ECONOMIC GLOBALISATION AND WORKERS: INTRODUCTION

EVERT-JAN VISSER* & MEINE PIETER VAN DIJK**

**Department of Economic Geography, Faculty of Geosciences, Utrecht University, the Netherlands. E-mail: e.visser@geo.uu.nl*
***UNESCO-IHE Institute for Water Education & Department of Applied Economics at Erasmus University Rotterdam, the Netherlands. E-mail: m.vandijk@unesco-ihe.org*

Received: June 2006

This dossier deals with the impact of economic globalisation on workers, especially in developing nations: their employment opportunities, wage income, job security and other aspects of decent work (ILO 1999, 2002). This is a highly relevant theme. Not only do workers in the EU, the United States and other prosperous parts of the world fear the low wages in Asian and Eastern European economies, but workers in developing and transition countries also fear losing their jobs and incomes as a result of neo-liberal policies increasing the exposure of domestic firms to the competitive strength and power of EU, US or ASEAN based multinationals. The main question for this dossier is therefore whether economic globalisation can work out positively for workers, especially in developing nations.

The problem with answering this question is that globalisation is a complex concept, which refers to a process driven by multiple factors. Hence, several debates emerge and hinder the analysis of the issue at stake, despite attempts to reverse this situation (see e.g. World Bank 1995). Next, the effects of economic globalisation for workers not only involve the wage rates and income that they can obtain and derive from participating in the labour market, but also the prices they pay for consumer goods. Furthermore, the effects of economic globalisation are likely to differ across regions, sectors and social groups, because of institutional, industry life-cycle and educational/technological factors. Finally, the literature on regional clusters (see e.g. Van Dijk & Rabellotti 1997; Nadvi & Schmitz 1999) and global value chains (Gereffi 1994, 1999; Humphrey & Schmitz 2002, 2004) largely failed to critically and systematically address the relationship between economic globalisation and labour, despite recent attempts to mitigate this situation (see e.g. Nadvi 2004). The outcomes of studies pertaining to this literature also differ from those of labour market studies (see Knorringa and Pegler, in this dossier).

This dossier aims at dealing with the complexity and reducing the gap in knowledge regarding the impact of economic globalisation on labour. It brings together four papers that theoretically and empirically discuss these effects in countries such as Mexico, China, India and Spain. In this introduction, we deal with the concept and debate regarding globalisation, discuss the complex relationship between economic globalisation and labour and introduce the papers.

GLOBALISATION

For many, globalisation is more than a 'rising density of economic integration between countries and economies' (Wade 2003, p. 567). Globalisation can be seen to have political, economic, financial, technological, environmental, cultural and military dimensions. In line with these different dimensions, various debates have emerged, for example, dealing with the US-led military actions in the Middle East, cultural issues (see e.g. Milanovic 2003), the impact of IMF and World Bank stabilisation and structural adjustment policies on heavily-indebted poor countries (see e.g. Killick 1998; Hertz 2004),

Tijdschrift voor Economische en Sociale Geografie – 2006, Vol. 97, No. 5, pp. 463–469.

Published by Blackwell Publishing Ltd., 9600 Garsington Road, Oxford OX4 2DQ, UK and 350 Main Street, Malden, MA 02148, USA

and the economic effects of globalisation. The papers in this dossier are related to the latter debate.

From an economic perspective, globalisation may be defined as a process of geographical upscaling and increasing density of integration of final product and factor markets. This expands the relevant context of consumers, businesses and workers, augmenting the cognitive, institutional, technological and economic variety that these actors have to deal with. Increased economic variety implies more and different sources of comparative (given) and competitive (man-made) advantages.[1] Meanwhile, actors may not yet have a 'level playing field' (which can be understood as yet insufficient globalisation) or they may still need to adjust to the consequences of globalisation.[2] Economic globalisation is pervasive, however. This is due to the long-term nature of its driving forces: the neo-liberal policies of trade liberalisation, market deregulation and privatisation; technological developments in the area of information, communication and transportation; and demand-driven changes in various business strategies. In the area of production, firms increasingly focus on core competencies, outsourcing and off-shoring all other activities, often at a global scale. In the area of innovation, firms may engage in alliances that often also cross regional and national borders. In the area of logistics, supply-chain integration is a key trend, affecting and involving all actors in the chain no matter their location.

