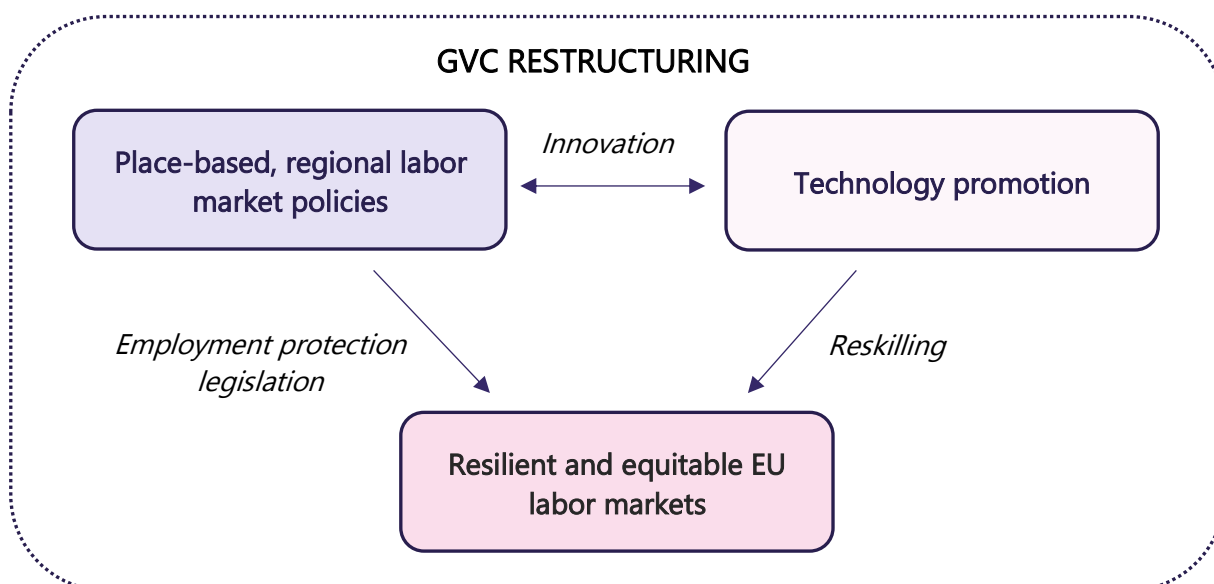


Building Resilient and Equitable EU Labor Markets within Evolving Global Value Chains

Multinational Enterprises (MNEs) and their Global Value Chains (GVCs) have profoundly shaped employment and socioeconomic trends in Europe. Recent disruptions, including the COVID-19 pandemic and geopolitical instability, have affected GVCs and, in turn, regional labor markets, skill requirements and economic inequalities. Work Package 3 of the TWIN SEEDS project has used a variety of different methodologies to analyze how these GVC shifts affect the interplay between international integration, technology and innovation and regional labor markets. In this policy brief we highlight the implication of this work for a variety of EU policy areas.

Overall, the findings of our work underscore the need for tailored policies to balance the benefits of GVC participation with the potential adverse labor market outcomes resulting from shifts in production structures. We find that although the evolving GVC landscape in the EU presents opportunities for growth and competitiveness, it also poses risks of increasing inequality and job insecurity. Much depends on local regional contexts and capabilities, which vary widely across the Union. By adopting region-specific, inclusive policies and supporting technological progress, policymakers can foster resilience, promote equitable labor markets, and ensure that the benefits of international integration are shared broadly across regions and social groups.

The schema below shows how GVC restructuring, technological change, and labor market policies interact to shape employment dynamics across European regions. These issues are clearly interconnected, as shifts in GVCs influence skill demands, innovation pathways, and regional resilience, while policy choices mediate these effects. Our findings highlight significant trade-offs between these factors: while automation and reshoring can support productivity and competitiveness, unless accompanied by targeted labor market and industrial policies, they may also exacerbate regional economic inequalities.



Building on our work, this policy brief outlines potential strategies which can support more resilient and equitable labor markets. These focus on three critical areas: **promoting inclusive regional labor markets through place-based strategies; addressing inequalities, polarization and insecurity in the labor market and leveraging technology and upgrading for employment growth.**

PROMOTE INCLUSIVE REGIONAL LABOR MARKETS THROUGH PLACE-BASED STRATEGIES

1. Implement place-based strategies to support regions' specific needs

We explored the regional impact of [back-shoring](#) - the process by which local production reduces prior dependence on foreign inputs and increases the share of domestic inputs. We find that, in the aggregate, **back-shoring within GVCs has not had significant employment effects**. However, there are important **regional differences**. During the period studied, back-shoring led to higher manufacturing job growth in traditional manufacturing regions, such as Northern Italy. However, in back-shoring regions characterized by emerging manufacturing specialization, such as Murcia in Spain, it has increased production added-value, but not jobs. This may reflect a trend for automation to displace routine jobs in regions not traditionally specialized in manufacturing. In addition, expansionary GVC strategies have created highly-skilled jobs in knowledge-intensive industries, especially in globally competitive regions like capital cities and urban centers.

