

Global Value Chains in the times of COVID-19

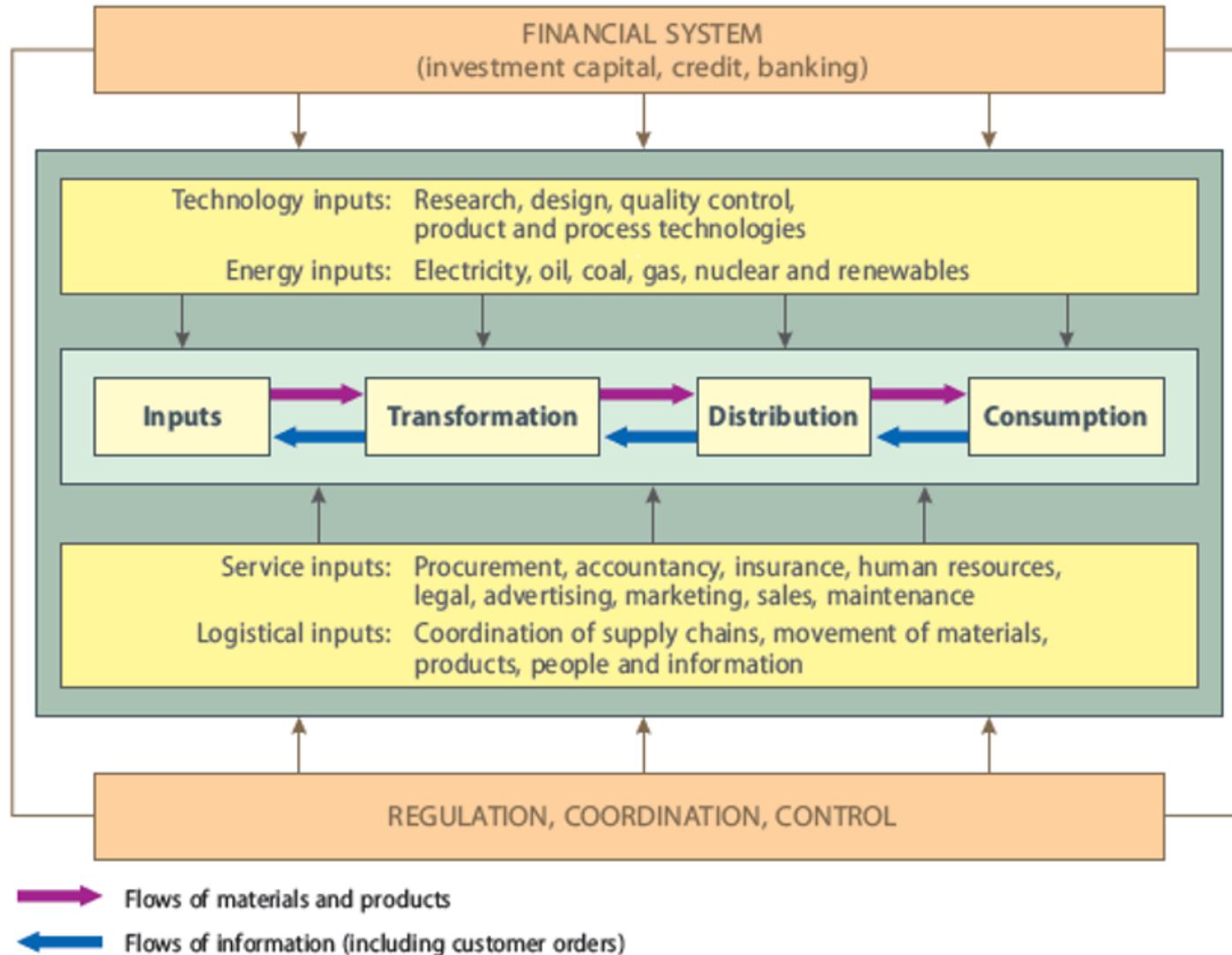
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What are global value chains

