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Globalization, Production and Poverty

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Abstract

The impact of globalization on poverty is a matter of keen debate but empirical work in this area has been dominated by cross-country regressions. This paper attempts to link the more macro impacts of globalization, particularly as manifested through the impact on employment, with the micro level analysis of poverty at the individual and household level. The link is provided through the analysis of specific value chains (horticulture, textiles and garments) which are driven by changes at the global level but which have impacts at the local level in terms of employment and poverty.

The paper reports on studies carried out in four countries—Bangladesh, Kenya, South Africa and Vietnam—which have all become more integrated with the global economy in recent years. The approach presented gives no universal conclusions about the impact of globalization on poverty but shows that outcomes are highly context dependent.

Keywords: globalization, employment, poverty, value chains, Bangladesh, Kenya, South Africa, Vietnam, textiles, garments, horticulture

JEL classification: F02, F14, F16, O53, O55

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1 Introduction

The impact of globalization on poverty is a key area of both academic and political debate. However the analysis of the relationship between the two, as it has developed so far, has serious limitations. The bulk of the literature has focussed on *trade* and poverty, while other dimensions of globalization have received relatively little attention.¹ Moreover most of the literature on trade and poverty is in fact about the impact of trade *liberalization* on poverty and therefore about the effects of a particular trade *policy*.²

Methodologically, the literature has been dominated by studies at an aggregate level, often involving cross-country comparisons of large numbers of countries. There is an extensive literature on the relationship between globalization, usually identified with greater trade openness, and growth.³ This has been complemented recently by a consideration of the link between globalization and poverty, often by extending the chain from growth to poverty (Dollar and Kraay 2000, 2001; Dollar 2001).

Concerns over the dominance of cross-country regressions in analyses of the impacts of globalization have led a number of economists, such as Srinivasan and Bhagwati (1999), to argue in favour of more-in depth case studies. Ravallion (2001: 1813) has also pointed ‘to the importance of more micro, country-specific, research on the factors determining why some poor people are able to take up the opportunities afforded by an expanding economy—and so add to its expansion—while others are not’. It is only through this kind of detailed analysis of specific cases which focus on the mechanisms through which globalization affects poverty that the shortcomings of the cross-country emphasis on macro outcomes can be overcome.

The research project reported in this paper is an attempt at such a micro, country-specific approach.⁴ The focus is not primarily on trade policies but rather on the impacts

Table 1
Case study countries

| | Bangladesh | Kenya | South Africa | Vietnam |
|--------------|------------|-------|--------------|---------|
| Horticulture | | X | X | |
| Garments | X | | | X |
| Textiles | | | X | X |

¹ For recent surveys of the literature on trade and poverty see Bannister and Thugge (2001), Berg and Krueger (2003), Reimer (2002) and Winters, McCulloch and McKay (2004)

² This point is made forcefully by UNCTAD (2004) where the impact that this has had in narrowing the discussion of trade and poverty is underlined.

³ Some of the most influential studies have been Dollar (1992), Edwards (1992), Sachs and Warner (1995), Edwards (1998), Frankel and Romer (1999).

⁴ The project entitled *Globalization, Production and Poverty: Macro, Meso and Micro Level Studies* (R7623) was funded by the UK Department for International Development and carried out by researchers at the School of Development Studies, University of East Anglia and the Institute of Development Studies, University of Sussex. DFID supports policies, programmes and projects to promote international development and provided funds for the study as part of that objective, but the views and opinions expressed are those of the author alone.

of integration with the global economy more broadly. It involved research in four countries, Bangladesh, Kenya, South Africa and Vietnam, and case studies of three value chains—horticulture, garments, and textiles. 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. In each of the four countries, aggregate studies of the employment impacts of globalization were also carried out.

2 A macro-meso-micro approach

There are a number of channels through which globalization can have an impact on poverty. Increased trade, flows of foreign direct investment, short-term capital flows, international technology transfer and changes in the global ‘rules of the game’ (both private and public) all have potential impacts on the poor. The poor are affected by economic changes as producers, consumers and recipients of benefits from the state. The focus of this research was on the poor in their role as producers (both as wage workers and in the case of horticulture as smallholders). The central question that it addresses is the impact of globalization on employment and income opportunities for poor people.

One of the defining characteristics of the globalization of production in recent years is the way in which large areas of economic activity have become integrated into global value chains. There is a growing literature on global value chains (also referred to as ‘commodity chains’) which analyses their implications for the development of industrial and agricultural production in the south.⁵ The bulk of this literature has focussed on inter-firm relationships and issues of governance, power and the distribution of profits within the chain. Relatively little attention has so far been given to the direct producers, whether wage labourers, home workers or agricultural smallholders, in the value chain literature. However developments within a value chain will clearly have major implications for those who are integrated and who are marginalized as producers and hence who will be the winners and losers from globalization.

In order to analyse the impact of a particular value chain on poverty, more detailed analysis is required at the level of workers and their households. Who are the major beneficiaries of any new production opportunities generated by globalization? Are they from poor households and do their new sources of income lift their households out of poverty? Are those marginalized by global trends disproportionately from amongst the poor and where producers are displaced, does this push them into poverty? How do those integrated into global value chains evaluate their own situation in terms both of income and security? How have working conditions and employment status been affected by globalization?

Value chain analysis can only present a partial picture of the impact of globalization on poverty in a country. Since globalization leads to changes in the structure of production, there will inevitably be some sectors where opportunities expand whereas in others they will contract and losers from globalization will outweigh the winners. Meso level studies must therefore be seen in the context of the overall changes in employment

⁵ See for example IDS (2001), Kaplinsky and Morris (2001), and McCormick and Schmitz (2002).

which have taken place in a country. On balance, has globalization created more jobs than it has destroyed? If so, who are the principal beneficiaries in terms of skill and gender? These questions can only be answered at the macro level which is a necessary complement of the value chain studies.

