

SYNTHESIS OF THE POLICY OPTIONS

No.

**TRADE GOVERNANCE  
FRAMEWORKS IN A WORLD  
OF GLOBAL VALUE CHAINS:  
POLICY OPTIONS**

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## Trade Governance Frameworks in a World of Global Value Chains: Policy Options

Synthesis of the Policy Options\*

January 2016

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### NOTE

The policy options presented in this synthesis are the result of a collective process involving all members of the E15 Expert Group on Global Value Chains: Development Challenges and Policy Options. It draws on the active engagement of these eminent experts in discussions over multiple meetings as well as an overview paper and think pieces commissioned by the E15Initiative and authored by group members. Sherry Stephenson was the author of the report. While a serious attempt has been made on the part of the author to take the perspectives of all group members into account, it has not necessarily been possible to do justice to the entire range of views expressed on this multidimensional topic. The policy recommendations therefore remain the responsibility of the author. The list of group members and E15 papers are referenced below.

The full volume of policy options papers covering all topics examined by the E15Initiative, jointly published by ICTSD and the World Economic Forum, and launched at the Forum's Annual Meeting at Davos-Klosters in 2016, is complemented with a monograph that consolidates the options into overarching recommendations for the international trade and investment system for the next decade.

### E15 INITIATIVE

Jointly implemented by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum, the E15Initiative was established to convene world-class experts and institutions to generate a credible and comprehensive set of policy options for the evolution of the global trade and investment system to 2025. In collaboration with 16 knowledge partners, the E15Initiative brought together more than 375 leading international experts in over 80 interactive dialogues grouped into 18 themes between 2012–2015. Over 130 overview papers and think pieces were commissioned and published in the process. In a fast-changing international environment in which the ability of the global trade and investment system to respond to new dynamics and emerging challenges is being tested, the E15Initiative was designed to stimulate a fresh and strategic look at the opportunities to improve its effectiveness and advance sustainable development. The second phase of the E15Initiative in 2016–17 will see direct engagement with policy-makers and other stakeholders to consider the implementation of E15 policy recommendations.

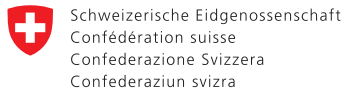
For more information on the E15Initiative:  
[www.e15initiative.org](http://www.e15initiative.org)

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## OBJECTIVES AND OUTPUT

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### **The E15 Expert Group on Global Value Chains had three objectives**

- Examine the challenges and opportunities that the expansion and consolidation of global supply chains create for global trade governance.
- Identify constraints and possible areas for improvement in the global trade system.
- Propose options on how the system can promote the effective integration and upgrading of countries in a global economy increasingly reliant on global value chains (GVCs).

### **Overarching questions and issues the Expert Group was tasked to consider**

- Examine the policy implications of GVC impacts on the structure of trade.
- Identify policies that enhance opportunities or restrict possibilities in the operation of GVCs.
- Investigate how individual countries at different levels of development can position themselves to integrate into GVCs and maximize welfare gains.
- Suggest how governments can ensure effective international institutional and legal frameworks to manage growing economic interdependencies resulting from GVCs.
- Outline the implications for future international trade negotiations at the regional and multilateral level.

### **Expert group analysis and policy proposals were submitted in two forms**

1. Critical issues studied through an overview paper and think pieces commissioned for the E15Initiative. These papers are referenced on page 12 and can be accessed at <http://e15initiative.org/publications/>.
2. Policy options presented in this synthesis and compiled in the summary table. The options fall under two categories:
  - Informing the design of domestic policies for GVC participation and upgrading
  - Towards a supply chain informed agenda for future trade negotiations

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## FOREWORD

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The international fragmentation of production networks has changed the global trade and investment landscape, prompting us to re-examine economic development strategies and to reassess the adequacy of existing international governance frameworks designed to manage trade integration and economic interdependencies. Today, firms can slice up their operations across the world, from product design and component manufacturing to assembly and marketing, creating international production chains dominated by business-to-business trade in tasks and intermediate goods. This process is largely driven by the investment decisions of multinational corporations and typically involves a wide range of firms and service providers at different stages of production.

