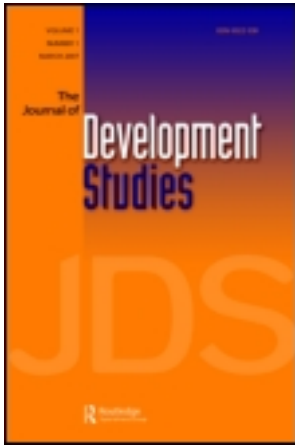


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The Governance of Global Value Chains and the Effects of the Global Financial Crisis Transmitted to Producers in Africa and Asia

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ABSTRACT *This article uses a global value chain (GVC) approach to trace the effects of the Global Financial Crisis (GFC) transmitted to low income producers in Africa and Asia through trade. It explores how the governance structures associated with different types of GVC determined producers' vulnerability to the exogenous trade shock of 2008. It contextualises the GVC concept of governance with regards to specific country case studies. This is through elaboration of the links between internal GVC governance structures to firms, with external structures, negotiated by governments. These modalities are shown to have resulted in differentiated effects of the GFC being transmitted to producers.*

I. Introduction

The global financial crisis (GFC) which erupted in October 2008 was initially not expected to affect low-income countries (LICs) due to limited financial linkages and therefore restricted transmission through capital accounts. As the crisis escalated and subsequently hit the real economy, however, it became clear that some LICs exhibited a high degree of vulnerability to a Keynesian demand shock: a sudden decline in demand in the United States (US) and other developed country markets for their exports.

The dramatic decline in global trade flows over the last quarter of 2008 was unprecedented. The speed and intensity of these declines reflects the increased fragmentation of global production and trade that has occurred in recent decades. These shifts related to how global trade is organised, within global value chains (GVCs) and production networks suggest that the governance structures associated with different types of GVC are likely to have been important transmission mechanisms of the GFC through trade to LICs.

This article sets out to explore how the governance structures associated with different types of GVC may have determined producers' vulnerability to the exogenous trade shock which occurred in 2008, and their ability to mitigate its effects. It uses the GVC approach and its associated governance structures as organising concepts, as discussed in the next section, and traces through the effects of the GFC transmitted to LICs in Africa and Asia. It does this across the GVC spectrum by means of the following product and country case studies: coffee in Uganda, horticulture in Kenya, and garments in Cambodia and Bangladesh. Since the integration of some LICs into the globalisation process was undertaken as part of a package of

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reforms, most notably under structural adjustment programmes following the debt crisis of the 1980s, this article argues that the internal governance of GVCs – between private sector actors – cannot be considered in isolation from other external governance structures, negotiated by governments with and for firms and the global economic system in general.

This is because since the crises of the 1980s the dominant development orthodoxy has consisted of assisting LICs in participating in the globalisation process through liberalising trade and finance, attracting investment and tapping into GVCs on a North–South basis. The justification for such policies was supposed to be based on the historical growth experience of the East Asian newly industrialised countries, the interpretation of which still remains highly disputed. The rationale being that by pursuing more open trade and investment policies, developing countries could benefit from external economies of scale through trade.

Since that time there has been significant structural change in the way global production and marketing are organised. There was an impetus for the internationalisation of global production and the fragmentation of trade across countries. For example, as the new trade literature emphasises, external economies may develop as a result of spillover and network effects which arise from the clustering of productive activities for export. These processes generate an internal and self-reinforcing dynamic to continuously upgrade into higher value added activities. Replicated on a global scale, and coupled with the increasing mobility of capital, these processes have led to the increased fragmentation of production across countries so characteristic of contemporary globalisation.

The implications of this phenomenon were described in detail by the GVC literature which became increasingly fashionable during the 1990s. But the results of country and product specific GVC studies are typically ambiguous. As in the case of the new trade literature, trade-offs are apparent and beneficial outcomes are shown to be dependent on how integration processes are managed within country. Despite this, the concept of governance has remained rather underdeveloped within the GVC literature, focusing on the links between firms internal to a given production chain or network, but tending to exclude such aspects as the level of market access negotiated by governments for private actors.

The case studies presented in this article have been selected because the types of governance associated with the products traded would suggest differences in vulnerability to the recessionary effects of the GFC. Incorporating the role of external governance structures into the analysis however, shows how vulnerability to the GFC was in some cases reduced, whereas in other cases it was heightened, even within the same types of GVC as conventionally understood. The contribution of this article is therefore twofold. First, it shows how the modalities through which producers have engaged with trade have resulted in differentiated effects of the GFC being transmitted to producers, which moves beyond a simple dichotomy of openness or not to trade. Second, it contextualises the GVC concept of governance within specific country contexts through elaboration of the links between internal and external chain governance.

The article is organised as follows: section II briefly introduces the GVC literature and its concept of governance. It then discusses some new perspectives on GVC governance. Section III adopts a modified value chain approach and assesses how the effects of the GFC were transmitted to producers in the selected country case studies. Finally, section IV concludes with reference to the effects transmitted and impacts on production identified.

