Sixteen

WINNING AND LOSING: WHERE YOU LIVE REALLY MATTERS

CHAPTER OUTLINE

Location matters
Incomes and poverty
  - The contours of world poverty
  - Inequalities within countries
    - Income inequalities within developed countries
    - Income inequalities within developing countries
  - Winners and losers
Where will the jobs come from?
  - Employment and unemployment in developed countries
    - Changing employment structures
    - Resurging unemployment
  - Why is it happening?
    - Technological change?
    - Globalization of production?
    - Trade competition from developing countries?
    - Searching for explanatory needles in messy haystacks
Employment and unemployment in developing countries
  - Changing employment structures
  - Formal and informal labour markets
  - Positive and negative effects of globalizing processes on developing country employment
  - Over-dependence on a narrow economic base
Populations on the move
  - The contours of world population
    - Population growth
Location matters

There is no such thing as being born equal. It depends upon whether the address is good or bad.¹

The real effects of globalizing processes are felt not at the global or the national level but at the local scale: the communities within which people struggle to meet the needs of their daily lives. It is at this scale that physical investments in economic activities are actually put in place, restructured or closed down. It is at this scale that most people make their living and create their own family, household and social communities. Despite the undoubtedly large volumes of migration that have occurred throughout human history, most people live out their lives within the country – often even the locality – of their birth. A person’s place of birth or residence, therefore, is a key determinant of the range of ‘life chances’ that are available. These are highly unevenly distributed across the earth’s surface at all geographical scales: between countries, within countries, even within individual cities.

The contours of the well-being map show a landscape of staggering high peaks of affluence and deep troughs of deprivation interspersed with plains of greater or lesser degrees of prosperity. Writing before the onset of the 2008 global economic crisis, the UN Human Development Report observed:

The era of globalization has been marked by dramatic increases in technology, trade and investment – and an impressive increase in prosperity. Gains in human development have been less impressive. Large parts of the developing world are being left behind. Human development gaps between rich and poor countries, already large, are widening ... The scale of the human development gains registered over the past decade should not be underestimated – nor should it be exaggerated. Part of the problem of global snapshots is that they obscure large variations across and within regions ... Progress towards human development has been uneven across and within regions and across different dimensions.²

Today, this statement is even more valid.

Looking at the world through the lens of global production networks leads us to think of the map of economic activities as a set of variably interconnected
Where You Live Really Matters

'islands', rather than as a continuous surface. Figure 16.1 is one such representation by Allen Scott, in which

the developed areas of the world are represented as a system of polarized regional economies each consisting of a central metropolitan area and a surrounding hinterland (of indefinite extent) occupied by ancillary communities, prosperous agricultural zones, smaller tributary centers, and the like ... Each metropolitan nucleus is the site of intricate networks of specialized but complementary forms of economic activity, together with large, multi-faceted labour markets, and each is a locus of powerful agglomeration economies and increasing returns effects ... These entities can be thought of as the regional motors of the new global economy ... Equally, there are large expanses of the modern world that lie at the extensive economic margins of capitalism ... Even so, underdeveloped areas are occasionally punctuated by islands of relative prosperity.3

This notion of 'islands of relative prosperity' resonates with the more general metaphor of the global economy as an archipelago (literally, a sea studded with many islands).4

The processes of winning and losing in the global economy are highly interconnected. Development and underdevelopment are, in a very real sense, two
establishing a link between globalization and inequality is fraught with difficulty, not only because of how globalization is defined and how inequality is measured, but also because the entanglements between globalization forces and ‘domestic’ trends are not that easy to separate out … However, there is sufficient evidence to conclude that contemporary processes of globalization have been accompanied by a rise in global inequality and vulnerability.5

At the global scale, the development gap is stunningly wide. The developed countries are clearly ‘winners’. They continue to contain a disproportionate share of the world’s wealth, trade, investment and access to modern technologies (especially information technologies). The 20 per cent of the world’s population living in the highest-income countries have well over 80 per cent of world income, trade, investment and communications technology. The 20 per cent of the world’s population living in the poorest countries have around 1 per cent.

In the developed countries of the world, the trajectory has been of generally increasing affluence, although not everybody has been a winner. The picture in the developing countries of the world is very different. Although there are some undoubted winners, there are also many losers. In large part, though by no means entirely, the economic progress and material well-being of developing countries are linked to what happens in the developed economies. A continuation of buoyant economic conditions in those economies, stimulating a general expansion of demand for both primary and manufactured products, would undoubtedly help developing countries. But the notion that ‘a rising tide will lift all boats’, while containing a kernel of truth, ignores the enormous variations that exist between countries. The shape of the ‘economic coastline’ is highly irregular; some economies are beached and stranded way above the present water level. Indeed, the global financial and economic crisis that erupted in 2008 may well have redrawn the economic coastline in rather dramatic ways, just as the effects of climate change threaten to redraw the physical coastline. In both cases, we cannot yet see precisely what new forms will emerge.

For the poorest countries, however, there is no automatic guarantee that a rising tide of economic activity would, on its own, do very much to refloat them. The internal conditions of individual countries – their histories, cultures, political institutions, forms of civil society, resource base (both natural and human) – obviously influence their developmental prospects. However, despite the claims of the ‘neo-environmental determinists’, low levels of development cannot be explained simplistically in terms of the natural environment (for example, climatic conditions).6 As always, it is a specific combination of external and internal conditions which determines the developmental trajectory of individual countries. For the developing world as a whole, the basic problems are those of extreme poverty, continuing rapid population growth, and a lack of adequate employment opportunities.
Apart from the yawning gap between developed and developing countries as a whole, however, there are enormous disparities within the developing world itself.

In this chapter, we focus on two tightly interconnected dimensions of the problems posed by globalizing processes for both developed and developing countries: incomes and jobs. There is a very good reason for adopting such a perspective. Income is the key to an individual’s or a family’s material well-being. However, income – or the lack of it in the form of poverty – is not an end in its own right but, rather, a means towards what Amartya Sen calls ‘development as freedom’. In that sense, poverty is an ‘unfreedom’: ‘a deprivation of basic capabilities, rather than merely a low income’.7

The major source of income (for all but the exceptionally wealthy) is employment, or self-employment. Hence, the question ‘Where will the jobs come from?’ is a crucial one throughout the world. The major employment changes that have been occurring in both developed and developing countries are the result of an intricate interaction of processes. Job losses in the developed market economies, for example, cannot be attributed simply to the relocation of production to low-cost developing countries. There is far more to it than this. What is clear, however, is that the industrialized economies face major problems of adjusting to the decline in manufacturing jobs in particular but also, increasingly, in some service jobs, especially in the current global crisis. However, the problems facing developing countries are infinitely more acute, despite the spectacular success of a small number of newly industrialized economies.

Incomes and poverty

The contours of world poverty

Before the beginning of the nineteenth century, the differences in levels of income between different parts of the world were relatively small:

At the dawn of the first industrial revolution, the gap in per capita income between Western Europe and India, Africa, or China was probably no more than 30 per cent. All this changed abruptly with the industrial revolution.8

Figure 16.2 shows the huge unevenness in the map of incomes. Although it is conventional to draw a distinction between developed and developing countries, the latter category is highly problematic. It implies a degree of homogeneity which simply does not exist within this group of countries. In this respect, the World Bank makes a useful distinction between three groups of developing countries based on per capita income level: upper-middle-income, lower-middle-income, and low-income countries.
There is a striking geography to these categories. The whole of the Indian subcontinent falls into the lower-middle- or low-income categories. In contrast, most East Asian countries are in the middle-income categories. Despite its recent spectacular economic growth, China is still in the lower-middle-income category, although Malaysia is in the upper-middle-income group, while Singapore, Taiwan and Korea now have sufficiently high per capita incomes to fall into the high-income category, along with the world’s developed countries. Singapore, in particular, now has a per capita income level higher than several European countries. All countries in Latin America and the Caribbean are in the middle-income group, apart from low-income Haiti. No fewer than 33 of the world’s poorest countries (two-thirds of the total) are in Africa. Their average per capita income is $578 compared with the average for the high-income countries of $37,566 (a ratio of 1:65!). But within the low-income group, 26 of the 33 countries have a per capita income less than the group’s average. Indeed, the very poorest have per capita incomes of less than $200. These are the world’s most deeply impoverished countries, many of which face mass starvation, and again the vast majority are located in Africa.

Figure 16.3 provides an especially graphic perspective on gross national income (GNI) distribution.

The height of the bars is the level of GNI per head by decile of the population in the 140 countries ... Each country has a number of bars equivalent to its population. The graph, therefore, gives a general simultaneous impression of two distributions – between countries (the longer axis ascending from left to right) and between income groups (the shorter axis from left to right).
Poverty brings with it a whole host of other problems. For example:

- The life expectancy at birth of males in the low-income countries averages 56 years, compared with 76 years in high-income countries. But the range within the poor countries is very wide: from 41 to 68 years.
- The life expectancy at birth of females in the low-income countries averages 58 years (82 years in high-income countries). The range is from 43 to 73 years.
- The average adult literacy rate (as a percentage of the population over 15 years) in low-income countries is 61 per cent (99 per cent in high-income countries). The range in low-income countries is 24 to 74 per cent.

