

# **Trade, Foreign Direct Investment in Latin America and Global Value Chains: An International Integration Strategy for Latin America**

## **GVCs in Latin America: Patterns and Policy Implications**

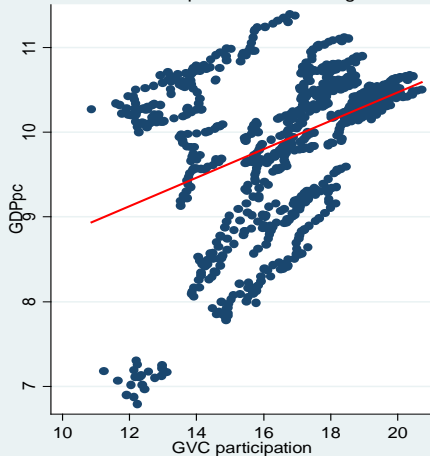
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UNCTAD

**ECLAC – SANTIAGO DE CHILE**  
**3-4 JUNE 2014**

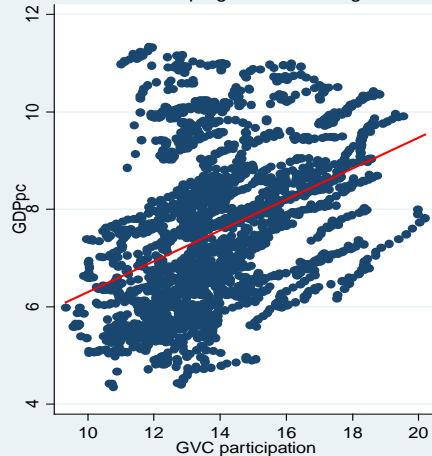
# GVCs' two important findings (World Investment Report 2013)

There is correlation between growth in GVC participation and GDP per capita

GVC Participation vs GDP per Capita  
Developed Countries - logs

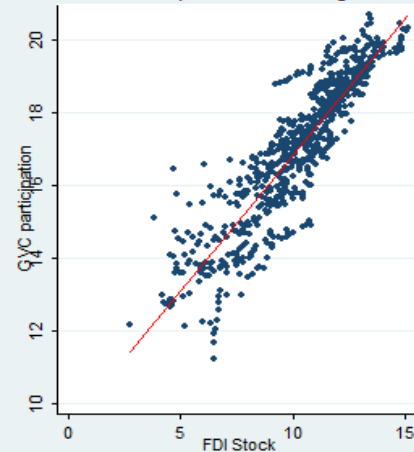


GVC Participation vs GDP per Capita  
Developing Countries - logs

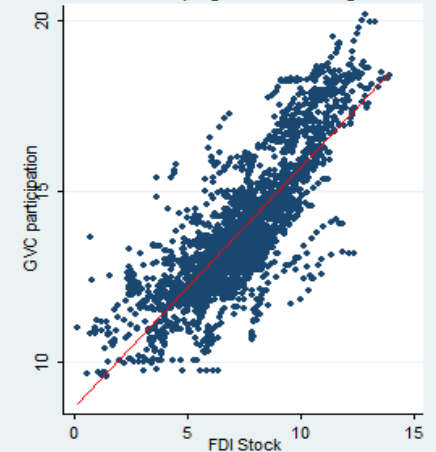


There is correlation between inward FDI and GVC participation

GVC Participation vs FDI Inward Stock  
Developed Countries - logs



GVC Participation vs FDI Inward Stock  
Developing Countries - logs



Source: UNCTAD, World Investment Report 2013.

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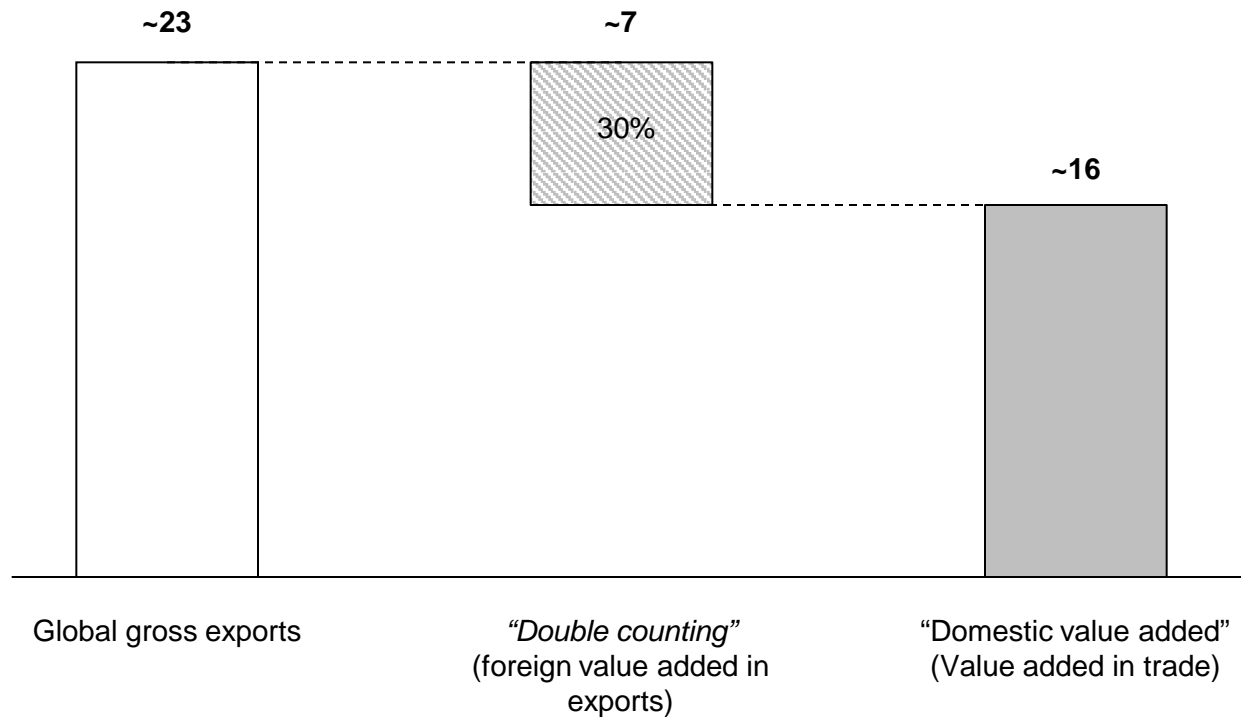
- **Value added trade in commodity-dependent and non-commodity-dependent developing countries**
- **GVCs: the trade-investment nexus**
- **Policy options to upgrade value chains**