3 Globalization and poverty in four countries

The four countries which were studied for this research were selected as cases where globalization was expected to have had a significant impact on their economies. Vietnam and South Africa showed the most striking changes with the disintegration of the communist bloc and the lifting of sanctions, ending their isolation from the global capitalist economy. Bangladesh is included by the World Bank in its list of ‘globalizing economies’ (World Bank 2002) and has become an important supplier of garments to the world market. Kenya was amongst the top ten countries in the world in terms of its proportionate tariff reductions in the 1980s and 1990s (Rodrik 2000) and has emerged as a major supplier of horticultural products to the EU.

Bangladesh

At the time of independence from Pakistan in 1971, Bangladesh was a largely rural economy with a relatively low level of integration with the global economy. Even by the early 1980s exports were less than US\$1 billion and accounted for only about 5 per cent of GDP (Paratian and Torres 2001: Fig. 2). This began to change in the 1980s with the establishment of the first *export processing zone* (EPZ) at Chittagong in 1983. Exports of garments which had been negligible in the late 1970s grew rapidly during the late 1980s.

A second EPZ was set up near Dhaka in 1993 and generous incentives offered to the firms that invested there. The 1990s were marked by an acceleration of trade reforms and the introduction of a unified exchange rate system (Sen 2002). These measures were reflected in an increase in the share of exports plus imports in GDP from a fifth in 1990 to a third in 2002 (Table 2). They also led to an increase in inflows of foreign direct investment (FDI) in the late 1990s, most of which went to the EPZs. These zones have been a key factor in the export success of Bangladesh in recent years which has been mainly based on the garment industry.⁶

Although Bangladesh remains a least developed country, GDP grew by almost 5 per cent per annum between 1990 and 2002, and GDP per capita has increased by 3 per cent per annum, which is faster than in the 1970s and 1980s (Stern 2002). The growth of garment exports has contributed to the significant increase in total exports that grew by 11.5 per cent per annum between 1990 and 2002. The country continues to be heavily dependent on foreign aid, but the growth in exports has increased the share of its imports which are now covered by export earnings.

⁶ The relatively low stock of FDI in Bangladesh compared to the other countries reflects the fact that garments are a buyer-driven value chain and that international buyers often source from locally owned suppliers so that FDI is less prominent than in many other industries.

Table 2
Globalization and poverty in four countries (%)

| | | Bangladesh | Kenya | South Africa | Vietnam |
|--|-------------|------------|-------|--------------|---------|
| Real GDP growth (per annum) | 1990-2002 | 4.9 | 1.9 | 2.2 | 7.6 |
| Real GDP p.c. growth (per annum) | 1990-2002 | 3.0 | -0.9 | -0.2 | 5.7 |
| Export growth current US\$ (per annum) | 1990-2002 | 11.5 | 3.3 | 2.2 | 19.3 |
| Trade openness* | 1990 | 19.7 | 57.0 | 43.0 | 62.1 |
| | 2002 | 33.3 | 56.4 | 64.5 | 115.0 |
| FDI stock/GDP | 1990 | 1.1 | 7.8 | 8.2 | 4.0 |
| | 2002 | 5.2 | 7.8 | 28.7 | 50.2 |
| Poverty rate** (headcount) | Early 1990s | 58.8 | 48.8 | 51.1 | 58.0 |
| | Early 2002 | 49.8 | 55.4 | 48.5 | 29.0 |

Notes: * Exports and imports of goods and services as a per cent of GDP in current terms.
** Based on national poverty lines

Sources: GDP, export and openness data from World Bank (2004), apart from trade openness in Vietnam in 1990 from national data.

FDI data from UNCTAD foreign investment database (www/stats.unctad.org/fdi);

Poverty data: For Bangladesh, Rahman and Islam (2003: Table 2.1);

For Kenya, Republic of Kenya (2004);

For South Africa, UNDP (2003: Table 2.20), and

For Vietnam, Thoburn (2004).

This improved economic performance has led to a reduction in the incidence of poverty in Bangladesh. The proportion of the population below the poverty line fell from 58.8 per cent in 1991 to 49.8 per cent in 2000 (Table 2). Because of population growth, the total number of people below the poverty line was virtually unchanged at around 63 million over the period (Stern 2002).⁷

Kenya

In the 1980s Kenya was the most open of the four countries, despite having pursued import substituting industrialization during the first two decades after achieving independence. However, in contrast to the other three countries where openness increased significantly during the 1990s, the share of exports and imports in GDP in Kenya was virtually the same in 2002 as in 1990.

This tendency was not a result of the adoption of more restrictive trade policies in Kenya. Indeed the government introduced a phased programme of tariff reductions and revoked most import licensing schedules from the early 1990s. By the mid-1990s all administrative controls hampering international trade had been abolished, tariffs had been significantly reduced, export incentives put in place, exchange rate controls removed and the current account liberalized (Manda 2002; Manda and Sen 2004). In other words while Kenya became more open in terms of trade policy during the 1990s, this was not reflected in trade flows. A similar situation applies to foreign direct

⁷ The number in severe poverty did fall by around 3 million over the same period (Stern 2002).

investment where despite a consistently liberal environment towards FDI, there was no increase in the stock of FDI relative to GDP (Table 2).⁸

What does this apparent paradox imply about the globalization of the Kenyan economy? The most plausible explanation is that as a foreign exchange constrained economy, the key determinant of the ratio of trade to GDP is the performance of exports and it is the poor performance of Kenyan exports that accounts for the apparent failure of the Kenyan economy to 'globalize' during this period.⁹ Kenya can therefore best be described as an unsuccessful 'globalizer' rather than a 'non-globalizer'.

At the macro level this lack of success is reflected in the slow rate of growth of GDP which was less than 2 per cent per annum between 1990 and 2002 compared to over 4 per cent per annum in the 1980s (Table 2 and World Bank 2004: Table 4.1) while in per capita terms, income actually fell during this period.

Data on poverty in Kenya during the 1990s indicate that the share of the population living in poverty increased sharply during the early 1990s, declined during the mid-1990s and then rose steadily after 1997. In 2001 over 17 million people were living in poverty, making up over 55 per cent of the total population (Republic of Kenya 2004: 9). This was a rise of more than six percentage points compared to 1990 (see Table 2) representing an increase in the total number in poverty of almost 6 million people.

