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# Production integration and inclusion: lessons from empirical research

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*“Achieving Inclusive Economic Growth  
in the New Normal”*

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*Disclaimer: The opinions expressed in this presentation are those of the author and do not necessarily reflect the views of the ECB of the European system of Central Bank.*

## Introduction

- Global fragmentation of production is challenging the relevance and the accurateness of **traditional indicators** of competitiveness
- Complex global value chains (GVCs) have drastically changed the way we should assess a country’s degree of competitiveness and reconfigured world trade in terms of **participants** and **comparative advantages**

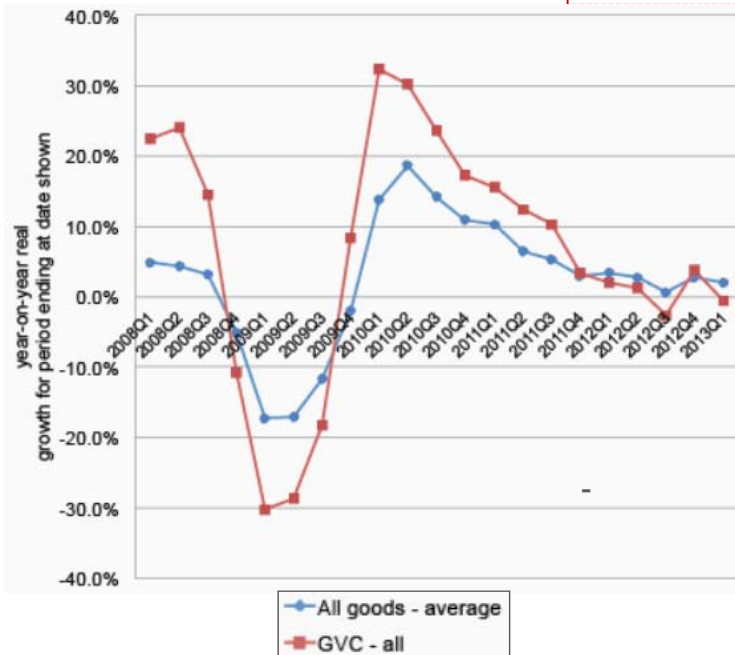


- **Drawing on the work of CompNet – the Competitiveness Research Network of the European Central Bank – will provide some empirical evidence with important policy implications. In particular we focus on three items of relevance for “inclusiveness”:**
  - **The impact of GVCs in the transmission channels of macroeconomic shocks**
  - **The positioning in the GVC**
  - **The impact on job creation/destruction**

# GVC and transmission channels of macroeconomic shocks

- The increasing global fragmentation of production **fastened** and **amplified** the **international transmission** of **demand shocks** during regional slowdown

## Higher volatility of trade in GVCs



Source: Datastream, International Trade Commission, World Bank.

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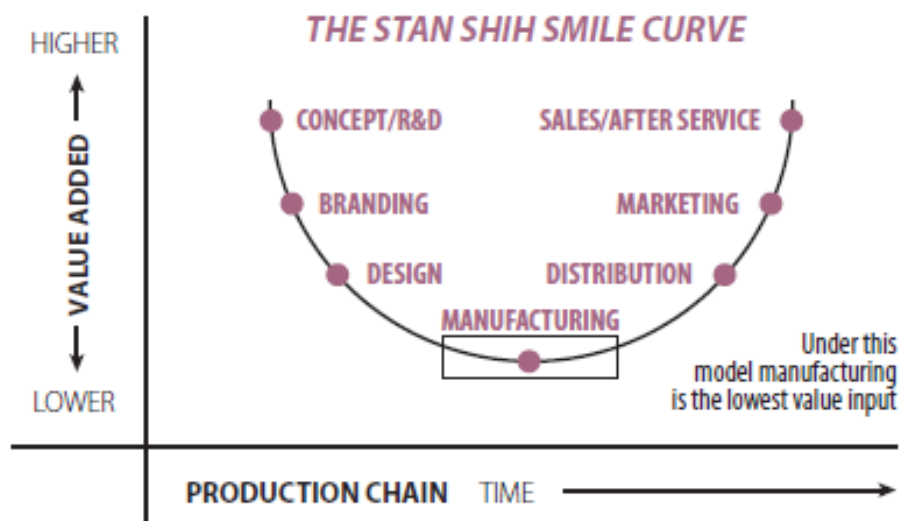
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The more global is the Chain:

- the **less important** is a supply shock in the country where shock originated
- the **more important** is a supply shock in other countries

## Positioning within GVCs

- GVCs offer an **opportunity** to integrate in the world economy at lower costs, but gains from GVC participation are **not automatic**
- Benefits vary considerably depending on whether a country operates at the high or at the low end of the value chain (i.e. on the **positioning** along the “smile curve”)

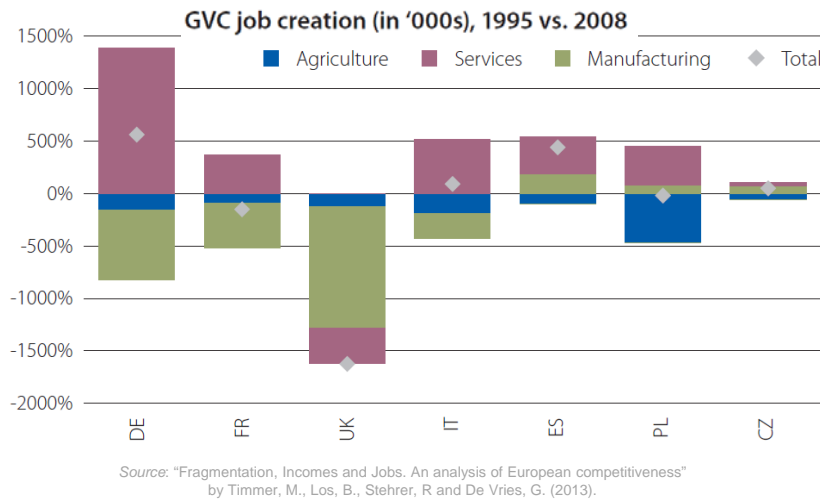


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## Impact on job creation/destruction

More specifically, there has been an incredibly **fast growth** in services jobs in all major EU countries



And in 11 of the EU15 member countries the **creation of new GVC jobs in services** was **bigger than the loss** of old GVC jobs in **manufacturing**

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## Conclusions

The increasing global fragmentation of production and the emergence of complex GVCs challenge the prevailing policy thinking on competitiveness and growth enhancing



Drawing on the work of CompNet, we provide evidence that nowadays **integration into GVCs** should be definitely part of a broader **pro-growth agenda**.

1. GVCs offer an **opportunity** to integrate in the world economy at lower costs
2. However, gains from participation are **not automatic**.

→ It is therefore fundamental to take into account the **cross-border** dimension of the production processes and empirical findings in order to design adequate policies

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