



**Asia-Pacific
Economic Cooperation**

2022/CTI/WKSP3/006

Session 2.1

Policies to Facilitate Upgrading in Global Value Chains

Submitted by: WTO



**Workshop on Effective Domestic
Policymaking for Stimulating Economic
Upgrading Through Global Value Chains
1-2 March 2022**

Policies to facilitate upgrading in Global Value Chains

Victor Stolzenburg, WTO

Virtual APEC Workshop on Effective Domestic Policymaking for Stimulating Economic Upgrading Through Global Value Chains, 1-2 March 2022



Defining Upgrading



- Different types of upgrading...
 - Process upgrading: Improving production processes to increase productivity
 - Product upgrading: Improving products to obtain higher margins
 - Functional upgrading: Taking over higher-margin functions in GVCs
 - Channel upgrading: Making use of new distribution channels
 - Intersectoral upgrading: Entering higher-margin sectors
- ...might require different policies.
 - The right upgrading policies tend to be case-specific but some policies apply broadly.

Upgrading trajectories



- Global Value Chain integration happens in most economies through the entry of foreign lead firms.
- Upgrading typically occurs when
 - knowledge spills over from lead firms to domestic firms (inter-firm) or
 - when lead firms expand their local activities (intra-firm).

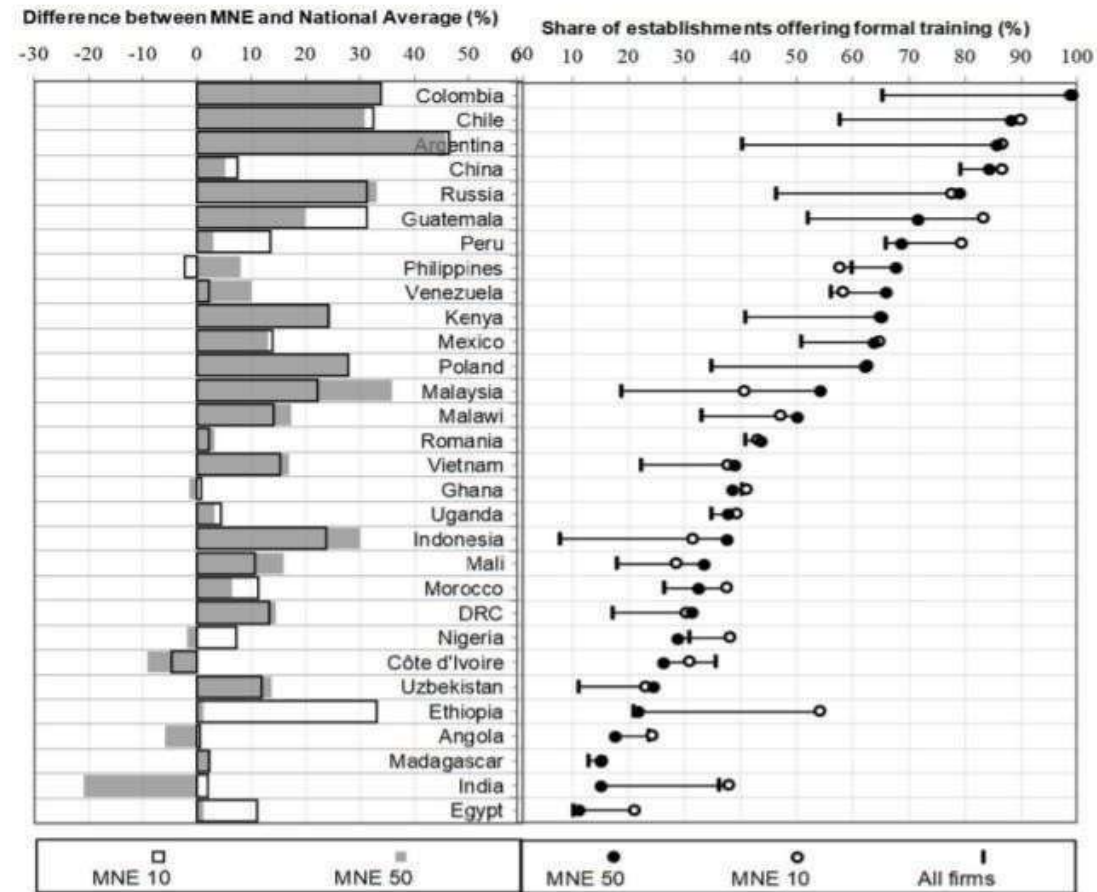
Upgrading trajectories



- This can occur through different channels, e.g.:
 - Staff training,
 - Staff turnover (e.g. employee spinoffs use better technology and have a 4-year head start over other firms in accessing markets their parent firms serve),
 - Vertical and horizontal firm-to-firm relationships (e.g. a 10 p.p. increase in foreign presence is associated with an increase in the productivity of domestic firms in supplier sectors of about 9%).
- Policies can increase the likelihood of such spillovers.

Upgrading trajectories

Figure 4. Skills Transfer (Training)



Source: Calculations on World Bank Enterprise Surveys, 2010-2018; 30 most populous developing countries in the sample sorted by absolute performance of MNE 50. Note: High skills refers to the aggregate of high and semi-skilled workers.

Creating the right policy environment



- Economies should look beyond pure integration policies. To benefit from GVCs, an integrated policy approach to integrating and upgrading is needed.
- Policies should not only aim at attracting foreign investments but also incentivize the use of local resources.
- Lead firms tend to prefer local sourcing but require specific inputs (adequate quality, adherence to standards, etc.).
- Policies can increase the availability of such inputs.

Creating the right policy environment



- These policies can induce both intra- and inter-firm upgrading:
 - Human capital development:
 - Education,
 - Training,
 - R&D incentives.
 - Domestic market development:
 - Ease-of-doing business policies,
 - Procurement policies,
 - Open trade policies,
 - Environmental and social regulations.
 - R&D incentives.

