Power and inequality in the global political economy

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As the World Economic Forum meeting convened in Davos in January 2017, headlines were dominated by reports from Oxfam which laid bare the startling—and growing—scale of inequality in the global political economy. Continuing a theme of its research over several years, Oxfam presented updated figures showing that the eight richest billionaires in the world controlled more wealth than the poorest 50 per cent of the world's total population.[1] The corresponding figure for 2016 had been the 62 richest people, revealing an acceleration of inequality over the year stemming mainly from increases in poverty levels in China and India.[2] International organizations tell us that dramatic progress was made in the alleviation of extreme poverty between 1990 and 2015, estimating that over that period the number of people living in extreme poverty (defined as income of US$1.25 a day or less) fell by slightly more than half of the 1990 figure to under 10 per cent of the global population.[3] However, these aggregate figures hide the very uneven nature of improvements across the world. Outside China, progress has been patchy, and an overall decline in extreme poverty has not been sufficient to reduce the total number of people living in such conditions. Perhaps most significantly, while there has been a drop in extreme poverty, there has been much less progress on poverty in general: in fact, between 1981 and 2008 the number of people living on daily incomes between the $1.25 extreme poverty line and the $2 per day poverty line doubled.[4]

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1 Deborah Hardoon, 'An economy for the 99%: it's time to build a human economy that benefits everyone, not just the privileged few', Oxfam Briefing Papers, 16 Jan. 2017, http://policy-practice.oxfam.org.uk/publications/an-economy-for-the-99-its-time-to-build-a-human-economy-that-benefits-everyone-620170. (Unless otherwise noted at point of citation, all URLs cited in this article were accessible on 25 Jan. 2017.)

2 Oxfam, '62 people own same as half world', press release, 16 Jan. 2016, http://www.oxfam.org.uk/media-centre/press-releases/2016/01/62-people-own-same-as-half-world-says-oxfam-inequality-report-davos-world-economic-forum; Larry Elliott, 'World's eight richest people have same wealth as poorest 50%', *Guardian*, 16 Jan. 2017.

3 World Bank, 'World Bank forecasts global poverty to fall below 10% for first time; major hurdles remain in goal to end poverty by 2030', press release, 4 Oct. 2015, http://www.worldbank.org/en/news/press-release/2015/10/04/world-bank-forecasts-global-poverty-to-fall-below-10-for-first-time-major-hurdles-remain-in-goal-to-end-poverty-by-2030; UN Development Program, *The Millennium Development Goals Report 2015* (New York, 2015).

4 World Bank, 'An update to the World Bank's estimates of consumption poverty in the developing world',

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A monumental body of scholarly research has traced trends in inequality over time and across the world,[5] engaging in energetic empirical and theoretical work seeking to understand the drivers behind these vast socio-economic disparities, which some time ago Jan Nederveen Pieterse rightly described as being 'without historical precedent and without conceivable justification—economic, moral or otherwise',[6] and which are now playing out politically in seismic and traumatic ways. Not least for that reason, the task is one of ever greater urgency. My contribution to this effort here focuses on a dimension of the picture which has received surprisingly little attention: namely, the implications for socio-economic inequality of the particular form of industrial organization that has come to underpin the contemporary global economy—one organized around the structures of global value chains (GVCs) and global production networks (GPNs).[7]

The GVC/GPN concepts refer to a pattern of global and regional production, coordinated and controlled by transnational corporations (TNCs), that is both functionally and geographically fragmented.[8] In the functional fragmentation of the production process, trade is no longer about the international exchange of final goods, but rather about intermediate goods and services, or 'trade in tasks'.[9] Functional fragmentation is associated with geographic fragmentation, as lead firms progressively outsource and/or offshore productive functions, shaping new global and regional patterns of specialization, and a new global politics of distribution. It has become widely accepted that we are now living in what we could call a 'GVC world'.[10] For one group of observers, GVCs have become no less than 'the world economy's backbone and central nervous system'.[11] The 2013 *World Investment Report*, published by the United Nations Commission on Trade and

briefing note, 29 Feb. 2012, http://siteresources.worldbank.org/INTPOVCALNET/Resources/Global_Poverty_Update_2012_02-29-12.pdf.

5 As a tiny selection of examples: Charles Tilly, *Durable inequality* (Berkeley, CA: University of California Press, 1998); Branko Milanovic, *The haves and the have nots: a brief and idiosyncratic history of global inequality* (New York: Basic Books, 2001); Robert Wade, 'Is globalization reducing poverty and inequality?', *World Development* 32: 4, 2004, pp. 567–89; Thomas Piketty, *Capital in the twenty-first century* (Cambridge, MA: Belknap/ Harvard University Press, 2014); Anthony B. Atkinson, *Inequality: what can be done?* (Cambridge, MA: Harvard University Press, 2015).

6 Jan Nederveen Pieterse, 'Global inequality: bringing politics back in', *Third World Quarterly* 23: 6, 2002, p. 1024.

7 The choice of conceptual labels in this debate is, as ever, contentious, and in my view the differences between the GVC and GPN approaches are overstated in ways that impede their common endeavour. While it will not please advocates of each set of terms, I use them here essentially interchangeably, usually preferring GVC as a shorthand for the structures in question, and more often GVC/GPN to connote the field of study.

8 For important statements in the field displaying a range of conceptual preferences, see Gary Gereffi, 'The organization of buyer-driven global commodity chains: how US retailers shape overseas production networks', in Gary Gereffi and Miguel Korzeniewicz, eds, *Commodity chains and global capitalism* (Westport, CT: Praeger, 1994), pp. 95–122; Jeffrey Henderson, Peter Dicken, Martin Hess, Neil Coe and Henry Wai-Chung Yeung, 'Global production networks and the analysis of economic development', *Review of International Political Economy* 9: 3, 2002, pp. 436–64; Jennifer Bair, ed., *Frontiers of commodity chain research* (Stanford, CA: Stanford University Press, 2009); William Milberg and Deborah Winkler, *Outsourcing economics: global value chains in capitalist development* (Cambridge: Cambridge University Press, 2013).

