



Munich Personal RePEc Archive

# **Globalisation and Employment: A Prelude**

Majumder, Rajarshi

Dept of Economics, University of Burdwan

December 2008

Online at <https://mpra.ub.uni-muenchen.de/12814/>  
MPRA Paper No. 12814, posted 17 Jan 2009 09:44 UTC

## **Globalisation and Employment: A Prelude**

*Rajarshi Majumder\**

### *Abstract*

*Globalisation has proceeded at an unimagined pace in the last few decades. While it has resulted in high growth of global income, questions are raised about the equity of such growth. Disparity seems to be aggravating, as globalisation seems to be depressing the labour market. Unemployment is rising, both absolutely and as proportion of labour force, especially in developing regions. Elasticity of employment is low and falling further. Whatever little employment expansion is occurring is mostly vulnerable in nature, remuneration levels are scanty, and working poverty is substantially high. Using a Globalisation Index, it is observed that except the developed countries, pace and levels of globalisation are affecting the labour market negatively. Employment growth and elasticities are lower in regions that have had rapid globalisation. Institutional mechanism and improving social security for workers must therefore precede global integration of the economy.*

### **I. INTRODUCTION**

World economy has witnessed unprecedented globalisation over the last decade and half. Barriers have come down, linkages have been formed and strengthened, and a plethora of economic activities have become intertwined, across countries and continents.<sup>1</sup> This has been accompanied by revolution in technology which, through the world wide web, has facilitated the process. As economies became interconnected, it was expected that slowly a borderless global village shall emerge and while socio-economic disparities would not

---

Reader, Department of Economics, University of Burdwan, Golapbag, Burdwan, West Bengal – 713104.  
Email: meriju@rediffmail.com. The author thanks Subhadip Ghosh for comments.

disappear, there would at least appear converging tendencies. One of the arenas where this was expected to work was the labour market. Economists hoped that in an integrated world demand for and supply of labour would transcend national boundaries and hence some sort of homogenisation would occur. But sadly this has not happened and disparities in labour market conditions seem to be persisting, if not aggravating, in recent times. As noted by ILO (2004), 'rising economic interdependence has neither been inclusive nor uniformly beneficial'. Against this backdrop, in this paper we briefly explore the trends in magnitude and quality of employment across the globe and also seek to analyse how globalisation has affected the labour market in different sets of countries over the last ten years or so.

We have mostly used the Key Indicators of Labour Market (KILM) data obtained from International Labour Organisation (ILO), which has been supplemented by Economic and Social Indicators obtained from the World Bank and other sources (for details see Reference section). We have selected 194 countries for the study, which have been further clustered into eight geo-economic groups.<sup>2</sup>

The paper has six sections. In the next section we discuss some of the theoretical premise regarding the association between globalisation and development and some existing studies. In the third section trends in Output and Income have been discussed. Fourth section explores the recent trends in employment and remuneration. Fifth section seeks to identify the nature of association between globalisation and labour market dynamics while the last section concludes the paper.

## **II. THEORETICAL PREMISE AND EXISTING STUDIES**

It is generally argued that opening up the economy of a developing country to global forces is an excellent, if not the only way to ensure growth and employment in modern times. The Washington Consensus speaks loudly in favour of such 'theory' and backs it

up by pointing out the immense productive, absorptive, allocative, and resource transfer potential of globalisation. It all starts with the basic Heckscher-Ohlin (Ohlin, 1933; Ohlin and Heckscher, 1991) prediction that because of the relative comparative advantages of developing countries in labour-intensive commodities, trade liberalisation will trigger a trend of specialization in domestic labour-intensive activities and lead to expansion of employment and output. Liberalisation of investment, both FDI and domestic, are also expected to create more jobs both directly and through expansion of the Services sector (Lall, 2004). In addition, increased trade & economic growth accompanying such global integration is supposed to increase demand for even unskilled labour in developing countries, which would bring down disparities in domestic wages and income a la Stolper and Samuelson (1941).

