



New Trends in Value Chain Upgrading: Lessons from Large and Small Countries

Q&A Transcript

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Presenter:

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Female: Hi. We actually have a couple comments from online, one from Steve Linde, who is an independent consultant in Vermont right now. He says he liked the discussion of how small economies start with some initial FDI and then move up in sophistication and market insertion. "The challenge in a lot of cases for us is how to land that first FDI to begin the process," and then Mary Beggs is joining us from Cardno, and her comment is, "The concept of market segmentation and global value change is really critical. In manufacturing, most countries are not likely to produce the whole product, but only a portion of it. Taking that into account in how we analyze production is very important," and she says that she really appreciated the way that you reflected that graphically.

Male: Good. Thanks.

[Laughter]

All right, so maybe I can collect a few questions and then address them. That might be easier. Okay, let's start in the back. Yeah?

Female: Monica Johnson, USAID. Just to kind of follow up with one of the comments, I'm curious how you see what you described with the little firms linking into the value chains as different from the flexible manufacturing networks, when we talk about that, and then, also, anything you can say about workforce development.

Male: Okay, okay. Great.

Female: Shari Berenbach, also from USAID. I'm just wondering about implications of your presentation for countries, like neighbors of Costa Rica, like Honduras or Nicaragua or Panama that don't necessarily have the same political stability or are not the sort of jumping-off point, and I guess in some ways my question is more akin to that first question about how do you even begin this process? What about the continent of Africa, where so many of the countries don't have the sort of resource endowment, whether human capital or business environment that you might see in Costa Rica? This seems like a fabulous presentation, but it's really applicable to only a very small portion of the world that we're dealing with.

Male: I'll take one more, and then let me answer that first set.

Female: Yeah, hi. I'm Mindy Reiser. I've actually worked in other parts of the world, namely the former Soviet Union countries, but anyway, in terms of sitting at the CEO's desk, why wouldn't I go to Chile, which has probably a higher level of fine universities and better infrastructure in some ways, or maybe Argentina,

although there are problems there. I'm interested in the trade-offs in terms of Latin America hubs, and why one might not choose some of these AB countries, or AC countries rather than the B countries.

Male:

Okay, maybe let me take this first set of four because there are some connections between them and they're really useful. So, a couple questions about how you get onto the chain, that first multinational, and what the implications are for regional neighbors. I think getting that first multinational does go back to government policy, I mean what the strategy of the government is, and Costa Rica was really explicit, and Mexico was explicit, and many others. If they want to do export promotion, then one thing they tend to do is they want to do these free trade agreements, that's step one, that makes it easier, but then step two, they've got to try to find the multinationals that were willing to come in. When Costa Rica got Intel, I heard many stories about all the negotiations that were involved in getting Intel, including the president of Costa Rica going to Intel and making a pitch. Now, why do that for one company? Partly because you feel that that company maybe can get you into a whole new range of industries.

So, one strategy is if you're trying to get into new industries and you have to have the documentation for your country, which was provided by different organizations, why they should come to Costa Rica, and they all had those presentations. That's one issue. If you're in an industry, like copper in Chile, or you're in the coffee industry or others, you're already there, so what you're trying to understand from a country point of view, "How is that industry organized?" and, if you're in coffee production, do you want to be going into organic coffee or do you want to be doing basic coffee, and so you still have some decisions that are affected by multinationals. How this spills over to neighbors is a really important question for Central America, and small countries more generally, because one huge difference between the Brazil and Costa Rica example is that the big countries, like Brazil, Mexico, Argentina, and all of the others that I had mentioned earlier – China, India – because of their domestic market, that alone is enough to encourage a lot of multinationals to want to be there, and then it's a question of under what conditions are they there.

For small countries, it's not enough, and so small countries are trying to look at those regional economic blocks, and one thing that's come up in this Costa Rica case, where they're talking about skill shortages, already Costa Rica is getting a lot of immigrant workers, legal and illegal, coming in from surrounding countries, but one issue is how could they turn that regional location in Central America to an advantage. Could they put different parts of their supply chain in different countries? For example, I looked at the apparel industry in Nicaragua,

strong in apparel exports, but they don't have a good textile industry. Honduras and Guatemala do have good textile industries, and they're trying to think about ways in which you could actually have a regional integration scheme that could allow you to have more of the links in an industry that you want to have for one-stop shopping in a region, not just in one country. So, there's opportunities for doing that, but there's also the chance of skill drains. You know, maybe _____ Costa Rica wants to pull its managers in from some other country, which is a depletion there.

