SHIFTING REGIONAL DYNAMICS OF GLOBAL VALUE CHAINS: IMPLICATIONS FOR ECONOMIC AND SOCIAL UPGRADING IN AFRICAN HORTICULTURE

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ABSTRACT

Global value chain and global production network analyses have largely focused on dominance of Northern retailers over suppliers in the global South. The expansion of retailers within the global South sourcing from and supplying consumer end-markets within their own geographic regions is reconfiguring value chain dynamics. This paper draws on GVC and GPN approaches and the concepts of multi-polar governance to analyse changing dynamics of global and regional retail supply networks. Drawing on a case study of supermarket expansion within South and East Africa, it analyses how 'waves of diffusion' by global and regional supermarkets provide new opportunities for 'strategic diversification' by some horticultural producers and workers. It examines the implications for economic and social upgrading and downgrading, finding mixed outcomes. Strategic diversification provides opportunities for economic and social upgrading by more capable suppliers and skilled workers, but economic downgrading pressures persist and some are excluded from both global and regional value chains.

KEY WORDS

Global Value Chains; Global Production Networks; Supermarkets; Economic and Social Upgrading; Horticulture; Producers; Workers

1. Introduction

Global value chain and global production network analyses have long examined the role of lead firms in the global north coordinating sourcing from the global South. These have highlighted the role of transnational retailers as a driver of global sourcing within buyer-led value chains (Gereffi 1994; Gereffi and Christian 2009); and the expansion of transnational retail into parts of Asia, Central Europe and Latin America (Coe and Wrigley 2007; Coe and Wrigley 2009; Hamilton, Petrovic et al. 2011). More recent literature explores the expansion of lead firms from the global South operating across or within their own regions (Cattaneo, Gereffi et al. 2010; Neilson, Pritchard et al. 2014). This trend offers suppliers optional channels between traditional domestic markets, regional or global value chains.[1] However, the implications of continued expansion of both global and regional lead firms within the global South remains under researched.

This has analytical implications for governance and upgrading within value chains operating at global or regional scales. Global value chain (GVC) analysis focuses attention on governance by global lead firms (Gereffi, Humphrey et al. 2001; Gereffi, Humphrey et al. 2005), whilst global production network (GPN) analysis helps unpack multi-scalar global, regional and national embeddedness (Henderson, Dicken et al. 2002; Coe, Dicken et al. 2008). This paper draws on the concept of multi-polar governance of lead firms and related actors (Ponte and Sturgeon 2014) to provide insights into divergent yet similar governance patterns in value chains associated with regional retail expansion. It also draws on analysis

[1] This paper uses 'global value chain' where the lead buyers are primarily transnational companies operating across world regions and are 'transnational retailers' or supermarkets. 'Regional value chain' is used where the lead buyers are primarily companies operating only within one world region, such as Africa, and these are labeled 'regional retailers' or supermarkets. This is a simplification which helps differentiate the expansion of South-South from North-South value chains.

of multi-scalar embeddedness (Coe et. al. 2008) to inform analysis of ‘waves of diffusion’ as regional value chains expand into new markets (Reardon, Henson et al. 2007). The analysis is informed by research on South and East African supermarket expansion, their governance of fresh fruit and vegetable (FFV) value chains, and implications for their suppliers and workers. The key questions addressed by this paper are: how are value chain dynamics and governance affected by the expansion of regional retailers; and to what extent does this open up space for economic and social upgrading of suppliers and workers?

The extent to which producers and workers in developing countries benefit from changing value chain dynamics remains unclear. This paper applies the concepts of economic and social upgrading, or conversely downgrading, to examine the outcomes. Economic upgrading involves moving to higher value added activities, and social upgrading involves better work, standards and rights for workers and smallholders (Barrientos, Gereffi et al. 2011; Bernhardt and Milberg 2011). Together, it is argued, they illuminate how opportunities and constraints are shaped by inter-linked buyer-supplier and supplier-worker relations extending across diverse geographical contexts across global scales. Within North-South value chains, some authors have identified ‘strategic downgrading’ as an option for some suppliers choosing to withdraw from more stringent higher-price global retailers in favour of less stringent lower price domestic markets (Pickles, Smith et al. 2006; Ponte and Ewert 2009). This paper explores another option of ‘strategic diversification’ for producers who are able to supply multiple global and regional lead firms applying diverse governance regimes. This helps assess whether producers and workers are able to benefit, through economic and social upgrading or downgrading, in an environment where global and regional value chains increasingly co-exist.

The paper draws on a comparative study of regional supermarket expansion in South and East Africa and their governance of fresh fruit and vegetable (FFV) value chains. Research was undertaken in South Africa, Kenya and Uganda during 2011-12. It involved a value chain mapping of selected horticulture value chains supplying global and regional supermarkets, based on secondary data and key informant interviews with relevant private, public and civil society actors. In total 71 key informant interviews took place across the three countries. FFV supplier case studies were selected in each country to compare producers selling primarily to global and regional supermarkets. Eight FFV case studies were undertaken in total: South Africa (3); Kenya (2); Uganda (3). Of these 3 were primarily oriented to European supermarkets; 1 had a mixed strategy of floriculture exports and FFV supply to regional supermarkets; and 4 only sold to regional supermarkets. Research involved in-depth interviews with owners, managers, workers and/or smallholders.[2] A small number of individual interviews were also undertaken with suppliers and smallholders excluded from value chains.[3] Case studies were in-depth and illustrative, and not representative of all suppliers or workers.

