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# GLOBAL VALUE CHAINS: CHANGES FROM THE CORPORATE PERSPECTIVE

MARCH 2016

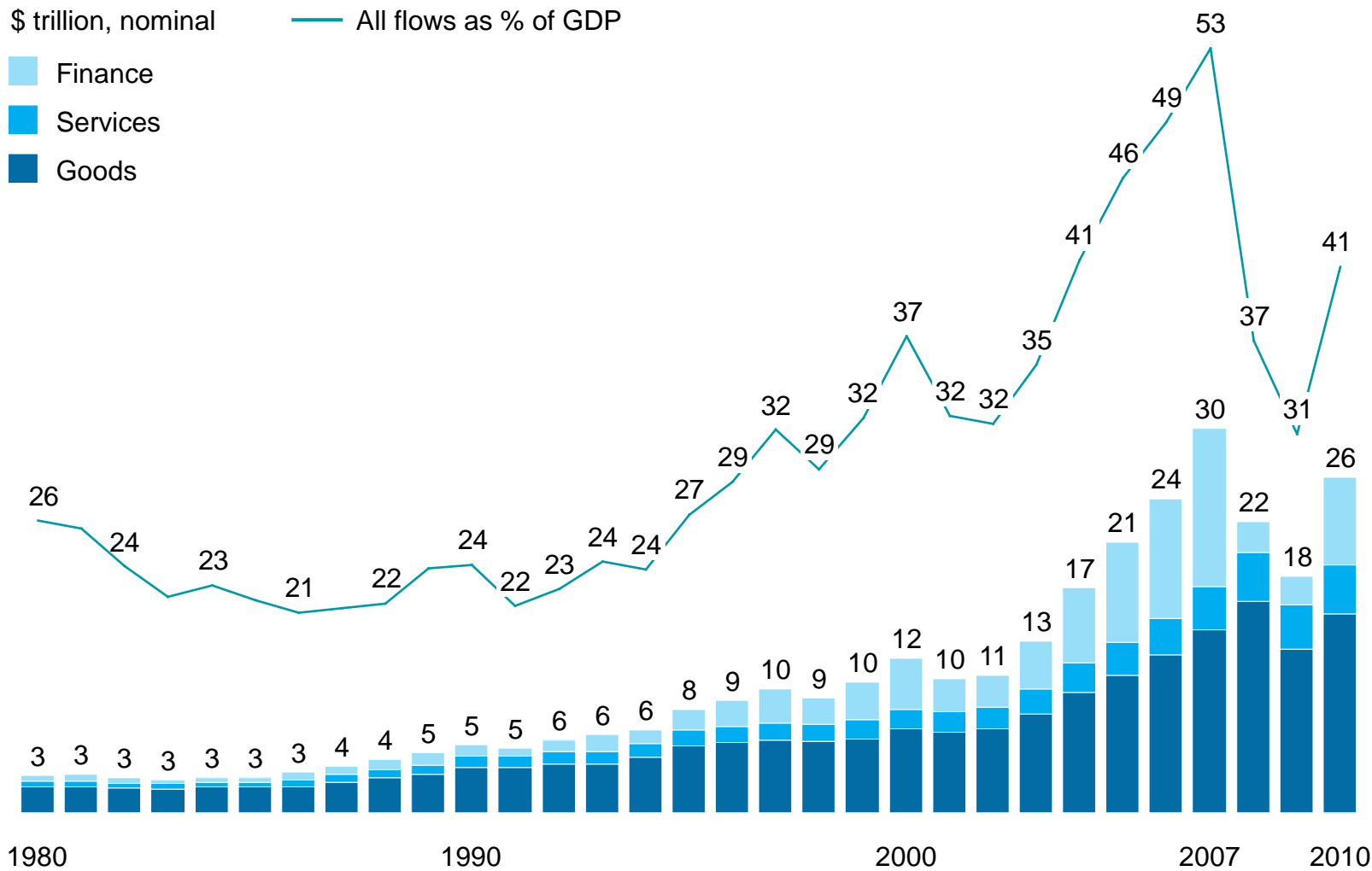
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# Global trade and investment surged in the past 30 years

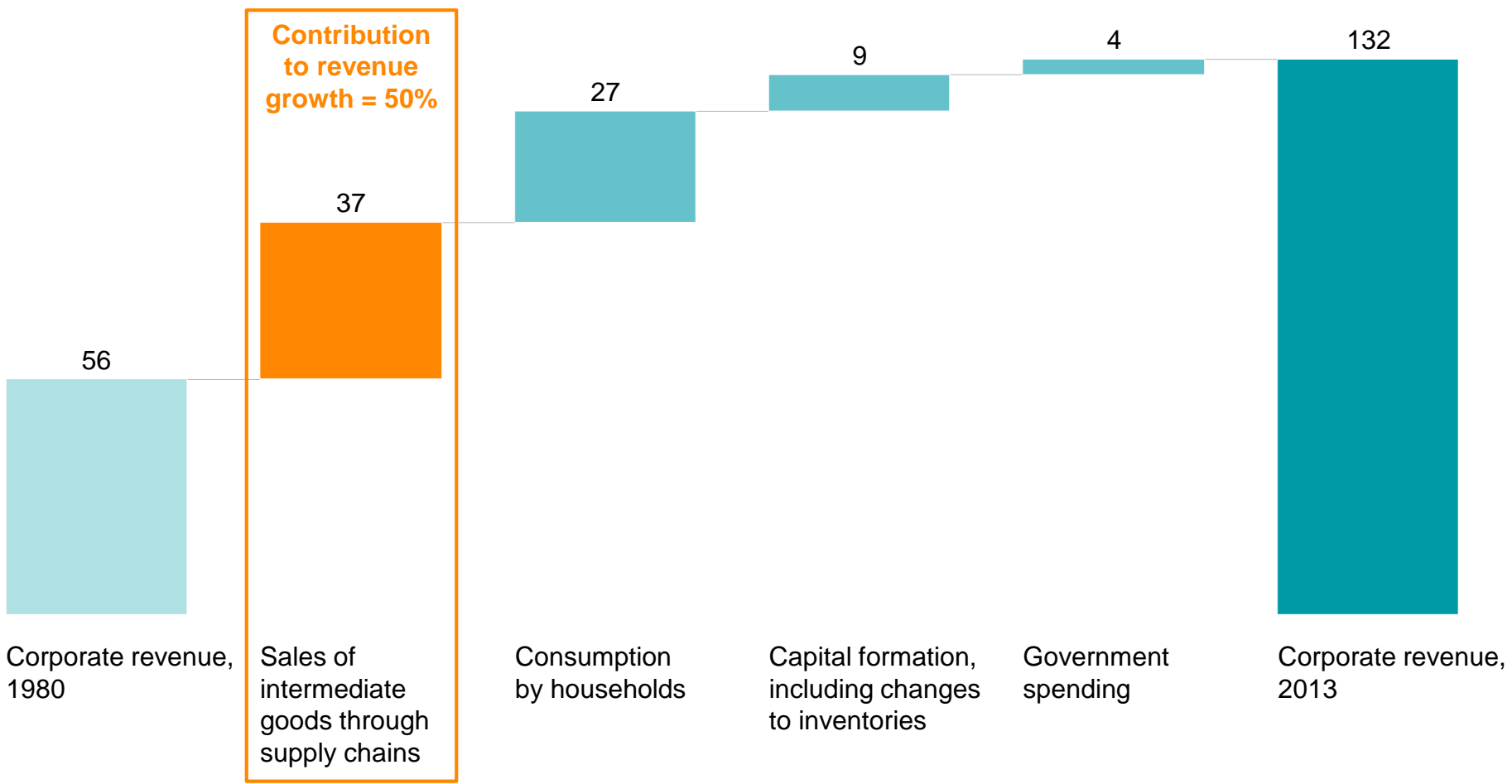
## Flows of goods, services, and finance, 1980–2010



