



INTERCONNECTED ECONOMIES: BENEFITTING FROM GLOBAL VALUE CHAINS – THE CZECH REPUBLIC

Koen De Backer

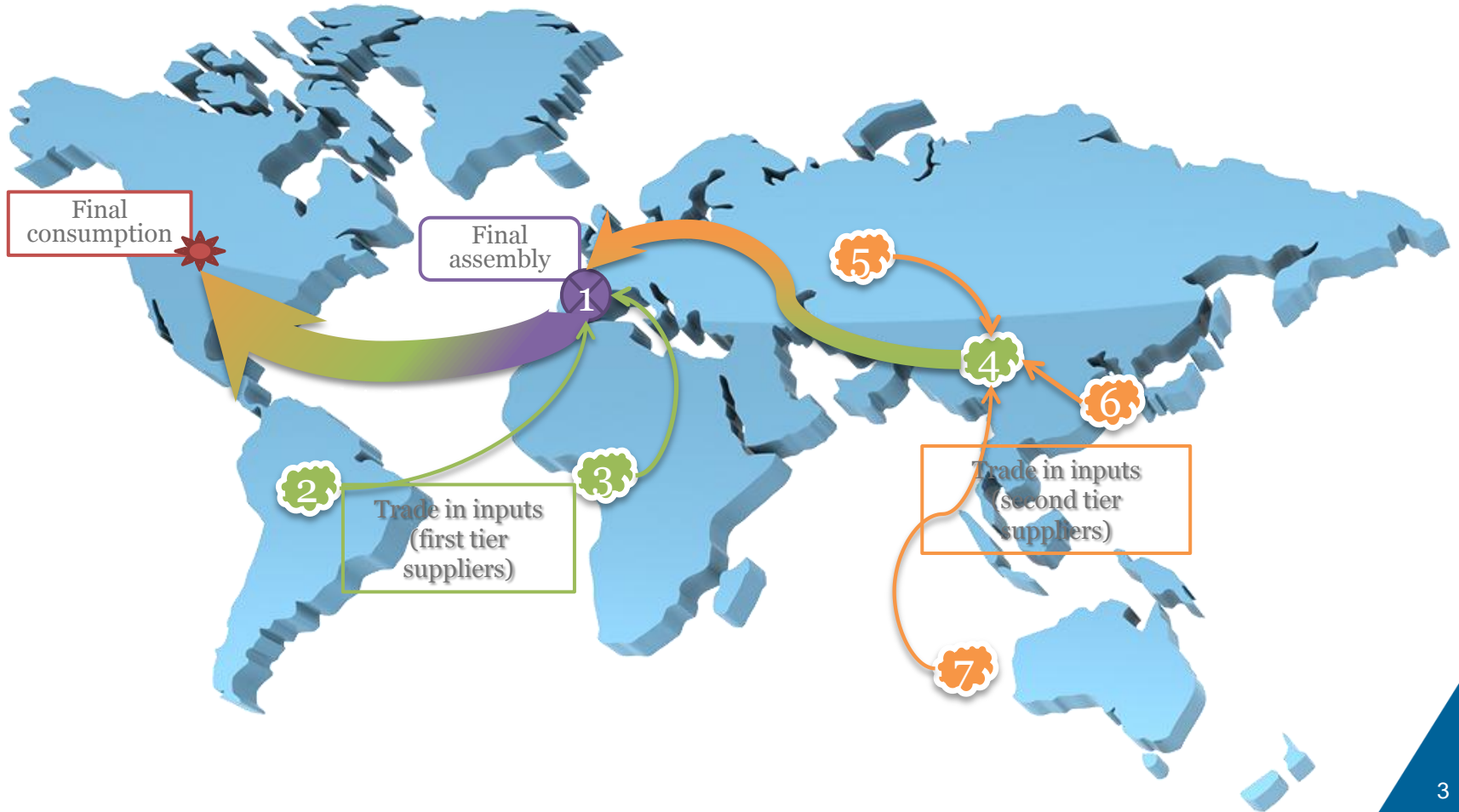


Outline

- GVCs as a new phase in economic globalisation
- Czech engagement and positioning in GVCs
- Upgrading, innovation and knowledge based capital
- Conclusions

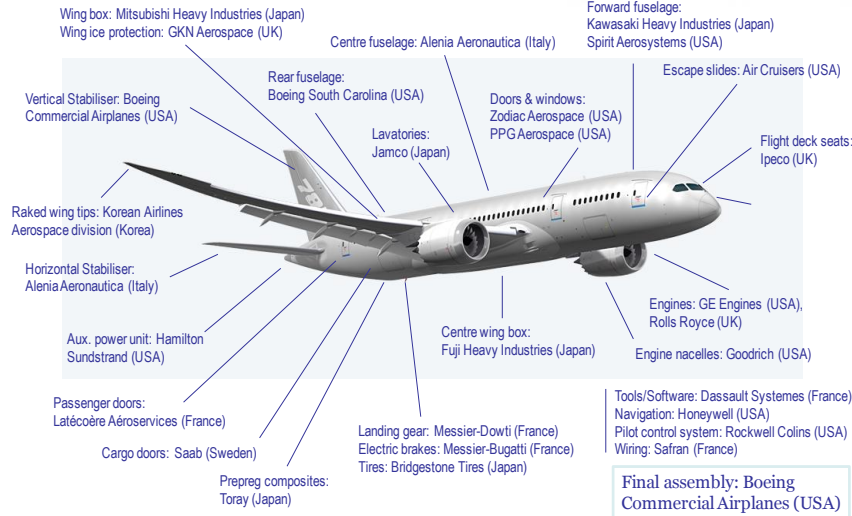
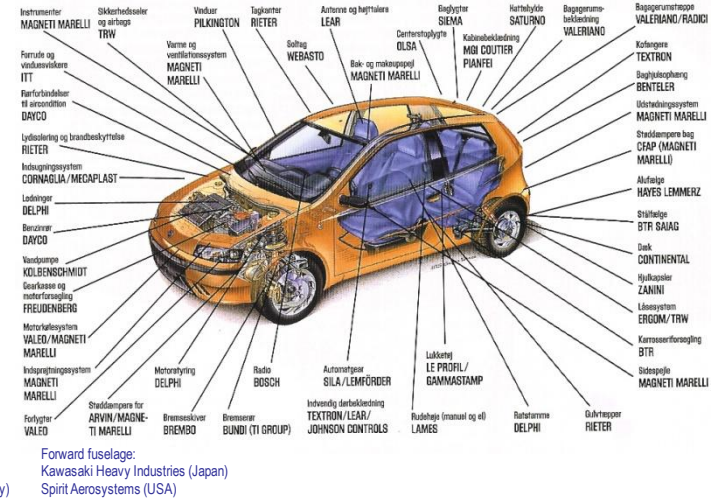
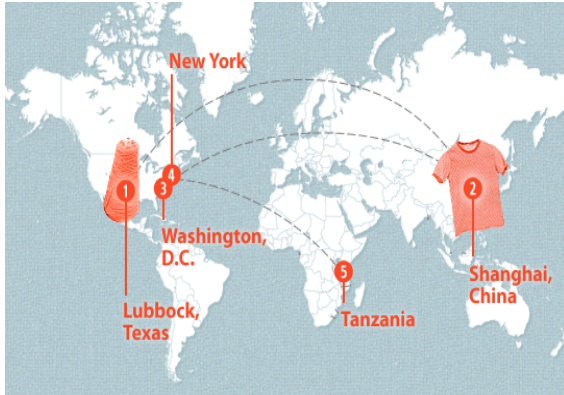


