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International Labour Office - Geneva

# Making Globalization Socially Sustainable

A co-publication by the International Labour Office  
and the Secretariat of the World Trade Organization

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▶ How do trade opening and offshoring affect employment in developed economies and is there a role for governments in helping to maximize the gains from globalization?

▶ What are the effects of globalization on the structure of employment and growth in developing economies?

▶ How did the crisis affect employment and how did governments react?

▶ Is globalization increasing labour-market related uncertainty or is it only affecting the perception of uncertainty?

▶ Can social protection help ensure that no one loses from trade opening? If yes, how should it be designed?

▶ Is globalization responsible for the growing inequality within countries?

▶ Does globalization curtail the capacity of national governments to pursue economic policies at home and in particular redistribution policies?

▶ What is the role of education and skills policies in spreading the benefits of globalization and making it more inclusive?



## Summary

This ILO-WTO co-publication contains nine chapters authored by leading academic experts on themes related to the social dimensions of globalization. The chapters in this edited volume are organized around three main themes: employment, uncertainty in the job market and inequality.

To shed light on the relationship between globalization on the one hand, and employment, uncertainty and inequality on the other, this volume contains three chapters on each of the themes. The objective is to provide insights into the ways that globalization is linked with each of these aspects of the labour market. Statistical evidence is presented and policy options are discussed from the perspective of both an industrialized country and a developing country.

This volume provides a comprehensive overview of the social aspects of globalization based on contributions from leading academics:

- **Holger Görg** (Kiel University) discusses the effects of globalization and offshoring on jobs in developed countries.
- **Margaret McMillan** (IFPRI) and **Dani Rodrik** (Harvard University) explore the relationship between trade, employment and structural transformation in developing countries.
- **David Bell** (University of Stirling) and **David Blanchflower** (Dartmouth College) examine the financial crisis, policy reaction and the impact on jobs.
- **John Haltiwanger** (University of Maryland) focuses on globalization and economic volatility.
- **William Milberg** (New School for Social Research) and **Deborah Winkler** (New School for Social Research) discuss actual and perceived effects of offshoring on economic insecurity, focusing on the role of labour market regimes.
- **Devashish Mitra** (Syracuse University) and **Priya Ranjan** (University of California - Irvine) address social protection in labour markets exposed to external shocks.
- **Nina Pavcnik** (Dartmouth College) reviews the literature on globalization and income inequality within countries.
- **Carles Boix** (Princeton University) discusses redistribution policies in a globalized world.
- **Ludger Woessmann** (University of Munich) discusses how education policies can make globalization more inclusive.

## Key findings

### ► Globalization and employment

- Holger Görg concludes that globalization and, in particular, offshoring may lead to higher job turnover in the short run. In the long run, there is no indication that trade or offshoring leads to higher unemployment (or lower employment) overall, although employment of low-skilled workers may suffer while high-skilled employment may expand. There is also evidence that the structural change away from manufacturing towards services in advanced economies goes hand in hand with the process of globalization.
- Margaret McMillan and Dani Rodrik document how in a number of Asian countries, the promise of globalization has been fulfilled: high-productivity employment opportunities have expanded and structural change has contributed to overall growth. But in many other cases – notably in Latin America and sub-Saharan Africa – globalization appears to have resulted in labour moving to less-productive activities, including growth of the informal economy.



- David Bell and David Blanchflower observe that during the Great Recession of the late 2000s, the performance of the labour market in the developed world was weaker than in developing countries. The young, the poorly educated and ethnic minorities bore a disproportionate share of the increase in unemployment in developed countries. A major concern is that if the recovery is jobless there will be growing demands for protectionism, especially in countries where inequalities are widening.

### ► **Globalization and uncertainty in the job market**

- John Haltiwanger explains that in open economies, less productive businesses are more likely to close down and more-productive businesses are more likely to survive. This contributes positively to productivity growth with expected positive effects on workers' earnings and employment. However, during periods of economic crisis or in distorted economic environments, "de-coupling" can take place: market reform leads to downsizing and closure of less productive businesses that is not accompanied by creation and expansion of more productive businesses.
- William Milberg and Deborah Winkler show that in many industrialized countries, the increase in the labour share of income observed during the 1970s began to level off in the 1980s and turned into a downward trend at the end of the 1990s. They find that offshoring contributed to this evolution and that its effect on the labour share depends crucially on national labour market institutions. Offshoring seems to have raised the labour share in countries with strong labour market support.
- Devashish Mitra and Priya Ranjan support the idea that social protection can lead to increased support for more open trade. But they emphasize that a focus on trade-displaced workers alone may not be enough and that equity concerns may need to be taken into account. The authors find that in low-income countries in which social protection systems with wide coverage are not yet in place, public works programmes can be very successful in mitigating the consequences of economic crises.

### ► **Globalization and inequality**

- Nina Pavcnik reviews recent research suggesting that growing wage inequality between skilled and unskilled workers could in part be driven by increases in offshore outsourcing which can contribute directly to skills-biased technological change in developing countries. Also, trade could contribute to wage inequality by raising wages in exporting firms. Pavcnik concludes that the effect of international trade on wage inequality depends on the specific country, the nature of trade liberalization and/or the type of trade that countries engage in.
- Carles Boix points to evidence that the share of the public sector in GDP is positively correlated with the level of trade openness across the world. This may suggest that states can and do develop fiscal policies to compensate those made worse off by economic integration. Boix acknowledges that this correlation may decline because globalization increases the mobility of labour and capital but this may be avoided by channelling increased public spending into infrastructure, education and training or the quality of public institutions.
- Ludger Woessmann discusses how education and skill policies determine whether people are able to share in the gains from globalization. The quality of early childhood education is particularly relevant in this context because it fosters learning at subsequent stages in life. To increase workers' capacity to adapt to changing environments, Woessmann argues in favour of putting a stronger emphasis on "generalizable" skills in programmes of vocational and technical education, where they exist.



Globalization is widely seen as a powerful engine that has the potential to promote growth and development. For many years, however, concerns have also been raised about the effects of globalization on jobs and wages. This has led to questions about the social sustainability of globalization.

Jointly published by the International Labour Office and the Secretariat of the World Trade Organization, with funding by the International Chamber of Commerce Research Foundation, this publication consists of contributions by leading academic experts who analyse the various channels through which globalization affects jobs and wages. Together, the nine chapters in this volume summarize state-of-the-art knowledge on themes related to the social dimension of globalization.

The volume, therefore, represents a step in the direction of a better understanding of the mechanisms through which globalization affects workers and of the measures that governments can take to give globalization a strong social dimension. It will be of value to all those who are interested in the debate on the social sustainability of globalization, including workers and employers, policy-makers, academics, and other trade and labour specialists.

*“We consider this volume a step in the direction of a better understanding of the mechanisms through which globalization affects workers and of the measures that governments can take to give globalization a strong social dimension.”*



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## Further information

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### Book details

- Published September 2011
- WTO ISBN 978-92-870-3783-1
- 336 pages
- 31 tables, 42 figures
- Dimensions: 160 x 240 mm
- Price: CHF 50.-

This Report is available electronically at [www.wto.org](http://www.wto.org) and [www.ilo.org/trade](http://www.ilo.org/trade).

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