Global Value Chains & the Nordics:
Past Trends, New Realities, Future Expectations

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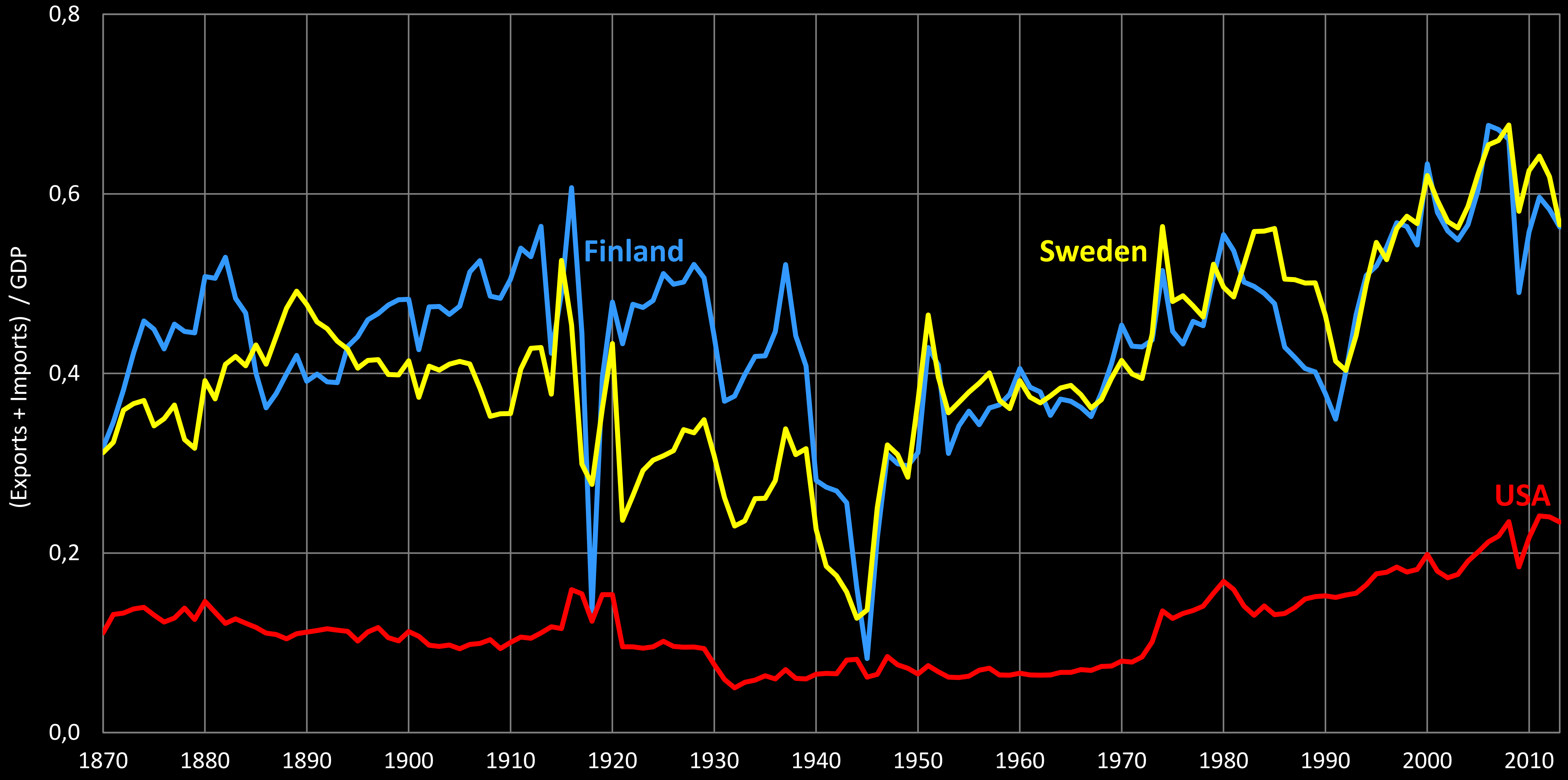
Finland & Sweden Have Been *Open Economies* for Centuries

