

# State Upgrading in Global Value Chains and Production Networks

## A Conceptual Note

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*Document Version*  
Final published version

*Publication date:*  
2023

*License*  
Unspecified

*Citation for published version (APA):*  
Bezuidenhout, A., & Jeppesen, S. (2023). *State Upgrading in Global Value Chains and Production Networks: A Conceptual Note*. Centre for Business and Development Studies. CBDS Working Paper No. 2023/1

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WORKING PAPER 2023/1

# **STATE UPGRADING IN GLOBAL VALUE CHAINS AND PRODUCTION NETWORKS : A CONCEPTUAL NOTE**

Andries Bezuidenhout & Søren Jeppesen

FEBRUARY 2023



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**CBDS WORKING PAPER 2023/1**

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[www.cbds.center](http://www.cbds.center)

ISBN 978-87-973170-6-8

CBDS publications can be downloaded free of charge from [www.cbds.center](http://www.cbds.center)

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# STATE UPGRADING IN GLOBAL VALUE CHAINS AND PRODUCTION NETWORKS: A CONCEPTUAL NOTE<sup>1</sup>

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## Abstract

Despite the contribution and influence of the Global Value Chains (GVCs) and Global Production Networks (GPNs) perspectives on our understanding of processes of economic and social development, the understanding of the role of the state within in this framework has some limitations. Based on an assessment of perspectives on the role of the state within GVCs/GPNs, we propose that there is a need to supplement these existing understandings of the state with an analysis of ‘state upgrading’. Recognizing state upgrading as a distinct process, but related to economic and social upgrading, provides an opportunity to analyze in more detail the dynamic exchange between state institutions and GVCs/GPNs. This allows for the development of an enhanced understanding of what the substantive dimensions of the role of the state within GVCs/GPNs consists of. We suggest that such dimensions should include ‘state representational upgrading’ and ‘state institutional upgrading’. We further propose to extend the analysis to what we term the ‘upgrading nexus’ – describing the dynamic interaction between the three types of upgrading in relation to the main actors in GVCs/GPNs (the private sector/industry, the civil society/labor, and the state). With such an approach, we imply an analytical understanding of how economic, social, and state upgrading in GVCs/GPNs are either mutually reinforcing, or potentially mutually undermining. Our aim is to suggest a way of analytically addressing the role of the state within GVCs/GPNs to supplement and refine existing approaches, not to propose to develop an original theory of the state.

**Key words:** Global Value Chains, Global Production Networks, State Upgrading, State Representational Upgrading, State Institutional Upgrading, Upgrading Nexus

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<sup>1</sup> We would like to express our gratitude to Assoc. Prof. Emeritus Peter Wad, CBS and Assoc. Prof. Peter Kragelund, RUC for critical and insightful comments on an earlier draft of the paper. Their comments assisted us in sharpening the focus and clarifying what we are trying to accomplish with the working paper. Of course, we welcome any further comments or suggestions.

## 1. INTRODUCTION

In this working paper, we argue for a refined perspective on the state in Global Value Chains (GVCs) and Global Production Networks (GPNs) perspectives. We propose that there is a need to supplement the existing understandings of the state in GVC/GPN perspectives with an analysis of ‘state upgrading’. Recognising state upgrading as a distinct process, but related to economic and social upgrading, provides an opportunity to analyse in more detail the dynamic exchange between state institutions and GVCs/GPNs. This allows for the development of an enhanced understanding of what the substantive dimensions of the role of the state within GVCs/GPNs consists of. When ‘state upgrading’ is fully recognised and analysed, it would also be possible to develop a more comprehensive theory of economic and social upgrading in relation to the state. We propose that this is analysed as the ‘upgrading nexus’ – implying an analytical understanding of how economic, social, and state upgrading in GVCs/GPNs are either mutually reinforcing, or potentially mutually undermining. Thus, the ‘upgrading nexus’ describes the dynamic interaction between the three types of upgrading in relation to the main actors in GVCs/GPNs (the private sector/industry, the civil society/labour, and the state). Alongside economic and social upgrading, the notion of state upgrading provides for a more comprehensive approach to developmental outcomes (or the opposite, in the case of state downgrading) linked to GVCs/GPNs. We do not propose to develop an original theory of the state, but rather suggest a (more modest) way of analytically addressing the role of the state within GVCs/GPNs to supplement and refine existing approaches.

That the role of the state in literature on Global Value Chains (GVCs) and Global Production Networks (GPNs) is debated is understandable, given that early strands of the approach were developed in response to the state-centric nature theories of the ‘developmental state’ that were influential in the 1990s (see Amsden, 1992; Wade, 1992; Evans, 1995). At the time, Gary Gereffi and colleagues (see Gereffi, 1995; Gereffi and Korzeniewicz, 1994) foregrounded the role of globalised production processes in development, in particular the role of powerful corporations in this. The nuanced understanding of firms and industries in GVC/GPN perspectives, as well as the focus on economic upgrading, remain a strength, especially when viewed in relation to institutions like the state and civil society actors (Gereffi, 1995; Schmitz, Humphrey, 2002). A salient argument has been that various forms of economic upgrading can potentially provide opportunities for countries and industries in the Global South to benefit from globalised production and service activities. Being included in the labour intensive, technologically standardised activities of, say, the global garment industry, would allow manufacturing companies from these parts of the world to learn from and potentially to benefit from different forms of upgrading – i.e. moving to higher value-added parts of value chains (Gereffi, Korzeniewicz, 1994).

This shift in focus, combined with neoliberal globalisation, the emergence of private forms of governance that often bypassed state regulation (in the form of labour codes of conduct), and assumptions that the state would play a lesser role in the economy, led to a criticism that the GVC approach tended to characterise the state as ‘powerless’ (Mayer, Philips, 2017; Werner, 2021; De Marchi, Alford, 2022). In a similar vein, authors such as Levy (2008), Horner (2017) and Mayer and Philips (2017) question the assumption that the role of the state has been

diminishing and argue that GVC and GPN contributions have largely failed to provide sufficient analysis of the role of the state in economic and industrial development. Despite productive theoretical innovations in GVC/GPN theory<sup>2</sup> that currently still frame much of the scholarly and policy debates on the role of the private sector in development, an empirical focus on the role of the state tends to be somewhat marginal in the majority of GVC/GPN contributions (for an analysis of the literature, see De Marchi, Alford, 2022). Hence, we agree with e.g. Levy (2008), Horner (2017), Horner and Alford (2019), Mayer and Philips (2017), and Alford and Philips (2018) proposing that business and development analysis, including GPN/GVC perspectives, should pay more attention to the role of the state in industrial development in the Global South. We suggest that current GVC/GPN frameworks could be brought under sharper conceptual focus, in order to do this in addition to powerful corporate actors, trade unions, and consumer groups (e.g. Horner, 2017; Horner and Alford, 2019).

Our main intervention here is a conceptual one. The need to develop this framework arose from a long term project on the garment manufacturing industry in South Africa, Eswatini and, Lesotho, during which we attempted to comparatively understand how states with little capacity respond to the entry (and at times, the exit) of major garment manufacturers into their territories (Bezuidenhout, Jeppesen, 2011). We mention the case of Lesotho here and will also draw on examples from Eswatini and South Africa in this paper. We should mention that our perspective is also informed by empirical work in other parts of the world, including Australia, South Korea (see Webster, Lambert, Bezuidenhout, 2008), Tanzania, Kenya, Zambia, and Uganda (see Charles, Jeppesen, Kamau, Kragelund, 2017; Hampwaye, Jeppesen, 2014; Jeppesen, Kragelund, 2021; Nassuna, Jeppesen, Balunywa, 2022).

In elaborating the concepts of state upgrading and the upgrading nexus, we work within the GVC/GPN field, but also draw on contributions from the literature on State-Business relations, the Political Settlement approach, as well as literature on industrial policy. While we refer to dynamics in the garment industry more generally and in relation to the three countries we are currently interested in, our main focus here is conceptual, rather than empirical.

In this paper we first contextualise our work with reference to the developments in Lesotho and then take stock of the historical development of key concepts in GVC/GPN approaches, with a particular interest in how the state is approached at a more general level. We outline the central contributions from GVC and GPN authors as well as critiques raised over time, with the emergence of social upgrading as a central focus in addition to economic upgrading, as well as a focus on new forms of transnational governance. Second, we take a closer look at how GVC/GPN scholars who take the role of the state seriously approach this at the conceptual level (e.g. Horner, 2017; Mayer, Philips, 2017). This discussion serves as a foundation for the outline of our proposed conceptual intervention. Finally, we elaborate on how we understand ‘state upgrading’, including two main forms of state upgrading, namely ‘state representational upgrading’ and ‘state institutional upgrading’. We also develop the idea of an upgrading nexus,

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<sup>2</sup> We use the terms GVC and GPN almost interchangeably given that most researchers in the two fields nowadays view the field as closely related. We will highlight some of the important differences in the paper.

which involves the dynamic interaction between economic, social, and state upgrading. We conclude the working paper with considerations on further research.

