ACHIEVING WORKERS' RIGHTS IN THE GLOBAL ECONOMY

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Risk is inherent to the pursuit of opportunity. This paper draws on recent literature and looks at the risks and opportunities firms and their workers face in the global value chains (GVCs). For millennia, the ancient agrarian cycle, based on crops and livestock, controlled the fortunes of the world. Then came the Industrial Revolution in the mid-nineteenth century. “For the first time in history, the living standards of the masses of ordinary people have begun to undergo sustained growth,” noted the Nobel Laureate and economist Robert F. Lucas, Jr. “Nothing remotely like this economic behavior has happened before” (Lucas 2002, 109–10). More recently, in the context of integration and modernization, waves of technology improvement since the first Industrial Revolution have been changing the boundaries of production and redefining the spectrum of the role of state.

Participation in GVCs, which highlight the ways in which new patterns of international trade, production, and employment shape prospects for development and competitiveness, creates opportunities and risks for enterprises. On the one hand, it generates new opportunities for profits and expands the market horizon, and on the other hand, it exposes the enterprise sector to risks previously shielded from market boundaries and geographic distance and increases the degree of potential information asymmetry. Various forces interact in different directions, exacerbating or mitigating the dynamics of risks.

Enterprises are facing a wide range of risks on a day-to-day basis. Owing to continual changes in technology, production frontiers are pushing outward and higher efficiency becomes the norm for survival (for example, personal computers).

Demand changes as new tastes and preferences create niches for new products. The higher profit markup from innovation becomes an engine of growth (for example, the iPad). One recent study suggests that in developing countries, every ten extra mobile phones per hundred people increase the rate of growth of GDP per capita by more than one percentage point by drawing people into the banking system with smartphone use (The Economist 2015). However, there are also catastrophic risks from unexpected events, such as global economic crises and natural disasters.

The information and communication technology revolution has not only sharply increased productivity but has also reinterpreted the function of time and distance: billions of activities are linked with “one click” and new demands become effective with “just-in-time” delivery. Using data transmitted from a mobile phone call, doctors thousands of miles away can analyze ultrasound results at low cost and prescribe treatment in real time. In India, for example, this innovation has shown the great potential that technology has in helping people manage risks, starting with day-to-day health issues. The world is increasingly interconnected. The largely unforeseen changes in the global arena—from the collapse of the dot.com boom in the early 2000s, to the burst of housing bubbles in 2008 and the ongoing Euro zone turmoil—have had systemic implications on the survival and growth of firms in different corners of the world, even before reactions were taken to try to disentangle the links. Shocks in access to financing and to commodities were magnified at an unprecedented scale.

To a considerable extent, participating and competing in GVCs has become inevitable. Even if a firm is not export oriented, it will be competing against imports made in the global economy unless there are protectionist barriers against imports. This paper looks at the risks and opportunities that firms and their workers face in GVCs. First, it examines the risk-sharing mechanisms that firms provide from the national and global perspectives; second, it takes a closer look at the new opportunities and challenges for firms and individuals in the global arena; third, it discusses the role of economic upgrading and social upgrading; and finally, it sheds light on how the government can help people manage risks and reap benefits through participation in GVCs.

**Firms as a Vehicle of Risk Sharing**

The Nobel Laureate Ronald Coase has argued that firms emerged as a social institution to overcome the constraint of transaction costs inherent in direct exchanges—that is, the costs associated with searching for, communicating, and bargaining with possible trading partners (Coase 1937). Under conditions of uncertainty, the allocation of resources is not carried out by the price mechanism. Some individuals
take a fixed income, whereas others (the entrepreneurs) make the decision to seek volatile profits as a preferred but riskier choice. This reflects the fact that different economic actors have different utility functions. However, there is a natural limit to what firms can produce internally, which is why all production is not done by one firm. Through efficient resource allocation, firms are capable of generating higher income than households or individuals alone, but this requires finding an optimal balance between the decreasing returns to the entrepreneur function when firms get too large and the transaction costs of using the market.

Multperson firms provide the mechanism of risk sharing among workers and firm owners, and between workers and firm owners:

- When risk is shared among workers, if a worker falls sick, others can share the workload to keep the firm going. Also, the risk-sharing mechanism that multiperson firms make possible allows workers to specialize and increase productivity together. Investing in specialized skills is a risky undertaking. By absorbing the costs of initial training, or by providing incentives to acquire such skills by raising wages, enterprises can tilt worker skill profiles toward specialization. By sharing the costs of training or increasing the expected returns of acquiring skills, the enterprise sector can shift the skill distribution in the workforce toward specialization (Lam and Liu 1986; Acemoglu and Pischke 1999).

- When risk is shared among owners of capital, for example through limited liability, investors can take on more creative risk with a given level of expected risk through diversifying their portfolio. As the Economist magazine noted in its millennium issue, “The modern world is built on two centuries of industrialization. Much of what was built by equity finance which is built on limited liability” (The Economist 1999). With the required legal and institutional frameworks, the contractual arrangements of limited liability lowers the downside risk of investments, allowing investors to separate personal liability from the debt of the production unit. It also enables them to own small pieces of many firms and diversify their investment portfolio, which reduces risk if some of their investments drop in value. Limited liability also led to the development of the stock market, facilitated corporate capital accumulation, and enabled the exploitation of economies of scale.

