

TRADE UNION RESPONSES TO GLOBALIZATION

A review by the Global Union Research Network

Edited by Verena Schmidt

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GLOBAL UNION RESEARCH NETWORK

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INTEGRATING LABOUR ISSUES IN GLOBAL VALUE CHAIN ANALYSIS: EXPLORING IMPLICATIONS FOR LABOUR RESEARCH AND UNIONS

3

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Introduction

Higher levels of international coordination of production within a value chain (rising corporate governance) appear to go hand-in-hand with low and even declining levels of labour protection (reduced labour governance). Nevertheless, some academics and policy-makers have implied that this situation can produce “high road” outcomes – that is, enterprise growth based on high quality production and with associated improvements in labour rights. However, whether and how this might occur is by no means certain or clear.

This debate is at the heart of the decent work initiative (ILO, 2002) and has particular importance for labour research and the future of unions in developing countries. This article¹ discusses the value chain approach, it investigates the assumed causality between company upgrading and improved labour conditions, and it explores implications for labour research and unions. To do this, the following section (“Global value chains and employment conditions”) introduces the value chain approach and discusses the limited attention to labour issues in the first wave of the value chain literature. The subsequent section (“A leap of faith: High road causality in developing countries?”) argues that more systematic attention needs to be given to labour issues, as improvements in labour and employment conditions do not automatically follow from upgrading strategies by firms in global value chains. Some key academic contributions in the field of labour studies and their relevance to the field of global value chain (GVC) studies are the focus of the

¹ This paper is based on a presentation at the 2nd GURN workshop, Nova Hamburgo, 23–25 January, 2005. It builds on an earlier paper presented at an European Association of Development Institute workshop, “Working in Small Enterprises – Job Quality and Labour Conditions in a Globalizing World”, 17 January 2003, Free University, Amsterdam.

fourth section (“Relevance of labour studies to global value chain analysis”). The last section (“Value chains, labour research and unions – towards a “new” agenda”) highlights a number of implications for labour research and unions.

Global value chains and employment conditions

In recent years the GVC approach has become very popular. A dominant feature in the GVC literature is the broad consensus on the “new competition” idea that, in order to cope with the pressures of globalization and to remain competitive, firms need to continuously upgrade (Best, 1990; Schmitz, 2004; UNIDO, 2002). Much less is known about how this drive towards upgrading impacts upon labour. Conceptually, broad brush views diverge from those who assume that economic globalization implies a cost-driven “race to the bottom” which inevitably leads to deteriorating labour conditions, while others expect that continuously upgraded processes and products also require higher skilled and motivated workers who can and will earn a premium in the labour market (ILO, 1999). Moreover, while the first wave of empirical GVC studies did not pay much attention to labour issues at all, more recent GVC studies have started to address specific labour issues in the value chain and country context of particular case studies (see for example Nadvi (2004) for a comparison of case studies, or Knorringa and Pegler (2006) for a set of working hypotheses on where and when firm upgrading and improved labour conditions are more likely to go together).

The value chain perspective draws attention to the sequence of activities stemming from product conception to the final consumer, stressing the importance of activities other than production itself, notably design, logistics and marketing (Gereffi and Kaplinsky, 2001, Kaplinsky and Morris, 2002). As formulated in the 1990s (Gereffi and Korzeniewicz (eds), 1994), the three key features of GVCs are: a) an input–output structure for the product; b) associated geographical aspects of production; and c) the governance structure by which production is coordinated. As a framework it thus moves from a firm-level approach, to inter-firm relations and then to networks, within and across regions. Various structures and formats have been suggested, the two main ones being producer- and buyer-driven value chains.

A general, but often implicit proposition from this literature is that more quality-driven or high road production entails higher levels of trust in inter-firm relationships in value chains (for a critical overview, see for example Humphrey and Schmitz, 1998). Lane (1998) argues that in the case of intensified quality-driven competition, trust has become more necessary but also more problematic. Her proposition is that trust is at present an even more important precondition for success than before, while at the same time

intensified competition makes trust more difficult to develop and more risky to invest in.

