

A World Bank Group Flagship Report



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



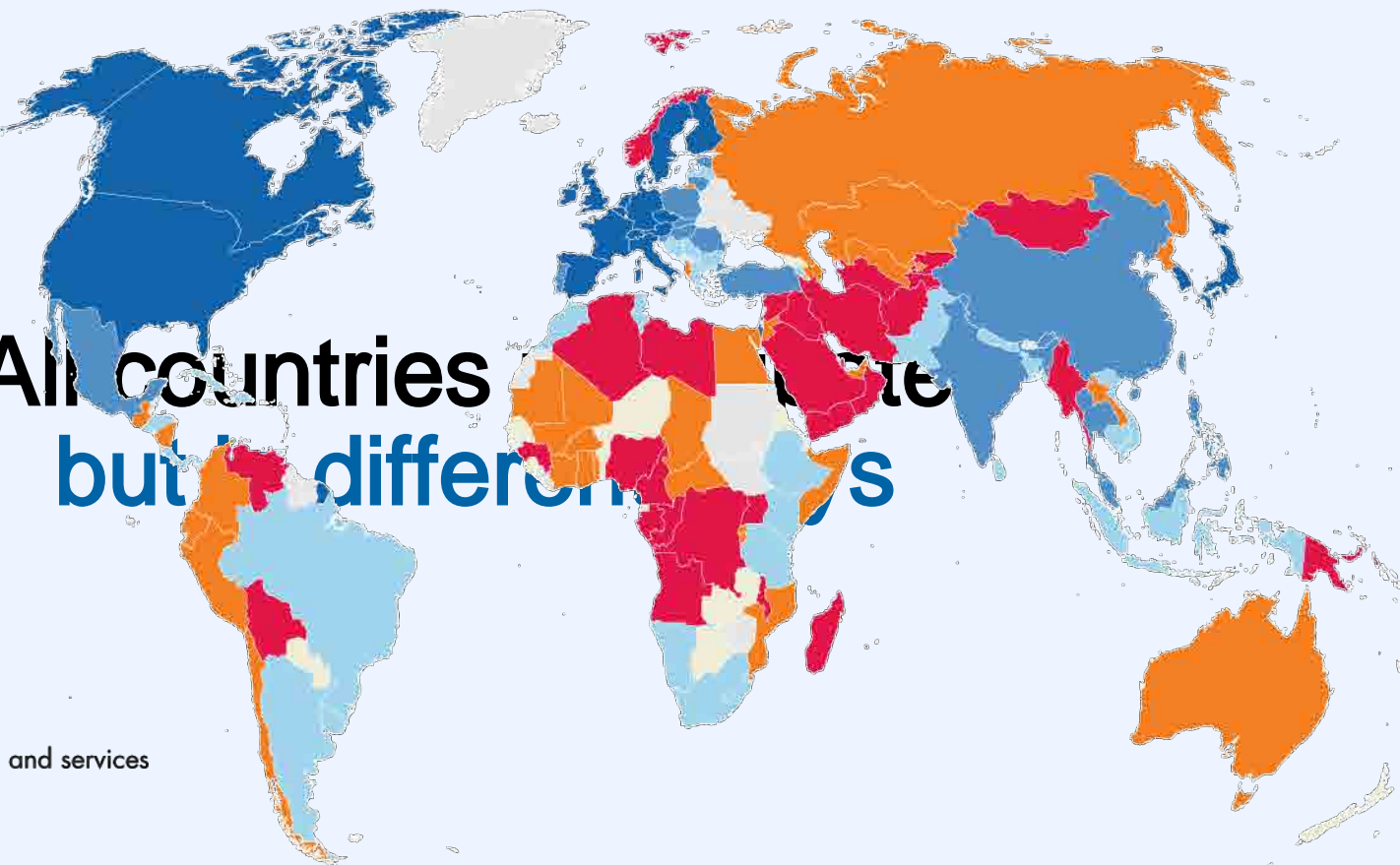
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All  
countries  
participate,  
but in  
different  
ways

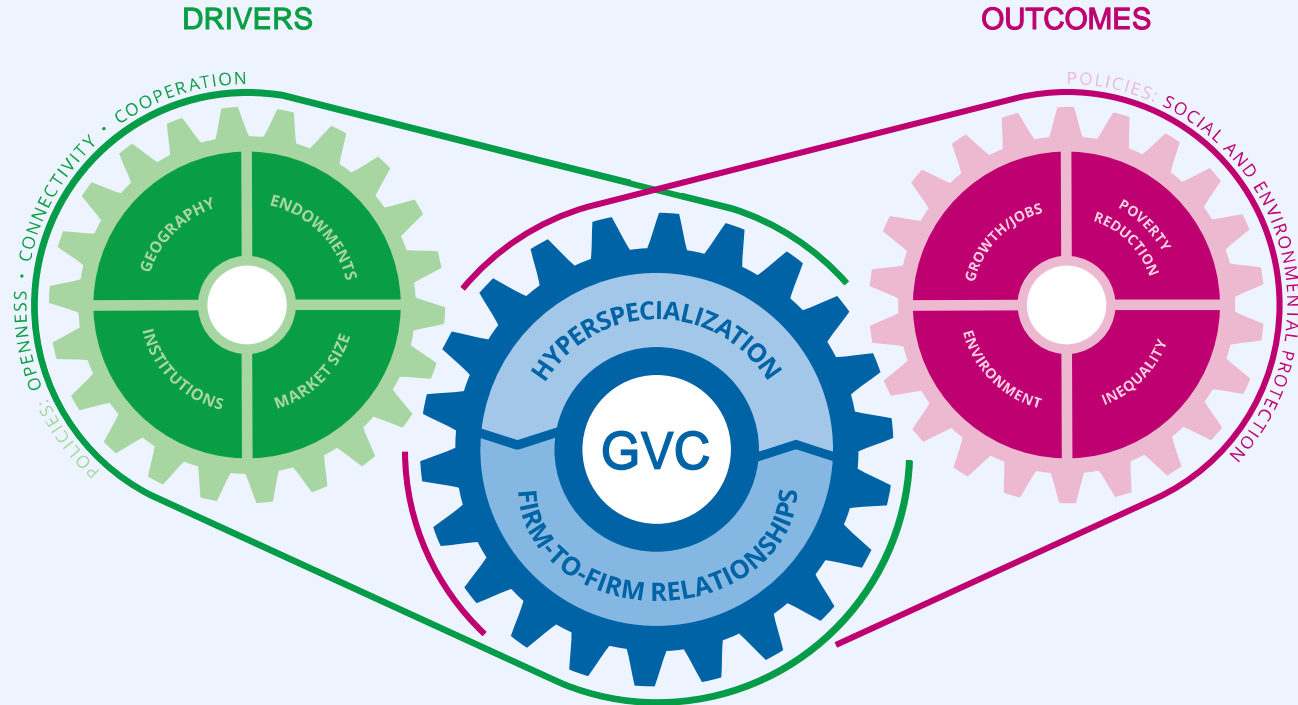
All countries participate  
but in different ways

