



Development Review

Spurred to Upgrade: A Review of Triggers and Consequences of Industrial Upgrading in the Global Value Chain Literature

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Summary. — The Global Value Chains (GVC) literature intervenes in today’s challenging development context by focusing on the means by which developing-country industries can ‘upgrade’ their market positions and outcomes for workers. Yet while this literature has produced hundreds of rich empirical case studies, there has to date been no attempt to systematically analyze this case literature for lessons regarding the antecedents and consequences of the key outcome of upgrading. This paper undertakes a systematic analysis of a representative sample of 45 case studies of primary product and light manufacturing industries in developing countries. These studies were coded for factors involved in initiating and sustaining upgrading processes, the results of upgrading, and the role of local institutions in these processes. We find that contrary to the major assumptions of the literature, advanced-country buyers are not the main force in the initiation of industrial upgrading. Rather, in most cases, developing-country firms initiate upgrades when pushed by “shocks” of market vulnerability, usually produced by state policies, that force them to seek to change their status quo operations. Once initiated, upgrading processes can produce a wide spectrum of results—from little to no advancement in market position (‘treadmilling’) to vaulting to the forefront of a global industry (‘leaps forward’)—on the basis of the sources of learning present in the local institutional environment, such as state agencies and business associations. We also identify conditions under which state participation in upgrading processes can lead to increased local institutional capacity. Together, these findings suggest a framework for upgrading that we refer to as an ‘induced search’ model. This model has important implications for future research on the dynamics of industrial upgrading in developing countries, techniques of state intervention, and processes of mutually supportive learning between actors in the public and private sector.

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1. INTRODUCTION

The development objectives of long-term growth and improved work conditions continually encounter new difficulties. Today, countries from the Global South must attain higher productivity, wages, and quality of living for their citizens in an environment where China has become a dominant force in global manufacturing, exceeding the combined manufacturing output of Latin America, Eastern Europe, Southeast Asia, and all of Africa (United Nations, 2015).¹ Moreover, many countries must do so while caught in a “middle-income” trap that combines high wages and low productivity (Eichengreen, Park, & Shin, 2011; Paus, 2012). This must take place under challenging conditions of stagnant global demand (Summers, 2015) and internationally dispersed economic activity (Antràs, 2015; Gereffi, 1999, 2014; Gereffi & Sturgeon, 2013). Furthermore, the industrial policy tools of the ‘late developing’ countries of the mid-20th century are less effective or no longer available, blocking the pathway to a classic “developmental state” model and prompting searches for piecemeal, experimental solutions (Andrews, Pritchett, & Woolcock, 2013; Pack & Saggi, 2006; Riain, 2000; Rodrik, 2015; Whittaker, Zhu, Sturgeon, Tsai, & Okita, 2010).

The nature of these challenges speaks strongly to the literature known as Global Value Chains (GVCs). This literature has long been focused on possibilities for “high road” development under conditions of globalized, market-driven

competition (Gereffi, 1999; Gereffi, Humphrey, & Sturgeon, 2005; Humphrey & Schmitz, 2002). It is well known for its extensive, in-depth case studies, which span across agricultural, manufacturing, and service sectors. These case studies explore the developmental prospects of different industries in all regions of the Global South, focusing on local suppliers enmeshed in international buyer-led networks. Central to their discussions is the concept of upgrading, which, while evolving over time, generally refers to the constellation of ways in which firms can enhance their competitiveness through investments in productivity, specialization, and knowledge-intensity (Gereffi, 1999; Humphrey & Schmitz, 2002; Pietrobelli & Rabellotti, 2006). Upgrading allows these suppliers to improve both their position in the international division of labor, as well as conditions for their workers.

Yet despite the accumulation of hundreds, if not thousands of GVC case studies over the last twenty or so years, there has been to date, somewhat surprisingly, scant synthesis of the rich

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body of empirical findings. Such a synthesis would help establish common patterns of greater external validity which could, in turn, contribute to some of the broader and more pressing questions in the international development research agenda. Given this gap, as well as the wealth of empirical information available, in this paper we undertake the first systematic analysis of the sources, forms, and consequences of industrial upgrading in agricultural and light manufacturing value chains in the Global South. Our goal is to better understand what the empirical case literature has to tell us about how countries and regions can overcome the new global challenges.

The systematic review centers on three main themes: (1) the triggers of processes of upgrading; (2) the developmental consequences of upgrading for studied industries; and (3) the manner in which local institutions, especially but not exclusively the agencies of the state, factor into processes of upgrading. Findings were induced from the review of 39 separate documents involving 45 agricultural and light-manufacturing industry case studies across the different regions of the Global South.

