

Global Value Chains as a Transformational Indicator of Changes in the Global Economy

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ABSTRACT

The novelty of the article consists of the analysis of the Global Value Chains (GVC) which are the result of the development of vertical cooperation, the main actors of which are international, multinational and transnational companies (TNCs). The research is based on the system methodology as a part of the modern GVCs concepts. The researchers have marked the COVID-19 pandemic as a turning point that has had a significant impact on GVCs and therefore on economic globalization. They prove the changing character of GVCs from transcontinental to regional, acquiring the features of horizontal cooperation and contributing to the development of economic cooperation of economic entities of territorially bordering countries. The impact of GVCs on the development of the countries of the Eurasian region was evaluated from the point of view of further economic cooperation and integration. The role of the Shanghai Cooperation Organization as a platform for discussion and development of cooperation mechanisms of its member states is defined.

Keywords: *global value chains (GVC); vertical and horizontal cooperation; globalization; government regulation and the world economy transformation*

1. INTRODUCTION

Global value chains (GVCs) based on the principle of vertical cooperation have become a de facto tool for transforming the global economy, requiring a common supranational regulation. GVCs are also an effective tool for the global economy reformatting in the direction of transregional cooperation regionalization, orienting business entities towards the development of horizontal cooperation and the unconditional social responsibility of business towards society.

The COVID-2019 pandemic led to the closure of national borders and an interruption of the continuity of cross-border GVCs. At the same time, the consistent transition to a polycentric configuration of the global community has led to the prioritization of national socio-economic development objectives, the elimination of disparities in social development and the restoration of social lifts. This raises the issue of ensuring national and state regulation of GVCs, on the one hand, and their reorientation to the regional level, on the other. In this regard, the Eurasian continent is a fully resource-rich region with the potential for self-development and internal competitiveness. On the platform of the Eurasian continent, the role of the regulator can be successfully performed by the Shanghai Cooperation Organization (SCO) as a multi-dimensional multilateral international organization based on equal rights of all participants and ensuring their full sovereignty, excluding the principle of "double standards" or the formation of like-minded blocs or alliances to the detriment

of the interests of other members. Also, the "One belt, one path" initiative is an example of a renewed attitude towards the international economy, including the use of GVC, which in turn is the main indicator of the process of gradual reformatting of the world economy from unregulated economic globalization, where the interests of global TNCs undividedly prevail, to the regionalization of economic partnership, where the interests of national states and the citizens of countries themselves determine the actions of governments and the development of international standards.

The goal of the strategy is based on the analysis of the structure of the formation of GVCs and an increase in the share of the regional component in them, which changes the structure of the world economy, to reflect, in the context of polycentrism, the need to strengthen the regulatory role of the SCO on the Eurasian continent.

2. METHODOLOGY

GVCs in which both developed and developing countries are involved regardless of their position in the world economy plays a key role. Methodologically modern studies of GVCs highlight 3 trends:

- industrialist approach (consideration of the effects of GVCs at the local level of individual industries and clusters);
- consideration of regional and national peculiarities of countries in the transition to the industrialist approach;
- forecasting and strategic planning for participation in GVCs [1].

GVC is not a new concept in the global economy; its analysis is carried out by individual researchers and international organizations - OECD, WTO, G20 and others. The scientific concept of GVCs was introduced by M. Porter and developed by other researchers [2-4]. The research methodology was based on a comparative analysis, which made it possible to conclude that there was a stable tendency towards an increase in the share of the regional level in the formation of GVCs. The study of the country contribution, mainly of Asian countries, made it possible to assess the dependence of national economies on global and regional value chains and raised the question of the commensurability of the task of national economic sovereignty and the level of entry into GVCs. The study of the statutory and normative legal documents of the SCO's activity as an international organization gave reason to consider its priority role in regulating international interaction on the Eurasian continent.