II. Global Value Chain Analysis

The historical antecedents of the GVC literature lie within world systems theory. Wallerstein (1974) developed a core–periphery model, in which Northern industrialised nations are located in the central core and linked with developing Southern nations in the periphery through global commodity chains (GCCs). As the GCC literature developed, it shifted the world systems theory discourse from the macro to the micro level, through its focus on the organisation of industry

and firms within a more integrated global economy (Gereffi, 1999; Gereffi and Korzeniewicz, 1990). The GCC literature subsequently evolved into GVC analysis when researchers who studied industry clusters in specific geographic spaces sought to understand how local economic processes are conditioned by global arrangements (Gereffi and Christian, 2009).

Sector studies undertaken using the GVC lens and a heuristic approach to analysis were motivated by the need to better understand how firms and labourers located in periphery countries engage with more recent processes of globalisation. The approach, in brief, consists of understanding how producers at upstream nodes of production are linked with their end markets, including retailers at downstream nodes. These studies explored how changes in the organisation and coordination of global trade and production – characterised by the splitting up of production processes between countries and the deepening of trade and investment linkages – affected firms and labourers in periphery countries, their relative returns, and development of productive capabilities (Nadvi and Thoburn, 2004; Gereffi and Korzeniewicz, 1990).


The GVC Concept of Governance

At the core of GVC analysis is the notion of governance which determines how the production and marketing of goods and services is organised globally, which in turn reflects economic power. The initial distinction made in terms of GVC governance structures was between industry-specific types – for example, whether or not structures are buyer or producer-driven (Gereffi and Korzeniewicz, 1994). The differences between these two types of governance result from who controls the dominant type of economic rent. The economic power within a buyer-driven GVC for lead firms – the chain drivers – results from control over the marketing and retailing nodes, from which economics of scale are derived. In a producer-driven GVC, economic rents are derived from proprietary knowledge or technology, meaning that the chain drivers are located at the node of production. Within both types of GVC, however, lead firms are able to set the parameters for other participants through, for example, sub-contracting arrangements.

Because sector studies undertaken using the GVC approach subsequently highlighted a broader range of methods of coordination by chain drivers, a typology of governance structures was identified by Gereffi et al. (2005). Each type of governance is distinguished by the degree of coordination between actors at different value chain nodes and stages of production, which is a function of: the complexity of a transaction, the ability to codify aspects of it, and the capabilities of producers. The governance structures posited range from market-based to hierarchical structures and vary according to the depth of inter- and intra-firm relations and the degree of explicit coordination required, which is expected to increase with the complexity of the transaction (see Table 1).

Locating the products analysed in this article within the theoretical framework presented in Table 1, the coffee GVC has conventionally been understood as characterised by a market-based system of governance. This is because transactions are considered to be undertaken at arm’s-length, on spot markets, with a low complexity of transactions. The horticulture GVC is

Table 1. Key determinants of global value chain governance

Governance structure	Complexity	Codification	Capabilities	Degree of explicit coordination
Market	Low	High	High	Low
Modular	High	High	High	
Relational	High	Low	High	
Captive	High	High	Low	
Hierarchy	High	Low	Low	High

Source: Adapted from Gereffi et al. (2005).

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considered to be characterised by a quasi-hierarchical structure of governance and buyer-driven; the degree of explicit coordination of trade being high because of the complexity of transactions needed to ensure just-in-time delivery. The garment GVC is generally considered to exhibit the most hierarchical governance structure of all products analysed in this article, and is also buyer-driven. This is where the complexity of the transaction is high, but the capabilities of suppliers are posited to be low.

An important point to note is that as the capabilities of producers change it is assumed that so too will the governance structures between them. But this trajectory is neither automatic nor guaranteed. A key feature raised in the GVC literature is the way in which the relative position of firms and the governance structures within which they trade conditions their potential upgrading options, with some types of governance facilitating rapid producer upgrading and others hindering this process. Despite this recognition, however, it is fair to say that the GVC literature is not wholly satisfactory in respect of the links between different types of internal and external chain governance.

The governance structures posited by Gereffi et al. (2005) do not include reference to external structures, including those negotiated by governments for private actors, but rather focus on the internal structures between firms and private actors. This omission is particularly striking when attention is turned to analysis of the processes by which producers upgrade as well as potentially downgrade within a given GVC. The following section briefly sets out why drawing attention to the links between internal and external chain governance is particularly relevant in the context of the GFC.

New Perspectives on GVC Governance

It is generally acknowledged that the proportion of trade which takes place on an intra- rather than an inter-firm basis has been increasing.¹ This is the case for manufactured goods and high-value agriculture as well as commodity exports. In the latter case, there has been an increased dominance of transnational corporations (TNCs) within processing and marketing nodes operating across borders, deriving economies of scale across their operations. Overall trends in consolidation across marketing and retailing nodes, which have become much more apparent in recent years, suggest that all types of goods are progressing towards more hierarchical types of GVC governance structures. As indicated by Table 1, the positioning of LIC suppliers within more hierarchical structures of governance immediately suggests a heightened vulnerability to the recessionary effects of the GFC. This is precisely because of the hierarchical nature of relations between firms across borders which are not in equal positions to adapt to adverse market conditions.

