When Linder Meets Hirschman: Inter-Industry Linkages and Global Value Chains in Business Services

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The Paper

- It studies the drivers for the participation in service GVC.

- It tests two alternative explanations:
  1. The relevance of the domestic market/demand;
  2. The relevance of the proximity to large headquarter economies.

- Main finding: Especially for emerging economies, *domestic* specialization in BS backward-linked industries is associated to higher domestic VA BS exports. This is not the case for the specialization of close trade partners.

- Main implication: It challenges the view of GVC participation itself as a development strategy. Strong domestic backward linked manufacturing industries are key for the development of BS sectors, and subsequent participation in GVC.

The idea is interesting, the message relevant. The paper needs some important improvements (old version?).
Motivation/Introduction should be improved;
- BS are key for development;
- Services and emerging economies may be different from manufacturing and advanced economies respectively (convincing stylized facts in figures);
- Participation in GVC alone could not be a successful development strategy.

The theoretical framework (Linder-Hirschman) is not that clear to me. Improving the exposition could also help defining the empirical specification.

Is participation in BS GVC the main objective of your analysis?
- or is it the development of a BS sector, measured in terms of VA exports (nice!)?
Measures and variable definitions:

- Are the variables in levels or in relative terms? For instance, DBSVAE ("BS domestic value added in exports") is it the value, or relative to gross exports in BS, to VA total exports? How do we interpret the estimated parameters?

- DBSVAET is not clearly defined in the empirical section - "BS domestic value added in exports of distance weighted trade partners"/"partner weighted business services value added in exports" - how is it constructed? Why distance weighted? For services, distance can be not that important.

Dynamic Specification:

- Why?
- What is this specification capturing? (Structural determinants are washed away by the AR component)
- Why do you have 2 lags in the specification for emerging economies (2nd never significant) and only 1 for advanced?
Endogeneity issues:

- Variables can be correlated with country’s size or with the economic cycle.
- Estimates change substantially when introducing new variables.
- To stress the sectoral linkages mechanism, you could distinguish among manufacturing sectors based on their intensity in service inputs.

Others:

- The negative effect of Manuf. VA in final consumption of partners is a key result. Explanations? Why not Manuf. VA in exports of partners (if GVCs are what matter).
- Dummy for emerging economies (to test for different effects)?
- Skilled endowment: why not skilled workers over total employment. The VA measure, in equilibrium, should pin down wages (almost opposite effect).
- Aren’t BS very heterogeneous?