

A World Bank Group Flagship Report



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



WORLD BANK GROUP

The international fragmentation of goods production includes both goods parts and services tasks

Software development



Product design



Accounting



HR and payroll management



Driven by, and boosting demand for, information, communication and transport services

In parallel, the international fragmentation of services production

Call Centre for customer service, etc.



Web hosting and webmaster services



Medical transcription services

A screenshot of a medical transcription software interface. It shows a search criteria section on the left and a table of transcription results on the right. The table has columns for ID, Service, Provider, Patient, Status, Transcription, and Links. The results are listed in a table with multiple rows, each containing a unique ID, service name, provider name, patient name, status, transcription details, and links to the transcription file and the original audio file.

ID	Service	Provider	Patient	Status	Transcription	Links
1011111111	Medical Transcription	Medical Transcription Services	Medical Transcription Services	Pending	Medical Transcription Services	1 Link 1 Page
1011111111	Medical Transcription	Medical Transcription Services	Medical Transcription Services	Pending	Medical Transcription Services	1 Link 1 Page
1011111111	Medical Transcription	Medical Transcription Services	Medical Transcription Services	Pending	Medical Transcription Services	1 Link 1 Page
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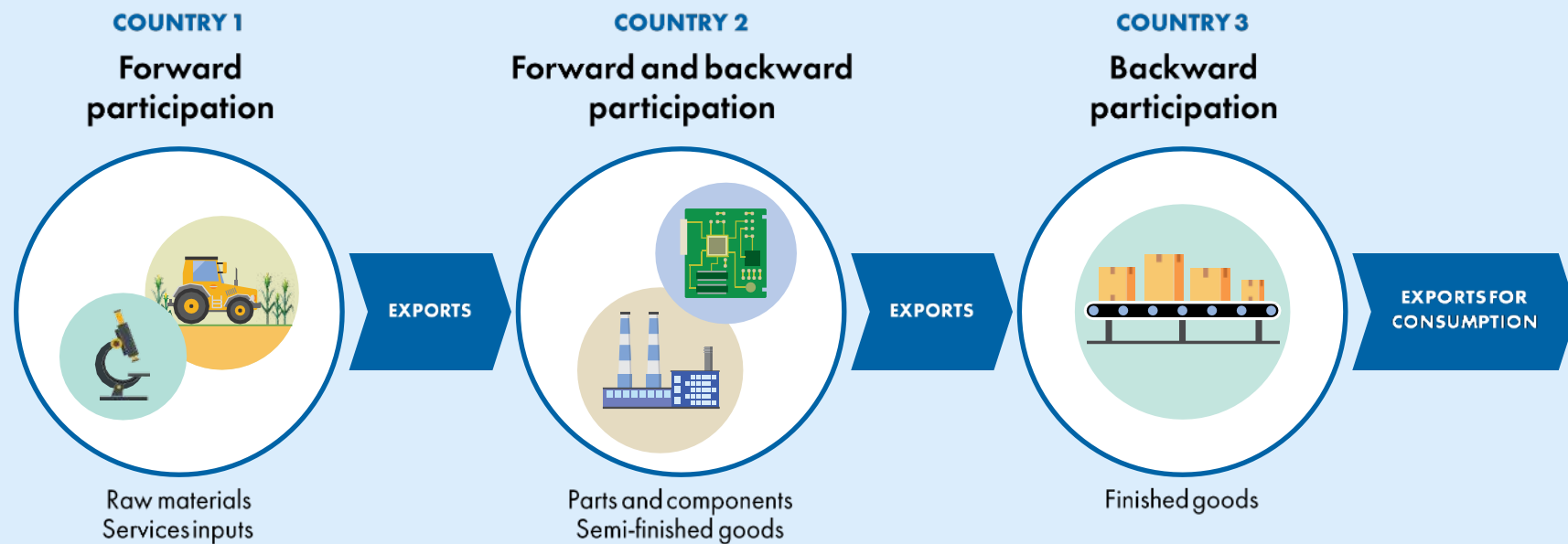


Outsourced consultations and diagnostics



is creating new opportunities for trade

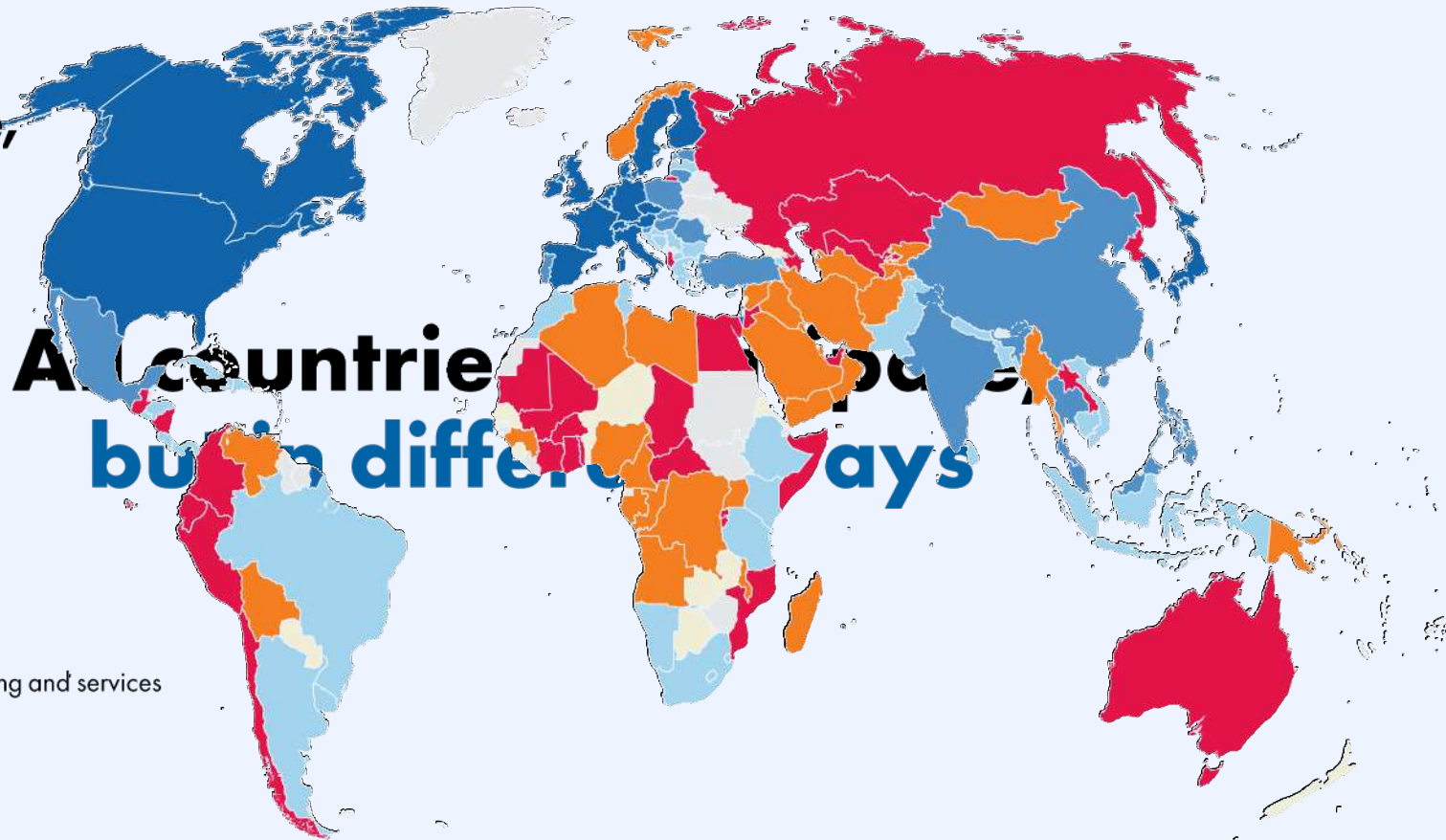
What is a global value chain?



