

2nd Annual Research Capacity Building 4-lateral Meeting
Belgrade, May 17th, 2018

Change in Functional Specialisation Patterns: Key to Escaping the Semi-Periphery Trap

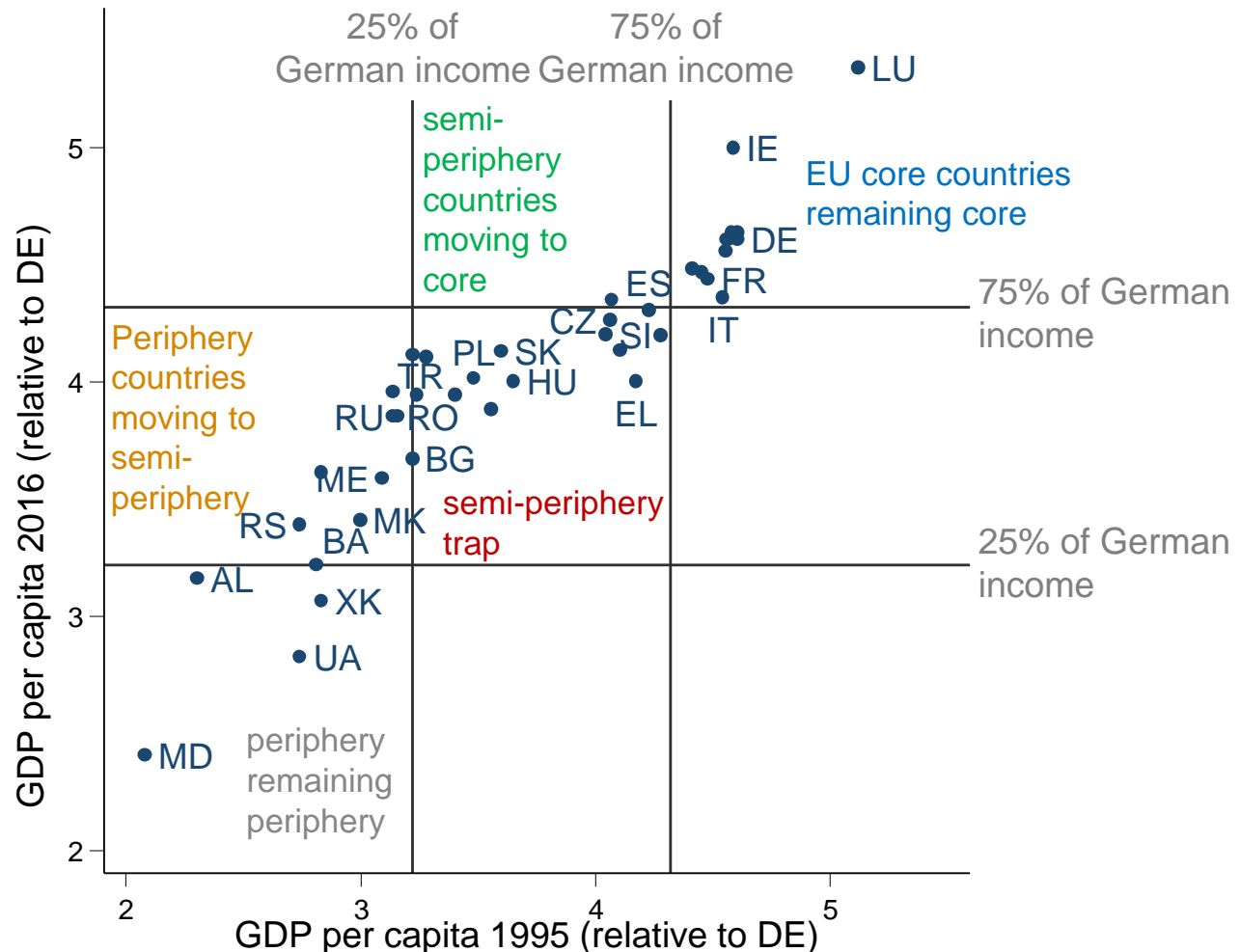
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Why look at specialisations along the value chain?

- Global value chains (GVCs) add a new dimension to specialisation
- Varying potential for value creation across value chains ('smile curve economics')
- Functional specialisation linked to growth performance
- CESEE with unfavourable functional specialisation
- Risk of getting caught in a 'semi-periphery trap'

CESEE countries face a semi-periphery trap



Note: Logarithmic scales. Initial GDP per capita is 2000 for BA, XK, ME; 1998 for Ireland.

Source: wiiw Database, wiiw calculations.

