

Book Review

World Development Report 2020: Trading for Development in the Age of Global Value Chains, The World Bank, Washington, D.C., U.S.A., 2020. Pp. 290.
Downloaded from <https://openknowledge.worldbank.org>

The revolution witnessed in the Global Value Chains (GVC) in the last three decades has transformed the face of global trade. GVCs emerge when the production process involves multiple stages and at least two stages take place in different countries. Such a disintegration of production process across the globe results in division of labour internationally and specialisation of production. While the dominant players in the GVCs are the developed economies, several developing nations are a part of the process and have gained immensely. This book has discussed the impact of market-oriented policies and reforms driven by GVCs in stimulating economic growth, jobs and poverty reduction along with concerns on inequality and environmental fronts.

The book includes five parts and is divided into 10 chapters. An overview of the emergence of the global value chains and its impact on trade since 1990s is the main theme of Part I. The revolution in the GVCs in the 1990s and 2000s changed the fortunes of several developing countries. Using examples from countries like Ethiopia, Bangladesh, China and Vietnam, the work demonstrates that participation in GVC improves productivity, economic growth, job opportunities- specifically for women, and reduction in poverty. However, there also exists a disparity in the form of inequality and growing concerns on environmental pollution. Innovations and new technologies like automation and 3D printing are providing opportunities as well as challenges. This section gives a broad overview of the upcoming chapters on each of these topics along with the need for reforms in trade policy, factor endowments, governance, labour market and rule based trade system. It also argues that the reversal of trade reforms, decline in investment, fragmentation in production and increasing protectionist measures specifically after the 2008 Global Financial Crisis has slowed the expansion of GVCs. The subsequent sections justify these arguments with rigorous empirical evidence.

An in depth analysis on the evolution and importance of GVCs and the factors that drive the participation of different countries is the central theme of Chapter 1 in Part II. This chapter quickly grabs the attention by using a simple example of bicycle production and discusses the micro and macro views on GVC. Fragmentation of production in the 1990s was driven by information and communication technology revolution, outsourcing, cheaper transportation cost, reduction in both tariff and non-tariff trade barriers and the supply of cheap labour. As a consequence of global

financial crisis of 2008, trade as well as GVCs slowed due to cyclical and structural reasons. The book presents some interesting insights by classifying countries based on the products exported as commodities, limited manufacturing, advanced manufacturing and services, and innovative activities which show clear regional distinctions in GVC participation. Based on this classification, the report also shows the evolving participation of different developing economies in the global value chains and its impact of economic growth since 1990 which are resourceful.

The fundamental factors like factor endowments, market size, geography and institutional quality that determine the GVC are discussed in Chapter 2. Among the factor endowments, low cost labour, skill upgradation, abundance of natural resources, foreign capital etc. matters more. Importantly, Foreign Direct Investment acts as a channel in GVC integration. Further, the market size and access for developing economies to other markets driven by liberal trade policies is observed to promote participation in GVCs. The geographical connectivity in terms of transportation, logistics and communication is vital as the drawbacks in any of these areas impede the GVC participation. Additionally, the quality of institutions which gets reflected in the trade agreements, better contract enforcement mechanisms and greater political stability has the potential to enhance the GVCs. The empirical support for all these arguments come from the data available in Eora database.

Part III of the book discusses the effects of GVCs on economic development, macro economy, environment and technology. The core objective of Chapter 3 is to examine if participation in GVC boost development over and above what different economies could have achieved by following standard trade practices. In particular, long-term firm-to-firm relationships and hyperspecialisation in GVCs enhances productivity at firm level and per capita income. Despite the fact that the production is capital intensive, job opportunities as well as wages increases with participation in GVC especially among women. This is primarily due to the boost in exports and the structural transformation in the economy spurting growth in industries with high labour participation. These factors lead to a reduction in poverty and the gains of being a part of GVC exceed the gains through standard trade. However, there also exist some concerns in the form of unequal and concentrated distribution of the gains within and across countries and sectors as well as the inability to innovate, upgrade, and diversify businesses. A gender gap also exists in ownership and management of GVC firms.

