

CAPTURING THE GAINS



GLOBAL SUMMIT – OVERVIEW REPORT

SOUTH AFRICA – DECEMBER 2012

Global value chains are of growing importance for the livelihoods of millions of poor people. Over US\$2 trillion sales in manufacturing and services is now conducted through global value chains (GVCs). Lead firms increasingly trade through coordinated outsourcing, linking activities from production, through distribution and logistics, to retail. GVCs provide jobs and incomes for many millions of workers and small-scale producers in manufacturing, agrofood and services across the developing world. The main end-consumers have long been in Europe and North America, but increasingly GVCs are reaching consumers within Africa, Asia and Latin America.

Capturing the Gains (CtG) is an international network of 40 researchers from 20 institutions across 15 countries. CtG is coordinated by Dr Stephanie Barrientos (University of Manchester, UK) and Professor Gary Gereffi (Duke University, USA).

In December 2012, Capturing the Gains held a three-day Global Summit in Cape Town. The Summit brought together over 130 participants from companies, donor agencies, government departments and agencies, research institutes and universities. The main aims of the Summit were to:

- Define goals for economic and social upgrading in GVCs in Africa, Asia and Latin America
- Agree on actions between key stakeholders to achieve these goals
- Encourage strategic partnerships between key stakeholders.

Debate was centred around: the implications of the rise of global and regional value chains for international trade and development policy; and how to build more resilient value chains that better support economic and social upgrading of workers and small-scale producers.

The major funders of the Summit were: UK Department for International Development and Rory and Elizabeth Brooks Foundation. Support was provided by: International Labour Organization, University of Cape Town, University of Manchester and Duke University.



Overview of summit panels and speeches

The summit was opened by Dr Max Price (Vice Chancellor, University of Cape Town), who welcomed the participants and talked about the urgent need for economic and social upgrading within GVCs. He mentioned unrest amongst fruit workers in South Africa as an indication of the importance of addressing these issues. He congratulated the funders and participants for seeing the need for a global summit bringing together different actors and stakeholders to translate the CtG research findings into practice. Welcoming speeches were made by Rory Brooks (Rory and Elizabeth Brooks Foundation, UK) and, via video, Alan Duncan (Minister of State, International Development, UK).

The main agenda of the summit was structured around open panels on different sectors/themes: Agrofood, Apparel, Mobile Communications and Trade Policy. Summit Briefings provided an overview of key findings from CtG research. Panels were supported by closed breakout sessions to facilitate prior in-depth discussion amongst delegates. Each open panel included a cross section of selected participants, representing the private sector, civil society, donor agencies and government institutions. Panel discussions were facilitated by leading CtG researchers. Open panels were livestreamed to encourage international access and participation via the internet.

Global value chains: emerging trends and pressures

Summary of key research findings

The GVC terrain is shifting, with the expansion of regional and domestic chains in Africa, Asia and Latin America. However, expansion is in high volume, low-price markets, where competition must be balanced against rising costs and higher quality demands. Many sectors face shortages of the skills needed to sustain economic upgrading. Meanwhile, social upgrading does not necessarily follow economic upgrading, with irregular workers (often women) and small-scale producers, who frequently experience poor remuneration and conditions. Joint action among companies, civil society, governments and donors is needed to link economic and social upgrading and promote more inclusive development within GVCs.

Opening panel discussion

Panellists discussed the changing reality of GVCs, including the opportunities and challenges of expansion within Africa, Asia and Latin America. One panellist highlighted that supermarket expansion in Africa was helping to make cheaper quality goods available, and that 'near sourcing' provided opportunities for local producers. A few mentioned the challenge faced by producers meeting standards and social compliance. Regional trade integration was contributing to expansion of value chains, but trade policy needed to support capacity to operate in a changing commercial environment. Multilateral institutions (including the ILO and WTO) were now focusing on GVCs. Better leverage is needed to promote upgrading of producers and workers, including more synergy between private sector strategies, civil society advocacy and government policies.

