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Philippine Center for
Economic Development

present a seminar on

“Governance, Innovation, and Productivity in Global Value Chains: Lessons from the Philippines”

By

Adrian R. Mendoza

16 March, Wednesday

4:00-5:00 p.m. – Room 303

Abstract:

With the increasing importance of global value chains (GVC) in world trade, developing countries are presented an alternative industrialization route other than the long process of large-scale capital and knowledge accumulation. In this trading platform, the challenge for aspiring participants is to develop comparative advantage in a particular segment of production and operate in accordance with strict quality standards. Against this background, this study assessed the key factors that influence GVC participation from the perspective of firms in a developing country. We extend the firm heterogeneity framework to analyze the patterns of trade in intermediate goods. The results provide evidence that bigger and more productive firms self-select into (rather than randomly participate in) GVC operations. Based on this result, we trace the effects of GVC linkages on participating firms' innovative tendencies, innovation outputs, and productivity. The results suggest that Philippine GVC firms are more likely to be innovative. However, the GVC activities of these firms are associated more with process rather than product innovations. This is as expected since the tasks normally assigned to local firms are more focused on cost and quality controls rather than research and product differentiation. This lends support to the task-innovation matching wherein the nature of the firm's task within the value chain influences its innovation strategy. In terms of productivity, the estimates suggest that firms are benefitting from GVC participation mainly in the form labor productivity gains from upgraded machinery, equipment, and technology. However, there is no evidence of a productivity increase coming from product innovations. Further, we do not find a significant impact of process and product innovations on TFP. This is consistent with the view that long-term productivity growth requires the intensive development and application of internal knowledge instead of overdependence externally-sourced technologies. Finally, we investigated how the governance structures within GVCs affect the domestic firms' upgrading potential. In order to operationalize this, we propose a new GVC governance index to measure power asymmetry between firms. The results show that firms facing a higher degree of control from their buyers are less likely to move up to higher-order forms of upgrading. Ultimately, the above results are contextualized within the middle income trap experience of the Philippines. The analysis shows that the country's upgrading pattern in GVCs is parallel with its slow transition into a high income economy. Hence, escaping the trap implies moving up and moving out to more productive value chains.

About the speaker:

Adrian R. Mendoza is a Ph.D. Candidate at the UP School of Economics, where he also obtained his BS (2007) and MA (2014) degrees. He is currently writing his dissertation under the Escaping the Middle Income Trap (EMIT) Research Programme. His research interests include international trade, international macroeconomics, science and innovation, spatial economics, and household behavior.



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