

d·i·e

Deutsches Institut für
Entwicklungspolitik



Jahre | 1964 – 2014

German Development
Institute

Structural transformation, productivity and jobs

DONOR COMMITTEE FOR ENTERPRISE DEVELOPMENT

Geneva, 9 July 2014

Tilman Altenburg,

Deutsches Institut für Entwicklungspolitik/ German Development Institute (DIE)



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.*



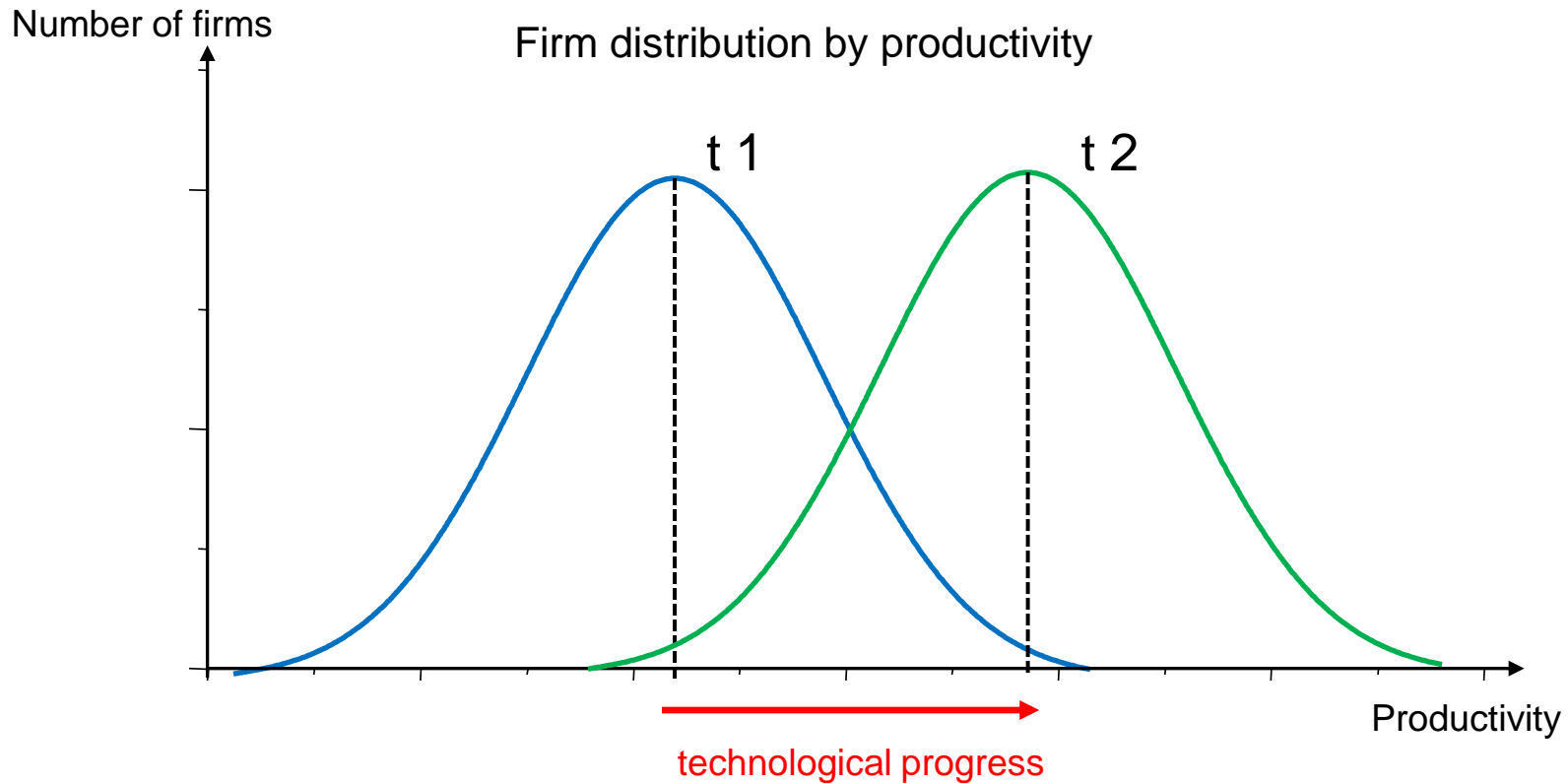
- 1. There are trade-offs between structural transformation, productivity growth and job creation. What matters most is a structural transformation towards high productivity ... obsession with immediate job creation may undermine this.***



- 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.



