Outline

1. GVCs and Economic Upgrading
2. GVCs and Social and Environmental Upgrading
3. Relevant Policy Questions
4. GVC Measurement for Sustainable Development
1. GVCs and Economic Upgrading

Stylized facts:

• Today we have a multipolar global economy with diverging performances and GVC integration.
• In an increasingly globalized and specialized world, borders between economic sectors become increasingly blurred and a focus on tasks becomes more meaningful.
• Traditional views of development neglect more nuanced interpretations that focus on promoting economic, social and environmental upgrading and inclusive growth.

The role of GVCs for economic upgrading:

• GVC participation will become increasingly important to achieve structural transformation in the 21\textsuperscript{st} century.
• Economic upgrading in GVCs allows to achieve higher value-added production in the form of product, functional, and intersectoral upgrading via better skills and know-how, capital and technology, and processes.
• The transmission channels include backward and forward links,
Transmission Channels

Source: Taglioni and Winkler (2016).
1. GVCs and Economic Upgrading

The WBG’s involvement:

- GVCs is one of the Global Solutions Groups in Trade & Competitiveness, with 160 affiliates, and an integrated strategic framework for policy intervention connecting the many different parts.
- Customized country and sector diagnostics that lead to...
- …pro-competitiveness interventions.
- WBG’s integrative engagement across many countries, sectors and topics helps achieve results at a scale, replicate best practices across sectors and countries, and avoid “race to the bottom” scenarios in countries competing at the low end of GVCs.
- The WBG has established a strong global network of partnerships.
The WBG’s GVC Global Solutions Group Community of Practice
Synergies between country dimension and global dimension of WBG engagement

ETHIOPIA

Gov’t commitment to build capacity in light manufacturing/textiles/apparel

Starting Position: Low DB, LPI, Trade Cost rankings

WBG Program in Ethiopia: lending, advisory services and analytics, ta, trade portal

Similar discussions underway in:

CAMBODIA

LAO PDR

MYANMAR

-Wig-in with ongoing trade negotiations
-Wig-in with various initiatives on standards
-Changing technology and skills

WBG engagement across many countries and topics acts as an integrator. This helps to achieve results at scale, replicate best practice across sectors and countries and avoid “race to the bottom” scenarios in countries competing at the low end of GVCs.

Note: DB = doing business; LPI = Logistics Performance Index; TA = technical assistance.
## Partnerships: Driven by Strategic Alignment, Recognized Thought Leadership, Complementarity of Knowledge

<table>
<thead>
<tr>
<th>Global Partners (objectives: flexibility in setting agenda, business development)</th>
<th>Academia, Research Institutes, &amp; Think Thanks (objectives: talent development, thought leadership)</th>
<th>Other Multilaterals (objectives: thought leadership, talent development)</th>
<th>NGOs &amp; other interest groups (objectives: business development, thought leadership)</th>
</tr>
</thead>
</table>
| - Germany (G7 presidency)  
- China (G20 Presidency)  
- New Zealand  
- The Netherlands (EU Presidency)  
- UK (DFID) | - CEPR  
- JETRO  
- UIBE  
- Duke  
- MIT  
- Harvard | - OECD  
- WTO  
- ILO–IFC Better Work  
- Compnet (Eurosystem) | - WEConnect  
- World SME Forum  
- WEF |
| Potential collaborations:  
- Australia  
- Denmark  
- Norway  
- Sweden (SIDA)  
- Switzerland (SECO)  
- USA (USAID & US-ITC) | Potential future targets:  
- Harvard Institute for Strategy & Competitiveness  
- European Foundation for Cluster Excellence  
- Holland International Distribution Council | Initial discussions  
- Asian Development Bank  
- UNIDO  
- ILO (beyond Better Work) |
2. GVCs and Social and Environmental Upgrading

The role of GVCs for social upgrading:
• Social upgrading refers to measurable aspects of worker well-being (employment, wages, and working conditions) and enabling rights (right to bargain, freedom of association, nondiscrimination, etc.).
• Economic upgrading does not automatically lead to social upgrading.
• The adoption of higher labor and social standards in GVC firms results in small-scale worker upgrading, labor-intensive upgrading, and higher-skill upgrading.
• Social upgrading can also lead to more social cohesion via jobs and working conditions, education and skill building, and health insurance and pensions.

