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### **GLOBAL PRODUCTION NETWORKS, COMPETITION, REGULATION AND POVERTY REDUCTION: POLICY IMPLICATIONS**

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# **GLOBAL PRODUCTION NETWORKS, COMPETITION, REGULATION AND POVERTY REDUCTION: POLICY IMPLICATIONS**

**Jeffrey Henderson**

## **INTRODUCTION**

This paper is based on research on the relation of global production networks (GPNs) to economic development and poverty reduction. As part of this remit it has regard to the significance of issues of competition, and competition and regulation policy. Though informed directly by CRC-sponsored research on the electronics and wine industries of Malaysia and South Africa respectively, it draws on a significant body of theory and research on the consequences of economic globalisation – generally conceptualised in terms of ‘global value chains’ – for industrial transformation and inequality in the developing and developed worlds alike (see, for instance, Gereffi and Korzeniewicz 1994, Gereffi and Kaplinsky 2001, Henderson et al 2002a, Henderson 2002, Czaban and Henderson 2003, Coe et al 2004, Nadvi 2004, Gereffi et al 2005).

In the next section I sketch the principal elements of the GPN framework and indicate its methodological advantages over earlier – but still prevalent - approaches to industrialisation, economic development and poverty reduction. In so doing I identify, in principle, the ways in which competition, competition policy and regulatory regimes might impact – positively or negatively – on the developmental outcomes of GPNs.<sup>1</sup> In the subsequent section I briefly indicate the results of the research on Malaysia and South Africa conducted thus far and in the final section, I draw out their policy implications at various levels of institutional and spatial abstraction.

## **GLOBAL PRODUCTION NETWORKS: CONCEPT AND METHODOLOGY**

Analyses of the links between globalisation, economic development and poverty have largely utilised macro level data (for a summary see Chang and Grabel 2004). While much of this work has undoubtedly been useful (and some of it important), by definition it is methodologically incapable of identifying the day-to-day processes through which

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<sup>1</sup> For the purposes of this discussion I ignore the distinctions between global production networks and global value chains. For an account of these distinctions see Henderson et al (2002).

globalisation impacts on development and poverty. It is difficult for it to grasp, in other words, 'globalisation on the ground' (Henderson 2002). Yet it is precisely 'on the ground' that the economic, political, social and organisational relations of globalisation take root and are worked through with all their resultant asymmetries for industries, firms, workers and communities. What studies of the globalisation-development-poverty matrix require, in other words, is far more attention to the meso (sectors and industries or 'branches') and micro (firms, workers and households) levels of analysis than they have thus far received.<sup>2</sup> Only from such work can the identification of policy responses appropriate to the particular country, sector, industry etc be devised and thus the universalistic, 'tool box' approach to policy formulation (good for all times and all places) avoided.<sup>3</sup> GPN analysis (and cognate approaches, 'global value chains' and 'global commodity chains'), by focussing on the meso and micro dimensions of the globalisation-development-poverty matrix offers the promise of research that can identify both the particularities of a given economic-industrial situation as well as its transnational dimensions; the 'global in the local' and, at the same time, 'the local in the global'.

A key feature of globalisation is that its economic and organisational 'glue' is increasingly associated with complex networks of suppliers who produce in globally dispersed locations in accordance with the demands of lead firms. These firms either dominate important national markets (such as the principal supermarket chains in Britain), or, more likely, are TNCs with broad international remits. The vast majority of manufactured commodities used by households and in workplaces the world over (from clothing to electronic products to furniture to automobiles etc etc) and increasing proportions of the fruit, vegetables, meat and fish consumed in the 'global north' are produced and delivered by and through these networks. The GPN model focuses on the nature of the relationships within these networks. Such relationships not only refer to market or hierarchical transactions between and within firms or, indeed, to trust based reciprocations between senior managers (as in Chinese business networks; see Redding 1990, Gomez and Hsiao 2000), but also to those between firms and national governments, trade unions, NGOs etc and, where relevant, international regulatory agencies (Henderson et al 2002a).

As such the GPN model focuses attention not merely on the nature of input-output linkages across the network, but on where, and under what circumstances, value is generated and

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<sup>2</sup> See Nadvi (2004: 1-2) for a similar argument.