According to its proponents (e.g. mainstream neo-classical economists), economic globalisation is advantageous as countries may specialise in certain activities, more fully realise comparative advantages, and even move to developing competitive advantages. It increases the mobility of capital and labour, which improves the allocation of resources and thus enhances static efficiency (Bhagwati 2004). Trade liberalisation reduces the monopoly rents of industrial clans and (state or private) enterprises, i.e. the value of connections to bureaucracies and political power (Van Dijk, in this dossier). It may thus increase competition in factor and product markets, generating work and income opportunities for people so far excluded from income-generating processes. More recently, Friedman (2005) added that new technologies stimulate this process, enabling people to engage and develop commercial and information networks across space with multiplier effects for their creativity.

The above propositions have stimulated empirical research, for example, on the relation between trade liberalisation and economic growth (see e.g. World Bank 1993; Stiglitz 2002). Particularly interesting is the work of Wade (2003), who reviewed the empirical basis of the argument that economic globalisation has helped to reduce world poverty and income inequality over the past two decades for the first time in more than a century and a half. He concludes that it is plausible that 'the proportion of the world's population living in extreme poverty has fallen over the past two decades or so, having been rising for decades before then' (Wade 2003, p. 581). Regarding income inequality, however, he finds that the selection of the appropriate measurement method is critical. Using the most favourable measure – the Gini coefficient based on PPP-income per capita weighted by population, inequality seems to have fallen, but 'take out China and even this measure shows widening inequality. Falling inequality is [thus] not a generalized feature of the world economy even by the most favourable measure' (Wade 2003).

The debate on the (macro) economic effects of globalisation is thus likely to continue for some time. While the empirical evidence falls short of confirming the hypotheses of globalisation proponents (Wade 2003), globalisation critics will continue formulating counter-arguments, for example, that the assumed gains of economic globalisation critically depend on the behaviour of multinational companies, which may be part of the problem that they are thought to solve. They argue that there is limited competition in product and factor markets along with a high concentration of economic power, and that economic globalisation does little to solve, and even causes political, environmental as well as economic problems. They also point at the negative effects of previous globalisation processes for indigenous people, skills and industries, for example, during the colonisation period (Milanovic 2003).

For this dossier, it is important to keep in mind that the complex phenomenon of globalisation remains poorly defined, while its economic dimension is either idealised (by some proponents seeing it as a *deus ex machina* for solving various persistent structural development problems in large parts of the world) or dismissed (by critics worried about the economic and social implications of such idealism). The authors in this dossier deal with the definition problem by focusing on the relatively well-defined economic dimension of globalisation, and address the uncertainty about its impact by turning the latter into an object of study, by focusing on labour aspects, by offering fresh empirical evidence at the level of firms, clusters, regions and countries, and by taking into account contextual differences across space.

GEOGRAPHY

Historical, political, institutional, technological and cultural differences between countries and regions matter in the analysis of the effects of economic globalisation on labour, for several reasons. A first major reason is that *starting conditions* differ at the moment that nations decide to open up and link their economy with that of the rest of the world (see Van Dijk, in this dossier). Past trajectories translate into different stocks and distributions of capital, land and human resources, and thus into different levels of competitiveness (understood as the capacity to compete) of clusters, sectors, enterprises and social groups in a certain urban or regional context (see Holmström, in this dossier). In this respect, it will be important to identify the factors influencing competitiveness at these different levels,[3] and to analyse the role of labour conditions before one can draw a conclusion on the impact of economic globalisation for workers (see Van Dijk, in this dossier). It is equally important to analyse initial regional, sectoral and personal income distributions, which are a proxy for the degree to which poor people may participate in new income-generating opportunities. Here, public policies play a role, along with political power, economic and sector structures (including the presence and importance of sunrise and sunset industries). These factors influence the level of domestic and external competition, factor prices and intensities in production processes, along with the quality of entrepreneurship and clustering processes. In short, the overall development strategy in a country is likely to matter for the impact of economic globalisation on workers.

