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VALUE CHAINS FOR DEVELOPMENT?

Potentials and Limitations of Global Value Chain Approaches in Donor Interventions

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Abbreviations

AUSAID	Australian Government's Overseas Aid Program
BDS	Business Development Services
CSR	Corporate Social Responsibility
DANIDA	Danish International Development Agency
DFID	Department For International Development
DFIs	development finance institutions
EPZs	export processing zones
FAO	Food and Agriculture Organisation
FDI	foreign direct investment
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
GVC	Global Value Chain
IFC	International Finance Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
M4P	Making Market Systems Work Better for the Poor
NGOs	Non Governmental Organizations
OECD	Organisation for Economic Co-Operation and Development
PSD	private sector development
R&D	research and development
SAP	Structural Adjustment Programs
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Agency
SMEs	Small and medium sized enterprises
TNCs	Transnational Corporations
TRIMs	Trade Related Investment Measures
TRIPs	Trade Related Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WTO	World Trade Organization

Abstract

Value chain interventions are increasingly used by international organizations and national donor agencies in the context of their private sector development (PSD) activities. These interventions are broadly labeled as “value chains for development” and share common characteristics such as the focus on improving market access conditions for and upgrading opportunities of developing country firms and producers to promote market-based and often export-oriented development. They differ however also along certain dimensions, most importantly with regard to the explicit focus on broader development objectives, the scope and specific activities supported, and the type of targeted actors for the intervention (Henrikson et al. 2010; Humphrey/Navas-Aleman 2010). The global value chain (GVC) framework and the academic literature on GVCs that has developed in the last two decades are broadly used as a basis for donor-led value chain interventions.

The paper argues that taking the GVC framework as a basis for interventions to support private sectors in developing countries has the potential to make PSD interventions more effective in terms of improving economic and social outcomes of participating in international trade and global production. To secure the effectiveness of value chain interventions and their development effects, two factors are however critical: First, integration in GVCs should not be seen as “a panacea” for development but as “windows of opportunity” (Phillips/Henderson 2009: 60) that can have important development effects but should be complemented by more locally and regionally based development approaches (that may in itself involve the development of local or regional value chains). Second, the critical tradition and broader perspective of the GVC literature needs to be brought back and taken into account when re-designing existing or initiating new generations of value chain policies and interventions (Neilson/Pritchard 2011), in particular the focus on structural and asymmetric power relationships, the ambivalent role of lead firms, the important role of institutions and particularly the state and strategic state policies, and the focus on broader socio-economic and poverty reducing effects.

1. Introduction

Value chain interventions are increasingly used by international organizations and national donor agencies in the context of their private sector development (PSD) activities. These interventions are broadly labeled as “value chains for development” and share common characteristics such as the focus on improving market access conditions for and upgrading opportunities of developing country firms and producers in global value chains (GVCs) with the broader objectives of promoting private sectors and market-based and often export-oriented development. They differ however also along certain dimensions, most importantly with regard to the explicit focus on broader development objectives (i.e. poverty reduction, decent work, gender equality, environmental sustainability), the scope and specific activities supported (i.e. firm-level or meso and macro level support), and the type of targeted actors for the intervention (i.e. international lead firms or local firms/producers or institutions) (Henrikson et al. 2010; Humphrey/Navas-Aleman 2010).

The GVC framework and the academic literature on GVCs that has developed in the last two decades are used as a basis for donor-led value chain interventions. As Neilson and Pritchard (2011) point out, they however tend to focus on certain aspects of the GVC framework that can be aligned with mainstream approaches to development and particularly PSD such as market- and export-led development and “markets for the poor”. They often do not take into account other crucial dimensions of the GVC literature and its critical tradition in the world system theory, in particular the existence of structural and asymmetric power

relationships in the global economy, interest conflicts and the ambivalent role of lead firms in value chains, and the important role of institutions and particularly the state and strategic state policies (Neilson/Pritchard 2011). Further, even though many donor interventions focus on development objectives most importantly poverty reduction, these objectives are often not thoroughly integrated in value chain interventions.

The paper argues that taking the GVC framework as a basis for interventions to support private sectors in developing countries has the potential to make PSD interventions more effective in terms of improving economic and social outcomes of participating in international trade and global production. To secure the effectiveness of value chain interventions and their development effects, two factors are however critical: First, integration in GVCs should not be seen as "a panacea" for development but as "windows of opportunity" (Phillips/Henderson 2009: 60) that can have important development effects but should be complemented by more locally and regionally based development approaches (that may in itself involve the development of local or regional value chains). Second, the critical tradition and broader perspective of the GVC literature needs to be brought back and taken into account when re-designing existing or initiating new generations of value chain policies and interventions (Neilson/Pritchard 2011).

This paper provides an analysis of the use of value chain interventions in development cooperation in the context of the increasing importance of GVCs in the contemporary economy and the critical tradition of the GVC literature.[1] Part 1 gives an overview of changes in global production and international trade in the last three decades that led to the increasing importance of GVCs in a diverse set of sectors and to new opportunities and challenges for developing country firms, producers and workers. Part 2 introduces the GVC approach, its roots and achievements in analyzing how global production is organized and how this affects the development prospects of firms, regions and countries. Part 3 discusses value chain interventions by international organizations and national donor agencies focusing on common characteristics and differences of their approaches. Part 4 identifies limitations of the "value chain for development" approach commonly used in development cooperation focusing on the selective application and the omission of some crucial dimensions of the GVC literature. The last part concludes.

2. Changes in Global Production and International Trade

The global economy, and in particular the organization of global production and international trade, has changed significantly in the last three decades in the context of globalization. This change has a quantitative dimension, as reflected in a considerable rise in trade (as a share of output) and in foreign direct investment (FDI) since the 1980s. But the qualitative change in the structure of international trade and global production is even more significant. Today, the global economy is increasingly structured around highly fragmented and geographically dispersed value chains where transnational corporations (TNCs) break up the production process in different parts and locate them on a global scale. Such global production arrangements – which have been referred to as "integration of trade and disintegration of production" (Feenstra 1998) – can be found in sectors as diverse as apparel, footwear, automobiles, electronics, commodities such as fruits, vegetables, coffee and cocoa, and services such as tourism, business related services and bio-technology and are mirrored by the rising share of intermediate products in total trade.

[1] The objective of the paper is not to compare different donors' value chain interventions and evaluate their effectiveness or impact. It aims to identify common roots of these interventions in the GVC literature, common characteristics and omissions of certain dimensions of GVC research.