9 Gene Grossman and Esteban Rossi-Hansberg, 'Trading tasks: a simple theory of offshoring', *American Economic Review* 98: 5, 2008, pp. 1978–97.

10 Frederick W. Mayer, Nicola Phillips and Anne Posthuma, eds, symposium on 'The political economy of governance in a "global value chain world"', *New Political Economy*, Jan. 2017, DOI: http://dx.doi.org/10.1080/13563467.2016.1273343.

11 Olivier Cattaneo, Gary Gereffi and Cornelia Staritz, 'Global value chains in a post-crisis world: resilience, consolidation and shifting end markets', in Olivier Cattaneo, Gary Gereffi and Cornelia Staritz, eds, *Global value chains in a post-crisis world: a development perspective* (Washington DC: World Bank, 2010), p. 7.

Development, estimates that around 80 per cent of global trade now flows through GVCs led by TNCs.[12] The International Labour Organization estimates that one in five jobs worldwide is linked to production in GVCs.[13] Virtually all of the major international organizations focused on economic development have picked up and actively deploy, in different ways, the concept and language of GVCs, in parallel with national governments across the developing world.[14] We have in this sense reached a point where it can plausibly be suggested that 'the goal of industrial upgrading within GVCs has become nearly synonymous with economic development itself'.[15]

To the extent that the broad field of international political economy has been somewhat slow to embrace what has become a voluminous scholarly and policy debate on GVCs/GPNs, it is perhaps inevitable that the associated dynamics of a 'GVC world' have rarely been linked up to the otherwise vibrant debates about inequality that have flourished in our field over the years. Yet, from the other angle, much of the GVC/GPN literature also displays strikingly little direct concern with the question of inequality, despite aspirations in some parts of the field to move beyond the terrain of economic coordination between firms towards what we might see as a more encompassing and critical political economy of GVCs/GPNs. Indeed, it has been observed for some time that GVC/GPN scholarship has been 'converging with more conventional approaches to competitiveness and losing touch with [its] more critical origins',[16] notwithstanding honourable exceptions to this generalization.

Against this backdrop, my focus in this article is on how the dynamics of a global economy dominated by GVCs/GPNs contribute to the patterns of inequality that we observe across the world. My intention is to demonstrate that inequality is not a 'bug in the system' of a GVC world;[17] rather, the foundational dynamics of a global economy organized in this manner directly produce these outcomes, on the one hand, and on the other depend on the harnessing of existing inequalities for their ability to emerge and thrive. To put the point slightly differently, global patterns of inequality are critical to understanding how the GVC world was enabled to come into being from the 1970s onwards, and how it continues to serve the powerful economic and political interests which benefit from this form of global economic organization. Conversely, the nature and functioning of the GVC world are central to understanding the drivers of the patterns of inequality that we have observed being consolidated over this period of time, and by extension to understanding the political and economic juncture at which we

12 United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2013. Global value chains: investment and trade for development* (Geneva, 2013).

13 International Labour Organization, *World employment social outlook: the changing nature of jobs* (Geneva, 2015).

14 Gary Gereffi, 'Global value chains in a post-Washington Consensus world', *Review of International Political Economy* 21: 1, 2014, pp. 9–37.

15 Milberg and Winkler, *Outsourcing economics*, p. 238.

16 David Levy, 'Political contestation in global production networks', *Academy of Management Review* 33: 4, 2008, p. 951; Jennifer Bair, 'Global capitalism and commodity chains: looking back, going forward', *Competition and Change* 9: 2, 2005, pp. 153–80.

17 Frederick W. Mayer and Nicola Phillips, 'Outsourcing governance: states and the politics of a "global value chain world"', *New Political Economy*, 4 Jan. 2017, p. 13, DOI: 10.1080/13563467.2016.1273341.

find ourselves at the start of 2017, dominated by an emphatic shifting of domestic and international political sands.

Strands of the GVC/GPN literature offer a valuable starting-point for this enterprise, in their recognition that this particular form of global industrial organization is founded on corporate strategies to harness significant global asymmetries of market power in the interests of generating and capturing profit.[18] GVCs, in other words, exist for a reason: they enable lead firms to mobilize and exploit vastly asymmetrical power relations between firms and other actors within value chains, in order to control how, where and by whom value is *created*, and how, where and by whom it is *captured*. The mobilization of these asymmetrical relations of market power to produce a global economy marked by significant concentrations of wealth and assets is now amply documented.[19]

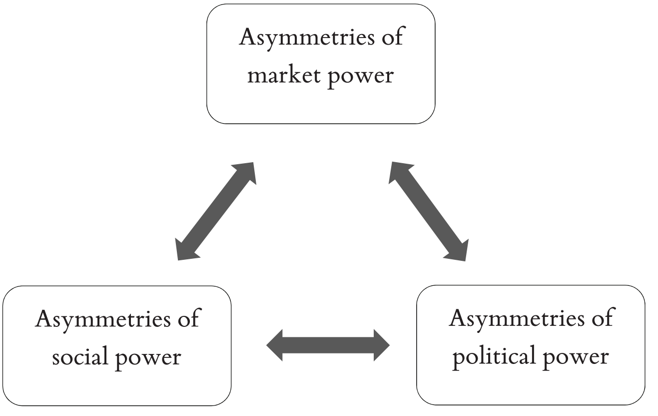
My suggestion here is nevertheless that this focus on market power remains too limited to serve as the basis for a broader understanding of how inequalities are produced and reproduced in a GVC world. I propose instead an approach which sees inequality as arising at the intersections of three dimensions of asymmetry in the power relations that crystallize in and around GVCs—asymmetries of market power, asymmetries of social power, and asymmetries of political power. Asymmetries of market power refer to the relative positions of firms within GVC structures, characterized by oligopoly power among lead firms and intense competition among supplier firms,[20] and the ways in which these positions correspond with degrees of control over production and the capture of value. Asymmetries of social power refer to wider patterns of poverty, wealth and inequality in the societal contexts in which GVCs are rooted, as well as between actors within GVCs, and how forms of social power are mobilized to reinforce these patterns. Asymmetries of political power refer to the wider political dynamics which shape the governance of GVCs, highlighting the interactions between political interests in shaping the governance of GVCs, and by extension their social underpinnings, at the local, regional and global scales. These three dimensions of asymmetry are depicted in stylized terms in figure 1, and the task is to capture how these dimensions interlock and intersect to produce observed patterns of socio-economic inequality.

