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Outsourcing governance: states and the politics of a 'global value chain world'

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ABSTRACT

Politics, and by extension states, are marginal in debates about the genesis, evolution and functioning of the global value chain (GVC)-based global economy. We contend here that the core complexity of state agency and state power needs to be much more carefully understood in GVC and related debates, as a basis on which the governance of the evolving GVC world can be properly theorised as revolving around the inseparability of economic and political power. We advance a framework for understanding the role of politics and states in the construction and maintenance of a GVC world, using a three-fold typology of facilitative, regulatory and distributive forms of governance, and propose a notion of 'outsourcing governance' as an attempt to capture the ways in which states purposefully, through active political agency, have engaged in a process of delegating a variety of governance functions and authority to private actors. Our overarching argument is normative: 'outsourced governance' of the form we currently observe is associated with regressive distributional outcomes, and is antithetical to an inclusive and sustainable global economy.

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The increasingly voluminous literature on global value chains (GVCs) and the closely related concept of global production networks (GPNs)[1] has called for renewed concern in political economy with the form of industrial organisation that underpins the contemporary global economy. The literature is characterised by fierce debate on how what we call here a 'GVC world' functions, but is essentially united in its understanding of how it came about. It is understood in the broadest sense as emerging from the strategies of transnational corporations (TNCs) to create and capture value, in the context of an erosion of state power in a globalising economy. In other words, the driver of change is the economic globalisation process, and its logic is inter-firm competition. Much attention in a parallel literature is also paid to the emergence of 'private governance', thought to fill the void created by a global economy at least partially dis-embedded from state institutions of governance. 'Private governance' is usually seen as arising largely from the interplay between non-governmental organisations (NGOs) and firms, with states depicted merely as bystanders. Across the board, in other words, politics, and by extension states, are marginal in debates about the genesis, evolution and functioning of the GVC-based global economy. With some honourable exceptions (as in all generalisations), it is fair to say that they tend to be incorporated into theory and analysis only in perfunctory terms, and are considered largely to fall outside the core concerns of GVC scholarship. It is not perhaps irrelevant to observe in this respect that the bulk of GVC/GPN scholarship has emanated from the fields of economic sociology, economic geography, development studies and international business, and that

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there has been strikingly little participation in the associated debates from political economists working in the traditions of political science or international relations.

Our starting point in this paper is thus that it is time to think much more carefully about the centrality of politics in a GVC world, and particularly the role of states in the creation and maintenance of it. We echo the arguments of an important and unfortunately still rather inconspicuous strand of the literature, which seeks rightly to understand GVCs as both economic and political phenomena (Levy 2008). We contend that GVCs need to be theorised carefully in *political economy* terms, revolving around the inseparability of economic and political power. Such a contention opens up an expansive subject matter, both theoretical and empirical, which is necessarily beyond the scope of a single paper. Our 'cut' into it in the present contribution relates to states and state power, which we aim to rescue from their position of ongoing neglect in current debates about GVCs and surrounding questions of governance.

In pursuing this aspiration, we advance a sympathetic challenge to the two key literatures in which debates about governance in global production have unfolded. The first is the GVC literature itself, which has retained a strongly firm-centric character. In that literature, the term 'governance' is used predominantly to refer to governance by lead firms of suppliers within the value chain (Gereffi 1994: 96): 'the concrete practices, power dynamics, and organisational forms that give character and structure to cross-border business networks' (Ponte and Sturgeon 2014: 200). In this literature, power is a central concept, but it refers to power relations between firms, particularly between buyers and suppliers. This perspective is indispensable to GVC analysis, but, in our view, the conception of 'the political' that it mobilises is too narrow to capture the intrinsically political nature of GVCs and the governance of a GVC-based global economy. This is not to say that there is no recognition of the importance of states and public authority in the GVC literature. Adopting the focus noted above, Stefano Ponte and Tim Sturgeon take care to acknowledge the need for the 'more ambitious analysis of how, overall, GVC governance is mutually constituted by broader institutional, regulatory and societal processes' (Ponte and Sturgeon 2014: 197). Indeed, such a recognition was intended as one of the contributions of a notion of GPNs as a suggested improvement on the chain metaphor in GVC analysis (Henderson *et al*. 2002, Coe *et al*. 2008). It is nevertheless fair to say that, on the one hand, conspicuously little work has acted robustly upon this recognition, and, on the other, states and public authority are typically cast as reactive to the phenomenon of GVCs.

The second body of scholarship with which our interests intersect is the burgeoning literature on private governance, and more recently hybrid forms of public–private governance. Building on earlier debates about corporate social responsibility (CSR), this literature takes as its primary focus the ascendance of private actors in regulatory governance. An extensive body of work documents the governance strategies pursued by firms in GVCs, including corporate codes of conduct, auditing regimes, social and environmental labelling, and product and social standards (see Esbenshade 2012), alongside parallel interests in private standard setting in the global economy (e.g. Büthe and Mattli 2011). Private governance is generally thought to have arisen without significant agency by the state, as a result of pressure from societal groups on private firms. The political relationships of primary interest are most often those of firms with consumers and civil society organisations (MacDonald 2014). Parts of this body of work have nevertheless embraced a welcome and valuable concern with how public and private forms of governance interact, especially in the transnational arena. While much of this literature invokes an idea of the 'return' of the state, on the basis of a problematic presumption that it was once absent, nevertheless valuable insight is offered into how states have shaped the politics of private governance.

On this basis, our aim in this article is to advance a framework for understanding the role of politics and states in the construction and maintenance of a GVC world. The argument is premised on a threefold typology of the forms of governance that markets typically require: *facilitative*, *regulatory* and *distributive* forms of governance (Gereffi and Mayer 2006). Our first argument concerns the role of the state in facilitating the emergence and spread of GVCs. Rather than being either absent entirely or, at most, unwitting enablers of GVCs, states are to a great extent the intentional architects of the GVC world. GVCs have flourished through the structures and modes of governance purposefully facilitated by powerful states since the 1970s.

Our second argument concerns the role of the state in outsourcing *regulatory* governance. The emergence of private governance has usually been seen as the product of pressure from societal groups responding to deficiencies of public regulation, a vision in which states played little part. We argue, however, that states have played an important role both in driving the public deregulatory agenda and in actively promoting private regulatory regimes.

