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WIDER Webinar | Daria Taglioni | World Bank
Chair: Kunal Sen
Discussant: Selim Raihan

International trade and supply chains post COVID-19

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UNITED NATIONS
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A World Bank Group Flagship Report



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



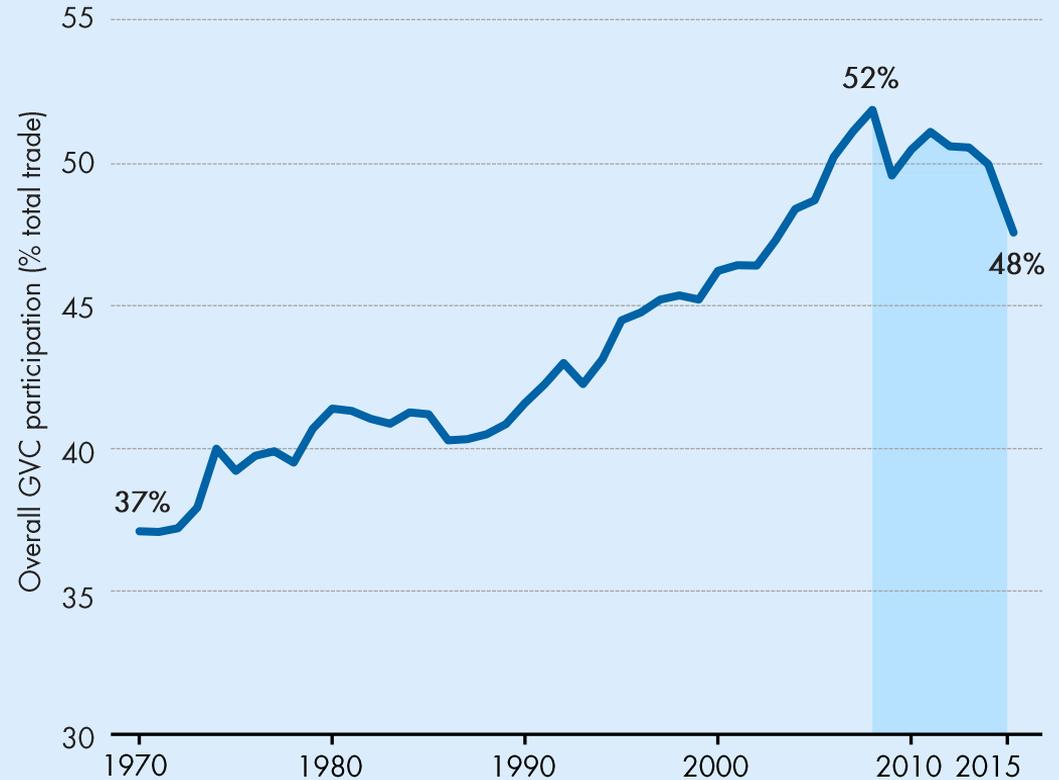
WORLD BANK GROUP

In the past, trade and global value chains (GVCs) blossomed within a relatively liberal environment for trade and investment, and firms and countries were able to specialize to make contributions in narrow slices of the chain.

Until 2008
GVC trade has
increased
unwaveringly.

