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Competitiveness Today: a New View

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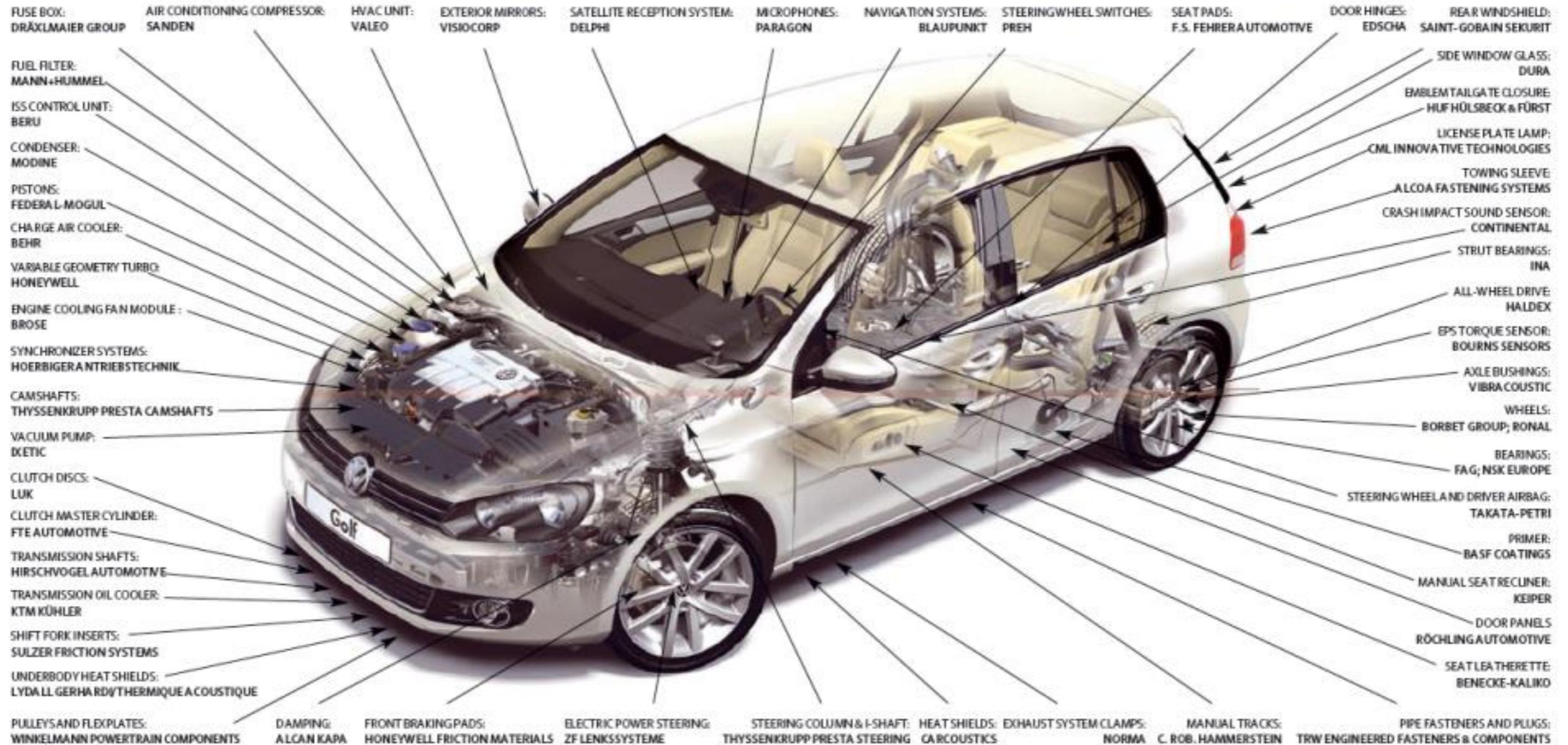
Groningen Growth and Development Centre,
 University of Groningen

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 AFTER THE WORLD FINANCIAL CRISIS”, Tokyo, May 20, 2014.



- **The OLD VIEW on Competitiveness is based on PRODUCTS**
 - E.g. increasing value of exports is taken as indicator of competitive strength of a country
- However **International production fragmentation** trend accelerating since China's entry to WTO in 2001