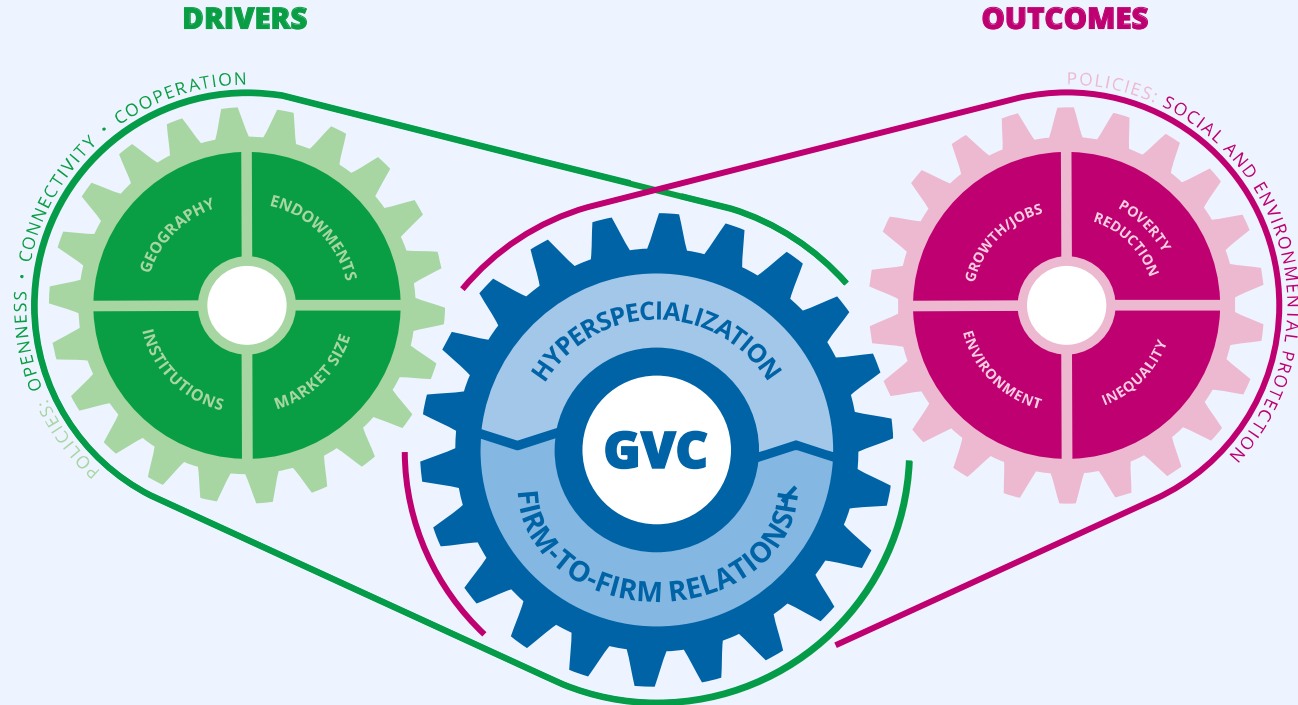
**All
countries
participate,
but in
different
ways**

GVC linkages, 2015

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

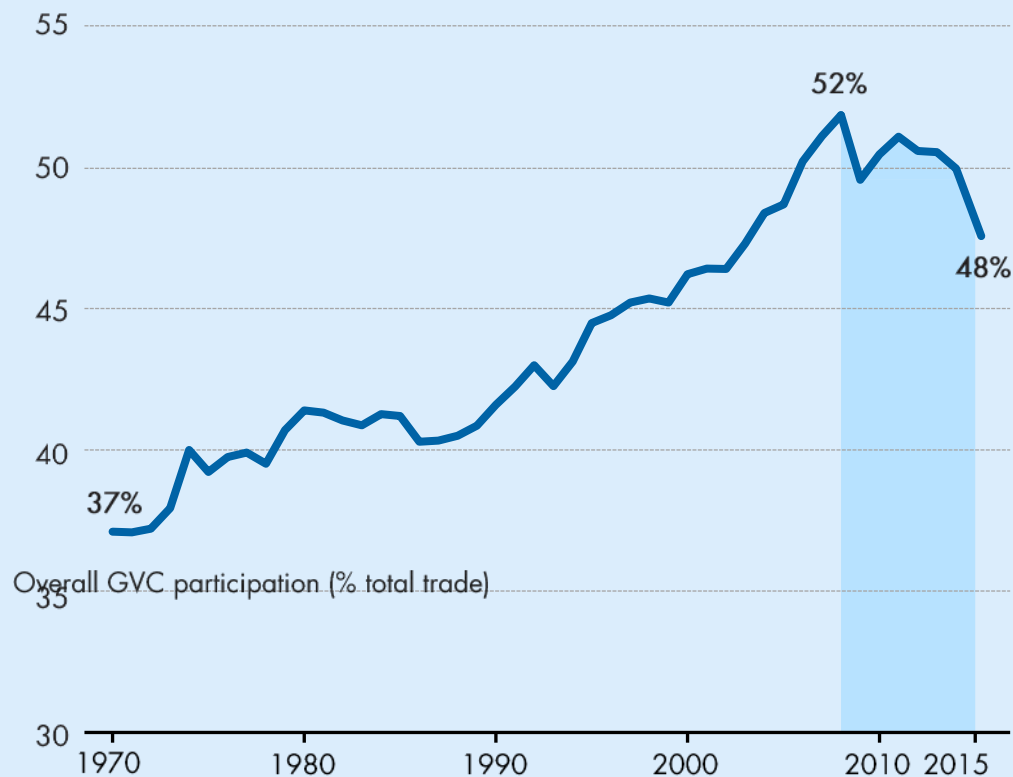


Framework for GVC-led development



Since 2008, GVC expansion has slowed

GVCs' share of global trade (%)



Overall GVC participation (% total trade)

35

30

1970

1980

1990

2000

2010

2015



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

Main points 1

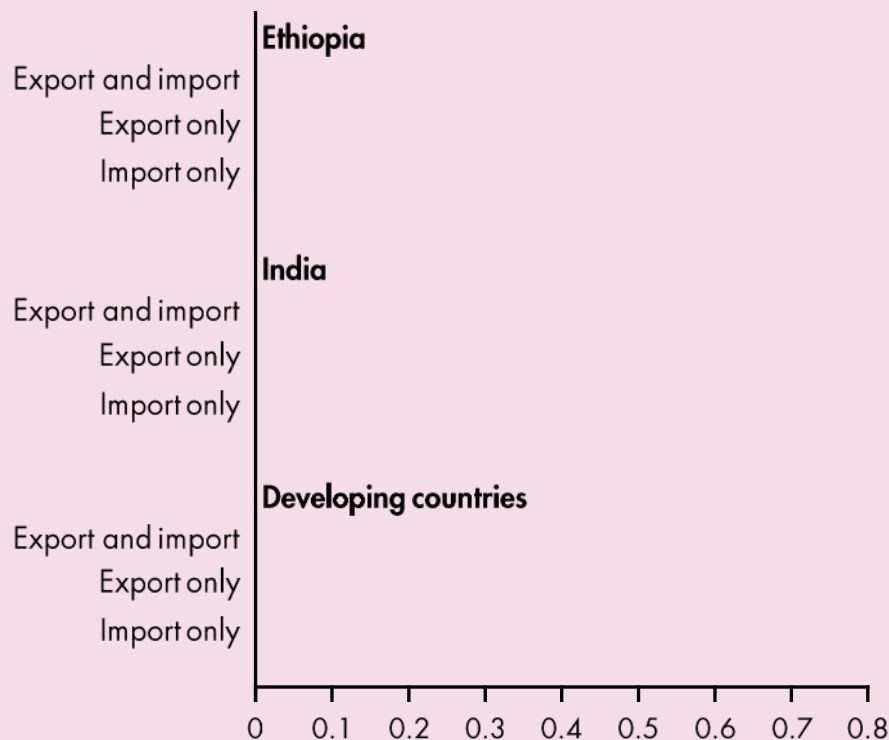
- *India has both underachieved and overachieved in GVCs.*
 - Failure to take full advantage of the first transition: from commodities to basic labor-intensive manufacturing GVCs
 - And precocious second transition: from basic manufacturing to advanced manufacturing and services GVCs
- *Two questions:*
 - Is it too late to engage more fully in basic manufacturing given the twin threats of automation and protection?
 - Is it possible to rely primarily on advanced manufacturing and services to deliver growth and jobs?

Main points 2

- The answer to both questions is no.
 - Not too late. Technological change is at this stage more boon than curse. And protectionism is not inevitable.
 - Jobs for the less-skilled will not come from advanced manufacturing and services alone - unless there is an implausibly rapid growth in the skilled.
- Then what is to be done?
 - Deeper domestic reform to remedy weakness in manufacturing and to reinforce strength in services.
 - International cooperation to spur domestic reform and secure access to foreign markets.
 - But cooperation needs to extend beyond trade to ensure trade stays open and beneficial.