However, various economists have countered these theories over time. First, the concept of comparative advantage rests heavily on the assumption of homogeneous production functions across different countries (which seems to be quite unreal), relaxation of which opens up the possibility of multiple equilibria (Grossman and Helpman, 1991). Second, 'improved' technology accompanying FDI to developing countries are frequently labour-saving in nature (Haddad and Harrison, 1993; Coe et al., 1997; Aitken and Harrison, 1999; Kathuria, 2001) and depresses employment. Third, the Stolper-Samuelson framework works well in a rigid North-South division of the world with homogeneity assumed within each group. But this is really not so and South-South trade has a different distributional consequence than that postulated by Stolper-Samuelson theorem (Wood, 1994 and 1997; Wood and Ridao-Cano, 1999). Fourth, globalisation is also associated with Structural Adjustment Programs in developing countries in the form of financial sector de-regulation, labour market reforms, and privatisation of public sector. These in

most cases lead to removal of social safety net and increased domestic inequality (Rodrik, 2000; Milanovic, 2003).

The net results of globalisation on domestic employment and income scenario of developing countries therefore depends on the relative strengths of employment augmenting effects and the 'crowding out' or labour displacing effects and there is no univocal theoretical conclusion as to which would prevail. Empirically, Lee and Vivarelli (2004) concludes that the employment impact of globalisation is country and sector specific and that the H-O theorem is actually rejected in most cases, a sentiment shared by Basu and Weil (1998). Gros (2004) concludes that the positive impacts are higher in 'non-globalizing' and 'slowly globalizing' developing countries compared to those entering the global network rapidly. In terms of globalisation and intra-country inequality, either no significant association between the two is observed (Bowles, 2001; Dollar and Kraay, 2001; Edwards, 1997; Higgins and Williamson, 1999; Spilimbergo et al., 1999; Ravallion, 2001), or else globalisation is observed to lead to higher inequality (Vivarelli, 2004 for a global view; Birchenall, 2001 for Colombia; Pavcnik et al., 2003 for Brazil). The developed countries, which have entered the globalisation race sometime back, also experienced rising intra-country disparity. As noted by Wood (1998), gap between wages of skilled and unskilled workers have widened in the developed world since the eighties, coinciding with the period of rapid globalisation, and according to him there are good economic reasons to infer that the association is causal. Empirical exercises by OECD (1997), Gottschalk and Smeeding (1997), and Murphy and Topel (1997) also support such a conclusion.

Under such circumstances, it becomes prudent to look at the current trends in employment and remunerations across the globe and enquire how globalisation has

affected these in different sets of countries. We start with discussing trends in Output and Income during last ten years.

### III. TRENDS IN OUTPUT AND INCOME

Global output has been growing at around 6 per cent per annum for most part of the last decade (1996-2006). The growth has been faster in the second half compared to the first, both at the aggregate level and for all country groups except the developed world (Table 1). Thus globalisation is accompanied by higher GDP growth in the developing countries and the growth impetus is surely at work. In addition, while GDP growth has picked up, population growth has slowed down in the developing countries after the millennium leading to a faster rise in Per Capita Income. It is also noteworthy that PCI growth rate is higher in all developing country groups (except Latin America and Sub-Saharan Africa) compared to the Developed countries or the World aggregate. This is certainly leading to higher personal income level and better living conditions in the developing world at the macro level in recent times. But the moot question is whether such unprecedented growth is percolating to the labour market as well. Unless that happens, the fruits of rising PCI will be shared by only a select few and globalisation will not lead to better livelihood for the masses. These labour market outcomes are studied next.

Table 1  
**Global Growth Rates of GDP, Population and Per Capita Income 1996-2006 (% pa)**

<i>Country Groups</i>	<i>GDP</i>			<i>Population</i>			<i>Per Capita Income</i>		
	<i>1996-01</i>	<i>2001-06</i>	<i>1996-06</i>	<i>1996-01</i>	<i>2001-06</i>	<i>1996-06</i>	<i>1996-01</i>	<i>2001-06</i>	<i>1996-06</i>
WORLD	5.33	6.41	5.92	1.74	1.66	1.71	3.84	5.03	4.49
Devd Economies & EU	4.87	4.82	4.84	0.57	0.58	0.57	4.33	4.24	4.28
Non-EU Europe & CIS	4.48	9.21	7.03	0.79	0.59	0.71	3.64	9.09	6.58
East Asia	9.19	11.42	10.40	1.25	1.30	1.27	8.20	10.74	9.58
SE Asia & Pacific	4.36	7.90	6.27	2.16	1.91	2.06	2.78	6.28	4.67
South Asia	7.42	9.45	8.52	2.41	2.31	2.37	5.20	7.34	6.36
Latin America	4.64	5.75	5.25	2.04	1.70	1.90	3.04	4.20	3.67
North Africa	6.33	7.40	6.91	2.73	2.41	2.60	4.36	5.42	4.93
Sub-Saharan Africa	5.16	8.32	6.88	2.89	2.76	2.84	2.38	5.73	4.19
Middle East	5.28	7.99	6.75	3.69	3.19	3.49	3.80	5.65	4.81

*Source:* Author's calculations based on Data Sources mentioned at the end.

