Bringing Global Value Chains to the WTO? The Back Door for “new issues”of developed countries!

Deborah James
Our World Is Not for Sale (OWINFS) network

for the Civil Society Strategy Meeting on Advocacy around Africa’s Trade and Development Challenges

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Our world is not for sale.
STOP corporate globalization.

What are GVCs?

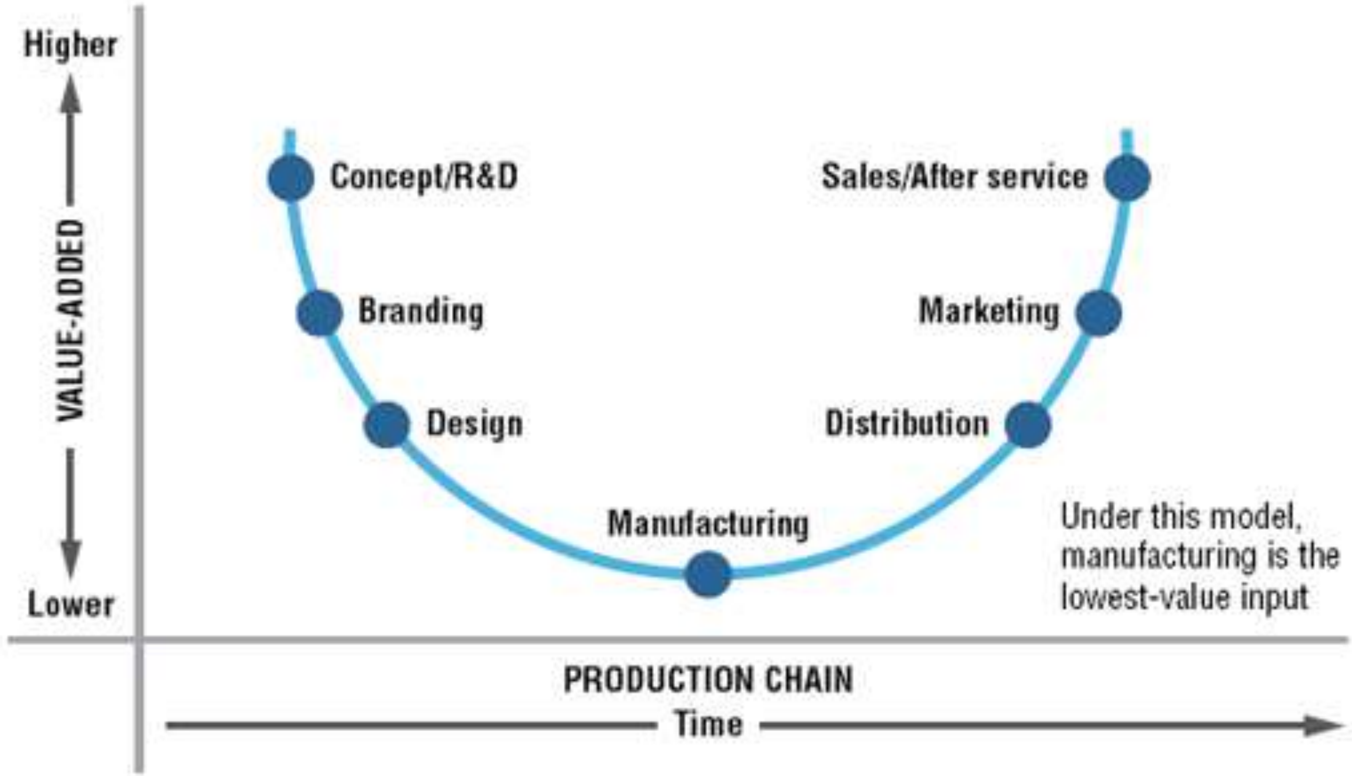
- Global Value Chains refer to the chain of locations where products are researched & developed, designed, patented or copyrighted, materials sourced, manufactured, finished, packaged, distributed, branded, marketed, and sold.

- While most countries are involved in GVCs in one way or another, they are not all linked in the same way nor have an equal status vis-a-vis GVCs.

- The percentage of Domestic Value Added (DVA) in GVCs tilts heavily towards design, patenting/copyrighting, retail and marketing; whereas the DVA for raw materials and manufacturing, which are often based in the global South, can be quite minimal, and dependent on natural resource exploitation and cheap labor.

