

IS FLEXIBILITY GOOD FOR WORKERS? AN EVALUATION OF GLOBAL VALUE CHAINS

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ABSTRACT

This paper aims to analyze the impacts on labor at the beginning of Global Value Chains. To do so, I first analyze how flexibility is used as a way to cope with an increasing competitive environment for firms and its potential benefits for labor. The participation in Global Value Chains has increased the flexibilization in work relations, leading to increased number of informal workers, especially in the beginning of chains. Thus, I present the concept of informality, how it can be measured and how Global Value Chains can deal with labor improvement. Studies indicate that benefits for labor are limited. Some case studies are presented in order to show how Global Value Chains have negatively impacted labor in the beginning of chains, increasing insecurity and vulnerability.

Keywords: Informality; Global Value Chains; employment conditions.

RESUMO

Esse artigo tem como objetivo analisar os impactos nos trabalhadores no início de Cadeias Globais de Mercadorias. Para tanto, primeiramente, analiso como a flexibilização da mão-de-obra é usada como uma forma de lidar com um ambiente cada vez mais competitivo para firmas e seus potenciais benefícios para os trabalhadores. A participação em Cadeias Globais de Valor tem aumentado a flexibilização nas relações de trabalho, levando ao aumento da informalidade, especialmente no início dessas cadeias. Em seguimento, apresento o conceito de informalidade, como pode ser medido e como Cadeias Globais de Valor podem lidar com melhoras nas condições de trabalho. Estudos indicam que os benefícios para os trabalhadores são limitados. Alguns estudos de casos são apresentados com a finalidade de mostrar como

Cadeias Globais de Valor têm impactado negativamente nos trabalhadores no início das cadeias, aumentando sua vulnerabilidade e insegurança.

Palavras-chave: Informalidade; Cadeias Globais de Valor; Condições de Trabalho.

1. INTRODUCTION

This article aims to address some of the impacts of the insertion of enterprises in Global Value Chains on labor, especially those concerning flexibility and informality in peripheral countriesⁱⁱ. The traditional view on flexible specialization states the benefits of flexible work in order to cope with increasing integration of markets and competition among companies. The development of new strategies such as Total Quality Management and Human Resources Management stresses benefits concerning decentralization and commitment of workers (PIORE AND SABEL, 1984; PALPACUER, 2000). However, for labor, most of the empirical studies show that these benefits are limited, mainly for workers at the bottom of the chains. Inclusion in global markets can have net benefits in income and level of employment (VAN DIJK AND TRIENEKENS, 2012), but it also excludes some sectors of these potential benefits, increasing, in practice, informality and decreasing levels of security and stable work (BARRIENTOS, 2001; STANDING, 1999; KNORRINGA AND PEGLER, 2006, etc.).

Informality can be connected with poor employment conditions, low social protection and social security, and lack of formal working contracts and it is seen as the most prominent threat to decent work principles (ILO, 2012). As the spread of benefits especially for labor and development are context dependent (PEGLER, 2009), my goal is to deal with the consequences of labor in agriculture and industrial commodity chains in peripheral countries, based on an evaluation of study cases in Kenya, Chile, South Africa, Brazil and India (BARRIENTOS, 2001; DOLAN, 2004; PEGLER *et al*, 2010; PHILLIPS AND SAKAMOTO, 2012; CARR *et al*, 2000; KANTOR *et al*, 2006; MEZZADRI, 2008;). The

analyses of the impacts on labor will be driven by three approaches with which we can measure informality (CHEN, 2006): its dimension, linkages and characteristics.

In order to discuss these issues, this article is divided into five parts in addition to this introduction. Firstly, I will characterize the traditional view on restructuring of companies in order to cope with a more competitive environment, which has led companies to use flexible specialization as a competitive asset and its potential benefits for workers. The flexible specialization has increased the level of integration between firms across countries and has spread the segmentation of labor also within global chains. Thus, secondly, I will mention the spatial element of Global Value Chains, touching upon its origins and connections with dependency theories, in the division of labor, presenting first the concept of informality and its measurement approaches. Then, I will present the constraints that governance and upgrading in Global Value Chains can present to labor upgrading. Afterwards, some critical views on the impact of Global Value Chains on labor will be presented. In the fifth session, I will present agricultural and industrial case studies, showing the consequences on labor informality. The sixth session will conclude showing that impacts on labor are not always beneficial. Most of the workers participating in Global Value Chains face insecure working conditions, reflecting the power asymmetries found in the chains.

2. FLEXIBILITY: THE TRADITIONAL VIEW

Flexibility has been discussed with more intensity since the 1980/90s. Piore and Sabel (1984) attempted to explain the success of companies in Japan, Italy and Germany based on a new form of internal organization that overcame the Fordist model of production, as a response to economic crises. Fordism is understood as the model in which there is a strong division of labor and thus specialization, with unskilled workers performing specific routine tasks, and use of technology to provide economies of scale for standardized products (PIORE AND SABEL, 1984; DAS AND PANAYIOTOPOULOS, 1996).

The success of companies in Germany, Japan and Italy, however, was not based on this model of organization. They were adopting a flexible organization model, in which products are customized following shifts in demand (PIORE AND SABEL, 1984; DAS AND PANAYIOTOPOULOS, 1996). “Greater flexibility of output requires changes in the work practices, and requires multi tasking and multi skilling of workforce” (DAS AND PANAYIOTOPOULOS, 1996, p. 57). According to Piore and Sabel (1984), flexible specialization was seen as the reason why some companies were able to provide good economic performance.

In this sense, companies started trying to develop and strengthen internal capabilities in order to implement flexible specialization. Palpacuer (2000) states that enterprises have followed a path of decentralization and responsive work organization in order to build up these necessary internal capabilities. New management techniques and strategies were put into practice by companies in order to cope with these changes in corporate strategies.