- When risk is shared between workers and owners of capital, for example through labor contracts, firms can provide insurance to workers who accept a lower wage in exchange for stable income. Firms can provide a steadier stream of wage income to labor owners by isolating some risks related to production. Through labor contracts, workers can relocate risks in the production process to firms and limit excessive fluctuations in employment and income to maximize welfare. To maximize profit, firms try to minimize the cost of labor as well as the cost of other inputs. To maximize welfare, workers prefer jobs with not only higher but also more stable income. Firms, which are less risk averse than workers, care more about the average labor cost than its volatility, and thus can offer labor contracts with less volatility in pay (for example, a fixed wage) to compete for workers in exchange for a lower average level of remuneration. By leveraging the two aspects explicitly or implicitly contained in labor contracts—the level and the volatility of the remuneration—both firms and workers could be better off through risk sharing. On the other hand, workers can offer a form of insurance to firms in which they agree to reductions in wage or curtail in work hours during temporary shocks in exchange for higher wages in normal times.

Risk sharing and diversification have encouraged risk taking and have increased productivity at a massive scale. Higher income allows individuals to increase savings, purchase market insurance, improve access to finance, invest in nutrition and health, and obtain more knowledge from educational investment. Take savings, for example. If individuals are struggling to meet their current needs, saving for the future will be a slow process. Around the world, as income levels rise, savings rates also rise (Schmidt-Hebbel et al. 1992). In developing countries, a doubling of income per capita is estimated to raise the long-run private savings rate by ten percentage points of disposable income (Loayza, Schmidt-Hebbel, and Serven 2000).

However, with the division of labor and diversification of ownership of firms, new risks also emerge. The ways the enterprise sector functions and manages risk affect the risks people face and the risk management measures they employ. Firms may take risk irresponsibly at the brink of bankruptcy, creating negative externalities for society. The management of the firm, which is often in the hands of professionals who have special managerial skills, may have different interests than its owners.

If the enterprise sector fails to function smoothly or if it shifts its own risks to people, it can be a source of risks to households, communities, and even the financial sector and national government. When business shrinks or technology becomes obsolete, the enterprise sector may generate income-related risks (channeled through loss of jobs and loss of capital returns) and asset-related risks (channeled through loss of investments). Both can further translate into risks related to social inclusion, ranging from loss of insurance and other benefits provided through employment (such as health insurance and pension), to loss of connection with the professional community, as well as loss of social status and involuntary changes in lifestyles. Regulation and incentive systems need to be in place to ensure that the interests of various stakeholders are protected.

In a globalized world, characterized by lower transport and transaction costs, the interconnections across firms or sectors linked through supply networks or
financial linkages multiply and intensify. Global value chains include two main types of firms: lead firms, which are typically transnational corporations (TNCs) headquartered in the advanced industrial countries that control and define the main activities in terms of price, delivery, and performance in both producer-driven and buyer-driven GVCs; and the supplier companies that produce the goods and services in GVCs, generally located in developing countries. Thus, the GVC enterprise sector links both developed and developing countries into a common global supply chain.

The GVC framework focuses on globally expanding supply chains and how value is created and captured within them (Gereffi and Lee 2012). The concept of “governance” is the centerpiece of GVC analysis. It examines the ways in which corporate power can actively shape the distribution of profits and risk in an industry and the actors that exercise such power through their activities. Power in GVCs is exerted by lead firms. These lead firms form different kinds of relationships with suppliers that result in distinct GVC governance typologies. The original typology is the distinction between producer-driven and buyer-driven chains (Gereffi 1994). More recently, a fivefold typology has been elaborated that highlights the importance of enduring forms of network governance (modular, relational, and captive) between the market and hierarchy poles of the GVC governance continuum, which are driven by price or ownership in vertically integrated firms, respectively (Gereffi, Humphrey, and Sturgeon 2005).

From the GVC point of view, enterprise sectors in national economies are part of the supply base for lead firms in GVCs. This has two concrete implications: (1) external actors (specifically, GVC lead firms) are a potentially significant form of “external risk” in national enterprise sectors, and (2) national enterprise sectors are nested within larger regional and global enterprise sectors, which are connected to GVCs. The global enterprise sector, as a series or set of industry-specific GVCs, has the potential to affect people’s risk management through the same risk-sharing mechanisms that are operating at a larger scale. It can be advantageous or detrimental to national enterprise sectors and affect firms differently according to their size and industries.

Opportunities and Challenges in the Global Arena

Firms face new opportunities and challenges in the global market. They have the opportunity of supplying much larger global demand, which eliminates the scale and purchasing power limitations of the domestic market in developing economies. There are many upgrading opportunities because the quality and price parameters have wider variation, allowing for more extensive product and process upgrading options. There is also higher risk because international standards for price, quality, standards and delivery schedules are much less forgiving. Firms typically need to have a relatively large scale of production to participate in global markets, or have a special technological edge to enter global market niches. There is also a risk from intensified competitive pressures, as everyone can compete with exporters in terms of lower prices or higher quality, so only the best can succeed in GVCs.