GVCs and environmental upgrading:
• Climate change creates new challenges for GVC participation, as firms need to ensure the predictable, reliable, and time-sensitive delivery of goods in the long-term.
• As a result, the global trade landscape is trending toward more climate-friendly international standards and mandatory sustainability reporting regimes.
• Climate-smart policy prescriptions can strengthen global competitiveness, as the benefits of environmental regulation often vastly outweigh the costs.
The WBG’s involvement:

• **Standards** (product/quality, labor, social, environmental) are **important components of the WBG’s GVC agenda**, driven by the need of firms to meet the standards of global buyers and lead firms, and rising consumer demand for sustainable production.

• Preliminary results of a cross-country econometric panel analysis for the BMZ show that higher national and firm-specific product/quality, labor, social, and environmental standards increase value added through GVC participation (Kummritz et al. 2016).

• Through a **combination of advisory, lending, and investment support**, the WBG helps client countries tackle the challenges to meet standards, which requires both a **long-term commitment and tailored incentives and mechanisms**.

• At the country-level, examples include a **multi-pronged approach to upgrading the apparel sector in Bangladesh**.
Promoting the High-road Growth Model of Economic and Social Upgrading

Source: Adapted from Milberg and Winkler 2011, 345.
Example of Country Engagement: Multi–pronged Approach to Upgrading Apparel in Bangladesh, Interventions with Wider Demonstration Effects

1. Firm–level advisory services lead to adoption of low–cost good practices by the firms. Business case is demonstrated and firms are incentivized to go for bigger changes. But they are constrained by finance.

2. The access to finance issue is raised at the dialogue platform where representatives of government, financial institutions and industry jointly come up with recommendations to improve access to finance. These are sent to government.

- Central bank responds by creating refinancing facility to facilitate commercial bank financing for environmental and social improvements. Banks will take advantage of the facility to expand finance for such improvements. This will increase demand for firm–level advisory services, thus stimulating development of service provider market.

- Brands require their suppliers to improve building safety. However, factories are unable to do so in their current, congested, premises. Industry association asks government to help with relocation.

- Discussions at the stakeholder dialogue platform lead to ideas on a PPP approach to zone development.

- Industry association and government start discussion on building an economic zone for textile factories.

- Stakeholder dialogue

- Financiers and other service providers

- Policies, laws and regulations

- Infrastructure
3. Relevant Policy Questions

- The WBG applies an integrated strategic framework for policy interventions to specific country contexts:
  - **Entering GVCs:** Which policies help (i) create world-class GVC links and (ii) a world-class climate for foreign tangible and intangible assets?
  - **Expanding and strengthening GVC participation:** Which policies help (i) strengthen existing GVC–local economy links and (ii) absorptive capacity of local actors?
  - **Turning GVC participation into sustainable development:** (i) Which policies help create a world-class workforce? (ii) How can climate-smart policies be implemented? (iii) Which policies help integrate SMEs and LICs (inclusive GVC development)?

- The strategic framework leaves room for specific client country questions, e.g.:
  - Which position in GVCs should Poland target to follow a more sustainable development path in the future which focuses less on price competitiveness?
  - How does Vietnam’s firm structure affect its productivity and potential
Design of a Strategic Framework for Policy Intervention

Source: Taglioni and Winkler (2016).
Entering GVCs

Focus Area: Entering GVCs

Objectives:
ATTRACTING FOREIGN INVESTORS & FACILITATING DOMESTIC FIRMS’ ENTRY INTO GVCs

Strategic Questions:
WHICH TASKS?
- How can tasks be identified?
- Which form of GVC participation?
- Which risks?

WHICH FORM OF GOVERNANCE?
- Which form of governance between lead firm & suppliers?
- Which power relations?
- Which foreign firm & country characteristics mediate spillovers?

Policy Options:
CREATING WORLD-CLASS GVC LINKS
- Attracting the “right” foreign investors
- Jump-starting GVC entry through creation of EPZs
- Helping domestic firms find the “right” trade partner abroad
- Improving connectivity to international markets

CREATING A WORLD-CLASS CLIMATE FOR FOREIGN TANGIBLE & INTANGIBLE ASSETS
- Ensuring cost competitiveness
- Improving drivers of investment
- Improving assets protection
- Improving domestic value chains & quality of infrastructure & services

Source: Taglioni and Winkler (2016).
4. GVC Measurement for Sustainable Development

- Map individual GVCs
- Provide macro analysis & case studies
- Provide micro analysis & case studies
- Upgrade the statistical base
- Enhance existing data infrastructure

