



Export Diversification and Global Value Chains Based on OECD Business for Development 2007

Federico BONAGLIA
OECD Development Centre

**OECD Global Conference on Enhancing the Role of SMEs in GVC ■
Tokyo 1 June 2007**

Export Diversification and Global Value Chains

1 **Stylised facts and motivation**

2 **Upgrading challenges in GVCs**

3 **Beyond apparel and cars: Evidence from four GVCs**

4 **Conclusions**

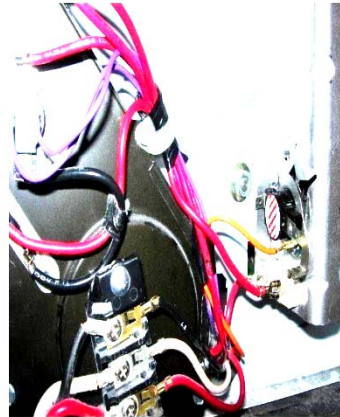
The changing geography of trade and investment

- Fragmentation of production associated with larger participation of developing country firms in GVCs (about 40% of world trade in parts and components)
- Role of intermediary (e.g. Retailers) in structuring GVC and facilitating global matching (e.g. ROK and Taipei, see Feenstra and Hamilton, 2006)
- “New” actors
 - Pocket MNEs (e.g. Italy, Mexico)
 - Emerging Market MNEs taking lead role in GVCs

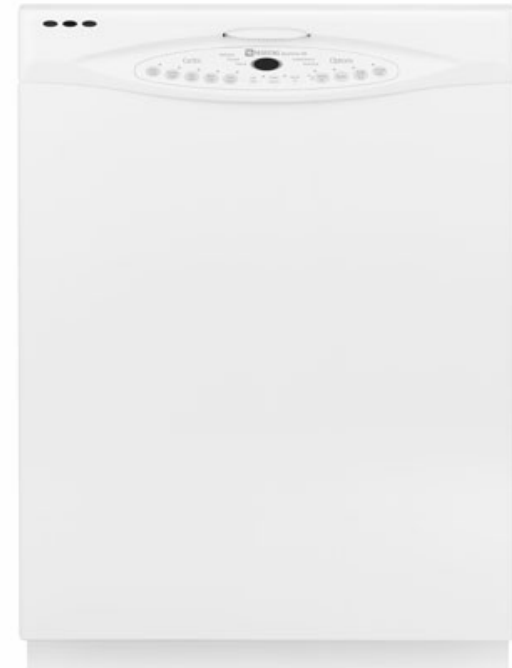
In your dishwasher ...