As with any fundamental change, global value chains (GVCs) offer both challenges and opportunities. Untangling the various dimensions of this multifaceted reality and understanding its complexities is a daunting task. For some, GVC integration represents the new pathway to economic development by generating enhanced foreign direct investment (FDI), technology transfer and knowledge spillovers from global firms to local suppliers, and ultimately higher economic growth. Countries no longer need to develop comparative advantages in the entire production chain and can specialize in one or a few specific stages. This offers, at least in theory, significant new opportunities for new entrants to participate in the international division of labour. Following this line of

thought, countries should create an enabling environment to attract FDI, establish an open import regime, and reduce trade costs.

Critics, on the other hand, point to the regional bias of GVCs, arguing that many developing countries, notably in Africa and Latin America, have remained on the sidelines of cross-border production sharing. Others are concerned about the need to capture domestically a higher share of the value added and caution against the footloose nature of efficiency-seeking investments—especially those operating in the lower value segments of the value chains—or against the risk for resource exporting countries to be caught in a “resource trap.” At the policy level, sceptics have questioned the trade and investment liberalization agenda implied by the “GVC narrative.” Drawing on their analysis of East Asian success, they argue instead in favour of active state-led industrial policy to develop domestic capabilities and move up the value chain.

At the international level, this emerging debate calls for a reappraisal of existing trade governance frameworks, in which their ability to respond to the new reality of GVCs while providing opportunities for participation and upgrading needs to be reassessed. In a globalized economy, there will be international spillovers brought about by domestic policies and/or the operation of value chains. Managing these tensions and, more broadly, growing economic interdependencies can only come from effective international cooperative arrangements. Should these be addressed through regional and



bilateral agreements, which have played a significant role in shaping existing GVCs but have also created inefficiencies? Or should the focus be on developing multilateral and/or plurilateral disciplines? How can the development dimension of GVC integration be addressed when the interests of lead firms do not always coincide with government priorities? In short, how can an enabling policy framework be defined that will facilitate the smooth functioning of GVCs and, at the same time, respond to the broader sustainable development aspirations of societies worldwide?

As a contribution to this emerging and still largely inconclusive debate, the E15Initiative partnered with the Inter-American Development Bank to convene a group of leading experts from around the world, representing a wide range of perspectives from former policy-makers, academics, trade practitioners, and representatives from the private sector and international governmental organizations. Led by ICTSD Senior Fellow Sherry Stephenson, the Group reviewed the latest thinking on these issues and engaged in solution-oriented discussions that focused on process and content reform opportunities for the global trade and investment system. The policy options and the think pieces that support them are the result of this dialogue process.

As co-conveners of the E15 Expert Group on Global Value Chains, we are convinced of the need to provide organized and structured input into the policy and governance debate on the complex issues surrounding the operation of value

chains. The options that have resulted from this thought process are offered to policy-makers and stakeholders alike, in the hope that they provide paths to effectively address the most pressing challenges and respond to policy imperatives of societies the world over. In a second phase of the E15Initiative, we intend to engage policy-makers in advancing these options.

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# TRADE GOVERNANCE FRAMEWORKS IN A WORLD OF GLOBAL VALUE CHAINS

**T**HE NATURE OF INTERNATIONAL ECONOMIC INTERDEPENDENCE AND COMPETITION HAS UNDERGONE FUNDAMENTAL CHANGES AS A RESULT OF THE EMERGENCE AND OPERATIONS OF GLOBAL AND REGIONAL VALUE CHAINS. TODAY WE LIVE IN A NETWORKED ECONOMY LED BY INVESTMENT FLOWS. BUSINESS-TO-BUSINESS INTERMEDIATE TRADE ACCOUNTS FOR OVER TWO-THIRDS OF THE GOODS AND NEARLY THREE-QUARTERS OF THE SERVICES TRADED WORLDWIDE.

Global value chains (GVCs) involve a wide range of actors and institutions and span a broad array of disciplines covering goods, services, and investment. This complexity has made GVCs a challenge for policy-makers. Promoting a better understanding of GVC implications from a sustainable development and trade governance perspective is a critical task.