#### IV. LABOUR MARKET OUTCOMES

##### 1. Work Participation, Employment, and Unemployment

We start with participation in work – Labour Force Participation Rate. At the global level, LFPR have declined but employment opportunities have decreased by a larger magnitude and hence Unemployment rates have increased (Table 2). However, for the developed countries, while LFPR has declined, employment opportunities have increased, leading to a fall in Unemployment rates in these countries. On the contrary, in most of the developing regions LFPR have increased while employment rates have either decreased or increased only marginally, increasing the Unemployment rates in the process. Only in North Africa and the Middle East employment has increased more than proportionately to the rise in workforce participation and hence unemployment rates have come down.

Table 2  
**Labour-force Participation, Employment and Unemployment Rates 1996-2006 (%)**

Country Groups	LFPR		EMPR		UNEMR	
	1996	2006	1996	2006	1996	2006
WORLD	66.7	65.7	62.6	61.5	6.1	6.4
Devd Economies & EU	60.7	60.3	55.9	56.5	7.9	6.3
Non-EU Europe & CIS	60.6	59.0	54.6	53.8	9.9	8.8
East Asia	78.0	74.6	75.0	71.9	3.8	3.6
SE Asia & Pacific	70.1	70.7	67.5	66.3	3.7	6.2
South Asia	61.2	59.8	58.4	56.7	4.6	5.2
Latin America	63.4	65.6	58.4	59.9	7.9	8.7
North Africa	49.8	50.7	42.9	44.8	13.9	11.6
Sub-Saharan Africa	75.6	74.2	68.6	67.0	9.3	9.7
Middle East	52.6	56.4	46.0	49.6	12.5	12.1

*Source:* Author's calculations based on Data Sources mentioned at the end.

*Notes:* LFPR – Labour Force Participation Rate as % of 15-64 age group Population; EMPR – Employment Rate as % of 15-64 age group Population; UNEMR – Unemployment Rate as % of Labourforce.

If we now look at the addition in the absolute number of employed and unemployed persons, some interesting pictures emerge. It is observed that the growth in employed persons has been faster in most of the developing regions compared to the developed countries during recent period (Table 3). However, rise in number of unemployed persons has also been faster in these regions. Only the developed regions have been able to create more jobs than the number of new entrants and bring down the absolute number of

unemployed persons in the economy. For the others, not only have the absolute number of unemployed persons increased, the rate of rise has been higher than that of employed persons in most cases. The only exceptions are East Asia, North Africa, and the Middle East.

Table 3  
**Growth of Employed and Unemployed Persons and  
 Employment Elasticity of Output - 1996-2006**

<i>Country Groups</i>	<i>Employed persons (% pa)</i>			<i>Unemployed persons (% pa)</i>			<i>Employment Elasticity</i>		
	<i>1996-01</i>	<i>2001-06</i>	<i>1996-06</i>	<i>1996-01</i>	<i>2001-06</i>	<i>1996-06</i>	<i>1996-01</i>	<i>2001-06</i>	<i>1996-06</i>
WORLD	1.46	1.62	1.53	2.94	0.49	1.95	0.27	0.25	0.26
Devd Economies & EU	0.60	0.80	0.68	-0.88	-3.04	-1.75	0.12	0.17	0.14
Non-EU Europe & CIS	0.32	0.92	0.56	0.22	-2.12	-0.72	0.07	0.10	0.08
East Asia	0.79	0.91	0.84	1.25	-1.34	0.21	0.09	0.08	0.08
SE Asia & Pacific	1.83	1.95	1.88	10.66	3.11	7.58	0.42	0.25	0.30
South Asia	2.09	2.05	2.07	3.60	3.16	3.42	0.28	0.22	0.24
Latin America	2.30	1.95	2.16	4.59	1.26	3.25	0.49	0.34	0.41
North Africa	2.69	3.59	3.05	2.48	-1.16	1.01	0.42	0.49	0.44
Sub-Saharan Africa	2.49	2.76	2.60	4.31	1.38	3.13	0.48	0.33	0.38
Middle East	4.29	4.26	4.28	4.96	2.09	3.80	0.81	0.53	0.63

*Source:* Author's calculations based on Data Sources mentioned at the end.