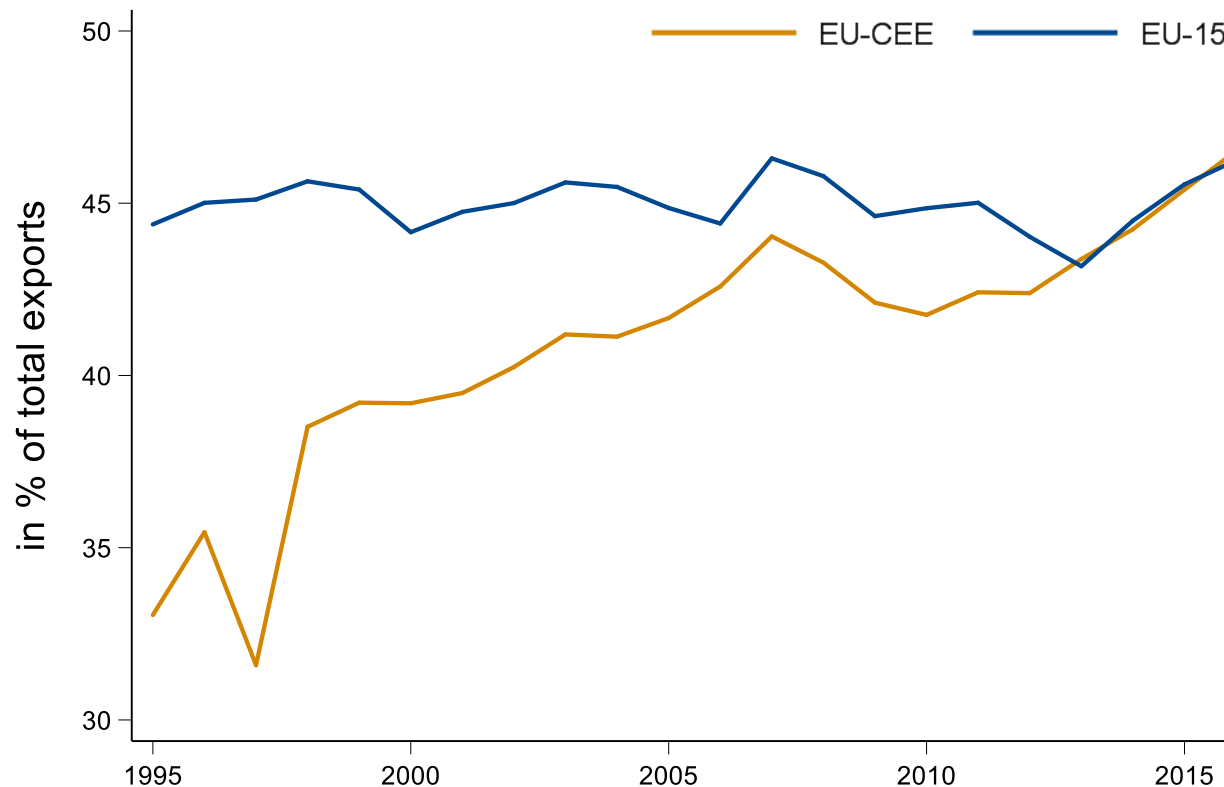


Defining the European semi-periphery

1. Well integrated in European production networks

Cross-border production fosters structural convergence

Medium-high-tech exports



Note: Total exports means all manufacturing exports.

Source: UN Comtrade, wiiw calculations.

