

Internationalisation: global dynamics and their implications for productive development and transformation

Jornadas de Política Productiva 2018

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Outline

1. Context
2. Internationalisation: 7 key global trends
3. Regional and global dynamics
4. Where do services fit in?
5. Implications for productive development and transformation

Context

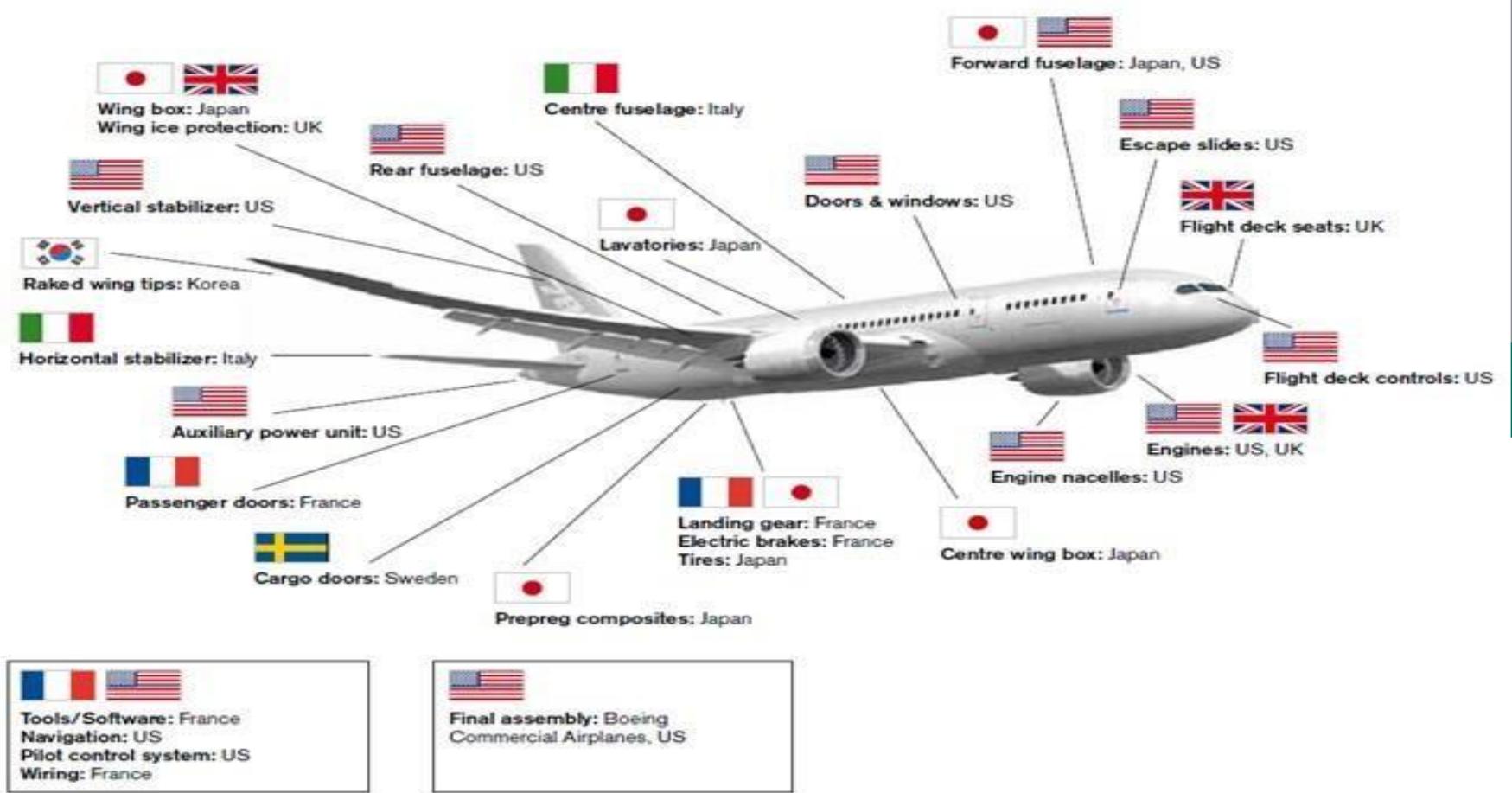
- Rapid evolution of **GVCs** and increasingly **globalised trade and production networks** (which are more complex – Baldwin’s second “unbundling”)
- Firms are **internationalising** their operations across multiple locations and many final products are made using inputs from a number of countries
- Participation in regional and global supply chains has created more **opportunities for diversification, industrialisation, growth and development**

