QUESTION 7 Competing for jobs?

Many developing countries face a jobs agenda. In some, it involves offering avenues to rural populations to move out of poverty. In others, it aims at leveraging the gains from urbanization and from integration in global markets. Yet in others, the goal is to prevent youth from becoming disenfranchised or to reduce the risk of conflict. These agendas are addressed through national policies that stimulate job creation by the private sector, especially in the areas and activities where development payoffs are highest. But jobs agendas of individual countries are connected through globalization: trade in goods and services, investment flows, and migration of workers. This begs the question: if jobs can migrate from one country to another, do policies to support job creation in one country become policies affecting jobs in other countries—policies competing for jobs globally?

Among economists, the conventional wisdom is that the number of jobs is not determined by international trade and investment but by the total number of people in the labor force. And in general, openness to international trade and foreign direct investment is beneficial for all the countries involved. Thus, globalization is not a zero-sum game. From this point of view, policies to support job creation are not policies competing for jobs, even as they may alter the global flows of trade, investment, and workers.

The general public seems to have a less sanguine view of the situation. Representative public opinion polls show that firm relocation and tasks outsourced abroad are seen as a threat to employment in industrial countries (box 7.3). Globalization is perceived as a head-to-head competition in which employment gains in one country can be achieved only at the expense of jobs in other countries.

There is merit to both views. Past the short-term impact of outsourcing and delocalization, the total number of jobs in one country should not be substantially affected by policy decisions in other countries. Some firms may close or start activities, others may expand or contract their business, but total employment will be roughly determined by the size of the labor force. However, the composition of employment is bound to change. The concern is that the share of good jobs for development may decline in one country and increase in another. Whether that happens depends on the nature of good jobs for development and the types of national policies being adopted to support job creation. While the public's concern is legitimate, not all measures to support job creation amount to a beggar-thy-neighbor policy.

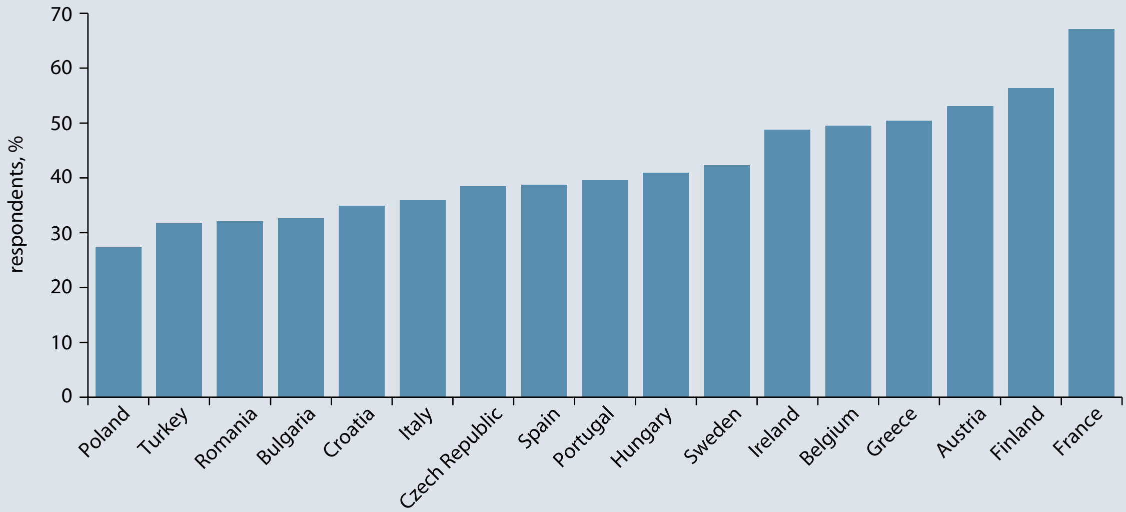
Not a competition for total employment but for its composition

International trade and investment can be expected to lead to greater prosperity. Globalization, including firm relocation and outsourcing, may result in job losses at home in the short term, but the demand for labor should increase in the longer run, as specialization generates efficiency gains in both industrial and developing countries.[61] Lower prices for goods and services, and a growing consumption demand from emerging countries as they prosper, can only reinforce the upward trend in the global demand for labor.