Our central findings speak to each of these three themes. First, buyers often assume a relatively peripheral role in triggering upgrading, insofar as other factors, such as state policies, more frequently trigger upgrades by creating sources of pressure that render status quo production outputs and/or processes unviable, a phenomenon we refer to as “vulnerability.” These conditions of vulnerability pressure firms to search for alternative processes and/or outputs, and may, under certain conditions explored in this article, elicit new, innovative solutions. Their analysis can help to calibrate both the extent and the direction of such searches, suggesting that they are central to processes of economic change in developing countries.

Second, in terms of the developmental consequences of upgrading for the studied industries, we find confirming evidence of some of the more skeptical views of the participation in Global Value Chains by observing a wide range of variation in benefits to developing-country firms (Kaplinsky, 2000; Schrank, 2004; Gibbon and Ponte, 2005; Dussel Peters, 2008). The data assembled display a great deal of variation in terms of the observed developmental returns to upgrading, at the poles of which are two very different scenarios: “leaps forward,” in which searches led firms and industries to engage in comprehensive reforms to their business models, launching them to the forefront of their value chains; and “treadmilling,” involving upgrades that were followed by backsliding, decay, and obsolescence. Leaps forward appeared to be most commonly associated with industries that experienced a high number of shocks, in countries with significant state institutional capacity to respond to that vulnerability. By contrast, treadmilling often arose as a product of high buyer dependence, low local institutional capacity (both of the state and other societal actors such as business associations), outsourcing of knowledge-intensive activities, and adoption of easily imitable upgrades. By leveraging the existing case literature to reveal in greater detail the range of variation involved, as well as the detailed historical data accompanying these observations, this study adds to the literature’s understanding of what factors affect the developmental returns to upgrading, - one of the areas identified as most in need of further examination (Rossi, 2013; Yeung & Coe, 2015). This also facilitates the introduction of several propositions regarding the local factors determining benefits to suppliers in the Global South that can be tested and expanded upon in future research.

This brings us to the final theme of our analysis: if the state’s institutional capacity is central to the triggers and

consequences of upgrading, how can it be better integrated into value chain analysis? In particular, in a twenty-first century context in which the pathways to the classic implementation of developmental states seem blocked, what is the relationship between value chains and local institutional capacity? Our analysis suggests that state bureaucracies often learned and enhanced their institutional capacity when their interventions augmented, and offered targeted responses to, existing vulnerability shocks. In addition, however, state learning also hinged on the extent and, especially, the type of previous state experience and inherited capacity. Unsurprisingly, states with a higher degree of experience often proved more adept at shepherding processes of industrial upgrading. But unexpectedly, not all types of inherited capacity were conducive to similar results—in a few cases, past approaches emerged as poor guides for emerging problems, producing rigidities that undermined efforts to adapt to changing environments.

The integration of these empirical findings recommends a framework more centered on what rouses developing country suppliers to take new action and how their efforts are supported by their local institutional environments than what can be currently found in the literature. Based on the evidence assembled for this review, we propose an “induced search” framework for upgrading from the perspective of supplier firms in developing countries. Rather than focus primarily on the perspective of buyers and the governance structures over which they preside, the proposed approach centers the analysis on supplier firms and their learning contexts. It prioritizes vulnerability and local institutional environments, a level of analysis long observed empirically but less effectively integrated into theory (Bair, 2005; Dallas, 2014; Dussel Peters, 2008). The approach is compatible with existing analyses centered on governance, insofar as part of developing country suppliers’ institutional environment is constituted by value chain governance structures.

Such an approach focused on the learning environments of suppliers has several noteworthy implications for future research as well as policy practice. First, it deepens our understanding of the local determinants of the initiation and pursuit of successful upgrading efforts (i.e., “leapfrogging”) in ways that enhance the integration of power asymmetries and local constraints, a signal contribution of the literature (Neilson, 2014; Werner, Bair, & Fernández, 2014). Second, this framework highlights opportunities for developing countries to advance in a post-China, post-crisis global economy, whether by learning to meet challenging international standards, capturing unique sources of demand, and/or learning to customize output efficiently. And finally, an induced search approach helps us to better understand the role of the state in a “post-developmental state” era (Pack & Saggi, 2006; Whittaker et al., 2010). It does so by identifying value chain market signals that can be responded to with local means, and by specifying how value chain interventions can be a source of improvement in institutional capacity.

To develop these contributions, this paper is organized in the following manner: first a review of the key issues in the literature regarding the antecedents and consequences of industrial upgrading processes establishes the motivation to undertake a systematic review to integrate the vast array of empirical findings in the literature into theory. This is followed by a methods section explaining the data collection and analysis procedures, as well as possible biases in the research design. Following this, the analysis sections explain the main trends observed with illustrative examples from case studies. Finally, we conclude with a discussion of the implications of the findings, which we draw together into an overall “induced

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