Thus, the phenomenal rise in GDP and its growth rate witnessed in the recent times (for which the pro-globalisation lobby claim the credit) has not been reflected in the labour market, especially in the developing countries. Unemployment rates, which were already considerably high, have been rising, and absolute number of unemployed persons are also on the rise. It seems that globalisation has not been able to make any dent into the excess labour supply situation of these regions. This is more evident if we look at the elasticities of employment with respect to output. It is observed that the elasticities in the developing countries are not only lower than 0.5, but have declined in the second quinquenna of our study period. The period of high growth has therefore also been a period of jobless growth across the globe.

That the elasticity is low in developed countries as well is of little solace as these economies are at a different employment-output plane altogether and the elasticities are rising in recent times.



## 2. Nature of Employment

Apart from the magnitude of employment, or the lack of it, one must also look at the nature and quality of the jobs that are being available in the developing countries, especially in recent times. According to ILO, employment can be divided into Four components – Employers, Wage/Salaried workers, Own Account Workers, and Family Labour. Of these, the first two types are considered to be of better quality and more remunerative compared to the other two. In another way, the last two types are frequently the last resort of able-bodied workers in labour-surplus developing countries. People with no other employment opportunities either start a One-man enterprise or become engaged in the family enterprise. These types of employment are mostly distress in nature and productivity, as well as returns from them are observed to be abysmally low. Considering all these, they are regarded as *Vulnerable Employment*. It is observed that the share of Vulnerable employment is substantially higher in the developing nations, especially in large tracts of Asia and Sub-Saharan Africa – the two most populous regions of the world (Table 4).

Table 4  
Nature of Employment 2006 (% of total employment)

Country Group	Employer (A)	Wage Worker (B)	Own Account Worker (C)	Family Labour (D)	Vulnerable Worker (C+D)	Non-Primary Worker
WORLD	2.9	46.9	33.0	17.2	50.2	63.9
Devd Economies & EU	6.3	84.3	7.8	1.6	9.4	95.9
Non-EU Europe & CIS	3.8	76.6	16.1	3.6	19.7	79.6
East Asia	1.2	42.6	38.2	18.0	56.2	59.1
SE Asia & Pacific	2.1	38.8	35.2	23.9	59.1	54.6
South Asia	1.0	20.8	47.4	30.8	78.2	50.6
Latin America	4.7	62.7	27.1	5.5	32.6	80.4
North Africa	9.6	58.3	16.2	15.9	32.1	65.6
Sub-Saharan Africa	3.0	22.9	48.7	25.4	74.1	34.1
Middle East	5.2	61.5	22.6	10.6	33.2	81.9

Source: Author's calculations based on Data Sources mentioned at the end.

In addition, if we consider sectoral transformation of the workforce as an indicator of development we must look at the share of Non-Primary Workers also. It is seen that while in Developed countries this share is as high as 95 per cent, in the Developing countries it

is still hovering around the half-way mark in 2006. Only in Middle East and Latin America the situation is better. But this is mainly because these regions have substantial presence of the Mining sector, which resembles the Primary sector more than the Secondary sector in terms of conditions of work and wages.

Thus not only are jobs scarce in developing countries, the nature of jobs available are also nowhere near those in the developed regions and most of these jobs are of vulnerable type. In fact, the absolute number of Vulnerable workers have also increased in most of these countries over the 1996-06 period.

### **3. Remuneration from Jobs**

While we have looked at the magnitude and nature of jobs available in the developing countries in recent times, the wages/returns from work is also an important indicator of labour market conditions. Working Poverty or engagement in non-remunerative work is a salient feature of developing countries and merely being employed does not guarantee a stable livelihood here. Since the poor can ill afford to remain unemployed, they seek any kind of job to arrange for their daily bread. In that sense employment in these countries are different from those in the developed nations and conclusions based simply on the employment/unemployment rates would be misleading. We therefore look at the wage situation in the developing countries in the era of globalisation.

