

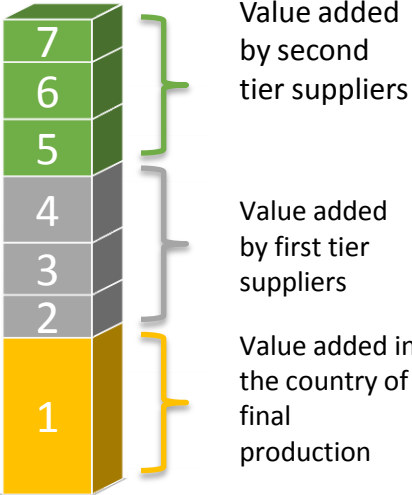
# Integrating into GVCs: Options for Trade and Complementary Policy

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# GVC indicators



**Trade in value-added:**  
decomposition of gross exports

Final consumption

Final assembly

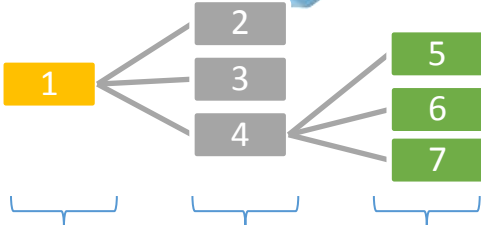
Trade in final goods

Trade in inputs  
(second tier suppliers)

Trade in inputs  
(first tier suppliers)

**Distance to final demand:**  
position of a country in the value chain

**Length of the value chain:**  
number of production stages



# What the data tell us

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- The more capital intensive the industry, the lower the level of upstream integration
- But significant differences in the scale of integration exist across countries, with some countries doing significantly better than others
- Integration need not be through manufacturing alone – even capital intensive sectors require significant services content
- MNEs emphasis on product and quality certification and standards represents an important area of potential upgrading for domestic firms

# Determinants of Success in the International Market Place

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**Trade & investment flows**

**Logistics**

**Productive capacity**

- Human capital, and national systems of innovation

**Infrastructure & services**

- Transportation, ICT, energy & water

**Business environment**

- Macroeconomic stability & public governance
- Adequate investor protection and contract enforcement
- Ease of opening and closing a business, incentives for experimentation, conditions for scaling up business
- Quality and product certifications, labour, social & environmental standards
- Adaptive product & labour market regulations
- Access to finance

# Trade and trade-related policies

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## Why?

- GVCs magnify the costs of protectionist measures
- Trade costs fall disproportionately on SMEs given their lower revenue base

## What policies?

- Reorder priorities on trade policy: give as much consideration to imports and timeliness as to exports and market access; prioritise import tariff streamline and simplify export procedures
- Implement and ratify the WTO Trade Facilitation Agreement as quickly as possible
- Implement trade facilitation reforms as coherent packages of hard and soft infrastructure
- Improve services sector efficiencies, as services are the links that forge global value chains
- Facilitate information on costs, benefits and implementation challenges: provide practical guidelines on establishing technical support and capacity building
- Enhance cooperation and coordination between development partners, at the multilateral, regional, and bilateral level

# Logistics

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## Why?

- Improving logistics performance and the efficiency of the supply chain is at the core of policies to bolster competitiveness and trade integration
- SMEs are the most vulnerable to supply chain inefficiencies and typically face double the logistics costs of large firms, including higher consolidation costs and higher inventory ratios
- SMEs tend to be more affected by lack of transparency in clearance processes, depend more on independent services, and if located in remote areas may be altogether excluded from some high value GVCs such as fresh, high quality products

## What policies?

- Assist countries in effectively implementing all aspects of a logistics and transport reform
- Customize approaches to meet specific needs, operational circumstances, and national connectivity priorities, providing a continuum of potential support activities, including logistics performance assessments, development of practical implementation plans, identification of sources of financing for implementation plans
- Implement reforms as coherent packages of hard and soft infrastructure.
- Facilitate information on costs, benefits and implementation challenges and provide practical guidelines on establishing technical support and capacity building for reform.

# Certification and standards

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## Why?

- Increased focus of companies on sustainable management of global value chains due to demand for world class quality of products and competitive pressures triggered by environmental regulations, resource use, social issues, government and consumer demands.
- Suppliers able to meet these standards are more likely to enjoy increased demand and competitive pricing for their products and to integrate the higher value and more complex GVCs.
- Adopting higher standards involves greater difficulty for SMEs and LICs

## What policies?

- Convergence/mutual recognition of dominant private/public standards
- Global platforms for replicability of best practices/learning
- Holistic, country-focused, multi-stakeholder approach to capacity building, sustained over time, including:
  - Engagement of private sector (local suppliers, global leads and buyers)
  - Creation of local supplier base for advisory services
  - Improving infrastructure
  - Improvements of business environment

# Human capital, incl. managerial skills and workforce capacity

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## Why?

- Weak managerial skills & inefficient organisation translate into:
  - Low productivity
  - Sub-optimal use of their workforce
  - Wasteful use of materials & inputs
  - Poor efficiency at the production floor
- Continuous upgrading of workers' skills is essential to remaining competitive & part of GVCs

## What policies?

- Combine high-quality initial education with lifelong learning opportunities for all to help ensure that workers are well prepared for the future
- Develop & implement global platforms for sharing best practices and e-learning
  - Attention to vocational training and all functions (including sales, marketing, knowledge of languages)
  - Technical workers are often central to ensuring standards compliance, be it the tracing of foodstuffs, operating large drilling equipment, or ensuring each product run in the factory meets quality requirements
- Leverage buyers to train local staff can be a more efficient means of knowledge transfer because information is up-to-date and corresponds to the needs of the lead firms.
- Harness informal entrepreneurship, particularly the informal businesses that seem to prevail in the downstream parts of GVCs in LICs



# Innovation and technology adoption

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## Why?

- Process & organisational innovation
- Product innovation
- Marketing innovation
- Innovative branding strategies

## What policies?

- Develop & implement rigorous IP legislation to protect innovative assets:
  - Legislation should seek to minimise transaction costs for SMEs by streamlining procedures
  - Include high-quality examination to increase signalling value
- Provide assistance to SMEs, for example, through electronic platforms that help domestic firms acquire foreign technology and commercialise their intellectual property
- Assist SMEs in the use of freely available technologies or the acquisition of technological licensing agreements

# Financing SMEs in GVCs

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## Why?

- Size and intangibility play against creditworthiness of SMEs
- Productivity enhancing activity and innovation are intrinsically riskier
- Markets provide in general less financing for SMEs willing to grow and innovate that socially desirable.
- Routinely banks rely on balance sheet data, past performance, current turnover and liquidity as predictors of repayment ability.

## What policies?

- Need for financing that takes into account intrinsic know-how, pool of talent, distribution channels, business relationships, business model, access to technology in valuation of repayment ability.
- Equity financing and bank guarantees to be preferred to traditional debt financing.
- Promote policies which have a multi-pronged approach: regional connectivity between LICs and non-LICs, public private partnerships and engagement, creation of a private market for financial services provision, cross-border projects and sectoral coverage, provisions for entry and exit.

**THANK YOU**