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Are WTO Trade Negotiations Helping?

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Abstract

Nimble trade and industrial policy is essential for Least-Developed Countries (LDCs) to thrive in a world of global value chains (GVCs). 'Adaptive states' in LDCs need to create and exploit policy space in national decision-making, build specific production capabilities to participate and meaningfully capture value in GVCs, and handle policy stretches arising from factors and actors they cannot control. In this article, we show that the outcomes of recent multilateral trade negotiations will facilitate these processes only partially. The World Trade Organization's (WTO) Bali and Nairobi Ministerial Declarations have been commonly portrayed as relative victories for developing countries, but they have not provided sufficient steps forward for LDCs. While the WTO Trade Facilitation Agreement can help integration into GVCs by enabling freer imports and exports, supportive industrial policies are also needed to guide investment in the direction that allows for flexible specialization and domestic value addition – these options are severely limited in the current WTO regime. The legally-binding commitments made in Nairobi on rules of origin are also a positive step, but must be linked to the yet unmet duty-free and quota-free commitments. We conclude by arguing that a future agenda for LDCs should focus on supply-side constraints, as well as on allowing nimble industrial and trade policies that can facilitate meaningful participation in some GVCs – and non-participation in others that are more detrimental to broad-based development.

Key words – Global Value Chains, LDCs, WTO negotiations, trade and industrial policy, adaptive state

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***Highlights (WITHOUT author details)**

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- Recent WTO agreements do not sufficiently facilitate the integration of LDCs in Global Value Chains (GVCs)
- To capture value in GVCs, LDCs need to build production capabilities and infrastructure, not only to facilitate trade
- ‘Adaptive states’ in LDCs need to devise nimble trade and industrial policies that promote meaningful GVC participation

Least-Developed Countries in a World of Global Value Chains: Are WTO Trade Negotiations Helping?

Summary. – Nimble trade and industrial policy is essential for Least-Developed Countries (LDCs) to thrive in a world of global value chains (GVCs). 'Adaptive states' in LDCs need to create and exploit policy space in national decision-making, build specific production capabilities to participate and meaningfully capture value in GVCs, and handle policy stretches arising from factors and actors they cannot control. In this article, we show that the outcomes of recent multilateral trade negotiations will facilitate these processes only partially. The World Trade Organization's (WTO) Bali and Nairobi Ministerial Declarations have been commonly portrayed as relative victories for developing countries, but they have not provided sufficient steps forward for LDCs. While the WTO Trade Facilitation Agreement can help integration into GVCs by enabling freer imports and exports, supportive industrial policies are also needed to guide investment in the direction that allows for flexible specialization and domestic value addition – these options are severely limited in the current WTO regime. The legally-binding commitments made in Nairobi on rules of origin are also a positive step, but must be linked to the yet unmet duty-free and quota-free commitments. We conclude by arguing that a future agenda for LDCs should focus on supply-side constraints, as well as on allowing nimble industrial and trade policies that can facilitate meaningful participation in some GVCs – and non-participation in others that are more detrimental to broad-based development.

1. Introduction

Nimble trade and industrial policies are essential for Least-Developed Countries (LDCs) to thrive in a world of global value chains (GVCs).[1] 'Adaptive states' (Whittaker et al. 2010, 2014) in LDCs need to create and exploit policy space in national decision-making, build specific production capabilities to participate and meaningfully capture value in GVCs. Adaptive states also need to handle policy stretches arising from factors and actors that they cannot control. In this article, we examine whether the outcomes of recent World Trade Organization (WTO) trade negotiations include the tools that can promote meaningful LDC participation in GVCs. While there is general consensus in the trade and development literature that trade negotiations should aim at reducing the costs of trade, especially for developing countries and LDCs, there is wide disagreement on how this should be achieved (McCulloch et al. 2001, Rodrik 2001, Stiglitz & Meyers 2005, Wilkinson & Scott 2013). WTO negotiations traditionally focused on reducing tariffs and quotas. But tackling non-tariff measures, regulatory policies and the domestic costs of trading has increasingly come under attention (Anderson & Wincoop 2004, Hoekman & Nicita 2011, Arvis et al. 2013), together with the possibility of allowing 'development defense' in dispute settlement cases related to the use of proactive industrial policy (Hoekman & Olarreaga 2007).

Many of the perspectives on LDC participation in multilateral trade negotiations focus broadly on how other WTO members should eliminate detrimental policies, agree to multilateral rules that promote development, and deliver the necessary aid for LDCs to live up to their commitments (Narlikar 2003, 2006, Wade 2003, Hoekman & Kostecki 2009). While valid as a point of departure, we push this analytical agenda further by linking the combined outcome of the recent WTO Ministerial Conferences in Bali (MC9) and Nairobi (MC10) to what GVC research suggests is needed to facilitate fruitful LDC participation in the global economy.

