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Change in Functional Specialisation Patterns: Key to Escaping the Semi-Periphery Trap

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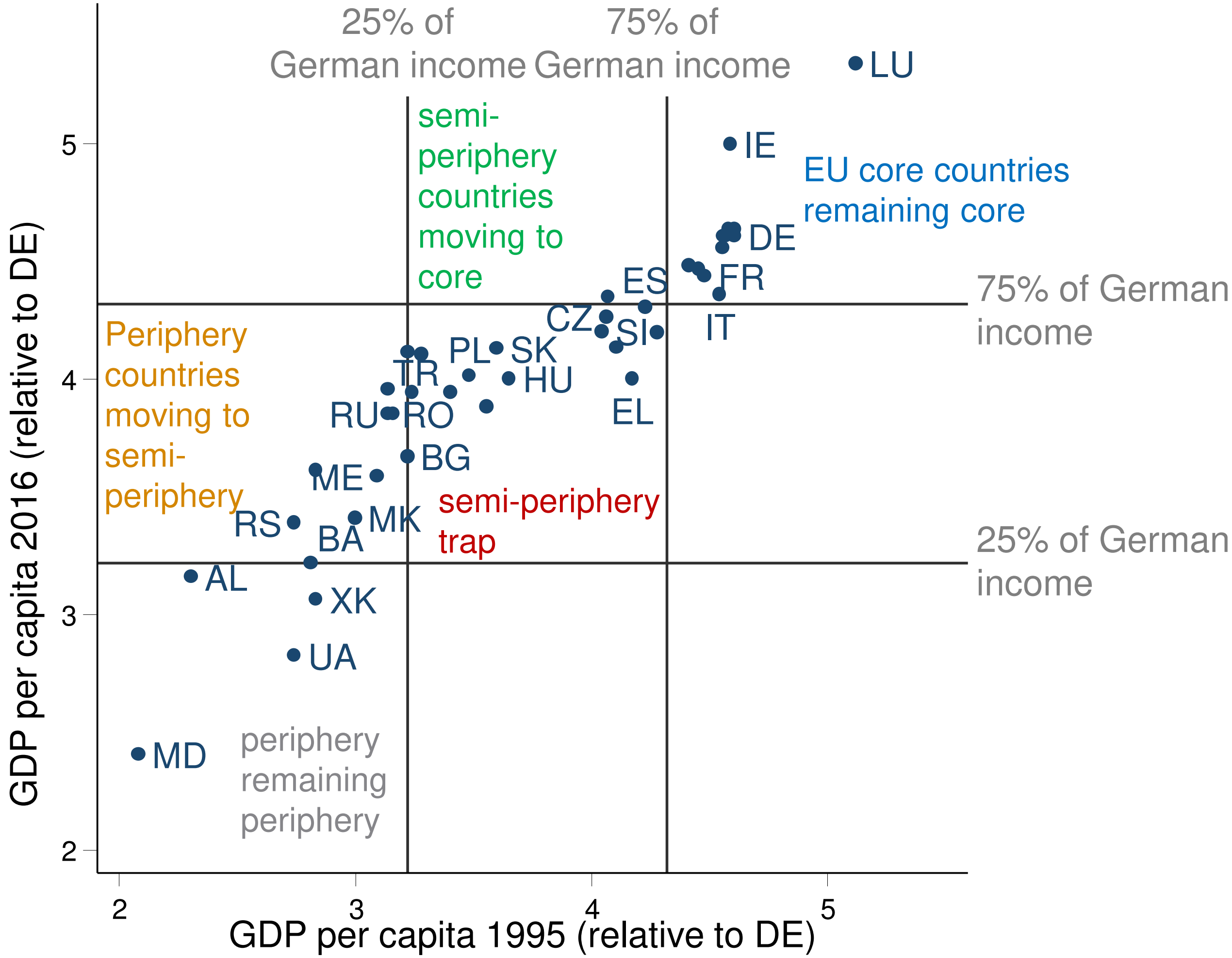
Why look at specialisations along the value chain?

- Global value chains (GVCs) add a new dimension to specialisation
- Varying potential for value creation across value chains (‘smile curve economics’)
- Functional specialisation linked to growth performance
- CESEE with unfavourable functional specialisation
- Risk of getting caught in a ‘semi-periphery trap’