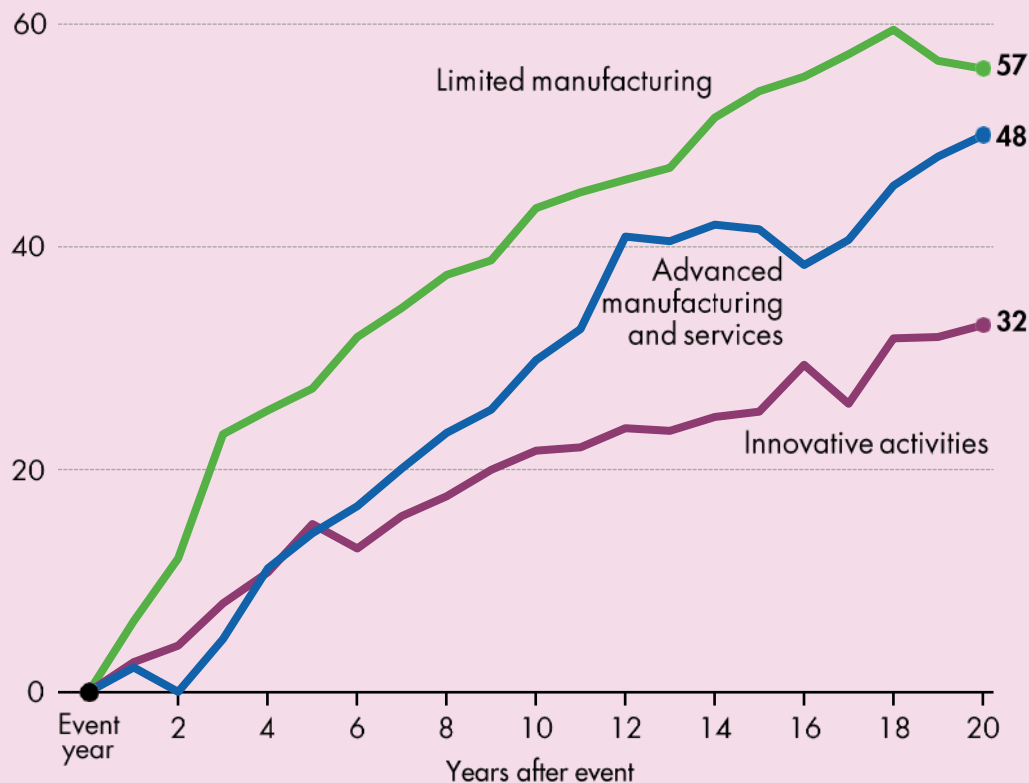
GVC firms are more productive than one-way traders or nontraders

Productivity difference between trading and nontrading firms (%)



Incomes grow most when countries break into **simple manufacturing**

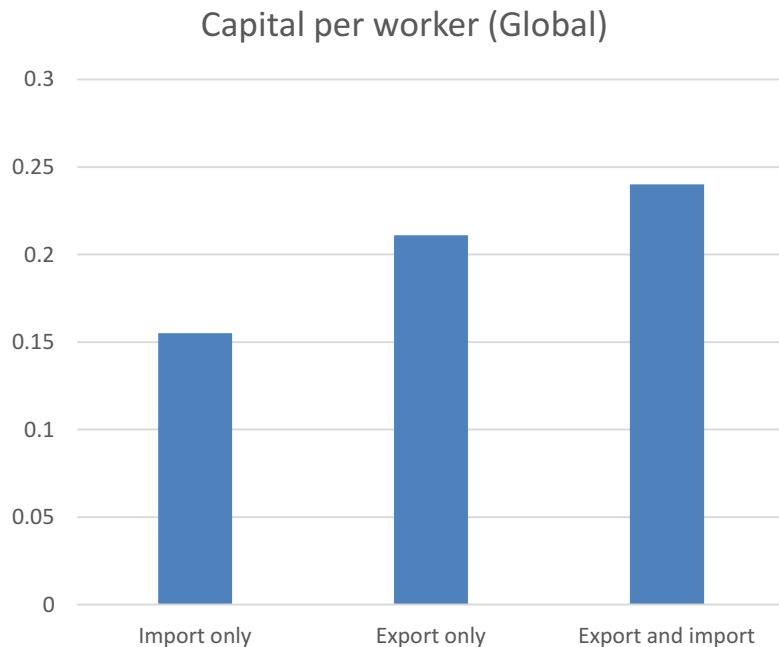
Cumulated change in GDP per capita (%)



GVC firms are more capital intensive but also see faster employment growth

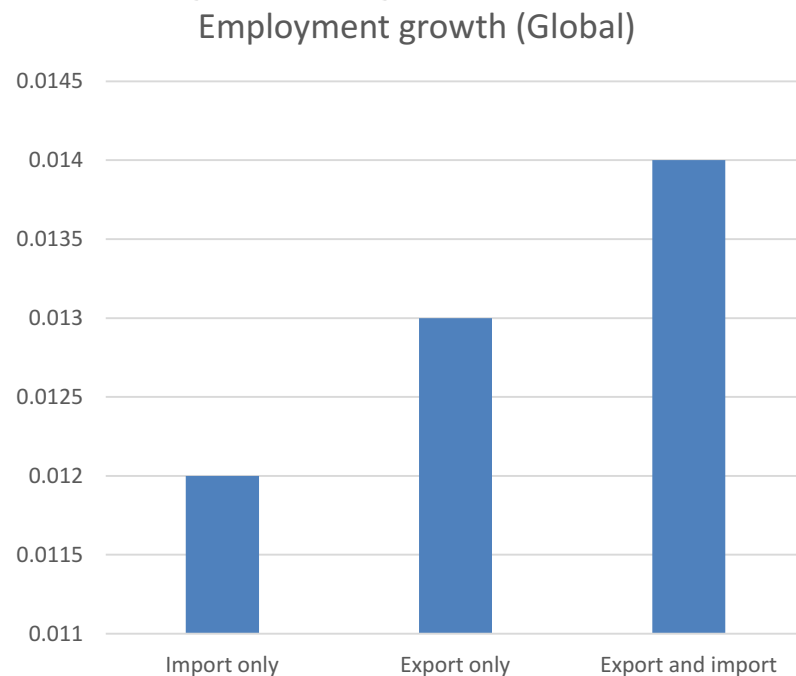
Capital intensity

Difference between trading firms and nontrading firms (%)



Employment

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

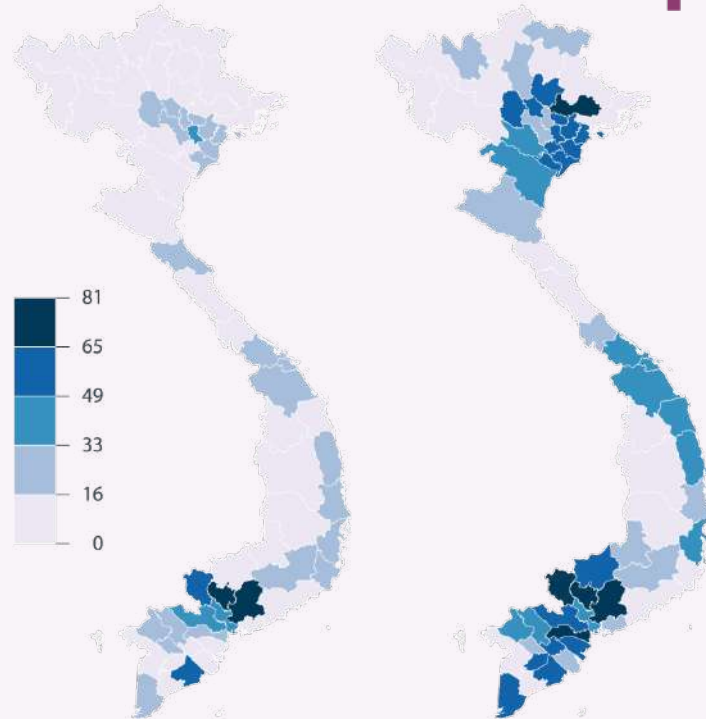


In Vietnam, poverty reduction is greater where GVC firms are present

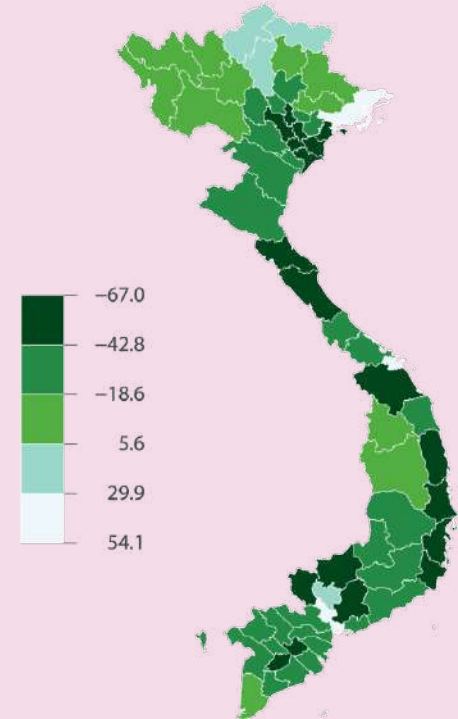
GVC firm in the top 10 provinces (%)