South Africa

Although by no means a closed economy, South Africa before 1994 could not be regarded as fully integrated with the global economy. The increasing isolation of the apartheid regime and the growing economic difficulties of the 1980s were reflected in imports and exports falling as a share of GDP. The imposition of sanctions and the pressures put on major transnational corporations over their links with South Africa also meant that the country received very little foreign direct investment during the 1980s. In the 1990s, particularly after the ANC came to power in 1994, the South African economy became increasingly globalized. The share of imports and exports to GDP began to rise, as did foreign investment (see Table 2). There was also increased financial globalization as portfolio investment and short-term capital flows shot up and a number of leading South African firms listed on international exchanges (Hayter, Reinecke and Torres 2001: 15-9).

These changes partly reflected the ending of sanctions and the acceptance of the new South Africa within the international community. They were also promoted by government policy. Even before the political changeover, the old regime had begun to liberalize trade in a piecemeal way in the early 1990s. However it was really from 1994 onwards that major import liberalization was undertaken. The ANC government went ahead with trade liberalization even faster than was required under its WTO obligations.

⁸ This may have been due to an unstable and uncertain political climate.

⁹ As can be seen from Table 1, exports of goods and services grew by 3.3 per cent per annum in current US\$ over the period 1990-2002. Although Kenya suffered from considerable fluctuations in export prices, the low growth in value during the 1990s reflected low growth in the volume of exports rather than falling prices (see World Bank 2004: Table 4.4).

In 1996, with the adoption of the Growth, Employment and Redistribution (GEAR) macroeconomic strategy, it committed itself to 'trade and industrial policies [which] aim to promote an outward-oriented industrial economy, integrated into the regional and global environment and fully responsive to market trends and opportunities' (GEAR quoted in Hayter, Reinecke and Torres 2001: 13).

South Africa's growth performance since the early 1990s has been disappointing. GDP growth between 1990 and 2002 was only just over 2 per cent per annum (see Table 2) and even when account is taken of the very low growth during the last years of the apartheid regime, the growth rate since 1995 has been lower than in the 1960s and 1970s (UNDP 2003: Fig. 2.2). The overall rate of growth of exports has also been low, despite the fact that South Africa's non-gold exports have performed relatively well since 1994 (UNDP 2003: 14).

The election of the ANC government in 1994 raised hopes that there would be substantial poverty reduction in South Africa as a result of the change of regime. However the results have been disappointing so far. The proportion of the population below the national poverty line fell from 51.1 per cent in 1995 to 48.5 per cent in 2002 which, given the growth of population meant an increase in the total number of poor from 20.2 million to 21.9 million. In terms of the US\$2 a day poverty line, the reduction was barely significant, from 24.2 per cent to 23.8 per cent, while the proportion under a dollar a day actually increased from 9.4 per cent to 10.5 per cent over the same period (UNDP 2003: 41).

Vietnam

Until the late 1980s Vietnam was largely isolated from the capitalist world economy as a result first of war and then of US sanctions and its membership of the socialist bloc. During the 1990s, the Vietnamese economy underwent a transition from a centrally planned economy to a much more market-oriented system, and from a relatively closed economy to one which is increasingly integrated with the world market. This process began with the adoption of *doi moi* ('renovation') in 1986. The trade openness of the economy more than doubled during the late 1980s and almost doubled again between 1990 and 2002. FDI flows also grew rapidly from the early 1990s, averaging over 9 per cent of GDP between 1994 and 1997, the highest level in any developing or transition economy during this period (Jenkins, forthcoming).

The increased openness of the Vietnamese economy since the early 1990s was a result of several factors. The embargoes that limited trade during the 1980s were lifted, giving access to developed country markets. The domestic reform programme created a more dynamic and competitive economy, better able to take advantage of these export opportunities. This was facilitated by the policies that were introduced to lift some of the restrictions on international trade and to promote foreign investment which began at the end of the 1980s. But although controls on foreign trade were relaxed significantly in the early and mid-1990s, the IMF still ranked Vietnam as having one of the most restrictive trade regimes amongst all its members in the late 1990s (IMF 1999: 59).

Vietnam's experience during the 1990s is the opposite of that of Kenya in the sense that the economy became much more open in terms of outcomes (i.e. the ratio of trade to GDP) while remaining relatively closed in terms of policy. Indeed Vietnam's integration

with the global economy has more in common with the East Asian NICs which promoted exports while simultaneously protecting the domestic market, than the outright liberalization which has characterized many developing countries in recent years.

The period of economic transformation in Vietnam since the early 1990s has been marked by one of the highest rates of growth in the world. Between 1990 and 2002 GDP grew at an average of 7.6 per cent per annum, while exports grew at almost 20 per cent per annum (see Table 2). This rapid rate of growth has been accompanied by a substantial reduction in the proportion of the population below the poverty line which fell from 58 per cent in 1992/3 to 37 per cent in 1997/8 and 29 per cent in 2002 (Thoburn 2004: 129). This represented a dramatic fall in the absolute number in poverty of around 17 million people from almost 40 million in the early 1990s to 23 million in 2002. Thus both in terms of overall economic performance and of poverty reduction, Vietnam was far and away the most successful of the four countries during this period.

4 The macro level—the employment impact of globalization¹⁰

4.1 Has globalization increased employment opportunities?

One of the most striking results of the project at the macro level was the contrast between the two Asian countries and the two Sub-Saharan African cases. Whereas unskilled labour-intensive industries accounted for 90 per cent of manufactured exports¹¹ in Bangladesh and almost 60 per cent in Vietnam in the late 1990s, the corresponding figures for Kenya and South Africa were 16 per cent and 10 per cent, respectively (Jenkins and Sen 2005: Table 1). This difference was also reflected in the factor content of trade with the two Asian countries' export sectors being much more labour-intensive than their import competing sectors, while in Kenya there was little difference in factor content and in South Africa exports were less labour-intensive (Jenkins and Sen 2005).

