The Labour Question In and Around Global Value Chains

■ **M Vijayabaskar**

Commodity production and exchange of commodities are increasingly transcending national borders and giving rise to new forms of organisation. Global value chains (also known as global commodity chains or global production networks, but with minor differences) have therefore emerged as a useful conceptual lens to understand the implications of such shifts in production regimes for the global South.

What are Global Value/Commodity Chains?

A commodity or value chain, as defined by Hopkins and Wallerstein (1986, 159), refers to "a network of labour and production processes whose end result is a finished commodity." To construct a commodity chain, first, the various production processes required for the final product needs to be delineated. Each of these processes constitutes a 'node' in the chain. The following dimensions of each node are important to understand one, how such chains are organised and two, what the implications for different actors within a node or in the entire value chain are.

a) the geographic loci of the node

b) commodity flows to and from the node, and those operations that occur immediately prior to and after it

c) relations of production within the node

d) dominant organisation of production, including technology and scale of the production unit (Hopkins and Wallerstein 1986).

Increasingly, such networks (but with minor differences) transcend several national boundaries. A good example is the iPhone. Though China is seen as the main producer, a network of raw material suppliers, component producers and designers that cuts across several countries across the globe contribute to the final value of the iPhone.

Primary Drivers shaping the Geography of GVCs

There are three factors that make such networks important to our understanding of the contemporary political economy of labour.

1. To begin with, dominant producers and traders in high income countries are able to disperse many segments of production and services to different locations across the globe. In this, they are aided considerably by developments in transport, information and communication technologies in different regions and take advantage of prevailing lower costs. Low costs, especially in the global south, are often an outcome of a combination of lower labour costs, poor environmental regulation and accounting of regulation of environmental costs incurred due to use of polluting technologies, and opportunities to extract raw materials cheaply.

2. Another factor is the re-orientation of economic policies since the 1980s, particularly in the low income economies that has been popularly described as LPG (Liberalisation, Privatisation and Globalisation) measures. Based on a belief that autarchic policies distort efficient resource allocation and impede development, most nation states in the global south have sought an integration of their factor and commodity markets with global markets; and to drive this process of growth by incentivising private capital. In India, a typical example of this approach can be found in chapter 1 of the recent Economic Survey (Government of India 2020). Often infrastructure is created and tax incentives are provided to enable regions to become nodes within GCCs. Policies to promote SEZs in India illustrate this shift. It is also worth remembering that in recent years, sub-sectors within services too are being enmeshed within such transnational value networks. In India, software services and business process outsourcing are typical examples.

3. Given the sectoral specificity of each value chain and the multiple relationships that exist across different nodes of a single value chain, there are considerable regional differences within each country in the nature and extent of integration. Though policies are often framed at the national level, only some regions are able to plug themselves into these chains. Further, there may also be differences in the extent of value generated across different nodes.

What can be wrong with such a strategy?

Given similar resource endowments, countries in the global South often compete with each other to attract segments of global value chains where they have a cost advantage. When countries in the global South seek to insert themselves into global value chains, they, by and large, leverage their lower labour costs, raw material base or poor environmental regulation. But herein lies the problem. When a firm or a node in a global value chain gets engaged in activities with low entry barriers such as labour-intensive, low skilled activities, it often faces competition from similar low wage locations in other parts of the global South. Such competition soon translates into lower prices, and hence to a 'race to the bottom', termed as 'immiserising growth' in economics literature. In other words, though such nodes may be expanding their economic activity, they tend to yield lower returns over time because of competition from similar lower cost nodes. Nodes in the global south tend to generate much less values than those in advanced capitalist economies.

Economic Upgrading- A Way Out?

So a growth strategy in a phase of globalised production for such nodes will be to move into segments of the value chain that help them realise more values within these nodes.

Policies therefore privilege the need for 'economic' upgrading. Such 'upgrading' refers to the ability of firms or nodes to either enhance the extent of value-addition or move into segments of the value chain where rents are higher, and into activities that rely on skill or knowledge intensity. Developing own brands, for example, offer such possibilities for firms, located in global garment value chains. Firms can upgrade their production process, whereby they improve the efficiency with which they transform inputs to outputs. Using advanced processing machines for dyeing and printing are typical examples. Or else, they may increase unit value addition by improving the quality of the product. Use of better quality of fabric, use of organic cotton, finishing, etc. is an example for this. Firms or nodes may also extend their range of activities to include more value generating activities like design or marketing. Or they can diversify into related activities like manufacturing machinery for processing and garment making. Existing literature, in addressing the way power is dispersed along the value chain, points to the constraints and opportunities available for nodes in the global south to undertake such upgrading.

