

# DFID GLOBALISATION AND POVERTY RESEARCH PROGRAMME

## Project R7623: Globalisation Production and Poverty: Macro, Meso and Micro Studies

### END OF PROJECT FINAL REPORT

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## 1. Background and Objectives

The central objective of the project was to help fill the gap between the analysis of global processes and their macroeconomic impacts, and the analysis of consequent changes in poverty and income distribution at the level of workers and households. This was motivated by a belief that a better understanding of the causal linkages between globalisation and poverty is essential in order to design policies which will help eliminate poverty within a context shaped by global trends.

Two African and two Asian countries were selected for the research. In two of these countries (Vietnam and South Africa) there have been major changes in the 1990s in terms of their insertion into the global economy as a result of the collapse of the communist block and the ending of apartheid respectively. The other two countries, Bangladesh and Kenya, have also become more open during this period, although not in such dramatic circumstances. They were of particular interest for the project because Kenya is regarded as an African success story in terms of its exports of horticultural products, while Bangladesh has become an important exporter of garments.

A central part of the project was the analysis of three value chains - horticulture, garments and textiles. Horticulture was selected as a major non-traditional agricultural export which has acquired increasing importance for a number of low income countries. Garments was the obvious choice as a manufactured good which has been the entry point into world markets for many countries, while textiles were selected as an example of a sector where production for the domestic market had traditionally been important and which was now subject to increased global competition.. Each of the value chains was studied both at the global level and in two of the case study countries, as indicated in Table 1.

**Table 1: Case Study Countries**

	<b>Bangladesh</b>	<b>Kenya</b>	<b>South Africa</b>	<b>Vietnam</b>
<b>Horticulture</b>		X	X	
<b>Garments</b>	X			X
<b>Textiles</b>			X	X

## **2. Methods**

Two main sets of methods were used corresponding to the different components of the project and it is therefore necessary to discuss them separately.

### ***a) Macro study: Trade, Investment, Technology and Employment***

Macro studies, looking at the impact of globalisation on the labour market, were carried out in each of the four case study countries. Because of data constraints, the focus in each case was on manufacturing employment. Data on trade flows, production and employment at the 3 and 4-digit levels of the International Standard Industrial Classification were used to analyse the effects of greater openness.

A number of different methods were used. First the changing composition of exports and imports in terms of factor-intensity were analysed. Second Chenery-type growth decompositions were calculated to separate out the contributions of domestic demand, exports, import substitution and productivity changes to employment growth. Finally econometric methods (including both cross-section and panel data regressions) were applied, which made it possible to include other variables in addition to trade, and to analyse the indirect impacts of trade changes on employment via technological change. In the cases of South Africa and Kenya, the industry level analysis was supplemented by studies based on firm level data, from existing surveys, to give further insights into the impacts of globalisation on employment. Where possible the analysis of the impact of trade openness was supplemented by data on foreign investment.

### ***b) Value chain studies***

The value chain studies were carried out at three levels. At the global level, trends in the chain were identified through interviews with global buyers and major firms in each country and the analysis of secondary data on output, trade flows, changing trade barriers and employment. At the national level, research in the case study countries focussed mainly on the characteristics of the chain. This involved interviews with producers, export agents, trade unions and government officials, as well as collection of secondary data.

A key methodological contribution of the research was to extend the conventional value chain analysis. In order to link the value chain analysis with the poverty impacts of globalisation, the project undertook detailed surveys at the household level. These household surveys covered not only workers involved in the value chain, but also others who were not so engaged, as comparators. In the case of the textile value chain where import competition was a particular concern, the households of retrenched workers who had lost their jobs in the industry were also surveyed. In the case of horticulture there was a particular focus on different types of employment within the chain e.g. smallholders vs. agricultural workers on commercial farms; growing vs. processing work. Whereas most of the surveys were primarily qualitative in nature, a more detailed quantitative survey was carried out in the Kenyan horticulture industry. This was used to develop a partial equilibrium model to simulate the impacts of horticultural employment on poverty, and also to look at the implications of other potential changes (e.g. a reduction in trade preferences in the EU) on Kenyan horticulture.

### **3. Findings**

The studies confirm that producing labour-intensive exports for world markets can create additional jobs in developing countries. At the aggregate level, there have been substantial increases in manufacturing employment in both Bangladesh and Vietnam, associated with the growth of exports particularly of garments and footwear (Jenkins and Sen, 2002). In contrast in South Africa and Kenya where labour-intensive manufactured exports are much less significant, the employment impact of increased openness has been minimal, although in the case of Kenya there has been some employment growth associated with exports of labour-intensive agricultural products.