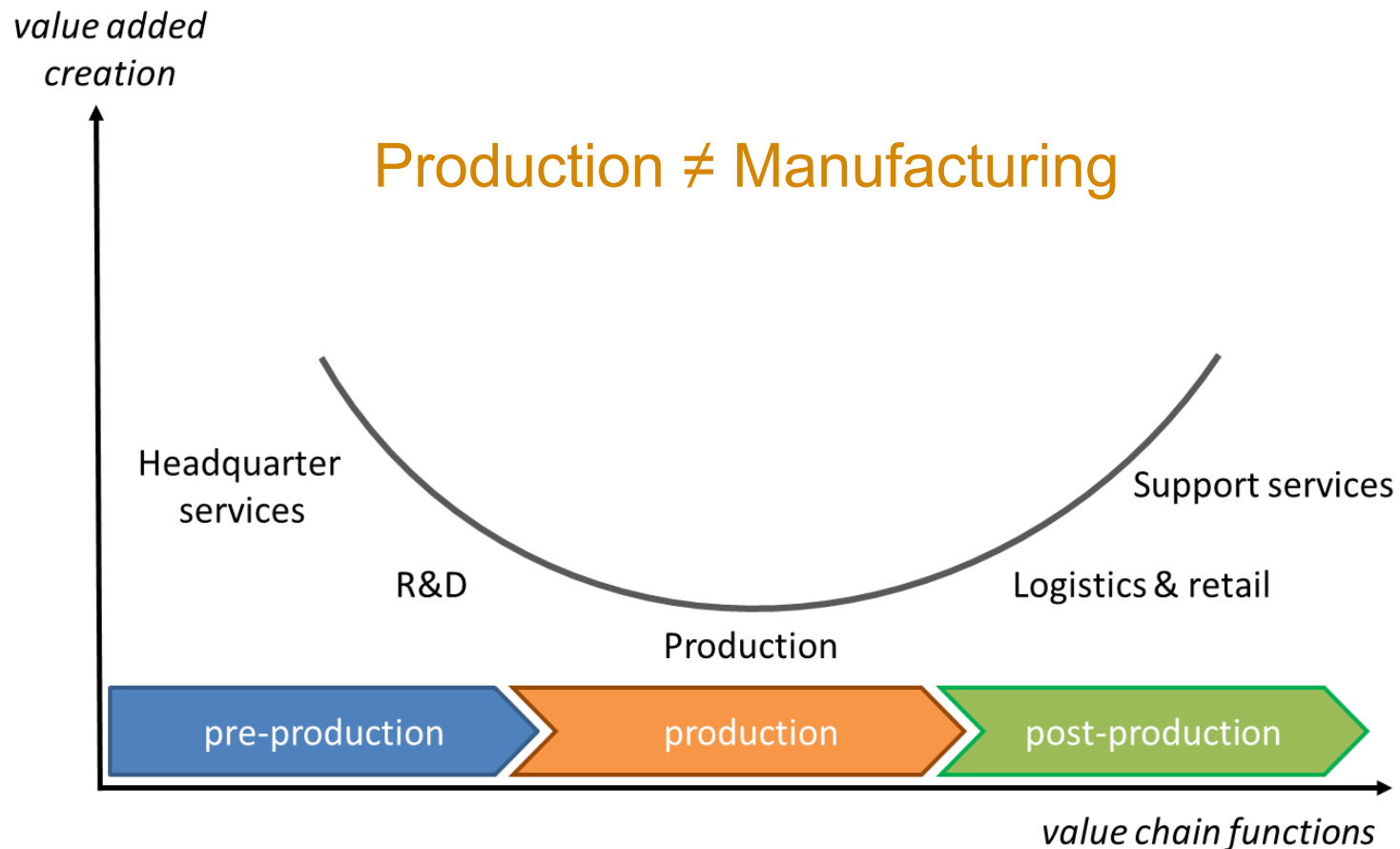


Defining the European semi-periphery

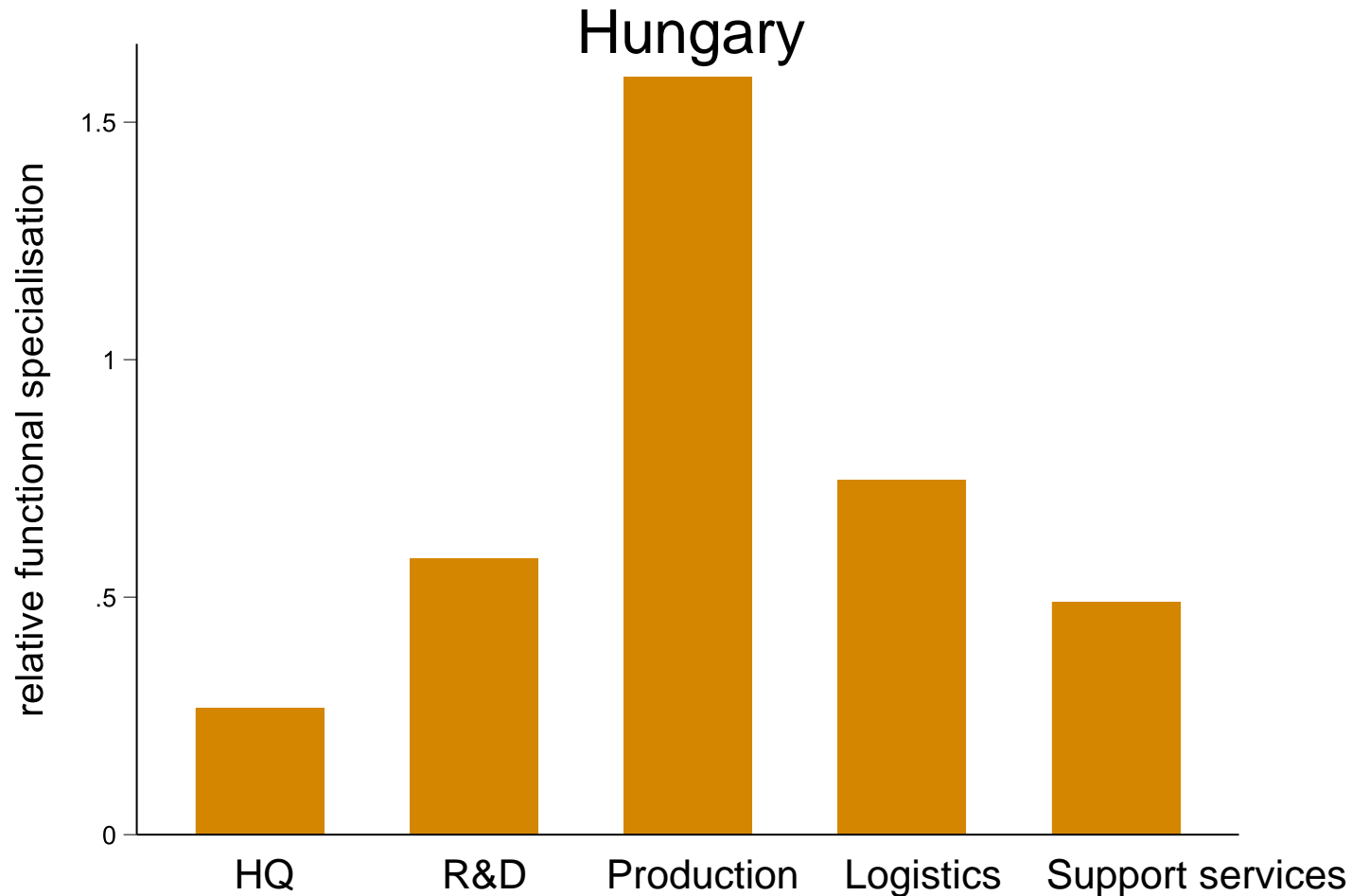
1. Well integrated in European production networks
2. Functional specialisation as 'factory economies'

Enter 'smile curve economics':

