

A World Bank Group Flagship Report



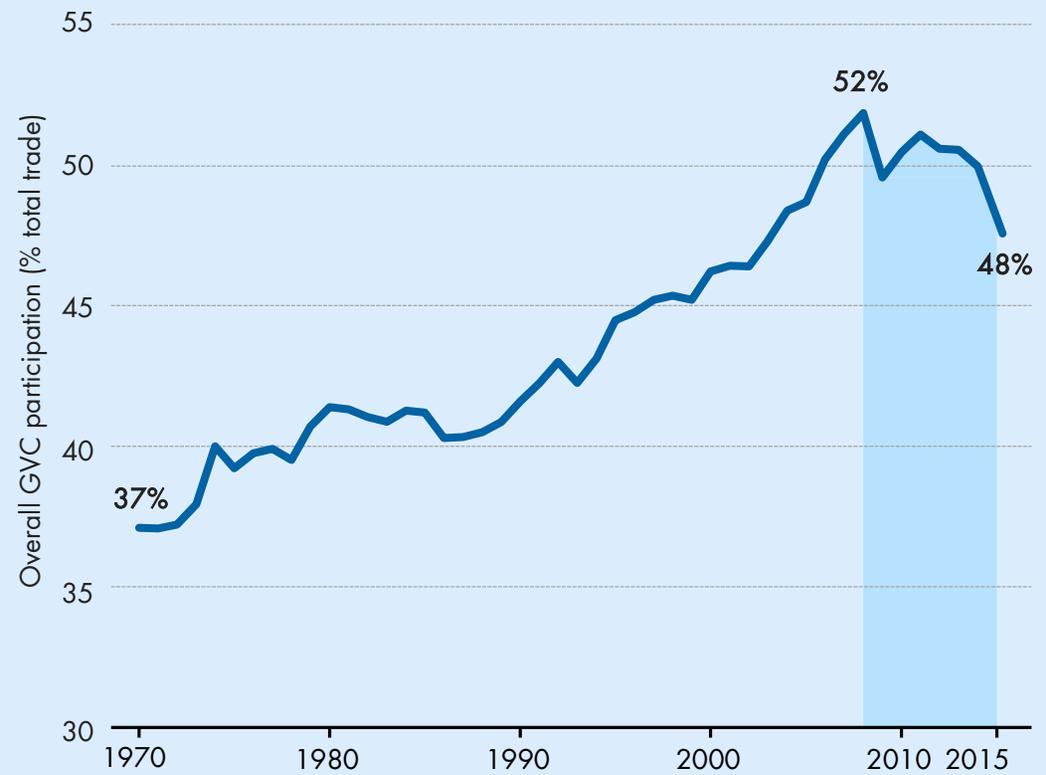
TRADING FOR
DEVELOPMENT
**IN THE AGE OF
GLOBAL VALUE CHAINS**

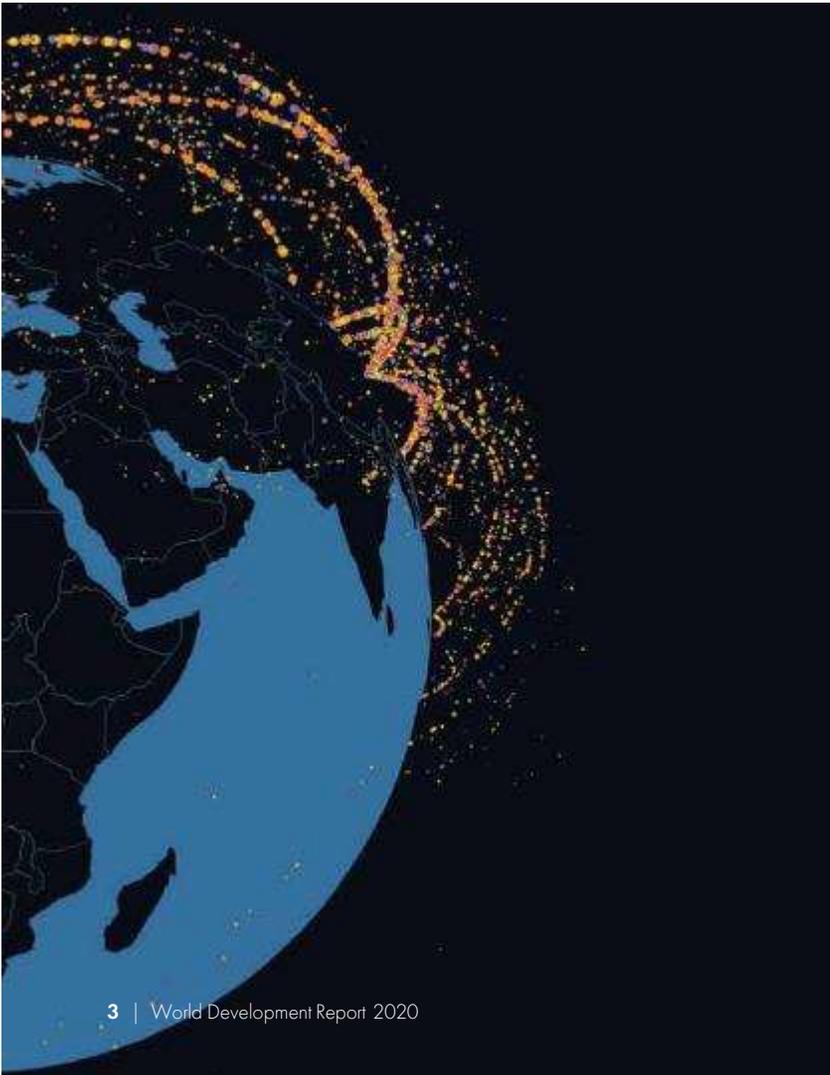


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Since 2008, GVC expansion has slowed

GVCs' share of global trade (%)





Why care?

Global value chains:

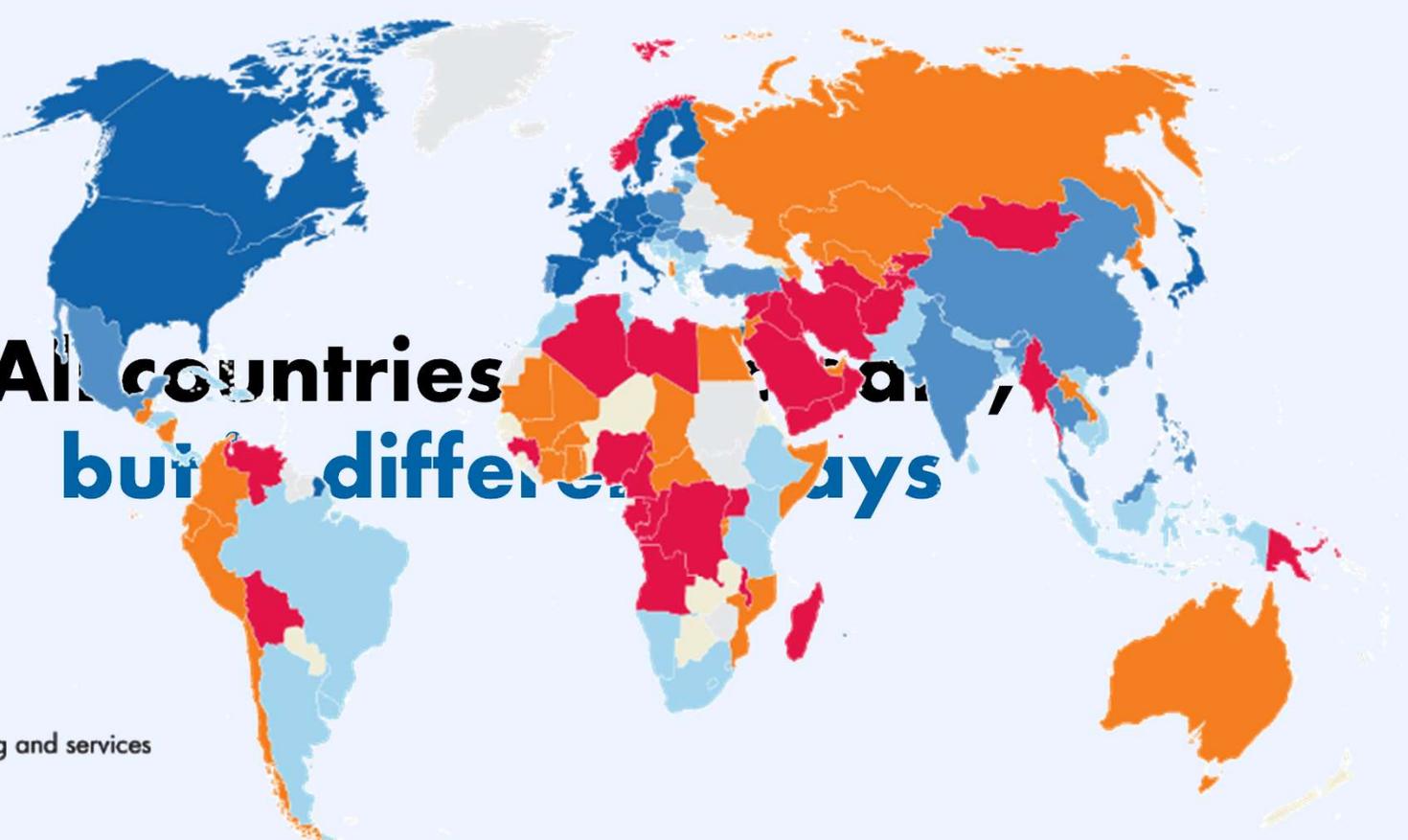
- Boosted incomes, created better jobs and reduced poverty
- Mixed impact on the environment and inequality
- Can continue to support development if developing countries undertake deeper reforms and industrial countries pursue open and predictable policies