The Chile example is a question, a good one, what about a place like Chile? We've actually done studies. Chile, like Costa Rica, wants to get into the knowledge economy for some of the same reasons. Chile is strong in natural resources, too small for manufacturing, 16 million people spread a very long country, so they want to get into the – but they have very highly-trained workforce, so they want to get into offshore services and other high-tech business. The trouble with Chile is its location at the end of South America means it's not quite as – high transport costs. I mean one of the huge things for these kinds of manufacturing firms is to move the materials back and forth quickly and cheaply, so it's easier when you're close than when you're far. However, Chile and Argentina also have opportunities for South America and their connections to Brazil, and that's why _____ was such an important kind of an innovation. So, Chile is doing quite well in a lot of these other industries where distance doesn't matter as much, and that's why they're interested more in services than in manufacturing. So, I think they've got their own strategy, and a really good one, and they're also trying to bring in a lot of entrepreneurs.

The question about sort of regions being left out, I don't think there's any country I can think of in the world, or region, that isn't some way or another involved in these global supply chains, or they're not involved in the global economy in ways where understanding the dynamics of how these industries work, couldn't help them develop their own strategy. In terms of final point, flexible manufacturing and workforce development, all of these companies have bought into lean production, flexible manufacturing and the like. Small firms can be a part of that, but what flexible manufacturing really means from a factory point of view is they want these factories to be able to do modular production, to be able to switch from making one product to another, those kind of work cells. So, from a skills point of view, the workforce in those factories has to be much more versatile than they are, so it's partly about how you organize the supply chain in a more flexible way, it's also how do you train your workers, and I agree workforce development is a really big and important part of this.

We did a big study at my center that came out last year called "Skills for Upgrading Workforce Development and Global Value Chains," and it's all about how countries that are trying to move up these chains, the workforce development skills shift as you move up the chain, and I think, typically, we have a static notion of workforce development – it's training and it's education – and how do we get companies and countries to sort of look to changing global standards and global conditions, but also that are relevant to the national market. So, I think that's a huge and important topic that's separate that we've been focusing on in some of this global value chain work. Jean?

Female:

I also wanted to add, in terms of the relevance for USAID, as we're thinking about private sector development, and as Todd and I are going to Rwanda, where the Rwandan government is trying to figure out how they can attract more foreign direct investment, how they can move up the income ladder, that understanding what are these strategies, what are the strategies that other countries have used, what are the strategies that countries are using now? I think they need education, they need ideas about how they could do it, whether they're Rwanda, or whether they're Bangladesh, which actually seems to be doing pretty well in garments, or Kenya, which, thank you very much, is the best, most successful export of horticulture to the EU and the world. So, I think that we have a lot to learn about, as USAID, learning about from other countries and bringing that learning to the countries where we work.

Male:

Can I just address that, because I think one of the most important contributions of a value chain approach is the kind of comparative analysis it allows you to do. What Costa Rica was basically saying is, "Help us benchmark what we're doing and what we want to do compared to the other countries with whom we're currently competing or will be competing." So, when you're doing a global industry study, being able to come up with other countries in the same industry that might have entered in different ways or may have different ways to upgrade, that kind of learning is really important. In Rwanda, there's a friend of mine, Richard Newfarmer, who used to work in the World Bank and now is working a lot in Rwanda, his issue was how do you get the small craft producers in a place like Rwanda, or Guatemala or anywhere else, into global markets? He said he went to Costco, and he's now found Rwandan baskets in Costco that have been promoted through cooperatives who understand the links to these _____ buyers. So, I think even something like arts and crafts or handicrafts in countries like Rwanda, who can penetrate these big markets, is learning how they did it could be important for other countries.

Female:

We have an expert.

Male: Okay, good, good. Maybe it's time for just a couple more questions. Carlo?

Male: Thank you, Gary. Just a question. You've been working on a number of different sectors – I'm Carlo Pietrobelli from DIBD, working on classes and value chains, as well, with Gary in several circumstances. One question on sectors, I mean does it make a difference to work in electronics or _____ components or flowers or handicrafts? In terms of perspectives for local enterprises, upgrading, development, insertion into the value chains, capturing more value, do you see a difference among sectors, or more potential in one sector _____ than others?

