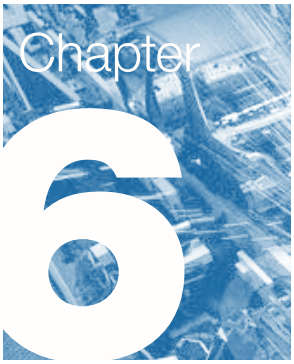


Harnessing globalization to create decent jobs and reduce poverty

Globalization has created hundreds of millions of new jobs—mostly in developing countries, relatively few in Africa. Yet, Africa's markets are integrated in the global economy. Although its shares in both world trade and FDI are 2 per cent of the global total, its shares of trade and FDI in GDP are in the same range as in other regions or even higher. The continent is already affected by the current wave of globalization that is driven by lower transport and communication costs, liberalized markets for goods, services and capital and faster technical change.

"A more competitive Africa can benefit from globalization"

Because world trade in manufacturing goods increased sharply in the past decade, while trade in raw materials more or less stagnated, diversification into manufactured exports is more likely to create growth and jobs in Africa. Despite some shift towards manufactures in both exports and FDI, Africa will benefit from globalization only if its manufacturing sector becomes more competitive.

Globalization, as well as poverty reduction, are positively linked to productivity growth through different channels. Both trade and FDI will increase only if a country is competitive in the international market, with competitiveness depending on the ratio of wages to productivity. And because increases in productivity allow wages to rise, there is a strong link between productivity and poverty.

Empirical evidence shows that globalization has a positive impact mainly in countries where raw materials are not the dominant exports and levels of human capital are fairly high. Because the supply of low-skilled workers in most African countries is very large, wages are more likely to increase for skilled workers, especially in the light of rising demand for skilled workers due to technological advances.

Four lessons on how to harness the opportunities from globalization:

- First, African countries need to focus on productivity growth. Asia gave attention to quality of education, expanded girls' education and improved vocational skills, essential for technological change and growth. Productivity councils or centres identified enterprises' technical problems and developed appropriate remedies and training packages to solve them.

- Second, to increase the competitiveness of exports and attract more FDI, the improvement of infrastructure, especially telecommunications, is essential. Most infrastructure in Africa is concentrated along the coasts and in major urban centres, whereas poverty remains higher in the rural areas. Improved rural infrastructure

would help to integrate with the urban sector and the global economy. Infrastructure projects could also be made more cost-effective through regional cooperation, which needs to be strengthened and streamlined.

- Third, industrial policies have to be designed carefully and adapted to local conditions. For instance, the Asian miracle was driven not by liberalization but by well designed industrial policies, including directed credit, trade protection, export subsidization and tax intervention. The East Asian policy package worked because it combined these incentives with the discipline of government monitoring and the use of export performance as a productivity yardstick. Export processing zones have created employment in Madagascar and Mauritius. To be successful, they need government backing and a strong management team that closely monitors enterprises.

- Fourth, incentives for both foreign and domestic investment should be targeted with care. To be preferred are labour-intensive sectors, as are firms with strong backward and forward links, because they increase the externalities from technological upgrading. Investment promotion agencies should focus on linkage-intensive sectors such as agroprocessing and tourism, bringing domestic suppliers and foreign affiliates together and facilitating learning from foreign companies.

Globalization provides opportunities for women in sectors as different as shea butter and information and communication technology. Shea butter, or karité, is one of the few relevant export commodities under women's control in Sahelian Africa. Global market forces could give them an opportunity to improve their income and reshape rural women's livelihoods. In the data processing enterprises mushrooming in several African countries, a large share of owners and employees are women. To improve women's ability to benefit from globalization, their education has to be improved, especially in modern technology.

Although globalization has generally brought benefits, it has also been associated with inequality, vulnerability to external shocks and a brain drain. African governments need to cushion the most vulnerable groups against globalization's adverse effects. They include low-skilled workers who would have difficulty moving to a different sector—and poor people, who generally lack the assets to invest in productive activities. Mitigating the adverse effects of globalization includes providing basic social security, retraining workers for growing sectors and improving access to education and credit.

To increase the benefits from high value agriculture, it is essential to link smallholders to international markets. Because the horticultural sector, for example, is too diverse and fast-changing for the state's direct involvement, governments should allow a variety of private institutions and marketing arrangements to develop. To help smallholder farmers participate in value chains for export production, governments should increase their support for producer groups. They could also facilitate the adoption of innovations by providing market information and extension services.

Harnessing the potential of migrants for sustainable development includes tapping remittances, investment, skills transfer and diaspora networks. Because contract enforcement

across borders is especially difficult for small and medium enterprises, networks can foster cross-border trade and investment links. Migrants can facilitate flows of information and knowledge and thus facilitate technological progress. And returning migrants, with their new skills and attitudes, could help to expand employment through private sector engagement.

Globalization in Africa: facts and figures

"Africa's markets are integrated in the world economy"

The current period of globalization is distinct from previous ones. At the beginning of the 21st century trade and financial services are far more developed and deeply integrated. More than ever, economic decisions are influenced by global conditions (Jenkins 2004), and production processes spread over several continents. Although Africa's share in world-wide flows of trade, investment and remittances is low, globalization affects its economies substantially, because the shares in production and consumption are fairly high.

In the past 20 years, dramatic changes in international markets have helped shape the current era of globalization. A complex process affecting many aspects of people's lives, globalization is defined here as the growing international integration of economies with regard to markets for goods and factors of production (Bigsten and Durevall 2003). This chapter analyses the integration of economies through trade, foreign direct investment (FDI) and to less extent the mobility of labour.[1]

Unlike the globalization witnessed in the 19th century, today, labour markets remain more closed than ever. Most industrial countries have restricted immigration, particularly that of low-skilled workers. Moreover, after the terrorist attacks of September 11, 2001, the movement of people, not only into the United States but also into other countries of the world, has been restricted and controlled more and more.

Despite these limitations, about 2 per cent of the world's people live outside their countries of origin. This reality poses considerable challenges to the domestic labour markets of the African continent, a net labour exporter. Changes in remittance flows might also affect poor people's consumption possibilities.

Contrary to general perception, Africa's markets are integrated considerably in the global economy (figures 6.1 and 6.2). But, this integration is asymmetric. Africa depends on the rest of the world, whereas the rest of the world does not depend on Africa. Its shares in both world trade and FDI are only 2 per cent of the global total, a reflection of the continent's low share in world GDP. When few goods are produced, there are fewer exports. When markets are small, the incentives for FDI are limited. Compared with countries that have similar characteristics, African countries' trade and FDI flows are not exceptional–but are determined by their small size, low incomes and geography. That is why policies to increase exports and FDI have to focus on improving productivity (Bigsten and Durevall 2003).

The closer integration of markets is driven mainly by lower transport and communication costs. It also depends on the liberalization of markets for goods, services and capital. Yet, borders still inflict significant transaction costs, particularly due to different legal systems

and currencies. That is why prices of tradable commodities differ markedly across different countries, even after taking indirect taxes and retail costs into account (Rodrik 2005). In general, natural protection has been sharply reduced in Africa, even without trade liberalization. But in landlocked African countries transport costs remain an obstacle to integration (UNECA 2004b).

Another issue is the increasing speed of technical change, both a cause and an effect of globalization. Technical progress in information processing and communication has enabled the steps of production to be split and performed in different locations. Increased trade and cross-border investment give less developed countries better access to technology and increase their market competitiveness (Lall 2002).

Africa's share in world trade is low but its dependency on trade is high

While world GDP rose on average by 3.8 per cent a year between 1985 and 2000, world exports grew by 6.1 per cent. Developing countries as a whole increased their share of world trade from 19.2 per cent in 1970 to 31.7 per cent in 2002. Developing Asia's share of world trade increased from 17.9 per cent in 1980 to 24.2 per cent in 2002, South-East Asia's from 8 per cent to 20 per cent. Latin America's share remained constant at around 5.5 per cent. Africa's share, by contrast sank from about 5.9 per cent to 2.1 per cent in 2002 (UNCTAD 2004a).

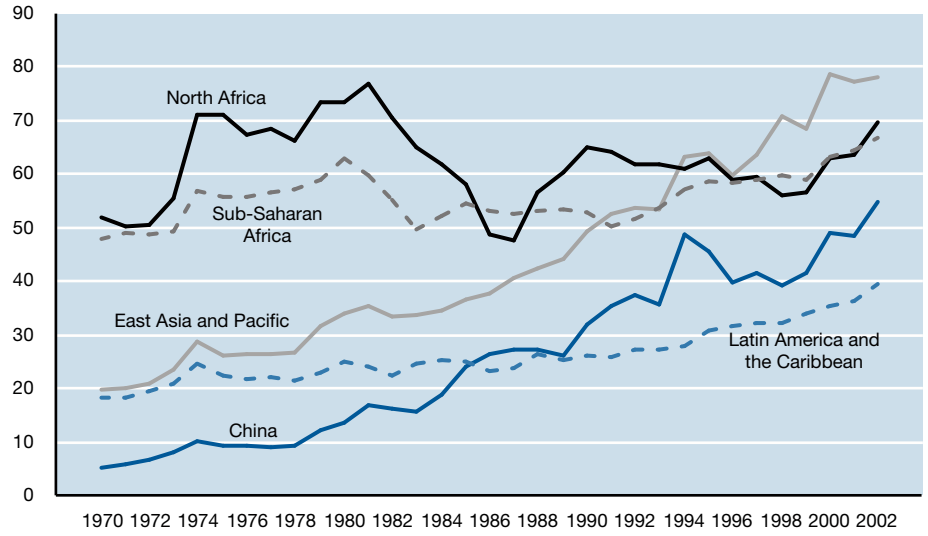
On the basis of foreign trade as a share of GDP, Africa is one of the world's most open regions, behind only East Asia. But that share has oscillated historically in line with commodity price fluctuations. In addition, it increased less than in other regions between 1970 and 2002 (see figure 6.1).