### *1.1. CONTEXTUALISING THE ENDEAVOR*

We begin with a brief detour to Lesotho to explain the rationale for our intervention in this working paper more concretely. The two photographs reproduced here (see below) are of government departments in Lesotho. The first is the office complex of the Lesotho National Development Corporation (LNDC). It is located in the heart of the Maseru's business district, an area with corporate head offices and formal retail outlets, as well as a quaint coffee shop run by the Alliance Française. The building's elevators have windows that allow both official and visitor spectacular views of Maseru and its surrounding mountain landscapes as they ascend to the building's higher floors. It is a building that was built to impress potential investors in the small African country.



In the early 2000s, Lesotho succeeded in attracting major garment manufacturing companies that took advantage to the country's inclusion in the Clinton administration's Africa Growth and Opportunities Act (AGOA) promulgated in 2000. The AGOA allowed tariff free access to US markets as a way to harness trade as a form of development. Investors were mainly from China and Taiwan, but garment manufacturers from the neighbouring South Africa also set up shop in the country to take advantage of wages that were lower than in their own highly unionised labour market. At its height in the early 2000s, the industry employed approximately 55 000 workers in textile mills and garment factories (Morris, Staritz, Barnes, 2011). Foreign investors received major tax breaks and subsidies, the LNDC built tailor made factory shells for them in industrial parks. Textile investors often expressed frustration over the lack of capacity in the Lesotho civil service to process their visas and permits, and a One Stop Shop was set up to fast-track their applications. While our research focus at the time was on the industry and the



working conditions in the industry, we were constantly reminded in our interviews with company managers of a general lack of state capacity to support the industry. We soon realised that we would not be able to understand how this country linked into GVCs/GPNs if we did not develop a detailed understanding of the nature of the state as well.

Soon the country's spectacular success as an exporter to US markets attracted attention, in part due to the fact that Lesotho was competing at the lower-end of the market, against countries such as Vietnam and Bangladesh, and later also Madagascar. The country was targeted by local and international activists over exploitative conditions in these factories, including extremely low wages and harsh working conditions (De Haan, Stichele, 2007). This brings us to the second photograph, which is of the Department of Labour's head office in Maseru. The building is in a downtown part of Maseru dominated by informal business (see picture below).



In 2008, when we first visited this part of town to meet with the Factory and Allied Workers' Union, the union's general secretary insisted on sending a union official along to accompany us to our car due to his concerns for our safety. Upon interviewing the Labour Commissioner during the same visit, we also got a picture of an under-resourced department, with a lack of staff and vehicles to inspect factories, and to enforce the country's labour laws. We were reminded by this that state capacity and priorities over the regulation of the industry vary significantly in one country. Simply referring to 'the state' in Lesotho, as if it is one monolithic entity, was clearly problematic. We had to disaggregate the different roles and functions of the state bureaucracy, and also relate these to political processes.

In response to harsh conditions in Lesotho's garment factories by activists, major fashion brands and retail outlets from the US introduced labour codes of conduct in order to address this. Also, Lesotho as a country marketed itself as a 'sweat free' investment destination,

referring to the fact that these codes of conduct ensured that factories were not sweat shops, but well-regulated workplaces (Seidman, 2009). From 2011 to 2016 the International Labour Organisation (ILO) ran the Lesotho Better Work Programme, of which the intention was to build the country's capacity to regulate labour conditions and to resolve labour conflict. However, the programme tended to run alongside the Department of Labour and was not absorbed into the state functions when it closed down. Also, a significant proportion of the industry did not see the need for the programme and failed to continue financial support when it wrapped up in 2016 (Pike, 2020, Pike, Godfrey, 2014). Interestingly, former Better Work employees set up a private sector consultancy, one that was still in business when we last visited in 2022. A major initiative to train workers for the industry (called ComMark) was also not taken over by the state, but absorbed by a major South African manufacturer into their own operations. These experiences impressed upon us the need for development interventions to consider in a more systematic way how the state is involved and impacted upon.

During our most recent visit to Lesotho (in 2022), the country was reeling from the impact of Covid-19 lockdowns in both China and South Africa, as well as the impact of rising fuel costs on the importation of fabric (mostly from China) and exports (mainly to US markets). Our discussions with government officials were often about the fact that the country had failed to formulate and implement a coherent industrial policy. Rather, the country relied on this single industry, albeit in addition to the provision of water to South Africa and diamond mining. The new policy thinking was around the need to not rely solely on garment exports, but to also grow a local business class, and to focus on upgrading in agriculture and agro-processing. Some government officials showed a level of excitement about this, but others were more sceptical. Thinking about this is one thing, but does the state have the capacity to follow through on this? With regards to the Department of Labour, trade unions we spoke to were still critical of their capacity to regulate conditions in the industry. A major international campaign around gender-based violence at one of the companies was a point of discussion, with speculation about the impact of this on the significant decline in orders from US buyers.

Our experiences and questions raised during factory visits and interviews with company managers, trade union office bearers, as well as government officials about the nature of the state in Lesotho, as well as in Eswatini and South Africa, led us to return to our main theoretical framework, namely GVC/GPN approaches. Existing understandings of the state and the dynamic interactions between GVC/GPN players (such as buyers, managers, workers, labour and consumer activists) and different state functionaries and institutions did not always provide us with an appropriate conceptual language that could capture what we were observing. We now turn to a discussion of existing GVC/GPN approaches to the state, followed by our proposed conceptual intervention in this regard.

## **2. THE STATE IN GVC/GPN THEORY**

### *2.1. Chains and networks: Conceptual origins*

The concept 'commodity chain' was initially developed by Immanuel Wallerstein and colleagues drawing on World Systems Theory as an adaptation of dependency theory, which

moved the focus beyond the nation state to include processes of internationalisation/globalisation. In the 1970s, Hopkins and Wallerstein defined commodity chains as tracing back ‘inputs that culminated in [consumable items] – the prior transformations, the raw materials, the transportation mechanisms, the labor input into each of the material processes, the food inputs into the labor’ (1977, 128). Later on, in the 1980s, they provided a more crisp formulation: ‘The concept “commodity chain” refers to a network of labor and production processes whose end result is a finished commodity’ (Hopkins, Wallerstein, 1986, p. 159). We note here the centrality of labour, in keeping with the Marxist underpinnings of World Systems Theory. We also note that Wallerstein and Hopkins maintained a focus on the role of state and state strength within the broader World System, given that a number of states had broken out of underdevelopment at the time – we refer here to countries such as Japan, South Korea, and Singapore.

In the 1980s the concept ‘value chain’ (at times also ‘value-added chain’) emerged in business studies and was advanced by Michael Porter (1980, 1985). Porter’s approach was an intra-firm perspective oriented towards global business strategy. When it was taken forward by Dicken (1986) in his influential work *Global Shift*, the term was given greater theoretical weight in the domain of economic geography. It was to play an important role in influencing what later became known as the GPN approach (see below). The term ‘global value chain’ was incorporated when scholars who used both the terms ‘global commodity chain’ and ‘global value chain’ settled on a common language after a workshop organised as the Global Value Chains Initiative at the Bellagio retreat in Italy in 2000 (Sturgeon, 2008).

The term ‘production network’ was developed in the early 2000s based on the World Systems roots of GCC theory and in response to and as a complimentary approach to the GVC approach. The aim was to provide an alternative and a more sophisticated approach to what was seen as an overemphasis on the role of firms in GVCs and to also consider other actors (including the state), power dynamics, and geographic processes (including space and scale) within production networks. As such, it focused on the state in shaping production within global systems of inequality and underdevelopment, as well as the centrality of labour within this framework. The GPN approach drew inspiration from GVC theory as well as from theories of networks and embeddedness (drawn from Polanyi and Granovetter), and from Agency-Network Theory (Latour and others) (see e.g. Dicken, Kelly, Olds, Yeung, 2001; Henderson, Dicken, Hess, Coe, Yeung, 2002; Hess, Yeung, 2006).

Although the GVC and GPN are seen as complementary approaches, the GPN approach claims a more central role for the state, as well as other potential actors in global production processes. Accordingly, the GPN approach follows a political economy approach to the state – i.e. the state is seen as an integral part of economic processes, rather than just a regulator and enforcer of contracts. The GVC approach’s main focus has been on the power dynamics within global value chains. We develop these points below.