CESEE countries face a semi-periphery trap



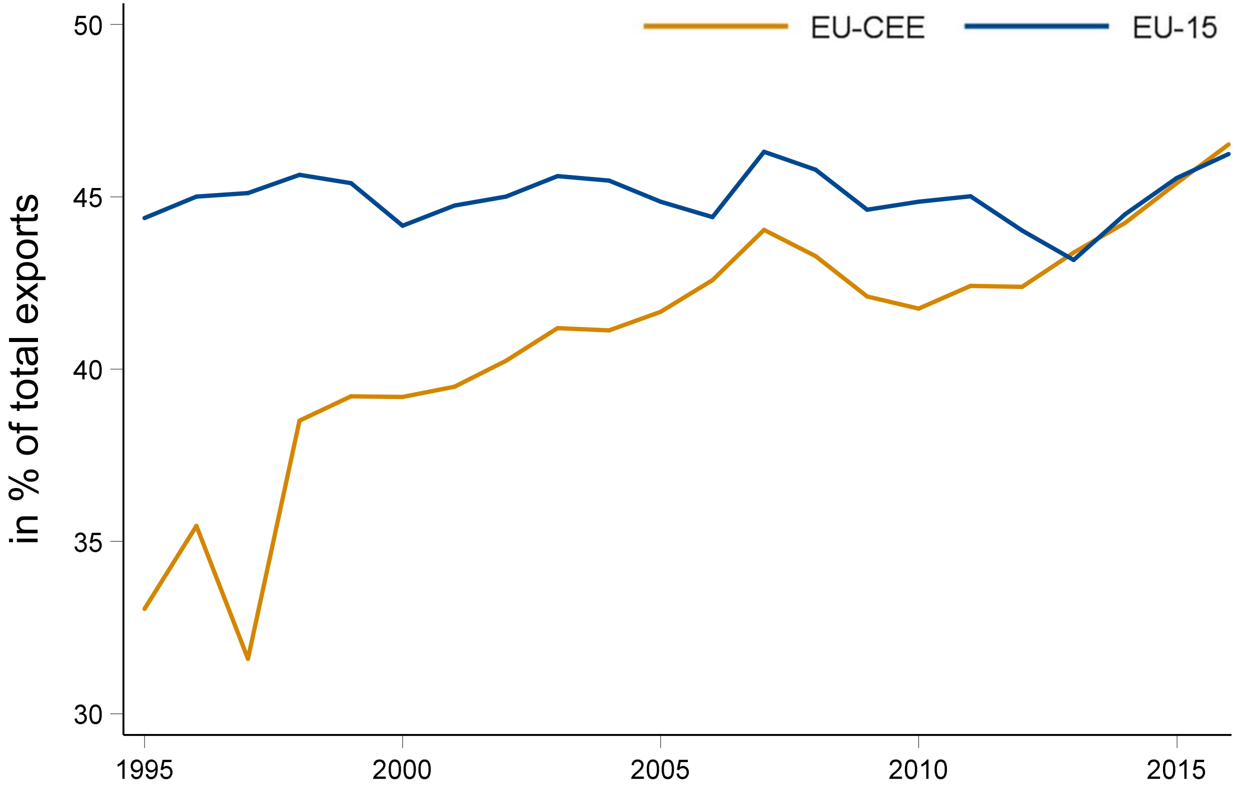
Note: Logarithmic scales. Initial GDP per capita is 2000 for BA, XK, ME; 1998 for Ireland.
Source: wiiw Database, wiiw calculations.

Defining the European semi-periphery

1. Well integrated in European production networks

Cross-border production fosters structural convergence

Medium-high-tech exports



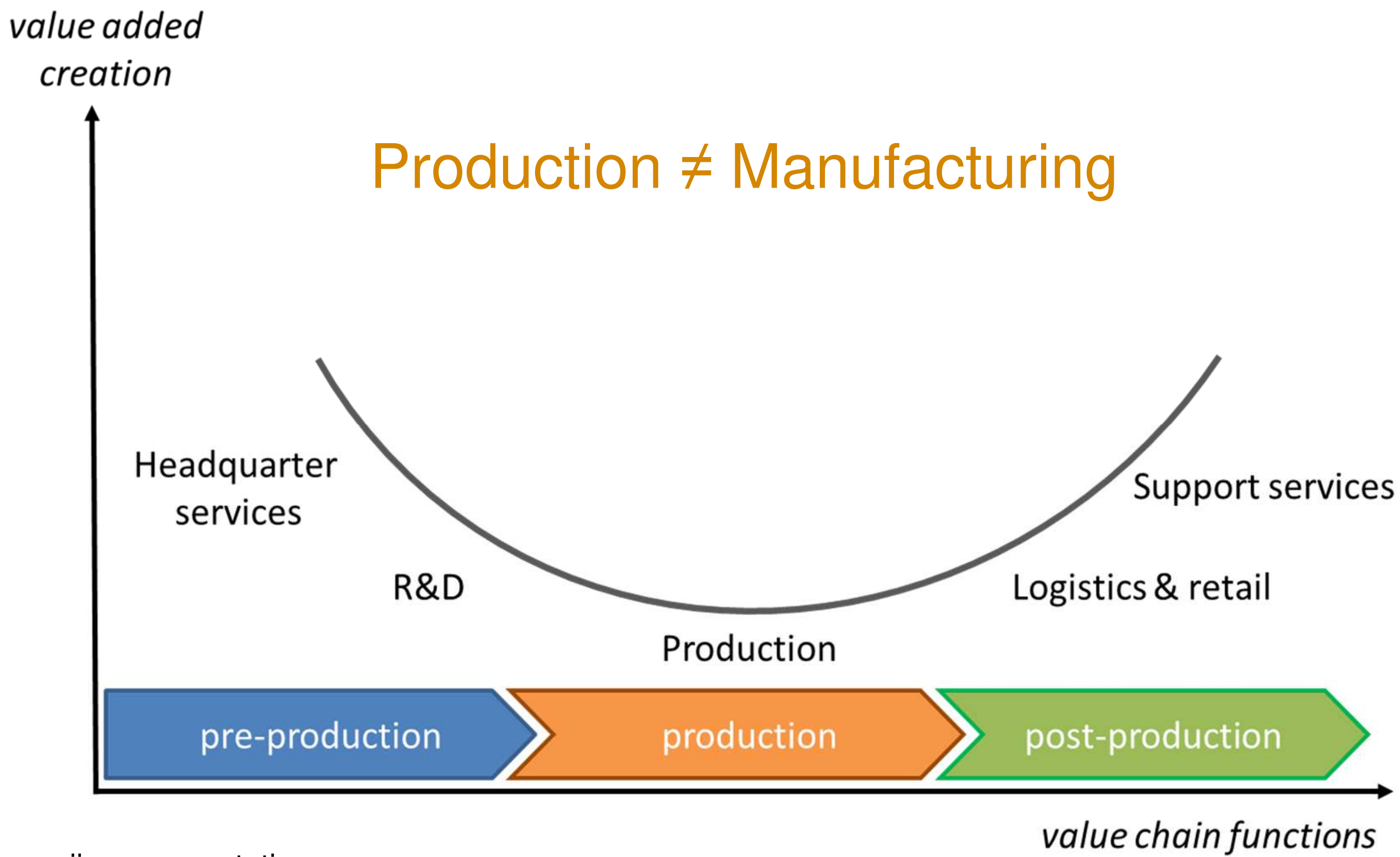
Note: Total exports means all manufacturing exports.
Source: UN Comtrade, wiiw calculations.

