



PAUL A. BARAN—PAUL M. SWEEZY MEMORIAL PRIZE WINNER

VALUE CHAINS

THE NEW ECONOMIC IMPERIALISM

INTAN SUWANDI

WINNER OF THE PAUL A. BARAN – PAUL M. SWEEZY
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“Demonstrates how global value chains are based upon, and deepen, the exploitation of labor by capital and the geographical transfer of value from global South to global North. Suwandi illuminates how lead firms use mechanisms of value chain governance to enhance the control of geographically distant labour. This work stands in, and contributes to, the monopoly capital tradition of Magdoff, Sweezy, and Foster. An important and valuable contribution to emancipatory social science.”

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Value Chains

The New Economic Imperialism

INTAN SUWANDI



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*To Keagan Arkatedja,
my fiery Red*

Preface

AS A CHILD LIVING IN JAKARTA, Indonesia, in the late 1980s, I was familiar with the blatant inequalities that characterized the city. Mansions built right next to the slums were something familiar, although I lived in neither. The presence of poverty was everywhere. I remember vividly seeing an old man ridden with leprosy pulling a cart full of blocks of ice, every single morning on my way to school. Or a classmate, sitting right there next to me, wearing socks that were full of holes and a uniform with faded colors because it was really old. These experiences were enough to evoke questions about wealth and poverty early in my life. “Why are there the rich and the very poor in this country?”

Later, in middle school—where kids from affluent families could buy Nike shoes or basketball shirts that were made not too far from where they lived by workers who were paid a fraction of the final price of these items—one of the first things we learned about Indonesia was that we were a part of the “third world.” Then the question developed into, “Why do we belong in the third world?” At that time, I couldn’t find a satisfying answer. Little did I know that this question would become the basis of more questions that later flourished and became the starting point of my studies.

One of the answers I found after I emigrated to the United States was that we live in an imperialist economy that perpetuates inequalities on a global scale, largely through the exploitation and expropriation of the periphery by the core. Marxist political economy has allowed me to examine this issue in depth with critical eyes, and myriad thoughts offered by critical and radical scholars, both from the Global North and the Global South, have provided me with resources to conduct my own research and formulate my own analyses. This book is a result of this long process of trying to understand how imperialist relations embedded in contemporary capitalism are sustained, perpetuating the division between the North and the South through the mechanisms of drain and value capture.

The analysis may be theoretical at times, or it may use terms that are technical. But at its center is a narrative about real people whose lives are affected by the processes of globalized production in significant ways, especially workers who are controlled on the factory floors in the South through management practices governed by capital's interests. Within the complex configurations of the global chains of value, and behind the rhetoric of "decentralized" production networks, there lies the not-so-good "old" stories of exploitation and unequal exchange.

But if the question concerns the working class, one may ask, why does my study focus on what the company executives from dependent suppliers have to say? Don't they belong to the group whose allegiance is obviously to the Northern capital they serve? My answer is this: I believe that one needs to understand how capital works in order to defeat the system that has produced so much misery for so many people. *You can't fight something you don't know well.* And we can learn how this system works, its logic and requirements, from the individuals who make sure that it runs daily at the point of production, the "experts" who know the nooks and crannies, who juggle the demands given by their multinational clients and the need to directly control labor, often in order to meet those very demands. Dependent suppliers located in the

South can be viewed as a critical node within the global commodity chains characterized by arm's length contracting. They give us a picture of how the chains work and reveal what forms of power relations exist in them. They also show us how to connect the dots between capital that rules from the metropolis and workers who toil in the industrial complexes in the periphery.

This book offers a picture of the imperialistic relationship between the North and the South. I hope it is a solid one, but it is obviously not *the* picture. Nevertheless, even though this book does not focus on the other aspects of imperialism, including those that are intertwined with gender, race, militarism, and the environment, the discussion of the exploitation and expropriation of the periphery intersects with these aspects, and should create further conversations in relation to them. I also hope that this work can be connected to other works that have examined not only the question of imperialism but also the question of what the working class and oppressed peoples in the world have done, and can do, to liberate themselves from a system that both exploits and expropriates them.

This book may not be a guide to how to end imperialism once and for all. The analysis I provide here, however, implies that capital, the big power that controls the global chains of value, is not omnipotent. In today's imperialist world economy, antagonistic class relations are as clear as ever, and ongoing struggles between capital and labor are something real. They occur everywhere. They are not a theoretical construct or mere Marxist jargon. This shows that changes are happening, that labor has never surrendered to the miserable fate prescribed to them by capital. If the reality of imperialism is often denied in today's world, the force of this denial always begins with those at the top of the global power hierarchy. The vast majority of people at the bottom are not fooled. They know what it is they continue to oppose.

If I could time-travel to Jakarta, back to the years when I was in middle school, I might have to tell my younger self some depressing answers to her question about why her country belongs to the

“third world.” But I would also tell her that people in many places around the world and throughout the years fight back—continuously, persistently, and vigorously.

In the world I live in today, the fight goes on, and I hope that this book will contribute to that fight.

Value Chains: The New Economic Imperialism is a product of many years of research and learning that would not have happened without the support of many individuals. First and foremost, I thank my mentor, John Bellamy Foster, from whom I have learned so much, within and outside academia. My interest in Marxist political economy started a long time ago, but it was under his mentorship that this interest could manifest itself, first in a meaningful learning experience at the University of Oregon and, later, in my writing. From him I learned perseverance in pursuing knowledge, and he always encouraged me to do more than I thought I could. This book has gained greatly from his guidance. It is a project that would not have manifested without his tremendous support.

I also thank two other mentors during my years in the Sociology Department at the University of Oregon: Richard York and Val Burris. Richard has supported my research in many ways since the beginning, and his pedagogical excellence will forever be an inspiration. Val’s extensive knowledge of theories and methods has been very important to the development of my research. Their encouragement and their feedback for my works are invaluable.

I thank R. Jamil Jonna, who, along with John Bellamy Foster, co-authored our paper that is adapted for chapter 2 in this book. Jamil has made our goal of providing an empirical groundwork for this theory possible. I also thank the individuals—whose names I can’t mention here—who helped me during my fieldwork in Indonesia. Without them, the fieldwork would not have succeeded.

The study was supported in part by the Southeast Asian Studies Award and the Wasby-Johnson Sociology Dissertation Research Award. I thank the generous sponsors who have provided such funding.

I thank my fellow survivors at the University of Oregon: Cade Jameson, Tongyu Wu, Youngwoo Jeung, Ryan Wishart, Brian Rosenberg, and Shihchi Lin. I would not have overcome the challenges present in the sometimes mean and lonely world of graduate school without their support (and some shots of soju). I also thank my colleagues at *Monthly Review*, in addition to John and Jamil: Brett Clark, Susie Day, Hannah Holleman, John Mage, Martin Paddio, Camila Quarta, and John Simon, as well as Erin Clermont who served as copyeditor. I especially thank Michael Yates, the director of Monthly Review Press and the editor of this book, whose support and feedback have been essential in the publication process, and whose works have inspired me.

I am indebted to numerous *Monthly Review* authors from whom I learned many, many things that have influenced the development of my thinking in a significant way. I also want to express my respect to generations of Indonesian leftists who, despite continuous repression and brutal hostility toward them, along with stigmas placed upon them, are able to hold their ground.

I thank the people whose friendship has been central to my life, those whose love has kept me going all these years: Lu Yi, Sirry Alang, Abhishesh Regmi and Divya Sharma, Vania Situmeang, Yuping Zhang, and Tri Astraatmaja. I thank Carrie Ann Naumoff, Ben and Leslie Lee, Theresa Koford, and Kim Donahey—whose warmth and kindness have made it possible for me to strive even when the tides are rough.

And of course, I thank my family for their essential support: Mama, my siblings Irma, Iman, and Iwan, and my uncle Pancha, as well as Anne and Bob. I thank Eli Bonner, who has always been there without fail. He is a partner in every sense of the word. Not only is he a loving husband and father, but also a skilled editor and a brilliant discussion partner. He was the first to read my dissertation, from which this book sprang. And this book is dedicated to our son, our comrade in arms, Keagan Arkatedja. The world he lives in may continue to be marred with the destructive consequences of imperialism for a very long time, but I hope that

he will be able to fight side by side with others in his generation and beyond, in solidarity with workers and oppressed peoples everywhere.

In the end, I would like to pay utmost respect to my dad, Sani Suwandi, who passed away in July 2016. He was my best friend. He was the first person from whom I learned about Marx. He was the one to whom I turned every time I needed to talk—about my studies, my fieldwork, the new things I learned, my plans and my thoughts. He was there every step of the way. He is here on every page. And he will be there in every path I take in the future. *Hatur nuhun, Papa*. I will forever be grateful.

1 — The Hidden Abode of Global Production

So all these big developed countries, they have their own protection measures to face globalization. But a country like us, we are so naive, so innocent, so young. We are a developing country. We don't have expertise in making this kind of regulation. Indonesia in the end becomes the target market. We have to open [our market], people come in. Some investments come in because our labor is very cheap. But in the end of the day, what happens? They're selling their products here, mostly, and we don't have any protections.

—JAVA FILM EXECUTIVE

THE QUOTATION ABOVE IS FROM one of the interviews I conducted with top managers at two companies in Indonesia. Interestingly, the opinion expressed by this interviewee, a representative of capital from the Global South, is predicated on the persistence of the hierarchical world economy, a phenomenon that is recognized by all classes in the South, but which has recently been the subject of a renewed debate among Western scholars, including those on the left.

The debate itself largely centers on the question of whether *imperialism* is still relevant in today's world economy, characterized by a new international division of labor linked to global commodity chains (also known as global value chains or global supply chains). Some argue that the globalization of production has done wonders to decrease inequalities among nations, since the incorporation of the countries of the Global South into the world economy has promoted their development. The recent success stories of some Asian countries, especially China and India, are seen as validating this argument. Numerous figures, even on the left, see the complexities of global commodity chains, along with the rise of "emerging economies," such as China, Russia, Brazil, India, South Africa, and Indonesia, among others, as "evidence" that what we have now is no longer an imperialist world economy, but merely "shifting hegemonies."¹ Economists, sociologists, and geographers, both mainstream and radical, often focus on the decentralized characteristics of such chains.²

In a panel held at the New School's Center for Public Scholarship in New York City on May 1, 2017, titled "Imperialism: Is It Still a Relevant Concept?," Marxist geographer David Harvey—repeating some of the arguments expressed in his "Commentary" in Utsa Patnaik and Prabhat Patnaik's *A Theory of Imperialism*—emphasized his rejection of what he referred to as "the straitjacket of imperialism." Explicitly following Giovanni Arrighi in his 1983 edition of *The Geometry of Imperialism*, Harvey claimed that he did not find the category of imperialism "compelling" or useful in examining today's world economy, viewing it as a conception of a "fixed structural constraint" that needs to be abandoned by those on the left, rather than a spatially dynamic configuration. Harvey's comments in the book by the Patnaiks and in his presentation in New York in May 2017 have engendered an ongoing debate, starting with a critique of his arguments by Marxist political economist John Smith, originally published on the *Monthly Review* website and then continued on the *Review of African Political Economy* blog. In addition to Harvey and Smith, others joined the

debate, with notable posts by Patrick Bond, Walter Daum, Andy Higginbottom, Adam Mayer, and Lee Wengraf.³

This disagreement on the left is not new. Many socialist thinkers in Europe and the United States have long rejected any notion that there is an “economic taproot” to imperialism, to utilize John Hobson’s famous phrase, and have argued that imperialism is either nonexistent, or a product of the state and not the economy, and thus political or geopolitical (and not economic) in nature, unrelated to the functioning of capitalism as a mode of production.⁴ But what engendered the most recent debate was Harvey’s statement that he not only largely rejected the theory of imperialism, but also suggested that “the historical draining of wealth from East to West for more than two centuries has . . . been largely *reversed* over the last thirty years.”⁵

At the heart of this controversy is the question whether the changing context of today’s global power relations—or what Harvey refers to in his reply to Smith’s critique as “complex spatial, interterritorial and space-specific forms of production, realization and distribution”—could lead to the conclusion that the drain from the Global South/East to the Global North/West does not exist anymore, or has been reversed, and that the concept of imperialism has become obsolete. Is it true that the notion of imperialism is nothing but, in the words of Bond, an “old-fashioned binary of oppressed and oppressor nations”? Is it reasonable to claim, as Wengraf explains, that the rise of emerging economies, which arguably leads to “sub-imperialism,” signifies the end of imperialism, highlighting cases such as China’s growing role in “tak[ing] advantage of the era of neoliberal assault in sub-Saharan Africa” that has helped secure its position as the “U.S.’s dominant global rival”? Or is it, as Higginbottom says, that “sub-imperialism does not mean the end of imperialism” (a position also held by Daum) but is a “mutation out of neo-colonial capitalism and continues to demonstrate many of its features”? Also, given the abundance of facts offered by its proponents, is it true that, as Harvey alleges, those who argue that imperialism persists today merely engage in

“rank idealism”? Or is it the opposite, as Mayer claims, that those who “deny imperialism” (borrowing Smith’s words) like Harvey are the ones who are “thinking in an idealist way” by “entirely omitting the factor of time, history, and historical materialism,” particularly “when mistaking money flows and production flows for imperial standing” in their discussion?⁶

Although a large part of my study presented in this book was done before these recent debates surfaced, it can contribute to the conversation. The analysis of global commodity chains creates some crucial questions in relation to the points above: (1) whether decentralized global commodity chains can be seen as constituting a decentralization of power among the major actors within these chains; and (2) whether the complexities of these chains suggest that the hierarchical, imperialist characteristics of the world economy have been superseded. I argue that the answer to both of these questions is “no.” Despite the seemingly decentralized networks, and notwithstanding the existing complexities that characterize the global commodity chains, the global capital-labor relations inherent in these chains are still imperialistic in their configurations.

Imperialism can be defined broadly, as in V. I. Lenin’s conceptualization, as the “complex intermingling of economic and political interests, related to the efforts of large capital to control economic territory.”⁷ Imperialism has several interrelated aspects: (1) *geopolitical* (including military) struggle by nation-states for position within the international hierarchy of the system, including the control of colonies or neocolonies; (2) dispossession of petty producers outside of capitalist production; and (3) *global exploitation*, along with *expropriation*—or appropriation without an equivalent—of labor in capitalist production, particularly under the domination of multinational firms emanating primarily from the core of the system.⁸ This book focuses almost entirely on the third aspect, without in any way denying the significance of the other two. At issue is the extraction (or drain) of surplus from the poor countries by the rich countries and/or their corporations. I argue

that one way to understand the persistent imperialist characteristics of the world economy is through examining the exploitation that occurs in what Karl Marx calls “the hidden abode of production,” which, in the era of global commodity chains, is located in the Global South. Although production has shifted to the South, imperialist relations of exchange continue to prevail, precisely due to the fact that the difference in wages between the North and South is greater than the difference in productivity. As Tony Norfield argues in *The City*, imperialism as it exists today in “the present stage of capitalist development” has its primary basis in the inescapable reality that “a few major corporations from a small number of countries dominate the world market,” world finance, and the global structure of production.⁹

In the capitalist mode of production, the capital-labor relation is the central relation of exploitation. As Paul Sweezy argues, while “every class society is characterized by the necessary/surplus labor dichotomy, hence by an implicit rate of exploitation. . . only in capitalism does this take the value form, with the rate of exploitation expressing itself as a rate of surplus value.”¹⁰ It is impossible to examine the capitalist economy, even when it is on a global level, and the class struggles central to it without focusing on the issue of exploitation, analyzed through the labor theory of value. It is precisely this that becomes one of the main tasks of this book.

My examination begins with a framework of global commodity chains that puts labor at the center of its formulation. The framework is called *labor-value commodity chains*, or labor-value chains for short. Unlike mainstream theories on this subject, this framework takes into account the questions of power, class, and control—questions that must be addressed if we want to bring the exploitation/expropriation that occurs in global commodity chains out into the open. Crucial is that the theoretical and methodological analysis of labor-value chains developed here incorporates a calculation of cross-national variation in unit labor costs in manufacturing. The measurement of unit labor costs—typically presented as the average cost of labor per unit of real output, or the

ratio of total hourly compensation to output per hour worked—combines labor productivity with wage costs (the prices of labor), in a manner closely related to Marx's theory of exploitation. Lower unit labor costs point to a higher rate of exploitation in production, and vice versa. The failure of some Marxist theorists, such as Charles Bettelheim (and more recently, Claudio Katz), to understand this fundamental relation has caused enormous confusion, leading Bettelheim to conclude, independent of these empirical relations, that the rate of exploitation is always higher in the more developed country simply because it is more developed.¹¹

In this sense, the labor-value chains framework is a means to operationalize exploitation within the framework of the labor theory of value. The maximization of gross profit margins through the reduction of unit costs is the goal of capitalists, and this “sets in motion a continuing search for new methods of production, new sources of labor, new ways of organizing the labor process.” The reduction of unit costs most importantly depends on “the portion of total unit costs that derives from the labor input, i.e., the unit labor cost.” This in turn depends on two factors: the price (wage) of labor power and labor productivity, which are integral to Marx's concept of exploitation.¹² The concept of unit labor costs, in this sense, is an operationalization of the rate of exploitation, which considers not only the question of wages but also the question of productivity.

The labor-value chains framework, empirically operationalized through the examination of unit labor costs, thus allows us to see that, behind the complexities of global commodity chains, exploitation persists. Global capital (that is, multinational corporations) engage in the search for low unit labor costs around the globe to accrue higher profit margins and overall profits. Data on unit labor costs show that countries with the highest participation in labor-value chains—the top three being China, India, and Indonesia—also have very low unit labor costs. This means that not only are wages low in these countries, but productivity is high. The global organization of labor-value chains, then, is a means to

extract surplus value through the exploitation of workers in the Global South.

But how exactly does this extraction happen? It is difficult to find current analyses in the field that provide a more-or-less complete picture of how global commodity chains work. On the one hand, there are excellent works that utilize a *global commodity-chain* or *global value-chain* (GCC/GVC) framework, which examines firms and how value is added (read: captured) from suppliers in the Global South. But most of them are not concerned with the question of labor exploitation—some of them even represent the view of capital, suggesting that corporations in the North grab the opportunity to extract the surplus value “offered” by the Global South. On the other hand, there are also many excellent works in the social sciences that provide detailed examinations of how workers are treated in the factories that assemble goods for multinational companies. But these works usually omit the connection between the control of the labor process and the intricate power relations that govern the commodity chains in a way that can bring out the specific mechanisms in which control is exerted through different actors within the chains.

I do not claim that this book can give a comprehensive picture. But I do try to offer an approach that can address both issues: the macro workings of the labor-value chains and the way these mechanisms affect production processes in specific firms, in particular how they ultimately affect the workers who make the commodities. How do multinationals exert control over their dependent suppliers? And, in turn, how do these unequal relationships between companies affect the other end of the unequal power relations, namely, those between the employers and the workers at the firm? Using another set of theories—works on systemic rationalization and flexible production—I connect the labor-value chains framework with the case studies I conducted in relation to two Indonesian companies. From the examples gained from the case studies, I explain how dominant companies (giant multinationals) within the chains extract surplus value through various

mechanisms of control, both in terms of controlling the production processes of their dependent suppliers and in terms of controlling the labor process of workers employed by these suppliers. Their goal here is to make sure that unit labor costs are *stably low*, even in cases where wage costs are increasing (such as the increase in minimum wage issued through governmental policies). Control mechanisms are instituted to allow global capital to maintain a low unit labor cost by making sure that productivity can be increased.

In the end, these observations suggest that labor-value chains, as a part of the restructuring of the world economy driven by the imperative of capital accumulation, are imperialistic in their characteristics: the very reality captured by the concept of *global labor arbitrage* within global finance. Labor-value chains involve a form of unequal exchange based on a worldwide hierarchy of wages, in which global capital (firms headquartered in the Global North) captures value from the South. What this means is that they capture value from the exploitation of the labor of the workers who manufacture the goods. In essence, more labor is obtained for less. Giant oligopolistic multinationals take advantage of differential unit labor costs within an imperialist system of “world value”; they control much of the world market through their international operations, and the fact that capital can move much more freely than labor (its movement restricted by factors such as immigration policies and necessity) allows multinationals to take advantage of immense labor price differences on a global level, and to possess more freedom in pursuing higher profits through the substitution of higher-paid labor with low-paid labor globally.

This means that, far from moving toward “transnationalization,” the processes that occur in labor-value chains point to the fact that capital accumulation processes are inseparable from the unequal relations among nation-states. They therefore reflect the much higher rates of exploitation imposed on workers in the Global South, with the state still serving as an instrument of and locus of capital accumulation. Indeed, the complexities of global commodity chains that are often highlighted in the mainstream discussion

of the subject have often disguised the structural relationship of underdevelopment, whereby the export of capital, as Paul Baran and Paul M. Sweezy observe, “far from being an outlet for domestically generated surplus, is a most efficient device for transferring surplus generated abroad to the investing country.”¹³

The concept of labor-value chains, then, is a theoretical and empirical device with which to look at this issue from a Global South perspective, that is, to reveal the exploitative relations that hide behind the veil of globalized production.

GLOBAL COMMODITY CHAINS AND MULTINATIONAL CORPORATIONS

Whether one is a critic or a cheerleader of capital, it would be difficult to disagree with the claim—along with clear evidence that accompanies it—that the processes of global production have taken on new characteristics. Relatively distinctive patterns of the current wave of globalization that started in the late 1970s–early 1980s can be seen in both the spheres of production and finance: the dramatic increase in trade and direct foreign investment flows, along with the massive expansion of international portfolio flows. But what is especially important is the accelerating pace of offshoring, especially in the manufacturing sector, whether through arm’s length contracts (offshore outsourcing) or within the confines of a single multinational corporation, or what is known as intra-firm trade.¹⁴

Until very recently, foreign direct investment (FDI), which is tied to intra-firm trade, rose “much faster than world income,” with an increasing trend in FDI inward stock—from 7 percent of world Gross Domestic Products (GDP) in 1980 to about 30 percent in 2009.¹⁵ A big portion of global FDI goes to the Global South, starting with the “slow and steady rise” of these countries’ share of world FDI in the late 1980s. In 2010, “for the first time, more than half of all FDI went to third world and transition economies.”¹⁶ A 2003 World Bank report claims that FDI is the biggest

source of external funding for developing countries.¹⁷ Even when global FDI has fallen in the last few years (a 19 percent decrease in 2018), this decline is concentrated in “developed economies where FDI inflows fell by 40%,” and is not reflected in the trends pertaining to developing economies. Not surprisingly, “FDI to developing economies remained resilient, with an increase of 3% [from 2017] to US\$694 billion” in 2018; in addition, “the share of developing economies in global FDI reached 58%” that same year, with five out of the ten top host economies being developing ones, including China (which ranks second), Brazil, and India.¹⁸

However, direct investments do not tell us the complete story of offshoring. Arm’s length contracting (sometimes referred to as subcontracting or Non-Equity Modes of Production) is also an important part of the workings of our global economy. This is where multinationals engage in contractual relationships with partner firms without equity involvement, mostly in the Global South, generating about \$2 trillion in sales in 2010.¹⁹ Through this process, firms can capture very high profit margins through their global operations and gain control over their supply lines. Even multinationals with high levels of FDI are also major international subcontractors.²⁰

These trends were later echoed by a 2015 report by the International Labour Organization (ILO), which confirms that the world economy is now characterized by the “increasing fragmentation of production into different activities and tasks” along global commodity chains by both direct and indirect means, namely, by foreign direct investments or outsourcing practices by lead firms and by the purchase of production inputs from a domestic supplier.²¹ The emphasis here is on the fact that both increases in intra-firm trade and contracting practices signify globalized production, associated with increased production in low-wage areas in the Global South. This pattern has governed the relationship between capital and labor on the global level throughout the last three decades, with some distinctive characteristics.

One such characteristic is the booming of export-oriented

industries in the Global South, focused on the manufacturing sector.²² These export-oriented industries are usually located in specific industrial complexes, in which companies operate factories that manufacture goods or other materials for foreign clients, including multinationals. Since the mid-1990s, scholars have made important claims about the search by multinational corporations for “cheap labor” in the South. Edna Bonacich and her co-editors, for example, argued in their introductory chapter to *Global Production* that an “important feature of the new globalization is that [multinational corporations] are searching the world for the cheapest available labor and are finding it in developing countries.”²³ And if we examine the period between the mid-1990s and mid-2010s, we can see that there has been a rapid increase in the number of jobs related to global commodity chains. The 2015 ILO report mentioned above claims that there has been an increase of 157 million such jobs within eighteen years, from 296 million workers in 1995 to 453 million in 2013, with much of this increase occurring before the 2007–09 economic crisis. Further, this growth in commodity-chain production is concentrated in “emerging economies” where such job growth reached an estimated 116 million—here, export-oriented manufacturing serves as the predominant sector, with Global North countries as the main export destination.²⁴

As a consequence, we have seen the formation of a global labor force concentrated in the Global South, where there were 541 million global industrial workers in 2010, compared to the 145 million who lived in the North.²⁵ Especially in East and Southeast Asia, manufacturers became central both in exports and in production processes.²⁶ Beginning in the 1970s, many developing countries in Southeast Asia in particular experienced an increase in their manufacturing output shares.²⁷ It is these new characteristics of globalized production that provide a background for the analysis of the current workings of the global commodity chains offered in this book.

Such special characteristics have been considered a hot topic in social sciences. As a result, many theories and empirical

studies about globalization and globalized production in particular have been published in the last three decades or so. One popular approach includes several GCC/GVC frameworks and their derivatives. Coined by Immanuel Wallerstein and Terence Hopkins in the 1980s, the concept of “commodity chain” was part of the world-systems perspective.²⁸ Later developed by sociologists, economists, and geographers, these frameworks came to be integrated with the mainstream discourse on *global supply chains*, and in that context, according to their critics, lost their original macrohistorical perspective and succumbed to an organizational analysis centered on firms and industries.²⁹ This diverted attention from global patterns of uneven development.³⁰

The differences between mainstream GCC/GVC theories and world-systems commodity-chain analysis has deeper roots related to historical perspectives. As Jennifer Bair and Marion Werner explain, the mainstream GCC/GVC frameworks “have shifted from the long-range, macrohistorical perspective of world-systems theory to a more industry-centered and firm-centered model of organizational analysis,” with a focus on firms as meso-level actors.³¹ Gary Gereffi claims that “transnational corporations” are “the chief economic organizing agent in global capitalism,” and that the GCC framework is distinguished from previous theories (such as dependency theory) precisely because those theories “did not have a good way to tie the activities of TNCs [transnational corporations] into the structure of the world economy.”³² Yet GCC/GVC analysis increasingly suffers from the opposite shortcoming of hypostatizing the firm level of analysis and losing sight of the structure of the capitalist world economy as a whole.

There is no doubt that GCC and GVC scholars have made important contributions, especially in the detailed studies of commodities and firms. Studies of global commodity chains that deal directly with exchange value, such as those that examine the production of the iPod and iPhone, have provided sophisticated institutionalist criticisms of abstract value-added conceptions in neoclassical economics that fail to see the new forms of exploitation

of labor.³³ However, as we will see below, both GCC and GVC frameworks lack the radical apparatus necessary to analyze power and class relations within global production processes. This remains true despite several seemingly critical claims by their proponents, who argue that “power relations” among economic actors and institutions involved in the value chains are “determinants of the direction and volume of trade.”³⁴

Indeed, some scholars have argued that GCC/GVC analysis has led directly away from conditions of power. Paraphrasing Peter Dicken and Anders Malmberg, Bair and Werner claim that the GCC/GVC theories’ focus on firms, despite their ability to give “insights into the governance dynamics internal to production networks,” has translated into an ideological “flattening of power relations.”³⁵ Economic geographers who have developed their own analysis of global commodity chains called Global Production Network (GPN) have similarly claimed that the GCC/GVC framework, due to its proponents’ “industry- or commodity-oriented” approach, is unable to give “justice to the multiactor and geographically complex contemporary global economy” and thus is unlikely to explain the global patterns of uneven development.³⁶ Critics charge that GCC/GVC analysis is ridden with weaknesses, both analytical and political, especially due to its failure to “comprehend the nature of capitalist exploitation and indecent work” and to engage in a “bottom-up” perspective on labor.³⁷

To be sure, GCC/GVC theories have not always downplayed (or ignored) the unequal power relations that are integral to the maintenance of the chains at the global level. The world-systems approach to commodity chains, despite its relative lack of empirical development, does not suffer from such a problem, since it is concerned with issues of core-periphery, unequal exchange, and inequality of labor. GPN proponents—who often criticize the world-systems approach due to its “highly problematic conception of places and regions as relatively stable and enduring territorialized ensembles”—have to admit that the world-systems theory “provides a powerful reminder of the fundamental capitalist

imperatives at work . . . leading to highly uneven developmental outcomes.”³⁸

Although both mainstream GCC/GVC frameworks and the more critical political-economic approaches to the same issue take into account, to some extent, the international division of labor that characterizes capitalist production, critical political-economic approaches see commodity chains differently than the mainstream GCC/GVC approach. One may argue that the commodity chains discourse had a radical inception, before it became “power-less” in later developments, where mainstream approaches took over.

First, unlike the GCC/GVC proponents, critical political-economic theorists, including world-systems analysts, deal with a holistic and macro approach to commodity chains, and this leads to a consideration regarding “how commodity chains structure and reproduce a stratified and hierarchical world system.”³⁹ For Wallerstein, the “commodification of everything” is key to the historical development of capitalism, including how production processes are “linked to one another in complex commodity chains.”⁴⁰ In their subsequent works, world-systems theorists continue to examine how the unequal distributions of rewards and the persistent “hierarchy of wealth of the capitalist world economy” are related to the international division of labor.⁴¹ In contrast, the imperialist nature of the commodity-chain system, related to international exploitation, is largely lost sight of or discounted in mainstream analyses.

Giovanni Arrighi and Jessica Drangel argue in their study of the semi-periphery that to understand this hierarchy of wealth, we need to examine the economic activities (or nodes) of the commodity chain.⁴² Adopting this approach, they find that industrialization, which seems to be taken as a sign of national success by many GCC and GVC proponents, does not necessarily reflect widespread development and “catching-up” success stories. As Arrighi explains elsewhere: “In fact, the focus on industrialization is another source of developmentalist illusions. . . . From this perspective, the spread of industrialization appears not as

development of the semiperiphery but as peripheralization of industrial activities.”⁴³

Second, labor was claimed to be integral to the world-systems discourse of commodity chains. Building on early formulations of commodity chains by Hopkins and Wallerstein, Bair writes how the world-systems tradition emphasizes that “labor power is a critical input into every commodity chain and thus seeks to identify the various modes of labor control and reproduction that one can find along a chain, or even within a single box.”⁴⁴ Such critical political economists see commodity chains “as webs connecting [the transformation of raw materials into final goods] with the social reproduction of human labor power as a critical input into this process.”⁴⁵

Other critics nonetheless believe that even the original form of commodity chains theory needs some work, the most important being the incorporation of labor and an analysis of capitalism, along with its global class relations, into the theory.⁴⁶ Benjamin Selwyn argues that the world-systems theory is still unable to incorporate “satisfactorily the study and conceptualization of labour into its analysis of differentiated development,” ostensibly as a result of its “limited understanding of capitalism.”⁴⁷ Thus, considering the weaknesses of the GCC/GVC frameworks and the world-systems approach, scholars have argued that the task for the next generation of commodity- or value-chain research is to reboot the world-systems commodity-chain approach to take into account more contemporary conditions and frameworks of analysis. Bair suggests that, to do this, we need to “expand the scope of analysis to encompass the regulatory mechanisms, market institutions and structural properties of contemporary capitalism that affect the configuration and operation of these chains as well as the developmental outcomes associated with them”—and pay attention to how workers can benefit from their participation in the chains.⁴⁸ Further, Bair and Werner claim that we need “closer analytical attention to the relationship between inclusion and exclusion as ongoing processes that are constitutive of commodity chains.”⁴⁹

But the most succinct suggestion is given by Selwyn, who urges that the crucial task is to reintegrate labor and a solid analysis of capitalism, along with its global class relations, into the studies of global commodity or value chains.⁵⁰

Thus the crucial issue from a Marxist perspective is how to integrate a labor-value analysis of commodity chains with a wider analysis of capitalist development in the twenty-first century, so as to account for new developments with respect to offshoring and global labor arbitrage. The GCC/GVC frameworks' attention to firms is considered a strength by its proponents, but a weakness by its critics. On the one hand, the firm-level analysis is regarded as a valuable contribution by these frameworks, especially when compared to the inability of the world-systems approach to do so. The examination of inter-firm networks is seen as a "*methodological advance*," a means to provide "a grounded way to study and operationalize the global-local nexus."⁵¹ But others see this as a narrow, reductionist approach, a sign of the absence of recognition of the skewed power relations that characterize commodity chains.⁵²

One difficulty is the historic distinction between transnational and multinational corporations. Traditionally, multinational corporations had been seen as corporations that are headquartered in one country and operate in many. This was distinguished from the idea of transnational corporations in which corporations were seen as truly transnational or global, thus no longer connected to a particular state.⁵³ Recently, both mainstream and radical theorists, particularly in Europe, have adopted the conception of transnational corporations, and have evoked a widespread process of transnationalization, whereby corporations with global reach are no longer seen as necessarily headquartered in the center of the world economy or connected to particular core states. This has then encouraged a shift toward an extreme firm-level analysis of transnationalization, where nation-states are seen increasingly as non-actors (or displaced actors) within a globalized economy.⁵⁴ However, other more realistic thinkers have rejected such notions, insisting on the role of the state and the continuation of

imperialistic relations between the core and the periphery, thereby bringing the state back into global political economy.

Thus economist Ernesto Screpanti debunks the myth of the *trans*-nationalization of big firms in the globalization of production, reminding us that multinational corporations are still pretty much national in their governance structure, especially if we consider that the center of management and advanced technological research of multinationals is still concentrated in the developed Global North. Through processes such as direct investments, Screpanti argues, innovations are transferred to the Global South, “where they produced a derivative form of technological research.”⁵⁵

But why are multinationals able to maintain and even increase their ability to control the world even as production shifts to the periphery? The answer, I suggest, is to be found in the history and development of the giant corporations, which then became global in their operations. More than a half-century ago, Baran and Sweezy contended that capitalism can no longer be examined using a freely competitive model of market relations but must be seen in monopolistic terms. One of the main reasons is the dominant position held by giant multinational corporations, whose defining power is the ability to protect their profit margins from ruinous competition. Under monopoly capital (today known as monopoly-finance capital) corporations “can and do choose what prices to charge for their products,” as the system bans the practice of “price-cutting” under the assumption that it would lead to “economic warfare” among oligopolies.⁵⁶ This ability was nonexistent in the traditional freely competitive system. As a result, though price-cutting—when it would seriously endanger profit margins—rarely happens, “price increases by firms generally occur in tandem, most commonly under the price leadership of the largest corporation in the industry.”⁵⁷

Through their ability to exert considerable control over output and prices and to protect their profit margins while dominating all sectors of production, multinationals (mostly based in mature

capitalist economies) are able to exert monopolistic power on an increasingly global scale, with a small number of them playing a predominant role in world production. As the size and global reach of multinationals has grown, their strength and ability to accumulate capital has also been enhanced. This has demanded a new structure of management intrinsic to their evolution. This new management structure, as pointed out by economist Stephen Hymer, who based his argument on industrial organization theory, enables corporations to rationalize production and incorporate the advances of science into economic activity “on a systematic basis.” In line with this, multinationals are able to implement a vertical system of control in their decision-making capabilities, with the head office located in Global North countries at the top of the hierarchy. According to Hymer, this allows the organization to become conscious of itself and gain “a certain measure of control over its own evolution and development.”⁵⁸

Such patterns of power and authority can be clearly seen in one of the main processes involved in offshoring: direct foreign investments. Displacing portfolio investment, direct foreign investments became primary after the Second World War, especially in the realm of manufacturing.⁵⁹ As Harry Magdoff argues: “The acceleration of investment in foreign manufacturing ventures added a new dimension to the internationalization of capital.”⁶⁰ Foreign (especially direct) investments are a way to penetrate foreign markets. They allow firms from the Global North to compete in foreign markets directly, rather than through exports only. In addition, they also allow these firms to “enter into the foreign trade channels of the competing powers.”⁶¹ Magdoff’s explanation of foreign investments resonates with Hymer’s, who emphasizes that (direct) foreign investments are a tool to maintain and expand the monopolistic power of multinationals: “Direct investment tends to be associated with industries where the market share is largely accounted for by a small number of firms.”⁶²

But offshoring is not always—especially today—about direct investments abroad. Instead, as mentioned above, it often includes

arm's length contracts. By 2012, global commodity chains coordinated by multinational corporations account for approximately 80 percent of global trade, and arm's length contracts have increasingly become a major part of such chains, with growth taking place mostly in developing economies. Between 2005 and 2010, the growth in arm's length contracts in several manufacturing sectors, including electronics, pharmaceuticals, and footwear, far exceeded the growth rate for global industry.⁶³

Moreover, lead firms manage such inter-firm networks within varying governance structures. Far from representing the decentralization of control over production (and valorization) as is sometimes assumed, the "dispersed" networks associated with the new non-equity modes of production are ultimately governed by the centralized financial headquarters of the giant corporations they service, which retain monopolies over information technology and markets and appropriate the larger portion of the value added.

The first task is, then, to create a critical framework that provides an analysis of global commodity chains that can incorporate the question of power, held by multinationals, and of labor, which, in the current global production, is represented by workers in the Global South. We start with this task.

THE STRUCTURE OF THIS BOOK

Laying the Groundwork for the Labor-Value Commodity Chains Framework

In the next chapter I attempt to lay a theoretical and methodological groundwork for the formulation of a perspective on global commodity chains that puts labor and class relations at the center—namely, labor-value commodity chains. This analysis is based on an article I co-authored with R. Jamil Jonna and John Bellamy Foster, "Global Commodity Chains and the New Imperialism," published in the March 2019 issue of *Monthly Review*.⁶⁴ The labor-value commodity chains framework is an analysis of global commodity

chains that incorporates the main point that was missed by its predecessors: an examination of the extraction of surplus from the Global South within a Marxist perspective. I argue that this is the most useful means with which to analyze the processes of globalized production, since this approach allows us to see the power relations between capital and labor that underlie our present-day world economy.

To develop this framework, it is necessary to examine the following and include in the formulation of the theory (1) the development of monopoly capitalism dominated today by multinational oligopolies with considerable global reach and wielding significant monopoly power, as discussed above; and (2) the process of profiting from international wage differentials through *global labor arbitrage*, taking advantage of the much lower unit labor costs in emerging economies (which will be elaborated in chapter 2). While the former is especially powerful in helping us to examine the current stage of capitalism with strategic positions still held by multinational corporations, the latter is a useful lens because it looks directly through the eyes of capital. Global labor arbitrage is a creation of capital. The term itself is widely used in corporate-financial analyses. Although other more nebulous terms, such as Low-Cost Country Strategy, abbreviated as LCCS, are sometimes adopted in order to rationalize (in the Weberian sense) the inequalities that characterize the globalization of production, treating them as mere market phenomena. For example, global labor arbitrage is frequently presented as corporations' "new imperatives of cost control," which are necessary to deal with unfortunate macroeconomic factors such as excess supply and the lack of pricing leverage.⁶⁵

Nevertheless, the concept of global labor arbitrage is significant, since "arbitrage" in financial terms means precisely taking advantage of different prices for the same productive factor or asset. Moreover, though arbitrage in neoclassical economic theory is supposed to generate equality in market prices (the so-called law of one price), it is well understood by all economic actors that this does not apply

to labor internationally, and that global labor arbitrage is rooted in structural factors in the capitalist world economy that generate very different prices for labor in the Global South and the Global North, and hence very different rates of labor exploitation.

