GLOBAL VALUE CHAINS AND THE CHANGING GEOGRAPHY OF DEVELOPMENT

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AGENDA

1. The New Global Economy
2. Role of Global Value Chains
3. GVC Competition: China vs. Mexico
4. Emerging Economies and Development Strategies in Conflict
The New Global Economy

Old World of Trade (pre-1980)
• Countries trade finished goods
• Build national industries (ISI)

New World of Trade
• Countries trade intermediate goods; imports needed to export
• Join global industries (EOI)

Trends
– **GVCs** → 80% of world trade (UNCTAD, WIR 2013)
– **Rise of intermediate goods trade** (import content of exports): 20% in 1990; 40% in 2010; 60% in 2030 (P. Lamy, WTO)
– **Consolidation** within GVCs in fewer, larger suppliers
– **Concentration** of production and consumption in relatively few large emerging economies
TYPES OF CHAINS:
Inter-Firm Networks in the Global Economy

• **Global Supply Chains: LOGISTICS (1970s & 1980s)**
  – Logistics (transportation focus: reduce time + costs)
  – Trade Facilitation (lower barriers at the border)

• **Global Commodity Chains: LEAD FIRMS (1990s)**
  – Producer-driven chains: Trade + FDI (e.g., aircraft, autos, mining, oil)
  – Buyer-driven chains: Trade w/o FDI (retailers, global brands, manufacturers without factories)

• **Global Value Chains: CREATING & CAPTURING VALUE-ADDED (2000s)**
  – Create, capture & sustain domestic value added

• **Regional Value Chains: EMERGING ECONOMIES (2010s)**
  – Growing in importance, esp. since 2008-09 and in emerging economies.
LINKING GLOBAL CHAINS AND LOCAL CLUSTERS
GVC analysis offers two main concepts for examining the global economy

- **Top-down**: a focus on lead firms and inter-firm networks — “governance” of GVCs
- **Bottom-up**: a focus on countries and regions — economic, social and environmental “upgrading”
Five GVC Governance Types

GVC LEAD FIRMS & THEIR SUPPLY CHAINS

Giant Retailers: Wal-Mart
- Largest retailer in the world directs the biggest supply chain
- > 60,000 suppliers worldwide and over 80% are in China

Global Brands: Nike
- Nike, the largest sportswear company in the world, does not own any factories.
- Nike products made in 930 factories (subcontractors) in 50 countries
- >1 million workers in supply chain, but just 38,000 direct employees in U.S.

Manufacturers w/o Factories: Apple
- Apple, the top smartphone company in the world, designs and markets its products but owns no factories
- Foxconn, the largest electronics contract manufacturer in the world, makes Apple products and employs >1 million workers in mainland China
WHERE ARE THE HIGH-VALUE ACTIVITIES IN GVCs?

There has been a tendency for developed countries to concentrate in higher value activities while developing countries are generally concentrated in lower value activities.

Value-Adding Activities
- Pre-Production: Intangible
- Production: Tangible Activities
- Post-Production: Intangible

TRIPLE BOTTOM LINE:
Diversified, Inclusive and Green Growth

Economic Upgrading
- Job creation
- Exports
- Income generation
- Added value
- Better use of resources
- Backward linkages

Social Upgrading
- Inclusion of vulnerable groups
- Job creation
- Improve working conditions
- Higher wages
- Skills acquisition

Environmental Upgrading
- Soil preservation and improvement
- Water conservation
- Wildlife conservation
- Pollution and waste reduction

Development Outcomes:
- Job creation
- Exports
- Income generation
- Added value
- Better use of resources
- Backward linkages
- Inclusion of vulnerable groups
- Job creation
- Improve working conditions
- Higher wages
- Skills acquisition

Sustainable Growth
GVC BATTLE FOR THE U.S. MARKET: CHINA VS. MEXICO
Head-to-head competition in U.S. market

China is world’s leading exporter of many manufactures, esp. consumer goods

China and Mexico are typically among the top three exporters to the U.S. market in many product categories

China is moving ahead of Mexico with dominant market shares in the United States since 2000
# Mexico's and China's Competing Exports to US Market

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Why is China gaining U.S. market share over Mexico?

