Summer Academy for Pluralist Economics 2020

Workshop 4 - Economic Geography: 'Nature, Labour and Uneven Development in Globalized Capitalism'

Instructors: Dr. Johanna Herrigel, Prof. Dr. Stefan Ouma

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A critical reading of the World Development Report 2020
-
Insights from Economic Geography

By:
Beatrice Allamand
Jens Carstens
Gabriel Almeida
Rostyslav Lytvyn
Alvin Peter Murorwa
Tabea Pottiez
Janne Schlag
Sara Schulte
Tilmann Waffenschmidt

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1. Introduction

Each year, the World Bank publishes its 'World Development Report' (henceforth referred to as WDR; World Bank 2020) providing an in-depth analysis of global economic development. The report usually highlights a defining feature of the global economy and represents the World Bank's methodological and theoretical perspective as well as its policy-setting agenda. For the report in 2020 the World Bank decided to put 'Global Value Chains' at the heart of its report. This comes as a surprise for some given the origin and use of the approach in heterodox economics (cf. Campling and Selwyn 2018). The World Bank (2020) defines 'Global Value Chains' (henceforth referred to as GVCs) as follows: "(a) global value chain breaks up the production process across countries. Firms specialize in a specific task and do not produce the whole product" (xxii).

The global fragmentation of production or 'hyperspecialization' as well as increasing connectedness between firms are characteristics of GVCs. Technological advancements, decreasing transportation costs and the liberalisation of trade and investment have enabled the rapid emergence of GVCs as a defining feature of the global economic structure especially between 1990 and 2007. The WDR (World Bank 2020, 2) finds that since the global financial crisis in 2008, GVCs plateau at around 50 percent of total global trade. Others estimate GVC's share of trade even at 80 percent (Suwandi et al. 2019). According to the WDR, the emergence of GVCs resulted in significant productivity gains, knowledge transfers, rising employment, increasing incomes and a substantial reduction of poverty in developing countries. Thus, the World Bank argues that increasing integration of countries from the Global South into GVCs can be a force for sustainable and inclusive development in the future. The WDR prescribes further reforms to liberalize and open markets in developing countries as well as international cooperation to boost trade and investment globally.

Heterodox economists have coined and used the concept of GVCs and the related notion of Global Commodity Chains to describe and analyse power relations on a firm level along global production lines. They emphasise the often oligopolistic position of lead firms – large transnational corporations (TNCs) with power over the rest of the production chain and problematise – and question the possibility that economies can improve their situation by 'upgrading' along the chain. In this tradition, we offer a heterodox critique of the WDR

drawing on insights from Economic Geography. We focus in our analysis on the areas of uneven development, labour, financialization and inequality.

2. Uneven development

On the one hand, the WDR emphasizes how all economies - Global North and Global South - can benefit from integration into GVCs. On the other hand, it acknowledges that growth has been distributed unevenly across the globe during the emergence of GVCs. It is very well aware of the unequal distribution of trade across different regions and regionally different positions within GVCs. Yet, the report optimistically focuses on aspects of GVCs that might play a vital role in combating uneven development across different regions and countries (especially in countries from the Global South).

2.1. Technology transfer

The report recognises that transfers of technologies have led to professional skill enhancement in countries from the Global South and have caused lower cost of trade, which makes it easier for smaller firms to break out of their local markets and sell both goods and services to the world market. However, the technologies transferred have mainly been those employed at the lower stages of production requiring low skills and are labour intensive. Workers and suppliers in this section are competitive by offering low costs of production, sustained by poor conditions of work, low wages, and weak environmental legislation. The economies from the Global North, on the other hand, focus on more sophisticated processes that require high skills and command higher returns. This in turn keeps the smaller economies locked up in lower stages of production without realizing the intended growth and sometimes even promoting uneven growth. The report however does not reflect that these transfers of technologies or outsourcing activities might be deliberate strategies of TNCs to achieve greater cost efficiency and reap larger margins through outsourcing and the global fragmentation of production. This is the underlying driver for this unevenness or as MacKinnon and Cumbers (2011) put it:" (u)neven development is an inherent feature of the capitalist economy, reflecting the tendency for growth and investment to become concentrated in particular locations" (7).