Notwithstanding these difficulties, a quality-driven or high road environment may well offer more opportunities for organizational learning which, in turn, increases the likelihood of upgrading. Upgrading in the value chain literature is usually broken down into:

- process upgrading (doing things better);
- product upgrading (producing better goods);
- functional upgrading (engaging in additional and higher value-added activities) (Humphrey and Schmitz, 2002 and 2004).

The GVC debate has from the start looked at questions like how suppliers can be: “locked into dependent relationships across territories through considering issues of cooperation, competition, power” (Kaplinsky et al., 2002, p. 1160). The original formulation of the global commodity chain approach by Gereffi and Korzeniewicz (1994), draws its inspiration from Wallerstein’s world system approach, with strong roots in dependency thinking. However, in the first wave of GVC studies the attention was almost exclusively focused on inter-firm relationships, basically neglecting impacts on labour. In more recent GVC studies labour is increasingly brought into the analysis, but we feel there is a need to further systematize attention for labour in GVC studies that aim to shed light on opportunities and threats from economic globalization on developing countries.

After all, positive impacts on the quantity and quality of employment as a result of inclusion and upgrading in GVC are often assumed by policy-makers, but such claims too often lack solid evidence (ILO, 1999). The findings from GVC studies are mixed (Kaplinsky et al., 2002; Nadvi, 2004). Moreover, the broad field of labour studies brings in some pertinent considerations that should alert us to be extremely cautious about sweeping generalizations when it comes to where and when firm upgrading may also lead to improvements in labour conditions.

Therefore, we argue that unless there is greater integration of labour studies issues into value chain analysis, policy suggestions for how GVCs can benefit developing countries will, at least, be incomplete and possibly misleading. The industrial upgrading related to inclusion in value chains may not automatically ensure “good” labour standards and conditions in firms.

In saying this we are not implying that most authors looking at the inter-firm level are ignorant of power relations. There are plenty of authors in the value chain literature who recognize the problematic, explicitly political and contestable nature of many of these behavioural linkages. Yet there is scant

attention to the problematical impact of these measures on workers' attitudes (Nadvi and Barrientos, 2004). The acquisition, control and use of tacit knowledge by lead firms (*vis-à-vis* SMEs) is a theme which may have more serious implications than authors such as Palpacuer (2000) suggest. This applies equally for worker control and thus worker attitudes and their sense of security, and the quality of work in both large and small firms. Moreover, unequal power relations within the hierarchy of firms may have similarly negative effects on employment conditions, in particular in developing countries. This is due to the dependent and vulnerable position these firms often hold within value chains. Finally, where there is a combination of reduced union power, continuing antagonistic capital–labour relations and decreased national labour regulation, the promotion of “decentness” and “good” labour governance may not find an adequate substitute in new forms of international standards.

A leap of faith: High road causality in developing countries?

Nowadays it is relatively commonplace, among academics and policy-makers, to argue that firm upgrading is a key to sustained competitiveness (ILO, 1999 and 2002; UNIDO, 2002; Schmitz, 2004). Moreover, the promotion of job quality within this “new reality” of competitiveness is often expected to go hand-in-hand with four main elements – increased training and knowledge, integrating cost-conscious competitiveness with improved qualitative conditions, the promotion of self-help associations/collective solutions, and an appropriate facilitating regulatory environment (ILO, 1999, pp. 17–21). Upgrading, in this context, would then lead to improved employment conditions. However, we feel that the likelihood of this simultaneous upgrading of firm-based competencies and employment conditions should be tested empirically, instead of remaining an implicit assumption, and thus become an integral part of future studies (Knorringa and Pegler, 2006).

