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The wide-spread benefits of the Global Value Chain

Global value chains have become prominent through many different sectors in our globalized world. Currently, there is a lot of discussion about what role global value chains play within local economies. Some scholars, such as David Barboza and Micha X. Peled, argue that the reach of benefits from the global value chain is limited to only a certain group of actors, those at the upper-most level. Others, like James Fallows and Jagdish Bhagwatti, argue that a rising tide will lift all boats. In this essay, I will argue that the global value chain benefits all those along it. This debate has strong implications across all sectors, but is especially prevalent in the fashion industry. Therefore, I will show the deep reaching benefits through examples within fashion while emphasizing its importance through every sector of our economy.

The argument that only a certain group of people experience the benefits of the global value chain can be seen in Barboza's analysis of Apple's production in China as well as in Peled's documentary centering around factory workers in China. Barboza opens his argument by talking about Apple shifting production further inland in order to decrease production costs. Though a significant change for the Shenzhen region, Barboza notes that "the least expensive part of the process is manufacturing and assembly. And that often takes place here in southern China" (Barboza 2010). Meaning that, despite China being integral to the final stages of an iPhone before it reaches the hands of consumers, China and Chinese people are profiting very little. On the surface, it looks like no one is making large sums of money, especially when considering that "workers are paid less than a dollar an hour" (Barboza 2010). Additionally, with companies continually shopping around for cheaper options, if Shenzhen were to increase their wages – as they did between 2005 and 2010 – companies will move somewhere else. As a result, though wages in an area may be increasing, wages as a whole remain stagnated as companies continue jumping from cheap to cheaper options.

Finding a balance, which pays Chinese labor adequately while increasing or maintaining profit margins for companies, is extremely difficult. It is made even harder to understand when you add the in-depth look which Peled offers through his documentary *China Blue*. The new picture that takes shape is one highlighting the disparity between the workers in factories and those running them, where factory managers are able to support families and live comfortably. In an interview with the factory manager of the Lifeng Clothes Factory, he says that he started out as a police officer and has been able to pull himself up by the bootstraps to work in these factories (Peled 2007). His interview gives the viewer hope of what lies ahead for factory workers, feeling as though there is an ability for those who are making the least to eventually reach a higher level. However, when looking at the real life workers that the factory manager is juxtaposed with, you see that is untrue. For instance, Orchid and Jasmine are two of those workers, Orchid began working roughly two years before Jasmine started at the factory. Orchid hasn't been able to visit home since her arrival two years ago and Jasmine knows that she won't see her family for roughly the same amount of time, until she can save up enough money (Peled 2007). Barboza's analysis and *China Blue* make the argument that any progress made for those in lower-classes will be undone through companies seeking cheaper arrangements and factory management choosing to fill their own pockets before improving the conditions of those below them.

On the other hand, is the argument that financial gain and progress in one part of society will be distributed throughout all classes. Bhagwatti argues that overall economic growth is a good thing because "it moves unemployed and underemployed people into gainful employment" (Bhagwatti 1998, 35). Therefore, those who previously weren't able to find jobs because of a stagnant economy will have more opportunities once a country becomes involved in the global value chain. Bhagwatti takes this idea further by saying the "increased integration into the global economy… can be fully expected to assist in poverty eradication" (Bhagwatti 1998, 35). Of course, the elimination that Bhagwatti envisions is not our immediate future, but rather an end goal that will come along as time goes by. We cannot expect for all those impoverished to be lifted up immediately and it may take some time, a point Bhagwatti views as equally true even agreeing that, in the short term, poverty may well be exacerbated. The best illustration of the transition from an impoverished nation to one where there is no poverty is the Kuznets' curve. The curve is a bell curve with income inequality on the Y axis and per capita income on the X axis. In this curve, prior to the Turning Point Income, the economy is developing. After the inequality reaches its highest point, known as the Turning Point Income, the economy is considered developed with per capita income moving toward the highest point and income inequality declining to its lowest (Johnson 2020). The curve helps us to understand that, though there will be disparities while the economy is growing, eventually there will be a turning point and, subsequently, a more egalitarian society.

