

# Social Impact of Globalization

Argentina

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## General objectives of the report



- To discuss the concept of globalization, transcending visions focused on economic aspects alone.
- To identify the main societal challenges posed by globalization.
- To review the main sources of tension created by globalization in LDCs and to point to the impacts thereof on the labor market, equity, and poverty.
- To review the role of national public policies, coordination among them, and their potential for autonomy.
- Based on reflections on the Argentine case, to identify policy guidelines that might assist in taking advantage of globalization and mitigating its negative impacts.

# Views and intensity of globalization (i)



- **Extreme globalization:**

- Characterized by total integration of a country into the international economy, leaving no room for national public policies.
- “Straitjacket” (Friedman): Integration should be total and countries seeking to protect themselves from globalization will not survive.

- **Policy recommendations:**

- Deepening of globalization: national policy confined to the institutional changes necessary for further opening

# Views and intensity of globalization(ii)



- **Moderate globalization:**

- Even in a context of integration and globalization, in this concept, autonomy is permitted and considered viable to enable countries to implement their own policies based on their own specific characteristics, their degree of integration in the international economy, the role of capital markets, etc.

- **Policy recommendations:**

- National policies jointly determine the social impact of globalization (Gunter and van der Hoeven, 2004)
- Labor institutions regain their fundamental role, even where integration into the international economy is most complete: institutions are required to ensure efficiency and equity, as well as protection of the most vulnerable groups.

## Social impact of globalization (i)



- Full exposure to international markets exacerbates macroeconomic fluctuations.
- Greater mobility of capital increases competition among low-income countries or regions.
- There is greater risk of relocation or procurement of imported inputs than in a closed economy (as a result of trade union or legal action).
- Increased globalization of systems of production => new international division of labor => pressure on costs and/or labor standards, as well as on qualifications.

## Social impact of globalization (ii)



- Increased demand for qualified workers, with ensuing impact on wage inequality, resulting from:
  - Technological change: complementarity between capital and qualified labor
  - Global production chains
  - Foreign direct investment (FDI) flows
  - China's importance in world trade
- Although globalization has impact on both job creation and elimination, the fact that these two processes occur at the same time does not necessarily mean that globalization leads to higher unemployment, especially among the least qualified.
- The negative impacts of globalization on employment are still more evident in the Latin American labor market, characterized by high levels of informal employment.

## Impacts in Latin America and the Caribbean



- Financial globalization => financial crises are more frequent in LDCs than in MDCs.
- The probability of a systemic banking crisis was ten times higher in the 1990s than in the late 1970s (ILO, 2008).
  - We were protagonists in several such crises =>Tequila [Mexico] (1994), Brazil (1999), Argentina (2001).
  - The real economy, the labor market, and living conditions were starkly impacted.
- Latin American countries are the source of much of the empirical evidence on greater inequality (Wood, 1997).
- The new externally-oriented economic growth strategy characteristic of the 1990s and further globalization of production led to an FDI boom in the region (Auer, Duncan).

# Impacts on the world of work



- We have observed that as financial globalization deepened, labor institutions and the labor market were impacted:
  - Declining importance of the minimum wage
  - Weakening of labor unions
  - Individualization of labor relations
  - More emphasis on human resource management than on labor management



## Case studies by country



- Mexico:
  - Pattern of integration in the international economy based on maquila industries: slow gains in productivity, low qualification levels, low wages
    - Greater inequality in both country of origin and receiving country (Feenstra 2007)
    - “Race to the bottom” in labor standards.
    - An erratic trend in real wages and in several sectors, the 1990s levels were never achieved.
  - Entry into NAFTA:
    - Liberalization of trade in agricultural goods: the main source of agricultural job losses (Polaski, 2003)
    - Rise in precarious employment (Salas).
- Chile: Net manufacturing jobs declined by 8% during trade liberalization. Levinsohn (1999), based on company data.
- Colombia: trade liberalization exacerbated wage dispersion. Robins (1997). Study of Colombia’s seven most important cities from 1976 to 1994.

