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Global supply chains, global value chains and the SDGs

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**UWS-OXFAM PARTNERSHIP: A SCOTTISH BUSINESS PLEDGE THAT
WORKS FOR ALL
POLICY FORUM: 27TH JUNE GLASGOW**

**GLOBAL SUPPLY CHAINS, GLOBAL VALUE CHAINS AND THE SDGS: HOW MIGHT THE
PLEDGE HELP BUSINESSES ACHIEVE SUSTAINABLE AND RESPONSIBLE GROWTH?**

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GLOBAL VALUE CHAINS NOT THE SAME AS GLOBAL SUPPLY CHAINS!

Global Value Chains (GVCs): Developmental framework that links primary producers in developing countries to processing firms in developed countries and to final consumers (**Gereffi et al. 2006; Ponte, 2014**).

GVCs described as full range of activities required to bring a product or service from conception through the different phases of production until delivery to final consumer (**Gereffi et al. 2006; Ponte, 2014**).

GVCs offer opportunities to participating countries to **share information, knowledge, technology** and other services which helps in value addition (**Gereffi et al. 2006; van Dijk and Trienekens 2012; Ponte, 2014**).

Provides **wider market** and **access to developed economies and improves competition**, (**Gereffi et al. 2006; van Dijk and Trienekens, 2012; Ponte, 2014, Kowalski et al., 2016**).

Can improve returns on value added and **more FDI opportunities** (**Mohan et al., 2016; Ponte, 2014**).

Participation in the GVCs reduces inefficiency -“**learning by doing effect**”-(**Gereffi et al. 2006; van Dijk and Trienekens, 2012; Ponte, 2014**).

But GVCs can **marginalise smallholder producers/farmers**.

GVC PARTICIPATION: BENEFITS FOR DEVELOPING COUNTRIES

GVCs relate to 'upgrading' (Gereffi et al, 2006; Ponte, 2014; Keane and Baimbill-Johnson,2017).

Helps to improve sustainability, creates employment and reduces poverty "virtuous circle" effect.

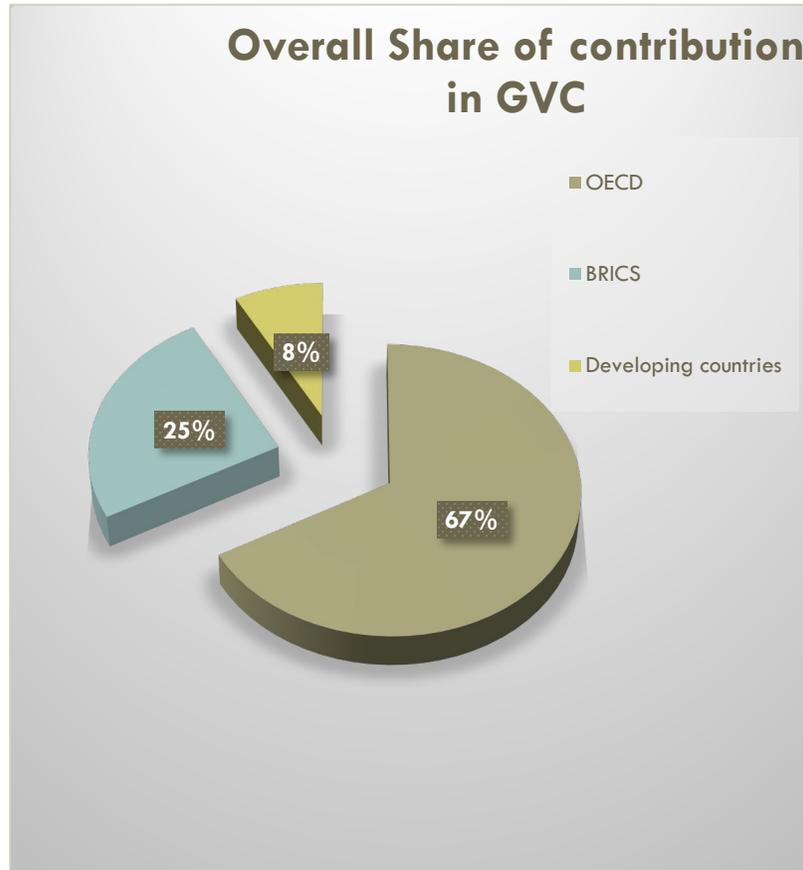
Reduces trade costs and improves quality of product,(Gereffi et al. 2006; van Dijk, and Trienekens , 2012; Ponte, 2014, Mohan et al., 2016).

