**Theme**

New drivers of BRICS economic cooperation

**Title**

Corporate restructuring and value chains

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## ABSTRACT

*The past two decades have seen changes in control of global markets and concentration at a global scale. Gereffi and Ferrnandez (2011) argue that global values chain (GVC) analysis provides a good framework for understanding the way in which global markets have been reallocated and restructured over this period. They say that GVCs are a global link between firms, workers and consumers that could provide an entry for developing countries to integrate into the global economy. Gereffi and Fernandez are of the view that developing countries have to insert themselves into GVCs if they want to develop.*

*I argue in earlier work that global corporate restructuring over the past few decades has led to concentration of global markets with a larger role played by reorganised of global value chains. I argue that this restructuring has exacerbated a global division of labour where the corporations of developed countries that have become lead corporations in GVCs control design and engineering, intellectual property rights, branding and global distribution channels while developing countries provide primary inputs, such as raw materials and agricultural products, and provide cheap labour for assembly of manufactured products. The result of this division of labour has been to reduce the ability of developing countries' firms to move into higher value-added production, earn higher profits and to build up their stock of intellectual property, and global brands. Financialisation of non-financial corporations (NFCs) has had an important influence in shaping this global corporate restructuring, the operations of global value chains and the new global division of labour.*

*My paper argues that the perspective of Gereffi and Fernandez (2011) is a developed country perspective. They see the status quo with regard to GVCs as the only game in town and assume that developing countries have to insert themselves into these GVCs. They 'suppose' that developing countries could benefit from insertion into GVCs. They do not question the global division of labour and discuss power only within the framework of governance of GVCs. They do not discuss global political economy issues nor the role of financialisation of developed country corporations and how this has impacted on GVCs.*

*The paper suggests that an important question and possibly agenda for the BRICS countries is not only to challenge the current status quo with regard to governance of GVCs but also to develop their own GVCs. Cooperation amongst the BRICS countries could support partnerships and development of BRICS corporations to challenge the current power of developed economy lead firms. They could alter the governance of global value chains for key products. BRICS countries have the combined market strength, range of products from raw materials through to intermediate and final products and know how to set up new value chains.*

## 1. INTRODUCTION

The past two decades have seen changes in control of global markets and concentration at a global scale. Gereffi and Ferrnandez (2011) argue that global values chain analysis provides a good framework for understanding the way in which global markets have been reallocated and restructured over this period. They say:

> The global economy is increasingly structured around global value chains (GVCs) that account for a rising share of international trade, global GDP and employment. The evolution of GVCs in sectors as diverse as commodities, apparel, electronics, tourism and business service outsourcing has significant implications in terms of global trade, production and employment and how developing country firms, producers and workers are integrated in the global economy. GVCs link firms, workers and consumers around the world and often provide a stepping stone for firms and workers in developing countries to integrate into the global economy. (p.2)

I argue in Mohamed (2010) that this global corporate restructuring has exacerbated a global division of labour where the corporations of developed countries that have become lead corporations in GVCs control design and engineering, intellectual property rights, branding and global distribution channels while developing countries provide primary inputs, such as raw materials and agricultural products, and provide cheap labour for assembly of manufactured products. The result of this division of labour is that it reduces the ability of developing countries to move into higher value-added production, earn higher profits and to build up their stock of intellectual property, global brands. Financialisation of non-financial corporations (NFCs) has had an important influence in shaping this global corporate restructuring, the operations of global value chains the new global division of labour. Therefore, ability of developing country corporations to lead global value chains and to become international players that control intellectual property, branding and distribution has been curbed.

Gereffi and Fernandez are of the view that developing countries have to insert themselves into GVCs if they want to develop. However, there are many preconditions for developing countries to benefit from insertion into GVCs. They argue,

> For many countries, especially low-income countries, the ability to effectively insert themselves into GVCs is a vital condition for their development. This supposes an ability to access GVCs, to compete successfully and to "capture the gains" in terms of national economic development, capability building and generating more and better jobs to reduce unemployment and poverty. Thus, it is not only a matter of whether to participate in the global economy, but how to do so gainfully (ibid).

The perspective of Gereffi and Fernandez is a developed country perspective. They see the status quo with regard to GVCs as the only game in town and assume that developing countries have to insert themselves into these GVCs. They 'suppose' that developing countries could benefit from insertion into GVCs. They do not question the global division of labour and discuss power only within the framework of governance of GVCs. They do not discuss global political economy issues nor the role of financialisation of developed country corporations and how this has impacted on GVCs.