**GVC linkages, 2015**

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

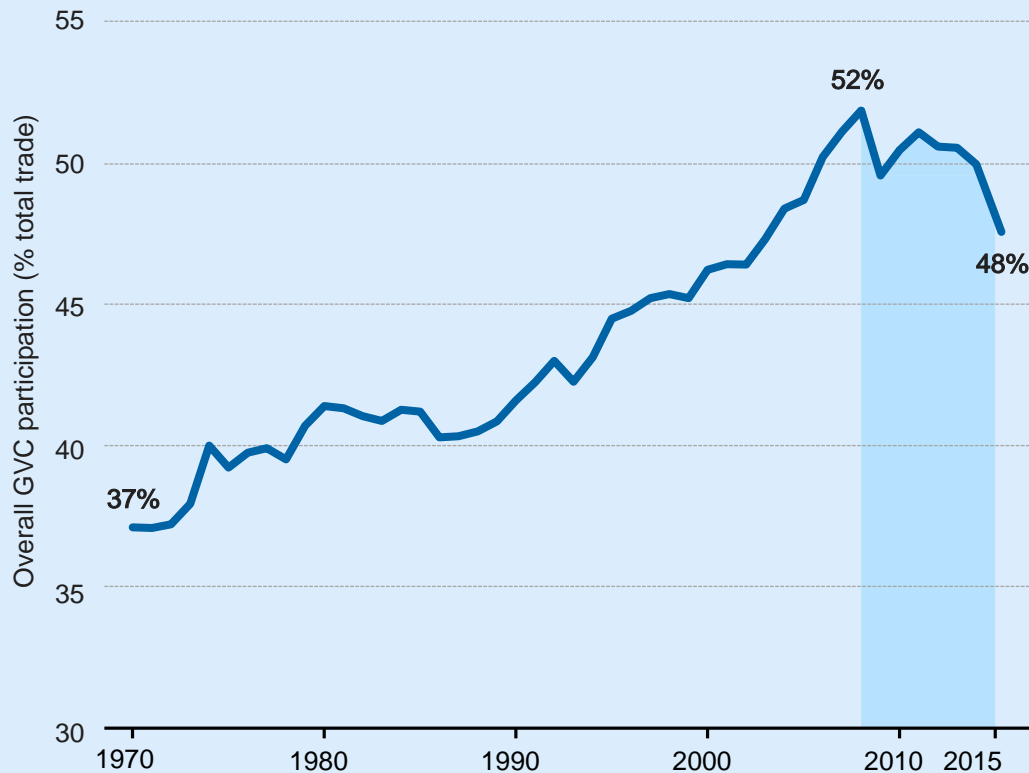


# Framework for GVC –led development



Since 2008,  
GVC  
expansion has  
slowed

GVCs' share of global trade (%)





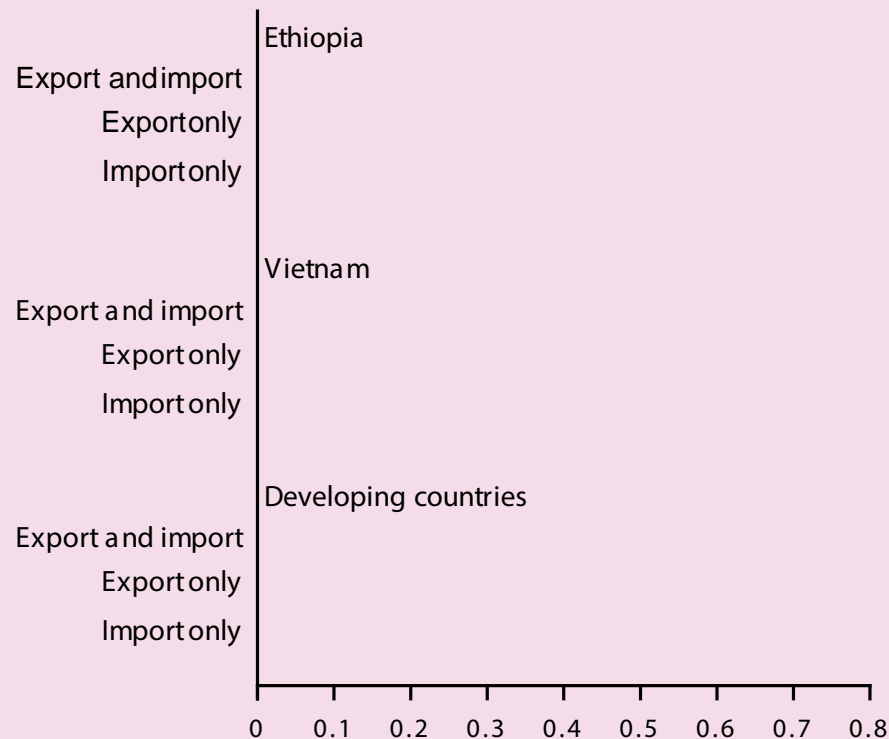
# Why Care?

