Value Chains, Under-Development and Unions Strategy

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1. Introduction

The dynamics of international trade within industries can best be captured by the expression *global value chains* (GVCs).[1] The old idea of international trade as trade of finished goods – British cloth against Portuguese wine – in David Ricardo's famous example is no longer the standard case. Production processes in the field of manufacturing and services have been spliced into numerous different tasks, which became internationally tradable. With regard to the stage of processing, in 2013 trade in intermediate goods had the biggest share in trade and reached US$ 7 trillion, followed by primary goods with US$ 4 trillion, consumer goods US$ 3.8 trillion and capital goods US$ 2.7 trillion. Almost 50% of intermediate goods come from developing countries (UNCTAD 2014: 4f.). Developing countries have not only been integrated much more into the world economy, they have especially integrated as part of global value chains (Milberg and Winkler 2013: 28f.).

In this contribution, we concentrate on the relationship between developed and developing countries. The question we ask is whether international trade - focusing specifically on trade within GVCs - leads to improved working conditions in developing countries and social and economic improvements for countries in the global South. It is found that markets do not automatically lead to better working conditions and social and economic advancement. The opposite is the case: unregulated markets have the tendency to push developing countries towards a constellation that reproduces underdevelopment. The increasing integration of developing countries in GVCs has not changed this in any relevant way.

Union strategies in the field discussed here should therefore combine two elements. Firstly, unions should fight for decent working conditions (see ILO 2008). But decent working conditions are not enough if a country is not able to catch up in skills-levels, technology and finally real GDP per capita. Economic improvements, measured as increasing GDP per capita, does not automatically lead to social progress, but without economic growth, social advancements in developing countries tend to be limited. Unfortunately, the market mechanism, including international trade and capital flows, does not lead to an endogenous

[1] Global production networks are broader than GVCs. We use GVCs to show the hierarchical character of integrated global production processes.

process of catching up in almost all cases. This means unions should also care for policies which go beyond decent working conditions.

In the second section, mainstream arguments for free trade and capital flows are shortly discussed. The third section focuses on GVCs. Foreign direct investment (FDI) and subcontracting as the two pillars of GVCs are analysed. Section four presents strategies for decent work and development from a union perspective. Section five concludes.

2. Traditional Analysis of trade and international capital flows

Free trade is almost universally proposed by mainstream economic thought as a surefire way to maximize welfare in all nations, including developing countries. The basis of this thinking can be found in the theory of comparative advantage, where all nations can benefit from international trade, as formulated by David Ricardo (1817). In the original formulation, two countries, England and Portugal, under the assumption of capital and labour immobility and full employment, produce both cloth and wine. Due to given hypothetical productivity levels England needs more workers to produce a certain amount of cloth and wine than Portugal. However, it is assumed that the productivity deficit in England is greater in wine than in cloth production. The basic idea is that both countries should specialize according to their comparative advantage – England in cloth and Portugal in wine. England would then import wine from Portugal and vice versa. Both countries benefit from international division of labour in the form of increasing output and consumption even, though England is less productive in all industries in comparison to Portugal. Hence, even less developed countries can increase their standards of living if they choose free trade.

The main criticism of the theory of comparative advantage is that gains from trade are only static.[2] Dynamic gains from trade, such as technological improvement, are not integrated into the theory of comparative advantage.[3] However, endogenous technological progress and productivity growth (e.g. due to learning-by-doing, concentrating on high-tech production, etc.) characterizes industrial production. Such gains, being a result of trade, should be included in a theory of international trade. Chang (2002: 19 ff.) has shown that developed

[2] There are other essential lacks of the theory of comparative advantage when it comes to the underlying assumptions used. It is not plausible to assume the absence of capital and labour mobility, both of which increased substantially the last decades (UN 2013, Lund et al. 2013). If there is no full utilization of labour and capital, international trade is not necessarily beneficial because output, employment and consumption could be influenced by free trade. Free trade also has distributional consequences within countries that are not analysed. Also, it is an open question, especially in developing countries, that the assumed real exchange rate mechanism smoothly balances the current account (Schumacher 2013).

[3] Heckscher (1919) and Ohlin (1933) assume that the trading countries have the same level of technological development, however, countries differ in their relative stocks of capita and labour. Productivity differences then are based on different factor endowments.

countries such as Britain, USA, and Germany have not adopted the rationale of comparative advantage and its corollary of trade liberalization in their "catch-up strategies" but applied rather protectionist policies to restrict international trade and support their infant industries.

In the long run, free trade leads to underdevelopment, as countries with a low productivity level concentrate on labour intensive low-tech production and, compared with developed countries which produce capital intensive and high-tech products, have a much lower chance to increase skill-levels and technology. Imbs and Wacziarg (2003) find that successful countries did *not* specialise in their development phase, as Ricardo recommended. The opposite is the case: a high diversification of production and industries seems to be the precondition for catching-up. Obviously, diversification allows broad learning and synergy effects, which are vital for development. Diversification and industrial policy are two of the strategies of successful development (Rodrik 2004).

Traditional trade theory assumes trade of finished goods, wine against cloth. This does not coincide with empirical reality, as during the last decades the most important type of international trade became trade with intermediate goods. Due to technological progress global transactions became less costly and firm's benefits from vertical integration decreased. Make or buy decisions are based on a comparison between transactions costs within the firm and transaction costs over the market. If the latter are relatively higher, vertical integration is beneficial. Such a transaction cost theory does not comprehensively explain offshoring and outsourcing of tasks. For example, power relationships within GVCs are not taken into account in spite of the fact that they can shape GVCs.[4] This has led to new trade theories, which stress diversified production of different brands and economies of scale to explain international trade (Krugman 1979). Such developments led to the analysis of GVCs on which we focus in the next section.

