Industrial Relations in a Global Production Network

What Can Be Done

DEV NATHAN

Lead firms in today's global production networks control production by suppliers, monopolise the capture of rents, and affect the possible labour market outcomes in supplier firms. But as buyers, and not employers, they have no legal culpability when tragedies occur in units that are links in global chains, like the recent one in Bangladesh. It is time to expand the traditional mechanism, with representatives of employers, workers and the government, to include the key player, the buyers.

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The recent tragic factory building collapse near Dhaka brings to the forefront the question of dealing with poor working conditions in garment factories in Bangladesh. In a recent study of garments workers in Bangladesh (Ahmed and Nathan 2013) it was suggested,

> Given the importance of buyers and the prices they offer to suppliers, one might ask whether this tripartite body [of employers, workers, and the government] should be made a quadripartite body to also include buyers' representatives.

In this short note, I would like to elaborate this point.

The Bangladesh garment factories are not standalone units, producing and selling in world markets. Rather they are cut-make-trim (CMT) units that form parts of the global production networks (GPNs) of global lead firms, which comprise large retailers, such as Walmart, Tesco, and Marks and Spencer, and apparel bands, such as Van Heusen and Tommy Hilfiger, or sportswear labels, such as Nike and Adidas.

The buyers, lead firms of GPNs, are not direct employers of the workers in the CMT factories. The employers are the largely local owners of these factories, though there are also some international employers in the foreign direct investment (FDI) units in the export processing zones (EPZs). The employers of garment workers are the proximate players in fixing wages and determining work conditions.

Another player is the Bangladesh government, which is supposed to implement the various laws of the land, including building regulations. The fourth player in the garments industrial relations scenario is workers.

In collective bargaining, it is usual to have a tripartite body involved, with representatives of employers, workers, and the government. The International Labour Organisation (ILO) supports such tripartite bodies for action on workers' issues. Such a tripartite body, however, assumes that the employers are the only players on the demand side of the equation. This could be appropriate in autarchic national economies. It could also work in a situation where multinational corporations (MNCs) undertake FDI to set up units they control in investment destinations. MNC branches would then enter into negotiations on wage and work conditions in the same manner as domestic players. But in the contemporary situation of GPNs, buyers exert substantial influence over the labour employing firms, but do not participate in the collective bargaining process.

Between Buyers and Suppliers

At the economic level, one can identify three types of relations between buyer and supplier units. The first is that of arms-length procurement. This is what happens in many commodity trades. Sellers and buyers come together, and money and goods are exchanged. There need not be a relationship before or after the sale. A large part of trade, including international trade, is of the arms-length variety.

The second relationship between buyer and seller is that of the hierarchical, intra-firm variety. At the international level, this occurs in the case of FDI, where an MNC sets up a branch that supplies to headquarters, or at its direction. In this hierarchical relationship, the MNC headquarters sets the terms of the transaction, often leading to transfer pricing issues.

The third relationship between buyers and sellers is that of contracted sale in a GPN. The supplier produces to buyer specifications. There are many segments of production. This is a disintegrated system of production. But production segments that are in different firms do not constitute independently operating units that produce a good and sell it on the market. Rather, they work on a contract basis, and produce and sell to the designated buyer. The buyer (or its agent) manages the supply chain, integrates the production segments, and takes the resulting product to the market. Those who integrate or govern the various segments are described as lead firms.

Global Division of Labour

What has been described here as production segments carry out specified tasks in the process of production. This is the extension of Adam Smith's division of labour not only into different firms, but also into firms located across national boundaries. The characterisation of GPN trade as trade in tasks, rather than in goods (Grossman and Rossi-Hansberg 2006), very well captures its contracted nature. Tasks are not wholes in themselves – they have meaning only if they contribute to the production of a good. Tasks split among various firms, working as cross-border contracted suppliers, are integrated into a whole, a finished good, by the lead firm.