A second reason is that *labour markets* differ across space, while they are central in the relationship between economic globalisation and labour. It is important to consider the reactions to economic globalisation from the point of view of different actors (labour unions, workers, employers and employer organisations) in specific settings of labour markets and the organisation of work. How do these actors hang on or change the rules of the game, i.e., the institutions governing labour markets, in the wake of economic globalisation? To answer this question, it is necessary to observe and understand what happens to firms and workers participating in or experiencing the effects of economic globalisation in their relevant context (see for examples both Van Dooren & Holmström, in this dossier).

A third reason relates to *governance* beyond the labour market. Economic globalisation poses both threats and opportunities to actors in their specific context of sectors, supply chains, clusters and regions. Seizing opportunities may require specific forms of co-operation of private and public actors, for example, in the area of innovation, education and training, marketing, internationalisation and/or infrastructure. Co-operation may not be effective, however, depending on the quality of prospective partners in one's context, the collective action problems of so-called 'free-riding' (Olson 1971), and risk of spillover, dependence, conservatism and credibility (Visser & Lambooy 2004). The quality of governance differs across space, and so does the potential and the capacity to cope with strategic threats and to seize opportunities associated with economic globalisation. Some clusters, however, seem to have an advantage in this regard (De Langen 2003; De Langen & Visser 2005; Visser & De Langen forthcoming).

A fourth reason why differences across countries matter to the analysis of the effects of economic globalisation on labour is related to the *external reputation* of countries, regions or specific clusters elsewhere in the world, where global buyers scan the globe looking for potential suppliers. To appear on their radar screens, the reputations of competing countries, regions or clusters need be favourable in terms of factor costs, productivity, skills, innovativeness, openness, dynamism, macroeconomic and social stability, public policies, income distribution, etc.

The relationship between economic globalisation and labour is thus complex taking into account domestic factors and differences across countries and regions. External factors beyond the realm of control of individual nations enhance this complexity. These refer for example, to the structure of international trade (including the trade policies of the EU, United States, China, Japan), the growth cycles in the world economy (including macroeconomic policies of these world economic leaders), the strategies of multi-national firms, and the type of governance in global value chains. Faced with this complexity, we may expect either a positive or a negative outcome or scenario regarding the relationship between economic globalisation and workers in developing nations. In the positive scenario, integration in the world economy has positive effects for poor people; enhanced competition due to economic globalisation produces the effects predicted by the proponents of globalisation: an increase in local and foreign investment, employment, exports and growth, and hence improved labour conditions. In the negative scenario, local employers shift the burden of global buyer requirements on to their workers; foreign investors come and go, looking for another cheap location in the global arena; and local stakeholders and policy-makers do little or nothing about it. In such a case, economic globalisation surely has the capacity to make businesses, workers and people suffer, ending up in a so-called 'race to the bottom' of fierce price competition, mere cost-cutting, and an associated deterioration of labour conditions.

It is hardly satisfactory to merely describe these scenarios – two very diverging broad brush views that have been labelled the high and low road towards industry development, without further specifying arguments and collecting empirical evidence in their support. Hence the rationale of this dossier and the purpose of the four papers, which take into account the above complexities and aim at the identification of arguments and cases confirming either the positive scenario, or the negative scenario, or a mix of the two, regarding the effects of economic globalisation for workers in developing nations.