In the simultaneous upgrading scenario workers are too easily assumed to be highly-skilled and relatively scarce, and to possess significant tacit knowledge. In those situations, companies indeed are anxious to enlist and keep such “repositories of know-how”. This conceptualization of workers and of owner–manager–worker relationships clearly has its merits in an increasingly knowledge-intensive globalizing economy characterized by the need to continuously adapt and learn. Moreover, while the initial conceptualization focused on R&D type of activities, at least parts of this logic can be extended to a broader variety of activities in the value chain such as design and marketing, and even as part of the actual production of goods (ILO, 1999; Palpacuer, 1997 and 2000). However, one should be careful not to over-generalize the extent to

which this approach can serve as a model for all types of labour relations. In essence, it is a model primarily suited to the core workers who carry out core activities in core firms in the value chain. Therefore, this model does not fit well with the type of labour-intensive processing activities that constitute the bulk of production in developing-country suppliers in GVCs. In other words, adopting this model to conceptualize impacts on labour from economic globalization would amount to wishful thinking for the bulk of developing country low-cost suppliers to GVCs. Moreover, its already limited relevance may well diminish over time, due to possible further decline in core worker proportions.

In the still relatively few attempts to look empirically at these connections it has been found that among small firm clusters there are ample cases which seem “exceptional”, in that poor employment conditions persisted despite firm upgrading (Nadvi and Schmitz, 1994 and 1999). In the first review of small firm clusters it was evident that the ideal high and low road trajectories do not seem to fit realities in the South (Nadvi and Schmitz, 1994, p. 43). The authors observed a less straightforward relationship between firm upgrading and employment conditions at cluster level. While it is debatable whether a straightforward high and low road trajectory ever existed in developed economies, it seems safe to assume that there is less likelihood of finding a high road strategy which also includes high road employment conditions in developing countries.

A recent and careful assessment of labour impacts in a set of GVC studies by Nadvi (2004) brings out two main points that also reverberate from other GVC studies that look at labour and employment issues (Bair and Gereffi, 2001; Kaplinsky et al., 2002). Firstly, lots of new jobs have been created in “greenfield” locations, poor areas that became attractive because of the supply chain logic of continuously searching for cheaper locations with sufficient skills for entry into GVCs. Jobs offered by final producers and some core supplier firms in such new locations often provide clearly better labour conditions compared with local alternative employment opportunities. From a development perspective this, at least initially, leads to an important pro-poor economic stimulus as it generates new and relatively better-paid employment in a specific locality (Nadvi, 2004).

Secondly, value chain inclusion is frequently associated with strongly segmented and differentiated employment conditions, increasing insecurity and longer hours, especially at the furthest end of the chain. In essence, this means that the general observation from labour studies about impacts of economic globalization – increased insecurity and precariousness (Standing, 1999) – is confirmed by those GVC studies that have paid attention to labour. Finally, while low wages may act as an initial inducement to value chain inclusion and growth via FDI, both FDI attraction and future export performance are strongly and

positively correlated with the basic tenets of decent work – especially better labour rights and a more stable, equal representational environment (Kucera, 2001; Kucera and Sarna, 2004; see also Neumayer and de Soysa, 2006).

On the whole, we feel that the accumulated know-how around employment impacts in developing countries lags behind our know-how in other key areas of the research agenda on GVCs. In this light, based on a few pertinent examples, the following section looks at what labour studies can tell us in practice and theory about labour rights and conditions in both large firms and SMEs.

Relevance of labour studies to global value chain analysis

Within global value chain analysis and the new competition paradigm the potential contribution of labour studies to the issues of labour rights and conditions appears to revolve around two lines of questioning. First, how do we categorize those working in this type of firm or network and, second, what do we know about their employment conditions and labour relations, and the mediation of these by other actors? As discussed earlier, the combination of segmented labour market theory, labour process analysis and industrial relations studies provides some helpful clues on these issues.

For example, early authors on the topic, such as Thurow, pointed to a potential link between education, labour markets and firm level strategy. He suggested that it would be better to focus on the demand and supply of jobs rather than the demand and supply of labour (Thurow, 1970). This more explicitly opens up discussion of the methods used to produce a more flexible and homogeneous core labour force, for example selection and employer screening. The question then remains whether SMEs follow this lead or whether they are the “depositories” for many of those not able to be considered suitable for work in larger firms. Authors such as Mainwaring added to this in terms of a more variegated definition of secondary labour markets (first and second tier subcontractors, home workers, the self-employed, etc.) and others have added useful concepts concerning social stratification and conditioning influencing entry into the labour market (Thomas, 1990).