Improves **economic co-operation and global integration** among participating countries.

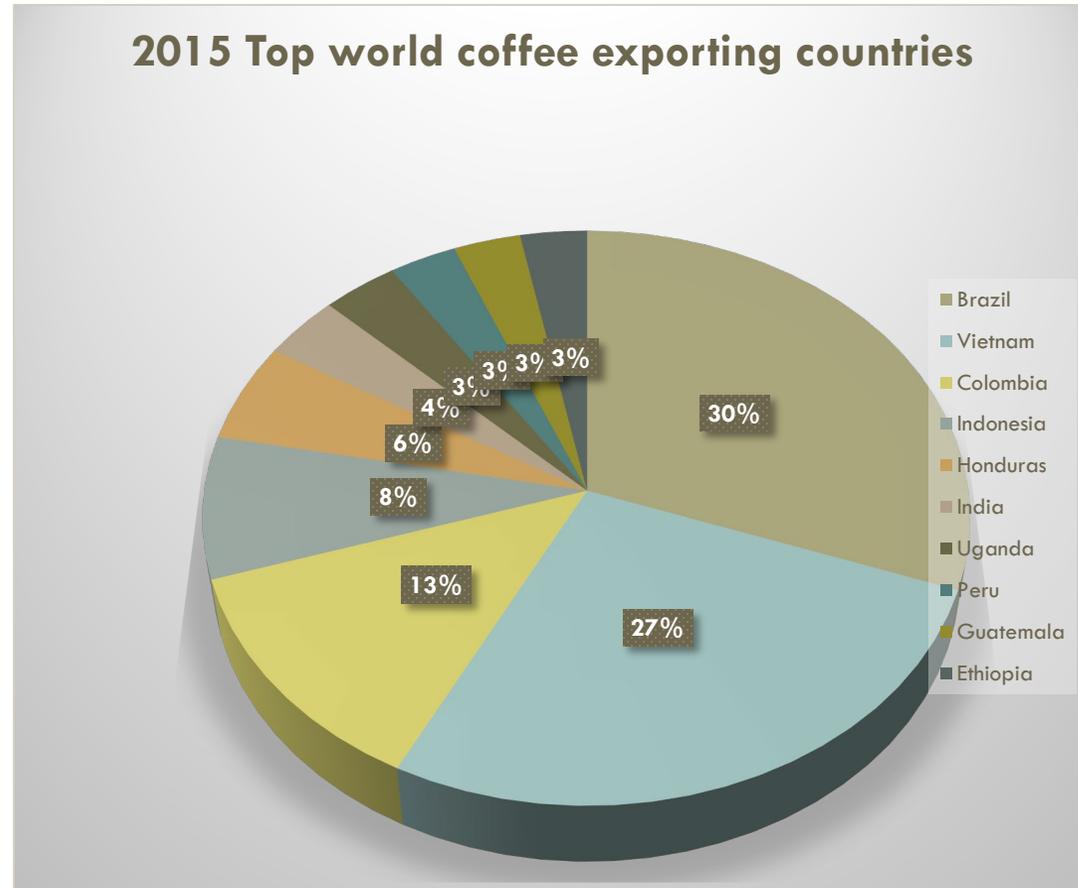
Bridges gaps between producers and consumers through an integrated system.



GLOBAL VALUE CHAIN



Banga, (2013)



ICO, (2017a)

A KEY FOCUS ON SMALLHOLDER FARMERS

Why smallholder farmers?

Smallholder farmers are mainstay of agricultural production in developing countries.

Smallholder farmers are defined in terms of: **land size** (varies according to countries) and **units of labour** (FAO, 2004; OECD, 2015; UNCTAD, 2015a).

2.5 billion people globally depend partially or completely on agricultural production for means of livelihood, (UNCTAD, 2015b).

1.5 billion of them are smallholder farmers and they supply 70% of total global food production, (FAO, 2011; UNCTAD, 2015b).