Global apparel: economic and social upgrading

Summary of key research findings

The apparel industry is one of the most globalized. Export production contributes substantially to national export earnings, employing tens of millions worldwide, particularly women in low-income countries. However, globalization of production has also led to poor working conditions and regional wage depression. Over time, the national structure of manufacturer-driven value chains has given way to increasingly fragmented production systems, but in recent years the trend towards concentration, supply chain transparency and strategic partnerships between buyers and suppliers has improved conditions for some supplier firms and workers. Trade and preferential market access policies severely constrain economic and social upgrading opportunities.



Overview of panel discussion

Some of the important points debated by the apparel panel revolved around wage structures, value distribution through the chain, the role of unions and gendered differences in the workforce. The view was expressed that there is a need to develop both much greater transparency in the distribution of value within chains and a wage structure that accounts for skills, productivity and loyalty. However, neither greater transparency nor an improved wage structure would necessarily translate into higher values captured at the plant level. This led to discussion of the continuing importance of collective bargaining agreements and worker voice in improving social conditions and wages. An example was cited from Bangladesh to understand how they tackled issues of inequitable distribution of gains. Regulatory and trade preferences were first used to increase revenue in the sector. This was complemented by supply chain pressure from consumers that helped improve the standard of living of workers.

Global horticulture in a changing supermarket landscape

Summary of key research findings

Global and regional supermarkets are growing in Africa, Asia and Latin America, expanding value chains for the sale of fresh fruit and vegetables (FFV). Yet commercial pressures are contributing to the casualization of workers and the exclusion of smaller producers. Meeting supermarket demands and standards requires more skilled and empowered workers, and many are exiting agriculture for better opportunities elsewhere. However, there are now new opportunities for workers and small producers to 'climb the value chain ladder'. Complementary public-private strategies are needed to promote skills upgrading, enhance the appeal of horticulture and support the resilience of FFV value chains.

Overview of panel discussion

The agro-food panel discussed the importance of social dialogue and the need to improve the voice of workers and smallholders in value chains. It was felt that unions can have both positive and negative impacts. One view is there needs to be policy space for mature industrial relations in developing countries that allows better worker representation and social dialogue within value chains. Some panellists highlighted the role of production and marketing organizations (PMO) in organizing smallholders and increasing the 'value' received by farmers. One said that a PMO in Kenya supported farmers and workers, who were able to improve housing conditions, access better medical services, and attain a quality education. This contributed to less migration away from agriculture. The panel discussed big shifts in terms of the emergence of dynamic markets, new trading partners and rise of supermarkets. The view was that, along with the challenges and the complexity of these new issues, there were also many opportunities that could lead to economic and social upgrading of small-scale farmers and workers. It was agreed that more effective stakeholder dialogue and open communication would be key to upgrading.

Women in value chains: making a difference

Summary of key research findings

GVCs offer important opportunities for women worldwide to earn a living – garments, tourism, mobile phones and commercial horticulture are good examples. Women can play a vital role in supporting value chain upgrading – as workers, farmers, producers and consumers. Yet women's skills are often undervalued and they are stuck in low-status jobs. Work in GVCs is potentially empowering for women. Policy and commercial strategies need to proactively support women because more equitable participation of women enhances value chain upgrading, improves women's lives and promotes more inclusive development.



Overview of panel discussion

The main topics covered in the gender panel were casualization of the workforce and the existence of a gender gap in terms of employment, social benefits and income earned. The feminization of the workforce supports job availability for women, but gender social norms and business practices often keep women from gaining more from value chain participation. Civil society organizations are trying to assist the empowerment of women workers. The panel also considered the implications of casualization. This limited women's ability to organize and thus demand better working conditions or benefits such as maternity or health. An example of the garment industry in New Delhi was cited, where over 90 percent of the workforce was casual; they received lower wages and were forced to perform monotonous tasks that reduced their productivity over time. There was also no scope of promotion for casual labour. Marks & Spencer has invested heavily in promoting gender equality – through capacity-building programmes for women (education, training) to develop more resilient value chains. This meant women could spend more money on household development and would thus provide better futures for children, reinforcing long-term sustainability of value chains.