What are GVCs?

(Smiling curve of Stan Shih)



- Will all players gain from expanding GVCs? Unlikely. Not all players can equally gain from their participation in GVCs.
- Developing countries could become more integrated in GVCs, but the quality of their integration may not be of real benefit.

GVCs in the WTO?

- Recently, there is a narrative being developed within the WTO related to discussing GVCs.

- Thus far, the debate is focused on liberalization. Countries should liberalize goods and services in order to integrate into the GVCs. The “pitch” is that these strategies will help developing countries more deeply integrate into GVCs as they can import more cheaply and thus export more competitively.

- Organisation for Economic Co-operation and Development (OECD) is a big cheerleader, along with WTO and World Bank…UNCTAD’s Trade Division is also, but the Globalization and Development Strategies is more circumspect..

GLOBAL VALUE CHAINS: UNPACKING THE ISSUES OF CONCERN FOR DEVELOPING COUNTRIES

- In an event on GVCs at the South Centre in February 2014, Ambassador Benites of Ecuador indicated that the Fourth Global Review of Aid for Trade (of the WTO) presents GVCs as synonymous to growth and economic development, poverty reduction, capacity building, and global integration, regardless of the capabilities and constraints facing developing countries.

- Yet, he noted that "the analysis of market liberalization and value chains, does not consider the existing technological gaps between developed and developing countries", which prevent the latter from effectively benefiting from the advantages of international trade.

Does Integration with GVCs Advance the Development Concerns in Africa?

1. Does it help address weak domestic productive capacities attendant upon Africa's continued status of primary commodity export-dependence in the global economy?
2. Does it help promote structural transformation?
3. Does it help promote regional integration?
4. Does it create decent jobs and SMEs?
5. Does it promote food security?

Does Integration with GVCs Advance the Development Concerns in Africa?

1. **Does it help address weak domestic productive capacities attendant upon Africa's continued status of primary commodity export-dependence in the global economy?**

- Gaining investment from a multinational firm to locate an aspect of production in an African country can be of use – if the investment is in line with the development strategy (such as auto manufacturing in South Africa) and the investors are not given rights greater than those of citizens (including under Investor-State Dispute Settlement – ISDS – provisions.)
- However, participating in a GVC does not in and of itself improve domestic productive capacity; it is the education and infrastructure that would be the source of the increased domestic capacity.
- Countries risk "pigeonholing" themselves in the "lowest rung of the chain" / lowest percentage of value addition, if they rely solely on natural resources extraction and exploitation of cheap labor.

Does Integration with GVCs Advance the Development Concerns in Africa?

2. Does it help promote structural transformation?

- GVCs can allow a country to export *components* when they lack capacity to produce and market the *entire product*.
- But GVCs tend to deepen the traditional scheme of international labor division.
- Transnational firms locate production in countries of origin of raw material or cheaper labor in order to take advantage. But this can damage countries' sovereign interests to manage their resources for development.
- Technologically advanced countries can take advantage of GVCs, while less developed countries would less likely be able to benefit from these processes, and will be condemned to continue providing raw material.
- Technology transfer is overhyped and under-delivered.

Does Integration with GVCs Advance the Development Concerns in Africa?

3. Does it help promote regional integration?

- Actually the integration into *global* value chains could undermine the African strategy of regional integration by linking various countries with developed countries more than with each other.
- Currently, intra-African trade represents just 12% of African trade, compared to about 55% in Asia and 70% in Europe. With 1 billion potential consumers across the continent, there are opportunities for Africa to improve productivity, scale up value addition and diversify production in a sustainable manner, while removing the barriers to intra-African trade.
- And GVCs help achieve this how????

Does Integration with GVCs Advance the Development Concerns in Africa?

4. Does it create decent jobs and SMEs?

- There could be backward and forward linkages with GVCs, such as use of minerals from artisanal miners; local catering services for workers; local sourcing of parts such as for auto manufacturing.
- But this is not necessarily guaranteed.
- If the “advantage” of the African country is cheap labor and natural resources, then it is going to be difficult to ensure high quality employment. The TNC will likely resist efforts at unionization, etc.

Does Integration with GVCs Advance the Development Concerns in Africa?

