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Enhancing the Enabling Economic Environment
at all Levels in Support of Inclusive and
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Economic Integration and Cooperation

26-27 October 2017

**Harnessing GVC participation for inclusive and sustainable
industrial development**

Paper submitted by

Adnan Seric
Department of Policy, Research and Statistics &
UNIDO Institute for Capacity Building



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION



SUSTAINABLE DEVELOPMENT GOAL 9
INDUSTRY, INNOVATION AND INFRASTRUCTURE

Harnessing GVC participation for inclusive and sustainable industrial development



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In brief

UNIDO is the specialized agency of the United Nations that promotes industrial development for poverty reduction, inclusive globalization and environmental sustainability.

Lima declaration (??): to promote and accelerate *inclusive and sustainable industrial development (ISID)* in developing countries and economies in transition.



Outline

1. Can countries develop through GVC participation and FDI?
2. Which policy options do countries have?



What is the role of FDI in shaping global development efforts?



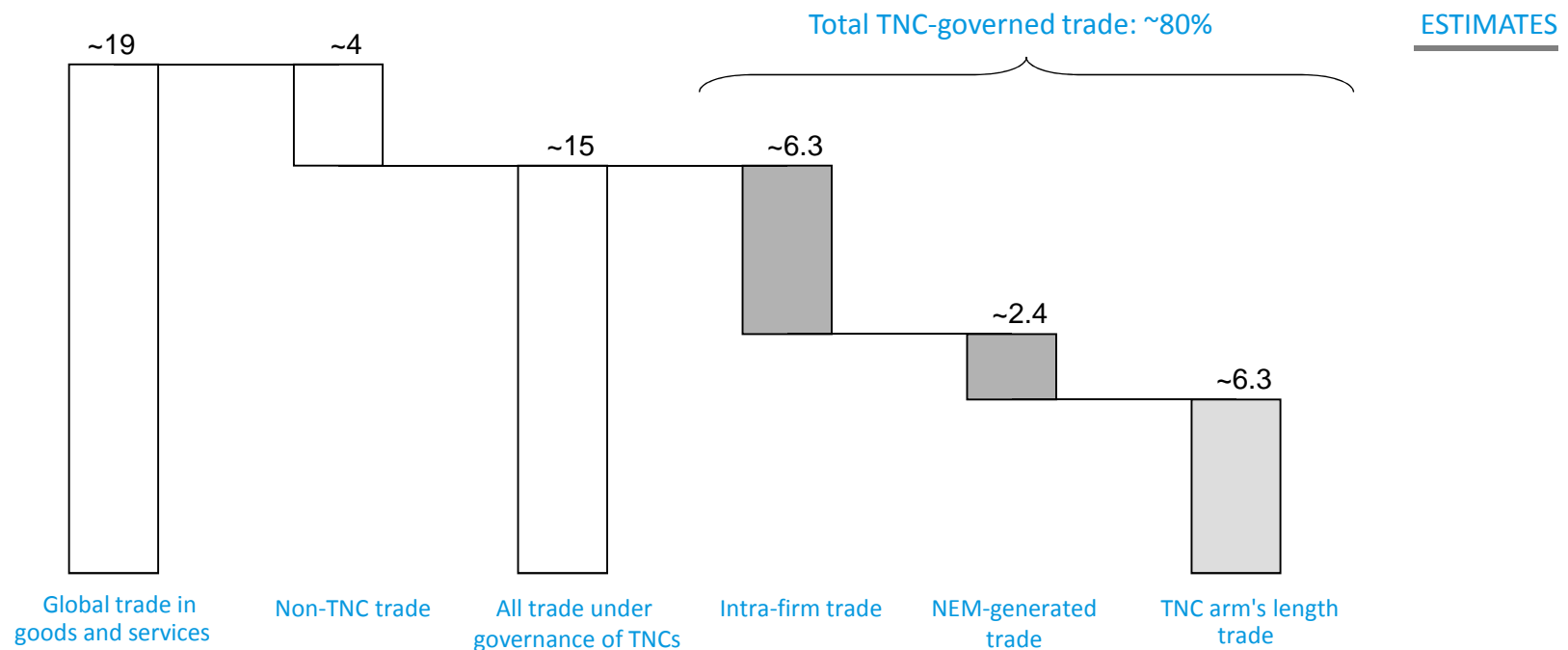
FINANCING FOR
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TIME FOR GLOBAL ACTION

*“Private business activity, **investment**, and innovation are **major drivers of productivity, inclusive economic growth, and job creation.** [...] Foreign direct investment (FDI), along with a stable international financial system, are vital complements to national development efforts. Nonetheless, we note that there are **investment gaps** in key sectors for sustainable development. **FDI is concentrated in a few sectors in many developing countries** and often bypasses countries most in need, and international capital flows are **often short-term oriented.**”*



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

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



Source: UNCTAD estimates; based on WIR13; BEA; EFIGE.



