Linking GVCs to Jobs and Social Outcomes

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Theory, Concepts and Measurement

- **Economic upgrading**
  - Moving into higher productivity & higher value-added aspects of production and export
  - Much research on economic upgrading in global production networks
    - economic growth
    - international trade

- **Social upgrading: Concept**
  - Gains in living standards and work conditions
    - Most obvious expression of this: wages and employment
  - Less analysis on implications of economic upgrading for
    - living standards: wages, work conditions, economic rights
    - gender equality
    - economic security
    - **social downgrading**

- **Qualitative aspects of social upgrading**
  - Worker rights
  - Informality in labour markets
  - Labour standards
    - difficult to extract from the most detailed value addition data

- **Economic upgrading not a necessary prior to social upgrading: laws and regulatory systems**
  - Some labor standards (e.g. child labor) are a function of PCY
  - others (e.g. freedom of association and collective bargaining rights) are not
    Kucera and Sarna (2004)
GVCs, Jobs, Wages & Equitable Distribution

- The world of work is becoming increasingly internationalised
  - OECD estimates: In 2008, between 10% and 35% of business sector workers in G20 countries: engaged in export activities
  - Compared to 1995, these shares increased in most
  - China, India posted strong increases
    - By 2008, over 25% of business sector workers in China were engaged in export activities
- Growth of GVCs may mean a progressive reduction in the domestic content of many countries’ gross exports
- Sourcing abroad also allows firms to make production less labour-intensive in the home country
  - This is a point that can sometimes cause anxiety
    - Studies nonetheless show that the additional hiring due to improved competitiveness and higher sales may offset the job losses
    - GVC trade growth correlate with increases in income, employment, and output (ADO, ADB, 2014 Update)
- Other risks include
  - Increased job reallocation (OECD)
    - workers more vulnerable to shocks (OECD Employment Outlook & Hijzen & Swaim (2007)
  - Getting locked into particular segments
  - Pressures to reduce costs can lead to
    - poor environmental, occupational safety and health standards
    - a race to the bottom of regulations and taxation policies
- Policies & institutions: need to take a/c of the broader international context
  - The gains associated with the fragmentation of production are fairly distributed
    - In-work benefits combined with moderate minimum wages can be used to shore up the incomes of low-skill workers
    - **Skill development** opportunities for low-educated workers are also required to improve longer-term career prospects.
  G20 Report
GVCs, Jobs, Wages & Equitable Distribution

• Trade and social upgrading
  ▫ At the simplest level, higher exports, all other things equal, will lead to higher employment
    • EPZs contribute a major share of national exports in many countries
    • over 80% in many countries.
    • Bangladesh saw its EPZ exports rise from 3.4% in 1990 to 21.3% in 2003
    • Outside of China, employment in EPZs doubled between 2002-2006
      • from 13 to 26 million
  ▫ A number of countries had a decline in the EPZ share of exports, including Mexico, Philippines, Tunisia and Mauritius
    • As a result of heightened competition in global apparel trade resulting from the phase-out of textile and apparel quotas
      • For Mexico another contributing factor was the expansion of non-EPZ based exports, in particular in electronics.
        ▫ More rapid growth in high-technology exports is not associated with especially rapid employment growth
GVCs, Jobs, Wages & Equitable Distribution

• Reverse causation
  ▫ Does social upgrading adversely affect international trade performance?

• Conventional wisdom
  ▫ Social upgrading (higher pay or labor standards) typically thought to raise production costs & reduce international competitiveness
  ▫ Recent research: Evidence doesn’t support conventional wisdom
    • Kucera (2001) : labor costs and FDI flows as a function of core labor standards for a sample of 127 developing countries
      • Results fail to confirm the “conventional wisdom”
      • One possible implication of Kucera’s findings
        ▫ Causality between economic and social upgrading may be reversed
          ▫ If social upgrading does not adversely impact trade performance then it may be the result of improved productivity and product quality that results from improved pay and work conditions
GVCs and SME Participation

- Represent 80-90% of developing country total employment
- Benefits: technology, managerial know-how spillovers
- Challenges to SME participation in GVCs in developing countries
  - limited economies of scale
  - poor access to finance
  - limited access to product and labor markets
    - information asymmetries
  - poor marketing skills
  - deficiencies in the certification profiles and managerial capabilities
    - necessary to meet the supply chain requirements of demanding MNCs
  - Case analysis of high-value agro chains:
    - limited access to training, finance, market information and networks and economies of scale are the most important factors that constrain small producers from joining local and global chains (Fernandez-Stark et al., 2012).
  - In the manufacturing and services sectors,
    - case evidence from the software, automobile and creative industries in developing countries
      - SMEs face important barriers to entry and upgrading, rooted in both the local institutional context as well as the characteristics of vertical GVC relationships, that larger firms can often avoid (UNCTAD, 2010)
GVCs and SME Participation

• Quantitative analysis is limited by
  ▫ Lack of available data in developing countries
  ▫ Lack of firm-level export data
    • in some cases: large informal sectors
  ▫ Many SMEs already participating in GVCs as subcontractors of larger firms, co-located in the same countries, but their participation is not reflected in trade data
• Therefore suggest a comparative country level case study approach focusing on selected industry sectors
Off-shoring & Governance Structures

- Upgrading within and across GPNs
  - Crucial for pro-poor employment in developing countries
    - where high value-added activities are located and who is included in GVCs are largely determined by lead companies that govern the chain
    - quality standards can work as a potential barrier that pushes out developing country suppliers unable to comply, or they can be a springboard to help them upgrade
  - Characteristics of lead firms, economic strategies & management style matter in terms of the upgrading opportunities offered by GVC participation (Lee et al., 2011)
  - Governance may not be uniform across GPNs or even within same sectors
    - Supermarkets and retailers play the key role as lead firms in agro food chains
    - Mobile telecom governed by brand manufacturers
      - Apple Inc.: outsources its entire smart phone production to China
      - Nokia keeps a significant portion of its production in house and in its home country (Finland)
Developing Countries Lead Firms

• Rise of several strong EMEs & increased South-South trade has increased the importance of understanding the role played by lead firms from Africa, Asia and Latin America (Staritz et al., 2011).
  • In the extractive industries, for example, new lead firms have emerged in resource-rich developing countries as a result of domestically owned firms exploiting their country’s resource reserves.

