

Review of *The Contest for Value in Global Value Chains: Correcting for Distorted Distribution in the Global Apparel Industry*

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In this book, *The Contest for Value in Global Value Chains*, Lilac Nachum and Yoshiteru Uramoto provide a complex picture of global value chains by zooming in on the global apparel industry. The home of infamous “sweatshops” and labor-intensive work, the apparel industry is often seen as a representation of how power relations are unequally distributed among actors in global value chains, where the lead firms in the chains, that is, branded marketers and large retailers like H&M, Uniqlo and Zara (the buyers in “buyer-driven chains”), can appropriate a large amount of value and squeeze their suppliers’ profits, taking advantage of low-wage labor in the Global South. In some cases, workers in labor-intensive industries consist of young migrant women, working in export-processing zones, threatened with anti-union strategies, sometimes through military or paramilitary means – characteristics born out of the long history of a capitalist world economy that has brought us today’s neoliberal policies favored by foreign investors. It is also not uncommon that disasters occur, such as the collapse of the Rana Plaza, home to a garment factory, in Bangladesh in 2013, where 1,134 workers died, most of them women.

Nachum and Uramoto claim that there’s more complexity to this bleak representation, at least if we see the apparel industry on different levels. Using concepts of value appropriation (“approximated by profit margins, which reflect the difference between total income and total cost incurred in the production”) and value creation (“measured by the difference between sales and the purchase of components, materials, and services from other firms”) – and how the two intersect (p. 38–39) – and doing a case study of the Bangladesh apparel industry, they derive a few conclusions. Admitting that their findings may not be able to be applied across the apparel industry, Nachum and Uramoto nonetheless offer some insightful points. I will focus on two.

First, the authors find that the power between the suppliers and the lead firms seems to be more balanced than what is usually assumed, seen from the comparison between the value appropriation/creation of Bangladesh’s local apparel manufacturers and the lead multinational apparel firms, mostly headquartered in the Global North, which outsourced their production in Bangladesh. This is also in line with the profit data that shows that the profit margins of top global apparel companies have not changed much in recent years (see Chapter 4). Of course, we have to keep in mind that we are here comparing giant multinational corporations (MNCs) and their local suppliers, with MNCs having profit



margins hundreds of times higher (see p. 41), not to mention other variables that may influence this gap. And because these MNCs already have extremely wide margins to begin with, we may want to ask to what extent scrutinizing the lack of change in their profit margins in recent years is meaningful [1].

What is perhaps more interesting is the results of the interviews. Interviewing some managers from the suppliers' companies, the authors claim that such managers have some bargaining power when facing their customers, that is, the lead firms. It is not exactly a dog-eat-dog situation, where competition is very high at the bottom, so that suppliers have to succumb to low prices set by lead firms, to keep their business. These suppliers cite a variety of techniques that they were able to master to upgrade their capabilities to differentiate themselves from their competitors so that they could move themselves up to higher value-added activities (p. 43). What is not elaborated are the details of what this "partnership" between the suppliers and their buyers entails when it comes to production processes, including other demands that buyers can make. These demands may not be related to low prices, but they are also as constraining – if not more – to suppliers. Examples include requirements such as just-in-time delivery, demands to offset order fluctuations and other forms of control mechanisms, bureaucratic or managerial, that lead firms may be able to exert on their suppliers.

In the era of flexible production, where lead firms (usually MNCs headquartered in the Global North) restructure production processes and management practices through creating spatially extensive production networks and "lean" production strategies (see e.g. Harrison, 1994; Moody, 1997), the "flexibility" demanded by such firms often includes aspects that are not always visible to eyes outside of those directly involved in production processes – or what Karl Marx (1976) refers to as the "hidden abode of production." One example is demands regarding how to deal with missed forecasts. In this book, Nachum and Uramoto themselves mention that "fluctuations of demand for apparel and the challenge of predicting demand" are a source of risk in this industry that lead firms often have no control over. While the authors mention that one of the "benefits" of lead firms having business relationships with the Bangladesh manufacturers, from a multinational-managerial perspective, is that it allows firms to more effectively deal with these fluctuations due to the labor flexibility in Bangladesh thanks to the high percentage of the country's informal employment (!), they do not mention whether there are other possible benefits that lead firms can get through engaging in flexible production, for example, placing the burden of missed forecasts on their suppliers' shoulders.

