Recensione del volume:

Understanding Globalization, Employment and Poverty Reduction ◊

(eds.) **Lee E. - Vivarelli M.**

Matteo Cervellati*
Università di Bologna

The book collects eleven contributions which are the outcome of a project aimed at a systematic investigation of the impact of globalization. The volume edited by Eddy Lee and Marco Vivarelli is the result of the first stage of a three years research project funded by the Department of International Development (DFID) of the UK in partnership with the International Labor Office (ILO).

The main goal of the project is to provide a quantitative evaluation of the effect of global economic integration, "globalization", particularly in terms of employment, income distribution and inequality. The explicit objective is to move away as much as possible from the, sometimes, excessively ideological debate between the critics and supporters of globalization by providing reliable economic analysis which may serve as a basis for policy prescriptions. To this end the contributors mainly focus attention to a somehow narrow notion of globalization: the change (increase) in trade flows and FDI. These measures identify the result in terms of openness rather than policies like, e.g, trade liberalization, and detect changes in economic integration only if they materialize into increasing trade flows or FDI. They are, however, clearly defined and they allow direct cross country comparisons. These are important

◊ Palgrave Macmillan, Basingstoke Hampshire and New York, 2004.

* <*cervellati@spbo.unibo.it*>

and desirable features and this approach, despite some limitations, represents a pragmatic starting point for a quantitative analysis of the problem. As underlined by the editors it serves three main purposes: to move away from unquantifiable concepts and excessively loose relationships; to provide basis for policies not exclusively based on country studies and anecdotal stories; to provide a coordinated and unified analysis (theoretical and empirical) with common grounds and research objectives.

The book is divided into four parts. The first part provides the framework for the analysis, while the second and the third parts deal, respectively, with the impact of globalization on employment and inequality/poverty. The contributions of parts two and three are followed by short, and sometimes openly critical, comments by a discussant. The inclusion of discussions provides a virtual debate which is helpful to identify more effectively the critical and weak points of the analysis. The last part contains contributions discussing policy implications and the conclusions. In the following I will briefly report and comment on the content of each of the different contributions by the academic scholars and ILO officers involved in the projects.

In the introduction (Chapter 1) the editors identify four main questions to be dealt with: *(i)* What is likely to happen to local unemployment and income distribution when developing countries "become exposed" to globalization? *(ii)* Which are the channels through which globalization operates? *(iii)* What is the role of development and the institutional framework (like in particular 'social capabilities', labor markets and the education system)? *(iv)* [Given the results of the previous analysis] which policy suggestions can be made to a globalizing developing country?

In Chapter 2, Lance Taylor reviews the external liberalization experiences of fourteen countries in Asia, Post-Socialist Europe and Brazil. He conducts an analysis of decomposition of the changes in effective demand and labor productivity by tracing the overtime effects for each country. The evidence presented delivers mixed findings both concerning growth performance and employment. Income and social inequalities have deepened in all the experiences under analysis. The author relates this disappointing performances to trade and financial liberalization. In his comment to the Chapter, Raymond Torres points out, in my opinion correctly, the need to refine the empirical analysis in order to further investigate the causality relationship between policy reforms and outcomes. Torres also provides a discussion of side policies (in particular the predisposition of safety nets) which could effectively minimize the cost of transition to more open economies.

Eli Berman and Stephen Machin provide in Chapter 3 an extensive analysis of the differential role of trade and technology adoption in reducing the demand for low skill workers as a result of Skill Biased Technical Change (SBTC henceforth). The authors provide theoretical analysis and evidence from their earlier work which are complemented with new findings. In particular, they disentangle the within component of increased demand in skills, which is linked to technology adoption and the between component which is due to sector shifts in production. They conclude that the adoption of new technologies is the main culprit for the increased demand for skilled labor. This implies that in the absence of a sufficient increase in skill labor supply (through e.g. education and training) technological adoption would lead to increases in the skill premium and inequality (in contrast to the standard Stolper-Samuelson hypothesis). A natural policy implication is that globalization should be accompanied by education policies and training programs. In his discussion of the Chapter, Marco Vivarelli points out that this conclusion holds differently for OECD countries, in which a significant correlation emerges, and middle and low income countries for which no significant evidence is found. One possible explanation of these contrasting results may lay on the scarce data availability and the quality of data or, as suggested by the discussant, may be due to the use of contemporaneous correlations (data for the 1970-1980) instead of lagged correlations (which may be justified if technological transfers are subject to lags). Berman and Machin refine the analysis by exploring the same link using capital intensity data. The main results are confirmed and, in this case, apply to middle income countries, too. As for low income countries, not much can be said as of now.