Such an approach opens up an expansive set of questions and an expansive terrain for research, both of which far exceed the possible remit for a single article. I therefore wish to take a microcosm of these dynamics, exploring in necessarily illustrative terms what this triangle looks like, in theory and in practice, in the particular arena of labour and labour exploitation in GVCs. Labour relations are key to understanding the dynamics of value creation and capture in GVCs, in terms both of wealth concentration and of poverty and vulnerability. This focus accordingly sheds a valuable wide-angle beam on the big questions of power and inequality in the contemporary global political economy. By taking each of these dimensions of asymmetry in turn and exploring their interactions, I hope to eluci-

18 Milberg and Winkler, *Outsourcing economics*; Raphael Kaplinsky, *Globalization, poverty and inequality* (Cambridge: Polity, 2005).
19 Milberg and Winkler, *Outsourcing economics*; Mayer and Phillips, 'Outsourcing governance'.
20 Milberg and Winkler, *Outsourcing economics*, p. 103.

date how the evolution of GVCs constitutes a critically important means through which socio-economic inequality has become a defining feature of the contemporary global political economy.

Figure 1: The political economy of global value chains



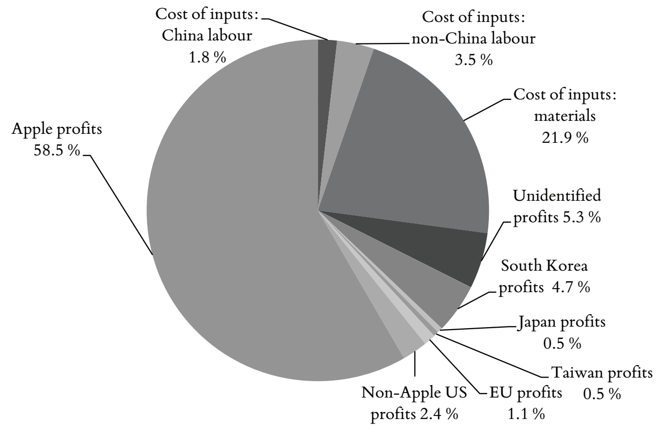
Asymmetries of market power

Figure 2 (overleaf), depicting the distribution of value in the production of Apple's iPhone, tells us at a single glance much of what we need to know about where value is created and captured in GVCs, and by whom or what. What jumps out immediately is that more than half of the total value, across the whole of the production process, is captured by the lead firm—Apple—as profit. The figures for labour costs, by contrast, offer an insight into both the relationship between capital and labour in the global economy, and the relative proportions of value that are captured by each. The costs of materials involved in production are vastly greater than the human input costs associated with labour. The proportion of profits flowing to the principal countries in which the iPhone is produced are insignificant compared with the profits that flow to a single private company—in the language of GVCs/GPNs, the 'lead firm'.

It is well known that the iPhone value chain stretches across a wide range of geographic locations, with the largest concentration of suppliers being in east Asia. Yet conventional depictions of the value chain tend to focus only on its upper tiers, specifically on registered factories and the increasingly powerful giant supplier firms in east Asia, of which Foxconn is the most notable in the electronics sector.[21] The value chain in reality encompasses thousands of firms and enterprises which are involved in production for Apple, but are not registered suppliers and have no formal relationship with Apple. Very often these will be subcontractors to the first- or second-tier supplier firms, or informal units operating way down in the least

[21] Richard P. Appelbaum, 'Giant transnational contractors in east Asia: emergent trends in global supply chains', *Competition and Change* 12: 1, 2008, pp. 69–87; Jenny Chan, Pun Ngai and Mark Selden, 'Apple, Foxconn and China's new working class', in Richard P. Appelbaum and Nelson Lichtenstein, eds, *Achieving workers' rights in the global economy* (Ithaca, NY: Cornell University Press, 2016), pp. 173–89.

Figure 2: Distribution of value for the iPhone, 2010



Source: Kenneth L. Kraemer, Greg Linden and Jason Dedrick, 'Capturing value in global networks: Apple's iPad and iPhone', July 2011, http://pcic.merage.uci.edu/papers/2011/value_ipad_iphone.pdf; reproduced with permission.

visible parts of the value chain. These extend to the tiers associated with the production of raw materials for the electronics industry, which in mobile phone production notably include the mineral coltan. It is notable that these arenas of production are almost always excluded from depictions of value chains, and frequently also from firms' own definitions of the scope of their supply chains. This is especially so in those value chains characterized by relationships between firms based on arm's-length subcontracting arrangements, as distinct from those organized around direct ownership and control by the lead firm of a network of affiliated entities. Indeed, the length and complexity of value chains organized around subcontracting, in electronics and many other sectors, mean that productive activities in the lower tiers are in every sense removed from the world of first-tier suppliers and lead firms. It is especially common for workers in the lower tiers of the value chain, particularly in informal units and home settings, to be entirely unaware of the final destinations of the products they contribute to producing, or of which lead firm or supplier firm controls the production process in which they participate.