A study of Indonesian suppliers that deal with MNCs within the FMCG (fast-moving consumer goods) industry shows that these multinational buyers can require that their suppliers agree to a buffering policy, where the latter need to add or reduce, say 20% of the previously agreed amount of production quantity, depending on how much fluctuation occurred in the market (Suwandi, 2019a). Other companies can push suppliers to rush or fluctuate orders. Another study – of Apple's suppliers (Chan *et al.*, 2020) – found that Apple can rush orders, such as during certain seasons or when new products are launched, and its suppliers have to comply with the company's demands with respect to such speed-ups no matter what the consequences are. In the end, the workers are the ones who bear the harshest burden, including long working hours and increased work speed, often at the expense of their safety and well-being. If suppliers reject these demands, lead firms can threaten to move or split their orders to other suppliers. Unlike the claims given by managers in Nachum and Uramoto's study, the study of Apple reveals that this firm can even impose such requirements on Foxconn, its biggest supplier, despite claims about Foxconn's and the People's Republic of China's – where Foxconn's plants are mostly

located – rising bargaining power and technological advancement within the global value chains (Chan *et al.*, 2020). This certainly begs further exploration of the extent of the bargaining power of Global South suppliers, including those within the apparel industry, amid neocolonialism that still characterizes the capitalist world economy (Boussebaa, 2023).

The second insightful finding presented by Nachum and Uramoto pertains to labor, in this case, specifically in relation to Bangladesh apparel workers. Analyzing both wages (as a measure of value creation, based on minimum wage levels) and productivity (as a measure of value appropriation, calculated as the average output per worker in the industry) data, these authors find that there is a:

[. . .] large gap between value creation and value appropriation in relation to the labor employed in apparel production in Bangladesh that although has fluctuated, remained substantial over time. The pay rises [in the local firms] have not matched the level of productivity growth, and the gap had widened considerably in the more recent years. (p. 71)

In particular, they report, as a low-skill, labor-intensive industry, the apparel industry in Bangladesh has shown neither evidence of sufficient investment in physical capital nor technological innovation that could have increased productivity “beyond incremental improvements in the quality of sewing machines” (p. 72). Thus, the rise in labor productivity can be attributed to labor itself – such as the length of the working day, labor efficiency and the intensity of work – themes that are very familiar in the Marxist literature, and we have a word for it: exploitation.

But because this book takes a business, managerial perspective, it does not particularly seek an explanation of the wage-labor productivity gap by examining how labor is exploited through various means within global value chains. Instead, Nachum and Uramoto address this gap (a problem that challenges the neoclassical tenet that dictates that an increase in labor productivity should lead to wage raises) by using market power theory. This theory argues that the assumed tight connection between productivity and wages “is not guaranteed and is likely to vary across different contexts, depending on the power balance among participants”; and in the context of Bangladesh’s apparel labor market, the power imbalance is “intensified by the inability of labor to unionize and bargain collectively” – an aspect often found in developing countries that try to attract foreign investments as part of their export-oriented economies.

There are some responses to the authors’ second finding. To begin with, the results are certainly reflective of the state of today’s global production. As a matter of fact, many places in the Global South where global supply chain jobs are concentrated have this characteristic – i.e. they are countries with low unit labor costs (unit labor cost is a measurement that combines wages and productivity and is often used to measure a country’s competitiveness, as well as the level of appropriation of surplus generated). MNCs that are still mostly headquartered in the Global North are taking advantage of lower prices of labor, *with similar productivities*, in the Global South, precisely as a means to extract more profit (Smith, 2016; Suwandi, 2019a). And in many contexts, labor productivity, such as in the labor-intensive apparel industry, is a result of extracting more from workers through enforcing more working hours, higher work intensity or other means that can increase their output per-hour. Some of these techniques can be enforced without the obligation of paying the workers more wages. MNCs, of course, do not have to deal with the nitty gritty of labor control strategies; their suppliers are the ones who do the job – another benefit of arm’s length relationships with suppliers in the world of buyer-driven chains.