Internationalisation: 7 key global trends

1. Increasing globalisation and fragmentation of production processes and networks

- Facilitated through advances in **technology**, increasing **standardisation**, **lower costs** (transportation, communications), improved **logistics**, **policy reforms** (customs, market access)
- Enterprises and industries connected through a variety of complex operations and **networked processes**

Figure 1: Fragmentation of production: example of Boeing 787 Dreamliner



Internationalisation: 7 key global trends

2. Enterprises are increasingly 'offshoring' tasks and business functions

- Shift in attention away from entire sectors and towards **stages of production**
- **Offshoring** of labour-intensive manufacturing stages/tasks, alongside **international mobility of technology**, has been key to growth in emerging markets (Cattaneo et al., 2010; Baldwin, 2011)
- Offshoring not confined to manufacturing, but also **business functions and services** (e.g. IT/IT enabled services)

Internationalisation: 7 key global trends

3. An expanding share of global trade now comprises trade in tasks or

- Products and services are increasingly emerging from **RVCs/GVCs**
- Cross-border value chains are **geographically dispersed** around the globe and mostly **orchestrated by multinational enterprises**

Internationalisation: 7 key global trends

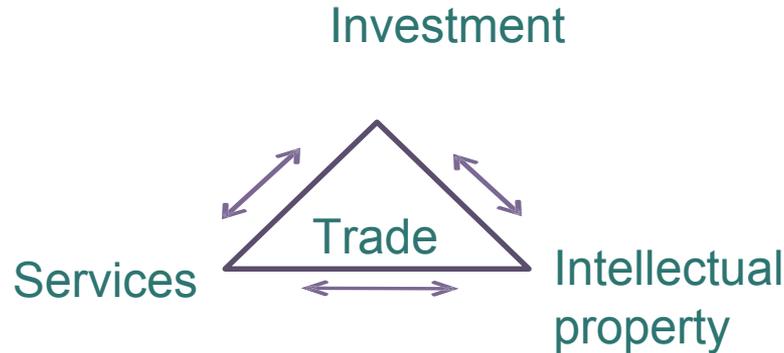
4. Production fragmentation and industrial agglomeration are occurring

- Agglomeration can facilitate the **participation of local firms** in production networks (Kimura, 2013) and creates more opportunities for **technology spillovers**
- Increasing popularity of mechanisms to facilitate **clustering** (e.g. industrial parks, special economic zones)

Internationalisation: 7 key global trends

5. The expansion of international supply chains means trade is now

- Trade within value chains is increasingly driven by a **trade-investment-services-IP** nexus (Baldwin, 2013)



Internationalisation: 7 key global trends

6. There is greater mutual policy dependency due to the integrated

- Upstream policies in one country impact on enterprises and industries producing downstream goods and services in another (Elms and Low, 2013)
- Increasingly **interdependent markets**