## *2.2. The comings and goings of the state*

So, in the mid-1990s the sociologist Gary Gereffi (1994, 1995), initially working from a World Systems perspective, refined Wallerstein and Hopkins’s definition and started to develop the

concept as a central part of a theory of economic globalisation. Importantly, he added the prefix 'global', in this early formulation of Global Commodity Chains (GCCs). This recasting of the concept involved four dimensions of analysis: (i) An input-output structure, (ii) A territorial structure, (iii) A governance structure, and (iv) Institutions (see Gereffi, 1994, 1995).

We here note that states are conceptualised as a part of the constitutive elements of GCCs/GVCs, more specifically as part of the fourth 'institutional' dimension. Gereffi defines the fourth dimension as 'an institutional framework that identifies how local, national, and international conditions and policies shape the globalization process at each stage in the chain' (Gereffi, 1995, p. 113). States have a salient role at the mentioned levels and in drafting policies, though obviously influenced by private and social factors. However, the rest of Gereffi's 1995 contribution related to 'governance' and subsequently the main thrust of GCC/GVC research was on the role played by dominant 'lead' firms in commodity/value chains (see also Bair, 2005). In part, the intervention was meant as a corrective on the almost exclusive focus on the state in much of the literature on the developmental state at the time (see Amsden, 1992; Wade, 1992; Evans, 1995). The GCC argument stressed the equal importance of understanding the role played by powerful global actors other than the state, and globalisation was understood as a process that would lead to an increased geopolitical role for transnational corporations, many with turnovers greater than the gross domestic products of nation states in the Global South (see Hirst, Thompson, 1995; Held and McGrew, 2007).

As such, the matter of chain (read: lead firm) governance became a major theme in GCC/GVC inspired research. A distinction was drawn between producer-driven and buyer-driven value chains (Gereffi, 1994; Gereffi, Humphrey, Sturgeon, 2005).<sup>3</sup> The power of 'lead firms' (or 'buyers', in the case of buyer-driven value chains) in chain governance became a major research topic (Gibbon, Ponte, 2005; Coe, Hess, 2007; Hess, Yeung, 2006; Neilson, Pritchard, 2009). In addition to this focus on chain governance in GVCs (or GCCs, at this time), the approach had a major focus on the need and ability of industries and firms to upgrade along/as part of chains. Initially four main forms of upgrading were identified: (i) Product upgrading; (ii) Process upgrading; (iii) Intra-chain or functional upgrading; and (iv) Inter-chain upgrading (Schmitz, Humphrey, 2002).<sup>4</sup> For more detailed overviews of this, see Bair, 2005).

Formulated as such, the GCC/GVC approach became influential in both academic and policy circuits. Gereffi (1994, 1995) clearly intended this perspective on economic organisation of global production processes to assist developing country governments, the private sector and firms to develop industrial policy and interventions in an era of neoliberalism. The perspective

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<sup>3</sup> Producer-driven value chains refers to a particular type of chain driving most commonly found in capital-intensive industries where powerful manufacturers control the chain, such as manufacturers of electronics and motor vehicles. Buyer-driven value chains refers to another type of chain governance most found in less capital-intensive industries such as garment, footwear, toys and furniture. Here, production is outsourced to a number of subcontractors by firms that specialise in managing their brands, usually global retailers, or are linking the subcontractors to the brand manufacturers and retailers (Gereffi, 1994; Gereffi et al, 2005).

<sup>4</sup> (i) Product upgrading refers to the production of goods with higher unit costs, or that are more sophisticated; (ii) Process upgrading refers to the improvement of production systems and technology; (iii) Intra-chain or functional upgrading refers to firms taking on (new) functions in addition to basic manufacturing, such as logistics management or design; and (iv) Inter-chain upgrading refers using expertise in one industry to move to another (Schmitz, Humphrey, 2002).

identified a range of strategies for firms and industries to maintain or improve their competitiveness and for Global South governments to undertake initiatives aimed at supporting the local firms and industries in strives for upgrading, once countries have a 'foot in the door' through their inclusion at the lower ends of value addition in specific industries (see Lauridsen, 2018).

### *2.3. Critiques and further elaboration*

Alongside the advancement of the GVC approach, various critiques emerged. Below, we address four areas of critique and debate, being a) lack of attention to firm level drivers, b) too much focus on 'lead firms', c) too much emphasis on economic upgrading (and the need to focus on social upgrading too), and d) lack of attention to the role of the state.

Firstly, one line of criticism argued that this narrow focus lacked an ability to account for firm level dynamics. This led to the development of a micro-level analysis of firm dynamics within the GVC field (see Gereffi et al, 2005). Drawing inspiration from transaction cost economics (Williamson, 1989), and principal agency theory (Arrow, 1974; Jensen and Meckling, 1976), Gereffi et al (2005) sought to refine the GVC analysis to include a continuum of lead firm/buyer-supplier relations in GVC theory. The authors set up a classification of the buyer-supplier relations with five main types: (i) hierarchy, (ii) relational, (iii) modular, (iv) captive, and (v) market (for more detail on this see Gereffi et al, 2005).

Secondly, an additional point of criticism has addressed what was seen as the perspective's narrow focus on (lead) firms as key actors. On the one hand, GPN scholars (see e.g. Coe et al, 2004; Dicken et al, 2001; Henderson et al, 2002; Hess, Yeung, 2006) suggested a wider understanding where also the state and other actors were of importance as we have outlined above. As pointed out above, the GPN approach was formulated as a complimentary approach to the GVC approach. First of all, the GPN approach views networks as 'relational processes and structures in which, and through which, power is exercised' (Dicken, et al, 2001, 92). The emphasis here is both on power differentials within chains, as well as the fact that firms are not the only actors within chains. The GPN approach is interested in the potential role of government, labour, consumer activists, etc. within production networks. Second, networks refer to 'the multiplicity of geographical and organizational scales at which networks are manifested' (Dicken, et al, 2001, 92). Here the GPN approach responds to what is seen as a too linear approach of GVC research when investigating complex and interweaved processes. The GPN scholars are also critical of simplistic notions of scale, such as the binary global/local that is often used. Finally, networks refer to 'the complex territorial embeddedness of networks' (Dicken, et al, 2001, 92). Inspired, in part, by Actor-Network Theory, the GPN approach attempts to deepen the somewhat underdeveloped 'institutional' part of Gereffi's characterisation of value chains, as well as the fact that multiple actors (not just lead firms) can potentially impact on socio-economic outcomes. Fundamental to the GPN approach, is an approach to the state that is rooted in political economy and subsequently GPN research having had a (much) stronger focus on various roles of the state in determining GPN outcomes – we elaborate on this below.

Authors working within the GPN framework developed the idea of strategic coupling as a way to analyse the successful exchange (in the sense of economic upgrading) between state institutions and GPNs (see Coe, Yeung, 2019). As Horner (2022, p. 70) argues: ‘Closely related research on global production networks (GPNs) has also examined possibilities for export-oriented development through ‘strategic coupling’ between localized assets and the needs of lead firms in GPNs’ (Coe, Yeung, 2015; Coe et al, 2004; Yeung, 2016). In addition, as we return to in the next section below, Horner has provided a framework with a set of general concepts (facilitator, regulator, producer and buyer), which assists in bringing back the focus on the roles of the state in industrial development (Horner, 2017). These are important contributions in relation to GVC/CPN discussions, as they bring the state back into focus in its own right, rather than merely an institutional player subjected to the decisions of lead firms.

Thirdly, the GCC/GVC approach was criticised for a lack of attention to the social consequences, including the impact on labour, stemming from processes of economic upgrading (see e.g., Dunaway, 2001; Knorringa, Pegler, 2006). GVC scholars responded by introducing a new concept, namely social upgrading, as opposed to forms of upgrading recognised in the approach’s initial formulation (subsequently described as ‘economic upgrading’) (Barrientos et al, 2011; also see Gereffi, Lee, 2016). Drawing on the work of Rossi (2011), as well as Amartya Sen (1999, 2000), Barrientos et al. (Barrientos, Gereffi, Smith, 2011, 324) defined social upgrading as ‘the process of improvement in the rights and entitlements of workers as social actors, which enhances the quality of their employment’. This implies access to better and more fulfilling work, but also the enhancement of working conditions and the protection of rights, in line with the ILO’s Decent Work Agenda, ‘which encompasses employment, standards and rights at work, social protection and social dialogue’ (Barrientos et al, 2011, 324). Social upgrading is understood to contain two broad elements. First there are improvements of measurable standards, such as working hours, wage levels, and the nature of contracts of employment. Then it also refers to the nature of workplace representation, which is more difficult to quantify and measure. This component of social upgrading refers to the right of workers to join unions of their choice and to bargain collectively for improved conditions (for a discussion see De Marchi, Alford, 2022, 90).