As a result the impact of increased exports on employment has been much more significant in Bangladesh and Vietnam than in the Sub-Saharan African countries. Even when account is taken of the effects of increased import penetration on domestic industry, the net effects of trade on employment were still substantially positive in Asia while they were negative in Kenya and also in South Africa during the early 1990s (see Table 3).

One limitation of the decomposition approach to estimating the impact of trade on employment is that it treats productivity growth as an independent factor affecting employment. However, globalization is likely to have an important effect on productivity through increased competition in both export and domestic markets, increased availability of imported equipment and greater technology transfer through FDI and other mechanisms. Various studies carried out for the project found evidence to support such effects.

¹⁰ Macro is used here to refer to national level aggregates in general rather than just to macroeconomic variables or policy.

¹¹ Manufactured exports were defined broadly i.e. according to the International Standard Industrial Classification which includes processed agricultural products and minerals, rather than the narrower Standard International Trade Classification.

Table 3
Employment impact of trade in manufactures on four countries

| | Export growth | Import penetration | Net trade effect |
|--------------|---------------|--------------------|------------------|
| Bangladesh | | | |
| 1990-97 | 802,205 | -57,296 | 744,909 |
| Kenya | | | |
| 1990-94 | 5,039 | -9,929 | -4,890 |
| 1994-98 | -8,320 | -4,513 | -12,833 |
| South Africa | | | |
| 1990-95 | 108,339 | -125,885 | -17,546 |
| 1996-2001 | 77,733 | -5,879 | 71,854 |
| Vietnam | | | |
| 1995-99 | 698,703 | -224,259 | 474,444 |

Source: Author's calculations, from industry and trade data.

In both South Africa (Jenkins 2004c) and Vietnam (Jenkins 2004a) econometric analysis based on industry level data found that increased import penetration had a significant negative effect on employment over and above that which was attributable to output. In the South African case there is further evidence from firm level data that import penetration negatively affected employment in large firms and that relatively large declines in employment also occurred within export firms (Edwards 2004). The evidence from the South African textile case study similarly suggests that reductions in employment were partly a result of globalization as firms restructured to compete with imports and tried to win export markets (Roberts and Thoburn 2004). However, this only explains part of the significant overall decline in formal sector employment in South Africa in recent years.

The impact of foreign investment on employment in the four countries has been small. With the exception of Vietnam, FDI has been quite limited in the countries studied, and even in Vietnam it has not been a major contributor to employment (Jenkins, forthcoming). Foreign subsidiaries tend to be more capital intensive than locally owned firms, further reducing their impact in terms of employment.¹² In both South Africa and Kenya employment growth in foreign manufacturing subsidiaries lagged behind that in locally owned firms during the 1990s (Edwards 2004; Manda and Sen 2004).

4.2 What type of employment opportunities has globalization created?

In terms of the potential impact of globalization on poverty, it is important to analyse not only the level of employment created, but also the types of jobs in terms of gender and skill. In the two Asian countries the main beneficiaries, in terms of job creation, are clearly women. In both Bangladesh and Vietnam, export industries make much more intensive use of female labour than import competing industries (Jenkins and Sen 2005: Table 2). This is confirmed by the case studies of garments in Bangladesh and garments and textiles in Vietnam where the vast majority of workers are female. In the case of Kenya, however, manufactured exports are no more intensive in female labour than

¹² See Jenkins (2005) Table 5 on Vietnam, Edwards (2004) Table 5 for South Africa.

import competing industries and the same is likely to be the case in South Africa as well.¹³

Have the changes in global integration in the four countries also had an impact on the skill composition of the demand for labour? At the aggregate level, some indicative results were obtained for Vietnam and South Africa. In the case of Vietnam, taking production workers as a proxy for unskilled workers and technicians and administrative workers as skilled, exports were found to be more intensive in unskilled workers than import competing sectors (Jenkins 2004a). Using a different classification of highly skilled, skilled, and semi- and unskilled workers,¹⁴ it was also found in South Africa that exports were less skill-intensive than import competing industries, although the difference was much less marked than in Vietnam (Jenkins 2004c). Contrary to what this might suggest, changing trade patterns have led to a greater increase in demand for highly skilled labour than for less skilled workers in South Africa (Edwards 2001; Jenkins 2004c).

The overall demand for labour is also affected by changes in skill intensity within industries which may partly be a result of globalization. Using firm level data for South Africa, Edwards (2004) found evidence that was consistent with skill biased technological change arising from 'defensive innovation' by firms facing increased import competition. He also found evidence that firms which relied more heavily on imported raw materials were more skill-intensive. In Kenya too, firm level evidence points to skilled workers (as proxied by education levels) benefiting from globalization while unskilled workers have been adversely affected (Manda and Sen 2004). Foreign ownership also tends to be associated with greater demand for skilled labour, at least in South Africa and Vietnam, the two countries for which we have data (Edwards 2004; GSO 2000: Table 17).

At the macro level the picture that emerges from the studies is that globalization has had significant positive impacts in terms of employment in Bangladesh and Vietnam, whereas the effects have been much less favourable in the Sub-Saharan African countries and probably even negative in Kenya. In terms of the likely poverty impacts, this differentiation is further reinforced by the outcomes in terms of the types of jobs involved. In Asia these are primarily unskilled production jobs which have been filled mainly by women. In the two Sub-Saharan African countries, on the other hand, the tendency has been for globalization to favour skilled workers rather than unskilled workers and there is no evidence to suggest that overall female employment has increased significantly.

Even in Bangladesh and Vietnam where there are significant positive impacts on employment, it is necessary to put these in context in terms of the overall scale of

¹³ Unfortunately lack of data on female employment by industrial sector in South Africa meant that it was not possible to confirm this but the low share of exports from unskilled labour intensive industries in which women workers are usually found suggests that exports are not particularly intensive in female labour.

¹⁴ Highly skilled workers are those in professional, technical, managerial, executive and administrative occupations. Skilled workers include clerical, sales, transport and service occupations; farmers and farm managers; artisans, foremen and supervisors. The semi- and unskilled category includes all other workers. In fact it might be more appropriate to refer to the middle group as semi-skilled and the latter as unskilled.

poverty. With around 63 million people in poverty in Bangladesh and 23 million in Vietnam at the start of the millennium, the net employment of less than a million in each country that has been created by exports in the 1990s can only have made a minor impact on the level of poverty.