Production activities have lower potential for value creation

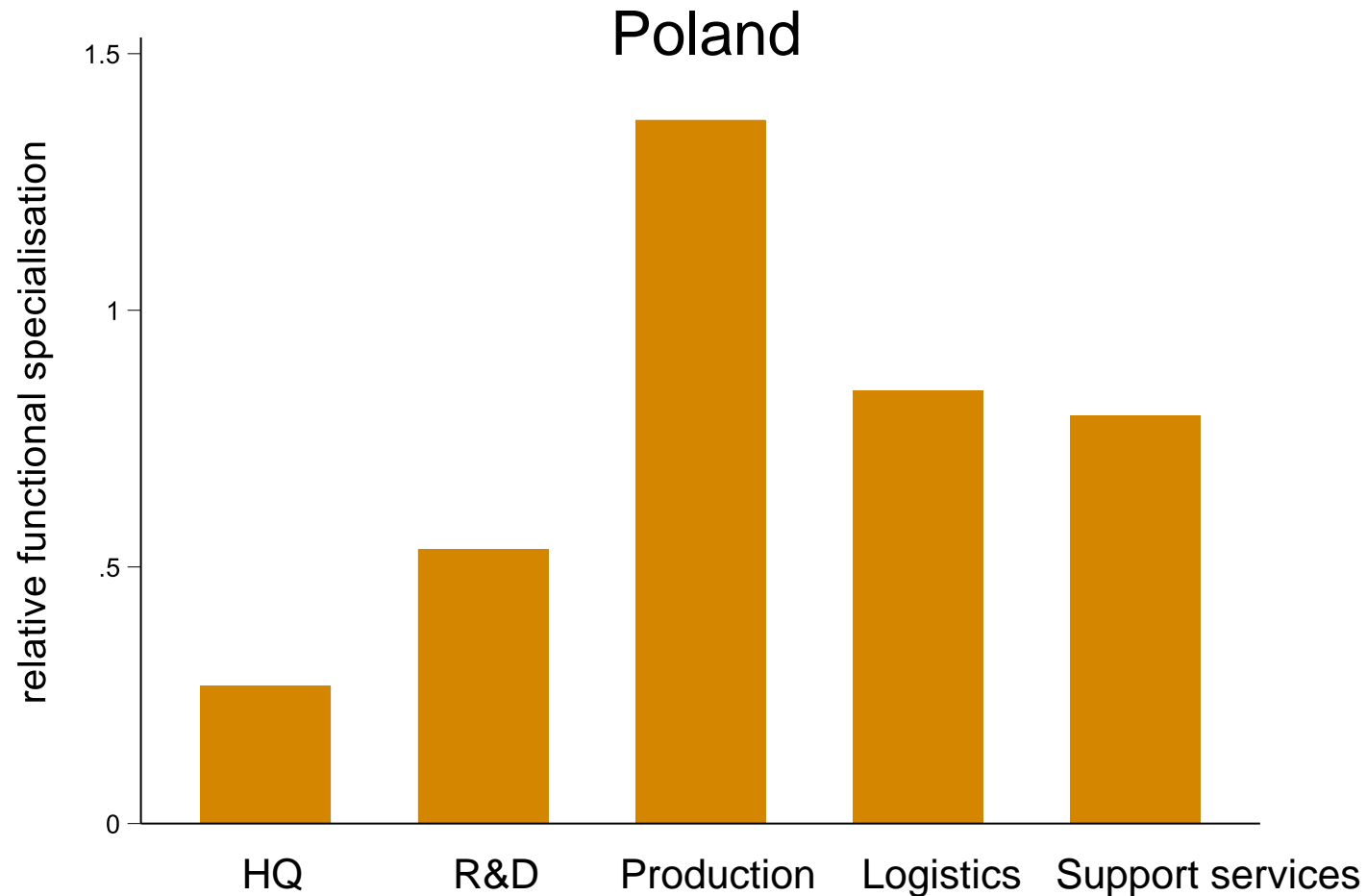


New evidence on specialisation along the value chain...

