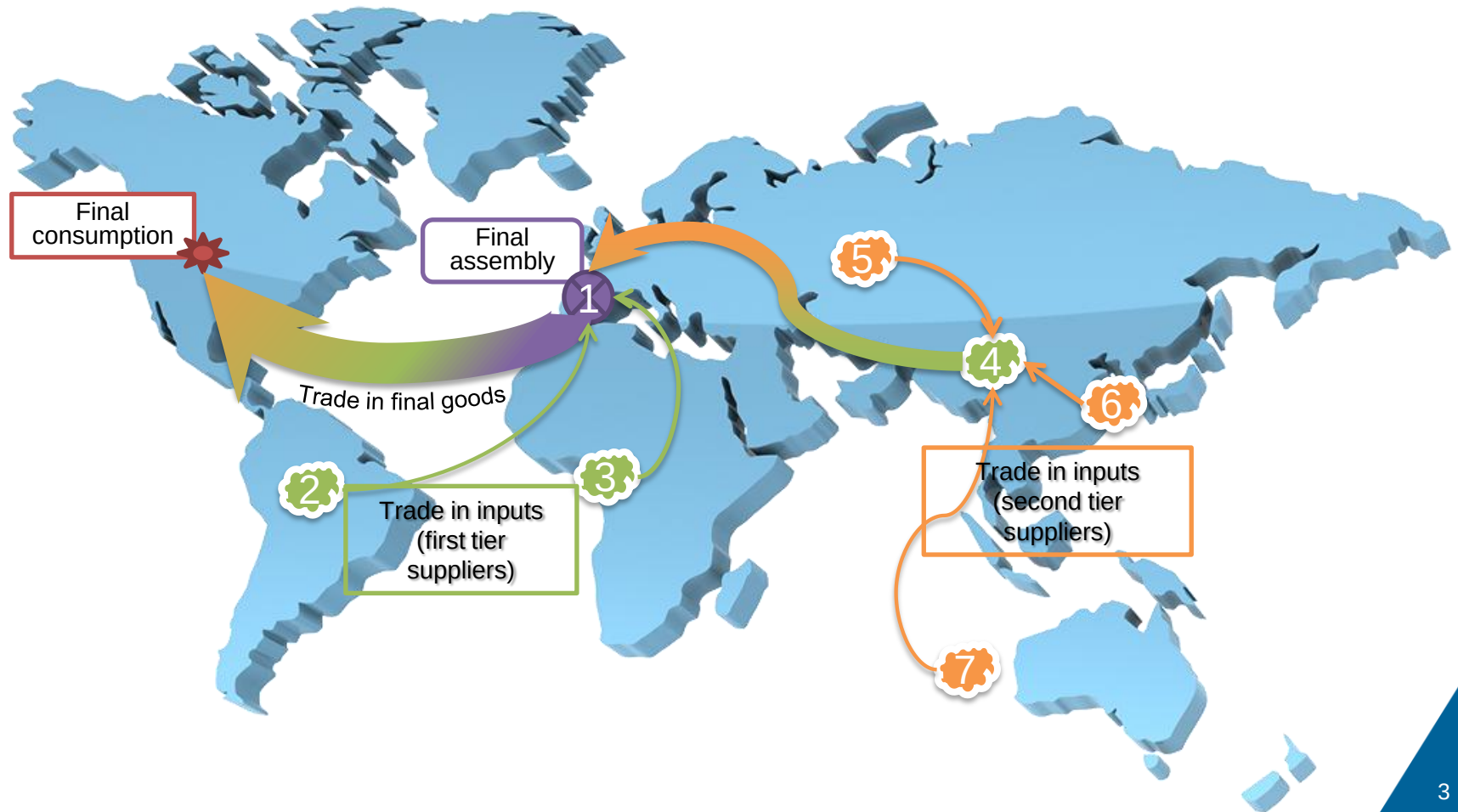


The main messages

- A new episode of economic globalisation: Global Value Chains
- Shift of manufacturing eastwards; growing importance of emerging economies; the rise of Factory China
- GVCs as a fast industrialisation track ...
- ...but less meaningful: ‘what you do matters more than what you sell’.
- Lower (labour) costs and large/growing markets
- A trend to backshoring on the horizon?
- Developed economies still important in global manufacturing...
- ... but growing focus on knowledge based assets and services.
- OECD work on Global Value Chains and Trade in Value Added

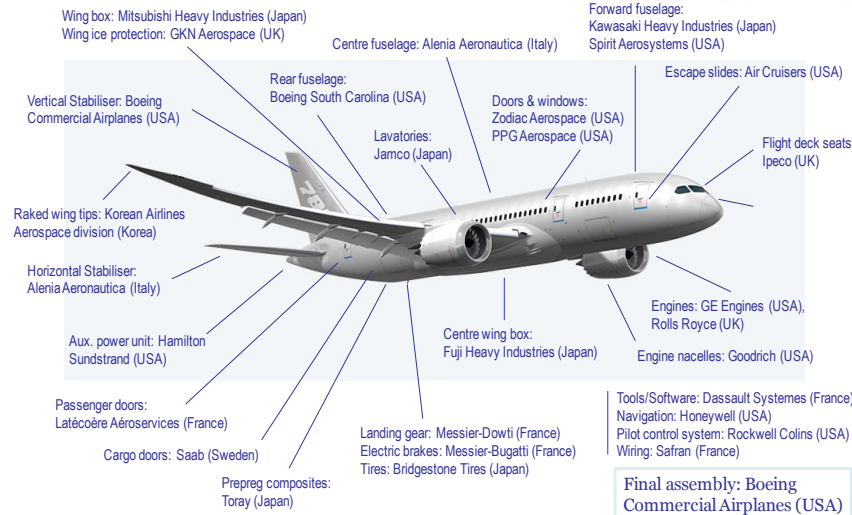
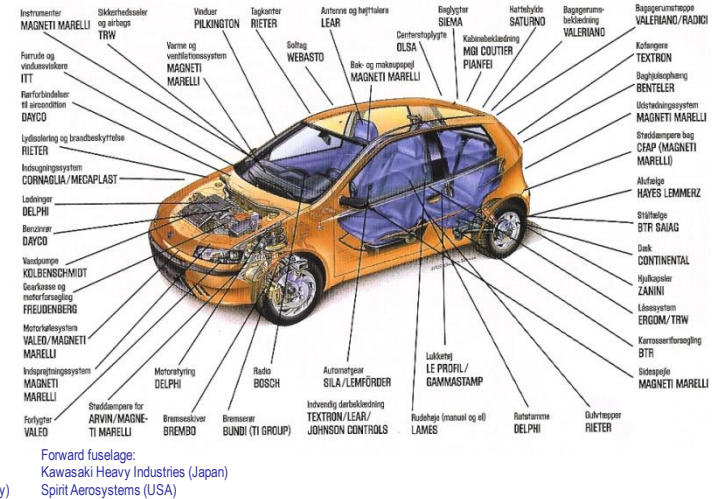
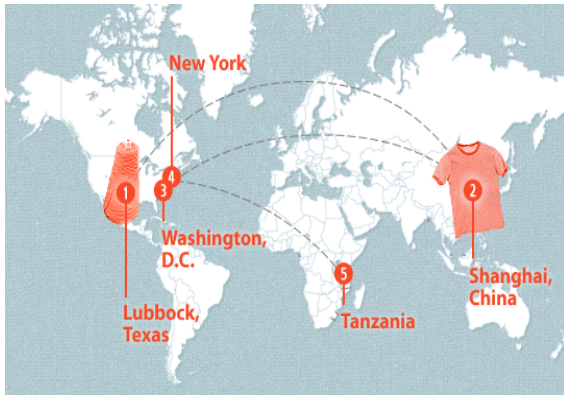


What is a Global Value Chain? (1)





What is a Global Value Chain? (2)