Male: Maybe take – let's see, anybody else –

Female: Let's take a couple from webinar.

Male: – on this side? There we go.

Female: Just to let you know, we've got about 50 to 55 people online from all over the world, so it's definitely a good audience we have here online. We have a comment and then a question from that comment here. The comment was from Jim Tarrant from IRG Engility. He says that, "People like to use Costa Rica as a case study in value chains, also in nature conservation innovations, which is fine, but I think we need to realize it is not representative of either small developing economies or the developing world in general, the same with Singapore," and I read that comment because James Hochschwender from Weidemann, and I'm sorry if I killed the pronunciation on your name, he says, "Expanding upon Jim's comment about Costa Rica not being a typical small economy, what research of this nature is going on in any African countries?" Let me see if – that's it right now. A lot of folks are typing, so we might have another question shortly.

Male: Okay, and I think there was maybe one more question right there _____.

Female: Hi. My name is Giselle from Land O'Lakes, and there are two comments you made that I really liked. One is that even if a country is not exporting much, they're still affected by these value chains because of imports, and the other, this idea of global benchmarking. I think what I'm wondering is even if you're global benchmarking and some regions, like what's going on in Latin America as you _____ is not the same as what's happening in Africa, and even if you raise examples, like how Kenya and Tanzania are exporting a lot of flowers to Holland, and there's baskets in Costco from Rwanda, these, to me, are not the kind of essential products, you know, when you look at airplanes or medical devices.

So, as economies purchasing those items shift, it seems that smaller economies who are doing niche products, if they're not high-value, then they're missing the boat. So, my question to you is even if you're in a region like Africa and political stability is not there, or it's there in one country but regionally it's not there, and the strategic location isn't there, the human capital isn't there and it's not going to catch up for a while, what do you recommend so that these countries can not completely miss the boat?

Male:

Okay, let me take these questions, which actually raise a couple big themes. One is this theme of sectors, which both the first and the last questions relate to. I think, if we're doing this from a development point of view, whichever part of the world we're working in, whichever countries, the first question is which industries are most important to that country now, and you pick those sectors and you can and should do a global value chain analysis of those sectors so that you are tying into the things that matter most. That's one of the reasons why agri-food value chains are among the ones that are growing analysis, that's growing the fastest of any of the areas that I've seen, but also services. For example, there are now starting to be global value chain analyses of tourism on the one hand, offshore banking, other kinds of global services that countries think are important. Most people don't think of services as being organized globally, but, in fact, they are, and so that's the real contribution.

Whatever those sectors or industries are, including handicrafts, understanding how is the industry organized, who are the big traders and multinationals that might be involved, and where is that country positioned. That's step one. I think step two, it's really important that all countries shouldn't think about upgrading into high-value niches as the only thing you do with global value chains analyses, because only a limited number of people can get into the high-value areas, whether it's firms in a country or countries in the global economy. I think a big part of value chain analysis is how do you even maintain your position in these chains. There's been really interesting studies of the wine industry being done in different parts of the world, where they're saying some countries that are exporting wine want to go into the premium branded wine, but a lot of countries want to go into the bulk wine business because it's a much more sustainable position in the chain.

So, upgrading doesn't mean we're always searching for the highest-tech, highest-knowledge, highest-value things we can do; it also means what are sustainable niches, and one of the things you learn from company contrasts, in the electronics industry for example, some companies want to get into their own brand, like Acer computers in Taiwan. Other countries in Taiwan are

perfectly content to be OEM suppliers to the other branded companies. They're making less profit, but it's a more stable position, and that gets into the question of these countries, how do we choose countries?

One of the online listeners was mentioning that Costa Rica is not representative. Chile is not representative, Kenya is not representative, Singapore, so a lot of our success stories, especially in smaller countries, all have done certain things particularly well. But, if you went back 25 years, Chile wouldn't have been so unexceptional, they wouldn't have charted that path yet. So, I think if we look to success cases, whatever type they are, we're doing it mainly to say, "What lessons might we learn about how they got to where they are, what kind of institutions did they create, and back to workforce development, there's a whole set of issues connected to the training side, and different ways that companies have done workforce development, and there is no single institutional answer to that. If we look in the U.S., how hard it's been to do stem education, science, technology, engineering, and math, yet everybody wants to do it, but it's been hard to do it. That shows every country has got to look at their own institutional mix, their own policies, and try to figure out what's possible.

