Journal of Sustainable Economies

ISSN: 3067-6118 | Open Access
Vol. 1, No. 1 | 10.51300/JSE-2025-135

LUMINOUS INSIGHTS

Commentary

Global Value Chains: A Developmental Tool for Lebanon

Georges Badr

Department of Economics, Notre Dame University - Louaize, Zouk Mosbeh, Lebanon

ABSTRACT

Global Value Chains have emerged as a vital developmental tool for developing countries like Lebanon. Participation in GVCs facilitates the transfer of skills, knowledge, and innovation, which are essential for enhancing local industries and increasing wages, ultimately contributing to poverty alleviation. However, these gains come with risks. Countries may find themselves stuck at the bottom of the value chain, engaging in low value-added activities. Over the past decade, Lebanon has experienced a decline in its participation in GVCs, alongside a deterioration in its development conditions, primarily due to several policy-related factors. A business-friendly environment, efficient public governance, and GVC-oriented public policies focused on improving infrastructure quality, developing legal frameworks to combat corruption, and enhancing environmental regulations are crucial for maximizing the benefits of GVC participation.

KEYWORDS

developing countries, economic growth, global value chains, Lebanon, poverty alleviation, sustainable development.

ARTICLE HISTORY
Received: 15 March 2025
Accepted: 31 March 2025
Published: 2 April 2025

1. Introduction

Low- and middle-income economies have long been ambitious about reaching high-income levels. However, over the past decade, these economies have faced increasingly constrained conditions, including rising debt levels, growing protectionism in developed economies, and mounting pressures to accelerate the energy transition (World Bank, 2024). These challenges have been further amplified by the implications of the COVID-19 pandemic and the Russia-Ukraine war.

Despite recent challenges, Global Value Chains (GVCs) have become a central feature of international trade, economic development, and poverty alleviation. GVCs are defined as the full range of activities that bring a product from its conception to end use and beyond (Lee et al., 2011). Antràs (2020) expands on this definition by specifying that at least two activities within a chain must be produced in different countries for it to be identified as a Global Value Chain.

The World Trade Organization (2019) estimates that two-thirds of world trade occurs through GVCs. The expansion of GVCs has intensified the interdependence of production relationships, as these chains consist of highly integrated production networks involving multiple countries. Their structure enables firms to exploit the comparative advantage of different countries by sourcing inputs from more cost-effective or specialized markets and exporting final products to global consumers.

For developing economies like Lebanon, the potential for poverty alleviation through participation in GVCs is substantial. However, linking between GVCs

Corresponding author:
Georges Badr | georges.badr@hotmail.com | Department of Economics, Notre Dame University - Louaize, Zouk Mosbeh, Lebanon

and poverty alleviation is a complex task. On one hand, GVCs provide access to global markets, which can generate employment, stimulate economic growth, and promote technological advancement. On the other hand, participating in GVCs poses challenges, such as the risk of labor exploitation, falling into low value-added traps, and environmental degradation. Therefore, the developmental impact of GVCs largely depends on equitable governance, the adoption of sustainable practices, and the implementation of proactive policies.

Lebanon which was classified as an upper-middle income economy according to the classification of the World Bank in 2018, has now fallen to the lower-middle income category. The erosion of Lebanon's per capita income resulted from the economic crisis that began in 2019, driven by several factors, such as rising public debt, poor governance, and widespread corruption. For Lebanon, enhancing its participation to GVCs could provide significant gains in terms of economic growth, potentially raising incomes and reducing poverty.

In this commentary, we aim to highlight the role of GVCs as a developmental tool for developing countries while illustrating the challenges arising from this participation. Furthermore, we seek to emphasize the obstacles preventing Lebanon from improving its position in these chains, thereby hindering its progress toward achieving development goals, and propose crucial policy recommendations to enhance its participation in GVCs.

2. GVCs as a Tool for Poverty Alleviation

GVCs have emerged as a vital tool for poverty alleviation in developing economies, offering pathways for economic integration, job creation, and enhanced productivity. Participation in GVCs allows countries to specialize in specific tasks or production stages, typically focusing on areas where they possess a comparative advantage.

