

# Global Value Chains: Where Are You?

## The Missing Link in Sub-Saharan Africa's Trade Integration



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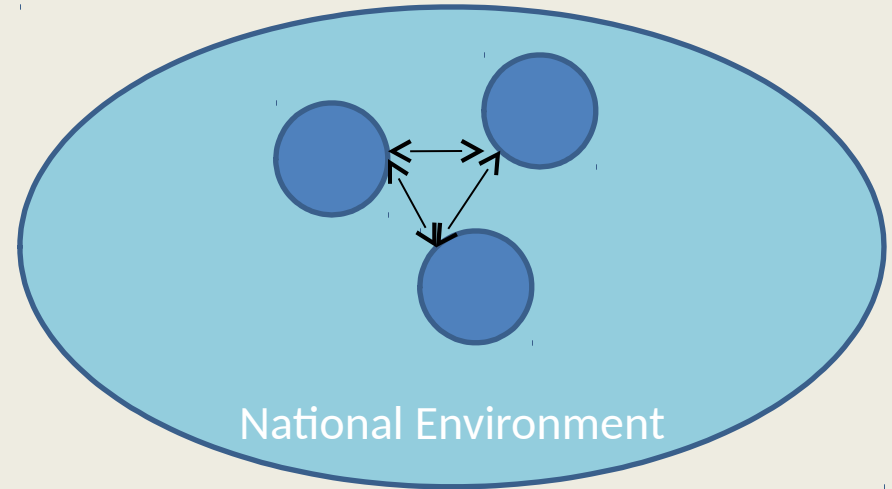
# Integration Into Global Supply Chains

- Depends fundamentally on both trade and investment.
- On the investment side,
  - How do Multinational Enterprises (MNEs) choose investment locations?
  - Can MNE investments broaden the industrial base and not just “crowd out” local firms?
  - What kind of local entrepreneurship drives job and productivity growth?



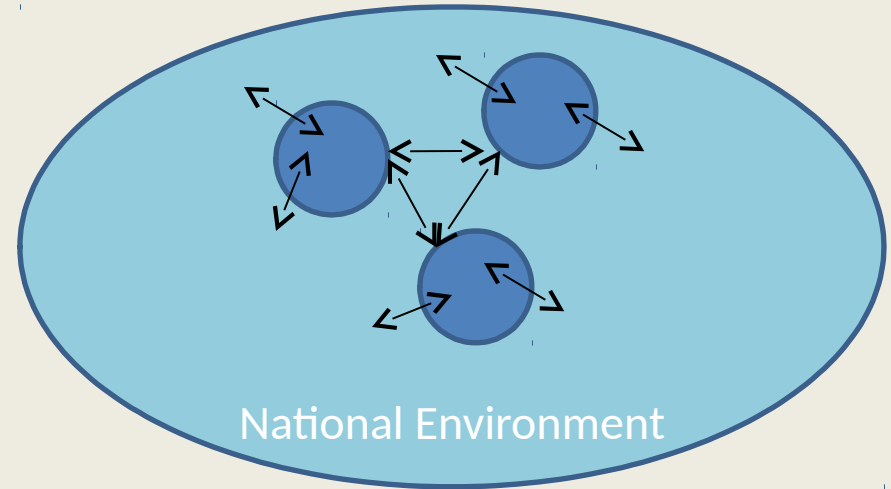
# Firms as Open Systems

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- Interactions with the external environment
- Labor Markets
- Financial Markets
- Regulatory Environment
- Etc.



# MNEs' Location Decisions

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- Local resources and capabilities
  - Human capabilities
    - Depth of talent pool
  - Local/regional supply chains and infrastructure
    - Goes beyond core infrastructure *per se*
      - e.g., 75 checkpoints between Lome' and Ouagadougou
      - Specific needs that require scale, collective action
  - Local supporting industries
    - Environment supporting *entrepreneurial* investment
    - Regional trade openness



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  1. Unequal information between buyers and sellers
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- Among local enterprises, informal institutions arise as substitute, but this limits their ability to **scale-up**.



# Impact of MNE Investment on Local Firm Productivity

- MNEs can:
  - Serve as a conduit for global knowledge and technology
  - Build an industry infrastructure
  - Develop a pool of skilled employees
  - Create intense rivalry in markets for products, labor, and finance (“crowding out”)
- Effects may be more positive vertically than horizontally
- The most advanced local firms may benefit from foreign investment; least productive local firms crowded out
- Long term effect may be positive even while short term effect is negative



# Local Firms: Employment and Productivity Growth

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- Productivity growth tends to be highest among *larger* firms, and young firms.



# Recommendations

- Considering firm as open system places emphasis on:
  - Transaction costs
  - Spillover Effects
  - Quality of inputs (human capital)



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- Considering firm as open system places emphasis on:
  - Transaction costs
  - Spillover Effects
  - Quality of inputs (human capital)
- Demonstrates importance of
  - Strong institutions
  - Major investments in education and training
  - Policies to promote local entrepreneurship and creative destruction



# THANK YOU

