

RIETI Webinar  
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Effect of COVID-19 on Global Value Chains  
and Future Prospects:  
Rephrasing Dr. Miroudot's Claims  
from the East Asian Perspective

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# 1. COVID-19 and GVCs: background

- “Emergency responses” call for social distancing.
  - Both production and consumption are restricted.
    - Some supply shocks (e.g., medical equipment) are highlighted.
    - For other goods, production system is almost intact so far; low demand slows down GVCs.
- In the “exit” stage, two obstacles will come (Kimura 2020).
  - Huge negative demand shock, leading to prolonged recession
  - Slow removal of the restriction on people’s movements, domestic and cross-border
- Some claim that the era of GVCs is over and “reshoring” is necessary to make value chains more robust/resilient against shocks such as pandemics.
  - Miroudot rightly challenges such a claim.

## 2. Robustness versus resilience

- Miroudot's definition
  - Robustness: the capacity to continue to produce during a crisis
  - Resilience: the ability to return to normal operations after being disrupted
    - “Complex value chains”: less robust but more resilient
    - Essential (emergency) goods vs. other goods
      - Efficient risk management matters for both.
      - Robustness is more costly; perhaps only for essential goods.
- Empirical studies in East Asia are (almost) consistent with his claim.
  - GVCs can be a transmission line of a shock (depends on the nature of a shock).
  - However, “network trade” is less likely to be disrupted and more likely to revive.
    - Obashi (2011), Ando and Kimura (2012), Okubo, Kimura, and Teshima (2014)
  - The key is the nature of GVCs, particularly in the context of East Asia.
    - GVCs in general vs. international production networks (IPNs) or the second unbundling
    - Market transactions vs. relation-specific transactions

### 3. The China factor

- Additional argument particularly in East Asia.
- East Asia other than China first perceived COVID-19 as a supply shock or the interruption of imports from China in Jan. and Feb.
  - This triggered the argument of “too high dependency on China.”
  - However, production in China seems to be ready to resume.
- Economic aspects
  - Shaky logic?? (Korea vs. Japan)
- Geo-politics of “decoupling”
  - Reshuffling of GVCs would depend on the extent of “decoupling.”
    - IPR-related; private data-related; high tech.,; and what?

# 4. Policies

- GVCs can still be a source of efficiency and competitiveness.
  - Obashi and Kimura (2017, 2018)
- Developed countries: policies against market mechanism could be costly.
  - Forced reshoring, trade protection, investment restriction, ...
- Newly developed and developing countries: Deeper involvement in GVCs can still work.
  - ASEAN and East Asia can strengthen “Factory Asia.”
  - It is also important to catch up with digital transformation.
    - ICT to strengthen GVCs (Obashi and Kimura 2020)
    - ICT for traditional industries and government services
    - ICT for new businesses including service outsourcing or the third unbundling

# 5. What would come next?

- Huge demand shock with left-over restrictions in people's movements
  - Prolonged recession may come at the country/regional/global levels.
- IPNs are robust and resilient against a short-run shock, but long downturn of the world economy may trigger substantial reshuffling.
  - Transportation/logistics sector
  - SMEs/local firms in IPNs
  - Bad businesses, unemployment, crisis in financial sector, collapse of asset/foreign currency markets, ...
- In addition to health policy and macroeconomic policy, what sort of policy would be needed for IPNs?

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