The aggregate picture is one in which merchandise trade has become more responsive to income over time, and particularly so since the mid 1980s (Irwin, 2002). This is posited as one reason for the dramatic declines in global trade in the last quarter of 2008. It is also an indicator of the degree of the global fragmentation of production and trade which has taken place in recent years, because the elasticity of trade to Gross Domestic Product (GDP) will rise if there is more of an incentive to outsource part of the production chain when demand is high (Freund, 2009).

Financialisation, the most recent and salient feature of globalisation we witness today (Fine, 2009), has been linked to the globalisation of production. Milberg and Winkler (2009) argue that the cost reductions which have resulted from the globalisation of production and fragmentation of global trade have supported the financialisation of the non-financial corporate sector. This is because the increased profits obtained through the globalisation of production have been used for the purchase of financial assets, which has in turn raised shareholder returns. That is to say, the global fragmentation of production and increasingly coordinated trade has been an integral part of the financialisation process which is so characteristic of the contemporary phase of globalisation.

The financialisation process has also affected trade in physical commodities. Commodity derivative markets have grown rapidly, as demand for risk-hedging instruments has increased

since the dismantling of commodity price stabilisation measures which began in the 1980s. This has meant that financial and commodity markets have become closely intertwined, as the growth of commodity derivative markets has in turn affected price formulation processes. There has also been an increasing involvement of international traders and investors in the use of commodities as a specific asset class, particularly since 2002 when a number of commodity hedge funds were launched (Nissanke, 2010). This has led to the relationship between prices and the demand–supply balances of commodities traded on international markets becoming more tenuous. As a result, commodity prices have become increasingly detached from fundamentals and less reflective of demand–supply balances.

These recent shifts in the patterns and coordination of global trade suggest that the governance structures associated with different types of GVC are likely to have been important mechanisms through which the GFC was transmitted to LICs through trade. The extent to which existing notions of GVC governance are able to account for these developments is, however, more questionable. Further elaboration on the links between internal and external chain governance within specific country contexts is required so as to deepen existing conceptualisations of GVC governance. This includes how LICs have engaged with the globalisation process, including the liberalisation of trade and finance, which has subsequently determined the type of actors and firms involved with production and trade within GVCs.

For this reason, the country and product case studies presented in section III draw on the GVC governance structures posited by Gereffi et al. (2005) as organising concepts, but also highlight some of the shortcomings in this classification. This is because in practice, the distinction between the theoretical types of GVC governance – ranging from market-based to more hierarchical structures – is not that clear cut. There are some distinct differences across the products and countries analysed. This includes in the case of coffee in Uganda, where the extent of intra-firm trade and complexity of transactions suggests a more hierarchical rather than market-based structure of governance. There is some variation apparent across marketing strands and the effects of the GFC transmitted to horticultural producers in Kenya, suggestive of differences in contract farming arrangements even within overall quasi-hierarchical structures of governance. Finally, within the garment GVC – considered to have the most hierarchical governance structure of all the products analysed in this article – the country case studies of Cambodia and Bangladesh illustrate how the influence of external governance structures on contractual relations between firms has served to reduce rather than enhance vulnerability to the effects of the GFC transmitted through trade.

III. Country Case Studies

Traditional Commodity Exporter: Uganda

Under Uganda's structural adjustment programme, introduced in the early 1990s, the marketing of coffee was liberalised. This process was designed to introduce market forces into Uganda's coffee value chain. The dismantling of marketing boards was undertaken in conjunction with the liberalisation of capital markets under a far-reaching economic reform process. Although the structural reforms which took place at that time are relatively well documented, the resultant effects on producers within country are much less clear, despite the significance of this sector to the economy. The coffee sector in Uganda directly employs around 25 per cent of the labour force either as small-scale producers or labourers.² In 2008 it accounted for just over 25 per cent of the total value of Uganda's exports.

The general trend between 2005 and 2007 appears to have been one in which the value of Uganda's coffee exports became more closely correlated with volumes. By the beginning of 2008 values began to outpace volumes. As shown in Figure 1 by the difference between the volume of coffee exported and its value, the unit value of Ugandan coffee exports increased by 23 per cent

