‘Labour Chains’: Analysing the Role of Labour Contractors in Global Production Networks

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ABSTRACT Third party labour contractors are increasingly prevalent in global production networks (GPNs), and can provide a channel for new forms of unfree labour. Review of case study evidence from South African and UK horticulture suggests this often emerges off-site through labour intermediaries. Analytical approaches to labour in GPNs and value chains are examined. The article argues that labour contracting is driven by the commercial dynamics of global outsourcing. A ‘cascade system’ allows unscrupulous intermediaries to coerce vulnerable workers. We examine strategies of civil society alliances, and regulatory reform, and argue for extending liability of all commercial actors across global boundaries.

Introduction

Global production is expanding through outsourcing to developing countries, by way of networks of producers and agents coordinated by large global and regional buyers. It is generating increasing opportunities for employment in commercial agriculture and manufacture in the South. This can contribute to enhancing the wellbeing of those with few or no assets other than their labour. However, the type of employment generated is mixed. We appear to be witnessing a growing parallel workforce within global production. On many sites, some workers have access to jobs with relatively better working conditions and security. Working alongside them, however, there are often workers who have been hired through third-party labour contracts (recruitment agents or labour intermediaries). A large number are often migrant (internal or international), and in many sectors include a significant proportion of women. Some recruitment or temporary staffing agencies are formal businesses with established reputations, but many are informal, including some unscrupulous operators. The focus of this article is on the myriad of informal labour contractors who are often ‘invisible’, and are increasingly surfacing within export production.

A parallel trend has been the apparent rise of contemporary forms of forced or unfree labour in the global economy. Public perceptions tend to associate unfree labour with trafficking for sexual exploitation. But the most comprehensive research available from the International Labour Organisation (ILO, 2005) indicates that nearly two-thirds of all forced labour is for economic exploitation, and that ‘private agents’ are the primary channel through which this takes place. Case studies have examined ‘modern forms of slavery’ involving labour contractors or third-party agents, particularly where debt bondage or transnational trafficking are involved (Bales, 1999; Lerche, 2007; van den Anker, 2004). Studies by researchers from trade unions and non-governmental organisations (NGOs) have highlighted labour abuses occurring under the guise of labour contractors within modern
retail value chains (Maher, 2009; Pollard, 2006). These rightly highlight the worst cases, which are often hidden from view, but not all labour contracting involves extreme forms of abuse or unfree labour. The relationship between the commercial dynamics of global production networks (GPNs) and the role of labour contractors or intermediaries is poorly understood.

There is a growing number of publications on labour contractors and labour abuse in production for global value chains (see for example Maher, 2009; Verité, 2010); however, the academic literature on labour contractors and GPNs is limited to date (Phillips and Sakamoto, 2012). This article helps to address this gap. It aims to contribute to a more nuanced understanding of why and how contemporary ‘labour chains’ have emerged in GPNs, undermining the freedom of workers. Its specific focus is the commercial dynamics driving labour contractors as intermediaries through which unfree labour enters GPNs. It thus focuses on one dimension of labour contracting, and recognises that further, more in-depth analysis is needed to better understand how this process plays out in relation to class dynamics between producers, contractors and workers. The article aims to contribute to an emerging literature that seeks a better understanding of the commercial and social processes involved in labour contracting. This can help to inform more effective strategies to address the rights and protection of contract workers in global production.

The article is divided into four sections. The second section provides an overview of selected case studies on labour contracting within global production, and highlights the limited availability of data on the extent of coercive labour exploitation through labour intermediaries. It draws on in-depth research on labour contractors in South African and UK horticulture supplying UK supermarkets. The third section provides a more analytical exploration of the drivers of labour contracting within GPNs, and asks why this should lead in some cases to unfree labour. It combines GPN and global value chain (GVC) analysis to examine how global outsourcing of production has helped to drive the systemic use of third-party labour contractors. The fourth section considers the implications for the protection and rights of vulnerable contract workers, who often fall outside the reach of formal labour market regulation and protection. It explores the space that has been opened up for civil society pressure within GPNs and new forms of business alliance to monitor labour contractors. It notes some innovative approaches to the regulation of labour contracting. However, the article argues that only cross-national strategies, able to address the adverse impact of global commercial processes, will be able to reach the underlying drivers of unfree labour within labour contracting.

Labour Contractors in Global Production Networks

Labour contracting has a long history, dating back to the nineteenth century. In agriculture it was a source of ‘gangs’ of seasonal labour at harvest time. In garments it goes back to the early ‘sweating’ system in factories and workshops, whereby contractors providing labour ‘sweated’ the difference between payments received from factory owners and wages paid to the workers they provided (Goldstein, 2006). The labour movement in many countries succeeded in challenging this system during the twentieth century. Yet there is a growing recognition that labour contracting is increasing, and that its worst forms are associated with the rise of unfree labour within contemporary globalised production (Bales, 1999; ILO, 2005; Kuptsch, 2006; van den Anker, 2004).

There is no commonly agreed definition of labour contracting. It is associated with what the ILO terms a ‘triangular employment relationship’, where the legal employer is separate from the person for whom work is carried out (Theron, Godfrey, Lewis, & Pienaar 2005). However, it is important to distinguish between formally registered companies who provide temporary staffing services and more informal or unregistered labour contractors. Research has indicated the rapid growth of formal temporary staffing agencies globally and the role they have played in facilitating the flexibilisation of labour in more liberalised labour markets (Coe, Jones, & Ward, 2009; Peck, Theodore, & Ward, 2005). Formally registered firms are officially recognised, coming under relevant industry codes and legal requirements in the countries within which they operate.

