A World Bank Group Flagship Report

WORLD DEVELOPMENT REPORT 2020

TRADING FOR DEVELOPMENT IN THE AGE OF GLOBAL VALUE CHAINS

WORLD BANK GROUP

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Cover image: The cover image is a screen capture of an interactive visualization depicting the flow of international trade, with each dot representing US$1 billion in value. The interactive map was created by data visualization expert Max Galka, from his *Metrocosm* blog: http://metrocosm.com/map-international-trade/. Used with the permission of Max Galka; further permission required for reuse.

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Foreword

Around the world, the process of delivering goods and services to consumers has become specialized to a degree no one could have ever imagined. Businesses focus on what they do best in their home markets and outsource the rest. Samsung makes its mobile phones with parts from 2,500 suppliers across the globe. One country—Vietnam—produces more than a third of those phones, and it has reaped the benefits. The provinces in which the phones are produced, Thai Nguyen and Bac Ninh, have become two of the richest in Vietnam, and poverty there has fallen dramatically as a result.

The face of global trade has been transformed in the three decades since the World Bank's last major *World Development Report* on the subject. Until 2008, global value chains (GVCs) expanded rapidly. The expansion was revolutionary for many poorer countries, which boosted growth by joining a GVC, thereby eliminating the need to build whole industries from scratch. The experience of the last three decades has proven that it pays to specialize.

Yet GVCs are at a crossroads. Their growth has leveled off since 2008, when GVCs peaked at 52 percent of global trade. The reasons are complex. Slowing global growth and investment are one factor. And value chains have matured, making further specialization more challenging. Meanwhile, the push toward international trade liberalization has stalled. The growth of automation and other labor-saving technologies such as 3D printing may encourage countries to reduce production abroad. Unless trade liberalization is reinforced, value chains are unlikely to expand.

Under the circumstances, do GVCs still offer developing countries a clear path to progress? That's the main question explored in the 2020 *World Development Report*. And the answer is yes: developing countries can achieve better outcomes by pursuing market-oriented reforms specific to their stage of development.

This Report offers a detailed perspective on GVCs. It covers not only the degree to which they contribute to economic growth and poverty reduction, but also the extent to which they lead to inequality and environmental degradation. It discusses how new technologies are reshaping trade, finding that automation will help rather than hurt trade. It also raises concerns about the inadequacies in the global trading system that are fueling disagreements among nations.

In particular, the Report highlights what can be done by countries that have been largely left out of the GVC revolution. Important steps such as speeding up customs procedures and reducing border delays can yield big benefits for countries making the transition from simply exporting commodities to basic manufacturing. Strengthening the rule of law reinforces trade as well. Also helpful are investments that improve connectivity by modernizing communications and roads, railways, and ports. Liberalizing road, sea, and air transport is also important, and it is often less costly.

In the meantime, knowledge and services have become integral to global production, delivering important benefits to developing countries through the supply chain. In Colombia, a program led by a multinational firm induced suppliers to upgrade their coffee farms while planting trees and incorporating more efficient and sustainable practices. About 80,000 farmers and 1,000 villages benefited from the program: the quality of coffee improved, while farmers' profits increased by 15 percent.

Overall, participation in global value chains can deliver a double dividend. First, firms are more likely to specialize in the tasks in which they are most productive. Second, firms are able to gain from connections with foreign firms, which pass on the best managerial and technological practices. As a result, countries enjoy faster income growth and falling poverty.

All countries stand to benefit from the increased trade and commerce spurred by the growth of GVCs.

David R. Malpass
President
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Preface

The growth of international trade and the expansion of global value chains (GVCs) over the last 30 years have had remarkable effects on development. Incomes have risen, productivity has gone up—particularly in developing countries—and poverty has fallen. The fragmentation of production and knowledge transfer inherent in GVCs are in no small part responsible for these advances. Hyperspecialization by firms at different stages of value chains enhances efficiency and productivity, and durable firm-to-firm relationships foster technology transfer and access to capital and inputs along value chains. GVCs account for around half of world trade today.

At this moment, however, there is reason to worry that this trade-led path to development is under threat. Although trade bounced back after the global financial crisis of 2008, the high growth rates of the 1990s and 2000s have remained elusive. GVC trade—trade in intermediate products—also stalled in 2008, with only modest, intermittent periods of growth since. There are many reasons for this shift, but one is that trade reform has languished and in some cases is even being reversed.

Countries can do much on their own to reinvigorate world trade and GVC expansion. With that in mind, this Report sets out a comprehensive domestic agenda for governments: investments in connectivity, improvements in business climate, and unilateral reductions in trade and investment barriers.

But there is much that countries need to do together to improve the current system. Coordinated trade liberalization is overdue in agriculture and services, the rules applied to foreign investment are uneven, and subsidies and state-owned enterprises are distorting competition.

Unfortunately, international cooperation, too, has begun to falter. Many people are disenchanted with free trade. Some communities have experienced declining wages and unemployment. Businesses are complaining about the limitations of the current multilateral system in dealing with their concerns about lack of access to large markets, the increasing use of "behind-the-border" measures, and "unfair" competition. Governments are inclined to respond by using trade policy as a tool for social protection and to address inadequacies in the current trade rules.

This Report argues that reinvigorating the international trade system will require governments in certain advanced countries to first look inward to address the discontent and inequality associated with openness. More generally, advanced economies need to rethink the priorities of the welfare state to better help workers adjust to structural change.

Developing countries as well need to expand social assistance and improve compliance with labor regulations in order to extend the jobs and earnings gains from participation in GVCs to more people across society. They also need to take steps to ensure that their domestic firms benefit from knowledge transfer from lead global firms. Finally, all countries need to ensure that the growth associated with trade does not lead to environmental degradation.

