Impact of Globalization on Poverty and Employment:

Transmission Channels and Policy Debate

Presentation Based on UNU-WIDER Program of Research on “The Impact of Globalization on the World’s Poor”
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What is Globalization? What are its Manifestations?

Greater Integration within the World Economy via Increased Openness to:

- International Trade
- Cross-border Capital and Labor Movements
- Cross-border Flow of Technology
- Cross-border Flow of Information, Knowledge, and Ideas (Internet Super-Highway)
Introduction (continued)

– Questions frequently asked:
  
  • **Q?**: Whether the actual distribution of gains is fair? Whether the poor benefit less than proportionately from globalization – and under some circumstances might actually be hurt by it?

  • **Q?**: The downside of globalization – Who bears most of the costs? Are they borne disproportionately by the developing world and the poor (*often unskilled workers*) who are more vulnerable?
The Globalization-Openness-Growth-Distribution (Inequality)-Poverty Nexus

Globalization → Openness

Growth

Kuznets

Poverty

Classical

Modern

+ +

- +

Distribution (Inequality)

Trade

Capital

Labor

Technology

Knowledge
Search for Pro-Poor Growth or Distribution-neutral Growth

The Growth to Poverty Link

The *Pattern* of Economic Growth and Development, rather than the *Rate of Growth* per se, has Significant Effects on a Country’s Income Distribution and Poverty Dynamics.

- Openness is a Necessary but not a Sufficient Condition for Successful Development.
- Fundamental Role of Agriculture in Structural Transformation early in Development Process.
Additional Channels through which Globalization Impacts the Poor

• Growth is the Main Channel (filter) through which Globalization Affects Income Inequality and Poverty

• Other Channels through which Globalization can Produce Winners and Losers:
  - Changes in Relative Factor and Good Prices;
  - Differential Cross-border Factor (Capital and Labor) Mobility;
  - The Nature of Technical Progress and Technological Diffusion Process
Channel 2: Changes in Relative Product and Factor Prices

Changes in Relative Product Price Induce Changes in Relative Factor Prices with the Advent of Globalization (the Stolper-Samuelson effects):

- *Theoretical* Prediction: Unskilled Labor is a Winner in Low income Countries and a Loser in Developed Countries

- *Empirical* Evidence: Wage Gaps between Skilled and Unskilled Labor have been Increasing in many Developing Countries (in particular, in Latin America and Africa)
Channel 2: Changes in Relative Product and Factor Prices (Continued)

- *Explanations Why Theoretical Prediction Doesn’t Hold:*

  - **Increasing Wage Gap** in LA because of Entry into World Economy of Low-Income Asian Economies with Abundant Reserves of Unskilled Labor such as China and India into the World Markets - Wood (1997, 1999)

  - The Nature of **New Technology is** heavily Biased in Favor of Skilled and Educated Labor - Wood and Kanbur and Culpepper (2002)
Channel 3: Factor Mobility

- **Perverse** Factor Movements (Culpepper, 2002):
  - Capital and **Skilled Labor** do not Migrate to Poor Countries as much as among Developed Countries;
  - There is a Tendency for **Skilled Labor** to Migrate from Developing Countries to Developed Countries (e.g. African Doctors and Nurses);
  - Wage Equalization’ Does not take Place through Labor Migration (as was the Case in the Previous Globalization Era)
Channel 4: Technical Progress and Technological Diffusion

- The Nature of New Technology is Heavily Biased in Favor of Skilled and Educated Labor
  - Technical Change Emanates from R&D activities in the Developed Countries in Response to Local Developed Country conditions (Labor-Saving and Skill-biased);
  - New Technology is Complementary to Capital and Skilled Labor, while they are Substitute for Unskilled Labor;
  - Technical Change will Increase Inequalities Universally both in Developed and Developing Countries;
  - Increasing Privatisation of Research e.g. in Bio-technology may make it less Affordable to the Poor;
Questions

• Is the Concept of Appropriate Technology Dead?
• Can a Technology be Labor-intensive and yet Efficient and Competitive in World Markets?
• How can Research in Appropriate Technologies be Encouraged?
Policy Issues

- Globalization should not be viewed as a reliable substitute for a Domestic Development Strategy.
- One of the critical issues facing policy-makers in low-income developing countries in formulating their Strategic Position towards the Globalization Process is how to evolve their comparative advantages over time in their abundant factor (Unskilled Labor).
- Governments of developing countries should consciously engage in building institutional capacities for successful integration.
- Three types of institutions come to mind: 1) Design and implement an educational and vocational training system appropriate and responsive to the country’s specific needs; 2) Reduce labor market fragmentation and increase flexibility; 3) Safety nets to reduce vulnerability of the poor to shocks and the structural transformation.