CHAPTER 7

Connected jobs agendas

The migration of people matches opportunities across borders. Globalization is leading to a growing international migration of jobs not only in manufacturing but also, increasingly, in services.

Different countries face different jobs challenges, but their jobs agendas are interconnected by two forces—the migration of people and the migration of jobs. These two flows have consequences for living standards, productivity, and social cohesion in sending and receiving countries. The arrival of migrants or the outsourcing of jobs abroad affects the living standards of both migrants and locals. The availability of foreign workers, the development of migrant networks channeling savings and ideas, and the arrival of multinational firms bringing more advanced techniques are all bound to increase productivity. But family structures as well as community life are affected by the movement of people and jobs. The potential gains are considerable, but there are also tradeoffs.

Even if development strategies succeed in addressing jobs challenges at the country level, mismatches between employment opportunities at home and abroad are bound to occur, encouraging people to leave their communities and try their chances elsewhere. Almost inevitably, the international migration of people will be one of the policy levers to consider in South Asia and in Sub-Saharan Africa, given the projected rapid growth in the labor force in these regions over the coming decades. Migration trends will be driven not only by demographic pressures but also by cultural and geographic proximity, as well as economic factors.

Jobs agendas are also connected through the international migration of jobs. The splintering of production tasks has facilitated their delocalization and outsourcing to developing countries, resulting in greater trade volumes and lower prices of final goods. But it has also led to a global redistribution of jobs in manufacturing, and the same trend is increasingly visible in services as well. So far, the migration of jobs out of industrial countries has mainly affected blue-collar workers, but white-collar jobs are following. These are not once-and-for-all moves. Growing labor costs in Asia may open up opportunities for other developing countries to jump-start industrialization.

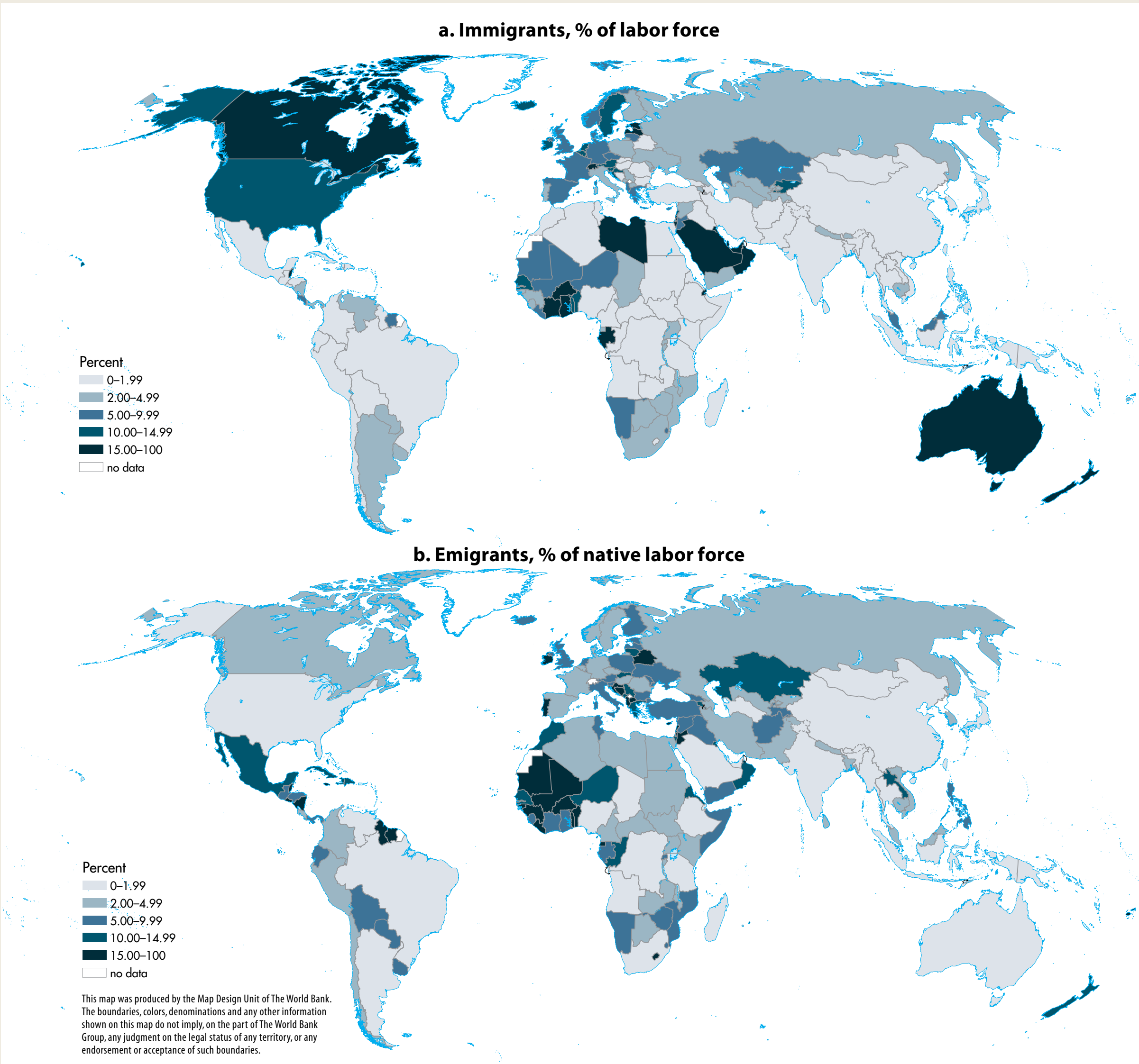
Migration of workers

Precise figures on the global number of international migrants are not available, an unsurprising fact given that a number of them cross borders illegally or do not return once their visas and permits expire. That is why estimates tend to rely on population censuses and household surveys. Even then, differences across countries in the way that data are gathered, and in the way legislation defines nationality and migratory status, make accurate counts difficult.[1] The orders of magnitude are relatively uncontroversial, however. There are more than 200 million migrants worldwide, and 90 million of them are workers. Migrants represent between 2.5 and 3 percent of the world's population and the global labor force.[2] Many are temporary or seasonal workers and return to their home country.