More than 85% of **coffee** producers worldwide are smallholder farmers in developing countries, (Assefa et al., 2015; Minten et al., 2014; Fundira, 2015).

DO GLOBAL VALUE CHAINS HINDER OR ENABLE ACHIEVEMENT OF THE SDGS? HOW DOES THE PLEDGE FIT IN?

The Pledge(s) provide a focal point for Scottish companies engaged in **Internationalisation** (one of the 9 Pledges): How? 3 areas

1) Ethical dimension: *Ethical Sourcing/Fair Pricing/"Invisible" women in GVCs/Child Labour*

In seeking new markets Scottish companies need to strike the right balance in:

Sourcing raw materials/inputs; adding the right value for producers in the supply chain.

2) Trade "architecture" dimension: *Reduce Tariff/Non-Tariff Barriers (NTBs) and Non-Tariff Measures (NTMs) for the benefit of producing countries: How?*

3) Institutional dimension: *Reduce number of intermediaries in the chain; How?*

How can Scottish companies assist in these 3 areas? Here the focus will be on 2) and 3)

Better Logistics/Transport and Infrastructure to facilitate trade will help.

Also need to reform institutional/governance arrangements in producing countries. How?

TRADE OBSTACLES OR BUILDING BLOCKS TO GVC PARTICIPATION

Determinants of GVC participation	Barriers	Enablers
Standards and Regulations: Non Tariff Barriers/Measures (NTBs/NTMs)	Increased trade costs, reduces participation.	Premium price for compliance and trade gains; improved bargaining powers.
Education and Training	Lack of innovation and low technological productivity; delays in value chain production; low competencies.	Enhances sharing of technical know-how; improves quality and efficiency.
Transportation systems	Lack of accessible roads and inefficient transport systems; spoilage of primary commodities.	Reduces transaction costs, improves delivery and increases returns.
Credit facilities	Constrains investment and production.	Enhances investment and expansion; improves production.
Exchange rate fluctuations	Affects domestic prices and foreign returns; investment decisions and expected returns.	Increases foreign exchange earnings and stabilises investments.

ROLE OF INSTITUTIONS AND NETWORKS IN GVCS

Partly a **Principal-Agent** problem.

Much evidence indicates failure of past efforts eg in the **Marketing Board structure** in many SSA countries.

These failed because they were often rife with “**rent-seeking**” (**corruption**).

Now greater emphasis on using the private sector effectively.

Though still issue of *balancing **regulation/compliance** with **incentives*** (esp for smallholder producers).

What role for the private sector or **PPPs** in this process? (see **Commodity Exchanges** (eg in Ethiopia) here).

GVC PARTICIPATION, SMALLHOLDERS AND COMMODITY EXCHANGES

Commodity Exchanges can address some of these barriers to GVC participation; play central role eg in, **price discovery, market transparency, title transfer and trade facilitation.**

The **Ethiopian Commodity Exchange** (ECX) for instance provides a number of GVC type opportunities to participants: ***certification, storage, issuance of warehouse receipts, transportation support, dissemination of real-time information*** etc.

Ongoing empirical work by doctoral students in **CAREED**; recent field trips to Ethiopia; surveys of farmers (600 across 3 regions); coffee unions; cooperatives and ECX.

Initial results indicate that **smallholder farmers are more interested in better trade facilitation, (eg credit facilities; better transport; and reducing NTBs and NTMs).**



CONCLUSIONS

Huge potential for Scottish firms, esp in civil engineering, transport and infrastructure to facilitate greater trade (inc intra-regional (eg Africa) as well as outside the region).

But better institutional/governance structures can also aid the process (eg Commodity Exchanges).

Commodity exchanges can facilitate greater GVC participation. But not a panacea!

Can smallholders benefit from this?

Access to **better market information** can aid smallholder farmers decision making and bargaining power as evidenced in Ethiopia.

Need to improve participation which may require **Private Public Partnerships (PPP)** in the areas of: **education, policies** and **infrastructures**.

Important to harmonise non **tariff barriers/measures (NTBs/NTMs)** and **reduce bureaucracy** (eg at borders/customs).

Need to develop a more effective model that links smallholder farmers to GVCs without so many intermediaries (but **Principal-Agent problem** will still exist).