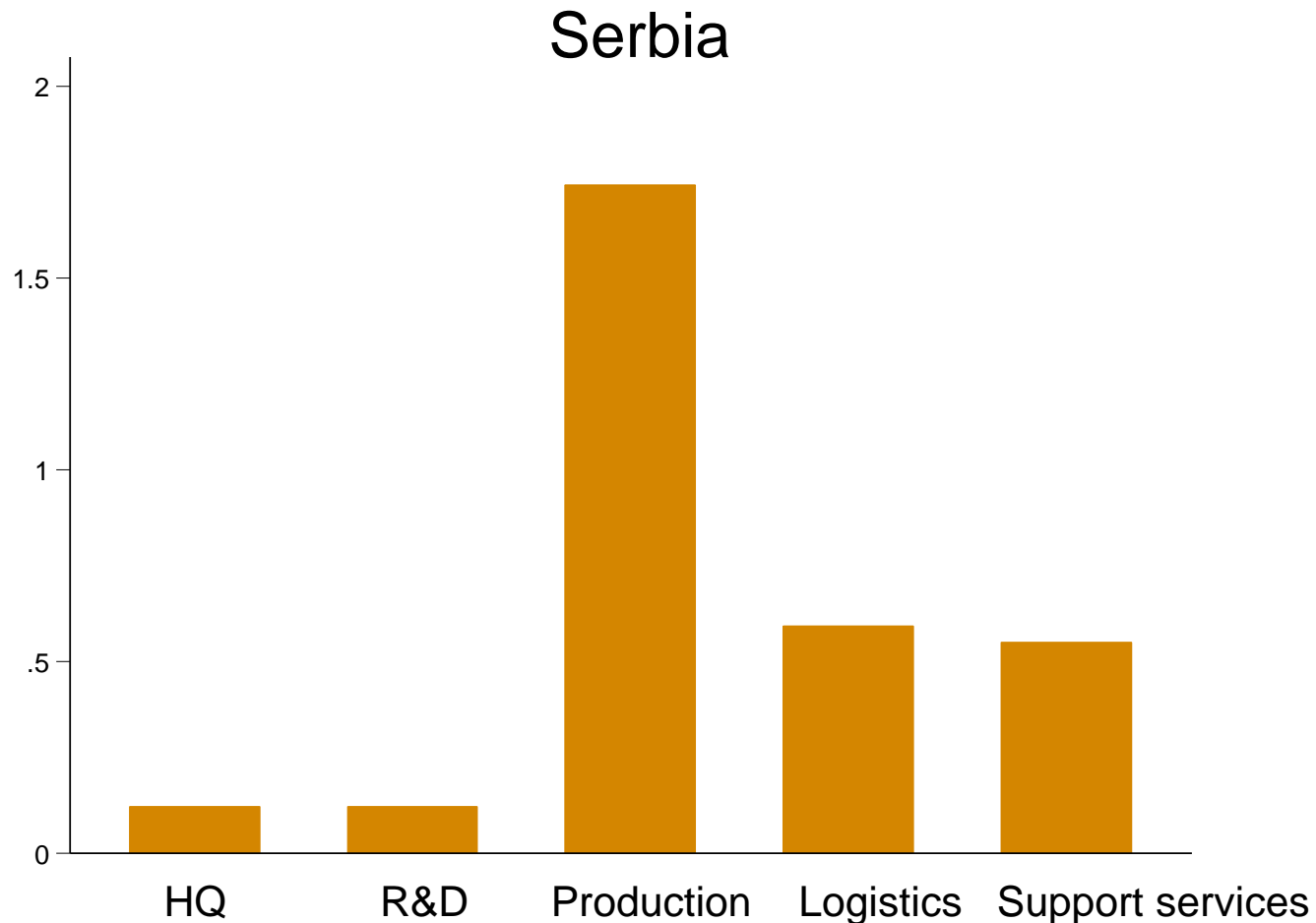


Source: fDi markets database, wiiw calculations.

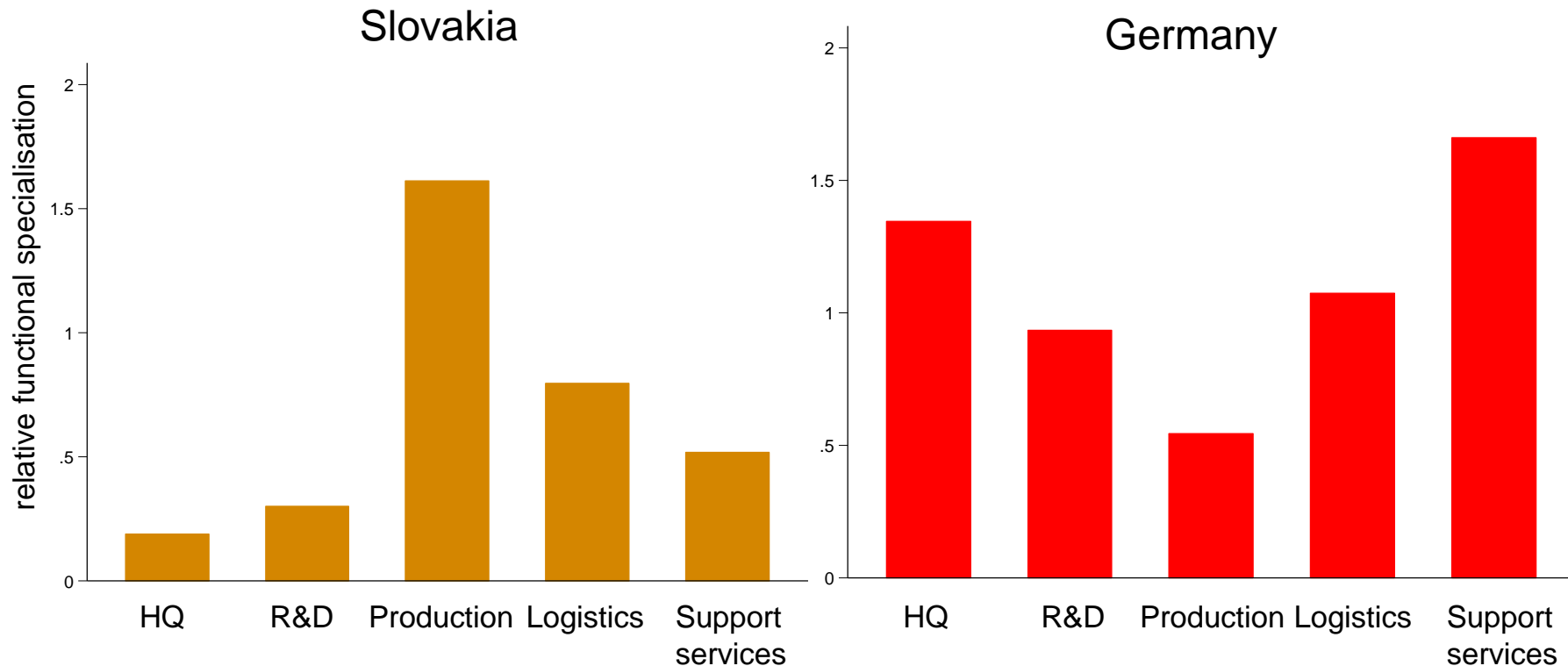
... reveals: CESEE serves as factory economy