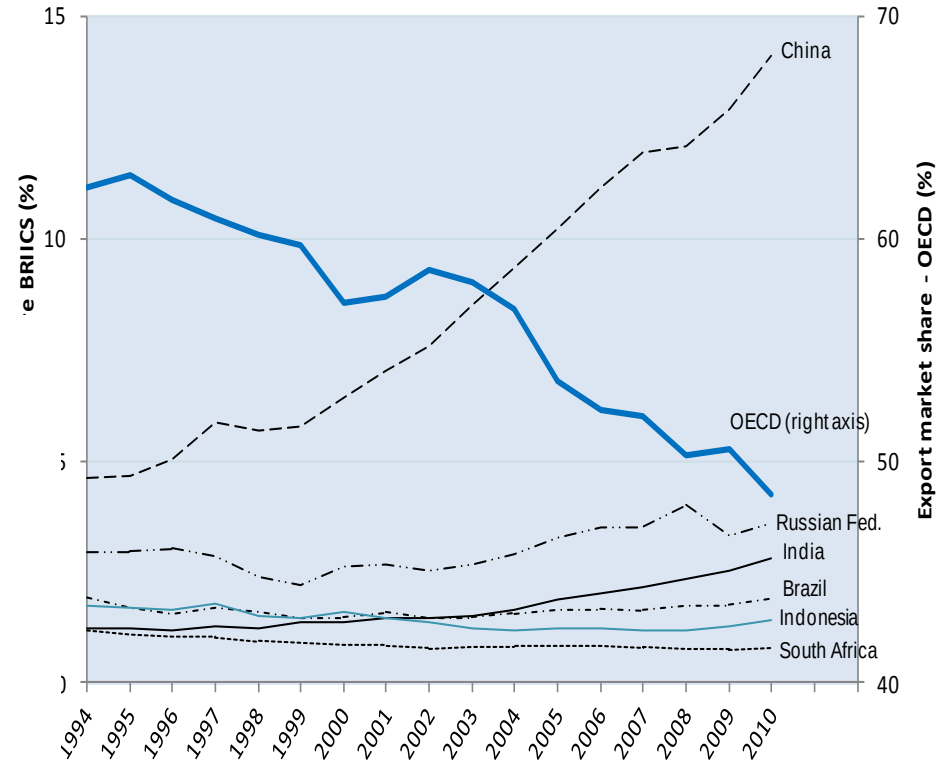
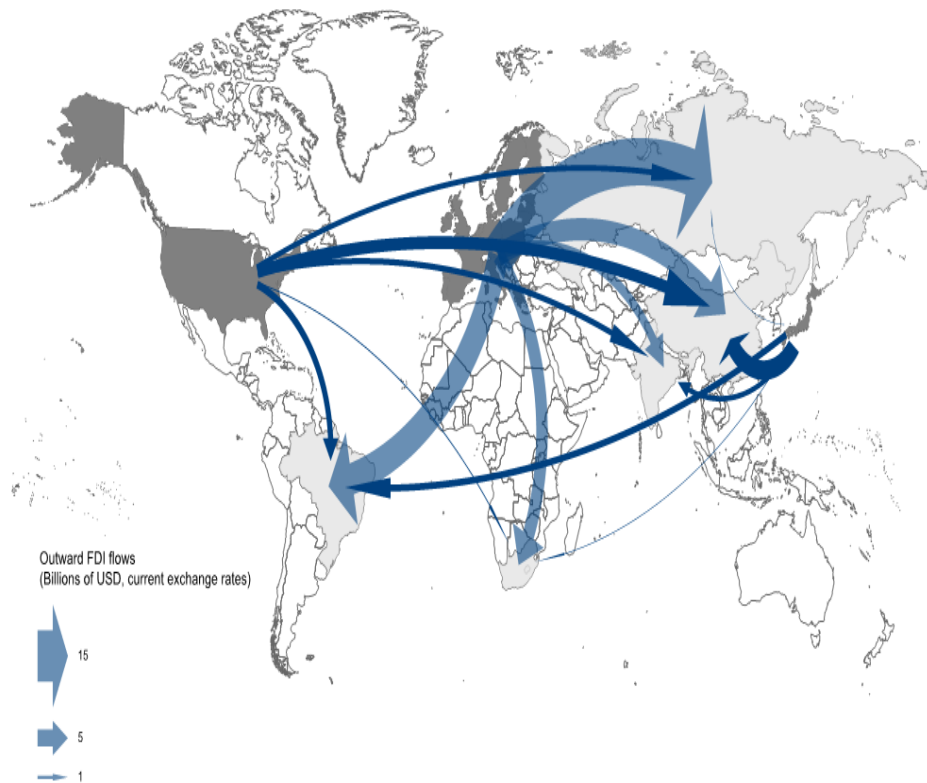
The rise of global value chains

- International production networks; dispersion of production stages across countries
- Networks of activities, firms (MNEs and local firms), industries and countries
- Especially in manufacturing: electronics, automotive, etc...
- More specialisation and complex production relationships, profound changes in countries' competitiveness
- Global flows of goods (final and inputs), services, capital, people, technology...



Manufacturing shifting to the east (1)

Outward FDI flows from EU, Japan, US to BRICS,
average 2003-2009
(USD billion at current exchange rates)



Export market shares (goods and services)



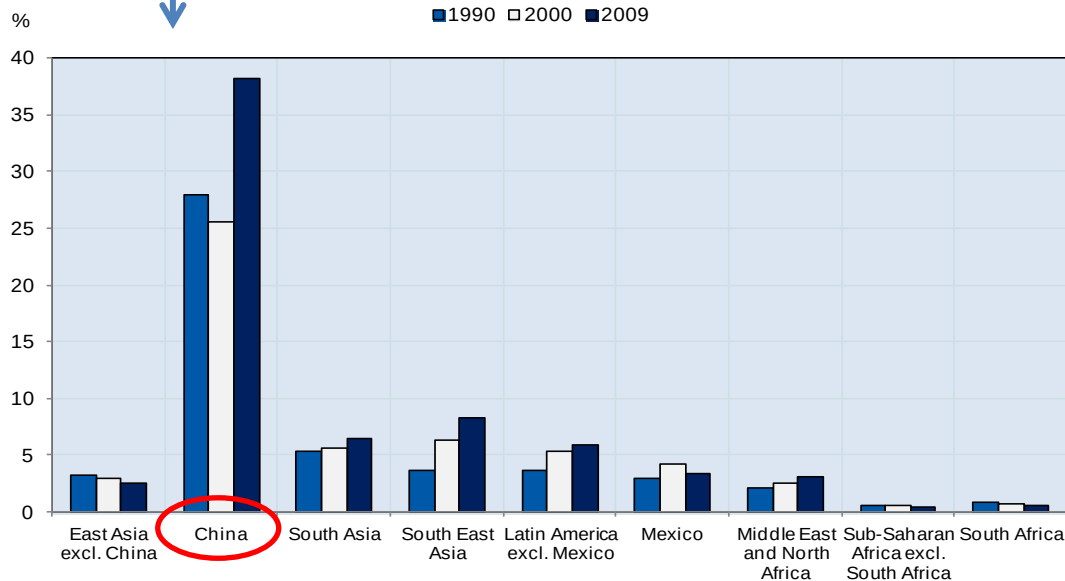
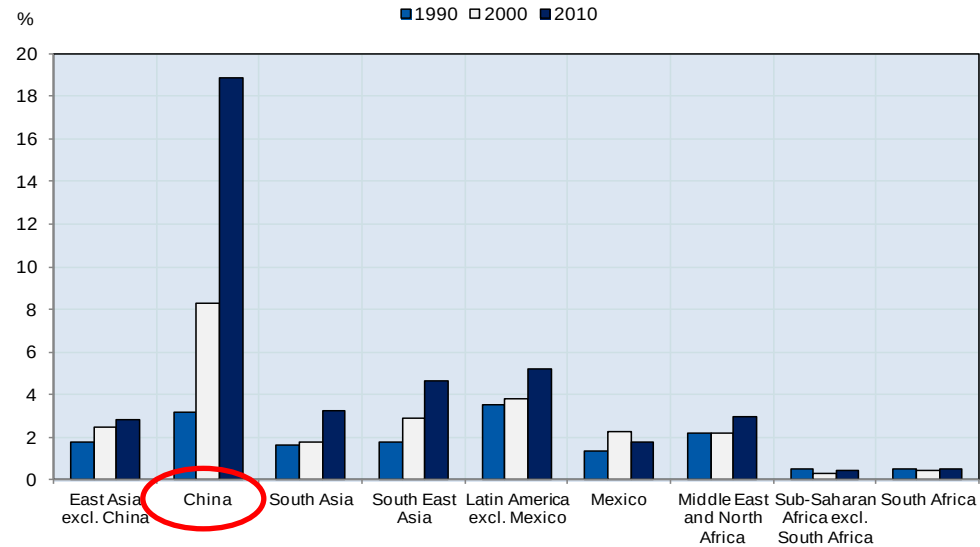
Manufacturing shifting to the east (2)