The potential for export growth to make a significant impact on poverty depends in part on the relative scale of employment creation and the dimensions of poverty in the countries concerned. The estimates of employment creation as a result of manufactured exports were of the order of 700,000 over a decade in Bangladesh (Sen, 2003) and a similar number over five years in Vietnam (Jenkins, 2002a). This was relatively

insignificant compared to the estimated total number of people living in poverty in the two countries. In the mid-1990s around 60 million people in Bangladesh and 40 million in Vietnam were below the overall poverty line.

In order to analyse the poverty impacts of export growth, it was necessary to analyse further the nature of the employment opportunities generated. As has been well documented, and was confirmed here for Bangladesh, Vietnam and Kenya, the bulk of export related jobs are filled by women. They also tend to be characterised as unskilled. This was found to be the case both at the aggregate (macro) level and in the garments and horticulture value chains.

Are these jobs benefiting the poor either directly through lifting the workers themselves out of poverty, or indirectly through, for example, remittances by workers to families which are poor? Evidence from both the garment and horticulture value chain studies indicates that workers are often migrants from relatively deprived regions, suggesting that employment is important both in terms of raising their own living standards and as a potential source of remittances. Comparing the incomes of garment workers to the alternative opportunities open to them, the studies showed that they tended to earn more in the export sector in both Vietnam and Bangladesh (Kabeer and Tran, 2002; Kabeer and Mahmud, forthcoming). Similarly in Kenya, employment on horticultural farms has contributed to increasing the incomes of landless and marginal farmers (McCulloch and Ota, 2002). There is also evidence that garment workers remit a significant part of their income to families in the rural areas.

However there is also evidence that those who participate in global value chains are not, in many cases, the poorest sections of the population<sup>1</sup>. In Vietnam, women workers in the textile and garment industries tended to have secondary or higher education, while poorer, less educated women were concentrated in the informal sector where they earned less (Kabeer and Tran, 2002; Nguyen, Sutherland and Thoburn, 2002). In Bangladesh

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<sup>1</sup> However even if those directly employed were not themselves previously poor, there may be a positive indirect effect on poverty as a result of a general increase in demand for labour.

there was a clear contrast between garment workers employed in Export Processing Zones (EPZs) who came from better off social strata and had more education than garment workers in non-EPZ factories and non-garment workers (Kabeer and Mahmud, forthcoming). In Kenyan horticulture, the smallholders who benefited most from export growth were those with irrigated land, while poorer farmers without irrigation were less likely to get taken on by the exporters (McCulloch and Ota, 2002). However in other cases such as non-EPZ garment factories in Bangladesh and horticulture pack houses in Kenya, employment within the global value chain does offer opportunities for unskilled workers with low levels of education who are likely to be from poor households.

Although employment in export sectors bring benefits to workers in terms of higher income levels, these come at a price. In particular export jobs are characterised by high degrees of flexibility and instability and long hours of work. In South African horticulture some growers have increasingly resorted to contract labour (Barrientos and Kritzing, forthcoming), while in Kenya casual, seasonal and contract labour are in a majority in both pack houses and farms (Dolan and Sutherland, 2003). In garments labour turnover is high and job security limited as sub-contractors are faced with fluctuating orders from buyers, although somewhat surprisingly garment workers in Bangladesh reported fewer interruptions to their work during the year preceding the survey, than other wage workers (Kabeer and Mahmud, forthcoming).

The value chain studies also highlighted the vulnerability of export success to external factors, which could prove a threat to the livelihoods of workers in the future. Thus, for example, the Kenyan horticulture industry is highly dependent on preferential tariffs in the EU and favourable air freight rates (Humphrey, McCulloch and Ota, forthcoming), while garment exports from Bangladesh have grown as a result of MFA restrictions on exports from other highly competitive producers (Nadvi, 2003). Increased competition in export markets can lead to falling prices and intensified pressure on developing country producers to cut costs through more flexible employment practices and increased work intensity.

One way of trying to offset the pressures from falling prices is for producers to upgrade to higher value added activities within the value chain. In the case of horticulture some forms of upgrading, such as producing more prepared and packaged vegetables leads to increased employment of unskilled workers which is likely to have pro-poor effects. In other cases however, introduction of more advanced technologies or production of higher value products may require more skilled workers which will not benefit the poor and may even reduce demand for unskilled labour.

Another aspect of the long-term dynamic within the export sector is the concentration of some of the benefits over time. In Kenyan horticulture for example the major beneficiaries have been the larger commercial farms whose share of production has tended to increase over time at the expense of small-holders (Humphrey, McCulloch and Ota, forthcoming). Similarly in the Vietnamese garment industry, state owned enterprises have been the principal beneficiaries since they are best placed to meet the demands of the large global buyers (Nadvi and Thoburn, forthcoming).