Since 2008,
GVC
expansion has
slowed

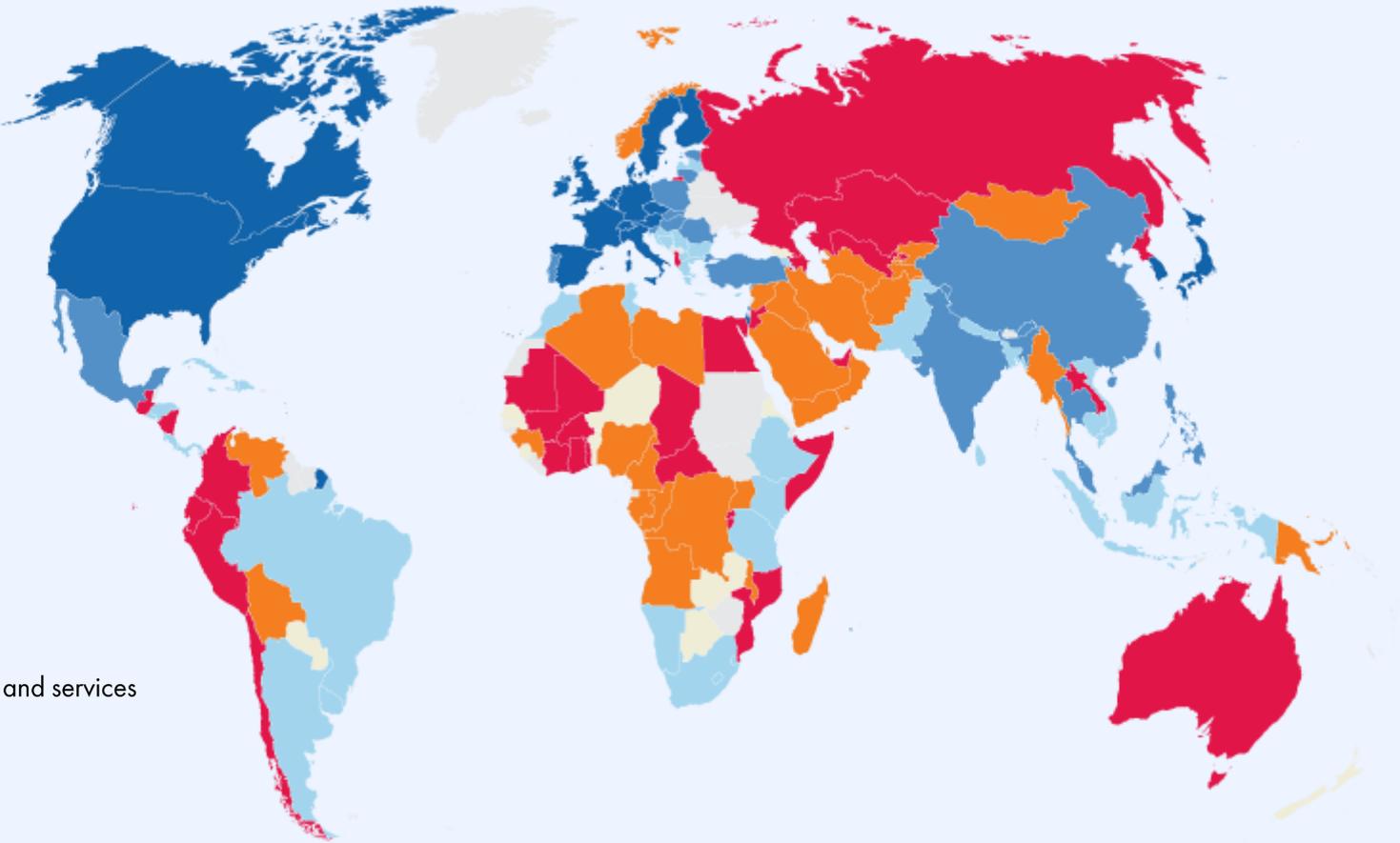
GVCs' share of global trade (%)



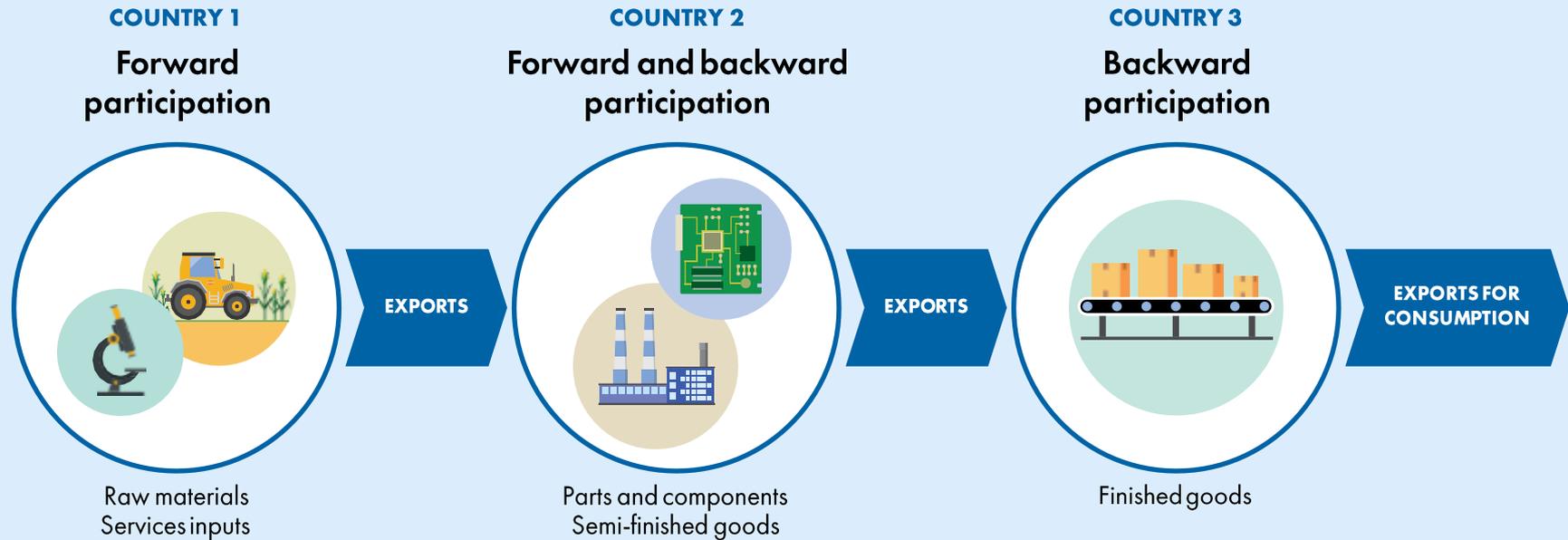
All countries participate, but in different ways

