

**Dev Nathan
and V. Kalpana**

**Issues in the analysis of global
value chains and their impact
on employment and incomes in
India**

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International Institute for Labour Studies
Geneva

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Preface

The International Institute for Labour Studies collaborated with The Indira Gandhi Institute for Development Research, Mumbai, India in organizing a national workshop on “A Development Agenda for Employment and Decent Work in India”. The conference was held at the Indira Gandhi Institute campus in Mumbai on 10–11 August 2006.

The purpose of the workshop was to bring together a group of leading academics and policy practitioners from India for an in-depth review of the conditions and strategies for development that could deliver decent work outcomes for all. It carried out a detailed assessment of this theme with specific reference to three topics, namely: (1) Economic and social policies for embedding employment in the development agenda; (2) Global value chains and their impact on employment and incomes at local level; and (3) Social regulation and protection in the informal economy.

The present paper, which addresses the analysis of global value chains and their impact on employment and incomes in India, was prepared by Dev Nathan and V. Kalpana of the Institute for Human Development, New Delhi. The object of the paper was to identify the key issues for discussion at the Mumbai workshop and it has been revised in the light of comments and feedback received at the workshop.

This paper serves as an input to future research that the International Institute for Labour Studies intends to develop on the issue of global production networks and the local creation of decent work in India.

Geneva, August 2007

Gerry Rodgers
Director
International Institute for Labour Studies

Introduction

This paper¹ deals with issues related to employment and income (decent work) that arise through the integration of Indian production into global value chains. The sectors looked into are labour-intensive manufactures (garments and leather products), technology-intensive manufactures (automobile components), and knowledge-intensive services (software and business process outsourcing (BPO), or Information Technology (IT) and information technology enabled services (ITES).

The structure of the paper is as follows. We first look at the changing nature of international trade and place the organization of value chains within that context. This leads to a consideration of factors which influence the bargaining strength of developing country firms and small producers within value chains. Next, the paper considers the different strategies adopted by producers in developing countries to improve their position within the value chains. How are positions within the value chain reflected in labour conditions? What is involved in moving towards decent work within global value chains?

Global production and the structure of international trade

The structure of world trade is changing. After the early trade which consisted of exchanging manufactured goods for raw materials, in the post-Second World War period there was an increase in intra-firm trade, as firms became transnational and set up linked production facilities in numerous countries. More recently, however, there has been a globalization of production and supply chains, and a general globalization of value chains. With this inter-firm, but intra-industry trade, is the fastest growing section of international trade and its characteristic form. Rather than vertical integration there is the global cutting up of parts of a value chain.

As firms split their production between different locations, a part of international trade became intra-firm trade. For instance, automobile parts shipped by a firm in one country for assembly by the same firm in another country is part of international trade. But the transaction is an intra-firm transfer. Consequently, there is an arbitrary element in the price at which components are transferred to the assembling unit. Methods of transfer pricing could be used to determine the accumulation of surplus in one or the other location. Of course, there is a limit to this use of transfer pricing, as costs in the assembly or manufacturing unit must be met, at least so long as it is decided to continue with that operation. But the firm could clearly use transfer pricing to influence the accumulation of surplus in one or the other location of its operations.

What happens when these operations are split not just between countries but even between different firms in the various countries? A firm in the United States, for instance, may source automobile components not from its own unit in India, but from another firm in India. Gap or Nike procure their garments or shoes from firms in many developing countries. But these manufacturing firms in the developing countries do not sell their products in the market, where Gap or Nike appear as buyers. Rather they supply their products, complete with labels and logos, to the procuring firm on the basis of contracts. This is not a market-based, arms-length

¹ A first draft of this paper was presented at the ILO-IGIDR Workshop on a Research Agenda for Labour Issues in India, held at the IGIDR, Mumbai, in August 2006. The revision of the paper has benefited from the many comments at this workshop. We thank all participants for their suggestions. Responsibility for the analyses and all errors remains that of the authors alone.

transaction. The rate at which the products are supplied now becomes explicitly a matter of bargaining, rather than a power-affected market process. Even international trade in commodities, which used to be of the arms-length variety, is now often carried out in contractual transactions, integrated into global value chains. Thus, it is bargaining rather than market forces that determines the distribution of surplus among different sections of the global production chain.

What is driving the tendency to replace intra-firm by contract-based inter-firm transactions? The trend becomes stronger with the attempt to cut costs in order to retain or increase competitiveness. If the service or component can be supplied more cheaply by outsourcing, that increases the corporation's return on capital. Sections of the value chain that are likely to yield higher returns or rents are retained within the corporation, while the rest are contracted out. While the clothing and shoe companies typify this trend, with their retention merely of brands, design and marketing, this is more and more becoming the norm across corporations in the developed countries. With manufacturing skills spread more widely across the globe, particularly in Asia, manufacturing as such provides no market power, and thus little in the way of surpluses or rents. Market power is concentrated in brands, design and marketing.

The push to reduce costs by cutting up various sections of the global value chain and distributing them across different countries was stimulated by the recession in the developed countries in the post-1973 oil price rise period, and introduced a new factor in the dynamic of capitalist expansion (Nathan, 2004). This time it was not just the machinery manufacturers who sought to find new markets (as occurred in earlier recessions or depressions in the late nineteenth century and the 1930s), but producers of consumer goods too sought new locations of production to reduce costs. In a recession with falling margins, it is particularly important to reduce costs in order to compete for market share.

This analysis is similar to that of Hopkins and Wallerstein (1994) who see a rough association between periods of economic stagnation and outsourcing, and conversely, periods of economic boom and vertical integration. Gibbon and Ponte (2005), on the other hand, see the trend towards outsourcing as mainly a result of the dominance of financialist solutions to maximizing returns on capital, a requirement dictated by the dominance of shareholder value. However, we need to observe when and why financialist solutions dominate; they are likely when there is no technological advantage. Firms with technological advantage or with patent-protected monopolies will be less pushed to seek financialist solutions. Their technological or patent-monopoly advantage will itself be the source of rents. Firms that do not have such a technological advantage, on the other hand, will be forced to seek financialist ways to increase returns on capital.

The generalization of the system of splitting production of a commodity between different locations in the world came into play in the competition for market share or the attempt to increase returns on capital. This generalization was made possible by the lowering of transport costs and the vast improvement in communications. It was also based on the development across countries of labour forces with the necessary skills but within a global hierarchy of wage rates. This transforms the struggle between capitalists in a weakening market; it is no longer a matter of temporary lay-offs and other cost-cutting measures, but involves a global break-up of production processes. This will reduce costs by using the hierarchy of wage costs in different parts of the world. Thus, it is in the post-1973 period that we have the non-Japanese Asian boom, with the transfer of large parts of manufacturing from the United States, less so from Europe and Japan, to the rest of Asia, with its lower wage costs.

In the current period the cost-cutting dynamic leading to the export of capital has matured in yet another direction. In the post-1973 Asian boom, of which the east and south-east countries and most of all China took the fullest advantage, it was parts or the whole of manufacturing that shifted location. Now cost-cutting has entered the sphere of office operations. This again has been made possible by the advances in information and communication technologies (ICTs) as a

result of which various business office processes are being shifted out, a shift of which India is now taking advantage. Again, this is not a temporary lay-off, as used to happen in earlier business cycles. This is a shift in the location of some office activities. The increase in recruitment of IT professionals and even telephone call handlers in India is mirrored by lay-offs in the advanced countries. Thus, even while, or rather because there is a recession or stagnation in the United States, Europe and Japan, there is a boom in business office and information processing units in India.

William Milberg (2004) points out that international trade figures are not very good at capturing this change in the nature of trade. “Although the trade data permit a precise measurement of global production sharing only for a few industries, there is now massive evidence that global production sharing is being undertaken in a wide variety of sectors, including textiles and apparel, consumer electronics, transportation and machinery, light consumer goods industries such as toys and even services as diverse as sales and finance” (Milberg, 2004, p. 13).

