3. Global Value Chain Development Report 2025- Economy

Global Value Chain Development Report 2025 – Rewiring GVCs in a Changing Global Economy
The WTO's Global Value Chain Development Report 2025 highlights a strategic shift from efficiency to resilience in global trade, with services outpacing goods in value addition. It identifies India as a rising top-10 value-adding economy, driven by digital services, though it faces hurdles in infrastructure and logistics compared to global peers. The World Trade Organization (WTO) has released the Global Value Chain Development Report 2025, providing critical insights into the changing dynamics of global production, trade resilience, and the rising role of services and digital trade.

Global Value Chain (GVC)

Definition- A Global Value Chain (GVC) encompasses the full range of activities required to bring a product or service from conception to end use, where these activities are distributed across multiple countries.

Key Activities

1. Design and Research & Development (R&D)
2. Sourcing of raw materials
3. Production and assembly
4. Logistics and distribution
5. Marketing, sales, and after-sales services

Value Addition- Each stage in the chain adds specific value. Countries participate in different stages based on their comparative advantage (e.g., cheap labor, high technical skill, or resource availability).

Example- A smartphone might be designed in the US, its components (chips, screens) manufactured in East Asia, the final unit assembled in Vietnam or India, and then sold globally.

Major Findings of the Report

Recent Trends in GVCs

Central Role in Trade- Despite global disruptions, GVCs remain central to the global economy, accounting for approximately 46.3% of global trade in value-added terms (only slightly below the 2022 peak).

Shift in Strategy- There is a noticeable shift in strategy among firms and governments, moving from pure efficiency to prioritizing resilience. This includes diversifying suppliers to mitigate risks.

India-Specific Findings

Rise in Value Addition- Since the onset of the pandemic, India has ascended to become one of the top 10 value-adding economies.

Statistic- India held a 2.8% share of global Domestic Value Added (DVA) in exports in 2024.

Sectoral Strength- India, along with the Philippines and several African economies, has significantly strengthened its position in business-process and digital service exports.

Conclusion- This data reflects India's growing importance in digital trade and services within the broader GVC framework.

Structural Shifts and Regionalization

Dominance of Services- Services have outpaced goods in GVC participation. They now account for more than one-third of value added in manufacturing exports, highlighting the "servicification" of manufacturing.

Regional Hubs- The global landscape remains dominated by three major regional hubs- Asia, Europe, and North America.

Reshoring Trends- Major economies like China, the USA, and the EU are actively reducing their dependence on foreign value-added content for domestic consumption.

Driver- This trend is driven by a desire for supply chain security and reduced reliance on external sources.

Emerging Drivers- EVs and Technology

Electric Vehicle (EV) Chains- The EV boom is reshaping automotive supply chains.

China's Role- Accounted for a large share of global EV output as of 2023.

Critical Minerals- Minerals like lithium and cobalt are central to this chain. This offers opportunities for resource-rich developing nations but poses risks due to high supply concentration.

Technological Impact

Enablers- Digitalization, Automation, AI, and advanced ICT.

Impact- These technologies allow for finer fragmentation of production and lower coordination costs, creating resilient network structures.

The Divide- Economies with strong infrastructure and "absorptive capacity" benefit most, while others risk being left behind.

Challenges for India in GVC Integration

Despite its rising status, India faces distinct hurdles in deepening its integration into global value chains-

Infrastructure and Logistics- Competitiveness is hampered by high logistics costs, inefficiencies at ports, and transit delays.

Regulatory Uncertainty- Frequent changes in policy and a high compliance burden discourage long-term foreign and domestic investment.

Limited Trade Agreements- Compared to competitors like Vietnam, India has fewer Free Trade Agreements (FTAs), limiting preferential access to major consumption markets.

Skill Gaps- There is a notable shortage of skilled labor specifically suited for advanced manufacturing sectors.

Sustainability Barriers- Emerging global norms, such as Carbon Border Adjustment Mechanisms (CBAM) and ESG (Environmental, Social, and Governance) standards, may raise compliance costs for Indian exporters.

Recommendations

The report outlines distinct strategies for different stakeholders to navigate the evolving GVC landscape.

Stakeholder	**Key Recommendations**
Policymakers	Infrastructure- Promote digital and logistics infrastructure to broaden participation. Policy Alignment- Align climate and trade policies to support both environmental goals and competitiveness. Finance- Strengthen access to trade finance to close gaps for SMEs and developing economies. Coordination- Encourage transparent industrial policies that support resilience without harming global cooperation.
Firms	Technology- Invest in digital tools, AI, and automation to enhance adaptability and resilience. Diversification- Diversify supply networks to balance cost-efficiency with risk mitigation. Strategy- Leverage regional networks where strategic advantages exist.

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