Meanwhile, governments need to cooperate with one another beyond the traditional trade issues to ensure that trade and GVCs can deliver for development. Cooperation on corporate taxes will enable governments to better tax capital in a global, digitalized economy, so that they have the resources to finance infrastructure projects and social policies. Improved cooperation on competition issues is needed to ensure that firms enjoy a level playing field globally. And finally, new models of cooperation are needed for data flows to strike a balance between the privacy of citizens and the needs of business and innovators.

The expansion of trade and GVCs is at an inflection point. There is still time to reinvigorate growth, trade, and GVCs. Trade is vital for development, but it needs rules to function smoothly. And those rules require cooperation by governments. This Report offers governments a road map for action.

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Abbreviations

AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
ALMP	active labor market policy
APEC	Asia–Pacific Economic Cooperation
ASCM	Agreement on Subsidies and Countervailing Measures
ASEAN	Association of Southeast Asian Nations
AVE	ad valorem equivalent
BCRs	Binding Corporate Rules
BEAT	Base Erosion and Anti-abuse Tax
BEC	Broad Economic Categories
BEPS	base erosion and profit shifting
BIT	bilateral investment treaty
BPO	business processing outsourcing
BRI	Belt and Road Initiative
CBPRs	Cross-Border Privacy Rules
CCAC	Competition and Consumer Affairs Commission (Guyana)
CLOUD Act	Clarifying Lawful Overseas Use of Data Act
CO_2	carbon dioxide
COMESA	Common Market for Eastern and Southern Africa
CORFO	Chilean Innovation Agency
CPEA	Cross-border Privacy Enforcement Arrangement
CPI	consumer price index
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CVDs	countervailing duties
DBCFT	destination-based cash flow tax
DLTs	distributed ledger technologies
DR–CAFTA	Dominican Republic–Central America Free Trade Agreement
DST	digital services tax
DTA	domestic tariff area
DTRI	Digital Trade Restrictiveness Index
EAC	East African Community
EBA	Everything but Arms
ECOWAS	Economic Community of West African States
ECTEL	Eastern Caribbean Telecommunications Authority
EEA	European Economic Area
EEC	European Economic Community
EIP	eco-industrial park
EKC	environmental Kuznets curve
EPZ	export processing zone
ESG	environmental, social, and governance

EU	European Union
FAO	Food and Agriculture Organization (of the UN)
FDI	foreign direct investment
fintech	financial technology
FTA	free trade agreement
FVA	foreign value added
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GDPR	General Data Protection Regulation
GHG	greenhouse gas
GLoBE	global antibase erosion
Gm^3	billion cubic meters
GVC	global value chain
HCI	Human Capital Index
HS	Harmonized System
ICT	information and communication technology
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IMO	International Maritime Organization
INEGI	National Institute of Statistics and Geography (Mexico)
IP	intellectual property
IPA	investment promotion agency
IPRs	intellectual property rights
ISCO	International Standard Classification of Occupations
ISDS	investor-state dispute settlement
ISIC	International Standard Industrial Classification
ISO	International Organization for Standardization
IT	information technology
ITC	International Trade Centre
ITKIB	Istanbul Textile and Apparel Exporter Associations
LDCs	least developed countries
LPI	logistics performance index
m^3	cubic meters
MENA	Middle East and North Africa
MFA	Multifibre Arrangement
MFN	most favored nation
MIDP	Motor Industry Development Programme
MMT	million metric tons
MNC	multinational corporation
MNE	multinational enterprise
MOU	memorandum of understanding
MRIO	multiregion input–output
NAFTA	North American Free Trade Agreement
NEC	not elsewhere classified
NEET	not in employment, education, or training
NO_x	nitrogen oxides
NTB	nontariff barrier
NTM	nontariff measure
OECD	Organisation for Economic Co-operation and Development

PEA	Privacy Enforcement Authority
PHE	pollution haven effect
PHH	pollution haven hypothesis
PPP	purchasing power parity
PSDC	Penang Skills Development Centre
PTA	preferential trade agreement
PV	photovoltaic
PWT	Penn World Table
QIZ	qualified industrial zone
R&D	research and development
RTA	regional trade agreement
RVC	regional value chain
SACU	Southern African Customs Union
SAR	special administrative region
SCC	Standard Contractual Clause
SDG	Sustainable Development Goal
SDT	special and differential treatment
SEV	Samsung Electronics Vietnam
SEVT	Samsung Electronics Vietnam-Thai Nguyen
SEZ	special economic zone
Sida	Swedish International Development Cooperation Agency
SMEs	small and medium enterprises
SO_2	sulfur dioxide
SOE	state-owned enterprise
SPS	sanitary and phytosanitary
STE	state trading enterprise
STWI	Sweden Textile Water Initiative
System-GMM	System Generalized Method of Moments
TBT	technical barrier to trade
TEN-T	Trans-European Transport Network
TFA	textile, footwear, and apparel
TFA	Trade Facilitation Agreement
TFP	total factor productivity
TiVA	Trade in Value Added
TRIMs	Agreement on Trade-Related Investment Measures
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USAID	U.S. Agency for International Development
USCBTTA	U.S.–Cambodia Bilateral Textile Trade Agreement
USMCA	United States–Mexico–Canada Agreement
VAT	value added tax
WAEMU	West African Economic and Monetary Union
WDI	World Development Indicators (database)
WEO	World Economic Outlook (database)
WIOD	World Input–Output Database
WITS	World Integrated Trade Solution (database)
WTO	World Trade Organization

All dollar amounts are U.S. dollars unless otherwise indicated.