Global Value Chains



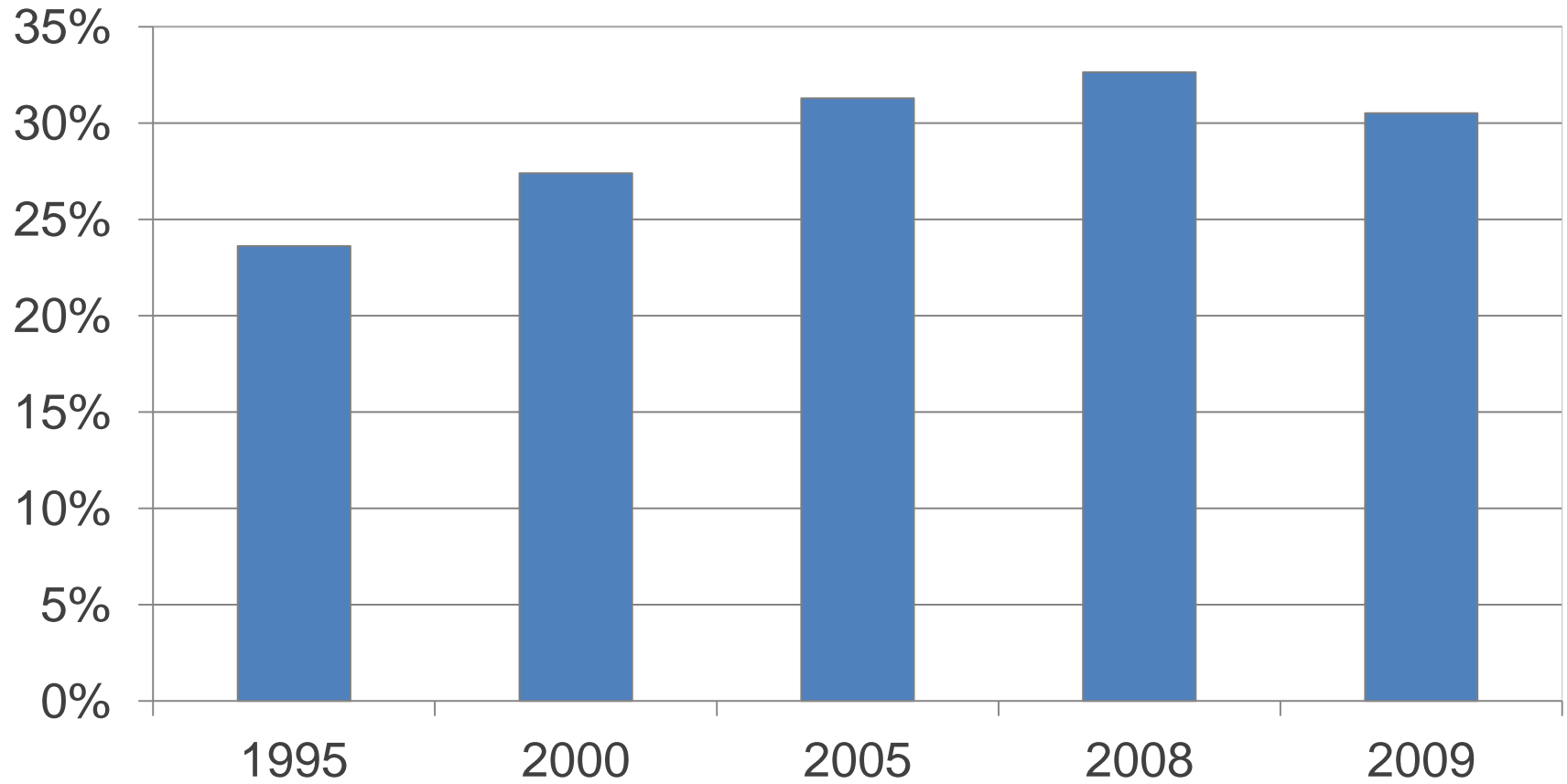


Global Value Chains – case studies



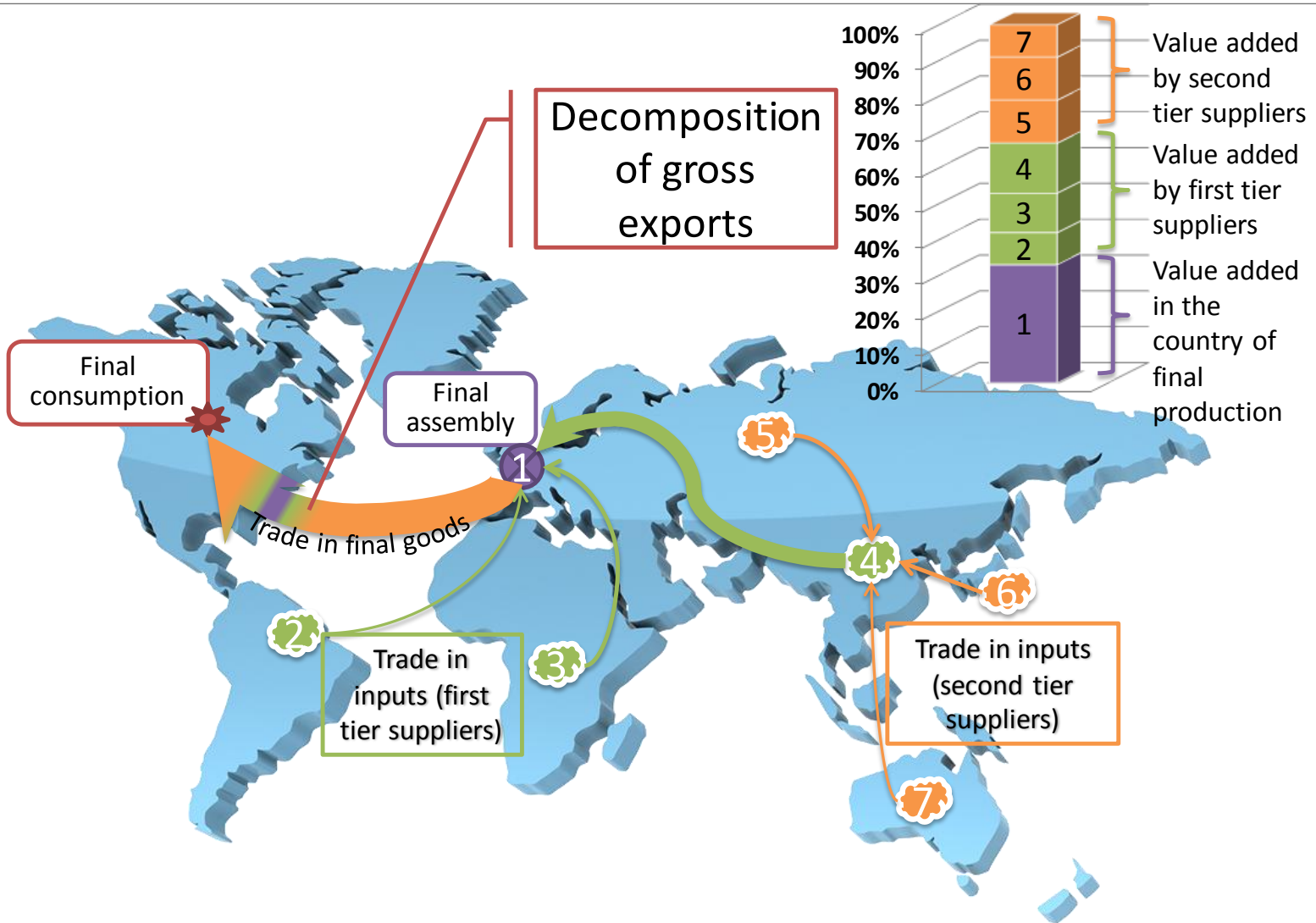


Rising foreign value added in world exports





OECD work on Trade in Value Added (1)





OECD work on Trade in Value Added (2)

- Global Input-Output Model: national IO tables linked by bilateral trade statistics
- Official statistics – making it mainstream work
- Large and growing coverage
 - 57 countries
 - > 95% of GDP, > 90% of world trade
 - China; processing and non-processing trade
- First release (of results) on 16 January 2013 – new release during OECD Ministerial Meeting (May 2013)
- Trade flows in value added and applied indicators
- Further work: employment and skills, income, firm heterogeneity...