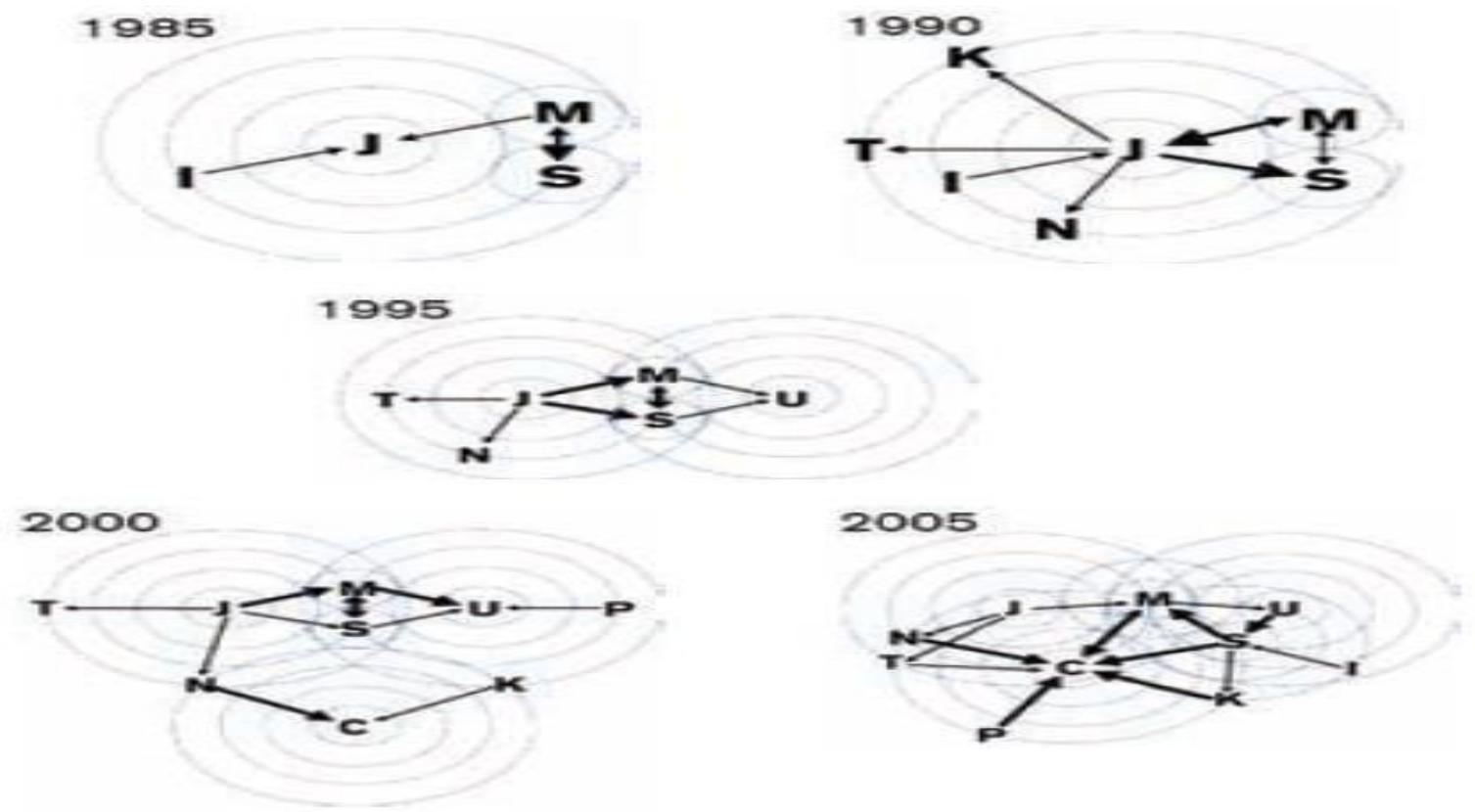
Internationalisation: 7 key global trends

7. Countries are trying to maximise their share of international value

- **Quality of participation** in value chains is important (e.g. linkages, opportunities to diversify)
- How enterprises and industries **connect into value chains** is critically important (e.g. lead firm arrangements vs. contracting out)
- Countries need to consider **implications of value chain integration** for skills development, income generation and employment creation