Mobile phones: who benefits in shifting global value chains?

Summary of key research findings

Mobile phones have made a significant impact on developing countries, which have played a key role in the mobile phone GVC. The dynamic of the GVC, notably growing concentration in trade and production and the rise of low-end markets, is shaping the impact of economic upgrading on social upgrading. Increased GVC concentration has limited employment growth to a just few countries and firms, and the prevalence of casual labour has led to segmented upgrading among workers. Moreover, the low-end market is vulnerable to poor working conditions. However, shifting end markets are presenting new opportunities for social upgrading in developing countries.

Overview of panel discussion

The panel focused more on the usage and manufacturing of the mobile phone, rather than the pre-production stages of the value chain (e.g. mining activities and network infrastructure development). The key question posed to the panel related to 'value sharing' amongst content creators, and aggregators, mobile phone manufacturers and mobile service providers. The private sector representatives on the panel discussed the difficulty of obtaining detailed 'value sharing' information, as it was dependent on the political regulations, taxes and the model applied by the individual organization. However, civil society representatives felt that there was a huge difference in social and economic conditions in countries that manufactured phones, as opposed to those who developed software and claimed intellectual rights. The debate progressed to the usage of mobile phones as a tool for empowerment and information dissemination/reception. It was viewed as an item that could help improve the living conditions of farmers, although there is less evidence of this in other sectors such as apparel.

International trade and the relation between economic and social upgrading

Overview of key research findings

Does improved export performance result in social upgrading? While most research presumes economic upgrading leads directly to social upgrading in GVCs, this connection has not been analysed in a systematic fashion. Research on apparel, horticulture, mobile phones and tourism value chains in 10 or more developing countries (1990-2009) indicates:

- Economic upgrading is generally a necessary but insufficient condition for social upgrading.



- Economic downgrading, and especially social downgrading, is more common than previous research would indicate.
- Trade policy could play an important role in shaping and connecting economic and social upgrading.

Overview of panel discussion

The panel talked about the substantial portion of trade flows that occur through GVCs, mostly driven by multinational companies. Hence most gains are accrued by capital-rich firms. Some solutions were suggested to reduce this inequality. Firstly, through *increasing competition* and reducing the monopolistic nature of lead firms. Secondly, *promoting international co-operation* and, finally, creating *protective trade barriers*. However some panellists felt that a major part of international trade – i.e., services and intermediate goods – does not necessarily take place directly through value chains. This is where small firms (which cannot sustain their position in value chains) can capitalize on consumer markets and reduce reliance of value chains. The panel examined the inter-linkages between trade and development. An increase in trade would promote economic growth, which in turn could aid country-level development and poverty reduction. The debate cited examples from Asian countries, such as China, where growth is increasingly by virtue of expanding domestic consumption. Regional integration and the formation of trade blocs could help negotiate contracts with lead firms in developed countries and promote growth in trade. Donors should provide aid to help governments build capacity to trade through GVCs.

Governance in a global value chain world

Overview of research findings

Economic globalization, particularly the rise of GVCs, 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: there should be an explicit focus on ensuring that social upgrading is linked with economic upgrading and that governance solutions are tailored to the needs of different sectors.

Overview of panel discussion

The closing panel identified several main themes. Firstly, GVCs need to be incorporated more effectively into industrial, trade and fiscal policy and it is essential to co-ordinate policies at national and global levels. Secondly, there is inequality in the allocation of gains, as gains are usually created by entrenched lead firms that govern the value chain. The point of CtG research is to find win/win solutions that can lead to a more equitable distribution of gains at the farm gate and factory levels. Thirdly, a wide range of actors (community, private sector, civil society organizations, governments and donors) need to participate in improving wellbeing of farmers and workers within value chains. The panel discussed the growing importance of social dialogue. Some felt this should be premised on how value chains work, rather than rights per se, to be more effective and sustainable ('the business case'). It also discussed the need to create cheaper delivery mechanisms for building capacity amongst workers and smallholder farmers, so that they can utilize multiple skills and enter different value chains. The panel considered the need to environmentally upgrade, which is a key factor to promote sustainable value chains