**PILLAR II**
TARGETED CAPACITY BUILDING

**PILLAR I**
TECHNICAL ANALYSIS

**PILLAR III**
LEVERAGING GLOBAL PLATFORMS

**FY16 PRIORITY TOPICS**
- Market access, mega-regional, trade & investment policy
- Skills & technology flows across countries
- Product and process standards & regulations
4. GVC Measurement for Sustainable Development

The WBG’s GVC country assessments combine different perspectives and data:

- **Macro perspective: Network analysis** makes use of the complexity and heterogeneity of actors and trade links. Tree visualizations capture interaction patterns and structures in the network.

- **Micro perspective: Firms** are the main actors in GVCs who make strategic decisions and are heterogeneous in characteristics and performance. Analyzing GVCs at the firm–level thus can give additional insights on features, effects, and transmission channels in GVCs.

- **Gross trade perspective**: Gross trade data are available at a highly disaggregated product level. They can be combined with informed technical classifications (by final use, value chain category, clusters of activities) and with detailed input–output (I–O) tables.

- **Value added trade perspective**: Analyzing trade on the basis of value added more accurately accounts for a country’s economic relevance (by avoiding double–counting). Value added trade data are based on international I–O tables which allow to differentiate between domestic and foreign value added embodied in trade.
4. GVC Measurement for Sustainable Development

Data and measurement gaps addressed by the WBG:

- **Macro perspective:** publication of global trade network visualization and Measuring Export Competitiveness database
- **Micro perspective:** development of GVC module as part of the Enterprise Surveys
- **Gross trade perspective:** development of MC–GVC database
- **Value added trade perspective:** publication of Export of Value Added Database
- **Development perspective:**
  - impact of GVC integration on value added and the mediating role of policy (incl. standards)
  - impact of GVC integration on likelihood to reach higher income category
  - development of Labor Content of Exports Database (LACEX)
- **Policy perspective:** selection of performance indicators to identify policy priorities

Additional data and measurement gaps:

- Tracking and mapping GVCs across a wide range of industries
- Computation of GVC measures for low-income countries and at the sub-national level
4. GVC Measurement for Sustainable Development

**WBG’s Country Application: Bangladesh Trade Network, 2013**

- Main buyers of BGD apparel (cotton) consumption products
- Main suppliers of intermediates for BGD apparel (cotton) production

Source: BACI data from CEPII. Thickness of red arrows designates importance of main buyers/suppliers for Bangladesh.
World Bank Global Trade Network Visualization

World Bank Measuring Export Competitiveness Database

Source: http://mec.worldbank.org
World Bank Enterprise Surveys

Source: https://www.enterprisesurveys.org/portal/elibrary.aspx?libid=14
World Bank Export of Value Added Database

• Domestic value added content of domestic output and exports for 118 countries across 27 sectors (3 primary, 14 mfg., 10 comm. services) for the period 1997 to 2011.

Policy Options and Select Performance Indicators by Focus Area, Overview

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<tr>
<th>Focus area</th>
<th>Policy options</th>
<th>Select performance indicators</th>
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<td>Entering GVCs</td>
<td>- Increasing connectivity to international markets</td>
<td>- LPI (international)—overall; efficiency of customs (WDI)</td>
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<tr>
<td></td>
<td>- Ensuring cost competitiveness</td>
<td>- Unit labor costs</td>
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<td></td>
<td>- Improving drivers of investment</td>
<td>- Ease of doing business index—overall (WDI)</td>
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<td></td>
<td>- Improving assets protection</td>
<td>- Ease of doing business index—protecting investors (WDI)</td>
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<tr>
<td></td>
<td>- Improving domestic value chains and quality of infrastructure and services</td>
<td>- LPI (domestic)—quality of infrastructure, quality and competence of services (WDI)</td>
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<td>Expanding and strengthening GVC participation</td>
<td>- Fostering innovation and building capacity</td>
<td>- R&amp;D intensity</td>
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<td></td>
<td>- Improving standards</td>
<td>- Surveys / field assessments in country</td>
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<tr>
<td>Turning GVC participation into sustainable development</td>
<td>- Developing skills</td>
<td>- Education statistics</td>
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<tr>
<td></td>
<td>- Promoting social upgrading</td>
<td>- Wage statistics; employment statistics</td>
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</tbody>
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Source: Taglioni and Winkler (2016).
Thank you!