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GLOBAL COMMODITY CHAINS AND PRODUCTION NETWORKS

**Understanding uneven development in the
global economy**

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LEONHARD PLANK, CORNELIA STARITZ

Introduction: global commodity chains and production networks – understanding uneven development in the global economy

1. Context and motivation

Over the last three decades the global economy, and in particular the organisation of global production and international trade, has changed significantly. This change has a quantitative dimension, as reflected in a considerable rise in trade (as a share of output) and in foreign direct investment (FDI) since the 1980s (Milberg 2004). However, the qualitative change in the structure of international trade and global production is much more significant. Although already the East India Company or the Hudson Bay Company had set up international trade networks as early as during the long 'sixteenth century' (Hopkins/Wallerstein 1986), they were distinct in several ways from today's global production networks. In particular, these companies were primarily concerned with trade and exchange, rather than organising production on a global scale (Gereffi 2005). Today, international trade and global production is increasingly organised in highly fragmented and geographically dispersed production networks where transnational corporations (TNCs) break up the production process in different parts and locate them in different countries. To illustrate the principle, take the example of a computer which is made up of semiconductor chips made in New Mexico (US), Scotland or Malaysia, a disk drive made in the Philippines, Singapore or Thailand, a monitor made in Japan, circuit boards made in China, and finally assembled in Mexico or Hungary (SOMO 2005). Such global production arrangements – which have been referred to as "integration of trade and disintegration of production" (Feenstra 1998) – can be found in many sectors and are mirrored by the rising share of intermediate goods in total trade (Milberg 2004). Hence, the global economy has been trans-

formed into “[...] a highly complex, kaleidoscopic structure involving the fragmentation of many production processes, and their geographical reallocation on a global scale in ways which slice through national boundaries” (Dicken 2003: 9).

Several factors have contributed to these transformations. Since the 1970s TNCs have reoriented their strategies and increasingly engaged in outsourcing and offshoring of production activities to developing countries to lower costs and increase flexibility. This relocation was enabled by a shift to a more outward oriented development model in most parts of the developing world. In the context of the debt crisis in the beginning of the 1980s, many developing countries – some more voluntarily than others – abandoned the import-substituting, state-led industrialisation policies they had adopted in the post-war period and turned to export-oriented industrialisation. This turn was often part of broader reform packages – based on the emerging ‘Washington Consensus’ – that included trade and financial market liberalisation and privatisation of state-owned enterprises driven by the World Bank and the IMF through the conditionalities of their structural adjustment programmes. As a consequence, manufacturing capabilities that had also been built up during the import-substituting industrialisation period became globally available, which is reflected in the proliferation of export processing zones around the developing world. Hence, a ‘new international division of labour’ (Fröbel et al. 1980) emerged that was based on the advances in transport, as well as in information and communication technologies, to fragment the production process and relocate production on a global scale. While in the beginning these efforts remained limited to rather simple, labour-intensive production steps, outsourcing and offshoring arrangements became more complex as the organisational and technological capabilities of TNCs to functionally integrate geographically dispersed activities and the capabilities of certain producers in developing countries grew (Levy 2005).

These transformations in global production and international trade have important implications for countries’ development agendas and the development prospects of firms and countries. Developing countries have increasingly been incorporated into global production networks¹ which has supported the expansion of manufacturing production and export capabilities in these countries. Some, like the so-called ‘Asian Tigers’, achieved

considerable economic progress and could improve their position within the international economic system. Government policies, in particular industrial and trade policies, including selective protection from imports and inward FDI, subsidies for export promotion and very significant checks and controls on businesses which had to meet performance standards to receive subsidies or protection, had an important role in the economic development of these countries (Amsden 2001; Chang 2003). For many other developing countries, however, integration into global production networks – which often followed the “processing, assembly and component manufacture” model (Helleiner 1973) – has not been accompanied by comparable economic progress, and the value added from manufacturing activities performed in global production networks has often not increased markedly compared to previous commodity-based exports (Milberg 2004; Kaplinsky 2005). Thus, the diffusion of manufacturing has resulted in industrial convergence between the developing and the developed world (measured by manufacturing as a percentage of GDP) without corresponding convergence in incomes (Bair 2005: 170; Arrighi et al. 2003). The recent proposal to introduce a new UN category of “least developed manufacturing countries” reflects this dilemma (UNIDO 2009: 2). Key reasons for these developments are the asymmetric market and power structures embodied within global production networks. The increase in globally available manufacturing capabilities has intensified competition at the production stage as many developing countries have embraced the export-oriented model. In this context competitive advantage does not derive from relatively standardised and commodified activities such as manufacturing, but accrues from more ‘intangible’ activities such as R&D and marketing (Gereffi 1994). These critical resources are protected by high entry barriers and characterised by oligopolistic market structures that allow the generation of high rents (Kaplinsky 2005; Levy 2005). The creation and protection of such market positions can not only be explained by a narrow economic efficiency-view but needs to take into account that “market and political power are intertwined” (Levy 2008: 943). Despite these developments, integrating into the global economy via the participation in global production networks continues to be the conventional wisdom for countries’ development progress (see Hess and Phillips/Henderson this issue).

In the light of these transformations, a more organisational, network-centred and multi-scalar framework is central to analyse the organisation and geography of production and trade in the global economy (Bair 2008: 3). Over the past two decades a body of literature has evolved using chain or network frameworks to conceptualise and analyse economic globalisation, and in particular to explain how global production is organised and governed and how this affects the development prospects of firms and regions (Coe/Hess 2007: 2). Widely adopted by sociologists and geographers, chain and network approaches have also attracted interest from economists, anthropologists and historians (Gibbon et al. 2008: 315f). In addition, international organisations such as the United Nations Industrial Development Organization (UNIDO), the International Labour Organisation (ILO), the Economic Commission for Latin America and the Caribbean (ECLAC) and national development agencies, including the British Department for International Development (DFID) and the German *Gesellschaft für Technische Zusammenarbeit* (GTZ), as well as NGOs, have used chain and network approaches.

Given the rather limited coverage of the subject in academia in the German speaking world so far, the motivation of this special issue is twofold: Firstly, this issue wants to introduce the different chain and networks concepts that have evolved over the past two decades and discuss their usefulness in understanding and conceptualising uneven development. Secondly, it wants to point out the potential of these approaches for analysing how the complex processes in global production and trade function and how they influence development prospects in different sectors and countries. The remainder of this introduction presents the four strands of research which in our view constitute the field of chain and network research and highlights areas which are – to varying degrees – under-developed in current chain/network approaches and which are central to understand uneven development. The last section provides an overview of the papers in this special issue.

2. Chain and network frameworks

A variety of approaches using the chain or network concept has developed over the last two decades. Although the different approaches overlap and share common concerns, they derive from different theoretical and disciplinary domains and place different questions in the centre of analysis (for a detailed discussion see Bair 2005, 2008; Coe et al. 2008; Hess this issue). At least four strands of research can be differentiated, which in our view constitute the field of chain and network research: Commodity Chains, Global Commodity Chains, Global Value Chains and Global Production Networks.

The term Commodity Chain (CC) was first used within the world system theory by Hopkins and Wallerstein. A CC is defined as “a network of labour and production processes whose end result is a finished commodity” (Hopkins/Wallerstein 1986: 159). The world system theory uses a broad approach of CC to analyse capitalistic processes, uneven development and the unequal distribution of surplus-value within chains. The central question is how CCs structure and reproduce a hierarchical world system that consists of core, semi-periphery and periphery. In the centre of the analysis stands the world-systems tradition of macro- and long-range historical analysis. The CC approach stresses that the organisation of production within global commodity chains is not new but that these chains have been global in scope since the foundations of modern capitalism (Bair 2008: 10f). Thus, “trans-state, geographically extensive commodity chains are not a recent phenomenon, dating from say the 1970s or even 1945, they have been an integral part of the functioning of the capitalist world economy since it came into existence in the long sixteenth century” (Wallerstein 2000: 2).

The Global Commodity Chain (GCC) approach builds on the world system theory but also has a background in economic sociology and comparative development studies (Gereffi/Korzeniewicz 1994; Gereffi 1995). GCC research analyses inter-firm networks which connect producers, suppliers and subcontractors and is mainly interested in how global industries are organised and how firms, sectors and countries can upgrade in GCC. A rich stream of empirical literature has evolved that pays specific attention to the role of lead firms and how they govern chains. In contrast to the CC approach, GCCs are viewed as “an emergent organizational form associ-

ated with more recent and qualitatively novel processes of economic integration” (Bair 2005: 157). Gereffi (1994, 1995) points out four dimensions of GCCs: input-output structure, geographical scope, governance structure and institutional context. But the approach has primarily concentrated on the governance dimension. Within the governance dimension two prototypes are differentiated: producer-driven and buyer-driven commodity chains: “The former are characteristic of more capital-intensive industries (e.g. motor vehicles) in which powerful manufacturers control and often own several tiers of vertically-organized suppliers, as opposed to light manufacturing industries (apparel being the classic case), where far-flung subcontracting networks are managed with varying degrees of closeness by designers, retailers and other brand-name firms that market, but do not necessarily make, the products that are sold under their label” (Gereffi 1994: 112). The applicability and utility of this dichotomy has been disputed in the literature and criticised for being too narrow and abstract (see Henderson et al. 2002; Sturgeon 2002).

Initially developed by researchers at the Institute of Development Studies in Sussex, the Global Value Chain (GVC) approach draws on the GCC approach but is also influenced by the international business literature. GVC research focuses on value creation and capture and on analysing governance structures in different industries, with an emphasis on coordination mechanisms and upgrading prospects at the firm level (Gereffi et al. 2001, 2005). GVC scholars criticise the GCC approach on two points: “First, the very description of these chains as commodity chains was questioned, since the term commodity is generally taken to denote either primary products and/or low-value added, basic goods. Second, Gereffi’s original distinction between producer-driven and buyer-driven chains was thought to miss important features of chain governance that were revealed by new studies, suggesting the need for an expanded typology” (Bair 2008: 16f). In Gereffi et al. (2005) a typology of five governance structures that link suppliers to lead firms (hierarchy, captive, relational, modular and market) is developed, drawing on transaction cost economics. Main determinants of this type of governance are the complexity of transactions, the ability to codify transactions and the capabilities of suppliers. However, this fivefold typology has also been criticised in the literature for not being able to capture the dynamics and complexities of various chains and for its limited perspective

on governance, which primarily takes into account internal sector logics and the inter-firm relation between lead firms and first-tier suppliers (Bair 2005; Coe/Hess 2007; Gibbon et al. 2008).

The Global Production Networks (GPN) approach originates in economic geography and attempts to go beyond GCC and GVC research by stressing two differences: “First, GCCs/GVCs are essentially linear structures, whereas GPNs strive to go beyond such linearity to incorporate all kinds of network configuration. Second, GCCs/GVCs focus narrowly on the governance of inter-firm transactions while GPNs attempt to encompass all relevant sets of actors and relationships” (Coe et al. 2008: 4). Thus, GPN research stresses the complexity and non-linearity of relationships between actors involved in global production and takes into account not only the important role of firms and inter-firm networks but also the influence of wider institutional actors (e.g. national and sub-national states, supra-national and international organizations, NGOs, trade unions, business associations; Henderson et al. 2002; Coe et al. 2008). Furthermore, the GPN approach stresses a broader political economy perspective incorporating socio-political structures within which production networks are embedded and which influence them. Bair (2008: 18) states that the GPN approach “is grappling with how to reconcile a macro and structural account of global economic organization with a grounded analysis of how particular firms in specific geographical, institutional and industry contexts organize their activities and their relations with other actors”.

3. Under-developed areas

Despite the roots of the chain/network literature in the world system theory, the initial critical impetus has been partly lost over the last decade, particularly due to the increasing dominance of the GVC approach (Bair 2005; Levy 2008). As Bair (2005: 154) puts it: “contra the macro and holistic perspective of the world-systems approach, much of the recent chains literature [...] has become increasingly oriented analytically towards the meso level of sectoral dynamics and/or the micro level of firm upgrading”. To grasp more fully the uneven nature of contemporary capitalism, a broader approach that departs from the increasingly narrowing agenda

and “discourses of innovation, learning, upgrading and economic growth“ (Hess this issue: S.32), as well as from the ontological assumptions that global production networks are generally ‘positive’ forces with regard to industrial upgrading (Phillips/Henderson this issue: S.40), is central. Such an approach needs to be attentive to the following four areas that are – to varying degrees – under-developed in current chain/network approaches.

The current literature has to a large extent focused on the analysis of TNCs and inter-firm relations to the detriment of relationships between firms and non-firm actors. The GPN approach explicitly conceptualises non-firm actors as an integral part of production networks, yet empirical work has not always adequately considered them. The bias towards the state as the key reference frame and actor and the neglect of firms not only in development studies but more generally in social science (Henderson et al. 2002; Fischer/Parnreiter 2007) partly explains why chain/networks research has concentrated on the role of TNCs and inter-firm relations. This ‘reversal’ has certainly allowed to study more thoroughly corporate strategies and related organisational dynamics and how they impact on the shape of production networks. The neglect of other actors is, however, problematic, given their influence. In particular, the role of the state remains central in understanding the configuration of production networks and the development prospects of incorporation into these networks (see Phillips/Henderson and Hildebrand this issue). Despite the common assumption that states have lost power vis-à-vis firms, the real life picture is far more complex and contingent. Strong states can be highly influential, as illustrated by the Chinese state, which has exerted strict control on the entry and activity of foreign firms (Coe et al. 2008: 20). NGOs have shown their potential to influence TNCs’ practices through campaigns exposing working, social and environmental conditions in the production networks of TNCs (Levy 2008). The importance of trade unions varies in different countries and sectors but their conventional strategies have generally lost effectiveness in the context of global production (Bieler et al. 2008) as TNCs’ strategy of organisational and locational fragmentation has weakened the position of labour (Ietto-Gillies 2005). Various contributions have highlighted the significant influence that business lobby groups have had in influencing political decisions, including trade regulation issues (Levy 2008). Supra-national and international organisations such as the EU, the WTO, the World Bank and the IMF are central actors in

global production networks and have considerable influence on the regulative contexts, as discussed next.

These observations on the influential role of non-firm actors in global production networks lead to the second neglected area: the importance of (pre-)existing structures and thus of the institutional and regulative contexts within which production networks are embedded and (re-)produced by firm and non-firm actors (Henderson et al. 2002). As Czaban and Henderson (2003: 174) put it: “[C]ommodity chains link not only firms in different locations, but also the specific social and institutional contexts at the national (sometimes sub-national) level, out of which all firms arise, and in which all – though to varying extents – remain embedded. [...] [I]nter-firm networks link societies that exhibit significant social and institutional variation, embody different welfare regimes and have different capacities for state economic management – in short, represent different forms of capitalism”. Besides national (and sub-national) regulations, regulations established by international and supra-national institutions also decisively shape the structures within which production networks are embedded. The Multi-Fibre Agreement (MFA) in the WTO and its phase-out in 2005 constitute a prime example and have had crucial effects on the articulation of production networks in the apparel sector (see Plank/Staritz this issue). The World Bank and the IMF have had strong influence through the conditionalities of their structural adjustment programmes. For instance, in the 1980s cocoa producing countries were forced to liberalise their cocoa sector and to dismantle national regulatory institutions (see Barrientos/Asenso-Okyere this issue). Moreover, the emergence of regional economic blocks has strongly impacted upon the configuration of production networks (Bair 2006; Coe/Hess 2007).

The third neglected area relates to the broader socio-economic effects of global production networks and to the question of whether participation and upgrading in production networks promotes positive developmental outcomes and, if so, who benefits from these outcomes. Much attention has been given to the ‘industrial upgrading’ debate, while the wider social consequences have not been adequately addressed. The conventional view sees global production networks as mechanisms to access global markets and promote upgrading to higher value activities for firms in developing countries. Thus, questions of access to, as well as positions and upgrading

opportunities in global production networks are at the centre of the current research agenda (Fischer/Parnreiter 2007: 113f). However, various studies from different regions and sectors show that there are substantial obstacles to upgrading (see contributions in this issue). Furthermore, upgrading experiences in different regions and sectors suggest that firms which ‘succeed’ in upgrading do not necessarily gain the rewards with which upgrading is generally associated, such as increased profitability and security (Bair 2005: 166; Fitter/Kaplinsky 2001; Kaplinsky 2005). Moreover, as “the upgrading concept is focused narrowly on the issue of firm-level competitiveness within the context of a particular industry, it sheds a very partial light on the critical question of winners and losers in today’s global economy” (Bair 2005: 154). Workers are rarely mentioned in chain and network approaches, as the firm is generally treated as a “black box” (Barrientos 2007; Coe et al. 2008). When mentioned, they are often considered as a homogenous group – despite important differences regarding gender, qualification, ethnicity or status (e.g. informal, migrant, temporary; Barrientos 2007). It is generally assumed that upgrading automatically benefits workers. However, this is not necessarily the case, since the potential rewards from upgrading efforts may not be passed on to workers in the form of higher wages, greater job security or improved working conditions (Knorringa/Pegler 2006; see Plank/Staritz this issue). Firm upgrading may even be based on deteriorating working conditions: “[P]articular strategies to increase the competitiveness of suppliers in global chains may look like upgrading from the vantage point of the firm, but in fact constitute a form of downgrading for the workers involved. [...] [T]he adoption of a ‘lean production’ philosophy by lead firms [...] has strong (and strongly negative) effects on workers [...]. As implemented in these value chains, lean production is transmogrified from a ‘high road’ to competitiveness to a set of practices that entail squeezing employees at the bottom of the chain in order to lower costs and increase flexibility” (Bair 2008: 45).

Finally, despite the centrality of governance structures and power relations in chain and network approaches, surprisingly little effort has been devoted to explicitly conceptualising power. However, power relations are decisive for the articulation of production networks, the position of different actors and their prospects (Henderson et al. 2002; see Lessmeister this issue). Hess (2008), drawing on Allen (1997), tries to address this shortcoming by

looking at conceptions of power used implicitly in different chain/network approaches. The structuralist or realist perception of power sees power as an inscribed capacity of individuals or institutions. For instance, TNCs have power “by virtue of their multi-country operations and the workforce which comprise them as well as the web of nation-state and market relationships which envelops them” (Allen 1997: 60). In the realist conception that prevails within much of the political economy literature, power is seen as asymmetrical, meaning that one actor has ‘power over’ another and power relationships are perceived as a zero-sum game (Allen 1997: 61). The relational or network perception of power, on the other hand, conceives of power as a medium for securing certain ends. In this view, power is generated through network relationships which can lead to (temporary) cooperation and coalitions between actors (Hess 2008: 455). Much of the more policy-oriented GVC literature stresses win-win outcomes, implicitly referring to this ‘power to’-view. Relations between firms in global production networks are embedded within capitalist production and within the dynamics of specific sectors and their competitive pressures. Firms in these sectors are intrinsically different as regards their size, their reach of operations, and their relationships to other firms and non-firm actors. An important aspect of this is that TNCs are able to transcend political and other boundaries while local firms and workers as well as most non-firm actors are restricted to the economic and political space of the local region or the national state (Coe et al. 2008; Letto-Gillies 2005). Thus, the greater mobility of international capital relative to local capital and labour puts local firms and workers at a disadvantage in terms of power vis-à-vis TNCs and also states (Milberg 2004). But these power asymmetries do not lead to deterministic outcomes. The possibility of supplier firms, workers and non-firm actors, such as states, trade unions, business associations or NGOs, to exercise their own strategies and acquire more power vis-à-vis other actors depends on contingent conditions. Thus, “lead firms rarely, if ever, have a monopoly on [...] power” (Henderson et al. 2002: 450). Therefore, an adequate analysis of power in global production networks should involve structuralist and relational aspects, taking into account that power relations are situated within capitalist production and its asymmetries, but are also socially constructed through networks of relations which allow for fluidity and change (Smith 2003). Levy (2008: 951) proposes a further broader perspective on power by highlighting the fact that much

of the governance debate has focused around “economic coordination rather than political contestation or the broader institutions and discursive structures in which markets are embedded. Moreover, the ideologies that constitute and legitimate particular forms of governance, production and income distribution receive little attention”. In this neo-gramscian perspective, Levy highlights the contingent stability of global production networks and the potential for strategic actors to politically contest governance structures and the distribution of benefits.

4. Overview of the special issue

Starting the special issue, Martin Hess’ paper evaluates different chain and network approaches, namely the GCC, GVC and GPN frameworks, with regard to their explanatory power for understanding geographically uneven development. The paper draws on two different perspectives on development – firstly, as a historical process of the expansion of (capitalist) systems of production, circulation and consumption and, secondly, as processes of social intervention and the struggle for securing livelihoods – and calls for a hybrid development research agenda in which chain and networks concepts can play a major role.

The remaining papers use different chain and network approaches to analyse specific sectors and countries sharing some common ground. All of them stress the importance of institutional and regulative contexts as well as of non-firm actors in shaping production networks. Via their sector and country focus they explicitly address some of the under-developed areas identified above to better understand the dynamics of contemporary capitalism and uneven development. In their paper on the Malaysian electronics industry, Richard Phillips and Jeffrey Henderson address the problematic reading of global production networks as a panacea for economic development. Rather, the paper claims, global production networks only provide ‘windows of opportunities’ that must be exploited by national systems of economic governance, and if missed they can trap domestic firms within lower value positions. The paper stresses that industrial upgrading is historically contingent upon the interplay between shifting global production network architectures and local institutional dynamics, including the

important role of the (local) state. Through a study of the Romanian apparel sector and by using an adapted GPN framework taking into account non-firm actors, (pre-)existing structures and workers, the paper of Leonhard Plank and Cornelia Staritz provides insights into how integration into global production networks influences the development prospects of regions, firms and workers and relates to processes of uneven development. The paper shows that integration into global production networks can also lead to 'downgrading' and questions the conventional view that participating and even upgrading in global production networks is beneficial for workers. The paper of Stephanie Barrientos and Kwadwo Asenso-Okyere explores how changing dynamics in the cocoa-chocolate value chain, including increased concentration amongst buyers, fragmentation amongst producers and changing consumer awareness on quality, social and environmental sustainability, impact on the Ghanaian cocoa sector. The paper focuses on the critical role that the public cocoa marketing board (COCOBOD) has played in maintaining Ghana's position as a world producer of high quality cocoa, in negotiating with global buyers and in supporting small-scale producers.

The two remaining papers deal with sectors, namely tourism (services) and aluminium (extractive industries), that have up to now received little attention within chain/network frameworks. The paper of Lars Hildebrand analyses Brazil's integration into the global commodity chain of aluminium and discusses the ambivalent developmental effects that arise from world market integration strategies in extractive industries. The paper demonstrates that net outcomes of world market integration depend on the structure of the particular commodity chain, especially the type of governance and the distribution of income, as well as on the ability of governments to establish political and institutional frameworks that maximise the capture of value created while minimising social inequality and environmental degradation. Through a study of Moroccan trekking tourism, Ralph Lessmeister's paper unpacks the ways in which firms are linked to each other in special tourism value chains and reveals the asymmetric dependencies embodied therein and the central role of access to consumer markets and reputation as key resources of power. The paper discusses the importance of differentiating between the concepts of power, coordination and governance and argues that an elaborated conceptualisation of power and power resources

as well as the role of quality conventions is central to understand special interest tourism value chains.

- 1) However, there is also a group of developing countries which has not been integrated into global production networks and has remained highly dependent upon agricultural and resource-extractive activities (Gibbon et al. 2008: 318).

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MARTIN HESS

Investigating the archipelago economy: chains, networks and the study of uneven development¹

1. Introduction

“A crisis sparked by the world’s rich will have the poor paying the highest price”. This headline from a recent commentary by Madeleine Bunting in *The Guardian* (20.10.2008) addresses an issue that the current public debate about the global meltdown of financial markets seems to have largely ignored: the ramifications of the economic turmoil for the least developed regions and the poorest parts of the population in the Global South. In contrast, much has been made of the subprime mortgage and banking crisis and its impacts on economic growth and employment in the Global North, and to some extent in emerging markets. Bunting’s comment therefore provides a welcome ‘corrective’ (albeit not a new one) when she states that “the shockwaves of the west’s banking crisis will shipwreck more vulnerable countries. In developing countries, people don’t have the resources – welfare provision, savings, insurance – to tide them over a crisis. Instead, they go hungry, homeless – and they die” (Bunting 2008: 27).

But while reminding us of the potentially devastating developmental outcomes of such a western model of neoliberal financialisation (and – by association – economic globalisation more generally), Bunting’s argument also evokes a reading of globalisation and development that has become highly contested in development studies and other cognate disciplines, not least human geography. It reinforces a spatiality of development where the global is the realm of systemic forces like capitalism and finance, while the local is the scale at which people try to make a living in the face of global, systemic pressures. In between we find the scale of the nation state, which is conceived of as being the major arena in which development takes place

and is played out. In addition, it suggests a continued hierarchy along the lines of core, semi-periphery and periphery, which for a long time has been at the centre of analysis in dependency theory and world systems theory (cf. Hopkins/Wallerstein 1977; Wallerstein 1974). Such a structuralist reading has been challenged by various schools of thought. Among those critics is French social scientist Pierre Veltz, who argued that Fernand Braudel's world of nested hierarchies no longer exists, and that instead we find ourselves in a world of networks which today constitute what he terms the 'archipelago economy' (Veltz 1996, 2004). These networks are made from a complex addition, crossing and entanglement of transversal business chains and social and intellectual communities; consequently, he argues, it has become ever more difficult to establish 'natural' levels of subsidiarity.

How, then, can (or perhaps should) we investigate this archipelago economy and its associated geographically uneven developmental outcomes? While economic geography research has a rich tradition of analysing the global economy and the places and spaces connected to it or excluded from it, the dominant geographical focus has been the advanced and emerging economies, with comparatively little theoretical and empirical attention paid to the Global South (Murphy 2008). Economic geography, development geography and development studies more broadly speaking have by and large followed different epistemologies and hence there was not much of a real connection between these literatures (Dicken 2004a). However, since the early 1990s a body of work has emerged that might be promising with regard to bridging this gap, namely the related concepts of Global Commodity Chains (GCC), Global Value Chains (GVC) and Global Production Networks (GPN) (cf. Bair 2005, 2008a; Coe et al. 2004; Coe et al. 2008; Gereffi et al. 2005; Henderson et al. 2002; Hess 2008; Hess/ Yeung 2006). They represent a set of network approaches to the study of globalisation and development which are interdisciplinary in their origins and therefore may have the potential to overcome the above mentioned disciplinary and epistemological 'divides'. However, as Levy (2008: 951) critically observes: "both the GCC and GPN literature display an increasingly developmental tone, discussing how firms in developing countries might 'upgrade' their capabilities and, thus, create and capture more 'value' locally (Kaplinsky 2005). The GCC/GPN framework appears to be converging

with more conventional approaches to competitiveness and losing touch with its more critical origins (Bair 2005)”.

This paper, therefore, aims to critically engage with network approaches to the study of globalisation and development (see also Dicken 2004b) and their usefulness as analytical tools and heuristics for the study of uneven development. The remainder of the article is organised in three sections. First, a brief discussion of different approaches to and understandings of development is given in order to position network concepts in a wider development studies context. Second, the GCC/GVC/GPN concepts are summarised and compared before their limits and potentials are investigated with regard to development, which will be framed in two ways: as the geographically uneven expansion of capitalism, and as a process of intervention and a question of securing livelihoods. Third, some concluding reflections are provided about the ways network approaches can inform hybrid development research, stay true to or in some cases return to their critical origins and thus make a meaningful contribution to the study of uneven development and the ‘archipelago economy’.

2. Studying (uneven) D/development

Development – whichever ‘definition’ one might prefer – is a moving target. In many ways, it has been conceived of as a modernist project, with the goal of producing a far better world (Peet 1999). As such, it has been seen as an ‘invitation to intervene’, exposing domestic and overseas populations to disciplinary practices designed to achieve ‘improvement’ and ‘progress’ by creating rational, productive economic subjects (McMichael 2004; see also Rankin 2008). This is what Gillian Hart (2001: 650) calls ‘big D’ Development, defined as a post-Second World War project of intervention in the ‘Third World’ that emerged in the context of decolonisation and the cold war. According to Schuurman (2000: 7) however, such a hegemonic view of the Third World as a homogenous entity, the strong belief in progress and the importance of the (nation-)state in realising such progress has increasingly been challenged since the 1980s. The Washington Consensus, the roll-out of neoliberalism, globalisation and the new international division of labour reinforced what Hart (2001: 650) termed ‘little d’ development,

i.e. the development of capitalism as a geographically uneven, profoundly contradictory set of historical processes (see also Harvey 2006). It is in this context that the GCC approach emerged during the early 1990s, based on Gary Gereffi and his colleagues' work (Gereffi/Korzeniewicz 1994; see also Dussel Peters 2008), an approach which subsequently formed the basis for the GVC and GPN conceptualisations used to explain economic globalisation and uneven (regional) development. While these network approaches to the study of the archipelago economy were initially highly critical of the modernist project as a form of 'Rostowian' developmentalism – not surprising given the fact they had roots in world systems theory – they nevertheless remained close to traditional, 'modern' approaches in social science and political economy, including an implicit acceptance of the continued significance of core, semi-periphery and periphery economies and the hegemonic dominance of the core. Although GCC, GVC and GPN approaches are interdisciplinary attempts at conceptualising globalisation and development, they echo what Murphy (2008: 857) asks in the context of economic geography: "is there an implicit yet well-rooted logic or frame of reference that what happens in core economies will eventually happen in the periphery and that the most interesting, relevant, and useful models and theories are to be derived from the experiences of core-based firms, industries, and economies? [...] [The response is] that while economic geography appears to have some developmentalist tendencies, these can be overcome provided economic geographers find new, interesting, and substantive ways to engage with the Global South such that the field may more fully understand and conceptualise the complex practices and processes constituting and reproducing an uneven world economy".