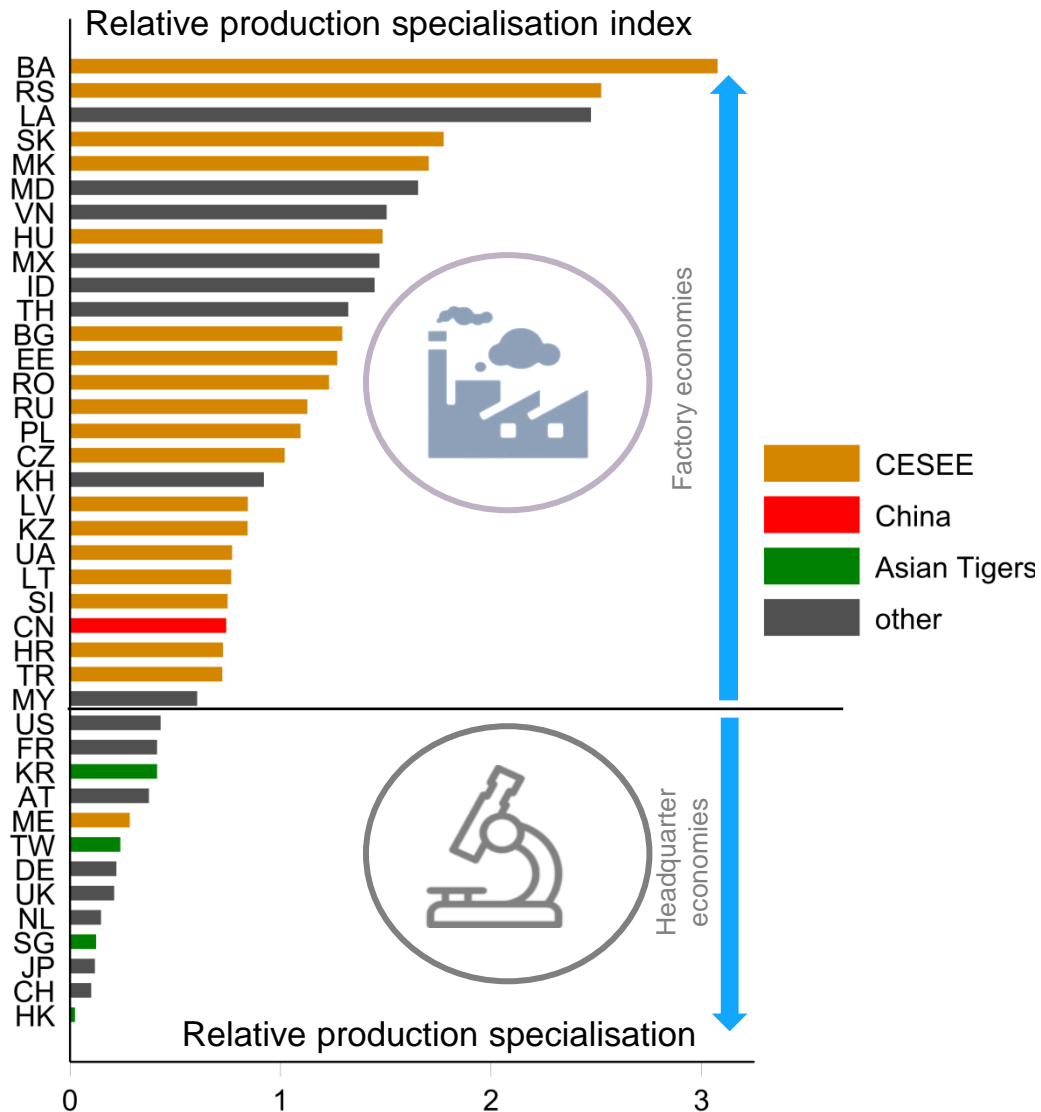
CESEE serves as factory economy in global value chains



