

The Participation of LAC in GVCs Some Evidence

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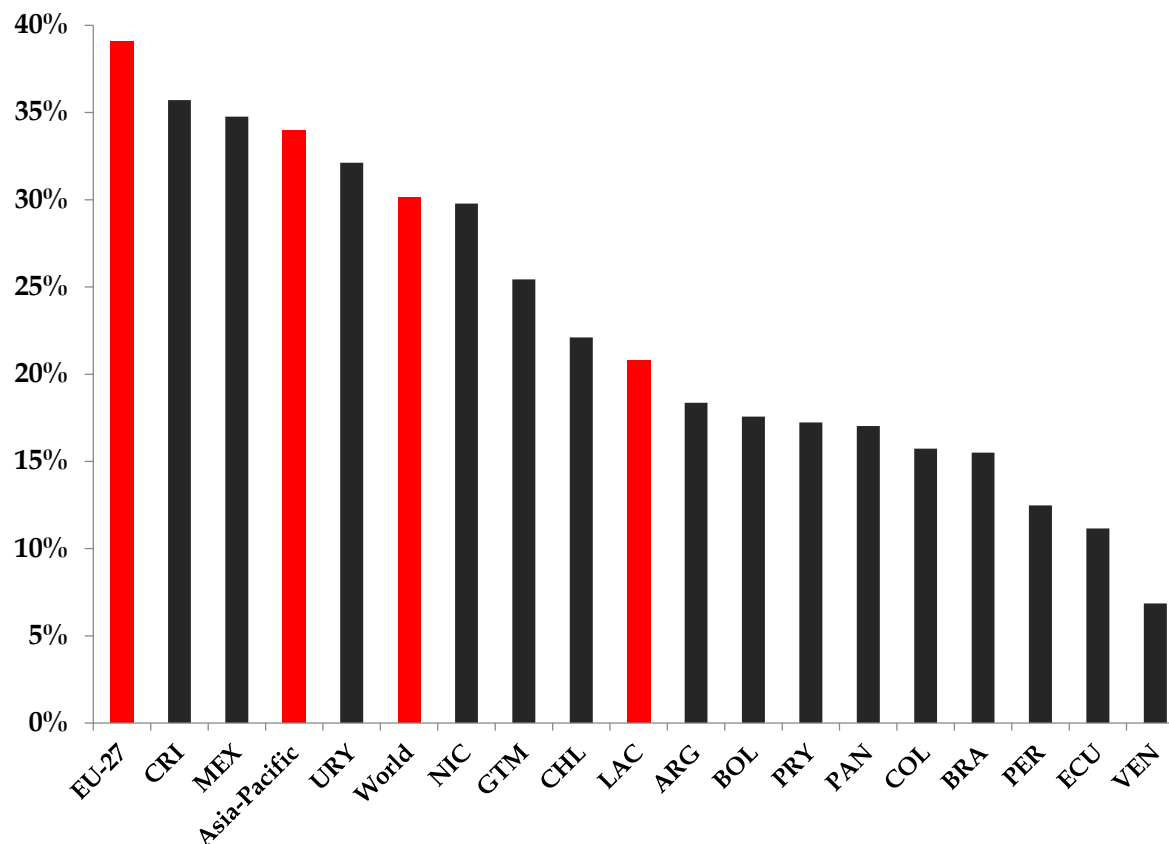
Why do we care?

- Increasing fragmentation of production and the emergence of global supply chains opens up new opportunities for production and trade that did not exist before
- Important for LAC, a region with a relatively small export base
- Participation in GVCs is also associated with knowledge acquisition and spillovers emanating from global players