Global patterns of migration

Global figures hide important differences across countries. Some countries are mainly recipients, while others are sources, and yet others neither host nor send significant numbers of migrants (map 7.1). In a few relatively small recipient countries, the foreign-born population makes up more than 40 percent of the total population. Israel, Jordan, Kuwait, Qatar, and Singapore are in this group. Among bigger recipient countries, those with the largest share of immigrants in their population are Saudi Arabia (27.8 percent), Canada (21.3 percent), Australia (21.0 percent), and the United States (13.5 percent). In absolute numbers, the United States is the largest recipient of migrants, with 42.8 million,

MAP 7.1 *Only in some countries are migrants a substantial share of the population*



Source: World Development Report 2013 team based on Özden and others 2011 and Artuc and others 2012, using census data from around 2000.

followed by the Russian Federation (12.3 million), and Germany (10.8 million). Among the sending countries, those with the largest numbers of migrants are Mexico (10.1 million), India (9.1 million), and Bangladesh (6.0 million).[3] Russia is so high on the list, because many ethnic Russians live in countries that were formerly part of the Soviet Union.

Political turmoil and globalization accelerated migration flows in the first half of the 20th century. The partition of Bangladesh, India, and Pakistan involved large numbers of people living in countries different from their birthplace. The decline of transportation costs, the growth of Persian Gulf economies following surges in oil prices, and the entry into world markets of developing countries with large populations have all stimulated a surge of migrant workers worldwide.

Differences in expected earnings between the country of origin and the country of destination are an important reason for people to migrate. Earnings gains, however, are offset to varying degrees by the direct costs of migration (such as transportation fees and intermediation services) as well as by indirect costs associated with the difficulties of adapting to a different culture and society and leaving family and friends behind. These costs also help explain aggregate migration flows. For many migrants, physical and cultural proximity (including a common language, religion, or way of life) are important when choosing a host country. Concerns about employment opportunities and personal safety in the sending countries are other important, sometimes crucial, drivers of migration. More than 10 million migrants are refugees, and nearly 2 million are asylum seekers.[4]

The growth rate in the global number of migrant workers peaked between 2005 and 2008 and then decelerated because of the impact of the global economic crisis. During previous decades, the growth in migration flows came primarily from South-North flows; that is, from developing to developed countries. South-South migration, although numerically larger, remained stable over that period.[5]

Skilled workers represent a growing share of international migration. Developed countries increasingly implement policies to attract talent. Between 1990 and 2000, the share of workers with at least some tertiary education among immigrants increased from 15 to 25 percent in the United Kingdom, and from 25 to 30 percent in the United States. Stark country differences are also present in skilled labor migration. Some developing countries explicitly promote emigration of skilled workers, while others complain about "brain drain." More than 70 percent of citizens with tertiary education in Haiti, Jamaica, and Trinidad and Tobago live abroad. The share of skilled workers among migrants is particularly high in African countries (map 7.2).[6]

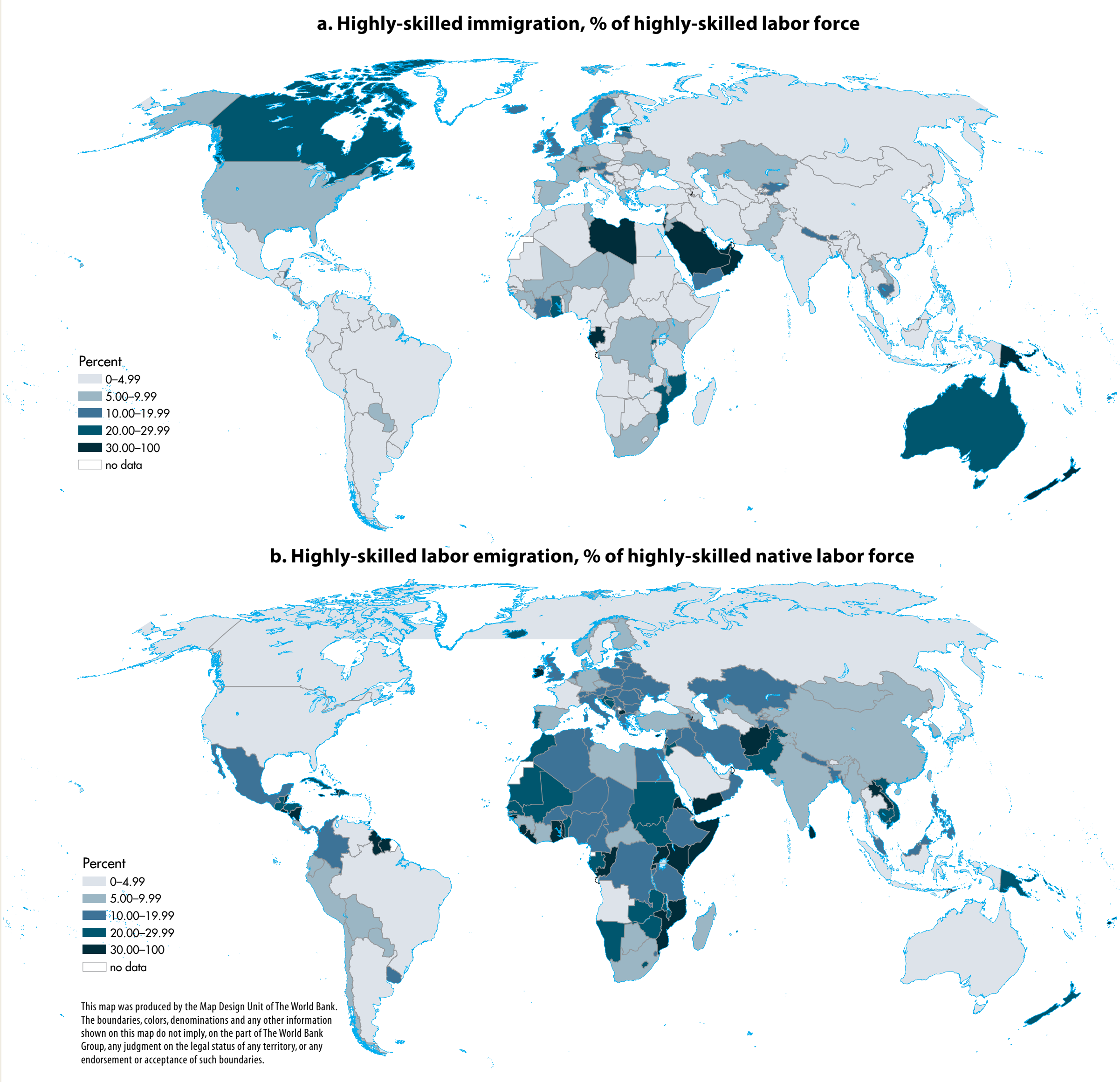
Highly skilled migrants fall into a range of categories including technology and business creators, scientists, scholars, students, and health and cultural workers. At 10 percent, their share of total migration is still relatively small, but 90 percent of them live in industrial countries.[7] In some occupations, the concentration of skilled migrants is substantial: 27 percent of all physicians in the United States, 21 percent in Australia, and 20 percent in Canada are foreign-trained.[8]

Impacts on sending and receiving countries

The most direct impact of international migration is on living standards. Through their work in receiving countries, and through remittances to sending countries, migrants increase their incomes and those of their families. Migrants also contribute to global output if their productivity abroad is higher than it was at home, which may often be the case. They can even contribute to output in the sending country, as networks of migrants and returnees serve as channels for investment, innovation, and expertise. Social effects are mixed, however. On the positive side, migration connects people from different cultures in ways bound to widen their horizons. On the negative side, separation from family and friends can be a source of distress and isolation in the recipient country. Large numbers of immigrants can also exacerbate frustration among vulnerable groups in recipient countries, if foreigners are seen as competitors for jobs and public services.

