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Does Economic Upgrading Lead to Social Upgrading in Global Production Networks? Evidence from Morocco

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Summary. — This paper contributes to the global production networks (GPNs) literature by analyzing the relationship between economic upgrading (increase in the value added of production) and social upgrading (improvements for workers in GPNs). It does so by drawing on primary data from Moroccan garment supplier firms, showing that economic upgrading can lead to social upgrading with mixed outcomes. Especially in a fast fashion model, the most advanced form of economic upgrading, functional upgrading, often translates into social upgrading and downgrading simultaneously for different workers. This is due to contradictory commercial requirements imposed by global buyers in GPNs.

Key words — global production networks, upgrading, garments, workers, North Africa, Morocco

1. INTRODUCTION

The outcomes of developing country participation in global production networks (GPNs) for both firms and workers have long been subject of academic and policy debates. Significant attention has been given to the economic opportunities that supplier firms in developing countries can reap once they are inserted in GPNs, but considerably fewer studies have investigated the consequences that these economic opportunities have on workers. The question is, do workers in GPNs benefit from their firms' increased value added in production? This paper contributes to advancing the conceptual literature on global value chains and GPNs through its investigation of economic and social upgrading in the context of global mass production, increasingly characterized by high flexibility and rapid product-switching. The extensive literature on global value chains and GPNs shows that supplier firms in developing countries can benefit from participation in GPNs through economic upgrading, [1] i.e., the learning process leading to higher value added in their production, whether by increasing the efficiency of their production process (process upgrading), by producing a more sophisticated product (product upgrading), by changing the mix of activities performed by the supplier firm to include higher value added activities (functional upgrading) and/or by moving to a higher value added production chain altogether (chain upgrading) (Gereffi, 1999; Humphrey & Schmitz, 2000). Economic upgrading was identified as the path to pursue a high road of development built on skills and added value, in contrast to that built on exploiting developing countries' comparative advantage on cheap labor costs. In particular, functional upgrading, which in the garment production chain is exemplified by the move from mere assembly to full package production, was considered to be the key step to acquire a higher share of value added and gains. To understand how this increased share of profits may or may not translate in improvements in workers' lives in supplier firms, the literature on global value chains and GPNs has recently deepened its analysis of labor in GPNs, investigating both theoretically and empirically how social upgrading for workers can be attained (Barrientos *et al.*, 2011; Knorringa & Pegler, 2006; Milberg & Winkler, 2011; Rainnie, Herod, & McGrath-Champ, 2011; Riisgaard & Hammer, 2011). This paper contributes to this growing literature by exploring the implications of the different types of economic upgrading on social upgrading, showing that benefits for all workers may be elusive even in the context of firms' high road path based on economic upgrading, and in particular on functional upgrading. It does so by investigating economic and social upgrading in the garment sector, broadly considered as the epitome of globalized production, in the wake of structural changes that are making it increasingly more flexible and fast-paced. The analytical contribution of this paper is supported by the case study of 19 garment factories in Morocco that have experienced different degrees and typologies of economic upgrading and social upgrading, i.e., improvements in workers' rights and working conditions. The empirical data, collected through interviews and focus group discussions with factory managers and workers, will show that increased value added in supplier firms' production does not always translate into better labor standards and working conditions for workers. Process and product upgrading may contribute to social upgrading opportunities with some caveats and limitations. However, functional upgrading, hailed as the critical process to ensure higher shares of gains for developing country producers, may have detrimental outcomes for the most vulnerable workers in GPNs, since it is observed to simultaneously bring about social upgrading and social downgrading for different worker groups. By taking over new activities on behalf of the global brands coordinating the GPN, especially of those who follow a fast fashion model, suppliers become vulnerable to heightened pressures resulting in a tension between contradictory requirements: the need to provide a low cost, highly reactive, and extremely flexible production, as well as the need to maintain a qualified workforce and comply with labor standards.

The following section will explore the relevant literature on economic and social upgrading in GPNs. Section 3 will

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illustrate the case study of the garment industry in Morocco, its insertion in GPNs and the particular opportunities and challenges brought about by the fast fashion business model. In Section 4, the dynamics generated by the fast fashion model are further explored, discussing the existence of two groups of workers in the factories in the sample: regular and irregular workers with very different levels of protection and social upgrading prospects. Section 5 analyzes the implications of the different typologies of economic upgrading on social upgrading for regular and irregular workers. Section 6 concludes.