An important question and possibly agenda for the BRICS countries is not only to challenge the current status quo with regard to governance of GVCs but also to develop their own GVCs. Cooperation amongst the BRICS countries could support partnerships and development of BRICS corporations to challenge the current power of developed economy lead firms. They could alter the governance of global value chains for key products. BRICS countries have the combined market strength, range of products from raw materials through to intermediate and final products and know how to set up new value chains.

Cattaneo and Fryer (2014) make a case for a heterodox approach in their contribution to the BRICS 2014 Academic Forum, they say:

> The heterodox approach emphasises a coherent nexus of trade, industrial and technology policies to facilitate learning by doing and growth-enhancing structural change. Active industrial and technology policies are required in order to foster appropriate structural change. (Cattaneo and Fryer, 2014, p.14)

This case for a heterodox approach applies when considering GVCs and how to address the current inequities in the global division of labour. BRICS countries, through use of technology, trade and industrial policies combined with appropriate development finance support could set up and nurture value chains free of the negative financial motives and short-termism of financialized corporations and the shareholder value movement. The BRICS countries have the ability to move away from market-led economic perspectives in shaping their corporate landscapes.

## 2. RESTRUCTURING AND CONCENTRATION OF GLOBAL MANUFACTURING

### 2.1. Changes in product market competition

From the 1980s there were changes in global business structure due to huge growth in competition in global manufactured products and changes in financial markets. During the 1950s and 1960s, countries that had rebuilt their manufacturing capacity after the devastation of World War II, especially Germany and Japan, competed with manufacturers of the US. From the 1970s, more developing country production entered global markets. There was a serious shake up in global product markets as a result of new entrants and increased production capacity.

Crotty (2002) drawing and building on Schumpeter's insights into competition says that before the 1970s, there was 'co-respective' competition amongst the major corporations in core industrial sectors. The oligopoly structure of these markets meant that the dominant corporations were happy to divide global markets amongst themselves. As a result, price competition was significantly decreased and profit levels were higher. In addition, higher levels of profit taking were possible over a longer period because commercialization of new technology, product development and innovation could be extended over a longer period. In other words, innovation and technology rents were higher and could be enjoyed over a longer period because less competition meant that new products did not have to be introduced to the market a quickly as today. Therefore, corporations were willing to invest in longer-term projects and were less focused on short-term performance than today.

After 1980, with all the increased product market competition, large industrial corporations faced declining profits and were forced to compete on price.[1] Crotty calls this 'coercive' competition, which included cutthroat competition amongst global manufacturers replacing the co-respective competition. Global manufacturing corporations were also forced to innovate faster and to commercialize technology faster to remain competitive, reducing innovation and technology rents.

An important characteristic of many core sectors of industry, such as steel, automobiles and chemicals, is that their initial capital investment is very high and the cost of exit from the industry is also high. The exit costs are high because to build operations in these industries they have to invest in specialized capital equipment and specialized skills. This approach to investment is different to most mainstream, neo-classical models of investment where investments are treated as reversible. In core sectors, the reality that investments are irreversible is inescapable; competition turned cutthroat when oligopolistic competition was disrupted by

[1] The recovery of Japanese and Germany industry and their increasing involvement in trade put pressure on US corporations that dominated world trade after WWII. From the 1970s developing countries, especially of East Asia were able to increasingly compete in global trade markets and put even further pressure on existing developed country corporations. The addition of these new entrants also significantly increased global production capacity and put downward pressure on prices.

new entrants. There was pressure on the competing corporations to invest more rather than withdraw from competing in their respective markets.

Crotty's term 'coercive competition' describes this characteristic of global product market competition. The corporations invested to avoid potentially high exit costs. They also realized that if one of their major competitors was forced out of business, then the reward for those who survived, and were present when there was redistribution of the global market amongst the survivors, would be high. The result of all this coerced investment was the development of global overcapacity in many industrial sectors, which continues to the present.

Another aspect of this coerced competition is that the major global corporations of developed countries sought out new markets where they expected rapid growth. As a result, there was much new investment in Asia, and Latin America but also in the transition economies of central and Eastern Europe and Russia from the 1980s.

Another aspect of coercive competition was that large corporations, facing declining profits but requiring more finance for investment, searched out all manner of ways to reduce their costs. During the post-WWII period until the end of 1970s, the US and some European economies had a form of capitalism often referred to as 'Fordist'. Fordism, in a nutshell, was a system where there was a compact between labour and the owners and managers of large industry where the capitalists promised to reward labour productivity while labour agreed to work hard and support managements' attempts at increasing productivity. Fordism worked while global competition was corespective. Capitalists could pay workers high wages, which in turn led to higher aggregate demand. The higher aggregate demand led to more industrial growth and high profits for industry. Angus Maddison (2001) shows that global GDP was higher during the post-WWII to 1970s period and the period from 1980 onward. He says that the annual rate of growth of real global GDP fell from 4.9% during1950-73 to 3% in 1973-1998 (a drop of 39%).