In respect to international trade, Singer (1949) and Prebisch (1950) developed an important argument. They argue that free trade leads to the erosion of terms of trade of developing countries producing primary commodities and simple manufacturing goods. This leaves developing countries in a trap they cannot overcome by focusing on free trade, even if it leads to industrialisation. They recommended diversified industrialisation, import substitution, industrial policies, and skill upgrading to trigger development (Singer 2003). Below, it will be shown that the Prebisch-Singer thesis is further strengthened when taking into account the new role of GVCs.

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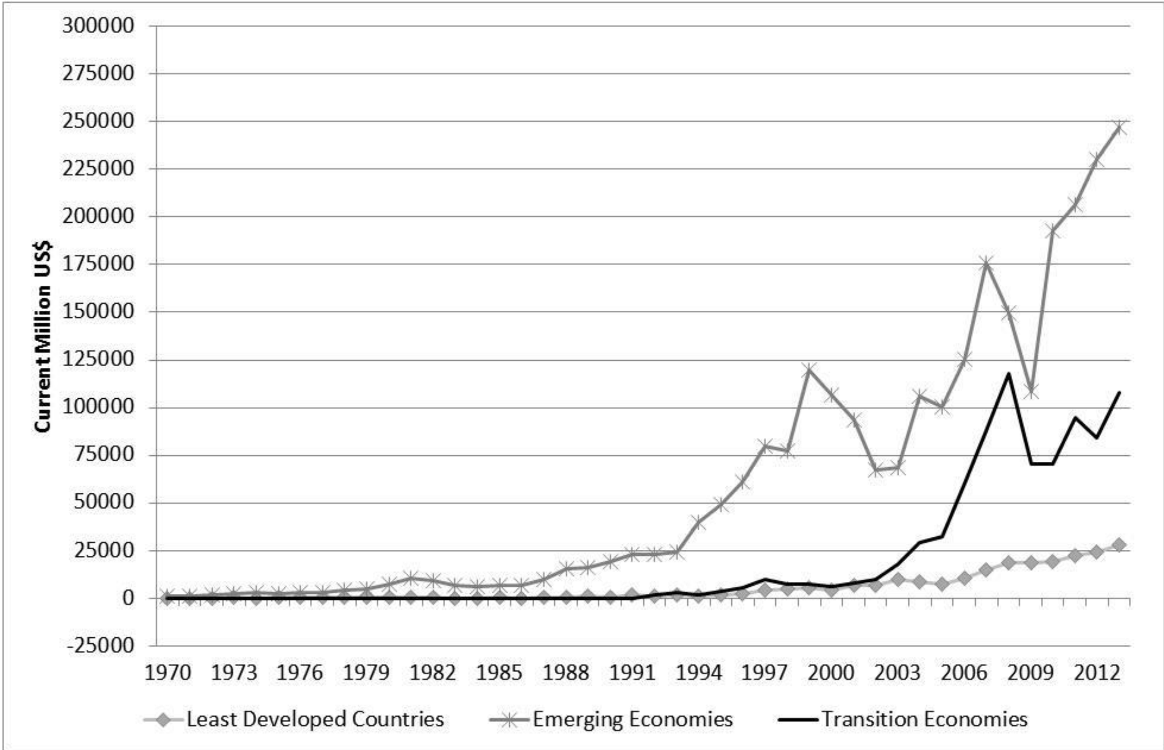
[4] Additionally, neoclassical explanations of offshoring assume full employment and shock adjustments via exchange rates and wages (Milberg and Winkler 2013).

The Washington Consensus, developed in the 1990s by Washington-based institutions like the International Monetary Fund, World Bank, US Treasury and some research institutes, became the nucleus of policy recommendations for how developing countries could induce economic development. Williamson (1990: 18) summarised the consensus as “prudent macroeconomic policies, outward orientation, and free-market capitalism”. Indeed free trade, privatisation, liberalisation and deregulation were of paramount importance in the consensus. It was firstly developed and imposed on Latin American countries in the 1980s and 1990s. As the Washington Consensus did not show the expected results, the so-called augmented Washington Consensus added additional policies like flexibility of labour markets, improved corporate governance, anti-corruption policies and targeted poverty reduction, however, the old Washington consensus was still kept in place (Rodrik 2006, Herr and Priewe 2005).

Openness of FDI is one of the pillars of the Washington Consensus and is thought by mainstream economists and international organisations to be an important engine of globalization and a source for economic growth, industrialisation and technological transfer, especially in developing countries. Indeed, FDI to the global South during the last decades exploded (see Figure 1). FDI to developing countries became one of the major channels of GVCs, which will be analysed below.

Figure 1: FDI Inflows in transition and emerging economies and least developed countries



Source: UNCTAD (2015).

One consequence of high FDI inflows to developing countries, among other capital inflows, are high current account deficits in parts of the developing world. According to mainstream development theory, sustainable current account deficits are considered to be important for catching up. Easterly (1990), for example, makes it clear in his paper "The ghost of the financing gap" current account deficits do not lead to development either from a theoretical or empirical perspective. An import oriented development strategy is just as little convincing as the Washington Consensus in general. Current account deficits strongly rely on the willingness of creditors or investors to transfer funds to a developing country. In a situation of long-lasting current account deficits, over-indebtedness of a country is much more likely than development. A period of current account deficits is less likely to lead to a "take-off" of developing countries than to a debt crisis and economic stagnation, leaving the country in a trap of underdevelopment.

