8th CompNet Workshop

Session II: GVC and FDI

Policy Discussion

by

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A ‘selective’ reading of the main findings of the papers

- Timmer et al. propose a method to analyze what tasks different countries perform in global value chains (GVCs), based on information on occupations at the country/industry level
- They find that mature economies are indeed specializing in pre-production and post-production stages (higher domestic value-added), while emerging markets specialize in production activities
- Within Europe clear specialisation patterns are discovered, although it seems these are changing quite extensively in the period 2005-2011

A ‘selective’ reading of the main findings of the papers

- Cappariello & Felettigh apply the Koopman et al. (2012) decomposition of VA trade to Italy
- They find variability in the domestic value-added (GDPX)-intensity across sectors (less so across countries), more relevant in manufacturing vs. services
- Italian specialization sectors, i.e. “traditional sectors” and “machinery and electrical equipment” display the highest GDPX-intensities among manufactures => revealed CA associated to higher domestic value-added
- international fragmentation of production accounted for half of the drop experienced by Italian nominal gross exports between 2008 and 2009 (24.6 percent)

A ‘selective’ reading of the main findings of the papers

- Vicard matches trade data with firm-level data / ownership data to map the pattern of trade flows of business groups operating (also) in France (business groups data already discussed within CompNet in a number of projects, here matched to trade data)

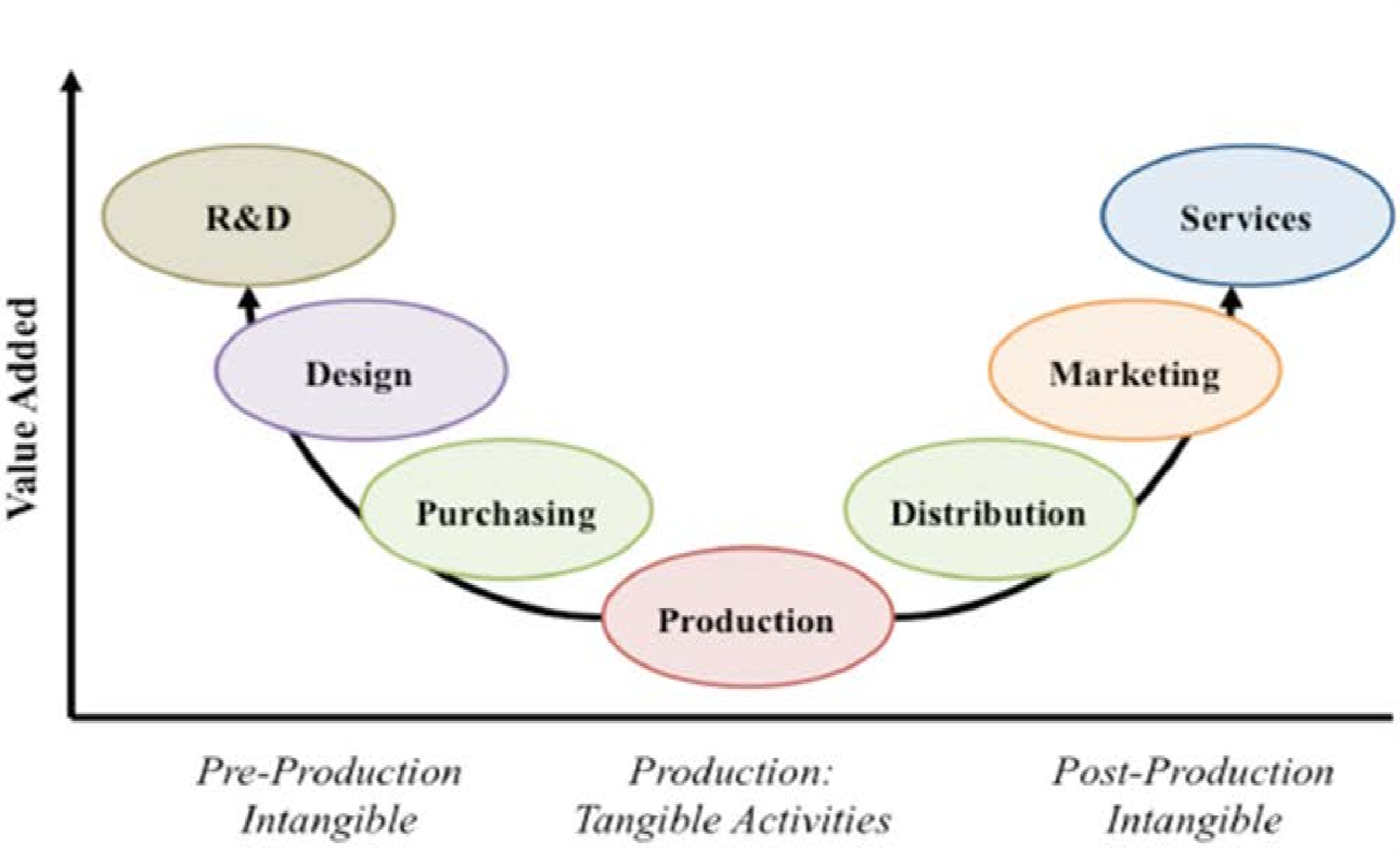
- With these data he explores a ‘hot’ policy issue, i.e. the extent to which access to GVC leads to possible tax elusion