# GVCs were a dominant factor in corporate revenue and profit growth

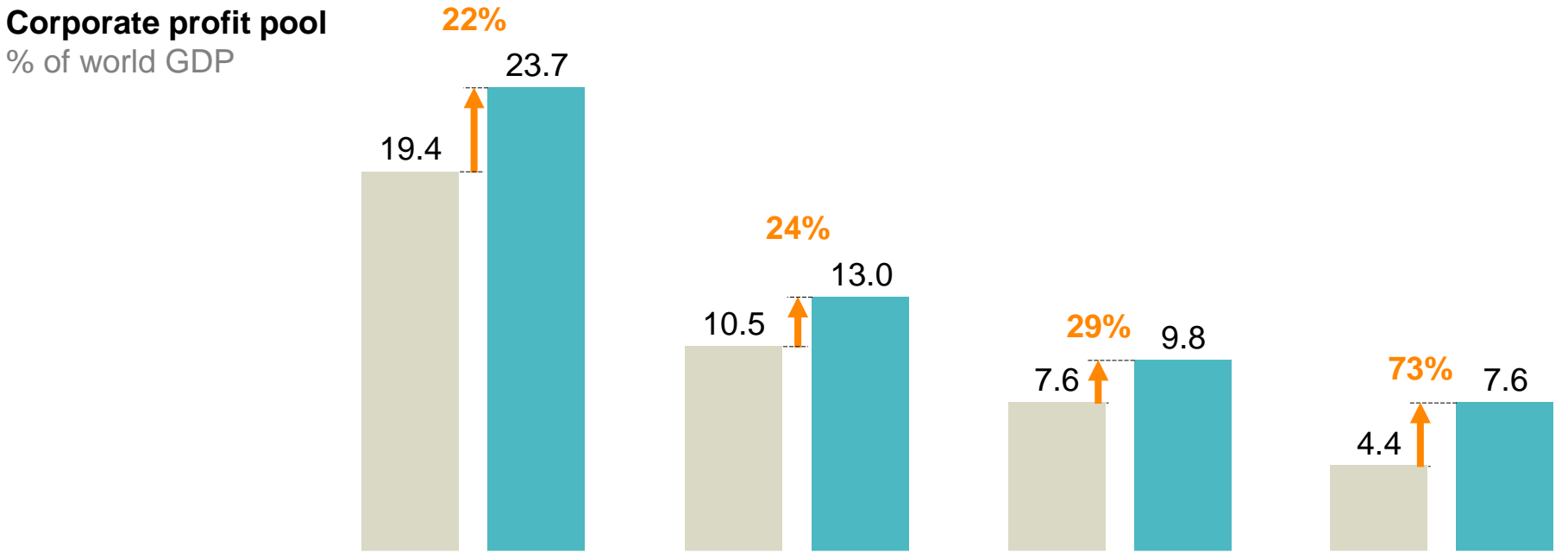
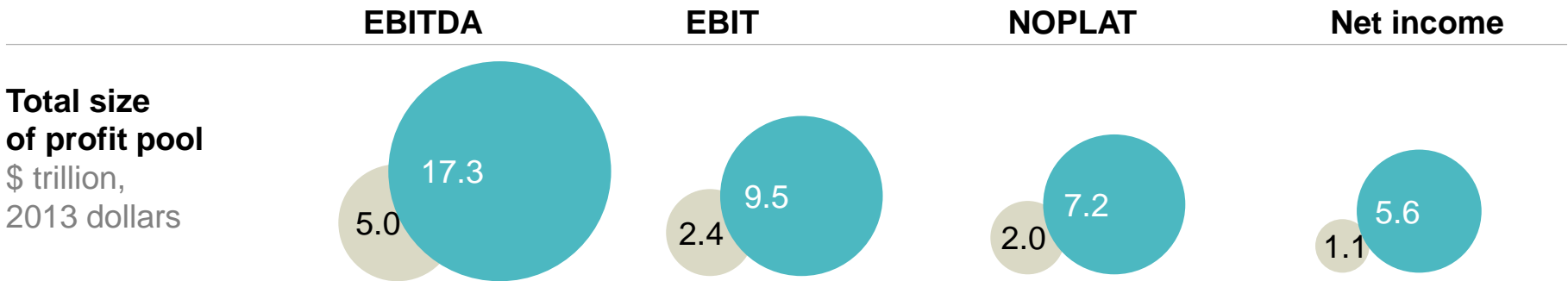
## Global corporate revenue, 1980–2013