Starting with the illustrative iPhone example helps to underline the core point that the globalization of production along these lines is no accident: GVCs have been purposefully constructed by powerful economic and political interests to bring about a particular model of globalized production. We have already established that this pattern of production is driven by lead firms seeking to create and harness significant global asymmetries of market power in the interests of generating and capturing profit, facilitated and buttressed by states and other political actors. With the maturing of GVCs, it has come to be firms, not states, that now play the major role in determining what will be produced where and on what terms, and what will be traded on what terms. So, to a great extent, global patterns of production that were once strongly shaped by constellations of state policies are now artefacts of value-chain governance. States are, though, by no means passive bystanders: on the contrary, along with powerful corporate interests, they have been architects of the GVC world, providing facilitative governance functions ranging across trade policy, development policy, corporate tax policy, competition policy and other areas.[22]

Competition policy is perhaps particularly significant. The loosening of competition policy across the world reflects the much greater political tolerance of the high levels of market concentration and the high levels of market power that characterize lead firms in GVCs, and as a consequence the trends of massive wealth concentration which form a core feature of the global political economy of inequality. The increasing concentration of market power is apparent in many sectors. Examples include retailing (Walmart, Amazon, Alibaba), office software and operating systems (Microsoft), smartphones (Apple and Samsung), large commercial aircraft (Boeing and Airbus), soft drinks (Coca-Cola) and credit card networks (Visa and MasterCard).[23] A key policy support underpinning this trend is the expansion of intellectual property protections, particularly in the high-technology sector.[24]

The consolidation and mobilization of these market asymmetries rests on securing a structure of production in which a small number of very large firms at the top, in many cases the branded retailers, occupy oligopolistic positions—that is, positions of market dominance, and in which the lower tiers of production are characterized by densely populated and intensely competitive markets.[25] In the context of high levels of market concentration, asymmetry of market power is entrenched by the simple fact that suppliers face limited numbers of buyers for their goods, lending to those lead firms a form of monopsony power, while buyers often have many potential suppliers and are able to use their market power to generate intense competition between supplier firms, particularly on conditions of price and supply.[26]

Producers' and suppliers' strategies to manage these commercial pressures frequently rest on the mechanisms of labour costs and labour practices, especially in the most labour-intensive and price-sensitive sectors. Especially where required quality standards are high, labour becomes the key arena for input cost reduction; equally, in sectors where the key requirement is flexibility in the face of significant commercial risk (whether for reasons of seasonal dynamics or highly

[22] Mayer and Phillips, 'Outsourcing governance', pp. 9–10.

[23] Mayer and Phillips, 'Outsourcing governance', p. 9; see e.g. Milberg and Winkler, *Outsourcing economics*; Peter Nolan, Dylan Sutherland and Zhang Jin, 'The challenge of the global business revolution', *Contributions to Political Economy* 21: 1, 2002, pp. 91–110; Jacob A. Bikker and Katharina Haaf, 'Competition, concentration and their relationship: an empirical analysis of the banking industry', *Journal of Banking and Finance* 26: 11, 2002, pp. 2191–214; UNCTAD, *Tracking the trend towards market concentration: the case of the agricultural input industry* (Geneva, 2006).

[24] William E. Kovacic, 'From Microsoft to Google: intellectual property, high technology, and the reorientation of US competition policy and practice', *Fordham Intellectual Property, Media and Entertainment Law Journal* 23: 2, 2012, pp. 645–54.

[25] Milberg and Winkler, *Outsourcing economics*, pp. 123–4.

[26] Mayer and Phillips, 'Outsourcing governance', p. 9.

variable commercial conditions), business models are built around the aggressive management of labour supply, conditions and wages. This is particularly the case where incentives imposed by external stakeholders to adhere to labour and social standards are low: for the vast population of 'invisible' firms and entrepreneurs in the informal economy in sectors such as garments, the incentives they face point in precisely the opposite direction, particularly as their share of the consumer market rests on cut-throat price competition.[27] Lead firms and lead suppliers, equally, are apt to pursue locational strategies which permit access to such environments for production. Firms in price-sensitive and labour-intensive sectors, as well as firms which rely on retail strategies, prefer less stringent regulation and will go to some lengths to secure those conditions.[28]

The consequence across the world has been the explosive growth of precarious, insecure and exploitative work in global production, performed by a workforce significantly made up of informal, migrant, contract and female workers,[29] and extending at the end of the spectrum to the purposeful use of forced labour.[30] To return to our illustrative example of Apple, documented and highly publicized conditions in its value chains illustrate some of the forms that exploitation takes. We know that diverse forms of labour exploitation are embedded in Apple's supply chains and those of other electronics producers, not least from a steady flow of revelations about the use of forced labour, unpaid student intern labour and child labour in supplier factories for Apple, Samsung, HP, Dell and other firms.[31] When we trace labour conditions in the value chain, we encounter the famous 'dormitory' system in China,[32] where workers are often confined to factories and obliged to live in factory accommodation, not least to facilitate

[27] Peter Knorringa, 'Private governance and social legitimacy in production', in Anthony Payne and Nicola Phillips, eds, *The handbook of the international political economy of governance* (Cheltenham: Edward Elgar, 2014), p. 368.

[28] Luc Fransen and Brian Burgoon, 'A market for worker rights: explaining business support for international private labour regulation', *Review of International Political Economy* 19: 2, 2012, pp. 236–66.

[29] See, for a flavour of a huge literature: Alejandro Portes, Manuel Castells and Lauren A. Benton, eds, *The informal economy: studies in advanced and less developed countries* (Baltimore, MD: Johns Hopkins University Press, 1989); Ulrich Beck, *The brave new world of work* (Cambridge: Polity, 2000); Melissa Wright, *Disposable women and other myths of global capitalism* (London: Routledge, 2006); Matt Davies and Magnus Ryner, eds, *Poverty and the production of world politics: unprotected workers in the global economy* (Basingstoke: Palgrave, 2006); Marcus Taylor, ed., *Global economy contested: power and conflict across the international division of labour* (London: Routledge, 2008); Judy Fudge and Kendra Strauss, eds, *Temporary work, agencies, and unfree labour: insecurity in the world of work* (London: Routledge, 2013); Louise Waite, Gary Craig, Hannah Lewis and Klara Skrivankova, eds, *Vulnerability, exploitation and migrants: insecure work in a global economy* (Basingstoke: Palgrave, 2015).

[30] Andrew Crane, 'Modern slavery as a management practice: exploring the conditions and capabilities for human exploitation', *Academy of Management Review* 38: 1, 2013, pp. 45–69; Nicola Phillips, 'Unfree labour and adverse incorporation in the global economy: comparative perspectives from Brazil and India', *Economy and Society* 42: 2, 2013, pp. 171–96.