Using a number of developing country examples, the following paragraphs try to demonstrate how such labour process approaches continue to be central to understanding firm dynamics under new competition. First, there is growing evidence that “modernizing” large firms are implementing changes to work via such strategies as reduced hierarchies, the combination of tasks, teamworking and delegated responsibility (Humphrey, 1994; Pegler, 2000). There is a more striking finding in terms of the issue of labour conditions in SMEs. Industrial sociology

has shown that many smaller firms, including first tier subcontractors and firms which have scaled down from being large firms, especially in more capital intensive industries, are now providing conditions similar to those of large firms, and this extends to some of the training, education and ancillary benefits (Bair and Gereffi, 2001; Gereffi and Kaplinsky, 2001; Fleury and Humphrey, 1993; Gitahy, 2000; Humphrey, 1995; Nadvi 2004).

In addition, the development of networks of firms has also been observed, along with many of the cluster synergies and linkages that many value chain researchers identify as important for industrial development. These have taken various forms. From the perspective of local economic development, there is the appearance of “virtuous” clusters of firms with business association linkages (Abreu et al., 1999; Ruas et al., 1994). At a firm level, many basic services and even accounting functions have often been externalized or quasi-externalized (Abreu et al., 1999; Pegler, 2000, chapter 4; Ruas et al., 1994). In other cases, such as the automobile industry, a new form has emerged of business-park or modularized production, with key selected suppliers on the same site as the TNC (Abreu et al., 2000).

However, this is about as close as the evidence gets to support a more optimistic vision of SME employment in value chains. As one moves from an analysis of objective factors to an analysis of subjective and attitudinal factors beyond the “core” firm, the evidence is more problematic and negative (Humphrey, 1999; Pegler, 2000, chapter 6). Moreover, examples of change in management methods and work must be seen within their specific economic, cultural and industrial relations context. In particular, to suggest that changes have or will occur in management attitudes towards cooperation and trust may imply that the organizational and behavioural traits of the “Japanese model” have been accepted at both large firm and subcontractor levels. As many studies have shown, such a model and its transferability are highly problematic issues, particularly in terms of what they suggest for labour rights and conditions in firms of all sizes in the recipient country.²

For example, a number of studies suggest that the acquisition of greater tacit knowledge within daily workplace routines has led firms to instigate stronger, but more subtle, forms of control to offset any dependence the employer may have on such skills (Fleury and Humphrey, 1993; Humphrey et al., 1998; Pegler, 2002b). There is also little evidence to suggest that many production workers have developed a commitment, allegiance or trust in their employer as a result of new production regimes (Leite, 1994; Pegler, 2002b). Teamwork, decentralized monitoring and similar strategies have added to work pressures, and the use of

² See Dedoussis, 1995; Delbridge, 1995; Elgar and Smith, 1994; and Humphrey, 1995, for various examples from developing and higher income countries.

more stringent selection and screening mechanisms are generally seen by workers as an additional control measure. These negative attitudes are only partially explained by the low wages paid to workers in such “privileged” modernized plants: workers also do not see themselves as more employable in the open labour market (Leite, 1994; Gitahy, 2000; Pegler, 2000, chapter 6). Yet employers of this type are generally seen as preferable to working for small-scale suppliers and parts producers. Therefore, managers in such “privileged” modernized plants can use the implicit threat of dismissal as a significant source of bargaining power.

From a Brazilian, and also Latin American perspective, economic and labour market conditions probably heighten the uncertainty workers face during periods of change. A high degree of confusion, anguish and uncertainty comes through from discussions with Brazilian workers – from blue collar to white collar, from manager to production employee. For example, at a key white goods TNC in the state of São Paulo, one of the authors³ found a major effect on the morale of both managers and production workers as its role as a product innovator and independent firm declined. Gitahy found that downsizing and reduced hierarchies were seen to have a similarly massive effect on managers’ attitudes in other firms in the region (Gitahy, 2000). This same author also quotes a production worker as saying, “I am a spare part which cannot be milled anymore” (Gitahy, 2000, p. 14).