Several factors have contributed to these transformations. Starting in the 1970s TNCs have increasingly concentrated on their "core competencies" such as research and development (R&D), marketing and branding. Manufacturing, and increasingly other functions that were formerly considered core activities such as input sourcing, logistics or design, have been gradually contracted out to suppliers and to countries with cost-advantages. TNCs not only relocated certain activities to developing countries (offshoring) but also increasingly moved away from direct forms of control over production (e.g. through FDI) towards more indirect forms (i.e. outsourcing to independent supplier firms). The underlying rational for this re-orientation is that these intangible activities are less prone to competition as they are based on unique resources and capabilities that other firms find difficult to acquire, and, hence, they are sources of superior returns (Kaplinsky 2005). As a result, there has been a significant change in the industrial organization driven by TNCs across a variety of sectors shifting the focus away from internal scale economies via vertical integration towards external economies related to outsourcing (Gibbon/Ponte 2005). This shift does however not mean that TNCs have become less important in global economic activity, but that many of them changed their role from being global producers to become global buyers and coordinators of value chains.

This change was enabled by a shift to a more outward oriented development model in most parts of the developing world. Against the background of the economic growth success of the "East Asian tigers" (i.e. South Korea, Taiwan, Hong Kong and Singapore) and their export-oriented development approach[2] and the debt crisis in the beginning of the 1980s, many developing countries abandoned the import-substituting, state-led industrialization policies they had adopted in the post-war period and turned to export-oriented industrialization. This turn was often part of broader reform packages – based on the emerging "Washington Consensus" (Williamson 1989) – that included trade and financial market liberalization, privatization of state-owned enterprises and deregulation of labor markets driven by the World Bank and the International Monetary Fund (IMF) through the conditionalities of their Structural Adjustment Programs (SAPs). This policy shift made low-cost labor and manufacturing capacities that had also been built up during the previous more inward oriented period globally available. One indicator of this shift is the growth of export processing zones (EPZs) and similar arrangements across many developing countries.[3]

Hence, changing competitive strategies of largely developed country-based lead firms and the turn to export-oriented growth strategies in most developing countries as well as trade liberalization orchestrated by the World Trade Organization (WTO) and advances in transport, information and communication technologies that made the transfer of production processes to geographically dispersed locations possible, have led to a massive globalization of production. Fröbel et al. (1980) were among the first to uncover these changes, in particular the emergence of export-oriented manufacturing in many developing countries, which led them to coin the term "new international division of labor". In the beginning offshoring and outsourcing remained limited to rather simple, labor-intensive production steps in specific sectors, in particular apparel and electronics. However, these arrangements became more complex and extended to a large range of manufacturing, agriculture and services sectors as the organizational and technological capabilities of TNCs to functionally integrate geographically dispersed activities grew (Levy 2005).

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[2] The "East Asian tigers" are often used as a "proof" of the positive development effects of integration into GVCs. However, the replicability of their development process for other developing countries is questionable. Further, it is often not stated that interventionist state policies, in particular industrial and trade policies had an important role in the upgrading and development processes of these countries (Amsden 2001; Chang 2003).

[3] The number of countries using EPZs increased to 130 in 2006, up from 116 in 2002 and 25 in 1975 (Milberg 2007). These 130 countries operate 3,500 EPZs, employing 66 million people. China has recorded by far the largest expansion of EPZs – it is estimated to have 40 million people working in EPZs or EPZ like operations. But also outside of China employment in EPZs doubled between 2002 and 2006 from 13 to 26 million. By 2006 all regions in the world, with the exception of South America, had a fairly large presence of EPZs in terms of employment (Singa Boyenge 2007).

These transformations in global production have crucial implications in terms of global trade, production and employment and how developing country firms, producers and workers are integrated in the global economy. The extension of GVCs and the offshoring and outsourcing of production from developed country firms have often provided a stepping stone for developing country firms to integrate into the global economy and contributed to the significant increase in productive capacities and manufacturing exports in developing countries in the last three decades. Participation in GVCs can facilitate access to external and diversified markets, economies of scale and scope, technological learning and knowledge transfer as well as access to competitive imports for local or export production. However, integration into GVCs can also lock firms and countries in low value added activities relying on static competitive advantages in terms of low production (often labor) costs without long lasting benefits for learning and development. In such a context, the value added from manufacturing activities performed in GVCs has not increased markedly compared to previous commodity-based exports (Milberg 2004; Kaplinsky 2005). The call from the United Nations Industrial Development Organization (UNIDO) for a new category of "Least Developed Manufacturing Countries" in addition to the existing "Least Developed Countries" which are "specialized" in agriculture and resource-based production, is illuminating in this regard (UNIDO 2009a).

These challenges are closely related to heightened competition in global markets and the asymmetric market and power structures embodied within GVCs. The shift to export-oriented development by an increasing number of developing countries and particularly the export share of large emerging countries such as China and India have made external markets very competitive complicating export-led development of lesser developed countries (Kaplinsky 2005; UNIDO 2009a). Although many developing countries have made the transition to manufacturing exports, they have suffered from stagnating or declining terms of trade that can be labeled as a contemporary Prebisch-Singer dilemma (UNCTAD 2002; Kaplinsky 2005; Milberg 2007). With the rise of GVCs, Prebisch-Singer structural problems are not only about the nature of the products (as explained for developing countries' specialization in agriculture and natural resource based production[4]; Prebisch 1950; Singer 1950) but about trading relations per se (Milberg 2007). Lead firms outsource "commodity-like" activities that command low value-added while they retain direct control over intangible, high value-added activities. These are generally characterized by high entry barriers such as high technological, organizational and skill requirements which allow capturing rents (Nolan et al. 2002; Kaplinsky 2005; Levy 2005). Low value-added activities are generally characterized by low entry barriers and high competition which makes it difficult to capture rents and increase value-added, profits and wages (Milberg 2004).