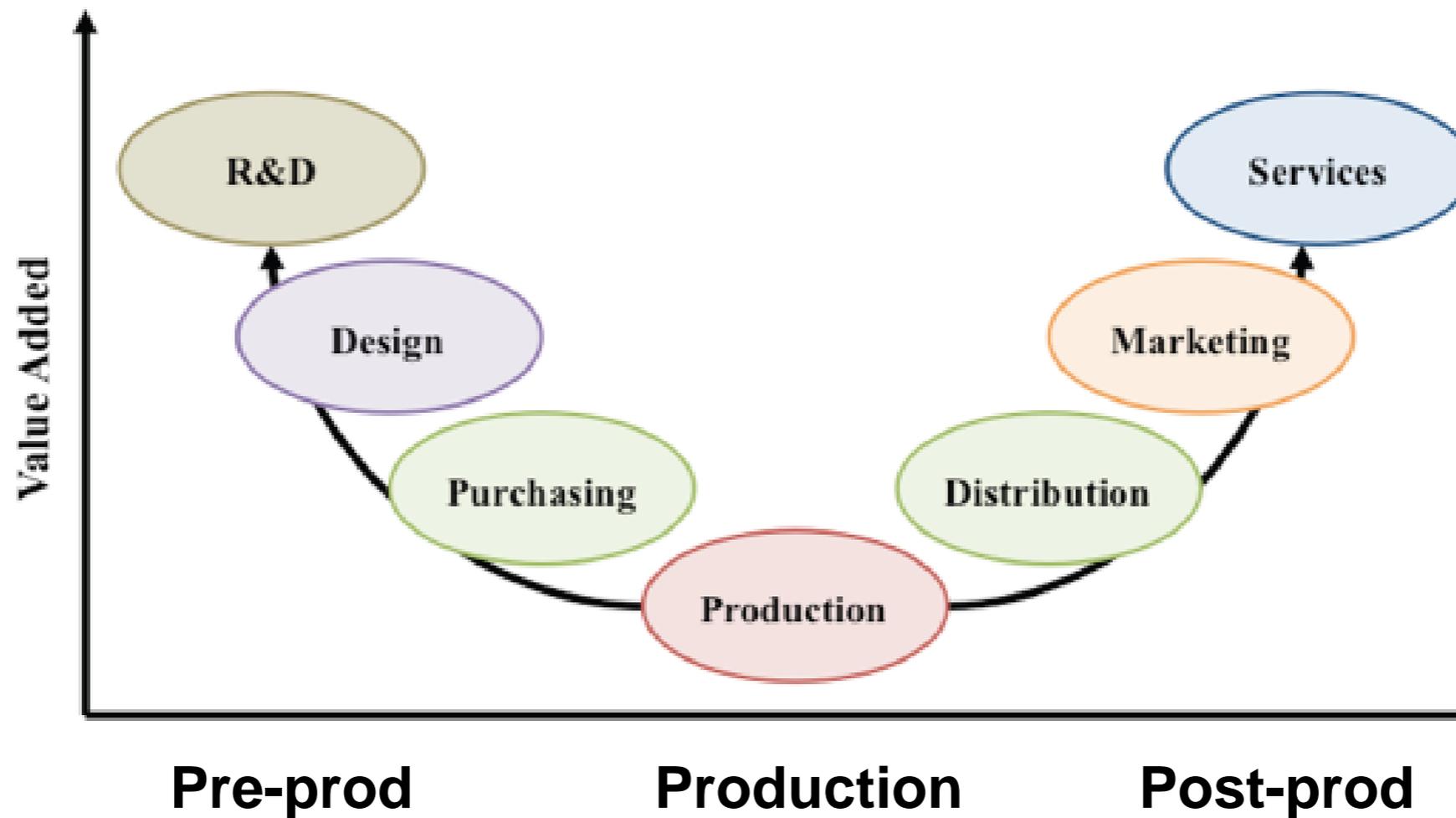




“It is not about what you sell,
but what you do”