A major constraint is the nature of power wielded by dominant firms (called lead firms) on the rest of the nodes within a value chain. Based on the nature of barriers that they can create for firms in the global South, scholars identify two kinds of lead firms The first type are manufacturing Transnational Corporations (TNCs) that source their components and labour intensive processes of their production from low income and less industrialised economies to orchestrate what are known as as Producer driven Commodity Chains (PCCs). The sectors in which this occurs tend to be technology and skill intensive and have economies of scale (such as automobiles, computers, aircraft, electrical machinery, etc). The second category is known as Buyer Driven Commodity Chains (BCCs), which are controlled by big merchandisers, retailers, and trading companies. These value chains are formed when producers in low income economies produce finished goods and not components. The buyers then erect barriers to their economic upgrade in the domain of design, research and/or marketing. The lead firms may not own production facilities at all. H&M, one of the leading apparel brands in the world, for example, owns no factories but sources from independent supplier factories across the world. In PCCs, firms exercise control through command over raw material and component suppliers, as well as forward linkages into retailing. BCCs on the other hand, being design and marketing intensive, create high barriers to entry through design, branding and consumer research.

Irrespective of the nature of barriers created, there is an implicit assumption that increase in value generated in a specific node through 'upgrading' will translate into better wages for workers through a process of trickle down. But there is considerable literature to show that the process of 'trickle down' does not necessarily follow from the process of economic upgrading.

Why economic upgrading may not translate into better conditions for Labour

The quality of work and employment in the low income/regions is influenced by the kind of roles that they play in the global division of labour. Other than labour costs, growing competition for global markets has meant greater pressures of time-economies and quality standards. Together, they result in pressure to lower wage costs by informalising or outsourcing the costs of social reproduction. It is done through the processes such as reliance on home based production, use of family labour and social networks for provision of social security. Even when firms move into more value-adding activities and get better returns for labour employed, they may not be interested to transfer a share of the additional value generated to labour. Micro-level evidence indicates poor outcomes for labour despite economic upgrading. In the Indian coir industry for example, the coir industry in Pollachi region of Tamil Nadu that upgraded into relatively high value production continued with lower wages and poor working conditions compared to the coir producers in Kerala , which did not undergo economic upgrade. (Ramohan and Sundaresan 2003). The decreasing share of labour in global value-addition over the last few decades shows that this is the dominant macro trend as well (ILO and OECD 2015). In other words, moving up the value chain is not sufficient to address the labour question. This is despite the fact that in some buyer driven value chains like garments, total labour costs tend to be only 6 to 7% of the final price paid by consumers. It is the extent of collective bargaining and the nature of regional/ national institutions that govern labour rights and entitlements and shape the extent to which gains in value-addition get redistributed to the laboring classes.

The agency of labour is in fact quite explicit in the original conceptualization of the 'global value chain' by world systems theorists like Wallerstein. By emphasizing 'labour processes', this framework directs our attention simultaneously to inter-firm relations across different nodes within each value chain and to relations of production within each node. As such, the mode of sharing value between workers and entrepreneurs within a node is linked to how value generated within the entire value chain is shared across different nodes within that value chain. However, subsequent uses of this term in academia have moved away from this understanding and tended to focus almost exclusively on the relations across nodes and distribution of value across nodes. They do not ask: What do inter-nodal relations within a value chain mean for labour? And how do capital-labour relations within a node shape inter-nodal relations?

Second, a firm's movement into value-added activities such as improving quality does not necessarily imply that all workers employed in such activities contribute equally to such value addition. Segments of labour capable of being employed in skill intensive segments are likely to gain more. For example, in the case of the garment value chain, if a firm upgrades into designing, it is likely to employ skilled designers at higher wages than pay the existing tailors more! This would lead to segmentation within labour markets. The growing inequality within labour markets, marked by an increasing difference between incomes of highly skilled labour and those at the bottom is suggestive of this tendency.

New Possibilities for Labour Agency?

There are also arguments which suggest that entry into value chains offer potential for enhanced agency for labour on the following grounds. Integration of labour markets across national borders would mean that wage rates are not guided by local conditions but by international standards. Workers could appeal to global standards to improve the terms in which they are employed. Importantly, the fact that workers across different nodes produce for a single dominant firm offers the possibility of labour to mobilise across nodes to demand a greater share of the value generated in the value chain. It is possible for example, that workers in all factories producing for leading garment firms like H&M or Zara to form alliances to claim better working conditions. There are in fact instances of transnational civil society organisations collaborating with trade unions and other labour organisations within specific nodes to form alliances of workers across different nodes within a sector. The Asia Floor Wage Campaign in the context of the garment industry formed to prevent Asian producers from competing with one another on the basis of lowering wage costs is an example of such a possibility. However, there is little evidence of workers taking advantage of such possibilities. The outcome of such concrete efforts to mobilise across borders is also uncertain.

