Employment and Development
What Do We Know and What Can We Do?

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Institute for the Study of Labor (IZA) and KfW Entwicklungsbank

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Workshop 1 Summary

“Global shift of production factors, globalised value chains, and the role of industrial policy

By Janneke Pieters (IZA)

In this workshop, the discussion focused mainly on whether and how industrial policy should play a role in development strategies. A better understanding of the global value chain of a certain industry or sector could help design better policies. In general, the participants agree that rather than direct industrial policy, a more successful approach is to facilitate structural change by, for example, improvements in (financial) infrastructure. The discussion around this theme built mainly on the input of Khalid Nadvi (University of Manchester):

- We need to move away from the idea that there is a worldwide race to the bottom with respect to labour/jobs. There is little understanding of the impact of emerging powers, especially China, moving up the value chain. In particular sectors, emerging economies were a small part of the global value chain, but have now become global leaders. They themselves now outsource production, but we know little about how they organise their production.
- Increasingly, also, the world’s consumers are in the global South, as the middle class is growing in developing countries. What are the consequences for what is produced and how it is produced?
- We also should realise that the state plays an active role in emerging economies, through industrial policies, labour regulation, etc.

For development banks and other institutions involved in development cooperation, contributions are most often at the micro level. That means industrial policy or growth strategies are far beyond the scope of particular investments. Still, a better understanding of value chains would help to get better measurements of employment impacts from certain investments and projects. A particular concern that was raised is the ‘general equilibrium’ effect of job creation in certain projects, since direct or even indirect job creation may destroy jobs in other parts of the economy.

The input from Gudrun Timm (DEG) focused on this issue:

- DEG supports the private sector and measures investment returns in terms of direct and indirect job creation. DEG data shows that these returns are particularly high in the agriculture and forestry sector and in textiles, apparel, and leather production – and within these sectors, mostly in the SME segment. The data show very little job creation from investment in, for example, the health sector, although this is hard to believe. We need more research to understand the employment effects of private sector support.

Roland Michelitsch (IFC) focused more on the role of the private sector in job creation:

- It is the most productive firms that create jobs, so raising productivity does not harm workers. Moreover, if wages increase with productivity, this raises purchasing power and consumer demand.
- Stunted growth is a real problem, i.e. small firms don’t transition into large firms.
- Environmental and social standards can help job creation.
- Foreign direct investment can offer know-how to employees. The Bangladesh garment sector is an example, where most entrepreneurs were...
employees in foreign-owned firms before starting their own firm.

Points from the general discussion

- Industrial policy is often not evidence-based
- Rather than focusing on a few industries, a better approach could be to design a strategy for promoting each of your (relatively large) sectors.
- A problem for donors is the possible crowding-out: often only micro-interventions are possible.
- Many LICs have poor state capacity, so industrial policy (picking winners) is hindered by corruption, poor implementation, etc. This may only harm private sector development, especially since private investors do not want direct government intervention. The macro policies should focus more on facilitating the economic change process, e.g. through investment climate strategies.
- We need to know what drives investment, and what determines the stickiness of investment (i.e. we want long-term investment).
- It is not always clear what the goal is: growth-enhancing structural change at any cost? Or do we care about (short term) job creation?
- Facilitating structural change by the private sector, rather than top-down strategy. Social policies, labour standards, and social dialogue should be used to facilitate change democratically.

Intermediate conclusions and questions

- Martin Rama’s presentation raises the question of whether economic transformation can be facilitated by a ‘job strategy’ by focusing on the so-called transformational jobs.
- The informal sector workshop raises the question of explicitly considering how the informal sector is affected by certain solutions to global value chain issues.
- From the agriculture workshop we take the message that social policies and safety regulation could be used to promote structural change.
- The youth and education workshop raises the issue of the private sector role in the design and implementation of technical and vocational education and training (TVET) programs.
- From the migration workshop, we take the message that labour mobility and global value chains are interrelated.

Second workshop session

Participants chose two specific challenges to work on and developed initial ideas for solutions:

- How to manage structural transformation in low-income countries?
  - ‘Picking winners’ is considered risky business, but governments sometimes decide to take this approach and ask for advice after choosing a sector they want to promote.
  - It is then important to involve the different stakeholders in the process in a forum we named “competitiveness council”. Ideally such a council would already be involved before any particular sectors are chosen.
- How to help the private sector link into the global value chain?
  - If countries seek to find their comparative advantage it helps to have knowledge of global value chains; where in the production chain are countries at similar development levels?

These two themes were presented in the final plenary session. Ideas may be taken up and put into practice by UNIDO and possibly by GIZ.

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