Additionally, with an increased presence in the global value chain comes an increase in capital, especially in those areas with heavy investment. This means that workers who have moved to industrial cities are making more than they would at home. Take Shenzhen for example, where "the pay is between 900 and 1,200 RMB per month" but in more rural areas, those which the factory workers come from and send money back to, "a farm family's cash earning might be a few thousand RMB per year" (Fallows 2007). As a result, those who are working in the industrial factories are able to bring up their family's monetary earnings, even if they are not making as much as the owners of those same factories. Economic profit is not exclusionary in that sense, it just looks a bit different. This is exhibited in *China Blue*, the same film that showed the gaping disparities between the lives of workers and factory owners. Jasmine talks about how she, and those she works with, sends money back to their family so that they are able to afford new equipment or new clothes (Peled 2007). It's a small moment, but it further illustrates that with upward mobility existing in one sect of an industry, it is distributed elsewhere. It may not happen all at once as Bhagwatti emphasizes, but the global value chain acts as an equalizer in the long run.

One of the most prominent applications of the global value chain is the fashion industry. The growth of consumption for apparel, especially cheap apparel, has boomed in the past few decades. The change is perhaps most exemplified by the Nike Corporation, which has used the different nodes of production as "the epicenter of innovative strategies," allowing them to "capture greater shares of wealth within a chain" (Korzeniewicz 2019, 173). These nodes are made up of marketing and design, but appear within the global value chain through development and production. Having greater control over every aspect has allowed the Nike corporation to enhance "its relative competitive position by extending control to marketing, and by redesigning its subcontracting strategy to take advantage of new opportunities in Southeast Asia" (Korzeniewicz 2019, 182). This means fashion and apparel companies are able to seek out cheaper production facilities, just as Apple does and the jean companies in *China Blue* do. An important note within these segments of the apparel supply chain are that, though a country may enter at one level, they will likely upgrade to a higher value level as time goes on. It is a shift that provides higher pay and increased overall contribution value.

Though companies take advantage in shifting to lower-cost areas, countries also take advantage by moving up in the supply chain when that opportunity is afforded to them. For instance, while “low-cost countries such as Bangladesh, China, and India are emerging as leaders in the lower value assembly segments of the value chain … other countries, such as Sri Lanka and Turkey, are upgrading into higher-value segments, such as branding and design” (Fernandez-Stark, Frederick, and Gereffi 2011, 6). As a result, those countries which once were seen as the cheapest option, are now able to increase their economic standing as they move up within the global value chain. The ebb and flow is continual with this growth happening overtime as new countries enter the chain itself. For this reason, “apparel production is considered a springboard for economic development, and often is the typical [starting] industry for countries engaged in export-oriented industrialization” (Fernandez-Stark, Frederick, and Gereffi 2011, 6). The ability to grow quickly is a result of low production costs. It additionally helps to pull up those who are most disadvantaged within countries, more specifically women. The majority of workers “in the production-related segments of the value chain … are principally young, female workers with limited education” (Fernandez-Stark, Frederick, and Gereffi 2011, 17). As a result, women who would likely not be making wages of any kind are able to support both themselves and their families. Therefore, uplifting those in the lower socio-economic classes of society at the same time that those on the highest level are benefitting.

Of course, the other side of the argument when looking at the global value chain within countries as a result of the fashion industry is that you cannot look at a singular industry. As previously stated, the highest benefits come to those countries who are located on the most lucrative nodes along the supply chain. Yet, Gereffi makes the argument that every aspect of the economy is linked, whether it be the fashion or food industry. Therefore, improving standing must happen through one of two ways, either top down or bottom up. The top down takes a broader government focused approach, one which is uncommon on the grander scheme of legislative action. It lays in direct contrast with what tends to actually happen in countries on the lowest rung of the value chain and "focuses mainly on lead firms and the organization of international industries" (Gereffi and Fernandez-Starf 2011, 12). Though it's a fair goal, it is unrealistic. Therefore, the bottom up approach is much more achievable. This method is called "'upgrading,' which focuses on the strategies used by countries, regions, and other economic stakeholders to maintain and improve their positions in the global economy" (Gereffi and Fernandez-Starf 2011, 12). The approach should sound familiar as it mirrors the reality of what is happening in countries such as China.

A more equitable world is achievable, but it doesn't follow an institutional route as many might expect. Though there is merit to the argument made by Barboza and Peled that only certain actors benefit from global value chains, it proves to be its own counter example. As a result, Fallows and Bhagwatti win out in the argument that a rising tide will lift all boats, which can be seen within the fashion industry's global value chain. Due to each industry's economy being linked and countries being moveable within the global value chain, there is upward mobility and the global value chain is beneficiary to all those along it.

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