

Global Value Chains: issues for trade and investment policy

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The broad issues

- GVCs are a combination of trade and FDI. They exemplify the convergence of policy in the trade, technology and investment fields, Trade policy has developed enormously over the last 50 years:
 - Tariffs are at low levels
 - Services are part of the liberalization of trade
 - Investment issues are now part of trade negotiations
 - So are many other topics, such as environment, employment, intellectual policy, public procurement, etc.
 - Regional trade agreements have become far more common
 - National competitiveness policy has become recognized by many governments as a whole-of-government issue, directed towards increasing FDI, increasing exports, and increasing innovation

Overview of GVCs

- Businesses locating production across a number of countries in order to get access to particular
 - commodities,
 - skills
 - consumer markets
 - Technologies
- This is easier because of
 - the weakening of tariff barriers
 - Spread of international agreement on investment, technology, IPR etc.
- “Chain” is rather misleading because
 - It implies imprisonment or slavery. GVCs can be liberating..
 - It suggests a linear set of steps, although chains can be parallel or more complex
- GVCs spreading, but more unevenly

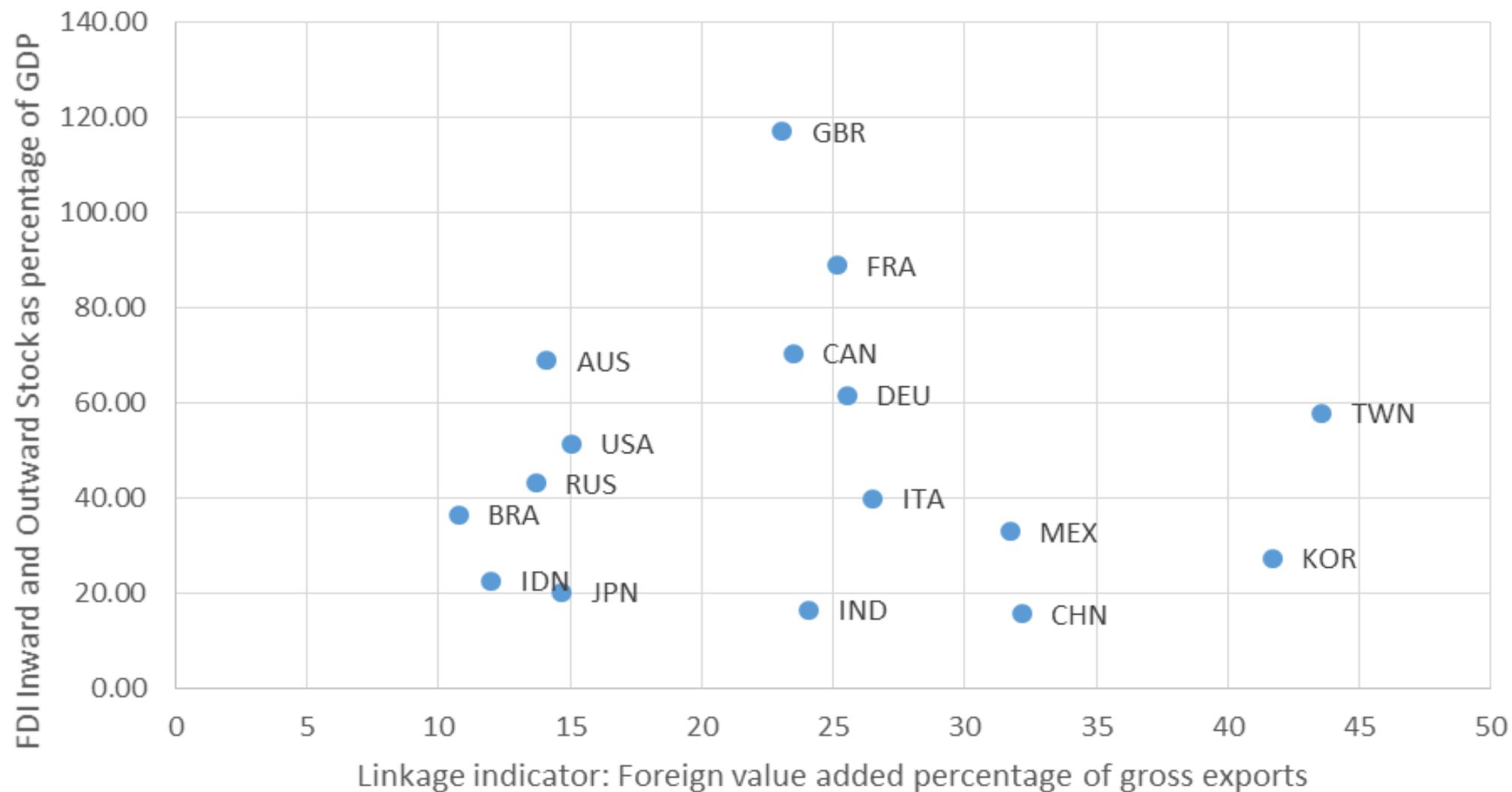
FDI issues and GVCs

- Connectivity
 - Air and sea
 - Telecoms
- Sectoral focus
- Education
- Clusters:
 - people are the main focus
 - Clusters can shorten the GVC and make it more complex, perhaps becoming a radiating system of demand and supply
- Open method of innovation: application to GVCs
- International competition can include cooperation

Sectors with above-average GVC linkage

C23: Coke, refined petroleum products and nuclear fuel	46.28
C34: Motor vehicles, trailers and semi-trailers	35.31
C27: Basic metals	35.19
C23T26: Chemicals and non-metallic mineral products	33.82
C34T35: Transport equipment	33.79
C27T28: Basic metals and fabricated metal products	33.27
C31: Electrical machinery and apparatus, n.e.c.	32.59
C30T33X: Computer, Electronic and optical equipment	32.20
C30T33: Electrical and optical equipment	32.14