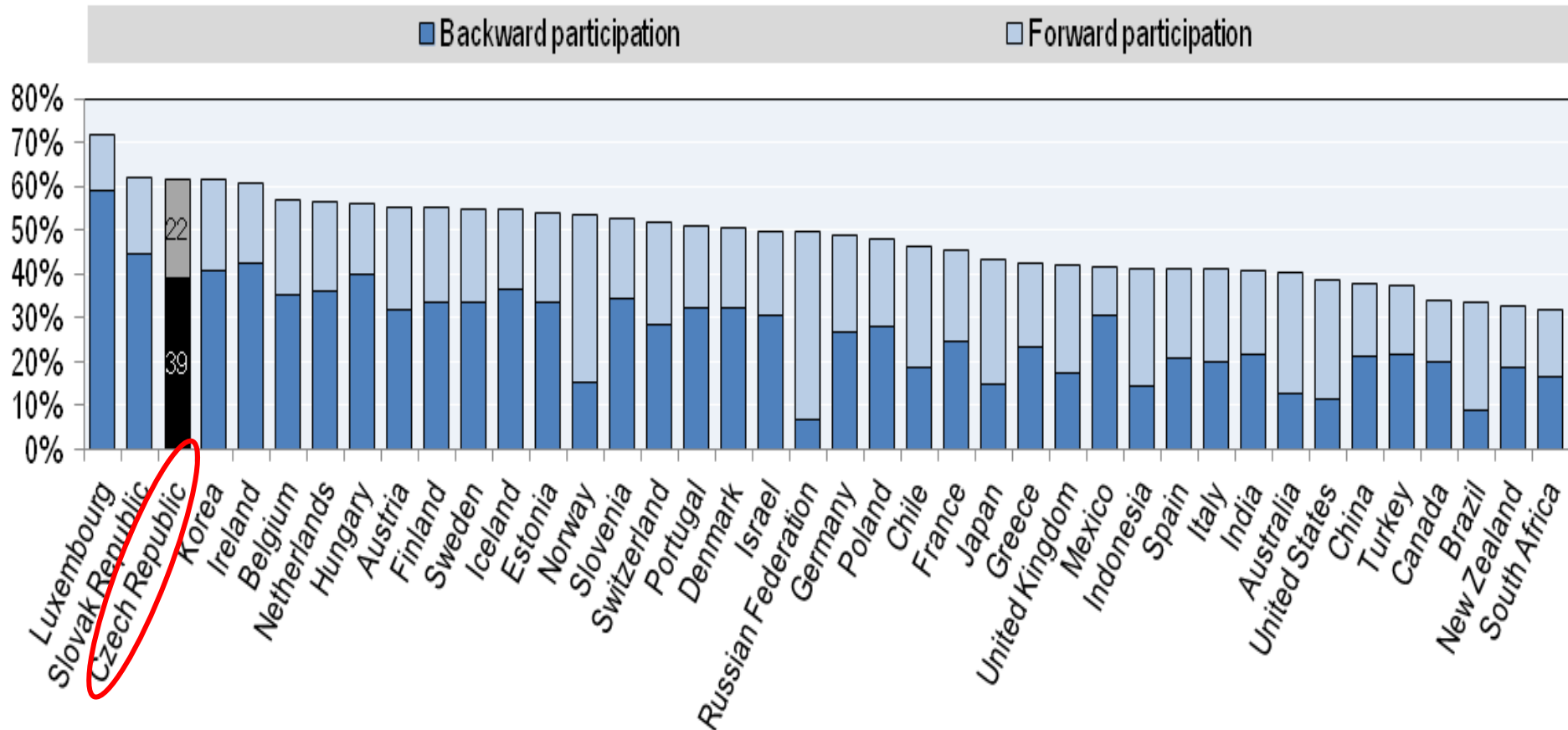
Exports are an important driver for the Czech Republic





The majority of Czech exports are in GVCs...