International institutions widely acknowledge the role of GVCs in achieving sustainable development goals, including poverty alleviation (United Nations Conference on Trade and Development, 2013; World Bank, 2020; World Trade Organization, 2019).

For developing countries, one of the most commonly highlighted advantages of GVCs is their ability to stimulate economic growth and generate employment opportunities through various mechanisms. The potential of GVCs lies in their capacity to connect developing countries – even those with limited resources – to global markets, allowing them to specialize in specific stages of production, where they have a comparative advantage. Rather than targeting the entire value chain, GVCs focus on one or more tasks within the chain. This task specialization is particularly beneficial for developing countries as it enables them to specialize in multiple tasks across various value chains, thereby increasing their attractiveness to foreign direct investment (FDI). This participation often leads to job creation in labor-intensive sectors such as agriculture, textiles, and electronics assembly, which are crucial for poverty reduction in regions suffering from high unemployment. Countries like Vietnam and Cambodia, have demonstrated a successful integration into global textile and electronics value chains (United Nations Conference on Trade and Development, 2013), while Bangladesh has managed to integrate into global apparel value chains, creating millions of jobs. Notably, 90% of the workers in the apparel sector in Bangladesh are women (Al Mamun and Hoque, 2022). This example highlights the fact that GVCs are not only a tool for poverty reduction but also for empowering women by granting them financial independence and a more prominent role in society.

From this perspective, GVCs can be seen as a tool to diversify exports and enhance resilience against volatility in the commodity market, a long-standing concern for economists and policymakers. Therefore, in the context of GVCs, imports should no longer be viewed as a threat to the survival of local industries. Enhancing imports to support better exports appears to be a strategy that developing countries should prioritize. However, trade openness must primarily focus on industries that specialize in tasks within global production networks while preserving other competitive industries. Moreover, the fragmentation of production led by multinational firms creates opportunities for firms, particularly Small and Medium Entreprises (SMEs) in developing countries (Gereffi and Luo, 2014). By sourcing from these countries, multinationals enable

SMEs to participate in GVCs, providing them with access to global markets. Linking local SMEs to multinational firms fosters knowledge spillovers and technology transfer, which contribute to skill development and enhance competitiveness. This technological upgrading is essential for SMEs to reduce their dependence on low-value tasks, allowing them to move up the value chain. The World Development Report (World Bank, 2020) indicates that the productivity of Ethiopian firms participating in GVCs is more than twice as high as that of comparable firms involved in traditional trade.

However, the ability to achieve industrial upgrading – which involves moving up the value chain – and development goals depends on several factors. First, the development of export capacities. Second, the improvement of services that promote knowledge diffusion and facilitate the transition to high value-added activities. Third, the role of partnerships that strengthen the relationship between the public and private sectors (Gereffi, 2015). Finally, the role of public institutions in establishing a favorable business environment, facilitating the transfer of knowledge and technologies, and supporting the development of local industries.

3. Value Trap and Environmental Impact of GVCs

Despite the potential benefits that GVCs offer to developing countries, these gains are not automatic. Developing countries face significant challenges in translating GVC participation into poverty alleviation.

One major issue is related to the governance of GVCs. Multinational firms typically control the high value-added segments of the value chain, leaving smaller firms to engage in low value-added segments. As a result, many of the jobs created in developing countries are low-skilled, low-wage jobs, often characterized by exploitative working conditions.

Furthermore, developing countries participating in GVCs face the risk of "primarization", which involves specializing in primary activities rather than moving up the value chain toward higher value-added activities. More developed countries often control the highest value-added tasks, while less developed countries may remain stuck in low value-added activities, such as assembly, or raw material extraction. This "value trap" might limit their ability to move to higher value-added activities, thereby limiting their capacity to achieve sustainable development. In such cases, poverty may be exacerbated rather than reduced, as it prevents local industries from building competitive advantages.