As we shall see later, the question is particularly relevant for the discussions of governance, upgrading and development in literature on chains and networks and leads us to the more generic, epistemological issues in development studies. Unlike geography, and arguably many other social science disciplines, development studies seem to have made a paradigmatic transition from modernist theorising to postmodernism more fully and less controversially (Schoorman 2000). As Müller (2006: 309) observes, "[i]n the discipline of development studies post-development selectively embraced the postmodern epistemology and forged it into something immediately relevant for the field of development". Post-development chal-

lenges the essentialisation of the Third World, marks the end of the belief in conventional notions of progress and calls into question the role of the state in development processes, instead refocusing on non-governmental organisations, civil society, and livelihood strategies/resistance. Rather than portraying global capitalism as a monolithic and cohesive force, post-development attempts to illuminate multiple, non-western and post-socialist modernities (Hart 2002: 813-814; see also Friedman 2006).

Critics of such a postmodern approach to development have highlighted the fact that it is in danger of replacing social criticism with theoretical critique, relevance with irrelevance, and reality with representation, thus lacking a clear politics (Hamnett 2001); it hence can (and does) endorse the status quo. Development is not a singular discourse but is often made so in claims for post-development, which is somewhat ironic given the fact that post-development claims to be attentive to difference and heterogeneity. Indeed, the global expansion of the capitalist system ('little d' development in Hart's terminology) is by no means always unintentional, not just a systemic force emanating from a singular discourse, without variations and without identifiable drivers and actors. It may thus contain elements of 'big D' Development which carry ideas of progress and improvement and can be valuable (e.g. democratisation, human rights, reflexivity). Bebbington (2003: 299) therefore makes the case for a distinction between "(1) Development as the expansion and extension of (generally capitalist) systems of production, exchange and regulation. (2) Development as organised interventions with explicit and implicit goals". This interpretation is closer to an institutionalist view on development, as illustrated in Karl Polanyi's (1944) work in which he lays out the principles of what he calls the 'double movement', arguing that capitalist expansion (via marketisation and deregulation) is always countered by protective movements and societal/social resistance. The double movement is played out through economic, organisational and social networks across various scales, from the local to the global, and has enormous implications for the geographies of development. According to Hart (2001: 818), relational concepts of space and both its material and metaphorical production are crucial for what she calls non-reductionist understandings of development, which draw from political economy as well as from more postmodern conceptualisations of culture, difference and meaning. Indeed, in this context of inclusive discourses and hybrid develop-

ment research, there has been a growing consensus that network approaches to the study of uneven development might be called for (e.g. Bebbington 2003; Coe et al. 2008; Lawson 2007). Let us therefore turn in more detail to three examples of such network concepts, namely the GCC/GVC/GPN approaches, to investigate their potentials and limits as analytical or heuristic tools for investigating the archipelago economy.

3. Networks, chains and uneven development: How do GVC/GCC/GPN compare?

There is now a burgeoning amount of conceptual and empirical work that has its roots in global commodity chain, value chain and production networks analysis (cf. Bair 2008b). While these frameworks derive from different disciplinary backgrounds, do not necessarily have the same intellectual influences or objects of enquiry and differ in their orienting concepts (see Table 1), they clearly have substantial links and considerable common ground. They attempt to “understand the social and developmental dynamics of contemporary capitalism at the global-local nexus.” (Bair 2005: 154). At their very core, they are all concerned with issues of upgrading and development, governance and the distribution of power within chains and networks.

However, despite this common ground and the more recent convergence of the GCC with some of the GVC literature (cf. Gereffi et al. 2005; Gereffi 2006; Sturgeon et al. 2008; see also www.globalvaluechains.org), there remain a number of differences, not only regarding the issues summarised in Table 1, but also in the ways GCC, GVC and GPN concepts define, interpret and mobilise central categories of analysis, in particular power/governance, institutions/embeddedness/culture and value/development. This in turn has an impact regarding the contributions to, and potential for, explaining geographically uneven economic and social development.

Table 1: GCC/GVC/GPN: a brief synopsis

	Global Commodity Chains (GCC)	Global Value Chains (GVC)	Global Production Networks (GPN)
Disciplinary background	Economic sociology	Development economics	Relational economic geography
Object of enquiry	Inter-firm networks in global industries	Sectoral logics of global industries	Global network configurations and regional development
Orienting concepts	<ul style="list-style-type: none"> - Industry structure - Governance (PDCC-BDCC) - Organisational learning/ Industrial upgrading 	<ul style="list-style-type: none"> - Value-added chains - Governance models - Transaction costs - Industrial upgrading and rents 	<ul style="list-style-type: none"> - Value - Power - Embeddedness
Intellectual influences	<ul style="list-style-type: none"> - Multi-national corporations literature - Comparative development literature 	<ul style="list-style-type: none"> - International business/ Industrial organisation - Trade economics - Global/ international production networks/systems 	<ul style="list-style-type: none"> - Heterodox economics - Organisation studies - Actor-Network-Theory

Source: Modified after Bair (2005)

3.1 Development, capitalist accumulation and chains/networks

As noted earlier, the expansion and geographical extension of capitalist systems of production, circulation, and consumption is by no means merely a structural or unintentional process. GCC analysis provides an important and powerful insight into the nature of power relations that drive uneven development by making distinctions between producer-driven commodity chains (PDCC) and buyer-driven commodity chains (BDCC), where power resides with companies in the core and subordinates the lower tier chain participants in the periphery (cf. Gereffi/Korzeniewicz 1994). The resulting highly uneven distribution of value-added within the chain reinforced a core-periphery divide while at the same time driving forward the process of capital accumulation on a global scale. Milberg (2008) shows very convincingly how lead firms and sectors in the Global North have been able to maintain their economic advantage through financialisation, outsourcing and establishing global production networks (see also French et al. forthcoming). While these insights are without doubt useful to explain uneven economic development on a global scale, the approach is rather limited when it comes to investigating the archipelago economy on a sub-national scale (Dussel Peters 2008).

In GVC analysis, the initial, quite narrow framing of chain governance as either producer-driven or buyer-driven subsequently developed into a more differentiated typology of five governance forms – markets, modular, relational and captive chains, and hierarchies – in order to reflect the complexities of value chains and networks and to produce a more nuanced understanding of power relations and how they affect the possibilities of upgrading for firms within the value chain. What is more, unlike most GCC work, which operates in the realm of international relations and international trade, GVC literature puts an emphasis on networks and local/regional clusters of economic activity (cf. Humphrey/Schmitz 2002; Schmitz 2004; Gibbon/Ponte 2005). This allows for a much more geographically sensitive approach to explaining economic development. In a similar vein, the GPN approach – originating from a relational geography framework – is sensitive to geographical variation. As far as power and governance are concerned, GPN analysis aims at going further than GCC and GVC concepts in that it sees development through value generation, enhancement and capture as being driven not only by lead firms shaping the

governance structures within the chain, but crucially includes states, non-state organisations and civil society as important drivers of the process of accumulation and the resulting uneven development (cf. Coe et al. 2004; see also Bridge 2008 for an example of resource-based development).

The analysis of chain and network governance as a major factor in the process of global capital accumulation and development – while without doubt important and useful – has been less illuminating however when it comes to investigating the practices and techniques through which these networks are (discursively) constructed. Gibbon and Ponte (2008) therefore suggest not only considering governance structures but also applying a ‘governmentality’ approach. Unlike some established governance concepts, which are firmly grounded in realist and relational understandings of power, governmentality has at its core Foucauldian notions of the power-knowledge nexus (for a more detailed discussion, see Hess 2008). Using the example of supply chain management, they show how specific practices and knowledges are generated in various institutions and disseminated through epistemic communities, consultancies, business schools etc. Such a governmentality approach is a major step towards a better understanding of ‘little d’ development and hybrid development research. And yet, like most of the GCC/GVC/GPN literature, it remains close to conventional analyses of competitiveness and economic development. Little is said about how this impacts on social development as it does not address issues of (re-)distribution or alternative forms of socio-economic development.

3.2 Intervention, livelihoods and chains/networks

“From the perspective of socially embedding the commodity chain, the question is what are the social implications of upgrading? How does upgrading translate into the lives of peripheral workers? [...] What are its implications for the gender-based division of labour? [...] The emphasis on the ‘economic’ has often led the upgrading theorists to discount these crucial questions relating to the implications of upgrading for labor and the labor process” (Rammohan/Sundaresan 2003: 906). From this quote, it seems that GCC/GVC/GPN approaches do not have much to say about the wider social consequences of being inserted into global value chains and networks, beyond firm upgrading (see also Bair 2005; Palpacuer 2008). This is in one sense an empirical question, and I believe it is fair to say that

in recent years the number of network and value chain inspired studies addressing this concern has grown (cf. Barrientos/Kritzinger 2004; Harilal et al. 2006; Vorley et al. 2007), although it is still comparatively small (cf. Palpacuer/Parisotto 2003). Here, however, I want to focus on the conceptual cornerstones of GCC/GVC/GPN research with regard to intervention, wealth distribution and the role of government, NGOs and civil society for development.

Recent academic discussion has already established that global commodity chain and value chain analysis and their conceptual armouries show rather serious deficiencies with regard to ascribing agency to non-firm actors and thus the scale and scope of intervention of these actors (cf. Bair 2008a; Hess/Yeung 2006). This is due to the fact that the GCC framework tends to treat them as an external, regulatory environment for the firms to operate in rather than as intrinsic elements of network-making and power struggles. In a similar vein, much of the GVC research is arguably preoccupied with inter-firm relations at the expense of conceptualising non-firm agency. The GPN framework on the other hand includes a crucial conceptual building block allowing it to more fully consider both the system-world and the life-world (to use Habermas' terminology) as well as the scalar relationships between them – namely, the concept of embeddedness which is virtually absent in GCC and GVC (Hess 2004). It helps to reinsert the social context (Palpacuer 2008) and supports a non-reductionist, less universalistic view of development through its appreciation of societal and cultural difference. Two recent examples that illustrate this point are the studies by Hughes et al. (2008) and Cumbers et al. (2008) in a special issue of the *Journal of Economic Geography*. Using the GPN lens and its categories of value, power, *and* embeddedness, the former article critically investigates the concept with regard to ethical campaigning and responsible governance in global retail and trade networks while the latter looks at the implications for labour agency and union positionalities in GPN. What these studies show, among other things, is that the GPN concept does indeed offer a promising route and incorporates the elements of power, culture and political economy beyond neoliberalism/'little d' development which Hart (2002) advocates. But this is by no means to say that the GPN heuristic presents a single unified or ultimate framework for development studies, and Cumbers et al. (2008) point out some of its shortcomings. But where its limits are

perhaps most obvious is in the realm of research into livelihoods (cf. Challes 2008).

The main reason why GCC/GVC/GPN analysis so far has not had as much to say about livelihoods is because first, it has virtually ignored empirical research on vulnerability and household strategies in the locales and regions where global production networks ‘touch down’, and second, it has overemphasised the benefits of regions being inserted into GPN with little consideration of the ruptures and frictions this may bring about (cf. Bridge 2008; Tsing 2005). In the language of Coe et al. (2004), the network literature to date has prioritised the ‘strategic coupling’ of regions and GPN but has neglected the possibilities and potential advantages of (strategic) de-coupling, or disarticulation. Acknowledging this crucial gap in GPN research, especially as regards livelihoods, may also serve as a reminder to continue thinking about value beyond conventional economic categories and about development not only as (intentional and political) processes of capitalist expansion and intervention, but also as a set of discourses and hence a constantly moving target.

It is worth quoting Bebbington (2003: 306) at length here, as his argument sums up much of the above reflections in a very convincing way, hinting at “the importance of studying development interventions and the development of capitalism simultaneously and in relation to each other. For interventions do leave imprints – in particular places – that would not otherwise have been generated by the political economy of capitalism. These traces are found in livelihoods, landscapes, local governance processes, ideas about modernity and education, views of the future and so on. But the ways in which interventions are produced are themselves neither straightforward nor geographically even, and so to understand geographies of intervention and their effects we need to delve into the lifeways and networks of those actors working in the world of intervention. Yet these lifeways purely are not autonomous. They too [...] bear the imprint of political economy and of other institutions which together, structure, and guide these lifeways”.

4. Conclusions and outlook

Even a cursory glance at some of the news headlines – like the vignette used to introduce this paper – or a quick look at various development indicators provided by the multiplicity of development agencies, governments and NGOs is sufficient to make us realise that the world economy is still very much an archipelago economy. There has been economic progress in some parts of the world, and the rise of Asia's tiger economies or the increasing influence of China and India are just a few examples. There also has been poverty reduction in some parts of the world, and livelihoods have been secured in places. And yet, development is a highly geographically uneven, historical process. But it is also an intentional process, giving rise to what Karl Polanyi called the double movement of marketisation and the societal forces countering it. Examples of this can be found in all sorts of contexts. The commodification of labour and the rise of global temporary staffing industries countered by labour organising on various scales. The expansion of global retailers in emerging and developing markets and the responses by the host societies. The marketisation of intellectual property rights in the pharmaceutical industry and the struggle of the poor to get access to life-saving drugs. The list could go on.

While development studies have addressed questions like these for a long time, there is still a lot of work to be done. This paper aimed at a discussion of the possibilities and limits of specific network and chain approaches, namely the GCC/GVC/GPN concepts, in order to provide an analytical and heuristic framework for the study of geographically uneven development. It argued that a more inclusive discourse between different epistemic communities seems to be the most promising way forward, one that leads to hybrid development research and in which the chain and network concepts discussed here can play a major role. Network research clearly can't solve all the puzzles of development, but relational approaches have the potential to “interrogate the ways in which D/development processes are interconnected across the globe” (Lawson 2007: 205). To achieve this potential, we must make sure that a bias towards the Global North is avoided (Murphy 2008).

Müller (2006: 315) sketches eight elements of hybrid development research as follows:

- development as fluid and continually negotiated

- agency constraints
- rejection of the hegemonic discourse
- addressing pressing social problems
- respect of local diversity and agendas
- contextuality of knowledge
- role of power relations
- interplay of the global and the local.

As it is, global value chain and networks analysis has placed little if any emphasis on some of these elements. In particular, the various and often divergent interests of local actors with different agendas need more detailed examination in order to obtain a better understanding of the scope of agency emanating from regions and shaping the ways in which they are inserted into global production networks. This would also help us to critically investigate the notion of ‘development’ in a way that includes aspects beyond the prevailing discourses of innovation, learning, upgrading and economic growth. Addressing these elements in GCC/GVC/GPN research is an ambitious task and to date the various network approaches discussed above have put an emphasis on some of these more than others. They may have ignored one or the other, as not all researchers in this field will share the same epistemological background. But what I hope this paper has shown is the potential of relational and network approaches for the study of uneven development, albeit in various forms and with varying explanatory power. Overcoming their limits and maintaining/regaining a critical stance regarding uneven development in the archipelago economy is a formidable challenge, but worthwhile the effort on the way towards a (critical) cultural political economy (Coe et al. 2008; Hudson 2008; Sayer 2001) of development.

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Abstracts

Development – whichever definition one might choose – is a moving target. This paper aims to investigate the contributions various chain and network approaches – namely the global commodity chain (GCC), global value chain (GVC) and global production networks (GPN) frameworks – can offer to investigate geographically uneven development. To this end, the paper draws on epistemological discussions in development studies and cognate social sciences and looks at development both as a historical process of the expansion of (capitalist) systems of production, circulation and consumption, and as processes of social intervention and the struggle for securing livelihoods. It concludes by supporting a hybrid development research agenda to which network approaches can substantially contribute.

Entwicklung, welche Definition man auch zugrunde legt, ist ein Konzept mit sich verändernden Bedeutungen. Vor diesem Hintergrund diskutiert der Autor, welchen Beitrag Netzwerkansätze in der Entwicklungsforschung leisten können, um räumlich ungleiche Entwicklung zu analysieren. Dabei wird zwischen dem Ansatz der globalen Warenkette, der globalen Wertschöpfungskette und der globalen Produktionsnetzwerke unterschieden. Bezug nehmend auf erkenntnistheoretische Diskussionen in der Entwicklungsforschung und in verwandten sozialwissenschaftlichen Disziplinen wird Entwicklung zugleich aus zwei Perspektiven betrachtet: als historischer Prozess der Ausbreitung kapitalistischer Wirtschaftssysteme und als Prozess sozialer Intervention zur Sicherung des Lebensunterhalts. Der Artikel schließt mit einem Plädoyer für eine „hybride“ Agenda in der

Entwicklungsforschung, zu der Netzwerkansätze wertvolle Beiträge liefern können.

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**Global production networks and industrial upgrading:
negative lessons from Malaysian electronics¹**

1. Introduction

Much debate over industrial and economic development has focused on the use of linkages stimulated by foreign direct investment (FDI) to fast-track industrial upgrading and integrate economies into higher-value positions in global production networks (GPNs). In this context, we have often been told that the basis of FDI-led industrialisation is a process where domestic firms ‘learn from global buyers’ and, over time, gradually acquire the capability to move into higher value segments of GPNs (e.g. Humphrey/Schmitz 2002; Schmitz/Knorriga 2000). This process of ‘moving up the value chain’ has generally been viewed as a shift from manufacturing to product development and associated research, design and marketing activities.

Within the GPN and related literatures (see, for instance, Gereffi/Kaplinsky 2001; Henderson et al. 2002; Czaban/Henderson 2003), the concept of industrial ‘upgrading’ straddles both ends of the structure-agency divide. On the one hand, it refers to the competitive strategies that economic agents pursue, such as increasing firm competencies in producing goods or specialising in competencies that meet niche markets. On the other hand, the concept is rooted in the structural premise that such strategies are responses to the increasing competitive pressures that firms, particularly in developing countries, face as national economies become integrated into global markets and industries. Thus for Humphrey and Schmitz (2002: 1018), “the deepening integration of developing countries into global markets, [results in] firms in these countries [...] [facing] increasing competitive pressure. For producers to maintain or increase incomes in the face of

this pressure, they must either increase the skill content of their activities and/or move into market niches which have entry barriers and are therefore insulated to some extent from these pressures. We refer to such shifts in activities as upgrading”.

Strategies for industrial upgrading, then, arise from competitive pressures affecting firms, and are contingent on their positions within a hierarchical system of value-added activities. From this vantage point, the central question for research on upgrading must be the nature of the *constraints* affecting the ability of firms to both participate in, and move into, more valuable positions within these activity systems. However, work on the constraints posed by GPNs has been rather selective in current programmes of research.

One main strand of research has focussed on differentiating the structures of ‘governance’ of industrial relationships (e.g. Gereffi et al. 2005). The principal claim here is that the ability of firms to participate in, and upgrade within, GPNs is dependent on the organisation of activities by dominant firms and the mechanisms by which those latter firms co-ordinate and control value within the chain. Such mechanisms, in turn, can be differentiated into types of control based on ownership, standards setting, or access to key markets or other strategic ‘resources’.

A second strand of work has focussed on cataloguing the different types of upgrading. All attempts to upgrade seek to change the nature and configuration of industrial activities. Consequently, upgrading strategies imply some reconfiguration of existing industrial processes. As change can threaten the existing configurations maintained by lead firms, upgrading by local firms can be contested affairs. These contestations can arise in different ways, such as when firms attempt to change production processes and products (‘process’ and ‘product’ upgrading), or change the mix of functional activities that occur inside firms (‘functional upgrading’). Whether firms attempt to upgrade by these means, or by leaving a particular network in search of more profitable ones (‘network’ or ‘chain’ upgrading), the claim here is that upgrading dynamics (and thus the success factors) differ depending on the route taken to upgrade the firm’s position and role (Kaplinsky/Morris 2001).

While the theory of upgrading is a work in progress, research has been hindered by an ontological assumption about the nature of GPNs. That is,

GPNs are generally regarded as ‘positive’, or at worst ‘neutral’, forces with regard to industrial upgrading. Such assumptions affect how one interprets the strategic behaviour and intent of industrial agents and focuses research on the upgrading impact of GPNs. This pre-occupation with affirmation, however, can lead researchers to ignore the possibility that lead firms, or even whole production networks (regardless of type) might be subject to historical dynamics that constrain, from the outset, the possibilities for local upgrading.

Via a study of the Malaysian experience, this paper critically examines the role GPNs play in industrial upgrading. Retracing some key features in the development of the Malaysian electronics industry, we argue that the possibilities for industrial upgrading must be treated as contingent upon the prevailing dynamics within the GPNs themselves. This has two important implications for theorising upgrading processes. Firstly, GPNs are not ‘drivers’ of upgrading but rather only provide ‘windows of opportunity’ that must be exploited by national systems of economic governance. Secondly, GPNs are not always ‘positive’ forces for economic development, but can work against local upgrading by ‘locking’ domestic firms into lower-value operational modes.

2. The Malaysian situation

Electronics firms from the US and Japan began to be attracted to Malaysia in the early 1970s (Henderson 1989: 51). By the early 1990s, some of the US semiconductor subsidiaries (Intel in particular) had become the source of Malaysian-owned, ‘spin-off’ companies (Eng Teknologi and UNICO in particular) that subsequently achieved modest industrial upgrading. The upgrading of these and other Malaysian electronics companies, however, seems not to have been sustained. Let us consider some of the relevant data.

To make a significant contribution to economic development, industrial upgrading needs to be grounded in rising technological capacities. A *sine qua non* for the latter is a significant pool of scientists and engineers. Unfortunately, Malaysia has fared relatively poorly on this score. From the data in Table 1, it seems that Malaysia has the lowest proportion of science

and technology students and the second lowest of trained scientists and engineers relative to a number of its East Asian competitors. As a consequence, Malaysia has tended to import many of its senior professional, technical and engineering personnel from abroad (Ernst 2003, 2004). This situation is often interpreted as a 'skills gap' that needs to be filled. However, the more relevant issue may be whether firms (domestic and foreign) in Malaysia actually want to hire such personnel.

Table 1: Technology indicators for selected East and Southeast Asian countries

Country	R&D (% of GDP)	High-tech exports (% of manufactured exports), 2001	Scientists and engineers per million capita	Tertiary science and engineering students (% of population), 1998
Hong Kong	0.45 (2000)	19.5	n/a	0.49
Korea	2.68 (2000)	29.1	2,319 (2000)	1.65
Taiwan	2.3 (2000)	35.0 (1998)	2,980 (1998)	1.06
Japan	2.98 (2000)	26.0	5,095 (2000)	0.64
Singapore	1.88 (2000)	59.7	4,140 (2000)	0.47
Thailand	0.1 (1997)	31.1	142 (1997)	0.19
Indonesia	0.1 (1994)	13.4	206 (1998)	0.23
Malaysia	0.5 (2000)	56.9	159 (1998)	0.13
Philippines	0.2 (1999)	70.2	179 (1996)	0.55

Source: Ritchie (2005: 753)

While little evidence is available on this question, a recent World Bank (2005) study found that 24% of firms in Malaysia's electronics sector reported skills shortages as a major obstacle. This study, however, suggested that, relative to other sectors, electronics had little to gain (in terms of estimated percentage increases in sales) from a reduction in skills shortages. Such findings imply that the 'skills gap' problem in Malaysian electronics may have been exaggerated. At the very least, those who attribute Malaysia's limited upgrading in electronics to a supposed lack of skills and thus to failures in education policy (e.g. Rasiah 2005) may be underestimating the principal reasons for the problem.

Findings such as these beg the question as to why, after more than 35 years of participating in GPNs, Malaysian electronics firms have not moved far enough up the value chain for there to be a greater demand for engineers, technicians and other highly skilled workers from firms operating in the country. To gauge the situation better, it is instructive to take a broader look at the labour demands of electronic firms in Malaysia.

Any attempt to understand the human capabilities needed to maintain Malaysia's current export position in electronics requires an examination of the situation in Penang. This is because Penang is universally regarded in the literature – as well as by the Malaysian Government's industrial development agency, MIDA – as the most significant and most 'advanced' electronics complex in the country. Taking Penang as a 'best case' proxy for the Malaysian situation as a whole, then, is highly appropriate.

As of December 2003, about 17% of all production workers in the electronics sector in Penang were classified as unskilled, while 80% of production workers in the sector were classified as skilled or semi-skilled (PDC 2004). However, some experts on the industry in Penang estimate that about half of all employees in electronics there may still be performing low-value assembly activities (interview with PDC analysts, June 2004). These findings are consistent with two longstanding historical features of manufacturing (long dominated by electronics) in Penang. Firstly, 74.3% of all manufacturing employees there were engaged in production work in 1990 (nearly 20 years after electronics FDI created a significant manufacturing cluster in the region). By 1998, there had only been a modest improvement, with 67.1% of employees involved in production work (Ong 2000). Secondly, these findings are reflected in the modest changes in the skills of employees

of US electronics multinationals (traditionally the major foreign investor in Penang's electronics cluster), not simply in Penang but in Malaysia as a whole. Whereas in 1977, 74% (about 19,000 workers) of employees in US electronics subsidiaries were unskilled production workers, by 1994, this category had declined by only 2%, to 72% (about 33,100 workers) of total employment (Slaughter 2002). Extrapolating the Penang employment data to the country as a whole, it seems that the majority of Malaysian electronics production is tied to a low-cost, labour-intensive form of integration into GPNs.

This pattern can be seen in national employment data. With the extent of the demand for highly skilled personnel in doubt, demand at the other end of the spectrum seems unmistakable. Henderson and Phillips (2007), for instance, show that a continued reliance on lower skilled labour activities in electronics has been complemented by an increasing reliance on foreign migrants. In absolute terms, migrant workers in the electrical and electronics sector mushroomed from 1,024 in 1990 to 46,470 in 1996, reaching 10.7% of all employment in the sector (Department of Statistics, Malaysia Manufacturing Census, cited in Henderson/Philips 2007: 92). Unpublished data from the Malaysian Government's Ministry of International Trade and Industry suggest this trend has continued, almost unabated, through to the present day.

Other studies have corroborated this concern over the nature of Malaysia's role in GPNs. Ernst (2003, 2004) presents a similar assessment of the industry, arguing that Malaysia never developed a deep, multi-tiered industrial supply structure in electronics. Rather, with the exception of a small number of companies, the contribution of indigenous firms to export performance continues to be dominated by small and medium-sized enterprises (SMEs) disproportionately engaged in low-value 'lower tier' assembly activities. The relative lack of local suppliers in higher-tier supply positions consequently implies a shallow level of industrial specialisation and thus a 'thin' range of domestic supply capabilities. Consistent with this reading of the situation, an authoritative report on the technological state of Malaysia's electronics SMEs makes for depressing reading. Commissioned by the Penang Development Corporation in 2001, the report notes that there is: "A sense of crisis regarding a possible decline of local industrial activities [...]"

[and] that the development of the capability of local companies to supply parts to MNCs is an urgent necessity” (JICA 2001: 1-1).

So pessimistic is this report that it is worth quoting two of its other observations. “[T]here is a general shortage of such SI (supporting industries) as parts and processing service industries (precision machining, precision stamping, precision plastic processing, heat treatment, electrical and electronic parts and plating), materials industries (resin, metal and chemicals) and other industries (industrial waste treatment, jigs, press dies, plastic dies and automation machinery) to support the operation of MNCs” (JICA 2001: 2). “[T]he ratio of SMIs (small and medium industries) which have reached the level (excellent) required by MNCs is quite low, ie. 24% in terms of processing, 14% in terms of production control and 15% in terms of management control out of the 103 SMIs diagnosed [...]” (JICA 2001: S-3).

Taken together, such findings suggest that the supposed ‘skills gap’ in Malaysia is actually a reflection of the true nature of demand for human capabilities by electronics companies; demand that, in turn, is a function of various efforts (conscious or otherwise) to maintain Malaysia’s longstanding position as a low-cost, labour-intensive base for GPN activities. This, in turn, begs another question. Why is this situation being reinforced at the expense of efforts to promote industrial upgrading?