Chinese motor



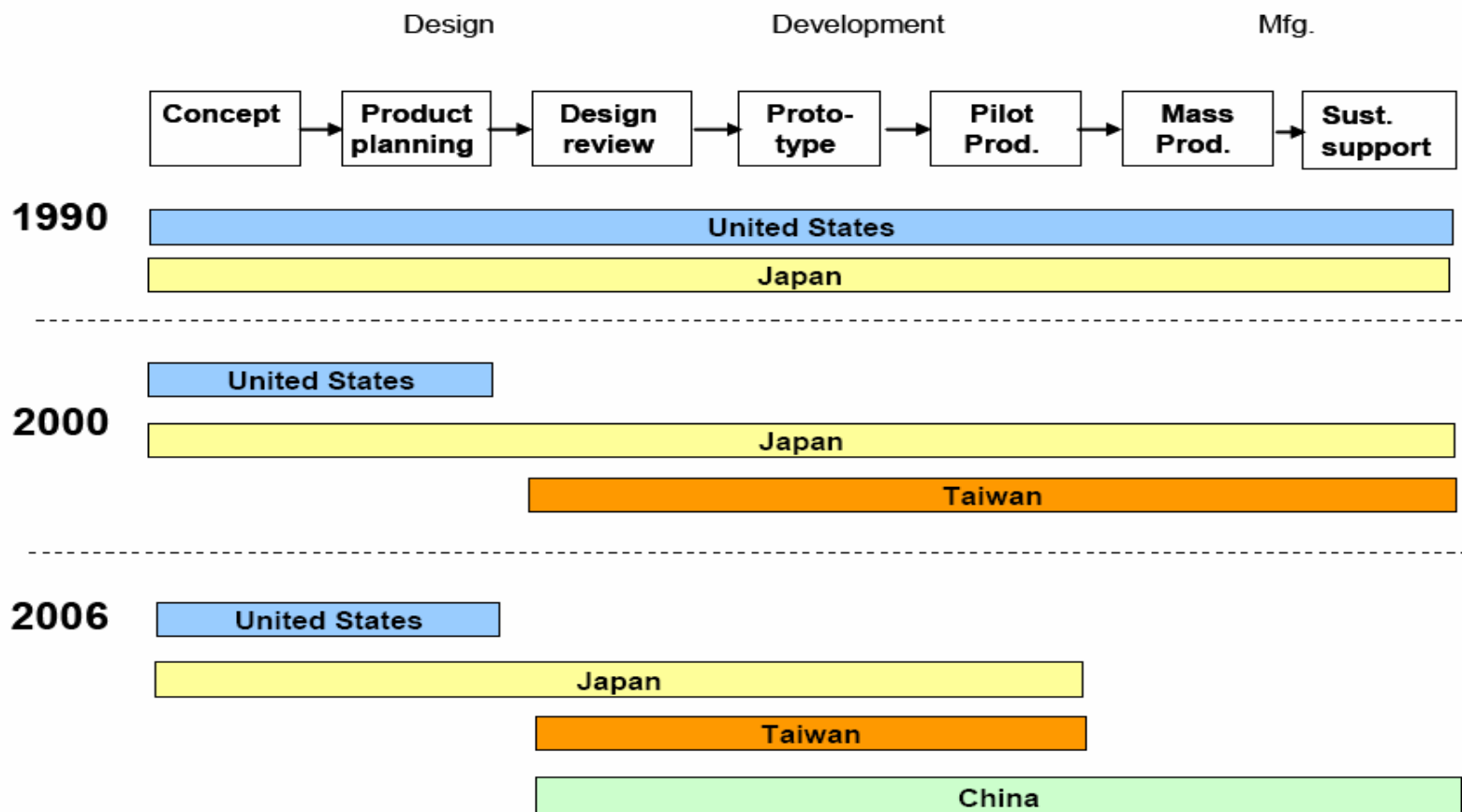
Mexican wiring



American dishwasher

... computer and i-Pod

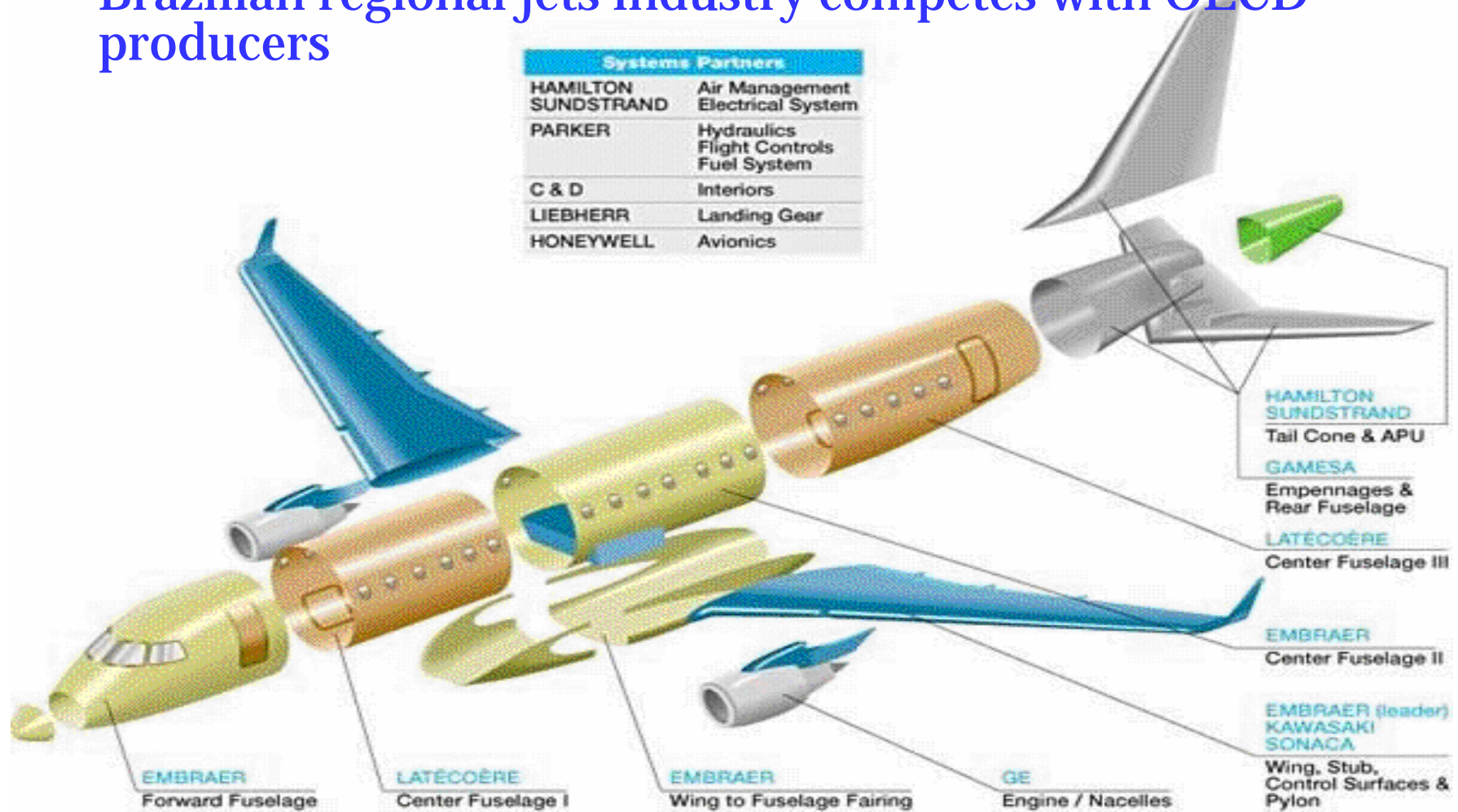
Modular product architectures and global innovation networks



Source: Dedrick and Kraemer (2007), "Globalization of Innovation: The Personal Computing Industry"