The social and environmental effects of GVCs are crucial factors to consider in the context of poverty alleviation. While GVCs play a significant role in social development, particularly through job creation, these can also lead to labor exploitation and environmental degradation, especially in developing countries with weak regulatory frameworks (Ponte and Sturgeon, 2014). The strategies of the developed countries driven by cost-cutting practices and aimed at externalizing environmental costs to developing countries, amplify these negative impacts. As a result, countries with weak environmental regulations may experience environmental degradation, undermining the potential of GVCs to contribute to sustainable poverty alleviation.

Additionally, the environmental cost of GVCs is also amplified by the growing more distant trade in intermediate products compared to traditional trade, leading to higher CO_2 emissions from transportation (World Bank, 2020). For instance, CO_2 emissions induced by the participation of developing countries in GVCs have doubled since 2001 (Xing et al., 2023).

Finally, the nature of GVCs makes countries increasingly interdependent, exposing them to systemic risks (Cattaneo et al., 2013). A shock, whether demand- or supply-side, affecting one country, regardless of its position in the chain, can easily spread across all countries involved in the same value chain. Shocks like the COVID-19 pandemic and the Russia-Ukraine war have exacerbated existing vulnerabilities in GVCs (Baldwin and Mauro, 2020). Even countries that are less directly concerned by the latter have borne its impact on their local economies.

4. Promoting Inclusive and Sustainable Participation

The increased interdependence requires a revision of economic policies to account for the complexity of these networks and all the consequences arising from the expansion of GVCs.

Today, policies must target tasks rather than products or the entire value chain. The decision-making process must be based on an analysis and evaluation of the gains and losses generated by participation. This raises an essential question: Why have some developing countries experienced improvements in productivity and income levels through their participation in GVCs, while others have not?

The answer to this question goes beyond simply promoting a dynamic private sector, as it is the public sector, through various policies, that ensures the development of the private sector. In this context, it is crucial that policies be tailored to fit the country's comparative advantages and resources. Thus, there is no universal policy; the appropriate policy is one that aims to leverage the country's comparative advantages, which are not necessarily limited to industrial (manufacturing) activities.

Therefore, public policies play a crucial role in fostering a business-friendly environment that facilitates the operation of local firms and subsequently attracts FDI, which is regarded as a source of technological transfer. These policies are primarily designed to ensure complementarity between imports and exports. Policymakers should prioritize a strategy focused on importing "better" in order to export "better". The main priority of these policies is to ensure that local economic actors have access to the intermediate goods they need to meet the national productivity and competitiveness standards. In this context, the choice of trade openness should be viewed as a prerequisite for GVC participation. However, a choice of openness, not free trade – a policy of systematic openness – must involve both trade (goods and services) and investments (capital). Consequently, trade openness can be seen as a source of competitive advantage for nations. Their gains will be reflected in attracting foreign investors and consumers, both of which are essential for improving their participation in GVCs.

Moreover, improving infrastructure will be beneficial not only for primary and manufacturing activities but primarily for tertiary and commercial activities that rely on a well-developed transportation system. Additionally, enhancing the overall public governance will help rebuild investor confidence, attract more investment, and subsequently boost the country's participation in GVCs.

Finally, success or failure does not result from participation in GVCs itself; rather, it is often due to market failures, policy barriers, and ultimately, mismanagement by local actors, particularly the public sector. For instance, Xing et al. (2023) highlighted the fact that the income of farmers in Ecuador participating in agricultural GVCs would be 77% higher if intermediary actors operated in a more effective way.

5. Lebanon's Positioning in GVCs

The literature acknowledges that better participation in GVCs is possible if countries develop their productive capacities by fostering competitive manufacturing industries (Cattaneo et al., 2013; Gereffi, 2015). However, this literature somewhat underestimates the potential for participation in GVCs through specialization in non-industrial activities, particularly in commercial activities, which for a country implies becoming a trade intermediary. Positioning within GVCs, particularly in commercial and tertiary activities, could be a viable solution for some developing countries to achieve their development goals. For countries that are unable or have limited potential to develop their productive capacities, being an essential transit point in a value chain can still be beneficial.

