



POLICY BRIEF

PB - 2019 - 03



Working in Export Manufacturing: A Blessing or a Curse?

By Francesco Amodio and Andreas Menzel

Export manufacturing can promote sustained economic growth in developing countries. But in the public debate this is often associated with low wages and poor working conditions. However, evidence from several disciplines has shown that workers in these industries are no worse than they would be if those manufacturing jobs were not available. Multinational buyers can be effective in raising working standards in export factories without jeopardizing employment.

WHAT IS AT STAKE:

The manufacturing sector is key to achieve sustained economic growth due to its connections and positive effects on other sectors (Lewis 1954, Kaldor 1967). Manufacturing firms across the world are unique in their ability to catch up to the productivity levels of the most advanced in the world, as opposed to firms in the agricultural or service sector (Rodrik 2013), and countries starting to export to developed countries have been shown to upgrade quickly its export sector to more advanced products (Hwang 2007, Atkin et al. 2017).

Export manufacturing is therefore associated with sustained economic growth (Berg et. al 2012), and countries that upgrade to higher value exports grow faster (Hausmann et al. 2007). To what extent are the benefits of such growth shared by manufacturing workers? And can multinational buyers ensure that the workers' share of benefits is maximized?

KEY RESULTS:

- In popular opinion, manufacturing in developing countries is often associated with low wages, dangerous working conditions, lax regulation, and worker exploitation.
- Research has shown that factories producing for export or based on FDI pay wages equivalent to other sectors, have higher labour standards, and employ large numbers of female workers. However, there are reported adverse effects on well-being, and consequences for young workers.
- While skepticism remains on buyers' ability and interest in improving labour standards, there is some evidence of improvement through safety councils and more skilled management. Fears of consequences for competitiveness have been largely unfounded.

The Issue:

Historically, economic development has always been characterized by reallocations of production factors out of agriculture. From England in the 18th century to China in the second half of the 20th century, the path towards sustained income growth has been invariably associated with a decreasing share of agricultural employment and an increasing share of manufacturing employment. The economic literature sees this process of “structural transformation” as triggered by technological improvements that increase productivity (Lewis 1954, Harris and Todaro 1970, Matsuyama 1992). In the early stages of development, manufacturing wages increase and attract low-paid or underemployed labor from the agricultural sector (Alvarez-Cuadrado and Poschke 2011).

Yet, in the media and popular opinion, manufacturing in developing countries is often associated with low wages, dangerous working conditions, lax regulation, and worker exploitation. This goes so far that importing from such countries under current production conditions is deemed as irresponsible or morally reprehensible. Businesses buying from these factories have been subject to calls for boycott. Motivated in part by these perceptions, a large interdisciplinary literature has investigated this issue. In the following, we first summarize the evidence on working in manufacturing and its effects on workers, both inside and outside the factories. Second, we summarize the evidence on the effectiveness of multinational buyers in raising working conditions in their supply chains.

Rising Living Standards or Exploitation?

Generally speaking, research has shown that factories producing for export or based on FDI pay no less or higher wages than those paid by other jobs available to their workers. In many countries, regions with more export manufacturing have seen larger declines in poverty (Harrison 2007). Also, factories engaged in export have been found to have higher labor standards

than comparable factories in the same country that do not produce for export (Tanaka 2018). Trade liberalization agreements typically include clauses for regulation and harmonization of labor standards across partner countries, which have been found to be effective in a number of settings (Distelhorst and Locke 2018).

In addition, export manufacturing often employs a large number of female workers. Studies of different export sectors have found positive effects on income, consumption and bargaining power in the household for female workers (Getahun and Villanger 2016), and improved health for children of these women (Atkin 2009). Furthermore, in areas exposed to increased export manufacturing, parents keep girls longer in schools and delay their marriage (Heath and Mobarak 2014). This is despite the fact that many export sectors remain steeped in traditional gender roles, with female workers often excluded from better paid jobs in these factories (Macchiavello et al 2017, Menzel and Woodruff 2018).

