

FDI and Trade in GVCs

Preliminary Findings on Investment and Value Added Trade in the Global Economy



Latin America's entry in the global offshore service industry

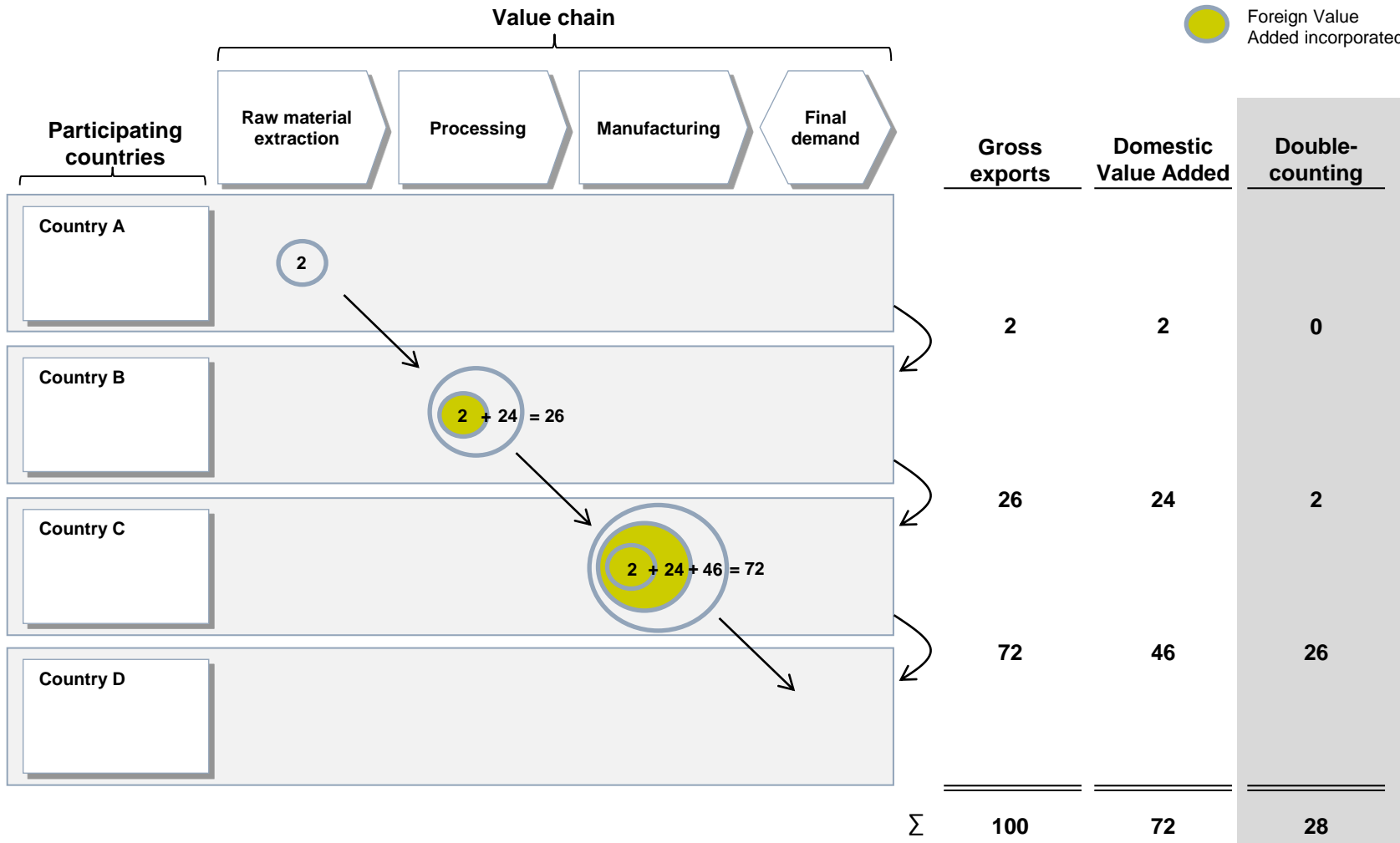
Masataka Fujita,
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Division on Investment and Enterprise
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Geneva, 9 April 2013

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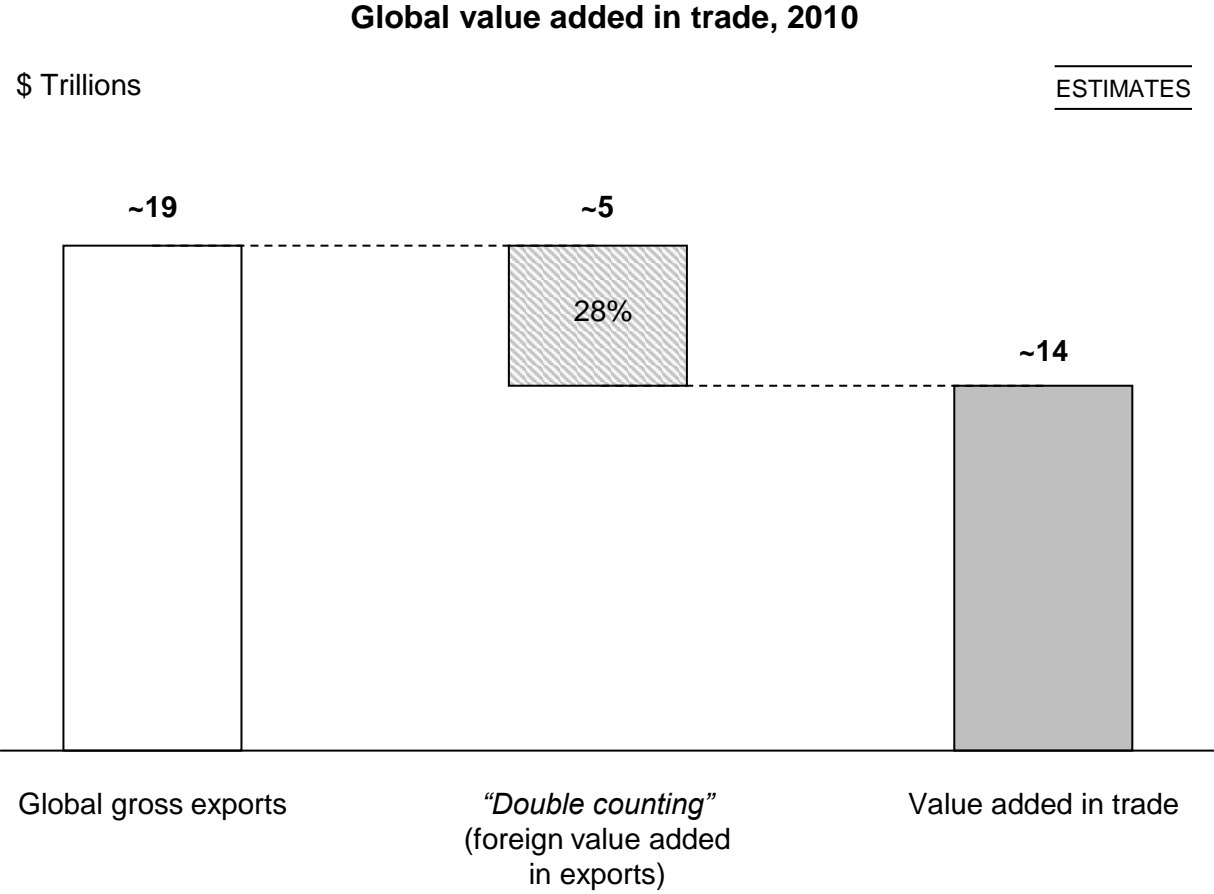
- **Value added trade in the global economy**
- **GVCs: the trade-investment nexus**
- **The development impact of GVCs**
- **The way forward: a policy analysis agenda**