5. Does it promote food security?

- Since most GVCs are geared towards export, is is difficult to see how they could promote food security.
- In fact there could be a push towards increasing export agriculture rather than food for domestic consumption.

Does Integration with GVCs Advance the Development Concerns in Africa?

- **What are some of the policies that allow African countries to benefit from GVCs? Moving up the value chain requires**:
  - Informed producers (ie education and skill development);
  - Technological innovation and research and development;
  - Adequate infrastructure;
  - Development of domestic financial services;
  - Market intelligence;
  - Local content requirements;
  - Domestic linkages through joint ventures and presence of domestic firms;
  - Developing services linked to manufacturing like design studios, marketing skills, and branding;
  - Strengthening the domestic private sector;
  - Strong domestic institutions and regulations.

Adapted from: South Bulletin 77, 4 February 2014 | Global Value Chains: Unpacking the Issues of Concern for Developing Countries, comments by Ms. Rashmi Banga from the Division for Africa, Least Developed Countries and Special Programmes at UNCTAD.

Does Integration with GVCs Advance the Development Concerns in Africa?

- How can developing countries benefit from GVCs?
  - Informed producers (ie education and skill development);
  - Technological innovation and research and development;
  - Adequate infrastructure;
  - Development of domestic financial services;
  - Market intelligence;
  - Local content requirements;
  - Domestic linkages through joint ventures and presence of domestic firms;
  - Developing services linked to manufacturing like design studios, marketing skills, and branding;
  - Strengthening the domestic private sector;
  - Strong domestic institutions and regulations.
- Most of these policies would benefit the population generally, and SMEs, not just GVC participation.
- **These are NOT the issues being discussed in GVCs at the WTO!**
- Richard Kozul-Wright of UNCTAD explained that the reason for higher benefits accrued by Japan, Korea, and Taiwan compared to Malaysia, Philippines, and Thailand [in GVCs] lies in **the active role of the state in using a series of instruments that disciplined their private sector and made sure upgrading, reinvestment, and technological spillover was actually taking place** – benefits do not accrue without attendant policies.

Does Integration with GVCs Advance the Development Concerns in Africa?

- GVCs are a *cost reduction strategy* for multinational corporations, based on taking advantage of cheap labor and raw materials in developing countries and of globalization policies that reduce tariffs and the cost of trade (NTBs, trade facilitation).

- UNCTAD estimates that 80 percent of global trade involves transnational corporations, and one third is intra-firm in scope. (This aspect brings in the issue of transfer pricing and the loss of fiscal policy space from illegal tax evasion by TNCs in developing countries.)

- The benefit to developing countries depends on the attendant policy environment of the country; benefits are not automatic! They should not be viewed as a development policy on their own.

Does Integration with GVCs Advance the Development Concerns in Africa?

- For GVCs, the issue then is not “whether a country should participate” but “how potential participation could promote the national development policies and strategies.”

- Whether or not GVCs fit, or how they may fit, into a development strategy – does not indicate that binding *deregulatory* and *liberalization* policies across the board are required! GVCs are rather a new package to the same old demands.

- If a country wants to reduce tariffs on capital goods, etc, it can do so without a binding trade agreement!

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

- GVCs are being discussed now in the WTO, and in particular related to discussions of Small and Medium Enterprises (SMEs) because they are being utilized as a framework in which to bring in new issues from other FTAs:

1. Competition policy including state owned enterprises
2. Government procurement
3. Investment (?!!)
4. E-commerce
5. Disciplining export taxes
6. Sectoral liberalization of goods
7. Services liberalization
8. Even Intellectual Property rules?

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

- **The first three are so-called Singapore issues. The Doha Ministerial Declaration (DMD) mandated discussions on these three issues:**
  1. **Competition policy**, including state owned enterprises – working group on the Interaction between Trade and Competition Policy, mandate from DMD paragraphs 23-25.
  2. **Government procurement** – working group on Transparency in Government Procurement, from DMD paragraph 26.
  3. **Investment** – working group on the Relationship between Trade and Investment, from DMD paragraphs 20-22.

- Working Groups on all three issues were active 1997-2003.

- Issues of developing and developed countries were highly differentiated!

- These discussions were put on hold as part of July 2004 Framework Package: "**no work towards negotiations on any of these issues will take place within the WTO during the Doha Round**." This is why the United States and others have been pushing to displace the Doha Round.

