Making global value chains work for workers

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THINK of an image of globalisation and you may picture a Bangladeshi woman in a sari stitching together a t-shirt displaying a pop-culture phrase for a fast-fashion outlet in London or Los Angeles. Such is the cultural prominence of manufacturing global value chains (GVCs), particularly in the apparel sector. But how can we ensure that these GVCs, which deliver massive benefits to consumers in the West, also improve the livelihoods of that Bangladeshi garment worker and the millions of others employed in global supply chains? This issue is taken up in the World Bank's recent World Development Report 2020: Trading for Developing in the Age of Global Value Chains.

In Bangladesh, integration into the apparel GVC led to the creation of more than 3 million waged jobs beginning in the early 2000s. With around 70 percent of those new jobs captured by women, this contributed to female labour force participation rising by 10 percentage points in the first decade of the 2000s.

Garment sector employment is widely recognised as catalyst for Bangladesh's sustained growth and large-scale poverty reduction. It has also had significant positive social impacts. For example, a 2015 study showed that households in villages near garment factories increased their investment in the education of female children and raised the average marrying age for young women.

That's the good news. On the other hand, most workers in the sector still take home salaries of less than $100 per month. And while average monthly wages rose by over 40 percent between 2010 and 2016, that hardly kept up with rapidly rising costs in Dhaka. In fact, earnings from working in the garment GVC in Bangladesh are hardly sufficient to keep a family out of poverty. Of equal concern is the fact that many workers toil in highly unsafe working conditions.

To be fair, these negative outcomes are not inherently the fault of GVCs. While pricing pressure from global lead firms contributes to downward pressure on wages, workers in export-oriented factories still earn more than they would in equivalent factories serving the domestic market.

Global lead firms, responding to demands by civil society and consumers in their home markets, are also at the

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In Bangladesh, integration into the global value chains of apparel led to the creation of more than three million waged jobs beginning in the early 2000s.

forefront of improving working conditions in offshored factories, typically through the establishment of standards that are audited across supply chains. They also participate in initiatives like the ILO-IFC Better Work Program, which covers nearly 2.5 million workers in 1,700 GVC-linked garment factories in eight countries. Better Work has not only contributed to improved compliance rates in GVC factories, but also demonstrated that complying with labour standards actually contributes to higher productivity and profits.

Firm-based initiatives can have a broader impact if host countries strengthen monitoring and enforcement capacity of labour inspection regimes and build robust labour market institutions, including support for collective bargaining, freedom of association, and social dialogue.

Home countries of global lead firms can also use policy to promote compliance. For example, in 2017, France enacted the Duty of Vigilance Law, which mandates large French companies to publish and implement a plan to identify and prevent human rights risks throughout their global supply chains.

Government policy also has an important role to play to help mitigate the inherent adjustment costs that result from shifts in global supply chains, which tend to be concentrated in certain locations and have long-lasting effects on lower-skilled workers. Although government policies should avoid restrictions on trade, investors, and employers, governments can support workers through policy interventions that combine social protection with skills training and mobility support.

For example, Denmark's "flexicurity" model gives businesses the freedom to hire and fire workers with relatively few restrictions, while also providing a generous, broad-based unemployment benefit system that cushions the negative income effects on displaced workers. A key feature of Denmark's system is the significant investment in active labour market programmes to enhance employability and connect workers to jobs.

The World Bank Group, development partners, and policymakers around the world are broadly united in seeking to promote countries, sectors, and firms to integrate into GVCs. From copper miners in Chile to smallholder cashew farmers in Cote d'Ivoire and to female factory workers in Bangladesh, interventions seek to use the power of a GVC approach to facilitate growth and boost livelihoods.

At the same time, we must recognise that in the context of rapid technological change and evolving patterns of globalisation, the impacts of GVCs on workers are nuanced and, as always, there will be winners and losers. Leveraging our policy and programme instruments to support both GVCs and the workers within them is the key to ensuring the development impacts of GVCs are inclusive and sustainable.