2007

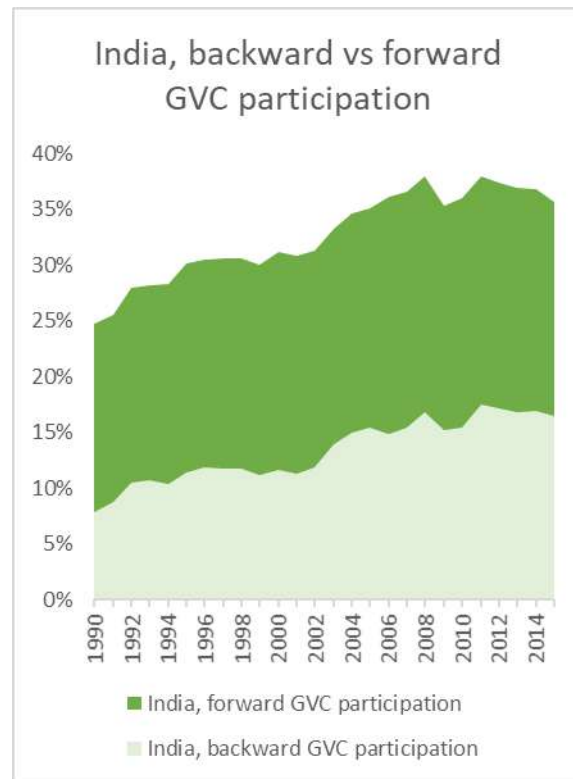
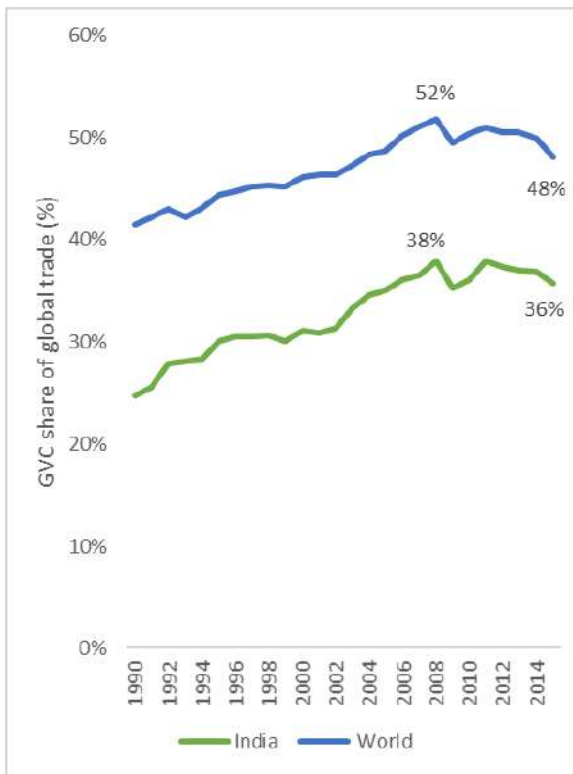
2014



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



India's GVC linkages are about a quarter less than the global average



India has underperformed in its transition to basic manufacturing

Figure 1(a). Exports of Apparel
Post Take Off (Initial year = 100)

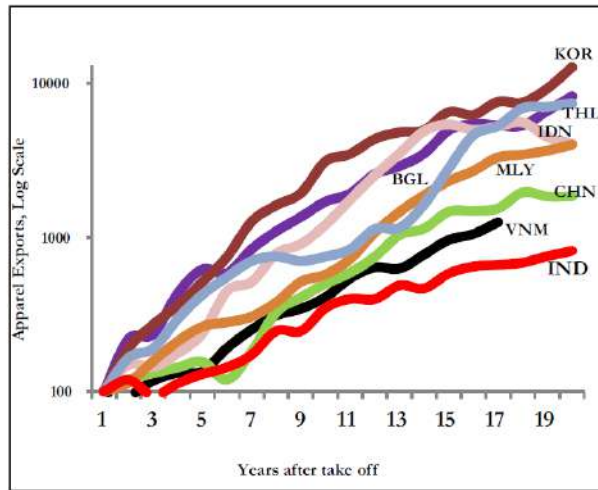
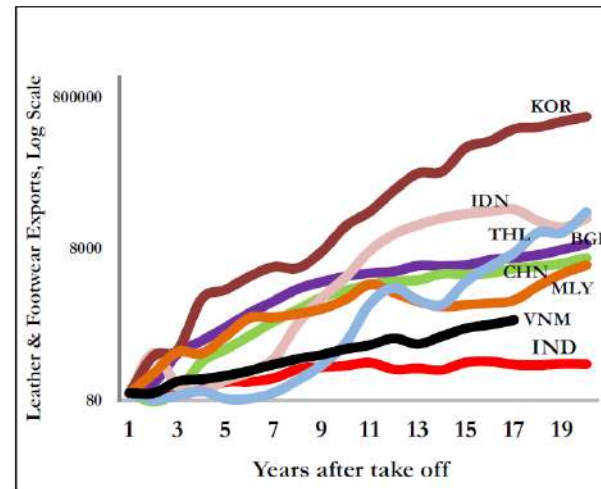


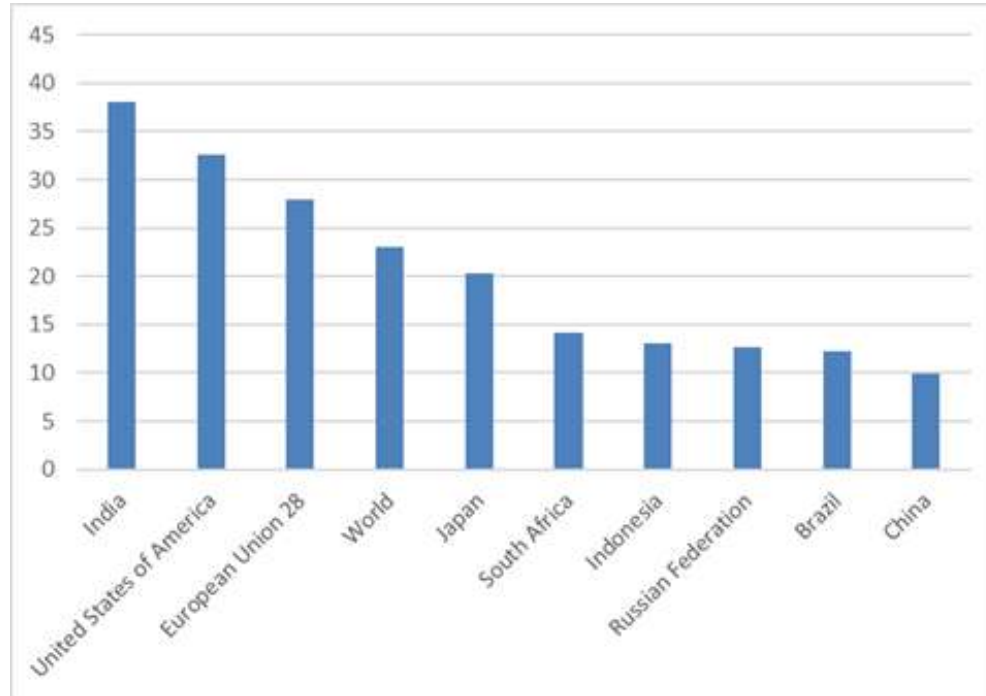
Figure 1(b). Exports of Leather & Footwear
Post Take Off (Initial year = 100)