Our third argument concerns the role of states in outsourcing *distributive* governance. A consequence of the emergence of GVCs, whatever their advantages in terms of efficiency of production, is the concentration of wealth in the hands of those with power in the chain. Usually, the argument is that states have simply lacked the capacity to respond to the inequitable distribution of wealth and the consequences of that inequality. We argue, however, that states have not only chosen not to adopt such policies, but have in some cases engaged in promoting inequality, usually in the name of 'competitiveness', through less progressive tax policies, relaxation of competition policy and reductions in social programmes.

Our final argument is normative: outsourced governance of the form we currently observe will not produce an inclusive and sustainable global economy. Private governance – whether facilitating the pattern of economic production and exchange, regulating the environmental and social impacts of that economic activity or certainly addressing its distributional consequences – can be part of the solution but it will never be sufficient. It follows from our prior arguments, however, that as architects of the global system, states retain significant power to shape it in ways that remedy this situation. What is needed, therefore, is a new politics that re-engages the state in the essential task of governing the global economy. There are some signs that this may be emerging: much is made of the resurgence of industrial policy, particularly in emerging economies, as a possible indication of a new mode of economic governance characterised by more interventionist states. Yet we consider such a conclusion to remain premature: if it is in evidence in a meaningful sense, this resurgence is limited to a small number of states; moreover, there is little evidence as yet that it extends beyond facilitative governance into the realms of distributive governance, nor that it is as yet consistent with a progressive agenda for inclusive and sustainable development.

Two caveats are in order before proceeding. The first is that we are not denying the agency or power of private actors – far from it. We fully recognise that corporations, in particular, as well as other non-governmental actors, possess and exercise vast structural power in the global political economy and have considerable influence over the behaviour of states. Clearly, there is also a domestic politics to state behaviour. Constrained within the confines of a single paper, however, our point for present purposes is that politics in a GVC world are not reducible to a set of societal interests, nor to the dynamics of corporate power within GVCs. Inasmuch as it is through the state that those interests find expression, the institutions and agency of the state matter.

The second caveat is that our language refers to states in general. However, we recognise the hazards of generalisation. Not all states were central to the political genesis of the GVC world. Nevertheless, the realities of GVCs as the predominant global economic structures for production and trade, and the fact that the GVC framework has become a contemporary development mantra, mean that all states are now engaged in the process of negotiating the power dynamics that crystallise in and around GVCs. This has led to the emergence of varied sets of governance arrangements, reflecting contingent modes of entwinement between public and private governance, and more broadly between economic and political power. Inevitably, we cannot reflect the scale of variation and contingency in this single paper, and our efforts here are predominantly oriented to providing a framework within which the politics of governance can be theorised and analysed.

The first section engages with the literature on states and governance to flesh out our argument that states and politics need to be rescued from their neglect in contemporary GVC/GPN scholarship. The following three sections address the three dimensions of our governance typology, in turn facilitative, regulatory and distributive governance, exploring the dynamics of the process of outsourcing governance in a GVC world. A conclusion pulls the threads together and makes a normative argument about the inadequacy of outsourced governance and the need, therefore, for a political solution.

The myth of the powerless state

In the late 1990s, Linda Weiss challenged what she saw to be a 'phenomenon of state denial' in globalisation debates (Weiss 1998). She, with others, documented the widespread assumption that states had withered away under the assault of economic globalisation, or else had assumed a position in which they could comfortably be afforded secondary interest, or indeed none at all, in understanding patterns of global restructuring. This orthodoxy was subjected to sustained challenge and contestation, as all orthodoxies are, but nevertheless imposed what Peter Evans called a 'pervasive belief that the institutional centrality of the state is incompatible with globalization' (1997: 70).

Other parts of the literature on globalisation have not been guilty of state denial as such, but nevertheless have sought to trace and understand the presumed undermining of the authority of states and the emergence of new and important systems of private authority in global governance. Those whose interest in private authority is rooted in the study of international relations, multilateralism and global governance have tended to focus on the manner in which the governance functions traditionally exercised by public authorities are progressively 'privatised' and assumed by private actors (e.g. Cutler *et al*. 1999, Hall and Biersteker 2002, Graz and Nolke 2008, Büthe and Mattli 2011, Green 2014), with the corollary assumption that public governance is being squeezed or eroded by private governance. John Ruggie took a somewhat different stance, arguing that there has been no clear shift away from public governance to private governance, but rather that a public domain, partially dis-embedded from the state, is being 'reconstituted' at the global level. In his view a parallel and new 'transnational world of transaction flows' has left behind 'the slower-moving, state-mediated inter-national world of arm's length economic transactions and traditional international legal mechanisms, even as they still depend on that world for their licences to operate and to protect their property rights' (Ruggie 2004: 503).

Throughout most of the globalisation literature, it is striking that states are largely present as passive actors, and the primary concern is to depict what is happening to states as a consequence of processes in other arenas. Even in Ruggie's important argument, states are not significant actors in the making of this new world of transnational flows. The agents and demandeurs are private and societal actors; states are depicted as performing the residual functions of providing the legal and political underpinnings of the new multi-nodal form of global governance. Similarly in the context of Asian development, long the thorn in the side of state denial, recent scholarship has emphasised a 'dis-embedding' narrative, wherein Asian firms have become 'gradually dis-embedded from state apparatuses and re-embedded in different global production networks governed by competitive inter-firm dynamics' (Yeung 2014: 70).

It would not be unfair to say that, as the popularity of the GVC framework has grown, it has been a means by which the imprint of state denial has remained strong in contemporary debates on global economic governance. One of the key projects in GVC analysis and its precursors in commodity chain research was to 'decentre' the state in order, innovatively, to focus on transnational processes (Bartley 2007: 341). Some scholarship does stress the need to incorporate power, politics and states, and indeed the role of states in creating the conditions in which GVCs emerged has attracted some insightful attention (e.g. Bair and Gereffi 2001, Gibbon and Ponte 2005). As noted, one of the flagship contributions of the GPN framework, in response to perceived shortcomings of the GVC approach, was to open up more theoretical and analytical space for states, institutions and power. However, this promise has not yet been realised. Power relations have remained conceived in predominantly economic terms, and the theorisation of power primarily centres on firms as agents (Dallas 2015) that seek to generate economic rents in GVCs (Kaplinsky 2005; Levy 2008: 945). While this perspective is indispensable to understanding facets of power relations within GVCs, it is built on a limited conception of the political, and it marginalises the agency of states in accounts of the evolution of the GVC world.