\$ trillion, real



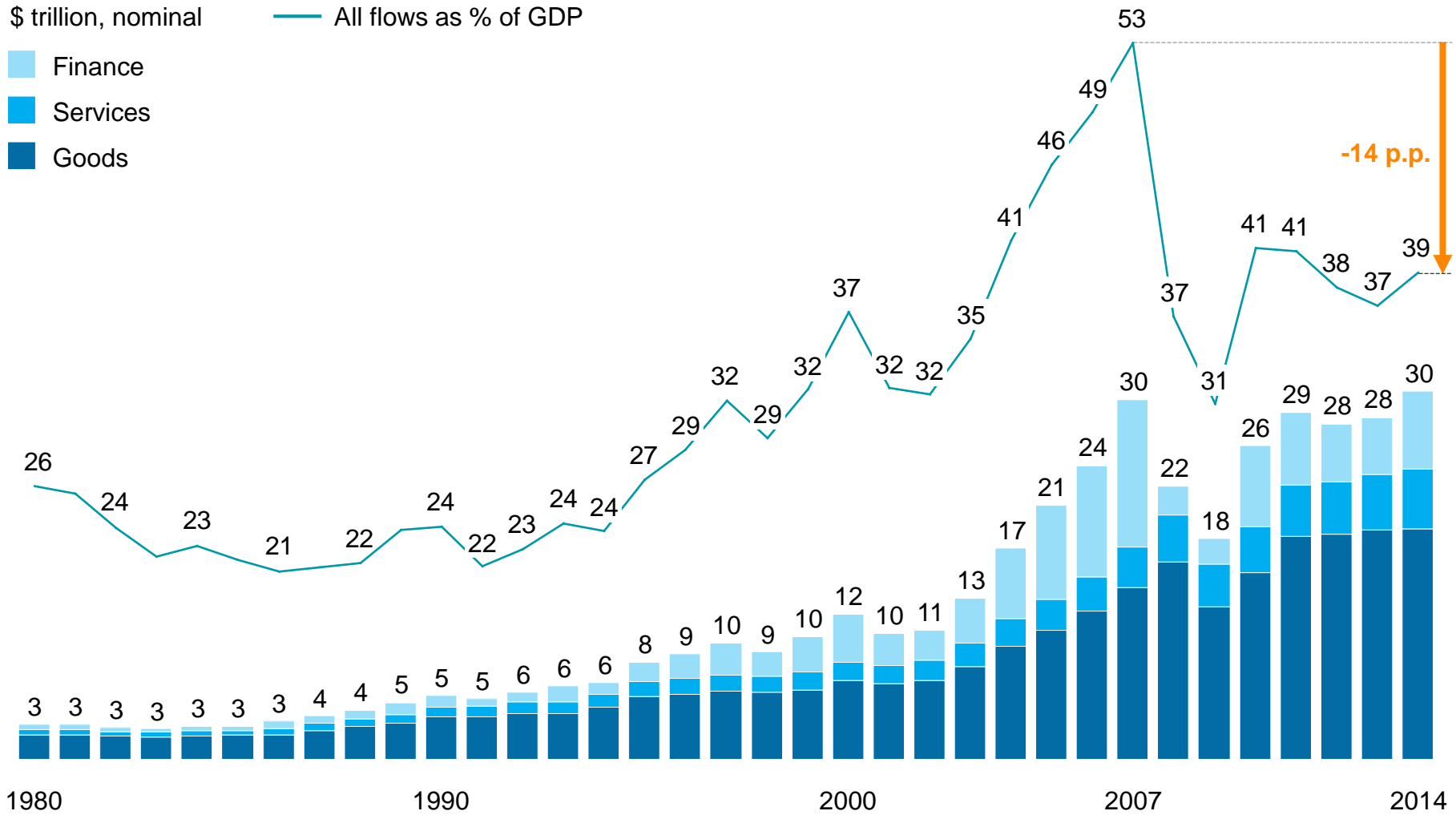
# The global corporate profit pool rose to a 30-year high

1980 2013



# Growth in trade and investment has slowed in the past 3-4 years

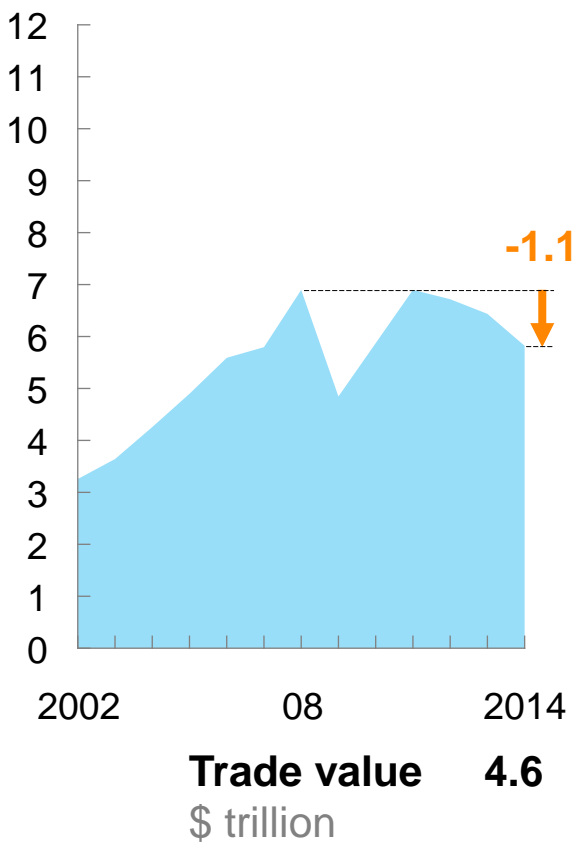
## Flows of goods, services, and finance, 1980–2014