In the rest of this article, we first introduce the arguments behind GVC analysis, along with a brief coverage of key debates on trade in value added, the 'adaptive state', and nimble trade and industrial policy. Next, we examine the origins and content of the WTO MC9 and MC10 agreements, followed by a more detailed examination of two sets of issues in these agreements that are particularly relevant for LDC participation in GVCs: trade facilitation, and duty-free and quota-free (DFQF) measures and related rules of origin. We conclude by arguing that a future development agenda for LDCs should include a bounded use of supportive trade and industrial policy that can facilitate flexible specialization, domestic value addition, inclusive and sustainable participation in some GVCs, and non-participation in others that are more detrimental to broad-based development.

2. Global value chains, the adaptive state, and trade and industrial policy in LDCs

Global value chain (GVC) analysis has brought three key observations to long-standing discussions of the role of trade in development: (1) some of the key international trade dynamics arise in the interactions not between countries, but between and within firms (often transnational); these firms either add value sequentially or trade intermediate products that are used to assemble final products for end-markets (Ponte & Sturgeon 2014, Kaplinsky & Morris 2015); thus, policy based on traditional trade statistics overlooks where value is added to products, which is vital to ascertain which countries draw which benefits (Cattaneo et al. 2010, Elms & Low 2013, OECD 2013, 2015, UNCTAD 2013a); (2) a global economy organized in GVCs implies that countries need to find new ways to participate, add value and specialize; this requires an *adaptive state*, which acts with agility and is able to tackle simultaneous societal problems and needs that create 'policy stretch' (Whittaker et al. 2010, 2014); and (3) trade and industrial policies should be tackled in combination and with a high degree of flexibility (OECD et al. 2014, Taglioni & Winkler 2016). In the rest of this section, we explore these three sets of issues in turn.

Trade in value added

Measuring gross trade flows does not provide clear indications of *where* value is added. It also provides a distorted view of bilateral trade balances, as intermediate products imported from other countries are incorporated in gross export values. For example, an iPhone that ships from China to the US is usually treated in trade statistics as causing a negative trade balance of $169 for the US. But when value added is measured at each stage of production, a much more nuanced picture emerges – with China adding only $6.5 of value per iPhone, Korea adding $80 and Germany $16 (Xing & Detert 2010, Gereffi 2014). Under the proposition that what counts is trade in value-added, GVC analysis challenges the classic liberal views on global imbalances and market access, and on the effects trade has on employment, the environment and competitiveness (Elms & Low 2013, Taglioni & Winkler 2016).

A value-added focus on trade also entails that upgrading no longer requires a country to have capabilities within all aspects of production. The patterns of specialization apparent today show that countries can focus on the production of intermediary goods, a simpler task than creating beginning-to-end production systems (Cattaneo et al. 2010, Ponte & Sturgeon 2014). But while trade in intermediary goods is larger than trade in finished goods (Sturgeon & Memedovic 2011), opportunities for trade in intermediary services (what is referred to as 'trade in tasks' in some of the GVC literature) are not clear, as they are more difficult to measure. It should also be recognized that involvement in intermediary good production is currently concentrated in industrialized and emerging economies, with many LDCs still operating largely in sequential value addition to natural resources (Kaplinsky & Morris 2015, Taglioni & Winkler 2016).

The global 'unbundling' of production highlighted in the GVC literature suggests three important aspects for how LDCs can be better integrated in global trade: (a) they can attempt to tap into the production of specific intermediary goods in a value chain; (b) they can raise their competitiveness by building capacity for their firms, not only to join GVCs and remain part of them, but also to capture more value and increase domestic content in time; and (c) given that key parts of GVCs operate regionally, LDCs without sufficient capacities of their own should seek regional integration (Gibbon & Ponte 2005, Sturgeon & Memedovic 2011).

The adaptive state

Contemporary development processes are constantly changing, becoming more 'compressed' and occurring along different paths than in the past (Whittaker et al. 2010). While Asian late-developers started their development process in the so-called industrial era, the global economy is now organized as a collection of GVCs. This prompts countries to find new ways to participate, add value and specialize. In this context, Whittaker et al. (2010) question a development strategy based on emulation (Reinert 2007, 2009). This is also because accession to the WTO limits the usefulness of previously available options – which were discussed under the rubric of the 'developmental state' (see, among many others, Dosi 1988, Woo-Cummings 1999, Amsden 2001, Wade 2003, Rodrik 2005). The question is not simply one of emulating earlier institutional and technological innovations, but one of finding ways of 'fitting in' contemporary GVCs (Whittaker et al. 2014).

Whittaker et al. (2014) highlight that timing matters, and that learning and upgrading now occur in a different context. In order to best benefit from the opportunities for development provided by GVCs, states (including in LDCs) must remain active in promoting engagement, but must do so in an agile manner. This requires an *adaptive state*, which is similar to the developmental state in taking initiative, but acts according to the changed environment of GVCs. It is not just agility that the state needs, but also the ability to tackle simultaneous societal problems and needs, in the context where powerful actors do not operate within a national jurisdiction (Ibid.). While state-society linkages in late development theory were based on connections to – and power over – business elites, most if not all LDCs lack power over major corporations nowadays.

