

Discussion
Global Value Chains Session 2/2

Beata Javorcik
University of Oxford

Should Central Banks care about GVCs?

“The primary objective of the European System of Central Banks (ESCB) shall be to maintain price stability.

Without prejudice to the objective of price stability, the **ESCB shall support the general economic policies** of the Community with a view to contributing to the achievement of the objectives of the Community.”

(Article 105 of the Maastricht Treaty)

Should Central Banks care about GVCs?

- * **Yes** because GVCs have an impact on macroeconomic outcomes, such as
 - * Income & current account (Brumm, Georgiadis, Graeb & Trottner)
 - * REER (Patel, Wang & Wei)

“Global Value Chain Participation and Current Account Balances”

Higher efficiency in the use of imported intermediates

=> a larger share of foreign VA embodied in Home exports

=> competitiveness of Home exports increases

=> foreign demand for Home goods increases

=> Home income rises

Transitory shock => Home saves part of the gain to smooth consumption => Home **CA surplus**

Similarly, **shock to the efficiency in the use of Home intermediates in the ROW** => Home **CA surplus**

“Global Value Chain Participation and Current Account Balances”

- * Reduced-form regressions based on the IMF's EBA model suggest that **economies with greater GVC participation display larger current account (CA) surpluses**

“Global Value Chain Participation and Current Account Balances”

- * What efficiency shocks do the authors have in mind?
 - * they are agnostic but give a few examples
 - * declines in transportation costs
 - * trade liberalization
 - * advances in IT
 - * etc.
 - * **But are such shocks really transitory?**
 - * **Are transitory shocks what we really want to focus on?**

Possible (URGENT) application



Not everyone buys your story

- * A special import tax has been collected by Turkish banks since 1988 when domestic or foreign credit is utilized to finance the cost of imported goods
- * The aim of the policy is to **“to regulate foreign trade for the benefit of the economy of the country”** as stated in the Article 167 of the Turkish Constitution
- * **In response to high and persistent CA deficit**, the tax rate was raised from 3% to 6% on 13 October 2011

Policy led to a decrease in imports and exports!

Define firm-level exposure to the shock as $Exposure_f = \frac{\sum_{m \in \{Affected\}} Imports_{fm}^{Pre}}{\sum_m Imports_{fm}^{Pre}}$

	$\ln Revenues_f$	$\ln Imports_f$	$\ln Exports_f$	$\ln Exports_{fpc}$
$Exposure_f$	-0.0344*	-0.0976**	-0.0723*	-0.0722**
	(0.0175)	(0.0459)	(0.0446)	(0.0315)
N	7653	13056	8697	422749
R ²	0.0710	0.0553	0.0558	0.239
Fixed effects	2Dig-NACE	2Dig-NACE	2Dig-NACE	C-HS6
Cluster	2Dig-NACE	2Dig-NACE	2Dig-NACE	Firm

Foreign affiliates were not affected

	$\ln \text{Revenues}_f$	$\ln \text{Imports}_f$	$\ln \text{Exports}_f$	$\ln \text{Exports}_{fpc}$
Exposure_f	0.0121	0.00564	0.0557	0.00586
	(0.0610)	(0.126)	(0.215)	(0.126)
N	703	1323	1004	33681
R ²	0.224	0.272	0.236	0.647
Fixed effects	2Dig-NACE	2Dig-NACE	2Dig-NACE	C-HS6
Cluster	2Dig-NACE	2Dig-NACE	2Dig-NACE	Firm

Demir & Javorcik (2016)

Typology of GVCs (Gereffi 1999)

Buyer-driven supply chains

- * large retailers, branded marketers, and branded manufacturers play the key role in setting up decentralized production networks in a variety of exporting countries
- * prevalent in labor-intensive, consumer goods sectors
- * e.g., apparel, footwear and furniture

Producer-driven supply chains

- * production process coordinated large **multinationals**
- * mainly present in capital- and skilled-labor-intensive industries
- * e.g., automobiles, computers, semiconductors and heavy machinery

=> Model GVCs as increasing in the efficiency of the use of ALL inputs, not just intermediates

What does existence of GVCs imply for Central Banks?

- * Patel, Wang & Wei give the answer
 - * Get serious about measurement issues by taking into account GVCs
- * When measuring REER
 - * Don't assume that countries export only final goods
 - * Define REER at the country-sector level
 - * Allow for different elasticities of substitution

What does existence of GVCs imply for Central Banks?

- * Improve the measurement of REER
- * Need for additional data collection efforts => Should the IMF/ECB support the WIOD initiative?
- * Tip for the ECB: Obvious tool to study **Competitiveness asymmetries within the Eurozone**