Value Added Trade: how does it work?

-  Domestic Value Added in exports
-  Foreign Value Added incorporated



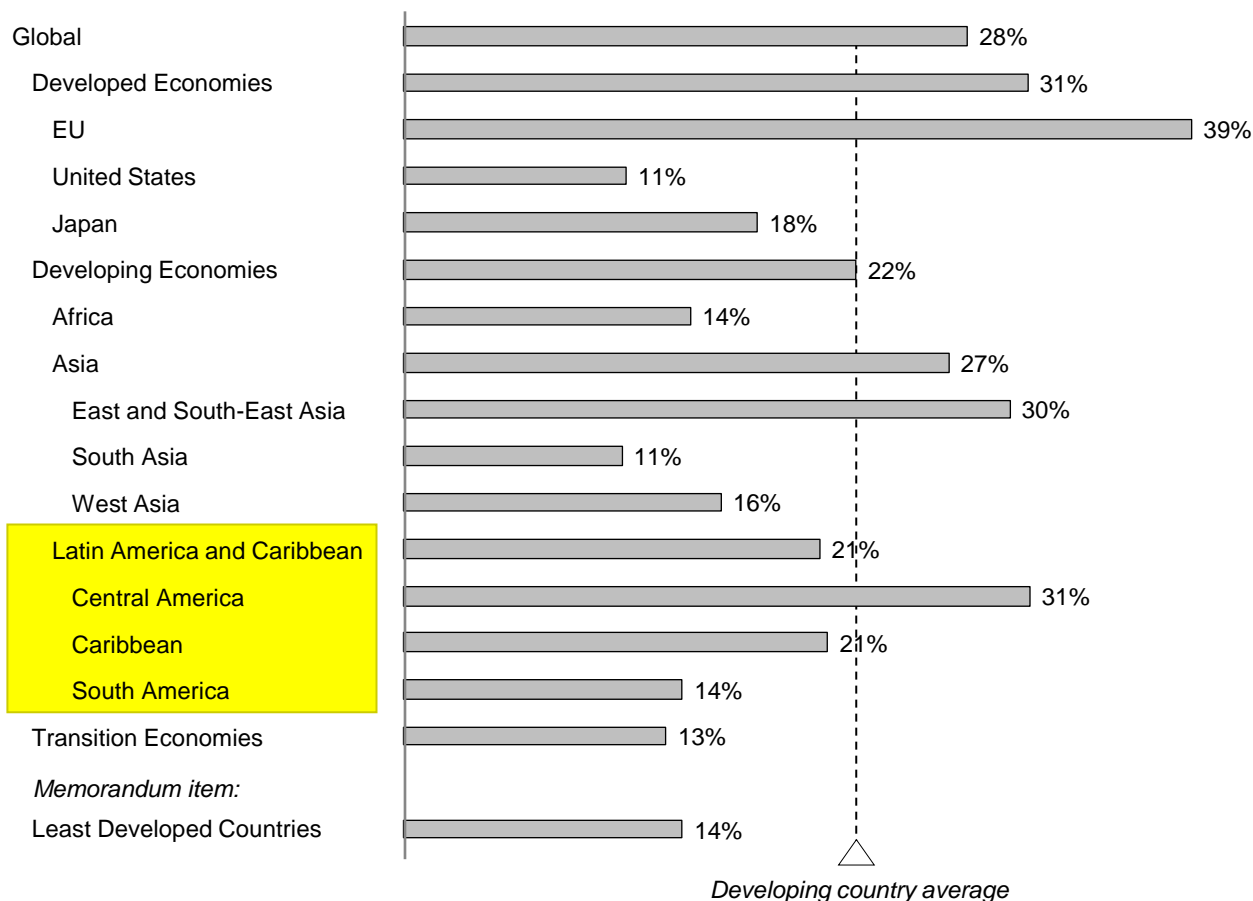
How much value added does global trade actually generate?



Source: UNCTAD-EORA GVC Database, UNCTAD estimates.

Which countries use more imported value added to generate their exports?

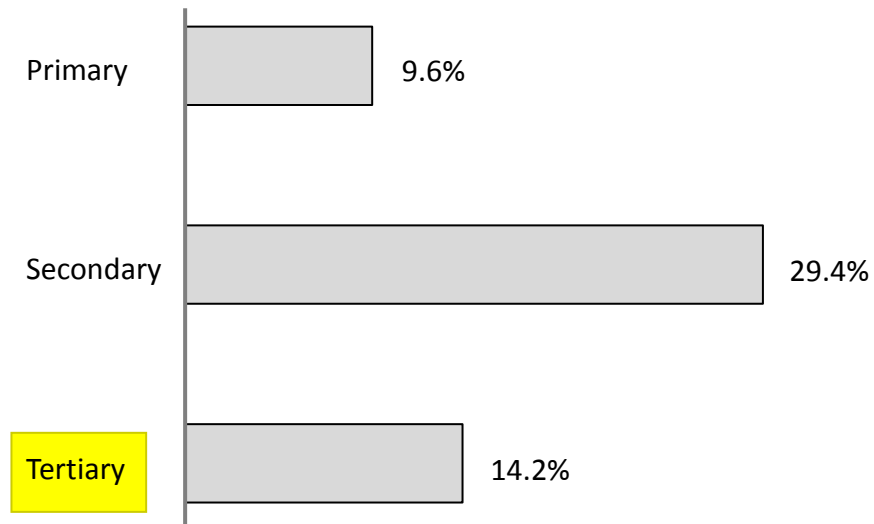
Foreign value added in trade, by region, 2010



Source: UNCTAD-EORA GVC Database.

