Global Production Systems and Employment: 
New Reality, New Policy Challenge

Expert Roundtable Discussion
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Introduction

Sandra Polaski, Carnegie Endowment

This event was designed to follow up on the work of the World Commission on the Social Dimension of Globalization, a high level group appointed by Juan Somavia, the Director General of the International Labor Organization. The World Commission’s report covered the range of issues that together determine the effects of globalization on the average citizen of the world. That average citizen is a worker, entrepreneur or farmer, or is unemployed or poor. The World Commission identified a number of areas where globalization is failing average citizens and households, and where governments must do more, both at the national level and in international contexts.

One topic identified in the report was the changing nature of global production systems and how they are affecting employment and incomes around the world. This roundtable was designed to bring together a group of expert researchers and policy experts to synthesize what is understood about the impact of changes in global production systems and to identify where more research is needed. The group also looked at what governments and the private sector have done to improve employment and labor rights outcomes and to identify areas where more policy work is needed.

It is hoped that this event is the first of several that will take up the issues and challenges identified by the World Commission in its report.


Gerry Rodgers, ILO


Globalization has a potential to benefit the world’s workers, but this potential has yet to be realized. In the current global economic system, there is too much inequality and lack of accountability among institutions. Poor governance causes many of these problems, and
Improvements on these issues could be made by democratic and effective states. Broad, across the board coordinated changes that would begin at home but then spread across the international system are needed. The expansion of global production systems across the world calls for the development of frameworks, or fair global rules, for coordinating labor standards, export processing zones, outsourcing, foreign direct investment, and corporate social responsibility codes. Several heads of state, along with other institutional leaders were involved in developing “The Report of the World Commission on the Social Dimension of Globalization ad its Significance”, which makes it more likely to be successful, politically. There were three conditions that contributed to the report’s success – the quality of the report itself, its timeliness in catching the main issues of the moment, and the involvement of many international and national institutions.

I-THE NEW REALITY OF GLOBAL PRODUCTION SYSTEMS AND EMPLOYMENT

A: Structure and Evolution of Global Production Systems

Gary Gereffi, Duke University:
“Global value chains and jobs: Trends and challenges”

Catherine Dolan, Northeastern University and University of Anglia:
“Restructuring in the global fresh produce chain: Implications for producers and workers”

Rafiq Dossani, Stanford University:
“Services off-shoring to India: India’s position in the supply chain”

The global and national economies, as well as individual industries and firms, have undergone a tremendous amount of restructuring in the past several decades. Until the 1970s, the global economy was primarily composed of national companies operating mainly within their borders. The system was characterized by shallow integration versus the deeper integration of today, in which global production systems distribute production across continents and the globe. (Global production systems and global value chains are used synonymously in this discussion.) Linkages across firms and countries have strengthened as trade has greatly expanded and production has moved southward. No longer does a single firm control all of a company’s activities (e.g., General Motors in the 1960s), but rather the system operates from a network-centric perspective and a firm is disconnected from the customers it serves – for instance, Nike now has 900 suppliers and 650,000 workers spread over 50 countries. But while there has been a diffusion of production, the control has solidified on the retail side as a result of consolidation among top-tier firms and a proliferation among potential suppliers.

The agricultural trade in fresh fruits and vegetables and the outsourcing of software to India provide examples of this trend. World agricultural trade has increased by over 6% from 1961 to 2001 (because of increased demand from the US, EU, and Japan and increased supply from across Latin America and Sub-Saharan Africa). The value of produce exports has also simultaneously increased by 55% ($4.5 billion). This increase is partly a result of the greater
market access that produce receives as compared to other agricultural products (especially under preferential trade agreement such as NAFTA and the Lome Convention). Accompanying this increased trade has been a restructuring of the market from a fragmented industry with low barriers of entry to a market dominated by retail oligopolies that control over half of fresh produce sold. This has caused a change towards greater quality, supply chain efficiencies, and product differentiation. The result of this concentration and higher standards has been a decline in second tier smallholders who are unable to meet all the new requirements and a downward pressure on prices and wages, a widening gender gap in terms of wages, and increased insecurity among workers in the industry.