Shares in global manufacturing

Value added



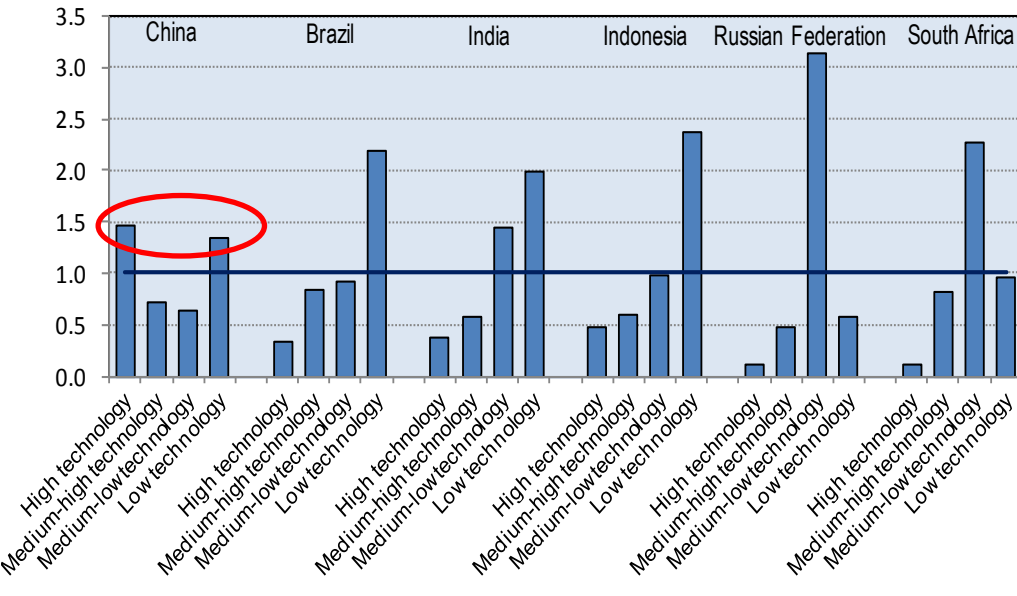
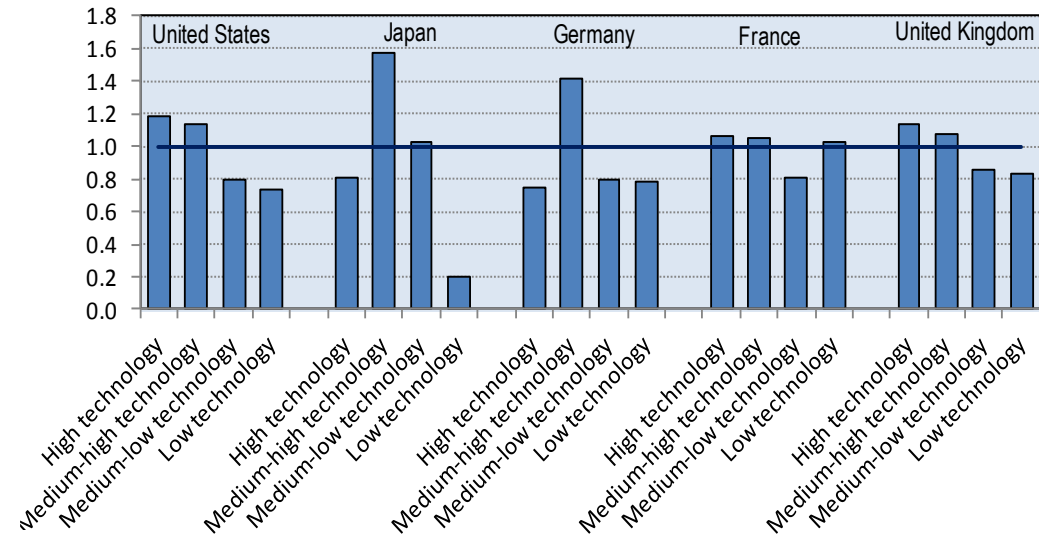
Employment





China as the factory of the world? (1)

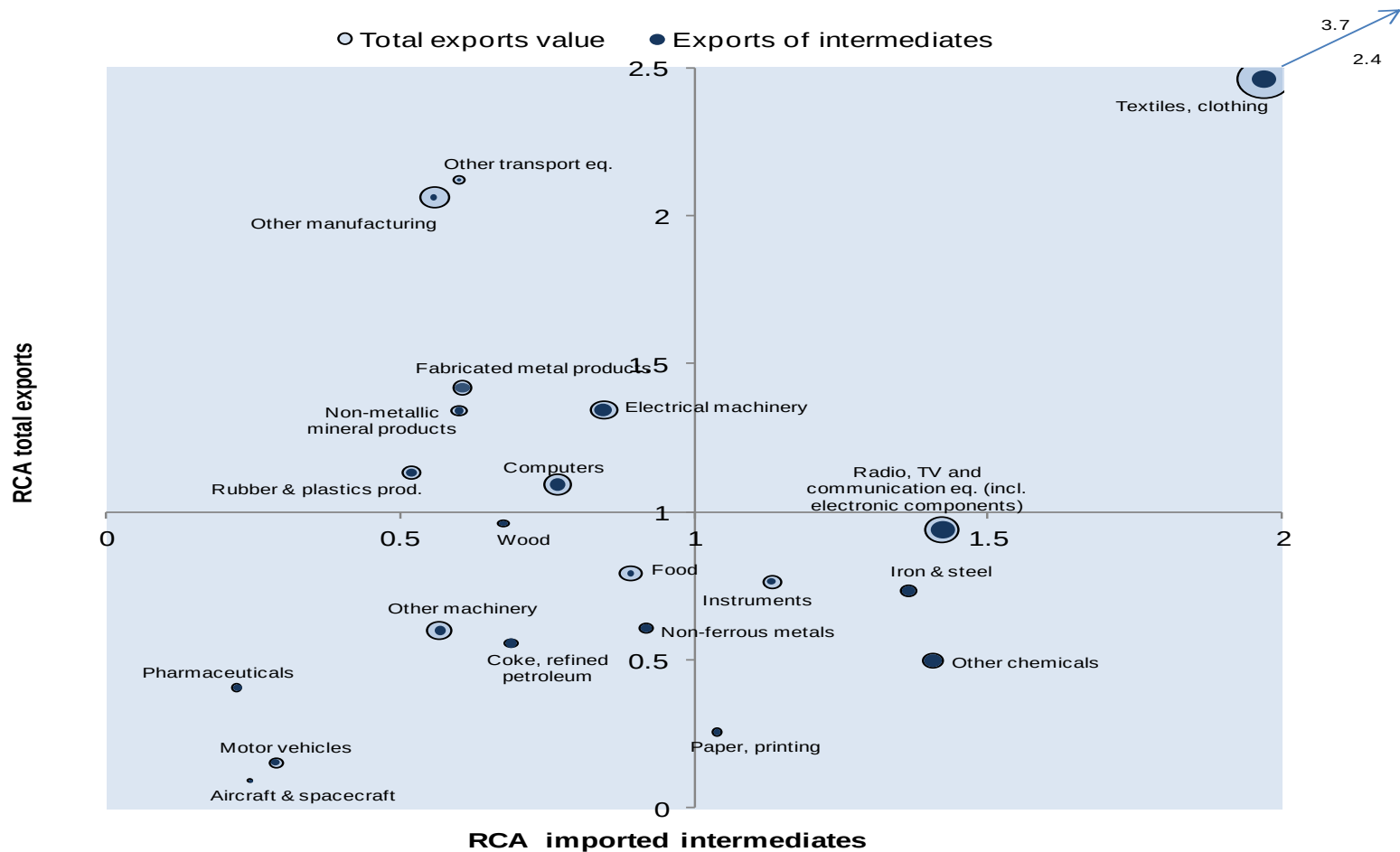
Export competitiveness
(revealed comparative advantage)





China as the factory of the world? (2)