3. LITERATURE REVIEW

The role of GVCs in the formation of a unified world economy based on the development of economic globalization has been one of the most important research topics since the 1990s. GVCs have become a major component of the world economy [5], and in particular for the APEC region, where the priority was given to the profitability of national and cross-border segments of GVCs abstracting from the levels and national development objectives of the APEC economies. It was by stimulating vertical cooperation based on the development of GVCs (in the context of the principles "from simple to complex" and "from technical details to strategic issues") that a breakthrough was made towards comprehensive economic globalization [6] where corporate interests and profit margins dominate and the role of government regulation itself should have been minimized. It is no coincidence, therefore, that there seems to have been massive pressure on the post-Soviet countries to avoid the formation or economic interaction and attempts to fragment Russia's territorial integrity at the beginning of the first decade of the 21st century. The weaker the role of the nation-state in ensuring national development objectives and implementing the tasks of mass improvement of the living standards of the country's population is (Washington Consensus 1992 [7]), the easier it is to involve individual business entities in the SCS destroying traditional cooperation ties of the national economy. The issues of slowing world trade, the reduction of the share of GVCs in the world trade from 53% to 47%, the growth of poverty and disproportionate income distribution have become a consequence of the unregulated globalization of modern times [8]. GVCs de facto breaks down the domestic reproduction process in the countries capturing the most profitable segments and including them in GVCs, de-industrializing national economies and expanding the space for the realization of narrow corporate interests. The proponents of stimulating the development of GVCs [9] began to prove actively the expediency of solely

fitting the national economies of developing and transformational countries into GVCs subordinating industrial policy to these tasks. At the same time, a number of researchers [10], based on deep empirical analysis, prove that when productivity grows in the formal production sector and when there is a gap with global productivity, GVCs do not contribute to the implementation of job creation policies and employment growth in the countries. This is also true for the services segment. The same authors point out that it is GVC that determines the country's specialization, which has a negative impact on the overall level of the countries income to ensure socialization and social justice of the broad strata of the population, while the issue of modernization of national economies only at the expense of GVC is not automatic and really requires the participation of the national government. Recently, the research has begun to be published on the possibility of developing GVC horizontally or in the form of the so-called horizontal cooperation [11, 12], as well as the evaluation of the research published in the scientific publications on GVC of an interdisciplinary nature: from international business, general management and supply chain management to operations management, economic geography and regional studies in global political economy [13]. We believe, it is important to conclude on the basis of the authors' research on the need for a comprehensive analysis of GVC role, taking into account both the national interests of the participating countries and the tasks of socialization of the development of national economies, as well as the need of the government regulation of the companies' participation in GVC. However, there is no consolidated program or a supranational regulation in this area so far, and weak national governments are unable to ensure the implementation of national interests in the presence of pressure from the largest TNCs. The 2020 pandemic resulted in the severance of economic ties within the GVC and the accumulation of the reproductive process at the regional level, contributing to the development of horizontal cooperation of economic entities of the territorially close countries. The Eurasian continent has the necessary resource base, technological breakthrough and human resources. In this regard, we believe it is possible to regulate the development of economic globalization in the SCO as a multilateral, multidimensional and non-specialized international organization. However, a number of authors are rather skeptical about the SCO role and place in stabilizing regional geopolitics and economies of the countries of the region [14]. At the same time, the dynamism and non-blocking of the SCO's development, while maintaining trade, economic and humanitarian relations, are undoubtedly important components of the organization activities. The SCO is neither subject to UN sanctions, nor is it involved in any armed conflict with another state or states. This provision is particularly important when a number of researchers point to the possibility of the SCO becoming a bloc confronting NATO [15], including the context of growing confrontation between the US and China. The issues of strategic priority partnership between Russia and China within the SCO as

the drivers of SCO development are considered in article 2020 [16], when the authors emphasize the ability to find a consensus solution by the leaders of both countries, but at the same time, the existence of tactical discrepancies on certain aspects of positioning in the global community is not excluded. The OECD-UNIDO work is devoted to the formation of SCO based on horizontal cooperation analyzing mainly countries in the Asia-Pacific region.

4. NOVELTY OF RESEARCH

The novelty of the research lies in the identification of the GVC transformative role in modern conditions in the direction of transferring transnational reproductive links to the regional level, first of all, it becomes possible precisely on the Eurasian continent, which has a real potential for self-development, taking into account the national interests of states in a polycentric environment. At the same time, it is justified that it is the GVC regionalization that determines the need of state regulation on the part of the GVC member states and the formation of conditions for the real social responsibility of the GVC actors to society, ending the policy of exclusive domination of corporate interests over the interests of the society.