The income patterns shown in Figures 16.2 and 16.3 are snapshots of a single point in time. But what are the trends in global income distribution over time? Is the poverty gap getting bigger? Are the numbers living in poverty increasing or falling? Unfortunately, there is no simple and straightforward answer to these questions. The extent to which the income gap is widening, narrowing or staying about the same is controversial and depends on how it is measured. Not only this, but also the statistical data are incomplete and often out of date. Figure 16.4 provides one perspective over a lengthy historical period (from 1820 to 2007). It is a striking picture which shows how dramatically the gap between the richest and the poorest countries progressively widened as industrialization (and globalization)
proceeded. In 1820, the ratio between the richest and the poorest countries was 3 to 1; by 2007 it had grown to a staggering 92 to 1.

A rather different way of measuring global poverty is to calculate the number of people living on less than $1 per day. Despite very considerable advances in some parts of the world, one in five people (around 1.1 billion) live on less than this minuscule sum. Nearly 70 per cent of these utterly impoverished people live in South Asia and sub-Saharan Africa (Figure 16.5). There have been changes, but such improvement has been extremely uneven, as Figure 16.5 shows. The biggest improvement was in East Asia and the Pacific. But this is almost entirely accounted
for by China. Take out China, where there has been very substantial progress in reducing poverty, and the position looks very different. In a number of African countries, for example, well over half the population has to survive on less than $1 a day and more than four-fifths on less than $2.11

As we have seen in earlier chapters, the spectacular economic growth of a relatively small number of developing countries – especially in East Asia – has been one of the most significant developments in the global economy in the past 50 years. In particular, the four East Asian tigers – Korea, Singapore, Taiwan and Hong Kong (although now incorporated into China) – have industrialized at a rate ‘unmatched in the nineteenth and twentieth centuries by Western countries and, for that matter, by Latin American economies’.12 The spread of the growth processes to encompass some other East Asian countries during the 1980s and 1990s – Malaysia, Thailand, the Philippines, Indonesia and, most of all China – means that

in little more than a generation, hundreds of millions of people have been lifted out of abject poverty, and many of these are now well on their way to enjoying the sort of prosperity that has been known in North America and Western Europe for some time.13

In general, however, the winners – and the losers – have been the usual suspects. The already affluent developed countries have sustained – even increased – their
affluence, and some developing countries have made very significant progress, but there is a hard core of exceptionally poor countries that remains stranded. Despite the generally rising tide associated with overall world economic growth, it has not lifted all boats. These data are somewhat historic, especially in the light of the 2008 crisis. But there is little doubt that poor countries will be hit especially hard.

The World Bank … estimates that lower growth in poor countries will trap an additional 53m people on less than $2 a day this year [2009], a rise in absolute poverty that is additional to the 130m–155m increase in 2008 caused by soaring food and fuel prices.14

The Asian Development Bank has warned that the global economic malaise is creating a social crisis in Asia, with slower growth leaving millions more people than expected mired in poverty and malnutrition.15

Inequalities within countries

Focusing the analytical lens at the country level provides a useful first cut at mapping the contours of poverty and income. But, of course, such a focus obscures the detail of the economic landscape both at smaller geographical scales and in terms of non-geographical criteria (gender, social class and so on). For example, even though most people in developed countries are significantly better off than in the past,

it is remarkable that the extent of deprivation for particular groups in very rich countries can be comparable to that in the so-called third world. For example, in the US, African Americans as a group have no higher – indeed have a lower – chance of reaching advanced ages than do people born in the immensely poorer economies of China or the Indian state of Kerala (or in Sri Lanka, Jamaica or Costa Rica).16

In other words, the distribution of income within an individual country’s population can be extremely variable.

Income inequalities within developed countries

One measure of such variation is the Gini coefficient, a summary statistic whose value ranges theoretically from zero (complete income equality) to one (complete income inequality). Although neither of these extremes is likely in reality, the extent to which individual countries tend towards one or the other extreme is a useful, if crude, indicator. A striking feature of Figure 16.6 is the relative income equality within the Nordic countries, as well as in Japan and Germany; and, in contrast, the fact that the US has a much poorer income distribution than any other leading developed economy and this has worsened since the 1960s. In 1967, the Gini coefficient for the US was 0.39; by 2007 it was 0.46.17
The Gini coefficient is a highly aggregative measure of income distribution. Another approach is to examine the share that each quintile (fifth) of the population has of national income and how that changes over time. Figure 16.7 shows this for the US and the UK between 1977 and 2007. In both cases, the only group that increased its share of total household income was the highest-income group. Figure 16.8 shows the trends in the ratio of the 10 per cent highest paid to the 10 per cent lowest paid workers in leading industrialized countries between the mid 1980s and mid 1990s, the latest years for which comparable data are available. Most striking is the extent to which the US and the UK stand out from the rest. In those two countries, the gap between the highest and lowest paid increased by more than one-third. The pattern is more varied across the other industrialized countries shown in Figure 16.8. For example, the same degree of increasing income dispersion within the labour force did not occur in many of the continental European countries. In the case of Germany the gap actually narrowed slightly.

These differences of detail between individual countries reflect specific social policies, most notably the contrast between the neo-liberal market capitalist systems of the US and the UK and the social market systems of continental Europe. But it is generally the case – as with employment – that it is the less skilled workers who have been most adversely affected.

[As compensation has fallen for the unskilled worker, it has increased mightily for highly educated workers ... in 1979 male workers with a college degree earned on average about 50 per cent more than unskilled workers; by 1993]
Figure 16.7  The top end wins: changing income distribution within the US and the UK
Source: calculated from US Census Bureau Historical Income Inequality Tables, 2008: Table A.3; Jones et al., 2008: Figure 3

Figure 16.8  The widening gap between the highest-paid and lowest-paid workers in developed economies
Source: based on ILO, 2004b: Figure 16
Figure 16.9  Counties within the US with high levels of economic distress

Source: based on Glasmeier, 2002: Figure 1
that difference was nearly 90 per cent. To put the inequality problem in its starkest terms, between 1979 and 1994 the upper 5 per cent of American families captured 99 per cent of the nation’s per capita gains in gross domestic product! That is, with a mean family gain over this period of $4,419, $4,365 went to the upper 5 per cent.\(^{18}\)

Such uneven income distributions also have a distinctive geographical manifestation. As this chapter’s title suggests, ‘where you live really matters’. Figures 16.9 and 16.10 illustrate the enormous geographical unevenness in well-being within the US and Western Europe. And even within the so-called ‘global cities’, like New York and London, where wealth tends to be highly concentrated, there is huge income inequality. Because of their particular functions in the global economy as the ‘control points’ of global financial markets and of transnational corporate activity, cities like New York and London contain both highly sophisticated economic activities, with their highly paid, cosmopolitan workforces, and also large supporting workforces in low- and medium-level services. The result is a high degree of social and spatial polarization within these cities.\(^{19}\) During the 1990s, for example, income inequality in New York City grew much more sharply than in the US as a whole. ‘New York has the worst income inequality in the U.S.’\(^{20}\) Similarly, earnings differentials within London have increased substantially since the mid 1980s.

**Income inequalities within developing countries**

A widely voiced criticism of industrialization in developing countries is that its material benefits have not been widely diffused to the majority of the population.
There is indeed evidence of highly uneven income distribution within many developing countries, as Figure 16.11 shows. Although some developing countries actually have a more equal income distribution than the US (see Figure 16.6), the situation is significantly worse in others, notably in Latin America.

Table 16.1 shows this in a different way. In countries such as Brazil, Chile and Mexico, for example, the share of total household income received by the top 20 per cent of households is very much higher than in the industrial market economies. However, this pattern does not apply in all cases. For example, Korea has a household income distribution very similar to that of the industrial market economies. Of course, the question of income distribution is very much more complex than these simple figures suggest and is the subject of much disagreement among analysts. The fact remains, however, that in general the East Asian countries have a more equitable income distribution than the Latin American countries, where there is a ‘hugely unequal distribution of income and wealth. A disproportionately large number of Latin Americans are poor – some 222m or 43% of the total population.’21

Such differences reflect specific historical experiences and social policies, in particular the different patterns of land ownership and reform. In Korea and in Taiwan, for example, post-war reform of land ownership had a massive effect, increasing individual incomes through greater agricultural productivity, expanding domestic demand, and contributing to political stability.22 This has not happened in most Latin American countries.

Figure 16.11   Variations in income inequality within developing countries

Source: calculated from data in UNDP, 2008
Part Four  Winning and Losing in the Global Economy

In 1953, while Taiwan was still recovering from World War II, the island had a level of income inequality that was about the level found in present-day Latin America. Ten years later it had dropped to the level now found in France. At the same time, growth rates in this period were of the order of 9 per cent per annum … this outcome was due primarily to improved income distribution in Taiwan’s agriculture sector. This improvement, in turn, rested on a specific set of governmental policies, that focused in the first instance on agricultural reforms – especially land reform, infrastructure investment, and price reform – coupled with a rapid proliferation of educational opportunities for Taiwanese students at all levels. In terms of distributive measures, land reform was of greatest significance.23

However, especially in geographically extensive countries, like Brazil, China or India, such aggregative income distribution data are misleading. As always, there are vast differences in income levels (and in other measures of well-being) between different parts of the same country. China, for example, faces massive internal problems. Its spectacular economic growth since its opening up in the early 1980s has created vast inequalities between different parts of the country (Figure 16.12), especially between inland and rural areas on the one hand and coastal and urban areas on the other.