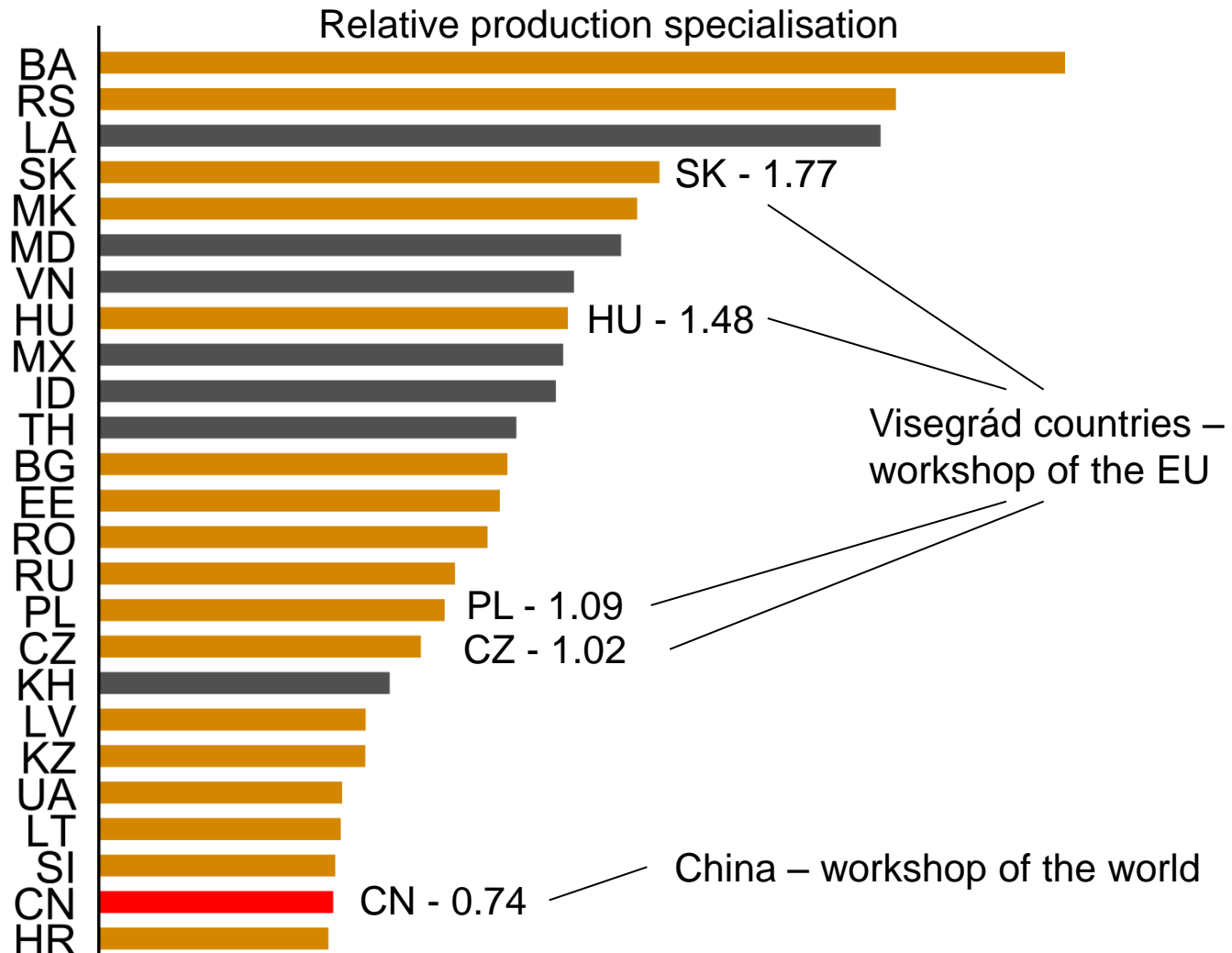
Complementarities in functional specialisation within the Central European Manufacturing Core



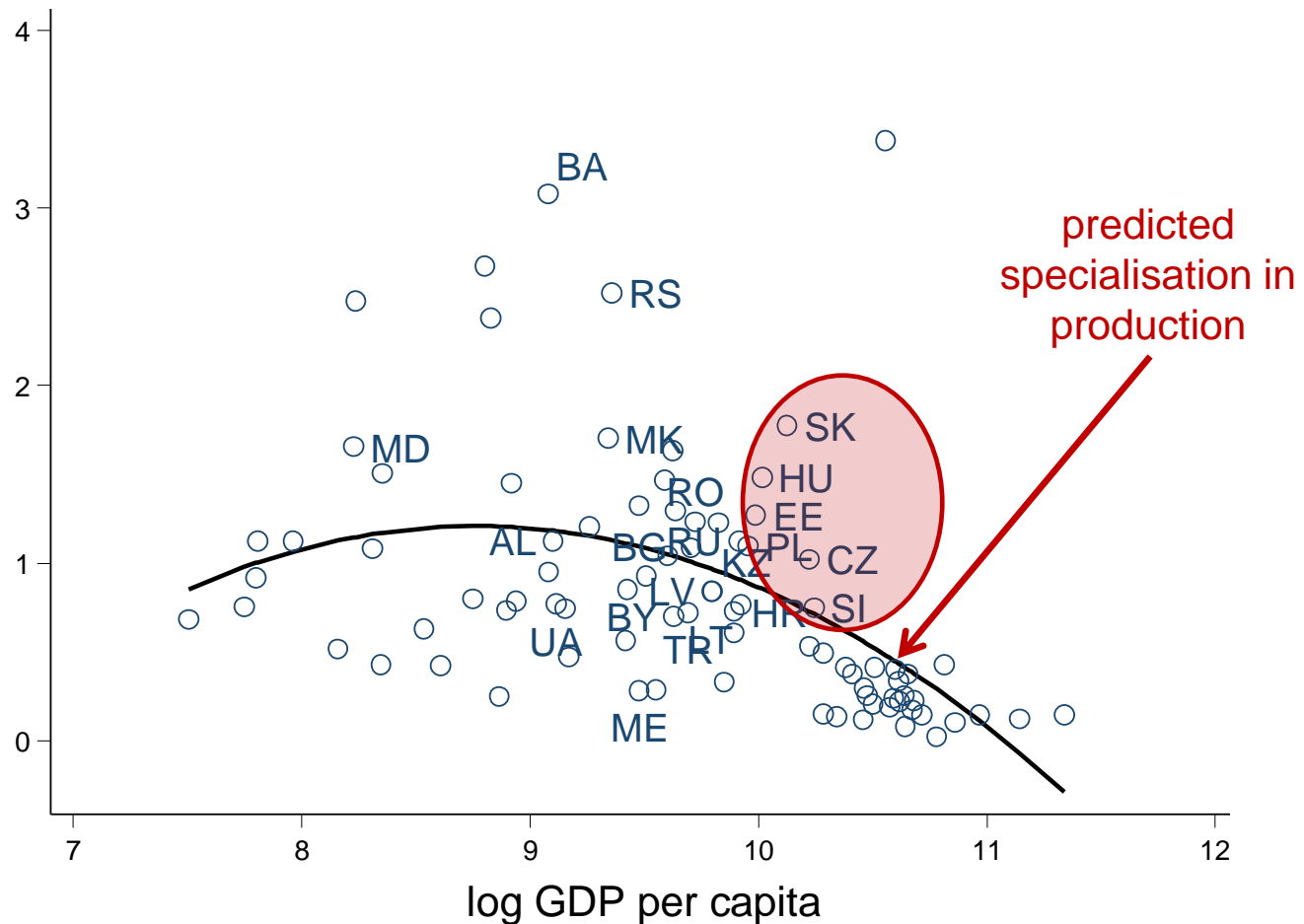
A world of 'factory' & 'headquarter' economies