Lebanon is naturally positioned in the commercial and tertiary segment due to its geographical location, highly developed tertiary sector, and underdeveloped manufacturing sector.

For instance, according to the UNCTAD-Eora GVC database, Lebanon's total participation in GVCs has significantly decreased from 55% of its total exports in 1990 to 41% in 2018. Although accurate statistics are currently unavailable, it is nearly certain that this participation has further declined. This conclusion can be drawn by examining the overall Lebanese imports and exports, which decreased by almost $9 billion and $5.5 billion, respectively, between 2018 and 2022.

Consequently, what prevents Lebanon from achieving its developmental objectives?

Although the conditions for accessing the Lebanese market seem satisfactory, obstacles related to the business environment in the country can indirectly block market access. Therefore, the decline in GVC participation can be explained by several factors.

The first factor is related to the political instability resulting from the successive wars in Lebanon and the region (between 2011 and 2025), the Lebanese revolution followed by the economic crisis (since 2019) and the Beirut Port blast (2020). The economic crisis has had several implications, one of which is the devaluation of the Lebanese Pound, which has lost nearly 90% of its value, leading to income erosion.

The second factor is the poor quality of infrastructure, which is mainly due to the corruption that has spread throughout the country since the end of the civil war in 1990. Reconstruction programs, funded by both domestic and international loans and donations, have achieved only part of their objectives due to the embezzlement of public funds.

Therefore, the underdevelopment of Lebanon's infrastructure (transportation, electricity, water, and telecommunications networks) clearly constitutes an obstacle to the country's further integration into GVCs. These value chains require fast and efficient exchanges at lower costs, especially for a country that has positioned itself in commercial and tertiary activities. The situation has been further worsened by the Beirut Port blast, which is the main route for goods exchange, as approximately 60% of Lebanese imports pass through this port (Ramzy and Peltier, 2020).

The third factor is poor governance, as investors and businesses encounter numerous challenges, including excessive regulations, complex customs and administrative procedures, ineffective judicial systems, and inconsistent laws. However, the main obstacle in Lebanon remains the widespread of corruption in almost all public institutions (United Nations Conference on Trade and Development, 2018). Furthermore, we can add the deterioration of the business environment caused by the lack of modernization in investment regulations, taxation, and the digitization of administrative procedures.

6. Policy Recommendations for Lebanon

Lebanon is characterized by significant trade openness and a relatively free market. While this is crucial for developing tertiary activities, it may also be the main problem preventing the country from developing competitive manufacturing industries. Therefore, there is a need to develop a trade strategy aligned with the country's comparative advantages, focusing on high-value-added industries, such as technology, pharmaceuticals and tourism. This strategy should differentiate between activities that require trade openness and those that need some protection to survive initially and to develop and compete later. The strategy must benefit from the opportunity given by Lebanon's strategic geographical location, promoting the country as a trade hub, linking the Gulf, Europe, and Africa.

For instance, Lebanon must expand its participation in regional trade agreements, especially with the Arab League, and complete its accession process to the World Trade Organization. This will improve its economic integration through the negotiation of new agreements with favorable terms for trade and FDI, thereby enhancing market access for Lebanese final and intermediate products.

Additionally, Lebanon seems to underestimate the importance of the quality of infrastructure and public institutions and their impact on trade, investment, and the country's participation in GVCs. The Lebanese exports and imports are directly affected by the poor quality of infrastructure, logistics, and customs services, which impose additional costs on exporters and importers.

In this regard, on one hand, Lebanon must address the current issues in its transportation network. First, there is a need to improve the capacity of Beirut airport, and explore the possibility of opening Qlayaat airport, which is currently being considered by the new government formed in February 2025. Second, Lebanon should rehabilitate the port of Beirut, particularly after the explosion in 2020, and improve the functioning of other ports such as the port of Tripoli. Third, it should invest in the development of energy and telecommunication networks, specifically the electricity supply, which contributes to nearly 40% of the Lebanese public debt.

