INDUSTRIAL POLICY WHEN GLOBAL VALUE CHAINS MATTER

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The debate over global value chains: liberalism versus developmentalism

- Global value chains have become the topic of intense political debate.
- **Liberal view:** Presence of GVCs implies reliance on imports of inputs for export performance and provides a newfound basis for widespread trade liberalization, and especially trade facilitation.
- **Developmental view:** Presence of GVCs raises possibility of accessing markets, raising value added and building skills, technology and regional networks. Industrial policy and trade intervention and support for labor required to capture these gains.

Reconstructing the developmental view of GVCs

- “Despite foundational roots in critical analyses of global capitalism, recent ‘value chains for development’ applications appear to be perpetuating a neoliberal development agenda, which is facilitating the enhanced penetration of multinational capital into the economy and the lives of the rural and urban poor.”
- --Jeff Nielson “Value Chains, Neoliberalism and development practice: the Indonesian experience,” forthcoming in <u>Review of International Political Economy</u>.

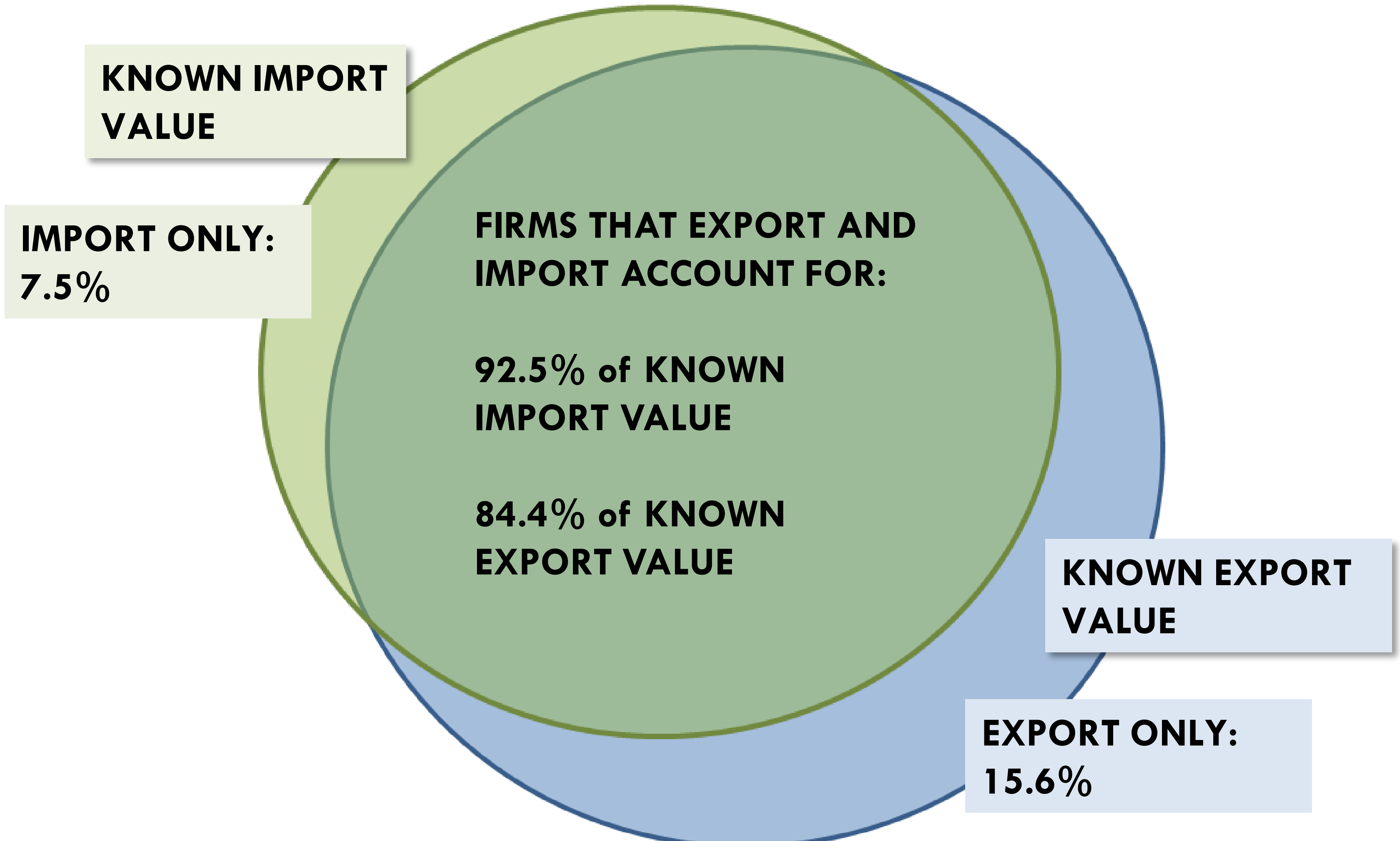
Some stylized facts about trends in world trade

Elasticity of trade to world income, 1960-now

Freund (2009)

- 1960s: 1.77
- 1970s: 1.94
- 1980s: 2.75
- 1990s: 3.36
- 2000s: 3.69

Importing and Exporting U.S. Firms, 2011



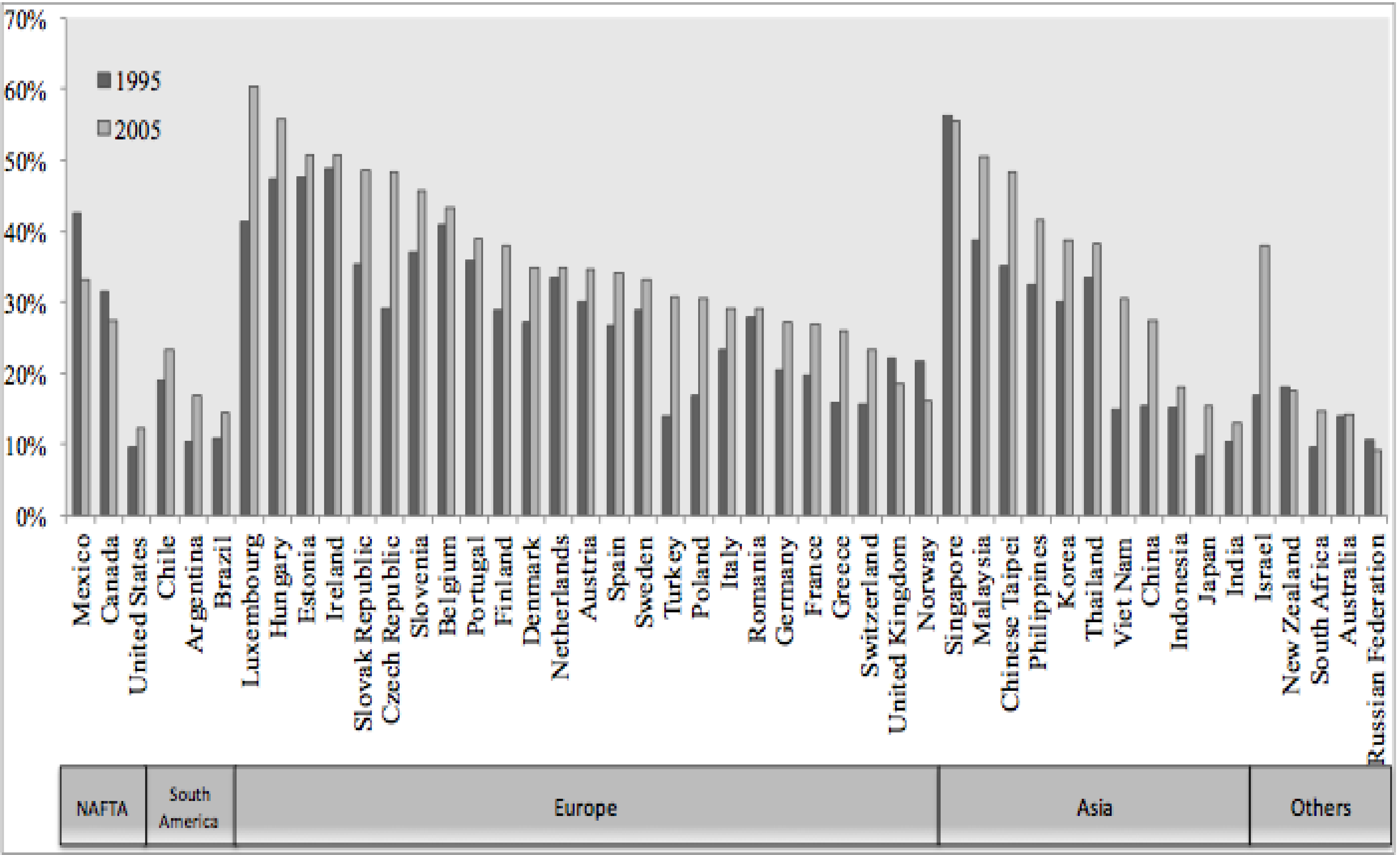
U.S. Department of Commerce (2013)