<sup>3</sup> For an account of the dangers of 'tool box' approaches to the transformation of socialism to capitalism in Eastern Europe, see Henderson (1998).

captured. In many sectors, it is those companies that distribute the products and/or own the brand names, that are the ones that generate both the bulk of the value within a given network and capture it for the benefit of their shareholders and, more generally, for the economy in which they are headquartered. As importantly, the GPN framework throws analytic and policy attention onto the circumstances under which local firms absorbed into the GPNs of foreign lead companies might be upgraded in terms of process, product and value generation and thus contribute more effectively to a given country's<sup>4</sup> economic development, prosperity and prospects for reducing poverty.

Paying attention to these matters inevitably leads the GPN model to a focus on the governance systems of the networks and thus on the power relations between the firms within it (cf. Gereffi et al 2005). Clearly the nature these power relations – how they change over time, how they might reflect the national origins of the lead companies in question<sup>5</sup>, how they might be influenced by external agencies (for the exercise of power, of course, is not a zero-sum game) – are decisive to the benefits that these networked firms – foreign and locally owned alike – might be able to deliver to a given domestic economy and society.

Problematising input-output linkages in the context of network governance structures allows analysts to identify the means by which industrial upgrading can take place at particular nodal points within the network. As regards to what drives industrial upgrading, it may be that competitive dynamics alone (both between firms within a given network and/or country and/or between lead firms in the same product areas) can achieve this end. Additionally, it may be that various types of regulatory policies - or industrial policy more generally - may be necessary to assist knowledge transfers within the network; to deliver, in effect, a redistribution of power within the network governance structure that is conducive to the upgrading of local firms.

One of the values of GPN and cognate forms of analysis over those derived from neo-liberal discourses, is that they imply a need to be open-minded about the policy instruments appropriate to the delivery of economic development and poverty reduction in an age of globalisation. They recognise that these may vary from one country to another and, indeed, from one industry to another. While GPN analysis takes seriously the need for firms and

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<sup>4</sup> Or more accurately, a region's, given that economic development is, at root, always a sub-national phenomenon (see Scott 2002, Coe et al 2004).

<sup>5</sup> The significance of the national origins of FDI and how it might have particular organisational and cultural priorities associated with it is, in general, an under-researched area. In the value chains/production networks models, it is only in GPN analysis that it is posed as a theoretical problem (see the comments in Czaban and Henderson 1998 and Henderson et al 2002a).

economies to improve their competitive advantage, it does not make fetishes out of 'free' markets or competition policy as means to this end.<sup>6</sup> It recognises, for instance, that in order to improve the capacity of economic agents to assist poverty reduction, it may be necessary to take policy initiatives that attend not merely to developing country firms themselves, or to evolving industrial clusters (see Humphrey and Schmitz 2002), but to the connection of these to the global. It recognises, in other words, that to secure development gains in the developing world, it may be necessary under some circumstances to intervene in the home bases of the lead companies and their intermediaries. In this sense competition and regulation policies developed by the British government and applied to, say, British supermarket chains, may be at least as important as policy initiatives taken in the countries that supply them with their produce.

Some of the work within the GPN tradition – and particularly that organised under the global value chains (GVC) rubric – has used the model to assess the implications of involvement in global trade for the relationships between employment (including working conditions), income and poverty in the developing world. In addition to work by academic analysts (eg. Kritzinger et al 2003, Humphrey et al 2004, Nadvi and Thoburn 2004; see also, Czaban and Henderson 2003 on Eastern Europe), the model has been used to significant effect, in this sense, by the ILO<sup>7</sup> and by international aid NGOs (eg. Parisotto and Palpacuer 2003, Oxfam 2004a, 2004b). Using the GPN-GVC methodology for these purposes allows analysts to get a firmer grasp than would otherwise be possible on the relation of globalisation to pro-poor outcomes (income gains, employment security, improved working conditions etc); the consequences for workers of changes (or global tendencies) in production network organisation (eg. oligopolisation of food retailing or the 'globalisation' of OEM firms<sup>8</sup> in manufacturing); and the circumstances under which trade liberalisation generates winners and losers. By mapping the types of firms within a network and the types of workers they employ, GPN-GVC methodology can, in principle, identify what Nadvi (2004: 3) calls 'poverty nodes'; namely groups of workers at particular points in the network that are likely to be subject to 'super-exploitation' or unemployment consequent to shifts in network organisation or increased cost-cutting pressures from lead firms or their intermediaries. In this context, GPN-GVC methodology can identify the implications of particular competition and regulatory

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<sup>6</sup> In this vein it takes cognisance of two facts. Firstly, most of the world's 'miracle' economies (from Japan to Finland to China) did not employ competition policy to any great extent (see Chang and Grabel 2004); and secondly, practically all of the now developed economies – including the USA – engaged in market protection and the promotion of 'infant' industries when they were developing economies (Chang 2002).