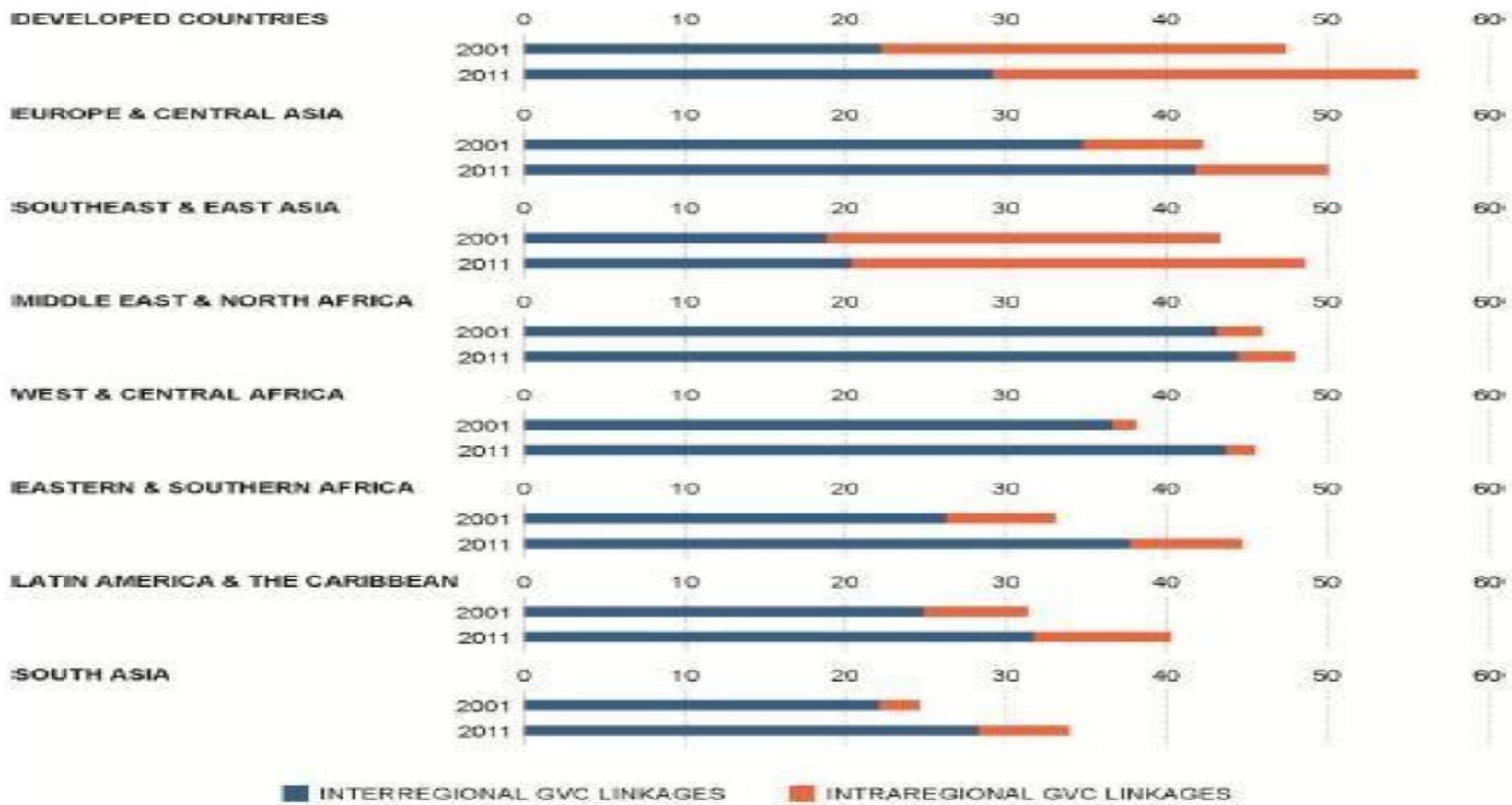
Regional and global dynamics

- Dynamic trends – **changes in the location of production** as countries gain or lose advantages (Fung, 2013)
- Some regions have benefited significantly from the development of regional supply chains or integration into GVCs
 - e.g. “Factory Asia”, intermediate imports in Asia increasingly complementing local production and exports



C: China, I: Indonesia, J: Japan, K: Rep. of Korea, M: Malaysia, N: Chinese Taipei, P: Philippines, S: Singapore, T: Thailand, U: United States