C15T37: Total Manufactures	31.34
C35: Other transport equipment	30.77
C24: Chemicals and chemical products	30.58
C29: Machinery and equipment, n.e.c.	30.50
C25: Rubber and plastics products	30.03
C28: Fabricated metal products	29.04
C17T19: Textiles, textile products, leather and footwear	26.56
C36T37: Manufacturing n.e.c.; recycling	26.46
C26: Other non-metallic mineral products	23.86

Linkage and FDI



Why Innovation Happens

- Invention leads to innovation: ideas develop from scientific research as to how things could be done differently and better
- Continuous improvement: a natural tendency to automate repetitive activities to seek to minimize the burden
- There is always scope for the new things: the absence of something leads to the wish for its existence and accordingly, eventually, it arrives, or it is discovered, or is created
- There is a wish for improved productivity: by examining processes, more efficient methods are found.
- Substituting for scarce resources: resources may be human-resources and labour may be scarce or required labour be too expensive.
- Competition from innovation by others
- Environmental considerations:

How governments can help innovation

- Research funding and incentives
- Direct government intervention
- Skills development
- Links between research institutes and businesses
- Business consortia: Government or private initiative
- Government procurement
- All of these measures can be adapted to give a focus on GVCs
- But clarity is needed on what are the targets
- Foresight exercises can help with this
- Again, Open Innovation methods can be adopted for international cooperation in innovation

Selected sectoral and horizontal issues in GVC development

- Standards: need business involvement
- Tourism: not just a growth sector
- Retailing: can play a key role in GVCs
- Banking: helps GVC linkages
- Imports and outward investment: essential, need policy focus
- Trade facilitation: influences costs, trade and investment choices

Finally.....

- GVCs demand a focused approach to policy-making and policy implementation
- Better coordination within government and with business
- Better information systems and better knowledge
- Speed of decision, speed of implementation