All countries participate, but in different ways

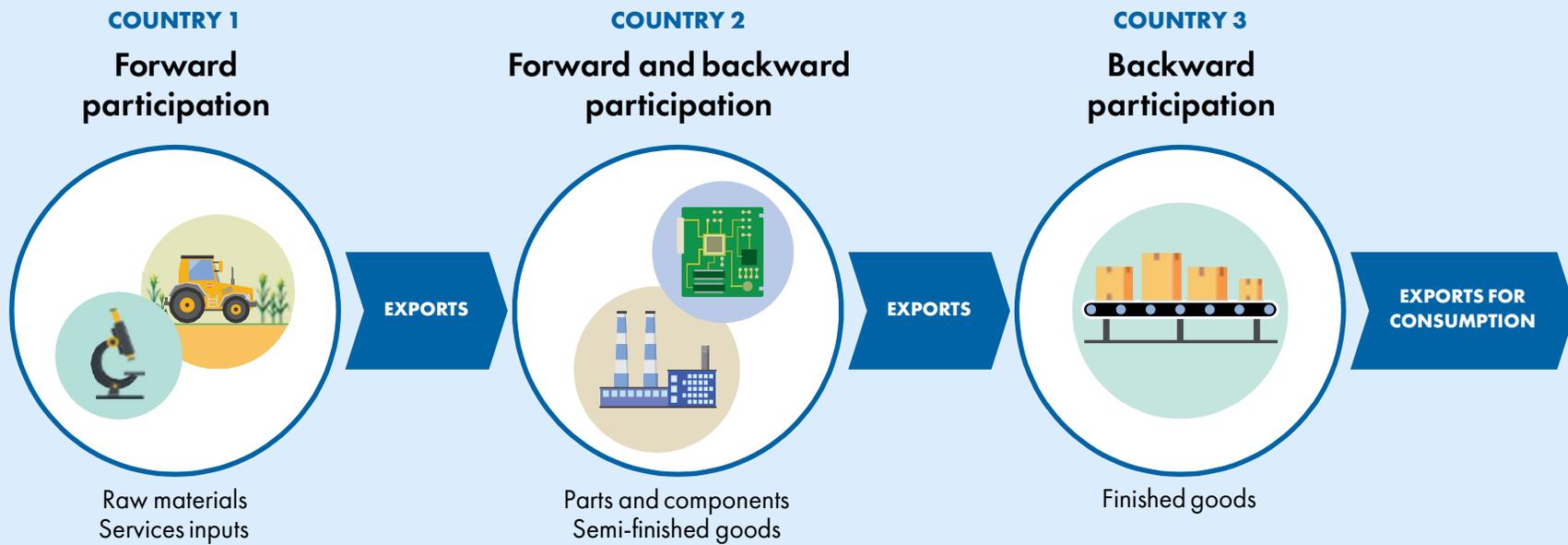
All countries participate, but in different ways

GVC linkages, 2015

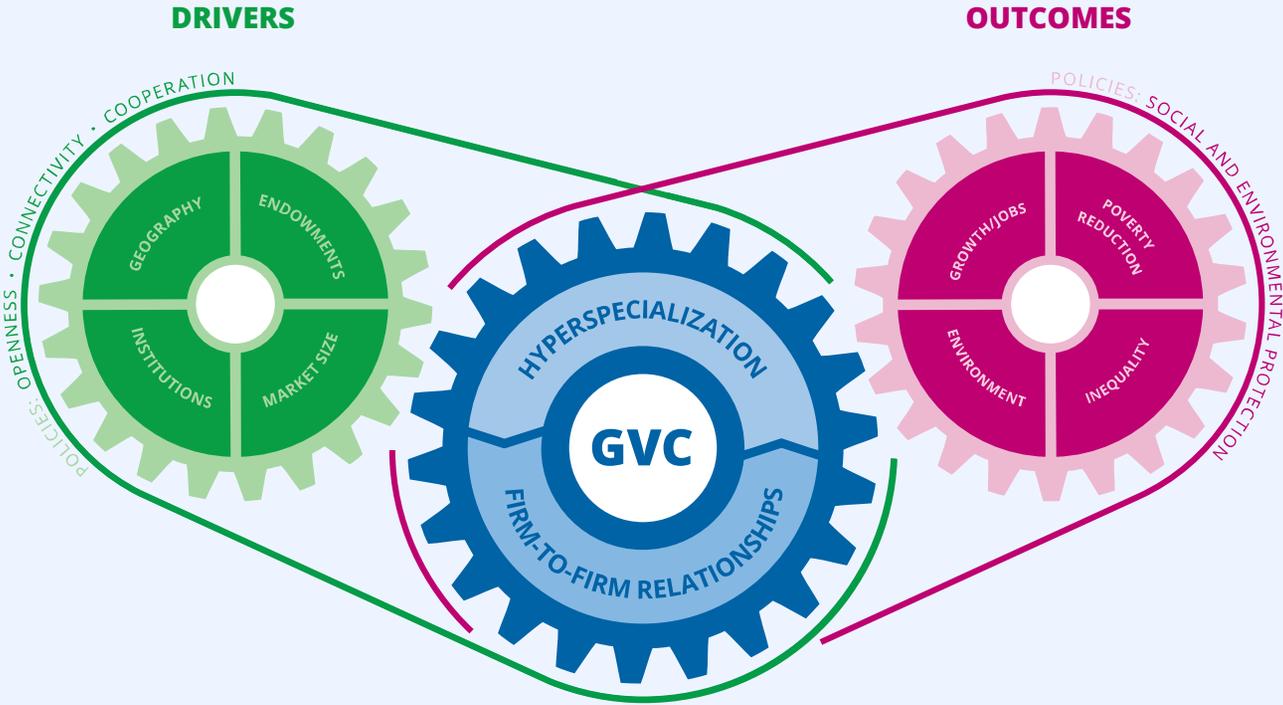
- Low participation
- Limited commodities
- High commodities
- Limited manufacturing
- Advanced manufacturing and services
- Innovative activities



What is a global value chain?