The development of this new ‘social upgrading’ component to GVC (and GPN) research revitalised the field and led to an expansion of the theory’s research focus. These studies showed that the benefits of economic upgrading are often not spread evenly – permanent workers, usually men, tend to benefit more than women and those employed part-time or through labour market intermediaries and subcontractors (Barrientos, 2008, 2019). Also, it showed that economic upgrading does not necessarily lead to social upgrading, and that some forms of economic upgrading may actually lead to social downgrading (e.g. see Rossi, 2013; Selwyn, 2013; Rossi, 2019; Anwar, Graham, 2019). Importantly, research in the field also showed that social upgrading is dependent on labour agency and state action as well (Karatepe, Scherrer, 2019; Marslev, Staritz, Raj-Reichert, 2022). This, in turn, led to a further revitalisation of the GVC/GPN approach with a focus on labour agency and how labour agency is linked to the strategic use of power by workers organisations such as trade unions (e.g., see Coe, Hess, 2013).

The revitalised research agenda has also been linked to an increased focus on forms of labour protection that bypassed states in the Global South, often in countries with labour repressive regimes and little commitment to social upgrading (see Jenkins et al, 2002). Transnational campaigns that highlighted violations of labour and human rights in factories that supplied manufactured goods to major consumer brands, led to the introduction of labour codes of conduct by these brands. Suppliers were required to adhere to labour standards as enshrined in codes of conduct and conditions were inspected by NGOs and auditing firms that took responsibility for enforcement. Of course, this form of social responsibility, or privatised social regulation, was criticised for bypassing the state (see Seidman, 2007). This led to a focus on ‘new’ forms of ‘public-private’/‘private-public’ industry regulation, involving state regulatory agencies (often characterized by lack of capacity or political repression), private sector (emphasising social responsibility and codes – but then the problem of a lack of continuity), as well as ‘multi-stakeholder initiatives’ (involving transnational bodies such as the ILO). The term ‘hybrid regulation’ was used to describe such initiatives that involved various combinations of actors and forms of regulation, and more recently also the term ‘polyvariate regulation’ (Barrientos, 2022).

Fourthly, various authors have argued that the state received insufficient attention in GVC research (Dicken, 2001; Coe et al, 2002; Levy, 2008; Mayer, Philips, 2017; Werner, 2021). First, one of the key critiques from the GPN scholars was that the GVC contributions focused on (lead) firms and private governance at the expense of state institutions. GPN scholars have suggested to emphasize the political economy of production and argued that production networks were to be understood as involving the state, firms, and other actors (e.g. Dicken, 1986/2011; Coe et al, 2002). Second, given the return to the mainstream of industrial policy and the centrality of GVC/GPN perspectives in informing research on economic upgrading as part of societal development and structural transformation (Evans, 2008; Lauridsen, 2018; Chang, Andreoni, 2019), there is an obvious need to focus on the role of the state, as well as the need to deepen and nuance our understanding of how states go about formulating and implementing policy (see e.g. Taylor, 2012; Whitfield et al, 2015; Chang, Andreoni, 2019). Given the current resurgence of concerns of trade and national security and hence new forms of protectionism (what some refer to a ‘deglobalization’, see Gong et al, 2022), as well as the impact of lockdowns on trade in response to the Covid-19 pandemic, this understanding of the role of the state is all the more important (e.g. see Espitia, et al, 2020; Gereffi, 2020; Gereffi, Pananond, Pedersen, 2022).

These debates have inspired and challenged our thinking while conducting research on industrial development based on garment manufacturing in Southern Africa. Nevertheless, we have been left with a sense of ‘something missing’ or ‘being overlooked’ regarding the roles of the state in GVCs/GPNs. We, for example, would like to highlight a major dilemma for countries in the Global South, where states often do not have to capacity or institutional experience to formulate and implement industrial policies, or lack the political will to do so. The lack of political will is often shaped by corrupt practices and rent-seeking (see e.g. Mkandawire, 2008). Furthermore, much of the lower-value added segments of manufacturing are located parts of the world ruled by despotic regimes and production regimes based on labour repression and workers’ rights violations (see e.g. Anner, 2015; 2021). This means that for GVC/GPN

approaches, the often stated idea of ‘bringing the state back in’ requires (further) analytical and empirical consideration.

In summary, in responding to criticism, innovations in GVC/GPN theory led to the development of new research foci and led to the introduction of new concepts. We have witnessed a refinement in understandings of the role played by lead firms in interaction with other actors, including various scales of industry regulation, civil society, and labour actors, as well as nation states themselves. An important development was the introduction of the notion of social upgrading and a research focus on how this relates to economic upgrading. This was a move that revitalised the field, leading to theoretical pollination between GVC/GPN theory and labour studies (specifically the literature on workers’ agency, see e.g. Anner, 2015; 2021), as well as social development theory more broadly (see e.g. Coe, Yeung, 2015). While the role of the state is recognised and theorised from different angles (in GVC theory as part of institutions and in GPN theory with a focus on political economy and strategic coupling), there is a lack of actual empirical studies that have taken this forward (for an excellent analysis on this see De Marchi, Alford, 2022).<sup>5</sup> Statements about the importance, the power, and the agency of the state are often made (Levy, 2008; Smith, 2015; Mayer, Philips, 2018; Horner, Alford 2019), but as illustrated by the case of Lesotho discussed earlier, there is a need to recognise that states and state institutions are diverse, complex, and operate from different histories, geographic locations, and positions of power. The central task at hand seems to be how to enhance and nuance the understanding of the role of state, including what we refer to as ‘state’ and shed further light on how the state engages in industrial development in relation to economic and social issues.

### **3. GETTING INTO THE STATE**

GVC/GPN frameworks provide useful tools for economic analysis for targeted interventions by the state to bring about economic and social upgrading. Typically such interventions would involve a combination of industrial and social policies. However, as stated above, Levy (2008), and later Mayer and Philips (2017), argue that within these perspectives, a sustained focus on private governance (by firms and lead firms) meant that the role of the state has been neglected and often overlooked (see also Weiss, 1998; Werner, 2021). Even when discussing public-private/hybrid/poly-variate governance, the attention has tended to fall on firms and to some extent NGOs/civil society and not on states and government institutions. This while states often provide the spaces for development to take place, or at least has the potential to do so (Mayer, Philips, 2017).

Furthermore, while often asserting the need to recognise the role of the state, there is a need for more focused analyses of options available in cases where states are either unwilling or

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<sup>5</sup> On the ground, the ‘bigger problem’ of state authoritarianism has not been solved, but have in some cases opened up space for workers and organised labour to challenge state repression. However, this depends on factors such as the relative power of workers in GVCs/GPNs, governance within such chains, as well as the territorial reach of chains. In all of this assumptions about states and their functions played an important part, even though mostly the part of Godot – a sense of having to wait for the state to finally arrive.



unable to assist in ‘capturing the gains’ of GVCs/GPNs. In addition to viewing the state as part of the institutional dimension of GVCs, or as an even more central player in the political economy sense of GPNs, what are the more concrete ways of analysing the dynamic interaction between GVCs/GPN’s and states as institutions? Also, what options are available when state institutions do not have the capabilities of the capacity to formulate or follow through on opportunities provided by being linked into GVCs/GPNs? We draw here on the literature from both GVC and GPN perspectives to identify three main forms of concrete state involvement in GVCs/GPNs. Broadly, we draw a distinction between the state as facilitator, the state as regulator, and the state as participant.

It is interesting to note that authors in the GVC/GPN mould often refer back to Peter Evans’ (1995) understandings of the role of the state, dating from the mid-1995s (see De Marchi, Alford, 2022). Ironically, it was this state-centric perspective that the GCC perspective reacted against. Because references to his formulation are so common in the GVC/GPN literature that deals explicitly with the role of the state, we include a brief discussion of this here. At the time Evans (1995) used the terms ‘husbandry’, ‘midwifery’, ‘custodian’, and ‘demiurge’ to describe the role of the state. Husbandry refers to the state’s role in supporting business in general and midwifery refers to the state’s efforts to foster the creation of a local/national business class. We would classify these two roles under the broad category of ‘facilitator’. For Evans the role of custodian refers to the need for the state to create and enforce rules. We would classify this role as being part of the state as regulator. Finally, Evans sees the state also an important economic player in its own right, as demiurge, as producer through state-owned enterprises. We would classify this role of the state as being part of the state as participant.