Currently, rural incomes are less equally distributed than urban incomes. However, urban inequality is increasing faster than rural inequality. At its current rate, urban inequality will eventually overtake rural inequality. Moreover, this trend would further accelerate the increase in inequality as people move to urban areas. On the other hand, the Chinese government restricts free migration from rural to urban areas. Even if such migration were permitted, it probably is not possible for the urban economy to accommodate the majority of the gigantic rural population. Thus … gaps between rural and urban incomes may persist and cause overall inequality to rise for an extended period.24

Winners and losers
How we identify the winners and losers in terms of incomes depends very much on the scale of analysis we adopt. As we have seen, there are huge income differentials

Table 16.1  Distribution of income within selected developing countries

<table>
<thead>
<tr>
<th>Country (year)</th>
<th>Lowest 10%</th>
<th>Lowest 20%</th>
<th>Highest 20%</th>
<th>Highest 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil (2001)</td>
<td>0.7</td>
<td>2.4</td>
<td>63.2</td>
<td>46.9</td>
</tr>
<tr>
<td>Chile (2000)</td>
<td>1.2</td>
<td>3.3</td>
<td>62.2</td>
<td>47.0</td>
</tr>
<tr>
<td>Mexico (2000)</td>
<td>1.0</td>
<td>3.1</td>
<td>59.1</td>
<td>43.1</td>
</tr>
<tr>
<td>Malaysia (1997)</td>
<td>1.7</td>
<td>4.4</td>
<td>54.3</td>
<td>38.4</td>
</tr>
<tr>
<td>Philippines (2000)</td>
<td>2.2</td>
<td>5.4</td>
<td>52.3</td>
<td>36.3</td>
</tr>
<tr>
<td>Korea (1998)</td>
<td>2.9</td>
<td>7.9</td>
<td>37.5</td>
<td>22.5</td>
</tr>
<tr>
<td>Singapore (1998)</td>
<td>1.9</td>
<td>5.0</td>
<td>49.0</td>
<td>32.8</td>
</tr>
<tr>
<td>China (2001)</td>
<td>1.8</td>
<td>4.7</td>
<td>50.0</td>
<td>33.1</td>
</tr>
<tr>
<td>India (1999–2000)</td>
<td>3.9</td>
<td>8.9</td>
<td>43.3</td>
<td>28.5</td>
</tr>
</tbody>
</table>

Source: based on World Bank, World Development Indicators 2005: Table 2.7
Where You Live Really Matters

However, there are two broad groups of winners and losers that merit our brief attention at this stage. These two groups cut right across the broad development divide.

The clear winners are the elite *transnational capitalist class* (TCC)\(^{25}\) whose members are predominantly, although no longer exclusively, drawn from developed countries. Indeed, the emergence of a substantial class of extremely wealthy and influential individuals within most developing countries, who see themselves as global players, has become a major feature of the global economy. The dominant group within the TCC consists of the owners and controllers of the major corporations and leading financiers – the globe-trotting, jet-setting TNC executives. To these we can add globalizing bureaucrats and politicians, globalizing professionals (with particular technical expertise – even including some academics), merchants and media people. Without question, these are winners in the global economy and are highly influential in global policy discourses.\(^{26}\)

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**Figure 16.12  Income inequalities within China**

*Source: based on data in *Statistical Yearbook of China*, 2009*
This transnational capitalist class displays a number of significant characteristics:

- Economic interests increasingly globally linked rather than exclusively local and national in origin.
- Behaviour based on specific forms of global competitive and consumerist rhetoric and practice.
- Outward-oriented global, rather than inward-oriented local, perspectives on most economic, political and culture ideology issues.
- Similar lifestyles, especially patterns of higher education (for example, in business schools) and consumption of luxury goods and services. ‘Integral to this process are exclusive clubs and restaurants, ultra-expensive resorts in all continents, private as opposed to mass forms of travel and entertainment and, ominously, increasing residential segregation of the very rich secured by armed guards and electronic surveillance.’
- Self-projection as citizens of the world as well as place of birth.

While transnational elites are clear winners, women – at least in many parts of the world – tend to be losers in the global economy. A staggering two-thirds of the world’s population living on less than $1 per day are women, surviving ‘on the margins of existence without adequate food, clean water, sanitation or health care, and without education’.  

In Sen’s terms of ‘development as freedom’, women are significantly more disadvantaged than men. At the same time, because of their key role in nurturing children, women hold the key to development, especially in the poorest countries of the world. The problem is that in many developing countries (as opposed to developed countries), women have a much higher mortality rate and lower survival rate than men. As a result, the female/male ratio is lower than in developed countries, implying a phenomenon of ‘missing women’. Where this occurs – as in China and India, for example – the main explanation would seem to be ‘the comparative neglect of female health and nutrition, especially, but not exclusively, during childhood’.

Where will the jobs come from?

People strive to make a living in a whole variety of ways: for example, exchanging self-grown crops or basic handcrafted products; providing personal services in the big cities; working on the land, in factories, or in offices as paid employees; running their own businesses as self-employed entrepreneurs; and so on. For the overwhelming majority of people, employment (full-time or part-time or as self-employment) is the most important source of income and, therefore, one of the keys to ‘development as freedom’. However, there are simply not enough jobs to meet the growing demand.

Between 1980 and 2005, the effective global labour supply quadrupled. Half of that increase was in East Asia, primarily the result of China entering the world
market economy. In 2005, approximately 192 million people were unemployed in the world economy, ‘an increase of 2.2 million since 2004 and 34.4 million since 1995’ (and this figure refers only to ‘open’ unemployment; it does not include the millions of people suffering from ‘hidden’ unemployment who are not measured in the official figures). And, as always, the pattern of unemployment is extremely uneven between different parts of the world, between different parts of the same country, and between different population groups.

Serious as the unemployment position is in the industrialized nations, it pales into insignificance compared with the problems of most developing countries, particularly the least industrialized countries. At least in older industrialized countries the growth of the labour force is now easing. Only 1 per cent of the projected growth of the global labour force between 1995 and 2025 will be in the high-income countries, while more than two-thirds of the projected growth will occur in developing countries. As Figure 16.13 shows, the low- and middle-income countries already account for 85 per cent of the global labour force. In many of these countries, extremely high rates of population growth mean that the number of young people seeking jobs will continue to accelerate for the foreseeable future.

Some 46 million new workers will be joining the world’s labour force every year in the future, the bulk of them in developing countries. While the world’s labour force is concentrated in developing countries, its capital and skills are concentrated in advanced industrial countries. The global employment situation reflects this huge asymmetry in the distribution of the world’s productive resources.
Writing in 2006, the Director-General of the ILO warned:

\[
\text{We are facing a global jobs crisis of mammoth proportions, and a deficit in}
\text{decent work that isn’t going to go away by itself.}^{32}
\]

This statement was made well before the onset of the current global crisis. In 2009, the ILO set up its ‘Global Jobs Crisis Observatory’ producing weekly online reports of employment and unemployment trends across the world:

\[
\text{What began as a crisis in financial markets has rapidly become a global jobs}
\text{crisis. Unemployment is rising. The number of working poor is increasing.}
\text{Businesses are going under.}^{33}
\]

So, as we examine employment and unemployment trends in the following sections, we need to bear in mind that the current situation is extremely volatile and unpredictable.

**Employment and unemployment in developed countries**

**Changing employment structures**

During the past 50 years, two particularly important developments have occurred in the employment structures of developed economies:

- the displacement of jobs in manufacturing industries by jobs in services
- the increasing participation of women in the labour market.

One of the most striking trends, since at least the 1960s but especially since the 1970s, has been the disappearance of manufacturing jobs (Figure 16.14), leading to the view that developed economies have become *deindustrialized* and that they are now effectively service economies. Today, between three-quarters and four-fifths of their labour forces are employed in service occupations – even higher in the UK and North America. In recent years, virtually all the net employment growth in the developed economies has been in services, although manufacturing remains relatively strong in such countries as Germany, Italy and Japan.

Within the older industrialized countries, three broad geographical trends in these processes of manufacturing decline are apparent:

- *Broad interregional shifts* in employment opportunities, as exemplified by the relative shift of investment from ‘Snowbelt’ to ‘Sunbelt’ in the US, from north to south within the UK.
- *Relative decline of the large urban-metropolitan areas* as centres of manufacturing activity and the growth of new manufacturing investment in non-metropolitan and rural areas.
Where You Live Really Matters

Hollowing out of the inner cities of the older industrialized countries: in virtually every case, the inner urban cores have experienced massive employment loss as the focus of economic activity shifted first from central city to suburb and subsequently to less urbanized areas.

Thus, deindustrialization has been experienced most dramatically in the older industrial cities as well as in those broad regions in which the decline of specific industries (including agriculture) has been especially heavy. In many cases, the vacuum left by the decline of traditional manufacturing remains unfilled. The physical expression of these processes is the mile upon mile of industrial wasteland; the human expression is the despair of whole communities, families and individuals whose means of livelihood have disappeared. One outcome of these cataclysmic changes has been the growth of an informal or hidden economy, a world of interpersonal cash transactions or payments in kind for services rendered, a world much of which borders on the illegal and some of which is transparently criminal (see below for a more detailed discussion of informal labour markets).

Some of the sharpest contrasts in the nature of employment occur in the major cities, especially in the so-called ‘global cities’.35

- Hollowing out of the inner cities of the older industrialized countries: in virtually every case, the inner urban cores have experienced massive employment loss as the focus of economic activity shifted first from central city to suburb and subsequently to less urbanized areas.