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

1. Competition policy, including state owned enterprises

- Competition law and policy can be beneficial to development. But the type of policy depends on the individual country and level of development.
- Developed countries push for competition policy to provide a “level playing field.” This means that all firms are subject to the same rules, thus privileging companies with technological, financing, and scale advantages.
- The OECD, and the U.S. (through its FTAs) push for “competitive neutrality” for state owned enterprises, to limit advantages of SOEs.
- At the same time, the U.S. and other developed countries confer advantages on companies, such as the defence industry, through subsidies, credits, research and development, and contracts, as in the electronics, technology, and aerospace sectors (ie Boeing).
- Competition policy should follow development mandate, not “best practices for developed country market access” which is what WTO discussions would do.

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

2. Government procurement (including Transparency in GP)

- Government procurement is a key aspect – sometimes 20-25 per cent – of many developing countries' GDP. Benefits include:
  - Facilitating social and economic development;
  - Job creation and employment stability;
  - Development of SMEs, national industries, increase competitivity;
  - Wealth redistribution by targeting marginalized communities.
- Developed country firms can more easily establish in developing than vice versa, so benefits are likely to go in the same direction.
- **Discussions or an agreement on "transparency" would be intended to lead to an agreement on market access**.
- Current GPA in WTO includes 17 members (including 28 countries of the EU) and no African countries. Six other WTO members undertook commitments, in their WTO accession protocols, to initiate accession to the GPA; only African country is the Seychelles.
- EU FTAs are far reaching in Transparency and some market access.
- **Where is the benefit to developing countries of WTO rules here?**

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

3. Investment

- In earlier discussions, developed countries pushed:
  - National treatment for foreign investors (No benefits for domestic investors!);
  - Most-Favored Nation treatment (Investors claim rights under every existing treaty);
  - Inclusion of Expropriation and Indirect Expropriation ("indirect includes regulations!);
  - Limitations on performance requirements (such as tech transfer or human resource development, ie a main reason for bringing FDI in the first place!)
  - Pre-establishment rights;
  - Free movement of capital;
  - Minimum standard of treatment (BIT tribunals interpret this to find "violations" in cases of regulatory action that affects profits).
- This investment regime is being challenged regularly and increasingly by developing countries because of the:
  - High costs (billions of dollars in compensation awarded to TNCs, most cases against developing countries);
  - Low benefits (UNCTAD research has shown that having BITs does not boost FDI, but rather having a large market, educated population, good infrastructure, and stable political and legal environment contribute significantly.)
- **The introduction of Investment into the WTO has been talked about very recently as a priority issue, but there is no reason to believe that this would deliver any benefits to developing countries.**

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

4. E-commerce

- Debates on “e-commerce” include a wide variety of issues, based on chapters in the Trans-Pacific Partnership (TPP), the leaked text of the Trade in Services Agreement (TiSA), and the U.S. paper on e-commerce in the WTO (Dec. 2014):
  – Proscribing restrictions on cross-border data transfers so that companies can move data anywhere;
  – Prohibition of local server requirements, including localization requirements that personal data be stored domestically;
  – Prohibition on preferential access for domestic ICT suppliers in the use of local infrastructure (must give foreign companies same access);
  – Prohibition on requirements for ICT suppliers to use local infrastructure, or purchase locally produced goods or services;
  – No local content requirements (ie cultural productions);
  – No local presence: prohibition on requiring suppliers to establish a local presence in order to supply cross-border services.
- **These prohibited practices are exactly the policies that help developing countries gain benefits from participating in GVCs!**
- **At the World Economic Forum in January 2016, E-commerce emerged as the top “new issue” that WEF-participant WTO members want to put on the agenda!**

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

5. Disciplining export taxes

- Can be an import source of fiscal revenue.
- Export taxes are relatively easy to collect – efficient.
- They can be used to reduce the extraordinary profitability from the export of raw materials.
- Public can benefit from currency fluctuations.
- The point of developed country TNCs using GVCs is to get access to cheap labor and natural resources – so naturally they do not want to have to share some of that profit with host country!
- **Export taxes are most often used by developing countries, and should be safeguarded from WTO cuts**.