First we look at the (PPP adjusted) legislated minimum wages in various countries to have some idea about the wage conditions prevalent in the world (Table 5). It is observed that global average annual Minimum Wage in 2007 was 5398 USD. However, the averages are quite disparate across country groups and ranges from 1880 USD in Sub-Saharan Africa to 12400 USD in the Developed countries. Minimum Wages in Sub-Saharan Africa and South Asia are about one-third and half respectively of the global average and these standards are seldom met in practice. That the legal minimum wage is

itself so low in the developing world speaks volumes about the precarious conditions of workers in these regions in terms of wages from work.

Table 5  
**Wages & Earnings 2006**

<i>Country Group</i>	<i>Minimum Wages (Annual PPP USD)</i>		<i>Workers earning less than 2 USD per day (%)</i>	
	<i>Actual</i>	<i>Index</i>	<i>1996</i>	<i>2006</i>
WORLD	5398	100	38.3	30.2
Devd Economies & EU	12400	230	0.0	0.0
Non-EU Europe & CIS	5924	110	20.6	13.5
East Asia	5234	97	52.0	29.9
SE Asia & Pacific	3864	72	45.1	37.0
South Asia	2891	54	57.5	49.1
Latin America	5421	100	21.8	16.7
North Africa	3638	67	23.7	20.3
Sub-Saharan Africa	1881	35	63.7	61.2
Middle East	4210	78	11.6	10.0

*Source:* Author's calculations based on Data Sources mentioned at the end.

Another way to look at this issue is to measure the number/share of workers who earn less than a critical level of wage. Globally it is accepted that workers earning less than 2 USD per day are on the border of poverty and as such their work is not remunerative enough for subsistence. It is observed that their proportion is about 30 per cent at the global level but 60 per cent in Sub-Saharan Africa and 50 per cent in South Asia (Table 5). The proportion is also higher than global average in SE Asia and Pacific. Therefore almost half of the working persons in the developing world are not earning enough to remain above poverty level and their 'employment' is nothing but 'Disguised Unemployment'.

We can therefore infer that the conditions of the labour market is far from satisfactory in the era of globalisation, especially in the developing countries. While macroeconomic growth has taken place leading to income convergence across countries, this has not percolated to the labour market and hence people have not benefited from the process. It is observed from the association between employment market indicators and macroeconomic indicators that regions with high GDP, PCI or PCI growth are also the regions with low employment growth and high working poverty (Table 6).

Table 6  
**Association between Macro variables and Employment Indicators**

<i>Variables</i>	<i>GDP Growth</i>	<i>Base year PCI</i>	<i>PCI Growth</i>
Employment Growth	-0.12*	-0.30**	-0.44**
Working Poverty Rate 2006	0.43**	-	0.11*

*Source:* Author's calculations based on Data Sources mentioned at the end.

Employment opportunities are thus not expanding fast enough, nature and quality of employment is poor, and remuneration for a large portion of the workers is scanty. It is thus apparent that globalisation has not been able to improve the employment situation in the world, especially in the developing countries. Such processes will also lead to a rise in both domestic inequality and cross-national disparity through the avenues of scanty employment and meagre wages.

#### V. LINKING GLOBALISATION & LABOUR MARKET PREDICAMENT

One may argue that such trends may have come about without any link with globalisation. To examine this issue we have used the KOF Index of Globalisation prepared by Dreher (2006), and available from the Swiss Federal Institute of Technology, Zurich. This Index is available for a long period from 1970 to 2006, and measures three main dimensions of globalization – Economic, Social, and Political, as well as providing an Overall Globalisation Index. We have used both the Aggregate and Economic Globalisation Index at country level and examined how these indices are associated with macroeconomic and labour market indicators across nations. The same set of 194 countries has been selected for this part of the study. The indicators chosen are Employment Growth Rate, PCI Growth Rate, and Elasticity of Employment wrt GDP.

It is observed that both Overall and Economic Globalisation Indices are significantly negatively associated with employment growth and employment elasticities, while the association with PCI Growth is insignificant (Table 7). Similar type of association is observed between the employment variables and Rise in Globalisation index. It is thus evident that higher globalisation index is associated with poorer employment market

conditions while at the same time not improving the PCI of the countries in any significant manner.