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G20 INSIGHTS

POLICY AREA:
Trade and Investment

How to attract Quality FDI?

Theodore Moran (Georgetown University)
Holger Görg (Kiel Institute for the World Economy)
Adnan Serić (UNIDO)
Christiane Krieger-Boden (Kiel Institute for the World Economy)

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Quality FDI and Supply-Chains in Manufacturing

Overcoming Obstacles and Supporting Development





How can countries develop through GVC participation and FDI?

- **Economic upgrading in GVCs:**

- Higher value-added production in the form of product, functional, and inter-sectoral upgrading via better skills and know-how, capital and technology, and processes

Goerg and Seric (2016) in a cross-section of 20 countries in Africa find evidence for GVC participation (via FDI linkages) leading to product and process upgrading in domestic firms. MNE- and Government support often crucial!

- **Social & Environmental upgrading in GVCs:**

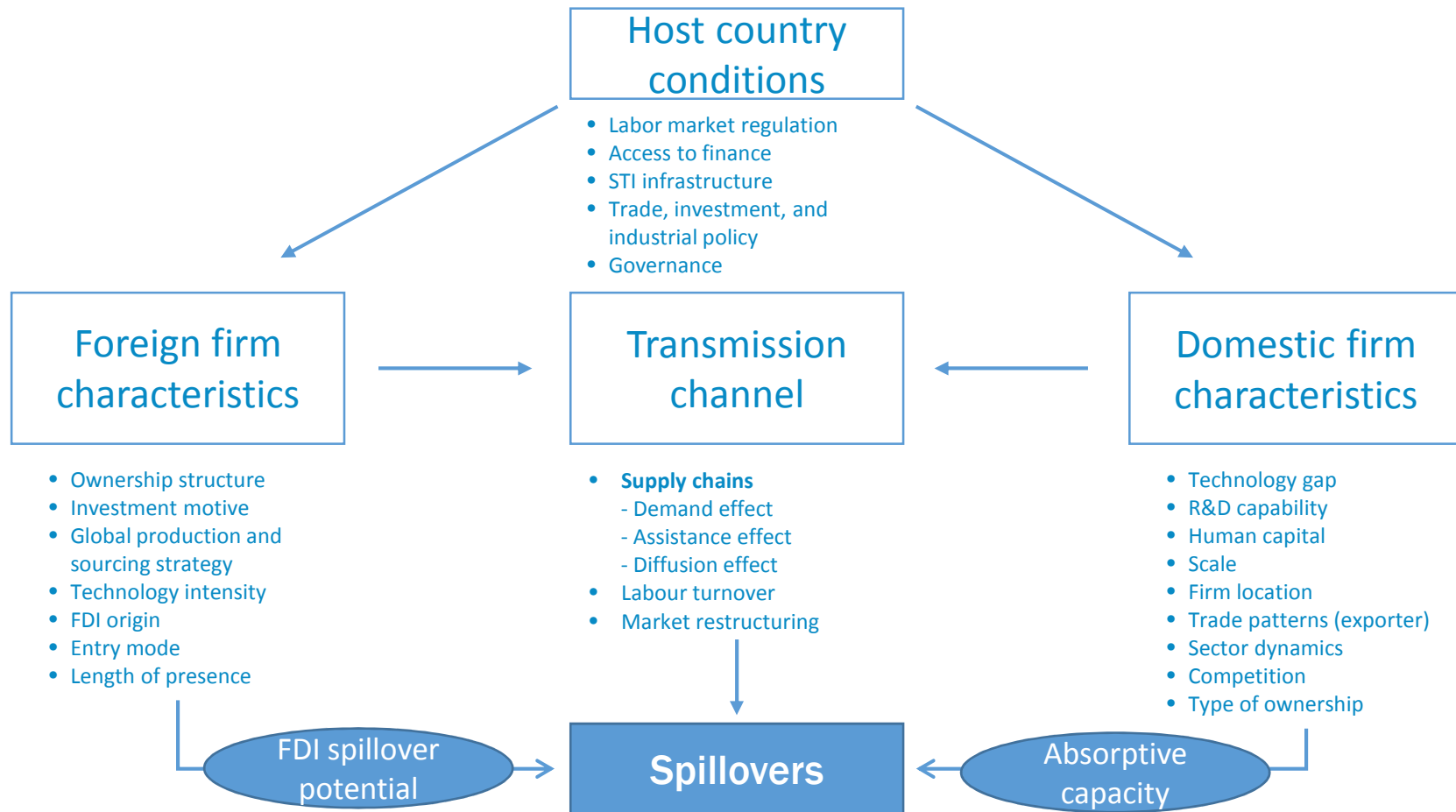
- Measurable aspects of worker well-being (employment, wages, and working conditions) and enabling rights (right to bargain, freedom of association, nondiscrimination, etc.).