GVC linkages, 2015

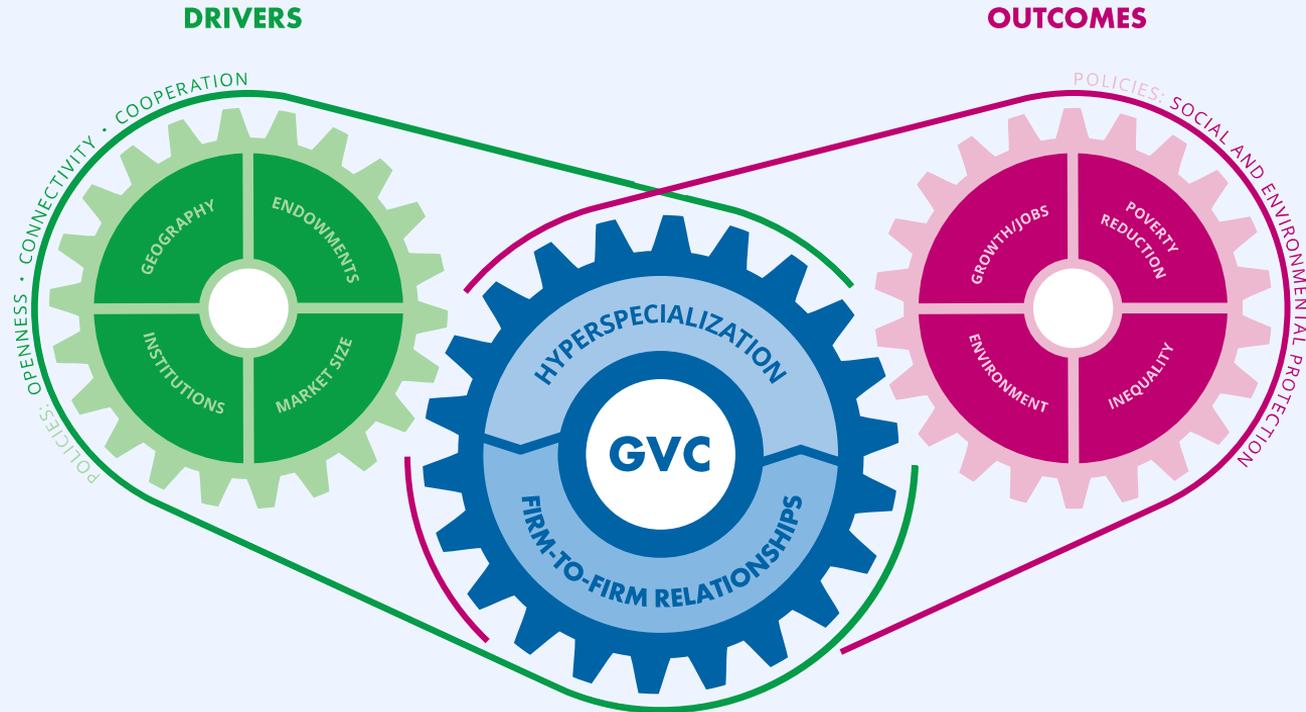
- Low participation
- Limited commodities
- High commodities
- Limited manufacturing
- Advanced manufacturing and services
- Innovative activities



What is a global value chain?