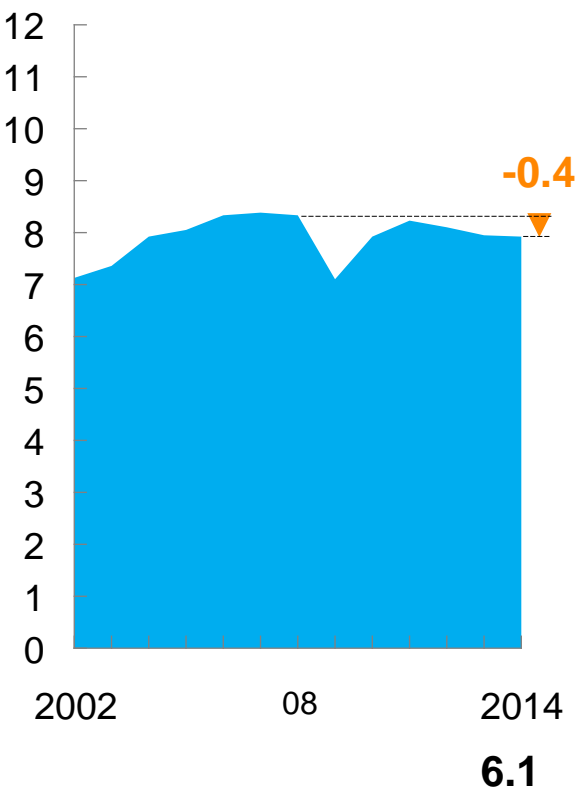
# All forms of goods trade have slowed since the initial economic recovery