The need to cut cost led managers and owners to put downward pressure on wages and benefits of workers. They abandoned their compact with labour and ended high road labour relations. At the same time, casualisation of work increased and contracting out of parts of production, seen as peripheral to the core business, occurred. MNEs also moved production abroad. This movement offshore served two purposes with regard to reducing the cost of labour, first it led to lower costs because of lower wages abroad but also served to keep wages in developed countries low as the threat of relocation scared workers to keep their remuneration demands low.

The large corporations of developed countries competed to control more and more of global markets. More often than not these corporations grew through acquisitions but they also invested in greenfield operations. Some companies struck up alliances with strong and well established domestic firms in developing countries. As these companies competed in harshly competitive global markets, they invested more and more to save their businesses. To make these large investments they required more and more debt.

## 2.2. Changes in financial markets and corporate restructuring

Up to the 1970s, when profits levels of large corporations were relatively high and stable, the large corporations could meet most of their finance requirements out of retained earnings. During the post-1980 period these firms were forced to borrow more. They often used stock markets to raise this capital. At this time, institutional investors, such as hedge funds, private equity funds, pension funds and insurance companies became more important as investors in equity markets.

In the US and Britain institutional investors rather than banks were the main source of investment capital. They controlled a huge chunk of total savings in developed countries as more household savings went into pensions and insurance. In this manner, institutional investors became extremely influential and important players in equity markets. They could influence management decisions and the structure of publicly listed corporations because they controlled a large proportion of stocks.

During the 1990s these institutional investors formed the basis of the shareholder value movement that used their power in capital markets to push firms to increase shareholder value by cutting costs, and downsizing their labour forces. They also pushed for firms to control a larger share of global markets. The shareholder value movement put much emphasis in the value of brands and played no small part in encouraging MNEs to develop global brands. They also forced many firms to focus on their core businesses and to sell off their non-core businesses. The huge growth in global mergers and acquisitions from the 1990s was driven by pressure from financial markets.

The power of the shareholder value movement was greatly enhanced by the rapid growth in popularity of stock options. Stock options for CEOs and other executives make up most of their annual remuneration. The influence of the shareholder value movement and the proliferation of stock options led to a situation where the financial sector, especially institutional investors, were able to influence global business structure.[2] Unfortunately, many institutional investors have short investment time horizons, which can be seen in the fact that in markets such as the US, stocks are held for a short time. In the US on average more than 100% of stocks change ownership in a year.

As a result of the emphasis on short-term financial performance and the high stock turnover, financial markets put huge pressure on large corporations to earn high profits. This pressure to earn high profits occurs at a time when high levels of competition in global product markets make it hard for firms to achieve high profits (Crotty, 2002, Froud et al, 2007). Corporate fraud related to overreporting of profits during the early 2000s, by giant global corporations such as Enron, Parmalat and WorldCom are not surprising when considered from this perspective. In addition, moves to downsize manufacturing firms and deregulate global markets were linked to

[2] For more analysis of the influence of the shareholder value movement on management decisions and corporate structure see Crotty (2002) and Froud et al (2006).

the short-term, approach and unrealistic profit expectations of people speculating in financial markets.

### 2.3. Global concentration

The discussion above sets the context for understanding widespread global business restructuring since the 1990s. There was unprecedented global corporate restructuring during the 1990s. Much of the restructuring did not occur only within the corporations and at specific final goods producers but occurred throughout the value chain. The concentration of final goods markets that cascaded through to suppliers' markets was a global phenomenon.

Nolan (2003) says that during the 1990s, global markets reached an unprecedented level of concentration in what he describes as "the global business revolution". He says, "There was high speed firm-level concentration across the value chain on a global scale in a wide range of industrial sectors (p.299)." He provides evidence that the companies that have taken a global lead achieved this lead through high global market share, global brands, high R&D and IT expenditure and core business focus. These giant global firms have huge competitive advantages as a result of having achieved these characteristics.

Nolan shows that core firms within value chains assert strong control over firms across the entire value chain (upstream and downstream). Nolan says that firms that want to be aligned with core firms as 'partner' suppliers must agree to let the core firm in the industry have access to their books, planning of their new plants, organizing their R&D, planning their production schedules and delivering their products to the new firms (p.300). He says, "This is a new form of industrial planning which extends across the boundaries of formal ownership structures and radically undermines old ideas of the size and the nature of the firm (ibid.)." During the 1990s, the core firms that controlled the value chains with global brands were predominantly from the US, Europe and Japan. While there were MNEs from developing countries that became important during this period, the amount was negligible compared to the number of developed country MNEs.

