Local jobs, local firms and global markets

Marion Jansen (ITC) & Anirudh Shingal (WTI)

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Outline

- Overview of the mainstream “Economics” trade and employment literature
- The world of GVCs
- Brief review of results from the literature on the impact of GVCs on employment
- A few case studies
- Role of public policy
Mainstream “Economics” literature: Trade and Employment

- Theoretical models combining trade with labour market frictions (e.g. matching, efficiency wages, minimum wages) have no clear predictions
- Models taking into account adjustment costs predict possible temporary increases in unemployment
- “Offshoring discussion”: Low-skilled workers in routine jobs adversely affected
Mainstream “Economics” literature: Trade and Wages

Trade can contribute to wage inequality through:

- Increased specialization (HOS framework; skilled-unskilled inequality expected to increase in high income countries)
- Increasing returns to scale when firms are heterogeneous (new-new trade theory: wages higher in exporting firms; those firms tend to be larger than non-exporters)
- Trade going hand-in-hand with technological change (e.g. foreign affiliate trade: when trade and FDI go together)
Summary of the empirical evidence (OECD, 2012)

- Evidence in the OECD does not suggest that globalization is associated with a fall in employment.
- However, import competition leads to resource reallocation, shifting factors into “high productivity” activities.
- Workers in high productivity tradable sectors, usually more-skilled, are paid higher wages.
- Policies supporting flexible movement of factors into “new” sectors can minimize adjustment costs.
- Services trade has had positive effects on job creation and wages in developing countries (only minor effects in OECD labour markets).
- Trade does not systematically undermine working conditions in developing countries.
More recent venues of research

- From firm level empirical analysis we learn how firms perform in open environment (exports, revenue, job creation and destruction): e.g. Arkolakis et al. (2014), McMillan et al. (2014)

- From input-output table analysis we understand better how economies ‘move up the value chain’ as they develop

- From **Global Value Chain** analysis we understand how firms interact in global markets and within individual production chains

Focus of this presentation
The World of GVCs (OECD, 2013)

- Participation in GVCs changes the composition of the labour force
  - Low-skilled jobs tend to be more affected
- Downward pressure on wages and bargaining power of workers
- Improvement in working conditions (fewer hours of work, lesser accidents), however see Visser and Van Dijk (2006) and Knorringa and Peggler (2006)
  - Pressures from economic globalization make it unlikely that workers in relatively low-skilled production activities enjoy improvements in working conditions
  - Ethical sourcing (improves conditions for core workers in core supplier firms, not for smaller/weaker firms/the indirectly employed)
Summary of broad results from the “GVC” literature

- GVC participation generally tends to lead to job creation and to higher employment growth (Bamber et al., 2013)

- Greater gains are felt when MNCs contribute to workforce development, forge linkages with local firms, and engage with local institutions in the development of local industry (Gereffi et al., 2011)
Pre-conditions for positive impact

- Impact of GVC participation on economic development depends upon the depth of domestic integration into the global economy (Bamber et al., 2013)

- Shortcomings in local institutions (financial markets, infrastructure, human capital, local industry networks) limit the ability of domestic firms to benefit from opportunities for GVC participation (Fernandez-Stark et al., 2012, 2013)
Pre-conditions...(contd.)

Opportunities for local firms to increase productivity and upgrade to higher value added activities depend on:
(i) the type of GVCs
(ii) the business and institutional environment and
(iii) their capacity to move towards increased technological sophistication and domestic value added creation

(OECD/WTO/UNCTAD, 2013)
Two examples of jeans value chains
from Jean Ruffier (forthcoming): «China Apparel in Textiles World Value Chains».

