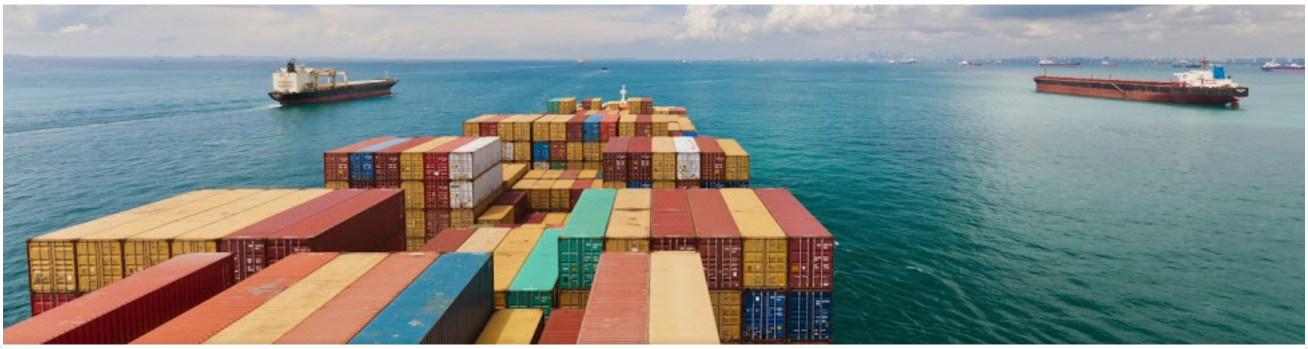
ICTSD
International Centre for Trade and Sustainable Development

WORLD ECONOMIC FORUM
COMMITTED TO IMPROVING THE STATE OF THE WORLD

The E15 Initiative

STRENGTHENING THE GLOBAL TRADE SYSTEM



Who Captures the Value in the Global Value Chain? High Level Implications for the World Trade Organization

Peter Draper and Andreas Freytag

July 2014

E15 Expert Group on Global Value Chains:
Development Challenges and Policy Options

Think Piece

Co-convened with

IDB
Inter-American Development Bank

ACKNOWLEDGMENTS

Published by

International Centre for Trade and Sustainable Development (ICTSD)
7 Chemin de Balexert, 1219 Geneva, Switzerland
Tel: +41 22 917 8492 – E-mail: ictsd@ictsd.ch – Website: www.ictsd.org
Publisher and Chief Executive: Ricardo Meléndez-Ortiz

World Economic Forum
91-93 route de la Capite, 1223 Cologny/Geneva, Switzerland
Tel: +41 22 869 1212 – E-mail: contact@weforum.org – Website: www.weforum.org
Co-Publisher and Managing Director: Richard Samans

Acknowledgments

This paper has been produced under the E15Initiative (E15). Implemented jointly by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum, the E15 convenes world-class experts and institutions to generate strategic analysis and recommendations for government, business and civil society geared towards strengthening the global trade system.

For more information on the E15, please visit www.e15initiative.org

The Expert Group on Global Value Chains: Development Challenges and Policy Options is co-convened with the Inter-American Development Bank (IADB). www.iadb.org/

With the support of:

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Canada

And ICTSD's Core and Thematic Donors:

Department for International Development

SWEDEN

Ministry of Foreign Affairs

Ministry of Foreign Affairs of Denmark

Ministry for Foreign Affairs of Finland

Norwegian Ministry of Foreign Affairs

Citation: Draper, Peter and Andreas Freytag. *Who Captures the Value in the Global Value Chain? High Level Implications for the World Trade Organization*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum, 2014. www.e15initiative.org/

ISSN 2313-3805

ABSTRACT

Global value chains (GVCs) have burst onto the trade policy scene in recent years as a key analytical device. Given their obvious relevance to economic development strategies, there is also substantial interest in applying the analytical lessons to trade negotiations, especially with reference to the WTO. However, perspectives on the developmental impacts of global value chains vary substantially. Similarly, opinion is divided as to the desirability of incorporating the policy agenda associated with the "GVC narrative" into WTO negotiations. Accordingly, we briefly review the meanings of GVCs in relation to the debate over their developmental impacts. We then sketch high level trade policy implications, and conclude with a brief assessment of the implications for negotiations in the WTO. In essence we argue that those countries which wish to proceed with negotiations on the basis of embracing the GVCs agenda should be free to do so, provided this does not impinge on the rights of those not wishing to do so. In other words we advocate an explicitly plurilateral approach to negotiating modalities in the WTO.

