UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Trade and Development Board, sixtieth session

Geneva, 16–27 September 2013

Plenary on Item 9:
Investment for development: Global Value Chains and Development

Speaker: South Africa

Wednesday, 18 September 2013

Not checked against delivery *

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UNCTAD 60TH SESSION OF THE TRADE AND DEVELOPMENT BOARD (TDB)

DRAFT SOUTH AFRICAN STATEMENT ON AGENDA ITEM 9: INVESTMENT FOR DEVELOPMENT: GLOBAL VALUE CHAINS and DEVELOPMENT

18 SEPTEMBER 2013

Mr President,

South Africa aligns itself fully with the statements made by Ecuador on behalf of the G77 and China and Ethiopia on behalf of the Africa Group.

We have witnessed a fundamental shift in global production processes in recent years, with Multi-National Enterprises (MNEs) playing a significant role. Global Value Chains (GVCs), with cross-border trade of inputs and outputs taking place within their networks of affiliates, are typically coordinated by contractual partners and arm's-length suppliers.

A joint study by the WTO and OECD on Trade in Value Add (TiVA) estimates that 80% of the world trade takes place in 'value chains' linked to MNE-controlled networks. Consequently vertical specialisation in world trade has gained prominence, production takes place across firms and countries, respectively, and specialisation in the entire production is deemed to have become redundant. MNEs coordinate GVCs through complex webs of supplier relationships and various governance modes. These governance modes, and the resulting power structures in GVCs, have a significant bearing on the distribution of economic gains from trade in GVCs and on their long-term development implications.

Patterns of value added trade in GVCs are therefore shaped to a significant extent by the investment decisions of MNEs. Countries with a higher presence of FDI relative to the size of their economies tend to have a higher level of participation in GVCs and to generate relatively more domestic value added from trade.

The World Investment Report (WIR) 2013 makes compelling observations on the relationship between, and effects of, GVCs, contemporary investment patterns and trade, on sustainable development and associated policy implications.

Participation in GCVs does provide potential opportunities for expansion and increasing technological sophistication and manufactures/services, leading to gradually increasing degrees of competencies. However, there are inherent risks involved. The WIR proposes that to mitigate the risks involved in GVC participation key policy considerations are required. The rationale for participating in GVCs must be embedded on a broader development strategy and framework, including policies aimed at supporting private sector development. In the case of South Africa, the Industrial Policy Action Plan (IPAP) guides the reindustrialisation of the South African economy. One of the objectives of our industrial policy is to improve South Africa's share of tradable services and increase value-added trade.

The challenge for many developing countries is not just to integrate into the GVCs – many of us are already integrated into GVCs as producers and exporters of unprocessed raw materials and agro-products to other markets. However, some GVC activities in developing countries are confined to low-value addition, which can be easily switched from one country to another, with low relocation costs for investors and high social and economic costs for participating countries. For this reason, developing countries need to promote and leverage those aspects of GVCs that generate inclusive economic activity and participation. We have serious reservations with the operational aspects of GVCs that result in investment patterns which derail our economic development objectives. Developing country GVC participation should create sustainable jobs, equitable and inclusive growth and development.

As the 2013 WIR correctly points out, in order for countries to benefit from high-value addition activities, they are required to upgrade their industrial and trade policies, productive capacities and skills. They should also invest in infrastructure and technology. All of these factors pose significant challenges for most developing countries.

The key challenge, therefore, is to participate in GVCs in a manner that improves productive capacity and facilitates a shift to higher value-added creation in the GCV. This cannot be possible without the necessary policy space to support industrial development and the ability to maintain and adopt a developmental approach to trade policy and to tariff setting. All of this requires the State to play a more prominent role in economic development, investment and industrialization.

While the importance of, and opportunities associated with, GVCs in aiding the development of a developing country's economy cannot be denied, GVCs involvement is not without risks. The benefits can be limited if only a small share of the value addition chain is captured, or if the value addition is relatively low. Further, technology dissemination and skill building and upgrading, are not automatic. Without a strategic approach to GVC participation, which clearly links GVCs to industrial development and an overarching national development plan, developing countries face the risk of remaining locked into relatively low value-added activities. We therefore need to be pro-active in taking the necessary steps to mitigate this risk.

I thank you.