

# The GVC space Seminar

Erik van der Marel  
Senior Economist, ECIPE  
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With Lucian Cernat and Fredrik Erixon

# Outline

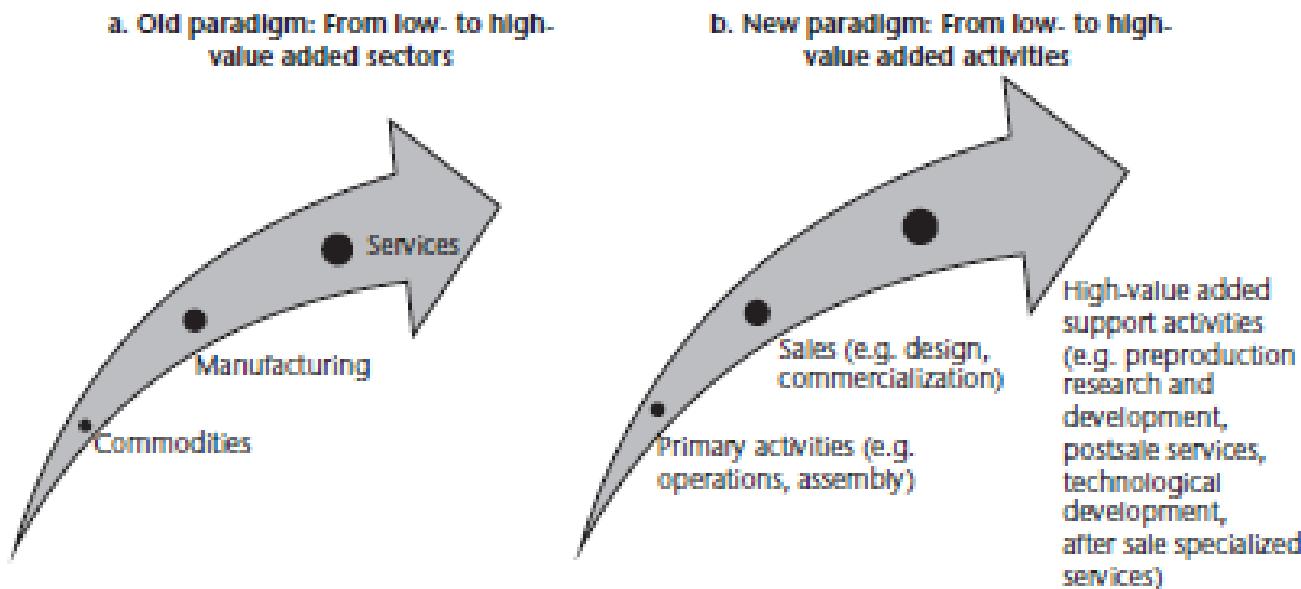
- Introduction
- The GVC map
  - Where is your country located?
- Policies can explain the map
  - “Toolkit” for policy makers
- Where to move your country?
  
- Discussion Lucian Cernat
  - Wider perspective i.t.o. EU policy

# Introduction

- GVC provides new paradigm
  - Is it really something new?
- Ever refinement of trade policy
  - Takes into account “production” ≠ 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.