Table 7  
**Association between Globalisation Index  
& Macro and Employment Indicators**

<i>Variables</i>	<i>Employment Growth</i>	<i>PCI Growth</i>	<i>Employment Elasticity</i>
Economic Globalisation 1995	-0.24**	0.04	-0.35*
Economic Globalisation 2005	-0.28**	0.06	-0.38*
Overall Globalisation 1995	-0.20*	0.01	-0.20
Overall Globalisation 2005	-0.24**	0.03	-0.25*
Change in Eco Glob Index 1995-05	-0.25**	0.10	-0.11
Change in Ovr Glob Index 1995-05	-0.24**	0.04	-0.12*

*Source:* Author's calculations based on Data Sources mentioned at the end.

However, if we explore the associations differentiated across country groups, we observe that for the developed countries the relationship between employment growth and globalisation indices are positive indicating that globalisation has led to employment expansion in the developed countries (Table 8). Apart from them, the relationship with overall globalisation index is positive for Non-EU Europe and SE Asia & Pacific, though for them too the relation with Rise in globalisation index is negative. For all other countries, the association is negative. This confirms our earlier notion that rapid globalisation is associated with slower growth of employment in the developing countries.

## VI. POSSIBLE DYNAMICS

What may have been the main avenues through which globalisation is affecting the labour market in a negative way? Some possible factors may be outlined here.

First, globalisation is primarily affecting the manufacturing sector of the developing countries. Uncompetitive sectors are dying out leading to immediate job losses while new sectors are delayed because of a host of reasons like infrastructural bottlenecks, financial instability, etc. As a result job losses outweigh job creation. The struggling sectors also tend to cut down on labour costs to remain competitive through restructuring, downsizing,

wage-stagnation, and relocating production to least cost countries. In an environment of uncertainty over the existence of the job itself, workers find themselves at a weaker bargaining position and hence the squeeze on working remunerations in recent times. The only section that benefits in this melee is the specialised skilled workers. In face of increasing FDI demand for skilled labour rises in the developing countries, supply of which remains limited. Consequently, wages being offered to them are astronomical, though still lower in comparison to developed countries. This increases income inequality in these countries. This has been aggravated by rapid diffusion of skill-intensive technologies through increased inflow of FDI and increased imports of relatively more skill-intensive capital equipment by domestic producers.

Table 8  
**Association between Employment Growth & Globalisation Indices – by Country Groups**

<i>Variables</i>	<i>Economic Globalisation Index 2005</i>	<i>Overall Globalisation Index 2005</i>	<i>Change in EGI 1995-05</i>	<i>Change in OGI 1995-05</i>
Developed Economies & EU	0.26**	0.19*	0.45*	0.40*
Non-EU Europe & CIS	-0.06	0.12*	-0.52*	-0.60
East Asia	-0.20	-0.92**	-0.44*	-0.85*
SE Asia & Pacific	0.21*	0.36*	-0.29*	-0.45*
South Asia	-0.02	-0.10*	-0.34*	-0.46*
Latin America	-0.46**	-0.39*	-0.14	-
North Africa	-0.46*	-0.90**	-0.51**	-0.31*
Sub-Saharan Africa	-0.40*	-0.63*	-0.06	-0.10
Middle East	-0.62*	-0.30*	-0.35*	-0.36*

*Source:* Author's calculations based on Data Sources mentioned at the end.

*Note:* EGI – Economic Globalisation Index; OGI – Overall Globalisation Index;

\*\* and \* represents significance at 1 per cent and 5 per cent levels respectively; coefficients with significance above 20 per cent are not reported.

These could have been buttressed by domestic policies aimed at improved access to education and training, improving the position of vulnerable workers, and a strong regulatory role. But the winds of liberalisation have captured the sails of governance also and the State in most cases have ceded to the pleas of domestic and foreign MNCs. Instead of taking the *high road* of raising labour productivity, economies are racing to the bottom by lowering labour standards and wages. This is a matter of grave concern.