Trade in Manufactured Intermediate Goods, Value and Share of World Total

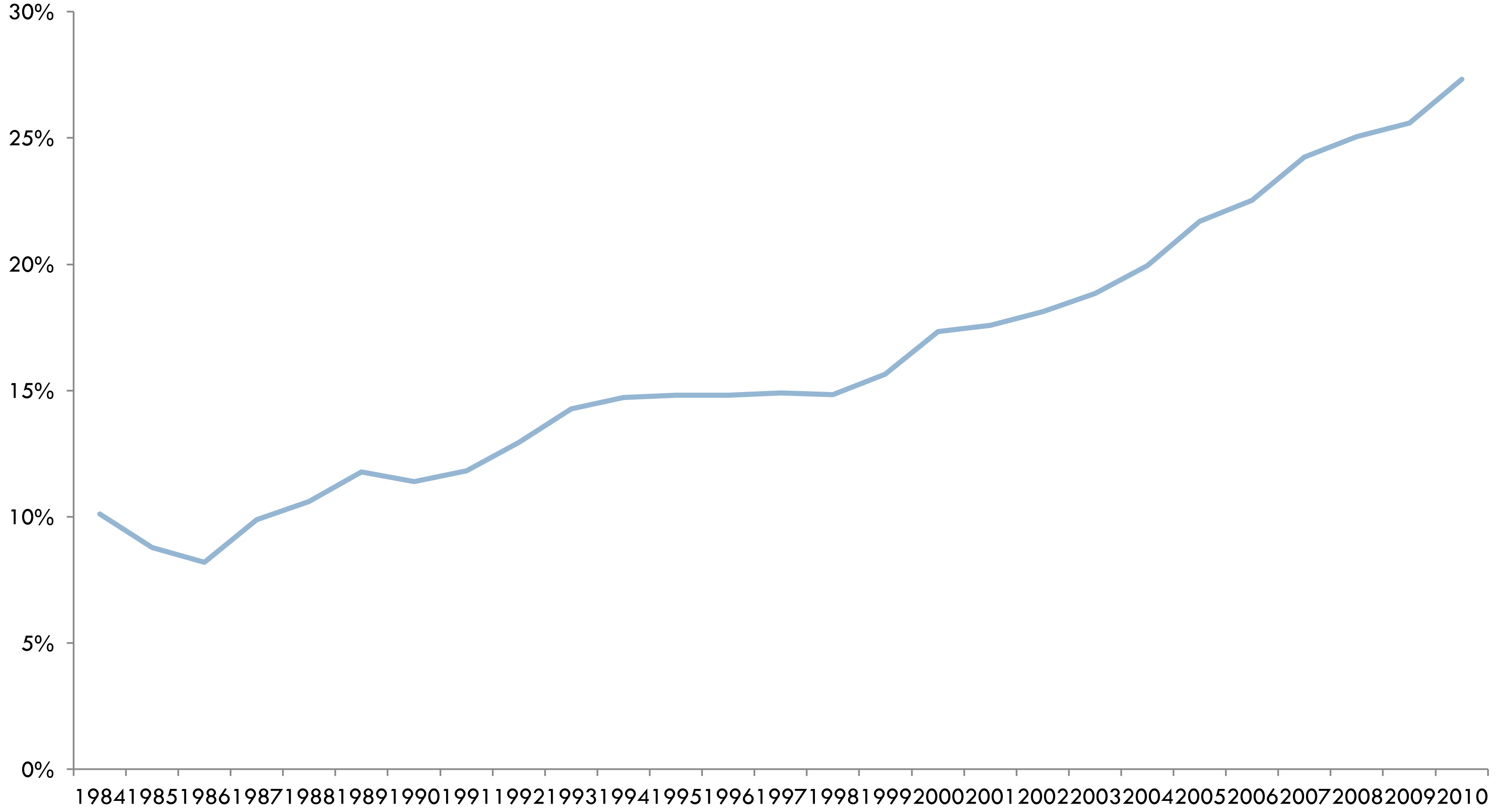
(Sturgeon and Memedovic, 2011)

Value	1992	1995	2001	2006
Industrialized	1,380,375,536,200	1,720,847,708,465	2,252,420,329,204	3,019,403,093,017
Developing	487,357,283,929	650,955,440,950	878,758,841,260	1,679,393,556,417
CIS	15,453,053,620	27,031,446,884	54,101,654,480	76,567,695,453
Unclassified	28,961,902,524	7,010,728,883	7,603,279,947	1,738,133,518
Total MIG exports	1,912,147,776,273	2,405,845,325,183	3,192,884,104,891	4,777,102,478,405
Shares	**1992**	**1995**	**2001**	**2006**
Industrialized	72.2%	71.5%	70.5%	63.2%
Developing	25.5%	27.1%	27.5%	35.2%
CIS	0.8%	1.1%	1.7%	1.6%
Unclassified	1.5%	0.3%	0.2%	0.0%
Growth rates	**CAGR 1992-2006**	**CAGR 1992-1999**	**CAGR 2000-2006**	**CAGR 2001-2005**
Industrialized	5.7%	5.5%	4.3%	4.7%
Developing	9.2%	6.5%	10.6%	14.5%
CIS	12.1%	19.1%	4.7%	7.7%
Not-classified	-18.2%	-18.0%	-24.5%	-1.1%

