

GLOBAL COMMODITIES FORUM

7-8 April 2014

**Beyond infant industries
and trade liberalization:
Productive development in a value chain
and cluster context**

by

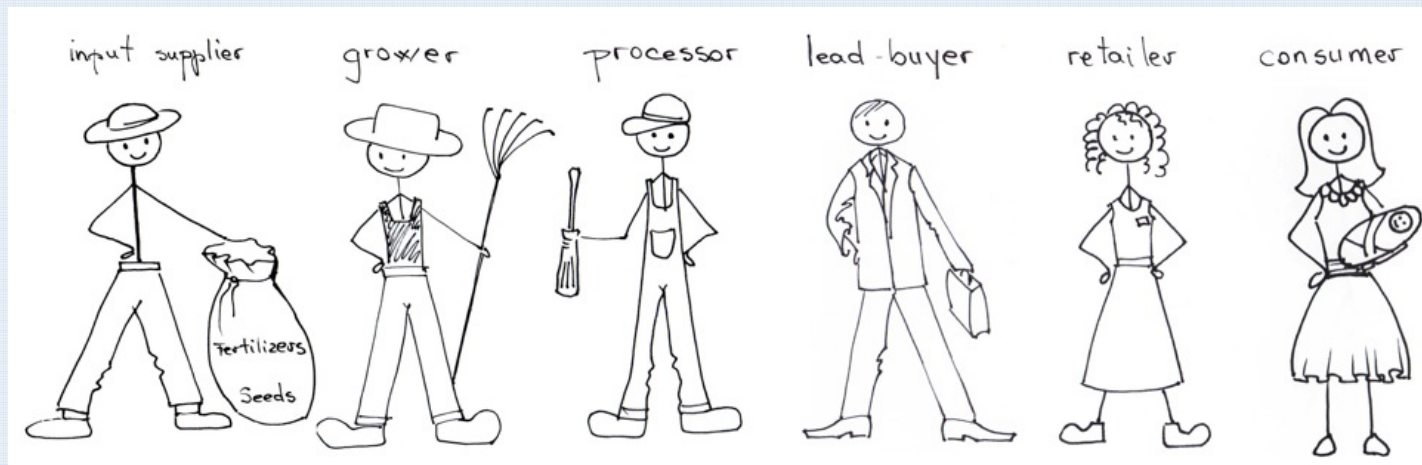
Mr. Frank Hartwich
UNIDO

The views expressed are those of the author and do not necessarily reflect the views of
UNCTAD.

Beyond infant industries and trade liberalization: Productive development in a value chain and cluster context

Frank Hartwich, UNIDO

Presentation at the UNCTAD annual Global Commodities Forum
“Global Value Chains, Transparency and Commodity-based Development”
7-8 April 2014 Palais de Nations, Geneva



The issue to be discussed

- Protectionism versus free-trade debate dominated discourse on policy
- Infant industry argument often used to make the case for industrial policies
 - Underdeveloped industries not able to compete under free market conditions in presence of first developers
- All this partly relevant in presence of global value chain dynamics
 - Increasing specialization
 - Increasing concentration of production and trade
 - Increasing volume of commodity trade
 - Increasing engagement of consumers
 - New information and communication technologies
 - Focus on inclusive and sustainable development

Structural change of industries

- Structural Change: Industries have certain size and weight in economy, changing over time and with degree of development
- Industrial policy should seek to promote structural change and identify best strategy for level of development of country
- Example:
 - Early stage of industrialization: *mover from agriculture to labor-intensive or resource-based manufacturing*
 - Later stage: *upgrading and diversification in manufacturing*
 - Advanced stage: *technological innovation*

Structural change of industries and the role of value chains











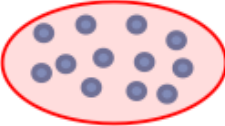



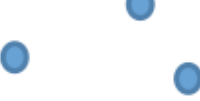

Value chain organization can influence structural change

- Advanced technology gets introduced/imported
- Linkages to international production networks are established
- Buyers exercise buyer-power and dictate standards
- Global players enable branding, marketing capacities and linkages to end-buyers
- Local producers depend on relationships of international suppliers and buyers

Who drives innovations in value chains?