Defining the European semi-periphery

1. Well integrated in European production networks
2. Functional specialisation as ‘factory economies’

Enter ‘smile curve economics’:

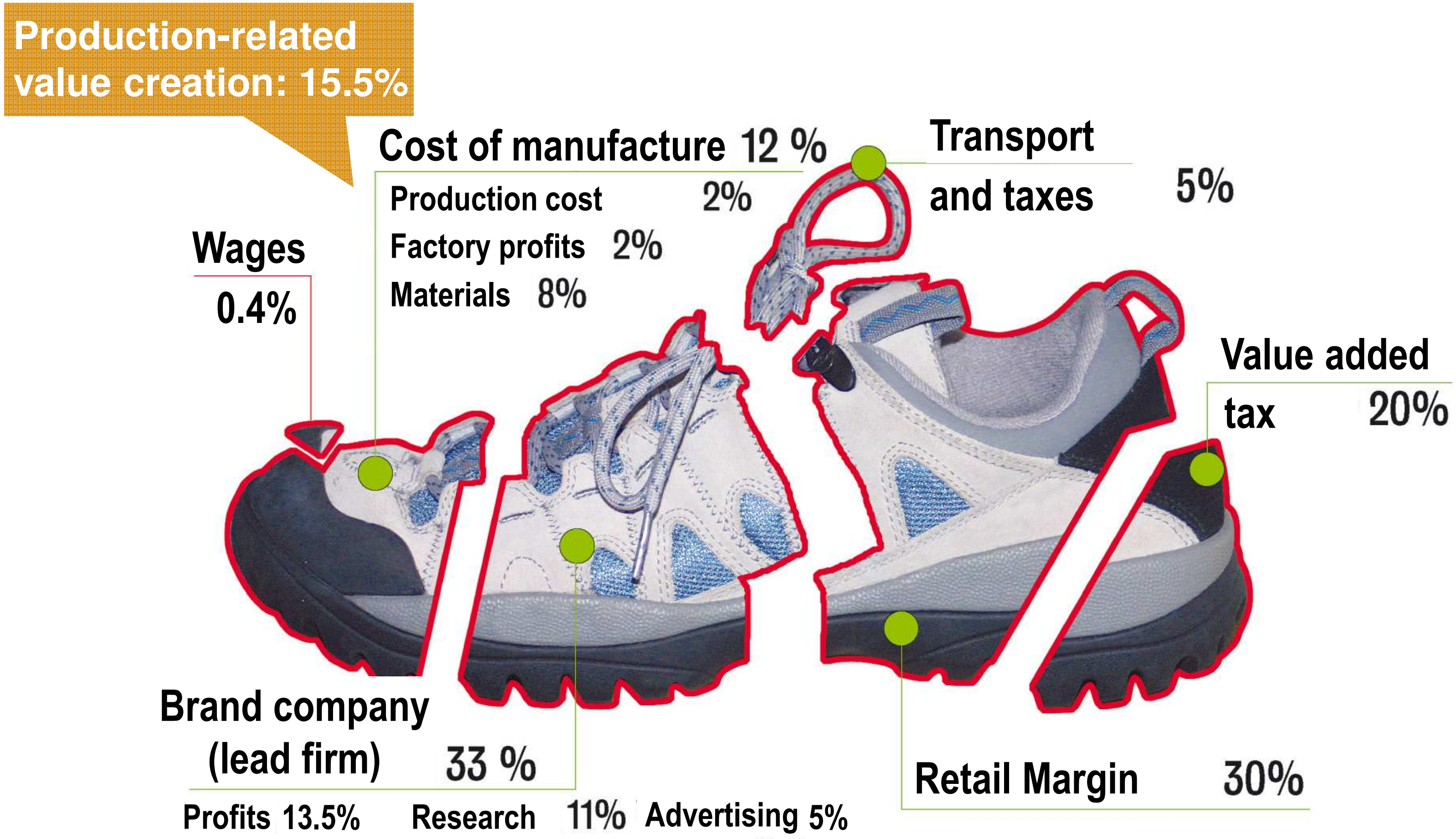
Production activities have lower potential for value creation



Source: wiiw representation.