These findings suggest that, given the very heterogeneous industrial histories and capacities across the Union, the EU's dual objectives of reindustrialization and manufacturing employment growth will be challenging to achieve simultaneously in all regions. **Targeted place-based industrial policies**, including interventions that align with local economic capacities, are crucial to adapt to these different regional contexts.

2. Align education and vocational training systems with GVC needs

EU policy makers need to be aware that the Union is characterized by **a functional specialization of its regions**, which occupy different positions within the European and global value chains. While Northern regions tend to specialize in innovation, skills, and capital-intensive industries, Southern regions, with some exceptions, tend to specialize in medium/low skill-intensive services, while large urban centers specialize in high-skill-intensive sectors.

Although the up-skilling observed in most EU regions in recent years can bring benefits in terms of competitiveness and growth, policies geared merely towards enhancing the skill-basis of the population **may lead to over-skilling** if they are not accompanied by coordinated policies supporting structural change. This is especially the case in the least competitive regions of the EU, like Southern Italy, Greece, and parts of France. In the absence of economic opportunities, such over-skilling can lead to inefficiencies and frustration. In these less competitive regions prioritizing secondary education and vocational training could help to address such mismatches. This in turn could encourage the development of manufacturing industries in such regions, allowing them to participate more easily in European and global value chains and improving labor market resilience.

Overall, EU policies need to encourage functional specialization and provide targeted funding for skills development in underserved regions. The **European Strategy for Vocational Education and Training** which is currently under development by the new EU Commission needs to integrate the need for such targeted approaches to investment in appropriate skills, while working closely with the responsible national and regional authorities.

ADDRESS INEQUALITIES, POLARIZATION AND INSECURITY IN THE LABOR MARKET

3. Support policies reducing polarization and strengthen labor protection legislation

The **pandemic and GVC restructuring have exacerbated job polarization**, with declines in medium-skilled roles and growth in high- and low-skilled positions. This trend is particularly strong in regions where foreign enterprises play a dominant role in local economies. Thus, support for openness to trade and investment should be complemented with cohesion policies to reduce existing regional and inter-regional disparities.

Regions with robust Employment Protection Legislation (EPL) are better positioned to mitigate these polarization effects. Thus, **the introduction of stronger labor protections** and a focus on achieving equitable growth will be essential to ensuring that the benefits of internationalization are equally shared.

4. Expand access to education, while addressing job insecurity and working conditions in sectors with high GVC integration

Amongst female workers, GVC participation has not significantly widened gender wage gaps, nor resulted in an increase in precarious employment (defined as contracts lasting less than 3 months). However, **GVC participation at the sectoral level is associated with higher levels of job insecurity for both men and women**. If anything, the evidence shows that GVCs do not have any specific effect on the labor market position for women. Therefore, generic labor market policies, such as access to education (which reduces employment precarity), should be applied. Moreover, **offshoring, especially to developing countries, is associated with declining working conditions in the EU**. Equitable policies are needed to address both employment insecurity and declining working conditions. By working together with workers and trade unions to ensure minimum labor standards, public policy can reduce the negative effects of globalization on vulnerable workers.

LEVERAGE TECHNOLOGY AND UPGRADING FOR EMPLOYMENT GROWTH

5. Promote automation and digital technologies while implementing reskilling programs for workers displaced by technological changes

Automation and robotization promote overall employment growth but can displace routine and manual jobs. Our research shows that **thriving manufacturing industries are simultaneously adopting robots, sourcing international inputs, and generating employment**. Policies that support new production technologies can help to generate employment growth, while decoupling from GVCs could be detrimental.

However, such **technological changes can be disruptive for some workers**: for example, employees in routine and manual jobs are most likely to be substituted in the context of robotization. The most promising policy options combine **active labor market policies (like targeted reskilling and training programs) with passive ones (like social assistance programs)** to facilitate transitions into sustainable job opportunities. The fact that the affected groups of workers are often geographically concentrated suggests strong policy complementarities with the place-based policies outlined above.

6. Support firms in product quality upgrading through R&D and innovation incentives

Our work in the Netherlands strongly suggests that **firms that upgrade the quality of their exports experience stronger employment growth**. This highlights that improving product quality can be a key strategy enabling European firms and industries to remain internationally competitive. GVC participation does not seem to amplify this link between quality upgrading and employment growth. This underscores that the need for domestic policies that support product quality innovation is independent of GVC integration as such. **Domestic R&D and innovation** can provide the required support to firms to upgrade their exports within GVCs and foster the creation of skilled and sustainable jobs.

SOURCES AND FURTHER READING

PROJECT NAME

Towards a World Integrated and Socio-economically Balanced European Economic Development Scenario (TWIN SEEDS).

COORDINATORS

Roberta Capello, Politecnico Di Milano, Italy; Giovanni Perucca, Politecnico Di Milano, Italy

CONSORTIUM

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FOR MORE INFORMATION ON THIS BRIEF

Dr Louise Curran, TBS Education, France, l.curran@tbs-education.fr

Dr Laura Resmini, Universita' Degli Studi Di Milano-Bicocca, Italy, laura.resmini@unimib.it