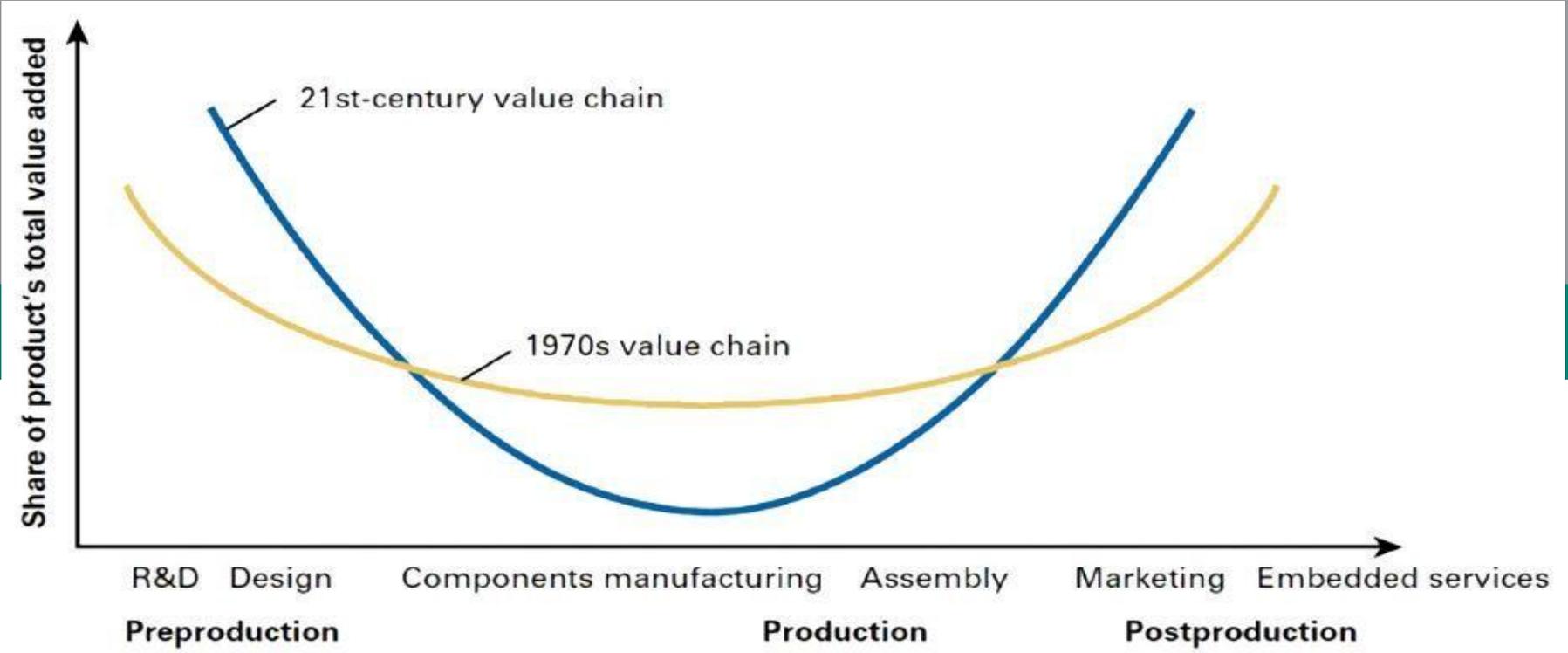
Figure 3: There are significant differences in the way firms in different countries/regions integrate into GVCs

