# UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Bo'ao Forum for Asia Annual Conference 2004:

*Asia Searching for Win-Win: An Asia Open to the World*

## *Inserting local industries into global value chains and production networks: opportunities and challenges for upgrading*

*With the special focus on Asia*

Keynote speech by Carlos Magariños, Director General, UNIDO

## New emerging business environment of GVCs and GPNs

### *Greater possibilities to enhance productivity and achieve welfare gains*

Welfare gains from spreading of GVCs/GPNs are much larger than those from simple trade liberalization, due to saving in transaction costs and to specialization in accordance with dynamic comparative advantages (case of Costa Rica and trading houses in Hong Kong, SAR)

### *Intensified competitive pressure than never before*

Some regions and countries have succeeded to upgrade their technological and industrial capabilities, to compete and sustain competitiveness, others have not

## Characteristics of GVCs and GPNs

✓ **GVCs and GPNs: What are they?**

✓**Complementarities between GVCs and GPNs**

✓ **GVC and GPN perspective as a tool to analyze possibilities for industrial upgrading and for answering three questions:**

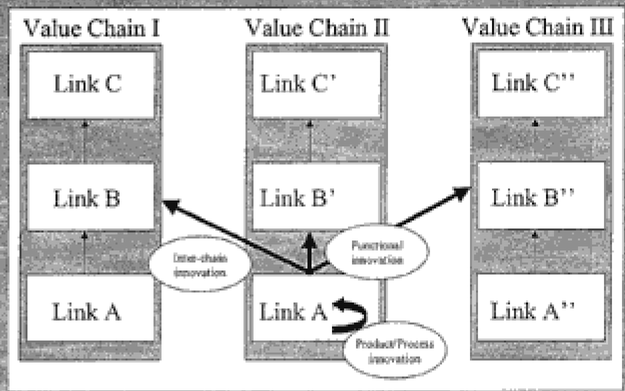
(1) What activities are allocated in developing countries and will they sustain development?

(2) Does the particular value chain allow for upgrading of developing countries' producers?

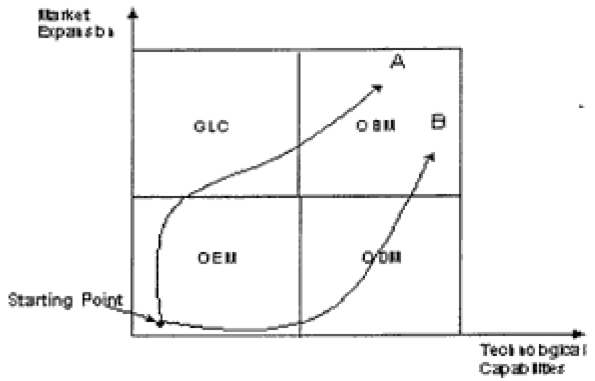
(3) What are the strategies/policies for developing countries to leverage participation in GVCs/GPNs for industrial development?

✓**Two types of GVCs: buyer-driven chains, producer-driven chains**

## Innovation within the GVCs



## Pathways of Leveraging:




- OEM - Original Equipment Manufacturing
- ODM - Own Design and Manufacturing
- GLC - Global Logistics Contracting
- OBM - Own Brand Manufacturing

## Models of leveraging and learning

***The challenge for developing country producers is to access the chains' lead firms, either directly as a first–tier supplier or indirectly as a second-tier supplier***

**A. Various forms of linking and leveraging channels:**

- Those channels are FDI, joint ventures, subcontracting, licensing, strategic partnership, direct exporting, or imports of capital goods.
- Those were extensively and successfully used in East and South-East Asia , allowing latecomer firms to enhance position in GVCs

**B. The role of global buyers:**

- Intermediates between global consumers and local manufacturers, inserting local industries into GVCs.
- Key entry points into the GVCs (particularly for Asian producers), source of skills, knowledge and new technology; mean of marketing.
- Supplying blueprints, specifications, information on competing goods, production techniques, and guidance on design and quality

## Ways in which TNCs might wish to incorporate developing countries' producers into GVCs (governance of value chains)

The relationships between local producers and lead firms in the value chains can include a whole spectrum of relationships:

- **Arm's-length or market-based relationships**
- **A network-based relationship: modular, relational, and captive value chain relations**
- **Hierarchical and quasi-hierarchical relationships**

## The successful example of Asia

**UNIDO Scoreboard on Industrial Performances for Asia**

- ✓Highest manufacturing value added (MVA) per capita in developing world (excluding China)
- ✓Doubling share in developing countries' MVA for the last 20 years (54% in 2000) (excluding China)
- ✓Significant share in the developing countries world manufactured exports (70% in 2000 ( including China)
- ✓Impressive expansion in total manufactured exports
- ✓Considerable improvement in technological structure of export: decrease in the shares of resource-based and low-tech products, and increase in high- and medium-tech products

## Asian Countries and GVCs: Deepening of participation

**In Textile industry:**

- ✓ In the 1980s, Hong Kong SAR, Taiwan Province of China, Republic of Korea, and China became major players (with exports larger than US$1billion-benchmark), joined by Indonesia, Thailand, Malaysia, India and Pakistan reached the benchmark criteria, in the 1990s and followed by the Philippines, Viet Nam, Bangladesh, and Sri Lanka in 2000