In contrast to the developmental state, which focused on designing and coordinating industrial development within its national borders, the adaptive state can facilitate the possibility of technological upgrading and learning through participation in GVCs. Furthermore, state engagement with GVCs must be understood in the context of leveraging the learning processes that are associated with the now blurred and simultaneous stages of development (Ibid.). Importantly, the required agility of the adaptive state faces other external limitations that were not present in earlier periods. The narrowing policy space derived from membership in the WTO (Gallagher 2005, Hoekman 2005, Natsuda & Thoburn 2014), for example, continues to curtail independent state action in addressing the simultaneous challenges of economic, social and human development, despite the special provisions for LDCs. In attempting to meet numerous challenges simultaneously, states inevitably engage in 'policy stretching' (Whittaker et al. 2010), which thins their already limited capacity.

Nimble trade and industrial policy

GVC analysis allows us to go beyond a simplistic distinction between trade liberalization and protectionism. The reality of a myriad of transactions, actors, processes and tasks that is involved in GVC participation presents policy makers in LDCs with a more complex picture that requires precise, effective and dynamic policies. Quick imports are often necessary for exporting, and the overall goal is no longer to construct front-to-back national industries, but rather to build the national capacity to compete for specific tasks in a given value chain. Key considerations in trade policy must be agility and nimbleness, as well as the capacity to adjust to the changing configuration of value chains. These considerations also include whether to abandon or not participate in GVCs that are, for example, socially or environmentally detrimental.

Specific and bounded elements of trade liberalization can be important to enable LDC participation in GVCs and to facilitate upgrading. For example, if inputs for potentially assembling a product are available locally but are uncompetitive, liberalizing imports may be the only way to tap into a value chain in a competitive manner. Such decision would effectively kill the previously protected local industry and likely cause job losses that are only potentially recovered in the long run. This entails that determining the effective rate of protection becomes highly significant in determining the actual effects of import tariff adjustments (Wolfe et al. 2011).

However, GVC participation and upgrading can also be facilitated through a more gradual approach in LDCs, with increasing degrees of import liberalization coupled to an industrial policy that strengthens local productive capacity. Depending on the type of GVC, LDC actors stand to benefit from other interventions, such as strategic local content requirements and export taxes to encourage domestic processing. Nimbleness is essential for a system that allows timely and strategic policies that are not confined to eliminating custom procedures and reducing red tape – the so-called 'soft' trade facilitation measures. At the same time, the design of industrial policy should learn from the mistakes of the past, when it was often based on political and supply-based concerns, rather than on the realities and requirements of GVC participation. Therefore, industrial policy in LDCs should: avoid broad-based subsidies and indefinite support; include gradual exposure to competition; avoid capture by incumbent players (Taglioni & Winkler 2016); and be based on suitable political settlements (Whitfield et al. 2015).

A flexible and combined approach to trade and industrial policy is particularly important when we distinguish between 'vertically-specialized' value chains and 'additive' value chains (Kaplinsky & Morris 2015). In 'vertically-specialized' value chains, participant firms provide specialized components, intermediate products and sub-processes that are produced simultaneously in different locations, with some firms taking on a system integration role. In 'additive' value chains, sequential value addition takes place at each stage – this is typical of the natural resource sector, where the primary input makes up a significant part of the final product, such as in the production and processing of cocoa beans for chocolate production. Additive value chains are more common in LDCs, while vertically-specialized value chains are more common in high-income countries and emerging economies (Kaplinsky & Morris 2015). Thus, policies intended to generate sustainable income and facilitate the development of dynamic competitive competencies should vary according to the type of value chain in question (Gibbon & Ponte 2005, Taglioni & Winkler 2016). For vertically-specialized value chains the overarching policy objectives should be to reduce impediments to international trade (Kaplinsky & Morris 2015) and to improve trade infrastructure. But additive value chains need more attention to other interventions, such as local content requirements, export taxes and provision of infrastructure, which can help building supply capacity and encourage domestic value addition.

Limits and pitfalls

Much of the GVC literature suggests that facilitating meaningful participation in GVCs should focus on a *combination* of improving physical and market infrastructure, trade facilitation, building productive capacities, and enacting trade-related adjustment (see, among others, Sturgeon & Memedovic 2011, OECD 2015, Taglioni & Winkler 2016). However, as we will show in the next section, multilateral trade negotiations have in practice focused more narrowly on ‘soft’ trade facilitation (custom procedures, cutting red tape). Also, while numerous donor agencies such as the World Bank and USAid have eagerly embraced GVC analysis in development work, much of the original focus on industrial upgrading has been redefined as an issue of firm-level competitiveness. Hence, instead of discussing upgrading through industrialization as a national/regional development strategy, the focus has been on product and process upgrading at the firm level. These kinds of upgrading can indeed facilitate participation in GVCs, but on their own are not enough to promote functional upgrading – which pertains to the development of new tasks (Neilson 2014). Applications of GVC analysis in trade and industrial policy are rarely turned towards what is needed in LDCs to promote value chain participation processes that are beneficial for employment and socio-economic development (Ravenhill 2014). Learning through participation in GVCs is not costless, nor is the build-up or upgrading of productive capabilities – and these challenges will not be met with multilateral negotiations that focus solely on liberalization and ‘soft’ trade facilitation.