- In both London and New York, the proportion of the labour force employed in manufacturing declined from over 20 per cent in 1977 to well under 10 per cent in the mid 1990s.

- ‘There has been a pronounced increase in casual employment and in the informalization of work in both New York and London … In addition, jobs that
were once full-time ones are now being made into part-time or temporary jobs … A majority are low-wage jobs. The precise forms of casualization vary between individual cities: in New York the emphasis has been on informal work, whereas in London most growth has been in part-time work.

- In New York, ‘Blacks and Hispanics increased their share of jobs, while whites lost share. Half of all resident workers in New York are now minority … Blacks and Hispanics are far less likely than whites to hold the new high-income jobs and far more likely than whites to hold the new low-wage jobs.’ London is the major focus of Asian and Afro-Caribbean populations in the UK. ‘In inner and outer London, 29 per cent and 22 per cent respectively of residents are from ethnic minorities in 2000.’

A common general criticism levelled at the new service jobs is that they are essentially poorly paid, low skilled, part-time and insecure – at least compared with the kinds of jobs in manufacturing that were characteristic of the developed countries until the 1960s. There is certainly some truth in this. Many of the new service jobs are, indeed, ‘McJobs’. But that isn’t the entire story. An OECD report suggested that most of the growth in new private services jobs in western industrialized countries is well-paid and skilled … the expansion in service employment brought faster growth in the 1990s in high-paid than low-paid work … ‘There does not appear to be any simple trade-off between job quality and employment.’ While the US has a higher proportion of its working-age population employed in low-paying jobs than most other OECD countries, it also has a higher proportion in higher-paying jobs.

The shift in the balance of employment towards services has been closely associated with the increasing participation of women in the labour force. In all developed economies, the changing roles of women, away from an automatically assumed domestic role, has gone hand-in-hand with the growth of service jobs. Although women are certainly employed in manufacturing industries, their relative importance is far higher in service industries. This is especially so where there are greater opportunities for part-time work, which allows women with families a degree of flexibility to combine a paid job with their traditional gender roles.

Female participation in the labour market has increased in virtually all countries. In the US, for example, it was around 38 per cent in 1960; today it is 60 per cent. In the UK, a similar trend is evident: from 40 per cent in 1971 to 55 per cent today. But, as Figure 16.15 shows, there is considerable variation between countries. The highest female participation rates are found in the Scandinavian countries and the Netherlands; significantly lower rates are found in Germany, France, Spain, Belgium and Italy.

There are large differences between individual developed economies in their rates of job creation. In terms of total jobs created, there is no doubt that, in recent years, the US has been in a different league from most of the other industrialized
countries. Between the mid 1980s and mid 1990s, total employment in the US grew almost four times faster than in the European Union and 50 per cent faster than in Japan. But this differential is now far less pronounced. Rates of employment growth overall have been modest – and variable – for all the developed economies. Between 1996 and 2005, US employment grew by 1.5 per cent, EU employment grew by 1.3 per cent. Within the EU, the UK has had significantly higher employment growth rates in recent years.

**Resurging unemployment**

The obverse of employment growth is, of course, unemployment. Figure 16.16 demonstrates just how volatile unemployment rates have become since the so-called ‘golden age of growth’ of the 1960s and early 1970s. Since then, unemployment rates in the industrialized countries have increased dramatically, though very unevenly. The overall pattern of change in unemployment rates is clearly related to the ‘roller-coaster’ of production and trade shown in Figure 2.3. Over the entire period, the trend has been one of significantly higher levels of unemployment in the major European economies, excluding the UK, compared with both the US and especially Japan. However, the unemployment situation in Japan has undergone a particularly significant change. Historically, unemployment rates in Japan were extremely low (well below 2 per cent throughout the 1960s and most of the 1970s). A combination of a rapidly growing economy and a very strong orientation towards job security in the large-company sector of the economy sustained lower rates of unemployment than in any other industrialized country for almost 30 years. But the burst of the bubble economy at the end of the 1980s and persistent

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**Figure 16.15** Variations in female participation in the labour markets of developed countries

*Source: based on ILO, 2001: Table 2*
Figure 16.16  Unemployment rates, 1969–2009

Source: ILO data
domestic recession throughout the 1990s changed all that. The lifetime job system has crumbled – the days of the ‘salaryman’ are numbered.

The current financially induced economic crisis has drastically altered the situation once again, although it is too soon to tell how long its employment effects will last, how deep they will be and which countries will be worst affected. Estimates for 2009 show that unemployment rates rose sharply again in several countries. Reports from virtually all the developed economies suggest huge job losses, either actual or in the pipeline. For example, the OECD predicted that ‘one in ten workers in advanced economies’ would be unemployed by 2010. Increases in unemployment rates were highest in Spain and Ireland, followed by the US, but significantly lower in the UK and France, while Germany’s unemployment rate improved slightly.

Whatever its precise level at any point in time, unemployment is always a selective process. The drastic collapse of financial services employment in 2008 clearly affected particular groups of workers and particular places where such activities are concentrated. Some manufacturing industries (automobiles being a prime example) have also been very hard hit. More generally, however, males aged between 25 and 54 years, with a good education and training, are far less likely to be unemployed, on average, than women, younger people, older workers and minorities. Most of these latter categories tend to be unskilled or semi-skilled workers.

The vulnerability of women and young people to unemployment reflects two major features of the labour markets of the older industrialized countries. First, as we have seen, the increased participation of women in the labour force – particularly married women – has increased dramatically. A large proportion of these are employed as part-time workers in both manufacturing and services, especially the latter. Second, youth unemployment during the 1980s partly arose from the entry on to the labour market of vast numbers of 1960s ‘baby boom’ teenagers. In most industrialized countries, therefore, unemployment rates among the young (under 25 years) have been roughly twice as high as that for the over-25s. In some cases youth unemployment is three times higher than adult unemployment. Unemployment tends to be especially high among minority groups within a population. In the US, for example, unemployment among black youths can be 150 per cent higher than among white youths. Similarly, unemployment rates among Hispanic youths are at least 50 per cent higher than among white youths. In Europe the problem of minority group unemployment reflects the large-scale immigration of labour in the boom years of the 1960s.

**Why is it happening?**

Put this question to most politicians, journalists, quite a lot of academics, and many ordinary people and you are likely to get a simple answer: ‘It’s globalization,
Part Four  Winning and Losing in the Global Economy

stupid.’ In fact, it isn’t as simple as that. These highly uneven trends in employment, unemployment and incomes in the industrialized economies cannot be explained simplistically in terms of a single set of causes. In so far as globalization contributes to these trends it does so precisely because globalizing processes are themselves highly complex and intrinsically uneven. It’s a matter of searching for explanatory needles in very messy haystacks.

For example, the most general explanation of an overall high level of unemployment in the older industrialized countries between the early 1970s and mid 1980s, in the 1990s and again in the 2010s is the effect of world recession. Recession, whatever its causes, drastically reduces levels of demand for goods and services. By this explanation, the bulk of unemployment in the older industrialized countries as a whole is cyclical: it is demand-deficient unemployment. But the general force of recession does not explain the geographical variation in unemployment between and within countries. In fact, a whole set of interconnected processes operates simultaneously to produce the changing map of employment, its reverse image, unemployment, and the increasingly uneven map of income.

**Technological change?**

Technological developments in products and processes are widely regarded as being a major factor in changing both the number and the type of jobs available. In general, *product innovations* tend to increase employment opportunities overall as they create new demands. On the other hand, *process innovations* are generally introduced to reduce production costs and increase productive efficiency. They tend to be labour saving rather than job creating. Such process innovations are characteristic of the mature phase of product cycles (see Figure 4.11) and became a dominant phenomenon from the late 1960s onwards.

The general effect of process innovations, therefore, is to increase labour productivity: an increased volume of output from the same, or even a smaller, number of workers. But, again, the impact of such technological change on jobs tends to be uneven. In most cases, it has been the semi-skilled and unskilled workers who have been displaced in the largest numbers. Initially, it was manual workers rather than professional, technical and supervisory workers whose numbers were reduced most of all, although this is no longer the case.

There is no doubt that changes in process technology have adversely affected the employment opportunities of less skilled members of the population. However, there is much disagreement about the overall contribution of technological change to unemployment. Some argue that the ‘end of work’ is nigh, and that much of this is due to the job-displacing effects of technological change. The explosive spread of new information and communications technologies (ICT) would seem to confirm such apocalyptic views. But do they? Not in the opinion of the ILO, which argues that:44
Where You Live Really Matters

• ICT does not destroy jobs.
• In the ‘core’ ICT sector, the jobs being lost in manufacturing are more than compensated for by rapid growth in the services segment of these industries (software, computer and data processing services).
• There is huge potential for high-cost economies to move up the value chain and to create higher-skill jobs.
• For most workers, employment stability remains the norm.
• However, these changes in employment tend to reinforce gender inequalities.

Although technological change may continue to create, in net terms, more jobs than it destroys, the problem is the actual distribution of such new jobs in relation to those destroyed. Certainly, the ever-increasing pervasiveness of computerization in all areas of the economy is dramatically transforming existing divisions of labour and contributing towards a ‘hollowing out’ of labour market structures. New technologies redefine the nature of the jobs performed, the skills required and the training and qualifications needed. They alter the balance of the labour force between different types of worker, involving processes of deskilling and reskilling. The geography of the employment effects of technological change is also extremely uneven. The ‘anatomy of job creation’ is rather different from the ‘anatomy of job loss’; the terms ‘sunrise’ and ‘sunset’ industries imply (probably unconsciously) a geographical distinction (the sun does not rise and set in the same place).