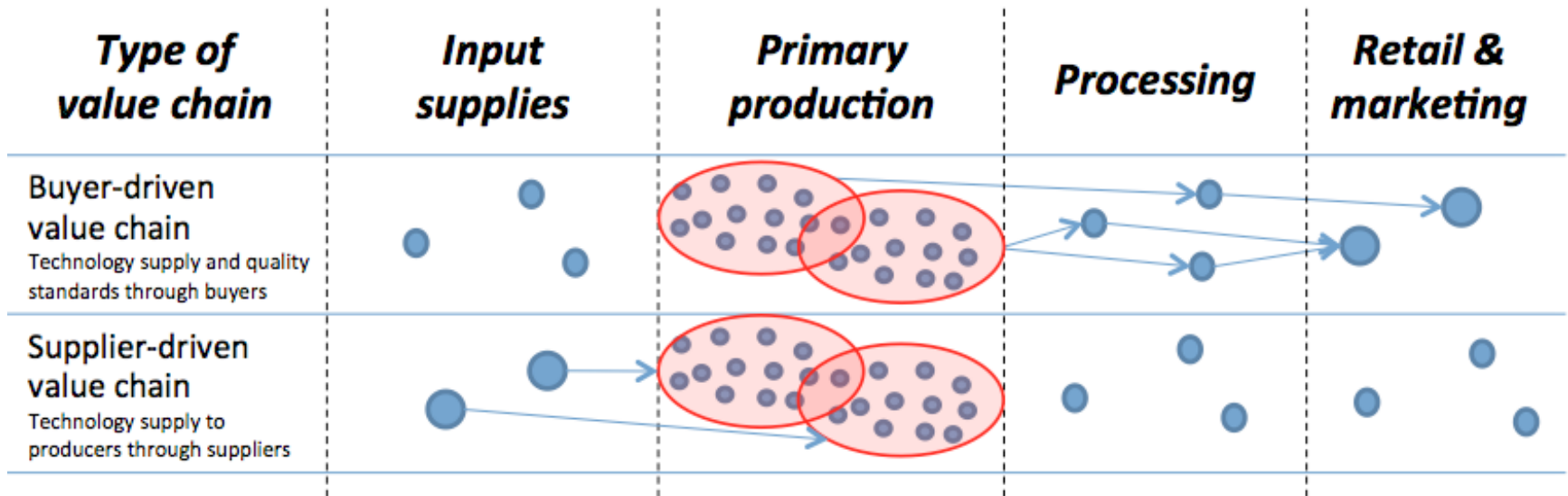
Type of innovation	Innovators in the value chain		
	Primary Producers	Processors	Marketers/retailers
Supplier-driven innovations	Example: Seed company supports farmers to adopt a new seed variety	Example: Oil palm plantation engages in setting up palm oil processing plant	Example: Sugar processing company engages in the branding and marketing of new sugar products
Self-reliant innovations	Example: Farmer's improve their traditional form of cultivation, e.g. switch from rain-fed agriculture to irrigation	Example: Vegetable canneries develop new recipes for pickles.	Example: Corn flakes producer develops new packaging and branding strategy.
Buyer-driven innovations	Example: Rice mills support farmers to apply new high yielding varieties together with fertilizer and agronomy package	Example: Chocolate companies support cocoa processors to use more efficient cocoa processing methodology	Example: Coffee consumers articulate their demand for gourmet roast coffee

Generic examples of clustering across segments in the value chain

Type of value chain	Input supplies	Primary production	Processing	Retail & marketing
Dollar Bananas Value chain without cluster				
Fruit juices Clustering on the level of primary production				
Furniture making Clustering on the level of wood processing				
Metal production Clustering on the level of metal products retailing (e.g. tools)				

