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

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The book is part of the series "New Horizons on International Business" launched by Edward Elgar Publishing. The title is simple, clear and attractive, and goes right to the heart of the issue discussed in the book – an exploration of the struggle for appropriation of value that is created in the global value chain (GVC). The book is based on a study of Bangladesh's apparel industry, and it offers a detailed analysis of the complex complementary and competing relations between various participants in the GVC – workers, suppliers and global buyers as well as consumers – and how their respective power relations determine the value captured at every level of the industry GVC. In doing so the book touches upon some key issues regarding organization of GVCs, the role of the state and differences between different types of GVCs. It explores interdependencies between the multiple participants in a single GVC, leading to cross-influences among different contests that shape outcomes. It goes on to propose an alternative model for fair distribution of value based on interdependent relationships that interact with culture, institutions and political systems to shape and advance social welfare in GVCs – or in other words, "correct" for distorted distribution, as the subtitle of the book notes.

The book therefore addresses a much discussed and debated subject in contemporary political economy – why and to what extent there is a distortion in value distribution vis-à-vis value creation, and who wins and who loses out in this struggle. It is divided into nine chapters. The first chapter introduces the subject and scope of the book, setting the stage with an overview of the literature on GVCs and asserts that GVCs are the principal value creators in the global economy. Chapter 2 introduces the conceptual framework and the theoretical foundations of the analysis. It argues that contradictory relations – "a combination of collaborative win-win relationships in value creation and competitive zero-sum relationships in value appropriation" (p. 14) – influences value distribution between participants in GVCs and that value creation must be the yardstick for measuring value appropriation.

Chapter 3 sets out the empirical context of the apparel industry, globally and in Bangladesh. Here the authors also explain the reasons for selecting the Bangladesh apparel industry for study. Its significantly large size (80 per cent of total exports), its spectacular growth aided by government support, its links with various ancillary industries, the almost "unlimited" supply of cheap labour which reduces labour's bargaining power, and the Rana Plaza tragedy in 2013 were significant factors in this regard. Furthermore, the Bangladesh apparel industry has the highest labour intensity of all major GVCs, including other buyer-driven GVCs such as electronics, footwear, toys and furniture. The authors note that this high factor intensity has several implications for value distribution at different levels and makes it an ideal case study for the analysis in the book.

Chapters 4, 5 and 6 then focus on value creation and value appropriation between each set of actors in the GVC – buyers (global brands) and manufacturers, manufacturers and workers, and global brands and consumers. These three chapters are the central part of the contribution of the book. The analysis of the contest for value capture at these three points of contention leads the authors to three findings. First, between global buyers and manufacturers there is no asymmetry between value creation and value appropriation – in short, value creation and value appropriation by the two is balanced. Second, between manufacturers and workers there is an asymmetry – in favour of manufactures – and workers do not get a fair share of the value they create. Third, between global buyers and consumers there is also a distortion of value distribution – in the face of stable or declining apparel prices, it is consumers who wield greater power over the global buyers or brands.

In chapter 7, these findings are viewed in perspective. The main point here is that these findings, in particular the balanced value distribution between global buyers and suppliers, differ considerably from those in the literature based on research on other sectors – the GVC for Apple phones, or electronics at large, and the GVCs for cars, shoes and toys. The authors argue that market failures that distort value creation and value appropriation derive from industry and market characteristics, the nature of the product and the production process, and the nature of transactions and the constituencies in place. A comparative analysis of apparel with other buyer-driven as well as producer-driven GVCs (table 7.1) is presented in terms of market structure, production factors and GVC structure.

In chapter 8, the authors propose a new paradigm for "balanced distribution of value in GVCs, to create markets for social justice", as the chapter title notes. Their paradigm is based on "acceptable" interdependence relationships and "legitimate" behaviour that reflects societal norms and societal context, drawing on two cited studies (Coleman et al., 2011; Emerson, 1962). In these interdependent relationships, power derives from cultural norms, institutional context and political systems. And these forces act upon the relationships between stakeholders to correct for distortions in value distribution. The discussion in this context is particularly interesting. The vision of the interdependency relationship is presented in a complex diagram (figure 8.2), with many layers and many social actors –

private firms, foreign firms, civil society, trade unions and international organizations, along with government and workers. Among international organizations, the authors note the roles of the International Labour Organization and its Better Work programme, a partnership with the International Finance Corporation, in improving working conditions in the apparel value chain. Chapter 9 situates the implications of the research, conducted during the period 2011–2015, in the current context and looks forward.

The book is an important contribution to the literature on GVCs. The premise that a unified framework for value capture can be understood only in relation to value creation is a critical point and well articulated, as is the contention that value creation does not automatically translate into value appropriation and may bear no reference to the amounts of value created. The distinction offers a means to identify distortions in value distribution and their causes and can be used to advance mechanisms to correct these distortions. Value creation as the benchmark against which value appropriation is evaluated offers some valuable understanding of economic and social perspectives, and social justice.

An important premise is that this “contest” for value is not limited to a specific part of the value chain but happens along the chain. Thus, key dynamics are not just between firms and workers but, critically, also between supplier firms and global buyers, and global buyers and consumers.