# How much value added does global trade actually generate?

## Global value added in trade (goods and services), 2011

\$ trillions

ESTIMATES

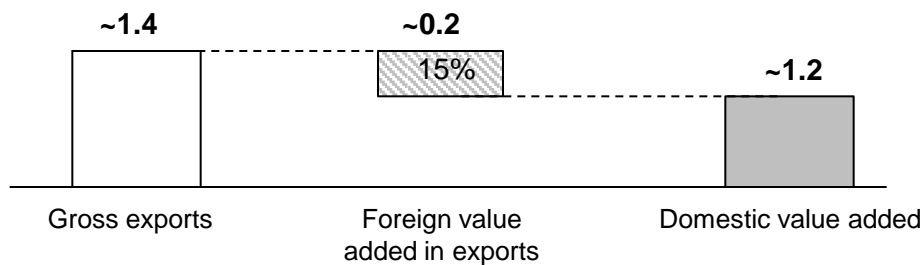


Source: UNCTAD-EORA GVC Database, UNCTAD estimates.

# How about commodity-dependent countries?

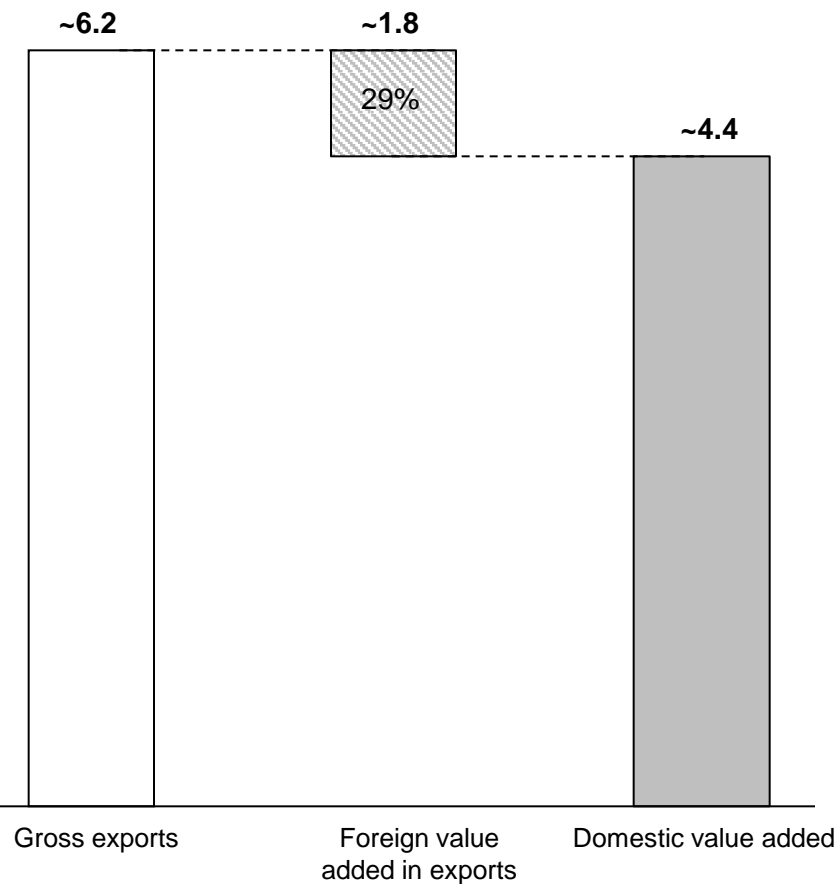
Value added in trade, 2011  
(\$ trillions)

## Commodity-dependent developing regions<sup>a</sup>



<sup>a</sup> Includes Africa and South America.

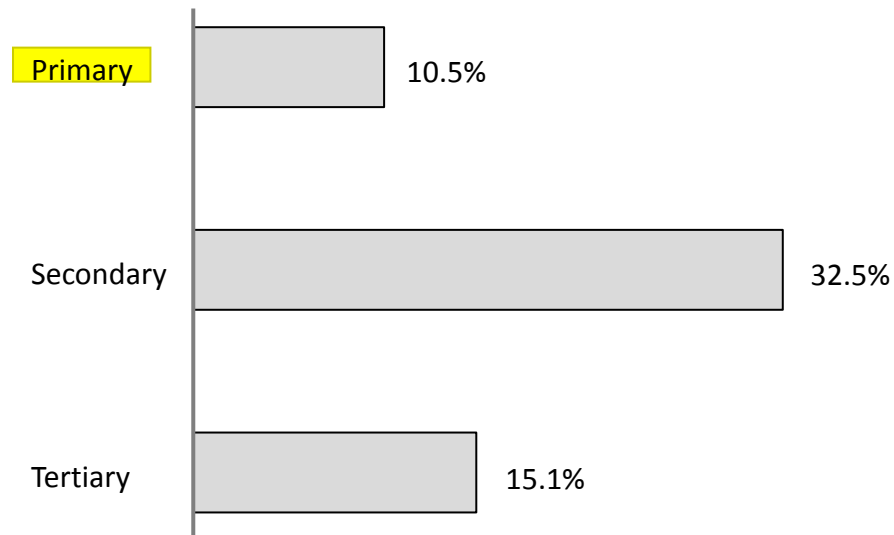
## Non-commodity dependent developing regions<sup>b</sup>



<sup>b</sup> South, East and South-East Asia and Central America.