The research also indicated that not all developing countries have a comparative advantage in unskilled labour intensive products. In the case of South Africa, labour-intensive exports were relatively insignificant and greater openness in the 1990s did not generate much in the way of new jobs (Jenkins, 2002b). Moreover, even where there has been increased employment associated with exports, it needs to be remembered that globalisation leads to higher levels of imports as well as exports and that where import penetration increases there are potential losers as well as winners from globalisation.

At the macro level, the research estimated the net effects of trade on employment, taking into account the negative impact of increased import penetration. When these are considered, the employment benefits are considerably reduced particularly in Bangladesh and to a lesser extent in Vietnam, the two countries in which export growth had the greatest positive employment effect. Also, whereas export expansion tends to be concentrated in female dominated industries, import penetration is rising in those

industries which tend to employ more men, thus reinforcing the gender dimension in changing employment patterns (Jenkins, 2002a; Sen, 2002).

There is also an indirect effect of greater openness on employment through increased competition and access to imported technology leading to displacement of unskilled labour as more capital-intensive and/or skill-intensive technologies are introduced. This has been observed in the textile industry study in South Africa where there have been substantial retrenchments as some firms went out of business while others restructured in order to survive in the new competitive environment (Roberts and Thoburn, forthcoming). As a result, many of those who lost their jobs fell into poverty (Bezuidenhout et. al., 2003)

Another aspect of globalisation which the research touched upon was the impact of FDI on employment; however the lack of data made it difficult to analyse this in the same detail as the impact of trade openness. The evidence suggested that the impact of FDI was unlikely to have been of great importance either at the aggregate level or within the specific value chains studied. However in both the horticulture and the garment value chains, buyers acting often on behalf of major multinational companies have played an important part in the growth of exports.

The research indicated the difficulty of making broad generalisations about the impact of globalisation on employment and poverty. The outcomes are highly dependent on the forms of global integration and the specific local context. This indicates the need for a case-by-case analysis of poverty impacts.

In policy terms, increased exports of labour-intensive goods (both manufactures and agricultural products) can lead to significant employment gains which help reduce poverty. However the macro studies show that these are not an alternative to more direct measures to reduce poverty, because of their relatively limited impact.



Globalisation also has its negative dimensions which need to be addressed if it is to benefit the poor. As pointed out earlier, global competition tends to put downward pressure on prices which in turn is reflected in firms seeking to reduce labour costs through increased flexibility and increased intensity of work. What can policy do to offset these tendencies? One strategy is to upgrade within the value chain in order to avoid the decline in prices, something which state owned enterprises in the Vietnamese garment industry was able to do with some success. Another strategy is to seek “niche” markets which are less susceptible to price competition than more standardized products. There are also inherent limits to the trend to increased flexibility imposed by the requirements of buyers in terms of quality standards in some cases, as is illustrated by the case of South African apples (Barrientos and Kritzing, forthcoming). This suggests possible positive spin-offs for labour from an emphasis on quality. However there is also a danger that upgrading can lead to better employment conditions for fewer, more skilled workers so that the positive impacts on poverty are further reduced. If this is the case then some form of social protection needs to be provided to those who are displaced.

A second problem is how to ensure that new employment opportunities and increased incomes benefit the poor. The danger here is that the most disadvantaged are not in a position to participate in global value chains and that the gains will come to be concentrated in the hands of the better off. It is clear that globalisation alone will not ensure the spreading of the benefits and complementary action is required by the state, for example through extending education or providing inputs such as irrigation. A corollary is that the gains are likely to be more widely distributed where the initial structure of assets and entitlements is more equitable. This is consistent with the view that of the case study countries, Vietnam has been the most successful in combining increased global integration with poverty reduction in recent years.

The experience of Vietnam also suggests that the gains in terms of employment can be maximized by encouraging labour-intensive exports while at the same time avoiding to some extent the extremes of import liberalisation. A strategy which gives more emphasis to building linkages between the export sector and domestic production can create more

employment and have greater potential to reduce poverty than total liberalization. Similarly in horticulture, upgrading to higher value added products can also extend the benefits in terms of employment opportunities.

Finally the vulnerability of the success stories of labour-intensive export growth such as garments and horticulture to external changes in trade regimes, buying practices, international standards etc. implies that these need to be carefully monitored by those concerned about the future prospects for poverty reduction.

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- Dolan, C. and K. Sutherland, *Gender and Employment in the Kenya Horticulture Value Chain*, Globalisation, Production and Poverty, DP 8
- Humphrey, J., N. McCulloch and M. Ota, (forthcoming), “The impact of European market changes on employment in the Kenyan horticulture sector”, *Journal of International Development*
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- Sen, K. (2002), *Globalisation and Employment in Bangladesh and Kenya*, Globalisation, Production and Poverty, DP 7

#### **4. Dissemination**

Dissemination has taken a variety of forms in order to reach policy makers, those directly involved in the value chains studied and academics.