Higher labor and social standards in GVCs result in small-scale worker, labor-intensive, and higher-skill upgrading (Barrientos, Gereffi, and Rossi 2011).

- The global trade landscape is trending toward more climate-friendly international standards and mandatory sustainability reporting regimes.

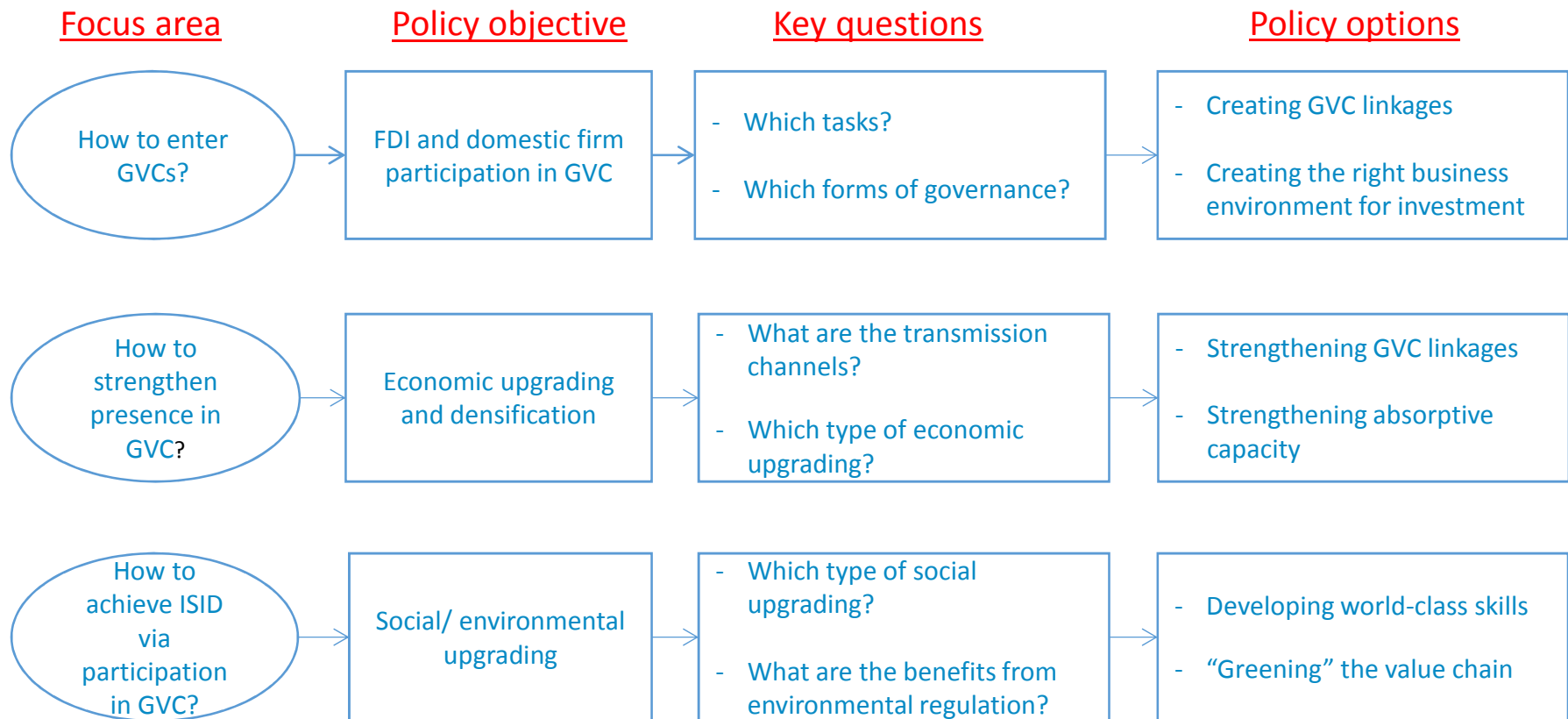


Targeting foreign investors and strengthening absorptive capacity to benefit from FDI spillovers





Which policy options do countries have?





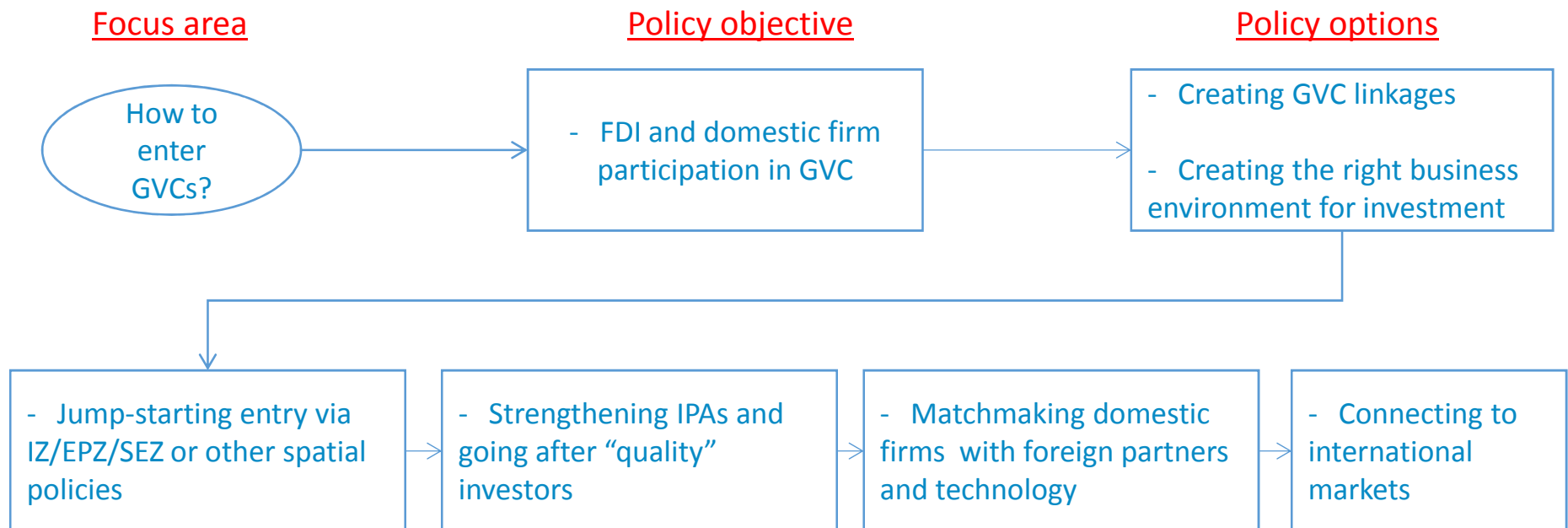
Which policy options do countries have?

Policy domain	Instruments	Instruments
	Market-based	Public goods/direct provision
Product market	Import tariffs, duty drawbacks, tax credits, investment/FDI incentives	Procurement policy, export market information/trade fairs, linkage programmes, FDI country marketing, one-stop shops, investment promotion agencies
Labour market	Wage tax credits/subsidies, training grants	Training institutes, skills councils
Capital market	Interest rate subsidies, directed credit, loan guarantees, tax incentives for venture capital	Development Bank lending, loan guarantees, financial regulation, venture capital
Land market	Subsidized rental	EPZs/SEZs, factory shells, infrastructure, legislative change, incubator programmes
Technology	R&D subsidies, grants	Technology transfer support, technology extension programme, Public-private research consortia, public research institutes, funding of basic research

Source: UNIDO IDR (2016)