[31] As a tiny sample: 'Apple admits it has a human rights problem', *Independent*, 14 Feb. 2012; 'Apple faces its "Nike moment" over working conditions in Chinese factories', *Guardian*, 20 Feb. 2012; 'Child labour uncovered in Apple's supply chain', *Guardian*, 25 Jan. 2013; China Labor Watch, *Apple's unkept promises: cheap iPhones come at high costs to Chinese workers* (Hong Kong, 29 July 2013); Aditya Chakrabortty, 'Forced student labour is central to the Chinese economic miracle', *Guardian*, 14 Oct. 2013; 'Apple bans "bonded servitude" for factory workers', BBC News, 12 Feb. 2015; 'Dell's China suppliers "break employment laws with illegal labour conditions"', *Telegraph*, 5 Nov. 2013; 'Brazil sues Samsung over labour violations', *Guardian*, 14 Aug. 2013; 'Samsung contractor suspended over child labor allegations', *New York Times*, 14 July 2014; 'Hewlett Packard directs its suppliers in China to limit student labor', *New York Times*, 7 Feb. 2013.

[32] Pun Ngai and Chris Smith, 'Putting transnational labour in its place: the dormitory labour regime in post-socialist China', *Work, Employment and Society* 21: 1, 2007, pp. 27–45.

compulsory overtime; they are usually locked in at night, and work in what in the garment sector are often referred to as 'sweatshop' conditions. Exploitation and forced labour are also rife way down the value chain in the production of raw materials. Mining for coltan in the Congo and other parts of Africa and South America is strongly associated with human rights abuses and forced labour; coltan mining is essentially unregulated, and often also illegal and/or associated with illicit trade and smuggling.[33]

Conditions such as these in global production are often depicted as being a problem in and of the 'developing' world. We are used to focusing on conditions in garment factories in Bangladesh, electronics factories in Taiwan, horticulture in South Africa or the cut flowers industry in Ecuador. Labour flexibilization and the erosion of labour standards in what are traditionally thought of as the more advanced industrial economies are amply observed and theorized, but in debates that tend to be remote from the concerns with global production and GVCs/GPNs. Yet, particularly in retail, the dynamics of GVCs extend to geographic and social locations that are not generally included in this literature, in North America or Europe, where they bring about parallel trends associated with offshoring strategies, labour practices involving pressure on wages, contracts and conditions, and an appreciable incidence of forced labour. Migrant workers in these locations are especially vulnerable to the forms of exploitation that are generally documented in 'developing-country' locations within GVCs. All of these phenomena shape patterns of inequality in these contexts, both in terms of how existing inequalities facilitate these practices, and in terms of the inequalities that their outcomes act to produce or reinforce.

We must nevertheless beware of excessive generalization. It is important to recognize that these patterns of exploitation and abuses of labour rights are not uniform or universal in global production, and that a great deal of contingency attaches to the nature and structure of the value chain, patterns of ownership, the type and condition of the labour market, the political environment and institutional context, the form that public and private governance initiatives take, the nature of end consumer markets, and the possibilities for labour agency. Impressive empirical research has sought to document these patterns of contingency, and develop propositions about where, when and under what circumstances labour rights and standards are more likely to be protected, and where, when and under what circumstances they are more likely to be violated.[34] It is in this sense unsatisfactory simply to assert that GVCs are always and everywhere associated with a 'race to the bottom' type of logic which creates or entrenches inequality in identical ways.

[33] Dev Nathan and Sandip Sarkar, *Blood on your mobile phone? Capturing the gains for artisanal miners, poor workers and women*, Capturing the Gains Briefing Note no. 2, Feb. 2011, http://www.capturingthegains.org/pdf/ctg_briefing_note_02.pdf.

[34] As important contributions, including excellent overviews of these debates, see Layna Mosley, *Multinational production and labor rights* (Cambridge: Cambridge University Press, 2011); Layna Mosley and David Singer, 'Migration, labor and the international political economy', *Annual Review of Political Science* 18, 2015, pp. 283–301; Layna Mosley, 'Workers' rights in global value chains: possibilities for protection and for peril', *New Political Economy*, 4 Jan. 2017, pp. 1–16, DOI: 10.1080/13563467.2016.1273339.

Nevertheless, we have established here a case for a foundational understanding of GVCs as purposefully constructed to facilitate the mobilization of asymmetries of market power by lead firms in order to create and capture value or profit, and of labour exploitation as arising within and from the 'normal processes of power within production'.[35] We have an insight into the disjunctures between where, how and by whom or what value is created, and captured, in the global economy—in other words, into how commercial dynamics in GVCs create and deepen socio-economic inequalities across the world through the twin mechanisms of facilitating the massive concentration of market power and enabling the proliferation of business models founded on exploitative labour strategies. At the same time, these inequalities are not simply outcomes, as they are often understood to be in debates about labour standards. Rather, echoing an insight well established in classical theories of political economy, the advance of production depends on a set of prior enabling conditions of inequality—and this brings us to the second dimension of the triangular structure depicted in figure 1.

Asymmetries of social power

How do these enabling social asymmetries come about, and what forms do they take? There are three aspects that deserve attention. The first is a well-recognized structural trend, which has been called by Richard Freeman the 'great doubling' of the world's labour force as a result of the entry into the global economy of China, India and the former Soviet bloc nations during the 1990s.[36] On the tide of political change in those countries, along with the accelerating liberalization of the global economy and demographic trends, Freeman estimated the size of the global labour pool to have increased from approximately 1.46 billion to 2.93 billion workers between 2000 and 2010, generating a 'global readjustment of labour and capital'.