Framework for GVC-led development





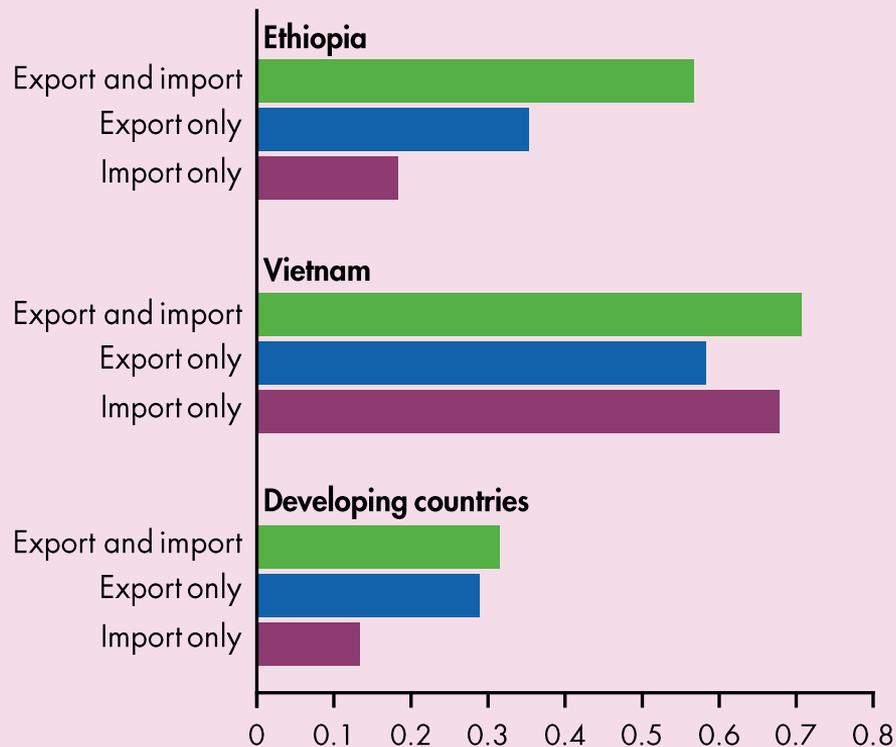
Why care?

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 (%)