Source: The authors

Global value chain dynamics and the role of clusters

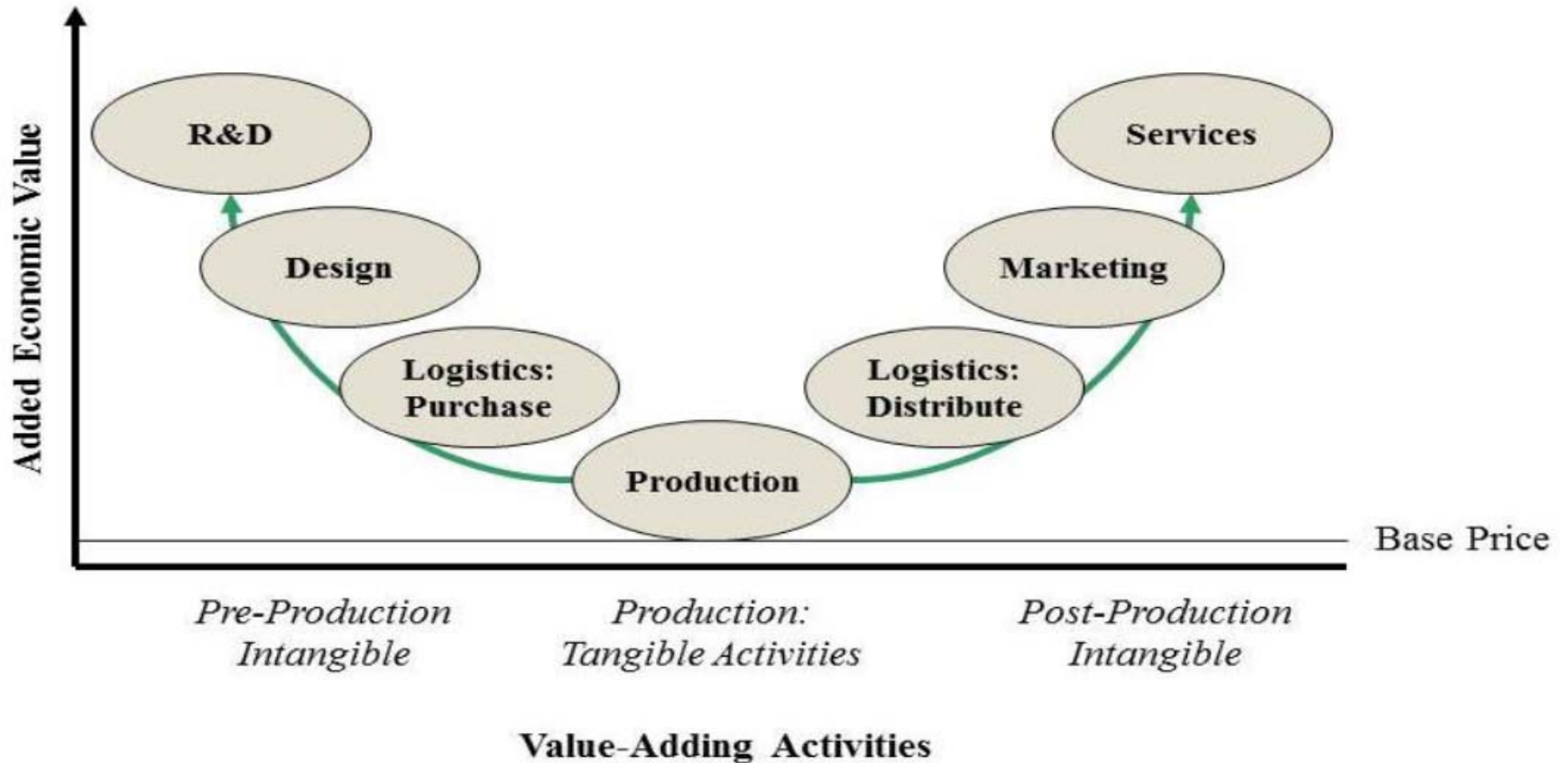


Source: The authors

What happens without industrial policies

- Inclusion in value chains not necessarily means more profit for developing country suppliers
- Race to the bottom with other countries
- World market shocks are pushed down to developing country suppliers
- Value continues to be captured by global players, due to missing links, technology and skills
- Certain sectors/countries simply not able to enter global value chains

How VC development-relevant industrial policies could look like?



Source: Gereffi, 2010, cited in Warwick 2013.

Policy domains to address value chain issues

Figure: Policy instruments for value chain development

	Level of Intervention	R&D Product Design	Inputs & supplies	Production	Processing	Marketing
Regulation	Macro-level					
	Industry/cluster level					
	Firm level					
Tariffs and taxation	Macro-level					
	Industry/cluster level					
	Firm level					
Economic incentives	Macro-level					
	Industry/cluster level					
	Firm level					
Learning and information	Macro-level					
	Industry/cluster level					
	Firm level					
Organizational support	Macro-level					
	Industry/cluster level					
	Firm level					

Source: The authors

Areas value-chain relevant policies should aim at

- More substantial profit generation for local firms
 - Cost reduction, productivity increase and expansion of production
- Avoid locking development country suppliers in technology trajectories
 - Technological process upgrading beyond lead buyer technology - South-South options.
- Don't stay in low-value production and processing
 - Help firms engage in new and different segments of the value chain, functional upgrading.
- Cluster-development beyond industry parks
 - Knowledge exchange, joint learning, cluster organization, export consortia,
- Support to quality control and standards compliance infrastructure
 - But only if it feeds into concrete value chain development strategies
- Make global value chain compliance less random and lead-player-dependent:
 - Develop competences in clusters and industries systemically across a number of activities and services.
- Going local and regional: strategies for non-compliers in international competition
 - Develop local and regional markets, set up value chain linkages across regions

Further illustration of all these comes in Mr. Patacconi's presentation tomorrow morning

Conclusions

- International production and trade system subject to GVC organization.
 - Imperative to redefine/strengthen industrial policies in dev. countries .
- Current efforts to make industrial policies GVC-compliant are insufficient.
- More nuanced policy instruments required focusing on learning and information as well as organizational support.
- Trade-related measures less relevant.
- Focus on inclusive and sustainable industrial development
 - Global players may not introduce it
 - Global consumers increasingly demand it
 - Requirement for economic growth in dev. countries.