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

6. Sectoral goods liberalization

- It's not only "new issues" – but "GVCs" can also bring in issues of tariff cuts on goods as inputs; the model of GVCs depend on cost-free movement.
- Outside of the Doha development mandates (of Less Than Full Reciprocity), the flexibilities that developing countries negotiated that are in the 2008 text will be lost:
  - LDCs would no longer be exempt from tariff cuts;
  - Paragraph 6 (now 8) countries (Cameroon, Congo, Côte d'Ivoire, Ghana, Kenya, Mauritius, Nigeria, Zimbabwe) with low binding coverage were exempt from tariff cuts;
  - Small and Vulnerable Economies (SVEs) would lose flexibilities.
- Developing countries can reduce tariffs if it is in their development interest, but that does not indicate benefit of binding those cuts.
- Liberalization of goods can be part of a development strategy, if undertaken strategically in the proper regulatory and industrial environment; but tariff cuts on goods is an offensive interest of developed, not developing countries in the WTO.

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

7. Services

- Services, including business and professional services (architecture, legal, etc); Information & Communication Technology (ICT); logistics and infrastructure (financial, transport, energy, telecommunications) are pivotal for GVCs and average 50 percent of the value of goods exports.
- Developing countries only hold 30 percent of global services market share, dominated by China and India.
- The goal for development policy generally focuses on ensuring access to high quality public services and ensuring well-regulated private services.
- Reducing the costs of infrastructure services (transport, telecoms) can benefit citizens as well as reduce costs of trade – this could facilitate exports but could also end up facilitating more imports, depending on attendant policies! Education is essential for moving up the GVC ladder.
- However, developed countries will be using the GVCs discussion to pressure for the liberalization of services in the WTO (GATS plus).
- **Developing countries should encourage foreign participation in services *only* in accordance with their development policies, not as a goal in an of itself nor only for the benefit of ICT & logistics TNCs.**

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

8. Intellectual Property rules

- High value addition in GVCs is often located with the firm that holds the patent or copyright to the technology or design.
- GVCs are said to benefit developing countries when the technology transfers and is able to be implemented by local SMEs.
- But the reason TNCs use GVCs is to protect their highly-paid investments (tech, R&D) while using cheap labor to get the work done.
- **Discussions on GVCs in the WTO will surely NOT focus on providing flexibilities for developing countries to transfer technology, but rather on increasing protection for patent- and copyright-holders, while selling this as "good for development."**

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

- Negotiations on GVCs in the WTO could ultimately be designed to "maximise competition in the manufacturing segment of the GVC, while raising barriers in some of the other segments. The overall impact would be to lower the income generated by firms that are typically engaged in manufacturing, while generating monopoly profits for developed countries' firms through enhanced IP protection. This has serious consequences for policy making affecting the ability to build capacity of local firms, establishing new industries, diversification of production base, enhancing value addition and weakening the bargaining position of domestic firms vis-à-vis the developed countries' lead firms."

-Abhijit Das, "WTO Negotiations on Global Value Chains," Paper presented at South Centre Conference, November 2015, cited in South Centre Analytical Note, "WTO's MC10: The Call for 'New Issues' at the WTO and Implications for Developing Countries," December 2015.

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

- So then we see the effort to focus on negotiations on:
  1. Competition policy including state owned enterprises
  2. Government procurement
  3. Investment
  4. E-commerce
  5. Disciplining export taxes
  6. Sectoral liberalization of goods
  7. Services liberalization
  8. Expansion of IP rules
- **This is the agenda of Singapore issues + new FTA issues + old Doha Round liberalization!**

- **Abandon development mandate**: Conveniently, this leaves aside reform of **agriculture**, changes to existing TRIPS (to allow for **more technology transfer**), TRIMs (**to allow for more more local content requirements**), NAMA (**to allow for infant industry protections**), and **other SDT demands** – which are actually the policies required for developing countries to benefit from trade in general, but also GVCs in particular!

Bigger Threat: GVCs as Trojan Horse for Issues of Benefit to Developed Countries

Developed country aims:

1. Abandon **mandate on developing countries' issues**.

1. **Remove countries with competitive companies from "developing countries**": a significant aspect of abandoning the development mandate is ensuring that India, South Africa, China, Brazil, Nigeria?..are not classified as "developing countries." This would seriously erode the solidarity among developing countries and the leverage that the larger countries provide to smaller countries in WTO.