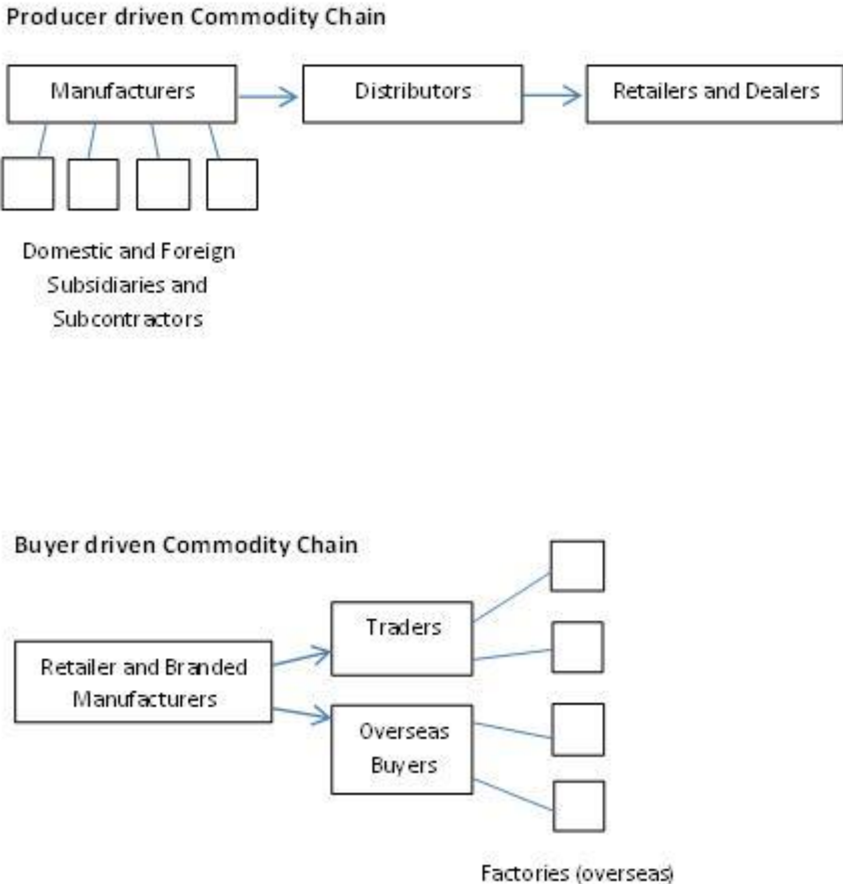
3. Global Value Chains

The history of outsourcing goes back to the industrial revolution, but the rise of MNCs and the creation of GVCs started to gain speed in the 1960s. A new dimension of globalization, also referred as the second unbundling, started to develop since the 1990s due to the revolution in Information and Communication Technology (ICT), reduction in transportation costs and implementation of Washington Consensus policies in developed and developing countries, which followed radical market policies and opened up for international trade and capital flows. These developments allowed MNCs to break down their production process into different stages and outsource these stages to other countries to an extent not known before (Baldwin 2013). Fragmentation of different production stages to different countries allowed various ways for MNCs to choose their suppliers. Basically, outsourcing refers to developing a supply source that is located outside of a parent company, which is in charge of producing final goods or services. In other words suppliers provide raw materials, tools, spare parts, components, equipment and semi-finished products that need to go through other production stages to become final goods (UNCTAD 2010). Cost reduction is the main motive to outsource activities to other countries. In addition, natural resource seeking, managing inventories, to gain flexibility in demand adjustments and buy high quality inputs, especially from industrial countries, are other important factors explaining outsourcing (Andreff 2009).

Based on the nature of the lead firms' supply chain, GVCs subdivide into "buyer driven" and "producer driven" chains (Gereffi 1999). In the case of buyer driven value chains, the leading

firm focuses on designing and marketing functions while the manufacturing process is outsourced to an independently owned subcontractor producing under strict specification of the buyer. This is the case of labour intensive industries such as the apparel and footwear industry. Producer driven supply chains are typically driven by MNCs in which technology plays a pivotal role (automobiles, computer, and heavy machinery). Lead firms coordinate a complex transnational network of production with subsidiaries, subcontractors and R&D units where the assembly lines of the final good typically remain under direct control of the producer. While producer driven value chains usually are led by the firm controlling the technology and the assembly lines, buyer driven value chains typically are more labour-intensive and are driven by the retailer or the brand name company. While in this case the leading firm or the branding firm controls the key governance functions of the production chain (pricing, designing, marketing) manufacturing and assembling stages are outsourced to external subcontractors. Figure 2 illustrates the two cases.

Figure 2: Producer driven and Buyer driven commodity chains



Source: adapted from Gereffi (1999), authors' illustration.

Suppliers can be domestic firms, which can be divided in domestic subsidiaries of parent companies and other domestic suppliers based on market relations, or in companies in other countries that also can be divided in foreign subsidiaries of a parent company (FDI) and other foreign suppliers. In this paper, we choose international outsourcing for both FDI and international subcontracting. FDI involves the full or partial ownership of production units in the foreign country, whereas subcontracting is based on arm's length relations. In the latter case, a domestic firm asks an outside firm to produce a specified product or component, for which it can, if needed, supply the inputs and transfer technology and technical assistance to the producer (Webster et al. 1997).

When do firms choose FDI and when do they choose subcontracting? According to Dunning (1977) higher than average tangible and intangible assets of foreign companies force them to open a subsidiary in host countries for protecting their patents and technology. Because if foreign firms choose franchising, licensing or international subcontracting there are high levels of risks that local companies get access to technology and patents of foreign companies and produce the same goods and become competitors (Peng 2009). Furthermore, market seeking (increasing market share in host countries' market) and natural resource seeking are other elements that encourage firms to choose FDI.

Transaction Cost Theory (TCT) is another framework to analyse firms' decision between FDI and subcontracting. Based on TCT, firms choose FDI (1) if the specificity of assets that are involved in the production are high, and (2) if transactions contain a high level of uncertainty that supplier may violate contracts. Suppliers may have opportunistic behaviour and use the technology and production design of lead firms in order to compete with them. (3) The more frequent transactions are and the higher the volume, the more importantly a firm judges the first two points (Williamson 1993).