The presence of scale economies favors the concentration of production, which tends to minimize costs, leading to higher profits for enterprises and possibly lower prices for consumers. The higher concentration of production yields benefits of large-scale clustering and agglomeration, but also generates new risks for the economy. Shocks in one location can easily spread to the rest of the network, generating cascade effects. If the supply network is highly interconnected, low productivity in one sector can potentially affect the entire economy, as downstream sectors will also suffer (Acemoglu, Ozdaglar, and Tahbaz-Salehi 2010).

Greater openness to international trade and capital can have a large impact on macroeconomic volatility. When an economy is highly concentrated in certain productive activities, such as Nokia (whose worldwide sales in 2003 represented over one-quarter of Finland’s GDP) and Samsung (which accounted for 23 percent of the Republic of Korea’s exports and some 14 percent of GDP), firm-specific idiosyncratic shocks can generate significant shocks that affect GDP (Di Giovanni and Levchenko 2009).

Foreign direct investment can affect the volatility of enterprise performance in times of crisis in different ways. The ability of multinationals to shift production across countries can increase volatility, and market diversification can lend stronger stability to local subsidiaries. For instance, after the recent global financial crisis, multinational subsidiaries linked with parent firms with strong vertical production and financial linkages fared better on average than local counterparts. The demand from parent firms can help absorb the negative demand shock in the host country, while the performance of subsidiaries linked horizontally with parent firms might become more volatile as the multinationals shift more production back home (Alfaro and Chen 2011).

Multinational companies’ internal capital markets and investment flows from parent firms to subsidiaries can lower subsidiaries’ dependence on host-country credit conditions and hence lower their performance volatility when host countries experience credit crunches (Antras, Desai, and Foley 2009). In Poland, for example, during the recent global economic crisis, foreign ownership appears to provide a higher degree of resilience to affiliates facing external credit constraints through intragroup lending mechanisms (Kolasa, Rubaszek, and Taglioni 2010).

Supply chain management, backed by tight vertical connections among enterprises, has resulted in a high level of competitiveness for the automobile industry. Car makers at the top of a chain can procure meticulously customized, high-quality
components from firms further down the chain (resulting in differentiated, high-quality cars), collect information to continuously predict the appropriate amount of outputs, and minimize inventory and associated costs. The high degree of customization and just-in-time production practice, two key drivers of success, also expose the automobile industry to worldwide shocks (Canis 2011).

The 2011 earthquake in Japan ruffled the auto industry worldwide, leading to one shock after another. The disruption of production of automotive parts generated immediate impacts. Since automotive parts are highly customized, replacement from other suppliers is almost impossible. In April 2011, Nissan closed plants in Mexico for five days and plants in the United States for six days. Output at eight of Honda's Canadian, Indian, UK, and US plants was cut by half. The US carmaker General Motors closed its assembly plant in Louisiana because of a shortage of vehicle parts, which in turn led to short layoffs at its New York plant, where the engines are made. Ford closed assembly plants in Belgium and the United States for one week, and plants in China, the Philippines, Taiwan, China, and South Africa for two weeks.

Although firms are exposed to new challenges in an increasingly integrated world, international trade and financial linkages, remittances, and diaspora communities the potential to serve as safety nets for individuals, families, and communities to absorb and cope with risks and shocks that are not global in nature. For individuals, communities, and national economies, remittances of foreign earnings tend to be stable and often countercyclical. Migrants are likely to send home more resources to help their families when the home country has experienced an economic downturn or crisis. For example, during the financial crisis in Mexico in 1995 and in Indonesia and Thailand in 1998, remittances increased sharply, which not only helped household consumption but also provided the needed resources to overcome credit constraints for local entrepreneurs, alleviating their risks (The World Bank 2005). Beyond remittances, diasporas can provide assistance in normal times by assisting in philanthropic activities, fostering the exchange of knowledge, and increasing trade links; in time of stress, they are more likely than average investors to finance infrastructure, housing, health, and education projects in their countries of origin. Diaspora bonds have raised over $35 billion in India and Israel, including during periods when the home country was suffering a liquidity crisis (Ratha 2010).