In this article our focus is on labour intermediaries, who are not formally registered as companies. Defining labour intermediaries in this context can be ‘messy’, as it takes different forms. Table 1
develops a typology of four key types of informal labour intermediary. These range from labour agents, whose only role is the supply without supervision of labour, through to labour contractors, who supply, supervise and pay workers. Labour contractors may be specialist or independent contractors, based on skill in a specific task supplying both labour and materials; or ‘labour-only contractors’, who have no specialist skills, provide no materials and are paid by completed task or for the provision of labour (Theron & Godfrey, 2000). The mechanisms of recruitment and the employment relationship can be very variable, and differ according to category of contractor, as described in Table 1.

Information garnered from case studies, cited in Table 2, suggests labour contracting can take many different forms and is shaped by varying local contexts and norms. The labels used also vary between and within countries. For ease of discussion, we mainly use the term ‘labour contractor’, which appears increasingly common.

The role of informal labour contractors or intermediaries is recognised to have grown over recent decades (Kuptsch, 2006). Estimates of numbers are more difficult to obtain, particularly in developing countries where labour markets are often informal and poorly regulated or monitored. Contract workers usually fail to show up in national labour market statistics; factories and farms rarely keep records of their use; and they are often ‘absent’ when labour inspectors or social auditors visit a site. However, an increasing number of separate studies on workers linked to GPNs have shown these workers to exist, as indicated in the studies summarised in Table 2.

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour agent</td>
<td>Labour intermediary or contractor supplies workers to a producer for a fee, and the producer becomes the direct employer. Normally based on a direct contractual employment arrangement (verbal or written) between worker and producer.</td>
</tr>
<tr>
<td>Quasi-labour agent</td>
<td>Labour intermediary or contractor supplies workers to a producer. The agent pays the workers (taking a percentage), but the producer supervises the workers. The contractual relation between worker, intermediary and producer is unclear.</td>
</tr>
<tr>
<td>Labour contractor</td>
<td>Labour intermediary or contractor supplies workers to a producer on the basis of a contract for specific task, for which payment is made (for example, clearing a field or embellishing a batch of garments); the agent or contractor pays the workers and supervises their work. There is no direct contractual relation between worker and producer, only with intermediary.</td>
</tr>
<tr>
<td>Ad hoc labour contractor</td>
<td>An individual (often a supervisor or worker) recruits other workers for a farm or factory on an ad hoc basis for a fee or unofficially takes a deduction from wages. Normally very informal with no explicit contractual relation.</td>
</tr>
</tbody>
</table>

Table 1. Typology of informal labour intermediaries or contractors

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>Type of migrant labour</th>
<th>Note on known recruitment methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>Fruit</td>
<td>Internal, male/female, mobile across regions</td>
<td>Direct and labour contractors</td>
</tr>
<tr>
<td>India</td>
<td>Garments</td>
<td>Internal migrants mainly from poor rural areas</td>
<td>Direct and labour contractors</td>
</tr>
<tr>
<td>Jordan</td>
<td>Garments</td>
<td>International from Bangladesh and China</td>
<td>Labour contractors</td>
</tr>
<tr>
<td>South Africa</td>
<td>Fruit</td>
<td>Internal, male and female, from different regions</td>
<td>Direct and labour contractors (brokers)</td>
</tr>
<tr>
<td>Romania</td>
<td>Garments</td>
<td>International from China</td>
<td>Labour contractors</td>
</tr>
<tr>
<td>UK</td>
<td>Horticulture</td>
<td>International, male and female, from many countries.</td>
<td>Direct, seasonal workers’ schemes and labour contractors (providers)</td>
</tr>
</tbody>
</table>

Note: For further information on these case studies, see Selamé and Morales (2000); Theron and Godfrey (2000); du Toit and Ally (2001); Singh, Kaur, and Kaur Sapra (2003); Barrientos and Kritzinger (2004); Frances, Barrientos, and Rogaly (2005); Verité (2005, 2010); Deshingkar (2006); Pollard (2006); Barrientos and Smith (2007); Crisan (2007); Business for Social Responsibility (BSR, 2008); Maher (2009).
these various case studies helps to form a picture of the changing dynamics of labour contracting in GPNs.

Concentration of production and seasonality are often cited as factors in the rise of labour contractors within both agriculture and manufacture for global export. Labour contractors help to manage peaks and troughs in labour demand, which local labour markets are unable to supply. In Chilean fruit, labour contractors take advantage of the geography, moving teams of workers southwards as the season progresses (Barrientos and Kritzinger, 2004; Selamé and Morales, 2000). In apparel, seasons such as Christmas lead to significant changes in the type of product ordered, with variations in labour requirements often filled by labour contractors.