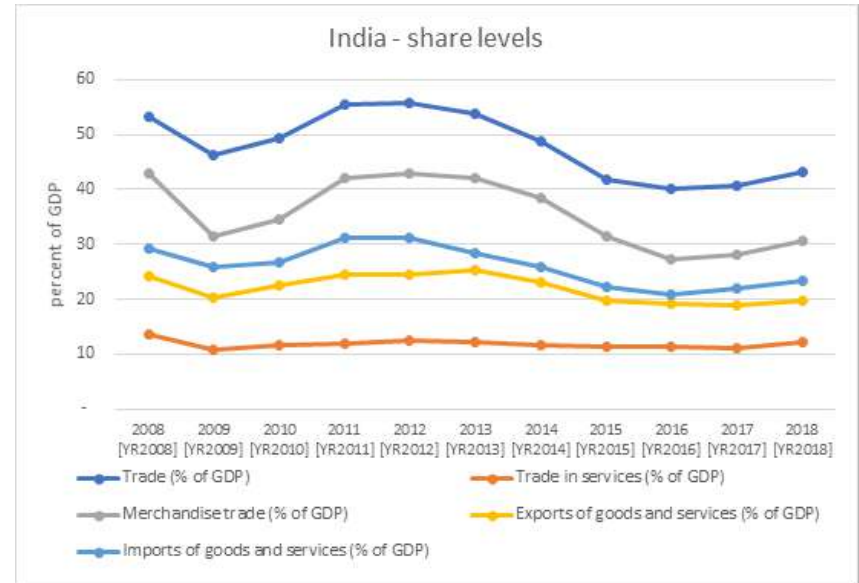
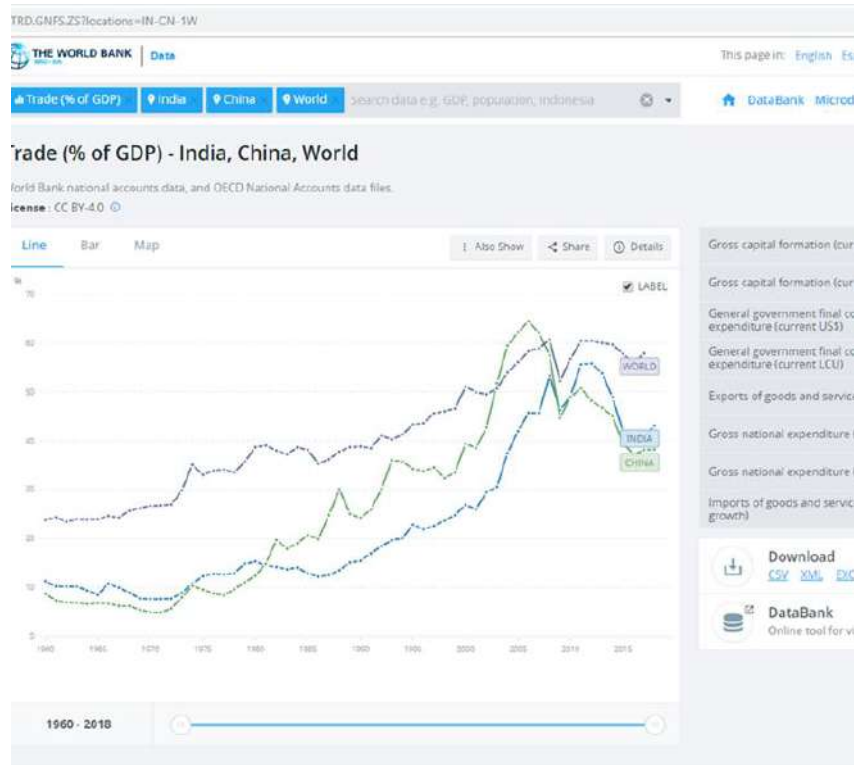
Source: Johnson, Ostry, Subramanian(2010) and World Bank Database

But has developed a strong comparative advantage in services trade

Share of services exports in total goods and services exports, 2018



The declining share of India's trade in GDP



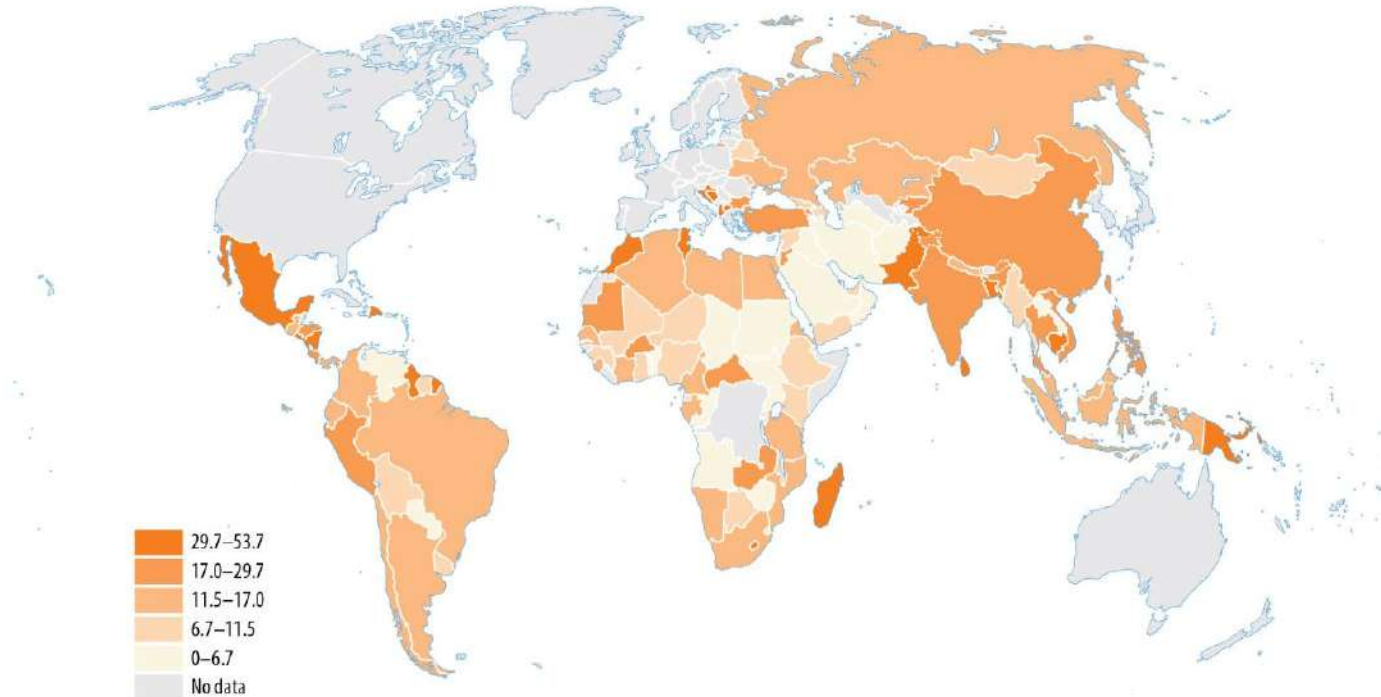
Technologies are changing production and distribution



Rapid Technological Change

A significant share of India's goods exports can be produced by robots

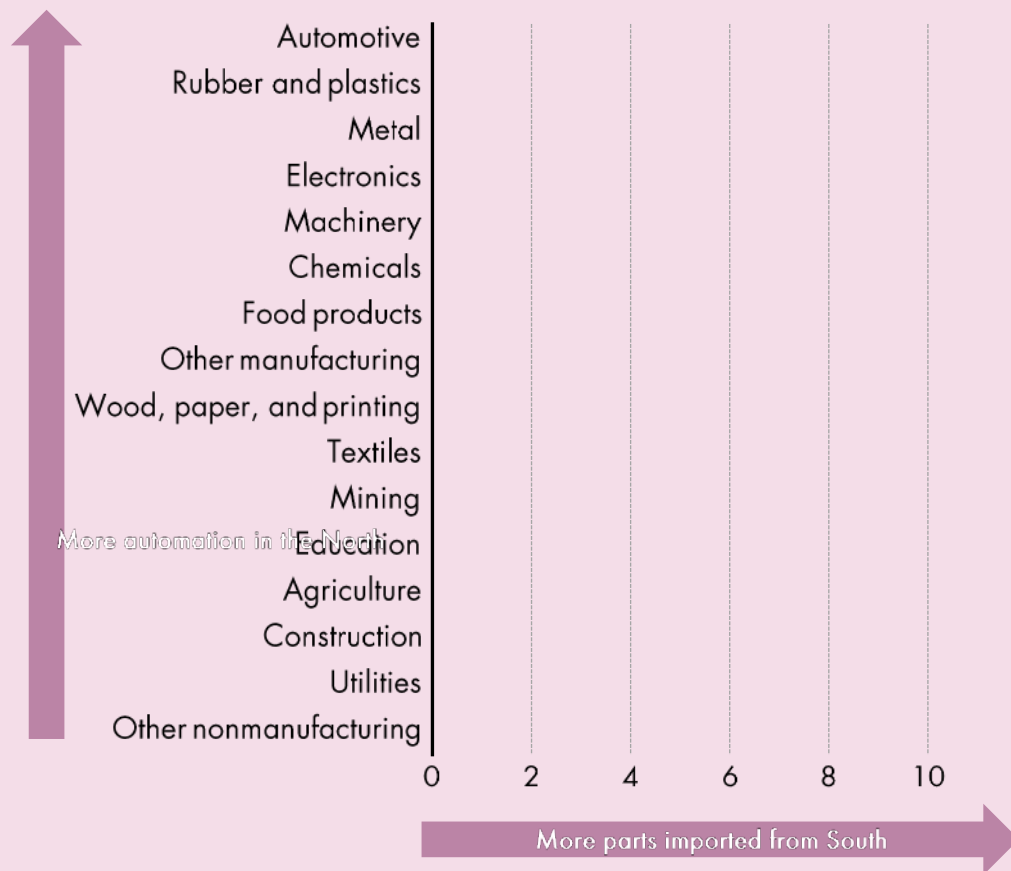
Percent of total exports to OECD countries



Source: WDR 2020 team, based on Artuc, Bastos, and Rijkers (2018).