When one moves beyond the workplaces of these large and small firms, power and inequality are also very important issues, especially from an industrial relations perspective. For instance, those same firms which adopt flexibilization policies have made union representation all the more difficult through the use of more subtle anti-union policies (Ackers et al., 1996; Pegler, 2002a; Shaiken, 1994). Rather than transferring more consensual models of industrial relations into Brazil, many of these firms have simply imported new management models that emphasize flexibilization without also significantly investing in workers. Moreover, these same firms promote greater heterogeneity and flexibility in workplace conditions, even for firms in the same sector and region, which forces a vacuum of labour rights governance. This is particularly the case because national labour regulations have been peeled back to enable this flexibility.

The Indian context, as illustrated by the case of Crompton Greaves (an engineering company) highlights a different but equally problematic situation for organizational change and for labour rights and conditions (Humphrey et al., 1998, chapter 6). At this firm, the combination of more rigid and enforceable labour rights than in Brazil and most of Latin America, plus an apparently aggressive and representative union, has put clear limits on

³ Company interviews, São Paulo, Brazil, December 2000–February 2001, by Lee Pegler.

the manner in which firms can change. Here fewer hierarchical changes have been introduced and agreements must be made when the firm wishes to introduce workplace change. Some change has come about, but worker acceptance of this has been contingent on the gaining of clear stability rights, improved pay, limited work intensification and some veto rights.

This situation is in stark contrast to the situation in Brazil and other developing countries where there is a low level of enforceability of labour rights and greater employment flexibility, even in large firms. Yet it should be noted that Indian employers (especially when linked to TNC capital) often choose to relocate to less aggressively unionized and lower wage “greenfield” sites (Humphrey et al., 1998, pp. 143–144). Experiences at these sites show how employers have much greater flexibility in respect to labour rights and conditions. The uncertain and potentially negative implications of these developments for labour rights and conditions apply to both large and small, core and non-core firms within a value chain network.

More generally, both the Indian and Brazilian cases highlight how the promotion of labour rights is contingent on a real, effective and appreciated role for union representation. Nevertheless, the mobility of capital means that union representation is not a sufficient condition. The discussion suggests that the building of trust and good employment conditions within the firms of any new “virtuous circle” of inter-firm relations will be based on a process of power and negotiation. Mutual gains to workers and their firm based on concepts such as trust and cooperation may require a unique combination of unions being both recognized and representative and workers showing allegiance to both company and union. In other words, advocates of new competition theory at the level of the firm and the value chain must re-adjust their views: the possible coexistence of increased control and worker trust needs to be based on clearer evidence than seems to exist at present.

Looking at power inequality from a national and international perspective suggests the need to take a cautionary view of value chain developments and their implications for labour rights and conditions. For example, since the mid-1990s there was a significant change in the differing standards of employment conditions within locally based firms and the quality of work across the Brazilian white goods value chain. At first it looked as if high-skilled input production of compressors in Brazil would provide a driving force for upgrading inter-firm linkages and employment. Even older white goods firms developed high-skilled R&D functions within the Brazilian market.

However, in recent years compressor production in Brazil has been downgraded, in the sense that Brazilian production is now just one hub amongst many for the main global suppliers. Moreover, R&D and product design functions have been transferred back to the United States and most other high-skilled work has

been further standardized and outsourced, often to former employees and/or local SME branches of other well-known TNCs. Other authors have noted a similar agglomeration of TNC lead firms and their preferred overseas suppliers in the automobile industry in both Brazil and India (Humphrey, 1999). They have also argued, as highlighted by this less promising example of the Brazilian white goods industry, the difficulty that industry in developing countries will have in establishing and retaining sustainable, competitive niches within GVCs (Humphrey, 2003, pp. 20–21).

In summary, this section has suggested that there are some central behavioural dynamics within the field of labour studies that should become a more central part of GVC analysis. A number of theories, concepts and hypotheses within the field of labour studies suggest that trust building and knowledge development within firms cannot be taken for granted. This is due to the existence of uncertainty, control strategies, unequal power and differential labour market access. The next section of this paper provides a very brief sketch of what these observations imply for labour and union research. What the discussion suggests is that there may be great gains for unions through a more active role in value chain research, but there might also be some problems or ambiguities.

