Participation in the Global Value Chains and Productivity Catch-up:

Microeconomic Evidence Based on the Firms from Indonesia and China

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Abstract

This study aims to focus on the link between participation in the global value chains (GVCs) and productivity catch-up in China and Indonesia. The paper analyses whether productivity catch-up by low-productivity firms can be seen in these countries and to what extent the differences in productivity dynamics can be accounted for by the differences in GVC participation and position within GVCs between these two countries.

We find that low-productivity firms show a much higher productivity growth rate than high-productivity firms in China, i.e., strong evidence of productivity catch-up, while we do not find such evidence in Indonesia. The backward GVC participation is much higher for China than for Indonesia, while the forward GVC participation is much lower for China than for Indonesia. However, China's forward GVC participation has been gradually increasing, suggesting that China has been increasing her importance as an intermediate goods supplier in GVCs.

Our empirical results show that GVC participation is associated with productivity catch-up differently between China and Indonesia though backward and forward participation affect productivity growth differently. Particularly, forward GVC participation tend to be positively associated with productivity catch-up in both countries. Increase in China's forward GVC participation may partly explain the strong productivity catch-up by laggard firms in China.