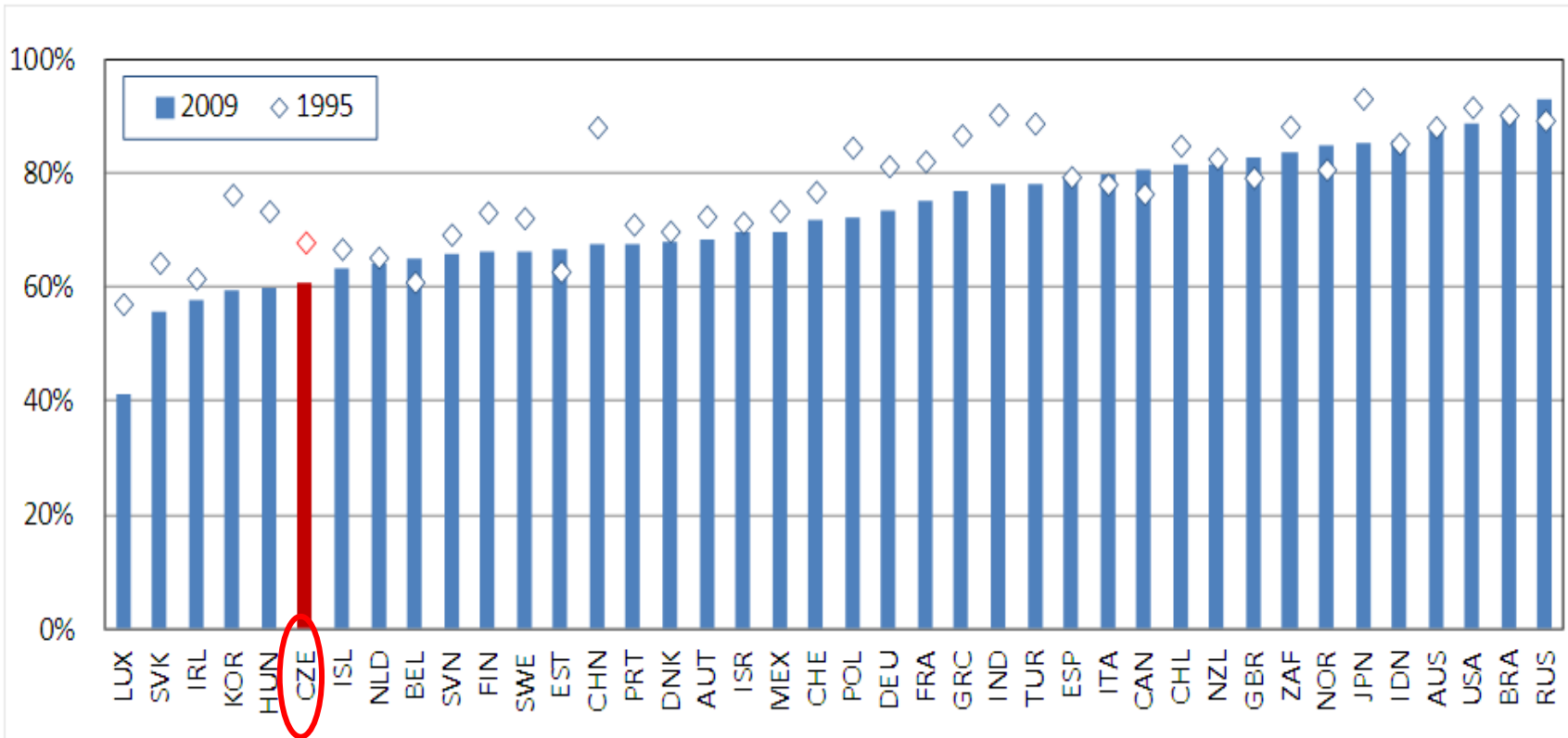
GVC participation, 2009





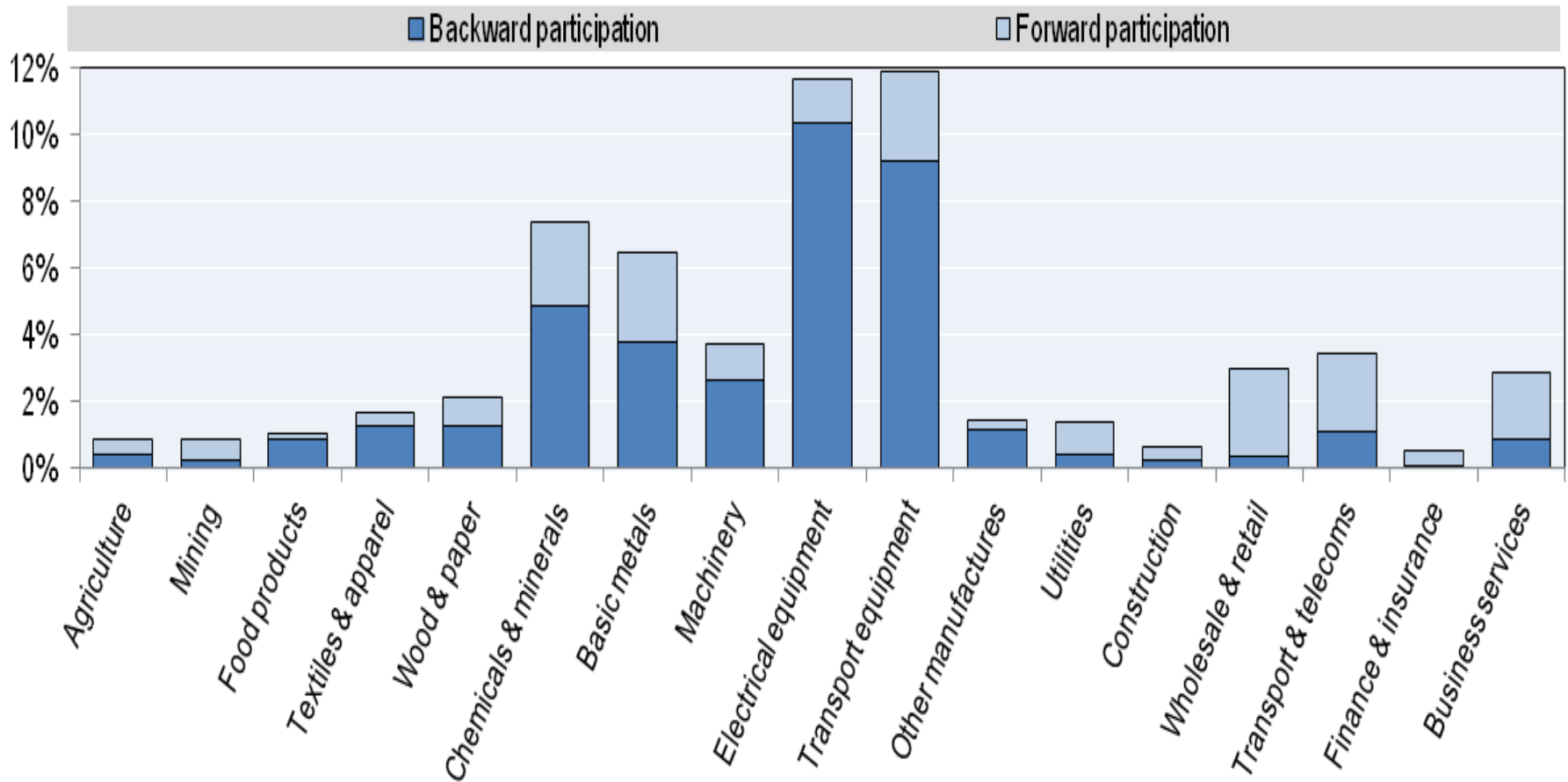
... characterised by a relatively low domestic value added