THE PAPERS

Peter Knorringa and Lee Pegler ask whether firm upgrading by developing-country suppliers in global value chains (GVCs) leads to improvements in labour conditions. They explain firm upgrading in the GVC approach, review existing evidence and conceptualisations on how economic globalisation impacts on labour, and develop working hypotheses regarding the relation between upgrading in developing-country suppliers in GVCs and labour conditions. They conclude that upgrading as a rule does not lead to improvements in labour conditions, and that the much broader and more forceful process of 'immiserising growth' makes it unlikely that workers in relatively low-skilled production activities will enjoy improvements in labour conditions. This is due to several pressures arising from economic globalisation: to 'cut, make and trim' for global clients performing higher value-added activities such as designing, branding, marketing and distribution, and to compete with a large number of similar suppliers with limited bargaining power by improving products and processes, investing in this direction without earning a premium on that investment. Hence, developing-country suppliers may 'run to stand still'. Those who lag behind may be squeezed out, or need to accept deteriorating sales conditions, passing this setback on to their workers. Functional upgrading is one way out of this situation, but it is also a difficult path to follow due to conflict of interest with client firms. Next, economic globalisation renders rent-earning industrial niches scarce and transitory, so that only the fastest upgraders and innovators may escape from the macro trend of immiserising growth. Finally, ethical sourcing may lead to improvements in labour conditions of core workers in final product manufacturers and key supplier firms, but it is as yet unclear to what extent such a business model can and will be disseminated. Overall, it seems that economic globalisation selectively creates new jobs, through 'greenfield investments', enhanced participation in GVCs and ethical sourcing. Yet, labour conditions of even core workers may be under pressure while the overall proportion of core workers appears to be declining. The overall trend for workers in developing-country suppliers of GVCs seems to be one of increased insecurity and precariousness, and a downward pressure on wages.

Robine van Dooren analyses the development of a garment cluster in La Laguna, North Mexico. She shows that the relationship between economic globalisation and labour conditions is subject to fluctuations. The La Laguna cluster boomed after 1994, the year when the North American Free Trade Agreement (NAFTA) was created. NAFTA significantly increased employment, improving both wages and other labour conditions due to consumer pressure, buyer standards, and better human resource management practices. Clustering enhances the spillover of these positive effects, as latecomers benefited from the experiences of pioneers, early adopters and most export-oriented firms. On the other hand, however, compliance with labour standards was costly for local employers, for which they received no compensation from buyers. This enhanced tensions, in both buyer-supplier linkages and employer-worker relationships. Some entrepreneurs responded by relocating operations towards cheaper sites in Mexico, while others adopted a modular production strategy to save on labour costs. This further enhanced the tensions between local employers and workers, as the latter are made jointly responsible for productivity and the quality of team work. Another concern refers to the tension – arising through time – between the involvements of local entrepreneurs in GVCs on the one hand and cluster governance on the other. An entrepreneur may opt for short-term adjustment to buyer requirements in the GVC context at the expense of contributing to local joint actions focused on more strategic solutions to market, technological and labour market problems. Next, the 2001 crisis following the September 11 attacks on the World Trade Center in New York shows that La Laguna's specialisation in the production of a particular garment type (jeans) is a form of hyper specialisation that may well be required in global markets, for the sake of cost efficiency, but it also enhances the vulnerability of the cluster in the face of fluctuating world demand. Overshooting (too much investment during good times and too much disinvestment during bad times) exacerbates this problem, which may provoke deep economic and social crises, considering the cluster's relative importance for the regional economy. This enhances the need for a high quality of cluster governance and good local and regional policies, to deal with problems of vulnerability at both the cluster and the regional level.

Mark Holmström looks at these issues in the context of a discussion of the effects of economic globalisation for a European industrial district: Ibi, a small Spanish town making most of Spain's toys, and suffering from Chinese competition. In fact, he analyses the prospects of local and regional policies focused on promoting good work and maintaining the competitiveness of existing industries while simultaneously promoting diversification – the Baden-Württhemberg model. Holmström argues that this model can be adapted to local conditions, and that the implied policies may even be implemented in relatively low-trust environments. The first part of a strategy to preserve the toy cluster in Ibi implies the international relocation of production activities, where the local cluster lacks cost advantages. Sometimes, one can preserve an industry by making parts of it flourish elsewhere ('if you can't beat them, join them'). The second part of the strategy refers to the local expansion and upgrading of related activities (R&D, design, marketing, logistics), the search for and development of niche markets, the development of new products, and public support for innovation. A new type of innovation centre catering for the needs of an industry in a flexible way is feasible, if, when and where they are strongly rooted in the peculiarities of the local society. At the same time, prudence is required regarding upward pressures in wage and non-wage labour costs. Holmström argues that the toy cluster may thus preserve and create employment opportunities along with good working conditions, if local firms keep control over market research, product design, marketing and other downstream activities. The high road towards industry development based on innovation is helpful and better than going for the low road of doing cheaply what can be done elsewhere. In the long run, the prospects of sustained competitiveness with good labour outcomes are uncertain, however. If local firms fail to retain knowledge-intensive activities, ambitious and talented people may move away, which already seems to be happening in the case of Ibi. Holmström thus also stresses the need for diversification. Local policy-makers should and can strike a balance stimulating innovation in local clusters while promoting diversification at the regional level.