The second aspect is the parallel trend in adoption of a policy framework designed to facilitate the liberalization and deregulation processes associated with globalization, condensed into the shorthand of 'labour flexibilization'. Across the world, as much in the United Kingdom and United States as in India, Argentina, Mexico or South Africa, new laws were passed to dismantle previous regimes of worker protections and to provide employers with maximum flexibility in handling labour. At the same time, existing welfare state structures were dismantled or scaled back, leading to an explosion in casual, precarious work, the celebration of 'disposability' as the core attribute of this new global workforce,[37] and the global problem not only of unemployment but of *under*-employment.

In a contribution in 1976, Robert W. Cox identified a new threefold social configuration, dominated by a 'transnational managerial class' at its apex, beneath which stood a large class of 'established labour' in what at the time was beginning

35 Jeffrey Harrod, *Power, production, and the unprotected worker* (New York: Columbia University Press, 1987), p. 4.
36 Richard Freeman, 'The great doubling: the challenge of the new global labor market', Aug. 2006, http://emlab.berkeley.edu/users/webfac/eichengreen/e183_sp07/great_doub.pdf.
37 Wright, *Disposable women*.

to be understood as the primary labour market and finally the group of 'social marginals' who were either excluded from industrial production or integrated into the secondary labour market through markedly precarious forms of employment.[38] Today, while a proportion of Cox's 'social marginals' may well exist in conditions of exclusion from employment in global production, a far greater proportion is now integrated into it, recalling the ILO estimate mentioned above that one in five jobs worldwide are now connected to GVCs.[39]

It was also noted above that recent figures on global poverty indicate a decline in extreme poverty on aggregate, but a marked 'bunching up' of the numbers of people living between the US$1.25 per day extreme poverty line and the US$2 per day poverty line. This expanding population is largely comprised of the global working poor—a category that orthodox economic and development policy thinking has long struggled to accommodate, as work is envisaged in this thinking as the route out of poverty and the key to poverty reduction. The question of marginality in this sense has never been more pronounced or pressing; but the marginality stems as much from the terms of *in*clusion in global economic activity as from conditions of *ex*clusion. The concept of 'adverse incorporation' has been useful in understanding these patterns and the question of how inclusion in global economic activity can for many people act to create or reinforce their chronic poverty rather than alleviate it.[40]

The third aspect of particular relevance relates to the inequalities which stem from migration. Migrant labour was identified above as one of the most important constituencies in this new global labour force—and here, obviously, our interest is in the low-paid, low-skill segments of the labour force, which are also significantly feminized in many sectors. The dynamics of precarious employment and adverse incorporation are magnified by the particular vulnerabilities of migrant workers, especially where they are working in the informal economy. Migrant workers lack the power to engage in political action around wages and conditions, and they lack the rights and entitlements associated with citizenship or residency. Laws governing immigration or internal movements also often act to strip these workers of labour or welfare protections, constrain their ability to seek satisfactory working conditions by changing employers, and provide mechanisms that employers can use to manipulate them, particularly perhaps when the worker is undocumented, such as the threat of denunciation to immigration authorities. Forced labour and child labour are strongly, although not exclusively, associated with the inequalities which attach to the migrant labour force.[41] Hence we see a

[38] Robert Cox, 'Labor and the multinationals', *Foreign Affairs*, vol. 54, Jan. 1976, pp. 351–2.

[39] Nicola Phillips, 'Labour in global production: reflections on Coxian insights in a world of global value chains', *Globalizations*, 5 Feb. 2016, DOI: 10.1080/14747731.2016.1138608.

[40] See e.g. Geoffrey Wood, 'Staying secure, staying poor: the "Faustian bargain"', *World Development* 31: 3, 2000, pp. 455–71; Sam Hickey and Andries du Toit, 'Adverse incorporation, social exclusion and chronic poverty', Chronic Poverty Research Centre Working Papers no. 81 (Manchester, 2007); Stefano Ponte, 'Developing a "vertical" dimension to chronic poverty research: some lessons from global value chain analysis', Chronic Poverty Research Centre Working Papers no. 111 (Manchester, 2008); Nicola Phillips, 'Informality, global production networks and the dynamics of "adverse incorporation"', *Global Networks* 11: 3, 2011, pp. 380–97.

[41] Phillips, 'Unfree labour'; Waite et al., *Vulnerability*.

complex nexus of inequalities—political, social and economic—which reinforce the disproportionate likelihood that migrant workers will encounter the more severe forms of labour exploitation in GVCs.

These existing social inequalities provide the environment in which the commercial dynamics within GVCs outlined in the previous section can flourish. In many sectors, particularly in the 'lower' tiers of GVCs, the globalization of production has been driven by lead firms pursuing locational advantages to manage and minimize production costs, facilitated by the changing structures of global and local labour markets; subcontracting firms in turn mobilize these existing social inequalities in order to construct and maintain a highly flexible workforce which is vulnerable to relentless commercial pressure on wages and conditions. It can plausibly be hypothesized that these dynamics are most pronounced where labour is both abundant and relatively immobile, inasmuch as in these circumstances employers' leverage is enhanced by the competition for jobs between workers, and with it the possibilities for exploitation are increased (including for the worst forms associated with forced labour). Conversely, where labour is scarce, employers are more likely to raise wages and improve conditions in order to attract and retain workers.[42]

A final layer in our discussion relates to the asymmetries of social power which come into play in generating these patterns of exploitation and inequality. What Charles Tilly called practices of 'social categorization' refer to the ways in which particular kinds of 'markers' are used to institutionalize and enable discrimination against and exploitation of particular groups of people. In Tilly's theorization, the 'inequality-generating mechanisms' of social categorization relate to markers such as gender, age, race, ethnicity, caste, religion and so on, which are deployed by those who possess social power in order to control access to 'value-producing resources' and reserve their own monopoly in this respect.[43] Such a perspective gives us an insight into how socio-economic inequalities are produced and reproduced by asymmetries of social power, which, in our context of GVCs, facilitate the patterns of exclusion and/or 'adverse incorporation' that are characteristic of many arenas of global production. It is through these mechanisms that inequality, in Tilly's phrase, becomes durable, and often intergenerational: exclusion from access to value-producing resources and arenas of opportunity is perpetuated by the consequences of exploitation in GVCs, perhaps particularly in those forms associated with forced and child labour.[44]

Asymmetries of political power

Let us then take the argument on to the third point of the triangular scheme in figure 1, returning to our starting-point of the geographic fragmentation of global production. We have explored the business case for this kind of model

[42] Mosley and Singer, 'Migration', pp. 284–5.
[43] Tilly, *Durable inequality*, pp. 7–8.
[44] Nicola Phillips, Resmi Bhaskaran, Dev Nathan and C. Upendranadh, 'The social foundations of global production networks: towards a global political economy of child labour', *Third World Quarterly* 35: 3, 2014, pp. 428–46.

and its social foundations, but now need to incorporate a more explicit recognition of the asymmetries of political power which underpin it. These asymmetries take many forms across diverse arenas of governance and policy, some of which (such as the governance of immigration and mobility) we have already touched on. Given constraint on space, this final section will focus on the politics of global business and regulation.