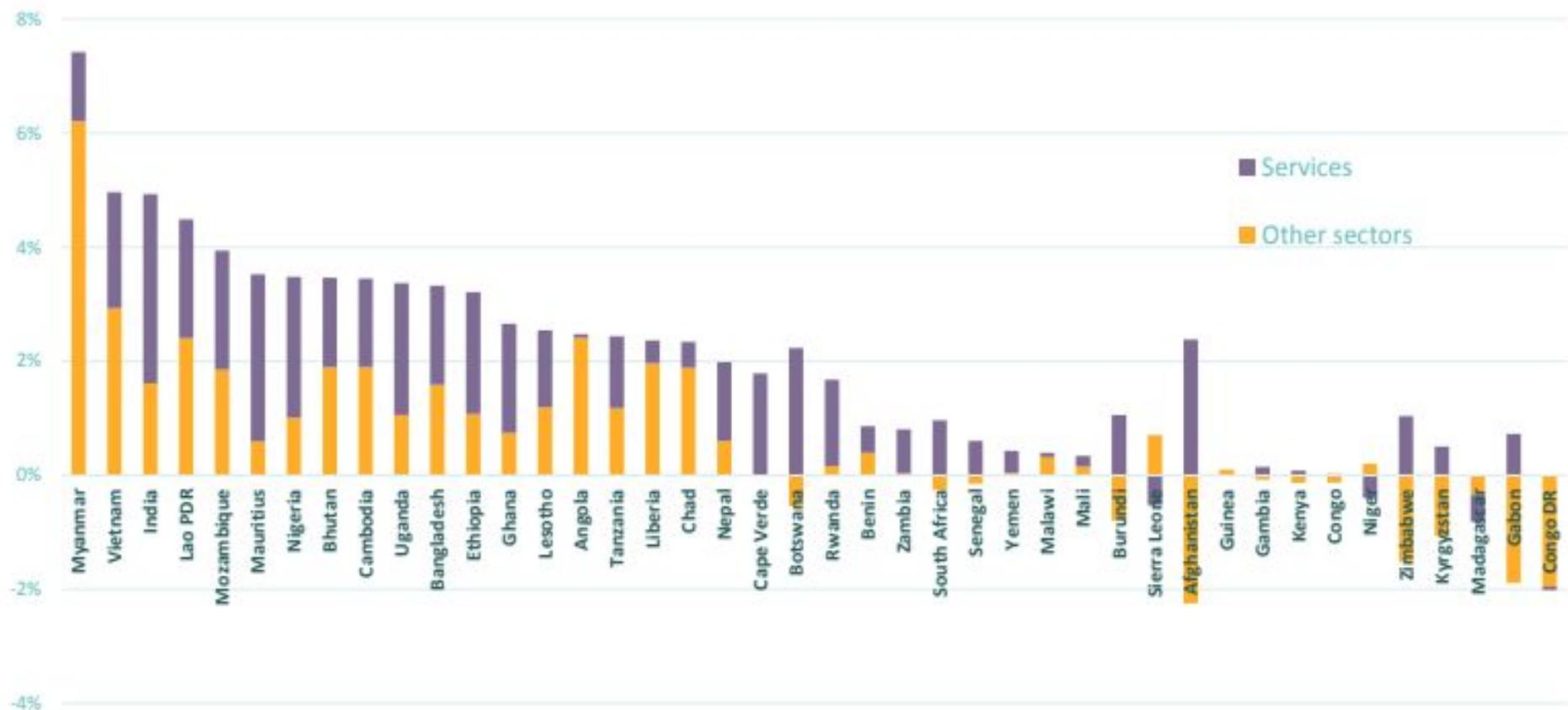


Where do services fit in?

- The role of services in production, trade and GVCs is often underestimated
- Modern ICT has **enhanced the tradability of services** (esp. financial, telecommunications, business services) and facilitated their inclusion in supply chain production as traded inputs (Low, 2013; Hallward-Driemeier & Nayyar, 2017)
- Services are increasingly **embedded** in manufactured products (as **inputs, bundled facilities**) and goods trade (as **trade enablers**) (Balchin et al., 2016)
‘**servicification**’ of manufacturing
- Services are important **drivers of productivity growth and economic transformation**