Which sectors have the most segmented value chains?

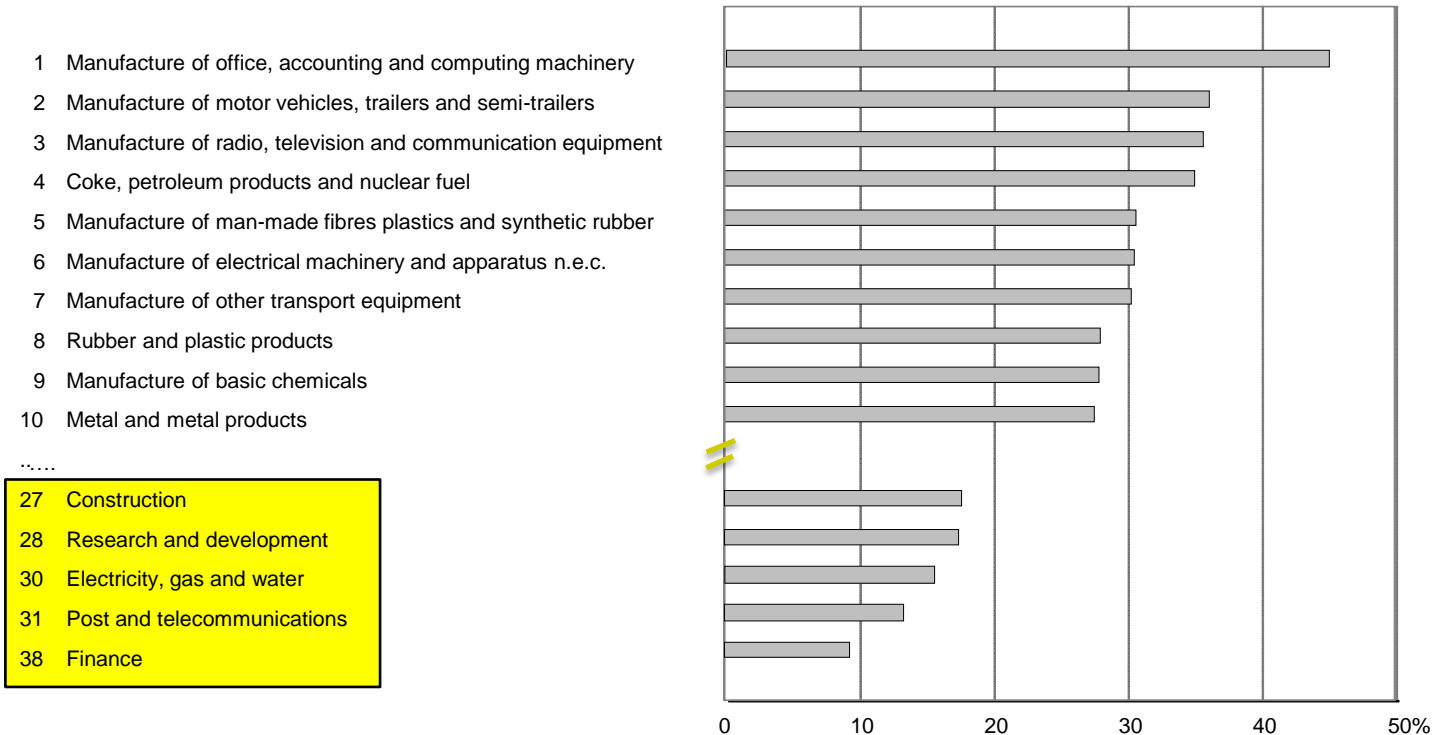
Share of foreign value added in exports, by sector, 2010



Source: UNCTAD-EORA GVC Database.

Which industries have the most segmented value chains?

Share of foreign value added in exports, top 10 industries and top 5 services industries, 2010

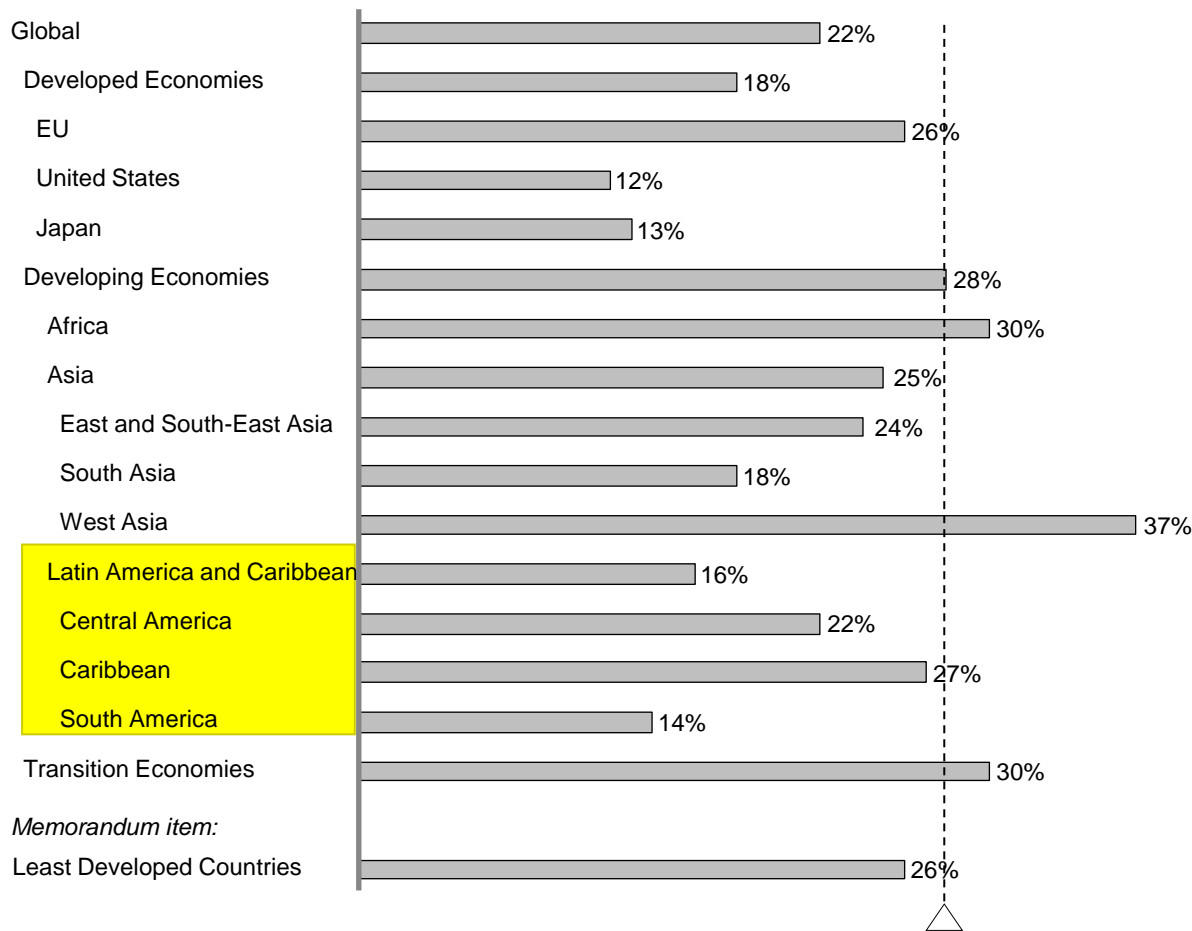


Source: UNCTAD-Eora GVC Database.