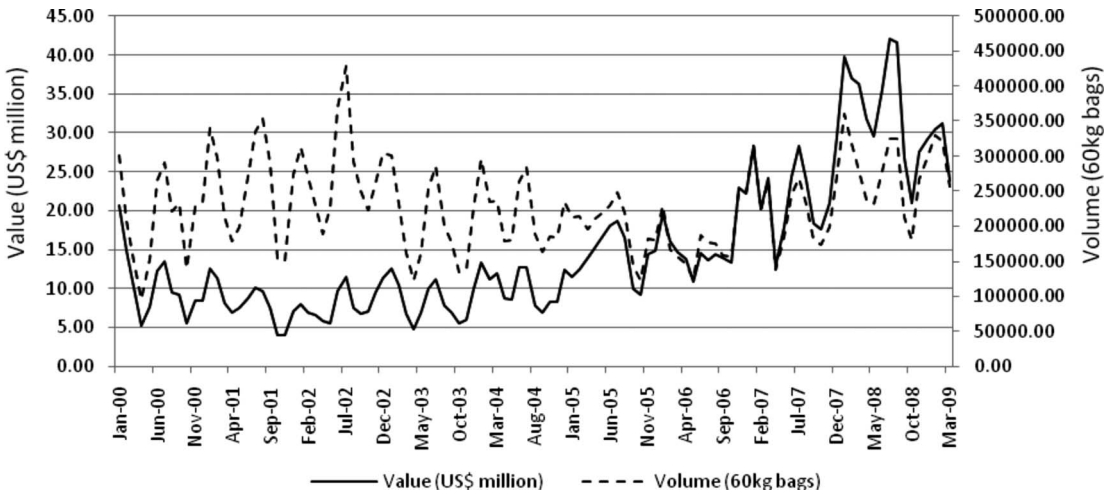


Figure 1. Ugandan coffee exports, volumes and values.
Source: Adapted from data received from the Bank of Uganda.

between 2007 and 2008, compared to just 5 per cent between 2006 and 2007. However, after October 2008 this situation changed abruptly and values fell sharply.

Because of the nature of the structural reforms undertaken in Uganda since the 1990s, the extent to which positive price developments are actually passed on to producers has been called into question in recent years (Newman, 2009). Prior to the liberalisation process, both private and cooperative marketing channels were controlled by the Ugandan coffee marketing board. This meant that coffee was purchased at fixed producer prices, with fixed margins. Price risks were essentially borne by marketing boards which performed a price stabilisation role.

Further to the abolition of state marketing boards, Ponte (2002) describes a classic cycle of integration/outourcing by multinational enterprises (MNEs) taking place. Liberalisation meant some direct buying by roasters from local exporters, but overall MNE traders were able to increase their presence in Uganda and market share (Ponte, 2002). Since then, the export sector has become increasingly concentrated and dominated by five companies, all of which are subsidiaries of multinational trading companies (Newman, 2009).

According to Baffes (2006) international traders needed to guarantee supplies to roasters and therefore became more directly involved in production in Uganda post-liberalisation. This included through direct procurement, own estate production and the development of financial linkages with coffee producers. However, together with the increased participation on derivative exchanges by international coffee traders affiliated to multinational trading houses, the structural reforms undertaken in Uganda have changed the ways in which prices and information are transmitted to producers, as well as price formation processes, as discussed in detail by Nisanke (2010).

International coffee exporters within a vertically integrated operation conduct their transactions on a 'price to be fixed' basis, making use of hedging instruments in order to maintain purchasing prices. Upstream actors, however, such as local traders rely on spot markets and are therefore exposed to price fluctuations. These traders have in turn sought to purchase coffee at low but stable prices so as to maintain their margins, which has resulted in reductions in the farm-gate price of coffee. The net effect of these changes is that Ugandan coffee producers are now less likely to benefit from positive price movements than they are to suffer from negative ones (Bargawi and Newman, 2009).

Some links of the Ugandan coffee GVC, such as the exporter-trader nodes which are now dominated by intra-firm trade, have therefore become much tighter since liberalisation. Others have become much looser, with producers becoming increasingly detached from the sale of their product. This suggests that the conventional portrayal, as discussed in section II, of the coffee

GVC as being characterised by a market-based structure of governance is no longer valid. Arguably the Ugandan coffee GVC now exhibits tendencies more characteristic of a captive value chain.³ This is because of low supplier competence in the face of increasingly complex transactions and a transactional dependence on lead firms. But moreover, given how since the abolition of marketing boards, the control exercised on the part of the transnational corporations has encouraged the lock-in of coffee producers to a narrow range of tasks, and subsequently heightened vulnerability to negative price effects.

Non-Traditional Commodity Exporter: Kenya

Non-traditional exports, such as horticulture, are considered more dynamic than traditional commodities and have formed the basis of export diversification strategies for many countries in sub-Saharan Africa (Gibbon, 2005; Humphrey, 2003). The growth of the horticultural industry in Kenya, in particular, is regarded as one of the major export success stories in sub-Saharan Africa in recent years (Jenkins, 2005). Preferential market access is generally recognised as having played a significant role in the development of the industry in Kenya during the 1990s (Stevens and Kennan, 1999). This access has so far been maintained, with the initialing in 2007 of an Economic Partnership Agreement between the East African Community (EAC) and the European Union (EU).⁴

The horticulture sector accounted for almost 20 per cent of Kenya's total exports in 2008 in value terms.⁵ It is Kenya's largest, and involves around 240 large-scale producers and 150,000 smallholder farms (Mbithi, 2009). Most recent estimates suggest that approximately 60 per cent of Kenya's horticultural exports are sourced from smallholders, including under contract farming arrangements.⁶

It is generally recognised that horticultural GVCs have become increasingly buyer-driven in recent years. The transformation has been led by the consolidation of marketing nodes of the value chain, which has meant the replacement of arms-length and market-based relations between firms with more hierarchical governance structures – the drivers of which are large retailers. Wholesale markets and flexible relations between firms have been replaced by more durable informational-intensive relationships, related to how products should be grown, harvested, transported, processed and stored (Dolan et al., 1999). Because the prices of horticultural goods are not determined by commodity exchanges, but instead by negotiations directly between buyers and sellers, they are not subject to dramatic price swings.