Keynote address by Rob Davies, Minister of Trade, South Africa

Minister Rob Davies gave an insightful speech, stating that the key to the growth of South Africa and Africa as a continent was regional integration, in order to achieve economies of scale and pursue upgrading opportunities. This is advanced through negotiating Free Trade Agreements (FTAs) that cover relations between countries that are not party to existing FTAs. He also deliberated on the importance of value addition or beneficiation to increase the percentage of value accrued by South Africans. He stated that South Africa is more integrated into value chains compared to other African countries; however there is a dire need to elevate their position in these chains, and to export finished goods, as opposed to raw materials. He went on to indicate that the challenge is to find a pattern of integration into value chains that supports and sustains improved living conditions for working people, improved developments for communities and improved employment opportunities.



Apparel panellists from (left to right): Tesco plc, World Trade Organization, ILO/IFC Better Work, Impactt, University of Cape Town, Northumbria University.

Summit reflections

Professor Raphie Kaplinsky (Open University) provided reflections on key issues arising from panel discussions. He highlighted that many believe power is shifting within GVCs from buyer to producing countries. He reflected on the need to move beyond just economic and social upgrading to develop policies that meet the broader context for development. However, in his view, much of the discussion was contingent on the business case – would firms gain from social upgrading? What would be the drivers for firms to improve worker conditions if it does not contribute to the bottom line? For instance, improving employment and empowerment could increase productivity, while other social welfare benefits might not be advanced. He believed there is a need to find win/win situations. Economic and social upgrading may not necessarily be synergistic and the tradeoffs must be weighed before implementation.

Key recommendations

Key recommendations from each panel are currently being finalized, and are being made available in final revised Summit Briefings on the Capturing the Gains website. See www.capturingthegains.com.



Participants and panellists

Over 130 participants attended the Capturing the Gains Summit. They came from international organizations, private companies, civil society organizations, universities, consultancies and press.

List of summit panellists and speakers

Apuoyo, Collins: Private Sector Development Specialist, SNV Zimbabwe
Bailey, Gavin: Head of Ethical Trading Policy, Tesco
Barrientos, Stephanie: Brooks World Poverty Institute, University of Manchester
Bhatia, Ujal Singh: Past Indian Ambassador to the WTO, member of WTO appellate body
Bhattacharya, Dr Debapriya: Distinguished Fellow, Centre for Policy Dialogue (CPD), Dhaka and Former Bangladesh Ambassador to WTO
Bignami, Renato: Ministry of Labour and Employment, Brazil
Brooks, Rory: Rory and Elizabeth Brooks Foundation, UK
Burns, Maggie: Women Working Worldwide, UK
Chennells, Colleen: Ethical Trade Coordinator, Fruit SA and SIZA, South Africa
Chianda, Joyce: Managing Director, Jade Sea Journeys Safaris, Kenya
Christian, Michelle: Social Science Research Institute, Duke University, USA
Croft, David: Director of Quality and Technical, Waitrose Ltd., UK
Davies, Rob: Minister for Trade and Industry, South Africa
Duncan, Alan: Minister of State, Department for International Development UK (video address)
Escaith, Dr Hubert: Chief Statistician, World Trade Organization, Geneva
Gereffi, Prof. Gary: Department of Sociology, Duke University, USA
Gillwald, Dr Alison: ED Research ICT Africa & Adjunct Professor, University of Cape Town
Godfrey, Shane: Sociology Department, University of Cape Town, South Africa
Hoekman, Bernard: Director, International Trade Department, World Bank, Washington
Holdcroft, Jenny: Director of Policy, IndustriALL Union, Geneva
Hurst, Rosey: Director, IMPACTT, UK
Igboemeka, Adaeze: Head of Aid for Trade, Department for International Development, UK
Ismail, Faizel: South African Ambassador to World Trade Organization
Kaplinsky, Raphie: Professor of International Development, Open University, UK
Khumalo, Themba: MTN, Group Operations Executive, Africa, Middle East and Asia
Lee, Joonkoo: School of Business, Hanyang University, South Korea
Lipparoni, Linda: CEO, WIETA: Agriculture Ethical Trade Initiative, South Africa
Longley, Sue: International Officer, International Union of Foodworkers, Geneva
Luinstra, Amy: Deputy Director ILO/IFC Better Work Programme, International Finance Corporation
Mayer, Frederick: Associate Professor of Public Policy, Duke University, USA
McAllistair, Peter: Executive Director, UK Ethical Trading Initiative, UK
Milberg, Prof. William: New School for Social Research, USA
Muthomi, Rosemary: Managing Director, Meru Green, Kenya
Namaganda, Assumpta: Uganda Hotels, Food, Tourism and Allied Workers Union, Uganda
Nathan, Prof. Dev: Institute for Human Development, New Delhi, India
Nicholls, Louise: Head of Responsible Sourcing, Marks & Spencer, UK
Ormal, Erkki: VP Business Environment, Nokia, Finland
Parisotto, Aurelio: Senior Economist, International Labour Organization, Geneva
Pattison, Grant: CEO, Massmart, South Africa
Posthuma, Ann: International Labour Organization, Brazil
Price, Max: Vice Chancellor, University of Cape Town
Roberts, Michael: Aid for Trade Coordinator, World Trade Organization, Geneva