The macroeconomic implication of GVCs is discussed in Chapter 4 which shows that co-movement of economic activity has surged globally and a synchronisation of economic activity across various countries is observed. Specifically shocks spread across the globe and due to the strong input-output linkages, prices (inflation) also spillover. The gains in exchange rate due to export growth is also associated with episodes of import growth thereby dampening the impact. Further, the increased protectionism observed in the last decade is likely to increase trade costs, policy uncertainties and add stress to the existing supply chains.

Environmental impact of GVCs finds a prominent place in Chapter 5. The consequences of GVCs impact the economy in terms of scale, composition and technique. As the GVCs grow the emissions increase along with highly polluting industries resulting in environmental degradation. Specifically, the transportation across the globe due to GVCs is found to directly contribute to climate change through emissions and waste generation. Interestingly, the innovation in GVCs is found to create less damaging products and environmentally-friendly products like electric vehicles. Tightening of environmental norms are observed to promote standards along the value chain, clean technology and innovative products like green goods.

The impact of digital technologies on GVCs, trade flow and export-led industrialisation is examined in Chapter 6. The disruptive technologies are likely to lower the trade costs as it lowers logistic and coordination costs. The revolution in internet and communication technology (ICT) which also enabled GVC growth require developing economies to provide high speed internet connection, e-commerce and artificial intelligence applications to be competent in GVCs. The technological advances are likely to create more tradable goods and services over time. The adoption of automation is not expected to stop export-led industrialisation. However, robot adoption and 3D printing are expected to be stressful to the labour market as it compresses the labour income share.

The policies followed by the countries are critical to GVC participation and this is discussed in Part IV of the book. Specifically, Chapter 7 highlights the importance of policies related to factor endowments, market size, geography and institutional quality. The policies to enhance the factor endowments should eliminate barriers to investment, ensure competitive pricing of inputs and get rid of restrictive regulations, while taking into account the natural resources, foreign capital and human capital. The trade in goods as well as services needs to be liberalised to expand and provide access to different players specifically to the developing economies in the areas of tariff, non-tariff barriers and subsidy. Further, reforms in customs and border restrictions, policies to create efficient transport services, opening economy to global players and upgradation of ICT can help in smooth trade operations. The comprehensive summary of the reforms required is presented in Figure 7. 13 is handy.

Chapter 8 highlights the need for sharing the gains of participating in GVCs through inclusion and sustainability. Strengthening and supporting the smallholders in agriculture-commodity based economies is an essential step. Policies to support women, youth and workers by providing child care, training programmes and work place safety standards respectively could overcome several barriers to employment. This chapter also emphasises on the need for labour adjustment policies to facilitate movement of labour to new industries and places. This Chapter also put forward a strong case for standardised international data from all parties involved in GVCs.

The final part discusses the importance of international cooperation. The focal point of Chapter 9 is the benefits of cooperation in trade, specifically for the developing countries driven by the rule based trade system under the umbrella of World Trade Organization. However the breakdown of Doha Round and disagreements among members of different trade treaties have given a setback to this mechanism. A need for better coordination among new global players, developing economies and advanced economies as well as access to information on policies can improve transparency and reduce uncertainties surrounding policies.

The final chapter expands the cooperation beyond trade to “taxation, regulations, compliance policy and infrastructure”. GVCs are found to amplify challenges in the international tax system as firms are sensitive to tax difference. This leads to profit shifting to low tax jurisdictions which is duly recognised as a concern by several economies. This book also mentions the OECD/G20 Inclusive Framework for bringing in reforms to international corporate tax framework specifically on the Global antibase erosion (GLoBE) proposal.

This work gains relevance in the context of increased protectionist measures adopted by several counties in the recent time and brewing trade conflicts between the two super powers, the USA and China. It explains how several developing economies made huge gains by being a part of the GVCs and by consistently adapting to the various changes that swept across the globe since 1990s. Particularly, the country and sector wise examples used are apt and convey the essence of the argument fluently. However, at some places the book over-emphasises the role of GVCs by sidelining the other important factors that drive economic development. The book is a good resource with an exhaustive list of references for anyone who wants to understand the nitty-gritty of global value chains and economic growth. The book offers developing economies a path for economic gains through GVCs and trade reforms.

*Department of Economics,
Bengaluru Dr. B. R. Ambedkar School of Economics University,
Bengaluru.*

Bipin Sony