

Global Value Chain and Economic Development

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September, 2015

Abstract

Recent developments in the measurement of internalization of production via so-called Global Value Chain (GVC) gave rise to an intensive discussion of the causes and effects of GVC. Nation's reliance on the imported intermediate goods, as well as nations' export to international production networks are expected to be strongly related to per capita income. Despite the importance of this topic and readily available data there appears to be a lack of the study that explores a mechanism linking GVC and stages of economic development. In this paper we aim at contributing to this question both theoretically and empirically. In particular, we examine the effect of GVC participation on economic development using panel data of 162 countries for a period of 1990-2011. We confirm that GVC participation may be non-monotonic in per capita income due to the different comparative advantage at a particular stage of growth (*an overspecialization effect*); and due to the *learning-by-doing effect* that is absorbed differently via total factor productivity. In order to increase the credibility of our results we examine several empirical specifications.

JEL Classification Number: F14, F23, F63, L16, L23

Key words: global value chain, economic development, globalization

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