POLICY BRIEF

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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. 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.

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.

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?

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 reprehensive. 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 and 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.

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