# Webinar 1:
# The future of global production networks in the aftermath of COVID-19

30 June 2020 2 p.m. CET

*UNIDO Webinar series:*

Future of industrialization in a post-pandemic world

Co-organizers:

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

ifw KIEL INSTITUTE FOR THE WORLD ECONOMY

KIEL CENTRE FOR GLOBALIZATION

# Hiroshi Kuniyoshi

UNIDO Deputy to the Director General and Managing Director, Directorate of External Relations and Policy Research.

Former Executive Director of the New Energy and Industrial Technology Development Organization, where he oversaw global collaborative projects for the development of low carbon technologies.

Co-organizers:

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

ifw KIEL INSTITUTE FOR THE WORLD ECONOMY

KIEL CENTRE FOR GLOBALIZATION

# Gabriel Felbermayr

Prof. Gabriel Felbermayr is President of the Kiel Institute for the World Economy.

He concurrently holds a chair in Economics and Economic Policy at Kiel University.

His research and advisory activities focus on questions of economic global governance, European economic integration, and German economic policy.

Co-organizers:

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

ifw KIEL INSTITUTE FOR THE WORLD ECONOMY

KIEL CENTRE FOR GLOBALIZATION

## Beata Javorcik

Chief Economist,
EBRD

Beata Javorcik is Chief Economist of the European Bank for Reconstruction and Development.

She is on leave from the University of Oxford, where she is Professor of Economics and Fellow of All Souls College.

Before taking up her position at Oxford, she worked at the World Bank in Washington DC.

## Svenja Falk

Managing Director,
Accenture Research

Svenja Falk is a Managing Director with Accenture Research.

Her expertise lies in the area of digital business models, future of work and government policy.

She is a honorary professor at the Justus-Liebig Universität Giessen, as well as a fellow at the Hertie School of Governance in Berlin.

## Izumi Ohno

Director,
JICA Ogata Research Institute

Izumi Ohno is Director of the JICA Ogata Research Institute. Previously she worked at the World Bank, JBIC, and JICA.

She specializes in international development policy, industrial development cooperation, business and development.

She currently leads a Research Project on the Japanese Experience of Industrial Development and Development Cooperation.

## Ha-Joon Chang

Director, Centre of Development Studies, University of Cambridge

Ha-Joon Chang is the Director of the Centre of Development Studies (CDS) at the University of Cambridge.

He has served as a consultant to the World Bank, the Asian Development Bank, the European Investment Bank, as well as to Oxfam and various UN agencies.

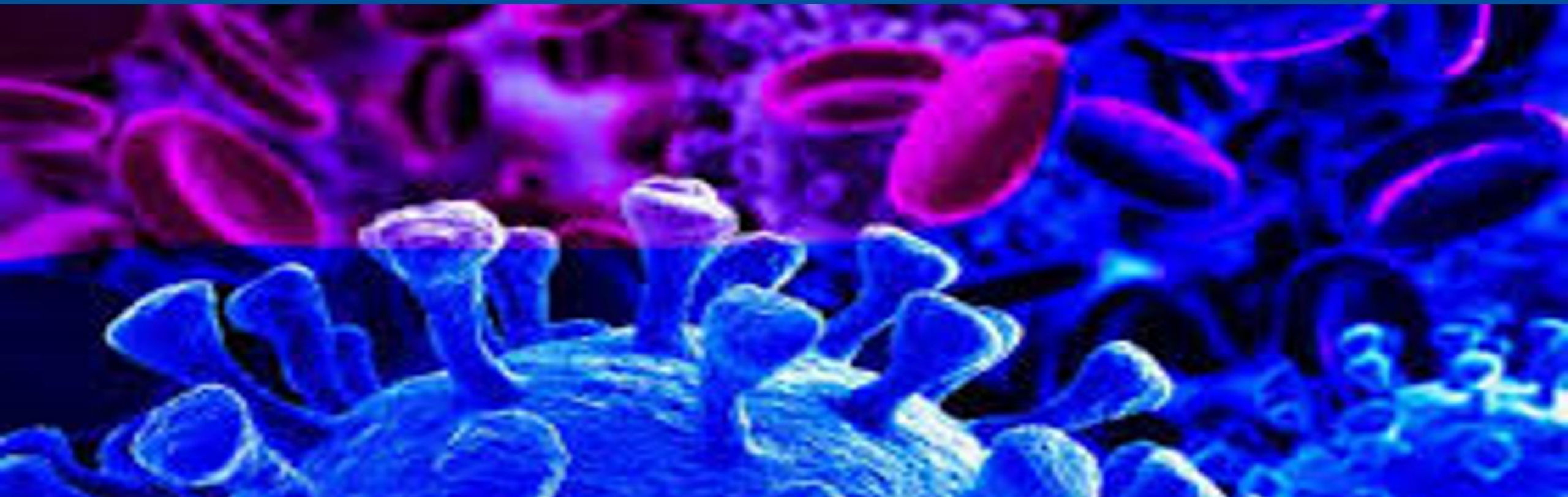
He is also a fellow at the Center for Economic and Policy Research in Washington DC.