Value of goods trade, 2002–14  
% of world GDP

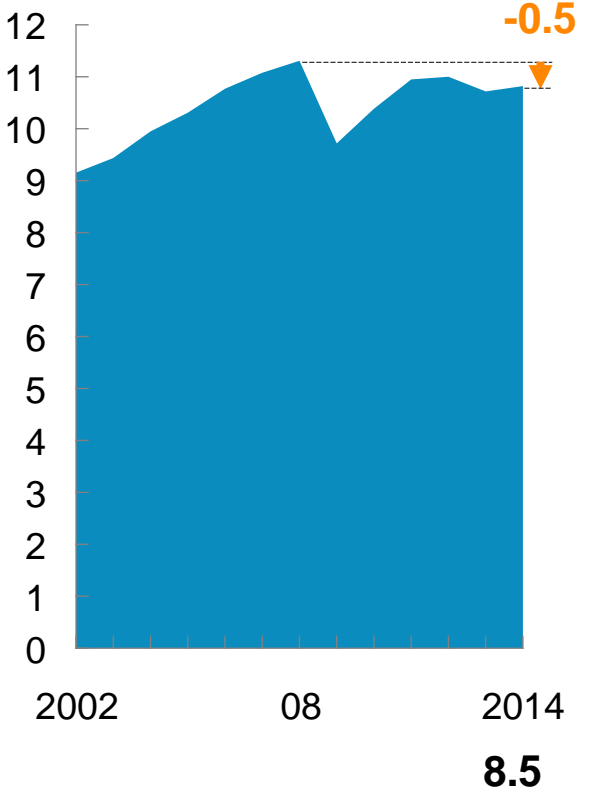
Processed and raw materials



Intermediate goods

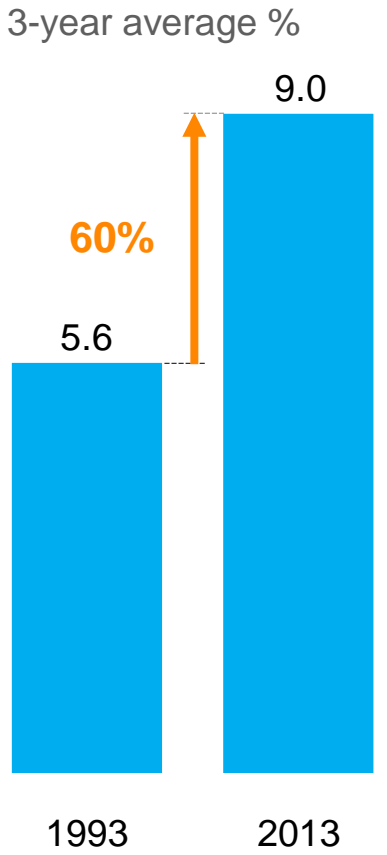


Finished goods

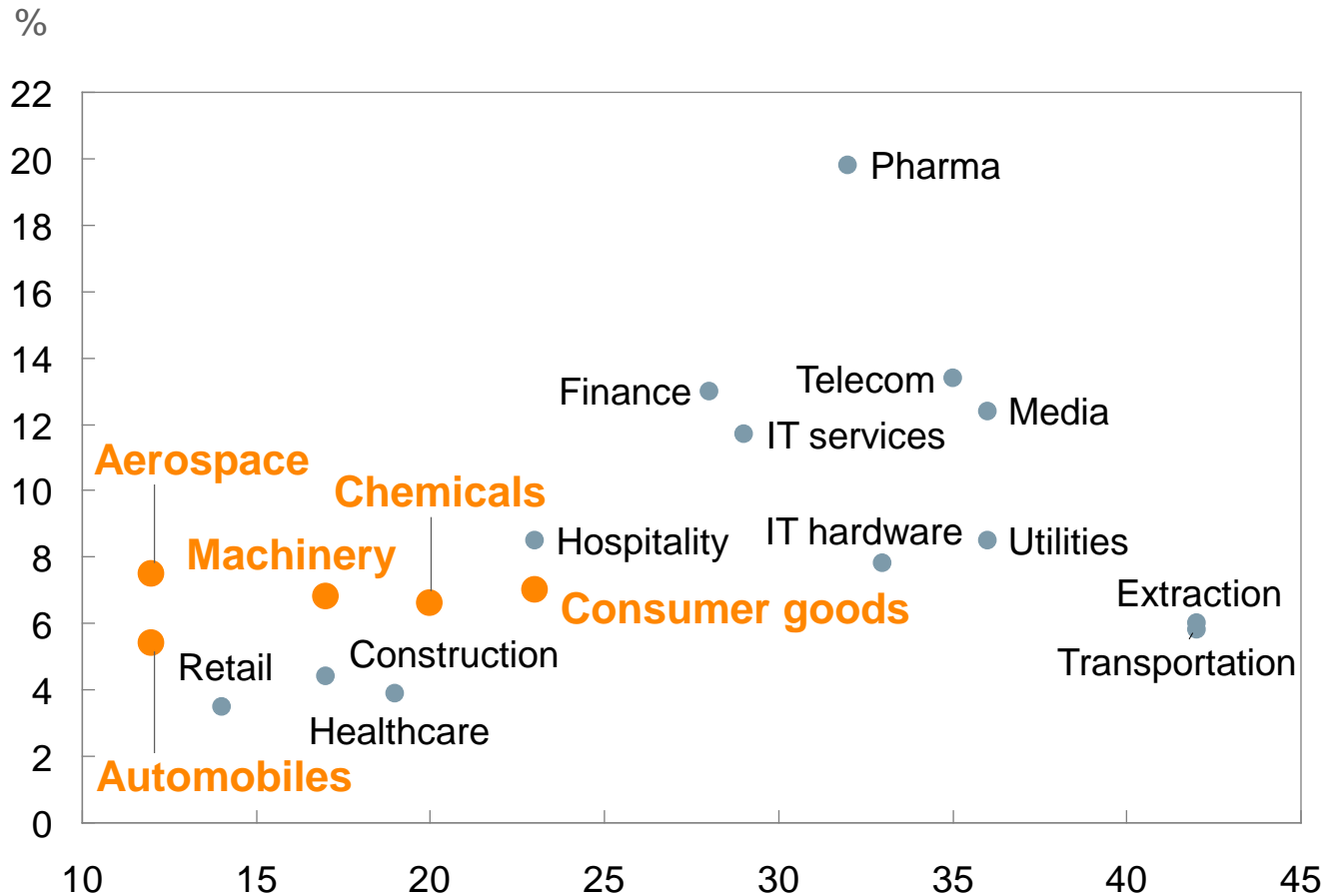


# Firms with long GVCs are seeing pressure on profit margins

Profit margin growth, 1993 vs. 2013



After-tax profit margin

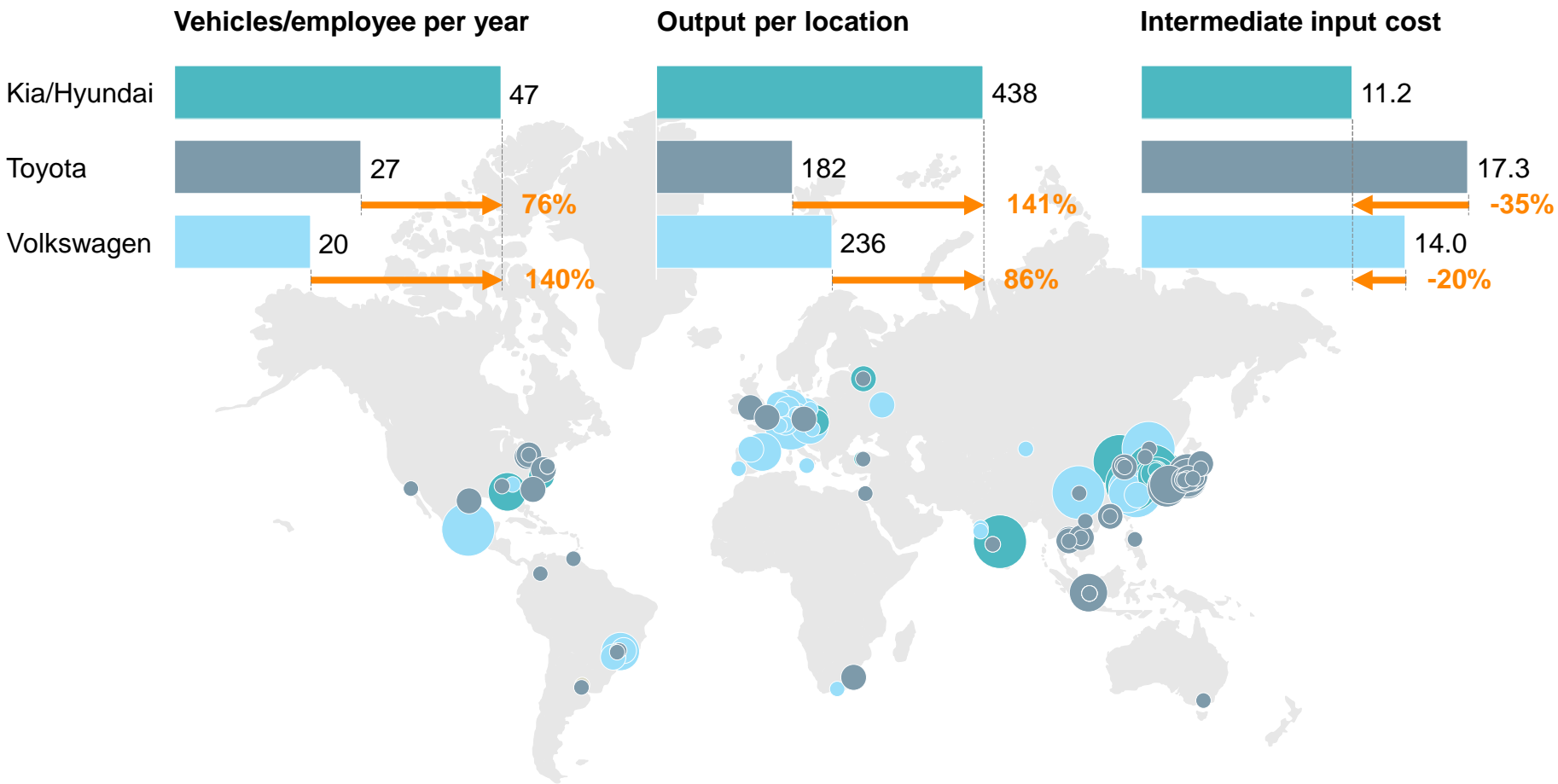