- China is a **lower-cost producer** overall (labor costs lower, but not transport & tariffs)
- China has huge **scale economies**
- China has a coherent and multidimensional **upgrading strategy** – diversify and add high value activities
- China is using **direct foreign investment** to promote “fast learning” in new industries
- China uses **access to its domestic market** to attract TNCs and promote knowledge spillovers
China’s Supply Chain Cities in Apparel

**Made in China, Shipped Worldwide**

The factory towns on the coast of China manufacture clothing to keep America’s closets full, making everything to wear from head to toe.

**Factory orders, 2003**

- **MEN’S WEAR**
  - Zhucheng
  - Factory orders: 100 million pieces
  - Production: $600 million
  - Total sales: $100 million
  - U.S. exports: $100 million

- **CASUAL WEAR**
  - Haining, Changshu
  - Factory orders: 160 million pieces
  - Production: $260 million
  - Total sales: $58 million
  - U.S. exports: $58 million

- **DOWN-FILLED PRODUCTS**
  - Xintang, Hangzhou, Xiaoshan
  - Factory orders: 26 million pieces
  - Production: $470 million
  - Total sales: $290 million
  - U.S. exports: $290 million

- **TIES**
  - Shangzhou
  - Factory orders: 300 million pieces
  - Production: $1.21 billion
  - Total sales: $384 million
  - U.S. exports: $384 million

- **SOCKS**
  - Dazhong, Zhushan
  - Factory orders: 9 billion pairs
  - Production: $1.57 billion
  - Total sales: $240 million
  - U.S. exports: $240 million

- **UNDERWEAR**
  - Jingjiang, Shehu
  - Factory orders: 969 million pieces
  - Production: $360 million
  - Total sales: $290 million
  - U.S. exports: $290 million

- **WEDDING DRESSES, EVENING GOWNS**
  - Chaozhou
  - Factory orders: 510 million pieces
  - Production: $950 million
  - Total sales: $640 million
  - U.S. exports: $640 million

- **JEANS**
  - Xintang, Zengcheng
  - Factory orders: 225 million pieces
  - Production: $1.04 billion
  - Total sales: $480 million
  - U.S. exports: $480 million

*Includes all textiles made in the city.
†Wedding dress and evening gown exports only.

Sources: China National Textile Council; Shanghui Underwear Association; Datang Town Government

The New York Times
China Is Climbing the Value Chain…

• Moving from low-tech to high-tech manufactured goods

• Moving from manufacturing to high value services
  – R&D, design, marketing of national brands, logistics, finance

• Moving from inward FDI (joint ventures & technology transfer) to outward FDI (primary commodities, computers, shipping)

• **BUT BEWARE**…High tech exports don’t necessarily mean high value added production → e.g., China’s iPod
China assembles all iPods, but it only gets about $4 per unit – or just over 1% of the US retail price of $300

451 parts that go into the iPod

Hard Drive by Toshiba → Japanese company, most of its hard drives made in the Philippines and China; it costs about $73 - $54 in parts and labor -- so the value that Toshiba added to the hard drive was $19 plus its own direct labor costs

Video/multimedia processor chip by Broadcom → American company with manufactures facilities in Taiwan. This component costs $8.

Controller chip by Portal Player → American company with manufactures. This component costs $5.

-Final assembly → done in China, costs only about $4 a unit

The unaccounted-for parts and labor costs involved in making the iPod came to about $110

The largest share of the value added in the iPod goes to enterprises in the United States → $163 of the iPod’s $299 retail value in the United States was captured by American companies and workers, breaking it down to $75 for distribution and retail costs, $80 to Apple, and $8 to various domestic component makers.

The bulk of the iPod’s value is in the conception and design of the iPod. That is why Apple gets $80 for each of these video iPods it sells, which is by far the largest piece of value added in the entire supply chain. Apple figured out how to combine 451 mostly generic parts into a valuable product.

U.S. Trade Balance with China for iPhone 4 (US$, 1 unit)

Emerging Economies: Development Strategies in Conflict

China: Combining labor-intensive, technology-intensive and knowledge-intensive GVCs
  • iPhone case: East Asian regional ecosystem
  • Innovation & MNC R&D centers; joint-ventures

Brazil
  • Soybean value chain
  • Electronics & Foxconn

South Africa
  • Climbing natural resource GVCs in Africa
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