Domestic value added of exports



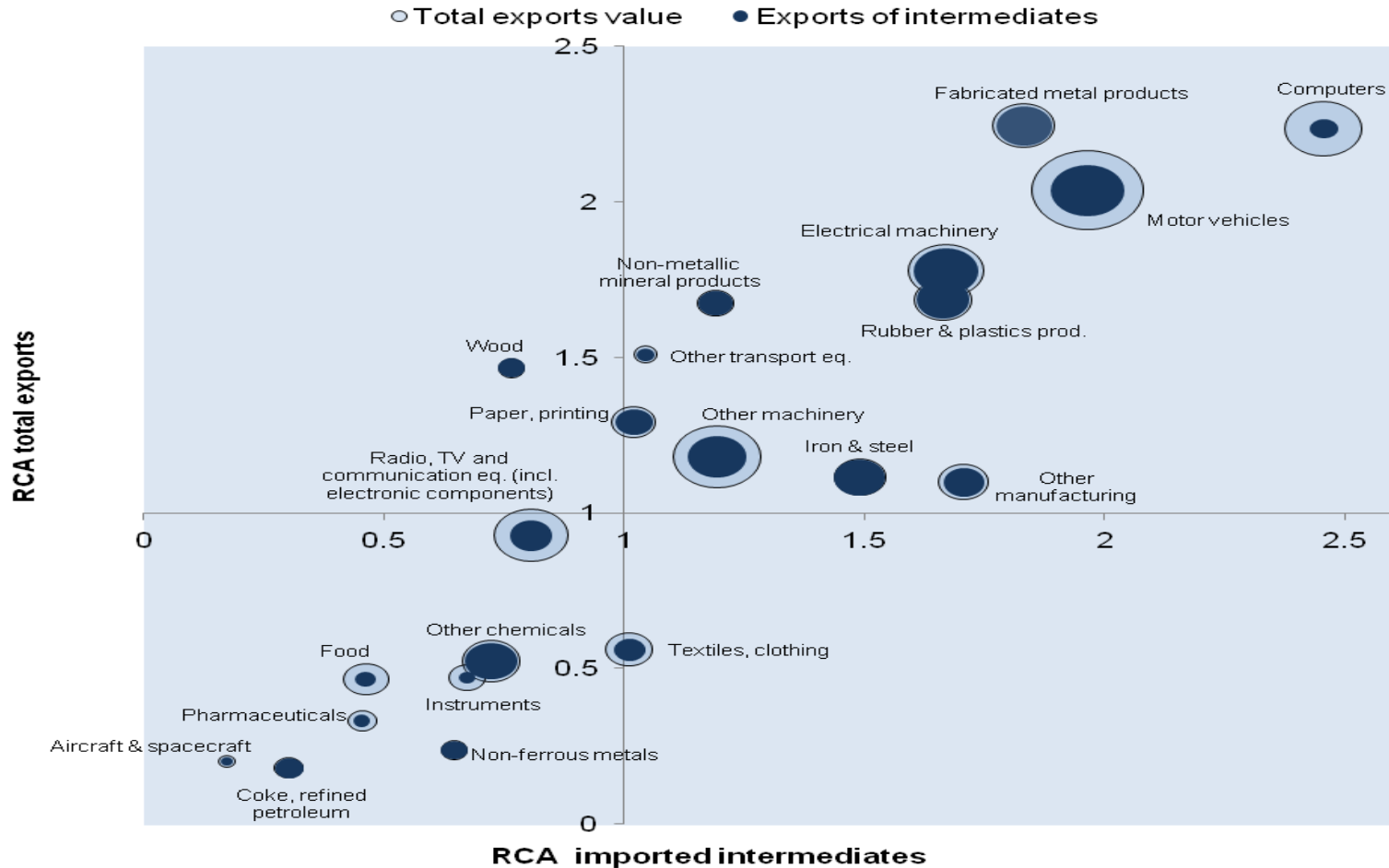


Strong integration into in a number of manufacturing industries



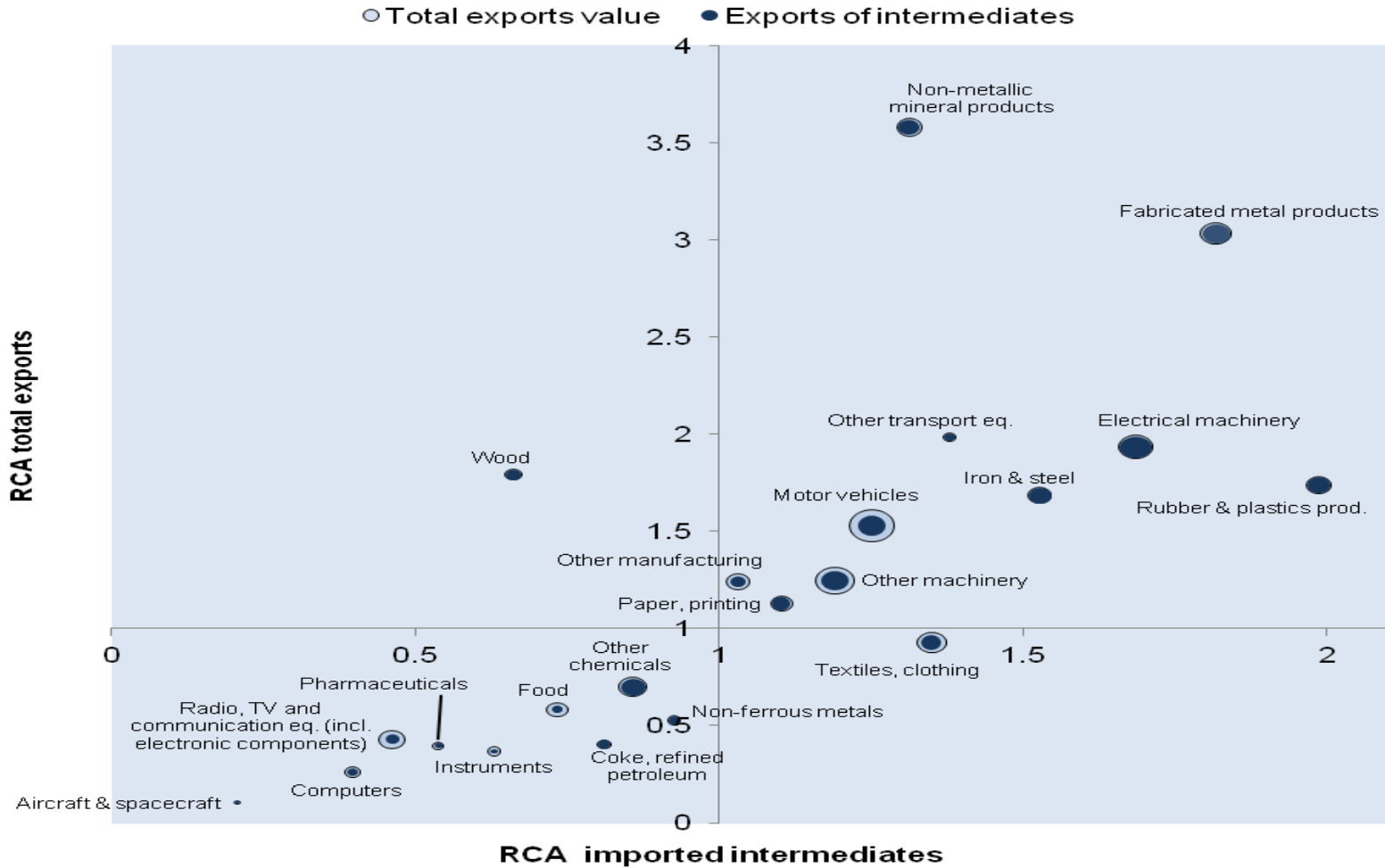


The composition of Czech exports, 2011



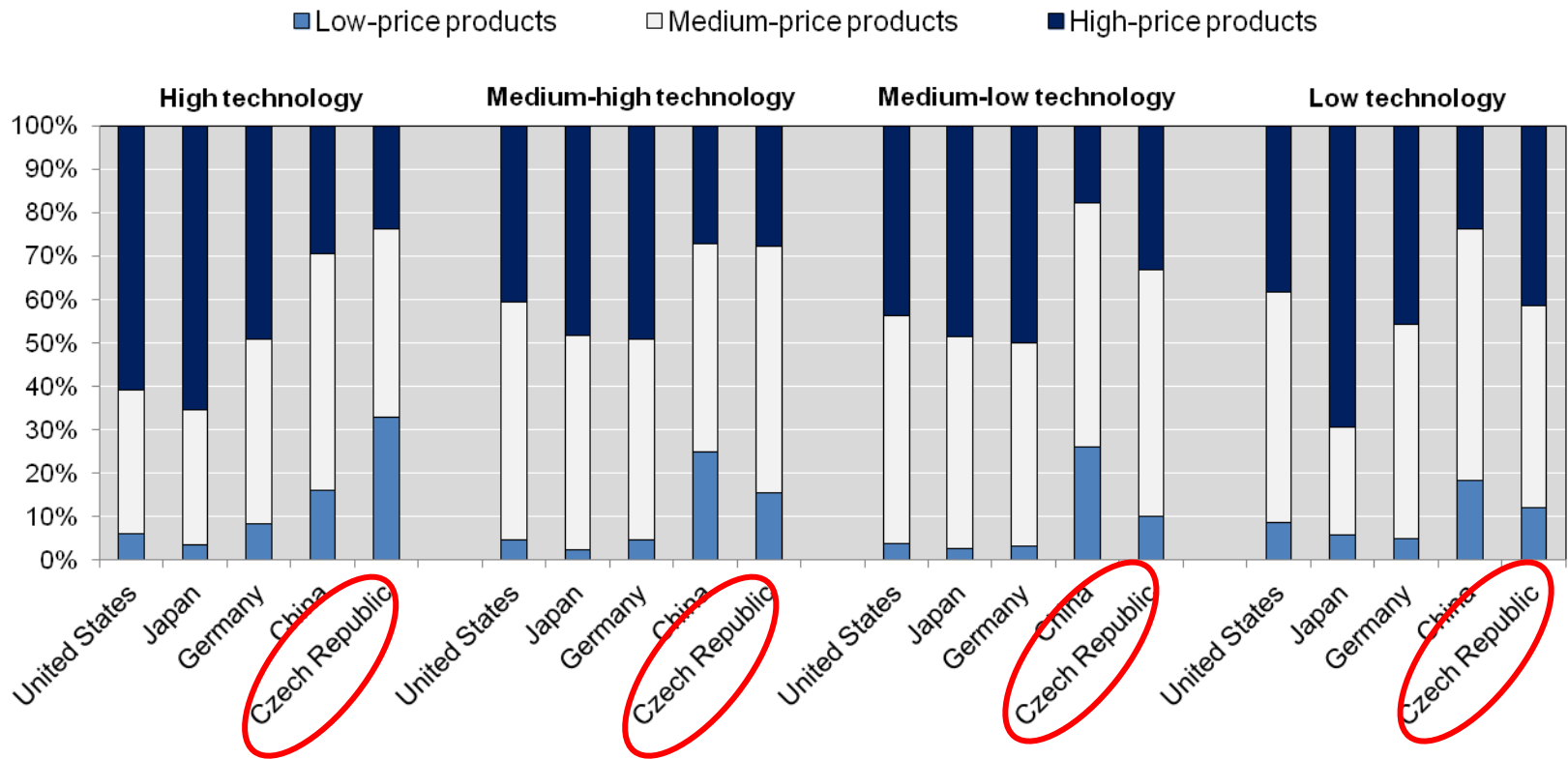


The composition of Czech exports, 2000





Czech exports also characterized by a relatively low price

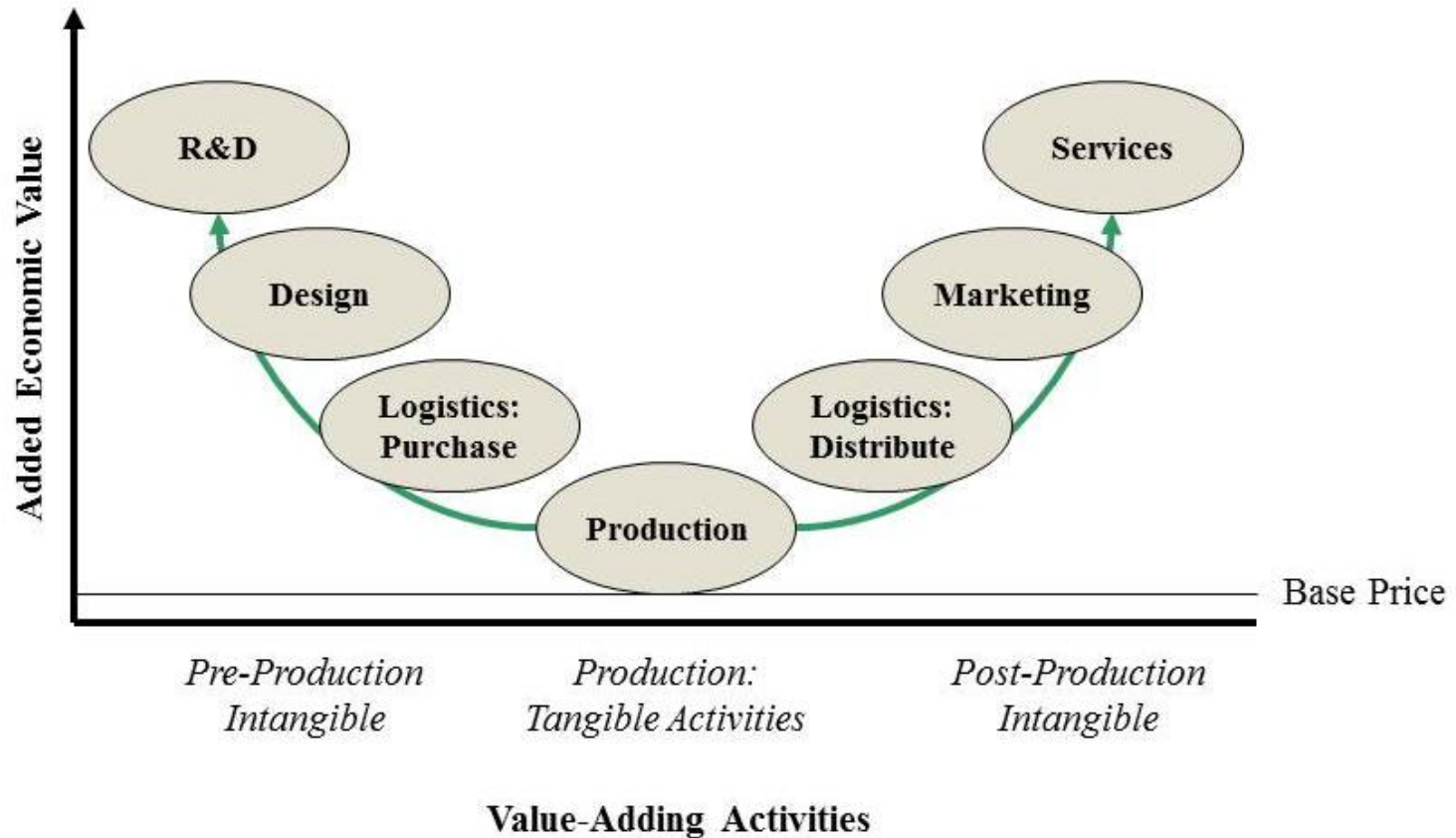