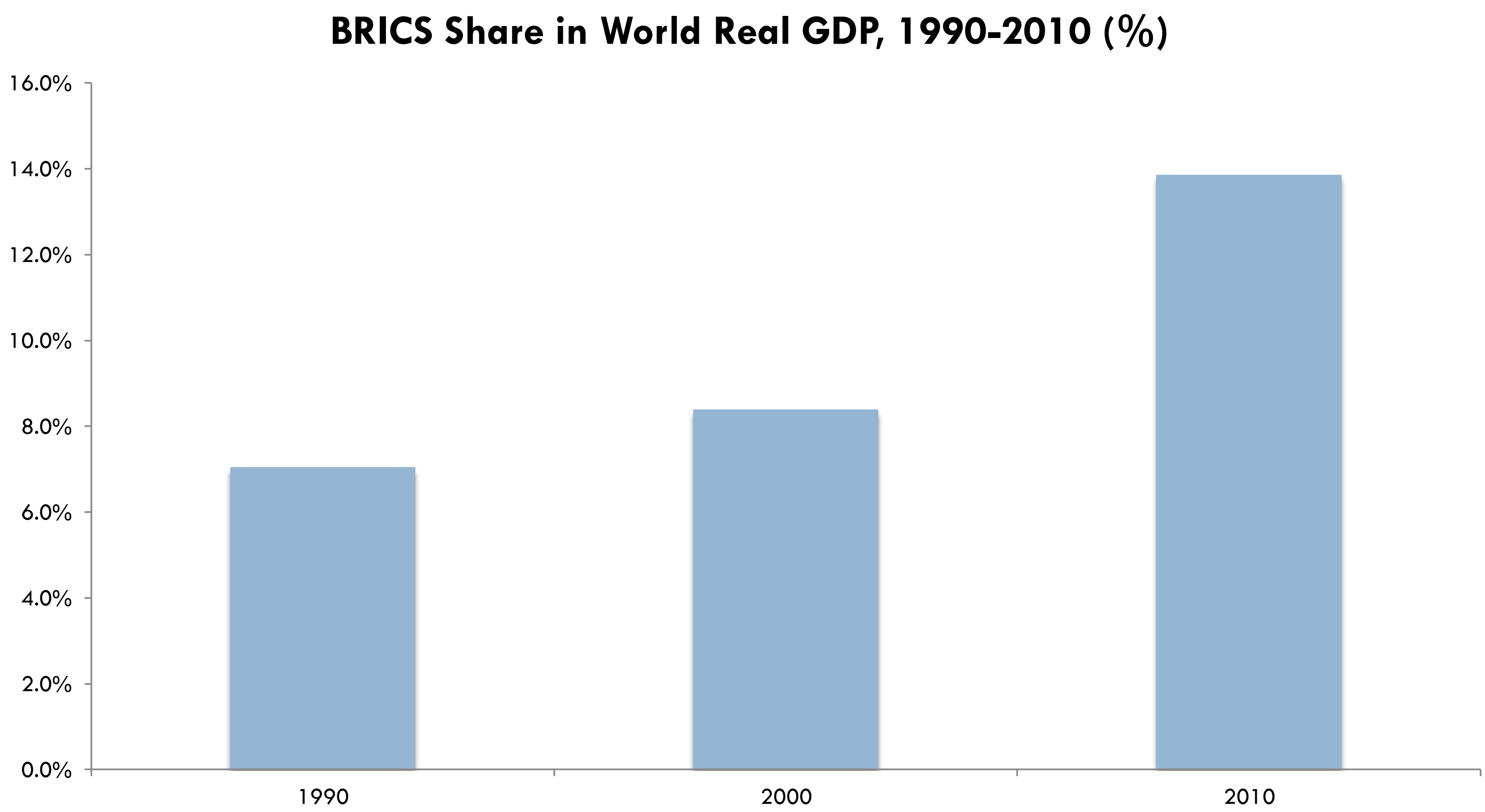
Vertical Specialization, 1995 and 2005 (%) (Bo, Yamano, and Webb, 2011)



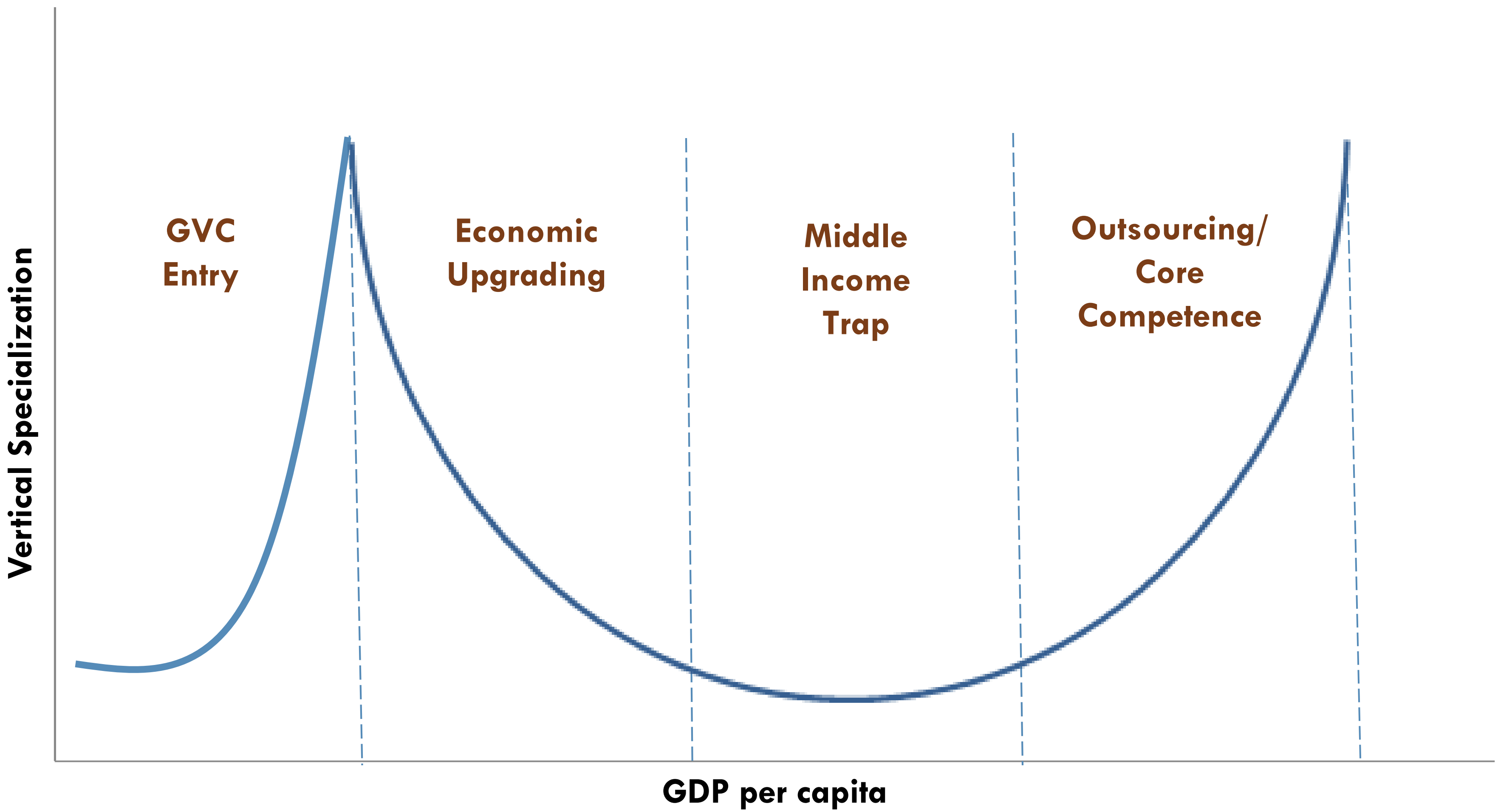
Developing countries' share of world exports of manufacturing goods (%), 1984-2010



BRICS share in world real GDP, 1990-2010 (%)



Vertical Specialization and Level of Development: Economic Development as "Upgrading"



Industrial Policy in the 20th Century: From ISI to EOI to VSI (vertically-specialized industrialization)

- VSI requires an industrial policy focus on regulating links to the global economy -- especially trade, foreign direct investment, and exchange rates – more than was the case under import-substitution industrialization (ISI) policies, which focused on building national capabilities, but also in a different way than had been the case in the era of export-oriented industrialization (EOI), where the focus was typically on final goods exports.
- ISI involved "producer-led" chains (inward FDI and trade protection)
- EOI involved "buyer-led" chains (N-S trade)
- VSI will be more about S-S trade and will capitalize on existing regional GVCs. Breakdown of Washington consensus and shifting end markets gives new impetus to VSI.