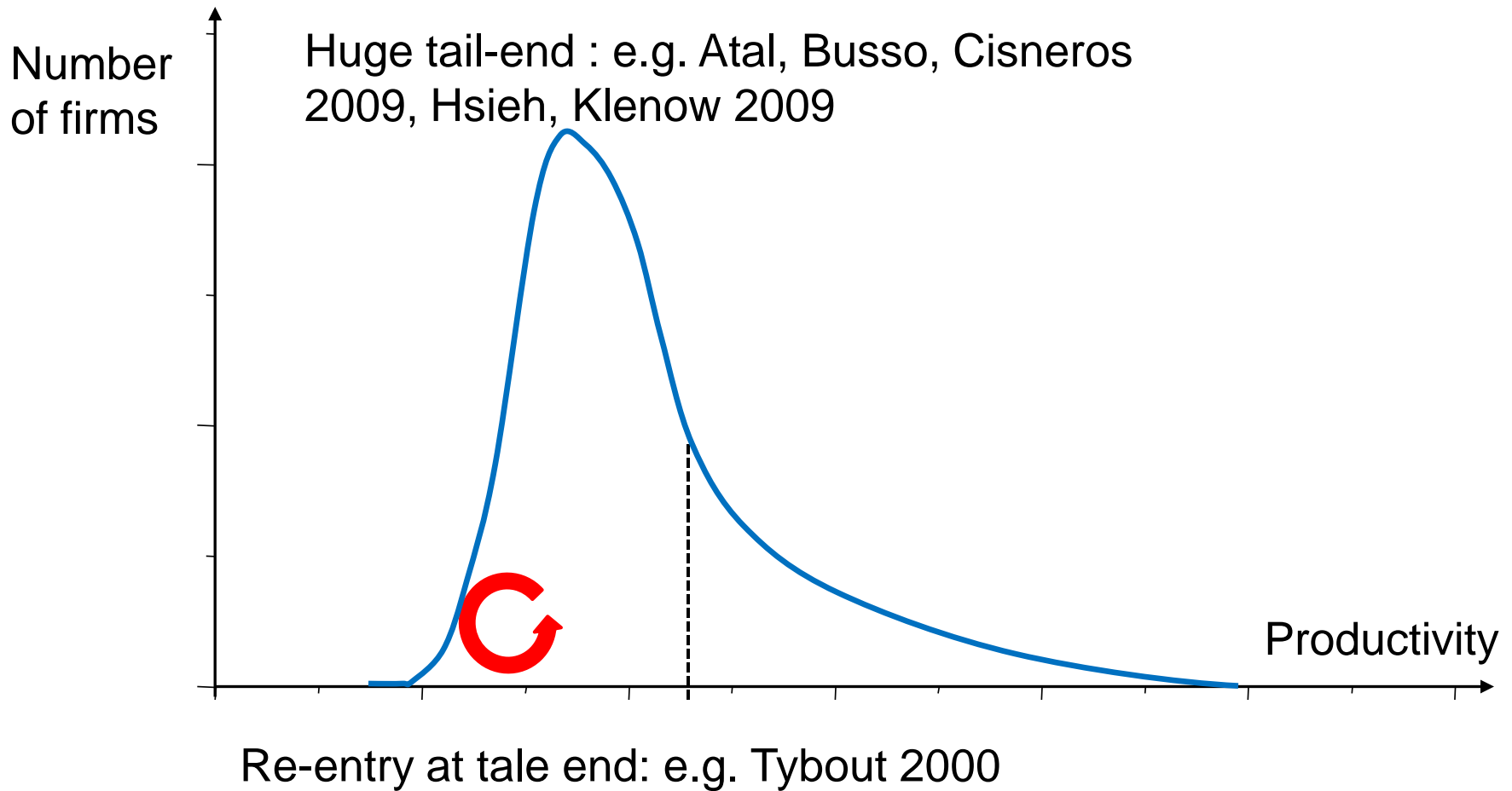
Reallocation of resources from less to more productive firms drives technological progress