Empirical evidence to a large extent confirms this upbeat assessment. Labor earnings and working conditions improve as countries grow richer, and global integration has been good for growth. Across developing countries, a 1 percent increase in a country's openness, measured as the share of its foreign trade in its output, has been associated with a 1 percent increase in GDP per capita.[62] Gains may reach up to 1.5 percentage points on average in the case of openness in financial services and telecommunications.[63] Even in Sub-Saharan Africa, where trade liberalization was viewed with skepticism, the increase in output growth rates could be in the range of 0.5 to 0.8 percent.[64] Evidence also shows that firms engaged in global markets pay higher wages. This is true of exporting firms from Colombia to Morocco and from Mexico to Korea. It is also true of foreign-owned companies, whether they operate in Cameroon or

BOX 7.3 ***Globalization is often viewed as jobs migrating abroad***

Across European countries, popular perceptions can be inferred from the Eurobarometer surveys. One of its questions is the following: "What comes first to mind when you hear the word 'globalization'?" The options for answering this question are opportunities for domestic companies in terms of new outlets; foreign investments in the country; relocation of some companies to countries where labor is cheaper; increased competition for the country; and other. The third option reflects perceived job insecurity. Even before the global crisis and the European debt crisis, when concerns about unemployment were not exacerbated, about one-third to one-half of respondents see globalization as a relocation of companies abroad. The survey also asked: "Which of the following two propositions is the one which is closest to your opinion with regard to globalization?" Possible answers included good opportunity for domestic companies; threat to employment and companies; and "do not know." With the exception of Denmark, where only a small minority chose the second



Note: The figure is based on the following question and answer: *Question:* "There are multiple consequences of the globalization of trade. When you hear the word 'globalization,' what comes first to mind?"; and *Answer:* "Relocation of some companies to countries where labor is cheaper." Data are from surveys conducted in 2008.

option, between one-third and three-quarters of the respondents saw globalization as a threat to jobs.

Based on opinion polls, policies for jobs are often perceived as a zero-sum game in which gains for one country can be achieved only at the expense of others. The chairman and CEO (Chief Executive Officer) of Gallup put it as follows: "If you were to ask me, from all the world polling Gallup has done for more than 75 years, what would fix the world—what would suddenly create worldwide peace, global well-being, and the next extraordinary advancements in human development, I would say the immediate appearance of 1.8 billion jobs—formal jobs." In his view, "this raises an important distinction—not only do we need to create more jobs, we need to increase the number of good jobs. And we can't see that quest for good jobs as an internal skirmish between warring political ideologies. It's an international war."[a]

Sources: Clifton 2011; Eurobarometer Surveys (database) 2010, European Commission, Brussels.

a. Interview given in connection with the book launch.

República Bolivariana de Venezuela, Indonesia or Zambia.[65]

Admittedly, the dispersion of earnings within countries has also increased, for instance in the form of higher returns to education, and it is tempting to attribute this trend to globalization. Low-skill jobs in industrial countries are often high-skill jobs from the perspective of developing countries, and exporting itself is a skill-intensive activity. Therefore, international trade and offshore outsourcing can be expected to increase the relative demand for skills at both ends, favoring better-off workers. The empirical results on this possible effect vary widely, however.[66] For sure, all policies create winners and losers, and the distribution of labor earnings has widened in parallel with globalization, but a causal relationship is difficult to establish. Overall, widening disparities may have more to do with technological progress and financial liberalization than with globalization.

A different perspective arises when considering the composition of employment, rather than the level or dispersion of labor earnings. Globalization provides developing countries with the opportunity to connect to world markets and derive productivity spillovers boosting their economic growth. Manufacturing jobs integrated in global value chains, as well as jobs in technologically advanced services and in finance, are often seen as tickets to rapid development. However, rapid technological progress and economies of scale may mean the global number of some of these jobs will not increase much. For jobs in manufacturing, the experience of the last few decades has shown a relative stability of their global numbers together with a dramatic change in their spatial distribution. If so, policies for job creation could lead to a competition not for the level of employment but for the jobs with the highest development payoffs.

