

Local Spillovers and Competitiveness in Global Value Chains: Directions in International Business and Strategy Research

In the contemporary globalized economy, firms increasingly engage in international production networks known as global value chains (GVCs). GVCs involve the fragmentation of production processes across multiple countries, with different stages of production taking place in different locations based on comparative advantages. This fragmentation has significant implications for local economies, as it can lead to both positive and negative spillovers.

Local spillovers refer to the effects that the participation of firms in GVCs has on the local economy. Positive spillovers can include job creation, technology transfer, and increased productivity. Negative spillovers can include environmental degradation, labor market polarization, and increased inequality. Understanding the nature and magnitude of these spillovers is crucial for policymakers and business leaders seeking to harness the benefits of GVC participation while mitigating potential risks.

Theoretical Perspectives on Local Spillovers

Several theoretical perspectives have been developed to explain the mechanisms through which GVC participation can generate local spillovers. These perspectives include:

Making Foreign Direct Investment Work for Sub-Saharan Africa: Local Spillovers and Competitiveness



in Global Value Chains (Directions in Development)

by Thomas Farole

★★★★★ 5 out of 5

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1. Knowledge Spillover Theory: This theory suggests that firms participating in GVCs gain access to new knowledge and technologies from their foreign partners. This knowledge can then be transferred to local suppliers and other firms in the same industry, leading to increased productivity and innovation.

2. Backward and Forward Linkages Theory: This theory emphasizes the importance of linkages between GVC firms and local suppliers and customers. Backward linkages refer to the relationships between GVC firms and their local suppliers, while forward linkages refer to the relationships between GVC firms and their local customers. Strong backward and forward linkages can create multiplier effects in the local economy, leading to job creation and increased economic activity.

3. Institutional Theory: This theory focuses on the role of institutions in shaping the nature and magnitude of local spillovers. Institutions such as property rights, contract enforcement, and labor market regulations can

influence the ability of firms to access new knowledge, form linkages, and benefit from GVC participation.

Empirical Evidence on Local Spillovers

Empirical research on local spillovers from GVC participation has yielded mixed results. Some studies have found significant positive spillovers, while others have found negative or negligible effects. The variation in findings can be attributed to factors such as the industry, country context, and level of analysis.

Positive Spillovers:

- A study by Coe et al. (2008) found that foreign direct investment (FDI) in the electronics industry in Mexico led to increased productivity and wages for local firms.
- A study by Javorcik (2004) found that FDI in the manufacturing sector in Vietnam led to increased exports and economic growth.

Negative Spillovers:

- A study by Gereffi et al. (2005) found that GVC participation in the apparel industry in Mexico led to increased environmental degradation and labor market polarization.
- A study by Nadvi (2008) found that GVC participation in the textiles industry in India led to increased inequality and informality.

Directions for Future Research

Despite the growing body of research on local spillovers from GVC participation, several important areas require further investigation. These include:

1. Spillover Mechanisms: More research is needed to identify and understand the specific mechanisms through which GVC participation generates local spillovers. This includes examining the role of knowledge transfer, backward and forward linkages, and institutional factors.

2. Firm-Level Heterogeneity: The magnitude of local spillovers may vary significantly across firms. Future research should investigate the factors that determine firm-level heterogeneity in spillover effects.

3. Long-Term Effects: Most research on local spillovers has focused on the short-term effects of GVC participation. More research is needed to examine the long-term effects, such as the impact on innovation, economic growth, and social welfare.

Policy Implications

The findings on local spillovers from GVC participation have important implications for policymakers. To maximize the benefits of GVC participation while mitigating potential risks, policymakers should consider the following:

1. Promote Knowledge Transfer: Policies should encourage firms to share knowledge and technology with local suppliers and other firms in the same industry. This can be done through mechanisms such as joint ventures, technology transfer programs, and education and training initiatives.

2. Strengthen Backward and Forward Linkages: Policies should support the development of strong backward and forward linkages between GVC firms and local suppliers and customers. This can be done through measures such as infrastructure development, trade facilitation, and investment promotion.

3. Address Negative Spillovers: Policies should address potential negative spillovers from GVC participation, such as environmental degradation, labor market polarization, and increased inequality. This can be done through regulations, incentives, and social programs.

Local spillovers from GVC participation can have significant implications for the competitiveness of firms and the economic development of local economies. Understanding the nature and magnitude of these spillovers is crucial for policymakers and business leaders seeking to harness the benefits of GVC participation while mitigating potential risks. Future research should focus on identifying spillover mechanisms, investigating firm-level heterogeneity, and examining the long-term effects of GVC participation. By implementing appropriate policies, policymakers can maximize the positive spillovers and minimize the negative spillovers, ensuring that GVC participation contributes to sustainable economic growth and development.



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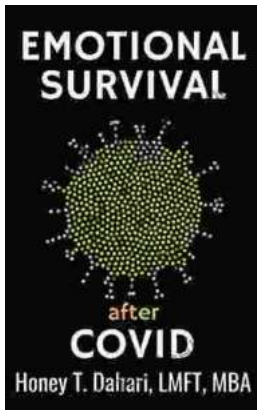
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