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

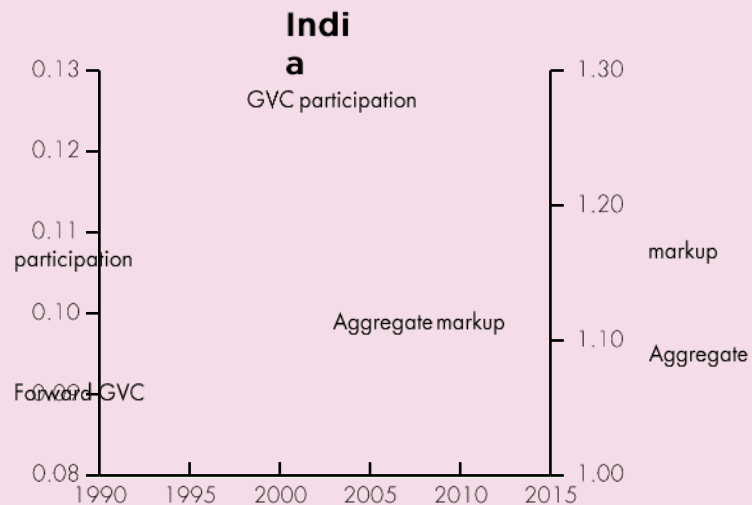
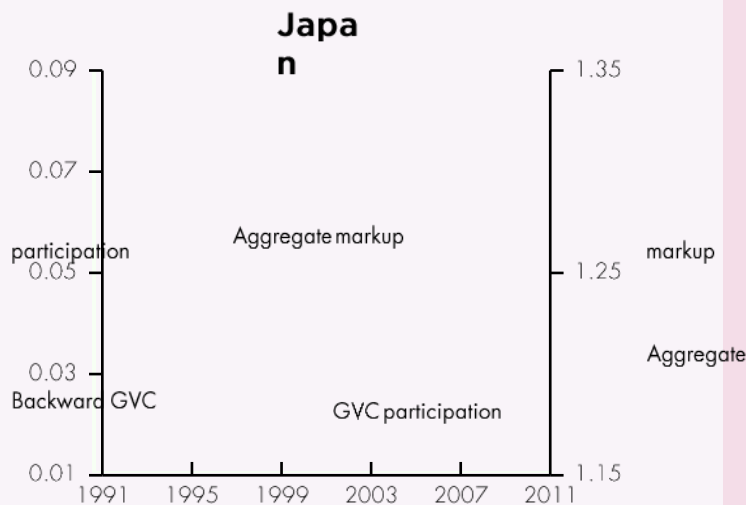
Change in parts imports from developing countries (%)



What are the costs of participation?

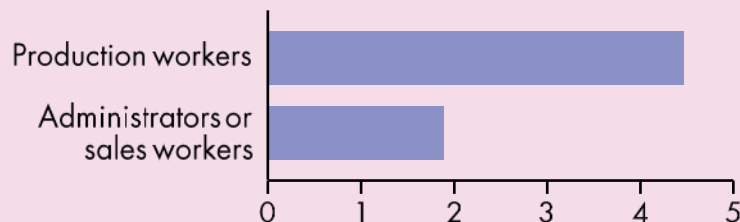


Increasing GVC participation is associated with rising markups in developed countries but falling markups in developing countries

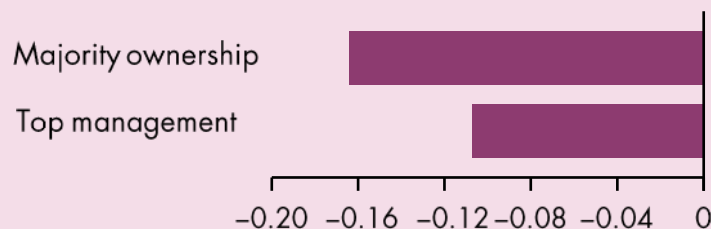


GVCs favor women's employment... but don't break glass ceilings

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



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

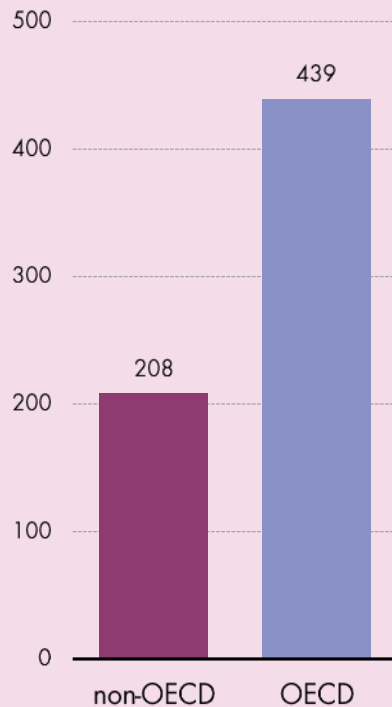


Raising tax revenue is **challenging** in today's globalized world

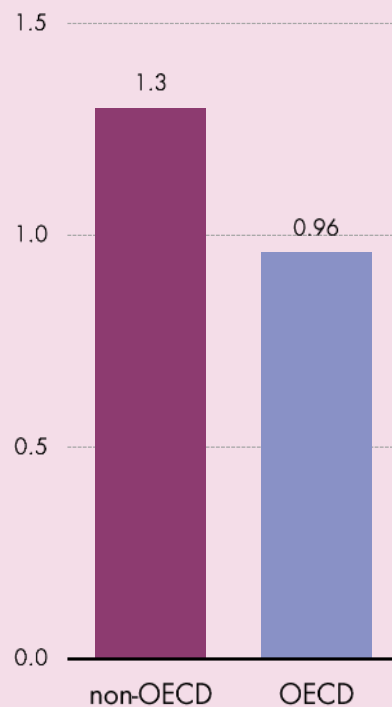
- Corporate income taxes have declined by nearly 50 percent since 1990
- As a share of GDP, non-OECD countries lose the most from profit shifting

Revenue loss from profit shifting

US\$, billions

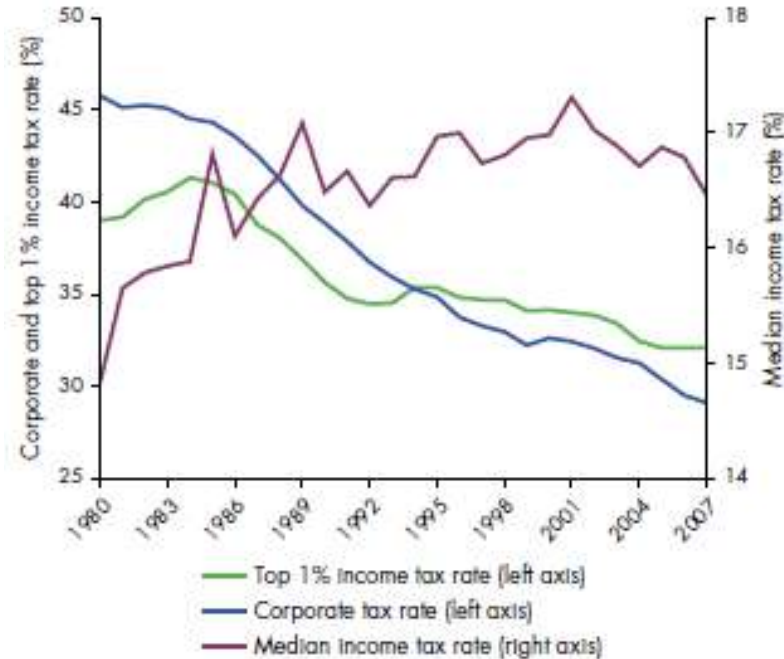


% of GDP



Impact of globalization on tax structures: 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, Nigai, and Strecker 2019.