# Which sectors have the most segmented value chains?

Share of foreign value added in exports, by sector, 2011

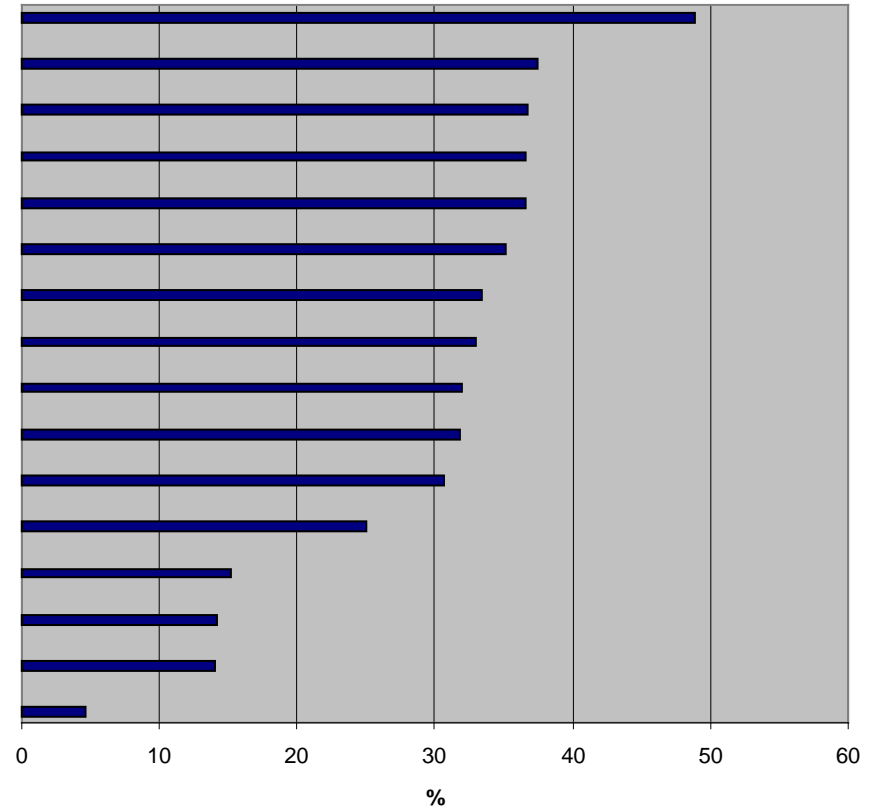


Source: UNCTAD-EORA GVC Database.

# Which industries have the most segmented value chains?

Share of foreign value added in exports, top 10 industries, 4 primary industries and some resources-based manufacturers, 2011

- 1 Manufacture of office, accounting and computing machinery
- 2 **Coke, petroleum products and nuclear fuel**
- 3 Manufacture of radio, television and communication equipment and apparatus
- 4 Manufacture of wearing apparel; dressing and dyeing of fur
- 5 Manufacture of motor vehicles, trailers and semi-trailers
- 6 Manufacture of electrical machinery and apparatus n.e.c.
- 7 Manufacture of textiles
- 8 Manufacture of other transport equipment
- 9 Other manufacturing
- 10 **Rubber and plastic products**
- 12 **Metal and metal products**
- 20 **Food, beverages and tobacco**
- 32 **Forestry and fishing**
- 34 **Mining and quarrying**
- 36 **Agriculture and hunting**
- 50 **Petroleum**



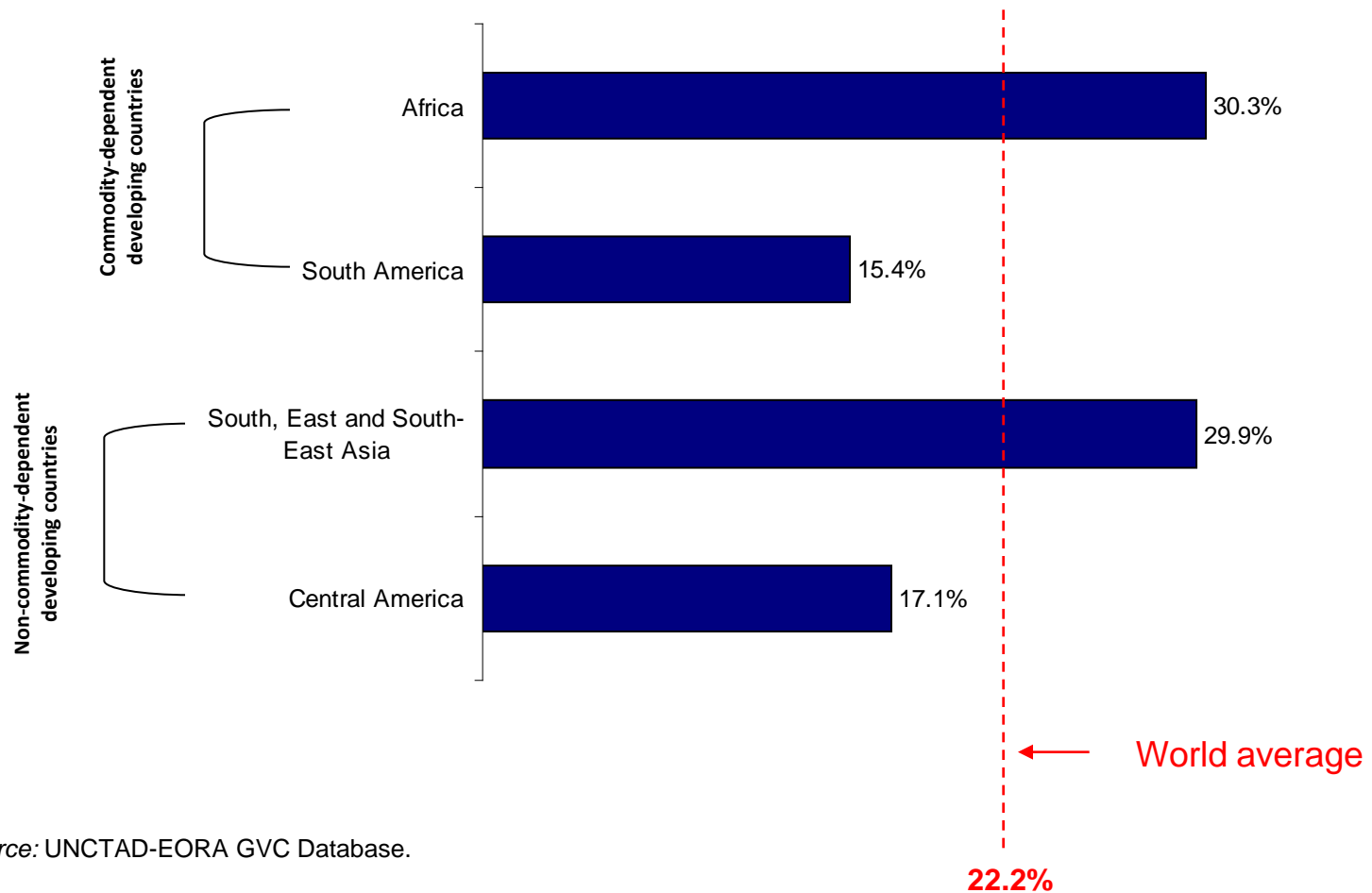
Source: UNCTAD-EORA GVC Database.

