Editorial: Socio-economic networks and value chains in the Global South – an institutional perspective

Peter Dannenberg¹, Javier Revilla Diez¹

¹Geographisches Institut der Universität zu Köln, Albertus-Magnus-Platz, 50923 Köln, Germany, p.dannenberg@uni-koeln.de, j.revilladiez@uni-koeln.de

1. Introduction

In the last two decades various studies have analyzed the structures of and flows in international value chains (including two special issues in DIE ERDE in 2007 and 2014). Based on the concepts of Global Commodity Chains (Gereffi 1996; Kulke 2007), Global Value Chains (Gereffi et al. 2005; Nadvi 2008), Global Production Networks (Henderson et al. 2002; Hughes et al. 2008), its revised version GPN 2.0 (Yeung 2015; Yeung and Coe 2015) and further related approaches researchers have analyzed the different dynamics (e.g. upgrading), the coordination and the governance of these chains (e.g. through standards and conventions). From a geographical perspective research foci included their spatial patterns and regional implications, often with a focus on North-South relationships with powerful Northern lead firms and weaker Southern suppliers (Ponte and Gibbon 2005; Bolwig et al. 2010).

With the rise of economic activities and economic power in the Global South (see the Special Issue of the Geographische Zeitschrift; 2011/4) it has become clear that the traditional narratives of labour and power divisions are being disrupted by new and often more complex dynamics, constellations and spatial patterns (Dannenberg 2011; Franz 2011; Schiller 2011). This includes e.g. the combination of formal and informal businesses in international value chains or new investment strategies (Strasser et al. 2013). Southern economic regions and actors have gained increasing importance, and the leading roles in the value chains are negotiable, both from an actor (e.g. firm label) as well as from a regional level. While Southern companies have long been regarded as suppliers with possible roles in the coordination structure of global value chains, today the so-called “Southern multinationals” (Brennan 2011) such as Lenovo (China), Tata (India), Ambev (Brazil) and Cemex (Mexico) are gaining worldwide importance as lead firms in Global Value Chains (Henn 2011: 203).

This process goes hand in hand with the development of new economic centres in the South, which go beyond the established regions along the Chinese coast or in the dragon states. These new regions and their involved actors, however, differ much from the known centres of the “old globalized world” in the North such as London, New York and Tokyo. Apart from their southern climate, they are marked by another history which mostly includes colonial and postcolonial developments, they vary in their physical infrastructure, their economic development and their institutional settings (Chant and McIlwaine 2009).

During the last years the role of institutions for economic development has been stressed by many development scholars. The institutional environment at different spatial scales influences the behaviour of firms (from small-scale farmers to large multinationals). Whereas formal institutions are mainly developed on a national or international level (e.g. national laws,
WTO rules), informal institutions are embedded in a region’s society, for example culture, norms, conventions and values are rooted in its history. However, the effects of institutions on upgrading and regional development are far from clear. On the one hand, empirical studies show that institutions are created to buffer economic entities, groups and individuals from the effects of environmental uncertainty, providing trust among the economic actors. On the other hand, the literature is full of examples where institutions led to so-called lock-ins, thus blocking development. While such specific settings of course differ from region to region, country to country and milieu to milieu, it is widely understood that they shape the economic environment for the embedded companies and are key determinants for economic success (see e.g. Grabher 1993; Henderson et al. 2002). While it is debatable in how far really typical Southern institutional settings exist, some factors discussed as being typical include negative aspects such as a low developed formal regulatory framework, corruption, and further related problems often referred to under the term of “bad governance” (Moore 2001). On the other hand, Southern regions and economic networks are often marked by intensive informal relations which can be problematic (e.g. nepotistic webs) but are also of high value for the development of business and even international business networks which can shape compact value chains (Henn 2011). Some emerging economies such as China are further aiming to become a “developmental state” (Leftwich 1995; Breslin 1996), providing direct and indirect support for businesses and value chains as a strategy of economic development. This is a trend which various Southern states from different continents are attempting to follow.

This special issue aims to outline examples of such recent developments with an institutional perspective on the Global South and contribute to the conceptual debate about their causes, influencing factors and effects. It therefore includes studies on Asia, Africa and South America from scholars of different disciplines (geography, anthropology, international studies and political science).

2. Our contribution

In presenting different case studies from the Global South, this issue gives fresh insights in how far specific Southern institutional settings can influence the organisation and coordination of international value chains and related economic activities. Here we outline especially the following elements, which we see as both empirically as well as conceptually relevant in understanding modern economic development in Global Value Chains in a Southern context:

**Informal relations and institutions**: A classic and still widespread form of the integration of Southern actors in Global Value Chains is the usage of simple producers with low labour costs but also limited competences and capabilities as cheap suppliers. Such systems can be found e.g. in the food or clothing production; and they are usually marked by a buyer-driven coordination structure in which the lead firm at the end dictates the product and process criteria via formalized standards which can be followed even with relatively low financial, technical, and knowledge capabilities (Gereffi 1996; Gereffi et al. 2005). More recent studies show that such formal standards are often marked by different insufficiencies (e.g. the neglect of regional peculiarities; Ouma 2010; Dannenberg 2012). In this issue, Peter Dannenberg, Boris Braun and Elmar Kulke outline and explain in how far Southern informal networks can on the one hand utilize such insufficiencies for their own particular interests and backstage arrangements. On the other hand, they also discuss in how far such informal relations and networks actually develop as important complementary parts of the value chains which can fill organisational and coordinative gaps of insufficient formalized standards provided by the lead firms.