Note: Based on 42 industries at various levels of industry classification.

How much does value added trade contribute to countries' GDP?

Domestic value added in trade as a share of GDP, by region, 2010

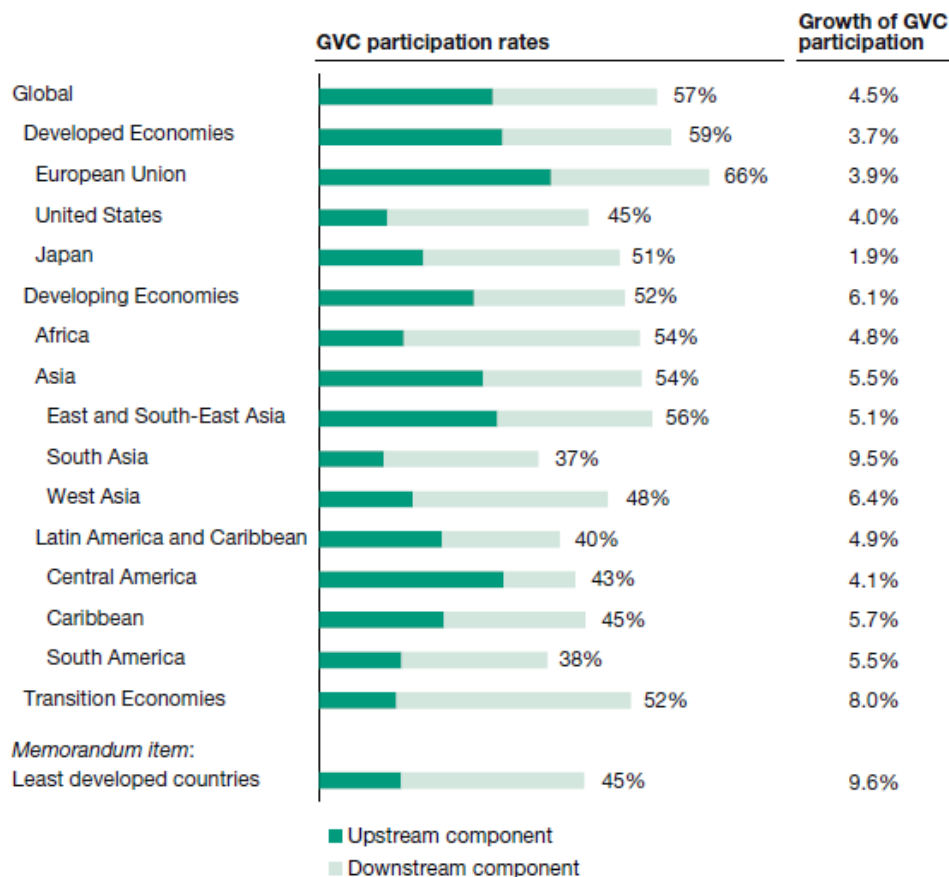


Source: UNCTAD-EORA GVC Database.

Developing country average

Which regions participate more in GVCs?

GVC participation, 2010, and GVC participation growth rates, 2005-2010

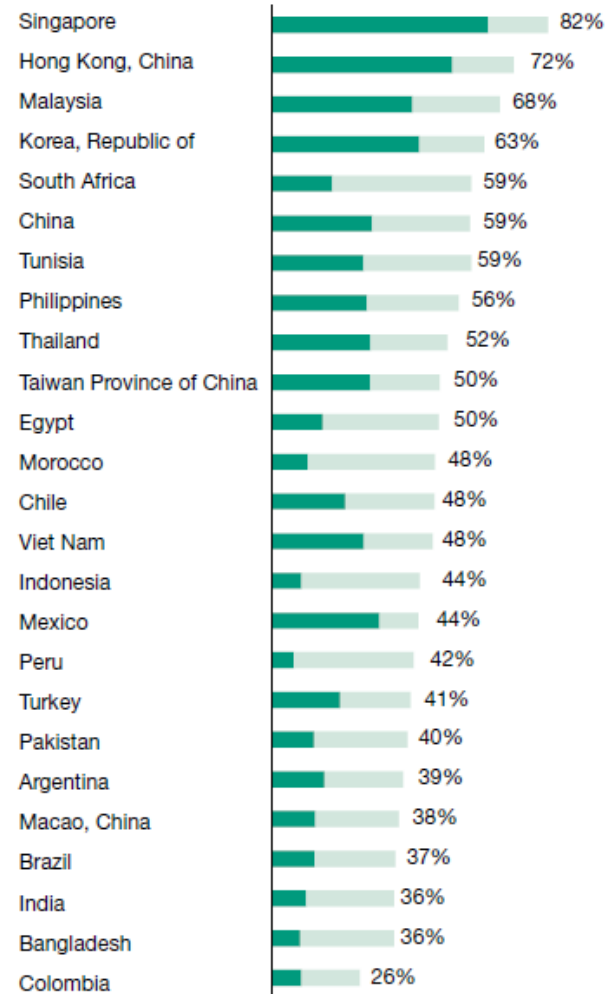


Source: UNCTAD-Eora GVC Database.

Note: GVC participation indicates the share of a country's exports that is part of a multi-stage trade process; it is the foreign value added used in a country's exports (upstream perspective) plus the value added supplied to other countries' exports (downstream perspective), divided by total exports. GVC participation growth here is the annual growth of the sum of the upstream and downstream component values (CAGR).

Which countries show the highest GVC participation?

GVC participation rate of the top 25 developing economy exporters, 2010



Source: UNCTAD-Eora GVC Database.

Note: excludes predominantly oil-exporting countries.