- production fragmentation
 - about 60 per cent of global trade consists of trade in intermediate goods and services that are incorporated at various stages in the production process of goods and services
 - TNC-coordinated GVCs account for some 80 percent of global trade
 - a value chain for a given product incorporates value added produced by many different industries and countries
- cause and effect of globalization
- one of the primary organizational features of the world economy
- in all sectors agriculture, manufacturing and the service sector – very often interconnected
- greater in industries where activities can be more easily separated, such as electronics, automotive or garments
- big role of intangible services
- enormous differences in value creation, control and capture → direct economic impact on value added, jobs and income

GVCs – a way to understand the links and dependencies between the workforce, consumers, companies and institutions at a global level

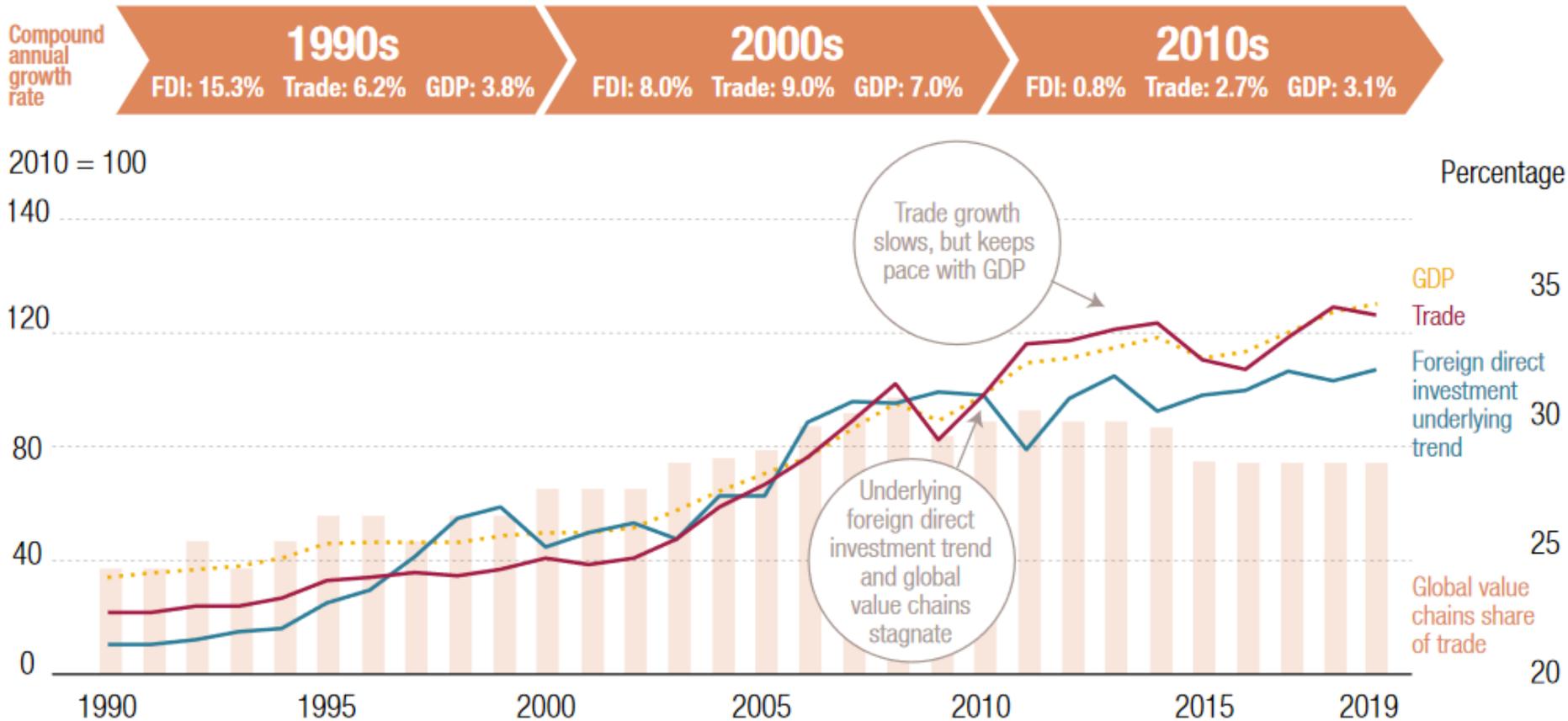
Basic components of production networks



Impact of new technologies and trade war

- slowbalisation
- greater automation, lower role of labor costs
- emphasis on sustainability
- China x USA decoupling - various strategies:
 - Chinese companies move part of production to neighboring countries (Vietnam, Indonesia, and Cambodia)
 - more attention to the domestic market
 - reorientation to other export markets
 - company formation in the USA
 - most are waiting for it to pass

Trends in global value chains, foreign direct investment, trade and gross domestic product



Source: UNCTAD, 2020d.