With world trade in manufacturing goods growing fast in the past decade, while trade in raw materials more or less stagnated, manufactured exports were more likely to create growth and jobs (Fosu 1990, 1996). Africa's share in global trade in manufactures, already very low at 1 per cent in 1980, fell to 0.81 per cent in 2001. This happened despite the fact that the share of manufactured goods in Africa's exports rose from 8 per cent in 1980 to 31 per cent in 2001.[2] For developing countries on average, manufactured goods account for 65 per cent of their exports (UNCTAD 2004c).

Between 1970 and 2002 exports grew on average slightly faster than imports in Sub-Saharan Africa and slower than imports in North Africa (UNCTAD 2004a). In both regions many countries ran trade deficits, with export earnings covering only 54 per cent of total imports, particularly the least developed African countries, whose major exports are agricultural commodities. This limits the ability to import machinery and equipment, essential for creating new productive employment. These trade deficits are partly financed by aid inflows and increasingly by worker's remittances (UNCTAD 2004b).

Figure 6.1

Trade as a share of GDP in selected regions, 1970–2002 (%)



Source: *World Bank 2003.*

> *FDI has recently risen in manufacturing, agroindustries, and services*

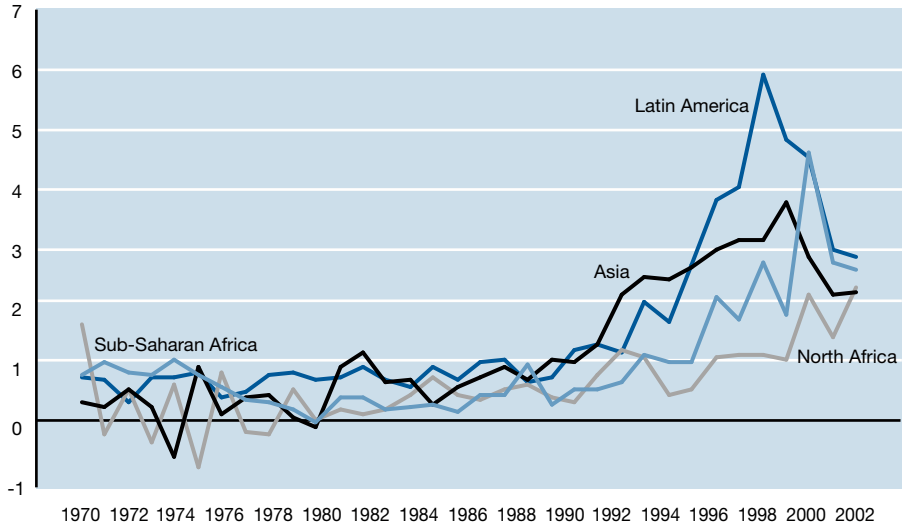
FDI in Africa has also expanded, if from a low base

Growth in world trade was accompanied by growth in FDI. Indeed, global FDI grew at 17.7 per cent a year over 1985–2000, boosting net inflows to developing countries as a whole.[3] The developing countries most successful in attracting FDI were the most successful exporters. Inflows of FDI to South, East and South-East Asian countries (excluding China) moved from $3.5 billion in 1980 to $35.9 billion in 2002, with a peak at $97.9 billion in 2000. Africa's share of FDI inflows for developing countries is half what it was in 1980 (UNCTAD 2004a).

Contrary to general perceptions, however, Africa benefited from the recent rapid expansion of FDI. In Sub-Saharan Africa FDI stabilized at an average of $8.75 billion a year during 1997–2002, twice the average of $4 billion at the beginning of the 1990s (World Bank 2004). In 2003 FDI to Africa increased to $14 billion, despite a declining world trend.[4] And like Latin America the share of FDI in GDP increased to more than 2 per cent (figure 6.2).

Even so, more than half the FDI to Africa is to the primary sector, mainly extractive industries, which exploit resources but use little local labour. Data from foreign affiliates of U.S. firms in Africa show that manufacturing FDI is 17.5 times more labour-intensive than mining FDI. In some African countries, though, FDI has recently risen in manufacturing, agroindustries and services, as for Egypt, Morocco and Mozambique (UNECA 2004b). There has also been an increase in employment in manufacturing FDI in Africa[5]. This investment is driven partly by low labour costs and partly by preferential access to markets of industrial countries.

Figure 6.2
FDI as a share of GDP in selected regions, 1970–2003 (%)



Source: *UNCTAD 2004a.*

Imbalances in migration lead to a brain drain in Africa

The main direction of migration is from developing countries towards industrial countries, so Africa is a net emigrating region. The stock of African migrants is highest in France, where more than 1.6 million of the 4.3 million Africans living in Organisation for Economic Co-operation and Development (OECD) countries reside. The second most common destination is the United States, where more than 880,000 African nationals reside. Most migrants come from North Africa, mainly Morocco (1.3 million) and Algeria (680,000). The reported remittances have increased from $8.6 billion in 1990 to $11.1 billion in 2002, partly reflecting an increase in the number of migrants (World Bank 2004; Doquier and Rappoport 2004).[6]

In principle, migration could reduce unemployment. But the discrimination in favour of educated workers by OECD countries contributes to the brain drain from developing countries, increasing the shortages of highly skilled workers in many African countries (World Bank 2002). Recent evidence shows that Sub-Saharan Africa is most affected by the emigration of skilled workers, with 14 countries having more than 15 per cent of their skilled workers residing in OECD countries in 2000. Among them: Somalia (59 per cent), Ghana (43 per cent), Mozambique (42 percent), Sierra Leone (41 per cent), Nigeria (36 per cent) and Madagascar (36 per cent). Especially for low-income countries the share of skilled workers migrating increased substantially between 1990 and 2000, meaning that public expenditure for their education does not benefit the home country. (Docquier and Rapoport 2004).[7]

The often lamented brain drain is more a symptom of the problems of employment creation than a cause. Theoretically highly skilled labour should gain high rates of return in places where it is scarce. But this effect is partly offset by agglomeration effects in rich countries–as highly skilled people become more productive through exchanges with other highly skilled people and through their complementarity with more highly productive physical capital. In addition, the large business obstacles in many African countries outweigh the costs of migration and thus reinforce the brain drain.

Trade, FDI and migration are complements

Job creation policies need to look at trade and FDI simultaneously. In effect, trade and FDI grow or stagnate at the same time. This leads to the assumption that trade and FDI are complements rather than substitutes. In particular, the types of FDI dominant in Africa are positively associated with trade. Trade barriers and other obstacles posed by African countries will have little effect on resource-seeking FDI, but they will have a negative effect on efficiency-seeking FDI (Faini 2004). Market-seeking FDI is not very relevant for Africa because its markets are very small. In the services sector, however, especially in energy and information and communication technology, market-seeking FDI has increased considerably in Africa.

The export of services is becoming more important in world trade. Indeed, technical progress has turned services previously nontradable into tradables, increasing the possibilities for outsourcing, which enhances FDI. Because the delivery of services is often associated with the movement of persons, a positive relationship can be assumed between growth of trade, FDI and migration (Faini 2004).

> *The 'brain drain' means a further shortage of skilled workers*

The links between globalization, employment and poverty

There will always be winners and losers from globalization, at least in the short run. The effects on poor people depend on the production factors owned by poor people, such as skills and land, and the goods and services consumed. Poor households typically have several sources of income, not only wages (mainly of low-skilled labour) but also profits from production (mainly in agriculture and the informal sector). Another major source of income is transfers, mainly remittances from family members who have migrated. Because poor people, and particularly poor women, have less access to productive factors, they tend to be less able to respond to change (UNECA 2004b; Winters, McCulloch and McKay 2004).

In Uganda, for example, casual workers on tea estates in the northern region, who have no access to land or formal education, are among the poorest people in the country. By contrast, smallholders who produce nontraditional export crops have increased their income (box 6.1).

Box 6.1

Trade reduced poverty in Uganda but only for parts of the population

In Uganda the sharp decline in poverty by 21 percentage points over 1992–2000, unprecedented in Africa, is considered to be linked to the growth of exports, particularly nontraditional exports (including fish) and tourism. Poverty was reduced in urban areas and in rural areas that grow export crops in the central, western and southern regions. The growth of income for export crop producers led to increased demand for food products and services. For that reason dynamic gains from trade were realized, and the poorer food-crop producers and self-employed in these areas also benefited.

The growth of exports has been supported by macroeconomic reforms, more flexible labour markets and liberalized trade, as well as preferential access to the EU market for horticultural products under the Cotonou agreement. Although Uganda significantly reduced its tariffs in the 1990s, there was no major loss of tariff revenue or surge of imports, partly because of high transport costs.

The success in reducing poverty through increased exports is partly due to the end of civil war and favourable coffee prices. So it might not be sustainable. Furthermore the manufacturing sector did not expand. Instead, wages and employment fell because of increased import competition, and urban wage earners were forced to cope with higher food prices.

The northern region, which produces mainly cotton, tobacco and tea, is still very poor. For small-scale tobacco growers there is only one buyer, BAT Uganda Limited—a situation that leads to exploitation of farmers in the grading and pricing of their product because of the absence of effective producer organizations. Likewise casual workers on large tea estates are among the poorest in the country. As a result 10 per cent of the households that were not poor in 1992 moved into poverty by 1999, partly offsetting the 30 per cent of households who moved out of poverty over the same period.