- The paper finds that a 10 percentage point differential in corporate tax rate between France and its trade partners reduces export prices by 1.5% to 2.2% and import prices by 1.9% to 2.4%.

- Back-of-the-envelope calculations suggest that the underreported taxable revenues due to transfer pricing strategy on both exports and imports amount to 5.2 bn USD in 2009 => is this loss significant enough to change a country’s corporate tax policy ?

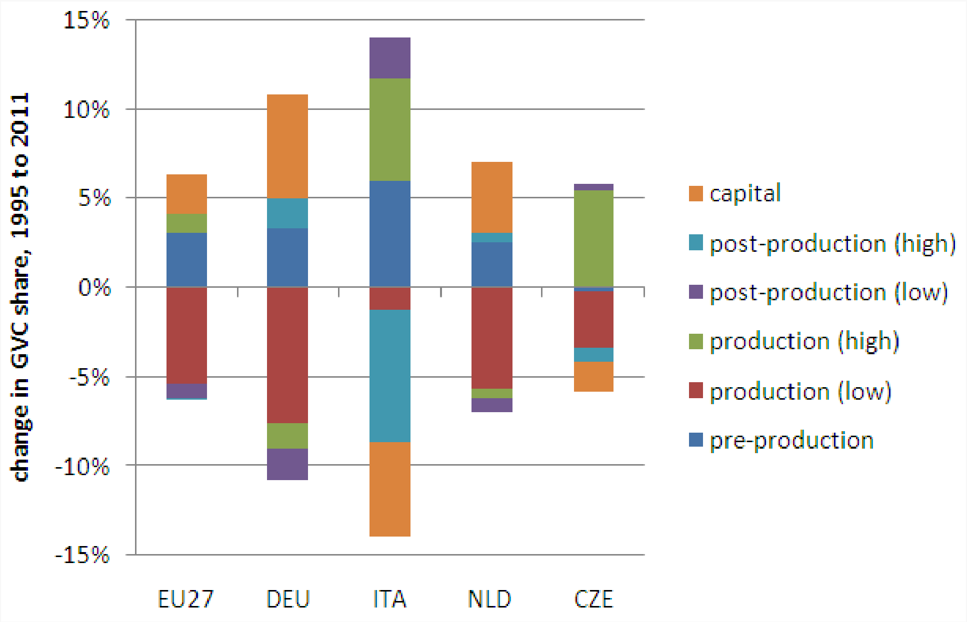
The key issue for policy-makers: max the GDP-GVC link

- What type of activities should I promote within GVCs? => extent of positioning



Positioning seems the ideal tool, but a number of critical issues

- Production stages are identified via a classification of occupational tasks, but domestic labor nowadays might account for even less than 50% of the value added we are trying to explain: what about the rest ?



- Italy maintains a RCA>1 in post-production (high) activities in 2005-2011, but this is precisely the area in which the country has experienced the largest drop in GVC share.