2.2. GVCs efficiency is based on uneven development

The WDR claims that every country involved in GVCs benefits as higher income and poverty reduction are achieved (World Bank 2020, 1f). Despite that, wage disparities have been

growing in most countries as premiums for skilled workers grow while those for low skilled workers have remained stagnant (World Bank 2020, 3). This development spells out the forms and qualities of power that are relevant for the participation of firms from the Global South in global production networks. As large firms increase their mark-ups, they lower those of supply firms pressuring them to continuously decrease wages (ibid.). However, the report does not acknowledge that low skilled labour is in large supply, that there are high unemployment rates in most of the countries from the Global South, and that immigration controls protect high wage workers in economies in the Global North. The gains from GVCs are not equally shared within and across economies and thus GVCs can contribute to uneven development.

3. Labour

The WDR 2020 studies the effects of GVCs on labour, mainly observing the differences in labour at the firm and country level, between those engaged in exporting and importing final goods (traditional trade) and those trading intermediate goods (GVC trade). However, The WDR claims that GVCs have an overall positive impact on participating economies, for example by improving labour conditions, driving up wages, reducing poverty, and by creating more opportunities for women (World Bank 2020, 3ff). This claim is based on cross-country and cross-firm correlations that cannot account for evidence of a causal relationship between better conditions and engaging GVCs. In the following, two problematic effects of GVCs on labour are discussed, which are that GVCs generate unequal work and wages, and that GVCs generate declining labour share.

3.1. Unequal work and wages

There are different ways in which GVCs produce and reproduce inequalities with regards to labour. One is that there are differences in work and wages associated with skills, and another perspective regards differences in work and wages associated with gender.

3.1.1. Differences associated with skills

The WDR addresses differences in human capital, labour conditions, and wages associated with skills within countries and between countries:

- *Within countries:* The WDR states that GVCs increase wage inequality in countries at all income levels through fragmentation of production. In high income countries, the returns of high skilled labour increase, augmenting differences between returns of

skilled and unskilled workers. For low- and middle-income countries, inequality is augmented by GVCs by increased demand for high skilled workers, a more competitive arena of suppliers that imply a war for talent, and by firms being more likely to adopt capital-intensive technologies. This diagnosis refers to local skill-based wage differences, and policy recommendations are hence nation-oriented. Low income countries must spread the jobs and earning gains from GVC participation across society. Industrial countries must develop policies for workers displaced by technology, trade and expansion of GVCs.

- *Between countries:* The World Bank (2020, 198) argues that the problem of differences in work and wages can only be attributed to GVCs if they contribute to the emergence of 'low wage traps' (wage suppression used to maintain international competitiveness), that is a result not of GVCs but of trade within economies that have different competitive advantages (being having abundance of low skilled workers an advantage though low labour costs). The report holds that it's not the case, because firms operating in GVCs tend to pay higher wages than those operating in direct trade only (World Bank 2020, 198f).

The report doesn't recognise that the same forces that make GVCs cost efficient and highly profitable for top chain participants -that is outsourcing labour-intensive production to countries with low-wage competitive advantage- are the ones responsible for precarious working conditions. The fact that those jobs are more capital-intensive or have little better wages than the ones the country would develop without engaging GVCs is no excuse for not accounting for this issue. According to LeBaron et al. (2018), the monopolistic power of lead firms in GVCs produces pricing pressure on suppliers in countries from the Global South, who optimize their production choices by labour cost cutting. This is what generates 'low wage traps'. The report holds that if that were the case, then Global South countries' policies must protect worker's earnings while maintaining competitiveness. But the only way to maintain competitiveness is to maintain the supplier's costs (which exhibit little margins). Therefore, higher minimum wages or provision of public goods in order to assure living standards despite low wages, must be state subsidized and cannot be charged directly nor indirectly to local firms. The responsibility of precariousness is being held against the Global South. A more comprehensive understanding of the incentives that explain global gains by GVCs would suggest correcting the market of GVCs, making the firms at the top of the GVC, the so-called lead firms, responsible for labour exploitation all the way to the bottom of the

chain. Transparency acts go in the correct direction, but they need to be enforced and not voluntarily.