The increase in earnings from migration may amount to tens of thousands of dollars per worker per year. After controlling for worker

MAP 7.2 *Many migrants are highly skilled*



Source: World Development Report 2013 team based on Özden and others 2011 and Artuc and others 2012.
Note: Highly-skilled migrants are those with at least some tertiary education.

characteristics, the gain may range from 50 percent to more than double the difference in income per capita between the host and the sending countries.[9,10] Transportation costs and rents taken by intermediaries can reduce these gains, however. In some cases, these intermediaries are part of illegal organizations linked to trafficking of people and criminal abuses, making migrants a particularly vulnerable group. In others, intermediaries are informal agents who provide market-priced migration services in the absence of other formal mechanisms to address the existence of demand and supply for migration.[11] Migrants also face psychological and physical health risks, often without access to health insurance.[12] The persistent flows of migration would indicate, though, that the large gains, actual and expected, more than compensate for the costs.

Evidence on the impact of migration on labor outcomes in sending countries is scattered. If employment opportunities for those who migrate were limited, earnings and employment would remain unaltered. If they were plentiful, earnings rise and the participation rates of previously inactive persons would increase. Studies for Mexico, Pakistan, and the Philippines show that out-migration did affect wages and unemployment rates in the sending country, but no discernable effects on labor outcomes have been found in Bangladesh, India, and Sri Lanka.[13]

The net effects of migration flows on employment opportunities and labor earnings depend on the skills and the jobs of those who move abroad. A recent study using data for high- and middle-income economies shows that immigration of high-skill workers has positive effects on wages of both high- and low-skill local workers. On the other hand, emigration of more educated workers is associated with declines in wages for both low- and high-skill workers who remain in the country of origin.[14]

Remittances are an important source of income for households in sending countries, although they do not necessarily reach the poorest of the poor. In different countries, an increase in international remittances is associated with declines in the share of people living in poverty.[15] Remittances also increase savings and investment in recipient families.[16] And they are more resilient than is generally believed. Recent studies show that despite tougher conditions for migrants during the 2009 recession, remittances dipped only slightly.[17] Results are mixed on the impact of remittances on income inequality. Some studies find that migrants come from the middle of the income (or wealth) distribution and that, in the short term, remittances leave overall inequality unaltered. Others show that in the medium term inequality decreases, because of the higher economic activity in localities with migrants.[18] Most studies also report that remittances reduce labor force participation among migrants' relatives.[19]

The growing migration trend among the highly skilled raises concerns about the implications for developing countries. Some fear a brain drain, whereby developing countries would suffer from the loss of valuable human resources.[20] According to this view, developing countries put considerable fiscal resources into the education of these workers, with the intention of enhancing their productivity and creating an elite of innovators, thinkers, and administrators. Thus the migration of skilled workers not only creates a fiscal and distributive concern in the short term, but it also impairs the growth capacities of the country in the long term. In this view, developing countries should create incentives for skilled workers to return to their home country, for example, through financial reforms of secondary and tertiary education.

Others, however, see a "brain gain," whereby developing countries benefit from networks, return migration, and the incentives for young people to improve their skills. Returning migrants bring home entrepreneurial and technical capacities that enhance productivity in sending countries. Experience acquired abroad has been found to induce higher wages among salaried workers and higher productive efficiency among entrepreneurs in several countries.[21] Beyond the individual benefits are societal benefits that may extend to the proliferation of a whole industry and the creation of new jobs in an entire locality. Bangalore and Hyderabad in India illustrate this point: returning migrants set up information technology and communication companies to take advantage of their previous experience and their links with international companies.[22] The presence of highly qualified Indian engineers and executives in U.S. corporations paved the way for the rise of the Indian software industry.[23] The activities of migrant networks are not restricted to skilled migrants or corporate activities. Networks of Mexican low-skill workers in the United States have worked with the Mexican government to redirect and enhance public investment in infrastructure in their communities of origin.[24]

Networks of migrants can also be important sources of foreign direct investment and know-how, both of which promote productivity growth in sending countries. It is estimated that Chinese migrants contributed more than half of all foreign direct investment in China.[25] The impact of returning migrants on their communities may be more modest in smaller countries that lack the scale for the development of new vibrant businesses.[26]

The increase in talent migration may also bring a brain gain through its impact on human capital accumulation in sending countries. The prospect of migration raises the returns to education and, thus, fosters investment in human capital. However, these positive effects depend on the size of skill migration and the relative size of the country. Recent evidence indicates that large countries with low rates of high-skill emigration experience a net gain in human capital. In contrast, small countries with high rates of high-skill emigration suffer a net loss.[27]

Social impacts are more diverse. In sending countries, researchers find changes in gender and family relations as well as in political attitudes. But the nature of these changes depends on the country. In some cases, women and children are empowered by the migration of spouses and parents; in others, they become more vulnerable.[28] Migrants to societies that value liberty and democracy come to appreciate these values, whereas those in more traditional host countries may become more traditional themselves.[29]

In host countries, most studies have concentrated on the influence of migrants on the employment and earnings of locals, as well as on the fiscal consequences of migrant inflows. The majority of these studies finds either no effect or a very small negative effect on the average labor earnings of the locals. But the composition of employment between locals and migrants shifts, creating winners and losers.[30] The fiscal consequences for host countries depend on the characteristics of the migrants. The younger and more skilled they are, the higher the tax revenues. The impact of government spending in host countries varies, depending on the duration of migration and the family composition of the migrants. Computations of the net effect on the welfare systems of recipient countries are sensitive to hypotheses and estimation methods.[31]