In terms of GVCs, the supply chain rationalization that has thinned out the number of firms in GVCs was accelerated as a result of the 2008–2009 global economic recession. As consumption declined as a result of the recession in most advanced industrial countries, which were the main markets for GVCs, the size of GVC supply chains sharply contracted. Recent studies have highlighted significant new trends in how GVCs are organized in the current period, which alter

the nature of risks that national enterprise sectors will confront (see Gereffi 2014 for a summary of these changes):

- GVCs are becoming geographically more consolidated, which reflects the rise of large emerging economies after 1989. Known initially as BRICs (Brazil, Russia, India, and China), the emerging economies now include a diverse array of "growth economies" such as Mexico, South Korea, Turkey, Indonesia, the Philippines, and Vietnam, which offer seemingly inexhaustible pools of relatively low-wage workers, highly capable export-oriented manufacturers, abundant raw materials, and sizeable domestic markets (O’Neill 2011). Emerging economies are now major production centers worldwide, although their specific roles in GVCs vary according to their openness to trade and foreign investment, and other strategic considerations.
- GVCs are also becoming organizationally more concentrated, as lead firms in GVCs are streamlining their supply chains from hundreds or even thousands of suppliers spread across dozens of countries in every continent of the world to a much smaller number (perhaps just twenty to thirty) of larger, more capable and strategically located manufacturers. As noted above, there is also considerable geographic concentration in which a few countries are controlling larger shares of global output in each industry (Gereffi 2014). Together, these shifts imply a much greater concentration of industrial production within the global South, higher levels of South-South trade, and the rise of emerging economy TNCs that play a far more significant role in GVCs.

The global economic recession of 2008–2009 reinforced some of the preexisting trends in GVCs, but also introduced new patterns in the global economy that affect the distribution of risk and vulnerability in national enterprise sectors. A study by the World Bank concludes that GVCs have proven resilient in the face of the recent economic crisis, which has accelerated two structural trends in the global economy: the aforementioned consolidation of GVCs and the growing salience of markets in the South (Cattaneo, Gereffi, and Staritz 2010, 6). As world trade is bouncing back from the 2008–2009 global recession, emerging economies are becoming a main engine of world economic recovery. Given stagnant consumer demand in the global North, GVCs are shifting to supply new end markets in the South, which include a renewed emphasis on the domestic markets of large emerging economies and the regionalization of what were previously global supply chains (Staritz, Gereffi, and Cattaneo 2011).

In the case of the global apparel industry, between 2000 and 2013, China’s share of global apparel exports increased from 25 percent to 40 percent, and export sales increased from US$48.5 billion to $148.7 billion (see tables 8.1). Countries whose market share declined most abruptly during this period, which included
the phase out of the Multi-Fiber Arrangement (MFA) in 2005 that guaranteed export quotas for many smaller countries in the US and European Union markets, were Mexico, Central America and the Dominican Republic, Thailand, the Philippines, Romania, and Poland (Frederick and Gereffi 2011). Bangladesh replaced Mexico as the world’s second-largest apparel exporter, jumping from $5 billion of exports in 2000 to $26.4 billion in 2013 (an increase from 3 percent to 7 percent of the world total, respectively). However, even in China, a clear winner in aggregate terms, thousands of apparel factories were shuttered and millions of workers in apparel plants lost their jobs as the industry was streamlined in the late 1990s and early 2000s (when many state-owned apparel firms were closed), and then again in the late 2000s as the recession further reduced export-oriented sales.

In short, the economic crisis has not reversed globalization; international production and consumption have remained central features of the global economy. The role of the South has grown, but inequalities among developing countries in terms of how they are positioned in GVCs are rising as well. This could generate additional sources of inequality and potential crises in the future.

**Economic Upgrading and Social Upgrading**

The distribution of risks and opportunities is closely related to the positioning of an enterprise within a value chain and to the nature of this value chain. Figure 8.1 illustrates this proposition for value chains associated, respectively, with five different industry groups. Economic and social upgrading (or downgrading) of firms and workers can take place in multiple trajectories (Barrientos, Gereffi, and Rossi 2011).

“Economic upgrading” is defined as the process by which economic actors—firms and workers—move from low-value to relatively high-value activities in GVCs (Gereffi 2005, 171). The challenge of economic upgrading in GVCs is to identify the conditions under which developing and developed countries and firms can “climb the value chain” from basic assembly activities using low-cost and unskilled labor to more advanced forms of “full package” supply and integrated manufacturing. It is also important to forestall the competitive pressures that can create reversals for firms and lead to economic and social downgrading (Bernhardt 2013).

“Social upgrading” refers to improvements within a specific enterprise (or associated group of enterprises) in terms of employment, remuneration, worker rights, and workplace safety and employee insurance arrangements (Barrientos, Gereffi, and Rossi 2011). This concept is central to the examination of household risks and enterprises within value chains. Social upgrading by enterprises helps
reduce risks for worker households and removes some of the volatility that they would otherwise face. The extent and type of social upgrading that is possible are usually related to (but not wholly determined by) the economic upgrading in place. Other institutional factors and actors, including the extent and nature of worker organization, civil society actions, government legislation and its enforcement, can also make a difference.

Each GVC in figure 8.1 is represented as a vertical silo, with lower segments approximating the share of less-skilled types of work carried out within the value chain. All value chains include economic activities that span a broad range of skill levels. Consider agriculture, for instance. At the lowest level—the farm, typically—this value chain involves a relatively large proportion of small-scale and low-skill labor. Higher in the value chain, particularly at the points of processing and marketing, the skill level of workers rises progressively. The same is true for each of the other four GVCs. Skill levels rise as one moves from lower- to higher-value activities in the chain; the proportion of highly skilled workers at the top of each value chain, who carry out knowledge-intensive activities, varies according to the type of GVC we are examining. In agriculture, for example, this segment tends to be relatively small, whereas in business services, the proportion of knowledge workers is quite large.