## Global Value Chains:

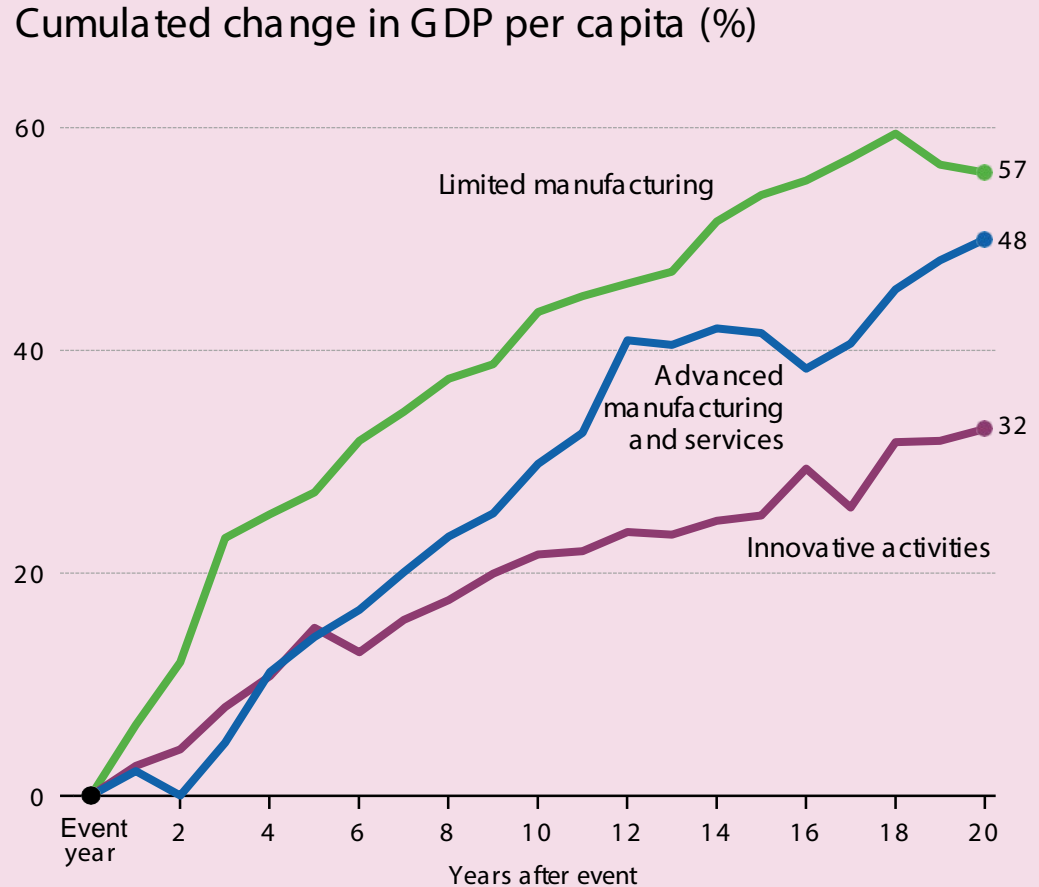
- Boosted incomes, created better jobs and reduced poverty
- Mixed impact on the environment and inequality
- Can continue to support development if developing countries undertake deeper reforms and industrial countries pursue open and predictable policies

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

Productivity difference between trading and nontrading firms (%)



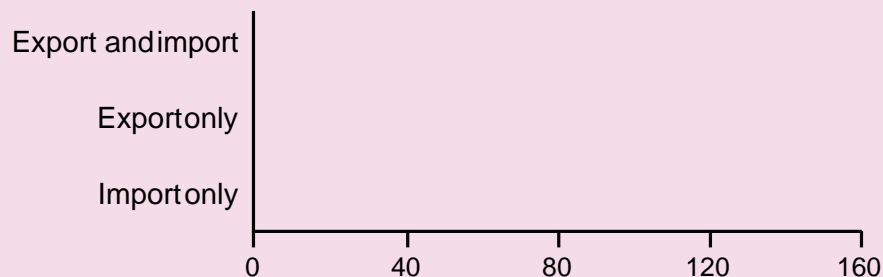
# Incomes grow most when countries break into simple manufacturing



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

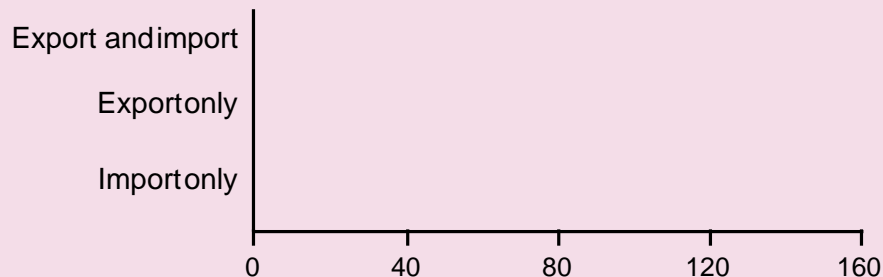
## Capital intensity

Difference between trading firms and nontrading firms(%)

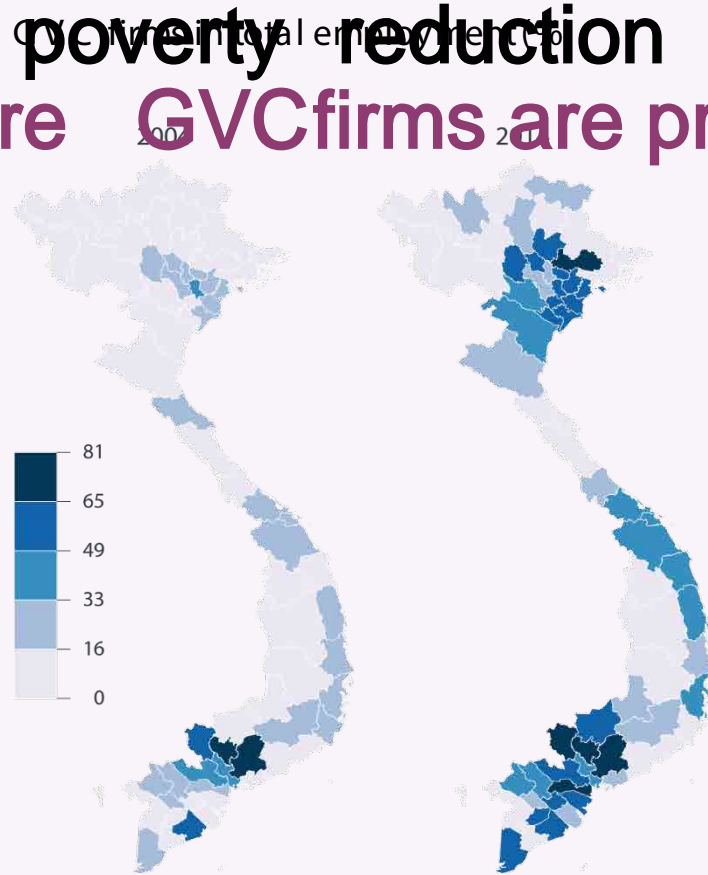


## Employment

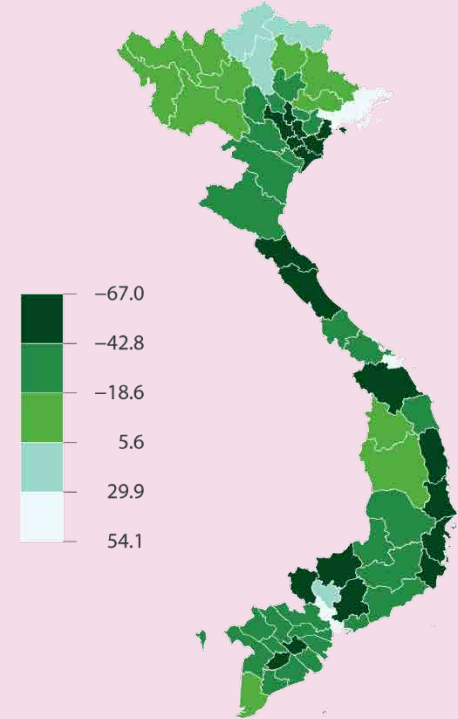
Before after difference for firms switching from nontrading to trading(%)



