

Global Value Chains and Inclusive Development:

Asian Development Policy Report 2026

Peterson Institute for International Economics

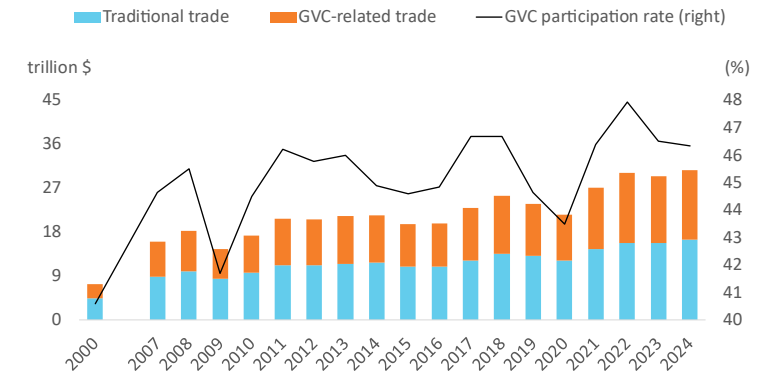
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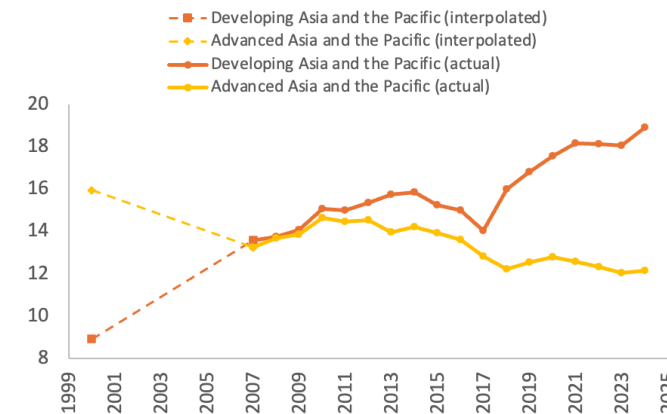
What do global value chains mean for growth, inclusion, and policy in Asia?

- Have global value chains (GVCs) driven growth in developing Asia and the Pacific?
- Who has benefited from GVC-led growth, and who has been left behind?
- How are GVCs changing in a world shaped by geopolitical tensions, digitalization, and decarbonization?
- What do these shifts mean for inclusive development?
- What policy systems are needed to support inclusive development, and how can they work together more interoperably?

Evolution of GVC-related Trade, GVC Participation Rate, and Traditional Trade



Asia and the Pacific's Contribution to GVC Trade (%)



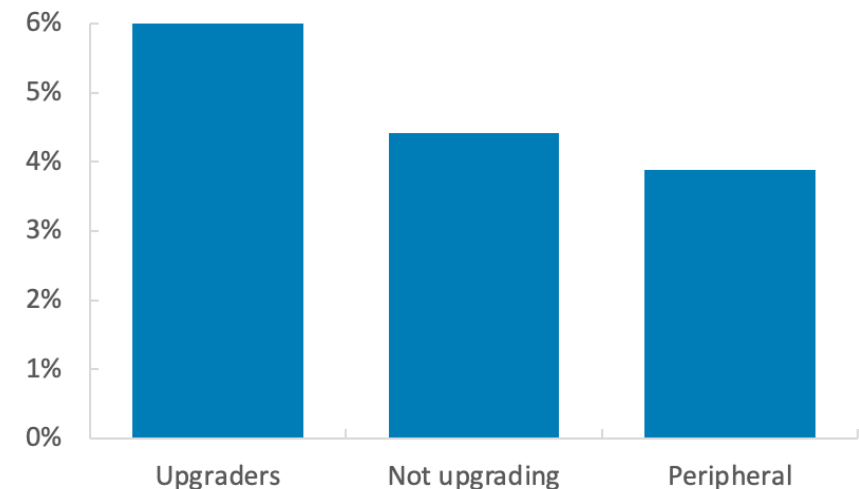
Growth benefits from GVCs are increasingly reliant on upgrading, with the benefits unequally shared

Key Messages

- GVC participation has enhanced growth and reduced poverty in developing Asia and the Pacific
 - But greater growth gains depend on upgrading within GVCs
- Distributional effects of GVCs differ across workers and firms:
 - Smaller firms face greater barriers to entry, while participation of informal workers and women is concentrated in low-tech sectors
 - GVCs can be associated with declining labor shares and skill-biased effects

Economies that have upgraded within GVCs have grown faster than those that have not upgraded and those that remain on the periphery of GVCs

GDP per capita Growth Differences among GVC Integration Types (% , 2000-2023)



