

# UPGRADING OPPORTUNITIES IN GLOBAL VALUE CHAINS FOR THE BALTIC STATES

RIS3 evolution  
from Sectors to GVC  
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# World is global factory



- Complex GVC grows faster than GDP (2017)
- Raise of Supply Chain 4.0 and Industry 4.0
- GVCs are not snakes anymore – its spiders
- GVC regionalizes
- New opportunities and challenges

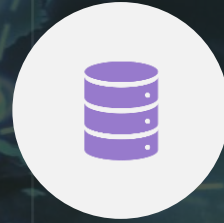
# Global Value Chains



FROM SNAKES TO  
SPIDERS



ICT COMPETES WITH  
LOGISTICS AND  
COMMUNICATION  
TECH



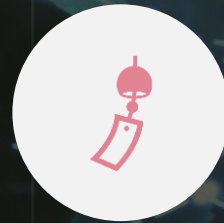
BUSINESS API



AGGLOMERATION



PRICE REFLECTS  
COST STRUCTURE



MODULARISATION

# Opportunities

- Growth surpassing limits of national economy
- Knowledge transfer closing technological gap
- ICT opens new opportunities for SME's to participate in GVC
- Seemingly low-tech sectors can provide high value added

# Participation in GVC – evidence from Latvia and Estonia

Participation in GVC related to large premium in main business indicators in several industries

Data for Latvia and Estonia  
(OECD, Bank of Latvia, Bank of Estonia)

• 48%-  
62%

Productivity



• 48%-  
62%

Wages



• 40%-  
77%

Capital per  
worker





# Challenges



Small group of specialists - high impact

How to keep them and how to bundle tasks around them?



GVCs are time sensitive

It creates opportunities and challenges



Impact of governments is limited and indirect

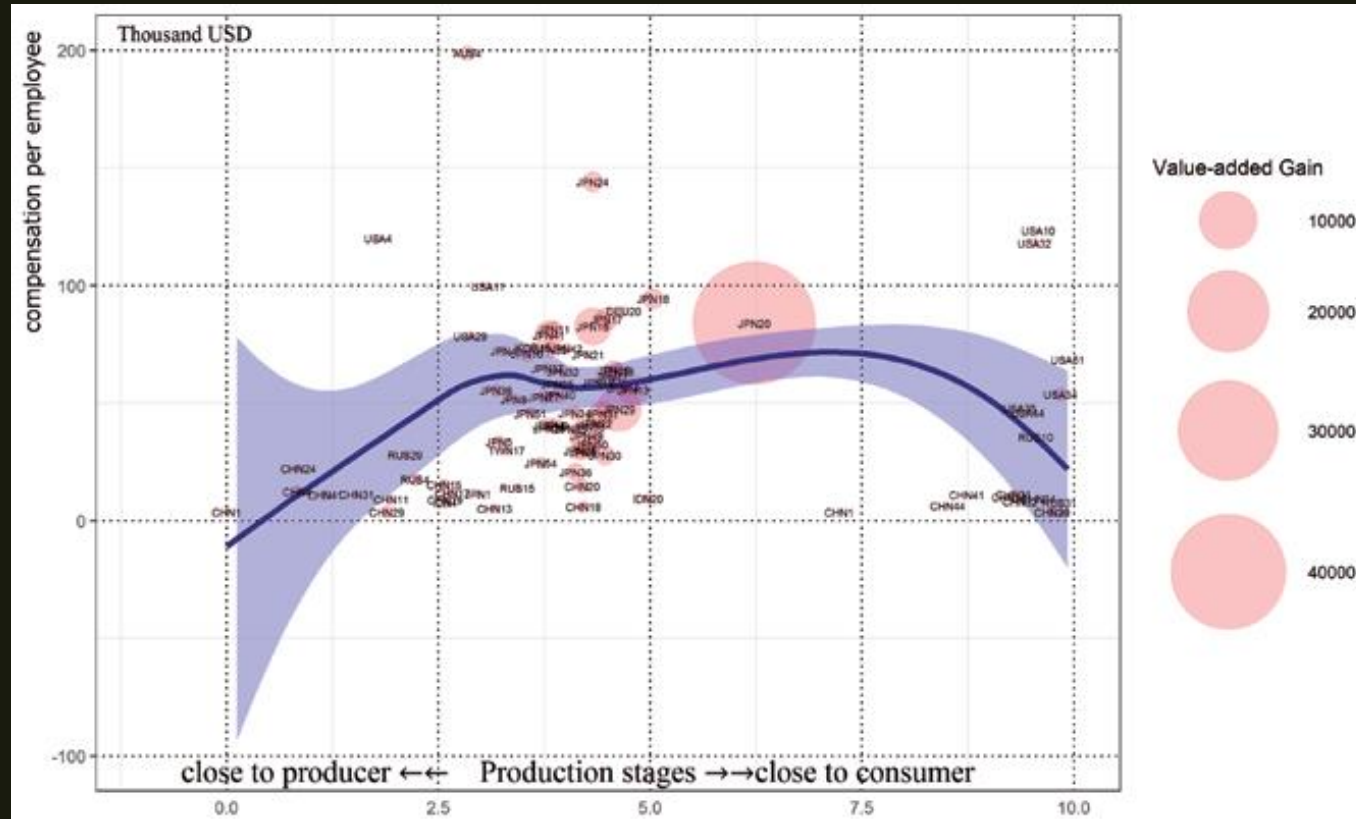
GVC related decisions are made by domestic and foreign companies