3.1 FDI

There is a rich literature about effects of FDI on industrial development of host countries (Balasubramanyam et al. 1996; Borensztein et al. 1998; Alfaro et al. 2004; Hansen and Rand 2006; Basu and Guariglia 2007; Kurtishi-Kastrati 2013). However, there is no consensus about positive effects of FDI on host countries' industrial development.

In general, there are two types of FDI - horizontal and vertical FDI - each of them typically having different effects on technology spill-over and working conditions. Horizontal FDI occurs when a company produces a product with the same production line and value chain in host countries as at home. It takes place mainly in mature markets when companies merge or acquire a company in host countries. However, in recent years the amount of horizontal FDI in emerging countries such as China started to increase due to improving income levels and large domestic markets. Vertical FDI takes place when a company wants to optimize its production cost by fragmenting each part of the value chain in countries with least costs. Since the 1990s, this type of FDI has become more and more popular among MNCs to decrease their production costs and to keep their high profit mark up (Peng 2009). [5]

Access to managerial skills and advanced technologies are motives for host countries to attract FDI. Indeed, foreign owned companies can have a higher technological standard, train local staff or secure export channels. Furthermore, local firms can benefit from technologies and managerial skills of foreign firms through joint ventures, reverse engineering and hiring workers that are trained by working there. Foreign firms can also affect local companies through developing supply chains in host countries and force local firms to increase their quality and standards and help them to increase their managerial skills (Alfaro et al. 2010).

Companies with market seeking motivation may establish R&D centres in host countries in order to meet the special customers' demand in host countries via product localization. For doing so, foreign companies typically work with domestic experts and universities, which allow them to use their expertise about the tastes and preferences of domestic consumers. Local experts could also benefit from working with new technologies and participation in processes of research and development and production of new goods. Their experiences can be used later in domestic companies (Damijan et al. 2003).

Another factor effecting technology spill overs is the market structure. If host countries' markets have high entry barriers, for instance high tariffs or the existence of dominant domestic (or foreign firms in case of latecomer companies) foreign investors have to enter host countries with a large amount of investment and relatively high technology in order to be competitive in the market. However, benefiting from positive technology spill-overs of FDI

[5] Although it is really hard to statistically define difference between Horizontal and Vertical FDI, Alfaro and Charlton (2009) by using firm-level database of 650,000 companies found out that Vertical FDI is the dominant type of FDI among MNCs (more than 60 percent).

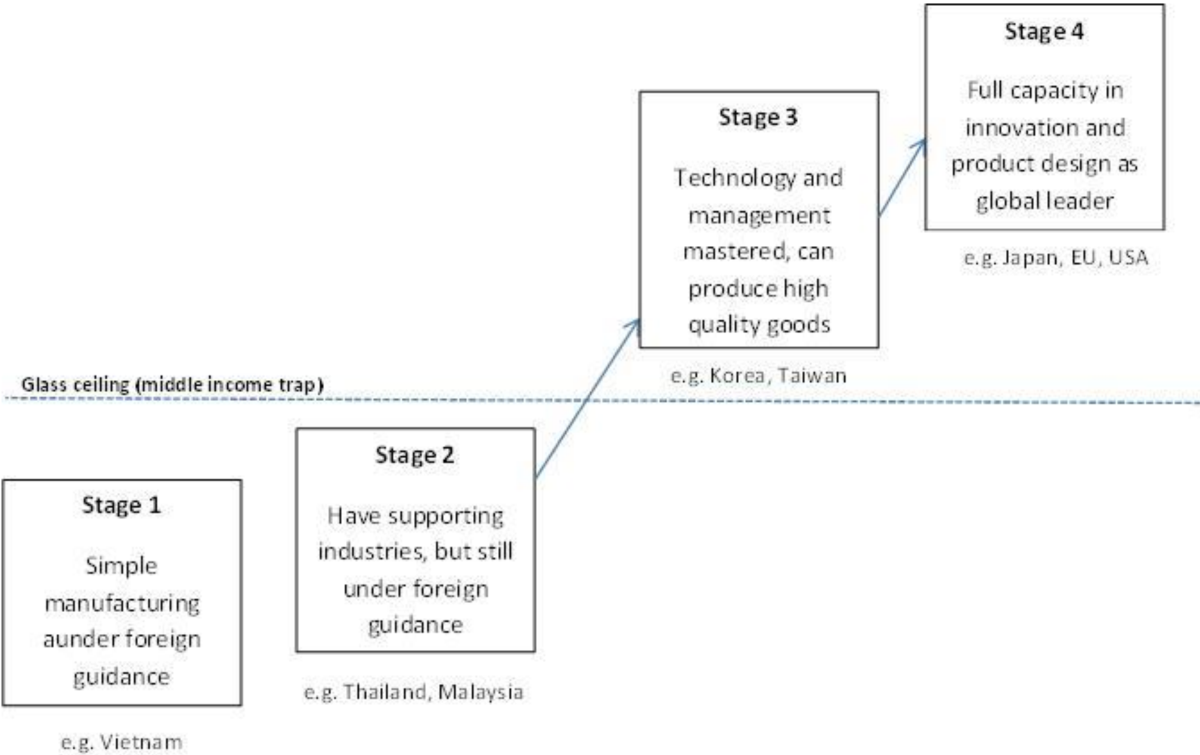
depends on different factors. First, technology spill-over highly depends on the development level of the host country. If local firms do not have a relatively high technological and educational level, FDI not only will not lead to positive technology spill-over but also may lead to crowding out of local firms due to their disability to compete with foreign companies (Singh 2011). Furthermore, if foreign companies invest in host countries only for exporting low value added goods and investing in labour intensive industries as well as natural resources, it does not have any major positive effects on technology transfer. Second, the type of FDI (e.g. wholly owned, joint venture or mergers and acquisitions) is an important factor. For instance, if foreign firms invest through mergers and acquisitions, the level of technology spill-over will be very low, as foreign companies can usually keep employees and production lines unchanged and only change the management. In addition, in many cases, foreign firms only invest for benefiting from cheap labour and other costs and government incentives and do not bring any positive technology spill-over. The third, but most important factor, is government policies. If governments of host countries do not design and implement sound industrial policies in order to absorb preferable and favourable FDI, a positive technology spill-over is unlikely to happen (Azarhoushang 2013).