## **VII. CONCLUSION**

It is therefore quite clear that there is a strong link between the process of globalisation and the predicament observed in the labour market, especially of the developing countries. While national and per capita income levels have increased, these have not trickled down to the working class en masse. Employment growth has not kept pace with rise in labour force in the developing countries while employment rates have increased in developed countries. Consequently, workers in the developing regions have become more insecure and vulnerable employment has increased. Along with sluggish employment opportunities, wages have also failed to rise. Minimum wages are considerably lower and working poverty is substantially high in large parts of the developing world. It has also been confirmed that the process of globalisation is associated with positive labour market dynamics in developed countries and negative labour market dynamics in developing regions. We can therefore comment that instead of boosting the employment market in developing countries as predicted by the proponents of Washington Consensus and as theorised by the likes of Heckscher–Ohlin and Stolper–Samuelson, in reality the globalisation process is leading to further squeezing of the labour market and both domestic and cross-national inequalities. As noted in the report of the World Commission on the Social Dimension of Globalisation (ILO, 2004), instead of viewing employment growth as a ‘hoped for’ by-product of globalisation, time has now come to make it the centrepiece of the globalisation process itself. In addition, reduction of poverty through higher remuneration should also form an integral part of the schema. To do so, developing countries must first build up institutions to withstand the whirlwind of globalisation. Controlled, strategic, and gradual liberalisation based on specific characteristics of the economy, proper social safety nets, support to the informal sector for productivity improvement, employment guarantee schemes, and protection of

workers' rights are some of the steps that may thwart the curse of the genie called globalisation while at the same time use it to the best interest of the working class.

---

### Notes

<sup>1</sup> During 1995-2007, Average MFN Tariff have fallen from 15 per cent to 9 per cent, Trade growth rate has increased from 6.8 per cent to 8.6 per cent, while Global FDI has trebled.

<sup>2</sup> The Eight geo-economic groups are as given in KILM data - Developed Economies & EU, Non-EU Europe & CIS, East Asia, SE Asia & Pacific, South Asia, Latin America (including Caribbean), North Africa, Sub-Saharan Africa, and the Middle East. Economic grouping takes precedence over geographic, i.e. Japan belongs to the first group and not in East Asia.

### References

- Aitken, B. and A. Harrison (1999), 'Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela', *American Economic Review*, Vol. 89.
- Basu, S. and D.N. Weil (1998), 'Appropriate Technology and Growth', *Quarterly Journal of Economics*, Vol. 113, pp.1025-1054.
- Birchenall, J.A., (2001), 'Income Distribution, Human Capital and Economic Growth in Colombia', *Journal of Development Economics*, Vol. 66, pp.271-287.
- Bowles, Samuel (2001), 'A Future for Labor in the Global Economy', *TIPS Working Paper No 1*, Trade and Industrial Policy Secretariat, ILO
- Coe D.T., E. Helpman and A.W. Hoffmaister, (1997), 'North-South R&D Spillovers', *Economic Journal*, Vol. 107, pp.134-149
- Dollar D. and A. Kraay (2001), 'Trade, Growth and Poverty', *mimeo*, *Development Research Group*, The World Bank, Washington, June.
- Dreher, Axel (2006), 'Does Globalization Affect Growth? Evidence from a new Index of Globalization', *Applied Economics*, Vol. 38, No. 10, pp. 1091-1110.
- Dreher, Axel, Noel Gaston and Pim Martens (2008), *Measuring Globalization – Gauging its Consequences*, Springer, New York.
- Edwards, S. (1997), 'Trade Policy, Growth and Income Distribution', *American Economic Review*, Papers and Proceedings, Vol.87, pp. 205-10.
- Gottschalk, P. and T. Smeeding (1997), 'Cross National Comparisons of Earnings and Income Inequality', *Journal of Economic Literature*, Vol. 35, No. 2.
- Gros, J.B. (2004), 'Labour Demand of Developing Countries in a Decade of Globalization: A Statistical Insight', in Lee, E. and M. Vivarelli (eds.), *Understanding Globalization, Employment and Poverty Reduction*, Palgrave Macmillan, New York.
- Grossman, G.M. and E. Helpman (1991) - *Innovation and Growth in the Global Economy*, MIT Press, Cambridge (Mass.).
- Haddad, M. and A. Harrison (1993), 'Are there Positive Spillovers from Direct Foreign Investment', *Journal of Development Economics*, Vol. 42, pp.51-74
- Higgins, Matthew and Jeffrey G. Williamson (1999), 'Explaining Inequality the World Round: Cohort Size, Kuznets Curves, and Openness', *NBER Working Paper No. 7224*, National Bureau of Economic Research, Cambridge (Mass.).
- ILO (2004), *A Fair Globalization: Creating Opportunities for All*, Report of the World Commission on the Social Dimension of Globalization, ILO, Geneva.
- Kathuria, V. (2001), 'Foreign Firms and Technology Transfer Knowledge Spillovers to Indian Manufacturing Firms: A Stochastic Frontier Analysis', *Applied Economics*, Vol. 33