Interestingly, Nachum and Uramoto acknowledge how workers are the ones who bear the burden in the global apparel chains in Chapter 5, by pointing out that there is indeed a

constant price pressure at the level of production or competition for low-cost position that characterizes the apparel global supply chain, and this pressure:

[...] puts labor in a particularly vulnerable position. Price competition forces brands to reduce prices and pay levels for the manufacturers, who in turn push the pressure down on the work force [...]. Labor is the only claimant of value whose participation in supply chains is confined to that of a seller, a position that deprives labor of the ability to pass price pressures on, turning it into the ultimate victim of the downward price pressure that runs throughout the chain. (pp. 74-75)

Combined with their lack of bargaining power (because they mostly consist of unskilled women with low levels of education) *vis-à-vis* the factory owners, these workers' vulnerability is enhanced.

However, this claim is a bit contradictory with their findings based on their interviews described in the previous chapter. Supporting their findings about the strong position of the Bangladesh suppliers, in Chapter 4, Nachum and Uramoto go as far as claiming that these suppliers can strengthen their bargaining power through technological innovation and move themselves up. Price pressure for them is pretty much not a problem, and some interviewees proudly claim that their workers "are by far the most important reason for our ability to build reputation as a jeans producer" (p. 44). They claim that they pay their workers above the average pay levels and benefits, including "generous bonuses." So how do we make sense of these seemingly contradictory findings? Are the manufacturers interviewed in Chapter 4 an anomaly? If that's the case, does that mean only a fraction of Bangladesh's suppliers have strong bargaining power *vis-à-vis* their multinational buyers?

Or does it mean that despite the claim that these suppliers pay decent wages, their workers still contribute productivity increases well beyond what their wages are worth, that is, in well-known Marxist terms, the rate of exploitation remains high? Bosses do not have to abuse their workers to increase workers' productivity or to appropriate a larger share of increasing productivity. So-called generous bonuses, for example, may be based on piece-rate systems that are notoriously exploitative. They can even provide incentives and still increase labor productivity without having to raise wages at the same rate. As long as the wage-productivity gap exists, as Nachum and Uramoto explain in Chapter 5, then workers are at loss. But if this is indeed what happens in the case of the apparel industry, that in the end, to "lose less," suppliers have to cut corners by sacrificing their workers, then we have to reevaluate the "power imbalance" in the chains. (And this still does not show that these local suppliers have strong bargaining power. If they did, then they would not have to cut corners by sacrificing their workers.)

In the way this book explains it, it is as if there is a disconnect between nodes of global value chains. It all begins with the pressures faced by lead firms – something that Northern capital has tried to argue all along, that moving production to the Global South and looking for low unit labor costs are an "urgent survival tactic" (Roach, 2004), in this case because multinational apparel brands have to sell the products cheap (see Chapter 6). But it is worth noting that the real issue for corporations is their gross profit margins and not necessarily about selling cheaper. To increase profit margins, it is necessary to compete for low-cost position. Even if the suppliers in Bangladesh are not in too bad a position in terms of value appropriation, this is only because they are able effectively to exploit their workers, that is, appropriate high rates of surplus value beyond the wages paid to the workers. In this situation, the workers are indeed highly vulnerable, due to their weak position facing their local bosses, coupled with their low unionization. On this part, a lot of emphasis in this book is placed on the local context, with Bangladesh's position as a developing country, with all its political and economic problems, such as the lack of labor rights and high informal employment. The lead firms here are just fulfilling their roles as buyers with arm's length relationship; as long as they buy "ethically" – and it is suggested that they do – the suppliers can bargain with them. The real pressure on labor, nevertheless, is the product of the conditions that corporations (claiming that this is

simply a matter of global market forces) impose on the suppliers, who then pressure workers. In this way, MNCs, operating at a distance, can pose as good world citizens who even have the potential to help fix the problems if opportunities arrive and present themselves.