A second literature, on private governance and corporate responsibility, typically starts from similar assumptions about the hollowing out of public authority in the global economy, leaving a governance void into which private governance has been propelled by pressures from societal actors. Particularly in relation to labour and environmental standards, the dominant governance agents are now assumed to be private corporate actors putting in place a mode of 'transnational private regulation' (Bartley 2007), whose relationship with public governance remains the subject of debate. Such outcomes have been lamented by many, arguing that private governance cannot be considered an effective or legitimate substitute for public governance, and that public and private governance can be, increasingly are, and need to be complementary (Mayer and Gereffi 2010, Vogel 2010, Esbenshade 2012, Locke 2013). The assumption nevertheless often remains that private governance is in the ascendant (and has been for some time), and that public authority is increasingly compressed by private governance. Consequently, the politics of a GVC world are often depicted in this literature as being merely about the interaction between civil society, notably NGOs, and private corporate actors (MacDonald 2014). These dynamics are unquestionably at work. However, in privileging them, much of the literature has missed the extent to which states have been and remain complicit in their own withdrawal, through an active process of delegating authority and functions to private actors. The emergence of interesting forms of public–private governance is not, in this sense, about the 'return' or 'resurgence' of the state, but about a complex, and indeed contradictory, reconfiguration of how public and private authority are entwined with one another.

In the sections that follow we develop a different interpretation of the political economy of governance in a GVC world, which aims to pull politics and states into the centre of the picture.

States as architects of the GVC world: facilitative governance

Our first claim is that far from being bystanders at the creation of the GVC world, states were its primary architects. The global economic regime that enabled the rise of – and continues to support – GVCs did not simply spontaneously appear; rather, it was established by states, acting both collectively and unilaterally, and is continually enabled by states. In this sense, states continue to play a central role in facilitative governance, defined as policies that support the formation and operation of GVCs.

Our stance is consistent with the insights of some of the early critical literature on globalisation, which challenged the 'retreat of the state' orthodoxy outlined above. In criticising the claim that globalisation was undermining states, these critics argued that globalisation was a political and ideological project that was 'authored', engineered and maintained by states themselves (e.g. Helleiner 1994, Amoore *et al*. 1997, Evans 1997, Weiss 1998). Robert Cox conceptualised this process as one in which states represented the 'transmission belts' through which the ideological and political forces associated with the neo-liberal project were given concrete expression through institutional restructuring and policy reform (1987). Within the literature on policy reform, in a similar vein, Miles Kahler noted an 'orthodox paradox': neo-liberal policies that limited government intervention depended paradoxically on the presence of strong national state institutions and a strengthening of the state itself (Kahler 1990). All of these perspectives insisted on the need to understand states not as being eroded by globalisation, but instead as driving the process of globalisation. Backed up by an extensive literature in comparative and institutionalist political economy challenging the notion of convergence, the suggestion was that a focus on the decline of the state was misplaced: the relevant question was not the *degree* of 'stateness' but rather the *nature* of 'stateness' in the context of globalisation (Phillips 2005: 97).

These insights can valuably be extended to the more specific context of the GVC world. Rather than being mere reactors to the phenomenon of GVCs, states were – and remain – central in the constellation of political forces and interests that has enabled them to emerge and take form. To understand the ways in which states have facilitated the rise of GVCs, it is useful first to recognise what forms of governance these structures and networks require. The essential characteristic of a GVC is a fragmented production process in which, typically, some or all of the stages of production are outsourced by lead firms to geographically dispersed suppliers and sub-suppliers. GVCs, therefore, require low barriers to trade, secure property rights, including investment and intellectual property protections, and tolerance for concentrations of market power. This is precisely the environment that states have created. Among the specific actions taken by states have been international agreements promoting free trade and strengthening investment and intellectual property rights, national and international development strategies premised on liberalisation and deregulation, and systematic loosening of competition policies.

Trade, investment and intellectual property agreements

Beginning in the late 1980s with the launch of the multilateral trade negotiations that created the World Trade Organization (WTO), through the negotiation in the 1990s of a growing number of regional free trade agreements (FTAs), and then with gathering velocity the negotiation a proliferating patchwork of bilateral FTAs mostly between developed and developing countries, states engaged in a dramatic lowering of the barriers to trade, particularly in manufactured goods. The ambitious multilateral trade negotiation that culminated in the creation of the WTO in 1995 represented a considerable enlargement of the scope of previous trade agreements, both in terms of the issues covered (non-tariff barriers as well as tariffs, agriculture as well as manufacturing), the strength of the regime (binding obligations with a judicial procedure to help enforce them), and, particularly, the inclusion of much of the developing world in the disciplines of the trade regime. Alongside the multilateral process, the push for greater openness in trade crystallised in a proliferation of regional and bilateral FTAs.

For the US, the 1994 North American Free Trade Agreement (NAFTA) was pivotal, marking the beginning of a series of agreements with developing countries: the Central American Free Trade Agreement with Central America (which was signed in 2004 and entered into force in 2006), and bilateral agreements with myriad nations in the hemisphere and beyond. Over the 2000s, the US entered into bilateral FTAs with, among others, Jordan (2001), Singapore (2004), Panama (2007), Peru (2009), Morocco (2006), Bahrain (2006), Colombia (2006), Chile (2004) and Oman (2009), as well as a more limited textile agreement with Cambodia. All told, the US now is party to 20 FTAs (USTR 2015). The European Union (EU) has been equally busy, negotiating bilateral FTAs with such countries as Mexico, Israel, Morocco and South Africa (all in 2000) as well as Jordan, Chile, Lebanon and Singapore. It is now part of more than 30 FTAs in total. Japan, too, has been in the same business, and now is party to 14 FTAs (WTO 2015a). In addition, preferential trade arrangements give preferred access to developed country markets for goods coming from particular developing countries. The EU has such arrangements with virtually all of sub-Saharan Africa, as well as with Central America, and parts of Latin America and South Asia. The US has agreements with much of Africa and the Andean nations of South America (WTO 2015b).