Source: *Bigsten 2000; Tsikata 2001; UNCTAD 2004b; Morrissey, Rudaheranwa and Moller 2003.*

The employment effect of trade liberalization

According to traditional trade theory, greater openness in an economy leads to more specialization, in line with its comparative advantage. For Africa this implies that sectors intensive in low-skilled labour should expand, because this is the abundant resource. And sectors that are intensive in capital are expected to shrink. The greater demand for low-skilled labour would lead to higher wages in the long run and thus reduce poverty. But employment will increase only if the expanding exporting sector is more labour-intensive than the shrinking import substitution sector (for a detailed discussion see UNECA 2004b and Fosu 2002).

Because trade protection in Africa is generally associated with an anti-agricultural bias, and most poor people are engaged in small-scale agriculture, the liberalization of trade should reduce rural poverty (Berg and Krueger 2003). The higher income of farmers will in turn increase the demand for goods and services provided by the rural poor, such as construc-

tion, personal services, locally processed food and household goods (Winters, McCulloch and McKay 2004).

Low-skilled labour-intensive manufacturing exports should also increase, according to the traditional trade theory. Botswana, Madagascar, Mauritius, Namibia and Senegal have seen their shares of manufactured exports increase over the last decade, driven by labour-intensive sectors such as textiles and garments, but also by food processing, which is less labour-intensive. However, the sharp increase in the number of low-skilled or semi-skilled workers producing manufactured goods for the world market (after the opening of China and India) contributes to the saturation of markets for simple manufactures, reducing prices and wages (ADB 2004).

Low capital intensity is observable in the de-industrialization of import-substitution industries in some African countries. Other factors, such as closing of unsustainable state-owned enterprises, may also have contributed to de-industrialization following trade liberalization (UNCTAD 2002; Lall 1995). For Sub-Saharan Africa the share of manufacturing value added in GDP declined from 17.4 per cent to 14.8 per cent between 1990 and 2002. In Zambia that share dropped from 37 per cent to 12 per cent (World Bank 2004). Several small industries there, such as tire manufacturers and medical supply companies, have folded in the face of competition from large South African firms.

Because trade integration increases competition and shifts the sectoral structure of the economy, more firms enter and exit, increasing temporary unemployment (World Bank 2002). Even in successful globalizers such as Mauritius and Sri Lanka, which substantially increased their shares of trade in GDP, a high unemployment rate persisted over a long period due to structural problems and educational deficits. There is no automatic link between greater market integration and lower unemployment.

There is evidence, however, that demand for female employment will increase through trade and FDI, at least for low skill occupations. Export competition on the basis of cheap labour might increase participation rates of women, who are on average less skilled than men and work for lower wages. This will in principle increase female wages and thus reduce the gender wage gap for similar skills. But this pattern might cement the gender gap in education and thus restrict women to low skill jobs (Oostendorp 2004).

More trade and FDI spur an increase in female employment

One reason African countries express concerns over the negative effects of trade liberalization on employment is the relatively inelastic supply response of exports, due to poor infrastructure, capital market imperfections and such institutional impediments as lengthy bureaucratic procedures (Fosu 2002; Lall 1995; chapter 7). While employment in the import substitution sector declines almost immediately, the increase of employment in the exporting sector might take a very long time. Moreover, most empirical studies find an initial decline in wages after trade liberalization, and only later (after more than three years) do wages and employment rise in the export sector (Rama 2003).

An often-overlooked effect of lowering trade barriers is that it might increase the balance of payment deficit because imports grow faster than exports. And if the balance of payments is not self-adjusting because of market distortions, the deficit might become unsustainable.

Demand would thus have to contract, and resources would remain underused, leading to unemployment. There is empirical evidence that trade liberalization has worsened the trade balance significantly in all regions, especially in more highly protected countries (Santos-Paulino and Thirlwall 2004).

These findings mean that traditional trade theory oversimplifies reality. One specific shortcoming is that labour markets in most African countries are highly segmented and far from perfect (chapter 2). Unemployment, for example, is not possible in the neoclassical framework. Segmentation, mainly due to mobility costs across regions and sectors and such institutional barriers as high information costs, may result in significant unemployment (Fosu 2002).

In addition, the skill levels are very different in developed and developing countries. In industrial countries most low-skilled workers are literate and numerate. But this is rarely so in African countries, where a person who is literate and numerate and masters an internationally used language such as English or French is considered semi-skilled. So a product that is intensive in low-skilled labour in an industrial country may be intensive in semi-skilled labour in an African country.

In many African countries the availability of mineral resources determines the comparative advantage.[8] So it is not low-skilled labour that will benefit from greater openness but the owners of the mineral resources. The associated growth of the extraction sector, which usually employs mainly high-skilled labour and has few forward and backward links, is unlikely to reduce poverty (Winters, McCulloch and McKay 2004). Poor people would benefit only if the government spends the royalties it obtains from natural resources on pro-poor policies. The relative abundance of land also partly explains the positive correlation of trade openness and inequality in Africa, because resource ownership is unequal (UNECA 2004b).

FDI increases employment directly but might reduce it indirectly

FDI increases employment directly through hiring. It also has an indirect effect through job creation by suppliers and service providers. Demand for goods and services increases, too, thanks to higher incomes and consequent spending. Estimates of the multiplier effects of FDI in developing countries indicate that around two indirect jobs are created for each worker employed by foreign affiliates (Asiedu 2004). Positive employment effects are associated mainly with greenfield FDI in new sectors. But there might also be a crowding-out of domestic firms and a rationalization effect. So FDI could reduce employment, especially if it occurs through mergers and acquisitions (Lee and Vivarelli 2004).

For example, FDI in agricultural processing, such as food production and household chemicals, could drive local artisanal producers out of business, mainly women who process local agricultural goods in informal businesses. So processing could increase female poverty in rural areas. By contrast, multinationals in the agricultural processing sector tend to employ a large share of low-skilled women, for whom they provide relatively good wages and job security, so that female poverty rates may be reduced.

There is empirical evidence based on U.S. affiliates in Africa that the creation of employment through FDI depends on good infrastructure, openness to trade and education, after controlling for GDP per capita. By contrast, an endowment with natural resources does not increase employment in foreign affiliates (Asiedu 2004). This is consistent with studies that find no employment effect of FDI in mainly African low-income countries but a positive employment effect in middle-income countries (Spiezia 2004).

More trade and FDI could increase productivity

Globalization, and poverty reduction are positively linked to productivity growth through different channels. Both exports and FDI will increase significantly only if a country is competitive in the international market, and competitiveness depends on the ratio of wages to productivity. Closer integration into the world market can increase productivity as well.

There is also a strong link between productivity and poverty. Higher productivity allows wages to rise and thus reduces poverty. But if productivity growth in Africa lags behind other regions, wages have to be reduced for it to be competitive. However, lower production costs through increased productivity could be translated into lower prices and higher real incomes, resulting in increased demand for other products and thus more jobs (ILO 2004b).

A reduction in poverty is usually associated with better healthcare and education, which increase productivity (chapter 5). A virtuous circle can thus be established between productivity and poverty reduction. Most countries have experienced growth in both productivity and employment over the past 20 years (ILO 2004b).

> *Low productivity is proportional to high poverty*

In the manufacturing sector low levels of competitiveness of African firms are reflected in slow growth and low export levels. In Ethiopia, Mozambique and Uganda the value added per worker is only a third of that of India or China. For other countries the relatively high value added per worker is driven mainly by high levels of capital per worker. In Nigeria the capital per worker is 10 times higher than that in India. In addition capital is used very inefficiently in many African countries, with capacity use ranging only between 45 and 80 per cent (Eifert and Ramachandran 2004).

Because of low productivity, labour costs per unit of output in Sub-Saharan Africa generally exceed those in East Asia—this, despite the fact that most African workers receive less compensation than their counterparts elsewhere. In Ethiopia and Uganda wages are less than half the rates in India. With overall labour costs accounting for a small share of the total costs of African firms, competitiveness must come from lower nonlabour costs and higher productivity (Eifert and Ramachandran 2004). Otherwise a reduction in wages would only increase the number of working poor.

Globalization is one channel for improving total factor productivity.[9] Openness could increase productivity through greater import competition and the greater export competition facing firms entering global markets. Evidence from manufacturing firms in African countries shows that exporting has a positive impact on productivity, implying a learn-

ing-by-exporting effect (Bigsten and others 2004). In addition, imports of machinery and intermediary inputs from industrial countries give developing countries direct access to better technology.[10] Similarly, FDI can provide access to advanced technology and skilled management, increasing productivity. FDI can also induce technology diffusion through labour turnover to domestic firms and other forms of interaction.

The increase in productivity associated with globalization could reflect an increase in output using the same amount of production factors as well as a decline in inputs producing the same amount of output. In the latter case the short-term effect of increased productivity will be a reduction in employment. If import competition increases suddenly without complementary improvements in the business environment, the least productive firms will just close down and this will drive the increase in overall productivity.[11] But if higher productivity leads to lower prices and increases output, the reduced demand for labour in per unit output is offset by an increase in labour demand due to output expansion (ILO 2004b).

Empirical evidence shows that globalization increases productivity and thus provides scope for wage increases. For example, in Botswana during a period where trade openness declined, labour productivity was reduced, especially in agriculture. In Algeria and Egypt labour productivity increased during periods of increasing openness (Gros 2004). Further evidence from other African countries shows that labour productivity in foreign-owned enterprises is higher than in domestic-owned enterprises, as in the rest of the world, thanks in part to better training opportunities (Asiedu 2004; UNCTAD 2002).

Because of the use of different technology and different economic environments, workers with the exact same skills are less productive in developing countries than in industrial countries, contributing to the lower wages in developing countries. Although global integration of markets reduces these wage gaps, some will persist due to unfavourable conditions in many developing countries. So the incentives to migrate to regions with higher productivity and pay will not vanish (World Bank 2002).