We have established that the geographic fragmentation of production is driven in large part by the search of many firms in many sectors for permissive regulatory and political environments, particularly in relation to labour and environmental standards. However, it is not simply that these conditions exist and firms take locational decisions on that basis. Rather, lead firms mobilize vast political power to *create* those conditions and ensure that they are maintained. In the competition to attract foreign investment and to increase their exports, many developing countries have incentives to be the low-cost point in GVCs. This, in turn, translates into incentives to limit regulatory costs for producers, as well as to keep wages 'competitive' and to restrict workers' ability to organize. Similarly, enforcement mechanisms remain either underdeveloped or unimplemented. For many states, these outcomes emerge from the significant asymmetries of political and bargaining power that exist between their governments and transnational (and some local) firms. For others, the pressures of compulsion are less pronounced, but the competitive dynamics of the global economy and the demands of economic development push in the same direction, given additional impetus by the political power of transnational business.

Evidence of these political dynamics abounds. China's Labour Contract Law of 2008, for example, increased wages and protections for workers. A large number of big firms responded by moving their operations to sites in countries such as Vietnam or Cambodia where the regulatory environment remained even more permissive and labour costs even lower.[45] We have documented evidence of a substantial increase over time in provisions built into bilateral investment treaties to protect the interests of foreign investors—wherein such investors are granted exemption from new labour laws, or guaranteed the payment of compensation by national governments if any such laws are enacted or amended. Similarly, a recent body of research associated with the generation of the United Nations' Guiding Principles on Business and Human Rights involved a survey of around 90 contracts for large-scale investment projects, which revealed that a majority of those drawn up with countries outside the OECD contained provisions to insulate or exempt investor firms from compliance with new social or environmental laws, or to facilitate compensation from national governments for the costs involved in complying with such legislation.[46] Representatives of big business occupy seats in parliaments and congresses around the world, and use lobbying power to secure favourable legislation; their leverage is very strong over national governments in general, and

[45] Haiyan Wang, Richard P. Appelbaum, Francesca Degiuli and Nelson Lichtenstein, 'China's new labour contract law: is China moving towards increased power for workers?', *Third World Quarterly* 30: 3, 2009, pp. 485–501.

[46] John G. Ruggie, *Just business: multinational corporations and human rights* (New York: Norton, 2013), pp. 86, 136.

particularly over those whose bargaining power is weak. Arguments about political incentives against regulation are just as relevant to the more advanced economies as in the so-called developing world, where political dynamics between governments and big business, as well as ideological affinities between them, have substantially the same outcomes in terms of a retraction of regulation.

In short, TNCs themselves push for the very 'gaps' in public governance that are necessary for their business models to thrive, working in tandem with some states and through forms of political compulsion over others. As indicated above, it is firms, not states, that now play the major role in determining what will be produced, where and on what terms, and what will be traded internationally. Specifically, firms also play a major role in determining how production will be regulated, including through labour and environmental standards. Jill Esbenshade argued in 2004 that the new 'triangle of power' in the era of global supply chains (or, in our language, a GVC world) consisted of employers, contractors and government as the key points of the governance and regulatory landscape.[47] Others have argued that this overstates the role of government, and argue instead that the triangle is now composed of brands, their contract factories and the set of (western) non-governmental organizations (NGOs) that provide the pressure on firms to improve standards.[48] In short, governance in a GVC world is observed to have shifted to private actors, and to have come to rest on the notions of corporate social responsibility (CSR) and voluntary self-regulation on the part of firms, ushering in a new era of 'transnational private regulation'.[49] In such a model, it is NGOs and consumers, not governments and states, that are responsible for holding commercial firms to account.[50] We know that this model is not effective in improving standards, and an ample literature has emerged which highlights the shortcomings of private governance and CSR.[51]

In consequence, the debate has recently shifted to an important and fascinating consideration of what kinds of governance initiatives, under what conditions, can make a difference in improving labour and other standards in the global economy, and what kinds of effective regulation can be conceived in the context of a world dominated by powerful business actors and the competitive dynamics of GVCs.[52]

[47] Jill Esbenshade, *Monitoring sweatshops: workers, consumers, and the global apparel industry* (Philadelphia: Temple University Press, 2004), p. 33.

[48] Richard P. Appelbaum and Nelson Lichtenstein, 'Introduction: achieving workers' rights in the global economy', in Appelbaum and Lichtenstein, eds, *Achieving workers' rights*, pp. 3–4.

[49] Tim Bartley, 'Institutional emergence in an era of globalization: the rise of transnational private regulation of labor and environmental conditions', *American Journal of Sociology* 113: 2, 2007, pp. 297–351; Tim Büthe and Walter Mattli, *The new global rulers: the privatization of regulation in the world economy* (Princeton: Princeton University Press, 2011).

[50] Jill Esbenshade, 'A review of private regulation: codes and monitoring in the apparel industry', *Sociology Compass* 6: 7, 2012, p. 547; Kate MacDonald, *The politics of global supply chains* (Cambridge: Polity, 2014).