Notes and abbreviation: Trade refers to the global exports of goods and services. The global value chain share of trade is proxied by foreign value added in exports, based on the UNCTAD Eora global value chain database. FDI, foreign direct investment.

Impact of covid-19

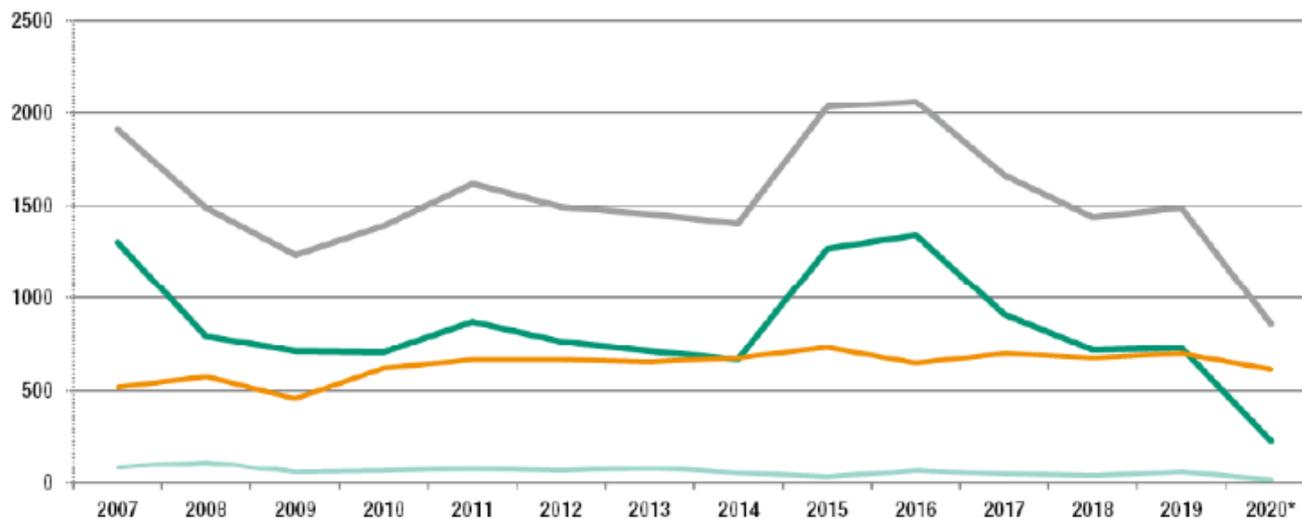
Covid-19 emphasise the risks and instability associated with the international fragmentation of production

- disruption of supply chains (transport, labour and logistics) - temporary
- major problem - shortages of supply of personal protective equipment (PPE), medical devices (enourmous demand)
- temporary decline on both the demand and supply side
- deteriorating perception of China
- efforts to reduce dependence on China and remote countries
- global rise in import tariffs, national value-added subsidies
- increase domestic production
- acceleration of digitalisation

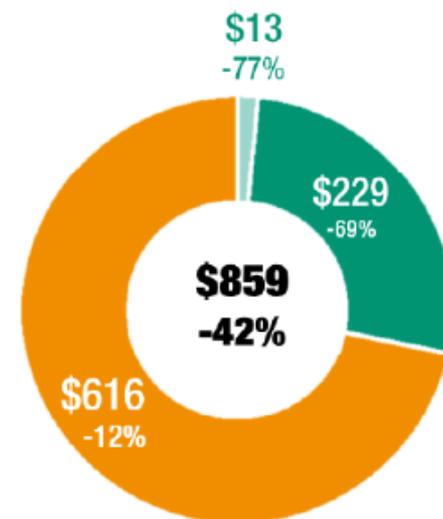
- supply side more concentrated than demand side
- supply of intermediate goods is less concentrated than supply of final goods - possible bottlenecks
- smaller economies more exposed to demand shocks in GVCs but also supply shocks
- the centrality of China as the main manufacturing hub, centrality in service sector United States, the United Kingdom, Germany

