

## Foreword

There are different ways to analyze the global economy. One is to view it through the lens of growth and structural change in individual economies, developed and developing. A second is to use the lens of global value chains (GVCs), the complex network structure of flows of goods, services, capital and technology across national borders. Both are useful and they are complementary to one another.

The 2019 edition of the GVC Development Report is enormously valuable, in part because it captures the underlying technological and economic forces that are transforming the patterns of global interconnectedness.

The report notes that there are two megatrends in process. One is the growth of developing countries, the expansion of the middle classes in them, and the shift in the share of global purchasing power toward the developing economies. By itself this would produce major shifts in the characteristics of GVCs. Regional trade rises as a share, especially in Asia. More production now goes to rapidly growing domestic markets in developing countries instead of being exported outside the region. Trade is shifting from a stark version of comparative advantage based on differential labor costs and labor arbitrage, toward something that more closely resembles the intra-industry model of trade among developed economies based on product and technological differentiation. Of course, that process is far from complete, and there remain early-stage, and relatively low-income developing countries for which the growth models will continue to depend on accessing global demand via labor-intensive, process-oriented manufacturing.

The second megatrend is the digitization of the underpinnings of entire economies and, by implication, GVCs and the global economy. This too is a process that is underway and one that has much further to go. It is difficult if not impossible to accurately predict the endpoint, if there is one. But there are important insights that the second GVC report highlights.

One clear message is that as economies move to being built in part on digital foundations, trade, GVCs and digital technology cannot be separated and dealt with as independent trends and forces.

For early-stage developing countries, automation will at some point displace the labor-intensive technologies that underpinned the earlier Asian growth stories. That shift will occur differentially by sector, with textiles and more generally the sewing trades being the least vulnerable in the short run. The message is two-fold: don't give up on the traditional growth model but move rapidly to expand internet capability and the digital underpinnings and infrastructure of the economy.

The mobile-internet- and platform-centered open ecosystems, along with mobile payment systems and enabled financial services, have the potential to support inclusive growth patterns and expand the channels, opportunities, and accessible markets for SMEs. Data from China's domestic economy experience supports these trends. Exploiting the international potential of these platforms to expand trade and access for SMEs requires investment and infrastructure in developing countries, but also new trade regimes that increase the openness of the ecosystems. In other words, the potential to support growth and employment in SMEs via access to global markets on digital platforms is as yet largely unexploited.

The report supports and adds to a broad range of studies that suggest that the combination of trade and various aspects of digital transformation has contributed to job and income polarization, and that vigorous policies (by government and business) are required to restore more inclusiveness to the observed growth patterns. This is especially true in developed economies. Key policies are those that support the workforce in transitions as a growing range of tasks are automated and jobs shift toward a mix of tasks that are complementary to the machines.

In developing countries, especially those in the middle-income category, while the pressures on the structure of jobs and employment are similar to developed economies, the net impact of digital technology appears to have been positive for growth and for employment.

There is an important caution in the report. The long-run goal of development is of course to increase productivity, employment and incomes. But in the context of GVCs, attempts to artificially increase the domestic value-added content of exports, ahead of the technological deepening of the economy, are likely to be counterproductive.

At a more macro level, while trade continues to grow, especially in services (where there remain challenging measurement problems) the declines in trade relative to global GDP and the rising share of intraregional trade are understood to be largely the natural consequences of economic development and the early stages of the digital transformation of economies, and not mainly the result of trade frictions and resistance to globalization engendered by the adverse distributional features of growth patterns.

The second GVC report is carefully researched and deep in insights. It does an admirable job of capturing the complexity of a global economy in rapid transition, and especially of bringing into focus the major forces and trends and their impacts.

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