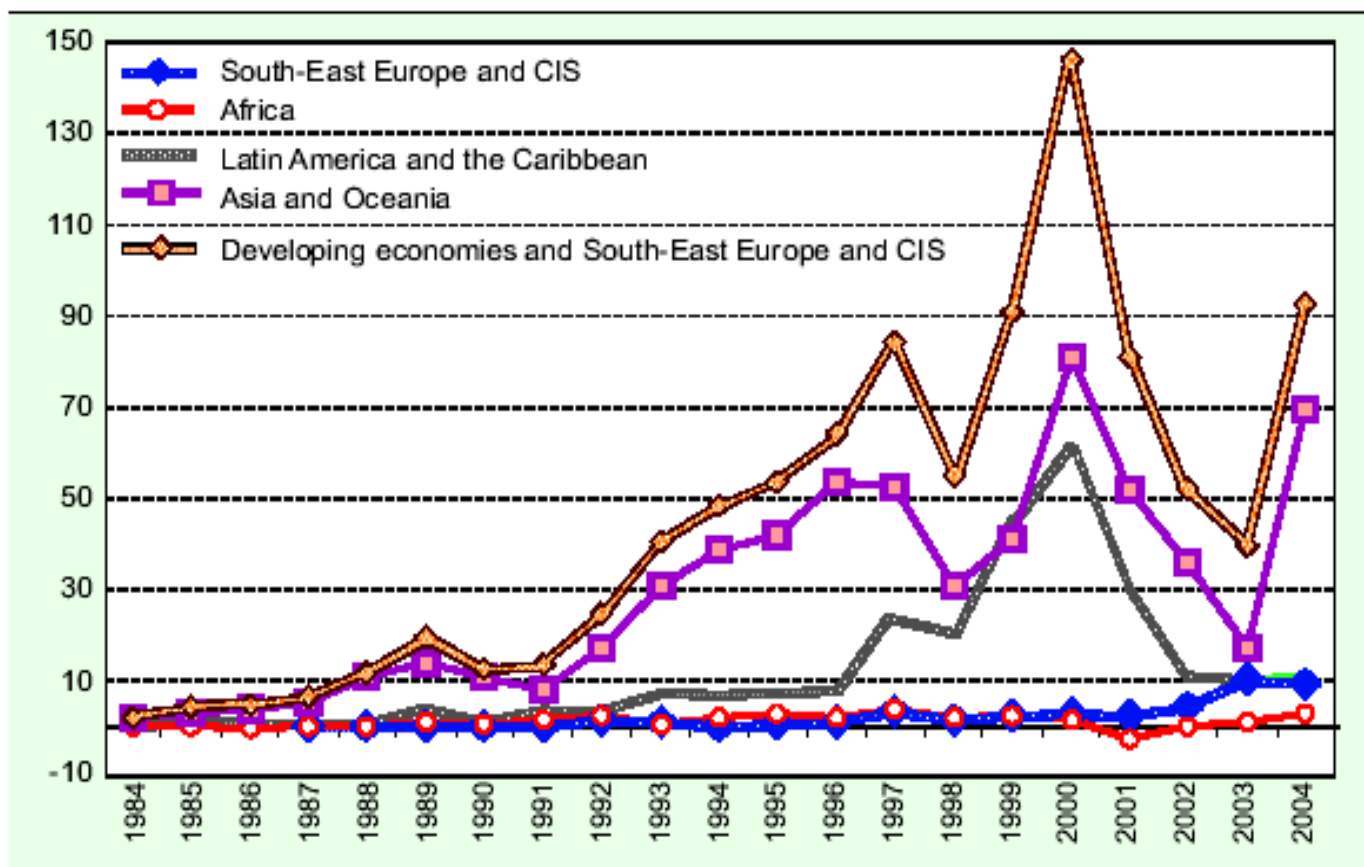
... when flying

- Brazilian regional jets industry competes with OECD producers



New players on the global scene Largely from Asia but also MENA and LATAM

FDI outflows from developing economies, and South-East Europe, and CIS, by group of economies, 1984-2004 (Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Trends and geography of O-FDI

- Despite data problems, a clear upward trend in O-FDI from emerging economies
 - Number of Fortune500 firms with HQ outside NA-EU-JP-OC is 61 in 2005 vs. 26 in 1988.
 - Samsung amongst world's top 20 most valuable brands (42nd in 2001).
 - In 2006 Gazprom overtook Microsoft as the world's third most valuable company
- OFDI stock from emerging economies multiplied by 11 since 1985
- The rate of growth outpaced that of O-FDI from industrialised countries

Emerging MNEs: Who are they?

- China: SINOPEC, Lenovo, Haier, TLC
- Taipei: Acer, BenQ
- India: Tata, Infosys, Ranbaxy, Mahindra & Mahindra
- Russia: Lukoil, Gazprom, Alfa, Severstal
- Mexico: Cemex, America Movil, Telmex, Mabe
- Turkey: Koc, Sabanci, Enka
- Hong Kong: Hutchinson, Li&Fung
- Korea: Samsung, LG, Hyundai
- Brazil: Gerdau, Petronas, Embraer
- South Africa: Illovo, AngloGold