• A number of powerful lead firms, intermediaries, and suppliers from developing countries have also emerged in the manufacturing, construction and offshore services value chains.
  ▫ Pursuing global strategies, establishing operations in different regions around the world to leverage lower-cost labor and to be closer to their clients’ end markets.
    • Thus facilitated entry of suppliers from new low-cost locations & upgrading of existing developing country-based firms in these value chains.

• Thus, rapidly growing lead firms and global suppliers from the developing world are emerging as powerful actors in shaping GVC strategies and requirements for access, integration and upgrading.
Regional Value Chains

- Recent GVC research: growing importance of value chains organized at the regional level in driving GVC participation and upgrading in a handful of industries (Staritz et al., 2011).
- While there are still comparatively fewer regional chains than global chains in operation, two trends in regionalization can be distinguished:
  - Value chains emerging focused on regional production for regional markets
  - Value chains with functionally interconnected regional operations that supply global markets
    - Automobile manufacturing due to the bulk of component goods and other institutional considerations
    - Now organized largely through regional value chains, this sector has relatively coherent production systems in North America, East Asia, Southern Africa, and Europe (Sturgeon & Biesebroeck, 2011).
      - Thus, as demand for automobiles grows in emerging end-markets, suppliers throughout the surrounding region face new opportunities to participate in the provision of intermediate goods and services
    - These operations leverage labor costs, skills, trade agreements, shipping routes and economic incentives among other factors to distribute the manufacture and assembly of components and final goods across the region even though final goods may be destined for markets in Europe and the US
      - This builds on complementary competitive advantages across the region and helps manufacturers to minimize costs and mitigate risk
      - The success of the Asian electronic model has led to some policy-makers suggesting that developing countries outside of Asia need to integrate regional supply chains to leverage economies of scale in trade with other regions.
      - Such a regional strategy could facilitate upgrading into higher value segments of the chain which require large capital investments and inputs that are beyond the supply capabilities of any one developing country (Davies, 2012).
Regional Value Chains

- **Tourism:** Diversity of international tourists, varied tastes and preferences broadened potential offerings
  - Hotel sector: pro-FDI policies to attract international 4- and 5 star hotels
  - Tour operator segment
  - The IT revolution for a web presence
    - Vietnam, Costa Rica, Jordan

- **Horticulture**
  - New value chain destinations are opening up: Asia is a growing destination
  - Capturing the Gains research
    - Export diversification of value chains gives producers more options
    - But buyer pressures, and rising input costs, make competition more intense.
      - Social standards are often lower in new emerging economy markets, but product quality remains important
      - Upgrading outcomes are more favourable for large farmers & regular workers than for small-scale farmers and casual workers
      - Greater worker skills are required, with more intensive training and rising educational entry levels
      - Farmers and agricultural labour receive low rewards within value chains
      - Agricultural workers/producers embedded in traditional social relations
      - Younger more productive farmers and workers are leaving agriculture for better options, resulting in a shortage of the ‘right kind’ of labour
Global Financial Crisis & Social Upgrading

• Alternative possibilities
  ▫ Shifting demand to the South
    • Suppliers develop higher value-added activities
      • product design: may generate higher-skilled employment
  ▫ If suppliers cling to slimmer margins with little effort to advance product and process standards
    • Workers’ condition deteriorates
  ▫ Consolidation in post-crisis GVCs
    • create small pockets of well-positioned suppliers with better conditions for workers and eliminate others

• Uncertainty and complexity of GVCS
  • research to monitor the trends & better inform policy
Value chains and Environment

- **Value chains affect the environment**
  - Increase in producer prices may induce intensified land-use
    - soil erosion
    - release of carbon stored in the soil
  - Higher quality standards imposed by retailers
    - increased use of pesticides
    - causing water contamination and
      - health problems among workers
  - Conversely, the adoption of sustainability standards
    - improved soil quality and human health, or to
    - conservation of common pool resources
  - Tourism: by expanding accommodation facilities
    - may increase use of water resources and the handling of waste
    - may have positive or negative impacts on wildlife
Gender Equality

• Recent evidence towards a possible “defeminization” of labor in manufacturing in East Asia
  ▫ Tejani and Milberg (2010): most closely associated with industrial upgrading
    • As East Asian firms have shifted into higher-technology sectors & higher-tech dimensions of existing sectors, female intensity has fallen
    • Attribute to a combination of a skills mismatch & continued segregation of higher-skill occupations
To Conclude

- **GVC research:**
  - Till recently was largely silent on broader socio-economic effects of participation in GVCs
  - Impact of value chain interventions on poverty, decent work, gender and the environment
    - Not considered in a consistent manner (Bolwig et al. 2010).
  - More recently though evolved into a larger understanding
    - to include social and environmental dimensions (Barrientos et al. 2010)
      - This could be a useful basis for incorporating development objectives
      - More systematically especially in donor-led value chain interventions