Nolan argues that competitive advantage was achieved during the 1990s through:

- Focus on core business and a widespread narrowing of business activities undertaken by individual firms;

- The emergence of global brands that have spread as media has globalised. Nolan says that some of the most successful branded goods companies are sharply narrowing their range of products.

- Spending on R&D has increased dramatically and the technical abilities of leading global firms accelerate. Nolan says, "Large multinational corporations are the chief repositories of the world's stock of economically useful knowledge and skills (p.301)."

- IT spending increased dramatically. IT has allowed the leading global businesses to integrate their entire value chain and spread their influence by drawing together the different aspects of business activity and processes. IT has also increased the potential for improved communication within the value chain and with customers, higher returns from R&D expenditure and faster and more in-depth research and data analysis.

The global business revolution has been accompanied by one of the largest and sustained periods of mergers and acquisitions that have increased global concentration in many economic sectors. There has been unbundling of non-core businesses and repackaging of corporations with a focus on core businesses. The process of M&A to repackage corporations has happened throughout global value chains leading to what Nolan calls a "cascade effect" where "…leading firms with powerful technologies and marketing capabilities, were actively selecting the most capable among their numerous suppliers, in a form of 'industrial planning' to select 'aligned suppliers' who could work with them across the world" (p.303). The process of concentration and focus on core business activities has occurred throughout the value chain not just with the core firms in the chain.[3]

During the 1990s, the leading firms through market concentration along the value chain have managed to secure larger market share. Nolan says that a small number of firms have over 50% of global sales in many different sectors. He gives numerous examples valid at the time he was writing:

- Two aerospace companies account for 100% of sales of commercial aircraft with more than 100 seats and 3 engine makers' account for 100% of engines for these planes.

- Six firms account for 68% of world auto sales and only two firms account for more than half of total brake systems and 3 firms for more than half of global tyre sales;

- The top two firms account for about 75% of carbonated soft drink sales and only two aluminium suppliers provide 40% of the world's aluminium and one firm produces more than half of the world supply of plastic bottle machinery.

Nolan is firm on the point that the wave of mergers and acquisitions and global concentration since the 1990s has been dominated by developed country corporations. He makes the point that

[3] For an updated account of this shifting global corporate structure see also:

- NOLAN, P & ZHANG, J. 2010. Global competition after the financial crisis. New Left Review 64: 97-108.
- STARRS, S. 2014. The chimera of global convergence. *New Left Review* 87: 81-96.
- LOCKE, R. 2013. Reassessing the basis of corporate business performance: modern financial economics' profit control versus integrated people and process improvement. *real-world economics review* 64(2): 110-124, http://www.paecon.net/PAEReview/issue64/Locke64.pdf

even China, which is now seen as an emerging industrial and manufactured export global power, is behind in control over markets, brands and R&D expenditure (Nolan, CJE, 2002). Even though, developing countries do not have many MNEs dominating global markets, it is important to recognize that the global space is not completely closed for developing countries. While global markets and value chains are becoming increasingly concentrated, this process is by no means complete, universal or inevitable.

Domination of markets is a complex process and there is a long way to go before the competitive space is closed. In the long run, there are reversals and changes. The US big 3 motor corporations seemed to have dominance in global markets for decades until Japanese companies broke into global markets after the 1970s oil crises.

The late industrializing countries, especially the Asian Tigers, had the first wave of developing country MNEs, which successfully competed in developed country markets. Successful industrial strategy and policy in many of these countries nurtured export success for large domestic firms. These large corporations became the first wave of developing country MNEs. The next section will discuss the first and second wave of developing country MNEs to set the stage for understanding how developing country corporations have broken into global markets.

## 3. THE TWO WAVES OF DEVELOPING COUNTRY MNE GROWTH

There have been two waves of growth of developing country firms into large MNEs. The first wave occurred during the 1970s and continued into the 1980s (see Kumar and McLeod, 1981; Wells, 1983 and Lall, 1983 for discussion of the first wave). Many of the first wave developing country MNEs grew out of the successful East Asian 'tiger' countries. An important characteristic of the successful industrial development experiences in some of the Asian tigers was the existence of large corporations that were diversified and had the economic and management muscle to break into global trade markets and compete in global product markets. The strategies of the large corporations to increase production and market penetration followed the patterns of developed countries.

