# III

# RE-BALANCE global and local value chains

BY STEFANO PRATO, SOCIETY FOR INTERNATIONAL DEVELOPMENT (SID)

## Global value chains and the global division of labour

One of the most salient characteristics of the current pattern of hyper-globalization is its overreliance on global value chains (GVCs) and the international division of labour that they set in stone. Rather than generating value, GVCs have really been about grabbing value from the developing world by promoting a model based on the extraction of primary commodities from the global South for these to be transformed in countries where labour and other productions costs could be reduced to the minimum; final outcome would then be exported, often in the form of standardized cheap products, across the entire world.

While the official explanation claims that the resulting "cheapness" of final products comes from economies of scale, the reality is that, while scale plays a role, it rather emerges from massive externalities related to resource exploitation, environmental damage, displacement of communities, violation of human rights and labour rights, disregard for social reproductive and care roles, and significant social, cultural and health impacts. A recent study by the ETC Group claims that for every dollar consumers pay to chain retailers, society pays another two dollars for the chain's health and environmental damages.[1] Unfortunately, the consequences of these externalities are disproportionally paid by some, and include the intergenerational implications of ecological and climate crises.

GVCs are translated into export-oriented economic development strategies of primary commodities by many countries, promoting significant changes in the structure of their economies. In many African countries this translated into the reduction of economic diversification, a broken relationship between the primary and manufacturing sectors, de-industrialization – despite already limited productive capacity – and premature tertiarization, also due to the significant increase in logistics and other export support services. According to UNCTAD's *State of Commodity Dependence 2019*, 64 percent of developing countries and 85 percent of the world's least-developed countries are commodity dependent.[2]

Rather than an exception, commodity dependence equals normality for the largest share of the developing world. In some cases, dependence can be extreme: in 35 countries, more than 90 percent of their exports are commodities. Unfortunately, export concentration of primary commodities is closely linked to limited development progress: the higher the dependence, the lower the country's development, measured by its GDP per capita.

But one critical yet often under-acknowledged dimension of GVCs is related to the implications of extreme delocalization: the disintegration of any social and ecological contract between production, population and territory. Overall, when the product being produced and traded is not marketed locally

1 ETC Group (2017), Who will feed us? The industrial food chain versus the peasant food web, 3rd edition, https://www.etcgroup.org/sites/www.etcgroup.org/files/files/etc-whowillfeedus-english-webshare.pdf

2 UNCTAD (2019), State of Commodity Dependence 2019, https://unctad.org/en/PublicationsLibrary/ditccom2019d1_en.pdf

there is a less vibrant virtuous cycle between wages and domestic demand: on the contrary, international competitiveness drives wages down and this is confirmed by the continued reduction of the wage share of GDP as the combined effect of technology-driven lower labour intensity, rent-based economies, labour deregulation and suppression of wages.

The other side of the coin is that the export of commodities tends to be characterized by a dramatic surge in imports. For instance, many agricultural exporting countries became net importers of food. In 2018, over 65 percent of goods imported to the EU from Africa were primary goods (food and drink, raw material and energy), while almost 70 percent of goods exported from the EU to Africa were manufactured goods.[3] Commodity dependence therefore means “exporting jobs” to manufacturing locations, consolidating the global division of labour that perpetuates structural inequalities between nations. Inequalities within countries are clearly trapped by inequalities between countries. Hence, commodity traps are de facto inequality traps.

Financialization has further complicated the situation by shifting economic decision-making away from the real economy into a financial bubble,[4] leading to an economic conundrum that only the aberrant levels of inequalities can explain: the simultaneous manifestation of structural gaps in global demand, excess of liquidity and limited access to credit for productive activities. While it is hardly possible to tackle such a conundrum at the global level, there could be plenty of policy options to resolve it at the national level and rethink domestic economies, if it were not for two complicating factors. First, national political economies under these global economic arrangements have evolved, with a clear neocolonial character, to the benefit of small political and economic elites that captured power. Second, the global division of labour has been encapsulated in a myriad of trade and investment agreements, often protected by Investor-State Dispute Settlement (ISDS) mechanisms, intellectual property regimes, foreign debt exposure and capital account liberalization, all involving a significant release of sovereignty from the national to the global level. Commodity traps are often intertwined with debt traps, as exports play a critical role in ensuring the availability of hard currencies for debt service payments.

