The Economic Crisis: A Global Value Chain Perspective

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Globalization and Employment:
Global Shocks, Structural Change and Policy Response

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Geneva
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AGENDA

1. Global Value Chains
2. Structural Changes in the Apparel Industry
3. Offshore Services & the Economic Crisis
Global value chain framework developed over the past decade by a diverse interdisciplinary and international group of researchers who have tracked the global spread of industries and their implications for both corporations and countries.

- Global value chain analysis provides both conceptual and methodological tools for looking at the global economy.
  - **Top down** (with a focus on lead firms and inter-firm networks, using varied typologies of industrial “governance”)
  - **Bottom up** (with a focus on countries and regions, which are analyzed in terms of various trajectories of economic and social “upgrading” or “downgrading”).
WHAT IS A VALUE CHAIN?

SOFTWARE
- Architecture
- Coding
- Compilation
- Document
- Functional testing
- Quality control

SERVICES
- IT consulting
- Outsourcing
- IT services
- Software solutions

HARDWARE
- Semiconductors
- Circuit boards
- Assembly
- Software installation

SUPPLY CHAIN
- Raw materials
- Components
- Final products
- Distribution
- Sales

VALUE-ADDED ACTIVITIES

SUPPORTING INDUSTRIES

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Value-Added Curve in Textiles

DISTRIBUTION of TEXTILE COMPLEX BUSINESS

- Research & Development
- Design
- Production
- Logistics
- Marketing
- Services

Added Value

Pre-Production  Manufacturing  Post-Production

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ECONOMIC CRISIS: ACCELERATED SHIFTS IN GLOBAL DEMAND AND PRODUCTION

- **Shifts in global demand**
  + Shifting markets to the South
  + Opportunities for **upgrading** (new markets)
  + Possibilities of **downgrading** (lower standards; less value added)

- **Shifts in global production**
  + Consolidation of global value chains
  + Upgrading (capture more value)
  + Downgrading (more intense competition)
CHANGES IN THE APPAREL INDUSTRY
TWO CRISES IN THE APPAREL VALUE CHAIN

  + Elimination of quotas
  + Created global overcapacity in production

- **Current Economic Crisis (2008-Present)**
  + Decline in consumer purchasing
  + Decline in export volumes and value
  + Decline in apparel employment
SHIFTS IN TOP 10 APPAREL EXPORTERS: 1995-2008

# LEADING APPAREL EXPORTERS, 2009

**EXPORT, EMPLOYMENT AND WAGE STATISTICS**

<table>
<thead>
<tr>
<th>Country</th>
<th>Export Value, US$B (a)</th>
<th>Employment (b)</th>
<th>Estimated Employment Loss and % Total (b)</th>
<th>Apparel Export Dependence (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>$120.00</td>
<td>T&amp;A: 30 million</td>
<td>10 million (33%)</td>
<td>8.40%</td>
</tr>
<tr>
<td>Extra EU-27</td>
<td>$27.70</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Turkey</td>
<td>$13.60</td>
<td>--</td>
<td>--</td>
<td>10.30%</td>
</tr>
<tr>
<td>India</td>
<td>$10.90</td>
<td>T&amp;A: 35 million</td>
<td>300,000-1 million (0.9-3%)</td>
<td>6.10%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>$9.40</td>
<td>T&amp;A: 3 million</td>
<td>0 (0%)</td>
<td>71.10%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>$9.00</td>
<td>T&amp;A: 2 million</td>
<td>20,000-30,000 (1.0-1.5%)</td>
<td>14.30%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$6.30</td>
<td>T&amp;A: 1 million</td>
<td>41,000-100,000 (4-10%)</td>
<td>4.50%</td>
</tr>
<tr>
<td>Mexico</td>
<td>$4.90</td>
<td>T&amp;A: 750,000</td>
<td>36,000-80,000 (4-10%)</td>
<td>1.70%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>$3.90</td>
<td>T&amp;A: 2.5 million</td>
<td>200,000 (8%)</td>
<td>19.20%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>$3.60</td>
<td>A: 352,000</td>
<td>74,500-75,500 (20-22%)</td>
<td>84.80%</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>$3.30</td>
<td>A: 270,000</td>
<td>--</td>
<td>40.90%</td>
</tr>
</tbody>
</table>

## SOURCING TRENDS ACCELERATED BY CRISIS

### Buyers
- Growing reliance on China
- Lead firm **consolidation** (buyers, mfrs, traders)
- Supply chain **rationalization** (fewer, larger, more capable suppliers)
- Supply chain **collaboration** (for economic, social & environmental upgrading)

### Suppliers
- **Diversify**: buyers, products, end markets
- Increased production for large domestic markets
- Full package production capabilities
- **Technology investments** (IT, flexible production)
- Obtain **certifications** (quality, environmental, social)
OFFSHORE SERVICES AND THE ECONOMIC CRISIS
THE SIZE OF THE OFFSHORE INDUSTRY, VARIED ESTIMATES

- Industry growing & evolving rapidly
- Difficult to quantify the industry → not accurate data & countries not recording these services
- New activities - most dynamic not included, such are innovation

Source: CGGC based on OECD 2008, NASSCOM 2009, Boston Consulting Group 2007,
OFFSHORE SERVICES GLOBAL SUPPLY & DEMAND

Demand for Offshore Services (%)

- **51.1%** US & Canada
- **30.6%** EU-15
- **16.2%** Asia-Pacific
- **2.1%** Rest of the World
- **45%** of the industry market

Source: CGGC based on Everest & Datamonitor

45% of the industry market

Same number of call centers employees than India
Vertical Activities - Industry specific: Each industry has its own value chain. Within each of these chains, there are associated services that can be offshored. This diagram captures the industries with the highest demand for offshore services.