CONTENTS

LIST OF ABBREVIATIONS

DTI	Department of Trade and Industry
EU	European Union
FDI	Foreign Direct Investment
GVCs	Global Value Chains
IPA	Investment Promotion Agency
MNCs	Multinational Corporations
MFN	Most Favoured Nation
OECD	Organisation for Economic Co-operation and Development
RVC	Regional Value Chain
SDT	Special and Differential Treatment
TFA	Trade Facilitation Agreement
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
US	United States
WTO	World Trade Organization

INTRODUCTION

Enhanced by multilateral liberalization as well as decreasing communication and transportation costs, deeper integration has led to greater flexibility for firms. Production processes today are sliced or fragmented; and take place in global value chains (GVCs) or global networks. In recent years, GVCs have risen to the forefront of the global trade and investment policy debate, notably with respect to the World Trade Organization (WTO). In the context of the stalled Doha Round, many WTO Members are looking for new approaches to trade liberalization and negotiations, and some have been exploring the GVC approach. In essence, this approach advocates the liberalization of goods and services trade and investment to create host nation environments attractive to multinational corporations (MNCs) looking to optimize their global investment footprints (World Economic Forum 2012). Drawing on the success of China and other East Asian countries in inserting themselves into GVCs, proponents of this approach argue other developing countries should also pursue it if they want to develop.

The GVC approach has given rise to suspicions in some developing countries and some parts of the broader trade policy community. The argument is that what some term the "GVC narrative" is essentially a prescription for developing country liberalization adding up to the widely criticized Washington Consensus package, and through that to securing the preferences of developed countries in the Doha Round and beyond (Ismail 2013; South Centre 2014).

The core of the controversy is not hard to understand. GVCs are driven by MNCs predominantly headquartered in developed countries. The policy agenda associated with the GVC narrative is proffered by institutions that are either dominated by developed countries—the Organization for Economic Cooperation and Development (OECD) through its Trade in Value Added Initiative and to a lesser extent the World Bank (Cattaneo et al 2013)—or are perceived to be unduly influenced by developed countries—the WTO (2011) through its "Made in the World" initiative. The fact that the core of the policy agenda consists of trade and investment liberalization is seen to favour Western MNC interests, which would also benefit from a broadly liberalizing deal arising from the Doha Round. Consequently, in a negotiating environment as contested as the Doha Round, critics were bound to arise.

But the critics go further than the Doha Round dynamic to make their case. Central to their critique is inherent skepticism of the purported benefits of foreign direct investment (FDI) by MNCs for host countries. A broader questioning of trade liberalization as a policy approach reinforces this skepticism. Indeed, rather than embrace trade and investment liberalization per se, in this line of thinking, the preferred policy approach is active industrial policy led by autonomously embedded states (Evans 1995). Proponents argue that this is the real lesson to learn from East Asian success, rather than the liberalizing logic proffered by the GVC narrative. In this industrial policy logic, "strategically managing" MNCs in host nation environments is essential, through screening of FDI and imposition of performance requirements, among other things. Similarly, protection of domestic firms in order to build indigenous industrial capacity is advocated. It follows that, in the WTO context, liberalization should not be embraced for its own sake, but has to be more strategically engaged and coordinated with domestic industrial development imperatives as defined by the state, hopefully in partnership with (domestic) business (Asche et al. 2014).

This paper sets out some core propositions central to this debate, and sketches the high-level implications they have for the WTO. Section 2 addresses selected definitional and taxonomical issues to anchor the subsequent analysis of selected key arguments made by protagonists in the debate, which are set out in Section 3. Section 4 outlines the high-level implications for the WTO.

DEFINITIONAL AND TAXONOMICAL ISSUES

THE NATURE OF GVCS AND THEIR ECONOMIC IMPLICATIONS

Structural economic change occurs ever faster today, and challenges for individual workers, firms, and political entities grow in tandem with it. The GVC paradigm in trade theory implies that the comparative advantage of a country or a region changes much faster than earlier, and that it is not exclusively directed at goods, but at tasks. This tendency opens many opportunities and challenges for firms and workers both in developed countries and the emerging world. Their competitive situation is changing much quicker than before.