The only classification where parts and components are distinguished from total trade is for machinery and transport equipment (Milberg, 2004). But other kinds of data show definite trends towards an increasing share of imported components in final products in United States manufacturing. As a result of this change in the nature of international trade “Asia, other than Japan” has now emerged as a fourth pole of world trade (the other three being the United States, the European Union (EU) and Japan). “Within trade in manufactures, trade in *manufactured inputs* has seen a very considerable increase. This trend points to the fact that the rise of Asia other than Japan as a centre of world manufacturing exports has been associated with production of manufactures being undertaken increasingly on an international network or chain basis” (Gibbon and Ponte, 2005, pp. 5–6, emphasis in original).

Distribution of surplus

When production is undertaken on an international network or chain basis, bargaining explicitly comes in to determine the distribution of surplus or rent among different sections of the chain. Thus, in a large part of international trade bargaining, rather than market-based allocation, is the manner in which the surplus is distributed. At the same time, economic models would suggest that bargaining results would fall within bands set in competitive markets (Wood, 2001), but the factors that influence bargaining strength determine where the price is set within that band.

What influences the outcome of bargaining? Here the Nash analysis of cooperative games points to the crucial role of the next best alternative, or fall-back position, in determining the distribution of gains from cooperation. The analysis needs to be extended to the level of international trade.

In a preliminary fashion one can identify some influencing factors. A firm which supplies its products to a number of buyers can refuse a bad deal. Thus it could get a better deal than a firm which has one exclusive buyer. Monopsonistic or oligopolistic buying power, faced with competition among sellers, would strengthen buyers and weaken sellers. Women producers who are responsible for household food security may be forced to accept virtually any deal. And so on. Factors of competition, ease of entry, specificity of assets, social and gender responsibility, etc. all influence the outcome of the bargain.

There are two types of commodity chains – buyer driven and manufacturer driven chains. Manufacturer (or supplier) driven chains exist in those industries where sophisticated design and production capabilities are involved, as in the case of aircraft or even automobile component manufacture. But with the standardization of large sections of manufacturing, buyer driven chains, where retail firms and other large buyers dominate, are becoming more prominent. The firms which take the dominant position in these buyer driven chains are the large retailers, like Wal-Mart, Gap, Tesco, etc. and the dominant product marketers, like Nescafe. These are called

the lead firms. They usually buy their products from large suppliers, called first-tier firms, which in turn source their products from second-tier firms. The lead firms together with the first-tier firms govern or manage the supply chain, determining the role of different firms and producers along the chain, the division of labour between them, the specifications for the various products, etc. At present, obviously, all the lead firms are from the developed countries. There are a few first-tier firms from developing countries, as in China, but most developing countries only have second- and lower-tier firms in the chain.

The lead firms in buyer driven chains have enormous, oligopolistic market power. As buyers the volume of their purchases gives them monopsonistic power. On the other hand, with the spread of manufacturing and processing capabilities around the world, the suppliers are in very competitive markets. This asymmetry of market positions, oligopoly / monopsony vs. competitive, leads to a corresponding asymmetry in bargaining power. Lead firms are able to utilize their buying power to beat down suppliers' prices. A study of British supermarkets found that "buyer power was used to extract concessions on price, to enforce nonstandard (and in certain cases predatory) contractual terms, and to leverage significant changes in the traditional division of labour between retailers and suppliers" (Gibbon and Ponte, 2005, p. 18). It is likely that the relation with suppliers is the most important source of oligopolistic rents earned by the supermarket chains (*ibid*). What this means is that competition policy needs to be taken up at the global level in order to deal with the global monopolies that are emerging.

Bargaining strength

Incorporation into a global value chain does not necessarily mean that producers lose all bargaining capacity. Particularly in producer driven chains, such as automobile parts, as seen in the case of India, there is substantial scope for local firms to bargain within the chain. In the case of retailer-driven chains, as in food and fresh produce, there seems to be less scope for suppliers to bargain. The competitive market structure of suppliers and the oligopolistic competition of buyers enable retailers to appropriate most of the rents and reduce margins down the chain.

Are there no forms of countervailing power that can be deployed in the global chains? A study of cashew producers in South India points to the role of diversity of markets (local, national and regional markets) for agri-food products as a way to reduce dependence on the international market (Harilal et al., 2006). The various Fair Trade initiatives also provide alternative marketing channels. Though their share of world trade is still very small, they are growing. In Europe, Fair Trade products can be bought in about 50,000 supermarkets (IFAT, 2006). In a more general sense, one might say there is a role for anti-monopoly policy on a global scale. As the global market grows, there is a need for a global anti-monopoly policy that will break up the big retailing giants, in the manner that, say, the telephone giant AT&T was broken up in the United States.

Consumers too are an increasingly powerful force. The power of not buying is quite substantial in an economy based on buying. As boycotts in connection with the struggle against apartheid showed, consumer boycotts can have an effect. The various boycott actions on products of child labour have also played a role in forcing concerned employers, states and NGOs to take action.

Another kind of countervailing power is that of organized producers. Through schemes that restrict output and develop other uses, raw material producers can increase their bargaining power within the global chains. Certification of coffee can also increase the income of producers.

A chain is vulnerable to disruption at one or many points. A disruption even in an insignificant part of the process would have consequences all along the chain. Since the timely completion of the work of the whole chain depends on it, the effect of a disruption would not just relate to the proportion of the total value embedded in that section, but would have cumulative effects further down the chain. In these days of just-in-time delivery of components and of whole products for retail stores, such disruptions can have a large effect. But the extent to which quick

substitutions can be made in process would influence the extent of bargaining power. As pointed out earlier, the competitive nature of the market at the lower ends of manufacturing increases the substitution possibilities and thus reduces the bargaining power of any one firm. This makes it all the more necessary that developing country producers combine if they are to affect the distribution of surpluses in sections of the chain contained within them. That, of course, is easier said than done.

At the national or regional levels, however, developing country producers can have substantial bargaining power. Bargaining power in international transactions relates not only to commodities like food and fuel, which have strategic importance, but can also extend to mundane articles like garments and shoes. In 2005 there was a dispute between the EU and China on the increased volume of imports of Chinese manufactures in garments, following the end of MFA. As imports were held up for a while, stocks piled up in the godowns. EU retailers warned that unless the dispute was quickly resolved, for the first time since the Second World War Europe could face a shortage of woollen garments in winter. There can be a big impact on consumers of such a shortage. The capital and returns of the retail chains would also be affected, with the usual multiplier effects.

Another type of potential disruption came to the fore during the 2003 military stand-off between India and Pakistan. The likelihood of a military conflict brought fears of a disruption in the varied office services that had been shifted to India. Again these may be fairly run-of-the mill services like accounting, other office operations and customer service, but a stoppage would affect the production chains of the corporations concerned and affect their customer relations.

What these examples show is that if a country (or group of countries) supplies a large portion of commodities or services (like China does in labour-intensive manufactures or India does in office processes) then its producers or suppliers would acquire substantial market power. The extension of global value chains can also lead to a redistribution of power. This may be a far cry from establishing a new hegemony, but it spreads power around the globe.

The rise of Asia, other than Japan, as a pole of world trade also redistributes power around the world. Of course, how much the smaller players, organized around the emerging powers get out of this redistribution of power, or how much the producers within these country firms get, are yet other questions. But while recognizing inequalities in the world trade system, we should not neglect the redistributions of power that are also taking place.

The emerging powers have also become important as consumers. China has a very large base of consumers with a reasonable income. Despite the very high levels of household saving in China (over 40 per cent) it is still a large mass market for everything from mobile phones to electronic gadgets and PCs. In India the consumer base is somewhat more restricted by the high level of poverty, but even so the large middle class provides a bigger market in many commodities than most other countries in the world.

The size of the domestic market can be a factor in acquiring concessions from the big corporations. Wal-Mart, for instance, has been forced to abandon its worldwide policy of not allowing unions in its units in the case of China. The size of the Chinese market has led it to give this concession, important as it is for the employees. This concession to employees will reduce Wal-Mart's ability to compete on price with other retailers and thus affect its market power as such.