Can the Labour question be Dis-engaged from the Question of Environmental Justice?

We had earlier indicated that, apart from lower labour costs, ability to access cheap raw materials and lower costs of pollution due to poor environmental standards are also important drivers of the geography of global value chains. Excessive water pollution in nodes in Tamilnadu such as Tiruppur caused by dyeing for garment production are well known. Access to raw materials including water implies an extractivist logic premised on a process of commodification of nature, that Polyanian scholars have drawn attention to. Such commodification of nature combined with poor environmental regulation has led to undermining of livelihoods in the region outside the domain of the value chain. Farmers living close to several such nodes have complained and protested against loss of their livelihoods.

While labour struggles within a value chain for better conditions of work and employment may contribute to better redistribution of value within a node, ecological implications of value chain geographies require us to simultaneously forge workers' alliances across sectors, but within regions. In this context, mobilizations based on regional identities may also work. Nevertheless, the question as to whether mobilisations for ecological or labour justice within a node actually translate into gains along these dimensions or merely lead to a shift in geography of the chain depends also on how dominant actors in other segments of the value chain respond to such demands. More often than not, it has led to shift in geographies. Because of the ban on dyeing or tanning in a specific location, buyers often move to sourcing such activities from locations where there is less resistance or poorer environmental regulation institutions. In turn, this possibility points to the need for labour to act at multiple scales - both within and outside the value-chain, and across nodes within a value chain. At present however, while capital is able to incorporate new nodes to maximize accumulation, labour's agency to forge new scales of mobilization is limited.

The category 'global value or commodity chains' assumes relevance only in the context of globalised production networks. However, clusters or nodes or firms need not cater only to global markets. They can be based on production for the domestic market as well, as in the case of India, where the domestic market is substantial. The implications for labour within such domestic value chains are unlikely to be too different except that the possibility of forging transnational alliances is less likely.

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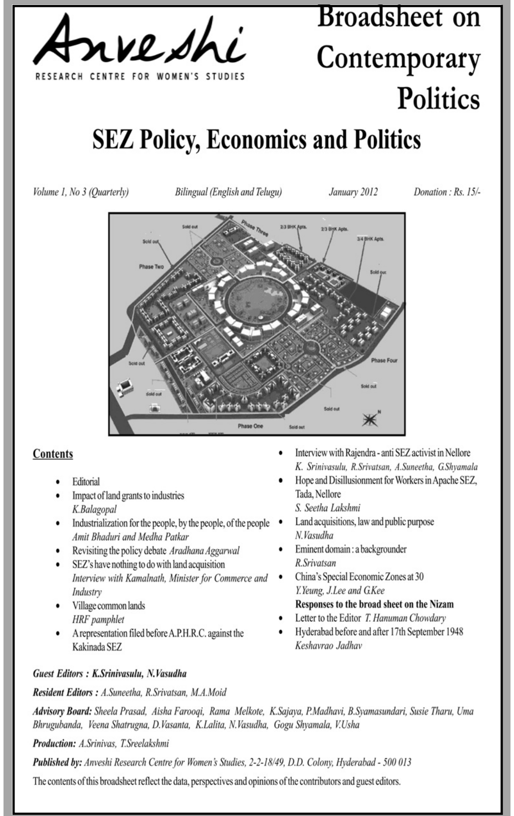
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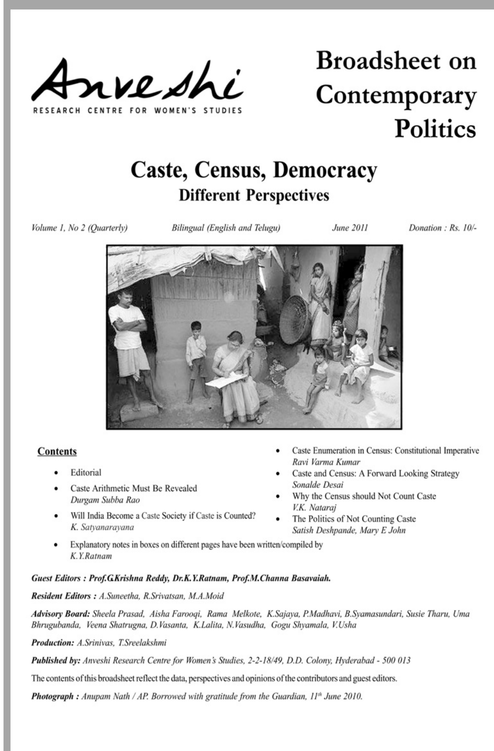
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