Last but not least, migration may also bring racial prejudice and exacerbate social tensions in host countries. This happens when migrants are secluded in segregated occupations or neighborhoods, preventing their genuine integration in society.[32] It may also occur when migrants are perceived as competing for "nonmigrant" jobs. Prejudice and tensions may result in distrust of migrants and lead to the hardening of legal requirements for entering the host country, forced repatriations, and even the building of physical walls to prevent migration. These policies may not ease tensions unless a more comprehensive approach is adopted. Irregular or undocumented migration is growing, partly in reaction to the lack of legal alternatives to migration given the mounting mismatches between employment opportunities in sending and receiving countries.[33]

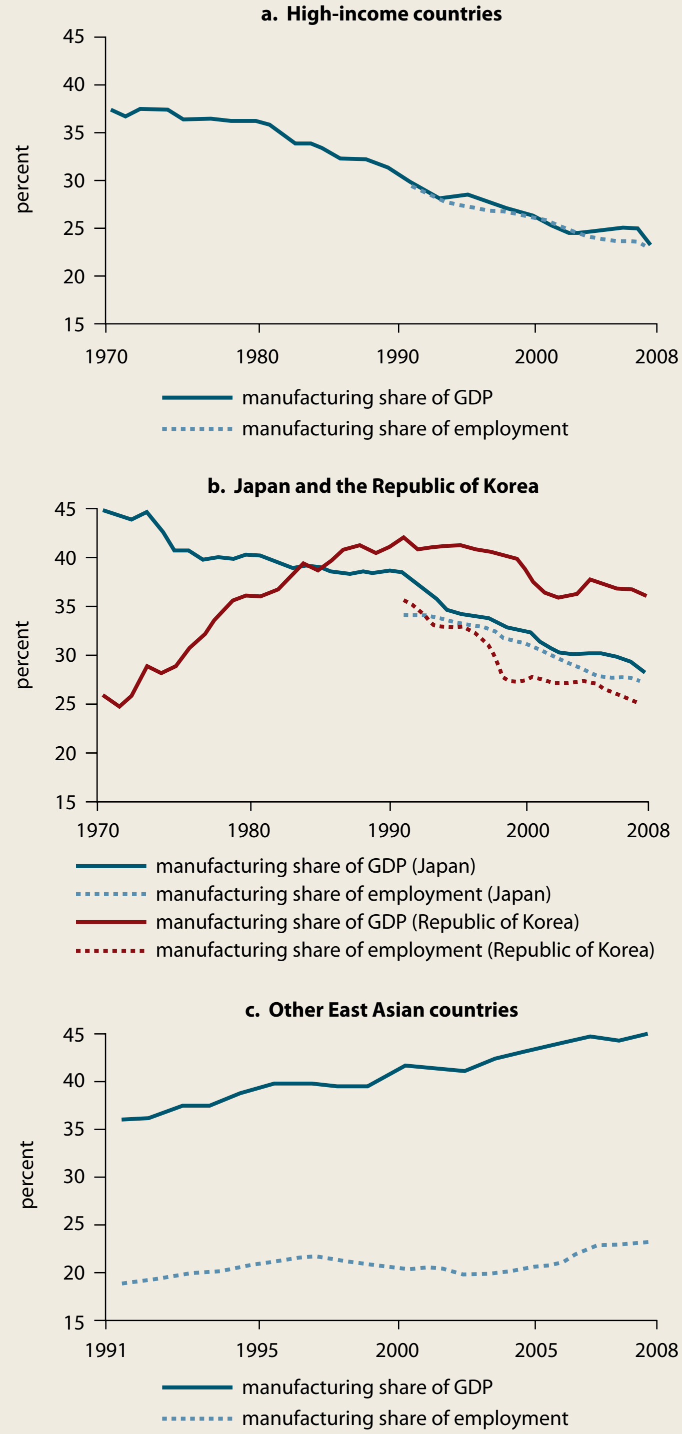
Migration of jobs

Quantifying the international migration of jobs is even more difficult than estimating the global number of international migrants. The past four decades have been marked by the delocalization and outsourcing of manufacturing tasks from industrial countries to the developing world, especially to East Asia. More recently, the same pattern is observed for tasks in the services sector. In fact, exports of services are the fastest-growing component of global trade. And the share originating in developing countries has been growing steadily over the past two decades. But counting how many jobs are affected globally is not feasible, because the process involves job destruction in some countries and job creation in others, in ways that cannot be easily matched with each other.

Global trends

The share of manufacturing in total employment in industrial countries declined by roughly one-third between 1970 and 2008, as did its share in gross domestic product (GDP) (figure 7.1).[34] Although starting from higher levels, the pattern was the same in Japan as in Europe and North America. The Republic of Korea industrialized in the 1970s and 1980s, but the share of manufacturing in its employment and GDP started declining in 1992. Meanwhile,

FIGURE 7.1 *Manufacturing jobs have migrated away from high-income countries*



Source: World Development Report 2013 team estimates based on data from the United Nations Industrial Development Organization (UNIDO) database and United Nations Statistics Division.
Note: Japan is not included in panel a. GDP = gross domestic product.

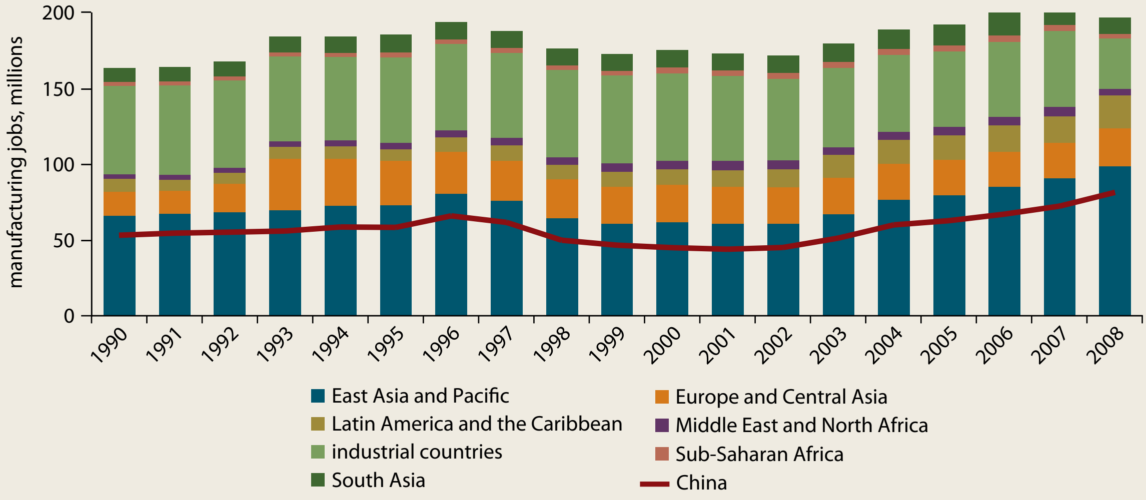
the share of manufacturing in total employment increased steadily in other East Asian countries, including China, for four decades. In South Asia and Sub-Saharan Africa, the share has been low and stagnant, whereas it has declined in Latin America and increased in Eastern Europe and Central Asia. The overall pattern is one where manufacturing jobs migrated primarily from Western Europe and the United States to Northeast Asia and then to the rest of East Asia.