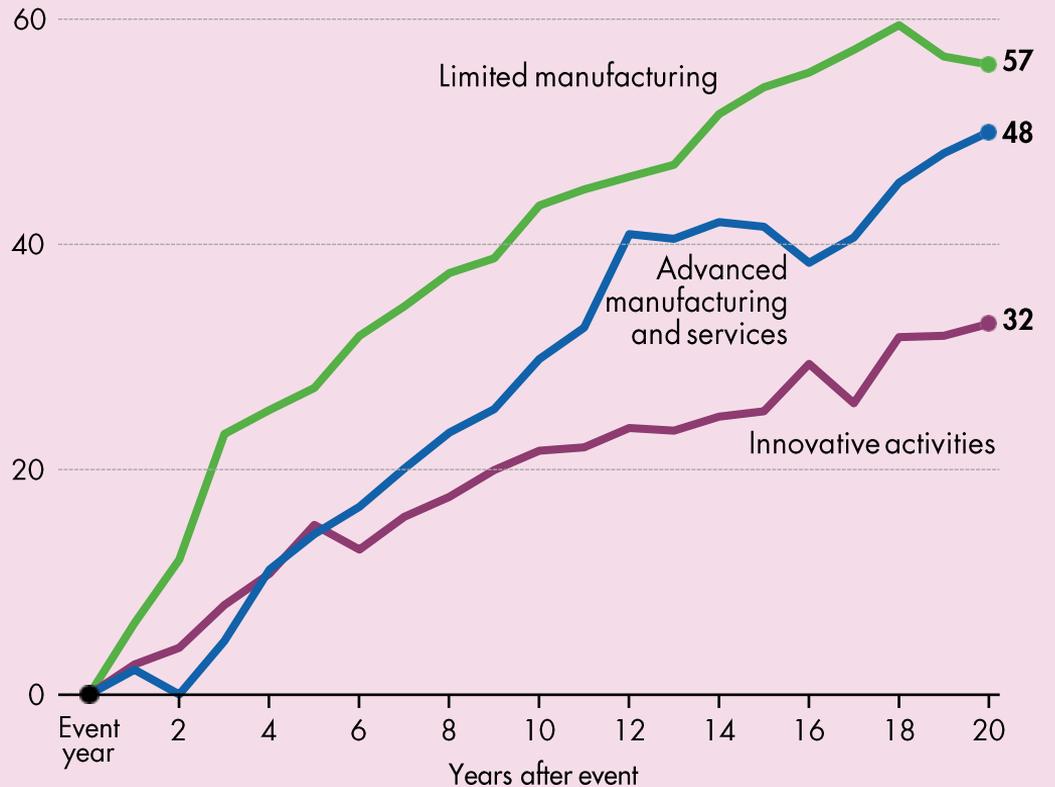
Poll question #1

When do countries see their income grow the most?

1. When they are commodity-driven
2. When they break into manufacturing
3. When they specialize in advanced services and manufacturing

Incomes grow most when countries break into simple manufacturing

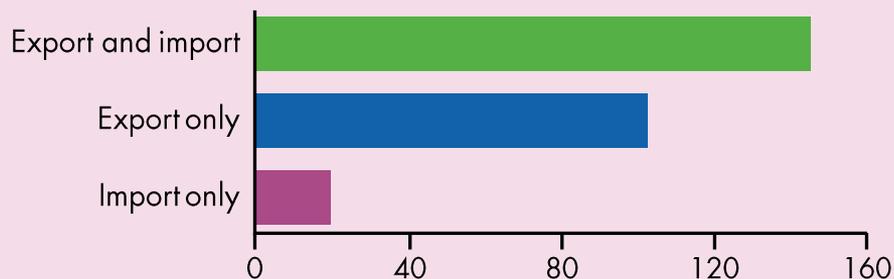
Cumulated change in GDP per capita (%)



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

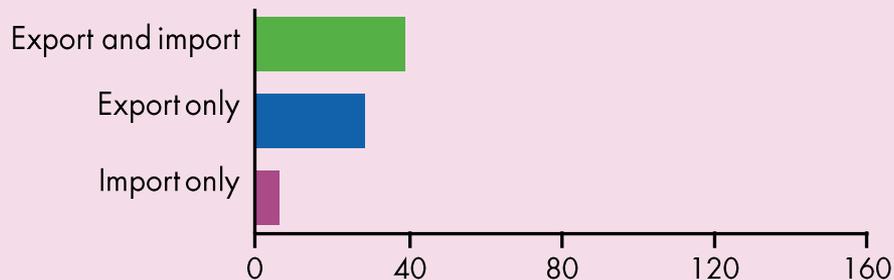
Capital intensity

Difference between trading firms and nontrading firms (%)