As a contribution to this process, the E15 Expert Group on Global Value Chains, convened by ICTSD and the World Economic Forum in partnership with the Inter-American Development Bank, has examined the challenges and opportunities that GVCs have created. How should individual countries at different levels of development position themselves to integrate into GVCs and maximize welfare gains? How can governments ensure effective international institutional and

options that enable the efficient functioning of GVCs while promoting the sustainable participation and upgrading of countries in these fragmented production networks.

## GLOBAL VALUE CHAINS IN INTERNATIONAL TRADE

### THE PHENOMENON OF GLOBAL VALUE CHAINS

The emergence of global value chains is a product of globalization and particularly of trade policy reforms in the 1990s combined with the lowering of transport costs and the information and communications technology revolution, whose advances have given firms the ability to unbundle their production processes across locations. A GVC typically involves a collection of firms or branches/subsidiaries of multinational enterprises located in different countries and jointly forming a production line of upstream and downstream linkages. While GVCs permit firms to concentrate on narrow tasks, they necessarily increase interdependence between trading nations. This new reality is starting to be reflected in statistics, with the OECD and WTO collaborating to produce indicators on a value-added basis so as to disaggregate and measure the contribution made by trading partners at each stage of the production

**Global value chains are not uniform in terms of governance or incentives. The implications of participating (or not) in a value chain will depend highly on its type and structure.**

legal frameworks to manage growing economic interdependencies resulting from GVCs? What are the implications for future international trade negotiations at the regional and multilateral level? These are some of the questions addressed by the Expert Group with the objective of identifying policy



chain. This has strengthened awareness of the networked nature of economies as well as the key role services play, both as embodied and embedded activities, in the operation of international supply chains.

GVCs, however, are not uniform in terms of governance (where private standards play an important role) or incentives. The implications of participating (or not) in a value chain will depend highly on its type and structure, as well as the behaviour of the lead firm. Nor are value chains static. Recent years have seen a slower pace of GVC expansion, which has been invoked as one of the structural causes behind the trade slowdown observed since the 2008 financial crisis. Two explanations are frequently put forward for this deceleration in trade in intermediate goods. The first is China taking previously international supply chains within its own frontiers. The second is the need for lead firms to create efficiency gains and rationalize the cost of managing fragmented value chains by consolidating or grouping intra-regional networks. This does not mean, however, that the potential for fragmentation is exhausted or that all sectors are affected equally.

### **THE DEVELOPMENT DIMENSION OF GLOBAL VALUE CHAIN PARTICIPATION**

The international fragmentation of production is creating new opportunities for developing countries by eliminating the need to gain competency in all aspects of a particular production line (of a good or service) and allowing firms to specialize in one or a few specific stages of this output. Participation in GVCs is also associated with enhanced foreign direct investment (FDI) and the potential for technological transfer and knowledge spillovers to the local economy. But these opportunities come with new challenges.

First, while some value chains are global, existing evidence tends to support the claim that the majority of production networks are regionally oriented and concentrated around three GVC hubs and major industrial markets: North America, Europe, and East Asia. This poses a challenge for countries located far from these clusters. Second, trade policy plays a key role in shaping GVCs. This is particularly the case for preferential trade agreements (PTAs) formed among neighbouring countries. While PTAs can create cost and regulatory incentives to source among members, they also have limitations, not least because strict rules of origin tend to discourage the use of cheaper parts and materials from third countries. Third, for developing country governments seeking to maximize benefits from GVC participation, a major concern has been to capture domestically a higher share of value-added by moving up the chain. This has led to calls for a blend of horizontal and targeted industrial policies to address market failures and secure more sustainable development outcomes from FDI and GVC participation.

### **DOMESTIC POLICIES AND INTERNATIONAL GOVERNANCE FRAMEWORKS**

Two policy implications can be drawn from the above considerations and recent experience in developing and emerging economies. First, integration and upgrading in GVCs depend to a large extent on domestic policies, and this extends beyond narrowly defined trade policy instruments. The quality of institutions and general infrastructure, human capital formation, and the incentives in place for investors and firms operating in the local economy are all facilitators. However, for countries willing to use the “GVC technology” as an engine for development, an open and predictable import regime is important. Minimizing trade frictions and improving connectivity are critical. And boosting absorptive capacities to generate dynamic benefits from FDI attraction is key. All of this reinforces the importance of government capabilities for policy effectiveness. Second, in a globalized economy there will be negative externalities—or international spillovers—brought about by the implementation of unilateral policies or by the operation of value chains themselves. These spillovers may include lead firms abusing dominant positions or they can result from competition between national (and sub-national) incentive schemes designed to attract FDI—leading to a race to the bottom. International framework arrangements that deal with the economic interdependencies resulting from GVCs could be explored, including those on investment and competition policy, to name prominent horizontal areas that could address such externalities.