Hence, when analyzed with a little Marxist twist, the mainstream examination of global labor arbitrage reveals the power dimensions of the globalized production processes, as recently shown by Smith in his 2016 *Imperialism in the Twenty-First Century*, as well as in a 2012 study by Foster and Robert McChesney, *The Endless Crisis*. In this perspective, special attention needs to be given to the labor theory of value to allow us to see who actually benefits and captures value in a global commodity or value chain, and how they get these benefits through practices such as the arm's length contracts that characterize global labor arbitrage.⁶⁶

In addition, a brief presentation of empirical data is given in the discussion of labor-value chains to give a general picture about what this framework should highlight when it comes to unequal global capital-labor relations. An examination of unit labor costs (as mentioned above, a measurement that can appropriately combine productivity with wage costs in a way that relates to Marx's theory of exploitation) reveals that participation in global labor-value chains does not benefit Global South labor. Instead, the benefits go to the Global North corporations, which are able to maintain their low-cost production, even amid the Great Financial Crisis of 2009. There is a great discrepancy in wages and in unit labor costs among countries in the North and South, and this fact allows us to unmask the exploitation, both in absolute and relative terms, of workers in the South.

Control in Labor-Value Commodity Chains: From Technology to the Labor Process

After the formulation of labor-value commodity chains, the next task, addressed in chapter 3, is to connect this framework to the concrete processes that occur in the production realm, including

how multinationals with their monopoly power manage to control technological knowledge within labor-value chains as well as how the labor process is controlled on the shop floor. To bridge the gap between the abstract framework and the concrete processes, I use the concepts of systemic rationalization and flexible production. The former is a concept born out of German industrial sociology, and the latter was popularized by works such as Bennett Harrison's *Lean and Mean*, published in 1994.⁶⁷

These two approaches offer a critical look at global commodity chains (or production networks)—a much more critical approach compared to the GCC/GVC framework—by highlighting the notion that decentralized networks do not necessarily lead to a dispersion of power. Both approaches emphasize that huge firms like Global North-based multinationals are able to maintain and even enhance their powerful position in the production and distribution processes within such networks, mainly by exerting control over their upstream and/or downstream companies. This allows multinationals to engage in “lean” and flexible production—where they are able to accommodate the fluctuating market demands in their search for greater profit—by transferring production work and responsibilities to the dependent companies.

Made possible by a rapid development in information technology, new rationalization strategies that “address the reorganization of the value creation chain of a final product over and beyond the reach of individual companies” are taken by powerful corporations to enable practices of flexible production. Examples include management strategies such as delivery-on-demand systems (also known as *just-in-time* or Toyota Production System); a myriad of international certifications issued by third parties, such as the International Organization for Standardization (ISO), which become a requirement for supplying to multinationals; and an open-costing system in which suppliers need to reveal their cost structures to their prospective multinational customers. Through these means, dominant companies are able to retain their exclusive access to innovations and other technological know-how

while putting pressure on their dependent suppliers to provide flexibility in production. When we speak of global labor-value chains, the critical nodes (in labor-value terms) are to be found in emerging countries in Global South countries like Indonesia, where outsourcing multinational corporations increasingly locate their production.

In the end, it is workers, the direct producers, who bear the burden that results from all the above strategies. This new rationalization and organization of production, contrary to the mainstream argument, does not provide a more humanized form of work; forms of Tayloristic control of the labor process remain in many segments of production within labor-value chains.⁶⁸ Marxist approaches to forms of control over the labor process are still relevant to examine the exploitation of workers and the extraction of surplus value in our current labor-value chains. And this is where Harry Braverman's 1974 seminal work *Labor and Monopoly Capital* (which examines the control of the labor process under monopoly capital), along with other works on the subject, become especially useful. With the application of Tayloristic control and the development of technology, the deskilling of labor and the degradation of work become enhanced under monopoly capitalism. Braverman's theory and other Marxist approaches highlight particular means in which control is administered on the shop floor in monopoly capitalism, but the aim remains the same: exploitation of workers driven by the imperative of capital accumulation.⁶⁹

Under our present labor-value chains, we will see that these mechanisms of control of the labor process are still present, but the workings are further complicated by the layers of power relations within the chains. To provide a concrete picture of these processes, I present case studies in chapter 4.

Case Studies of Two Companies in Indonesia

Although there is some recognition of the global scope of systemic rationalization and flexible production, most studies of global

commodity chains focus more on national or regional levels in the Global North—including on European (especially German) industries and networks, the United States, and occasionally in some other countries, such as Australia.⁷⁰ And although there are plenty of studies on the new international division of labor, largely focusing on women workers in the Global South, published since the 1980s, the connection between the issue of control of the labor process (that often becomes the focus in these studies) and the complexities of production networks is rarely brought up.⁷¹

To fill in that gap, the case studies of two Indonesian companies—referred to under the pseudonyms of Java Film and Star Inc.—presented in chapter 4 are aimed at providing examples of how dominant multinationals exert control over dependent Indonesian suppliers, which in turn transfer the pressures of flexibility in production on the one hand, and the demands of high productivity and efficiency on the other, to their workers on the shop floor. These case studies are directed at getting beyond mere generalization and macro-level analysis to the illustration of particular concrete cases of “flexible production” imposed externally by multinationals. In addition, these two Indonesian companies are not stereotypical of the classic factory characterized by assembly lines and horrid working conditions, such as Foxconn or factories that assemble shoes.⁷² However, the fact that they are not sweatshops does not eliminate the exploitative relations that are realized on their shop floors, as we will see from examples discussed. Through various forms of control of the labor process, ranging from disciplinary actions to incentive systems to those carried out by technological means, workers are exploited—in Marx’s understanding of exploitation—and surplus value is extracted. Indeed, the systemic relations are in many ways more fully revealed by looking at the more advanced production settings in emerging economies linked to labor-value commodity chains.

I conducted semi-structured interviews of top-management executives in these two companies. It is these executives, after all, who manage both their relationships with customers and

with workers at their plants. As Peter Evans argues, “To understand the decision making that goes on within firms, one must talk to the [people] who run them.”⁷³ In addition, with the limited access I had during my visits, I observed their factories and offices and analyzed their company documents, ranging from annual reports to brochures and videos, to presentation slides prepared by management.⁷⁴ The interviews here serve as an important addition to the discussion of labor-value chains. In this context, my participants serve as “key informants” who explain the “rules” of corporate management, or how they manage their workers on the one hand, and business relations with multinational clients on the other.⁷⁵ These interviews give us valuable insights regarding how global and local capital affect Indonesian workers who, on factory floors, produce the commodities. The executives are the ones who make decisions about various aspects of their business, from receiving orders to planning for production to managing its execution. They make sure that their companies are in order so that conflicts are quickly resolved. They are the ones who deal directly with their customers, especially the top ones, engage in negotiations with them, as well as control the management of labor on the shop floors. They have the knowledge and experience we need in order to understand labor-value chains better, particularly since they occupy an important position that connects Global North capital and Global South labor.

But why study companies in Indonesia? Besides the obvious (that it is my country of origin), there are other aspects that make Indonesia an interesting case to examine when it comes to its position within labor-value chains. Indonesia—whose incorporation into the global economy has increased since the creation of the Foreign Investment Law in 1967 under Suharto, shortly after the mass murders and mass incarcerations of Indonesian Communists and those perceived as such—serves as one of the pools of “cheap labor” for Global North corporations.⁷⁶ Indeed, Indonesia holds third place, behind only China and India, in the share of jobs in global commodity chains. Despite a considerable

increase in Indonesia's unit labor costs between 2009 and 2014, they remain low, at about 62 percent of those in the United States in 2014. Overall, Indonesia is a classic example of a place where labor is highly exploited in the labor-value chains. The country has most of the characteristics often associated with what Evans calls "dependent development."⁷⁷

Indonesia's FDI started to grow steadily beginning in the early 1970s. The FDI net inflows increased from around \$83 million in 1970 to \$4.7 billion by 1997. Despite a few lingering downturns in FDI after the 1997–98 Asian crisis—during which Indonesia, like other emerging economies in Asia outside of China, found their currencies under attack as foreign speculators massively withdrew capital, demonstrating the continuing vulnerability of these economies—it soon rose again and reached about \$19.6 billion in 2012. During the fluctuations in the last few years, the country's FDI inflow reached \$30.54 billion in 2017, and even though it experienced a decline in 2018 to \$27.86 billion, the chairman of Indonesia's Investment Coordinating Board claimed in January 2019 that he was optimistic "over the acceleration of the investment" this year. In addition, as a means to "lure more foreign investment" the government "plans to relax restriction on foreign ownership in forty-nine business sectors."⁷⁸

This shows that the trend in the country's foreign investments (which does not even account for other forms of investments, including portfolio investments and subcontracting) continued to be high, even after Suharto's fall and the New Order supposedly ending in 1998. Interestingly, this upward trend is accompanied by an increase in employment in the industrial sector, from roughly 13 percent of total employment in 1980 to a little less than 22 percent in 2012. In addition, the manufacturing value added (share of GDP) in Indonesia has increased as well throughout a few decades—from 9.2 percent in 1960 to about 24 percent in 2012—with a dramatic increase in the mid-1960s.⁷⁹

These trends highlight the fact that Indonesia has undergone a series of industrialization and growth periods, although recent

reports have shown that growth has been slowing in the last few years—only 5 percent in 2014, 4.8 percent in 2015, 5 percent in 2016, and 5.12 percent in the first half of 2018.⁸⁰ Debates have emerged whether it is time for Indonesia to be categorized as an emerging economy (along with Brazil, Russia, India, and China), thus changing the acronym BRIC into BRIIC.⁸¹ According to Bloomberg, Morgan Stanley is one of the supporters of this idea, citing the \$433 billion economy as the fastest-growing major economy in Southeast Asia, and an optimistic claim from the then Indonesian finance minister of an “achievable” 7 percent growth starting in 2011 (and later, an 8 percent goal for 2019)—a forecast that was then proven wrong in later years.⁸²

But that aside, optimism was high. Jim O’Neill, a former Goldman Sachs economist who coined the term BRIC, wrote upon his last visit to Indonesia in 2013 that he “found a healthy preoccupation with the country’s economic prospects.”⁸³ His writing suggests that Indonesia may be ready soon to be included in the “big guys” club, although O’Neill has included Indonesia in the group of “frontier markets” (relatively smaller economies referred to as MINT, together with Mexico, Nigeria, and Turkey).⁸⁴ Either way, these discussions suggest that Indonesia is seen by financial analysts and economists from the Global North as a promising destination for investments and relocation of production, or in other words a major player in labor-value chains. According to these analysts, the pressing problems that can prevent economic growth and the flow of foreign investments are corruption in politics or the lack of human capital and infrastructure.⁸⁵

It is worth highlighting that the case studies do not aim to focus on details of the Indonesian economy and its growth, or on specificities regarding the development of Indonesian politics in the last few decades. What is more relevant here is the idea that what is often neglected is that behind the euphoria of growth in the economy, and in labor productivity in particular, lies the exploitative mechanisms of labor-value chains, the aspects that reveal to us the imperialist characteristics of our world economy. And this

is precisely what the case studies try to do: bring out such aspects and examine them in the context of the current workings of globalized production, so that we can have an example of how the exploitative processes in labor-value chains work.

Labor-Value Chains and the New Economic Imperialism

Smith argues that we need to apply value theory in our examination of the imperialist world economy in order to find a systematic theory of imperialism that does not neglect the issues of “the exploitation of labor by capital and the exploitation of poor nations by rich nations.”⁸⁶ As he writes, analyses of contemporary imperialism must proceed from, and attempt to explain, “*the systematic international divergence in the rate of exploitation between nations,*” particularly between the imperialist nations in the Global North and the peripheral nations in the Global South. He contends that there is nothing new about international differences in the value of labor-power, or about what he refers to as “superexploitation.” What is *new*, Smith writes, is the “*centrality* these phenomena have attained during the past three decades of ‘neoliberal globalization.’”⁸⁷

The labor-value chains framework is an attempt to provide yet another window through which to view the centrality of the phenomenon of globalized production as a new form of economic imperialism, especially as represented by the practice of global labor arbitrage. It is not meant to be in itself a complete theory of imperialism, but it helps examine the imperialistic characteristics of labor-value chains based on approaches that incorporate Marx’s value theory.

In the conclusion of this book, the imperialistic character of labor-value chains, which involves the global capture of value and the continuing drain of surplus from the South to the North, is briefly spelled out, tying together the main points from the previous chapters. Not only does global capital engage in global labor arbitrage (a form of unequal exchange) to search for low unit labor

costs, but it does so with the support of other institutions, including international organizations and the state. Through various means such as the imposition of multilateral treaties and agreements, powerful states also maintain their hegemony in accordance with the interests of capital that originates in these countries. As mentioned above, there is a notion circulating among the left that imperialism is declining, or even disappearing altogether. But along with other works on the subject, this study also finds that, contrary to this claim, imperialism is alive and well. It is rather that the forms and the way it works have changed throughout history.

This does not mean that workers in the Global South are powerless. As Michael Yates writes at the end of his book *Can the Working Class Change the World?*, “Remember that those who have suffered the most—workers and peasants in the Global South, minorities in the Global North, working-class women everywhere—are going to lead struggles or they are likely to fail.”⁸⁸ Indeed, the working class in the Global South, along with its allies, has engaged, and will continue to do so, in strikes and protests, in fights against exploitation. These are the fights that provide a real and constant threat to capital, no matter how great the distance that separates corporate absentee owners from the workers engaged in production in the critical nodes of the labor-value chains, and no matter how complex these chains may appear to be.

2 — Labor-Value Commodity Chains: Power and Class Relations in the World Economy

Multinationals are always looking for the most competitive supplier, wherever they can find them. They can make comparisons. There's a competitiveness index that shows how each country is doing, how their labor is, how secure they are. They can easily assess that. And this can be a threat to our company. So we need to keep pleasing our customers.

—STAR INC. EXECUTIVE

TWENTY-FIRST-CENTURY CAPITALIST production can no longer be understood as a mere aggregation of national economies, to be analyzed simply in terms of the gross national products (GDPs) of the separate economies and the trade and capital exchanges occurring between them. Rather, it is increasingly organized in global commodity chains, governed by multinational corporations straddling the planet, in which production is fragmented into numerous links, each representing the transfer of economic value. With more than 80 percent of world trade

controlled by multinationals, the annual sales of which now equal around half of global GDP, these commodity chains can be seen as fastened at the center of the world economy, connecting production, located primarily in the Global South, to final consumption and the financial coffers of monopolistic multinational firms, located primarily in the Global North.¹

The commodity chain of General Motors includes twenty thousand businesses worldwide, mostly in the form of parts suppliers. No U.S. automobile manufacturer imports less than around 20 percent of its parts from abroad for any of its vehicles, with imported parts sometimes amounting to around 50 percent or more of the assembled vehicle.² Likewise, Boeing purchases from abroad about a third of the parts it uses for its aircraft.³ Other U.S. companies, such as Nike and Apple, offshore their production to subcontractors, mainly in the periphery, with production carried out according to their exact, digital specifications—a phenomenon known as *arm's length contracting*, or what is sometimes referred to as *non-equity modes of production*. This offshoring of production by today's multinational corporations in the center of the world economy has led to a vast shift in the predominant location of industrial employment, from the Global North up through the 1970s to the Global South this century.⁴

The accelerating pace of offshoring is closely related to direct foreign investments in low-wage areas in the periphery, associated with intra-firm trade. In 2013, the global FDI inflows to “developing economies” reached 52 percent of total FDI, “exceeding flows to developed economies for the first time ever, by \$142 billion.” And in 2018, the FDI inflows to these economies reached 58 percent of total FDI.⁵ But of equal importance today is arm's length contracting. The World Bank, using U.S. Census data, indicates that 57 percent of all U.S. trade is arm's length trade, while a rapidly growing part of this is taking the form of monopolistic arm's length contracting, involving significant monopoly rents appropriated from Global South producers. It takes the form of specified production carried out by subcontracting firms, such as

the Taiwanese Foxconn operating in Shenzhen, China, producing commodities (such as iPhones) for multinational corporations that often are not themselves manufacturers but merely merchandisers (such as Apple).

In general, the lower the per-capita income of a U.S. trading partner, the higher the share of U.S. arm's length trade, indicating that this is all about low wages.⁶ Even multinationals with high levels of FDI are heavily involved in arm's length trade, moving in this way between direct and indirect exploitation. Arm's length contracts generated about \$2 trillion in sales in 2010, much of it in developing countries.⁷ In 2010–14, the world economy grew at a 4.4 percent rate while arm's length trading grew at a 6.6 percent rate, far exceeding the former.⁸

Although these phenomena are not entirely new, in the sense that all sorts of historical precedents can be found in the operations of international corporations, the scale and sophistication of commodity chains today represent qualitative changes that are transforming the character of the entire global political economy. This has generated enormous confusion in political-economic analyses on both the right and left. Thus, the shift in industrial employment and the rapid growth of some countries in the periphery, particularly in East Asia, led even as important a Marxist theorist as David Harvey to conclude that the direction of imperialism has somehow reversed, with the West, or the Global North, now on the losing end. As he puts it, "The historical draining of wealth from East to West for more than two centuries has . . . been largely reversed over the last thirty years. . . . I think it is useful to take up Giovanni Arrighi's preference to abandon the idea of imperialism (along with the rigidities of the core-periphery model of world system theory) in favor of a more fluid understanding of competing and shifting hegemonies within the global state system."⁹

Yet such assessments are based on the illusion that twenty-first-century imperialism can be approached, as in earlier periods, mainly on the level of the nation-state without a systematic investigation

of the increasing global reach of multinational corporations or the role of global labor arbitrage, sometimes referred to in business circles as *low-cost country sourcing*. At issue is the way in which today's global monopolies in the center of the world economy have captured value generated by labor in the periphery within a process of unequal exchange, thus getting "more labor in exchange for less."¹⁰ The result has been to change the global structure of industrial production while maintaining and often intensifying the global structure of exploitation and value transfer.

The complexity of the world employment situation generated by global commodity or supply chains is indicated in Table 1, which includes the countries with the largest shares of employment in global commodity chains in 2008 and/or 2013.

As Table 1 (page 47) shows, China and India provide by far the largest share of the total employment engaged in global commodity chains, while, for both countries, the United States is the primary export destination. This creates a situation where production and consumption in the world economy are increasingly severed from each other. Moreover, value added, associated with such commodity chains, as we shall see, is disproportionately attributed to economic activities in the wealthier countries at the center of the system, although the bulk of the labor occurs in the poorer nations of the periphery or the Global South.

Economic researchers at the Institut de Recherches Économiques et Sociales in France indicate that global commodity chains have three different elements: (1) a production element linking parts and commodities in complex production chains; (2) a value element, which focuses on their role as "value chains," transferring value between and within firms globally; and (3) a monopoly element, reflecting that such commodity chains are controlled by the centralized financial headquarters of monopolistic multinational corporations and garner massive monopoly rents, as theorized by Stephen Hymer in the 1970s.¹¹

The distinction between global supply chains and global value chains is mainly between what Karl Marx called the material or

“natural form” of the commodity, its *use value*, as opposed to its “value form,” or *exchange value*. To construct a general theory of global commodity production, here the use-value and exchange-value aspects of commodities are brought together through recognition of both the material (supply) and value aspects.¹² As in all capitalist production, the value component is dominant in such commodity chains and is rooted in the exploitation of labor. The analysis is therefore focused on the theoretical and empirical analysis of what is referred to as *labor-value commodity chains*, emphasizing the exchange-value (value-form) element, without ignoring the material or use-value (natural-form) element. In this way, the aim is to understand how the new imperialism of global labor arbitrage works and how value, derived from low-wage labor in the periphery, is being captured globally.

Utilizing a publicly available database of world economic activity, a series on unit labor costs incorporating both labor productivity and wage levels is constructed.¹³ The goal is to develop a theoretically consistent methodology, rooted in labor-value relations, for making cross-national comparisons of labor exploitation, thereby building a theoretical and empirical basis for commodity-chain analysis. Each link or node in a commodity chain is conceived in terms of unit labor costs, which largely determine profit margins, with the *critical nodes* of production being those in which labor costs are most concentrated and thus involve the greatest amount of socially necessary labor—as at the point of assembly of the product.

Examination of unit labor costs of key countries in both the center and the periphery of the world economy demonstrates that, in twenty-first-century imperialism, multinational corporations are able to carry out a process of unequal exchange in which they get, in effect, more labor for less, while the excess surplus obtained is often misleadingly attributed to “innovative,” financial, and value-extractive economic activities taking place at the center of the system. Indeed, much of the immense value capture associated with global labor arbitrage circumvents production in the

TABLE 1: Countries with the Highest Proportion of Global Supply Chain Jobs (GSC Jobs), and their Primary Export Destination

Country	2008		2013	
	Share of All GSC Jobs	Primary Export Destination	Share of All GSC Jobs	Primary Export Destination
China	43.4%	United States	39.2%	United States
India	15.8%	United States	16.8%	United States
Indonesia	4.6%	Japan	4.6%	China
Russian Federation	4.1%	Germany	4.1%	China
Brazil	3.5%	United States	4.1%	China
Germany	3.4%	France	3.6%	China
United States	3.3%	Canada	3.6%	China
Japan	2.3%	United States	1.9%	China
Mexico	1.8%	United States	2.2%	United States
South Korea	1.7%	United States	2.1%	China
United Kingdom	1.7%	United States	1.9%	United States
Total	85.6%		84.2%	

Source: This is a modified version of data taken from Table 2 of Takaaki Kizu, Stefan Kühn, and Christian Viegelahn, 2016, “Linking Jobs in Global Supply Chains to Demand,” ILO (International Labour Organization) Research Paper, Geneva, 15.

Note: The “Share of All GSC Jobs” is relative to the 40 countries in the WIOD (World Input-Output Database) series. The “Primary Export Destination” is defined as the country to which the majority of the output of a given country’s GSC Jobs is exported. The WIOD input-output tables even account for the economic activity of countries outside the dataset (categorized as “rest of world”). Yet it should be noted that these 40 countries (43 in the 2016 release) account for the lion’s share both of world income and GSC Jobs.

center economies, at the expense of workers who have seen their jobs offshored. This has contributed to the amassing of vast pyramids of wealth disconnected from economic growth in the center economies themselves.¹⁴ Much of this draining of value from the periphery takes the form of unrecorded illicit flows. According to

a recent pioneering study of global financial flows by the Centre for Applied Economics of the Norwegian School of Economics and the United States–based Global Financial Integrity, in 2012 alone, net resource transfers from developing and emerging economies to rich countries were estimated at \$2 trillion (\$3 trillion if including estimates of same-invoice faking).¹⁵

Huge quantities of this loot captured from peripheral economies in the Global South ends up in the “treasure islands” of the Caribbean where trillions of dollars of money capital are now deposited, outside of the tax and accounting apparatuses of even the most powerful nation-states.¹⁶ Such financial expropriation characterizes the whole era of monopoly-finance capital, in which the growing role of what Marx, following James Steuart, called *profit by expropriation* (or *profit by alienation*) is now evident.¹⁷ This is clear in the increasing role of value capture and value extraction, as opposed to direct value generation, in determining the profits of multinational firms.¹⁸

What is clear is that the globalization of production is built around a vast chasm in unit labor costs between center and periphery economies, reflecting much higher rates of exploitation in the periphery. This in turn reflects the fact that the difference in wages is greater than the difference in productivity between the Global North and the Global South.¹⁹ Data shows that the gap in unit labor costs in manufacturing between key core (United States, United Kingdom, Germany, and Japan) and key periphery emerging states (China, India, Indonesia, and Mexico) has been on the order of 40–60 percent during most of the last three decades. This enormous gulf between Global North and Global South arises from a system that allows for the free international mobility of capital (albeit within the hierarchical regime of monopoly capital, enforcing uneven development), while tightly restricting the international mobility of labor.²⁰ The result is to hold wages down in the periphery and to make possible the enormous siphoning off of economic surplus from the countries of the South. As Utsa Patnaik and Prabhat Patnaik have argued, the drain of surplus

from the periphery “refers not just to the direction of capital flows but to the phenomenon of sucking out the surplus of an economy without any *quid pro quo*.”²¹

GLOBAL COMMODITY CHAINS AND IMPERIALIST VALUE CAPTURE

The term *supply chain* is often used to refer to “a sequence of production operations, that begins “at conception and development of the product or system, goes through the production process including acquisition of inputs (raw materials, tools, equipment), and finishes with distribution, maintenance and the end of the product’s life [or its consumption]. The parts and modules produced at each step of the process are assembled to make a final product.”²²

Global commodity chains can then be seen as

integrated global spaces created by financial groups with manufacturing activities. Such spaces are global in that they open up a strategic horizon for augmenting the value of capital that reaches far beyond national borders and undermines national regulations. Such spaces are integrated in that they are made up of hundreds, even thousands, of subsidiaries (production, R&D [research and development], finance, etc.) whose activities are coordinated and controlled by a central body (the parent company or a holding company) that manages resources to ensure that the capital valorisation process is profitable both financially and economically.²³

The participation of countries in such global commodity chains has a profound impact on labor. This can be seen from the rapid increase in the number of jobs related to global commodity chains, from 296 million workers in 1995 to 453 million in 2013. This growth in commodity-chain production is concentrated in “emerging economies” where such job growth reached an estimated 116 million from 1995 to 2013, with manufacturing

as the predominant sector and directed at exporting to the Global North.²⁴ In 2010, 79 percent of the world's industrial workers lived in the Global South, compared to 34 percent in 1950 and 53 percent in 1980.²⁵ Manufacturing has become "the chief source of the third world's dynamism" both in exports and in production, especially in East and Southeast Asia, where, by 1990, the manufacturing share of GDP was higher than that of other regions.²⁶ A report by the Asian Development Bank shows that most countries in Southeast Asia, particularly those that are considered developing, experienced an increase in their manufacturing output shares from the 1970s to the 2000s.²⁷

Exploring this complex reality has posed challenges to social scientists. Marx had written in *Capital*, with respect to both use value and exchange value, of "the general chain of metamorphoses taking place in the world of commodities." Later, following Marx, Rudolf Hilferding in *Finance Capital* referred to "link[s] in the chain of commodity exchanges."²⁸ Inspired by these earlier Marxist notions of chains of commodity exchanges characterizing the capitalist world economy, Terence Hopkins and Immanuel Wallerstein advanced the *commodity chain* concept in the 1980s as part of the world-systems perspective, with an emphasis on the "historical reconstruction of industries during the long sixteenth century."²⁹ The global commodity-chain (GCC) framework was further popularized in the mid-1990s, marked by the publication of *Commodity Chains and Global Capitalism*, edited by Gary Gereffi and Miguel Korzeniewicz.³⁰ Later, Gereffi also became a prominent figure in the forming of the global value-chain (GVC) or global supply-chain research network in 2000. This research network was created in the hope of uniting several different but similar approaches to global chain studies.³¹ Although the GVC framework itself was inspired by the early research on global commodity chains, it would frequently become integrated with transaction-cost economics, an approach that sees multinational corporations primarily as minimizing their transactions costs by internalizing costs formerly occurring between firms.³²

In introducing the concept of the commodity chain, Hopkins and Wallerstein defined it as “a network of labor and production processes whose end result is a finished commodity.”³³ Such chains are usually “geographically extensive and contain many kinds of production units within them with multiple modes of remunerating labor.”³⁴ GCC scholars use the term *nodes* to refer to separable processes that constitute a commodity chain. In this context, a node signifies a particular or specific production process and each node within a commodity chain involves “the acquisition and/or organization of inputs (e.g., raw materials or semi-finished products), labor power (and its provisioning), transportation, distribution (via markets or transfers), and consumption.”³⁵ Today, international commodity production more and more assumes the form of increasingly sophisticated and organized labor-value commodity chains. Center economies thus increasingly rely on imported inputs of goods and services (including assembly) from low-income countries.³⁶ As is now universally recognized, one of the striking features related to such commodities is a “very large and growing proportion of the workforce . . . located in developing economies.”³⁷

William Milberg and Deborah Winkler argue that *a shift in corporate strategy* is a key driver in this “new wave” of globalization. The strategy involves a search for lower costs and greater flexibility, as well as a desire to “allocate more resources to financial activity and short-run shareholder value while reducing commitments to long-term employment and job security.”³⁸ Further, Gereffi emphasizes the emergence of major multinational corporations that do not manufacture their own products, which he claims is central to the “new trends” of offshoring. Such corporations, which are usually large retailers and branded marketers, can be referred to as the *new drivers* in the global chains that have become more prominent over the last couple of decades.³⁹ Arm’s length production by multinational corporations—of which Nike and Apple are perhaps the best-known examples—is associated with “buyer-driven” governance structures (as opposed to “producer-driven” structures characterized by high FDI flows), in

which corporations, usually situated at the center of the world economy, play a pivotal role in setting up dispersed production networks in exporting countries, typically in the Global South.⁴⁰ They are actually not real manufacturers, but merely merchandisers, that is, companies that “design and/or market, but do not make, the branded products they sell.”⁴¹

Popular discussions of arm’s length corporate contracting highlight the “decentralized characteristic” of such chains in the sense of the geographic dispersal of production. Yet, far from representing actual decentralization of control over production (and valorization), as is sometimes assumed, the “dispersed” commodity chains associated with a given multinational with no equity in the various production segments it has subcontracted out are crucially governed by its centralized financial headquarters. The financial headquarters of a multinational retains monopolies over information technology and markets, and appropriates the larger portion of the value added in each link in the chain. Despite China’s reputation as the largest exporter of high-technology goods, economist Martin Hart-Landsberg points out that 85 percent of the country’s high-technology exports are mere links or nodes in the global commodity chains of multinationals.⁴² As Hymer said a few decades ago, the headquarters of multinationals “rule from the tops of skyscrapers; on a clear day, they can almost see the world.”⁴³

As John Bellamy Foster, Robert W. McChesney, and R. Jamil Jonna argue, arm’s length contracts actually allow firms to capture “extremely high profit margins through their international operations and [exert] strategic control over their supply lines—regardless of their relative lack of actual FDI.”⁴⁴ But this is frequently difficult to examine, since, in such a practice, multinational corporations often have only an indirect connection with the workers/farmers who produce their goods. There are no visible flows of profits from these foreign subcontractors to their Global North customers—multinationals. As John Smith notes with respect to arm’s length contracting:

Not a single cent of H&M's, Apple's or General Motors' profits can [in the usual value-added accounting] be traced back to the super-exploited Bangladeshi, Chinese and Mexican workers who toil for these TNCs' [transnational corporations'] independent suppliers, and it is this "arm's length" relationship which increasingly prevails in the global value chains that connect TNCs and citizens in imperialist countries to the low-wage workers who produce more and more of their intermediate inputs and consumption goods.⁴⁵

Empirical analysis that accounts for the full impact of the global labor arbitrage thus becomes doubly difficult.

However, a closer look at the logic behind these forms of off-shoring will allow us to see the labor-value commodity chains and power relations embedded in them. The question is not merely about how the multinationals govern commodity chains, but also how they facilitate the extraction of surplus from the Global South. This is captured in the concept of *global labor arbitrage*, famously defined by Stephen Roach, the former chief economist of Morgan Stanley, as the replacement of high-wage workers in the United States and other rich economies "with like-quality, low-wage workers abroad."⁴⁶ Here, the global labor arbitrage is rationalized as "an urgent survival tactic" for companies in the Global North, pressured by the need to cut costs and to "search for new efficiencies."⁴⁷

Upon critical examination, this cost-control imperative is none other than a form of arbitrage, taking advantage of price differentials, in this case with respect to wages, within the imperfect global market—based on the unequal freedom of movement of capital and labor.⁴⁸ Although labor is still largely constrained within national borders due to immigration policies, global capital and commodities have far more freedom to move around, further heightened in recent years by trade liberalization. Global labor arbitrage thus serves as a means for multinationals to benefit from the "enormous international differences in the price of labor."⁴⁹

Viewed through a critical political-economy perspective, then,

global labor arbitrage is the overexploitation of labor in the Global South by international capital. It constitutes unequal exchange, understood as the exchange of more labor for less, in which monopoly-finance capital at the center of the system benefits from high markups on low-cost labor in the Global South. The process of unequal exchange at the same time marks the further incorporation of the Global South countries into the global economy.⁵⁰

In the context of the Marxist labor theory of value, global labor arbitrage is a *quest for valorization*. It is a strategy for both reducing socially necessary labor costs and maximizing the appropriation of surplus value. It extracts more out of workers through various means, including repressive work environments in periphery-economy factories, state-enforced bans on unionization, and quota systems or piece-rate work.

Global labor arbitrage is made possible in part by what Marx refers to as the *industrial reserve army* of the unemployed, which in this case is on a global scale and thus a *global reserve army of labor*.⁵¹ The creation over the last few decades of a much larger global reserve army is partly connected to the “great doubling” phenomenon, which refers to the integration of the workforce of former socialist countries (including China) and formerly heavily protectionist countries (such as India) into the global economy, with the resulting expansion of the size of both the global labor force and its reserve army.⁵² Also central to the creation of this reserve army is the *depeasantization* of a large portion of the global periphery through the spread of agribusiness.⁵³ This forced movement of peasants from the land has resulted in the growth of urban slum populations.⁵⁴ Marx connected the “freeing” of peasants (the “latent” part of the reserve army) from the land to the process of “so-called primitive accumulation.”⁵⁵

Reproducing the global reserve army of labor not only serves to increase shorter-term profits; it serves as a divide-and-rule approach to labor on a global scale in the interest of long-term accumulation by multinationals and the state structures aligned

with them.⁵⁶ Although competition among corporations is limited to oligopolistic rivalry, competition among workers of the world (especially those in the Global South) is greatly intensified by increasing the relative surplus population. This divide-and-rule strategy serves to integrate “disparate labor surpluses, ensuring a constant and growing supply of recruits to the global reserve army” who are “made less recalcitrant by insecure employment and the continual threat of unemployment.”⁵⁷

It follows from the above discussion that the freely competitive model has been made obsolete. Nevertheless, the “traditional” rule of fighting for low-cost production is still alive and well. Indeed, one may argue that it is intensified in the age of monopoly-finance capital. The goal of multinationals is always the creation and the perpetuation of monopoly power and monopoly rents, that is, “the power to generate persistent, high economic profits through a mark-up on prime production costs.”⁵⁸ As production becomes globalized, Zak Cope writes, “the leading oligopolies compete to reduce labor and raw materials costs. They export capital to the underdeveloped countries in order to secure a high return on the exploitation of abundant cheap labor and the control of economically pivotal natural resources.”⁵⁹ Whether through intra-firm trade or arm’s length contracts, the increasing trend of offshoring in the last few decades constitutes a continuation of the imperialistic projects of multinationals, with which the states in the triad of the United States and Canada, Europe, and Japan are fully compliant.

This general understanding of globalized production as a process of unequal exchange and imperial hierarchies can be concretized by empirical analyses that help demonstrate how participation of countries in global commodity chains relates to changes in unit labor costs. As we shall see in the following section, unit labor cost data can help formulate a labor-value commodity chain analysis that puts labor at its center, aimed at understanding differential rates of labor exploitation and their relation to the globalization of production.

GROUNDING THE LABOR-VALUE COMMODITY CHAINS APPROACH: AN EMPIRICAL MODEL

A chapter in the 2015 ILO report on world employment is dedicated to how changes in global production patterns influenced firms and employment. It notes that the number of jobs related to global commodity chains increased sharply between 1995 and 2013, with about one in five jobs worldwide estimated to be linked to global commodity chains and with more notable increases in the manufacturing sector of so-called emerging economies. Interestingly, the report also found that, while participation in global commodity chains positively influences firms' productivity and profitability, it does not have a commensurate positive effect on wages. This increase in productivity and the absence of a rise in wages means that participation in global commodity chains leads to a drop in "the portion of value added that goes to workers." Indeed, the report concludes, "this is the result when relating GSC [global supply chain] participation directly to the wage share in both emerging *and* developed economies."⁶⁰

A comparison of national differences in unit labor cost—a measurement of the labor cost to produce one unit of a product—gets at the same underlying issues as raised by the ILO, though in terms aiming at uncovering gross profit margins or the rate of surplus value. Unit labor costs combine productivity with wage costs in a manner closely related to the treatment of labor costs in Marx's theory of exploitation.⁶¹ Unit labor cost is a composite measure, combining data on labor productivity and compensation to assess the price competitiveness of a given set of countries. It is typically presented as the average cost of labor per unit of real output, or the ratio of total hourly compensation to output per hour worked (labor productivity). Although unit labor cost data can be compiled for the economy as a whole, most analysts narrow the focus to the manufacturing sector to improve comparability.

Unit labor costs can be seen as a more comprehensive indicator—compared to labor-productivity growth rates—of international

competitiveness.⁶² In a capitalist economy, neither relative productivity measures nor relative wages are adequate by themselves in analyzing the respective positions of various capitalist economies: unit labor costs combine both sets of data. For example, a country with a higher rate of productivity growth may lose out in the competitive race to a country that has a somewhat lower rate of productivity growth, but also lower wage costs. Conversely, a country with lower wage costs may lose out in the competitive race to a country with higher productivity growth. By combining both sets of data, unit labor costs also reveal where gross profit margins—which, in Michał Kalecki's terms, represent the markup (an indication of the degree of monopoly) on direct production costs—will be the widest.⁶³

In an article on intercapitalist competition, arising out of a debate with Robert Brenner, Foster used the average annual rate of change in unit labor costs (in manufacturing) to compare the Group of Seven (G7) countries in two periods, ranging from 1985 to 1998.⁶⁴ The data showed slower growth of unit labor costs in the United States than in other G7 countries during the period, a fact that gave the United States, as concluded by Bureau of Labor Statistics analysts, a “*decisive advantage*” in “*overall competitive position* over its major competitors in the period after 1985,” despite its somewhat lower levels of actual productivity growth. This, Foster contended, reflected the “effectiveness of the class struggle against labor in the United States.”⁶⁵

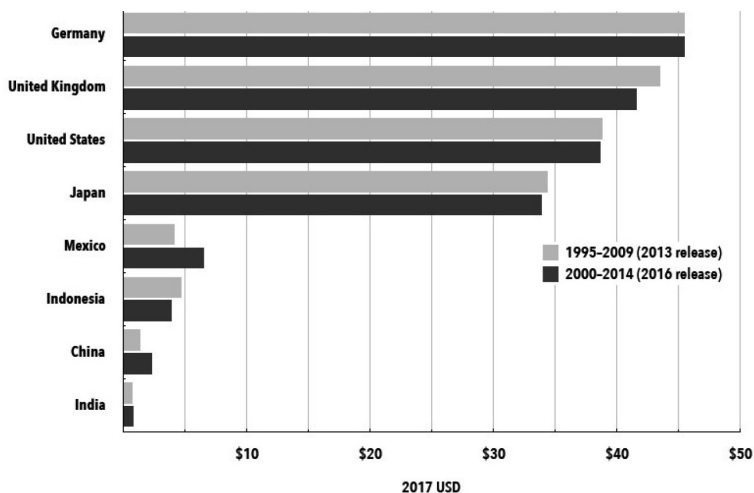
This finding suggests that it would be useful to elaborate on what changes in unit labor costs can tell us about “capturing value” from labor in the Global South through offshoring practices. The main interest here lies in determining how changes in unit labor costs over time relate to countries' participation in global commodity chains, and how this relationship can help explain the extraction of surplus from the South.

To investigate the connection between unit labor cost and global commodity chains, I and my co-authors for this chapter—Jonna and Foster—construct an original dataset using the World

Input Output Database (WIOD), which was recently made publicly available.⁶⁶ The power of this set of data was showcased in the 2015 edition of the ILO's *World Employment and Social Outlook*, which focused on measurement of the extent of global commodity chains. The WIOD dataset contains information on over forty countries from 1995 to 2016, covering 85 percent of world GDP and, crucially, includes key countries from the Global South, such as China, India, Indonesia, and Mexico.⁶⁷ Combining it with data from the Socio Economic Accounts (SEA, a subset of the WIOD database) makes it possible to construct comprehensive cross-national measures of hourly wages per unit labor cost.⁶⁸ We focus attention on eight countries with high levels of participation in global commodity chains—the United States, United Kingdom, Germany, Japan, China, India, Indonesia, and Mexico.

In order to understand the significance of data on unit labor costs, it is useful to look first at a comparison of hourly compensation in dollar terms, which points to the vast discrepancies in wage levels internationally between the Global North and the Global South. Although it is common to look at hourly compensation in terms of purchasing power parity (PPP\$, equivalent ability to purchase goods and services), which is useful for looking at issues of equity, we are interested in questions of surplus extraction and value capture from the standpoint of multinational corporations headquartered in the center of the system. From that perspective, U.S. dollars as the hegemonic currency are central to the overall “value of money” and the amassing of monetary wealth on a world scale.⁶⁹ It is labor costs, measured in market dollars, that largely determine the overall profit margins of multinationals.