The East Asian trends are consistent with the "flying geese" pattern of development, where economic transformation is consistent with dynamic changes in comparative advantage. Industrialization in East Asian countries began with the development of labor-intensive sectors, gradually shifted to capital-intensive sectors, and then to knowledge-intensive activities. In parallel, wages rose and skills increased.[35] First Japan, then Korea, and more recently China followed a similar pattern. As labor costs increase further, light manufacturing jobs are likely to migrate away from coastal China, where most industries have concentrated. By some estimates, nearly 100 million jobs are at stake.[36]

The migration of light manufacturing jobs out of coastal China could open a once-in-a-generation opportunity for countries in Sub-Saharan Africa and South Asia to jump-start their industrialization. But some observers predict that the migration will go mainly to the inland areas in China, where wage rates are lower than on the coast. This would be consistent with the patterns of industrialization in Japan; Korea; Taiwan, China; and the United States, where the initial geographical concentration of industries was followed by dispersion within the same country.[37] However, China's labor market is relatively integrated to the point where even unskilled wage rates in rural areas have been increasing rapidly.[38] Therefore, an overall decline in the manufacturing share of GDP in China might be unavoidable, opening up the opportunity for labor-intensive industrialization in other developing countries.[39]

The rapid growth of labor productivity in manufacturing is resulting in the stagnation or even the decline of the number of manufacturing jobs worldwide (figure 7.2). Global employment in manufacturing increased by only 30 percent from 1990 to 2008, with most of the expansion taking place in Asia, especially in China. Given that manufacturing jobs connect to ex-

FIGURE 7.2 *The global number of manufacturing jobs has not varied much*



Sources: World Development Report 2013 team based on ILO 2010; Industrial Statistics Database: INDSTAT2-2011 Edition, United Nations Industrial Development Organization, Vienna, and World Development Indicators.

port markets and global value chains more than other jobs and are thus more likely to generate productivity externalities, this stagnation or decline raises the prospect of a fierce international competition ahead (question 7). If aggregate numbers of manufacturing jobs are bound to remain relatively stable, successful industrialization in one region may come at the expense of industrial employment in another region.

Manufacturing could take off in South Asia or Sub-Saharan Africa if technology and management knowledge were transferred there. Such a transfer, however, is not simple: fostering entrepreneurship, nurturing a more skilled workforce, creating a stronger investment climate, and establishing a more favorable institutional environment would be necessary. There is also a risk of focusing on industries that are not in line with the potential comparative advantage of these regions.[40] Combined with poor logistics and weak government capacity, that could mean that few manufacturing jobs would actually migrate to these regions. Studies on the locational decisions of multinational corporations show that many factors come into play (box 7.1).

Services were once regarded largely as nontradable, but this is no longer the case. Both country-specific and global trends show a growing share of employment and GDP in services, some of which are sold across borders.[41] New ways of delivering services, often broken down into small tasks and driven by information and communication technology (ICT), are transforming where service activities can be located (box 7.2). The world share of developing countries in global exports of services increased from 11 percent in 1990 to 21 percent in 2008. Services are now the main contributor to economic growth in many developing countries, including India.[42]

The rapid expansion of trade in services is bound to increase productivity on a global scale. But it also is raising fears in developed countries that service sector jobs will migrate to developing countries through offshoring or international outsourcing, much the same as manufacturing jobs did over the past four decades.

A telltale sign of the potential for offshoring and outsourcing is the substantial number of service sector tasks already being performed remotely within industrial countries.[43] In the United States, service occupations that are tradable by nature, such as computer systems design and management consulting, display a heavy geographic concentration. This concentration results partly from agglomeration economies,

BOX 7.1 *Why do multinationals locate where they do?*

Where multinationals locate provides insights into the critical characteristics in a host country that firms want or need. Traditionally, foreign direct investment (FDI) was categorized either as horizontal—multinationals seeking better access to larger markets overseas—or vertical—multinationals moving part of their production to a lower-cost location. As trade barriers and transportation costs have fallen and supply chains involve ever more specialized tasks, the importance of locating near the final market has diminished. But the empirical patterns show that "costs" need to be determined over a range of dimensions.

The location-decision question has been examined empirically by looking at how the characteristics of host countries predict the inflow of FDI and entry of multinationals. Significant macroeconomic instability or conflict disqualifies most locations. Low wages can be attractive, but given that labor is often a small share of overall manufacturing costs, they are often not the predominant consideration. And labor costs cannot be evaluated separately from the quality of skills; developed countries remain significant destinations of FDI in part because of their highly skilled workforces. Access to land, particularly in parts of Africa and Asia where land access is more regulated, can be a significant consideration. Poor or inconsistent public services, including electricity, security, and transportation infrastructure, can quickly raise costs—through delays, lost production, and the expense of privately providing these services. Costs associated with complying with business regulations and with taxes can also be important, as are the reliability and cost of contract enforcement institutions. The literature shows that the relative importance of these dimensions often varies by different types of sectors, the degree of capital intensity, and technological sophistication. The presence of other firms is also a consideration. Quick and reliable access to suppliers can reduce costs and delays.

In addition to the academic literature, a number of consulting firms provide analysis and rankings of the attractiveness of countries based on the views of top executives of multinationals. A.T. Kearney has published a Foreign Direct Investment Index since 1998. Three dimensions emerge as critical in its analysis: well-functioning financial markets, a strong business environment, and strong labor skills. A separate index for the location of services also emphasizes skills, particularly language skills, and the degree of global integration. Labor typically accounts for a larger share of overall costs in services than in manufacturing.

The evolution of supply chains into more specialized tasks operating across more diverse locations can offer opportunities for an increasing number of developing countries. Multinationals are not looking for a strong business environment across the board; they care about inputs and services that are specific to their needs and thus are location-specific.