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**The multidimensional nature of global value chains reinforces the importance of government capabilities for policy effectiveness.**

### **ARE EXISTING TRADE AND INVESTMENT REGULATORY FRAMEWORKS UP TO THE TASK?**

Trade policy analysts generally concur that the current normative structure of many trade agreements may be insufficiently equipped to optimally respond to the reality of fragmented production networks. WTO rules, for example, operate in vertical silos linked only by the organization's institutional framework and its dispute settlement mechanism. A more holistic approach that considers the horizontal application of disciplines in areas such as transparency, investment, standards, competition, procurement, subsidies, and digital trade may offer an alternative approach to trade governance more in line with the world of supply chains. In addition, the integration of services and goods in GVCs has yet to be properly articulated in trade policy discussions and negotiations.<sup>1</sup>

For many experts, the absence of a coherent set of multi-lateral disciplines on investment represents an increasingly glaring weakness in the international system.<sup>2</sup> Fragmented governance hinders the ability to tackle distortions affecting international investment, while encouraging competition to attract FDI through incentives such as preferential tax schemes or relaxed labour and environmental regulations. Other important horizontal instruments are also lacking, in particular those relating to the movement of natural persons as well as competition policy—which can discipline the behaviour of dominant lead firms in positions of market power. Meanwhile, major initiatives of a plurilateral nature have been initiated and are moving forward. These include negotiations on the plurilateral Trade in Services Agreement (TiSA) as well as mega-regional schemes such as the Trans-Pacific Partnership (TPP—which reached a conclusion in September 2015), the Transatlantic Trade and Investment Partnership (TTIP), and the Regional Comprehensive Economic Partnership (RCEP), with potentially significant impacts on the future development of GVCs.

## **POLICY OPTIONS FOR ENHANCED TRADE GOVERNANCE RELEVANT TO GVCs**

The first set of recommendations centres on four options to inform the design of domestic policies for GVC integration and upgrading. They aim to contribute to a better understanding of the operation of GVCs, promote dialogue, and strengthen government capacities. The second set of recommendations envisages possible steps towards a supply chain informed agenda for future trade negotiations. The three policy options focus primarily on the WTO but are also relevant to preferential trade agreements.

**Trade policy analysts generally concur that the current normative structure of many trade agreements may be insufficiently equipped to optimally respond to the reality of fragmented production networks.**

## **INFORMING THE DESIGN OF DOMESTIC POLICIES FOR GVC PARTICIPATION AND UPGRADING**

### **POLICY OPTION 1 - Develop and refine knowledge tools**

- Knowledge tools should be further developed and refined in order to promote a more empirical and sophisticated understanding of GVC operations in international trade. Important steps have already been undertaken such as the OECD-WTO partnership to create the Trade in Value Added (TiVA) database. Other institutions and research communities such as the World Bank and UNCTAD are also generating empirical analysis and valuable databases. The TiVA and other value-added databases should be expanded in coverage via an effort to improve the quality of input-output data and trade statistics, especially in developing countries. Extensions to the databases should consider the aggregation of firms that better reflect “made in the world” production as well as linkages to FDI flows. This enhancement of the value-added databases could form the basis for closer collaboration between international organizations and regional development banks in analysing the impact of GVCs on trade and investment patterns. In addition, collaborations with national statistical authorities should be devised to undertake more complete analysis of enterprise heterogeneity and trade involvement for both goods and services. Finally, a supply chain perspective could be included in WTO reports and, where possible, in the work of WTO councils and other bodies, as well as in the reports of other international institutions.

