

New dynamics of upgrading in global value chains: Shifting terrain for suppliers and workers in the global south

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The rise of global value chains (GVCs) has been associated with the rapid expansion of outsourcing by lead firms in the global North to interlinked networks of cross-border suppliers in developing countries. Outsourcing was facilitated by trade and financial liberalization initiated in the 1970s and 1980s, and driven by intense competitive pressures for cost reduction. GVC and global production network (GPN) analysis provide crucial insights into inter-firm coordination and governance, with diverse and uneven embeddedness across an expanding range of countries (Coe and Yeung, 2015; Dicken et al., 2001; Gereffi et al., 2001, 2005). The consequences for suppliers and workers have been mixed. The search for cost reduction went hand in hand with entry into relatively unregulated environments leading to what Appelbaum et al. (2005) have called ‘the race to the bottom’ in many industries. At the same time, buyer pressure for product quality and consistency has increased the demands on suppliers to comply with private standards and monitoring (Nadvi, 2008). For some the outcome has led to a combination of economic upgrading (suppliers moving to higher value activities) and social upgrading (better terms and conditions for workers), while others have experienced economic and social downgrading (Barrientos et al., 2011a; Lee and Gereffi, 2015).

Global outsourcing has led to the creation of new architectures for the organization of production, trade and consumption in the global economy. Today multilateral organizations (including the WTO, World Bank and OECD) have acknowledged that GVCs have reshaped traditional trading patterns between nations. UNCTAD (2013) estimates that 80% of world trade now passes through GVCs. Furthermore the developing country share in global value-added trade increased from 20% in 1990 to over 40% today, and GVC participation contributes 28% to their GDP on average. Global production has opened up new opportunities for employment to millions of workers in developing countries.

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The International Labour Organisation (ILO) estimates that in 2013, 453 million jobs were GVC related in 40 OECD and emerging economies (ILO, 2015).¹ Many are women and migrants from poor and rural households (Christian, 2016; Christian et al., 2013).

The GVC architecture is associated first with the outsourcing of manufacturing and later of services from North American and European producers to low-cost developing country producers. At the same time, as South–South trade in intermediate goods – and more recently in consumer goods – increases, lead firms based in the global South have begun to play much more important roles in shaping the structure and governance patterns of global and regional value chains. They are also affecting the ways in which private standards are understood and applied. However, researchers are beginning to assess wider implications of these shifting regional patterns of trade, production and work linked to GVC/GPNs, a process accentuated by the financial crisis in 2008–9 (Cattaneo et al., 2010; Gereffi, 2014). Emerging economies within Asia, Latin America and Africa have become fast-growing producer and consumer end markets, with trade patterns increasingly encompassing both North–South and South–South flows. It is predicted emerging economies will continue to lead expansion in consumer growth, but they are often characterized as ‘high-volume, low-price’ compared to ‘low-volume, high-price’ markets in Europe and North America (McKinsey, 2012). The implications of these changes for suppliers and workers are just beginning to be understood.

This theme issue brings together a set of papers from leading academics engaged in multidisciplinary research on GVCs in disparate industries. The papers focus on the dynamics of apparel, agri-food and retail GVCs/GPNs, particularly on the growing role of lead firms and retailers within the global South and their consequences for the economic and social upgrading and downgrading of suppliers, workers and localities. Each case study is based on detailed secondary analysis and intensive fieldwork, particularly in sub-Saharan Africa, to illustrate the changing practices and processes currently re-shaping supply and work in discrete localities.