Education



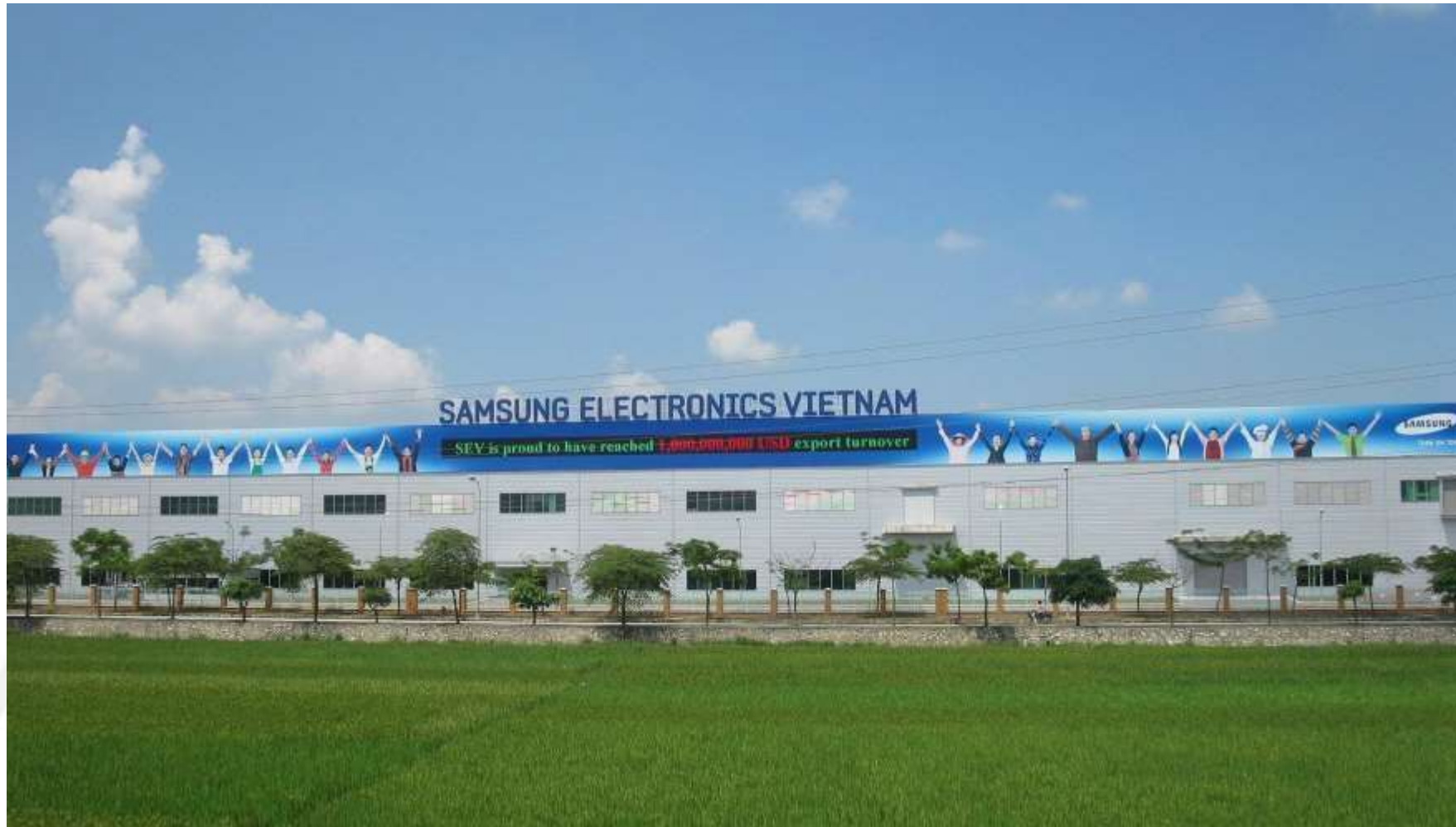
- Investments into education belong to the most profitable investments since they benefit all aspects of economy, not just trade.
- Global structural change and digitization continuously drives up demand for skilled workers.
- But returns from education investments take time to manifest.

Training



- Training policies in contrast can lead to immediate returns.
- Using resources of lead firms or chambers of commerce imply low costs.
- Policies should optimally be designed together with lead firms and provide incentives to lead firms (e.g. contingent tax credits).

Training: Samsung Viet Nam



Training: Samsung Viet Nam



- Since 2014, in collaboration with the Vietnamese government, Samsung has held an annual workshop known as the Samsung Sourcing Fair.
- Since 2015, Samsung has offered a 3-month technical consultation programme in which experts from Korea consult Vietnamese firms.
- Since 2020 under a four-year agreement with the Vietnamese government, Samsung holds two annual 14-week training courses.

Training: Samsung Viet Nam



- The number of local enterprises being Samsung's tier-1 vendors has increased from 4 in 2014 to 42 in 2019. By 2020, the number is projected to reach 50.
- In 2020, Samsung started building a \$220 million R&D center in Viet Nam.

Domestic market development



- A dynamic domestic business environment is, with human capital development, the most important enabler of spillovers.
- A variety of policies can help to develop the domestic market:
 - Ensuring demand through integration (→ open trade policies) and/or procurement: scale economies!
 - Ensuring access to affordable high-quality inputs (→ open trade policies ≠ local content requirements: e.g. lower input tariffs account on average for 31% of the new products introduced by domestic firms).
 - Supporting innovation through appropriate R&D policies.

Domestic market development



- Fast and transparent business regulations.
- Assistance with environmental and social standards demanded in major markets (e.g. evidence suggests that developing economies with better labour and environmental policies upgrade faster).
- Ensuring access to qualified staff (→ open trade policies: mode 4 services trade: e.g. in-person business travel can account for 20% of the higher patenting in Germany's Greater Stuttgart area, compared to Portugal's Algarve region).
- Human capital development also benefits domestic market development.

Thank you!

victor.stolzenburg@wto.org