2. ECONOMIC AND SOCIAL UPGRADING IN GLOBAL PRODUCTION NETWORKS

Globalization of production takes increasingly the form of coordinated trade between commercial actors across industrialized and developing countries. "Lead firms" control the production process and outcomes and capture the highest shares of value, while the labor-intensive component of production is outsourced to supplier firms in developing countries. The global value chain literature (Gereffi, 1994, 1999; Gereffi, Humphrey, Kaplinsky, & Sturgeon, 2001; Gereffi, Humphrey, & Sturgeon, 2005; Humphrey & Schmitz, 2000) is crucial to describe a phenomenon in which actors not only interact with each other but also with world markets, making them the "infrastructure of international trade" (Bair, 2009: 9). However, the early global value chain literature of the 1990s and early 2000s often stopped short of taking into account workers in GPNs, focusing primarily on commercial actors, and specifically on the supplier firm. In this context, economic upgrading is the key process that allows these commercial actors to move from low-value to relatively high-value activities in GPNs (Gereffi, 2005: 171), therefore undertaking a high road, productivity enhancing approach to their participation in GPNs. As noted above, upgrading can refer to a more efficient process of production (process upgrading); to a change in the type of the product (product upgrading); to a change in the mix of activities performed by the firm (functional upgrading); as well as to a move to a more technologically advanced chain (chain upgrading) (Humphrey & Schmitz, 2000). Functional upgrading in particular is identified as the key step for suppliers to move toward higher value added activities (Dicken, 2003). Despite a growing body of literature aimed at analyzing labor and social upgrading in GPNs (see for example the outputs of the Capturing the Gains research network such as Barrientos *et al.*, 2011; Milberg & Winkler, 2011, as well as Hale & Wills, 2005; Pipkin, 2011; Plankey Videla, 2006; Rainnie *et al.*, 2011; Selwyn, 2011, 2013), there is need for further investigation of the outcomes of firms' economic upgrading for the workers who are instrumental in achieving it. More specifically, while there are examples in the literature providing empirical evidence of social benefits for workers as a result of higher value added in supplier firms' production (Locke, Qin, & Brause, 2007; Nadvi, 2004; Pipkin, 2011), it is still critical to further unpack to what extent and under which conditions firms' decisions to embark on a high road to participation in GPNs based on economic upgrading can lead to social upgrading for workers in GPNs, especially in the context of significant transformations brought about by the emergence of fast fashion in garment production. Built upon the lean manufacturing approach (Abernathy, Dunlop, Hammond, & Weil, 1999), fast fashion represents a manufacturing model that is becoming increasingly prevalent among a variety of brands and products, and therefore may be expected to be applied more and more across sectors and GPNs in the future. In order to investigate such a question, in this paper I use the definition of GPNs, which provides a comprehensive analytical framework encompassing not only commercial actors but also the social and institutional context that influences global production (Bair, 2009; Henderson, Dicken, Hess, Coe, & Yeung, 2002).

Social upgrading is defined as the process of improvements in the rights and entitlements of workers as social actors by enhancing the quality of their employment (Barrientos *et al.*, 2011; Rossi, 2011). This definition places a strong emphasis on the attainment of rights and on the achievement of decent working conditions, moving away from a conception of labor as a commodity used as a productive factor complementary to capital (ILO, 1944; Sen, 1999, 2005). In this definition, social upgrading is composed of two broad elements. The first element is measurable standards, which are easily quantifiable, easier to observe during factory visits and social auditing, and easier to tackle through policy interventions, because the outcomes are effortlessly visible (Barrientos & Smith, 2007). Within measurable standards, the categories of wages, physical wellbeing (e.g., health and safety, working environment, and working hours) and employment security (e.g., type of contract, social protection) are found. The second element constituting social upgrading is enabling rights, which are more difficult to measure and quantify. They include freedom of association and collective bargaining, the right to freely choose employment, non discrimination, and voice. Enabling rights "[…] would allow sweatshop workers to decide for themselves what issues to pursue, tradeoffs to make, and battles to conduct with their employers and would probably do more for improving labor standards than anything else." (Elliott & Freeman, 2003: 31). Enabling rights are the full expression of the rights and entitlements of workers as social actors, and are the manifestation of more balanced power relations between workers and management in the context of sound industrial relations. Their enforcement is therefore also tightly dependent on institutions and actors beyond the factory floor (Amengual, 2010; Locke, Amengual, & Mangla, 2009; Posthuma & Nathan, 2010).

This paper investigates whether and to what extent a supplier factory's process, product, and functional upgrading can lead to the attainment of measurable standards and enabling rights for workers, particularly in the context of heightened industry pressures on speed and flexibility of production. This broad question is explored empirically by analyzing the case study of the Moroccan garment production network, which exemplifies efforts to attain economic and social upgrading in the context of the industry's structural shifts, and therefore provides key data for such analysis.

3. THE MOROCCAN GARMENT PRODUCTION NETWORK

The garment industry in Morocco is well integrated in global production, after undergoing radical changes geared toward export orientation since the mid-1980s. Sustained by Outward Processing Trade (OPT) arrangements, which created the conditions for European Union outsourcing of labor-intensive production to its regional neighbors (Plank, Rossi, & Staritz, 2012), and subsequently due to its Association Agreement with the European Union, Morocco has become an important garment supplier for the European Union, with its main export partners being Spain and France due to geographical proximity and historical ties. In the period