Value chains and producers

The manner in which oligopolistic retailers use their buyer power is connected to labour standards in the chain (e.g. in Harilal et al., 2006). In the analysis of Kaplinsky (2005), caught between the rock of oligopolistic buying power and the hard place of competition among buyers,

there is little scope for improving labour standards. This is critical in the analysis of possible benefits from participation in global value chains and needs to be considered in some detail.

There are two separate though related issues to be studied here. First is the question of whether firms in India, or other developing countries, have any bargaining power within global value chains. The second is whether there is a one-to-one relation between participation in the value chain and labour standards. We will first take up the issue of firms' bargaining power within global value chains.

Moving up the value chain

One way of responding to price competition among suppliers is to reduce wages and environmental standards, a race to the bottom so to speak. Another and more positive way is to respond by increasing the value of one's product. Technological change can increase productivity and product differentiation and thus firms can advance from comparative advantage, based on resource endowments, to what Michael Porter calls "competitive advantage", which can be achieved through innovation (1998, p. 164). Of course, innovations can always be copied, so the only way to retain competitive advantage is continuous upgrading.

Thus, a now standard response to the weakness of suppliers is to promote a vertical movement up the value chain into higher levels of processing or to move horizontally into specialty products, where there is a greater likelihood of capturing a larger share of the rent or surplus. Commodities like organic vegetables or "shade grown" coffee command a premium and the market for such special products is growing. The Sri Lankan garments industry has moved into the specialized manufacture of women's undergarments, where higher skill can get a bigger premium.

At a general level, the East Asian economies moved from assembling imported inputs to full-package or Original Equipment Manufacturing (OEM) production (Gereffi and Memedovic, 2003). The Republic of Korea, Hong Kong and Taiwan (China) all made this transition to becoming a full-package source, developing their own multilayered sourcing networks, utilizing low-wage neighbouring countries, including China, for final assembly. Now China itself is moving towards full-package capabilities in garments and other manufactures.

In India there has been a similar transition in the IT sector. Initially IT companies in India supplied cheaper engineers for onshore work in United States companies. Later, however, they switched to offshore work, located in India. The proportion of offshore work increased from 5 per cent in 1990–91 to 58 per cent in 2002–03. The shift from merely supplying service personnel to supplying IT services deepened the labour market in the IT sector and enabled the business to utilize the segmentation of the labour market to reduce costs.

Within offshore work too there has been an increase in the technological competence of IT firms. They have diversified into a wide range of activities including high-end consulting and building domain expertise and packaged software. This, as would be expected, has been more helpful to companies which had a "threshold level of size and accumulated experience". The more a company provides a full range of services, the more likely it is to increase its strength in the services market.

In the automobile sector, Indian firms have been able to build positions of some strength in parts manufacture. State policies, like high tariffs on imported components, and the peculiarities of the Indian market, forced auto giants to localize their component design. With Indian companies developing this capacity, they have then been able to move on to supplying components to the global lines of the assemblers. The increase in the IT-embeddedness of automobile components and India's established capacity in IT-enabled design has led to companies in India further strengthening their position within component design and manufacture. As a study of India's automobile component firms points out, "... local firms, even small producers, are not passive receivers of intractable global pressures, but have considerable agency in many cases where their ties with their buyers, business associations or the state, help

them manoeuvre the complex spaces that the highly differentiated pattern of localization of global capital in their midst affords them” (Meenu Tewari, 2003, p. 35).

India is not alone in being able to utilize integration into a global value chain in automobiles. China, which has had similar policies with regard to high import duties on both fully-assembled vehicles and on parts, has similarly been able to establish substantial manufacturing capacity in both automobiles and automobile components (Rodrik, 2006 and CEC, 2004).

These experiences of building strength within global chains should be contrasted with those of Brazil and South Africa in the same industry (Kaplinsky, 2005). The Brazilian and South African firms that had grown during the period of protection lost out when the economy opened up. In both Brazil and South Africa this was because the governments merely reduced automobile tariffs all round, including those on components, without tariff differentiation. The lesson, however, is not that there is no space for bargaining within a global value chain, but that policies can lead to different results.

Such movements in the value chain, both vertical and horizontal, require that a larger section of the value chain be located within the developing countries, specifically that developing countries set up first-tier firms that can coordinate production and centralize supply to the lead firms. There can be both information and market failures, including that of coordination, which make it difficult to undertake the investment for such firms. For instance, such innovations can easily be copied by other firms, and thus firms may be less willing to take the first step. Some form of public support may well be necessary to enable the development of first-tier firms and bring about the necessary upgrading, particularly where the production is decentralized in small firms or small producers.

Would this public support be to set up first-tier firms, or perhaps also to strengthen ones that already exist and have shown the competence to take on this range of functions and responsibility as first-tier supplier? If to set them up, then please provide some considerations on what criteria one might decide and how this might be put forward as a policy recommendation.

For instance, faced with the failure to meet EU safety standards, prawn farmers in Bangladesh needed to upgrade production. A DANIDA project undertook this transformation, both among the small farmers and the processors/packers and suppliers to Europe. But it required a period of support with public funds to bring about and coordinate this transformation.

In another manner, small firms in the leather industry in Tamil Nadu, India, were able to fairly quickly stop using prohibited dyes and chemicals. The state-owned research institutes, chemical producers, and cooperatives of small tanners all played a role in this transformation (Meenu Tewari and Poonam Pillai, 2003). But here too some organization, whether it was the chemical company that produces the acceptable drugs, or a big corporation like Tata, had to play a coordinating role, as first-tier firms, in undertaking this transformation.

In the field of handicrafts there are the well-known examples of SEWA, Dastkar, in India or BRAC in Bangladesh. These organizations centralize most design, quality control and marketing functions, while allowing for decentralized, home-based production. They act as what are called first-tier or second-tier firms in the supply chain literature.

These first-tier or second-tier firms need to carry out scale-sensitive functions, like monitoring quality, as well as higher-order investments in processing, design and marketing. They are not necessarily private firms. They could well be cooperatives, like the New Zealand Fruit Producers' Cooperative which undertakes the marketing of fruits to retailers around the world; or the Indian milk producers' cooperative, Amul. They could also be NGOs, like BRAC in Bangladesh, which supervises production of vegetables by small farmers, and undertakes their packaging and marketing in Europe.

What is important here is that the small producers be organized so as to increase their own bargaining strength with the first-tier firms, thus receiving a higher share of the surplus that stays within the country. In the absence of such organization, small producers might secure nothing at all of what the first-tier firms gain. This often happens in contract farming where individual small producers are faced with the first-tier firm.

Trading down or utilizing economies of scale

As against this trend to moving up, Gibbon and Ponte (2005) show that it is even possible to have a strategy of what they call “trading down”. Madagascar firms faced with competition in garment exports raised margins and consolidated their market base by “... *downgrading* rather than upgrading part of their product range and part of their production process (as well as the skill base of part of their workforces). Such a route nonetheless enabled the enterprises concerned to offer a broader mix of products with a wider range of price points and lead times to a wider range of customers, including some who, on this basis, offered them better contractual positions (e.g. greater stability of demand) than they had enjoyed previously” (Gibbon and Ponte, 2005, p. 92). What this means, as the authors point out, is that they achieved economies of scale and through that secured a better position within the buyer driven chain.

China, of course, is the best example of utilizing economies of scale to raise margins and increase market share. This is an area in which India has singularly failed. The reasons for this failure could be the earlier policy of reserving many export sectors, like garments, leather goods, toys, etc. for small-scale units (see Nathan, 2004 and, more recently, Planning Commission, 2006). As a result Indian units, whether in garments or leather goods, tend to be concentrated in the upper end of the market, with higher value added but little employment. These exports have failed to relieve unemployment in the same way as in East and South-East Asia with labour-intensive manufacture for export.