Notwithstanding these structural asymmetries, market and power structures within GVCs are contingent and complex as different degrees of power or powerlessness are usually found along chains (Altenburg 2007). This is reflected in the diffusion of knowledge-intensive activities, including R&D and innovation, particularly in Asian countries. In several sectors, such as automotive, electronics, and apparel, large powerful supplier firms have emerged in newly industrialized or emerging countries that bundle diverse activities, coordinate complex production and sourcing networks, and assume influential positions in GVCs (Appelbaum 2008). These suppliers have developed a global footprint and have challenges at least to a certain extent the power of traditional lead firms. Lead firms have also emerged in some developing countries that not only sell domestically, but increasingly on regional and global

[4] The Prebisch-Singer thesis explains the declining terms of trade of commodities relative to manufactured goods in terms of fundamental differences between commodities and manufactured goods both on the demand and the supply side such as the low price- and income-elasticities of demand for commodities as compared to manufacturers; the existence of synthetic substitutes for commodities; the technological superiority and asymmetric power relationships in favor of developed countries; the nature of technological change with higher growth rates in manufacturers; and the asymmetric division of the benefits of productivity improvements related to labor market differences (i.e. labor union power in developed countries and labor surplus in developed countries) (Prebisch 1950; Singer 1950; Nissanke 2011).

markets. The growing importance of developing country markets, particularly in large emerging countries, has supported this trend (Staritz et al. 2011). However, despite these contingencies, integration into GVCs has an ambivalent record with regard to development outcomes, and efforts of developing country suppliers to improve their positions, increase value added and capture the gains of participating in global production have been contested.

In this context, industrial and broader development policies face a very different policy and economic environment today than three decades ago. To take advantage of the opportunities and to minimize the dangers resulting from this global environment firms and countries need to increase competitiveness which involves upgrading of their productive capacities and industrial structures (Kaplinsky/Morris 2001). This does not only involve export markets but also domestic markets where widespread liberalization has increased competition through imports and has made import-substitution industrialization strategies or other ways of protecting and supporting local productive capacities more difficult (Kaplan et al. 2011). But besides increasing competitiveness, firms and countries need to make sure that they "capture the gains" of integration into and upgrading in GVCs in terms of increased and sustainable incomes, national economic and social development, capability building, employment generation and poverty reduction (Kaplinsky 2005; Kaplinsky/Morris 2001). In the context of heightened competition in both external and domestic markets, this has become increasingly contested and requires strategic development policies.

3. Roots and Achievements of Global Value Chain Research

Alongside the profound changes in international trade and global production a new strand of literature has emerged in the last two decades that uses chain or network frameworks to conceptualize and analyze economic globalization and in particular how global production is organized and governed and how this affects the development prospects of firms, regions and countries (Coe/Hess 2007). Two main strands of chain and network frameworks can be identified. The first has its roots in management sciences and is most often related to Porter's value chain approach (e.g. Porter 1986). The key focus of analysis is the firm, its supply chain, and opportunities and constraints to increase firm-level competitiveness. The second has its roots in development studies and therefore addresses the whole process of value creation along the chain and broader issues such as development strategies, income distribution and entry barriers (Altenburg 2007). Donor-led value chain interventions refer to both of these strands but the second is more prominent and relevant from a broader development perspective.

The conceptual origins of chain and network approaches in the development studies strand can be traced back to the world system theory where the term commodity chain was first used at the end of the 1970s by Hopkins and Wallerstein (1977, 1986). They used commodity chains to analyze the unequal distribution of competition and surplus-value and the associated uneven development outcomes at a global scale. A key contention of the world system theory is a critique of the modernization theory and its optimistic view on global unevenness and development opportunities (Neilson/Pritchard 2011). In contrast, they stress the role of global power relations and exploitive structures embedded in commodity chains that structure and reproduce a hierarchical world system that consists of core, semi-periphery and periphery. This "developmentalist illusion" is explained by: "(...) unequal exchange operating through a set of mechanisms (...) that continually reproduces the basic core-periphery division of labor itself – despite massive changes over the centuries in the actual organization of production processes and continual shifts in the areas and processes constituting the core, semi-periphery and periphery" (Hopkins/Wallerstein 1977: 117).

Later chain and network approaches in development studies have their roots in the world system's commodity chains but differ in two crucial aspects: First, in their focus on contemporary processes and the meso (sector) and micro (firm) level of analysis in contrast to the world system's historical macro perspective; and second in their focus on analyzing how the positions of firms, regions and countries in the developing world can be improved conceptualized as upgrading within GVCs which deviates from the "developmentalist illusion" of the world system theory. These two deviations have made the latter approaches applicable for policy-related research and policy formulation, particularly in the area of PSD, with the GVC approach becoming the most influential conceptual framework in terms of development research and policy.[5]

GVC analysis explores how the linkages between the production, distribution and consumption of products are globally interconnected along value chains that embody a network of activities and actors and how developing country firms and producers can enter and improve their positions within these chains (Gereffi 1999; Sturgeon 2002; Kaplinsky/Morris 2001, Kaplinsky 2005). By focusing on the sequences of tangible and intangible value-adding activities, from conception through the different phases of production to end use, GVC analysis provides a holistic view of global industries – both from the top down (for example, examining how lead firms govern their global-scale affiliate and supplier networks) and from the bottom up (for example, asking how these business decisions affect the trajectory of upgrading or downgrading in specific countries and regions) – and the implications for both firms and countries. The activities that compose a value chain can be locally based but in the context of globalization, they are often carried out in inter-firm networks on a global or regional scale (Gereffi 1999; Gereffi/Kaplinsky 2001; Staritz et al. 2011).

GVC analysis covers generally four main dimensions (Gereffi 1994, 1995): (i) the input-output structure identifies the key economic activities and value-adding stages encompassed in the transformation of raw materials and other inputs into finished products; (ii) the territorial configuration maps the geographic scope and the different geographic scales (local, national, regional, and global) at which GVCs operate; (iii) governance structures highlight the power relations within GVCs and particularly the role played by lead firms (i.e., the firms that coordinate and govern GVCs) in establishing product specifications, technical standards, and cost and performance structures according to which global industries operate; and (iv) the institutional context assesses how local, national and international regulations, policies and contexts shape GVCs. Most research has focused on the governance dimension and the role of lead firms in governing GVCs. In contrast to traditional trade and production studies that neglect power relations (and often assume that trade is organized through market-based arm's-lengths relationships), this has allowed understanding how power is exercised in global industries, reaffirming claims of the literature on post-Fordism and flexible specialization, namely, that power and control are not necessarily correlated with equity relations (Bair 2005). The GVC framework has however been criticized for its insufficient attention to the spatial/territorial dimension as well as to the institutional and social contexts of chains (Henderson et al. 2002; Coe et al. 2008).[6]

[5] Three major strands of research can be directly related to the world system's commodity chain approach, namely the global commodity chain (GCC), GVC and global production network (GPN) approach. These three approaches share important similarities with regard to theoretical questions and empirical concerns but they still derive from different theoretical and disciplinary domains and focus on different aspects. For a discussion of the differences of these approaches, see Bair 2005, 2009; Coe et al. 2008; Hess 2009; Plank/Staritz 2009, 2011. There are other approaches that can be also subsumed under the development studies' strand of chain and network frameworks such as Perroux' growth poles, Hirschman's linkages, the offshoring analysis of Fröber, research on the agriculture sector, including commodity system analysis, systems of provision, and the filiere approach, and work on clusters (for more detail see Bair 2009; Altenburg 2007).