- Lall S. (2004), 'The Employment Impact of Globalization in Developing Countries', in Lee, E. and M. Vivarelli (eds.), *Understanding Globalization, Employment and Poverty Reduction*, Palgrave Macmillan, New York, pp. 73-101.
- Lee, E and M. Vivarelli (2006), 'The Social Impact of Globalisation in the Developing Countries', *IZA Discussion Paper Series*, DP NO. 1925, January, 2006.
- Lee, E and M. Vivarelli (eds.) (2004) - *Understanding Globalization, Employment and Poverty Reduction*, Palgrave Macmillan, New York.
- Milanovic, B. (2003), 'The Two Faces Of Globalization: Against Globalization as We Know it, Development and Comp Systems, Economics Working Paper Archive at WUSTL No. 0303007.
- Murphy, K and R. Topel (1997), 'Unemployment and Nonemployment', *American Economic Review*, Vol. 87, No. 2.
- OECD (1997), 'Trade, Earnings and Employment: Assessing the Impact of Trade with Emerging Economies on OECD Labour Markets', *Employment Outlook*, OECD.
- Ohlin, B. (1933), *Interregional and International Trade*, Harvard University Press, Cambridge.
- Ohlin, B. and Eli Heckscher (1991) - *Heckscher-Ohlin Trade Theory*, The MIT Press, Cambridge.
- Pavcnik, N., A. Blom, P. Goldberg and N. Schady (2003), 'Trade Liberalization and Labor Market Adjustment in Brazil', *World Bank Working Paper No. 2982*, World Bank, Washington D.C.
- Ravallion, M. (2001), 'Growth, Inequality and Poverty: Looking Beyond Averages', *World Development*, 29(11).
- Rodrik, D. (2000), *Comments on 'Trade, Growth and Poverty' by D.Dollar and A.Kraay*, mimeo Harvard University, Cambridge (Mass.).
- Spilimbergo, Antonio, Juan Luis Londono and Miguel Székely (1999), 'Income Distribution, Factor Endowments, and Trade Openness', *Journal of Development Economics*, Vol. 59, pp. 77-101.
- Stolper, W.F. and P.A. Samuelson (1941), 'Protection and Real Wages', *Review of Economic Studies*, Vol. 9, pp.58-73.
- Vivarelli, M. (2004), 'Globalization, Skills and Within Country Income Inequality in Developing Countries', in Lee, E. and M. Vivarelli (eds.), *Understanding Globalization, Employment and Poverty Reduction*, Palgrave Macmillan, New York, pp. 211-243.
- Wood, A. (1994) - *North-South Trade, Employment and Inequality. Changing Fortunes in a Skill-Driven World*, Clarendon Press, Oxford.
- Wood, A. (1997), 'Openness and Wage Inequality in Developing countries: The Latin American Challenge to East Asian Conventional Wisdom', *The World Bank Economic Review*, Vol.11, pp. 33-57.
- Wood, A. and C. Ridao-Cano (1999), 'Skill, Trade and International Inequality', *Oxford Economic Papers*, Vol. 51, pp. 89-119.
- Wood, Adrian (1998), 'Globalisation and the Rise in Labour Market Inequalities', *The Economic Journal*, Vol. 108, No. 450

#### **Data Sources:**

1. The Global Employment Trends Series, downloaded from <http://www.ilo.org/trends> on 25/06/2008
2. ILO Key Indicators of the Labour Market (KILM), Fifth Edition, downloaded from <http://www.ilo.org> on 25/06/2008.
3. The KOF Index of Globalization, downloaded from <http://globalization.kof.ethz.ch/> on 25/06/2008.
4. List of minimum wages by country, downloaded from <http://www.answers.com/topic/list-of-minimum-wages-by-country> on 25/06/2008