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DFID FUNDED PROJECT
**“UNDERSTANDING GLOBALIZATION, EMPLOYMENT AND
POVERTY REDUCTION”**

**REPORT OF THE RESEARCH WORKSHOP HELD IN DIVONNE,
3-4 OCTOBER 2002**

International Policy Group – International Labour Office – Geneva

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1. Background

The research workshop “Understanding Globalization, Employment and Poverty Reduction” held in Divonne-les-Bains in October 2002, is an intermediate step of an ILO-IPG research project, funded by the Department for International Development (DFID), United Kingdom. (See annexes A and B for schedule of the event and list of participants).

Three aspects of globalization are addressed: trade, foreign direct investment (FDI) and financial liberalization. The consequences of globalization in terms of employment, income inequality and poverty reduction are mainly considered within countries, with minor attention to the between-country dimension.

The project consists of two stages: the first, deals with theoretical and empirical studies and addresses the overall group of developing countries (DCs); the second stage is devoted to country studies, focusing on economies which have shown a high degree of acceleration in international openness and heterogeneous performances in terms of employment, income distribution and poverty alleviation (Ghana, Kazakhstan, Morocco, Nepal, Peru, Viet Nam).

Theoretical and empirical research presented in the first stage will be published in book form at the end of 2002. The first part of the book, mainly theoretical, will address general issues within a broad perspective, including discussion of institutional change, political reforms and between-country comparisons. The methodological approach to this theoretical framework will involve a critical assessment of the (sometimes outlandish) mainstream optimistic view of globalization as a panacea for all the world’s illnesses.

The second part of the book will be mainly empirical and narrower in scope due to data limitations and the necessity of parsimonious econometric specifications. In this context, being aware of the severe limitations assumed, only measurable dimensions of globalization will be taken into account and only within-country estimates will be carried out.

The third part of the book will treat the political implications of issues and results discussed in previous chapters, both in terms of national and international policies.

2. Workshop report

2.1 Introduction

Mr. Eddy Lee opened the workshop, presenting it as part of an ongoing research project started in July 2001 (see Section 1). The discussion would focus on the initial outputs of the project consisting of six papers and two oral presentations on the economic theory, empirical evidence and policy implications of the links between globalization and employment, income inequality and poverty.

The participants comprised the authors of these studies, other experts designated as discussants and specialists from the following international organization: ILO, UNCTAD, OECD and WTO (see Section 3).

The aim of the workshop was to subject these studies to critical assessment, gather comments and suggestions and identify gaps in knowledge for further attention. A subsidiary purpose was to obtain guidelines and suggestions for the design of the next phase of the project which would consist of six country case-studies on the impact of increasing trade and FDI on employment, within-country income inequality and poverty.

The workshop was conducted in five sections: each of the first three sections involved the presentation of two papers (one theoretical and one empirical) on the three different aspects of the impact of globalization: employment, income inequality and poverty. The two remaining sections were devoted to particular aspects of globalization (technology and financial liberalization) and to the preliminary policy implications of the research outcomes.

Professor Vivarelli raised three points concerning definitions, research methodology and expected outcome.

As far as definitions were concerned, he reminded participants that the project would deal with the “social impact of globalization in developing countries (DCs)”. Globalization was defined as increasing trade and FDI and hence had to be considered as a measurable phenomenon; developing countries were considered to be all countries in the world except North America, Western Europe, Japan, Australia and New Zealand. Finally, for the purposes of the project, “social impact” meant consequences in terms of employment, income inequality and poverty within the DCs.

Concerning methodology, Professor Vivarelli emphasized how the debate about the social impact of globalization, is still heated, sometimes ideological. To differentiate, this project would try to put forward an open-minded approach to arrive at results based on sound empirical studies. While the project's main focus was not economic policy, some policy implications might result.

He concluded by saying that the expected outcomes of the workshop would be published in book form, collating the papers and discussants' comments, with three concluding chapters on policy implications.

2.2 Session I: Globalization and Employment

Basic question:

What is the relationship between globalization (increasing trade, FDI inflows and institutional reforms in favour of openness) and employment levels within DCs?

Professor Sanjaya Lall – University of Oxford, United Kingdom:

“The Employment Impact of Globalization in Developing Countries”

Professor Lall's paper addressed the relationship between globalization and employment levels in DCs. Globalization was intended as part of a massive process of systemic, technological and policy shifts, with numerous inter-dependencies, so that it was almost impossible to separate the effect of globalization on employment from that of other factors, especially technology. Moreover, the current period of globalization had a clear technological motor where information and communication technologies (ICTs) played a central role (demonstrated by graphs of recent statistics) and were absorbed by a passive learning process. This revolution called for new skills, production structures, infrastructures and institutions.

On the trade side, from the theoretical point of view, the canonical Heckscher-Ohlin theorem should predict employment growth in DCs, but in the strictly theoretical sense this was true only if all markets should clear. Hence, not taking into account many sources of market failures, it became difficult for this model to predict the impact of trade liberalization on employment: it all depended on the type of country. The new trade theories – such as those put forward by Krugman and Grossman and Helpman – actually took technological differences, scale

economies and externalities, into account. Yet, while they used more realistic assumptions than H-O, they did not produce unambiguous predictions for employment. Indeed, in this situation multiple equilibria were possible.