Chart 1, which reports average hourly labor compensation in manufacturing industries in 2017 U.S. dollars, illustrates a massive discrepancy in wage levels that exists between economies of the Global North and Global South. Here, hourly compensation is converted into actual dollars—representing the hegemonic foreign exchange/reserve currency determining the purchase price of labor, profit margins, and international financial

CHART 1: Average Hourly Compensation in Manufacturing, 2017 USD

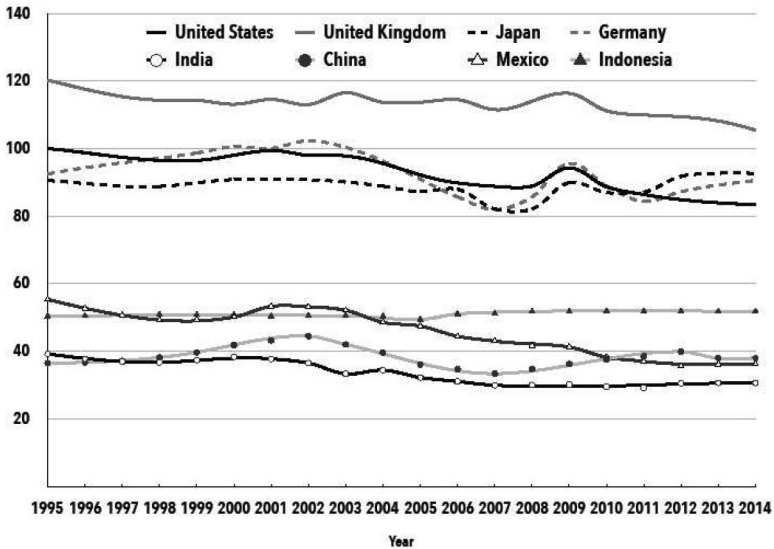
Source: WIOD-Socio Economic Accounts (SEA), Release 2013 and 2016; Marcel P. Timmer, Erik Dietzenbacher, Bart Los, Robert Stehrer, Gaaitzen J. de Vries (2015), “An Illustrated User Guide to the World Input–Output Database: The Case of Global Automotive Production,” *Review of International Economics* 23/3 (2015): 575–605; *Exchange Rates*: Robert C. Feenstra, Robert Inklaar, Marcel P. Timmer, “The Next Generation of the Penn World Table,” *American Economic Review* 2015; *USD Conversion Factors*: Robert Sahr, “Individual Year Conversion Factor Tables,” Oregon State University, 2019.

Note: Figures exclude the UK industry “coke and refined petroleum products.”

flows—rather than applying a purchasing power parity conversion (see Appendix 1).

The much higher rates of exploitation of workers in the Global South has to do not simply with low wages, but also with the fact that the difference in wages between the North and South is greater than the difference in productivity. Chart 2 presents an index of unit labor costs in a number of key core and peripheral countries accounting for significant shares of GSC jobs in the global economy between 1995 and 2014—a period stretching from the development of the high-tech bubble of the 1990s to the Great Financial Crisis of 2007–09 to the early years of recovery from the crisis.⁷⁰

CHART 2: Index of Average Unit Labor Costs in Manufacturing, Selected Countries, 1995–2014 (U.S. 1995 = 100)



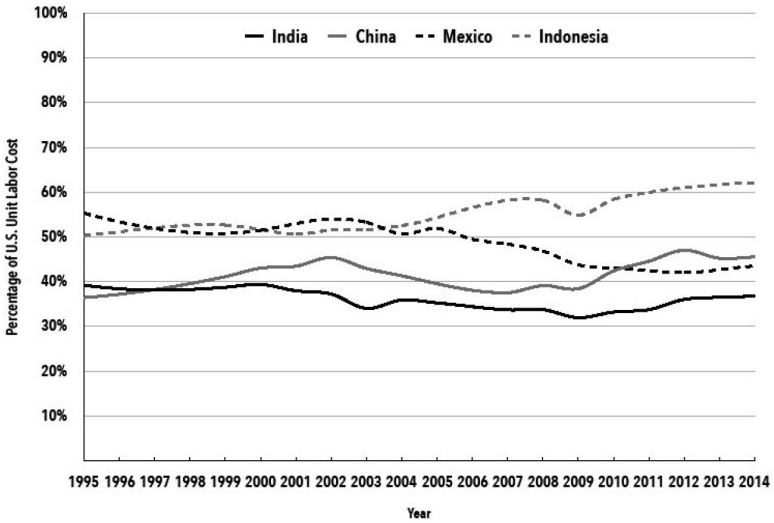
Sources: WIOD-SEA, Release 2013 and 2016; Timmer et. al., “An Illustrated User Guide to the World Input–Output Database: the Case of Global Automotive Production,” *Review of International Economics* 23/3 (2015): 575–605.

Note: Unit labor cost is given by the ratio of total labor compensation per hour to gross output per hour.

The chart shows the huge gap that exists between unit labor costs in manufacturing in the advanced industrial economies in the Global North and the emerging economies in the Global South. The four advanced industrial economies (United States, United Kingdom, Germany, and Japan) are clustered together, while all four have much higher unit labor costs than the four emerging economies (China, India, Indonesia, and Mexico).

Chart 3 focuses on changes in unit labor costs in emerging economies in the Global South relative to the United States. Over the entire period, unit labor costs in Mexico have declined by 12 percent relative to the United States, reflecting two decades

CHART 3: Average Unit Labor Cost in Manufacturing Relative to the U.S., Selected Global South Countries, 1995–2014



Source: See chart 2.

of labor flexibilization, a process of the ruthless restructuring of employment, work practices, and deployment of labor, breaking down all job security, with the objective of enhancing profit margins.⁷¹ In contrast, unit labor costs in China and Indonesia have risen by 9 and 12 percent, respectively, reflecting some gains on the part of labor. Unit labor costs in India have remained relatively flat over the 1995–2014 period, declining by 2 percent. India was consistently in the low-cost position, with its unit labor costs in 2014 at 37 percent of the U.S. level, while China and Mexico were at 46 and 43 percent, respectively. Indonesia, despite having the third-largest share of global commodity-chain jobs, has unit labor costs in manufacturing that are currently at 62 percent of those in the United States.

It is obvious that other factors besides unit labor costs, such as infrastructure, taxes, primary export country, shipping costs,

and finance affect location of critical nodes in commodity chains. Nevertheless, with China's unit labor costs rising relative to the United States and India's remaining flat, it is hardly surprising that Apple, through its Foxconn subcontractor, has recently decided to assemble its top-end iPhones as well as cheaper models in India beginning in 2019.⁷² While in 2009 Apple's gross profit margins on its iPhones assembled in China were 64 percent, rising unit labor costs have clearly cut into these margins.⁷³

The conclusion that much higher profit margins can be obtained through outsourcing production to poorer, emerging economies—when compared to profit margins to be obtained through labor in the wealthy economies at the center—is inescapable.⁷⁴ All four of the Global South countries depicted in this study (China, India, Indonesia, and Mexico) have seen generally flat or declining unit labor costs relative to the United States.

Altogether, the WIOD-SEA data shows clearly why it has been so beneficial—indeed, necessary from the standpoint of profitability—for economies of the Global North to maintain substantial parts of their labor-value commodity chains in poor emerging economies. By means of these commodity chains, with their critical nodal points (in terms of labor costs) in low-wage countries, corporations in the North are able to secure low-cost positions essential to their global competitiveness, based on much higher rates of labor exploitation. Here it is important to underscore that a given product, such as an iPod or an iPhone, often has its parts manufactured in a number of different countries, for example, Germany, South Korea, and Taiwan, but the assembly occurs in China—a country that has among the lowest unit labor costs and offers developed infrastructure, scale effects, etc.—so it is marked as Made in China.⁷⁵ In other words, while the commodity chain is complex and extended, the country with the lowest unit labor costs tends to be the site of final production/assembly and becomes the most critical node for the enlargement of gross profit margins.⁷⁶

The above findings reflect the great discrepancy in wages and in unit labor costs between countries in the Global North and

the Global South, as recently as 2014. As Lowell Bryan, director of the New York office of the high-level investor's publication, the *McKinsey Quarterly*, stated in 2010:

Any company sourcing its production or service operations in a lower-wage emerging-market country . . . can save enormously on labor costs. . . . Even today, the cost of labor in China or India is still only a fraction (often less than a third) of the equivalent labor in the developed world. Yet the productivity of Chinese and Indian labor is rising rapidly and, in specialized areas (such as high-tech assembly in China or software development in India), may equal or exceed the productivity of workers in wealthier nations.⁷⁷

The way in which the labor-value commodity chains work at the ground level is best illustrated by looking at a particular example, like the Apple iPhone hitherto manufactured in China, which has become the global assembly center for much of modern manufacturing. Most production for export via multinational corporations in China is assembly work, with Chinese factories relying heavily on cheap migrant labor from the countryside (the “floating population”) to assemble products. The main technological components of this final assembly are manufactured elsewhere and then imported into China. Apple subcontracts the production of the component parts of its iPhones to a number of countries, with Foxconn subcontracting the final assembly in China. Due in large part to low-end wages paid for labor-intensive assembly operations, Apple's gross profit margin on its iPhone 4 in 2010 was found to be 59 percent of the final sales price. For each iPhone 4 imported to the United States from China in 2010, retailing at \$549, only about \$10, or 1.8 percent of the final sales price, went to labor costs for production of components and assembly in China.⁷⁸

Similar conditions of globalized exploitation, largely hidden in these labor-value commodity chains, pertain to other countries,

particularly where multinational corporations rely on subcontractors (or arm's length production). In the international garment industry, in which production now takes place almost exclusively in the Global South, direct labor cost per garment is typically around 1–3 percent of the final retail price, according to senior World Bank economist Zahid Hussain.⁷⁹

In 1996, a year for which data on the labor-value component of Nike's commodity chain for its shoes is available, a single Nike shoe consisting of fifty-two components was manufactured in five different countries. The entire direct labor cost for the production of a pair of Nike basketball shoes in Vietnam in the late 1990s, retailing for \$149.50 in the United States, was \$1.50, or 1 percent.⁸⁰ Unit labor costs for the production of a pair of sneakers for PUMA, a German multinational, in China in the early 2000s were so low that the hourly profit on each pair of sneakers was more than twenty-eight times greater than the hourly wages workers in China received to make the sneakers.⁸¹

A 2019 study published by the Blum Center for Developing Economies at the University of California, which interviewed 1,452 Indian women and girls, including children 17 years old or younger—85 percent of whom did home-based work “bound for export to major brands in the United States and the European Union”—determined that these workers earn as little as fifteen cents per hour. They “consist almost entirely” of female workers from “historically oppressed ethnic communities” in India, and their work typically involves “finishing touches” like embroidery and beadwork.⁸²

These extremely exploitative economic relations help us understand the reality of labor-value commodity chains and how they relate to global labor arbitrage. In essence, each node or link within a labor-value chain represents a point of profitability. Each central node, and indeed each link in the chain, constitutes a transfer of value (or labor values). This is partially disguised by conventions with respect to GDP accounting and hence ways of computing value added. In effect, as numerous analysts have now shown, labor values

generated by production are “captured” and not registered as arising in the peripheral countries due to asymmetries in power relations, in which multinational corporations are the key conduits.⁸³

Hidden in the pricing and international exchange processes of the global capitalist economy—a reality scarcely captured in traditional GCC or even GVC analyses—is an enormous gross markup on labor costs (rate of surplus value) amounting to super-exploitation, both in the *relative* sense of above-average rates of exploitation and also, frequently, in the *absolute* sense of workers paid less than the cost of the reproduction of their labor power. The conditions of political-economic power in relation to the periphery of the world economy feed widening gross profit margins, leading to today’s global overaccumulation. So extreme is this overaccumulation that the twenty-six wealthiest individuals in the world, most of whom are Americans, now own as much wealth as the bottom half of the world’s population, 3.8 billion people.⁸⁴ Structurally, this level of inequality has become possible as a result of a globalized commodity-chain system of exploitation, a new imperialist division of labor associated with global monopoly-finance capital.

The view, even among some leftist thinkers, that the historic character of economic imperialism is now inverted—with the imperialist relations in the world economy “largely reversed” to the benefit of the South (East) and at the expense of the North (West)—is based on a very superficial analysis of the growth of emerging economies, particularly China and India.⁸⁵ The truth is that the world capitalist economy, judged in terms of the amassing of financial wealth and asset concentration, is becoming in many ways more centralized and hierarchical than ever.⁸⁶ What we are seeing is the emergence of a global wealth pyramid in which the fabled wealth hierarchy of the pharaohs pales into insignificance in comparison. Inequality is increasing in almost all nations as well as between the richest and poorest countries.⁸⁷ As Oxfam indicates, the issue before us is the question of “an economy for the 99%.”⁸⁸ In the meantime, imperialism continues to cast its long shadow over the global economy.

An examination of labor-value commodity chains therefore reveals the exploitation hidden in today's international transactions. The labor-value commodity chains approach acknowledges various components largely missing from the other global-chain frameworks, or not previously brought into systematic relation, namely: (1) global capital-labor relations; (2) the deep wage inequalities between the Global North and Global South; (3) differential rates of exploitation on which the global labor arbitrage is based; and (4) the phenomenon of value capture. Most important, this approach incorporates the labor theory of value as an analytical tool in order to provide a more effective critique of the contemporary global political economy.⁸⁹ All of this helps us understand how the global commodity chains of monopoly-finance capital—the power configuration behind today's neoliberal globalization—are rapidly changing class relations and struggles worldwide.

There are other factors besides unit labor costs affecting the profitability of commodity chains and hence the location of production.⁹⁰ Nevertheless, unit labor costs are the key to unlocking the secrets of global labor arbitrage and the differences in the rate of exploitation between the Global North and the Global South.

Through global commodity chains, imperialism enters into the very structuring of production worldwide on a commodity-by-commodity basis. Flexible, globalized production means that the most labor-intensive links in global commodity chains are located in the Global South, where the reserve army of labor is larger, unit labor costs are lower, and rates of exploitation are thus correspondingly higher. The result is much higher profit margins for multinational corporations, with the additional value generated often credited to production in the center itself and with the overall process leading to the amassing of wealth in the center, via a kind of *profit by expropriation—unequal exchange involving value capture*.

As it has become more pervasive, this imperialist exploitation and expropriation has become more disguised and invisible. To understand the nature of today's economic imperialism, it is therefore necessary to leave the realm of exchange in which so-called

free trade is dominant, and enter the “hidden abode of production,” where the existence of extremely high rates of exploitation, revealed by unit labor cost analysis, lays bare the very essence of globalized monopoly-finance capital.⁹¹

3 — Flexibility and Systemic Rationalization: Control in Labor-Value Commodity Chains

The way I see it, [our multinational clients] would observe, control how you work. This is a challenge for us, especially if we aim to increase our export orders for these multinationals. . . . [These clients] control what you do. We can even say that they have power over you, “You have to do this and that.” This is what we need to be wary about: how far they try to lead you.

—STAR INC. EXECUTIVE

Well, we’ve already had the procedures for everything [in production], and everybody is supposed to follow them. But to make sure that they are done properly, somebody has to control [these workers], right? Like you don’t know how Indonesians are. If they are not controlled, they’re like . . . you know.

—JAVA FILM EXECUTIVE

AS DISCUSSED IN THE PREVIOUS CHAPTER, the concept of labor-value commodity chains reveals the extraction of surplus from the Global South by capital in the Global North and how the measurement of unit labor costs can illustrate this extraction process. Here I will examine the impact of labor-value chains on what happens on the production floor, in particular how multinational corporations can control concrete processes that occur in the realm of production. This will serve as a theoretical bridge between the abstract notion of labor-value chains and concrete issues, such as control over technology and, especially, the labor process, which occur within the chains.

This discussion is divided into several segments. I start with introducing the theories of systemic rationalization and flexible production that can be useful to connect what happens on the macro-level (that is, global commodity chains) with what happens on the meso-level (that is, labor-management relations in firms) and can help us understand the impact of globalized production on the workers who make the commodities. However, to bring out successfully the logic of capital accumulation that characterizes labor-value chains, both approaches need to be used in accordance with a Marxist approach that lays out how the persistence of Taylorism—an organization of work named after its founder, F. W. Taylor—help perpetuate and even enhance the exploitation of labor in the age of globalized production. This approach can also help us see how the control of the labor process is central to the development of monopoly capitalism.

Lastly, I try to strengthen some of the main assumptions used in the theories of systemic rationalization and flexible production. I argue that we cannot gain a comprehensive understanding of the development of commodity chains if we fail to see the process of capital accumulation that underlies this phenomenon. And in monopoly capitalism, with the rising profitability of giant firms holding monopoly power, this process has led to stagnation, the burden of which must be borne by the working class, both at home and abroad. This understanding of the larger context in which

systemic rationalization and flexible production occur helps us reevaluate the common assumptions that are often used in studies of global commodity chains or production networks. Seeing the emergence of today's production networks as *merely* a managerial response to the trauma caused by economic crises and to the need for increasing productivity, or as an inevitable consequence of heightened competition and the rapid development of information technology, is not enough. Veiled behind the intricate mechanisms embedded in commodity chains is the exploitation of workers driven by the imperative of capital accumulation.

SYSTEMIC RATIONALIZATION AND FLEXIBLE PRODUCTION

Control and the Commodity Chains

While a global commodity-chain or global value-chain (GCC/GVC) framework is popular in the United States, German industrial sociologists use the concept of *systemic rationalization* to refer to the technological and organizational changes by corporations that began in the 1970s (some argue mid-1980s). These changes are enabled and continuously maintained by new information technologies, and they are a form of new corporate strategies aimed at establishing production, administration, and distribution processes that are “more flexible and economical.”¹ In many ways, this theory is similar to the GCC/GVC approach, especially in its focus on the rise of decentralized production throughout the globe, one that includes, as two of the main proponents of the theory, Norbert Altmann and Manfred Deiß, write, the “decentralization of the entire production chain through segmentation of the individual processes.”²

If capital representatives such as Stephen Roach see the implementation of global labor arbitrage as an “urgent survival tactic” to cut costs and search for new efficiencies, the discussion of systemic rationalization emphasizes that the “flexibilization and economization of manufacturing,” as well as R&D, logistics, and other aspects, are the main drivers forcing corporations to seek new

strategies.³ Economization of manufacturing may not be much different than the search for new efficiencies, but flexible production is an important addition to the characteristics of global production processes.

Also popularized in the 1990s, by scholars such as radical economist Bennett Harrison, “the age of flexibility” had restructured production processes and management practices by corporations, especially through the creation of networks among producers. As Harrison writes in his popular book *Lean and Mean*, flexible production includes “lean production, downsizing, outsourcing, and the growing importance of spatially extensive production networks governed by powerful core firms and their strategic allies.”⁴ Firms everywhere, big and small, search for greater flexibility “through reorganization and technological change, in labor-management relations, and in the reconfiguration of each firm’s (and establishment’s) transactional and longer-term relations to other companies and operating units.” This last point means that they become “more integrated into one another’s orbits.” This is what British geographer Philip Cooke identifies as “flexible integration.”⁵

Specific to management practices within firms, flexibility may include *functional flexibility*, where managers “redefine work tasks, redeploy resources, and reconfigure relationships with suppliers.” This may include the strategy of adopting new technologies that enable “rapid product design or tool changes,” and that allow “a greater decentralization of decision making and responsibility,” thus making it possible to change from one design to another in the middle of production operations. Another type of flexibility is *wage flexibility*, attempts by managers to “reintroduce greater competition among individual workers,” including such means as payment through individual performance-based bonuses and systematic union avoidance. There is also *numerical flexibility*, which consists of two forms: first, the redesigning of jobs from full-time employment with benefit coverage (for example, health insurance and pensions) to various kinds of “part-time, contract, and other ‘contingent’ workers who . . . receive few or no benefits,”

and second, the management practice of “outsourcing production, maintenance, catering, clerical, and other activities that arguably were formerly . . . undertaken in-house.”⁶

Two significant consequences of flexibility are the persistence of segmented labor markets and growing earnings inequality among groups of workers. Harrison explains:

According to a central tenet of best-practice flexible production, managers first divide permanent (“core”) from contingent (“peripheral”) jobs. The size of the core is then cut to the bone—which, along with the minimization of inventory holding, is why “flexible” firms are often described as practicing “lean” production. These activities, and the employees who perform them, are then located as much as possible in different parts of the company or network, even in different geographic locations.⁷

And most of these peripheral jobs are done by poorly paid workers in low-wage areas—globally, this means primarily workers in the Global South.

Although the discussion of flexible production and systemic rationalization can be seen, on the surface, as something similar to the discussion of global commodity chains in the GCC/GVC framework, the former has something that the latter lacks: an attention to the issue of *control*. Coming from a radical perspective, Harrison strongly emphasizes the point that Gary Gereffi and his colleagues could not, namely the idea that “decentralization of production does not imply the end of unequal economic *power* among firms—let alone among the different classes of workers who are employed in the different segments of these networks.”⁸ Somewhat echoing Stephen Hymer, Harrison claims that flexibility has been largely used by global financial centers—the megacities where multinational corporations are headquartered—instead of serving as a means to decentralize power. Indeed, flexible production is driven by what Harrison calls “concentration without centralization”—that is, “concentrated, powerful

business enterprises” that increasingly run the world “without as much centralized organization of production of products (i.e., large factories or formal hierarchies) as in the past.”⁹ The persistence of concentrated power held by multinational corporations is made clear by Harrison: “Dressed in new costumes, and armed with new techniques for combining control over capital allocation, technology, government relations, and the deployment of labor with a dramatic decentralization of the location of actual production, the world’s largest companies, their allies, and their suppliers have found a way to remain at the center of the world stage.”¹⁰

The discussion of systemic rationalization also involves attention to control. German industrial sociologists, though probably not considered radical, orient their theories and studies to the political sphere, and they engage in a more critical perspective. Their approach also intersects, in some ways, with Marxist approaches to labor and production.¹¹ In general, systemic rationalization is often seen as a strategy by big corporations to exert control over the dependent companies (such as suppliers) within the value creation chain, and all this leads to capital’s main goal, which is “to increase overall productivity of the entire production chain.”¹² In some cases, however, systemic rationalization theorists seem to emphasize the “control” issue without directly emphasizing the goal of increasing productivity, by highlighting corporate strategies to ensure “that control is not endangered by complications generated by greater recourse to external resources.”¹³ Core companies in the commodity chains, in other words, have to make sure that the exclusive access to knowledge, technology, and development remains only within their inner circles, a point that is also explained by other radical economists like Ernesto Screpanti and Martin Hart-Landsberg, as mentioned in the previous chapters.¹⁴

TECHNOLOGY AND LABOR

The concepts of systemic rationalization and flexible production

can bridge the macro-level discussion of global commodity chains to the meso-level analysis of firms that in turn enables the examination of how management practices influence workers, especially those who work on the shop floor. It can also bring out the intricate relationship between dominant and dependent firms, and how their unequal relations ultimately affect workers. This can be a starting point in our attempt to concretely examine global capital-labor relations.

I argue that the emphasis on control discussed above allows us to examine two important components in globalized production that can help us examine their relations in a more specific context: (1) the issue of technology, and (2) the impact of globalized production on workers. These issues will be developed later in the chapter within the context of monopoly capitalism, but here I will explain how control plays out in both technology and labor issues, as viewed through the lens of the two approaches.

Technology is seen as a central component in systemic rationalization, with information technology networking serving as a means to integrate “company-wide and inter-company production processes,” and technology in general serving as an instrument to “secure flexibility.”¹⁵ Through systemic rationalization, multinationals, which serve as the core companies in global commodity chains, ensure that they can maintain exclusive access to their manufacturing know-how, investment strength, as well as to “the heart of company-specific technology for reasons of securing innovation and (thus also) market positions.”¹⁶ Often, such core companies have to balance their control with occasional “freedom” and let the dependent companies have some autonomy. To do this, neither market-related interventions nor the reduction of transaction costs is sufficient. Instead, as Altmann and Deiß explain, systemic rationalization allows core companies to govern (control) their commodity chains or production networks “through the supra-company regulation of functions such as joint R&D, logistics and quality management.”¹⁷ The point here is clear: systemic rationalization serves as a “new form” of control that may

often be concealed behind a series of “rational systems” and regulations that may look fair and benign.

The issue of technology also holds a central place in Harrison’s discussion of flexible production. One big part of his analysis is a rebuttal to the mainstream liberal view of the prospect of small-business egalitarianism. Harrison points out how California’s Silicon Valley—often hailed as a prime example of such an idea—is actually “enmeshed in networks formed by big business, big government, and big education (especially Stanford) which relies on cheap and low-skill labor wherever possible.”¹⁸ In addition, companies in Silicon Valley have been “fiercely antiunion . . . since the beginning.”¹⁹

Moreover, Harrison also refutes the idea that small businesses serve as a center of job creation and technical change, a view associated with David Birch and George Gilder.²⁰ Contrary to the suggestion that well-informed small firms can defeat big firms due to their flexibility “in identifying new wants and in getting new products to market,” as well as to take advantage of various new technologies, small firms “turn out to be systematically *backward* when it comes to technology,” especially due to their inability to invest in huge-scale innovative technology, such as computer-controlled factory automation. Another supposed ability of small firms that Harrison debunks is their ability to cater to niche markets, where they produce specialty products to certain markets. Harrison refutes this by arguing that the claim ignores the fact that the big firms, partly due to their ability to access innovative technology, “can produce for both mass *and* niche markets—a neat trick that the small firms can’t pull off.” Therefore, he continues, “Toyota can deliver both its big-selling, inexpensive Corolla *and* the high-priced, world-class Lexus.”²¹ Through refuting the argument for small-business egalitarianism, Harrison once again shows that big firms continue to take center stage in the realm of global commodity chains.

Another component of globalized production that can be examined through the issue of control brought up by systemic rationalization and flexible production is perhaps the most

important one: labor. Whereas the GCC/GVC framework fails to deliver a sufficient analysis of labor, systemic rationalization and flexible production can help examine these issues. As Pamela Meil, a U.S. sociologist who was working with German industrial sociologists on the topic of systemic rationalization, explains, the methodological tool that the studies of systemic rationalization scholars use, the industrial case study, “leads researchers into the production area where they examine the effects of the technological and organizational structures on workers in detail.”²² And one way to examine this issue is through the study of the management of labor within certain industries.²³

But aside from this methodological question, the theory of systemic rationalization, as well as Harrison’s work on flexible production, is a critical response to other theories of work published in the 1980s and early 1990s—such as those of Michael Piore and Charles Sabel—which put forward the idea that the trend was “toward a ‘professional’ work pattern in which all workers have greater autonomy and responsibility in a more open work and company organization as an important component of a new, post-Tayloristic phase of industrial development.”²⁴ These patterns, according to such post-Tayloristic or post-Fordism theories, lead to “relatively egalitarian networks embedded in communities of skilled workers.”²⁵ While systemic rationalization scholars claim that some forms of work do “break with Tayloristic rationalization strategies” due to pressures from the sales markets to produce in a more flexible and integrated manner, what they emphasize is the fact that “at the same time, powerful forces remain which push toward the continuation of Tayloristic forms of work organization even under altered circumstances.”²⁶ The classic characteristics of Tayloristic forms of work are still as we know them:

the separation of conception and execution in work; the extension of the division of labour according to functions, hierarchical levels and work tasks; the tendency to plan fully all production processes and to standardize the work process; careful control

of performance, based on wage incentives; finally, and most strongly tied to the above-mentioned points, a widespread simplification of tasks and thus the deskilling and polarization of the labour force.²⁷

In fact, systemic rationalization entails “heterogeneous structures” along the value chain that enable the persistence of conventional forms of production and work such as “Tayloristic forms of work, where economies of scale are still attained for parts of the final product; unfavourable working conditions where such conditions are still accepted while also incurring low costs, even given low productivity, as long as it is functional for the total productivity of the production network, etc.” This leads to the conclusion that, in the words of Altmann and Deiß, “with systemic rationalization there is no ‘good work’ without ‘bad work!’” Such heterogeneous production networks still have an “extensive share of areas operating on low technological levels with traditional forms of Tayloristic work organization.” The so-called end of Taylorism is far from reality, and “a vast amount of work forms with a high division of labour remains in place in global networks.”²⁸ Similar to Harrison’s claim that lean, flexible production perpetuates and perhaps enhances the mean aspects of production—inequality among classes of workers and labor market segmentation (the “primary labor market,” where successful unions, relatively high wages, and job security exist vs. the “secondary labor market,” where workers are paid low wages and hold a precarious position)—systemic rationalization scholars argue that workers are polarized. Only in limited positions could we find shop-floor workers with greater autonomy and decision-making power as well as higher skills. Moreover, workers in “the weakest or most dependent position in the hierarchy of the entire production chain” can find that their positions become even more vulnerable.²⁹

While the worsening position of workers is often only implied (if at all) in the GCC/GVC framework, the studies of systemic rationalization allow us to deal with the concrete details of how

changes on the macro level—that is, the configurations of global commodity chains—affect workers through an examination of labor-management relations. As emphasized in the previous chapters, the supposed “decentralized” networks of production do not necessarily lead to the dispersion of power. In line with the problem in the control of technology and knowledge, practices such as outsourcing fail to guarantee greater autonomy, not only to workers who manufacture the goods, but also to the dependent companies along the chain who employ these workers. Systemic, supra-company rationalization has instead created hierarchical structures in the production chain, consisting of dominant (or core) and dependent segments. Dominant firms can indirectly control the dependent ones through

built-in control mechanisms, especially in simultaneous engineering, delivery on demand systems (just in time; JIT), ranking of suppliers by ABC-evaluation, and so forth, not to mention the continuing pressure on competitors for (supply) orders to disclose their costs, to keep to target prices, to orient themselves to benchmarks, and so on. This form of exerting influence is just as stringent for companies participating in the value creation chain as mere price and competitive pressure. Information technologies are the precondition and medium of the integration of production processes within the chain.³⁰

The impact of such mechanisms for workers and unions is fundamental and tends to be devastating. In their study of German industries, Altmann and Deiß argue that systemic rationalization “tends to result in a decentralization and weakening of conventional employee interest representation,” often through decisions influenced by specifications and regulations that are “made outside and beyond the boundaries of their companies and enterprises”—most likely shaped by the demands of dominant firms within the chain.³¹ Harrison provides a similar

argument; the revival of labor market segmentation due to flexible production “further weakens the bargaining power of labor unions, making it more difficult for them to organize new workers and to pressure companies to innovate continually in order to generate the additional productivity out of which to meet a rising wage bill.”³² Especially when we talk about dependent firms, they do not have the resources and power needed to control innovative technology to begin with.

The point here is that pressures exerted by dominant firms on dependent firms (namely suppliers along the commodity chain) will in the end affect the labor process and the bargaining power of workers who make the products. Unfortunately, although the studies of systemic rationalization and flexible production pay attention to the impact of these new forms of work organization on workers and unions, they often go around—instead of tackling—some aspects that are central to this subject: how the labor process is controlled through labor-management relations within the context of monopoly capitalism. To elaborate these aspects, it is necessary to bring in the analysis of the control of the labor process as offered by Marxists in the 1970s, whose emergence was largely influenced by the publication of Harry Braverman’s *Labor and Monopoly Capital* in 1974. In his review of Harrison’s *Lean and Mean*, James Devine mentions that although “Harrison’s theory is not based on a Marxian analysis of capitalism’s laws of motion,” he saw a “tendency toward deskilling that Harry Braverman stressed in his *Labor and Monopoly Capital* (a work that is strangely not cited).”³³ But this point about deskilling (in Braverman’s terms, “the destruction of craftsmanship”) still needs to be discussed as a process that, as Braverman sees it, “is not divorced from capitalist exploitation and accumulation.”³⁴ Thus, before we can apply the question of the control over the labor process to the current mechanisms of systemic rationalization and flexible production, we need to review the approaches proposed by Braverman and other Marxist scholars to this issue.

CONTROL OVER THE LABOR PROCESS IN MONOPOLY CAPITALISM

In chapter 7 of the first volume of *Capital*, Karl Marx writes: “Labour is, first of all, a process between man and nature, a process by which man, through his own actions, mediates, regulates and controls the metabolism between himself and nature.”³⁵ Through labor, humans produce use values to meet their needs. However, this process differs from one mode of production to another, and for Marx, in the capitalist mode of production, the labor process is governed by exploitative capital-labor relations expressed through its organization of work. As studies of the labor process that emerged in the 1970s show, the organization of work in capitalist societies is not a “neutral productive instrument.” Instead, it is a political instrument “molded by the attempts of capitalists and their managerial representatives to exert control over recalcitrant workers on the shop floor.”³⁶ Among these works, Braverman’s *Labor and Monopoly Capital* was one of the most important on the subject, a work that has since generated an “abundance of intellectual activity,” ranging from books and new courses to conferences.³⁷

One especially valuable contribution of Braverman’s work to the discussion of the labor process is the fact that he developed an impressive analysis of the labor process under monopoly capitalism. Paul Baran and Paul Sweezy themselves admit in *Monopoly Capital* that they were aware that their approach in the book “resulted in almost total neglect of a subject which occupies a central place in Marx’s study of capitalism: the labor process.”³⁸ And according to Sweezy in his foreword to Braverman’s book, *Labor and Monopoly Capital* offers a “solidly successful effort to fill a large part of this gap.”³⁹

Indeed, phenomena such as the growth of giant corporations and the “demise of internecine competition” are only two among many characteristics that accompanied the transition from competitive to monopoly capitalism. Another important characteristic is the “highly successful battle of the employers and an army of

industrial engineers to put the management of the labor process on a scientific footing”—in other words, as emphasized by Braverman, “the implementation of Taylorism.”⁴⁰ It was this process, “more than anything else,” argues John Bellamy Foster, that made the emergence of monopoly capital “possible and inevitable.”⁴¹ The growth of the giant corporations and Taylor’s scientific management were closely linked. In *The Wealth of Nations*, Adam Smith writes that the extent of the division of labor “must always be limited by the extent . . . of the market” and the scale of production. In the context of monopoly capitalism, this means that the “growth in firm size made the implementation of industrial engineering cost efficient,” and it became “the main source of the ‘economies of scale’ of big business.” As a result, giant firms accrued “prodigious profitability” through this implementation, which in turn “enormously accelerated the transition from freely competitive capitalism to the new regime of monopolistic competition.”⁴²

Marx himself pointed out this form of capitalist development when he wrote about the “real subsumption of labour under capital” in “Results of the Immediate Process of Production” (included in the first volume of *Capital* in the Penguin edition)—a possible development that did not yet exist in his time. For Marx, the real subsumption of labor “transforms the nature of the labour process and its actual conditions,” and it was “developed in all the forms evolved by relative surplus value” that center on the increase of productivity. Further, he continues, “With the real subsumption of labour under capital, all the changes in the labour process . . . now become reality. The social forces of production of labour are now developed, and with large-scale production comes the direct application of science and technology.”⁴³ What Marx foresees here is the development of Taylorism—“an attempt to apply the methods of science to the increasingly complex problems of the control of labor in rapidly growing capitalist enterprises”—along with the scientific-technological revolution, which enabled the appropriation and commodification of science and innovative technology by capital to respond to its immediate needs.⁴⁴ Both are used by

capital to restructure the organization of work and bring the control of the labor process to a whole new level, an effort to increase relative surplus value as driven by capital accumulation under monopoly capitalism.

In general, Braverman expands Marx's fundamental idea that labor power is transformed by management "into work actually done in order to ensure profitability"—and Braverman considers the "implications of this capitalist logic for the organization of work."⁴⁵ Rejecting Adam Smith's assertion that the division of labor is merely a matter of technical efficiency and an enhancement of specific work skills that would lead to a "proportionable increase of the productive powers of labour," Braverman starts his analysis from the work of classical liberal theorists of management Charles Babbage and Andrew Ure, whose works provided a rebuttal to Smith's argument fifty years after *The Wealth of Nations* was published.⁴⁶ These theorists argue that the division of labor is a mechanism that serves as a means to reduce labor costs "through the systematic degradation of human labor."⁴⁷ Adopting this, Braverman claims that "the deskilling of work and a fine division of labor" are dictated by cost considerations.⁴⁸

In other words, capitalist logic creates the necessity to cheapen labor whenever possible. Breaking down complex skilled tasks into simple, routinized ones is the easiest way to do this. The Babbage principle, writes Braverman, shows that the labor power capable of doing the labor process "may be purchased more cheaply as disassociated elements than as a capacity integrated in a single worker." He then concludes that labor power is a commodity, and once it is sold, "its uses are no longer organized according to the needs and desires of those who sell it, but rather according to the needs of its purchasers, who are, primarily, employers seeking to expand the value of their capital. And it is a special and permanent interest of these purchasers to cheapen this commodity." Taylorism embodies this principle to the core—it is a reflection of "nothing more than the outlook of the capitalist with regard to the conditions of production."⁴⁹

But the main point of Braverman's argument is not merely the issue of cheapened labor, but how capitalists *control* labor through management, and how this whole process is "dominated and shaped by the accumulation of capital." Taylorism exerts control through mechanisms such as these: (1) the "dissociation of the labor process from the skills of the workers"; (2) the "separation of conception from execution"; and (3) the use of "monopoly over knowledge to control each step of the labor process and its mode of execution."⁵⁰ With the implementation of these mechanisms, workers become more dependent on management. Whenever workers hold control over their own knowledge of their skilled or craft labor, it is management who is dependent upon them. So the strategy is to appropriate their knowledge and skills by reorganizing work "into narrow, low-skilled jobs with no conceptual content" and transforming workers into "mere executors of work"; this, in turn, results in a "steady degradation" and the deskilling of labor.⁵¹ Marx himself addresses the issue of control in the labor process in the first volume of *Capital*: "The driving motive and determining purpose of capitalist production is the self-valorization of capital to the greatest possible extent, i.e. the greatest possible production of surplus-value, hence the greatest possible exploitation of labour-power by the capitalist."⁵²

What is also important for Marx is that he sees the issue of control not as merely something natural that comes out of the cooperative production of use values, but "by antagonistic relations of production under which use values are produced"—namely, class struggle.⁵³ As Marx continues:

As the number of the co-operating workers increases, so too does their resistance to the domination of capital, and, necessarily, the pressure put on by capital to overcome this resistance. The control exercised by the capitalist is not only a special function arising from the nature of the social labour process, and peculiar to that process, but it is at the same time a function of the exploitation of a social labour process, and is consequently

conditioned by the unavoidable antagonism between the exploiter and the raw material of his exploitation.⁵⁴

It is precisely in this spirit that Braverman elaborates the question of control. For him, the issue of management control is examined as something that is born out of social relations within history. And in the context of the capitalist mode of production, the relations are in the form of class struggle. In modern capitalism, Braverman writes, it was not the “modern” element that gave birth to the new situation. Rather, it was “the new social relations which now frame the production process, and the antagonism between those who carry on the process and those for whose benefit it is carried on, those who manage and those who execute, those who bring to the factory their labor power, and those who undertake to extract from this labor power the maximum advantage for the capitalist.”⁵⁵ This position was later clarified by Andrew Zimbalist in his introduction to an anthology of case studies on the labor process inspired by Braverman’s work: “Indeed, a central argument of the book is that the antagonism between classes gives rise to the problem of management and the degradation of labor.”⁵⁶

Braverman was not the only author who dealt with the question of control and the labor process during that period. In the same year in which Braverman published his seminal work, Stephen Marglin wrote an article titled “What Do Bosses Do?” that was published in the *Review of Radical Political Economics*. Marglin’s paper was partly a critique of Smith; similar to Braverman, Marglin argues that “the social function of hierarchical work organization is not technical efficiency, but accumulation.”⁵⁷ Further, Marglin views specialization and separation of tasks in the division of labor under capitalism as a means to grant capitalists an essential role in the production process, that is, the role of integrator. Tracing his analysis to the period of nascent capitalism, Marglin uses the example of the “putting-out system”—in which workers made textiles by using their own simple machinery at home, with materials and specific tasks assigned by the capitalist, but no single workers

produced the entire product—to highlight the first distinctly capitalist attempt to remove “individual producers from access to a market” and to allow the capitalist middleman to gain profit.⁵⁸ Here, the role of capitalist as integrator is highlighted:

Separating the tasks assigned to each workman was the sole means by which the capitalist could, in the days preceding costly machinery, ensure that he would remain essential to the production process as integrator of these separate operations into a product for which a wide market existed; and specialization of men to tasks at the sub-product level was the hallmark of the putting-out system.