While the nature of government policy has certainly been part of the story (see Rasiah 2005; Henderson/Phillips 2007), equally important for understanding Malaysia’s predicament are the strategic interests and models of GPN integration that are being imported into the country by foreign firms. Below, we assess changes in the strategic intent underlying FDI in Malaysian electronics. Our argument is that Malaysia’s predicament is a function of the nature of investment from (a) East Asian companies and particularly from Taiwanese ‘original equipment manufacturers’ (OEMs), and (b) a new ‘breed’ of electronics company: the ‘contract electronics manufacturers’ (CEMs).

3. Multinationals and industrial upgrading: understanding strategic intent

Some of the benefits of FDI in electronics are likely to depend upon the type of multinational that invests in the given country. This is not simply a question of the national origin of FDI. Rather, it is a question of the broader competitive dynamics and pressures within which multinationals are situated and to which they respond when choosing to invest in a particular country or region (Czaban/Henderson 1998). Two developments in the composition of FDI in Malaysian electronics are critical to understanding the intent behind the GPN dynamics that have worked to 'stall' industrial upgrading in the sector.

3.1 GPN consolidation and East Asian supply bases

Firstly, we must recognise that much of the growth in FDI in Malaysia, particularly over the last two decades, has come from East Asian firms (principally from Japan and Taiwan). Beginning in the 1980s, East Asian investment began to outstrip US investment. For instance, between 1970 and 1985, one study found that 27 Japanese electronics factories had been established in Malaysia. After the dramatic appreciation of the Yen (following the 'Plaza Accord' of 1985), 96 more electronics factories were established there between 1986 and 1991 (Edgington/Hayter 2000). During this same period, Japanese investment in Malaysia increased from \$1.2 billion to \$2.3 billion (World Bank 1995). Taiwanese investment increased from \$167 million in 1986-1989 to \$783 million in 1990-1992. Between 1988 and 1995, Japanese firms invested in total about \$8.1 billion in Malaysia with Taiwanese firms close behind with \$8 billion. US investment in Malaysia, during the same period, was more than 70% less than Japanese and Taiwanese investment combined (Ariff/Ng 1998).

The strategic intent of East Asian firms is widely recognised as providing little scope for domestic upgrading as their networks are generally closed to outsider participation (Aoyama 2000; Belderbos et al. 2001; Borrus et al. 2000; Dore 1986; Lim/Pang 1991; Taylor 1995; Yamamura/Hatch 1997). Consequently, much evidence suggests that the transfer of knowledge and technology from East Asian subsidiaries in Southeast Asia has been limited to processes that enable firms to establish market positions based on lower-

level, labour intensive production activities (Yamashita 1991; UNDP 1994; Taylor 1995). Our own interviews (in 2004 and 2007) confirmed the general perception that Taiwanese production networks in particular, and to a lesser extent those of Japanese companies, tend to be closed to outsourcing relationships with local electronics firms, except in low value-added activities.

The limited linkage possibilities offered by East Asian GPNs, however, does not mean these networks are 'neutral' with regard to domestic upgrading. On the contrary, in many branches of the sector, East Asian 'first tier' suppliers have become the preferred intermediaries in the consolidation of GPN supply bases for leading US and Japanese firms (Sturgeon/Lester 2004). With global 'flagship' firms increasingly consolidating their supplies in this way, the routes for local Malaysian firms to move out of low-level assembly are, in effect, being increasingly constrained.

This should not be taken to mean that 'US' firms promote upgrading while 'East Asian' firms do not. It is widely recognised, however, that, in general, US multinationals have offered the most outsourcing opportunities for local firms in Malaysia, as they also have in other countries (see Hobday 2001). The general reason for this has been the longstanding strategic interest of US manufacturing firms in outsourcing manufacturing capabilities to foreign supply bases. This interest has culminated in an 'industrial model' in the US that is based on a desire to make products and production processes more 'modular'. The high degree of formal codification of technical interactions in the production system that results from modularisation, enables components and subassemblies to be externalised (Sturgeon 2003; Gereffi et al. 2005). In the Malaysian context, this disposition has provided much of the drive for the local upgrading that has occurred. For instance, recent surveys by the Malaysian-American Chamber of Commerce show that the local outsourcing of goods and services by (US) member companies more than doubled from RM6.7 billion in 2000 to RM13.8 billion in 2003 (www.amcham.com.my). The most successful examples of local firms reaching higher-tier supply positions have been those linked to US multinationals in Penang. Indeed, one of Malaysia's premier industrial linkage programmes, Penang's Global Supplier Programme, was largely driven by US multinationals, and its success, reportedly, was based on the genuine commitment by their managers (some of whom were Malaysian nationals) to local upgrading.²

3.2 Changes in US FDI

FDI is a product of the strategic intentions of firms and therefore the developmental impacts of foreign investment cannot be divorced from the interests that firms (extrapolated through their GPNs) bring with them when they invest in a particular country. In recent years the strategic intentions of some electronics companies have been changing as the emergence of a new breed of global supplier – the ‘contract electronic manufacturer’ (CEM) – has led to an increasing consolidation of supply positions within the electronics production network.³ While seeking to evaluate the impact of these changes on Malaysia, we must recognise that the emergence of CEM firms does not imply anything about the ‘type’ of firm involved. Rather, the issue is the way firm-based processes are changing GPN configurations and thus the roles played by local firms, workers and institutions.

FDI has tended to be viewed positively as a vehicle for local industrial development. Signs that this may not necessarily have been the case have often been ignored. Some electronics firms, for instance, have been less interested in developing local capabilities and more interested in exploiting the pre-established functions performed by local firms and their workers. This seems to have been the case in Malaysia where the strategic intent of a significant group of companies – the CEMs – has not been associated with outsourcing capabilities to local suppliers (and working with the local suppliers to improve them). Rather, the intentions of the CEMs have been associated with the internalisation of capabilities that can be standardised to fit with the global production services strategies that are now important elements within GPN dynamics. To understand these changes and their import requires some contextualisation.

CEM firms are a type of sub-contractor to which lead firms can outsource subassembly and product design functions. Unlike traditional subcontractors who perform original equipment manufacturing (OEM) or original design manufacturing (ODM) on behalf of lead (brand name) companies, the new breed of CEM firms have actively sought to broaden the range of production services that could be offered. One of their basic aims was to provide a ‘one-stop shop’ for manufacturing services by offering a greater range of integrated manufacturing capabilities that could be standardised and opened up to a variety of brand name electronics producers. These services include not only the more traditional core of OEM/ODM

manufacturing such as product design, component subassembly, final assembly and product configuration, but also include a range of supply-chain management functions such as component purchasing, logistics management and after-sales services such as product repair. Additionally, alongside their attempts to vertically re-integrate various production stages, CEMs have been concerned to offer such services globally by co-locating their operations alongside those of their major customers.

CEMs are not simply a new type of firm. Rather, they are an emergent form of production organisation that represents a contemporary solution to an old problem. Since its inception in the US in the late 1940s, one of the critical problems faced by the electronics industry has been the massive fixed costs of production facilities coupled with the high costs of 'in-house' product development. Both activities entail increasingly large 'sunk costs', generating a basic business problem that firms have had to devise ways of overcoming in order to generate returns. Global production networks and the underlying desire to facilitate the outsourcing of manufacturing capabilities has always represented one of the basic strategies for dealing with this problem. Pioneered by US firms as far back as the 1950s, an active interest in developing foreign capabilities and diversifying offshore supply bases was a critical way of externalising the risks of investing in electronics manufacturing. Initially, these networks were based on ownership relations between parent and subsidiary companies (explored, for instance, in Henderson 1989) with international production systems dominated initially by US electronics firms and followed later by their Japanese competitors. By the 1970s and 1980s both US and Japanese companies had begun to make significant use of independent firms to perform lower-level assembly functions. This came to be known as the OEM system of production, a contractual system that helped to uncouple a dependence upon manufacturing capabilities from the balance sheets of those (brand name) companies developing new products.

The OEM system is a form of sub-contracting where buyers – the leading brand name firms that design and market the products – contract out manufacturing functions to firms that produce products under arrangements specified by the buyer (a given set of products, quality standards, packaging and labelling requirements, etc.). The outcome is an end product that looks to consumers as though it was produced by the brand name firm.

By the late 1960s, many of the electronic exports from East Asia were OEM produced. Former OEM firms from Japan and later Korea began to overtake formerly dominant US and European firms in a number of product markets. A critical element in the success of Japanese consumer electronics firms was the dramatic cost reductions facilitated by their extensive use of OEMs that had emerged elsewhere in East Asia (Ernst 1998).

With consumer electronics increasingly dominated by East Asian firms, the mainstay of US electronics became the computer industry; this was particularly so with regard to the production of semiconductors and 'peripherals' such as hard disk drives. US semiconductor firms had historically pursued international production via equity-controlled subsidiaries, in part to limit the leakage of proprietary technologies (Henderson 1989). However, over the 1980s and 1990s prevailing supply arrangements began to be disrupted by several exogenous developments.

Firstly, the US dollar had appreciated and raised the cost of components imported from offshore subsidiaries. Furthermore, a wave of 'bust-up' mergers and acquisitions had engulfed US manufacturing. Across the board, leading *Fortune 500* firms were targeted by Wall Street 'raiders' who profited from dismantling large manufacturing firms unable to match their Asian competitors (cf. Best 1990; O'Sullivan 2000). In this context, vulnerable US semiconductor firms began to follow international production strategies formerly developed by the highly cost-conscious consumer electronics firms, gradually moving to continuously upgrade their existing subsidiaries, as well as expanding their outsourcing activities with East Asian suppliers. GPN dynamics, such as these, provided an important international context for the emergence of Malaysia's domestically-owned electronics companies in the 1990s.

Secondly, changes in the organisation of mass production operations were afoot. The new breed of US-based CEM firms began to emerge in the late 1970s. Most of them were initially small manufacturers, often detached from the supply relationships that US lead firms had with East Asian OEMs. Many of them emerged from the opportunities offered by the component design, but 'fabless'⁴ high-tech start-ups in Silicon Valley, for which they provided wafer fabrication and other manufacturing services (Sturgeon 2003). During the 1990s, however, US CEMs expanded far more

rapidly than East Asian OEMs and began to occupy higher value-added positions in GPNs, with a broader global reach.

The growth of CEM firms coincided with moves by some Asian producers to abandon their OEM operations in favour of higher value-added design functions ('original design manufacturing' ODM) and, occasionally, own-brand manufacture ('original brand manufacturing' OBM). As the Asian OEM producers began to compete directly with US and European (brand name) electronics companies, the latter began to switch their supply strategies from OEM-associated GPNs to the emerging CEM producers. The basic reason for this shift stemmed from the fact that CEM outputs did not compete with their own branded products (cf. Hobday 2001; Sturgeon/Lester 2004). Rather, CEM firms concentrated on re-organising global supply chains to service the manufacturing needs of the leading electronics firms. Thus, the CEM growth strategy was based not on competition for branded products, but on the consolidation of global production services.

While CEMs emerged in the 1980s, it was not until the early 1990s that the boom in the US stock market gave them the 'combination currency' with which to finance the acquisition of manufacturing operations. For US CEMs, growth was based on a strategy of acquiring the unprofitable production facilities of firms specialising in particular segments of the computer industry. Through 'turn-key' contracts, they then supplied components back to the factory's original owners. For instance, in 1996, Apple sold off its largest production facility (in Colorado) to an emerging CEM firm, SCI. SCI then refocused that facility to service not only Apple's production demands, but those of a range of other customers as well (Sturgeon 2002). This decoupling of ownership of design and innovation activities from production, a hallmark of Apple since its inception, proved to be a symbolic moment in the rise of CEM operations.

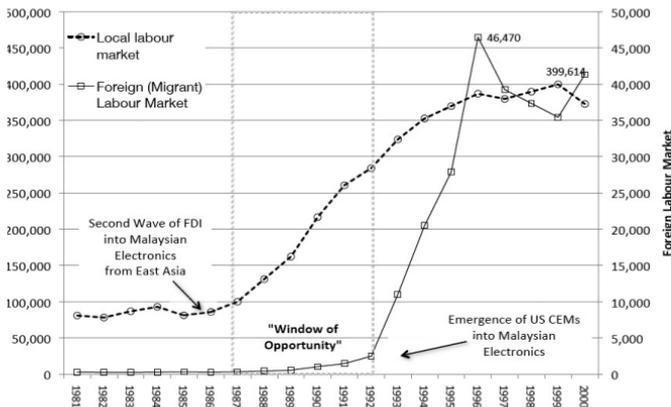
These developments were not limited to sites in the US. East Asian investment by US CEMs provided a major source of their growth in the 1990s. In Asia, CEMs were actively engaged in the consolidation business, providing manufacturers around the world with the possibility of selling off their struggling manufacturing operations. The Malaysian experience provides a vehicle for understanding how such changes in supply dynamics

and the intentions of foreign investors impact on local processes of industrial development. This is a discussion to which we now turn.

4. GPN evolution and Malaysian industrialisation

As major electronics firms from the US, Japan and, increasingly, Taiwan, began a new round of investment in Malaysia following the Plaza Accord of 1985 and the liberalisation of the Malaysian economy from the late 1980s, a brief window of opportunity emerged for local suppliers. Figure 1, based on the employment of local and migrant workers in the electronics sector (see subsequent discussion for an explanation) locates this window between roughly the mid 1980s and early 1990s. Unfortunately for Malaysia, it was a window that CEM firms began to close as they internationalised, looking to co-locate their supply services alongside prospective customers that had already established operations in Malaysia and other East Asian centres of electronics production (see Felker 2003 for a broader discussion of co-location dynamics).

Figure 1: Employment in electric/electronics sector in Malaysia, 1981–2000



Source: *Malaysia Manufacturing Census, Department of Statistics, Malaysian Government.*

The ability of CEM firms to internationalise needs to be understood in context. As part of the 'new economy', the movement of CEM firms into Malaysia coincided with the growing bubble in the US stock market. This provided US CEM firms with critical financial resources with which to grow by acquisition (cf. Carpenter et al. 2003; O'Sullivan 2000; Sturgeon 2002). Riding the stock market boom of the 1990s allowed CEMs to expand in East Asia through the acquisition of existing production facilities. Between 1995 and 2002, the five largest CEMs⁵, most with headquarters in North America, saw a compound annual growth in revenues of 47%. Roughly 67% of this revenue growth stemmed from acquisitions made over the previous three years (Sturgeon/Lester 2004).

Growth via acquisition, combined with the reorganisation of the supply chain that inevitably followed CEM acquisitions, changed the governance structure of electronics GPNs and thus the ways in which local firms in Malaysia could participate in them. Malaysia's few higher-tier suppliers were now competing with cash-rich CEMs for the outsourcing business of major brand-name customers. In these circumstances, some of the Malaysian companies themselves became acquisition targets of the expanding CEMs. UNICO, a spin-off from Intel Malaysia in the early 1990s, was a case in point. In 2003 it had been rendered bankrupt, as a result of Intel's decision to switch to a Chinese company for its motherboard supplies, and was acquired in 2004 – at a knock-down price – by the US CEM, Three Five Systems (TFS). Though in business for over ten years, UNICO's reliance on Intel had failed to assist the upgrading of its operations. Once cheaper sources for the labour-intensive production of motherboards were available, UNICO was in trouble. Acquisition by TFS, however, is unlikely to lead to upgrading either. That is not a result that can normally be expected from involvement in the GPNs of CEM firms. The reasons are as follows.

While variations are evident, depending on the firm in question, a number of traits are common to the CEM business model. CEMs compete for supply contracts largely on the basis of lower costs. Relative to established OEM suppliers in countries like Taiwan, CEMs are thought to be able to undercut their rivals by at least 15% on costs. In 2000, the operating margins for the top twelve CEMs were only 2.6% of revenues (www.custeiconsulting.com). The ability of the CEMs to operate under these conditions stems from their growth model: the acquisition and standardisation

of manufacturing capacities globally. By providing major customers with a channel to sell off struggling in-house manufacturing facilities, the global expansion of CEMs has been driven by their ability to manage the financial risks of modern manufacturing by pooling production capacities from a range of specialist manufacturers (such as Apple) and creating a more standardised, generic and 'merchant' form of manufacturing capacity. Such a broad base provides CEMs with greater economies of scale and scope in the sourcing of components. Their purchasing power underwrites both their ability to offer lower costs and encourages their greater use as consolidated global supply-chain managers, leaving lead firms free to concentrate on product innovation.

Underlying this model is a particular use of labour, which is instructive for understanding the limited demand for higher value capabilities and the continuing demand for low skilled labour, especially in the form of migrant and other sources of temporary labour. Some CEM firms have been found to employ 50% or more of their workers on temporary contracts (Sturgeon 2003). Demand for such workers reflects the fact that CEMs employ a high degree of standardisation to service common manufacturing procedures such as assembly, warehousing and logistics; their reliance on unskilled labour reflects their 'McDonald's' approach to manufacturing (Lüthje 2002).

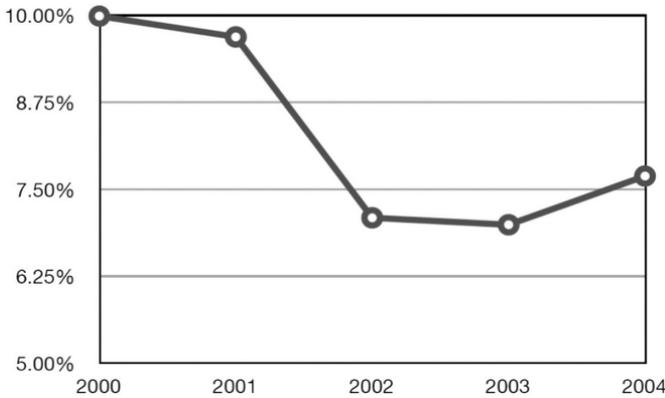
Although no firm-level evidence for the increasing reliance on migrant workers exists for the Malaysian case, it can be inferred from two features underlying the available evidence: (a) the coincidence of CEM investment in Malaysia and the growth in foreign migrant workers on temporary contracts ⁶, and (b) the near perfect mirroring of market shifts in the US with the use of migrant labour between 2001 and 2004.

Firstly, US CEM firms began moving into Malaysia in the early 1990s. Prior to this point, the use of migrant labour in electronics had been negligible. However, in the early 1990s, CEMs, alongside other manufacturers, were reportedly vociferous in lobbying the Malaysian government to liberalise its markets for imported labour (interviews with MIDA, Kuala Lumpur, June 2004). This partly helps to account for the dramatic step change in the demand for migrant labour between 1992 and 1997 after more than a decade of virtually no employment of migrants in the electronics industry (see Figure 1).

Secondly, the role of CEMs can be inferred from the coincidence between changes in market demand for electronic products (e.g. computers, peripherals and many electronics components) in the US and the demand for migrant labour in Malaysia. While signs of a slowdown in US electronics markets had emerged over the late 1990s (as did a variable demand for migrant labour in Malaysia following the Asian economic crisis of 1997), the interrelations between these two markets is clearly demonstrated by the drastic decline in US electronics demand that followed the September 11th 2001 attacks. As the principal market for Malaysian electronics, slowdown in US demand inevitably impacted on employment patterns in Malaysia.

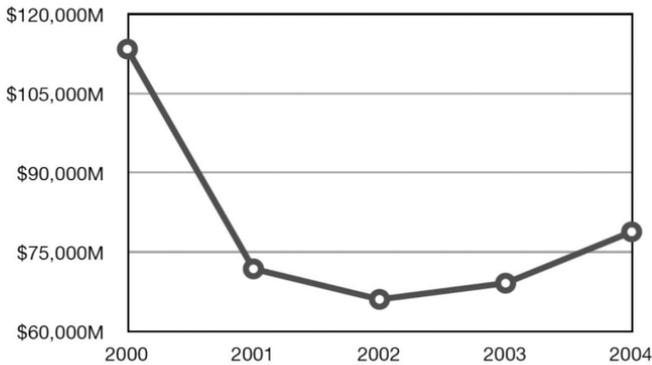
For CEMs, migrant labour in countries such as Malaysia is not simply a replacement for local labour; it is a form of labour market flexibility that buffers firms in times of market volatility. Thus, reductions in the employment of migrant workers are to be expected as CEMs lay-off their 'slack human resources' to protect themselves from declining demand. Similarly, indications of a resumption in market demand tend to lead to increases in the demand for flexible (and thus often migrant) labour. This is precisely what appears to have happened in Malaysia between 2001 and 2004 (Figures 2 and 3).

Figure 2: Percentage of migrant workers in Malaysian electronics, 2000–2004



Source: Phillips/Henderson (2008: 608, Figure 1)

Figure 3: US market for semiconductors and related devices, 2000–2004



Source: Phillips/Henderson (2008: 609, Figure 2)

5. Conclusions

Several studies affirm that technology transfer and upgrading of manufacturing processes had occurred in Malaysia by the end of the 1990s (e.g. Haggard et al. 1998; Jomo et al. 1999; Rasiah 1995). The examples on which they draw, however, do not serve to moderate the serious structural limitations – derived from the nature of GPNs – that Malaysian electronics industries now confront. Electronics industries there continue to be dependent on the import of intermediate components and to a greater extent than was the case with the earlier East Asian industrialisers. In the late 1980s, for instance, 43% of Malaysia’s final product exports were based on intermediate imports, compared with 37% of Korean exports (Takeuchi 1997, referenced in Ernst 2003). Such figures worsened during the 1990s as the domestic supply system continued to be unable to meet the changing component needs of multinational exporters. Recent estimates place the value of intermediate imports at over half that of all electronics exports. Thus in 2003, 73.1% of all electronic imports were of intermediate components used in the production of finished and semi-finished exports⁷. This is equivalent to over

54% of the total value of electronics exports during that same year. While the value of local content was thus the equivalent of 46% of electronics exports, the vast majority of this stemmed from the operations of foreign affiliates in Malaysia, rather than local suppliers.

Our analysis yields two conclusions. Firstly, the Malaysian case demonstrates that theories of upgrading should regard GPNs as providing only ‘windows of opportunity’ to be exploited by domestic agents. In Malaysia, the period in question seems to have been from only about the mid-1980s to the early 1990s. This is when most of Malaysia’s more successful SMEs emerged. However, these success stories were few in number and were based largely on the entrepreneurial aspirations of particular ‘intrapreneurs’⁸ in the context of opportunities that momentarily arose from the outsourcing pressures that US multinationals, at that time, were under. Times change, however, and with them the strategic intent of multinationals.

While it is important not to overstate the significance of the CEM ‘revolution’ for GPN architectures, the problem with regard to Malaysian upgrading was that the ‘waves’ of investment by both US CEMs and East Asian OEMs hit the Malaysian electronics industry at a time when federal government policy had only just begun to reflect the need to move the local supply base away from its traditional position as a low-value assembler of imported components. More was not made of this ‘window of opportunity’, in part because government industrial policy with regard to the electronics industry was more reactive than ‘market-leading’. Pro-active initiatives did not begin until the late 1980s and reforms aimed at promoting linkages between foreign and local firms emerged only around 1993 (Henderson/Phillips 2007). Unfortunately, such initiatives were too little and too late, as by then the GPNs within which Malaysian companies were absorbed were themselves in transition. This leads to our second conclusion. When ‘windows of opportunity’ are missed, GPNs can have a negative impact on industrial upgrading, generating lock-in effects that can trap domestic firms within established – and increasingly counterproductive – modes of operation from which they cannot easily be released.

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- 2) By the early 1990s, Matsushita (Japanese) had nine factories in Malaysia, but no Malaysians as senior managers. Intel (US), however, with two factories, had not a single expatriate in its senior management team (JH fieldwork notes, Malaysia, 1992).
- 3) Contract manufacturing is often referred to as 'product service companies', 'electronics manufacturing services' or 'electronics contract manufacturing services'.
- 4) Companies without their own wafer fabrication facilities.
- 5) Respectively, the largest CEM firms were: Flextronics (Singapore), Solectron (USA), Sanmina-SCI (USA), Celestica (Canada), Jabil Circuit (USA).
- 6) In the mid 1990s, the World Bank was recommending policy-makers in Malaysia to relax tight immigration policies and promote the inflow of foreign workers (World Bank 1995).
- 7) Figures provided by Ramli Othman, Director of the Electronics Industry Division of the Malaysian Industrial Development Authority (Seminar on Opportunities in the Electronics Industry, Penang, 15 June 2004).
- 8) That is, entrepreneurs emerging from employment in the Malaysian subsidiaries of major foreign-owned companies.

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Abstracts

Many argue that foreign direct investment can promote industrialisation when firms 'learn from global buyers' and move into higher value activities in global production networks (GPNs). We find that global linkages may also trap domestic firms within lower value positions and thus problematise further opportunities for robust economic development. Through a study of Malaysian electronics, we argue that industrial upgrading is historically contingent upon the interactions between shifting GPN architectures and local institutional dynamics. This qualification suggests that, far from being a panacea, GPNs offer only 'windows of opportunity'. If these are not grasped, GPNs can have negative impacts in the sense that they may begin to erode the possibilities for industrial upgrading in developing countries.

Es wird vielfach argumentiert, dass ausländische Direktinvestitionen Industrialisierung fördern, wenn Firmen „von *global buyers* lernen“ und

höherwertige Arbeitsschritte in globalen Produktionsnetzwerken (GPN) übernehmen. Die Autoren stellen in ihrer Untersuchung hingegen fest, dass globale *linkages* inländische Firmen auch in einer untergeordneten Position festhalten können. Dadurch wird eine stabile wirtschaftliche Entwicklung erschwert. Anhand einer Studie der malayischen Elektronikindustrie argumentieren sie, dass *industrial upgrading* hinsichtlich der Interaktionen zwischen sich verändernden GPN-Architekturen und lokalen institutionellen Dynamiken historisch umkämpft und veränderbar ist. Dieser Befund deutet darauf hin, dass GPN kein Patentrezept darstellen, sondern lediglich „Zeitfenster“ bieten. Wenn diese nicht genutzt werden, können GPN negative Auswirkungen haben, weil sie die Möglichkeiten für ein industrielles *upgrading* in Entwicklungsländern untergraben.

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LEONHARD PLANK, CORNELIA STARITZ

Global production networks, uneven development and workers: experiences from the Romanian apparel sector¹

1. Introduction

The global economy and in particular the organisation of global production and international trade has changed significantly in the last three decades. As Dicken (2003: 9) states, 'shallow integration' has developed into 'deep integration', which he defines as "a highly complex, kaleidoscopic structure involving the fragmentation of many production processes, and their geographical reallocation on a global scale in ways which slice through national boundaries". These transformations in global production have important implications for countries' development agendas and the development prospects of regions, firms and workers. Despite the expansion of manufacturing production and export capabilities in developing and 'transition' countries, the value added from these activities has often not increased markedly compared to previous commodity-based exports (Milberg 2004; Kaplinsky 2005). Key reasons for this are the asymmetric market and power structures embodied within global production networks. Lead firms tend to outsource lower value-added activities, retaining direct control over high value-added activities (Levy 2005; see also introduction this issue).

In light of these transformations a more organisational, network-centred and multi-scalar framework is central to analyse global production and trade. Over the past two decades a voluminous literature has developed using chain or network approaches to conceptualise and analyse economic globalization, and in particular to explain how global production is organised and governed and how this affects the development prospects of firms and regions (Coe/Hess 2007: 2). The roots of this literature can be traced back to the world system theory with its focus on uneven development

and the unequal distribution of surplus-value within commodity chains (Hopkins/Wallerstein 1986). However, the initial critical impetus of this research tradition has been partly lost over the last decade (Bair 2005; Levy 2008; see also introduction this issue). As Bair (2005: 154) puts it: “contra the macro and holistic perspective of the world-systems approach, much of the recent chains literature [...] has become increasingly oriented analytically towards the meso level of sectoral dynamics and/or the micro level of firm upgrading”. In particular, the focus on firm upgrading without taking into consideration broader sectoral dynamics and non-firm actors, as well as (pre-)existing structures, only provides limited insights into processes of uneven development.

While the impact of world market integration on firm upgrading has been studied extensively, a thorough analysis of its impacts on workers has been largely missing from the research agenda. Given the prevailing assumption that potential upgrading gains at the firm level will trickle down to workers, this is highly relevant, even more so since the scarce research carried out within chain/network frameworks calls this assumption in question (see Knorringa/Pegler 2006; Barrientos 2007; Bair 2008b). Rather the transformation in global production seems to have contributed to a significant change in the nature of employment, leading to a shift to more flexible, informal and insecure work (Barrientos 2007).

With this paper we aim to contribute to the emerging literature on the ‘wider social consequences’ of integration into global production networks carried out within chain/network frameworks. We hope to show how, via an analysis of the Romanian apparel sector, the complex processes in global production and international trade influence development prospects of regions, firms and workers and contribute to uneven development patterns. Our analysis builds on an adapted Global Production Network (GPN) framework which takes into account non-firm actors, (pre-)existing structures, and workers. The paper is structured as follows. The next section introduces the adapted GPN-framework. The third section provides a broad-brush picture of dynamics in the global apparel sector and pays specific attention to the macro-regional integration process in Europe. The fourth section focuses on Romania’s integration into global production networks of apparel and analyses the position of workers. Finally, we draw some conclusions.