On the FDI side, the experience of transnational companies (TNCs) was mixed. Some liberalizing economies had enjoyed sustained employment growth. Many others, especially in sub-Saharan Africa and in some countries of Latin America, were suffering declines in outputs and formal sector employment. There was also a real possibility that the benefits of TNCs global outsourcing would remain highly concentrated. In sum, the FDI aspect of globalization offered substantial employment benefits only to those countries which were able to attract, retain and leverage foreign investments. Unfortunately, very few DCs fell into this category and some of those faced serious challenges such as wage rises and competition from cheaper countries. Again, the critical variable was the ability to provide a competitive setting for TNCs to locate operations, not just based on low wages but on the whole range of capabilities that were needed for modern industry.

On the whole, no generalization was possible, different impacts of globalization on employment depended on different countries' institutional endowments, such as local technological capabilities, effectiveness of policies, workers' abilities and skills. In this context, neoclassical models were based on strong simplifying assumptions and might be misleading, while a more realistic consideration of structural differences, technological gaps and institutional peculiarities, suggested that the initial stimulus to employment might not be sustainable in a very competitive environment unless specific economic policies were undertaken.

Discussion by Professor Giorgio Barba Navaretti – University of Milan, Italy

The main messages coming from Lall's paper was that technological upgrading was the main path to economic growth and employment creation for developing countries participating in world trade; in turn, endogenous "social capabilities" and "absorptive capacity" were crucial for filling the technological gaps. Barba Navaretti shared Lall's view, but also suggested broadening Lall's conceptual framework: for example, possible additions could be:

- to generalize the analysis of the effect of globalization on production factors demand;
- to address the welfare implications of these effects;

- to discuss changes in labour market dynamics (considering wage and skill differentials, the informal labour market, the deregulation process); and
- to reach other possible policy options in addition to technological upgrading.

The discussant also raised a specific point related to skilled workers, maintaining that the export sector in the South was low-skill intensive compared to the North but high-skill intensive compared to non-tradables in the South. So, with trade, the relative demand for skills was raised both in the North and South, according to Feenstra and Hanson's approach.

From the welfare perspective, it might be a trade-off between income distribution (effects on demand of skilled/unskilled employment and relative wages) and income growth (effects on average income and employment creation).

Finally, considering FDI, it would have been interesting to consider skilled labour, unskilled labour and capital together and assess the various complementarity and substitution effects between the different production factors.

Mr. Vincenzo Spiezia – OECD Paris, France:

“Trade, FDI and Employment in Developing Countries: Some Empirical Evidence”

This study examined the link between trade and employment in DCs. The first part reviewed the main theories connected to the trade/employment relationship. In fact, the H-O theory predicted that exports from DCs tended to be more labour-intensive than exports from industrialized countries, therefore increasing trade would reduce employment in developed countries and increase it in DCs.

Adopting a different approach, the technological-gap theories assumed that trade was explained by the capability of industrialized countries to innovate more rapidly than DCs. Producing innovative commodities, developed countries attracted market shares away from traditional commodities produced in DCs, thereby reducing employment in these countries. For instance, Cimoli and Soete showed that employment in DCs would increase only if the rate of imitation was higher than the rate of innovation in industrialized countries. Employment effects of trade could not, therefore, be predicted “a priori”.

In the empirical section, the author put forward partial correlations between trade and employment for 66 DCs, controlled for time and capital deepening (investments/output). Results showed how in only 44 per cent of the sample, both exports and imports were linked to an increase in the average employment intensity, according to H-O theory.

In the second part of the empirical analysis, an assessment of the employment effects of trade was checked in order to understand whether exports and imports were more or less labour-intensive than non-traded goods in manufacturing sectors. In 21 countries exports seemed to be more labour-intensive than both non-traded goods and imports, so that an increase in the volume of trade would result in an increase of employment. Instead, in the second group of 18 countries, exports appeared to be less labour-intensive than non-traded goods and imports, so that increased integration produced a reduction in employment. These results seemed to provide some indirect support for the explanation of trade based on international differences in technology and final demand, rather than differences in relative factor endowments. The between-countries differences were not explained by geographical location, income per capita or degree of openness.

A similar exercise would be carried out for FDI in comparison to Gross Domestic Investments (GDI). Some preliminary results showed how the competition effect due to FDI was greater than the labour-saving effect connected to more productive technologies and GDI, exclusively in East Asia and Pacific countries, meanwhile no such evidence was found in all other DCs.

Discussion by Professor Sanjaya Lall – University of Oxford, United Kingdom

Professor Lall raised some questions about the theoretical part; in particular he felt that neoclassical assumptions of the H-O model appeared particularly unrealistic, since they did not take into account technological and institutional differences, both between developed and developing countries, and within developing countries.

Moreover, in the empirical part, Spiezia had only dealt with (in the breakdown analysis used for the partial correlations) the labour content of domestic production, import and export, while the growth effect triggered by trade and increasing FDI should also have been considered.

Finally, more data was needed on the employment impact of FDI, taking into account that in many DCs domestic investments were still much more important (and often more labour-intensive) than FDI.

General Discussion on Session I

During the discussion various points were raised. Mr. Akyuz said that some attention must be paid to the risk of double counting of trade data; the overestimation might be due to

production chains within transnational corporations. If this statistical artifact was considered, it could be seen that some DCs increased their shares in world trade, but also decreased their shares in the worldwide manufacturing value added. In addition, some DCs had been completely marginalized both in terms of production, trade and FDI (typically, sub-Saharan Africa). These countries were still affected by huge shortcomings in accessing world markets and in their ability to fill very large initial technological gaps.

Professor Reddy also advised caution when talking about globalization, which was a different concept from just a technological phenomenon. Moreover, to consider import/export figures alone gave a partial picture of the current wave of globalization, while more attention should be devoted to trade policies and other kinds of economic policies which interact closely with trade and FDI flows.

