



Asia-Pacific  
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# The FDI Network, Global Value Chain Participation and Economic Upgrading

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Advancing Free Trade  
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# GVC Participation

**Backward GVC Participation:** the share of intermediate imports in an economy's final export products.

- **Simple GVC:** value-added in intermediate goods exports directly
- **Complex GVC:** activities involving at least two border crossings.

	Textiles		Electronics		Automobiles	
Total GVC participation (%)	2000	2019	2000	2019	2000	2019
China	15.0	7.9	26.7	19.7	16.8	12.8
Indonesia	28.0	49.7	28.2	34.8	29.3	16.1
Viet Nam	22.6	48.7	37.3	60.2	45.0	60.3
Complex GVC participation (%)	2000	2019	2000	2019	2000	2019
China	9.8	5.2	18.1	15.0	5.8	4.6
Indonesia	21.8	25.1	23.2	19.0	7.5	6.7
Viet Nam	19.1	48.4	18.9	60.1	17.5	32.1

Source: UIBE GVC indicator database.



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# GVC positioning index

## **GVC Upgrading**

- GVC positioning index: measures relative ‘upstreamness’ accounting for both forward and backward linkage-based production length. Higher value => more upstream
- GVCs tend to add more value upstream, in activities such as product design, R&D and the production of advanced parts and components, as well as downstream, through activities such as marketing and branding

	Textiles		Electronics		Automobiles	
GVC Position	2000	2020	2000	2020	2000	2020
China	0.78	0.70	0.85	0.90	0.95	0.72
Indonesia	0.78	0.86	0.84	0.84	0.90	0.83
Viet Nam	0.81	0.79	1.07	0.86	1.23	0.77

Data from Asian Development Bank Multiregional Input-Output (ADB-MRIO) Tables.

- Economies have great incentives to move up the value chain since upstreamness (for example, by participating in activities such as product design and R&D) is generally associated with capturing a higher share of value-added along a GVC.



# Concluding Thoughts

- Variations in economic size and self-sufficiency levels may have influenced GVC participation in the three economies. The nature of their participation and position in GVCs has an influence on the trajectory of their development. For example, moving downstream, (rather than moving upstream) could be a more practical way for developing economies to develop industrial production and capacity.
- Economies that hold a central position in the FDI network tend to also be hubs in the global trade network. GVC participation seems to attract investment in many emerging economies, but the relationship is by no means clear-cut since investment is highly dependent on broader regulatory and institutional frameworks.
- FDI-oriented firms perform better in sales and productivity. Export-oriented firms have significantly higher employment growth compared to non-exporter and domestic firms.
- FDI involvement in the domestic production of the host economy creates the basis of global production networks: local firms act as suppliers and at times build strategic alliances with multinational enterprises. Increased interactions with multinational enterprises may also increase the likelihood of domestic firms becoming direct exporters.
- The role of FDI in the growth of GVCs highlight the importance of FDI to developing economies as they pursue export-oriented development strategies.



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