In Chapter 4, Sanjaya Lall, opens the second part of the book dedicated to the investigation of the relationship between globalization and employment. In this contribution Lall addresses the issue by arguing on the need to go beyond the standard (and static) Hecksher-Ohlin (H-O henceforth) framework and, in particular, on the need to consider the problem of acquisition of technological capabilities. The author presents and discusses a set of cross country data on, among others, the share of inward FDI flows, growth of exports and technological capabilities in developing countries. Lall's argument is that the effect of globalization on employment largely depends on national capabilities and he reaches the negative conclusion that no generalization is possible on how globalization affects each particular country. He further argues that the speed of the globalization process (quicker processes are more likely to fail) and the level of development of national technological capabilities are key factors in determining the impact of globalization. Giorgio Barba Navaretti provides an insightful and detailed comment with a series of suggestions and criticisms. He points out that while the conclusions by Lall are in line with available evidence, more work is needed in order to improve our understanding of this very complex problem. This is particularly true since different channels can be at work other than the one discussed by Lall and since the same observations can be rationalized through different theories. After making several suggestions on how to refine the analysis, Navaretti provides a discussion of some of these possible channels. He concludes by reviewing, and questioning, the (absence of) policy implications.

Jean-Baptiste Gros provides in Chapter 5, an overview of the literature and a set of statistical analysis on the changes in the demand for labor in developing countries exposed to increased trade. The goal is to explore the data in search of empirical regularities linking trade opening to employment and labor productivity (among other variables). The author first discusses the theoretical implications. In fact there is no clear-cut prediction linking trade to employment (especially in the presence of market imperfections) and the same is true for the results of the statistical exercise. Changes in employment appear difficult to link to trade. Agriculture represents an exception since a negative correlation between trade and employment in this sector tends to emerge. As for labor productivity, trade openness seems to be beneficial. The comments by Mariacristina Piva help putting this exercise into perspective and offer a number of suggestions for further research. While the exercise should be refined in order to derive policy conclusions, it delivers some indications that the effect of trade on employment may crucially depend on the structural features of the economy. This would suggest a gradual opening for more rural economies when compared to industrial or service based economies.

In Chapter 6 Vincenzo Spiezia presents a detailed empirical, econometric, evidence on the link between FDI and employment. He concentrates the attention, in particular, to the intensity of labor in production in relation to the structure of exports and imports. The H-O prediction is not supported by evidence. No clear evidence emerges that traded sectors display higher employment intensity than non traded sectors. The results also suggest that the impact of FDI is increasing with per capita income. No significant employment effect is detected in low-income countries while FDI seems to lead to employment growth in high-income countries. Lall discusses the results, puts them into perspective and argues that they can be interpreted by considering that FDI seeks not just cheap labor but efficient skilled and cheap labor.

In Chapter 7, Giovanni Andrea Cornia (with a short comment by Sanjay G. Reddy) opens the third section devoted to the analysis of the effect on income distribution and poverty by providing a detailed survey of the evidence. Only a minority of the countries exposed to considerable policy-induced opening effectively managed to increase trade and FDI inflows. These countries combined a set of (often highly unorthodox) policies including reforms in markets organization, finance, patents and exchange rate. Cornia argues that these differences cannot be explained by differential commitment to liberalization but have to do with structural features and institutions. In the last twenty years within country income inequality has been rising. After discussing a large body of evidence Cornia concludes that the rise in unstable short-term portfolio flows, financial contagion and crises, rather than trade and FDI liberalization (for which the evidence is mixed) seem to be the main responsible for this inequality rise. He notices, however, that different domestic policy reforms tend to play a key role in alleviating or amplifying the negative effects of destabilizing financial flows.