Although migrating can be beneficial for the migrants, high-skilled migration will have negative effects on the home economy. Because skilled and low-skilled labour often complement each other in production, a decrease in skilled labour (when low-skilled labour is abundant) will reduce low-skilled workers' productivity and wages. Further, skilled labour is needed to attract FDI, and disproportionately contributes to tax revenue. But skilled migration might have positive feedback effects, though with a lag, through remittances, return migration with additional skills and the creation of networks that facilitate trade, capital flows and knowledge diffusion (Docquier and Rapoport 2004).

Globalization can reduce poverty if skill levels and economic structure are favourable

If globalization has an effect not only on the level of income but also on its distribution, it could result in pro-poor or anti-poor growth. It is well established empirically that the main effect of trade liberalization on poverty is through its effect on growth (Berg and Krueger 2003).[12]

But the empirical evidence on the relationship between globalization and inequality is mixed. Cross-country studies do not find an effect of increased trade openness and FDI inflows on wage inequality across occupations or inequality in general, so openness induces pro-poor growth (Winters, McCulloch and McKay 2004; Ravallion 2004; Rama 2003; Vivarelli 2004). But if the type of exports is taken into account, there is evidence that inequality increases for primary exporters but decreases for exporters of manufactures (Calderon and Chong 2001).

Studies trying to capture the direct effects of globalization on poverty also come to the conclusion that it depends on the circumstances. For least developed countries the relationship seems to be asymmetric–with declining exports leading to an increase in poverty and increasing exports reducing poverty only under certain conditions, Uganda shows (see Box 6.1). Thus, for least developed countries no correlation can be found between export growth and changes in private consumption per capita, so little effect on poverty can be expected (UNCTAD 2004b).

"African economies require greater diversification as well as more skilled workers"

Some empirical studies find a negative (though not very strong) relationship between poverty and globalization, measured in terms of economic integration, personal contacts, technology and political engagement (Heshmati 2004).[13] Others find that a higher share of exports is associated with less poverty for all developing countries, which is in line with the pro-poor growth effects of openness mentioned above. But this effect is stronger for countries with high literacy and a high share of raw material exports (Ravallion 2004).[14] This highlights the fact that complementary policies need to ensure that trade liberalization can reduce poverty.

African countries need to reform to benefit from globalization

There is widespread agreement that liberalizing of trade and investment will increase exports and FDI only if certain preconditions are met, among them, macroeconomic stability, functioning institutions, secure property rights and adequate infrastructure (Winters, McCulloch and McKay 2004; Srinivasan and Wallack 2003; Hoeckman and Javoricik 2004; UNCTAD 2004c). In addition, the empirical evidence presented above indicates that globalization has a positive impact mainly in countries where raw materials are not the dominant exports and human capital levels are fairly high. Because the supply of low-skilled workers in most African countries is very large, wages might increase only for skilled workers. Thus a low-wage, low-skilled development strategy is unsustainable in the long run (ILO 2004b).

Because most African economies are not significantly diversified upward, globalization might increase unemployment and poverty. If the supply-side constraints in sectors with higher value added are not addressed, integration into the global economy will not be beneficial for many African economies (UNECA 2004b).

A main conclusion of this section is that the East Asian success story–market integration in the 1970s and 1980s based on initially low-skilled labour–will not work for Africa. Global

conditions have changed dramatically, and African countries have a different structure from the initial conditions in Asia. Agriculture is much more important, and wages are not downwardly flexible. In fact, compared with labour productivity, wages in Africa are higher than in East Asia. In addition, agglomeration effects might have given the Asian countries a first mover advantage, with the growing industrial sectors located there (World Bank 2002).

To benefit from globalization in the long term, African countries need to diversify their exports into processed goods and manufactures in order to reduce the terms of trade risks and to benefit from growing world demand. To increase productivity, human capital needs to be updated and obstacles reduced for exporters and FDI, especially in infrastructure. Only then will poor people in Africa have a chance to participate in global markets.

Harnessing the potential benefits of globalization

In general, competitiveness in Africa is lower than in other regions, reducing the export sector and FDI's prospects of creating employment. The low efficiency of production is due not only to the low skill levels but also to inadequate infrastructure, obstacles to the private sector and unfavourable economic policies. Competitiveness of production and attractiveness for investors are further hampered by the low labour productivity, which cannot be compensated for by low wage costs, and small markets. To increase African countries' ability to harness the benefits of globalization, they should address these problems but also use industrial policy to boost labour-intensive export sectors, encouraging links between foreign and domestic firms (Wangwe and Rweyemamu 2002).

Education and skills are crucial

Sophisticated modern technologies require high levels of numeracy and a broad base of skills. In this context, formal education should not be equated with skills. It needs to be enhanced by experience of handling particular technologies (Lall 1999). To improve the situation in Africa, both the low efficiency of providing education and the mismatch of skills need to be addressed (chapter 5).

One lesson from East Asia's experience is the attention to the quality as well as quantity of education, including an emphasis on vocational skills, essential for technological change and growth (ADB 2004). East Asia's experience shows that sustained export-led growth requires investment in secondary and tertiary education. In 1960 workers in East Asia and the Pacific had less than three years of schooling, less than in Latin America and the Caribbean. By 1990 countries in the region had the highest average number of years of educational attainment in the developing world, with a marked improvement in the educational attainment of girls, and consistently improved teacher-pupil ratios (ILO 1999). An important pillar of the education system in Asia was the productivity council or centre. These councils identified technical problems of enterprises and developed appropriate remedies and training packages to solve them (Gauci and Paddison 2001).

Demand for skilled labour in manufacturing and services increases where the widespread application of information technology calls for higher levels of skills (Lall 1999). New information and communication technology is dramatically changing the tradability of information-related services. Large companies are increasingly outsourcing information and communication technology functions to external service providers. The global market for such outsourcing, estimated at $110 billion in 2002, is expected to grow to about $173 billion in 2007 (Scholl and others 2003).

The use of ICT can expand markets for SMEs

Africa's share in this market, though tiny, is rising. The number of call centres in South Africa, the biggest player, has increased threefold since 1997. In 2003 there were more than 500 call centres in the country, employing about 70,000 people. It is estimated that the number of workstations related to call centres and back-office services will increase by more than 200 per cent until 2007 (De Vynck 2004). Other African countries such as Ghana (Box 6.2), Mauritius and Senegal have also received investments linked to offshore services (UNCTAD 2004c).

These kinds of offshore services require mainly semi-skilled workers, because the technological content of the work is quite thin. But they require proficiency in written and spoken English, familiarity with the culture of the client countries and social skills. Overall the skills for these jobs, though low in developed countries, are above African national averages, and the entry into information processing could be a building block for future upgrading.

Infrastructure is a key to boosting trade and investment

The lack of reliable infrastructure in African countries is one of the major barriers to trade, leaving them relatively unattractive to foreign investors. Most African firms are hampered by basic problems in transport, energy and information and communication technology (UNCTAD 2001). Low density of infrastructure is partly caused by low population density, and the networks in some countries are further degraded by civil wars, still severe in Africa. Aggravating all this are administrative barriers, which cause severe delays and increase transport costs (UNECA 2004b).

With inefficient state-owned power monopolies as the rule, access to reliable and cheap electricity is a major problem. This inefficiency means high direct costs for electricity and generators—and production losses caused by power outages, 5 to 10 per cent in some countries (Eifert and Ramachandran 2004). In Ghana, where some foreign investors in the information and communication technology sector have started operating, frequent power outages disrupt work and add to the wear and tear on computers. In India, by contrast, where the low cost of labour has always been the attraction, the recent technology changes and infrastructure improvements have made offshore outsourcing economically viable (Furniss and Janssen 2003).

Trends in the quality of transport infrastructure and related transport costs are mixed (chapter 7), posing severe obstacles to exporting, especially for landlocked countries. In Western Africa the ratio of transport costs to the value of exports is 0.33 on average for landlocked countries, almost twice the 0.17 for maritime countries. The exports of landlocked western African

countries are only 12 per cent of those of their maritime neighbours in their per capita value (Faye and others 2004). These high transport costs also shield import substitution industries from competition, with all its positive and negative effects. To increase export opportunities for landlocked countries, regional cooperation in infrastructure provision is essential.[15]

The use of information and communication technologies can expand markets for small and medium enterprises in Africa, as an empirical study in East Africa shows (Chowdhury and Wolf 2003). In general there has been some progress in telecommunications in Africa, with a rapid increase of fixed-line and mobile subscribers from 14.7 per 1,000 inhabitants in 1992 to 70.8 in 2002 (Hale 2003). And access to telecommunication is much higher, because many people share phones through various arrangements, leading to about 6 per cent of Africa's population using mobile phones in 2004 (BBC, 09/03/2005). These improvements were achieved through the entry of new providers of cellular phone and Internet services. But they lag far behind China and India in quality and costs.

For information and communication technology to stimulate exports and attract FDI, African countries need to continue with telecommunications reforms. The reforms include private investment; competition and universal access policies to open, affordable and secure information and communication technology; liberalizing and ending national monopolies; opening the door to the equitable use of telecommunication tools; competition among providers to expand the range and scope of services; and effective and independent regulatory agencies to establish business confidence.[16]

Box 6.2
Outsourcing in Ghana

Ghana is best known for producing cocoa and gold, but today Affiliated Computer Services, a Fortune 500 company from Texas and a global leader in IT and business process outsourcing, is one of the country's largest private employers. Some 1,700 employees process American health insurance claims on their computers—working around the clock in three shifts. The number of staff is expected to reach 2,000 employees by the end of 2004, many of them women.

The key technology in this process is a satellite link that enables data to be sent overseas instantaneously. All the workers at the data-entry facility—from the site manager to the computer-networking technician to the typists—are natives of Ghana. The average employee salary is $1,000 a year, compared with $20,000–$25,000 in the United States. In addition employees receive health insurance, meals and subsidized transport. American supervisors visit only occasionally. Indeed, from their U.S. bases they can view any insurance form in Accra at any moment.