The capitalist division of labor, as developed under the putting-out system, embodied the same principle that “successful” imperial powers have utilized to rule their colonies: divide and conquer.⁵⁹

In this early stage of capitalism, the putting-out system only eliminated the producer’s control over their own product, according to Marglin. It was not until the factory existed that this system was developed into one that managed to deprive the producer not only from control over their product but also from control over their labor process. But what needs to be emphasized is Marglin’s attention to the issue of control and the “divide and conquer” characteristic of the specialization of tasks and how this origin of the fine division of labor “derived from the need to make workers dependent on the capitalist, and not from increased efficiency or other technological factors.”⁶⁰

In conversation with Braverman’s work, David Gartman and Richard Edwards also elaborated the question of control in the labor process in their articles in *The Insurgent Sociologist* in 1978. Interpreting Marx’s discussion of control, Gartman argues that there are two types. The first one is *basic control*, a type of control that is necessary in any large-scale production of use values in order to “coordinate and direct the action of individual workers,

no matter who appropriates the surplus, or how this is done.” The other type, *surplus control*, is the control that is specifically born out of the antagonistic relations of production—the class struggle—where use values are produced. It takes the control of the labor process out of the hands of workers. Driven by the motive to repress the resistance of the exploited workers, surplus control increases the rate of surplus value through means that allow capitalists “to make work more intense, extensive, and productive than laborers would voluntarily make it.”⁶¹

Edwards offers a similar argument. He claims that the workplace is a “perpetual battleground.” The continuing conflict in the labor process is driven by the class division between workers and capitalists, and expressed in the effort by the latter to “extract the maximum effort from workers [who] necessarily resist their bosses’ impositions.”⁶² Especially worth noting from Edwards’s work is his attempt to expand Braverman’s analysis by offering three categories of control under monopoly capitalism, focusing on the organization of work in large corporations in advanced capitalist countries. The first one is *simple control*, which focuses on the direct, personal control of individual workers by their employers. This type of control is actually no longer the “principal organizing device in today’s corporate sector” in advanced capitalist societies, although it may also accompany the execution of the other forms of control. The second one is *technical control*, where “the entire production process of the plant, or large segments of the plant, are based on a technology which paces and directs the labor process.” Technical control is not merely simple mechanization or simple machine pacing; rather it is a form of technological evolution that is based on “the inherent class nature of capitalist production” and involves “designing machinery and planning the flow of work to minimize the labor/labor-power problem.” The last one is *bureaucratic control*, where workers are governed by “the firm’s law,” a rationalized set of rules and criteria determined by the top-echelon management. Through this form of control, the job of an individual worker is defined more by “formalized job

descriptions or ‘work criteria’ attached to the job”—interpreted by their supervisors—“than by specific orders, directions, and whims of the supervisor.” Workers are evaluated (in other words, disciplined and rewarded) using these criteria.⁶³

These three forms of control are a useful basis for our examination of the organization of work in its more complex forms. These include the ones that can be seen from the relationship between core and dependent companies in labor-value chains, which in turn affects labor in the dependent companies, as alluded to by systemic rationalization scholars. The point is, these types of control illustrate that the labor process continues to be an “arena of class conflict” under monopoly capitalism, and “faced with chronic resistance to their efforts to compel production, employers over the years have attempted to resolve the matter by reorganizing, indeed revolutionizing, the labor process itself.”⁶⁴

This, of course, brings us back to Braverman, whose work inspired Edwards’s elaboration of the control typology. One of Braverman’s most important arguments was in recognizing how the development of monopoly capitalism went simultaneously with the development of “scientific management,” or Taylorism. Also developed during the late 1800s were corporate research laboratories, with the first one “established for the specific purpose of systematic invention set up by Thomas Edison at Menlo Park, New Jersey, in 1876, and the first government laboratories were established by the Department of Agriculture under the Hatch Act of 1887.” This ties monopoly capitalism to scientific management and the scientific-technical revolution that is based on “the systematic use of science for the more rapid transformation of labor power into capital.”⁶⁵ As Zimbalist writes, Braverman was “concerned with Taylorism as the expression of capitalist management ideology, as well as the reflection of a new division of labor and basic reorganization within the workplace.” Zimbalist reminds his readers that, for Braverman, the emphasis was on the idea that “the central lesson of Taylorism is the separation of skill and knowledge from the workers in the production process.”⁶⁶

In its development, Tayloristic forms of work became the foundation of the (in)famous assembly lines in U.S. factories, a development that took place mostly in the late nineteenth and early twentieth centuries. This system was often credited to the system of work organization and technological innovation by Ford Motor Company, the giant corporation that manufactured automobiles, an association that later gave the alias “Fordism” to Tayloristic forms of work. What happened on the Ford shop floor was a prime example of what Braverman was alluding to: the application of the Babbage principle *and* the use of control over workers. As Gartman points out, in the case of Ford and similar U.S.-based companies (such as General Motors) their “innovative” work organization was made possible by technological innovation of “precisely machined and thus interchangeable parts”—a development that was achieved as early as 1908 in the manufacturing industries of farm equipment, firearms, and sewing machines, but was taken up by Ford Motor at an unprecedented pace, which soon surpassed other firms. In the same work, Gartman details an example of Fordism in his study of the company:

Skilled assemblers became tied to one spot, and their discretionary time—their wandering about—was cut down. They had to remain busy at their assembly work or suffer the harassment of Ford foremen. The pores of the working day were beginning to fill up, thus intensifying labor. In a further development, stock handlers, who transported the parts for an entire car on a truck, became specialized in handling one part only. Work within assembly gangs was also becoming progressively more divided. There seems to have been a division within the work gang first . . . then there emerged a specialization between gangs. One group of two to five men handled the attachment of the motor to the frame; other groups specialized in axles, springs, transmissions, etc. The gangs moved from one stationary chassis to the next as they completed their particular jobs. Thus, in

the assembly department, the “all-round” mechanic slowly gave way to the specialized worker.⁶⁷

Such “specialized” workers were easily replaced by many others from the industrial reserve army, enabling the company to hire low-wage workers and decrease labor costs. This was a significant change from the company’s early years, where the labor process at Ford was “largely in the control of skilled workers who generally determined the intensity and productiveness of work.”⁶⁸ But due to the reorganization of work described above, what was left in the labor process was only a series of fragmented, “specialized,” degraded tasks that were meaningless and of no importance when done on their own. This is captured well in the following conversation between a superintendent of an automobile factory in Geneva, Switzerland, and his newly hired employee who happened to be an ex-Ford worker. The superintendent just found out that the new employee “did not even know where or how to commence the assembly”:

“We thought you were a skilled erector of automobiles.”

“I thought I was,” replied the new employee.

“Where did you work?”

“At the plant of Ford Motor Co.”

“What did you do?”

“I screwed on nut No. 58.”⁶⁹

Such an understanding and description of the Tayloristic forms of work are of course not news to the social sciences. In addition to the studies about this subject in the United States, in the last two decades or so, studies about assembly lines performed in the Global South by low-wage workers, mostly women, have also deepened our understanding about the impact of such forms of work on workers and their vulnerable, precarious position, right down to the discussion of how such labor processes affect their bodies.⁷⁰ But what Braverman and other Marxist scholars discussed offers

us an understanding of the fundamental mechanisms that underlie working life: the implementation of control over the labor process that gives capital “the ability to increase exploitation and hence surplus value.”⁷¹

Through the concept of labor-value chains, we need to rethink the main goal of the implementation of control in such chains: control is not *merely* to increase efficiency and productivity, as capitalists tell us (and as echoed by many theories of commodity chains), but at its core, control is the extraction of surplus driven by capital accumulation, as reflected in the quest for low unit labor costs by multinationals. This, and some misconceptions perpetuated in the discussion of commodity chains—including those that belong to systemic rationalization and flexible production schools—will be briefly examined below.

STRAIGHTENING THE ASSUMPTIONS

Both systemic rationalization scholars and the “lean and mean production” theorists such as Harrison mostly point to heightened competition—on national and international levels—as the main driver of changes in production, administration, and distribution processes toward more flexible and economical forms. For Dieter Sauer and his German co-authors, who are sociologists and proponents of systemic rationalization, heightened competition is included with other factors, including increasing market saturation, shorter product life cycles, and “the pressure exerted by rising internal costs.”⁷² But in general these scholars often only mention the causes of the emergence of these “new” strategies in passing, driven mostly by increasing national and global competition. The emphasis was more on the enabler of such strategies, namely the “availability of computer-aided organization and control technologies in technology markets and the ways they get implemented.”⁷³

Similarly, Harrison sees the emergence of production networks as a result of “a veritable sea change in the nature of international economic competition” geared to declining profits influenced by

economic crisis; further, with the development of new technologies on the factory and office floor, this then created the increase in the number of competing firms in both developed and developing countries.⁷⁴ Thus, flexible production and the rise of production networks were a response to this growing competition:

Of all the reactions, all the experiments, the most far-reaching may well turn out to be the creation by managers of boundary-spanning networks of firms, linking together big and small companies operating in different industries, regions, and even countries. *This* development—not an explosion of individual entrepreneurship or a proliferation of geographically concentrated industrial districts, per se—is the signal economic experience of our era.

In this sense, lean production—which entails the greater use of outsourcing of work to smaller suppliers, or the increase in the employment of contingent, low-wage workers by big corporations—is a form of “experimental reactions by big business to the trauma of the worldwide economic crisis of the 1970s and early 1980s.”⁷⁵

The fact that the emergence of production networks was a response to such corporate trauma is not much of a debatable subject. Inventing strategies to create more profit and offset losses is a “natural” task for corporate management everywhere at any time, but especially when losses are large, as in the time of economic crisis. Yet this alone is not enough to explain the driving forces that underlie the creation of production networks that are viewed by both Harrison and the German industrial sociologists as a means for giant corporations to sustain and enhance power and control, not only over workers, but over smaller, dependent companies. It is also necessary to see how all of this is connected to the larger macro processes that are related to monopoly capitalism, including stagnation.

Unlike what could happen under competitive capitalism,

practices such as price-cutting, which could seriously endanger profit margins, rarely occur in monopoly capitalism. Instead, price increases occur in tandem, usually under the leadership of the most powerful corporations in the industry. As a result, we are witnessing the “law of rising surplus” under monopoly capitalism.⁷⁶ And, as discussed above, since its earlier development in the late 1800s, monopoly capitalism has been accompanied by the massive reorganization of work enabled by a systematic application of scientific management and a commodification and appropriation of science and technology. This has led to the ability of giant firms to accrue large profits due to the increase in productivity. With the growing concentration (or growth in the scale of individual firms) and centralization (as illustrated by phenomena like mergers) of capital under monopoly capitalism, surplus production also keeps growing, and productive capacity becomes larger than the market. This, in turn, contributes to stagnation.

Indeed, as Baran and Sweezy argue, stagnation—marked by “a pattern of slow growth and rising unemployment and excess capacity, with capital formation fluctuating around the level of zero net investment”—has become “the *normal* state of the monopoly capitalist economy” since it has become its defining, most persistent characteristic. In an oligopolistic system, high productivity and the ban on price-cutting together create a huge and growing surplus that cannot be absorbed by investment and capitalist consumption.⁷⁷ Constrained by capital’s “neurosis” toward state intervention in private profit-making, surplus cannot be absorbed by government civilian spending. This results in the dependence on great waste in areas such as military spending and speculative finance, which function as “external stimulants boosting production”; however, stimulants are just drugs, they are “bound to prove inadequate to support the economy over time, since bigger and bigger injections [are] needed just to get it going.”⁷⁸

With respect to speculative finance, the firms in the financial sector use a lot of resources, and the investment in these “does its part to offset the surplus productivity of modern industry.”⁷⁹

However, the financial sector does not produce any commodities with significant use value. One main consequence is that the production sector becomes idle, especially in the core capitalist economies; investments hardly flow to the production sector, and demand becomes stagnant. In turn, the cost of production is trimmed, and workers are usually the main victims; their wages are cut or they get laid off. Another consequence is the rise of a “speculative psychology” in the financial community, namely the search for bigger profits through quick, speculative means, often resulting in crises. In the end, we can say that the dominating presence of the financial sphere perpetuates *stagnation* in the sphere of production, and *inflation* in the financial sector.⁸⁰ Overall, this is the situation under monopoly capitalism, where stagnation has become the normal state, especially in the Global North.

Interestingly, the issue of “secular stagnation” now occupies the hot seat and has been discussed widely by orthodox (neoclassical) economists, especially since it was brought up in a 2013 IMF meeting by Larry Summers, who referred back to the work of Alvin Hansen, a prominent Keynesian in the United States in the 1930s and 1940s. In a *Foreign Affairs* article titled “The Age of Secular Stagnation,” Summers continues to write about how the recovery from current crises and recessions, in the United States and the world, “has fallen significantly short of predictions” and “far weaker than its predecessors”—this is dangerous (for capital and for social stability) and thus, alleviating the pain caused by secular stagnation, Summers argues, is “of profound importance.”⁸¹ But sadly, as the editors of *Monthly Review* said in their notes in January 2016, these discussions fail to take into account “the role of Marxian and heterodox thinkers, who have been developing the stagnation thesis in great historical and theoretical detail for more than half a century, building on the debates of the 1930s.”⁸² This negligence also prompted several critical responses from the left, including one from Charles Mudede, who wrote a column for Seattle’s weekly *The Stranger* in 2013, titled “What If Economists for Once Give Marxists Some Fucking Credit?” There, he criticizes

Paul Krugman—who writes about how today’s stagnation could be the “new normal”—for ignoring the decades of work “on this very subject by Marxists (most notably the late Paul Sweezy) at the *Monthly Review* since the 1970s.”⁸³

Not long after Summers delivered the speech at the IMF meeting, Krugman also wrote several essays in the *New York Times*, supporting Summers’s argument. In one of them, published in 2013, Krugman went so far as to claim that not only was Summers right, but that he presented a “radical manifesto.”⁸⁴ In another column, titled “Robber Baron Recessions,” writing about Verizon’s monopoly power, Krugman writes: “And Verizon’s case isn’t unique. In recent years many economists, including people like Larry Summers and [myself], have come to the conclusion that growing monopoly power is a big problem for the U.S. economy.”⁸⁵ No mention of the decades of work by Marxists on monopoly capitalism and the stagnation thesis. But “ignorance” aside, the fact that stagnation has even entered the mainstream discourse suggests not only the significance of Marxist approaches but also that of the analysis of crises that pays attention to the dynamics of capitalism itself, as offered by overaccumulation theorists and their examination of monopoly capital.

Several points can be evaluated here. The first is in relation to the claim proposed by systemic rationalization scholars and by Harrison regarding the heightened competition that is said to drive the emergence of production networks or commodity chains. The so-called competition is not in the form of what these scholars imply in their discussions: it is not based on a system where everybody—big and small firms in both Global North and Global South—is engaged in fighting amid competition. Dependent suppliers in labor-value chains, due to their small size and lack of power, may have to face such a heightened competition to get “high-class” multinational customers, for example, but it is a different story for these very high-class customers themselves. Even though it may be true that the world remains competitive for corporations in some respects, “the goal is always the creation [or]

perpetuation of monopoly power—that is, the power to generate persistent, high, economic profits through a markup on prime production costs.”⁸⁶ Systemic rationalization and lean, flexible production are not merely new management strategies to be more economical, just as global labor arbitrage is not only an imperative to search for efficiencies needed for survival. Viewing it within the context of the oligopolistic nature of monopoly capital, it is an attempt to extract surplus from workers in places where they can be superexploited. In the context of labor-value chains, these are mostly workers from the Global South.

Second, monopoly (or monopoly-finance) capital’s severe “addiction” to stimulants needed to boost growth is not a mere abstract economic process. To deal with the financial fragility problem, the system always needs “constant new infusions of cash,” but instead of cutting profits, giant corporations obtain this cash from the “working population through drastic increases in exploitation.”⁸⁷ And as Sweezy and Harry Magdoff emphasize, stagnation in the productive sector leads to practices such as “trimming costs of production (especially by firing workers and cutting wages).”⁸⁸ On the global level, global labor arbitrage, through its specific practices such as arm’s length contracting, does precisely that. Corporations are cutting their costs at the expense of labor by moving production to places that have the lowest unit labor costs possible.

This also means the idea that the search for greater productivity is the main aim of the creation of production networks, as proposed by systemic rationalization scholars, does not tell the whole story. After the crisis of 1974–75, the mainstream and business media, including the *New York Times* and *Business Week*, blamed the slow recovery from the severe recession on the “supposed slowing down” of labor productivity (defined as the output per man-hour of its workers). This simply means that rather than focusing on the persistent stagnation and the growing monopoly power in the U.S. economy, the representatives of capital think that “workers are simply not producing enough.”⁸⁹ This supposed drop

in U.S. productivity is seen as threatening to the nation's economic growth, as well as leading to the danger of increasing inflation and unemployment. But what was addressed by the economists, businessmen, and government officials during that period was not precisely a decline in labor productivity; instead, it was actually being claimed that "the rate of increase in labor productivity in recent years has not been as large as it was in the early postwar decades."⁹⁰ Most important, this rhetoric conceals the fact that productivity never stopped increasing. Accompanied by examples from the U.S. automotive industry, Magdoff and Sweezy conclude, in another article published a year later:

All this statistical flimflamming has effectively served to conceal the deeper implications of productivity changes in the recent history of capitalism. The truth is that it is the enormous and persistent growth of productivity in the factory and on the farm that has provided a sufficient surplus of goods to support the growth of an expanding and increasingly complex service economy. . . . And if this very real increase in labor productivity shows up less and less in benefits for the mass of people, the reason is the growing irrationality and wastefulness of monopoly capitalism as it channels more and more labor into activities having to do with the making and spending of profits and less and less into useful pursuits that could serve the needs of the people.⁹¹

Seen in this light, increasing productivity in the era of labor-value chains is not a goal in itself. What global capital is after through global labor arbitrage is, as discussed in chapter 2, low unit labor costs. And unit labor cost depends not only on labor productivity but also on wages, the price of labor power.⁹² Yes, systemic rationalization and lean, flexible production may provide means to increase productivity, but this is not merely forced by the development of information technology or the need to offset a loss experienced by capital in the times of crisis. Instead, labor

productivity is “powered by the needs of the capital accumulation process,” where means to exploit labor are continuously searched for and applied to production.⁹³

That issue aside, the studies of systemic rationalization and flexible production are particularly useful in placing the significant question of control into the realm of commodity chains, bridging the abstract workings of the world capitalist economy and the concrete processes that happen between firms as well as inside the firms (labor-management relations and the labor process). But there is a caveat. They are useful as long as we are able to recontextualize the issue within the frame of the workings of exploitation and capital accumulation under monopoly capitalism.

In addition, we also need to consider the geographical context of our approach. While the GCC/GVC studies lack the component of power and control, they are usually global in scope, a characteristic lacking in most studies conducted using the systemic rationalization framework, since they usually focus on European (especially German) industries. The same issue can be applied to Harrison’s work. Although he includes a discussion of Nike’s global reach in one of his chapters, he still mainly focuses on the forming of networks in the triad and their consequences for U.S. workers and unions. As Devine points out, “Capitalism’s globalization pushes us to transcend Harrison’s implicit nationalism.”⁹⁴

The next chapter is an attempt to contribute to this conversation. By using examples from Indonesia’s local companies that are catering to multinational corporations in labor-value chains, I wish to deliver an analysis of such chains by adopting the strengths of the various approaches I have discussed so far.

4 — “We’re Just a Seamstress”: Case Studies of Two Indonesian Companies

I know that the sales department is supposed to service customers, but we also need to educate them, so that our company can run smoothly. This way, it’s not always the case when a customer tells us to do A, we do A. If they want B, we give them B. As it is now, we only follow their lead, and because we have a lot of customers, we have to run all over the place.

—STAR INC. EXECUTIVE

That’s why, in management, we can’t afford to be vague. We’re not supposed to. We must be strict. If yes, say yes. Be clear. . . . It’s not easy to manage human resource. . . . We must be careful; if we make a mistake in our decision, that’s it. All would go to shambles. Workers would become uncomfortable, and finally, they would reach out to a third party, to a labor union. Then [chaos] would ensue.

—STAR INC. EXECUTIVE

IN A 2016 ARTICLE WRITTEN BY an Asian Development Bank economist, Indonesia is hailed as a country with “dynamic,

youthful labor” that has become “a magnet for foreign investment” and “a driver of economic growth” over the last twenty years. Indeed, as mentioned previously, Indonesia has been a hotbed for direct foreign investment, with FDI net inflows generally showing an upward trend for a few decades after the 1970s, with only a few downturns, especially following the 1997 crisis. And when there was a decrease, such as the recent one that occurred in 2018, the Indonesian government quickly responded by enhancing incentives for investors with an objective of attracting more foreign investments, such as revamping the “tax holiday scheme” by lowering the limit for eligibility in corporate income tax exemptions, including more industrial sectors that would be eligible for the incentives, and providing a “speedier application process” for such incentives.¹

In addition to FDI, Indonesia holds the third place—“defeated” only by China and India, although the percentage is much lower than these two countries—in share of all jobs in global commodity chains. This suggests that Indonesia has also become a destination for the Low-Cost Country Strategy, or global labor arbitrage, where local companies produce materials or products as suppliers for foreign-based companies, including multinational corporations. Nike Corporation is an example. It moved its production from South Korea to Indonesia in the 1980s, before it pulled out and moved to China, in its relentless quest to find the lowest unit labor costs.²

But the classic example of Indonesian low-wage workers, mostly women, sewing clothes or assembling electronics for multinationals in sweatshops located in Export Processing Zones, is not the only way that Global South countries are incorporated into globalized production. Some variations exist; among them are the two Indonesian companies that are the subjects of case studies here, Java Film and Star Inc.³ Both are B2B (business-to-business) companies that are often referred to as companies that belong to the “capital-intensive” category, as opposed to “labor-intensive” industries such as textiles and electronics, although the number

of workers varies according to different segments of their production. Java Film is a plastic manufacturer. Their plastic, known as film, is usually sold as a material for “flexible packaging” used for a variety of FMCG (fast-moving consumer goods, also known as consumer-packaged goods) products, from cigarette wrappers to shampoo labels to food packages. Their customers can be (1) the companies that produce cigarettes, shampoo, and food varieties, to which they sell the film directly; or (2) companies that serve as converters, that is, converting companies that put logos, texts, etc. on the plain film and transform them into labels used for packaging. Star Inc. is an example of this latter type. They buy materials from companies like Java Film and custom-print them. Depending on the customers’ orders, sometimes the finished goods produced by Star Inc. are in the form of printed plastic film, or packaging “bags,” such as standing pouches for cooking oil.

So it is possible that Java Film and Star Inc. have the same customers, and they often do. Included in their list of customers are several giant multinational corporations. Most of them are based in the triad—the United States, Western Europe, and Japan—where they export their goods directly (or, in a very few cases, to their subsidiaries in neighboring Southeast Asian countries). This portion of their production is a straightforward example of these companies’ participation in labor-value chains. They supply to multinational corporations in the Global North by exporting the packaging materials used by the brands owned by these multinationals, to be consumed in the home market.

In addition, there are variations in the destinations of these products once they are finished. Most of the finished goods (approximately 70 percent for each company) are sent to other factories, also in Indonesia, that process the final products, where they fill the packaging with the appropriate content. There are variations in this portion as well. If the customers are local (some of their customers are big Indonesian conglomerates), the finished packaging is sent to their customers’ factories. If the customers are multinationals, it is sent to the multinational subsidiary in

Indonesia. After the packaging is filled with their products, these multinational brands are then exported somewhere else, including to their home market, by the subsidiaries. A large portion of these brands, however, are sold directly to retail within the national market. The executives I interviewed told me that this practice—selling the products where they are produced—is a common strategy for giant multinational corporations, in an effort to minimize the risks and cut production costs. Obviously, it is a much more cost-efficient option compared to producing these products in the countries where the multinationals are located and then exporting them to their markets abroad.

Export orders are deemed important and significant for these two companies. Although the share of exports in their production output is not as large as the domestic component, they assign special managers—whom I also interviewed—to deal with exports. Regardless of this fact, even though Java Film and Star Inc. do not exclusively engage in direct exports and their products are also consumed in Indonesia, as we shall see, the main customers who order these products include big multinationals and, due to that, the companies deal with many issues related to flexible production driven by dominant multinationals, even when the multinationals are represented by their subsidiaries. The operating procedures are the same in their production of packaging for multinationals, whether the goods are for export or for the local market. Their business arrangement with multinationals is key here, and it is their relationship with their multinational clients that will be the focus of this chapter. Regardless of the difference in the final destination of their production output, these companies are still subject to the same processes that characterize systemic rationalization and flexible production. They are third-party subcontractors that supply to multinationals, while they also have their own suppliers, both national- and foreign-based. In this sense, they take the role of dependent companies within labor-value chains.

The case studies of these companies are not meant to serve as a generalization, but rather as a complementary analysis that can

help provide a concrete picture of what actually happens at the factory plants where commodities are produced. Though there are already plenty of academic analyses as well as journal reports on how factories in the Global South are run and how this affects their workers, in this study I present the viewpoint of management of two dependent companies to examine their relationship with multinational customers as well as with their workforce amid the processes of systemic rationalization and flexible production that govern this relationship. Their views give us a window onto the companies' position within labor-value chains: as a representative of Global South capital, which, on the one hand, is subordinate to Global North-based multinationals but, on the other hand, is exploitative of its own labor.

The discussion is divided into three sections. The first section examines how dominant multinational companies control the technological knowledge in labor-value chains, depriving the dependent companies of their autonomy. The second section focuses on the issue of flexibility, especially in terms of the specific processes demanded by multinationals from their suppliers, and the third examines how such processes enable various forms of control over labor and the labor process.

CONTROL OF TECHNOLOGY

Technology is a central component of present-day labor-value chains. The development of technology, particularly information technology, allows production to be done outside the core companies but with control largely exercised by them. Both systemic rationalization and flexible production theories reject the idea that the supposed decentralized production networks or commodity chains offer a more egalitarian environment for small firms. This, of course, holds true on the global level as well. Examples from Java Film and Star Inc. illustrate this situation. As dependent suppliers, they lack control of many aspects of their operations, as we will see. One of the most important aspects is technology. Viewed

through a critical lens, even when the companies see technology as their way to excel in their respective industries, their business relationship with their customers, especially multinationals, suggests that at the end of the day the control over technology is still held by the latter. Thus, it would be very difficult for dependent companies to have significant autonomy in terms of their technological development and innovation.

Java Film and Star Inc. are not the garment, sneakers, or electronics factories depicted in various studies, journals, or campaigns about the devastating impact of globalized production on assembly workers, mostly women. Most of their executives differentiated their companies from those in labor-intensive industries and emphasized their technological and R&D (Research and Development) components. Inside their factories—except in the few segments of their production sites where some form of assembly lines still exist (although they are nothing like what one would find in Foxconn plants, for example)—you would only find lines of machines working automatically, with a few workers here and there across the shop floors, the majority of them men.⁴

These machines are operated remotely from a room filled with computers. Of course, labor still plays a major role in these two companies, and labor processes are subject to control and working conditions can be problematic. But seen from “outside,” what comes to mind is the idea of high-tech, modern factories that are neat and clean. One Java Film executive even told me, “I can confidently say, we are the cleanest [factory] in Indonesia already. . . . When our machine suppliers’ technicians visited us from Germany, they said, ‘Wow, you’re really clean.’” At the Star Inc. plant, one can visit their R&D office and find a modern laboratory equipped with high-tech tools.

The point is not only that these factories can be considered exceptional in terms of their cleanliness—these two factories produce plain film or packaging materials for a lot of food companies, so it follows that hygiene is an important factor—but also that top management claims that their companies excel in technology and

R&D. In fact, both Java Film and Star Inc. see themselves as players in the niche market of their respective industries, a specialty that focuses on “high-end,” “high-margin” products. In the case of Java Film, this means that, with very few exceptions—in cases where they produce low-end products “just to keep the relationship going with certain customers”—they do not produce what they call “commodity products” like plastic bags. They only produce specialized products, like plain plastic film that serves as material for cigarette packages or food products (such as snacks or tea boxes), or laminating material for magazine covers or smartphone boxes. These products are considered high-end for at least two reasons, according to the Java Film executives: either (1) their specifications cannot be easily produced by just any plastic company, or (2) even though the specifications are not that special, the products are designed specifically to fit well with their customers’ machines. For Star Inc., “high-end” (or “middle-high”) products are related to the complexities of the product materials; for example, packaging that is made from aluminum foil, a material that is apparently difficult to handle.

For both companies, focusing their production on such high-end products is above all a strategy to survive the competition within their respective industries, thus reducing the scope of their competition. Java Film executives often expressed their inability to compete with Chinese and Indian plastic manufacturers due to their scale. As one of them said, “A lot of the big Indian and Chinese manufacturers that are our competitors, they have a lot of lines, like 15, 16 machines, big ones. But they sell very basic film, like plastic bags. . . . We don’t compete on that. We try to have our own niche market. So niche market means . . . price is stable, doesn’t fluctuate much. That’s the kind of market we want.” The case is similar for Star Inc., which “prefers” to compete with a few of the established converting companies that also produce middle-high products instead of competing with a bunch of other companies, big and small, that still produce low-end products such as candy wrappers. With this, Star Inc. does not have to worry about the

emergence of many new, smaller converting plants, since they do not consider them as threatening competitors.

When I talked to the executives in both companies, “innovation” seemed to be the buzzword. Because they played in the niche market, they told me, innovation and research became their focus. Some executives would say that “innovation is key,” and their emphasis on product diversification, where they produce various specialty film (for Java Film) or packaging materials (for Star Inc.), follows from this idea. Again, with the aim of reducing competition, a Java Film executive argued that they had to “make use of the technology and product development techniques” they had at the time so that they did not have to face competition from the big plastic manufacturers with giant plants. This notion was also entertained at Star Inc. One executive expressed this in terms of being a leader in the converting industry: “We used to be a follower, but now we want to be a leader. That’s why we must look for new innovations—new technology, the latest innovations, and top-of-the-line machinery.” Some seemed more optimistic than others about this issue, but there was a consensus among the executives at the two companies that they were at least “forced” to be more “technology-minded” than other, similar companies because they were playing in the niche market.

On the surface, this situation seems to correspond with the “thriving of small firms” idea that Bennett Harrison rejects: smaller-size firms like Java Film and Star Inc. could excel because they focus on the niche market centered on technological development.⁵ But once we dig deeper, things are not as they seem. As I elaborated further on the issue of technology and R&D, it became clear that the executives were aware that they had limited autonomy and control in technology, among other problems. There are, of course, some kinds of “innovative” application of technology in both companies. At Star Inc., for example, they try to apply the most efficient printing techniques, which in general create better results for their products. But the technology comes from more developed companies in the industries, often from core capitalist

countries, and then learned and adopted by Star Inc. technicians. At Java Film, they try to excel, for example, in their choosing of perfect materials, including the use of better additives (materials that are not the main raw materials such as resin) that can increase the quality of their products. They also made small innovations, such as creating materials for window envelopes that do not require adhesives.

But most of the time, for these two companies, what is considered innovation is often nothing more than meeting a customer's need, namely finding a product mix that better suits the customer. For example, a packaging product that is designated for liquid shampoo whose shelf life is five years is different than a packaging product that is designated for a food product whose shelf life is only six months. In addition, they need to think about climate. What kind of material is suitable for storing goods in a humid Indonesian climate, or suitable for the climate of the countries they ship their goods to, in the case of exports? At Star Inc., they often have to test a new material composition in order to correctly cater to the specification given by a customer. Not long before the interviews, Star Inc. had to develop a packaging for cooking oil that would pass the "drop test" of two meters. They had to find the optimal composition for this packaging, based on specifications given by the customer. For example, how many microns should be applied for the thickness? Or what is the ideal ratio of the raw materials, that is, how much nylon and how much low-density polyethylene should be used? These are common practices at Star Inc.

Sometimes, there is room for suggestions, where Java Film and Star Inc.'s R&D departments would suggest several product developments to their customers. One interesting example is the use of oxo-biodegradable materials. Java Film was able to adopt this technology from outside and then suggested it to some multinational customers that produced packaged snacks such as potato chips with packaging that was not biodegradable. The customers refused the suggestion, citing that the price was too high, as well as the lack of guarantee of safe storage practices. As told by a

Java Film executive: "Customers don't want to pay a higher price for that one. And then the storage condition. Indonesia is quite different. Direct exposure to sunlight. When you have a biodegradable film, it will deteriorate after some [exposure] to sunlight and oxygen. So it's difficult, since the supply-chain management in Indonesia is still chaotic."

Customers often do, however, ask for suggestions when it comes to cost reduction. Multinational customers are good at this. And sometimes this phenomenon is conflated with the idea of "innovation," perhaps influenced by the rhetoric of the customers themselves, in which they push their dependent suppliers to "innovate" to accommodate their need to cut costs. One common request from multinationals is for Java Film and Star Inc. to provide materials that are as thin as possible that can still work for their specifications and do not reduce their quality by much. An example was given by a member of the Star Inc. marketing team, who told me that a Europe-based multinational customer was "very eager to ask us to innovate—what kinds of cost cutting can you give us?" Every year, this customer invites Star Inc. representatives to attend their innovation seminar. "We have to come up with ideas, to contribute to the development of product specifications, either ones that are initiated by them or by us. [We have to tell the customer] oh, we have a new machine now, we can do this or that now. They suggest that we give them an update every three months."

For the executives of dependent suppliers whose companies lack control of technology, sometimes this order to innovate is translated into an opportunity to learn. What is important in their minds is that their companies have access to the know-how of multinationals and use it to their own advantage. It is common for multinational customers to ask Java Film and Star Inc. to reduce the thickness of their materials—such as by reducing the microns or the layers—in a quest for cost reduction, as illustrated in this example:

[Prospective clients from a Europe-based multinational] told us to come and meet them. They said, "We want to make this

packaging product.” Let’s say, it used to be 12 microns [in thickness], now they wanted it to be 8 microns only. And then, they asked us to share, “How much can you save? How much savings can you offer if you used such-and-such materials?” It was to the point that they called the supplier of that 8-microns material to come meet us so that Star Inc. could buy from them. If then our factory produces too much waste, they would tell us to come again. They demanded that we fix the problem. . . . But packaging like that, there’s a lot of development surrounding it. That’s why, actually, one of the benefits of having multinationals as customers is that they always create trends, they have innovations. And since we are already their preferred supplier, we will be the one who will be given the opportunity, before others, to [learn from them]. We must grab this opportunity.

This encouragement to innovate from customers like this often creates conflicts and misunderstanding within Java Film and Star Inc. management. When marketing relays such a message to the R&D team, the former expects the latter to engage in groundbreaking innovation. As expressed by another executive at Star Inc.: “This is where the marketing team misunderstands. They demand that our R&D develop a material that is, say, better than that of our competitors. That’s difficult for us. We do not have the facility to manipulate materials. What we can do is merely changing one material with another—from another supplier, I mean.” But even plastic manufacturers like Java Film have very limited abilities to innovate groundbreaking materials. They, too, just like Star Inc., are occupied by the demands given by their own customers, especially multinational ones. A Java Film executive told me, “[Multinationals] often request to us, ‘Can you make this and that?’ . . . Well, they have better technology, so what they already know, we don’t, that’s why they give us a lot of requests. For the local customers, it’s the other way around . . . we can say to them, ‘Why don’t we change it this way, isn’t it better?’”

Multinationals may well be a role model for dependent suppliers

who can only wish they could achieve such status, especially in terms of research and development. Even when people from the R&D or production departments are willing to engage in efforts to contribute to meaningful innovations, their attempts are often halted by executives from other departments, especially those who focus on the flexibility of the company, such as those from the marketing or finance departments. As a Star Inc. executive said, it is actually possible to make an effort, "but the problem is, are we willing to spend the money? Research needs funding. . . . If we look at multinationals, they always have a budget for their R&D, and it's huge." Another Star Inc. executive concludes that at least for a while his company "would still be a follower," because the technology they have, "it all came from outside!" The best thing they can do, according to another Star Inc. executive, is to copy this technology: "The knowledge is there, it's being shared. You cannot say that you can build your own without the help of the U.S. or [Europe], because basically they are everywhere now. They can develop the technology, but you can buy this technology. This is what China has been doing. They developed it, China copied it. . . . So it's up to us to grab those resources and make use of them."

Such a cheery tone, however, hides an important concern by many of the executives, a fear that they are really dependent on the dominant companies that feed them. Although not everyone shared this feeling, a certain term was well known among the executives I interviewed: *seamstress*. Conversations going on among them expressed the fear that they were merely tailoring in accordance with specifications given by their customers without having any significant agency or autonomy. The relationship between them and their multinational customers, in particular, is clearly not equal. This was expressed succinctly by a Star Inc. executive: "The way I see it, as a converting company, when we deal with multinationals, it feels that we're just a seamstress. That's what we are." In Indonesian, the word "seamstress" (*tukang jahit*) denotes a person who accepts various orders from people at his or her house or little shop. Unlike a distinguished skilled tailor,

a seamstress often accepts menial jobs such as fixing pants that are too big, sewing buttons to a shirt, etc. This is how they see themselves as companies. They must accept orders from powerful customers who dictate to them what to do in the process.

All the examples above illustrate the fate of dependent companies. As downstream suppliers of dominant companies, they do not have the capacity to engage in meaningful innovations that can allow them to catch up in the intricate web of labor-value chains. The knowledge, the know-how, is tightly controlled by dominant companies through various means, including steering the way research and development is done within dependent firms. The dream of Java Film and Star Inc. to become leaders may well remain a dream. The technology they have is mostly technology given to them by their customers—the introduction to new materials for certain product specifications; the application of certain processes in accordance with customers' needs; the manipulation of product mixes to accommodate cost-reduction imperatives of their customers; and so on. Core multinational companies—with their top-notch facilities and firsthand access to innovative technologies in their first-world headquarters—are most likely to remain at the top of the hierarchies. Their “global reach,” borrowing the term used by radical scholars Richard Barnett and Ronald Müller, enables them to also control where their technological knowledge goes and how it should be applied.⁶ As expressed by a Star Inc. executive: “Multinationals usually are ahead in terms of technology because they are worldwide in scope. What the world is doing, they would be the first at the scene to understand it, compared to [us] local companies. That's the difference. Their technology is much advanced. But that forces us to keep improving our own technology, our R&D.”

The problem is, as implied above, such efforts by dependent suppliers to improve their technological knowledge or autonomy is often aborted by the constant demands of multinational customers to do things in ways that cater to, and only to, their needs. Systemic rationalization has allowed dominant companies

to transfer their responsibilities in most aspects of production to their dependent suppliers. In terms of technology, the imperative to cut costs is given to their suppliers through various requests. But as we shall see below, technology is not the only means by which dominant companies try to sustain and enhance control in labor-value chains. Flexible production has given birth to myriad "rational mechanisms" that systematically allow dominant companies to govern these chains. These companies are not merely a seamstress in the sense of their lack of control of technology, but also in other areas.

DEMANDED FLEXIBILITY

Indonesia: Where Production Happens and the Market Is Targeted

Flexibility is one of the major characteristics in today's labor-value chains. And one form of flexibility, as Harrison points out, is functional flexibility, where dominant companies within the chains adopt new technologies and other means that allow them to engage in rapid product design or changes in the instruments of production.⁷ This "necessity" to engage in flexible production is often driven by the "fluctuating and changing" demands of the market.⁸ In the context of monopoly capitalism, such demands drive oligopolistic dominant companies, such as Europe- or U.S.-based multinationals, to compete against each other in product innovations and marketing strategies aimed at capturing increased market share.

In some cases, the targeted market is the one in which production occurs. Nike, for example, not only relocated production to China, but it also took advantage of the market potential of the most populated country in the world. As Walter LaFeber writes: "For if cheap labor provided large profit margins, 1.5 billion Chinese consumers could provide net profits beyond imagination."⁹ Indonesia, the fourth most populated country, with more than 260 million people and growing, is another case of this. Not only is its workforce targeted, but through their subsidiaries in

Indonesia, multinationals compete against each other to capture this targeted market. Expressed through the views of Java Film and Star Inc. executives based on the orders that came from customers, the market outlook seems good for the flexible packaging business. Many of my interviewees cited a high growth in packaged goods consumption in Indonesia as a reason for the booming of their current business and their optimism for the near future. One Java Film executive who holds a high position in the management hierarchy expressed this clearly. Citing information gained from a Europe-based giant multinational client with hundreds of brands around the world, he said: "I think, you know, this country [Indonesia] is booming. At a ridiculous rate. FMCG growth, [our multinational customer] told me, it's 30 percent year to year. From the past three years to the next ten years, it's crazy you know, 30 percent." The same interviewee also cited the increased capacity of their top local conglomerate customer as a positive indicator that business is doing well.