GVCs are changing

How to avoid focusing on disappearing tasks and stages?

# Value added in Global Value Chains



- Do not rely on smiley
- Added value follows use of innovative assets and knowledge intensity of the stage
- Innovation assets increases control and bargaining power of participant in GVC

1

Do we need RIS3?

2

What is the role of RIS3  
in capturing more value  
from participation and  
evolution of GVC?

3

How to change RIS3 to  
adapt to new situation?

# RIS3 and GVC





## Densification

Increase  
participation  
in GVC



## Upgrade

Help capture  
more value



## Sustainability

Sustain  
positions  
Equate gains  
from GVC

GVC related  
tasks

### Sector based specialization

- Final product defines value
- Deep Domestic Value Chains
- Continuity

### GVC positioning oriented specialization

- Position in GVC defines value
- Dense participation in complex GVC
- Agility

RIS3  
evolution



Refine existing RIS3 to create champions who commands their positions in GVC and captures value



Create conditions to bundle specialized tasks with common tasks



Provide conditions to capture opening positions in GVC over the time

# Options

# Tasks and stages

## Specialized

Dependent on highly specialized knowledge, innovation assets, competencies and infrastructure

Employing a small group of highly skilled professionals

Benefits from GVC and learning effects

## Commoditized

Mobile

Competitive

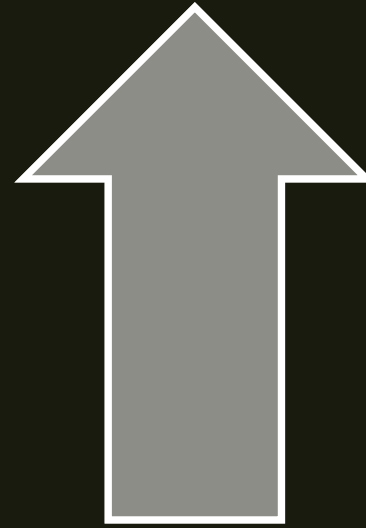
Less skill requiring

Benefits from GVC and learning effects

# Bundling logic

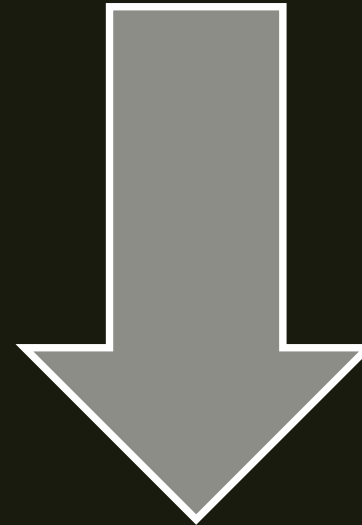
Build comparative advantage to where it is possible

Reduce fixed costs where possible to offset other regions comparative advantage where we do not have



## Comparative advantage

- Specialized assets, knowledge
- Cost



## Fixed costs

- Sourcing from new country, partners
- Adaption to new norms etc.