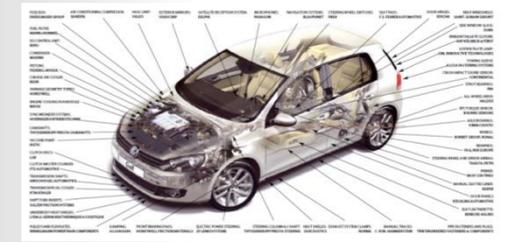


The NEW VIEW is on **ACTIVITIES** in **GLOBAL VALUE CHAINS**

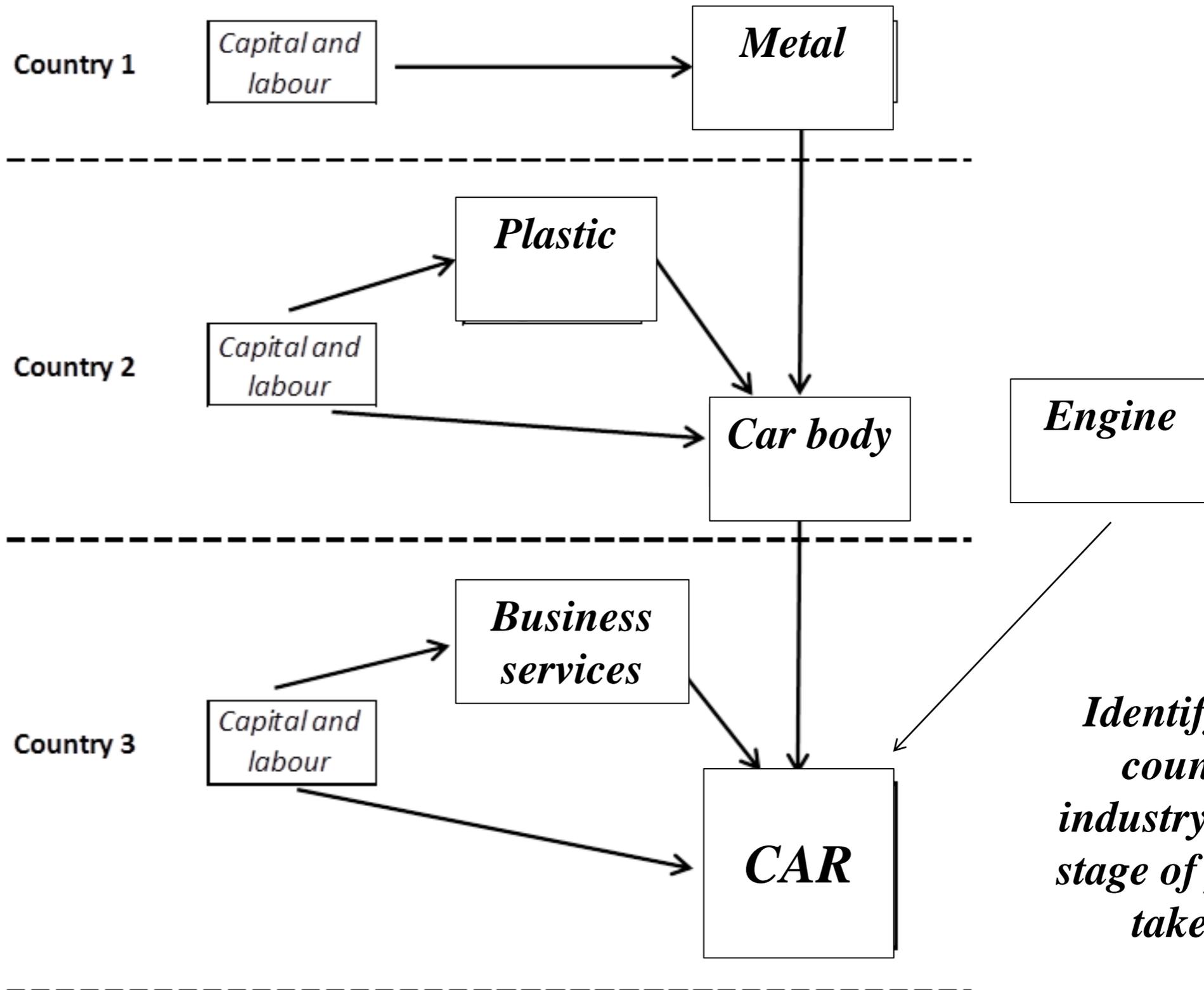




Stylized Car GVC