##### ***Workshops***

In-country workshops have presented the results of the project to government officials, business, trade unions, academics and NGO activists in each of the four case study countries. In the case of South Africa, separate workshops were held in different parts of the country to present the results of the textiles and horticulture value chains in order to maximize interaction with those involved in the sector and government officials.

Bangladesh – Dhaka, January 2003

Kenya – Nairobi, April 2002

South Africa – 4 workshops, June 2002; 3 workshops, May 2003

Vietnam – Hanoi, September 2002

##### ***Policy Briefings***

Two policy briefings focussing on specific aspects of the project. These will be circulated widely to policy makers, academics and other interested parties.

*The cost of compliance: Global standards for small scale firms and workers*

*Trade liberalisation and poverty* (in preparation)

##### ***Insights/ID21***

A special edition of Insights on *Globalisation, Employment and Poverty* based on the findings of the project, will be published in June 2003.

##### ***Website dissemination***

Papers from the project have also been disseminated via the Gapresearch website.

##### ***Academic dissemination***

In addition to the papers listed in the next section, work in progress on the project has been presented at a variety of conferences and seminars.

## 5. List of publications

### *Project Discussion Papers*

- No.1 – K. Sen, *Globalisation and Labour Market Outcomes in the South: A Critical Survey*.
- No.2 - S. Roberts and J. Thoburn, *Adjusting to Trade Liberalisation: the case of firms in the South African textile sector*.
- No. 3 – M.Omosa, *Export Horticulture and Livelihood Strategies: A Focus on the Opportunities and Constraints Facing Smallholder Farmers in Kenya*.
- No. 4 – N. McCulloch and M. Ota, *Export Horticulture and Poverty in Kenya*.
- No. 5 – L. Edwards, *A Firm Level Analysis of Trade, Technology and Employment in South Africa*.
- No. 6 – D.K. Manda, *Globalisation and the Labour Market in Kenya*.
- No. 7 – K. Sen, *Globalisation and Employment in Bangladesh and Kenya*.
- No. 8 – C. Dolan and K. Sutherland, *Gender and Employment in the Kenya Horticulture Value Chain*.
- No. 9 – S. Roberts and J. Thoburn, *Globalisation and the South African Textile Industry*
- No.10 – J. Thoburn, Nguyen Thi Thanh Ha and Nguyen Thi Hao, *Globalisation and the Textile Industry of Vietnam*
- No. 11 – R. Jenkins, *The Labour Market Effects of Globalisation in Vietnam* (in preparation)
- No. 12 - H. Bhorat and L. Poswell, *Employment and Household Poverty in South Africa: The Effects of Trade, Investment and Technology* (in preparation)

### *Journal Special Issue*

A special issue of the *Journal of International Development* on “Globalisation, Production and Poverty” is in preparation which will carry eight papers from the project.

Another collection of papers on Vietnam is being prepared, which will also include papers from other projects in the *Globalisation and Poverty* programme.

***Other published/accepted/submitted articles***

Barrientos, S. and A. Kritzinger (forthcoming) ‘The Poverty of Work and Social Cohesion in Global Exports: The case of South African fruit’ in D. Chidester (ed.) *Beyond Solidarity? Globalisation and Social Cohesion in South Africa*, published by Human Sciences Research Council (HRSC) and National Economic Development and Labour Council (NEDLAC), South Africa.

Dolan, Catherine, (forthcoming), “From Farm to Packhouse: Employment at the Bottom of a Global Value Chain”, *Rural Sociology*

Dolan, D. and J. Humphrey (forthcoming), “Changing Governance Patterns in the Trade in Fresh Vegetables between Africa and the United Kingdom”, *Environment and Planning A*.

Krtzinger, A. and Barrientos, S. ‘Globalisation and livelihoods in South African fruit - The experience of contract workers’, *Sociologia Ruralis*, Resubmitted with revisions.

Kritzinger, A. and Barrientos, S. ‘Contractors and contract workers in the South African export fruit sector: A new form of paternalism?’ Submitted to *Journal of Rural Studies*

Roberts, S. and J. Thoburn (2003), “Adjusting to trade liberalisation: the case of firms in the South African textile sector”, *Journal of African Economies*, Vol. 12, No.1

Thoburn, J. (2003), “Trade Liberalisation and State-Owned Enterprise Reform in Vietnam: Implications for Workers” in M. Tribe, J. Thoburn and R. Palmer-Jones (eds.), *Economic Development and Socio-Economic Justice: Essays in Honour of Ian Livingstone*, Avebury.