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Global value chains: Why the Fuss?

We need to decide how best to govern global value chains, as they become ever more important to the global economy

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The idea of global value chains (GVCs) seems, finally, to have caught on in global policy debates. It was the featured concept of the 2013 *World Investment Report*, released by the United Nations Conference on Trade and Development (UNCTAD) in late June. The World Trade Organization's Fourth Review of Aid for Trade, which occurred in Geneva in July, framed its concerns as 'Connecting to Value Chains'. And there has lately been a raft of reports, documents and academic papers on the connections between value chains and economic development.

Mention the term 'global value chains' to a random sample of social scientists, however, or even political economists, and rather few tend to know what it means. But this situation is now glaringly at odds with the importance of GVCs in the contemporary global political economy. According to the 2013 *World Investment Report*, GVCs led by transnational corporations now account for around 80% of global trade. Even if this is a slight over-estimate, it is an arresting figure.

The concept of the global value chain refers to a pattern of production which is geographically dispersed – strongly associated with familiar notions of offshoring and outsourcing – and in which the various stages and functions of production are fragmented. It rests predominantly on the trade of *intermediate goods* and services. In other words, trade is no longer about the international exchange of final goods, but rather what two economists, Gene Grossman and Esteban Rossi-Hansberg, have usefully called 'trade in tasks'.

GVCs are typically coordinated by lead transnational corporations, and feature hugely complex webs of affiliates, suppliers and contractors, dispersed across countries and regions, and with different types of relationships to lead firms. The point about this pattern of production is that it emerges from corporate strategies to increase profits by establishing and harnessing significant asymmetries of market (and political) power. The concept of a 'value' chain is useful precisely because it captures these dynamics – GVCs are not simply about how things are produced, but rather about where and how value is created, and where, how and by whom it is captured. It is a key to understanding the power relations which underpin global economic activity.

But why do GVCs matter? It would take a very large number of books, papers and reports to explore the many answers to that question, and thankfully there is already a great deal of excellent work on the topic. Let me here focus on three points of interest.

First, GVCs are changing the face of economic and social development. William Milberg and Deborah Winkler, in their superb new book *Outsourcing Economics*, make the arresting observation that 'the goal of industrial upgrading within GVCs has become nearly synonymous with economic development itself'. Across the world, positioning within GVCs has become central to development strategy. This implies very different approaches from before in many policy areas: industrial, tax, trade, investment, and labour market policy, to name a few. Debate is just beginning on what sorts of development models this challenge will put in place, and how to understand the new 'era' of global development that it implies.

As the 2013 *World Investment Report* shows, however, GVCs both offer and restrict opportunities for economic development. The development potential they carry depends on how particular GVCs are governed, and this comes down to the forms of market and political power that shape them. Lead and dominant firms determine the conditions of other firms' participation. Many can achieve upgrading in GVCs, but others cannot access GVCs or are squeezed out by intense pressures on price and conditions of supply.

Equally, there is no necessary connection between economic upgrading in GVCs and processes of social and human development – an issue addressed in fascinating research from the Capturing the Gains network. GVCs create jobs and employment, for instance, but the nature and terms of work are often highly adverse, particularly in sectors which are labour-intensive and price-sensitive. It is not only that there is no necessary correlation between economic upgrading and social development – it is that economic upgrading in some contexts *depends on* a depression of labour or environmental standards, with strongly negative developmental outcomes.

Second, GVCs matter enormously for politics and economic governance. Particularly interesting is the way the question of political significance has invigorated the longstanding debate about how to regulate transnational business, and to what ends. In a global economy organised around GVCs, what can be the prospects for effective regulation for labour and environmental standards, or human rights? Who or what can be or should be doing the regulating? Is private governance and self-regulation by firms now the only realistic option?

We have more than enough evidence and experience to show that private governance alone doesn't work in relation to these sorts of goals. But the task of governance is now more complicated than ever before by the disjuncture between a world of transnational business and globalised production and the continued reliance on national forms of regulation. The market and political disincentives to regulation are also considerable for many governments eager to achieve upgrading in GVCs. The question of how to govern a global economy is not new, but the importance of GVCs casts the challenge in a very different light.

Finally, how GVCs are governed shapes the global economy itself and has played a part in its contemporary crisis. Milberg and Winkler offer an intriguing 'profits-glut' explanation of the crisis which focuses on how the globalisation of production has reinforced the destabilising financialisation of the US economy. In order to increase returns to shareholders, non-financial lead firms in GVCs have 'financialised' profits through purchases of financial assets, share re-purchases, tying stock options into executive compensation packages, and other measures, rather than re-investing earnings in ways which could spur growth and economic development.

In this sense, GVCs are not just relevant to those of us interested in production and trade – they matter for anyone interested in understanding how the global economy now works and its future prospects. It's clearly a good thing they are beginning to command more of our attention.

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