

Key Messages and Findings

Chapter 1: Recent Developments in Global Value Chains

Key messages

- Trade proved resilient after successive shocks, but the widening gap since 2022 between traditional and GVC-related trade points to deeper reorganization of production networks.
- Services have overtaken goods in GVC participation, showing greater resilience post-pandemic, especially digitally deliverable services such as finance, telecommunications, and IT. This shift reflects the increasing role of services in global trade and their relative insulation from physical supply chain disruptions.
- The average number of production stages in GVCs has lengthened in many economies since 2020, driven by supply chain disruptions and rerouting of trade, especially in Europe and Central and West Asia.
- Economies with the highest GVC participation still dominate, but their combined share of GVC-related trade dropped from 76% in 2010 to 63.6% in 2025 as low-GVC traders have increased their participation, signaling a modest broadening of globalization.
- Reshoring and regionalization trends are evident in major economies such as China, the US, and the EU, which have reduced their dependence on foreign value-added in domestic consumption, suggesting a shift toward reshoring.
- Gross and direct value-added trade were negatively affected by growing fragmentation along geopolitical lines, while indirect value-added trade was generally unaffected. The Russian Federation's trade pivoted to PRC and India, Central and West Asia rose as a transit hub, and indirect routes between the US and China via connector economies such as Mexico and Viet Nam grew.

Chapter 2: Resilience and Reglobalization GVC Trends and New Opportunities

Key messages

- Globalization is being rewired, not reversed. GVC integration has slowed and consolidated since 2011, with production, trade and investment concentrating on technologically advanced, regionally integrated hubs. Apparent diversification often masks continued dependence on a narrow set of partners and products, especially in Latin America and the Caribbean (LAC) and Africa.
- LAC and the Caribbean and Africa participate in GVCs but struggle to upgrade. New TiVA evidence and firm-level diagnostics show that many economies in both regions remain locked into low-complexity, low-margin tasks, while foreign-controlled firms dominate high-value segments. Participation alone does not guarantee domestic value capture, learning, or resilience.

- Readiness rather than volume is the new basis of competitiveness. A Global Value Chain Readiness Index (GVCRI) across six pillars (technology and connectivity, trade and investment, sustainability and energy, institutional and geopolitical, financial and business readiness) highlights that LAC and Africa lag in digital backbone, logistics reliability, institutional quality and financial depth, even where they hold strengths in renewables, critical minerals, demographics and pragmatic diplomacy.
- Corridor-first, key performance indicator-anchored reforms can convert endowments into reliability-priced opportunities. For both regions, priority actions include strengthening digital and data infrastructure, grid reliability and green power, trade facilitation and preference utilization, and investment de-risking around key corridors. Progress should be tracked through practical metrics – such as corridor uptime, broadband affordability, ETG tariffs, customs clearance times, and SME upgrading – so that reglobalization translates into higher domestic value capture and more resilient, inclusive growth.

Chapter 3: Global EV Value Chains: Paradigm Shifts and New Opportunities for Developing Economies

Key messages

- The rapid rise of electric vehicles (EVs) is reshaping traditional global automotive supply chains. In 2023, China accounted for 76.9% of global EV production, far exceeding the United States, Germany, and Japan. This stands in sharp contrast to the internal combustion engine vehicle (ICEV) era, when global production and trade were long dominated by these three countries. As the core component of EVs, EV batteries rely heavily on minerals. In 2023, global battery manufacturing consumed 85% of lithium, 70% of cobalt, and over 10% of nickel. While this creates new opportunities for resource-rich developing economies to upgrade within the EV supply chain, the extreme concentration of mineral supply, such as cobalt from the Democratic Republic of the Congo and lithium from Chile, also exposes the upstream segment to significant vulnerability. Diversifying sources of critical minerals may therefore emerge as an urgent strategic priority for major battery- and vehicle-producing countries.
- EVs are essential to global transport decarbonization. According to EV-ICIO and life-cycle assessments, EVs emit 2-4 more tons of CO₂ during production than ICEVs due to battery manufacturing yet deliver substantial life-cycle emissions reductions. The carbon payback period varies widely – 1.7 years in the United States, 5.7 years in China, and 7.6 years in Japan. However, the simulation results show that a 15% increase in renewable energy and electric-drive efficiency would shorten the payback period to 1.4, 4.5 and 5.9 years in the United States, China and Japan respectively, underscoring the critical role of policy interventions in accelerating the mitigation benefits of EVs.

- Product-space analysis identifies three evolutionary pathways through which economies develop new advantage products in the EV industry: breakthrough-, cluster-, and chain-type. Developed economies such as the United States and South Korea mainly expand their EV-related capabilities through cluster and chain paths, reflecting strong path dependence. In contrast, large developing economies and resource-rich countries tend to enter and upgrade within the EV industry through breakthrough and chain-type modes, gradually building new competitive strengths.