[2] In each case study, research took place on selected exporter/producer farms and supplier/outgrower farms - a total of 18 sites across the three countries. The case study research involved a total of 48 semi-structured interviews with farm owners, managers and human resources as well as 36 focus group discussions and 96 individual interviews with workers and smallholder producers. Interview schedules incorporated common questions across the countries. Two stakeholder workshops were also held in Kenya (including participants from Uganda) and South Africa. Data was analysed using common coding in Word and Excel and summarized for each country using a common reporting template to form the basis for cross-country comparison. Diverse and heterogeneous farming profiles between the countries meant precise value chain comparison was difficult, but facilitated analysis of trends in supply to different supermarkets. For more detail see Barrientos and Visser 2012 and Evers et. al. 2014.

[3] Access to excluded farmers was difficult due to resource and time constraints, hence the case studies are biased towards farmers successful in accessing value chains.

The next section of the paper explores the analysis of global and regional retail expansion, drawing on the example of supermarkets within South and East Africa. Section 3 draws on GVC and GPN approaches to examine the implications of multi-polar governance and waves of retail diffusion for 'strategic diversification'. Section 4 examines the concepts of economic and social upgrading and downgrading, and considers how these can be affected by pursuit of strategic diversification. It draws on comparative case studies in South and East Africa to examine the economic and social upgrading and downgrading outcomes for producers, workers and smallholders. Section 5 reflects analytically on the findings and section 6 concludes.

2. Expansion of regional retailers within Africa

An extensive literature has examined the expansion of transnational retail (led by the three largest retailers Wal-Mart, Carrefour and Tesco) over the past two decades informed in part by GVC-GPN analyses (Coe and Wrigley 2009; Hamilton, Petrovic et al. 2011). The increasing dominance of retail lead firms stimulated Gereffi's early examination of the rise of buyer-led commodity chains, and subsequent analysis of different forms of GVC lead firm coordination and governance, through examination of transnational retailers (Gereffi 1994; Gereffi, Humphrey et al. 2005; Gereffi and Christian 2009). A number of studies on the expansion of transnational retailers into emerging economies within Eastern Europe, Asia and Latin America were informed by GPN analysis (Coe and Wrigley 2009). Here the 'necessarily embedded and essentially networked' nature of retail expansion has been highlighted, exploring host economy/society impacts of transnational retail in emerging markets in terms of their engagement in diverse webs of intra-firm, inter-firm and extra-firm networks (Coe and Wrigley 2007). A number of related studies have examined sourcing by transnational retailers and the implications for suppliers in the global south, highlighting the governance and control of lead firms in increasingly asymmetrical power relationships (Dolan and Humphrey 2000; Barrientos and Kritzinger 2004; Maertens and Swinnen 2009).

Pioneering work from the early 2000s examined the expansion of regional supermarkets within Latin America, Asia and Africa (Reardon, Timmer et al. 2003). They describe different waves of supermarket expansion: South Africa is in the first wave, the second wave includes much of S.E. Asia, Central America and Central Europe, Kenya is in the third wave, and supermarkets opening in other African countries such as Uganda is part of a newly emerging fourth wave (Reardon et. al. 2007). Some researchers have highlighted the challenges of African supermarket expansion (Humphrey 2007; Tschirley 2010). However, economic downturn in European markets combined with economic growth in some African countries has continued to spur supermarket expansion within SSA, albeit unevenly.

Since the mid-2000s, there has been a continued expansion of regional supermarkets owned and operated within sub-Saharan Africa (SSA). An important factor behind ongoing expansion has been continued economic growth, despite economic recession in Europe and North America. It is estimated that consumer growth from 2000-12 was 4% per annum across SSA. This is linked to a rising middle class, urbanization and increased female employment (Dihel 2011; Guarin and Knorringa 2014). Growth is predicted to continue, with future cconsumer expenditure in SSA estimated to expand from $600 billion in 2010 to $1,000 billion by 2020. Much of this growth is expected to come from consumers in nine SSA countries including S. Africa, Kenya, Nigeria and Uganda, which are jointly predicted to account for over 72% of consumer spending in SSA by 2020 (Hatch, et.al. 2011).

Table 1. Regional Supermarkets operating in Africa (2010)

Supermarket	Country of Origin	World Retail Ranking*	Total Countries Operating	Group Revenue (US $ m)
Shoprite Holdings Ltd	S. Africa	92	16	10,362
Massmart Holdings Ltd	S. Africa	126	14	7,589
Pick n Pay Stores Ltd	S. Africa	133	8	7,212
Woolworths Holdings Ltd.	S. Africa	222	16	3,704
Nakumatt	Kenya	n/a	4	350**
Tuskys	Kenya	n/a	2	193**
Uchumi	Kenya	n/a	3	104**

Sources: Deloitte 2011; Dihel 2011.

* Ranking of all retailers ** Revenues for 2007

Expansion in SSA has been led by South African companies, and also by Kenyan firms within East Africa (Emongor and Kirsten 2009; Dihel 2011; Barrientos and Visser 2012).[4] Shoprite, the largest, increased its number of outlets within South Africa by 89% between 2007-11,

[4] Until the 51% acquisition of Massmart by Walmart in 2011 no global supermarket had operated outlets within Africa itself. This took place during our research but it was too soon to assess the consequences.

from 718 to 1357 stores. Its expansion into SSA began with one store in 1995, increasing to 71 stores in 16 countries by 2011.[5] As shown in Table 1, other retailers including Pick n Pay, Woolworth and Massmart have followed suit. Initial expansion was into bordering countries, but later continued into West, East and Central Africa. Shoprite is now ranked 92nd of the world's retailers by Deloitte (2011). Within Kenya, the three largest supermarkets, Nakumatt, Tuskys and Uchumi are all Kenyan-registered companies. Nakumatt established in 1987 is the largest and by 2012 had 36 outlets across Kenya and four countries in East Africa. Uganda provides an example of waves of diffusion by South African and Kenyan supermarkets across East Africa. Uganda is well behind in terms of the development of domestic supermarkets, none of which also operate externally. In 2011 there were over 19 regional supermarket outlets in Uganda including Shoprite (3), Game/Massmart (1), Woolworths (1), Nakumatt (5), Tuskys (5) and Uchumi (4). They not only had outlets in Kampala, but were expanding into other parts of the country. Many of these companies also had outlets or were planning further expansion into East Africa (authors' interviews).