These trade agreements deviate from 'free trade' in at least two important ways, both of which tend to entrench the GVC as the form of global production. The first is the inclusion of rules of origin in FTAs, which determine how much of a product's total value needs be produced by parties in the agreement in order to receive preferential treatment (such as a lower tariff rate). The NAFTA, for example, has rules of origin for automobiles and textiles that specify how much of a car or a garment needs to be produced in North America in order to qualify for lower rates. An intentional consequence of these rules is that they facilitate the establishment of value chains within North America (Mayer 1998, Bair and Gereffi 2001). It is perhaps telling that agreements involving the US or the EU with developing countries, such as NAFTA or the EU-Mexico FTA, tend to have more restrictive rules of origin that do agreements among developing countries (Brenton 2011), the effect of which is at once to enable regional value chains and to protect them from external competition.

A second feature of trade agreements is that often they include residual protection that reinforces lead firm location in developed countries and limits the ability of suppliers in developing countries to shift to higher value-added production. This is perhaps most pronounced in agricultural production, where higher tariff rates remain on finished products than on commodities, an arrangement known as tariff escalation. Elamin and Khaira (2003: 101) find that tariff escalation is most pronounced in 'commodity sectors such as meat, sugar, fruit, coffee, cocoa, and hides and skins, most of which are of export interest to many of the poor developing countries'. Mohan *et al*. (2013) find that although developing countries are the primary producers of coffee, tea and cocoa, the majority of manufacturing and processing happens outside of the producing countries, thus depriving developing countries of value capture.

In addition to trade provisions, states have also created international rules governing investor rights. Such rules are now almost always included as part of FTAs. In addition, there has been a proliferation of stand-alone bilateral investment treaties (BITs). The US is now party to 40 such agreements, the EU to 52. Counting both BITs and FTAs with investment provisions, there are now more than 2000 investment agreements in force around the world (UNCTAD 2015). For developing countries, agreeing to investor rights provisions is clearly part of an effort to attract foreign investment more generally (Elkins *et al*. 2006). But, by strengthening investor rights, these provisions also serve to reinforce a business environment conducive to the functioning of GVCs.

Development policies of states and international organisations

As has been exhaustively documented, beginning in the debt crises of the 1980s, neo-liberal advocates in Washington and London, working though the World Bank and the International Monetary Fund, pushed an agenda of free trade, privatisation of state-owned enterprises and deregulation as the path to development. As the Bank and the Fund became drawn into the effort to contain the economic crisis by lending to countries, they conditioned their support on the adoption of neo-liberal policies they preferred. Given the dire financial and economic situation of many developing countries, particularly in Latin America, the international organisations had enormous leverage as they demanded 'structural adjustment' in the form of reduced public spending, privatisation and market opening. As Collier and Gunning (1999: F634) note, 'the task thus went beyond the conventional one of rectifying a crisis, to reorienting a development strategy'.

The net effect of these policies was to enlarge the domain of the global market in ways that enabled the growth of GVCs. But, in recent years, the development policies of both major international organisations and national development agencies have become explicitly concerned with promoting GVCs. In a remarkably short time period, the concept of GVCs has entered the thinking of practitioners at both national development agencies and international organisations (Milberg and Winkler 2013, Gereffi 2014, Gereffi and Mayer forthcoming). Beginning in the mid-2000s with interest at the International Labour Organization (ILO), the United Nations Conference on Trade and Development (UNCTAD) and other international organisations in finding an alternative to neo-liberal orthodoxies, then taken up with alacrity by the WTO, the development banks, and other international organisations in response to the financial crisis that began in 2008, GVCs are now central to the discourse through the international development community.

To a large extent, much of the debate about the relevance of GVCs to development now accepts the proposition that private firms will be the drivers, and revolves around questions of how to connect to GVCs and to facilitate economic 'upgrading' within them. The World Bank, for example, states that

> [p]articipation in global value chains (GVCs), the international fragmentation of production, can lead to increased job creation and economic growth … The World Bank Group is helping developing countries catch the GVC wave and realize the benefits GVCs can deliver. (World Bank 2015)

According to a report from the Organization for Economic Cooperation and Development (OECD), WTO and World Bank Group,

> GVCs are becoming increasingly influential in determining future trade and foreign direct investment (FDI) patterns, as well as growth opportunities. Policy needs to respond to this new reality and promote a business environment that not only makes a country attractive for location of GVCs, but also facilitates upgrading opportunities over time. (OECD/WTO/World Bank 2014)

USAID has several hundred GVC reports and documents on its website, demonstrating the extent to which it now views development assistance through that lens. UNCTAD strikes a somewhat more cautious note, although still seeing GVCs as central to the challenge of development:

> Countries need to make a strategic choice to promote or not to promote participation in GVCs. They need to carefully weigh the pros and cons of GVC participation and the costs and benefits of proactive policies to promote GVCs or GVC-led development strategies, in line with their specific situation and factor endowments. (UNCTAD 2013: xi)

A significant portion of development assistance now falls under the heading of 'aid for trade,' an initiative launched in the mid-2000s as part of the effort to build support among developing countries for the Doha Round trade negotiations of the WTO. Initially, aid for trade was largely unconnected to the GVC discourse, but, after the financial crisis of 2008, aid for trade increasingly became nearly synonymous with promoting connections to GVCs and upgrading within them. The introduction to the biennial review of aid for trade jointly published by the WTO and the OECD in 2013, for example, states that:

> The trade and development landscape has changed since the start of the Initiative. Research on trade in value added – led by the WTO and the OECD – is shedding light on the complex production networks that now characterize global trade. The deepening and widening of value chains has boosted the share of intermediate goods in trade as more firms and countries join these diffuse networks. As firms focus more on trade in certain specific tasks and less on the complete production process, new opportunities arise for firms in developing countries, including in the least developed countries, to become part of these regional and global networks. (OECD/WTO 2013: 3)

The subsequent OECD/WTO report in 2015 makes clear that the goal of aid for trade is to lower the costs of trading so that developing countries can enjoy the benefits of greater trade specifically by enabling local producers to connect to GVCs. Along with various investments in trade facilitation, it advocates close collaboration between private and public sectors to 'ensure that efforts tackle the value chain-related constraints' (OECD/WTO 2015: 24).