Other foreign investors in the data-entry business also opened shop in Accra, and more are expected to follow. Most of these companies operating in the country have recorded an average increase of 50 per cent in revenue and profits. Now, Ghanaians talk of someday hosting 100,000 computer jobs, or more, with keypunching as a base.

Source: *Hale 2003; Zachary 2003, 2004.*

Infrastructure development is particularly urgent in the rural areas. Most infrastructure in Africa is concentrated along the coasts and in major urban centres, but the majority of poor people still live in rural areas. Improved infrastructure in the rural sector would help it integrate with the urban sector and the global economy. It could enhance the attractiveness for investment not only of agricultural products but also of nonagricultural goods and services (Fosu 2004). For example the export potential of soya beans, shrimps, fish, cashew nuts and gum arabic can be realized only if rural infrastructure services are improved, including extension services and trade support (ADB 2004).

Telecommunications can contribute substantially to lower prices and better delivery, increasing competitiveness. FDI can help in developing and enhancing such infrastructure. But prudent regulation is needed to prevent foreign firms from extracting rents. Privatization programmes in telecommunications and electricity mainly drive the current increase in FDI for services. Unfortunately, in some countries foreign investors withdrew after problems with the regulatory authorities (UNCTAD 2004c). An appropriate balance is required.

> *"Infrastructure development serves in integration of rural and urban sectors"*

Promoting nontraditional exports through export processing zones

Evidence supports the view that the Asian miracle was not driven by liberalization but by well designed industrial policies, including directed credit, trade protection, export subsidization and tax intervention. The East Asian policy package worked because it combined these incentives with discipline through government monitoring and the use of export performance as a productivity yardstick (Rodrik 2004).

African countries, by contrast, are faced with a changed international environment, and the strategies in East Asia will require considerable adaptation. More effort is required to correctly identify sectors that have a true comparative advantage in the longer run and to design industrial policies that provide incentives for increasing productivity rather than rent-seeking.[17]

Export processing zones (EPZs) are one mechanism that many African countries have used to try to take advantage of globalization, but with limited success (Rodrik 2004). Exceptions are Mauritius and Madagascar (Box 6.3). The success of Madagascar's EPZ was assured mainly by French investors, attracted by a French-speaking environment where many of their compatriots had already set up businesses. With time the origin of investors became progressively more diversified.

The choice of Madagascar helped in getting around the textile quotas imposed by developed countries in the Multi-Fibre Arrangements (the quotas of many Asian countries were already saturated), a key factor in attracting investments from Mauritius. Early investments in the EPZ were made in anticipation of AGOA, which granted Malagasy exporters quota-free and duty-free access to the U.S. market in 2000 (Gibbon 2003).

Companies also sought to make the most of the low labour costs in Madagascar. The monthly wage for a low-skilled machine operator in the textile industry is less than a third of the equivalent wage in Mauritius, around half of that in China and about 60 per cent of

that in India (Cadot and Nasir 2001). Even though labour productivity is apparently very much lower in Madagascar than in Mauritius or China (and equal to that in India), unit production costs are among the lowest in the world. In response to increasing labour costs in Mauritius, Madagascar received investments from Mauritian textile industries.

Successful EPZs worldwide share some common characteristics (OECD 2001):

- They get support from the highest levels of governments to create a truly international business environment.
- They are located near major cities and have good transportation links.
- They have a strong management team, which selects enterprises according to success criteria and supports EPZ firms.

Box 6.3
Madagascar's dynamic export processing zones

The Malagasy government began promoting its EPZ in the early 1990s. Output in EPZ enterprises (mainly garments, textiles and aquaculture) increased by about 20 per cent a year from 1997 to 2001 as foreign investors took advantage of the country's low labour costs and incentives under such trade initiatives as the U.S. African Growth and Opportunity Act (AGOA). The growth of EPZs has shifted the export structure away from traditional commodities, including vanilla and coffee. By 2001 EPZ firms created more than 100,000 jobs and accounted for about 50 per cent of all secondary industry employment in the country. They also contributed to some infrastructure development in remote areas and addressed major community needs, such as healthcare and education.

The expansion of EPZs has had favourable impacts on economic opportunities, for low-skilled workers and for women, who made up 68 per cent of workers in the sector in 2001. There has been a significant step up in pay for women, whose main alternative is employment in the informal sector.

But with the requirements for skills intensifying, the share of female workers is falling. The share of skilled workers rose from 36 per cent in 1996 to 66 per cent in 2001 and the share of low-skilled labourers fell sharply. The use of more sophisticated technology and a change in the industrial composition of EPZ firms have increased the demand for relatively skilled male workers. And rising wages have attracted more men.

The expansion of Madagascar's EPZ has a broader potential impact, which includes spillover effects to other sectors of the economy. To export duty-free to the United States, Madagascar must now source the cotton and other raw materials that go into its garment production either locally or from AGOA-eligible countries. This will be good for Madagascar's cotton sector, and an integrated cotton mill already in operation could provide the necessary inputs.

Source: *IMF 2003b; Glick and Roubaud 2004.*

EPZs can help increase exports and attract FDI only if they are embedded in an outward-looking strategy of development. The long-term aim should be to reduce distortions that limit competitiveness in the whole economy. Then the export incentives meant to compensate for these distortions in the EPZ will no longer be needed (ADB 2004). This approach will also help to integrate EPZs better into the domestic economy.[18]

Target investment in labour-intensive sectors

Most African countries pursue policies to attract FDI, if with limited success. Although the rate of return on FDI is higher in Sub-Saharan Africa than in other regions in the world, there is evidence of systematic bias against Africa because of a high perception of risk (World Bank 2002). Consistent with this bias, FDI to Africa is systematically lower than would be predicted by the fundamentals (Jaspersen, Aylward and Knox 2000). Useful tools to change this bias can be marketing the locational advantages of African countries and correcting a poor image through independent country ratings.[19]

Some of the East Asian globalizers managed to kick-start their industrialization by targeting specific sectors for learning-by-doing. But given the speedy changes in technology and the global economy, the risks of targeting have increased. And, the fallacy of composition suggests that if many countries see the same sector as lucrative, competition will intensify, limiting the benefits. Rather than target specific sectors, the overall environment for investment, and especially for upgrading technology, should be improved (Fosu 2004).

"EPZs in Madagascar meant more jobs for women"

Investment promotion agencies attract foreign investment in labour-intensive sectors expected to have a long-run comparative advantage.[20] For example, tax incentives could increase with labour intensity (Fosu 2004). And to overcome information asymmetries, feasibility studies for these sectors can be provided to potential investors. But such support measures are secondary to a conducive investment climate. To work, they need to be precise transparent and predictable–and their administration streamlined (UNCTAD 2000b).

It is not enough to attract FDI. More attention should go to domestic firms, which need support to increase productivity and product quality through the adoption of new technologies (UNECA 2005). Instead of using a pick-the-winner strategy for providing business support, it would be better to select firms with strong backward and forward linkages to the rest of the economy, increasing the externalities from technological upgrading. One example of this approach is to target the packaging sector as a crucial input to agricultural processing industries. In many African countries, most packaging material is still imported.

It is also imperative to strengthen the institutional capacity of governments and administrations to design appropriate macroeconomic and other reform policies, as well as provide essential public goods and services. This includes improving (or starting) the policy dialogue between government, the private sector and civil society, to help build consensus on long-term strategies and avoid frequent policy reversals.

Linkage-intensive industries create spillover effects

To enable a larger share of the population to benefit from globalization, African governments should promote trade and attract nonmineral FDI in linkage-intensive sectors. These linkages could be through demand for local products, through the supply of products and services to local firms and through knowledge spillovers.

Promoting linkages is not easy. The willingness of foreign firms to create and strengthen local linkages can be influenced by government policies addressing relevant market failures. For instance, foreign firms may be unaware of the availability of viable suppliers. African governments should address such market failures without imposing domestic content requirements, which tend to discourage FDI (UNCTAD 2004c). The linkage programmes should focus on the competitive needs of domestic enterprises, including private and public support services as well as skills and technology upgrading (UNCTAD 2001).

Spillovers of knowledge and management skills to local firms are among the most critical benefits of FDI for host countries. Policies facilitating this process have a greater likelihood of success. In Tunisia the government pays up to 50 per cent of the training costs in connection with technological investment (WTO 2002).

Links between foreign and domestic firms tend to change. Initially foreign affiliates mainly import inputs from overseas suppliers with whom they have strong ties. As they get to know their new environment, they tend to diversify supplies in the host country. Success depends on the ability of domestic suppliers to deliver quality products and services. Sometimes foreign firms provide support to local suppliers to help them meet the required standards. Another possibility is for them to induce their traditional suppliers to invest in the host country (Lall 2002).

For forward linkages, agroprocessing is of special interest because it is one of the most linkage-intensive industries in developing countries. It generates demand for perishable agricultural inputs, such as milk and vegetables, which have to be sourced locally. And because it is labour-intensive, agro-processing will improve labour markets (ADB 2004).

In Vietnam, for example, Unilever built partnerships with local suppliers of raw materials and packaging materials, offered financial support and shared knowledge, while getting access to higher quality inputs (Box 6.4).

Another linkage-intensive sector with good potential in Africa is tourism. In 2003 travel receipts increased by 25 per cent, more than twice as fast as global travel receipts. North Africa hosts nearly two-thirds of tourists visiting the continent, Southern Africa nearly a third. The World Tourism Organization forecasts 5 per cent annual growth for Africa until 2020, above the world average of 4.1 per cent. Africa is projected to be the destination for 47 million tourists in 2010 and 77 million in 2020. The highest growth rates are in Central, Southern and East Africa, while West and North Africa have moderate growth rates (World Tourism Organization 2004).