Cattaneo et al (2013) see four detailed paradigm changes due to the emergence of GVCs.

1) A change of the strategic focus from countries to networks, GVCs, or firms reflects the trend that specialization is intensifying and comparative advantages are ever more dynamic.

2) A change of the unit of analysis from industries to tasks and functions implies that the units of decision-making

have become smaller and that production processes are shared by smaller units. In the old Heckscher-Ohlin world, goods were produced in one country and traded across borders. This could be interpreted as the movement of factors (labor, human capital, and financial capital) incorporated into the goods (less so services). In the new GVC world, the movement of factors of production is being replaced by the movement and exchange of skills and tasks. Trade statistics cannot cope with this change and still report trade flows. To understand this new paradigm, input-output relations have to be analysed, and this lies at the heart of the OECD's TiVA (Trade in Value Added) database.

3) A change of the relevant economic assets from (factor) endowments and stocks to flows shows the enormous increase in speed and the dynamic nature of production today—knowledge has to be written off faster and acquired continuously.

4) Finally, a change of relevant barriers and stimuli from the public to the private shows that trade policy moves from taxing goods and services at the border to a broader set of "behind the border" measures, which are complicated and interdependent. Because of the fragmented production process, granting effective protection is becoming more difficult. Private standards may well replace official non-tariff trade barriers. These changes may occur individually or even jointly.

Parallel to these recent developments in world trade is the increase of trade in services with FDI flows shifting from the secondary to the tertiary sector. Firms are increasingly outsourcing parts of their business functions. Services MNCs are also establishing services GVCs in their own right. Further, the operation of GVCs increasingly depends on the availability of supportive services, which have become a key component of value added (World Economic Forum 2012).

These changes can be used to identify the challenges ahead. They are particularly important from the perspective of developing and emerging economies, which want to upgrade in GVCs. These challenges are sharpened by the fact that GVCs are not evenly distributed, and not all countries are equally well placed to integrate into them or upgrade within them.

HOW ARE THEY DISTRIBUTED?

A recent development in GVCs is a shift in the geographical location of production processes. GVCs have been concentrated in what Richard Baldwin terms "Factory North America," centred on the United States (US); "Factory Europe," centred primarily on Germany; and "Factory Asia," centred on Japan. In recent decades, China has been the world's key player in international production fragmentation, serving as the key location for processing and assembling of manufactured goods (WTO 2011). However, with rising Chinese labor costs, production is relocating, partly back to the US (Sirkin et al. 2011) or to countries such as Vietnam, Cambodia, and Mexico (Draper and Lawrence 2013). It is this relocation process and potential that offers, in theory, opportunities to developing countries, such as in Africa, where factor costs are likely to be lower than in emerging economies. However, it also poses threats to new locations, such as poaching of the qualified workforce or environmental damages, and this may cause resistance in governments and non-governmental organizations (NGOs) in developing and developed countries.

Geography is not the only issue in the distribution debate. Much depends on the kind of GVC being considered. At the broadest level, services, manufacturing, and resources GVCs encompass widely diverging economic activities; require very different skills sets; have very dissimilar investment time horizons; and integrate very differently into host-nation environments. These sectoral dimensions interact very diversely with host-nation attractiveness, which also varies widely.

Consider the matter from an MNC point of view, in which locational decisions are the dominant criterion. The primary issue in location choice is what motivates the investment. Traditionally three motives are identified—resource-seeking; efficiency-seeking; and market-seeking.

If the purpose is to extract natural resources from the host nation for export, the investor is not likely to consider horizontal investments in ancillary activities unless these are wholly lacking and the investment cannot proceed without them. The onus is therefore on the host nation to ensure sufficient rents are earned from resource exports through taxation so that developmental investments can be made in the broader economy.

Efficiency-seeking investment, by contrast, consciously seeks to access low-cost, productive labour and take advantage of broader efficiencies in infrastructure and logistics. Some kinds of efficiency-seeking investments, such as in the clothing industry, are very low margin activities and remain sensitive to marginal cost increases. Therefore, such investment is footloose and not likely to leave a sustained development impact in itself. It follows that host nations attractive to this kind of FDI need to actively promote upgrading possibilities, leveraging off the initially positive developmental impacts of this kind of investment. Other kinds of efficiency-seeking investments, such as logistics or transportation companies seeking to leverage their locations, can be more enduring and have wider, positive developmental impacts. This requires different responses from the host nation.