5 The meso level—global value chains and local opportunities

The analysis of the previous section indicated that many of the impacts of globalization occur within sectors, rather than as a result of reallocation of resources between different sectors. Some of these have already been touched on, such as the effect of globalization on technological change. However, a more detailed analysis of such issues can only be carried out at the meso level.

At the meso level it is the integration of local producers into global value chains, or their exclusion from them, that determines the income opportunities for the poor and it is the dynamics of the value chain that determine their stability and sustainability. Thus a starting point is the analysis of the global value chain and the way in which the country is inserted in the chain. The dynamics of the value chain are determined both by factors internal to it, such as the governance structure, and external factors, such as trade agreements and restrictions.

A major insight of global value chain analysis is that changes at the global level, reflecting for example competitive conditions in northern markets, are transmitted to producers in the south. While this has traditionally been discussed in the literature in terms of the implications for exporters and manufacturers, emphasizing what is required to be internationally competitive, it can also have important implications for who benefits and who loses at the local level.

As indicated previously, research was carried out on three global value chains. Horticulture was selected as a major non-traditional agricultural export which has acquired increasing importance for a number of low-income countries. Garments were 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 value chain was studied in two of the case study countries (see Table 1).

5.1 How do value chain dynamics affect employment opportunities?

A fuller understanding of the ways in which globalization creates or destroys jobs and the kind of opportunities created can be obtained through analysing the dynamics of specific value chains. A number of examples from the research can help illustrate this point.

Over the past two decades, Kenya has established itself as a major supplier of horticultural products to the European market and by 2000 they were the country's third largest source of foreign exchange. During the 1990s exports to the EU of fresh vegetables, which were the subject of the case study, grew by an average of over 12 per cent per annum (Humphrey, McCulloch and Ota 2004: Table 1). Kenyan vegetable

exports to Europe go predominantly to the UK where a small group of supermarkets have gained an increasing share of the retail market. Fresh fruit and vegetables have become a key area of competition between retailers with supermarkets competing on the basis of quality, year round availability, presentation and packaging as well as price. This has led to the supermarkets exercising ever tighter control over their supply chain.

One of the major consequences of this has been an increased level of preparation and packaging of fresh vegetables. Traditionally vegetables were sold loose without any processing, whereas now a growing proportion is sold in prepared and packaged forms. Preparation and packaging is usually carried out in the country of origin which has created new employment opportunities in packhouses in Nairobi. Prepared vegetables are estimated to be between 2.5 and 5 times more labour-intensive than unprepared vegetables (Humphrey, McCulloch and Ota 2004: 74), so that the shift to more packaged formats has substantially increased employment opportunities in Kenya. Packing work is regarded as unskilled and the majority of the new jobs have been filled by young women.¹⁵

A contrasting example comes from the South African textile value chain which has been forced to restructure in the face of increased international competition following the opening up of the South African market and the decline of local garment manufacturing. A significant number of textile firms closed down especially amongst those that produced standardized textiles. As a result major former textile centres, such as Harrismith and Butterworth, have become industrial ghost towns. The firms that have adjusted most successfully to the new conditions have specialized in niche markets (e.g. technical textiles) and invested in order to upgrade their ageing equipment, which in some cases involved foreign investment. They have also expanded into exports, partly in response to the more difficult conditions in the domestic market.

Not surprisingly these trends have had a very negative impact on employment which fell across all sectors, but was particularly marked in spinning, weaving and finishing where employment was reduced by 45 per cent over five years (1996-2001). With stagnant output and increasing productivity as a result of the new investment in more capital-intensive equipment, a fall in employment was inevitable. There is also evidence that suggests that it was the least skilled and lowest paid workers who lost their jobs in the restructuring (Bezuidenhout *et al.* 2003: Table 9.2) and that the shift into niche markets was likely to be associated with greater demand for skilled labour.

Thus the particular way in which a country is inserted into the global value chain and the dynamics of that value chain can have quite different results in terms of the impacts of globalization both on the level and type of employment opportunities created (and destroyed).

5.2 Winners and losers in global value chains

Integration into global value chains often has differential impacts on participants at the local level with some becoming more closely integrated with global production while

¹⁵ A household survey undertaken in 2001 found that two-thirds of packhouse workers were female and 86 per cent were under the age of 29 (Dolan and Sutherland 2002: Table 3.1)

others are marginalized. A clear example of such marginalization is the experience of smallholders in the Kenyan horticulture value chain where the need for tighter control over suppliers to ensure standards and practices are in line with EU requirements led the UK retailers to rationalize their supply base, creating a much closer relationship with a select group of 'preferred' suppliers. This resulted in a drastic decline in the proportion of exports coming from smallholders, as exporters have come to rely increasingly on production from their own or leased land and to a lesser extent on large commercial farms (Dolan and Sutherland 2002: Table 2.4).

Another example of the differential impacts of globalization comes from the textile and garment industries in Vietnam. First of all the insertion of the industry into the global value chain has meant a much faster rate of growth of the garment part of the chain as compared to textiles. This reflects the fact that garment exports have predominantly been undertaken on a CMT (cut, make, trim) basis whereby fabric sourcing is determined by the buyers and because of quality concerns, has tended to involve importing fabrics.¹⁶ As a result, although there was an increase in total employment in the industry during the 1990s, this was the outcome of a rapid growth in jobs in garment manufacturing and a reduction in employment in textiles (Nadvi and Thoburn 2004a: Tables 2 and 3).

There are also differential gains at the level of firms with large state-owned enterprises (SOEs) best able to insert themselves into the value chains of the leading global buyers since they can take on large orders, manufacture a range of products and comply with global standards.¹⁷ Small private firms on the other hand often supply regional traders and have been unable to access the higher value chains.