The likelihood of enforceable standards also rises as one moves up value chains toward more formal and skill-intensive work. It is not enough merely to specify decent work standards; they must be capable of enforcement at low cost, in the ideal situation being self-enforcing. The prospects of having measurable and enforceable standards typically rise as skill levels and technology increase within value chains.

Social upgrading can be achieved through various means, involving different combinations of: (a) economic upgrading—as enterprises move up value chains, the share of skilled workers typically increases, and (b) deliberate actions to introduce enforceable standards—minimum wages, paid time off, workplace safety, insurance, and so on—for those workers whose skill levels remain low, who are more easily replaced, and who for these reasons may be badly treated. The scope for such actions widens considerably as the array of actors is expanded in GVCs. Using illustrative examples of successful social upgrading, we will develop an analytical framework to assess possibilities for action.

Alternative pathways for social upgrading are available, as figure 8.2 shows with the help of three examples. The first example, Pathway A, depicts a situation in which no significant economic upgrading has occurred. Instead, risks to workers were reduced because of deliberate actions that introduced enforceable standards. This could be the situation, for instance, of an enterprise that produced T-shirts branded with the logo of some US university. Actions by concerned student groups resulted in a slew of reforms: doing away with child labor, reducing the length of the work day, improved lighting and other work conditions, and so on.

Alternatively, social upgrading can occur along Pathway C, where almost the entire burden is borne by economic upgrading. In this case, risks for workers are reduced as small-scale household work gets turned into high-tech and knowledge-intensive work, for instance, as in the case when a weaver of traditional rugs takes to computerized design and manufacturing. In the intermediate case of Pathway B, social upgrading within labor-intensive industries like apparel can be achieved with lower risks to workers if outside institutions like the Better Work Program run by the International Labour Organization are involved to help certify standards (Rossi, Loonstra, and Pickles 2014).

**FIGURE 8.1** Industry groups, GVCs, and economic upgrading
Source: Adapted from Bernardos, Gereffi, and Rossi 2011.
When the enterprise sector gravitates toward more technology or knowledge-intensive industries—for example, from agriculture to apparel, and to business services—the share of skilled workers typically increases. As a result, labor productivity grows and more jobs of higher quality are created. However, economic upgrading does not always lead to social upgrading in the form of better wage and working conditions. On the one hand, unskilled workers in many developing countries can be excluded from the desirable job opportunities provided by technology-intensive or knowledge-intensive work, which tends to concentrate in more developed countries. On the other hand, workers in the same enterprises can face very different opportunities for social upgrading; regular workers can have better statutory employment protection and benefit from labor standards, whereas irregular workers, often overrepresented among women, youth, minority, and other vulnerable groups, may suffer discrimination.

In many enterprises in the developing world, hiring irregular workers directly or through third-party contractors to perform the most time-sensitive task in the low (unskilled) segment of the production chain is often a way for firms to reduce costs in response to last-minute orders from outsourcing companies. Although this creates new wage and employment opportunities for many low-skilled workers, it also allows firms to shift the risks of production related to fluctuations in demand to workers. Regulations need to be in place to protect workers.

To a considerable extent, reducing risk for workers and households is associated with social and economic upgrading at the enterprise (or industry) level. Since a significant proportion of international production and trade now takes place through coordinated value chains in which lead firms globally and locally play a dominant role, possibilities for upgrading are increasingly defined by where firms are located within a chain. However, in some cases we may find social upgrading without sustained economic upgrading, which can jeopardize the social gains.

This is the case in Nicaragua’s apparel sector. Between 2005 and 2010, the volume of Nicaragua’s apparel exports grew by 8.6 percent, but despite this increase, Nicaragua has had limited success in moving up the apparel value chain and mainly competes through low-cost apparel assembly. Nicaragua remains vulnerable in terms of economic upgrading because its apparel exports are dependent on US trade policy (specifically, the Tariff Preference Level exception offered to Nicaragua that allowed it to import textiles from East Asia). However, the country has shown advances in social upgrading, due in large part to the efforts of the tripartite National Free Trade Zones Commission to join the interests of workers, the private sector, and government. It also has become part of the Better Work Program of the International Labour Organization (Bair and Gereffi 2014).

Firms in GVCs have opportunities for economic upgrading through engaging in higher value production or repositioning themselves within value chains. However, they also face challenges meeting the commercial demands and quality standards required by foreign buyers, which smaller and less efficient producers find hard to meet (Gereffi and Lee 2012; Gereffi 2014). The GVC approach focuses heavily on this notion of interfirm networks, supply chains, and trade and production networks. Adopting a GVC approach to a considerable extent changes the focus of examination; instead of looking at a self-contained enterprise, one analyzes links within chains having different governance structures.

