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Working Group on Longer-term Issues on Structural Change

Global value chains – introduction to current issues

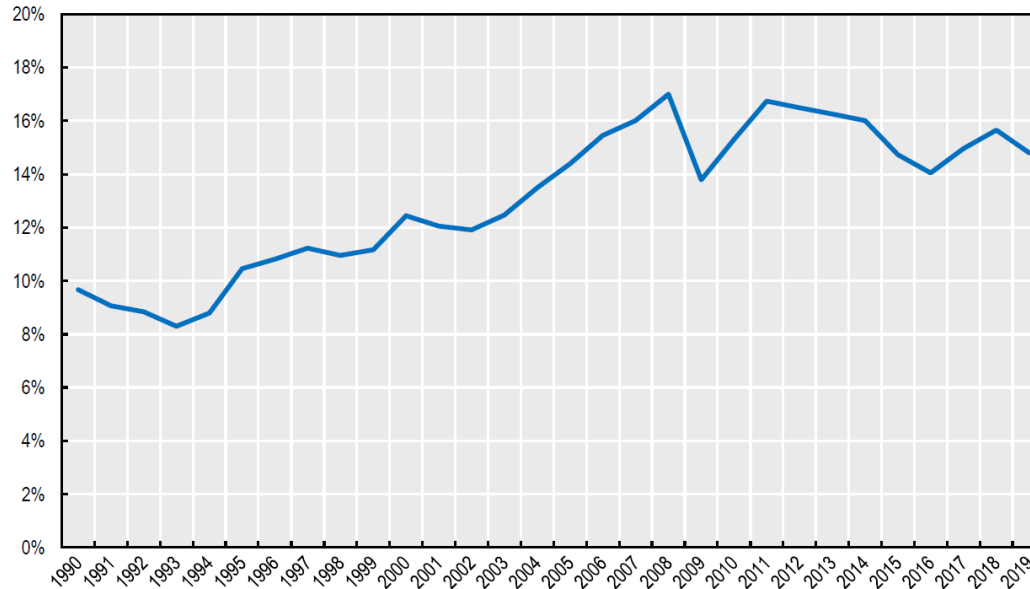
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Production has become more globalised, but globalisation seems to have peaked

Figure 1. Global import intensity of production, 2005-2016



Note: This indicator takes into account all trade flows of intermediates inputs used in any stage of the value chain, and expresses their overall value as a share of the final output. Calculated for the world, it measures the overall level of fragmentation of production

Source: OECD TiVA 2016, OECD TiVA 2018, OECD Economic Outlooks, Comtrade, IMF

Concerns over GVC

- Globalization (build-up of GVC) important driver of growth in the past
- Has globalization gone too far?
 - » Efficiency considerations
 - » Sustainability concerns (environment, social issues)

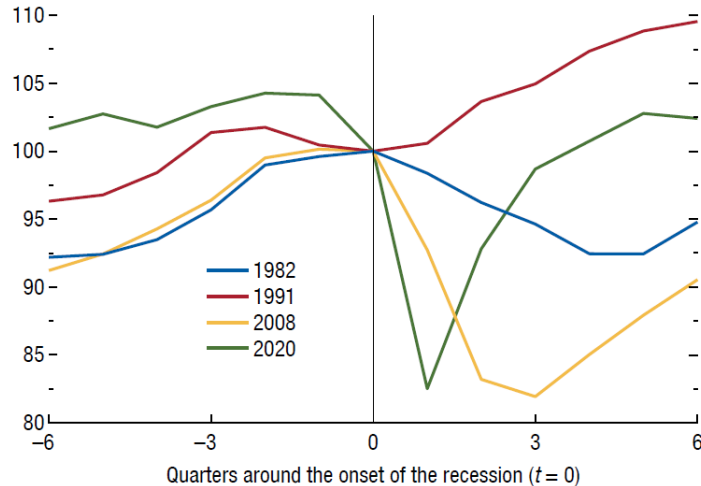
Efficiency considerations

- Slowbalization“ due to structural shifts
 - » Digitization (changing comparative advantage)
 - » Servicification (bundling of services with goods)
 - » Consumer preferences (sustainable production, “buy regional”)
- Trade conflicts, rising protectionism
- Additional vulnerabilities through disruptions of trade
 - » Covid
 - » Ukraine war
 - » Critical inputs/materials