The author is lead economist of the World Bank Group.

New Alphabet chief Pichai sees big pay boost

AFP, *San Francisco*

GOOGLE parent Alphabet boosted the salary of newly anointed chief Sundar Pichai and promised more than $200 million in shares if the company hits performance goals, a regulatory filing Friday said.

Pichai's annual pay will more than double to $2 million next year, and he will be in line for $90 million shares of stock based on how well the internet titan does in the market and another $120 million in shares that vest over time, according to a Securities and Exchange Commission filing by the Alphabet board.

The value of the performance-based shares could be zero depending on whether Alphabet stock hits goals set in comparison to the S&P 100 in the coming two years, the filing said.

Taking the reins as chief executive of Google parent Alphabet, the soft-spoken, Indian-born Sundar Pichai faces a host of challenges at one of the world's most valuable companies, which has become besieged by activists and political leaders.

- Increased scrutiny - The 47-year-old Pichai, who will remain as Google CEO in addition to taking up the new post, is seen as a steadying influence at a time when Alphabet faces an onslaught from regulators and others.

Google co-founders Larry Page and Sergey Brin are stepping away from their roles at the company they founded two decades ago in a California garage, but will remain in control of the Alphabet board based on share voting rights.

Pichai will take over from Page as CEO of Alphabet, which includes Google as well as units focused on its "other bets" in areas including self-driving cars, life sciences and a variety of "moonshot" projects.

Sundar steps into his new role as antitrust enforcers in Washington, Brussels and elsewhere are stepping up their scrutiny of Google, which is the internet's dominant search engine and also the maker of the leading Android mobile operating system.

Google CEO Sundar Pichai

REUTERS

Malaysia's Prime Minister Mahathir Mohamad, Turkey's President Recep Tayyip Erdogan and Iranian President Hassan Rouhani react during a Kuala Lumpur Summit roundtable session in Malaysia on December 19.

India's elevated food inflation limits scope for further rate cuts

REUTERS, *Mumbai*

INDIA'S volatile food prices are yet again posing a sticky inflation problem for its central bank, preventing it from cutting rates as deep as it would like to support a stuttering economy.

After slashing rates five times this year, the Reserve Bank of India (RBI) stunned markets earlier this month by resisting a sixth reduction as many had predicted.

Accelerating inflation is a concern, the RBI said after its decision, while signalling it had room to ease policy further to lift an economy growing at its weakest pace in six years.

Earlier this week RBI Governor Shaktikanta Das reiterated the central bank's readiness to ease if needed. Yet traders expect price pressures will be a hurdle to pushing down the key repo rate much below the current 5.15 percent over coming months.

Indeed, prices of pulses, meat, eggs and edible oils - big contributors to the recent spike in food inflation - are likely to remain elevated, say traders and industry insiders.

Food inflation in November rose to an almost six-year high and is seen staying around those levels over the next few months.

"Prices of grains such as wheat could start moderating from April onward, but prices of milk, meat and edible oils may remain firm," said Harish Galipelli, head of commodities and currencies at Inditrade Derivatives & Commodities in Mumbai.

Dairies have raised milk prices by around 5 percent this month due to a drop in supplies. Egg and chicken prices too are seen remaining elevated as production costs have jumped due to rising animal feed prices, said a poultry producer.

A normal monsoon year would have helped cool food inflation, but this year the highest rainfall in 2-1/2 decades followed by untimely rains have damaged the summer-sown crops and delayed planting of winter crops.

Muslim nations consider gold, barter trade to beat sanctions

REUTERS, *Kuala Lumpur*

IRAN, Malaysia, Turkey and Qatar are considering trading among themselves in gold and through a barter system as a hedge against any future economic sanctions on them, Malaysian Prime Minister Mahathir Mohamad said on Saturday.