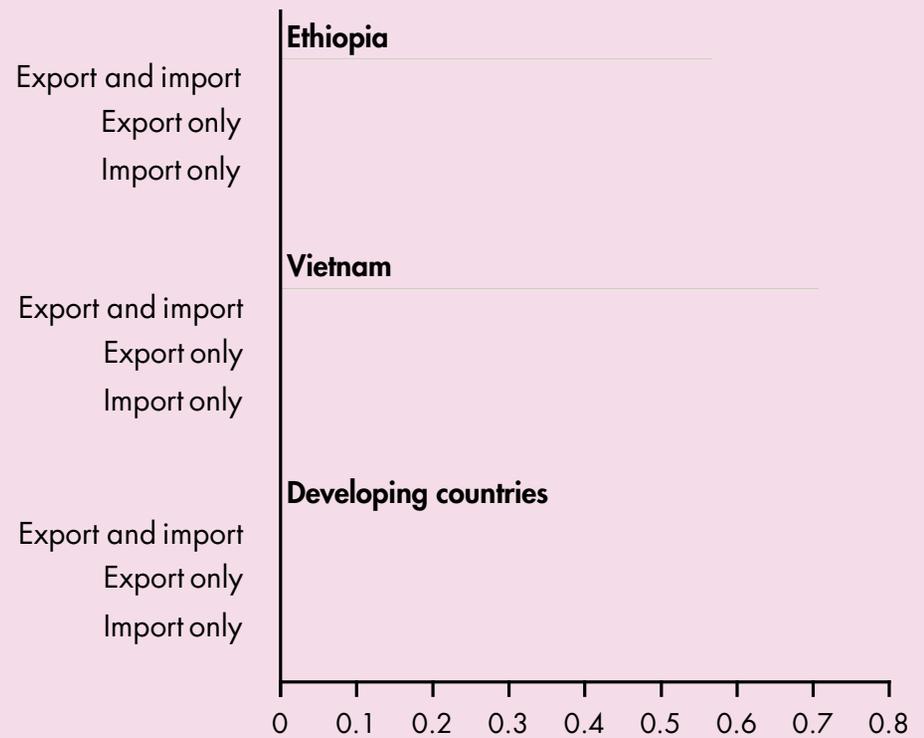


Framework for GVC-led development



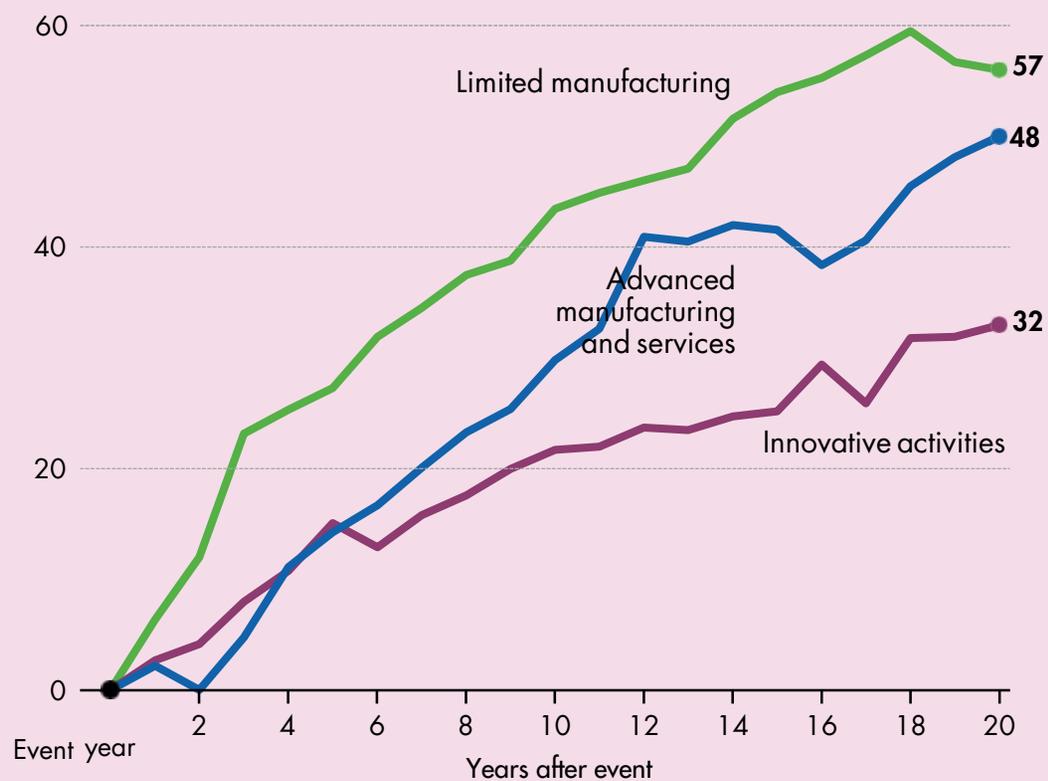
GVC firms are more productive than one-way traders or nontraders

Productivity difference between trading and nontrading firms (%)



Incomes grow most when countries break into simple manufacturing

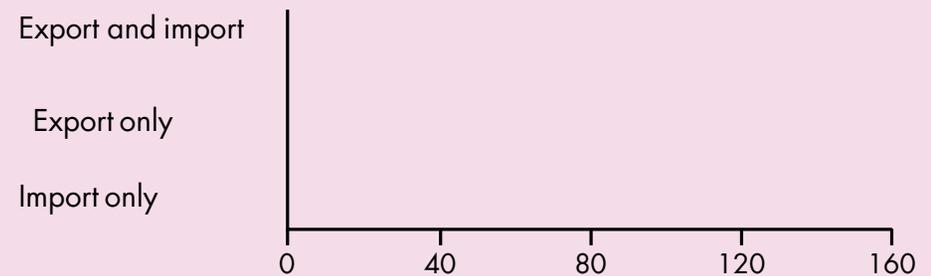
Cumulated change in GDP per capita (%)



In Ethiopia, capital intensity is higher, but so is employment growth

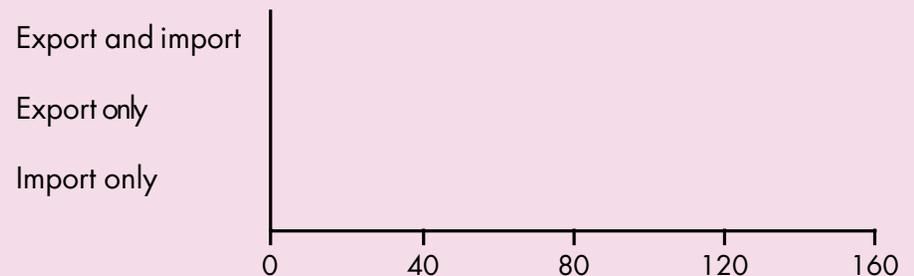
Capital intensity

Difference between trading firms and nontrading firms (%)