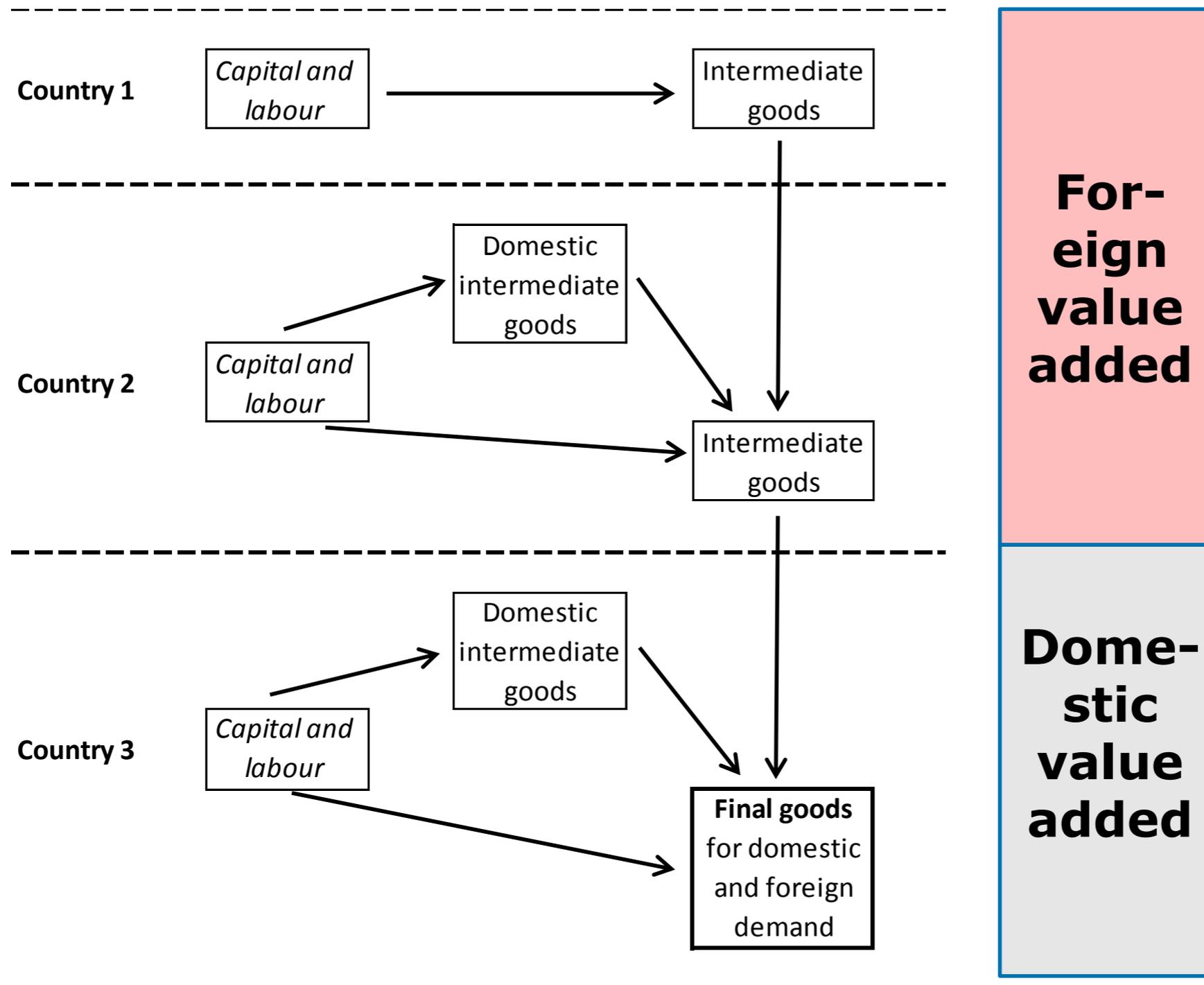
*Countries-
 industries
 delivering
 value
 added*



*Identify GVC by
 country and
 industry where last
 stage of production
 takes place*