Finally, market-seeking FDI is generally there for the long haul and is the most sustainable. Over time, MNCs investing for this purpose are likely to locate more of their tasks in the host nation, and in its broader region, through constructing regional value chains (RVCs). The latter are likely to interact positively with logistics, transportation, and distribution services to deliver wider developmental outcomes. Of course, market-seeking FDI may also compete with domestic firms, threatening their profitability and, possibly, their survival. Offsetting this negative potential impact, market-seeking FDI should raise the productivity of competitors in the host nation and suppliers that are integrated into the value chain.

In conclusion, it is clear that not all GVCs are created equally, and that host nations need to consider this in making choices about how to interact with MNCs.

KEY ISSUES IN THE DEBATE

Notwithstanding a developing country's potential to participate in GVCs, critics are inherently skeptical of MNC FDI. It would be too crude to say this view regards MNC investment as "'exploitative," although that is present in some strands of the literature. Rather, the core of this critique is nationalist, privileging domestic industrial development anchored in domestic firms and value addition. While most critics would likely accept that MNCs could make a valuable contribution to domestic industrial development, many would probably argue that such investment must be channelled into strategic locations and/or activities through purposive government action.

However, proponents regard FDI by MNCs as having primarily beneficial impacts. Some adherents to this view might acknowledge the critics' concerns, but most would argue that these are best addressed through concerted efforts to build a host nation's cross-cutting enabling environment (Draper et al. 2014; World Economic Forum 2012; OECD et al. 2013: Figure 2, p. 27). This would be attractive to MNCs, and also construct the country's foundation for participation in the global economy, thereby contributing to productivity growth, increasing employment, and a positive shift in per-capita gross domestic product (GDP). Further, adherents point to the obvious reality that MNCs dominate global trade and investment, which means that participating in the global economy necessarily requires working with them, at worst. If done successfully, it can generate beneficial development outcomes, although these are not guaranteed (OECD et al 2013: p. 24).

With this in mind we now briefly consider three core issues in the broader debate.

ENTRAPMENT IN COMPARATIVE ADVANTAGE?

Since resources are furthest upstream in GVCs, it follows that simply extracting and exporting them does not generate much value for the economy. Adherents of this view do not have much faith that ancillary, particularly downstream, development will take place spontaneously. Therefore, critics worry that developing country resource exporters risk becoming embroiled in "resource traps,"[1] and advocate diversification from resource exports to higher value-adding activities, especially manufacturing. To encourage domestic value addition, various coercive instruments are advocated, ranging from export to investment restrictions. This "resource nationalist" perspective is gaining currency around the world.

It follows that a policy agenda advocating trade and investment liberalization is anathema to adherents of the resource diversification view. The term "liberalization" implies loosening controls and allowing market forces to determine outcomes, rather than outcomes being determined by conscious, state-led design. The primary objection to the GVC narrative, therefore, is that its liberalizing impulse will simply entrap developing countries in resource-intensive comparative advantage (Department of Trade and Industry 2010).

A variant of this view holds that while it is all very well to enter into GVCs in non-resource areas, particularly manufacturing, the political economy of value chain management makes it very difficult for new entrants to upgrade within the value chain (Gereffi and Sturgeon 2013). This is a function of lead firm-supplier power dynamics, in which MNCs drive efficiencies throughout the value chain and allegedly keep their suppliers in subordinate positions.

The notion of resource traps is contested. Bauer (2000) argues that if resources, or poverty, really "trapped"' countries, Europe would still be stuck in the Stone Age. Morris et al. (2013) draw on Hirschmann's (1981) notion of linkages and argue that backward, forward, and horizontal linkages have developed around resource extraction projects in the resource-dependent economies they study. The evident success of modern resource exporters such as the US, Australia, Sweden, Chile, and Botswana suggest there is more to the story than the resource trap literature implies. Central to this is what happens to the rents derived from resource extraction. If they are invested in economy-wide cross-cutting enablers that upgrade conditions for business as a whole, positive outcomes are foreseeable. Much depends on the governance capacities and arrangements in the host nation.

1 These can take various forms, from the "Dutch disease," where resource exports generate high foreign exchange receipts leading to currency appreciation and curtailment of manufactured exports, to conflict traps where weak states are hostage to competing political forces seeking to control the resource in question for patronage purposes. See Collier 2007; Ch 3.