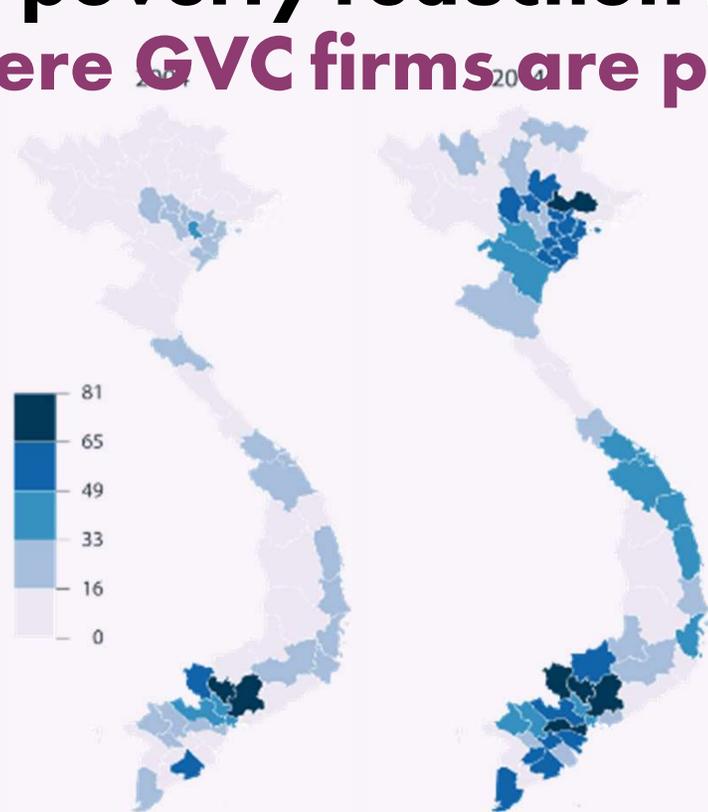
Employment

Before-after difference for firms switching from not trading to trading (%)

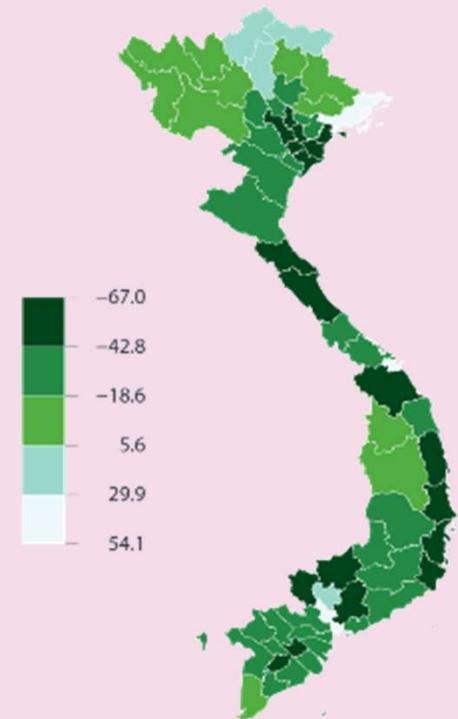


In Vietnam, poverty reduction is greater where GVC firms are present

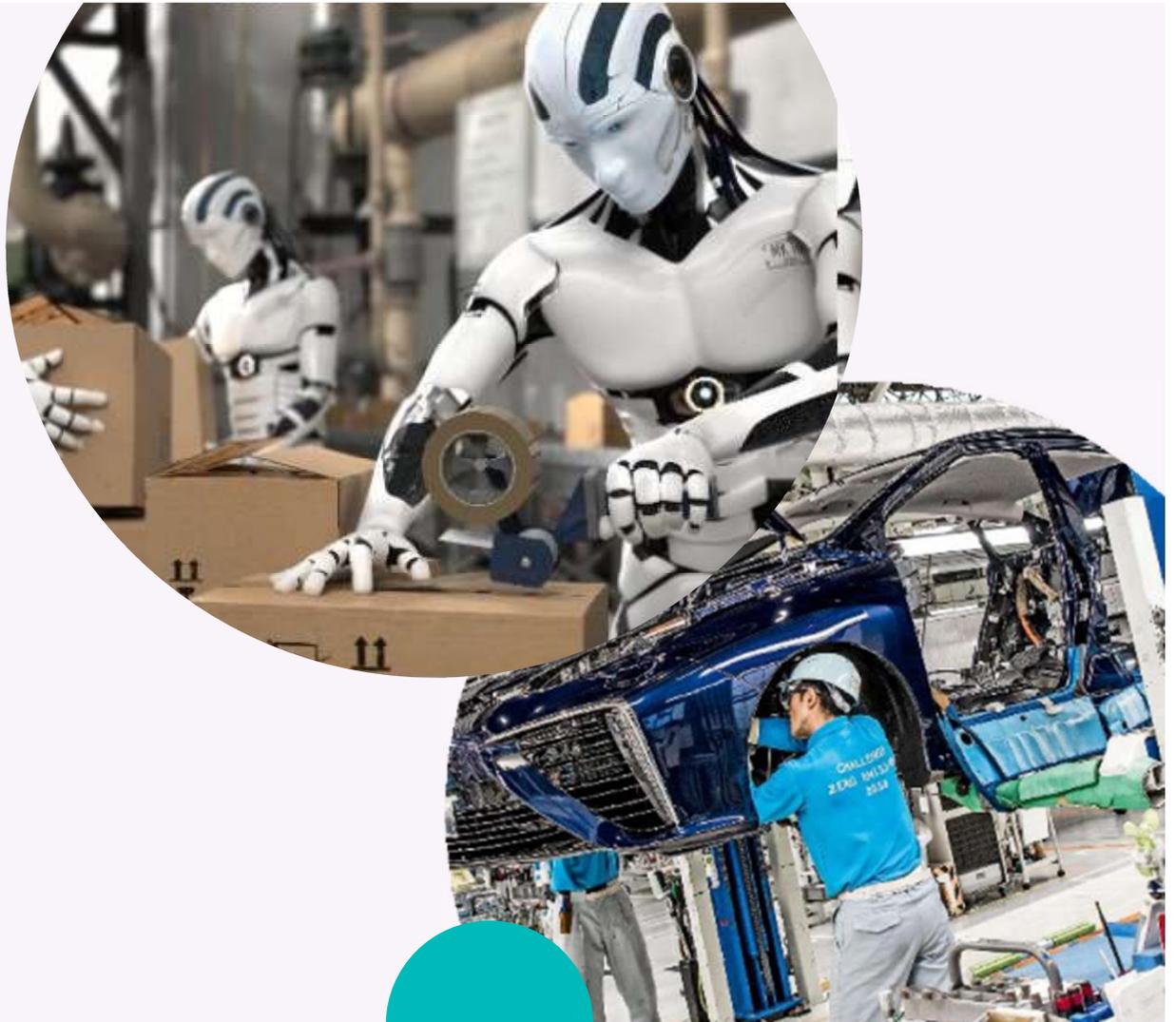
GVC firms in the employment (%)



Change in expenditure poverty rate, 2004–14 (%)

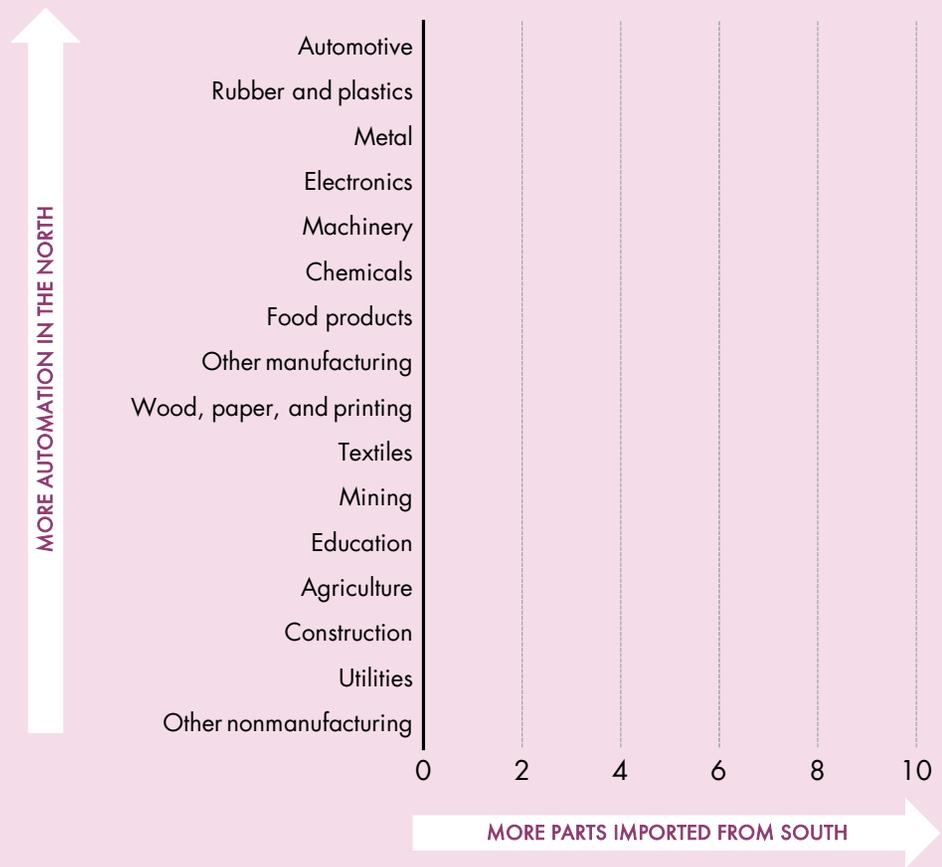


Technologies are changing production and distribution



Increased adoption of industrial robots in the North has promoted imports from the South