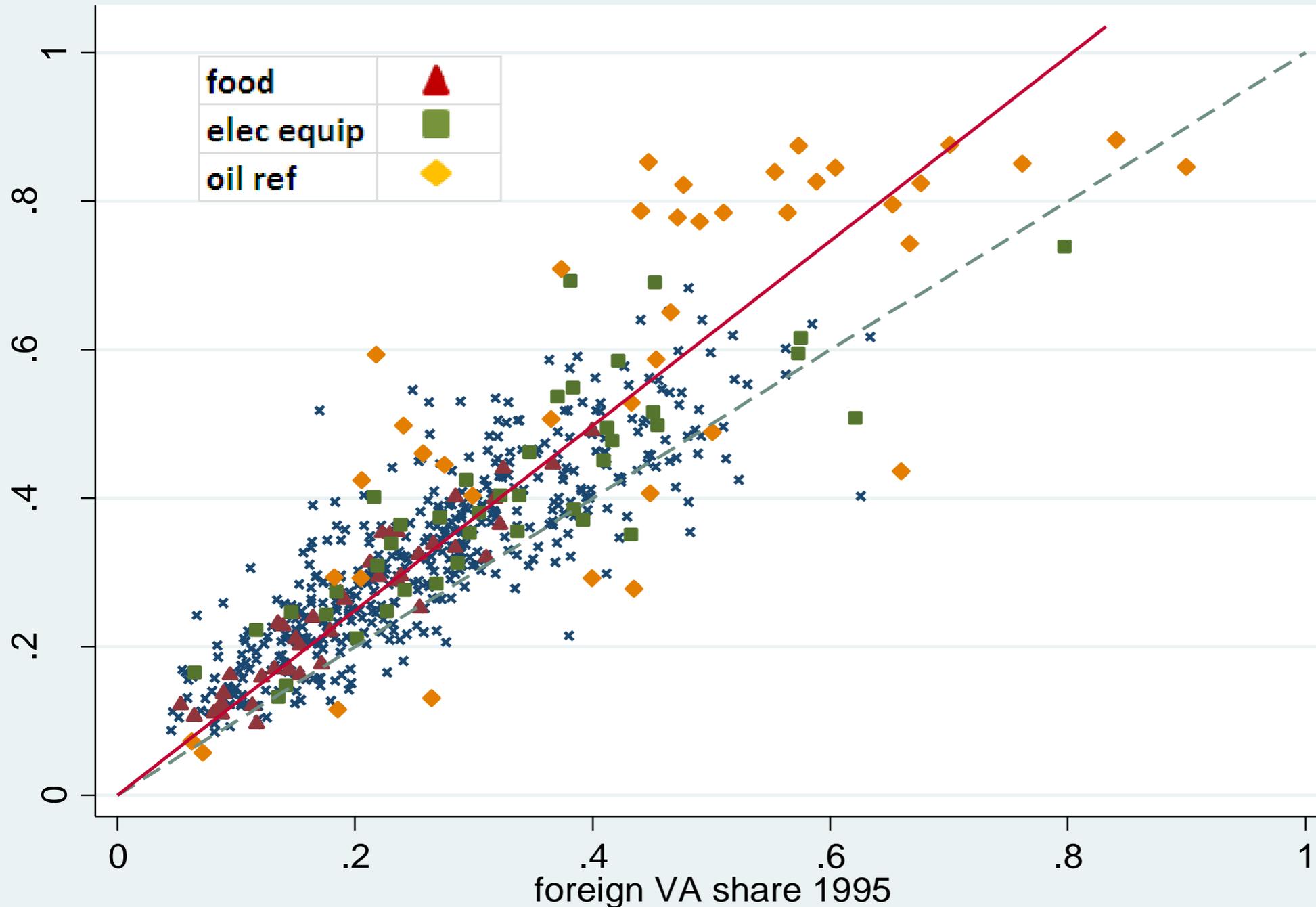


Value added distribution of output of final product





Increasing international production fragmentation since 1995

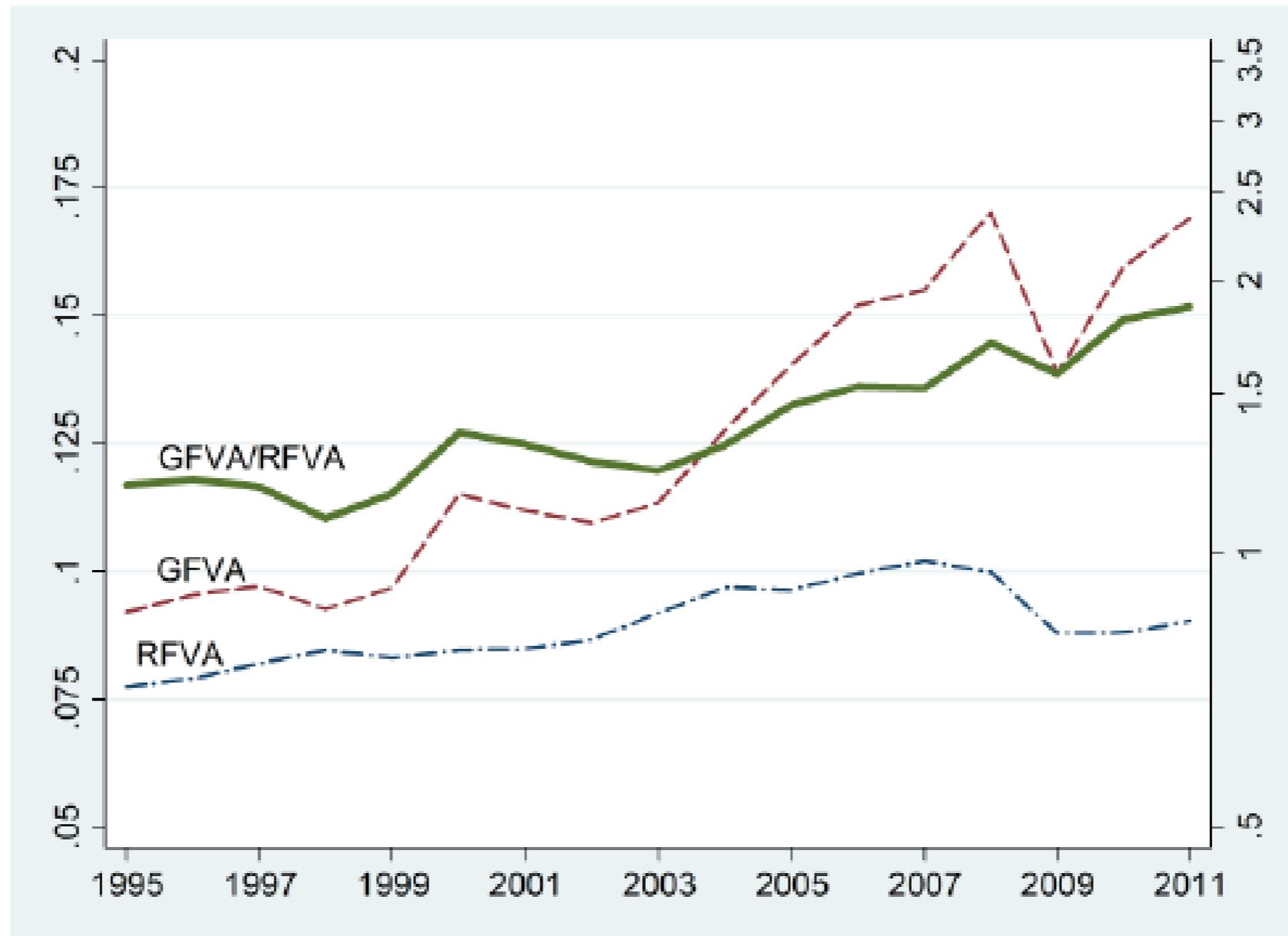


Foreign value added share in final output of each of 14 manufacturing industries in 40 countries in 1995 and 2008