# INTERNATIONAL TRADE IN THE POST-COVID WORLD

June 2020

European Bank
for Reconstruction and Development

**Beata Javorcik**



# Global value chains: from “just in time” to “just in case”?

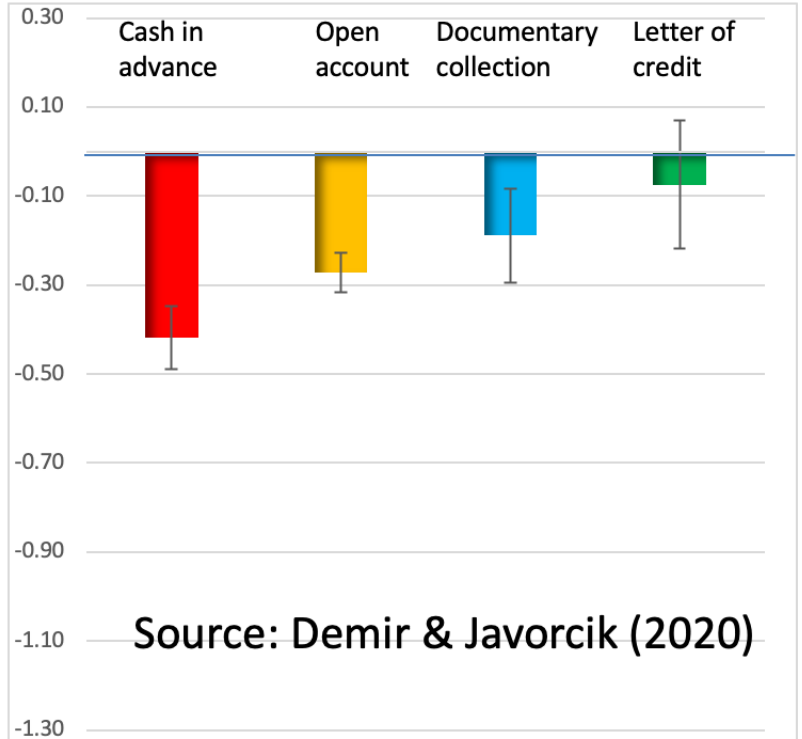
- COVID exposed **excessive concentration of suppliers** and **vulnerability to shocks**
- Uncertainty about **trade policy**
- **Political pressure to reshore** motivated by self-sufficiency & economic nationalism
- **Resilience vs. cost trade-off** as a counteracting force
- **Opportunity for less popular investment destinations**

# Flows insured by trade finance instruments are more resilient

- In times of crises, uncertainty increases
  - Risk of **non-payment** or **non-delivery**
  - **Greater demand for insurance**

- **Insured flows** appear to have been **more resilient** so far
  - **Letters of credit** insure against non-payment and non-delivery
  - **Documentary collection** (using bank intermediation does not provide formal insurance but can help mitigate risks)

**Change Turkish exports in March 2020 relative to historical average:**
disaggregated by financing terms



# Trade Finance

- **Less trade finance available now than before**

- **Intra-firm trade more resilient** to crises than arms-length trade (Crozet, Demir & Javorcik, 2020)
  - Advantage for multinational firms

# Will remote work enable exports of services?

- Remote working is here to stay
- Why not go a step further and hire foreign workers?
- Limitations
  - Times zones
  - Data protection
  - Travel restrictions
- **Opportunity for countries with inexpensive skilled labour**