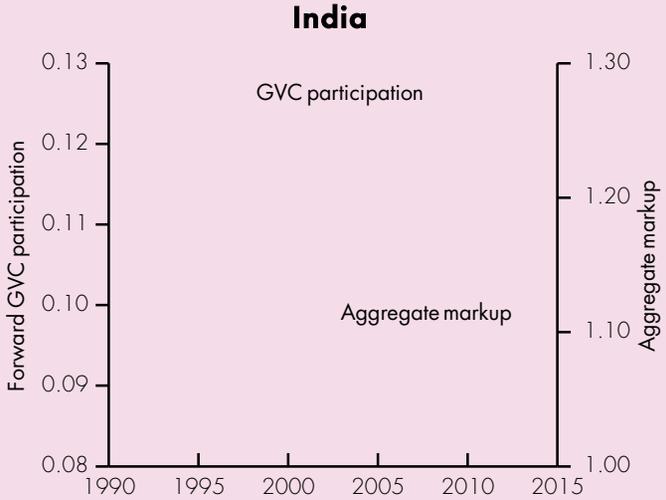
Change in parts imports from developing countries (%)



What are the costs of participation?

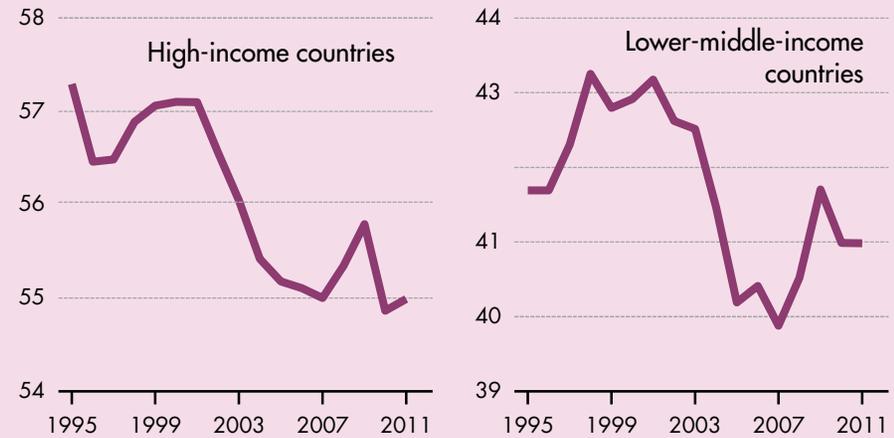


Increasing GVC participation is associated with rising markups in developed countries but falling markups in developing countries

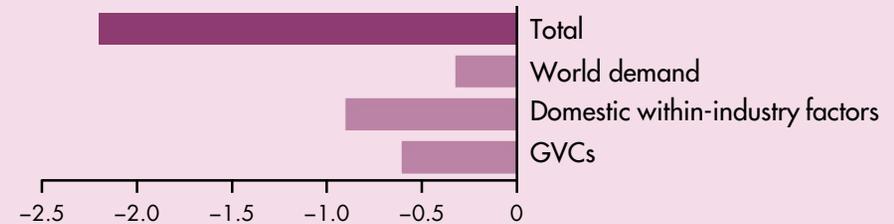


GVCs have contributed to the declining labor share within countries

Labor share over GDP (%)

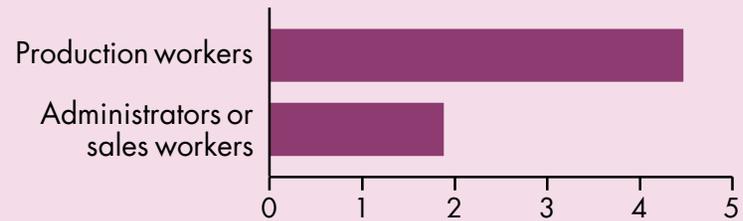


Factors contributing to labor share decline (percentage points)

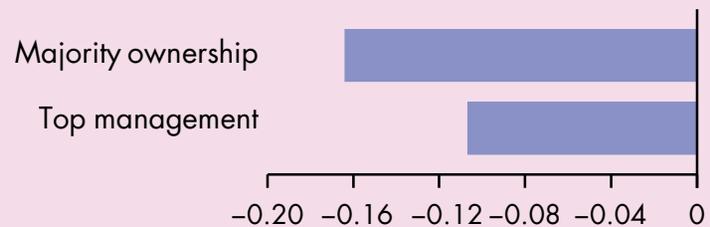


GVCs favor women's employment... but don't break glass ceilings

Female workers in total workers, relative to non-GVC firms (%)



Probability of female owners or managers, relative to non-GVC firms



Raising tax revenue is **challenging** in today's globalized world

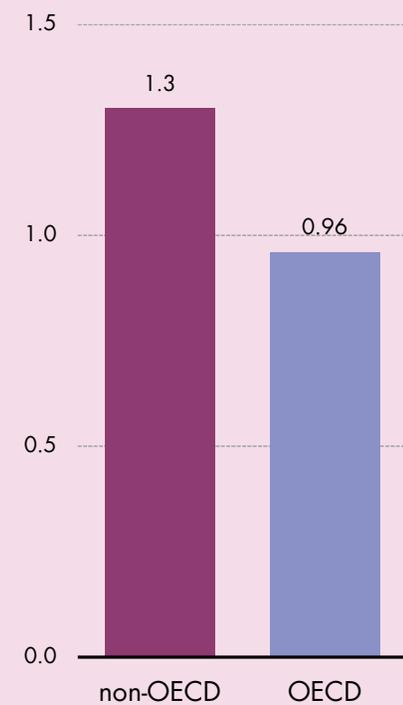
- Corporate income taxes have declined by nearly 50 percent since 1990
- As a share of GDP, non-OECD countries lose the most from profit shifting

Revenue loss from profit shifting

US\$, billions



% of GDP



Impact of globalization on tax structures makes it harder to tax winners and compensate losers

Corporate tax rates and personal labor income tax rates for top 1% and median workers in 65 economies over 1980-2007