Significant differences were found between the conditions of contract workers and directly hired workers in all the above case studies. In Delhi garments, for example, much labour is sourced through thekedaars, or labour contractors, who tend to employ labour from their own village and caste group, mainly internal migrants. Unlike workers hired by the factory directly, contract workers do not figure in the factory rolls and the factory does not take responsibility for them or provide legal benefits. These workers are paid by the contractor on a daily or monthly basis, depending on the nature of the agreement with the contractor. Their wages are 15 to 30 per cent lower than the contract wages offered by the factory. The difference is the contractor’s share. The proportion of contractor-hired workers in factories can range between 40 and 50 per cent at any given time (Barrientos, Sood, & Mathur 2010; Singh, Kaur, & Kaur Sapra 2003). Contract workers were often from lower caste or more marginalised ethnic groups, with less ability to resist.

Labour contractors may recruit and supply local, internal and/or international migrant labour, depending on local or national labour market conditions. Case studies indicate that the recruitment of migrant labour by labour contractors is increasing, and these workers are often very vulnerable to abuse (Verité, 2010). There is evidence of labour contractors moving Asian workers to garments factories in Jordan, Egypt, Mauritius and Romania (BSR, 2008; Crisan, 2007; Maher, 2009). There are reports that this often involves high levels of exploitation and sometimes new forms of forced labour. Verité (2005) carried out a study of 600 returned foreign contract labourers in four countries (Indonesia, Philippines, Thailand and Vietnam). They found systematic issues of abuse, including placement fees, high charges (such as for travel), onerous debt burdens and ‘runaway insurance’ (against a worker absconding). Undocumented migrants are most vulnerable to conditions of unfree labour, especially when locked into a dependent relationship with particular labour contractors or intermediaries through a system of effective debt bondage (Verité, 2005; Pollard, 2006). Labour contractors often charge migrant workers high fees for transport, training, provision of ‘documents’, and also charge high ‘interest’ on loans for these ‘services’. These are often on top of large payments to agents for ‘travel’ to the country of destination. Undocumented migrant workers have few channels for claiming their rights, and fear loss of work and deportation if they complain.

These studies indicate that unfree labour practices can be found within labour contracting across countries. The next section examines specific case studies, involving the author, of labour contractors in South African and UK horticulture supplying UK supermarkets. These provide more in-depth insights into the types of practices that can occur within globalised production.

**Contract Labour in South African and UK Horticulture**

Changes within the global food chain over recent decades have had significant impacts on the demand for and deployment of temporary workers. The rapid expansion and changing nature of supermarket retailing provides an important example of the dynamics of contemporary GPNs (Reardon, Timmer, Barrett, & Berdegue 2003).

Supermarkets operate a system of centralised procurement, distribution and retailing, focused on meeting consumer requirements. Supermarket buyers have increasing sway over their global suppliers, driving down prices, raising standards and dramatically increasing the range of products available. Within fresh produce, this has led to the year-round availability of a wide variety of fruit and vegetables. Producers in the global North and South are under pressure to supply quality fruit at
competitive prices according to tightly pre-programmed schedules. To facilitate this, there is an increasing trend for producers to deploy labour contractors to facilitate the labour supply required to meet production schedules, as exemplified by the case of UK and South African horticulture.

Traditionally, much seasonal employment in UK agriculture was drawn from local labour markets, often women. This has changed radically over the past two decades, particularly amongst those supplying supermarkets. A study of UK horticulture carried out in 2004–2005 examined labour use in 21,603 enterprises, of which 6,594 sold to supermarkets (Frances, Barrientos, & Rogaly 2005). Enterprises with supermarket customers employed 26 per cent of directly recruited temporary workers, and 54 per cent of temporary workers recruited through labour contractors (including the Seasonal Agricultural Workers Scheme). The 15,000 farm enterprises that did not have supermarkets as customers were responsible for 74 per cent of direct recruitment of temporary workers and 46 per cent of recruitment through labour contractors.

South Africa is an important supplier of fresh fruit (with some vegetables and flowers) to the UK during its winter months (December to April). Approximately 60 per cent of its fruit exports go to Europe, the majority to the UK. South African agriculture has changed rapidly since the early 1990s following the end of apartheid, with the introduction of a raft of labour regulation. At the same time, South Africa has opened up to increasing competition from other southern hemisphere producers, and suppliers are more exposed to commercial pressures from supermarkets. Many growers introduced a process of ‘retrenchment’, laying off on-farm workers and employing more off-farm casual labour. With this, there has been a steady increase in the use of labour contractors (or labour brokers, as they are known locally) in the country (du Toit & Ally, 2001; Theron & Godfrey, 2000). Studies suggest that approximately 50 per cent of farms use contract labour in the main producing region of the Western Cape (Barrientos & Kritzinger, 2004; Kritzinger & Barrientos, 2004).

Evidence from case studies in the UK and South Africa has highlighted that there can be significant differences in the experiences of workers involved in labour contracting. Contract workers are rarely in receipt of legal employment benefits, such as a formal contract of employment, social insurance or pension (UK legislation discussed later has addressed this). Relations between workers and contractors can vary. Some workers indicate that they prefer labour contractors, as their work is more continuous than direct casual employment, and extends for a longer period each year. Contractors take on responsibility for finding work and making travel arrangements. Some labour contractors also provide informal benefits to their workers, such as food and medicine if they are ill, and teams of contract workers can provide mutual support to each other to offset risks. Workers who are with their contractor for a prolonged period of time can build up close bonds with the contractor and fellow workers. Smaller contractors often draw on their own kinship or friendship networks to recruit workers (Kritzinger & Barrientos, 2004; Frances et al., 2005).