Using a different terminology, the United Nations Conference on Trade and Development (UNCTAD) describes such contracted production as a non-equity mode (NEM) of international production. "The defining feature of a cross-border NEM, as a form of governance, is *control over a host country's business activity by means other than equity holdings*" (UNCTAD 2011: 127, emphasis in original).

Being an integrated process of production, value is produced within the GPN but is unequally captured in various segments. The segmentation of the process of production across firms allows the lead firms to separate and monopolise the rents gained within the GPN. As argued in Nathan and Sarkar (2011), the lead firms capture all or most of the surplus profits or rents within the GPN, while the manufacturing firms get just competitive profits. Thus, a GPN includes a distribution of rents within it. This is a vertical relationship between buyers and suppliers, which, given market structures, determines the distribution of shares within the GPN.

For the purpose of dealing with industrial relations in manufacturing countries, the important point is that the lead firms govern the process of production in a GPN. There are three aspects of these vertical relations within a GPN that are important to the industrial relations issue. First, buyers set prices. Second, they set delivery times and volumes, which fluctuate across the year. Very short delivery times with flexible volumes through the year may make it preferable for suppliers to juggle a relatively small permanent labour force with a larger flexible labour force that is brought in for sudden spurts in orders. The notorious flexibility of labour forces in garment manufacture is linked to fluctuating volumes coupled with sudden spurts. The third aspect of buyers' practices that is relevant here is the short-term, even seasonal, nature of contracts. Short-term contracts inhibit investments that would take time to pay for themselves.

Prices, short delivery times with fluctuating volumes, and short-term contracts not only set limits to what supplier firms earn, but also influence their labour force practices, whether in the matter of wages, flexible forms of employment, or forced overtime. These are the vertical relations within a GPN that determine revenues and influence the labour force employment practices of supplier firms.

But, of course, influencing does not mean determining wages and labour force practices. The net revenue, after all external input costs have been deducted, still has to be shared between capital and labour in the CMT unit. In a tight labour market, relatively more might have to be given to labour. But in a labour market such as in Bangladesh, with a lot of surplus labour within agriculture, the labour market is not tight. As a result, labour, other than skilled labour, is weak in market power. The outcome of the bargain between domestic capital and labour is what can be described as the horizontal relations of a GPN. They are the subject of industrial relations.

But, taking account only of horizontal relations misses an important part of the industrial relations story, which is the influence of vertical relations. But the possibilities that exist within these horizontal relations are constrained by the vertical GPN relations. Thus, to get a more comprehensive approach to industrial relations, it is necessary to bring together both vertical and horizontal relations that together constitute the functioning of GPNs and affect labour outcomes.[1]

Bringing in the Buyer

The standard tripartite machinery deals with the horizontal relations within which a GPN segment is locally embedded. At present how do lead firms enter into the industrial relations picture in the manufacturing segment of a GPN? Pressure from various civil society organisations in the buyers' countries have led to the formulation of various codes of conduct, including worker and safety standards, that suppliers are expected to adhere to. There have been some attempts to improve labour standards through codes and audits.

Observations and reports (for example, McKinsey 2011) point out that there has been some, even substantial, improvement in labour standards in Bangladesh's factories. But out of 5,000-odd garment factories, only 150 or so are said to be very good in compliance with required standards. As the fires and collapses show, there are many factories that grossly violate building and safety norms.

When incidents of fire or building collapse occur, the buyers do not enter the picture as direct participants in the tragedy. As buyers, and not employers, they have no legal culpability in the matter. But, buyers too have come to own up some responsibility by offering compensation to victims in such cases.

On the institutional side, in the discussions on wages and working conditions, buyers are not represented. What exists is a tripartite mechanism, with representatives of employers, workers and the government. This tripartite structure obviously leaves out one key player, the buyers. Bringing buyers into the industry-wide bargaining structure has both economic and legal aspects. Here we have dealt with some of the economic aspects. Legal matters are something better covered by persons well versed in matters of law. But there can be a preliminary idea of the legal manner in which a quadripartite mechanism can be set up.

