



**The participation of  
LAC in GVCs: what  
are the challenges?**

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# Introduction

- ▶ There is a common perception that LAC lags behind other regions in taking advantages of the fragmentation of production and the emergence of GVCs
- ▶ The IDB launched a research project based on case studies to examine this issue
- ▶ The main objective was to identify what were the critical factors of success or failure as firms and countries in LAC strive to become part of international production networks
- ▶ We invited Tim Sturgeon to become the external advisor of the project
- ▶ A call was launched in research centers, university and think tanks across LAC. Five proposals were selected

# Introduction



# The challenges

- ▶ INFORMATION BARRIERS
- ▶ LACK OF LOCAL CAPABILITIES TO UNDERSTAND & COMPLY WITH GVC's STANDARDS
- ▶ TRADE/TRANSACTION COSTS

# INFORMATION BARRIERS

- ▶ 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



USA

Colombia

# INFORMATION BARRIERS

- ▶ 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 & COMPLY WITH GVC's 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

# TRADE / TRANSACTION COSTS

- ▶ Market Access
- ▶ Transportation / Logistics:

Basso





# The challenges

- ▶ INFORMATION BARRIERS
- ▶ LACK OF LOCAL CAPABILITIES TO UNDERSTAND & COMPLY WITH GVC's STANDARDS
- ▶ TRADE/TRANSACTION COSTS

# INFORMATION BARRIERS

- ▶ There is an issue about improving the availability of information so potential suppliers become more visible and more trustworthy
  - ▶ The role of certifications
  - ▶ The role of intermediaries, like export/investment promotion agencies; associations

# LACK OF LOCAL CAPABILITIES TO UNDERSTAND & COMPLY WITH GVC's STANDARDS

- ▶ The role of intermediaries
- ▶ The role of domestic competition

# TRADE / TRANSACTION COSTS

- ▶ Market access: important not only in the buyer's market but also in the supplier's market
- ▶ Transportation / Logistics: much more than just distance

# Final Note

- ▶ It is hard to use case studies to generalize, much less to talk about issues of causalities
- ▶ Each case has its own peculiarities related to its industry and country
- ▶ There is, however, a number of challenges that are related with some core problems that cut across many cases. We feel many of the most important challenges that firms in LAC currently face are related to these core problems
- ▶ Understanding the nature of these core problems is the first step for the design of policy response



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