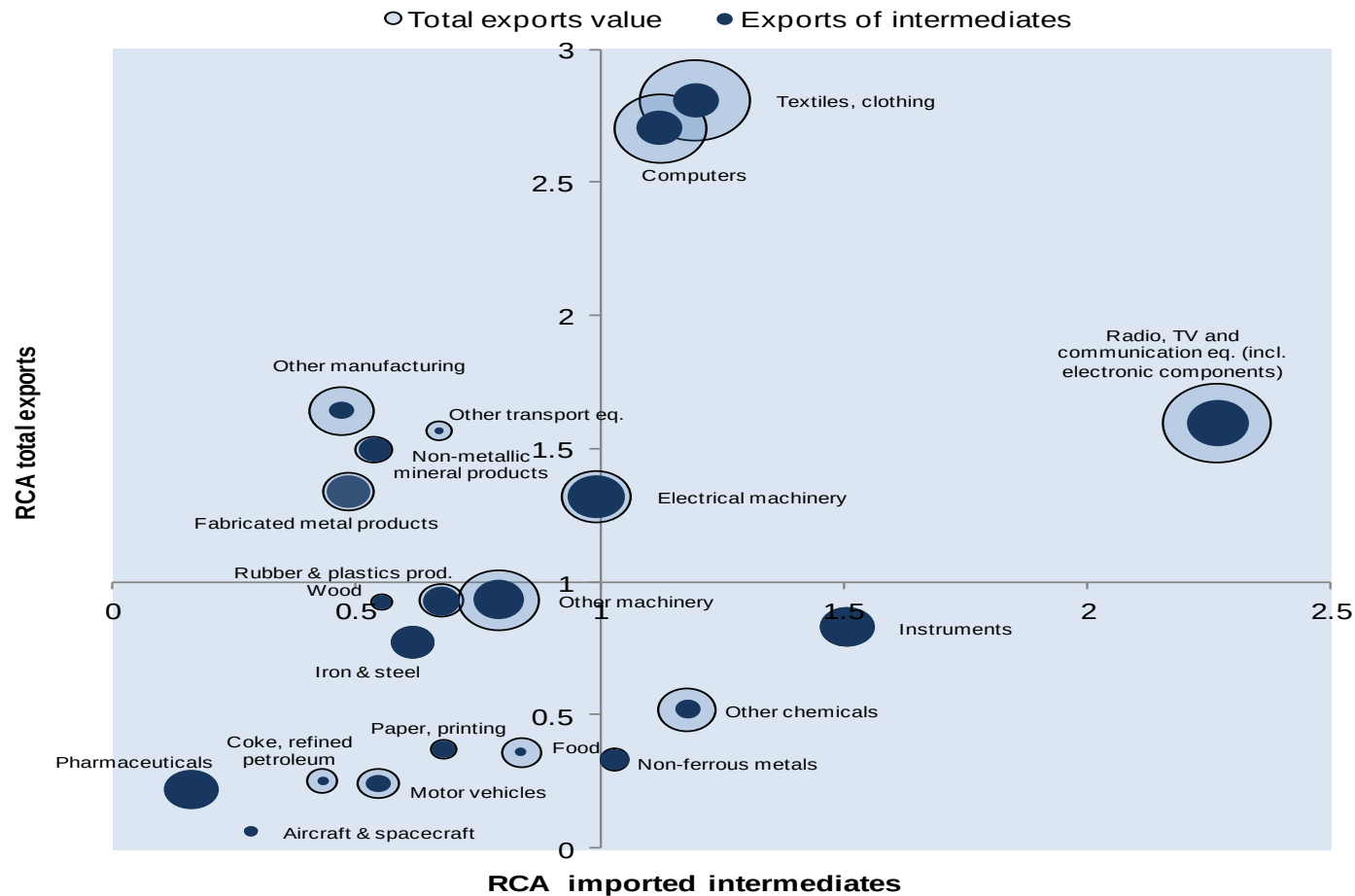
Export competitiveness and GVCs, China 2000





China as the factory of the world? (3)

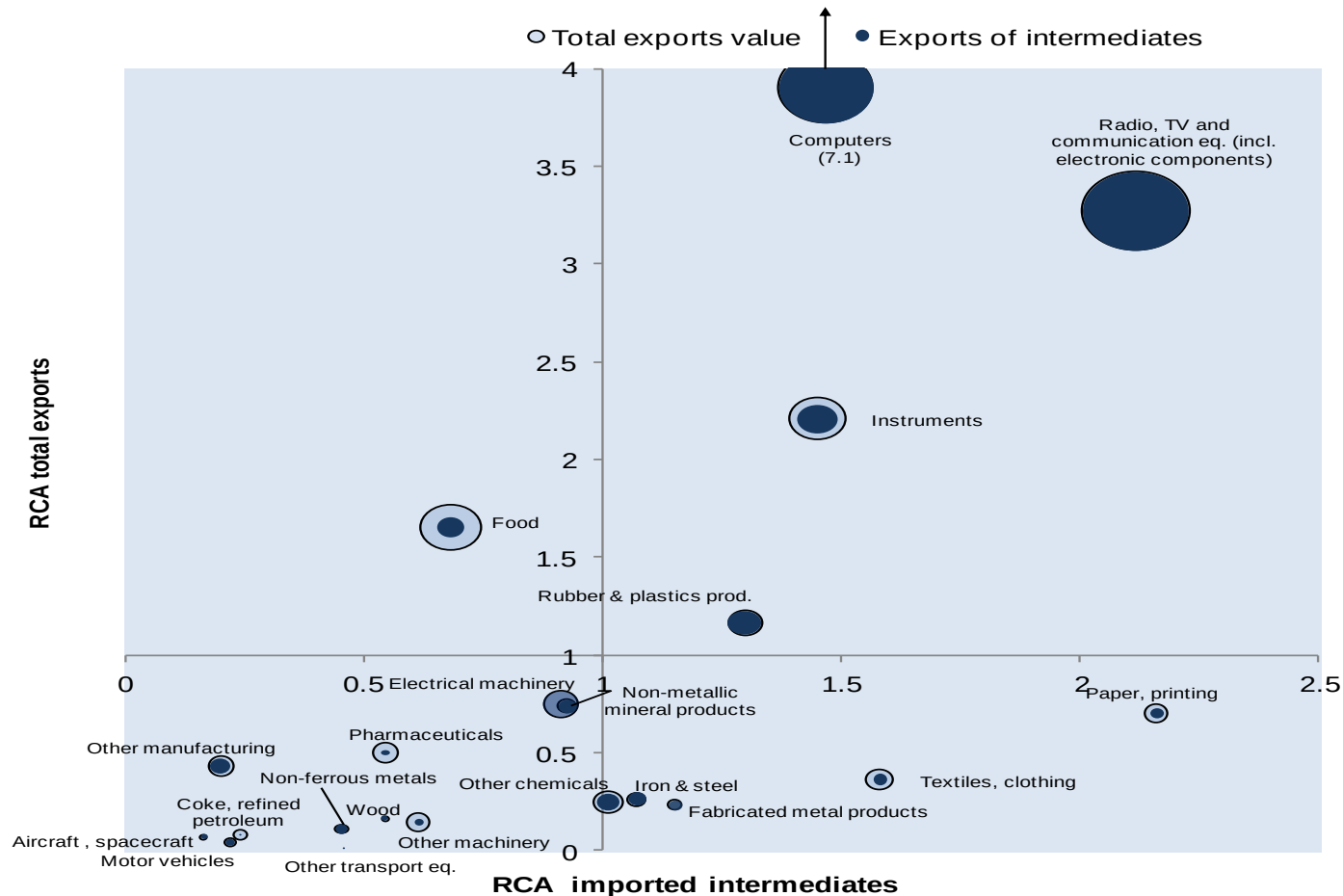
Export competitiveness and GVCs, China 2010





Costa Rica is another 'success' GVC story

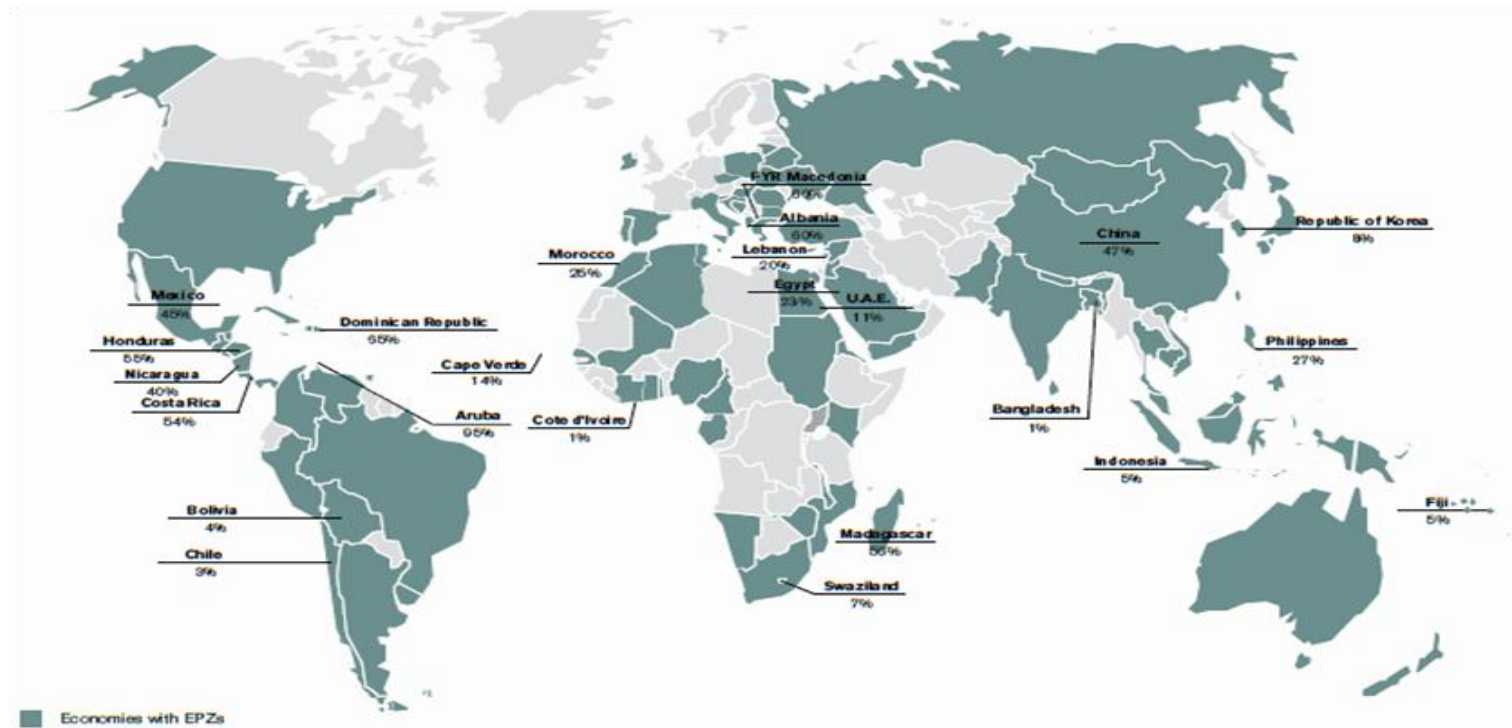
Export competitiveness and GVCs, Costa Rica, 2010





Low labour costs...