On the other hand, the country should make progress in providing logistics services, simplifying customs and administrative procedures, reducing bureaucracy, and adopting digital trade facilitation measures.

These measures will enhance the country's trade capacities and its attractivity towards FDI, leading to a reduction in production costs and improved connectivity between Lebanon and the global market, as well as between various Lebanese regions, which can foster the development of tourism value chains, offering new opportunities for the country.

Improving Lebanon's overall governance will enable it to regain the confidence of investors, attract more FDI, and thus boost its participation in GVCs. The government must develop an appropriate legal framework and establish a high-level authority dedicated to combat corruption, equipped with sufficient human and financial resources. However, this is not possible without improving the judicial system and providing it with the necessary independence and authority. The digitization of administrative procedures will certainly ensure speed and efficiency in doing business and could also help to partially bypass the problem of corruption that invades Lebanon's public institutions.

In the Lebanese context, improving the rule of law and governance may unlock the country's access to financial support for its infrastructure projects from international organizations like the World Bank, and regional development banks such as the European Bank for Reconstruction and Development or the Islamic Development Bank.

Moreover, SMEs in developing countries are of major importance because they are the most significant players in these markets in the absence of large firms, playing an essential role in job creation, and economic growth. Therefore, the government should enhance the accessibility of finance for SMEs at low interest rates, especially those operating in sectors relevant to GVCs, and create links between them and large multinational firms to ensure the transfer of skills and technologies.

Furthermore, macroeconomic and financial stability in Lebanon constitutes a major obstacle preventing the country from attaining its developmental goals. Achieving stability is not possible without working with international creditors to restructure public debt in order to stabilize the local currency, reduce inflation, and restore investor confidence, especially in the banking sector after the 2019 economic crisis and the inability of depositors to withdraw their full deposits in US dollars from banks. Hence, Lebanon must engage with international organizations, particularly the International Monetary Fund (IMF), to implement structural reforms aimed at improving its macroeconomic stability and stabilizing its currency.

All of these measures are undoubtedly crucial to ensure better integration into GVCs and thus achieve economic development and poverty alleviation. However, they entail challenges, such as gender inequality, income inequality, and environmental degradation. Therefore, the country should adopt sustainable practices to preserve the environment, specifically in the energy sector, by shifting from fossil fuels to renewable energy resources like hydraulic power and solar energy to produce electricity. In addition, it should design initiatives aimed at empowering women and ensuring inclusive economic growth, where the benefits of participation in GVCs are widely shared across society.

Finally, Lebanon should develop systems to collect and analyze data on GVC participation. The key element for success is creating a task force that includes public agencies, private sector representatives, and academia, aimed at designing and implementing GVC-oriented policies. These efforts could also benefit from the guidance of international organizations, especially those focused on GVC participation like the World Bank and the IMF. The main objective of this task force must be to continuously evaluate the policies and improve them based on their effectiveness and on alignment with global trends toward responsible business practices.

7. Conclusion

While participating in GVCs offers new opportunities for developing countries, engaging in these processes also carries risks. As Gereffi (2015) argues, the key question is no longer whether to participate in GVCs, but how to manage this participation in a way that maximizes the gains. For a developing country, participation in GVCs represents a form of competitive shock to the entire economy, primarily a supply-side shock, which can either lead to impoverishment or economic growth.

Through this process, developing economies gain access to global markets, attract FDI, and improve their technological capacities, contributing to economic growth and poverty alleviation. Nevertheless, the extent to which GVCs contribute to poverty reduction relies on the capacity of countries to capture value from these chains and ensure that the gains are widely distributed among different segments of the population.

Indeed, participation in GVCs has become almost inevitable due to the competition they generate. Even firms without export-oriented strategies will still have to face competition from international firms. Developing countries like Lebanon should adopt a GVC-oriented policy, initially aiming to identify the country's comparative advantages and then targeting specific tasks within GVCs. This process involves aligning policy instruments with these tasks to establish the political and institutional requirements necessary to foster an environment that supports active participation.

