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GLOBAL VALUE CHAIN-ORIENTED POLICIES: THE TRIFECTA OF TASKS, LINKAGES AND FIRMS[*]

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The article discusses the nature and scope of global value chain (GVC)-oriented policies and categorizes them according to four different policy objectives: participation, value capture, inclusiveness, and resiliency. The social and economic rationales for state intervention across the different types of GVC-oriented policies are compared and contrasted. Moreover, the instruments and actions at the disposal of governments to reach their policy objectives are discussed. The trifecta of tasks, linkages, and firms explains whether and how GVC-oriented policies differ from traditional public policies.

The emergence of Global Value Chains (GVCs), characterized by companies' fine slicing of the production process across different countries and specializing in specific tasks, has typified the evolution of the global economy since the early 1990s. GVC trade in intermediate goods and services produced by different actors in different places in the world grew rapidly until the outbreak of the global financial crisis in 2008, and since then it has stagnated, being affected by the recent increase in protectionism and by the abrupt halt caused by the COVID-19 crisis. Nevertheless, according to the 2020 World Development Report (World Bank, 2020) half of world trade is still related to GVCs and accordingly during the last two decades the GVC framework has turned into an influential development paradigm in policy circles. GVCs are a powerful driver for countries' economic growth, increasing productivity, generating employment and improving access to markets, knowledge and technologies. A wide range of governments and international organizations have thus included the GVC framework in regional, national, and global development strategies.

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[*] This contribution summarizes the article by Pietrobelli, Rabellotti and Van Assche (2021) presented at the 7th OEET Workshop (2-3 December 2021, Collegio Carlo Alberto, Turin).

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GVCs can boost economic performance through two key mechanisms: functional specialization and knowledge connectedness. First, GVCs give rise to a finer-grained international division of labor than before. This division involves the task rather than the product level and allows countries or regions to functionally specialize in those value chain stages in which they have a comparative advantage, letting domestic resources flow to their most productive use (Grossman & Rossi-Hansberg, 2008). This functional specialization is considered crucial for developing countries that do not have the capabilities to produce complete products. They can embark on a fast track to industrialization by focusing on simpler production stages that suit their existing level of capabilities. It also benefits developed countries which can specialize in high-value-added intangible-intensive tasks such as R&D, management and marketing while de-specializing in manufacturing (Van Assche, 2020).

A second mechanism through which GVCs generate economic growth is by spurring a region or country's global knowledge connectedness. The internationalization of value chains connects local firms with production partners across the globe, and this provides access to foreign knowledge that can strengthen the domestic technological capabilities required to economically upgrade (Ambos et al., 2021; Amendolagine et al, 2019). GVC linkages can help suppliers in developing countries to improve their technological capabilities by exposing them to new information and knowledge that can influence their dynamic learning paths and boost aggregate economic development (Sako & Zylberberg, 2019).

The involvement in GVCs adds several layers of complexity to policy making but notwithstanding this increasing complexity, there has been little systematic discussion about how GVC-oriented policies differ from traditional industrial, innovation and international business policies. A recent article by Pietrobelli, Rabellotti and Van Assche (2021), based on a special collection of 11 articles published in the *Journal of International Business Policy* (JIBP)[1] has reflected on the nature and scope of GVC-oriented policies and on how they compare with traditional public policies, addressing two broad sets of questions: *How do GVC policies differ from the public policy efforts of the past? What are the desirable future evolution paths of GVC-oriented policies?*

The novelty of GVC policies comes from the role that is given to the trifecta of *tasks*, *linkages*, and *firms*. GVC-oriented policies put the spotlight on the development of fine-grained GVC *tasks* instead of the traditional focus on entire industries. A central aim of GVC policies aimed at increasing participation is to boost functional specialization so that countries can concentrate on those tasks in which they have a comparative advantage. A key goal of policies aimed at value capturing within GVCs is to help countries create and appropriate more value by conducting the existing activities better or by functionally upgrading into higher value-added tasks. In both cases, policymakers are pushed to adopt a more granular view of the type of activities that they should target to promote economic development through structural transformation.

GVC-oriented policies also lay greater emphasis on the role of *linkages* than traditional development policies. A key insight from GVC studies is that a firm's economic performance and the social conditions that it offers to its workers are heavily influenced by its value chain connections. Inter-firm linkages to foreign partners can act as a powerful conduit for accessing foreign knowledge and resources that can be leveraged to improve technological and operational capabilities. Decent work parameters imposed by foreign value chain partners can incentivize firms to improve their local work conditions. Economic shocks to foreign value chain partners can be transmitted to local firms through supply chains. A focal

[1] https://link.springer.com/journal/42214/topicalCollection/AC_9eb89494ad3e7d6588359be369778e11

concern of policymakers is thus how to properly regulate, deepen, and strengthen GVC linkages so that they can promote both economic and social upgrading while at the same time guaranteeing a country's economic resilience.