When it comes to GVC/GPN theory that more directly addressed the role of the state in GVCs/GPNs, authors often cite Gereffi and Mayer (2006; see also Mayer, Gereffi, 2010) as starting point. In this contribution to a more generalised discussion on governance in the global economy (referring here to both state and private forms of governance), they draw a distinction between facilitative, regulatory, and compensatory functions of the state. The facilitative function here refers to the contribution of governance institutions to facilitate the operation of markets, in particular the protection of property rights, banking policy, and competition policy. Interestingly, we find little mention here of industrial policy, other than the need for the state to provide information. The regulatory function of the state refers to the need for the state to limit negative externalities of markets, meaning the need to protect workers from exploitation and workplace injuries, as well as the need to protect the environment from pollution and over-exploitation. The compensatory function of the state refers to social welfare policies intended to limit the tendency of markets to create inequality, with measures such as the public provision of social insurance, education, healthcare, and progressive tax systems.

Mayer, in a later piece writing with Phillips (Mayer, Philips, 2017), revisits the classification of state functions in GVCs/GPNs. Here they expand the definition of the facilitative role of the state to include support to firms as part of what would typically be seen as industrial policy. They include competition policy in this definition, but also explore the role of the state in trade and industrial policy. They refer specifically to how states can use GVC/GPN analysis to inform

the formulation of industrial policy. Furthermore, they use the term ‘distributive’, rather than ‘compensatory’ to refer to the state’s role in the provision of social protection, but also expand their understanding of the state’s role in this regard with reference to the need for the state to strengthen the position of local firms in relation to powerful players in GVCs/GPNs.

Earlier we mentioned an important difference between GVC and GPN analysis to be the insistence of GPN theorists on a political economy approach to the state. This difference between the two related approaches is, to some extent, also reflected in how they define state functions. Dicken’s (2011) work played an important role in shaping subsequent GPN approaches to the state, with reference to the state as container of laws and practices and as regulator. Here Dicken’s perspective would broadly correspond to the GVC’s notions of the state as facilitator and regulator. However, Dicken also acknowledges – in line with a political economy approach – that the state is also a participant to the economy, as both economic collaborator and competitor, through state owned enterprises and the state bureaucracy. The notion of ‘strategic coupling’ introduced by GPN theorists further elaborated the role of the state as facilitator, with case studies on how mostly East Asian states were able to strategically align industrial policy with the interests of powerful global corporations (see Yeung, 2016). Also working within a GPN framework and reflecting the political economy perspective on the state, Horner (2017) suggested that, in addition to the state’s role as facilitator and regulator, there is a need to also recognise the state’s role as both producer (through state-owned enterprises) and buyer (through public procurement).

Below we provide a synopsis of these perspectives on the role of the state in GVCs and GPNs, with a synthesis of our own (see Table 1). We use this synthesis in the following section of the paper to inform our understanding of state institutional upgrading, which we outline in the next section.

**TABLE 1: THE ROLE OF THE STATE WITHIN GVCS/GPNS: A SYNTHESIS**

(Our) Synthesis	Evans (1995)	Gereffi and Mayer (2006); Mayer and Phillips (2017)	Dicken (2011)	Horner (2017), Horner and Alford (2019), De Marchi and Alford (2022)
Facilitator: Creating an enabling environment for GVCs/GPNs to operate and to foster economic upgrading	Husbandry (Support for business) Midwifery (Creating a local business class)	Facilitative policies (‘Policies that support the formation and operation of GVCs’)	Container of laws and practices	Facilitator (‘Assisting firms in GPNs in relation to the challenges of the global economy’)
Regulator: Limiting negative externalities and mitigating the unequal impacts of GVCs/GPNs by fostering social upgrading	Custodian (Creation and enforcement of rules, regulation)	Regulatory policies (Policies that address the negative externalities of GVCs); Consultative/Distributive policies (Addressing inequalities within GVCs, addressing inequalities between firms and workers)	Regulator	Regulator (‘Measures that limit and restrict the activities of firms within GPNs’)
Participant: Bringing about structural transformation in the economy through state-owned firms and government procurement.	Demiurge (Role of producer)		Competitor and collaborator	Producer (‘State-owned firms, which compete for market share with other firms within GPNs’); Buyer (‘State purchases output of a firm’)

Source: The Authors

We expand on these roles on more detail in the following section of the paper and also provide more concrete examples of what we mean. We do however want to acknowledge the theoretical insights from the authors cited in the table.

In summary, existing work on the role of the state in both GVC and GPN approaches provide a useful analysis of what the interaction between the state and GVC/GPN’s might entail – what Horner and Alford (2019) call the ‘state-GVC nexus’ – beyond the traditional focus in the GVC approach of the state as institutional context and the political economy focus of the GPN

approach. The GVC literature tends to focus on the role of the state as facilitator and regulator, while the GPN approach brings to bear the state's role as economic participant (as both producer and buyer). Nevertheless, there is the danger that recognising these roles of the state in relation to GVCs/GPNs would assume that states are by nature committed to playing that role, as well as capable of following through. Our experience in the field has taught us to be careful of such methodological nationalism, and to rather treat this as an empirical question. Hence our insistence that states in the Global South in particular, often have to build their capacities and capabilities to follow through on opportunities to bring about economic and social upgrading. Below, we outline our arguments on 'state upgrading' and the 'upgrading nexus'.

#### **4. A CONCEPTUAL UNDERSTANDING OF STATE UPGRADING**

The fact that states are often not able to follow through on opportunities to support economic and social upgrading in GVCs/GPNs, or at times are even unwilling to do so, remains a key constraint. Also, targeted interventions in infrastructure or subsidies, for example, are open for considerable rent-seeking and corruption. However, the entry of new economic players (such as in the case of textile conglomerates in Lesotho and Eswatini) has the potential to impact the state and its institutions. Nevertheless, the state itself consists of a complex set of institutions and practices and there is a need for a more nuanced reading of the potential interaction between these institutions and actors within GVC/GPNs. This brings us to a more detailed discussion of the two forms of state upgrading. We suggest that a distinction can be drawn between state representational upgrading and state institutional upgrading. Where state representation upgrading refers to the state's willingness to respond to the needs of GVC/GPN agents, state institutional upgrading refers to its capacity to do so. We define state representational upgrading as improvements in and the development of state responsiveness to the needs and interests of GVC/GPN agents, including foreign and local business interests, as well as labour and other civil society groupings. We define state institutional upgrading as an enhancement of the state's institutional capacities and capabilities to fulfil its role(s) as GVC/GPN facilitator, regulator, and participant, in support of both economic and social upgrading. We suggest that two broad categories of representational and institutional upgrading are analytically distinct, but relational in practice. We say it is relational because, at times, a state's willingness (or political commitment) to respond to a demand made by a company or a trade union is also related to its capacity to respond. Also, state capacity can be enhanced if the political will is present among elected representatives and full-time state bureaucrats. We elaborate on these two concepts below and link the two concepts to existing theoretical perspectives that relate to the representational and institutional dimensions of the state.

##### *4.1. State representational upgrading*

State representational upgrading refers to a process whereby the demands on the state resulting from the presence of GVCs/GPNs or the establishment of new GVCs/GPNs in a country lead to increased space for the state being responsive to demands from business and civil society formations (here referring to trade unions, consumer groups, grassroots

movements, etc.). Our interviews with managers of garment manufacturing operations in Eswatini, Lesotho and South Africa revealed a number of frustrations with a lack of responsiveness from governments in all three countries. However, different GVC/GPN players within the three countries at times also had competing interests – what textile manufacturers demand in terms of tariff protection, for example, often contradicts the needs of garment manufacturers. Also, company managers and trade unions are often at odds over the extent and nature of social protection. Both business and labour interests form associations to jointly put pressure on the state, as well as each other. In Eswatini and Lesotho, for example, the Swaziland Textile Exporters' Association (STEA) and the Lesotho Textiles Exporters Association (LTEA) played an important role in putting pressure on the state, but also as a negotiating partner with trade unions. But both associations also struggled with internal divisions. The STEA, for example, was collapsed as a formal organisation by a specific lobby in the body when negotiations with trade unions did not go their way in 2008. Within the LTEA there are tensions between companies that export to the US market, and those primarily exporting to South Africa. This means that where certain interests are located within GVCs/GPNs often shapes the kinds of demands they make on the state for support.