Nonetheless, the notion that resource extraction is inherently exploitative and unsustainable is widely held. This highlights the importance of equity considerations in the GVC debate.

INIQUITOUS OUTCOMES?

This concern applies primarily to labor-intensive GVCs, such as clothing, footwear, and the assembly phase of electronics. The latest manifestation of this concern was the tragic building collapses and factory fires that took place in Bangladesh in 2012 and 2013. These events clearly highlighted the egregious safety and human rights concerns associated with operating in this cutthroat industry. The fact that much of the value, and profits, associated with the clothing-textiles-retail value chain are captured by the MNC retailers that drive this GVC reinforce perceptions that the gains are unevenly distributed, while the human cost can be high.

Many observers also worry about the footloose nature of this pattern of FDI, since it is driven by low costs. Once wages are bid up in the currently favoured location, MNC investors will relocate to the next favoured destination. The core concern, then, is that the erstwhile host would not have built sufficient domestic value addition capability to reorient its participation in that GVC, notably to upgrade or diversify into other productive activities (Goger et al 2014). Further, while the wage structure would have improved, and people would have been employed in low-wage activities for a while, some worry that the country risks becoming caught in a middle-income trap (Spence 2011), unable to make the transition to higher levels of development. In addition, the low-wage jobs would have moved on.

The notion of a middle-income trap is contestable on the same intellectual grounds as resource or poverty traps (Bauer 2000). Nonetheless, most GVC proponents would recognize these concerns. Regarding the ethical environments characteristic of low-wage, assembly-driven GVCs, proponents note that MNCs, especially from developed countries, operate under various codes of conduct promulgated at the national and multilateral levels. Not only do MNC home nations enforce these codes, but also domestic pressure groups, principally through generating negative publicity, leading sometimes to consumer boycotts, for example. In this light, it was principally domestic companies, not MNC manufacturers or retailers, that perpetrated the Bangladesh tragedies. As in the case of resource governance, this highlights the role of the MNC host state in regulating and enforcing domestic working conditions, which in Bangladesh left much to be desired. While MNC retailers were divided in their responses to the tragedy, both firms in the US and the European Union (EU) did sign commitments to improve working conditions in Bangladesh. Developing country MNCs, by contrast, often do not operate under the same ethical constraints.

Regarding concerns over upgrading, targeted investments into, for example, training facilities and trainers in the industry concerned can also make a difference. If approached collaboratively, MNCs' global network could be leveraged towards this end, since MNCs are acutely conscious of the need to acquire skilled employees to prosper in the global marketplace. Further, in the process of incorporation into GVCs, even if at the lower end, some skills and technologies will be transferred. The more absorptive the domestic environment is, the more likely this will lead to upgrading. That highlights the importance, again, of investment into cross-cutting enablers, particularly education and training, by the host nation. Finally, many international studies over the years have shown that Western MNCs generally provide better working conditions and pay more than domestic companies (Bhagwati 2004).

RACE TO THE BOTTOM?

This argument derives from the liberalizing logic inherent in the GVC perspective. Essentially, the business of attracting MNC FDI into host nations is akin to a beauty contest in which the contestants try to outdo each other to be noticed, and favoured, by the MNC "judges." This means, among other things, providing ever more liberal policy environments, since that is what MNCs presumably want.

The logic of providing generous incentives is particularly prevalent in the manufacturing sector, but also applies in certain services GVCs, notably finance and the attraction of headquarters FDI. It could have substantial implications for host nations' overall fiscal position as tax holidays, fiscal incentives, local government grants, and so on, become increasingly generous in a competitive "race to the bottom" of the fiscal pool. Such an outcome would have deleterious consequences for necessary developmental expenditures, such as building infrastructure, redistributive social transfer schemes, or the crucial business of maintaining and developing the state's institutional capacities.

This argument is essentially one for adopting sensible incentives packages. Proponents of GVCs are presumably in favor of that. Further, international investment promotion experience suggests that while incentives play a role in FDI location decisions, they are probably not decisive.[2] Strategic factors, notably comparative advantages; competitive advantages; and the overall orientation of the host state towards FDI are more important. Regarding comparative advantages, the truth is that large parts of the developing world are not favoured locations for manufacturing FDI since their comparative advantages lie elsewhere (Draper and Lawrence 2013). Similarly, regarding competitive advantages, the decisive determinant is arguably institutional capacities

2 Authors' personal experiences in working in a policymaking environment, and in participating in training courses for investment promotion officials.

in the economy at large, and in the state in particular. And of course MNCs are not likely to go where they are not wanted, nor where the investment environment is unattractive (World Economic Forum 2012). Very few countries possess the market power to impose strong conditions on MNCs—China and Brazil come to mind.