Furthermore, the literature does not suggest that GVC participation is always the best option for LDCs – non-participation and disarticulation from circuits of global production may actually make more sense in specific GVCs and places, as well as for specific actors (Bolwig et al. 2010, Bair and Werner 2011). And even participating in GVCs does not necessarily translate into broader and positive development processes. Some groups may benefit from GVC participation more than others, or affect other groups' wellbeing negatively. GVC participation can lead to increased inequality, deteriorating work conditions and environmental degradation, especially in value chains sourcing raw materials in LDCs (see e.g., Gibbon & Ponte 2005, Neilson & Pritchard 2009, Gereffi 2014). Broad-based development in LDCs is more likely to occur when local backward and forward linkages are established, when upgrading processes lead to domestic value addition, and when economic upgrading is coupled with social and environmental upgrading (Barrientos et al. 2011, De Marchi et al. 2013, Milberg & Winkler 2013, Taglioni & Winkler 2016). This involves policy and political efforts that seek to improve labor conditions, assure social protection and safeguard the environment.

3. LDCs and WTO negotiations: A GVC perspective

From Doha to Bali

Development issues entered as a specific focus of multilateral trade negotiations with the launch of the WTO Doha Development Agenda (DDA) in 2001, but without accompanying changes in the paradigms of how trade can be beneficial to developing countries, and especially to LDCs. The overall lack of consensus in the Doha round on what a development focus in trade policy actually consists of entailed that reaching an agreement proved elusive for a long time (WTO 2013f). Thus there was widespread celebration when the first multilateral agreement since the beginning of the round was conceived at the Bali Ministerial Conference (MC9) in December 2013, on a ‘mini-package’ of trade issues. One of the main drivers behind the ‘Bali package’ was arguably to improve global trade governance, but also to re-establish confidence and trust in the negotiation process of the WTO.

The agreements tabled at MC9 must be seen as a product of a process built up in four previous ministerial conferences, as well as in countless WTO committee and council meetings. The dynamics of the changing geopolitical landscape between the launch of the DDA in 2001 and MC9 in December 2013 complicated the negotiation process, as former power balances were being shaken up and new structures had begun to emerge in negotiations. The road to MC9 also showcased the lack of agreement within groups of developing and LDC countries. Most notable was the disagreement within the LDC group on the duty-free and quota-free (DFQF) issue – with Lesotho not wanting to pursue DFQF implementation. Contributing to the shape and origins of the MC9 package was also the trend towards plurilateral agreements (such as the one on services) within the WTO, and of regional/preferential trade agreement negotiations outside the WTO (such as the Transatlantic Trade and Investment Partnership, TTIP, and the Trans-Pacific Partnership, TPP) – meaning that focus was shifting away from the multilateral arena.

While the Doha ministerial in 2001 elicited an optimistic agreement to launch the DDA, the subsequent conferences did not share the same positive fate. The 2003 conference in Cancun ended with a deep North-South division among member states. The Hong Kong 2005 ministerial managed to produce a limited agreement to keep the DDA alive, but in 2006 the DG Pascal Lamy declared an impasse in negotiations at the margins of the Geneva mini-ministerial conference. The two ministerial conferences of 2009 and 2011 were seen as housekeeping meetings and did not entail any substantial negotiations. However, members did agree for MC9 to be focused on a mini-package of the DDA, singling out specific elements for negotiation in the hope that a smaller package would facilitate consensus. The negotiations thus broke away, for the first time, with the notion of a ‘single undertaking’. In order to deliver an agreement, the all-or-nothing approach was abandoned.

The Bali and Nairobi Ministerial Conferences

MC9 was unique in WTO history because, despite a shaky build-up period, member countries managed to complete the draft texts for many of the agreements *before* the actual conference. The areas of negotiation had been chosen for their potential to reach an agreement, not for their possible impact on the multilateral trading system. At MC9, it was clear that the package was designed to ‘pick the low hanging fruit’ of the original DDA to produce an agreement that could instill some measure of confidence in a rules-based multilateral trading system (Bellmann 2014). DG Roberto Azevedo, however, failed in the effort of ensuring that all negotiations were completed before the start of MC9 – as India’s position on food security in the Agreement on Agriculture caused negotiations to break down in November 2013 (Efstathopoulos & Kelly 2014). By that time, the draft texts for most of the agreements had been settled, and only Section 1 of the trade facilitation agreement still contained bracketed text to be agreed upon. The issue of food security resurfaced during the ministerial itself and was the primary driver behind the last hours of suspense before an agreement was reached. Due to concerns of breaching its aggregate measure of support to food security and thus of being prone to legal action in the WTO, India attempted to obtain a permanent solution that could increase its allowed levels of support. In the dying hours of the ministerial, India eventually agreed to a four-year ‘due restraint’ clause, which entailed that other members of the WTO would abstain from legal action against India’s food security programs. Yet, in mid-2014, the new Indian government went back to its old stance and decided to not ratify the agreement. Further negotiations between India and the US in the period leading to the Brisbane G20 meeting of November 2014 led to a compromise – the two countries negotiated a bilateral and indefinite ‘peace clause’ protecting India from being legally challenged under the WTO until a permanent solution is found.