When I later interviewed management executives of Star Inc. in 2015, the market story was not quite as optimistic, with some personnel citing a slowdown in demand in the Indonesian market in the last six months. According to them, it was a strange anomaly, and it had happened across industries, including automobile, textile, and FMCG industries—a pattern that affected their customers as well.¹⁰ One executive argued that it was largely influenced by the devaluation of the Indonesian rupiah. What they did not cite was that Indonesia's economic growth as a whole, as documented in an OECD report that year, had in fact "moderated in recent years, reflecting weaker international demand and slow investment growth."¹¹ Most important, average wage growth "has been slow," as an Asian Development Bank review showed in 2016, "rising at less than 2 percent a year in real terms over the last five years."¹² Not to mention the annual per capita income of merely US\$9,300 in purchasing power parity terms, and a rising Gini coefficient (a measure of inequality, of income, for example) in the last decade.¹³

But this bad news on the macro level did not seem to significantly

affect Star Inc. The factors that influence it may vary, including a big strike that occurred at their main competitor's plant, forcing those customers to go to Star Inc. instead. Or, as one executive who knows the company's financial situation well stated, Star Inc. is "not widely affected" by slowdowns because of their customers' profiles: "Our top twenty customers are at the top in their business. These customers, most of their products are the top brands in Indonesia." Although it is not clear if the same characteristics can be applied to Java Film, the fact that some of the company's major customers are cigarette companies—local and multinational companies that cater to both local and foreign markets, including one of the biggest players in the industry, a leading U.S.-based cigarette company, which in the last decade or so has acquired one of the major Indonesian cigarette companies—means that a small slowdown in growth in other products can be offset by relatively stable demand for cigarettes, according to one Java Film executive who constantly monitors the Purchasing Managers Index.

This faith in the promising pattern of FMCG growth rate was also cited as the reason for the two companies' expansion. During my interviews, while Java Film was adding a production line in their factory, Star Inc. was building an additional factory complex. As expressed by another Java Film executive: "Why do we expand? Because there are needs to do so. Of course, before the expansion, our marketing team researched it. They saw that the converting industry, the packaged food industry—their growth has never slowed down. Just look at [a top local customer], we can monitor them. Every time they added their machines, we knew. [These big customers] alone have taken a lot of our [production] capacity. . . . If their capacity increased, of course we need to increase ours as well."

Java Film is not the only firm within the commodity chain that studies its market. What is more interesting is how the dominant companies at the end of the chains, such as multinationals, study targeted markets like Indonesia. Companies that sell daily care products such as soap or shampoo, for example, or that sell food such as coffee or snacks, adjust the size and packaging of their

products in accordance to market preferences. This knowledge seems to be well known across management teams at Star Inc. They told me that a large segment of Indonesian consumers show a pattern of “unique” behaviors. One particular characteristic is that their lower purchasing power leads to buying in small quantities. As a Star Inc. executive puts it:

Indonesia is still relatively poor. So, in the advanced countries, it is probably difficult to find shampoo packaged in small sachet bags. You cannot buy one sachet of shampoo, or a sachet of seasoning for cooking. They prefer buying in bottles, which are actually cheaper [considering what you get for the price]. I can use the whole bottle of shampoo for a month. But here, buying in bottles is often considered too expensive. So they buy only one sachet. It is actually in the end more expensive, but since they have limited amount of money to spend, they can only buy it that way. Who is benefitting from this behavior? Well, indirectly, packaging suppliers like us.

Whether or not the success of these kinds of small packaging in Indonesia is indeed caused by the socioeconomic status of Indonesian consumers, the above quote implies that this kind of flexibility in product design was sought after by dominant companies because selling products in small packages is deemed more profitable (at the expense of customers). So, at the end of the day, such buying behaviors are indeed beneficial for suppliers like Star Inc., which experience an increase in orders from dominant companies that compete to capture a market with such distinctive characteristics. As a result, not only do dominant companies produce hundreds of brands but varieties within the same brand. In Indonesia, you can have many types of SKU (Stock Keeping Unit) of, say, a particular anti-dandruff shampoo brand. The bottles will be mostly sold in the grocery stores, but the sachets will be sold in *warung*, tiny stores in the neighborhoods that sell everything from salt and sugar to daily care products.

The question is how this “good for business” strategy is actually implemented in labor-value chains, and what the consequences are for companies like Star Inc. to be the executor of such production processes. Systemic rationalization enables dominant companies to shift the dynamic demands of the markets “in a flexible manner and within increasingly tighter schedules to the dependent companies and segments of the production chain.”¹⁴ In other words, the responsibility to engage in such flexible processes is transferred to the suppliers, namely the dependent companies in the Global South, like Java Film or Star Inc.¹⁵ As we will see later in this chapter, not only does such rationalization affect the organization of work within dependent firms—including problems created by a “flexible approach” in production processes—but it also affects the labor process that is embedded in this organization of work.

*“We Offer Higher Flexibility”: What Dependent Suppliers
Must Do to Survive*

One of the main selling points of Java Film is that they always aim to provide quality products and excellent service to meet customers’ needs. They call this “market oriented.” The idea of being “market oriented” has aspects of flexible production, including the company’s willingness to engage in “flexible approaches” in dealing with customers’ demands. At Star Inc. flexibility is even more pronounced. It is indeed one of their main selling points. All of the Star Inc. executives I interviewed were fully rehearsed in this understanding, and the idea of flexibility seemed to govern their organization of work as a whole.

Flexibility can mean several things for these companies, but some of its common aspects include the ability to deliver on demands and to anticipate a certain amount of increase or decrease in shipping, as well as a willingness to accept rush orders. A Star Inc. executive who often deals directly with customers told me: “For example, the regular lead time is 30 days. So, after we receive our purchasing order, say, today, we will deliver the goods 30 days

from now. But for certain cases, we can help make it faster, less than 30 days.” This often means that the production team needs to halt whatever projects they are doing and change the settings on some of their machines to accommodate the new order. After this rush order is done, they need to go back and continue the disrupted process. (All of these aspects will be discussed in the next subsection.)

What needs to be noted here is that flexibility seems to be a strategy undertaken by Java Film and Star Inc. to survive amid competition from other converting companies in Indonesia and those located in neighboring countries. Sometimes the competition is about who can offer lower prices, especially from other countries, but companies like Star Inc. seem to worry more about competing with strong competitors on the national level, because these domestic competitors target the same big customers. Especially with their claimed focus on playing within the niche market by producing high-end products, Star Inc. worries more about the competitors in the same league that can offer good-quality products. One of them is an established multinational in the converting industry, Sun Printing (a pseudonym). Once a role model to follow, Sun Printing has now become more of a rival of almost equal quality, according to Star Inc. executives. In the converting industry, it is a common practice that flexible packaging companies like Star Inc. do not serve as single suppliers to their customers. Customers prefer having multiple suppliers, in particular for safety reasons, in case one of their suppliers cannot deliver a shipment on time. But competition among dependent suppliers is still present and alive, especially in terms of being able to take the lion's share of customers' orders.

Sun Printing is well known for its exceptional quality, but they are also infamous among their customers, according to the Star Inc. executives, for their rigidity. Due to their established system of production, Sun Printing requires all customers to follow their rules. For example, there is no exception to the delivery time; everything has to be done in accordance to their Standard Operating

Procedure (SOP). The Star Inc. executives I interviewed seemed to agree on one thing: Sun Printing could survive with such a rigid system because they are a big multinational that already has bargaining power and a strong base of customers, many of whom are from the same country in which this company is based. Star Inc. would not be able to experience the same fate, according to its executives, even when the quality of their products are up to par with that of Sun Printing. Star Inc. has no choice other than to offer flexibility. As voiced by one executive: "[Flexibility] cannot be eliminated. I don't think so. If we want to grow big, considering the scale that we're in now, we do need to sell flexibility. That's a challenge." Another executive emphasized the competition aspect: "We are trying to be a 'strategic supplier,' one who can be relied on by our customers. Flexibility leads us to opportunities, so that what can't be gained by our competitors can be our gain.... Whatever our competitors cannot supply due to unreasonable time constraints, we must be able to take over."

Similar reasons were given by the executives at Java Film. One of their biggest national competitors, Techno Plastic (a pseudonym), is not as flexible as they are. If customers ask for a rush delivery, or faster than what was originally agreed upon, Java Film is willing to accommodate it. "We are market-oriented," said one of the executives. "We are flexible in meeting our customers' needs. Meaning, if they want us to deliver the product faster, we can do that, as long as they inform us in advance. Techno Plastic, not so much. Because to accommodate such changes, the machine settings need to be reset, and they're not willing to do that. At Java Film, we can manage such a thing. That's why we're great. Or so I heard."

This strategy to open opportunities, however, is not applicable to every single customer. I later learned that the more "high-class" the customer is, the more flexible these companies can be. There is a consensus among executives, both at Java Film and at Star Inc., that "high-class" customers consist of basically two groups: (1) big local conglomerates who are leaders in their markets, and (2) multinational companies. Each group has its own benefits for

these companies—the former may be higher in numbers than the latter, but multinationals give orders in big volumes. In addition, the owners of some companies that belong to the first group are friends with the owners of Java Film and Star Inc., and that automatically gives them some privileges. But in one way or another, these two groups are considered high-class because they offer these factors: high profit margins and stable volumes.

What is interesting is that, even though both kinds of customers are considered high-class, the way business is done with the privileged local customers is not the same as with the multinationals. This is where the characteristics of labor-value chains can be seen clearly. While giant local customers may have more leeway, say, in getting a rush order done due to their owners' personal connection to the bosses at Java Film or Star Inc., or solely because they have established a good relationship with the company due to their stable flows of repeat orders, the way multinationals exert control and push for flexibility are done through systemic rationalization. In this context, the power relations are clearly unequal—the processes involved in systemic rationalization are reflected through the ability of multinationals to exert control over their dependent suppliers. And hardly any executives expressed eagerness in dealing with multinationals. On the contrary, many of the interviewees expressed their preference to deal with local customers instead of multinationals. The question is, then, what is the most irresistible benefit of having multinationals as customers? That is, other than big volumes, which some executives cited as one of the main reasons why multinationals are considered desirable customers.

One answer is, of course, that the more high-class customers you get, the better. But behind this obvious reason is another, more subtle, factor: multinationals, according to these executives, are an important source of some kind of a "guarantee seal." Once you can gain the trust of a (giant) multinational company with worldwide operations and engage in business with them, you will gain a name in the industry. A Java Film executive called this "brand equity." "Let's say I supply to this customer A, which is a well-known

[multinational]. We can take that as brand equity. Then we can use it as a referral: we have supplied to customer A.” Another Java Film executive gave a specific example about how difficult it was to win the heart of a leading U.S.-based cigarette multinational company in an effort to be their supplier, an effort that was worth it in the end since the multinational had since become their regular customer: “It was not easy to get them. Tests, trials, all of that, almost two years. But once we got in, [we’re set], because they do not easily change their supplier. . . . I heard from people at the marketing department that if our film is bad, [their production] would automatically be [disrupted]. I heard that [their machines] could wrap 600 packs of cigarettes in one minute. It means 10 packs in one second. Can you imagine the speed? If our film is bad, I’m sure all those cigarettes would become waste.” The point here is that the cigarette multinational company would not risk changing their supplier if they were not sure about the quality of the film, along with its technical compatibility with their machines.

These executives took the benefit of having multinational customers seriously, believing that they had helped boost their companies’ business, especially in eliminating competitors and gaining stability in incoming orders. This view was expressed clearly by a Star Inc. executive, who also stated that the top twenty customers of Star Inc. are “probably the market leaders in their field”:

So, like last month, when we had a meeting with our creditors, I asked, “How are our competitors doing, and how do you compare us with our competitors, considering the economy slowdowns and the depreciation of the USD?” And they said, “You are different. We cannot compare you with your competitors.” I asked, “Why?” “It’s because of your customers’ profiles.” So, if you see [Europe-based giant multinationals], even though we have a slowdown, they continue doing their expansion. They have a budget of more than 8 trillion rupiah [approximately US\$600 million] for 2010–15, and they haven’t stopped doing

this expansion. They have several factories in different areas in Indonesia, and [this multinational] is the number one customer of Star Inc.

This prestige, however, comes with a high price, payment of which can be seen through various demands that Java Film and Star Inc. must meet in order to please their big multinational customers. Some executives claiming, “to be honest,” they would otherwise prefer local customers because often their price is actually better. This is partly influenced by a form of bureaucratic control exercised in systemic rationalization processes called open-cost systems. It is common for multinationals to demand that their potential suppliers reveal their cost structure, often as a requirement for participating in a bid for orders. This enables multinationals to have access to the detailed structure of their potential suppliers’ costs (including material costs, labor costs, compression costs, and expected profit). Sometimes advertised as a practice that can reinforce a clean and transparent business, this system allows multinationals to evaluate the costs according to their own price benchmark and control their suppliers’ costs to reduce their own.¹⁶

It is also not uncommon for multinationals to apply an international benchmark for the price, as stated by one Java Film executive: “Mostly a multinational would squeeze your price until the end. Because they have the bargaining power, you know. They have [the information on] global purchasing and procurement, so they know which areas give them the best [price]. With that, they then know how to apply a benchmark. . . . So they will use the [lower] Indian price as a benchmark to get the [higher] Indonesian quality, for instance, or Chinese price to get our service.” This can create challenges for the two companies, especially when they are pitted against competitors from the neighboring countries that can offer a much lower price. Even competition within the niche market itself can still be alarming at times. For Java Film, Thai plastic manufacturers are tough competitors,

while for Star Inc., it is the Malaysian companies: "Many of my customers import from Malaysia. And their price is indeed good. I don't know how they do it, to be honest. Their price doesn't even cover our total cost!"

Even the suppliers' profit margins are controlled. As a Star Inc. executive reveals, "So [these multinationals] just say, 'OK, your overhead costs should be this much, X percent. And this X percent should already contain your profit.' Yes, they can even go that far!... We can't fool them, saying, oh this material, for example, costs 20 cents, while it's actually 10. They would tell us to change our cost structure. How do they know? They compare it to the other suppliers' costs. That's how cunning they are!" As another Star Inc. executive puts it, "If they only gave you a 20 percent margin, well, that's how much you get: 20 percent." If multinationals feel like some costs, say, raw material costs, in the list are too high, they will, in the words of yet another Star Inc. executive, "help their suppliers improve" by suggesting "how to reduce our material costs." This may include technical suggestions about how to reduce waste, or suggestions about where to buy the materials, a suggestion that is often difficult to follow because Star Inc. already has regular suppliers.

There are also times when the kind of control exerted by multinationals is reduced to its simplest form. Highlighting the unequal bargaining power between them, a Star Inc. executive who deals a lot with customers explains how local subsidiaries of big multinationals often offer business opportunities accompanied by threats:

They always threaten us, "Can you help us or not? If you can't [fulfill these demands], we'll go to someone else. And once we've done it, don't you dare beg us for orders!" I've been treated that way by them. Another time, they told me to come and challenged me, "You want this order? Two weeks completion—can you do that?" I said, "We can't, Ma'am." She was furious, saying, "I gave you the opportunity and you refused!" . . . Well, that's multinational for ya. If you take their offer, that's it, you have

to serve them till death, and sacrifice your other customers. . . .
All their demands, we have to meet them. They act as if they're kings!

Precisely because multinationals are aware of the prestige gained by their suppliers when working with them, they play the game well. They know that many will “line up” to get orders from them. On the contrary, suppliers like Java Film and Star Inc. have to abide by an unwritten rule that they cannot work with oligopolistic multinationals that are the competitors of their (also) oligopolistic multinational customers. One of Star Inc. customers is one such multinational. During my visit, this customer's toughest competitor, another multinational that was also a market leader, started to “knock on their door” for a business deal. But Star Inc. was hesitant to accept the offer, claiming that they “had to be careful” about it, since they feared the wrath of their current customer, whose share in their production output was too big to risk.

When I asked a Java Film executive who also expressed her concern about the pressure to succumb to their multinational customers' demands why their company continued to succumb, she responded with a laugh, followed by a short answer: “Because the big fish always eats the small ones.” On many occasions, this feast is hidden behind a series of demands and rationalization processes that dependent suppliers like Star Inc. comply with in order to survive the competition on the “small fish” level. The following further elaborates on these control mechanisms within labor-value chains.

Just-in-Time Delivery and Other Problems

In chapter 3, I addressed several means by which dominant firms control the dependent ones, including their suppliers, made possible by development in information technologies. Among them are delivery on demand systems, which is often referred to as the JIT (just-in-time) delivery system. Systemic rationalization processes

also enable dominant companies to demand other aspects of flexible production, especially in terms of functional flexibility, including increased speed in the completion of purchase orders, an ability to accommodate rapid changes in product designs and varieties, and other aspects.

Although both local and multinational customers can demand these things from Java Film and Star Inc., examples given by their executives when it comes to this subject revolve around their multinational customers. Given their emphasis on the importance of multinationals for their business and their prestige, it is possible that they are more willing to accept such demands from their multinational customers. But the more probable reason is that, unlike the more traditional relationship between these companies with their local customers, their relationships with multinational customers are more regulated through systemic rationalization, where practices like JIT delivery are integral to their business processes. Sometimes this understanding is expressed in simpler terms, where many executives see multinationals as “very demanding” customers, if compared to their local counterparts. And the demand for flexible delivery takes a large share of their concern.

Delivery on demand systems are one of the core practices in lean production, and it is often associated with the Japanese management mantra, *kaizen*, which can roughly be translated as “continuous improvement.” The JIT system was originally developed by the Toyota Motor Company, and thus is often referred to as the Toyota Production System. According to Japanese management guru Masaaki Imai—who popularized the term *kaizen* in management and wrote two books on the subject, *Kaizen* and *Gemba Kaizen*, as well as founding the Kaizen Institute—JIT is “a system designed to achieve the best possible quality, cost, and delivery of products and services by eliminating all kinds of *muda* [waste; non-value-adding activities] in a company’s internal processes and deliver products just-in-time to meet customers’ requirements.” Further, Imai states, JIT aims to achieve a “lean production system flexible enough to accommodate fluctuations

in customer needs. . . . JIT dramatically reduces cost, delivers the product in time, and greatly enhances company profits.”¹⁷

Putting it another way, JIT is how dominant companies put pressure on and transfer responsibility to dependent companies through a series of delivery demands. As the online Investopedia blatantly states, it is an inventory strategy that “companies employ to increase efficiency and decrease waste by receiving goods only as they are needed in the production process, thereby reducing inventory costs. This method requires producers to forecast demand accurately.” This often means that dependent suppliers must deal with inventory problems, often resulting from missed forecasts, which their multinational customers try to avoid by implementing the JIT system. From the viewpoint of systemic rationalization theories, systems such as JIT “impact the working situations in upstream and downstream companies. In these areas hectic everyday manufacturing operations offer neither scope nor capacity to deal with such additional demands. In many instances this results in a considerable intensification of work and a concurrent extension of working hours.”¹⁸

Forecasts are tricky to begin with, especially when dealing with FMCG (which, true to its name, involves “fast-moving” goods) and unpredictable markets like Indonesia. A Java Film executive addressed this specific issue as one of the most difficult challenges in his company: “The biggest challenge [in] Indonesia, for me, is forecasting. We manufacture plastic. So I sell a lot of food packaging, liquid shampoo packaging. The tough part is getting forecasts. A lot of goods are sold on the street, on bicycles. Unlike in the United States, you can’t actually ask your distributors to give you accurate figures of sales and so on. So we deal with fluctuations . . . meaning that today this customer can have no order, tomorrow ten tons, and the next day a hundred tons.”

But the problems created by the JIT delivery system are not always created by missed forecasts. Sometimes, delivery on demand is done solely to help dominant companies save inventory costs. Another Java Film executive explained that they had

to accommodate customers' demand of flexible delivery because many companies had already adopted this system to "save as much inventory cost as possible." He continued: "So, some customers would say, 'OK, I'll order 200 tons from you, but I need you to ship it to me every other day.' We try to meet such needs."

The request is not always that simple, however, and Star Inc. knows this very well. Often the JIT system is set to transfer responsibilities of dealing with the consequence of missed forecasts to dependent companies. The issues include how the management of Star Inc. has to deal with the "buffering" problem. Due to the delivery on demand procedure, suppliers like Star Inc. must implement a buffering policy, which means it is imperative that they get their finished goods ready and store them in their warehouses, to be sent only when their customers need them. Not only do these goods have to be shipped whenever the customers demand them, but the supplier also must be ready to accommodate any sudden increase or decrease in product demands missed in the customer's initial forecast. At Star Inc., they created a policy to accommodate up to 20 percent increase or decrease of their top customers' needs. As told by a Star Inc. executive who was involved in production planning:

OK, for example, we have these two big [Europe-based] multinational customers. One of them put in a big order for the packaging of this seasoning brand [let's call it B]. When I first joined the company, there were pressing issues—they said that the customer was screaming at us so many times, and that we were struggling with the time requirements needed to send B. Once, the customer made a mistake in their planning and finally came to us for help, and we helped them by shipping the goods on a Sunday! I was told that they at least appreciated it. Our marketing team always reminds us that "we have agreed that we need to buffer up to 20 percent." But the order for B is humongous. The amount needed to supply B in a month is almost equivalent to one warehouse. On the one hand, [it's a problem to

anticipate a 20 percent increase] by storing all of the goods there. It's impossible. But on the other hand, we also must be ready to anticipate a decrease by 20 percent out of what they promised us to take in the following month. It's like that.

Storing the finished goods is not the only problem created by the JIT procedure. Flexibility in delivery and the responsibility to anticipate missed forecasts also affect the other end of production: planning for the purchase and storing of raw materials. As a Star Inc. executive who deals with suppliers for their materials explains, the readjustments of delivery have a significant impact on the situation at the purchasing end:

Forecasts can also miss. Even after the purchasing order was finalized. For example, a customer had a three-month purchasing order, 10,000 [rolls] in September, 20,000 in October, 30,000 in November. The planning department has calculated, right? And we have received that calculation. But in the process, the customer can say, "Oh, our warehouse is full for September," and they only want to receive 8,000. It means that we have a surplus of 2,000 rolls. The planning department will forward this info to [the purchasing department]. And we need to readjust. Or say in September the customer asks us to deliver 15,000 instead of 10,000. We need to readjust as well. That's how we work. But sometimes the materials we purchase are already on their way. If they are imported, we cannot cancel. . . . Or [for domestic suppliers], even after we tried to be adamant about postponing the shipping, they are not willing to do it. Like it or not, our storage will have to accommodate them.

This issue also shows that companies like Star Inc. not only deal with their customers, but also with their suppliers. But unlike multinationals who can exert pressure on and make unreasonable demands of *their* suppliers, dependent companies cannot do the same thing to the upstream companies that supply their materials.

To an extent, Star Inc.'s notable growth has gained them some status in front of their material suppliers, but it is not comparable to that of multinationals who are their customers. Constrained by various factors such as limited availability of certain materials and the domestic monopoly of certain industries that produce the needed materials, Star Inc. is quite powerless. Moreover, unlike the multinational customers who can demand flexibility from Star Inc., the U.S.-based multinationals that become Star Inc.'s suppliers are often inflexible in their business. Perhaps, according to the same executive quoted above, "because their bureaucracy is already so structured and organized." If there are options available, Star Inc. prefers to buy their imported materials from other companies, like South Korean suppliers. But more often than not, there are no other options.

In general, both Java Film and Star Inc. executives, especially those who deal directly with production and planning, prefer more limited forms of flexibility, precisely because they create problems, and are often at odds with the production goals of increased productivity and efficiency, including the decrease in waste.¹⁹ In a 1992 article about systemic rationalization, Dieter Sauer and his colleagues argue, "The 'new type of rationalization' pursues contradictory goals: the increase of flexibility in company administration and manufacturing processes in order to better fulfill constantly changing market requirements with respect to quality and quantity, and the achievement of a more cost-effective production system under conditions of fiercer competition."²⁰ In a sense, then, flexible production provides contradictory processes for these two companies. On the one hand, they have to offer flexibility to meet the "needs" of their customers and to get ahead of their competitors, which will result in greater profit. On the other hand, the imperative of capital accumulation forces them as firms to increase productivity and efficiency through cost-reduction strategies and other means. Flexible production, however, often results in inefficient and wasteful production. Let us examine this contradiction first.

Both Java Film and Star Inc. have limited capacities in their production, and they have to work with this limitation to accommodate a variety of products ordered by their customers. When they offer flexibility to their customers, these varieties become more complex and create challenges for production. People from the production and planning department would say that they prefer “long-run” orders, for which they can run one article in their machines for a long time, without interruption, until the order is finished. This requires only one-time preparation, where they set the machines, and so on, at the beginning of each process. This kind of production process would enable production teams to easily ensure higher efficiencies and the reduction of waste. But such an ideal process is difficult to achieve. Due to the functional flexibility demanded by their customers, they often must interrupt production processes to fulfill rush orders due to fluctuating market demands that their customers aim to meet.

One of the simplest examples of this problem was explained by a Java Film executive, who claimed that long-run orders are hard to come by because many customers demand just-in-time delivery. When a customer demands Java Film to ship products only twice a week, they have to divide the production several times into smaller orders, even though the product was ordered in a large quantity. Otherwise, they would not be able to use the machines for other orders from other customers. This creates problems because it requires the production department to engage in multiple programming changes for their machines, among others, which is bad for efficiency and risks the increase of waste. Sometimes the Java Film sales department can sell the wasted film for a cheaper price to other companies, but that alone does not serve as a sufficient remedy for the waste issue.

Another example was provided by a Star Inc. executive. Multinationals, according to my interviewees, often engage in a product variation strategy in an effort to capture the dynamic (both domestic and export) market demands and defeat their competitors (other big multinationals). This is where they create several

types (or SKUs) of packages for a certain product. Sometimes the SKUs are in the form of different designs. For example, a juice drink brand marketed for kids has a few variations of packaging with cartoon characters: Spiderman, Elsa from the Disney movie *Frozen*, Belle from *Beauty and the Beast*, etc. But more often, the product is also packed in different sizes, each with its own design variations. Let us go back to product B, a seasoning brand owned by a European multinational that is one of the main packaging customers of Star Inc. This seasoning brand has multiple SKUs, each with a different volume: 7 grams, 20 grams, and so on. The 7 grams one is packaged as a simple sachet, where you can throw it away once it is used, while the 20 grams one is packaged in a standing pouch and designed for multiple uses. Star Inc. then has to apply a different product design for each SKU, and each SKU has to be manufactured separately.

This practice illustrates what Paul Baran and Paul Sweezy call the “interpenetration of the sales effort and production process.” They note that sales efforts such as product variations no longer serve as a mere addition to production under monopoly capitalism; instead, these sales efforts now reach back into the process of production. They “increasingly invade factory and shop, dictating what is to be produced according to criteria laid down by the sales department and its consultants and advisers in the advertising industries.” This interpenetration has made the two processes (sales efforts and production) so indistinguishable that it causes a “profound change in what constitutes socially necessary cost of production as well as in the nature of the social product itself.”²¹ For the supplier who actually makes the products, the product variations strategy requires a high degree of flexibility.

Multinational customers that deploy such a strategy can demand flexible production depending on what is highly demanded in the market. So, rather than sticking with what was agreed in the SOP and expressed in their purchase order, this customer can change the order in the middle of production. If the customer sees that the Spiderman packaging sells more dearly one month, they would ask

Star Inc. to send only the Spiderman the following month, regardless of what the original order was. Or, in the case of brand B, as explained by the executive, “If all of a sudden, say, because of certain promotional periods, this customer would suddenly change plans: ‘This week I need you to send me the 20 grams one instead of the 7 grams one.’ If you’re a rigid supplier, you would definitely say no, because it would disrupt the whole production process. . . . They have to reprint stuff, everything. Most converting companies would refuse to do this, because it would create inefficiencies and plenty of waste.”

Though this executive claimed that Star Inc. started to try limiting these kinds of orders, they still could not get away from it. And this got on their collective nerves, as management had to face conflicts every time. Weekly meetings become inter-departmental “battlegrounds,” where different teams would argue back and forth about which orders needed to be prioritized, and which orders could be postponed, and how much disruption could be tolerated on the shop floor. While the marketing department would push for flexibility to get more orders from their top customers, those in production and other departments would try to resist this trend because their efficiencies would suffer. At the same time, both flexibility and efficiencies are demanded by the company’s owners. The same executive quoted above expressed this concern: “We have yet to formulate good management policies on how to do this. . . . Now, everything seems vague. Production teams would say, ‘We’ve told you that we are pressured to reduce the variant waste by such-and-such amount!’ But the other party [marketing teams] faces pressures to increase [sales]. So what would you do?” From what I gathered from my interviews, the winner seemed to be flexibility. As a member of the production team told me, “We sometimes have to make sacrifices, meaning, we allow the waste to be high, because we have to cut the ongoing production of a certain product in order to fit in a different product.”

The important question now becomes: who bears the burden of such a contradiction in systemic rationalization processes? Surely

the executives I interviewed had to deal with the customers and all the chaotic consequences of their demands for flexibility, but in the end, the ones who deal directly with production are the direct producers of the commodities these companies make: workers. In the next section, I will examine how the mechanisms described above influence the organization of work that creates control over the labor process.

MANAGEMENT AND CONTROL OVER THE LABOR PROCESS

Even though Java Film and Star Inc. do not fit the stereotypical image of factories in the Global South, the issues of labor and the labor process are still central to their production. Out of approximately 800 employees of Java Film and 1,500 of Star Inc., a majority of them work on the shop floors. Certain segments of production are more labor-intensive than others, with the majority of shop-floor workers placed in the finishing area at Java Film and in the bag-making area at Star Inc. And although the rest of the segments are mainly computerized (automatic), labor still plays an important role. In both plants, the responsibility for monitoring machines, checking defects, and other related processes is held by workers. Sometimes these tasks are done manually. As an example, when I observed the Java Film plant, I saw that a worker had to stand still next to a running machine to make sure that the product did not have any stains or other defects in it. This worker had to immediately notify others if he saw any defects.

Even though the executives of both companies would prefer to see their companies as “high-tech” oriented, or even refer to them as “capital-intensive,” they could not dismiss the fact that labor and the labor process were issues that kept showing up again and again. This was especially prominent among the executives in the human resource and production departments, because they were the ones who managed labor on a daily basis. And when it came to the discussion of wages and unions, our conversations sometimes became heated. When I visited Java Film in 2012, they were in the

middle of bargaining with the labor unions with minimum wage the main issue on the table. The provincial government had just issued an increase in the minimum wage, but vagueness related to categories of wages based on types of industry, along with other factors in relation to this increase, led to a series of tough bargaining sessions. In addition, there had been many protests in the industrial complex where they were located. At a Japanese automobile factory, production was disrupted for about a week due to a labor strike. The combination of protest threats by their own workers and a suspected “infiltration” by a militant labor union at their own plant made the management nervous. Although they did not expose these sensitive issues in the management meetings I attended, during those meetings, the issue of productivity and efficiency was discussed a lot, partly in an effort to offset the inevitable rising labor costs.

When I visited Star Inc. in 2015, their main competitor, Sun Printing, experienced a major strike at their plant, a strike that led them to terminate employment of more than a thousand workers and caused their production to halt. Star Inc. was afraid that the same thing would happen to them, for good reasons. The main factor that caused the strike was a regulation on overtime imposed by a standardized rule applied by Sun Printing’s multinational customers, some of which were also customers of Star Inc. Although this rule already had been issued by the Indonesian government in 2003 through federal labor laws, only then did it become a major problem, since the biggest multinationals, through a third-party evaluation system called URSA (Understanding the Responsible Sourcing Audit), required their suppliers to comply with the overtime rule.²² If not, suppliers would not pass the audit and the business between them and their multinational customers would be terminated. The rule states that workers can only work overtime for a maximum of three hours a day, fourteen hours a week. Sun Printing workers were not happy about it. Workers with low wages often had to depend on other factors such as earnings from overtime work, so the possibility of losing these extra earnings

was a serious concern. Before the rule was imposed, the way work was organized at plants such as Sun Printing and Star Inc. often depended on their workers' overtime labor, especially when rush orders were involved.

There might be more to the cause of the strike, but that alone forced Star Inc. management to reorganize their incentive system in a way that would compensate the loss from the new overtime rule. Workers would still get the same amount of earnings through the new incentive system without having to work overtime, but they would be forced to work more efficiently and productively. At a glance, this case seems like a common strategy by the company's management to fix things and avoid further problems, but if we look closely, what happened here is an example of how management organizes work to extract surplus value from their workers, driven by systemic rationalization processes imposed by their multinational customers.

One characteristic of systemic rationalization is the use of evaluation criteria that dominant companies impose on their dependent suppliers.²³ In global commodity chains, such certifications bear many names, each with its own claimed measurements aimed at evaluating suppliers' compliance with rules regarding safe working conditions, hygienic environments (especially for food-related industries), wages and overtime, whistleblower protections, etc. Among them are URSA (as mentioned above), the many versions of International Organization for Standardization (ISO 9001, ISO 14001, ISO 18001, ISO FSSC 22000), and Sedex. Both Java Film and Star Inc. had to undergo several of these audits in their attempt to get big multinational customers. The audits were done by a third party that would then issue the certificates and report it to their prospective customers, or publish the reports that could be accessed by prospective customers. While certifications like this certainly affect workers positively in some areas, the reason behind such certifications is not always workers' well-being. One can argue that this is a form of bureaucratic control where the labor process is subject to the firm's law rather than

direct supervisor's control, as Richard Edwards proposed.²⁴ In this case, however, the scope is global, where the firm's law itself is affected by international regulations that become an integral part of production networks led by multinationals.

First, as a part of the outsourcing process, transferring production to dependent suppliers in the Global South does not merely gain multinationals lower unit labor costs, but it also serves as a means to transfer responsibilities for and criticisms of possible labor violations to such suppliers.²⁵ Through the application of these international certifications, multinationals can have their ammunition ready: since audits have been done by the third party, the suppliers are supposed to comply with the rules. Thus, if there are violations, the responsibility is on the suppliers, not on them. Second, for the suppliers themselves, the well-being of workers is not the main reason why they bother to get these certifications, the process for which, according to my interviewees, is really complicated and takes a lot of their time. Without these certifications, however, these suppliers would not be able to do business with the big multinational corporations. As Harry Braverman writes, "the humanization of work" has never been the focus of management "habituated to carrying the labor processes in a setting of social antagonism and . . . has never known it to be otherwise"—instead, it is always about costs and controls.²⁶

Third, as systemic rationalization theories show, such evaluation criteria imposed by dominant companies are one of the strategies aimed at increasing the overall productivity of the entire production chain. It is a means for dominant companies to force their dependent suppliers to reevaluate and, if necessary, change their organization of work in ways that are deemed more productive and efficient. But, as explained in the previous chapter, productivity is not the main goal; it is lower unit labor costs. Through the enforcement of more productive and efficient ways to work, multinationals aim for a reduction in production costs by their suppliers. With the open-costing system discussed above, suppliers have very little room to mark up their costs—this ability to

easily control suppliers' costs and profits means that, when suppliers' costs are lower, their selling price is lower, too.

During my interview period in 2013 at Java Film, not long after they passed an audit for yet another international certification, a big banner was displayed in front of the factory. It read: "Safe and Healthy Work Is a Mandatory Condition for an Increase in Productivity and Efficiency." This saying, although it appears as a mere slogan, actually reflects what such certifications mean for capital within labor-value chains. When an organization of work is highly structured and everybody follows the rules—say, in the name of work safety or a healthy environment—it leads to an increase in productivity and efficiency, and productive and efficient work leads to a reduction in production costs. Accidents, for example, create distractions at the shop floor. As this executive explains:

We had this one accident in 2011. Until today, that employee can't work at his previous position. We had to move him to an administrative position. That was after a year of [sick leave]. So, how productive is he in his current position? Two years, zero. His productivity is zero. . . . Until today he has back problems, and that really interferes with his productivity. Not to mention the employee who, due to his own carelessness, fell in the elevator . . . luckily it was not bad. But we lost another person. And what does that mean for HR? HR needs to ask the other employees to do overtime, or find new employees, right? Obviously, safety matters for productivity. And then health issues. Well, if we have a lot of employees who are sick, even with proper medical notes—say an employee calls in sick—either the productivity at his section [within his department] will go down, or we need to hire a replacement.

Moreover, the imposed rule about overtime, for example, is not merely a means to make sure that workers do not overwork (and, as the case of Sun Printing suggests, when overwork pay is given,

workers prefer to do overtime so that their earnings increase), but to make sure that they work more productively and efficiently. If we refer to Karl Marx's law of value, when the possibility of lengthening the working day, as part of the capitalists' effort to increase absolute surplus value, is small, then the options are to increase absolute surplus value elsewhere, through increasing the intensity of labor—in which nonproductive “pores” in the working day are minimized, amounting to an implicit increase in the length of the working day—and to increase relative surplus value through increasing the productiveness of labor, which is “the quantity of products yielded by the same quantity of labor in a given time.”²⁷ As a Java Film executive told me, “We are trying a lot of things right now—revitalizations, relocations [of work], so that productivity can be increased, so that our overtime rate would not be like in 2012. Our target is that overtime should be reduced by a minimum of 30 percent.”

Star Inc.'s reorganization of their incentive system can also illustrate this point. The reduction of the number of overtime hours led management to create a “better” system in which work could be carried out more productively, and this created an impact on the labor process. The incentive system is applied for workers who are below the supervisor level. Production workers (workers who are involved directly in production) get full incentives, while non-production workers (such as administrative staff) get less. But within each of these segments, incentives are distributed evenly to the workers. The evaluation that becomes the basis of how much incentives are earned by workers is based on three criteria: production output, variant waste, and returns (how much goods are returned by customers due to defects). All three are related to productivity and efficiency. Production output is connected to the speed of workers. This “technical control” of the labor process by the mechanism of machines is applied to large segments of the Star Inc. plant and influences the production flow as a whole.²⁸ But the simplest one to understand is the process in the printing division. To get maximum

productivity, the printing machine has to be set to the highest speed, and workers have to keep up with this speed.

This criterion is related to the second one, variant waste. Variant waste means the difference between the projected (allowed) waste and the actual waste produced. Interestingly, this factor also influences output. If your goal is only to reduce waste, then your productivity can also slow down. For example, they can set the machine to the lower speed just to reduce waste. So, in this case, workers are expected to juggle the speed of their work and the attention to waste reduction. As Braverman writes, "Machinery offers to management the opportunity to do by wholly mechanical means that which it had previously attempted to do by organizational and disciplinary means."²⁹ For Braverman, machines can be controlled and paced in accordance to "centralized decisions" by management stationed in the office, suggesting that control can be removed from the site of production. In this case, machines were also a means to control the labor process away from the shop floor, but its execution is mediated by the incentive system, designed by management to direct the labor process in ways that can increase production output and minimize waste at the same time. In addition, workers also must make sure that defects can be minimized, since the "returns" criterion is measured by this aspect. On the one hand, workers can get more earnings with the incentive system, but on the other, their labor process is subject to an invisible control, namely the possibility of losing their extra earnings. For management, this system allows them to avoid conflicts due to the loss of overtime earnings and, at the same time, receive a "bonus"—the productivity and efficiency increase expected by their customers.

However, aside from the influence of certification systems on the organization of work, the contradiction that was born out of the demands for flexibility and for increasing productivity does in the end affect workers and their labor process. The bureaucratic control imposed by multinationals is just one means among others. What cannot be controlled by management, such as waste and other productivity aspects that are lost due to the changing

priorities of customers in their pursuit of flexibility, as well as the increase in the minimum wage, is offset by a relentless effort to increase productivity and efficiencies in other areas. As someone from the Java Film human resource department said about the increase in minimum wage, “It naturally follows that the challenge is how to increase employees’ productivity. What we don’t want to happen is that this wage increase is not accompanied by an increase in productivity—or that the productivity goes down instead!” A similar sentiment was expressed by Star Inc. executives: “If [workers] want to be paid more, I need to know how high their labor productivity is, per hour. It needs to be measured first.” Although many of my interviewees recognized that wages should increase following inflation and other factors, in the end, these increases were never “free.”