Source: Egger, Nigal and Strecker, 2019

GVCs can also be a mixed blessing for the environment



Disadvantages

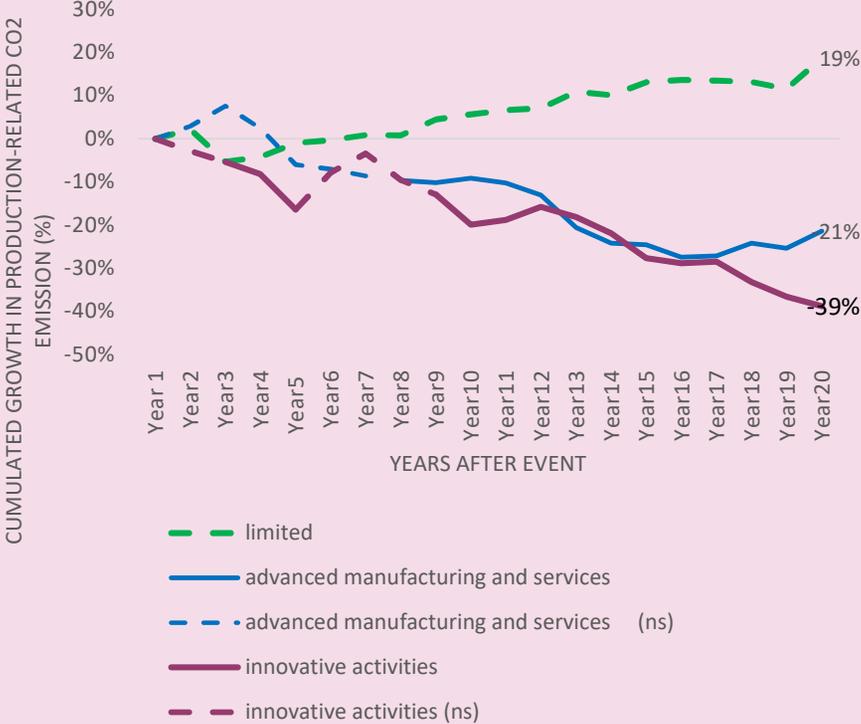
- Excess transport
- Pollution haven
- Waste

Advantages

- New environmental goods
- Lead firms push standards upstream

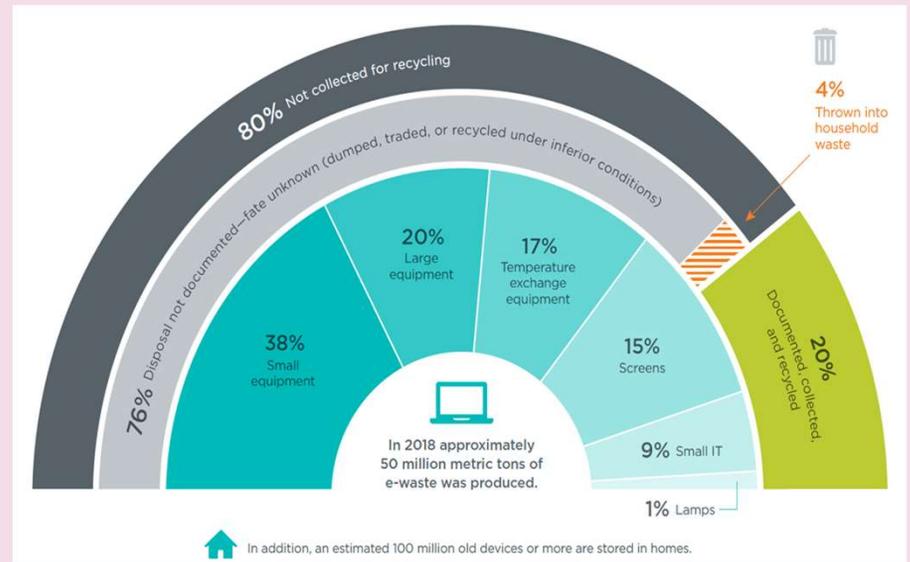
While GVCs are a mixed blessing for the environment production related CO2 emissions drop in most countries

Production related CO2 emissions after GVC transitions



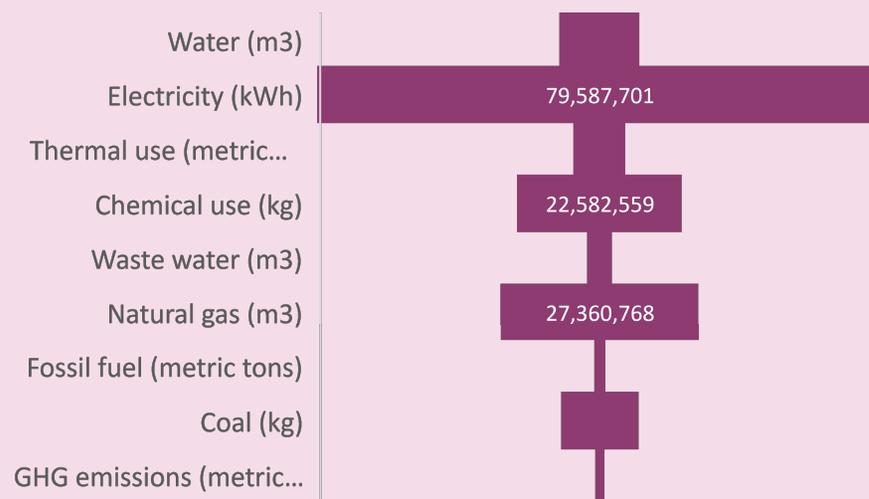
GVCs are associated with... more shipping and more waste

The world produced 50 million metric tons of e-waste in 2018



Relational GVCs help alleviate environmental concerns when the public sector is involved

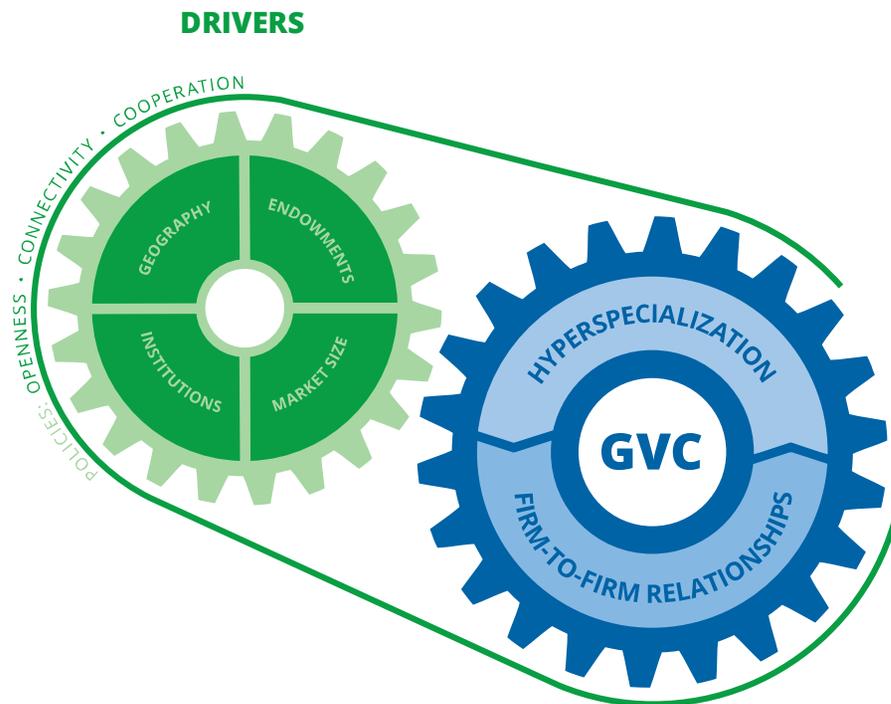
Total reported savings generated by the Swedish Textile Water Initiative in 5 partner countries, 2015-17



What are the drivers of participation and the appropriate response?



GVC-led development: Drivers and policies for participation



What are the impacts of removing specific constraints?