Buyers or lead firms, such as Wal-mart, Tesco or Marks and Spencer, are established in their own countries of origin (or possibly even in tax havens). Supplier countries might not be willing to allow such foreign entities to sit at the table in their sovereign industrial relations space; the lead firms too might be unwilling to let their representatives be part of Bangladesh industrial relations negotiations. But in their contracted buying, the bigger firms usually set up local entities in the supplier countries. Walmart and Marks and Spencer, and many other lead firms, have purchasing offices in Bangladesh. These are legal entities within Bangladesh and they can be required to be part of the quadripartite mechanism.

Global Precedent

Is there any precedent for such a quadripartite industrial relations structure? A recent paper on how sweatshops in the US during the last century were tackled (Anner et al 2013) throws light on the "joint responsibility" approach that was established. The industry was divided into two groups of enterprises. One, called jobbers, undertook design. They contracted production to the manufacturers who were the direct employers of workers. Once the jobber-manufacturer structure was set up, wages and working conditions in the manufacturers declined. One would presume, that as with today's lead firms, the jobbers captured the lion's share of the rent, while the numerous manufacturers (stitchers) got not much more than competitive profits.

The International Ladies Garment Workers Union (ILGWU) was successful in insisting that the jobbers who gave the orders to manufacturers and determined supply prices had to be brought into the picture to deal with sweatshop conditions. They argued that "jobbers and contractors were part of an 'integrated process of production' and as such, were jointly liable for wages and working conditions in contracting shops" (Anner et al 2013: 11). Related agreements were entered into between the jobbers, manufacturers and the unions. Of course, with a government supportive of improving work conditions, there was a substantial improvement.

Today's GPNs are only the international extension of the outsourcing model followed by the jobbers – concentrate on the core competence of design and outsource stitching to the manufacturers. But, while there has been some acceptance of "joint employers" at the national level (for example, in the US' Fair Labour Standards Act of 1938), attempts to extend such notions to the international level have been much more problematic (Miller et al 2011).

I have reiterated three points about lead firms in GPNs, that they (1) control production by suppliers; (2) monopolise the capture of rents within a GPN; and (3) their business practices and monopolisation of rents together affect the possible labour market outcomes in supplier firms. These are economic propositions that need to be carried forward to the legal realm to establish the joint responsibility of lead firms in the employment of labour and in the labour practices of cross-border supplier firms.

As mentioned, at present, today's lead firms enter into the supplier country's industrial relations through the route of

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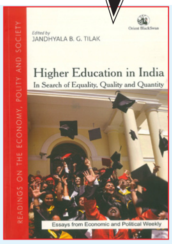

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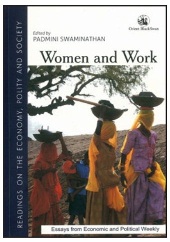

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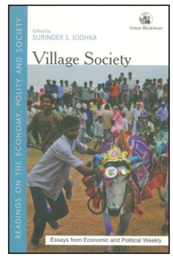

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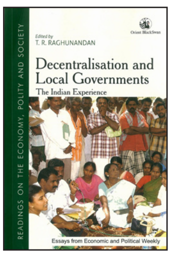

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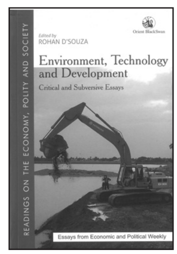

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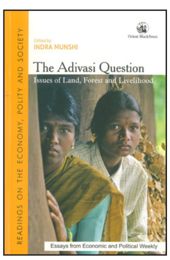

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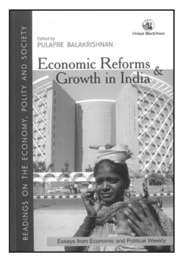

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standards and compliance, generally covered under the umbrella of governance. These, however, are not statutory requirements with any legal sanction. Additionally there are ad hoc arrangements that have often been set up. For instance, in the case of workers employed by Foxconn, who are contract manufacturers of electronics products, Apple came into the industrial relations picture when there was adverse publicity about worker suicides. This led to an arrangement that involved Apple, Foxconn, the Fair Labour Association (FLA), the All-China Workers' Federation, and the Chinese government. This is a quadripartite structure involving the buyer, manufacturer, workers, and the government.