<sup>7</sup> Between 1995 and 1998 the ILO ran a research programme on 'global production and local jobs' that was informed by the global commodity/global value chain model.

<sup>8</sup> Original Equipment Manufacturers, ie. non brand-holding producers.

policies for workers and poverty in particular firms and industries absorbed into particular GPNs.

Summarising the discussion thus far we can say that production and trade in many of the commodities on which developing countries depend for their growth and development are increasingly organised through global production networks. As a consequence, reductions in inequality and poverty are becoming increasingly bound-up with the role of developing country firms (domestic or foreign owned) within these networks. While the issue of how firms enter these networks in the first place is an important matter <sup>9</sup>, perhaps more important is whether, over time, the GPNs assist their upgrading into higher value-added areas (thus improving their competitive advantage), with the skill enhancements, knowledge transfers etc. associated with that. Where such developments occur and complement the employment and income generating capacities of GPNs, then lead and local companies alike can become the foundations for what the ILO refers to as 'sustainable development through decent work' (Palpacuer and Parisotto 2003: 115).

While the nature of competition and competition and regulation policy (domestically and internationally) may be important factors in achieving this aim, the GPN framework (together with its affiliates – global commodity chains and global value chains) represents an innovative approach to these matters. It does so because, inter alia, it does not analytically privilege the domestic political economy over the global (as is the case with much policy analysis) and in so doing provides a framework for systematically analysing the relation of the global, national (and sub-national) economic and political dynamics out of which competition and regulation issues arise and have effect. Additionally, the GPN framework recognises that competition and regulation policies need to be analysed not in isolation, but as interventions in the governance structures of the global networks. As such, their consequences may be positive or negative depending on a whole series of contingencies, but in the best of worlds are capable of influencing the flows of capital, knowledge and technology, encouraging skill enhancement etc in ways that are more favourable to developing country firms and their employees than would otherwise have been the case.

## **GLOBAL PRODUCTION NETWORKS IN MALAYSIA AND SOUTH AFRICA**

In terms of the methodological foci and potential analytic benefits sketched above, this section concentrates on the CRC-sponsored research on the Malaysian electronics and South

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<sup>9</sup> This has not been a concern for the CRC-sponsored research discussed here.

African wine industries. The research on Malaysia has highlighted the relation of GPNs to upgrading among Malaysian-owned electronics SMEs. Within this context it has highlighted the significance of particular sorts of regulatory and labour market policies to industrial upgrading as it has transformations in the organisation and governance structures of the GPNs. The research on South Africa has foregrounded the role of GPNs dominated by oligopolistic retailers and, within that, has placed particular emphasis on the consequences of competition policy and deregulation for black workers in the wine industry.

## **Malaysia**

Our research on Malaysia has posed a simple, but crucially important question: why is Malaysia's industrialisation project beginning to 'stall'? Focussing on electronics, the country's first manufacturing industry of significance (beginning in the early 1970s) and still its most important (in terms of contribution to GDP, exports and employment), the research has had five elements. These have:

- documented the fact that, in spite of over thirty years' development, the industry remains locked into low and medium-level technology operations with a serious underdevelopment of local SMEs capable of linking, on the basis of higher value-added functions, with the TNCs that control the GPNs of which they are a part;
- investigated the ways in which the reorganisation of electronics GPNs in recent years, and in particular the rise of 'contract electronics manufacturers'- CEMs - (as intermediaries for the lead TNCs), has changed the governance structures of these GPNs in ways that are no longer conducive to the upgrading of electronics SMEs in Malaysia;
- assessed the significance for SME upgrading of the preponderance of Asian (as distinct from the earlier US) TNCs in the make-up of the country's electronics industry;
- investigated the ways in which the Malaysian government's regulatory policies associated with anti-poverty, redistributive and 'affirmative action' (on behalf of the bumiputera<sup>10</sup> majority) initiatives have had the unintended consequence of depressing entrepreneurial initiatives in manufacturing;
- investigated the ways in which the Government's labour market policies (formal and, with regard to illegal migrants, informal) have moderated the market pressures that

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<sup>10</sup> Literally meaning 'sons of the soil', that is Malays and other indigenous peoples.



would otherwise have been there for technological upgrading in lead firm subsidiaries and SMEs alike.