Also in a continuous effort to cut costs, Java Film tried to maintain the practice of hiring outsourced workers through employment agencies for certain positions such as security and cleaning services—a kind of “numerical flexibility.”³⁰ This was done amid pressures from labor unions, as a part of their ongoing bargaining, to hire these outsourced workers as permanent employees. However, the company had already started doing this and, due to the hirings, the increase in labor cost was inevitable, even though they tried to push down the increase during the bargaining with the labor unions. Although some of the executives denied that this wage increase mattered for them (since the company is not considered “labor intensive” and that labor costs only make up a fraction of their total costs), others expressed their concerns. Especially for the human resource department, this was quite a big deal, since certain segments of production—namely the “finishing” segments—still needed many workers.

This was further influenced by the companies’ multinational customers’ refusal to consider buying at a higher price in accordance with the rising labor cost. When asked whether Java Film could increase selling prices due to minimum wage increases, an executive told me that sometimes they could, since the

open-costing system allowed them to incorporate such increases in their calculation of total cost. "But a lot of times," he said, "such increases cannot be passed on to the clients, to be honest with you. It's not easy. Especially multinationals, they would say, 'Yes, true, wages have gone up, but your efficiencies need to be increased as well!' So they would try to offset it that way. It's up to negotiating. Different results per customer." Thus, the means to increase productivity was directed toward tightening the control of the labor process instead.

These means include different forms of control. During my interviews at Java Film, the company was just beginning to develop a performance-based incentive system, utilizing new Key Performance Indicators (KPI), aimed at creating "continuous improvement" or *kaizen*. During that period, the executives were all about *kaizen*, since they were actively pursuing Japanese customers. These customers flew directly from Japan to visit the factory and demanded they make changes, including installing an air shower, and inspected minor details to suggest improvements. In his second book on *kaizen*, Imai stresses the importance of managers' involvement on the shop floor (or what he calls *gemba*, "where real action occurs"). One of the main arguments that Imai offers is that once managers are reluctant to be involved in *gemba* affairs, "management has lost control of the workplace."³¹ Taking inspiration from the concept of *kaizen*, Java Film executives created specific measurements of workers' performance that included discipline factors, such as how many sick leaves, days when workers arrive late (measured in minutes), absence without notice, warning letters received, and so on. Each department would also set their own measurements of workers' performance, based on their own indicators. Examples given include the volume of product returns, operation performance, as well as customer complaints. Similar to Star Inc.'s incentive system, this is a way for management to control the labor process—discipline through the promise of rewards.

Other strategies take many forms, from reconfiguring work-shift schedules (such as eliminating long shifts to reduce overtime)

to reinforcing discipline, to cutting energy use in the office space. Reducing overtime was done despite the risk of labor unrest. I was told that workers were expressing their dissatisfaction, but management refused to back down and instead used the issue of overtime as a bargaining chip. One executive told me: "I just told [the workers], 'I'll be blunt with you. You want this much increase [in wages], OK, fine, but I will eliminate all your overtime!' I *would* take that measure. If necessary, I will change the three work-shifts to four, so there won't be any overtime. 'Very sorry,' I said."

Since Java Film management could not really do much with some segments on the factory floor, which are computerized and require only a small amount of manual labor, they focused instead on what they refer to as "finishing" segments. Manual labor is still applied in these segments because it is still difficult to mechanize the tasks. Why is it difficult? A Java Film executive tried to explain: "Because each customer has different requests. Some ask for such-and-such size, the product has to be this way, one roll of plastic has to be this long, even up to the requirement of how hard the bundling should be, and a lot of other things. That makes it difficult to mechanize. So in the end, we still require a lot of labor." This difficulty of managing labor seemed to be perceived as a persistent problem, both at Java Film and Star Inc. The top executives at the factories were trying to design a more cost-effective system that would reduce errors in production and thus reduce unnecessary rework. Often, then, mechanization is preferable whenever it is possible. Thus efforts were taken to reduce the number of workers in every task, such as implementing new machines that can automatically detect errors.

When asked whether they would prefer robots or robotic equipment than human labor, many interviewees said "yes" without hesitation. This reflects a global pattern of automation, where manufacturers in North America and Western Europe see the move to the use of robots and other automated systems as a viable option to "reduce labor costs, enhance quality control, and improve throughput."³² At Star Inc. in particular, there were talks

within management circles to implement a new warehouse system equipped with robotic components. A Star Inc. executive told me, "We've done it several times—laying off employees because we adopted new technology. What was done manually before, it is now automated." These executives argued that, with robots, the quality is more consistent, the errors can be minimized or eliminated altogether, the productivity is higher, and waste can be detected early. Citing another executive from another company, an interviewee said, "And machines never complain."

However, some also expressed that the human role in their production processes cannot be eliminated. They still need human decisions and labor in operating the system, even on the lowest level at the plant. This is in line with what systemic rationalization scholars argue to begin with, that "the development of system technology did not aim for total automation since a system of this size and complexity would demand the presence of several operators."³³ The human role remains important in the company's pursuit of flexibility. As expressed by another Star Inc. executive, "If all is done by an automated system, we won't be able to continue being flexible. If the order was given today and then, with 30-days' lead time," if there are changes in delivery time or order priority, "we will need a human being to intervene so an exception to the system can be authorized." And considering how flexible their company tries to be, he said, "it is likely that our exceptions exceed the normal, ongoing setting."

For other executives, the consideration is related to the ability to invest in expensive technology. If the implemented technology is not too expensive, such as the automatic reject system in the bag-making segment on the shop floor, it is likely that management would do it. But unlike North American or European manufacturers who are eager to invest in such technology, companies with weaker capital do not have an equivalent ability to execute their plans whenever they please.³⁴ Thus, if the investment is deemed too expensive, they think twice: "We've been talking about this, putting robots in the warehouse—how many people can we cut? . . . How much is the

cost? And I want to compare to the investment cost, is it beneficial or not? I want to know whether, if our labor, at this moment and for the next five or ten years, would not be as expensive as it is in the U.S. or in China, would it still be really beneficial for me to invest in technology? So I need to know, I need to see first. Because if I look at our labor cost now and compare it to our investment cost of having this, you know, huge investment, it's not that [good]."

In the meantime, when manual labor is still involved, the management can only enforce stricter discipline or apply a more structured organization of work practices to better control the labor process and hence reduce the chance of human errors. A few Star Inc. executives expressed their concerns about how difficult it was to enforce discipline on the shop floor. One of them, who was involved in the production team and helped develop the incentive system at the company, told me that everybody should "do their best," down to the workers in the lowest position. Inspired by the concept of *gemba kaizen*, he emphasized the importance of management control on the shop floor: "It's not as simple as I say, of course. Even after being encouraged by the incentive system, there's no guarantee that they can work well. That's why we need management's presence. Every single deviation needs to be evaluated. If, at one point, there are employees who need to be reprimanded, or even given a warning letter—we have to do that to provide some deterrent effect." The same executive told me later that "discipline is the most important thing for Indonesia" and expressed his opinion about the virtue of military training as an instrument in shaping one's discipline habits.

Another Star Inc. executive told me the importance of implementing "awareness" to workers about the value they added to the company's products: "Whenever we have an employee gathering, we tell them, 'There's your stamp on this product.' Then we also relay our customers' complaints to our employees. 'See, if you don't work well, this is the result.' That way they can understand." This rhetoric is especially important for managers who lead production teams. As one of them said, they always told the workers

on the shop floor that “added value originates from our department . . . If we talk about engineering, planning, or quality control, they’re just supporting elements. The added value, the converter in a converting company, is located within production.” Ironically, this awareness about the importance of workers’ labor in production—the value workers added to and embedded in the finished goods—is used as an instrument of control, with the illusion that workers perform skilled labor to produce these goods and are not in any way separated from the product of their labor. The line of reasoning here is that, since workers are the ones contributing to the production of these goods, they need to care more about the products. It does not matter that these workers have almost no control over the direct production of use values, or that their labor has been degraded, unskilled to the point that it is relatively easy to replace.

Other times, management applies the “home” rhetoric to pacify workers. As someone from the human resource team told me, “We make it clear to our workers, ‘Remember, this is our *home*. The company where we work is the paddy field whose soil we plow. We work together here to build. . . . If our business grows, if the results are good, we get our share [of this success].” Similarly, this rhetoric provides an illusion that workers have shared ownership in the means of production, though in reality, workers lose control over their own labor once their employer buys their labor power. Also, this rhetoric is a way to curb union activities at the plant. In an effort to push labor unions out, management at Star Inc. encourages their workers to see the company and its management as “a family” that they can turn to whenever there are problems. In 2015, Star Inc. had only one union, and it was the company’s internal union, which was only affiliated with, but was not a subsidiary of, an outside labor union independent of the company. The management was eager to keep things as they were. They wanted to avoid the problems and headaches that executives in companies like Java Film experienced (in 2013, Java Film had three unions) every time they had to deal with the “unruliness,”

as a Star Inc. executive called it, created by the presence of independent unions. But such motivational rhetoric does not always work or does not work on its own. To keep things “safe,” Star Inc. executives instructed their supervisors and superintendents—who led daily factory briefings at the beginning of each work-shift—to always watch out for rumors of gatherings or meetings organized by “infiltrating” unions. They also trained their supervisors and superintendents about what to do should such things happen.

More direct and simple forms of control like this are utilized not only in relation to pushing unions out, but also in the general process of production. Often, simple control is justified by a stereotypical view of Indonesian workers, namely that they are either lazy or intellectually challenged and thus difficult to manage. As a Star Inc. executive said, “You know, Indonesians. You always need to monitor them.” A Java Film executive expressed the same concern. He even claimed that with machine operators it was really hopeless. What you can do, he said, is to focus on improving the skills and disciplines of the supervisors: “If the supervisors are all right, then the operators will be too.” But at least, he continued, “Indonesians can still obey orders if you watch their back.” David Gordon refers to this use of simple forms of control as the “stick strategy,” where firms “exercise control with the armies of supervisory staff.” Mockingly channeling management’s voice, Gordon writes: “Can’t trust your workers when left to their own devices? Peer over their shoulders. Watch behind their backs. Record their movements. Monitor them. Supervise them. Boss them. Above all else, don’t leave them alone.”³⁵

These simple forms of control complement the other forms of control discussed previously. Braverman writes that the labor process was subject to control even before Taylorism prevailed. But Taylor “raised the concept of control to an entirely new plane when he asserted as an *absolute necessity for adequate management the dictation to the worker of the precise manner in which work is to be performed.*”³⁶ Even though Tayloristic work may not be as pervasive and omnipresent in the era of systemic rationalization,

some forms remain, as illustrated in the discussion above. And at its core, Tayloristic organization of work "drastically reduced the skill and discretion of worker in the labor process."³⁷ On the shop floor at Java Film or Star Inc., workers who occupy low positions are not required to have meaningful skills. Any significant training that could actually increase skills is reserved for workers who are in certain strategic positions, especially if being groomed to be managers.³⁸ For the rest of the workforce, they need a capacity to obey and follow orders. This was expressed clearly by a Java Film executive: "[Machine] operators' work is repetitive: this, that, this, that. . . . I think the skills needed to operate those machines are minimal. It's not like operators of the CNC machine [used in other types of manufacturing], who always need to have an updated knowledge of the software. Our machines just require repetitive tasks."

The work is "simple" not merely because it is the nature of the job or the machine per se, as the executive above seems to imply, but because the organization of work has been structured in such a way that enables deskilling to happen. "This is the pivot upon which all modern management turns," writes Braverman, "the control over work through the control over the decisions that are made in the course of work."³⁹ Taylorism and the practice of modern management revolves around the "dissociation of the labor process from the skills of the workers" through means such as "the separation of conception from execution" that, in turn, reflects the use of "monopoly over knowledge to control each step of the labor process and its mode of execution."⁴⁰ In this context, the majority of workers on the shop floors, especially the "operators" or those who only operate the machines, are divorced from any knowledge regarding the technological know-how of production. They merely execute but are not involved in any conception of production itself, which is done in the management circle, at the offices, away from the shop floors.

The executives I interviewed possess the knowledge of the technology and have the power to control the extremely expensive

machines, the same machines that “do not require any skills” from the workers who operate them on the shop floor. As they told me themselves, it took a lot of time and plenty of trial-and-error for them to figure out many things in relation to how the machines work and how to make them work well. What they relayed to their workers was merely a list of strict procedures about what to do and, especially, what not to do, in order to avoid lost output caused by mistakes in the operation of the machines. Obviously, the machines are not so simple. It is the detachment of knowledge from the work performed by these operators that makes it meaningless. And it is the decisions controlled by management, influenced largely by the control exerted on them by their multinational customers, that enable the degradation of work to happen.

WHAT CAN BE LEARNED?

Since Java Film and Star Inc. do not represent the stereotype of Global South factories that cater to multinationals, they actually reveal several interesting variations that can be found in globalized production. First, they can illustrate the classic role of dependent suppliers in labor-value chains due to their export-g geared production—about 30 percent of their production output—for multinationals based in advanced economies such as the United States and Western Europe, where the commodities are consumed. Big multinationals, from U.S.-based food-related companies to a leading U.S.-based cigarette company, as well as Europe-based giant multinationals with brands in daily care products, all serve as “high-class” customers for Java Film and Star Inc. in the exports segment. Second, in addition to this, an unknown percentage of their production is also geared toward exports, although these exports are done by the subsidiaries of multinational customers and not by Java Film and Star Inc. themselves. This characteristic shows that, even in cases where multinationals engage in direct foreign investment in Indonesia by building subsidiaries that export their goods to the countries in which they are consumed,

they still outsource their packaging-related production to outside suppliers like Java Film and Star Inc.

The third characteristic of production in the two companies, in which they produce multinational brands for the local market—even though it does not quite fit the common case of global labor arbitrage—illustrates yet another form of participation by Global South companies in labor-value chains. Rather than directly exporting their products to the targeted markets outside of where these multinationals are based, this particular system is deemed much more effective as a means to cut costs. In this context, multinationals target huge markets like Indonesia, directly invest in the country, and build their subsidiaries so that production can be done close to the market itself and, in the process, outsource parts of their production processes to third-party suppliers. Thus, even though it involves intra-firm trade relations by multinationals through their subsidiaries, it does not precisely illustrate “producer-driven” chains—which are solely characterized by foreign direct investment—because these chains also involve arm’s length contracting practices in which multinational subsidiaries outsource the production of their packaging materials to third-party suppliers.⁴¹

In the context of all three of these characteristics, Java Film and Star Inc. serve the role of dependent companies in labor-value chains, driven by the search for low unit labor costs by Global North capital that seeks to capture value from Global South labor, which is realized in the price of the commodities consumed in the home market or in Indonesia. The price of multinational goods sold in Indonesia may be lower than that in the North, but this does not translate into lower profits for multinationals. Instead, with the interpenetration of the sales effort and production process, such as a marketing strategy that involves many product diversifications of a specific item (including cases in which end consumers have to pay a higher price by buying the product in tiny packages), it is very reasonable to assume that the profit rate is high.

What is important is that mechanisms of both systemic rationalization and flexibility are applied, and these are practices by multinationals that capture value at the end of the chain, since a large share of the profits (or the surplus value extracted from the exploitation of workers that make their products) that results from these practices goes to multinationals in the North. The search for low unit labor costs is the main drive behind the decision to move production outside of Western Europe, the United States, or Japan. And it is due to this attainment of low unit labor costs that such multinationals are able to reduce their total production costs.

We know from the interviews that multinational corporations have—and indeed, control—the knowledge and technological know-how of flexible packaging in their area. Those I interviewed expressed that they were often genuinely surprised that their customers “actually knew better about packaging” than their own best experts. Through this kind of control, multinationals maintain their monopoly over knowledge and use it to dictate and direct the production of their packaging materials in ways that are absolutely beneficial for them. It follows, then, that other than additional practical reasons, multinationals, even those that directly invest in the country through having their subsidiaries and factories there, are reluctant to deal with their own production of packaging, not because they do not know how to do it, nor because they do not have the resources needed to execute it, but because it helps them mark up their prime production costs—an effort to perpetuate and enhance their monopoly power, as discussed previously. In a way, there is an interesting and rather complicated combination of how surplus is extracted. For example, not only do multinationals perform extraction at their subsidiaries’ plants in the South through the attainment of low unit labor costs, but they also do it at their third-party suppliers’ plants. The latter involves arrangements that hide more aspects of the unequal capital-labor relations on the global scale—executed through systemic rationalization and flexible production mechanisms.

The main goal of such mechanisms that is clear throughout the

case studies presented in this chapter is the *externalization of costs*, a process that is perhaps most clearly seen when companies like Java Film and Star Inc. produce packaging materials directly for exports to the multinationals' home countries. But whether geared toward export or the local market, multinationals outsource their production to externalize the costs resulting from flexible production to accommodate fluctuating market demands. In this way their profit rate is not at risk. Java Film and Star Inc. bear the responsibility for fulfilling flexibility that is problematic for productivity and efficiency measures. Multinationals do not want to place the totality of this burden on their own subsidiaries, since that way they must pay the price, so they transfer a large part of this burden to their suppliers. Waste management becomes a major issue in Java Film and Star Inc., both waste of products and waste of labor created from the customer demands of product variations and a flexible delivery system that requires them to buffer in cases where forecasts are missed or sales projections altered. This fact alone disrupts their productivity and efficiency, and as a result, they have to constantly face conflicts within their own management circles, as well as change their organization of work in ways that can offset the loss resulting from this wasteful production.

Materials and energy use make up the two highest components in their production costs—and the requirement to be flexible leads to considerable waste in relation to these two factors. Many parts of the process of flexible production cannot be controlled; no matter how efficient their planning is in the face of flexibility demands, there would still be plenty of materials and energy wasted in the process. In the end, the main thing they can do is to control the labor process of their workers through a series of reorganizations of work that aims to cut costs in places that can still be manipulated by management. This is another responsibility that is transferred to them by their multinational customers, who make sure that they can avoid their own responsibility by requiring that their suppliers pass third-party audits and international certifications. Then, the rest follows: the control over the

labor process is enhanced in the era of systemic rationalization and flexible production. Confirming what the theories discussed in chapter 3 suggest, the case studies presented here show that modern management has not been largely characterized by the elimination of alienation of labor, a trend toward professional and skilled work, or an extensive “humanization of work” in general, as authors like Robert Blauner, Michael Piore, and Charles Sabel claim.⁴² Tayloristic organization of work still prevails, and is even enhanced, especially in the periphery where production happens and the global reserve army of labor is large. This occurs within layers of unequal capital-labor relations in which dominant multinationals based in the North can find numerous ways to exploit workers in the South through the former’s control over the dependent companies where the latter is employed, often without direct involvement or visible traces.

5 — The New Economic Imperialism: Looking Through the Eyes of the Global South

An important part of the modus operandi of imperialism is in the intellectual domain, where it promotes incorrect theories of trade and of unemployment combined with illogical methods of measuring poverty to show a decline when deprivation is actually on the rise.

—UTSA PATNAIK AND PRABHAT PATNAIK,
A THEORY OF IMPERIALISM

THE CLAIM THAT THE ENTIRE CONCEPT of imperialism as a political-economic reality should not be carried over into the twenty-first century, that it should, in fact, be abandoned, proposed not only by conservative thinkers but also by some on the left, is tempting to entertain, as it suggests a clean break with the past.¹ It may even sound more attractive in this respect than an argument like the one put forward in this book: that imperialism continues, but it has taken on new characteristics in the context of today's globalized production. Nevertheless, a critical analysis would reveal that social science cannot abandon the notion of

imperialism without invalidating its own analysis of today's world economy, extending as well to the political and military aspects of imperialism.

Imperialism—or the system of an unequal, hierarchical world economy, dominated by giant monopolistic corporations and a handful of states in the imperial core—has never simply been about expansion into other countries and the exaction of tribute, as in conquest carried out by previous modes of production. Rather, it is a characteristic of capitalist expansion, and particularly of imperialism in the age of multinational corporations and globalized production where, in the words of Harry Magdoff, “the dominated areas [are] transformed, adapted, and manipulated to serve . . . the imperatives of capital accumulation at the center.”² As we have seen in this study, it is characteristic of the period of globalized arm's length production that, at the firm level, production in the Global South is “transformed, adapted, and manipulated” down to the smallest detail. Moreover, while overall market relations in the emerging economy are also transformed, the firm-level transformations are often parachuted in with no real organic relation to, or logic stemming from, the emerging economy, and are just as easily dismantled and removed. This, then, creates an illusion of development and advanced production in these countries, which nonetheless remain in a dependent condition. With arm's length production, even more than with traditional direct foreign investment, what is being produced are mere links in a global chain of value, in which particular nodes of production are digitally specified and controlled from abroad. The entire production system is designed to be highly mobile and can be rapidly shifted elsewhere if unit labor costs rise unduly. Less than ever can imperialism in these circumstances be viewed in Bill Warren's terms as “the pioneer” of development in the underdeveloped economies.³

THE REVERSAL OF IMPERIALISM?

The insistence that imperialism no longer exists, or that the

draining of wealth from the Global South to the Global North has been largely reversed, often relies on a superficial analysis of the growth of emerging economies, such as Taiwan, South Korea, as well as the BRIICS countries (including Indonesia), particularly China. This analysis usually disregards the fact that China is a very special case with a quite different capitalist superstructure, while other BRIICS have experienced growing impediments to their development and have not been able to develop fairly autonomous national development projects like China. It may be true that the emerging countries generally have gained from what David Harvey (following Paul Baran and Paul Sweezy) refers to as the crisis of the absorption of “surplus capitals” that are “piling up in their home countries,” generating a stagnation of investment at the center of the system. These countries clearly have favored investment of some of this surplus in the industrialization of parts of the periphery. It may also be true that China has been one of the major players in “the ongoing struggle for control over economic territory across the world,” such as some regions in Africa, or that Taiwanese and South Korean factory owners who supply to Europe or U.S.-based multinationals exploit workers from “less developing” countries like Indonesia, usually located in the tropical landmass, where owners conduct massive layoffs, or fail to pay their workers.⁴ There are indeed some variations in such complex global power relations.

However, the argument that the concept of imperialism in its classic sense, particularly the notion of the exploitation of the periphery by the core, should be abandoned on this basis is not empirically or theoretically sound. To begin, the so-called growth of the emerging countries—outside China, which is a special case—may not be as extravagant as some of authors claim it to be. *The Economist* reported in a 2014 article that the hype about emerging countries catching up to developed ones was “an aberration.” Citing a report by the IMF, the article states that economic growth in developing/emerging economies (excluding China) exceeded that of developed economies by a mere 0.39 percentage points

that year: “That would put off full convergence for more than 300 years—indistinguishable from never as far as today’s societies are concerned.” And for at least half of the BRIICs, including Brazil, Indonesia, and South Africa—all three also belong to the Group of Twenty (G20)—the economic growth over the last decade has been slower than what was optimistically predicted.⁵

But what about the “growth miracle” of China, which has become the leading emerging economy in the world? Indian economist Jayati Ghosh posits that, even though China is “the most significant source of manufactured goods imports for most countries,” there’s a tendency to exaggerate the significance of its growth, as well as that of other emerging countries. This exaggeration, according to Ghosh, is partly because many analyses that compare cross-country incomes “are not based on nominal exchange rates, but rather on Purchasing Power Parity (PPP) exchange rates”—a measurement that has many problems, ranging from the assumption that the basket of goods is unchanging over time to the treatment of poverty of the large segment of wage earners as an “economic advantage.” If we look at the nominal terms instead, China only accounts for less than 9 percent of global output (in constant 2005 USD), and its per capita GDP is around 45 percent of the global average, “still many multiples below the average of the so-called ‘developed’ capitalist economies that form part of the imperialist core.”⁶

This, of course, does not necessarily negate the fact that these countries, especially China, do experience economic growth and are “emerging” to some degree—enough, as we shall see below, to create a backlash from advanced countries, which try to halt their development as much as possible through various means, including multilateral agreements. Nevertheless, what we need to examine is what really happens behind the euphoria of growth. That China leads in the share of jobs in labor-value chains should encourage us to rethink what it means in relation to the larger context of global inequalities. As Walter Daum argues in his contribution to the Harvey-Smith debate (mentioned in chapter 1) on

imperialism, “China’s remarkable economic growth rests on the super-exploitation”—the practice of paying workers wages under what is necessary to reproduce their labor power—“of *its own* proletariat,” most of whom belong to the floating population of “displaced rural workers.”⁷

In their reply to Harvey’s claim regarding the reversal of drain, Utsa Patnaik and Prabhat Patnaik question whether Harvey is familiar with the concept of drain itself, which has been explained by many academics from the South (among the most notable Dadabhai Naoroji’s and R. C. Dutt’s discussion of drain in relation to British colonization of India, written in the early 1900s). However, with only a few exceptions, this concept has been largely ignored by academics in the North, including most present-day Marxists. Following Paul Baran’s *The Political Economy of Growth*, published in 1957—a classic analysis of this phenomenon—the Patnaiks explain that “drain” refers not only to the “direction of capital flows” but also to sucking out the surplus of an economy without an expected return of advantages (*quid pro quo*).

During colonialism, this was realized in the form of taking out commodities for free from the colonies by the colonial power, which then resulted in increased borrowing from the imperial power by the colonized. As Utsa Patnaik writes elsewhere, the essence of this process of drain or transfer was a “clever system of getting goods free as the commodity equivalent of economic surplus, extracted as taxes.” Throughout the history of colonization, the “West European powers transferred economic surplus from their colonies on a very large scale,” a practice that thus “substantially aided both their domestic industrial transition from the eighteenth century and the subsequent diffusion of capitalism to the regions of recent European settlement.” In the present day, things have certainly changed. There are no (at least totally) *gratis* commodities drained from the periphery, and some of the other more extreme versions of “sucking out surplus” are no longer relevant. However, the Patnaiks emphasize that many mechanisms of draining surplus from the Global South by the Global North

remain alive—that is, various forms of unequal exchange—and these imperialist practices are a continuation of what happened during the colonial heyday.⁸

The concept of labor-value chains that I use throughout this book is a form of unequal exchange that is considered one of the main imperialist mechanisms that still remain in place today. Unequal exchange, or *the exchange of more labor for less*, is closely related to the value capture made possible by the formation of monopolies, which enables the capitalist centers to appropriate large shares of the surplus generated elsewhere. Especially in the early emergence of monopolies, in the late nineteenth century, the export of capital allowed the establishment of the forms of production in the periphery, which, although modern (for example, same production techniques), possessed the “advantage” of low wage-cost. And with this, unequal exchange occurred, indicating a “hidden transfer of value”—or “imperial rent”—on a global scale, rooted in the unequal power relations among nations, and fueled by the monopolistic power of multinationals and their ability to control prices.⁹

The mechanisms that occur within labor-value chains, including systemic rationalization and flexible production, are designed to enable the “exploitation of the wage differentials worldwide.”¹⁰ The emphasis on efficiencies and higher productivity, or, in other words, securing low-cost position, is capital’s ideological justification for engaging in arm’s length contracting abroad. The socially necessary labor costs associated with actual manufacturing labor globally are now defined by unit labor costs in the South rather than the North, while the realization of value is primarily determined by the sales conditions in the North rather than the South. Viewed in this way, we can associate the search for low unit labor costs that characterize labor-value chains with capital’s quest for valorization. As we have learned from the case studies in chapter 4, multinationals as mobile capital have the power and ability to control the production processes of their dependent suppliers so that they can externalize costs that are needed to accommodate

the “necessity” to take advantage of fluctuating market demands. It is obvious that multinationals are *not* mainly internalizing transaction costs here, with the growth of arm’s length production and subcontracting. Instead, they are externalizing them, simply because they can. Their monopolistic power allows them to do so.

Oligopolistic multinationals compete against one another to capture lush markets, at home and abroad. And to survive this monopolistic competition, they have to engage in flexible production, shifting labor and other cost factors around like so many Lego pieces, always with the goal of reducing these costs. Hence, they place such responsibilities of implementing low-cost production on the dependent companies within labor-value chains whenever they can, through various mechanisms as exemplified by the case studies. What is also important is how these dependent companies defer the burden placed upon them by their customers to their workers through reorganizing work and enhancing their control over their labor process. This is one among the very few places where they can still save their own profit margins, through increasing productivity and efficiencies that are otherwise largely sacrificed in the fulfillment of their customers’ demands. Here, we can see that the search for low unit labor costs is not merely an abstract imperative of capital. It is realized through concrete processes within labor-value chains, including at the point of production, where commodities are produced by workers, the direct producers and the only agents capable of resisting. Through these mechanisms, oligopolistic multinationals—whether or not they are intermediated by their subsidiaries (another practice of capital export that is also a form of unequal exchange)—can gain what they intended: to protect and increase their profit margins.

These profits in the end are captured by multinationals and are often counted as the GDP of their home countries in the Global North, a phenomenon that hides the exploitation that occurs in places where commodities are produced or assembled. John Smith offers a comprehensive explanation regarding this topic, writing in a 2012 article: “Labor’s share of GDP within a country is not

directly and simply related to the prevailing rate of exploitation in that country, since a large component of ‘GDP’ in the imperialist nations represents the proceeds of exploited labor” captured from abroad.¹¹ This is another factor that reflects the unequal exchange inherent in global labor-value chains—the process that is imperialistic in its characteristics even when used without the direct force of militarization or colonialism.

In the case of arm’s length contracts, in which there are no visible profit flows from the Global South suppliers to their Northern customers, the capturing of profits is especially hidden. To begin, Smith shows that we can see the problem by tracing profits generated by multinationals’ goods, such as smartphones, T-shirts, and coffee. Let us take an iPod, for example. In 2006, the retail price of a 30GB Apple iPod was \$299. The total cost of production, which was performed entirely abroad, was \$144.40, meaning that the gross profit margin on the shipping price was 52 percent. The “gross profit” of \$154.60 is divided among Apple, its retailers and distributors, and, through taxes, the government. But here is where the “magic” kicks in: this 52 percent of the final sale price is counted as value added in the United States and is added to U.S. GDP.

This “accounting” does not make sense, since the production was performed outside of the United States. Even though a large share of the jobs required to produce the iPod are located abroad (in this case China, where Foxconn factories are located), the total Chinese wage bill for iPod production was only \$19 million, compared to the U.S. wage bill of \$719 million. A major factor that contributes to this inequality is that the “professional workers” category—those employed in the United States, and including the outsized “compensation” of corporate executives—captures more than two-thirds of the total U.S. wage bill associated with iPod production. Moreover, citing Tony Norfield’s study of Bangladesh-made H&M T-shirts sold in Germany, Smith explains that “the exploitative and imperialist character of the social and economic relations” embodied in commodities like these T-shirts has provided not only affordable products for consumers in the North,

but also, in Norfield's words, has given Northern states "an important source of income," since a major part of revenue from the sales price goes to the state in taxes.¹²

Further, this case illustrates what Smith calls the "GDP illusion." Standard data on GDP and trade flows exaggerate the North's contribution to global wealth and, at the same time, decrease the South's. As seen in the examples above, when we buy say, a T-shirt, the country where it was produced receives in its GDP only a small proportion of the final sales price. Meanwhile, the larger part shows up in the GDP of the country where it is consumed. Such an approach leads to absurd "facts"—in poorer countries where production happens, that is, countries that are actually making a greater contribution to global wealth, GDPs are much smaller than countries that are purchasing it at its shipping cost and reselling the finished product with enormous markups, which are then seen as representing the bulk of value added. Why is this the case? Smith argues that the GDP and trade data only account for marketplace transactions. But nothing is produced in markets, so, going back to Karl Marx's argument, we should instead enter the hidden abode of production. Smith writes: "Values are created in production processes and captured in the markets and have a prior and separate existence from the prices finally realized when they are sold."¹³

The failure to take this into account leads to another fallacy: the conflation of value with price. In the framework of neoclassical economics, GDP is "essentially the sum of the 'value added' generated by each firm within a nation," and value added is defined as "the difference between the prices paid for all inputs and the prices received for all outputs." Hence, in this understanding, "the amount by which the price of outputs exceeds the price of inputs is automatically and exactly equal to the value that it has generated in its own production process, and cannot leak to other firms or be captured from them." Taking a Marxist approach, Smith rejects this "absurdity" and provides a counterargument: value added is really value captured. Meaning, "It measures the share of total

economy-wide value added that is captured by a firm, and does not in any way correspond to the value created by the living labor employed within that individual firm.”

Smith also points out that mainstream economics fails to note that many firms that supposedly generate value added “are actually engaged in nonproduction activities such as finance and administration that produce no value at all.”¹⁴ The GDP problem explains why the Global South is underestimated in the dominant paradigms; its contribution to global wealth is overlooked. In the end, this means that “labor’s share of GDP within a country is not directly and simply related to the prevailing rate of exploitation in that country, since a large component of ‘GDP’ in the imperialist nations represents the proceeds of exploited labor” captured from abroad.¹⁵ Thus, it is important to tear away the veil that hides this exploitation.

Mainstream measurements of national economic performance have been questioned within environmental perspectives. Among them are the work of Herman Daly and John Cobb, who provide a critique of GNP (Gross National Product) in their book *For the Common Good*.¹⁶ Nevertheless, the GDP illusion discussed above shows that there is also a pressing need to develop such critique of dominant paradigms in a way that takes into account the perspective of the Global South. To reveal the imperialist relations between the North and the South that are hidden in such economic measurements, we should start by examining how the South’s contribution to global wealth is ignored and how this ignorance further conceals the labor exploitation that occurs in the hidden abode of production in underdeveloped economies.

THE HIDDEN ABODES OF IMPERIALIST EXPROPRIATION

The drain of surplus from developing countries requires that imperialist controls be exercised over production in those countries. These forms of control are often hidden, not visible in the same way as market relations. Moreover, financial processes often

disguise economic transfers, removing any transparency, and concealing the fact that these transfers are far from *quid pro quo*. The dominant form of imperialism is what Marx called “profit upon expropriation.” Overall, imperialism requires not just the exaction of tribute, but the restructuring of whole economies to meet the needs of the core imperial powers.¹⁷

If we evaluate *processes* that happen in labor-value chains, it is clear that imperialism, as Ghosh puts it, “has not really declined at all”; it has only “changed in form over the past half-century,” especially if we use “a more expansive notion of what constitutes ‘economic territory.’” It is not limited to land, natural resources, and labor; it also includes “the search for and effort to control new markets—defined by both physical location and type of economic process.”¹⁸ This is illustrated well in the case studies presented in chapter 4, where multinationals, based in the triad (United States and Canada, Western Europe, and Japan) and operating in Indonesia, compete against one another to control the huge local market by engaging in production nearby and applying a myriad of marketing strategies, not only to capture the dynamic demands of that particular market, but also to create new wants.

What multinationals must maintain above all to keep this exploitative system of global appropriation going is monopoly control over finance and technology, backed by the imperial power of the states at the center of the system. As Samir Amin has explained, the control exercised at the center of the world economy is maintained by the five monopolies of finance, technology, the planet’s resources, communications, and military power.¹⁹ Maintenance of these five monopolies requires the active role of states at the center. Today’s “generalized monopoly capitalism,” Amin argues, relies on the combined operations of the triad to ensure the system runs smoothly, with Washington, as the hegemonic power, providing the main coordination.²⁰ Financial, technological, and communication control at the center, supported by the military and geopolitical control exercised by the capitalist states, enables multinationals headquartered in the major imperial states to

relocate production globally without fear of appropriation, allowing them to extract the lion's share of the value produced.

Global capital makes sure that its dominance within labor-value chains is undeterred. As James O'Connor notes in *The Corporations and the State*, multinational monopolies pressured the U.S. government, the European powers, and the U.S.-dominated international agencies to "formulate and implement political-economic policies which will create an 'attractive' investment climate abroad, in particular in the underexploited countries."²¹ Under the pretense of promoting economic development, imperialist powers were trying to integrate these "underdeveloped" countries "even more closely [into] the structure of world capitalism." The giant corporations dominate U.S. policy and, as Baran and Sweezy argue, they want "monopolistic control of foreign sources of supply and foreign markets." To achieve this, they need to find "not trading partners but 'allies' and clients willing to adjust their laws and policies to the requirements of American Big Business."²²

Examples are many. The "structural adjustment programs" issued by the IMF and the World Bank serve as a condition for the "developing" countries when they want to get their debt financed. They consist of, as Jason Hickel puts it, "a three-part cocktail: austerity, privatisation and liberalisation," and as such, have been one of the most infamous examples of how "third world debt" could be transformed into a mechanism that keeps imperialism alive by forcing the perpetually indebted, underdeveloped countries to serve the interests of Global North capital. These programs require the poorer countries to "redirect all their existing cash flows and assets toward debt service," usually by cutting their spending for public services like healthcare and education, and relocating it to sectors such as farming, as well as privatizing public assets.

In addition, underdeveloped countries are "forced to radically deregulate their economies," making integration into the capitalist world economy smoother by implementing policies that result in cutting trade tariffs, opening their markets to foreign competitors, and other processes. The assumption is that the rate of economic

growth will be increased, easing the burden of debt repayment, but what really happens is that these countries have to “reverse their developmental reforms.” In effect, these policies end up barring them “from using monetary expansion to spur growth and create employment.” These structural adjustment programs are still “widely used” by the IMF and the World Bank to “secure debt repayment,” but now they are in the disguise of what is called the Poverty Reduction Strategy Papers.²³

The mechanisms above are not the only ones and certainly not the worst. In the last twenty years or so, various treaties, agreements, and other regulations—whether global, regional, or bilateral in scope—have been exploding. The mechanisms are used by global capital to impose “rules, regulations, and modes of behavior upon governments and their citizenry.” They are embodied in a series of repressive treaties and agreements that make the policies issued by the IMF and World Bank “almost pale in significance.” And what is more important is that “these rules operate even for countries that are not in the positions of debtor-suplicants to international financial institutions, and so they require all countries to restrict their policies in ways that are directly related to the possibilities of generating autonomous development in periphery countries.”²⁴

Here are some multilateral examples relevant to the topic of labor-value chains: (1) the Agreement on Trade-Related Investment Measures (TRIMS), which was designed to “increase linkages between foreign investors and local manufacturers”; (2) the Agreement on Trade-Related Intellectual Property Rights (TRIPS) that aims to protect the monopoly of knowledge by multinationals, but also “restricts reverse engineering and other forms of imitative innovation that have historically been used for industrialization”; (3) the ongoing negotiations on Non-Agricultural Market Access (NAMA) at the WTO to cut more tariffs in the Global South countries, “which will further deprive them of a crucial policy instrument to support their infant industries.”²⁵

Many of these aim to perpetuate what Peter Evans refers to as “dependent development,” a concept that is also tightly related to

imperialism. As a system of accumulation, Evans argues, imperialism “ensures that any profit-making firm will tend to gravitate toward technology designed for center country social conditions and focus on low-return, routine kinds of production in peripheral locations, but the interests of multinationals powerfully increase these tendencies.”²⁶ It is precisely these interests that drive the creation of treaties and agreements, a combined effort by multinationals, whose interests they aim to protect, and Global North states (especially the triad) where these multinationals are headquartered. The goal is to make it difficult for the emerging countries to catch up so that they could also preserve their “old imperial powers.”²⁷ This is partly a response to the fact that the United States, the leader of these powers after the Second World War, has shown signs of being “significantly weaker both economically and politically.”²⁸ Meanwhile, global and regional financial institutions, such as the IMF, the World Bank, and the Asian Development Bank (ADB), continue to serve as tentacles of powerful global capital. This behavior can be seen from their responses to events that are seen as affecting a country’s “competitiveness” in the global labor market.