However, labour practices amongst contractors can also be highly exploitative, particularly among more ‘fly-by-night’ contractors. In South Africa, research uncovered stories of contractors abusing workers, disappearing without paying wages, and being responsible for serious accidents (particularly through the use of unsafe vehicles). The use of unfree labour within the gangmaster system in the UK was most tragically brought to the fore by the death of 21 Chinese cockle pickers in Morecambe Bay in 2004. They were all undocumented migrant workers, controlled by unscrupulous gangmasters, who extracted long hours at low pay in hazardous and dangerous conditions. They had arrived in the UK via networks of people smugglers that channelled them to their gangmasters. Whilst the normal cost of a flight from China to the UK was £800–£1,000, these undocumented workers paid around £5,000–£10,000 for their ‘passage’. The monies had been paid through loans from local intermediaries in China based on assurance from their families. Some families of deceased workers were forced to continue repaying these loans, with the parents and children becoming responsible for their loan after their deaths (Watts, 2007).

Research by Frances et al. (2005) revealed that whilst these types of practices were only found amongst some gangmasters, they were often buried in a complex ‘cascade’ system of labour supply, involving networks of labour intermediaries. For example, if a sudden change of weather led to an increase in demand for fresh produce, a supplier could be required by their supermarket buyer to deliver a larger quantity at short notice. The supplier would contact their main labour contractor
(possibly a formal staffing agency) for more workers. If that provider could only partially meet a request for workers through their own sources, they would then contact another labour contractor, who might do the same, and via a cascade the full complement of workers required would be met. Formally workers would arrive through the primary labour provider, but in reality they were bought together through this cascade system. The producer might well be (or choose to be) unaware of the multiple sources of the workers arriving on site (Frances et al., 2005). Cascade systems of labour subcontracting provide an opening for unscrupulous labour intermediaries, including those linked to the smuggling of undocumented migrant workers, to enter the system, providing workers to more reputable temporary employment agencies and contractors.

The global dimension of labour contracting is highlighted by the movement of workers between countries to meet different seasonal production peaks. This has included the supply of South African workers to UK horticulture during their counter season. In this case, workers recruited through formally legal channels can still be open to unfree labour practices through unscrupulous ‘gangmasters’. One example was highlighted following an audit of a UK gangmaster in 2004. He employed South African workers who had been brought to the UK ostensibly as part of the Commonwealth Working Holidays Scheme and were, therefore, working legally. Their visas to the UK had been arranged by a ‘travel agency’ in Pretoria, with whom their gangmaster had an arrangement. The travel agency provided travel loans with 100 per cent interest charges and the workers had to sign an agreement not to leave the gangmaster’s employment until the loan was paid off. If they broke this agreement, legal action would be taken against whoever had given a reference to the worker, usually their parents. Repayment of the loan would be taken from the worker’s wages until the full amount was paid. Once in the UK, most of the workers were housed in overcrowded accommodation by the gangmaster. They were paid below the minimum wage, discouraged from obtaining National Insurance numbers, and had deductions for transport, rent, loan repayments and sometimes other unspecified charges. They were often required to work long hours and continuous days. When these violations were put to the gangmaster following an audit, he claimed that he did not employ these workers, as he had sub-contracted the work to another gangmaster and was not liable for any offence (Lawrence, 2004; Pollard, 2006). The UK/South African cases highlight the increased prevalence of labour contracting within global supermarket sourcing, which can involve serious labour abuse amounting to forms of unfree labour.

**Links between Labour Contractors and Unfree Labour**

The extent to which workers recruited through labour contractors can be classified as ‘unfree labour’ poses a conceptual challenge. It is important to define ‘unfreedoms’ in order to assess the role of contractors as a conduit for unfree labour in GPNs. There are significant differences in the definition and characterisation of contemporary unfree labour. Current researchers generally agree that there is a distinction between ‘traditional’ and ‘modern’ forms of contemporary unfree or forced labour. However, there is no common agreement on how to define the latter (Koettl, 2009; Lerche, 2007; van den Anker, 2004). Bales (1999) distinguishes between previous forms of slavery, involving long-term ownership of the slave, and modern forms, characterised by short-term control by a ‘slave holder’ of a person through implicit, threatened or actual use of violence.

Koettl (2009) emphasises the difference between consensual and non-consensual forms of exploitation (involving coercion, fraud or deception), taking the definition of trafficking in international law (whether or not it involves movement of people) as synonymous with non-consensual exploitation. Some critiques argue that these definitions tend to focus on ‘victims’, taking insufficient account of the agency of those entering ‘enslaved’ forms of work, or of the role of globalisation in promoting the use of unfree labour (Lerche, 2007; Rogaly, 2008a). Here the debate is about the degree to which a worker is free or unfree, depending on their ability to enter or exit a specific work situation, and the socially diverse and complex forms of entrapment which can limit their freedom to move in different contexts within a neoliberal global economy.
The ILO uses the term ‘forced labour’. This is defined as involuntary entry and participation in work or a service which is extracted ‘under menace of any penalty and for which the said person has not offered himself voluntarily’ (ILO, 2005, p.5). It provides a detailed account of the methodological problems of measurement. Taking many caveats into account, it estimates that there are a total of 12.3 million people in forced labour globally, of whom 7.8 million (63 per cent) are in economic exploitation (as opposed to sexual or other forms of exploitation, such as forced soldiers). It also highlights a strong gender bias, with women/girls accounting for 56 per cent and men/boys 44 per cent of those in economic exploitation. It further estimates that ‘private agents’ provide the main channel, accounting for 80 per cent of total forced labour.