Value chains, labour research and unions – towards a “new” agenda

At the broadest level, the examination of the links between firm upgrading and labour rights highlights that the research agenda must focus more squarely on making GVCs more equal and inclusive. This means it must be focused not just on “nodes of value and their constraints” but also on the way labour is used and the labour conditions which exist at these nodes. This would suggest that unions should encourage industrial policy-makers to integrate the decent work agenda within national industrialization strategies. Finally, recognizing that firms are not the only mechanism for the promotion of improved security for workers, this approach must also consider, in the absence of a strong state role, how to promote better social protection within and around firms.

This might sound like a very tall order and outside unions’ traditional agendas, however, one of the ways policy development of this type may be assisted could be through the use of research matrixes. Such matrixes could be used to systematize different hypotheses on where and when industrial upgrading and improvements in labour conditions go together, at various levels of analysis (see Knorringa and Pegler, 2006).

What then does this suggest for union involvement in the research process? First, at a general level, unions should be part of the process to

methodically investigate labour rights both in main firms and in their supply (value) chain structure. Second, they should use this information to actively suggest ways in which better CSR might be promoted within these value chains. The objective would have three parts – to show that value chains could, in many circumstances, still be seen as one “firm”; to help bolster the argument that better labour rights are good business⁴ and to put forth the argument that unions should be a more significant stakeholder in CSR.

More specifically, this labour/union research agenda would involve a series of stages, methodologies and decisions. For example, mapping supply chains is a complex process involving data from many different sources and from workers from both the informal and formal economies. Decisions will have to be made about which products and to which level (i.e. which tier or supplier) research is able and intended to reach. Second, as argued strongly by the preceding analysis, the research into employment relations and employment conditions within these lead firms and suppliers must be based on both objective and subjective indicators. Without such a focus, shop floor analysis, intra-firm relations and considerations such as trust and security will have little meaning.

Third, this may take many unions into uncharted waters, and they may have to get involved in investigating the relationships between firms – whether that be in terms of R&D, training, products and input trade, in terms of levels of trust or in terms of the possibilities for cluster synergy. Similarly, research into labour rights will often require union researchers to expand the focus of their analysis – beyond formal labour relations and on to consideration of informality, poverty and livelihoods outside of traditional workplaces.

Moreover, the joint promotion of industrial development and decent work may, especially in the case of buyer-driven chains, require that unions develop an understanding of why buyers choose suppliers in one location and not another. This too may take unions into less traditional areas – i.e. sourcing analysis and local development promotion. On the other hand, through involvement in the matrix construction referred to above, unions and labour researchers will have a potentially powerful research source at their disposal: a comparative perspective on labour rights and conditions within and across various value chains and countries.

Concluding remarks

Global value chain analysis has provided a most useful tool in the examination of globalization – its structures, levels and processes. Yet this paper suggests

⁴ Essentially, the argument underpinning the concept of decent work and as pursued in the research of authors such as Kucera and Sarna (2004).

that the next generation of studies should integrate a more diverse and critical analysis of intra-firm labour conditions and labour market flows. When integrated more fully in this way, GVC studies may offer new insights on the sectoral variety of labour rights and conditions, as well as any regulatory changes which might be needed to promote decent work more widely amongst labour markets and countries. This appears to be most important in respect of employment in SMEs.

Most researchers in the GVC field appreciate the fact that power and inequality operate at many levels. However, the first wave of value chain studies insufficiently integrated labour issues, making these studies less useful to labour and unions. In this sense, unions now have an opportunity to expand and activate GVC analysis for their own use. This paper has indicated a number of possible ways in which this may be done.

In undertaking this research agenda unions may (once again) expose themselves to considering groups and themes that are outside their traditional priorities. In this regard, the vexed questions of a union role in local development promotion and possible links with other social actors and processes may require nuanced responses. However, the reality of the “world of work” in the 21st century seems to necessitate the more active engagement of unions with people affected by informality, poverty and gender inequality.

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Trade union responses to globalization

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