Little Value from Global Chains*

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On December 12, in an outburst of suppressed anger, workers employed at a factory assembling iPhones in Narasapura near Bengaluru ransacked its premises and damaged parked vehicles. The facility is a unit of Wistron, a Taiwanese vendor engaged in assembly of Apple iPhones, that had begun commercial operations only recently. This made the worker action surprising to say the least. Workers recently employed in a known foreign-invested firm are not likely to turn against the management in a matter of months. Something was clearly amiss.

The initial response of the administration was to arrest the workers involved for criminal violation and launch an image saving exercise to appease existing and potential foreign investors, whom the NDA governments at the Central and the State levels are desperately wooing. But investigations soon revealed that the workers had been wantonly provoked with the management in the Wistron unit in serious violation of labour laws. Apple, which has been known to turn a blind eye to poor working conditions in factories run by its vendors, had to admit that Wistron had violated its supplier code of conduct, and declare the launch of an enquiry. Interestingly, Wistron too decided to acknowledge serious lapses at this particular unit and sack its vice-president in charge of India operations. The implicit narrative was that the violations were not typical of the company’s operations but the result of errors of judgement or rogue behaviour of some managers responsible for the operations of the Narasapura unit.

With Apple keen on increasing its presence in an expanding Indian market for its products, this incident is likely to be papered over, and the workers mollified at least temporarily. But the incident highlights certain characteristics of global production value chains and their implications for policies that attempt to expand domestic manufacturing by inserting India into segments of those chains. As has been demonstrated in numerous case studies, much of the value addition in most global value chains occurs at the pre-production stage (involving payments for patented R&D and design contributions, for example) and the post-production stage (involving distribution, marketing and after sales services). Little value addition is recorded in production per se which is where the product is manufactured. This structure has distributional implications. Much of the value added in the pre- and post-production stages accrue to the technology and brand controlling ‘parent’ firm, whereas the value addition in actual production is shared with production workers engaged in offshored manufacturing segments. The ‘smiling curve’ that represents shares in value added of different segments declines sharply as we move from pre-production to production, and then rises as we move on to post-production stages. That implies that a lttle of the value of the final product is available to pay out production workers.

Thus, a 2011 study by economists Kenneth L. Kraemer, Greg Linden and Jason Dedrick, estimated that Apple receives 58.5 per cent of the sales price of an iPhone as its profits. Another 14.5 per cent accrues as profits of non-Apple suppliers within and outside the US (including Japan, the EU, South Korea and Taiwan). With material inputs absorbing 21.9 per cent of the remaining value of the product, workers in China get only 1.8 per cent and those outside China 3.5 per cent. These low labour cost shares are not so much the result of low employment numbers as they are of the extremely low wages paid to workers, especially those in assembly plants run by vendors. Wistron, along with the others like Foxconn and Pegatron, is one such vendor for Apple.

The small share of the final price accruing to offshored manufacturing in global value chains increases the pressure on vendors to keep wages down, maximize 'productivity' by lengthening the working day, and limit costs associated with ensuring better and safer working conditions. This is a strategy that vendors of transnational giants have adopted in many locations, especially in those like China where labour resistance is relatively weak and provincial competition to attract investors results in lax monitoring by the government. This has implications for countries such as India, where the government harbours ambitions of partly displacing China as a global manufacturing hub by integrating local manufacturing more closely with global value chains.

While rising wages in China fuels such ambitions, India needs to offer vendors an environment where they can ride on depressed wages and poor working conditions, for which labour laws are being diluted and implementation of even these diluted laws is slack. Besides the new labour codes pushed through at the Centre, the Karnataka government attempted in May in the midst of the pandemic to extend (by mere notification) the length of the normal working week from 48 to 60 hours, with the length of a normal shift raised from 8 to 10 hours. Even that initiative, which did not stretch to accommodate Wistron's desire for a 12-hour shift, had to be withdrawn as the government realised that the popular response was extremely adverse. Thus, though Wistron may have misjudged how far it could push workers and get away with it, this was by no means the ploy of a set of unscrupulous, rogue managers. It is what the nature of global value chains dictates. Foxconn, for example, has been accused of indulging in excessively exploitative practices in China on more than one occasion. Wistron was doing what it takes to be a successful and profitable player in a value chain that benefits Apple the most. So, the latter's protestations that Wistron had violated its supplier's code is not all too convincing.

From the point of view of the country serving as the chosen location of such a vendor, a low share of final value accruing to the production or assembly stage in the value chain, and the low wage associated with it, implies that domestic value addition is extremely low. This questions the wisdom of the government's move to attract such vendors by offering them subsidies euphemistically identified as production linked incentives. In the 10-plus sectors for which the NDA government has announced this production linked incentive (PLI) scheme, it plans to spend around Rs. 2 lakh crore as subsidy over a five year period, even as expenditures on social welfare are woefully inadequate and even falling. The PLI scheme offers producers, domestic and foreign, in selected industries, financial incentives, which in the case of mobile phones amount to 4-6 per cent of the value of incremental sales of firms meeting threshold sales and investment requirements. Given the estimate by Kendrick et. al. that labour in Chinese production facilities gets less that 2 per cent of the value of iPhone sales, this provision of 4-6 per cent of incremental sales value as incentive to attract the vendor concerned seems to make little economic sense.

There are two ways in which the production-linked incentive scheme is being justified. The first is that it is a clever way of incentivising export production in the manufacturing area without the pay-out being identified as WTO violative, since the subsidy is not directly trade related. The scheme does not speak of export production and is not presented as an export subsidy, but is linked to production, whether for the domestic or the export market. The premise seems to be that the areas chosen to be included under the scheme would be ones in which India has the capacity to emerge as an export hub. Exports would rise, it is hoped, though the link between the subsidy and exports is not direct, but indirect at most.

However, as noted, given the nature of global value chains, the capacity of a developing country to serve as an export hub seems to be dependent on offering producers a field where labour costs could be kept at a minimum. Perhaps the official perception is that India is now more 'capable' of making that offer than China, where labour costs are seen as rising after long years of fast growth. However, the Wistron episode suggests that despite the current political strength of the ruling coalition, getting workers to accept a low wage and poor working conditions environment is not easy. Moreover, China is not the only location that India competes with even in Asia. Countries varying from Bangladesh to Vietnam are looking to tread a similar path, making both the task of keeping labour costs 'adequately low' difficult and the benefits from traversing that path all too limited. Even Chinese investors may, in the wake of the harmonisation of rules of origin and tariffs across East Asia through the signing of the Regional Comprehensive Economic Partnership (RCEP), plan to relocate production facilities to low wage locations to retain buyers and markets they currently serve.

The other justification for the PLI scheme does not refer to exports but sees the scheme as a means of encouraging manufacturing production and addressing India's long-standing weakness reflected in a low share of manufacturing value added in GDP. But, if value added in these activities is very low, and that value addition is ensured through a subsidy that enhances profits of foreign firms that are transferred abroad, any GDP increase on this count can only be an illusion.

In sum, the Wistron incident may not be an isolated worker response to an abnormal set of rogue managers, but reflective of a fundamental flaw in joining a race to the bottom in the search for manufacturing growth at the expense of workers. Riding roughshod over workers, standing on the shoulders of foreign firms and depending on foreign markets, is not the way to journey to an Atmanirbhar Bharat or self-reliant India.

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