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



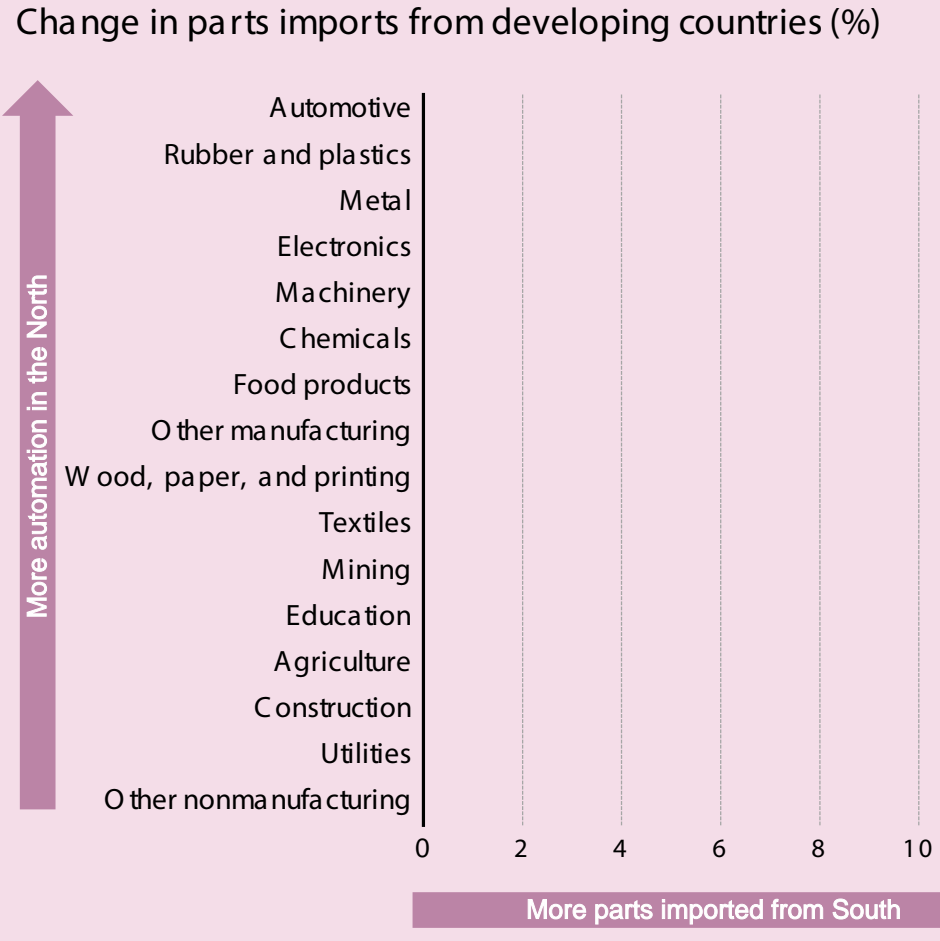
Change in expenditure poverty rate, 2004–14 (%)



# Technologies are changing production and distribution



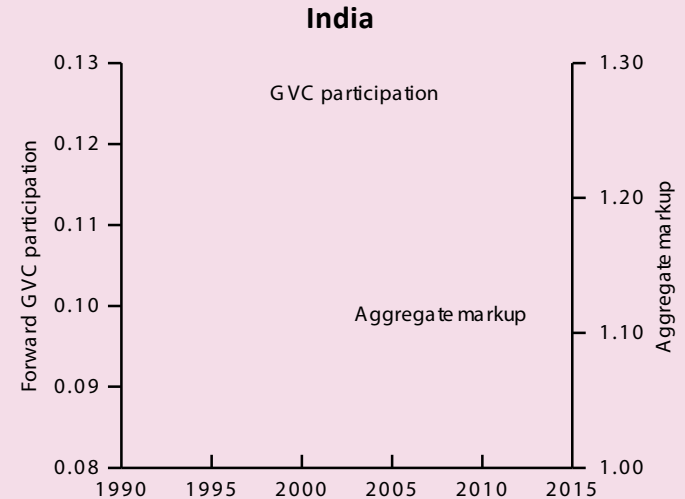
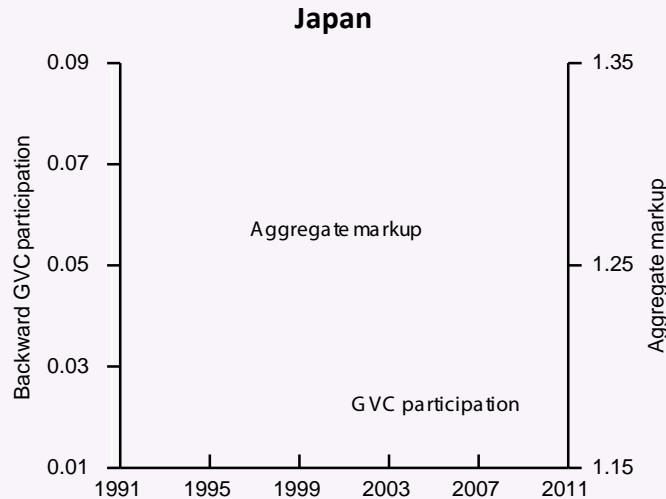
# Increased adoption of industrial robots in the North has promoted imports from the South



# What are the costs of participation?

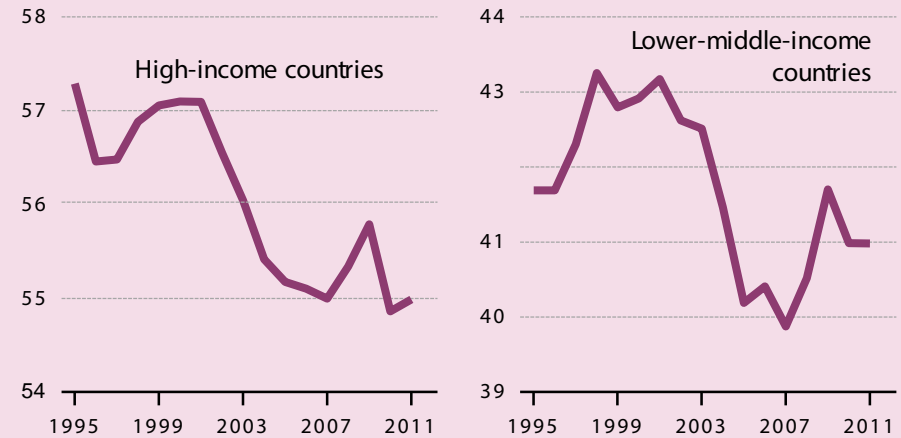


Increasing GVC participation is associated with rising markups in developed countries but falling markups in developing countries