Adopting a GVC analytical framework opens the door, therefore, to a larger cast of economic actors and stakeholders who can act as agents of change. In addition to governments and enterprise management, national industry associations, and trade unions, positive change in working conditions can be brought about at the initiatives of buyers’ associations, consumer groups, and international certification and inspection agencies, increasingly employed by buyers wary of their international human rights image (Rossi, Luiistra, and Pickles 2014).

The expansion of global production, especially in labor-intensive industries, has been an important source of employment generation. Many jobs have been
filled by women and migrant workers who previously had difficulty accessing this type of waged work, and they have provided new income sources for poorer households (Barrientos, Dolan, and Tallontire 2003; Oxfam International 2004). Where this is regular employment that generates better rights and protection for workers, it can enhance social upgrading and decent work. The demand for rising standards often requires skillings of at least some workers and provision of better employment conditions.

But for many workers, this is not the outcome. Much employment is insecure and unprotected, and there are significant challenges ensuring decent work for more vulnerable workers. Irregular and low-skilled jobs—which are also low paying, thereby representing limited prospects for upward mobility—are easily eliminated when demand goes slack or regulations tighten. New risks are introduced even as some old ones abate. Along with the risk of dismissal (or work reduction) that especially lower-skilled workers (and suppliers) of enterprises face, another significant downside risk accompanying these engagements involves the enhanced probability of injury and illness. Unsafe and unsanitary work conditions are often associated with low-skilled work in the enterprise sector. Labor safety regulations may be nonexistent or they are routinely ignored when enforcement is weak.

Poorer individuals’ engagements with the enterprise sector thus produce situations that can be, and often are, volatile. A simple logic for why volatility can be greatest for the worst off in these relationships is provided by Barrientos, Gereffi, and Rossi (2011, 332): “challenges . . . remain significant for irregular workers . . . New activities taken on by the factory may well . . . lead to social upgrading for regular workers—through the development of more skills and training for new capabilities—but irregular workers continue to be needed in order to respond to buyers’ requirements in terms of low cost, short lead times and high flexibility; their very status impedes their social upgrading.”

Not all developing countries face similar options in the context of these changes. The shift to Southern markets and the growth in South-South trade have created more possibilities for entry and upgrading in GVCs, but they also present new challenges, particularly for the least-developed countries. GVC consolidation poses opportunities as well, especially for countries and firms with rising capabilities. However, it threatens to leave many counties and firms that don’t possess the required advantages on the periphery of GVCs.

In a more promising vein, the GVC literature shows that value chains oriented to different end markets entail distinct upgrading opportunities (Staritz et al. 2011; Gereffi 2014). For example, the demand in lower-income countries for less sophisticated products with regard to quality and styles may confront lower entry barriers and less stringent product and process standards in emerging markets, which can facilitate participation and make it easier for developing country firms to engage in higher value-added activities in GVCs (such as product development, design, and branding) (Kaplinsky, Terheggen, and Tijia 2011). With more intimate knowledge of local and regional markets than multinational firms, GVCs can generate “frugal” innovations that are suitable to resource-poor environments (Clark et al. 2009). On the other hand, relying exclusively on low-income markets can lock suppliers into slender margins and cutthroat competition, which heighten economic risks.

Rossi’s case study of garment factories in Morocco led by fast fashion buyers shows that functional upgrading in GVCs can bring about social upgrading and downgrading simultaneously for regular and irregular workers, respectively. On the one hand, factories supplying a finished product and overseeing packaging, storage, and logistics for their buyers offer stable contracts and better social protection to their high-skilled workers to ensure a continuous relationship as well as full compliance with buyers’ codes of conduct. On the other hand, in order to be able to respond quickly to buyers’ frequently changing orders and to operate on short lead times, they simultaneously employ irregular workers on casual contracts, especially in the final segments of the production chain (such as packaging and loading), often imposing excessive overtime as well as discriminating against them on the basis of wages and treatment (Rossi 2011).

In agrifood GVCs, private quality standards set by highly concentrated European and US supermarkets and food manufacturers have a direct impact on risks faced by consumers as well as farmers, with conflicting implications for safety and upgrading (Lee, Gereffi, and Bauvais 2012). On the one hand, stringent food safety and quality standards imposed by large food retailers and manufacturers, which generally have extensive global sourcing networks, protect consumers against social and environmental risks, but these tend to marginalize small farmers unable to comply because of high costs and a lack of required skills and facilities (e.g., cold chains to store, distribute, and ship fresh produce). On the other hand, higher standards can be a catalyst for participation in high-value-added chains, such as the role played by smallholders who successfully supply niche markets for organic or Fair Trade-certified products (Gereffi and Lee 2012, 28).

In both developed and developing countries, the economic gains of participating in GVCs do not necessarily translate into good jobs or stable employment, and, in the worst case, economic upgrading typified by a number of successful export economies, especially in low-income countries, may be linked to a significant deterioration of labor conditions and other forms of social downgrading.