Another and much debated reason for India’s failure in large-scale production of labour-intensive manufactures is supposed to be the rigidities in the Indian labour market. Restrictive laws are held to be responsible for the hesitation in setting up large units for labour-intensive production.

Others (Sen and Dreze, 2000) stress the poor quality of India’s large illiterate labour force. It is true that East and South-East Asia had achieved almost full literacy and overall higher levels of education when they embarked on labour-intensive manufacture for export. But it is not clear that the supply of somewhat-educated labour is a constraint on the expansion of labour-intensive manufacturing and assembly. In India even with a 65 per cent literacy rate, there are still more than a 100 million people who have attended secondary school and could be employed in labour-intensive manufacturing.

Whatever the reasons, it is clear that this is one form of incorporation into global value chains where India has so far missed out. In the labour-intensive manufacture of garments and products like leather goods and toys, as also in electronic assembly, there is potential employment for tens of millions of workers. Unlike the 1 or 2 million in ITES, these tens of millions need only school-level education. Thus, a policy of giving scope for the location of labour-intensive processes could have a considerable impact on employment for the not-so-well educated.

Decent work and value chains

Two kinds of issues arise with regard to the benefits to small producers or workers from participating in global value chains. First, is the likely benefit from transforming a household worker or producer for the local, domestic market into a producer for export markets. The

second is the extent to which incorporation into global value chains enables the attainment of improved labour standards leading to *decent work*.

To illustrate the first point, take the case of handicraft products, including hand-woven fabrics. In the face of low cost competition from mills in the domestic market, handicrafts steadily declined in the period up to the 1980s. But with the incorporation of handicraft products into global value chains, supplying to retailers, fair trade outlets, etc. employment has grown in this sector (Ashok Raj and Rakesh Kapoor, 2002). The sector provides important income to the producers of these export raw materials, though it is clearly not enough for them to move out of poverty. The spread of garment manufacture for export has led to an increase in industrial employment for those who were formerly outside industrial employment.

In a labour surplus economy, employment created by incorporation in global value chains is an improvement in the conditions of existence of the producers (which is what labour standards are about) if workers move out of domestic or poorly paid agricultural labour or other informal sector work. As a study of women garment workers in Tiruppur points out, "There is no doubt that wage employment has improved the self-worth and self-perception of the workers, married or unmarried, apart from conferring monetary benefits on them" (Swaminathan, 2005, p. 102).

Thus, the first point of studying the effects of incorporation into global value chains, is to identify the additional employment created by such incorporation. This employment can be further divided by gender, skill category and whether permanent or casual contract.

Since the objective of research is to better inform the policy of government, the corporate sector and unions, the research agenda can include factors that have inhibited the growth in India of labour-intensive production within the global value chain. This covers labour flexibility, the historical legacy of reserving many labour-intensive sectors for small-scale units, the educational level of the labour force, and the problems of incorporating small producers into the value chain.

In line with the disappointing level of employment creation through the globalization process, discussion on labour standards in India has tended to underrate the importance of employment creation per se. There is a lot of discussion on the poor record of such employment in terms of decent work, ignoring the benefits of the existence of such employment as such. In a labour-surplus economy such as India, this is important not only for individual workers and their households but also for the macroeconomic situation.

Attaining decent work

If the first question is securing employment the next issue is the quality of that employment. This has two parts. First, the possibilities available to companies and producers within value chains to increase their share of the total surplus, in other words their bargaining capacity within the value chains. Second, the scope for workers to secure an improvement in working conditions. The first may occur without the second, i.e. without some of the benefits of increased bargaining power being passed on to workers. The second, on the other hand, is unlikely without the first; i.e. if companies have little bargaining power within the value chain, then it is unlikely that workers will be able to secure a significant improvement in conditions of work.

We have already looked into the question of the scope for bargaining within the value chain, and concluded that, through value addition, economies of scale or taking on higher-level functions, like parts of design, it is possible for firms and organizations of small producers to bargain within the value chain. There are constraints, but it is not entirely hopeless, as is often portrayed. How is this reflected in labour conditions?

In general, economic theory predicts that since, with the growth of international trade there would be an increase in demand for labour, as labour-intensive export sectors grow, there is likely to be an increase in the remuneration of workers. This needs to be qualified by looking at

the types of labour, on skill and gender basis, for which there is an increase in demand; the types of flexibility that global production systems require, the extent to which the burden of this flexibility can be passed on to workers, and the extent of substitutability between different sections of labour.

In the automobile parts sector, as we saw above, there has been an upgrading in the nature of work. Companies have developed capacities not only for fabrication but even for design and IT-embedded design of parts. This requires a higher skill category of worker than simple fabrication. The automobile parts companies in Tamil Nadu were the site of rather militant unions in the 1970s. Maybe in response to that, but also to retain skilled workers, the companies are reported to have adopted a range of “progressive (though paternalistic) human resource strategies to build worker loyalty” (Tewari, 2003, p. 30). These strategies are aimed at future and family benefits (retirement, housing loans, education support, and the like), thus they help tie workers to a particular firm. The need to build worker loyalty to the firm raises the efficiency price of labour.

In ITES, there is a core of skilled workers, team leaders and supervisors, and a large number of agents on short-term contracts. As one would expect, there is a high attrition rate among the agents, going up to as much as 40 per cent in call centres (Basant and Rani, 2004 and Babu, 2004). Since the basic skills are quite easily learned, the ITES sector does not seem overly worried about retaining agents. But here too it is likely that companies which advance to providing more comprehensive services would need to consider how to reduce labour attrition.

Garments manufacture too has a high rate of worker attrition, in excess of 15 per cent (*Business India*, 16 July 2006). Of course, the industry has a large proportion of seasonal, contract and casual labour. This is often portrayed as necessary because of the seasonal nature of orders, and the very rigid timescale in which orders have to be fulfilled. But what accounts show is that employers not only try to maintain flexibility in numbers employed, but also try to reduce the wages, including benefits, of contract, seasonal and casual workers. It is not only a matter of maintaining a flexible workforce, but of paying that workforce as little as possible. Were a system of common payments and benefits on a pro rata basis to be instituted (Hensman, 2004 and Papola, 2006), then the flexibility due to seasonality may be less onerous for labour than it now is.

In the garments industry, there are trends towards improving labour conditions, led by firms which make larger investments and thus find it necessary to reduce labour attrition. SP Apparels in Coimbatore, with 75 per cent of its workforce composed of women, is reported to be building dormitories for these workers and taking other measures to reduce attrition (*Business India*, 16 July 2006). Having invested heavily in advanced cutting machines it now needs to retain a well-trained workforce and thus to institute labour policies that provide more to workers. These are not just isolated examples. As quality of work has become a concern, there has been a switch from piece-rate to time-rate payment of wages (Neetha, 2002). Annual Survey of Industry (ASI) figures show that the average real wage rate in the sector increased by 25.7 per cent from 1998–99 to 2003–04 even while the number of workers in this sector increased by 35.8 per cent in the same period (Annex).

Overall, in the export-intensive sectors that we have looked into (automobile components, IT and ITES, and garments), there is an increase in the demand for labour and an increase in wages. After a period of stagnation, even decline, overall employment in manufacturing grew in the period 1999–2000 to 2004–05 from 22.7 per cent to 24.6 per cent of urban employment (EPWRF, 2006). For women employed in manufacturing the increase is even bigger, from 24 per cent of urban employment in 1999–2000 to 28.2 per cent in 2004–05. The problem remains, however, of the large numbers of poorly paid casual and contract workers.

Flexibility, seasonality and uncertainty

The growth of employment in firms producing within the global value chain has brought to the fore issues of flexibility in employment. This is required by buyer firms mainly within the context of seasonality in orders for garments, or in the processing of agriculture-based commodities. Inflexible labour laws have been bypassed and de facto flexibility has been brought about through the use of contract and casual labour. Through these forms of labour use, the cost of flexibility in the order books is passed on to workers.