The push for GVC supportive policies comes not only from the advanced industrial states, but also from many developing states as well. Brazil, China, Kazakhstan and Costa Rica are just a few of the many governments that are now using GVC analysis to inform their national industrial policy and economic development strategies (Gereffi 2013). GVC references are increasingly common in many national development strategies submitted to the World Bank demonstrating the considerable extent to which the dominance of GVCs has been reinforced by organisations and governments through the mechanisms of development policy.

The decline of competition policy

The third illustration of facilitative governance we wish to highlight concerns the growing tolerance for market concentration and the diminution of competition policy at national and international levels, manifested particularly in a greater willingness to accept the high levels of market power that characterise lead firms in GVCs. This global trend towards the increasing concentration of market power appears to be evident in many sectors (Bikker and Haaf 2002, Nolan *et al*. 2002, Milberg 2004, UNCTAD 2006). Examples include retailing (where Walmart, Amazon and Alibaba have enormous scale), office software and operating systems (where Microsoft is so dominant), smartphones (where Samsung and Apple dominate the market), beer (where three producers control 40 per cent of global production), large commercial aircraft (where Boeing and Airbus control virtually the entire market), soft drinks (where Coca-Cola has nearly 50 per cent of global consumption) and credit card networks (where Visa and MasterCard together account for nearly three-quarters of all transactions). Milberg and Winkler (2013: 114) document the extent of market concentration in commercial aircraft, automobile production, computer software, electronic goods and many consumer goods, including soft drinks. In addition, enormous state-owned enterprises, notably Chinese and Russian, operate in the petro-chemical sector. A related issue is the expansion of intellectual property protections, by definition forms of (usually temporary) monopoly power, particularly in the high technology sector (Kovacic 2012).

The implication of the rise in market concentration is an increase in monopolistic and monopsonistic market power (Milberg and Winkler 2013: 115). Even if there is relatively little market power in the end market, market power upstream can allow for the generation of rents, and there is good reason to believe that these concentrations result in considerable market power within GVCs, as suppliers face limited numbers of buyers for their goods (a form of monopsony power), while buyers, often, have many potential suppliers. The consequence is highly unequal ability to capture the value created in GVCs, and the concentration of wealth in ever fewer hands. According to Oxfam, as of 2016, only 62 people own half the world's assets (Oxfam 2016).

The causes of the trend towards greater concentration are complex, but the increased tolerance for industry concentration in many developed and emerging economies, the lack of well-established competition policy in many developing countries, and the failure of states to negotiate a strong global competition policy seem likely to have contributed significantly. Every business naturally strives to find ways to limit competition for itself. Indeed, the fragmentation of production that characterises GVCs represents efforts by lead firms to outsource those aspects of production that are most competitive (and therefore least profitable) and to focus on those that are least competitive (and therefore most profitable). To check this tendency, competition policy as it has developed in the US and Western Europe has traditionally sought to limit concentration in order to protect consumers (Fox and Crane 2010). However, while there remains a rhetorical commitment to ensuring competition, there seems in the contemporary period to be a growing inclination towards mergers and a greater tolerance of their consequences for competition.

That states might be tempted at minimum to look the other way when their national firms enjoy global market power, or even more actively to promote the power of its firms in global competition, has been long understood (Krugman 1986). In the GVC world, that temptation has grown. Indeed, promotion of national firms with market power has become the explicit policy of many developing states, which recognise that being the home of low value-added (or low-value-capturing) suppliers does less to promote economic growth than being the home of a higher value-added/capturing lead firm. Given these incentives, global competition policy is something of a public good that requires international cooperation to achieve. Yet states have failed to agree on global competition policy. In part, perhaps, this may reflect a tendency to imagine that globalisation and trade by definition increase competition (Hoekman and Holmes 1999). But efforts to negotiate competition policy in the WTO also failed because they met with strenuous opposition from many states, particularly China.

We have suggested thus far not only that states were active architects of the GVC world, but also that they remain actively engaged in forms of facilitative governance designed to consolidate its underpinning structures of market power. A subtle point about the outsourcing of facilitation is that firms, not states, now play the major role in determining what will be produced where and on what terms, and what will be traded internationally. To a great extent, global patterns of production that were once strongly shaped by the constellation of trade rules and other state policies are now artefacts of value chain governance. Indeed, while the architects of the neo-liberal globalisation project envisaged a world of free market competition, what has instead emerged has been a 'highly leveraged form of managed trade' in which lead firms control production, not markets or states, and in which the value in the system is captured by the most powerful actors within it (Gereffi and Mayer forthcoming). In other words, global market engagement has shifted 'from a passive process involving the reaction of independent actors to market signals, as in international trade theories, to a set of industrial transformations constructed within system-wide dynamics of coordination and control by economic and non-economic actors' (Neilson *et al*. 2014: 1) – a process to which states, and the mobilisation of state authority, have been central.

States and private authority: regulatory governance

Our second major claim concerns the privatisation of regulatory governance. It is that the rise of private governance is, in important measure, directly the result of the state-driven project of reshaping the relationship between states and markets, and between public and private authority. The emergence of private governance is often construed as a response to a deficit of governance. The logic is Polanyian: markets became dis-embedded from social institutions, creating something of a deficit of governance, which triggered a 'second movement' in the form of civil society pressures on corporations to improve their practices. But the rise of private governance is not merely the consequence of an 'absence' of public governance or the decline of state capacities. Rather, it is also the result of a political and ideological project that states themselves were central to constructing, and which they continue to enable. In other words, the pre-eminence of private governance is in part the result of a process of *structural* change associated with economic globalisation and the emergence of a GVC world (itself an artefact of state choice), but it is also, and importantly, the consequence of *political* choices made by both states and private actors, influenced by particular ideological precepts, concerning the desired mode of global economic governance. A focus on the 'political construction of market institutions' (Bartley 2007) is therefore necessary to understand regulatory governance in the GVC/GPN world.

It has been well documented that the functions of regulatory governance have been assumed increasingly by private actors, especially in relation to labour and environmental standards (Mayer and Gereffi 2010, Vogel 2010, Büthe and Mattli 2011, Esbenshade 2012, Haufler 2013, Locke 2013, Auld 2014, LeBaron and Lister 2015). Private actors are increasingly cast as regulators, important development actors and agents of global justice. Often this is characterised as a partially unintended consequence of globalisation and the lack of effective international systems of governance, and/or the result of low levels of regulatory capacity on the part of states in those countries and regions that have been drawn increasingly into globalised production structures.