The consolidation of marketing nodes within the horticulture GVC in recent years has in turn influenced the structure of production in supplying countries. The quest for economies of scale at nodes of production has meant some backward vertical integration taking place between exporters and producers (Humphrey, 2003; Dolan et al., 1999). As a result the horticulture GVC is characterised as having a quasi-hierarchical structure of governance. This means that the lead firms within it exercise a high degree of control over other firms in the chain.

The major exports within the horticulture classification include cut flowers and green beans. Cut flowers are typically re-exported from auction houses in the Netherlands to other destinations rather than being supplied directly to large supermarkets in a buyer-driven GVC, as is the case for green beans supplied to the UK market. In both cases, Kenya is trading within a quasi-hierarchical structure of GVC governance and a type of agro-processing production network: it imports the inputs for vegetable and cut flower exports.⁷ Within the Kenya-Netherlands horticulture GVC however, there exists a parallel marketing chain with cut flowers being supplied to Dutch auction houses before being exported elsewhere to other internal EU and extra-EU markets.

In relation to how these governance structures influenced the effects of the GVC transmitted through trade, the available evidence suggests that reductions in consumer demand in end markets fed through rapidly to producers. The effects, however, appear to have been rather differentiated across markets and product categories. For example, the value of leguminous

vegetable exports to the UK was down by more than 20 per cent in April 2009 compared to April 2008, whereas in the Netherlands over the same period it continued to increase.⁸

In comparison, the decline in the value of cut flower exports to both markets was steep: 25 per cent lower in April 2009 than in April 2008 to the UK, and 20 per cent lower to the Netherlands. More recent data suggest that exports of cut flowers have yet to reach pre-crisis levels and that the slowdown has been particularly severe for those destined for the UK: on an annual basis, values were down almost 30 per cent in 2010 compared to 2008, and volumes by 24 per cent.⁹ These differentiated effects across marketing strands and buyers, are suggestive of differences in contractual relations between firms, including under contract farming arrangements which deserve further attention.

The decline in cut flower exports since the GFC resulted in almost immediate impacts on employment. At least one-third of employees in the horticultural industry are reported to have been made redundant as many farms were operating with over 30 per cent losses (Lati and Omandi, 2009). More than half of the registered cut flower exporters in Kenya were reported to be on the verge of closure in 2009; smaller farms were especially hard hit as a result of reduced market opportunities as well as increased costs of inputs such as fertiliser (Mwega, 2010).

It was initially argued that declines in the availability of trade finance contributed to the collapse in global trade which occurred in October 2008. But the narrative of the drying-up of trade finance as becoming problematic for African exporters, including those in Kenya, was refuted by Humphrey (2009). This is because horticulture firms generally have well established relationships with buyers, and inter-company credit sustains trade. Therefore the decline in exports was primarily demand driven; the information-intensive nature of relations between firms within the quasi-hierarchical governance structure meaning that new developments in end markets were transmitted in real-time to producers, and labourers.

Garment Exporters in Cambodia

Cambodia had been a star growth performer in the East Asian region during the decade prior to 2008, achieving almost double-digit growth in each consecutive year (Guimbert, 2010). The garment industry was one of the drivers of this growth. However, unlike other late industrialisers in the region, such as Vietnam, which were able to build on import substituting industries in the process of transition towards an export-orientated growth strategy, Cambodia was drawn into the buyer-driven garment GVC based almost entirely on inward investment (Natsuda et al., 2010). That is, although Cambodia's pattern of industrial development – led by a labour-intensive industry – is similar to that of neighbouring countries in East Asia, the difference is that it has been pursued without a strong industrial policy in place (Yamagata, 2006).

Foreign direct investment was attracted to Cambodia during the early 1990s from other East Asian partners, including Hong Kong, Taiwan and more recently, China, because of its preferential market access to the US and EU under the Multi-Fibre Arrangement (MFA) and subsequently the Agreement on Textiles and Clothing (ATC).¹⁰ Other factors included the favourable conditions created for investment within country, such as the permitting of 100 per cent foreign ownership, the ability to import capital goods without duty and other tax incentives.

The highly liberal approach adopted towards engaging with globalised production networks may have served not only to inhibit rather than facilitate processes of upgrading, but also to limit Cambodia's ability to mitigate the effects of the GFC. Most imported material for the sector is sourced from other East Asian neighbours, who also account for around 90 per cent of firm ownership.¹¹ The low level of domestically owned factories has been posited as reducing their bargaining power, leverage and autonomy in terms of negotiating and attracting orders, since these decisions are made by parent companies located in headquarters outside Cambodia (Natsuda et al., 2010). Because of the hierarchical structure of governance of the garment GVC, parent companies often operate garment factories in other countries too, which means that orders are relatively easy to strategically reallocate (Natsuda et al., 2010).