Well-known brand relocating production into China

<table>
<thead>
<tr>
<th>Company</th>
<th>Function</th>
<th>Cost in Euro</th>
<th>Cumulating</th>
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<tr>
<td>Chinese Farmers</td>
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<td>Chinese Factory</td>
<td>Manufacturing costs</td>
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<td>3</td>
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<td>Margin boss</td>
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<td>3.2</td>
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<td>French brand</td>
<td>Design</td>
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<td></td>
<td>Boat</td>
<td>0.2</td>
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<td>Quotas</td>
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<td>French Brand</td>
<td>Distribution</td>
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<td>15</td>
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<td>French Brand</td>
<td>Margins</td>
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Lebanese small business selling in Spain and making design in Canton

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<td>Chinese Factory Owner</td>
<td>Owner margin</td>
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<td>Boat</td>
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<td>Customs</td>
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<td>Spanish trader</td>
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Case studies (I)

- Export-oriented horticulture, garments and textiles industries in BGD, VNM, KEN & ZAF (Nadvi, 2004)
  - Significant employment gains
    - 1.6 mn “new” jobs in BGD garments sector, mostly for women
    - Employment in VNM garment rose by 132% over 1990-99
    - KEN horticulture generated close to 100,000 jobs
  - Income gains for workers engaged in GVCs
    - Median incomes for KEN horticulture pack-house workers 60% higher; horticulture smallholders had median incomes 6 times higher
    - Wage levels of BGD garment workers were twice as high
  - However, benefits depend upon position in the VC
    - Avg. wage levels 70% higher for garment workers in BGD EPZs that were foreign owned/mfg. for high value brand retailers
Case studies (I)...(contd.)

- Better working conditions and employment practices
  - Over 60% of BGD garment EPZ workers had formal labour contracts compared to 10% of others
- Despite more opportunities for women workers, clear gender differences persist...
  - Avg. male wage higher in KEN & ZAF horticulture & VNM textile sectors
  - Male workers also engaged in higher-skilled tasks
- ...and competitive pressures imposed by lead buyers within GVCs affect the nature and sustainability of gains
  - Growing use of casual and seasonal contract labour in ZAF fruit, KEN fresh veg., BGD and VNM garment sectors
  - Excessive hours of works
  - Lower levels of social protection for workers
  - Retrenched workers in ZAF horticulture and textile sectors esp. vulnerable, living in abject poverty
Case studies (II)

- Automobile and handicrafts GVCs are two examples of successful employment creation as these are traditionally labour-intensive industries (APEC, 2014)
  - The US automobile industry creates one in ten jobs either directly or indirectly (Sturgeon & Florida, 2004)
Case studies (III)

- **Offshore services**: Developing countries involved in market-driven development (acquiring capabilities to upgrade services, providing better services, expanding the number of services or/and offering higher value added services) through significant investments in workforce training and managerial capabilities (CGGC & RTI International, 2011)

- These developments now increasingly supported by an expanded range of public, private, and multi-sector initiatives (CGGC & RTI International, 2011)

- “Far from a race to the bottom, involvement in the offshore services industry has provided developing country workers, firms, and governments with an attractive opportunity to build the skill-based competencies required to meet the demands of global service markets” (CGGC & RTI International, 2011)
Role of public policy: education and skill policies

- Effective and responsive education and workforce development policies critical to enabling gainful participation in GVCs (Bamber et al., 2013)
- Workforce development to focus on bottleneck positions, whose scarcity impedes upgrading into targeted GVC activities (Fernandez-Stark et al., 2012)
- Improving labor mobility, skills certifications and regulations governing employment of foreign nationals can help fill short term bottlenecks; the long-term goal should be to upgrade the general skill level of the workforce (Bamber et al., 2013)
Role of public policy: education and skill policies

- Developing countries wanting to upgrade must focus on technical education; upgrading into higher-value pre- and post-production services requires development of managerial and design talent (Gereffi et al., 2011)

- Developing countries should especially consider complementarities between national systems of innovation and workforce development institutions in devising strategies for industrial upgrading (Bamber et al., 2013)
Role of public policy: Special Economic Zones and other clustering policies

- Can address skilled labour shortages by giving access to pool of skilled labour;
- Facilitates innovation spillovers (dynamic efficiency);
- Contributes to addressing first-mover-externalities (learning by exporting);
- Access to high quality business services

However, the implementation of SEZs can have ambiguous implications for GVC participation (Farole, 2011)
  - If participating firms remain focused on processing activities, SEZs do not necessarily help to create the spillovers and linkages that facilitate upgrading among domestic firms (Cattaneo et al., 2013)
Thank you!
Comments welcome!

jansen@intracen.org
anirudh.shingal@wti.org