Total Quality Management was one of the new strategies adopted by firms. According to Kanji (1995, p. 3), “Total Quality Management is about continuous performance improvement of individuals, of groups and of organisations” to satisfy customers. Measuring performance, training and providing feedback to workers are used in this management strategy as a way to encourage people to take responsibility in the company's activities.

Human Resources Management is another technique. According to Palpacuer (2000, p. 8), developing

core competencies requires strong integration of individual tasks and knowledge within the overall activities of the organisation, the importance of lateral interaction and communication as opposed to vertical command, and strong commitment of individuals to the activities and goals of the organisation.

With weaker internal hierarchies, Human Resources Management is in charge of fostering individual commitment and integration of activities to match companies' goals, working in attitude changing and adapting. This creates an

environment of mutual trust, embedded in common, shared values, which allow consistency of behaviors and attitudes within the company. The workers are considered as part of a team, and their performance and commitment to the company are translated into their career prospects and financial incentives. The more committed the worker is, the higher his or her probability of being promoted or earning rewards. According to Piore and Sabel (1984), this would work as a booster for innovative competition for workers. And because of the competition, workers would feel more connected and committed to the company. The worker's attitude, added to his or her profitability to the enterprise, determines his or her permanence on the job (PALPACUER, 2000). Competition although would have a limit, in which it will not hazard wages and working conditions. This would happen because “[c]orporate limits on labor exploitation are important not only in making competition a spur to innovation, but also in maintaining the organizational cohesion required for flexibility” (PIORE AND SABEL, 1984, p. 271).

Thereby, flexibility of the labor force is used as a core competency. Flexibility increases companies capacity of adaptation of products and processes to constant moving demands, switching the number of hours worked and the amount of labor needed (PALPACUER, 2000; CHUNG, 2007). Enterprises now utilize formal and informal homework and a range of new categories of work, such as outsourcing, consultants, part-time, and also geographical relocation of jobs and tasks. This increasing flexibility has become possible due to the development of information technology, differentiation on the labor force, especially the inclusion of women and minority groups such as migrants, and institutional adaptations of governments and unions (CARR *et al*, 2000; PALPACUER, 2000; STANDING, 1999).

From the company's point of view, flexibility can be beneficial: it reduces costs and strengthen internal cohesion, removing from the organization individuals that are not embedded in the company's culture and values. However, until what level is this flexibility good? Is it possible to create commitment in an environment with strong differentiation between workers? Is not the security of stable employment necessary to

improve workers' attitudes toward benefiting company's activities? From the side of workers, is this flexibility good?

Piore and Sabel (1984) claim that, as flexible specialization requires multitask workers, workers will increase, or try to, their skill level and would easily find new jobs, which pay more for the best skilled workers. Furthermore, some studies have related positively flexible work with family time spending. Flexibility in hours and in the location of work is perceived as positive consequences of flexibilization (Hill *et al*, 2001). GEO and BMRB (2009) show that most people in England see flexible work as a way to increase time spent with children.

In a macro-level, flexibility can also have positive results. Studying the connection between flexibility in the labor market and unemployment, Bernal-Verdugo *et al* (2012) found a strong correlation between them. Based on data for 97 countries for the period of 1980 to 2008, they have developed a combined index, which includes six kinds of regulations/restrictions on labor markets: minimum wage; hiring and firing regulation; centralized collective wage bargaining; hiring costs; work dismissal costs; and use and duration of military conscription. The authors argue that the more flexible labor market is, the lower are the levels of unemployment. Hiring and firing regulations and hiring costs are the most influential factors in unemployment, especially for the young (BERNAL-VERDUGO *et al*, 2012). Nonetheless, the quality of employment is not taken into account.

Flexible specialization, although it can have some positive consequences, as analyzed in this session, can create segmentation within the labor force, as part of the adaptation strategy of companies to new demands of global markets, which has required organizational decentralization and flexibility in labor contracts. In the intra-firm level, it generates a core-periphery employment system, in which regular workers embody firm's core competencies, with higher levels of stability, security and labor rights – being part of the company's team -, and peripheral workers perform more simple tasks, usually in more informal connections with the firm.

Furthermore, as companies are more and more

involved in global production networks, the spatial spread of production can have consequences on the country level. The distribution of production leads to core and peripheral activities among countries. Core tasks remain in developed countries, while simple tasks are distributed in peripheral countries. At the point of view of employment and economic growth, the participation of peripheral countries in global production and markets often in these peripheral activities can have positive outcomes. However, as some authors point out (BARRIENTOS, 2001; KNORRINGA AND PEGLER, 2006; DOLAN AND HUMPHEY, 2000; etc.), the benefits are limited to peripheral workers, especially for those in peripheral countries.

3. GLOBAL VALUE CHAINS: A SPATIAL ELEMENT IN EMPLOYMENT RELATIONS

The insertion of peripheral countries in global production networks is usually made in peripheral activities, in which economic activities are simpler. As the employment strategies follow an international pattern dictated by the global production chains, due to the abundance of lower skilled labor force, flexibility is used as a central competitive advantage to attract foreign investments. The goal of governments is to create jobs, and the quality of them is not very much object of attention, although it has long term consequences in productivity and export performance (KNORRINGA AND PEGLER, 2006). In this sense, one might state that the participation of peripheral countries in Global Value Chains can be understood in the light of the Marxist Dependency Theory. In this theory, being dependent means that some countries are conditioned to the development of other countries' economies, not achieving self-sustainability and subordinating themselves to decisions taken in central countries (AMARAL and CARCANHOLO, 2009). The insertion in the global economy is thus unequal and generates a perpetuating situation of exploration and underdevelopment for the peripheral countries, which are not part of the economic decision taken (SILVA, 2011). The dependency is even clearer when it deals with labor issues. The implications of dependent

relations inside Global Value Chains are related to an overexploitation of work, in order to generate economic rents that are transferred to developed countries. Therefore, it is clear that Global Value Chains can be inserted in the Marxist Theory of Dependence. The session 3b will explain how the structures of governance, which determines what, who and where and when the production will take place, reflects the segmentation of central and peripheral countries in the division of production.