Measures of Participation

Evidence from trade in value added

Share of Foreign Value Added in Gross Exports

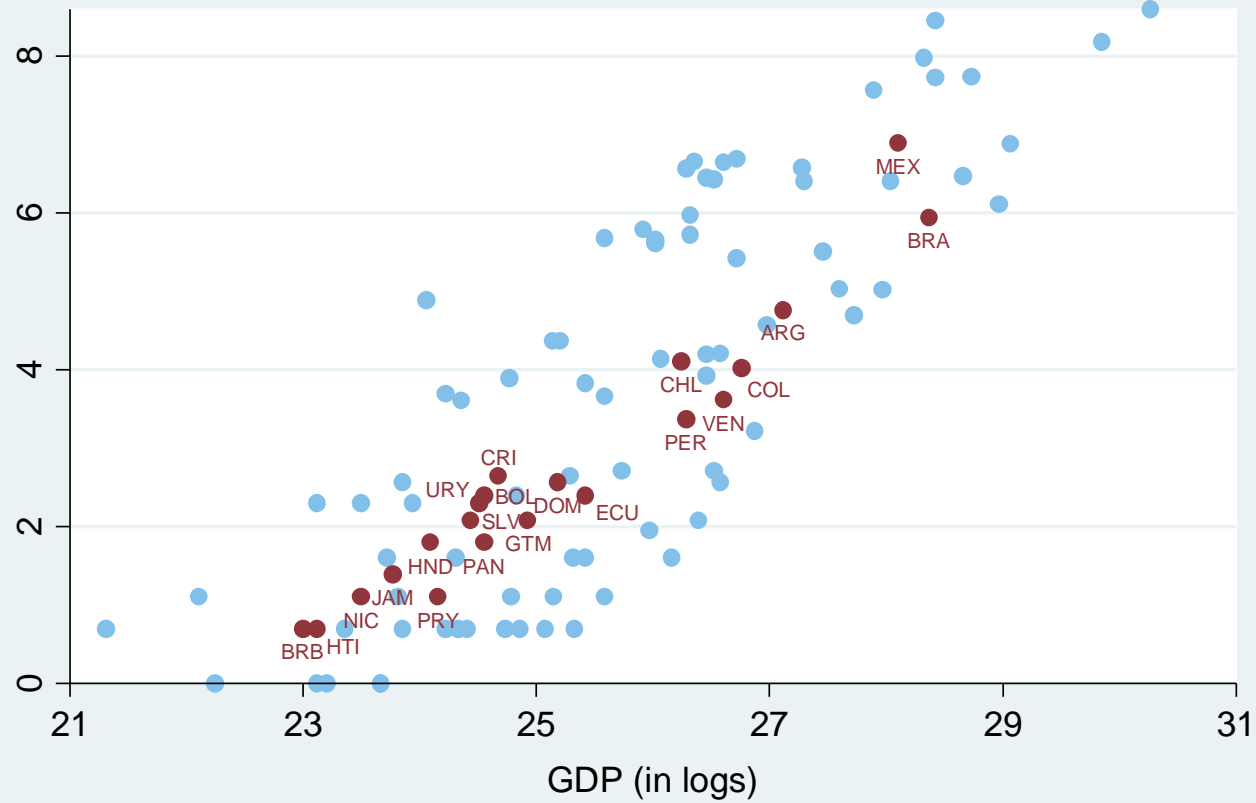


Source: INT/IDB based on data from GTAP.
Average values for 2004 and 2007

Evidence from FDI data

- ▶ Worldbase, compiled by Dun & Bradstreet (D&B)
- ▶ A worldwide dataset of establishments and in particular MNCs
- ▶ We examine the parent and subsidiaries that are vertically-linked (Alfaro and Charlton, 2009)