GVC-oriented policies finally elevate the role of *firms*, both lead firms and their suppliers, and a fine-grained microeconomic focus is called for. GVC scholarship recognizes the essential role that lead firms play in defining the terms and conditions of GVC membership and thus considers harnessing their behavior to be a potent approach to accomplish policy objectives. Some GVC-oriented policies in this respect may promote a partnership between public and private actors in which policymakers collaborate with GVC lead firms to upgrade local suppliers, ensure fair treatment of workers, adopt environmentally sustainable business practices, and build resiliency (Gereffi, 2019). Furthermore, GVC-oriented policies recognize the essential objective of supporting suppliers' efforts to enter - and nurture - profitable relationships with lead firms, exploiting the potential offered by these relationships for their own learning and capability development.

The GVC literature's emphasis on the trifecta of *tasks*, *linkages* and *firms* has exposed a new set of market failures that provide a potent narrative for new policy *rationales* (Pietrobelli & Staritz, 2018). The non-rival and partially excludable nature of intangibles – which are at the heart of some of the highest value-added and therefore most desirable tasks in a GVC (e.g. R&D and marketing) – create public good problems that need to be addressed through government intervention (Van Assche, 2020; Jaax & Miroudot, 2021). Market externalities abound in lead firms' willingness to share knowledge through their GVC linkages and the development of suppliers' capabilities to absorb it. Market forces do little to engender social and environmental upgrading and economic resilience. For these reasons, there is a loudening call among GVC scholars for moving beyond the traditional development policies built around the so-called Washington Consensus, which focuses on minimalist state intervention, and to adopt more potent trade, industrial and innovation policies (Neilson, 2014).

Moreover, an increasingly prominent viewpoint is that the global scope of GVCs has hampered countries' capacity to address some key GVC-related market failures. This produces two main consequences: on the one hand supra-national policies and institutions need to be reformed to address the GVC-related market and coordination failures that individual countries' governments cannot fix. The recent G7 proposal for a minimum global corporate tax rate to close cross-border tax loopholes is a good example of this.[2] On the other hand, governments are also being forced to partner up with the private sector to address "governance gaps" (Goerzen et al., 2021). That is, there is a growing call for private actors such as lead firms and non-governmental organizations to play an active role in filling gaps in global regulation and in resolving global public good problems. To reconcile private sector interests, policy makers should take on a brokering role in 'value chain coalitions', facilitating dialogues between public and private stakeholders.

The trifecta of *tasks*, *linkages* and *firms* at the heart of GVC-oriented policies also implies that governments need to rely on new *instruments* and actions to reach their policy goals. In some cases, it provides policymakers with new levers in their policy toolbox. Many state-led export credit agencies, for example, have expanded the type of firms to which they can provide trade financing to reflect the growing reality of GVCs (Van Assche & Gangnes, 2019). Whereas in the past they relied on push strategies that provided financing to support the export sales of domestic firms, they now increasingly adopt pull strategies where

[2] On June 2021 G7 financial ministers have reached an historical agreement to reform the global tax system (www.reuters.com/business/g7-nations-near-historic-deal-taxing-multinationals-2021-06-05/ accessed June 8th 2021)

they give loans and export credits to large foreign companies, insofar this helps facilitate the integration of domestic firms into GVCs. In other cases, existing policy instruments are rendered less potent. For example, GVCs allow firms to circumvent trade policy barriers more easily (Ma & Van Assche, 2014). To avoid a country-specific trade policy, a lead firm must no longer relocate its entire value chain to another country, but only a single value chain stage, often final assembly. Gereffi et al. (2021) indeed found that many firms in the apparel, automotive and electronics sectors were able to bypass trade restrictions related to the US-China trade war by switching production locations, end markets and suppliers.

Redesigning policy instruments for new GVC realities, however, is often easier said than done. Once the trifecta of *tasks*, *linkages* and *firms* is considered, it becomes clear that policymakers need to take into consideration the complementarities between various at-the-border and beyond-the-border policies, e.g. the operation of a GVC makes it necessary to look at trade promotion, innovation and industrial policies to support local suppliers, at training policy to produce the required skills, at infrastructural policy to facilitate exports and imports, at the availability of advisory services in the areas of standards and certifications as well as at labor, social and environmental regulations. Each policy needs to be assessed considering its systemic scope and influence, moving beyond the traditional "silos" approach where each Government Ministry and Agency pursues its own objectives independently. Moreover, the frontier has had to be moved beyond national borders to interact with global buyers, thus overcoming the traditional distinction between policies for the domestic and the foreign market. Therefore, even if many elements of policy were already present long time ago, the advent of GVCs has forced to rethink them in such a deep fashion, that the whole set of policies oriented to GVCs has now become a truly different concept.

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