The first article by Bernhardt and Pollak focuses on **methodological challenges of measuring** economic and social upgrading and offers a parsimonious typology that extends the ways in which we can assess country-level change in working conditions and developmental benefits. The second by Morris, Plank and Staritz draws on extensive fieldwork in sub-Saharan Africa to assess the impact of different **forms of ownership** on both export-directed and locally focused apparel manufacturing. The third article by Barrientos, Knorringa, Evers, Visser and Opondo turns to the agri-food industry to evaluate the ways in which insertion into GVCs and expansion of regional supermarkets is rapidly changing the dynamics of supply and the **nature of the labour process**, with implications for economic and social upgrading/downgrading. The fourth article by Pickles, Barrientos and Knorringa highlights retail geographies and the ways in which supermarket multiples in the global North are expanding their operations in the global South at the very time that regional supermarket chains in the South are themselves internationalizing with varied implications for social standards. The conjunction of different international systems, each with overlapping yet different sourcing structures and practices, means that **new retail architectures** are emerging that have important consequences for product, process and quality standards and how they are likely to be enforced in the future.

The research for these papers was undertaken as part of the Capturing the Gains (CtG) research programme, an international network of more than 40 researchers in 15 countries in Africa, Asia, Europe, Latin America and the United States.² The central goals of this research network were to better understand how GVCs and GPNs were changing the operational structures, governance dynamics and social effects of commercial linkages

among and between firms, and their shifting geographies. This theme issue complements other collected publications from the CtG programme (Barrientos et al., 2011b; Nathan et al., 2016; Pickles et al., 2015) and contributes to a longstanding and on-going dialogue between GVC and GPN scholars (Neilson et al., 2014). A major topic in this dialogue has been the roles of institutional context, societal embeddedness and the effects of a wide range of non-chain actors in the global economy. Whilst the literatures on international labour have helped examine changing patterns of work in the global economy (Munck, 2002; Waterman and Wills, 2001), the impact of GVCs and GPNs has until recently been less well explored (Barrientos et al., 2011a; Newsome et al., 2015).

Central to all the papers is the analysis of economic and social upgrading/downgrading across sectors and countries. As globalization has intensified international competition, economic upgrading or downgrading have become important aspects of buyer/supplier business strategies. As a result, the development consequences of participating in GVCs are uncertain and unevenly distributed. In their paper, Bernhardt and Pollack examine economic and social upgrading and downgrading at a macro level across countries. Their parsimonious approach to measuring economic upgrading and downgrading is defined as a combination of growth in export market shares and export unit values, and social upgrading and downgrading are operationalized as increases/decreases in sectoral employment and real wages. Using these measures they analyse the economic and social performance of a number of developing countries in selected GVCs: apparel, automotive, mobile phones and wood furniture manufacture. They find that overall upgrading (economic and social combined) is scarce but more likely to occur in the automotive sector. There are mixed outcomes in other sectors, with economic downgrading more prevalent in apparel (although it is not always associated with social downgrading). Investigating aggregate country/sector level outcomes in more depth, they indicate, requires complementary case studies.

Morris, Plank and Staritz examine the shifting patterns of regional apparel value chains to unpack the complexities of economic upgrading. They underline the importance of end markets and ownership in shaping global and regional value chains. Based on fieldwork in apparel export industries in Lesotho, Swaziland, Mauritius and Madagascar, they show how ownership patterns interact with local embeddedness, producing distinctive variations in production systems, governance mechanisms and spatial distributions of producers and employment. In the sub-Saharan African context, suppliers that are locally and regionally embedded (including European-diaspora and Mauritian-owned firms in Madagascar and Asian-owned firms and South African-owned firms in Lesotho and Swaziland) were more flexible in adjusting to changing market opportunities and constraints, and – as a result – became integrated into South African regional markets. In contrast, Asian-owned transnational producers continued to emphasize the US market with its intense competitive environment and limited upgrading potential. These differences in ownership and embeddedness are crucial elements in supplier sustainability and the kinds of economic and social upgrading they have been willing and able to undertake (see also Godfrey, 2015).