3.1.2. Differences associated with gender

While the WDR explicitly includes and problematizes the dimension of gender inequality in its analysis, it lacks a critical and systemic approach to the implications and interlinkages of gender and GVCs. The WDR praises firms integrated in GVCs for their relatively high share of female employment (World Bank 2020, 3 and 79). This notion does not go unchallenged in the report, as it argues that the high share of female employment is due to a concentration of GVCs outsourcing activities to labour abundant developing countries on lower value-adding segments, where women are more likely to work (World Bank 2020, 3 and 68). Yet, the report fails to address the systemic dimension of this conclusion: GVCs produce and exploit inequalities or as Nicola Phillips (2017) puts it: the GVC world and "the foundational dynamics of a global economy organized in this manner directly produce these outcomes, on the one hand, and on the other depend on the harnessing of existing inequalities for their ability to emerge and thrive" (431). Subsequently, the WDR treats the failure of GVCs to break glass ceilings for women and deliver female empowerment as a market failure rather than a systemic feature of GVCs.

Other feminist scholars and World-System theorists have mentioned the contribution of homeworkers and household-based work to GVCs (cf. Dunaway 2013). Because of the traditional role of women as housewives, it is often women who do this low or unpaid work. While WDR cites examples of these home-based tasks, they say that they are exploitative only in criminal exceptions, that can be addressed by empowering workers organizations negotiating better conditions and wages, a much contradictory recommendation when the whole point of these women being included in these GVCs is their low labour-cost.

As we can see, the lack of a systemic approach is most notable in the policy recommendations of the WDR. It suggests that legal and social discrimination against women on a national level prohibits female empowerment (World Bank 2020, 91). The abolition of such discriminatory practices (that is, the lift of legal restrictions for women to enter formal employment) on a national or regional level alone would lead to GVCs becoming a tool for female empowerment rather than a structure entrenching and harnessing gender inequality. Also, they recommend better training programs for women in order for them to upgrade to higher-skilled tasks and better-paid jobs (World Bank, 198f). These propositions are problematic on the one hand because they focus on national policies, leaving the GVCs and

the lead firms out of the picture, and on the other hand because they focus on the immediate benefits for women of integrating GVCs, not considering the long-term implications: female workers integrated in GVCs tend to work low-paid jobs and are less likely to own or run GVC firms (World Bank 2020, 90).

3.2. Declining share of labour

The gross domestic product (GDP) describes the income of an economy in one year. This income can be generated either through wage income or through capital income, i.e. dividends, interest. The share of labour describes the share of the total income of an economy that is distributed through wages. The labour share has been declining since about the 1980s in most countries, both in the Global North and the Global South. This means that an increasing share of GDP is no longer paid to workers through wages, but to the owners of capital (World Bank 2020, 86). While this does not mean that wages did not increase in absolute terms, they do decrease relative to capital incomes. Low wages are a fundamental problem in the Global South not only because they are often barely sufficient to survive, but also because they stabilize overall low wage levels. Low wages and high unemployment lead to disadvantages in wage negotiations and bargaining power. Higher wages could contribute to alleviate poverty, decrease unemployment and thus improve the negotiating position of workers. Thus, a higher share of labour could in the long- term contribute to combating low wages, poverty and forced labour.