They had the choice of competing in product markets either by exporting or locating production, through foreign direct investment, within other countries. Decisions to locate were often shaped by constraints to trade, such as relatively high tariffs and transport costs. The sizes of markets were also important because of economies of scale. An important difference in developing country corporations during the first and second waves was that during the first wave they were less involved in outsourcing assembly and production activities than in the second wave.

The second wave of growth of developing country multinational enterprises occurred in a much more integrated and concentrated global economy where concentration and inter-firm influence occurs throughout value chains. Goldstein et al consider the recent growth in multinational enterprises from developing countries and say, “The emergence of a “second wave” of developing-country multinational enterprises (MNEs) in a variety of industries is one of the characterizing features of globalization in the most recent years.” The movement of developed country MNEs into developing countries to reduce costs and take advantage of growing markets created opportunities for growing existing developing country corporations.

In the quote below, Froud et al (2012) illustrate the different between the first and second waves well and include the impact of financialisation on the second wave:

> When the Japanese sold cars in the United States in the 1970s and 1980s, the contest was a productionist one between compact nationally enclosed supply chains in Japan and Detroit with lower wages sustaining Japanese advantage so that firms like Toyota could reinvest profits and grow market share as they built their own brands. The position in the 2000s is complicated by financialization and long trans-Pacific supply chains where power is often wielded by US firms which act as proxies for the stock market and boost profits by multiple tactics which include control of design, consumer marketing and the use of contract power to take profits at the expense of margins in their Chinese suppliers. (p.4)

The “new form of industrial planning” referred to by Nolan (2003) allowed rapid transformation of the organization, skills, technology, logistics and branding of the developing country corporations. In many cases where the developed country MNEs moved into developing countries it may have been hard to differentiate between the developing country firms that had actually been acquired and absorbed by developed country MNEs and those developing country firms that have entered into supply partnerships with them. Goldstein et al say that developing country firms that decide to become MNEs, “… did not delay their internationalization until they were large, as did most of their predecessors, and often become global as a result of direct firm-to-firm contracting. Many *grow large as they internationalize*; conversely, *they internationalize in order to grow large*.”

The developing country MNEs grew in order to become part of the race towards increased global concentration. Through their strategic partnerships with developed country MNEs they learnt how to go global. At the same time, emulating the behaviour of developed country MNEs, a large part of the growth of developing country MNEs outside of their domestic economies, occurs through acquisition of other firms and brands.

In general terms, the second wave of developing country MNEs has been constrained by the form of globalisation since the 1980s and the influence of financialisation of the developed country lead firms on GVCs. Therefore, while many developing country corporations have been able to grow it seems that they have more often than not had their growth constrained and been limited to the role of providers raw materials, low value added intermediate and low cost assembly. While each value chain will take on different forms and have different forms of governance, the general picture is one where there is an inequitable division of labour where financialisation allows rentiers to extract profits through lead corporations in global value chains.

These rentiers pressure the lead corporations for high short term returns on their investments. The lead corporations then govern the value chains to ensure that they capture most of the profits by squeezing the other parts of the value chain.[4]

### 3.1. USING WHITE GOODS AS EXAMPLE

There has been an increasing division of production between developing and developed countries. This process of globalization has often been oversimplified. The discussion above attempted to add complexity to the story by showing the role that product market competition and the increasing influence of the financial sector on corporate structure played in shaping the form of globalization.

The developing countries contributed to this change through contributing to global supply and increasing downward pressure on prices in global product markets. Developments in global markets for white goods provide a good example of the responses to these pressures. For example, Nichols and Cam (2005) provide figures to show that the number of units of refrigeration and cooking appliances sold globally have increased by 20% and 40% respectively between 1992 and 2002. However, the increases in revenue from refrigeration appliances increased by only 6% and cooking appliances by only 8% during this period.

Developed country firms responded to these changes by increasing their domination and concentration of global markets through mergers and acquisitions. This concentration is strongly evident in white goods. In 2002, the top 5 manufacturers of large kitchen appliances accounted for 30% of global sales by volume (Nichols and Cam, 2005). In addition, corporations that produced white goods made their contribution to the wave of mergers and acquisition described above. Despite the growing concentration in the global white goods industry over recent years, the global home appliance industry remains relatively fragmented with no single manufacturer commanding more than 10 per cent of the global market (Goldstein et al, 2006). The fragmentation remains in the global economy because of constraints to more rapid concentration, such as relatively expensive transport costs for white goods because the freight charge is by volume not weight. According to Goldstein et al, the differences between consumer preferences and brand loyalty also constrain more rapid concentration of the global market. There are few globally dominant MNEs and most white goods companies have a strong regional presence or serve high quality niche markets.[5]