Meine Pieter van Dijk analyses the effects of economic globalisation for workers mainly at the macro level, comparing two emerging economies – China and India, on a number of variables that according to the World Bank (1993) explains the success of high potential Asian economies. China's economic performance is superior compared with that of India, which the author explains by pointing at structural factors: land reform, relatively good education, health and social security systems and performance, superior (local) governance, and a high speed of reform. Female participation in the labour market, infrastructure, utilities and taxes also play a role. Van Dijk also analyses the relative competitiveness of two ICT clusters: one in Nanjing, China, and the other in Bangalore, India. Here, the author looks through the lens of foreign investors, considering the role of labour issues when determining the relative attractiveness of two locations. Labour is found to play a role in investment decisions, but it is not so much the wage rate that explains the difference between China and India, but the rate of productivity growth along with key aspects of the labour legislation (especially the part determining labour market flexibility). Finally, the author considers the issues of income poverty, income distribution and social indicators, concluding that China apparently benefited more from economic globalisation than India. China opened up its economy earlier than India, with a clear strategy in mind, which the author associates with the later superior performance of China in terms of economic growth and income poverty. The income distribution, however, became more uneven in China.

Overall, the dossier provides readers with empirical evidence on the relation between economic globalisation and labour. The papers deal with important developing countries (China, India and Mexico) and a country in the EU that provides an example of how globalisation affects the competitiveness of European industries and clusters. The papers contain a case where globalisation yields positive effects (China), but also provide examples of domestic factors diminishing these positive effects (India), of positive developments followed by a relapse (Mexico), and of a revival of competitiveness and working conditions based on adequate local public policy responses and private initiatives (Spain). All papers deal with the pertinent issue of the effects of economic globalisation for workers in different regions of the world. At the macro level of countries, there is scope for some optimism if, when and where domestic factors and policies are favourable. At the meso level of value chains, clusters and regions, however, there are multiple reasons for concern, as upgrading generally does not lead to improvements in labour conditions, the overall trend for workers in developing-country suppliers of GVCs appears to be negative in terms of labour conditions, while integration in GVCs may furthermore lower the quality of local governance in clusters and/or regions. On the other hand, turning these arguments around, a high quality of governance at the latter levels appears to be required to enhance the positive effects of economic globalisation on labour. Future research should deal with the interactions between macro-level policies and development strategies, the meso-level quality of governance of strategic change in clusters and regions, and the micro-level impact of economic globalisation on labour.

Notes

1. One competitor, for example, in Vietnam, may have a labour cost advantage. Another may have an institutional advantage easing public-private and/or private-private co-operation in key business areas. A third may have unique and highly tacit knowledge-acquisition and/or problem-solving skills.
2. Adjustment refers to seizing opportunities and dealing with threats. In the setting of economic globalisation, consumers may for example, focus on the price and quality of a product they purchase, while they could also exert consumer pressure with a view to improving the labour conditions of workers at the location where the product is made. Firms may be equally short-sighted, running from place to place to take advantage of lower costs, while they could as well formulate and implement innovation strategies based on the upgrading of local resources. Next, local policy-makers may take a bet relying on foreign and local investors to stimulate development, instead of negotiating responsible business behaviour (e.g. investing in regional labour markets) with a view to maximising the social effects of enhanced capital mobility. Finally, workers may seek opposition in political parties and labour unions in the

hope to protect themselves from competition in ever larger labour markets, instead of upgrading skills and building public and private pressure on employers to innovate.