Seasonality in orders for garments can be taken care of substantially by developing large-scale units that cater to many types of product demands. Particularly in woven garments if firms are able to get orders across the various seasons, and adjust their production lines accordingly, then high levels of employment can be maintained throughout the year, as is the case in the large Chinese units.

Besides this, it is also necessary that laws and union attitudes should change to ensure that the burden of seasonality is not all passed on to the workers. "If ... it is stipulated that irregular workers have to be paid the same wages as permanent workers doing comparable work, with pro rata facilities (paid off-days, holidays and crèches) benefits (health care, retirement benefits, bonus, etc.) the temptation for employers to use irregular workers in the place of regular ones would be much reduced. Their argument for using irregular workers is flexibility, and if this is the real reason, there should be no objection to spending as much on these workers as on permanent ones" (Hensman, 2004). Papola makes a similar proposal that labour laws should be changed to provide equal remuneration to workers of all categories and thus eliminate the incentive employers now have to employ more casual or contract workers, who are paid less than regular workers (Papola, 2006).

It is also necessary that unions change their attitudes towards the different categories of workers and bring all of them, whether permanent, temporary, casual or contract, women or men, within their fold, as has been done by unions in Sweden.

In a capitalist system there will inevitably be foreclosures. This is part of the process of what Schumpeter called "creative destruction". Firms cannot be expected to be permanent, but there is a need to protect the well-being of workers and their families. While allowing firms to close, it is necessary to reduce the burden on workers. As proposed by Papola (2006) compensation for retrenchment may be increased from the present two weeks' wages to, say, one month. Along with this there is a need for facilities for retraining workers. Of course, the older a worker the more difficult it will be to get substitute jobs, even with retraining.

Changes in labour markets and training

The integration into global value chains has been reflected in a change in the nature of firms. Many operations are now outsourced instead of being supplied internally by the firm. This affects not only the lead firms, the major retailers, etc. but also the smaller firms, lower down in the value chain. Outsourcing tends to take on an all-pervasive character as firms all down the line try to reduce costs.

While in the earlier regime of protected production, firms could operate on a cost-plus basis for setting prices and profits, this is no longer possible with integration into global value chains.² Prices are now given, and firms have to minimize costs in order to maximize profits. This change in the nature of firm operations has an effect on the nature of employment. Firms will try to minimize the retention of employees in an internal market system, and maximize the casual/contract employment of labour sourcing from the external labour market. This is likely to correspond with high attrition rates among such employees.

² This section is based on D'Souza, 2002.

High attrition rates mean that a company would reduce to a minimum its expenses on in-house training, as a trained employee who can leave externalizes the benefit. When firms retain employees in an internal market system, providing avenues for promotion, etc. then in-house training would be more likely than when firms look to the market to procure employees at various skill levels (D'Souza, 2002; Acemoglu and Pischke, 1999).

“The shortening of the job ladder and the evolution of flatter organizational structures with fewer promotion opportunities makes it much more difficult for entrants into the labour market to develop necessary skills. The burden of acquiring skills and training as well as facing the risks of job security now rests with the employees of firms unlike before” (D'Souza, 2002). In the ITES, for instance, there is a lack of promotion avenues for employees to build a career. The organizations carry out just one contracted task, e.g. customer service, so there is little chance of learning different skills. In their workforce hierarchy there are often just two levels – agents and team managers/supervisors. In manufacturing, there is a major difference between permanent and casual/contract workers, with the latter rarely moving into the ranks of the former.

The privatization of training, however, has a negative effect on productivity. Since there is an important externality in its use, private investment in training would tend to be less than socially justified, with corresponding effects on productivity all round. While Indian education and training at the higher level, e.g. for doctors or engineers, is substantially subsidized through public investment, the same is not the case for good quality high school education and industrial training. Both of these are in deficit. Can private investment make up for this deficit? If individual employees could capture all the potential benefits from training, then one might argue that private training could fill the gap.

There has been a proliferation of private training institutes of various kinds, not only for computer-related skills, but even for electrical work and tailoring. This shows that workers are willing to invest in training at their own cost. A substantial part of such training, however, is through work on the job. Workers learn, for instance, cashew processing in poorly paid jobs in cashew factories, and, with that skill, hope to secure better jobs elsewhere (Harilal et al., 2006). But knowledge gained in this way is very narrow, as in the case of electricians and plumbers who learn only as apprentices on the job. They do not have enough general knowledge of the subject to be able to apply their skills in a variety of problem solving requirements. Individual workers', or their households', investment in training is itself negatively affected by the lack of promotion opportunities within firms. Of course, this could change if the labour market were to become substantially tighter.

The narrowness of training, with poor general education, shows up in overall lower productivity of workers and in poor adaptability to new production requirements. The ability to adapt is particularly important with global value chains and their frequent changes in requirements. There is a glaring difference in this respect between China and other Asian countries. “Workers in the Philippines, Indonesia, Nepal and other Asian countries, ..., take six to eight weeks or longer to learn the same amount as Chinese workers do in two and a half weeks, but even at this point these workers can only work at 65 per cent of the productivity level of the Chinese” (Ford, 2005, p. 47).

With the growth of flexible production systems multiskilling is required of workers. Behind this there is an intensification of labour, but there is also the requirement to carry out numerous types of tasks on the shop floor in meeting flexible production schedules. There has been resistance on the part of unions in India to the requirements of multitasking. Fixed job designations have a strong background in the strict social division of labour that is characteristic of the caste system. This only compounds the weakness of general education and results in lower productivity for Indian workers, which reduces the bargaining capacity of workers within firms. Unions in India have generally not recognized the need to increase labour productivity in order to increase labour's own bargaining capacity.

Women in the manufacturing and service labour force

Decent work includes equal pay for women and opportunities for all to attain higher levels of skill. The segmentation of the labour force, including on a gender basis, is utilized by capital in order to reduce production costs.

Garments and the IT industry are two areas where one might expect a larger proportion of women than in other sectors of manufacturing. But, unlike most other countries, the proportion of women in garments manufacturing is somewhat lower in India. By ASI figures in 1999–2000 women were 65 per cent of the workforce in garments in India as a whole (see Annex). But there were significant regional variations. In Delhi women represented just 18 per cent while in Tamil Nadu the figure was 82 per cent and in Karnataka 72 per cent.

Women's wages were, as would be expected, lower than those of men, the difference ranging from 33 per cent in Tamil Nadu to less than 10 per cent in Delhi (Mazumdar, 2004, Table 5, p. 120). A large part of this difference is probably due to skill differences. But the division of labour and division of skill has a gender base.

In the first place, there is a difference in the traditional skill base, which is carried over into the factory system. Tailors are traditionally men, and it is these men who were recruited as stitchers in the garment factories in and around Delhi (Mazumdar, 2004). Further, as in Tiruppur knitwear, "Fabrication workers gain the skills that machine "tenders" typically have in industries that are not fully automated, where there is a premium on learning ways of tinkering and adjusting machines to deliver different sorts of qualities. The premium placed on this knack lends to fabrication a reputation as one of the most skilled occupational categories kept completely out of reach for women" (Chari, 2004, p. 65). But, as the author points out, "It is more likely the consequence of an older sector of all-male, semi-skilled permanent workers retaining their relative privilege as long as possible. *Skill is crucial to the language of gendered labour market exclusion*" (Chari, 2004, p. 65, emphasis added).

With more mechanized systems, artisanal skills of "tinkering" to vary quality lose their importance. The advent of stitching tables in place of sewing machines is supposed to have made the process less complicated and thus open to women, while the mechanization of screen-printing has had the opposite effect of making it more sophisticated and complex! (Neetha, 2002) With the mechanization of stitching women made incursions into stitching in Tiruppur (Chari, 2004, p. 25). But this was not the case in Delhi, where the possible over-supply of men tailors meant that their wages were low enough to keep women out (Mazumdar, 2004).