**Profit margin spread**  
Percentage points between 95th and 5th percentile

# New competitors have lighter footprints and are more productive

Light vehicle production, 2013  
Average, thousand units

Maximum capacity    ○ ≤200    ○ 200–400    ○ 400–600    ○ >600



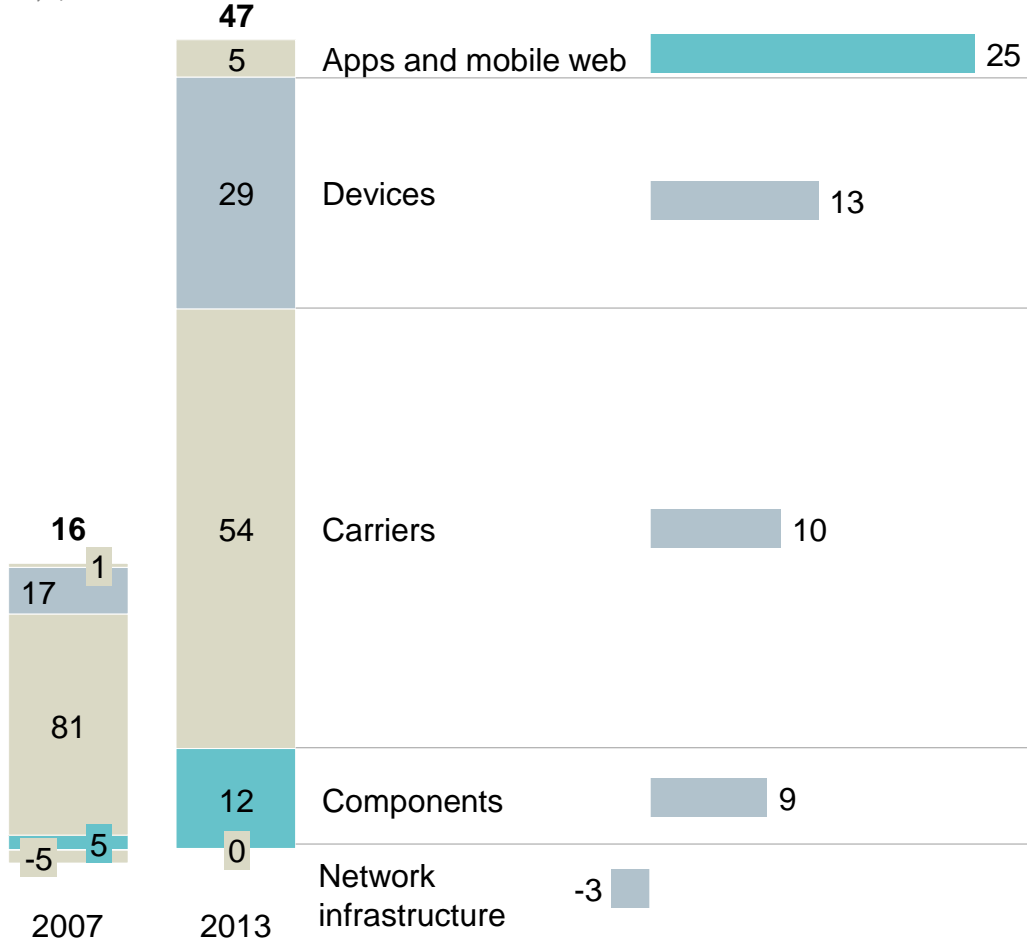
NOTE: Numbers may not sum due to rounding.



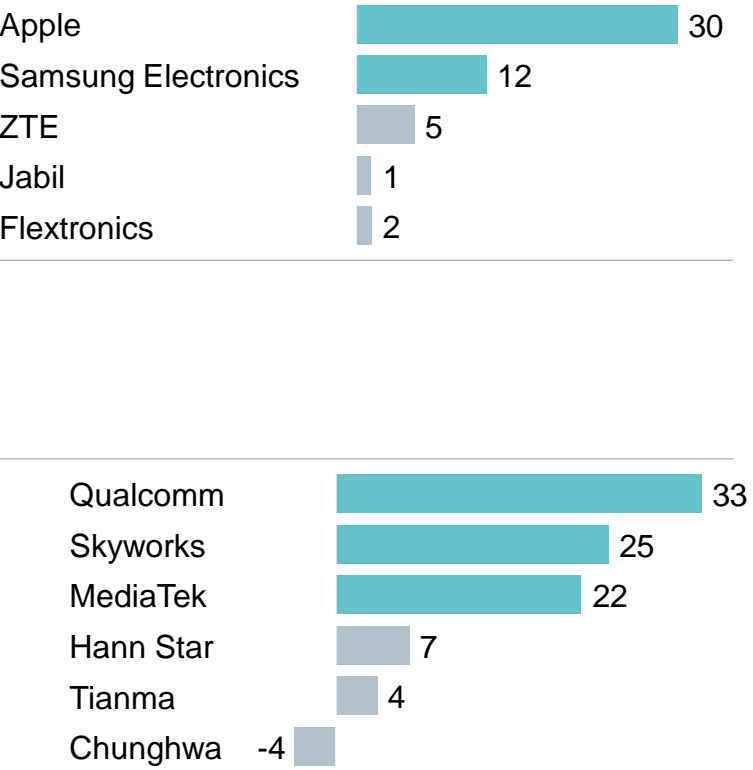
# Value is shifting to asset-light parts of the value chain

