All countries participate, but in different ways.
Framework for GVC –led development
Since 2008, GVC expansion has slowed.
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
GVC firms are more productive than one-way traders or nontraders.

Productivity difference between trading and nontrading firms (%)

- Ethiopia
- Vietnam
- Developing countries

Export and import
- Export only
- Import only

Export only

Import only
Incomes grow most when countries break into simple manufacturing
In Ethiopia, capital intensity is higher but so is employment growth.
In Vietnam, poverty reduction is greater where GVC firms are present.
Technologies are changing production and distribution
Increased adoption of industrial robots in the North has promoted imports from the South
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.
GVCs favor women’s employment... but don’t break glass ceilings

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

<table>
<thead>
<tr>
<th>Gender</th>
<th>Productionworkers</th>
<th>Administrators or salesworkers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability</td>
<td>0.20</td>
<td>0.16</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Ownership Status</th>
<th>Majority ownership</th>
<th>Top management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability</td>
<td>0.20</td>
<td>0.16</td>
</tr>
</tbody>
</table>
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
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
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
Fundamentals need not determine destiny and transitions—policies matter

No one size fits all — policy priorities evolve

Source: World Bank 2019a
Fundamentals need not determine destiny—policies matter

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

No one size fits all — policy priorities evolve
Facilitating GVC participation: standards

Higher quality standards help

Certification has had long lasting effects on quality in Mali’s cotton sector

Average % of “premium quality” cotton

2007, 3 years after the quality certification program

2014, ten years after the beginning of the certification program, 6 years after its end

Certification has had long lasting effects on quality in Mali’s cotton sector.
Facilitating GVC participation: linkages

- In undertaking proactive (industrial) policies minimize use of “traditional” instruments (subsidies, local content requirements)
- Focus instead on promoting domestic supply chain linkages and FDI spillovers

In Bangladesh, local suppliers grew as FDI grew from 1985 to 2003

- Local intermediate input suppliers
- FDI firms in garment industry
### Facilitating GVC participation:
Drivers for successful implementation of special economic zones

<table>
<thead>
<tr>
<th>Hawassa Industrial Park (Ethiopia)</th>
<th>Garri Free Zone (Sudan)</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Map of Hawassa Industrial Park" /></td>
<td><img src="image" alt="Map of Garri Free Zone" /></td>
</tr>
<tr>
<td>✓ Legal and regulatory framework</td>
<td>✗</td>
</tr>
<tr>
<td>✓ Government support</td>
<td>✗</td>
</tr>
<tr>
<td>✓ Zone-level governance</td>
<td>✗</td>
</tr>
<tr>
<td>✓ Industrial infrastructure</td>
<td>✗</td>
</tr>
<tr>
<td>✓ Location and connectivity</td>
<td>✗</td>
</tr>
<tr>
<td>✓ Human resources</td>
<td>~</td>
</tr>
<tr>
<td>✓ Market demand</td>
<td>~</td>
</tr>
</tbody>
</table>
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
Working with firms improves working conditions

Average on-compliance rates by years of firms participation in the ILO-IFC Better Work Vietnam program

<table>
<thead>
<tr>
<th>No. of years</th>
<th>2010</th>
<th>2014</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>15</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>10</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>7</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>8</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Average non-compliance rates all firms (%)

- 2015: New policy of public disclosure of firm that failed to meet key labor standards announced.
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 UK and US depart from MFN based on concerns about German, US, and Japan catching up.

The US and UK are confident in their openness and MFN policies, choosing to remain open and committed to MFN agreements.
Deepen traditional trade cooperation

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

Stronger rules on subsidies and SOEs

Combat tariff escalation

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