Leading South African and Kenyan supermarkets provide a full product range, including fresh fruit and vegetables, differentiating their FFV produce from traditional wet markets by offering different varieties and higher quality. Some supermarkets have their own wholly-owned procurement companies, such as Freshmark which is within the Shoprite Group and Fresh n'Juici which is owned by Nakumatt, but also supplies Tuskys. In many countries

[5] Author interviews and web search May 2012
http://www.shopriteholdings.co.za/pages/1019812640/about-our-company/Geographical-spread.asp,
http://www.shopriteholdings.co.za/pages/1019812640/about-our-company/history.asp

consumers are hesitant in moving away from wet markets for purchase of FFV resulting in a higher proportion of processed food than fresh food sold. However, there is considerable variation between countries, depending on the level of supermarket maturity and local consumer culture. Author interviews indicated that: In South Africa, supermarkets account for an increasing share of FFV retail, rising from an estimated 30-40% in 2000 to 50-60% of fruit sold in 2012. In Kenya, supermarkets account for approximately 5% of total FFV, of which 3 companies sell 60%. In Uganda, there are no estimates of supermarket FFV sales, but anecdotally it is unlikely to be more than 1%.

Regional supermarket procurement has followed a similar but more uneven trajectory to that of global supermarkets. This includes a move away from procurement through traditional markets towards greater direct sourcing from suppliers; establishing cool chain facilities and distribution centers (DC); selling better quality food than traditional markets; enforcing more rigorous food safety standards; providing a 'one stop shop' selling a comprehensive range. Reardon et. al. (2007) have analysed the uneven process of expansion in terms of '*waves of diffusion'*. They classify this as: *Spatial diffusion* involving expansion outwards from capital cities to smaller towns and rural settings, or further across the African region. *Socio-economic* diffusion initially involving sales to higher income groups, moving to middle incomes and finally the urban poor. *Product diffusion* starting with sales of processed foods, moving to semi processed foods and finally to fresh produce – which is often slowest to be established in supermarkets.

Supermarket expansion across South and East Africa, as examined above, has also led to waves of diffusion in relation to procurement, moving from imports to local sourcing as outlets become embedded within new countries. Research by Cattaneo (2013) found that in the first phase of establishing outlets in a new country, supermarkets mainly import (80%+) of products from existing suppliers within their home country. Imports are either channelled through import agents or through their home DC. Within country, supermarkets gradually establish local supply networks able to meet their quality and consistency requirements. In the second phase they increase their local sourcing to 60-80% and reduce imports to products unavailable locally or at the right quality level. In the third phase, they expand further into other countries in the region, and import from neighbouring countries where they are already established as well as their home country (Cattaneo 2013). The next section examines the implications of these 'waves of diffusion' for GVC and GPN analyses of lead-firm governance and supplier strategies.

3. Global and regional supermarkets, governance and strategic diversification

GVC focus on inter-firm relations has led to in-depth analysis of governance strategies by lead firms. These define the ways powerful lead firms coordinate their linkages between inputs, production, distribution and retail to the final consumer. Different forms of chain governance have been identified by GVC analysts: market, modular, relational, captive and hierarchy (Gereffi, Humphrey et al. 2005). This provides a useful, typology for differentiating forms of GVC governance, but has been critiqued for being over narrow and firm-centric (Bair 2005). Others have investigated the co-existence of multiple forms of governance, emphasising the distinction between coordination, control and power within GVCs (Gibbon and Ponte 2005).

GPN analysis has contributed to the literature by extending exploration of inter-firm linkages to the wider social actors and institutions that engage with and can influence commercial relations (Dicken, Kelly et al. 2001; Henderson, Dicken et al. 2002; Coe, Dicken et al. 2008). Whilst the chain metaphor helps to identify specifics of lead-firm governance of inter-firm relations, the concept of a network broadens analysis to a more complex set of actors. GPN analysis highlights societal, territorial and institutional embeddedness of production, and power relations between actors – both commercial and societal (Henderson, Dicken et al. 2002; Hess 2004; Coe, Dicken et al. 2008). A multi-scalar perspective plays an important role in GPN analysis helping to analyse complex linkages between commercial and social networks of interaction and uneven geographical distribution (Henderson, Dicken et al. 2002; Coe, Dicken et al. 2008). This facilitates analysis of increasingly complex supply networks that span global and regional scales of sourcing and production involving emerging economies at different levels of development.

As global supply networks have become more complex synergies between the GVC and GPN approaches have become more apparent (Neilson, Pritchard et al. 2014). The implications for governance have been further explored by Ponte and Sturgeon (2014) through the concept of 'multi-polar' governance. They analyse the power of different actors, both commercial and institutional, that can influence diverse outcomes. Incorporating convention theory facilitates examination of norms and cultures influencing governance (including the setting of standards) across different institutional contexts. A multi-polar approach to governance captures the wide array of external actors that can influence standards, including public authorities, consumer expectations and civil society pressure. There are parallels here with the GPN approach, which highlights the multiple layers of societal, institutional and territorial embeddedness that can affect diversity in the interaction between firms and social actors.