■ Design firms  
■ Production firms

**US wireless value chain profits, 2013**  
%; \$ billion



**EBIT margins of leading firms, 2014 or latest available**  
%



# GVC location decisions are not just about factor costs

**Labor** → Skills and cost

**Non-labor** → Energy, natural resources

**Infrastructure** → Transport, logistics

**Climate** → Business and policy environment

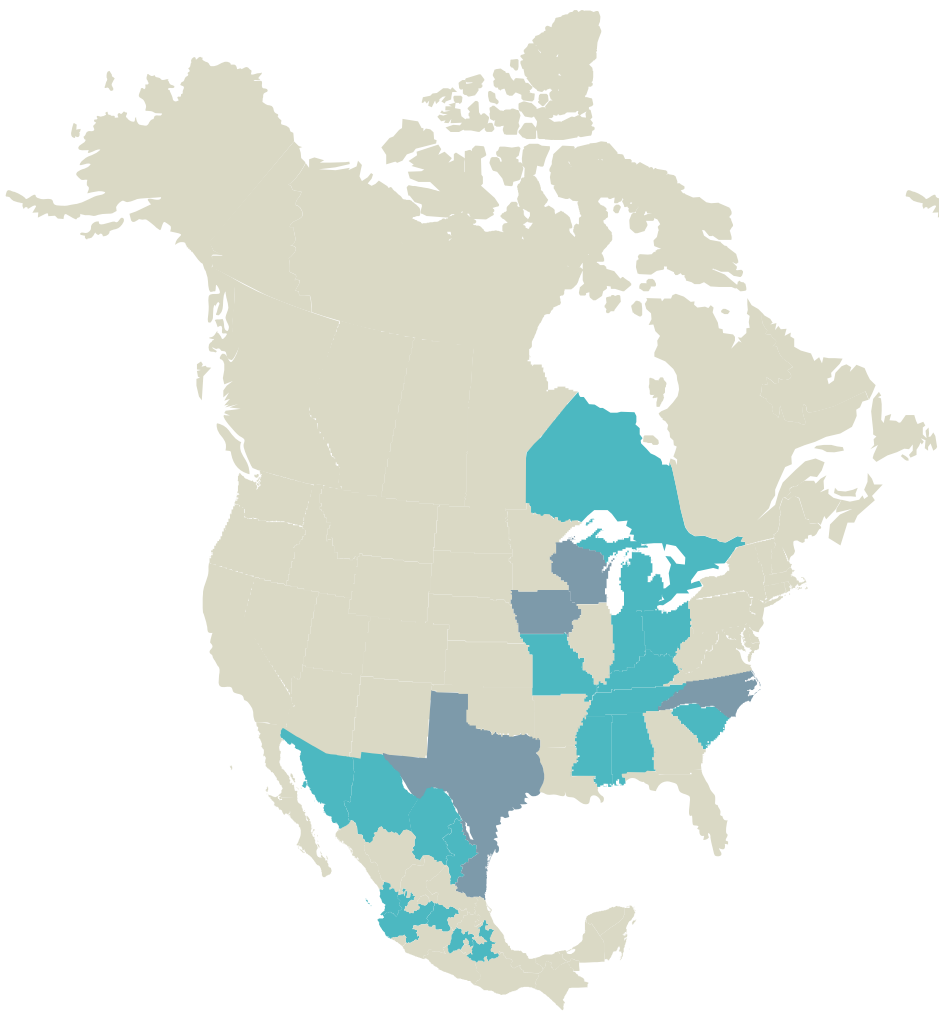
**Innovation** → Supplier ecosystems, talent

**Demand** → Market growth and proximity



# GVCs are becoming regional “ecosystems”

NAFTA automotive ecosystem



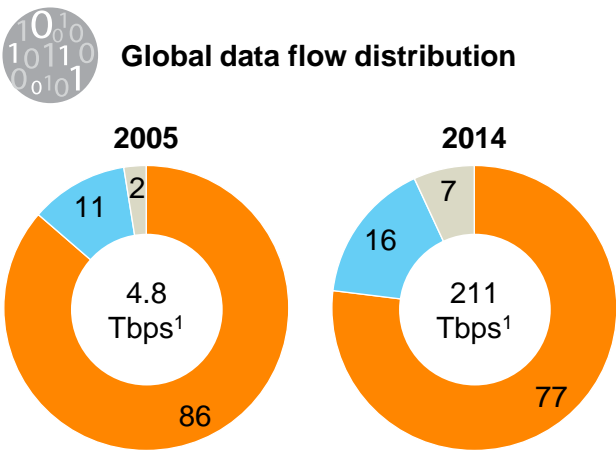
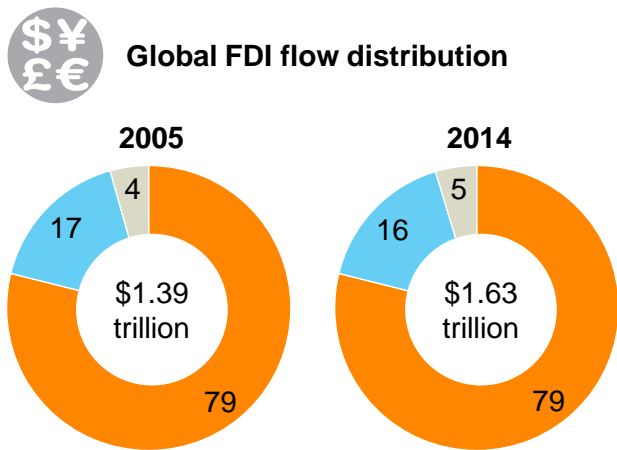
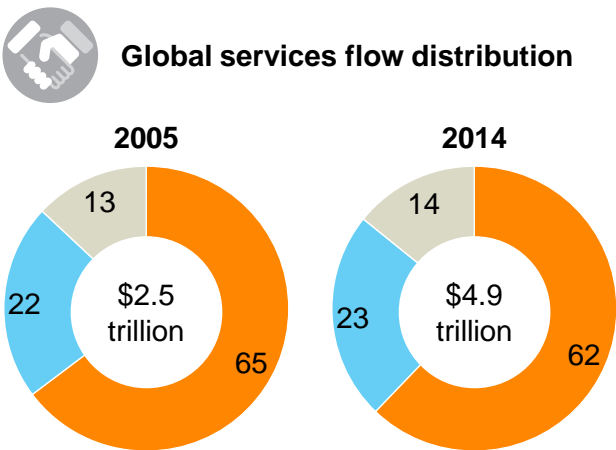
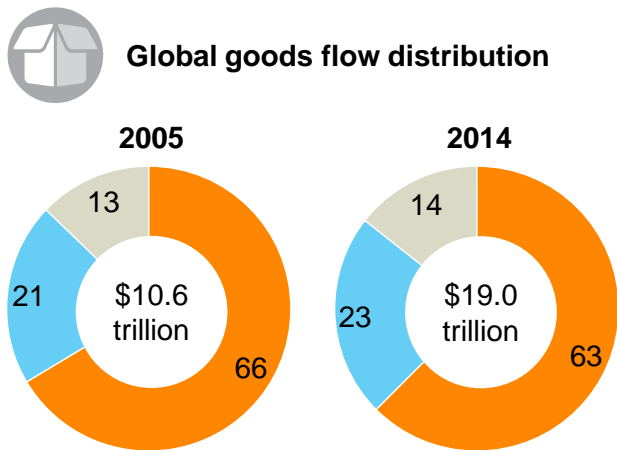
NAFTA oil and gas ecosystem



# Flows remain concentrated among a few leading countries

% of world total

Top 15 countries    Next 20 countries    All others
























































1 Tbps = terabits per second.

# Firms are looking to digital to improve productivity and capture value

Selected sectors (of 22 analyzed)  
November 2015

Relatively low digitization  Relatively high digitization

 Denotes leading digital firms within relatively un-digitized sectors

Selected sectors	Overall digitization	Digitization indices			GDP share	Employment share	Productivity growth 2005-2014 CAGR
		Assets	Usage	Labor			
ICT sector					5%	3%	4.6%
Finance and insurance					8%	4%	1.6%
Wholesale trade					5%	4%	0.2%
Oil and gas					2%	0.1%	2.9%
Advanced manufacturing					3%	2%	2.6%
Retail trade					5%	11%	-1.1%
Chemicals and pharma					2%	1%	1.8%
Logistics					3%	3%	1.4%
Basic goods production					5%	5%	1.2%
Mining					1%	0.4%	0.5%
Health care					10%	13%	-0.1%
Construction					3%	5%	-1.4%
Hospitality					4%	8%	-0.9%