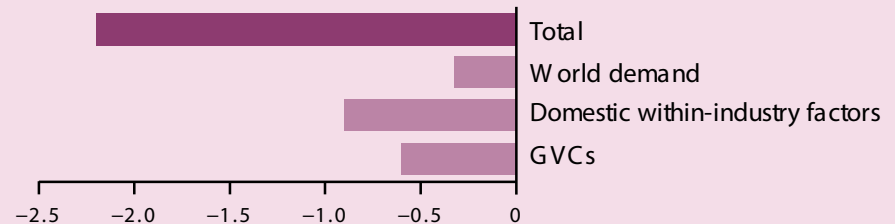


# GVCs have contributed to the declining labor share within countries

Labor share over GDP (%)

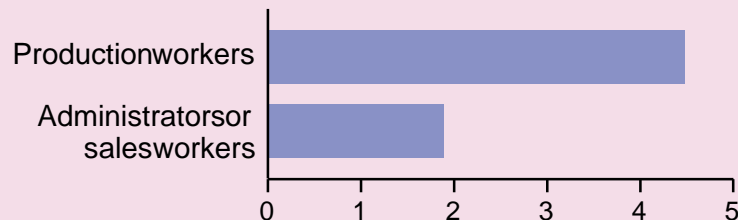


Factors contributing to labor share decline (percentage points)

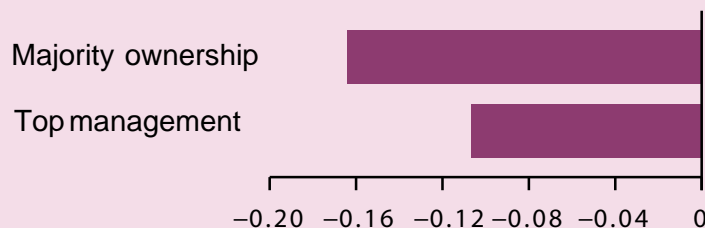


# GVCs favor women's employment... but don't break glass ceilings

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



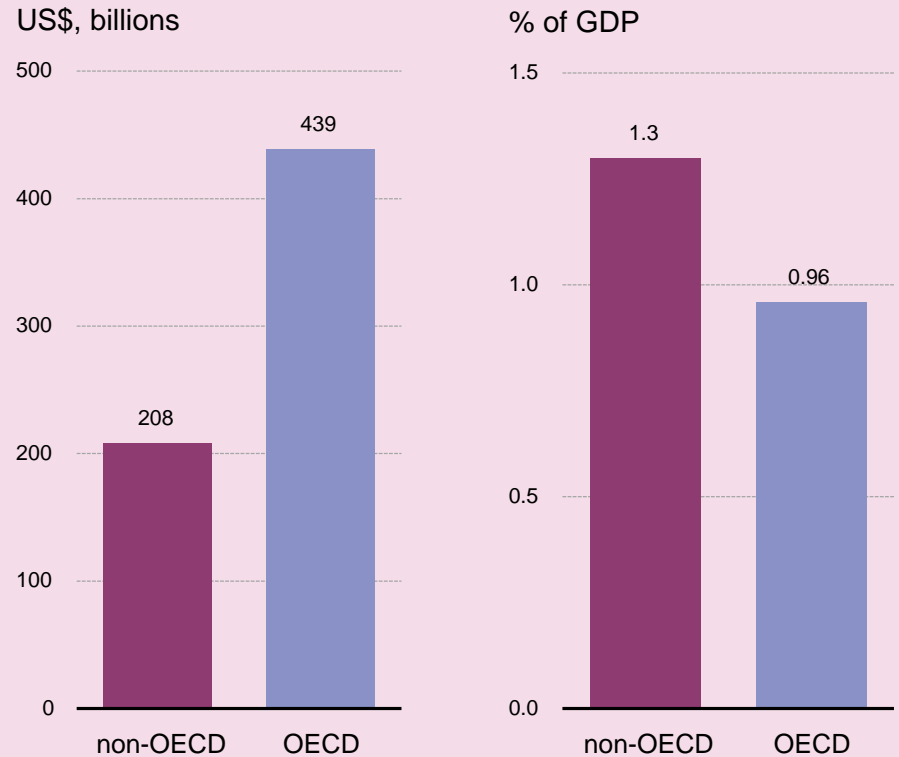
Probability of female owners or  
managers, relative to non-GVC firms



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

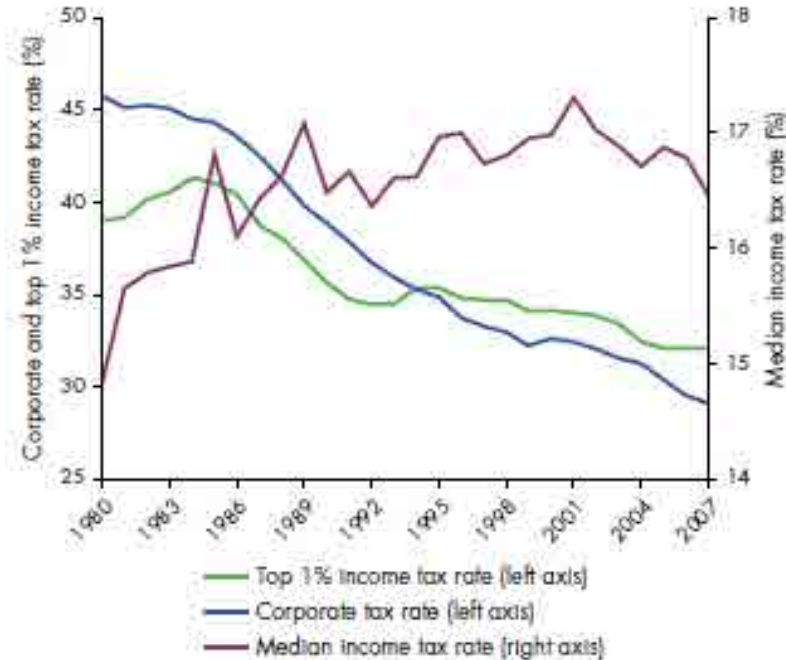
- Corporate income taxes have declined by nearly 50 percent since 1990
- As a share of GDP, non-OECD countries lose the most from profit shifting