own



... but bulk of firms decoupled





⇒ **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

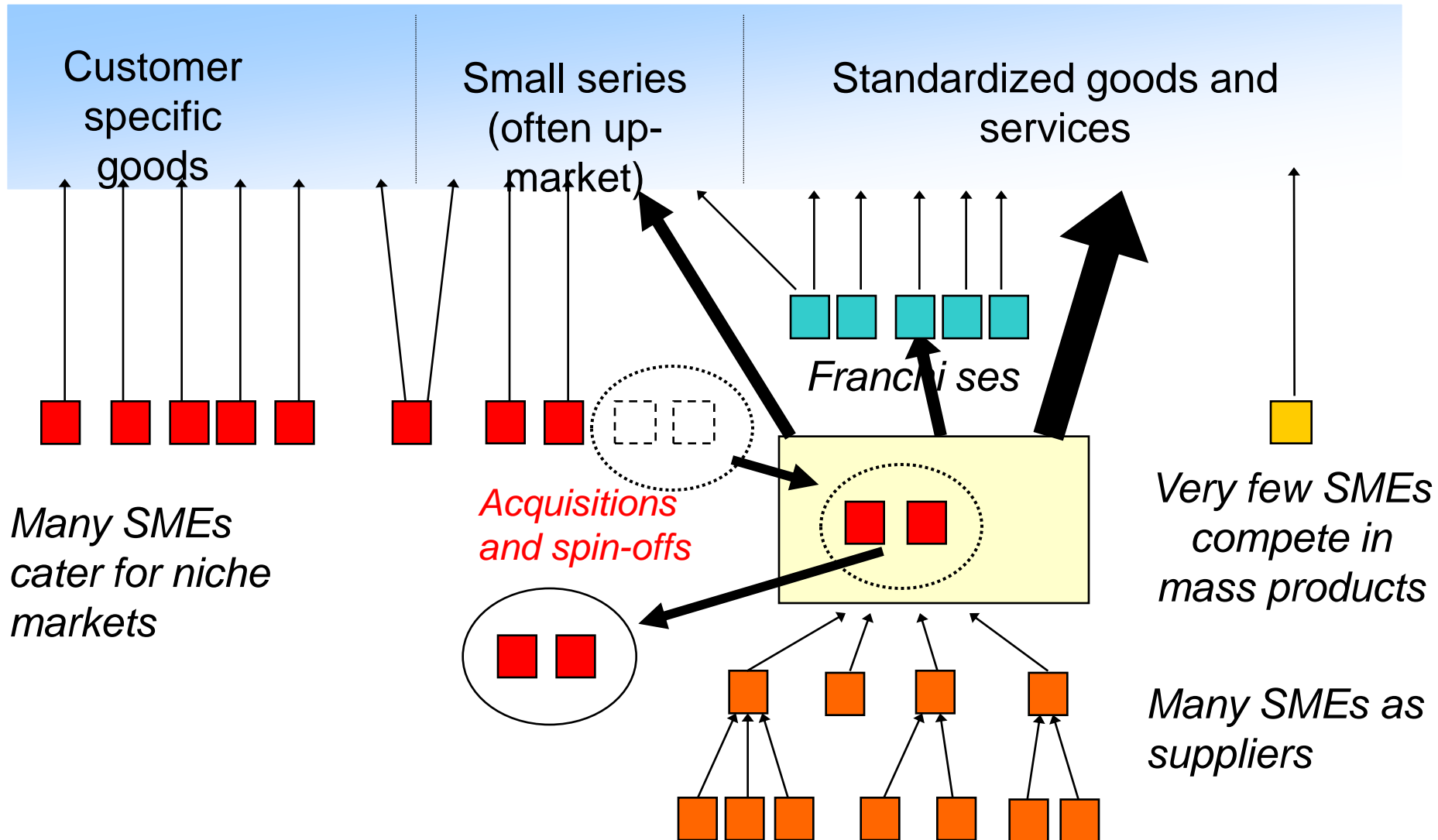


2. SMEs are the champions of job creation. But donors should support productive enterprise systems rather than SMEs for the sake of being small and job-intensive.