However, aggregate estimates do not indicate the extent to which these ‘private agents’ are labour contractors supplying forced or unfree labour to producers. Whilst it refers briefly to the use of forced labour in global value chains, the ILO report is unable to provide more specific information, citing this as an area where more research is required. However, it indicates the importance of intermediaries in the recruitment of forced labour (ILO, 2005, 52–54). Other researchers have also highlighted the role of labour contractors as a channel for recruitment of unfree or forced labour (Bales, 1999; Brass, 2004; Lerche, 2007; Rogaly, 2008a). Many mention globalisation as a factor underpinning the rise of unfree or forced labour, but beyond case studies there is a limited unpacking of the analytical implications in relation to GPNs. None to my knowledge has provided estimates of aggregate numbers of workers recruited or retained through debt bondage or other forms of coercion that are directly or indirectly involved in global production.

It is thus a complex veiled picture, which this article attempts to unpack. Given the heterogeneity of contractors and workers found in every case study (cited in Table 2), it is difficult to generalise. However, they do reveal a great variety of worker experiences, along a broad continuum, involving levels of gradation from better to worse. At the better end, workers choose labour contractors in preference to direct casual employment; at the worse end, workers become trapped in situations of debt bondage and highly exploitative conditions. Relations between workers and contractors vary. At the better end of the continuum, contractors often have a paternalistic relationship with the workers they recruit, creating a sense of belonging, even though these workers usually lack access to formal employment rights (Barrientos & Kritzinger, 2004; Frances et al., 2005). However, as we move to the other end of the continuum, conditions of contract workers become progressively worse, ranging from greater levels of exploitation through to overt coercion and forced or unfree labour. The cascade system provides a channel through which workers from the better and worse ends of the continuum can be supplied together to the same site. The drivers of labour contracting and the inclusion of unfree labour are complex and need to be better understood in the context of the commercial dynamics driving global production.

**Global Production as a Driver of Labour Contracting and Unfree Labour**

Global outsourcing of goods and services from developing countries has expanded in recent decades, in the context of economic liberalisation and the rapid advance of information technology and transport. This has led to a shift away from sourcing through remote markets governed by free price movements or intra-firm trade within multinational enterprises. Increasingly, sourcing by larger retailers and brands is taking place through coordinated chains or networks of producers and agents, in which lead firms exert a high level of control, but no formal ownership. Two overlapping bodies of literature have arisen to analyse this process. GVC analysis has tended to focus on the commercial relationships between firms. GPN analysis has placed more emphasis on the institutional, societal and territorial embeddedness of those linkages, and on asymmetric power relations between actors (Dicken, Kelly, & Wai-Chung Yeung 2001; Gereffi, Humphrey, Kaplinsky, & Sturgeon 2001; Henderson, Dicken, Hess, Coe, & Yeung 2002). 6

The role of labour has largely been overlooked in both GVC and GPN analysis (Barrientos, Dolan, & Tallontire 2003; Coe & Jordhus-Lier, 2010; Cumbers, Nativel, & Routledge 2008; Pegler &
Knorringa, 2007; Selwyn, 2012). An important consequence of the emergence of GVCs is that the
determinants of labour supply and demand are increasingly external to national labour markets, and
can be affected by the decisions of global buyers operating beyond their borders. Here we focus on the
extent to which contract labour arises as a logical extension of the commercial dynamic through which
global outsourcing is implemented by global buyers. We first consider the commercial drivers of the
labour continuum discussed above through analysis of global production networks and value chains.
We then consider the implications of different definitions of ‘unfree labour’ for assessing where it is
found in GPNs.

The analysis of GVCs has played an important role in helping to understand the changing
commercial dynamics of global production, but largely from a firm-centric perspective. It has analysed
buyer-led chains, where lead firms coordinate networks of suppliers that cross-cut sectors and
countries. Hence, lead firms are able to coordinate productive activities across suppliers, linking
design, raw material inputs, manufacturing specifications, distribution timing, branding and marketing
(Gereffi et al., 2001). GVC analysis examines how the dominant commercial position of lead firms
allows them to exercise governance over suppliers from whom they source. They extract economic
rent (or additional profit) through control of quality enhancing value-added activities (such as brand-
ing) at the consumer end of the chain.

This process has allowed global buyers to outsource higher-cost and higher-risk aspects of produc-
tion and distribution, whilst exerting control over product specifications, production processes and
standards which enhance quality at the consumer end of the chain. They aim to maximise market share
and expect suppliers to deliver maximum quality at lowest cost. As GVCs have expanded globally,
many lead firms have further offset cost within their value chains through enhancing their ‘just in time’
distribution systems. Reduced order times and increased re-orders puts further pressure on suppliers,
who carry the costs of holding larger stock (Acona, 2004; Raworth & Kidder, 2008). Suppliers
dependent on sales to large corporate buyers are caught in a complex web of shifting sourcing,
competitive pricing and rising standards (Acona, 2004).