[6] In particular the GPN approach has extended the GVC approach in these two dimensions, stressing territorial considerations and the embeddedness of value chains in social and institutional contexts. This approach stems from the early recognition that economic activity and actors' behaviors are strongly influenced by the social context in which they

The concept of upgrading has developed to a cornerstone of GVC research. It is defined as the process by which economic actors – countries, regions or firms – improve their positions in the international hierarchy of value-added activities, moving from low-value to high-value activities to increase the benefits (e.g. security, profits, value-added, capabilities) from participating in GVCs (Bair/Gereffi 2003). Initially, the concept of upgrading was used to describe the development trajectories of export-oriented countries and regions as they seek to change their export role in the international hierarchy of value-added activities. The focus subsequently shifted towards the industry and firm level to analyze the position and capabilities of firms in developing countries. Humphrey and Schmitz (2001, 2002) proposed an influential fourfold upgrading classification: (i) functional upgrading as reflecting the initial ideas that an improvement in the position of firms would result from increasing the range of functions performed or a change in the mix of activities performed towards higher value tasks; (ii) process upgrading as yielding efficiency gains by reorganizing the production system or introducing new technologies; (iii) product upgrading as moving into more sophisticated product lines; and (iv) inter-chain upgrading as allowing to use the capabilities acquired in one chain to be capitalized in another more technologically advanced chain.

In the GVC literature it is stressed that upgrading processes are shaped by the type of value chain in which developing country firms are inserted, and in particular by the governance structure of chains. Governance structures determine the power relations among the different actors involved in the chain and the flow and allocation of resources within chains. Hence, they determine the prospects of firms in developing countries to engage in GVCs and how the benefits of participation are distributed along the chain (Gereffi 1999; Gereffi et al. 2001; Gereffi et al. 2005; Kaplinsky/Morris 2001). Lead firm governance strategies can both enable and constrain upgrading prospects of supplier firms (Humphrey/Schmitz 2001, 2002). Coe and Hess (2007: 2) state that "chain and network approaches acknowledge that governance structures and their related power asymmetries within a chain/network have a major impact on firm-level upgrading prospects and the related regional development opportunities of the places they interconnect". Despite important sector, country and firm differences, lead firms are generally more supportive in process and product upgrading that leads to more efficient and higher quality production in their value chains. Functional upgrading is, however, only supported as long as it does not encroach on the core competencies of lead firms, which are activities with high returns and entry barriers such as design, branding, marketing and R&D. Hence, lead firms have the potential to block suppliers' attempts to reposition themselves in the chain, particularly in relation to moving into more knowledge- and rent-intensive chain-activities (Kaplinsky/Morris 2001; Kaplinsky 2005).

Research on GVC upgrading has received considerable attention by development country governments and international organizations in recent years focusing on questions such as: "(…) How economic actors gain access to the skills, competencies and supporting services required to participate in global value chains? What potential is there for firms, industries, and societies from the developing world to 'upgrade' by actively changing the way they are linked to global value chains?" (Gereffi et al. 2001, 2) Conventional trade theory sees trade patterns determined by comparative advantage and the underlying differences in factor endowments across countries and assumes trade relations to be based on arms-length market-based transactions. In contrast, the GVC approach shows how production and trade are, to a varying degree, coordinated and shaped by economic actors, in particular lead firms and goes beyond a focus on factors of production in understanding the role of firms and regions in global markets and the benefits of international trade (Altenburg 2007). "This opens up a way of looking at trade and production networks as opportunity structures for organizational learning on the part of developing countries. Not only can local firms access

operate (Granovetter 1985), and encompasses not only the economic and commercial actors involved in global production, but also the whole range of actors operating in the social and institutional context (Henderson et al. 2002).

international markets via such chains, but the implications is that firms can actively seek to change the way that they are linked to global chains in order to increase the benefits they derive from participation in them – a process of repositioning that is called upgrading" (Bair 2009: 29).

4. Global Value Chains and Development Cooperation

The GVC framework, and in particular its upgrading concept, has received considerable attention by local and national governments, non-government organizations (NGOs), international organizations, and national development agencies since the late 1990s and 2000s, and has informed their development strategies, policy interventions and programs. Most major international organizations and national donor agencies have developed their own value chain approach with more or less full-fledged methodologies and tools (Henriksen et al. 2010), including UNIDO, the International Labour Organisation (ILO), the World Bank and the International Finance Corporation (IFC), the Food and Agriculture Organisation (FAO), the Organisation for Economic Co-Operation and Development (OECD), *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ), United States Agency for International Development (USAID), Swiss Agency for Development and Cooperation (SDC), Danish International Development Agency (DANIDA), Swedish International Development Agency (SIDA), and Australian Government's Overseas Aid Program (AUSAID).[7] Some other agencies have not developed an explicit value chain approach but GVCs have an important role in broader PSD programs such as DFID's "Making Market Systems Work Better for the Poor" (M4P). Donor-led interventions that are based on these value chain approaches have increased considerably and have been labeled as "value chains for development".

The increasing importance of the GVC approach in policy and program formulation is closely related to the shift towards PSD in development approaches in the early 1990s which stresses the important role of the private sector in furthering economic development, generating employment and reducing poverty. The focus on the private sector goes along with a shift in development thinking that started in the 1980s away from the central role of the state as the prime mover of development towards the private sector. This shift is closely related to privatization of state owned enterprises, liberalization, deregulation and strengthening market forces, increasing competition and reducing and refocusing the role of the state (Schulpen/Gibbon 2001). In the 1980s this shift was promoted by key international organizations, most importantly the World Bank whose private investment arm – IFC – has considerably increased in importance in lending activities (Küblböck 2004). In the 1990s most national donor agencies also developed programs that focus on developing and supporting the private sector. Private sector lending by donors has been increasingly channeled through development finance institutions (DFIs) (Gössinger/Raza 2011). DFID describes the key role of the private sector in development as follows: "The private sector is the engine of innovation, investment and growth. Vibrant, competitive markets populated by dynamic private companies offer the most effective way to create wealth, jobs and prosperity for all on a sustainable basis." (DFID 2008: 5)

Approaches encouraging PSD have evolved in the last three decades from supply side-focused to more demand side interventions (Humphrey/Navas-Aleman 2010). In the 1980s, the focus was on the provision of financial and other support services to individual firms which shifted to a focus on the functioning of markets, including the market-based development of business development services (BDS), and the overall business environment in the 1990s. In the late 1990s and the 2000s, value chains and other concepts that focus on

[7] These approaches were developed in policy papers or manuals and guides. For UNIDO see f.e.: Kaplinsky/Readman (2001), UNIDO (2009b, 2011) and for GIZ: Stamm (2004).

linkages between firms and private and public support institutions such as clusters have gained in importance (UNIDO 2010). In this context, donor agencies often combine GVC approaches with their existing PSD programs, particularly in the area of export expansion and competitiveness.