Globalization of production?

In Chapter 14 we explored the impact of global production networks on local economies. The development of complex GPNs in virtually all sectors of the economy has a major impact on the geographical distribution of employment and incomes. In an increasingly volatile competitive environment, and driven by the imperatives of profit, TNCs continuously reconfigure their operations across, and within, national boundaries. As a result, which jobs are created (or destroyed) where is contingent upon the specific strategic behaviour of TNCs headquartered in different countries. The strong tendency to locate certain functions in particular kinds of place creates an internal geographical division of labour which, inevitably, is highly uneven by type of employment (and by income). As we have seen, TNCs are also increasingly connected into external networks of suppliers and collaborators and this creates indirect effects on employment patterns and more complex implications for local communities.

One way in which these externalized relationships impact on employment and incomes is through the currently highly controversial processes of outsourcing/offshoring of white-collar activities, especially in financial services (Chapter 12) but also in other sectors. Estimates of the scale and likely future trajectory of such offshoring vary enormously; scare stories abound. In fact, the numbers involved
are minuscule compared with the number of job changes that occur within individual countries all the time. For example, “an average of 4.6m Americans started work with a new employer every month” in the year to March 2005.”  

However, as always, the effects are experienced differentially, by different groups of people in different places. It is not so much the aggregate numbers affected by the reconfiguration of global production networks that counts but, rather, their distribution.

**Trade competition from developing countries?**

One of the most widely accepted explanations for the employment and income problems facing workers in the older industrialized countries is the competition from imports of cheaper manufactured goods from developing countries. The rapid development of manufacturing production in a small number of NIEs, and their accelerating involvement in world trade, has been a major theme of this book. It is one of the most striking manifestations of global shifts in the world economy.

The basic question is: how far has the industrialization of these fast-growing economies – as expressed through trade – contributed towards the deindustrialization of the older industrialized countries, to the increased levels of unemployment, and to the pauperization of workers at the bottom end of the labour market? This has become an even more contentious issue with the recent emergence of China (and, to a lesser extent, India) as a major global economic force.

China is no longer a marginal supplier ... China's low production costs arise from and are coupled with growing industrial competence ... developments in these labour forces, when these economies are integrated into the global labour force, have the capacity to significantly affect global wage levels.

It is not just the wages of unskilled labour in the global economy which are being and will increasingly be undermined by the size of the labour reservoir in China (and India). One of the most striking features of the Chinese labour market is its growing level of education and skilling.

There is a wide range of views on the relationship between developing country trade and employment and income changes in industrialized countries. Wood, for example, argues that trade with developing countries has had a considerable impact, especially in widening the gap between skilled and unskilled workers:

Countries in the South have increased their production of labour-intensive goods (both for export and domestic use) and their imports of skill-intensive goods, raising the demand for unskilled but literate labour, relative to more skilled workers. In the North, the skill composition of labour demand has been twisted the other way. Production of skill-intensive goods for export has increased, while production of labour-intensive goods has been replaced by imports, reducing the demand for unskilled relative to skilled workers ... up to 1990 the changes in trade with the South had reduced the demand for
unskilled relative to skilled labour in the North as a whole by something like 20 per cent ... Thus expansion of trade with the South was an important cause of the de-industrialization of employment in the North over the past few decades. However, it does not appear to have been the sole cause.49

The general conclusion of the ILO is that the results of the many economic studies of the relationship between trade and wage and income inequality in the older industrialized countries are ‘inconclusive’:

Although international trade has contributed to income inequality trends to some extent, it has not played a major role in pushing down the relative wage of less-skilled workers ... [in the case of the US] employment patterns in industries least affected by trade moved in the same direction as those in trade-affected manufacturing industry, increasing the share of high-wage employment. This pattern of change in the employment structure is not well explained by the argument relying on the trade effect.50

Again, however, the focus tends to be on the aggregate geographical picture. Given the particular ways in which the internal geographies of national economies have evolved, there will inevitably be a correspondingly uneven impact of trade on different parts of the same country. But such effects are very complex, as a study of US regions shows.51

Many regions benefited from cheaper imports. The Southeast and South Central regions, however, both of which are dominated by low-wage, import-sensitive manufacturing industries, were made worse off by both cheaper imports and by greater orientation toward the production of import-competing goods. By contrast, the Great Lakes, a region with industries that are highly reliant on imported intermediate inputs, was helped by cheaper imports and a greater orientation toward the production of goods in import-competing sectors. On the export side, cheaper exports hurt most regions, but helped states on the West Coast, a highly export-oriented region.52

Recent detailed empirical research into the Los Angeles labour market suggests that

An increase in foreign competition significantly reduces the wages of less-skilled workers in the Los Angeles CMSA. The wages of more highly educated workers are unaffected by imports and appear to rise with exports. Between 1990 and 2000, the negative impact of import competition moves up the skills ladder, suggesting that higher education may not insulate all workers from the pressures of the global economy over the long-run ... the impact of trade on wage inequality eclipses the influence of technological change through the 1990s, at least in our study region.53

**Searching for explanatory needles in messy haystacks**
Which of these forces are responsible for changing employment and income levels and distribution in developed economies? Is one more important than the
Part Four
Winning and Losing in the Global Economy

Efforts to separate individual influences and calculate their precise effects have not been very successful. The basic problem in all of the individual factor explanations is that each of the factors is treated independently of the others. It is as though changes in one of the variables are unrelated to the others. But this is clearly not the case.

For example, although the direct effects of trade may be relatively small, the indirect effects may be larger because of the ways in which firms respond to the threat of increased global competition. They may, for instance, invest in labour-saving technologies to raise labour productivity and to reduce costs. This would appear as a ‘technology effect’ whereas the underlying reason for such technological change may be quite different: a response to low-cost external competition. How do we separate out ‘trade’ effects from ‘TNC’ effects when so much of global trade either is intra-firm trade or is controlled and coordinated by TNCs? In some cases, a major driving force in import penetration has actually been the direct – or indirect – involvement of domestically owned TNCs. Is this a trade effect or a TNC effect?

In fact, the decline in overall manufacturing (and increasingly some service) employment in the older industrialized countries is primarily the result of increased productivity. But this has affected the labour force differentially with the greatest

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**Table 16.17** A balance sheet of effects of globalizing processes on employment in developed economies

<table>
<thead>
<tr>
<th>Positive effects</th>
<th>Negative effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheaper imports of relatively labour-intensive manufactures promote greater economic efficiency through the demand side while releasing labour for higher productivity sectors.</td>
<td>Particularly in relatively labour-intensive industries, the rising imports from developing countries, together with competition-driven changes in technology and other factors, lead to inevitable losses in employment and/or quality of jobs, including real wages. This increases inequality between skilled and unskilled workers, and causes extreme redeployment difficulties.</td>
</tr>
<tr>
<td>Growth in developing countries through industry relocation and export-generated income leads to (a) increased demand for industrialized country exports and (b) shifts in production in industrialized countries from lower- to higher-valued consumer goods, to more capital- and/or skill-intensive manufacturing and services.</td>
<td>Employment gains from rising industrialized country exports are unlikely to compensate fully for the job losses, especially if (a) industrialized country wages remain well above those of the NIEs and other emerging developing countries and (b) the rates of world economic growth are relatively low, and/or excessively concentrated in East and South East Asia.</td>
</tr>
<tr>
<td>Employment growth and job quality improvement for skilled workers are likely to be significant in the short and medium term, even though in the long run the effects are unclear.</td>
<td>The employment growth and job quality improvement for skilled workers will dwindle in the long run, as a result of relatively cheaper and more productive skilled labour in the NIEs.</td>
</tr>
<tr>
<td>Relocation of production and/or imports causes negative short-term effects on workers but promotes labour market flexibility and efficiency through greater mobility of workers within countries (and, to a lesser extent, within regional economic spaces) to economic activities and areas with relative scarcity of labour.</td>
<td>Increased trade will further reduce demand for unskilled labour. This exacerbates unemployment because, in a world of mobile capital, the industrialized countries no longer retain a capital-based comparative advantage.</td>
</tr>
</tbody>
</table>

*Source: based on ILO, 1996: Table Int. 1*
relative losses of jobs and of income falling on the least skilled, least educated workers. The geographies of such effects are highly uneven, depending on the particular circumstances of individual regional and local economies.

In summary, Figure 16.17 sets out a rough balance sheet of the positive and negative effects of the globalizing processes on employment in developed economies.

**Employment and unemployment in developing countries**

*Changing employment structures*

As in the case of developed countries, the employment structures of developing countries have undergone considerable transformation over the past few decades. Some, as we saw in Chapter 2, have become highly significant manufacturing centres; others have begun to develop important higher-level service sectors. Nevertheless, allowing for such cases, most developing countries remain predominantly agricultural economies. More than 50 per cent of the labour force in the lowest-income countries is employed in agriculture (compared with 4 per cent in the high-income developed economies). Even in the upper-middle-income group (in which most industrial development has occurred) agriculture employs almost 20 per cent of the labour force. In each category the relative importance of agriculture has declined even though, in absolute terms, the numbers employed in agriculture continue to grow. The balance of employment has shifted towards the other sectors in the economy: industry and services. However, as Figure 16.18 shows, there is a clear geography to these developing country employment structures.

