

ECA Research Notes

OFFICE OF THE CHIEF ECONOMIST

EUROPE AND CENTRAL ASIA

Globalization and Value Chains

July 2019



Hi everyone,

Earlier this month, I chaired two very complementary talks on globalization. The first was an [ECA Lecture](#) about the changing dynamics of global value chains. Susan Lund, of McKinsey Global Institute, shared her findings about the trends shaping the global value chains, particularly how value chains are becoming more regional and less global as developing economies consume more of their own goods, and the way in which technology is reshaping them.

McKinsey predicts that by 2025, emerging economies will consume nearly two-thirds of global manufactured goods, led by cars, machinery, and building products. Those of you following Bank's research will remember that our World Development Report (WDR) this year is also on Global Value Chains. You can find an advance copy [here](#).

The second talk was a fascinating [DEC Lecture by Joe Stiglitz](#), on his new book, "People, Power, and Profits: Progressive Capitalism for an Age of Discontent." He focused on the distributional implications of globalization and how insufficient attention to inequality has contributed to a decline in American capitalism and economic growth. It was a great lecture and all copies of the book were gone by the time he finished.

For our readers in the Bank, I just want to remind you about our first Academy. ECA Academy deadline is August 1st and we are eager to see analytical work on ECA across the World Bank Group. I invite you to submit papers on topics relevant to key development issues in the ECA region. Watch for the reminder e-mails for more details; we will also post information on the [ECA Chief Economist page](#).

What's next on the ECA event schedule? An August break. I don't know about you, but I plan to use part of August to catch up on my reading and travel home. The next ECA Lecture will be on September 4, when World Bank CEO and economist Kristalina Georgieva shares her perspectives on development challenges for our region.

Happy reading!

Asli Demirguc-Kunt

FEATURE STORY



Susan Lund, principal with McKinsey Global Institute, spoke at the ECA Lecture on July 10.

The ongoing U.S.-China trade dispute has diverted attention from major structural changes under way in globalization such as the declining importance of low-skilled labor and evolving value chains that are becoming more regional and less global. Those changes plus growing consumer demand in developing economies are reshaping global trade, according to Susan Lund, a principal with McKinsey Global Institute.

Lund, who spoke at an [ECA Lecture](#) on July 10, identified a half-dozen trade trends based on an analysis of 23 industry value chains spanning 43 countries from 1995 to 2017. A value chain is made up of all the activities from conceiving a product or service to selling it.

The data show globalization reached a turning point during the Great Recession, she said. “We’re in a period of structural shifts,” Lund said, adding that global exports will likely grow at the rate of GDP in the immediate future. “Trade is becoming more regional and less long-haul.”

Three factors are driving the changes, she said. First, growing consumer demand in China and other developing economies means those countries are consuming more of what they produce. Even though global output and trade each continue to grow in absolute terms, a smaller share of goods cross borders, she said. Between 2007 and 2017, exports fell from 28.1 to 22.5 percent of gross output in goods-producing value chains.

Second, developing economies are expanding domestic supply chains and importing fewer intermediate goods. “These countries are moving up the economic ladder,” Lund said.

The third factor is new technologies such as robotics and artificial intelligence that can replace low-skilled workers in labor-intensive manufacturing. Only about 18 percent of global goods trade is now driven by cheap labor, she said. But that shift impacts how low-income countries participate in global value chains, especially developing countries that are far from large consumer markets.

Companies are now “near-shoring” manufacturing plants to be closer to customers, instead of shipping products half-way around the globe. “This is because of the Amazon effect,” Lund said, referring to the online retailer. “All of us now expect really great

quality of service and fast delivery to my door.”

Part of the transformation in globalization includes an expansion of intraregional trade, especially for innovative products. The share of trade in goods between countries within the same region rose by 2.7 percentage points since 2013. The trend is most noticeable in the EU-28 countries and Asia.

The structural changes in value chains present challenges for low-income countries that use labor-intensive exports as a development strategy. “New engines of growth may include intraregional trade and digital technologies,” Lund said.

[Presentation](#) | [Video](#)

RELATED WORLD BANK RESEARCH

[Measuring What Matters in Global Value Chains and Value-Added Trade](#)

April 2019 – Policy Research Working Paper 8804

Alessandro Borin and Michele Mancini

The spread of global value chains has generated new statistical tools, such as the Inter-Country Input-Output tables, and new analytical frameworks to identify production links between and within economies. The authors propose a toolkit for value-added accounting of trade flows at the sectoral, bilateral, and aggregate levels to estimate trade related to global value chains.