Mr. Ghose reiterated the difference between short-term and long-term effects: short-term effects depended on the starting conditions of countries (such as the aforementioned technological capabilities), while long-term effects could be partially shaped by industrial policy, technological policy and other economic policies.

Professor Vivarelli addressed some points that had emerged in the discussion. First of all, an important role was played by the technological absorptive capacity in DCs; second, the possible trade-off between growth and inequality raised by Barba Navaretti was an important issue which could be studied in the country case-studies; finally, if the FDI impact on employment was neutral (as emerged from Spiezia's preliminary results), policies to attract FDI would have to be justified on the basis of other arguments such as technological transfer.

Mr. Finger underlined the central role of new technologies and the need to implement them. For instance, it might have been useful if Spiezia had presented the data in terms of sectors of economic activity, including services sectors which tended to be ignored in empirical studies. In addition, the import of machinery, which might be particularly important for technological upgrading in DCs, should also have been considered. A second point raised by Mr. Finger, concerned the need to note that 40 per cent of trade imported by DCs originated within the South; which meant that a North-South approach could explain only a part of the story.

Professor Cornia felt that this session, as a whole, should have focused more on employment issues. For instance, the impact on labour market institutions should be explicitly taken into account, while the role of the shadow economy could not be neglected. Indeed, in

many DCs, globalization went hand in hand with the deregulation of the labour market and with the expansion of the informal sectors (e.g. the Latin American situation). The other point raised by Professor Cornia concerned the role of domestic investments versus FDI. For instance, in both East Asia and China, the real economic miracle had been triggered by the boom in domestic investments, with FDI subsequently playing a minor role. Professor Saith noted that both domestic and foreign investments could work even if it were uncertain that FDI could generate positive employment externalities.

Professor Berman invited Mr. Spiezia to separate trade flows according to trade partners. Finally, points raised by Professor Fosu invited the authors to take into account the role of both non-tradable goods and the informal sector.

Basic answers:

Some conclusions were drawn from papers and discussions. To differentiate from the H-O clearcut prescriptions, the employment impact of globalization in DCs was hardly predictable and crucially depended on the technological absorptive capacities and the institutional context of the different developing countries. In this context, and according to the preliminary empirical results presented, some DCs could benefit from increasing trade and FDI, while others tended to be either marginalized or increasingly dependent on the role of the shadow economy. Similarly, FDI might trigger virtuous or vicious circles according to the different stages of economic and social development of the host countries.

Open issues:

Participants agreed that this section should have focused more on employment issues, with particular reference to the role of the informal sector, the shadow economy and the impact of institutional changes within the formal labour market (wage dynamics, deregulation, union coverage, etc.). In addition, some preliminary comparative descriptive statistics on overall employment dynamics in DCs were needed.

2.3 Session II: Globalization and Inequality

Basic question:

Is there any relationship between the increase in international trade and FDI flows and the rise in within-country income inequality which had been observed in many countries during the last two decades?

Professor Giovanni Andrea Cornia - University of Florence, Italy:

“Trade Liberalisation, FDI and Income Inequality”

This paper focused on the debate concerning the interaction between trade liberalisation, FDI and income inequality. It reviewed the empirical trends in global, between- and within-country inequality, over the last twenty years by main regions. The main finding was that the last two decades had witnessed a widespread rise in within-country inequality, even in DCs which were exporters of labour-intensive goods and main recipients of FDI.

The author then examined the predictions of the mainstream trade theory and alternative theoretical approaches on the distributive impact of the liberalization of trade and FDI. Finally, the paper discussed the relative influence of trade and investment liberalization *vis-à-vis* other policy driven and structural factors in determining inequality changes in DCs over the last two decades.

According to Cornia’s paper, measurement of global inequality and its changes were influenced by statistical (sometimes arbitrary) choices. He suggested that, under specific country circumstances, more refined theoretical approaches might best help the foreseeability of the distributive impact of trade liberalization.

Turning to FDI, he assumed that its potential for improving income inequality within and between countries had been historically limited: while FDI as a share of GDP had increased in all regions, including parts of Africa, FDI were mainly directed to the developed countries and to a few large middle-income countries, bypassing low-income countries that needed to massively increase their capital formation and formal sector employment.

However, technological change and other components of the “new market paradigm” were other factors seen to have contributed to the widespread increase in inequality.

The main conclusion of this study was that trade and FDI had not generated the favourable effects on the distribution of income predicted by the simplest formulation of the neoclassical trade theory. In several different cases trade liberalization had been accompanied by rising wages and income inequality. However, trade liberalization and FDI did not appear to be the main culprits of the distributional deterioration over the last twenty years; rather, unstable short-term portfolio flows and their systemic effects on exchange rates seemed to have been the two most important factors responsible for the rise in within-country income inequality. Likewise, inequality had also been influenced by domestic policy reforms such as those related to the reform of domestic labour markets, the liberalization of financial sector and the reform of taxes and fiscal policies. These economic policies, which had been introduced to facilitate international integration of poorer countries, seemed to have had unfavourable effects on wage and income inequality.

Discussion by Professor Sanjay Reddy - Columbia University, New York, USA

According to Reddy's comments, the main conclusion on trade liberalisation could not be generalised. On the one hand, Kuznet's law (which forecasted an increase in inequality in the early stages of economic development) implied different relationships between trade and inequality according to the stages of development of the different DCs, on the other hand, inequality appeared as a "fractile" phenomenon where; within-country, between-country and global effects were operating at the same time. Also for these reasons, it was better to separate trade and FDI implications.