Some of the biggest changes are taking place within Asia which contains, as we have seen, some of the most rapidly growing economies in the world. According to a recent ILO report:

> The rapid transition from predominantly rural and agricultural employment to urban-based manufacturing and service-oriented activities in developing Asian countries will continue, and the trend is expected to even accelerate in some countries. Between 2006 and 2015, total employment in agriculture is expected to contract by nearly 160 million, with employment in industry and services expanding by 172 million and 198 million respectively … Not only will the services sector be the main source of job creation but, by 2015, will also become the largest sector, representing about 40.7 per cent of the region’s total employment … Yet, given its size and importance for poverty alleviation, agriculture will remain an important sector, even though the main engines of the region’s growth will be elsewhere … The stage and speed of the structural change will vary across the region.⁵⁴

As in the case of developed countries, there has also been a trend towards increased participation by women in the labour force (quite apart from their
huge role in the informal sector – see below). But its extent varies enormously between different developing countries, ranging from East Asia and sub-Saharan Africa, where around two-thirds of women of working age are in the labour force, to one-quarter in North Africa and the Middle East. Within Asia itself, female participation rates are lowest in South Asia (around one-third). These broad structural changes in employment in developing countries have to be seen within the broader context of growth in the overall size of the labour force.

The contrast with the experience of the industrialized countries in the nineteenth century is especially sharp. During that earlier period, the European labour force increased by less than 1 per cent per year on average; in today’s developing countries the labour force is growing at more than 2 per cent every year. Thus, the labour force in the developing world has doubled roughly every 30 years compared with the 90 years taken in the nineteenth century for the European labour force to double. Hence, it is very much more difficult for developing countries to absorb the exceptionally rapid growth of the labour force into the economy. The problem is not likely to ease in the near future because labour force growth is determined mainly by past population growth with a lag of about 15 years. As we will see later in this chapter, virtually all of the world’s population growth since around 1950 – more than 90 per cent of it – has occurred in the developing countries.
There is, therefore, an enormous difference in labour force growth between the older industrialized countries on the one hand and the developing countries on the other. But the scale of the problem also differs markedly between different parts of the developing world itself. The situation is especially acute in low-income Asian countries like Bangladesh, India and some in South East Asia. It is also a major problem even for fast-growing East Asian economies, which are not creating sufficient numbers of jobs for their burgeoning labour forces. In the case of China, for example, it is estimated that 15 million jobs need to be created every year. The basic dilemma facing most developing countries, therefore, is that the growth of the labour force vastly exceeds the growth in the number of employment opportunities available.

**Formal and informal labour markets**

It is extremely difficult to quantify the actual size of the unemployment problem in many developing countries. Published figures often show a very low level of unemployment, in some cases lower than those recorded in the industrialized countries. However, the two sets of figures are not comparable. One reason is the paucity of accurate statistics. But the major reason is that unemployment in many developing countries is not the same as unemployment in industrial economies. To understand this we need to appreciate the strongly segmented nature of the labour market in developing countries, in particular its division into two distinctive, though closely linked, sectors: formal and informal.

- In the **formal sector**, employment is in the form of wage labour, where jobs are (relatively) secure and hours and conditions of work clearly established. It is the kind of employment characteristic of the majority of the workforce in the developed market economies. But in most developing countries the formal sector is not the dominant employer, even though it is the sector in which the modern forms of economic activity are found.

- The **informal sector** encompasses both legal and illegal activities, but it is not totally separate from the formal sector: the two are interrelated in a variety of complex ways. The informal sector is especially important in urban areas; some estimates suggest that between 40 and 70 per cent of the urban labour force may work in this sector. It is especially important for women, who depend on the informal sector to a much greater extent than men. But measuring its size accurately is virtually impossible. By its very nature, the informal sector is a floating, kaleidoscopic phenomenon, continually changing in response to shifting circumstances and opportunities.

In a situation where only a minority of the population of working age are ‘employed’ in the sense of working for wages or salaries, defining unemployment is, thus, a very different issue from that in the developed economies, although even there an increasing informalization of the economy is apparent. The major
problem in developing countries is *underemployment*, whereby people may be able to find work of varying kinds on a transitory basis, for example, in seasonal agriculture, as casual labour in workshops or in services, but not permanent employment.

**Positive and negative effects of globalizing processes on developing country employment**

There is no question that the magnitude of the employment and unemployment problem in developing countries is infinitely greater than that facing the older industrialized countries. The high rate of labour force growth in many developing countries continues to exert enormous pressures on the labour markets of both rural and urban areas. Such pressures are unlikely to be alleviated very much by the development of manufacturing industry alone. Despite its considerable development in at least some developing countries, manufacturing industry has made barely a dent in the unemployment and underemployment problems of most developing countries.

Only in small, essentially urban, NIEs (like Hong Kong and Singapore) has manufacturing growth absorbed large numbers of people. Indeed, Singapore has a labour shortage and has had to resort to controlled in-migration while Hong Kong firms have had to relocate most of their manufacturing production to southern China. In most other cases, the problem is not so much that large numbers of people have not been absorbed into employment – they have – but that the *rate of absorption* cannot keep pace with the growth of the labour force. Globalizing processes, whilst offering some considerable employment benefits to some developing countries, are again a double-edged sword, as Figure 16.19 shows.

**Over-dependence on a narrow economic base**

There is no single explanation for the deep poverty of low-income countries (and of some of the lower-middle-income countries too). There is no doubt, for example, that problems of inadequate internal governance (including corruption) play a major role in some cases. But in the context of the global economy, one factor is especially significant: an over-dependence on a very narrow economic base, together with the nature of the conditions of trade. We saw earlier (Figure 16.18) that the overwhelming majority of the labour force in low-income countries is employed in agriculture. This, together with the extraction of other primary products, forms the basis of these countries’ involvement in the world economy. Two-thirds of developing countries have more than a 50 per cent dependence on commodity exports (including agricultural food and non-food products, ferrous metals, industrial raw materials and energy). In most sub-Saharan African countries, the level of dependence is around 80 per cent. Apart from the more successful of the East Asian NIEs, therefore,

*the exports of developing countries are still concentrated on the exploitation of natural resources or unskilled labour; these products generally lack dynamism in world markets.* 56
In the classical theories of international trade, based upon the comparative advantage of different factor endowments, it is totally logical for countries to specialize in the production of those goods for which they are well endowed by nature. Thus, it is argued, countries with an abundance of particular primary resources should concentrate on producing and exporting these and import those goods in which they have a comparative disadvantage. This was the rationale underlying the ‘old’ international division of labour in which the core countries produced and exported manufactured goods and the countries of the global periphery supplied the basic materials (Figure 2.1). According to traditional trade theory, all countries benefit from such an arrangement. But such a neat sharing of the benefits of trade presupposes:

- some degree of equality between trading partners
- some stability in the relative prices of traded goods
- an efficient mechanism – the market – which ensures that, over time, the benefits are indeed shared equitably.

In the real world – and especially in the trading relationships between the industrialized countries and the low-income, primary-producing countries – these
conditions do not hold. In the first place, there is a long-term tendency for the composition of demand to change as incomes rise. Thus, the growth in demand for manufactured goods and services tends to be greater than the growth in demand for primary products. This immediately builds a bias into trade relationships between the two groups of countries, favouring the industrialized countries at the expense of the primary producers.

Over time, these inequalities tend to be reinforced through the operation of the cumulative processes of economic growth. The prices of manufactured goods tend to increase more rapidly than those of primary products and, therefore, the terms of trade for manufactured and primary products tend to diverge. (The terms of trade are simply the ratio of export prices to import prices for any particular country or group of countries.) As the price of manufactured goods increases relative to the price of primary products, the terms of trade move against the primary producers and in favour of the industrial producers. For the primary producers it becomes necessary to export a larger quantity of goods in order to buy the same, or even a smaller, quantity of manufactured goods. In other words, they have to run faster just to stand still or to avoid going backwards. Although the terms of trade do indeed fluctuate over time (as the recent commodities boom demonstrated: see Chapter 8), there is no doubt that they have generally, and systematically, deteriorated for the non-oil primary producing countries over many years.57

Table 16.2 illustrates the seriousness of this problem for some African countries, each of which is heavily dependent on a single commodity for export earnings. There was a dramatic deterioration of the terms of trade for these countries at the end of the 1990s (although, as suggested above, this was nothing especially new). The figures show how the effects of the deepening slowdown in Western economies at the end of the 1990s and in the early 2000s were transmitted to these commodity producers.

In other words, one of the major problems facing these economies, especially those rich in extractive resources, is that of the so-called resource curse.58 This is the apparent paradox that an abundant endowment of resources does not necessarily create rapid economic growth and development.

