

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.

GVCs, Jobs, Wages & Equitable Distribution

- Trade and social up -grading
 - 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 f(indicators 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

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