Finally, on a global level, GVCs as a developmental tool must be revised in order to focus less on cost-effectiveness and more on sustainability and poverty alleviation. This requires targeted policies that support the integration process by establishing robust social protection systems and fostering inclusive and sustainable economic development.

Funding Statement

This research received no funding from any source. The author conducted the research independently and without financial support from external organizations.

Conflict of Interest

The author declares that there are no conflicts of interest related to this research. No financial or personal relationships could have influenced the content or outcome of this commentary.

ORCID

Georges Badr
| https://orcid.org/0009-0007-1370-0232

Cite as

Badr, G. (2025). Global Value Chains: A Developmental Tool for Lebanon. Journal of Sustainable Economies, 1(1), 40-47. 10.51300/JSE-2025-135

References

Al Mamun, M. A., & Hoque, M. M. (2022). The impact of paid employment on women's empowerment: A case study of female garment workers in bangladesh. *World Development Sustainability*, *1*, 100026. https://doi.org/10.1016/j.wds.2022.100026

Antràs, P. (2020). Conceptual aspects of global value chains. *The World Bank Economic Review*, *34*(3), 551–574. https://doi.org/10.1093/wber/lhaa006

Baldwin, R., & Mauro, B. W. D. (2020). *Economics in the time of covid-19*. Paris London: CEPR Press. https://cepr.org/publications/books-and-reports/economics-time-covid-19

Cattaneo, O., Gereffi, G., Miroudot, S., & Taglioni, D. (2013). *Joining, upgrading and being competitive in global value chains: A strategic framework* (tech. rep. No. 6406). The World Bank. https://doi.org/10.1596/1813-9450-6406

Gereffi, G. (2015). *Global value chains, development and emerging economies* (tech. rep. No. 2015-047). Maastricht Economic, Social Research Institute on Innovation, and Technology (UNU-MERIT). Routledge. https://doi.org/10.4324/9781315163338-6

Gereffi, G., & Luo, X. (2014). *Risks and opportunities of participation in global value chains* (tech. rep. No. 6847). World Bank. https://ssrn.com/abstract%20=%202430541

Lee, J., Gereffi, G., & Barrientos, S. (2011). Global value chains, upgrading and poverty reduction. *Capturing the Gains Briefing Note*, *3*. https://doi.org/10.2139/ssrn.1990232

Ponte, S., & Sturgeon, T. (2014). Explaining governance in global value chains: A modular theory-building effort. *Review of International Political Economy*, *21*(1), 195–223. https://doi.org/10.1080/09692290.2013.809596

Ramzy, A., & Peltier, E. (2020). What we know and don't know about the beirut explosions [August 5]. *The New York Times*. https://www.nytimes.com

United Nations Conference on Trade and Development. (2013). *Global value chains and development: Investment and value-added trade in the global economy* (tech. rep.). UNCTAD. https://unctad.org/system/files/official-document/diae2013d1_en.pdf

United Nations Conference on Trade and Development. (2018). *Investment policy review* (tech. rep.). UNCTAD. https://unctad.org/system/files/official-document/diaepcb2017d11_en.pdf

World Bank. (2020). *World development report 2020: Trading for development in the age of global value chains*. https://doi.org/10.1596/978-1-4648-1457-0

World Bank. (2024). *World development report 2024: The middle-income trap*. https://doi.org/https://doi.org/10.1596/978-1-4648-2078-6

World Trade Organization. (2019). *Global value chain development report 2019: Technological innovation, supply chain trade, and workers in a globalized world*. https://www.wto.org/english/res_e/booksp_e/gvcs_report_2019_e.pdf

Xing, Y., Wang, R., & Dollar, D. (2023). *Global value chain development report 2023: Resilient and sustainable gvcs in turbulent times*. UIBE, ADB, IDE-JETRO, WTO. https://www.wto.org/english/res_e/booksp_e/gvc_dev_rep23_e.pdf