Countries with export processing zones



	Direct employment (millions)	% of national employment
World	68,441	0.21
Asia & Pacific	61,089	2.30
Americas	3,084	1.15
Western-Europe	0.179	0.00
CEECs and Central Asia	1,590	0.00
MENA	1,458	1.59
Sub-Saharan Africa	1,040	0.20

Source: WTO and IDE/JETRO (2011)

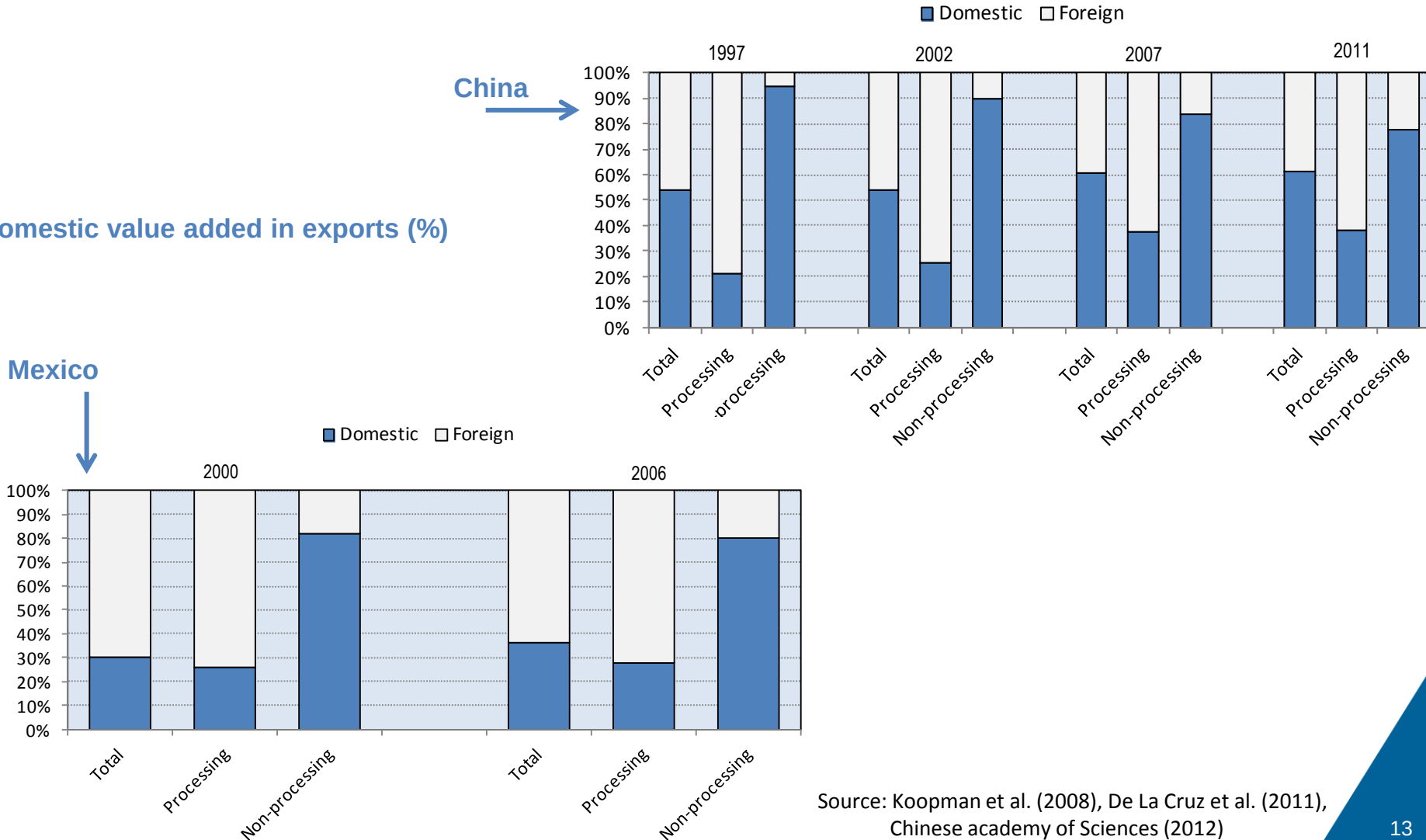


'What you do matters more than what you sell'

China →

Domestic value added in exports (%)

Mexico ↓

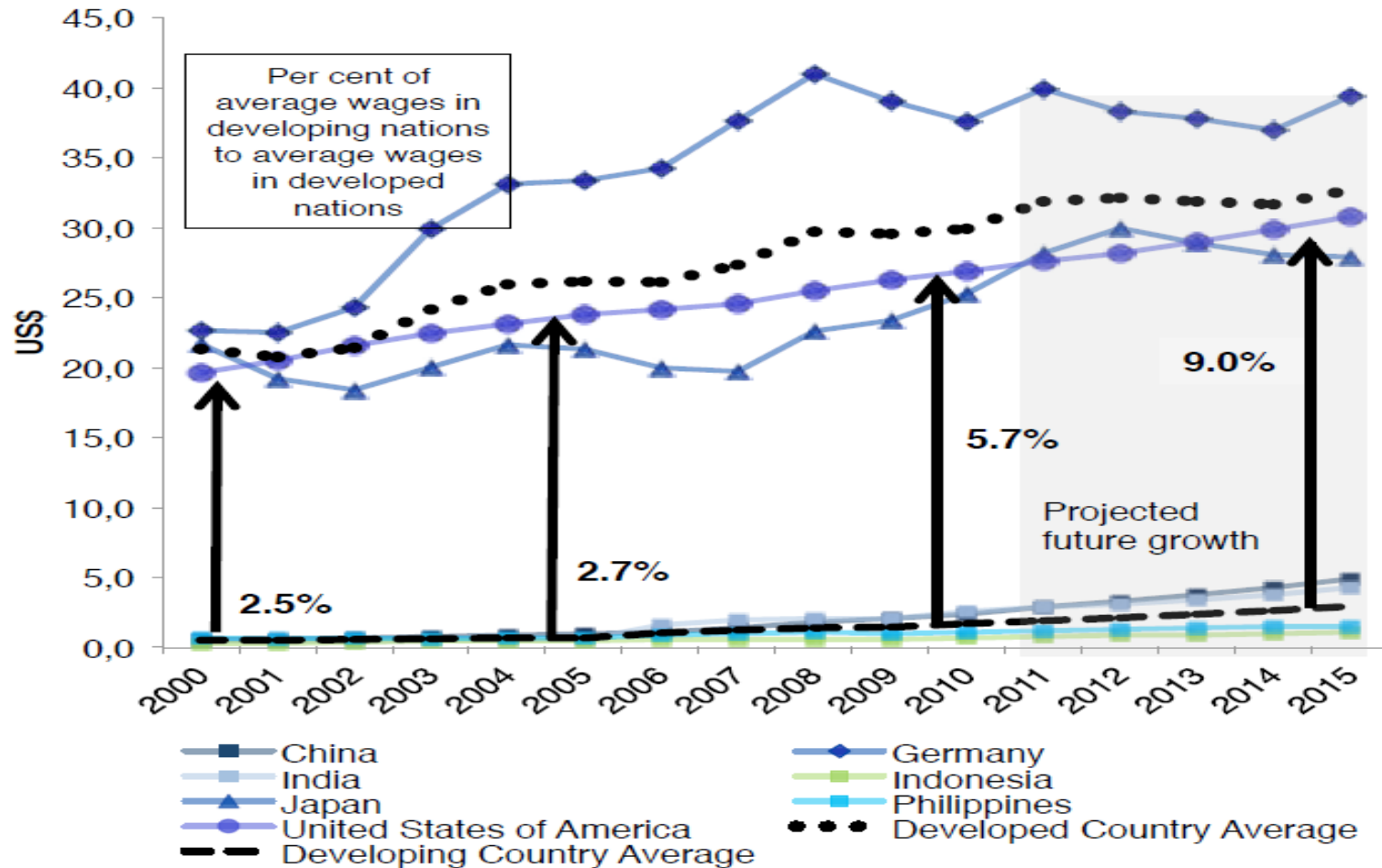


Source: Koopman et al. (2008), De La Cruz et al. (2011), Chinese academy of Sciences (2012)



A trend of backshoring on the horizon?