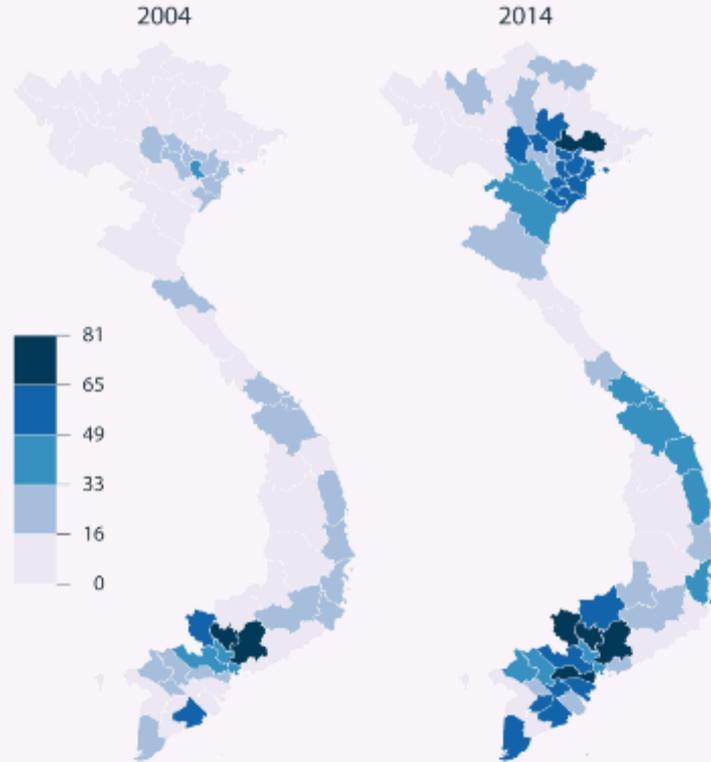
Employment

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

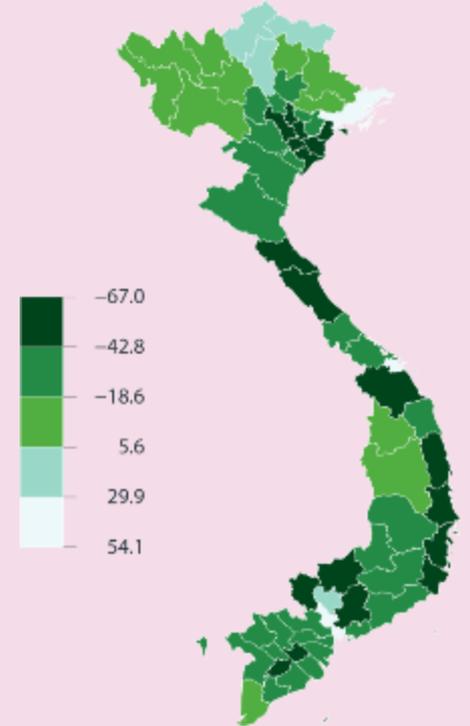


**In Vietnam,
poverty
reduction
is greater
where GVC
firms are
present**

GVC firms in total employment (%)



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

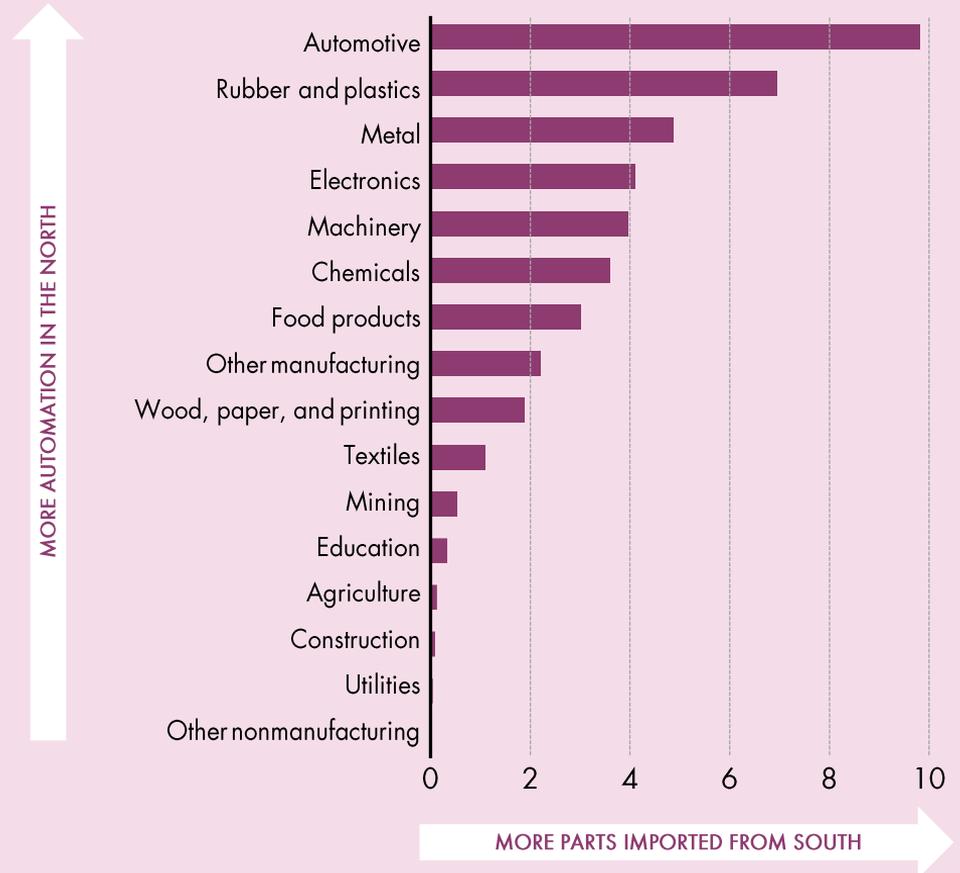


Technologies are changing production and distribution



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

Change in parts imports from developing countries (%)



What are the costs of participation?