Tourism can generate direct and indirect jobs in hotels, travel agencies, transport firms, restaurants and national parks and monuments. It is labour-intensive, with 3.3 employees per hotel room in Africa, compared with 0.5 in Europe and 1.7 in Asia (World Tourism Organization 2000). Tourism projects can be of particular interest for coastal regions, insular territories and vulnerable rural or mountainous regions that have suffered from the decline of traditional activities and tourism is one of the rare development opportunities.

Because a major part of African tourism depends on natural and cultural resources, which need to be protected, Ethiopia, Morocco, Namibia and Senegal are introducing eco-tourism policies, certifications and labelling systems (UNECA 2003b). Local people must be involved in tourism activity, making them beneficiaries of the sector while protecting their traditions and lifestyles. This could be achieved, for example, through the support of local craft manufacturers and food and service producers.

A more advanced linkage is a science and technology park, established to accommodate high-technology firms with supporting infrastructure. The parks are on or close to a university research campus to promote the cross-fertilization of ideas between entrepreneurs and researchers, enabling academic knowledge to be applied commercially. Several parks have business incubation facilities on site, providing below-market rents, shared services and technical assistance to new technology businesses. A successful example: the Science and Technology Park in Tunis (UNIDO 2003).

Box 6.4

Unilever in Vietnam: building partnerships with suppliers

Unilever started operating in Vietnam in 1995 and by 2000 had total sales of over 170 million, with many of its brands in leading positions. Its relationships with its suppliers are vital, because they account for 40 per cent of the company's production volume, 20 per cent of its raw materials and 87 per cent of its packaging materials.

The company-supplier relationship is symbiotic: both parties need one another to succeed. Unilever supports its suppliers through training and technology transfers. It also offers them financial support to upgrade their equipment. In turn, the suppliers provide the company with sophisticated packaging or with materials that meet exact specifications.

Business growth at Bicico—a supplier of detergent paste—have developed favourably. Bicico's production volume grew from 3,000 tons in 1996 to 23,000 tons in 2000, and the number of employees from 12 to 250. Quang An 1 became a supplier of plastic bottles for Unilever's factory in Hanoi in 1997. It increased its business with Unilever sixfold in three and a half years. And its improved capabilities enabled it to win new business from other foreign and local companies.

Source: *UNCTAD 2001; Unilever 2001.*

> *"Linkage-intensive, agro-processing has a spillover effect"*

Regional integration can be a stepping stone to global markets

One major obstacle for most African countries is their small markets, preventing firms from exploiting economies of scale, not attracting market-seeking FDI.

Regional integration could help African countries in diversifying exports and pooling scarce resources to overcome development thresholds. For example, the Southern African Development Community (SADC) countries are sharing knowledge on agricultural research and training, which should increase productivity. The Economic Community of West African States (ECOWAS) has introduced the ECOWAS Passport, which facilitates free movement of people and thus increases the scope for cross-border linkages between enterprises (UNECA 2004a).

To make regional integration a stepping stone for global integration, however, the memberships in overlapping regional communities need to be rationalized, protocols ratified faster and secretariats strengthened. Furthermore, the private sector, which has to be the main creator of new jobs, should be involved more in identifying, formulating and implementing integration policies and programmes. Firms that operate across borders will benefit from rationalizing rules of operations across countries (UNECA 2004a).

For landlocked countries regional integration is crucial to secure access to international markets. This is true for physical infrastructure of roads, railways and ports, which have to link the member countries, and for administrative coordination. The SADC and the Common Market for Eastern and Southern Africa (COMESA) now have common licences and third-party insurance guarantees across countries, substantially reducing transport costs. Streamlining bureaucratic procedures and reducing paperwork could reduce border delays, which will reduce transport costs and the need to keep large inventories (Faye and others 2004).

Trade support measures could also be provided on a regional basis. For example, information on international trade policies and market developments is essential for entering new export markets (ADB 2004). Because the comparative advantages for countries in a geographic region tend to be similar, regional cooperation can avoid a duplication of efforts in collecting this information. Current information on international health, safety and environmental standards is also important for exporters in different countries.

Regional networks of trade support institutions should be strengthened to provide: trade policy information, commercial intelligence, export promotion and marketing, product development, financial services and training. Because no single institution can provide all these services for different sectors effectively, a regional division of labour could benefit all participating countries (OECD 2001).

New opportunities for women through globalization

Trade and FDI can create new opportunities for women, the most affected by underemployment and poverty in Africa. Evidence from Indonesia shows that foreign-owned agricultural enterprises employ a higher share of women and pay higher wages than do domestic-owned plantations (Siegmann forthcoming).

Over the last decade high-value agricultural exports have created substantial opportunities for wage employment and self-employment, with women particularly able to capitalize on the new opportunities. In Africa high-value agricultural exports are female-intensive industries, with women dominating most aspects of production and processing (Dolan and Sorby 2003). In Zimbabwe women occupy 79 per cent of the employment in these industries (Box 6.5) (Davies 2000).

Job security for women has two important outcomes: it raises the standard of living for their families, and it gives them more freedom of choice.

Box 6.5

Three examples of how women benefit from globalization

Zimbabwe has diversified its exports by developing a dynamic cut-flower industry. In 2000 the country was the second largest exporter of cut flowers from Africa, after Kenya, and the third largest in the world. Although affected by the current economic decline in Zimbabwe, the sector is still vibrant. The rapid expansion of the industry has not had a significant impact on total employment, but it has influenced the composition of the workforce, both in terms of seasonal versus permanent and in terms of male versus female workers. Growers were encouraged to promote job security by making all workers permanent, increasing the number of permanent female employees. About 27,000 Zimbabweans were employed in floriculture at the end of the 1990s, 79 per cent of them women.

In West Africa, particularly in Burkina Faso, women have taken advantage of the burgeoning international interest in the environment and "natural" products to export shea butter, or karité, the natural ingredient in skin moisturizers, lip balms and eye creams marketed by many exclusive cosmetic lines in the United States and Europe. Karité is one of the few commodities under women's control in Sahelian Africa and ranks third in Burkina Faso's exports.

In Senegal the number of women working in information and communication technology community services has increased in the last two years, with 35 per cent of the cyber cafes and telecentres owned by women. In Côte d'Ivoire, The Gambia, Guinea, Morocco and Nigeria women have started running cyber cafes, telecentres and telephone shops. Moreover, in the data processing enterprises mushrooming in South Africa, Ghana and other countries, a large share of employees are women, giving them more income to improve their living conditions.

Source: *Davies 2000; EIU 2005; Carney and Elias 2004; Diop 2003.*

> *High-value agricultural exports create opportunities for wage-employment*

For women to really share the opportunities of globalization's decent jobs and higher wages, African governments should increase their efforts to improve the female literacy rate, only 53 per cent in Sub-Saharan Africa, compared with 69 per cent for African men and 74 per cent for women worldwide. In Sub-Saharan Africa only 23 per cent of girls were enrolled in secondary education between 1997 and 2000, compared with 29 per cent of boys.[21] The rest can neither read nor write the foreign languages used on computers. Even the majority of those who have been to school do not take science, engineering or computer sciences (UNICEF 2004; UNECA 2005), discouraging their employment in technologically skill-intensive sectors.

How to mitigate the negative impact of globalization?

African governments need to cushion the most vulnerable groups against the adverse effects of globalization. These include laid-off workers in import-substituting industries, especially low-skilled workers, and poor people, who often lack assets to invest in productive activities.

Ways to mitigate the adverse effects of globalization requires providing basic social security, retraining workers for growing sectors and improving access to education and credit. In addition, institutions need to be modernized to improve information flows in the labour market and increase contract enforcement. This will enable African countries to participate in global value chains. Moreover, the links that migrants can establish between their country of origin and their country of residence can be useful for integrating into the world economy.

Globalization might increase risks for firms and workers

Households employ different strategies to deal with falling incomes. One important strategy is for household members to migrate to locations with better employment prospects or lower costs. Households also postpone spending on durable goods and dissave by selling gold and other assets, usually owned by women. And they may sell such productive assets as land or livestock or reduce spending on education, especially for girls, cementing gender inequality.

Poor households cannot use many of these strategies, so the adjustment costs are especially high for them (Winters, McCulloch and McKay 2004). They are not covered by social security, which typically includes only state employees, and group insurance works better among people slightly better off.

An increase in world market prices of agricultural products might not benefit the rural poor living in remote areas (Winters, McCulloch and McKay 2004). Why? Because in many African countries, with high transport costs and inefficient distribution systems, the transmission of changes in border prices is limited. Globalization might thus benefit only coastal areas and capitals, increasing regional disparity and inequality within the country.

Most South-East Asian countries, as well as China and India, achieved high growth and a substantial reduction of poverty in parallel with deeper integration in global markets. But urban poverty fell much faster than rural poverty, increasing inequality even before the financial crisis. In Thailand the gap between the highest per capita income region and the lowest increased from about seven times in 1982 to nine times in 1992. In China the massive increase of FDI inflows and exports was associated with a dramatic increase in income inequality, due to segmentations in labour and capital markets (Zhang and Zhang 2003). A crucial question is whether the socioeconomic system would enable the initially disadvantaged regions to catch up, avoiding otherwise serious social and political consequences (Pangestu 2001; UNCTAD 2004b; Srinivasan and Wallack 2003). Improving rural infrastructure clearly is one remedy for these problems (Fosu 2004).

The lack of property rights enforcement also limits the gains from globalization in Africa (chapter 7). And the barriers to formalization tend to limit firm size. So firms in the informal sector cannot benefit from increased export opportunities, and they rarely enter supply arrangements with multinationals (Hoekman and Javorcik 2004; ILO 2004a). Because the urban informal sector mainly produces nontradables, workers in this sector have little opportunity to gain from globalization. The rural informal sector is involved in producing export products, but the participation in global value chains is becoming more competitive (Fosu 2002).