Table 1: Selected large M&A deals by Southern Multinationals, 2004-2005

Year	Acquiring Company (Country)	Acquired Company (Country)	Sector of the Acquired Company	Value (\$ billion)
SOUTH-NORTH DEALS				
2005	Cemex (Mexico)	RMC (UK)	Cement Industry	\$4.1
2004	AmBev (Brazil)	John Labatt (Canada)	Malt Beverages	\$7.8
2004	Gold Fields (South Africa)	Noriment Ltd (UK)	Metal Services	\$1.3
2004	Tata Motors Ltd (India)	Daewoo Vehicle (South Korea)	Motor Vehicles	\$0.1
SOUTH-SOUTH DEALS				
2005	America Movil (Mexico)	TIM Peru (Peru)	Telecom	\$0.5
2004	Telefonos de Mexico (Mexico)	Columbia Telecomunicaciones	Telecom	\$0.4
2004	Anglogold Ltd (South Africa)	Ashanti Goldfields (Ghana)	Gold Ores	\$1.5
2004	Sinergy (Brazil)	Avianca (Columbia)	Air Transportation	\$0.4
2004	YTL Power (Malaysia)	Jawa Power (Indonesia)	Electric Services	\$0.2
SELECTED ANNOUNCED OIL AND GAS DEALS BY SOUTHERN MULTINATIONALS (DEALS NOT NECESSARILY ACTUALIZED)				
Year	Purchasing Company (Country)	Seller Company (Country)	Location of the Acquired Asset	Value (\$ billion)
2005	Sinopec Group (China) 50% and ONGC (India) 20%	National Iranian Oil Company	Yadavaran Oil Fields (Iran)	\$70-100 (over 30 years)
2005	Andes Petroleum (China)	EnCana (Canada)	Ecuador	\$1.42
2005	CNPC (China)	Petro Kazakh (Canada)	Mainly in Kazakhstan	\$4.18
2004	Gazprom (Russia)	Lietuvos (Lithuania)	Lithuania	\$0.05

Source: Battat & Aykut (2006)

Motivations

- Increasing involvement of developing country producers into global value chains (GVC)
- Are developing countries' producers destined to remain assemblers at the bottom of the GVC?
- Move beyond cars and clothing
- What can be learned from developing-country firms that successfully internationalised, including through outward-FDI?

Upgrading challenges in global value chains obstacles, opportunities and risks

- **Obstacles to upgrading and internationalisation**
 - lack of resources & latecomer status
 - small local markets & absence of sophisticated users
 - unfriendly business environments
 - remoteness from the main sources of technology and R&D
- **Participation in GVCs offers opportunities**
 - Access to export markets
 - Capacity building and supplier-oriented upgrading
- **But there are risks too**
 - Concentration of buyers vs. expansions of the pool of suppliers
 - Unequal powers and distributions of rents

Upgrading challenges in global value chains

Evidence

- Lead firms control key assets and functions. Suppliers' upgrading often limited to less rewarding functions.
- Transition from OEM to ODM but few producers become OBM.
- Networks of firms more conducive to functional upgrading
- GVC governance structure and opportunities for upgrading are dynamic & influenced by both
 - exogenous factors (regulatory environment and consumers' preferences)
 - endogenous factors (corporate strategic choices by lead firms and suppliers)

Beyond cars and apparel

White goods	Regional jets	Animation	Tourism	Agro-food
China, Mexico, Turkey	Brazil, China	Philippines	Mozambique	Ghana, Mali, Senegal, Tanzania, Zambia

Beyond cars and apparel: four global value chains

- Household appliances: internationalisation of three emerging MNEs
- Animation: off-shoring from US and Japan to the Philippines
- Tourism: insertion of Mozambique in the international tourism market
- Aircraft: development of regional jets in China (and Brazil)
- **In a separate chapter: insertion of African agricultural producers in global agro-food chains**

Beyond cars and apparel White goods

- Relatively similar products + mature technologies
- Scale matters, Innovation is largely driven by energy & environmental regulations + domotics
- National preferences + transport costs → trade is still very much regional → brands differ
- Experience goods → Investment in marketing and design to retain consumers loyalty

Beyond cars and apparel

White goods

- Relocating production to emerging markets to tap their growing demand and exploiting lower production cost – the industrial cluster follows (e.g. Merloni in Russia)
- Shorter product cycles + overlapping product generations + market polarisation → close supplier relations in product innovation and consolidation of brand portfolio
- Production in Asia (>30%), Europe (~30%) and NAFTA (25%)
- Major players:
 - Successive waves of M&A (brand acquisition)
 - Only Whirlpool, GE, and Electrolux have a global orientation
 - Regional strong players, sometimes with global ambitions