<table>
<thead>
<tr>
<th>Country</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>Main commodity</th>
<th>Exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>−5</td>
<td>−17</td>
<td>−34</td>
<td>Coffee</td>
<td>56</td>
</tr>
<tr>
<td>Zambia</td>
<td>−20</td>
<td>−26</td>
<td>−25</td>
<td>Copper</td>
<td>56</td>
</tr>
<tr>
<td>Mali</td>
<td>−11</td>
<td>−23</td>
<td>−28</td>
<td>Cotton</td>
<td>46</td>
</tr>
<tr>
<td>Rwanda</td>
<td>6</td>
<td>−11</td>
<td>−25</td>
<td>Coffee</td>
<td>45</td>
</tr>
<tr>
<td>Chad</td>
<td>−6</td>
<td>−15</td>
<td>−20</td>
<td>Cotton</td>
<td>42</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>−4</td>
<td>−16</td>
<td>−25</td>
<td>Cotton</td>
<td>39</td>
</tr>
<tr>
<td>Guyana</td>
<td>0</td>
<td>7</td>
<td>−14</td>
<td>Gold</td>
<td>16</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1</td>
<td>−7</td>
<td>−13</td>
<td>Coffee</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: based on material in the Financial Times, 30 January 2002
In a study covering a sample of 95 developing countries, a negative relationship was found between natural-resource-based exports (including agricultural products, metallic minerals and energy minerals) and economic growth during the period 1970–1990. Relatively poor per capita growth performance has generally characterized resource-rich developing countries, especially mineral-exporting countries. Oil exporters have not been immune either to the ‘resource curse’ in terms of low growth. Many studies also emphasize that countries rich in oil and solid minerals have performed worse in terms of alleviating poverty compared with countries with little or no such mineral wealth.

The reason seems to be that the apparent ease of exploitation of natural resources makes it a ‘soft option’ and that such low-growth commodities tend to ‘crowd out’ potentially more profitable activities.

**Populations on the move**

*The contours of world population*

Geographical variations in population growth rates, in the age composition of the population, and in migration, exert an extremely important influence on how globalizing processes are worked out in different places. They also relate, very clearly, to issues of poverty, to the ability of people in different places to make a living through employment, and to issues of environmental impact.

*Population growth*

At the beginning of the twenty-first century the world’s population reached a total of 6.1 billion. One hundred years earlier, it was less than 2 billion. Not unreasonably, then, was the twentieth century called ‘the century of population’ and the ‘explosion of population … [cited as] one of its defining characteristics’.

This is an absolute increase that far exceeds that which has occurred in any other period of human experience. It took until 1825 to reach one billion humans *in toto*; it took only the next 100 years to double; and the next 50 years to double again, to 4 billion in 1975. A quarter of a century later, as we were celebrating the millennium, the total jumped to six billion. True, the pace of increase has been slowing in the last decade or so but, like a large oil tanker decelerating at sea, that slowdown is a protracted process.

The UN’s latest medium projection is that world population in 2050 will be around 9.2 billion, although it could be as high as 10.5 billion or as low as 8 billion, depending on what happens to fertility rates.

The most striking feature of world population growth is that it now occurs overwhelmingly in developing countries. In 2005, 81 per cent of the world’s
6.5 billion population was in the developing countries. Figure 16.20 shows this massive – and accelerating – divergence in population growth between developed and developing countries. The year 1950 was an especially significant turning point. That year marked the beginnings of the ‘population explosion’ brought about by the rapid fall in death rates in Africa, Asia and Latin America coupled with continuing high fertility rates in those areas. Since then, the contrast between the very low population growth rates of the developed countries and the very high rates in many developing countries has become even more marked.

Just to replace an existing population requires a fertility rate of 2.1 children per woman. In most developed countries, fertility rates are now well below the replacement level – at 1.56 and declining – although with an expected rise in the mid twenty-first century to just below replacement levels. In contrast, fertility rates in the developing world as a whole are currently at 2.9, although the UN estimates a possible decline to 2.57 by 2045–50. In one or two cases, they are now a little lower; for example, China is now actually below replacement level. But fertility rates remain exceptionally high in the very poorest countries: 5.02 in 2000–5. Despite high mortality rates through HIV/AIDS in many of these poorest countries, their population is expected to grow from 762 million to 1.67 billion by 2050. For developing countries as a whole, the 2050 population is predicted to be about 7.9 billion (that compares with a total world population in 2005 of 6.5 billion).

‘Old’ and ‘young’ populations

Persistent unevenness in fertility rates between developed and developing countries creates significant differentials in the age composition of the population. Put in
Where You Live Really Matters

...developed countries are ageing while most developing countries continue to be youthful in population terms. Table 16.3 shows the marked geographical variations in the relative importance of different age groups. Europe, North America and Japan all have relatively old populations; ‘young’ countries (in population terms) are overwhelmingly in the developing world, particularly in Africa, which is the youngest region in the world. Over the next few decades, both the Japanese and European populations will age very significantly. Such wide variations in age structure are enormously important for economic and social development, especially in terms of the dependency of an ageing population on support from the working population.

### An urban explosion

The urban population of the world is estimated to increase from 2.86 billion in 2000 to 4.98 billion by 2030 ... By comparison, the size of the rural population is expected to grow only very marginally, going from 3.19 billion in 2000 to 2.29 billion in 2030.\(^{44}\)

In 2007, a major threshold was passed: more than half of the world’s total population lived in cities. The extent to which populations are urbanized, however, varies significantly from one part of the world to another. Not only is most of the world’s population, and population growth, located in developing countries but also that population is increasingly concentrated in cities. In complete contrast to the older industrialized countries, therefore, where a growing counter-urbanization trend has been evident for some years, urban growth in most developing countries has continued to accelerate. The highest rates of urban growth are now in developing countries, where the number of very large cities has increased enormously. Figure 16.21 shows that three-quarters of the world’s ‘megacities’ (populations of more than 10 million) are in developing countries and this is projected to increase to four-fifths by 2025.

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**Table 16.3  Geographical variations in the age composition of the population (% in region)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Under 15 years</th>
<th>15–64 years</th>
<th>Over 65 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2050</td>
<td>2005</td>
</tr>
<tr>
<td>World</td>
<td>28.2</td>
<td>20.2</td>
<td>64.5</td>
</tr>
<tr>
<td>Africa</td>
<td>41.5</td>
<td>28.7</td>
<td>55.1</td>
</tr>
<tr>
<td>Asia</td>
<td>27.8</td>
<td>18.3</td>
<td>65.8</td>
</tr>
<tr>
<td>Japan</td>
<td>13.8</td>
<td>11.2</td>
<td>66.3</td>
</tr>
<tr>
<td>Europe</td>
<td>15.9</td>
<td>15.0</td>
<td>68.3</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>30.0</td>
<td>18.1</td>
<td>63.9</td>
</tr>
<tr>
<td>North America</td>
<td>20.5</td>
<td>17.1</td>
<td>67.1</td>
</tr>
<tr>
<td>Oceania</td>
<td>24.8</td>
<td>18.0</td>
<td>65.1</td>
</tr>
</tbody>
</table>

*Source: based on data in UN Population Division World Population Prospects, 2009*
In some cases, notably the cities within the newly industrializing economies of East Asia, urban growth is driven, and sustained, by the forces of economic dynamism. But, in most cases, the link between economic growth and urban growth is less clear, and owes more to high rates of population fertility coupled with rural poverty, which drive millions of people towards what are seen to be the economic honeypots of the city. In these latter cases, therefore, what we have is a process of over-urbanization: circumstances where the basic physical, social and economic infrastructures are not commensurate with the sheer size and rate of growth. The sprawling shanty-towns endemic throughout the developing world are the physical expression of this explosive growth.

In the developing countries, virtually all industrial growth is in the big cities. Stark polarization between rich and poor is one of the most striking features of developing country cities. United Nations data show that 80 per cent of the urban population of the 30 least developed countries live in slums. Increasingly, very high levels of poverty tend to be concentrated in urban areas. Whereas rural dwellers may be able to feed themselves and their families from the land, such an option is not available in the cities. In addition, there is a whole syndrome of urban pathologies to contend with:
About 220 million urban dwellers, 13 per cent of the world’s urban population, do not have access to safe drinking water, and about twice this number lack even the simplest of latrines. Women suffer the most from these deficiencies … poverty also includes exposure to contaminated environments and being at risk of criminal victimization … Poverty is closely linked to the wide spread of preventable diseases and health risks in urban areas.

People on the move: migration

Global migration trends

The subtitle of this chapter is ‘where you live really matters’. It reflects the fact that most people stay close to where they are born. According to the International Organization for Migration, the number of international migrants in the world represents only around 3 per cent of the total global population. This is significantly lower than in the nineteenth century, when international migrants accounted for 10 per cent of the world population.

On the other hand, in absolute terms, international migration is higher today than it has ever been. There are more than 200 million international migrants, to which must be added a further 20–30 million unauthorized migrants. Some international migrants – asylum seekers – are fleeing various kinds of persecution, and these tend to reflect very specific political, social and religious conditions in their home countries. But the majority of international migrants are migrant workers.

The geographical distances over which international migration occurs are enormously varied. A large proportion of migrant flows are to countries close to the place of origin – for fairly obvious reasons, including cost, greater knowledge of closer opportunities, possibly greater cultural compatibility. But over and above such short-distance migrations are the long-distance, often intercontinental, flows. Certain migration paths are especially important, as Figure 16.22 indicates for the world’s major regions. In the case of large countries, like China, there is also a vast amount of internal migration whose geographical scale is greater than much cross-border migration. The Chinese government estimates that there are 130 million internal migrant workers in China, of whom around 80 million have moved from poorer interior regions to the coastal cities. Table 16.4 shows the major migrant destinations.

