Making the Connections: Global Production Networks in Britain, East Asia and Eastern Europe

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1. Research Summary
Summary of research results

The purpose of this research project was to investigate the extent to which the EU, East Asia and Eastern Europe constitute an inter-connected nexus of economic relationships and to explore the implications for these economies. Our approach was to develop the concept of the global production network (GPN) in three sectors: automobile components, electronics (particularly mobile telecommunications and computer entertainment) and retailing. The primary objectives were to:

- enhance our understanding of the theoretical bases of GPNs as a major mechanism through which economic processes are transmitted between geographically dispersed operations and regions
- investigate the economic interconnections between Britain, other parts of the EU, East Asia and Eastern Europe
- explore the ways in which GPNs impact on the development of national and regional economies in the 'world-regions' under investigation
- evaluate the implications of GPNs for upgrading domestic companies, skill development, adding and capturing value etc.
- evaluate the extent to which national and/or local government bodies and other non-firm agencies are capable of exerting influence on the strategic behaviour of firms to the benefit of their respective economies.

Detailed semi-structured interviews were conducted with senior executives of leading companies and institutions in 13 countries in Europe and East Asia, together with extensive documentary research and analysis of trade and FDI data. The project thus constitutes one of the most comprehensive firm-based surveys so far undertaken within a production network framework. While analysis of these data is still in progress, its results and achievements so far can be summarised as follows.

Conceptualization of global production networks:

- Contrary to the conventional view that value/supply chains within GPNs are becoming increasingly extensive, both organisationally and geographically, we found wide sectoral and product variation. In some cases value chains are shortening, not lengthening, as a result of technological developments or managerial imperatives. Such trends may result in new spatial concentrations of activity with potentially serious implications for economic development at various geographical scales.

- Whereas the importance of logistics in the operation of GPNs has been largely ignored in other research we found them to be absolutely central to GPN operations and in need of substantial further research.

Economic interconnections between the world-regions

- Despite recent increases in investment in China, EU firms in general continue to under-invest in East Asia. Indeed, EU firm investments in Eastern Europe are now almost on a par with their investments in East Asia. At the same time, European
(West and East) investments by East Asian firms have slowed down dramatically (Japanese companies) or are being suspended, closed or sold (Korean companies).

- Eastern Europe is becoming the ‘EU’s Mexico’: an increasingly important base for manufacturing functions as part of continent-wide production networks. However, some higher value-added functions are also beginning to shift there, with potentially negative implications for certain EU (including UK) regions.

- While there is some evidence that East Asia and Eastern Europe are becoming substitutable world-regions for investment by EU firms, intra-regional shifts (within East Asia and within Eastern Europe) are much more common.

**Global production networks and national and local economies**

- Local embeddedness is exceptionally important in shaping GPN structures. As with Japanese firms, many EU firms are now beginning to bring-in their traditional suppliers when they invest in new locations. While this is leading to increasing value-added in the respective locations, it works against the possibility of local value-capture (as locally-owned firms are beginning to be excluded from the networks) and inhibits the prospects for genuine local development.

- In the countries studied, GPN activities - as a result of both firm strategies and host-government policies - cluster within a small number of regions. Hence, pre-existing uneven development is exacerbated and income and social polarisation compounded.

- EU countries, particularly in electronics manufacturing, are beginning to be 'hollowed out' as investment shifts to Eastern Europe. The same is true of Japan, where investment is shifting to China, although there is little evidence of Japanese firms seriously engaging in global sourcing with non-Japanese firms.

**GPNs and industrial upgrading**

- There are important variations by sector in the implications of GPNs for value and skill upgrading. In retailing there is evidence of lead firms working with local suppliers to improve operations, skills and product quality. Although the 'local' partners are often foreign-owned or joint-venture operations, retailing does deliver scope for creating, enhancing and capturing value to the benefit to the local economy. EU food retailers are also beginning to import into their home countries products sourced from their East Asian and Eastern European suppliers. This provides increasing access for farmers and food processors to otherwise protected EU markets.

- In the automobile and electronics industries most of the value created, irrespective of location, tends to stay within the EU, Japanese or Korean dominated networks. Only in Malaysia, with its 'national car' project, is this less true. It is possible that Thailand, with its distinctive clustering policy in the automobile industry, may be able to compete effectively within East Asia. Electronics is more locationally volatile. Here, China is perceived as the principal threat (except in software development) by all producers in East Asia and Europe.
Government industrial strategy is central to maximising the developmental benefits of GPNs. In particular, it is essential to maintain the institutional capacities needed to formulate, implement and monitor those strategies in the face of pressures to weaken or even dismantle them. In all the East Asian and Eastern European cases studied - though to varying degrees - policy makers are being institutionally and intellectually 'disabled' by the prescriptions of neo-liberal theory.