2. An adapted Global Production Network framework

The characteristics of the four strands of research which in our view constitute the field of chain and network research, namely Commodity Chains, Global Commodity Chains (GCC), Global Value Chains (GVC) and Global Production Networks (GPN), have been discussed elsewhere (see Bair 2005; Coe et al. 2008; introduction and Hess this issue). We therefore turn directly to the GPN approach, which is in our view most accurate for our analysis as it stresses the complexity and non-linearity of relationships between actors involved in global production and takes into account the important role of firms and inter-firm networks but also the influence of wider institutional actors (e.g. national and sub-national states, supra-national and international organizations, NGOs, trade unions, business associations; Henderson et al. 2002; Coe et al. 2008). Furthermore, the GPN approach stresses a broader political economy perspective, incorporating socio-political structures within which production networks are embedded. As discussed in the introduction to this issue, there are a number of areas which are under-developed in the current chain and network literature. Although, the GPN approach has taken these areas most seriously, it has not always delivered on its potential (Levy 2008), in particular with regard to empirical work. Thus, we highlight three areas that are, in particular, central to better understand processes of uneven development in Central and Eastern Europe (CEE).

The existing chain/network literature has to a large extent focused on the analysis of transnational corporations (TNCs) and inter-firm relations to the detriment of relationships between firms and non-firm actors. Such neglect is problematic, given the influence that non-firm actors have on the shape of production networks. In particular, the role of the state remains central. Strong states can be highly influential, as illustrated by the Chinese state (Coe et al. 2008). In CEE countries, however, the historical legacy of the state socialist past and the 'transition' process which has been strongly biased towards 'free market' policies have made state interventionist policies more difficult and have considerably reduced the power of states to influence the articulation and outcomes of production networks (Henderson 1998; Czaban/Henderson 2003). Civil society organisations have shown their potential to influence TNCs' practices in different sectors and regions

(Levy 2008) but in CEE they have faced significant challenges to establish (new) structures and strategies after the collapse of state socialism. Besides emerging local NGOs, international NGOs, such as the Clean Clothes Campaign (CCC) in the apparel sector, have had an important role. Trade unions in CEE have struggled with the legacy of the state socialist past, have lost the majority of their members and have had problems in developing new strategies in the context of global production (Crowley/Ost 2001). In the apparel sector trade unions are generally weak due to hostility towards trade unions, the small size of most firms and a highly feminised and partly informalised workforce. The counterparts of trade unions in the social dialogue – employers' associations – have for historical reasons been largely absent in CEE, whereas they have had an important impact on policies in other major apparel supplier countries, such as Turkey (Neidik/Gereffi 2006), or in Western Europe. Supra-national and international organisations such as the European Union (EU) and the World Trade Organisation (WTO) have become central actors in global production networks, as we will illustrate below for the apparel sector.

The second neglected area involves the importance of (pre-)existing structures and thus of the institutional and regulative contexts within which production networks are embedded (Henderson et al. 2002). In CEE the legacy of the state socialist period as well as of the 'transition' period, with its specific policies and institutional changes, including EU accession, have had important effects on the potential for economic and political development and on the way this region is integrated into production networks. Besides national (and sub-national) regulations, also regulations established by international and supra-national institutions decisively shape the structures within which production networks are embedded. The Multi-Fibre Agreement (MFA) of the WTO constitutes a prime example, which had governed global apparel trade for almost four decades². Its phase-out in 2005 has had crucial effects on the geographical articulation of, as well as on power structures within, production networks. Furthermore, the emergence of regional economic blocks and the related changes in regulations have heavily impacted on the configuration of production networks. The Outward Processing Trade (OPT) arrangements of the EU enabled and drove the extension of Western European production networks, in partic-

ular in the apparel sector, towards CEE and influenced the distribution of activities and value-added between Western European and CEE firms.

The third neglected area relates to the broader socio-economic effects of global production networks and to the question of whether participation and upgrading in production networks is beneficial for workers. Much attention has been given to the ‘industrial upgrading’ debate, while the wider social consequences have not been adequately addressed. Workers are rarely mentioned in chain and network approaches and when mentioned, they are often considered as a homogenous group – despite important differences regarding gender, qualification, ethnicity or status (e.g. informal, migrant, and temporary; Barrientos 2007). It is generally assumed that upgrading automatically benefits workers. However, this is not necessarily the case, since there is no guarantee that upgrading leads to gains and that the potential gains trickle down to workers (Knorrinda/Pegler 2006). Upgrading experiences in different regions and sectors suggest that firms which ‘succeed’ in upgrading do not necessarily gain the rewards with which upgrading is generally associated, such as increased profitability and security (Fitter/Kaplinsky 2001; Kaplinsky 2005). Even if firms gain rewards for their upgrading efforts, the rewards may not be passed on to workers in the form of higher wages, greater job security or improved working conditions. Firm upgrading may even be based on deteriorating working conditions.

3. Global production networks in apparel

3.1 Key characteristics and developments in global apparel

For a long time the apparel sector has been promoted as a gateway to economic development because of its key role in the industrialisation process of countries such as Great Britain and the US, as well as the newly industrialised countries (NICs) in East Asia (Dickerson 1999). The sector is among the most globalised industries in the world and has been increasingly organised through global production networks with a highly fragmented production process and the relocation of activities on a global scale (Dicken 2003; UNCTAD 2005). Driving forces of restructuring in the sector are corporate strategies, as reflected in the rise of organisational buyers and more recently in the emergence of ‘fast fashion’, as well as regulatory changes such

as the recent liberalisation of the trade regime governing apparel with the phase-out of the WTO's MFA and the increasing importance of regional trade agreements.

Before discussing the main drivers of restructuring, the process of apparel production is described which can be divided into five stages that are closely intertwined with the textile sector: (a) raw material supply, including natural and synthetic fibres; (b) provision of components, such as yarns and fabrics; (c) apparel production; (d) export channels established by trade intermediaries; and (e) marketing networks at the retail level (Appelbaum/Gereffi 1994). Most inputs for the apparel sector come from the textile sector. Activities in the textile sector are quite capital-intensive and demand specific knowledge, machinery and fairly well equipped factories. In contrast, the apparel industry is still, despite various attempts at automation, very labour-intensive (Jones 2006) and the relatively simple core activity of sewing explains in part its fragmented ownership structure, as there are hardly any entry barriers for this commodity-type activity. Beyond these tangible aspects of production there are a variety of activities such as design, marketing, distribution/logistics and sales that link the producers to the consumers.

A development across different industries has been the increasing importance of organisational buyers, with the apparel industry being the prime example. These firms design and market the products they sell but the actual manufacturing is carried out by other firms. The outsourcing and off-shoring of labour-intensive parts of apparel production has been a key strategy of firms from industrialised countries to improve competitiveness in the context of stagnant consumer demand and growing production capacities in developing and 'transition' countries (Dickerson 1999). These developments are at the core of the so-called 'New International Division of Labour', which was first observed in the apparel sector in the 1970s (Fröbel et al. 1980). In contrast to branded manufacturers, which initially had large in-house manufacturing capacities and have embraced subcontracting arrangements only since the 1980s, retailers and branded marketers never disposed of significant in-house production but instead relied on sourcing from apparel manufacturers (Bair 2006). Thus, different lead firms have increasingly structured their business around the same core activities such as design, R&D and marketing, which are protected by high entry barriers

(Gereffi 1994; Gereffi/Memedovic 2003). This shift was also enabled by a policy change towards more export orientation in developing and 'transition' countries since the 1980s, which made an increase in industrial export capacities and the integration into global production networks possible. Thus, in contrast to concentration tendencies at the top among lead firms, one can observe fragmentation and fierce competition at the bottom as more and more developing and 'transition' countries have adopted the export-oriented assembly model and offer their capacities for manufacturing activities.

While initial waves of relocation have been primarily motivated by labour cost differentials, other considerations have also come to shape the sourcing decisions within these networks (Abernathy et al. 2006). A key driver behind this development is the increasing dominance of 'fast fashion', a business model that is based on increased variety and fashionability and on permanently shrinking product life cycles. One indicator for this trend is the rising market-share of companies such as H&M or Zara, which have pioneered this 'fast fashion' approach as well as the acceleration that affects the whole sector (Tokatli 2008). The emergence of 'fast fashion' has important effects on sourcing patterns, as short lead times and flexibility have become an important factor in the locational decision of firms. Short lead times can be achieved through different strategies, including fast transport (e.g. through air transport, which is, however, only cost competitive in specific contexts) and tightly organised production networks, but generally benefit locations in geographical proximity to end-markets. Also, the organisation and control of the supply chain, as well as the production process itself are affected as shorter lead times, smaller production runs and more flexibility are required from producers. Hence, this business model and the related changes in consumer markets partly explain why production networks in apparel are characterised by a global and a macro-regional dimension (see below).

However, these organisational dynamics have to be assessed in the context of the changing regulatory landscape. In particular, the recent phase-out of the quota system that had governed global apparel trade for almost four decades and created an incentive to spread production across a range of countries has heightened competition and reinforced consolidation (Bair 2008a). Important trade shifts occurred, particularly towards China and to a lesser extent India; higher-cost, regional suppliers in Central America and

the Caribbean and in CEE such as Mexico, Turkey and Romania as well as producers in African countries have lost export shares. However, these reductions have been not as dramatic as expected by those foretelling the elimination of regional suppliers (Conway 2006). The 'stickiness' of regional sourcing has to be viewed against the background of changing consumer demand patterns and corporate strategies, as discussed above. Additionally, the macro-regional integration process, driven by regional trade agreements, has strongly furthered the deepening of regional production networks and contributed to the emergence of regional supplier countries (Bair 2006), as is shown for CEE in the next part.

The importance of regional suppliers is revealed when looking at the major apparel export countries and the final markets they serve. A group of globally operating Asian supplier countries, including China, India and Bangladesh, has a strong position in all major markets (Europe, US and Japan) while a second group of regional supplier countries specifically serves one major market. Countries belonging to the latter group are located close to their main export market and have increased in importance since the 1990s (e.g. Turkey and Romania for the EU [see table 1], Mexico, Honduras and the Dominican Republic for the US).

**Table 1: Top 25 apparel export countries to EU-15, 1990–2007
(excluding intra-EU 15 trade)**

	1990		1995		2000	
Total Imports (SITC 84), in US\$ billions	27,32		41,44		50,67	
1	Hong Kong	14,18%	China	12,65%	China	17,41%
2	Turkey	10,93%	Turkey	11,04%	Turkey	10,77%
3	China	10,03%	Hong Kong	10,42%	Hong Kong	6,59%
4	India	5,72%	India	6,45%	Tunisia	5,11%
5	Korea, Rep.	5,37%	Morocco	5,21%	Romania	4,98%
6	Morocco	4,76%	<u>Poland</u>	5,18%	Bangladesh	4,90%
7	Tunisia	4,07%	Tunisia	5,03%	India	4,86%
8	Thailand	3,10%	Bangladesh	3,18%	Morocco	4,58%
9	<u>Poland</u>	2,49%	Indonesia	3,16%	Indonesia	3,69%
10	Indonesia	2,24%	Romania	3,03%	<u>Poland</u>	3,63%
11	Taiwan	2,16%	<u>Hungary</u>	2,27%	Thailand	2,22%
12	Macao	2,02%	Pakistan	2,03%	<u>Hungary</u>	2,08%
13	United States	2,02%	Thailand	2,02%	Korea, Rep.	1,82%
14	Pakistan	2,00%	Malaysia	1,78%	Sri Lanka	1,72%
15	<u>Hungary</u>	1,90%	United States	1,66%	Pakistan	1,70%
16	Malaysia	1,90%	Korea, Rep.	1,63%	Vietnam	1,54%
17	Mauritius	1,78%	Sri Lanka	1,54%	<u>Bulgaria</u>	1,46%
18	Romania	1,64%	<u>Czech Republic</u>	1,48%	Malaysia	1,45%
19	Switzerland	1,58%	<u>Slovenia</u>	1,47%	Mauritius	1,30%
20	Philippines	1,31%	Mauritius	1,42%	Macao	1,26%
21	Bangladesh	1,23%	<u>Croatia</u>	1,40%	Taiwan	1,15%
22	Israel	1,18%	Macao	1,18%	<u>Czech Republic</u>	1,04%
23	Singapore	1,03%	Taiwan	1,05%	United States	0,93%
24	Sri Lanka	0,84%	Switzerland	1,05%	<u>Lithuania</u>	0,93%
25	<u>Czechoslovakia</u>	0,81%	Vietnam	0,89%	<u>Slovak Republic</u>	0,91%

Source: COMTRADE (2009)

2004		2005		2007	
76,26		82,11		103,30	
China	23,08%	China	30,93%	China	34,93%
Turkey	13,40%	Turkey	13,04%	Turkey	12,73%
Bangladesh	6,63%	India	6,04%	Bangladesh	6,42%
Romania	6,41%	Bangladesh	5,85%	India	6,11%
India	5,07%	Romania	5,61%	Tunisia	3,75%
Tunisia	4,51%	Tunisia	4,00%	Morocco	3,70%
Morocco	4,28%	Morocco	3,80%	Romania	3,53%
Hong Kong	3,97%	Hong Kong	3,34%	Hong Kong	2,86%
Indonesia	2,58%	Indonesia	2,21%	Indonesia	1,96%
<u>Poland</u>	2,03%	<u>Bulgaria</u>	1,82%	Vietnam	1,77%
Thailand	1,96%	Thailand	1,68%	Sri Lanka	1,67%
Pakistan	1,95%	Pakistan	1,65%	Pakistan	1,63%
<u>Bulgaria</u>	1,88%	<u>Poland</u>	1,61%	<u>Bulgaria</u>	1,59%
Sri Lanka	1,58%	Sri Lanka	1,49%	Thailand	1,54%
<u>Hungary</u>	1,37%	<u>Hungary</u>	1,21%	<u>Poland</u>	1,39%
Vietnam	1,20%	Vietnam	1,20%	<u>Hungary</u>	1,04%
Korea, Rep.	1,11%	Malaysia	0,93%	Malaysia	0,94%
<u>Czech Republic</u>	1,01%	Cambodia	0,80%	Cambodia	0,80%
Malaysia	1,00%	<u>Ukraine</u>	0,76%	<u>Czech Republic</u>	0,78%
Cambodia	0,95%	Mauritius	0,73%	Mauritius	0,71%
Mauritius	0,90%	<u>Czech Republic</u>	0,70%	<u>Macedonia</u>	0,64%
<u>Lithuania</u>	0,82%	<u>Lithuania</u>	0,66%	United States	0,61%
<u>Ukraine</u>	0,81%	<u>Croatia</u>	0,65%	Egypt	0,60%
<u>Croatia</u>	0,76%	United States	0,63%	Switzerland	0,58%
Macao	0,75%	Korea, Rep.	0,59%	<u>Ukraine</u>	0,57%

3.2 CEE's evolving role within the global production networks of apparel

During the last three decades, and in particular since the 1990s, the apparel sector has experienced dramatic transformations in the context of European macro-regional integration. The reconfiguration of the sector involved most often the relocation of business activities from Western European countries to relatively cheaper locations in CEE and in the Euro-Mediterranean Rim – the so-called 'Greater Europe' (Gereffi/Memedovic 2003; Palpacuer et al. 2005). Initially, the relocation was driven by firms that sought to reduce their wage bill and, hence, these countries have been primarily assigned a specific role, namely the role of low-cost, labour-intensive production platforms serving the final markets in the EC/EU. Additionally, the (pre-)existing structures inherited from state socialism provided an industrial fabric with a long tradition in apparel. While most of the technical equipment was outdated (Pincheson 1995), the more 'intangible' assets, such as a skilled but cheap workforce, local production networks and existing business contacts, survived the collapse of state socialism and have been the basis for the flourishing of apparel trade since the early 1990s (Begg et al. 2003). Poland, Hungary and Romania, in particular, became important exporters in the early 1990s, the Czech Republic in the mid-1990s, Bulgaria in the early 2000s and the Ukraine in the mid-2000s (see table 1).

This restructuring process, involving the decline of the Western European apparel industry and the parallel shifting of production to CEE countries, has been orchestrated by the EU through OPT arrangements since 1975 (Pellegrin 2001). OPT arrangements in this context generally involved the export of EU textiles to neighbouring low-wage countries which made them into finished garments for re-import into the EU. This 'production model' was already embraced before the formal adoption of OPT by some Western European firms, which outsourced the sewing operation to (the then) Yugoslavia, or Romania, as early as in the beginning of the 1970s (Musiolek 2000; interviews with firms 2008³), but it considerably accelerated after the formal adoption of OPT and particularly after the collapse of state socialism. In the context of OPT, EU-based firms could send inputs (textile) to one of the countries in question (e.g. Romania) for processing and could re-import the finished garments without facing restrictions which pertain to 'direct' imports into the EU. This preferential treatment consisted

in granting specific OPT quotas in sectors protected by quantitative restrictions which involved mainly textile and apparel (called ‘economic OPT’), and in removing tariff protection in other sectors (called ‘tariff OPT’) (Pellegrin 2001). Thus, under-OPT quotas were expanded and trade tariffs on the re-imports only needed to be paid on the value-added abroad and not on the entire value-added – provided that the textiles came from Western European countries.

A main motivation of these arrangements was to secure the competitiveness of the Western European textile and apparel complex by relocating the labour-intensive stages (mainly sewing) and securing the survival of the more capital-intensive ones (textile) within Western Europe. In the short run this form of integration has helped CEE firms to survive after the collapse of the established production and trade networks of the state socialist period. In the long run and in dynamic perspective however, it locked CEE firms into an unfavourable division of labour, since it led to a functional downgrading of their activities and a concentration on labour intensive and low-tech production steps. Only in recent years – a long time after the formal phase-out of OPT regulations in the second half of the 1990s – has the situation changed, as lead firms have delegated more functions to CEE manufacturers. However, it is questionable whether this form of ‘industrial upgrading’ will yield developmental gains for firms and workers in CEE or whether it is merely “a form of defensive restructuring in the face of intense contract competition and pressure” (Pickles et al. 2006: 2322). In particular, the liberalisation through the MFA phase-out has increased pressures on CEE firms. The situation is compounded by the fact that firms in CEE are faced with increasing costs related to EU-enlargement. In the next section we discuss these developments in more detail for Romania.

4. 'Europe's sewing room' – Romania's integration into apparel production networks

4.1 From 'Full-Package' production to 'Lohnsystem' and back

On the global apparel landscape Romania holds a strong position, being amongst the 15th largest exporters of apparel. Almost 90% of Romanian apparel exports go to EU-15 and Romania has become 'Europe's sewing room', meaning it is the number one apparel exporter from CEE to EU-15 and was globally the fourth most important exporter of apparel to EU-15 (after China, Turkey and Bangladesh and followed by India and Tunisia) in 2004 (see table 1). Looking at the development of the sector provides insights into how global production networks are shaped and how they relate to processes of uneven development.

Under state socialism, the apparel industry, which was strongly integrated with the textile industry, had an important role in achieving a high degree of national industrialisation and providing employment, especially for female workers (Begg et al. 2003). Romania was no exception in this regard and, hence, many textile and apparel units employing predominantly female workers were set up next to the plants of the male-dominated heavy industry all over the country (interview Ciutacu 2008). The decision of the Romanian leader Ceaucescu to secure Romania's autarkic status, including the decision to repay the entire foreign debt, shaped the industry's development through the 1980s. In order to earn foreign currency, exports were promoted while imports were discouraged. As a result, Romania became the major exporter of apparel from the CEE region to the EC/EU in 1988 (Textiles Intelligence 1997). Helpful in this regard was the privileged status that Romania enjoyed concerning trade relations to Western Europe compared to other countries of the soviet-bloc (Textiles Intelligence 1997) due to the 'maverick communist' image that had been ascribed to Ceaucescu during his early years (interview Ciutacu 2008).

Alongside the overall economic downturn, production in the textile and apparel sector declined sharply after 1989. However, the apparel sector recovered quickly, due to OPT relationships with Western European firms which already continued in the early 1990s. The sector developed into a major pillar of the economy, absorbing 20% of total industrial employees and accounting for almost one fifth of exports up to the beginning of the

2000s (NIS 2007). However, this specific insertion of Romanian firms into Western European production networks, which was promoted via EU OPT trade, was not without its price. The OPT contracts – which are called ‘Lohnsystem’ in Romania – established a division of labour that furthered the disintegration of the domestic apparel and textile complex and led to a change from integrated ‘full-package’ production to labour-intensive assembly manufacturing. In the short run the OPT transactions with Western European firms were for many firms in the integrated textile and apparel sector the only way to survive, as they guaranteed demand and provided materials and machinery firms could not finance otherwise. Further, Romanian firms lacked organisational, financial and sales know-how, since until 1989 departments of the trade ministry had handled all contracts and commercial relations between buyers and suppliers (CCC/SOMO 1998). The downside of these OPT-arrangements was, however, that they led to a functional downgrading as the former fully-integrated firms carried out only the labour-intensive tasks, especially sewing, under OPT trade. Thus, such arrangements have provided little scope for economic development as these activities generate low value-added for the domestic economy and induce massive imports of inputs. The predominant logic behind this type of arrangement is to take advantage of low labour costs, since it “essentially amounts to ‘selling’ minutes of labour to the client” (Cammett 2006: 35).

The diverging development paths of the formerly integrated textile and apparel sector are mirrored in employment data. While textile employment fell continuously from 414,000 in 1990 to 65,000 in 2006, employment in the apparel sector first decreased from 258,000 in 1990, reaching a low of 180,000 in 1997, and then increased until it reached its highest level of 303,000 in 2003 (NIS 2007). The divergence is also reflected at the firm level where the former state-owned large vertically integrated textile and apparel firms were split in smaller units and privatised and a number of smaller private apparel firms emerged during the 1990s (Pincheson 1995; Bota/Gut 2007). The importance of apparel firms as compared to textile firms has constantly increased and the sector is almost entirely composed of small and medium-sized enterprises, with more than half of them being micro-enterprises with less than ten employees (NIS 2007). These small firms often depend on intermediaries, including larger Romanian firms,

which developed local subcontracting networks to fulfil OPT orders (interviews with firms 2008).

Romania's apparel boom reached its peak in 2004. Since then apparel firms have struggled to keep their contracts. The heavy reliance on the 'Lohnsystem' – according to industry estimates around 75-85% of apparel production in 2004 – became problematic as this relatively unsophisticated production model is primarily built upon low labour costs. Since the phase-out of the MFA in 2005 lead firms have not been limited by the quota system and therefore they have shifted orders away from the 'Greater Europe' towards Asia. High-volume, low-quality production in particular has been affected. In addition, apparel production has been challenged by neighbouring non-EU countries (e.g. the Ukraine, Republic of Moldova, Macedonia, Albania) which offer lower (labour) costs. Romanian apparel firms have not only lost orders due to liberalisation, but also workers, in the context of EU enlargement. With the easing of restrictions regarding visa and work permit requirements, migration to Western Europe accelerated and led to a labour shortage in particular skills and regions (Ciutacu 2006). This shortage was particularly felt in the apparel industry, given its bad record in terms of working conditions (ILO 2005a, 2005b), and was compounded by the fact that workers also left for other sectors, such as retailing, that have recently emerged as an employment alternative. Furthermore, as in other CEE countries (Pickles et al. 2006), rising production costs, especially utility costs, threatened the thin margins that can be earned in the 'Lohnsystem' (Bota/Gut 2007). Given the industry's heavy export-orientation towards the EU market, currency de-/appreciations and thus the monetary policy of the Romanian national bank had considerable effects. Again, the year 2005 marked an important departure, with strong appreciation towards the Euro in the context of the EU-accession process. As buyers pay in Euros the price received for production decreased in the domestic currency (RON) but the costs – as mentioned above – increased (interview FEPAUIS 2008).

Taken together, these developments marked a rupture the apparel sector in Romania, reflected in a reduction in production, employment and the number of apparel firms (NIS 2007). Sector estimates claim that around 40% of the firms in the apparel sector have disappeared since 2004 (interviews FEPAIUS and Bota 2008). The qualitative dimension of this change

relates to the strategic re-orientation of the remaining firms in Romania, which started to move away from the increasingly precarious 'Lohnsystem'. Firm strategies can be grouped into three broad categories. Firstly, firms have tried to take on more responsibilities in the production networks. Hence, firms have tried to become 'full-package' suppliers and to organise their own inputs as well as to develop design capabilities. Some Romanian exporters are now offering more services or even ready-to-sell collections to EU buyers. Our interviews however suggest that functional upgrading does not necessarily lead to increased rewards such as increased profitability or security as shifts in responsibilities have generally not been due to "suppliers successfully 'wresting'" (Tokatli et al. 2008: 277) functions from buyers; instead, capabilities have been simply passed on to the suppliers and these additional responsibilities have become the new minimum requirement for participating in certain networks. Moreover, some lead firms, especially 'fast fashion' retailers such as H&M and Zara, have substantial direct control over their supply chain and see functions such as design and sourcing of inputs as their core competencies, which makes functional upgrading in their networks highly contested (interviews with firms 2008). Secondly, firms have increasingly looked for alternatives to the Western European market and have re-discovered the domestic as well as specific export markets, such as Russia. However, these markets are also contested by other competitors (ILO 2005a). A third strategic response to reduce (labour) costs and counter labour shortage has been the internal relocation of production to poor regions within Romania, the increasing reliance on subcontracting across borders to neighbouring non-EU countries such as the Republic of Moldova or the Ukraine (Smith et al. 2008), and the use of migrant workers from Asia (see below). However, all of these strategies require specific resources, which the majority of small and micro-firms find it particularly difficult to acquire.

4.2 Position of workers in apparel production networks in Romania

Working conditions in the apparel sector are among the worst in the world, including child labour and forms of slave labour (ILO 2005a). In an increasingly liberalised sector, industry pressures are often offloaded onto a highly feminised and non-unionised workforce. These global industry pres-

tures are, however, mediated through specific local institutional structures and policies. In particular, the state socialist past of the CEE countries and EU enlargement helps to understand the positions of workers in the apparel production networks in Romania (Pickles/Smith forthcoming). Furthermore, the role of Romania as a regional supplier country closely connected to 'fast fashion' tendencies is central in understanding pressures on, and prospects for, workers.

Despite Romania's specific transformation history (Pop 2006), there are similarities with its neighbouring countries. The largely de-legitimised trade unions have seen their membership decrease since the early 1990s. Although the Romanian average unionisation rate is still above the European average (Fulton 2007), unionisation density is highly sector-specific. According to trade unions' estimates, the unionisation rate is around 25% in the apparel sector (interviews with trade unions 2008). The state socialist legacy is reflected in a high level of unionisation in former state-owned firms. However, in newly established private apparel firms, which account for most employment, hostility towards trade unions prevails, which has hindered organising efforts. Cases of abusive dismissal and unfair treatment of union leaders or of employees willing to establish a union are quite a common practice (ILO 2005b). The situation is further aggravated by the relatively small firm size and the fact that trade unions in the sector are fragmented and, hence, have not developed a joint strategy to organise a feminised and partly informalised sector.

Working conditions in the 1990s, at least occasionally, featured sweatshop-like conditions (CCC/SOMO 1998; Musiolek 2000; Barendt et al. 2005), as the harsh times of transformation, accompanied by high unemployment, left little alternatives for workers and the dominant mode of insertion via the 'Lohnsystem' left little room to improve wages and working conditions. Gradually, improvements in working conditions occurred which were partly driven by the efforts of labour inspectorates as well as by international consumer campaigns, in particular initiated by the CCC, which tried to push lead firms toward more responsible business practices, and have to be seen in the context of EU enlargement (Trif 2008). The selective nature of improvements, however, suggests that the 'business case' was equally important (interviews with labour inspectorates 2008). Improvements such as better lighting, ventilation or ergonomic chairs relate to

process upgrading as they also increase productivity by a more 'efficient' use of the 'human resource'. In contrast to these 'win-win' situations, issues that are in conflict with the prevailing business logic (e.g. living wage, working time, trade union rights) remain contested. It is also telling that, although, many global buyers in the apparel sector have Codes of Conducts which generally cover basic labour rights, audits have been until recently mostly concerned with health and safety issues (interviews with National Labour Inspectorate and firms 2008). This trade-off is also revealed when firms are faced with contradictory demands from buyers: on the one hand tight price and delivery time demands from the buying departments and on the other hand demands from auditors regarding better working conditions, who don't have, however, the means to reward the suppliers for improvements (e.g. via higher prices or more stable contractual relationships; interviews with firms 2008).