Sources: World Development Report 2013 team based on Alfaro and Chen 2011, Helpman 2006, and Harrison and Rodríguez-Clare 2009.

BOX 7.2 *E-links create job opportunities in developing countries, but the scale is still modest*

Internet services are becoming ever more accessible, including in the developing world. Crowdsourcing tools help businesses to break up larger tasks into many smaller discrete steps. These are then offered to a global online community through competition. The platform TopCoder, for example, brings together close to 400,000 programmers globally.

A special type of online outsourcing, branded impact sourcing by some, aims to bring employment and supplementary income to low-income areas. Impact sourcing is estimated to represent 4 percent of the entire business process outsourcing industry, accounting for US$4.5 billion in total revenues and employing around 140,000 people around the globe. Samasource is a nonprofit organization based in San Francisco, working with major technology clients. It splits large projects into "micro work"—small tasks that can be done online using inexpensive computers—and distributes the tasks largely to women working with partner service providers in the poorest parts of the world, including remote villages, slums, and refugee camps in countries, such as Haiti, Pakistan, Uganda, and others. Data workers develop skills in English, computers, and a variety of project-specific tasks. Samasource has reached 1,600 women and youth over the past three years.

Similarly, RuralShores aims to bring rural India into the global knowledge world. It provides remote processing of noncritical business transactions such as data entry, simple bookkeeping, expenses handling, and document digitalization and archiving. RuralShores runs 10 centers in 7 Indian states, employing about 1,000 people. The centers, run as for-profit entities, are all located in remote Indian villages. While most employees are high-school graduates, the company gives preference to people with disabilities and young job-seekers from poor, agrarian families. Impact sourcing does face challenges that include access to clients and contracts, sustainable demand, robust infrastructure, effective recruitment, and identification of investors.

Sources: World Development Report 2013 team based on Monitor Inclusive Markets 2011 and Selim 2012 for the World Development Report 2013.

supporting specialization. But simple geographic imbalances between the local supply and demand for services also contribute to remote provision.

Trade in services can be expected to expand rapidly in the coming years. Until recently, it was thought that only labor-intensive tasks would be relocated to developing countries, allowing production in industrial countries to focus on capital- or skill-intensive tasks.[44] However, developing countries are now exporting not only traditional services, such as transportation and tourism, but also modern and skill-intensive services, such as financial intermediation, computer and information services, and legal and technical support.[45] Skilled jobs performed by accountants, programmers, designers, architects, medical diagnosticians, and financial and statistical analysts are increasingly outsourced by firms in industrial countries.[46] In India, the number of such skilled white-collar jobs has grown rapidly.[47] However, some of the service jobs seen as skilled in developing countries are considered unskilled in industrial countries.[48]

India was a developing world pioneer in building a modern export-oriented services sector, but other countries—Brazil, Chile, China, and Malaysia, to name a few—have also seized the opportunity.[49] But outsourcing does not only happen between industrial and developing countries. In the United States (the largest offshoring economy), 85 percent of the service trade is with other industrial countries.[50] Two-thirds of service sector exports from developing countries are actually South-South trade.[51]

Developing countries tend to specialize in certain activities within the services sector. For example, Brazil, Costa Rica, and Uruguay are strong in professional and ICT-related services; Chile in distribution and transportation services; Mexico in communication and distribution services; and Sub-Saharan African countries in professional services.[52] This diversity in specialization will likely lead to both competition and cooperation, involving different segments of the services sector, rather than a head-on collision between industrial and developing countries.

This new phase of globalization is bound to influence views and interpretations about structural transformation and the migration of jobs. Some researchers claim that a "revolution" is under way that is turning services sectors into the main engine of economic growth in developing countries.[53] Others argue that developing countries such as India and the Philippines are successful in exporting relatively skill-intensive services not because of their comparative advantage in such services but because of policies preventing their manufacturing sectors from taking off.[54] Given the stagnation of global employment in manufacturing and the growing trade in services, a relevant question is whether developing countries can successfully skip the industrialization phase of development.

Winners and losers

The obvious winners of globalization are the workers and entrepreneurs in countries to which industries and splintered tasks have migrated. Outsourcing and offshoring, along with the attendant transfer of new technologies and advanced management methods, contributes to productivity growth and improvements in living standards. The development of more efficient industries and services encourage a reallocation of labor toward more productive uses. It also stimulates the subsequent development of other interrelated industries and sectors through backward and forward linkages. The development of a modern services sector can lead to greater coordination in value chains and make a further subdivision of tasks and the reorganization of production possible, leading to economies of scale.[55] Multiple actors—including multinationals, civil society organizations and consumers in industrial countries—are increasingly active in efforts to improve working conditions and workers' rights in developing countries. To the extent that such efforts bear fruit, enhanced export opportunities improve workers' well-being.[56] In all these ways, significant trickle-down effects can have widespread benefits for recipient countries.

The hidden winners from the migration of jobs are consumers at large. The improved international division of labor expands the global availability of goods and services, improving living standards around the world.[57] This point can be easily understood by thinking how the world would look if China and India could not provide cheap goods and services to the rest of the world.

The obvious losers are those who have lost their jobs because of the declining competitiveness of the industries and services where they used to work. While skilled workers may easily find similar occupations in other industries without a loss in salary, many low-skilled workers are not so fortunate. Low-skilled workers or those with industry- or occupation-specific skills that are no longer in demand are more likely to be forced to accept lower-paying jobs in different industries or remain unemployed.[58] Job losses could become a serious issue not only in industrial countries but also in dynamically growing developing countries, such as China, as their labor costs increase.

There are also hidden losers. These are the workers and entrepreneurs in countries which have failed to develop new industries and services connected to world markets and the jobs that go with them.[59] Workers in those countries, however, may not perceive the lost employment opportunities.[60]

One way to mitigate the welfare losses from globalization, both apparent and hidden, is through the international migration of workers. Income differentials across countries, which reflect differences in the growth rates of different economies, are important drivers of this migration. By reallocating workers from stagnant or slowly growing economies to rapidly growing ones, the international migration of workers contributes to the reduction in the income gap created by the international migration of jobs. But jobs tend to migrate more easily than people.

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The migration of people and the migration of jobs make clear that jobs challenges, despite being country specific, can also be global in scope. Both sending and recipient countries can benefit from these international movements in a variety of ways, from higher labor earnings to remittances, from greater productivity to broader networks. Consumers worldwide also benefit from less expensive consumer goods. Tensions and costs are associated with these two migrations, however. Migrant workers may suffer discrimination and segregation or lose their family and cultural connections and identity, disrupting not only their own sense of well-being but also have an impact on communities in origin and host countries.