Chapter 4: Toward Greener and Inclusive Global Value Chains: Insights from Environmental Policy

Key messages

- GVCs are deeply rooted in domestic production systems while simultaneously operating through cross-border production sharing. This duality implies that meaningful climate mitigation requires action across all nodes of the chain.
- Expanding carbon pricing to cover a wider range of firms, including SMEs, and ensuring more equitable green financial access across firms of different sizes and ownership types can improve emissions efficiency while minimizing GDP losses.
- When countries adopt different environmental regulations, this can introduce border adjustment complexities, disrupt economies of scale for firms operating across multiple jurisdictions and create a need for “regulatory hedging” strategies, where firms adjust production to serve specific regulatory markets.
- Trade-related environmental policies shape GVCs by influencing green innovation and technological upgrading. Policies that encourage green innovation – such as R&D supports, intellectual property reforms, and market-based incentives for low-emission technologies – can accelerate the shift of firms and sectors toward the green technological frontier.

Chapter 5: Industrial Policy in a Strategically Contested Global Economy

Key messages

- Industrial policy has re-emerged at unprecedented scale and scope as governments pursue climate, technology, and security objectives. Recent mapping exercises show large, targeted interventions across more than 70 economies, concentrated in GVC-intensive sectors such as semiconductors, clean energy technologies, digital infrastructure, and critical minerals. These measures are no longer occasional exceptions but a core feature of national development and security strategies.
- Modern industrial policies are embedded in fiscal and financial architectures rather than confined to line ministries. Tax credits, production subsidies, targeted credit, green finance, and strategic public procurement are increasingly coordinated

with macro-stabilization and climate investment frameworks, so that industrial policy now functions both as a tool of structural transformation and as an integral component of long-term public investment planning.

- Because production is organized through dense cross-border value chains, policy impacts propagate through upstream and downstream linkages. New empirical work using MRIO and firm-level data finds that indirect spillovers on suppliers, customers, and third-country competitors can rival or exceed the direct domestic effects of support, creating both positive learning externalities and negative displacement or overcapacity risks across borders.
- The effectiveness and welfare consequences of industrial policy remain highly context dependent. Case studies in sectors such as autos, shipbuilding, and clean energy show that outcomes hinge on detailed design and implementation quality, including targeting, competitive neutrality, time consistency, and phase-out strategies. At the same time, the evidence base is still incomplete, so strong global welfare conclusions about industrial policy, in aggregate, are not yet warranted.
- Geoeconomic fragmentation and subsidy competition are reshaping the geography of GVCs. Firms respond to tariffs, sanctions, and subsidies by rerouting trade and investment through “connector” economies such as Viet Nam, Mexico, Türkiye, and parts of ASEAN that can bridge rival blocs. Much of this adjustment reflects re-routing and incremental upgrading rather than wholesale relocation, but it is gradually altering regional industrial structures and the distribution of bargaining power.
- Multilateral rules and monitoring have not kept pace with this surge in policy activism. World Trade Organization (WTO) subsidy disciplines remain formally in place, but notification gaps, weak enforcement, and the broader dispute settlement impasse reduce their constraining power. In response, institutions such as the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the World Bank and the WTO are experimenting with joint subsidy platforms, sectoral observatories, and modular transparency proposals that can provide a shared factual basis for dialogue even when legal reform is slow.
- For firms, industrial policy has become a strategic operating condition rather than a background parameter. Large multinationals now treat policy regimes as part of their comparative advantage calculus, hedging risks and arbitraging incentives across locations when structuring supply chains and investment. This creates opportunities for anchor economies that can credibly combine incentives with stability, but it also raises the risk of inefficient subsidy races and fiscal strain, especially where transparency and evaluation remain weak.

Chapter 6: Foreign Direct Investment, Trade Finance and Global Value Chain Integration

Key messages

- Foreign direct investment (FDI) provides the structure of global production, while trade and supply chain finance (TF/SCF) provide the motion. FDI anchors long-term capital formation, technology transfer and organizational know-how, determining where production occurs. TF/SCF-through letters of credit, guarantees, factoring, and receivables finance-supplies the short-term liquidity that keeps goods and intermediate inputs moving. Without this dual-capital system, GVC integration remains shallow: investment without liquidity traps firms outside supply chains; liquidity without investment keeps them in low-margin roles.
- Liquidity constraints severely limit firm participation in GVCs—even where FDI presence is strong. Evidence from banking, World Bank Enterprise Surveys (WBES), and regional surveys shows that 71% of exporter working capital in developing economies is self-financed, with only 18% coming from banks; 40% of sales occur post-delivery, creating long cash-flow gaps. Payment cycles of 60-120 days, high collateral requirements, and rejection rates above 20-25% in parts of Africa and the Mekong region prevent SMEs from supplying multinational firms. The global trade-finance gap reached USD2.5 trillion in 2022, reflecting severe structural shortages in short-term credit. Trade-finance pricing remains prohibitively high: confirmed letters of credit cost 3.5-4% of transaction value in many emerging markets versus 0.25-0.5% in advanced economies. Trade-finance coverage remains extremely low-3-20% in many emerging economies-compared with more than 60% in advanced countries. WTO-IFC modelling shows that raising trade-finance coverage from 25% to 40% and lowering costs to emerging-market benchmarks would boost annual trade flows by ~8%.
- Supply chain finance (SCF) is expanding but highly concentrated and inaccessible to lower-tier suppliers. SCF supports only 0.5% of trade in Viet Nam and Cambodia and 1% in Mexico, where 90% of SCF is provided by just three banks concentrated on top-tier firms. In Mexico, domestic SCF is four times larger than cross-border SCF but still dominated by a handful of institutions and multinational anchors. Most SMEs lack access to receivables finance or pre-shipment working capital: 70% of exporting SMEs in Viet Nam cannot access working-capital loans, and 75% of Mexican MSMEs do not qualify for bank credit. These constraints limit their ability to meet multinational procurement requirements and weaken domestic linkages created by FDI.
- Trade and FDI respond to different financial architectures, creating diverging integration patterns. Gravity-model estimates show that bilateral stock market development strongly raises trade flows, while banking sector depth and private credit availability drive FDI. This “financial duality” implies that comparable levels of trade and investment openness require different institutional reforms. Economies with more compatible financial systems trade and invest more with each other, reinforcing the importance of financial system compatibility for GVC integration.