The following Ministerial Conference (MC10), held in Nairobi in December 2015, was aimed at following up on Bali and included a highly important discussion on whether or not members should continue to pursue the DDA as the single undertaking of negotiations within the WTO – a discussion that ended with its abandonment. Due to the difficult negotiations that followed MC9, there were fewer expectations for a successful and substantial agreement in Nairobi. At the same time, MC10 was seen by many as potentially yielding a WTO contribution to a historic year for multilateralism – 2015 saw the agreement/adoption of the Addis Ababa Action Agenda on Financing for Development, the Sustainable Development Goals and the Paris Agreement on Climate Change. The push from the more influential developed countries to abandon the DDA commenced during negotiations in Geneva, which made them difficult from the outset as the focus moved from the specific details in the potential agreements, to the more politically contentious issue of whether to carry on the single undertaking of the DDA. In Nairobi, negotiations were more open and inclusive of a majority of WTO members – in contrast to the usual small-group negotiations that typically take place during the final days of ministerial conferences. However, even with a lesser degree of expectation and more transparent negotiations, 24 hours of extra time was needed to conclude the negotiations and reach an agreement on the Nairobi package (Wilkinson et al 2016).

Outcomes

Collectively, the Bali and Nairobi packages include the following provisions:

(1) A wide reaching agreement from MC9 on trade facilitation aimed at reducing red tape and administrative burdens in view of building a smoother multilateral trading system (see details in the next section). This agreement is binding, thus members are legally obliged to undertake regulatory reforms to comply with it.

(2) A legally binding agreement from MC10 that seeks the removal of export subsidies in agriculture by 2020 for developed countries, and by 2023 for developing countries (a more ambitious timeframe for phasing out export subsidies is set for cotton). This is an important decision, as export subsidies have historically distorted trade and negatively impacted domestic markets in LDCs. However, it only goes half way, as the more politically contentious issue of domestic support in developed countries was not tackled in the two ministerial conferences (Wilkinson et al. 2016).

(3) The creation of an interim mechanism that allows developing countries to breach their WTO commitments in relation to domestic support in order to secure food security through public stockholding, coupled with a reaffirmation of the ‘peace clause’ (see above).

(4) An endorsement of the declaration on the expansion of trade in information technology (ITA2). This agreement was signed by 53 members, mainly developed countries, thus remains a plurilateral agreement with no LDC signatories. Tariff cuts provided to members are supposed to become multilateral and could hence benefit all WTO members. However, given that none of the LDC members have substantial exports of the products covered by the agreement, its development potential is limited for the time being.

(5) A group of issues specifically relevant to a broad spectrum of LDCs, which involves four areas: (a) duty-free and quota-free (DFQF) market access; (b) rules of origin; (c) operationalization of the services waiver; and (d) the monitoring mechanism for special and differential treatment (WTO 2015a). We cover the first two in some detail later in this article. As for the extension of the services waiver, this allows WTO members to grant preferential treatment to service suppliers from LDCs until 2030, a potentially important factor for LDC participation in GVCs. However, by the beginning of MC10 in December 2015, only 21 members had notified the WTO of their intention to make use of the waiver. The potential effect on LDC trade deriving from the waiver is dependent on both the ability of LDCs to export services needed in specific GVCs, as well as other WTO members' willingness to make use of the waiver. In 2011, commercial services made up approximately 10% of LDC exports, although trade in services had grown faster in the previous decade than global trade in goods (ITC 2013).

In relation to the monitoring mechanism for special and differential treatment (SDT) established at MC9, the underlying notion is to review the implementation and operationalization of SDT clauses in WTO agreements twice a year – when the mechanism is operational under the committee for trade and development special session (WTO 2013d). The intention of the monitoring mechanism is to ensure that sufficient SDT is offered to LDCs in the existing agreements. Institutionally, the mechanism can be considered a positive step forward for LDCs because it can bring SDT issues to the attention of the WTO on a regular basis. However, with the review of the mechanism still forthcoming (set for three years after the creation of the mechanism), it is still too early to provide a solid assessment of its potential impact.

In the next section, we unpack the two outcomes from Bali and Nairobi that are most relevant for LDCs: trade facilitation, and DFQF market access and related rules of origin.

Trade facilitation

Trade facilitation was brought into the Doha negotiations by the EU as one of the Singapore issues, and was included in the Bali package at MC9 (WTO 2013b). The overarching purpose of the Trade Facilitation Agreement (TFA) is to coordinate and upgrade national custom administrations so the process of trading becomes easier. Trade facilitation in the MC9 agreement has thus taken a narrow focus on aspects such as publication of customs information, notifications, advance rulings, documentation requirements and international standards. According to the WTO, trade facilitation is aimed at reducing red tape, increasing transparency, cooperation and available information (WTO 2013e). Importantly, what is not included in this definition are the infrastructural aspects of facilitating trade, such as better roads, larger ports and better electricity grids.