Briefly (see Henderson and Phillips 2004 and 2005 for extended accounts) with regard to the second and third elements, the Malaysian electronics industry seems to have suffered from the combined effects of changes in the governance structure of electronics GPNs on the one hand, and in the national origins and nature of FDI on the other.

In the first case, 'contract manufacturers' have emerged in many branches of the electronics industry (thus, CEMs) due to pressures from lead TNCs for their major suppliers to take over the coordination of large segments of the production network. This has been especially the case in computers, some components and peripherals (eg. hard disk drives). These CEMs are largely US-owned and while open to outsourcing from local SMEs (traditionally the case with US electronics companies), they compete with (largely Asian-owned) 'original equipment manufacturers' (OEMs) by being able to provide a 'full package' for the TNC brand name companies; from procurement and supply chain management to assembly and financial services. Their competitive advantage over traditional OEM suppliers (for instance, Taiwanese companies such as Acer and Mitac) lies in their ability to accept lower margins. This, in itself, depends on their ability to achieve economies of both scale and scope and – crucially – greater flexibility in the labour process with the use of temporary contract and imported foreign labour (see below). Ultimately the flexibility needed to maintain the CEM model leaves little room for the nurturing of local SMEs and or longer term investment in their upgrading.

While much of the electronics FDI flowing to Malaysia from the United States in recent years has been from CEMs – with negative consequences for local SMEs – the bulk of electronics FDI has been from Japan, Korea and other east Asian countries, but especially from Taiwan. The problem for Malaysia, is that for reasons of organisational culture and efficiency, East Asian companies have tended to prefer to maintain their linkages with home-based suppliers and, in general, have been resistant to forging the sorts of linkages that are conducive to the development and upgrading of local suppliers. It seems, then, that the ability of Malaysian SMEs to 'learn' from global buyers have been severely limited in recent years by the evolution of both US and Asian electronics GPNs.

With regard to the fourth element, our work has been concerned with the industrial implications of the Malaysian government's socio-economic regulation. In the context of a

need to tackle the origins of inter-racial strife, these regulatory interventions emerged at the beginning of the 1970s in the form of the New Economic Policy (NEP: 1970-1990) and subsequently, the New Development Policy (NDP: 1991 onwards). Composed, among other things, of quotas for bumiputera employment and income redistribution via participation in state holding companies (in petrochemicals, heavy industry, trading and plantation agriculture), these initiatives seem to have had a dramatic effect in helping to reduce poverty, though inequality has remained stubbornly high (Henderson 2005).<sup>11</sup> Whatever the social welfare benefits of these programmes, however, they seem to have had the unintended consequence of depressing both bumiputera and non-bumiputera (Malaysian Chinese and Indian) interest in manufacturing entrepreneurship. This situation has been compounded by the fact that the government has encouraged speculation via the state holding companies and the stock exchange, thus creating a context for making money through rentierism (for a very small proportion of the population) rather than via the difficult work of manufacturing (Gomez and Jomo 1997, Henderson and Phillips 2005).

In spite of the weaknesses in the SME manufacturing base being recognised since the late 1980s (see Salih and Yusof 1989), and confirmed in detail, more recently, by an authoritative Japanese report (JICA 2001), the (federal) government has only belatedly, and ineffectively, acted to improve the situation. Only in the state of Penang, where the regional government has been pro-active for over thirty years in regard to the electronics industry, has this picture been moderated.

