Trade and Livelihoods:
How can a Global Value Chains perspective help focus the analysis?

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Does economic integration (trade and capital flows, and immigration) affect labor markets differently in developed and developing countries?

Can value chain analysis help shed light on both sides of the labor question (in developed and developing countries)? Can paired comparisons of similar sectors across the same or related value chains help us understand the employment question as it plays out in developed and developing countries in ways that independent sector studies or regional studies would not?

To frame some of our discussion for next week, I attach a few thoughts below on trade liberalization, GVC penetration and *developed* country labor markets (in traditional sectors). Complementing this with a similar discussion on the developing country side of the story may allow us to explore a question that Gary has raised elsewhere – whether there is need for a new "new deal" to help economies adjust to the effects of globalization.

Trade and adjustment within traditional sectors in advanced industrial countries:

For at least the past decade, forces of economic integration (such as NAFTA) and cycles of technical change have been transforming the traditional bases of comparative advantage that "latecomer" regions in advanced industrial economies (such as the US) had built over time. Plant closings across several key sectors have captured headlines, highlighting the thousands of layoffs and raising the specter that work is "vanishing." That an equal number of jobs, if not more, have been created in existing sectors and emerging industries (ranging all the way from biotechnology to back-office business processing and auto-component production) is of little consolation to localities whose economic mainstay, the traditional sectors, has vanished in this churning.

At the sectoral level there are a growing number of studies that are beginning to shed light on how firms and sectors respond as the region globalizes. Much less is known however, about the mechanisms of adjustment at the local level: what happens to the communities where the firms and jobs that were lost were located? What has happened to the workers who worked in the firms that closed down?

There are at least three literatures that give us three different answers about why jobs might be moving away and what we should expect to happen with the workers that get left behind. The first is what I call the "Global Search" and "Splitting of the Value Chain" hypothesis that comes from an economic tradition that argues how, with greater openness and lower tariffs, the falling costs of searching for cheaper factors overseas has led firms to shift production overseas. The twist in this literature is that some strands of it argue that when firms move overseas, they only take those portions of their activities (or those parts of their value chain), that can be carried out more cheaply overseas. In labor-intensive sectors this is often assembly operations, which one would expect would move overseas, while costlier, skill-intensive operations would be left behind in the home country (the US in this case). If this were the case, then one would expect to see lower-skill, entry or even mid-level jobs moving overseas, while a smaller cluster of more sophisticated tasks remain in the US. From my previous research I have found that the furniture industry in the US is slowly moving from a "producer-driven" industry to a "buyer-driven" one where new types of skill-centered activities such as design, accessorizing, creative marketing and distribution, as well as financing are the new "high-end" jobs and tasks that one might expect to find deepening in the US (see Gereffi 1994, 1999, 2003, Humphrey and Schmitz 2001, and Tewari 2003). Do we, then see a splitting of the value chain in the furniture industry as it globalizes? Are firms closing down and moving overseas in their entirety, or are they cultivating different kinds of activities in the multiple sites where they are now locating? The answers to these questions have important implications for how we think about re-building the eroded economic base and human capital in this industry, and other traditional industries like it, as they transform. It will involve looking on the ground at who lost their jobs and who retained them in particular industries that are globalizing, and why. It will also involve looking at what went off-shore, where and why.

A second and related hypothesis is the "Automation, upgrading and technical advance" hypothesis which argues that even as firms are chasing lower factor costs abroad in low-wage industries, there is a profound change that is simultaneously being induced (by policy as well as by the market) in the regions from where these jobs are leaving. This change involves a ratcheting up and a structural transformation of the economic base of the region into higher tech, and more sophisticated products and processes (Frank Levy and Murnane 2004). For example, instead of producing furniture, the region is producing high tech stain resistant resins, finishes, even upholstery. Instead of producing standard products, the traditional industries like furniture and textiles are moving to new generations of R&D intensive and branded specialized goods and services that will create better jobs albeit for a smaller, better trained workforce. This process, according to this hypothesis is aided by two additional processes. One is that even the old tasks are being done differently, by different means (using computer aided equipment for example) and in different ways. And the second is that this process of technological upgrading is being reinforced by the growing efforts by provincial policy-makers to shift away from traditional bases of comparative advantage to new, more dynamic sources of advantage. In other words, there are no traditional jobs to be "saved," but new jobs and job-definitions to be created even in the older industries. This again has implications for what jobs are being created on the ground and who gets them? What skills are needed to access them?

This hypothesis is tied to a more organizational observation that when plants close down in a community, they do not just sit vacant but are bought out by new investors. Who are these new investors and what are they doing with the plants they buy? Are they converting the plants to related uses in the same industry (as in the case of the textile industry's Cone Mills that shut down recently) or do they shift to new industries, or do they merely salvage land-value in the rentier tradition? What happens on the ground will determine how the community is impacted as a whole—not merely the workers that were let go when a plant closed.

The final hypothesis, or the "Job displacement" hypothesis argues that not only is the structure of the economy changing as jobs move overseas, but that even when jobs remain—or even the activities that remain, are being taken over by non-locals from outside the community. At the low end, the assumption often made in public debates is that immigrants take over many of the jobs that were held by workers from communities long tied to particular industries (furniture or textiles). At the high end, some strands of the literature suggest that as firms and industries ramp up their technical base, they are seeking to fill the sophisticated and skilled jobs that are thus created by recruiting skilled workers from the outside. Rather than pay to create the skills locally (and wait for them mature), these firms are luring already skilled workers from outside the region. The outcome in both cases is that even when jobs are created or even among the jobs that remain, there are no good jobs to be had either at the entry (low-skill) level or at the higher-end level for people who lose their jobs when furniture factories and textile factories close down. What is the empirical evidence on the ground?

What are the implications of these processes for what the state, industrial actors and civic institutions can do to help regions adopt?