Let us take Indonesia as an example. In 2005, responding to a series of increases in its minimum wage, ADB issued a report that states that “labor regulations” are a “serious concern, more so than labor skills,” hindering Indonesia from improving its investment climate. Likewise, minimum wages also “weigh heavily on firm operations”—a statement that echoes a World Bank report published ten years earlier, where the attempts of the Indonesian government to increase the minimum wage after the 1990s crises were met with criticisms that the policy would endanger Indonesia’s competitiveness in the investment market.²⁹

This behavior has not changed much in more recent years. In a 2013 IMF staff report on Indonesia, the institution specifically highlighted “rising unit labor costs” in manufacturing as a result of “growth in labor costs”—caused among other reasons by “high minimum wage levels relative to average wages” and “rigid labor

market regulations”—that “has outpaced productivity gains.” The report further offers a solution to this perceived problem, arguing that reducing the rigidity of regulations and “aligning minimum wage increases with productivity growth” would “help increase competitiveness in Indonesia’s manufacturing sector” and thus “provide greater opportunities to low-wage, informal sector workers” by “generating more jobs.”³⁰

The various mechanisms by which production is controlled in the periphery, including emerging economies, in which conditions of *quid pro quo* or equal exchange are violated, and through which imperial countries retain their dominance, are concretely illustrated in the case of Indonesia. Not surprisingly, the increase in Indonesia’s unit labor costs was a concern for the IMF, which emphasized that the increase would negatively affect the country’s competitiveness in the manufacturing sector. A similar claim is given in a 2016 ADB report on “trends and challenges” of Indonesia’s labor market, where “gains in productivity” are deemed necessary “to ensure that Indonesia continues to remain competitive in the global economy.” Thus, factors that can increase productivity, including “knowledge of workplace strategies for improving productivity, such as work-time management, ergonomics, and health and safety measures,” need to be attained.³¹

All this can be translated as a concern regarding Indonesia’s ability to continue its low-cost position within labor-value chains. In this context, what is seen as alarming by global financial institutions, in line with global capital, is that Indonesia’s unit labor costs have been increasing. As we saw in chapter 2, the increase in average unit labor costs in manufacturing industries, relative to the United States, was about 12 percent from 1995 to 2014, with some fluctuations in between. This was a concern despite the fact that the gap in unit labor costs between countries in the North and in the South (including Indonesia) remains wide. And since the increase in minimum wage is a major cause for the rising unit labor costs, it is “understandable” that the issue of a higher minimum wage is

often highlighted as a concern in reports issued by international financial institutions, which often emphasize that countries in the Global South have to maintain their “competitiveness,” a word that is really a euphemism for “exploitable.”

The relatively recent increase in Indonesia’s minimum wage took place after a series of massive strikes that started to occur after the fall of Suharto in 1998, including two general strikes that happened in 2012 and 2013, where workers demanded, among other things, the end of the low-wage policy and the outsourcing practices in which companies hire temporary workers from employment agencies without having to provide benefits. About 2 million workers participated in the first nationwide general strike after the end of Suharto’s dictatorship; the strike was held on October 3, 2012, and was “spread over thirty-five cities and districts in twenty provinces and eighty industrial estates all over the country.” As a result, an average 48 percent increase in the minimum wage was seen across regions. Although this increase does not necessarily reflect an increase in real wages, which have been stagnant, it is still an important achievement. In general, between 2011 and 2013, labor protests and strikes brought about “at least three major campaigns [in relation to wages and job security] whose demands have been adapted to government regulations.” Although the consequences of three decades of Suharto’s repressive labor policies, especially regarding unionization, can still be found today, and a minimum wage increase in Indonesia is often viewed as a minuscule achievement on the part of labor, such collective action is indeed a form of resistance in today’s “liberal, flexible and decentralized” industrial relations.³² It is at least enough to make Big Capital sweat, as seen from the reaction given by their financial henchmen.

Even the 2016 ADB report highlights that the increase in unit labor costs in Indonesia’s manufacturing sector between 2000 and 2012, “outstripping gains in labor productivity,” was a result of increases in minimum wages “together with *the growing strength or organized labor*.” Especially in the case of minimum wage increases within specific manufacturing sectors (divided in levels

depending on the type of industry), the report recognizes that the system “has largely developed through a bottom-up process, where workers in various industries have organized and bargained for wages higher than the district or province minimum wage over time.”³³

Since the hard-fought increase in minimum wages is something that cannot be undone (at least not easily), in an attempt to control unit labor costs, international financial institutions can only push for a growth in labor productivity, so that the increase in minimum wages could be “aligned,” as the IMF staff report puts it. A recent ADB article claims that even though labor productivity in Indonesia has been “quite encouraging,” with an average rise of 4.3 percent between 2011 and 2016, what becomes a concern is that this increase in productivity seems to be “more related to slow job growth.”³⁴

The assumption here is that people who work with “short-term contracts” (which have become more common in the job market, according to the ADB article) must work harder to maintain their jobs and thus increase productivity for the “wrong” reasons. The “right” reason the author expects is that productivity is high due to “efficiency gains.” Ensuring that productivity is due to efficiency gains is important because, as the author argues, “gains in labor productivity are essential for the economy as a whole to maintain competitiveness.” Then, she gives three suggestions to improve efficiency gains: “a better linking of wages and productivity, an improved combination of flexibility for enterprises and security for workers, and the strengthening of systems and incentives for skills formations.” The suggestions may seem benign, as they seem to be sympathetic toward workers. The article even encourages stronger collective bargaining so that compliance with the minimum wage can be improved and pay gains from minimum wage increases can be “filtered through to all workers.”³⁵

However, the issue is not merely about compliance in paying minimum wages. Companies like Java Film and Star Inc. comply well, and they engage in collective bargaining with labor unions

(although they complain about it). Increases in productivity are integral to the workings of labor-value chains, with the aim of keeping unit labor costs low. The suggestion put forward by the ADB emphasizes the idea that the linking of wages and productivity would lead to “stable real unit labor costs and profit growth.” For global capital, unit labor costs indeed need to be stable—but *stably low*. This is why, as the case studies show, every time there is an increase in wages, multinational clients strongly pressured their dependent suppliers to increase productivity and efficiencies, which boils down to increasing workers’ productivity on the shop floor through a series of reorganizations of work. Multinationals even interfered directly. As expressed in my interviews, the customers would “summon” the executives from Java Film and Star Inc. whenever they saw high waste in production—ironically a result of their unreasonable demands for flexibility. Multinational clients would prevent the production cost from going up, so that they could avoid paying their suppliers higher in their subsequent purchase order. One giant multinational client went so far as to offer to hire a world-class management consulting firm, at the client’s cost, to help the supplier review their operations and find “efficiencies” in their business processes. What would be the benefit for the client? As a Star Inc. executive explained, “Any savings that we could achieve in these efficiencies—it would translate into savings for them in terms of lower selling price.”

The disconnect between productivity and income is a common occurrence; it suggests that “productivity gains were either grabbed by employers or passed on in the form of lower prices to maintain competitiveness,” writes Ghosh.³⁶ Contrary to what the ADB assumes, what happens in reality is *not* exactly that productivity is already high (due to low job growth) and then wages catch up. Instead, it is the other way around: whenever there is an increase in wages, global capital, personified in multinationals, enforces additional increases in productivity, by any means necessary. And in the process, the “systems and incentives” will be strengthened, but only for increasing control over the labor process and not for “skills

formation.” More important, the “flexibility of enterprises” will be improved, but not the “security of workers” (except in the context where job security is seen as a means to invest in human capital and to nurture labor productivity growth). In addition, in regard to flexibility as a means to increase productivity, the 2016 ADB report stresses that “increasing flexibility in the labor market is essential for promoting innovation and productivity gains,” and that this should lead to the “creation of better business opportunities and better jobs”—although it is not clear exactly how a flexible labor market can be translated into the creation of *better* jobs for workers—“while forcing inefficient production activities to reform.”³⁷

But this issue aside, the point remains clear: institutions like the ADB emphasize the importance of productivity growth, led by efficiency gains, so that countries can remain competitive in labor-value chains. The fact that these gains are then captured by oligopolistic capital through exploitative means is not their concern. Unmasking such mainstream discourse is important. The labor-value chains framework allows us to see the extraction of surplus, driven by capital accumulation and hidden behind the dominant rhetoric of competitiveness, productivity, efficiency, flexibility, and the like. It enables us to properly examine the unequal capital-labor relations that characterize globalized production.

An examination of a particular firm, or a node within the value chain, as in the analysis of the controls imposed on Indonesian factories by the multinational corporations with which they subcontract, removes the veil that has covered these processes. The main examples include: (1) the control of technological knowledge through which multinationals can demand that suppliers apply, or do not apply, certain materials or techniques—“transferred” to the latter only according to the former’s needs—in an effort to cut production costs; (2) the application of demanding requirements, such as the ability of suppliers to deliver on demand or to accommodate fluctuating orders through “buffering” policies; and (3) standardization of procedures, where multinationals can require a series of regulations in dealing with suppliers. These are often

disguised as “fair business practices” such as international certifications or open-cost structures imposed upon suppliers.

In turn, these means of control are then translated into forms of control toward labor. The organization and reorganization of work implemented at the point of production, with the goal of catering to the requirements demanded by multinational clients, in the end becomes a significant mechanism within labor-value chains in which Global North capital exploits labor in the South. Multinational clients gain advantage from management policies and practices conducted by the bosses in the dependent companies, such as: (1) the incentive system that allows the invisible control of labor to happen, in which workers as a group are forced to increase their productivity through a threat of losing extra earnings (this is especially relevant because overtime hours are limited by government policies, while workers’ low wages make extra earnings not only desirable but essential); (2) the implementation of specific measurements of workers’ performance, in which factors such as the volume of product returns, operation performance, and customer complaints are taken into consideration—and workers are disciplined when they “fail” to perform well; (3) the use of direct control on the factory floors that includes monitoring workers’ activities to prevent discontent from growing into organized action; and (4) the spreading of propaganda that uses the “home/family” rhetoric to tame union-related activities, where unions are viewed as “infiltrators” that would wreck the “home” of workers (that is, the factory) and their “families” (including management).

All of these practices are enabled by the deskilling of work, dominated and shaped by capital accumulation, that has transformed workers into “mere executors” of work and thus made them vulnerable.

This process in which capital from a country far, far away can exercise control over Global South labor takes place within intricate global chains of value that are seemingly decentralized. It is a defining characteristic of our present world economy. As emphasized by Amin, the “contemporary capitalism” of today is marked

by “generalized, financialized, and globalized monopolies” that “tightly control all the systems of production.”³⁸ Apologists often frame the phenomena discussed here as an inevitable, neutral outcome of “globalization,” but once we look closely and critically, it is clear that the present phase of globalization is none other than a new phase of imperialism, used by capital and its state instruments to put forward a “set of demands by which they exert control over the productive systems of the periphery of global capitalism.” And as a system, Amin says, “generalized and globalized monopoly capitalism ensures that these monopolies derive a monopoly rent levied on the mass of surplus value . . . that capital extracts from the exploitation of labor.” When we speak of how this process operates in the “peripheries of the globalized system,” Amin continues, “this monopoly rent becomes an imperialist rent.”³⁹

The labor-value chains framework helps make this phenomenon clear. It also shows us the class struggle that occurs in “the hidden abode of production”: from the workers’ fight to shorten the working day in Marx’s era in England, to the threats of protests and strikes that keep lurking behind factory plants in twenty-first century Indonesia—which make their bosses, as well as their bosses’ bosses (namely, multinationals), nervous, no matter how much power they possess. In the end, workers are the direct producers of commodities. Even though they can be replaced by others from the industrial reserve army, workers’ struggles always manage to present real and frightening threats for their bosses.

An elderly man whose son works in one of the factory plants I studied said to me one afternoon, “Workers are the ones who make the goods for the company. If they all refuse to work, surely, the company would suffer. Can’t the company see that?” They surely can. So does global capital, which rules from the metropolis. And therein lies the class struggle, in which a united working class can fight exploitation by recognizing how it happens, and then confront it where it happens. In the context of manufacturing industry, this ongoing struggle means the reality of continued resistance at the site of production, on the factory floors, a small

yet significant place within the intricate global configuration of labor-value chains. A struggle that should, and can, flourish into an international movement against capitalism and imperialism in this age of globalized production. Although labor has been largely confined while capital runs free, solidarity and resistance know no borders. Writing in the 1800s, Marx and Engels declare in the final sentences of the *Communist Manifesto*: “The proletarians have nothing to lose but their chains.”⁴⁰ Today when we speak of chains we also mean the imperialistic value chains that perpetuate the exploitation and expropriation of the working class, chains that we desperately need to break, because we have a world to win.

APPENDIX 1

Statistical Notes

THE WORLD INPUT-OUTPUT DATABASE: Socio Economic Accounts (WIOD-SEA) is composed in two distinct (but overlapping) data releases. The 2013 release contains data on forty countries, covering the period between 1995 and 2011.¹ The 2016 release contains data on forty-three countries, covering the period between 2000 and 2014.² Two changes made in the 2016 release are significant for our analysis. First, the 2016 release uses an updated industry classification scheme (ISIC Rev. 4; the 2013 release used ISIC Rev. 3). Second, the variable “Total hours worked by persons engaged” (H_EMP), referring to all workers—as opposed to the more restrictive category of “Hours worked by employees” (H_EMPE)—was dropped.³ Because H_EMPE data is spotty for many countries, and entirely unavailable for China, we developed the following technique to calculate key variables in the 2016 release.

We mapped industry categories from the 2013 dataset to 2016 using the “ISIC Rev. 3—Rev. 4” mapping table provided by WIOD.⁴ This resulted in the merging of two ISIC Rev. 3 categories (“Textiles and textile products” and “Leather, leather products and footwear”) into a single ISIC Rev. 4 category (“Manufacture of textiles, wearing apparel and leather products”). To avoid duplication,

we averaged data for these two industry categories then dropped redundant values. In cases where ISIC Rev. 3 industry categories were split into one or more industry categories, only the data for the directly mapped ISIC Rev. 4 industry was used.

To estimate H_EMP in the 2016 release, we constructed three new variables. We calculated the first two variables from the 2013 release (by country, industry, and year): the ratio of hours worked (H_EMP) to hours worked by employees (H_EMPE), or “hours ratio” for short; and hours worked per worker (H_EMP / EMP), “hours worked.” A third variable used “average annual hours worked by persons engaged” (or “average hours worked”) from Penn World Tables. (Data for Hong Kong were used to approximate figures for China.)

We then merged the variables into the 2016 release (only for the overlapping years 2000–09 in the case of the first two variables) and created estimates using either the H_EMPE variable (hours ratio) or EMP (hours worked and average hours worked). In years where more than one estimate was available, we used the highest figure.⁵

Finally, using the 2016 release as a base, we estimated data for 1995–99 using the five-year moving average of annual change in unit labor cost from the 2013 release.⁶

Unit labor cost is given by the ratio of real “Total labor compensation” (LAB) per hour to “Gross output by industry at current basic prices” (GO) per hour (release 2013: H_EMP; release 2016: estimated H_EMP). Labor compensation (LAB) per hour (H_EMP, as explained above) was converted into 2017 USD using exchange-rate data from Penn World Tables (to convert national currency to USD)⁷ and inflation coefficients from the economist Robert Sahr.⁸ Due to inconsistencies in the data, we dropped figures for the industry of “coke and refined petroleum products” for the United Kingdom. The inconsistency appears to have arisen because there are very few workers in this industry.

It should be noted that in presenting average hourly labor compensation data in Chart 2, we convert to U.S. dollars (USD = 2017)

TABLE 2: Manufacturing Industries (ISIC Rev. 4)

Code	Description
C10-C12	Food products, beverages and tobacco products
C13-C15	Textiles, wearing apparel and leather products
C16	Wood & of products of wood and cork, except furniture; articles of straw & plaiting materials
C17	Paper and paper products
C18	Printing and reproduction of recorded media
C19	Coke and refined petroleum products
C20	Chemicals and chemical products
C21	Basic pharmaceutical products and pharmaceutical preparations
C22	Rubber and plastic products
C23	Other non-metallic mineral products
C24	Basic metals
C25	Fabricated metal products, except machinery and equipment
C26	Computer, electronic and optical products
C27	Electrical equipment
C28	Machinery and equipment n.e.c.
C29	Motor vehicles, trailers and semi-trailers
C30	Other transport equipment
C31-C32	Furniture; other manufacturing
C33	Repair and installation of machinery and equipment

rather than utilizing “Purchasing Power Parity” (PPP) exchange rates. PPP is important for answering some questions, such as equity and standard of living, but is misleading when approaching other issues, such as international financial flows, the purchase price of labor, profit margins, and the global labor arbitrage. It is the second set of questions that we are concerned with here. As the U.S. Bureau of Labor Statistics says in treating “International Comparisons of Hourly Compensation in Manufacturing,” it is “the cost of labor to an employer, not worker income” that is important.⁹ The distinction between using PPP and actual market dollars in such computations can be readily understood if we recognize that, according to the ILO’s *Global Wage Report 2018/19*,

“converting all G20 countries’ average wages into US dollars using purchasing power parity (PPP) exchange rate yields a simple average wage of some US\$3,250 per month in advanced economies and about US\$1,550 per month in emerging economies.”¹⁰ Yet, it is obvious that this does not reflect the *purchasing price* (labor cost) that international capital pays for labor in emerging economies, where wage rates are far below 50 percent of the average wage in the United States and other advanced economies indicated here, quite apart from issues of local purchasing power. As the International Monetary Fund’s *Finance and Development* journal states, “Market exchange rates are the logical choice when financial flows are involved.”¹¹

APPENDIX 2

Notes on the Methodology for the Case Studies

I collected data through observation and “key informants” interviews to examine how Global South capital manages both its workers and relationship with multinational clients. The goal here was not to look for a statistically representative group of “samples” but to gain in-depth information from individuals who are knowledgeable of the issues and willing to share the information.¹ Although some traditional use of “key informants” technique is often considered a form of unstructured interview in anthropology, the technique has been developed into different forms, including the “focused use of key informants” where there are structures to the interviews (in my case, semi-structured). Here, as the interviewer, I am familiar with the information that will be sought from the interviewees and have a framework of questions to use while doing the interviews.² In addition to observations and interviews, I also analyze the companies’ documents—ranging from brochures, videos, annual reports, and executives’ presentation materials—given to me during my fieldwork.

I deliberately avoid mentioning specific information about the companies (Java Film and Star Inc., both are pseudonyms) so that

their identities can be protected. This includes their exact locations, the names and profiles of their customers as well as their competitors, and other characteristics that may risk their anonymity. I conducted the fieldwork in three steps: (1) a pilot study at Java Film in 2012, in which I attended several management meetings and observed the factory for the first time; (2) a series of semi-structured interviews of Java Film's top management in 2013, along with more factory observations; (3) a series of semi-structured interviews of the top management at Star Inc. in 2015, along with factory observations. The interviews were done mostly in Indonesian, although some participants preferred to use a combination of Indonesian and English. Quotes displayed here are translated by me.

I interviewed fourteen Java Film executives and nineteen Star Inc. executives. All interviewees are quoted anonymously to protect their identities. Their specific job titles and other background information—such as age, years of working, education status—and other possible identifying attributes are not revealed in this report. I am using the information gained from the interviews in relation to the participants' knowledge, views, and experience as members of the company management—thus, their personal identities are largely irrelevant in this context. I also reveal as little information as possible about the companies' customers and competitors. All are referred to under pseudonyms as well. The little information I do provide here, such as which country or region the corporation is based in, is given because it is deemed necessary to the discussion.

Notes

1—The Hidden Abode of Global Production

1. David Harvey, “Imperialism: Is It Still a Relevant Concept?,” remarks delivered at Center for Public Scholarship New School for Social Research, New York, May 1, 2017; Harvey, “A Commentary on *A Theory of Imperialism*,” in *A Theory of Imperialism*, ed. Utsa Patnaik and Prabhat Patnaik (New York: Columbia University Press, 2017), 154–72. Harvey indicates that the concept of *imperialism* should be replaced with the notion of *shifting hegemonies* after reading Giovanni Arrighi’s *The Geometry of Imperialism: The Limits of Hobson’s Paradigm* (London: Verso, 1983), 173.
2. Gary Gereffi, “The Organization of Buyer–Driven Global Commodity Chains: How U.S. Retailers Shape Overseas Production Networks,” in *Commodity Chains and Global Capitalism*, ed. G. Gereffi and M. Korzeniewicz (Westport, CT: Praeger, 1994), 95–122; Gary Gereffi, “Global Production Systems and Third World Development,” in *Global Change, Regional Response*, ed. B. Stallings (New York: Cambridge University Press, 1995), 100–42; Gary Gereffi, “The New Offshoring of Jobs and Global Development,” ILO Lecture Series (Geneva: International Labour Organization, 2005); William Milberg and Deborah Winkler, *Outsourcing Economics: Global Value Chains in Capitalist Development* (New York: Cambridge University Press, 2013).
3. Harvey, “Imperialism: Is It Still a Relevant Concept?”; John Smith, “A Critique of David Harvey’s Analysis of Imperialism,” MR Online, August 26, 2017, and the threads on Review of African Political Economy (ROAPE) blog (<http://roape.net>) that includes John Smith, “David

Harvey Denies Imperialism,” ROAPE, January 10, 2018; David Harvey, “Realities on the Ground: David Harvey Replies to John Smith,” ROAPE, February 5, 2018; John Smith, “Imperialist Realities vs. The Myths of David Harvey,” March 19, 2018; Adam Mayer, “Dissolving Empire: David Harvey, John Smith, and the Migrant,” ROAPE, April 10, 2018; Patrick Bond, “Towards a Broader Theory of Imperialism,” ROAPE, April 18, 2018; Walter Daum, “Is Imperialism Still Imperialist? A Response to Patrick Bond,” ROAPE, May 16, 2018; Andy Higginbottom, “A Self-Enriching Path: Imperialism and the Global South,” ROAPE, June 19, 2018; Lee Wengraf, “U.S.-China Inter-Imperial Rivalry in Africa,” ROAPE, November 16, 2018.

4. J. A. Hobson, *Imperialism: A Study* (New York: James Pott & Company, 1902), 76–99. Western socialists have evinced wide variations in criticisms of the classic concept of imperialism in the broad sense, previously made famous by thinkers such as V. I. Lenin, Rosa Luxemburg, Paul Baran, Harry Magdoff, and Samir Amin. These include arguments that (1) imperialism is beneficial in promoting development in poor countries, as in Bill Warren, *Imperialism: Pioneer of Capitalism* (London: Verso, 1980); (2) the view that rates of exploitation (but not profits) are higher in the center than in the periphery, as in Charles Bettelheim, “Theoretical Comments,” in Arghiri Emmanuel, *Unequal Exchange* (New York: Monthly Review Press, 1972), 302–4; and Claudio Katz, “Revisiting the Theory of Super-Exploitation,” Links, July 5, 2018, <http://links.org.au/revisiting-theory-of-super-exploitation>; (3) the notion that imperialism has been replaced by an amorphous empire, as in Michael Hardt and Antonio Negri, *Empire* (Cambridge, MA: Harvard University Press, 2000); (4) the idea that imperialism in the classical sense has been replaced by a transnational capitalism displacing nation-states and national economies, as in William I. Robinson, *Into the Tempest: Essays on the New Global Capitalism* (Chicago: Haymarket, 2019); and the view that imperialism is no longer primarily economic but political and geopolitical in nature, and largely synonymous today with U.S. hegemony, as in Leo Panitch and Sam Gindin, *The Making of Global Capitalism* (London: Verso, 2012); and (5) the view of Arrighi and Harvey, in which imperialism can be replaced by a concept of shifting hegemonies. Naturally, social democratic and liberal thinkers have generally rejected any connection between capitalism and economic imperialism, as in Mark Blaug, “Economic Imperialism Revisited,” *Economic Imperialism*, ed. Kenneth E. Boulding and Tapan Mukerjee (Ann Arbor: University of Michigan Press, 1972), 142–55.

5. Harvey, “A Commentary on *A Theory of Imperialism*,” 169. Emphasis added.
6. See the posts by Smith, Harvey, Mayer, Bond, Daum, Higginbottom, and Wengraf on the ROAPE website, mentioned in note 4.
7. As addressed by Jayati Ghosh in “Globalization and the End of the Labor Aristocracy,” *Dollars & Sense: Real World Economics*, March/April 201, <http://www.dollarsandsense.org>.
8. For works that discuss these forms of imperialism, see for example John Bellamy Foster, *Naked Imperialism* (New York: Monthly Review Press, 2006); Utsa Patnaik and Prabhat Patnaik, *A Theory of Imperialism*; John Smith, *Imperialism in the Twenty-First Century* (New York: Monthly Review Press, 2016). For a more elaborate discussion regarding the concepts of exploitation and expropriation, see John Bellamy Foster and Brett Clark, “The Expropriation of Nature,” *Monthly Review* 69/10 (March 2018): 5.
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10. Paul Sweezy, “Marxian Value Theory and Crises,” *The Faltering Economy*, ed. John Bellamy Foster and Henryk Szlajfer (New York: Monthly Review Press, 1984), 238.
11. Bettelheim, “Theoretical Comments,” 302–4; Katz, “Revisiting the Theory of Super-Exploitation.” See also Emmanuel’s reply to Bettelheim in Emmanuel, *Unequal Exchange*, 380–83.
12. Richard Edwards, “Social Relations of Production at the Point of Production,” *The Insurgent Sociologist* 8/ 2 and 3 (1978): 110.
13. Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), 107–8.
14. Milberg and Winkler, *Outsourcing Economics*, 33–35.
15. John Bellamy Foster and Robert McChesney, *The Endless Crisis* (New York: Monthly Review Press, 2012), 105.
16. Martin Hart-Landsberg, *Capitalist Globalization: Consequences, Resistance, and Alternatives* (New York: Monthly Review Press, 2013), 18.
17. M. S. Solomon, “Labor Migrations and the Global Political Economy,” *The International Studies Encyclopedia*, vol. 7, ed. Robert Denemark (Oxford: Wiley-Blackwell, 2010), 4767–86.
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19. UNCTAD, *World Investment Report: Non-Equity Modes of International Production and Development* (Geneva: United Nations, 2011), 131.
20. Foster and McChesney, *The Endless Crisis*, 111.

21. International Labour Organization, *World Employment Social Outlook: The Changing Nature of Jobs* (Geneva: ILO, 2015), 131.
22. See Teri Caraway, *Assembling Women: The Feminization of Global Manufacturing* (Ithaca, NY: Cornell University Press, 2007).
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25. Smith, *Imperialism in the Twenty-First Century*, 101.
26. Gereffi, “Global Production Systems and Third World Development,” 107.
27. Jesus Felipe and Gemma Estrada, “Benchmarking Developing Asia’s Manufacturing Sector” (Manila: Asian Development Bank, 2007).
28. Terence Hopkins and Immanuel Wallerstein, “Commodity Chains in the World Economy Prior to 1800,” *Review: A Journal of the Fernand Braudel Center* 10/1 (1986): 157–70.
29. See Jennifer Bair and Marion Werner, “Commodity Chains and the Uneven Geographies of Global Capitalism: A Disarticulations Perspective,” *Environment and Planning A* 43 (2011): 988–97.
30. Henry Wai-chung Yeung and Neil Coe, “Toward a Dynamic Theory of Global Production Networks,” *Economic Geography* 91/1 (2014): 29–58.
31. Bair and Werner, “Commodity Chains and the Uneven Geographies of Global Capitalism,” 988.
32. Gereffi, “Global Production Systems and Third World Development,” 103.
33. Greg Linden, K. Kraemer, and J. Dedrick, “Who Captures Value in a Global Innovation System? The Case of Apple’s iPod,” *Communications of the ACM* 52/3: 140–44; Yuqing Xing and Neal Detert, “How the iPhone Widens the U.S. Trade Deficit with the People’s Republic of China,” ADBI Working Paper, Series No. 257, <http://adbi.org>. Linden, Kraemer, and Dedrick offer a valuable critique of value-added, along with their suggestion that value is actually captured (not added). After showing that U.S. companies such as Apple benefit the most (it captures high value, even though the production itself is located in China), they end up concluding: “U.S. companies need to work with international partners to bring new products to the market. These companies will capture profits commensurate with the extra value they bring to the table. This is simply the nature of business in the 21st century, and the fact that many U.S. companies are successful in this environment brings significant benefits to the U.S. economy” (144). Whereas Xing and Detert, after suggesting

- that Apple will still have a 50 percent profit margin even if production is located in the United States, conclude that “in a market economy, there is nothing wrong with a firm pursuing profit maximization. Governments should not restrict such behavior in any way.” They then continue to suggest that Corporate Social Responsibility (CSR) is sufficient as an “effective policy option,” with a focus on creating jobs for low-skilled workers, “such as using US workers to assemble iPhones” (10).
34. Milberg and Winkler, *Outsourcing Economics*, 17.
 35. Bair and Werner, “Commodity Chains and the Uneven Geographies of Global Capitalism,” 989.
 36. See Yeung and Coe, “Toward a Dynamic Theory of Global Production Networks,” 32.
 37. Benjamin Selwyn, “Social Upgrading and Labour in Global Production Networks: A Critique and an Alternative Conception,” *Competition and Change* 17/1 (2013): 76.
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 43. Arrighi, “The Developmentalist Illusion,” 24.
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 47. Selwyn, “Beyond Firm-centrism,” 213–15.
 48. Bair, “Global Capitalism and Commodity Chains,” 171.
 49. Bair and Werner, “Commodity Chains and the Uneven Geographies of Global Capitalism,” 992.
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51. Bair, “Global Capitalism and Commodity Chains,” 158–59.
52. Selwyn, “Social Upgrading and Labour in Global Production Networks,” 76; Bair and Werner, “Commodity Chains and the Uneven Geographies of Global Capitalism,” 988–89.
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57. John Bellamy Foster, Robert McChesney, and R. Jamil Jonna, “The Internationalization of Monopoly Capital,” *Monthly Review* 63/2 (June 2011): 11.
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59. Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York: Basic Books, 1975).
60. Harry Magdoff, *The Age of Imperialism* (New York: Monthly Review Press, 1969), 54.
61. *Ibid.*, 58.
62. Hymer, *The Multinational Corporation*, 174.
63. UNCTAD, *World Investment Report: Non-Equity Modes of International Production and Development* (Geneva: United Nations, 2011); UNCTAD, *World Investment Report: Global Value Chains* (Geneva: United Nations, 2013).
64. Intan Suwandi, R. Jamil Jonna, and John Bellamy Foster, “Global Commodity Chains and the New Imperialism,” *Monthly Review* 70/10 (2019): 1–24.
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2 — Labor-Value Commodity Chains

This chapter is co-authored with R. Jamil Jonna and John Bellamy Foster. A slightly different version was published in *Monthly Review* 70/10 (March 2019): 1–24, titled “Global Commodity Chains and the New Imperialism.”

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6. World Bank, “Arm’s Length Trade,” 63–64.
7. UNCTAD, *World Investment Report, 2011* (Geneva: United Nations, 2011), 132.
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9. David Harvey, “A Commentary on *A Theory of Imperialism*,” in *A Theory of Imperialism*, Utsa Patnaik and Prabhat Patnaik (New York: Columbia University Press, 2017), 169–71.
10. Karl Marx, *Capital*, vol. 3 (London: Penguin, 1981), 345.
11. Serfati and Sauviat, “The Impact of Global Supply Chains on Employment and Production Systems”; Stephen Hymer, *The Multinational Corporation* (Cambridge: Cambridge University Press, 1979).
12. Karl Marx, “The Value-Form,” *Capital and Class* 2/1 (1978): 134. The term *global supply chain* is used by multinationals to refer to the material and logistical aspects of organizing production that involves numerous components brought together over spatially dispersed global production platforms. The logistical aspect relates to the old military notion of *supply lines*. From a financial-value standpoint, each link in the chain is expected to be profitable and to transfer value toward the center of the system—that is, the multinational itself or its corporate

- headquarters. Rather than utilize the terms *supply chain* and *value chain* back and forth, my co-authors and I therefore prefer, building on Marxist theory, to refer to *commodity chains*, or *labor-value commodity chains* (referring to labor-value chains when the value component is front and center and commodity chains more generally).
13. On unit labor costs and the global capitalist political economy, see John Bellamy Foster, “Monopoly Capital at the Turn of the Millennium,” *Monthly Review* 51/11 (April 2000): 1–17.
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 17. Costas Lapavistas, *Profiting Without Producing* (London: Verso, 2013), 141–47; John Bellamy Foster and Brett Clark, “The Expropriation of Nature,” *Monthly Review* 69/10 (March 2018): 1–27.
 18. On value extraction, see Mariana Mazzucato, *The Value of Everything* (New York: Public Affairs, 2018).
 19. Samir Amin, “Self-Reliance and the New International Economic Order,” *Monthly Review* 29/3 (July–August 1977): 1–21; John Bellamy Foster, *The Theory of Monopoly Capitalism* (New York: Monthly Review Press, 2014), 181.
 20. Arghiri Emmanuel, *Unequal Exchange* (New York: Monthly Review Press, 1972), 167. Prabhat Patnaik writes in criticism of Emmanuel: “The assumption that free mobility of capital can only equalize the rate of profit while free mobility of labour is necessary for equalizing wages is erroneous. Free mobility of capital alone can equalize both the rate of

profit as well as the wage rate. As long as there is genuine free mobility of capital, if there are any wage differences, then capital will move from the high-wage to the low-wage country to produce the *same commodities and with the same techniques of production* that it was doing in the high-wage country.” Prabhat Patnaik, *Whatever Happened to Imperialism and Other Essays* (New Delhi: Tulika, 1995), 99. Patnaik’s logic is undoubtedly correct in the abstract. But while capital in the center is certainly outsourcing production today, in the way projected here, the reality is that there remain those restrictions on the free mobility of capital imposed on developing countries by the structure of monopoly-multinational capital and the imperialist world system itself, blocking “genuine mobility of capital” in a free-competition sense, perpetuating uneven development and inhibiting wage increases in poor countries (imposing a race to the bottom). Outsourcing thus has only very slowly pulled up wages in underdeveloped countries with large industrial reserve armies in comparison to the wage levels in the developed countries, often reinforcing rather than negating the global labor arbitrage.

21. Utsa Patnaik and Prabhat Patnaik, *A Theory of Imperialism* (New York: Columbia University Press, 2017), 196.
22. Serfati and Sauviat, “The Impact of Global Supply Chains on Employment and Production Systems,” 11.
23. *Ibid.*, 8.
24. ILO, *World Employment and Social Outlook: The Changing Nature of Jobs* (Geneva: ILO, 2015), 132.
25. Smith, *Imperialism in the Twenty-First Century*, 101.
26. Gary Gereffi, “Global Production Systems and Third World Development,” in *Global Change, Regional Response*, ed. B. Stallings (Cambridge: Cambridge University Press, 1995), 107.
27. Jesus Felipe and Gemma Estrada, “Benchmarking Developing Asia’s Manufacturing Sector” (Manila: Asian Development Bank, 2007).
28. Karl Marx and Frederick Engels, *Collected Works*, vol. 36 (New York: International Publishers, 1975), 63; Rudolf Hilferding, *Finance Capital* (New York: Routledge, 1981), 60.
29. Jennifer Bair, “Global Capitalism and Commodity Chains,” *Competition and Change* 9 (2005): 153–80; Terence Hopkins and Immanuel Wallerstein, “Commodity Chains in the World Economy Prior to 1800,” *Review: A Journal of the Fernand Braudel Center* 10/1 (1986): 157–70.
30. Gary Gereffi and Miguel Korzeniewicz, eds., *Commodity Chains and Global Capitalism* (New York: Praeger, 1994).
31. See Bair, “Global Capitalism and Commodity Chains,” 162.
32. Jennifer Bair, “Global Commodity Chains,” in *Frontiers of Commodity Chain Research*, ed. Bair (Stanford: Stanford University Press, 2009),

- 1–34; William Milberg and Deborah Winkler, *Outsourcing Economics: Global Value Chains in Capitalist Development* (Cambridge: Cambridge University Press, 2013), 143. Even that distinction is not clear cut, as some scholars, such as William Millberg and Deborah Winkler, use the GVC framework in a way that is critical of transaction cost economics, while being more open to the power dimension associated with commodity-chain analysis. Differing from transaction-cost economics, Millberg and Winkler see the firm as having “a strategy for growth—in size, market share, or profits—other than transactions cost minimization under given constraints” (142). This approach is therefore closer to the more comprehensive analysis offered by Stephen Hymer.
33. Hopkins and Wallerstein, “Commodity Chains in the World Economy Prior to 1800,” 159.
 34. Immanuel Wallerstein, “Commodity Chains in the World Economy, 1590–1790,” *Review* 23/1 (2000): 2.
 35. Gary Gereffi, Miguel Korzeniewicz, and R. P. Korzeniewicz, “Introduction,” in *Commodity Chains and Global Capitalism*, 2.
 36. Milberg and Winkler, *Outsourcing Economics*.
 37. Gary Gereffi, “The New Offshoring of Jobs and Global Development,” ILO Lecture Series, 2005, 5.
 38. Millberg and Winkler, *Outsourcing Economics*, 12.
 39. Gereffi, “The New Offshoring of Jobs and Global Production,” 4.
 40. Gereffi, “Global Production Systems and Third World Development,” 116.
 41. Gary Gereffi, “The Organization of Buyer-Driven Global Commodity Chains,” in *Commodity Chains and Global Capitalism*, 99.
 42. Martin Hart-Landsberg, *Capitalist Globalization* (New York: Monthly Review Press, 2013), 45.
 43. Stephen Hymer, *The Multinational Corporation* (Cambridge: Cambridge University Press, 1979), 43.
 44. John Bellamy Foster, Robert McChesney, and R. Jamil Jonna, “The Internationalization of Monopoly Capital,” *Monthly Review* 63/2 (2011): 9.
 45. John Smith, “Imperialist Realities vs. the Myths of David Harvey,” Review of African Political Economy blog, March 19, 2018, <http://roape.net>. See also Smith, *Twenty-First Century Imperialism*.
 46. Stephen Roach, “More Jobs, Worse Work,” *New York Times*, July 22, 2004.
 47. Stephen Roach, “How Global Labor Arbitrage Will Shape the World Economy,” *Global Agenda Magazine* (2004).
 48. Smith, *Imperialism in the Twenty-First Century*, 198–206.
 49. *Ibid.*, 16.

50. Samir Amin, *Unequal Development* (New York: Monthly Review Press, 1976).
51. Karl Marx, *Capital*, vol. 1 (London: Penguin, 1976), 781–94.
52. See Milberg and Winkler, *Outsourcing Economics*, 51.
53. Farshad Araghi, “The Great Global Enclosure of Our Times,” in *Hungry for Profit*, ed. Fred Magdoff, John Bellamy Foster, and Frederick M. Buttel (New York: Monthly Review Press, 2000), 145–60.
54. Mike Davis, *The Planet of Slums* (London: Verso, 2006).
55. Marx, *Capital*, vol. 1, 795–96, 871.
56. James Peoples and Roger Sugden, “Divide and Rule by Transnational Corporations,” in *The Nature of the Transnational Firm*, ed. Charles N. Pitelis and Roger Sugden (New York: Routledge, 2000), 177–95.
57. Foster, McChesney, and Jonna, “The Internationalization of Monopoly Capital,” 12–13.
58. Foster, “Monopoly Capital at the Turn of the Millennium,” 7.
59. Zak Cope, *Divided World, Divided Class* (Montreal: Kersplebedeb, 2012), 202.
60. ILO, *World Employment and Social Outlook*, 143. Our emphasis.
61. See Myron Gordon, “Monopoly Power in the United States Manufacturing Sector, 1899 to 1994,” *Journal of Post Keynesian Economics* 20/3 (1998): 323–35; Foster, “Monopoly Capital at the Turn of the Millennium,” 13–14.
62. See Foster, “Monopoly Capital at the Turn of the Millennium,” 13–15; Organisation of Economic Cooperation and Development, *OECD Factbook 2014: Economic, Environmental and Social Statistics* (Paris: OECD Publishing, 2014).
63. Michał Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy* (Cambridge: Cambridge University Press, 1971), 156–64.
64. The G7 countries are Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. Robert Brenner, “Competition and Class,” *Monthly Review* 51/7 (1999): 24–44; Robert Brenner, “The Economics of Global Turbulence,” *New Left Review* 229 (1998): 1–264; Foster, “Monopoly Capital at the Turn of the Millennium,” 14.
65. Foster, “Monopoly Capital at the Turn of the Millennium,” 14.
66. World Input-Output Database, <http://wiod.org>.
67. Marcel P. Timmer, Erik Dietzenbacher, Bart Los, Robert Stehrer, and Gaaitzen J. de Vries, “An Illustrated User Guide to the World Input-Output Data Base: The Case of Global Automotive Production,” *Review of International Economics* 23/3 (2015): 575–605.
68. Robert C. Feenstra, Robert Inklaar, and Marcel P. Timmer, “The Next Generation of the Penn World Table,” *American Economic Review* 105/10 (2015): 3150–82.