With regard to the fifth element, our work suggests that confronted with unskilled labour shortages (in construction, low value services etc), the government, by design or default, has allowed a significant proportion of the legal and illegal migrants (from Indonesia and other parts of Southeast Asia) to flow into manufacturing, including electronics. The consequence of this is that both foreign and locally owned firms have been able to rely on new supplies of low cost unskilled and semiskilled labour and, by this means, have been able to maintain their competitiveness in providing lower tier inputs for the GPNs of which they are a part. By this means these firms have been released from the upward pressures

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<sup>11</sup> Recent research suggests that while the NEP-NDP has created the conditions for social stability – by creating a bumiputera middle class – it has been the industrialisation project that has contributed most significantly to poverty reduction (by, in effect, converting rural peasants into urban workers). See Henderson et al (2002b) and Henderson and Phillips (2005).

on the wage that, for instance, in Taiwan and Singapore a generation earlier (1980s) helped to propel the upgrading of their electronics industries (Henderson and Phillips 2005).<sup>12</sup>

The Malaysian electronics industry, then, has suffered from the superimposition of three dynamics; changes in the governance structure of the GPNs in which it participates; the underdevelopment of its SME sector; and the absence of market or other pressures to upgrade into higher technology, higher value-added processes and products. For perhaps a 10 to 15 year period (late 1980s to early 2000s), Malaysia had a 'window of opportunity' within which its electronics industry could have been upgraded. With the rise of China as a manufacturing and exporting powerhouse (and the threat this poses to producers who remain locked into low to medium technologies; see Lall and Albaladejo 2004), that window is rapidly closing. This is not a comfortable position for a country's principal manufacturing industry to be in.

### **South Africa**

Our work on the South Africa wine industry (SAWI) has focussed on the implications for the industry of its absorption into GPNs dominated by powerful retailers, particularly those in Britain. GPNs in food and beverage (F&B) retailing are less complex than those in many manufacturing industries (in terms of their input-output structures) but, in principle, they can have important implications for local firm upgrading (particularly in terms of product quality) and movement into higher value-added products. Unlike most manufacturing GPNs, however, those of larger F&B retailers have governance structures in which the lead companies are particularly powerful. This is especially true in the British context where four supermarket chains (Tesco, Sainsbury, Walmart-Asda and Morrison-Safeway) dominate F&B retailing and, for instance, control about 80 percent of the country's market for South African wine. This is in a context where Britain remains the single most important export market for the industry. Our research has had two elements. These have been:

- a study of the implications of such GPNs for the development (and upgrading) of the South African wine industry, including an assessment of the implications of 'normal' British business practices for prices etc;

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<sup>12</sup> In Singapore, in the 1980s, the government deliberately forced up labour costs (by increasing employee contributions to the Central Provident Fund) in order to encourage the upgrading of its industrial base (Henderson 1993).

- in the context of these GPNs, an assessment of the implications of the South African government's deregulation, competition and empowerment policies for poverty reduction among black workers within the wine industry.

While this work is on-going (and thus our policy conclusions should be regarded as provisional), the nature of our research thus far can be summarised as follows (see Ewert and Henderson 2004 for an extended account).

With regard to the first element, it seems clear that some sections of the South African wine industry are heavily dependent on the British supermarkets. This is especially true (though not exclusively so) for the lower value wines and where wineries operate as OEMs in supplying wine for the supermarkets' own brand products. In this context, the supermarkets have the wineries in almost a vice-like grip such that they are not only able to demand adherence to quality and health standards (typically at the wineries own cost), but in particular they are able to bear-down on the prices the wineries are paid. Additionally the wineries are subject to a range of practices that while typical of the relationship that British supermarkets have to their suppliers (including those in Britain) are particularly damaging for South African wine producers (as they are for other developing country suppliers of F&B). These include, for instance, producers having to rent the shelf space that their wines occupy and being required to bear the costs – in lower prices – should the supermarket stage a cut-price 'promotion' of their wines.<sup>13</sup>

With regard to the second element, the following issues seem to be important.

For nearly three-quarters of a century the SAWI was extensively regulated, including planting quotas and minimum price for the wines. Deregulation of the industry was swift and 'brutal'. It began in 1989 and by 1993 the SAWI was market-driven for all practical purposes.<sup>14</sup> The only aspects of the industry that continue to be subject to government controls are those to do with plant materials, quality control, environmental norms and customs and excise (Ewert 2003).