Governments play an important role in mitigating risks of globalization

For many commodities produced by African countries, world market prices have been relatively volatile, with the prices of several of the commodities declining.[22] For example, if a competing country introduces a product of higher quality, prices for the normal quality product can drop suddenly, or it may no longer be marketable. This was the case for pineapples: Costa Rica introduced a new variety with a longer shelf life and African producers lost their market share.

Globalization can weaken the bargaining power of workers through increased competition. In particular, low-skilled workers employed in sectors where competition is based on cheap labour are likely to suffer from downward pressure on wages. Because of the high unemployment in Africa, real wages are downwardly flexible,[23] and it is more likely that increased demand for low-skilled labour would increase employment but with minimal increase in wages. This will reduce poverty only if the wage in the affected sector lies above the poverty line (Winters, McCulloch and McKay 2004; Cornia and Court 2001). Because women on average have lower skills than do men in most African countries, they will be most affected by these developments (Oostendorp 2004). To overcome low wages, better education or broader training is required.

The greater competition with globalization requires more flexibility of both workers and firms, for faster delivery and for producing to different specifications for different markets. This flexibility can be achieved through technological and management changes but also through forms of employment that are temporary, part-time, casual or contract-based. In developing countries larger enterprises keep only a small core labour force of mainly highly skilled men and respond to changes in market conditions by subcontracting labour-intensive tasks to smaller firms,[24] which have less favourable working conditions, especially for women. In the cultivation of horticultural products, women are often concentrated in temporary and seasonal employment (Barrientos, Kabeer and Hossain 2004).

Macroeconomic risks of globalization

Openness to global capital markets can bring greater volatility in domestic financial markets. If capital inflows are large and short-term, the risk of abrupt reversals can reduce financial stability and job security. For example, the massive outflow of private funds from East and South-East Asia coincided with a rise in unemployment from 5.3 million people in 1996 to 18 million in 1998 (Carr and Chen 2004). In Indonesia and Thailand the workforce was affected mainly through falling real wages and underemployment rather than open unemployment. Younger, less educated and informal sector workers were most affected. Real incomes in Thailand dropped most for people who had not completed primary education. To avoid these negative impacts African governments need to liberalize their capital accounts and financial sectors very carefully, use compensatory policies and encourage competition in domestic financial systems (box 6.6).

There is no immediate risk that the kind of financial crisis that hit East Asia towards the end of the 1990s could also affect Africa. Low-income countries have received only 1 per cent of the total portfolio investment in 2002, compared with 6.9 per cent for China and India (Gunter and van der Hoeven 2004). In addition, many of the Asian countries have recovered quickly, suggesting that the negative impacts can be temporary. A complementary regulatory framework and an appropriate sequencing of liberalization should be used to reduce the risks (Fosu 2004).

The ability of governments to raise taxes might decline due to the greater mobility of resources. And because capital and skilled labour are relatively mobile, their taxation has become even trickier. If low-skilled workers are taxed too much, they will stay in the informal sector (Srinivasan and Wallack 2003).

Globalization might reduce governments' ability to finance social services. One option for governments is to harmonize taxation across regions so that investors face similar tax costs in countries with similar conditions. In addition, due to the greater mobility of the more educated, societies face elevated capital losses in tertiary education subsidies. So it might be advisable to direct government spending towards less mobile factors, such as infrastructure and primary education (Fosu 2004).

Social protection for workers and flexibility of labour markets

To address the risks of globalization, workers require social protection that would reduce the adjustment costs. This includes some form of protection against unemployment, which now depends largely on having a job in the formal sector.[25] Of special importance are retraining programmes that facilitate labour mobility across sectors (Fosu 2004).

Safety nets would reduce adjustment costs and possibly have some dynamic effects. Providing poor farm households with protection against income losses, for instance, would allow them to take on riskier but higher return activities and thus raise their income. In the absence of credit markets a redistribution of resources from the rich to the poor could

Box 6.6

Mitigating risks associated with financial globalization

During the past few decades financial markets around the world have become more interconnected. Global gross capital flows in 2000 amounted to $7.5 trillion, a fourfold increase over 1990. The globalization of finance has brought considerable benefits to national economies and investors, but it has also changed the structure of markets, creating new risks and challenges for market participants and policymakers. Because financial globalization is inevitable, African countries should design appropriate policies to harness its benefits and minimize the risk of financial crises.

> *Retraining is key to cross-sectoral mobility*

Precede capital account liberalization with banking sector liberalization

African countries should pay more attention to the development of the domestic financial sector, which can be opened to foreign participation without necessarily opening the economy to capital flows. At the very least, financial liberalization should precede capital account liberalization, and African countries should contend with liberalizing the financial sector for an extended period before opening their capital accounts. China has achieved some good results with this strategy.

Use compensatory policies

A number of Asian and other emerging economies have instituted a range of compensatory policy changes that would help them avoid or respond more effectively to capital flow reversals. The most important issue is exchange rate flexibility and large increases in holdings of foreign reserves.

Introduce interim regulation

Successful capital account and financial sector liberalizations entail multiple stages that usually call for different sets of regulatory approaches before, during and after. Failure to tailor these regulatory approaches may cause a country to endure unnecessary pain in the short term or even retard its move towards the desired state. The imposition of fairly inflexible rules, such as the elimination of all capital controls, is surely misguided.

Encourage competition in domestic financial system

Policymakers should allow some tinkering at the margins and encourage competition in the domestic financial system from foreign banks and other financial institutions. African countries should keep a close eye on the composition of capital flows. If these flows are short term, intermediated through banks and denominated in foreign currencies, they are much more likely to lead to a financial crisis than if they are long term, denominated in domestic currency and in the form of FDI.

In short, the risks associated with financial globalization are very real, and African countries that open their financial markets need to develop strong financial systems and sound economic and financial policies.

Source: *Häusler 2002; IMF 2003a.*

increase the average return to investment and thus stimulate growth (Smith and Subbarao 2003; Srinivasan and Wallack 2003).

Adapting to globalization requires flexible labour markets, but the flexibility needs to be carefully designed. High obstacles to hiring and firing reduce employment incentives and might lead to higher capital intensity, but longer term contracts can provide higher incentives for workers to improve productivity. Minimum wages, if set at a reasonable level, can provide stability and foster the commitment of workers, increasing productivity and reducing poverty at the same time (Cornia and Court 2001; Fosu 2004).

Increasing the opportunities for women in higher value jobs requires addressing their double workload. In most developing countries, especially in Africa, women bear the bulk of reproductive and household tasks, and participation in the labour market increases their workload considerably. Opting out of work to care for children reduces the returns to education and training and thus limits the potential gains from globalization for women. Educating girls can help countries mitigate these problems, for instance by expanding the facilities for childcare (Siegmann forthcoming).

Value chains increase competition among workers worldwide

Demand for exotic fruit and fresh vegetables is expected to grow in industrialized countries, providing opportunities to diversify agricultural production in Africa and to link poor people to global market. But in high value consumer goods–such as garments, leather goods, electronics and horticultural products–the markets are dominated by large brand name companies or retailers, which source their products through a network of global suppliers.

The tight management of these global value chains by multinationals requires products of higher quality and more reliable supply, which small firms in African countries might not be able to deliver. Most retailers develop close relationships with a group of preferred suppliers and integrate their supply chains ever more tightly, making the entry of new suppliers difficult (Dolun and Sorby 2003).

Suppliers must also comply with strict technical and environmental standards to remain part of the supply chain. If not, large retailers will shift to other countries. For example, the near complete stoppage of EU fish imports from Tanzania in 1997/98, due to problems with phytosanitary standards, reduced the incomes of fishers by 80 per cent (Henson and others 2000).

To increase the benefits to workers from the production of high value agriculture, therefore, it is essential to link smallholders to international markets (Chapter 4). In Kenya increased air travel for tourism reduced the cost of airfreight to Europe and provided transport opportunities for small quantities of fresh products. Tourism also increased local demand for high quality fruit and vegetables and provided an outlet for produce not meeting export standards. Because the horticultural sector is too diverse and too fast-changing for a direct

involvement of the state, governments should allow a variety of private institutions and marketing arrangements, as in Kenya.

To help small farmers participate in value chains for export, governments should support farmer groups and joint irrigation schemes. And to facilitate the adoption of innovations, they could provide market information and extension services and establish standards. Probably the most important role for government is to develop new institutional arrangements that would facilitate the enforcement of contracts between farmers and exporters. These measures can reduce the risk in the production of high value vegetables for both farmers and exporters and increase the participation of small-scale farmers (Minot and Ngigi 2004).

For sectors where smallholder production is not feasible, piece-rate wages can provide workers with higher incomes to lift them out of poverty, particularly in packing fruits and vegetables (Dolan and Sorby 2003). Because such wages increase incentives for workers, the costs of supervision for the enterprise are reduced, benefiting both firms and workers. But in many African countries, piece-rate payment schemes are prevented by strong unions or labour laws, which need to be reconsidered (Chapter 7).

> *Piece-rate payment schemes are often stopped by unions*

Using the African diaspora to create employment

The migration of skilled workers from Africa to industrial countries increases the scarcity of skills and reduces the returns of government spending on education. Ways need to be found to harness the potential contributions of international migration for sustainable development. The main channels are remittances, investments, skill transfers and diaspora networks (IOM 2004).

Worldwide remittances have become the second largest source of financial flows after FDI. Growing fastest, they are the most stable capital inflows into developing countries, reducing poverty and vulnerability. The amount of reported remittances has increased from $8.6 billion in 1990 to $11.1 billion in 2002. Africa received about 15 per cent of global remittances, with the bulk going to North Africa. For Sub-Saharan Africa as a whole, remittances contributed 1.3 per cent to GDP in 2002, but for some countries the contribution exceeds 10 per cent. With a significant part remitted through informal channels and therefore unreported, it is estimated that actual remittances are at least twice the official figures (World Bank 2004; Docquier and Rapoport 2004).