One example could be closer state-business collaboration based on consultative fora, though our empirical knowledge informs us that business associations seldom include a broad spectrum of business interests in a given sector (see e.g. Leftwich, 2000; Kensall, 2013; Taylor, 2012; Charles et al, 2017). Like the representational component of social upgrading, which includes elements like the ability for workers to form unions and to join unions of their choice, and to bargain collectively, but nevertheless can be difficult to measure, state representational upgrading would be hard to quantify and to measure comparatively. Nevertheless, like expanding the representational side of social upgrading, state representational upgrading includes an element of democratisation, although this may not always be the case. In addition to the right to vote, this includes the opportunities for business, workers, and civil society organisations, including trade unions, to engage and influence the state. The more channels of consultation and communication, the higher likelihood of business, workers, and civil society organisations being heard. When state responsiveness to business, for example, takes on the form of a labour repressive approach to economic development, economic upgrading may happen at the expense of social upgrading – hence our insistence on also understanding the upgrading nexus in its totality (see below). Ideally, though, state representational upgrading would counter state capture and lead to an enhancement of the state's willingness and capacity to respond to demands made by both business and civil society more broadly.

With regards to GVC/GPN theory, the literature that deals with state-business relations (SBRs) is perhaps better developed than the literature on labour-state relations and civil society-state relations. The establishment of new corporate interests (including investors from overseas, as well as local business interests linked to those global investors) resulting from countries being included in GVCs/GPNs may disrupt existing patronage networks, thereby opening up the potential for state representational upgrading. Charles et al (2017) argue to perceive SBRs as follows: 'SBRs are defined as a set of institutionalised, responsive and public interactions between the state and businesses [...] and promote a more efficient allocation of scarce resources and a more competent and prioritised removal of key obstacles to growth, than

when the two sides engage in harmful collusion’ (p. 110). Yet, other authors have pointed out that these relations are sometimes formal, but that it is also important to understand the more informal dynamics of interactions between business interests and the state. There has also been a focus on the role of business associations in this, as well as whether business interests are driven by firms based in the relevant countries, or whether transnational corporations form the dominant grouping (Taylor, 2012; Seidman. 2007). The importance of representation is linked to what Charles et al (2017) state: ‘Theoretically, collaborative SBRs rest on a shared vision/project between state agencies and the private sector, which in turn rests on ‘strong’ BAs able to influence policies and offering relevant services/incentives to their members, that policies and incentive structures have to be transparent, and the technical capacity of both state and private sector entities’ (p. 111). This is again linked to the state institutional upgrading, which we return to below in the next section.

Whether being more formalised or informal, conducive state-business relations do play an important role in engaging businesses from the Global South in GVCs/GPNs as examples from e.g. Mauritius, Botswana, and Ethiopia show. However, the often negative externalities of production in low-wage sites (often in export processing zones) also lead to a response against exploitative working conditions in factories, with trade unions and human rights activists drawing attention to labour repression and workers having to bear the brunt of harsh working conditions and low wages. Such demands for social upgrading – in particular the representational aspect of social upgrading – are often directed at the state, although the problem of unresponsive authoritarian states has led to the outsourcing of state responsibility to private forms of regulation (labour codes of conduct) and international interventions such as the ILO’s Better Work programmes. Often the problem with such interventions is that they replace the state and abandon efforts at democratisation (Seidman, 2008, 2009). A focus on the potential of such campaigns and an effort to upgrade the state, however, can provide a strategic impetus for campaigns to also include demands for democratisation and state responsiveness.

Diving deeper into the representational upgrading, authors working within the Political Settlement Approach (PSA), also associated with the State-Business Relations (SBR) approach, have shown how the demands of leading industrialists or business associations at times lead to efforts by states to be responsive to the needs of business, even in conditions of authoritarianism of state bureaucratic weakness (e.g. Khan, 2010; Whitfield et al, 2015 ). Furthermore, the PSA maintains that it is important to disaggregate what we mean by the state and to draw a distinction between the ruling party or elite, the government, and state agencies/bureaucracies. In understanding how these different components of the state relate to business and the demand from business for state responsiveness, authors within the PSA have developed the notion of Pockets of Efficiency (PoE). Such PoEs have three characteristics: (i) a strong executive able to protect an agency from rent-seeking by powerful groups in society; (ii) bureaucratic autonomy to enable agencies to run their operations without too many restrictions in terms of finance, staff, procedures, and organisation; and (iii) merit-based recruitment to break with norms of patronage appointments (Kjaer et al., 2021, p. 295).

The authors further argue that: ‘Effective agencies are not easily created in poor countries with clientelist politics. A common definition of PoEs is that they are organisations that are reasonably effective in carrying out their functions and in serving some conception of the public good, despite operating in surroundings where most agencies are ineffective and subject to serious corruption, patronage, and so on (Kjaer et al., 2021, 294). So, the ability and willingness to engage with and provide space for different stakeholders vary, as we will discuss below.

As alerted to by the PSA, a major problem for an analysis of the role of the state in GVCs/GPNs is the fact that states, state bureaucrats, and politicians are often hostile to the very idea of economic development since existing political and economic structures serve their interests (e.g. see Altenburg, 2013). A number of concepts have been developed to describe the problem, including parasitic states, state capture, elite rent-seeking, state patrimonialism, and neo-patrimonialism. This raises the problem of state authoritarianism, or the lack of political will to formulate and implement policies that may lead to development. This may be due to state capture by factional interests, or in Peter Evans’s (1995) terms, a negative form of state embeddedness. Alternatively, this may be due to state authoritarianism, for Evans a negative form of autonomy. In certain cases, such forms of state capture may lead to state downgrading or the strengthening of state repressive functions at the expense of developmental capacity. External geopolitical interests may also have an interest in state repression, rather than development, as a form of neo-colonialism. Ideally, however, embeddedness and autonomy should act as mutually reinforcing counterweights to either state capture or authoritarianism – states have the best chance of being developmental states when they have both elements of embeddedness and autonomy. States tend to be more responsive when faced with strong civil society formations, which include NGOs, community organisations, and trade unions, but also business interests that are not beholden to the state – in particular an independent national business class. We do not have space here to cover this vast literature in detail, but this is nevertheless the context for the notion of state representational upgrading.

#### *4.2. State institutional upgrading*

State institutional upgrading refers to the emergence of and/or presence of GVCs/GPNs in a country or territory leading to an incremental enhancement of a state’s capacity and capabilities to effectively fulfil the roles of facilitator, regulator, and participant. Before we discuss these roles in more detail, a comment on how we understand cause and effect.

First of all, the role of the state as a facilitator refers to the creation of an enabling environment for GVCs/GPNs to operate and the need to foster economic upgrading (see Horner, 2017, 6; De Marchi, Alford, 2022). Here we primarily refer to the institutional ability of the state to formulate and implement industrial policy, but also its ability to effectively and timeously process company registrations, intellectual property agreements and registrations, work permits, as well as processing corporate and import taxes. In their review of this new context for industrial policy and state intervention, Andreoni and Chang (2019; 2020) refer to a range of industrial policy measures that are available despite WTO rules that are generally designed to limit state intervention. On this they argue: ‘[W]hile the restrictions on industrial policy by developing countries have become strengthened in the last couple of decades, this does not

mean that industrial policy has become impossible' (Chang, Andreoni, 2020, p. 345). On the supply-side Chang and Andreoni refer to support for technological innovation, investment in higher education and technical skills, support for producers to access both capital and primary resources, and the provision of infrastructure and networks.

Nevertheless, states in the Global South often lack the capacity, institutional coherence, and policy direction to follow through on industrial policy measures. Andreoni and Chang are positive about the need to build such capacity and point to the fact that historical examples of successful developmental states built and expanded state capacity over time. They refer to top-down approaches to industrial policy – the kind of central planning witnessed in South Korea and Japan – as well as more bottom-up approaches that may involve regional and local government institutions (Andreoni, Chang, 2019; Chang, Andreoni, 2020). As highlighted above, examples from the Global South include Mauritius, Botswana, and Ethiopia (top-down). Like other approaches and theories of the state in industrial development, the incrementalism implied in this upgrading perspective is useful in framing the contradictions involved in approaching industrial policy measures from a position of state weakness.

State institutional upgrading of facilitative capacity, therefore, involves the potential for strengthening both policy formulation capabilities and the implementation of policy across government departments at various levels of the state. We want to refer back to our earlier discussion on the PSA and the emergence of PoE. Here Whitfield et al (2015) warn us that although one may find PoE in one or more of the state agencies, one will at the same time find highly inefficient parts of the bureaucracy. It takes the government and political elite to formulate and promulgate new policies, while state agencies and bureaucrats are to handle implementation. The bureaucracies of countries in the Global South often put more effort into creating investment promotions authorities and setting up 'one-stop shop' type facilities for new investors in order to circumvent bureaucratic failures in other parts of the state.