- Primary industries
- Resources-based manufacturers

Note: Based on 50 industries at various levels of industry classification (ISIC 4).

# How much does trade really contribute to GDP in commodities dependent countries?

Domestic value added in trade as a share of GDP, 2011



Source: UNCTAD-EORA GVC Database.

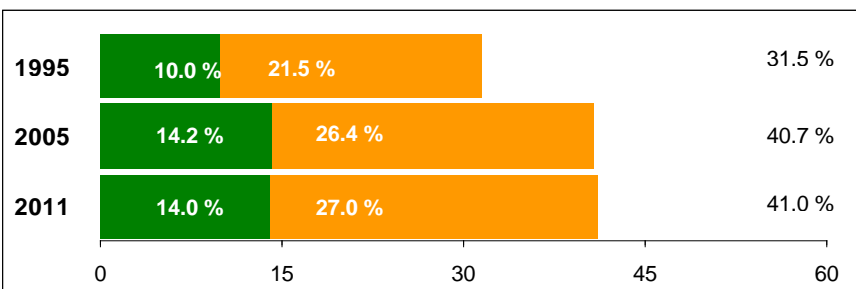


# How much do they participate in GVCs?

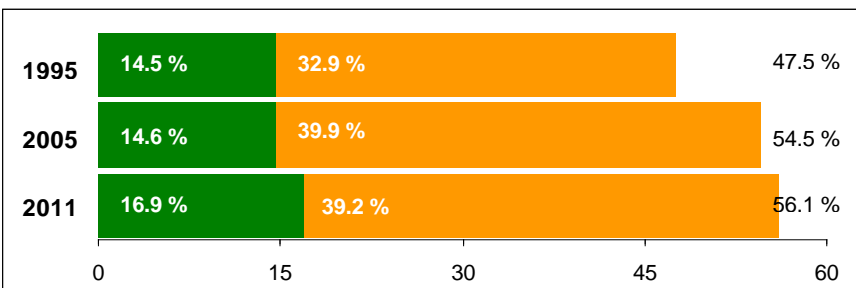
GVC participation: the share of a country's exports that is part of a multi-stage trade process, by summing the foreign value added used in the country's own exports *and* the value added supplied to other countries' exports.

## Commodity-dependent developing countries

### South America

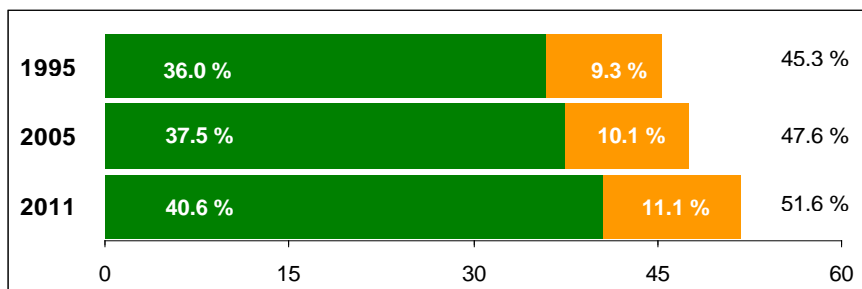


### Africa

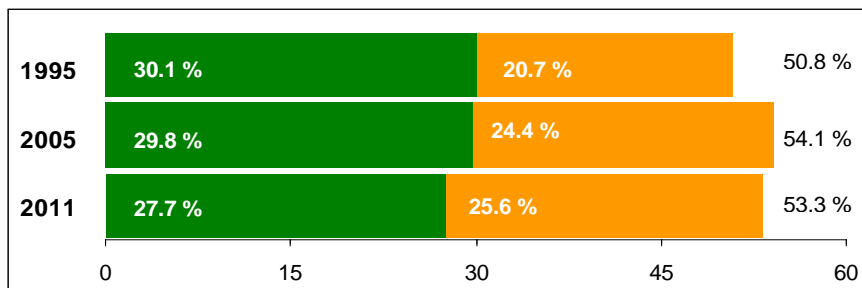


## Non-commodity dependent developing countries

### Central America



### South, East and South-East Asia



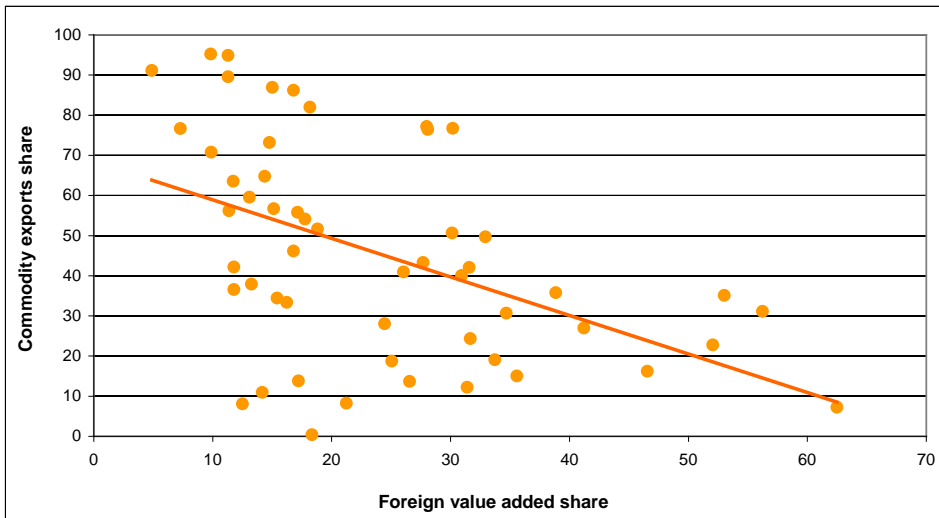
Foreign value added share

Value added incorporated in other countries' exports

# Is GVC participation influenced by the export structure?

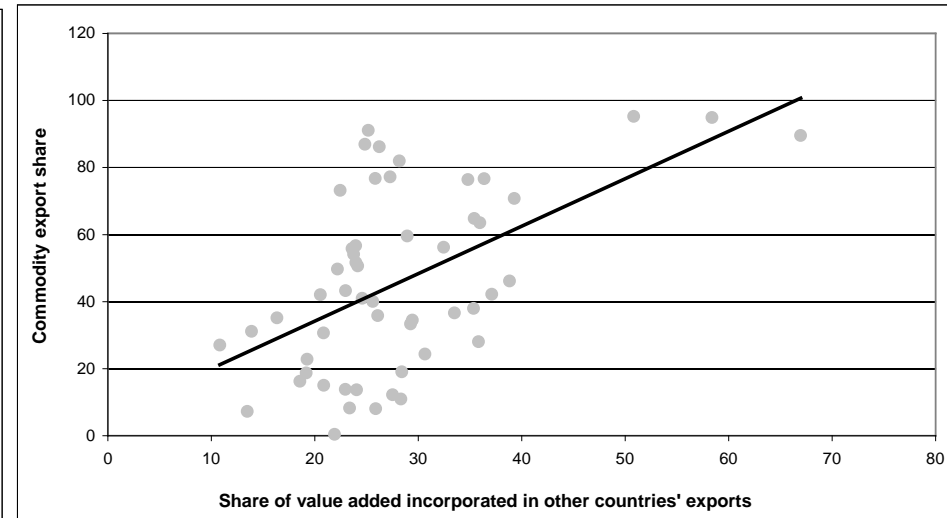
The foreign value added share in exports (upstream part of GVCs) and the intensity of commodity exports have a negative relationship, while the share of value added incorporated in other countries' exports (downstream part of GVCs) and the intensity of commodity exports have a positive relationship.

Relationship between foreign value added share and commodity exports share<sup>a</sup>, 2011



a) The share of primary products and resource based on manufacturing exports in the total exports of goods and services.

Relationship between the share of value added incorporated in other countries' exports and commodity exports share<sup>a</sup>, 2011



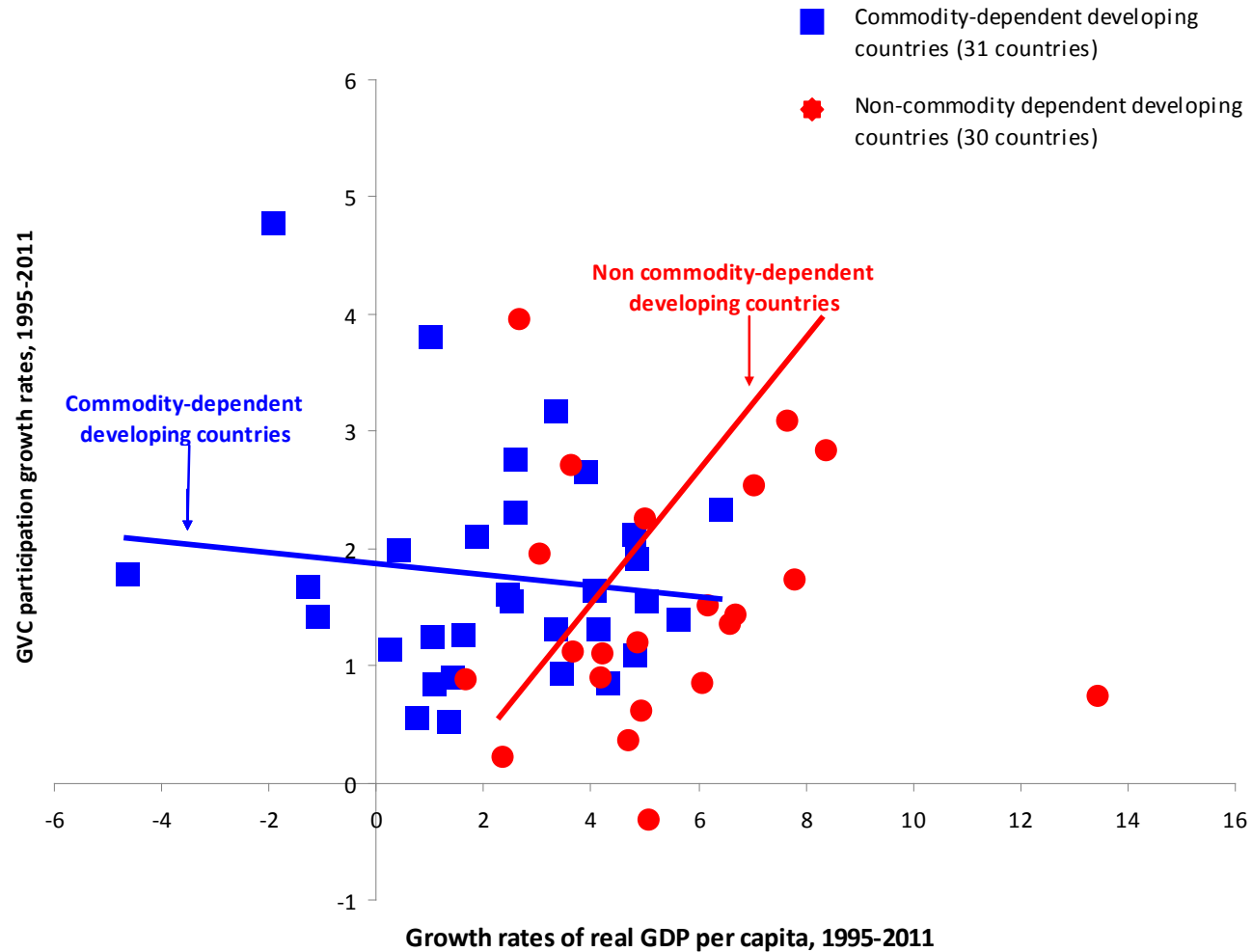
a) The share of primary products and resource based on manufacturing exports in the total exports of goods and services.

Source: UNCTAD-EORA GVC Database.

# What is the impact of GVCs on economic growth?

Correlation between growth rates of GVC participation and growth rates of GDP per capita: commodity-dependent developing countries have less clear-cut relationship between them.

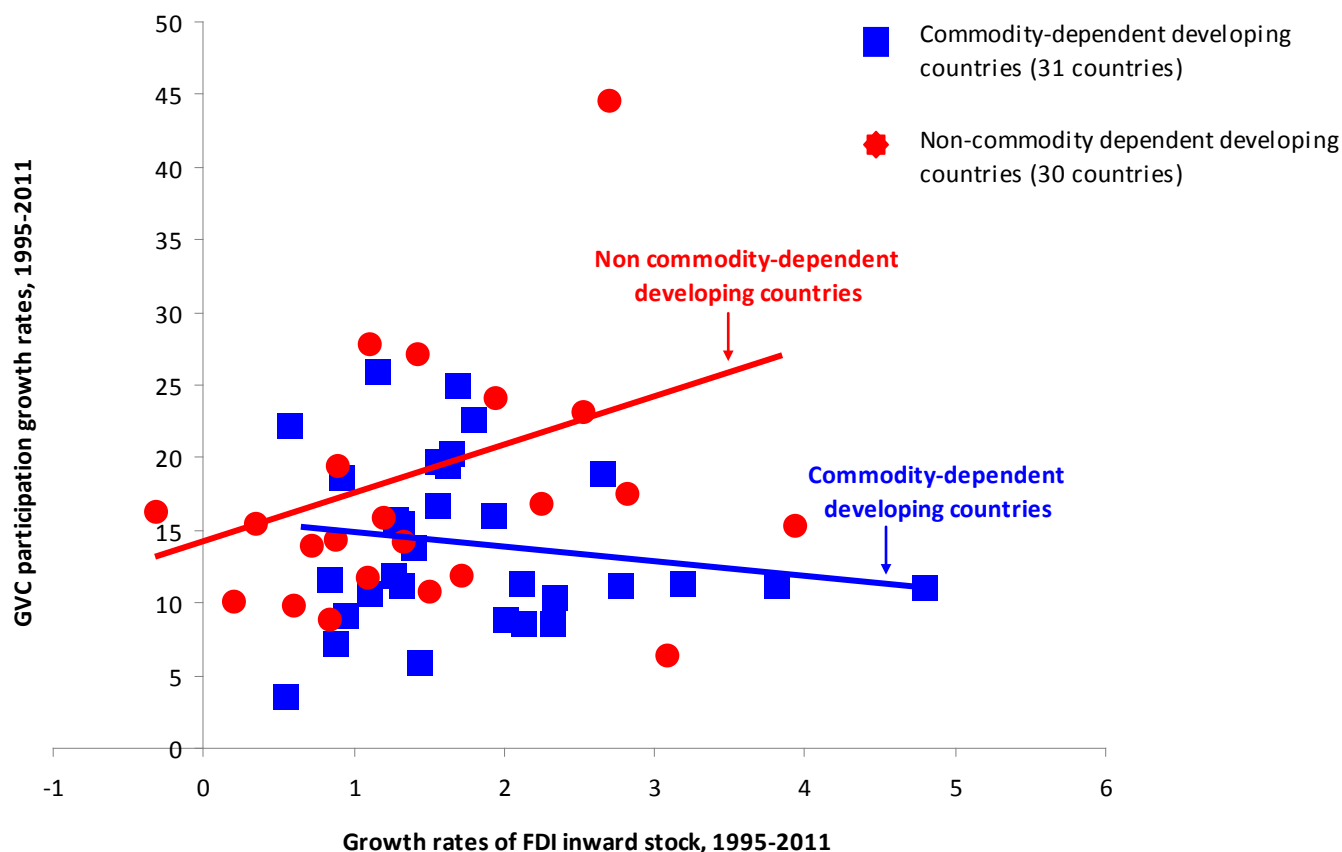
### GVC participation and GDP per capita



# Impacts of FDI on GVC participation are not uniform between commodity-dependent developing countries and non-commodity dependent developing countries

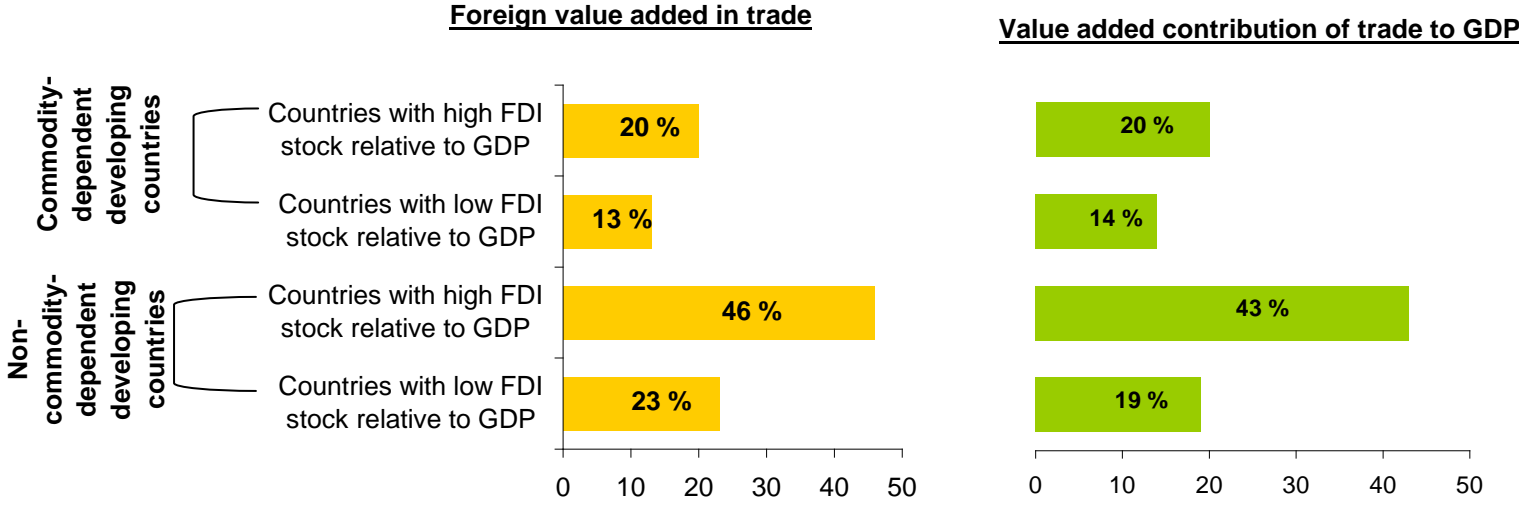
TNCs increase less GVC participation in commodity-dependent countries than in non-commodity dependent countries.

## GVC participation and FDI inward stock



# FDI shapes patterns of value added in trade, but less in commodities-dependent developing countries than non-commodities dependent developing regions

Key value added trade indicators (median values), by size of FDI stock relative to GDP, 2011  
(Per cent)



Note: 30% is the criteria for high/low FDI stock relative to GDP.

Source: UNCTAD-EORA GVC Database.

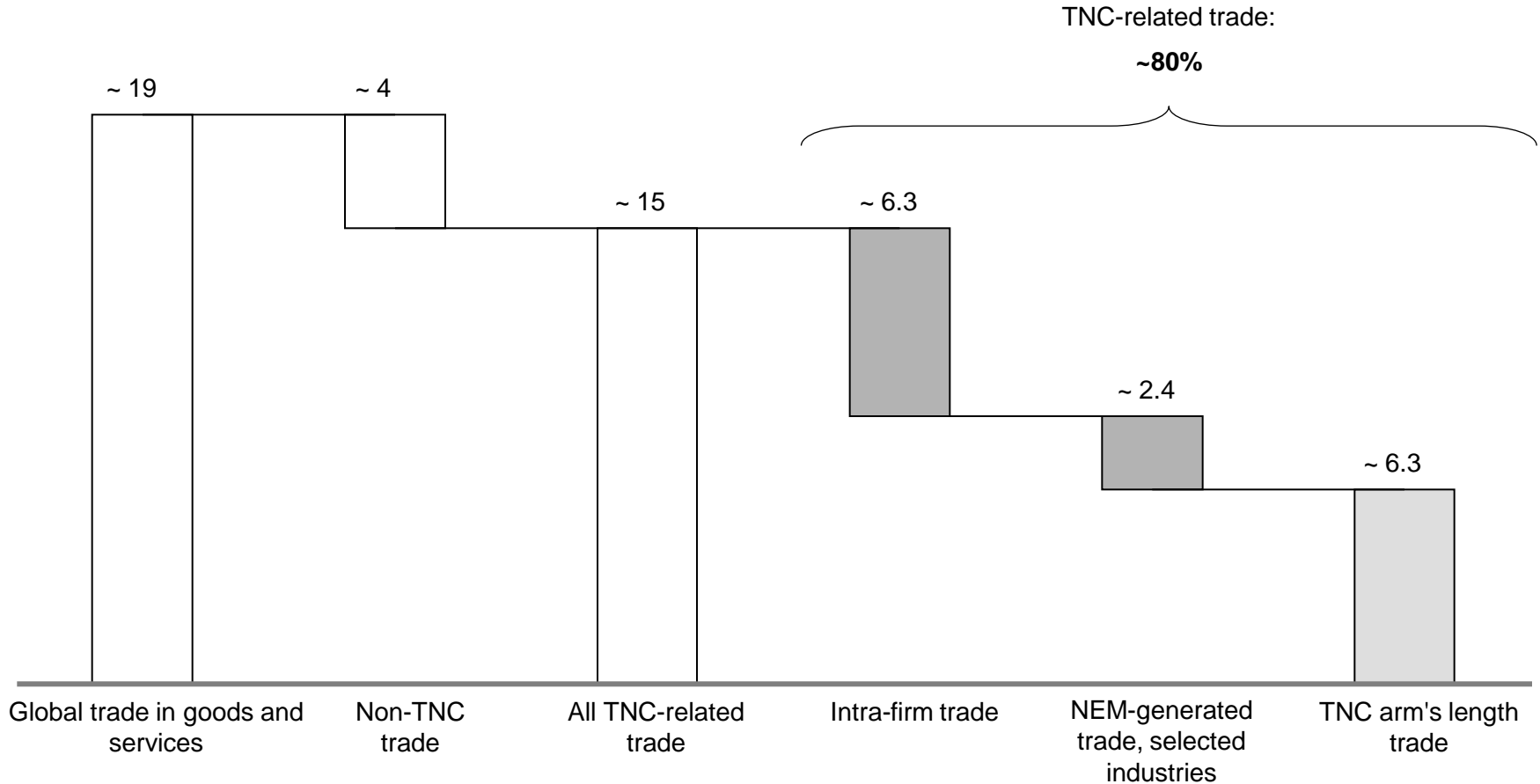
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# GVCs are typically coordinated by TNCs