GVC more resilient than one could think

Figure 4.2. Trade Patterns around Global Recessions: Goods and Services Import Volume (Index)

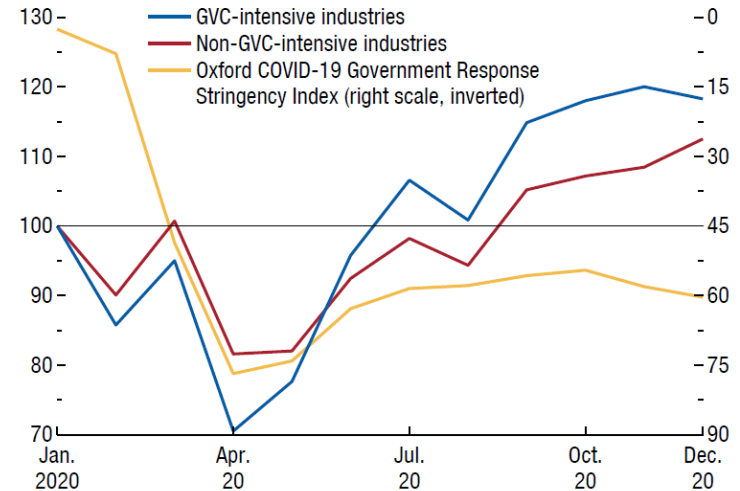
The recovery in goods trade was more rapid than in previous recessions.



Sources: Kose, Sugawara, and Terrones (2020); and IMF staff calculations.
Note: The goods and services import volume index is normalized to 100 at the onset of the recession ($t = 0$).

Figure 4.4. Volatility of Trade in GVC-Intensive Industries versus Non-GVC-Intensive Industries Early in the Pandemic (Index)

Trade in GVC-intensive industries was relatively more volatile than trade in non-GVC intensive industries.



Sources: Hale and others (2021); Trade Data Monitor; and IMF staff calculations.
Note: GVC = global value chain.

Efficiency considerations

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 - » Covid
 - » Ukraine war
- More resilience of GVC, not reshoring of activities
 - » Diversification, redundancies
 - » Better sustainability

- Consensus that participation in GVC can promote economic development
- Risk of becoming trapped in low value added activities
- Economic upgrading not necessarily needs to social upgrading
 - » Measurable standards (level of employment, wages, worker's physical well-being, employment security)
 - » Enabling rights (ILO core standards: Freedom of association, non-discrimination, voice, empowerment)
 - » causal relationship is not fully understood
- Broader lens necessary: Positive or negative impact of GVCs on local and regional development processes
 - » Creation of indirect jobs, infrastructure, property values
 - » Increasing inequality, health risks, social conflict within the community, environment

- Largely neglected by traditional GVC research: focus on effects on productivity and profitability of firms
- Effects on the environment
 - » Transportation, excess waste from packaging
 - » Higher resource demand due to economic growth...
 - » ...but higher willingness to pay for environmental quality and ability to invest in clean tech
 - » GVC connected firms tend to be more energy and emission efficient than domestic peers...
 - » But may be less efficient than production in advanced economies (e.g. carbon leakage)

Policies to enhance sustainability along GVCs

- UN Guiding principles on Businesses and Human Rights to establish standards for corporate social responsibility
- Due Diligence Laws in a few countries to address concerns about violations of human rights and environmental destruction: France 2017, the Netherlands 2019, Germany 2021, EU Commission draft (March 2022)
- Germany
 - » only 20% of companies followed a soft approach of voluntary guidance
 - » The law (effective from 2023) requires companies to establish a human rights risk management system, monitor direct suppliers, install a complaint mechanism
 - » While claims for liability based on violation of the law are excluded, the law may provide grounds for victims of human rights violation in domestic courts
 - » Opponents criticize high monitoring costs and see a risk that potential suppliers may be excluded from GVCs despite complying, because of uncertainty introduced by the law
 - » Alternative: negative listing of “bad” suppliers on a central (EU) level

Reference

- Research Network Sustainable Global Supply Chains, initiated by the Federal Ministry for Economic Cooperation and Development (BMZ)
 - » <https://www.sustainablesupplychains.org/>
- 100+ researchers, jointly coordinated by
 - » German Development Institute (DIE)
 - » German Institute for Global and Area Studies (GIGA)
 - » German Institute for International and Security Affairs (SWP)
 - » Kiel Institute for the World Economy

- Sustainable Supply Chains Report 2022