accenture

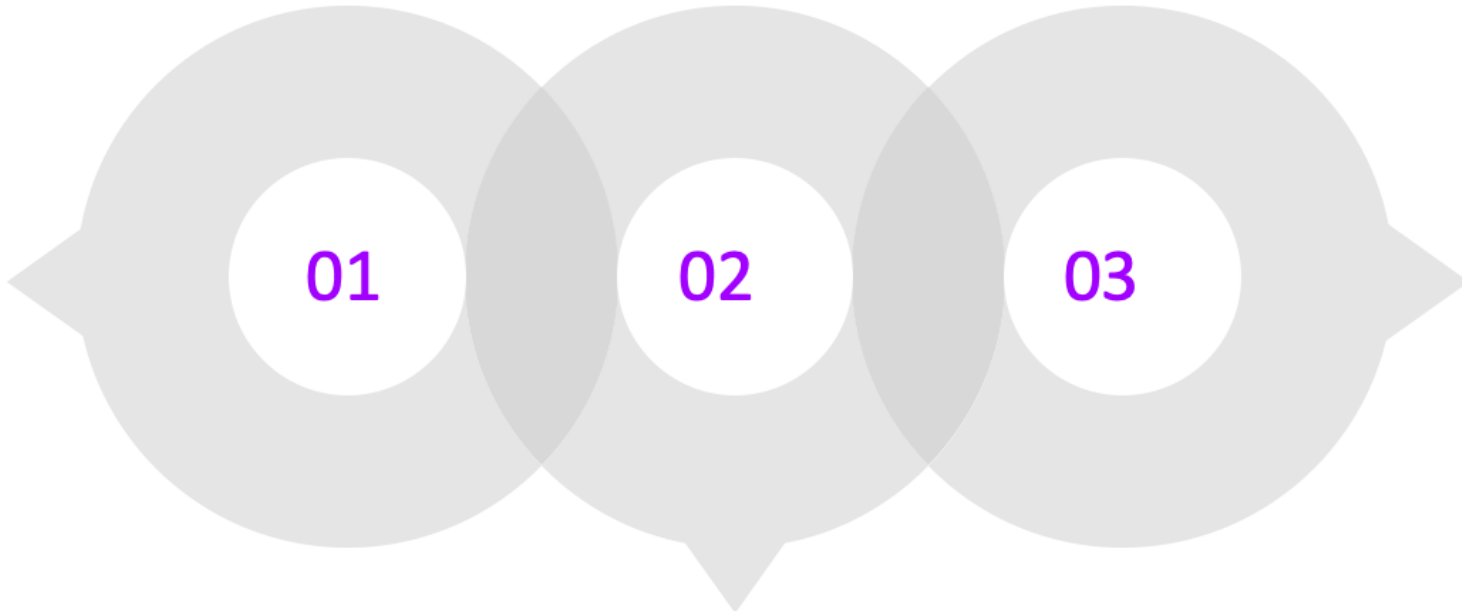
# Can we consider the pandemic a tipping point on our path towards the Fourth Industrial Revolution?

Prof.Dr. Svenja Falk, Accenture Research

**COVID-19: What to Do Now, What to Do Next**

NOW NEXT

Does COVID-19 further amplify and accelerate the move towards adoption of 4IR technologies in manufacturing and what are likely implications for present structure of global production networks? Can we already talk about potential winners and losers?




Acceleration of platformisation and ecosystem governance

(Sovereign) Digital Infrastructure at the core

Supply chain diversification is set to continue

Copyright © 2020 Accenture. All rights reserved. 

# Future of Global Production Networks in the Aftermath of COVID-19

(Comments by Izumi Ohno / UNIDO Webinar, June 30, 2020)

- Unique features of COVID-19 pandemic
- While supply chain risks differ by type of disasters and companies' position in the supply chains, it is still worth revisiting the experiences of past SC disruptions.

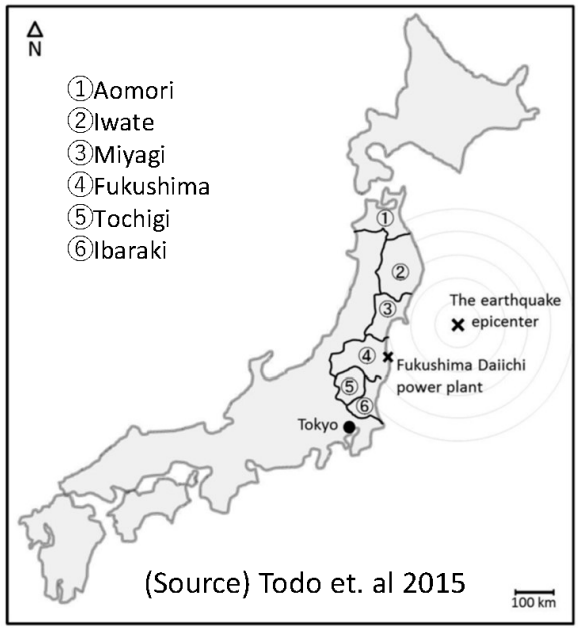
Main topics:

1) Lessons from the Great East Japan Earthquake (2011)
2) Lessons from Thailand floods (2011)
3) Implications for developing countries and industrial development cooperation

※The views expressed here are those of the author and do not necessarily represent the views of the JICA Ogata Research Institute to which she belongs.

# Lessons from the Great East Japan Earthquake (March 11, 2011)

- Approx. 80% of Japanese automotive plants suspended production. Monthly production dropped nearly 60% in Mar.-Apr. 2011 (from 2010). SC disruption affected firms & factories around the world.
- Despite complex shocks, production resumed quickly (within 3-4 months).
- Usefulness of diversified SC networks (Todo et. al (2015), Miroudot (2020)): Networks with firms outside the impacted areas contributed to earlier resumption of production, whereas networks within the region contributed to sales recovery in the medium-term.
- Importance of BCP preparation (Ono & Ishiwatari 2012): Compared to LMEs, most SMEs did not have BCP. Most companies confirmed BCP effective in the response and recovery phase.