The need for upgrading (1)

Much value creation occurs upstream and downstream ..

The smiley curve, electronics

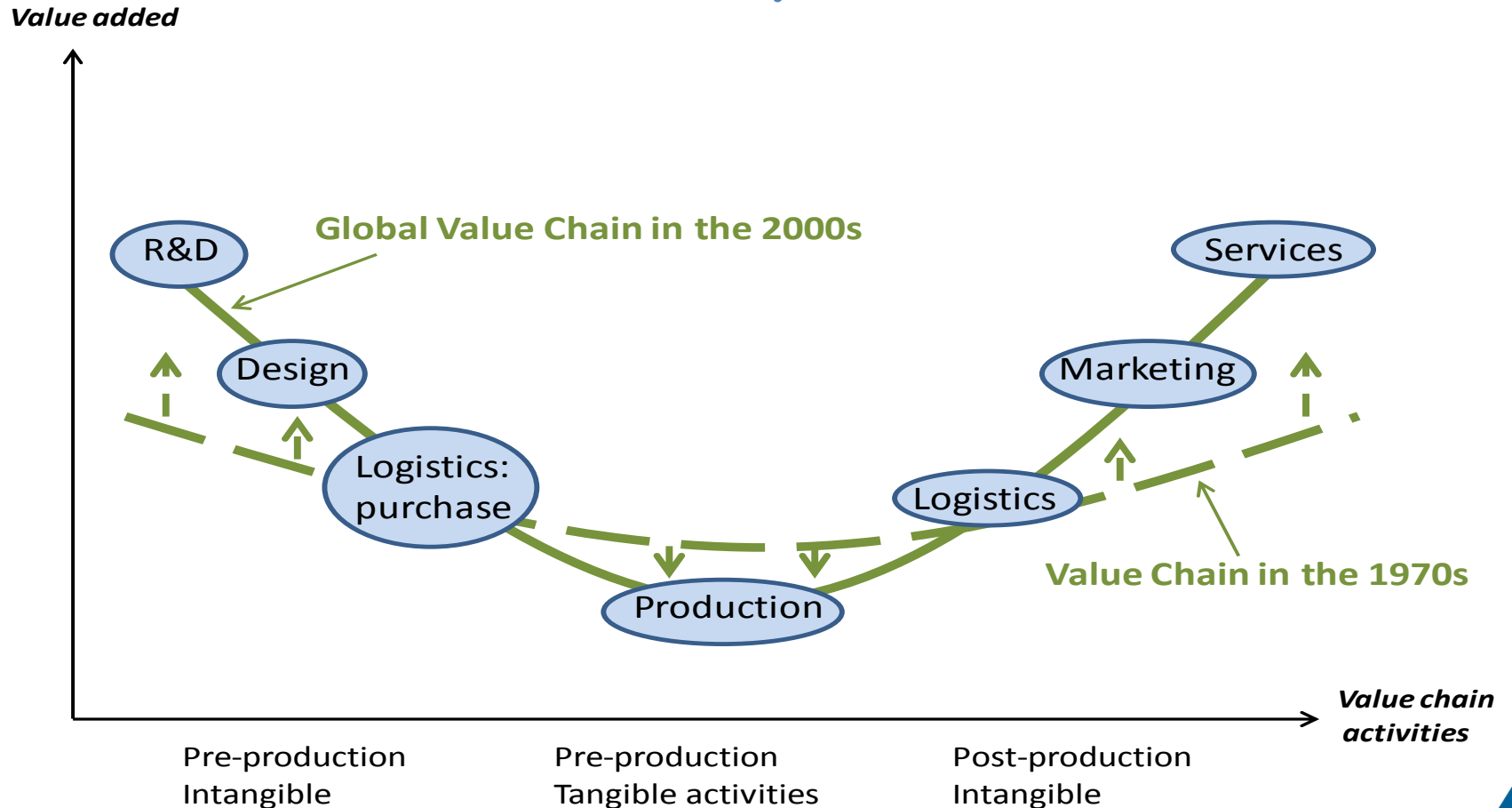




The need for upgrading (2)

... and this may be becoming more important

The smiley curve, electronics





The importance of knowledge based capital



Source: IMD (2006) Im

SPORT SHOES: 100 EURO (final retail price)