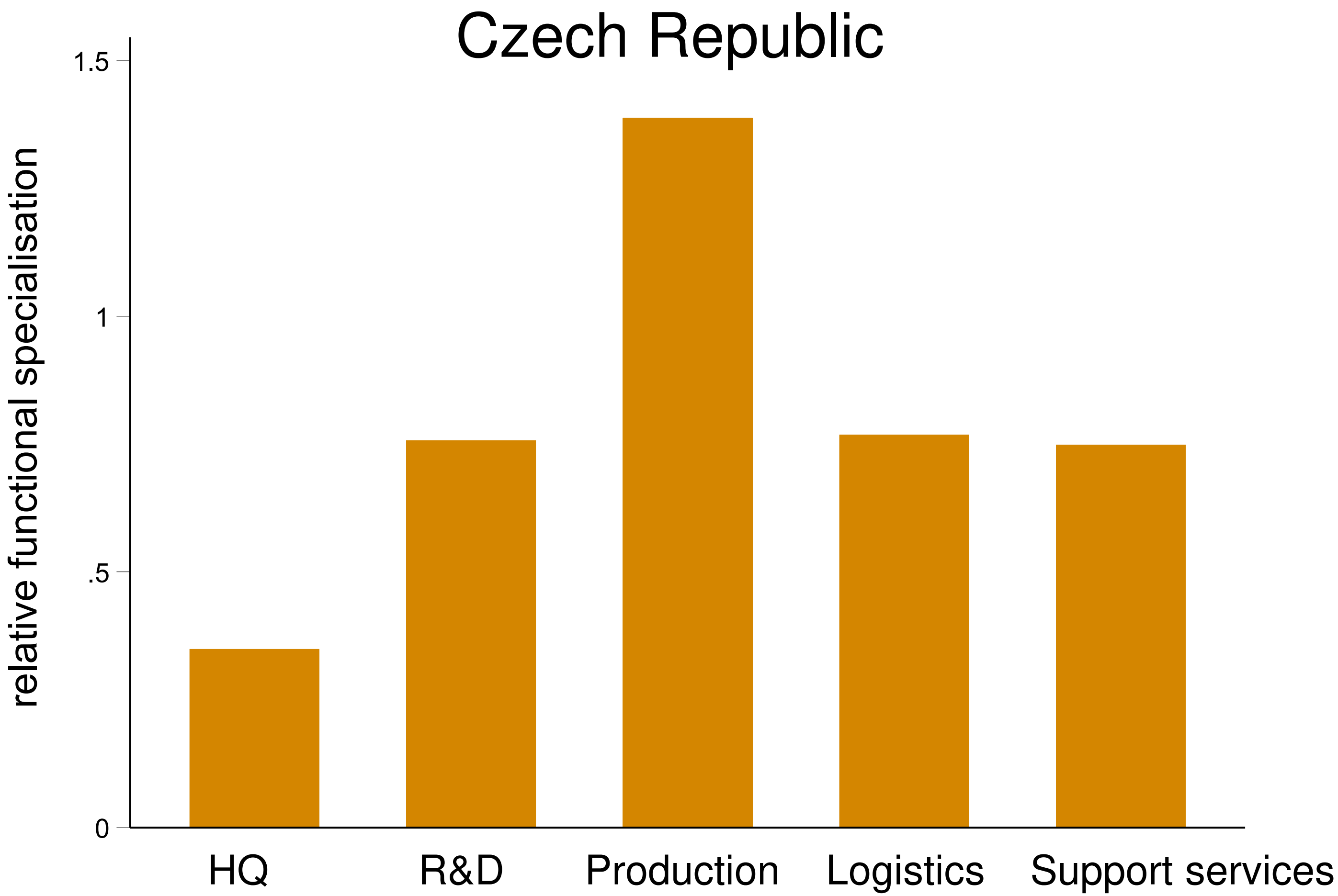
Example: Costs of sports shoes

Production-related value creation dwarfed by HQ functions and retail



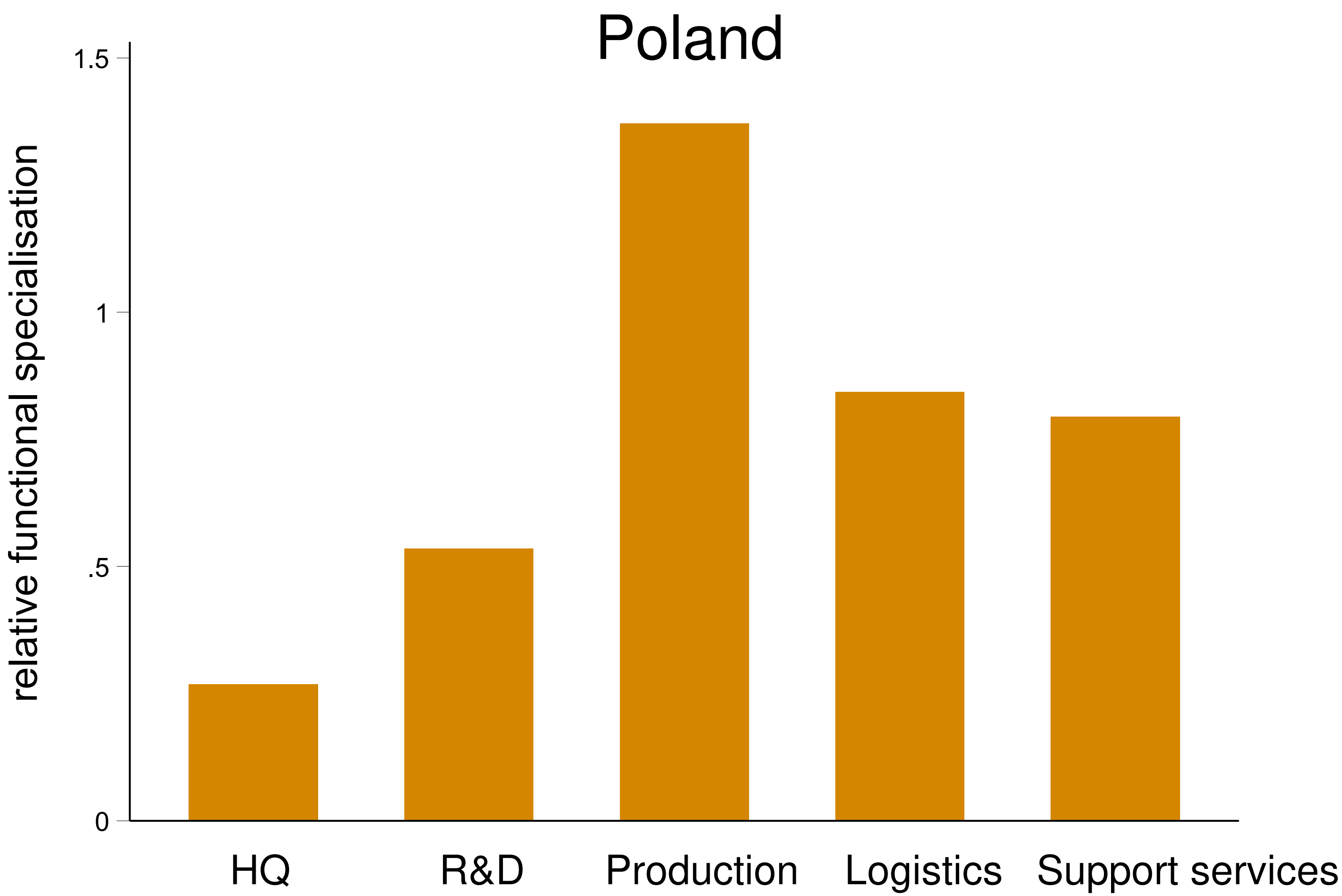
Source: Clean Clothes.