Moreover, domestic inequality was more worrying than global inequality. Poor data, together with inadequate measures, could give biased indications (see, for instance, the disputable assumptions adopted in order to compute purchasing parity power (PPP) values, or different conclusions which could be drawn using data either in levels or in differences).

As results were very sensitive to assumptions, Professor Reddy posed the question whether a closer link between trade and within-country inequality might emerge if "the cones of diversification" hypothesis was assumed (in other words, each country should be studied taking into account its own specific trade partners). With regard to inequality, questions arose about issues such as domestic inequality or inequality in local communities. Moreover, considering

those who had gained from globalisation, it was also important to take account of the size and relative economic dimension of the different single countries.

Finally, Professor Reddy asked for a deeper analysis of the unequal impact of the economic policies (structural adjustments) induced by recommendations from the Washington institutions.

Professor Marco Vivarelli - International Policy Group, ILO, Geneva:

“Globalization, Skills and Within-country Income Inequality in Developing Countries”

In this paper, the basic research question was: Is openness good or bad for income inequality within developing countries? The author critically discussed the arguments in favour of the alleged egalitarian impact of trade and FDI on within-country income inequality, mainly from a theoretical point of view. In fact, the Stolper-Samuelson theorem prediction on the egalitarian impact could be contrasted with other theoretical streams of literature (such as those dealing with technology transfer and recent models of international trade) leading to exactly the opposite outcome. The author also showed that previous empirical studies had not found any significant relationship between openness (or FDI) and within-country inequality.

Based on studies of 45 developing countries, the empirical study analysed the dynamic path of the Gini index. It presented econometric exercises with robustness checks (checking for initial values of Gini index and per capita GDP, supply of educated workers, policy changes, time trend and observational heterogeneity). More specifically, the main conclusion was that the popular idea, that greater economic integration across countries was associated with an increase in inequality within developing countries, was not necessarily in contrast with theoretical considerations, but could not be significantly supported by the empirical evidence.

However, preliminary empirical estimates on a sub sample of countries also indicated that, in the early stages of openness to trade, import might imply an increase in within-country income inequality. From a policy point of view, the author argued that in the long term globalisation seemed to have had a neutral impact on within-country inequality, but some complementary social policy might be necessary in the early stages of openness to trade-

Discussion by Professor Giovanni Andrea Cornia - University of Florence, Italy

In Professor Cornia’s view, Vivarelli’s study needed to be extended along different lines.

For instance, Kuznets' law, which was considered in Vivarelli's paper, did not always work, while different dynamics might emerge according to different levels of land concentration, average level of education and the relative weight of the informal labour market. Hence, the author was invited to check these additional empirical dimensions.

Another possible drawback concerned the dependent variable: Gini index, as an inequality measure, did not necessarily work in DCs in the same way as it did in developed countries. In particular, while wage dispersion was very close to income inequality in developed countries, this was not as true in DCs, especially when the informal sector was large in comparison to the official one.

Finally, it would be interesting to run new disaggregated estimates in order to single out the possible independent roles of manufacturing exports (the hypothesis being that they might have had a negative impact on within-country inequality) and import of machinery (the hypothesis being that they might have had a positive impact on within country inequality through the implementation of skill-biased technologies).

General Discussion on Session II

Mr. Ghose's concern was the reliability of data on inequality in DCs, with particular reference to the distinction between wage dispersion and income inequality. As Professor Cornia had already noted, he suggested the consideration of the informal sector, services and manufacturing goods. He also argued that the analysis might be split into a short term and a long-term approach.

Professor Barba Navaretti mentioned the possible risk of composition effect and asked for sectoral estimates, while in his opinion FDI had to be considered in a very specific way both from theoretical and empirical points of view.

Mr. van der Hoeven discussed the limits of the policy dummy used in Vivarelli's econometric paper. Some participants felt that the use of a new policy variable based on Barro-Lee indicators might help to overcome this problem.

Professor Berman argued that while the effects of opening through trade are likely temporary, the effects through technology transfer are much more permanent.

Professor Campiglio wondered whether the relative size of the different DCs had been adequately considered when identifying those who had gained and those who had lost from the

globalization process. Finally, Professor Taylor underlined how trade liberalization was of secondary importance compared to the financial one.

Professor Vivarelli agreed with most of the comments and would divide the sample according to different categories which would consider land concentration, educational attainments, and the role of the informal sector. In addition, he would proceed to run some disaggregated estimates. He was aware of the limitations of Gini index, but noted that this was the indicator commonly used in the vast literature on the subject (analytically reviewed in the paper) and that alternative databases on wage inequality (such as the ILO October Inquiry) were affected by serious limitations which rendered them unusable for the purposes of his study.

Basic answers:

At the end of this session, some points were summarized. The alleged (H-O model) egalitarian effect of openness on DCs' within country inequality could be rejected by a deep theoretical and empirical analysis; yet trade liberalization and FDI did not appear to be the main culprits of the distributional deterioration which had occurred in most of DCs in the last twenty years. This conclusion was confirmed by the empirical analysis, although it seemed that, in the early stages of openness to trade, import might imply an increase in within-country income inequality.

Open issues:

Participants underlined the scope for further research. From a theoretical point of view some deeper analysis was needed, especially with regard to the possible different roles of trade and FDI and the possible distributional effects of policies related to globalization, though not directly measurable in terms of trade and FDI increases. From an empirical point of view, some extensions were needed including additional institutional dimensions and sectoral disaggregations of data.

2.4 Session III: Globalization and Poverty

Basic question:

What is the relationship between globalization (increasing trade, FDI inflows and institutional reforms in favour of openness) and the chances for poverty alleviation within DCs?