### **POLICY OPTION 2 - Establish an independent GVC development platform**

- An independent and neutral “Global Value Chain Development Platform” could be established and designed as a clearinghouse mechanism on the trade and development dimensions of GVCs and as a forum for research and policy dialogue. The platform, based in an independent organization(s) and coordinated by dedicated institutions could serve four functions: (i) operate as a portal for relevant research on the developmental impacts of GVCs; (ii) provide information to policy-makers on the operation of GVCs and their implications to assist in formulating appropriate strategies for beneficial participation; (iii) identify barriers faced by firms, particularly SMEs, in developing countries that impede their integration and upgrading; and (iv) establish a forum for a worldwide network of developmental GVC experts where ideas can be exchanged and advice provided.<sup>3</sup>

### **POLICY OPTION 3 - Establish sector-specific supply chain councils**

- “Supply chain councils” could be established to map supply chains in particular sectors and identify the most binding regulatory constraints affecting their functioning. The councils, composed of private sector firms, trade officials, and regulators within the dedicated sector, would be tasked with two main areas of work: (i) carrying out mapping studies of the supply chains in specific production networks, identifying inputs and sourcing locations as well as the “bundling” of inputs involved in the production process; and (ii) identifying the functioning of the GVC in question, its governance structure, and the regulatory constraints that impact on the operation of the supply chain. This initiative would enable firms to lend their expertise to help policy-makers understand the processes and determinants of fragmented production networks, and the results could feed into domestic and international policy formulation.

### **POLICY OPTION 4 - Convene a regular Supply Chain Summit**

- An option that builds on the above proposals would be to convene a regular “Supply Chain Summit” bringing together governments and the private sector to share experiences and analysis generated by the GVC Development Platform and the supply chain councils. The Summit, organized by a consortium of interested international organizations including the WTO, could include the following topics for discussion: the regulatory policy constraints affecting GVC operations; the developmental implications of GVCs; and, how to enhance developmental objectives through steps to induce a more inclusive operation of GVCs and a more equal distribution of gains within supply chains.

## **TOWARDS A SUPPLY CHAIN INFORMED AGENDA FOR FUTURE TRADE NEGOTIATIONS**

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### **POLICY OPTION 5 - Establish a horizontal work programme in the WTO**

- A horizontal work programme on GVCs could be established in the WTO to explore areas where trade disciplines might be adjusted or further developed. This would help to focus discussions in the WTO on the system-wide set of issues surrounding the operation of supply chains from a trade policy governance perspective. The GVC work programme could be embedded into the work of all WTO councils (goods, services, intellectual property) as well as the Committee on Trade and Development. As a precedent, the WTO work programme on small,

vulnerable economies already includes a discussion of GVCs. This could be broadened. The creation of an institution-wide GVC work programme would help to break down the silos of WTO disciplines and provide a space to discuss a broad range of issues such as non-tariff measures, rules of origin, services, subsidies, and trade facilitation. Additionally, a horizontal working group could be established within the WTO that would, for example, coordinate input into the Aid for Trade Initiative from a GVC perspective.

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**Firms could lend their expertise to better understand the processes and determinants of fragmented production networks, with the results feeding into domestic and international policy formulation.**

### **POLICY OPTION 6 - Explore the need for new international cooperative frameworks**

- The need for new cooperative frameworks should be explored to address possible international spillovers resulting from unilateral action and policies that seek to foster GVC integration. Several of the key policy areas that impact GVC functioning are at present outside of the WTO ambit. These include investment, competition policy, digital commerce, and data transfers. In other areas of critical importance to GVCs, such as the movement of natural persons, existing commitments are limited. The area of investment governance, which strongly affects GVC decisions and operations, is at present fragmented and overlapping with little overall coherence in rule-design. Likewise, competition policy, which can have an impact on the benefits that countries are able to derive from GVCs, is not covered by multilateral disciplines. In this context, it might be advisable for the multilateral trading system to undertake a “reality check” exercise by reviewing existing rules impacting GVC operations while exploring the rationale for further cooperative frameworks under plurilateral initiatives for example.