A recently concluded three-year research program funded by the United Kingdom’s Department for International Development, called Capturing the Gains, has a website containing many of the research findings in working papers and
policy briefs (UK DFID 2013). One of the main conclusions of this project is that GVCs can be a key policy tool for sustained poverty reduction. However, facilitating the upgrading of workers and smallholders also requires public-private-civil society partnerships, as well as regional partnerships involving countries and firms that lead international production networks based in Asia, Africa, and Latin America, which are key to future upgrading of the South (Lee, Gereffi, and Barrientos 2011). These partnerships reflect novel forms of risk sharing and strategic collaboration among key value chain actors to address the challenge of promoting widespread and sustainable development.

Various examples of novel partnerships for risk sharing, innovation, and upgrading are identified in the summit briefings for the Cape Town, South Africa, meeting held in December 2012. A few of these are found in Barrientos, Gereffi, and Nathan (2012, 3–4). For example, over recent decades, the cocoa-chocolate value chain has undergone concentration in processing and manufacturing. Cocoa farmers have received limited support, often have low yields, and are poorly remunerated. Media attention has highlighted issues of child labor, and many younger innovative farmers are leaving the sector for better options elsewhere. Consumption of chocolate has grown steadily, especially in emerging economies, with predictions of future cocoa shortages. Leading chocolate manufacturers are working with civil society, donors, and governments to support farmers and their communities. Social upgrading is now recognized as critical to economic upgrading—and ensuring the future resilience of the cocoa-chocolate value chain.

One of the main challenges of globalization is to link economic and social upgrading of both material work conditions and the quantity and quality of jobs created in contemporary GVCs (Barrientos, Gereffi, and Rossi 2011). For developing countries, the trade, investment, and knowledge flows that underpin GVCs provide mechanisms for rapid learning, innovation, and industrial upgrading (Staritz, Gereffi, and Cattaneo 2011). GVCs can provide local firms with better access to information, open up new markets, and create opportunities for fast technological learning and skill acquisition. Because transactions and investments associated with GVCs typically come with quality-control systems and prevailing global business standards that exceed those in developing countries, enterprises and individuals in developing countries can acquire new competencies and skills by participating in GVCs.

Still, GVCs are not a panacea for development. Very rapid or "compressed" GVC-driven development can generate a host of new economic and social policy challenges in areas such as health care and education (Whittaker et al. 2010). GVCs can create barriers to learning and drive uneven development over time, even as they trigger rapid industrial upgrading, because of the geographic and organizational disjunctures that often exist between innovation and production. There is considerable evidence that greater profits accrue to those lead firms in the value chain that control branding and product conception (e.g., Apple) and to the platform leaders that provide core technologies and advanced components (e.g., Intel). At the same time, contract manufacturers and business-process-outsourcing service providers (e.g., call centers) tend to earn slim profits and may never gain the autonomy or capabilities needed to develop and market their own branded products. Typically, firms that provide routine assembly tasks and other simple services within GVCs earn lower profits, pay their workers less, and are more vulnerable to business cycles, not least because they are required to support large-scale employment and fixed capital (Lüthje 2002).

Overall, the government can provide a critical supportive environment in terms of infrastructure to help exporters, local communities, and small producers trying to access national and international markets, education, and training to build a skilled labor force, and sensible regulations to lower the uncertainties. Firms benefit most from participation in GVCs if they are relatively large, technologically advanced, professionally managed, and have diversified export markets (both in terms of products and countries). Suppliers also benefit from relatively close relationships with their buyers, which can facilitate learning how to upgrade to meet the standards of global markets. TNCs seek to reduce transaction costs by requiring "one-stop shops" with larger and more capable suppliers.

Workers benefit most from participation in GVCs if their conditions of work are relatively formalized (e.g., wages, length of work day and work week, defined benefits) and if they have higher skills (closely correlated with more advanced education) that allow them to carry out better-remunerated tasks. The government can play a key role to address the downside risks for workers—dismissal, debt, injury, illness—and assist in enhancing upward mobility simultaneously. Enforcing sound regulations dealing with labor conditions is crucial to protect the vulnerable segment of the labor force.

Global buyers (retailers, brands, supermarkets) typically don't pay suppliers to undertake the upgrading required to remain competitive in GVCs. Therefore, supportive government policies are an asset (e.g., helping firms to meet international standards and certification requirements, or providing loans or access to finance capital required for purchasing new or better equipment).

The policy implications for upgrading in terms of different end markets are not clear-cut. Facilitating access for export producers to multiple end markets through preferential trade agreements (multilateral or bilateral) would increase the flexibility for suppliers in developing countries to engage in upgrading. However, this will also expose them to greater competitive pressures through
low-cost imports. More fundamentally, government policymakers don't know enough about the intricacies of global industries to spur specific forms of innovation in GVCs.

What government policy can do is to facilitate the development of human capital, including collaborations with universities and private firms to ensure demand-responsive forms of workforce development. In addition, government can foster global collaboration by making it easier for small and medium-sized firms to gain the information they need about global markets, and government can also sponsor local trade fairs or external trade missions to encourage global matchmaking.
6. DEEPENING COMPLIANCE

The views expressed herein are those of the authors and do not necessarily reflect the views of the International Labour Organization or the Brazilian Ministry of Labor and Employment.