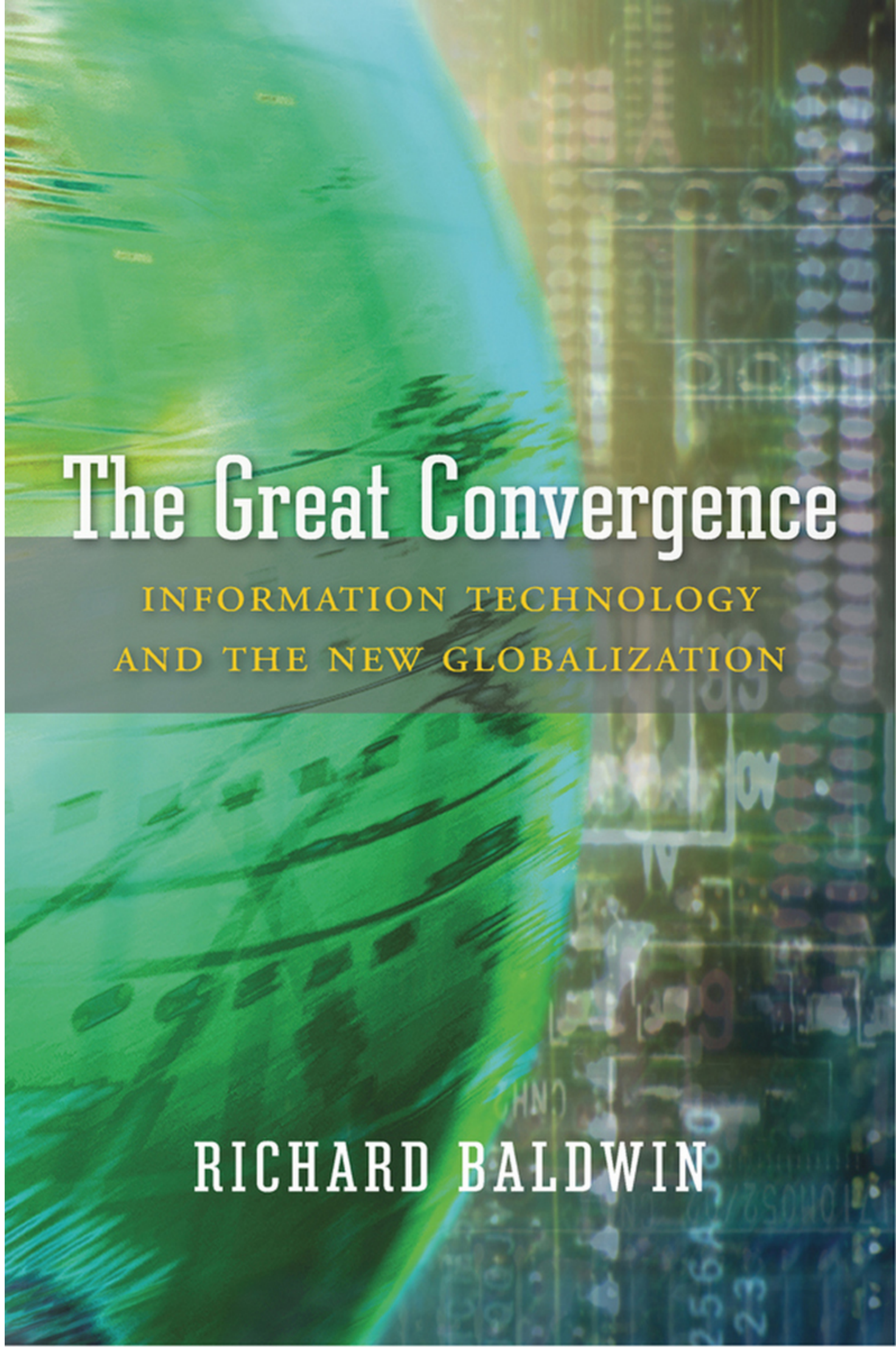


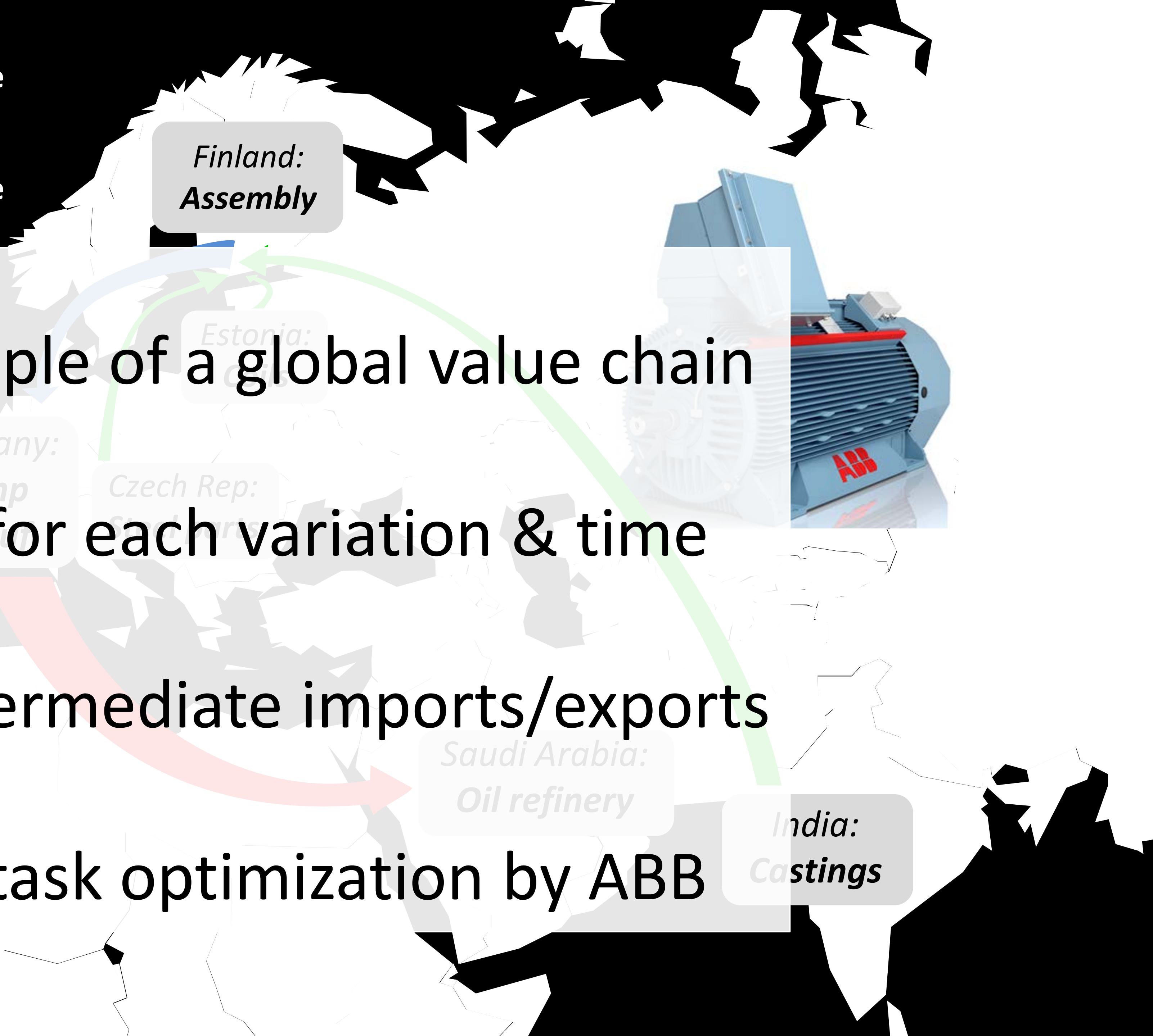
Source: Jorda et al. (2017).

Steam revolution
→ Reduction in **transportation** costs
→ **Old Globalization** (goods imports & exports)

Digital revolution
→ Reduction in **communications** costs
→ **New Globalization** (GVCs & MNEs)

Finland & **Sweden**:
– Leaders/winners of **Old globalization**!
– How does **New Globalization** play out?