## Revenue loss from profit shifting



# 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

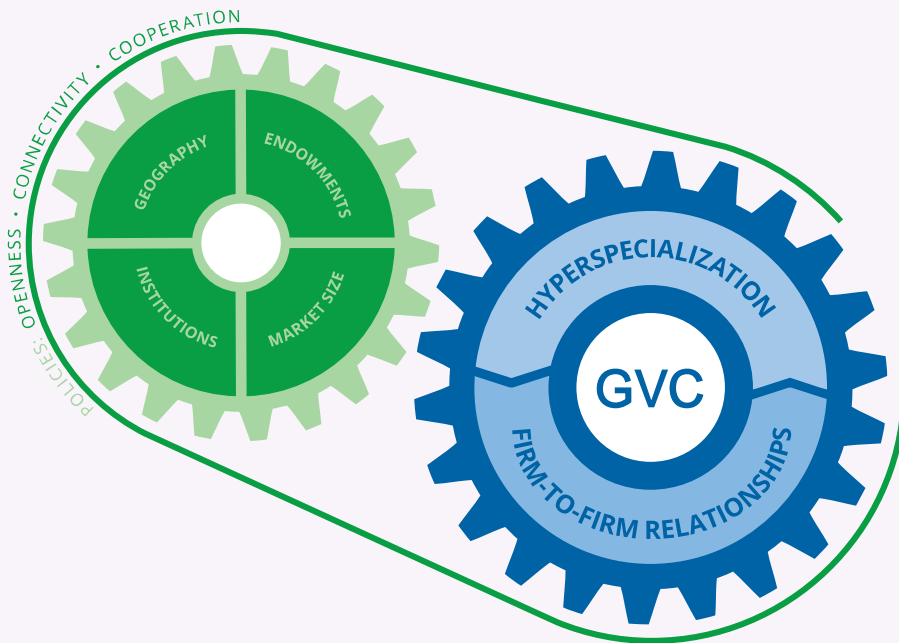
## Advantages

- Lead firms push standards upstream
- New environmental goods

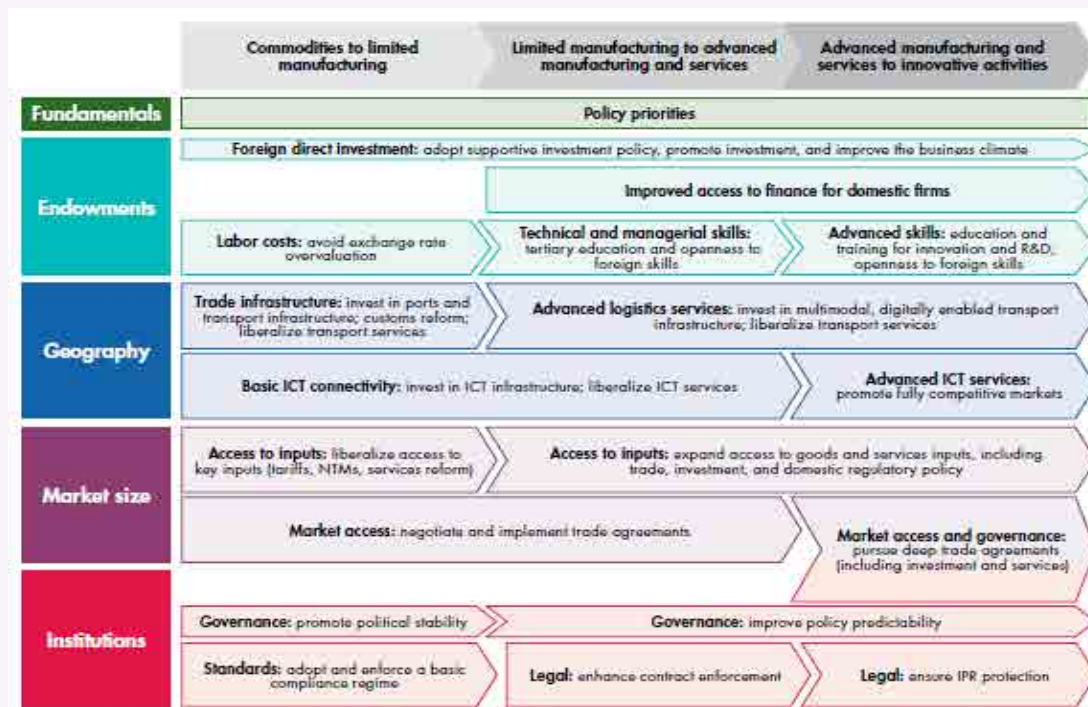


# GVC-led development: Drivers and policies for participation

## DRIVERS



# Fundamentals need not determine destiny and transitions—policies matter



Source: World Bank 2019a

No one size fits all — policy priorities evolve

# Fundamentals need not determine destiny—policies matter

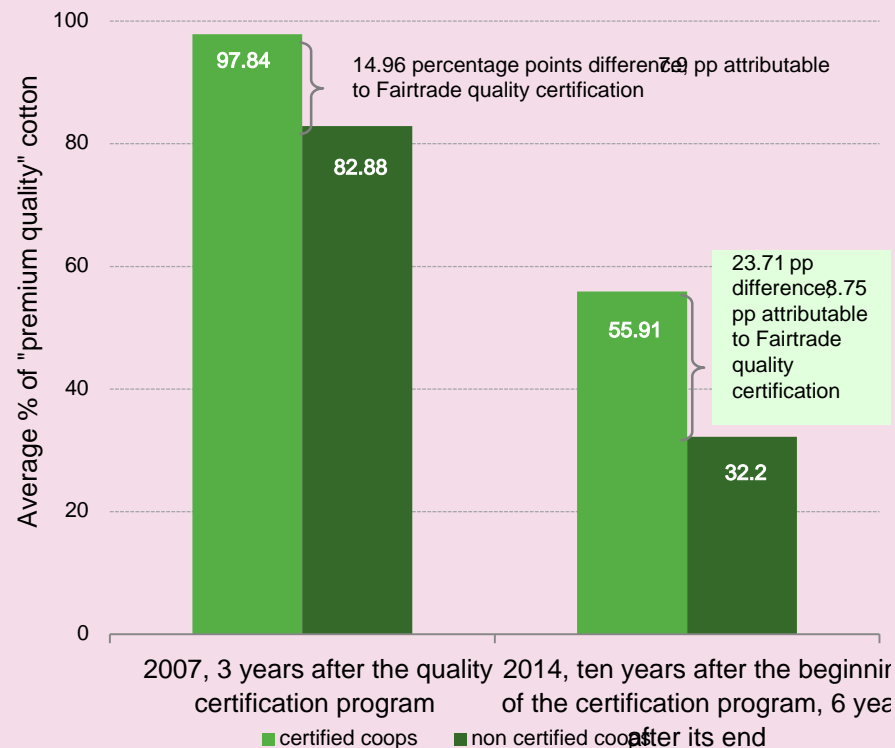
FUNDAMENTALS	To Limited Manufacturing	To advanced manufacturing and services	To innovative activities
Endowments	FDI: Investment policy and business climate		
	Competitive labor costs: exchange rates, labor regulation	Skill <b>Skill development: technical and managerial</b>	to finance and technology Education, training, and skill increasingly important
Location	Trade infrastructure / Trade facilitation	<b>Trade facilitation and transport liberalization</b>	Advanced logistics services: Multimodal, digitally-enabled transport infrastructure investment; liberalized transport services environment
		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	<b>R&amp;D capacity and IPR protection</b>
	Innovation: basic standards regime	Innovation: innovation ecosystem (R&D policy, industry-academia links, etc)	