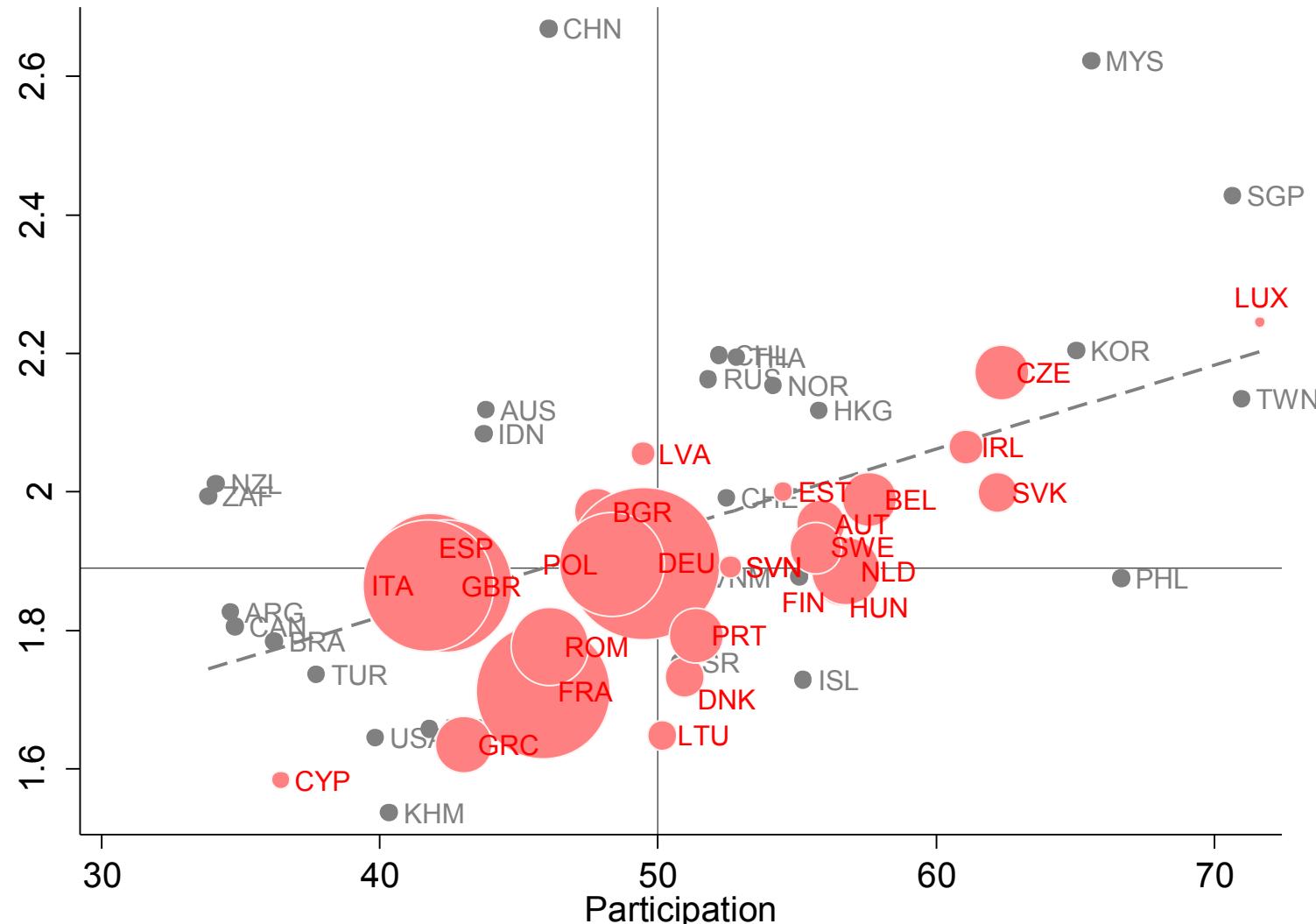
# Trade-side

- 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	In(GDP) per capita	0.1967	0.0097
	GDP per capita squared	0.3322**	0.0664
	In(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**

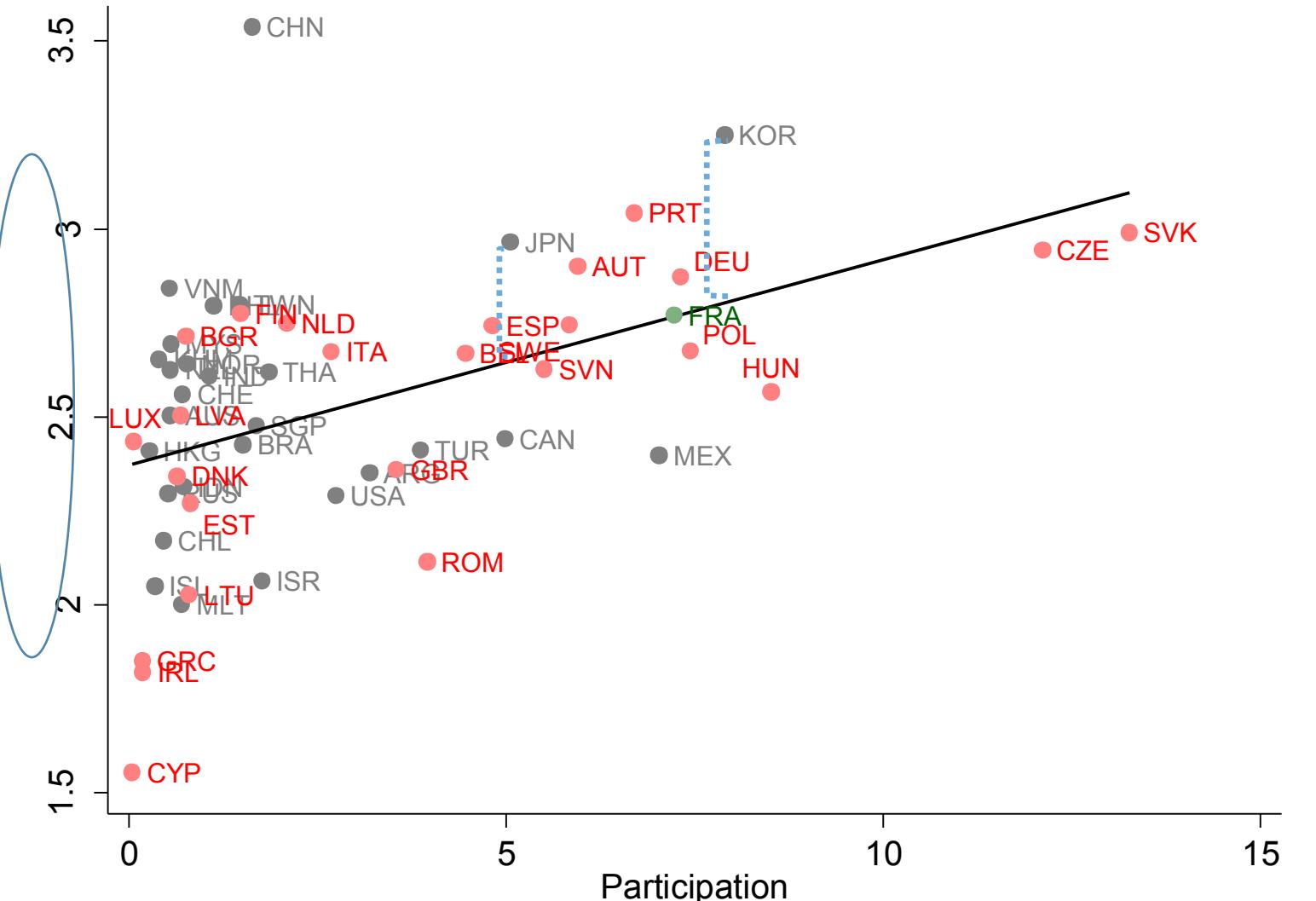
# What can explain location?

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

# Potential left in FRA motor vehicle industry,



# 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?