Professor Ashwani Saith – Institute of Social Studies, The Hague, The Netherlands:

“Globalization and Poverty: a Complex Relationship”

In his speech, Professor Saith underlined some key points. First of all, both poverty and globalization were difficult concepts to define.

What was an adequate measure for poverty? There were better measurements than the traditional poverty line (1 dollar a day). A proper index could be based on adequate spending on food, health and education, the supply of public goods, environmental indicators, or a weighted combination of the previous measurements.

Moreover, people who have experienced poverty are more likely to increase their insecurity, income volatility and overall social vulnerability; hence, poverty and social exclusion should be considered together.

In the case of FDI - which are generally geographically and sectorally concentrated - it was difficult to draw general conclusions about their impact on economic growth and poverty alleviation. For instance, China showed an increase in FDI, domestic investments and economic growth, but at the same time a dramatic increase in income inequality (although a decrease in absolute poverty). In contrast, India showed an increase in FDI at the expenses of domestic investments. These different outcomes also depended on different economic and trade policies adopted by the two largest Asian countries. This example showed how the link between trade/FDI and poverty alleviation was hardly generalizable and might be country specific.

Another point raised by Professor Saith concerned the importance of the role played by the traditional rural sector and the informal sector in determining the actual figures of relative and absolute poverty within a given country. Globalization also strongly affected the shadow economy.

At the end of his speech, Professor Saith suggested that the participants define a proper taxonomy capable of representing the different impacts of globalization on poverty in various groups of DCs.

Discussion by Professor Luigi Campiglio – Università Cattolica Milano, Italy

Professor Campiglio posed the following question: “Are we living today in a world more or less stable than 50 years ago?” According to him, apart from US, most countries were nowadays experiencing less stable environments. This uncertainty should be taken into account in measuring relative poverty and a possible first remedy might be some scheme of social insurance defined at international level.

The second crucial and related point was how to measure poverty. A new measure might be the number of indebted families, as an indicator of insufficient income.

The last point raised by the discussant concerned the role of FDI and the way they were related to domestic investments; as Professor Saith said, it was not clear whether FDI were crowding out domestic investments and this phenomenon had to be clearly assessed before endeavouring to gauge the poverty impact of FDI.

Professor Enrico Santarelli – University of Bologna, Italy:

“Does Globalization Reduce Poverty? Some Empirical Evidence for the Developing Countries”

The paper by Santarelli, Figini and Pianta could be summarized in three main points. First, had they clarified which definitions of globalization and poverty (both absolute and relative) that were used. They had then reviewed the empirical literature analysing the relationships between economic growth and poverty and between trade and poverty (by increasing economic growth). Finally, they had run a set of econometric estimates on the effect of globalization on poverty.

Globalization was measured by standard indices of trade openness (import and/or export over GDP), financial openness (FDI/GDP) and privatisation (Central Government Expenditure/GDP). The proportion of workers beyond the poverty line and a variable of relative poverty (defined as the ratio of people earning less than a fixed proportion of the mean domestic income) were chosen to assess poverty. The use of relative poverty indices facilitated the inquiry into a different dimension of poverty and provided additional information with respect to previous research. Statistical analysis on the available data, showed that the dynamics of absolute poverty moving from the ‘70s to the end of the ‘90s proved very puzzling: twenty-three out of the 47 DCs analysed exhibited a dramatic reduction in the proportion of population living below the

poverty line, but regrettably, among the 24 that did not experience a significant reduction but rather an increase in the share of population living in poor conditions, 11 were in sub-Saharan Africa, the region most severely affected by poverty.

The estimates presented were based on panel data techniques. The equations included various dummies as control for specific effects (political regime, religion, regional dummies, specialisation dummies and other controls).

Moreover, the first-difference specification focused on the change in poverty within countries, leaving aside the between-country change. Looking at the econometric results, it seemed that trade openness reduced absolute poverty, but had no effect on relative poverty. In particular, trade performance (measured as the ratio between export + import over GDP) had a positive impact on absolute poverty reduction, while trade policy appeared to be neutral and financial liberalization might have even resulted in an aggravation of absolute poverty.

A possible explanation could be found in those factors internal to each country that were likely to influence income distribution, including the presence of minimum wage legislation and the tax burden on entrepreneurial activities. Moreover, it had to be remembered that the early stages of industrialization were usually characterized by a polarization of income towards the tails of the distribution.

Discussion by Professor Ashwani Saith – Institute of Social Studies, The Hague, The Netherlands

All the issues raised by Professor Saith related to the specification of the model. First of all, the discussant stressed that the proposed form was not based on a theoretical model. He also disagreed with the use of the sole notion of income poverty as a dependant variable. With regard to right-hand side variables, he questioned the use of religious dummies and stated that econometric estimates should include a variable taking into account the strong differences in terms of economic development among the various DCs. Finally, he remarked that the estimates' results might suffer from problems of endogeneity, especially in those specifications where variables in levels were used.

General Discussion on Session III

The general discussion focused on the empirical paper presented by Professor Santarelli. Professor Barba Navaretti noted that a measure of economic development (such as income per capita) was missing as an independent variable and this could affect the results obtained. Moreover, he also suggested the consideration of the impact of globalisation on micro-institutions which could be important in alleviating poverty (e.g. micro-credit). Professor Reddy emphasised that it was probably too soon to implement an empirical study such this one and that there could be some spurious correlations among the different variables used in the econometric estimates. Mr. Spiezia pointed out that the proxy for privatisation was not particularly satisfactory. Professor Cornia was very sceptical about the dataset taken from the Sala-i-Martin study and asked that its robustness be checked and that additional variables, such as land concentration, be included. Professor Santarelli agreed on some points; he would try to run the estimates again (only in differences) using more satisfactory proxies and additional variables and cross-check the consistency of his data sets.

Basic answers:

As emerged from the discussion, it was certainly true that the relationship between globalization and poverty was very country-specific; there was some empirical evidence showing that in the majority of countries increased globalization occurred simultaneously with an overall decrease in absolute poverty; conversely, it appeared that relative poverty had not been influenced by the opening process.

Open issues:

Participants agreed that further research on the issues dealt with in this session was needed. From a theoretical point of view, a deeper and more specific analysis is needed in order to achieve some generalizable conclusions. From the empirical point of view, the available results should be checked both in terms of data reliability and robustness of the econometric results (especially with reference to possible problems of omitted variables and endogeneity).

2.5 Session IV: Globalization, Technological Change and Capital Markets

Basic question:

What are the consequences of technology transfer (induced by trade and FDI) towards DCs and financial liberalization within DCs, particularly in terms of employment levels and income inequality?

Professor Eli Berman – Rice University, Huston, Texas USA:

“The Social Impact of Globalization: the Role of Skill-biased Technological Change”

Berman and Machin’s paper stemmed from a survey of previous evidence on the impact of technological changes on the demand for skilled and unskilled labour. It then put forward a new empirical study with some new results on DCs.

The first conclusion drawn from the available empirical literature was that labour demand is shifting away from less skilled workers: there was an increase in both wage differential and relative labour share of skilled workers compared to less skilled. In theory, such a bias might arise either from a change in the sectoral composition of final demand and trade, or from the diffusion of a new set of technologies requiring skilled labour. A simple split of the change in the demand for skills into two components (a within-industry and a between-industry component) enabled the authors to assess that the within-industry evolution prevailed. This could be seen as strong evidence of the impact of technological change on labour demand (in fact, technology operated inside a sector, while changes in final demand and trade involved intersectoral flows).

Furthermore, this phenomenon could be observed in a large number of countries. The pattern of changes in skill demand in different industries was similar in developing and developed countries. This is consistent with the idea that new technologies emerge in developed countries but become pervasive. The last piece of evidence was based on econometric results that tested the correlation between the changes of the wage bill share of skilled workers and various indicators of technological change.

Two results emerged from new empirical estimates in Berman and Machin’s paper. The first showed an increase in capital/labour ratios in manufacturing industries of high and middle-income countries. The authors argued that this was direct evidence of labour-saving technological change and indirect evidence of skill-biased technological change (assuming that skilled labour complements capital). The second new result indicated that cross-country correlations of changes

in sectoral capital/labour ratios are positive and significant for middle income DCs. Correlations between changes observed in manufacturing industries in middle-income countries and changes that occurred in the same industries in the United States are also positive and significant. This result was seen as evidence of pervasiveness of general purpose skill-biased technologies in middle-income countries. The evidence for low income DCs is much weaker.

Discussion by Professor Marco Vivarelli – International Policy Group, ILO, Geneva

Three points were raised by the discussant

- The result of the breakdown of the between and the within effects might depend on the level of aggregation of the data used. Adopting a four-digit classification instead of a two-digit one would probably have increased the relative importance of the between effect (related to changes in final demand and trade) with respect to the within effect (related to technological change).
- It was challenging to think that DCs always implemented the same innovations that had been discovered and applied in the developed countries. It really depended on the type of technology transferred to the DCs: some could be advanced but others could just transform the pre-existent craft production into a tayloristic organisation (such as in the case of textile or steel). While in the first case updated skilled biased technologies were promptly transferred, in the second case a mature labour intensive and unskilled intensive technology was moved from the North (where such technology was considered obsolete) to the South (where it was modern in relative terms). If such was the case, the General Purpose Technology approach was adequate for some technologies/sectors while it might be misleading for other technologies/sectors where there was an obvious technological lag between developed countries and DCs.
- While the hypothesis that capital intensity might be an indirect indicator of possible skill bias seemed to be reasonable, again, the hypothesis of a first best technology common to developed and developing countries, did not seem strictly necessary.

Professor Lance Taylor – New School University, New York, USA:

“The Social Impact of Globalization: the Role of the Capital Markets”

Professor Taylor presented discussion points to be further developed in the chapter he would write for the forthcoming book (see Section 1).

His main idea was that financial instability in developing countries induced more important changes in their economies than those connected with trade liberalization and with the implementation of new technologies.

Professor Taylor split demand and labour productivity growth in order to understand their main determinants and assess the role played by the external sector.

The first conclusion which had been obtained from an analysis of the available data, indicated that a taxonomy of countries was necessary. The Asian case presented different features from those observed in Latin America. After the crisis, demand for Asian countries had been pulled by exports while the internal demand prevailed prior to the crisis. In Brazil a reverse phenomenon had been noticed.

It also seemed that in a large number of countries traded goods sectors had been leading the labour productivity growth. The dramatic changes experienced in exchange rates had induced bankruptcies and transformed the structure of the economies.

The combination of these two analyses assisted an understanding of what happened to sectoral labour reallocation: for instance, a country where the demand for traded goods had increased while the labour productivity of the sector had not evolved sufficiently, would experience a reallocation of labour force towards the sector.

Discussion by Mr. Raymond Torres – OECD, Paris

The discussant agreed with Professor Taylor on the importance of capital flows in affecting DCs' growth and slowdowns and also on the opportunity to differentiate among various groups of countries depending on their responses to financial crises.

He underlined the fact that the globalization process of the nineties showed systematic differences between short-term and medium-term effects in developing countries: while short-term effects might have been negative and closely determined by possible financial instability, the medium-term effects might have been positive and characterized by an increase in FDI, economic growth and employment.

However, the final outcome of financial liberalization in different countries strongly depended on their relative initial conditions. From this point of view, using Stiglitz' words, "neither repression nor full liberalization were good strategies" it could have been the case that specific economic and social policies would have been implemented before entering international competition.

General Discussion on Session IV

The first point raised during the discussion referred to Professor Taylor's presentation. The participants regretted that not enough emphasis had been put on the labour effects of financial liberalization. In particular, they wished to know whether a relationship could be detected between financial vulnerability, the increase of unemployment and a drop in real wages experienced in some DCs.

Mr. Akyuz stressed that all the positive employment and wage effects of financial liberalization which had occurred in the early nineties, subsequently disappeared in the late nineties. While workers lost considerably during financial crises in emerging markets, their income and employment lagged considerably during subsequent recoveries. Such an asymmetry could be explained by the poor bargaining power of workers in these countries, as maintained by Professor Reddy.

During the discussion on the paper by Professor Berman and Mr. Machin, numerous contributions pointed out that the impact of technology on labour demand should be defined more precisely (Professor Barba Navaretti). What kind of skills was required? Was formal education necessary? To answer these questions it was important to have a better knowledge of the nature of the actual technological transfers from the North to the South at the micro level (it was a more direct indicator of technological transfer that was needed). While in the paper, the effects and nature of these transfers were only indirectly documented for the manufacturing industries, there was a long way to go before understanding what was happening in services and agriculture (this point had also been raised by Mr. Ghose).

Professor Campiglio wondered whether a possible long-term upper bound of the skilled/unskilled ratio could be envisaged or whether skill-biased technological change had to be seen as a permanent phenomenon.

Mr. Spiezia argued that the skill bias effect might have had very different social consequences when it occurred in a context of an overall shrinking of employment versus a situation with positive job creation.

Berman replied to a few points: first of all, no upper bound was easy to detect for the skilled/unskilled ratio. It appeared to be clear that there were some common situations: in high-income countries employment in manufacturing was falling (as a consequence of the reduction in the demand for unskilled workers); in middle-income countries, where manufacturing was expanding, employment in manufacturing was growing: mainly a flat demand for unskilled workers and a growing demand for the skilled workers could be detected. Finally, little was known about low-income countries. More research is clearly needed to understand the effects of technological change on services and agriculture in developing countries. Nevertheless, manufacturing is where we would expect the strongest effects of goods market integration on labour markets. Those effects are inconsistent with the predictions of trade theory but are consistent with the skill-biased technological change hypothesis.

Basic answers:

Participants noted that at least middle income DCs seemed to be affected by the same skill-biased technological change which had been affecting the developed economies in the last two decades; this implied a tendency towards an increase in wage differentials and hence income inequality.

Financial liberalization might have exposed DCs to macroeconomic vulnerability and so accelerated economic slowdown; however, the ways the various DCs had dealt with financial crises and following recoveries, might have been very different.

Open issues:

It was agreed that while the analysis of skill biased technological change only required some extensions in order to improve assessment of the technological gap between developed and developing countries, the study on financial vulnerability of DCs opened to international competition had to be fully developed, with particular reference to the description of possible vicious circles which might occur within the, often inadequate and institutionally fragile, credit and financial markets in the DCs.

2.6 Session V: National and International Policy Implications

Basic question: : Given the main findings of the previous sessions, what was the scope of national policies within DCs and of international policies (originated by UN agencies, Washington institutions, European Union and other international entities) in shaping the social consequences of globalization?

This session was based on oral presentations at the workshop. Chapters in the book on national and international policies would be written after the workshop, taking into account presentations and discussions.

Professor Augustin K. Fosu – African Economic Research Consortium, Nairobi, Kenya:

“The Social Impact of Globalization: the Scope for National Policies”

Usual economic policies for enhancing international competitiveness relied on infrastructures (for instance for attracting FDI), macropolicies (see, for example, the need to reduce over-evaluation of the exchange rate), properly targeted policies (i.e., export diversification in order to reduce the possible adverse effects of external shocks) and policies oriented to reduce mobility costs (e.g., with respect to skills and training and the role of transnational companies). Yet, according to Professor Fosu, trade and macroeconomic policies were often characterized by dilemmas and trade-offs.

For instance, as had emerged from the discussion at the workshop, the wage and employment impact of increasing globalization was ambiguous and could not be predicted “a priori”. In addition, different impacts occurred in the tradeable, import and non-tradeable sectors. An important target of trade policy was to obtain a positive net-effect in terms of employment and wage equality.

Other possible trade-offs concerned the macroeconomic policies designed to accompany globalization: for instance DCs governments had to balance sectoral and technological targeting with the need to avoid excessive market distortions.

Finally, improving skills and training was an obvious policy goal, but its timing was very important. Was it necessary before the opening process, during the opening process or was it a policy adjustment to treat the possible adverse effects of globalization? These kinds of policies were also a meant to deal with possible negative effects of globalization in terms of income inequality. Also in this case, as was previously discussed, the effects of globalization were

uncertain and probably highly country-specific. Possible trade policies aiming to control (or even slow down) the opening process had to be designed accordingly to the specific level of development of country's social capabilities.

Mr. John Langmore, ILO Liaison Office with the UN, New York, USA

“The Social Impact of Globalization: the Role of International Policies”

A possible agenda of international policies dealing with increasing globalization should include: interaction between international and national policies; improvement of technological capabilities (including new forms of international technical assistance); greater assistance to investments coming from outside (including availability of local capital, incentives for joint ventures and different policy options for greenfield investments and mergers and acquisitions); international financial assistance and reduction of financial instability (including some forms of protection for “innocent” victims of the contagious international financial crises); improvement of financial cooperation; strengthening of skills and technology; harmonization of standards.

Nevertheless, the discussion on possible international policies had to take into account that more and more emphasis was now being devoted to single country interventions and that there were many countries in the world actually almost completely excluded by the current globalization process.

Having said that, it seemed plausible to believe that there was still the opportunity at least for international macroeconomic coordination, to smooth international financial instability and settle an international legal framework while also dealing with the social impact of increasing trade, FDI and financial flows.

General Discussion on Session V

Some of the participants asked for an extension of the policy agenda proposed by Professor Fosu and Mr. Langmore; in particular, Professor Cornia underlined the risks connected to international financial contagion; Mr. Torres stressed the role of labour mobility and the need for migration policies; Anne Trebilcock reminded participants of the gender dimension of many of the issues discussed in the workshop (think, for instance, of income inequality, educational issues and the aforementioned migration issues).

Professor Lall thought that some important answers could be obtained in the next phase of the project, namely through the six country studies (see Section 1). With this purpose in mind, the next phase should include both successful and unsuccessful experiences with globalization.

Professor Vivarelli focused on the increase of global economic uncertainty which called for social policies, skill-biased technological change and training/retraining policies (including at the international level: the European Social Found being an example).

Basic answers:

There could be no doubt that there was still a role for national and international policies in dealing with the consequences of globalization. Examples of such policies were: singling out market failures, listing priorities and designing policy interventions.

Open issues:

Participants agreed that while the agenda of possible economic policies had been clarified by the discussion within the workshop, priorities and actual ways of interventions still remained to be investigated in detail; from this point of view, the possible use of quantitative indicators and monitoring/evaluating tools, might be a proper solution.

Some participants observed that the available data on employment in developing countries often was not up to date or was only available at highly aggregated levels. To facilitate research, the participants encouraged the ILO to consider how to improve the employment statistics together with the national and (international) statistical agencies.

ANNEX A: Schedule of the Workshop

WORKSHOP ON GLOBALIZATION, EMPLOYMENT AND POVERTY REDUCTION

Château de Divonne, France, 3-4 October 2002

SCHEDULE OF EVENTS

Thursday, 3 October 2002

0900 – 0915 Introduction to the Workshop

0915 – 1130 SESSION I: Globalization and Employment

0915 – 0935 “The Employment Impact of Globalization in Developing Countries” by Professor Sanjaya Lall, Oxford University

0935 – 0945 Discussant comments: Professor Giorgio Barba Navaretti, University of Milano

0945 – 1005 “Trade, FDI and Employment in Developing Countries: Some Empirical Evidence” by Mr. Vincenzo Spiezia, OECD, Paris

1005 – 1015 Discussant comments: Professor Sanjaya Lall, Oxford University

1015 – 1130 General Discussion on Session I

1130 – 1200 Coffee break

1200 – 1530 SESSION II: Globalization and Inequality

1200 – 1220 “Trade Liberalisation, FDI and Income Inequality” by Professor Giovanni Andrea Cornia, University of Florence

1220 – 1230 Discussant comments: Professor Sanjay Reddy, Columbia University, New York

1230 – 1250 “Globalization, Skills and Within-country Income Inequality in Developing Countries” by Professor Marco Vivarelli, International Policy Group, ILO, Geneva

1250 – 1300 Discussant comments: Professor Giovanni Andrea Cornia, University of Florence

1300 – 1430 Lunch

1430 – 1530 General Discussion on Session II

1530 – 1800 SESSION III: Globalization and Poverty

1530 – 1550 “Globalization and Poverty: a Complex Relationship” by Professor Ashwani Saith, Institute of Social Studies, The Hague, The Netherlands

1550 – 1600 Discussant comments: Professor Luigi Campiglio, Università Cattolica, Milano

1600 – 1630 Coffee break

1630 – 1650 “Does Globalization Reduce Poverty? Some Empirical Evidence for the Developing Countries” by Professor Enrico Santarelli, University of Bologna

1650 – 1700 Discussant comments: Professor Ashwani Saith, Institute of Social Studies, The Hague, The Netherlands

1700 – 1800 General Discussion on Session III

Friday 4 October 2002

0900 – 1130 SESSION IV: Globalization, Technological Change and Capital Markets

0900 – 0920 “The Social Impact of Globalization: the Role of Skill-biased Technological Change” by Professor Eli Berman, Rice University

0920 – 0930 Discussant comments: Professor Marco Vivarelli, International Policy Group, ILO, Geneva

0930 – 0950 “The Social Impact of Globalization: the Role of the Capital Markets” by Professor Lance Taylor, New School University, New York

0950 – 1000 Discussant comments: Mr. Raymond Torres, OECD, Paris

1000 – 1100 General Discussion on Session IV

1100 – 1130 Coffee Break

1130 – 1310 SESSION V: National and International Policy Implications

1130 – 1150 Presentation by Professor Augustin Fosu, African Economic Research Consortium, Nairobi on “The Social Impact of Globalization: the Scope of National Policies”

1150 – 1210 Presentation by Mr. John Langmore, ILO, New York on “The Social Impact of Globalization: the Role of International Policies”

1210 – 1310 General Discussion of Session V

1310 – 1330 Conclusions and Further Research Plans

ANNEX B: List of participants

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