In horizontal FDI the probability of positive technology spillover is higher than in vertical FDI as in this case most production stages are outsourced to host countries, including R&D. Therefore, host countries can benefit from higher value-added production stages such as design and R&D. Most horizontal FDI is within developed countries. However, some developing countries also benefit from this type of FDI. Volkswagen in China is one successful example. But it has to be kept in mind that China in a comprehensive way dictated the conditions for FDI and at the same time was, because of its economic development, an attractive investment location (Azarhoushang 2013). And it should be mentioned that horizontal FDI in developing countries, even including research and development centres, does not mean that foreign companies bring the newest technologies to developing countries. Key competencies are kept in the country of the lead firm, generally in the global North.

Vertical FDI which dominates especially in developing countries does not show such positive technology and skills spillover as it is typically focused on low tech specialized tasks in a few number of industries. Technologically very underdeveloped countries with very low skill levels can, to a certain extent, also benefit from vertical FDI. However, after some upgrading of the technological and skill level, there is no incentive for lead firms to improve them

further. There is a middle income trap, or a glass ceiling, for market-based development even with a high level of FDI (see Figure 3 for Asian countries) (Ohno 2009). FDI can lead to industrial upgrading in some developing countries to some extent under certain conditions, which are mentioned above, but even in such an optimistic scenario market mechanisms will not lead to the same income level as in developed countries. In order to escape the middle income trap governments in developing countries have to support industrial upgrading not only by high investment in education, research and infrastructure, but also by extended and comprehensive industrial policy.

Figure 3: Stages of industrial upgrading



Source: adapted from Ohno (2009).

Following Washington Consensus policies implies that developing countries provide flexible labour markets as one of the preconditions to attract FDI. Foreign companies lobby hard to exercise virtually unlimited power in setting their employment policies such as extra hours, job benefits and job conditions. Empirical studies show that FDI can have negative effects on trade union density in host countries (Radulescu and Robson 2008). Therefore, FDI or the attempt to attract FDI has the tendency to weaken unions and deregulate labour markets.

However, any change in labour market institutions has major effects on social justice and social well-being of the majority of population (Stiglitz 2002).

In almost all developing countries FDI has had negative effect on wage dispersion for its hosts (Schmerer 2011). As mentioned above, foreign firms have access to better technology. Therefore on the one hand, they prefer to employ relatively high-skilled workers in developing countries and they have the financial means to do so. On the other hand, domestic companies also may try to keep or employ high-skilled workers for improving or defending their competitiveness.

3.2 International subcontracting

As mentioned above, international subcontracting is one of the major ways for outsourcing production stages through signing contracts via arm's-length transactions with independent companies in other countries. In a new wave of globalization during the last decades, international subcontracting became one of the principal activities of MNCs which include the transfer of certain tasks in all stages of the supply chain from design, book keeping, R&D, fabrication and after sale services. Some MNCs such as Nike and Apple do only the design part by themselves and outsource almost the complete rest of the supply chain to subcontractors. International subcontracting has two main differences with traditional arm's-length transactions. Firstly, it is of long-term nature as MNCs prefer a longer relationship with accountable suppliers; and secondly, the level of information the parent companies provide for suppliers, such as detailed instructions and specifications for the task at hand, is much higher than in the case of normal market interactions (Grossman and Helpman 2002).

In capacity and cost-cutting subcontracting, the main contractor does not have enough capacity and/or it is not profitable for him to undertake the fabrication of the specific component or carry out a specific service to produce its product. This type of subcontracting also refers as vertical specialization. In specialist subcontracting the main contractor does not have technology, skills and special machinery to undertake certain tasks in the production stage. This type of subcontracting is referred to as horizontal specialization (de Crombrugghe and Cuny 2000). Specialist subcontracting can mainly be found within developed countries due to their high technological and skill level. In the following we discuss cost-cutting subcontracting, which dominates outsourcing between developed and developing countries.

Due to low value-added and the relatively low technological level of cost-cutting outsourcing, local companies cannot benefit much from technology spillover. Of course, as in the case of FDI in very underdeveloped countries subcontractors can improve their labour productivity as well as their technological level to a certain extent. Lead firms can transfer new machinery to suppliers, give them technical support for working with them, give some consultancy to subcontractors for managing inventories, production planning and quality testing, etc. (UNCTAD 2001). However, these positive effects remain on a relatively low level. The lead firm has no incentive to transfer substantial knowledge to arm's length subcontractors. Overall, positive technology and skill spillover must be considered much lower in the case of subtracting than in the case of FDI.