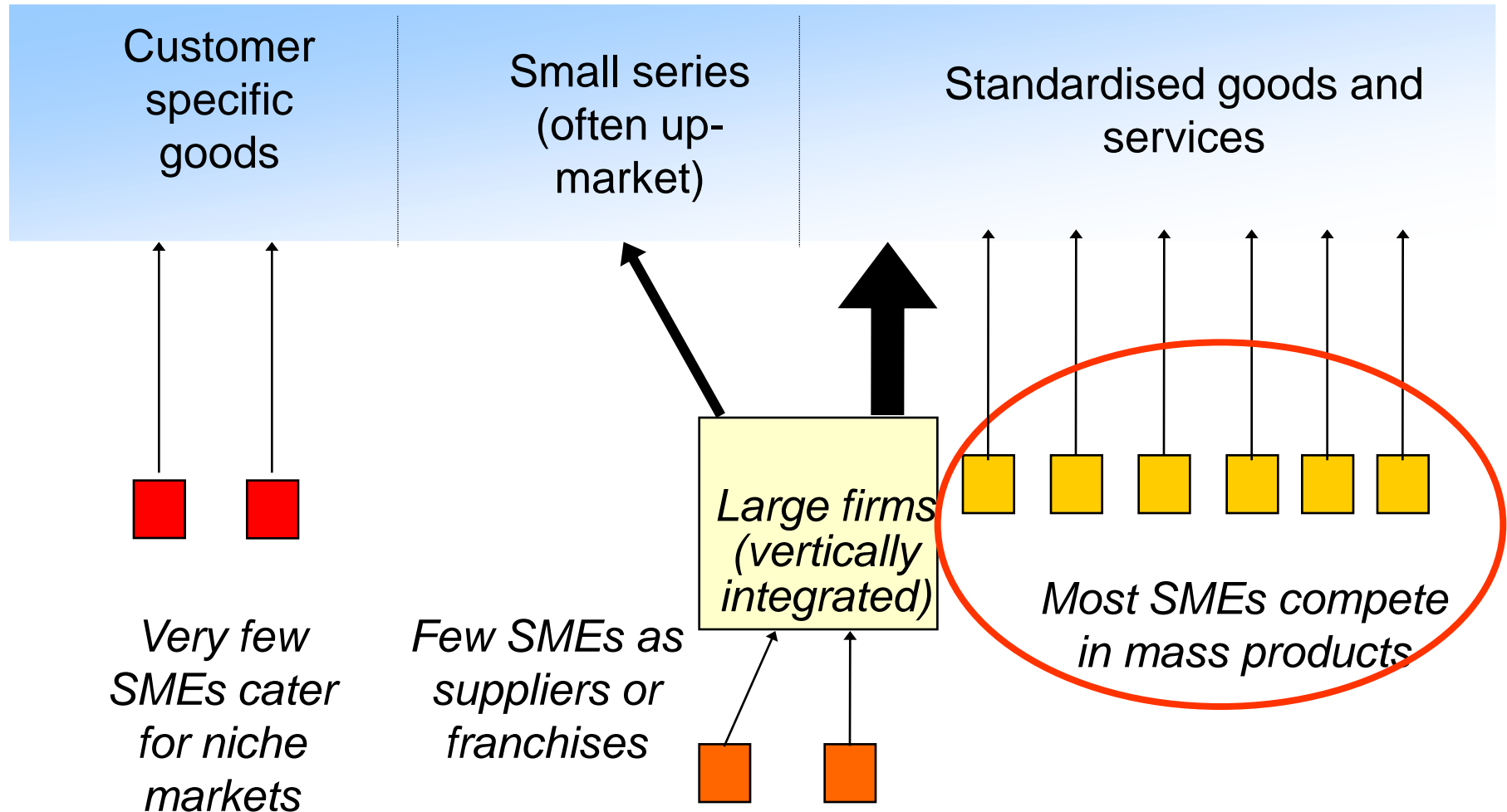


- SMEs on average less productive, earn less, pay less, offer worse employment conditions than large firms, are less stable, produce at below average scale, evade tax payment ...
 - Supporting SME should not be an end in itself