[Using Gross Trade Data to Map Archetypal Global Value Chains](#)

January 2018 – Policy Research Working Paper 8296

Michael Ferrantino and Gabriela Schmidt

This paper introduces a new database for tracking trade in global value chains for apparel, textiles, footwear, motor vehicles and parts, and electronics. The results show East Asia and Pacific is the region with the most intensive global value chain. South Asia produces a large value of relatively unsophisticated global value chain exports, focusing on apparel and textiles. Within categories, the degree of product sophistication varies markedly.

[Bought, Sold and Bought Again: The Impact of Complex Value Chains on Export Elasticities](#)

July 2018 – Policy Research Working Paper 8535

Francois De Soyres, Erik Frohm, Vanessa Gunnella, and Elena Pavlova

Global value chain participation affects the exchange rate pass-through to export prices and volumes. This paper develops a partial equilibrium model of international trade showing that a higher share of foreign value added in exports reduces the exchange rate pass-through. The analysis, which uses a novel sector-level dataset of 40 countries, also shows that some sectors in certain countries can experience a decline in gross exports when their currency depreciates.

[Deep Trade Agreements and Global Value Chains](#)

June 2018 – Policy Research Working Paper 8491

Edith Laget, Alberto Osnago, Nadia Rocha, and Michele Ruta

By linking a new dataset on the content of trade agreements with a dataset on trade value added in, the authors quantify the impact of the depth of trade agreements on bilateral cross-border production. Adding a policy area to a trade pact increases the domestic value added of intermediates (forward global value chain linkages) by 0.48 percent, and the foreign value added of intermediates (backward global value chain linkages) by 0.38 percent. At the sectoral level, the positive impact of deep trade agreements is higher for higher value-added industries.

[Services Globalization in an Age of Insecurity: Rethinking Trade Cooperation](#)

September 2018 – Policy Research Working Paper 8579

Aaditya Mattoo

This paper reviews the literature on service trade negotiations and proposes a way to enhance liberalization. The author says “negotiating tunnel vision” has focused on reciprocal market opening rather than on creating regulatory preconditions for liberalization. Insulating domestic consumers from international market failure is a precondition for liberalization of many services, and there needs to be an exchange of regulatory commitments by exporters in return for market access commitments by importers. Such bargains create a risk of exclusion for nonparticipants that should be addressed.

[The Heterogeneous Effects of Trade Policy Uncertainty: How Much do Trade Commitments Boost Trade?](#)

August 2018 – Policy Research Working Paper 8567

Alberto Osnago, Roberto Piermartini, and Nadia Rocha

Using a sample of 65 exporters, the authors examine how trade policy uncertainty affects trade flows. Trade policy uncertainty — the gap between binding tariff commitments and applied tariffs — is an important barrier to exports. On average and at the current level of tariff commitments, the paper estimates eliminating the gap without any change in the applied tariff would increase the probability of exporting by 6 percent and trade volumes by 1.3 percent.

[Services Liberalization and Global Value Chain Participation: New Evidence for Heterogeneous Effects by Income Level and Provisions](#)

April 2018 – Policy Research Working Paper 8475

Woori Lee

Participation in global value chains is a key element in the industrialization strategies of many developing nations. This paper investigates the role of services liberalization in promoting participation in global value chains. Using the gravity framework, it examines the impact of services trade agreements on gross trade and global value chain trade (backward and forward participation) in goods. The analysis finds that services trade agreements promote both and the impact is greater for developing nation exporters.

RELATED BLOGS

Rising trade barriers are taking a toll

Cristina Constantinescu, Aaditya Mattoo, Michele Ruta, Maryla Malyszewska and Israel Osorio-Rodarte, June 3, 2019

Early evidence from the U.S.-China trade tariffs for 2018 and the first quarter of 2019 points to some useful lessons: Tariff increases hurt the countries directly involved the most, although they could have long-term consequences for all countries

because of the increase in uncertainty. It is in the long-term interest of industrial and developing countries for trade disputes to be resolved through a multilateral approach and World Trade Organization reforms.

[Read the blog »](#)

How are trade tensions affecting development countries?

Caroline Freund, Maryla Maliszewska, and Cristina Constantinescu, March 18, 2019

The trade war between China and the United States is hurting consumers and producers in both countries. Their loss has turned out to be a boon — for now — for exporters from Brazil, the European Union, Malaysia, Mexico, and India. A number of small exporters have also benefited from large percentage increases in exports.

[Read the blog »](#)

CALENDAR OF EVENTS

- **September 4, 2019:** [ECA Lecture](#) with Kristalina Georgieva, CEO, the World Bank Group
- **October 16, 2019:** [ECA Lecture](#) with Beata Javorcik, Professor of Economics, University of Oxford

Check [ECA Lectures](#) and [ECA Talks](#) to learn more about our events.

The ECA Research Notes newsletter is produced by the Europe and Central Asia (ECA) Chief Economist's Office. Please send comments, suggestions, and feedback to ECACEoffice@worldbank.org

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