GVCs can also be a **mixed blessing** for the environment

Disadvantages

- Excess transport
- Waste
- Pollution haven

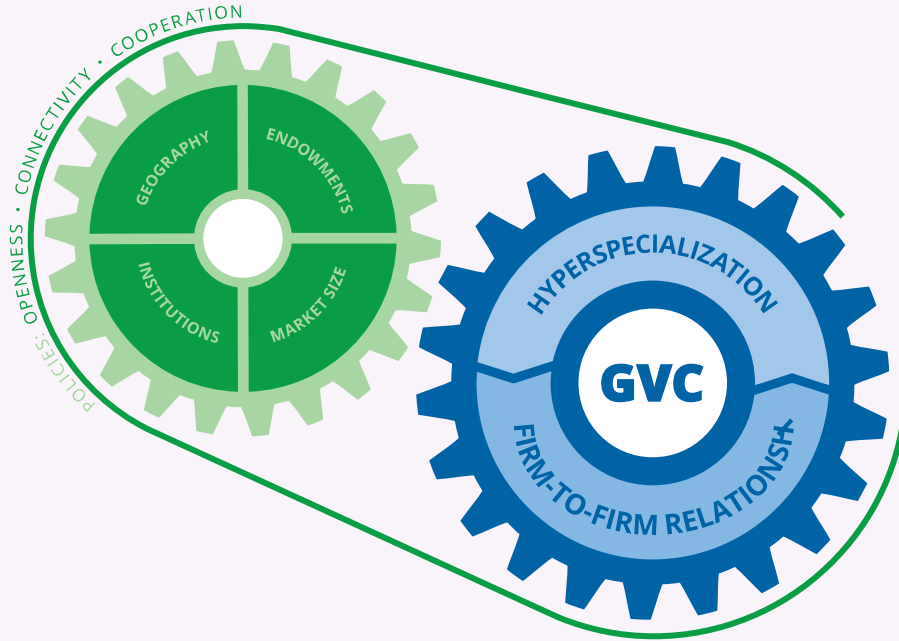
Advantages

- Lead firms push standards upstream
- New environmental goods

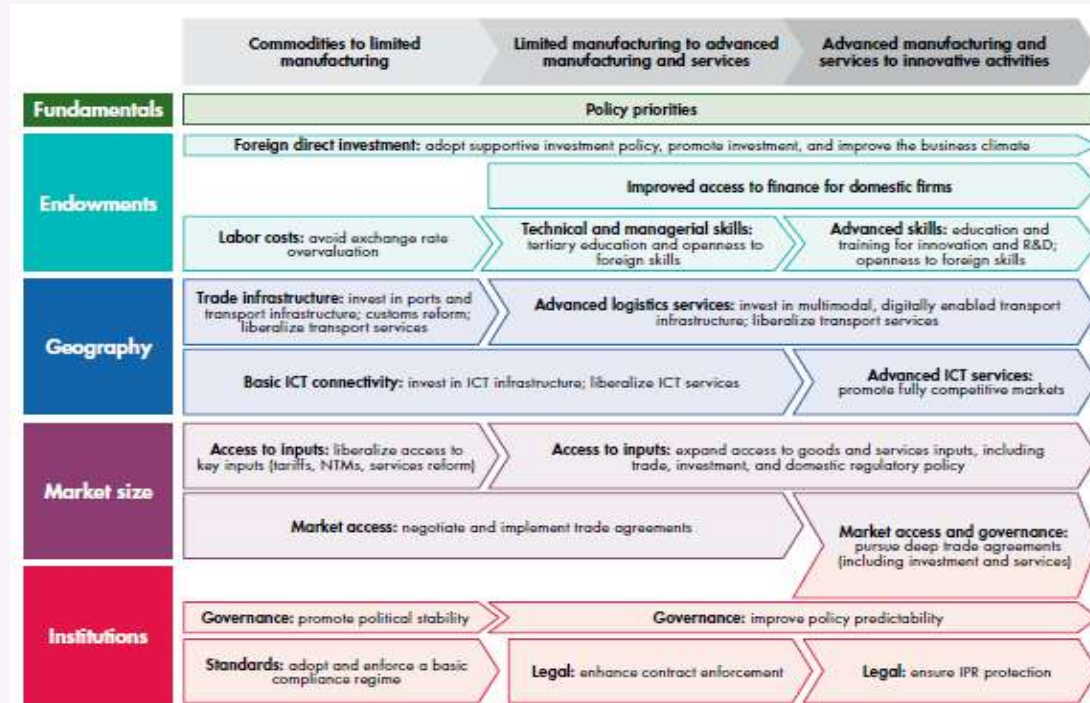


GVC-led development: Drivers and policies for participation

DRIVERS



Fundamentals need not determine destiny and transitions—policies matter



Source: World Bank 2019a

No one size fits all — policy priorities evolve

Domestic distortions drive India's premature transition to “advanced manufacturing and services”

- Relative rigidity of the market for low-skilled labor.
 - Nearly 80 percent of firms in India employ less than 50 workers while in China only 15 percent have a similar small scale.
- Slow improvements in roads and ports on which trade in manufactures relies.
 - Logistics costs (US dollar per km of road transport) are three times higher in India than in China and two times higher than in Bangladesh.
- Restrictive trade policy
 - E.g. high tariffs on imports of yarn and fiber which increase the cost of producing clothing.
- Incomplete services reform
 - Especially in logistics, distribution, education and professional services.

Binding constraint on job-creation is not services skill-intensity but skill scarcity

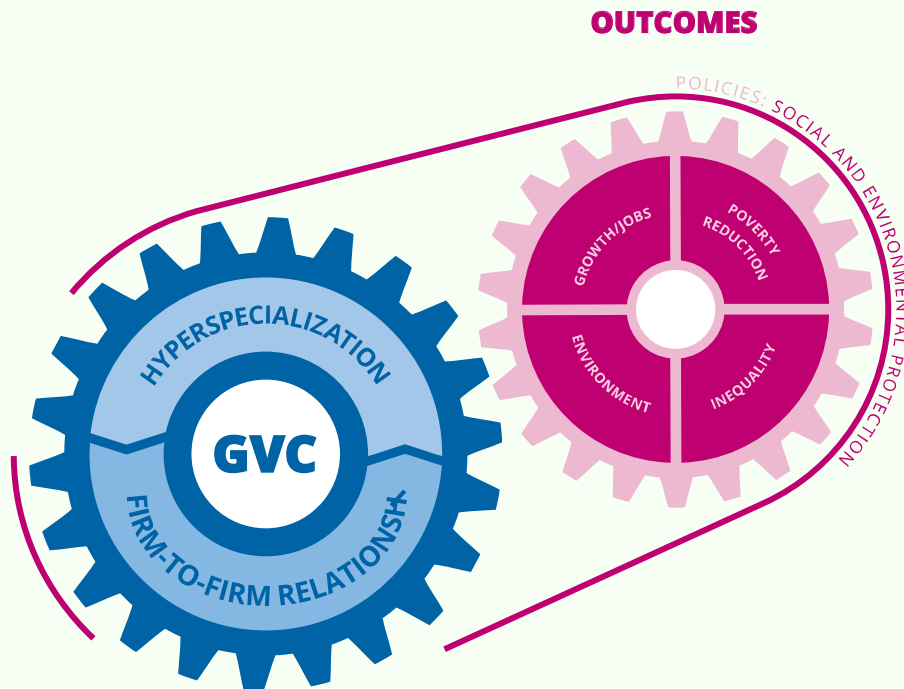
The surprisingly high unskilled labor value added in services exports

Labor value added (LVA) in \$1000 of exports



Hence, the vital importance of improving India's skill production capacity

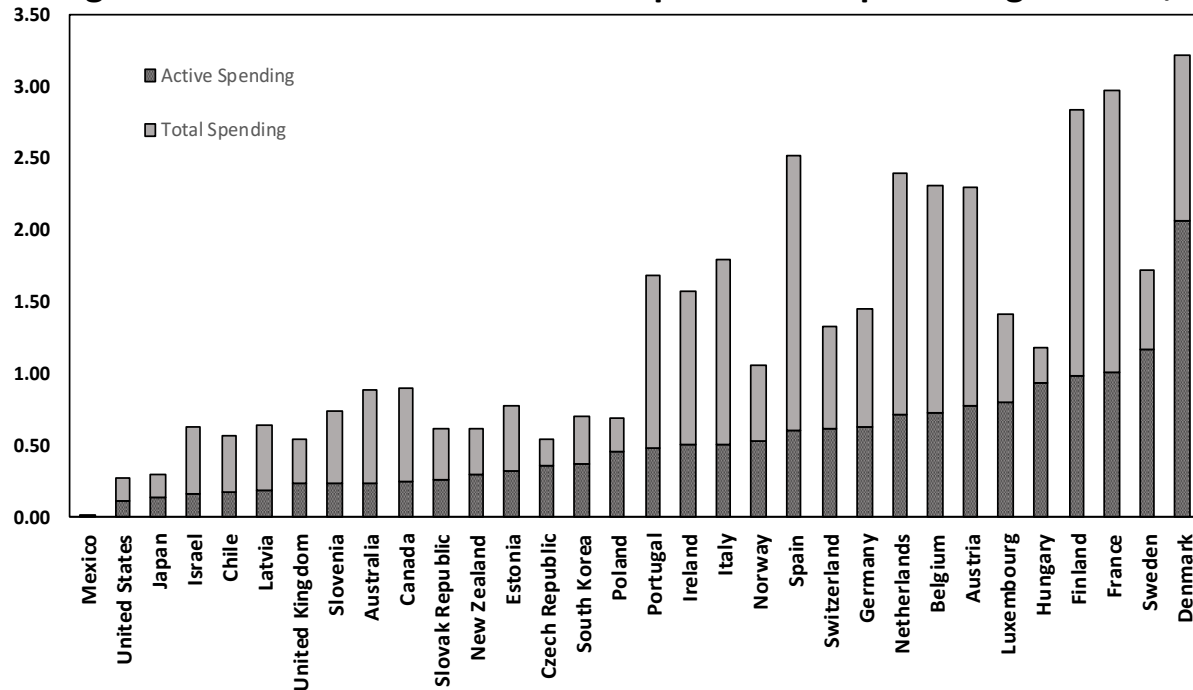
GVC-led development: Policies for benefitting from GVCs