PRODUCTION: 12 EURO

BRAND: 33 EURO

DISTRIBUTION: 55 EURO

Raw material: 8 EURO

Wages: 0.4 EURO

Other expenses: 1.6 EURO

Profits producer : 2 EURO



Transport and taxes: 5 EURO

Retail margin: 32.6 EURO

VAT: 17.4 EURO

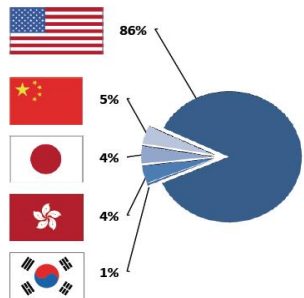
Conception and design: 11 EURO

Marketing and branding: 8.5 EURO

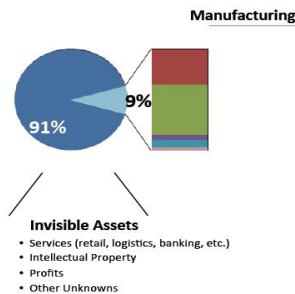
Profits brand: 13.5 EURO

A SUIT... MADE IN CHINA, SOLD IN UNITED

Cost Breakdown by Country



Manufacturing Costs and Invisible Assets



© General Motors, Chevy Volt



OECD work on knowledge-based capital

Computerised information



Innovative property

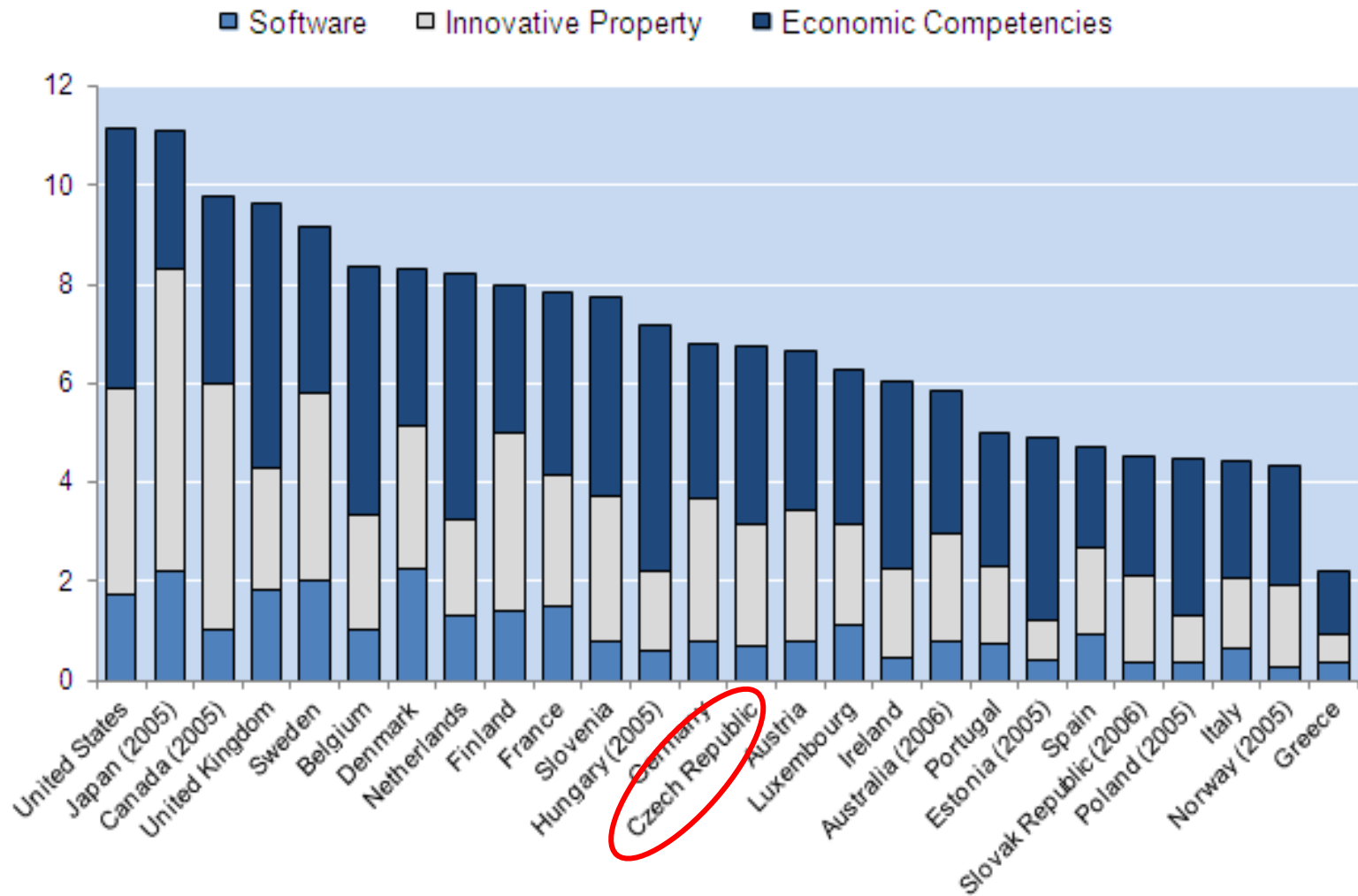


Economic competencies





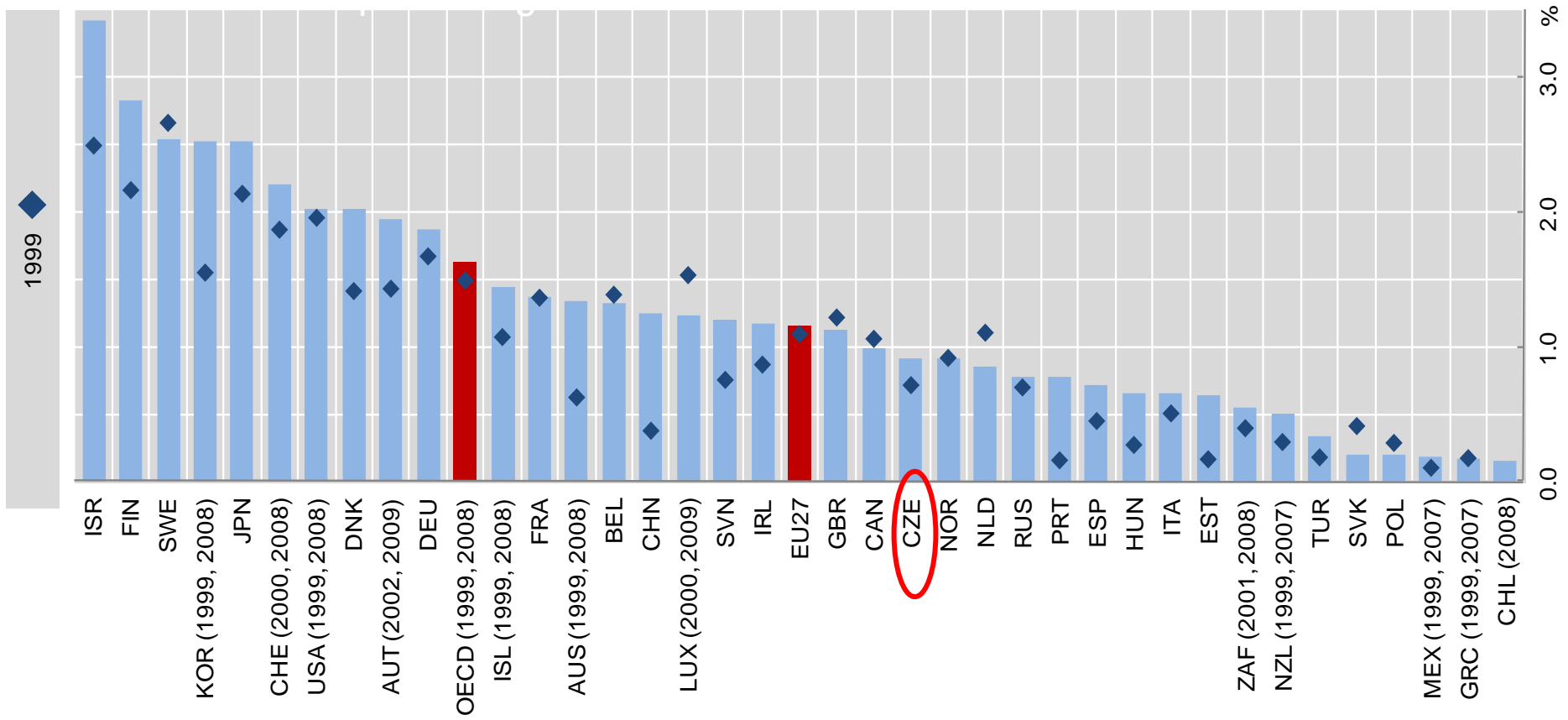
Investment in knowledge based capital



Source: Corrado *et al.*, (2012).



Low Business R&D and ...

