

Nearshoring and Farsharing in Europe: implications for employment

Topic: The Reconfiguration of Global Value Chains in an Era of Growing Uncertainties

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Several studies have recently investigated globalisation trends with particular attention to the reconfiguration of global value chains, in the light of a globalisation slowdown relative to the “hyper-globalisation” era (1986-2008) (Piatanesi and Arauzo-Carod, 2019; Antràs, 2020), the Covid-19 pandemic (Baldwin and Evenett, 2020) and the war in Ukraine. However, empirical evidence on the employment impact of the reconfiguration of global value chains (GVCs) within and across regional areas is still missing.

This paper documents recent trends in the geographical distribution of value added across Global Value Chains (GVCs) and its relationship with employment in Europe. Our main research questions are: how has the geographical distribution of value added sourced by European GVCs and supplied by European industries changed in recent decades? What have been the implications of these changes for European employment?

In order to study the evolution of GVC and their impact on employment, this paper applies (and further refines) well-established input-output methodology (Foster-McGregor and Stehrer, 2013; Timmer et al., 2014; Los et al., 2015) to the “recently released” OECD Inter-Country Input-Output (ICIO) 2021 dataset, covering the 1995-2018 period.

In particular, using measures developed by Los et. al (2015) we look at where value chains in each region draw value-added contributions from and whether this comes from within (i.e. the Regional Foreign Value Added Share) or outside (i.e. the Global Foreign Value Added Share) a country’s region. However, we complement this approach by introducing an output destination perspective: we look at the final destination of domestic value added and whether it contributes to value chains reaching completion within (i.e. Regional Foreign Subsystem Share) or outside (i.e. Global Foreign Subsystem Share) a country’s region.

Hence, a key novelty of our research lies in jointly considering a sector in terms of its backward (i.e. vertical) input linkages and its forward (i.e. horizontal) output linkages. By combining a value chain and country-industry analytical perspectives, we find two concurrent processes setting Europe’s participation in GVCs apart from other two macro-regions, Asia-Pacific and the Americas. On the one hand, European value chains have increased the share of value added they import from within Europe “which amounts to nearshoring” while, on the other, European country-industries have increased the share of value added they provide to extra-European value chains “which we refer to as farsharing.

Finally, our econometric analysis finds that nearshoring has a positive effect on employment in the country of completion, while in contrast farsharing shows no significant relationship with employment. We discuss these novel findings in light of the recent policy debate around nearshoring, highlighting the complexity of this phenomenon and the breadth of its implications for Europe.

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