On the whole deregulation has been highly beneficial to the industry. It has forced grape growers and wineries to re-examine their operations. They have cut costs, uprooted old,

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<sup>13</sup> Of the British supermarkets, only the smaller chains, Waitrose and the Coop, escape the criticism of South Africa's wine producers. The fact that both of these have 'mutual' ownership arrangements (the former via the John Lewis Partnership, the latter via the Cooperative Wholesale Society) is directly related to their more socially responsible business practices.

<sup>14</sup> With the last vestiges of regulation being abolished in 1995.

unproductive and poor quality vines and replanted with new ones. They have adopted new technologies and production techniques, become market conscious and improved quality. In short, deregulation has boosted innovation and competition and has made the industry internationally competitive for the first time.<sup>15</sup> The wine industry has become one of the success stories of the post-apartheid economy.

There are three problems that have been associated this success. Firstly, while there is evidence to suggest that growth of the industry went hand in hand with an increase in farm jobs (permanent and casual) as well as an increase of job opportunities further down the value chain (see Ewert and Henderson 2004 for a summary), in the late 1990s it was estimated that between 35-40 per cent of the rural population still lived below the poverty line (R 352 – about £32 - per month, per adult equivalent). Secondly, since the beginning of significant growth in 1994, wages have just kept track with inflation. Generally speaking, rising profits from export revenues have not been shared with workers. Instead they have gone into new plantings, new technology, cellar expansion and private consumption. Thirdly, as the industry has become more competitive and profitable, land needed for the development of vineyards has become more costly. As a consequence they have become a barrier to market and thus global network entry by black producers and thus are working against the possibility of Black empowerment in the wine industry becoming a significant route to poverty reduction. This problem is not being offset by the very limited empowerment programmes initiated by individual producers nor by the largely cosmetic ethical trading initiatives of some foreign supermarket chains.

Perhaps more worrying is that fact that micro-studies (consistent with GPN and related methodologies) of changing labour markets in the wine industry point to a reversal of trends (du Toit and Ewert 2002, du Toit and Ally 2004, Kritzinger et al 2003; see Ewert and Henderson 2004 for summaries) indicated above. This work suggests that farmers have restructured their labour force in two ways. Firstly, they have reduced the size of the permanent, on-farm labour force (that is, those provided with housing by the farmers), while at the same time 'casualising' many of their workers. Some of those that have been retrenched have been re-employed on a casual basis, but on less favourable terms. Others are employed as 'contract workers' via labour contractors and brokers.

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<sup>15</sup> Between 1992 and 2004 exports increased from 15 million litres of wine to 240 million litres. South African wine now has over 10 percent of the British market with several labels among the country's top twenty brands.

This restructuring of the labour force has been a response to three pressures. Firstly, the enormous cost pressures and stringent demands flowing from contracts with overseas (mainly British) retailers. Secondly, domestic labour legislation, including a statutory minimum wage; and thirdly, legislation aimed at giving permanent, on-farm workers more security of housing tenure. It is now clear that the effects of the new pro-worker legislation have been cruelly ironic. While those that have retained their permanent jobs on the farm have benefited from government intervention, others have not. A greater proportion of those employed by the farmer are now living a more precarious existence than was the case before the introduction of the legislation. It is these, the growing proportions of casual workers recruited off-farm, that are the principal 'losers' in the 'new' SAWI.

## **POLICY ISSUES**

Our research on South Africa and Malaysia has not yielded policy conclusions of significance to both countries, although there is a general issue that the two countries have in common. In as far as this work has significance beyond the boundaries of the two countries concerned, however, it is predominantly for those countries that are either in the early stages of developing electronics and similar manufacturing industries or are engaged in the production for export of horticultural and other agricultural products.

I begin by discussing the implications of the South African research before turning to the Malaysian case.

### **South Africa**

#### Problem: Oligopolistic control of retail GPNs

In as far as South African wine producers are incorporated into GPNs organised by British supermarkets, then of all the GPNs studied in our research, British economic actors can be seen as particularly implicated in the poverty and poverty reduction scenarios that unfolding in the SAWI. Specifically, the power that British supermarkets are able to exert by virtue of the oligopolistic nature of the single most important market for South African wine, is forcing down prices for producers. This, in turn, is resulting in a downward pressure on direct and indirect labour costs that is having negative consequences for poverty alleviation among the industry's black workers.