Arcelik, Haier, Mabe

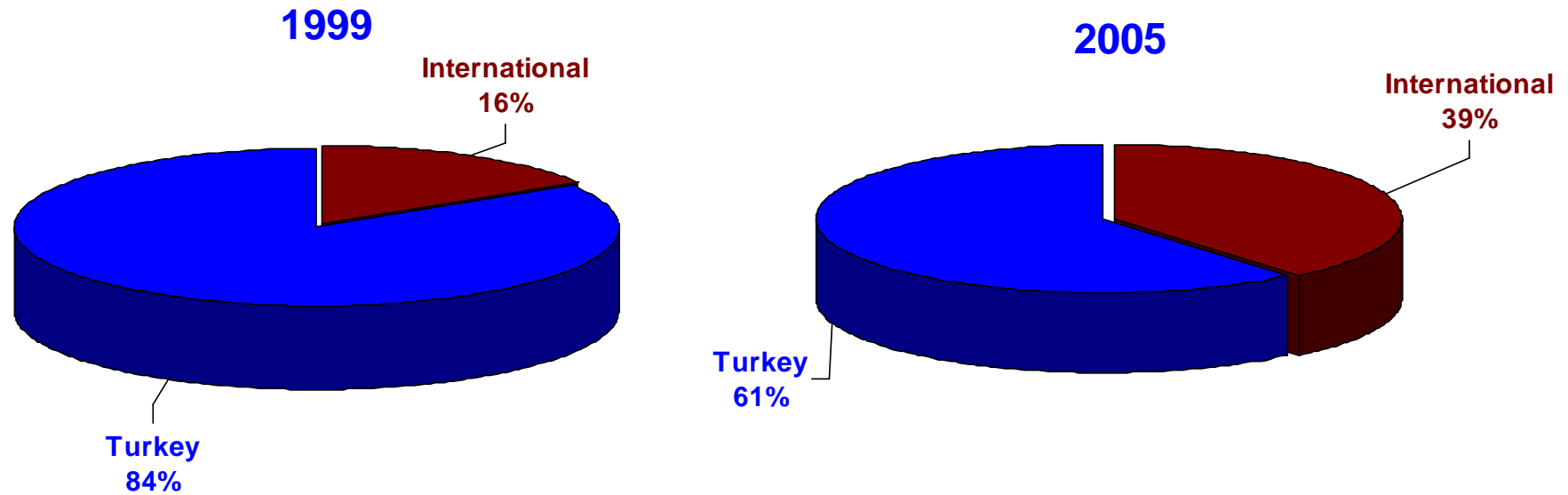
From OEM to multinational OBM

- Understanding the internationalisation experience of three emerging country-MNEs:
 - Arcelik (Turkey),
 - Haier (Mabe)
 - Mabe (Mexico)
- Two become strong regional players, one has global ambitions

Transformation of Arçelik

from a domestic player to an International player

Increase in international sales ratio from 16% to 39%



Source: Company data

Arcelik, Haier, Mabe

From OEM to multinational OBM

- **Link, learn and leverage:** strategic partnerships to acquire technology and know-how
- Technological and organisational **innovation** (R&D centres and focus on quality)
- Accelerated internationalisation through export and foreign **acquisitions** to enter markets, acquire brands and assets
- Marketing and **branding** to build reputation

Beyond cars and apparel Tourism

- Tourism industry: a GVC where airlines, travel agencies and hotel groups have a lead role
- Diversification of tourism experience: Bringing new resources and people to places hitherto outside the map of world travelers
- Importance of national branding (image) and complementary services
- Benefits for local economy? Local content?

Tourism in Mozambique

Unexploited potential

- Abundant and varied tourist resources, but still small
- The development of the industry is hampered by
 - Lack of institutional support and branding
 - Difficult business environment
 - Lack of complementary services (also due to lack of competition) and infrastructure

Conclusions

Evidence from case studies

- Opportunities exist for developing-country firms, even outside traditional low-tech industries. Companies succeed when they treat global competition as an opportunity and leverage on their partnerships.
- Linking up to lead firms in GVC can support access to markets and upgrading, but only to a certain extent.

Conclusions

Implications for policy

- Improving the domestic business climate (contract enforcement, corporate governance, competition policy) is very important, but may not be enough
- A new industrial policy?
 - Value chain analysis can be a useful tool to identify binding constraints (including outside the sector), trade-off, involve the key actors and anticipate change.
 - Support expansion of firms capabilities and develop business linkages.
 - No picking winners, but transparent, accountable mechanisms, allowing experimentation (with sunset clause).

Thank you!

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For more information:
www.oecd.org/dev