5.3 Competitive pressures and labour market flexibility

It is common for developing country producers in global value chains to be subject to intense competition with developed country buyers always on the look out for new suppliers both within the countries in which they currently operate and from new sources. One manifestation of this competition is the downward pressure on prices. In the garment industry, buyers consistently renegotiate prices downwards with their suppliers (Nadvi and Thoburn 2004b). South African apple producers faced falling prices as a result of increased competition both from other South African growers and from Chile and New Zealand (Barrientos and Kritzinger 2004). In the case of industries such as South African textiles where globalization has been associated with reduced protection of the domestic market, the impact of competition from imports on prices has also been marked (Roberts and Thoburn 2003).

Competition in global value chains is not based solely on price. Quality standards, lead times and delivery dates are also crucial attributes which producers need to meet. In garments, competitive pressures at the retail end of the chain have intensified with the entry of new types of retailers including supermarkets, discount outlets and specialist

¹⁶ An exception is the case of some textile SOEs which also produce garments and which export garments made with their own fabrics.

¹⁷ Textile SOEs in Vietnam underwent considerable restructuring in the 1990s which led to increased competitiveness.

multiple targeting the youth market. This has led to efforts to increase shelf turnover and reduce lead times. Similarly in horticulture, competition among supermarkets has led to the adoption of just-in-time methods to reduce inventory costs. In both value chains, producers in developing countries have needed to employ a flexible labour force which can respond to changes in supply and demand. This is often reflected in periods of intense overtime work leading to long hours when orders have to be met, alternating with lay-offs and short-time working when demand is slack.

6 The micro-level—impacts on workers and households

The macro and meso analysis can provide the broad contours of how globalization is affecting employment and working conditions locally, but a complete understanding of who is benefiting and losing out, and what the implications are in terms of poverty, requires more detailed research at the micro level.¹⁸ A household level analysis is also necessary in order to go beyond a purely income/consumption based concept of poverty, to address the impacts of globalization in terms of vulnerability/security (Kanji and Barrientos 2002).

6.1 Are the poor accessing global value chains?

As was discussed above, globalization has created new employment opportunities in the south, although it has also destroyed some existing jobs. A first question therefore is whether the poor have been able to take advantage of these opportunities. One way of looking at this is to examine the extent to which the poor are involved in global value chains. There was a considerable difference here between the three value chains that were studied. In horticulture in Kenya, and to a lesser extent South Africa, a significant number of households were below the poverty line. In the Kenyan case this proportion was higher among farm workers and smallholders than among urban based packhouse workers (McCulloch and Ota 2002: Table 12). In South Africa the majority of migrant workers, and some permanent and contract farm workers' households were below the poverty line (Barrientos and Kritzinger 2003). In contrast in the garment and textile industries, average earnings were well above the local poverty line in all three countries (Bangladesh, South Africa and Vietnam) and very few of those involved fell below the poverty line.¹⁹

However the extent to which the poor are currently involved in a value chain does not provide a good indicator of the impact of the value chain on poverty. If globalization is lifting people out of poverty, then large numbers of the non-poor in the value chain could previously or would otherwise be poor. On the other hand if globalization is passing the poor by, then those involved in the value chain would not come from the poorest sections of society anyway.

¹⁸ The micro level here is identified with individual producers and their households. Sometimes the firm level is also regarded as micro, but in this context it makes more sense to consider firms as part of the meso level since they are a part of the dynamic of the value chain.

¹⁹ For details see Kabeer and Mahmud (2004) on garments in Bangladesh, Bezuidenhout *et al.* (2003) on textiles in South Africa; Nguyen, Sutherland and Thorburn (2003) on textiles in Vietnam and Kabeer and Tran (2004) on garments in Vietnam.

Given the predominance of rural poverty in the four countries, one indicator of the likely impact of a value chain on poverty is the extent to which it provides employment opportunities to migrants from rural areas. The surveys carried out in the four countries showed that migrants account for the bulk of the labour force in Kenyan horticulture and in garments in Bangladesh and Vietnam.²⁰ In contrast, migrants make up a much lower proportion of those employed in textiles in both South Africa and Vietnam.²¹ Textile workers also tend to be more skilled than garment or horticulture workers as reflected in their levels of education (Bezuidenhout *et al.* 2003: Table 9.2; Nguyen, Sutherland and Thoburn 2003). Since poverty is also most prevalent amongst the least educated and unskilled, this reinforces the notion that the poor are more likely to find work in horticulture and garments than in the textile industry.

6.2 Do living standards improve through involvement in global value chains?

Are those involved in the different value chains better off as a result? All the surveys compared the income levels of households within the value chain with a control group of non-participating households.²² The Kenyan study found that on average those involved in horticulture were indeed better off, particularly in rural areas (McCulloch and Ota 2002: Table 10). Econometric analysis confirmed that these differences were not due to differences in household characteristics between those that were involved in horticulture and those that were not. In other words, similar households would tend to have a higher income if they had a member engaged in horticultural activities. In the Bangladesh garment industry, the highest incomes were earned by workers in the EPZs but those of non-EPZ garment workers were also higher than those of non-garment workers (Kabeer and Mahmud 2004: Tables 5 and 6). In the South African textile industry, although wages are lower than the average for manufacturing as a whole, the per capita income of textile households was higher than for non-textile households.²³ In the textile and garment industries of Vietnam, although wages were well above the official minimum wage, on average the surveys found that textile and garment wages were slightly lower than for those outside the chain.

With the exception of Vietnam, where differences in wages are in any case less because of the government's socialist orientation, those involved appear to be generally better off than those who are not. To some extent this could be because of differences in household characteristics, but the Kenyan example shows that even when these are controlled for, an income differential remains.

²⁰ All the packhouse workers and 86 per cent of farm workers in the Kenyan survey were migrants (Dolan and Sutherland 2002). The survey of garment workers in Bangladesh found that 98 per cent of those in EPZs and 82 per cent of those in Dhaka were rural migrants (Kabeer and Mahmud 2004: Table 2). Migrant workers accounted for 78 per cent of those working in SOEs and 90 per cent of those in private firms in Vietnam (Kabeer and Tran 2004: Table 5a).

²¹ The survey of South African textile workers found that only 20 per cent were migrants (Bezuidenhout *et al.* 2003). Only 30 per cent of Vietnamese textile workers were migrants (Nguyen, Sutherland and Thorburn, 2003).