In the software industry, India has positioned itself as the developing country leader in customized software for the American market. But this dominant position has been the result of government policy that allowed foreign service providers in the country, development of an information technology infrastructure, and good rules governing venture capital. And although India has experienced success with outsourcing, the country also demonstrates the difficulties of moving up the value-added chain, especially in regards to technology. Technological advancements happen at such a rapid rate that it is hard for a country to keep up and remain competitive. Almost all of the research and development is still done in the United States, so India remains separated from the cutting-edge development. Like the work in research and development, most of the higher-end, higher-paying work is still concentrated in the United States.

While production has expanded across the globe, global governance has not been able to match the pace. Developing countries are competing with each other (and against developed countries) as they try to take the difficult steps up the value-added ladder. There are concerns, as expressed in a recent Business Week article ‘Is your job next’, that globalization could lead to increased unemployment in the richer countries such as the United States.

Three governance roles were identified: facilitative, regulatory, and compensatory. Although facilitative measures (e.g., international property rights) are gaining strength on all levels, regulatory and compensatory measures remain much weaker, especially on the international versus domestic levels. There is still no social safety net on the global level to offer protection for those adversely affected by the restructuring. (Most countries lack an adequate safety net as well.) Thin governance has begun internationally with GATT/WTO and regionally with NAFTA, but besides the EU there has yet to be a global move towards thick governance.

B: The Impact of Global Production Systems on Employment and Wages

William Milberg, New School University:
“Competition for value added in global production systems”

Raphael Kaplinsky, University of Sussex:
“Globalization and employment: Is the bottle half full or half empty?”

The share of trade in world GDP has been increasing with a shift from commodities to manufactured goods and a growing importance of intermediary goods as a result of outsourcing.
This increase in outsourcing has been accompanied by rising income inequality (25% of which is attributable to outsourcing) and historic high rates of profits and profit share. Arms-length trade relationships, deverticalization of companies, and the rise of more efficient markets have become dominant in the global marketplace. To capture greater gains from trade, countries are seeking to increase their value-added position as they expand their industrialization, but have often found difficulty in upgrading.

The newly industrializing Asian countries have had success in upgrading, whereas Latin America and Sub-Saharan Africa have had difficulty (e.g., Mexico has been able to expand exports but only with a small amount of value-added). China’s rapid rise poses an additional threat for most developing countries outside of Asia that have had trouble upgrading. The 1990s saw only a meager growth in per capita income outside of Asia and a rise in income inequality within countries as a result of the Washington Consensus of export-led manufacturing growth, deregulation, and liberalization. And as China participates even more fully in the global economy, developing countries will not be able to compete with China’s abundant supply of cheap labor and developed infrastructure and will therefore be adversely affected.

The increased market linkages that now characterize the global economy have caused considerable product and labor market asymmetries. Many industries are now characterized by oligopolies on top and increased supplier competition at the bottom. It is an endogenous process that is sustainable because of barriers to entry on the top, an abundant supply of labor on the bottom, and the entry of more firms on the ground level even though many industries already have excess global capacity. This has led to a value-added squeeze for developing countries that face obstacles to industrial upgrading, pressure downstream to keep prices low because of low margins, and pressures on labor markets to keep wages low. To correct these asymmetries, governments need to implement policies on competition, overcoming monopolistic labor markets, and macro level cost cutting (as opposed to productivity increases).

During the discussion it was noted that China also plays a positive role for employment in some sectors. For example, although China has roughly 160 million unemployed or underemployed workers (out of a 750 million person labor force), Chinese demand for agricultural and other products has contributed to falls in unemployment in Brazil and Argentina. A topic for the research agenda is how the dynamism of China will affect employment globally, by region, and by industry.

II-GOVERNANCE OF GLOBAL PRODUCTION SYSTEMS: CREATING MORE AND BETTER EMPLOYMENT OPPORTUNITIES

A: Private Policy Frameworks

Michael Hopkins, ILO and Middlesex University:
“Overview of corporate social responsibility and its link to global production systems”

Kimberly Elliott, Institute for International Economics:
“Corporate codes, consumers, and credibility”
Regina Abrami, Harvard Business School:  
“Fostering labor-centric growth coalitions: The role of the private sector”

As tales of labor abuse in developing countries by multinational companies have made the headlines in developed countries, some of these companies have adopted voluntary corporate social responsibility codes. These codes are initiatives taken by companies over and above their legal obligations to treat the stakeholders of the firm ethically and in a responsible manner. This is a move beyond the narrow view of pursuing only short-term profit-maximizing objectives to a broader view of greater social responsibility. But while these codes promote decent work standards, they do not necessarily mean more jobs.