[4] See for example:

- GRINBERG, N. 2013.The political economy of Brazilian (Latin American) and Korean (East Asian) comparative development: moving beyond nation-centred approaches. *New Political Economy* 18(2): 171-197.
- STARRS, S. 2014. The chimera of global convergence. *New Left Review* 87: 81-96; and
- MOHAMED, S. (2010)

[5] Case studies of these in SA. For a case study on white goods in South Africa, South Korea and Australia see LAMBERT, R. and WEBSTER, E. 2010. “Searching for security: case studies of

Nichols and Cam (2005) point out that a large portion of growth in the industry was through mergers and acquisition. They say that Electrolux alone acquired 450 companies in 30 years. Froud et al (2007), in a case study of appliance manufacturer General Electric add an important insight into the large number of acquisitions by GE over the past few decades. Above, we referred to the pressure of financial markets on large corporations to keep profits unrealistically high when there was severe downward pressure on prices due to conditions in product markets, such as significant overcapacity and cutthroat price competition. Froud et al, say that acquisition was one way in which large corporations could not only take control of larger market share but it was a way for them to buy in growth.

By buying in growth GE could boost earnings and profits. Froud et al say that GE and its CEO Jack Welch were under severe pressure from financial markets to keep showing above average profits. As a result, GE became a serial acquirer of firms that would boost their short-term profit rates. After a few years they would sell these firms while remaining a rapid acquirer of new firms. GE's strategy to keep profits high seems to have been to sell off low margin businesses and to acquire high profit businesses (p. 344). Froud et al also show that much of these acquisitions to boost growth were in financial services. So GE was selling its manufacturing businesses that faced low margins due to difficult product market conditions and moving increasingly into financial services where they could make higher profits.

Froud et al calculate that GE Capital's real sales increased from $3 billion in 2000 to $58 billion in 2002 so that the financial services that were once relatively unimportant for GE came to account for nearly half of its turnover. I want to emphasize two lessons from the GE case study. The first lesson is that there were real reasons for the relocation of manufacture of white goods to developing countries and the large number of acquisitions of these companies in both developed and developing countries. However, some of the acquisitions and relocations may have occurred to keep profits high and people in financial markets happy. The second lesson is that large non-financial corporations have become increasingly 'financialized', i.e. are receiving a larger share of their income and profits from financial activities, in order to attain the high profits expected by the shareholder value movement.

In addition to the unorthodox methods mentioned above, white goods firms also followed orthodox methods of reducing costs. They cut their labour forces, casualised and contracted out parts of production and also revamped production. They implemented programmes, such as the six sigma programme introduced by GE, to improve and modernize management and production processes. Nichols and Cam 2005 say that there has recently been major change in the industry caused by simplification and standardization of production platforms, which enable standard engineering frameworks from which firms can add or subtract parts. The development of

the impact of work restructuring on households in South Korea, South Africa and Australia". *Journal of Industrial Relations* 52(5): 595–611.

common platforms allows producers to speed up product renewal and time to market and thus reduce production costs. Other cost reduction techniques that have been introduced include computer aided manufacturing (CAM) and flexible techniques, including just-in-time.

The developed country corporations also responded to pressures from financial markets by moving out of the relatively saturated and mature markets of the North to the growing markets of the South. Of course, the lower wage rates in developing countries were an important reason for relocation as well. Today almost all consumer products sold in developed countries are either totally or largely produced in factories located in developing countries (Goldstein et al, 2006). However, while production is located in developing countries, the R&D, design, branding, marketing and servicing is generally done in developed country corporations, and head offices are located in developed countries.

The reshaping of the global white goods sector occurred within this process of globalization of production and product markets. The division of labour has generally been such that production is located in lower wage developing countries. As seen above, certain developing country corporations have rapidly become MNEs through their association with developed country MNEs. Goldstein et al (2006), discuss the case studies of white goods manufacturers, Haier, Mabe and Arcelik, and show that developing country producers have internationalized and set up production facilities in developed countries.[6] An important reason for the move by some developing country MNEs to produce in developed country markets is relatively high transport costs for large white goods. Therefore, while there are strong forces pushing relocation of production of white goods to developing countries, there are reasons for not all (or at least a small fraction of) production to be located in developed countries. These same forces mean that not all production need migrate to countries with the cheapest labour.