The truth is that nothing is disconnected in global value chains. I am sure that Nachum and Uramoto are fully aware of this when they write meaningful suggestions in the later chapters about how to move toward a more balanced distribution of value by acknowledging the interdependence among various actors, from MNCs and local firms to international organizations to civil societies, nation states and labor. What needs to be elaborated is the understanding that, for Northern capital, places like Bangladesh are desirable, but it is not as if Bangladesh or Indonesia or India or Vietnam or Mexico emerged out of vacuum as countries that are suddenly hungry for foreign capital investments and eager to sacrifice their own workers for the riches of others. What we are seeing here is the age of MNCs and globalized production rooted in centuries of colonialism and imperialism, including the more recent enforcement of neoliberal trade policies and agreements as well as structural adjustment programs, that have put countries in the Global South in a relationship of dependency with the Global North (Hickel, 2017). Northern capital is often backed by international financial institutions or by their own governments that would “recommend” Global South countries to create policies that would benefit this capital, including enforcing anti-union policies or refraining from increasing minimum wages (Suwandi, 2019a). Other institutions that help enhance global capital’s power include large, globally operating Northern professional services firms (Boussebaa and Faulconbridge, 2019) as well as bilateral and multilateral trade agreements, which are often created at the behest of Northern states to support capital accumulation of their own firms (Ghosh, 2015).

Thus, while it is true that the world of global value chains is a complex web of value appropriation and value creation and that to have a more balanced distribution of value we need to acknowledge the interdependent relationships among various actors within the chains, we have to also recognize the characteristics of these power relations and the history that has shaped these relations, so that we can understand the dynamic of these chains. As Nachum and Uramoto mention, perhaps in some cases, an organization like the ILO can help mediate the “negotiation of value” among some actors within the chains, in spite of the fact that the ILO can, say, only put pressure on the governments involved in the trade relations (p. 112). But this example of “soft power” is limited, especially if we are dealing with powerful states, or when we deal with the complex, arm’s length relationships within global value chains, where MNCs can often run away from responsibilities just because they do not deal directly with production processes.

To conclude, this book has a lot of merits, trying to bring up the complexity of global value chains by focusing on the apparel industry. Although the book still largely takes an *uncritical* managerial perspective and, as result, abandons the “situated realities” of the precarious lives of workers and brings to the surface their perspectives (Prasad and Durepos, 2016, p. 218), it has somehow, interestingly, highlighted the most important aspect that is prevalent in many studies across industries: that workers are carrying the burden of inequality in global value chains. But it is also important not to forget to place all this within the global capital–labor relations and the highly hierarchical world economy. We need to remember that these Bangladeshi workers are making clothes not only for their bosses, but for the MNCs based in Northern states, and there are reasons why these firms are engaging in this kind of production – reasons that are based on the logic of capital accumulation.

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Note

1. Also, when we talk about the wealth of the firms' owners, that is a different thing altogether. The wealth of Tadashi Yanai, for example, the CEO of Fast Retailing, the company behind Uniqlo, had doubled within the span of two years, to \$25.4 billion in 2018. That is probably difficult to compare to factory owners in Bangladesh (Feng, 2018). And there are some discrepancies when it comes to Uniqlo. In the book, Nachum and Uramoto mention that Uniqlo is an example of a brand who builds a close relationship with suppliers because it is integral to the company's business model. Uniqlo views its suppliers as "long-term partners" and turn-over "tends to be very low." It also claims to visit its contract factories weekly, monitor their product quality, and offer "technical support and instruction on production activities" (p. 45). Only a few years ago, in 2015, a supplier for Uniqlo in Indonesia went bankrupt after the Japanese company stopped its orders, allegedly due to "quality issues." Thousands of Indonesian workers were laid off with unpaid wages and no severance payments. This supplier also had previous labor violations, including union busting and unpaid overtime. The workers demanded that Uniqlo pay the \$5.5 million worth of back wages and severance payments, only to be rejected by the company, who claimed that it had no legal obligation to do so, since it was the fault of the supplier (Suwandi, 2019b). Later, after continuous workers' protests, the company claimed that it had made some agreements with labor representatives, but the agreements were not disclosed (Aurelia, 2019). This case certainly does not reflect a company that values long-term relationships.

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