Governance in a value chain world

Frederick Mayer and Anne Posthuma

Abstract
Economic globalization, particularly the rise of global value chains, has created a global challenge for governance to ensure that social upgrading of poor workers and small-scale producers accompanies economic upgrading. Governance is not just a function of government policy; it also involves the actions of companies (private governance) and societal groups (social governance). The importance of these types varies by sector, but, in a value chain world, effective governance requires that all three act together. It also requires a targeted approach: that there be an explicit focus on ensuring that social upgrading is linked with economic upgrading and that governance solutions be tailored to the needs of different sectors.

Keywords
global value chains, governance, trade, standards, labour policy, industrial policy

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...economic upgrading does not necessarily lead to social upgrading of workers in value chains.

Figure 1: Types of governance affecting global value chains

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<th>Public governance</th>
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Markets require governance: to facilitate the operation of markets, to regulate business conduct, to enforce labour standards and to protect against extremes of inequality. With globalization, production has become increasingly coordinated in global value chains (GVCs) effectively beyond the reach of state-centred governance. The consequence is a global ‘governance deficit’, and the challenge is to adapt governance to a value chain world. Different forms of governance affect GVCs, including:

- **Public governance**: National government policies and international policies established through inter-governmental agreement, including trade policy, Aid for Trade and labour standards.
- **Private governance**: Policies adopted by companies in the form of product and process standards, corporate codes of labour practice and social labelling, which typically operate transnationally.
- **Social governance**: Formal and informal rules of business behaviour demanded by worker organizations and other elements of civil society, which may operate at national or international levels.

Figure 1 illustrates a basic typology of governance and identifies its most important forms relevant to GVCs.

**Key findings**

Capturing the Gains research has found that economic upgrading does not necessarily lead to social upgrading of workers in value chains. Effective governance is essential to enhance both economic and social upgrading.

**Governance drivers vary by sector**

- **In apparel**, trade policy has had a profound effect, on the location of production, on possibilities for economic upgrading and occasionally on leveraging improvements for
workers. Private governance in the form of codes of labour practice is relatively well developed, but works best in conjunction with national labour law and strong worker organization and societal groups.

- **In agro-food**, private supermarket standards, which are often stricter than government and trade regulations, play a critical role, but scaling-up requires government involvement and support. Trade agreements have facilitated the formation of value chains, but often offer limited possibilities for economic upgrading.

- **In mobile phone production**, trade policy is relatively less salient and private governance less well developed. However, civil society pressure is leading to increased social governance and greater involvement of national governments.

- **In tourism**, private and public governance have both focused more on environmental protection and overall sector growth than on labour protection. Worker organizations’ impact is weakened by the growth in casual labour. As most countries have already adopted liberal commitments for ‘commercial presence’, trade policy has had little impact.

Leverage points depend on the relative power of actors in the value chain

To link economic and social upgrading, governance should be targeted where it has the greatest leverage. This depends on the bargaining position of different actors in the value chain. Buyers have leverage based on their purchasing power. Suppliers have leverage based on their value chain position, productive capabilities, strength of backward linkages to the local economy, and market alternatives. For weaker actors (e.g. poor workers and small-scale producers), organization, skills and capacity building are key.

Most successful governance involves alliances between government, business and civil society

- **In the apparel sector**, the Better Work Programme involves governments, employers, workers and global buyers in auditing labour practices and providing technical services to help businesses improve. It demonstrates that compliance with labour standards can go hand-in-hand with improved competitiveness in GVCs.

- **Agro-food** campaigns highlighted poor conditions of women flower workers in Kenya and Uganda. Where a combination of supermarket codes, multi-stakeholder initiatives, labour legislation and collective
bargaining agreements have been implemented, these have led to clear improvements for workers.

- **In mobile phones**, Apple and Foxconn have responded to pressures from civil society and the Chinese government. They have engaged the Fair Labour Association to audit compliance with Chinese labour law in the factories that manufacture the iPhone. This new transparency is a significant break from the past.

- **In tourism**, hotel associations in East Africa have a long history of collective bargaining agreements with local hospitality trade unions. The local tourism business association in Mombasa has helped organize urban tour guides to increase quality standards and equalize pricing.

**Governance challenges**

**Trade policy**

In a world of GVCs, trade policy affects the ability of workers and small-scale producers to capture the gains from their productive activities. Strong global rules with consistent special and differentiated treatment for less developed countries would best enable broad access to GVCs. Regional and bilateral free trade agreements, if designed properly, can help here. Such agreements should:

- Reduce non-tariff as well as tariff barriers.
- Avoid tariff escalation that limits opportunities for economic upgrading.
- Design rules of origin that consider the implications for economic and social upgrading in value chains.
- Establish stable and predictable rules.

