Structural transformation, productivity and jobs

DONOR COMMITTEE FOR ENTERPRISE DEVELOPMENT

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3 main messages

1. There are trade-offs between structural transformation, productivity growth and job creation. What matters most is a structural transformation towards high productivity … obsession with immediate job creation may undermine this.

2. SMEs are the champions of job creation. But donors should support productive enterprise systems rather than SMEs for the sake of being small and job-intensive.

3. Governments have different options for structural transformation. Light manufacturing allows to combine productivity and employment agendas.
1. There are trade-offs between structural transformation, productivity growth and job creation. What matters most is a structural transformation towards high productivity ... obsession with immediate job creation may undermine this.
• There is no lack of jobs in general, only of **productive** jobs

• Most jobs are in small-scale agriculture, (informal) micro enterprises … on average extremely unproductive.

• Wealth creation implies moving people into higher productivity activities where economies of specialization and spillovers accrue.

• … creating more jobs in traditional fields may decelerate structural change.
Reallocation of resources from less to more productive firms drives technological progress.
... but bulk of firms decoupled

Huge tail-end: e.g. Atal, Busso, Cisneros 2009, Hsieh, Klenow 2009

Re-entry at tale end: e.g. Tybout 2000
Important to balance job creation and other goals

Example: Should India promote, tolerate or hold back retail liberalization?

**Ret.Lib. good for:**
- Additional investment
- Higher productivity in retail and supply chain => fewer but better paid jobs
- Better quality, more diverse products
- Consumer convenience
- Fewer losses in supply chain, more food security

**Ret.Lib. bad for:**
- Crowding out of small stores => net job losses
- Crowding out of small producers and traders in supply chains => net job losses

*Plus: Time-lag and second-order effects need to be considered*
2. SMEs are the champions of job creation. But donors should support productive enterprise systems rather than SMEs for the sake of being small and job-intensive.
• SMEs on average less productive, earn less, pay less, offer worse employment conditions than large firms, are less stable, produce at below average scale, evade tax payment ... 

• Supporting SME should not be an end in itself 

• Donors may hold back shift to optimal firm sizes! 

⇒ When and how are SME “good”?
Very few SMEs compete in mass products

Many SMEs cater for niche markets

Customer specific goods

Small series (often up-market)

Standardized goods and services

Many SMEs as suppliers

Ideal type

Acquisitions and spin-offs

Franchises

Very few SMEs compete in mass products

Many SMEs as suppliers
Developing countries: Disturbing evidence

Customer specific goods

Small series (often up-market)

Standardised goods and services

Large firms (vertically integrated)

Most SMEs compete in mass products

Very few SMEs cater for niche markets

Few SMEs as suppliers or franchises

Altenburg/ Eckhardt (2006)
- Fragmented production systems

- Integration of "fragments" rarely recognised in strategies
- Typically separation of "industrial policy" from "SME policy"

⇒ Technology transfer & linkage programmes needed !!!
3. Governments have different options for structural transformation. Light manufacturing allows to combine productivity and employment agendas.
Different patterns of growth exist, with very different employment and productivity effects:

– Mineral-resource driven growth in Sub-Saharan Africa employs only 1% of workforce;

– Export-oriented light manufacturing industry in East Asia, Mexico, Central America … created substantial job opportunities for poor people: Productivity growth, and pro-poor!

– Choices also within sectors: Morocco’s solar industry development can focus more on large-scale, high-tech, FDI-driven or on decentralized labour-intensive version
– Light manufacturing industry particularly promising
– Both export-oriented and import-substituting (even without strong tariff protection)
– Import-substituting: Not yet fully recognised new option due to rising incomes, middle-classes, urbanization
– Export-oriented: Avoid getting stuck in low skills/high employment mode. Incremental upgrading is possible !!! (“high vs. low road” to competitiveness metaphor was misleading!)
Advance towards high-quality, high-price garment products

Advance from cut-make-trim to full package supply

Increase value through reduced lead time

Learn in the export industry & launch own designs & brands

Garment industry
<table>
<thead>
<tr>
<th>Location</th>
<th>Activity</th>
<th>Cost of direct labour</th>
<th>Labour cost engineer</th>
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<tbody>
<tr>
<td>Singapore</td>
<td>IC design</td>
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<tr>
<td></td>
<td>Testing of highly sophisticated processors</td>
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<td>Failure and device analysis</td>
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<tr>
<td>Penang, Malaysia</td>
<td>Developing design packages for advanced logic and memory devices</td>
<td>Increasing knowledge content</td>
<td>205</td>
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<td></td>
<td>Assembly and testing of memory and logic devices</td>
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<td></td>
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<tr>
<td>Bangkok, Thailand</td>
<td>Assembly of plastic parts</td>
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<tr>
<td></td>
<td>Testing, marking and packing of logic and memory products</td>
<td>170</td>
<td>425</td>
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<tr>
<td>Suzhou, China</td>
<td>Assembly and testing of cost-sensitive high-volume devices</td>
<td>75</td>
<td>170</td>
</tr>
<tr>
<td></td>
<td>Distribution</td>
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Policy implications in a nutshell

– Its productivity growth, stupid! (not just maximising no. of jobs)
– Important to balance job creation and other goals
– Harmonise policies for productivity growth with labour market policies
– SME promotion not an aim in itself, need to understand and support the dynamics of productive enterprise networks
– Overcoming fragmentation: Everything that links high-productivity firms/sectors with MSME is welcome: Supplier development programmes, franchising, innovation clubs, business angels …
– Export-manufacturing with in-built upgrading strategy
– Support consumer goods industry diversification for local/regional markets
Questions to the audience

1. **Productivity strategies for MSME:** Given that the high-productivity wage labour sector will not absorb the bulk of those currently engaged in MSME / household enterprises in SSA in the next 20 or even 50 years, what are the right strategies to upgrade those firms?

2. **Golden age?** Given technological progress in labour-intensive industries, cluster synergies in China, governance problems in SSA, how relevant is the shift of light manufacturing for Africa’s future?

3. **Evaluation:** Interventions affect complex productivity-labour trade-offs, and second-order effects are often (usually?) greater than direct employment effects – what does this imply for the quest for rigorous evaluation?
Thank you for your attention!

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