Source:
Timmer et al.
(JEP, 2014)



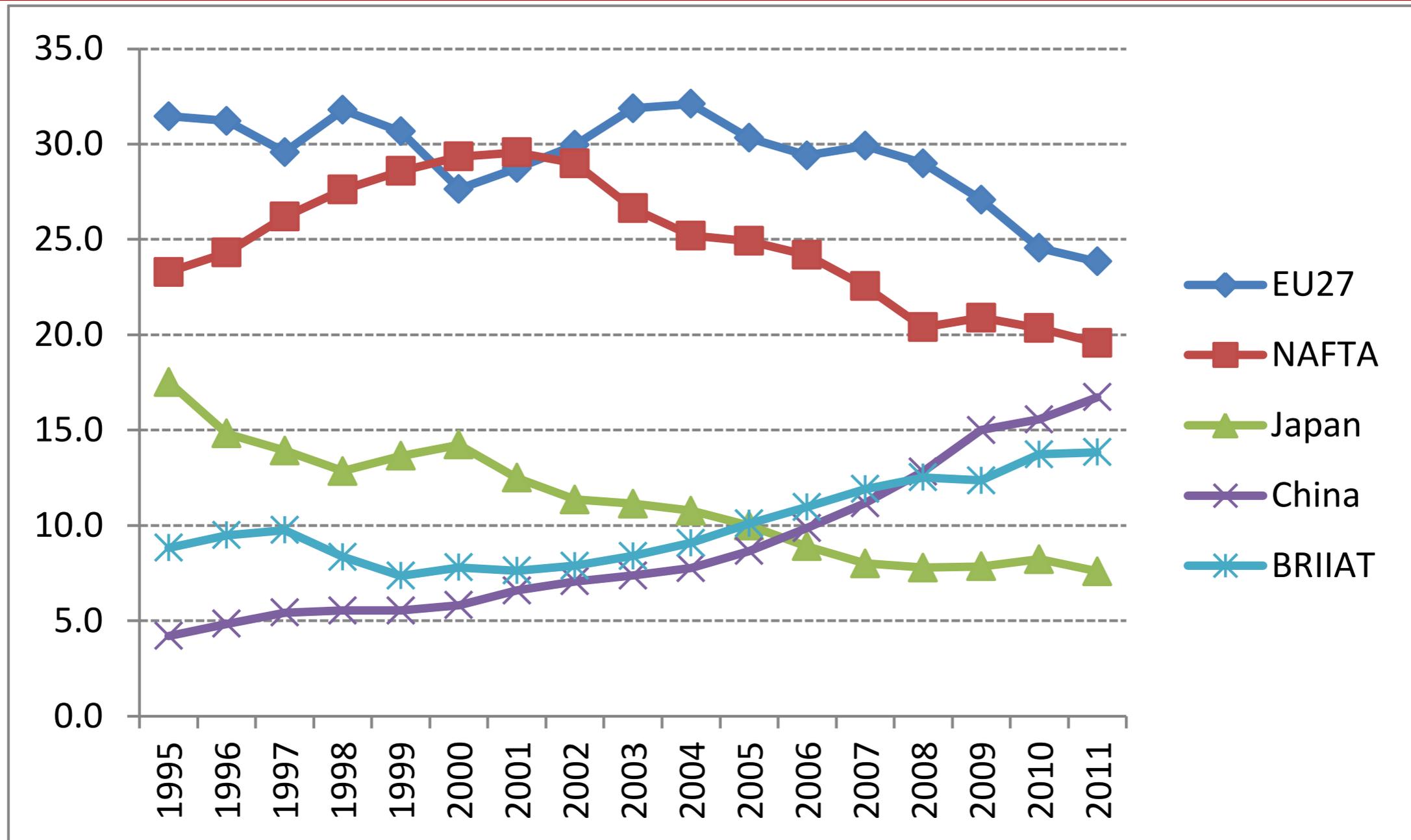
Fragmentation outside regions continuing after GFC in 2008



Note: Shares of regional (R) and global (G) foreign value added (FVA) in value chains of final manufactures (34 countries-of-completion in EU, East Asia and NAFTA); Source: Los et al. (2014), Journal of Regional Science