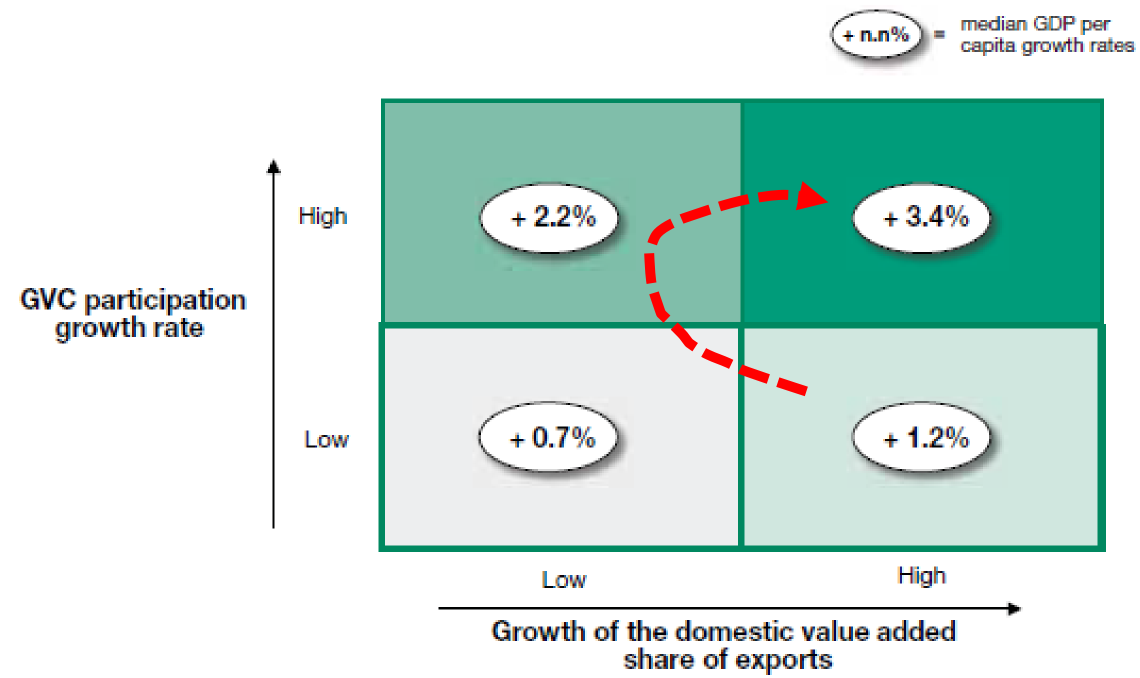
- Analogously, pre-production stage maintains a RCA<1 in 2005-2011 but this is the area which has seen the largest rise in GVC share …

- Notice how capital is always moving in the same direction of post-production (high) activities

The key issue for policy-makers: max the GDP-GVC link

- What pattern of trade should I seek within GVCs? => mode of participation

Figure IV.30 GDP per capita growth rates for countries with high/low growth in GVC participation, and high/low growth in domestic value added share, 1990–2010



Source: UNCTAD-Eora GVC Database, UNCTAD analysis.
Note: Data for 125 developing countries, ranked by growth in GVC participation and domestic value added share; high includes the top two quartiles of both rankings, low includes the bottom two; GDP per capita growth rates reported are median values for each quadrant.

Participation is also not immune from potential problems

- An increase in GVC participation stems from higher FVA as well as domestic value added re-exported by third countries => not necessarily leading to higher GDPX, at least in the short term; still general equilibrium effects seems to lead countries to a higher growth path in the medium run
- But what drives the extent and timing of these latter effect? Role of institutions? Spurious relation with FDI attraction? Role of international fragmentation of production?
- FDI and international fragmentation of production might be beneficial in activating the link between high GVC participation and growth, but also expose the country to a number of potential unpleasant consequences: volatility in trade flows / CA / tax base

Possible policy-relevant research lines

- Explore more in detail the role of capital in affecting the positioning of a country in a GVC; correlation capital / high-skills jobs & changes in the K/L ratio; task-based RCA measure correlated with proxies of new imported inputs / FDI

- Cross-country comparison of Koopman decomposition; analysis of the change in the different components using the crisis as an exogenous shock; correlation between RCA(task) and GDPX; cross-country analysis of the role of international fragmentation of production and correlation with country positioning

- Micro-foundation of GVC: merge bilateral TVA data with bilateral FDI data at the country-sector level or bilateral FDI data on co-affiliates of the same business group; integration of trade data into firm-level data / business group data and link with country/sector participation/position into GVC