The positive “big picture” effects of export manufacturing do not necessarily imply that the workers in these factories like their jobs. At least in one prominent study, workers report adverse effects on their physical and mental well-being, a general dissatisfaction with their jobs, and a desire to move to better regarded “white collar” jobs (Blattman and Dercon 2018). Jobs in export manufacturing are often regarded as temporary solutions to periods of financial hardship, and worker turn-over rates at export factories are often extremely high (Blattman and Dercon 2018, Menzel and Woodruff 2018, AT Kearney 2014, KPMG 2013). The fact that young and inexperienced workers take up jobs in these factories without knowing their full characteristics or potential health risks is often used as a basis to argue that these jobs are “exploitative.” This also fits with studies that show that high school students may drop out of school earlier to take up jobs in export factories, at the expense of possibly larger lifetime earnings if they finish their schooling (Atkin 2016).

The Role of Buyers in Importing Countries:

These issues give rise to the question of whether multinational buyers of export manufacturing goods are responsible for ensuring that jobs in the factories have good standards, and if they can be effective in that task. Governments of poor countries are often seen as little capable or interested in ensuring decent work standard (Dal Bo and Finan, 2016, Duflo et al. 2013/18). At the same time, scholars from the political or management sciences have traditionally been skeptical about the ability or interest of buyers to improve labor standards (Boudreau 2019, Distelhorst and Locke, 2018). Yet, in the wake of the Rana Plaza disaster, a recent prominent initiative of multinational buyers from Bangladeshi apparel factories has been relatively effective in increasing factory safety through implementation of worker-management safety councils (Boudreau 2019). The initiative was more effective at better managed firms, in line with evidence that firms with more skilled management often have better environmental and labor standards (Bloom et al. 2010, Distelhorst et al. 2017). Furthermore, state owned factories seem to fare no better than privately owned factories in terms of labor standards, at least in China (Fisman and Wang, 2015).

Fears that improved labor conditions in factories makes them uncompetitive have largely been unfounded. Multinational buyers seem to increase orders from factories that improve safety standards (Distelhorst and Locke 2018, Oka 2012). And wage and safety standard increases in response to activist campaigns have not resulted in significant overall employment losses, at least in Indonesia. At most, factory profits and investment rates decreased slightly, and the least complaint factories went out of business (Harrison 2010).

Conclusion:

The question that remains is whether growing a competitive export-manufacturing sector is necessary for poorer countries to kickstart sustained economic growth. The contemporary accounts of working conditions in developing countries mirror those from today's richest countries such as the UK, the US or Germany in the early stages of their industrialization processes in the 18th or 19th century. In England, work-hours were very long (Voth 2001/04), rigidly imposed by factory managers (Clark 1994), and worker turnover rates were very high (Beckert 2014). On the other hand, wage growth had been very slow before industrialisation reached its peak (Allen 2007, Clark 2005, Brown 1990). And as in many developing countries now, the textile industry was the driving sector behind industrialisation (Clark 2014).

We barely know of a country that transitioned recently from poor to middle or high income status that did not follow an export-led manufacturing strategy, with most of them experiencing similar controversies about labor standards in their industries (Haraguchi et al. 2017). In this respect, the African continent represents an interesting policy laboratory. For instance, Ethiopia is currently experiencing rapid export oriented manufacturing growth, with factories based on FDI having significant productivity spillovers on nearby plants (Abebe et al 2018). Other countries are instead experiencing urbanization and growth in the service sector without industrialization (Gollin et al. 2016, Hohmann 2018). Whether these alternative patterns to growth can be sustained and whether the benefits of such growth are shared by the working poor remain open questions.

Suggested citation:

F. Amadio and A. Menzel. (2019). Working in Export Manufacturing: A Blessing or a Curse? Global Governance Lab Policy Brief. Montreal, Canada: Institute for the Study of International Development, McGill University

This brief was authored by Francesco Amodio and Andreas Menzel

References:

- Abebe, G., M. McMillan, and M. Serafinelli (2018). "Foreign Direct Investment and Knowledge Diffusion in Poor Locations: Evidence from Ethiopia." NBER Working Paper 24461.
- Allen, R. (2007). "Pessimism preserved: Real Wages in the British Industrial Revolution." Oxford University, Department of Economics Working paper No. 314
- Alvarez-Cuadrado, F., and M. Poschke (2011). "Structural Change Out of Agriculture: Labor Push versus Labor Pull." *American Economic Journal: Macroeconomics* 3 (3): 127-58.
- Aitken, B., A. Harrison, and R. E. Lipsey (1996). "Wages and foreign ownership: A comparative study of Mexico, Venezuela, and the United States." *Journal of International Economics* 40 (3): 345-71.
- AT Kearney (2014). "Get Ready for China's Manufacturing Comeback." Available at: <http://atkearney.cz/documents>
- Atkin, D. (2009). "Working for the Future: Female Factory Work and Child Health in Mexico." Mimeo.
- Atkin, D. (2016). "Endogenous Skill Acquisition and Export Manufacturing in Mexico." *American Economic Review* 106(8): 2046-85.
- Atkin, D., A. Khandewal, and A. Osman (2017). "Exporting and Firm Performance: Evidence from a Randomized Experiment." *Quarterly Journal of Economics* 132 (1): 551-615.
- Beckert, S. (2014). *Empire of Cotton: A New History of Global Capitalism*. Westminster: Penguin UK.
- Berg, A., J. D. Ostry, and J. Zettelmeyer (2012). "What makes growth sustained?" *Journal of Development Economics* 98: 149-166.
- Blattman, C., and S. Dercon (2018). "The Impacts of Industrial and Entrepreneurial Work on Income and Health: Experimental Evidence from Ethiopia." *American Economic Journal: Applied Economics* 10 (3): 1-38.
- Bloom, N., C. Genakos, R. Martin, and R. Sadun (2010). "Modern Management: Good for the Environment or Just Hot Air?" *The Economic Journal* (120): 551-572.
- Boudreau, L. (2019). "Multinational Enforcement of Labor Law: Experimental Evidence from Bangladesh's Apparel Sector." Mimeo.
- Brown, J. C. (1990). "The Condition of England and the Standard of Living: Cotton Textiles in the Northwest, 1806-1850." *Journal of Economic History* (50): 591-615.
- Clark, G. (1994). "Factory Discipline." *Journal of Economic History* 54(1): 128-163.
- Clark, G. (2002). "The Agricultural Revolution and the Industrial Revolution: England, 1500-1912." Mimeo.
- Clark, G. (2005). "The Condition of the Working Class in England, 1209-2004." *Journal of Political Economy* 113 (6): 1307-1340.
- Clark, G. (2014). "The Industrial Revolution". *Handbook of Economic Growth*, Volume 2 (eds. Philippe Aghion and Steven Durlauf)
- Dal Bó, E., and F. Finan (2016). "At the intersection: A review of institutions in economic development." Mimeo.
- Distelhorst, G., J. Hainmueller, and R. M. Locke (2017). "Does Lean Improve Labor Standards? Management and Social Performance in the Nike Supply Chain." *Management Science* 63(3): 707-728.
- Distelhorst, G., and R. M. Locke (2018). "Does Compliance Pay? Social Standards and Firm-Level Trade." *American Journal of Political Science* 62(3): 695-711.
- Dufflo, E., M. Greenstone, R. Pande, and N. Ryan (2013). "Truth- Telling by Third Party Auditors and the Response of Polluting Firms: Experimental Evidence from India." *Quarterly Journal of Economics* 128(4): 1499-1545.
- Dufflo, E., M. Greenstone, R. Pande, and N. Ryan (2018). "The Value of Regulatory Discretion: Estimates From Environmental Inspections in India." *Econometrica* 86(6): 2123-2160.
- Getahun, T. D. and E. Villanger (2018). "Labor-intensive jobs for women and Development: Intrahousehold welfare effects and its transmission channels." *The Journal of Development Studies* 54(7): 1232-1252.
- Gollin, D., R. Jedwab, and D. Vollrath (2016). "Urbanization with and without industrialization." *Journal of Economic Growth* 21: 35-70.
- Fisman, R., and Y. Wang (2015). "The Mortality Costs of Political Connections." *Review of Economic Studies* 82: 1346-1382.
- Haraguchi, N., C. Fang, C. Cheng, and E. Smeets (2017). "The Importance of Manufacturing in Economic Development: Has This Changed?" *World Development* 93.
