Agenda

- Overview of global value chains
- Criteria for identifying economic activity
- Types of global production arrangements
- Potential issues
- Work plan
Global Production Arrangements

- Global value chains
  - Fragmentation of production across borders
  - Initiated by lead entity, the principal
  - Principal exerts a certain amount of control over the process
  - Tasks may be performed by an enterprise’s own affiliates or through independent contractors
FIGURE 1 Illustration of a simple supply chain

Source: U.S. International Trade Commission compilation
Economic ownership at each stage of production process important

- Material inputs
- Outputs
- Intellectual property
Economic ownership of material inputs is decisive

- If principal owns material inputs then principal is classified as a manufacturer
- If principal does not own material inputs then is classified as a merchant (trader)
Outsourcing Parts of Production Abroad

Manufacturing services on physical inputs owned by others

Principal (Domestic Economy) -> Supplier (Processor Abroad)

Material inputs

Processing fee

Material outputs

= Products

= Money

Sales (turnover)
Merchanting

Principal (Domestic Economy) Country A

Purchase

Supplier (Manufacturer) Country B

Purchase

Customer Country C

Sale (turnover)

= Products

= Money

Material inputs

Material outputs
Factoryless manufacturing

- Principal (Domestic Economy) Country A
- Supplier Country B

- Sale (turnover)
- Production cost (intangible inputs)
- Intellectual property
- Material outputs
- Material inputs

- Output puts = Money
- Sale (turnover) = Products
- Production cost (tangible inputs) = Information
Ownership of inputs?
Economic activity?

Principal
(Domestic Economy)
Country A

Supplier
Country B

Purchase or processing fee?

Intellectual property

Sale (turnover)

Material output

Production cost (intangible inputs)

Production cost (tangible inputs)

Material inputs

= Information

= Products

= Money
Potential Issues

- May be difficult to determine economic ownership of material inputs, outputs, and intellectual property

- Strategic alliances and tight mutual relationships especially in the case of multinational enterprises
Developing Typology

Three dimensions to global value chain arrangements (Gereffi, Humphrey, Sturgeon)

- Complexity of information and knowledge required (product and process specifications)
- Degree to which complexity can be mitigated through codification
- Extent to which suppliers have capabilities to meet buyers’ requirements
Governance Types

- Range from market oriented arrangements (principal exerts little control) to hierarchal (principal exerts full control)
- May be helpful in determining how much explicit coordination
- Indication of how much control the principal exerts and associated risk
- Expand focus from global manufacturing to global production
- Create typology of global production arrangements
- Develop specific case studies of the various global production arrangements
Factoryless manufacturers undertake the entrepreneurial steps of the global supply chain but do not transform any of the material inputs.

Is it appropriate to classify these units as traders if they do not own the material inputs but own the intellectual property?