However, although there is a general tendency towards an unequal division of tasks and power between central and peripheral countries, the picture is still mixed. Even in central countries, there are some divisions in core and peripheral workers, with increasing outsourcing and insecurities for the latter. The development of value chains has created a segmented labor force, both in developed and peripheral countries, in the intra-firm level or within a chain. However, the consequences are felt in different ways, mostly due to different domestic contexts, which include different levels of institutional structures, civil society pressures and state regulations. Furthermore, there are some chains which drivers are located in peripheral countries, such as the orange juice value chain (Neves, 2008) – which surpass the dichotomy central-peripheral countries in the division of production and economic decisions. In this sense, we need to take into account the specificities and context in which the Global Value Chain we are analyzing is inserted in.

A) INFORMALITY: DIMENSION, LINKAGES AND CHARACTERISTICS

Firstly, in order to build a coherent analysis of the consequences of inclusion in Global Value Chains for labor and informality, first it is needed to present the definition of informality I am using. Informal work is pretty much linked to poor employment conditions, low levels of security and formal arrangements (ILO, 2002). According to the ILO (2002, p. 5),

“Informal economy” refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently

covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs.

Informality can be approached in three forms. The first one considers the dimension of informality: the spatial/ geographical location of the informal economy, its nature, considering the production system it is involved in, and the employment conditions. The workers can be men or women self-employed, homeworkers, unpaid family workers, informal employees of regular or not firms, temporary workers, unregistered workers etc. They can be in rural or urban areas of developing or developed countries. Figure 3.1 shows some aspects of the dimension of informality: the distribution of informal workers, considering gender and level of income (CHEN, 2006).

The second one is related to the linkage, i.e., the movements of people from informal to formal economy/work. This dimension is very often a continuous flow. Workers, depending on the circumstances, can be part of the informal and formal economy at the same time, combining self-employed activities with a regular job (CHEN, 2006).

The third has to do with the characteristics of the informal economy. ILO (2012) points out some of the characteristics of informal work: “lack of protection in the event of non-payment of wages, compulsory overtime or extra shifts, lay-offs without notice or compensation, unsafe working conditions and the absence of social benefits such as pensions, sick pay and health insurance”.

In this manner, informality is considered one of the most prominent threats to achieve decent work. Decent work, as defined by ILO, implicates basic principles regarding work rights, good employment and income conditions, social security and social dialogue. As put before, informal workers are not covered by fundamental labor rights, and their activities are usually a

matter of availability more than choice. Thus, their income usually is irregular and variable, exposing them to vulnerabilityⁱⁱⁱ, insecurity and, in most of the cases, to poverty. Since informal workers and their activities are not formally recognized in the labor laws and regulations, their ability to form organizations and collectively claim their rights is reduced. Marginalized groups, such as ethnic groups, women, youth and elder, found themselves in an even more vulnerable situation (ILO, 2002).

Having said that, according to the ILO, to promote decent work, or at least decrease its deficits, it is necessary to improve labor conditions especially for informal workers, “ensuring that opportunities for livelihood and entrepreneurship are not destroyed, and promoting the protection and incorporation of workers and economic units in the informal economy into the mainstream economy” (ILO, 2002, p. 7).

B) GLOBAL VALUE CHAINS AND ITS CONSTRAINTS FOR LABOR POSITIVE IMPACTS ON PERIPHERAL COUNTRIES

It is also necessary to shortly analyze how Global Value Chains add important elements to the discussion of informality and its consequences. Global Value Chains can be characterized as organized networks that regulate and coordinate production across countries, in which the producer of a good or service can be very distant from the global consumer (VAN DIJK AND TRIENEKENS, 2012; DOLAN AND HUMPHREY, 2000). It helps to explain how value is added in different stages of production and how profits and benefits are distributed within the chain, in different locations. Many studies that use GVC as theoretical framework are critical on the consequences of informality for labor (BARRIENTOS, 2000 AND 2004; DOLAN, 2004; PEGLER et al, 2010, etc.).

There are some characteristics in Global Value Chains theory that can help to paint a picture of the impacts in labor rearrangements. One of them is the importance of governance within the chain, which can be seen as a reflection of the Dependency Theory (AMARAL and

CARCANHOLO, 2009; GEREFFI, 1994). Governance implies the capacity to drive all sorts of decisions concerning the production: what is produced, who will produce and where the production will take place (GEREFFI *et al*, 2001; PEGLER, 2009). Governance is thus a matter of *power* within the chain. There is a core center in the chain, from where the organization of other actors emanates, determining how the chain is structured, defining the requirements and how the orders are transmitted across countries (DOLAN AND HUMPHREY, 2000). Therefore, the role of leading firms will determine whether a firm will be inserted or not in a chain and in which position (LEE *et al*, 2011).