The lower wages paid to women comes into play in jobs where not much in-house training is required. A general level of education is, of course, needed – 99.7 per cent of a sample of women workers in Tiruppur were literate (Neetha, 2002). But where special training is needed, there seems to be a reluctance to recruit women for the job. This may be related to the exit of women from the workforce after childbearing, something that frequently occurs when publicly provided childcare facilities are non-existent.

In the tanning part of the leather industry there is a similar gender-based definition of skill. Skilled workers are those who operate machines, while the semi-skilled are those who use hand tools. Women are excluded from both these types of tasks (Nihila, 1999). In the case of skilled workers, the archaic and paternalistic provisions of the Factories Act (1948) which prohibit the employment of women on or near any moving machine are used to justify the exclusion of women.

In the IT industry there are somewhat larger numbers of women, around 40 per cent. But they are much more concentrated in the lower end of the workforce, with the proportion of women falling to about 6 per cent in the senior workforce, i.e. those with more than 10 years' experience (Kelkar et al., 2005). Problems with relocation (in a study 52 per cent of women were unwilling to relocate, as against 28 per cent of men (Kelkar et al., 2005); inability to work longer

hours due to domestic responsibilities and the difficulties of networking and “bonding” (countering the “old boys’ network”) have all made it difficult for women to build careers on an equal basis. Attrition of women professionals is often related to pregnancy and childbirth. Some companies offer flexitime and home-working possibilities. But how to utilize these flexible systems without being pushed into a less attractive career track, the “mommy track” as it is called in Japan, is an issue for women in the IT industry.

The entry of women into the industrial and modern service sectors in urban centres has drawn attention to the poor security situation of women and the lack of public amenities for them. The inadequate supply of elementary facilities, like toilets for women in public spaces, and the insecurity of women in public transport have both been highlighted by various reports, including the 2006 *Delhi Development Report*. Within workplaces, including those of the BPOs, there are the reports of sexual harassment of various kinds (Upadhyaya and Vasavi, 2006). But, with both IT and ITES having substantial numbers of women workers, conditions are favourable for women to deal with these and other problems that hinder the achievement of decent work.

Social exclusion

As mentioned above, decent work includes the ability to acquire and upgrade relevant skills. In the Indian context, in addition to the gender-based exclusion from skills, there is caste-based exclusion. Is caste-based social exclusion overcome in the new sectors that are part of the global value chain? Does the requirement of efficiency take over in determining the pattern of choice of workers?

A study of the IT industry found that 96 per cent of the staff are from the “forward castes” (Babu, 2004). With the emphasis on English and with an average of 17 years of education it would be expected that the “cultural capital” possessed much more by the forward castes than others would hold sway. But the method of recruitment is based largely on “referrals” by existing agents. Recruitment is based on social, i.e. caste and community networks, as in most other private sector occupational employment in India.³ Leather work is traditionally one of the “demeaning” forms of work, reserved for the Dalits. One would expect leather workers to be of Dalit origin – except for the non-leather jobs in the sector, such as office work, marketing, etc.

Studies of Tiruppur also bring out the caste-based exclusion or inclusion that holds in the garments industry. Most jobs are dominated by the backward castes. But bleaching, which requires standing in vats of dye in the hot sun, is carried out by Dalits from the lowest regional caste, the Madaris (Chari, 2004). But there is a trend to employ Dalit women workers not only in bleaching and dyeing, but also in printing, labelling and checking.

The tight labour situation in and around Tamil Nadu, however, seems to be a factor in breaking the barriers of social exclusion. Of course, this also requires explicit labour recruitment policies that eliminate or reduce caste-based exclusion. The TVS group industries in two-wheelers and automobile components is reported to have deliberately undertaken to increase recruitment of Dalits. Along with that, Dalit women organized in microcredit Self-Help Groups (SHGs) have been contracted to produce the chapattis (bread) that are served to all employees in factory canteens (*Civil Society*, December 2006–January 2007).

While there is a reproduction of caste-based exclusion in various jobs in the value chain, these barriers are starting to break down. In the background of a tightening labour market, policies of affirmative action in hiring persons of low caste origin can yield results in reducing these exclusions.

Individualization of work

In the ITES (BPO) there is a marked individualization of the work process. An agent deals alone with the customer/client. In the work process the connection is not horizontal, with other

³ See Papola, 2004, for a discussion of social exclusion in the manner of recruitment in India.

agents, but vertical with the supervisor or team leader. This individualization of the process hides a larger socialization, connecting the various hardware engineers, software technicians and others with the agent. Further socialization now extends across borders connecting agents with the companies to which they provide services and customers/clients. But since the immediate input is individual, and since some rewards are linked to individual outputs, it lends itself to an individual approach to work.

This individual approach is encouraged by the firms, inhibiting the formation of horizontal solidarities. "... salary is a personal matter which should not be shared with peers in the workplace. The firms in their codes of conduct highlight that discussing salary and related matters with fellow-workers would invite warnings and disciplinary action" (Babu, 2004). BPO employees feel that they are "professionals" and not "workers". Coming from middle-class backgrounds there also seems to be apathy, or even opposition, to the formation of unions.

At the same time, the high attrition rate of employees in BPOs shows that there are many problems which remain unresolved. Recent studies and reports bring out the stressful nature of the work, the social dislocation caused by continuous night work, sexual harassment at work, etc. (see Upadhyaya and Vasavi, 2006). Though there is an individualization of work and a middle-class disdain for unions, unions are necessary, not just to provide an avenue for settling grievances but also to enable employees to move towards acquiring decent work in its many connotations.

Market for labour standards

While it is true that cost-cutting pressures of competition among suppliers reduce margins and this tends to be passed on to workers, is there any offsetting factor in the developed country markets that can benefit workers in developing countries? There is what has been called a "market for labour standards" (Elliott and Freeman, 2003), which can help by linking sales of globally-produced commodities with the labour standards under which they are produced. The market for labour standards, however, is asymmetric. Non-compliance can lead to targeted boycotts of products and thus be costly. On the other hand, compliance may not yield quite the same benefit. But the threat of loss through consumer boycott is always there, and can be a factor in forcing the powerful retail corporations to accept some minimum labour standards.

In providing positive incentives for improving labour standards, there is the now well known example of the US-Cambodia Textile and Apparel Agreement which offered Cambodia the incentive of increasing its exports to the United States by 14 per cent per year if working conditions in the Cambodia textile and apparel sector were to substantially comply with local law and the ILO's core labour standards. Implementation of labour standards was monitored by the ILO and made public in a transparent manner, including naming factories in the reports. Over time there was an improvement in labour standards in the Cambodian garment industry, including the establishment of a minimum wage of \$45/month. Since 1997 unions have been organized in 75 garment factories. With the background of the agreement it was the pressure of the trade unions that played a key role in its implementation (Elliott and Freeman, 2003). Implementing factories have also benefited, as buyers used the ILO reports to identify factories with better labour conditions (Rosenthal, 2006, p. 39).

The above account brings out an important point: with the agreement establishing corporate responsibility, union pressure is crucial in securing some degree of compliance with the agreement. A study of a Reebok-supplying factory in India brings out the same point: the importance of the union in securing whatever compliance there was with the agreement (D'Mello, 2003). In fact, it is likely that the Indian factory was being paid for the higher costs involved in better labour standards but was not passing on these benefits to the workers. It was only union pressure that achieved some compliance with standards agreed between the supplier and the buyer. A study of the "limits of corporate codes of conduct in Asia", concluded that "... rather than pressurizing brand names to implement the codes in supplying factories, assisting

workers to organize in workplaces largely managed by ATNCs [Asian Transnational Corporations] is the sustainable way to improve labour conditions in Asia” (Dae-oup Chang, 2006, v).

Such compliance with labour standards has become important for various actors along the value chain because of the growing pressure of consumers. As in the case of child labour, there is a concern among consumers of Nike or Reebok shoes, etc. that the products they buy have been made under reasonable labour conditions.

