

INTERVIEW

“China’s  
greatest legacy  
was to  
create  
a model  
of inclusive  
development”

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With a long-term strategy, increasing productivity, following export goals and objectives, China has achieved in a few decades the internationalization of its industry and became competitive in leading sectors and technologies. Gary Gereffi, a professor at Duke University and one of the world's leading experts in value chains, analyzes the importance of long-term planning, innovation, the role of regional integration and public policy, while examining the teachings the region can draw from the Chinese experience.

#### How will impact the fall in commodity prices?

The growth rate of China will decline from 10% or 11% to 7%. This means that China can not continue to produce many industrial goods and, therefore, imports of primary products required for industrial production will decrease. The commodity boom periods are always cyclical. China has greatly improved the quality of life of its workforce, partly through increases in the minimum wage carried on in the past five years. You can divide the commodity boom according to two categories of products: minerals and oil, which are used for industrial production in China, on one hand, and agricultural products, which can also be used to satisfy food consumption, on the other. In both categories, prices are falling and most of China's direct investment abroad is destined to minerals. China indeed wants to continue import-

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ing as much commodities as possible. China is very sensitive in the food and consumption areas, and is very concerned about the nourishment quality of its population. Perhaps because its imports of agricultural products do not match exactly those of minerals, with many investments in Africa, especially in sub-Saharan Africa, which has been the largest regional destination for Chinese foreign investments- it is likely that China favors imports of mineral commodities not originated in Latin America but in other regions.

#### How can you encourage industries to compete globally?

If the goal is to produce exports for global industries, the biggest problem that regional integration schemes such as Central America and, perhaps, even the MERCOSUR have, especially in its relations with smaller economies, it is to be able to manufacture not only the

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end-product but also a number of key inputs towards the final product. They must produce clothing, but also textiles. This applies to any Central American exporter country and, to some extent, also to Mexico. Since they do not produce all the textiles they need, they have usually had to import them from Asia. With regional integration schemes that do not lose sight of the productive integration within the region, as with Central America, where some countries produce clothing and other, textiles or fibers, integration in a regional context could be greater. A good example is that of Costa Rica and medical equipment.

#### What is the strategy that Latin American companies should follow to join the global value chains as happened with Asian firms?

They must learn to adapt, have the ability to be flexible as to what are the next steps in relation to the value chain. This is a global issue. Industries must be dynamic regarding what investors are focusing in and what countries are capable of producing. China's greatest legacy is that it has established

throughout its society a type of inclusive development model, beyond the set of policies used for this purpose. The teaching that China leaves us is that it has created development strategies aimed at high, medium and low sectors and has even promoted strategies in intensive labor industries. The process took place despite the many contradictions and disagreements among the different levels of government.

#### What is the role of regional integration in the export diversification processes?

One of the legacies of export-oriented growth is that, over thirty or forty years, many countries around the world became more able to diversify their exports. This means that domestic companies that export can carry out a much more integrated manufacturing process than in the past. The commitment to the domestic market, of many Chinese and Brazilian companies is also, in a way, a byproduct of export-oriented growth. The export-oriented industrialization was an important positive factor for the smaller scale economies. Korea, Taiwan, Singapore and Hong Kong, East Asian economies, could become extremely successful in their exports by focusing on human capital and local capacity to meet the growing demand in export markets, since they didn't have to deal with large domestic markets. Regional integration implies that many of the necessary links for scaling can take place within the region and that the focus must be on specific industries. You

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have to really get to know the industry that you are trying to build, where global competition is and what are the big companies in order to redefine a development strategy that can adapt to changes such as the falls in exports primary products prices or the inward bound of Chinese or Asian production.

#### What should be the role of public policy?

Governments should have official organizations that can develop a strategy or plan for the next five or ten years, a

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long-term economic strategy for the country. This type of organization can work together with different groups in the private sector or foreign investors with a focus in identifying the kind of investment that are really necessary then, perhaps, turn to groups like the Inter-American Development Bank or other regional donors for additional sources of funding. Countries that are able to develop from a strategy from medium to long term can articulate the various factors needed; they have a vision, political will and skill that can then link to other sources of investment, both multinational and national, as well as training institutions, among which the participation of universities may be included. There is a whole set of institutions that



COUNTRIES SHOULD HAVE INSTITUTIONS THAT CAN GENERATE A MEDIUM AND LONG TERM PLAN

are part of the local innovation system and could make a great contribution. Countries need to get, somehow, resources to create agencies focused on planning; we can find many examples in Asia, where countries have proceed historically in this direction. But you can not simply copy what was done elsewhere: you have to find your own sources of strength. In China there are numerous public agencies, all interested in development, and often with different priorities

#### What lessons Latin America can learn from China?

One of the most important achievements of the Chinese model has been to raise the general level of income. By bringing many people out of extreme poverty or a situation where they make one or two dollars a day, China has achieved, in general, the great task of increasing dynamism across the country. During the last fifteen years, the efforts of China and India have been very

successful in raising the living standards of the poorest strata of the population. By virtue of their size, these two countries have made great improvements with its broad development strategies. The starting point was the creation of export industries in southern China, which initially was a very poor region, but located closer to the ports. But as these industries were becoming successful, the country was moving intensive labor industries from the coastal provinces to the interior. And today, in many cases, it is exported to regions outside of China, and the same is being done with more technological industries. The idea was to climb the steps of a sort of technological ladder and formulate policies according to which the regions could be seen as an ascending the ladder; from apparel, toys and footwear to higher value services, such as financial. This strategy has been part of China's five-year plans, since the country has employed clear planning tools to develop economic strategies that can be informed to the entire country. ■