

GLOBAL VALUE CHAINS IN A POSTCRISIS WORLD

A DEVELOPMENT PERSPECTIVE

Editors

Olivier Cattaneo • Gary Gereffi • Cornelia Staritz



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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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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

xx **Abbreviations**

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	<i>World Economic Outlook</i>
WITS	World Integrated Trade Solution
WOS	wholly owned foreign subsidiary
WTO	World Trade Organization
YTY	year-to-year

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