Pressurizing the brand names is a strategy that consumer organizations can adopt in the buying countries. Organizing workers in the factories is a strategy in the Asian (or other developing country) workplace. The two strategies go together and support each other. Without the pressure from consumer groups to create a “market for labour standards” it would be more difficult for unions in the developing countries to press for an improvement in labour standards.

The support that such workers’ demands can gain from this market for labour standards was seen during the May–June 2006 wave of garment workers’ struggles in Bangladesh. With demands like payment for overtime, the right to form unions and revision of the minimum wage (which was set in 1986), the EU representative in Bangladesh made a statement that non-compliance with such labour standards could have negative repercussions on the market for Bangladesh garments in Europe.

Labour standards are becoming a factor with consumers, and thus entering into trade issues. Strengthening this pressure is the coming together of the “Fair Trade” movement with that for labour standards. Labour standards are now being introduced into “Fair Trade” support as one of the conditions for support. For instance, the support from European “Fair Trade” movements for India’s Darjeeling tea has as one of its conditions implementation of the Plantation Labour Act (personal communication Sharit Bhowmick, an expert in plantation labour in India). Further, internationally coordinated action by a group of the major players in the market is likely to be more effective than actions by individual nations in this regard. Once again the need for globally coordinated action to achieve higher labour standards is a necessary complement to the globalization of production systems and the mobility of capital.

In the pressure for bringing labour standards into trade, one cannot deny the protectionist intent of many of the developed country actors. Owners of industries affected by competition from developing countries, and unions of workers in them, have both been part of these campaigns. But such a stand by owners and workers in industries under threat of relocation is to be expected. Further, they are not new in industrial history. In the late nineteenth century as British textile mills faced competition from the new mills of India, it was the British mill owners who first complained about the misery of the Indian workers, had reports prepared on the topic and then got the first labour legislation enacted in India. Neither the nascent organizations of Indian capitalists nor of Indian nationalists took the lead in this matter. Should support for such legislation from colonial capitalists whose own industries were facing competition be grounds for rejecting it and insisting on the right of local, national capitalists to exploit their workers in any manner possible?

The very purpose of trade, or any other economic activity for that matter, is human development. Workers’ rights, as human rights, are part of that human development. Improving labour standards, and step-by-step achieving decent work, will only bring closer the objective of realizing universal human rights for all.

There will, of course, be economic implications of implementing labour standards. Even core labour standards, so-called non-monetary standards, do have a cost. The very right to form a union will, over time, lead to an assertion by workers of the strength they derive from union. If not immediately, there will be economic costs after some time. This is where the developing market for labour standards, with some gains for achieving them and greater losses for not achieving them, provides an incentive to developing country capitalists to implement higher

labour standards. The improvement in any case remains an objective of trade or any other kind of economic development, valued for itself. We need to link this improvement with the productivity requirements of international competition.

The ILO's "decent work" norm recognizes the link with increased productivity, and the literature in India is now drawing attention to the necessity of linking labour improvements with advances in productivity. A study of workers in cashew processing shows their poor remuneration and other conditions of work, but also points out, "Action at the national level ... should not ... raise labour costs to the point where competitiveness is lost and jobs may be lost" (Harilal et al., 2006, p. 34). This statement is a recognition of the changed situation whereby labour demands, however legitimate, cannot be merely stated as a matter of attaining justice, but have to be related to global conditions. Better jobs, approaching decent work, are only possible if linked to increases in productivity; otherwise the jobs themselves may be lost. Of course, increases in productivity do not automatically mean improvements in labour conditions; they do, however, create the conditions in which labour can press for an improvement in standards. How is this affected by the increasing globalization of both labour processes and the reserve army of unemployed?

Social minimum

Labour is becoming more and more globally social, cooperating in productive networks. The interconnectedness of social labour means that the remuneration of different categories of labour is again related. Initially the connection seemed to work only at the national level, so that the level of productivity in agriculture, for instance, set a floor to the level of wages in industry. Unions tried to protect their members against pressures to reduce wages where owners used competition from the unemployed, the so-called reserve army. The mobility of capital, however, has extended competition among sections of workers to the global level. Labour costs in India or China now figure in conflicts with labour in North America or Europe. Unions in the developed countries are trying to protect against competition from workers in developing countries. There is a link between workers' conditions in different countries, as also between the conditions of workers and other producers, whether in agriculture or the informal sector.

Consequently, the floor at the bottom affects the height of the ceiling for workers, though not for the owners of capital, and not as much for internationally mobile as for immobile workers. In the nineteenth century, and through the first half of the twentieth century, this relationship between different sections of producers worked within a country. It is the basis of the Keynesian model of social welfare, which as Fraser (2005) points out, works with the Westphalia model of the nation-state, to produce the Keynes–Westphalia model of national social welfare. But the mobility of capital and the development of various national sites where capital can find workers with the required knowledge, has extended this relationship between different sections of producers and capitalists to the global level and very clearly brought the Keynes–Westphalia model of social welfare under increasing stress.

This has important implications for organizing to secure minimum conditions for working people. The struggle for minimum labour standards must now extend to all parts of the globe. It is not enough for workers in the developed countries to try to defend their gains. The availability of adequately skilled workers in other parts of the world, for whom it is still an improvement to be paid less than workers in developed countries, leads to an inevitable relocation of capital. As a consequence, workers in developed countries will have to look beyond their borders, and even beyond the boundaries of the developed countries, to combine with workers in other parts of the world if labour standards are to be maintained.

Similarly, the threat to workers in any industry comes not only from outsourcing to another country, but also from possible outsourcing to the informal sector, where workers might be willing to accept less than what factory employees are paid. This, in turn, requires that the ambit of labour organizations extend beyond the conventional factory or even industry union to

include producers in the non-factory or informal sector. As the form of existence of labour itself is becoming globally social, encompassing not just conventional workers, but also those providing reproductive labour (or affective labour in the terminology of Hardt and Negri, 2004), and as commodity chains link agricultural and informal sector producers with those in the formal economy, the forms of organizing need to become networks that span all connected chains. As workers' conditions in any one country are affected by the conditions of workers in other countries, and by the conditions of those in agriculture, the informal sector and domestic service, the workers' minimum wage has to be transformed into a citizens' minimum standard, one that is global in scope.

A citizen's minimum standard was more or less accomplished in the developed countries in the post-Second War period. Most developing countries, however, have yet to develop the capacity to provide such a minimum, or if such capacity does exist, there is not a sufficiently strong lobby of the poor to press for a citizen's minimum. Latin America has some kind of citizen's minimum (other than for the indigenous peoples), but Asia, as the late 1990s Asian crisis showed, has not put such social welfare mechanisms in place, rather it still largely relies on women's rural labour to serve as a cushion in times of crisis (see Nathan and Kelkar, 1998). In Africa and the indigenous peoples' regions of Asia and Latin America, traditional forms of social welfare have already collapsed or are in the process of collapsing, while new forms of state-based social welfare have yet to emerge.

The shift to focusing attention on *all* working people and the necessity of linking or networking workers across countries – these changes in the forms and goals of organizing are dictated by the globalization of the forms of existence of labour that goes along with the globalization of value chains.

In a system of unrestrained movement of capital, with equal treatment for capital, irrespective of its origin, there is no escaping the conclusion that only a global working people's response, a global New Deal, or a global social contract (Castells, 2000, p. 253) which could lead to a global social minimum, can prevent a race to the bottom. This surely will be difficult to achieve. But it is the only response that can move beyond the interests of particular fractions of the working class in order to deal with workers globally. Amartya Sen (2000) and Naila Kabeer (2004) draw a similar conclusion.

The social minimum, however, can be achieved at various national levels, particularly in the large economies. In China a social minimum was achieved by combining the continuing ownership of land by the households of migrant workers, the rapid expansion of employment possibilities for these workers, and social security systems for non-state sector workers. In India the recent Rural Employment Guarantee Act providing a minimum of 100 days of employment for each household can now play an important role in raising the social minimum. This, in turn, will have upward effects (rather than the usual trickle-down effects) on the earnings of seasonally migrant workers and others further up the ladder too.