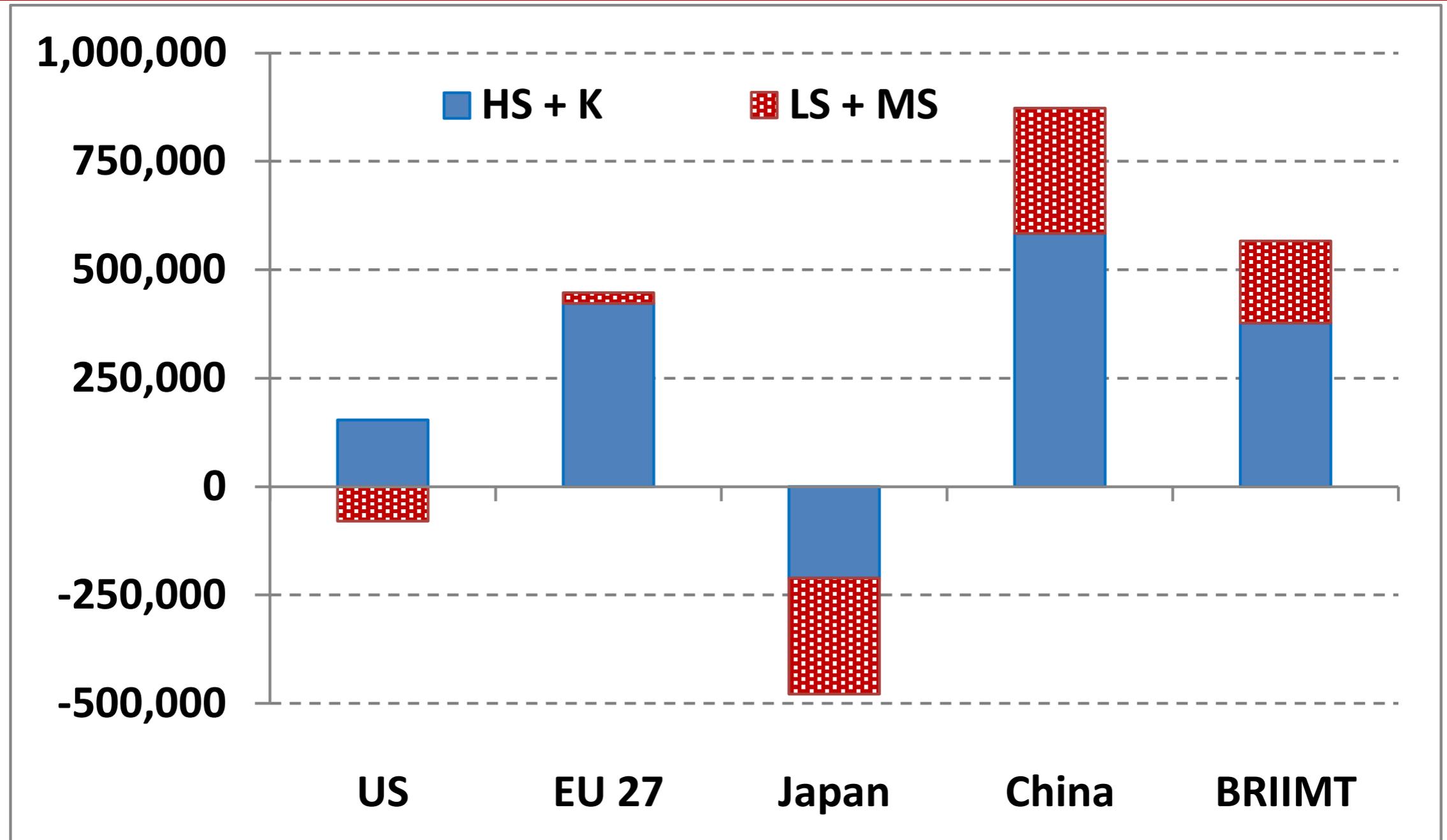
Shares in world GVC income, all manufactures, 1995-2011 (%)



Note: Value added by regions in the production of final manufacturing goods. BRIIAT includes Brazil, Russia, India, Indonesia, Australia, and Turkey. EU27 includes all European countries that have joined the European Union. NAFTA includes Canada, Mexico and the US. Shares do not add up to 100% as the remainder is the share of all other countries in the world. *Source:* Timmer et al. (2014)



Change in GVC Income by production factor, 2008-1995



Note: GVC Income by production factor (in million 1995 US\$), change between 1995 and 2008, **low- (L), medium- (M) and high-skilled (H) workers and capital (K)**, measured as value added by regions in the production of final manufacturing goods.
Source: Timmer et al. (2014)



International fragmentation of production implies that countries compete on basis of activities, and no longer on basis of products or sectors.