POLICY IMPLICATIONS

Thus developing countries face a strategic choice on their stand towards MNCs and GVCs (OECD et al. 2013). Much depends on the country's comparative and competitive advantages, and economic policy orientations.

The core policy prescription advocated by critics is developing country states formulating conscious industrial strategies. This approach is gaining ground in key parts of the developing world, such as the region we are most actively engaged in—Africa (Asche et al. 2012; UNECA 2014). These approaches are more sophisticated than those prevalent in the 1960s and 1970s, in which crude import substitution combined with "picking winners" to deliver generally poor outcomes. Central to them is the notion of "deliberative targeting," in which the state consults actively with business in an iterative process of identifying key blockages to domestic industrial development so that the strategy emerges from the bottom up (Asche et al. 2012). This is analogous to Hausmann et al.'s notion of "self-discovery" (2005) of the blockages to development in particular industries, and the broader notion of identifying the "binding constraints" or bottlenecks blocking economy-wide industrial development. Interactions with MNCs are not excluded a priori; indeed in the Rodrik, Hausmann and Velasco perspective they may be critical.

In this light, infrastructure is a decisive bottleneck to development in many developing countries (Draper et al. 2014). Further, the workforce has to be fit for the requirements of GVCs, which implies a solid knowledge and skill base (stocks) and—more important—the ability to adjust to new challenges (flows). Therefore, education plays a decisive role. Crucially, where skills are not available domestically, foreigners can be harnessed to fill the gap, and, in the process, train locals. These are key horizontal elements of industrial strategy.

In addition, the overarching strategy should inform targeted promotional efforts led by well-resourced and politically powerful investment promotion agencies (IPAs) that conclude bargains with key lead firms in selected GVCs. Relations with MNCs in different GVCs would presumably be filtered through the lens of their perceived value addition to the domestic economy. It follows that screening capacity is required in the state, preferably in the IPA, to determine whether the MNC in question is likely to add value. In some variants, coercive policy instruments to condition such screened MNC FDI on predetermined and negotiated policy outcomes are advocated. However, the success of such policies depends on institutional qualities of the state, and on the market power the country has relative to MNCs that have other choices. Moreover, rather than coercive policy approaches, we prefer that governments should minimize political barriers to trade. This includes tariffs, subsidies, and other non-tariff barriers. This would enable MNCs targeted for inward FDI to establish their tasks in the host nation as efficiently as possible, thus maximizing sustainability and linkage potential. Therefore, governments, especially in developing countries, should consider the importance of the institutional quality and governance structure in their country. Corruption, poorly defined property rights, weak rule of law, and the like, render all measures directed at investment conditionalities, human capital formation, infrastructure investments, and trade facilitation ineffective.

IMPLICATIONS FOR THE WTO: TOWARDS GVC PLURILATERALS

The policy issues associated with the GVC agenda, as canvassed above, are first and foremost unilateral in nature. States need to choose how to orient their countries towards GVCs, and the associated mix of policies and instruments to employ. Trade agreements can help to secure these preferences through external pressure, as China successfully demonstrated through its accession to the WTO in 2001, but the domestic choice comes first.

With this in mind, the broad choice should determine how the state in question orients itself towards the WTO in general, and negotiations under the rubric of the WTO in particular. Those that adopt a skeptical approach, and therefore seek to constrain the operations of MNCs, and, by extension, the access of outsiders to their markets, will be reticent when it comes to formulating new, potentially intrusive rules that apply mostly behind the border and to liberalizing their markets. Those that embrace GVCs and seek to lock in associated policy choices will presumably embrace multilateral negotiations among like-minded partners. No doubt a number of states will find themselves straddling these two positions, being open to proceed with negotiations in some areas but not in others.