Global gross trade (export of goods and services), by type of TNC involvement, 2010  
(Trillions of dollars)

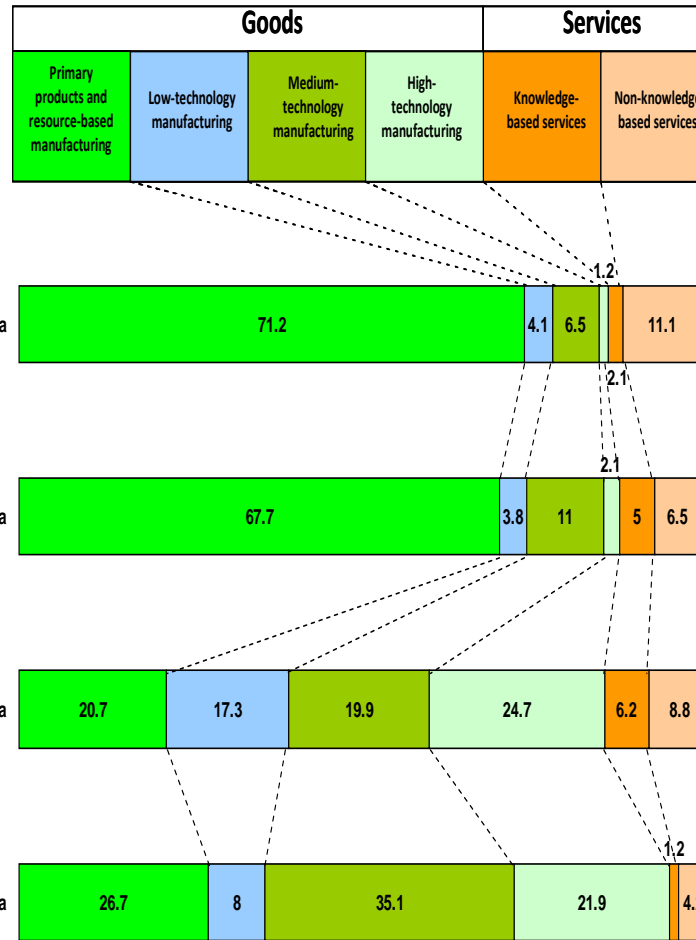
ESTIMATES



# Trade structure and investment patterns

## Trade structure, 2011

(Distribution share)



## Main trade and investment patterns

**Trade patterns:** Exports remain predominantly within sectors and industries with limited need for imported content and limited domestic productive capacity  
**Investment patterns:** Relative high share of natural resources oriented FDI

**Trade patterns:** Exports remain predominantly within sectors and industries with limited need for imported content and (limited) domestic productive capacity  
**Investment patterns:** Relative high shares of natural resources oriented FDI and import-substitution FDI

**Trade patterns:** Rapid development of domestic productive capacity for exports competing successfully at high value added levels  
**Investment patterns:** FDI acts as a driving force of trade integration and domestic productive capacity building

**Trade patterns:** Composition of exports shifts towards processing industries requiring higher imported content  
**Investment patterns:**  
 - Increased FDI in processing industries  
 - M&As become an important mode of entry

Note: The sum of individual sectors does not necessarily add up to 100% due to unclassified products. Knowledge-based services include insurance, financial services, computer and information services, royalties and licence fees, and other business services.



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# Policy options to increase GVC participation and create more domestic value added for commodity-dependent developing countries

- **More GVC participation: integrating more into GVCs**
  - Enter (increase relative importance of) more fragmented GVCs
  
- **More domestic value added creation: capturing more value added**
  - Functional and chain upgrading: Move to (or expand to) higher value segments in GVCs; Move to (or expand to) technologically higher value GVCs
  - Product and process upgrading: Increase productivity and value added produced within existing GVC segments

# Factors and conditions conducive for promoting GVC development and policy measures for commodity-dependent developing countries

NOT EXHAUSTIVE

GVC development path	Required factors and conditions	Policy measures
Enter more fragmented GVCs	<ul style="list-style-type: none"> <li>• Conducive investment and trading environment</li> <li>• Basic infrastructure provision</li> <li>• Pool of relatively low-cost workers</li> </ul>	Embedding GVCs in development strategy and enabling participation: <ul style="list-style-type: none"> <li>• Incorporating GVCs in industrial development policies</li> <li>• Creating and maintaining a conducive environment</li> <li>• Putting in place infrastructural prerequisites for GVC participation</li> </ul>
Product and process upgrading	<ul style="list-style-type: none"> <li>• Availability and absorptive capacities of domestic supplier firms and partners</li> <li>• Reliable basic infrastructure services (utilities and telecommunications)</li> <li>• Pool of relatively low-cost semi-skilled/skilled workers</li> </ul>	Building domestic productive capacity: <ul style="list-style-type: none"> <li>• Supporting enterprise development and enhancing the bargaining power of local firms</li> <li>• Strengthening skills of the workforce</li> </ul>
Functional and chain upgrading	<ul style="list-style-type: none"> <li>• Presence of domestic supplier base fully integrated in multiple GVCs (reduced reliance on individual GVCs)</li> <li>• Absorptive capacities at higher technology levels, capacity to engage in R&amp;D activities</li> <li>• Presence of TNCs capable of GVC coordination and a domestic and international supplier base</li> </ul>	Providing a stronger governance framework: <ul style="list-style-type: none"> <li>• Supporting local firms in complying with international standards</li> <li>• Effective national innovation system, R&amp;D policies and intellectual property rules</li> </ul>

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