If Africa...

	reduced tariffs to level in ECA (best performer)	impact on GVC part. share in %
East Asia & Pacific	-2.62	5%
Latin America & Caribbean	-3.26	7%
Middle East & North Africa	-5.75	16%
South Asia	-7.98	20%
Sub-Saharan Africa	-5.54	13%

	increased FDIs to level in ECA (best performer)	impact on GVC part. share in %
East Asia & Pacific	0.13	1%
Latin America & Caribbean	0.20	2%
Middle East & North Africa	0.10	1%
South Asia	1.32	16%
Sub-Saharan Africa	1.44	16%

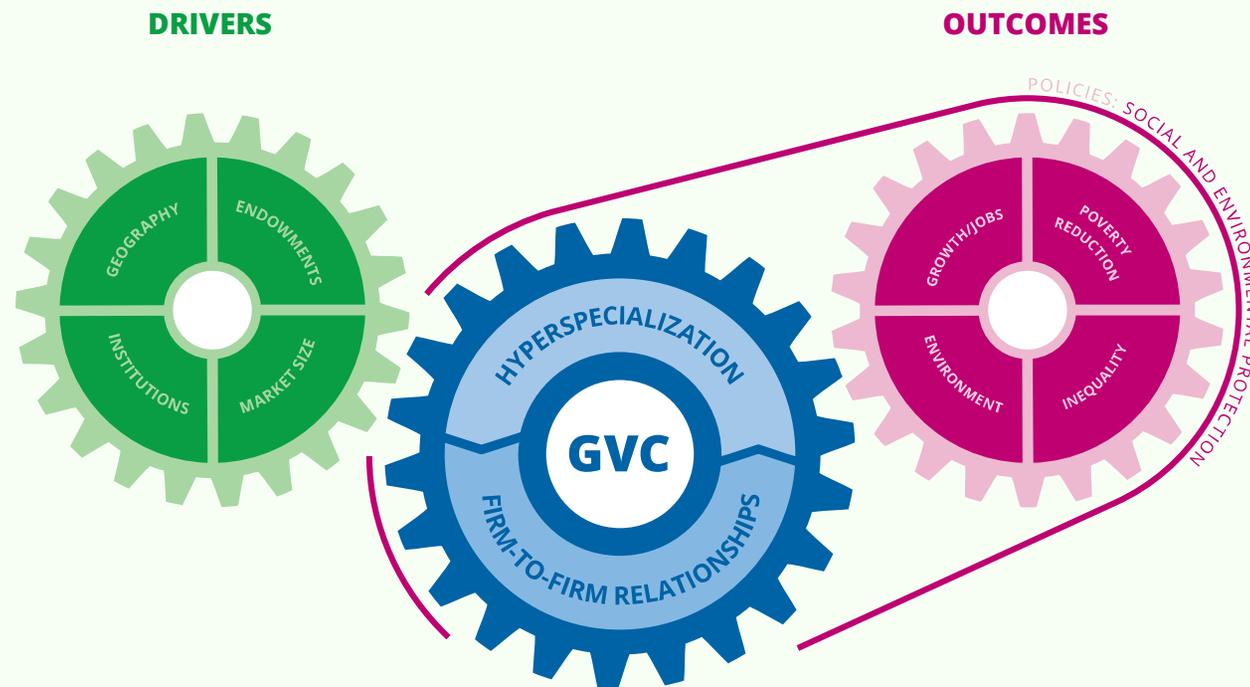
	increased political stability to level in EAP (best performer)	impact on GVC part. share in %
Europe and Central Asia	0.07	1%
Latin America & Caribbean	0.01	0%
Middle East & North Africa	1.15	28%
South Asia	0.89	20%
Sub-Saharan Africa	0.39	8%

Fundamentals need not determine destiny—policies matter

FUNDAMENTALS	To Limited Manufacturing	To advanced manufacturing and services	To innovative activities
Endowments	FDI: Investment policy and business climate		
	Competitive labor costs: exchange rates, labor regulation	Skill	to finance and technology Education, training, and skill increasingly important
Location	Trade inf	nfra /	Advanced logistics services: Multimodal, digitally-enabled transport infrastructure investment; liberalized transport services environment
	Trade fa	isport	Basic ICT connectivity: Infrastructure investment Advanced ICT services: Infrastructure, competitive markets (liberalized ICT services environment)
Market size	Access to inputs: Liberalized access to key inputs (selective tariffs / NTM reform)	Access to inputs: Broad-based liberalization – goods and services – including trade, investment, and domestic regulatory policy	
	Market access: Preferential trade agreements		Market access: Deep trade agreements (incl investment and services)
Institutions	Governance: political stability	Governance: policy predictability	Deepen trade cooperation and commitments
		Legal: contract enforcement	
	innovation: basic standards regime	innovation: innovation ecosystem (R&D policy, industry-academia links, etc)	R&D capacity and IPR protection

No one size fits all — policy priorities evolve

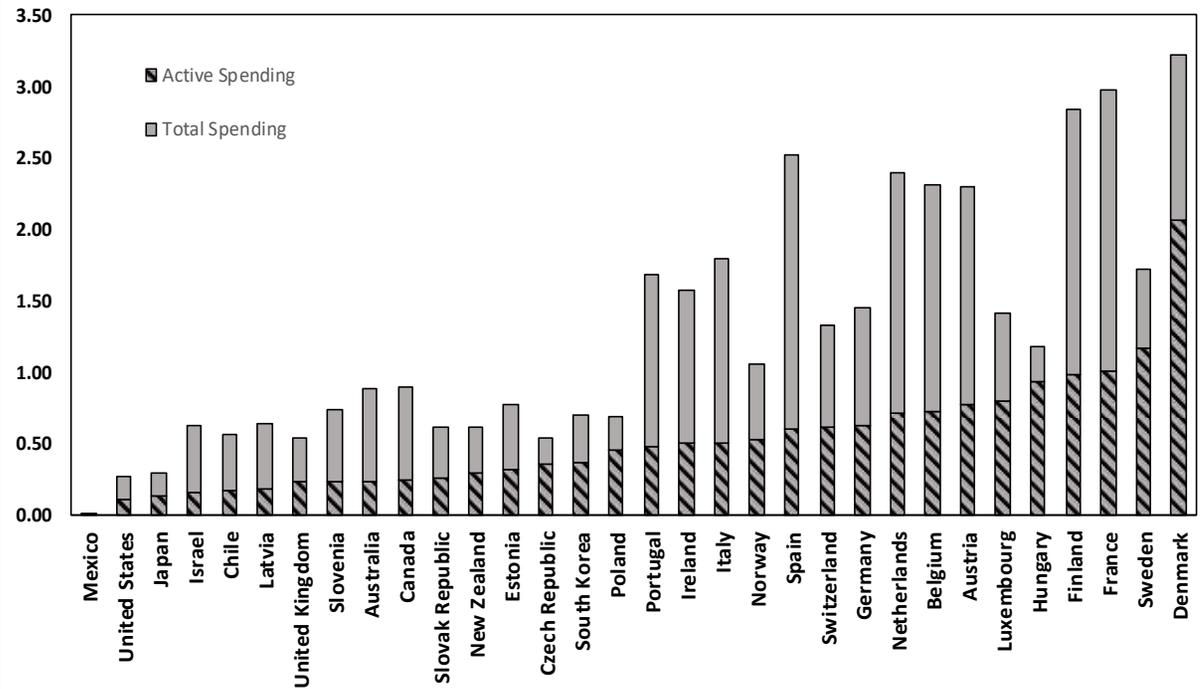
GVC-led development: Policies for benefitting from GVCs



Policies can help ensure benefits are shared and sustained

- Expand adjustment assistance
- Support active labor market programs to assist with retraining and job search
- Avoid rigid labor market regulation

Spending on total and active labor market policies as a percentage of GDP, 2016



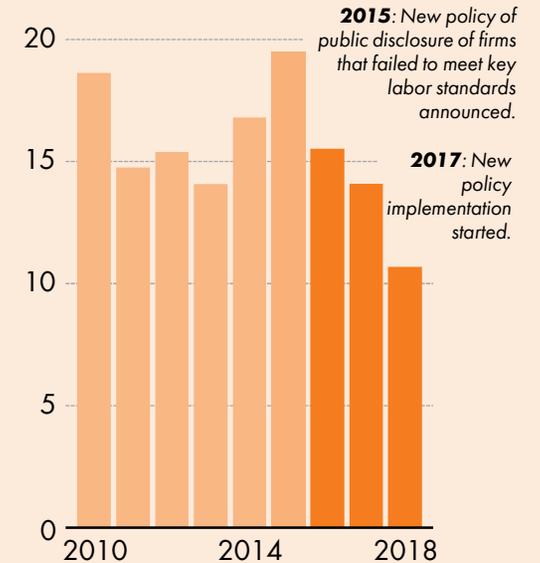
Working with firms improves working conditions and health and safety standards, among other benefits