**Aid for Trade**

Development assistance to promote trade is now a priority of international development institutions. Aid for Trade is effective at addressing ‘at the border’ and ‘behind the border’ issues, such as port and other transportation improvements, which facilitate trade, but could extend ‘beyond the border’ to target workers and small-scale producers directly. Aid will most likely lead to both economic and social upgrading when it is strategically targeted at:

- Removing obstacles to participation in GVCs, including by investing in infrastructure and transportation.
- Investing directly in the capacity of workers and small-scale producers, through skills and capacity building and business development services.
- Promoting organization and collective action by groups of workers or small-scale producers.

**National labour policies**

Governments in developing countries have often lacked capacity to enforce
national labour standards on wages, working time, occupational safety and health and child labour. National labour policies and labour inspection are experiencing a revival in some countries, with more resources and staffing for inspectors (e.g. Argentina, Brazil, China, Dominican Republic, Ghana, South Africa). Particularly promising are cases in which a stronger role for the state has also involved:

• Remediation through technical assistance that will bring companies into compliance with labour legislation, rather than sanctioning through fines.
• Partnership with lead firms to monitor supplier compliance with national labour standards.

Industrial policies and workforce development
Tax, infrastructure investment, production and research and development subsidies, workforce development and other policies can promote economic and social upgrading. This ‘new’ industrial policy is about enabling smaller enterprises and producers to access and compete more effectively in value chains, with stronger business skills and local backward linkages. Similarly, workforce development programmes that enhance skills, capacity and rights linked to value chains can be a critical element of a strategy for promoting social along with economic upgrading.

Private governance
Voluntary corporate responsibility policies, including process and labour standards, social auditing and monitoring and product labelling, can promote social upgrading in value chains.

• Purely voluntary private governance continues to grow, but will inevitably be more effective for regular workers in larger firms and in some supply chains more than others.
• Proliferation of private codes remains an issue for many suppliers.
• Private governance is most effective when it is supported by governments and civil society.

With the rise of regional and domestic value chains in Africa, Asia and Latin America, most notably in agro-foods, there is a question as to whether social upgrading will be a significant priority of private governance.

Social governance
Coordinated action by organized social and community stakeholders has been a key driver of social upgrading in GVCs. For example, the Clean Clothes Campaign and the Workers’ Rights Consortium in the apparel sector have called attention to poor working conditions. They have been engaged in forging solutions such as establishing independent monitoring as a means of verifying compliance.

Worker organization is typically weak among low-skill, low-wage workers,
Capturing the Gains brings together an international research network to examine economic and social upgrading in business communities across the developing world.

The programme explores the connections between business competitiveness and social prosperity with attention to firm innovation, trade expansion, labour standards and decent work.

Its research allows policy-makers and business leaders to better understand the relationship between business growth and poverty reduction in the global South.

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many of whom are women and migrants from rural areas. Alliances between independent trade unions in the organized sector and civil society groups representing unorganized workers can be effective.

Integrating public, private and social governance

In a GVC world, no single form of governance can be sufficient. The challenge, therefore, is to find ways for public, private and societal institutions to communicate effectively and work together.

Initiatives such as the UN Guiding Principles for Business and Human Rights, the Ruggie Principles, demonstrate how different stakeholders can play complementary roles. Protect: governments provide greater clarity and consistency of rules. Respect: corporations are responsible for, and transparent about, their practices and workers. Remedy: citizens have greater opportunities to hold other actors accountable and seek redress when needed.

Key recommendations

- **Make social upgrading an explicit priority**: Policies that promote economic upgrading, while important, are not sufficient to ensure that workers, small producers and local communities capture economic benefits and that labour rights are respected. Governance initiatives – public, private or social – need to be targeted explicitly at social upgrading.

- **Seek alliances among public, private and social governance**: Effective governance requires the collaborative efforts of public, private and social actors. Although differences of interest among different stakeholders are inevitable, efforts to promote international multi-stakeholder dialogues and alliances are essential, and can draw on existing examples of good practices.

- **Incorporate value chain analysis in governance design**: The effectiveness of different forms of governance varies by sector and depends on the challenges posed by characteristics of particular value chains. For this reason, value chain analysis should inform public policy design, private governance initiatives and social governance strategies.

Following the Capturing the Gains summit, a revised version of this paper will be made available on the Capturing the Gains website in 2013.

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