Secondly, the role of the state as a regulator refers to the need to limit the negative externalities of GVCs/GPNs and the need to mitigate the unequal impacts of GVCs/GPNs by fostering social upgrading (see Gereffi, Mayer, 2006). The 'regulator' role of the state necessarily involves setting up 'measures that limit and restrict the activities of firms within GPNs' (Horner, 2017, 6/13). Horner argues that this role declined during the neoliberal era, though with 'signs of resurgence' (Horner, 2017, 7-8/13). He points out that some examples of countries that have been able to 'retain public support for state export monopolies' are found (2017, 8/13), including that the state can also 'implement quality and safety standards' (ibid.). We include the distributive component of the state under our definition of the state as regulator, here referring to the need to improve the position of local firms within GVCs/GPNs (which again points to (local) embeddedness), as well as the need to address the wage inequalities created by linking into lower-value-added segments of GVCs/GPNs.

Of course, some of these state functions are also 'outsourced'. States decide whether they will address the inequalities (and support workers in terms of wages, working conditions, and more) or in contrast leave this to the lead firms (and allow low wages and similar) (Mayer, Philips, 2017, 148). Some efforts through private-public partnerships are put forward as examples (e.g. Fair Trade is mentioned), but then again not supported by the authors stating



that such efforts are ‘highly unlikely to be successful’ (ibid.). Upgrading in this regard would involve an improvement of the contents of protective laws and regulations, as well as the state agencies’ capacity and ability to enforce regulations, including well-resourced inspectorates and support for firms to abide by national standards.

Thirdly, the role of the state as an economic participant refers to the state’s ability to bring about structural transformation in the economy through state-owned firms and government procurement, in interaction with GVCs/GPNs. The ‘producer’ role relates to State-Owned Enterprises (SOEs) and the attempt to take or maintain public control of ‘key strategic sectors’ (Mayer, Philips, 2017, 148). Importantly, the SOEs continue to be a major factor in the global economy, despite neoliberalism (ibid.), dominated by countries like ‘China, India, Russia and United Arab Emirates’ (ibid.). The ‘buyer’ role of the state involves the strategic use of public procurement from private firms in GPNs – again an important aspect of the global economy according to among other OECD, 2013 (Horner, 2017, 9/13). Andreoni and Chang (2019) also mention the role of public procurement and the development of internal markets as an important part of industrial policy on the demand side of the economy. They show how these policy measures can operate at various scales of government (for a summary of this, see Andreoni and Chang, 2019, 148). Upgrading in this regard would involve the state strengthening its ability to strategically use SOEs and its role as a buyer to bring about economic and social upgrading, including supporting local businesses. Of course, this potential is often limited by attempts at rent-seeking, hence the need for this to be balanced out by state representational upgrading as well.

In table 2 below, we summarize the core points made above. We relate the two proposed notions of state representational upgrading and state institutional upgrading to the main issues addressed by the concepts, to developmental challenges that necessitate the need for state upgrading, and finally to how state upgrading in each case might create developmental opportunities.

**TABLE 2: STATE REPRESENTATIONAL AND INSTITUTIONAL UPGRADING – SUMMARY: Content, Obstacles and Potential GVC/GPN influence**

	<b>State Representational Upgrading</b>	<b>State Institutional Upgrading</b>
<i>Main content</i>	Improvements in and the development of state responsiveness to the needs and interests of GVC/GPN agents, including foreign and local business interests, as well as labour and other civil society groupings. Chances for successful representational upgrading associated with Evans’ notion of embedded autonomy.	Enhancement of the state’s institutional capacities and capabilities to fulfil its role(s) as GVC/GPN facilitator, regulator and participant, in support of both economic and social upgrading (or if not, indicating downgrading of such capacity and capability)
<i>Major obstacles/challenges to state upgrading</i>	Predatory states, rent-seeking, patrimonialism, state capture	Weak or failed states, maladjusted states
<i>Potential GVC/GPN related upgrading</i>	New private sector investors and business interests linked to GVCs/GPNs may disrupt patronage networks; Labour and consumer activism; The growth of a local business class may contribute to the creation of a tax base for fiscal sovereignty, leading to room to manoeuvre for states in the Global South	Demands from GPN players for state support/efficiency in implementing industrial policies; Worker demands for regulation, training, and social protection; Potential for expansion of services aimed at GVC/GPN players

Source: The Authors

Now that we have sketched out what we mean by state upgrading – and state representational upgrading and state institutional upgrading as two forms of state upgrading – we move on to a discussion of how these two forms of state upgrading might relate to economic and social upgrading in GVCs/GPNs.

## **5. THE UPGRADING NEXUS**

We argued above that a salient part of the contribution by the GVC/GPN approaches was/is the emphasis on the dynamic interaction between industry/business, civil society/labour, and the state. However, we find that this potential has not been fully realized in the GVC/GPN literature. Hence, we suggest addressing this through what we label the ‘upgrading nexus’. The term ‘nexus’ typically refers to connections between different elements that make up a system. It may also refer to an important point, or node, where these connections come together.

So, we suggest that the state relates to the private sector and to what labour and other actors do as part of industrial development e.g. responding to demands for codes of conduct based on an interplay between the three types of GVC/GPN upgrading - the ‘upgrading nexus’. We may illustrate the linkages between economic, social, and state up/downgrading as ‘a double-

layered spiral’, which has two parts; a ‘positive’, upward spiral and a ‘negative’, downward spiral. We elaborate on the two types of changes/processes with a focus on the mechanisms that lead to positive spirals – the upgrading nexus.

Existing research on the connections between economic and social upgrading shows a complex interplay between the two forms of upgrading. As mentioned, economic upgrading does not automatically lead to social upgrading. It may lead to social upgrading for permanently employed workers, but not for those employed through subcontractors or who work on short-term contracts (e.g. see Barrientos, 2008, 2019). Furthermore, some have argued that social upgrading tends to happen due to concerted pressure from trade unions, as well as state policies and regulations (e.g. see Selwyn, 2013; Anwar, Graham, 2019). Similarly, we would like to suggest that state upgrading’s relationship to both economic and social upgrading is contingent on a range of factors, which we hope to convince others that this is a potentially constructive way to frame future research in the GVC/GPN domain and forms an important part of our own research undertakings/programme.

A first point we would like to make is that – similarly to the potential for mutual reinforcement between economic and social upgrading – there is also the potential for the upgrading nexus between the three types of upgrading to bring about some kind of balance and mutual reinforcement. We do not suggest that this would be a natural result of economic upgrading, but rather that this should be a policy goal. Economic upgrading can potentially support both social and state upgrading. Local firms being strengthened and moving into higher value-added parts of production can potentially bring about increased levels of employment, better wages, and working conditions, as well as more fulfilling work for employees. Alongside this, state facilitation of such initiatives would enhance firms’ efforts to upgrade economically. Equally, state regulation and the limiting of the negative externalities of GVCs/GPNs has the potential to provide for more stable social conditions for business to operate in a more sustainable manner based on conducive state-business relations build on trust. Clearly, in today’s world of GVCs/GPNs often based on cut-throat competition, low wage levels, and demands for high subsidies, these hopes of mutual reinforcement seem somewhat idealistic. Nevertheless, as an ideal type, it does provide for a policy goal.

Current GVC/GPN research that focuses on the role of the state point to ‘outsourced’ forms of governance (Mayer, Phillips, 2017). In this model of state regulatory weakness, economic upgrading happens at the expense of both social and state upgrading. Even in cases where corporate codes of conduct and poly-variate forms of regulation (Barrientos, 2022) support some form of social upgrading, the danger of not also expanding and enhancing the state’s ability to both operate autonomously (due to a lack of state representational upgrading), as well as the state capacity to facilitate, regulate and participate in the economy (a lack of state institutional upgrading), runs the risk of short term spurts of growth, rather than inclusive and sustainable development.