The fragility of the industry became most apparent with the onset of the GFC, which occurred at the same time as other changes in the external trade environment such as the removal of safeguards on Chinese exports of textiles and clothing at the end of 2008 (negotiated under the ATC). Because of Cambodia’s disproportionate dependence on a single industry for the majority of its exports, towards the end of 2008 it became clear there was a high risk of a collapse in demand for its products. Articles of apparel and clothing comprised almost 70 per cent of total exports in 2008,¹² around 90 per cent of which were destined for the EU and US – the countries at the epicentre of the GFC.¹³

Reported exports for the first four months of 2009 showed a 20 per cent decline in terms of value, on year compared to 2008 (Jalilian and Reyes, 2010; Jalilian et al., 2009). Since there were no reports of difficulties in obtaining trade finance, the decline was predominantly demand driven. Moreover, the supply of trade finance would typically be the responsibility of parent companies in the garment industry (Humphrey, 2009). Recent trade data show that although there has been some growth since 2008 in the value of Cambodia’s major garment exports to the US market, this has not yet reached pre-crisis levels (Figure 2). The decline in exports from Cambodia also stands in stark contrast to the increase in exports over this period from competitors such as Bangladesh.

It was estimated that by March 2009 around 20 per cent of the workforce had been made redundant as a result of reduced consumer demand feeding through the value chain.¹⁴ By the end of 2009, around one-third of the pre-crisis workforce had been affected by either permanent or temporary loss of employment. As of March 2010, it was believed that a further 30,000 to 50,000 jobs in the industry could be at risk because of the continued slowdown in garment exports (Jalilian and Reyes, 2010). Despite something of a rebound in the total value of Cambodia’s garment exports, employment levels have not yet reached pre-crisis levels; in addition there are now fewer smaller factories in operation than before the crisis (ILO, 2011).

Because they are targeted at a specific market niche Cambodian garment exports tend to have high unit values relative to other suppliers, including Bangladesh. This is because, unlike Bangladesh, Cambodia has in the past had to adhere to labour standards in order to benefit from increased export quotas in the US market. The US-Cambodia Trade Agreement on Textiles and Apparel, signed in 1999, was the first trade agreement of its kind, and made increases in quota allowance for Cambodia contingent on labour standards (monitored by the International Labour Organisation (ILO)).¹⁵ This agreement was put into place because of the dramatic

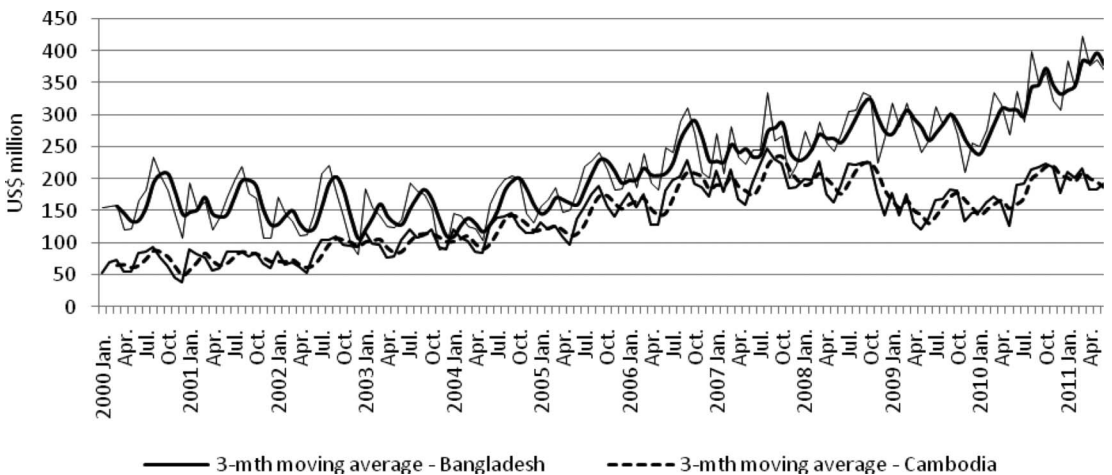


Figure 2. Clothing exports to the US from Bangladesh and Cambodia.

Source: Compiled from data from the US International Trade Commission Interactive Tariff and Trade DataWeb, based on imports of HS61 (knitted articles of apparel) and HS62 (woven articles of apparel).

increase in garment exports from Cambodia to the US that occurred during the 1990s, as production moved to take advantage of its preferential market access. In order to secure the future of the industry in a changed preference environment, a strategy of targeting a higher-value niche market, based on marketing the quality attributes of continued adherence to labour standards was pursued. Since October 2008 this strategy may have been undermined as consumers in crisis-afflicted markets start to substitute lower-value products for high-value ones.

As argued by Natsuda et al. (2010), although labour standards in Cambodia are generally deemed to be a positive competitive factor in the Cambodian garment industry, adherence has not necessarily improved the global competitiveness of the industry. Conversely, they may have served to inhibit rather than facilitate the upgrading process through raising barriers to entry for domestic firms. Although Cambodia has targeted a more sophisticated niche market it has remained at the lowest – cut, make and trim – node of the garment value chain, and has been unable to move up into a more secure supplier position, despite having a garment industry for more than two decades. It has therefore remained a marginal rather than a preferred supplier (Gereffi and Frederick, 2010).