One dimension of governance is control exerted by lead firms through the application of product, process, social and environmental standards driven partly by European supermarkets as a condition of supply (Henson and Humphrey 2010), some of which are being replicated by regional supermarkets. Combining GVC and GPN analysis of multi-polar governance across multiple global and regional scales and Reardon's concept of 'waves of diffusion' as retail networks expand outwards geographically provides insights in to the changing dynamics of governance and power in contemporary retail. As supermarkets spread out regionally across countries, 'waves of diffusion' lead to the co-existence of different forms of governance both as a means of coordination (via different inter-firm relations) and as a means of control (via different standards requirements) as part of an uneven process of regional supermarket expansion.

This has implications for power relations. Different GVC and GPN analysts have examined governance in relation to the power of lead firms 'over' suppliers and asymmetric bargaining positions between them (Henderson, Dicken et al. 2002; Nathan and Kalpana 2007; Bair 2008). However, much of this analysis has been informed by North-South relations between a dominant group of global buyers and fragmented (largely developing) country suppliers. The changing political economy of global and regional retail can affect the relative bargaining positions of buyers, suppliers and workers. Multi-polar governance across territorial scales provides an array of differential but overlapping procurement models and standards packages applied by regional and global buyers. Suppliers now face a wider range of value chain options as to who they supply and what standards they adhere to. Some researchers have identified a process of ‘strategic downgrading’ where suppliers choose to opt out of GVCs in preference for supplying domestic markets (Pickles, Smith et al. 2006; Ponte and Ewert 2009). However, the growth of regional value chains within the global South opens up wider options for ‘strategic diversification’ across global, regional and domestic value chains, *potentially* enhancing suppliers’ bargaining position in relation to a more heterogeneous buyer group.

Research for this paper illustrated Reardon’s ‘waves of diffusion’ in relation to multi-polar governance extending across SSA. Regional supermarkets striving to differentiate themselves from traditional markets apply quality standards, but these were found to be less stringent and more variable than global supermarkets. All regional supermarkets required compliance with product standards on visual FFV quality. Some supermarkets apply process standards (such as GlobalGAP or equivalent), and in South Africa supermarkets that do not necessarily require GlobalGAP prefer it when available. The Kenyan supermarket Nakumatt formally requires its main suppliers are KenyaGAP compliant (the local GlobalGAP equivalent). No African supermarkets applied social and environmental standards, with the exception of Woolworths, and Pick n Pay which includes them in its code for business partners (authors’ interviews). Standards appeared to be applied more stringently by South African and Kenyan supermarkets when sourcing within their own country. In Uganda, the level of standards required was more variable. Most regional supermarkets indicated they have inspection processes to monitor quality of preferred suppliers. However, in reality it was difficult to confirm the extent of compliance across a diverse supply base, particularly where supply comes indirectly through smallholders or wholesale markets when availability is low (authors’ interviews). The large export-oriented producers applied global standards required in Europe to the FFV they sold to regional supermarkets, and effectively regional supermarkets are ‘free riding’ on their compliance with global standards.

Expansion of regional supermarkets provided new opportunities for ‘strategic diversification’ by larger suppliers. Until 2007 the three large export-oriented producers (two in South Africa, one in Kenya) in this study had focused on export to European supermarkets, rarely selling domestically except FFV that failed to meet export grade. However all were now selling quality produce to regional supermarkets within Africa.[6] One large South African producer increased their African share from 0 to10% of total sales between 2007-10. Another South African producer/exporter was now selling fruit direct to a leading Kenyan supermarket, whose buyer visits them once a year to agree terms and conditions. The largest Kenyan vegetable producer/exporter now sells baby vegetables direct to Kenyan supermarkets and a large South African supermarket with which they established direct linkages. Strategic diversification was also found in the mixed case of the Ugandan floriculture producer/exporter to Europe, which had gradually diversified from the mid 2000s into FFV production primarily for regional supermarkets. The company is now a preferred supplier of fresh vegetables (including tomatoes, peppers, cucumbers) direct to regional supermarkets in Uganda and Rwanda.

These four firms had made a conscious decision to strategically diversify in order not to be over dependent on European supermarkets having been affected by the European

[6] Due to commercial sensitivity, it was not possible to obtain precise data from all the case study suppliers.

economic recession, and the Icelandic volcanic ash that disrupted airfreight into Europe. They found that regional supermarkets were paying competitive net prices for quality produce, when factoring in the higher costs of shipping and meeting European standards. The Ugandan floriculture export/producer strategically diversified into supplying FFV to African supermarkets as these products have lower unit values, lower productivity and require less skilled labour than floriculture which it also continued to export.

Expansion of regional supermarkets facilitated value chain access for the five domestic-oriented producers in the research, but strategic diversification was more variable. The Kenyan case study involved a Produce Marketing Group (PMO) organising 4500 FFV smallholders producing FFV (including bananas, pawpaw, green beans and sweet potatoes). It had developed strong relations with a Kenyan supermarket over a long period, but also supplied a processing plant within Kenya that indirectly exported some of its produce. A Ugandan PMO organising 100-200 smallholders through an out-grower scheme had developed preferred-supplier status to a regional supermarket in Kampala. The South African domestic-oriented company deliberately adopted a mixed approach. It had farms in 7 locations in the north and south of the country producing 160,000 tonnes of vegetable and fruit. It sells 89% to National Fresh Produce Market (NFPM) and via specific traders there onto regional supermarkets. Since 2005 it also sells 6% direct to South African supermarkets (5% goes to local processors).

