

# JOBS IN GLOBAL VALUE CHAINS

## KEY MESSAGES

- Participation in a Global Value Chain (GVC) can create more jobs through a structural transformation, and potential jobs spillovers from strengthened backward and forward linkages.
- GVCs can also have a positive impact on jobs for women. Evidence shows a disproportionate share of jobs in labor-intensive chains benefiting women.
- Jobs in GVCs are better jobs because of higher wages and better working conditions, as domestic firms seek to comply with global standards to participate.
- However, these above mentioned labor market outcomes being achieved depend on several parameters, such as the sector of operations, level of firm operation, and existing distortions in the labor market.
- But evidence for GVC participation leading to better jobs is strong at the firm level, given the win-win business case through higher productivity, efficiency, and profits.
- The jobs outcome through GVC participation can be strengthened through focusing on GVC upgrading strategies, implementing and strengthening private standards, improving national regulations, and strengthening monitoring and evaluation of impact of GVC operations.

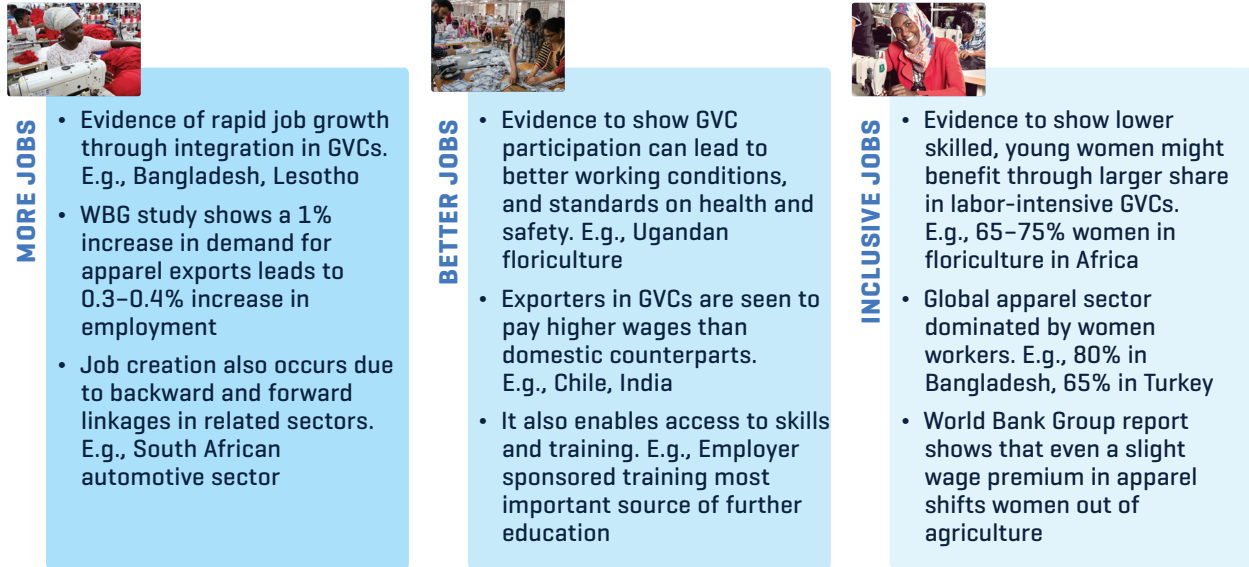
**Global Value Chains (GVC) are significant vehicles of job creation, carrying a share of 60 percent of global trade that employs around 17 million people worldwide.** This note highlights evidence of the creation of more, better, and inclusive jobs through GVC participation by host countries and firms, and outlines some policy recommendations for strengthening the positive labor market outcomes. GVC participation can lead to creation of more jobs through the structural transformation that happens in an economy when sectors integrate with global trade flows, or through creation of linkages in chains. It also leads to creation of inclusive jobs for women, especially in labor-intensive sectors. Evidence also shows higher wages for women in these scenarios. GVC participation is a win-win for firms that enjoy greater efficiency, productivity, and profits while they create better jobs. However, there is a potential for tradeoff between increasing competitiveness and job creation, and the exact nature of positive labor market outcomes depends on several parameters, including the sector of GVC operations, level at which firms engage, and extent of labor market outcomes. Given

the cross-border nature of GVCs, national policy choices are limited. However, there are some policy decisions that national governments can make to facilitate GVC participation that is commensurate with positive labor market outcomes.