By focusing on the whole value chain and the role of governance structures and by stressing that competitiveness is defined not only by the actions of individual firms but by the suppliers and buyers who ultimately deliver the product to the final customer, the GVC approach has provided advantages to traditional PSD approaches. In particular the global focus of the GVC approach that recognizes that trade and productive activities are increasingly organized across borders by lead firms that set standards and performance structures, constitutes an advancement compared to cluster and local economic development oriented PSD approaches. The latter often adopt a rather inward-looking perspective, neglecting the important role of global competitive dynamics, international trade relations and lead firms in governing market access and upgrading prospects (Altenburg 2007). These global dynamics are however important to understand "how these relationships are coordinated, what the rules of the game are, who takes the relevant decisions and what these imply for the inclusion or exclusion of subordinate trading partners, their opportunities for technological learning and the distribution of rents and risks." (Altenburg 2007: 4) With its focus on identifying constraints and opportunities for different actors to access and upgrade within value chains, the GVC approach provides further a basis for policy and program formulation.

Donor-led value chain interventions have several common characteristics. However, they also differ along certain dimensions, most importantly with regard to the explicit focus on broader development objectives (i.e. poverty reduction, decent work, gender equality, environmental sustainability), the scope and specific activities supported (i.e. firm-level or meso and macro level support), and the type of targeted actors for the intervention (i.e. international lead firms or local firms/producers or institutions) (Henrikson et al. 2010; Humphrey/Navas-Aleman 2010). The main common characteristics and differences are discussed in the following:

Market access and upgrading: The focus of donor-led value chain interventions is largely on improving market access conditions for and upgrading opportunities of developing country firms and producers to promote market-based and often export-oriented development. By improving access to markets and facilitating the effective operation of markets and value chains, value chain interventions aim to increase the benefits from domestic and global market development for developing country firms and producers (Humphrey/Navas-Aleman 2010). As productive capacities are underdeveloped in many developing countries, a strong focus is on upgrading which is broadly understood as increasing the efficiency and competitiveness, and through this value added and benefits of participation in value chains. Further, the importance of linkages between firms and producers as well as to (potential) end markets and lead firms in these markets is emphasized which are often inefficient or missing in developing countries and hence reduce market opportunities and/or the benefits of market-oriented production. Market entry and upgrading is achieved by assisting supplier firms and producers to access information and resources, develop linkages with other firms and producers, comply with lead firm requirements and standards, increase productivity, acquire new skills, competencies and capabilities, and take on new functions associated with higher value added activities.

Poverty reduction: Donor-led value chain interventions generally emphasize their potential for reducing poverty as they aim to improve the opportunities and incomes of poor producers, entrepreneurs and workers. The focus is hence on promoting markets and PSD in ways that reduce poverty by improving access of the poor to markets and support services and influencing the distributive outcome of market processes. As GTZ (2008) describes it: "Value

chain promotion thus harnesses market forces to achieve development goals. It is oriented towards business opportunities, and consciously builds on the existing or emerging economic potential of the poor." However apart from this general assumption, the extent to which poverty reduction and other development objectives (e.g. decent work, gender equality, environmental sustainability) are explicitly integrated in value chain interventions varies considerably (Henrikson et al. 2010). Some approaches focus solely on making value chains work more efficiently and have little or no poverty focus apart from the overall assumption that benefits will automatically reach the poor as "(…) the incomes and security of poor producers and/or the employment prospects of poor people can be enhanced if value chains function more effectively" (Humphrey/Navas-Aleman 2010: 22). Often value chain interventions are qualified pro-poor on the basis of the sectors, geographical areas or type of beneficiaries (i.e. small producers, micro firms, small and medium sized enterprises (SMEs)) targeted. In particular targeting micro and small firms and producers is often assumed as pro-poor; a focus on poor workers (that are also found in larger firms) is less widespread. Some interventions more specifically address the constraints that prevent poor people from participating in or benefiting from value chain participation. Several interventions also explicitly focus on women or poor women as produces and entrepreneurs with the objective to reduce gender-intensified constraints in participating and upgrading in GVCs (Riisgaard et al. 2010).

Market-based support services: Value chain interventions differ with regard to the specific activities conducted and levels targeted. As with PSD interventions in general, intervention levels can be differentiated in international, macro, meso and micro (Schulpen/Gibbon 2001). The international level involves the trade regime, access to foreign investment, etc. The macro level encompasses macroeconomic policy, infrastructure, governance, education and human capital issues and the meso level the institutional infrastructure. Interventions at the micro level target individual or groups of firms. Value chain interventions generally focus on micro or meso level interventions as well as on the business enabling environment. Some interventions focus directly on increasing the capabilities of target groups, particularly with a focus on weak actors in value chains; others on establishing and strengthening linkages between firms along the chain; and others on improving business services and the broader business environment that affects how well chains operate. In line with the shift from individual firm-based interventions towards more generic market-based service delivery in the broader context of PSD, value chain interventions have increasingly focused on developing more generic but often sector-specific market-based business support services, including the collection and dissemination of market information and standards, the assistance in areas such as technology upgrading, quality management and skill training, and various networking programs between supplier firms and between suppliers and lead firms, and creating an enabling business environment for firms and value chains. However, several donor interventions still involve selective interventions focusing on individual firms or groups of firms (e.g. UNIDO).

Involvement of lead firms: Important issues in value chain interventions relate to market access and understanding and complying with the specific requirements and standards of export markets and lead firms. In this regard, value chain interventions often try to mobilize and leverage the technological and organizational knowledge advantages and resources of lead firms to help suppliers and produces to access markets and knowledge, build linkages and upgrade their activities (Altenburg 2007). Lead firms have an important impact on competitiveness, inclusion (and exclusion), and upgrading possibilities in chains as they determine what is produced and how it is produced, conditions of entry and upgrading, and the distribution of revenues. They define the requirements and standards that existing and potential suppliers have to meet to enter and upgrade and hence know best what suppliers need to change to meet these conditions and achieve and sustain competitiveness. Further partnership with lead firms secures access to orders and markets and hence production and

employment. Lead firms are therefore used as points of leverage due to their powerful positions which may lead to a greater impact on the development prospects of local firms and producers (Altenburg 2007).

Hence, there is a difference between value chain interventions that focus on lead firms or even use them as implementing agents and interventions that do not cooperate with lead firms. In this regard, Humphrey and Navas-Aleman (2010) differentiate between "lead firm projects" and "value chain linkages projects". In the first, lead firms, often large transnational companies, are the key implementing partners that are used as agents for the upgrading of local firms and producers. Donor assistance is often funneled through lead firms to local firms and producers with the objective of incorporating them into the lead firms' value chains, encouraging business promotion, and the transfer of knowledge and resources from lead firms to suppliers. Lead firms projects therefore often take the form of linkage or matchmaking, supplier development, and technology transfer projects. Such projects seek to provide advantages for lead firms in improving their local sourcing conditions but to different degrees they also try to change lead firms' strategies in terms of making them more inclusive, sustainable and advantageous for (existing and potential) local suppliers.[8] In value chain linkages projects, local firms or producers are directly assisted to access markets, develop linkages and upgrade their activities without any coordination with particular lead firms.

5. Limitations of "Value Chains for Development"

Taking the GVC approach as a basis for interventions to support firms and private sectors in developing countries has the potential to make PSD interventions more effective in terms of improving the competitiveness and economic value added but also social and particularly pro-poor outcomes of participation in international trade and global production. As Neilson and Pritchard (2011) point out, the value chain approaches used as a basis of donor's "value chain for development" interventions often focus however on certain aspects of the GVC framework that can be aligned with mainstream approaches to development such as comparative advantage, export-orientation, market-led development and "markets for the poor". But they tend to omit other crucial dimensions of the GVC literature, particularly related to its critical tradition in the world system theory. The following dimensions are in particular crucial to understand inclusion and exclusion, upgrading prospects and constraints, the distribution of rewards, and broader development effects in value chains.

Structural and asymmetric power relationships: Shifts in global supply and demand structures leading to increased competition between developing countries have had a decisive impact on developing countries' export-oriented development strategies (Kaplinsky 2005). In the late 1960s and 1970s when the "East Asian tigers" embraced export-oriented development strategies, their exports competed primarily with domestic producers in developed countries that were squeezed out of their domestic markets. Today, however, the growth of, particularly labor-intensive exports from developing countries is largely at the expense of producers in other developing countries (Morris 2006). This has been accelerated

[8] A specific type of lead firm projects is cost-sharing grant schemes that are offered to firms, largely lead firms that present ideas for activities that go beyond their business activities (i.e. additionality), enhance competitiveness, and generate pro-poor benefits in developing countries (Altenburg 2007). In these projects, lead firms are generally expected to implement the project, contribute a significant share of the project costs and take on the risk of failure. Beyond co-funding, donor agencies are either not involved, or their role is limited to certain complementary services. Many of such projects involve value chain interventions (e.g. support for local firms and producers, introduction of certification, development of training programs for workers). A problem of such programs is that it is often even more difficult than in other lead firm projects to segregate the limits of lead firms' business interests and additional development effects (Altenburg 2007).

by lead firms' strategies to concentrate on high-value activities and outsource low-value activities that have low entry barriers and where there is high competition between developing country suppliers. These processes have led to deteriorating terms of trade for developing countries that are specialized in labor-intensive exports in the last two decades as discussed above. Such terms of trade and related cost reductions may be inevitable to sustain or improve the competitive positions of suppliers and the whole value chain, but it may lead to "immiserizing growth" where economic activity is increasing (in terms of output and employment) but returns are falling (Kaplinsky/Readman 2001). This leads to crucial questions in terms of inclusion and exclusion and the distribution of value added and incomes in the context of asymmetric market and power structures within value chains.

Upgrading takes place in the context of such asymmetric power relations. In value chain interventions, upgrading is often perceived as a mechanical and linear process where firms in developing countries learn from lead firms and subsequently move up in the value-added hierarchy. But upgrading processes are complex and contested. The GVC literature shows from upgrading experiences in different regions and sectors that firms struggle to upgrade with mixed results and suggest that even firms which "succeed" in upgrading do not necessarily gain the rewards with which upgrading is generally associated such as increased incomes and security (Schrank 2004; Kaplinsky 2005; Gibbon/Ponte 2005; Ponte/Ewert 2009; Plank/Staritz 2011). Upgrading to more efficient production processes, higher value products and/or broader capabilities may be advantageous for one firm or country. But if many firms or countries upgrade and offer similar levels of efficiency, product sophistication and capabilities, these capabilities may become the new industry standards for suppliers and may not lead to extra rewards. Knorringa and Pegler (2006: 474) describe that in the context of increased competitive pressures "(...) all potential suppliers are 'running to stand still': when all suppliers with limited bargaining power upgrade their products and production processes they cannot earn a premium from that investment (…)". Hence, upgrading is a necessary condition for gainful incorporation in the global economy but not necessarily a sufficient to secure higher and sustainable incomes and broader development effects (Kaplinsky/Readman 2001).

Donors need to include these structural and asymmetric power relationships in a systematic analysis of GVCs, access and upgrading prospects and broader development effects, and particularly in the development of policy interventions. If not well-designed, value chain interventions and other export expansion programs may even accelerate asymmetries and competitive pressures by supporting some developing country producers to become more competitive compared to their competitors. This creates winners and losers and triggers processes of inclusion and exclusion at the local and global level as firms and regions that are not part of such support programs may be losing out and may be excluded from global markets. Further, many interventions focus on upgrading but not on how the benefits (and potential costs and risks) of increased productivity and competitiveness are distributed, and if local producers can capture the gains of such improvements or if they are forced to siphon these gains to their buyers and ultimately to lead firms. It is crucial to understand the structure of value chains, ongoing processes of structural change and competitive pressures, and power asymmetries between firms that determine how entry barriers are created and how gains and risks are distributed. If interventions are not aware of existing power structures in chains this may result in the consolidation of such structures rather than the achievement of a more equitable distribution of risks and gains. The main objective of such interventions should be exactly to change these power relations to ensure higher local value added and sustainable development effects.