Goldstein et al (2006) note some characteristics of white goods that steer production towards developing countries:

> Most white goods are relatively similar and simple to produce, although assembling different parts and subsystems requires the combination of knowledge domains ranging from mechanics to electronics and plastic moulding (Sobrero and Roberts 2002); the industry is mature and is seen as a likely candidate for delocalization to developing countries, where not only input costs are lower, but demand growth rates are higher as ownership of major home appliances is strongly correlated to economic development (p. 11).

In addition to transport costs, also acting against these pressures is the importance of brand recognition of white goods for consumers. Consumers equate well-known brands with reliability and after sales service, even though, many brand owners outsource the entire product and just add their brand label to the final good. So while most developing country OEMs (original

[6] It is worth noting that developing country MNEs, such as LG, set up production in developed countries during the 'first wave'. LG, then Goldstar, set up production in the US in 1981.

equipment manufacturers) produce for developed country OBMs (original brand manufacturers), the developing country MNEs that have located production in developed countries have become at least ODMs (original design manufacturers) and only a few, such as South Korea, have built their own brands to become OBMs.

The challenge for BRICS is to wrest control of their own markets and possibly global markets for their own corporations through developing OBMs. This shift will require alternative economic strategies and new value chains.

## 4. INDUSTRIAL STRUCTURAL WEAKNESSES AND CORPORATE RESTRUCTURING IN SOUTH AFRICA

The section below provides an account of corporate restructuring and the accompanying deindustrialisation in South Africa since the 1990s. It argues that the South African economy would benefit from partnering with BRICS partners to challenge the current status quo with regard to global value chains.

South African economic development occurred around the mining and minerals sectors, and the state and mining industry supported growth of manufacturing sectors with strong links to the minerals and energy complex (MEC), the formation of which, according to Fine and Rustomjee (1996), was a result of the political compromise between large English mining interests and the large Afrikaner business and political establishment. It was also shaped by the politics of oppression of black South Africans and the strict control over black workers.

Most manufacturing sectors with weaker connections to the MEC have remained weak and had not received strong state support and adequate investment from the large mining finance houses that had dominated the South African economy until the 1980s. With the exception of a few sectors, such as automobiles and components, manufacturing remains dominated by sectors with strong links to the MEC. These, with the exception of engineering and capital equipment, are capital- and energy-intensive process industries, such as electricity generation, minerals beneficiation (iron and steel, aluminum) and the Sasol oil-from-coal process and its chemicals byproducts. Downstream, value-added manufacturing sectors have not been adequately developed and manufacturing remains relatively undiversified. The structure of the economy underwent further change with the transition to democracy in South Africa and was shaped by changes in the global economy.

By the early-1980s the major projects of the MEC were complete and large-scale state investment ended. Fine and Rustomjee correctly argue, “Since there was no structural or institutional basis laid down to diversify into non-MEC sectors, the latter declined according to the fortunes of the MEC, except for some subsectors driven by military and mega-project expenditure, whose buoyancy was prolonged until the late 1980s" (p. 174). This economic structure remains largely in place within the South African economy today.

In Mohamed (2010), I argue that the change to a democratic government was accompanied by massive restructuring of the South African corporate sector because many leaders of South African big business were uncomfortable with the democratic transition in South Africa[7]. I argued that the transition to democracy is one reason for the massive corporate restructuring in South Africa during the 1990s. The shape of this corporate restructuring in South Africa was influenced by important changes in the global economy, such as the global business revolution and financialisation, discussed above. The changes to the global economy had profound impacts on the structure of the South African corporate sector.

During the 1990s, the South African corporate sector has engaged in the following activities:

- conglomerate unbundling and restructuring;
- consolidation within sectors by conglomerates as part of ensuring stronger focus on core business, which has also increased concentration;
- internationalisation, mostly outward, by firms which moved their primary listing overseas, and foreign acquisitions by South African listed firms; and
- black economic empowerment deals, first, through special purpose vehicles for financing and second, more recently, in areas where government policy has provided a specific impetus.

The South African Competition Commission (2009) says that the restructuring of South Africa's economy after the large scale corporate restructuring of the 1990s has not shifted economic power from the restructuring corporations. They say:

> The South African economy is still dominated by many of the traditional power groups even after the unbundling since 1994. It must also be remembered that unbundling by conglomerates does not generally decrease the concentration of ownership within sectors. In most instances there has in fact been an increase in concentration which raises concerns about possible anti-competitive behaviour in the economy (Competition Commission, 2009, p.22).

