

Terms of Reference: Labour in East Asia

Project description

Due to the fragmentation of production process across borders, it has become necessary to use the trade-in-value-added (TiVA) concept to analyse trade. As producers seek the cheapest locations for various tasks in the production process, developing countries can specialize in only those specific tasks instead of having to carry out the entire production process from conceptualization to production to marketing to distribution. At the same time, it has challenged policymakers to get the domestic institutions and policies ‘right’ to attract the businesses. In this context, TiVA, rather than aggregate flows of exports and imports, provides a clearer picture of the degree to which a country has integrated into these global production chains by disaggregating a country’s total exports into domestic value-added and foreign value-added shares.

The main advantage of a TiVA perspective is that it clarifies a country’s forward and backward linkages to the global production process. A country’s exports may include inputs sourced from other countries, or those may be used in producing a partner country’s exports. As such, the OECD–WTO definition of participation in global value chain (GVC) is the sum of foreign value added in gross final exports and share of domestic value added in exports of intermediaries. TiVA analysis also reveals the degree to which employment in various industries of one country is related to final consumption in other countries. An OECD (2016) study found that a substantial share of employment in OECD countries is generated by consumption in other countries. This share ranges from 10% for the United States to 47% for Ireland. Some of these industries are indirectly connected to the GVC as suppliers to exporting firms.

To successfully integrate into the GVC, developing countries need to assess the strengths and weaknesses of their labour market since their competitive strength lies in labour-intensive activities. One viable strategy for these countries is to initially specialize in low value-added activities, which is consistent with their comparative advantage. Over time, they can capture an increasing share of value added by moving up the value chain. Thinking carefully about labour issues is also necessitated by the increasing number of trade agreements that include labour provision, partly due to the recognition of maintaining labour standards (Das et al., 2017). This means that labour market reform go hand-in-hand with GVC integration that is achieved through bilateral and multilateral trade deals. Furthermore, given the increasing attention paid to distribution of benefits from trade, it is imperative to understand how GVC integration affects individual workers.

This edited volume will shed light on these labour market issues by learning from the East Asia experience, a region with highly developed inter-country production networks that serves as a

production base for developed countries. The goal is to contribute to an understanding of trade and employment using GVC analysis, an emerging literature that still needs in-depth study. In the process, the book will bring together papers conducting macroeconomic analysis of GVC and employment in East Asia with micro-economic and case studies to uncover the nuances of country-specific context.

The book has several objectives. First, it intends to clarify the hitherto inconclusive relationship between trade openness and employment. Successful GVC integration usually requires a liberal trade policy in order to access cheaper inputs necessary for the production process. However, the benefits of international trade liberalization in terms of job creation does not accrue automatically. Trade impacts aggregate employment through two opposite effects. On the positive side, access to larger market for exporting firms and cheaper imported inputs will enable firm expansion and increase demand for labour. On the negative side, imported substitutes may cause uncompetitive firms to close and shed workers. If those unemployed due to structural change cannot be gainfully reemployed, the aggregate effect may be negative. GVC integration could lead to ‘value-added erosion’, whereby the country’s exports are generated by greater use of imported intermediates (Jiang and Caraballo, 2017). We need to carefully examine the use of local factors of production – especially labour – to understand the broader economic benefits of GVC integration to domestic factors.

Second, it will assess the distribution of benefits from GVC integration across the economy. Benefits from globalization broadly has been distributed unevenly, with greater benefits accruing to physical and human capital than to low-skilled workers (Goldberg and Pavcnik, 2007; Pavcnik, 2017). This could partly be due to characteristics of the labour market (Das et al., 2017), with labour mobility as a prominent factor. In textbook economic theories of the impact of trade on labour markets, trade liberalization is accompanied by reallocation of production towards sectors of comparative advantage, changing the structure of labour demand in the economy. However, these theories make predictions based on an assumption of perfect labour mobility across firms. The assumption of labour mobility may not be easily applicable to many developing country labour markets. There is evidence of segmentation in the labour market along various dimensions. Such barriers to mobility, which mostly depend on institutional context, may prevent all workers from benefiting from trade. By analysing the actual reality of their labour markets, developing countries can better leverage GVC for economic growth.

Third, we will provide policy recommendations to maximize the benefits of GVC integration, focusing on labour market policies. Successful GVC integration requires complementary domestic conditions, including industrial policies that make it easy for new firms to establish and integrate to GVC, education policies that provide the workforce with technical and entrepreneurial skills, and infrastructure for e-commerce to facilitate interaction with international partners. Similarly, to move up the value chain, policies that facilitate learning-by-doing, enhance the skills of the workforce, and build on relationships that are created by integration become crucial. This book will highlight success stories that other developing countries can emulate.

Objectives

This study aims

- to discuss labour market issues relevant for global value chain integration,
- to assess the distribution of benefits from GVC integration, and
- to recommend labour market policies that can help economies benefit from GVC integration

Possible topics

Possible topics could include but are not limited to

- demand for skills in GVC industries;
- worker productivity and wages in GVC firms;
- job quality (benefits, formality) in GVC;
- small and medium-sized enterprises in production networks, entrepreneurship;
- service sector employment linked to GVCs;
- digital literacy, e-commerce;
- labour market segmentation and sectoral worker mobility;
- labour market policies;
- labour provision in trade agreements; and
- international labour mobility in the short and long term and implications from TiVA.

Task and Output

The main author of each paper will be contracted by ERIA as a short-term consultant. The consultant is expected to contribute one chapter. The final output is an academic book co-published by ERIA-Routledge.

Task

The consultant's main tasks and deliverables will include:

1. reviewing current literature and developing a research framework,
2. conducting an analysis on selected labour market issues,
3. drawing policy recommendations,
4. providing comments on other papers in the group and attending workshops/conferences related to the project, and
5. other activities related to publication of the book.

Output

The final output is a chapter. The consultant is expected to submit the deliverables in Word, with a separate document for tables and figures, and, if applicable, provide data and data exercises (including do files) in STATA.

1. Deliverable 1: The first draft (Task 1 and 2)

2. Deliverable 2: The final draft (Task 1, 2, and 3)

Time Frame

No.	Activities	Timeline
1	Concept note, terms of reference (TOR) and contracts (proposals, research questions, methodology, data, data sources)	November 2017– February 2018
2	First draft due: proposal and extended outline	30 May 2018
3	Team workshop (dates and location TBD)	June 2018
4	Final draft due	30 September 2018

Budget

ERIA will provide financial support of US\$8,000 (eight thousand US dollars) for one chapter. In addition, ERIA will cover the travel and lodging costs of the researchers to attend the project’s workshops.

Terms and Conditions

The consultant shall make himself or herself available from 1 March 2018 to 28 February 2018 on an intermittent basis.

The payment shall be made with the following instalments:

1. 40% of the total financial support paid after the submission of deliverable (1)
2. 60% of the total financial support paid after the submission of the final report or deliverable (2) approved by the reviewer and the ERIA coordinator and management team.

Project Leader

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References

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- Das, Sanchita Basu, Rahul Sen, and Sadhana Srivastava (2017), 'Labour Provisions in Trade Agreements with Developing Economies: The Case of TPPA and ASEAN Member Countries,' *ISEAS Economics Working Paper No. 2017-1*, https://think-asia.org/bitstream/handle/11540/6814/ISEAS_EWP_2017-01.pdf?sequence=1 (accessed 10-11-2017).
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