Chapter 7: Technology, Productivity, and Inclusive Growth through Global Value Chains

Key messages

- Technological change and GVCs are mutually reinforcing. Advances in ICT, logistics, and digital platforms enable finer fragmentation of production, while GVCs operate as channels for technology transfer and learning. However, the benefits are structurally selective: they accrue mainly to economies with sufficient absorptive capacity, appropriate industrial structures, and strong firms, rather than automatically diffusing to all GVC participants.
- Between-economy inequality has declined on a population-weighted basis since the 1990s, but convergence is uneven and limited for many low-income economies. New evidence shows that productivity gains from GVC participation are strongest where sectors rely on sophisticated intermediates and where economies occupy technology-intensive or central network positions; many low-income economies remain in low-complexity segments that deliver modest convergence at best.
- Macro-level studies highlight the importance of linkage types and network position. Forward GVC linkages, where domestic inputs feed into other economies' exports, generate relatively rapid productivity convergence even at modest participation levels, while backward linkages require higher thresholds before strong gains materialize. A new concept of "global TFP" shows that productivity improvements in one economy propagate through GVCs and can have larger indirect effects on trading partners than direct domestic gains, reinforcing the importance of network structure for welfare outcomes.
- Firm-level evidence indicates that GVC participation primarily helps lagging firms catch up rather than pushing leaders further ahead. Joining multinational or superstar supply chains raises supplier productivity, employment, and access to better buyers, largely through direct knowledge transfer and the diffusion of "relationship capabilities". These mechanisms generate within-industry convergence in productivity, even as overall rents remain skewed toward highly connected firms.
- The same mechanisms that support productivity growth can widen gaps within economies. GVC integration and technology adoption are associated with falling labor shares, higher skill premia, and job polarization. Women, youth, and informal workers are disproportionately concentrated in routine or low-protection roles that are more exposed to automation and upgrading shocks, while superstar firms, digitally connected MSMEs, and core regions capture a growing share of value added and innovation rents.
- Emerging technologies such as AI, advanced robotics, and digital platforms interact with GVCs in two opposing ways. On one side, they lower trade and coordination costs and can open new upgrading paths, including for smaller firms that can leverage digital intermediation. On the other side, they extend automation into non-routine tasks, erode low-wage comparative advantages, reinforce firm and regional concentration, and create algorithmic barriers to visibility in platform-mediated trade, with ambiguous net effects on inclusive development.

- Policy choices determine whether GVCs and technology become engines of inclusive growth or sources of new divides. The chapter emphasizes the need for selective GVC integration aligned with domestic capabilities, sustained investment in skills and absorptive capacity, active labor market and social protection systems, competition and tax policies that limit excessive concentration, and technology governance that keeps AI and digital rents from being locked into a narrow set of frontier firms and locations. Economies that combine these elements are more likely to translate GVC-linked productivity gains into broad-based improvements in incomes and opportunities.

Chapter 8: Targeted Trade Deals as A New Form of Global Value Chain Governance

Key Messages

- Targeted trade deals (TTDs), sectoral or otherwise limited trade agreements often focused on addressing non-tariff barriers through soft law provisions, are not a new phenomenon, but they have seen a sharp rise in the past five years.
- TTD formation is driven by a limited set of factors clearly linked to their specific objective. For instance, digital TTDs are signed primarily by economies with strong digital capabilities while critical mineral TTDs require at least one signatory to have high resource endowments.
- Empirical evidence is consistent with TTDs increasing trade between the signatories in the regulated areas. The strongest evidence of a systematic effect on trade is found for CRMTTDs with an average effect of 12%, whereas for digital TTDs significant effects are limited to more ambitious agreements.
- TTDs fulfil pragmatically strategic objectives and contribute to international cooperation. Their flexibility provides policymakers with a simple tool to address frontier issues through a cooperative approach. Increased transparency could further the goals of TTDs and address concerns regarding policy fragmentation and public accountability.