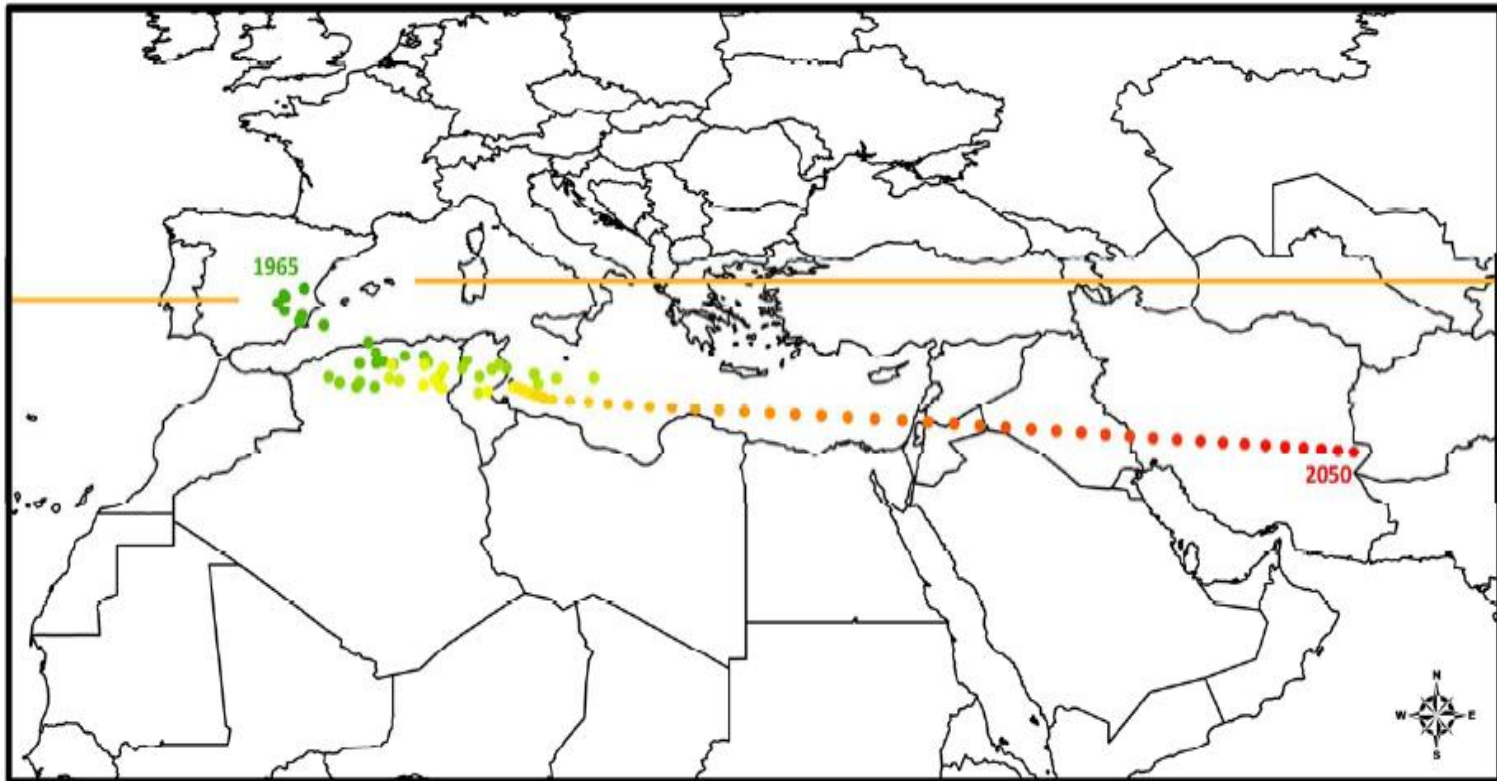
Average hourly wages in emerging/developing economies





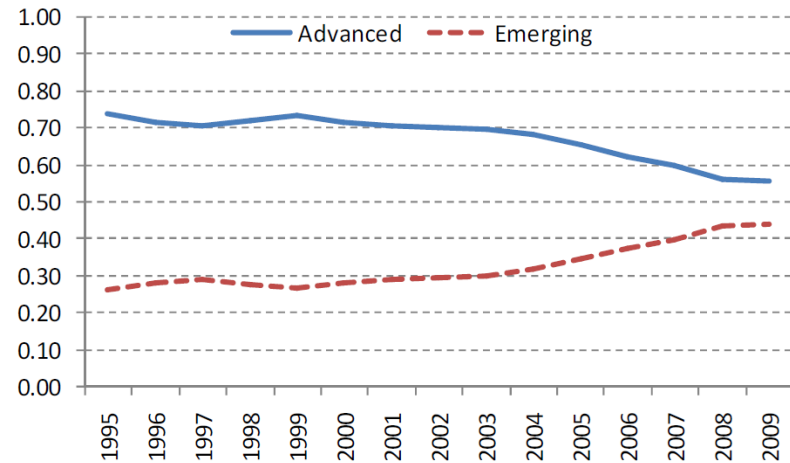
... and large and growing markets

Economic centre of gravity, 2000-2050 (GDP at current prices)

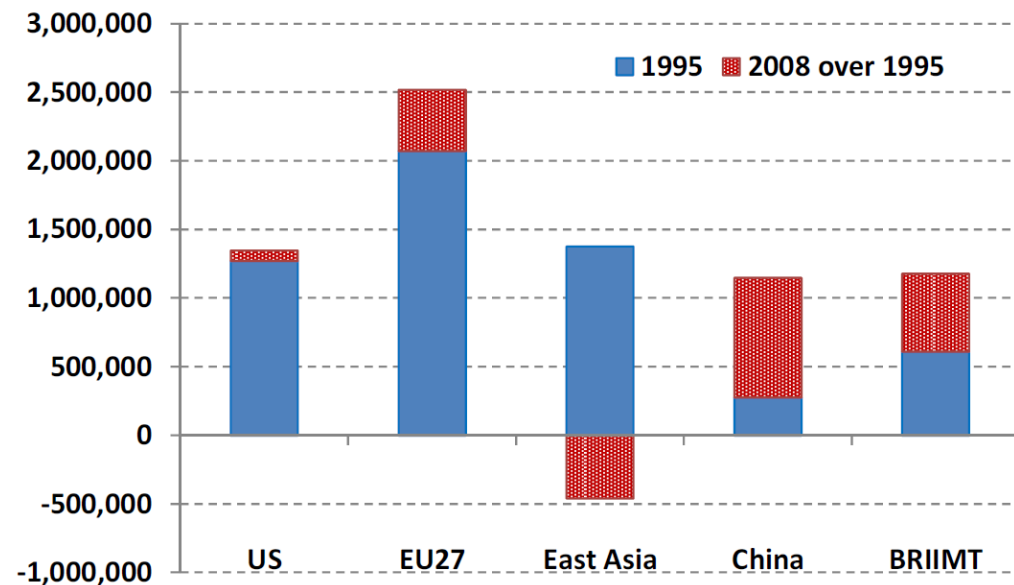




Developed economies in manufacturing



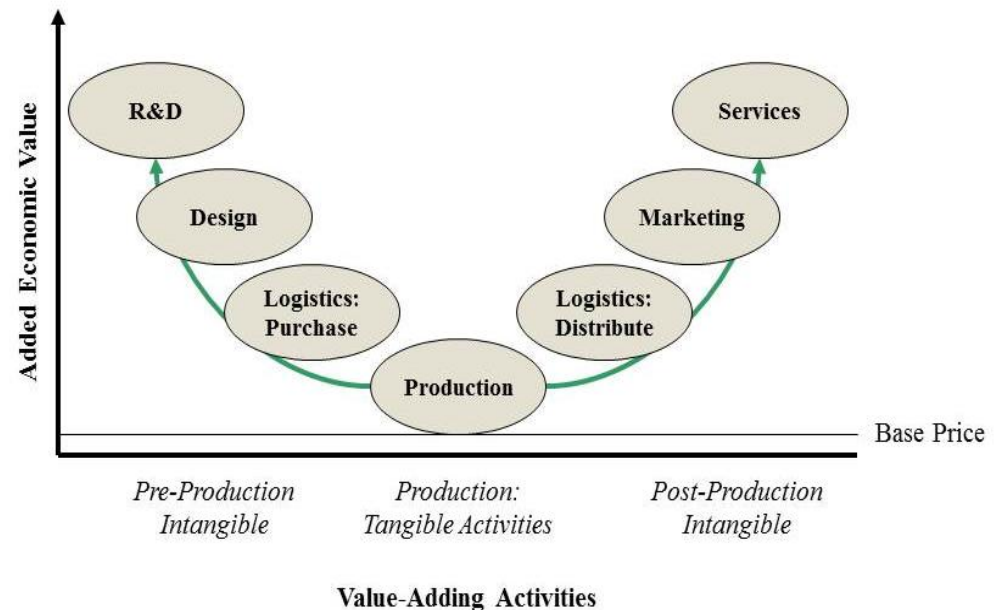
GVC income (= value added) in global manufacturing