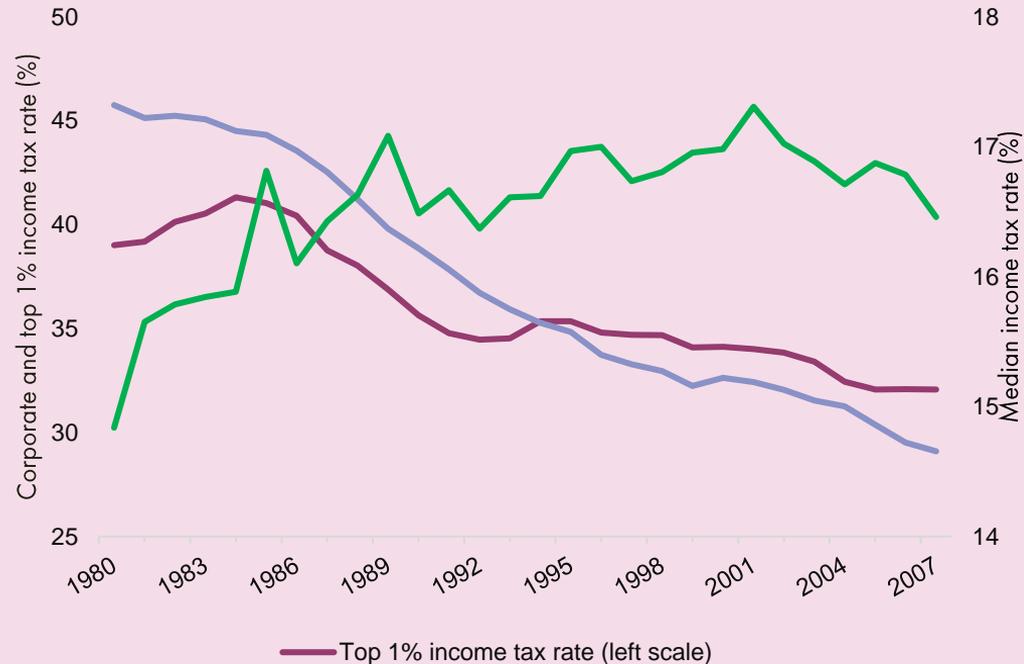
GVC gains are **distributed unequally** across and within countries

- Lead GVC firms experience **rising** markups and profits
- Supplier firms in developing countries are being **squeezed**
- GVCs contribute to the **declining** labor share within countries
- GVCs **rewards** skilled over unskilled workers
- Women and youth are generally found in **lower value-added** segments
- Raising **tax revenues** is more challenging
- Platforms foster **more participation and concentration**



Impact of globalization on tax structures makes it 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, Nigal and Strecker, 2019

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

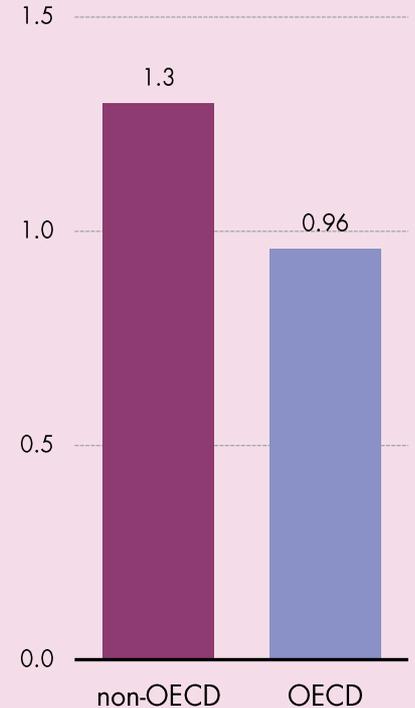
- Corporate income taxes have declined by nearly 50 percent since 1990
- As a share of GDP, non-OECD countries lose the most from profit shifting

Revenue loss from profit shifting

US\$, billions



% of GDP



In the present, we live in a world of resurgent technonationalism, closing borders, and rising protectionism, a trend amplified by the COVID-19 pandemic

GVCs in the time of the pandemic

Early evidence and economic theory suggests that:

- Demand and supply shocks magnified...
- ...but so is the rebound
- Direct suppliers and buyers are those most hardly hit, effects further away decay fastly.
- Government policies have also caused ripple effects up and down the GVC networks.