In sum GVC and GPN analyses both provide insights into changing inter-firm relations and governance as regional retail expands outwards across differing geographical contexts. As illustrated by the African research, the expansion of regional retail value chains is increasing the multi-scalar diversity of value chains through ‘waves of diffusion’ as global and regional lead firms adopt diverse but overlapping governance strategies from inter-woven suppliers. This is opening up wider options for ‘strategic diversification’ by producers simultaneously supplying global, regional and domestic supermarkets, reducing dependency on global retailers. But the extent to which suppliers and their workers are able to benefit needs further investigation.

4. Economic and social upgrading or downgrading

The concepts of economic and social upgrading in global value chains facilitate exploration of the extent to which producers and workers are able to advance through moving to higher value or income earning activities. These concepts have largely been developed in a context where producers and workers in the global South supply lead firms in the global North. Research has found that whilst economic upgrading of producers *can*, it does *not necessarily* lead to social upgrading of workers (Bernhardt and Milberg 2011). Here we examine possible outcomes in a changing context of multi-polar governance and expanding regional value chains, drawing on the African research. This helps to assess the extent to which ‘strategic diversification’ enhances upgrading opportunities or compounds downgrading pressures for producers and workers not only in relation to global, but also regional value chains.

Early GVC analysis of upgrading moved beyond lead firm governance to explore the opportunities for suppliers to move to higher value activities within different governance contexts (Kaplinsky and Morris 2002; Gereffi, Humphrey et al. 2005). It mainly focused on potential benefits, however 'upgrading' is not always a preferred strategy. Some analysts identified an alternative trajectory of 'strategic downgrading' to lower value activities targeting domestic markets in contexts when governance by global buyers become overbearing (Pickles, Smith et al. 2006; Ponte and Ewert 2009). Analysis of firm upgrading has tended to overlook the implications for labour and an often separate literature has examined the implications of GVC access for workers (Barrientos and Kritzinger 2004; Barrientos, Gereffi et al. 2011; Phillips 2013). A number of studies also highlighted exclusion of smallholders from GVC-GPNs due to challenges meeting supermarket requirements (Dolan and Humphrey 2000; Vorley, Fearne et al. 2007; Neven, Odera et al. 2009). Other GVC-GPN analysts have also explored opportunities for labour agency, new organising strategies and economic empowerment for an often female workforce (Knorringa and Pegler 2006; Coe and Jordhus-Lier 2010; Riisgaard and Hammer 2011; Rao and Qaim 2013; Selwyn 2013; Barrientos 2014).

As value chain analysis matures, there has been increasing recognition of the need for more nuanced analysis of the inter-linkages between commercial inter-firm dynamics and implications for workers. (Barrientos, Gereffi et al. 2011; Bernhardt and Milberg 2011). Economic upgrading of firms is adapted from industrial upgrading to include non-manufacturing sectors such as agriculture and services. It is defined as firms moving from lower to higher value activities applying the GVC criteria of process, product, functional and chain upgrading (Humphrey and Schmitz 2002; Gereffi, Humphrey et al. 2005). *Social upgrading* is defined as access to better work opportunities, improved measurable standards (e.g. wages and conditions) and enabling rights (freedom of association and nondiscrimination).[7] Economic and social downgrading are the converse moves to lower value activities and/or poorer working conditions and rights.

The concepts of economic and social upgrading and downgrading have been critiqued for paying insufficient attention to labour exploitation within the capitalist accumulation process (Selwyn 2013). However this critique conflates the concept of GVC-GPN social upgrading with the ILO's decent work programme (which is not GVC-GPN oriented). Rather than develop a more nuanced critical analysis of labour exploitation where external buyers play an increasing role driving the labour process, Selwyn (2013) counter-poses a more traditional Marxian analysis of capital-labour relations within specific nodes where class tensions play out within nation states. This perspective is analysed elsewhere (Alford et. al. forthcoming). The aim here is to better understand changing inter-linked buyer-supplier and supplier-worker dynamics of regional value chains as they become more prevalent.

The expansion of regional lead firms brings another dimension to analysis of economic upgrading and downgrading for suppliers. On one hand it increases the spread of GVCs and reduces traditional market alternatives; on the other hand multi-scalar governance also widens the range of buyer standards packages that suppliers face when selling into different value chains feeding the global North and South. Next we examine the implications for economic and social upgrading and downgrading, drawing on the research findings from South and East African horticulture.

[7] We include smallholders in both the economic and social analysis because farm households combine enterprise, labour source, and conduit for wellbeing.

Economic Upgrading and Downgrading

Economic upgrading to meet product standards had taken place to some extent amongst all producers supplying value chains in the research. However, it was clearly greater amongst those primarily oriented towards supplying global supermarkets. Economic upgrading to meet product standards amongst those oriented towards supplying regional value chains was taking place, but at a lower and more varied pace. Both groups of suppliers were attuned to strategic diversification, but the opportunities were greatest for export-oriented producers who could meet all standards packages, whilst the options for strategic diversification were more constrained amongst regionally-oriented producers. These findings were evidenced by the research.

The three large export-oriented companies selling to European supermarkets had all product and process upgraded to meet a plethora of standards (including GlobalGAP certification, social and environmental standards), and some had functionally upgraded by establishing cool chain and logistics facilities with bases in Europe to channel fruit and vegetables direct to supermarket distribution centres.

Strategic diversification involving expansion of sales into Asia as well as to regional supermarkets within Africa[8] had enhanced their bargaining position. As one producer/exporter indicated, previously they were in a buyers' market but: "Now we can say no to European supermarkets." An indication of this shift was that EU supermarkets previously only paid on consignment with price determined after arrival, but most now offer guaranteed minimum prices to compete with Southern buyers. Some global supermarkets

[8] One South African company had also established an office in Hong Kong to provide direct access to the Chinese market.

have also established offices within Africa in order to increase direct control over supply and distribution, and foster closer relations with producers.