In part, it is indeed the case that global deregulation represents a by-product of the shift of production from locations with strong regulatory regimes to countries in which governments have limited bargaining power vis-à-vis powerful TNCs, and/or limited enforcement capacity as a result of institutional weakness and lack of resources. In the case of the disaster of Rana Plaza, for instance – the garment factory in Dhaka, Bangladesh, which collapsed in April 2013, killing 1135 workers – garment production that might previously have taken place in more regulated states was now taking place in a location with much more limited inclination to regulate or enforce and less state capacity to ensure worker rights and safe working conditions. It is undoubtedly the case that globalised market forces can overwhelm the ability of states to regulate. At the extreme, in such cases as illegal logging, wildcat mining and drug cartels, economic activity may take place completely outside the regulatory reach of the state. Even in less dramatic instances, a great deal of production in contemporary value chains, particularly low-wage, labour-intensive work in agriculture, garments and other sectors takes place beyond the reach of regulatory coverage.

Several objections to this interpretation are nevertheless important. First, trade deals not only lowered tariffs and other impediments to free trade, they also circumscribed the ability of states to limit imports based on failures to regulate elsewhere. Although environmental and health provisions in trade agreements typically allow for restrictions when there are environment or health impacts *in the importing country*, they severely limit the ability of states to impose restrictions based on practices in the exporting country. Only in extreme cases, such as documented use of child or forced labour, or in the case of trade in endangered species (under CITES), are such restrictions allowable under WTO rules.

Second, in the competition to attract foreign investment and to increase their exports, developing countries have incentives to be the low cost point in GVCs. This in turn translates into incentives for governments to limit regulatory costs for producers, as well as to keep wages 'competitive' and to restrict workers' ability to organise. Similarly, enforcement mechanisms remain either underdeveloped or not implemented. Labour inspection systems are usually partial in their coverage, in part because of limited resources, but also because of deliberate decisions to make them so. Ample evidence suggests that inspection systems are sometimes actively hindered by state authorities (see ILO 2006, Deshingkar 2009). National legislation often also reflects the politics of outsourcing governance. For instance, most forms of home work in India remain unregulated as they exclude from national labour laws (Deshingkar 2009: 10–11), which is precisely where problems of child labour have come recently to be concentrated (Phillips *et al*. 2014). Furthermore, arguments about political compulsion and incentives against regulation are relevant to the more advanced economies, where political dynamics between governments and big business, as well as ideological affinities between them, have substantially the same outcomes in terms of a retraction of regulation.

Third, regulatory variation across states demonstrates that states retain considerable latitude in determining their regulatory regime. We would expect and indeed do see an enlargement of state regulatory capacity in larger economies with stronger states. In China, for example, legislative initiatives such as the Labour Contract Law of 2008 represented an enhancement of the state's enforcement of labour and environmental laws, increasing the costs of production in China and contributing to its strategic move from concentration in the lowest cost tiers of GVCs to higher value-added production (Lan and Pickles 2011). Brazil has consistently pursued a model of neo-liberalism characterised by greater regulatory activism than many of the 'purer' versions. In the realm of the governance of GVCs, the extent and scale of public regulation can be striking, as in the extensive federal system to monitor labour standards and specifically to combat the problem of slavery in supply chains, and the government's decision in 2013 to sue the electronics lead firm Samsung for some US$105 million over violations of labour standards in its factory in Manaus (Phillips and Sakamoto 2012, Barros 2013). Yet, to date, the global net effect of outsourced production has been reduced regulation by states.

Finally, we make a more fundamental critique of the theoretical premises on which this conception of private governance is built. What may appear to be purely private forms of governance are always and everywhere underpinned by particular kinds of interactions with state authority and public governance. Private regulation is articulated in the 'shadow of the state' (Abbott and Snidal 2009), and the state represents the 'regulatory gorilla in the closet' (Verbruggen 2013). Here, we can draw on rich veins of insight in the literature which show how states and public governance are critical to promoting and shaping private governance, in a variety of ways: from the role of political contestation in determining the forms that emerging regulatory institutions and mechanisms have taken (Bartley 2007), to how state regulatory capacity is critical to the enforcement of transnational private regulation (Verbruggen 2013), and the 'governance triangle' that sustains the contemporary regulatory space (Abbott and Snidal 2009). These arguments need to be extended in our context to capture the ways in which regulatory authority is explicitly 'delegated' or, in our term here, 'outsourced' to private actors, where the explicit intention of state actors is to retract the state's direct control over particular arenas of regulation. This does not mean that the state becomes inactive; rather, the process of outsourcing governance requires concerted political action to promote and shape the resulting forms of private regulation, and the process is everywhere shaped by intense, ongoing political contestation, with varied outcomes.

Particularly notable in this respect is the role of the state in promoting CSR, including the mobilisation of its legislative authority ostensibly to integrate CSR into national legal frameworks. This has taken different forms in different places. The state of California enacted 'disclosure' legislation in 2013 – the California Transparency in Supply Chains Act – to require firms doing business in that state to report their activities and actions in relation to human trafficking in their supply chains. The UK government incorporated supply chain provisions modelled on the California legislation in its Modern Slavery Act of 2015. In 2014, the Indian government passed legislation making CSR mandatory, with provisions compelling both a minimum spending level on CSR by large firms and disclosure requirements in annual reports and on websites.

Ostensibly, these initiatives represent a movement away from the primarily voluntaristic manner in which CSR has been articulated, towards what has been termed 'CSR as mandated by government' (Gond *et al*. 2011). However, it is a feature of disclosure-based legislation, including the Californian, UK and Indian legislations, that they lack any clear sanctions for non-compliance, and any regulatory or enforcement role for the governments enacting this legislation. The role of the state here is deliberately legalistic and rhetorical, and this form of governance continues to rest on private standards, defined by firms themselves. In this sense such initiatives tend not to be moves towards 'legally mandated private standards' (Henson and Humphrey 2010), but only moves towards mandatory disclosure – a model which in previous incarnations has an undistinguished record of commanding compliance with its requirements in the US and elsewhere (Graham and Woods 2006: 878). Similarly, the dialogue that is envisaged in disclosure legislations is not between firms and governments, but rather between firms and consumers or civil society. Consequently, these need to be understood as interesting examples of new forms of state action to promote private governance, rather than a re-assertion of public authority in regulatory governance (Phillips 2013a).