### Possible responses

- As part of its commitment to reduce poverty in Africa, the British government could insist on a code of practice for the supermarkets to be applied in their dealings with suppliers in African and other developing countries. This could incorporate, but build upon, the industry 'best practice' currently evident in companies such as Waitrose and the Coop. Such an initiative would recognise that (a) corporate schemes, such as the 'Ethical Trade Initiative' (ETI) seem to be large cosmetic, (b) that consumer power around corporate social responsibility issues such as this, is underdeveloped and that, (c) regulatory intervention seems to be the best route to relatively quick, positive results for the SAWI's black workers.
- The British government, with the support of those supermarkets that are the most committed to the 'fair trade' initiative, could publically recognise that The Fair Trade label (beginning to expand in the South African wine and fruit industries) is superior to the ETI in the sense that the 'premium' paid by the consumer goes back to the 'farmgate' and has to be used for the social development of the farm worker community. Explicit, publicly funded attempts such as this to build consumer awareness of fair trade issues could result in mounting pressure on supermarkets to alter their supplier-related practices.
- Given the rising demand for South African wine, the producers could perhaps be encouraged to form 'cartels' and, like their Australian and New Zealand equivalents, negotiate 'on-block' with the supermarkets.

### Problem: Rising land prices

The increasing cost of productive land for viticulture purposes is an example of market processes working to the detriment of human welfare. In the context of a political economy where access to land is becoming a highly politically charged issue (as it is in other parts of Southern Africa), this is a problem that seems ripe for policy attention.

### Possible response

- The South African government could consider price controls for land for viticulture and other higher-value agricultural industries. This could be legitimated as a necessary

complement to financial and other government assistance for black empowerment programmes.

#### Problem: Labour market practices

While practices detrimental to the workforce are partly a consequence of power relations within the GPNs, partly of competitive pressures from Californian and Chilean producers (where labour legislation is poorly enforced), they are also a product of social and political relations that have arisen within South Africa itself.

While arguably labour legislation is already sufficiently robust to deal with many of the problems, its application is ineffective. On the one hand the Department of Labour's inspectorate does not have the capacity to cope with the scale of the problem and, on the other, many of the labour contractors operate in the informal sector; they are 'nomadic' and difficult to track-down. In addition to this, the South African government is beginning to review its Labour Relations Act and it seems likely that, if anything, statutory legislation will be relaxed consistent with neo-liberal views about the need for 'flexible' labour markets.

#### Possible responses

- In spite of the fact that the winelands of the Western Cape are poorly organised and short of a *zapatista* style pro-poor movement, trade unions, in general, remain the agencies best placed to monitor labour market abuses (in any country). As COSATU<sup>16</sup> is a partner with the ANC government of South Africa, its affiliates could be given official support for recruitment drives in the winelands with a view to establishing bargaining rights with producers.
- The government will need to sustain its commitments to re-distribution by means of welfare grants and investments in building human capabilities (through education, health care etc.).

### **Malaysia**

#### Problem: Unintended consequences of redistribution and anti-poverty policies

After more than thirty years as an electronics producer, Malaysia still lacks a significant SME sector capable of linking with the TNCs and benefiting from the upgrading potential of their

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<sup>16</sup> Congress of South African Trade Unions.



GPNs. As a consequence, the industry has not moved decisively into higher valued-added operations and is now at serious risk from Chinese competition. While this structural weakness in the economy cannot be traced to issues of competition or regulation in a narrow sense, it seems to be linked to government attempts – beginning with the 'New Economic Policy' in the early 1970s to privilege Bumiputeras as part of a wider anti-poverty/redistributional programme. The consequence has been that where SME entrepreneurship has taken place among the Bumiputera, it has been in rentier-type operations (associated with real estate, financial and other services for instance), rather than in manufacturing – a key industry in building high value-adding, high wage, egalitarian economies. Those best placed to develop a dynamic SME sector in electronics – historically Chinese Malaysians – have, in the process, been marginalised (though they have benefited from rentier opportunities).

#### Possible response

- Though the 'window of opportunity' within which the Malaysian electronics – and other industries - could have been upgraded, is closing rapidly, a concerted effort by federal and state governments alike, working with one another and with SMEs and lead companies, might secure for Malaysia a continuing 'toe-hold' in the global electronics industry. From this basis, given serious strategic thinking on the part of government agencies, it might be possible to re-work Malaysia's role in manufacturing GPNs, on the basis of higher technology functions and products. Whether the federal and state governments have the institutional capacity to engage in the strategic thinking and to effectively implement whatever decisions are taken, is, however, in some doubt.

