

## Preface

Global value chains (GVCs) have brought about revolutionary changes in international trade, industrialization, and economic development. The GVC story is still rapidly unfolding, as vividly demonstrated by the supply chain crisis, particularly for semiconductors and other components, that broke out during the COVID-19 pandemic, causing further anxiety. But beyond what is hoped will be a short-term tremor, a radical shift in these chains is underway as more of them move beyond traditional production processes to encompass services and other intangible assets. In recognition of this, *Beyond Production* is the theme of the *Global Value Chain Development Report 2021*, the third report in this biennial series. The most significant feature of this “second unbundling” associated with the proliferation of GVCs in the world economy is the separation between production and nonproduction tasks. So, looking at GVCs not just in terms of manufacturing production but also from the perspective of their beyond-production components, such as intangible assets, digital platforms, and intellectual property, can deepen our understanding of the critical role of GVCs in the global economy.

GVC tasks range from preproduction (research and development, product design, and branding) to production to postproduction (marketing, distribution, and retailing). It is the firms specializing in pre- and postproduction tasks that organize, manage, and operate GVCs. In general, pre- and postproduction tasks add much more value than production tasks to a product manufactured and traded along a value chain. More importantly, the firms specializing in tasks beyond production have control over the geographic allocation of tasks. Taking the iPhone X as an example, it is Apple Inc. that organizes, operates, and expands the iPhone value chain. As a result, Apple alone captures the largest share of the iPhone X’s value added: 59%.

In a value chain, intangible assets, such as brands, unique designs, patented technologies, and supply chain management know-how, rather than tangible assets are increasingly determining the ability of firms to lead GVCs and benefit from them. The concept of “trade in tasks” largely means trade between manufacturing services and the services of intangible assets. Studying the tasks beyond production can reveal the crucial role of intangibles and how multinational corporations and developed economies have been benefiting from unprecedented globalization.

The 2017 and 2019 *Global Value Chain Development Reports* focused on the value chains of manufacturing products, and this, too, has largely been the case in the economic literature on GVCs. But the GVCs of service industries have become much more developed since then and play a significant role in economic development and globalization. The impressive achievement of India’s information technology industry in exporting business process management services has been largely due to its participation in the value chains of information services. And in a similarly impressive achievement, the Philippines has positioned itself as a global leader in business process outsourcing.

As both countries have so ably shown, the value chains of services sectors expand the choices for developing countries to participate in GVCs.

Profit maximization or economic efficiency is driving the development of GVCs. But the trade dispute between the United States and the People's Republic of China, runaway climate change, and COVID-19 are all showing how protectionism and geopolitical tensions, environmental risks, and pandemics can undermine the stability of GVCs and even force their reorganization geographically. Those risks require GVC studies to look beyond production processes.

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