A GPN perspective facilitates examination of the social and institutional embeddedness of com-
mercial operations, with local labour market institutions playing a key and varying role. Suppliers
adopt diverse labour strategies to meet competing commercial pressures, but common trends can be
identified. A number of studies have highlighted the increasing flexibility of employment as a result of
globalised production (Castree, Coe, Ward, & Samers 2004; Munck, 2002; Standing, 1999). Flexible
employment facilitates variation in the numbers of workers, tasks undertaken and wages paid to meet
changing buyer orders at low labour cost. However, simply employing cheap labour that produces
poor quality goods could lead to a shift down or out of the value chain if competitors are better able to
manage the pressures. In response, many supplier firms employ a core regular, combined with a casual
irregular, labour force. The core labour force provides the requisite skill and training to ensure
consistency and quality of output. The casual labour force provides flexibility by using temporary
workers (often undertaking similar tasks to core workers) to meet variations in output (Barrientos,
2008). Local labour markets are often unable to provide a sufficient supply of casual labour with the
right skills on a ‘just-in-time’ basis. Labour contracting has expanded to facilitate the provision of
these latter workers. It can be seen as a logical extension of GPNs, helping to manage the commercial
pressures through three key functions: coordination; information; and efficiency.

Firstly, labour contractors coordinate the flexible supply of labour to meet variations in demand on a
‘just-in-time’ basis to meet commercial dynamics within GPNs. They draw on a range of labour
sources, including migrant and local workers, depending on socio-economic and labour market
conditions. As orders or seasons peak and fall, labour contractors are able to provide variable numbers
of workers at short notice to meet supply requirements (du Toit and Ally, 2001; Frances et al., 2005;
Salamé & Morales, 2000).

Secondly, labour contractors have the knowledge to match the ‘right’ workers to the right task to
maintain quality, helping to overcome information obstacles faced by employers and workers (particu-
larly migrant labour). Information about specific job opportunities takes time to be transmitted. This
is a particular problem where production is highly concentrated, and there are sudden surges in
demand for workers at certain points of the production cycle. Labour contractors have connections to different networks of workers, and gain direct knowledge of producers’ specific needs. They have acquired the knowledge to service producers seeking ‘the right kind of worker’ (often migrants), with a ‘better attitude’ to working long hours for low pay (Martin, 2005; Rogaly, 2008b).

Thirdly, labour contracting enhances efficiency. It reduces the transaction costs of finding and recruiting appropriate workers at the right time, reduces the non-wage costs incurred by direct employees, and maximises the efficiency of labour use on an ‘as need’ basis, to match the ‘just in time’ production schedules of buyers. The use of contract labour gives suppliers an important mechanism for managing the competing pressures of cost and quality in employment. It provides a buffer for producers caught in a pincer movement, where lead agents and buyers extract value up the chain and drive risks down the chain (Barrientos & Kritzinger, 2004; Oxfam, 2004). Labour contracting thus involves the ‘outsourcing of labour’ as a complement to the ‘outsourcing of production’. Risk displaced along the production chain is extended along the labour chain.

A GPN perspective sheds a different light on the conceptualisation of unfree labour in the context of labour contracting within global production. Debates over forced and unfree labour mention globalisation as a factor, but come from different analytical perspectives. Koettl (2009) applies conventional economic theory to an analysis based on consensual and non-consensual exploitation. Within competitive labour markets, such exploitation theoretically should not occur. It is only deemed possible within monopsonistic labour markets, or where overt coercion is applied. This allows the wage to be less than the marginal value product of labour, with the employer acquiring additional profit. In contrast, Marxian analysts focus on capital accumulation through the extraction of surplus labour. But there is dispute over whether mature capitalism inherently necessitates the free sale of commodified labour power by workers, or can involve the ‘deproletarianisation’ of unfree labour through the advance of wages and debt bondage (Brass, 2008; Bush, 2007; Lerche, 2007; Selwyn, 2012). The ILO (2005) takes a more ambiguous position on the underlying conceptual approach to labour in a global economy, focusing on wider causes of forced labour. In particular, it highlights the role of poverty and regulatory failures in terms of the implementation of both labour and social law, as well as criminal law. Much of the analytical debate implicitly assumes that the producer and employer are synonymous, or fails to sufficiently explore the analytical implications of their separation. GPN analysis facilitates a more grounded approach. It helps to unpack the complexities of labour contracting in the context of global production, and the underlying drivers contributing to unfree labour.

Labour contracting fulfils its functions through a separation between the productive engagement of the worker in commercial activity (engaged in production of goods and services) and the ‘contractual’ engagement of the worker (‘employment’ by a separate labour contractor). At its core, this compounds a dislocation in the twofold character of labour as a factor of production, and as workers with social agency and rights (Barrientos, Gereffi, & Rossi 2011; Selwyn, 2012). Labour contractors mediate these two dimensions through the supply of labour to producers whilst assuming responsibility for their ‘employment’. They extract an economic rent or profit for their service. Formally, that rent is paid by the producer, but it opens up space for abuse of the employment relationship. This abuse can occur through a combination of reasons: (a) the price paid to the labour contractor is insufficient to cover the costs of wage and non-wage benefits; and/or (b) more unscrupulous contractors extract an additional surplus, through coercion of the workers. When (a) prevails alone, this is likely to lead to abuse of workers’ rights (wages below the minimum wage, non-receipt of statutory benefits). When (b) also prevails, this leads to situations of unfree labour. Workers are no longer able to exit the grip of a labour contractor or intermediary, and the labour for which they are supplied to the producer becomes effectively involuntary. The labour contracting system is therefore integral to the flexible commercial functioning of GPNs across borders in a liberalised global economy. It also provides a channel for the entry of unfree labour into the heart of global production.