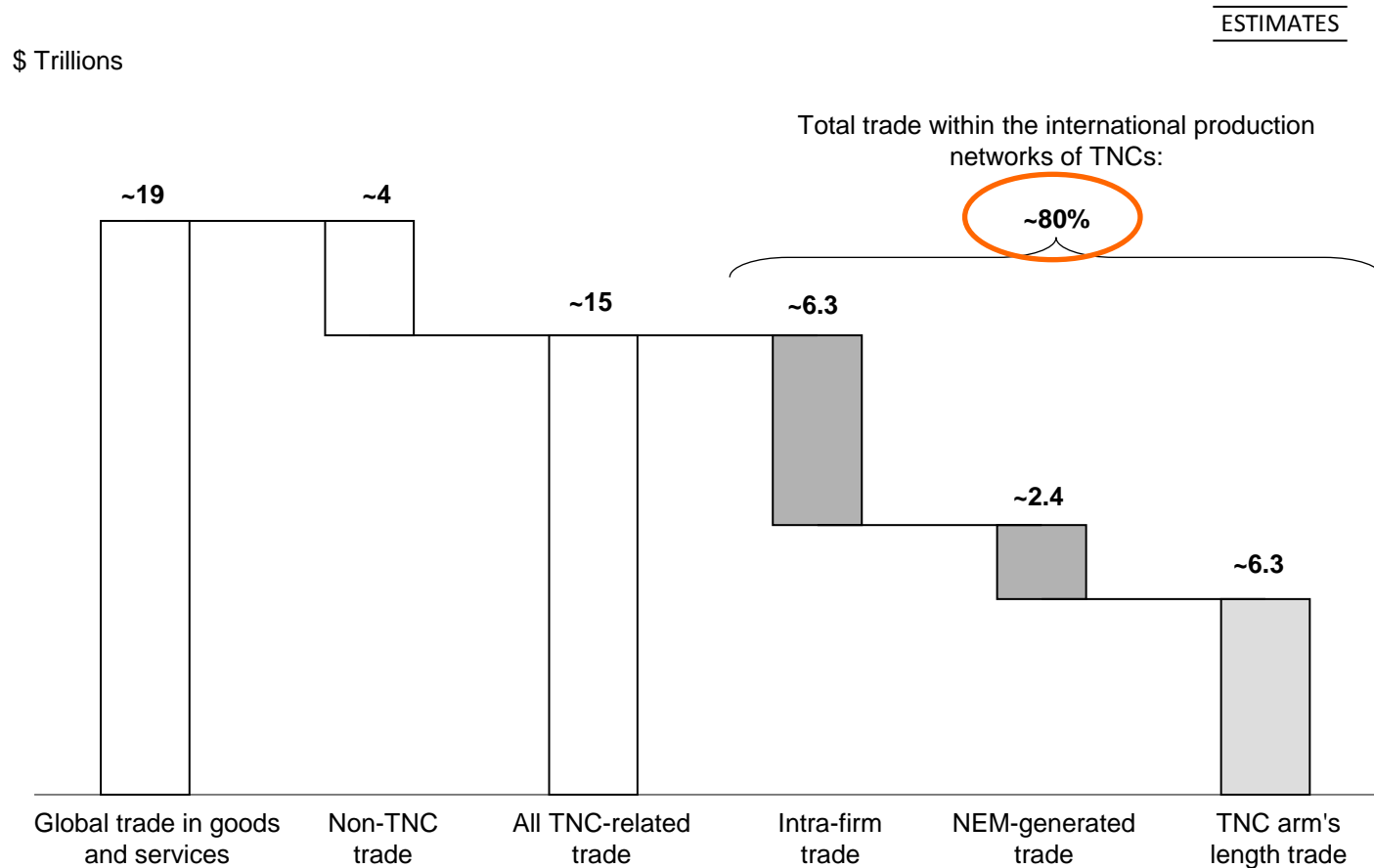
■ Upstream component
■ Downstream component

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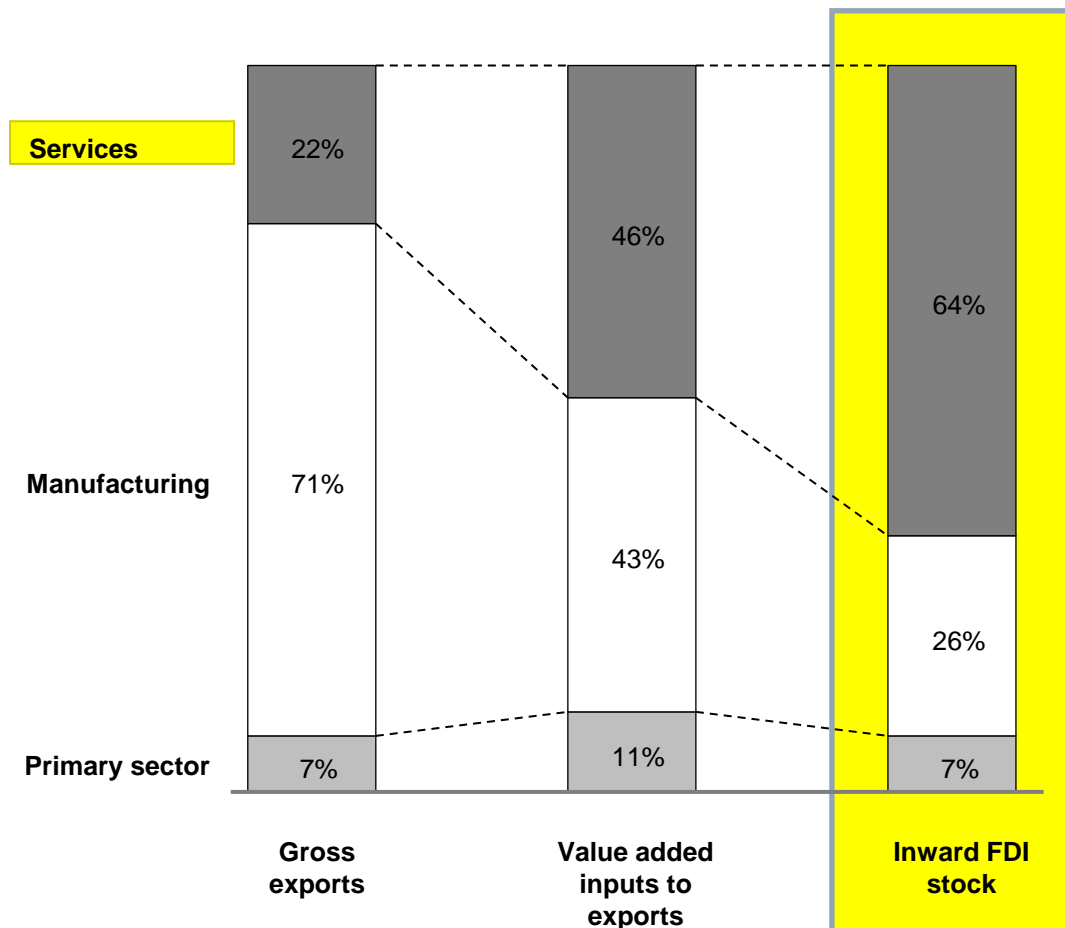
What is the role of TNCs in shaping value added trade patterns?