**In Automotive:**

- ✓ From the early 1990s, Indonesia, Malaysia, Thailand, the Philippines and China have started to participate in the process of globalization in the automotive sector
- ✓ Participation of Asian countries in terms of unit-sales of motor vehicles is still modest but is expanding

**In Electronics :**

- ✓ From the 1960s, Asian participation started with Taiwan Province of China, Hong Kong SAR and the Republic of Korea, Singapore, Malaysia and Thailand
- ✓ Currently South East Asia dominates 70 per cent of Hard Disc Drive production

## Pathways of Leveraging: Asian experience

***East Asian firms succeeded:***

➢To Innovate within the buyer-driven value chains, and to move from assembly to OEM and OBM; to follow "*Triangle Manufacturing*" strategy

➢*To move from being the OEM, to being the ODM, and finally becoming the OBM, the fully-fledged firm that produces its own line of branded products*

➢*To move from buyer- to producer-driven value chains*

## Responding to China's competitiveness

***Threats:***

- Stronger competition in trade and investment
- Accession to the WTO and phasing out of The Agreement on Textile and Clothing (ATC) in 2005

***Opportunities:***

- China's expanding domestic market: its imports exceed its exports to the region
- Potential for high investment returns

***Recommendations:***

Developing local capability and encouraging production of medium and high tech-products in order to face competition arising from China, and to benefit from the expanding China's domestic market

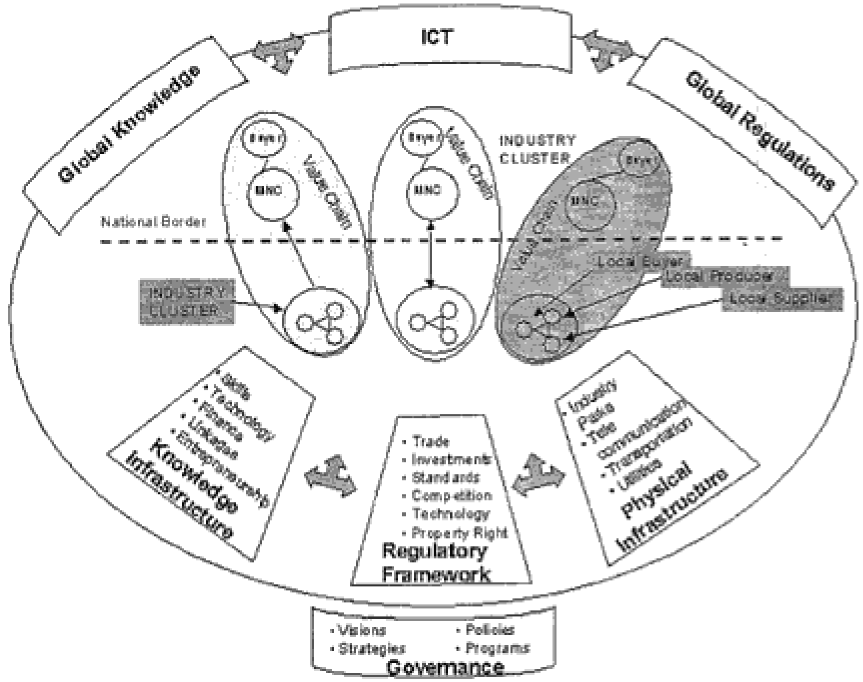
## Industrial strategies and policies and manufacturing competitiveness: What lessons from the Asian experience?

*Similar pattern of industrialization . . .*

*. . . but different strategies and polices*

*. . . and also some common features. . .*

# *Inserting local industries into GVCs and GPNs: opportunities and challenges for upgrading*



## Recommendations for less developed Asian economies:

✓Design own industrial strategies and policies as industrial policy-making is country specific

✓Draw own lessons of experience from successful Asian countries, taking into account own level of economic development, availability resource, entrepreneurial capabilities, and existing potential areas of dynamic comparative advantage

✓Avoid "low road" of achieving competitiveness of reducing wages, devaluating national currencies, and disregarding labor or environmental regulations

✓Follow the "high road" of supporting building capabilities to use new technologies, adapt and improve processes and products and move up the value chain into more sophisticated production

## Recommendations (*Continued)*

✓Use the participation in GVCs and GPNs as a fast-track strategy of leveraging resources for development, which will only work if combined with improving framework conditions (political, social and macroeconomic stability to stimulate FDI); investments in building structural factors or 'drivers'(especially widely available primary and technical education); supporting the provision of business development services(especially technology extension); providing sound rules and regulations and their enforcement mechanisms (to reward entrepreneurial risk); and ensuring the quality of governance at the firm and government levels

✓Make collective efforts to build a favourable environment for industrial capability building

## Recommendations (*Continued)*

To conclude:

✓Much of the effort for industrial capability building has to come from within a country but such local efforts should also be supported by the international community, as the reality for the majority of developing countries is the presence of different market, government and institutional failures

✓This requires creative and coordinated polices at the regional and international level

## Role of UNIDO

- Fostering consensus for macroeconomic stability, institutional reform, and open trade and investment.
- Helping developing countries to get productivity gains from integration into increasing global flows of trade, capital and technology.
- Striving to attain an effective integration between the conceptualization of the current policy challenges facing developing countries and its approaches to technical cooperation delivery on the ground.
- Support developing countries (though global forum and technical cooperation) in the formulation and implementation of their industrial strategies and polices; and in the broad areas of technology transfer and supply-side capacity building for market access and development.

Thank you for your attention

Carlos Magariños, Director General, UNIDO