New evidence on specialisation along the value chain…



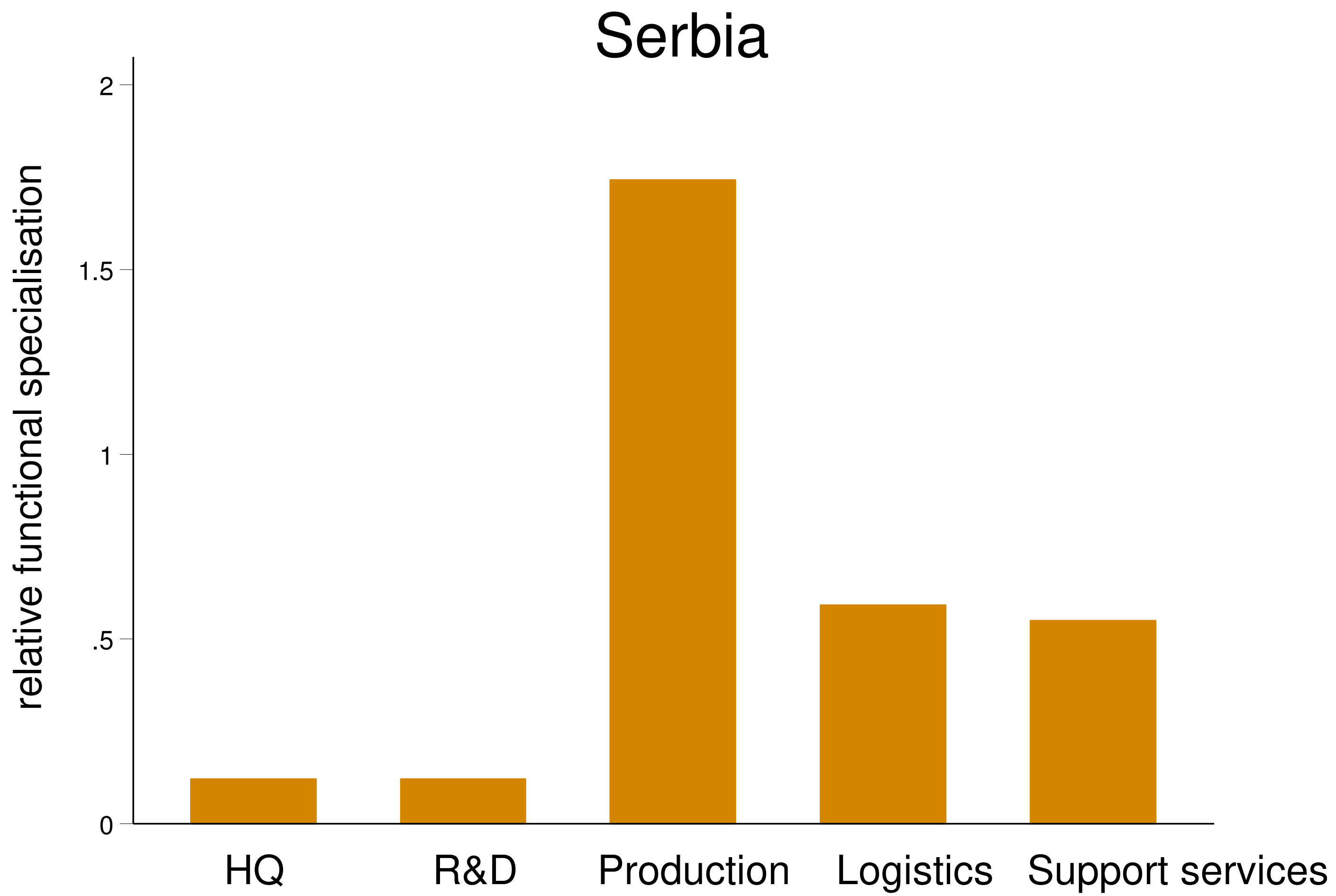
Source: fDi markets database, wiiw calculations.

… reveals: CESEE serves as factory economy



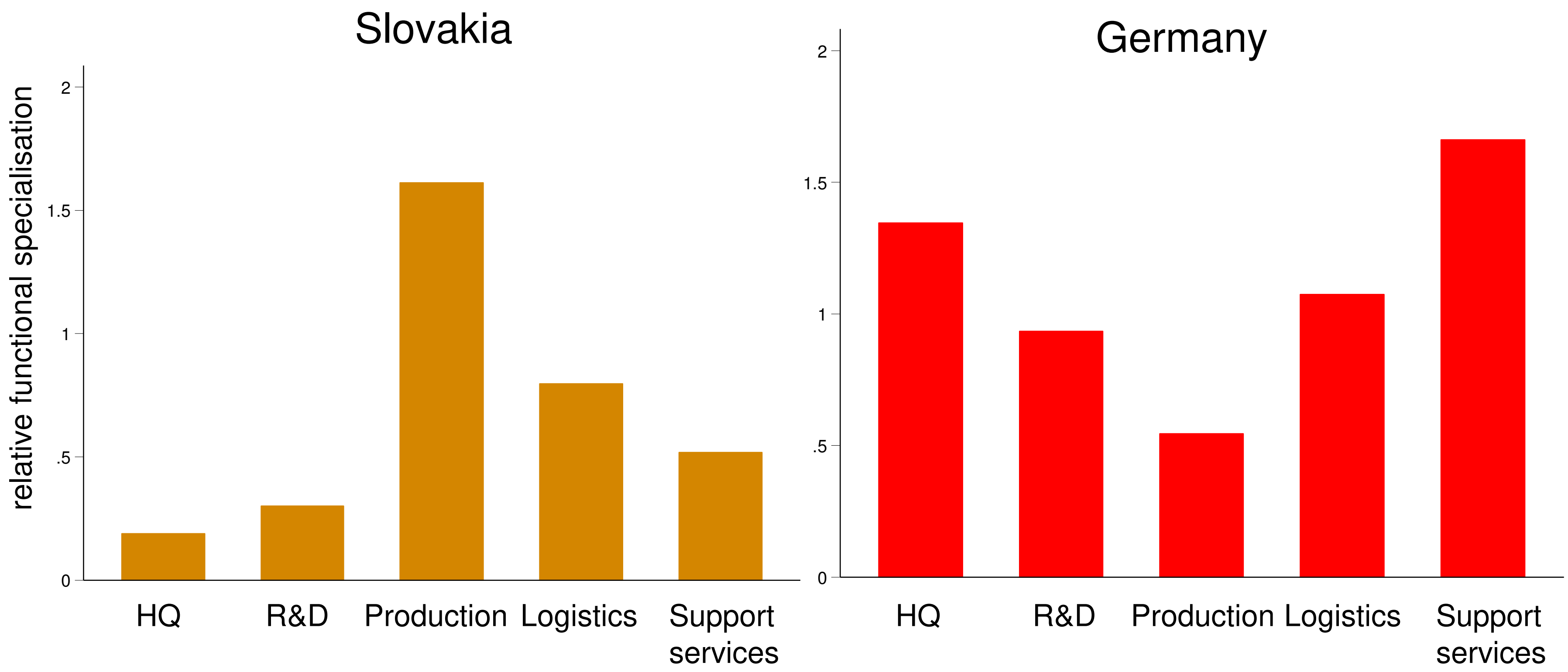
Source: fDi markets database, wiiw calculations.