The WDR discusses the effects of GVCs on the development of the share of labour. The authors see GVCs as a contributor to the decline of labour share due to the increasing market power of some large companies (World Bank 2020, 86). The World Bank (2020) argues that one reason for declining shares of labour could be that "producers are not passing on their cost savings to both workers and consumers" (ibid.). Moreover, the capital intensity of production is increasing. Based on calculations for 63 developed and developing countries, the World Bank (2020) concludes that about 27% of the decline in the share of labour is attributable to GVCs (ibid.). Other sources stress the falling costs of capital goods as a driver of the decline. Neiman and Karabarbounis (2013) attribute about half of the decline in the share of labour to cheaper capital goods, which increase the incentives to substitute labour with capital goods. Pariboni and Tridico (2019), on the other hand, stress that financialization is the most important factor in the decline in the share of labour.

4. Inequality and Financialization

In this chapter we provide a critical review of the WDR regarding financialization and inequality, which we understand as consequences and structural elements of GVCs. We do so in drawing upon scholars that link GVCs to capitalism and its mechanisms. We argue that GVCs are highly connected to financialization. Yet, the World Bank (2020) fails to address financialization both in its analysis and its policy solutions. Importantly, we argue that processes of financialization are tightly interlinked with rising inequalities as financialization provides the basis and means for exploitation of labour and accumulation of capital along GVCs. Furthermore, we develop a critique of the report's underlying narrative that economic growth leads to development and that economic upgrading equals social upgrading. We explore how the report mentions and begins to problematize the role of financialization and inequality in GVCs, but fails to address the systemic relation of gender, the ecological system and GVCs.

4.1. Financialization

The concept of 'financialization' and the dynamics of power and accumulation that it brings to light are largely absent from the report. Yet, looking at GVCs through the lens of financialization helps to better understand the dominance of finance and those controlling it within trade chains (Aalbers 2015, 214). The report misses this opportunity by neglecting the power aspect of finance. It is emphasized that rising FDI inflows can make up for scarcity of capital, technology, and management skills' (World Bank 2020, 37) without critically examining the consequences of that kind of division of labour for the division of gains and without considering the loci of value creation along the chain.

The report remains committed to the idea that the participation in GVCs will contribute to productivity increases at all levels of the chain and that these will be accompanied by increases in income (World Bank 2020, 3). By applying financialization as a tool to understand how productivity and profits are disconnected in a financialized trade system as suggested by Krippner (2005, 174) this basic assumption begins to show cracks. Profits are not distributed along the value chain according to productivity. Instead, financialization has encouraged lead firms in control of the chain's financial flows to decrease production costs, which include investment in infrastructure and wages as far as possible while still being able to obtain the most profit at the expense of labour (Milberg 2008). Thus, financialization should be considered when discussing the distribution of gains from value chains.

4.2. Lead firm power and GVCs

We welcome that the WDR develops a good argumentation around the advantages that the governance of a lead firm can provide to the other firms downstream the chain. In chapter one, for example, in which the report emphasizes the firm-level approach of GVC analysis, the concept of a "sticky buy-seller" relationship emerges as an attempt to describe the interdependence nature of the relation between buyers and sellers, which is a consequence of phenomena as the hyperspecialization of suppliers in order to follow buyer's standards (World Bank 2020, 31). That leads to the need for specific investments, causing, argues the report, "large flows of intangibles such as technology, intellectual property and credit" (ibid.).

However, the report remains silent about the negative intangible flows that establish exploitative relations through the whole chain. In this sense, it is interesting to point out how the text approaches the weak legal environment in GVCs - a result of the differences in contractual safeguards across borders (World Bank 2020, 32). It frames this scenario as a problem for lead firms, highlighting their need to manage the relationship within the chain in a way that an implicit contract is enforced. Although this is true, the lack of legal formality in the productive process can also be very profitable for the lead firms, since it opens space for the maintenance of bad working conditions in the supplier companies. Nevertheless, this negative aspect is hidden in the text. This strategy is most used in contexts of buyer-driven GVCs, mostly present in the textile and apparel industries. As Milberg (2008) emphasizes, big companies in those industries take advantage of oligopsony power to put pressure on suppliers, seeking to maintain big levels of production, low wages, high mark-ups and increasing profits.