Economic upgrading amongst the five producers supplying FFV to regional supermarkets was more systematically oriented towards meeting product than process standards. For example, one South African producer built a packhouse in 2005 to sell to regional supermarkets. The Kenyan PMO had established cool chain facilities and ripening facilities, and was gradually expanding its facilities. It provides extension services and production inputs to its farmers to increase produce quality. The Ugandan PMO organized smallholders into groups by district, and supported cultivation, processing and packaging of fresh fruits. The company had done a limited amount of marketing targeting regional supermarkets, but its investment in economic upgrading was more limited than the Kenyan and South African case studies.

In relation to process standards, most of the five had or were intending to implement GlobalGAP or equivalent good agricultural standards to meet demand of regional supermarkets. For example, in South Africa the supplier selling via NFPM said supermarkets prefer produce with certified standards if available. Consequently the manager indicated they had recently obtained certification: “So indirectly the pressure is mounting on farmers to be … GlobalGAP compliant” (author interview). In Kenya the PMO is KenyaGAP certified as required by its leading Kenyan supermarket buyer and supports its smallholder farmers to implement standards (including the use of protective equipment, hygiene, storage and disposal of chemicals). However, there are no requirements to upgrade in relation to social standards, and at most it is assumed suppliers meet relevant legislation. In Uganda the

PMO supplying the same regional supermarket chain had not upgraded to meet process standards, although it indicated it intended to apply for GlobalGAP certification in future.

In relation to social standards, only two suppliers had upgraded to meet regional supermarket requirements. One South African company had Woolworths as one of their direct clients, which requires and audits farms against its in-house ethical code. The mixed Ugandan company engaged in both floriculture exports to Europe and FFV to regional supermarkets applied social standards for workers due to European and local union pressure rather than regional supermarket pressure.

All the regionally-oriented FFV producers were aware of the possibilities of strategic diversification, and implications for their bargaining position with supermarkets, but their value chain options were more limited than European-oriented export-producers. For example the South African producer preferred to supply supermarkets indirectly via NFPM to limit their control. As the manager indicated: "Supermarkets are like futures: they fix the price for a week or more. However, if the price on the NFPM is lower, they quickly run to the NFPM. They play us off against the NFPM ". The Kenyan PMO recognized that farmers need to be organized in farmer groups in order to access and bargain with regional supermarkets. It was engaged in fruit processing and was looking to expand into production within Uganda to diversify supply.

Economic downgrading pressures, however, are not decreasing as regional supermarkets expand. Economic downgrading resulting from commercial pressures by global and regional supermarkets was revealed in all case study interviews with managers. Pressures included tight supermarket pricing, rising input and labour requirements and costs, shortage of available skilled labour, and the challenges of meeting more exacting global *and* regional supermarket standards. The research also picked up examples of value chain exclusion, but this was more difficult to explore due to access and resource limitations. In South Africa three ex-farmers were interviewed that had gone out of business. The main pressure had been the need to borrow at high interest rates to finance upgrading facilities on their farms, but their subsequent incomes were inadequate to repay their loans. For them, regional supermarket expansion had not been sufficient to offset these pressures.

Unorganised smallholders who are not part of farmer groups and with insufficient capabilities have long been excluded by global supermarkets, and also face difficulties accessing regional supermarkets. Individual smallholders interviewed in Uganda indicated that some sell to regional supermarkets indirectly via intermediaries. They complained they cannot bargain with supermarkets or their agents, have to take what is offered, buy-back unsold produce, receive poor terms of payment and low net returns. So they prefer not to sell to supermarkets. In Kenya research by Neven et. al. (2011) has also indicated smallholders face barriers accessing regional supermarkets, including capital costs of investment in irrigation, transport, ICTs and fertilizers. They found a new emerging class of middle-sized entrepreneurial farmers outstripping smallholders in terms of expanding sales into regional supermarket channels.

Overall the research indicated a varied process of product, process and functional upgrading depending on whether they supplied global supermarkets, and on which regional supermarket or ‘wave of diffusion’ they reached. Regional supermarket expansion contributed to possibilities for strategic diversification enhancing supplier bargaining positions, but those supplying global supermarkets have wider options and are better placed to benefit. All producers in the study faced competitive downgrading pressures, and some experienced value chain exclusion.

Social Upgrading and Downgrading

These mixed outcomes in relation to economic upgrading and downgrading are reflected in mixed outcomes for social upgrading and downgrading. The expansion of regional supermarkets is both helping to create new opportunities but also challenges for workers and smallholders. The research examined these in relation to the three criteria of social upgrading: work opportunities; measurable standards; and enabling rights.

Work opportunities are created where global and regional supermarkets increase demand for more skilled workers to meet higher product and process quality standards. Where rural labour markets are skill-constrained this can increase wages for skilled workers. Women have particularly gained from this given their concentration in higher quality post-harvest and packhouse work. Workers in this research now handle more complex packing operations for a wider range of clients each with their own product specifications (size, colour, shape, standards, packaging). For example in South Africa managers indicated that higher levels of education are now required for packhouse workers (Grades 10 or 12 whereas previously Grade 9 or lower would have been sufficient) and they often have difficulty recruiting and retaining such workers. On farms without packhouses this level of educational attainment is not required. One peri-urban packhouse had increased wages significantly to attract mainly female workers, and was introducing a union collective bargaining agreement to enhance its responsiveness to workers and improve retention of skilled workers.[9] Other research in Kenya also indicates that production for regional supermarkets is increasing the demand for hired labour during harvest time at higher wages than traditional agricultural activities due to the need to meet higher product quality, and can enhance employment security. Women in particular are benefiting from employment in post-harvest activities (Neven, Odera et al. 2009; Rao and Qaim 2013).