No one size fits all — policy priorities evolve

# Facilitating GVC participation: standards

Higher quality standards help

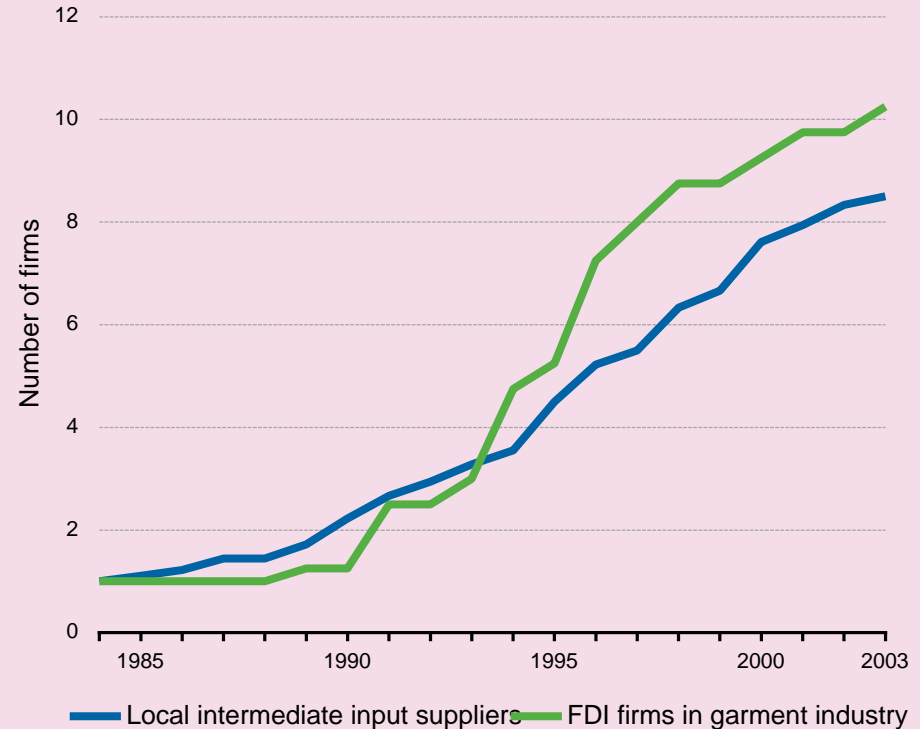
Certification has had long lasting effects on quality in Mali's cotton sector



# 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



# Facilitating GVC participation:

## Drivers for successful implementation of special economic zones

Hawassa Industrial Park (Ethiopia)

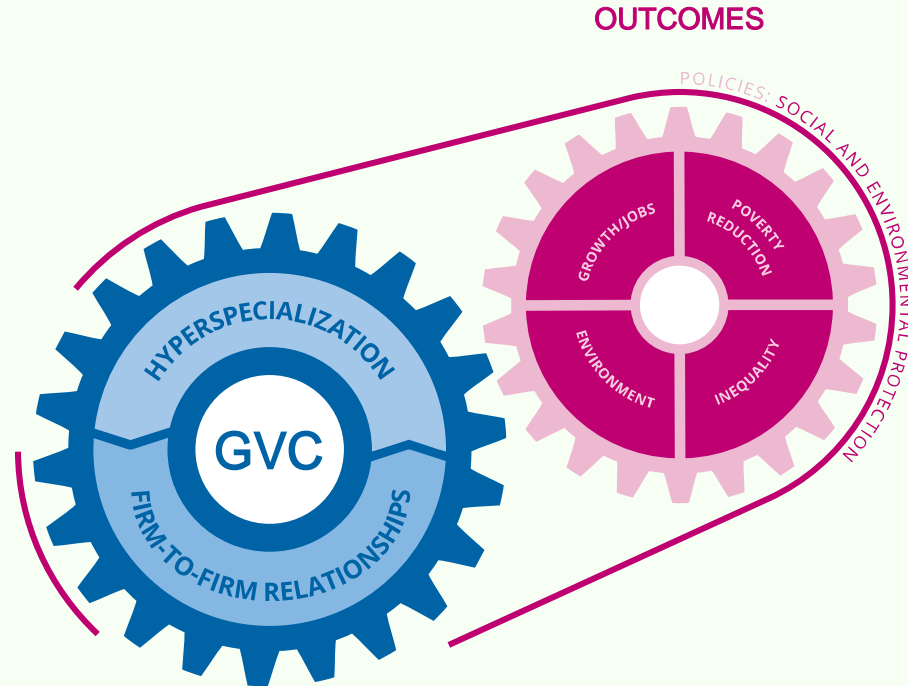


✓	Legal and regulatory framework	✗
✓	Government support	✗
✓	Zone-level governance	✗
✓	Industrial infrastructure	✗
✓	Location and connectivity	✗
✓	Human resources	~
✓	Market demand	~

Garri Free Zone (Sudan)