So far around 80 per cent of these remittances are used for consumption and schooling. But they can also contribute to upgrading infrastructure (Box 6.7). Even if remittances are used for consumption-smoothing, they increase the demand for local products through multiplier effects. They also increase foreign exchange reserves.

Worldwide remittances to Africa are second after FDI

Box 6.7

Remittances for infrastructure in a Senegalese village

According to government estimates, the money remitted every year in Senegal exceeds €600 million, 12 per cent of Senegal's GDP and more than its receipts of official development assistance.

The remittances cover basic daily needs and contribute to the development of poor regions, as in Waoundé, a small Senegalese village. Migrants finance most of the village's collective projects, such as the post office, water pumps, a water tower, a community clinic and a school renovation.

Waoundé is isolated six months a year during the rainy season. Rivers overflow and block the only road leading to it. In 2001 the French government promised to build a new road and a bridge but it required a small financial contribution from the locals. They called on migrants, who paid without hesitating.

Source: *L'Express 2004.*

Remittances are now sent more through formal channels, particularly where the exchange rate regime has been liberalized, as in Uganda. But the tightening of regulations in industrial countries that are intended to fight money laundering and financing of terrorist activities makes the banking system less accessible for migrants and increases the cost of transfers (Sander and Maimbo 2003).

Some African countries have schemes to attract remittances into the formal banking sector and provide incentives for investing them. In Morocco more than 60 per cent of remittances are sent through Groupe Banques Populaires, with branches in Europe. Most emigrants transfer their remittances through the basic checking account, and the relative in Morocco can withdraw money in local or foreign currency at no cost. The bank also provides subsidized credit for real estate and business investments.

Migrant networks should be regarded as an asset and ways to better exploit them should be explored. Because contract enforcement across borders is especially difficult for small and medium enterprises, ethnic networks can foster cross-border trade and investment links. Migrants can also facilitate the flow of information and knowledge and contribute to technological progress.

Return migrants, with their new skills and attitudes, can help to expand employment by engaging in the private sector. They have accumulated savings as well as skills, experience with the business culture in industrial countries and links to those countries–a good basis for starting an export-oriented business. A growing number of Tanzanian women have returned from abroad and started various businesses, including Tanzanite Jet Services, which specializes in meeting the technical and bureaucratic needs of visiting private jets.

A strategy to encourage the return of skilled emigrants should be incentive-based, as in Tunisia (Mesnard 2004). Without an improvement in the business climate that allows

adequate returns, few migrants will return.[26] Several countries, such as Mali and Sudan, are providing tariff exemptions for imported goods, favourable exchange rates and financial support for skilled migrants who want to return home. Host countries could also improve incentives by withholding social security contributions until a worker returns home, with savings that could be used to set up a business (Rodrik 2005).

Conclusions

Globalization offers many opportunities for development but fewer guarantees. To benefit from globalization African countries need to improve their competitiveness and efficiency through policies that favour trade and FDI, while minimizing the risks caused by factors that are outside their control.

Employment is sustainable only when productive activities are competitive in the long term. This can be achieved through productivity enhancements, so that competitiveness is based not just on low costs but also on greater flexibility and stronger links within the economy and across borders (ECLAC 2002). Key areas for improving productivity are upgrading skills and infrastructure. Deeper regional integration can also increase efficiency and improve economies of scale. Direct support for nontraditional exports and labour-intensive investments has to be targeted very carefully to set the right incentives.

To facilitate the adjustment process induced by globalization, priority should go to reducing market failures—through long-term finance to small and medium firms, through training (especially technical and managerial) and through the provision of information. These services should be provided by governments in cooperation with business organizations (Hoekman and Javorcik 2004).

Globalization sets trade priorities for PRSPs

One way to reap globalization's benefits in employment and poverty reduction and reduce the associated risks would be to set priorities for trade and private sector development in Poverty Reduction Strategy Papers. Although recent Poverty Reduction Strategy Papers are more growth-oriented and include a range of trade objectives, the links between these goals and the priority actions need to be strengthened. Only 8 of 21 countries with Poverty Reduction Strategy Papers explicitly link the creation of employment to global or regional integration (chapter 3). The labour intensity of export production and FDI, the links to the domestic economy and the dynamic comparative advantages need to be taken into account (UNCTAD 2004c).

Endnotes

1 For an analysis on how to reshape the governance of globalization on the international level to work for all the world's people, see ILO (2004a).

2 Ethiopia, Ghana and Zambia witnessed rapid growth in manufactured exports but from a low level, compared with Mauritius, South Africa and Zimbabwe. In 2003 Africa's trade grew faster than the world average in manufactures, agriculture and especially commercial services (WTO 2004).

3 Migration also increased, though at slower rates than FDI. This implies that the growth in trade did not come at the expense of reduced factor mobility (Faini 2004).

4 The distribution of inflows was broader based than in previous years, with 22 countries receiving more than $0.1 billion in FDI, including several small countries and least developed countries. But the bulk of the increase went to the oil sector, especially in Equatorial Guinea. In addition, a few projects accounted for a large share of the increase, such as a merger in the tobacco sector in Morocco worth 1.7 billion (UNCTAD 2004c).

5 U.S. foreign affiliates with data available doubled employment from 35,100 in 1990 to 74,100 in 2002, mainly in food processing and transportation equipment. These figures might appear small, but because U.S. FDI to Africa accounts for only around 20 per cent of total FDI to Africa, this gives some indication for future prospects (Mataloni 2004).

6 Figures about migration and remittances are generally underestimated because only official flows are recorded, whereas a large number of migrants are illegal, and remittances are transferred through informal channels.

7 For a more detailed discussion of the causes and effects of skilled migration, see chapter 2.

8 Natural resources—not unskilled labour—are the relatively abundant factor of production.

9 The static effects of trade and FDI on wages and employment differ, while their dynamic effects go mainly in the same direction.

10 However, if specialization according to static comparative advantage leads to a concentration in sectors with low productivity growth, trade liberalization might restrict productivity gains and growth potential. So the temporary protection of dynamic sectors might be beneficial where a country expects to have a comparative advantage after a learning process. (Rodriguez and Rodrik 1999).

11 Greater competition in import substitution sectors can also reduce output and therefore capacity utilization, pushing up higher costs. For co petition to increase productivity, barriers to entry and exit both have to be reduced (Hoekman and Javorcik 2004).

12 Trade openness could increase long-run growth through more diffusion of technology, increasing economies of scale in larger markets, higher incentives for capital accumulation and reductions of rent-seeking activities, among others. But there are also a lot of disagreements and contradictions in the vast literature on trade and growth. For example, it is very difficult to distinguish between the effects of trade liberalization and other reforms. The measurement of trade liberalization is itself tricky. And least developed countries have been excluded from many analyses, due to a lack of data (Berg and Krueger 2003).

13 Economic integration is composed of trade, FDI, portfolio capital flows and income payments and receipts, all given as share of GDP. Personal contacts consist of international telephone traffic, international travel and tourism, and transfer payments and receipts. Technology transfer comprises Internet users, Internet hosts and secure Internet servers relative to population (Heshmati 2004).

14 It is also likely that trade liberalization will not have a big effect on poverty reduction in African countries with high inequality. Trade liberalization increases growth but does not have a significant impact on inequality. The growth would mainly reach the relatively rich (Fosu 2005).

15 Because transport and energy infrastructure have been covered in detail by Economic Report on Africa 2004 (UNECA 2004b), the recommendations here focus on telecommunications.

16 By 2004, 36 African countries had established a separate regulatory authority, 24 of them autonomous in their decisionmaking (ITU 2005).

17 Although World Trade Organization rules generally restrict the use of export subsidies, almost all African countries are exempt from this rule because their per capita GNP is below $1,000 a year (UNCTAD 2003b).

18 Because domestic suppliers of intermediate inputs have to pay tariffs on their inputs, it is difficult for them to compete with foreign suppliers. This effect adds to the isolation of EPZs from the rest of the economy.

19 The financial sector and labour market regulations are often not conducive, either (chapter 7).

20 For the garment and textiles industry the phasing out of the Agreement on Textiles and Clothing at the beginning of 2005 is increasing the competition from Chinese producers tremendously. Therefore countries such as Morocco and Tunisia, where textiles and garments are the most important export products, are likely to suffer production and export losses, with negative impacts on their labour markets (UNECA 2005).

21 In North Africa, however, the same numbers of girls and boys are enrolled in secondary education.

22 On average prices for food fell by 12 per cent between 1991 and 2002 and those for agricultural raw materials by 28 per cent (UNCTAD 2003a). For nontraded agricultural products, price fluctuations due to weather conditions can also be extreme, aggravated by the lack of storage facilities and credit constraints. In Ethiopia the domestic price of maize dropped by 60 per cent after a bumper harvest in 2001/02, adding to the negative effects of the drought in 2003 (Ethiopian Economic Association 2004).

23 Because inflation has been fairly high in most African countries, real wages can decline even if nominal wages increase. In low- and middle-income countries unskilled workers' wages fall faster than per capita GDP and profits during stabilization efforts. The rise in the wage share during the subsequent recovery tends to be slower than the previous fall (Cornia and Court 2001).

24 The opening of formerly protected sectors can result in a deterioration of working conditions. In Morocco firms shifted from permanent employees, who enjoyed a number of benefits, to lower paid temporary workers. The share of temporary employment in manufacturing increased by nearly 20 percentage points in six years (Rama 2003).

25 Health benefits are often linked to employment, so the loss of a job also reduces the access to healthcare.

26 For a detailed discussion on how to improve the business climate and foster entrepreneurship, see chapter 7.

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