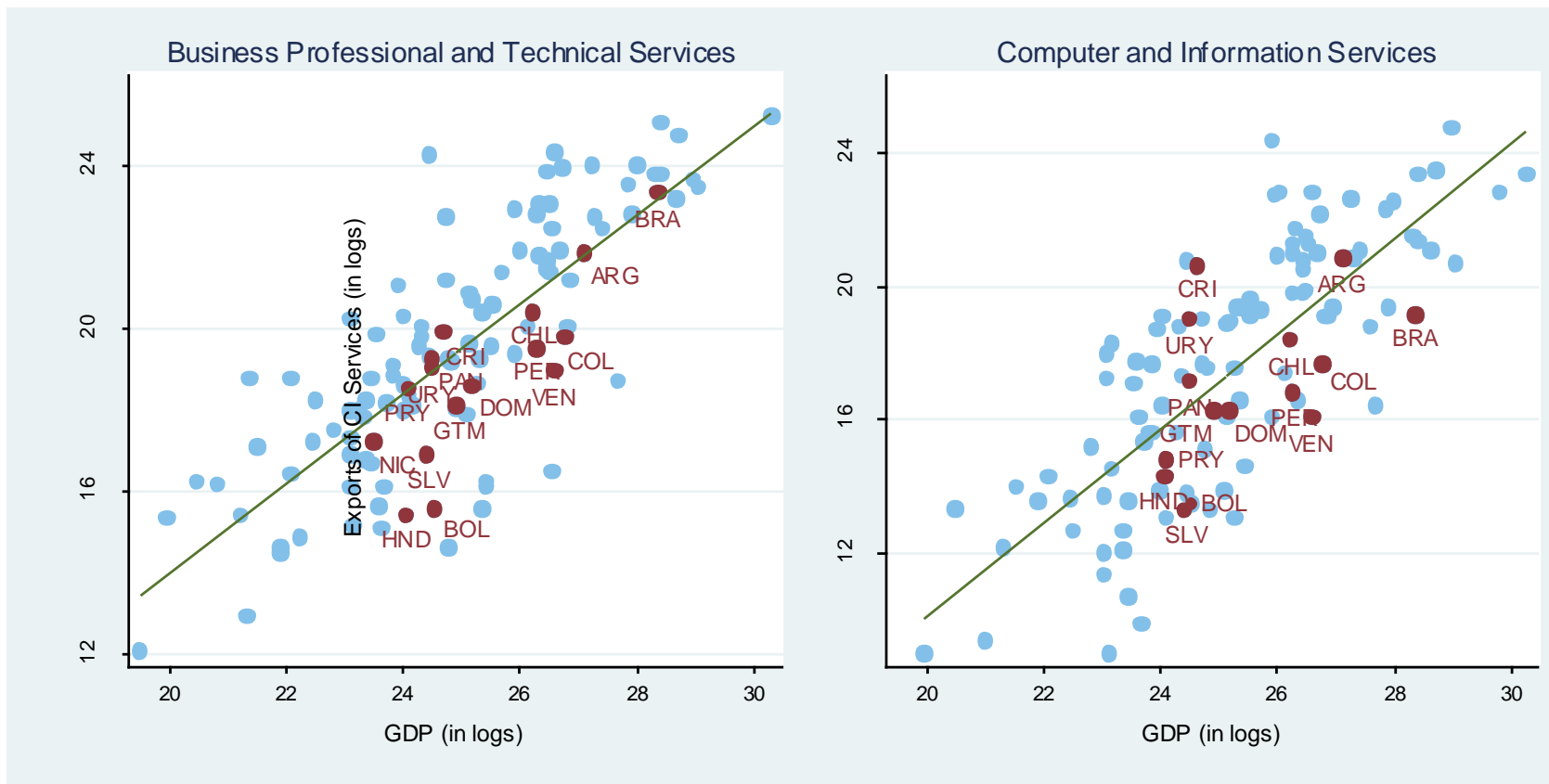
Vertical subsidiaries and size



Source: INT based on data from Dun & Bradstreet

Evidence from trade data in services

Export of selected offshoring services and size



**What's behind the small GVC
participation of LAC?**

Evidence from case studies



The challenges

- Information problems
- Lack of local capabilities to understand and comply with GVC's standards
- Trade/logistics costs

Information Problems

- The matching between buyers and sellers is typically done through a search process. When there is lack of information, this search process can be costly. In such cases, pre-existing ties and connections become relevant
- Lack of information reduces the chances of firms without connections to access GVCs
- There is an issue about improving the availability of information so potential suppliers become more visible

Lack of local capabilities to understand and comply with GVC standards

- Often producers in LAC operate in a domestic environment that tends to tolerate quality defects that are not accepted in developed countries. So producers find it hard to understand the importance of complying with GVC's standards
- Very often, suppliers do not have the scale or the financial capabilities to reach GVC's standards given the magnitude of the investments required
- Sometimes the capabilities were attained by solving coordination problems

Trade/logistics costs

- Uncertainty and delays in the arrival of any single component can have quite disrupted impacts as entire production lines might be shut down until all the components arrive
- Companies can face this uncertainty by holding large quantities of inventory, but firms are increasingly moving away from these practices...*lean* production strategies
- Firms are looking to locate bundles of production in places with adequate transport and logistics infrastructure to reduce delays and disruptions in the supply chain, inventory-holding costs, depreciation costs as well as handling costs

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