The analysis of value distribution between manufacturers and labour in chapter 5 is well researched and well presented. The focus is on low-skilled, mostly (90 per cent) female workers in a highly labour-intensive industry with the lowest labour cost in Asia. This low cost is also a major source of advantage for Bangladeshi suppliers in this global industry. Government policies have sought to maintain this advantage as Bangladesh’s labour force has grown and jobs in other industries are difficult to find. The method used here is to calculate the percentage change in labour productivity for value creation and the percentage change in wages for value appropriation, at the industry level. The divergence between the two variables is the basis for concluding that labour has been a weak claimant of value in Bangladesh’s apparel GVC. The analysis in chapter 6 on consumers as external claimants of value is well researched and presented. The power that consumers hold over global brands derives from a fragmented market structure that promotes competition and undermines the market power of lead firms in the market for final goods. Also, switching costs for consumers are low and brand loyalty is minimal, and these interact to keep prices low. As a result, “Most of the cost saving gained by production in low-cost countries has been passed on to the consumers, making them, rather than the global brands, the major contender of value” (p. 5). In short, consumers, particularly in developed countries, gain at the expense of workers in Bangladesh, which is an interesting finding and has implications for policy.

The discussions on other sectoral GVCs, on an interdependency model and on recent developments in GVCs, including the impact of the COVID-19 crisis, are useful and interesting. Chapter 7 analyses other GVCs and notes that other buyer-driven GVCs (such as electronics) do indeed have an imbalance in value distribution between global buyers and manufacturers. Though it is beyond the scope of the book, a comparative study between different types of GVCs would be useful for a broader understanding of GVCs and could perhaps be a follow-up to this study. The proposed interdependency model in chapter 8 is interesting and multifaceted; given its complexity, a key issue is the challenge of implementing such a model.

A major finding of the book that warrants a closer look relates to the conclusion about balanced value capture between manufacturers in Bangladesh and global buyers, and the methodology used. This finding is succinctly summed up as follows:

> In departure from accusations that value capture by global brands in the apparel GVC is inflated on account of the other participants (figure 1.1), we find that the magnitude of value captured by the global brands outsourcing from Bangladesh is on par with their value creation, offering no basis for claims of exploitation of market power to extract disproportional shares of value. We also find that value capture by Bangladesh's manufacturers is proportional to their value creation, and is of similar magnitude to that captured by the global brands (p. 4).

The measure of value creation and value appropriation used can be summed up as follows:

Value creation = Value added = (Sales – purchases)

Value appropriation = Profits = (Total income – total costs)

Value creation is sales less purchases. However, the prices that global buyers pay to suppliers, through highly competitive purchaser practices, are a key point of contention is these debates. This point is acknowledged in a footnote (p. 39):

> Sale measures are distorted by market forces that set up market prices, such as bargaining power between sellers and buyers, competitive intensity in the market for the final goods and other factors that affect demand. This limitation should be borne in mind when evaluating our findings. Our interest in the comparison between manufacturers and global brands lessens somewhat concerns on this ground because the same method is employed in relation to both groups, but the factors that affect sales by lead firms and manufacturers vary.

Price is an important issue and could have been discussed more elaborately in the text, as it is fundamental to the findings of the study. Also, price dynamics are different for intermediate goods and final goods and their discussion would have gained from more detailed study.

Sales equal units sold multiplied by per unit price. If global buyers reduce prices, as anecdotal evidence suggests, by this measure the value creation of suppliers will fall, even if the volume of units sold increases. It would be useful to have more evidence on changes in unit prices paid to Bangladeshi suppliers. Profits and value added by these measures could be falling in parallel for these Bangladeshi suppliers, while the opposite could hold for global buyers (through lower cost of purchases on the value added side owing to lower prices paid to Bangladeshi suppliers and, correspondingly, lower total costs on the profits side). In that case the conclusion that suppliers and global buyers are each getting their "fair" share in the face of such opposing dynamics could change. What matters is the underlying drivers of these measures.

This issue of asymmetric power between global buyers and suppliers has become more apparent in the context of the COVID-19 crisis. Though not particular to Bangladesh, research by Anner (2021)[1] finds that during the crisis, global buyers in the apparel GVCs cancelled orders without payment with devastating consequences for suppliers and their workers, pushed down on prices, delayed payments and weakened contracts. In this context the role and relative power of global buyers in GVCs remains a critical issue in value capture, including vis-à-vis suppliers. Perhaps, had the research period of the book been more recent, these issues would have been more apparent.

Notwithstanding, the book remains an excellent study of GVCs and their myriad contexts, participants, power relations and processes, and is a recommended read for students, researchers and policymakers working on GVCs. Its central contribution of understanding value capture through the yardstick of value creation is compelling. The research and theoretical developments that the book offers have important implications for practice and scholarship and provoke a debate on corporate governance in GVCs. In the context of the recent pandemic-induced crisis, and its devastating impact on labour markets globally, the asymmetry between the various participants in the apparel GVC is likely to become more pronounced. The framework in this book, based on multiple participants and their contest for value in GVCs, could contribute to new reflections on a global architecture that has the potential to promote unequal power relations in GVCs.

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[1] Mark Anner, "Squeezing suppliers and workers: the unequal distribution of costs along GVCs during the Covid 19 pandemic", GVC Conversations Webinar Series, Network O (Global Value Chains), Society for the Advancement of Socio-Economics, 25 March 2021.