On the Eurasian continent, a sufficiently successful multilateral international organization capable of regulating economic globalization can be the SCO which ensures the full sovereignty of its member states.

5. DISCUSSION

The World Bank Group is extremely positive about the GVCs role in the development of the world economy, since they have been the main driver of the global economic growth since the late 1990s. GVCs differ from traditional foreign trade in that imports are associated with both domestic consumption and export promotion. This reflects the formation of long-term inter-company relations in the world economy, which should ensure the sustainability of global development as a whole. According to the World Bank Group experts, the development of economic relations within the framework of the GVC not only ensured economic growth, but also contributed to poverty reduction, while the weaker countries in economic development were able to catch up with the richer ones. The positive assessment was also due to the fact that TNCs, as the main actors in international economic relations developing GVCs, in practice pursued a policy of fragmentation of the reproduction process in different countries, based mainly on the level of national costs and the simplicity of national government regulation of business entities. At the same time, the lower was the social security of workers in countries, the lower were the costs incurred by TNCs to pay the costs of companies involved in the reproduction chain. This formed a unified world economy where economic globalization was flourishing and the development was accelerating.

Especially countries in the Asia-Pacific region became de facto integrated into GVCs.

But the lack of equity in the regulation of economic globalization, as discussed by the Chinese President Xi Jinping at the World Economic Forum in Davos [17], has led to a break in the parity of stable and sustainable development in almost all developed Western countries, but in developing countries, mono-specialization began to develop due to the participation in the GVC which generally did not contribute to the full sovereign development of these countries.

The involvement of major TNCs in the optimization of GVCs and their promotion to the countries with changing or developing economies has led to radical deindustrialization of the national economies of the developed countries - primarily the EU and the USA. The problems have arisen with the employment rate of indigenous people, and in the USA primarily for the middle class who felt the threat of job losses due to the introduction of new technologies and the removal of the real sector from the USA [18]. In this connection, the policy of the US President Trump has quite predictably become oriented towards strengthening protectionism which has accordingly led to the development of trade conflicts between large countries and leads to a reduction in supply chains or the re-organization of GVCs.

OECD [19], in its analysis of the impact of the pandemic on GVCs, states that globalization and its legal and regulatory framework, which has existed since the early 1990s, have facilitated the massive transfer of low value-added and wage-sensitive activities (the bottom of value chains) to the developing countries with limited production capacity and intangible tasks (research and development, design, marketing and branding based on unique resources and hard-to-reach opportunities) were still retained at TNC's headquarters, providing them with greater profits.

At the same time, experts point out that supply chain and transport disruptions caused by COVID-19 undermine the existing system of economic ties within the framework of vertical integration and encourage the development of either self-sufficient economic systems or horizontal cooperation aimed at the interaction of economic entities in the same region under the conditions of optimizing the division of participation and revenues. The pandemic has particularly focused on strategic sectors - medical equipment and medicines, production of materials for assembling complex machines and even final production. This trend is reflected in the growing number of temporary export bans and restrictions on essential goods imposed by a lot of countries following the outbreak.

Under these circumstances, the reformatting of the world economy from total unregulated economic globalization to the regulation of regional economic cooperation, mainly horizontal cooperation, is almost inevitable. The above thesis is confirmed by the OECD's assessment of two interrelated processes as basic for the modern world economy: strengthening regional value chains and strengthening government regulation based on the national interests of the participating countries and the objectives of

inclusive sustainable development according to UN SDG 2030.

Strengthening regional value chains should be a priority for the developing countries to diversify risks, reduce vulnerability, increase sustainability and stimulate industrial development. By identifying and maintaining horizontal and vertical linkages, regional pacts can ensure that small firms work together to reduce transaction costs and benefit from economies of scale. They can also facilitate communication between different specialist suppliers whose resources are directly integrated into the supply chain.

On the Eurasian continent (as a geographical concept) there is already a multi-dimensional international non-specialized organization that has proved to be efficient, effective and based on the principles of a polycentric configuration of the global community. It is the SCO that is able to assume the role of international coordinator of Eurasian development, ensuring fairness, full sovereignty and independence of its member countries.