Thus, the main labour rights issues in the apparel sector concern wages (low level, piece-rate and minimum quotas), working time and work intensity and trade union representation (ILO 2005b; interviews with workers, trade unions and labour inspectorates 2008). These issues are closely related to the position of Romanian firms within production networks that are characterised by the 'Lohnsystem' and 'fast fashion', where low costs and/or flexibility with regard to orders and delivery time are paramount concerns. In the context of asymmetric relations the low prices offered by buyers lead to high targets that can often only be met by work intensification (e.g. through re-engineering of the production process) or working (partly unpaid) overtime (interviews with National Labour Inspectorate and workers 2008). Additionally, overtime issues are related to fluctuating orders which are increasingly unpredictable, demanded on a short-term basis and involve small sizes and thus small production runs due to the increasing importance of 'fast fashion' in consumer markets.

The rupture marked by the year 2005 had complex effects on workers and working conditions. Notwithstanding regional and sectoral differences, the labour-shortage due to the lifting of the requirements for visa and work permits has increased the overall bargaining power of workers. The remaining firms responded in different ways. Some tried to offer better wages and working conditions to retain or attract workers. Occasionally, they tapped into remote areas by either offering free transport to the site or

by setting-up a small production line in the respective area. Alternatively, they moved production sites internally, in particular to Moldavia – the poorest region in the north-east of Romania where employment alternatives are still very limited, or relied on subcontracting across borders to neighbouring non-EU countries. Finally, a few firms sought migrant workers, mainly from Asian countries (including China, Vietnam, Bangladesh and the Philippines), under the working permit scheme⁴. Little is known about the working conditions of migrant workers but the few cases that became known exemplified the particular vulnerabilities that this group of workers are exposed to. Firms' reactions depended, among other factors, on their specific insertion into production networks and the nature of the lead firms. In general, firms that predominantly work in the higher quality segment for (mostly Italian or German) apparel manufacturers have had more room to negotiate working conditions than those producing apparel of low or medium quality for retailers. In particular, the latter type of production has either moved out of the country or relocated internally to Moldavia, where wages are still relatively low (interview GEA and Stiel 2008).

5. Conclusion

Our analysis of the Romanian apparel sector reveals the considerable influence of factors that are often missing when analysing development prospects arising from participation in global production networks. Taking into account the role of non-firm actors (e.g. WTO, EC/EU, state, labour inspectorates, trade unions, NGOs) and (pre-)existing structures within which production networks are embedded, we show how production networks are shaped in the apparel sector in Romania. The moved history of Romania's apparel sector – from being a 'full-package' producer with a highly domestically integrated apparel and textile industry under state socialism to a low-wage platform for apparel assembly throughout the 'transition' period and partly back – provides insights into how the integration into global production networks relates to processes of uneven development. Corporate strategies and sector dynamics are central in explaining the development of the sector, as many lead firms from Western Europe (re)discovered the capabilities of Romanian firms and workers and bene-

fitted from cheap but skilled labour as well as from short lead times and high flexibility due to geographical proximity, a factor which is increasingly important in the emerging ‘fast fashion’ environment. However, Romania’s development into ‘Europe’s sewing room’ needs to be framed against the background of changing regulative and institutional contexts. In particular, the EU’s OPT arrangements have furthered the integration of Romania into production networks of Western European firms and led to a specific form of integration. More recently, the MFA phase-out and the labour-shortage in the context of EU enlargement have had important effects on the Romanian apparel sector.

With regard to the position of workers we highlight the importance of (pre-)existing structures and the role of EU enlargement as well as of sector dynamics (e.g. ‘fast fashion’). Trade unions have generally suffered from the state socialist legacy and unionisation rates are low in newly established private firms – in contrast to the larger, former state-owned firms. Driven by public and private monitoring efforts but also by the ‘business case’, working conditions have gradually improved since the 1990s. An unintended consequence of EU enlargement was the labour shortage, which has generally translated into better bargaining positions to negotiate working conditions. However, issues such as low wages, work intensification, (partly unpaid) overtime and trade union representation remain contested, since they potentially conflict with the prevailing sector dynamics, particularly demands associated with ‘fast fashion’, as well as with the specific integration of Romanian workers into apparel production networks. Hence, we conclude that it is far from automatic that participating and even upgrading in global production networks is beneficial for workers and that close attention is needed to assess the extent to which improvements in the position of workers and working conditions are possible in specific production networks.

- 1) This paper is based on an interdisciplinary research project entitled “Accountability of States and Transnational Corporations for Labour Rights in Global Production Networks” conducted by Karin Lukas, Leonhard Plank and Cornelia Staritz, in particular on Plank/Staritz (forthcoming). The research project is funded by the Austrian Academy of Sciences through the DOC-Team fellowship. We also acknowledge support for the interviews in Romania from the Austrian Chamber of Labour. Thanks are also due to Karin Lukas, Christian Reiner, Christian Bellak, Blanka Hancilova,

Martin Hess and one anonymous referee for their helpful comments. We are solely responsible for any errors in fact or interpretation.

- 2) At the multilateral level apparel trade had been governed by a system of quantitative restrictions for more than 40 years. An agreement on export quota came into existence in 1961 which was initially called Short Term Cotton Agreement and then followed by the Long Term Cotton Agreement. In 1974 it was replaced by the Multi-Fiber Agreement (MFA) which lasted until the conclusion of the Uruguay Round of the WTO in 1994. With the new Agreement on Textile and Clothing (ATC) it was decided to phase-out the existing regime at the end of 2004 and bring global apparel trade in line with WTO principles (Bair 2008a: 3). This quota system, although, designed to protect the major import markets (Europe, US and Japan), provided for many developing and 'transition' countries a way to establish an apparel industry.
- 3) The following interviews referenced in the article were conducted in Romania between April and October 2008:
 - Constantin Ciutacu, Institute of National Economy, Romanian Academy of Science, Bucharest
 - Dietmar Carl Stiel, Avanz Consulting, Bucharest
 - Marius Bota, Faculty of Business, Babeş-Bolyai University Cluj-Napoca
 - GEA, Group of Applied Economists, Bucharest
 - National Labour Inspectorate, Bucharest
 - Local Labour Inspectorates in Buzau, Cluj, Focsani, Galati, Slatina and Timisoara
 - Trade Unions in Bucharest, Buzau, Craiova, Iasi and Slatina
 - FEPAUIS, employers organisation of the Romanian light industry, Bucharest
 - 12 Firms (management, workers' representative and workers) in Bucharest, Buzau, Craiova, Focsani, Galati, Iasi and Slatina
- 4) The issue of migrant workers gained some publicity in January 2007 as 300 female Chinese workers who were employed legally under the work permit scheme in an apparel factory in Bacau protested for higher wages (BBC News 2007). The women had worked in Bacau since mid-2006 on contracts established between the Romanian employer and two employment agencies, one Italian, and one Chinese (interviews with trade unions 2008). At the time of their recruitment the workers were promised wages of US\$ 700 per month. In fact they only received US\$ 300 per month. Their contract with the recruitment agency stipulated that they had to pay up to US\$ 4,000 to be selected for work. The workers had to transfer 25% of their salary every month to repay this amount. Additional deductions were made for food and accommodation by the employer. (ITUC 2008) The Romanian manager initially threatened to send the workers back to China. Only after pressure from international trade unions was a solution negotiated.

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Abstracts

The transformations in the organisation of global production and international trade in the last three decades have had important implications for the development prospects of regions, firms and workers. Via a study of the Romanian apparel sector, the paper shows how global production networks are shaped and how they relate to processes of uneven development. The analysis builds on an adapted Global Production Network framework taking into account non-firm actors and (pre-)existing structures, as well as workers. The paper shows that integration into global production networks can also lead to ‘downgrading’ and questions the conventional view that participating and even upgrading in global production networks is beneficial for workers.

Die Veränderungen in der Organisation von globaler Produktion und internationalem Handel, die in den letzten drei Jahrzehnten zu beobachten sind, haben tiefgreifende Auswirkungen auf die Entwicklungsaussichten von Regionen, Firmen und ArbeiterInnen. Anhand einer Studie über den rumänischen Bekleidungssektor zeigt der Artikel, wie globale Produktionsnetzwerke gestaltet sind und in welchem Zusammenhang sie mit Prozessen ungleicher Entwicklung stehen. Die Analyse baut auf einem adaptierten *Global Production Network*-Ansatz auf, der nicht nur Firmen, sondern auch andere Akteure und Strukturen sowie ArbeiterInnen berücksichtigt. Der Artikel zeigt auf, dass die Integration in globale Produktionsnetzwerke auch zu einem *downgrading* führen kann und stellt die herkömmliche Sicht in Frage, nach der die Teilnahme an globalen Produktionsnetzwerken für ArbeiterInnen automatisch von Vorteil ist.

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**Cocoa value chain: challenges facing Ghana in a changing
global confectionary market**

1. Introduction

The expansion of global value chains into sectors characterised by small-scale production has important implications for agro-export strategies in many developing countries. Global value chains in agriculture are dominated by large buyers and processors with strong commercial power. They are oriented towards a more sophisticated and nuanced consumer market, which allows them to capture an increasing share of the final consumer price within the value chain. The ability of developing country governments to support farmers or negotiate better terms of trade has been curtailed by policies of economic liberalisation and structural adjustment in many developing countries. In this context, the imbalance between commercially sophisticated buyers and fragmented small-scale farmers who supply them is growing. This has potentially adverse consequences for the sustainability of higher quality agro-sourcing in some sectors. The cocoa-chocolate value chain provides one example of this trend, where there is increasing global output with declining cocoa quality and price. An exception is provided by Ghana, which has managed to buck some of these trends, putting it in a stronger position than many other cocoa producing countries.

Ghana has a reputation for producing some of the highest-quality cocoa in the world. It is the second largest exporter of cocoa after Cote d'Ivoire, and has historically earned a quality premium in the international market. Unlike other producer countries, Ghana resisted the dismantling of its cocoa marketing board in the 1980s, and the Ghana Cocoa Board (COCOBOD) continues to play a key role in the coordination of the sector. In a value chain increasingly dominated by a small number of cocoa processors and

manufacturers, COCOBOD is able to support producers, negotiate with buyers and provide a unified front in the external market. With rising supply worldwide, the cocoa sector witnessed a secular decline in price after the late 1980s, and downward pressure on quality, as production costs were reduced. Ghana is currently well placed in the middle to higher end of the cocoa market. However, production is characterised by small-scale farming, with low productivity and pressure on quality. Ghana thus faces challenges in maintaining its position. The strategy of COCOBOD needs to be informed by an understanding of the changing dynamics of the global cocoa-chocolate value chain, if it is to be successful.

This paper examines the changing dynamics of the cocoa value chain and considers its effects on the development of Ghanaian cocoa as a major export sector. It examines this by analysing the position of Ghana in the cocoa-chocolate value chain, in particular by focusing on how the maintenance of COCOBOD has helped to maintain its position as a world producer of high quality cocoa. The paper draws on findings from an independent study commissioned by Cadbury (Barrientos et al. 2008)¹. The project examined the factors that make up sustainable production for cocoa farmers in Ghana, with a focus on the socio-economic dimensions of sustainability. This paper focuses on the international end of the value chain from COCOBOD to chocolate processors and manufacturers in order to assess the challenges Ghana faces. It is argued that, as a marketing board, COCOBOD helps to mediate the interests of fragmented producers, guards Ghana's position in the global market and helps to counter imbalance within the commercial power relations of the cocoa-chocolate value chain. However, rebalancing of power relations within the value chain is needed if the sustainability of the sector is to be secured.

2. Global value chain in chocolate and confectionery

The cocoa-chocolate value chain has undergone rapid change over the past decade, which has affected the relationship between producers and buyers. The consumption end saw a significant process of concentration and centralisation amongst processors and manufacturers, with a more nuanced focus on differentiated consumer markets. This has facilitated the penetra-

tion of more coordinated 'value chains', with stronger linkages between retailers (especially supermarkets), chocolate manufacturers and cocoa processors (or grinders). Despite these changes, cocoa remains a traded commodity which can be purchased on both spot and forward markets. At the production end in the mid 1980s, there was a shift away from marketing boards amongst many developing country producers to a more liberalised export sector. In Africa in particular, production is characterised by small-scale farmers who are fragmented and often poorly supported in the face of volatile market conditions. This has the potential to undermine the sustainability of quality cocoa production.

Global value chain analysis (GVC) was developed initially in the manufacturing sector to examine the inter-linkages between commercial actors, from global buyers, through intermediaries, to producers. It explored how governance structures dominated by lead firms have shaped the outsourcing of production and facilitated extraction of economic rents at different nodes of the chain (Gereffi/Kaplinsky 2001). An important reason behind the ability of lead firms to extract economic rent is their oligopolistic position in relation to a relatively fragmented global supply base. The imbalance in this commercial power relationship allows dominant buyers to increase the value they extract from the chain when negotiating with weaker fragmented suppliers. They are able to exert pressure on suppliers to reduce costs and meet more exacting product and social standards (Kaplinsky 2004). The ability of suppliers to resist depends in part on their bargaining position in the value chain (Nathan/Kaplan 2007).

One strand of the literature has begun to examine GVCs in relation to small-scale agricultural producers in sectors such as coffee, flowers and horticulture (Dolan/Humphrey 2004; Gibbon/Ponte 2005; Vorley 2004). Analysis of the role of GVCs in the cocoa sector remains, with some exceptions, limited (Fold 2002, 2004; Kaplinsky 2004). This paper draws on the GVC approach in order to better understand the changing role of buyers and their targeting of an increasingly nuanced consumer market where higher values can be captured. At the same time, the highly fragmented profile of small-scale cocoa producers clearly limits the extent to which production can be coordinated and standardised by buyers. In some sectors, this has led to the exclusion of small producers (Dolan/Humphrey 2004), but where buyers

are dependent on such producers for supply, such as is the case with cocoa, this is less likely to occur.

GVC analysis emphasises the importance of value creation and value capture by firms at different nodes of the chain. How 'value' is defined is affected not just by production costs and the intrinsic physical traits of a product, but also by the social norms and perceptions of consumers who are prepared to pay more for perceived higher 'quality' (Raynolds et al. 2007). Quality in this context can include social and environmental standards and designate origin products, for which consumers are prepared to pay a higher price. Initially, this was the focus of smaller alternative trading organisations. Large buyers are, however, adapting to meeting changing consumer tastes at the higher value end of GVCs, by introducing initiatives or adopting labels that meet these trends. However, achieving and maintaining sufficient output that meets these standards requires sustaining the livelihoods of small-scale farmers involved in production in developing countries.

The global cocoa-chocolate value chain has undergone a rapid process of centralisation and integration over the past two decades. Most notable developments have been a growing concentration amongst manufacturers and processors (also called grinders), with a sharp decline in the number of specialised traders, as well as more nuanced consumer demand and segmentation of the chocolate market. Concentration on the manufacturing side of the industry is reflected by the top ten manufacturers, which accounted for 43% of world sales in 2005 (ICCO 2007b). These companies included Nestlé, Ferrero, Cadbury, Mars, Hershey and Kraft Foods. Each company sells a range of brands, targeted at different sections of the consumer market. Increasingly in Europe, their products are retailed through supermarkets, as they have come to dominate the food retail sector. A declining number of manufacturers are involved in some markets in both the processing of cocoa beans as well as the production of chocolate. However there has been a trend towards increasing outsourcing of processing to specialised processors by manufacturers (Fold 2002, 2005).

Over the past two decades, there has been a notable consolidation of the cocoa-processing industry. Four firms – Archer Daniels Midland (ADM), Cargill, Barry Callebaut, and Blommer – accounted for 42% of the market in 2003/4. Processors in particular have increased their upstream integration in many cocoa-producing countries. Processing is geographically concen-

trated, with the Netherlands, US and Cote d'Ivoire accounting for 50% of total global capacity (Kaplinsky 2004; Fold 2002, 2004, 2005). The trend towards concentration was facilitated by liberalisation under structural adjustment in the 1980s, which led to the decline of state marketing boards in Anglophone countries and stabilisation funds in Francophone countries. These boards were public entities that facilitated marketing by purchasing cocoa from smallholder farmers in the producing areas and selling the cocoa abroad. Many of the boards operated stabilisation funds so that producers would be insulated from price fluctuations in the world market. The producers were offered a guaranteed price which operated during the season. In some cases marketing boards undertook the construction and rehabilitation of rural roads to facilitate the movement of cocoa, as well as provided subsidised inputs and services for the farmers.

The number of specialised cocoa traders, who used to maintain cocoa beans and products as a traded commodity on both the forward and spot markets, has declined, with some traders having expanded into processing themselves (predominantly ADM, Cargill and later Armajaro). Cocoa was largely traded on the futures market, where agents participated on behalf of producing countries and grinders. Here agents hedge by buying and selling contracts without actually taking possession of cocoa; they may thus reduce volatility in the market. As more cocoa became available on the world market, some producers and purchasers by-passed the futures market and bought cocoa for immediate delivery on the stock market. Another reason for increasing spot purchases is consolidation in the cocoa-processing industry, combined with developments in chain logistics (bulk transportation, information and communications technology) and liberalisation within producer countries, all of which have allowed companies to reduce the amount of cocoa stock they hold. Whereas spot market prices reflected current demand and supply conditions, futures market prices are based on expectations (forecasts) in the market and therefore the two prices could be different as supply factors (weather, new cocoa harvestings, geopolitics) change. If expectations are correctly predicted futures markets could prevent market 'bubbles' (extreme price situations), which spot markets may not be able to do.

Processors thus play a prominent role in the link between manufacturing and production. The contemporary cocoa-chocolate chain has been

described as featuring ‘bi-polar governance’. One pole is composed of the concentrated group of processors, who increasingly have operations in both producing and consuming countries. The second pole is composed of the large chocolate manufactures, although their operations along the chain are much more limited (Kaplinsky 2004; Fold 2002). The cocoa sector demonstrates different characteristics from many consumer goods normally analysed using value chain analysis. Firstly, cocoa is a traded commodity with price determined by demand and supply on forward/spot markets. However, global demand is generated by an increasingly concentrated number of processors and manufacturers who are in a strong commercial position to buy at favourable prices. Supply has become more competitive through liberalisation in producer countries, and more countries have moved into the sector. With increasing supply, this market context has worked to depress prices. Secondly, processors and manufacturers operating at the consumer end of the market have been better positioned to understand and adapt to changing consumer requirements than small-scale producers, and hence have developed strategies to expand higher value activities.

To remain competitive globally, companies are constantly striving for product innovation and novelty to differentiate themselves and their products. They are also compelled to respond to a market that is changing, and becoming increasingly differentiated. It is possible to identify three market segments: firstly, we have the high-quality ‘niche’ segment, where some consumers are becoming more health-conscious, and have greater access to information, through the internet and long-haul travel, about the origins of the food they buy. The ‘niche’ end of the chocolate market is expanding at a faster rate than the average growth of consumption. For example, ‘fine or flavour’ grades with a known origin were estimated to have grown by a third from 60,000 tonnes in 2000/1 to 80,000 tonnes in 2004/5. This figure is much higher when organic and Fairtrade chocolates are included (estimated 30,000 tonnes; Barrientos et al. 2008). Secondly, there is the mainstream-quality segment, where there is a growing consumer demand that brands should provide broader assurance of product quality that also satisfies health, environmental and social concerns. Thirdly, there is the bulk low-value segment, where there has been a growing volume of demand for cheaper lower-quality chocolate, not only in developed country markets,

but also particularly in some developing countries such as China, India and Brazil.

The changing dynamics of the cocoa-chocolate value chain is reflected in the share of total value going to the different commercial actors in the chain. Value chains reflect a shift in market focus from a producer to a consumer orientation. Larger processors and manufacturers have been able to capture a rising share of final value through attention to consumer demand and market positioning. The World Bank (2008) estimates that developing countries' claims on value added in the cocoa sector declined from around 60% in 1970-2 to around 28% in 1998-2000. Disaggregating the value chain further, estimates indicate that cocoa farmers' share of the cost of a typical UK bar of milk chocolate in 2004 was approximately 4% (Gilbert 2007; Lass 2004). Gilbert (2007) estimated that the processor and manufacturer costs and profit accounted for 43%, the retail costs and margin 24%, with other costs and tax accounting for the difference. Lass (2004) estimates the manufacturing, packaging and distribution share at 35% and the retail costs and margin at 32%. The relative share differential partly relates to costs, but it has been argued that there is an increasing imbalance within the chain between manufacturers/processors and cocoa farmers (Oxfam 2002; Vorley 2004). Any imbalance is partly a result of divergent trends at the buying and producing ends of the chain. Whilst concentration enhanced the oligopoly position of processors and manufacturers, producers faced increasing fragmentation and liberalisation. This raises the issue of whether sustainability for producers is feasible without the rebalancing of power relations within the value chain, and if so, how that could take place given the increasingly dominant position of large processors and manufacturers. In the following section, we examine the role COCOBOD has played in the cocoa sector in Ghana.

3. Ghana cocoa value chain²

To some extent Ghana has managed to steer a better path through the changes in the global cocoa-chocolate value chain than many producer countries. It resisted pressure from the World Bank and the International Monetary Fund in the 1980/90s to dismantle its marketing board. While

it engaged in a process of partial reform, it maintained COCOBOD, which continues to play a key export role today (Shepherd/Onumah 1997). From the perspective of GVC analysis as applied to a traded agricultural commodity, this has put Ghana in a fairly unique position. An important reason behind the ability of lead firms to extract economic rent is their oligopolistic position in relation to a relatively fragmented global supply base. The imbalance in this commercial power relationship allows dominant buyers and retailers to increase the value they extract when negotiating with weaker fragmented suppliers. The continuation of COCOBOD has put Ghana, as a producer country with a small-scale farming base, in a unique position to be able to facilitate the coordination of its position on world markets and negotiate with large chocolate processors and manufacturers.

Ghana is the second largest producer of cocoa in the world, exporting 17% of world exports in 2004/5 (ICCO 2007a). Cocoa is the second largest export commodity of Ghana after gold, accounting for 32.2% of export earnings and 9.5% of GDP in 2006. In cases where inputs in cocoa production are locally sourced, and because of the labour intensity of cocoa production, its importance to the economy is probably much greater than these figures suggest. In contrast to the process of consolidation and integration amongst cocoa processors and chocolate manufacturers, cocoa producers remain characterised by small scale farming in many countries, particularly West Africa. In Ghana, the average holding per farmer is about two hectares. Although migrant and locally hired labour is involved in cocoa farming, historically, cocoa farm operations have been carried out by the farmer and his/her family. However, with reductions in family size and unavailability of children for farm work due to schooling, the use of casual labour has been the norm in current cocoa production.

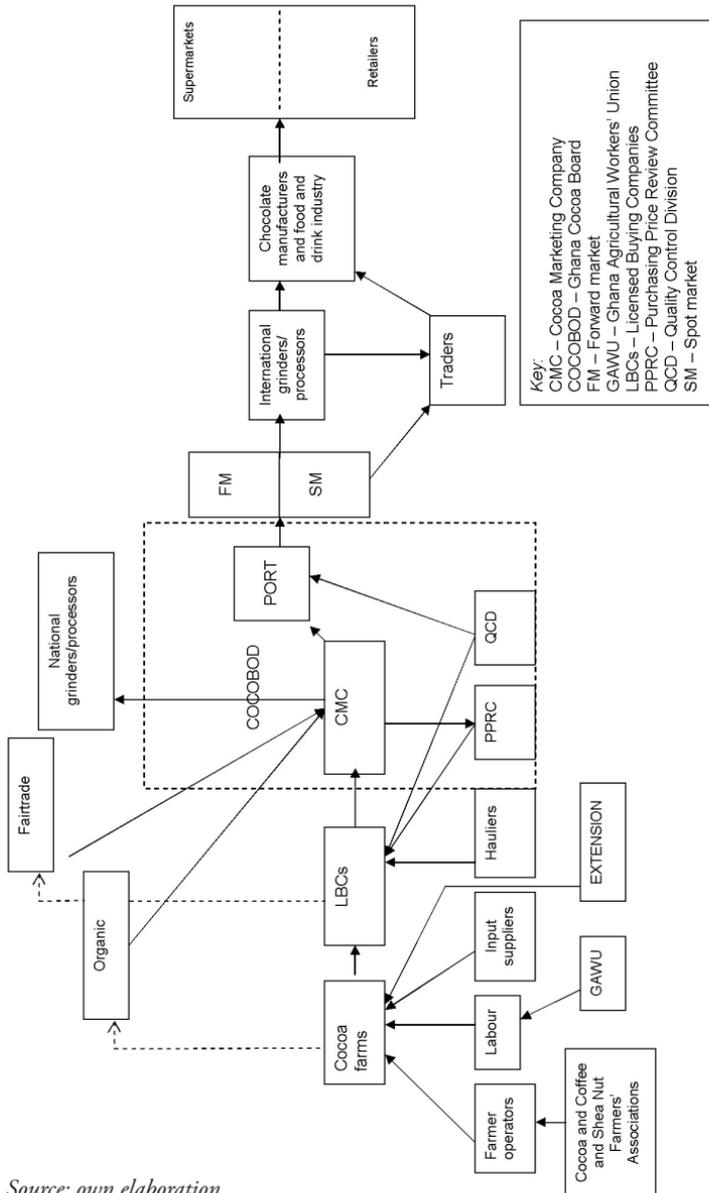
Ghana needs to expand output if it is to meet the increasing demand for high-quality cocoa and maintain cocoa as a key source of export earnings. However, the country currently faces significant production constraints. The availability of land in which there is sufficient forest canopy cover is limited. Producers comprise aged persons; the youth does not aspire to go into cocoa farming because of non-remunerative returns and their desire to re-locate or remain in urban areas after completing basic education. Productivity in the Ghanaian cocoa sector is low compared to other countries. Average cocoa yields in Ghana are currently estimated at 400 kg per hectare, signif-

icantly below an estimated potential yield of 1,000 kg per hectare or the average yield of about 800 kg per hectare in neighbouring Cote d'Ivoire. COCOBOD is engaged in a number of programmes to raise productivity, including replanting with hybrid seedlings, pests control and the use of fertilizer. Therefore, the challenges Ghana faces are both of an internal and external nature.

COCOBOD plays a pivotal role in linking the large number of small-scale cocoa farmers in Ghana to export markets abroad through its subsidiary, the Cocoa Marketing Company (CMC). Figure 1 depicts the current cocoa value chain within Ghana and its integration into the global chocolate market.

At the export end, CMC undertakes the sale of cocoa on the forward and spot markets, through the day-to-day sales of cocoa beans and products to traders and cocoa processors. The trust vested by buyers in COCOBOD allows it to sell cocoa in advance on the forward market, which rewards it with better prices and greater security than other producer countries. Based on the forward price, COCOBOD is able to project its annual free of board (FOB) price for cocoa each season. The Producer Price Review Committee (PPRC) uses this and the forecast exchange rate to set a minimum producer price each year, which is paid to the farmers, protecting them from price volatility. Table 1 gives a breakdown of production, prices and exports for selected years. This highlights the volatility of the cocoa sector, with a decline in production and exports in 2001/2 when world cocoa prices fell, and a subsequent sharp increase in 2003/4, when prices rose on the world markets.

Figure 1: Simplified overview of Ghana cocoa value chain



Source: own elaboration

Table 1: Ghana cocoa production, exports, prices and payments, 1999–2004

	1999/2000	2001/02	2003/04
Production	(in 000 metric tons)		
Main crop (Oct-May)	400	321	669
Mid crop (June-Oct)	30	18	68
Total production	430	339	737
Export (beans)	365	232	642
	(in cedis per tonne)		
Producer price (main)	2,250,000	4,384,000	9,000,000
Producer price (light)	2,428,080	6,200,000	9,000,000
	(in millions of cedis)		
Farmer payments	985,665	1,454,316	6,632,775
Export receipts	1,404,226	2,713,663	8,744,512
Ratio of farmer payments to export receipts	66%	67%	69%

Source: IMF (2005); see also COCOBOD (2004)

By 2005/6 the producer price paid by COCOBOD remained at just over 9,000,000 cedis per tonne, and the FOB price paid to farmers had increased to 73% (Government of Ghana 2005). This amount is put aside before other actors in the market get their share, based on their business costs. The government takes the rest. If the actual FOB price falls below the projected price, the government absorbs the difference. When the actual price turns out to be above the projected price then there is a windfall, and a bonus payment is given to farmers at the end of the year. This process shows the central role of COCOBOD in reducing price volatility for farmers.

Whilst pressure to disband COCOBOD was resisted in the 1980s, a degree of competition was introduced through the Licensed Buying Company (LBC) system. The aim was to increase efficiency in the value chain. Initially six LBCs, including PBC in which the government had a majority-holding, were given licences. By 1997 this had increased to nineteen LBCs, with ten of them buying substantial quantities of cocoa.

In 2006 there were 24 LBCs, with sixteen to eighteen estimated to be active. These included two international companies, Olam (which is Singapore-based) and Armajaro (a cocoa trading house based in the UK). Kuapa Kokoo is the only producers' cooperative operating as an LBC, and is also the only Fairtrade-accredited LBC operating in Ghana. The Cocoa Sector Marketing Committee (COSMARC) recommends LBCs for licensing to COCOBOD, monitors their performance and recommends either renewal or withdrawal of licences.

