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How are global value chains altering policy narratives?

by
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Global value chains (GVCs) have taken the policy world by storm, with many policymakers viewing them as a potent tool to boost economic development through industrial upgrading. Yet, despite the huge interest in GVCs, there remains substantial ambiguity about the policies that governments should adopt to generate such GVC upgrading, and how these differ from international business policies of the past. In this *Perspective*, we argue that zooming in on the roles of *tasks*, *linkages* and *firms* in GVCs helps clarify the novelty of GVC-oriented policies.[1]

A first originality of GVC theories is the disaggregation of industries into a set of highly heterogeneous *tasks*. It is now widely acknowledged that GVCs allow countries, and firms, to functionally specialize in fine-grained value-chain stages instead of entire industries. This functional specialization is beneficial for many developing countries as it allows them to fast-track industrialization even if they lack the capabilities to support entire industries. It also helps developed countries to more efficiently allocate their domestic resources to those tasks in which they have a comparative advantage. At the same time, the disproportionately large and growing value-added that is generated in the extremities of the "smile curve of value creation"—intangible tasks such as headquarters services, R&D and marketing—has created an international competition for dominance in these activities. In developed countries, many policymakers have reacted to the externalities related to the production of intangibles by adopting a mix of *task-based industrial policies*, including information and communications technology (ICT) infrastructure investments and R&D tax credits, to attract and retain the most promising intangible-intensive tasks.[2] In developing countries, governments have generated their own set of task-based industrial policies to attempt to address market and coordination failures and move their local industrial activities up the smile curve. For example, the Malaysian government has invested heavily in technology centers like the National Applied R&D Centre that houses labs offering a wide range of instruments and infrastructures for advanced ICT testing services, accessible to GVC suppliers at subsidized rates.

Second, GVC theories emphasize the role of *linkages* between tasks. GVCs link domestic and foreign tasks, and there is a wide recognition that these linkages influence GVC upgrading. On the positive side, foreign linkages can act as a powerful conduit for accessing foreign knowledge and resources that can be leveraged to improve local technological and operational capabilities. For this reason, governments around the globe have developed policies to improve the knowledge spillovers related to GVC linkages. For example, the Chilean government has for many years promoted networks of suppliers to enhance inter-firm collaborations and to reduce the knowledge gap between lead firms and their input providers. On the negative side, foreign linkages increase domestic activities' dependence on foreign resources, raising questions about economic resiliency. A focal concern of policymakers is thus how to develop *global connectedness policies* that properly regulate and strengthen GVC linkages so that they can promote local value capture while guaranteeing economic resilience.

Third, GVC theories put the spotlight on *firms* that orchestrate GVCs. Lead firms in GVCs have the power to select where, when and by whom tasks are performed and to determine which type of knowledge is transferred through linkages. Policymakers recognize that properly harnessing these lead firms' orchestration choices through *firm-centric policies* can help boost local companies' participation and upgrading in GVCs. In 2016, for example, Export Development Canada adopted a pull financing strategy where it strategically provides large loans to lead firms abroad with the aim of incentivizing their procurement from suppliers located in Canada.

Each of these GVC-oriented policy responses are carefully crafted to address market or coordination failures that are present in GVCs. The task-based industrial policies aim to promote functional specialization in intangible-intensive activities whose production is non-rival and only partially excludable. Global connectedness policies intend to optimize the positive externalities related to foreign linkages. Firm-centric policies aim to put non-market pressures on lead firms to increase their value creation domestically. Overall, they all call for a mix of interventionist measures that go beyond traditional trade and foreign investment policies built around the Washington Consensus.

Taken together, GVC theories have on the one hand, reinforced several traditional international business policy elements. On the other hand, their accentuation of the role of tasks, linkages and firms have in other areas forced a fundamental redesign in policy thinking. The interventionist flavor of this new policy thinking is profoundly different from the traditional neoliberal stance on international business policy—so different that the set of GVC-oriented policies focusing on the task-linkage-firm trifecta is becoming a different policy narrative. The ubiquity of GVCs in current policy debates may help explain the emergence of significantly more interventionist international business policy stances across the globe.

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[1] Carlo Pietrobelli, Roberta Rabellotti and Ari Van Assche, "Making sense of global value chain-oriented policies: the trifecta of tasks, linkages, and firms," *JIBS*, vol. 4 (2021), pp. 327-346.

[2] Ari Van Assche, "Trade, investment and intangibles: The ABCs of global value chain-oriented policies", OECD Trade Policy Papers (Paris: OECD, 2020).

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