Key Messages and Findings

I. Benefits of GVCs

- GVCs foster positive outcomes for firms in developing economies by improving productivity and alleviating information and finance constraints; workers benefit from higher wages and better working conditions.

- When GVC integration fails to deliver expected benefits, it is often due to underlying market failures such as labour market frictions, market power by large firms, and structural disparities.

- Policies for inclusive development should focus on facilitating entry into GVCs and increasing spillovers to the domestic economy. Current efforts are too often limited to improving inclusiveness exclusively within GVCs.

II. Vulnerability

- The export value and share of potential bottleneck products had been increasing since 2000, contributing to the vulnerability of GVCs. Also, there was considerable concentration in sources of foreign value added.

- Trade in services was particularly affected by the pandemic and merchandise trade was negatively impacted by the rising trade tensions.

- The trade tensions and the COVID-19 pandemic highlighted the need to improve economies' resilience and mitigate dependence on a limited number of suppliers.

- Digitalization was a key tool for resilience and recovery during the pandemic and facilitated access to labor supply for certain industries, especially the services sector.

- GVC-related trade increased in 2021 and 2022, occurring alongside considerable growth in exports. A general shortening of GVCs is also observed during these years relative to the overlapping periods of PRC-US trade tensions and the COVID-19 pandemic.

III. Potential for deglobalization

- The PRC-U.S. trade tensions and the ongoing Russian war in Ukraine are having huge impacts on global energy supply chains, making geopolitical concerns the dominant factor in the policies governing energy trade.

- The escalating trade weaponization and trade sanctions will lead to segmented regional energy supply chains, such as the EU-US energy supply chain and the Eurasia energy supply chain.

- Renewable energies are expected to play a pivotal role in reshaping the energy global supply chains and even the political landscape.

- Semiconductor GVCs are highly complex and well integrated across the world with many locations involved, such that no single economy can fully control or monopolize them.

- The US remains the dominant player in most key segments of these semiconductor GVCs, in particular chip design through American "fabless" firms.

- Current trade-distorting industrial policies pursued by many governments attempting to "reshore" and/or "shore up" domestic semiconductor manufacturing are unlikely to be effective.

IV. Greening of GVCs

- Since 2001, developing economies' CO_2 emissions from purely domestic value chains have doubled. To reduce these emissions, they need more effective policy tools. Greening their domestic production can also green their exports in GVC.

- To a certain extent, GVCs are more carbon-intensive than domestic activities, as they require multiple stages of production and transportation across borders. It is important to introduce carbon pricing along GVCs to substantially raise the cost of emissions globally in the Paris Agreement era.

- Current emission reduction targets do not explicitly define the different roles and responsibilities of GVC actors. MNEs generally capture more value added of GVCs and should play more active roles to fight climate change.

- Institutional drivers such as national environmental regulations still play the leading role in GVC greening. Market and technological drivers tend to be driven by institutional drivers.

- If lead firms do not provide their suppliers with enough financial, managerial, and knowledge resources for implementing green strategies, smaller firms risk being left out of the chain.

- Accounting, monitoring, disclosing the environmental outcomes, and multilateral efforts to orchestrate and harmonize private and national initiatives are crucially important.