# GLOBAL VALUE CHAINS IN A POSTCRISIS WORLD

## A DEVELOPMENT PERSPECTIVE

Editors

Olivier Cattaneo • Gary Gereffi • Cornelia Staritz

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*Editors*

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# FOREWORD

The global economic crisis of 2008–09 has revealed the interdependence of the world economy. The financial crisis originated in the United States, but the resulting economic downturn quickly spread to the rest of the world. Trade, along with finance, was one of the main vectors of transmission of the crisis. In 2009, there was a massive contraction in global trade—minus 13 percent. The contraction was largely a reflection of a drop in demand, especially for durable goods.

The fact that the shock was transmitted very rapidly reflects the increasing reliance by businesses on so-called global value chains (GVCs)—the process of ever-finer specialization and geographic fragmentation of production, with the more labor-intensive parts of the production process transferred to developing countries. In a world where GVCs are the prevalent business model for multinational corporations, a reduction in demand for final products by global buyers implies that demand shocks are immediately transmitted "upstream" to subcontractors in developing countries.

The studies that are collected in this volume analyze the operation and likely implications of the ongoing "rebalancing" of the world economy for global value chains. The studies suggest that the crisis will not reverse globalization; instead, in the postcrisis period, it is likely that there will be faster consolidation of GVCs and a shift in demand from the traditional high-income markets in the North to the rising economic powers in the South.

As discussed in the contributions, the shift in the center of gravity of global demand and the growth in South-South trade create a number of challenges. These include the need to adjust production to satisfy different consumer preferences in emerging markets, a greater emphasis on price competitiveness, as well as possibly greater hurdles for low-income countries to move up the value chain given the structure of demand for—and supply of—exports by high-growth emerging markets.

The chapters collected in this book offer a comprehensive, in-depth analysis of one of the major drivers of global integration, shedding new light on recent developments and likely trends in the prospects for global production sharing going forward.

I am very grateful to the volume editors—Olivier Cattaneo, Gary Gereffi, and Cornelia Staritz—for their initiative in organizing the contributed chapters and to the Global Trade and Financial Architecture project (supported by the U.K. Department for International Development) that provided financial support for the effort.

Bernard Hoekman
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# ACKNOWLEDGMENTS

After the May 2009 London Summit, where leaders of the Group of Twenty designed a global plan for recovery and reform, the World Bank brought together researchers and trade policy practitioners to analyze responses to the global economic crisis of 2008–09 and their impact on trade and development. This work led to the 2009 publication of a first volume on the responses of national governments to the crisis—*Effective Crisis Response and Openness: Implications for the Trading System*, edited by Simon J. Evenett, Bernard Hoekman, and Olivier Cattaneo. This second volume focuses on business responses to the recent economic crisis.

The editors are grateful for the dedicated way in which the authors delivered, under serious time constraints, far more than we could have reasonably expected. The fast and constant evolution of the economic situation, from crisis to recovery, increased the difficulty, but also the value, of their task. At the time this volume was edited, the fate of the world economy was still uncertain, and the timid signs of recovery should not distract us from the revealed problems and changes prompted by the crisis.

The editors thank Bernard Hoekman, Director of the International Trade Department at the World Bank, for his guidance and support throughout the project. Michelle Chester and Rebecca Martin provided outstanding administrative support. They also acknowledge the impetus of the BIS-DFID (Department for Business Innovation and Skills—Department for International Development) Joint Trade Policy Unit that has been decisive in the launch of the project.

Analysis of the reactions to the crisis was part of the Global Trade and Financial Architecture (GTFA) project. Designed to build on the findings of the U.N. Millennium Task Force report on *Trade for Development*, GTFA is led by a steering committee of leading researchers and policy makers and cochaired by Ernesto Zedillo, Yale Center for the Study of Globalization, and Patrick Messerlin, Groupe d'Economie Mondiale de SciencesPo. GTFA's objectives are to identify and promote concrete policy options for reinvigorating and strengthening the multilateral economic system and institutions that have supported the process of globalization. A particular focus of the work, sponsored by DFID and managed by the World Bank, is on making the globalization process more sustainable and inclusive.

The views expressed in this volume are those of the authors and do not represent a position, official or unofficial, of the World Bank, GTFA, or the authors' organizations of affiliation.