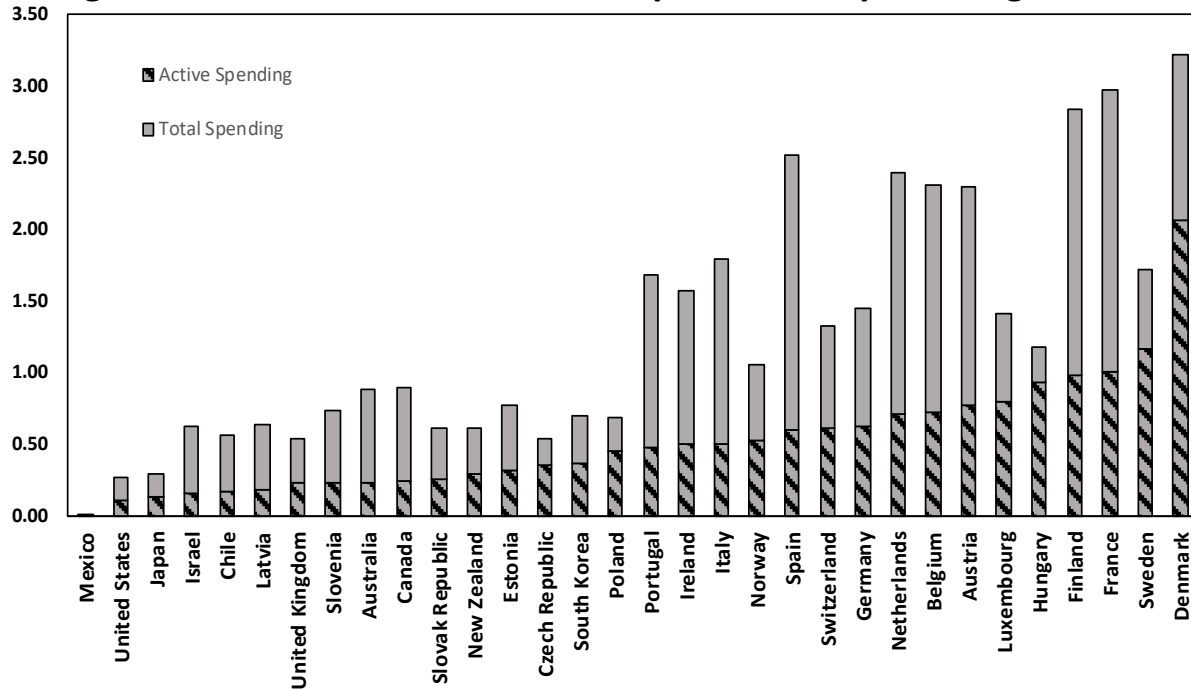
# GVC-led development: Policies for benefitting from GVCs



# 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

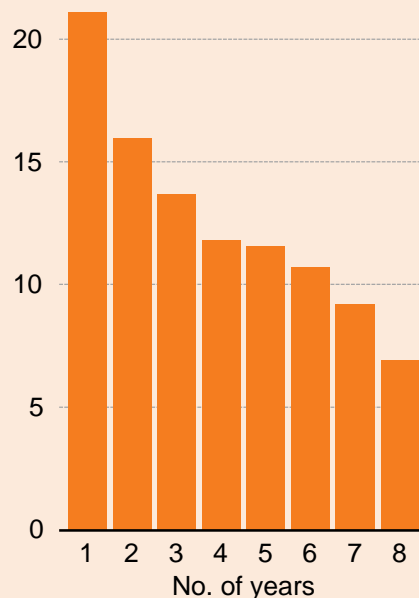
Spending on total and active labor market policies as a percentage of GDP, 2016



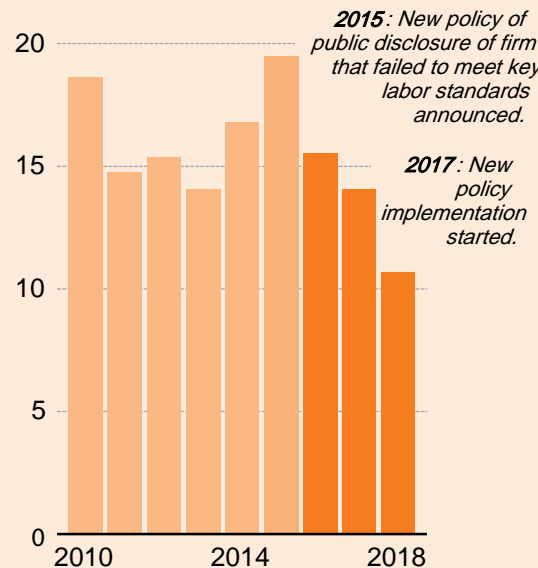
# Working with firms improves working conditions

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

Average on-compliance rates by year of firms participation in program (%)



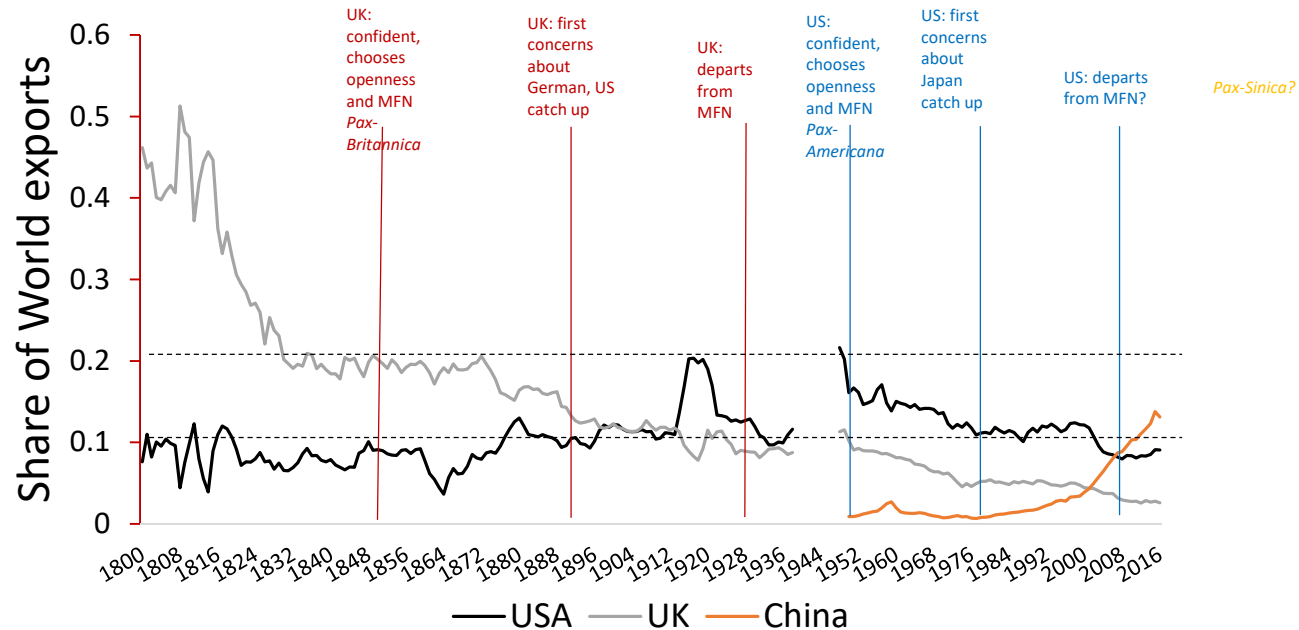
Average non-compliance rates of all firms (%)



# 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



# 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

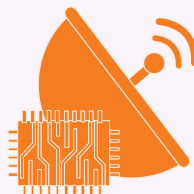


Reconsider special and differential treatment

Look beyond  
trade to  
keep trade  
open and  
beneficial



Taxes



International  
data flows



Competition



Environment

# How the proposed approach to regulation is different