It follows that for the WTO to remain relevant in a world characterised by divergent domestic policy orientations, those members that wish to proceed under its rubric should be allowed to do so provided the results do not impinge on the rights and obligations of the more reticent members. That requires plurilateral negotiating approaches, or potentially qualified majority voting mechanisms, but in either case modification of the current consensus-based approach subject to a single undertaking. Launching such an approach is politically complex and currently subject to veto since it would require explicit consensus. Therefore, trust needs to be built among the members to reassure those likely to remain outside plurilateral negotiations that their interests will not be unduly harmed (Draper and Dube 2013). This is the most fundamental issue requiring resolution if the GVC approach is to truly take root in the WTO. Otherwise, the organization will remain mired in 20th-century mercantilist thinking, and will slide increasingly into irrelevance as the real action moves to the regional front.

What could a broad-based plurilateral approach anchored on GVCs look like? It is clear that GVC issues are primarily about rules, particularly those governing trade and investment, with ancillary attention to traditional bargaining on market access. One way to think about this, as explicitly proposed by Hoekman (2014), is to construct a "GVC package" consisting of, among other things, trade facilitation; logistics, finance, and distribution services; investment rules; intellectual property rights (IPR); and a market access package for goods. Some of these issues, notably the market access component, could be negotiated on a critical mass basis and extended through the most favoured nation (MFN) mechanism to all WTO members—this would not require the broader membership's consent nor should it harm their interests. Indeed, those in a position to do so would benefit. In this light, the trade facilitation agreement (TFA) could be an early candidate, although there are the formidable obstacles in its way.

The rules component, however, is much more challenging and requires much more serious thought. In a nutshell, it is difficult to see how new rules could be applied to small subsets of the membership and be subject to WTO dispute settlement without the full membership signing off. There may be a way, theoretically, to build sufficient consensus so that the full membership would sign off, notably through negotiating, upfront, a code of conduct to govern the negotiation of exclusive plurilaterals (World Economic Forum 2010). Such a code would have to pay careful attention to special and differential treatment (SDT). However, given the political currents swirling around Geneva, this result looks unlikely in the short to medium term.

On the positive side, the "behind the border" issues relevant to GVCs and related FDI are analogous to the types of issues encountered in TFA negotiations (Draper and Cunningham, forthcoming). The TFA negotiations had a substantial cooperative, as opposed to mercantilistic trading-off, element.[3] This was because both importing and exporting interests had a common interest in reducing or eliminating logistical impediments to trade flows. It is possible to see GVC-related rules negotiations in a similar light, that is, both developing countries in need of investment and MNCs desirous of building more efficient GVCs have many common interests in reducing or eliminating barriers to GVC-related FDI. Perhaps a cooperation-focused type of negotiation could be constructed in which countries' commitments to reduce/eliminate barriers to GVCs might be conjoined with codes of conduct or best practices for MNCs to follow in building their GVCs. Possibly central to this would be SDT provisions along the lines of those crafted for the TFA.

At the end of the day, if the voluntary plurilateral logic holds, it would be up to each Member state to make its own assessment of whether to sign up for the negotiation in question or not. Such assessments should be rooted in understanding the dynamics of upgrading within GVCs, and how negotiations for rules or for codes of conduct can affect this. The WTO and related multilateral agencies such as the World Bank, the United Nations Conference on Trade and Development (UNCTAD), and various regional agencies have crucial roles to play in providing such analyses. This points to the need for concerted, but informed, deliberation mechanisms linked to WTO processes, if not actually coordinated by the WTO itself (Hoekman 2014).

3 The following insights are from Draper and Cunningham, forthcoming.

REFERENCES

Asche, H., Neuerburg, P. and Menegatti, M. 2012. "Economic Diversification Strategies: A Key Drive in Africa's New Industrial Revolution." UNIDO Development Policy, Statistics and Research Branch, Working Paper 2/2012.

Bauer, P. 2000. *From Subsistence to Exchange – And Other Essays*. Princeton: Princeton University Press.

Bhagwati, J. 2004. *In Defense of Globalization.* New York: Oxford University Press.

Cattaneo, O., Gereffi, G., Miroudot, S. and Taglioni, D. 2013. "Joining, Upgrading and being Competitive in Global Value Chains." Policy Research Working Paper, 6406, World Bank, Washington, DC.

Collier, P. 2007. *The Bottom Billion: Why the Poorest Countries are Failing and What can be Done About it.* Oxford: Oxford University Press.

Draper, P. and Cunningham, R. Forthcoming. "Restoring Multilateral Trade Cooperation: Reflections on Dialogues in Three Developing Countries."