To illustrate more concretely what we mean by the ‘upgrading nexus’, we would like to return to the case of Lesotho. As discussed earlier in the paper, state weakness in enforcing labour laws and regulations led to the ILO locating a Better Work programme, which operated from 2011 to 2016. Intended as a five-year programme, the idea was that it would become

sustainable and self-funded. However, this policy goal remained unrealised due to changing geopolitics (attention shifted to other production sites such as Bangladesh and Cambodia), but there was also disagreement over the need for the programme between the private (company) players in two value chains. Exporters to the US and the EU markets saw a need for the programme, but those who exported to the South African market did not see the need for the programme and therefore refused to contribute financially. Also, there was little integration between the Better Work programme and the Department of Labour's inspectorate, with officials of the Better Work programme at times confusing their role with those of labour inspectors. Here we see how the Better Work programme stood in for the state, rather than contributing to an attempt to upgrade the state – a missed opportunity (see Pike, 2020; Pike, Godfrey, 2014). One could argue that this was an example of prioritising social upgrading at the expense of state upgrading at the level of policy formulation and implementation. An awareness of the need for state upgrading could potentially contribute to better development policy also among international development agencies.

The case of Eswatini provides another example but illustrates how trade unions as GVC/GPN actors can use international pressure to open up space for state representational upgrading, but in this case at the expense of economic upgrading. Eswatini is Africa's last remaining absolute monarchy. Trade unions have historically been part of the pro-democracy movement and due to this, the state tends to tread a fine line between labour repression and appeasing external interests. The country was only admitted to the AGOA after significant lobbying by the then Swaziland government. Like Lesotho, Eswatini benefitted from these exports to the US market, but also attracted South African manufacturers who mainly exported back into the South African market (Morris, et al, 2011). Trade unions in Eswatini were divided, like in Lesotho, but were able to successfully merge competing unions and labour federations into a unified body. Unions also successfully organised the garment industry and, for a time, were able to establish centralised bargaining in the industry. However, when the unions brought about their merger process, the government refused to recognise the newly formed union and labour federation – an example of what we call state representational downgrading. As a result and after campaigning by the labour movement in the US, Eswatini was expelled from the AGOA in 2015. This meant that exports to the US declined significantly, although a number of manufactures were able to redirect exports to the South African market. The result was that the government in Eswatini came under severe pressure and had to engage the unions in a process of labour reform as a precondition for re-admittance to the AGOA. The unions were duly recognised and despite initial objections from the US labour movement (they wanted reforms to go further), Eswatini was readmitted to the AGOA in 2017. When we last visited Eswatini, exports to the US had still not recovered (see also Pasquali, Godfrey, 2022), so the pressure to bring about state representational upgrading came at the expense of economic upgrading.

Finally, we would like to draw on South Africa from the time of labour repression under apartheid to further elaborate on the point we make about Eswatini. In the early 1970s, South Africa was subjected to the rule of the apartheid state and at the time two major events impacted the state's ability to maintain levels of repression. Internally, in 1973 there was a significant strike wave led by black industrial workers that culminated in the formation of a

strong shop-floor-based trade union movement. Externally the country was subjected to increased campaigns for sanctions against apartheid. In response to sanctions, US multinationals operating in South Africa introduced what was called the 'Sullivan Code' – a set of principles that required international firms operating in South Africa to follow certain principles that would not support the discriminatory practices required by South African law. To be sure, this was an early example of the labour codes of conduct that were to follow decades later (see Seidman, 2007).

The Sullivan Code was criticised as a corporate white wash, but local trade unions nonetheless used the moral pressure that came with it to force companies to negotiate with them outside the race-based system of the apartheid state which prevented black workers from engaging in collective bargaining. The first such agreement between a black union and a company was signed in a textile mill owned by a company called Smith and Nephew in 1974. Here the National Textile Workers' Union (NUTW) used its international connections to workers in the company's mill in the United Kingdom to put pressure on the firm to alter its approach to South African unions (Southall, 1995). Other such recognition agreements were to follow. Factory by factory the emerging unions built their power base by setting up shop stewards committees. This forced the state to change the labour laws and recognise black trade unions. In this case social upgrading – the improvement of labour laws due to pressure from trade unions – also opened up space for state representational upgrading. In 1979 the Federation of South African Trade Unions (FOSATU) was formed to coordinate efforts at a national level, and in 1985 FOSATU joined even more unions in the formation of the Congress of South African Trade Unions (COSATU), consolidating workers' power further. These unions, which took on a social movement character, played a central role in overthrowing apartheid.

We started our discussion with two photographs, referring to the variable degrees of resources allocated to different government departments in Lesotho. We would like to mention this point here as well, in order to emphasise the fact that states are complicated and contested sets of institutions and practices. We have drawn here on anecdotal discussions of three complex cases from our own research not as a fully-fledged analysis of state upgrading and how state upgrading relates to economic and social upgrading (the upgrading nexus), but rather as examples to illustrate our conceptual intervention more concretely. We see an elaboration of this as a research programme, possibly research hypotheses, rather than concrete findings. We do however think that recognising the notion of state upgrading alongside economic and social upgrading assists us in explaining the dynamics we have witnessed in the field over the past decade.

## **6. CONCLUSION**

Repeated calls to 'bring the state back in' have been made, ever since GCC theory was devised as a corrective to the state-centric approach of the literature on the developmental state. Although closely associated, how the state is viewed is a key dividing line between the subsequent GVC and GPN approaches. We see our contribution in this paper as a modest attempt to provide a conceptual way in which to re-frame the role of the state within GVC/GPN analysis. Like markets and other social formations, we see the state as an unfinished project,

an uneven one – both geographically and institutionally. It may have pockets of efficiency, amidst inefficiencies and alternative pockets in one country where the state is largely absent or extremely weak. It may also be uneven in terms of different scales of government. The state, in many parts of the Global South, remains a work in progress, at times unfortunately also one that is rolled back through structural adjustment programmes, war, civil unrest, or capture by elite forces (Mkandawire, 2010). In South Africa, references are no longer just to the need for a ‘developmental state’, but rather a ‘democratic and capable developmental state’. The state, in much of the world, can benefit from upgrading. We do not propose a general theory of the state here, but a conceptual contribution within the GVC/GPN approaches that may assist in focusing research and policy intervention.

As such we see our contribution as a revised analytical focus on the state in GVC/GPN theory in two ways; a) by proposing new concepts (state upgrading, comprised of state representational upgrading and state institutional upgrading) suggesting a ‘renewed perspective’ on the state based on an enhanced understanding of what the substantive dimensions of the role of the state within GVCs/GPNs are, and b) by proposing a refined understanding of the interlinkages between economic, social and state upgrading (or downgrading) coined as ‘the upgrading nexus’.

We propose ‘state upgrading’ as an analytical concept, which is constituted by two dimensions, namely state representational upgrading and state institutional upgrading. State representational upgrading relates to the influence and demands that economic and social actors make on the state may have on the responsiveness of the state, ideally also opening up space for social dialogue and democratisation. In a way, this component of state upgrading provides a link back to matters raised by earlier and contemporary debates on the developmental state (Evans’ notion of ‘embedded autonomy’), but without losing sight of economic and social actors in GVCs/GPNs. While demands for democratisation may come from many quarters, we propose an empirical and context-specific focus here that hones in on GVC/GPN actors that make demands on the state. Of course, these demands may also be contradictory at times. State institutional upgrading takes GVC/GPN concerns over the functions of the state within GVC/GPNs forward and provides for a more focused understanding of how these functions (or lack of functionality) in state institutions may benefit from upgrading. Again, demands on the state may be contradictory and how these contradictions are resolved should be an important part of any empirical investigation. To be sure, within certain GVC/GPN conditions, the facilitative and regulatory (and distributive?) functions of the state, for example, may be at odds. Powerful actors in GVCs/GPNs may put pressure on states to allow for the exploitation of labour and natural resources, against the interests and wishes of workers, trade unions, and the environmental movement. If these state functions are all strengthened rather than approached as a trade-off, we would argue that chances for inclusive and sustainable development are better.

Secondly, we argue that alongside economic and social upgrading the notion of state upgrading provides for a more comprehensive approach to developmental outcomes (or the opposite, in the case of state downgrading) linked to GVCs/GPNs. We suggest terming this the ‘upgrading nexus’ to describe the dynamic interaction between the three types of upgrading. Very much

like the need for local and national economies to benefit from upgrading along GVCs/GPNs, state institutions can also benefit from upgrading, as do social protection and welfare systems. Success depends not on a natural evolutionary process, but on conscious choices, mobilisation of resources, and a recognition that all these processes happened within a domain of power and unequal power relations. Underlying the perspective is the notion of the progressive realisation of developmental outcomes.

We would like to suggest that recognising the need for state upgrading, and an understanding of state upgrading in relation to economic and social upgrading (the upgrading nexus), provide a research agenda that could fruitfully infuse the existing focus on regional and local value chains, the retreat back into nation-states and geopolitical regions and blocks, as well as new forms of global governance that both involve and go beyond the nation-state.

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