²² In the South African horticulture study, only retrenched farm workers were included for the purpose of comparison.

²³ The small number of non-textile households surveyed made it impossible to control for differences in household characteristics which might have affected the comparison.

An alternative way of looking at the impact on households is to see whether they are better off than they were before becoming involved in a global value chain. The surveys do not provide any direct evidence of income before and after entering, however there is some evidence on the perceptions of changes in living standards. In Kenyan horticulture, for example, two-thirds of all workers felt that their living standards had improved as a result of involvement in horticulture. This was much more pronounced amongst female workers, particularly those employed in packhouses, whereas slightly under half of male workers reported an improvement in living standards (Dolan and Sutherland 2002: Table 5.4). Generally the majority of migrant workers in all the case studies regarded themselves as being better off as a result of entering the different value chains.

Further support for the view that involvement in global value chains leads to increased incomes comes from those studies which looked at the income of retrenched workers in South Africa (textiles and horticulture) and Vietnam (textiles). In all three cases, incomes were considerably lower as a result of retrenchment. In South Africa, the very high levels of unemployment²⁴ means that retrenched workers are likely to experience considerable difficulty in finding a new job. Over 70 per cent of textile workers surveyed had been unable to find another job after being laid off. Thus retrenched workers had household incomes per capita of less than a third of those of textile workers which pushed the majority of them into poverty (Bezuidenhout *et al.* 2003: Tables 8.8 and 8.9). Those in former textile centres were particularly badly affected because of the decline of the whole area with the closure of many mills and the lack of alternative employment. Similarly, in horticulture, retrenched workers who did not find new jobs suffered a serious drop in income (Barrientos and Kritzing 2003: Table 7).

In Vietnam, although retrenched workers also suffered a fall in household income as a result of retrenchment, in most cases this did not mean that they were pushed into poverty. This was partly because they received an unemployment allowance and also because of other income sources within the household. The one group of retrenched workers whose income did fall below the poverty line were unmarried women who were not able to draw on the income of other household members.

The evidence from the different case studies supports the view that involvement in global value chains does help raise the income levels of those involved. While this means entrants to the value chains, particularly migrants from rural areas, stand to gain from the growth of employment opportunities described above, it also implies that they are very vulnerable to the threat of losing a job since the consequences of retrenchment are likely to be severe in the absence of adequate safety nets.

6.2 How secure are households in global value chains?

As was indicated earlier in this section, livelihood analysis suggests that the impact of globalization on households cannot be analysed solely in terms of the impacts on income and consumption levels, but also needs to take into account the security/vulnerability of their livelihoods. The meso-level analysis of the previous

²⁴ In the Statistics South Africa Labour Force Survey of February 2002, 30 per cent of the labour force was unemployed on the narrow definition, while on the broad definition which includes discouraged workers, the proportion rose to 41 per cent.

section has already suggested that in many global value chains there are competitive pressures for increased labour flexibility in producing countries. These are experienced in terms of insecure employment conditions, long hours of work, poor working conditions and fluctuating earnings. The case studies revealed numerous examples of such practices related to the position of workers within the value chain. They also indicated differentiated patterns within the overall trend.

In horticulture, insecure employment and fluctuating earnings are both seen as a problem. While permanent workers have a relatively stable guaranteed income throughout the year, casual and seasonal workers suffer from the lack of income security. In Kenya, where over 60 per cent of women and almost 40 per cent of men were on non-permanent contracts, security of employment was a major issue raised by workers (Dolan and Sutherland 2002: Table 4.1). Other complaints related to wage rates, which reflected concerns about the nature and stability of pay in the industry. This was particularly prevalent amongst those on piece rates.

In South Africa there has been a shift away from permanent on-farm workers in the apple industry, towards increasing use of seasonal and contract labour. This is part of a more general increase in non-standard forms of employment in South Africa which has been documented in other sectors as well, and it is unclear how far it can be attributed to globalization and how far to changes in labour legislation and labour market institutions (Clarke, Godfrey and Theron 2003). Contract workers do not receive any of the legal benefits available to permanent workers, nor do they have any security of employment from day to day. As a result, although they may earn more than permanent workers on a daily basis, their incomes are much less stable (Barrientos and Kritzinger 2004).

The extensive use of casual labour in horticulture in both Kenya and South Africa is not simply a response to the seasonal nature of agricultural production, but rather part of the drive for a flexible labour force to reduce labour costs and avoid the social benefits associated with permanent work.

A similar pattern of insecure employment was found in the garment industry. In Bangladesh only 30 per cent of workers in the EPZs had permanent status and a mere 8 per cent in the Dhaka garment industry outside the EPZs (Kabeer and Mahmud 2004: Table 7). In Vietnam, where the centrally planned economy had been associated with guaranteed employment and extensive workplace based benefits, workers in SOEs have greater employment security and more benefits than those employed in private firms. Nevertheless overall 40 per cent of garment workers had contracts of a year or less (Kabeer and Tran 2004) and there is some evidence of increased use of contract labour by private small and medium enterprises (Nadvi 2004).

In contrast to horticulture and garments, the textile industry tends to be characterized by more stable employment conditions. In South Africa almost 90 per cent of those surveyed were employed on permanent contracts, although there are considerable regional variations (Bezuidenhout *et al.* 2003: Table 7.1). Despite the decline in employment in the industry in recent years, three-quarters of those still in employment regarded their jobs as reasonably or very secure and over 70 per cent thought that their security of employment was better than in other firms. Similarly the majority of workers in the Vietnamese textile industry regarded their employment as secure, perhaps not surprisingly given that on average they had been in their current employment for 15 years (Nguyen, Sutherland and Thoburn 2003: Table 4.1)

The differences between the case studies reflect the fact that the impact on workers' livelihoods are context specific, depending both on the broader national environment and the characteristics of the global value chain concerned and position of the local producers within it. The particular history of Vietnam is reflected in greater stability for Vietnamese workers than in the other countries studied, while workers in the textile industry were generally more secure than those employed in garments or horticulture. This latter finding partly reflects the fact that workers in textiles are more skilled/educated than those in the other cases and that the value chain is less subject to short lead times and fluctuating demand than horticulture or garments.