Companies are not implementing these new corporate social responsibility standards solely for altruistic reasons, but rather there is a burgeoning market for standards in which companies will provide standards if consumer will pay more for this benefit. This trend is already noticeable in the growth of the fair trade market for coffee among other products. But the demand curve for standards is kinked, with consumers not willing to pay that much more for standards but would cause a huge adverse impact if a company allows for major labor violations. The persistence of violations and consumers’ desire for decent labor conditions has led to the proliferation of vigilantes (activists who expose bad conditions) and verifiers (organizations that check that companies are actually following their reforms, such as Price Waterhouse Cooper, Fair Labor Association, and Social Accountability International). For any effort by either the vigilantes or the verifiers to be successful, it needs to involve the workers in question since they are the ones who confront the conditions on a daily basis. The standards market though has an inherent limitation since it relies on consumers in developed countries to take action. It therefore limits the number of affected products, and since the worse abuses occur in the informal sector there is much that corporate codes of conduct will be unable to change.

While voluntary corporate codes of conduct are a start, they are not enough to fully address the problem. These efforts need to be supplemented with government and international organizational action. The International Labor Organization already addresses some of these issues through its declaration on multinational corporations and on core labor standards, but there is room to expand its role as monitor and in providing advice to countries on appropriate legislation. National action (and perhaps legislation) can improve the outcomes of corporate codes and monitoring, in areas such as transparency, consultations by auditors and monitors with local authority, and consistent enforcement of labor standards.

Cambodia and Lesotho are two examples of countries that have been able to grow economically while still promoting labor standards, despite the poor overall conditions that these countries face. As the garment sector in both countries took off, labor standards have been improving (less strikes, more unions, greater use of arbitration councils). This improvement in labor standards has created industrial upgrading through a labor-sector growth coalition. Instead of suppressing the labor movement or establishing a patronage system, these governments developed cross-class national solutions and state capacity building. These small, open economies were able to grow because of an external threat (business threatening to leave, the possibility of a cutoff in aid, etc.) and a viable labor movement.
B: Public Policy Frameworks

Sandra Polaski, Carnegie Endowment:
“Public policy tools to manage labor impacts of global production systems”

Nigel Twose, World Bank:
“Developing country policy framework”

Susan Hayter, ILO:
“Governance of global production systems: As if national policies and institutions matter”

To achieve the objective of worldwide improvement in labor standards and global production systems, better global governance is needed. There is a need for a policy framework that allows for institutional diversity and vastly different regulatory frameworks. Gaps in governance remain in areas such as competition, cross-border movement of people, and foreign direct investment (while there are a multitude of bilateral investment treaties, there is no general development-friendly framework). In other areas, frameworks exist (such as the ILO’s Declaration on Core Labor Standards) but need to be used to reinforce national institutions and promote advantageous national policy. And although there is substantial overlap between economic and social issues, a lack of coherence between these two groups of issues persist. In order to mobilize action for change, there needs to be a development of knowledge, a coordinated policy response in the developing countries, a new development dialogue, and overall policy coherence.

Both the public and the private sector have important roles to play in promoting core labor standards. Currently, there is a multitude of codes, which leads to inefficiencies and high transaction costs. As of now, there is only a very limited amount of convergence of codes and a lack of mutual recognition between the different codes and verifiers. While the private sector should work to develop its own standards, national governments have a unique role in promoting the localization of the agenda and having the authority and legitimacy to implement programs (e.g., Cambodia’s efforts in the apparel sector).