## **GVC PARTICIPATION AND CREATION OF MORE, BETTER, INCLUSIVE JOBS**

**Participation in GVCs can lead to creation of more jobs through catalyzing structural transformation and/or generating backward and forward linkages in and around the chain.** In Bangladesh, for example, the emergence of the GVC-oriented export apparel sector has contributed to the employment of more than three million people over the past two decades. Similarly, Lesotho's integration in the global apparel sector has helped transform an agrarian economy, employing 10 percent of the country's workforce. The recent World Bank report, *Stitches to Riches*, provides empirical evidence from the apparel sector in South Asia that show how engagement in a GVC can lead to overall structural transformation. The analysis shows that when a country witnesses a 1 percent increase in

Figure 1  
Impact of GVC Participation on More, Better, and Inclusive Jobs



demand for exports of apparel compared to increased demand in other sectors such as agriculture, there is a 0.3-0.4 percent increase in employment. This increases overall welfare as workers move out of agriculture or the informal sector toward these better paying, higher value-added jobs.

**Evidence shows that women benefit disproportionately by taking on a larger share of jobs that are created in labor-intensive value chains.** In almost all sectors most intensely traded in GVCs—apparel, footwear, and electronics—it is the lower-skilled, young, female workers who account for the largest share of employment. For example, in the Kenyan and Ugandan floriculture GVCs, women account for 65–75 percent of the labor force, working mostly in the packhouses, which also offer higher incomes than for on-farm labor. In the apparel sector globally, a majority of the workforce comprises women. For example, in Turkey, two million of the three million workers in the workforce in this sector in 2008 were women. In Bangladesh, approximately 80 percent of the three million garment workers in the same year were women.

**Even a slight wage premium offered for low-skilled jobs away from agriculture provides incentive for women to move to formal labor force participation.** The World Bank report cited above finds this evidence in the apparel sector, where a slight wage premium results in women shifting out of (mostly family) work in small-scale agriculture; for example, a 1 percent increase in expected wages increases the likelihood

of women joining the labor force between 16 percent in Pakistan and 89 percent in Sri Lanka.

**Participation in a GVC can lead to creation of better jobs by way of higher wages and better working conditions as the participating economy seeks to comply with global standards on health, safety, and treatment of workers.** Research across countries shows that exporters, being key proxies for participants in GVCs, pay higher wages than firms serving domestic markets only. Evidence from Slovenia points to a 17.5 percent wage differential; in Chile, the differential is 20 percent; in India, wages are about one-third higher. In the Ugandan floriculture sector, being integrated in a GVC has resulted in implementation of improved healthcare and sanitation facilities, and childcare standards, all of which have created better working conditions for workers. GVC participation also enables access to training and skills development, which contributes to higher productivity and higher wages. Findings from a British industry panel dataset show that a 1 percent increase in training is associated with a value added per hour of about 0.6 percent and an increase in hourly wages of about 0.3 percent. According to a review of evidence on job-related training in OECD countries, it has been found that employer-sponsored training is the most important source of further education leading to increased employability and promotion prospects.

**However, the positive outcomes on labor market from GVC participation are not always clear-cut, and may include potential tradeoffs between number of jobs,**

**and better and more productive jobs.** For example, in value chains that exhibit domestic sub-contracting, there is a potential loss of transparency and control. This can result in creation of non-contractual, low-paying jobs in unsafe working conditions. Dual employment contracts may emerge as firms employ a smaller number of skilled highly paid workers to maintain quality, and rely on a larger irregular, low-skilled, low-paid workforce to remain cost competitive. Gereffi and Luo (2014) cite evidence of this type of simultaneous outcomes in the Moroccan garment sector that operates in the global fashion industry. This technical skill bias can be even more pronounced for female workers, who typically enter the GVCs at the lower skill level. Further, these biases can become more pronounced over time, as firms upgrade, resulting in the need for a smaller higher-skilled workforce, thereby destroying jobs. This potential job loss can be mitigated by strengthening spillovers in other parts of the chain and economy.