69. Prabhat Patnaik, *The Value of Money* (New York: Columbia University Press, 2009).
70. A final limitation of existing data is the availability of historical figures. The BLS series is by far the longest, going back to 1950 for the United States and the 1970s for a handful of other countries; while OECD data is spotty before the 2000s. However, a few researchers have recently developed a methodology for calculating unit labor cost data from the United Nations Industrial Development Organization's Industrial Statistics Database (INDSTAT). Apart from the availability of historical data, the INDSTAT database contains a much larger subset of countries and the figures are specifically on the manufacturing sector. Due to the reasons above, we use this dataset for our research. The INDSTAT data is ideal with respect to our conception of labor-value commodity chains since it allows us to construct a statistically comparable time series (at least back to 1990) for key developed and developing economies. The greater coverage allows us to utilize ILO data on global supply chain participation to follow a theoretically consistent group of countries. See Janet Ceglowski and Stephen Golub, "Just How Low Are China's Labour Costs?" *World Economy* 30/4 (2007): 597–617; Janet Ceglowski and Stephen Golub, "Does China Still Have a Labor Cost Advantage?" *Global Economy Journal* 12/3 (2011): 1–28.
71. Irma Rosa Martínez Arellano, "Two Decades of Labour Flexibilisation in Mexico Has Left Workers Facing 'Drastic' Precarity," *Equal Times*, January 30, 2019, <https://www.equaltimes.org/two-decades-of-labour?lang=en>.
72. Reuters, "Foxconn to Begin Assembling Top-End Apple iPhones in India in 2019," December 27, 2018.
73. Foster, McChesney, and Jonna, "The Global Reserve Army of Labor and the New Imperialism," 15; Yuqing Xing and Neal Detert, *How the iPhone Widens the United States Trade Deficit with the Peoples' Republic of China*, ADBI Working Paper, Asian Development Bank Institute (December 2010; paper revised May 2011).
74. This recent relative shift in unit labor costs in China and Mexico is familiar in financial circles. See Marc Chandler, "Mexico and China Unit Labor Costs," *Seeking Alpha*, January 25, 2017, <https://seekingalpha.com/article/4039413-mexico-china-unit-labor-costs>.
75. Hart-Landsberg, *Capitalist Globalization*, 38–39.
76. Unit labor costs are not, of course, the only factor taken into consideration in determining where labor is employed in global supply chains. Other factors include cost factors related to infrastructure and transportation, as well as the absolute quantity of labor available (affected

- by the size of the labor reserve army in any given locale), language, currency regulations, technology factors, security, etc.
77. Lowell Bryan, “Globalization’s Critical Imbalances,” *McKinsey Quarterly* (2010).
 78. This and the following paragraph are based on John Bellamy Foster, “The New Imperialism of Globalized Monopoly-Finance Capital,” *Monthly Review* 67/3 (July–August 2015): 13–14.
 79. Zahid Hussain, “Financing Living Wage in Bangladesh’s Garment Industry,” *End Poverty in South Asia*, World Bank, March 8, 2010, <http://blogs.worldbank.org>.
 80. Jeff Ballinger, “Nike Does It to Vietnam,” *Multinational Monitor* 18/3 (1997): 21.
 81. John Bellamy Foster and Robert McChesney, *The Endless Crisis* (New York: Monthly Review, 2012), 165–74.
 82. Siddharth Kara, *Tainted Garments: The Exploitation of Women and Girls in India’s Home-Based Garment Sector* (Blum Center for Developing Economies at University of California Berkeley, 2019), 5–9.
 83. John Smith, “The GDP Illusion,” *Monthly Review* 64/3 (July–August 2012): 86–102; Smith, *Imperialism in the Twenty-First Century*, 252–78.
 84. Larry Elliott, “World’s Richest 26 People Own as Much as Poorest 50%, Says Oxfam,” *Guardian*, January 20, 2019.
 85. See Harvey, “A Commentary on a *Theory of Imperialism*,” 169–71.
 86. Thomas Piketty, *Capitalism in the Twenty-First Century* (Cambridge: Cambridge University Press, 2014). See also Michael D. Yates, “The Great Inequality,” *Monthly Review* 63/10 (March 2012): 1–18.
 87. Jason Hickel, “Is Global Inequality Getting Better or Worse? A Critique of the World Bank’s Convergence Narrative,” *Third World Quarterly* 38/10 (2017): 2208–22.
 88. Deborah Hardoon, *An Economy for the 99%* (Oxford: Oxfam International, 2017).
 89. Samir Amin, *Modern Imperialism, Monopoly Finance Capital, and Marx’s Law of Value* (New York: Monthly Review Press, 2018); Smith, *Imperialism in the Twenty-First Century*, 224–251.
 90. Jack Nicas, “A Tiny Screw Shows Why iPhones Won’t Be ‘Assembled in the U.S.A.’,” *New York Times*, January 28, 2019.
 91. Marx, *Capital*, vol. 1, 279.

3 — Flexibility and Systematic Rationalization

1. Dieter Sauer, Manfred Deiß, Volker Döhl, Daniel Bieber, and Norbert Altmann, “Systemic Rationalization and Inter-Company Divisions of

- Labour,” *Technology and Work in German Industry*, ed. N. Altmann, C. Köhler, and P. Meil (London: Routledge, 1992), 47.
2. Norbert Altmann and Manfred Deiß, “Productivity by Systemic Rationalization: Good Work—Bad Work—No Work?” *Economic and Industrial Democracy* 19 (1998): 139–40.
 3. Stephen Roach, “How Global Labor Arbitrage Will Shape the World Economy,” *Global Agenda* 2005; Altmann and Deiß, “Productivity by Systemic Rationalization,” 139.
 4. Bennett Harrison, *Lean and Mean: The Changing Landscape of Corporate Power in the Age of Flexibility* (New York: Basic Books, 1994), 190.
 5. *Ibid.*, 127.
 6. *Ibid.*, 129–30.
 7. *Ibid.*, 11.
 8. *Ibid.*, 9.
 9. *Ibid.*, 12; James Devine, “Lean and Mean,” *Monthly Review* 47/9 (1996): 49–52.
 10. Harrison, *Lean and Mean*, 12.
 11. Norbert Altmann, Christoph Köhler, and Pamela Meil, “No End in Sight—Current Debates on the Future of Industrial Work,” in Altmann et al., *Technology and Work in German Industry*, 1–11; Pamela Meil, “Stranger in Paradise—An American’s Perspective on German Industrial Sociology,” in *ibid.*, 12–25.
 12. Altmann and Deiß, “Productivity by Systemic Rationalization,” 139.
 13. Sauer et al., “Systemic Rationalization and Inter-Company Divisions of Labour,” 49.
 14. Ernesto Screpanti, *Global Imperialism and the Great Crisis* (New York: Monthly Review Press, 2014); Martin Hart-Landsberg, *Capitalist Globalization: Consequences, Resistance, and Alternatives* (New York: Monthly Review Press, 2013).
 15. Sauer et al., “Systemic Rationalization and Inter-Company Divisions of Labour,” 46.
 16. *Ibid.*, 49.
 17. Altmann and Deiß, “Productivity by Systemic Rationalization,” 139.
 18. Devine, “Lean and Mean,” 50.
 19. Harrison, *Lean and Mean*, 109.
 20. See Devine, “Lean and Mean.”
 21. Harrison, *Lean and Mean*, 7.
 22. Meil, “Stranger in Paradise,” 15.
 23. See Christopher Wright and John Lund, “Supply Chain Rationalization: Retailer Dominance and Labour Flexibility in the Australian Food and Grocery Industry,” *Work, Employment, and Society* 17/1 (2003): 137–57.
 24. Altmann et al., “No End in Sight,” 4–5.

25. Devine, “Lean and Mean,” 50.
26. Altmann et al., “No End in Sight,” 5.
27. Ibid., 4.
28. Altmann and Deiß, “Productivity by Systemic Rationalization,” 141–2, 145.
29. Altmann et al., “No End in Sight,” 7; see Wright and Lund, “Supply Chain Rationalization.”
30. Altmann and Deiß, “Productivity by Systemic Rationalization,” 139.
31. Ibid., 151.
32. Harrison, *Lean and Mean*, 211.
33. Devine, “Lean and Mean,” 52.
34. John Bellamy Foster, “Introduction to the New Edition,” in Harry Braverman, *Labor and Monopoly Capital* (New York: Monthly Review Press, 1998), xviii.
35. Karl Marx, *Capital*, vol. 1 (London: Penguin Books, 1976 [1867]), 283.
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37. Andrew Zimbalist, “Introduction,” *Case Studies on the Labor Process*, ed. A. Zimbalist (New York: Monthly Review Press, 1979), xi.
38. Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), 8.
39. Paul M. Sweezy, “Foreword to the Original Edition,” in Braverman, *Labor and Monopoly Capital* (New York: Monthly Review Press, 1998 [1974]), xxv.
40. John Bellamy Foster, “Investment and Capitalist Maturity,” *The Faltering Economy*, ed. John Bellamy Foster and Henryk Szlajfer (New York: Monthly Review Press, 1984), 66.
41. John Bellamy Foster, “Investment and Capitalist Maturity,” 66.
42. Adam Smith, *The Wealth of Nations* (London: J. M. Dent and Sons, 1910 [1776]), 15; John Bellamy Foster, “Investment and Capitalist Maturity,” 66–67.
43. Marx, *Capital*, vol. 1, 1035.
44. Harry Braverman, *Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century* (New York: Monthly Review Press, 1998 [1974]), 59.
45. Paul A. Attewell, *Radical Political Economy since the Sixties* (New Brunswick, NJ: Rutgers University Press, 1984), 96.
46. Smith, *The Wealth of Nations*, 6.
47. Foster, “Introduction to the New Edition,” xvi.
48. Attewell, *Radical Political Economy since the Sixties*, 96.
49. Braverman, *Labor and Monopoly Capital*, 57–59.
50. Braverman, 37, 77–83.

51. Attewell, *Radical Political Economy since the Sixties*, 97.
52. Marx, *Capital*, vol. 1, 449.
53. Gartman, “Marx and the Labor Process: An Interpretation,” 103.
54. Marx, *Capital*, vol. 1, 449.
55. Braverman, *Labor and Monopoly Capital*, 47.
56. Zimbalist, “Introduction,” xii.
57. Stephen A. Marglin, “What Do Bosses Do? The Origins and Functions of Hierarchy in Capitalist Production,” *Review of Radical Economics* 6 (1974), 62.
58. Attewell, *Radical Political Economy since the Sixties*, 109.
59. Marglin, “What Do Bosses Do?,” 70.
60. Attewell, *Radical Political Economy since the Sixties*, 110.
61. Gartman, “Marx and the Labor Process: An Interpretation,” 103.
62. Richard Edwards, “Social Relations of Production at the Point of Production,” *The Insurgent Sociologist* 8/2 and 3 (1978): 111.
63. Edwards, “Social Relations of Production at the Point of Production,” 115–19.
64. *Ibid.*, 112.
65. Braverman, *Labor and Monopoly Capital*, 112, 175.
66. Zimbalist, “Introduction,” xiii.
67. David Gartman, “Origins of the Assembly Line and Capitalist Control of Work at Ford,” *Case Studies on the Labor Process*, ed. A. Zimbalist (New York: Monthly Review Press, 1979), 196–97.
68. Gartman, “Origins of the Assembly Line and Capitalist Control of Work at Ford,” 195.
69. Cited from a Federal Trade Commission document in Gartman, “Origins of the Assembly Line and Capitalist Control of Work at Ford,” 203.
70. See, for example, Teri Caraway, *Assembling Women: The Feminization of Global Manufacturing* (Ithaca, NY: Cornell University Press, 2007); Cynthia Enloe, *The Curious Feminist: Searching for Women in a New Age of Empire* (Berkeley: University of California Press, 2004); Annette Fuentes and Barbara Ehrenreich, *Women in the Global Factory* (South End Press, 1983); Mary Beth Mills, “Gender and Inequality in the Global Labor Force,” *Annual Review of Anthropology* 32 (2003): 41–62; Aihwa Ong, “The Gender and Labor Politics of Postmodernity,” *Annual Review of Anthropology* 20 (1991): 279–309; Pun Ngai, *Made in China: Women Factory Workers in a Global Workplace* (Durham, NC: Duke University Press, 2005); Leslie Salzinger, *Genders in Production: Making Workers in Mexico’s Global Factories* (Berkeley: University of California Press, 2003).
71. Gartman, “Origins of the Assembly Line and Capitalist Control of Work at Ford,” 196.

72. Sauer et al., “Systemic Rationalization and Inter-Company Divisions of Labour,” 46.
73. Ibid., 46.
74. Harrison, *Lean and Mean*, 126.
75. Ibid., 127.
76. Baran and Sweezy, *Monopoly Capital*, 72. Baran and Sweezy define surplus as “the difference between what a society produces and the costs of producing it. The size of the surplus is an index of productivity and wealth, of how much freedom a society has to accomplish whatever goals it may set for itself. The composition of the surplus shows how it uses that freedom: how much it invests in expanding its productive capacity, how much it consumes in various forms, how much it wastes and in what ways” (9–10).
77. Baran and Sweezy, *Monopoly Capital*, 108; John Bellamy Foster, “What Is Stagnation?,” *The Imperiled Economy*, ed. Robert Cherry et al. (New York: URPE, 1987), 62.
78. John Bellamy Foster and Fred Magdoff, *The Great Financial Crisis: Causes and Consequences* (New York: Monthly Review Press, 2009), 15.
79. Paul M. Sweezy and Harry Magdoff, *Economic History as It Happened*, vol. 4: *Stagnation and the Financial Explosion* (New York: Monthly Review Press, 1987): 102–3. Sweezy and Magdoff also claim these as examples of “real resources”: the high consumption by millions of employees in the financial sector—who “consume on the average as much as (and perhaps even more than) employees in the rest of the economy”; fancy buildings where financial offices, including banks, are located; and a “very substantial part of the output of the hi-tech industries (computers, communication equipment, etc.)” that goes to this sector (103).
80. This is a critique of a position held by many economists, even ones on the left, who often disregard the fundamental logic of financialization. They instead see it as the culprit that causes stagnation, while disregarding the real problem. In this view, phenomena such as wage stagnation and increased income inequality are a result of “changes wrought by financial sector interests.” See Foster and Magdoff, *The Great Financial Crisis*, 106. The idea can be traced back to Hyman Minsky, who puts financialization in the execution chair and focuses on the financial instability argument.
81. Larry Summers, “The Age of Secular Stagnation,” February 15, 2016, <http://larrysummers.com>.
82. Editors, “Notes from the Editors,” *Monthly Review* 67/8 (January 2016).
83. Charles Mudede, “What If Economists for Once Give Marxists Some Fucking Credit?” *The Stranger*, November 21, 2013, <https://www.thes->

- tranger.com/slog/archives/2013/11/21/what-if-economist-for-once-give-marxists-some-credit.
84. Paul Krugman, “Secular Stagnation, Coalmines, Bubbles, and Larry Summers,” *New York Times*, November 16, 2013, <http://krugman.blogs.nytimes.com>.
 85. Paul Krugman, “Robber Barron Recessions,” *New York Times*, April 18, 2016, <http://www.nytimes.com>.
 86. John Bellamy Foster, “Monopoly Capital at the Turn of the Millennium,” *Monthly Review* 51/11 (April 2000): 7.
 87. Foster and Magdoff, *The Great Financial Crisis*, 74.
 88. Sweezy and Magdoff, *Economic History as It Happened*, 103–4.
 89. Harry Magdoff and Paul M. Sweezy, “Productivity Slowdown: A False Alarm,” *Monthly Review* 31/2 (June 1979): 1.
 90. Magdoff and Sweezy, “Productivity Slowdown,” 2.
 91. Harry Magdoff and Paul M. Sweezy, “The Uses and Abuses of Measuring Productivity,” *Monthly Review* 32/2 (June 1980): 7.
 92. See also Edwards, “Social Relations of Production at the Point of Production,” 110–11.
 93. Braverman, *Labor and Monopoly Capital*, 141.
 94. See Devine, “Lean and Mean,” 52.

4—“We Are Just a Seamstress”

1. Emma Allen, “Raising Indonesian Labor Productivity,” *Asian Development Bank*, August 9, 2016, <http://www.adb.org>; Chandra Gian Asmara, “Demi Asing, Ini Sederet Insentif yang Siap Diobral Pemerintah,” *CNBC Indonesia*, November 12, 2018; Marchio Irfan Gorbiano, “Minister Sri Mulyani Woos Investors to Bring in FDI to Indonesia,” *Jakarta Post*, February 1, 2019; Iswari Anggit, “Alasan di Balik Penambahan Sektor Penerima Tax Holiday,” *CNBC Indonesia*, November 16, 2018.
2. Cynthia Enloe, *The Curious Feminist: Searching for Women in a New Age of Empire* (Berkeley: University of California Press, 2004).
3. These are pseudonyms. See Appendix 2: Notes on the Methodology for the Case Studies for more information about the fieldwork.
4. Workers on the shop floor in both companies are mostly men, except in some segments of production where the labor intensity is higher—the “finishing” segment at Java Film and the bag-making segment at Star Inc. The latter is particularly filled with women workers. This is a topic I do not discuss here, but it is worth noting that this gender composition of workers is based on gendered assumptions that underlie the division of labor, where workers in labor-intensive, export-oriented industries are overwhelmingly women due to the stereotypes regarding their “dexterity” and “docility”; see Annette Fuentes and Barbara

Ehrenreich, *Women in the Global Factory* (Cambridge, MA: South End Press, 1983); Leslie Salzinger, *Genders in Production: Making Workers in Mexico's Global Factories* (Berkeley: University of California Press, 2003). The executives I interviewed told me that the reason behind hiring mostly men was because their companies were considered heavy-industry, and jobs performed were “heavy-duty” tasks in need of “men’s strength.” The claimed reason behind the hiring of mostly women in segments like bag-making was also ridden with gender stereotypes, in which women were deemed more “careful” and able to “pay attention to details.” These qualities were considered important by my interviewees because in bag-making, workers must carefully avoid mistakes and minimize the risk of having the products returned by customers. Also, they had to pay attention to small things, such as making sure that there were no little bugs like mosquitos trapped in the bags they make. If there was even one mosquito stuck in one bag, the *whole* batch of products would be returned, creating a big loss for the company.

5. Bennett Harrison, *Lean and Mean: The Changing Landscape of Corporate Power in the Age of Flexibility* (New York: Basic Books, 1994).
6. Richard J. Barnett and Ronald Müller, *Global Reach* (New York: Simon and Schuster, 1974).
7. Harrison, *Lean and Mean*, 129.
8. Norbert Altmann and Manfred Deiß, “Productivity by Systemic Rationalization: Good Work—Bad Work—No Work?” *Economic and Industrial Democracy* 19 (1998): 140.
9. Walter LaFeber, *Michael Jordan and the New Global Capitalism* (New York: W.W. Norton, 1999), 107.
10. See Tri Artining Putri, “Ekonomi Melambat, Pertumbuhan Ekonomi Tak Tercapai?” *Tempo.Co*, May 5, 2015; Muhammad Hendartyo, “4 Tahun Jokowi, Rapor Merah Berdasarkan Tolak Ukur RPJMN,” *Tempo.Co*, October 22, 2018.
11. Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: Indonesia* (OECD Publishing, 2015), 2; see also “Pertumbuhan Ekonomi Indonesia Melemah,” *BBC Indonesia*, August 5, 2014.
12. In Allen, “Raising Indonesian Labor Productivity.”
13. *OECD, Economic Surveys: Indonesia*.
14. Altmann and Deiß, “Productivity by Systemic Rationalization,” 140.
15. Dieter Sauer, Manfred Deiß, Volker Döhl, Daniel Bieber, and Norbert Altmann, “Systemic Rationalization and Inter-Company Divisions of Labour,” *Technology and Work in German Industry*, ed. N. Altmann, C. Köhler, and P. Meil (London: Routledge, 1992), 46–59.
16. See Altmann and Deiß, “Productivity by Systemic Rationalization.”

17. Masaaki Imai, *Gemba Kaizen: A Commonsense, Low-Cost Approach to Management* (New York: McGraw Hill, 1997), xxv, 8–9.
18. Altmann and Deiß, “Productivity by Systemic Rationalization,” 148.
19. These two aspects, productivity and efficiency, were mentioned a lot in the meetings I attended at Java Film (in terms of how to increase both), and also became a common slogan communicated to workers by management in both companies. Productivity was defined by the executives I interviewed mostly as the output (in tons) per-worker (more tons produced, more productive). Efficiency was related to productivity, where better efficiency was seen as a means to achieve higher productivity. In general, efficiency was explained vaguely as “doing things correctly” and “reducing waste” (reducing waste was a major goal). A clearer explanation came when efficiency was put within a specific context, depending on which department the executive belonged to. For example, someone from the production department would emphasize material efficiency, so that raw materials would not end up as waste due to mistakes made in production. Someone from the planning department would focus on reducing “downtime” and strategizing on which orders should be processed first, while someone from the human resource department would emphasize factors such as reducing the number of “unnecessary” workers so that each area of production would become “leaner.”
20. Sauer et al., “Systemic Rationalization and Inter-Company Divisions of Labour,” 49.
21. Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), 130–31.
22. See *The Law No. 13/2003 Regarding Labor Regulations*, article 78 sec. 1(b), issued by the Indonesian government, available at the ILO website,, <http://www.ilo.org>.
23. Altmann and Deiß, “Productivity by Systemic Rationalization.”
24. Richard Edwards, “Social Relations of Production at the Point of Production,” *The Insurgent Sociologist* 8/2 and 3 (1978): 109–25.
25. John Bellamy Foster and Robert McChesney, *The Endless Crisis* (New York: Monthly Review Press, 2012); John Smith, *Imperialism in the Twenty-First Century* (New York: Monthly Review Press, 2016).
26. Harry Braverman, *Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century* (New York: Monthly Review Press, 1998 [1974]), 25.
27. David Gartman, “Marx and the Labor Process: An Interpretation,” *The Insurgent Sociologist* 8/2 and 3 (1978): 102.
28. Richard Edwards, “Social Relations of Production at the Point of Production,” *The Insurgent Sociologist* 8/2 and 3 (1978): 115–19.

29. Braverman, *Labor and Monopoly Capital*, 134.
30. Harrison, *Lean and Mean*, 129–30. For an explanation of the difference between “outsourced,” “contract,” and “permanent” status of workers, see Fahmi Panimbang and Abu Mufakhir, “Labour Strikes in Post-Authoritarian Indonesia,” *Workers’ Movements and Strikes in the Twenty-First Century*, ed. J. Nowak, M. Dutta, and P. Birke (London: Rowman & Littlefield International, 2018), 23. Since outsourced workers are hired through employment agencies, they remain employees of these agencies and are “temporarily contracted to work at a factory”—thus the factory is “neither responsible for the worker’s social security payments nor responsible for providing medical insurance, paid holidays, paid sick leave or any other benefits provided to regular workers as required by law.” Also important is that, “in practice,” employment agencies that employ these workers “do not provide [them] with any of those benefits either.” Although the practice of hiring outsourced workers had happened before 2003, it was made legal by Indonesian Law No. 13/2003 Regarding Labor Regulations.
31. Imai, *Gemba Kaizen*, 13.
32. AlixPartners, “Homeward Bound: Nearshoring Continues, Labor Becomes a Limiting Factor, and Automation Takes Root,” *Manufacturing Outlook Report* (January 2017): 3, <http://alixpartners.com>.
33. Marhild von Behr, H. Hirsch-Kreinsen, C. Köhler, C. Nuber, and R. Schultz-Wild, “Flexible Manufacturing Systems and Work Organization,” *Technology and Work in German Industry*, ed. Altmann, Köhler, and Meil (London: Routledge, 1992), 164.
34. See AlixPartners, “Homeward Bound.”
35. David M. Gordon, *Fat and Mean: The Corporate Squeeze of Working Americans and the Myth of Managerial “Downsizing”* (New York: Free Press, 1996), 66.
36. Braverman, *Labor and Monopoly Capital*, 62.
37. David Gartman, “Origins of the Assembly Line and Capitalist Control of Work at Ford,” *Case Studies on the Labor Process*, ed. A. Zimbalist (New York: Monthly Review Press, 1979), 199.
38. See Christopher Wright and John Lund, “Supply Chain Rationalization: Retailer Dominance and Labour Flexibility in the Australian Food and Grocery Industry,” *Work, Employment, and Society* 17/1 (2003): 137–57. During my visit, Star Inc. created a program in which they recruited new hires from top Indonesian universities who graduated at the top of their class. They were put on a special track and were subject to various training programs. Starting from the supervisor level, these hires would eventually fill management positions.
39. Braverman, *Labor and Monopoly Capital*, 73–74.

40. Ibid., 78–82.
41. Gary Gereffi, “The Organization of Buyer-Driven Global Commodity Chains: How U.S. Retailers Shape Overseas Production Networks,” in *Commodity Chains and Global Capitalism*, ed. G. Gereffi and M. Kozleniewicz (Westport, CT: Praeger, 1994), 95–122; William Milberg and Deborah Winkler, *Outsourcing Economics: Global Value Chains in Capitalist Development* (New York: Cambridge University Press, 2013).
42. See Andrew Zimbalist, “Introduction,” *Case Studies on the Labor Process*, ed. A. Zimbalist (New York: Monthly Review Press, 1979), xi–xxiv; Norbert Altmann, Christoph Köhler, and Pamela Meil, “No End in Sight—Current Debates on the Future of Industrial Work,” *Technology and Work in German Industry*, ed. N. Altmann, C. Köhler, and P. Meil (London: Routledge, 1992), 1–11.

5—The New Economic Imperialism

1. Epigraph: Utsa Patnaik and Prabhat Patnaik, *A Theory of Imperialism* (New York: Columbia University Press, 2017), 186.
2. Harry Magdoff, *Imperialism: From the Colonial Age to the Present* (New York: Monthly Review Press, 1978), 3.
3. Bill Warren, *Imperialism: Pioneer of Capitalism* (London: Verso, 1980).
4. David Harvey, “A Commentary on *A Theory of Imperialism*,” *A Theory of Imperialism*, ed. Utsa Patnaik and Prabhat Patnaik, 169; Jayati Ghosh, “Globalization and the End of the Labor Aristocracy,” *Dollars & Sense: Real World Economics*, March–April 2017, <http://www.dollarsandsense.org>; Eleanor Albert, “China in Africa,” *Council on Foreign Relations*, July 12, 2017, <http://www.cfr.org>; “Pengusaha Kabur Bawa Rp. 90 Milliar, Tak Gaji 3000 Karyawan,” CNN Indonesia, January 24, 2019; “Tangerang Waspada PHK Susulan Ribuan Buruh Pabrik Adidas,” Tempo.Co, July 2, 2015; Mohammad Setiawan, “Jalan Panjang Tuntutan Buruh PT Hansae 3 yang di-PHK Jelang Lebaran,” Trade Union Rights Centre, May 10, 2019, <http://www.turc.or.id>.
5. “The Headwinds Return,” *The Economist*, September 13, 2014; Tri Arining Putri, “Ekonomi Melambat, Pertumbuhan Ekonomi Tak Terca-pai?” Tempo.Co, May 5, 2015; Organisation for Economic Co-operation and Development, *OECD Economic Surveys: Indonesia* (OECD Publishing, 2015), 2; “Pertumbuhan Ekonomi Indonesia Melemah,” BBC Indonesia, August 5, 2014; Jamie McGeever, “Brazil’s Economy Almost Ground to a Halt in Fourth Quarter,” Reuters, February 25, 2019; Prinesha Naidoo and Amogelang Mbatha, “South Africa GDP Growth Slows as Local Investment Shrinks,” Bloomberg, March 5, 2019.
6. Jayati Ghosh, “The Creation of the Next Imperialism: The Institutional

- Architecture,” *Monthly Review* 67/3 (July–August 2015): 156–57; see also John Smith, *Imperialism in the Twenty-First Century* (New York: Monthly Review Press, 2016), 167–71, for an explanation of the problems with PPP.
7. Walter Daum, “Is Imperialism Still Imperialist? A Response to Patrick Bond,” *Review of African Political Economy* (ROAPE), May 16, 2018, <http://roape.net>
 8. Patnaik and Patnaik, *A Theory of Imperialism*, 196; Utsa Patnaik, “Revisiting the ‘Drain,’ or Transfers from India to Britain in the Context of Global Diffusion of Capitalism,” in *Agrarian and Other Histories: Essays for Binay Bhushan Chaudhuri*, ed. Shubhra Chakrabarti and Utsa Patnaik (New Delhi: Tulika Books, 2017), 277, 281. Canadian economist Gernot Köhler, using a measurement that incorporates a purchasing power parity data, estimates that value transfers generated in non-OECD (Organization for Economic Cooperation and Development) countries but credited to the OECD countries through the mechanisms of unequal exchange reached \$1.75 trillion in 1995. See John Bellamy Foster, “Late Imperialism: Fifty Years After Harry Magdoff’s *The Age of Imperialism*,” *Monthly Review* 71/3 (July–August 2019): 1–19. Gernot Köhler, “The Structure of Global Money and World Tables of Unequal Exchange,” *Journal of World-System Research* 4 (1998): 145–68; Jason Hickel, *The Divide: Global Inequality from Conquest to Free Markets* (New York: W. W. Norton, 2017), 290–91.
 9. See John Bellamy Foster and Hannah Holleman, “The Theory of Unequal Ecological Exchange: A Marx-Odum Dialectic,” *Journal of Peasant Studies* 41/2: 199–233.
 10. John Bellamy Foster and Robert McChesney, *The Endless Crisis* (New York: Monthly Review Press, 2012), 26.
 11. John Smith, “The GDP Illusion,” *Monthly Review* 64/3 (July–August 2012): 99.
 12. *Ibid.*, 88–92.
 13. *Ibid.*, 96.
 14. *Ibid.*, 99.
 15. *Ibid.*, 100–101.
 16. Herman Daly and John Cobb, *For the Common Good: Redirecting the Economy toward Community, the Environment, and a Sustainable Future* (Boston: Beacon Press, 1989).
 17. Karl Marx and Frederick Engels, *Collected Works*, vol. 13 (New York: International Publishers, 1975), 14; Karl Marx, *Theories of Surplus Value*, part 1 (Moscow: Progress Publishers, 1963), 41–43; John Bellamy Foster and Brett Clark, “The Expropriation of Nature,” *Monthly Review* 69/10 (March 2018): 5.

18. Ghosh, “Globalization and the End of the Labor Aristocracy.”
19. Samir Amin, *Capitalism in the Age of Globalization* (London: Zed, 1997), 4–5.
20. Samir Amin, “Contemporary Imperialism,” *Monthly Review* 67/3 (July–August 2015): 23–36.
21. James O’Connor, *The Corporations and the State* (New York: Harper and Row, 1974), 195–96.
22. Paul Baran and Paul Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), 201.
23. Hickel, *The Divide*, 144–46, 208. See also Mike Davis, *Planet of Slums* (New York: Verso, 2006), 151–73.
24. Ghosh, “The Creation of the Next Imperialism,” 147.
25. Ghosh, “Globalization and the End of the Labor Aristocracy.” Core states like the United States often serve as major players in these treaties and agreements. In exceptional cases, such as what happened in January 2017 under the Trump administration when the United States withdrew from the Trans-Pacific Partnership (TPP), the agreement which was “Obama’s signature trade deal,” the move was made not because the United States decided to fight against global inequalities. Instead, the decision to withdraw—put forward as a “commitment of the United States to free and fair trade” by the White House—was more likely a reactionary political response to the decline of the labor aristocracy that hurt the majority of the U.S. working-class population in the United States. See Peter Baker, “Trump Abandons Trans-Pacific Partnership, Obama’s Signature Deal,” *New York Times*, January 23, 2017; “TPP: What Is It and Why Does It Matter?” BBC News, January 23, 2017; Office of the United States Trade Representative, “Trans-Pacific Partnership,” <https://ustr.gov/>. Indeed, what people refer to as “globalization” has largely benefited Northern global capital but not the majority of the working class in the Global North. A new McKinsey report shows that, within the last decade, many people—mostly young with low educational attainment and women, particularly single mothers—in Global North countries have suffered from “worse economic outcomes,” in which 65 to 70 percent of households in twenty-five advanced economies “were in segments of the income distribution whose real incomes were flat or had fallen” between 2005 and 2014 (quoted in Ghosh, “Globalization and the End of the Labor Aristocracy”). Trump also seeks to rewrite NAFTA (North American Free Trade Agreement), but “proposed changes to the agreement primarily speak to corporate needs, especially the new chapters that increase protection for intellectual property rights and promote greater cross-border freedom for electronic commerce and digital trade.” Martin Hart-Landsberg, “The Trump Administration: Lots of Noise but Nothing

- Changed for U.S. TNCs,” Reports from the Economic Front, March 25, 2019, <http://economicfront.wordpress.com>.
26. Peter Evans, *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil* (Princeton: Princeton University Press, 1979), 37.
 27. Ghosh, “The Creation of the Next Imperialism,” 158.
 28. Ghosh, “Globalization and the End of the Labor Aristocracy.”
 29. Asian Development Bank, “Improving Investment Climate in Indonesia,” *Joint Asian Development Bank-World Bank Report* (2005), 10; Nisha Agrawal, “Indonesia: Labor Market Policies and International Competitiveness,” World Bank Working Paper 1515 (September 1995).
 30. International Monetary Fund (IMF), *Indonesia: 2013 Article IV Consultation* (Washington, D.C.: IMF, December 2013), 24.
 31. Emma R. Allen, *Analysis of Trends and Challenges in the Indonesian Labor Market*, ADB Papers on Indonesia No. 16 (Manila: Asian Development Bank, March 2016), 34.
 32. Fahmi Panimbang and Abu Mufakhir, “Labour Strikes in Post-Authoritarian Indonesia,” in *Workers’ Movements and Strikes in the Twenty-First Century*, ed. J. Nowak, M. Dutta, and P. Birke (London: Rowman & Littlefield International, 2018), 22–23, 27–28; Emma Allen, “Raising Indonesian Labor Productivity,” Asian Development Bank, August 9, 2016, <http://adb.org>. In 2015, under the Joko Widodo administration, the Indonesian government issued a regulation package (PP No. 78/2015) regarding wages that was met by criticism and led to protests by labor unions. The regulation was viewed as catering to the interests of capital instead of labor because it included clauses that, for example, state that the increase in minimum wages are determined by the government in accordance with calculations issued by the government’s bureau of statistics, bypassing negotiations with labor unions and abandoning other considerations, such as workers’ purchasing power. During his second presidential election campaign in 2019, Joko Widodo made a promise to review this law should he get reelected, although his current Minister of Labor, Hanif Dhakiri, had already criticized workers’ suggestions about how to revise the law. See “Buruh Tolak PP 78 Tahun 2015 tentang Pengupahan,” LBH Jakarta, October 30, 2015, <http://www.bantuanhukum.or.id>; Haris Prabowo, “Serikat Buruh Tuntut Pemerintah Cabut PP 78/2015 Tentang Pengupahan,” Tirto.ID, October 24, 2018; Dimas Jarot Bayu, “Revisi PP No. 78 Tahun 2015 Akan Dikaji Setelah Real Count Rampung,” Katadata, April 23, 2019; Riyan Setiawan, “Pemerintah Dituntut Cabut PP Pengupahan dan Turunkan Harga Pokok,” Tirto.ID, May 1, 2019.
 33. Allen, *Analysis of Trends and Challenges in the Indonesian Labor Market*, 22. Emphasis added.

34. Allen, “Raising Indonesian Labor Productivity.” Productivity indeed became a focus in the first five years (2014–2019) of the Joko Widodo administration, another example of how the state caters to the interests of capital. Productivity was listed as one of the nine priorities—known as “Nawa Cita”—that became the agenda of the administration, and was used as his presidential campaign “propaganda” in 2014: “We will increase people’s productivity and competitiveness in the global market.” The plans, focused on areas such as infrastructure development (building and renovating roads, as well as building airports and industrial zones) to increasing investments through several means, emphasizing the need to create more investor-friendly regulations and bureaucracy. From a campaign pamphlet published on the Election Committee website by Joko Widodo and Jusuf Kalla, “Jalan Perubahan Untuk Indonesia yang Berdaulat, Mandiri, dan Berkepribadian” (Jakarta: KPU, 2014). Translation mine.
35. Allen, “Raising Indonesian Labor Productivity.”
36. Ghosh, “Globalization and the End of the Labor Aristocracy.”
37. Allen, *Analysis of Trends and Challenges in the Indonesian Labor Market*, 35.
38. Samir Amin, *Three Essays on Marx’s Value Theory* (New York: Monthly Review Press, 2013), 19.
39. Samir Amin, *The Implosion of Contemporary Capitalism* (New York: Monthly Review Press, 2013), 15; Samir Amin, *The Long Revolution of the Global South* (New York: Monthly Review Press, 2019), 19.
40. Karl Marx and Friedrich Engels, *The Communist Manifesto* (New York: Monthly Review Press, 1964), 62.

Appendix 1: Statistical Notes

1. Abdul Azeez Erumbar, Reitze Gouma, Gaaitzen J. de Vries, Klaas de Vries, and Marcel P. Timmer, *WIOD Socio-Economic Accounts (SEA): Sources and Methods* (Brussels: WIOD, Seventh Framework Programme, 2012). Note that this release was updated in July 2014—see Reitze Gouma, Marcel P. Timmer, Gaaitzen J. de Vries, *Employment and Compensation in the WIOD Socio Economic Accounts (SEA): Revisions for 2008–2009 and new data for 2010–2011* (Brussels: WIOD, Seventh Framework Programme, 2014). Incidentally, this release effectively ends in 2009 due to major gaps in the availability of variables needed to calculate unit labor cost for the 2010–11 period. The 2013 release is available at <http://wiod.org>.
2. The 2016 release is available at <http://wiod.org>.
3. Capitalized variable names refer to original WIOD-SEA variables, whereas lowercase variables were either generated or estimated.

4. Reitze Gouma, Wen Chen, Pieter Woltjer, Marcel P. Timmer, *WIOD Socio Economic Accounts (SEA) 2016: Sources and Methods* (Groningen, Netherlands: WIOD, 2018), 26.
5. It is possible to calculate unit labor costs in the 2016 dataset without making any estimates of total hours worked. The calculation can be carried out by using the ratio of “Compensation of Employees” (COMP) to “Total Hours Worked by Employees” (H_EMPE) in the numerator. This yields results that are similar to those using the ratio of “Total Labor Compensation” (LAB) to “Total Hours Worked by Persons Engaged” (H_EMP). Critically, this would mean excluding China entirely, and also removing millions of workers from the calculation, nearly all of whom toil in the Global South. Indeed, such is the practice of the vast majority of mainstream economists (and institutions) today, who routinely present data on countries like India and China in distinct, non-comparable series—making them appear merely as outliers.
6. Apart from China, the two releases produced similar results. We decided to present the figures in a single chart for the sake of clarity. With that said, it should be emphasized that the WIOD investigators paid special attention to the Great Financial Crisis of 2007–09 in the 2016 release, and that is why we made the effort to use the latter release as our base dataset. See Marcel P. Timmer, Bart Los, Robert Stehrer, Gaaitzen J. de Vries, “An Anatomy of the Global Trade Slowdown Based on the WIOD 2016 Release,” GGDC Research Memorandum (2016).
7. Robert C. Feenstra, Robert Inklaar, Marcel P. Timmer, “The Next Generation of the Penn World Table,” *American Economic Review* 105/10 (2015): 3150–82.
8. Robert Sahr, “2017 Conversion Factors: Individual Year Conversion Factor Tables,” Oregon State University, 2018, <http://liberalarts.oregon-state.edu>.
9. U.S. Bureau of Labor Statistics, “Technical Notes: International Comparisons of Hourly Compensation Costs in Manufacturing,” August 2013, <http://bls.gov>.
10. ILO, *Global Wage Report 2018/19* (Geneva: ILO, 2018).
11. Tim Callen, “PPP Versus the Market: Which Weight Matters?” *Finance and Development* 44/1 (2007).

Appendix 2: Notes on the Methodology for the Case Studies

1. N. Kumar, L. W. Stern, and J. C. Anderson, “Conducting Interorganizational Research Using Key Informants,” *Academy of Management Journal* 36/6 (1993): 1633–51; Peter Evans, *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil* (Princeton: Princeton University Press, 1979).

2. Marc-Adelard Tremblay, "The Key Informant Technique: A Nonethnographic Application," *American Anthropologist* 59/4 (1957): 688–701.

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