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**Repositioning Local Firms in Global Value Chains:
Perspectives from East Asia and Africa**

Edited by

Momoko Kawakami

March 2008

Institute of Developing Economies, JETRO

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Preface

This collection of papers is the interim report of the research project “Climbing up the Global Value Chains: Possibilities and Limitations for East Asian Manufacturers,” organized by the Institute of Developing Economies. The project started in April 2007 and will end in March 2009.

Since the declaration of its start by an inter-disciplinary group of scholars in the early 2000s, the global value chain perspective (hereinafter, GVC perspective) has attracted serious attention from students of globalization. By taking over the theoretical and empirical achievements of the global commodity chain framework, the GVC perspective primarily explores the organizational configuration of the international division of labor, in which a sequence of value-adding activities is organized and controlled by a powerful lead firm and carried out across borders involving suppliers from developing economies. As a tool to understand the firm-level dynamism of global economic integration, value chain analysis’s utility is indisputable. The main topics of the recent GVC arguments include GVC typology, upgrading patterns within GVCs and factors behind the shifting GVC governance; all of which are central issues for understanding the growth possibilities and limitations of late-comer firms amid globalization.

As fieldworkers of industrial development in Asian and African countries, however, we find a number of missing links and understated issues in the current GVC arguments. Among a number of future research topics, the authors of this report recognize the urgent need to vigorously explore the strategies and efforts of local manufacturers to exploit the opportunities embedded in the global value chains. Also, more attention should be directed towards the complex interactions among various types of firms, and to the factors that hinder the formation of linkages between the actors operating in chains.

In this mid-term report, we examine the inter-firm dynamics within GVCs, with a special focus on local suppliers, and thus we attempt to reposition local firms properly in the chains. More specifically, we explore the

factors underlying the growth or stagnation of local firms that are integrated functionally into the cross-border value chains. The chapters' main focuses include the critical importance of the roles of entrepreneurs, the evolutionary process of GVCs, the capabilities on the part of local manufacturers, the learning incentives and learning strategies of local manufacturers, factors that hinder linkage formation, and technology spillover in late-industrializing economies. Our case studies cover China, Taiwan, Vietnam, the Philippines, Malaysia and Kenya. The report contains the following six chapters.

Imai (Chapter1) attempts to integrate the phenomenal rise of China to a large industrial power into the GVC framework. By exploring the case of mobile phone handset industry, the chapter illustrates the industry's dynamic evolution in which a series of backward-linkages have brought about the emergence of such new agents of industrialization as independent design houses and IC fables venture companies. The paper also explores the critical role of "turn-key" technological platforms provided by IC fables ventures who possess strong capabilities to assimilate existing technologies and the flexibility to adapt to the market environment in China. The unique depth and diversity of domestic market in China have shaped the industry's indigenous industrial upgrading.

Based on the case study of the Taiwanese notebook PC industry, Kawakami (Chapter 2) attempts to present a framework that explains the rise in suppliers' capabilities by the interactions among firms operating in the chains. Focusing on the interactions among the product strategy of powerful component vendors, outsourcing strategies of lead firms and the learning strategies of Taiwanese suppliers, the chapter attempts to elucidate the driving force behind the phenomenal rise of Taiwanese ODM firms as the world's dominant producers of notebook PCs. By so doing, it highlights the evolutionary process of the emergence of GVCs and the critical roles firms play in this process.

Fujita (Chapter 3) explores the growth of local firms in the Vietnamese motorcycle industry, where the coexistence of two types of value chains, i.e. those governed by the dominant manufacturers from Japan and those controlled by Vietnamese firms that cooperate with Chinese firms, has driven the industry's phenomenal growth. Based on the case study of six suppliers, the chapter argues that the difference in the patterns of growth of local parts suppliers is primarily attributable to the types of customers' strategies and suppliers' strategies.

Oikawa (Chapter 4) explores the determinants of the formation of linkages between transnational corporations and local firms in the Philippines by conducting a survey of procurement activities of a Japanese electronics manufacturer. The paper identifies three factors, i.e. outsourcing strategies of local affiliates of transnational corporations, local entrepreneurial response and government policy of hosting countries as determinants of the linkage formation between local suppliers and transnational corporations. The study suggests that extremely weak entrepreneurship of local manufacturers in the Philippines accounts for the stagnation of spillover effects in the country.

Fukunishi (Chapter 5) examines the process of technology spillover and learning activities by local firms in Kenya's garment industry. The chapter explores the underlying factors that have resulted in inactive responses of local entrepreneurs to the emerging opportunities in the export market. Different from the conventional explanations that emphasize the poor learning capacity of local firms, the study found that high factor prices and the resulting high cost of learning have hindered the active entry of Kenya's local manufacturers in the export market.

Sato (Chapter 6) explores to build a conceptual framework that captures a wide variety of the value chains observed in developing economies, and locates six types of value chains, i.e. three different types of chains organized by foreign firms and another three types of local chains connected with local customers, as a spectrum. The chapter argues that the capabilities of local suppliers nurtured by trading with lead firms differ by the governance type of value chains. The paper also explores the possibilities of suppliers' capability development by shifting to different chains.

Our research project is ongoing, and the main purpose of compiling this interim report is to invite comments and suggestions from those interested in the development of local firms amid globalization and the applicability of GVC studies.

We wish to express our special thanks for the warm support we have received from many friends and colleagues. We are very delighted that we could invite Dr. Timothy Sturgeon (Industrial Performance Center, MIT) to Tokyo during his busy trip to Japan in September 2007. The intensive dialogue we had with Dr. Sturgeon sparked our enthusiasm further in this line of research.

We would like to thank Dr. Yumiko Nakahara (Kyushu Sangyo University), Professor Tomoo Marukawa (University of Tokyo), and Professor Masanori Yasumoto (Yokohama National University) for sharing their insights and observations with us as guest speakers. We are grateful to Professor Yoichi Koike (Ritsumeikan University), Mr. Makoto Abe, Mr. Ding Ke, Mr. Koichiro Kimura, Mr. Koichi Kitano and Mr. Yukihiro Sato (Institute of Developing Economies) for their participation in our research project as observers.

The late Dr. Seishi Kimura was the co-organizer of this research project and provided us with the core ideas to explore. The authors of this report all owe it to Seishi to fulfill the initial goal of this research project.

Momoko Kawakami
March 2008

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