The TFA is divided in two sections. Section 1 stipulates which measures need to be taken. Section 2 states the terms of support to be given to developing countries and LDCs in applying the measures included in Section 1. The TFA contains elements that are of potential advantage to LDCs: binding commitments, tiered implementation phases, and mandatory technical assistance and capacity building to be provided by developed countries. At the same time, Section 1 legally binds developing countries and LDCs to adopt the same measures as in most developed countries (WTO 2013b).

The OECD predicts that comprehensive implementation of all the measures in the TFA can reduce trade costs by 10% in advanced economies, 13.2% in upper middle income countries, 15.5% in lower middle income, and 14.5% in low income countries (Moïsé & Sorescu 2013). The OECD also estimates that a one per cent decrease in global trade costs increases global income by more than $40 billion (Moïsé et al. 2011). At the same time, Portugal-Perez and Wilson (2012) estimate that the largest potential gains from trade facilitation are those that would arise from infrastructure improvements, especially in information technology – an area that is not part of the TFA. Their analysis also points to significant complementarity between hard and soft infrastructure in relation to export performance. An important aspect to consider is that physical infrastructure carries a high cost of investment as well as potential large spillover effects, which are difficult to measure in cost-benefit analysis.

As the reforms required for conforming to the TFA bear significant short-term costs, LDCs are also concerned about their ability to meet its terms, and about the availability of the needed technical and financial support from donors. In order to identify the obstacles in implementing trade facilitation measures, 34 LDCs and 60 developing countries undertook needs assessments (WTO 2012). On average, 35% of the measures in national systems were found to be in compliance with the proposal, 43% in partial compliance, 17% in non-compliance and 6% were found to be non-applicable. When concentrating on LDCs, the national measures were to a much lesser degree compliant with the proposal (Ibid.). Models calculating the gains of potential trade facilitation scenarios (Wilson et. al. 2005) show that LDCs lacking significant exports, due to supply-side constraints, will mostly witness a rise in imports. Thus, the immediate effect of trade facilitation implementation for many LDCs is likely to be an aggravation of their trade balance deficit. At the same time, LDCs are formally exempt from some of the restrictions entailed by the WTO agreements and could consider protective measures against additional imports in sensitive sectors.

The general tendency remains one where LDCs express concerns about substantial financial restraints and possible negative impacts on trade balances, while donors pledge their commitment to supply funds for technical assistance and capacity building. The World Bank has recently established the Trade Facilitation Support Program as an extra input for the effective implementation of trade facilitation in developing countries (World Bank 2014). Aid-for-Trade (A4T) programs are also aimed at helping developing countries overcome structural limitations and capacity issues in order to enhance growth prospects. However, A4T is an integral part of ODA and hence comes from existing aid budgets. A4T is increasing as a proportion of total ODA, but current efforts are deemed insufficient to reduce trade costs to the extent necessary, especially for LDCs (OECD & WTO 2015a). While some argue that the WTO is a development institution (Qureshi 2009), it was hardly expected to negotiate a deal at Bali or Nairobi that included extra development funds or concrete promises on infrastructure investments. Yet, it is important to keep in mind that the WTO TFA only involves the soft part of the concept.

Duty-free and quota-free market access and rules of origin

The agreement reached at MC9 in relation to duty-free and quota-free (DFQF) market access reaffirms the commitment made in Hong Kong in 2005 that all developed countries should seek to implement it for 97% of all LDC exports. It further states that developing countries in positions to do so should pursue the same threshold. Thus, the MC9 agreement did not deliver additional benefits to LDCs on this issue, as it remained without binding commitments (WTO 2013c). Although DFQF market access is already provided by some developed economies, including the EU through its EBA scheme, the DFQF access accorded to LDCs is being eroded (Carrère & de Melo 2010). LDC members of the WTO often complain that their preferential access to developed markets is almost equal to that of developing countries in general. But the erosion of LDC preferential access is also occurring through the increasing number of preferential trade agreements outside the WTO. These agreements impact different country groups in different ways, as preferential access is often granted unequally –the US African Growth and Opportunity Act (AGOA) is a case in point. An interesting development in this area is that the US Generalized Scheme of Preferences (GSP) ended in 2013. This means that many WTO members now face standard import duty levels when they export to the USA, while African LDCs will for the most part still be able to obtain preferential access through AGOA, which grants access on a country-by-country basis. GSPs, as unilateral tools of removable preferences, generate political dependence and effectively place LDCs in a submissive position in trade negotiations. As GSP schemes are not considered secure (all power lies in the hands of the granting country), LDCs may seek to lock in their market access, albeit at a worse but more stable level (Manger & Shadlen 2014).