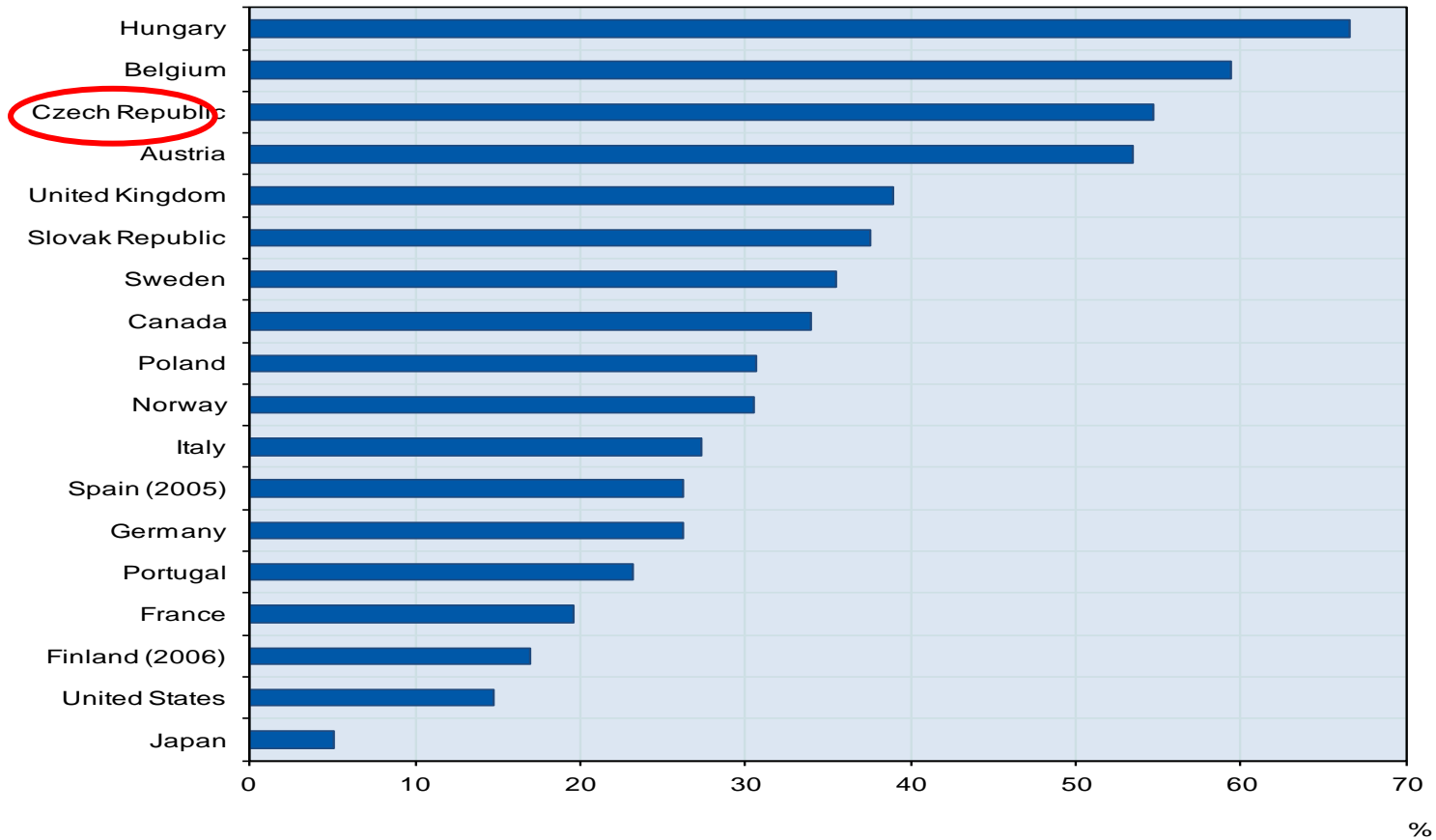




...mainly driven by foreign affiliates

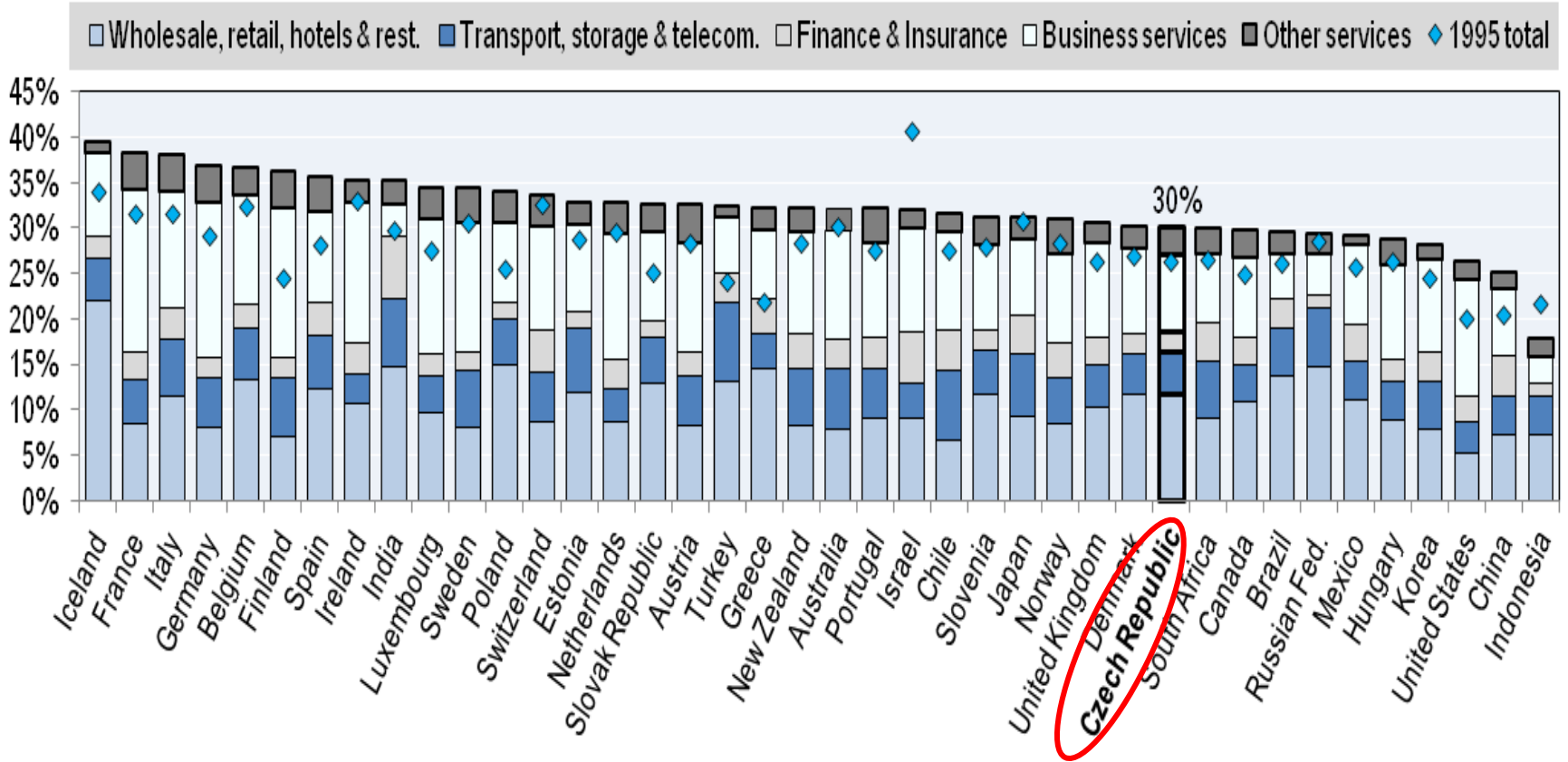
%

Share of foreign-controlled affiliates in total business sector R&D expenditure, 2007





Services value added content of manufacturing exports, 2009





Upgrading, innovation and knowledge-based capital

- Capabilities in supplying non-replicable products essential in retaining value and making value ‘stick’ to a location, e.g. through:
 - Quality of institutional frameworks
 - Business environment, including links between firms (large and small) and with universities and knowledge institutions
 - Education and skills
 - Domestic capabilities, including the strength of the SME supplier base
 - Links with production: co-location of activities
 - The social fabric of society
 - Services, services, services



Conclusions

- Growing interconnectedness with the global economy – growing integration of the Czech Republic:
 - Joining instead of building GVCs – the Czech Republic has strongly benefitted from its integration in GVCs
 - Openness in all dimensions of GVCs, not just trade
 - Alignment between objectives of multinational firms and policy objectives no longer assured
- Growing importance of innovation and for competitiveness
 - Complementary to low-cost competitiveness
 - ‘What you do’ matters more than ‘what you sell’
 - New phase for Czech economic development – need for innovation and differentiation
 - More advanced skills, more radical innovation, more creative destruction
 - Building a productive and high-quality services sector



Interconnected Economies

Benefiting from Global Value Chains



- CH. 1: The rise of GVCs
- CH. 2: Measuring Trade in Value Added
- CH. 3: GVCs and trade policy
- CH. 4: GVCs and investment policy
- CH. 5: GVCs and economic development
- CH. 6: National competitiveness and GVCs
- CH. 7: GVC upgrading and knowledge based assets
- CH. 8: GVCs and global systemic risk



FOR MORE INFO:

koen.debacker@oecd.org

oe.cd/gvc