CESEE serves as factory economy in global value chains



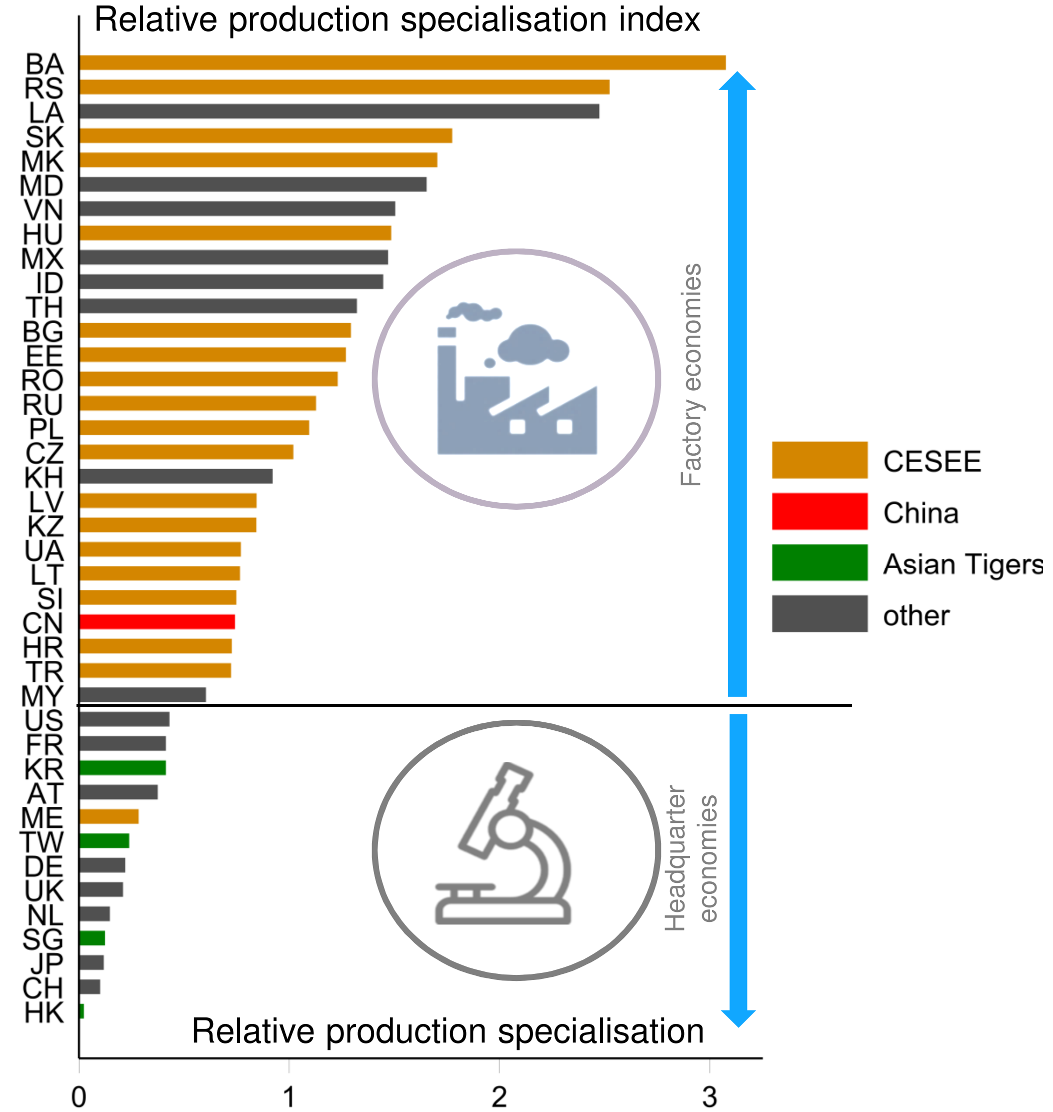
Source: fDi markets database, wiiw calculations.