There are other ex post and ad hoc arrangements involving buyers. After incidents of fire or factory collapse in Bangladesh, buyers step into the picture to offer compensation to affected workers and their families. More recently, there is a move by buyers to finance improvements in factory buildings under a Bangladesh Fire and Building Safety Agreement (Miller 2013). The German retailer, Tchibo, and the US PVH (parent company of the brands Calvin Klein and Tommy Hilfiger) have both signed up to such an agreement.

Trying to push the notion of joint responsibility, unions of garment workers from eight countries in Latin America and Asia are reported to have sent a letter to Adidas, requesting that this lead firm participate in face-to-face talks with the company's suppliers and the unions concerned to reach an agreement that would guarantee "stable orders, fair prices and safe factories" (Anner et al 2013: 1).

The trinity of "stable orders, fair prices and safe factories" sums up the manner in which vertical and horizontal relations interact in the GPN. Without the first two, the third becomes difficult. Without overlooking the culpability of local employers and governments, who cut corners supposedly to remain competitive, poor prices and unstable orders do contribute to the poor safety situation.

There will surely be much opposition to be overcome and many issues to be resolved in setting up a quadripartite mechanism. But the first step is to acknowledge the need to change from a tripartite to a quadripartite industrial relations structure. In a world of GPNs the former is inadequate, and the industrial relations structure needs be modified to bring lead firms into a quadripartite structure to take account of the reality of distribution and control within them, even if that distribution and control are contested.

The Importance of Unions

Who can bring about such a change in the industrial relations structure? Workers in the CMT and similar manufacturing units who bear the brunt of gross violations of decent working conditions would obviously be most interested in a change that might end current sweatshop conditions. They are likely to be supported by the nascent international unions as also concerned consumer groups in different countries. The old charge that demanding better labour standards is a cover for protectionism would not find much credence today. With Bangladesh, for instance, being the lowest wage garment producer on the international scene, an improvement in labour conditions, even if it were paid for by local capital, would not affect its competitiveness. The point of a quadripartite structure, however, is to bring in buyers and lead firms into the picture in such negotiations.

Not many workers in the Bangladesh garment industry are members of unions. But the numerous incidents of strikes that spillover into public incidents shows that the four million or so workers, about 70% of whom are women, have gained in strength over the recent period. From having been portrayed as "docile" workers they have gained voice and been able to successfully struggle for an increase in real minimum wages. Of course, these minimum wages at about $37 per month are still about the lowest in the world. But the point to be emphasised here is that the women garment workers of Bangladesh can no longer be regarded as docile (Ahmed and Nathan 2013). Concentration in two large centres allows the possibility of developing associational strength. The rapid growth of the industry allows scope for exit, or for women workers to leave a factory and join another. Together, concentration and the possibility of exit have strengthened the voice of women workers, to use the exit and voice terms of Hirschmann.

Already established as the second largest garment exporting country (after China), Bangladesh is well placed to make some demands on the global lead firms. But it would obviously be easier if a coalition of manufacturing countries were to come together to make such a move. The Asian-12 accounted for almost two-thirds of world garment exports in 2010 (Staritz 2012). Collectively they could make a difference in defining the organisational structures that will govern industrial relations in a post-Washington Consensus world.

NOTE

1 The terms vertical and horizontal relations in GPNs are used in Neilson and Pritchard (2009).

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