FDI inflows: global and by group of economies, 2007–2020 (billions of US dollars)

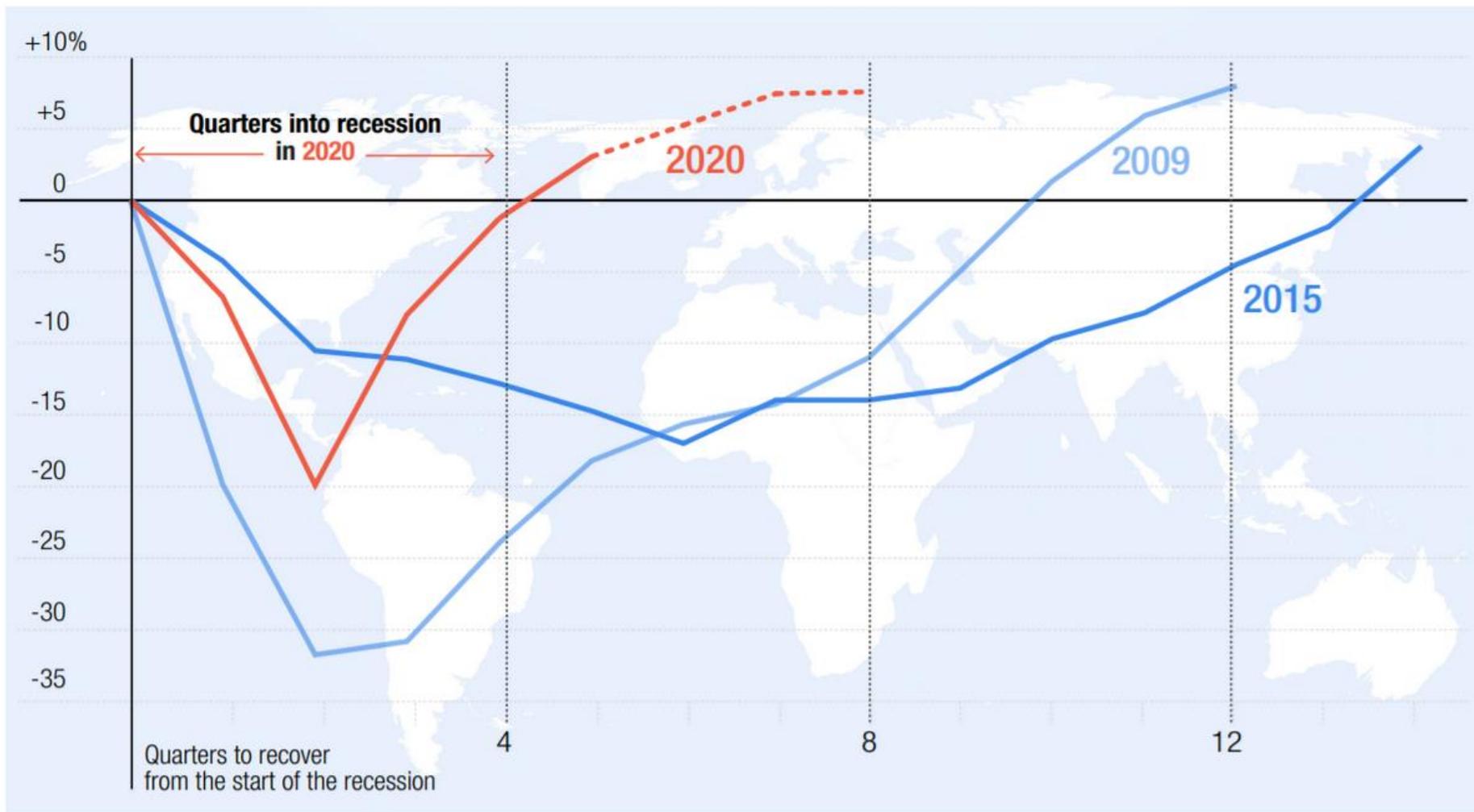
— Transition economies — Developed economies — Developing economies — World total



Source: UNCTAD (preliminary estimates)



Cumulative change in global trade from the start of each recession



Source: UNCTAD calculations based on national statistics.