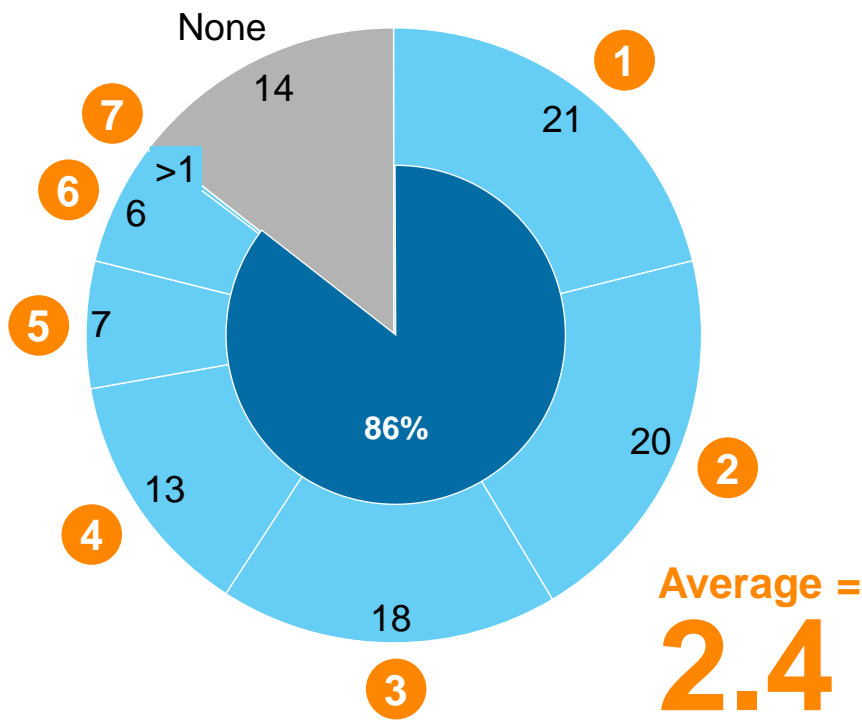
# Digital platforms allow startups and small firms to participate in GVCs

100% = 271 respondents

Share of startup respondents engaged in cross-border activity

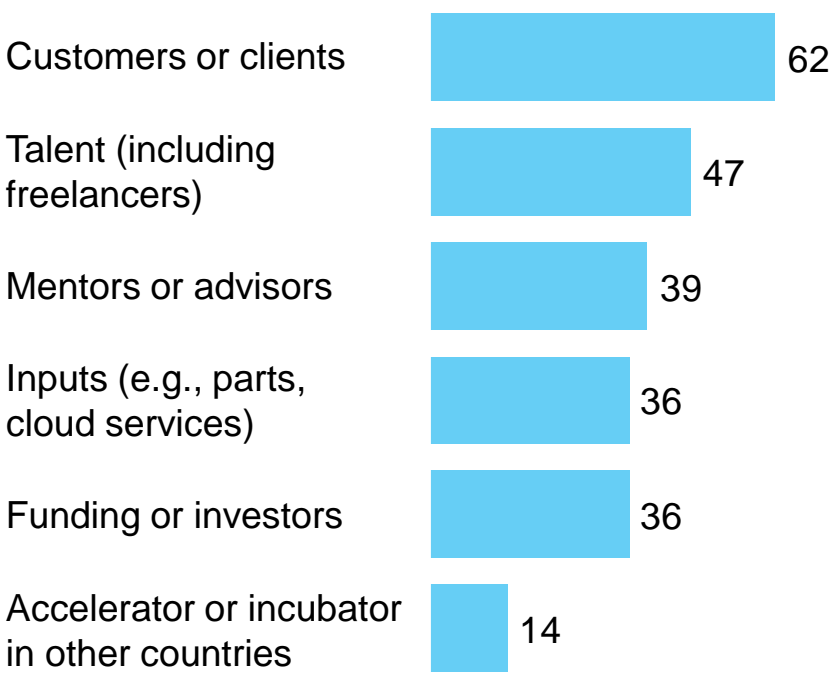
%

● Number of cross-border activities



Participation by activity type

%



# Countries looking to attract GVCs rank low on digital ability

MGI Connectedness Index 2014

Country		Connectivity index rank	
Developed		1-10	11-25
Emerging		26-50	>50

Rank	Country	Goods	Services	Finance	People	Data
1	Singapore	1	2	2	12	6
2	Netherlands	3	3	6	21	1
3	United States	7	7	3	1	7
4	Germany	2	4	8	3	2
5	Ireland	32	1	1	28	9
6	United Kingdom	13	5	5	6	3
7	China	4	16	4	82	38
8	France	11	8	9	7	4
20	Malaysia	9	19	25	26	43
21	Mexico	14	63	34	18	41
22	Thailand	10	15	36	44	64
23	Kuwait	37	46	13	13	75
30	India	24	10	35	58	70
34	Poland	23	31	47	34	22
35	Hungary	22	30	26	62	17
37	Vietnam	19	54	45	103	61
51	Indonesia	31	49	38	106	76
53	South Africa	34	57	52	64	80
54	Philippines	54	41	44	52	67
64	Morocco	58	43	74	56	65
73	Egypt	68	42	69	73	71
83	Nigeria	55	76	48	128	98
86	Peru	62	88	51	104	49

# Policy can help capture new GVC opportunities and tackle challenges



## Opportunities

- Near-zero marginal costs **reduce friction** in engaging global economy
- Potential for **faster catch-up** growth to productivity frontier; more regional value creation
- “**Micro-multinationals**” can be created from small businesses; GVC participation much more **broad-based** than just MNCs



## Challenges

- Digital infrastructure, access and fluency **need investment**
- Data **ownership**, security, and interoperability need resolution
- Need for common **market access** to raise attractiveness
- More flexibility in labor and talent needed; acceleration in **job displacement rate likely**



# Thank you

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