[51] For a flavour, see Peter Newell, 'Citizenship, accountability and community: the limits of the CSR agenda', *International Affairs* 81: 3, May 2005, pp. 541–57; Cynthia Stohl, Michael Stohl and Lucy Popova, 'A new generation of corporate codes of ethics', *Journal of Business Ethics* 90: 607, 2009, pp. 607–22; David Vogel, 'The private regulation of global corporate conduct: achievements and limitations', *Business and Society* 49: 1, 2010, pp. 68–87; Esbenshade, 'A review'; Richard Locke, *The promise and limits of private power: promoting labor standards in a global economy* (Cambridge: Cambridge University Press, 2013).

[52] See Locke, *The promise*; Daniel Berliner, Anne Regan Greenleaf, Milli Lake, Margaret Levi and Jennifer Noveck, *Labor standards in international supply chains: aligning rights and incentives* (Cheltenham: Edward Elgar,

Much has been made in particular of the combination of public and private governance that is deemed necessary to achieve these improvements, arguing for a continuation of the 'regulatory renaissance' that is thought to be under way in some parts of the world. At the same time it must not be forgotten that there are plentiful examples of firms that have engaged in meaningful responsibility and accountability initiatives with some positive outcomes, and that not all firms are engaged in strategies of continually seeking to circumvent or undermine public regulation. It is interesting that in Britain, during the process of drawing up the Modern Slavery Act of 2015, some businesses agitated for at least an element of government regulation inasmuch as they perceived a need for a level playing field in relation to labour practices. At the same time, the relentless pressure on electronics firms from media and NGOs, noted above, has led to some significant initiatives to address the problem of labour abuses in their value chains. While firms such as Apple have been open to challenge on how extensive, committed and/or effective these initiatives have been,[53] nevertheless an element of at least ostensibly progressive activity by some private actors has to be recognized as an important part of the governance landscape.

A final caveat is in order. We have seen that a pervasive assumption remains that states and governments remain 'absent' in a GVC world, removed from the task of governance, and overwhelmed by the asymmetries of political power that have been documented, necessarily briefly, in this discussion. Such an assumption is misleading: the state remains a core part of the political economy of governance, functioning as an architect of the GVC world, and is itself active in a politically purposeful process of delegating or 'outsourcing' governance to private actors.[54] What may appear to be purely private forms of governance are always and everywhere underpinned by particular kinds of interactions with state authority and public governance.[55] This does not mean that states and TNCs are politically united and serving the same cause, any more than we may assume that national states are simply overwhelmed by the asymmetries of political power that crystallize in and around GVCs. Some states are more politically willing than others to challenge big business, through regulation or other means. Similarly, intense political contestation occurs between states and firms, as they tussle for control over the terms of production and the value created in the global economy. Tax scandals represent one case-study of this contestation. Another is the tension between business and government in relation to immigration policy and its consequences for labour supply. In relation to labour standards, there has emerged a

2015); Appelbaum and Lichtenstein, eds, *Achieving workers' rights*.

[53] e.g. Scott Nova and Isaac Shapiro, 'Polishing Apple: fair labor association gives Foxconn and Apple undue credit for labor rights progress', EPI briefing paper no. 352 (Washington DC: Economic Policy Institute, 8 Nov. 2012); Students and Scholars Against Corporate Misbehaviour, 'FLA waters down rights violations at Apple Suppliers', Hong Kong, 18 Feb. 2012, http://sacom.hk/archives/931.

[54] Mayer and Phillips, 'Outsourcing governance'.

[55] Bartley, 'Institutional emergence'; Kenneth W. Abbott and Duncan Snidal, 'The governance triangle: regulatory standards institutions and the shadow of the state', in Walter Mattli and Ngaire Woods, eds, *The politics of global regulation* (Princeton: Princeton University Press, 2009), pp. 44–88; Paul Verbruggen, 'Gorillas in the closet? Public and private actors in the enforcement of transnational private regulation', *Regulation and Governance* 7: 4, 2013, pp. 512–32.

politics of blame, where firms are apt to place responsibility on state regulation and blame its deficiencies, states are apt to insist that these are supply-chain issues, consumers receive appeals from each side, and workers continue to labour in conditions of systematic exploitation.

Asymmetries of political power thus form a critical part of the picture of how inequalities are produced and reproduced in a GVC world. Governance and politics matter, in short, and political power—both public and private—fuses in dynamic ways with market power and social power to produce the patterns of inequality in the global political economy that have been so amply observed over recent years.

Conclusion

Inequality in all its forms is the defining global problem and increasingly the defining political problem of our age. At the time of writing in early 2017, public discourse had renewed its focus on inequality in an attempt to understand seismic events such as the UK's referendum vote to leave the European Union, the election of Donald Trump as president of the United States, and the rise of the populist right in several countries. Questions of disadvantage, alienation and exclusion are all critical to this conjunction of events and trends. Yet a focus on those people and sections of society alienated from globalization and crushed by its distributional dynamics cannot capture the full complexity of the political moment in which we find ourselves. Equally relevant is the question of for whom the system works: how, politically, the opportunities are protected for the massive concentration of wealth, power and advantage that we have explored here, and how economic, social and political inequalities can be manipulated and created afresh for that purpose.

Whether this means that we are seeing a significant crisis of capitalism, of an order which could usher in a substantively new order, remains an open question and one which deserves continued careful attention.[56] I have argued here that the current vast and expanding extent of global inequality is not a 'bug in the system' of a GVC world, but is rather foundational to the functioning of a global political economy built around the form of industrial organization associated with GVCs—an outcome that arises from the interactions of market, social and political power in underpinning this global economic order. To this extent, the inescapable conclusion is that incremental change will not be sufficient to address the distributional implications of the GVC world. The nationalistic, nativistic response of the political right in this context is deeply unpalatable and alarming to many, but has not yet been met with a coherent challenge from the centre or the left. A compelling vision is needed of a progressive, internationalist politics that is capable of addressing the issues of power and inequality in the global political economy which have led us to this juncture, and capable of producing a foundation for significantly more equitable and inclusive forms of growth and development.

[56] Wolfgang Streeck, *How will capitalism end? Essays on a failing system* (London: Verso, 2016).