Complementarities in functional specialisation within the Central European Manufacturing Core



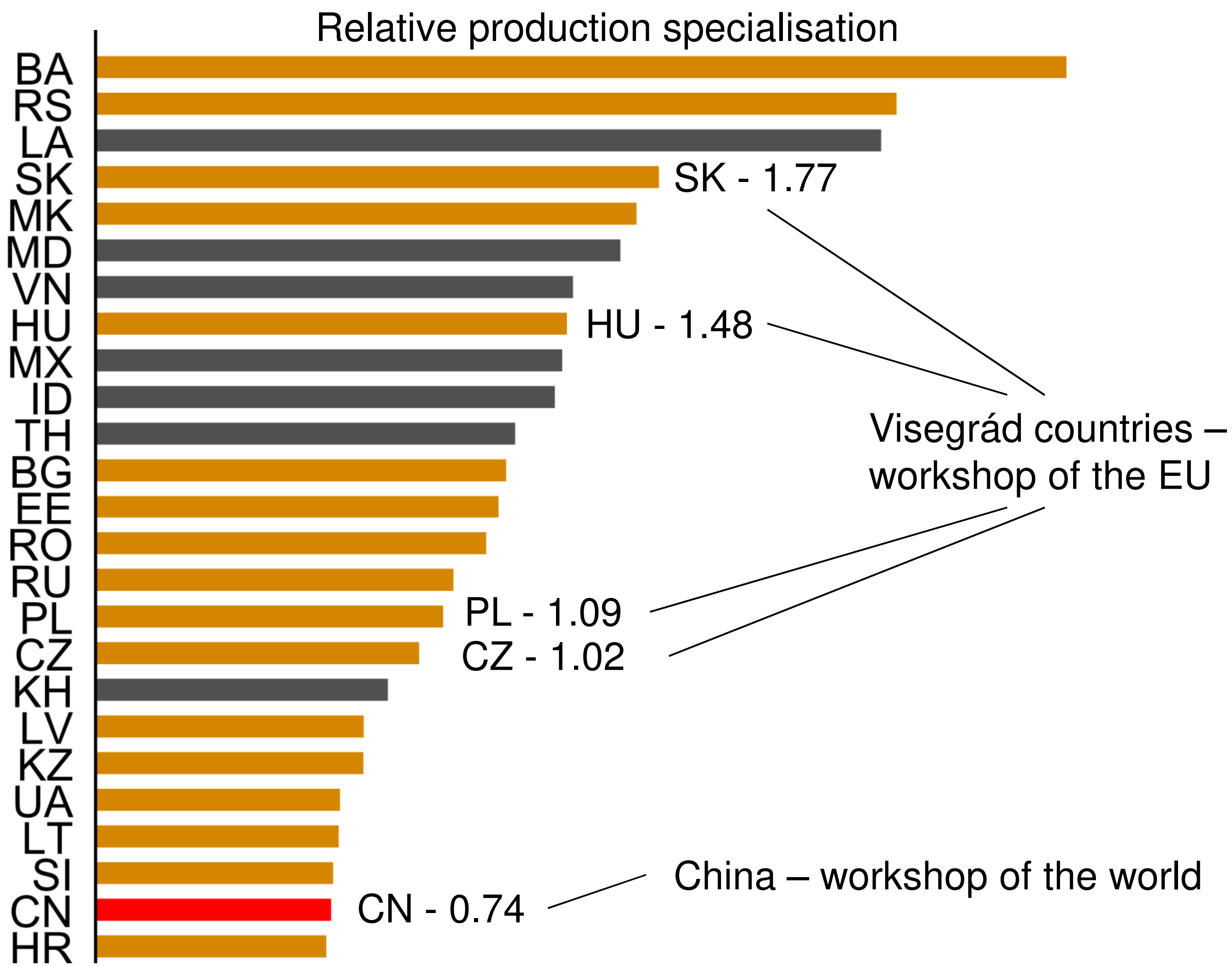
Source: fDi markets database, wiiw calculations.

A world of ‘factory’ & ‘headquarter’ economies



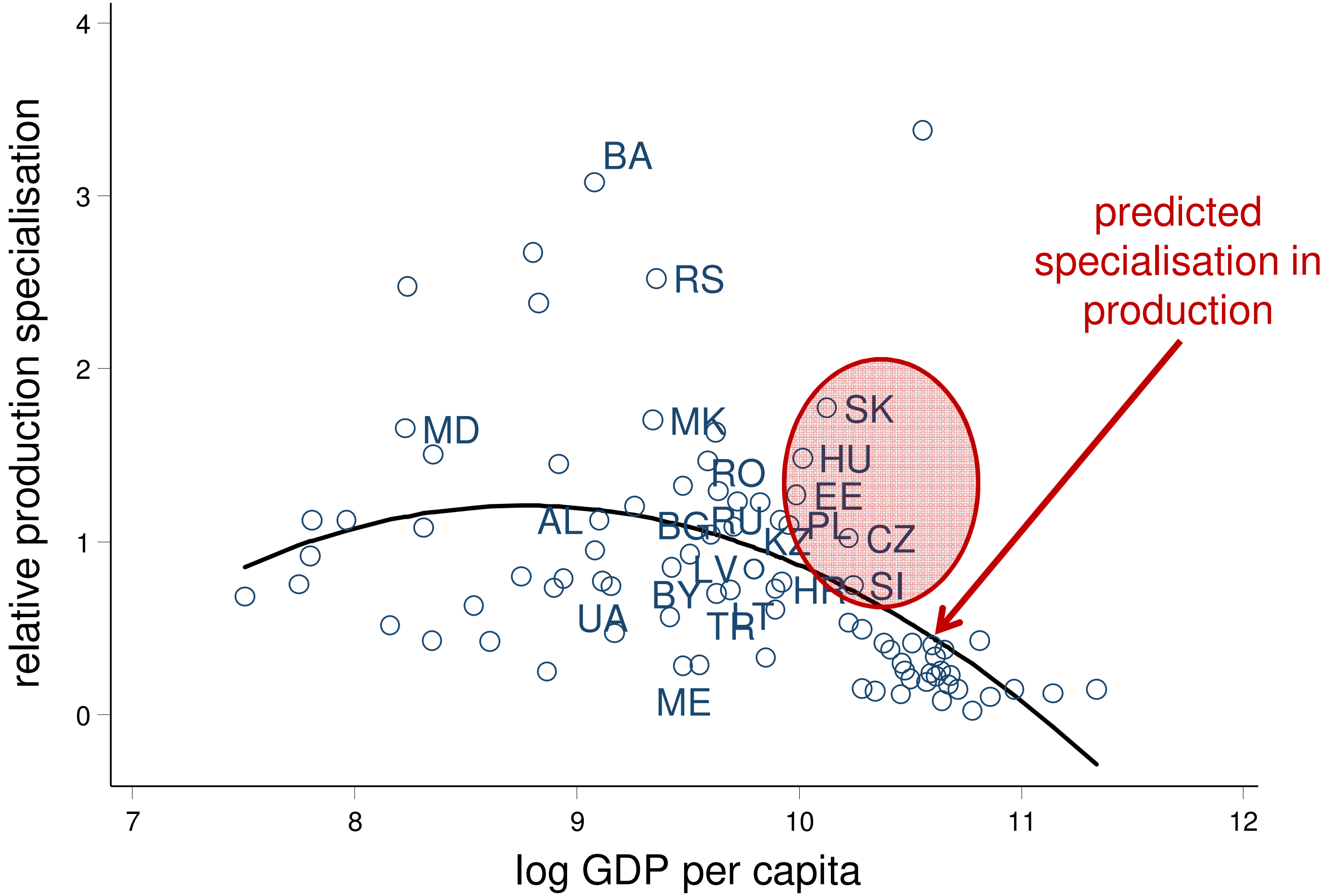
Source: fDi markets database, wiiw calculations.