Finland's intermediate imports

Finland's intermediate exports

Germany's final exports

One example of a global value chain

Unique for each variation & time

Lots of intermediate imports/exports

Task by task optimization by ABB

1⁄3 of business employment directly serves GVCs

40% of gross exports consist of imports

40% 
50% 
global corporate employment abroad

20% 
30% 
business value-added by foreign-owned units

How to Study GVCs?

- **Micro**: Specific products
  - Enables the analysis of, e.g., transfer pricing
- **Meso**: Surveying multinational enterprises
  - Enables some generalization
- **Macro**: Global input-output data
  - Provides an “on average” aggregate view

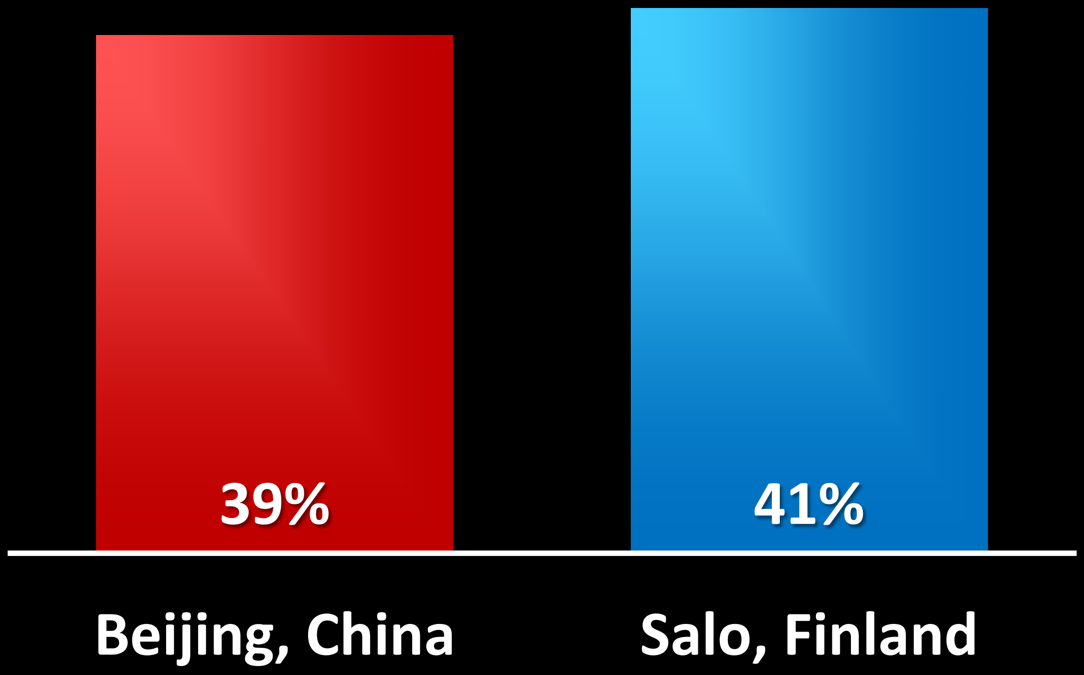
Mapping out the whole global supply chain from raw materials / idea generation to final purchase/use

– All direct & indirect hard & soft inputs

Value added by **actors** (firms/individuals), **functions** (R&D…) & **geographies** (locations/countries)

Nokia N95 smartphone: 600 components, dozens of separate pieces of software, mill. of lines of embedded software