In close connection with meaningful DFQF market access are simple and transparent rules of origin. As the GVC literature highlights, if rules of origin do not allow for enough flexibility, participating in GVCs becomes problematic (Gibbon & Ponte 2005; Gibbon 2008; Keane 2013). And to the extent that the objective for LDCs is to capture more value in GVCs and to eventually move up the technological ladder, they increasingly need to use imported inputs for their exports. The threshold should thus be set according to what is actually needed for an LDC to set up production facilities and tap into specific value chains (Keane 2013). If the rules of origin do not allow for this, the relevance of DFQF market access is undermined.

Products from LDCs given DFQF access are subject to rules of origin (along with sanitary and phytosanitary norms and other standards subject to rules in the importing country) so that countries granting DFQF can be sure that they indeed originate in LDCs. Rules of origin differ between importing countries, thus LDCs face different sets of rules when exporting to different markets. The Nairobi package included a specific agreement on preferential rules of origin for LDCs (WTO 2015b), which sought to encourage WTO members to increase their flexibility with regards to LDC exports by: (1) allowing 75% of products to originate outside the exporting country; (2) refraining from requiring non-manipulation certificates; (3) encouraging the expansion of cumulation arrangements by preference-granting members to facilitate LDC compliance with origin requirements (cumulation allows countries in preferential trade agreements to share production and jointly comply with the rules of origin framework in a preference-granting member); (4) further specifying the voluntary guidelines, first brought forward in MC9, in relation to how WTO members may simplify their rules of origin in order to facilitate market access for LDCs; and (5) restating the 75% threshold of foreign input in products, originally suggested by the LDC group at MC9 (WTO 2013d), this time included as a multilaterally-agreed voluntary guideline.

Discussion

The progress on rules of origin achieved in Nairobi is particularly important because it binds commitments by developed countries to LDCs. However, it will only prove beneficial if implemented together with 'real' DFQF market access. DFQF for the time being remains a 'best endeavor' clause – aimed at developed countries providing DFQF access for 97% of LDC exports. Even if the 97% ambition is implemented, the 3% remaining margin can in effect be sufficient to eliminate any potential exports from LDCs, and thus negate the possible benefits of the agreement on rules of origin. In short, the progress made at MC10 is contingent on the willingness of developed countries to meet their voluntary DFQF commitments, and to refrain from allocating relevant LDC exports under the 3% of imported products not covered by DFQF commitments.

In relation to trade facilitation, the measures agreed in Bali and Nairobi can indeed allow LDCs better integration in GVCs – by reducing the costs of imports, which can in turn increase their export competitiveness in the longer term (Spence and Karingi 2011). But this neither diminishes the importance of creating capabilities to enter and strengthen participation in GVCs, nor explains where such capabilities will come from. The TFA tackles only the 'soft' (administration efficiency) aspects of trade facilitation and neglects to deal with its 'hard' aspects (physical infrastructure) (Portugal-Perez & Wilson 2012). While GVC theory suggests that imports are essential for exporting, most LDCs are currently heavily dependent on raw material exports, and further upgrading is likely to require resources that are not yet present. Therefore, the short-term structural issues that may arise due to import surges and comprehensive restructuring of custom procedures could curtail the long-term benefits of trade facilitation for LDCs. Furthermore, developed countries will also accrue benefits from the TFA, without having to undertake commitments to the same extent. Their exports are not as reliant on primary goods, their positions in GVCs are already well established, and the kinds of GVCs they operate in stand to gain most from trade liberalization and 'soft' trade facilitation (Kaplinsky & Morris 2015).

A broader application of trade facilitation that includes infrastructural investments and that is linked to nimble industrial policy could counteract this process. Domestic infrastructure is one of the main obstacles faced by LDC actors in attempting to access GVCs, along with productive capacity building (OECD et al. 2014, OECD 2015, OECD & WTO 2015, Taglioni & Winkler 2016). Infrastructure directly tied to productive and export capacity is widely recognized as essential for participating in GVCs (OECD et al. 2014, Taglioni & Winkler 2016). The bulk of resources for building productive infrastructure and for supply capacity is unlikely to be raised within trade negotiation frameworks. But making the World Bank Trade Facilitation Support Program and other A4T facilities additional to current ODA would help, as would tying WTO negotiation outcomes to financial commitments for 'hard' trade facilitation.

In sum, delivery on LDC-specific issues at MC9 and MC10 was significant on selected issues, but also exhibits serious limitations (Narlikar & Priyadarshi 2014; Wilkinson et al. 2014, 2016). We should also place the achievements in the perspective of the power of LDCs in the future to negotiate to their advantage (Wilkinson et al. 2016). One of the main issues in the negotiation process for the Nairobi ministerial was the consideration of whether the WTO should abandon the DDA entirely in order to start negotiations on 'more feasible' issues. With the EU and the USA spearheading this point of view, MC10 actually saw the official abandonment of the DDA, which means that the idea of creating *global* trade agreements has been dented. Any effective action for LDCs within the WTO framework implies reinstating the principle of 'single undertaking' in future negotiations. Otherwise, LDCs will no longer have the same negotiating power to shape the agenda partly to their favor. This problem is compounded by the proliferation of large preferential and regional trade agreements such as the TTIP and TPP, which are structurally aligned with developed country trade and regulatory characteristics, and seek to deepen the liberalization agenda beyond what is achievable in the multilateral arena. These agreements are also likely to have detrimental effects on the flexibilities offered within the WTO to developing countries, and especially to LDCs (Palit 2015).