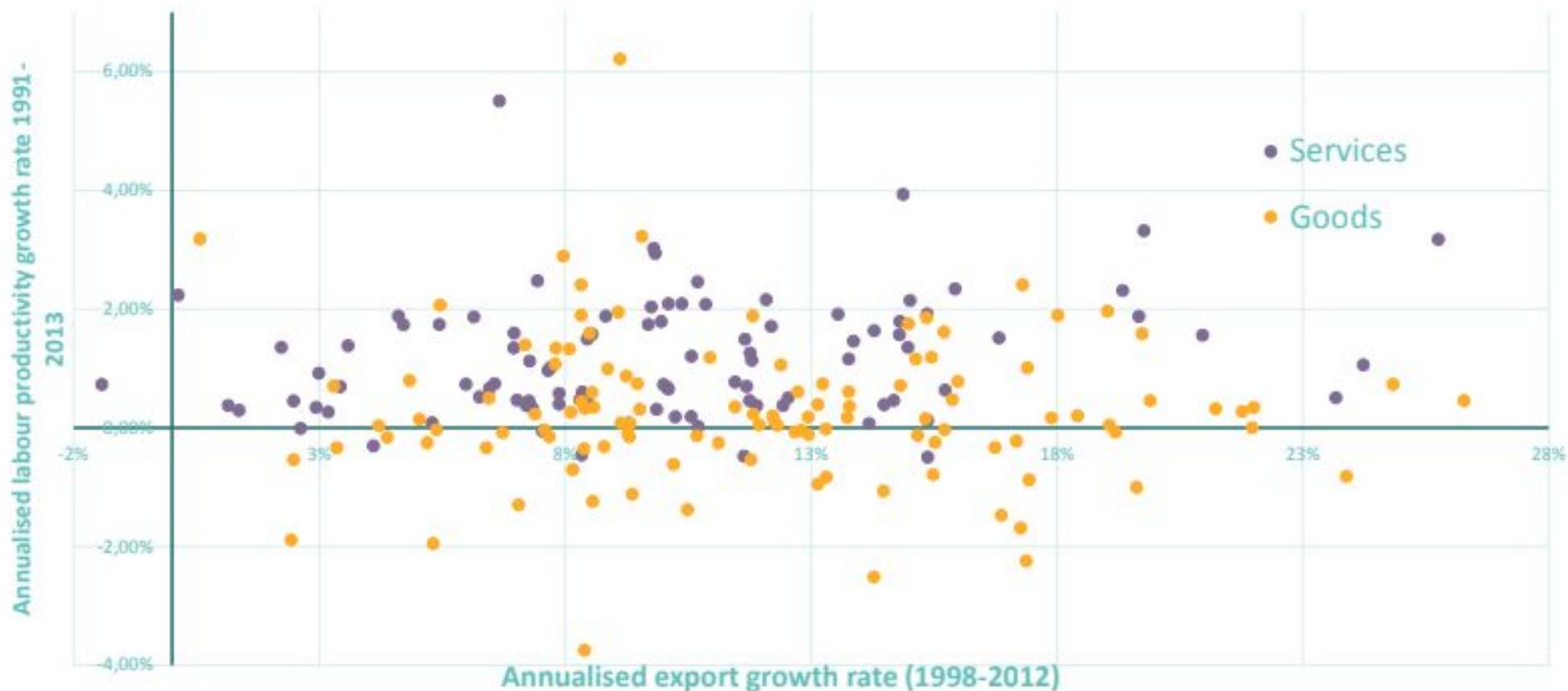
Figure 4: Value added of services in manufacturing, 1970s vs 21st century





Source: Balchin et al. (2016)

Figure 5: Annualised labour productivity growth in services and other sectors, 1991-2013