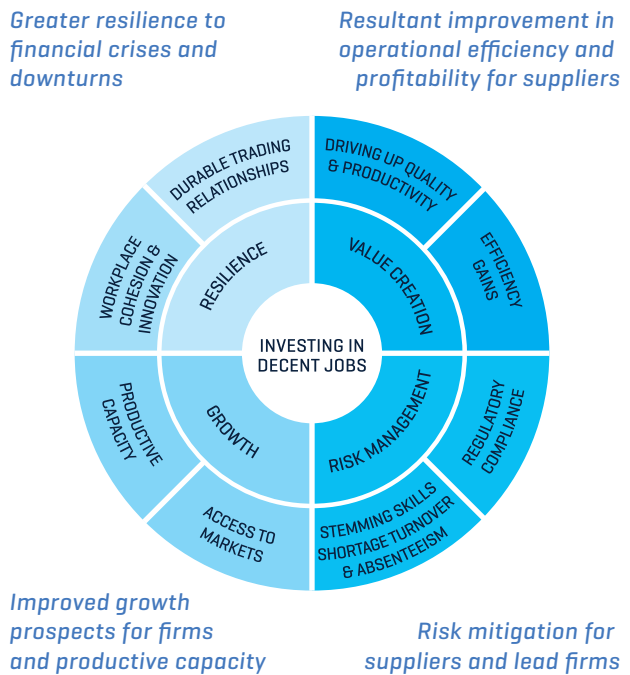
**The eventual outcome on the labor market depends on several factors, including readiness of the domestic labor force to respond to changing global demand, and flexibility of labor market policy to allow for ease of labor mobility.** For example, the Moroccan aerospace industry entered the global industry in 2001 to supply assembled wire bundles. Since then, it expanded to supplying these lower-end products to a wider market and moved up the value chain to engage in more automated sophisticated production. By 2012, the sector was employing almost 9,000 people—more than double the number from eight years ago.

### **BUSINESS CASE FOR CREATION OF BETTER JOBS BY FIRMS IN GVCs**

**At the firm level, there is robust evidence to suggest that firms participating in GVCs benefit through higher productivity, efficiency, and profits when they create productive jobs.** When firms provide improved health and physical working conditions, worker management engagement, training, worker representation, and higher wages, workers benefit through reduced absenteeism and mistakes, improved skills, and overall better emotional well-being. This results in benefits either directly through productivity improvements and reduced errors, or indirectly through reduced costs of employee turnover. In the end, it positively affects firm efficiency, sales, and profits.

**There are four transmission channels through which investing in better jobs is beneficial for firms.** This is shown in Figure 2.

**Figure 2**  
Transmission Channels for Firm Benefits of Investing in Better Jobs



### **Evaluations of the International Labour Organization — International Finance Corporation (ILO-IFC)’s Better Work Program<sup>1</sup> show the impact of investing in better jobs on the above four parameters.**

For example, higher worker satisfaction from improved working conditions or even comfort to express their opinions results in about 7.6 percent increase in profitability of the factories. Similarly, factories show a 0.6 percent increase in revenues over cost for every 1 percent increase in wages. Supervisor training interventions in these factories led to 39 percent fewer in-line rejections and 44 percent fewer shipment rejections. Such interventions also positively impact future growth prospects. Evidence from Better Work Cambodia shows that firms complying with better working conditions are 56 percent more likely to retain buyers than firms that don’t. There has been close to a 50 percent increase in proportion of participating factories in Better Work Vietnam that report that they are the preferred supplier to their most important customer, rather than a sub-contractor. Evidence from this program also shows that complying with regulations and standards to ensure job quality allows firms to mitigate risk and withstand economic crises. It also helps them to build brand reputation. Specifically, factories that improved their labor management practices by tying market access to lead firms in the United States to participation

<sup>1</sup> This program reaches more than one million garment workers in 1,000 factories across the world, of which 82 percent are women.

in the Better Work Program became more efficient and better prepared to face constrained economic demand. Finally, the most recent comprehensive independent evaluation of the program across five countries shows the positive effects of investment in better working conditions and training. Supervisor skills training, especially among female supervisors, increased productivity in those factories by 22 percent, while better working conditions helped prevent abusive practices, curbed excessive overtime, and helped reduce gender pay gap.