Future GVCs

How to improve stability and resilience to shocks in GVCs while still capturing efficiency gains stemming from specialisation and comparative advantage?

Possible scenarios:

- greater self-sufficiency - more localised production and reshoring – does not eliminate domestic shock, lowers efficiency (income)
- diversification – e.g. China +1 strategy
- greater role of regional GVC – nearshoring (proximity to markets)

x

- re-configuring the supplier base is costly (specific knowledge capital or natural resource base) - Chinese companies manage a number of GVCs
- labour-intensive activities are more easily re-configured
- GVCs - efficiency gains, important role in cushioning economic shocks
- new trade agreements (RCEP)
- emerging markets growing faster than high-income countries

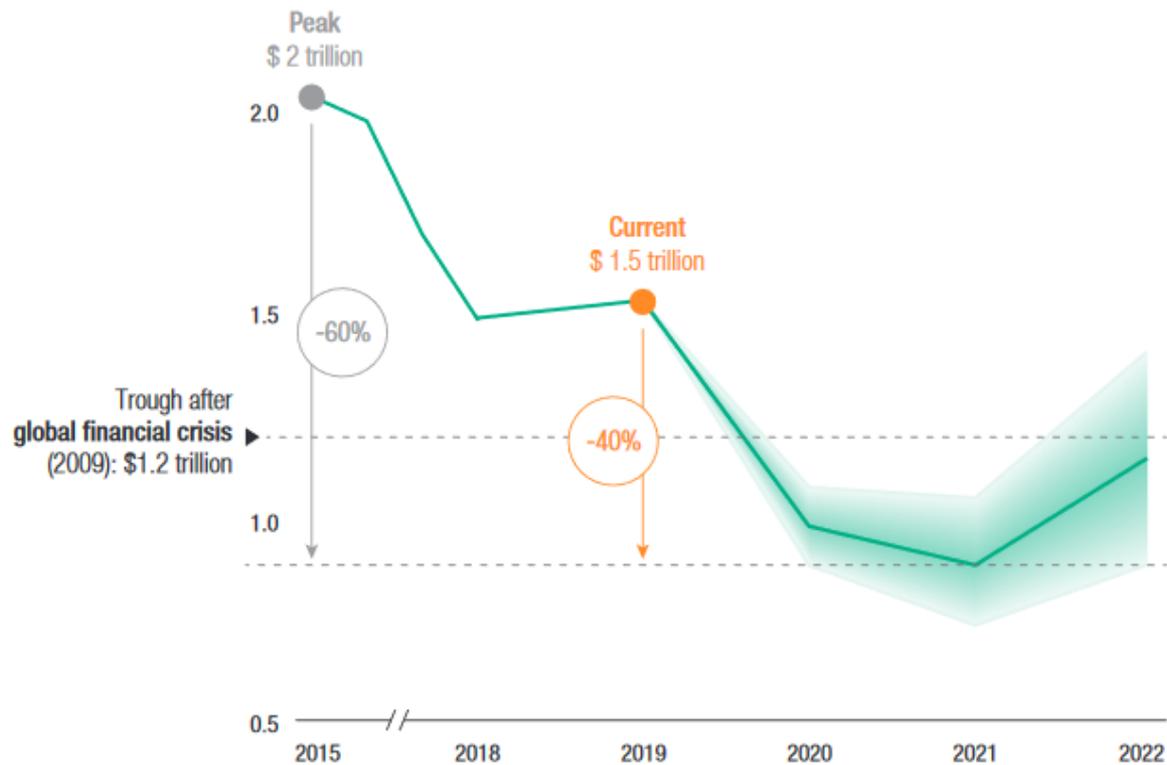
Policy measures:

- increase stockpiles of essential goods (also on a regional basis)
- diffusion of digital technologies to improve information systems, risk management and trade facilitation
- review transport, logistics and border process regulations to enable flexible responses to disruptions
- international co-ordination on border health protocols and mutual recognition agreements – a predictable regulatory, trade, and investment policy environment alleviates uncertainty in times of crises

Find balance between the benefits and the costs!