The experience of Japan and the United States illustrates the point. In the 1950s, Japan exported cheap labor-intensive products in exchange for goods embedded with more advanced knowledge and technology. This strategy generated much needed revenue for Japan's post–World War II recovery. More importantly, it contributed to Japan's productivity growth and built the foundation for the production of more sophisticated goods. In the 1970s and 1980s, Japan not only began exporting steel, semiconductors, and automobiles but turned into a leading supplier. As the major exporter of these products, the United States suffered from Japan's expansion.[67] The United States had been characterized by its fluid labor markets. Yet, the potential welfare loss from the decline of Pittsburgh, Detroit, and other industrial centers could be substantial, even if labor was reallocated smoothly.[68] This competition was resolved by "voluntary export restraints"—a special form of quota that actually granted all quota rents to Japan but prevented a complete decline of such employment in the United States, indicating the importance attributed to these industries.[69]

Concerns are similar for developing countries nowadays. Consider the opportunities opened by the increase in labor earnings in the coastal areas of China.[70] Some labor-intensive manufacturing jobs connected with global value chains will migrate out of China in search of lower production costs. Given rapid technological progress, the global number of jobs in light manufacturing is unlikely to increase much. Low-income countries in both Sub-Saharan Africa and South Asia aspire to attract some of those jobs, so a competition is involved. Tension is not limited to labor-intensive manufacturing jobs. A similar logic underlies government efforts to attract high-tech companies, as Costa Rica successfully did with Intel.[71] This is also the logic behind government efforts to foster services exports, exemplified by the success of Brazil, Chile, India, Malaysia, and the Philippines.[72]

Because technological progress and globalization connect markets to an unprecedented level, they also result in competition over other types of jobs with high development payoffs. Jobs located in a global hub can generate large productivity spillovers. London stands as one of the most economically vibrant cities in Europe largely because it serves as an international financial center. The financial industry entails scale economies and is supported by density. Therefore, the number of global financial centers is limited, and their formation is shaped by location, history, and national policies. Similar logic applies to international transportation hubs such as Singapore, clusters of information and computer technology–related industries such as Silicon Valley and Bangalore, and so on.

Policies for jobs: Different degrees of competition

Even if globalization may result in a competition for good jobs for development, not all efforts to support job creation amount to beggar-thy-neighbor policies. Whether they do so depends on the type of instruments used and the nature of the spillovers from jobs.[73]

Because globalization involves international trade and foreign direct investment, it is natural to first consider trade- and investment-related instruments. Some of them, such as import tariffs, export subsidies, and local content requirements, are ruled out by multilateral trade agreements; others, such as improving access to credit for private exporters and identifying and removing specific constraints faced by foreign investors, are not. But in reality these are just a narrow subset of policies for jobs. When bidding to attract foreign direct investment, governments can compete directly through tax holidays or through dedicated physical infrastructure and human resources. They can also compete indirectly, as when they take actions that appeal to both local entrepreneurs and foreign investors. For example, they can contain increases in the cost of labor by keeping mandated benefits affordable. Or they can improve the availability and quality of factors of production, such as worker skills and public infrastructure. In South Asia, for example, the quality of physical infrastructure and the education of the workforce are the strongest predictors of entry of new firms.[74]