The migration of people and the migration of jobs may transform entire communities, creating winners and losers. Many see their lives improve, but those who lose their jobs to outsourcing and offshoring may experience permanent declines in well-being, especially if they are unskilled. These spillovers, positive and negative, are powerful motivators for the political and social groups that promote or oppose the migration of people and of jobs. But these spillovers are international in nature, so coping with them only through national policy instruments may prove unsatisfactory.

QUESTION 7

Competing for jobs?

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

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

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

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

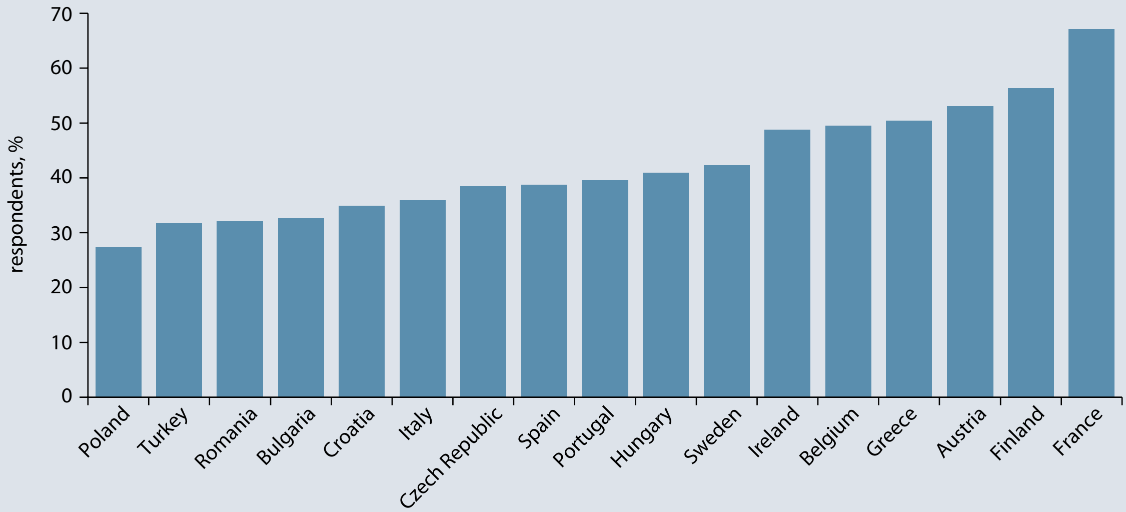
Not a competition for total employment but for its composition

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

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

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

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



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

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

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

Sources: Clifton 2011; Eurobarometer Surveys (database) 2010, European Commission, Brussels.
a. Interview given in connection with the book launch.

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

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

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

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

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

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

Policies for jobs: Different degrees of competition

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

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

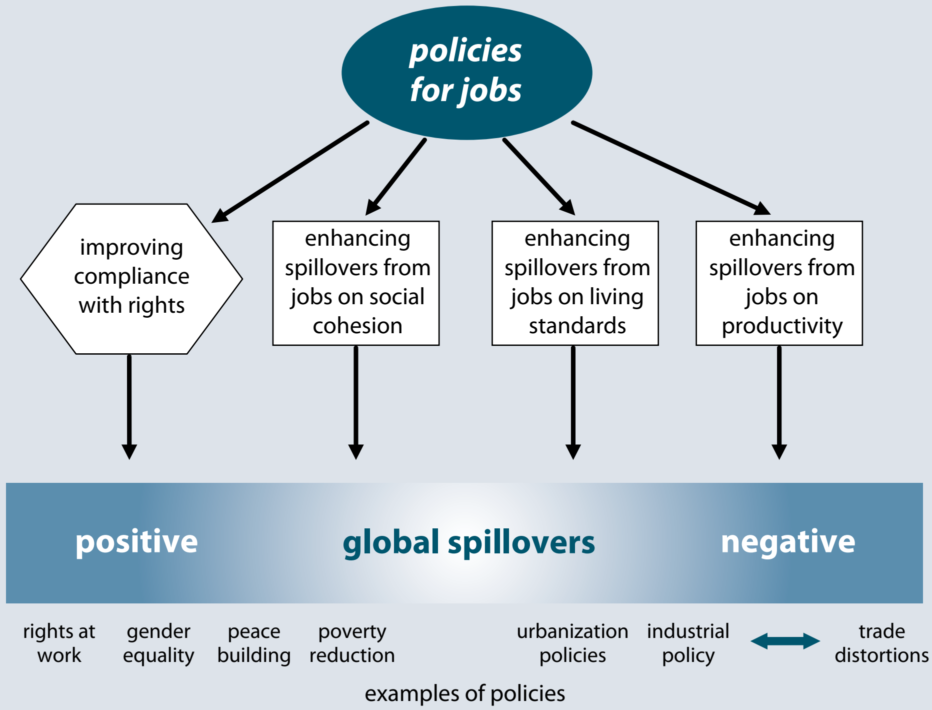
When considering good jobs for development more generally, and not just jobs connected to world markets, the set of policy options is even broader. Urban policies are another important instrument to stimulate job creation by the private sector. Given the potential agglomeration of economies, relatively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

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

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

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

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



Source: World Development Report 2013 team.