Upgrading in the manufacturing value chain

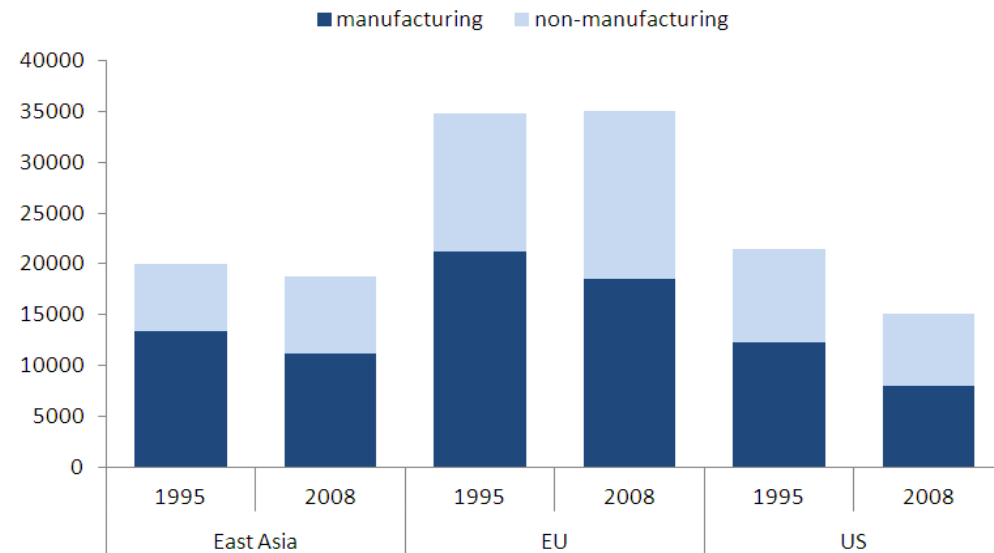
- Being stuck in the middle? Value created upstream and downstream – what does ‘moving up the value chain’ means?
- Emerging economies: making sure that value ‘sticks’
- Developed economies: retaining value creation
- Importance of knowledge based assets



