Introduction

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A Global Value Chain perspective on investment and infrastructure development in emerging markets

ABSTRACT

Globalization has given rise to a new era of international competition that is best understood by looking at the global organization of industries and how countries rise and fall within these industries. The global value chains (GVCs) framework has evolved from its academic origins into a major paradigm used by a wide range of international organizations to inform their investment and lending decisions for developing economies. GVCs matter for infrastructure development in several ways, since the ability of countries to prosper depends on their participation in the global economy, which is largely a story about their role in global supply chains. Connecting countries to global supply chains involves both investment and trade, and the two are frequently linked through infrastructure development. At its most basic level, infrastructure enables global trade by building and improving the physical facilities that link national economies: ports and canals for ships, airports, roads, and a wide range of information and communication technologies that create efficient global supply chains. These investments at the border are enhanced by infrastructure investments inside the border (i.e., roads and facilities that connect rural regions and small firms to larger domestic markets), and also by investments beyond the border, especially infrastructure facilities that connect a country to its nearby neighbors in regional supply chains. These regional partners are often underappreciated because of the importance given to developed country markets in 1990s and early 2000s, but in the current era, regional value chains are becoming a new focus for investment planning by development banks and international organizations.

Emerging economies are at the center of significant changes in GVCs and related decisions about infrastructure investment and trade. A set of seven emerging economies (China, India, Brazil, Mexico, Russia, South Korea and South Africa) account for 45% of the world’s population, 23% of gross domestic product (GDP), and 22% of global exports, and their GDP growth rates are nearly double the world average (4.8% versus 2.7%). The specific roles of these seven countries in the global economy vary according to their openness to trade and foreign investment; endowments of natural, human, and technological resources; their geopolitical relationships to the world’s most powerful countries; and the characteristics of their immediate neighbors. These emerging economies are also influential because they are pioneering various types of industrial policies in global and regional value chains, including: “horizontal” policies that affect the entire national economy; “selective” (or “vertical”) industrial policies targeted at particular industries or sectors; and GVC-oriented industrial policies that leverage international supply chain linkages or dynamics to improve a country’s role in global or regional value chains.