The unbundling of the conglomerates and the 'rebundling' should be considered in the context of the political and global factors affecting these businesses. The combination of the unease of white business with the changes in South Africa, and the understanding of the leaders of big business that they had to signal a willingness to share future business activities with black people, put two types of pressure on big business to restructure: The first was restructuring for

[7] See Terreblanche (2002) for an account of the response of white people and big business to the political changes.

political expediency; the second was directly linked to withdrawing from the South African economy. In other words, big business had adapted to the political changes by reducing its risk within the South African economy by internationalising operations. They have also accepted a political compromise to maintain their control over much of the South African economy by sharing a portion of ownership with black businesses.

Goldstein's (2000, p.15) interpretation of this process is:

> While the refocusing on core business has followed from the need to ensure competitiveness against the background of the opening of the domestic economy to world competition and weaker gold and commodity prices, voluntary unbundling has been an expedient strategy to appease the possible rise of nationalization sentiments. In order to build up a black capitalist constituency, it was important to conclude highly visible and large-scale deals. The first such deal was Sanlam's sale of Metropolitan Life (METLIFE), an insurance company, to New Africa Investment Ltd (NAIL). In 1996 Anglo broke up its majority-owned sub-holding JCI (Johannesburg Consolidated Investment) into platinum (Amplats), a homonymous mining subsidiary, and an industrial arm, Johnnic.

Goldstein recognises that global and domestic factors shaped the behaviour of South African big business. His research indicates that the boom in mergers and acquisitions in South Africa during the 1990s was different to those in other countries and he shows that there were particularly South African characteristics to the M&As: the restructuring in South Africa was more about dismantling pyramid structures than increasing the competitiveness of industrial sectors. Goldstein says,

> 'Of the twenty largest South African deals reported in 1992-98, 75 per cent corresponds to the simplification of the corporate structure; 10 per cent to consolidation in the financial industry; 10 per cent to foreign acquisitions; and only one deal – TransNatal's acquisition of Rand Coal to form Ingwe Coal in 1994 – is a "genuine" South African merger (p.17).'

He makes the important point that it is remarkable that South African conglomerates have not made any large acquisitions in their own country, pointing out that this lack of acquisition is true even in sectors such as utilities and internet related investments '… where family-controlled business groups in OECD countries have been active even while refocusing their portfolios on the core business' (ibid).

The South African context for mergers and acquisitions was one where the MEC continued to stifle investments into diversifying the industrial base of the South African economy. Instead, the concern of big businesses that dominated the MEC was to restructure in order to appear more attractive to investors speculating in the markets where they had relisted. However, the influence of the shareholder value movement was not only external it became a domestic forces as well. Ernst and Young (2002) in a review of South African mergers and acquisitions state:

> Shareholder activism has been slow to take off in South Africa, but like all global trends it is one, which is catching up with us very quickly. The prominent South African companies that have listed offshore over the last two or three years have already been exposed to the higher level of transparency demanded in global markets. South African companies with a more domestic orientation are under pressure to emulate their global peers (p.27).

The result has been financialisation of NFCs in South Africa. In Mohamed (2010, 2012), I argue that this financialisation of the economy, which as I state above was still shaped by the minerals and energy complex, has made South Africa more reliant on mining and minerals and has been associated with deindustrialisation. Therefore, within the global division of labour, South Africa's place is one providing raw materials inputs. If South Africa were to partner with other BRICS partners to set up alternative value chains (as discussed above), South Africa could turn its industrial and other policies into successful programmes to reverse deindustrialisation and to deepen and diversify its industrial base.

## 5. CONCLUSIONS

The process of neo-liberal globalisation allowed large corporations of developed economies to reassert control of global markets through global corporate restructuring by mergers and acquisitions and dominating global value chains. This global corporate restructuring and control of GVCs has occurred in an environment where the power of the shareholder value movement and financialisation of non-financial corporations has led to less accumulation within countries that have financialized and limited opportunities for industrial growth. It also led to a situation where the financialized lead corporations of many value chains have had to achieve higher returns for their shareholders through governance of GVCs that allowed them to squeeze the suppliers and assembler firms within their GVCs.

There has been room for growth by developing country corporations within this restructured corporate landscape but the space to influence the governance of GVCs and to lead GVCs has declined. The wave of multinational growth of developing country corporations during the neo-liberal era has occurred in a relatively more constrained space where global markets have become more dominated and where financialisation has shaped behaviour of developed country non-financial corporations.

The BRICS countries through cooperation can attempt to use their market and productive power at state and private sector level to build partnerships to challenge the status quo in global markets and the operation of GVCs. Through cooperation the BRICS countries can challenge the current global division of labour and reshape GVCs to support their socio-economic and development needs at a macro-level and the needs of their entrepreneurs, workers and consumers at a microeconomic level.

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