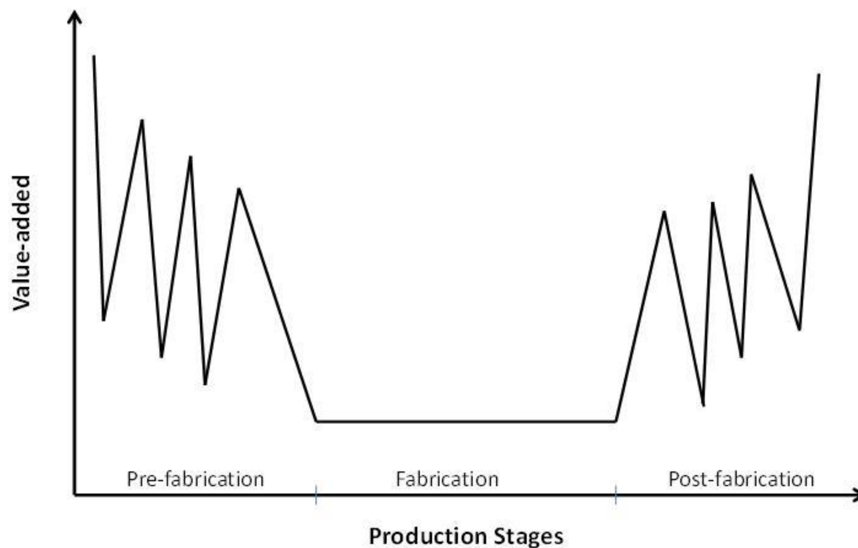
The main motivation for this type of outsourcing is to cut costs and MNCs will do everything to do so. As long as it does not destroy their reputation and the quality of products they will support all measures to bring costs down, including wages, working conditions or ecological standards. One of the incentives for international subcontracting is to gain flexibility in case of demand fluctuations. MNCs can use international subcontracting as a hedge against fluctuations in demand. In other words, lead firms can externalize the risk of demand fluctuations. The risk of underutilization of capacities in time of lower demand and high fixed costs as well as the hiring and firing of workers is transferred to subcontracting firms (Verra 1999).

3.3 Asymmetries in the value chains

As mentioned above, cost reduction is the most important motivation for MNCs for outsourcing in developing countries. Companies outsource low value-added stages of production to developing countries and higher value-added stages either stay at the parent company's country or are outsourced to other developed countries due to specialization motives. The uneven distribution of value added between developed and developing countries through supply chains is the main feature of the second unbundling (Ohno 2009). This phenomenon can be expressed in the so-called exploitation curve[6]. Figure 4 shows the exploitation curve and distribution of value-added in different stage of production.

[6] The exploitation curve is the modified version of the "Smile Curve" which was designed by Stan Shih CEO of Acer (Everatt et al. 1999) in order to illustrate the distribution of value-added through GVCs and obviously showing the smile of MNCs.

Figure 4: Exploitation Curve



Source: authors' illustration.

According to the exploitation curve, the upstream and downstream part of value chains, which include R&D, design, marketing and after-sales service have the highest value-added and are largely kept in developed countries. However, low-value activities in these areas are also transferred to developing countries. Regardless, most outsourcing can be found in the fabrication stage, which is not the core competency of MNCs. This stage can be outsourced to other less-developed countries for cost reduction and also gaining flexibility. The newest wave of outsourcing increasingly covers services, indicating that future low value-added activities may be outsourced at all stages of production.

Furthermore, the exploitation curve shows a new version of the Prebisch-Singer thesis. This can be exemplified in Ricardo's cloth and wine example. In his vision of trade, wine is completely produced in the less productive country and cloth in the more productive. Introducing GVCs in this model implies that the more productive country produces both goods and outsources all low value adding activities to the less developed country. The level of productivity and the terms of trade in the less developed country become even lower than in the Ricardian example.

High market power of MNCs allow them to choose the location with the lowest factor costs, taking into account that many developing countries are willing to offer different incentives to attract foreign investors even for low value-added production stages. This is the reason behind

MNCs strategies of the last years for shifting outsourcing locations from the East-Asian tigers (Japan, Taiwan, Hong Kong, South Korea, Singapore and recently China) to other developing countries such as Vietnam, Bangladesh and Cambodia. When wages increased in the above mentioned countries, MNCs started to outsource their activities to countries with lower wages.

Companies in developing countries generally do not have high asset specificities (technology and skills). They do not have market power to increase their mark-up, and hence, stay in low value-added stages of production. Therefore, lead firms decide which tasks are be outsourced to developing countries, stay at home or outsourced to developed countries. The strategy of lead firms and competitive pressure leads to a development that all high value-added stages stay in developed countries whereas low value-added tasks in a value chain are shifted to developing countries to save costs. From a microeconomic perspective, a monopsony constellation exists with a lead firm with a demand monopoly and suppliers fiercely competing with which each other. Suppliers then will earn a very low profit and try to cut costs whenever possible to stay in the market. Moreover if an MNC transfers technology to developing countries via FDI and/or international subcontracting, it still has the main motivation to cut costs and will not transfer the newest technology to developing countries (Baldwin 2013). Developing countries are locked in the low-value-added stages of production (also known as middle-income trap) and are exposed to an even more exploitative model. First, if developing countries only participate in low-value-adding stages, then the GDP contribution of GVCs and the technology spillover will be limited. Second, even if high profits are created in MNCs' subsidiaries, profits will most likely be repatriated via direct transfer or manipulating export and import prices within the enterprise. Third, the negative environmental impacts and social effects in the absence of an efficient regulatory framework in developing countries supported by MNCs lead to poor working and living conditions. And last but not least, the "footlooseness" of GVCs activities increases the vulnerability of local firms, and developing countries in general, which face high levels of external shocks (UNCTAD 2013b).

4.1 Global Value Chains and Trade Union Strategies

The aim of the following section is to discuss in more detail the strategic options that trade unions have in regulating GVCs. Which instruments do trade unions hold to promote a more equitable development of the value chain? Is there enough room of manoeuver for organized

labour to improve working and social conditions? Are there strategic alliances building between organized labour and non-governmental agencies promoting labour and human rights?

In developing countries, inflows of foreign investment in labour-intensive production stages, although initially welcomed as an opportunity for improving the local economy, have been too often accused of reducing labour rights and worsening working conditions. Some recent high-profile cases, such as the series of suicides in the Chinese establishments of the electronics manufacturer Foxconn and the collapse of the Rana Plaza building in Bangladesh are only just two examples of the numerous cases revealing that international firms and brands are responsible for the exploitation of labour, including the violation of human rights. The fact that famous international brands exploit low labour costs and poor working conditions in supplier firms to increase their price competitiveness has opened a great debate between international institutions, trade unions and civil society associations. If the international subdivision of production along highly specialized value chains is to increase production efficiency and offer opportunities for modernizing economies to rapidly upgrade their industrial system, GVCs must be governed for the purpose of delivering wage growth, better living conditions and higher technological and skills tansfer.