Assured income for a period of time, as through India's Rural Employment Guarantee, also provides a cushion that can enhance risk-taking capacity. Experience in Bangladesh shows that assured income/employment for about 100 days a year over a period of three to four years, coupled with compulsory savings in that period, is able to lift women beneficiaries into the category of those who can take the risk of microcredit loans (IFAD, 2005, Annex 8).

In concluding this section, it should be emphasized that the opening to international and/or regional trade makes it imperative to devise interventions that increase productivity and increase the risk-taking ability of producers. Civil society actors, whether trade unions, small producers' associations, or the like, also need to place their justified demands for employment and income security in the context of the changed economic environment. It will not do to think that mere political mobilization is sufficient to bring security measures into place.

As against the neo-liberal, or market fundamentalist, argument that market processes will themselves yield the desired improvements in the quality of life, we cannot have the equally fundamentalist argument that political will is all that is needed (Campero, 2002) to bring that about. Civil society organizations too have to place their demands in the context of the need for development and growth and thus of integrating the need for food security and a better life into the need to exploit opportunities offered by international and regional trade.

Conclusion

There is one final point to be considered. It has been argued that while any single country can increase its production of traded commodities, there is no assurance that there will be sufficient global aggregate demand to absorb all the production (Kaplinsky, 2005). With competitive cost-cutting pressures, wages will be pushed down. For each firm, this may be a profitable strategy, but in the aggregate it can lead to a shortfall in demand. This is a crucial market failure, for which the appropriate remedy in a closed economy was of government expenditure to make up for the shortfalls in aggregate demand, until investment picked up to absorb all savings.

As against the cost-cutting pressure of competition, which would tend to drive down wages and thus jeopardize aggregate demand itself, the push of labour for “decent work” would, on the contrary, become a factor to make capitalism itself viable. Workers, as Henry Ford was perhaps the first to realize, are not just producers (or a factor of production) but also consumers. Decent work, in terms of reasonable incomes to live in a manner befitting a citizen, develops workers as consumers, as contributors to aggregate demand.

At the present global level, however, this is not just a matter of domestic demand but of global demand. Growing global inequality would affect the market for various kinds of commodities, particularly those of the mass consumption type where demand would stagnate in the developed capitalist country markets. “The best promise of massive market expansion would seem to be in the incorporation of more and more countries to global growth, investment, production and consumption. Growth in the larger countries of the developing world, together with China, the Russian Federation and the ex-socialist group of Eastern Europe, could serve as a first tier to pull the others forward. It is quite obvious that these potentially huge markets are a very long way from stagnation” (Perez, 2002, p. 167).

At the same time, it is necessary to have institutions that can manage aggregate global demand and various related functions. Keynes, at Bretton Woods, proposed a global institution, the International Clearing Union, to manage global aggregate demand. But the political reality of United States hegemony held sway and the IMF was set up, without the power to manage global demand.

With the current mobility of capital there is reduced scope for individual countries to follow expansionary fiscal policies, because of the likely effects on exchange rates and resulting likely outflows of capital. This was dramatically seen during the Asian crisis of the late 1990s. As employment in South-East Asia fell, governments could not combine open capital markets with expansionary budgets. Only Mahathir’s Malaysia disregarded the IMF’s diktat and introduced capital controls in order to carry out domestic expansion.

At a global level, however, the problem does remain somewhat different. It is possible for all countries to increase their production for international markets only if there is sufficient aggregate demand. With falling or even stagnant global demand such a route for development will not be feasible. So far, global expansion has depended on the expansion of the United States economy, the rest of the OECD countries and now on the domestic markets of the rapidly growing big countries (China and India are now large markets for mass consumer goods and commodities). The United States trade deficit with the rest of the world, with other countries

willing to hold dollars in reserves, has been an important component of increasing liquidity in the global system. But this United States trade deficit cannot continue indefinitely. As other countries rise in the international capitalist system and strive to establish their own “place in the sun” there will be surely some sort of calling-in of United States government debt which will affect the growth of the global economy.

There is currently a grave deficit in global institutions which are lagging behind compared to the globalization of capital. The Keynesian market failure of insufficient aggregate demand can and does occur on a global scale. This problem is currently managed through consultations between the Triad (United States, EU and Japan), or between the G8 countries. More recently, China and India have been added to the list of countries with whom these consultations are conducted. But this is still an ad hoc form of decision making, with power residing with the major economies and, importantly, struggles between them. As Lance Taylor points out, “... the policy function is driven by an exclusively G10 consensus” (Taylor, 2002, p. 75). In this panorama, there are not just the two actors of capital and states but also the growing countervailing power of global civil society, which, however, has not made itself felt in the arena of global financial management.

It remains to be seen how this problem will be resolved, whether in the national-capital manner of the first half of the twentieth-century, or with the transnationalization of capital itself holding sway in the formation of appropriate institutions of global capital, or with an altogether new type of economic system. And whether such institutions of global regulation will be set up without a grave depression or a trade war also remains to be seen.

Annex: Data on employment and wages in selected industries in India

Selected data from the Annual Survey of Industries (ASI) on employment and wages

Rate of increase in real annual wages between 1998–99 to 2003–04*

Description	Average annual wages (nominal)		Rate of Increase in real wages (%)
	1998–99	2003–04	
Motor vehicles, trailers and semi-trailers	68 236.29	84 980	3.1
Wearing apparel, dressing and dyeing of fur	21 920.4	33 268	25.7
Leather and related products	26 885.4	33 320	2.6

* Computed from ASI data for major industry groups for 1998–99 and 2003–04.

Rate of increase in number of workers between 1998–99 to 2003–04*

Description	Number of workers		Rate of Increase (%)
	1998–99	2003–04	
Motor Vehicles, Trailers and Semi-Trailers	204 592	212 966	4.1
Wearing Apparel, Dressing & Dyeing of Fur	241 241	327 510	35.8
Leather & Related Products	101 066	118 153	16.9

* Computed from ASI data for major industry groups for 1998–99.

Characteristics by major industry group (NIC-1987) in NSSO 1993–94

Industry	Sex			Skill		
	Male	Female	Persons	Unskilled	Skilled	All
Textiles	3 728 168	1 974 812	5 702 981	5 605 822	97 159	5 702 981
Garments	1 871 731	1 223 256	3 094 987	3 048 577	46 410	3 094 987
Leather	567 194	107 474	674 668	659 081	15 587	674 668
Automobile	313 874	11 948	325 822	251 069	74 753	325 822
Computer and related activities	38 827	10 671	49 498	21 035	28 463	49 498

Source: 50th Round, NSSO.

Characteristics by major industry group (NIC-98 2 digit) in NSSO 1999–2000

Industry	Sex			Skill		
	Male	Female	Persons	Unskilled	Skilled	All
Textiles	4 514 554	2 475 766	6 990 320	6 868 298	122 022	6 990 320
Garments	1 637 728	639 084	2 276 812	2 196 020	80 792	2 276 812
Leather	803 422	88 573	891 995	869 535	22 460	891 995
Automobile	254 591	10 426	265 017	208 425	56 592	265 017
Computer and related activities	223 383	42 327	265 711	121 142	144 569	265 711

Source: 55th Round, NSSO.

Employment in software and IT services increased by 190 per cent between 2001–02 and 2004–05 to reach 697,000. During this period, employment in ITES–BPO recorded a 770 per cent increase to reach a total number of 348,000 in 2004–05. As per estimates given by NASSCOM, the total number of workers in the IT Industry crossed the 1 million mark in 2004–05 and is expected to reach approximately 2.4 million by 2008 as per estimates by the Ministry of Information Technology and NASSCOM. In fact ITES–BPO alone are expected to employ 1.3 million employees by 2008.

Wages too are considerably higher in this industry as compared to other industries in the country. Salaries for software professionals are estimated to have increased by over 8 per cent in 2004 (NASSCOM, 2006).

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