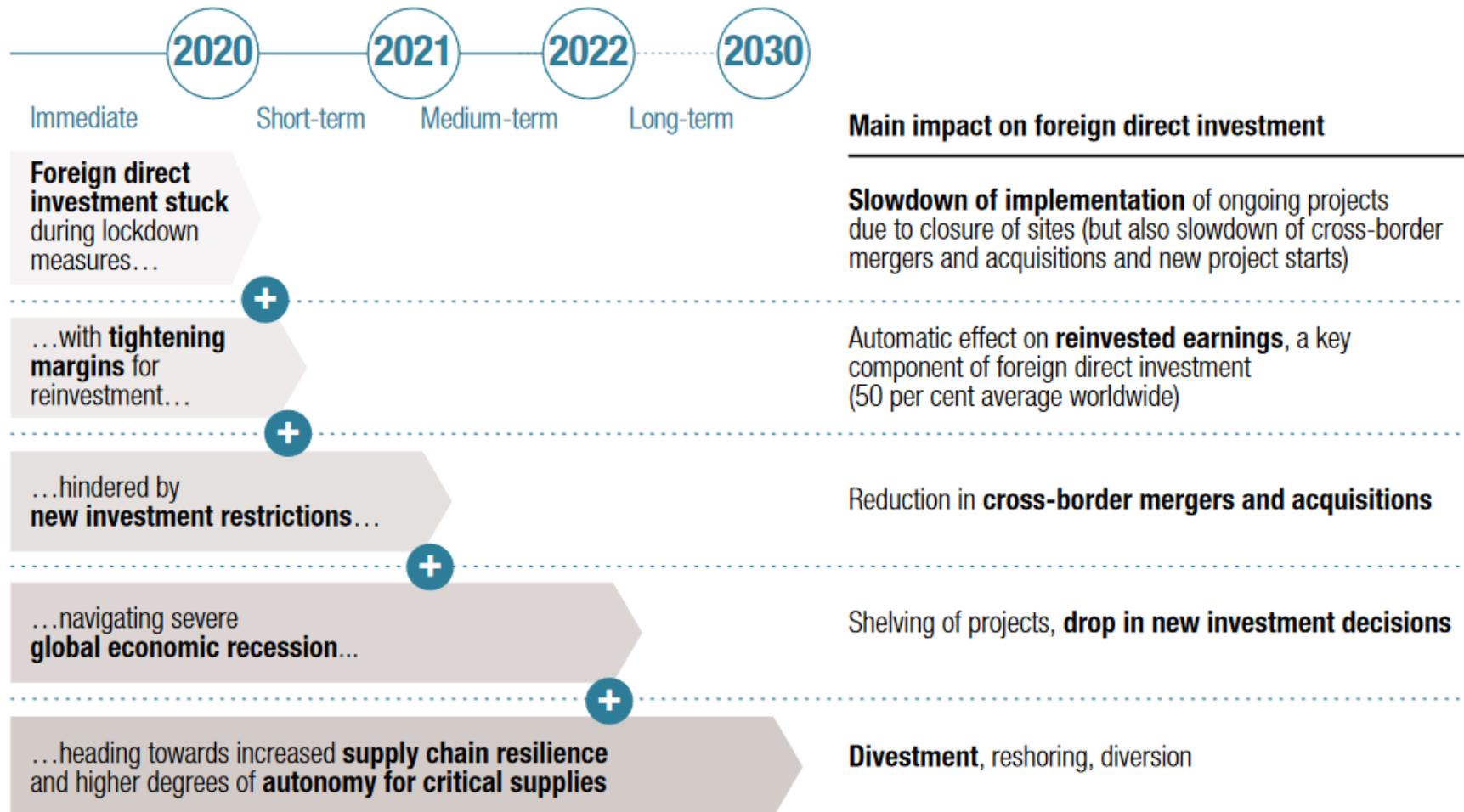
FDI projections

Figure I.1. Global FDI inflows, 2015–2019 and 2020–2022 forecast
(Trillions of dollars)



Source: UNCTAD.

Impact of the pandemic on foreign direct investment: Transmission mechanisms, 2020–2030



Resources

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Questions ?

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