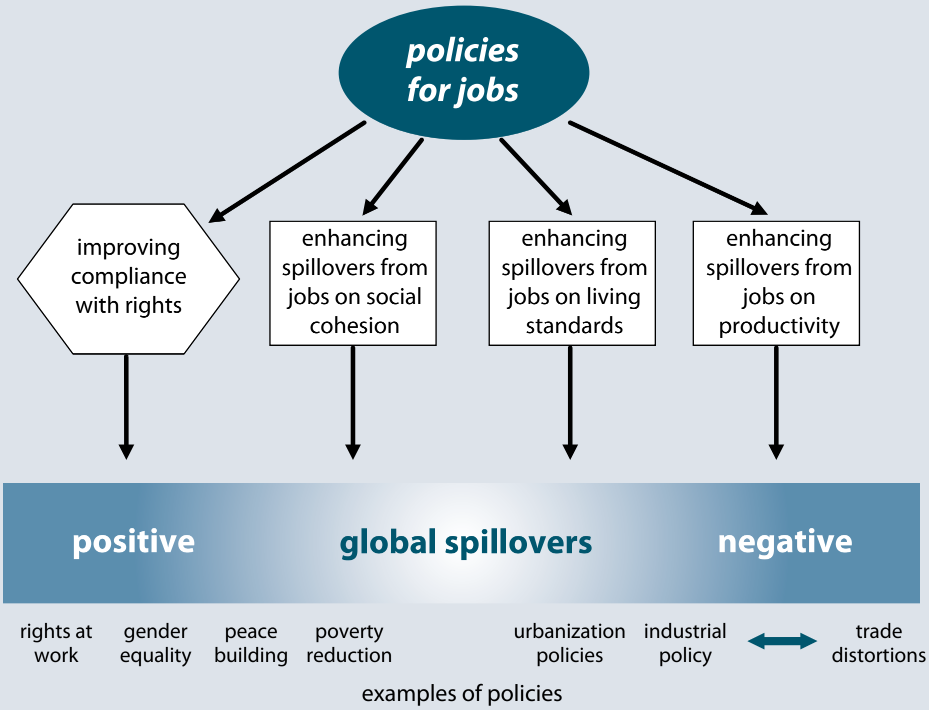
When considering good jobs for development more generally, and not just jobs connected to world markets, the set of policy options is even broader. Urban policies are another important instrument to stimulate job creation by the private sector. Given the potential agglomeration of economies, relatively small interventions can have large effects.[75] In low-income countries, enhancing extension services may have a large impact on farm productivity and, thus, on poverty reduction. Whether this broader set of policies leads to a competition for jobs depends on whether policies in one country have a positive or an adverse effect on the social welfare of another country.

A key question to ask is what purpose policies serve (figure 7.3). For instance, policies for jobs may aim to improve compliance with rights, prosecuting forced labor and harmful forms of child labor. Because fundamental labor rights and principles have been endorsed by most countries, promoting compliance with rights amounts to providing a global public good. Thus, interventions against human trafficking or child prostitution in one country are unlikely to have adverse effects in other countries and do not lead to a competition for jobs.

In the absence of a global public good dimension, the second question is what market imperfection or institutional failure is being addressed by the policy intervention. Tackling the institutional failures that lead to conflict, discrimination, or lack of voice might have an effect on the international flows of goods, services, and finance, but only indirectly. The risk that government interventions in these areas will result in a competition for jobs with other countries is limited. The risk is also limited in the case of interventions aimed at providing jobs opportunities for the poor. In all of these cases, there should be gains in well-being in the developing country, and no substantial loss in well-being in other countries. Therefore, jobs policies focused on strengthening social cohesion and improving living standards should be acceptable as well.

The answer is less clear when government interventions aim at enhancing productivity spillovers from jobs. These interventions typically include urban development policies, investments in infrastructure and skills, or the promotion of entrepreneurship. Because these interventions are likely to affect the international flows of goods, services, and finance, the range of possible outcomes is broader. While no general rule is available, interventions that undermine an open trading system most likely reduce aggregate well-being—probably more at home than abroad. On the other hand, interventions aligned with a country's dynamic comparative advantage could result in mutual gains. Admittedly, assessing what "aligned" means in practice is bound to involve an element of judgment.[76]

FIGURE 7.3 *Policies for jobs may or may not harm other countries*



Source: World Development Report 2013 team.

But the East Asian experience, with jobs in manufacturing migrating from Japan to Korea and Taiwan, China, and subsequently to China, and then to Vietnam, provides some hints. As these countries followed their dynamic comparative advantage under the "flying geese" pattern of development, there were few instances of an open competition for jobs between them.