(Source) METI WP 2011

**Renesas Electronics Co. Ltd.** (major producer of microcontrollers for automobiles)
Major automobile manufacturers provided their personnel to support recovery.

# Lessons from Thai Floods, Chao Phraya River (Aug.-Dec. 2011)

Photo: Toyo Keizai Co. Ltd.
Thai industrial parks

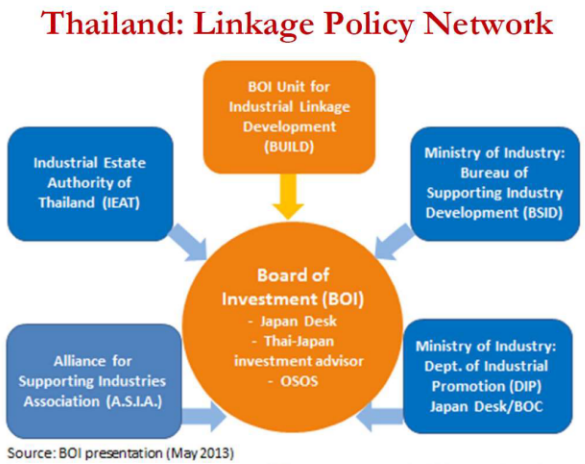
- Approx. 60% of firms in the affected area were forced to cut production, of which 70% resorted to alternative production in Japan, and some in Thailand & China (JBIC survey).
- A number of Thai employees of the flooded Japanese factories were sent to Japan as temporary workers (3,500 people, peaked in Dec. 2011).
- The majority of Japanese firms have continued business in Thailand after the floods (surveys by JETRO and JCC/BKK (2012)).
- In subsequent years, Thailand received even more outward FDI from Japan, esp. SMEs, which were affected by the Great East Japan Earthquake directly or indirectly.

# Thai Floods and Japanese Industrial Development Cooperation (from METI WP 2012)

- Thailand has been an important manufacturing partner for Japan, as a hub of automotive production in ASEAN.
- Japan responded quickly to provide various support to facilitate the recovery of Thai industry and further upgrade its human resource & infrastructure capability.
- These measures include:
  - Advisory and consultation services (in Thailand & Japan)
  - Information sharing with the Thai government
  - Financial support (via financial institutions): both short-term & long-term
  - HRD: acceptance of Thai engineers as trainees in Japan (until the resumption of operations); employment permission for Thai workers in Japanese companies; training for skill upgrading (locally & in Japan).
  - Infrastructure improvement: studies on upgrading the standards of industrial parks, etc.
  - Networking btw. Thai-Japanese businesses (esp. local SMEs)

# Implications for Developing Countries

- The two experiences show the importance of diversified SC networks & BCP preparation (private sector efforts).
- A new GVC landscape in a post-pandemic world?
  —Developing countries that wish to seize new opportunities from changing FDI & SC trends to be more integrated into GVCs could pursue sound government policies with respect to infrastructure investment, education, and public health, etc. (WB/IFC 2020)
- At the country level, after the floods, Thailand has successfully maintained its position as an investment destination for Japanese firms, and subsequently even more FDI, thanks to its accumulated industrial HR and industrial agglomeration.
- The Thai govt. (BOI, MOI, etc.) has played a proactive role in improving business envt., FDI attraction, linkage development, local enterprise capacity building etc., in collaboration with development partners.



# Finally…

- We must find a way to co-exist with the virus.
  A "New Normal" world urges our behavioral change, beyond efficiency.
- Effective public-private partnerships for human-centered approach may include both basic and innovative instruments, such as:
  -- Continuous improvement (*Kaizen*), based on company-wide (incl. workers) & societal participation.
  -- Responsible finance for firms (e.g., BCM rated loan program), aimed at driving business toward a resilient society.

*In good times, **just-in-time** supply chains were considered to be the most efficient. But countries now… will develop **just-in-case** supply chains for the sake of resilience.*

[Dr. Vivian Balakrishnan, Foreign Minister of Singapore
(Straits Times, June 23, 2020)]

**Beata Javorcik**
Chief Economist,
EBRD

**Svenja Falk**
Managing Director,
Accenture Research

**Izumi Ohno**
Director,
JICA Ogata Research Institute

**Ha-Joon Chang**
Director, Centre of Development Studies, University of Cambridge

Co-organizers:

UNIDO
UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

ifw KIEL INSTITUTE FOR THE WORLD ECONOMY

KIEL CENTRE FOR GLOBALIZATION

# Webinar 1: The future of global production networks in the aftermath of COVID-19

# Q&A