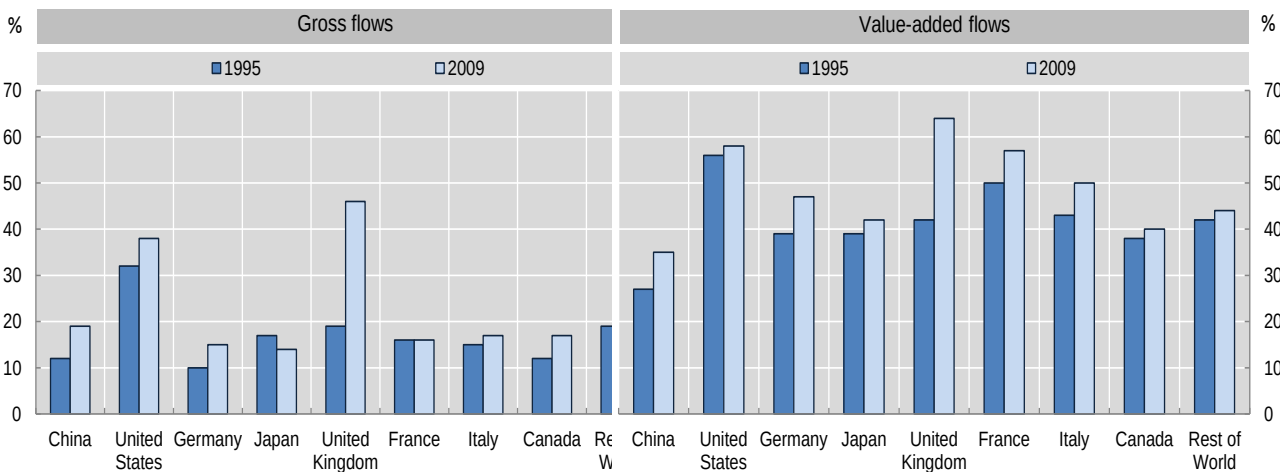


Services content of manufacturing

Number of jobs in global production of manufactured goods



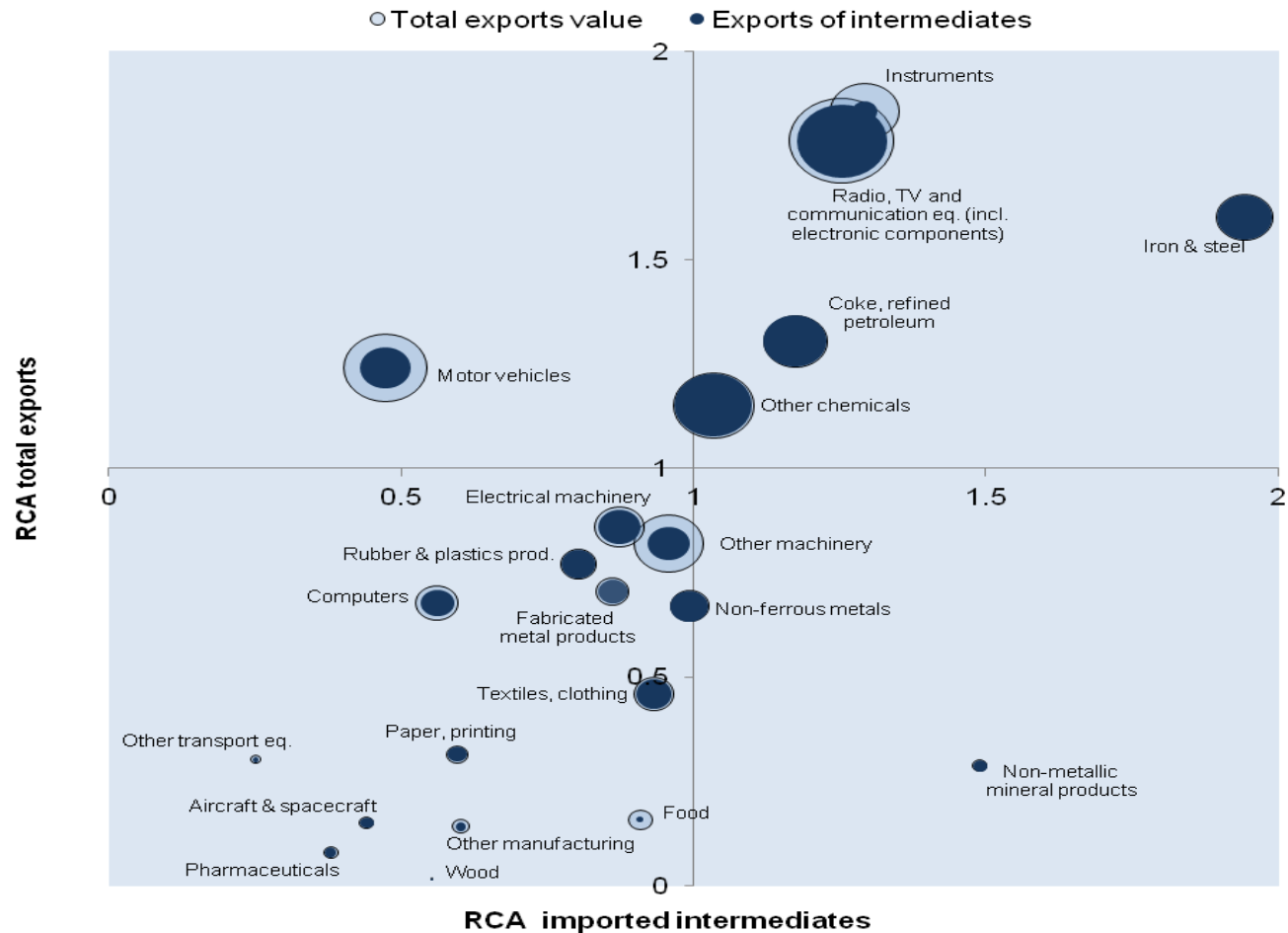
Services content of exports





Korean manufacturing in GVCs

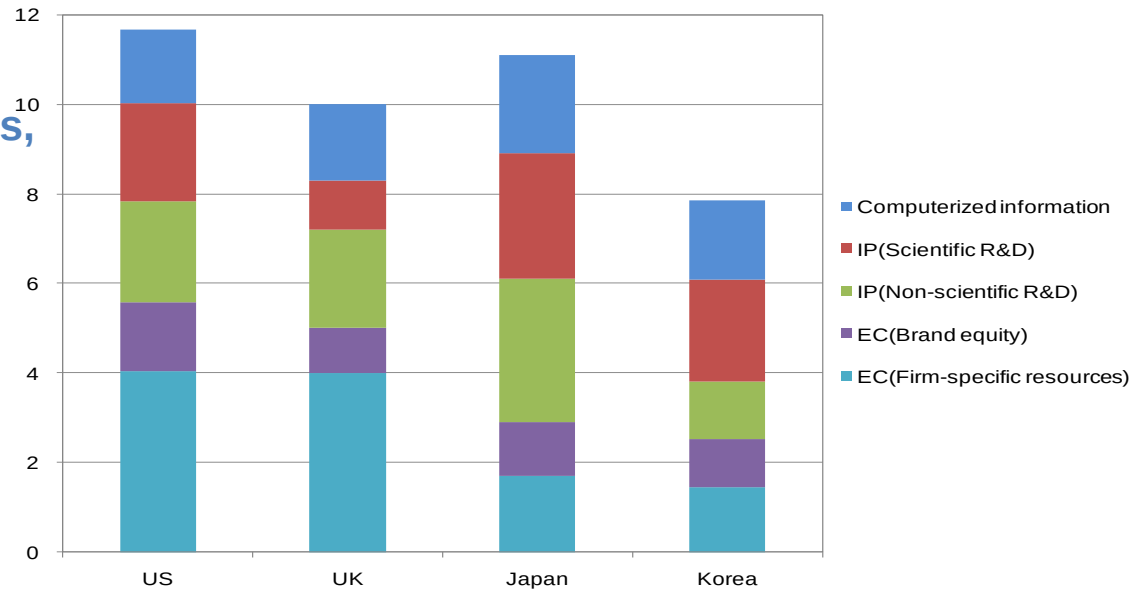
Export competitiveness and GVCs, Korea, 2010



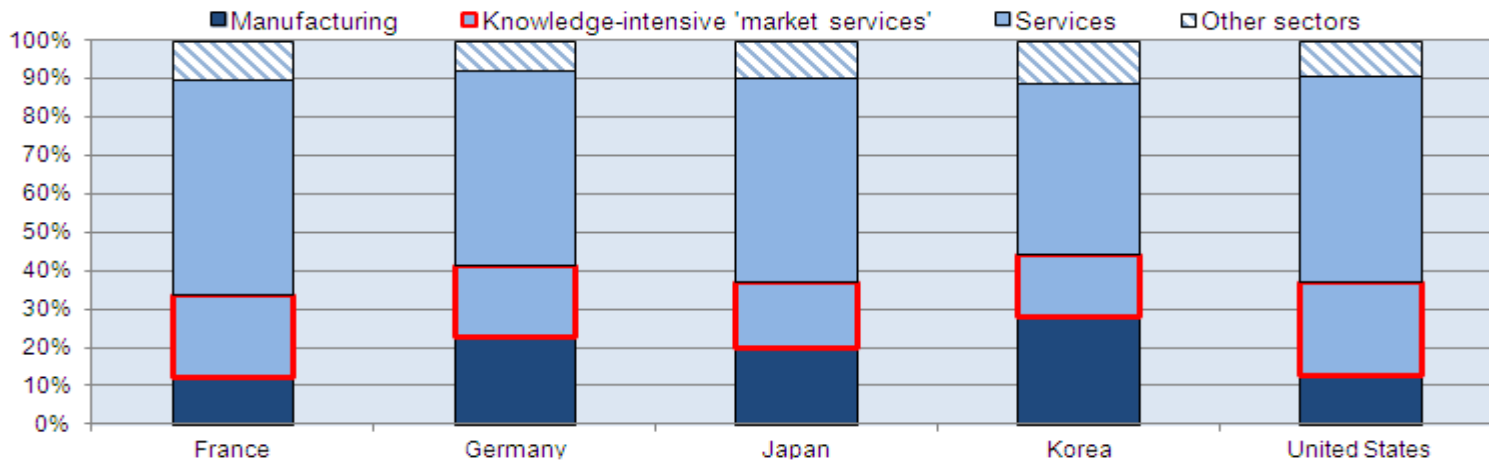


Korean manufacturing in GVCs

Investment in knowledge based assets, early 2000s (in % of GDP)



Value added by industry, 2008



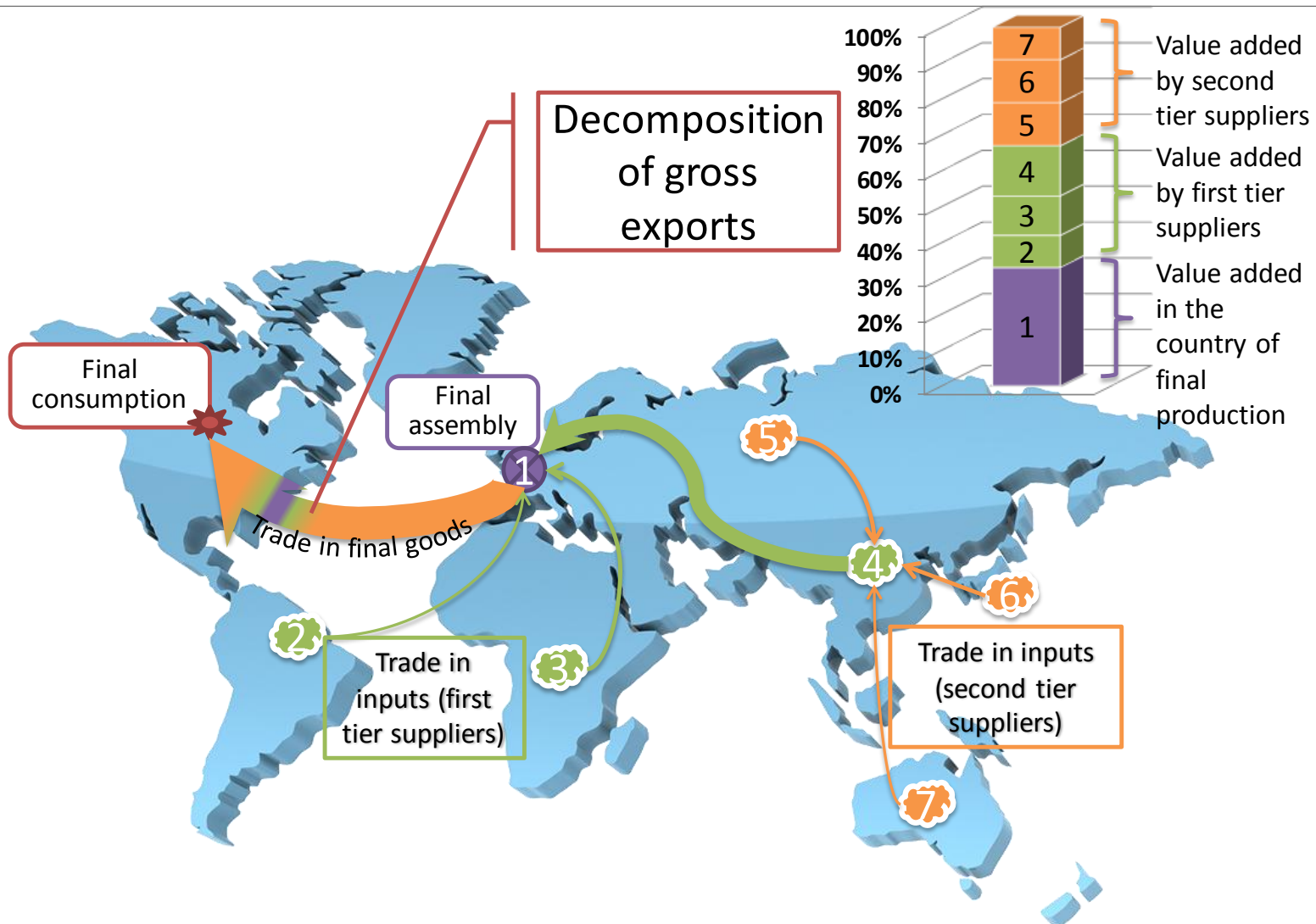


Korean manufacturing in GVCs

- Continue to develop ‘own’ value chains or join foreign ones?
- Excellent geography: supply and demand
- From cost to quality/differentiation: importance of knowledge based assets
- Manufacturing and services; especially knowledge intensive business services important in GVCs
- De-industrialisation? (in terms of employment)
- Is there a role for government: industrial policy?



OECD work on Trade in Value Added





Forthcoming OECD publication – Meeting of the Council at the Ministerial level 2013

- The rise of GVCs
- Emerging economies within GVCs
- GVCs and Trade in Value Added
- GVCs and trade policy
- National competitiveness and GVCs
- Knowledge based assets as new source of growth within GVCs
- GVCs and global systemic risk



The main messages

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- ...but ‘what you do matters more than what you sell’!
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