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

Employees at a call center in Poland

Notes

1. Özden and others 2011.
2. IOM 2008; Lucas 2005.
3. IOM 2010.
4. See IOM 2010; UNHCR 2010.
5. This finding discounts the effect of political changes in South Asia and the former Soviet Union. See Özden and others 2011.
6. Docquier and Marfouk 2006.
7. Docquier and Marfouk 2006; Solimano 2010.
8. Bach 2008.
9. Docquier, Özden, and Peri 2011.
10. For the case of migration to New Zealand from Tonga, McKenzie, Gibson, and Stillman (2006) find that migration leads to a 263 percent increase in income. Clemens, Montenegro, and Pritchett (2008) find an annual gain in wages close to US$10,000 for migration from Mexico to the United States and about US$18,000 for migration from the Arab Republic of Egypt, Haiti, India, and Nigeria.
11. Chin 1999; Di Nicola 1999.
12. Hanson 2006; Spener 2009.
13. See Lucas 2005, chapter 3. See also Docquier, Özden, and Peri 2010. For a cross country analysis of this topic, see Hovhannisyan 2012 for the World Development Report 2013.
14. Lucas 2005, 267–69; Priebe and others 2011. The connection between health and migration is still a growing area of research. Gibson, McKenzie, and Stillman (forthcoming) find—using data on migrants from Tonga to New Zealand—that migration leads to improvements in mental health, whereas McKenzie, Gibson, and Stillman (2006) find that migration leads to significant and persistent increases in blood pressure.
15. Gupta, Patillo, and Wagh 2009; Lokshin, Bontch-Osmolovski, and Glinskaya 2010.
16. Anzoategui, Demirgüç-Kunt, and Martinez-Peria 2011.
17. Sirkeci, Cohen, and Ratha 2012.
18. See Shen, Docquier, and Rapoport (2010) for a theoretical explanation of the difficulties in explaining the link between remittances and inequality. Empirical studies include Acosta and others (2007); Adams (1989); Adams (1992); Adams (2004); Adams (2006); McKenzie and Rapoport (2007); and Milanovic (1987).
19. Adams 2011.
20. A related problem is the case of "brain waste": skilled workers who perform low-skilled jobs in either sending countries (because of stagnant growth) or in host countries (because of occupational segregation). In both cases, productivity is hindered because of underuse of these resources. See Özden and Schiff 2006.
21. See Wahba (2007) on Egypt; Thomas (2009) on Uganda and South Africa; and De Vreyer, Gubert, and Robilliard (2010) on the countries of the West African Economic and Monetary Union.
22. Chacko 2007. See also Saxenian 2004.
23. Pandey and others 2006.
24. Cordova 2009; Garcia Zamora 2005; McKenzie and Rapoport 2007; Torres and Kuznetsov 2006.
25. Gibson and McKenzie 2012.
26. Kuznetsov and Sabel 2006.
27. Beine, Docquier, and Rapoport 2011; Lucas 2010.
28. For Mexico, see Heymann and others (2009). For Albania, see de Soto and others (2002).
29. Some, including Keddie (1998), argue that migrants bring political radicalization, whereas others, such as Pérez-Armendáriz and Crow (2010), say migrants bring democracy.
30. For evidence in the United States, see Abowd and Freeman (1991); Borjas (2003); Card (2001); and LaLonde and Topel (1997). Qualitatively similar results are in Giuletti (2012), Hunt (1992), and Pischke and Velling (1997) for the cases of France and Germany; in Friedberg (2001) for Israel; in Carrasco, Jimeno, and Ortega (2008) for Spain; and in Dustmann, Fabbri, and Preston (2005) for the United Kingdom. See Chiswick and Miller 2009.
31. Lucas 2005, 285–86. For the complex political economy links between attitudes toward migration and the welfare state, see Koopmans (2010) and Razin, Sadka, and Suwankiri (2011).
32. Dingeman and Rumbaut 2010.
33. Despite the difficulties in measuring irregular migration, there is a consensus that the number of irregular migrants was growing in the years before the Great Recession of 2009. New sources for measuring irregular migration include administrative records and regularization programs. Other experiences include the IOM (International Organization for Migration) Counter-Trafficking Module (CTM), the CIREFI (Centre for Information, Discussion, and Exchange on the Crossing of Frontiers and Immigration), or EIL (Enforcement of Immigration Legislation) statistics collected by the European Commission. See IOM 2010.
34. Because of limited availability of data, figure 7.1 shows the gross domestic product share of the industrial sector, which consists of the manufacturing and the construction and mining sectors.
35. Akamatsu 1962; Lin 2011.
36. Lin 2011; Lin 2012.
37. Glaeser and others 1992; Henderson, Lee, and Lee 2001; Mano and Otsuka 2000; Sonobe and Otsuka 2006.

38. Rozelle and Huang 2012 for the World Development Report 2013.
39. See, in particular, Dinh and others 2012.
40. Lin 2012; Lin and others 2010.
41. Measuring the net effect of offshoring is complex, and different methodologies have been proposed. From a theoretical point of view, the net effect in a given country is ambiguous because offshoring may reduce employment in the short term, but the resulting specialization can induce productivity gains that increase employment in the long term, although with a change in the share of different types of labor and occupations within the total. The Organisation for Economic Cooperation and Development (OECD 2007) and the United Nations Conference on Trade and Development (UNCTAD 2004) indicate that offshoring is not necessarily a zero-sum game and that short-term job losses may be more than compensated for by job gains, although with variations across industries and sectors.
42. Ghani 2010.
43. Jensen 2011.
44. See, for example, Görg 2011.
45. Goswami, Mattoo, and Sáez 2011.
46. Millberg and others 2007.
47. See, for example, Suri 2007.
48. Goldberg and Pavcnik 2007.
49. Goswami, Mattoo, and Sáez 2011.
50. Ebenstein and others 2009.
51. Goswami, Mattoo, and Sáez 2011.
52. Goswami, Mattoo, and Sáez 2011.
53. Ghani 2010.
54. Goswami, Mattoo, and Sáez 2011; Jensen 2011.
55. François and Hoekman 2010.
56. Elliott and Freeman 2003; Newitt 2012 for the World Development Report 2013.
57. Bhagwati, Panagariya, and Srinivasan 2004.
58. Ebenstein and others 2009.
59. There is evidence that China's increasing exports affected the export patterns of other Asian countries. See Eichengreen, Rhee, and Tong 2007; Greenaway, Mahabir, and Milner 2008.
60. Blomström and Kokko 2009.
61. See, for example, Bhagwati, Panagariya, and Srinivasan 2004; François and Hoekman 2010; and Grossman and Rossi-Hansberg 2008.
62. Noguer and Siscart 2005.
63. Mattoo and Rathindran 2006.
64. Brückner and Lederman 2012.
65. See Aw, Chung, and Roberts (2000) and Clerides, Lach, and Tybout (1998) for exporting firms. See Aitken, Harrison, and Lipsey (1996); Velde and Morrissey (2003); and Görg, Strobl, and Walsh (2007) for foreign-owned companies.
66. For general reviews, see Goldberg and Pavcnik (2007); Jansen, Ralf, and Manuel (2011); Newfarmer and Sztajerowska (2012); Rama (2003); and Robertson and others (2009).
67. See, for example, McKinnon and Ohno 1997.
68. Gomory and Baumol 2001.
69. See, for example, Feenstra 1984 and Hymans and Stafford 1995.
70. Lin 2012.
71. Rodríguez-Clare 2001.
72 Goswami, Mattoo, and Sáez 2011.
73. Levy 2012 for the World Development Report 2013.
74. Ghani, Kerr, and O'Connell 2011.
75. Glaeser and Gottlieb 2008.
76. Lin (2012) proposes to use as a reference the trade patterns of countries whose endowments are similar but whose income per capita is moderately higher than in the country under consideration.

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