Although, in general, “[v]alue chains represent a separation of production control and the execution of that production” (PEGLER, 2010, p. 104), there are some differences in its coordination. Gereffi (1994) has defined two different types of organization of global chains which have been broadly adopted in the literature: the producer and the buyer driven chains. In producer driven chains, “chain governance is exercised by companies which control key technology and production facilities (DOLAN AND HUMPHREY, 2000, p. 150). These industries are capital and technology intensive and require large investments, which can be seen as a barrier to the entrance of new companies (GEREFFI, 1994; GEREFFI *et al*, 2001; DOLAN AND HUMPHREY, 2000). In turn, buyer driven chains are characterized by firms, such as retailers, supermarkets, brand-names companies, who have a central role in the cross-country distribution of production. The leading company controls key functions, such as design, product development, retailing and marketing, in a labor-intensive chain of consumer goods, (CARR *et al*, 2000; DOLAN AND HUMPHREY, 2000; GEREFFI, 1994; GEREFFI *et al*, 2001; PALPACUER, 2000). Furthermore, in tandem with these two models, the relations between firms can have different levels of hierarchy, which also have important impacts on the role the company plays in the chain (GEREFFI *et al*, 2001).

Therefore, governance structure plays a major role in defining the tasks and the distribution of benefits. The level of power of a leading firm is

partly determined by its market share or by its position in the chain that allows the company to gain high returns, making difficult for other companies to entry the chain and have an important role in it (GEREFFI *et al*, 2001). Thus, the initial level of insertion of an enterprise in a global commodity chain has also a strategic importance. As usually chain drivers are located in developed countries, the opportunities for peripheral countries to participate in a chain are restricted to its lowest levels, as suppliers generally with low power and influence in the chain coordination. In networks where the levels of hierarchy are not so prominent - where there are arms-length relations -, the possibility of insertion in a better level or growing is higher. However, “developing country insertion in *global value chains* is most likely to be of a *hierarchical* type and thus their insertion, by and large, offers fewer opportunities for local firms in the chain” (PEGLER, 2009: ?).

Some authors point out the imposition of standards and codes of conduct, connected with corporate social responsibility, as a way to make suppliers improve conditions of production, to achieve better levels of environmental and labor requirements and the category of first suppliers or it is even a requirement for market entry (PALPACUER, 2000; RIISGAARD, 2009; LEE *et al*, 2011). Therefore, standards are also an important instrument to govern the chain (LEE *et al*, 2011). Dolan and Twani (2000) also state that firms following these standards are less prone to be replaced and more able to sustain their position in the chain.

In some cases, strengthening inter-firms relations and networks can work as leverage for upgrading, boosting the development of skills, innovation and production processes, in order to move upward in the chain (KNORRINGA AND PEGLER, 2006). In this sense, Palpacuer (2000) presents the difference between first and second tier suppliers. The first tier suppliers are those who have direct connections with leading firms. Usually this category of suppliers has better conditions to implement standards, more access to markets and more power in the chain. The second tier suppliers are those more informal, whose linkage in the chain is generally more

unstable, indirect and ephemeral.

However, until what point leading firms facilitate upgrading? Most importantly, does upgrading have an impact on labor? Does it mean improvements for labor? Does economic upgrading lead to social upgrading (BERNHARDT AND MILBERG, 2011)? Despite the fact that the level of insertion can be helpful for the firm, the results for workers are not always positive. The traditional economic theories state that economic growth leads to improvement in income, which leads to poverty reduction. In this sense, upgrading, that is, achieving high value activities in a global production chain, will lead to higher levels of economic growth. With increasing participation in trade, benefiting from specialization and providing the market with high value goods, firms and individuals would gain more, in terms of returns on capital and wages (MCCULLOCH *et al*, 2001). Nonetheless, not always the benefits of growth will automatically mean social benefits, in terms of growing employment and wages and poverty and vulnerability reduction, especially when we take into account other aspects of poverty rather than income (BARRIENTOS AND KANJI, 2002; KNORRINGA AND PEGLER, 2006; BERNHARDT AND MILBERG, 2011).

Hence, in a context of deepening integration of global markets which demand new strategies and adaptation of firms, flexibility and these new forms of employment, despite some positive views (PIORE AND SABEL, 1984; PALPACUER, 2000), generate rising levels of informality (STANDING, 1999), which can have negative impacts on labor (BARRIENTOS, 2001; CARR *et al*, 2000, etc.). Instead of creating an environment of trust and commitment, "it seems more likely to assume that most workers simply work harder because they are afraid to lose their jobs" (KNORRINGA AND PEGLER, 2006, p. 473). Thus, this restructuring has left not much option for many workers, often pushing them to accept the opportunities that are available (ILO, 2002; KANTUR *et al*, 2006). So, will peripheral countries be able to achieve decent work through their participation in Global Value Chains? What could be consequences concerning informality of peripheral countries' inclusion in Global Value Chains?

4. DOES FLEXIBILITY LEAD TO IMPROVEMENTS IN LABOR? A CRITICAL REVIEW

According to Lee *et al* (2011, p. 4)

Some workers in GPNs [Global Production Chains], as a result of economic upgrading, may benefit from higher wages and strong labour standards. But for many others, particularly women and migrant workers, economic upgrading may be achieved by putting them in highly flexible, unprotected and insecure work. Poor jobs are also fuelled by low productivity, subcontracting, and supplier struggles to meet buyers' requirements. Progress made in employment and wages may not extend to other dimensions, like freedom of association.

Thereby, flexible work is used by employers as a way to reduce costs, not only in terms of wages, but also in non-wage labor costs, such as social insurance, maternity leave, etc. (BARRIENTOS, 2001; STANDING, 1999). Because firms have to operate in an environment with high risks and uncertainties regarding buyers demands, and high levels of competition, producers in the lower levels of chains are constantly pressured in order to present high quality products, variety and competitive price, with requests working in a "just-in-time" system (BARRIENTOS, 2001; BARRIENTOS, 2008; CARR *et al*, 2000; DOLAN AND HUMPHREY, 2000; DOLAN AND TWARI, 2001). The possibility of being replaced in case the producer does not fill the requirements also plays an important role in work flexibility (BARRIENTOS, 2001).

In this sense, buyer-driven chains, in which linkages between suppliers and buyers are fragile, and in the case of agricultural commodities, where production face a range of additional risks (price fluctuations, weather, etc.), tend to employ, at the bottom of the chain, flexible work, in order to cope with these threats (BARRIENTOS, 2001; CARR *et al*, 2000). "A core regular work-force is used to maintain quality and consistency of output, complemented by the use of highly flexible casualized workers to meet variable just-in-time deadlines, at low cost" (BARRIENTOS, 2008, p.

982). In turn, on the side of the buyers, outsourcing production by contracting suppliers leads to an indirect connection with these flexible workers in the bottom of the chain. They eliminate labor supervision and problems related to it (PEGLER *et al*, 2010), although there are growing pressures by consumers toward minimum standards for suppliers, particularly in global brand companies (BARRIENTOS, 2008; CARR *et al*, 2000; RIISGAARD, 2011). On the side of workers, informality reinforces their vulnerabilities, reducing their ability to overcome their situation of chronic poverty, because working in the informal economy is often not their choice, but an imposition of employers or a strategy of survival (BARRIENTOS, 2001; CHEN, 2006; DOLAN, 2004; ILO, 2002; PHILIPS AND SAKAMOTO, 2012).

Thus, the participation in Global Value Chains can have unfavorable consequences. Increasing employment does not necessarily means benefits for workers. At an initial level, the inclusion in Global Value Chains of poor areas with cheap labor can have an “important pro-poor economic stimulus” (KNORRINGA AND PEGLER, 2006, p. 473). There can be relatively better working conditions and wages in the activities linked with GVC than in other sectors. However, quickly the perceptions of relative improvement disappear, with the increasing in pressures, insecurity and long workloads (KNORRINGA AND PEGLER, 2006).

Furthermore, poor people can be adversely incorporated into economics activities (HOSPES AND CLANCY, 2011; PHILLIPS AND SAKAMOTO, 2012), in the sense that the terms in which they are included in the labor markets within the global value chains can lead to high vulnerability and loss of control of their main asset- their work force (PHILLIPS AND SAKAMOTO, 2012). The increasing levels of poverty make the necessity of survival imperative. And it makes the submission to insecure, informal and exploited forms of labor a necessity. Under these conditions, “inclusion in labour markets is not a means of lifting people out of poverty; rather, it is a mechanism by which they become trapped in it” (PHILLIPS AND SAKAMOTO, 2012, p. 297).

Barrientos (2001) and others (BAIR, 2010;

CARR *et al*, 2000; STANDING, 1999) have stressed the role of Global Value Chains in the risen of informality especially for women. Most of buyer-driven chains, which are labor-intensive, tend to employ more women in the base of the chain in flexible conditions (BARRIENTOS, 2001). So, “the governance structures of global value chains create a hierarchy of power relations between firms that is replicated in a gender hierarchy of employment” (BARRIENTOS, 2001, p. 89). Carr *et al* (2000) also state that the presence of women in the informal sector is higher than men. Furthermore, most of informal work is not counted in official statistics, which would even increase women's participation in this sector. Women are generally working as “self-employed traders and producers, casual workers or subcontracted workers” (CARR *et al*, 2000, p. 127). Women are seen to be more prone to accept poorer employment conditions, because they

traditionally had lower levels of labour-force participation than men, with less experience of formal employment or traditional union organization. Poverty and structural adjustment have also led more women to seek paid work, as households could no longer survive on male earning alone in a liberalized flexible labour market” (BARRIENTOS, 2001, p. 86).

The higher levels of insecurity and informality among women cannot be exclusively credited to the expansion of global capitalism in peripheral countries, its flexible demanding restructuring strategies and the growing women's insertion in Global Value Chains. The inclusion of women in these lower tiers of the chains can be also connected to social structures “and patriarchal ideologies and practices, which together create a particular opportunity structure for exploiting female labor” (BAIR, 2010, p. 209). Women work tends to be associated with dexterity, docility and cheapness (BAIR, 2010; DOLAN, 2004). Embedded in a stereotyped gendered division of labor, strengthened by social and cultural contexts, in the firm level and within the household, women are suggested to prefer flexible work, due to the facility to combine work and house caring, in addition to the necessity of entry and exit the labor market (DOLAN, 2004), despite some evidence that piece-rate payment

work actually increases the number of hours worked. Most importantly, in many cases, both women workers and employers tend to see work incomes as supplementary within the household – this is especially highlighted in home work cases (BAIR, 2010; PEGLER *et al*, 2010). However, there are some benefits of growing participation of women, even in home-based work, which is increasing empowerment, translated into control of her own income, more independence from husbands or partner, and more participation in household decisions. Nonetheless, the seasonality of this kind of employment, depending mostly on demand pressures, does not lead to a shift in women's status in the long term (CARR *et al*, 2000).

Studying the impacts of upgrading on labor, Knorringa and Pegler (2006) state that improvements for labor are more likely to happen when work activities require more skilled labor force, when the workers are more organized and the unions more representative and have international connections. The commitment of the chain to more ethical initiatives, like corporate social responsibility and voluntary codes of conduct, also adds to labor improvement. However, they also stress that these conditions are more likely to happen for core workers or core suppliers, leaving most part of small and second tier suppliers out. Moreover, peripheral countries usually are involved in activities that take advantage of their abundance of labor at low cost. These activities face high levels of competition, which make labor improvements, even for core workers, something transitory (KNORRINGA AND PEGLER, 2006). Barrientos (2008) also states that codes of conduct have some positive impacts on permanent and regular workers, but, for contractual workers, its impacts are limited. She states that even some violations of the codes are found in some locations for contract workers.

The next session will address some of the challenges related to informal work in some Global Value Chains in peripheral countries, based on a literature review of case studies and addressing the approaches by which informality can be measured, as presented in the sub-session 3.1. The analysis will be driven by examining impacts on labor in agricultural rural

and industrial urban chains contexts.

5. INFORMALITY IN AGRICULTURAL AND INDUSTRIAL VALUE CHAINS

Many studies have shown that peripheral countries are integrating global value chains as suppliers of food and agricultural products and in the garment sector (BARRIENTOS, 2001; DOLAN, 2004; PEGLER *et al*, 2010; PHILLIPS AND SAKAMOTO, 2012; CARR *et al*, 2000; NADVI AND JHOBURN, 2003; etc.). In some countries, the non-traditional agricultural exports are becoming one of the most important sources of foreign currency and having a relevant share of GDP (DOLAN, 2004; KENYAN FLOWER COUNCIL, 2013). The garment industry is also among the sectors in which peripheral countries have been presenting good economic results. Brand-name and retails from developed countries have focused their activities on designing, marketing and logistics and have spread manufacturing by contracting local firms in peripheral countries, searching for low production costs (CARR *et al*, 2000). As they are labor intensive industries, this has increased the amount of employees in the sector in many countries, with emphasis on female worker (CARR *et al*, 2000; DOLAN and TWARI, 2001). Nonetheless, most of the jobs created in this sector are informal. To assess whether it is good or not, I will try to analyze these chains examining the dimension, linkages and characteristics of informality in this sector as far as possible.

5.1. AGRICULTURAL CHAINS AND ITS IMPACTS ON LABOR

Due to the geographical dispersion of workers, lower levels of organization and seasonality of crops, data on informality in agricultural activities is in general missing. Some countries even “exclude agriculture from their measurement of the informal sector” (CHEN, 2006, p. 81) or count informality in a very strict sense, as being workers without register^{iv}. Thus, the further analysis will be based on case studies that focus on horticulture value chains in Kenya, Chile, South Africa and tomato and cattle farming value chains in Brazil,

conducted by Dolan (2004), Barrientos (2001), Pegler *et al* (2010) and Phillips and Sakamoto (2012). In all these cases, labor force is segmented in permanent and temporary workers, hired in general during high season.

The horticulture sector in Kenya has a predominant presence of women and informal workers (60% in packing houses and 56% on farms) as labor force. Women are 66% of packing house workers and 60% of farm workers (DOLAN, 2004). The wages are lower in the farms and even lower for temporary workers. Some activities in both cases are seen by employers as feminine, requiring dexterity, docility and cheapness, which makes their presence be higher (BAIR, 2010; DOLAN, 2004). Men are hired for “male” tasks, such as stocking heavy packages and applying fertilizers in the crops. Most of workers, both in farms and packing houses, are migrant, young and single men and women. Usually, their level of education is low and their previous work experience is in the informal economy, as casual workers for men and vegetable selling or hairdressing businesses for women. This fact is a constraint for better employment prospects in another sector. Although workers are attracted by relatively higher wages, they face lack of social protection and benefits, long working hours, usually with over time. Moreover, for temporary workers, the uncertainty of employment provides extra pressure.

Analyzing the horticultural chain in Chile and South Africa, Barrientos (2001) found that women's employment is also strongly concentrated in seasonal and casual work. Men are 95% of permanent workers in Chile and 74% in South Africa in this sector, while women are 52% of temporary labor force in Chile and 69% in South Africa. In Chile, most of women temporary workers live off-farm, in near villages. In turn, in South Africa, women live on-farm, usually due to husbands' contracts. This can explain why the share of permanent women worker is higher in South Africa. The presence of migrants as casual workers in South Africa is prominent. They work during the high seasons. Temporary workers in South African and Chilean horticulture sector are paid on a base of piece rate, performing variable amount of days and hours worked. She stresses

that, although piece rate working is an important mechanism to raise workers' productivity, it increases insecurity and health risks.

The labor conditions in the case of tomatoes chain in Brazil were studied by Pegler *et al* (2010). They also mention the segmentation in the workforce in temporary tomato pickers and permanent workers. In general, permanent workers are formal, having access to social benefits, and compose the minority of the work force. They usually live on-farm and are responsible for a range of activities, such as irrigation and coordination of workforce. The tomato pickers are urban men and women dwellers, who are selected on a daily basis by middlemen in local towns and villages. Because of the uncertainty of being selected the next day, they work on a daily piece payment per box of tomatoes picked. The piece rate payment also obliges workers to do overtime, and presents dangers to their health. The work is seasonal – around 30 days -, which increase vulnerability of income and make necessary compensate the lack of employment between seasons with other activities. Because the tomato farms are located in a region with some potential for tourism (state of Goiás), there is a possibility for these informal workers to be hired in a more secure sector (PEGLER *et al*, 2010).

Phillips and Sakamoto (2012) make an analysis of the vulnerabilities of workers in chronic poverty situations in Brazil. In this study, they focus on the expanding cattle farming in the Eastern Amazon, region known as the new Brazilian agricultural frontier. Cattle sector is facing increasing domestic and international demand, which has pushed the expansion of farmers through the eastern border of the Amazon. This shift on the agricultural frontier has dramatic results regarding deforestation, grabbing of public lands, “along with precarious land tenure [...] and [...] the unlawful employment of labour” (PHILIPS AND SAKAMOTO, 2012, p. 292). Workers in this sector are usually hired under no formal contract and high levels of insecurity.

Some of them are found in conditions analogous to slavery, under high levels of exploitation,

including in the non-payment or underpayment

of wages or the manipulation of the debt in order to claim that no wages are owed to the worker, in the imposition of harsh, degrading and physically unsustainable working conditions, and/or in the imposition of dehumanizing living conditions in which workers are deprived of the resources necessary for the reproduction of their labour power or, indeed, biological survival (PHILLIPS AND SAKAMOTO, 2012, p. 295).

The most vulnerable to this overexploitation are those workers coming from other regions to work on peripheral activities in cattle sector, such as deforestation and cleaning the land for pasture. These workers are put as “invisible” due to their constant mobility throughout the country in a constant search for jobs in areas where economic activities are rising. The profile of these workers is men with low levels of education and literacy. Phillips and Sakamoto observe that the workers usually found in “slavery” situations are not the poorest. These workers are what the authors call “working poor”: individuals with “appropriate physical condition for extremely demanding forms of manual work, whose income levels do not position them in the category of extremely poor” (PHILLIPS AND SAKAMOTO, 2012, p. 303). These workers end up in this sector due to insecurity and instability of employment and income they face, exposing themselves to degrading and even exhausting conditions (PHILLIPS AND SAKAMOTO, 2012).

In all cases shown, most of the characteristics proposed by ILO regarding informal work, as presented in section 3.1, are present. The workers, especially the temporary ones, in these agricultural chains face challenges regarding social protection and benefits, long workloads, with frequent overtime, insecurity of job permanence and threats to health. Due to their geographical spread, low and irregular income, often lack of recognition, their ability to participate in unions and other worker organizations is reduced. Thus, their right of association, representation and collective bargaining is also threatened.

5.2. URBAN - INDUSTRIAL CHAINS AND ITS IMPACTS ON LABOR

It is documented that garment industries are a good source of employment for many low skilled workers, especially women (CARR *et al*, 2000; NADVI AND JHONBURN, 2003). This appears to be true, as we see the spread of local garment firms supplying for brand-name companies within a value chain. However, the quality of employment is again arguable, as in the case of agricultural insertion in value chains. Because of constant search for lower costs of production, the competition between countries and firms in this sector is high. This competition impacts negatively on labor, which tends to be more and more informal to better adjust to it. Moreover, the seasonality of the industry – now with 6 or even more seasons – requires constant changes in products and in the demand for them (CARR *et al*, 2000).

In this sense, the presence of female homework is significant as a form to cope with these shifts in the garment sector. Home-based work can be dependent or not of contracts with firms for selling their products, both being paid on a piece rate payment base.

Mezzadri (2008) has made a study of the garment sector in Delhi, India. Among her findings, she acknowledges that the more in-depth integration with global markets has increased the level of informality and insecurity among workers, although it has enlarged the employment in the sector. The garment sector has expanded employment not only the traditional tailor caste, but also has attracted migrants from other regions of the country, especially rural areas. As a singularity among apparel industries, 90% of the factory workers are men and “[t]hey are mainly temporary and casual workers, employed for short periods or on a daily basis” (MEZZADRI, 2008, p. 609). The cycle for migrant workers lasts less than a year, when they come back to their villages to work on agricultural harvests. Furthermore, she has found that garments firms in Delhi use what is known as “in-contracting”, in which labor management is in charge of subcontractors. These middlemen, exploiting migrants' lack of industrial experience and their high level of poverty, hire groups of people and bring them to the factories. The firm owners have then no responsibility over the workers.

The Delhi garment industry also relies in embroidery of clothes, machine or hand made. In the case of machine embroidery, the workforce is predominantly male migrants. The Indian hand embroidery can be *adda*, related to a traditional Indian type of embroidery, or *moti*. In *adda*, the work force employed is usually migrant children, whose wages are in general half of an adult worker. However, the embroidery units in Delhi only count for sampling and urgent deliveries. The gross of production is delivered to home workers in small villages, using family members. The *moti* embroidery is made mostly by female workers in a home work basis, assisted by children, in or around industrial areas (MEZZADRI, 2008).

Kantor *et al* (2006) have proceeded a study of the informal sector in Surat, India. In this city, most of the economic activity comes from diamond cutting, synthetic silk and Jari (gold thread), which are connected to domestic and global chains. As in all India, Surat presents high levels of informal work. Informality appears in the form of salary-based, casual, self-employment and home-based piece paid, which characteristics were outlined through interviews with 814 women and men. They have tried to measure the level of vulnerabilities these workers face in the informal economy, in terms of deficits in decent work standards, as proposed by the ILO and mentioned in the beginning of this session. Workers were asked about security in the labor market, job, employment, work, skill reproduction, income and representation.

Kantor *et al* (2006) results have shown slightly better labor conditions for male salary workers and the worst ones by male and female casual and piece rate workers. They point out that men are the majority labor force in casual work while the presence of women is higher in the home-based piece rate work. The level of insecurity for women is higher than for men, as the number of unemployed days for female workers and the level of dismissal without warning are higher, for example. The main problems found by the authors are the low levels of payment, especially for domestic servants and home-based piece rate workers, the amount and regularity of work days and training. There is a special recommendation for increasing in some level formalization,

especially for women, through access to written contract and fair dismissal terms in order to fight increasing poverty levels that might be the driven to submission of such kind of “indecent” job (KANTUR *et al*, 2006).

In these two cases in India, the workers face lack of social benefits and protection. The ability to participate in unions is also diminished. This is especially important in the case of garment industry in Delhi. Exporters and firm owners fear unionism. They explore workers' conditions – migration, lack of industrial experience, gender, age – to avoid unionism. Furthermore, exporters spread the production in several firms, in order to cope with risks in delivery due to labor possible organization (MEZZADRI, 2008).

6. CONCLUSIONS AND RECOMMENDATIONS

As presented during the paper, flexibility in working relation was used as a response to shifts in the global economy, which required adaptation in order to increase competitive advantages for firms. The adjustments were also felt in the labor market, with the inclusion of new groups in the labor force, and institutional adaptation, regarding labor laws and regulations and unions' role. However, although flexibility has been related to diminishing unemployment rates, it has created a differentiation within the labor force. While some workers benefit from flexibility, especially those in core positions (KNORRINGA AND PEGLER, 2006; BARRIENTOS, 2008) some workers have faced declining quality in jobs, regarding social security, income and benefits. Thus, the inclusion of some workers in labor markets can be described as been carried in an adverse way (PHILLIPS AND SAKAMOTO, 2012).

In this sense, the adverse inclusion has made more difficult to achieve decent work for all, both formal and informal workers. “Decent work can be linked to poverty reduction since increased opportunities for work, increased rights at work, social protection and a greater voice in the workplace are associated with improvements in capabilities and well-being” (KANTUR *et al*, 2006, p. 2089). Nevertheless, the segmentation in the labor for in formal and informal workers has increased the level of insecurity, and decreased

voice and labor rights. This segmentation is happening not only at the macro level, with high differentiations in labor rights between developed and peripheral countries, but also in the micro level, within the firm, where we see some workers enjoying a more secure position and others facing daily challenges and insecurity.

Global Value Chain analysis allows us to make a good picture of how these shifts have affected different sectors and different actors. Global Value Chains are related to the deep coordination of productivity and distributions of gains, in a chain where production control and management is separated from execution and manufacturing. The concept of governance is crucial to understand this coordination, its hierarchies and the distribution of benefits. The different types of value chains determine the positions of its actors. Thereby, the initial position that a firm entries in the chain is also very important. It determines the kind of relations developed between drivers and suppliers and thus the possibilities of upgrading. The imposition of standards also plays a crucial role in determining who is in and out of the chain, at the expense of small and less capitalized producers.

Upgrading is usually seen as a way to achieve higher levels in the chain, and can be done with products, process or functions. Upgrading can mean increased gains, but it does not say anything about the distribution of these gains, if there are some, especially for labor. In other words, economic upgrading does not necessarily means social upgrading.

As the literature analyzing Global Value Chains has shown, the inclusion of peripheral countries in these chains has not promoted decent work. The workers are often included in an adverse way, with high levels of informality, insecurity and vulnerability, which can even end up in hard forms of exploitation, as put by Phillips and Sakamoto (2012). The women situation is particularly delicate, as stated by many of the studies presented. The inclusion of an increasing number of women in the labor force can be a result of chronic poverty and structural adjustments that made necessary more sources of income within the household – a situation of increased vulnerability (MOSER, 1998). Nonetheless,

women are usually hired for “feminine” positions, in the lower levels of the chains, which have lower payments and conditions (BAIR, 2010; DOLAN, 2004). This situation can also be attributed to cultural values and contexts, in which female work is considered as a supplement income. Also because of cultural contexts, women face a trade-off between working outside and home caring. Some studies also point out benefits of women's inclusion in the labor markets, such as empowerment and participation in household decisions (CARR *et al*, 2000). Informality has also strong impacts on mobile workers, as exposed by Dolan (2004) and Phillips and Sakamoto (2012). The appearance of intermediate actors, which challenge the capacity of representation and the workers' control over his or her main asset, is also a consequence of informality (PEGLER *et al*, 2010; MEZZANDRI, 2008).

These analyses lead to the conclusion that social and cultural backgrounds, gender and mobility of workers are exploited in order to cope with risks imposed by an integrated economy of production. In this sense, because they involve not only domestic actors that are restricted to the national context, but also international players with varied levels of power and influence, working regulations need to be addressed from a global perspective too. Directives of ILO addressing decent work deficits altogether with national programs are already trying to tackle these problems. Voluntary and mandatory codes of conduct, alongside internal organizational adjustments, right enforcement and compliance monitoring are also paths that if followed can generate positive results for producers and workers (LOCKE *et al*, 2007).

A first and important attempt to include informal workers in the formal economy is giving them recognition as workers in laws and regulations. It means introducing new labor laws that recognize informal workers' rights and punish labor abuses, helping to direct employer's actions towards minimal improvements in employment conditions and relations. New labor laws and regulations would allow the creation of informal workers' organizations or strengthen their participation in unions, increasing their voice and their power for demanding improvements. Without being

recognized and organized, informal workers are unable to identify their mutual needs and lobby for progress. Supporting and encouraging women's participation is highly recommended, since women are the most affected by flexible working forms.

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ⁱⁱAlthough most of literature in GVC uses the term “developing countries”, the term “peripheral countries” was preferred because of the ideological content of the former, in the sense that it implies that these countries are following a trend

of development towards better socio-economic conditions. Despite, as it will become clearer during the paper, the inclusion of countries such as Brazil, Kenya, India, etc. in the global economy, has been done in unequal terms, perpetuating some underdevelopment characteristics and even worsening insecurities, especially for workers, as shown later on.

ⁱⁱⁱAccording to Moser (1998), poverty is a static measure, while vulnerability is dynamic, measuring the processes in which people go in and out poverty. Vulnerability has to do with the insecurity and sensitivity in individual or groups wellbeing when they face changes or shocks in their environment, and also deals with the resilience and responsiveness to these changes.

^{iv}For instance, Brazil has account the number of unregistered agricultural workers as being 64,9% of total in 2009. However, this measurement does not count unpaid agricultural workers, for instance, such as family members that help in farming activities (DIEESE and NEAD, 2011).