The GVC literature with its focus on the governance structures of value chains that is understood as more than firm level relationships in the form of coordination but involves an analysis of power asymmetries, provides a lenses to analyze such asymmetries. The GVC

literature stresses that value chains exhibit asymmetric power relations that affect entry barriers and rents and therefore inclusion and exclusion, upgrading prospects and the distribution of value added and incomes along the chain. Although the GVC approach has focused on integration at the global level, it can also provide a basis to assess alternative development trajectories beyond export-orientation, in particular in the context of increasing regional trade. While most value chain interventions have been biased towards global chains, the co-existence of other, local or regional, chains has been largely disregarded. But these chains may provide viable alternatives especially (but not only) for smaller producers and may provide better deals in terms of prices, sustainability and learning due to their local or regional embeddedness, different relationships and entry and upgrading prospects (Pickles/Smith 2010; Morris et al. 2011; Staritz et al. 2011).

Interest conflicts: Actors in value chains have different interests that may coincide in some cases but diverge in others. These specific, and sometimes conflicting, interests of different actors need to be taken into account to ensure the effectives of value chain interventions (Altenburg 2007). With regard to lead firms, in particular lead firm value chain projects often assume that the interest of lead firms is or can be aligned with supplier interests and broader development objectives in developing countries. In this regard, some value chain interventions conflate lead firm interests and supply chain management concerns of individual firms too easily with development benefits and priorities of suppliers and developing countries (Neilson/Pritchard 2011). Supplier development and knowledge transfer programs may align lead firm, local supplier and public interests as lead firms' sourcing may become more efficient while at the same time local spillovers are ensured leading to employment generation, improved competitiveness and technological skills in supplier firms and countries. But there are also conflicts of interests between lead firms and supplier firms and countries. "Wherever (lead) firms seek to suppress technology transfer, to externalize social costs or to restrict competition, this creates a conflict of interests with governments and other local stakeholders. Further conflicts may arise with regard to the distribution of gains along the chain. Lead firms often try to diversify their supply base in order to weaken the bargaining power of suppliers and to be able to appropriate a larger share of value added. If they succeed in doing so, they restrict capital formation in local firms and may even drive local firms into bankruptcy." (Altenburg 2007: 30) Lead firms may further put pressure on the host or supplier country government to cut taxes and exempt them from certain requirements such as national equity shares, contributions to skill development, and local content that have the explicit objective to increase local spillovers and value added and make foreign firms and their investment and sourcing strategies more locally embedded.

Donors need therefore to find an adequate balance between supporting lead firms in their efforts to upgrade local suppliers and the local business environment on the one side and pursuing public interests that may often also not be congruent with those of the lead firm on the other side, e.g. to capture larger value added and rewards for local producers, to increase local linkages and spillovers, to increase lead firms tax contributions, and to make them more locally embedded. Hence, the motivation and interest of lead firms need to be identified clearly in value chain interventions, in particular if lead firms are used as implementing agents. Humphrey and Navas-Aleman (2010: 65) conclude in their review of 13 lead firm projects: "Perhaps the most important task for the donor/facilitator is to get a commitment from the buyer that they will consider and work towards, in conjunction with the donor (and perhaps other actors in the area) to increase the benefits that flow to the poor from their business operations and to consider the areas in which there is scope for enhancing the pro-poor impact of their business." Those benefits occur most directly if lead firms engage in supplier development, knowledge transfer and skill development of local firms, producers and workers that are directly linked to their core business activities where they have a knowledge and market access advantage. A sustainable impact would also require that interventions target the investment and sourcing policies of lead firms

themselves, ensuring that they become more locally embedded and socially inclusive. For other types of interventions such as charity or corporate social responsibility (CSR) projects outside of the lead firms' core business there is often no good reason why lead firms would have a particular advantage and should be involved directly as implementing agents.

But despite the potential interest conflicts between lead firms and supplier firms and countries, also other actors' interests diverge. In the local private sector, some firms (especially smaller and less competitive ones) may be threatened by new business models and upgrading programs, while larger competitive firms may expect new business opportunities. Also interests between the private sector and civil society organizations that advocate a broad range of interests (e.g. labor rights, environmental concerns, business interests) and between these organizations themselves diverge considerably (Altenburg 2007). Despite their distinct roles and interests, bringing these different stakeholders, including the government, industry associations, trade unions, research institutes, NGOs and lead firms, together will be crucial to improve competitiveness, upgrading and incomes at a sector-wide level. In particular industry associations in cooperation with trade unions can have an important role in influencing the articulation of GVCs and in supporting local upgrading processes and development effects. Including these sector-wide actors is also crucial in securing institution building and broader and sustainable impact that goes beyond individual firms.

Broader role of institutions and the state: The GVC approach focuses on the firm-level and inter-firm networks but it also stresses the importance that non-firm actors such as states, regional and international organizations, business associations, trade unions and NGOs, and regulative and institutional structures have on the articulation and outcomes of GVCs. In particular the role of the state is central in understanding the configuration of GVCs and upgrading prospects. Although it is often argued that states have lost power vis-à-vis firms, the actual situation is far more complex and contingent and states remain key actors in value chains and influence upgrading trajectories through a variety of policy areas, including trade, investment, industrial, innovation, education and labor market policies (Coe et al. 2008; Plank/Staritz 2011). Government efforts to promote upgrading can range from liberal approaches to interventionist development strategies. The former approach focuses on facilitating the economic sphere by improving infrastructure and the investment climate, reducing regulatory burdens and providing tax or financial incentives. Thus, the state provides facilitating mechanisms for private business accumulation without direct interference in inter-firm relationships or markets (Fold/Larsen 2008). In contrast, interventionist states stress the existence of important market failures and more directly shape the economy by interfering with markets, pursuing industrial policies and being directly involved in production activities (Amsden 1989). These interventions are based on the assessment that markets do not always work as expected in the standard paradigm of free competition and can fail to work as effective signals for resource allocation (UNIDO 2010). In particular in the context of industrial development and structural change, it may be required to go against markets and perceived comparative advantages in developing broader industrial capabilities and sustainable competitive advantages. However, it has also been emphasized that interventionist approaches need to relate to the private sector with the focus being put on the relational interdependency between the private and the public sector (Rodrik 2007; Morris 2010).

Discussions about the appropriate role of the state have a long tradition in development thinking and policies. The mainstream view moved from a view of the state as the prime mover of economic development in the 1960s and 1970s to the neoliberal view in the 1980s where the state was given a minimalistic role and the private sector was seen as the key driver of development to the search for a new synthesis in the 1990s and 2000s where both states and private sectors have distinctive but commentary roles (Schulpen/Gibbon 2001).