Later on, in chapter 3, the report recognizes some of the problems mentioned above, such as the falling of labour's share of income accompanied by the increase of profits, and bad work conditions, especially in contexts of subcontracted informal home-based workers, or labour intensive GVCs, "where outsourcing to developing country locations is often motivated by low-wage labor" (World Bank 2020, 31). Even though those issues are addressed, the dynamics that sustain them on the intra-firm level, the management practices and mostly financial policies that guide the lead firms and maintain this exploitative system are not analysed in the same way that positive outcomes of GVCs are. That leaves the impression that the economic processes that bring good results to the powerful actors within the chain are deeply explained in order to convince readers. At the same time, negative aspects of

GVCs are described over and over again as external problems, or ‘market failures’ (World Bank 2020, 6, 8, 160, 165, 175, 181, 200, 222, 226f, 230, 239).

A considerable aspect of this system, according to Kopp et al. (2019), is based on an imperial mode of living responsible for wealth accumulation, especially in the global north, and rising inequality among and within countries. The imperial mode of living is connected to processes securing the lifestyle “of a global upper and middle class that excessively consumes resources, and which increasingly includes people from the Global South” (Kopp et al. 2019, 6). Those levels of consumption are not possible without the exploitation of labour somewhere along the chain. The system is sustained by a huge demand for cheap products, that pushes companies to pursue profit growth by lowering costs, a phenomenon that is described by Milberg (2008, 427):

> “Despite this theoretical focus on product markets and the demand elasticity, it would appear that over the past ten years the rising profit share has not depended on rising final goods and services prices.”

Regardless of this fact, the WDR insists on the idea that a linear production and consumption growth is not only possible, but the way out of underdevelopment (World Bank 2020, 1). In the text, this process is called upgrading, through which countries are supposed to slowly jump from productions of low-added value to sophisticated innovative industries. However, if every country gets upstream the chain, there will be no more chain. Therefore, there is no reason to believe that seeking development through the strategies proposed by the WDR would be a truly inclusive process.

4.3. Inequality

4.3.1. Economic Growth, Inequality and the Environment

Neo-classical proposals to respond to inequality and poverty in the WDR tend to be growth-centred. In this vein, the authors of the WDR outline a positive relationship between participation in GVCs and poverty alleviation, because participation in GVCs would foster economic growth (World Bank 2020, 1f). They are stating that “trade in general reduces poverty primarily through growth. Because gains in economic growth from GVCs tend to be larger than from trade in final products, poverty reduction from GVCs also turns out to be greater than from standard trade” (World Bank 2020, 3). Hence, the positive relationship that they are proposing is not about trade or higher participation in GVCs leading to reduced poverty, but about economic growth supposedly leading to reduced poverty.

This position must be critically confronted from at least two angles. First, economic growth cannot be expected to ensure reduced poverty levels and declining inequality. In fact, the share of income generated by the richest few percent has been growing markedly – along with more pronounced wealth concentrations as well (Stiglitz 2016, 137-139). In almost all OECD countries, income inequality, as measured by the Gini coefficient, has significantly increased over the past decades (Stiglitz 2016, 138). A similar development holds true on a global scale. Absolute inequality between the 'developed' core and the periphery of the world system has increased considerably over the past decades (Hickel 2017, 2213-2216).

Secondly, economic growth needs to be challenged from an ecological perspective. While the WDR rightfully highlights the potential of GVCs to promote efficiency gains and technological innovation and thus relatively more sustainable production and consumption patterns (World Bank 2020, 119), it is important to note that the positive environmental impact of such improvements remains relative only. Evidence suggests that an absolute decoupling of economic growth from material and energy consumption cannot be achieved (Ward et al. 2016). Economic growth then cannot be considered as a sustainable and long-term solution to issues like poverty and global inequality against the backdrop of the limits imposed by planetary boundaries (Rockström et al. 2009). Economic growth can however be a senseful and desirable shorter-term outcome for countries belonging to the periphery of the world system, in order to reverse or at the least alleviate the impacts of historical and ongoing exploitation by the societies of the capitalist core.