- Harris, J. and Todaro, M. (1970). "Migration, Unemployment and Development: A Two Sector Analysis." *American Economic Review* 60(1): 126-142.
- Harrison, A. (2007). "Globalisation and Poverty." In *Globalisation and Poverty*, ed. Ann Harrison, NBER
- Harrison, A. and J. Scorse (2010). "Multinationals and anti-sweatshop activism." *American Economic Review* 100(1): 247-273.
- Hausmann, R., J. Hwang, and D. Rodrik (2007). "What you export matters." *Journal of Economic Growth* 12 (1): 1-25.
- Heath, R., and A. M. Mobarak (2015). "Manufacturing Growth and the Lives of Bangladeshi Women." *Journal of Development Economics* 115: 1-15.
- Hohmann, S. (2018). "Natural Resources, Trade, and Structural Transformation in Africa." Mimeo.
- Hwang, J. (2007). "Patterns of Specialization and Economic Growth." Ph.D dissertation, Harvard University.
- Kaldor, N. (1967), *Strategic Factors in Economic Development*, New York: Ithaca, New York State School of Industrial and Labour Relations, Cornell University.
- KPMG (2013). "Business Case Analysis for Responsible Electronics Manufacturing." Available at <http://kpmg.com/TW/zh/Documents>
- Lewis, W.A. (1954). "Economic Development with Unlimited Supplies of Labour." *Manchester School* 22: 139-191.
- Lipsey, R. E., and F. Sjöholm (2004). "Foreign direct investment, education and wages in Indonesian manufacturing." *Journal of Development Economics* 73 (1): 415-22.
- Macchiavello, R., A. Menzel, A. Rabbani, and C. Woodruff (2017). "Challenges of Change: An Experiment Training Women to Manage in the Bangladeshi Garment Sector." Mimeo.
- Menzel, A., and C. Woodruff (2018). "Gender Wage Gaps and Worker Mobility: Evidence from the Garment Sector in Bangladesh." Mimeo.
- Matsuyama, K. (1992). "Agricultural productivity, comparative advantage, and economic growth." *Journal of Economic Theory* 58(2): 317-334.
- Oka, C. (2012). "Does Better Labour Standard Compliance Pay? Linking Labour Standard Compliance and Supplier Competitiveness." *Better Work Discussion Paper Series* 5.
- Rodrik, D. (2013). "Unconditional convergence in manufacturing." *The Quarterly Journal of Economics* 128 (1): 165-204.
- SASL (2001). *Scholars Against Sweatshop Labor Statement*. Scholars Against Sweatshop Labor Steering Committee. Available at: <http://web.archive.org/web/20060207061631/http://www.umass.edu:80/peri/sasl/petition.htm>.
- Strobl, E., and R. Thornton (2004). "Do Large Employers Pay More in Developing Countries? The Case of Five African Countries." *Journal of Economic Development* 29 (1): 137-61.
- Tanaka, M. (2018). "Exporting Sweatshops? Evidence from Myanmar." *Review of Economics and Statistics*, forthcoming.
- Verhoogen, E. (2008). "Trade, Quality Upgrading and Wage Inequality in the Mexican Manufacturing Sector." *Quarterly Journal of Economics* 123 (2): 489-530.
- Voth, H.-J. (2001). "The longest years - new estimates of labor input in England, 1760-1830." *Journal of Economic History* 61 (4): 1065-1082.
- Voth, H.-J. (2004). "Living standards and the urban environment." In Roderick Floud and Paul Johnsons (eds.), *The Cambridge Economic History of Modern Britain, Industrialisation, 1700-1860* (Volume 1). Cambridge: Cambridge UP.

OUR PARTNERS



ISID
INSTITUTE FOR THE STUDY
OF INTERNATIONAL DEVELOPMENT
INSTITUT D'ÉTUDE DU
DÉVELOPPEMENT INTERNATIONAL



McGill
UNIVERSITY

Produced with support from McGill University. The Observations and views expressed in this work are the sole responsibility of the authors.

The Global Governance Lab aims to facilitate the uptake of emerging knowledge on global issues by policymakers and practitioners. It is housed at the Institute for the Study of International Development (ISID) at McGill University in Montreal.

Global Governance Lab
Institute for the Study of International Development
Peterson Hall, 3460 McTavish St.
Montreal, Quebec, Canada, H3A0E6
Twitter: @GGLab_McGill
<http://globalgovernance.lab.mcgill.ca/>