Garment Exporters in Bangladesh

Although Bangladesh occupies a different position in the US market from that of Cambodia, it exhibits the same degree of dependence on a single industry: garments accounted for approximately three-quarters of the total value of exports in 2008. Although it is difficult to find precise figures, the industry accounts for around 5 per cent of formal employment levels; 90 per cent of workers are female and migrants from rural areas. The majority of workers come from poorer households and districts of Bangladesh, have low levels of education and their families are often landless and in food deficit for part of the year (Kabeer and Mahmud, 2004).

Like Cambodia, the industry in Bangladesh also developed on the basis of attracting East Asian manufacturers seeking to benefit from its market access entitlements. The introduction of the MFA in 1974 essentially intensified and broadened the restrictions on more established exporters such as South Korea, and therefore prompted re-location of their industries. In Bangladesh, unlike Cambodia, however, the process of relocation by (mostly) South Korean firms (notably Daewoo) was approached strategically – being both facilitated by and made contingent upon the formation of joint ventures with local industry and firms (Bhattacharya and Rahman, 2001).

This strategy was motivated not only by the need to foster the development of local producer capabilities, but also because the stringency of the origin requirements associated with the preferential regimes under which Bangladesh trades have increased over time. As discussed by Bhakt et al. (2008), production of knit fabric in Bangladesh expanded rapidly following the introduction in 1995 of stricter rules of origin under the EU's Generalised System of Preferences which meant that backward linkages had to be strengthened in order to benefit from reductions in duty (the EU accounts for approximately half of Bangladesh's total garment exports and the US around a quarter).¹⁶ Approximately 80 per cent of the garment accessories used in ready-made garment exports are locally produced (Bhattacharya and Rahman, 2001). Some regional sourcing also takes place, with Pakistan and India featuring as suppliers of inputs such as cotton and knitted or crocheted fabric, in addition to China.¹⁷

Overall less than 15 per cent of Bangladeshi garment firms have foreign equity. This low level is due in part to the industrial policies of Bangladesh, which included safeguarding quota allocations in the US market under the MFA, and later ATC, regimes for domestic firms (Kee, 2005). It is also due to the way in which the clothing industry is organised globally, with outsourcing taking place where domestic capabilities already exist and offshoring where they do not. Bangladesh has been able to build on these capabilities over time through moving up the garment GVC and obtaining a more secure position as a second-tier garment supplier, or

package contractor. This has meant it has become a preferred rather than a marginal supplier (Gereffi and Frederick, 2010).

In terms of how these governance structures influenced the transmission of the trade shock of 2008 towards producers, it would appear they have afforded a greater degree of absorption and ability to adapt. Contrary to expectations, garment exports from Bangladesh registered overall growth in the last quarter of 2008. In the EU market, Bangladesh has registered year on year growth in both the value and volume of its garment exports since 2008.¹⁸ This growth has been argued to be a result of the 'Walmart effect', whereby consumers start to substitute lower for higher-value products (Rahman et al., 2009).

Most of the growth achieved in the US market since the GFC has been the result of increased volumes supplied at lower prices, which has consequently reduced profit margins for exporters (Rahman et al., 2010). Because of this decline in the unit value of products supplied to the US market there have been some effects on overall levels of employment in the industry, but these have been far less severe than in Cambodia: it has been estimated that around 1 per cent of the total workforce employed in the ready-made garment sector faced job losses in 2009, while pay cuts and a reduction in working hours affected others (Rahman et al., 2010).

IV. Conclusions

This article has traced the effects of the GFC transmitted through the trade mechanism towards producers in African and Asia using a modified GVC approach. It has drawn on the GVC concept of governance in order to show how the modalities through which producers have engaged with trade have resulted in differentiated effects being transmitted, moving beyond a simple dichotomy of openness or not to trade. These structures which include both aspects of internal and external chain governance, as discussed in this article, are more differentiated than those originally conceptualised by Gereffi et al. (2005).

In the case of the Ugandan coffee GVC, the typology of a market-based governance structure as conventionally understood, no longer seems valid; this is because trade is predominantly intra-firm based with vertical integration having taken place between exporters and traders, through their incorporation within TNCs. The market has become more volatile and unpredictable because of the involvement of new actors and the increased linkages between financial and commodity markets which has occurred in recent years. At the same time the governance structure has become increasingly coordinated and hierarchical. A market-based structure of governance would suggest a greater ability of coffee producers to adapt to changes in demand, but in practice this has not been the case. The effects of the GFC transmitted through trade included increases in price volatility and a subsequent collapse in the value of coffee exports. Because of the nature of reforms undertaken in Uganda prior to the GFC, these negative price effects are likely to have been passed on to upstream producers with little by way of mitigation in terms of the risk-hedging measures available to them.

Although the horticulture value chain is characterised by a quasi-hierarchical governance structure, with a few lead firms supplying a limited number of retailers in the UK, a parallel marketing strand exists for cut flowers supplied to Dutch auction houses. Export performance has differed between these marketing strands and buyers, with the reduction in cut flower exports to the UK market since the GFC being particularly severe. The reductions in consumer demand since the GFC were transmitted in real-time to producers because of the nature of highly coordinated relations between firms which operate within a quasi-hierarchical structure of governance. The subsequent effects transmitted to producers were however, heterogeneous across firms suggestive of differences in contractual relations, including under contract farming arrangements which deserve further attention.