The interest of trade unions for the internationalization of capital and trade is not recent. It goes back to the debate on the role of multinational corporations in the late sixties where big conglomerates originating from western countries were seen as exploiting workers and natural resources of less developed nations (Bair and Ramsay 2003). In more recent times, with the increasing role of GVCs the need for unions to develop strategies to cope with MNCs became even more urgent. Trade unions have to rearrange their strategies from negotiating with one single employer in one country to facing multiple bargaining levels. Furthermore, international subcontracting reduced accountability of international firms towards labour standards adopted by partner subcontractors, again posing a new set of challenges for organized labour.

The debate around globalization and the possibilities of trade unions to curb the power of multinational corporations is long (see for example Schimdt 2007). Trade unions demand from MNCs stronger accountability measures and better standards of corporate governance, with adequate supervision of corporate conduct from all stakeholders, including labour. Trade union responses include the promotion of social partnership and dialogue through the establishment of International Framework Agreement (IFA). IFAs represent social agreements, complementary to national collective bargaining within which multinational

firms commit to international labour standards and to the free activity of trade unions along the entire supply chain. Another key response includes the creation of trade unions networks within global production systems. In this context, trade unions must avoid a potentially catastrophic “race to the bottom” between workers in developed and developing countries under the threat of offshoring and outsourcing (Schmidt 2007). Another important initiative that would allow employees and employees’ representatives to respond effectively to global corporate strategies is the construction of a network of labour representation, in the style of a “shop-floor” world works council that embraces the entire production chain in all geographical regions in which the company operates (Rüb 2002).

A reference point in trade union responses to globalization is ratification of the core international conventions of the ILO labour standards. The declaration offers an important reference point for the workforce along the entire supply chain. The declaration supports the principle of equality of opportunity for workers in all operations and branches of MNCs, including freedom of association, the abolition of every form of compulsory labour, the elimination of child labour and of every kind of discriminatory practice. It also encourages the provision of training policies that meet the general development goals of the country in which the firm operates (ILO 2011). Although the declaration remains a voluntary code of conduct, it is a useful instrument to be complemented with other tools of social regulations and the traditional institution of collective bargaining.

Successful experiences of trade unions’ responses to the new modalities of globalization come from Brazil. Brazilian trade unions have assisted in bringing about a strong re-orientation of the goals of MNCs and have developed counter-initiatives to respond to these challenges (Mello e Silva (2008). Counter-initiatives include the participation of Brazilian trade unions in regional union networks. They have begun to be active in regional trade blocks since the early days of the negotiation round for the establishment of the common Latin American market (Mercosur). They helped to establish the Coordinator of Central Unions for the Southern Cone (CCSCS) with the scope of promoting social aspects of production in the agreement over the establishment of the common trade area. A specific proposal put forward by the union committee of the metallurgical sector included the creation of a social fund to support training and re-skilling policies targeted to those workers whose jobs would have been displaced as a consequence of the establishment of the common trade area (Mello e Silva 2008).

A second strategy adopted by Brazilian trade unions encompassed the creation of union networks or “committees” in MNCs with the scope of monitoring social clauses along the

entire supply chain, including respecting labour standards. The effectiveness of these networks was proved by some cases where the union pressured companies to cancel their orders from a supplier accused of having taken anti-union stances (Mello e Silva 2008).

In the context of GVCs, the understanding of the chain structure enables trade unions to set up an effective response to the international organization of capitalist production. Due to the varying structure of GVCs, the implications for organized labour are different (see Riisgaard and Hammer 2008). The functional position of the driver in the value chain as well as the presence of well-recognized brands define the sphere of action for trade unions. The functional position of the driver, i.e. buyer or producer, determines the leverage point through which unions can exercise their influence. In producer-driven value chains, where production is vertically integrated and controlled by MNCs, trade unions have the chance to threaten production processes, especially in the most sensitive linkages of the production chain. The dependence of the producer from its suppliers makes producer-driven value chains sensitive to trade union actions. Trade unions can either direct their strategic actions to the leading producer, interrupting the production of the final goods, or to one or more sensitive points of the production network. In order to set up an effective strategy, trade unions have to establish strong linkages in terms of transnational cooperation between different production sites along the supply chain.

In buyer-driven value chains, dominated by big brands especially in the apparel and footwear industries, trade unions are less powerful. The low technological content of intermediate production leaves to the buyer a great degree of flexibility in selecting and replacing its suppliers in case of a disruption of the value chain. However, the existence of a well-recognized consumer brand poses the buyer in a highly sensitive position with respect to consumer campaigns. Trade unions and non-profit organizations (NGOs) can put pressure on the buyer with consumer actions aimed at raising awareness of the working conditions in the supplying firms. Given its strategic position, the leading firm can easily impose the respect of labour standards on its subcontractors.

In the case of buyer-driven value chains, the strategic role of NGOs emerges as the key factor pushing for an effective improvement of the working conditions in international subcontractors of well-known international firms and brands. Studies have shown how majorbrands in the fashion industries, unlike the apparel retail chains, are more sensitive to consumer campaigns and more inclined to improve wages and working conditions of their suppliers along the value chain (Pines and Meyer 2005). On the contrary, due to increasing competition, large retail chains are sensitive to price changes and are less likely to push for an

effective improvement of the working conditions in their supplier manufacturers. It is also difficult to set up effective consumer campaigns in the case of price sensitive consumers. If the price is a discriminating factor in cloth consumption, it is less likely that consumers are actually able to exert some sort of economic pressure on the company (Pines and Meyer 2005). In this case only a joint action of NGOs, trade unions and governments can push for a real improvement of the working conditions of suppliers in buyer-driven value chains.