However, as discussed above in relation to economic downgrading pressures, there is tension between the quality/skills nexus as a driver of social upgrading, and the cost/price nexus as a driver of downgrading. Rising wages compound input costs for suppliers that are under supermarket pressure to lower prices (including by regional African supermarkets). This is driving social downgrading for some workers. In South Africa in particular suppliers are increasing their use of casual workers and recruitment through labour brokers to reduce cost. In grapes, for example, casual labour increased from 72% to 80% of the workforce between 2007-2011 (Barrientos and Visser 2012).

Measurable standards: have improved for some workers, but deteriorated for others. The two large FFV farms in Kenya and Uganda revealed improvements for workers, particularly those employed on permanent contracts and in packhouses, although problems remained for temporary workers. In both countries there had been reports of poor labour conditions in the early 2000s (Dolan 2004; Smith, Auret et al. 2004). This 2011-12 study found

[9] In South Africa, diversification into regional supermarkets and wider South-South trade following European downturn buffered the industry and hence employment. Between 2005-2011 the number of full time equivalent workers in deciduous fruit increased by 4% to over 104,000 (Hortgrow 2012).

improved wages, health and safety, and lower levels of sexual harassment by supervisors, particularly for permanent workers. However, remuneration is still insufficient for a living wage, working hours and conditions arduous, workers are weary of being seen as union active and protection of temporary workers remains poor (Evers et.al 2014; Oxfam/IPL 2013). Improvements resulted in part from civil society campaigns focused on Kenyan and Ugandan flowers as well as the commercial benefits to companies of retaining trained labour, with positive spillover effects for workers on export vegetable farms (particularly those producing FFV *and* flowers). This led to more permanent contracts and unions having a greater role in negotiating pay and conditions for permanent workers.

The study also found social improvements for organised smallholders supplying regional supermarkets. In the Kenyan PMO most smallholder farmers (85%) are young and female. When interviewed, the PMO Managing Director indicated that as incomes rose, there was a tendency for men to return to farming, which often led to a decline in quality and reduced PMO procurement. Hence the PMO positively encouraged the economic and social empowerment of female smallholders, enhancing their participation. In Uganda several smallholder farmers report higher incomes (and newfound ability to pay children's school fees) due to increased FFV sales to traders supplying regional supermarkets.

Social downgrading pressures were found in all countries. In South Africa in particular producers coping with cost pressures (selling to global and regional supermarkets) only paid general workers the legal agricultural minimum wage of Rand 63.36 (UK £4.87) per day in 2011. Workers complained this was insufficient to cover basic living costs. All producers complained of the difficulty finding local workers with sufficient skill prepared to accept this wage. As one production manager indicated: “Agriculture is no longer an attractive career - that goes for general workers as well as senior managers. Local people no longer want to work on the farms.” Recruitment of migrant labour is increasing to address this challenge. For example the domestic-oriented producer had increased its use of migrant labour (mainly Mozambican and Zimbabwean) from 5% to 40% of its labour force between 1994-2012.[10]

In Uganda smallholders reported that farm work has become more arduous and labour intensive. They are working the land more intensively but are ageing and their ability to work long hours is declining. Older farmers report that young people prefer to work in more lucrative service jobs (e.g. driving motorcycle taxis). In response to the difficulties attracting young men to farm work, several stakeholders report farmers are employing temporary workers, who are internal migrants from less fertile and poorer parts of Uganda (especially the North). Women smallholders report they now have to carry out more unpaid family labour.

Enabling Rights: the bargaining position of workers also plays an important role in outcomes. Where workers are permanent and organised in trade unions they have better protection, as indicated in all three country studies. However where value chain dynamics drive casualization those workers have least protection, compounding social downgrading. A challenge for unions is that global supermarket buyers operate beyond the reach of national jurisdiction or collective bargaining processes. Northern NGOs and global unions have long campaigned over poor working conditions in supermarket value chains, leading to implementation of social standards (codes of labour practice), as part of private governance.

[10] Following this research South African fruit experienced major labour unrest among casual workers targeting the state, leading to a partial increase in the legal minimum wage (Alford et. al. forthcoming).

African supermarkets rarely apply social standards (except South African retailers Woolworths and Pick n Pay). Regional supermarkets rely on public governance -supplier compliance with labour regulation, and enforcement by labour inspectors, which in most countries is limited.

In sum economic and social upgrading were found where producers and workers have the capabilities and skills to upgrade, and can find new openings. Strategic diversification of supply into global and regional buyers with different standards requirements is enhancing the bargaining positions of producers and workers in some contexts. However, commercial pressures on suppliers long identified in global supermarket value chains reverberate in those of regional supermarkets. Combined with rising costs and wider labour market pressures, suppliers with poor capabilities, low-skilled casuals, migrant workers and unorganised smallholders face downgrading pressures or can be excluded from GVC-GPNs altogether.

Analytical Implications of Upgrading and Downgrading

The analytical implications are that GVC and GPN approaches provide complementary insights into changing dynamics of global retail and tensions in economic and social upgrading and downgrading trajectories. Combining analysis of economic and social upgrading provides insights into the changing inter-linkages between buyer-supplier and supplier-worker relations across borders as regional value chains shift the balance between North-South and South-South. This enables more nuanced analysis of mixed outcomes, whereby some producers and workers benefit, but others clearly lose out.