The workshop of the EU



Source: fDi markets database, wiiw calculations.

High time for EU-CEE to adjust the functional specialisation

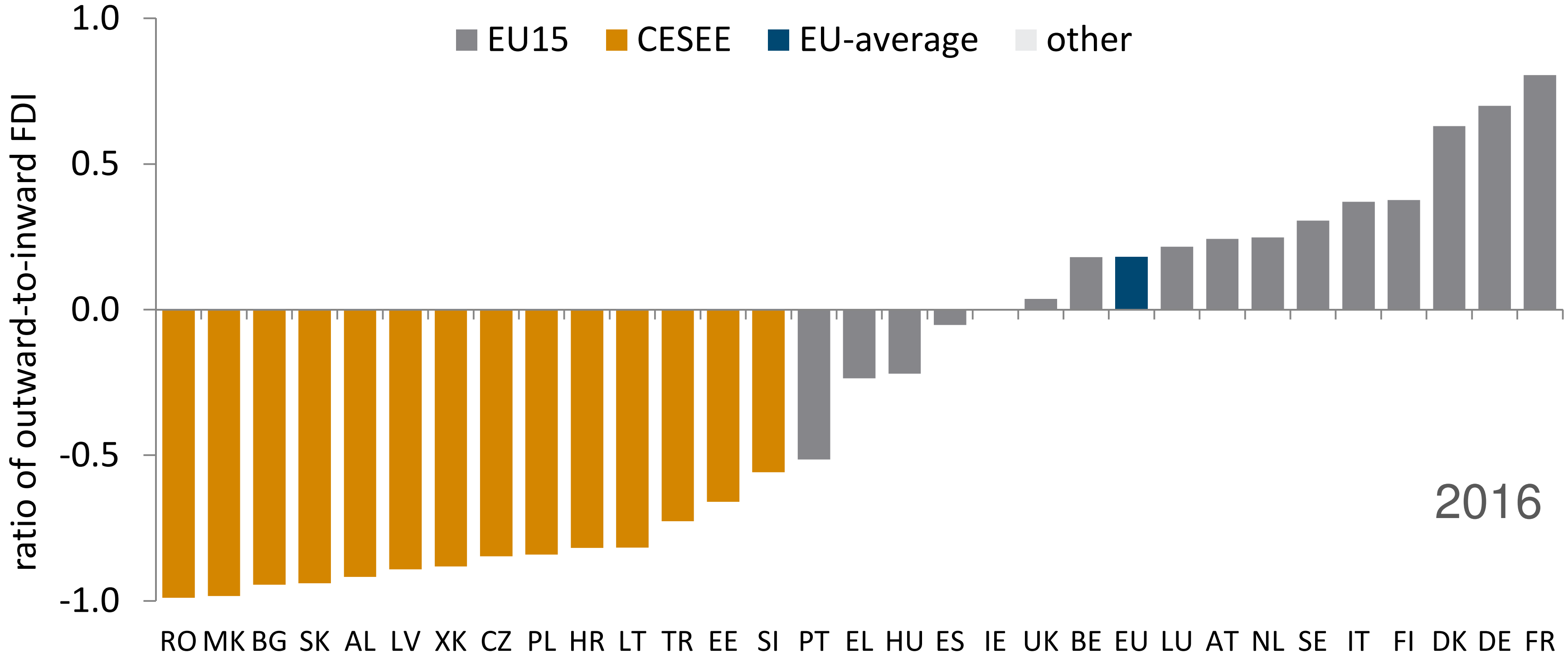


Note: GDP per capita in PPP as of 2010; calculations.
Source: PWT version 8.0, fDi markets database, wiiw.

Defining the European semi-periphery

1. Well integrated in European production networks
2. Functional specialisation as ‘factory economies’
3. High dependence on foreign firms
4. Home to no (or very few) ‘global players’

Wanted: Global players with outward FDI activities



Note: Year refers to 2016. The ratio is based on outward and inward FDI stocks. Zero indicates that inward and outward FDI stocks are equal.

Source: Eurostat, wiiw calculations.

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The story in short

- Most of CESEE integrated in European value chains
- Inadequate functional specialisation (factory economies)
- Low value creation in production keeps CESEE trapped in the semi-periphery
- Premature derailment of catching-up process with core
- Hierarchical relationship between firms and countries of core and semi-periphery persists

The way ahead

- Market forces will not alter functional specialisation
- ‘Rebalancing’ of domestic and foreign agents
- Overcoming the semi-periphery trap needs strong national innovation systems (NIS)
- States to act as ‘entrepreneurs’; take pivotal role in NIS
- Focus on young industries with better chances to develop ‘superstar firms’
- Investment promotion agencies to go *beyond* ‘quality FDI’

Thank you for your attention!

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