

# CAPTURING THE GAINS



## What are the connections between Poverty and Global Production Networks?

Global Production Networks (GPNs) link producers, workers and consumers across the North and South. They account for an increasing share of international trade as well as global GDP and employment. GPNs engage suppliers, buyers and workers, as well as wider actors including NGOs, trade unions, government agencies and donor institutions. GPNs can provide a stepping stone for firms in the South to integrate into the global economy. However, there is no conclusive evidence on the extent to which participation in GPNs benefits poor producers and workers in developing countries.

## Economic and Social Upgrading

The *Capturing the Gains* programme considers how *economic upgrading* (improved firm performance) and *social upgrading* (better labour conditions and household well-being) can be achieved within different GPNs to reduce poverty among vulnerable workers and producers.

Research confirms that economic upgrading *can*, but does not automatically, result in social upgrading. The main challenge is to understand when and how both firms and workers can gain from participating in GPNs.

Within GPNs, competing pressures for both economic and social upgrading and downgrading are evident as suppliers seek to balance higher quality with lower costs. There may be incentives for firms to pursue the "high road" by shifting production towards higher value activities and improved firm performance. This includes better working conditions since production of higher value goods often requires a stable, skilled and formalised labour force. Improvements in labour standards can stimulate better productivity among producers.

Some suppliers in low-income states respond to commercial pressures by pursuing the "low road". This leads to economic and social *downgrading* so that pressures to reduce costs and increase flexibility through outsourcing employment cheapens output. But such gains occur at the expense of social downgrading with the casualisation of the labour force and, in the most extreme cases, trafficked labour.

In some cases, *regular workers* benefit from improved labour standards but *irregular workers*, often women, ethnic and migrant groups often face double discrimination which undermines their ability to reap the benefits of economic and social upgrading.

Understanding how to combine economic and social upgrading and the position of labour in GPNs is vital if low-income countries are to realise development gains from participation in global markets.

Progress will require much greater co-ordination of strategies for economic and social upgrading by firms, NGOs, trade unions, and government agencies than has currently been realised. Partnership models bridging traditional divisions will play a key role. *Capturing the Gains* aims to encourage these partnerships and inform strategies geared towards better outcomes for poorer producers and workers.

## POLICY POINTS

Actors in GPNs are pursuing independent strategies which focus on either economic or social upgrading. Among them are:

- Trade agreements which encourage decent working conditions and more beneficial trade regimes for poor countries;
- Private sector commitments to social compliance standards across their value chains;
- Consumer and civil society support for ethical trade in the North and South;
- Government policies which promote private sector development and effective labour policies in the South;
- Firm-driven enhancements in value-added among suppliers in the South;
- Trade Union and labour organisations promotion of decent working conditions and a living wage.

The CtG research will draw on these on-going initiatives to promote more integrated approaches which aim to promote fairer trade and achieve *both* social and economic upgrading.

## References

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- Barrientos, S. 2008. Contract Labour: the Achilles Heel of Corporate Codes in Commercial Value Chains' Practice. *Development and Change* 39 (6): 1-14.

## For further information

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