Shift in global demand and effects on employment, skills, and labour standards

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Joint ILO-GTFA conference:
Globalization and Employment:
Global Shocks, Structural Change and Policy Response
Geneva, 21st June 2010
Commodities-Manufactures Terms of Trade

[Graph showing the terms of trade for commodities and manufactures from 1960 to 2000, with a peak in 1975 and a general downward trend thereafter.]
China’s demand for agricultural commodities

• 20% world population, 7% arable land
• Biofuels
• Industrial inputs
• 22% global rubber consumption (2006)
• Imports 27mt cotton vs 7mt domestic production (2008)
• Pork, other meat and animal feeds
• Switch domestically from grains to fruit and vegetables

IMF, World Economic Outlook Database
Commodities-Manufactures Terms of Trade
The 2\textsuperscript{nd} Industrial Divide – from Fordism to post-Fordism

• From supply-push to demand pull
• Critical success factor in supply-push
  - Price
  - Volume
  - Price
• Critical success factor in demand pull
  - Quality
  - Differentiation
  - Price
The centrality of standards in Global Value Chains

- **Private sector standards - QCD**
  - Quality - as in parts per million
  - Cost - price reductions by suppliers
  - Delivery - more frequent, smaller and on-time deliveries

- **Govt standards**
  - Health and safety in work
  - Product safety

- **Civil society**
  - Labour standards
  - Organic standards
The increasing globalisation of VCs.
“Is this a V recovery or a W? I think it’s the latter…

(CEO HSBC Bank, Financial Times, 5th Oct 09)
Perhaps its an L
OR, MAYBE
Households according to disposable income bracket in BRIC countries: 2002/2007 '000 households
Two core impacts as markets shift to the south

• What role will standards play in global value chains?
• What will the impact be on the inter-country division of labour in global value chains
Thailand’s Share in World Cassava Exports, 1961-2007
Chips producers

Pellet plants

Export (ethanol) China

Domestic (feed)

Modified starch factories

Native starch factories

Food industry domestic / export

Non food industry domestic / export

Starch derivatives domestic / export

Export (feed) EU, etc

Export (feed) EU, etc

Farmers

High VA

Low VA
Thai Dried Cassava: The shift in export destination

- Share EU
- Share China
- Share Korea
Thai Dried Cassava Export: The shift in product composition

![Chart showing the shift in product composition from 1976 to 2008, with blue bars representing Pellets and red bars representing Chips.](chart.png)
Thailand’s Cassava Starch Exports

![Graph showing share in Thailand cassava starch export and total volume from 1997 to 2008. The graph includes data from China and highlights the increasing trend in both share and volume over the years.]
Thai Starch Export Composition to China

Native starch
Modified starch

2001 2002 2003 2004 2005 2006
Standards in the Cassava Value Chain

• Into EU
  – HACCP ("Hazard Analysis Critical Control Point") as cassava pellets part of the animal feed-food chain.
  – GMP ("Good Manufacturing Practice") sanitary and processing

• China
  – None other than starch content
Timber in Gabon

• Untapped minerals
• Tropical timber
  – 13th largest producer
  – 3rd largest exporter (16% market share)
Gabon’s Domestic Timber VC

1. **Tree** → **Forest stock**
   - **Log**
     - Company inventory → **Sawnwood**
       - Sawing
         - optional steaming
         - drying
         - planing
         - varnishing
       - Inventory at firm or port
         - Port inventory → Port
         - Port
   - **Veneer**
     - Peeling
     - optional steaming
     - Varnishing
     - Drying
     - Trimming
       - Inventory at firm or port
         - Port
   - **Plywood**
     - Gluing
     - Pressing
     - Trimming
       - Varnishing
       - Drying
       - Trimming
         - Inventory at firm or port
           - Port

2. **Final Destinations**
   - China / EU
   - EU and others
Gabon: Exports to China and EU-27

Source: FAO ForesSTAT, accessed December 2009
Gabon: Buyers’ Standards

- **Critical Success Factors** (1=not important, 5=very important)

**Logs**

- EU
- CN

**Variety tree species**

**Volume**

**Price**

**Quality**

**Products**

- EU
- CN

**Product design**

**Volume**

**Price**

**Quality**
Gabon: Buyers’ Standards

- **International regulations and private standards**
  
  (1=not important, 5=very important)

**Diagram:**

- Private:
  - EU
  - CN
  - ISO standards
  - Sustainability certification requirements
  - GPP
  - Legality certification requirements

- International:
  - EU
  - CN
  - Building codes
  - Formaldehyde emissions
  - Phytosanitary requirements
  - Product testing requirements
Gabon’s Domestic Timber VC

Tree → Forest stock

Log

Company inventory → Port inventory → Port

Sawnwood

Sawing → optional steaming → Optional drying → Optional planing → Optional varnishing → Inventory at firm or port → Port

Veneer

Optional steaming → Peeling → Drying → Trimming → Inventory at firm or port → Port

Plywood

Gluing → Pressing → Trimming → Optional varnishing → Varnishing → Inventory at firm or port → Port

China / EU → EU and others
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<thead>
<tr>
<th></th>
<th>High-income importing economy</th>
<th>Low-income importing economy</th>
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<tbody>
<tr>
<td>Pollution and energy intensity</td>
<td>High preference to outsource to exporting economy</td>
<td>Indifferent to location</td>
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<tr>
<td>Complementary or competitive</td>
<td>Complementary – focus on technologies with high barriers to entry</td>
<td>Competitive – importers also have low technology industrial structures</td>
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<tr>
<td>industrial structures</td>
<td></td>
<td></td>
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<tr>
<td>Labor costs</td>
<td>High wages militate against labor intensive processing</td>
<td>Low wages facilitate labor-intensive processing</td>
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<tr>
<td>Labor standards</td>
<td>Working conditions are effectively protected by enforce legislation</td>
<td>Weak protective environment of working conditions</td>
</tr>
</tbody>
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Some questions

• How generalisable across sectors?
• Is this a moving frontier –
  – Northern markets will reappear?
  – China becomes a quasi-northern market?
• What about India and other emerging economies?
• Distributional implications?
• Static or dynamic comparative advantage?
• South-South – win-win or win-loose....?