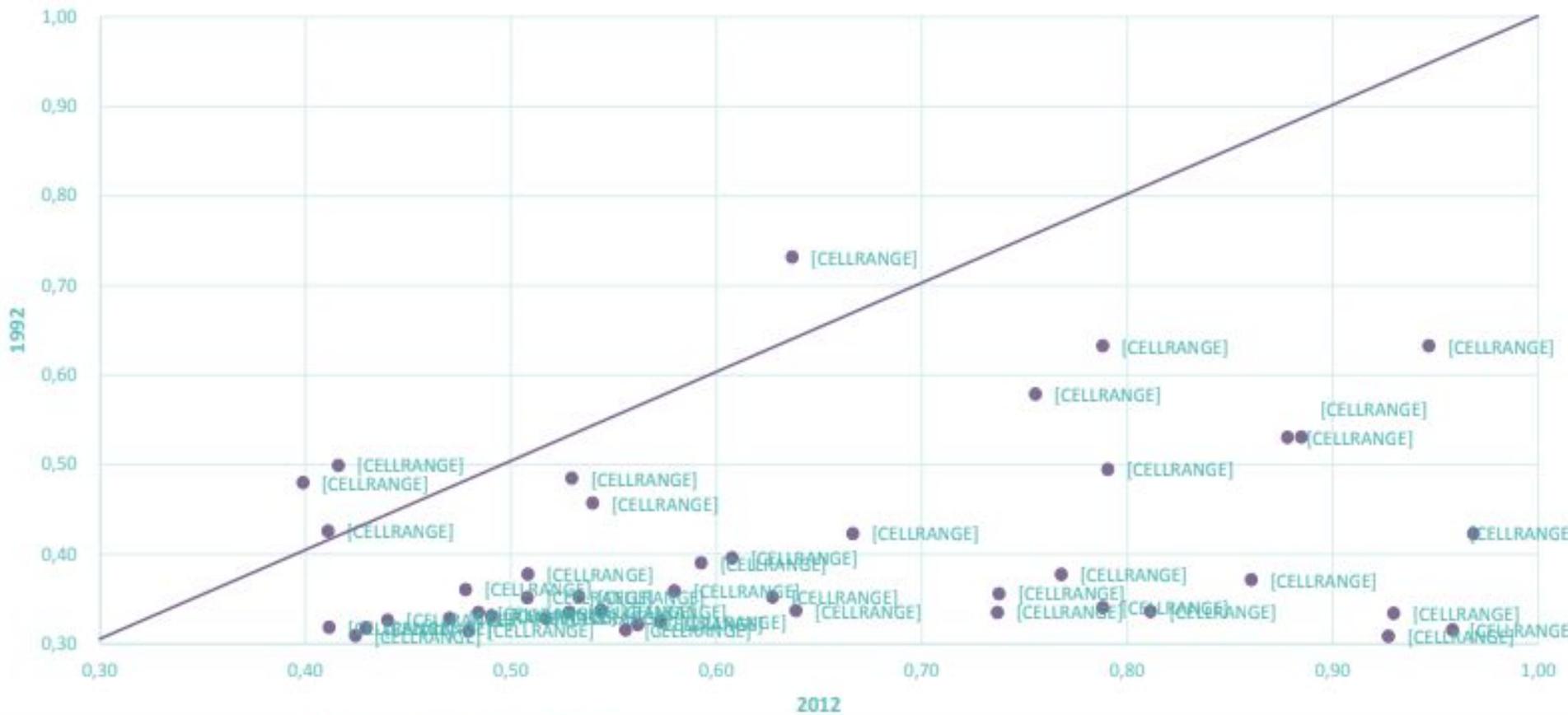


Source: Mendez-Parra (2016)



Evidence.
Ideas.
Change.

Figure 6: Association between annualised labour productivity growth (1991-2013) and annualised export growth (1998-2012)



Source: Mendez-Parra (2016)

Figure 7: Share of exports of intermediate services 1992 vs 2012

Implications for productive development and transformation

- Expanding opportunities for countries and firms to **specialise** in stages of production or specific services and to **trade in tasks** rather than finished products
- Globalisation of production networks creates **new pathways**, and potentially a faster route, to **industrialisation**
- Participation in GVCs provides **opportunities** for firms to upgrade to higher value added production
- But the **nature of integration** is important and firms must be highly **competitive** in specific tasks to participate effectively in GVCs
- This requires **supportive policies, institutions and regulations** (access to high quality inputs, supportive factor conditions, efficient services, quality hard and soft infrastructure, effective policies targeting investment)

Muchas gracias



Ministerio de Producción y Trabajo
Presidencia de la Nación