Marco Vivarelli further explores the relationship between globalization and within-country income inequality in Chapter 8. After having reviewed the theoretical predictions and having presented a survey of the empirical evidence the author performs a cross country empirical exercise relating the change in income inequality (measured with Gini index) to openness (measured with share of input and exports over GDP). After a series of robustness checks and several refinements the results show that openness have a small positive but insignificant effect on inequality. These findings are broadly in line with previous studies which were performed using different methodologies and data. In his comment, Cornia discusses possible explanations for the findings including measurement problems and the fact that measured openness is likely to be endogenously related to the structural features of the economy.

In Chapter 9 Enrico Santarelli and Paolo Figini provide an empirical investigation of the link between openness (using different measures) and poverty. In this original and very careful contribution the authors perform an extensive empirical analysis. After reviewing the literature and discussing the problem from a theoretical and empirical point of view, the authors also provide a useful discussion of the issues involved in measuring both poverty and globalization and related to data availability. The econometric analysis is preceded by the presentation of summary statistics of a large new data set. At first sight the analysis reveals that trade openness (and size of government) is associated to lower poverty while financial openness leads to more poverty. The authors, however, elaborate on the different theoretical links between different measures of poverty and globalization and bring these theoretical ideas to the data. After having discussed in details several measurement issues they investigate both absolute poverty (defined with respect to a bundle of necessary goods and services) and relative poverty (defined with respect to income). Relative poverty is affected by financial openness but not by trade openness. The authors perform several robustness checks including measures of absolute poverty from different sources. In order to isolate the between country and within countries dynamics the authors also run the model in first differences. The results suggest, in particular, that within countries changes in relative poverty seem to have nothing to do with globalization. The discussion of Luigi Campiglio highlights some results in further details like the role of specialization in agricultural export for poverty.

The last part of the volume presents three discussions of policy implications and the conclusion of the editors. In Chapter 10 Sanjay G. Reddy broadly discusses the role of labor markets and informal labor. He provides an informal discussion on the role of institutions and policies and concludes with a note of caution for policy prescriptions based on analysis performed with aggregate data and abstracting from country peculiarities. In Chapter 11, Augustin Kwasi Fosu discusses the role of national policies with special reference to the measures which may allow to reduce frictions in the labor market. In Chapter 12, John Langmore extends the discussion to the selection of policy priorities, political incentives and institutions. These recommendations put the emphasis on the role of social infrastructure. In particular, education infrastructure and innovation policy shall be aimed at sustaining an increase in the offer of skilled workers in the face of skill biased technical change. The negative effects of openness can be alleviated by building safety networks. Finally, in Chapter 13 Lee and Vivarelli provide a summary of the main findings and their implications.

The task of understanding the consequences of globalization is obviously not an easy one. The explicit intermediate goal pursued by the editors and the contributors is to address this intricate problem by limiting to a minimum the degree of arbitrariness and loose concepts and leaving aside country specificities and peculiar experiences. The final goal is to provide a useful guide for policy recommendations. These goals are ambitious. To these ends, the editors and the contributors of this volume concentrate their attention to a subset of questions in isolation and are forced to leave aside several important topics. The analysis has limits and points of dissatisfaction. This is probably unavoidable given the complexity of the problem and also considering that the volume is the result of the first stage of an ongoing research project. The identification of these limits is necessarily related to the interests of the reader and is also filtered by own expertise and experience.[1] Before attempting a general assessment of the volume I would like to briefly comment on some implications of the choice of concentrating attention to realized globalization. Looking at increases in trade and FDI implies that the goal of investigating the consequences of "realized globalizations" is mainly pursued in isolation from the 'determinants' of this increased integration. This may not be a neutral assumption for the main purposes of the analysis. For a given country the process of globalization (even in terms of policies aimed at a greater integration) is exogenous only to a certain extent. Effective trade openness and FDI attraction is a measure of "realized" globalization which in reality is very likely to be related to the economic features of the economy and its institutions and policies. Furthermore policies and choices result, at least in part, from the aggregation of conflicting interests in the economy. This implies that, in a positive perspective, inequality and the structural elements of the economy should be seen as both determinants and consequences of globalization. It is likely that certain institutional features (like e.g. social capabilities and decent education systems) and economic conditions (like unemployment, inequality and possibly to a lower extent poverty) may affect the willingness *a priori* to open the economy and/or the ability to effectively improve trade and attract FDI inflows. According to this view the chosen measure of globalization (the main independent variable in the whole exercise)