4. Conclusion

In this article, we have argued that nimble trade and industrial policies are essential for LDCs to thrive in a world of global value chains, and that the WTO Doha round of trade negotiations has not provided sufficient steps forward for LDCs. The WTO Bali and Nairobi Ministerial Conferences (MC9 and MC10) were both successes in the sense that they showed the capacity of the WTO to deliver something concrete, which was sorely needed after lacking results since the inception of the Doha round. Yet, the issues tabled by the LDCs themselves achieved only mixed success (Narlikar & Priyadarshi 2014, Wilkinson et al. 2014, 2016). Some issues of importance were indeed taken forward (including on rules of origin and trade facilitation), but meaningful action on the commitments made by the broad membership remains elusive (especially on duty-free and quota-free market access), and supply side constraints faced by LDCs have not been addressed. While MC9 revitalized the DDA, MC10 effectively killed it. LDCs will have a reduced capacity to secure trade-offs when conducting negotiations in agreements that more frequently will only involve smaller groups of countries. The underlying strength of the Doha Development Agenda was to allow developing countries and LDCs to engage more prominently in wider negotiations that would cater to their priorities in exchange for concessions in other areas. But the abandonment of a single undertaking entails that developed countries are now less compelled to engage in negotiations of importance to LDCs.

The WTO agreements on trade facilitation and on rules of origin could be seen as important steps forward for LDCs. In a world increasingly characterized by GVCs and where flexible specialization is becoming more important, the long-run effects of shrinking trade costs could benefit LDC export competitiveness. But the TFA leaves much to be desired by LDCs, since they participate mostly in 'additive' value chains (Kaplinsky and Morris 2015). While nimble trade policies can be beneficial for GVC participation, they do not merely pertain to less red tape and more efficient custom procedures. Nimbleness should also apply to trade and industrial policies that can enable and sustain the dynamic advantages of LDC firms in GVCs. Furthermore, functional infrastructure is essential for nimble trade policy to have the desired effect. WTO rules and future negotiations should therefore allow a bounded use of tools like local content requirements and export taxes in LDCs. While the agreements on trade facilitation and rules of origin can facilitate integration into GVCs by enabling freer imports and exports, supportive industrial policies are also needed to guide investment in the direction that allows for flexible specialization and domestic value addition – these options are severely limited in the current WTO regime.

Given that MC9 was a negotiation of the so-called ‘low-hanging fruit’, and that MC10 effectively ended the development agenda within the WTO, it seems improbable that fruitful negotiations will become any easier for LDCs, despite the apparent inclusivity of the Nairobi negotiations (Wilkinson et al. 2016). The characteristics of trade and industrial policy beneficial to LDCs actually run counter to many views held by developed countries and thus require substantial reconsideration of future agreements, an event unlikely to happen without reinstating the principle of a ‘single undertaking’. Outside the WTO, LDCs on their own face an even steeper uphill struggle in attempting to secure market access, aid for supply-side constraints and policy space for interventionist measures.

Historical analyses of economic development and policy-making have shown that both early- and late-developers were actively interventionist and to a very large extent less open than the LDCs of today during their own development phase. They also show that the (more) liberal trade policies of early-developers only came about once they had attained higher levels of economic development (Chang 2002). But the primary mode of engagement with the global economy today is through GVCs. The development paths of LDCs are thus likely to be different from those of previous developers (Whittaker et al. 2010, 2014). Contemporary industrial policy needs to be focused on building capabilities and on facilitating the engagement in the production of specific intermediate goods in ‘vertically-specialized’ value chains, rather than building front-to-back national production systems. It also needs to be tuned-in to different types of GVC participation. In ‘additive’ value chains, this may entail the imposition of bounded and time-limited local content requirements and/or export taxes to encourage domestic value addition (Kaplinsky & Morris 2015). From this perspective, the future development agenda for LDCs should focus on building adaptive states that can address supply-side constraints, facilitate local backward and forward linkages and domestic value addition, and handle ‘policy stretches’. Adaptive states should implement nimble trade and industrial policies that are modulated to the different needs faced by LDCs in different GVCs and national contexts, including decisions to *not* facilitate participation in GVCs that are likely to exacerbate inequality, deteriorate work conditions and degrade the environment.

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Notes

[1] In this paper, we follow the WTO classification of 'Least-Developed Country' (LDCs), 'developing country' and 'developed country'. The WTO uses the UN list of LDCs, currently including 48 countries – 36 of these have become WTO members to date. The designation as 'developing' or 'developed' country in the WTO is decided by members themselves, although it can be challenged by other members.

***Conflict of Interest Statement**

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Re Manuscript submission ""Least-Developed Countries in a World of Global Value Chains: Are WTO Trade Negotiations Helping?""

With the present we declare that we do not have any conflict of interest that could affect our objectivity, or inappropriately influence our actions in relation to the research that was carried out for this article.

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