The workshop of the EU



High time for EU-CEE to adjust the functional specialisation



Note: GDP per capita in PPP as of 2010; calculations.

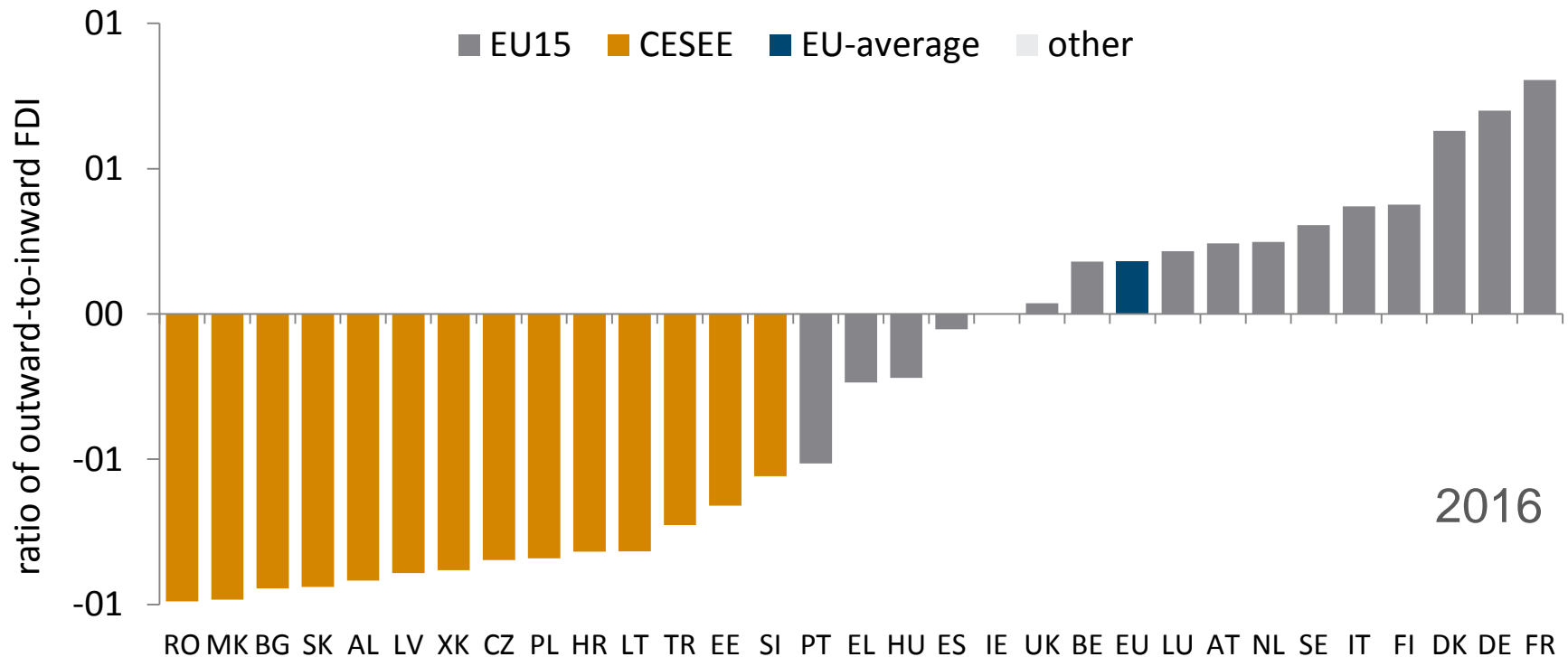
Source: PWT version 8.0, fDi markets database, wiiw.

Defining the European semi-periphery

1. Well integrated in European production networks
2. Functional specialisation as ‘factory economies’
3. High dependence on foreign firms
4. Home to no (or very few) ‘global players’



Wanted: Global players with outward FDI activities



Note: Year refers to 2016. The ratio is based on outward and inward FDI stocks. Zero indicates that inward and outward FDI stocks are equal.

Source: Eurostat, wiiw calculations.

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The story in short

- Most of CESEE integrated in European value chains
- Inadequate functional specialisation (factory economies)
- Low value creation in production keeps CESEE trapped in the semi-periphery
- Premature derailment of catching-up process with core
- Hierarchical relationship between firms and countries of core and semi-periphery persists

Thank you for your attention!

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