At the end of an Islamic summit in Malaysia, Mahathir praised Iran and Qatar for withstanding economic embargoes and said it was important for the Muslim world to be self-reliant to face future threats.

"With the world witnessing nations making unilateral decisions to impose such punitive measures, Malaysia and other nations must always bear in mind that it can be imposed on any of us," Mahathir said.

US-allied Arab states Saudi Arabia, the United Arab Emirates, Bahrain and Egypt cut diplomatic and trade links with Qatar about 2-1/2-years ago over allegations it backs terrorism, a charge Doha denies. Iran, meanwhile, has been hit badly after the United States reimposed sanctions on it last year.

"I have suggested that we re-visit the idea of trading using the gold dinar and barter trade among us," Mahathir said, referring to the Islamic medieval gold coin.

"We are seriously looking into this and we hope that we will be able to find a mechanism to put it into effect."

The leaders agreed they needed do more business among themselves and trade in each other's currencies.

The summit, which was snubbed by Saudi Arabia, was criticised for undermining the Saudi-based Organisation of Islamic Cooperation (OIC), which represents 57 Muslim-majority nations. Malaysia said all the OIC members had been invited to the Kuala Lumpur summit but only about 20 showed up.

By the fourth and final day of the summit, no joint statement had been released. The summit had been expected to discuss major issues affecting Muslims, including Palestine, Kashmir and the plight of Rohingya Muslims in Myanmar and China's camps for Uighur Muslims in its western Xinjiang region.

Without naming any country, Mahathir said there was concern that Muslims in non-Muslim countries were forced to undergo assimilation.

"We support integration but assimilation to the extent of shedding our religion is unacceptable," he said.

At a news conference, he said the summit participants had been told that Uighurs were being detained in China.

"We have to hear the state, we have to hear the people who complain, then only it will be fair," he said.

He called India's new citizenship act unfortunate. The act facilitates for faster naturalisation of non-Muslims from Afghanistan, Bangladesh and Pakistan who had settled in India prior to 2015.

US GDP growth unrevised in 3rd quarter at 2.1pc

AFP, *Washington*

US officials on Friday confirmed their picture of moderate but steady economic growth in the third quarter of this year, while estimated investments by companies improved slightly.

Amid low unemployment and steady job growth, the numbers should offer some comfort to President Donald Trump as he embarks on a tumultuous reelection campaign while working to resolve a damaging trade war with China.

GDP growth in the July-September period advanced at an annual rate of 2.1 percent, according to the Commerce Department's third estimate, matching the estimate produced last month.

Growth in the third quarter was a notch faster than in the second quarter, avoiding a drop-off that economists had initially feared.

The Commerce Department's latest snapshot of the world's largest economy -- based on a fuller set of newly available data -- again showed US consumers and companies are on diverging paths.

While the public continues to spend, propping up growth, skittish companies, battered by Trump's trade confrontation with China, are withholding investment.

Growth is still well below the sustained three percent target set by the White House. Economists say growth could fall below two percent in the final months of 2019 and the first quarter of next year.

REUTERS/FILE

Hydraulic valve manufacturer HydraForce Inc employees work in the firm's plant in Lincolnshire, Illinois, US.

Consumer spending, which represents the lion's share of US economic activity, was revised upward as Americans spent more on services like "personal care" and investment.

This offset a steep cut to spending on food and beverages as well as declines for durable goods like autos.

Meanwhile, the picture for business investment improved a little, thanks to a sharp uptick in building of electrical power stations -- but it was still a net drag on growth.

Companies complain that Trump's trade war has left them uncertain of their supply chains and markets, facing higher input prices and slower demand abroad, making them reluctant to spend.

However, Washington and Beijing this month announced a partial trade deal, canceling and removing tariffs and marking a truce in the nearly two-year-old conflict.

The Commerce Department is due to publish its first estimate of fourth-quarter growth in late January.