Where labour contracting is integrated into GPNs, the link between a producer and such abusive practices is formally indirect. When workers are drawn into production through a ‘cascade’ or network of intermediaries, the chain becomes even further distended. It may not be the producer on site, or even the labour contractor, who formally supplies the worker. Rather, more remote intermediaries,
through whom the worker arrives on site, may be responsible for their labour being unfree. These intermediaries might be in another country altogether. But where this is embedded in GVCs linking buyers, suppliers and contractors, the connections become more interlinked than in traditional ‘arm’s length’ markets of buyers and sellers.

Analysis of labour contracting at the core of GPNs provides insights into the specific ways in which contemporary globalisation contributes to new forms of immiserisation in the global economy. This has evolved not as a result of exclusion from markets, but conversely through inclusion in markets based on adverse differential incorporation (Bush, 2007). Whilst this phenomenon has been explored at the broad level of contemporary globalisation, it has only recently been examined more specifically in relation to the functioning of GVC/GPNs (Kaplinsky, 2005; Phillips & Sakamoto, 2012; Ponte, 2008). Honing in on labour contractors provides further insights into specific mechanisms through which cheap labour is channelled to meet the needs of contemporary globalised production. The use of unfree labour by unscrupulous labour contractors is an inevitable outcome of the unfettered functioning of GPNs, and compounds the persistence of chronic poverty for those workers and their dependants (Phillips & Sakamoto, 2012).

**Implications for Addressing Unfree Labour in GPNs**

The above analysis indicates that the commercial dynamics of GPNs drive the use of labour contractors, the more unscrupulous of whom act as a conduit for unfree labour. This raises the challenge of how to control the excesses of labour contracting as a means of addressing unfree labour? In most countries, the main mechanism for protecting workers is national labour legislation channelled through the employer, with government providing mechanisms of enforcement. This assumes close employer attachment, with the employer held responsible for ensuring that workers’ rights are recognised and applied according to labour law. Employer attachment is undermined by labour contracting, which involves a ‘triangular employment relationship’ that de-couples workers from the formal producer on whose site they work (Theron & Godfrey, 2000, Theron et al., 2005). The challenge for protecting and defending the rights of contract workers is further aggravated within the context of GPNs. Here, external global buying practices not only intensify the de-coupling of producers and ‘employers’ by driving the rise of labour outsourcing through contractors; global buyers fall outside the ambit of national regulatory mechanisms for employer-based protection, further weakening the effectiveness of national labour legislation and enforcement through the employer as the channel for worker protection.

An emerging literature on labour in GVC/GPN analysis is beginning to redress the treatment of workers as passive actors and to examine underlying class relations prevalent in sourcing countries. It brings out the role of worker agency and independent organisation, highlighting challenges for workers’ rights in globalised production (Coe & Jordhus-Lier, 2010; Cumbers et al., 2008; Selwyn, 2012). Precarious work in GPNs results in spatial fragmentation of the workforce acting as a barrier to building solidarity. However, this fragmentation is compounded where labour contractors are deployed, given the additional dislocation between the producer, ‘employer’(contractor) and worker (Wills, 2009). This presents a particular challenge in addressing the issue of unfree labour in GPNs. Strategies need to involve interventions along the wider value chain and ultimately address the underlying commercial dynamics of GPNs. New approaches are being adopted through civil society campaigns and regulatory methods.

At present, the main mechanism for holding corporate buyers to account, particularly when they operate across national boundaries, is through global civil society campaigns. Corporate buyers pursue social compliance in the face of reputational risk of exposure of labour abuse in their GVCs – and illicit labour contractors using unfree labour encompass the worst risk (Barrientos, 2008; BSR, 2008). Trade unions and NGOs have become more vocal in highlighting abuses of migrant and contract labour (Anderson and Rogaly, 2005; Maher, 2009; Pollard, 2006). Early campaigns over poor labour conditions in global production led to private sector ‘voluntary initiatives’, including the
implementation of codes of labour practice by many large companies aimed at ensuring minimum standards for workers in their value chains. This has stimulated a large compliance industry of social auditors, who monitor global factories and farms. However, the voluntary compliance approach is also largely focused on assessments carried out ‘on site’, and contract labour often ‘disappears’ when social auditors visit (Barrientos, 2008; CCC, 2005). Normal workplace regulation and social compliance are therefore inadequate to deal with the abuse of contract labour, given worker mobility, de-coupling of workers from producer, and prevalence of off-site abuse. In the context of GPNs, the legal employment protection and rights of workers need to be recognised, regardless of workplace, employment status, citizenship or nationality (Anderson and Rogaly, 2005).