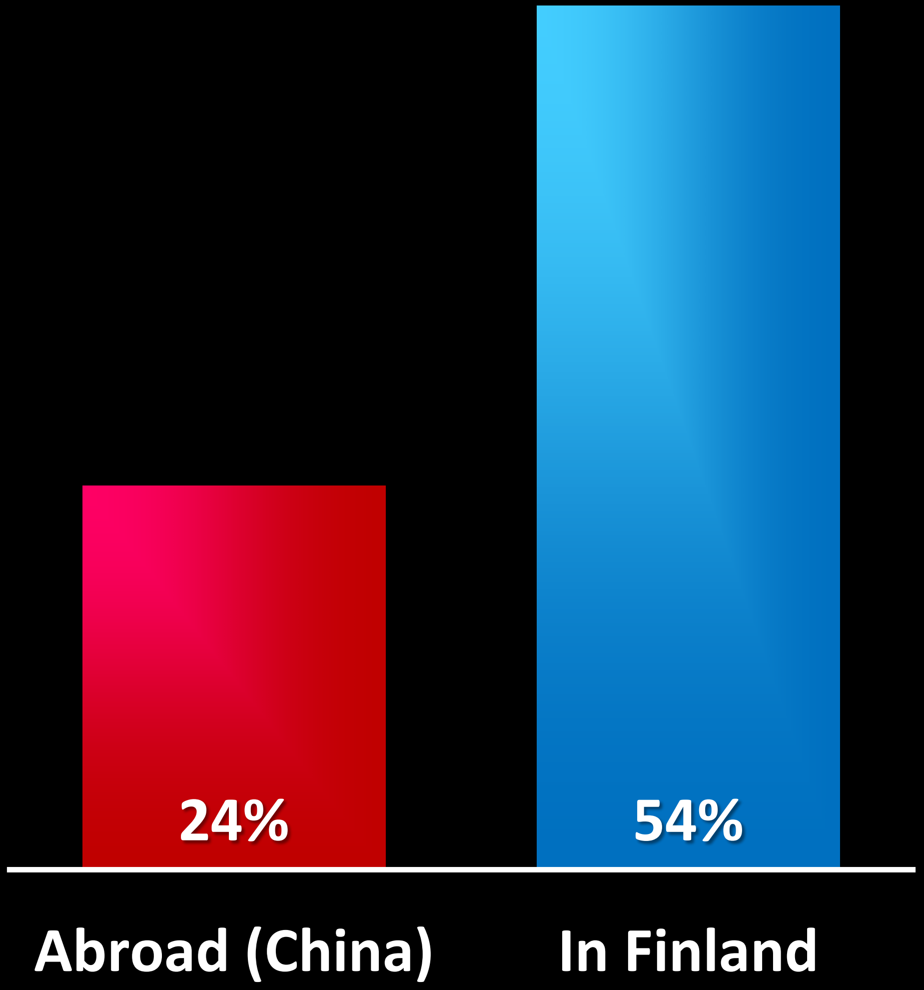
The assembly location – China *versus* Finland – makes little difference for Finnish Value Added !?



Source: Ali-Yrkkö, Rouvinen, Seppälä & Ylä-Anttila 2011 http://v.gd/oLoC2n

Are engineering products, such as **this burner** by Finnish **Oilon**, any different ?

Assembly locations more important in cases of *10 Engineering Products*



Why?

Localization of parts/supplies & supporting services

Role/location of IPRs

Location of the profit center

Transfer pricing practices

Source: Ali-Yrkkö & Rouvinen 2013 http://pub.etla.fi/ETLA-Raportit-Reports-16.pdf Note: Large variation across products.

- **Corporate sweet spots in GVCs**
  - Brand owner, orchestrator
  - Interfacing with customers
  - Gatekeeper in the chain
  - Core tech provider

- **Value capturing jobs**
  - High-level ”supporting” service tasks
  - Creation & management of intangibles