One of the most important results of international migration is the creation of geographically dispersed transnational migrant communities, particularly in cities in developed countries. These complex networks created by migrants – especially labour migrants – between their places of origin and their places of settlement constitute particular kinds of transnational social spaces held together by financial remittances and social networks derived from ethnic ties. Such transnational communities play an extremely significant role not only in channelling subsequent migrant flows but also in investment patterns and in the creation of distinctive forms of entrepreneurship.
At one level, the decision to migrate abroad in search of work is an individual decision, made in the context of social and family circumstances. When it is successful – that is, when the migrant succeeds in obtaining work and building a
life in a new environment – the benefits to the individual and his/her family are clear (although there may be problems of dislocation and emotional stress). There is invariably, as well, discrimination against migrant workers in host countries. In many cases, migrants are employed in very low-grade occupations, they may have few, if any, rights, and their employment security is often non-existent. They may also be subject to abuse and maltreatment.

But what are the effects of out-migration on the exporting country? From a positive perspective, out-migration helps to reduce pressures in local labour markets. In addition, the remittances sent back home by migrant workers make a huge contribution, not only to the individual recipients and their local communities but also to the home country’s balance of payments position and to its foreign exchange situation. Indeed, migrants’ remittances have reached epic proportions: almost $300 billion in 2006. Annual remittances to Latin America and the Caribbean ($54 billion in 2005) are greater than the combined flows of foreign direct investment and development aid. In many cases, the value of foreign remittances is equivalent to a large share of the country’s export earnings (Figure 16.23). In a few cases, remittances are worth between one and three times more than their total exports. More commonly, remittances can account for between one-fifth and one-half of exports. However, migrant remittances are highly susceptible to downturns in the host economy. For example, the annual growth of remittances from the US to Latin America fell from 25 per cent in early 2006 to zero in early 2008.

Paradoxically, such remittances do not always help the poorest people back home, as recent Mexican research indicates.

‘For some people, remittances allow them to buy a basic basket of essential goods,’ says Rodolfo Tuiran, of Sedesol, Mexico’s social development ministry. ‘But overall, in terms of poverty, remittances do not have a significant impact. They do, however, have an important impact on inequality – they increase it. Of every $100 received, $75 goes to homes that aren’t poor.’ Anecdotal evidence supports this. In areas of high migration, the houses in good repair, with a satellite dish, are the ones that receive remittances.

On the other hand, again in Mexico, there are schemes which capitalize on the fact that migrants from the same home town often tend to cluster together in their host country. As a result, there is now a network of Mexican ‘home town associations’ across the US. Collective remittances to a home-town in several Mexican states are organized in a “three-for-one” programme, where each dollar from the home town association for a development project is matched by a dollar each from the municipal, state, and federal governments. However, the 2008 financial crisis has had a disastrous effect on remittances, as labour migrants lose their jobs and incomes.

The other side of the out-migration coin is less attractive for the labour exporting countries: there are important negative consequences. The migrants are often the young and most active members of the population. Further,
returning migrants are rarely bearers of initiative and generators of employment. Only a small number acquire appropriate vocational training – most are trapped in dead-end jobs – and their prime interest on return is to enhance their social status. This they attempt to achieve by disdaining manual employment, by early retirement, by the construction of a new house, by the purchase of land, a car and other consumer durables, or by taking over a small service establishment like a bar or taxi business; there is also a tendency for formerly rural dwellers to settle in urban centres. There is thus a reinforcement of the very conditions that promoted emigration in the first place. It is ironic that those migrants who are potentially most valuable for stimulating development in their home area – the minority who have acquired valuable skills abroad – are the very ones who, because of successful adaptation abroad, are least likely to return. There are also problems of demographic imbalance stemming from the selective nature of emigration.75

Of course, there are important exceptions to this pattern. One is the large number of ethnic Chinese, part of the Chinese diaspora after 1949, who have returned to their homeland as the Chinese economy has opened up. Another is what Saxenian calls ‘the new Argonauts’ of Silicon Valley.

A small but meaningful proportion of individuals who left their home countries for greater opportunities abroad have now reversed course, transforming a brain drain into a ‘brain circulation’. They are returning home to establish business relationships or to start new companies, while maintaining their professional and social ties to the US ... In the early 1980s, emigrants returning from Silicon Valley began to transfer the model of early-stage high-risk investing
to Taiwan and Israel. These native born investors brought cultural and linguistic know-how as well as the capital needed to operate profitably in these markets. They also brought technical and operating experience, knowledge of new business models, and networks of contacts in the US. Today, Israel and Taiwan boast the largest venture capital industries outside of North America, and both support high rates of new firm formation.\textsuperscript{76}

\textit{Host-country implications of in-migration}

Without migration, the population of more developed regions as a whole would start declining in 2003 rather than in 2025, and by 2050 it would be 126 million less than the 1.18 billion projected under the assumption of continued migration.\textsuperscript{77}

It may seem paradoxical to think of migration as helping to solve the adjustment problems of the older industrialized countries. After all – especially in Europe – we have been talking about not enough jobs to meet the demands of the existing populations. To add further to what appears to be an over-supplied labour market seems perverse to say the least. It is such considerations, together with fears of social unrest between indigenous and immigrant populations, that have made current immigration policies in most developed countries so rigid. But, as ever, things are not as simple as aggregate figures suggest. In addition to humanitarian concerns for refugees, asylum seekers, or people simply trying to improve their lives, there are two reasons why developed countries need to create a sensible policy towards in-migration. One is immediate, the other is longer term.

The immediate reason for asserting the need for more enlightened immigration policies is the fact that, in most developed countries, there is a severe shortage of labour. This applies as much in high-skill sectors such as IT and healthcare as in some low-skill service sectors. The longer-term reason is that the populations of such countries are getting older (see Table 16.2). Their active populations are shrinking. There will not be enough people of working age to support future dependent populations. For both short- and longer-term reasons, then, there is a pressing need to rethink immigration policies. But, of course, there are major political obstacles to doing so.

Fears (sometimes justified, often not) of being squeezed out of jobs by incomers, or of local cultures and practices being diluted by ‘foreign ways’, generate powerful forces of opposition. Such fears are easily exploited by political groups of the extreme right, as can be seen today in many European countries, as well as in the US. Labour force displacement does, indeed, happen. But not invariably so – and not on the scale so often imagined. One of the biggest obstacles to popular support for more liberal migration policies is that the size of the host country’s immigrant population tends to be greatly over estimated.\textsuperscript{78} As Figure 16.24 shows, foreign workers make up a very small percentage of the working population in EU states. Of course, the distribution of immigrants tends to be highly uneven within individual countries and this is an important factor in people’s perceptions. Specific transnational
communities tend to develop specific geographies, some of which are more apparent than others, and that is where the greatest tension tends to develop.

Controls on immigration are now much tighter than in the past. Despite the fact that labour migration is an integral part of the European Union, the enlargement of 2005 to incorporate a further 10 countries, mostly from the former Soviet bloc, led to 12 of the existing 15 EU member states imposing ‘transitional’ restrictions on migration from Eastern Europe (the exceptions are the UK, Sweden and Ireland). This is despite pleas from the European Commission for an open door policy for new members and the fact that ‘in most EU15 countries, workers from the new members make up less than 1% of the workforce’.79 Similar

Figure 16.24 Foreign workers as a percentage of working age population in Europe

Source: based on European Commission data, cited in the Financial Times, 3 February 2006
problems exist in the case of Mexican migration into the US. Indeed, proposals to build a more robust physical barrier along the border to reduce the roughly 400,000 Mexicans who cross the border into the US illegally every year appear to be supported by a majority of the US population.

Yet, many parts of the European and US economies – as well as many public services – simply could not operate without the employment of migrant workers. The need for an influx of new workers will not go away. On the contrary, given the demographic trends in all the developed countries, the need will increase. It can also be argued that not only does in-migration fill important needs – often performing tasks that, otherwise, will go unperformed – but also it need not have the negative effects claimed by opponents. A recent study of Europe claims that increased immigration leads to economic expansion rather than to job losses. Indeed, the sharp decline in the value of the UK pound against the Euro in 2008 led to large numbers of Eastern European nationals returning home. Migration is, indeed, a highly volatile process.

NOTES

2 UNDP (2005: 19, 21).
4 Veltz (1996). For an elaboration of this concept within a GPN framework, see Hess (2009).
6 One of the surprising developments of recent years has been the return to the old – and totally discredited – ‘environmental’ explanations of differences in economic development by the historian Landes (1998) and the economist Sachs (1997).
11 UNDP (2008: Table 3).
12 Ito (2001: 77).
14 Financial Times (19 February 2009).
15 Cited in the Financial Times (29 June 2009).
The Economist (17 September 2005).
6. Sklair (2001: 18–23); quotation is from that work.
23. Financial Times (22 January 2010).
34. ILO (2007b: 10).
42. Kennedy (2002: 3).
43. UN Population Division (2009).
65 UN Centre for Human Settlements (2003).
68 Castles and Miller (2009) provide a comprehensive review of migration. See also UNDP (2009).
69 Financial Times (8 January 2009).
70 Coe et al. (2003).
71 Financial Times (30 March 2006).
72 Financial Times (4 June 2008).
73 Financial Times (13 December 2005).
74 Financial Times (13 December 2005).
75 Jones (1990: 250).
76 Saxenian (2006: 7–8).
77 UN Population Division (2001: vii).
78 Dustmann and Glitz (2005).
79 The Economist (11 February 2006).
80 Dustmann and Glitz (2005).
81 Pollard et al. (2008).