Cocoa is purchased by LBCs under the auspices of COCOBOD. Cocoa farmers sell their cocoa to one of the LBCs operating in their area. The LBCs buy the cocoa at the society buying sheds at village level, where the cocoa is weighed. The cocoa is then moved to the larger district level sheds of LBCs, where the Quality Control Division (QCD) tests and seals the beans in sacks. The LBC is then responsible for organising the haulage of the cocoa to one of three takeover points (Kasse, Tema or Takoradi) at which point CMC pays the LBC. LBCs may give a number of inducements to attract and retain farmers, such as credit facilities, extension services or gifts. Some LBCs also try to pay a bonus at the end of the year to farmers in addition to any bonus paid by COCOBOD. PBC, which continues to be the largest LBC, has an obligation to buy everywhere, and so buys from some of the more remote cocoa growing areas where other LBCs refuse to operate. It offers support to farmers, including the repair of roads and bridges, provision of water and electricity poles.

Although COCOBOD provides assistance to cocoa farmers there are many problems that the farmers face that reduce their efficiency. One major problem is labour and its cost. Hired labour has become scarce in the rural areas due to the rural-urban migration of young people and this has increased the price of rural labour. Due to the advanced age of farmers it is difficult for them to innovate if they cannot afford hired labour. The labour intensiveness of cocoa farming has given rise to sharecropping, through which a tenant farmer cultivates the land and shares the produce or the farm with the landowner in an agreed proportion. Lack of institutional credit has also been a major complaint of farmers and so they often resort to moneylenders in their communities, who charge exorbitant interest on the loans. To surmount their problems and have a common voice to be able to negotiate with COCOBOD and the government, many farmers belong

to the Cocoa and Shea Butter Farmers Association. Through the Association, farmers can obtain some production inputs at prices lower than market prices. The association also takes part in negotiations for the fixing of the producer price for cocoa and provides a platform to protect the interests of cocoa farmers.

To be able to pay a better remunerative price to the farmers, the Government of Ghana intends to increase cocoa beans grindings and manufacturing carried out within Ghana to about 320,000 tons per annum out of the total production of about 700,000 tons per annum. It is doing this through a combination of public and private initiatives. Currently the partly state-owned Cocoa Processing Company, Barry Callebaut, and the German-controlled company, Wamco Mills, process cocoa beans in Ghana. The agribusiness giant, Cargill, started cocoa beans grindings in November 2008 from its 65,000 ton-capacity processing plant in Ghana. The plant has the potential to increase capacity to 120,000 tons. Another global giant, Archer Daniels Midland, is building a processing plant in Ghana with a capacity of 30,000 tons and it is expected to start working in the first quarter of 2009.

4. Quality assurance and niche markets

COCOBOD plays an active role in coordinating and guiding the sector in relation to supplying the global cocoa-chocolate value chain. This role is most important in relation to overseeing quality assurance and maintaining Ghana's reputation for good quality cocoa as well as a premium price on world markets. It is also an important channel for extending traceability, which is needed to access niche markets, such as Fairtrade, organic and designated origin chocolate, which can earn even higher premiums or social returns. An increasing number of consumers have expressed concern about improving the conditions of farmers and the environment through the purchase of higher price organic and Fairtrade-certified chocolate. Both schemes set standards for production and distribution, but also provide a price premium to participating producers. Whilst they are starting from a low base, in Europe and the US there has been a rapid growth in Fairtrade and organic chocolate, in contrast to slower growth in the conventional cocoa/chocolate market (ICCO 2005, 2006).

The Quality Control Division (QCD) of COCOBOD is involved in pre-buying activities, particularly training LBC staff and increasing awareness amongst farmers regarding quality issues. LBCs do initial quality checks when farmers deliver fermented and dried cocoa beans. LBCs can clean beans to remove bad beans and waste, a process which raises the standard. Once LBCs are ready, they put in an application to QCD for a quality check. The QCD district officers do the next check, determine grades and then seal the bags. The cocoa is then ready for transport to one of the three takeover points. Here QCD does a further sample quality check prior to taking over control of the beans for storage and shipping. There are no foreign quality control officers in Ghana; the EU and US rely on QCD. Quality assurance allows Ghanaian cocoa to command a price premium on international markets, which was approximately 10%, or roughly US\$200-250 per tonne, in 2007. Quality assurance also facilitates advanced selling of Ghanaian cocoa on the forward markets, providing COCOBOD with a degree of security when setting a minimum producer price and reducing volatility for farmers.

COCOBOD thus plays an important role in maintaining the position of Ghana within the cocoa-chocolate value chain. It is not able to immunise cocoa farmers from vagaries of the wider cocoa market, but it is able to provide some kind of buffer. Its engagement has helped to maintain the quality of Ghanaian cocoa, and the resulting premium price has allowed Ghana to capture a higher value than competitor countries. Its ability to negotiate on forward markets has allowed it to set an annual producer price that evens out short-term fluctuations and provides some seasonal stability. However, COCOBOD can only act as a player at the point of export in a value chain that remains dominated by a concentrated group of large processors and manufacturers. To this extent its role is constrained. However, through Fairtrade a small percentage of the Ghanaian cocoa is exported on slightly different commercial terms, aimed at returning a fairer share of the final value back to producers.

Ghana has long been an important exporter of Fairtrade cocoa, through Kuapa Kokoo Ltd. (Kuapa), which is both an LBC and a producer cooperative. Kuapa purchases 7-10% of total output through 1,632 societies with about 45,000 farmer members. It provides farmers with support, information, extension services and a credit union, and is the only Fairtrade-certi-

fied LBC in Ghana (Tiffen et al. 2004). Within the COCOBOD system, a separate channel and warehouse has been designated for Fairtrade cocoa exported by Kuapa, to separate it from conventional cocoa. In 2003/4 Kuapa sold 1,800 tonnes of Fairtrade cocoa, representing approximately 3% of its total deliveries to CMC. Fairtrade cocoa fetches US\$ 150 a tonne social premium and the minimum price should not be less than US\$ 1,600. The social premium earned on Fairtrade exports goes into a Trust Fund for the provision of social amenities. The benefits from the social premium go to the producer cooperative as a whole, and all societies can apply to the Trust Fund for social support.

Fairtrade-labelling is overseen by the Fairtrade Labelling Organisation (FLO). Fairtrade is only 0.2% of world cocoa, but it has experienced high rates of growth, with an annual average growth of 23% between 1996-2006 (ICCO 2007a, 2007b), in contrast to 2-3% in the conventional market. The two largest exporters of Fairtrade cocoa are the Dominican Republic (49% of total) and Ghana (45% of total). Kuapa is also a part-owner of the UK Fairtrade chocolate company, Divine. This has allowed it to operate more directly at the consumer end of the market. Even though Fairtrade is a small percentage of its total sales, Kuapa members say that working through Divine has given them an important understanding of how the external value chain operates. This contributed to Kuapa negotiating to become the sole source of cocoa for the Co-operative Supermarket in the UK, which was the first supermarket to launch its 'own-brand' Fairtrade chocolate range (Barrientos/Dolan 2006; Barrientos/Smith 2007).

Larger-volume chocolate manufacturers have until recently not gone down the Fairtrade-certified route, although some now sell dedicated organic and organic Fairtrade ranges (such as Green & Blacks, which is owned by Cadbury). However, the trend towards more socially and environmentally aware consumption in the middle and upper segments of the chocolate market has promoted the advance of corporate social responsibility amongst some larger-volume chocolate manufacturers. Commercially they are vulnerable to the risk of adverse publicity due to poor social conditions in producing countries. A key challenge is whether large chocolate manufacturers do this in a way that is effective in promoting longer-term sustainability for cocoa farmers and which ensures the product quality required by the mainstream quality segment of the consumer market while

meeting social and environmental standards. COCOBOD not only plays an important role in maintaining quality for the mainstream market, but can also play a pivotal role in negotiating with large buyers exploring higher premium routes. It can liaise with other government departments to promote broader social and environmental conditions for production, and ensure benefits are also reaped by cocoa farmers and their communities.

5. Concluding remarks

Value chain analysis has increasingly been used as a framework for examining the linkages between commercial actors in the cocoa-chocolate sector. The evolving cocoa-chocolate value chain has been characterised as 'bi-polar' in its governance structure, with increasing concentration amongst cocoa processors as well as large brand name chocolate manufacturers. In contrast, production remains characterised by small-scale farming in many countries, particularly in West Africa. Many countries were pressured to dismantle marketing boards under economic liberalisation, thus increasing producer fragmentation. New supplier countries expanded production, particularly in Asia under large scale plantation operations. Oversupply of cocoa contributed to a secular decline in prices, and a fall in the overall quality of cocoa beans. Ghana has not been immune from international trends but resisted pressure in the 1980s to liberalise its marketing system. It has benefited from the continued role of COCOBOD, which has provided support to farmers and coordinated the marketing of Ghanaian cocoa on international markets. COCOBOD plays an important role in protecting farmers, coordinating exports on world markets, and bargaining with powerful commercial firms that govern the cocoa-chocolate value chain.

At the other end of the value chain, processors and manufacturers responded to changing consumer patterns. Consumer tastes have become more nuanced and differentiated by price and quality, with greater segmentation in the chocolate market. Manufacturers and processors have become attuned to growing consumer concerns with social and environmental issues. As a consequence, there is increasing demand from manufacturers serving some markets for the availability of high-quality cocoa that is produced in accordance with international social and environmental stand-

ards. COCOBOD plays an important role in positioning Ghana in this changing market. Its support for farmers has maintained the quality of Ghanaian cocoa, which continues to earn a price premium. More importantly, Ghana's high quality cocoa has meant that it has been able to sell more of its cocoa than other producer countries on forward markets. This facilitates the setting of domestic producer prices by COCOBOD, which protects farmers from seasonal volatility in the markets.

GVC analysis helps to provide important insights into the changing dynamics in the cocoa-chocolate sector, where there is an embedded imbalance between concentrated buyers and fragmented producers. Buyers have been able to capture value both through their greater commercial power and through their more nuanced understanding and targeting of consumer markets. Combined with market pressures and oversupply, fragmented producers have often been subjected to declining prices and rising costs, with adverse implications for quality, social and environmental standards. Fairtrade has helped to address these issues in niche segments of the market. Extending such gains to a wider producer base is more challenging where fragmented producers have little or no bargaining power. COCOBOD could help to promote farmers' interests, quality and sustainability in the higher-premium segments of the global market.

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- 2) This section draws largely on Barrientos et al. 2008.; please see full report for further details.

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Abstracts

The cocoa-chocolate value chain is undergoing rapid transformation. It is characterised by increased concentration amongst buyers, with fragmentation amongst producers (largely small-scale farmers in Africa). Commercial pressures are leading to downward prices and quality. However, greater consumer focus on quality, social and environmental sustainability facilitates higher premium prices in some market segments. This paper examines the changing dynamics of the cocoa-chocolate value chain and considers its effects on the development of the Ghanaian cocoa sector. The paper focuses on how the maintenance of a cocoa marketing board (COCOBOD) in Ghana has helped to maintain Ghana's position as a world producer of high

quality cocoa, to negotiate with global buyers and to support small-scale producers. However, a rebalancing of power relations within the value chain is needed if the sustainability of the sector is to be secured.

Die Kakao-Schokolade-Wertschöpfungskette erfährt schnell ablaufende Veränderungen. Sie ist charakterisiert durch eine zunehmende Konzentration bei den Käuferunternehmen (*buyers*) und eine Fragmentierung bei den ProduzentInnen (hauptsächlich Kleinbauern und -bäuerinnen in Afrika). Wirtschaftlicher Druck führt zu fallenden Preisen und sinkender Qualität. Allerdings ermöglicht ein bewusstes Kaufverhalten der KonsumentInnen in Bezug auf die Qualität sowie sozialer und ökologischer Nachhaltigkeit in der Produktion höhere Preise in manchen Marktsegmenten. Der Artikel untersucht die sich ändernden Dynamiken der Kakao-Schokolade-Wertschöpfungskette und deren Effekte auf den Kakaosektor in Ghana. Besondere Aufmerksamkeit erhält das ghanaische Kakao-Marketingboard (COCOBOD), dessen Erhalt dazu beigetragen hat, die Weltmarktposition Ghanas als Produzent hochqualitativen Kakaos zu sichern, Verhandlungen mit *global buyers* zu führen und KleinproduzentInnen zu unterstützen. Allerdings müssen die Machtbeziehungen in der Wertschöpfungskette ausgeglichener werden, wenn die Nachhaltigkeit des Sektors gesichert werden soll.

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LARS HILDEBRAND

Brazil's integration into the global commodity chain of aluminium: an opportunity for economic development?*

1. Introduction

Today the majority of low- and middle-income countries (LIC/MICs) strives for world market integration, encouraged by major development actors (United Nations, World Bank) and facilitated by international trade and finance institutions (World Trade Organization, International Monetary Fund). At the same time, various LIC/MICs have started to focus again on expanding their activities in mineral mining and metal production since commodity prices started soaring in mid-2001 and predictions of rapidly rising global demand assure sustained high world market prices. This paper aims at analysing the development impacts associated with the expansion of the extractive and metal industries in LIC/MICs, using Brazil's export-oriented aluminium industry as an illustrative case. However, in contrast to most contemporary extractive industries research, the following analysis will not focus on the scale of the nation-state, but instead apply the transnational and network-based Global Commodity Chains (GCC) approach (Gereffi et al. 1994). Although originally developed for understanding the changing geographies of production in manufacturing (see Gereffi/Memedovic 2003 for the apparel industry; Humphrey/Memedovic 2003 for the automobile industry; Kaplinsky et al. 2003 for the furniture industry), the tools and concepts of the GCC approach also promise a new perspective on extractive and metal industries by placing spatial and temporal configurations of inter-firm networks as well as their implications for development at the centre of analysis. In fact, as Bridge has shown in his work on the oil industry, network-based research perspectives such as GCC, Global Value Chain (GVC) or Global Production Network (GPN) approaches "challenge

explanations of poor development outcomes based solely on state-failure” (Bridge 2008: 414).

The main purpose of the paper is to apply the analytical toolkit of the GCC approach to the global aluminium industry, focussing on development issues in the export-oriented aluminium industry in Brazil. Therefore, in the first part the basic structure of the global aluminium industry will be introduced, outlining the main processes of production and geographic shifts as well as characteristic features of the GCC, e.g. type of governance and distribution of value along the chain. The second part will focus on Brazil as an illustrative case and briefly analyse the outcome of Brazil’s expansion in the aluminium sector, especially in relation to the characteristic features of the GCC. In the final section the findings will be used to reflect on the main factors that condition the (limited) opportunities of transnational extractive and metal industries for providing sustainable development benefits.

2. The global commodity chain of aluminium

2.1 Processes, production shifts and lead firms of the global aluminium industry

The production of primary aluminium² can be divided into three basic processes (see also Figure 1): (1) The mining of bauxite involves the relatively simple mechanic extraction of the ore as well as crushing and washing processes. (2) For refining, bauxite is dissolved in caustic soda before it can be chemically decomposed. The generated aluminium hydroxide condenses and is then transformed into aluminium oxide (alumina). (3) The smelting (also called reduction) requires the dissolving of aluminium oxide in molten cryolith, after which the raw aluminium is obtained by electrolysis. Subsequent processing includes the metallurgical production of alloys (by blending with elements such as copper or silicon) and the fabrication of semi-finished and end-products (by a variety of casting, rolling and extrusion methods).

Historically, mining, refining and smelting were concentrated in the industrial centres of North America and Europe. However, today a major part of the production processes take place in various countries of Latin America, the Caribbean, Asia and Africa (see Table 1 and 2). In recent

years, the emerging markets of China, Brazil and Russia in particular have accounted for high growth rates in production volume as well as in market share in all three production segments of the commodity chain. Within a few years they became global leaders in the world market of aluminium. Another characteristic development is the relocation of smelting activities in countries with energy abundance, especially in the Persian Gulf Region. Construction of new reduction plants as well as the upscaling of existing ones in the United Arab Emirates, Bahrain, Oman, Saudi Arabia und Qatar will increase the global production share of the Gulf Cooperation Council from 4% to 10% by the year 2010 (Bundesagentur für Aussenwirtschaft 2006). This is motivated by the fact that costs for electric energy account for almost one third of the total production costs of primary aluminium. In summary, the commodity chain of aluminium has disintegrated geographically over the past decades and has spread out globally. The main focus of production has moved from the high-income countries (HICs) (e.g. Canada, USA, Japan) – which at the same time represent the biggest consumers – to various LIC/MICs (see Hildebrand 2007).

Table 1: The largest bauxite, alumina and primary aluminium producing countries worldwide

Bauxite (2007)		Alumina (2007)		Primary aluminium (2006)	
<i>Country</i>	<i>Volume (Thousand metric tons)</i>	<i>Country</i>	<i>Volume (Thousand metric tons)</i>	<i>Country</i>	<i>Volume (Thousand metric tons)</i>
Australia	62,428	China	19,500	China	9,349
China	30,000	Australia	18,844	Russia	3,718
Brazil	22,100	Brazil	6,890	Canada	3,051
Guinea	18,000	Jamaica	3,941	USA	2,284

Source: USGS (2008)

Table 2: Production share of High-Income Countries (HICs), Low and Middle-Income Countries (LIC/MICs) and Eastern Europe Countries (EEC)

Year	Bauxite			Alumina			Primary Aluminium		
	HIC	LIC/MIC	EEC	HIC	LIC/MIC	EEC	HIC	LIC/MIC	EEC
1985	41%	49%	10%	60%	24%	15%	58%	19%	23%
1995	38%	58%	4%	56%	34%	10%	53%	31%	16%
2005	37%	59%	4%	46%	45%	9%	40%	46%	13%

Source: Hildebrand (2007)

These global shifts in production coincided with further internationalisation of the companies involved in the chain. Major actors in the GCC of aluminium are privately owned transnational corporations (TNCs). The degree of concentration in the industry has increased significantly since 1995 following a series of cross-border mergers and acquisitions. Today, the three biggest producers of primary aluminium have a market share of more than 35%. These are Rio Tinto-Alcan (Australia), United Rusal (Russia) and Alcoa (USA). Alcoa and Rio Tinto-Alcan are at the same time the TNCs with the highest revenues from aluminium related activities, accounting for more than US\$20 billion in 2007. Both companies are among the largest commercial enterprises in the world, generating total revenues of over US\$30 billion annually. It is a common strategy in the aluminium industry to cooperate as investors in collectively controlled joint ventures. The participating companies do so in order to reduce exposure to extremely high financial (and sometimes geological) risks involved in large-scale investment projects. These risks are largely associated with variations in resource quality as well as volatile world market prices – risks which are characteristic for the extractive industries. At the same time, the cooperation with equity partners increases their market power in relation to suppliers and their bargaining power towards host governments. The Brazilian *Mineração Rio do Norte* (MRN) for instance – one of the largest bauxite producers worldwide – is a joint venture of Vale (formerly *Companhia Vale do Rio Doce* (CVRD), Brazil), Alcoa (USA), BHP Billiton (Australia), CBA (Brazil), Hydro (Norway), Rio Tinto-Alcan (Canada) and Alumina Company Limited (Australia). Since

the 1970s TNCs have also included state owned companies as equity partners in their operations in LIC/MICs, mainly in order to secure their access to resource deposits and to reduce the risk of nationalisation in times of state-induced industrialisation policies. In the 1990s however, most of these companies were privatised so that the participation of state owned companies in the aluminium industry is very limited today. Nevertheless, in countries like India, Venezuela and Ghana national governments remain owners or shareholders of various production facilities. In general, the majority of the lead firms in the aluminium industry are still headquartered in HICs; however, the importance of companies from the emerging markets of Russia, China and Brazil has increased significantly in recent years.³

2.2 Features of the GCC of primary aluminium

The GCC of the aluminium industry is a classic producer-driven chain (for the concept of GCC see Gereffi et al. 1994), characterised by capital- and technology-intensive processes, high production capacities and a high degree of control exercised by the key production units of the chain: the TNCs. Traditionally, metal producers (meaning the operators of the reduction plants) constitute the lead firms of the commodity chain. They coordinate the economic activity in upstream (mining, refining) as well as in downstream processes (processing). Despite a tendency to focus on core activities while relying more on specialised providers, these lead firms continue to be characterised by an extremely high degree of vertical integration⁴, which enables them to minimise the transfer costs of raw materials and maximise their value added. It also allows them to focus their investments in the chain segment with the highest returns, depending on the current raw material, labour and energy prices.⁵ The fast-growing mining companies, which in recent years entered the GCC from the upstream end of the chain, are no exception to that strategy; they have started to integrate downstream processing into their activities as well (e.g. BHP Billiton).

Considering the distribution of value added (as a conventional indicator of income shares), two structural aspects of the GCC of aluminium are of particular importance: firstly, compared to other metals the share of value added in the production step of ore extraction is only around 10%. In the production of lead and copper this share is 77%; tin even generates 83% of total value added in the mining process (UNCTAD 2007). Secondly, in

contrast to steel production, for instance, the share of processing in total value added is relatively low, depending on the end-products. The major share of total value added – and therefore the major share of total income – accrues at the smelting process. Therefore, the powerful position of lead firms in the aluminium industry stems from their market power as well as from their positioning in a chain segment with a large share of total returns (see Kaplinsky/Morris 2001). An indicator of the importance of the smelting process for the generation of income is the fact that it is highly protected against competitors by a variety of patents. In fact, virtually all parts of reduction technology, ranging from process control engineering to production components like point-feeders and sometimes including complete factory layouts, are protected by patents today. Some of them are so fundamental for the production processes that their owner can directly control the entrance of new producers into the commodity chain of aluminium. The AP (Aluminium Pechiney) technology, for instance, accounts for more than 80% of new smelting capacity installed since 1990 in the Western World (Alcan 2005). Pechiney's patents for this leading-edge smelting technology has given the company a powerful position in the construction of reduction plants and significantly influenced Pechiney's takeover by Alcan in 2003. Today only a very limited number of lead firms possess the ability to construct new smelters for the global aluminium industry, among them the global leaders Rio Tinto Alcan and Hydro.

Although not yet incorporated into the GCC approach, another aspect of the control exercised by key production units seems to be particularly relevant in the production systems of extractive and metal industries: the externalisation of ecological and social costs. Following Gereffi, governance means the authority to influence the creation and allocation of value within a chain (Gereffi 1994: 97). Building on Gereffi's notion, this article argues that, particularly in the extractive industries, governance might also include the ability to free oneself from environmental and social costs or to influence the activities of governments, workers, and local populations confronted with these costs. As in most resource extraction projects, the environmental and social impacts of aluminium production are influenced by various factors, such as the technology in use, the scale of the extraction activities and the location of the projects (e.g. the proximity to other economic activities, such as agriculture and fishing). Despite this complexity some parts of

the production chain of aluminium can be identified as being particularly problematic. One is undoubtedly the refining process, because it generates large quantities of red mud, a residue of the chemical breakdown of bauxite ore. Red mud contains caustic soda as well as heavy metals and must be disposed of in sealed storage sites. In the past, inadequate storage of red mud residue led to massive environmental pollution; in Jamaica for instance, about 200 million m³ of groundwater were contaminated between 1960 and 1990 (Fernandez 1991). Today, storage methods have progressed significantly. However, storing red mud residues continues to be associated with environmental risks, especially in high-precipitation areas of the tropics⁶. Negative impacts of the mining process have been significantly reduced in the past by technical progress in restoring mine sites following their closure. Still, mining in rainforest areas remains problematic, as the original biodiversity of the primary rainforest cannot be restored. Most affected by this environmental change are indigenous groups, whose traditional forms of subsistence often depend on the rainforest ecosystems. Emissions of smelting could be reduced by the modernisation of process engineering and filtering systems. More important are the impacts of electricity generation linked to the energy-intensive smelting of aluminium, as more than half of the energy consumed in the electrolytic reduction process is produced by hydroelectric power plants (International Aluminium Institute 2008). The social and ecological effects of dam projects are severe. Estimates by the World Commission on Dams (WCD 2000) suggest that some 40 to 80 million people have been displaced by dams worldwide. Large dams have also led to the loss of forests, wildlife habitats and the aquatic biodiversity of upstream and downstream fisheries. Many of the dam projects of the last 50 years were directly connected to aluminium production, e.g. Guri (Venezuela), Grand Coulee (USA), Assuan (Egypt) and Akosombo (Ghana).

3. Brazil's integration into the global commodity chain of aluminium

3.1 The aluminium sector in Brazil

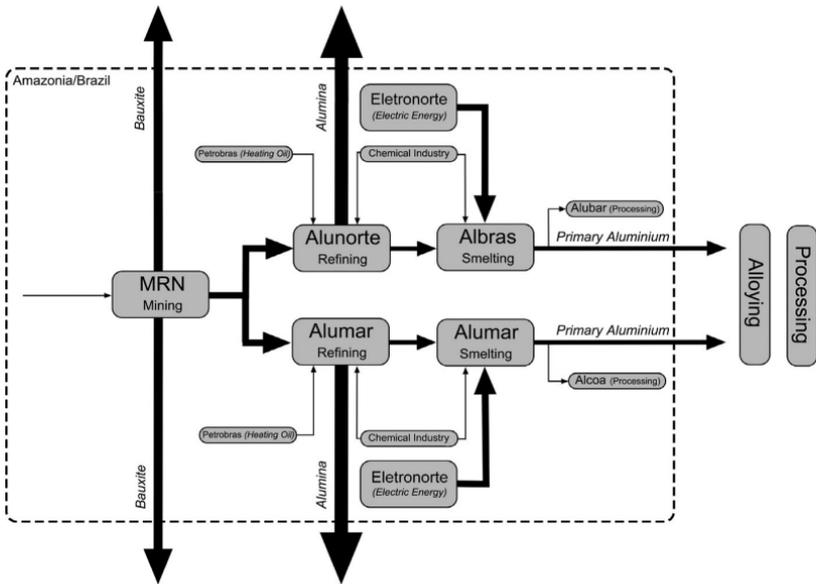
With more than 22 million tonnes annually, Brazil (meaning the companies producing in Brazil as a whole) is the second largest bauxite producer,

with more than 6 million tonnes, the third largest alumina producer, and with 1.5 million tonnes the sixth largest aluminium producer in the world. A significant share of total production volumes is exported, especially alumina (50%) and primary aluminium (52%). The share of bauxite exports is only 23%. Brazilian aluminium consumption is growing but still relatively low, on average 4.6 kg per year and person⁷ (ABAL 2008).

Since the 1940s various privately owned companies have operated smaller production plants in Brazil, mainly aiming at the domestic market, e.g. the Brazilian Companhia Brasileira do Alumínio in São Paulo, Alcan (Canada) in Ouro Preto and Alcoa (USA) in Poços de Caldas. However, these enterprises have never been able to meet domestic demand, and today their share in Brazil's total production volume is only around 30% for bauxite, 20% for alumina and 45% for primary aluminium (ABAL 2008). Instead, Brazil's strong position in the world market today is connected to the establishment of large export-oriented production complexes in Amazonia. These production complexes were the result of the ambitious industrial development projects put into place under the Brazilian military governments in the 1970s and 1980s⁸. Under the import substitution industrialization policies (ISI) of that time, the expansion of mining and production capacities – spearheaded by the state-owned company Companhia Vale do Rio Doce (CVRD) – aimed at enhancing exports and generating foreign currency. Since the military governments relied on foreign investment for this large-scale industrialisation project, they negotiated agreements with several large TNCs from the global aluminium industry to establish a complete aluminium production line in Amazonia. As a result of this, three export-oriented industrial complexes were erected between 1979 and 1985: Mineração Rio do Norte (MRN) (bauxite) in Porto Trombetas, Alumar (alumina, primary aluminium) in São Luís, the Alunorte-Albras (alumina, primary aluminium) in Barcarena, and the hydropower plant Tucuruí (see Figure 1). All of the production facilities were joint ventures of differing compositions; among the foreign stakeholders were Alcan, Alcoa, BHP Billiton and the Japanese consortium Nippon Steel. The debt crisis, the return to democracy, falling aluminium prices and a growing environmental movement resulted in a temporary policy change in the late 1980s, stressing concepts such as participation, environmental conservation, and sustainability⁹. However, since the late 1990s, world market integration

has become the main objective in Brazil's economic policy, and the recent boost in metal prices turned the aluminium industry into a key sector of this development strategy once again. Even the former union leader and currently acting president Luiz Inácio Lula da Silva supports the expansion of the aluminium production, although his *Partido dos Trabalhadores* (PT) once strongly opposed various energy projects of the industry (e.g. the damming of the Rio Madeira and Belo Monte) during the late 1980s. Today Lula's economic and tax package *Programa de Aceleração do Crescimento* (PAC), amounting to 500 billion Reais (US\$200 billion) and introduced after his re-election in November 2006, focuses mainly on public investments in infrastructure projects and official credit lines. It also includes a number of tax cuts designed to stimulate investment in some key sectors (e.g. the civil construction industry). Major beneficiaries of the PAC are the export-oriented companies of the agro- and mineral industries in Amazonia. Motivated by this growing political support as well as by increasing world demand the major aluminium companies operating in Brazil project investments of more than US\$7 billion by the year 2010, mainly in the production segments of mining, refining, and smelting (Filleti 2006).