A recent report by the NGO Human Rights Watch (2015) covering labour rights abuses in the garment industries in Cambodia analysed the working conditions in subcontracting firms of some major international brands in the fashion industry (H&M, Gap, Marks and Spencer, Joe Fresh, Armani, Adidas). The study highlighted the responsibilities of these firms in the violation of labour rights and managed to push some of these brands to adopt monitoring techniques of the working conditions in their suppliers (Human Rights Watch 2015).

Achieving better working conditions is only one aspect of overall economic and industrial progress. For this reason, the goal of trade unions should also be to push for industrial policies and economic and social advancement that match the creation of additional and better jobs.

4.2 Long-term strategies for development

To overcome underdevelopment, the strategies of unions discussed above play an important role, but they are not sufficient. Additional policies and more fundamental changes are needed to allow developing countries to reach a development stage comparable to developed countries. To guarantee decent working conditions and their enforcement or freedom of association or to build a social safety net are duties of the state. Developing countries should not be allowed to escape their responsibility to implement the legal and financial conditions for decent living conditions of everybody in society. International institutions and governments in developed countries could give developing countries more freedom to follow their own policies beyond the Washington Consensus. Mercantilist developed countries like Germany could strive for balanced current accounts to increase export chances of developing countries.

Economic upgrading as one of the conditions of social upgrading in developing countries implies the increase of productivity and the establishment of high-value creating industries and production processes in developing countries. Government support for research and development and investment in education, as demanded by the New Growth Theory, is important, but not sufficient. More direct industrial policy is needed to support strategically important industries or even key companies. FDI can support development when it is integrated in industrial policy. Rules like local content clauses or transfer of technology

should become preconditions for FDI. Successful industrial policy crucially depends on the creation of a process between government bureaucrats and firm's representatives which allows the selected promising industries, to avoid rent-seeking and to phase out support when it is no longer needed (Rodrik 2004). Unions could become one of the groups which should be involved in the implementation of industrial policy. Industrial policy in developing and developed countries is also needed to contribute to a technological development which allows an ecologically sustainable economic development. During the last decades, patent law has been moved far in the direction from the principle of knowledge as a free good to the principle of knowledge as private property. This should be reversed. Developing countries should be granted free access to the most important patents, especially those for major illnesses. In addition they should be allowed to follow one-sided protection policies of infant industries.

MNCs have to be controlled in a much more comprehensive way. In the present situation, they can play states against each other and follow a strategy of regulatory arbitrage. Corporate governance can be improved by giving other stakeholders a bigger influence. Global work counsels are an example of this. But also other stakeholders from civil society could increase their influence on MNCs. Last but not least, MNCs acting on a global level need an international legal framework, including international courts, which enforce a global competition policy or allow takng legal measures against MNCs if they, for example, do not follow international decent working rules or violate ecological standards. Furthermore, gobal rules for taxing MNCs are needed to prevent unjustified profits form rent-seeking (Stiglitz 2006: chapter 4 and 7).

3. Conclusion and options

Unregulated markets endogenously lead to the reproduction and deepening of underdevelopment. The increase of global trade has not increased the chances for social or economic catch-up among the least developed nations. Developing countries are increasingly integrated in the global economy via vertical low cost seeking GVCs. In the logic of the Prebisch-Singer thesis, this has led to a new dimension of dominance of a new global exploitation model. High value activities are concentrated in the developed world and low value activities in developing countries.

Value chains are characterised by power asymmetries with a dominating position of lead firms and dominated firms mainly in developing countries, which compete worldwide to take over certain tasks in the production process of a good. The competitive pressure to produce at

low costs in low value adding segments of a GVC increase the pressure for low wages and poor working conditions. Firms in developing countries and governments that push for industrialisation often act in concert to either prevent decent working conditions or not enforce them. Industrialisation in the low-value segment can increase productivity and living standards to a certain extent in very economically underdeveloped countries. However, in the end the allocation of production in GVCs prevents any true catching-up – developing countries are caught in a so called middle-income trap. Vertical GVCs based on subcontracting typically lead to very low value added, low technological spill-over and the worst working conditions. Vertical GVCs based on FDI are on average more advantageous, but without government rules and interventions they are not a ladder to eventually join the group of developed countries.

Looking at the beneficiaries of GVCs, it is obvious that MNCs realize extraordinarily high profits, which are overwhelmingly concentrated in the global North. In early 2015, according to the Financial Times (Dullforce 2015), of the 500 biggest companies in the world measured at market values 209 had its headquarters in the U.S., followed by China (37), Japan (36), UK (27), France (24), Canada (19), Germany and Hong Kong (each 18) and India (14). The increase in profit shares in advanced countries during the last decades can at least be partly explained by this specific type of globalisation (OECD 2012).

The policy conclusion we draw is that a two-handed approach is needed. There is no doubt that decent working conditions have to be established in all levels of value chains. Trade unions can play an important role in organising international solidarity and, together with NGOs (especially in buyer driven value chains) can pressure and change the behaviour of firms at all levels of the value chain and improve working conditions and social protection. In addition, unions should support and take part in creating more democracy in MNCs and push for an economically and socially fairer investment and subcontracting policy which strengthens training and technological transfer. Independent of this, a developmental state that does not follow the Washington Consensus but intervenes in many dimensions in the market process is needed.[7] Developing countries should be jointly motivated, for example, implementing labour friendly institutions and laws and social safety nets. Developing countries should play a bigger role in international institutions and should have more room for experiments to find their own way. The role of the state should not be minimized, but geared towards economic and social development (Stiglitz 2008). Free trade and free capital movements are no value as such and should be regulated to support development. Unions can

[7] For a policy agenda designed explicitly for Latin America, see Williamson (2008).

play an important role in industrial and other policies which are important for catching-up. Finally, unions can support initiatives to form global rules and sanctions for MNCs, fight for policies that allow developing countries to make one-sided interventions in markets or support the transfer of technologies.

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