Effects on FDI and GVC trade heterogeneous and polarized:

- **Developing countries** vs China
- **Small** vs. large
- **High density F2F activities** vs data intensive
- **Informal** vs formal
- **Unskilled** vs skilled
- **Young** vs old
- **Woman** vs man
- **Poor** poorer, rich richer

Firm surveys deliver surprising results:

- while most firms expected a profit loss, the majority of the firms have chosen to maintain their business strategies, regarding input sourcing, diversification of production sites, and offshoring
- GVCs bring resilience through diversification (WDR2020)

The dependencies and vulnerabilities extant in GVCs have been laid bare, and this creates a new urgency in the search for answers to three set of questions:

- What happens when firms and countries are suddenly cut-off from crucial inputs?
- What are the key dimensions of vulnerability we should pay attention to?

- Are firms unrelated to GVCs more adversely impacted by COVID?
- Should governments help only domestic firms through the crisis?

- Is there an alternative path to sustained poverty reduction than international integration?

Poll question #2

Can countries experience sustained poverty reduction without engaging in international trade?

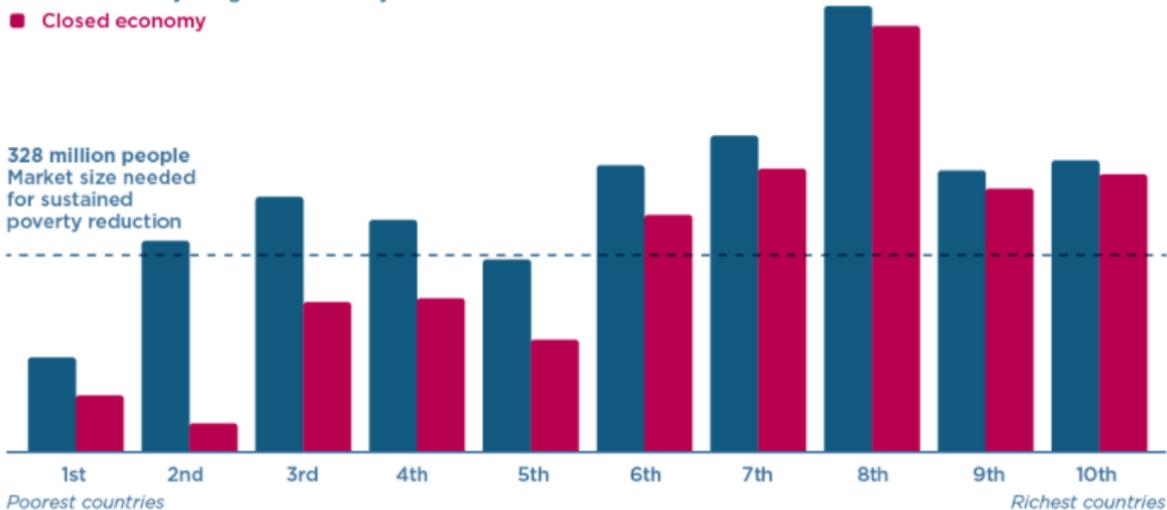
1. Yes
2. No
3. Not sure

International integration provides a path for smaller, low-income nations to reduce poverty

Estimated market size by deciles of GDP per capita, millions of people

■ Internationally integrated economy
■ Closed economy

328 million people
Market size needed
for sustained
poverty reduction



Source: Goldberg and Reed 2020

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



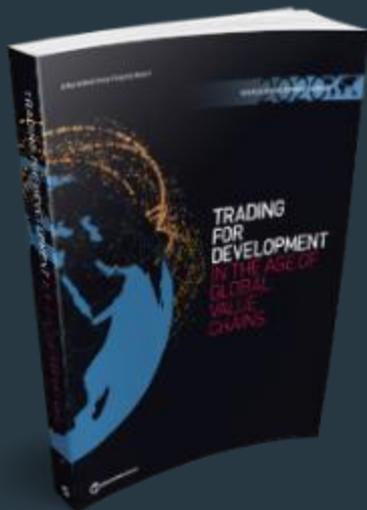
**International
data flows**



Competition



Environment



World Development Report 2020

Trading for Development in the Age of
Global Value Chains

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