

THE POWER OF INTERNATIONAL VALUE CHAINS IN THE GLOBAL SOUTH



The power of international value chains in the Global South

About the paper

Firms could build competitiveness and grow by engaging in South-South value chains and producing higher value-added goods, according to a survey of more than 550 East African companies. The North offers opportunities for international engagement and higher sales, but connecting to the South helps firms move up the value chain and allows knowledge transfer.

This report shows major trends that have propelled the South, including the recent proliferation of regional trade agreements and increasing trade in technology-intensive products. Decision makers should increasingly support regional cooperation to boost South-South trade and investment alongside South-North initiatives.

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Foreword by ITC

Forty years have passed since the adoption of the Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries. This year, the international community will once again gather in Buenos Aires to renew the foundations of South-South cooperation at the Second High-level United Nations conference (BAPA+40).

Much has been achieved since 1978. South-South cooperation is now seen as crucial to achieving the Sustainable Development Goals. Great strides are being made, particularly in the area of trade and investment where South-South trade and investment is increasing and contributing significantly to global growth and development. Yet, disparities in economic growth persist among Southern countries.

Much more could be achieved if the value of South-South trade and investment cooperation were better understood, replicated and harnessed. This is why the International Trade Centre (ITC) continues to work to build trade and investment linkages across the Global South, including through addressing information and perception asymmetries and by piloting scalable projects and interventions on the ground.

ITC's experience supports the data and analysis in this report: South-South value chains afford firms more opportunities to move up the value chain than North-South value chains. This can be seen with East African businesses which capture 10% more value when they work in South-South value chains, thereby increasing their bargaining power and improving competitiveness. As a result, firms in South-South value chains hire more skilled workers. They also create more high-skilled jobs than firms exporting to the North.

Technology transfer highlights the benefits of South-South trade and investment. By means of 'frugal innovation', countries in the South have invented adaptable and affordable technologies appropriate to the needs of other developing countries in the South. This system of replicability is important.

Drawing on macroeconomic data and surveys of more than 550 East African companies, this report provides analysis to help policymakers, institutions and industry foster South-South cooperation and promote South-South trade and investment initiatives.

2030 is fast approaching. Improving trade and investment flows responsibly, underpinned by inclusiveness, is one important instrument for us to achieve these goals and bequeath a better world to humanity.



Arancha González
Executive Director
International Trade Centre (ITC)

Foreword by RIS

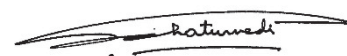
The 'rise' of the South may be seen as a coherent phenomenon with high growth fundamentals demonstrated by dynamic economies across all constituencies of the South. This defines the scope of Southern 'collectivism' as a narrative as we define the roadmap from BAPA+40. It is very evident that trade has acted as an engine of growth for the Global South, leading to its phenomenal rise. The South's increasing share in global gross domestic product and world trade is largely attributable to the impact of regionalism in deepening international value chains in the South and opportunities to move up the value chain as reflected in the rising technology intensity of South-South trade. This joint report on 'The power of international value chains in the Global South' presents convincing empirical evidence in this regard.

It brings out that there was more than a four-fold increase in the economy of the South in 2000–2016, compared with the two-fold increase in the world economy. The total gross domestic product of the South increased from \$7.6 trillion in 2000 to \$30.9 trillion in 2016, implying that the South's share in world income rose from 28% to 40.6% in real terms. Gross savings in the South increased to \$9.7 trillion in 2016 (from a low base of \$1.9 trillion in 2000), compared to \$9.1 trillion in the North.

With the proliferation of regionalism, there has been a boom in regional trading agreements in the South, which has in turn spurred South-South trade. These trends are also supported by the fact that South-South trade is picking up in technology-intensive products. Production and trade in parts and components have particularly empowered a large spectrum of countries in the South, suggesting growing integration with international value chains.

Therefore, understanding the economic foundations of the rise of the South and the mutual interdependence ushered in by trade, capital, resource and knowledge flows is of paramount importance to strengthen the momentum and create policy space for South-South cooperation. This has enormous implications for the South to leverage its 'rise' and drive institutional efforts globally.

I congratulate my colleagues Professor S.K. Mohanty and Dr. Sabyasachi Saha for their painstaking efforts in contributing to this report. I am also grateful to the International Trade Centre for partnering with us for this study, and particularly thank my colleague and friend Govind Venuprasad for his ideas and support in this initiative. I am sure that this publication will be found useful by the international community of scholars and policymakers closely working on the agenda of BAPA+40 and on various dimensions of South-South cooperation.



Professor Sachin Chaturvedi
Director General
Research and Information System for Developing Countries (RIS)

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