 - Donors may hold back shift to optimal firm sizes!
- ⇒ **When and how are SME “good”?**

Ideal type



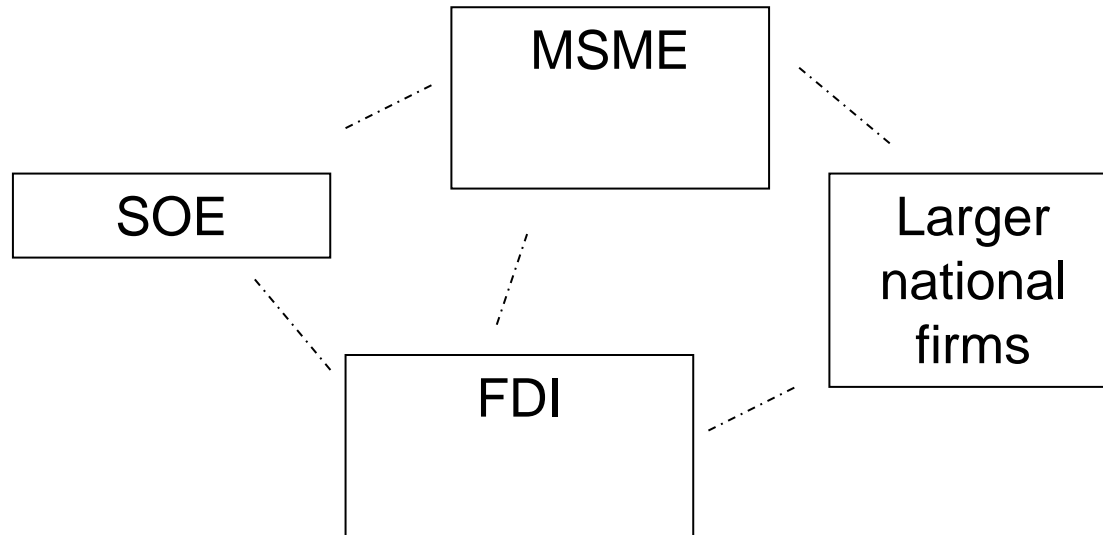
Developing countries: Disturbing evidence



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.