So, what I like about global value chain analysis is it isn't a one-solution approach. It uses the global industry as a frame, and then says depending on the countries we're looking at, we find sectors that make sense, we look for appropriate comparisons with other countries that are in similar _____ of the chain, and then we might look for what's the next level up and how do you upgrade to that final level. Let me stop there just because I don't know if we have time for any more questions, or not _____.

Female: Let's take one last round of quick questions. If we didn't get to your questions, please go on the event page, and, under Comments, post your comments and we'll have Dr. Gereffi answer those in good time.

Female: One more from the webinar, Suzanne Ross, from USAID India Food Security Office states, "In India, local large and SME have difficulty obtaining capital. MNCs can access capital through international markets. Is there an example where local large, medium and small enterprise integration can bundle with MNCs to gain the same access to capital that will enable them to upgrade to meet end market food safety or other import requirements?"

Male: Okay.

Female: Any more from the room?

Male: Okay. Carlo Pietrobelli might be in a good position to answer that one about the capital, but I mean access to capital is always a problem for SMEs. That's a local institution issue, partly, what does the local banking system look like. What I'm running into more is SMEs looking for things like venture capital if they want to go into innovation. Again, I think that's a government policy issue, and my understanding is, but maybe Carlo has a comment, governments are very aware of the need to get more capital to smaller firms, and they probably have various kinds of lending programs, but maybe there's some lessons about which ones are more effective. Carlo, do you have any comment on that one?

Male: It's hard to tell. I mean there's several examples _____. We recently studied the case of different value chains acting _____. I mean what we realize is that the main focus of most of the literature on value chains is really on how to foster, I mean from the development point of view, how to foster technology, upgrading, transfer, improving and upgrading efficiency and products, and so on _____ on the financial side. We discovered there are examples, notably in agriculture, but also in other sectors, where through the agreement with large buyers and large multinationals, finance can reach a small entrepreneurs, but I mean that varies by sector, by country. We explored a number of these things, and I can give you the details if you're interested.

Female: Okay. Well, thank you so much, Gary _____ –

[Applause]

– really a wonderful presentation, and I know that Lane has a comment.

Female: Good morning, everyone. I'm Lane Pollack. I know many of your faces. Also, I work with Jean, my pleasure to work in the Microenterprise and Private Enterprise Development office.

Female: She's also an expert _____ in –

Female: Right.

Female: – global markets.

Female: Yes, thank you for the handcrafts callout. Yay.

[Laughter]

I want to just take a minute and flag something for you all. Someone said at the beginning this is our 72nd breakfast seminar, and as a longtime listener, and now

in the Microenterprise Office, I want to just recognize the contributions that this seminar series has made since 2005, when, under AMAP, it was started. As Gary's presentation, I think, very well represented, the series has evolved over time as the topics have evolved over time, but it's always been focused on linking small firms to competitiveness strategies. We've examined topics in enterprise development, value chains, upgrading; we've also looked at behavior change, facilitation, and – I'm sorry?

Female: Finance.

Female: Finance, yes, absolutely, and the importance of trust in developing relationships within the value chains. As you're probably also aware, there's a parallel series, the After-Hours Seminar Series, that's been happening the same amount of time, and, in fact, they're doing a flag that we have one next Thursday on the 27th. We hope to see you there. That series has examined financial services in microenterprise development, including but not limited to microfinance. Together, I feel confident in saying that these have formed the cornerstone of the microenterprise development, and now the _____ offices knowledge management and engagement strategies over the last five years, and also have underscored our technical excellence in USAID's leadership, and in working with all of you in bringing these good practices and learnings to the field as a whole. It's been a successful two series because of your engagement, because of presenters like Gary. I would like to specifically recognize Jean's leadership in forming the series and the content.

[Applause]

However, as the topics have evolved, now our series are getting ready to evolve, and I just want to flag this for all of you: you'll be getting e-mails and more communications. But, starting in November, we're going to be taking these two series and forming them into one integrated series that will look at a broad spectrum of topics across inclusive market development, global value chains included, financial services included. So, again, watch your e-mail, but we hope you'll be joining us for the new series starting in November.

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