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**The area of investment governance, which strongly affects GVC decisions and operations, is at present fragmented and overlapping with little overall coherence in rule-design.**

#### **POLICY OPTION 7 – Adopt a supply chain informed approach to negotiations**

- Future trade negotiations could adopt a supply chain informed approach that integrates goods, services, and investment under specific clusters of productive activities associated with a particular sector or value chain, including with supporting commitments on logistics. The paradigm changes in world investment and trade brought about by supply chains and globally networked economies will need to be reflected in the adoption of a holistic and horizontal approach to future rule-making. Should a new round of multilateral trade negotiations be initiated, WTO members could adopt such an approach, negotiating issues or sectors in relevant clusters of associated networked activities. Regional negotiating initiatives could also pursue this path. Negotiating in clusters of productive activities has not been attempted on a significant scale in the WTO or in other negotiating fora, but arguably represents a promising route for adapting global trade and investment governance to a world characterized by GVCs.

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**The first set of options concerns analytical capacity building and the promotion of a purposeful dialogue on the developmental dimensions of GVCs.**

## **PRIORITIES AND NEXT STEPS**

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The first set of policy options on informing the design of domestic policies can be envisaged on a short- to medium-term time horizon. These concern the enhancement of information on supply chains and analytical capacity building as well as the promotion of a purposeful dialogue on the developmental dimensions of GVCs. They do not require any institutional changes in the WTO or other trade agreements but would contribute to the exchange of ideas, experiences, and practices around a structured agenda—moving sector-by-sector and issue-by-issue. Ultimately, such a process could facilitate the identification of priorities for action and governance reform.

The second set of policy options on a supply chain informed agenda implies changes in the way existing international and regional negotiations are undertaken, either by expanding the scope of the talks or by rethinking the manner in which negotiations and the resulting trade agreements are structured.

These options, of a more systemic and ambitious nature, could be aimed within a medium- to long-term time horizon. The sequencing in which the options could be followed, and the process through which they could be carried forward, are briefly outlined below.

### **SHORT-TERM OPTIONS**

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Developing and refining knowledge tools would require a commitment by organizations such as the WTO, OECD, UNCTAD, ITC, World Bank, and regional development banks as well as academic and research institutions to expand the TiVA dataset, work with national authorities to develop input-output databases, and provide regular reports on the functioning of GVCs. Progress would also require engaging with interested developing countries in a collaborative reflection on the role of GVCs in their economies, for example through the Trade Policy Review Mechanism (TPRM) and other channels.

The initiative to create a GVC Development Platform would need to be driven by a consortium of policy research institutions or intergovernmental organizations (or a combination of both). The organizations in the consortium could fund the creation and operation of the platform and take on the responsibility of keeping it up to date and facilitating the dissemination of information. The buy-in of regional development banks, concerned policy analysts, and institutions would be critical to the platform's successful operation.

### **MEDIUM-TERM OPTIONS**

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The supply chain councils could be led by trade analysts but should be primarily comprised of private sector firms whose input and business insights would be essential in mapping and understanding how the networking process operates in a particular sector. The councils could be hosted in an interested organization with strong participation of the international business community, such as the World Economic Forum or the International Chamber of Commerce.

A consortium of intergovernmental organizations (e.g. UNCTAD, World Bank, WTO, ITC, and regional development banks and/or research institutions) could establish and convene the Supply Chain Summit. The Summit should obtain the buy-in and support, including financial, from the private sector, as well as the participation of government representatives. From a substantive perspective, the Summit could build on the content generated by the GVC Development Platform.

Regarding the second set of options, the first step to set in motion a supply chain informed agenda for future trade negotiations would consist in systematic and system-wide discussion in the WTO on the implications of GVCs for international trade governance through the creation of a

work programme (or work stream) on value chains and development. Such a mechanism would provide a space for exploratory discussions and deliberations within the multilateral framework. The process would have to be initiated from inside and led by a group of interested WTO members, ultimately mandated at ministerial level.

## LONG-TERM OPTIONS

The options on new international cooperative frameworks and the adoption of a supply chain approach in negotiations would require broad consensus among WTO members. Given the diversity of views on this issue, moving forward on a plurilateral basis may be a more viable route. Such an approach would need to be transparent, inclusive, open to new members, and (ideally) designed in a way that ultimately facilitates the incorporation of these plurilateral arrangements within the purview of the multilateral trading system. Alternatively, some countries may choose to use preferential agreements (e.g. TPP, TTIP, RCEP) as a testing ground for new disciplines. Avenues could then be explored to either incorporate or link such agreements to the WTO and, where appropriate, multilateralize effective practices that may emerge.