Global trade (exports of goods and services), by type, 2010



Source: UNCTAD estimates, based on WIR12 (table I.8); BEA; EFIGE; Altomonte et al. 2012.

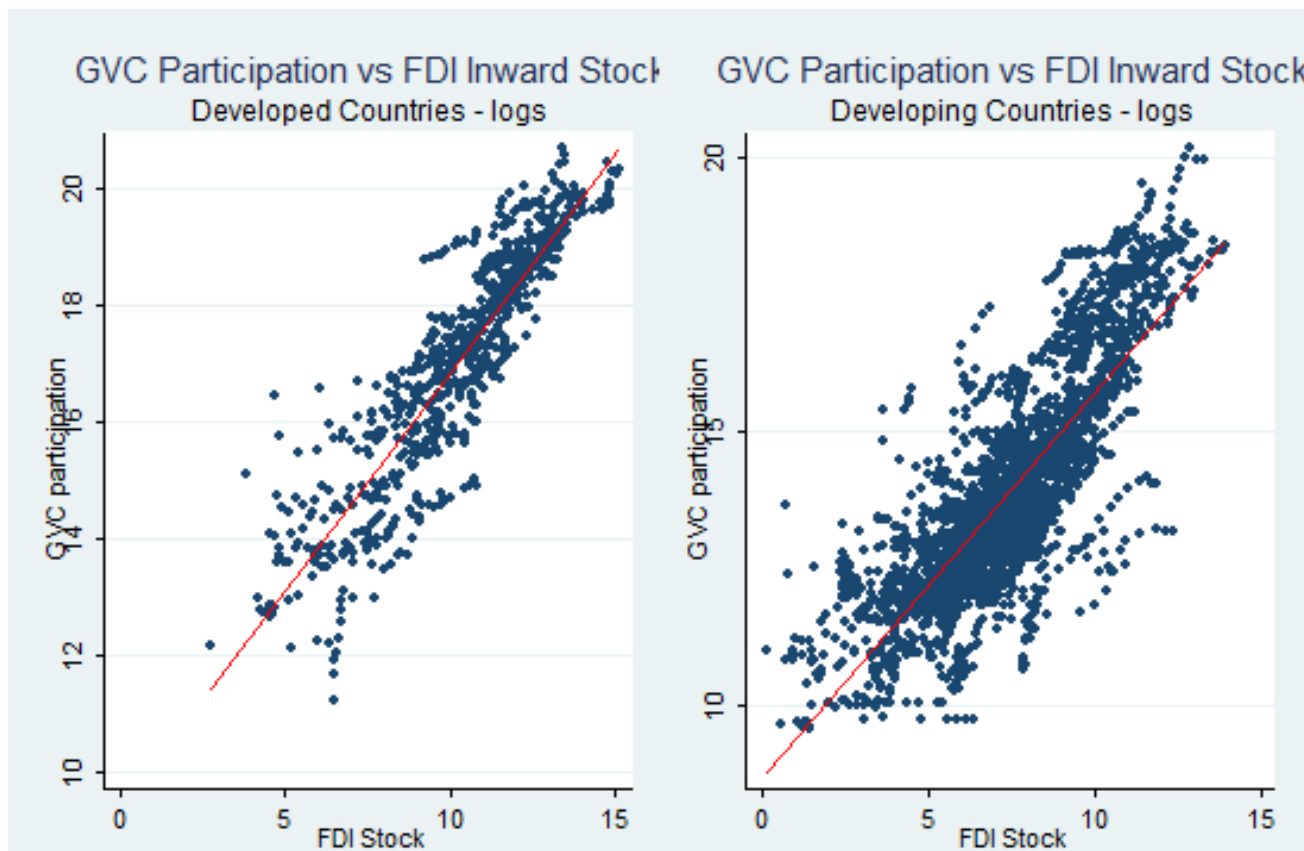
What is the role of TNCs in shaping value added trade patterns?



Source: UNCTAD-EORA GVC Database, UNCTAD FDI Database.

How does FDI affect countries' GVC participation?

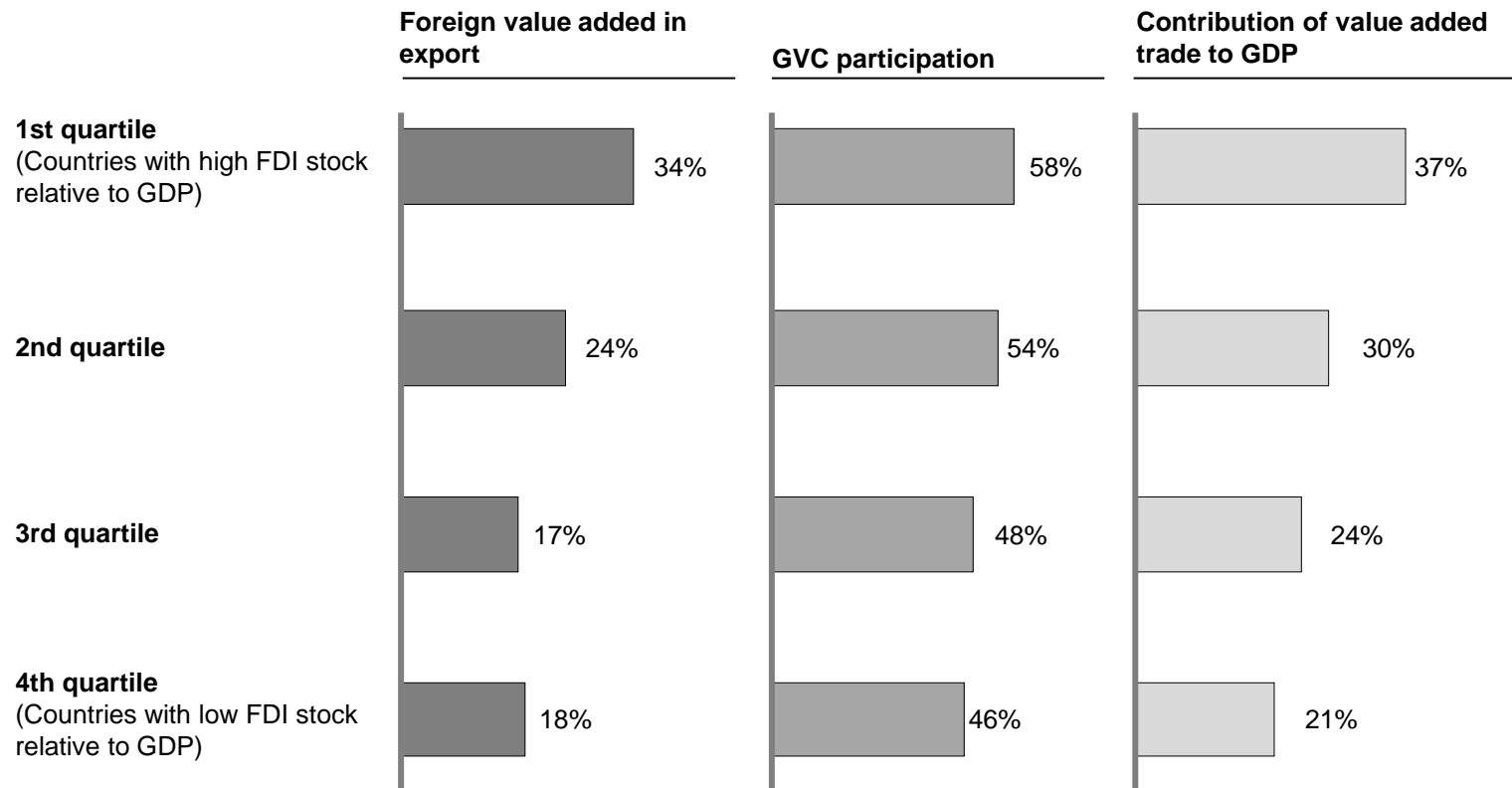
Correlation between levels of inward FDI stock and GVC participation