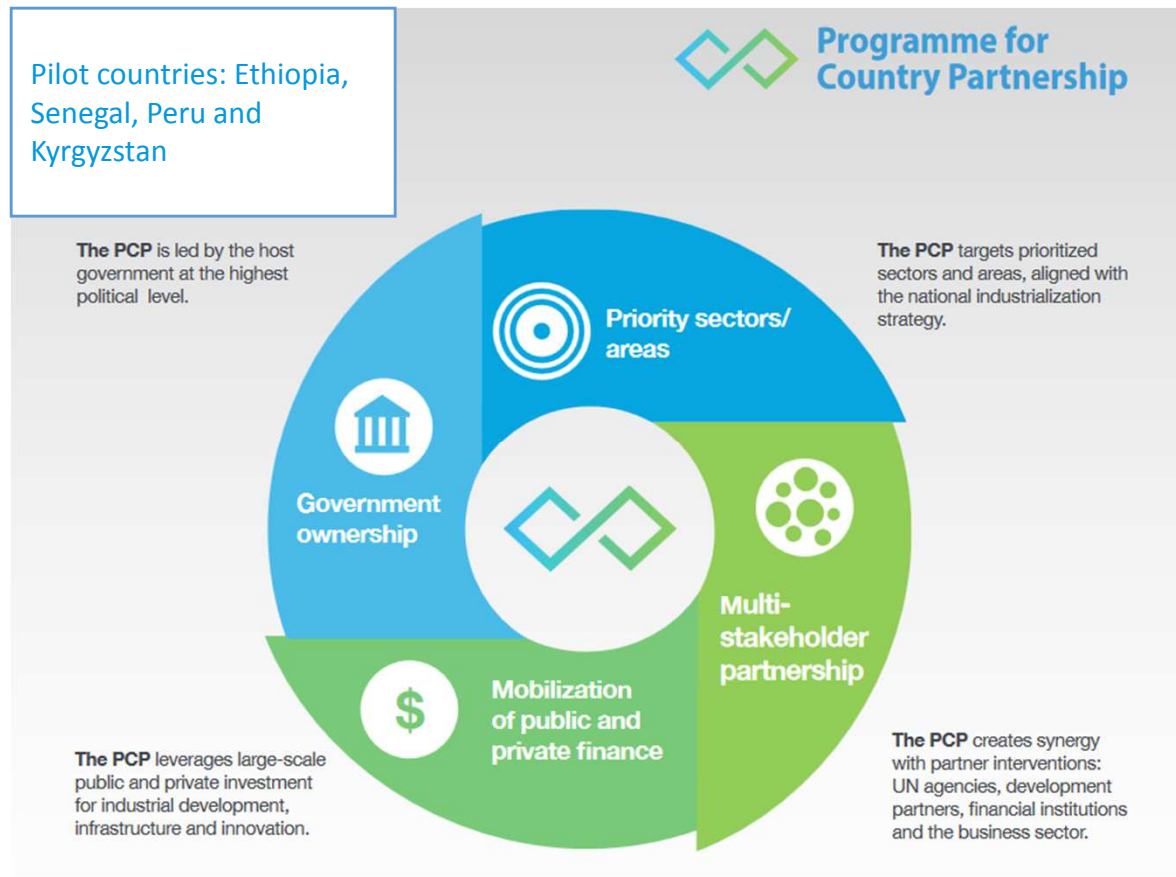


Policy options in the context of SSA





UNIDO's PCP approach as platform for policy coordination, implementation and learning