One of the early pace-setting contributions in the debate about the rise of private authority thus hit the mark exactly in its contention that private actors are 'empowered either explicitly or implicitly by governments and international organisations with the right to make decisions for others' (Cutler *et al*. 1999: 19). The thrust of this message has usually been taken as reinforcing the importance of private authority, wherein the practice of *implicit* delegation leads business essentially to emerge as an autonomous governance actor, and hence as underlining the importance of a concept of governance that does not rest on governments alone (Ougaard 2010: 24). Yet it is equally apposite here for our contention that private governance does not function independently of political dynamics in which public and private authority are entwined with one another. States have enabled the ascendance of private governance and, following Cutler's argument, actively empower private actors by delegating or 'outsourcing' governance functions. Through their public policies, they continually act to extend its reach. 'Delegated' private authority in turn paves the way for 'entrepreneurial' forms of private authority, where private actors generate their own roles and lead the political processes by which other actors are persuaded to adopt them (Green 2014). Private governance in this sense is not always driven by states, and is not necessarily directly sanctioned by states. The politics of the GVC world are shaped by the dynamics of political conflict and contestation that emerge from the interplay of public and private power. Yet, configurations of public authority, state preferences and institutions may well be critical in determining the type of private authority that emerges, and, by extension, the forms that regulatory governance takes (Bartley 2007, Green 2014). In empirical terms, therefore, the nature of the entwinement of public and private is contingent, and the type of governance that emerges will vary depending on the political-economic context, forms of state and the structure of different GVCs.

To some extent, one could argue that such moves to 'outsourced' regulatory governance are a positive development. In some forms of private governance, including those mentioned above, states have discovered that they can harness the power of lead firms to regulate the behaviour of suppliers. 'Better Work Cambodia' is a good example – addressed in the papers in this Symposium by Bair and Posthuma and Rossi – wherein private actors' participation in monitoring labour rights was made a condition for exporting under the US–Cambodia bilateral trade agreement (Polaski 2006). China's use of Apple's leverage over its supplier Foxconn to ensure compliance with Chinese labour law may be another case in point (Mayer 2014). A case might be made that state actors should strive to promote private regulatory governance, and then seek to engage and coordinate with these private regulatory regimes, as a means of better achieving their own regulatory objectives (Verbruggen 2013). Yet, a growing body of literature puts forward an argument, increasingly pervasive in studies of CSR and global regulation, that private regulation has been insufficient to secure improvements in social, labour and environmental standards, and that concerted forms of public and private governance are required in combination to achieve this end (Wells 2007, Mayer and Gereffi 2010, Vogel 2010, Taylor 2011, Esbenshade 2012, Locke 2013, Phillips 2013a). A focus on an 'orchestration' function for states and international organisations has formed an interesting part of this line of thought, focusing on the possibilities that might thereby be opened up for novel, hybrid forms of governance capable of delivering a range of public goods (Abbott and Snidal 2015). Yet there remains ample disagreement as to whether, or how, public and private regulatory governance can feasibly (in political terms) be shaped into a system of 'complementarity', and our argument here has suggested a further tension between states' actions to 'outsource' regulatory authority, on the one hand, and calls upon state actors to assume a direct 'orchestration' role. A critical remaining question concerns which and whose interests are served by such a political project.

Here, we develop this latter line of thought in the final dimension of our three-fold governance typology, namely, distributive governance.

Inequality in a GVC world: distributive governance

Inequality is not a 'bug' in the system of the GVC world, but rather an intrinsic feature of it. The rationale for the globalisation of production, and specifically for structuring the productive economy around GVCs, is precisely the creation and mobilisation of significant global asymmetries of market power in the interests of generating and capturing profit (Gereffi *et al*. 2005, Kaplinsky 2005, Milberg and Winkler 2013). Creating these market asymmetries requires a structure in which lead firms occupy oligopolistic positions – that is, positions of market dominance occupied by a small number of very large firms. In the lower tiers of production, it rests on creating densely populated and intensely competitive markets (Milberg and Winkler 2013: 123–4). Such market structures enable lead firms to transmit intense commercial pressures on conditions of price and supply along the length of their supply chains. They maximise the process of value capture by varying these conditions to their commercial advantage. At the extreme, where the asymmetries of power between lead firms and suppliers are most pronounced, this process can involve varying the terms of orders and the price to be paid per unit with no notice, cancelling orders in similar conditions, forcing suppliers to halve the time agreed for production, or indeed the price, substantially increasing orders, and obliging suppliers to meet these demands and conditions in order to retain contracts in an intensely competitive environment.

These commercial pressures are largely absorbed by small producers and, most of all, by workers, especially in the lower tiers of the value chain. In many contexts, suppliers' strategies are shaped by a perceived imperative to reduce the share represented by labour in input costs and enhance their ability to manipulate those costs to accommodate highly variable commercial conditions. A direct consequence is the growth of precarious, insecure and exploitative work as the hallmark of the contemporary global economy, performed by a highly vulnerable and disenfranchised workforce, significantly made up of informal, migrant and contract workers (Portes *et al*. 1989, Barrientos 2008, Phillips 2011a). The regulatory dynamics we sketched in the previous section are strongly associated with the facilitation of downward pressure on wages and conditions, and the far-reaching removal – or the maintenance of the existing absence – of meaningful protections for workers. This is particularly well documented in the 'developing' world, but encompasses all countries and regions: the growth of zero-hours contracts, the politics of minimum and 'living' wages, and the intense contestation surrounding work-related welfare are deeply entrenched phenomena across the world, characteristic of varied kinds of labour markets with differential patterns of intersection with global and regional value chains, and pivotal to the constitution and evolution of socio-economic inequality.