Working conditions improved in apparel sector firms participating in the ILO-IFC Better Work Vietnam program

Average noncompliance rates, by years of firms participation in program (%)



Average noncompliance rates, all firms (%)



Cooperation on trade

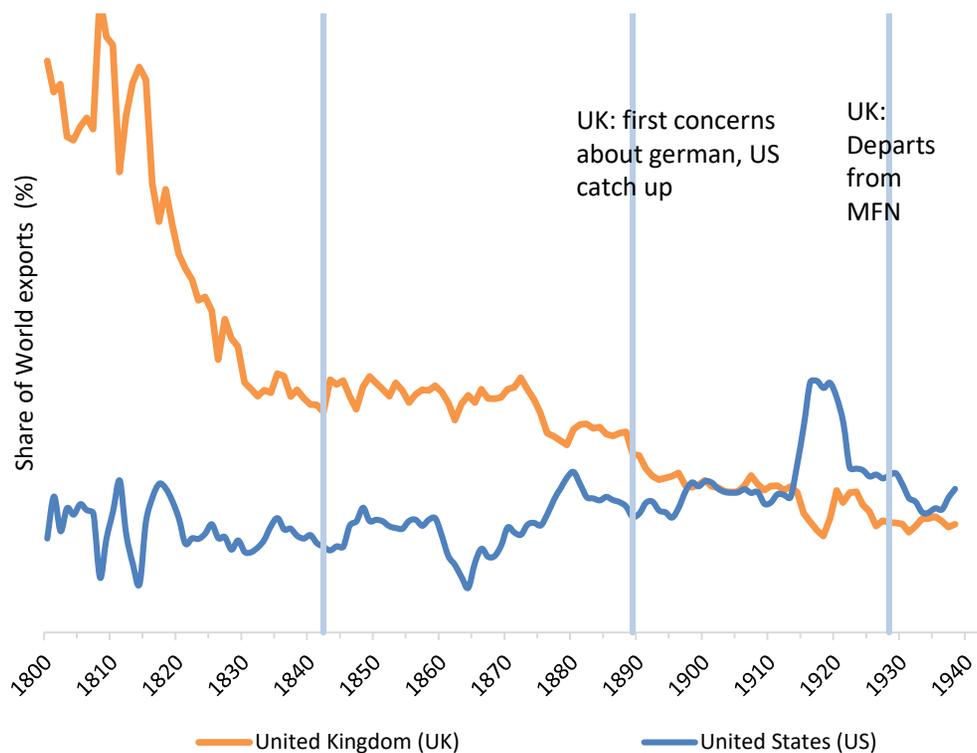
Multilateral trading systems especially important for development in a GVC world

It is under stress because of tensions between existing rules and forces of economic convergence

Revival of the system will depend on deepening trade cooperation and extending cooperation in new areas

The threat to rules-based trade may be a historical inevitability

Shifts in trade shares and changes in policy stance: The UK and US Share of World Trade, 1800-2016



Deepen traditional trade cooperation



Reduce tariff and nontariff barriers, especially in agriculture and services (especially air and maritime)



Combat tariff escalation



Stronger rules on subsidies and SOEs



Reconsider special and differential treatment

Look beyond trade to keep trade **open and beneficial**



Taxes



**International
data flows**

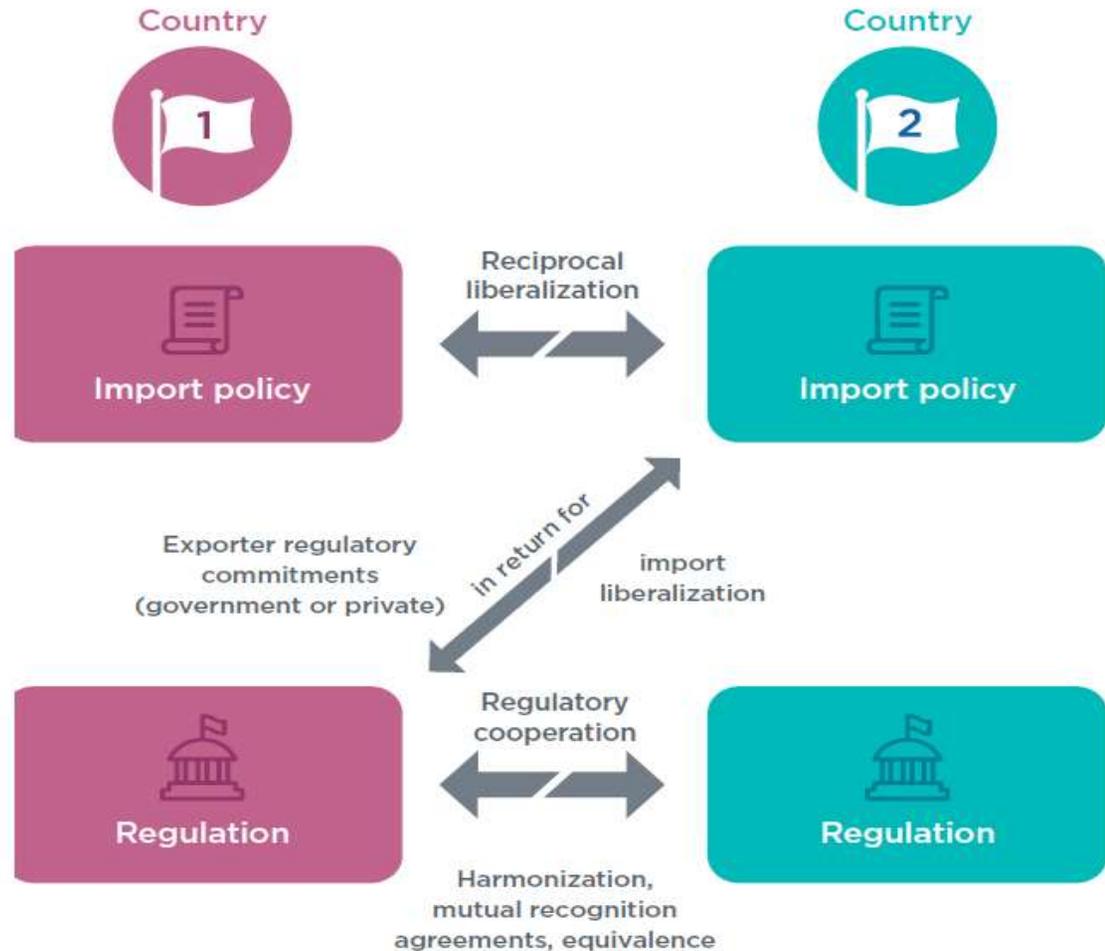


Competition

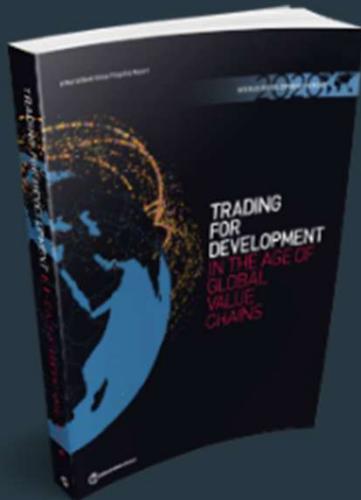


Environment

How the proposed approach to regulation is different



Source: WDR 2020 team.



World Development Report 2020

Trading for Development in the Age of
Global Value Chains

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