Governments in developed countries have also taken action on their own to try to promote labor standards in developing countries through preferential trade agreements. The United States took the lead in attaching labor provisions to trade agreements in 1984 with its Generalized System of Preferences (the labor standards slightly differ from those of the ILO). Labor standards were included in all of the additional American trade preference programs (CBI, ATPDEA, AGOA). These programs grant countries tariff free access to the American market for certain products if a country respects its workers’ rights. Out of 100 petitions, only twelve countries have lost benefits due to labor violations (but the threat of loss of benefits was also a motivator for some countries to reform and enforce labor standards). The United States also included labor provisions in its bilateral free trade agreement with Jordan. The provisions are in the main text and include the most robust language on labor in any trade pact to date. Subsequently, some form of labor clause has been included in all bilateral and regional trade agreements.
In the 1990s, the EU also included labor standards in its GSP program. The EU adopted a positive approach in which a country could gain additional tariff benefits if it improved its labor standards. The special labor preferences have been expanded in subsequent renewals of the program.

Innovation has also occurred through investment channels. A number of public investment institutions have conditioned investment loans to firms in developing countries on respect for the labor rights of the firm’s workers. For example, the European Bank of Reconstruction and Development and the Netherlands Development Finance Company (FMO) both assess labor practices of potential clients and will not loan to firms that do not respect labor rights.

As these policy instruments are utilized, they have created an overlapping web of reinforcement for labor standards that now affects an increasing number of developing countries. Programs that seek to promote improved labor standards should include capacity building (training and development of government labor ministries, worker empowerment), public-private sector cooperation in the enforcement of standards and economic incentives that governments can provide to ensure participation and success.

Scope exists for improved communication and coordination between programs that exist, such as those of the EU and the U.S. and expansion to include other countries and regions. The research agenda should compare the existing rules and a policy agenda could propose ways to make them more user-friendly and effective for developing countries.

III-GENERAL DISCUSSION

In discussing a possible forward research agenda, information gaps were repeatedly referred to on employment and wages both at country, sector, and enterprise level, where it was considered that the ILO could do more. The research agenda should include new work on corporate social responsibility efforts, in areas such as mechanisms for enforcement, providing voice to stakeholders, the role of the trade union movement, coordination of interventions across enterprises, business incentives, how to make corporate social responsibility work better and to widen the corporate social responsibility debate to encompass employment goals. This could also include analyses of whether codes are improving living standards, and the costs and benefits of corporate social responsibility.

In their closing remarks, Gerry Rodgers and Sandra Polaski emphasized the need for a continuing process of information exchange and discussion of public policy issues as a valuable follow up to the World Commission Report. The research community should be involved in these exchanges and it was anticipated that the workshop’s conclusions would be developed in an ILO program for presentation to its Governing Body. Many of the institutions represented at the workshop expressed an interest in involvement in a wider partnership to work on employment and fairness issues in the context of global production systems and globalization more broadly. Another stream of research, perhaps outside the direct scope of the ILO, would be research within and across developing countries, notably China, on employment, wages, and
global production systems. Several institutions represented at the workshop expressed interest in collaborating on such work.

IV-LIST OF POTENTIAL RESEARCH TOPICS

- How can developing countries achieve national upgrading by moving up the value-added ladder? How do you encourage institutional spillover?
- Cost-benefit analysis of corporate social responsibility codes on the firm, sectoral, and national level and whether codes are improving standards of living
- Linkage between labor and the environment
- The effects on AGOA beneficiaries on the expiration of the Multi Fiber Agreement in 2005
- The expansion of niche markets, such as Cambodia’s strategy to compete on good labor standards
- The role of national governments in promoting labor standards, and why some reject those standards and others accept them
- The practical effects (both economic and social) of core labor standards on workers
- The role of governments in promoting corporate social responsibility
- Can China be a positive, not a negative, influence on the global labor market?
- The World Commission called for fair globalization rules. Could these include positive discrimination to correct asymmetries in the global economy?
- What room is there to expand to expand the ILO’s role as a monitor and as a source empirical work on both countries’ and companies’ application of core labor standards?
- How does corporate social responsibility factor in what developing countries want? How can corporate social responsibility be made to work better? How can it be widened to employment goals?
- What is the political economy when corporate social responsibility requirements are greater than existing government standards?
- Both the EU and the U.S. have included conditions concerning labor in trade and investment agreements. What impact do these two sets of conditions have? Could coordination of the different rules and instruments improve outcomes?