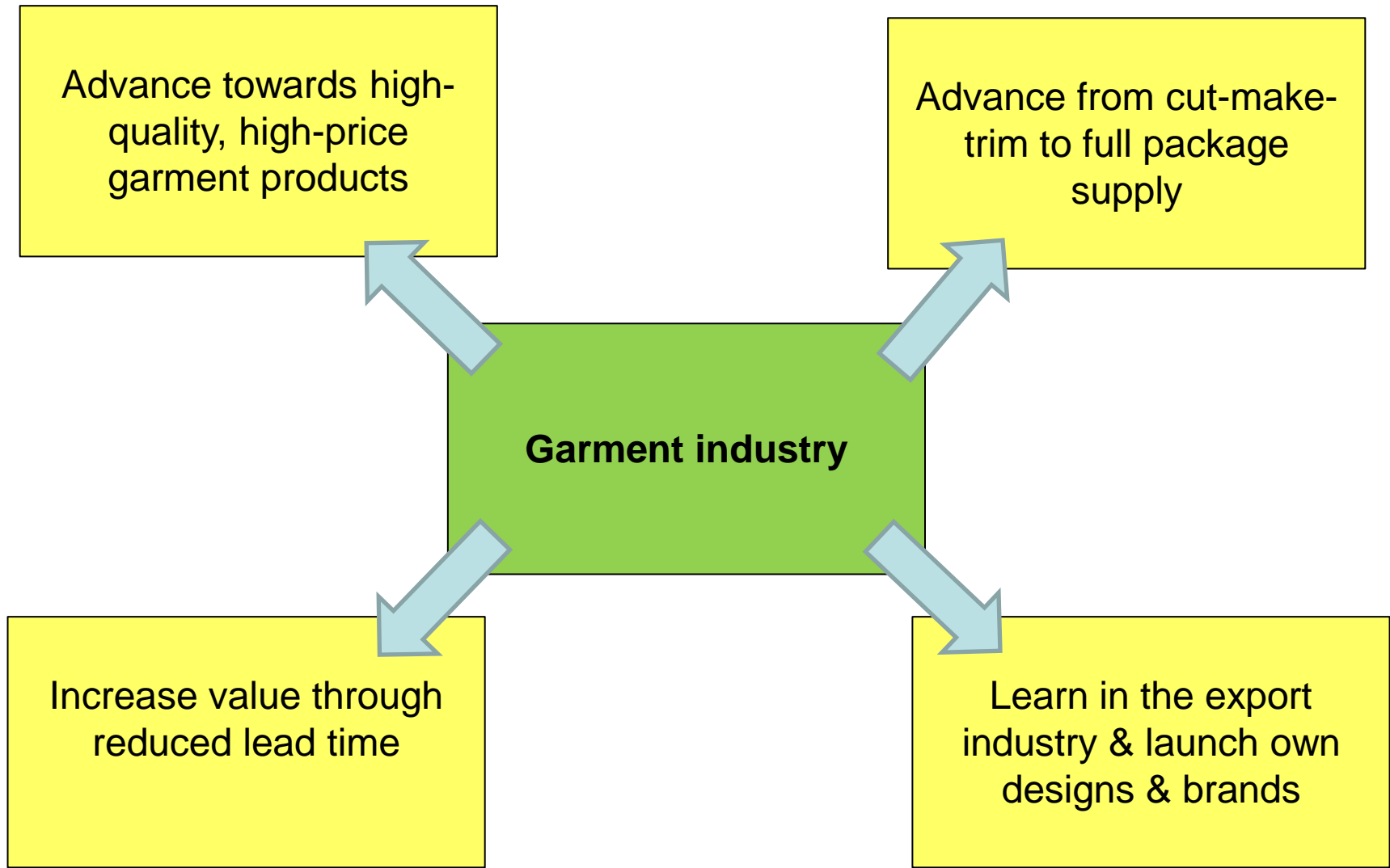


Different patterns of growth exist, with very different employment and productivity effects:

- 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!)*





Regional distribution of production facilities of the American transnational Advanced Micro Devices (AMD), 2003, and labour costs in the hard disk drive industry in US \$/month, 1999

Location	Activity	Cost of direct labour	Labour cost engineer
Singapore	IC design	390	1290
	Testing of highly sophisticated processors		
	Failure and device analysis		
Penang, Malaysia	Developing design packages for advanced logic and memory devices	205	680
	Assembly and testing of memory and logic devices		
Bangkok, Thailand	Assembly of plastic parts	170	425
	Testing, marking and packing of logic and memory products		
Suzhou, China	Assembly and testing of cost-sensitive high-volume devices	75	170
	Distribution		



Increasing knowledge content



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!

Deutsches Institut für Entwicklungspolitik/German Development Institute (DIE)

Tulpenfeld 6

D-53113 Bonn

Telefon: +49 (0)228-949 27-0

E-Mail: DIE@die-gdi.de

www.die-gdi.de

www.facebook.com/DIE.Bonn

www.youtube.com/DIEnewsflash