**New wave of Southern markets and players**: A second recent and dynamic development is the recognition of a number of growing Southern countries as emerging markets. While countries such as the so-called BRICS (Brazil, Russia, India, China and South Africa) as well as other larger Southern economies have raised the interest of Northern producers as large and emerging markets for their products, Elmar Kulke and Lech Suwala show that now a new wave of markets including smaller developing countries is in focus. In this race for these new markets, it is not yet clear who will win. In retail, for example, some Southern supermarkets are already in a strong competitive position. Southern African supermarkets such as Shoprite for example have not only managed to gain large market shares in their home markets, but have also used their close relations to enter the consumer markets of their neighbouring countries (Reardon et al. 2003; Dannenberg 2013). Given their early mover advantage, their knowledge on the institutional and economic settings
in the countries, and their highly sophisticated logistic procurement system, the chances are good that they will dominate the markets in the long term. Interestingly, the expansion to new Southern markets is challenging well-established supply chains in the North. As Oliver Klein illustrates in his paper, pork made in Germany is increasingly popular in East Asian countries. However, the special selling point is “quality pork made in Germany”. The emphasis on German origin is thus excluding pig fattening farmers from Denmark and the Netherlands and leading to a new spatial organization of production networks.

**Ethical considerations of value chain integration:**
Generally, the increasing supermarketisation in the Global South today is (in some ways similar to the development in the North several decades ago) marked by a restructuring of the supply chains. In the past, this development has often led to the replacement of small-scale producers, traders and retailers of the markets by the integrated relational, captive or hierarchical systems of large supermarket chains (Gereffi et al. 2005; Franz 2010). While this development can go hand in hand with the loss of thousands of jobs and income sources and the related risks of poverty for the affected households, it is still an open discussion in science and society in how far small businesses can and should be integrated in international value chains. This includes general considerations on ethics and power in value chains. In this context Oliver Tappe analyzes the ethically questionable and exploitative labour conditions of the international value chains of the past and present in comparison to the historic coolie work and present-day precarious conditions of labour migrants in the Global South. He outlines in how far the organisation of international value chains in the context of different national and international legal frameworks can lead to an institutional frame to recruit, control and discipline a cheap, circulating, disposable workforce constituted by vulnerable labourers from poor regions. In this way he also shows that combining labour history with a commodity chains approach helps to explain the shifting patterns of free and unfree labour in global capitalism – including recent tendencies within the Global South.

**Loose chain coordination in South-South value chains:** In their paper on loose coordination and relocation on the example of the cashew value chain of Southern India and Ivory Coast, Jannes Tessmann and Martina Fuchs further refine the discussion on the importance of institutional settings in the Global South. In using an example of the increasingly important South-South value chains, they outline the characteristics and effects of specific loose chain coordination on relocation processes in the context of governmental labour regulation and industry policy.

**The state as a domestic and international driver:**
While state power to develop a supportive institutional environment for economic activities is limited in various countries of the Global South, several countries and state coalitions try to establish extensive and proactive industry investment and trade policy to integrate their economies globally. Such policies are controversially discussed in their aims and implementation and include trade agreements, export and investment support, value chain development, cluster and corridor development and further “classic” and modern instruments (Murphy 2008). Probably the most prominent example for such approaches in the Global South is China, which is following both an extensive domestic economic restructuring strategy as well as an international economic (and political) expansion policy marked by programs like “Going global”, the activities of the EXIM bank to support Chinese trade and foreign direct investment (Dannenberg et al. 2013).

One very prominent example for the “Going global” is Hisense, a state-owned Chinese multinationals producing white goods and electronics headquartered in Qingdao, Shandong Province. In her paper Yejoo Kim analyzes the investment strategy of Hisense in South Africa which was heavily supported by the Chinese and South African governments. Hisense became one of the major players in the South African TV market and clearly contributed to export-led growth, technology transfer and job creation. However, the success has not come without a price. Hisense is accused of offering poor working conditions to its employees and violating minimum wage regulations.

**3. Summary**

The collection of papers in this special issue shows that a better understanding of the role of institutions is needed to understand the developing value chains in the Global South and beyond. Institutional arrangements either formal and/or informal are shaping processes within the value chains. However, these value chain arrangements are not isolated from their environment in which they are embedded. Ethical considerations addressed by customers, NGOs and trade
unions are increasingly challenging long-established value chains. Additionally, formal and informal national regulatory interventions by states are often framing value chain activities. Future research is needed to further detect the interplay among internal and external institutions and their interdependencies.

Literature


Brennan, L. 2011: The emergence of southern multinationals: their impact on Europe. – Basingstoke


Chant, S.H. and C. McIlwaine 2009: Geographies of development in the 21st century: an introduction to the Global South. – Cheltenham


Franz, M. 2010: The role of resistance in a retail production network: protests against supermarkets in India. – Singapore Journal of Tropical Geography 31 (3): 317-329


Murphy, J.T. 2008: Economic geographies of the Global South: missed opportunities and promising intersections with development studies. – Geography Compass 2 (3): 851-873


Ouma, S. 2010: Global standards, local realities: private agri-food governance and the restructuring of the Kenyan horticulture industry. – Economic Geography 86 (2): 197-222


Schiller, D. 2011: Upgrading strategies of firms from emerging economies in global value chains: three cases from the electronics industry in Hong Kong. – Geographische Zeitschrift 99 (4): 185-201

Strasser, J., P. Dannenberg and E. Kulke 2013: Temporary resource availability and quality constraints in the global leather value chain – the impact of the festival of sacrifice on the leather industry in Bangladesh. – Applied Geography 45: 410-419