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The second set of policy options implies changes in the way international negotiations are undertaken. A preliminary step consists in system-wide discussion in the WTO on the implications of GVCs for international trade governance.

## ENDNOTES

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1. The policy options put forward by the E15 Expert Group on Services can be referred to for greater detail. These include recommendations to move towards greater compatibility between rules governing goods and services by engaging in analytical work on policy coherence and reducing distortionary parallelism in separate rule sets affecting goods and services.
2. The E15 Task Force on Investment Policy provides a wide-ranging overview of reform options related to the international investment regime with the objective of increasing the flow of sustainable FDI. The policy options paper concludes by recommending the initiation of an exploratory process towards a comprehensive universal investment framework.
3. In the line of this policy recommendation, it is of note that a new Research Center for Global Value Chains (RCGVC) is currently being established in Beijing, China, under the initiative of the Chinese Government. It will be dedicated to research and analysis of GVCs from a developmental perspective and will enjoy the institutional collaboration of many international organizations, think tanks, and universities from around the world in this effort. The Center will begin operations in 2016.

## TABLE SUMMARY OF MAIN POLICY OPTIONS

| POLICY OPTION  | TIMESCALE   | CURRENT STATUS  | GAP  | STEPS   | PARTIES INVOLVED   |
|--|-------------|---|--|---|--|
| <b>Informing the design of domestic policies for GVC integration and upgrading</b> |             |   |  |   |  |
| <b>1. Develop and refine knowledge tools.</b>                                      | Short Term  | TiVA database.<br><br><i>Ad hoc</i> analysis by IGOs and think tanks/universities.  | Limited coverage of TiVA.<br><br>Limited empirical analysis of GVC functioning and their relation to trade and investment.<br><br>Limited country specific statistics.                     | Expand TiVA.<br><br>Work with national authorities to develop input-output data.<br><br>Develop regular reporting by WTO Secretariat.<br><br>Use TPRM to explore role of GVCs in interested countries.            | IGOs (e.g. WTO Secretariat, OECD, UNCTAD, ITC, World Bank (WB), and regional banks) and think tanks                          |
| <b>2. Establish an independent GVC development platform.</b>                       | Short Term  | Dispersed and uncoordinated analysis on the developmental implications of GVCs.<br><br>No comprehensive clearinghouse mechanism on the trade and development dimension of GVCs.     | No single platform gathering all existing information.<br><br>Limited space for dialogue and experience sharing.<br><br>Limited and disperse training and capacity building opportunities. | Creation of a consortium of institutions to develop and maintain an online platform for gathering developing and disseminating analysis.<br><br>Establishment of a forum for dialogue and exchange of experience. | IGOs (e.g. OECD, UNCTAD, ITC, WTO, WB) and/or think tanks and universities   |
| <b>3. Establish “supply chain councils” to map sector specific supply chains.</b>  | Medium Term | <i>Ad hoc</i> and often superficial analysis of the functioning of specific value chains.<br><br>Lack of understanding by policy-makers of the constraints faced by private sector. | Need to map specific supply chains identifying inputs used, locations, and structure.<br><br>Need to identify binding regulatory policy constraints affecting the functioning of GVCs.     | Councils to be hosted in interested organizations enjoying participation from the private sector.<br><br>Engage with private sector, regulators, and trade officials in the mapping exercise.                     | Led by independent analysts but primarily comprised of private firms (e.g. World Economic Forum)                             |
| <b>4. Convene a regular Supply Chain Summit.</b>                                   | Medium Term | Same as above.  | Limited space for dialogue and experience sharing on GVC functioning and how to promote entry and upgrading of developing countries in supply chains.                                      | Obtain buy-in, support, and participation of private sector and governments.<br><br>Build on the content generated by the GVC development platform and the supply chain councils.                                 | Consortium of institutions (e.g. UNCTAD, WB, and regional banks) with participation of governments and private sector actors |