Industrial Policy in the 20th Century: From ISI to EOI to VSI

Export competitiveness remains crucial, but exports are now the result of participation in global production networks and thus often depend on imports from the network. Produce for a portion of the existing global value chain and upgrade from there. Capture more value from imported intermediates by building the capabilities of local firms.

Reliance on export growth alone will be inadequate when value added in exports can vary considerably, depending on the country's position in the value chain and shifting demand in export markets.

In promoting the capacity and activity of domestic firms, government strategy must take into account the interests and power of lead firms in GVCs, international (and increasingly regional) networks of competing and cooperating supplier firms, and foreign non-governmental organizations. These (regional) networks emerged out of the logic of GVC, now must be used for upgrading.

With shifting composition of global demand, there are new conditions for upgrading.

Regional Orientation with BRICS as the Hubs

- Shift in the composition of final demand is also a recognition of the relative efficiency of regional supply networks, in part the result of decades of transnational corporation (TNC)-led production networks at the regional level, for example in East Asia, North America, Western and Eastern Europe. Changes in these conditions of global demand and supply are likely to frame the industrial policy choices in the future.
- The appeal of a regional-based development strategy is not about building a demand base and not just about reducing transportation costs, although both of these do figure in. The logic of regional industrial policy comes also from the legacy of regional trade agreements and existing TNC production networks. Thus we are still in a world organized by international supply chains, but where those production networks face a different set of constraints that brings the logic of regionalism to the forefront of development policy.
- In post-Washington consensus era, industrial policy will need to promote the ability of domestic suppliers to link to global value chains directly, and to build skills and capacity in response to private sector needs.

Industrial Policy in Brazil and South Africa

- South African: regional integration as the basis for industrial upgrading, focused on mining, agriculture and pharmaceuticals. Focus on processing minerals shipped to China – shift production from China to Africa. Upgrading will involve skills development and higher wages along with higher profits. Larger regional entity will have access to more minerals and raw materials, more productive and processing capacity, and larger markets, all aimed at promoting upgrading.
- Brazil's also concerned with the "primarization of its exports," since export basket contains a high proportion of primary products with relatively low levels of processing. A major challenge for Brazil is how to increase the technological content of its exports in order to upgrade into higher value activities in both the primary product and manufacturing sectors.

Challenges of VSI: Developing Countries

1. Power asymmetries in GVCs (A) Need to connect closely to, and bargain with, diverse set of lead firms (in contrast to ISI, EOI and state-led "late industrialization" strategies.). (B) Compete for contracts with lead firms against supplier firms globally.
2. Pressure to keep labor costs, standards low to compete for contracts.
3. Import liberalization for necessary intermediates, while promoting exports.
4. Reduce VS (upgrade) while maintaining GVC connection.
5. Process upgrading alone may not bring needed structural change.
6. Regional cooperation rather than competition.
7. Economic upgrading does not necessarily bring "social upgrading".

Challenges of VSI: Industrialized Countries

1. Contributes to skill-biased labor demand shift.
2. Puts upward pressure on profit share, financialization and downward pressure on wage share.
3. Employment elasticity of innovation is low.
4. The most innovative US companies generate little employment in US, and thus long-term growth prospects unclear:

Employment in 2012

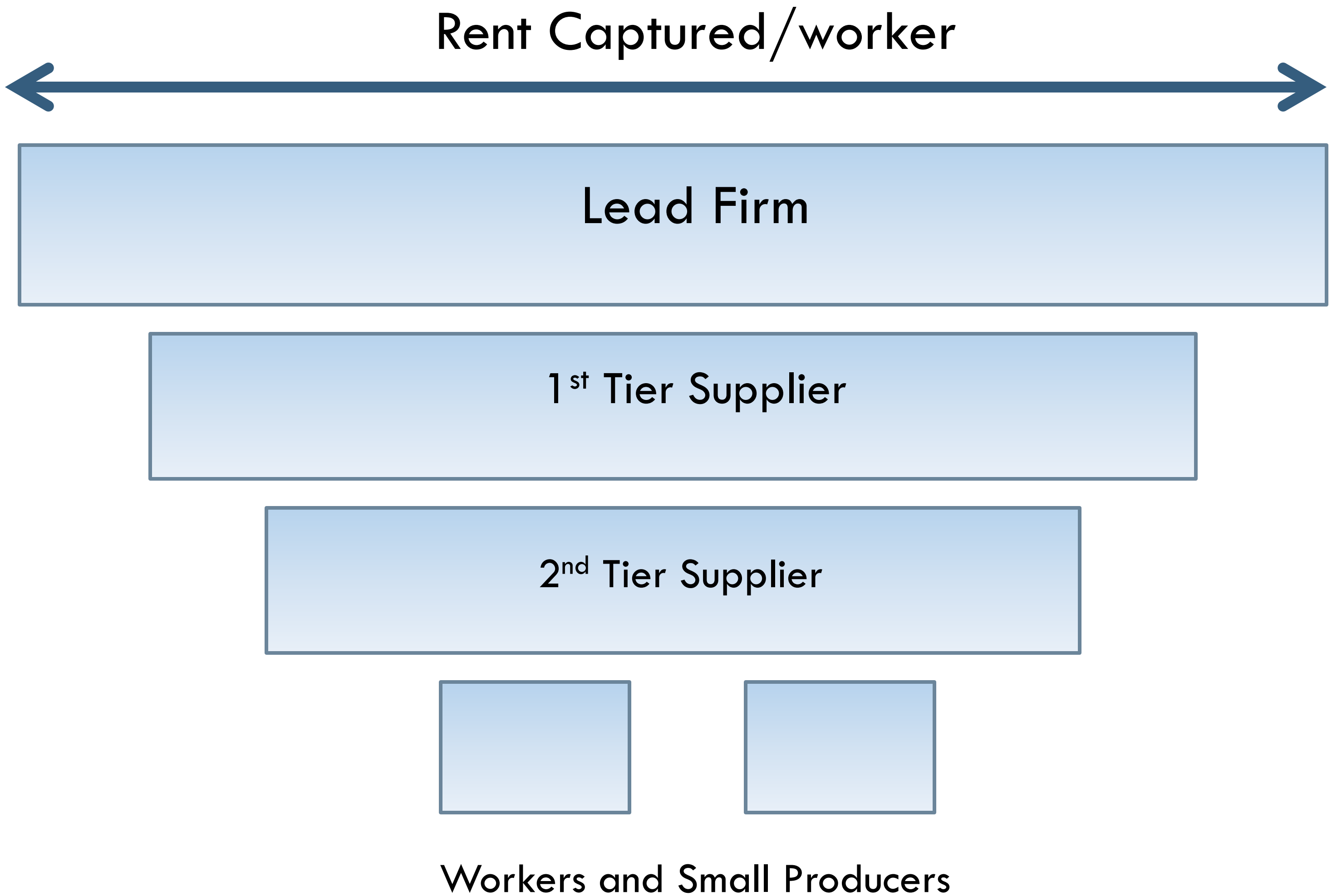
Apple (60,400), Microsoft (90,000), Facebook.com (3,000),

Cisco (71,825), Google (32,467), Amazon.com (33,700) All six (291,392)

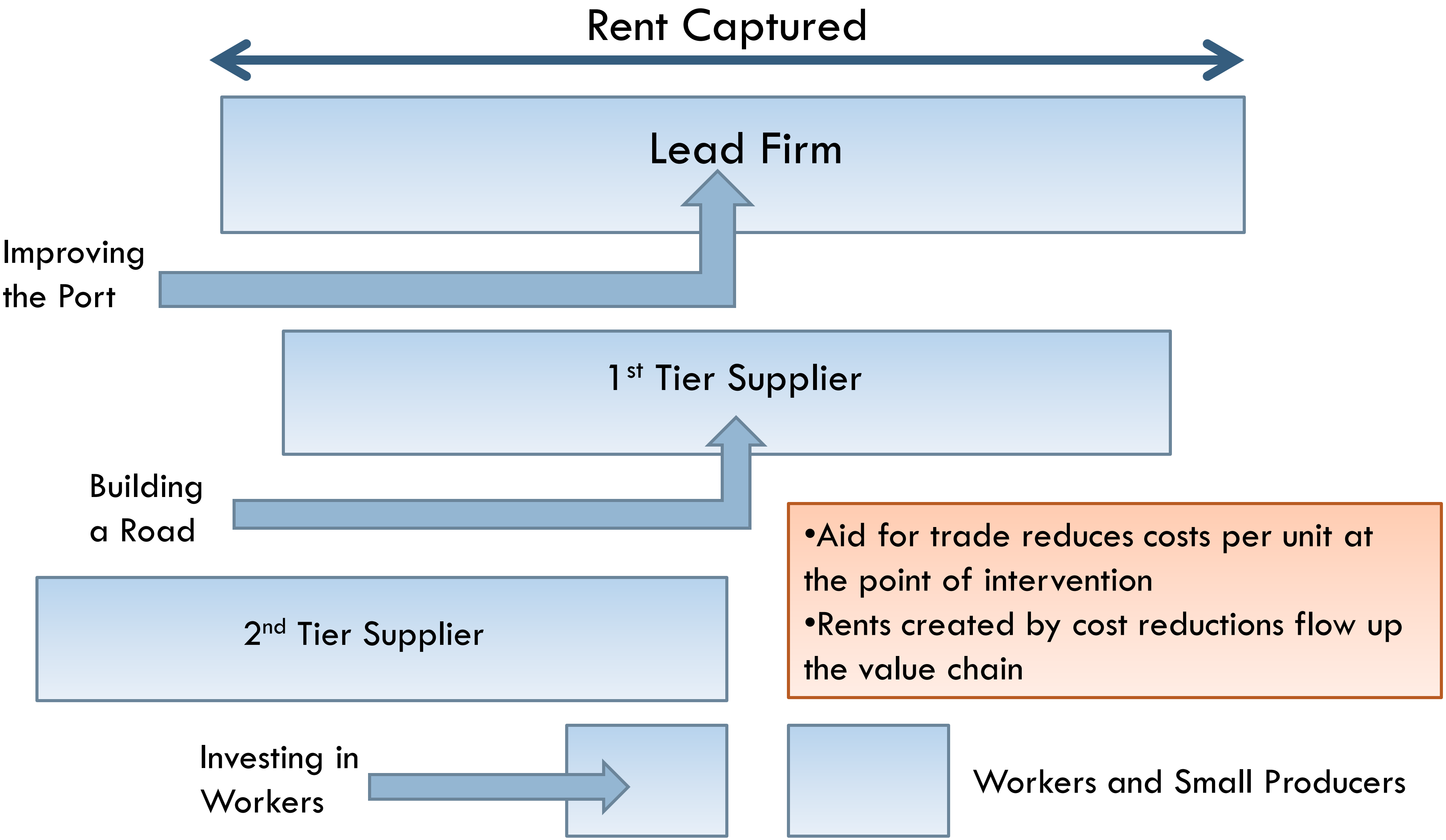
Kroger supermarkets (338,000)

Jobs lost in January 2009 (598,000)

Rent Capture in a Global Value Chain: Endogenous Asymmetry of Market Structures



Liberal and developmental views of Aid for Trade



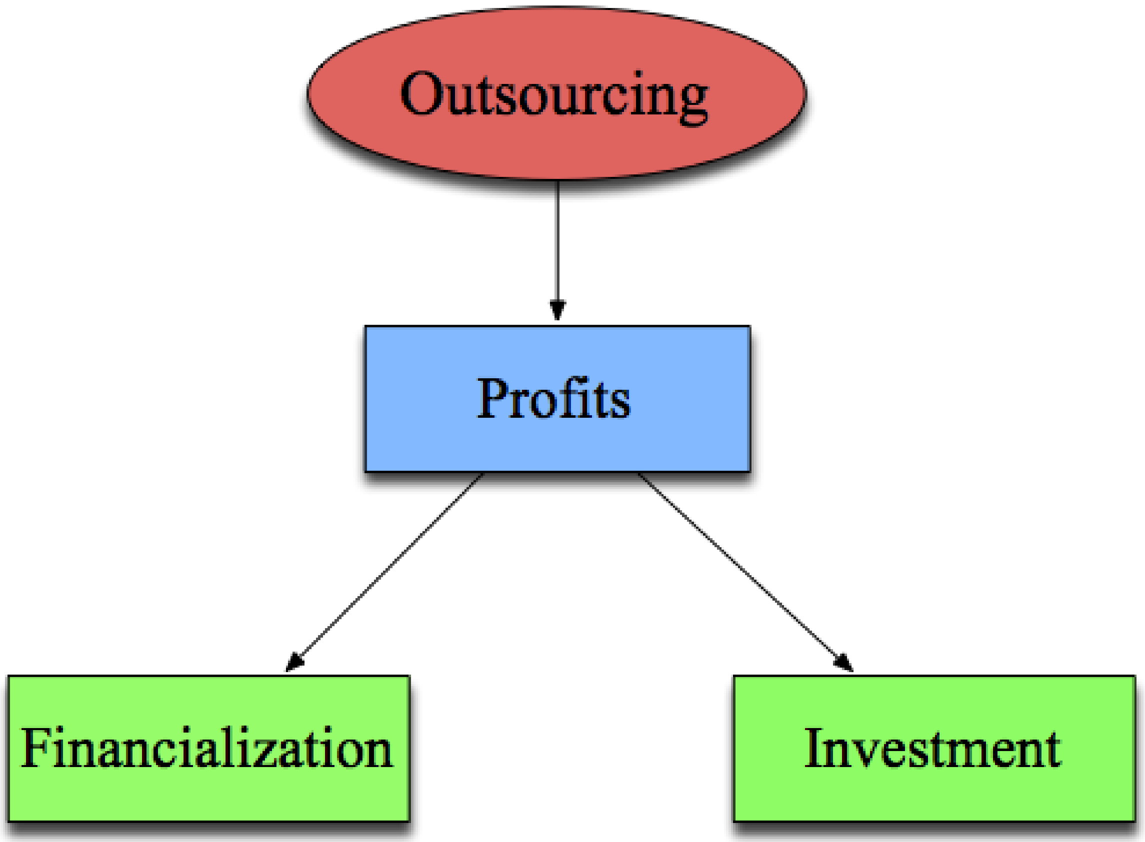
Policy consequence of GVCs: Shift in dynamics of policy lobbying

- "Task trade" means that rather than industry (firms and workers) being threatened by import competition, now only tasks (specific jobs and skills associated with outsourced part of production). Firms benefit from cheaper imports. Tasks are dispersed across industries, thus in general there will be reduced pressure for protection and this will be particularly the case of protectionist efforts by management.
- GVCs can also create concentrations of workers, more likely to organize (Indian auto worker strikes, Foxconn worker protests in China, pressure on labor ministry in Dominican Rep.)

Policy consequence of GVCs: Shareholder value and NFC support for financial deregulation

- Link between outsourcing and financialization has supported the financialization of non-financial corporations, and contributed to stronger lobbying pressure by non-financial corporations against financial regulation.
- Note: Financialized firms also more likely to shift burden (costs, risks, delivery time) to suppliers (Gibbon and Palpacuer, 2005)

Dynamic gains from offshoring vs. financialization



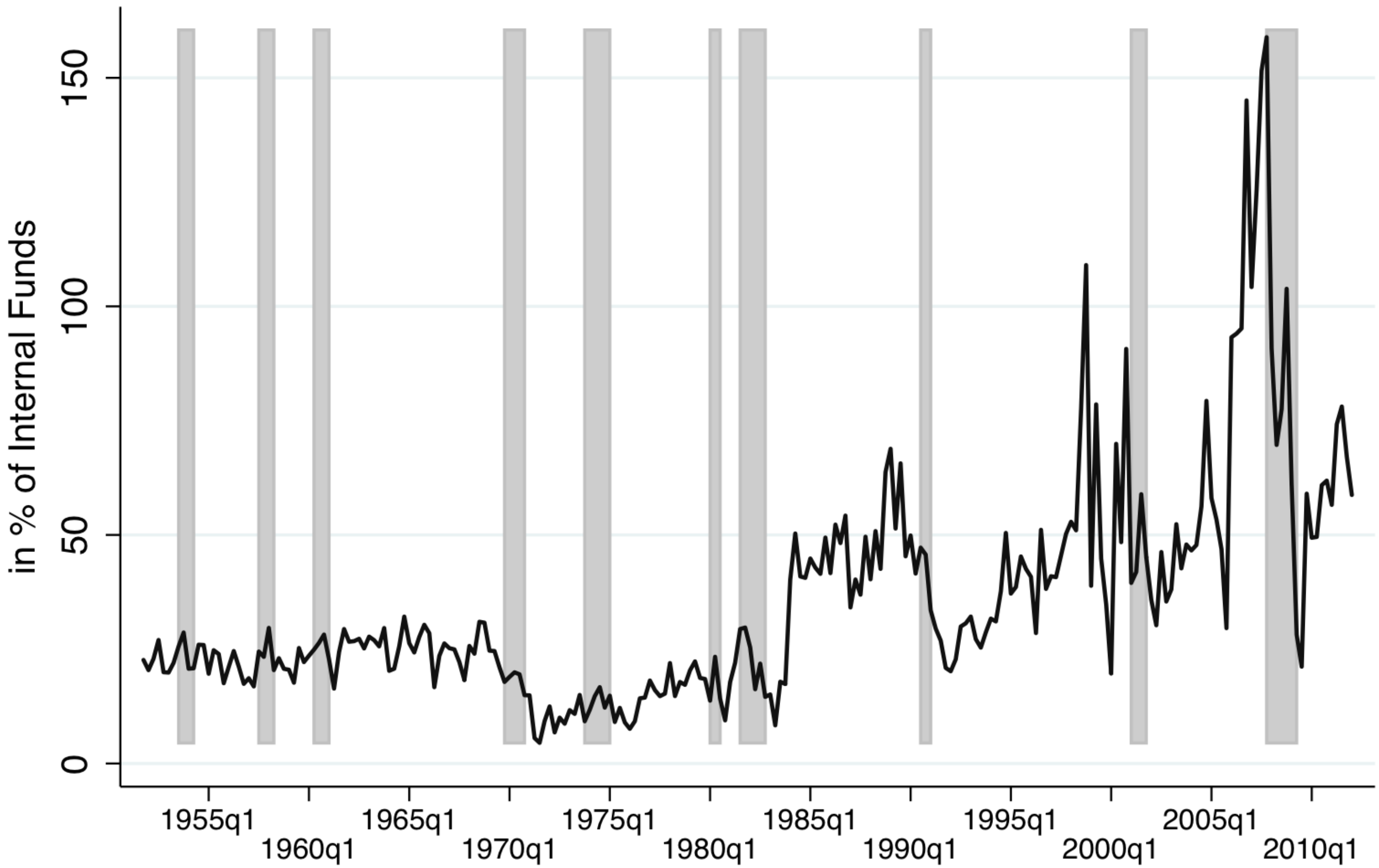
Source: Own illustration

Repurchases and Dividend Payments, Top 30 Nonfinancial, Non-energy Corporations (% of company net income over 2000-07)

Rank	Company	Stock repurchases	Cash dividends	Stock repurchases plus cash dividends
1	Hewlett-Packard	128	33	160
2	Ciscco Systems	151	0	151
3	Microsoft	80	63	143
4	Pfizer	76	61	137
5	Dell	136	0	136
6	Amgen	126	0	126
7	Procter&Gamble	80	44	124
8	Texas Instruments	108	10	119
9	Walt Disney	92	27	118
10	Intel	93	18	110
11	Anheuser-Busch	69	37	106
12	Boeing	69	33	102
13	3M	58	43	101
14	Pepsico	64	35	99
15	UPS	64	34	99
16	Wellpoint	99	0	99
17	United Health Group	95	1	95
18	McDonalds	64	30	94
19	Oracle	92	0	92
20	AT&T Inc	25	65	90
21	Merck	34	53	87
22	Altria Group	26	56	82
23	General Electric	29	49	79
24	IBM	63	15	78
25	Allstate	49	27	77
26	Johnson & Johnson	39	37	76
27	Home Depot	54	16	70
28	Wal-Mart Stores	31	20	51
29	Time Warner	-56	-4	-60
30	CBS	-70	-9	-78

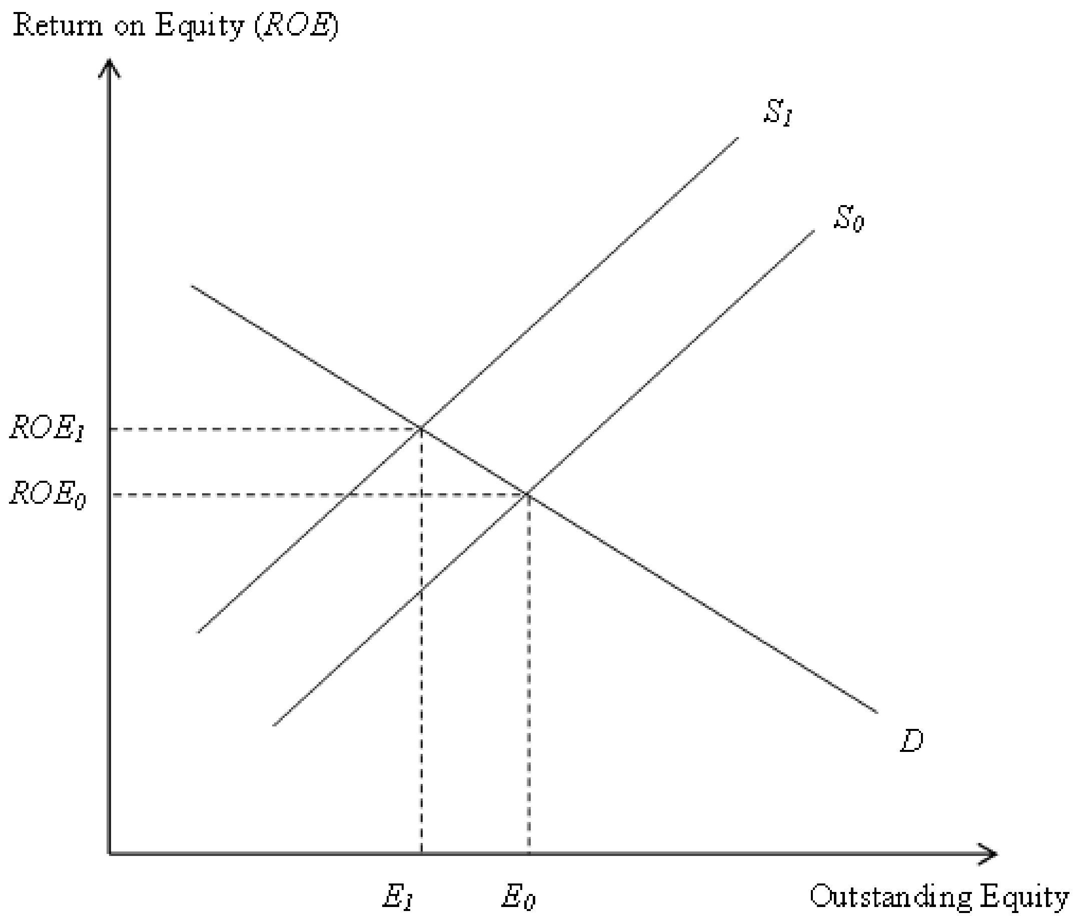
Source: Milberg and Winkler (2010a). Data: Lazonick (2008), Table 7.
NB: Stock repurchases = repurchases of common and preferred stock, net income = net after-tax income, cash dividends = common and preferred cash dividends. Ranked by stock repurchases plus cash dividends.

Net Dividends and Share Buybacks as a share of Internal Funds, 1951-2012 (%)



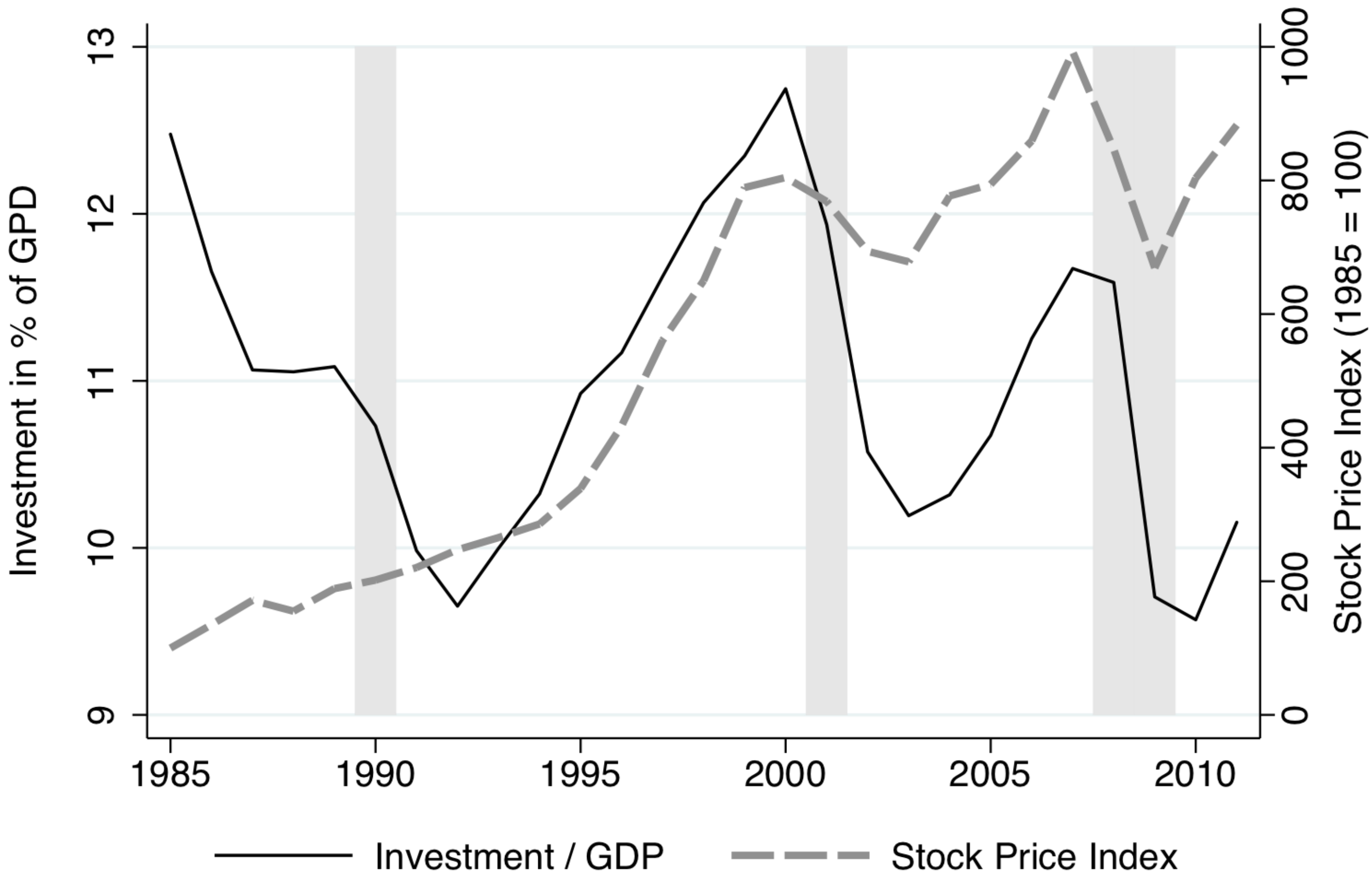
* Sources: Federal Reserve Flow of Funds Accounts of the U.S.; Federal Reserve Bank of St. Louis; NBER. Includes Nonfin. Corporate Business, seasonally adjusted annual rates. Variables used: 'Net Dividends', Net new equity issues', 'U.S. internal funds, book value'

Global Value Chains and the Finance-biased Return on Non-Financial Corporate Equity



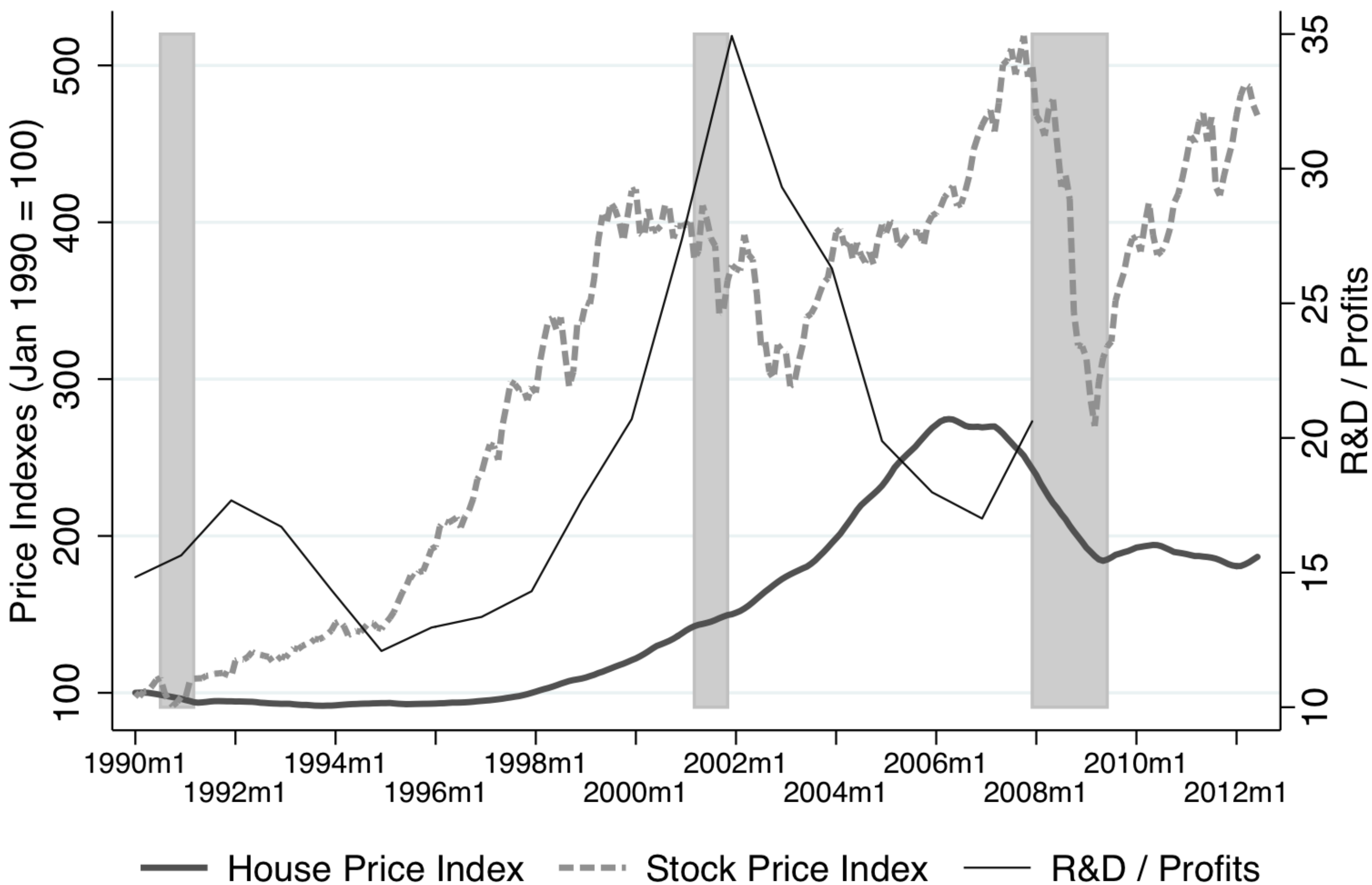
Source: Milberg and Winkler (forthcoming).

Stock Prices and Investment as a % of GDP, U.S., 1985-2011



* Source: BEA; NBER; Federal Reserve Bank of St. Louis. Recession years are indicated in gray. Investment is private, non–residential fixed investment. Stock Prices are the Dow Jones Industrial Average.

R&D Expenditures, Stock Prices and Housing Prices, 1990-2012



* Sources: Fed. Reserve Bank of St. Louis; NBER; Standard & Poor's; BEA. House Price Index is the S&P Case–Shiller 10–City Home Price Index. Stock Price Index is the DJ Industrial Average

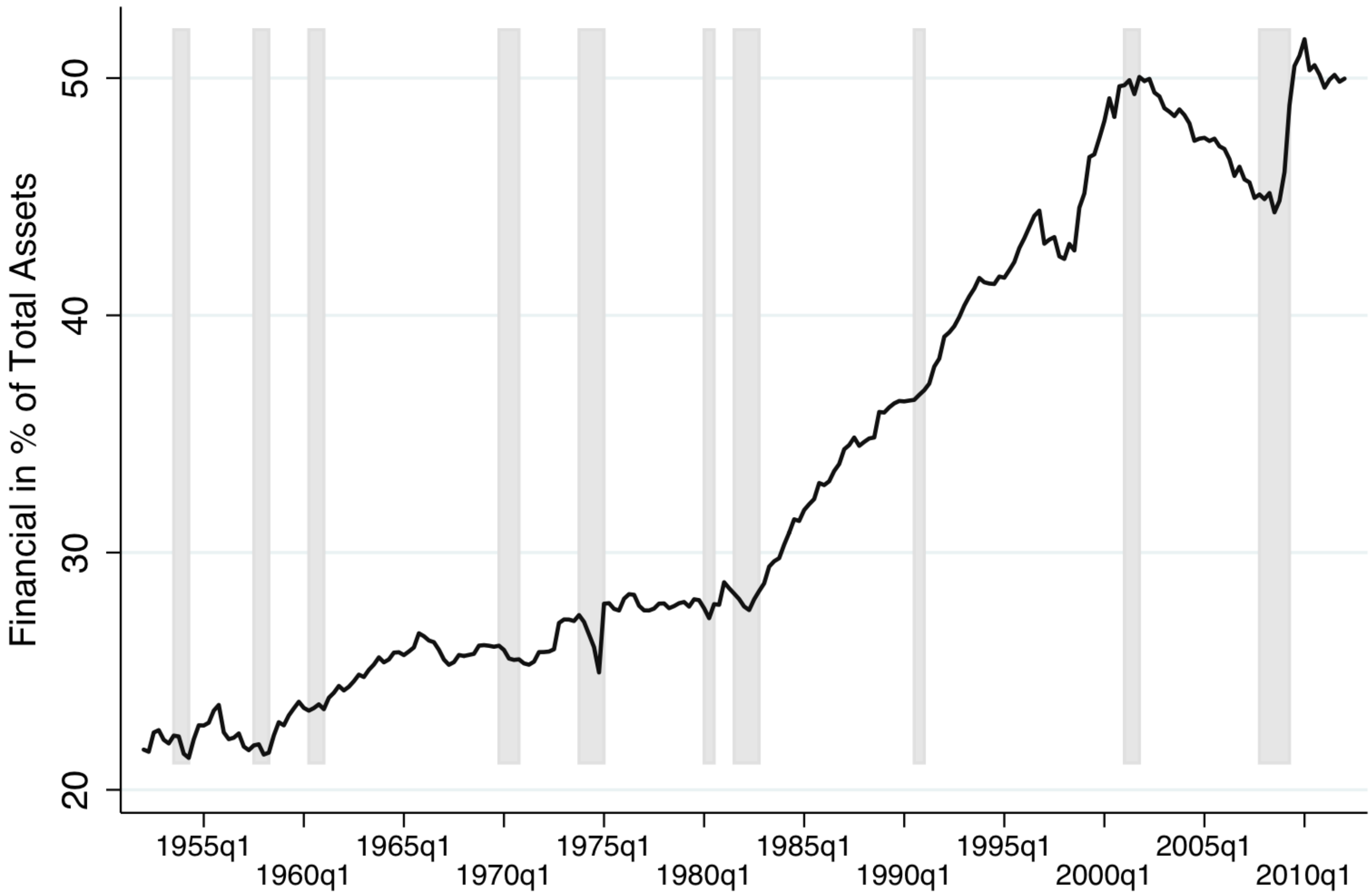
Conclusions

1. VSI is different from ISI and EOI, also presents new challenges in which the state will be required to play an important role.
2. Debate over policy implications of GVCs unlikely to end quickly – classic battle over role of the state, represents basis for a renewed neoliberalism on the one hand and new (post-Washington consensus) era of industrial policy on the other.
3. Beyond this pitched battle are crucial policy issues regarding exchange rates, financial regulation, corporate tax policy – these should not be ignored.

Thank you

Additional slides

NFC Financial Assets as share of Total Assets, 1952-2012 (%)



* Sources: Federal Reserve Flow of Funds Accounts of the United States; Federal Reserve Bank of St. Louis; NBER. Includes Nonfinancial Corporate Business, s.a. annual rates.

Industrial Policy in South Africa

- The current South African development policy emphasizes regional integration as the basis for industrial upgrading, focused on mining, agriculture and pharmaceuticals. South Africa has announced a strategy of processing minerals shipped to China. The latter would prefer to do the processing itself. But for South Africa, the goal of upgrading will involve skills development and higher wages along with higher profits. Industrial policy, in this case, is aimed at shifting production from China to Africa. The regional dimension of South Africa's industrial policy is based on the view that a larger regional entity will have access to more minerals and raw materials, more productive and processing capacity, and larger markets, all aimed at promoting upgrading.