

# Does the expansion of global value chains call for a new approach to industrial policy in the Global South?

FES international conference, Mexico City, August 1-3, 2016

Jostein Hauge

# Industrial policy as a concept can be traced back to Alexander Hamilton





# But is 'old-style' industrial policy good enough?



“Industrial policy viewed through the lens of GVCs will differ from traditional arguments for industrial policy” (Milberg et. al., 2014, 152)

# Hang on, didn't we have GVCs before the 1990s?



1. What has *really* changed with the expansion of global value chains (from a developing country perspective)?
  - More offshoring and foreign direct investments
  - Increased power of transnational corporations
2. How do GVCs affect the productive structures of developing countries?
  - Opportunities
  - Challenges
3. What are the implications for industrial policy?
  - Niche specialization but also linkage creation
  - Linking of to transnational corporations or challenging them?

# What has *really* changed with the expansion of global value chains?

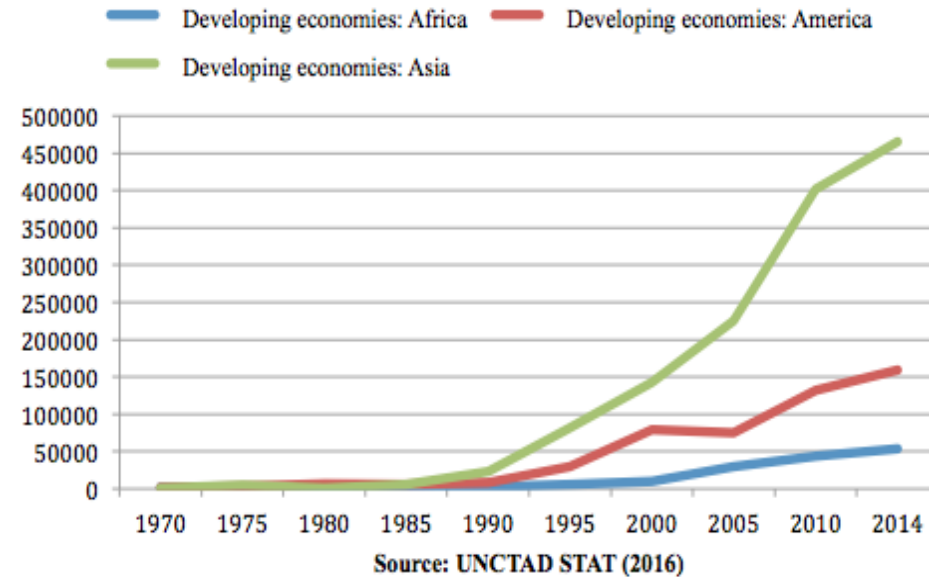
“countries that embrace GVCs grow faster, import skills and technology and boost employment” (World Bank, 2015, 1)

“the country centric view of trade no longer reflects reality...Global value chains offer new opportunities for structural change in Africa” (AfDB-OECD-UNDP, 2014, 124)

# Offshoring and FDI



FDI inflows in developing regions, million \$



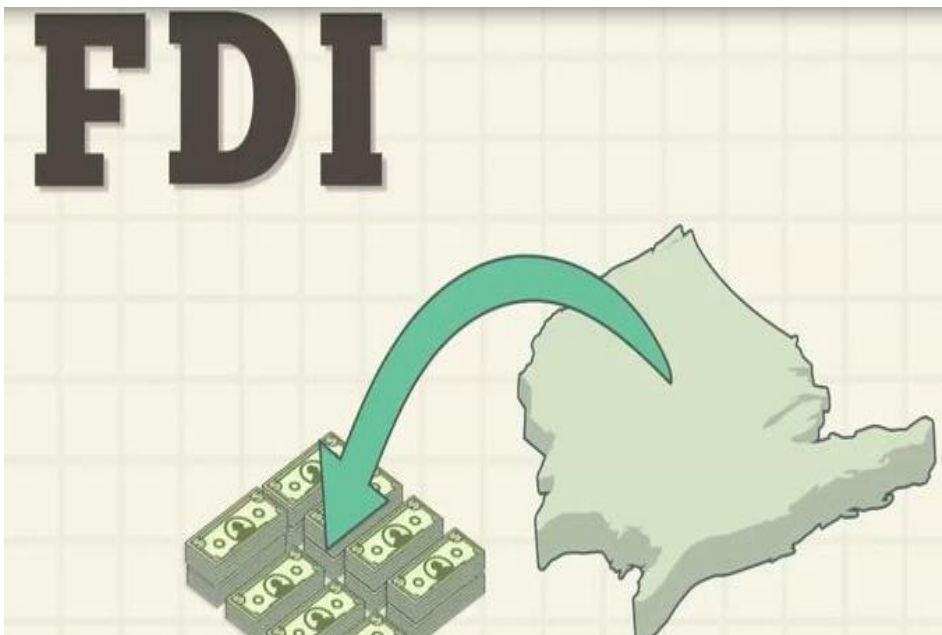


# Increasing power of transnational corporations



- **Expansion:** From 1990 to 2013, assets of foreign affiliates increased from \$4 trillion to \$97 trillion (UNCTAD, 2014)
- **Consolidation:** Since the early 2000s, practically every global industry has only had a handful of global firms accounting for 50 per cent or more of the industry's global market share (Nolan, 2007)

# Opportunities with GVCs for the Global South - FDI



# Opportunities with GVCs for the Global South – niche specialization

**Narrow Your Focus**



**Broaden Your Sales**

“The presence of high-tech goods in a country’s export basket no longer implies the presence of a wide set of industrial capabilities, but merely the presence of the respective assembly operation” (AfDB-OECD-UNDP, 2014, 129)

# Challenges with GVCs for the Global South – getting stuck in low value added activities

## Dominican Republic



# Challenges with GVCs for the Global South – the dark side of globalization



# 'Cannibalized' by transnational corporations



- The type of globalization we've witnessed in the last three decades has resulted in small number of actors appropriating increasing shares of profits
- There has been a significant relative price decline of internationally traded manufactures, especially those exported by developing countries



# A race to the bottom and a fallacy of composition



The developing country share of low-tech manufacturing exports has tripled since 1980 and the global pool of unskilled labor has doubled since 1990



# What are the implications for industrial policy? – niche specialization but *also* linkage creation

Narrow Your Focus



VS



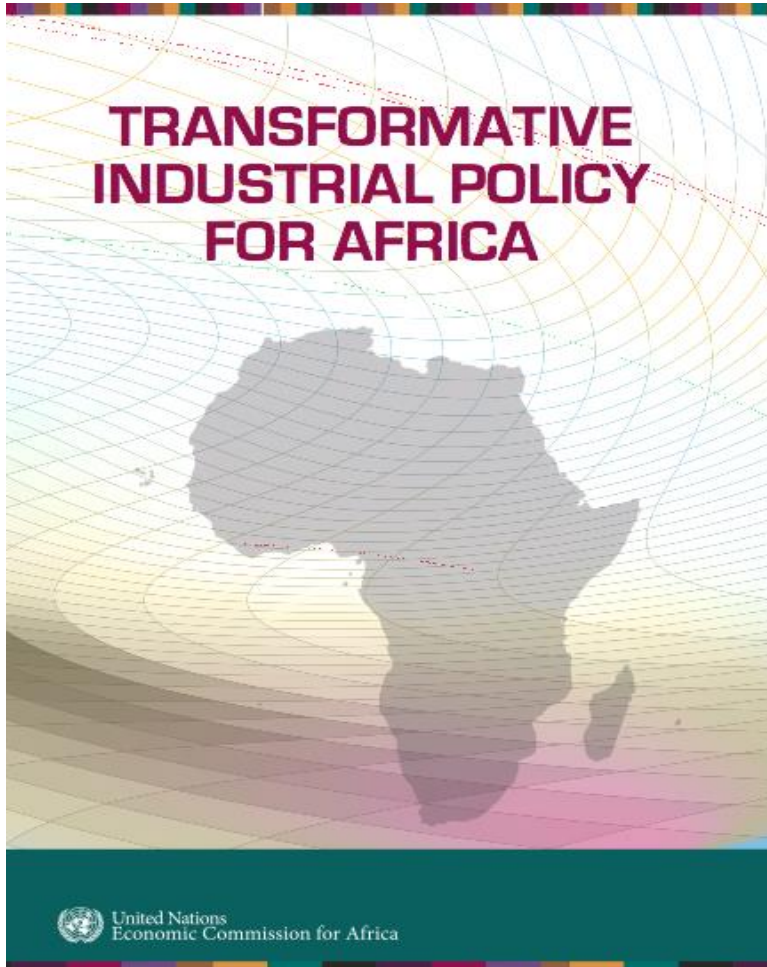
Broaden Your Sales



# What are the implications for industrial policy? – Linking up to TNCs or challenging them?

- **Attracting TNCs can result in similar capabilities developed domestically, but only insofar technology transfer policies are in place**
  - Examples would be joint venture requirements, R&D requirements and human capital requirements. Financial incentives are often handed out in return
- **Additionally, industrial policy makers must be ambitious!**
  - Who predicted success for Japan's automobiles, South Korea's steel or Nokia's (Finland) cell-phones?

# Thank you for listening!



<http://www.uneca.org/publications/transformative-industrial-policy-africa>