Strachen, Gareth: Acting DDG, Industrial Development, Department of Trade and Industry

Swaithes, Anna: Head of Water and Food Security Policy, SAB Miller plc., South Africa

Wilkinson, Prof. Rorden: Research Director, Brooks World Poverty Institute, University of Manchester

Winum, Guenlie: Head International Programmes, Ethical Trading Initiative, Norway

Van Wyk, Riaan: CEO, Colors Fruit, South Africa

Media coverage

The Summit and related CtG research received press coverage in a number of South African newspapers, including: *Cape Times*, *Business Report*, *Die Burger*, *Newsletter of Citrus Growers*, *Moneyweb*, *Eurofruit* and *Next Billion*, amongst others. Ann Crotty published a long article in *Business Report* in the Cape, citing the Capturing the Gains report on South African horticulture. It highlighted opportunities and challenges for economic and social upgrading in supermarket value chains in the fruit sector. She said it provided a 'riveting account' of the development in fruit and vegetables over the last 20 years.

The summit was covered by social media through Facebook and Twitter. There were over 1,400 following the summit tweets, including researchers, journalists, students, donors and private sector companies.

The summit was live-streamed to reach audiences across the world. A number of questions and comments relating to the impact of social and economic upgrading on smallholder farmers and the need for them to benefit high value produce were posed via live-stream to the panellists. Webcast proceedings from the summit will remain available until December 2013.

UK Department for International Development announces launch of Trade and Global Value Chains Initiative



Photo: Mark Price, MD, Waitrose Ltd. and Justine Greening, Secretary of State for International Development, UK

On 29 January 2013, the UK Secretary of State for International Development launched the Trade and GVCs Initiative in front of an audience of business leaders, developing country government officials, and civil society representatives. The Trade and Global Value Chains Initiative (TGVCi) is a £3 million commitment over the next three years to form partnerships between some of the biggest supermarkets, suppliers, CSOs and governmental organizations to socially upgrade garment and fresh fruit and vegetable workers and farmers in South Africa, Kenya and Bangladesh. *This initiative emanated from the findings of the Capturing the Gains research.* These partnerships will focus on improving conditions, training and wages, providing healthcare and education to workers and communities to build more resilient GVCs. The first project to be supported by the TGVCi will be a partnership between DFID and the Waitrose Foundation, which will increase youth skills and employment in the horticulture value chain in South Africa. The project will give 16-25 year-olds training in the vocational skills that are critical for increasing their job prospects in the sector. It will also help them to develop their leadership skills, provide work placements and assist them to develop their own businesses.

Further information and publications from 'Capturing the Gains' research available on: www.capturingthegains.org