Figure 1: The production chain of the export-oriented aluminium industry in Amazonia/Brazil



Source: own elaboration

3.2 Economic impacts of Brazil's integration into the GCC of aluminium

Brazil's longstanding experience with the aluminium industry as a main driver for economic development, whether under policies of import substitution or market liberalisation, provides important insights into the potential and problems of integrating into global commodity chains in the extractive/metal industries, especially regarding enhancements of exports, linkages, employment impacts, and generation of government revenues.

The military governments of the 1970s and 80s succeeded in establishing a complete aluminium production line. Even if the environmental and social costs of these industrialization policies were significant, it must be conceded that in one aspect the ISI strategy was successful: the rapid expansion

sion of production capacities in mining, refining as well as smelting enabled forward linkages along the GCC of aluminium and allowed the companies operating in Brazil to capture a relatively large share of total value added. This rapid growth helped to balance Brazil's negative foreign trade balance and increased foreign exchange reserves – even though the economic impact of the last aspect depends on metal prices and therefore proved to be extremely volatile. Attempts to upgrade into downstream segments (production of alloys, processing) were, however, rather unsuccessful: up to today only 5% of the primary aluminium from the Albras reduction plant, for instance, ends up in Brazilian manufacturing and most of that is processed into electric cables with low value added. The bulk of primary aluminium of the Albras and Alumar smelters is exported to North America, Europe and Japan, mostly as unalloyed aluminium ingots. As a result of the liberalisation policies of the 1990s and soaring metal prices since 2001, Brazil's export-oriented aluminium industry has started to focus on chain segments rather than on strengthening linkage effects: rapid growth took place in the upstream segments of mining and refining, while the smelting capacities stagnated. Today Brazil is already the biggest exporter of bauxite worldwide and ranked number three in alumina exports. The future investment of leading TNCs in the upstream segments will add to this tendency – this applies for Alcoa as well as the Brazilian global player Vale. This massive expansion in upstream segments does not, however, result in a massive growth in revenue. More likely, it demonstrates the shift of Brazil's position in the GCC of aluminium to upstream segments with significantly lower value added. However, despite the fact that export volumes of bauxite and alumina production have rapidly increased between 2000 and 2005, together they still only add up to half of the export value of primary aluminium (about US\$1.4 billion) (UN Comtrade 2008). The main cause for this shift in the GCC is the strategic orientation of the participating TNCs, which focus on the strong demand for bauxite and alumina on the world market (especially from China) as well as the competitive advantages of the host country.

In contrast to significant backward linkages, the Brazilian production line does not have significant ties to other industries. Bauxite mining primarily requires drilling equipment, load haul dumps, trucks and crushers, which are provided by specialized suppliers headquartered mostly

in the United States or Scandinavian countries (e.g. Caterpillar/USA, Atlas Copco/Sweden). For refining the most important input is caustic soda, which is a waste product of large-scale industrial chlorine production and therefore does not have major economic impacts. Aluminium smelting is closely connected to the energy sector, but the beneficial implications are questionable, as the low electricity rates do not even cover production costs. After renegotiations in 2004 Albras and Alumar pay between US\$17 and 21 per MWh to the state-owned energy provider Eletronorte – market prices were at around US\$27, while production costs are estimated at around US\$70 (ABRACEEL 2004).

Extractive industries generally make only a limited contribution to employment at the macro level. This applies especially to projects where TNCs are involved, as they tend to use more capital-intensive technologies than domestic companies in developing countries (UNCTAD 2007). The Brazilian aluminium production is no exception to that. In general the technology-intensive, export oriented production complexes in Amazonia are important regional centres of commerce, attracting a variety of different suppliers and services; still, the number of directly employed persons is rather low. Brazil's export-oriented joint ventures of major TNCs – MRN (mining), Alunorte (refining), Alumar (refining), Albras (smelting) and Alumar (smelting) – together add up to only 5,350 direct employees. In comparison, the domestic aluminium company CBA alone – producing mainly for the national market – has 5,700 direct employees.

As in many extractive industries, capturing a significant share of the mineral rents through direct ownership (be it through wholly state-owned companies or joint ventures) or through taxes and royalties is particularly important for the Brazilian state in order to achieve economic benefits from the aluminium production. In fact, since the 1980s the taxes and royalties paid by the entire Brazilian aluminium industry have increased. At the same time, it is rarely disclosed that the export-oriented companies in Amazonia still receive significant tax cuts. Since 2000 Alunorte, for instance, has been granted a complete remission of income tax for production volumes up to 800,000 t/a and a tax benefit of 75% for production volumes exceeding that number (Alunorte 2006). Similar agreements exist with the remaining joint ventures in Amazonia (see Hildebrand 2007).

The bulk of the aluminium production chain in Amazonia has always been owned by TNCs headquartered in the US, Canada, Australia, Norway and Japan; therefore, it can be concluded that a large proportion of the income has always gone to them rather than to the host economy. However, Brazilian government revenues, through direct ownership, were still substantial as long as the mining company Vale (a major stakeholder in the projects Alunorte, Albras and MRN) was a state-owned company. The process of deregulation and privatisation which started in the 1990s led, however, to the controversial disposition of Vale in 1997, resulting in the loss of these important government revenues. Today a large part of Vale's profits is transferred abroad as dividends to international shareholders.

Both aspects – favourable tax regulations as well as the questionable disposition of major state owned assets – show how the Brazilian government, against the backdrop of large external debts, adopted agreements that were extremely generous to foreign investors, especially to powerful consortiums of TNCs promising large scale industrial development and modernisation.

3.3 Environmental and social impacts

The aluminium production line in Amazonia has caused various environmental problems and social conflicts. Some of them occurred primarily during the 1970s and 80s, when the facilities and the infrastructure were erected, while some of them still persist today. For instance, the mining company MRN has learned to considerably improve the reutilisation of abandoned mining areas, thereby avoiding the severe and long-lasting environmental degradation of earlier times. However, since the mining activities still take place in areas of primary rainforest, the extraction inevitably leads to the loss of the original biodiversity, making it impossible for the local indigenous population to maintain their traditional forms of subsistence. In addition, hunting, fishing and cultivation are forbidden everywhere in the concession area of MRN (Müller-Plantenberg 2006). The experiences with MRN have also demonstrated the reluctance of companies to clean up contaminations from the past: the local people, the Quilombos, for instance, still await the purification of Lake Batata, contaminated with residues from bauxite washing during the 1980s (Schäfer/Studte 2005). In the refining stage technical progress has led to advanced production proc-

esses and lower environmental risks as well. Despite this, accidents periodically occur and caustic soda ends up in rivers or groundwater systems, contaminating drinking water and killing fish stock. In 2003 and 2005 for instance, caustic soda from Alunorte contaminated the Rio Murucupi and the Rio Pará. The storage of red mud in large open pits remains a severe environmental risk, especially in Brazil's tropical rainforest areas. The reduction plants of Albras and Alumar have reduced the emissions with modern process- and filter-facilities. A major environmental problem, however, is the energy generation associated with the smelter. The construction of the Tucuruí dam involved the displacement of 25,000 to 35,000 people between 1975 and 1985, and 40,000 people were affected by water shortage, reduced fish stock and health problems (La Rovere/Mendes 2000). In the late 1980s this led to a broad protest movement, consisting of environmentalists, local groups, and the Landless Workers' Movement (MST), among others. This protest movement has gained momentum again recently, since various dam projects are back on the agenda (Estreito by Alcoa and Vale, Belo Monte by Alcoa). Demonstrations, occupation of bridges, and lawsuits against dam projects illustrate the growing resistance against new projects of the aluminium industry.

Conflicts around health and safety issues as well as workers rights are apparent all along the production chain. Brazilian union associations such as the STIEMBO (*Sindicato dos Trabalhadores nas Industrias Extrativas em Minerais Não Ferrosas de Oriximiná*, PA) criticise the harsh working conditions at MRN as well as the absence of state control in the large company town of Porto Trombetas (Switkes 2005; Girndt 2007). According to the Central Unionists Association CUT (*Central Única dos Trabalhadores*), at Alunorte and Albras intimidation and buying of votes took place during union elections in 2007. These activities aimed at putting pressure on local union groups in order to keep critical voices out of the media (CUT 2007). Employees of Alumar in Sao Luís complain about insufficient occupational safety as well as repressive measures by the management. The company has still not permitted a workers' council. In 2003, the management of Alumar made use of the military police in order to end a demonstration of workers on the factory ground. The metal union CNM (*Confederação Nacional dos Metalúrgicos*) characterised Alumar as the worst company of 2005 (CNM 2006).

4. Policy challenges for broader economic development

The depicted economic, ecological, and social impacts of the Brazilian aluminium production reveal two significant aspects of the integration of LIC/MIC into the GCC in the extractive and metal industries: firstly, there is a conflict of interests between the two main actors, namely the participating TNCs and the Brazilian government. The latter promotes a massive expansion of the production capacities in the aluminium sector in order to stimulate economic development, or more precisely to increase private income through the generation of employment as well as to increase government income through tax revenues and foreign exchange proceeds. Therefore, the integration of the technology-intensive smelting process, as well as the participation of domestic companies, is of great importance for the development objectives of the Brazilian governments. In the 1970s and 80s a major concern was the establishment of downstream linkages towards processing industries, as they play a key role in employment creation and other positive externalities such as technology transfer (Prebisch 1981). These longer term development objectives do not always coincide with the short-term profit maximisation motives of TNCs, which do not focus on labour-intensive downstream processing, but on capital-intensive upstream production in order to meet rapidly growing demand on the world market, especially from China. However, upstream production in the aluminium industry does not create significant value added, which seems to be generally symptomatic of Brazil's recent integration into the world market, as it is particularly characterised by rapidly growing exports of agrarian products and mineral resources. Based on research on the fast-growing development economies of Brazil, Russia, India and China (the so-called BRICs) conducted by the former investment bank Goldman Sachs (Wilson/Purushothaman 2003; Goldman Sachs 2007), this development has commonly been put into a polemical but revealing formula: Brazil will become the raw materials warehouse of the world economy in the next 20 years – along with India as service provider, China as factory, and Russia as gas station (FAZ 2006).

Secondly, the Brazilian case study demonstrates that in the capital-intensive aluminium production industry the distribution of income between TNCs and the Brazilian state largely was – and still is – a result of

negotiations over the terms and conditions of TNC participation. Since the industry is highly concentrated, vertically integrated, and characterised by joint venture investments, a small number of global TNCs possess strong bargaining power over host countries. Under the Brazilian military regime of the 1970s and 80s this fact led to agreements extremely generous to investors, including, for example, the complete public funding of the Tucuruí dam and power plant (US\$6.6 billion), an industrial village and a harbour – all financed by external debt – as well as extremely low electricity rates with terms of 20 years (approved by the state-owned Eletronorte). On the other hand, the Japanese consortium NAAC, one of Brazil's contract partners in these negotiations, managed to withdraw from the agreement to establish a manufacturing industry (De Sa 1994). Interestingly enough, comparable agreements were made during the liberalisation period of the 1990s, when once again efforts were undertaken to attract foreign investment in order to boost exports and earn foreign currency, even though this time they were undertaken by a democratic government aiming at world market integration. A prominent example is the controversial privatisation of Vale (then CVRD) in 1997 that led to a massive protest movement and violent encounters in front of the stock market of Rio de Janeiro. In the end the company was sold at an extremely low price of 3.3 billion Reais – between 1998 and 2000 CVRD's profits alone accrued to 4.5 billion Reais, while in 2006 they reached 13.4 billion. Brazil has tried to respond to experiences like that by, for example, publicly auctioning the power generated at Tucuruí after the expiration of the contracts with the industry in 1994. Yet, in the end, the market power of the aluminium companies remained significant: state-owned Eletronorte negotiated electricity prices higher than in 1984, but still substantially below market-prices and still not cost-covering. Altogether, the bargaining power of the lead firms in relation to host countries corresponds with their powerful position inside the commodity chain, which also gives them the ability to enforce operating measures against the opposition of workers or local populations. In view of the history of the aluminium industry, the power of the lead firms is unlikely to decline in the future; on the contrary, the trend of ongoing market concentration suggests it is more likely to increase substantially.

In conclusion, the analysis of Brazil's involvement in the GCC of aluminium demonstrates that net outcomes of market integration in the

extractive and metal industry depend mainly on two factors. Firstly, the structure of the particular chain; in the case of aluminium production this is characterised by relatively high value added in smelting in contrast to manufacturing and upstream production. Employment effects are low in upstream activities but substantial in manufacturing. Social and ecological problems are most severe in refining and in power generation. At the same time, the aluminium industry is characterised by a high degree of internationalisation as well as concentration and is driven by a small number of powerful TNCs. They control most chain operations and capture a major share of the total income; as a result, their bargaining power vis a vis host countries is high. Secondly, the interests and policies of host countries: capturing the maximum value created in aluminium production is closely connected to issues of direct state-ownership or participation (for revenues through profits) as well as stringent fiscal frameworks (for revenues through taxes and royalties) in upstream operations. Generating employment and learning opportunities, on the other hand, depends largely on the establishment of processing industries downstream and requires the active participation of domestic enterprises rather than TNCs exclusively. To minimise the ecological and social costs along the chain, the introduction and enforcement of environmental legislation as well as regulatory frameworks for the participation of grassroots actors such as workers, local communities and indigenous minorities, is indispensable.

- 1) I would like to thank the editors for their invitation to contribute to this special issue of the JEP. I also thank Christof Parnreiter for his support and the constructive comments on an earlier draft. This paper draws on research undertaken for my first degree master's thesis on the Global Commodity Chain of the Aluminium Industry at the University of Hamburg. I am solely responsible for any errors of fact or interpretation.
- 2) This paper only deals with primary aluminium (made from bauxite ore), because in the discussion of strategies for economic development in LIC/MICs secondary aluminium (processed from aluminium scrap) has not played an important role yet.
- 3) In October 2006, the Brazilian CVRD took over the Canadian Inco at the price of US\$17 billion. It was one of the biggest acquisitions in the extractive industries and made CVRD the second largest mining corporation in the world.
- 4) Vertical integration describes a management style where one firm also owns upstream suppliers and/or downstream buyers.
- 5) The distribution of value along the chain is significantly affected by changes in the

- price of primary aluminium. Swings in world market prices cause value to move back and forth from one end of the chain to the other: a rise will distribute value away from downstream processing towards upstream production, while a fall reverses this process.
- 6) Incidents in various modern refineries illustrate this, e.g. chemical spills at Alcoa's Wagerup refinery in Australia in 2005 or at Alcan's refinery in Jonquiere/Canada in 2007.
 - 7) Average annual consumption in the US is around 37 kg/person, in Japan 31 kg, and in Western Europe 19 kg.
 - 8) The largest and most controversial industrial development project of that time was the Programa Grande Carajás (PGC). The PGC aimed at establishing an industrial corridor from São Luís into Amazonia, focusing on extraction and processing of iron ore. It was accompanied by broad environmental degradation, for which reason the PGC encountered massive resistance.
 - 9) The Pilot Program to Conserve the Brazilian Rain Forest (Programa Piloto Internacional para Conservação das Florestas Tropicais Brasileiras, PPG7) represents an alternative approach of this period of policy changes. Launched in 1992, it was a multilateral initiative and aimed at finding ways of protecting Brazil's rain forests and using them in a sustainable fashion.

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Abstracts

Driven by soaring commodity prices, various low- and middle-income countries (LIC/MICs) once again press for world market integration in the extractive and metal industries. This strategy may assist, as well as hamper, the achievement of certain development objectives. Using the network-based Global Commodity Chains (GCC) approach, the analysis of the export oriented aluminium industry in Brazil demonstrates that net outcomes of world market integration in the extractive and metal industry depend mainly on two factors: firstly, on the structure of the particular commodity chain, especially the type of governance and the distribution

of income, and secondly, on the ability of LIC/MICs governments to establish political and institutional frameworks that maximise the capture of value created (through ownership or tax revenues) while minimising social inequality and environmental degradation.

Vor dem Hintergrund des Rohstoffbooms der letzten Jahre setzen eine Reihe von Ländern mit niedrigem und mittlerem Einkommen wieder verstärkt auf eine Weltmarktintegration im Rohstoff- und Metallsektor. Diese Strategie kann das Erreichen bestimmter Entwicklungsziele sowohl fördern als auch erschweren. Die Analyse der exportorientierten Aluminiumindustrie Brasiliens mithilfe des Globalen Güterkettenansatzes zeigt, dass das Ergebnis einer Weltmarktintegration im Rohstoff- und Metallsektor vor allem von zwei Faktoren abhängt. Es ist erstens abhängig von der Struktur der jeweiligen Güterkette, insbesondere der Steuerungsform (Governance) und der Einkommensverteilung. Der zweite maßgebliche Einflussfaktor ist die Fähigkeit der betreffenden Regierungen, politische und institutionelle Rahmenbedingungen zu schaffen, die durch Eigentümerschaft oder Steuereinnahmen eine Aneignung substantieller Anteile des erwirtschafteten Mehrwertes ermöglichen und gleichzeitig soziale Ungleichheit und ökologische Schäden gering halten.

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Why selling dreams brings power, but making dreams come true does not: governance, power and coordination in special tourism value chains

1. Introduction

Governance, power and access barriers are central elements of value chain concepts. These concepts can therefore answer decisive questions for economic actors who wish to shape their competitive assets in the global economy. It seems somehow curious that international tourism, as one of the most important economic branches, is not part of this discussion, although tourism is one of the biggest drivers of globalisation, and geographic dislocation and internationality are inherent features of tourism. Particularly for developing countries, the development of special interest tourism, which has emerged during the last two decades, seems to be promising, as the scenery for this tourism is often found in peripheral regions and since huge equity investments in tourism infrastructure are not required. In this paper we firstly show how special tourism value chains are configured. Secondly, building upon Gereffi's commodity chain concept, we discuss the importance of power, coordination and governance and explain why, although they are closely related, these concepts should be treated distinctly. As special interest tourism can be seen as a sophisticated life-style product conventions and product quality come to play a central role, which is discussed in the following section. Taking the Moroccan trekking tourism as an example, we then outline how power is distributed along the tourism chain and finally show the consequences of asymmetric power relations for the Moroccan players¹. In our explanations the focus is on relations between commercial players *within* the chain. Even though there are business associations and state regulations affecting the Moroccan trekking business, they have only

a very limited influence on the power configuration of the trekking value chain (for more details see Lessmeister 2008).

2. The increasing significance of special tourism

With regard to the integration of developing countries into the global economy, tourism plays an important role (see Vorlaufer 2003; Diaz Benavides 2002). But tourism today does not imply leisure only. Post-modern travel behaviour is increasingly characterised by individualisation and the differentiation of varying lifestyles, leading to a decidedly diverse number of vacation styles (Buhalis 2001). In this context, specialised forms of alternative, nature- and activity-based tourism have gained growing importance (Popp 2003). This presents an opportunity for developing countries to integrate into global tourism markets because these forms of tourism often promote 'intact nature' and 'authentic ways of life' and therefore do not need cost-intensive infrastructure. They seem therefore to fit ideally into development strategies for peripheral regions.

Many developing countries have gone through a process of thematic and regional differentiation of their tourism products (e.g. Hill-Tribe trekking in Thailand, Ecotourism in Costa Rica and Ecuador, Mountain tourism in Kenya and Tanzania). A look at the tourism structures in Northern African countries for instance, shows that, especially in Morocco, but also in Tunisia and Egypt, these new types of tourism have increased in importance in recent years (Lessmeister/Scherle 2008). In addition to the still dominant seaside vacation and to culture and study tours, 'nature based' forms of travel in particular, such as mountain and desert trekking, can increasingly be found. In contrast to traditional hiking, trekking imparts new semantic contents to foot travel; it becomes an expression of an active, experience-driven, but at the same time environmentally and socially conscious, open-minded attitude toward life (Opaschowski 2002). The conscious rejection of mass tourism and the high significance of environmentally and socially compatible travel make trekking almost the post-modern variant of classical hiking. With the change in motivation the spatial context for foot travel has changed too. The tourist scenery in which people satisfy their desire for authenticity, adventure and the experience of the 'other' is no longer found

in romantic landscapes like the German or English hill countries, but increasingly in extreme natural regions.

3. Governance in tourism value chains

3.1 International division of work and the need for governance

Looking upon the necessary activities for a packaged trekking tour, we find that chain concepts represent an applicable and useful approach to provide insights into the organisation and governance structures in the tourism sector. Although most global value chain studies deal with industrial or agricultural production and tourism has not yet been considered appropriately in the value chain debate, in tourism too, different activities, carried out by different actors in different places, are brought together to form a final 'product', which is the organised holiday tour. Transferring the value chain approach from industrial production to tourism therefore seems to be justified (see also Go/Appelman 2001: 184). In the international division of work the tour operators usually concentrate on marketing and selling, while logistics, organisation and dealing with local actors, sometimes even the tour conception itself, are in the hands of domestic travel agencies, fulfilling the function of an incoming agency for their international partners. The trekking tour itself is generally carried out by local actors working as mountain guides, porters, muleteers or cooks. Outsourcing single steps in the production process may lead to a win-win situation for both sides: for the actors in developing countries the integration into a global tourism chain opens up access to international markets. The tour operators can in turn reduce a part of the costs that arise because of the high expenditures for logistics and organisation. The important point is to find out how single activities are linked to one another and how and by whom they are coordinated and governed. It has been shown that chains in the special tourism sector have certain particularities which decisively influence the governance and the organisation of the chain.

Among the different chain approaches, the Global Commodity Chain concept by Gary Gereffi (Gereffi/Korzeniewicz 1994) holds a particular importance. Gereffi focuses on the governance structure and aims to explain how single activities along a particular chain can be controlled and directed.

He assumes that governance is performed by one powerful lead firm in the chain and in this context distinguishes between producer-driven chains and buyer-driven chains. In producer-driven chains huge producers assume this position because of their capital and their knowledge of techniques and processes. On the contrary, in buyer-driven chains, huge buyers dominate the chain due to their market power and brand names. In buyer-driven chains commodity production is generally more labour-intensive; business relations are less intensive and easier to terminate as inter-firm relations are weak; the goods are mostly standardised and therefore do not require special know-how. Especially in the case of developing countries, buyer-driven chains hold the opportunity of integration into the global economy.

Gereffi's concept has often been criticised for its simplifying assumption that governance is executed by one single lead firm. The dichotomy of producer- and buyer-driven chains does not seem to be appropriate to explain the complex reality of governance structures. Kaplinsky and Morris (2000: 34) recommend a rather critical use of Gereffi's governance concept: "So, although the buyer- versus producer-driven value chain distinction is a useful one in framing a series of research questions, it should perhaps be seen as a null hypothesis to be tested rather than a proven research conclusion."

In a more recent approach, Gereffi, Humphrey and Sturgeon (2005) have abandoned the dichotomy of buyer- and producer-driven chains for five possible forms of governance resulting from a matrix in which they consider the complexity of transactional information, the ability to codify this information and the capabilities in the supply base. *Market linkages* do not have to be completely transitory, as is typical of spot markets; they can persist over time, with repeated transactions. The essential point is that the costs of switching to new partners are low for both parties. In *modular value chains* suppliers typically make products to a customer's specifications, which may be more or less detailed. In *relational value chains* complex network interactions between buyers and sellers exist. This often creates mutual dependency and high levels of asset specificity. Trust and reputation are of great importance; relationships are built-up over time or are based on dispersed family and social groups. In *captive value chains* small suppliers are transactionally dependent on much larger buyers. Suppliers face significant switching costs and are, therefore, 'captive'. Finally, *hierarchical chains* are characterised by vertical integration. The dominant form of governance

is managerial control, flowing from managers to subordinates or from headquarters to subsidiaries and affiliates (Gereffi et al. 2005: 13).

3.2 Governance, power and coordination – distinct dimensions of co-operation in value chains

Although the categories proposed by Gereffi, Humphrey and Sturgeon (2005) do respond better to the complex reality and include important insights into how activities are governed and coordinated in value chains, at least for the case of tourism chains they still do not tell the whole story. Nevertheless, we regard them as a suitable framework for the analysis of governance in value chains. However, in order to provide a deeper understanding of international tourism, a more differentiated perspective is needed. This is mainly for three reasons:

(1) The presented categories mix up forms of coordination with forms of governance. It is rather doubtful that an entire chain is coordinated in the same way. Instead, we found different forms of coordination at different levels of the chain. In tourism for example, the relation between tour operator and incoming agency may be coordinated in the form of modular chains, while the relation between incoming agency and transport agencies or hotels is done on a market basis. In contrast, the situation between incoming agency and tour guides can be characterised as a captive one, with the guides depending highly upon the agencies (see also Ponte/Gibbon 2005: 3).

(2) While coordination can be done in different ways, we found a coherent governance structure along the entire chain. All tourism chains are governed by one single lead firm – the international tour operators. Although Gereffi's concept of buyer- and producer-driven chains does not fully capture the complexity of coordination, his assumption of single lead firms is appropriate for the analysis of governance. However, the terms 'producer-driven' and 'buyer-driven' do not really match the situation in tourism. Instead, we suggest speaking more generally of lead firms only. This implies a broader perspective to find out what allows firms to achieve a leading position.

(3) The categories proposed by Gereffi, Humphrey and Sturgeon do not consider all relations along the chain, but concentrate on the transactions between lead firm and first tier-suppliers. By doing this, they do not

clearly distinguish governance from power structures. Although tourism chains are governed by one lead firm, power can be gradually distributed along the chain. For instance, incoming agencies control a huge degree of power, as they are in charge of all local actors; yet, they have to comply with the overall governance set by the tour operators. Owners of private guest-houses are highly dependent on the incoming agencies and are therefore in a captive situation. Hence, their position allows the incoming agencies to exert power on other local actors (Lessmeister 2008). While governance is passed down the chain and therefore affects the activities of all actors involved, power can be understood as a means to affect outcomes in mutual bargaining with others. In that sense, power can change over time and under altering conditions.

Considering these aspects, we argue for a more elaborate approach, which conceives of governance, coordination and power as highly interdependent, but still distinct phenomena which should be treated separately. In particular, an elaborate conceptualisation of power as the necessary precondition for governance and dependency should be given special attention. In the following section we therefore have a closer look at different concepts of power, which may contribute to a better understanding of governance and power asymmetries in value chains.

4. Conceptualising power in tourism value chains

Robert Dahl (1973) defines power generally as the ability of actor A to make actor B do what he wants him to do, minus the probability that B would have done this without any influence from A. This definition makes obvious what power is about: influencing other actors' behaviour. Yet, while it concentrates on the use of power, it does not explain where this power derives from. Russett and Starr (1996: 117f) distinguish this in more detail. *Power* is defined as the exertion of influence and *capabilities* as the basis of this influence: "Power is the ability to overcome obstacles and influence outcomes. Power means getting one's way. [...] It is the ability to affect the behaviour of others. [...] Capability is any physical object, talent or quality that can be used to affect the behaviour (or desire) of others". Even if it remains very abstract, their definition makes it clear that power does not

exist by itself. Exercising power over others implies something on which power is based upon and brings a direct advantage in the bargaining with others.

If we come back to Gereffi's idea about governance, we find that the position of the lead firms is based upon specific capabilities (in the sense of Russett and Starr). Since Gereffi focuses on governance and coordination, his concept of power is restricted to the activities of lead firms and neglects the power of other actors within the chain. In this context the simple categorisation into buyers and producers and their specific capabilities cannot be viewed uncritically (see e.g. Kaplinsky/Morris 2000). Nevertheless, his concept of power becomes more meaningful if we consider the dimension of entry barriers. As well as considering the factor of access to particular activities in the chain, Gereffi also assumes barriers, which prevent others from having access, as being decisive for the governance structure. Although Gereffi restricts his concept of governance to the lead firms, it may be also useful for the analysis of power along the entire chain. For that, a more abstract formulation is needed, one which generally focuses more on the resources of power than on those of governance.

In this context Penrose's (1980) concept of competitive advantages in the resource-based view of firms may provide us with useful ideas. "In the resource-based view of the firm, it is claimed that firms will seek to extend their competitive advantages by basing them on resources which are difficult to imitate or replicate by rivals, or difficult to substitute through alternative technological channels" (Mathews 2002: 480). Transferring Penrose's thoughts about economic success into Gereffi's concept of asymmetric access and barriers to key activities, we may say that an actor generally has power when his activities are based on resources which cannot be substituted or replicated by someone else and he is powerless when his activities are based on resources (material or technical resources as well as special skills, image and reputation or social networks) which can be easily replicated or substituted. In reality, however, it is not realistic to think of power in all or nothing terms. Most actors are in some way 'replaceable' and it is unlikely that actors either have power or not. The question is, rather, at what cost they can be replaced. The degree of power which economic players control is relative to the costs that would arise if they had to be substituted or replicated. This conceptualisation of power allows for a deeper insight

into bargaining and mutual dependency, as well as into benefits and losses along the entire value chain.