1. Abandon development mandate: by framing debate around GVCs and pushing aside Doha, they aim to leave behind the Special and Differential Treatment and Less Than Full Reciprocity framework that the *rules are different for developed and developing countries* – it's not just a matter of a "5-year implementation delay" but the ***entire recognition of asymmetries and imbalances in the international system is intended to be disregarded – this is the "new geometry."***

1. On the "new issues," **advance plurilaterals within the WTO where multilaterals are not possible**. Developing countries would be pressured to join later, or locked out of production chains with rules set by developed countries..

How are New Issues Introduced?

- **They must NOT be introduced in the way many other issues have:**
  - Conceptual "exploration" of an issue through studies or discussions (such as the paper of the Philippines on SMEs in late 2015); may also be introduced by Colombia, Chile, South Korea…
  - Study Groups or Working Groups "assumed" to have a mandate to move into negotiations – no! WG can conclude that negotiations are not warranted.
- **For new issues to be introduced into the WTO, strict criteria:**
  – The issue is a trade issue appropriate of the multilateral trade rules;
  – The WTO is the appropriate venue, and there are not other venues that are more appropriate;
  – The issue is sufficiently "mature," in that Members have an understanding of it and how it relates to the WTO and their interests;
  – If brought into the WTO, the issues and how they will be interpreted will clearly be to the interest of developing countries and the majority of the membership;
  – There must be <u>consensus of all Members</u> that the issues should be brought in, and how they should be brought in.

  From Martin Khor, "Key Points on Positions for New Issues and New Round in the WTO," (2000).
- **Need for African leadership: Nigeria, South Africa, Kenya, Ghana etc.**

How Can We Rollback these Issues?

- Given the GVCs is a strategy to further the benefits to developed countries in the global trade system, and to lock developing countries into low value addition, the question is:
  - Do we argue against discussion of GVCs, and oppose their inclusion on the agenda? Or,
  - Do we accept that they will be discussed, and assess the best ways for African countries to benefit? And,
  - How do we preserve the development of regional value chains in the face of threats from WTO expansion?
  - How do we ensure that OUR agenda is prioritized at the table at the WTO vis-à-vis the GVCs/new issues debate?

How Can We Rollback these Issues?

Global Civil Society letter on the Nairobi Ministerial of the World Trade Organization (WTO)

December 09, 2015
Dear Members of the WTO,

As members of 460 civil society organizations including trade unions, environmentalists, farmers, development advocates, and public interest groups from over 150 countries, we are writing today to express extreme alarm about the current situation of the negotiations in the WTO. We urge you to take seriously the need for the upcoming Nairobi Ministerial to change existing WTO rules to make the global trading system more compatible with people-centered development, and to forestall efforts by some developed countries to abandon the development agenda and replace it with a set of so-called “new issues” that actually are non-trade issues that would impact deeply on domestic economies and constrain national policy space required for development and public interest. *-endorsed by 460 organizations from around the world.*

<u>Civil Society Letter on the Future of the WTO Negotiations</u>

February 23, 2016

Dear Members of the World Trade Organization (WTO),

The upcoming General Council Meeting, scheduled for the 24th of February, is an opportunity for Members of the WTO to reassert, and accept, the importance of the development mandate in the future negotiations of the WTO. As 145 civil society organizations including trade unions, environmentalists, farmers, development advocates, and public interest groups from around the world, we have persistently challenged the existing rules of the WTO that are incompatible with people-centered development. Many of us were in Nairobi seeking to forestall efforts by some developed countries to abandon the so called "Doha development agenda" to be able to replace it with new negotiations of a set of “new issues,” that would impact deeply on domestic economies and constrain national policy space required for development and the public interest. *- endorsed by 145 organizations*

To learn more:

- Pro-GVCs propaganda is “Aid for Trade at a Glance 2013: Connecting to Value Chains,” published jointly by the OECD and WTO, including *individual country* fact sheets available at http://www.oecd-ilibrary.org/development/aid-for-trade-at-a-glance-2013_aid_glance-2013-en

- Useful critiques available on the South Centre website, www.southcentre.int, particularly “WTO’s MC10: The Call for ‘New Issues’ at the WTO and Implications for Developing Countries,” Analytical Note, South Centre, December 2015.