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

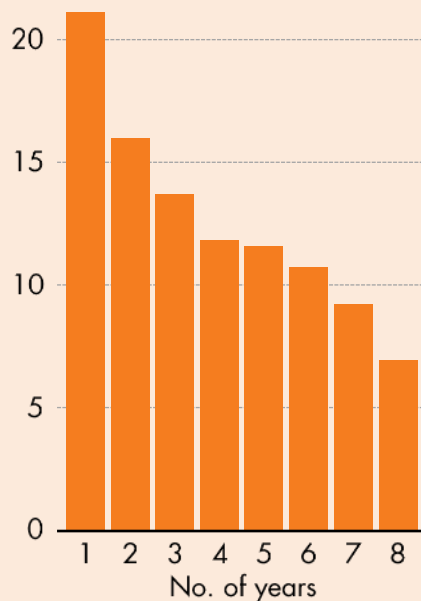
Spending on total and active labor market policies as a percentage of GDP, 2016



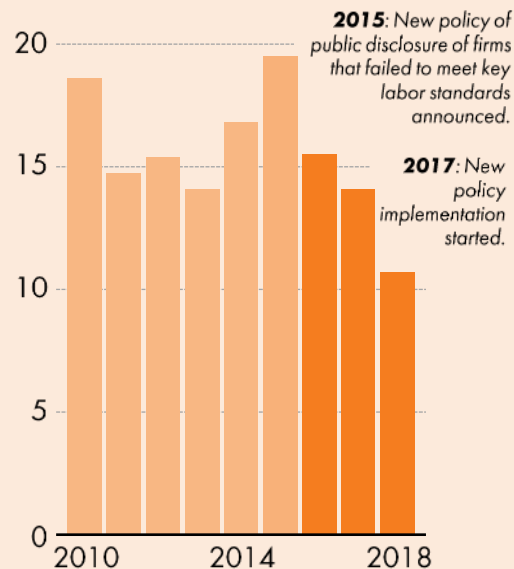
Working with firms improves working conditions

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

Average non-compliance rates, by years of firms participation in program (%)



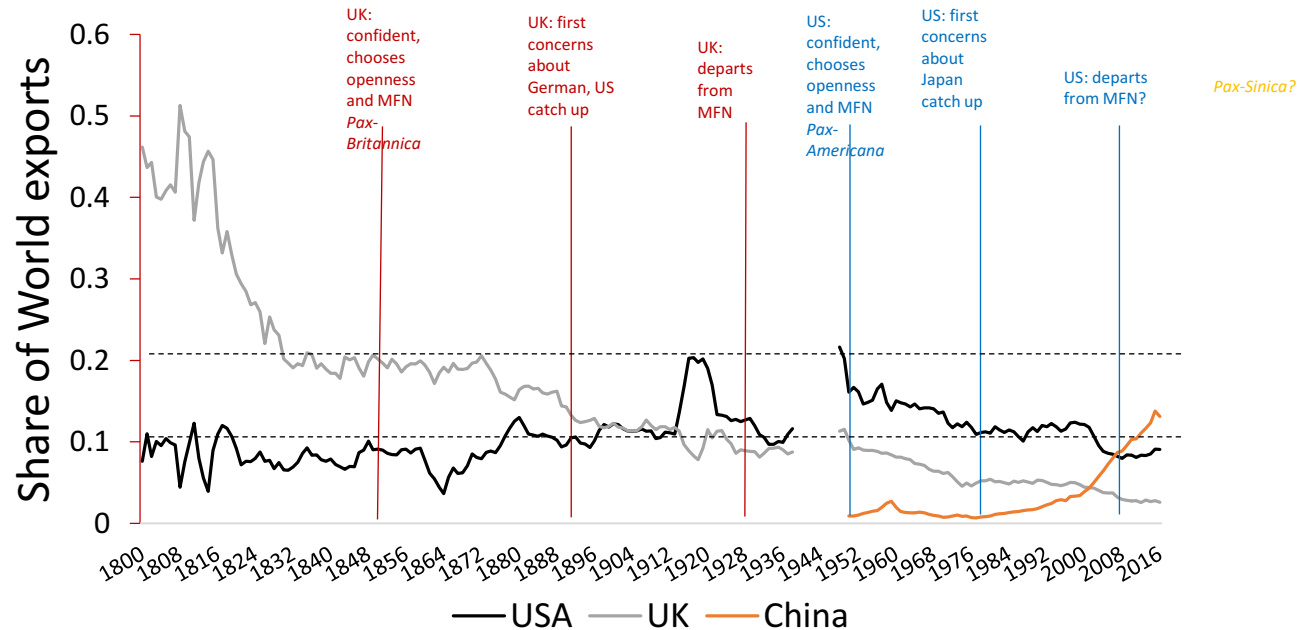
Average non-compliance rates, all firms (%)



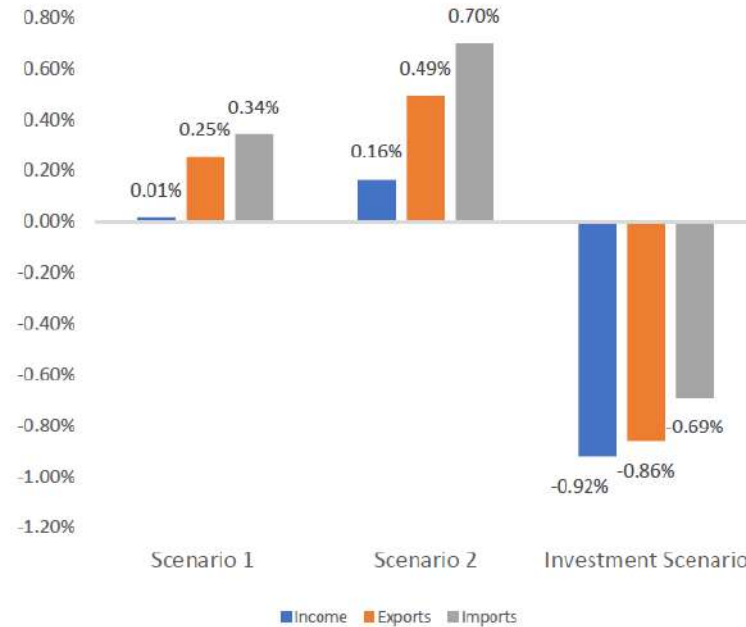
The threat to rules-based trade may be a historical inevitability

Shifts in trade shares and changes in policy stance

The UK and US Share of World Trade, 1800-2016



The impact of a trade war on India's trade and income



Source: Freund et al. (2018)

Deepen traditional trade cooperation



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



Combat tariff escalation



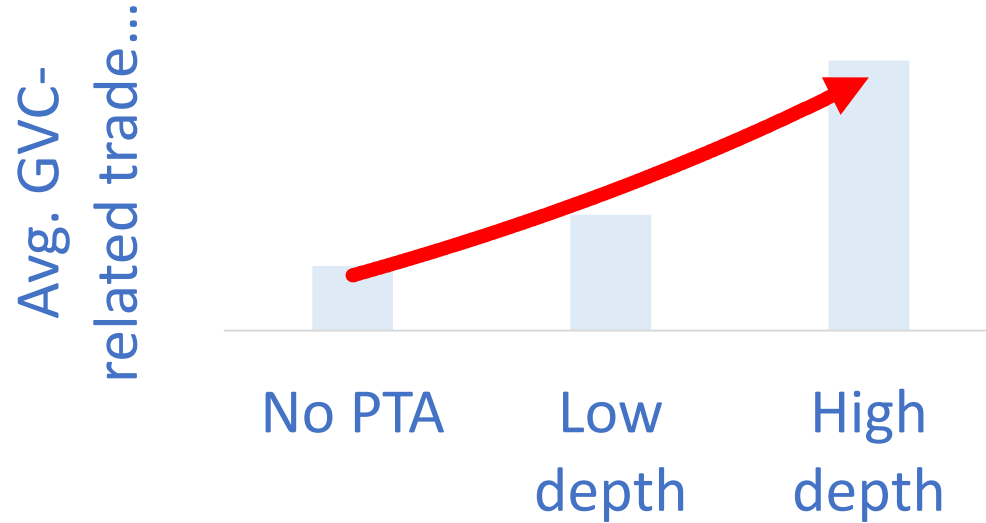
Stronger rules on subsidies and SOEs



Reconsider special and differential treatment

Deeper trade cooperation matters for GVCs

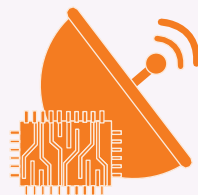
GVC trade is greater between countries sharing a deep trading agreement



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



Taxes



**International
data flows**



Competition



Environment

Innovative approaches to regulatory cooperation