## Reference

Evenett, Simon J., Bernard Hoekman, and Olivier Cattaneo, eds. 2009. *Effective Crisis Response and Openness: Implications for the Trading System.* London: Centre for Economic Policy Research (CEPR) and World Bank.

# ABBREVIATIONS

| | |
|---|---|
| $ | All dollar amounts are U.S. dollars unless otherwise indicated |
| ARDL | autoregressive distributed lag |
| ASEAN | Association of Southeast Asian Nations |
| ASICS | application-specific integrated circuits |
| ATC | Agreement on Textiles and Clothing |
| BCG | Boston Consulting Group |
| BEC | Broad Economic Category |
| BIOS | board-level operating system (also basic input-output system) |
| BPO | business process outsourcing |
| BRIC | Brazil, Russia, India, and China (economies) |
| CAD | computer-aided design |
| CAFTA | Central American Free Trade Agreement |
| CAGR | compound annual growth rate |
| CAP | Common Agricultural Policy (European Union) |
| CEEC | Central and Eastern European Countries |
| CGE | computable general equilibrium |
| CGGC | Center on Globalization, Governance, and Competitiveness |
| CMT | cut, make, and trim |
| CNC | computer numerical control (also computer-controlled) |
| CPU | central processing unit |
| CSF | critical success factor |
| CSR | corporate social responsibility |
| DR-CAFTA | Dominican Republic and Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, member countries in the Central American Free Trade Agreement |
| ECM | error correction model |
| EIU | Economist Intelligence Unit |
| EMS | electronics manufacturing services |

| | |
|---|---|
| EPZ | export processing zone |
| EU 15 | European Union 15 members (before 2004) (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom) |
| EU 27 | European Union 27 members (Austria, Belgium, Bulgaria, Cyprus [Greek part], Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom) |
| FDI | foreign direct investment |
| FLEGT | Forest Law Enforcement, Governance and Trade Programme (European Union) |
| FOB | free-on-board |
| FSC | Forest Stewardship Council |
| FTA | Free Trade Agreement |
| GDP | gross domestic product |
| GMP | Good Manufacturing Practice |
| GSP | Generalized System of Preferences |
| GTAP | Global Trade Analysis Project |
| GVC | global value chain |
| HACCP | Hazard Analysis and Critical Control Point certification |
| HHI | Herfindahl-Hirschman Index |
| IC | integrated circuit |
| ICT | information and communication technology |
| IDE-JETRO | Institute of Developing Economies–Japan External Trade Organization |
| IDH | independent design house |
| IDM | integrated device manufacturer |
| IMF | International Monetary Fund |
| IMVP | International Motor Vehicle Program |
| I-O | input-output |
| IRF | impulse response function |
| ISO | International Organization for Standardization |
| JV | joint venture |
| KPO | knowledge process outsourcing |
| LDC | less developed country |
| MDG | Millennium Development Goal |
| MFA | Multi-Fibre Arrangement |
| MIG | manufactured intermediate goods |

| | |
|---|---|
| MNC | multinational corporation |
| MNE | multinational enterprise |
| NAFTA | North American Free Trade Agreement |
| NBER | National Bureau of Economic Research |
| n.e.s. | not elsewhere specified |
| OBM | original brand manufacturing |
| ODM | original design manufacturing |
| OECD | Organisation for Economic Co-operation and Development |
| OEM | original equipment manufacturing |
| OLB | Origine et Légalité des Bois |
| OPT | outward processing trade arrangement (European Union) |
| PND | portable navigation device |
| PPP | purchasing power parity |
| QCD | quality, cost, delivery |
| R&D | research and development |
| RMG | ready-made garments |
| ROW | rest of the world |
| SAFTA | South Asian Free Trade Area |
| SITC | Standard International Trade Classification |
| SOC | system-on-chip technology |
| UNCTAD | United Nations Conference on Trade and Development |
| UNIDO | United Nations Industrial Development Organization |
| USITC | United States International Trade Commission |
| WDI | World Development Indicators |
| *WEO* | *World Economic Outlook* |
| WITS | World Integrated Trade Solution |
| WOS | wholly owned foreign subsidiary |
| WTO | World Trade Organization |
| YTY | year-to-year |

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