Overall, the COVID-19 pandemic exposed the depth of the vulnerabilities generated by commodity dependence and overreliance on GVCs. It must be noted that the commodity price downturn started well before the current crisis. After reaching a peak in the 2008-2010 period, commodity prices were substantially lower in subsequent years and this reduction contributed to an economic slowdown in many commodity-dependent countries, with several of them going into recession with a worsening of their fiscal positions and rise in public debt, often resulting in increased external debt.

The economic and financial crisis induced by COVID-19 exposed and magnified this pre-existing vulnerable situation: the reduction of economic activities induced by the lockdowns and the failure of many value chains heavily impacted exporting developing countries long before the pandemic actually hit their territories. Many countries were confronted with a looming food crisis and had to resort to a rapid increase in local food production to save the day. The crisis therefore offers a precious opportunity to rethink and remodel socioeconomic development strategies at the national level and re-energize a systemic redesign of global economic frameworks and governance.

## The transition towards vibrant local economies

The essence of the change that is needed involves shifting the centre of gravity away from the global and take bold public policy and investment decisions to strengthen the domestic economies. However, this

3 Data obtained from the relevant section of Eurostat, the Africa-EU international trade in goods statistics, https://ec.europa.eu/eurostat/statistics-explained/index.php/Africa-EU_-_international_trade_in_goods_statistics

4 Citizens for Financial Justice (2019), Spotlight Report on Financial Justice, http://citizensforfinancialjustice.org/resource/spotlight-on-financial-justice-understanding-global-inequalities-to-overcome-financial-injustice/

needs a new theory of structural transformation beyond traditional orthodoxy focused exclusively on the movement of workers from low productivity to high productivity activities and sectors. The conventional structural transformation agenda may impact inequalities, but does not deliberately aim to tackle them: we need a socioeconomic transformation agenda that places equity and equality at the core of a new approach to economic diversification, including commodity-driven industrialization, based on human rights, economic pluralism, circularity and regenerative rather than extractive approaches to ecological resources.

The central proposition of this socioeconomic transformation is precisely that of rebuilding – or building anew – a socio-ecological contract that can create a virtuous cycle of wages, domestic demand and economic expansion, all consistent with the sustainable use of resources and ecological footprint. This economic transformation agenda does not exclude the global, but places the barycentre of economic activity within the domestic economy. This is not an easy transition to facilitate, particularly given the existing political economies, the employment base of the current model and all its supportive international agreements. Specific pathways would necessarily be country-specific and all involve significant levels of social mobilization, including strong demands for the democratization of public policymaking within the economic domain, among others. But three key pillars could be possibly identified as cutting across country specificities.

**First,** local food systems can be the cornerstone of economic transformation and the key entry point of economic diversification: they offer the simplest route to reconnecting the primary and manufacturing sectors and transition the current commodity-export orientation towards commodity-driven industrialization. Food systems also encompass a large variety of agents, from small-scale food producers to all those engaged in manufacturing, retailing and food provision. They therefore provide a wide socioeconomic base at the core of the social contract of this economic transformation agenda. Food systems also allow closer connection with a wide range of territories – across the urban-rural continuum – and their ecological footings. Last but possibly most important, food systems serve multiple public objectives and can therefore become a common pivot by which to advance the entire agenda for sustainable development. Food sovereignty and agro-ecology, allowing countries and communities to regain full control over the way food is produced, traded and consumed, therefore offer a concrete and immediate pathway to economic transformation.

**Second,** regional (or even subregional) cooperation can offer critical opportunities to overcome the limitations of limited domestic demand, particularly for smaller countries, and offer a more viable turf for the expanded trading of locally manufactured products as well as a wide range of options for common infrastructural initiatives and trans-boundary community developments, including strengthened cooperation on ecosystems and resource management. The subregional/regional context allows the framing of economic partnership relations in close connection with livelihood challenges and needs, particularly in all those countries whose boundaries have been artificially established during the colonial phase.

**Third,** the democratization of global economic governance for the systemic reform of global economic frameworks needs to remain central to the economic transformation agenda. Indeed, such a transformation is heavily constrained by systemic obstacles within macroeconomic frameworks and institutions dominated by developed countries, perpetuating the global division of labour and structural inequalities between countries. Without systemic reforms in trade, debt, finance, tax and other domains, developing countries will continue to lack the policy and fiscal space to advance their socioeconomic transformation agendas. Taking bold policy actions to strengthen the domestic economy therefore requires simultaneous engagement in the multilateral space to construct new systems and institutions that can reorient the current patterns of hyper-globalization.