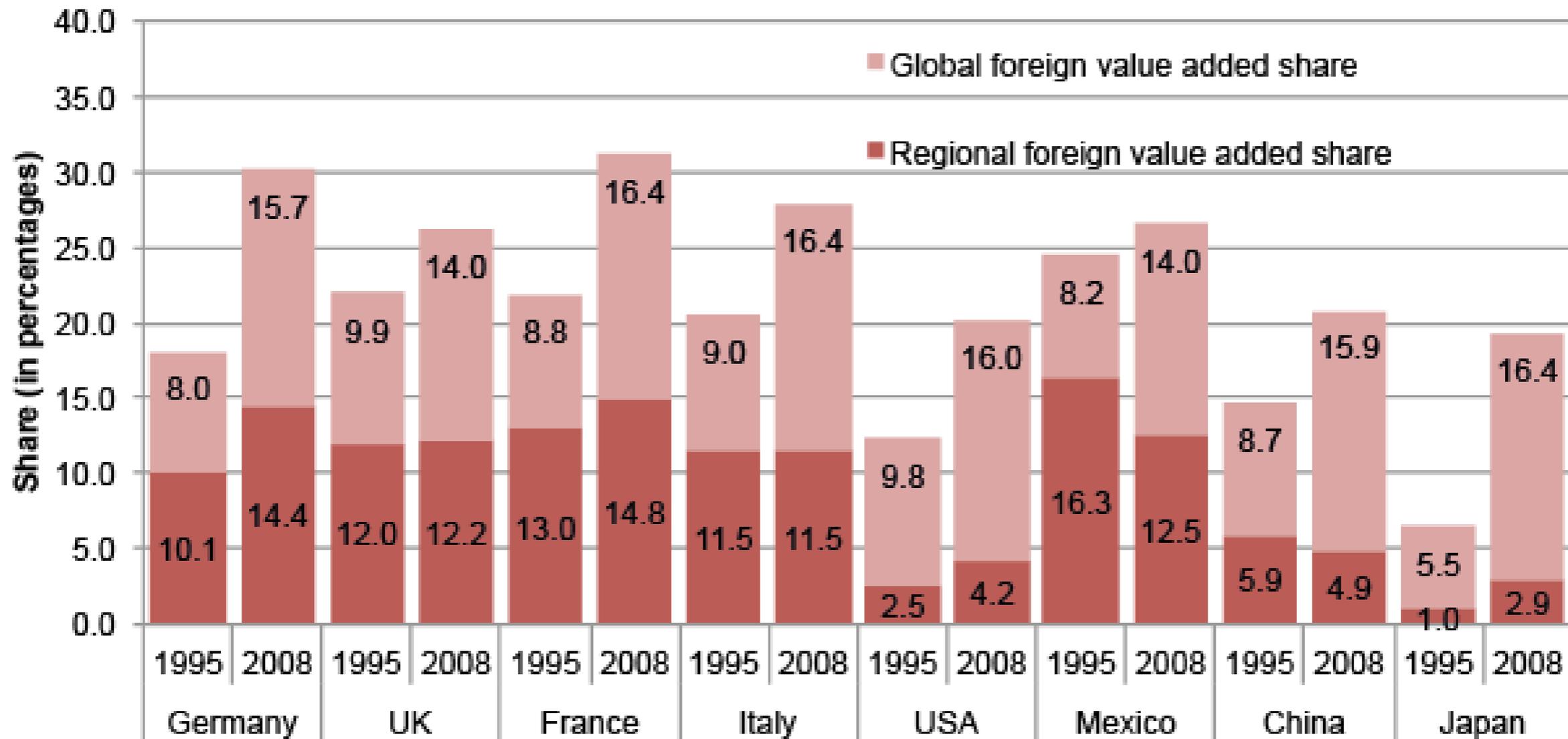
- Implicates new thinking and policies, e.g.
 - **Trade policies:** managing interdependencies between countries
 - **Social policies:** managing effects of trade on income distributions
 - **Industrial policies:** away from sectoral approach
 - **Statistical systems:** new measures of competitiveness



- Timmer, Marcel P., Bart Los, Robert Stehrer and Gaaitzen J. de Vries (2013). "Fragmentation, Incomes and Jobs. An Analysis of European Competitiveness." **Economic Policy** 28(76):613–661.
- Los, B., M.P. Timmer and G.J. de Vries (2014), "How global are Global Value Chains? A New Approach to Measure International Fragmentation", early view, **Journal of Regional Science**, DOI: 10.1111/jors.12121
- Timmer, M.P., A.A. Erumban, B. Los, R. Stehrer and G.J. de Vries (2014), "Slicing Up Global Value Chains", **Journal of Economic Perspectives**, Spring 2014, DOI:10.1257/jep.28.2.99
- All data and tables are available at www.wiod.org
- Short summaries of the papers can be found at *Voxeu* website



Global fragmentation dominates regional fragmentation



RFVA and GFVA shares for selected countries (1995-2008, in %)

Source: Los et al. (2014), *Journal of Regional Science*