This graphical depiction of vertical activities does not imply value levels. Each industry may include ITO, BPO and advanced activities.
MAPPING SELECTED COUNTRIES IN THE OFFSHORE SERVICES VALUE CHAIN

India

Philippines

Czech Republic

Chile
ECONOMIC CRISIS: SUBSTITUTION VS DEMAND EFFECTS

Substitution effect
- Activities relocated to cheaper locations leading to the growth in offshoring
- Industry focus on reducing costs and increase efficiency. During the economic crisis some companies have seen more demand of their services

Demand effect
- Lower demand due to the recession’s effect on the industry’s clients, resulting in a decline of offshoring services
- Slowdown in demand → including frozen offshore service contracts, reduction in the scope of the contracts, and pressure on pricing

The economic downturn created only a small inflection in the industry. Industry growth rates remain positive and in 2010 showing recovery signs
## OFFSHORE SERVICES INDUSTRY INDICATORS IN INDIA, 2004-2009

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009 E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues in Offshore Services Industry (US$ billions)</strong></td>
<td>12.9</td>
<td>17.7</td>
<td>23.6</td>
<td>31.3</td>
<td>40.4</td>
<td>47</td>
</tr>
<tr>
<td><strong>Growth Rate Offshore Services Industry</strong></td>
<td>37%</td>
<td>33%</td>
<td>33%</td>
<td>29%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td><strong>Indian GDP (current US$ billions)</strong></td>
<td>700.9</td>
<td>810.2</td>
<td>914.9</td>
<td>1,176.9</td>
<td>1,217.5</td>
<td>1,182.2</td>
</tr>
<tr>
<td><strong>Offshore Services share of Indian GDP</strong></td>
<td>1.8%</td>
<td>2.2%</td>
<td>2.6%</td>
<td>2.7%</td>
<td>3.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>Offshore Services Employment</strong></td>
<td>830,000</td>
<td>1,058,000</td>
<td>1,293,000</td>
<td>1,621,000</td>
<td>2,010,000</td>
<td>2,236,614</td>
</tr>
<tr>
<td><strong>Growth Rate Offshore Services Employment</strong></td>
<td>27%</td>
<td>22%</td>
<td>25%</td>
<td><strong>24%</strong></td>
<td><strong>11%</strong></td>
<td></td>
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</tbody>
</table>

Source: CGGC, Duke University based on data from NASSCOM and the World Bank.
E: NASSCOM Estimates
<table>
<thead>
<tr>
<th>Company</th>
<th>When</th>
<th>Laid off</th>
<th>Hiring</th>
<th>What</th>
<th>Where</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accenture</td>
<td>Mar 2009</td>
<td>500</td>
<td></td>
<td>Crisis effect</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Aug 2009</td>
<td>100</td>
<td></td>
<td>Re-hiring part of the people laid off</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Aug 2009</td>
<td>300</td>
<td></td>
<td>Crisis effect and restructuring</td>
<td>Worldwide</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>8000</td>
<td></td>
<td></td>
<td>Mostly in</td>
</tr>
<tr>
<td>CSC</td>
<td>Early 2009</td>
<td>98</td>
<td></td>
<td>Acquisition to serve local customers and strengthen existing sector</td>
<td>East</td>
</tr>
<tr>
<td></td>
<td>Aug 2009</td>
<td>550</td>
<td></td>
<td>Layoffs of middle management positions</td>
<td></td>
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<tr>
<td>Capgemini</td>
<td>May 2009</td>
<td>100</td>
<td></td>
<td>Layoffs of middle management positions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jun 2009</td>
<td>45</td>
<td></td>
<td>New center to perform IT Help Desk Support and Business Continuity work</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nov 2009</td>
<td>85</td>
<td></td>
<td>Acquisitions to serve local customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gen 2010</td>
<td>200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Logica</td>
<td>Oct 2009</td>
<td>NA</td>
<td></td>
<td>New center on ITS-based solutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nov 2009</td>
<td>2200</td>
<td></td>
<td>Laid off for restructuring</td>
<td></td>
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<tr>
<td>Wipro</td>
<td>Sept 2008</td>
<td>1000</td>
<td></td>
<td>Acquisition to follow customer</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dec 2008</td>
<td>2500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>1000</td>
<td></td>
<td>New center</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Q3 2009</td>
<td>630</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nov 2009</td>
<td>100</td>
<td></td>
<td>New center, IT &amp; BPO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan 2010</td>
<td>85</td>
<td></td>
<td>Layoffs in telecom R&amp;D sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>2400</td>
<td></td>
<td>New center</td>
<td></td>
</tr>
<tr>
<td>Genpact</td>
<td>Mar 2009</td>
<td>500</td>
<td></td>
<td>New center to serve customers in EU</td>
<td>Worldwide</td>
</tr>
<tr>
<td></td>
<td>Early 2010</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Feb 2010</td>
<td>1,200</td>
<td></td>
<td>Acquisition</td>
<td>and US</td>
</tr>
</tbody>
</table>
CONCLUSIONS

- Economic crisis spread worldwide through financial and trade channels; not a reversal of globalization
- Global Value Chains: consolidation and resilience → upgrading & downgrading
- Emerging economies (BICS): export platforms → markets → innovation
- Beyond export-oriented industrialization: what’s next?
THANK YOU FOR YOUR ATTENTION!

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