The question of governance in value chains is hence a question of power asymmetries and asymmetrical dependency. Keohane and Nye (1989) explicitly concentrate on this aspect when they refer to costs brought about by changes as the origin of power. "When we say that asymmetrical interdependence can be a source of power we are thinking of power as control over resources or the potential to affect outcomes. A less dependent actor in a relationship often has a significant [...] resource, because changes in the relationship (which the actor may be able to initiate or threaten) will be less costly to the actor than to its partners" (Keohane/Nye 1989: 11). They further distinguish between sensitivity, which can be defined as the degrees of responsiveness to changes within a social framework, and vulnerability, which describes the dimension of interdependence on the relative availability and costliness of the alternatives that various actors face (Keohane/Nye 1989: 12f).

All concepts we have dealt with so far have focussed on power between actors inside a closed social system (in our case a particular value chain). But interactions in value chains are always embedded in broader social contexts. These contexts can change over time and will also affect the configuration of a value chain, as actors have to react to these changes. A wider conceptualisation of power should therefore not be restricted to mutual influence, but should also consider the options and potential alternatives of actors under altering external circumstances. Power can then not only be defined by asymmetric dependencies within a value chain but also by the extent to which actors (in comparison to others) are affected through altering conditions (or the resulting costs) and the options they have to react to these challenges.

Through their powerful position, lead firms have the power to control and sanction other actors. However, the exercise of power is also associated with costs and it is not certain that all subordinated actors will or can obey the given rules and standards. Nevertheless, it has to be in the interests of a powerful actor to keep his efforts at getting others to do what he wants as small as possible. This is exactly what Nye (2002; also Keohane/Nye 1989) describes as a strategy of *soft power*, whereby actor A influences actor B without using any direct force. "This aspect of power – getting others to

want what you want – I call soft power. It co-opts people rather than coerces them” (Nye 2002: 9). Nye’s concept seems to be very promising, as it introduces new aspects into the discussion of power. Soft power does not have to be exercised actively. Instead, it builds upon identification and accepted conventions in order to commit subordinated players. The resource for power in this context is a matter of legitimation and reputation to make others voluntarily *follow*, rather than a question of how power can be exercised in order to make others *obey*. Originally, Nye developed his concept to deal with questions of foreign policy, but his thoughts may also contribute to a deeper understanding of power and governance in value chains and for the case of specialised tourism value chains in particular. Particularly in so-called ‘responsible’ or ‘soft’ forms of tourism, reputation and accepted conventions come to play an important role, as we show in the following sections.

5. Reputation and quality conventions as central elements for governance

Trekking, as a form of alternative tourism, combines activity, adventure and responsibility for the environment as well as for the people visited. Defining quality in this niche is much more complex and sophisticated. What makes things even more complicated is the fact that services in tourism must be counted among the so-called experience and credence goods. Standards and norms to prove and verify the qualities of services before the transaction are hardly applicable. The attributes can be assessed only after the transaction has taken place. For a tourist there is, for example, no way to measure the quality of a tour guide before going on a trip with him. Moreover, the commitments to responsible and sustainable tourism (contributing to the local development, not harming the environment, etc.) cannot be proved at all. They are credence goods and tourists have to trust the chosen tour operators that their desire to travel in a responsible and sustainable way is realised.

As an ex-ante proof is not possible, it is imperative for a tourism player to give reliable information about the quality of service offered in order to facilitate consumer choices (see also Cooper/Wahab 2001: 325; Ponte/

Gibbon 2005: 2). In this context conventions about responsible tourism come to play an important role. In respect to the question of governance it is very important to know which tourism actor is able to meet the very special expectations of 'alternative tourists' and, moreover, to provide the necessary means to communicate and guarantee it to the consumer.

The description of activities and players already gives a hint of the powerful position of the tour operators and the resulting dependency structures. Given our definition of power arising from access to scarce resources, the resource that tour-operators control is that they are the only ones who have direct access to the final consumer market. For most of the domestic players, access to the final consumer market is only possible indirectly, by way of co-operation. Without a partner in the source market there will be no way to sell their services. Therefore, they need the tour operators' reputation to sell trips, and it is precisely the direct access to the final consumer which gives the tour operators such a powerful position and makes them the "gatekeepers to tourism" (Ioannides 1998). The question now is how tour operators manage to have access to the final consumer market and which barriers prevent others from simply entering their niche.

6. International tour operators – the lead firms in tourism chains

As an extensive media analysis of international tour operators in the UK, Germany and France with any great volume of business in North African countries showed, their strategy is to stress that their tours are an extraordinary vacation. By focussing on the remoteness and exotic nature of the target regions, they transform the trekking trips into adventures, which – unlike conventional vacations – not only entail the possibility of unfulfilled expectations, but quite explicitly also real risks (accidents, illness, natural disasters, etc.). Trekkers do not opt for a 'normal' relaxing holiday. Instead, they want to experience an intense holiday under sometimes very spartan and physically exhausting conditions. Trekking tours often lead to remote and barely accessible areas. Personal contact with the local population is often difficult because of different languages, cultures and customs. In case of emergencies medical facilities are often far away from the loca-

tion visited. The tourist thus depends on the knowledge and experience of the tour operator's staff. As a prior testing of the tour-operators' capabilities is not possible, it is essential for the tourist to have reliable evidence about the quality of the chosen operator (Cooper/Wahab 2001: 325). This makes it clear that trekking tours are not normal vacation trips that you can book at your neighbourhood travel agent or via the internet. Instead, they require professional know-how.

At the same time, the desired destinations are fragile ecological and social systems that must not be endangered by tourism. Trekkers attach a lot of importance to the responsibility for nature, wildlife and the local population (see Lessmeister 2008). The tour operators respond perfectly to the demands of alternative tourism when they claim that their tours do not have any negative ecological impact, respect nature and even support the local people. Here too, they give evidence for their claim. The most common way to do this is by supporting non-governmental organisations (NGOs) that work in the aforementioned fields. Every tour operator is involved in one way or another in some NGO's activities, most of them dealing with issues of nature and wildlife conservation (e.g. WWF, Mountain Wilderness) but also with development issues (e.g. Tourism for Development) or responsible tourism (e.g. Charte éthique du voyageur). This provides the trekker with the desired feeling of not just being an ordinary tourist but a responsible traveller. Following the rules of responsible tourism and supporting NGOs in their activities makes holidays in developing countries a pleasure without inducing a bad conscience.

This being so, booking a trekking tour becomes a matter of trust, and the desire to see one's personal attitude toward travel reflected in the range of products offered by a given operator becomes the principal criterion in the choice of a trip. In their catalogues tour operators consequently describe their travel philosophy at length and stress the training and/or experience of their employees. These are generally experienced trekkers who have made a profession of their passion. The tour operator presents himself as a travelling companion and mountain comrade who shares his most intimate knowledge with the customer. In this way, the operators of trekking tours target with precision the needs of a lifestyle group that seeks 'adventures' but wants at the same time to be able to travel with a good conscience (Opaschowski 2002). In this context trekking tourism is associated with environmentally

and socially compatible tourism, which can be optimally marketed within a company's philosophy. To put it in a nutshell, the self-conception of trekking tours can be paraphrased as a 'calculated adventure' that is closely connected with the attributes of an imaginative geography (Lessmeister/Scherle 2008).

A final aspect deals with insurance and consumer protection. Even though the tour-operators may perform to a high quality level, something may go wrong and clients might be unsatisfied and complain, especially where services are concerned which are not directly in the tour operators' hands (like flight services or accommodation). For this, tour operators need regulations and institutions to make it clear that there will be no (at least financial) risk for the tourist. Again, institutions and conventions play an important role. In this context we also have to mention the role of insurance. Not only do tour operators insure their clients when offering a full package tour, they also have to insure themselves against compensation claims and ensure that in the worst case they are financially able to compensate for unsatisfactory performance. The second point is membership in an organisation that guarantees consumer protection, like the International Air Transportation Association (IATA) or the ATOL protection scheme for flights and air holidays. These organisations survey and certify the performance of their members. Finally, a written contract with an authorised company itself represents institutionalised security, as it gives the client the possibility to go to court and take legal action.

7. Access barriers for tourism players in developing countries

7.1 The example of Moroccan firms in the international special tourism chain

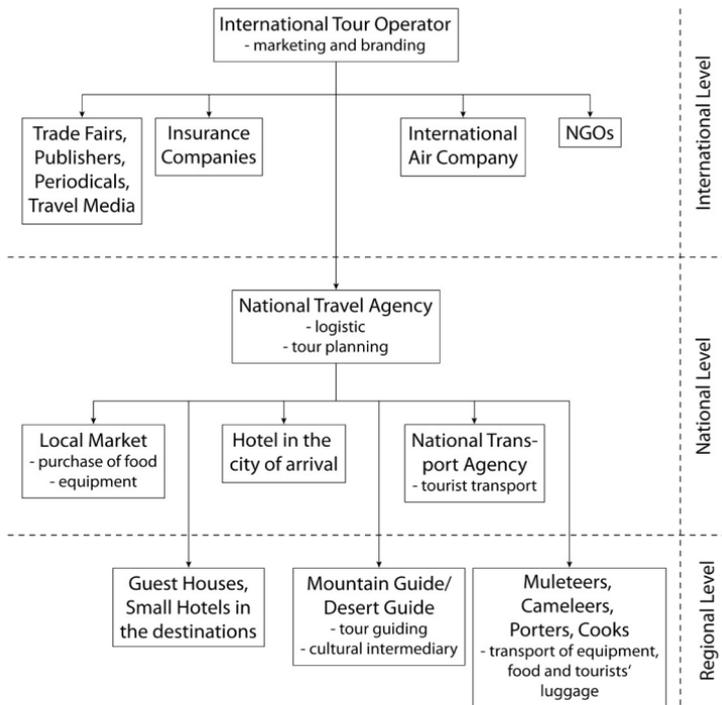
We have shown how international tour-operators manage to have access to the final market. But what prevents domestic actors from entering the sending market directly? A first barrier lies in the realm of activity, which comes from the division of work in the trekking value chain. Examining the Moroccan trekking industry, it can be seen that while the European tour-operators are present in almost every important destination around the world, Moroccan actors are limited to their own country or even only to

some particular regions in Morocco. As a consequence, the tour-operators work together with one incoming agency in each country, whereas the incoming agencies must seek to establish many relations with foreign partners. As each of these partners is contributing only a (sometimes very small) share to the total number of tours, it must be in the interest of each Moroccan agency to establish as many relations in as many markets as possible. So, even if a Moroccan agency could hypothetically manage to directly enter the consumer markets, it would have to be represented in several sending countries. This would require special knowledge about appropriate marketing techniques for every single market (Keegan 2001: 19). It would also take an immense effort to finance advertising and public relations and it would furthermore require an experienced and professional office staff for direct consumer contact. Whereas at present they have to deal with 'ready made' groups of tourists sent by their partners in Europe, they would in this case have to inform and advise potential clients. This in turn would require a physical location in close proximity to the clients (e.g. in the form of offices in the bigger cities) if they didn't want to rely on phone or internet only, which makes it even more difficult for firms to provide consumer trust. And, even when working via phone and internet only, well-trained staff is needed to handle inquiries in different languages (let alone the different consumer behaviour). Taking over the tour operators' activities would consequently entail an immense effort in financial, organizational and personal terms. And to retain a presence in the sending countries, there are also political and administrative obstacles to overcome, like residence or labour permits, visas and so on.

But even if Moroccan actors could cope with all of this and managed to enter the European market, they would still lack the institutions to gain consumer trust, as described before for the European tour-operators. Moroccan actors are only seldom involved in NGOs' activities and if they do so, this will not attract much attention by European trekkers, as long as there is no appropriate way to promote and market it. It seems to be contradictory, but precisely the good intentions of the alternative tourists and the work of NGOs, which claim to promote the visited regions, weaken the position of the local actors and consolidate the lead position of the European actors. Concerning consumer protection, no comparable organisations or agreements to those in Europe exist in Morocco. And of course the pros-

pect of defending one's right before a Moroccan court does not contribute very much to fostering consumer trust in Moroccan tours. Finally, Moroccans do not only have to establish relations to consumers, but also to all supplementary actors such as insurance companies, publishers, air companies etc. Especially in regard to air companies, they would again face structural disadvantages. Because tour-operators operate worldwide, their total number of flights exceeds those any Moroccan agency could offer. For this reason, tour operators can get better prices and as a consequence offer lower prices to their clients. Access to European markets would thus require entering the corresponding institutions and networks first.

Figure 1: The value chain for packaged trekking tours: mountain and desert trekking in Northern Africa



Source: own elaboration

7.2 The consequences of indirect market access

Ongoing loss of bargaining power

When trekking started on a noteworthy scale in the mid-1980s, only a handful of incoming agencies in Morocco existed to cover the whole market. The tour operators had to invest in their partners in order to ensure they would meet the required quality standards and to comply with generally accepted conventions and the particular philosophy of the firm. Sharing these conventions and building up reputation could be understood as a competitive asset for the first-comers in the trekking business. For the tour operators, who usually prefer to work with reliable partners, experience made during the cooperation has been, for a long time now, the only possibility for rating the associate. However, this situation is about to change. Since the mid-1990s a second generation of incoming agencies has been established, and the number of domestic travel agencies has increased from only four in the late 1980s to fifteen today, who hold their own in the trekking and adventure holiday business. These firms were mostly set up by former mountain guides, who had worked before for one of the established agencies. Even though they have only been in existence a few years, their owners could look back on years of experience and so know very well what European tour operators find important and, thus, how to stay in the game.

In the beginning the Moroccan players also held a better bargaining position against the tour operators as they had the knowledge about potential tour-programmes; they knew the terrain and the places to go and they could establish personal contacts to local actors or even formed part of some social networks (often through family ties) in the respective destination areas. Nevertheless, it turned out that they were not able to retain these advantages. Very soon their knowledge changed from an innovative asset into an open secret, especially because most of the tour packages in Morocco resemble each other and follow more or less the same itineraries.

The integration into a global value chain made many Moroccan actors quickly learn and adapt to the required international standards and rules, so that at present almost all of the noteworthy agencies operate on a similar level. The acquired knowledge enabled the Moroccan actors to reach international standards and meet the tourists' expectations. However, none of

them is able to use this knowledge as a special asset to increase competitive advantage. Whereas in the production sector organisational learning is commonly accepted as a precondition for innovation and ongoing upgrading, it seems as if in tourism these learning processes have led to the reverse situation. In a limited market the domestic players cannot escape into different activities because of existing entry barriers to the international tour operators' activities; they are geographically and functionally bound to destinations and activities within their country. Here, instead, competition has increased tremendously because of the comparatively large number of experienced agencies, all operating more or less on the same quality level, which minimises the risk of high transaction costs for tour operators intending to change their associate partners in Morocco. This weakens the position of the Moroccan agencies and we can observe a growing number of tour-operators breaking off their former co-operation or using the possibility to do so for cutting their prices. Even though the Moroccan mountains have become more and more attractive and form an integral part of many of the leading European trekking companies' tour packages today, this general upgrading on the regional scale has led to the opposite effect on the level of individual companies.

The same is true for the mountain guides and other local actors. Like the incoming agencies, they have to cope with the problem that there are simply too many of them competing for work. Each year about 40 new guides finish their courses in the official training-centre in Tabant and try to work in the trekking business. At present about 450 guides compete for trekking tours; not included is the unknown number of non-official guides. And very few of them manage to find employment at a travel agency, as the number of individual tourists in the Atlas Mountains demands only a small proportion (see Lessmeister 2008). All in all we can note an oversupply of labour which leads to a situation of fierce competition and increases the pressure to come down in price and work for less than the officially fixed wage. So again, the situation of the Moroccan guides shows that improvement through skills and knowledge is only useful when there is at the same time the possibility to put up efficient barriers to prevent others adopting these skills and entering the business.

Increasing vulnerability in changing circumstances

Asymmetric dependencies also come to play an important role in changing economic circumstances. Not only is the competition among the Moroccan actors getting increasingly fiercer, but the competition among the European tour operators is getting harder as well. In recent years a change in the consumer behaviour of tourists in Morocco can be noted. Roughly speaking, the general trend goes towards shorter and cheaper holiday trips. Consequently, many tour operators have to reduce the final prices for their tour offers to stay competitive. However, their position as the most powerful actor in the chain still allows them to keep a fixed share of the final price. In consequence, if money has to be saved in the overall calculation, financial cuts are more likely to happen in the sectors of the Moroccan actors, which results in sinking shares for them. In fact, the final prices for trekking tours in Morocco have generally fallen in recent years and reduced shares were declared (to different extents) by all of the interviewed travel agencies (Lessmeister 2008).

Finally, external shocks also affect Moroccan actors more than the international operators. As a consequence of several terrorist acts carried out by Islamic fundamentalists in North Africa (Djerba 2002, Casablanca 2003, Sharm el Scheikh 2005), as well as during the second Gulf War, Moroccan mountain tourism had to face a series of temporary but nevertheless severe slow-downs with regard to the number of tourist arrivals. However, the consequences for the international tour operators were different from those for the Moroccan players. Although they noticed a lower demand for Islamic countries (according to the tour operators interviewed after the attack in Casablanca in 2003, many of their bookings in Morocco went down, sometimes to below 50% of the previous year's value) most of them could react more flexibly than their Moroccan partners. Typically, they operate worldwide in many countries and therefore they were able to concentrate on other destinations. Many tour operators experienced a slow-down for destinations in Islamic countries while at the same time the number of bookings for other destinations (e.g. in Latin America) increased by about the same extent.

8. Conclusion

The analysis of special tourism chains reveals important asymmetries between the players involved. Tourism chains are driven by single lead firms – the international tour operators. This is not an unexpected finding. But it is also clearly obvious that focusing solely on the issue of governance in value chains does not capture the total complexity of business relations in international tourism. Although governance, coordination and power are closely interdependent terms, we suggest keeping these three aspects separate. In addition to the analyses of the overall governance, a sophisticated conceptualisation of power is needed for a better understanding of asymmetric dependencies along the entire value chains.

Conceptualising power as access to resources, we found that the most important resource in tourism is access to consumer markets and reputation in order to build up consumer trust. In this context, conventions play an important role because they facilitate consumer choices and by that, consolidate the powerful position of the tour operators, which are able to combine their offers with environmentally and socially compatible tourism. Value chain studies generally underline the fact that, for actors in developing countries, access to globally linked activities represents a *sine qua non* to enter global markets and to improve their situation by acquiring experience and knowledge about global standards and procedures which then allows them to upgrade their range of activities (Gereffi/Memodovic 2003; Humphrey 2003). However, the roles of common conventions as well as learning processes in international tourism, in particular, have to be reflected upon critically as long as there is no way to keep the acquired knowledge as a scarce resource.

- 1) The findings in this paper are based on interviews with 15 travel agencies in Morocco and 20 tour-operators in France, the UK and Germany which offer trekking tours in North African countries. In addition, an extensive media analysis of all operators in the UK, Germany and France with any significant volume of business in these countries was conducted in the period 2003 to 2008.

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Abstracts

In recent years, nature- and activity-based forms of tourism have gained increasing importance. This is of great significance for many developing countries, as the scenery for this tourism is often found in peripheral regions. Yet, despite the importance of the tourist industry, not much is known about the way firms cooperate in special tourism value chains. Building upon several value chain concepts, we argue that an elaborated conceptualisation of power and power resources as well as the role of quality conventions merit deeper recognition. Concentrating on these two aspects, we then have a closer look at the Moroccan trekking tourism that serves as an example to reveal asymmetric dependencies and the importance of reputation as the central resource for power.

In den letzten Jahren haben naturnahe und erlebnisorientierte Tourismusformen zunehmend an Bedeutung gewonnen. Dies ist für viele Entwicklungsländer von erheblicher Relevanz, da für diese Formen des Tourismus

der räumliche Bezugsrahmen zumeist in peripheren Regionen liegt. Doch trotz der Bedeutung der Tourismusindustrie ist noch wenig darüber bekannt, wie einzelne Unternehmen in spezialtouristischen Wertschöpfungsketten zusammenarbeiten. Auf der Grundlage verschiedener *Value Chain*-Konzepte plädiert der Autor dafür, sowohl differenzierte Konzepte von Macht und Machtressourcen als auch die Rolle von Qualitätskonventionen stärker zu berücksichtigen. Diese beiden Aspekte werden anhand des marokkanischen Gebirgstourismus genauer behandelt, um asymmetrische Beziehungsstrukturen und die Bedeutung von Reputation als entscheidende Macht-Ressource aufzuzeigen.

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Berthold Molden, David Mayer (Hg.): Vielstimmige Vergangenheiten – Geschichtspolitik in Lateinamerika. *Wien: LIT Verlag 2008 (= ¡Atención! – Jahrbuch des Österreichischen Lateinamerika-Instituts, Bd. 12), 296 Seiten, 25,60 Euro.*

„Vielstimmige Vergangenheiten – Geschichtspolitik in Lateinamerika“ ist ein Reader, der aus der gleichnamigen Ringvorlesung im Rahmen des interdisziplinären Lehrgangs des Lateinamerika Instituts hervorgegangen ist. Er erfüllt in zweifacher Hinsicht, was sein Titel ankündigt. Vielstimmig sind zum ersten die Perspektiven und Zugänge der mehrheitlich in der Geschichtswissenschaft beheimateten AutorInnen, die durch ihre unterschiedliche Herkunft Außensicht und Innensicht auf Prozesse der Diskussion, (Re)Interpretation und Aufarbeitung jüngerer lateinamerikanischer Geschichte bieten. Inhaltlich folgt der Reader zum zweiten der Prämisse, die in der umsichtig redigierten Einleitung der beiden Herausgeber Berthold Molden und David Mayer unter dem Zwischentitel „Polyphonie der Geschichte“ definiert wird als Verpflichtung zu einem Verständnis von Geschichtspolitik als gesellschaftlicher Analyse.

Daraus folgt, nach den Zusammenhängen zwischen aktuell gültigen Geschichtsdeutungen und ökonomischen und symbolischen Interessen der jeweils daran beteiligten unterschiedlichen AkteurInnen zu fragen.

Konflikte und ein Kräfteressen zwischen unterschiedlichen Auffassungen davon, wie Vergangenheit erinnert werden soll, zwischen unterschiedlichen Erinnerungskulturen und -gemeinschaften innerhalb eines Landes und einer Region, sind einer solchen Auffassung nach nicht nur unvermeidbar, sondern unbedingt notwendig, um immer wieder neu zu einem gesellschaftlichen Konsens über traumatische Kapitel in der nationalen Geschichte zu gelangen. Und solche haben die Länder des lateinamerikanischen Kontinents einige vorzuweisen.

Geschichte, das wird in diesem Reader klar herausgearbeitet, ist nichts Unumstrittenes, sondern eine Deutung der Vergangenheit, die immer aus einer gegenwärtigen Perspektive neu erfolgt und funktionalisiert wird. Sie ist dabei ein Spiegel aktueller gesellschaftlicher Prozesse, Machtstrukturen und Konflikte. Gerade die soziale Brisanz, mit der diese Deutungsprozesse in Lateinamerika verbunden

sind, wo gesellschaftliche Ungleichheiten mit viel größerer Vehemenz zum Tragen kommen als in Europa, kann auch für die hierzulande angesichts des Erstarken rechter Parteien immer wieder aufflammende Debatte um den Umgang mit der nationalsozialistischen Vergangenheit Österreichs eines verdeutlichen: Geschichtspolitik ist „mehr [...] als Diskurs, im Sinne rein sprachlicher Debatten“ (25). Sie hat immer unmittelbare Konsequenzen auf das soziale und politische Klima und die Mächteverhältnisse innerhalb eines Landes.

Die zwölf Artikel des Readers konzentrieren sich insbesondere auf aktuelle Prozesse der Vergangenheitsbewältigung in postdiktatorischen Gesellschaften wie Chile, Argentinien oder Guatemala, versuchen aber auch auf andere Länder des Raumes Bezug zu nehmen. Auch ein Exkurs (von Josefina Cuesta Bustillo) zu wissenschaftlichen und gesellschaftlichen Diskursen rund um den sogenannten „Pacto de silencio“ im Spanien der Transitionszeit und heute ist enthalten.

Berthold Molden führt in seinem am Beginn stehenden Artikel in Grundbegriffe wichtiger Referenztheorien der Erinnerungs- und Gedächtnisforschung von Maurice Halbwachs (kollektives

Gedächtnis) über Jan und Aleida Assmann (kulturelles Gedächtnis) bis zu Pierre Nora (*Lieux de mémoire*) und Reinhard Koselleck (*Geologie der Geschichte*) ein und setzt sie in Bezug zu Fragestellungen des Readers. Sehr hilfreich finde ich die von ihm vorgenommene Differenzierung zwischen Erinnerungskulturen als identitätsstiftendes kommunikatives Gedächtnis bestimmter Gemeinschaften, Geschichtspolitik als offenem Ausverhandlungsprozess zwischen diesen unterschiedlichen Gemeinschaften an der Schnittstelle zwischen kommunikativem (Generationengedächtnis) und kulturellem Gedächtnis, das als kanonisiertes kollektives Gedächtnis einer Gesellschaft zu verstehen ist, und schließlich Vergangenheitspolitik als staatliche, auch strafrechtliche Perspektive auf Vergangenheit (Geschichtspolitik von oben). Sein Artikel verdeutlicht auch anschaulich, dass eine Analyse dieser mnemotechnischen Praktiken sowohl Machtstrukturen in der Gesellschaft und regional- oder nationalhistorisch bedingte Besonderheiten als auch die Rolle der unterschiedlichen Akteure in politischen Parteien und sozialen Bewegungen oder – wie im Artikel von Stephan Schleuzger behandelt

– „neutrale“ Experten im Kontext nationaler Wahrheitskommissionen zur Aufarbeitung von in Gewaltregimes begangener Verbrechen berücksichtigen sollte. Dementsprechend ist „Vielstimmige Vergangenheiten – Geschichtspolitik in Lateinamerika“ auch dreigeteilt in Artikel zu „Theorie und Regional-spezifik“, „Agencies“ und „länder-spezifische Beispiele“.

Es ist mir an dieser Stelle nur ein kleines, subjektives Anspielen der inhaltlichen Vielfalt dieser durchgehend spannenden Beiträge möglich, die durch ihre Verpackung in drei Sprachen (deutsch, englisch, spanisch) obendrein den positiven Side-effect haben, in allen dreien mit erinnerungspolitischem und hegemonietheoretischem Vokabular vertraut zu machen. Sollte jemand einer der drei Sprachen nicht oder nur teilweise mächtig sein, finden sich am Ende des Buches noch einmal alle Abstracts in englisch und/oder deutsch.

Marina Franco (Argentinien) behandelt in ihrem Beitrag ein verbreitetes Deutungsmuster von Diktaturvergangenheiten, die *teoría de los dos demonios*, wonach Gesellschaften in Diktaturen von zwei gewalttätigen Kräften – eine radikale Linke, auf die eine militärische Gegengewalt reagierte – heimge-

sucht wurden, die völlig losgelöst von der Zivilgesellschaft agierten. Deshalb sei mit deren Ausmerzung die Vergangenheitsbewältigung vollzogen, und soziale Probleme müssen nicht angeschnitten werden. Patricia Funes (ebenfalls Argentinien) führt anhand der Analyse von Dokumenten einer Polizeibehörde vor, dass allein die Erwähnung des Begriffs „Lateinamerika“ den Zensoren verdächtig schien, da sie ihn mit sozialreformatorischen Bewegungen in Zusammenhang brachten. Michael Zeuske durchleuchtet die mythologische Figur des Gründervaters Lateinamerikas, Simón Bolívar, auf ihre wechselvolle Instrumentalisierung durch Links und Rechts und kontrastiert diese mit historischen Fakten zu seiner Biographie. Jens Kastner spricht über die Potenziale von Kunst, Gegenerzählungen zu hegemonialen Erinnerungsdiskursen zu schaffen.

Haben Sammelbände des Öfteren die Schwäche, unter einem vielversprechenden Titel inhaltlich sehr wenig aufeinander abgestimmte Artikel zu vereinen, verliert man bei der Lektüre dieses Readers nie den roten Faden. Es gelingt den Beitragenden, eine angenehme Balance zwischen Theorie und angewandten Beispielen herzustellen. In um Voll-

ständigkeit bemühter Weise werden verschiedenste Aspekte der in den Geistes- wie in den Sozialwissenschaften nach wie vor in Hochkonjunktur befindlichen Erinnerungsdebatte und ihren Verflechtungen mit Politik dargestellt.

HANNA HATZMANN



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