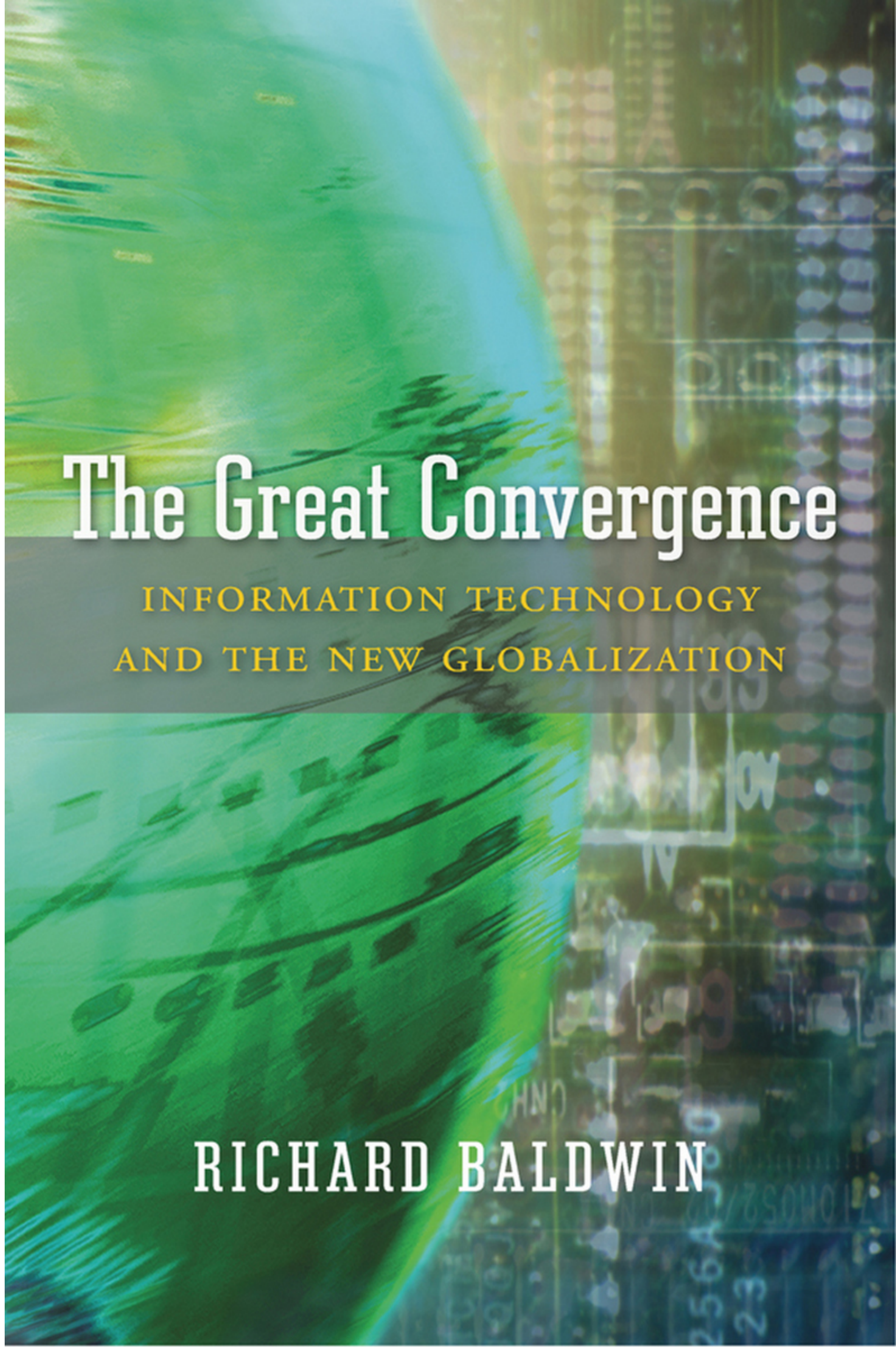
Stylized observations

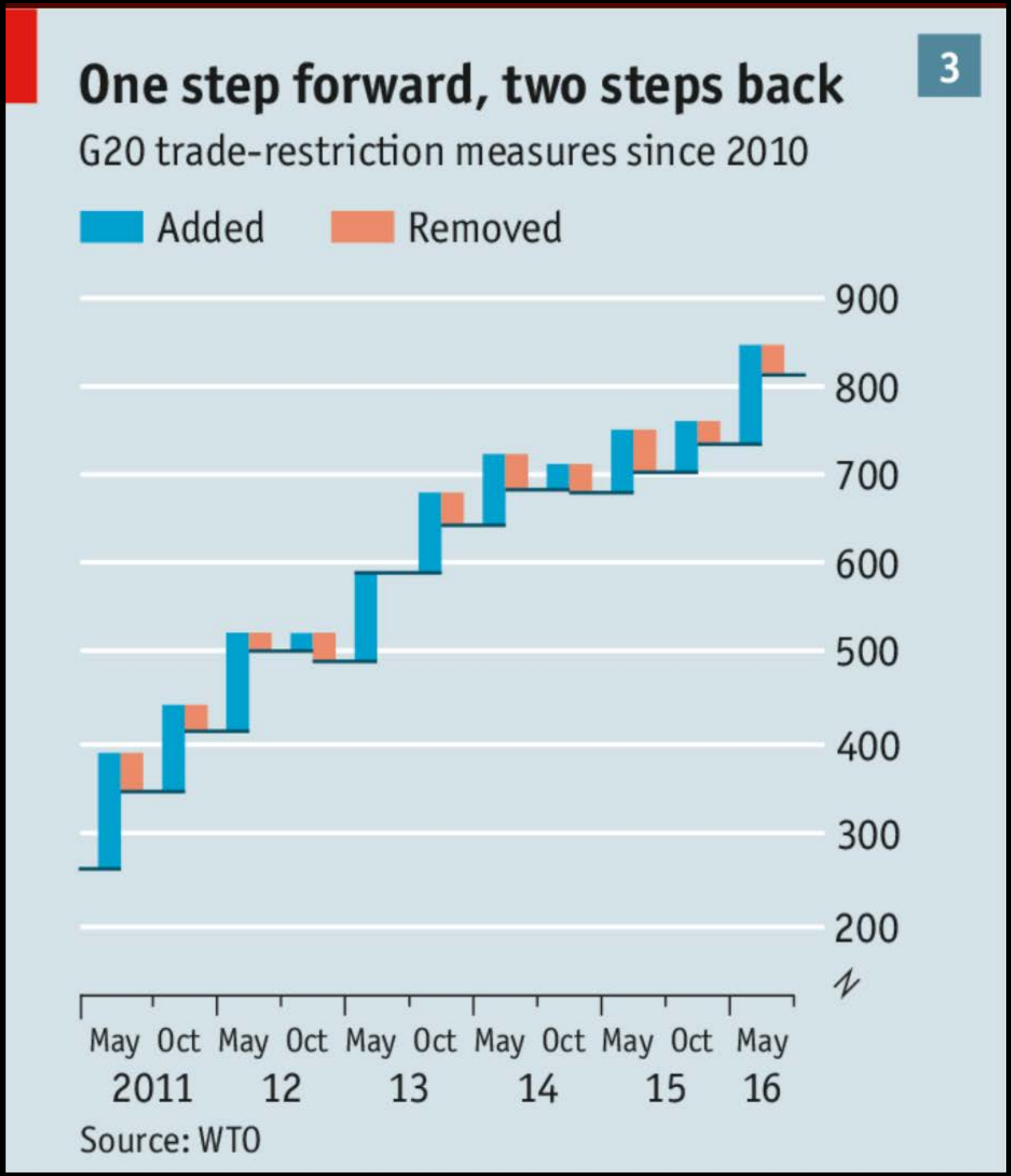
- Intangibles dominate also in manufactures
  - Internal & market services, creation & appropriation of IP
- Value migrates to earlier/later stages (cf. “smile”)
  - Direct assembly/processing has diminished over time
- Intensity of interaction within value chains varies
  - Trad. services often internationalize via ownership; value added in digital is fluid

The Way Forward?

New Glob. → Changes become:

– More **sudden**
  – Shocks with immediate consequences
– More **individual**
  – We no longer go up & down “as countries”
– More **unpredictable**
  – Winners & losers hard to know *a priori*
– More **uncontrollable**
  – National policies are less influential





The Economist, 8.7.2016

The Economist, 28.1.2017

Policy? Old & Consistent with *New Globalization*

- Enterprise
  - *Laissez-faire*
  - Market competition
  - Creative destruction (*try often, scale or fail fast, try again*)
  - Public investments in education, research & infrastructure
  - Financial/business environment conducive to private investment
- Labor
  - Ease of hiring & firing
  - Cherish labor market churning
- Social
  - Incentive-compatible social transfers
- Trade
  - Reduce hindrances for **all** cross-border flows

- Hard question: *What if other countries play dirty?*

Final observations

- Brexit & Trump:
  free trade became a casualty… with consequences on GVCs

- Global value chains are **not about to disappear**
  & the phenomenon still has **room to grow**

- **Fin & Swe well-positioned** in competing for
  GVCs' high value added activities

- Needed: Internal agility & sustained investment
  at the new front line of global competition –
  individuals' skills & competences.

Thank you!

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