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Beyond GVCs: Local Production Systems and the Political Economy of Capabilities Development in LDCs

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Outline

1. Global structural change

2. The G/RVCs and local production system (LPS) nexus
   - Variety of national and international production networks
   - Governance models (value creation, value capture and endogenous asymmetries in international networks)
   - Value creation-tasks dynamics and technological change in G/RVCs

3. Industrialisation as a local production system development process involving both vertical and horizontal (cross-sectoral) integration and different types of linkages

4. (Local) productive capabilities development as a learning process

5. (Local) productive capabilities development as a political economy process and the binding constraints
Global structural change

- **Increasing value of world imports** (with intermediate goods making up 65% of world imports in 2011)

Source: UNCOMTRADE-Eora GVC Data; See: Foster-McGregor et al, 2016
Global structural change .2

- **Not in all regions** (and the RVCs argument – see Baldwin)

Source: UNCOMTRADE-Eora GVC Data; See: Foster-McGregor et al, 2016
Global structural change .3

- **No downstream integration:** Much of Africa’s participation in GVCs is in upstream production, with **firms in Africa providing primary products and simple manufactures to firms in countries further down the value chain (> value contribution, just 1% of foreign VA)**

Source: UNCOMTRADE-Eora GVC Data; See: Foster-McGregor et al, 2016
Global structural change •

- Not in all sectors (G/RVCs without industrialisation)

Source: UNCOMTRADE-Eora GVC Data; See: Foster-McGregor et al, 2016
Is GVC-led industrialisation working?

Data source: INDSTAT and UNCOMTRADE; See EAC Industrial Competitiveness Report 2017
R/GVCs analysis focus:

If / when / where and why a G/RVCs-led model of industrialisation works depends on:

- Types of national and international production networks

- Governance models (value creation, value capture and endogenous asymmetries in international network)

- Value creation-tasks dynamics and technological change in G/RVCs
Types of national and international production networks

Source: Sturgeon, 2002
Governance models (value creation, value capture and endogenous asymmetries in international networks)

Source: Adapted from Milberg and Winkler, 2013
Governance models (value creation, value capture and endogenous asymmetries in international network)

Source: Adapted from Milberg and Winkler, 2013
Value creation-tasks dynamics and technological change in G/RVCs

- Different types of smiling curve/s (over time and across sectors), and manufacturing tasks determining spikes in value along the chains (e.g. critical product systems and complex automated products)

Value creation-tasks dynamics and technological change in G/RVCs
Beyond GVCs focus analysis

If / when / where and why a G/RVCs-led model of industrialisation works depends on:

the extent to which the local economy becomes increasingly integrated

- vertically along the G/RVCs

- horizontally across productive firms (and sectors and tiers) of the local production system
The nexus between G/RVCs and local production system (LPS): vertical vs horizontal integration/linkages
The nexus between G/RVCs and local production systems

Local production systems (LPSs):

1. Are defined by **different types of backward and forward linkages:**

   • **Production linkages:** input-output relationships inducing backward/forward investments (“Hirschman linkage effect”) along and across sectoral value chains (both vertically and horizontally)

   • **Technological linkages:** technological relationships/relatedness inducing inter-sectoral learning (e.g. mfg-agro), indigenous innovation (e.g. product re-engineering), and diversification pathways

Local production systems (LPSs):

1. Are defined by **different types of backward and forward linkages** (cont.):

   • **Consumption linkages**: income/rents flows mainly earned/captured in the process of staple production and export (tropical agro products and minerals), but also income inflows (e.g. tourism)

   • **Fiscal linkages**: resource flows resulting from state taxing new incomes and rents as well as undertaking trade policies, investment activities, etc.
(Local) productive capabilities development as a learning process

2. Linkages constitute the fundamental structure of a LPS with both a potential for

- **inducing** learning and diversification dynamics, investment in micro-level process efficiency, and production scaling-up (both technology push and demand/intermediate demand pull)