The specific nature of the SCO is that it is an intergovernmental organization that ensures multilateral coordination between the parties on issues of mutual interest. The SCO is a non-integration type of organization, i.e. it is not responsible for the integration development and deepening of the partnership between member countries, partners, and observers. The implementation of the adopted decisions falls exclusively within the competence of the national executive authorities of the member states and companies implementing the planned programs. If the parties agree, the SCO may transfer functions similar to those of the WTO with regard to the regulation of the integration development on the Eurasian continent, since the WTO is also an interstate organization and its members are individual countries. In this way, the SCO may act as the basic organization for regulating international, including economic relations in the context of the emergence of real polycentrism on the Eurasian continent. In this case, the SCO is able to ensure coordination with such forums as APEC or ASEAN, and EAEU.

The Chinese initiative "One Belt, One Road" is a new narrative for the development of international economic relations between the SCO countries.

As we have already noted, China is in favour of deepening economic cooperation within the SCO, which was initially focused on the creation of a free trade zone, but later the Chinese initiative found the expression in the proposal to develop cooperation in the comprehensive project "One belt, one road". The specificity of this project is precise that the accession of the participating countries and other national states in it is carried out only when the national interests of the country coincide with the proposed infrastructure projects in the framework of the "One belt, one road". The Chinese side sees this initiative implementation as an opportunity to put into practice the idea of forming "a community with a common destiny on the basis of political mutual trust, lasting peace, mutual benefit and mutually beneficial relations with unconditional cultural tolerance" [20]. However, some naivety of a number of governments of some countries or

hopes for the benefits of globalization, what's more unjustified, have led to the fact that entering the initiative implementation, the economies of some countries began to fall into a long-term debt dependence on loans from China without having real sources of repayment. In other words, the problem of the "debt trap" due to China's desire to facilitate investment in PRC's "One belt, one road" project to the maximum was a de facto unresolved issue for many borrowing countries [21].

Since the SCO countries have significant differences in their economic interests, resource needs and in the size of their economies and stages of development, this leads to a mismatch of intentions and real opportunities in terms of organizing and implementing multilateral economic cooperation within the SCO. The "One belt, one road" is an economic cooperation initiative with clear economic objectives and flexible cooperation methods, involving the development of bilateral and multilateral cooperation, and prioritizing infrastructure construction, involving diversified participants with the possibility of using extensive funding sources. This cooperation model is suitable for both Central Asian and South Asian countries. The SCO members for the "One belt, one road" implementation, based on their national interests, link their national development strategies to the initiative under consideration. In 2018 the volume of trade between China and the other SCO members was \$211.6 billion, but China's trade structure with the various member states remains extremely inefficient based on the assumption that China supplies machinery and equipment and provides investment on a credit basis while all other SCO countries retain their low-efficiency trade niche.

Thus, according to the Chinese sources, the accumulated investment in the SCO countries as of 1.1.2019 amounted to 85.2 billion dollars and the total turnover under contracts of China in each SCO member state - 226.3 billion dollars [21]. The "One belt, one road" initiative shows the new attitude towards the formation of the international economy, including the use of the potential of the GVC.

6. CONCLUSIONS

The economic globalization era, dominated by the interests of the corporate sector (mainly TNCs), is coming to an end, the global community is moving towards a polycentric configuration and, consequently, the national social and political construction goals implementation is becoming important for international cooperation. In these conditions, the activities of economic actors within the GVCs framework should be subordinated to the national interests of the participating countries and should contribute to the real industrialization of the reproduction cycle, ensuring true full sovereignty of all countries of the international community. The Eurasian continent has a real potential to ensure self-development and the increase of the national competitiveness of the countries and business entities. The SCO member states recognize the construction of the global community towards real polycentrism based on the full sovereignty of each member state, they do not

recognize the double standards principle and the formation of alliances or blocks, infringing on the interests of other countries. In the future, the SCO may transfer functions similar to those of the WTO in terms of regulating the integration development on the Eurasian continent. However, the WTO goal-setting in a multi-polar environment does not meet the objectives of ensuring sustainable development, as it is based on the narrative of economic globalization throughout the world economy without taking into account national interests and ensuring social stability and fairness in various socio-political and social systems.

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