6.3 How sustainable are employment and income in the long term?

In addition to the short-term fluctuations within the value chain which make workers and households vulnerable and insecure, critics of globalization often raise concerns over the long-term sustainability of employment and incomes. There are two dimensions of sustainability that need to be considered here. The first is from the point of view of the individual workers and their households, in other words the prospects for continued employment at current or increased wages. The second relates to the overall sustainability of the industry in the country, given trends within the value chain and the global trade regime. A third dimension which was not addressed in any of the case studies is the environmental sustainability of production, an issue which has raised particular controversy in the case of Kenyan horticultural exports (Lawrence 2003).

At the individual level, long hours of work and poor working conditions make it difficult for workers to continue in employment for many years. One of the major complaints of workers in the Kenyan horticulture industry concerned the hours that they were required to work. During peak times they would work up to 12 hours a day to meet the tight schedules to which suppliers have to work at the behest of the supermarkets. Workers also reported health problems, such as backache and joint problems, arising from the performance of repetitive tasks while standing for long hours in the packhouses. On farms, handling of chemicals have also led to skin allergies, headaches and fainting (Dolan and Sorby 2003: 41-2).

A similar pattern of long hours was also found in the garment industry. In Bangladesh 30 per cent of workers in the EPZ and 72 per cent of those in the Dhaka garment industry worked more than ten hours a day (Kabeer and Mahmud 2004: 103), while in Vietnam the average working day for garment workers was 11 hours (Kabeer and Tran 2004: Table 12a). In Bangladesh effects on health were the major disadvantage of employment cited by workers in Dhaka of whom almost 30 per cent were reported to be in poor health (Kabeer and Mahmud 2004: Table 14). Discussing the Vietnamese case, Kabeer and Tran (2004) comment that 'Given the hours of work, and the conditions under which they work, it is not humanly possible for any worker to work for more than a limited number of years in the industry'.

While the garment industry is noted for a high turnover of labour, this occurs less in the textile industry, as illustrated by the length of time workers have been in employment in both Vietnam and South Africa. However, in Vietnam the majority of textile workers who lost their jobs claimed to have suffered health problems. This partly reflected poor working conditions and long hours of work. A lack of investment in new equipment meant that factories were often noisy, hot and polluted and although conditions are

improving, noise remains a problem (Nguyen, Sutherland and Thoburn 2003). In South Africa a number of raids by the Department of Labour on textile firms in 2002 found contraventions of health and safety regulations, and although working conditions were not a prime concern amongst workers surveyed, over 40 per cent thought that their working conditions were worse than in other companies (Bezuidenhout *et al.* 2003: 20).

The second aspect of sustainability arises at the level of long-term trends facing the whole industry rather than individual workers. Specific conditions have given rise to the existing employment opportunities and these are subject to change. For example, horticultural exports from Kenya have been highly dependent on duty free access to the European Union. The imposition of a tariff would be a major blow to the industry (Humphrey, McCulloch and Ota 2004). In the case of the garment industry in both Bangladesh and Vietnam, the ending of the MFA in 2005 is likely to mean that they face increased competition from China in export markets. This could mean job losses and increased poverty levels amongst former garment workers.²⁵ More generally, increased competitive pressures within each value chain give rise to efforts to increase productivity and reduce costs which can have negative impacts on employment and wages.

7 Conclusion

The approach presented in this paper gives no universal conclusion regarding the impact of globalization on poverty. Indeed, this is a strength of the approach since it recognizes that the outcomes of globalization processes are highly context dependent. They depend both on the institutional framework and government policies which mediate global processes.

The research shows that the growth of labour-intensive exports of manufactures and agricultural products does create employment opportunities, particularly for low-income women, especially migrants from rural areas. The case studies of Kenyan horticulture and Bangladeshi and Vietnamese garment exports illustrate this. However, there is often also a downside to integration into global value chains as far as the workers are concerned. Although favourable in terms of income opportunities, the requirements of global value chains mean that these jobs often demand a high degree of labour flexibility, long hours of work and poor working conditions. This implies that although the income levels of those employed tend to rise, they are vulnerable both in terms of security of employment and income. This is particularly true of non-permanent workers who tend largely to be women. The long-term sustainability of income from the point of view of individual workers may also be compromised where working conditions give rise to health problems.

Other aspects of global value chains also have a significant effect on the stability and sustainability of employment. Increased competitive pressures lead to a drive to reduce costs which can be achieved by shedding labour or reducing the social costs of benefits by increasing the use of non-protected workers. The position of a country in the global value chain depends not only on the strategy of global buyers but also on external

²⁵ For one view of the possible impact on workers in Bangladesh, see Christian Aid (2004).

factors such as the phasing out of the MFA in garments, or EU trade preferences in horticulture. This introduces another source of vulnerability, not just for individual workers but also for employment as a whole in a particular country.

The experience of the textile industries of both South Africa and Vietnam illustrates that globalization can also lead to job losses in some areas. These industries traditionally often employed more permanent, unionized workers who received a certain level of social protection. Globalization not only leads to a loss of jobs in such industries, but also affects working conditions and employment relations when they are opened up to global competition. Those workers who lose their jobs as a result of restructuring may fall into dire poverty as the example of South Africa illustrates. The case of Vietnam, where retrenched workers were not so badly affected, serves as a reminder of the importance of local context and policies in determining the impact on poverty.

In policy terms, a major challenge is to ensure that new employment opportunities and increased incomes generated by labour-intensive exports do in fact 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 globalization 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 the extremes of import liberalization. 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 extend the benefits in terms of employment opportunities.

The negative dimensions of globalization also need to be addressed if it is to benefit the poor. 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.

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 were 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 2004). 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.

Finally, the macro studies showed that even in those cases which have been successful in developing labour-intensive exports, the overall impact of globalization on poverty has been relatively small. The majority of the poor are not engaged in global production, and other strategies are required to reach them. This serves as a reminder that integration with the global economy is not a substitute for an anti-poverty strategy.

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