# Building comparative advantage

Comparative advantage is based on skilled workforce, innovation property and specialized capital

- Platforms to discuss with industry what might be champions,
- What are conditions for them to raise, succeed and sustain
- Build innovation capital and support creation when and where it is required in closest to business environment possible
- Involve business into decisions in higher educations
- Build better HE institutions (special case for Latvia)

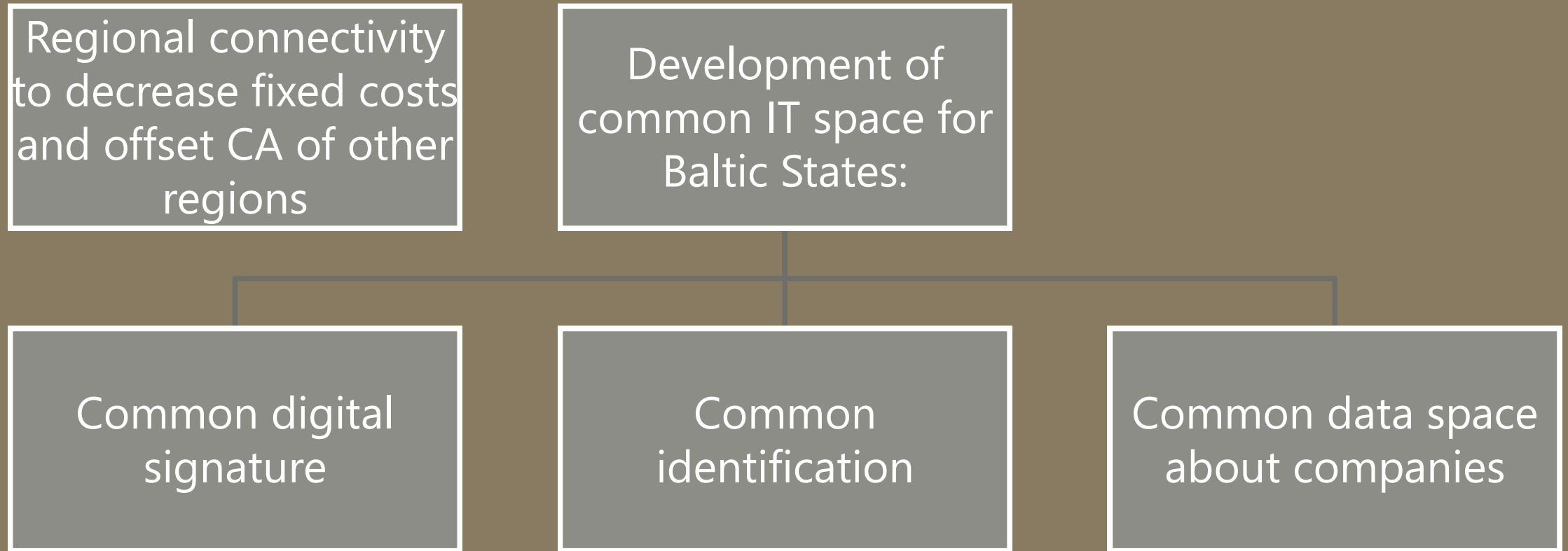


# Invest into connectivity

Digitally connected factories and businesses decreases fixed costs and allows to bundle tasks by offsetting other regions comparative advantage

- ❑ Support autonomization and automation
- ❑ One standards across Baltics
- ❑ Common service provision space
- ❑ Governments shall not outcompete business for ICT services
- ❑ Manufacturing and business API

# Baltic States – ICT space



# Mobilization of specialized workforce



## **Short term**

Responsive government  
spending

Occupation related time  
limited flexibility exemptions



## **Medium term**

LLL programme  
improvements

Mobility improvements  
through common standards  
and practices



## **Long term**

Education system  
improvements

Mobility improvements  
through transport  
infrastructure



# THANK YOU!

Questions?