4.3.2. Economic upgrading and Social Upgrading

The WDR includes a surprisingly detailed, evidence-rich and nuanced debate about the relationship of economic upgrading and social upgrading vis-à-vis the World Bank's market- and growth-led development strategy. It acknowledges that "gains from GVC participation are not distributed equally across and within countries" (World Bank 2020, 3) and that integration into GVCs can lead to dead-end jobs with initial economic growth but no further perspective of social upgrading for developing countries, using Bangladesh as an example (World Bank 2020, 67f. and 74f.). Yet, the report falls back into a neo-liberal narrative of economic growth leading to rises in employment and increasing incomes resulting in poverty reduction. This view neglects that, on the one hand, recent successes in reducing extreme poverty are mostly attributable to the rise of China while "(o)utside China, progress has been patchy" (Phillips 2017, 429). On the other hand, job creation and poverty reduction have to be understood in relation to increases in inequality (both in economic terms as well as social

and political inequalities). While jobs created by GVCs might provide enough income to escape extreme poverty, they might indefinitely lock individuals and countries into unequal relations and thus reinforce power structures and inequalities in favour of lead firms. Campling and Selwyn (2018) argue that the GVC approach portrays lead firm power as "overwhelmingly positive", which "is a simplistic and unilinear portrayal of global developmental dynamics" (419). The authors warn that "much chain analysis fails to account for processes of exclusion and downgrading" (Campling and Selwyn 2018, 425) This is the case in the WDR as integration into GVCs is portrayed as necessarily leading to upgrading and development. Possible signs of such an unequal and exploitative role of lead firm power could be conditions of forced labour in the broad definition of LeBaron et al. (2018), a 'race-to-the-bottom' in terms of labour and environmental standards, and rising income inequalities.

5. Conclusion

To sum it up, we appreciate that the WDR makes use of a concept developed by critical scholars (see Campling and Selwyn (2018) for a genealogy of the concept) and hence incorporates important elements that are distinctive of a critical analysis of the global economy such as gender inequality or lead firm power. Using GVC as an approach to make sense of the global economy constitutes a shift in the analytical lens employed and amplified by the World Bank. From a heterodox economics point of view, this development is to be welcomed and leveraged. Yet, the incorporation of these critical elements outlined in the sections before is not only incomplete in the report, but half-heartedly and does not address the core structural relationship of GVCs, uneven development, labour interests, financialization and inequality. The report presents uneven development, the exploitation and deprivation of labour interests, financialization and inequality as unintended outcomes or 'market failures'. The World Bank suggests that these shortcomings of GVCs can be prevented by further market-oriented reforms in developing countries and a few policy efforts. Thus, the report suggests that the responsibility for uneven development, labour exploitation and deprivation, and inequality through financialization rests on the shoulders of Global South countries' governments and smaller supplier firms, while little culpability is given to lead firms, TNCs and developed countries. Given the extensive power of lead firms and their increasing mark-ups, we reject the World Bank's emphasis on policy solutions that centre around market-oriented reforms in developing countries. We argue that the report does not only neglect the root causes of GVCs' shortcomings, but its neo-liberal policy

solutions reinforce the very existence of exploitation and uneven accumulation along GVCs. GVCs itself are, ultimately, structural conditions deeply embedded and born out of the world's production and consumption system - that is, capitalism. Campling and Selwyn (2018, 430) argue that "immense social wealth generated within global value chains epitomizes the perverse dynamism of global capitalism." In other words, uneven development, exploitation and deprivation of labour, financialization and inequality are inherent features of GVCs and need to be addressed in relation systematically and structurally. Yet, the report fails to translate its initial embrace of GVCs and its more plural, critical perspective of global economic development into substantial analyses of capitalism, and into policy solutions that transcend neo-liberal market-led reforms to address root causes of shortcomings of GVCs.

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