There are clear differences in how the recessionary effects of the GFC were transmitted to producers in Cambodia and in Bangladesh, despite both trading within what are known to be buyer-driven GVCs characterised overall by a hierarchical structure of governance. In the case of

Cambodia, the effects of reduced consumer demand were transmitted to producers almost immediately, with the decline in garment exports destined for the US market resulting in almost proportionate reductions in employment. Although there has been something of a rebound in garment exports since 2008, levels have yet to reach those prior to the GFC, which means that so too have levels of employment. Smaller factories appear to have been particularly hard hit by this slowdown, with a lower number currently in operation than prior to the crisis.

In comparison, Bangladesh appears to have fared relatively well since the GFC. The structure of production which currently exists seems to have afforded producers a greater degree of flexibility and ability to adapt to the recessionary effects of the GFC. Through the negotiation of external governance structures that have facilitated rather than hindered upgrading processes, Bangladesh has been able to build on existing domestic capabilities and obtain a more secure supplier position which has subsequently reduced its vulnerability to the recessionary effects of the GFC. That is to also say, the least severe effects of the GFC transmitted towards producers would seem to be identified within the country with the most governed trade, in terms of the rules set for private sector actors. It is also notable that in some respects the garment GVC in Bangladesh appears to exhibit more producer-driven tendencies, in terms of being less footloose and with an ability to exert control over backward and forward linkages, whereas in Cambodia it remains very much buyer-driven.

This leads to a final point. The governance structures posited by Gereffi et al. (2005) are internal, determined by relations between firms. But the external governance of trade, which includes that negotiated and formulated by governments, has been shown to be a crucial factor in subsequently informing the private governance of trade, which must therefore be considered context as well as temporally specific, even if general characteristics can be identified. One lesson that must surely be taken from the crisis of 2008, and which applies equally across countries, is the need to govern the market for growth and development.

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Notes

1. Antras (2003) estimates that roughly one-third of world trade takes place on an intra-firm basis.
2. The sector accounts for around one-quarter of total employment (Masiga et al., 2007).
3. When the complexity of product specifications are high but supplier capabilities low, value chain governance will tend towards the captive type (Gereffi et al., 2005: 86).
4. At the time of writing, the agreement is yet to be signed and ratified.
5. The average annual value of Kenya's major horticultural exports to the EU between 2005 and 2007 was \$597 million, compared to \$212 million for traditional commodities (calculated from data obtained from the UN's COMTRADE database).
6. Dolan et al. (1999) documented how by the 1990s the demands for capital and technological capabilities had excluded smaller producers, who were unable to meet technical requirements. Minot and Ngigi (2004) reported that Kenya's

largest exporter at that time, 'Homegrown', had reduced its smallholder sourcing to less than 10 per cent, with the remaining 90 per cent being supplied directly from owned units.

7. Analysis of major agricultural imports from the EU into Kenya includes 'live trees and other plants; bulbs and the like; cut flowers, ornamental foliage'. It is estimated that 70 per cent of the vegetable seed sold in Kenya is imported, the remaining 30 per cent is produced locally; seeds are supplied to producers [farmers] by exporters under contract farming arrangements (Minot and Ngigi, 2004).
8. Based on analysis of data from Eurostat's COMEXT database on imports into the UK and Netherlands of Harmonised System (HS) sub-heading 0708 ('leguminous vegetables, shelled or unshelled, fresh or chilled').
9. Based on analysis of data from Eurostat's COMEXT database on imports in HS 0603 ('cut flowers and flower buds of a kind suitable for bouquets or ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared') into the EU over the period January–December 2000 to 2010. Imports into the Netherlands from Kenya on an annual basis were down by 5 per cent in volume terms in 2010 compared to 2008, and just 1 per cent in value terms.
10. The MFA provided a framework of voluntary export restraints that regulated textiles and clothing exports entering developed country markets. During the Uruguay Round of trade negotiations the ATC was negotiated to phase out the MFA by 2005.
11. See UNDP (2009).
12. Calculated based on data reported by Cambodia to the UN COMTRADE database.
13. The EU accounted for almost 30 per cent of Cambodia's garment exports in 2008, the majority of the rest being destined for the US. Based on data on exports of HS 61 (knitted articles of apparel) and HS 62 (woven articles of apparel) from the UN's COMTRADE database.
14. Total employment in the industry was just over 300,000 in 2008 (UNDP, 2009).
15. Although this explicit link ended with the expiry of the ATC in 2005, adherence to ILO Core Labour Conventions is a legal obligation for manufacturers in the garment industry.
16. Based on analysis of annual data reported to UN COMTRADE database of HS61 (knitted articles of apparel) and HS62 (woven articles of apparel) for nearest year available, 2007.
17. Based on analysis of data obtained from the UN's COMTRADE on the major suppliers of HS 52 ('Cotton') and HS 55 ('Manmade staple fibres').
18. Based on analysis of monthly and annual data from Eurostat's COMEXT database on imports of HS 61 (knitted articles of apparel) and HS 62 (woven articles of apparel).

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