- **constraining** scale-efficient investments, productivity enhancing investments, value-creation and diversification processes, via production-related interlocking bottlenecks
Analytical map of LPS dynamics

a. Increasing LPS production linkages and technological linkages
b. Increasing value distribution/creation opportunities (reduced rents chains)
Interlocking bottlenecks and political economy factors constraining local production system development (1)

Production linkages in EA:

• over-dependence on imported (also smuggled) intermediate goods including agricultural and industrial raw materials;

• agricultural sector uncompetitive for lack of infrastructural investments and competitive raw materials/reliable supply (e.g. irrigation or agro-processing bottlenecks – e.g. Zanzibar/Pemba milk and salt industry);

• price manipulation and rents extraction (e.g. sugar price) reduce opportunities for SMEs development

• domestic supply chains are limited (when present there is little competition) and “missing middle” companies with high concentration in MVA and EXP > structural dualism;
Example: **Manufacturing sector structural dualism**

**MVA by industrial sector and major manufacturing industries and by establishment size**

- Manufacture of rubber and plastics products
- Manufacture of other non-metallic mineral products
- Manufacture of tobacco products
- Manufacture of beverages
- Manufacture of food products
- Manufacturing
- Mining and Quarrying

**Total export by industrial sectors and establishment size**

- Manufacture of food products
- Manufacture of tobacco products
- Manufacturing
- Mining and quarrying
- Total exports
- Manufacture of rubber and plastics products
- Manufacture of other non-metallic mineral products
- Manufacture of textiles

Source: Andreoni 2017

80%VA, 200 est

87%VA, 200 est
Interlocking bottlenecks and political economy factors constraining local production system development (2)

Technological linkages in EA:

• Firms tech capabilities are limited given chronic lack of engineering skills and limited investments in vocational training (e.g. VET schemes are dysfunctional – e.g. skills levy in Tanzania)

• Limited technological scale-up and manufacturing capabilities (public technology intermediaries are underfunded and lack of specialist contractors – Gatsby-DFID funded Msingi is an opportunity for EA)

• Small companies do not meet product and process standards;

• Limited transfer of manufacturing technologies to agriculture

• Limited capacity in VC upgrading, even in low-tech sectors
**Limited VC upgrading:** Cotton textiles and apparel exports declined by 7% and 15% respectively per annum in the EAC.

See: EAC Industrial Competitiveness Report 2017
Interlocking bottlenecks and political economy factors constraining local production system development (3)

Consumption linkages in EA:

- significant increases in consumption/rents extraction, however the new incomes tend to be captured by imported (and smuggled) products.
- cheaper products/dumping practices driven by scale-economies – China mfg products crowding out low-tech value chain entrance;
- ‘perceived’ higher quality;
- standardised and reliable products, interchangeability for intermediate products.
Interlocking bottlenecks and political economy factors constraining local production system development (4)

Fiscal linkages in EA:

• low enforcement capabilities in tax and duties collection;
• high mineral rents and low royalties;
• huge informal economy and limited tax base;
• low government capacity in using rents for productive investments;
• tax elusion (e.g. tourism industry in Zanzibar; mining sector in South Africa, etc.)
Interlocking bottlenecks and political economy factors constraining local production system development (5)

**Political economy factors**: the distribution of power among business organisations and political clientelistic networks (political settlement – Khan) is such that:

- Conflicts between importers/rentiers and productive organisations
- Complex interests configuration: The same person can be a politician, businessman, importer, rentier, producer…
- Business organisations tend to be uncompetitive and rely on political connections to operate in the market
- Conflicts within sectoral value chains, insiders and outsiders…
Industrial policy implications

• The effectiveness of policy and business/FDI investment strategies depend on targeting critical nodes/bottlenecks, organisations, and linkages in the local production system (e.g. sector/task specific skills development, competition in different VCs tiers, increasing local content/VA, reducing rents chains/resource capture, improving investment promotion EPZs/SEZs, etc.).

• Policy and business investments strategies must be structurally feasible (production/technology assessment) as well as politically viable (political settlement analysis).
Thanks for your attention
Comments are welcome

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References