#### Problem: Migration policy as an 'anti-development' tool

Many have argued that deregulation of labour flows is a necessary complement to the deregulation of financial and trade flows. Whatever the positive merits of this argument, there is a sense in which this may not be the case. One of the reasons why Malaysian manufacturing industry has remained stuck in lower and medium value-added operations is that firms have been able to rely on significant flows of cheap, unskilled labour (illegal as well as legal), from Indonesia and other Southeast Asian countries. As a consequence the incentives to move into higher value-added operations that tight labour markets would have brought, have been missing. At the same time, shortages of technical and engineering personal have not been alleviated by targeted migration/immigration policy.

### Possible response

- It may be necessary to tightly regulate unskilled labour flows into manufacturing industries in order to wean employers from their reliance on cheap labour and thus their concentration on lower value-added operations. The resultant labour shortages should lead to increased wages and thus an upward pressure on manufacturers to move into higher value-added functions. With government financial support and a migration policy that targets higher skill and technical/engineering personnel, rapid progress could, perhaps, be made.

### Problem: Local politics and regional institutions

Of the three Malaysian states whose economies are networked into the world economy via electronics production, only Penang has seen the rise of an SME cluster that has begun to perform higher value operations within the GPNs of the respective TNCs. While the significance of this development must not be overstated within the East Asian and certainly global contexts, it seems that the superior performance of Penang in this sense is traceable to the peculiarities of Penang's local politics vis a vis those of Malaysia's other 'electronics states', Selangor and Johor. Because of this Penang has been the only one of them to develop a pro-active regional institutions focussed on SMEs, GPN linkages and related issues.

### Possible response

- As economic development is always, initially, a regional (ie. sub-national) phenomenon, then regional institutions, in principle, can have a major role in helping to drive development and, as in the case of Malaysia, re-position economies within GPNs. As the electronics complexes of Selangor and Johor are likely to be the first casualties of Chinese competitiveness, it may be necessary for the federal government and the state of Penang, to work with their development agencies to help upgrade and strengthen the latter's capacities for pro-active engagements with SMEs and lead companies alike.

### General issues

I mentioned at the beginning of this section that there was one issue that has emerged from our work that Malaysia and South Africa have in common. This issue stems from the fact that they are both multi-racial societies that have instituted redistributive programmes as

part of their respective development projects. Though Malaysia's programmes have been far more successful (even given the provisos referred to above) than South Africa's (and this seems to be more connected with the determination with which they have been pursued in Malaysia, rather than their greater longevity), they potentially raise broad implications for the latter. These consist of whether, in multi-racial societies, policy agendas designed to attack poverty and inequality among the historically dispossessed peoples need to be more carefully framed so as to avoid constraining entrepreneurial activities in those industries, and amongst those sections of the population, that are ultimately the most conducive to driving genuine (as distinct from rentier, speculative) development.

#### And Finally....

At a high level of abstraction, our work on GPNs in Malaysia and South Africa underlines the fact that it is not merely firms, government institutions, NGOs etc that become absorbed into the GPNs and, in a sense, part of their governance structures. More than this, it is particular forms of capitalism<sup>17</sup> (with their own histories, cultures, values) that are interacting with the GPNs in particular locations. As a consequence in seeking to work-out how particular economies and societies might benefit from GPN involvement, we need to be sensitive to the fact that there are no one 'royal road' to development and prosperity, but a multiplicity of possibilities. In some countries and circumstances, these possibilities might involve competition policies designed to render markets 'freer', in others they might involve significant elements of market regulation, and, indeed, protection. Whatever the appropriate policy balance between competition and regulation and the forms these policies might take, however, one thing seems inescapable. Strategic economic planning (in the sense of an effective state capacity to not only manage the domestic economy, but to manage its interface with the world economy), particularly in an age of globalisation, is a sine qua non for sustainable development and prosperity.

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<sup>17</sup> There is, of course, no such thing as 'capitalism', but rather, at a global level, a multiplicity of capitalisms. From a now vast literature see, for instance, Coates (2000), Dore (2000) and Whitley (1999).

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