**Similar evidence from other evaluations also shows that higher wages, improved physical working conditions, worker management engagement, training, and adherence with compliance lead to benefits for the investing firm.** A study on minimum wages in China finds that minimum wages can increase the productivity of high-performing firms (due to increased efforts) and lead to increased exiting of the least-performing firms, thus increasing overall productivity. Case studies from garment factories in Vietnam show that reduction in physical and verbal abuse by supervisors resulted in increased factory profits. A study that modeled improved working conditions among electronic manufacturers in China found a potential increase in profits by as much as 0.4 percent, where margins range from 1 and 2 percent. Another study of the effect of firm compliance with labor standards finds that adherence increases suppliers' likelihood of retaining brand-conscious buyers.

## **POLICY APPROACHES TO STRENGTHEN LABOR MARKET OUTCOMES**



**One approach to facilitate a positive labor market outcome of participating in a GVC is for domestic policy makers to focus on upgrading strategies.**

While sector-level policies will differ, they will cover a span of interventions, including improving infrastructure and connectivity, improving business environment to trade and investment policy, financial and labor market development, and skill upgradation. Among these, the last is especially important. Lack of adequate investment in human capital development can be mitigated through different approaches, including creating diverse sources of firm financing, such as matching grants, training funds, or tax incentives for training and firm apprenticeship programs. Public-private partnerships in this space

are an efficient solution. Another key area of policy intervention is to create and strengthen programs to help catalyze spillovers in GVCs. Therefore, small and medium enterprise (SME) development and supplier linkage programs that help facilitate information exchange, create access to technology for more firms, and help establish compliance with required standards can be instrumental in upgrading GVCs.

**The second approach for domestic policy makers is to focus on implementation and enforcement of private labor standards.** As mentioned earlier, adherence to these standards has an important signaling effect that helps firms retain buyers and expand markets, in addition to generating technological innovation and creating better jobs. Creation of platforms with relevant stakeholders is an important vehicle through which standards on compliance and transparency in working conditions can be perpetuated from lead firms down in the supply chains. This is especially important in chains where subcontracting is prevalent. The Better Work Program is an example of this type of intervention for facilitating adoption of these private social and labor standards.

**Besides these standards, policy makers could also focus on improving national regulations, at the national, sub-national, and industry-specific level.** Labor market regulations require a balance between promoting labor mobility and firm competitiveness in a way that labor turnover is optimal to allow improving productivity without penalizing workers. However, the right regulations can positively impact skill- and capacity-building. Policies at the industry or sub-national level, such as tax or trade policy, if distortionary, can adversely impact growth of GVCs and hence potential positive labor market outcomes.

**Finally, policy makers should pay attention to strengthening the data collection and evaluation of GVC participation and impact on labor market outcomes.** While the evidence base is building, much work needs to be done. Collective efforts need to be made in the areas of data collection and sharing in low-capacity environments, especially at the firm level, where it is incredibly important for analyzing GVCs. It must be noted that the analytical work objectively evaluates the impacts of standards on productivity and performance, and recognizes that not all countries, not all sectors, and not all firms are ready to move in lockstep.

This Jobs Note was prepared by Ruchira Kumar [rkumar10@ifc.org], based on the G20 Note Series prepared for the G20 Meetings in Berlin, December 2016. We would like to thank Daria Taglioni, Lead Economist, Trade & Competitiveness, and Sabine Hertveldt, Lead, IFC Better Work Program, for providing useful inputs and comments. For more information, contact Siv Tokle at [stokle@worldbank.org](mailto:stokle@worldbank.org).