In this sense, the logic of GVCs is not solely about the mobilisation of market asymmetry, but also about the foundational dynamics of social asymmetry. Firms within value chains rely on the harnessing and, indeed, active reproduction of a global labour force with the characteristics outlined above, whose existence and availability are intimately connected with global patterns of poverty and inequality across the world. To this extent, a proportion of the world's 'social marginals' may well exist in conditions of exclusion from employment in global production, but, with the spread of GVCs and the expansion of employment within them, a far greater proportion than before are now integrated into them (Phillips 2016). As noted in the Introduction to this Symposium, one in five jobs worldwide is now estimated to be connected to employment in GVCs (ILO 2015). Inclusion in GVCs undoubtedly has been associated with advantageous employment and earning opportunities for some groups of workers. However, the dynamics of 'adverse incorporation' are also in compelling evidence, wherein employment leads not to a reduction in poverty and vulnerability, but to their perpetuation and deepening (Wood 2003, Hickey and du Toit 2007, Ponte 2008, Phillips 2011b, 2013b). The mechanisms by which this occurs are connected to the commercial dynamics of GVCs, as outlined above. As evidence of the social outcomes of these processes, it is pertinent that in 2012, the World Bank reported that, while the percentage of the world's population living in extreme poverty had fallen quite dramatically, the numbers living between the \$1.25 per day extreme poverty line and the \$2 per day poverty line had almost doubled between 1981 and 2008, to reach 1.18 billion people (World Bank 2012). This 'bunching up', as the World Bank put it, represents an expansion of the global 'working poor', whose growth in part has been propelled by the expansion of precarious employment in GVCs and the dynamics of asymmetry and inequality on which they are built.

In this sense, the distributive landscape in a GVC world is shaped by the economic logics of GVCs, which are themselves shaped by the politics of governance. Besides facilitating the propagation of a system that produces highly inequitable outcomes, as with regulatory governance states have been outsourcing their role in distributive governance. In part, this is simply an artefact of the shift of production to locations with less robust labour laws, pension and health systems, and social protection. Yet, the role of the state in outsourcing distributive governance goes well beyond this. For a variety of reasons, to a variety of extents, states have been choosing to abrogate obligations in this realm. The neo-liberal agenda pushed by states as part of the structural adjustment programmes and FTAs undermined a variety of policies with redistributive consequences. Neo-liberalism pushed by one set of states shrank the 'policy space' available to others (Wade 2003). This included measures that shrank social protection in the name of fiscal responsibility, scaled back worker protections in the name of competitiveness, ended subsidies for food and water in the name of efficiency and enshrined less-progressive taxation as part of an effort to improve the 'business climate'. Beyond this, the expansion of investor rights provisions through BITs and investment provisions of trade agreements also had the effect of limiting the set of distributive policies available to states. Furthermore, in the US and Western Europe, the social welfare policies that constituted the social compact constructed in the second half of the twentieth century have been under duress. On every front, from minimum wage policies, to progressive taxation, to public spending on social services, education and health care, to social insurance and pensions, the welfare state is at bay. All of this can be seen as part of the choice by states, sometimes coerced by other states or by powerful private actors, or both, to shrink their own social policy space.

That states have been motivated in making these choices by the desire to attract or retain investment is well known. What has been less remarked, however, is the extent to which this strategy has been intimately connected to GVCs. At heart the rationale for a value chain, as outlined above, is to minimise costs of production. Inevitably, all else equal, lead firms in value chains will seek to locate production where they have – or can negotiate – maximum labour flexibility and minimal responsibility for providing redistribution. Beyond that they have an incentive to advocate for policies that reduce their distributive obligations, and to demand exemptions and compensations relating to social obligations in negotiations for investment contracts.

The outsourcing of distributive governance seem highly unlikely to be satisfactory. Champions of private governance can certainly point to examples of apparently successful forms of private distributive governance. The Fair Trade movement, for example, is a system of private governance explicitly intended to provide better wages and job security for small-scale producers. But, to an even greater extent than is the case with regulation, private governance has not and is highly unlikely to come close to substituting adequately for public governance in the realms of distribution. Even while public–private governance has been touted as a means of achieving better distributive outcomes, we have noted that there is as yet little evidence of such a connection. We have also highlighted throughout the article the core tension that exists between the dynamics of 'outsourcing governance' and the calls for a more concerted regulatory role for states, whether as direct regulatory agents or as 'orchestrators'.

Conclusion

We have argued in this article for a more engaged political economy perspective on the question of governance in a GVC world, laying emphasis on the centrality of politics, states and public authority. We have sought to contribute to the much wider effort that will be involved in bringing politics to the centre of GVC/GPN debates by proposing a notion of 'outsourcing governance', as an attempt to capture the ways in which states purposefully, through active political agency, have engaged in a process of delegating a variety of governance functions and authority to private actors. We have, therefore, foregrounded the centrality of the power and the agency that states articulate in the GVC world. Our overarching point, in this sense, is that the core complexity of state agency and state power needs to be much more carefully understood, as a basis on which the governance of the evolving GVC world can be properly theorised. Such a project takes us a long way from the notion that states are limited to playing a bit part in this new era of transnational governance, performing the residual functions of protecting property, providing legal frameworks or fine-tuning domestic economic policy, towards a much more theoretically, analytically and empirically challenging agenda for GVC/GPN research.

Taken together, the strands of our discussion paint a somewhat dark picture of the empirical implications of outsourced governance. The public facilitation of GVCs, a privately governed form of industrial organisation, has been highly effective, and its absorption into the agendas of both national governments and international organisations indicate that facilitation will form the focus of global economic governance for some time to come. The efficacy of the emerging schema of private regulatory governance, on the other hand has been far from even, and there is little evidence yet that public–private governance can perform much better, or indeed crystallise meaningfully in the context of the tensions we have identified here. Distributive governance has been a casualty of many of the dynamics and forms of governance associated with facilitation and regulation, and, while states remain the primary vehicles by which progressive distributive governance outcomes can be achieved, their agency and authority remains oriented towards advancing forms of governance in a GVC world which, we argue, are antithetical to such outcomes.

The good news, however, is that by arguing that this system is the outcome of choice made by states, because state behaviour is an outcome of politics, there is a possibility of a political solution. It should be possible to push back at this system, not to abandon private governance where it is useful, nor to return to traditional statist models, but to reengage the state in the pursuit of more equitable and sustainable development.

Note

1. There is an ongoing, often unfortunately acrimonious debate between the GVC and GPN formulations and their relative merits. We use the term GVC here not to land on one side or other of this dispute, but rather simply as a shorthand, based on our conviction that the divides and differences between the two intellectual 'brands' are too often overplayed. In this article, we draw constructively and widely on the wonderfully rich resources that both strands of the literature have to offer our project of foregrounding the politics of the contemporary global economy.

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