3. Measures of competitiveness can be used at the national, regional, city, cluster and enterprise level (Van Dijk 2006). However, the notion of competitiveness has different meanings at these levels, as different factors are at work at each level. This implies that competitiveness should be stimulated in different ways at the above levels of analysis.

REFERENCES

Bhagwati, J. (2004), *In Defense of Globalization*. New York: Oxford University Press.

Dijk, M.P. van (2006), *Managing Cities in Developing Countries, The Theory and Practice of Urban Management*. Cheltenham: Edward Elgar.

Dijk, M.P. van & R. Rabellotti (1997), *Clusters and Networks as Sources of Co-operation and Technology Diffusion for Small Enterprises in Developing Countries*. London: Frank Cass.

Friedman, T. (2005), *The World is Flat: A Brief History of the Twenty-first Century*. New York: Farrar, Straus and Giroux.

Gereffi, G. (1994), The Organization of Buyer-driven Global Commodity Chains: How US Retailers Shape Overseas Production Networks. *In*: G. Gereffi & M. Korzeniewicz, eds., *Commodity Chains and Global Capitalism*, pp. 95–122. Westport: Praeger Publishers.

Gereffi, G. (1999), International Trade and Industrial Upgrading in the Apparel Commodity Chain. *Journal of International Economics* 48, pp. 37–70.

Hertz, N. (2004), *IOU: The Debt Threat and Why We Must Defuse It*. London/Glasgow: HarperCollins.

Humphrey, J. & H. Schmitz (2002), How Does Insertion in Global Value Chains Affect Upgrading in Industrial Clusters? *Regional Studies* 36, pp. 1017–1027.

Humphrey, J. & H. Schmitz (2004), Governance in Global Value Chains. *In*: H. Schmitz, ed., *Local Enterprises in the Global Economy*, pp. 95–109. Cheltenham: Edward Elgar.

ILO (1999), *Job Quality and Small Enterprise Development*. Geneva: ILO/SEED Working Paper, 4.

ILO (2002), *Decent Work and the Informal Economy*. Geneva: ILO.

Killick, T. (1998), *Aid and the Political Economy of Policy Change*. London/New York: Routledge.

Langen, P.W. de (2003), The Performance of Port Clusters: A Framework to Analyse Cluster Performance and an Application to the Seaport Clusters of Durban, Rotterdam and the Lower Mississippi. (Ph.D. thesis, Erasmus University Rotterdam).

Langen, P.W. de & E.J. Visser (2005), Collective Action Regimes in Seaport Clusters: The Case of the Lower Mississippi Port Cluster. *Journal of Transport Geography* 13, pp. 173–186.

Milanovic, B. (2003), The Two Faces of Globalization: Against Globalization as We Know It. *World Development* 31, pp. 667–683.

Nadvi, K. (2004), Globalisation and Poverty: How Can Global Value Chain Research Inform the Policy Debate? *IDS Bulletin* 35, pp. 20–30.

Nadvi, K. & H. Schmitz (1999), Clustering and Industrialization: Introduction. *World Development* 27, pp. 1503–1514.

Olson, M. (1971), *The Logic of Collective Action: Public Goods and the Theory of Groups*. Cambridge MA: Harvard University Press.

Stiglitz, J.E. (2002), *Globalization and its Discontents*. New York: Norton.

Visser, E.J. & J.G. Lambooy (2005), A Dynamic Transaction Cost Perspective on Fourth Party Logistic Service Development. *Geographische Zeitschrift* 92, pp. 5–20.

Visser, E.J. & P. de Langen (2006), The Importance and Quality of Governance in the Chilean Wine Industry. *GeoJournal*, pp. 177–197.

Wade, R.H. (2003), Is Globalization Reducing Poverty and Inequality? *World Development* 32, pp. 567–589.

World Bank (1993), *The East Asian Miracle: Economic Growth and Public Policy*. Washington: IBRD.

World Bank (1995), *Workers in an Integrating World*, World Development Report 1995. New York: Oxford.