Draper, P. and Dube, M. 2013. "Plurilaterals and the Multilateral Trading System." Think Piece for the E15 Expert Group on Regional Trade Agreements, International Centre for Trade and Sustainable Development (ICTSD), Geneva, and Inter-American Development Bank (IADB), Washington, DC.

Draper, P., Freytag, F. and Fricke, S. 2013. "The Potential of ACP Countries to Participate in Global and Regional Value Chains: A Mapping of Issues and Challenges." Report submitted to the ACP MTS Programme, Dec.

Draper, P. and Lawrence, R. 2013. "How Should Sub-Saharan African Countries think about Global Value Chains?" *Bridges Africa Review*, Vol. 2, No. 1.

Department of Trade and Industry. 2010. "A South African Trade Policy and Strategy Framework." Pretoria, May.

Evans, P. 1995. *Embedded Autonomy: States and Industrial Transformation.* Princeton: Princeton University Press.

Gereffi, G. and Sturgeon, T. 2013. "Global Value Chains and Industrial Policy: The Role of Emerging Economies." In D. Elms and P. Low, *Global Value Chains in a Changing World.* Fung Global Institute, Nanyang Technological University, and World Trade Organization.

Goger, A., Hull, A., Barrientos, S., Gereffi, G. and Godfrey, S. 2014. "Capturing the Gains in Africa: Making the Most of Global Value Chain Participation," Duke Center on Globalization, Governance and Competitiveness, Feb.

Hausmann, R., Rodrik, D. and Velasco, A. 2005. "Growth Diagnostics." John F. Kennedy School of Government, Harvard University, http://www.hks.harvard.edu/fs/drodrik/Research%20papers/barcelonafinalmarch2005.pdf.

Hirschmann, A. O. 1981. *Essays in Trespassing: Economics to Politics and Beyond.* New York: Cambridge University Press.

Hoekman, B. 2014. *Supply Chains, Mega-Regionals and Multilateralism: A Road Map for the WTO*. London: CEPR.

Ismail, F. 2013. "Towards an Alternative Narrative for the Multilateral Trading System." *Bridges Africa,* Vol. 2. No. 2, 15 May, http://www.ictsd.org/bridges-news/bridges-africa/news/towards-an-alternative-narrative-for-the-multilateral-trading.

Morris, M., Kaplinsky, R. and Kaplan, D. 2012. *One Thing Leads to Another: Promoting Industrialisation by Making the Most of the Commodity Boom in Sub-Saharan Africa.* MMCP, Cape Town.

OECD, WTO, UNCTAD. 2013. "Implications of Global Value Chains for Trade, Investment, Development and Jobs." Document prepared for the G-20 Leaders Summit, St Petersburg, Sep.

Sirkin, H. L., Zinser, M. and Hohner, D. 2011. *Made in America, Again*. Boston: Boston Consulting Group.

Spence, M. 2011. *The Next Convergence: The Future of Economic Growth in a Multispeed World.* New York: Farrar, Strauss and Giroux.

South Centre. 2014. "Global Value Chains: Unpacking the Issues of Concern for Developing Countries." 77, 4 Feb, pp. 20-26.

UNECA. 2013. *Economic Report on Africa 2013: Making the Most of Africa's Commodities - Industrializing for Growth, Jobs and Economic Transformation.* UN Economic Commission for Africa, http://www.uneca.org/sites/default/files/publications/unera_report_eng_final_web.pdf.

World Economic Forum. 2010. *A Plurilateral "Club-of-Clubs" Approach to World Trade Organization Reform and New Issues.* Global Agenda Council on the Global Trade System and FDI, Geneva.

World Economic Forum. 2012. *The Shifting Geography of Global Value Chains: Implications for Developing Countries and Trade Policy.* Global Agenda Council on the Global Trade System and FDI, Geneva.

World Trade Organization. 2011. *Trade Patterns and Global Value Chains in East Asia: From Trade in Goods to Trade in Tasks.* IDE-JETRO and WTO, http://www.wto.org/english/res_e/booksp_e/stat_tradepat_globvalchains_e.pdf.

Implemented jointly by ICTSD and the World Economic Forum, the E15Initiative convenes world-class experts and institutions to generate strategic analysis and recommendations for government, business, and civil society geared towards strengthening the global trade and investment system for sustainable development.

ICTSD

International Centre for Trade and Sustainable Development

WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD