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GLOBALIZATION, WAGES AND THE QUALITY OF JOBS

*Lessons for Policy Makers**

The problem: Creating good jobs with good wages

Policy makers in developing countries have to deal with serious challenges in domestic labor markets. In particular, they face a chronic lack of formal jobs, high rates of unemployment and underemployment, low productivity, and low wages. At the same time, globalization, as measured by international trade and foreign direct investment, has expanded significantly. International trade as a share of global GDP increased from 40% in 1990 to over 50% in 2004.[1] Over the same period developing countries' trade grew 11.5% per year and the absolute level of Foreign Direct Investment received by developing countries increased by a factor of ten.

Despite the misgivings associated with trade liberalization and more generally the opening of borders, globalization (openness) has become a dominant paradigm for economic growth (World Bank 1993, Frankel and Romer 1999). Alternative closed-economy development paradigms, such as the Import Substitution Industrialization were rejected for being perceived as less successful in bringing economic growth than policies that have favored openness. For example, the comparatively closed economies of Latin America have fared worse than their more open counterparts in East Asia.

Liberalization, however, has not turned out to be the panacea that many hoped it would be. One of the main concerns about globalization revolves around "sweatshops", defined as jobs in poor working conditions that have been associated with companies entering developing countries and producing for export. The international attention on sweatshops in developing countries has been significant and calls into question whether or not globalization (again, defined as international trade and foreign investment) creates "good" jobs.

Successfully embracing globalization presents many challenges and translating it into the creation of good jobs is one of them. As a result, there is still considerable debate about the effects of liberalization, especially in terms of the effects on workers. This note summarizes the results and describes the policy implications of the recently published book *Globalization, Wages, and the Quality of Jobs* that evaluates some of the effects of trade and foreign investment on workers. This book contains a framework for analysis, a literature review, and five country studies that provide the foundation for three main lessons for policy makers that are described at the end of this note.

A summary of approach and results

One of the main goals of the book *Globalization, Wages, and the Quality of Jobs* is to evaluate how the latest wave of globalization in developing countries has affected workers in developing countries. One of the key contributions of the book is the use of datasets that

[1] This and the rest of the statistics in this paragraph are from World Development Indicators 2006. http://devdata.worldbank.org/wdi2006/contents/Section6_1.htm See Jae-Kap Lee (2005) for a typology.

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include detailed information on individual workers. These microdata are analyzed in the context of five case studies: Cambodia, Indonesia, El Salvador, Honduras, and Madagascar. Each case study defines globalization according to the country-specific experience. It then moves to a detailed analysis of the microdata to provide a quantitative understanding of the link between globalization and the quality of jobs.

Another contribution is a broadened definition of the quality of jobs. The case studies focus not just on wages, but also on many different dimensions of job quality, such as risk of injury, availability of benefits, and several others. By looking at working conditions and wages together the book generates a much more comprehensive portrait of the quality of jobs that might be associated with globalization. The key question that the book asks is essentially the same one that policy makers in developing countries have been asking for nearly one hundred years: what kinds of economic policies foster good jobs at good wages?

The analysis leads to four main results. First, the five countries have a very similar experience with "globalization". Broadly speaking, globalization in these countries has meant a clear increase in foreign direct investment coming into the country to produce for export, and these exports have been heavily concentrated in the apparel sector.

The second main result is that, compared to the rest of the economy, apparel workers in these countries earn a significant wage premium—even after controlling for worker characteristics. This means that the industry most characterized by foreign investment and exports is also a "high wage" industry.

The third main result is that wages are positively correlated with better working conditions. This is important because there has been substantial debate about working conditions associated with foreign investment and exporting in developing countries. The book does not make the case that working conditions in these industries are "good" from the standpoint of developed countries. Instead, the book makes the point that the conditions in these industries are "good" relative to the other options for workers within each country, and that, at a minimum, there is no evidence that the higher wages in these industries are compensating workers for otherwise poor conditions. In short, jobs in the FDI/Export industries seem to be comparatively "good" jobs.

The fourth and final main result is that there is substantial qualitative evidence suggesting that the relatively good working conditions are at least in part the result of significant international attention. Since working conditions in these countries and industries has received significant international attention, governments have increased resources dedicated towards monitoring and enforcing working conditions. Cambodia, the country in which improving conditions was specifically tied to market access, had the highest wage premiums for the apparel sector of any country studied in the book.

Of course, there are caveats to the research in the book. Perhaps the most important of these is the lack of accurate data. While the data for El Salvador and, to a somewhat lesser extent, Indonesia had very detailed information about working conditions at the micro level, the data for Cambodia, Honduras, and Madagascar were more limited. Therefore, the research highlights the need for more detailed firm-level data on working conditions. Another caveat is that the worker-level data do not allow researchers to either identify workers with their firm (foreign or domestic) or to track workers as they move between firms. As a result, the estimates of wage premiums at the industry level only capture the total effect of exports and foreign investment across sectors.

Lessons for Policy Makers in Developing Countries

There is still considerable debate over the wisdom of opening borders to foreign investment and promoting exports, and even less consensus over policies that might facilitate successful outcomes for workers. Such policies have to be designed in the specific national context of the countries. To help inform decisions regarding those, the authors of *Globalization, Wages, and the Quality of Jobs* suggest three key lessons for policy makers in developing countries.

Actively promote foreign investment and exports in manufacturing

One debate that motivated this study was whether or not trade and foreign investment helps create "good" jobs for workers. The evidence in this book suggests that trade and foreign investment do contribute to the creation of "good" jobs (at least relative to the rest of the domestic economy). Foreign direct investment and exports seem to increase labor demand, causing wages to increase. These wages do not come at the expense of lower working conditions (relative to the rest of the country), suggesting that workers that move into these industries are better off. In addition, to the extent that the expansion of manufacturing exports draws workers from agriculture, the potential gains overall to workers are quite significant. In fact, since the movement of workers from agriculture to industry is often a key element of what is now considered to be "development," foreign investment and export promotion help move the country in that direction. As specified below, however, simply inviting foreign investment may not maximize benefits for workers. Governments need to be engaged and active with foreign firms.

Many of the countries included in the book fostered trade and foreign investment through Export Processing Zones (EPZs). There are several advantages towards fostering these zones. For example, geographic concentration lowers monitoring costs. Another advantage is that EPZs are increasingly common and therefore may create a relatively familiar environment for new foreign firms. This is not to say, of course, that EPZs are the only approach that might help nations capture benefits to workers, or that EPZs are free from complications. To the extent that they are effective in attracting foreign firms to produce for export, however, they are a potentially effective option to pursue.

Monitor and enforce working conditions through partnerships

Unfortunately, it seems that it is too idealistic to assume that market forces alone might generate the greatest benefits for workers. Improvements in working conditions seem to be most significant where monitoring is effective. One problem with monitoring, however, is that it is expensive. The book recognizes that government resources are limited and therefore monitoring is difficult. One potentially adverse result identified in the book is that, given limited resources, governments may have to make a choice between monitoring the international firms or monitoring elsewhere in the economy. If working conditions are worse elsewhere in the economy, diverting resources towards monitoring international firms may result in relatively worse conditions persisting elsewhere.

At the same time, however, there is significant international interest in monitoring working conditions. The International Labour Organization, the IFC, and several international NGOs advocate and support monitoring efforts. Working with these organizations can help maintain high working conditions and save government resources. One very successful example of this kind of partnership is Better Factories Cambodia (see box). While saving government resources is always attractive, the results of this book suggest that directing government money that would have otherwise gone into monitoring exporters or foreign firms into monitoring working conditions in the rest of the economy—especially particularly problematic sectors—could significantly improve working conditions nationwide.

About Better Factories Cambodia

Better Factories Cambodia, originally also known as ILO Garment Sector Project, was established in 2001 after Cambodia signed a deal with the US to improve working conditions in the exchange for increased access to the US apparel market. This program aims to oversee the labor compliance to ensure a "sweat shop free" industry in the country.

Since then the project has become known as Better Work and is a joint project between the ILO, the International Finance Corporation (IFC) of the World Bank Group, buyers, and local governments. The change in title was necessary because the program was expanding into other countries, including Vietnam, Jordan, Haiti, and others. The core of the project remains the same: bringing together stakeholders to work together to raise working conditions while maintaining competitiveness for exporting firms. The process is based in monitoring by the ILO, evaluation of the monitors' reports, and constructive feedback for the factories. The monitors cover more than 100 specific aspects of working conditions in the factories and return to evaluate progress over time.

The Cambodia chapter finds the largest wage premiums of all countries included in this volume. The results suggest that monitoring, carried out through the Better Factories Program, played a critical role in improving conditions of work. Subsequent program evaluation research has suggested that improvements in working conditions did not seem to come at the expense of wages, and several improvements were positively correlated with firm survival during the 2008-2009 economic crisis. Together, these results bode well for the argument that improving working conditions do not have to come at the expense of firm competitiveness.

Promote diversification across export sectors

"Globalization" in most of the countries studied in the book was primarily characterized by foreign firms entering and producing apparel for export. Therefore, the end of the Mutifibre Agreement (MFA) at the end of 2004 was a significant event in these countries. While the book just begins to touch on the effects of the end of the MFA and the global economic crisis, preliminary evidence suggests that globalization can remove benefits just as it can bring them. The outflow of FDI is correlated with a loss in the benefits described above. The end of the MFA reveals that countries that "put their eggs in one basket" were especially hard-hit. In response to this, the Central American countries have been working to diversify their exports along product and quality dimensions, focusing, for example, on time-sensitive products to take advantage of their proximity to the U.S. market. Asian countries have been pursuing regional trade agreements to diversify their export markets to mitigate risk.

The current crisis will end (international trade reversed its fall and has been rising since January 2009) and new opportunities will arise in the recovery. Governments that are especially attuned to global demand should be in a better position to protect the very real gains that come from participating in the global economy.

References

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