[1] Previous reviewers of the volume include both academic scholar and policy advisors. ROBERTS J. (2005) highlights the limited role devoted to the discussion of the generation, quality and availability of the data. NOGAMI H. (2006) emphasizes the very limited attention given to important issues like female and child labor and gender inequality.

is likely to be endogenous and structurally linked to existing economic conditions (e.g. inequality), conflict of interests and local institutions in possibly non trivial ways. This argument is in line with the observation reported by Cornia (Chapter 7) that only a relatively small subset of developing countries (most of them localized in East Asia) appear to have (successfully) managed to increase trade and to attract important FDI flows. This suggests that the analysis of the consequences of globalization could benefit from an even more explicit attempt of considering the conditions and forces leading, in the first place, to an effective increasing integration.[2]

Overall, the book presents an articulated analysis of a key topic which is attracting an increasing attention for both researchers and policy makers.[3] The goals and the logic of the analysis are clearly stated and appear reasonable. Taken together the contributions in the volume provide an extensive and comprehensive review of the academic literature, of the studies performed by international organizations and of the policy debate. On this ground the volume represents a very useful tools for a wide audience.

As a matter of fact one of the explicit goals, stated clearly by the editors, is to create a bridge between rigorous economic analysis and policy implications. The editors go even further by identifying a clear set of important questions in the introduction (previously reported). As one should expect, the book cannot satisfactorily answer all of them despite, I think, making steps in the right direction. Lee and Vivarelli have put a large effort in coordinating the work of these experts, in providing the reader with guidelines on the logic of the analysis and in summarizing the results and the policy implications in the last Chapter. The editorial

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[2] It has to be said that these criticisms do not apply to all contributions equally. In fact some variables are likely to be more "endogenous" than other in determining globalization (structural sector features and inequality are expected to have a larger political leverage than poverty, for example). Also the contributions differs substantially in terms of methodology and focus. In some of the works several robustness checks are performed. Most notably in Chapter 9 the authors explicitly consider broader and multidimensional concepts of globalization and they also control explicitly for endogeneity issues by recurring to lagged variables.

[3] The WORLD BANK volume (2002) witness the interest of international organizations for this important topic.

work allows readers which are not expert of the topic, like me, to quickly locate the problems and get to the state of the art results by effectively identifying stylized facts and open questions. Given the nature of the book as a collection of articles which differ substantially in methodology this appears already quite an achievement. The final result is a first (partial) answer to the questions *(i)* what is likely to happen to poverty (Chapter 9) and, to a lower extent, to employment (Chapters 4 to 6) and income distribution (Chapters 7 and 8). The questions *(ii)* on the channels and *(iii)* on the role of development and the institutional framework also find only partial answers despite the state of the art analysis surveyed and performed in the volume. One possible reading of these results is that given the complexity of the topic most likely there are no simple answers. In this respect the contributions in the book, despite not delivering always clear-cut policy recommendations, issue a clear warning: the adoptions of standardized and simple recipes is not likely to work in general. In fact country characteristics, social infrastructure and local policies seems to matter to a large extent in determining the impact of the different forms of globalization.

This brings us to the last point in the agenda, *(iv)*, as to trying to provide a link between economic analysis and policy recommendations. This is, obviously, a difficult task. The editors put an important effort in the attempt to build a bridge between the contributions and the views of the academic scholars in the first parts of the book and the policy considerations (mostly developed by policy advisors and economists working in international organizations) in the last part. The recommendations reported in part four are reasonable and pragmatic. In my opinion, the effort to build a closer link between economic analysis and policies does not fully pay-off, however. In fact the link between the analysis in the first part and the policy implications reported in the last part of the book appears often too weak. In spite of this, or possibly because of this, reading the book may be helpful for both researchers and policy makers.

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