Source: UNCTAD-EORA GVC Database, UNCTAD FDI Database, UNCTAD analysis (based on datapoints for 187 countries over 20 years).

How does FDI affect countries' GVC participation?

Key value added trade indicators (median values), by quartile of FDI stock relative to GDP, 2010



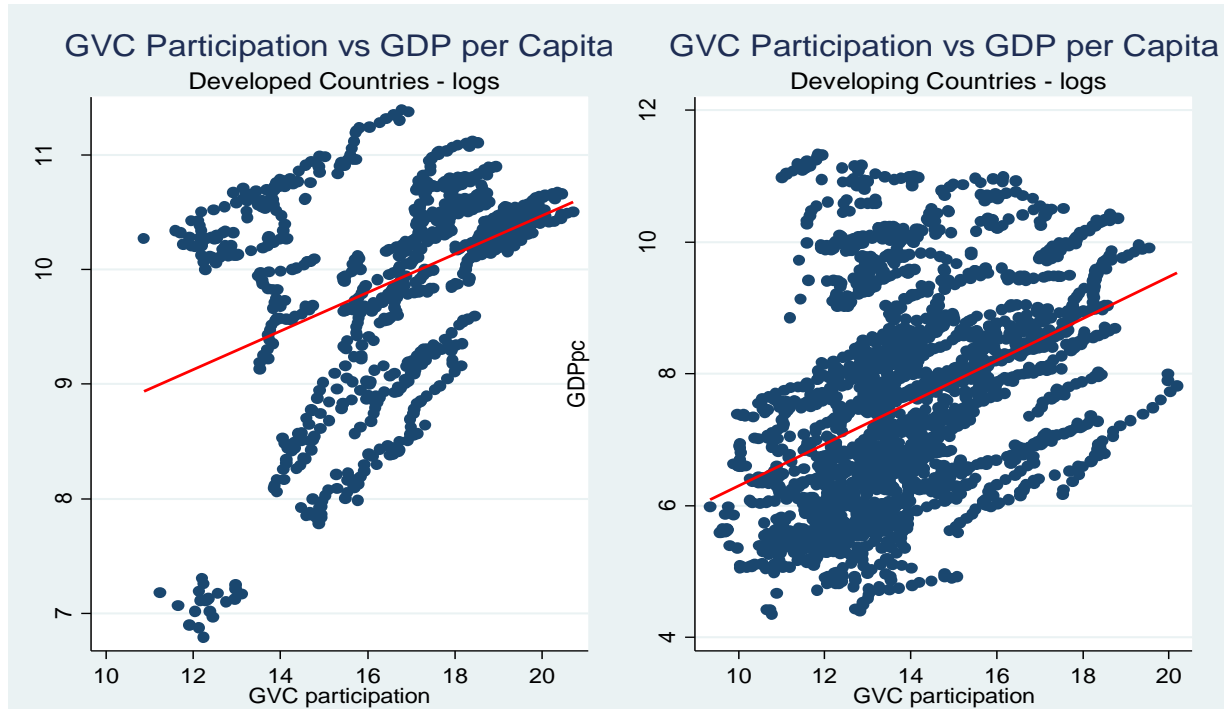
Source: UNCTAD-EORA GVC Database, UNCTAD FDI Database, UNCTAD analysis (based on 180 countries).

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What is the impact of value added trade and GVCs on development?

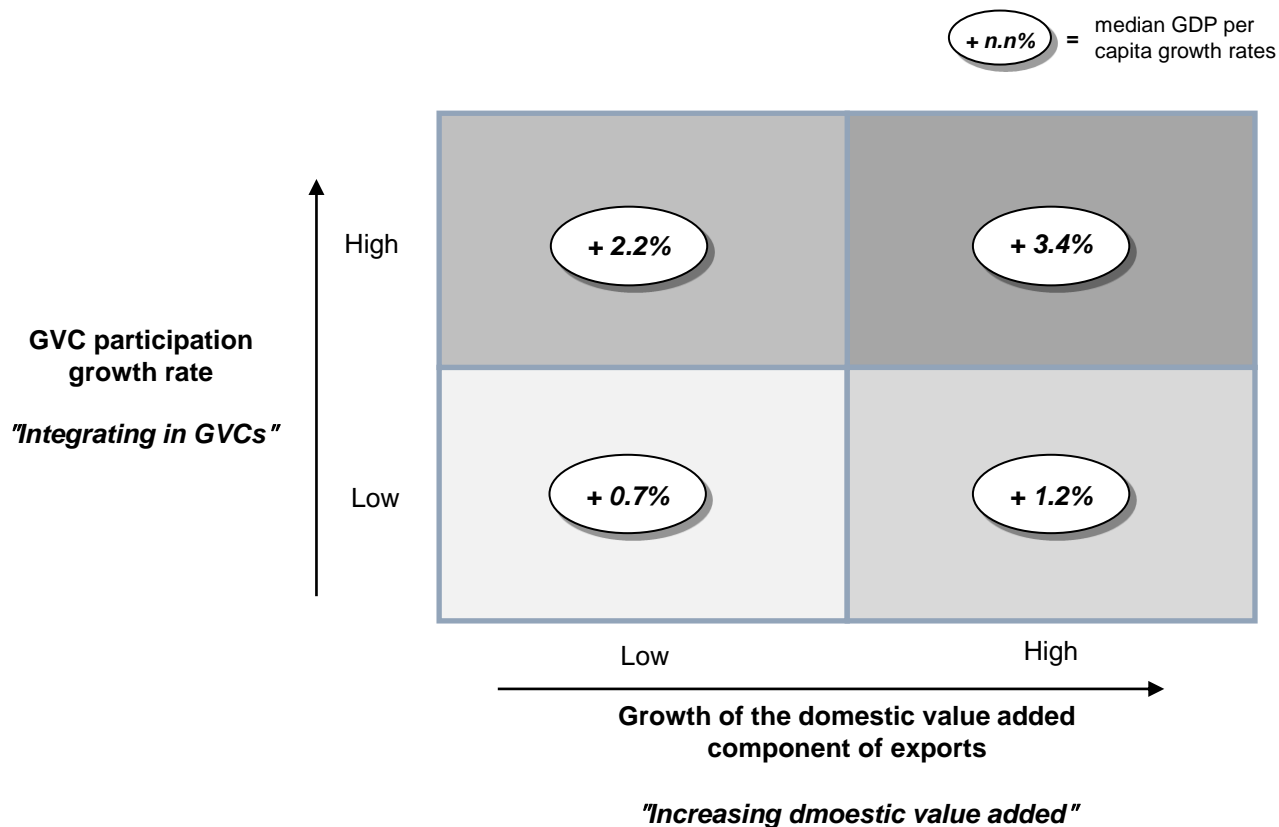
Correlation between growth in GVC participation and GDP per capita



Source: UNCTAD-EORA GVC Database, UNCTAD analysis (based on datapoints for 187 countries over 20 years).

What is the impact of value added trade and GVCs on development?

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

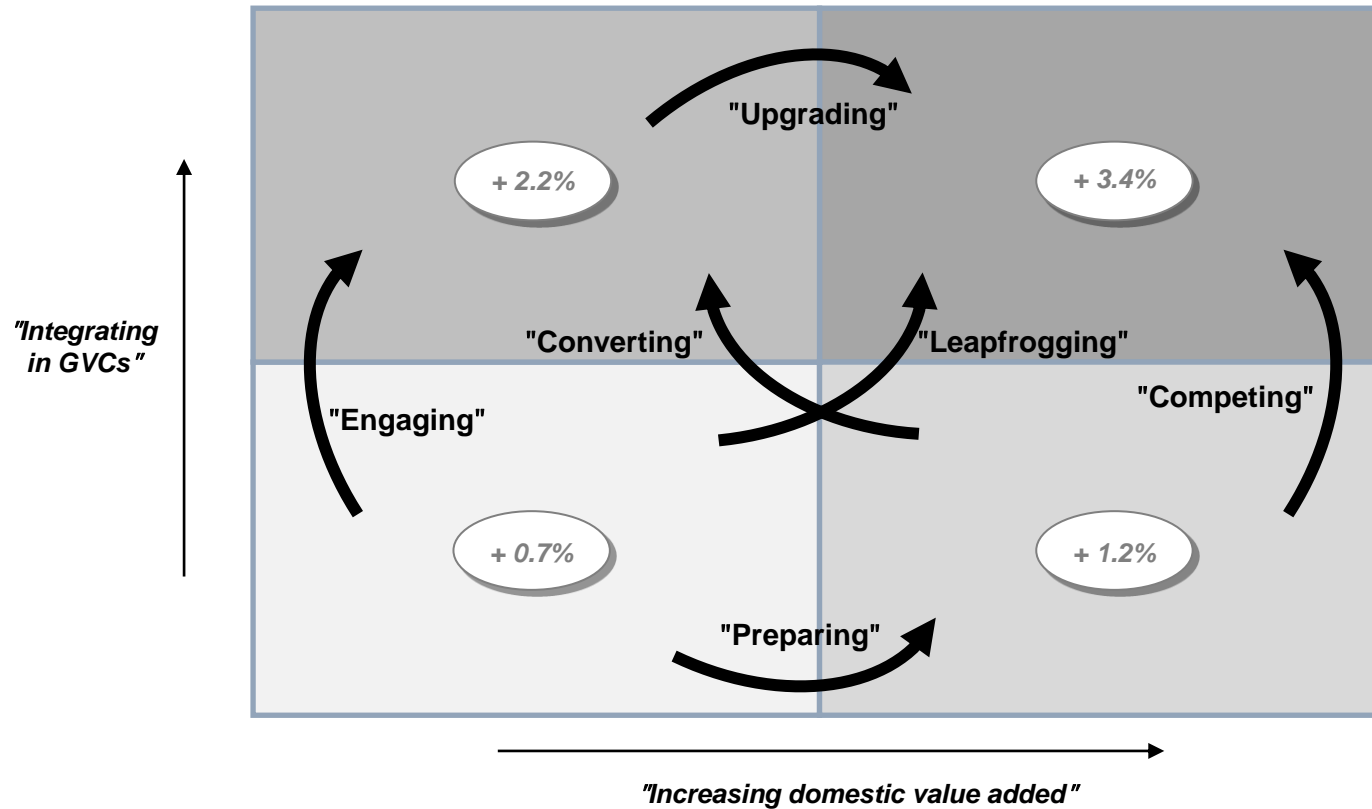


Source: UNCTAD.

* 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.

What different GVC development paths can be distinguished?

CONCEPTUAL



Source: UNCTAD.

Major preliminary findings

- Global investment and trade are inextricably intertwined through the international production network of firms...
- GVCs are responsible for the growing significance of “double counting” in global trade figures
- GVCs make extensive use of services (almost 50% of value added inputs to exports is contributed by service sector activities)
- The majority of developing countries, including the poorest, are increasingly participating in GVCs
- Countries with a higher presence of FDI relative to the size of their economies tend to have a high level of participation in GVCs (and a greater relative share in value added trade compared to their share in global exports)
- GVC links in developing countries can play an important role in economic growth
- There appear to be a number of distinct GVC development paths for developing countries

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The way forward: a policy analysis agenda

Some key questions to answer:

- What are the implications of new insights on GVCs for investment and trade theory?
- What are the drivers and determinants of investment in GVCs?
- Should developing countries adopt specific policies in their development strategy to increase GVC participation?
- If so, under what circumstances, with what criteria?
- What policies can maximize the benefits and minimize the negative effects of GVCs?
- ...



UNCTAD will aim to answer these and other questions in the *World Investment Report 2013* to be launched on 26 June