| POLICY OPTION  | TIMESCALE   | CURRENT STATUS   | GAP  | STEPS  | PARTIES INVOLVED   |
|--|-------------|--|--|--|--|
| <b>Towards a supply-chain informed agenda for future trade negotiations</b>  |             |  |  |  |  |
| 5. Establish a horizontal work programme on GVCs in the WTO to explore areas where international disciplines might be adjusted or further developed. | Medium Term | <i>Ad hoc</i> and highly fragmented debate on GVCs in the WTO.   | No systematic and system-wide discussion in the WTO on the implications of GVCs for international trade governance.  | Process to be initiated and led by a group of interested WTO members.<br><br>Build on and broaden GVC discussion already included under the WTO Work Programme on Small, Vulnerable Economies. | WTO members  |
| 6. Explore the need for new international cooperative frameworks to address possible spillovers.   | Long Term   | Current WTO disciplines are not designed to respond to the new organization of production and trade.<br><br>Unilateral action fostering GVC integration and lead firm practices can induce negative externalities. | Key policy areas outside the WTO ambit that impact on GVC functioning include investment, competition policy, digital trade, and data transfers.   | Use RTAs and plurilateral initiatives as testing ground for new disciplines as a first step (e.g. TPP, TTIP, RCEP).<br><br>Explore opportunities for multilateralizing best practices.         | Governments in multilateral, plurilateral, or bilateral negotiations |
| 7. Adopt a supply chain informed approach in future trade negotiations.  | Long Term   | Current trade negotiations happen in silos, dealing separately with goods, services, or investment.  | Need for a more horizontal and integrative approach matching the way in which investment, output, and trade processes are organized.<br><br>A cluster approach could be a promising route. | Same as above.   | Governments in multilateral, plurilateral, or bilateral negotiations |

## EXPERT GROUP PAPERS AND THINK PIECES

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The papers commissioned for the E15 Expert Group on Global Value Chains: Development Challenges and Policy Options can be accessed at <http://e15initiative.org/publications/>.

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Aldonas, Grant. 2013. *Trade Policy in a Global Age*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Draper, Peter, and Andreas Freytag. 2014. *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.

Estevadeordal, Antoni, Juan Blyde, Jeremy T. Harris, and Christian Volpe Martincus. 2013. *Global Value Chains and Rules of Origin*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Estevadeordal, Antoni, Kati Suominen, and Juan Blyde. 2013. *Are Global Value Chains Really Global? Policies to Accelerate Countries' Access to International Production Networks*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Low, Patrick, and Julia Tijaja. 2013. *Global Value Chains and Industrial Policies*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Stephenson, Sherry. 2016. *Trade Governance Frameworks in a World of Global Value Chains: Policy Options*. E15 Expert Group on Global Value Chains: Development Challenges and Policy Options – Policy Options Paper. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Stephenson, Sherry. 2013. *Global Value Chains: The New Reality of International Trade*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.



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The experts participated in their personal capacity. The analysis and policy recommendations are not attributable to any institution with which members of the E15 Expert Group are associated.

## **E15 INITIATIVE: EXPERT GROUPS AND TASK FORCES**

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In the quest for effective responses to the challenges faced by the global economy at this time, foremost experts were invited to contribute to 15 thematic groups as well as three task forces addressing horizontal issues. The groups met regularly between 2012 and 2015 with the goal of delivering a set of policy options on the occasion of the WTO's 20th anniversary. These options are intended to animate discussions and feed the present and future international trade and investment policy agenda for sustainable development. The full volume of policy options papers, jointly published by ICTSD and the World Economic Forum, and launched at the Forum's Annual Meeting in Davos-Klosters in 2016, is complemented with a monograph that consolidates the options into overarching recommendations for the international trade and investment system for the next decade. The second phase of the E15 Initiative in 2016–17 will see direct engagement with policy-makers and other stakeholders to consider the implementation of E15 policy recommendations.

### **E15 INITIATIVE THEMES**

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- 1 – Agriculture and Food Security
- 2 – Clean Energy Technologies
- 3 – Climate Change
- 4 – Competition Policy
- 5 – Digital Economy
- 6 – Extractive Industries
- 7 – Finance and Development
- 8 – Fisheries and Oceans
- 9 – Functioning of the WTO
- 10 – Global Trade and Investment Architecture\*
- 11 – Global Value Chains
- 12 – Industrial Policy
- 13 – Innovation
- 14 – Investment Policy
- 15 – Regional Trade Agreements
- 16 – Regulatory Coherence
- 17 – Services
- 18 – Subsidies

\* Policy options to be released in late 2016



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.



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