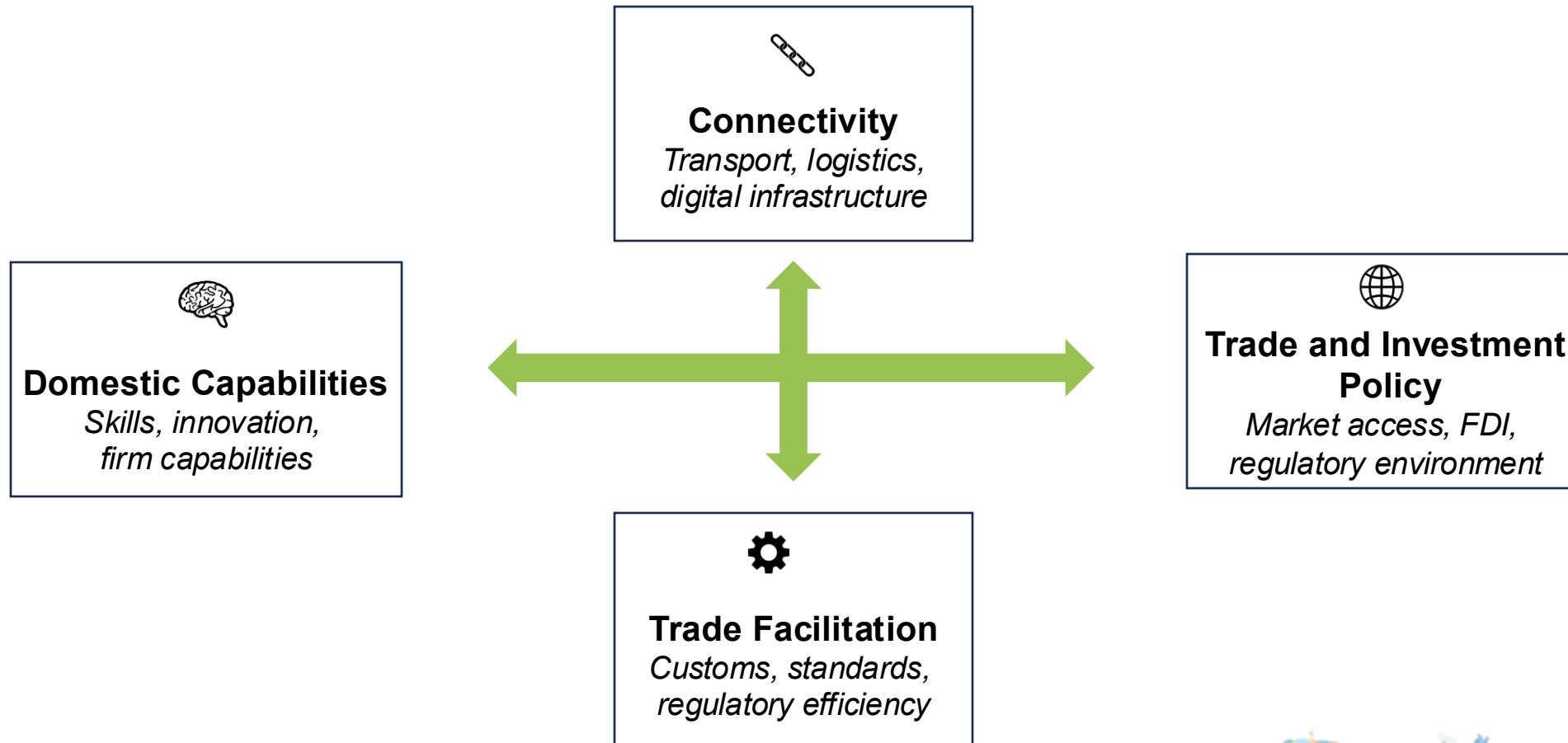
Global value chains are being reshaped by new external and structural forces

- Geopolitics and climate standards are reshaping where GVCs operate
 - *Trade and investment decisions are becoming more contested, and compliance is playing a bigger role in market access*
- Digitalization, automation, servicification, and intangibles are reshaping how GVCs create value
 - *Entry and capability thresholds are rising, especially for firms that lack digital, technical, or organizational depth*
- The result is a more fragmented and more policy-sensitive GVC landscape
 - *Firms and economies need stronger systems for coordination, upgrading, and adaptation rather than reliance on low-cost participation alone*



Building the policy systems for inclusive GVCs

GVC entry, upgrading, and inclusion depends on coordination across four systems



Foundations for success I

Upgrading begins with Capabilities

- Upgrading depends on:
 - Human capital
 - Technological capabilities
 - Managerial capabilities
 - Absorptive capacity
 - Innovation systems
 - In a more fragmented world:
 - Technology diffusion may slow
 - Knowledge becomes more valuable
 - Standards become more demanding
- Economies that build capabilities benefit, while those relying solely on low costs may struggle

Value Creation is Increasingly Driven by Services and Knowledge

- Manufacturing increasingly depends on:
 - Logistics
 - Finance
 - Software
 - Design
 - Data
 - Business services
- Many high-value activities are now service-oriented
- Participation requires
 - Digital infrastructure
 - Digital skills
 - Interoperability



Foundations for success II

Resilience is Not the Same as Self-Sufficiency

- Fragmentation creates risks
- Resilience is not built by isolation, but from:
 - Diversification
 - Multiple suppliers
 - Multiple markets
 - Regional integration
- This does not require a retreat from globalization, but stronger and more flexible participation

Competitiveness Increasingly Depends on Regional Public Goods

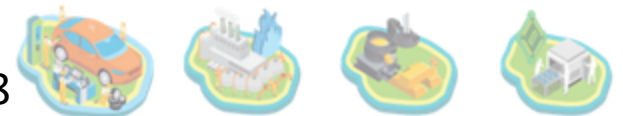
- While firms compete individually, many of the systems they depend on are collective:
 - Transport corridors
 - Digital interoperability
 - Standards harmonization
 - Trade facilitation
 - Customs modernization
- As the global economy becomes fragmented, regional cooperation becomes more valuable



From participation to capability systems

In a more fragmented, digital, and standards-intensive world, competitiveness will depend less on connecting to GVCs and more on building the capability systems and institutions for firms to learn, adapt, and upgrade

- Participation in GVCs remains a source of growth and development, though benefits are uneven across firms and workers
- The gains from GVCs increasingly come from upgrading rather than participation alone
- Upgrading and inclusion depend on whether firms and economies can access the systems that support modern production
 - Competitiveness in the next phase of globalization will depend on interoperability across policy systems





Thank you!