More innovative regulatory strategies have begun to appear, involving governments, often under pressure from private and civil society alliances. In the UK, increasing awareness of the issues led the Ethical Trading Initiative to set up the multi-stakeholder Temporary Labour Working Group (TLWG) in 2002 to establish minimum standards for labour contractors. The TLWG was composed of trade unions, NGOs and supermarket members. Following the Morecambe Bay tragedy, it played a critical role in pressuring the UK government to enact the Gangmasters (Licensing) Act (Pollard, 2006). This requires all UK labour contractors to register and be monitored by the Gangmasters Licensing Authority. Producers are liable if they use unregistered labour contractors, although coverage has been limited to agriculture (Wilkinson, Craig, & Gaus 2009). Within South Africa, concern over the practices of labour brokers (contractors) in the 1990s led to their insertion into the Basic Conditions of Employment Act, with a proviso of ‘joint and several liability’, so that producers became responsible if contractors failed to adhere to labour legislation (Taylor, 2003). Trade unions in South Africa are campaigning for the prohibition of labour brokers, but to date this has not occurred. These initiatives are important in providing new forms of regulation, but focus solely on labour contractors not wider value chain drivers.

Another strategy of NGOs and trade unions is to target the commercial buying practices of companies, to enhance the stability of supplier relations and improve their pricing and purchasing requirements. They have focused on leveraging the reputational risk to global brands and retailers to hone in on the commercial drivers which underpin labour contracting (ActionAid, 2007; Oxfam, 2004). However, campaigns alone have not stopped continued revelations of labour abuse in complex value chains (Craig, Gaus, Wilkinson, Skrivankova, & McQuade 2007; Maher, 2009). Campaigns are gaining ground for regulation that makes corporate buyers more accountable for labour practices across their GVCs, ensuring adequate provision is made for decent work in their buying practices. In the UK, a step in this direction is a legal requirement since 2007 for large and medium UK quoted companies operating overseas to report on employee, social and community issues in their value chains (CORE, 2011). The boldest attempt to date has been the introduction of the California Transparency in Supply Chains Act, which came into effect in January 2012. This applies to all retailers and manufacturers with annual global revenues of more than $100 million that do business in California. They are required to disclose information about their efforts to eradicate slavery and human trafficking from their direct supply chains where they make tangible goods for sale (Verité, 2011). Moving in this direction is critical to addressing the underlying commercial drivers in GPNs, but it needs to be complemented by parallel strategies of joint and several liability in the supplier countries (such as those introduced in the UK and South Africa). Only if all commercial actors across GVCs are held jointly accountable for addressing worker abuses by unscrupulous labour contractors can labour unfreedoms in GPNs be more effectively addressed.

Conclusion

This article has had a specific focus – analysis of the role of labour contracting within coordinated global production networks and emergence of unfree labour in that context. It has not examined wider forms of coercive or unfree labour within developing countries, nor whether these are a consequence of capitalist or pre-capitalist modes of production. It has argued that there are commercial trends in the
nature of global production networks that are driving costs and risks downwards, and the use of flexible labour provides the final buffer for producers operating in this system. Contract workers are the most flexible and lowest cost source of labour, and unscrupulous labour contractors extract additional economic rents through overt labour abuse. Campaigns by NGOs and trade unions are flagging up the adverse effects of companies’ purchasing practices (particularly falling prices and shorter lead times) on employment conditions. As this article has highlighted, through case studies, this is not an isolated developing country issue. It is found in global production that prevails in the global North and South.

Global production networks and value chains provide a specific form of interaction between the advanced commercial operations of firms and their outsourcing of labour-intensive production to developing countries. It has been argued that commercial chains linking firms are replicated through labour chains linking producers, contractors and workers. Within labour contracting we have identified that a continuum of labour relations coexists, from better to worse. Those at the lowest end of this continuum are often recruited through ‘labour chains’ that informally link networks of labour contractors involved in the provision of workers to production sites. At the outer reaches of these chains, labour contracting can overlap with illicit activities, including debt bondage and people smuggling. Whilst the worst forms of labour coercion and abuse are found at one end, contributing to new forms of labour ‘unfreedom’, this is not found in all forms of contract labour. If global production networks are contributing to intensification in the demand for this type of labour, there needs to be greater focus on the underlying commercial pressures that are generating its use. Interventions need to be coordinated between countries to ensure joint liability and accountability, from corporate buyers through to suppliers and labour contractors across global production networks. Only a more holistic approach can address the abuse of such workers, and ensure that all workers are able to access their labour rights and decent work in global production.

Notes

1. There is no single agreed definition or terminology. The generic term used in this article is ‘third-party labour contractors’; or ‘labour contractors’ for short. However, many different terms are used, including: ‘gangmasters’ or ‘labour providers’ (UK), ‘labour brokers’ (South Africa), and thekedaars (India).
2. The article is not examining all forms of labour contracting or private agents involved in the recruitment of free or unfree labour – it is focused only on those involved in global production networks.
3. This typology is based on investigation of labour contracting systems in South Africa, India and the UK and informed by other studies; however there is much variation between countries, and other arrangements also exist.
4. By 2005, industry sources estimated that nearly 80 per cent of fresh produce retailed in the UK was sold directly through supermarkets (Frances et al., 2005).
5. This section draws on in-depth case studies carried out on labour contractors in South African horticulture in 2003 and UK horticulture in 2004–2005. For detailed information on the methodologies used and research findings, see Krtizinger and Barrientos (2004) and Frances et al. (2005).
6. Production may be for international, regional or domestic markets, but trade is increasingly characterised by coordinated inter-firm linkages. For more in-depth discussion, see Barrientos et al. (2011).

References