The concepts of multi-polar governance and multi-scalar embeddedness help to unpack increasingly interwoven value chain networks associated with regional retail expansion. This is reflected in an array of standards suppliers now face. Expansion is an uneven process given embeddedness across diverse geographical locations and socio-economic contexts with varying capabilities and skills of suppliers and workers. Suppliers face wider options in terms of access to traditional markets, regional or global value chain channels. However, value chain pressures once limited to suppliers to global supermarkets are gradually extending, albeit unevenly through 'waves of diffusion', to domestic-oriented suppliers.

In relation to supplier-worker relations, combining analysis of economic and social upgrading/downgrading challenges an implicit assumption that accessing value chains is mainly beneficial for producers and workers (e.g. Cattaneo 2013). It also challenges worker-focused analysis that mainly highlights violations of worker rights (e.g. Raworth and Kidder 2009). Our more nuanced analysis examines how *both* can co-exist within the same value chain, and even on the same production site where permanent/regular workers are employed alongside casual workers hired through unscrupulous labour contracts (Barrientos 2013). Analysis of the quality/cost tension helps unpack commercial drivers for both better labour conditions through the need for more skilled labour to meet quality standards (Fernandez-Stark, Bamber et al. 2011), and greater labour exploitation to meet buyer demands for lower production prices (Selwyn 2013). This tension plays out differently across different societal and territorial contexts, as illustrated by the comparison of three countries in this paper. But it can also be affected by changing commercial dynamics, as the expansion of sourcing by regional supermarkets also shows.

This research reinforces findings of Bernhardt and Milberg (2011) that economic upgrading can but does not necessarily lead to social upgrading, indicating this applies in regional as well as global value chains. Addressing upgrading poses a challenge for both GVC and GPN analysis in assessing the leverage points that can help promote better outcomes for suppliers, workers and smallholders. To be effective, leverage cannot be confined to one (national) value chain node, without taking into account external (global) nodes, and wider players (including governments, international NGOs, global unions). Hence national government interventions aiming to upgrade producers and workers in GVCs are constrained when blind to the multi-polar and multi-scalar governance of such chains (Authors forthcoming).

This research highlights how leverage within value chains can be affected by supplier and worker bargaining power. GPN and GVC analysts have examined power asymmetries within value chains, where buyers occupy a position of dominance in relation to fragmented suppliers and workers (Nathan and Kalpana 2007; Coe, Dicken et al. 2008). Some have highlighted the adverse effects of buyer purchasing practices for workers (Raworth and Kidder 2009). This research has found that the commercial position of capable suppliers has been enhanced by the expansion of regional value chains; and skilled workers through increased demand for quality labour. Workers organised through trade unions and smallholders through farmer groups or cooperatives are better able to bargain with suppliers. However, supermarket purchasing practices continue to prevail and are being extended through expansion of regional retailers. Weaker suppliers and casualised workers have seen few or no improvements, and contestation between buyers, suppliers and workers persists.

Another dimension of leverage is how external actors and policy environments can affect commercial and bargaining positions. Again these are inter-linked at different nodes along global and regional value chains. Commercial position can be affected by a range of interventions, including trade policy by the EU and within Africa (stricter import requirements rapidly effect time-sensitive FFV exports), government policy (such as support for the development of KenyaGAP) and civil society campaigns (such as environmental arguments against air-freighted FFV). Bargaining position of workers and smallholders can also be affected by external actors. Consumer movements for fairer or more ethical production are stronger in Europe than Africa; global union federations and international NGOs can play important roles in campaigning for better conditions for workers and smallholders. National labour legislation provides a benchmark for working conditions in all countries. This is an important dimension of multi-polar governance which Ponte and Sturgeon (2014) acknowledge needs further investigation, which this paper has had insufficient space to explore adequately.[11]

6. **Concluding Remarks**

This paper has aimed to contribute analytically and empirically to growing research on the implications of the expansion of regional value chains within the global South. While earlier research evolved in an era of value chains dominated by Northern largely transnational lead buyers sourcing from the global South, our research contributes to learning for both GVC

[11] See Alford et. al. forthcoming for further discussion in the South African context.

and GPN approaches in relation to a shifting and more complex regional landscape (Neilson et. al. 2014). Here we have drawn on Ponte and Sturgeon's (2014) analysis of multi-polar governance, further enquiring into its implications in a context of expanding African retail. This has helped to highlight application of converging but differential standards packages by global and regional supermarkets to overlapping supplier networks and the advance of multi-polar forms of governance as retail value chains expand across global and regional scales. The expansion of regional retailers helps traverse the gap between traditional open markets and global supermarket requirements, which is an uneven process as supermarkets expand through 'waves of diffusion' to new locations across Africa,

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The research found that the expansion of regional retailers is contributing to widening opportunities for 'strategic diversification' by some suppliers and workers, enhancing their bargaining position with global and regional buyers. This can facilitate economic and social upgrading by more capable producers and skilled workers able to engage in different value chains. However, competitive pressures continue to drive economic downgrading, and some producers and workers with insufficient capabilities and skills are excluded altogether from both global and regional value chains. The analytical implications are that GVC and GPN approaches provide complementary insights into changing dynamics of global retail and tensions in economic and social upgrading and downgrading trajectories.

Although only touched on in this paper, it also highlights the need for further analysis of strategic interventions to enhance multi-polar governance involving public, private and social actors in a context where global, regional and domestic drivers are increasingly interlinked. Beneficial outcomes are possible through regional value chain expansion, but far from inevitable without strategically enhancing the bargaining positions of suppliers, workers and smallholders.

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