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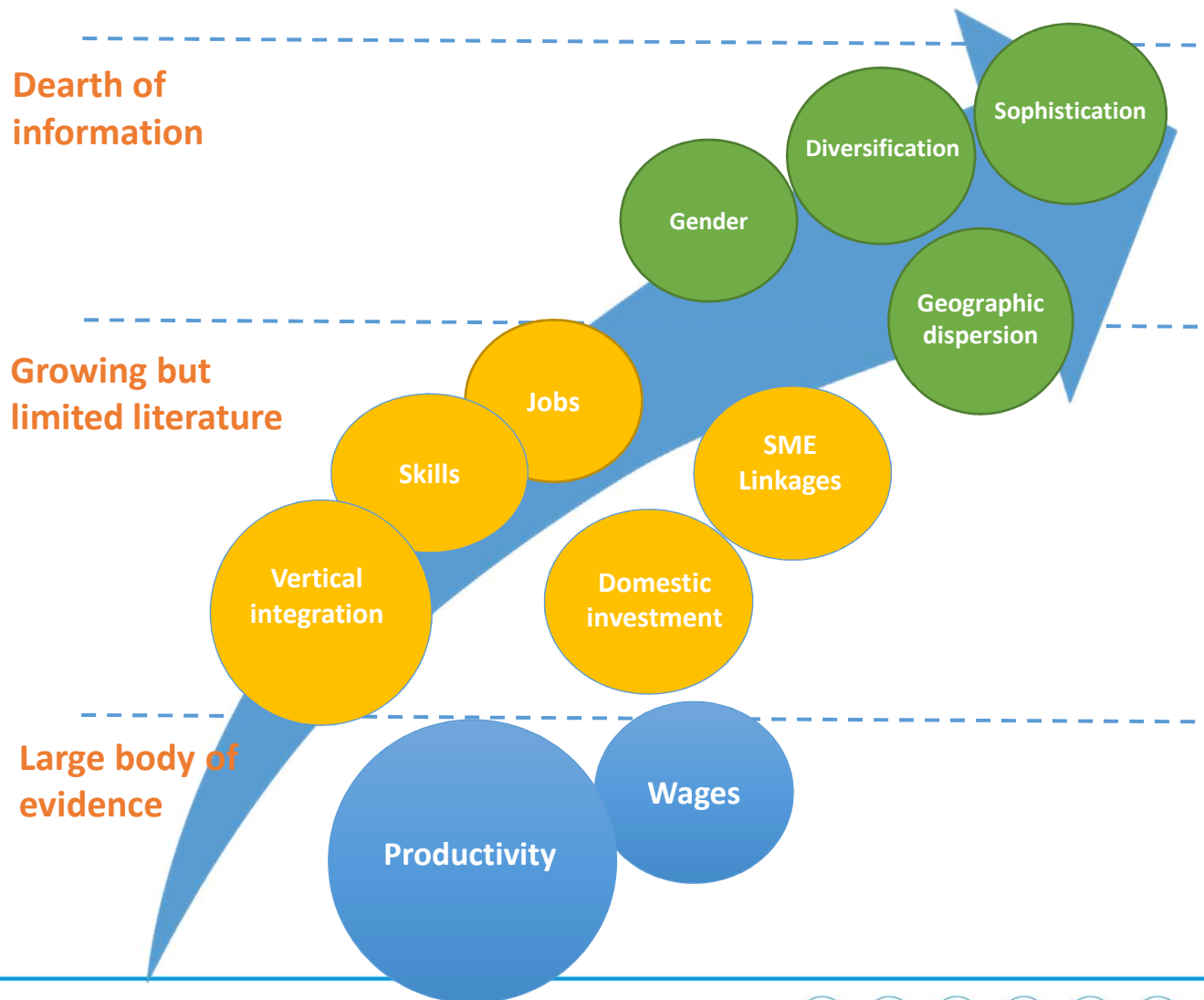
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a.seric@unido.org



Quality FDI: investment that contributes to **broad-based inclusive and sustainable** development within the host economy

- Creates **decent and value-adding jobs**
- Enhances the **skill base** of host economies
- Facilitates transfer of **technology, knowledge and know-how**
- Boosts **competitiveness** of domestic firms (e.g. access to markets)
- Operates in a **socially and environmentally responsible** manner





Classification of industrial policy

- Three types of industrial policy relating to different stages of industrialization: early, middle and late stage

	Early stage	Middle stage	Late stage
Characteristics	<ul style="list-style-type: none"> • Agriculture and some low-technology, labor-intensive manufacturers 	<ul style="list-style-type: none"> • Medium-technology and labor-intensive high-technology manufacturers 	<ul style="list-style-type: none"> • High-technology manufactures • Knowledge-based
Key objectives of Industrial policy	<ul style="list-style-type: none"> • Diversification from primary goods exports into simple manufactures • Attraction of FDI • Encourage new start-up firms 	<ul style="list-style-type: none"> • Promotion of higher-value-added medium and high technology • Upgrading of local firms within GVCs • International marketing of local brands 	<ul style="list-style-type: none"> • Supporting firms in use and creation of new technologies • Provide education and science infrastructure
Main form of intervention	Direct public provision	Market-based and direct public provision	Market-based

Source: Weiss (UNIDO working paper, 2015)