Economic growth and its “hidden drivers”
What is a global value chain?

On Thursday the 5th Marcell Timmer, from Gronigen University in Netherlands, gave a lecture to explain us how much the global value chain affects the world economic engine and the economic growth of single countries.

It is known that at the moment the production process of a good is fragmented; but the fragmentation of the production is a pretty recent issue.

When we say that a commodity is made in the World, we mean that the sources of each single necessary “ingredient” belong to different countries and the whole mix of components are then assembled in order to build up the final product.

Why is fragmentation dynamics so recent?

The continuous improvement technology and communication skills of the last decades certainly plays an important role. Richard Baldwin talked about two unbundling phases: the first one dates back to the middle ages, when was impossible to transport goods in different locations, until the steam revolution, when production and consumption started to be separated; the second one starts with the ICT revolution, whereby distant activities begin to be coordinated thanks also to the new technology and communication.

These two features allow the fragmented production of the commodity: production and consumption are not strictly bound anymore, so they do not necessary have to take place in the same stead.

Thus thanks to technology and international trade the global value chain has a meaning.

Considering the global value chain, in order to understand how it is worth we have to trace every single component of the product and figure out how much they cost. This process is called screwdriver economics.

To put into practice this system he gave the example of Apple i-Pod, which is usually assembled in China but actually it is an American product.

A screwdriver can open it up and take information about its components looking in which countries they have origins. Once the Chinese company gets all the components and assembles it, the i-Pod is imported in the U.S and sold by Apple and by retail. From the price of sale a very little percentage goes to the Chinese company that assembled the product; this is because the assemblage process does not require skilled-work.

For this reason producers can exploit this mechanism de-locating firms in strategic places where labour cost is much cheaper because of the presence of less-skilled workers.

It’s pretty natural, then, to understand why advanced countries are willing to open free trade to less developed countries where underemployment is wide spread, furthermore people can’t afford to be unemployed so they are willing to work for a very low salary.

The very interesting fact was to see the many different answers given by all the students to Mr. Timmer tricky question, when he gave us the Apple i-Pod example and he asked us how much we taught they gave to Chinese assemblers of the final total price of the product. Many people could not believe in the true and right amount, just because it was not fair.

It was a really useful example in order to think out of “Western box”, where we usually do not really care about many facts, we just care about demand law and competitiveness.

Finally considering all we had a good time discussing about important global economic issues and meeting a very professional and communicative person like Mr. Timmer.

Chiara Cappelli and Luca Mascetti