1. In cases where the parent company has signed an international framework agreement (such as Zara's parent company, Inditex), this instrument may be used to bring trade union representation and broaden the scope for tripartite governance to regulate labor standards in GVCs (Ferrstadt 2007).

2. ABIT. 2015. Press briefing (“Coletiva de imprensa”), by Rafael Cervone, president of ABIT.

3. Similar to the distinction between a so-called Latin model of flexibility and technical guidance in opposition to the Anglo-Saxon style of model (Piovez and Shrank 2008).

4. In Brazil, a formal work contract is reflected in the signed work card (a cartela assinada).

5. A note of clarification is required here. The definition provided in Article no. 149 of the Brazilian Penal Code considers a worker is in conditions analogous to slave labor if found in: (1) forced labor, (2) debt bondage, and (3) exhausting workday, and (4) degrading conditions of work.


7. These activities are consistent with ILO Convention no. 81, which states that competent public authorities are required to promote "effective cooperation between the inspection services and other...private institutions engaged in similar activities." The law has been praised by the UN Special Rapporteur on Contemporary Forms of Slavery. The law has been proposed by the leading party in the state of São Paulo legislature (the Brazilian Social Democratic Party, PSDB), an opponent of the federal government (the Workers' Party, PT). Although São Paulo was the first state to enact legislation of this type, the states of Tocantins, Maranhão, and Mato Grosso do Sul have subsequently started discussing similar legislation with the National Commission for the Eradication of Slave Labor.


9. General information and procedures concerning the certification process are available on the ABVTTEX website (http://www.abvtex.org.br). Making the monitoring results transparent has been emphasized as an important factor supporting the drive toward achieving and sustaining compliance (Polaski, 2006).

10. In 2015, these auditing firms included: Bureau Veritas, the Brazilian Association of Technical Standards (Associação Brasileira de Normas Técnicas—ABNT), Intertek, and SGS.

11. These are major audit methodologies carried out by independent transactional firms. WRAP stands for Worldwide Responsible Accredited Production (http://www.wrapcompliance.org/), BSCI for Business Social Compliance Initiative (http://www.bsci-intl.org/), and SMETA is the Sedex Members Ethical Trade Audit (http://www.sedexglobal.com/ethical-audits/smeta/).

12. The subcontractor was embedded in the value chain of a SQP-certified supplier to a global brand and ABVTTEX member. See http://www.bbc.co.uk/news/world-latin-america-14579564 (last accessed November 15, 2013).

13. For example, Nike already makes its value chain information available to the public on its website, http://manufacturingmap.nike.com.

14. As noted in ILO 2013b, there are various potential ways to bridge the gap between private and public regulation of labor standards in value chains, such as cooperation, collaboration, and oversight.

7. LAW AND THE GLOBAL SWEATSHOP

1. The exception perhaps proves the rule: under the US Alien Tort Claims Act (ATCA), multinationals may bear responsibility for violating the law of nations by their suppliers, such as genocide, slavery, and torture; but even that liability is tenuous. Some circuit courts have held that corporations can never be liable under ATCA and some require that defendant firms actually intend that their suppliers engage in such crimes rather than merely acquiescing in their commission. Cárdenas v. Chiquita Brands Int'l, 769 F.3d 1185 (11th Cir. 2014) (no corporate liability under ATCA); Kiobel v. Royal Dutch Petroleum, 621 F.3d 111 (2d Cir. 2010) (accord); see also Kiobel v. Royal Dutch Petroleum (level, J., concurring) (corporate liability available under ATCA, but aiding and abetting liability under ATCA requires that defendant act "with a purpose" to bring about human rights violations); but compare Doe v. Nestle, 768 F.3d 1013 (9th Cir. 2014) (corporate liability available under ATCA, with lower standard for aiding and abetting).

2. Another set of challenges comes from antitrust (or "competition") laws, which generally prohibit agreements to set prices for a particular good or commodity. Brains have raised the possibility of antitrust liability as a reason not to agree to union demands that they commit to source from particular factories or ensure particular prices for garments overseas. Since there is not global antitrust authority, this will be for the time being an issue of national-level or European law. Although there are few precedents on point, the US antitrust authorities have declined to take action against the Worker Rights Consortium’s Designated Suppliers Program, under which universities would commit to source from particular overseas factories, on the grounds that the agreement would have few if any anticompetitive effects (US Department of Labor 2011). If TTCG leads to more explicit and more costly commitments by brands, such issues may need to be addressed through additional statutory exemptions to antitrust laws.


8. ASSESSING THE RISKS AND OPPORTUNITIES OF PARTICIPATION IN GLOBAL VALUE CHAINS

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3. In 2011, for example, Nike’s products were made in 930 factories in 50 countries, employing more than 1 million workers. However, Nike itself had just 37,000 direct employees, most of whom worked in the United States. All of the other workers in Nike’s global supply chain were employed by subcontractors based in developing economies (Locke 2013, 48). Over 80 percent of Walmart’s more than 60,000 suppliers are located in China alone (Gerfei and Christian 2009, 579).