Schulpen and Gibbon (2001) describe the consensus in the 2000s as follows: “In essence, the current consensus prescribes that the private sector ensures economic growth while the state provides the background conditions for this to occur, and at the same time makes sure that growth contributes to poverty reduction, does not contribute to environmental degradation and pays attention to gender equality. The state thus has to perform ‘enabling’ and even regulatory tasks.” (Schulpen/Gibbon 2001, 2) Accommodating this view of the role of the state in current mainstream development approaches, donor-led value chain interventions and PSD interventions commonly refer to the role of the state as providing a business enabling environment and a favorable investment climate (Neilson/Pritchard 2011).

To make value chain interventions effective and sustainable, an enabling business requirement has an important role but it is generally not enough. The operations of markets supported by an enabling business environment may not provide the conditions for upgrading, sustained income growth and gainful insertion into the global economy. As Kaplinsky and Readman (2001) state: “Global competition is so intense that unless deliberate policies are introduced to foster a systematic program of upgrading, producers may engage in a race to the bottom, entering a trajectory of immiserizing growth in which economic activity expands, but real incomes fall.” (Kaplinsky/Readman 2001: 1) Such programs need to include strategic state policies to maximize local value added, embed lead firms in the local business environment, and improve the distribution of gains and power in favor of local firms and the host country (Altenburg 2007). Important in this regard is the development of institutional capacity for such policies and for the supply of common goods at the national and sector level and of capacity to regulate private sector activities in ways that promote national development and encourage lead firms to adopt more socially inclusive patterns of investment and sourcing. Such capacity and institution building activities could be important components of value chain interventions that go beyond support to individual firms, market-based service provision and an enabling business environment.

Broader industrial and development policies, including selective performance requirements for lead firms along with supplier support programs, require capable governments in developing countries that have a developmentalist orientation, as well as policy space in terms of the ability of governments to implement supportive policies for their private sectors. Policy space may be restricted by the international trade and investment regime and particularly WTO agreements on Trade Related Intellectual Property Rights (TRIPs) and Trade Related Investment Measures (TRIMs) and bilateral investment treaties. Such international agreements are however often not in the focus of donor’s PSD and value chain interventions although they have important impacts on how developing country firms and producers are integrated in the global economy and how gains are distributed. Donors need to play an active role in pressuring for policy coherence in their countries’ development, trade and investment policies and for development-enhancing trade and investment policies.

Broader socio-economic and development objectives: Donor-led value chain interventions generally emphasize their potential for reducing poverty which is to various extents directly integrated in donor programs. Most broadly, the pro-poor focus is integrated through targeting small producers and micro firms. Poor people are in this regard conceptualized as producers and entrepreneurs. Many poor people are however also (formal or informal) workers in larger or medium-sized firms. Further, focusing on activities where poor people are concentrated does not take into account the necessity to open up new opportunities for the poor in the context of structural change (Henrikson et al. 2001). Justifying the focus on certain groups of firms and people from a poverty perspective requires a deeper analysis on where and how poor people and poverty reducing outcomes can be most effectively reached. Henrikson et al. (2010) describe this by making a distinction between reducing poverty and targeting value chain interventions on the activities being undertaken by poor people. They explain that “(p)overty may be alleviated not so much by

assisting poor people to continue pre-existing activities albeit in a more effective way, but rather by offering opportunities for different activities. For example, some studies on export horticulture in Africa have concluded that a shift from independent small farming to employment on large-scale farms is equally capable of raising household incomes. Value chain promotion should be about reducing poverty, not supporting particular types of production." (Henriksen et al. 2010: 8)

Value chain interventions need to be more consistently and systematically aligned with the core aims of development cooperation, in particular poverty reduction. It is not sufficient to just theoretically formulate a link between value chain interventions and poverty reduction by targeting certain activities where (presumably) the poor are concentrated. It requires an understanding of the structure of value chains and inclusion, exclusion and upgrading dynamics in GVCs with a broad focus on poverty alleviation that goes beyond poverty targeting. Besides poverty reduction, other development objectives such as decent work, gender equality and environmental sustainability could be also more systematically integrated into value chain interventions. This is particularly crucial given that cost and regulation differentials, including in the area of labor and environmental standards, have become a factor for the location of production, and access to particularly labor-intensive activities in GVCs is often based on low wages and problematic working conditions (Barrientos et al. 2010; Plank/Staritz 2011). GVC research has until recently largely been silent on the broader socio-economic effects arising from participation in GVCs and has failed to consider in a consistent manner the impact of value chain interventions on poverty, decent work, gender and the environment (Bolwig et al. 2010). Recently, the concept has however evolved into a larger understanding that also includes social and environmental dimensions (Barrientos et al. 2010) which could be a useful basis for incorporating development objectives more systematically in donor-led value chain interventions.[9]

6. Conclusions

The GVC approach provides a useful conceptual framework to analyze global production processes, power and market asymmetries, and processes of unequal development in the global economy. It is a multi-scalar framework that goes beyond traditional approaches that either focus on the state or on the firm level. With its focus on sectors and inter-firm relations it can integrate the global with the local and the firm (micro) level with the meso (sector) and macro level. It is therefore a useful instrument to analyze the role of developing country firms and producers in global production and international trade and how their positions can be improved with a focus on broader development objectives such as economic value added, employment generation and poverty reduction. Taking GVCs as a basis for interventions to support private sectors has the potential to make PSD interventions more effective in terms of improving economic and social outcomes of participation in international trade and global production.

To secure the effectiveness of value chain interventions and their development effects, two factors are however critical. First, integration in GVCs should not be seen as "a panacea" for development but as "windows of opportunity" (Phillips/Henderson 2009: 60) that can have important development effects (with the support of strategic policies) but should be complemented by more locally and regionally based development approaches (that may in itself involve the development of local or regional value chains). Second, the critical tradition and broader perspective of the GVC literature needs to be brought back and taken into

[9] An important part of this research has been conducted within the international research network „Capturing the Gains: Economic and Social Upgrading in Global Production Networks". For more information see: http://www.capturingthegains.org/

account when re-designing existing or initiating new generations of value chain policies and interventions. The following aspects are in particular important: (i) the existence of structural and asymmetric power relationships that influence competitive pressures, entry barriers, upgrading prospects and the distribution of value added and rewards; (ii) the ambivalent role of lead firms that can be important partners in ensuring upgrading and broader development effects but at the same time have diverging interests from supplier firms and countries; (iii) the important role of institutions and particularly the state and strategic state policies in contrast to merely focusing on the functioning of markets and a business enabling environment; and (iv) the focus on broader socio-economic and poverty reducing effects with a broad perspective on poverty alleviation in contrast to poverty targeting.

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