Barrientos et al.'s article on African horticulture also examines upgrading and downgrading processes, but in this sector macro data of the type analysed by Bernhardt and Pollak are unavailable. Instead, they use a comparative case study of producers in South and East Africa to analyse changing patterns of horticulture supply to global and regional supermarkets. By examining South African and Kenyan supermarket sourcing and retailing patterns, the authors show how demand for higher quality produce and enhanced workforce skills at lower cost drives the adoption of new technologies and labour processes on supplier farms. This, in turn, creates new leverage points for economic and social upgrading by suppliers and workers with sufficient capabilities and skills. These firms and workers are

able to ‘strategically diversify’ by supplying both global and regional retailers, further enhancing their bargaining position in relation to both sets of buyers. However, as global and regional supermarkets implement their exacting standards, African suppliers and workers with lower capabilities and skills are squeezed. With continued expansion of regional supermarkets, these pressures on suppliers and workers are becoming more acute.

The drivers behind shifting regional value chain trends are also explored in the paper by Morris, Plank and Staritz. They show how apparel value chains are shaped by changing trade regimes. Initiatives such as the US African Growth and Opportunity Act, EU Economic Partnership Agreements and Southern African Development Community have affected the ability of supplier firms with different types of ownership (locally embedded or Asian transnational) to diversify and upgrade. In contrast, the paper on horticulture by Barrientos et al. finds that in the absence of transnational competition, the sourcing strategies of regionally owned supermarkets play a key role in driving the expansion of regional value chains in South and East Africa (although this could change in future with the entry of Walmart into Africa through acquisition of Massmart in 2011). These are being rolled out unevenly within countries and across the region and contribute to ‘waves of diffusion’ via diverse regional supermarket sourcing strategies as they become embedded in African countries.

The governance implications of regional value chains are important to several of the papers as well. In their article, Pickles, Barrientos and Knorringa explore the differing roles of Northern and Southern consumers and lead firms in fostering enhanced social standards. They challenge the view that Southern consumers and civil society actors are uninterested in social standards, suggesting instead that both Northern and Southern consumers are driving some convergence of standards, although retailer differentiation of consumer populations also generates divergence in standards adoption and implementation. As global retail chains have adopted generalized product, process and workplace standards, regional retail value chains in the global South have emerged in a more complex landscape. This contributes to what Ponte and Sturgeon (2014) have characterized as multi-polar analyses of governance, in which it is possible to unpack the actors (commercial and non-commercial) involved in both global and regional value chains and to assess the extra-firm bargaining processes that are integral to the commercial strategies of different actors (Coe and Yeung, 2015). In extending the concept of multi-polar governance across Northern and Southern retail spheres, they show how the articulation of supermarket chains and supplier networks is – at the same time – creating both standards convergence and divergence across different scales and locales of the global South.

Collectively, the articles in this theme issue highlight several new dimensions of GVCs and GPNs in the contemporary era. First, they explicitly take up the theoretical challenge of distinguishing economic and social upgrading/downgrading, and exploring the conditions under which economic and social upgrading may or may not be mutually reinforcing. Second, they tackle the methodological challenge of operationalizing these concepts with variables and indices that can be constructed using readily available secondary data. Third, they address the growing significance of regional chains within GVCs, and discuss how regional trade agreements are reorienting the strategies of lead firms and suppliers in these chains. Fourth, the key role of international standards is examined, which require a ratcheting up of supplier capabilities and workforce skills in developing countries. Fifth and finally, the articles illustrate how the rise of emerging economies is changing the governance dynamics of GVCs and GPNs. Multi-polar forms of governance are providing channels for the application of social standards within emerging economies,

driven in part by rising consumer incomes and awareness of social issues. But they are also fragile arrangements, particularly among smaller regional supermarket chains and their local supply networks.

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Notes

1. This figure should be treated with caution given the difficulties of measuring jobs tied to GVCs, particularly among lower tiers suppliers or those who hire irregular workers. It also overlooks many developing economies that also supply primary resources, intermediate goods or services to GVCs.
2. For further information on the Capturing the Gains programme, see www.capturingthegains.org. CtG was primarily funded by the UK Department for International Development (DFID) between 2010 and 2013. All the papers published here represent the views of the authors alone. They do not represent the views or policies of DFID or any other funder that contributed to the Capturing the Gains programme.

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