## Case studies by country



- Uruguay: After trade liberalization, workers in sheltered sectors earned higher wages and had better working conditions than those exposed to foreign competition.
- Brazil:
  - Opening of domestic and capital markets and investment regime liberalization =>
    - »Restructurings in the quest for productivity gains.
    - »Major FDI flow with scant impact on employment, largely because foreign investment was not directed toward new productive activities (Auer, Duncan).
    - »Greater wage inequality between highly educated workers and those with intermediate levels of education (Green, Dickerson and Arbache, 2000).
  - Expansion of the Brazilian economy with social inclusion (since 2003):
    - »Change in industry behavior: large export base and 20% higher levels of employment.
    - »Export boom : mainly industrial exports from MERCOSUR.
    - »Steep rise in formal employment from 1999 to 2008 (associated policies: tax reform for small businesses, access to credit, government subsidies, oversight).
    - »Steep rise in minimum wage and other labor and social institutions.



## Focus of study

- To enrich economic analysis by incorporating different instruments, such as, inter alia, the role of institutions and complementarities among them.\*
- Organized as such, it reflects a social and political commitment.
- To afford an opportunity to consider different economic configurations and dynamics.
- Different modes of production => paths to growth and development models => civil society and political organizations.

# The Argentine experience



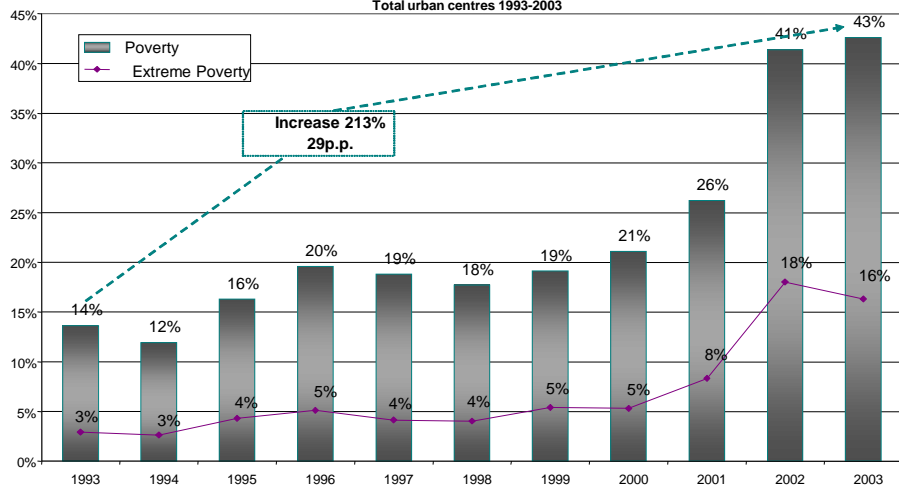
- An example of the precipitous application of different socioeconomic models
- An example of different degrees of liberalism in national policies in a global context
- Analysis of policies implemented:
  - In response to the internal dynamics of the Argentine economy:
    - Revival of and higher ranking for labor institutions.
    - Significantly more jobs and social protection
  - In response to the recent international crisis:
    - Systemic approach taken in macroeconomic, industrial, labor, and social policy

# The 1990s and the 2001-2002 crisis

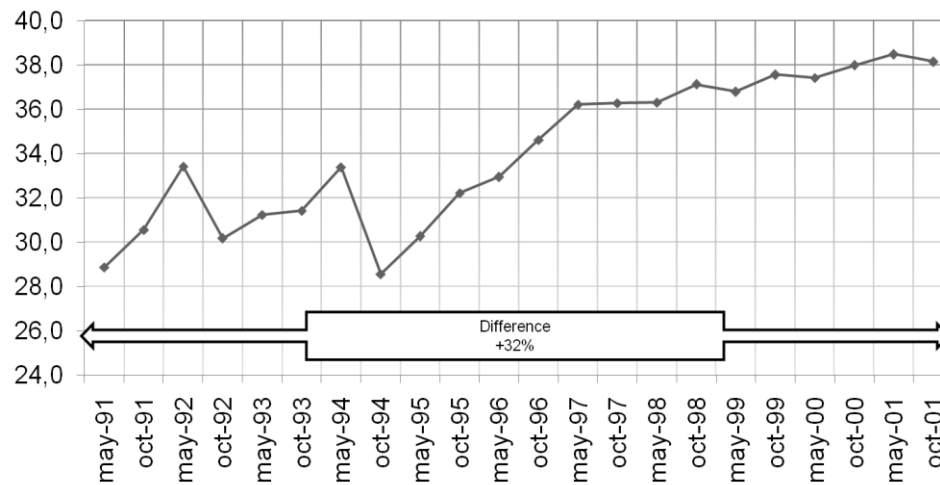


### Household poverty

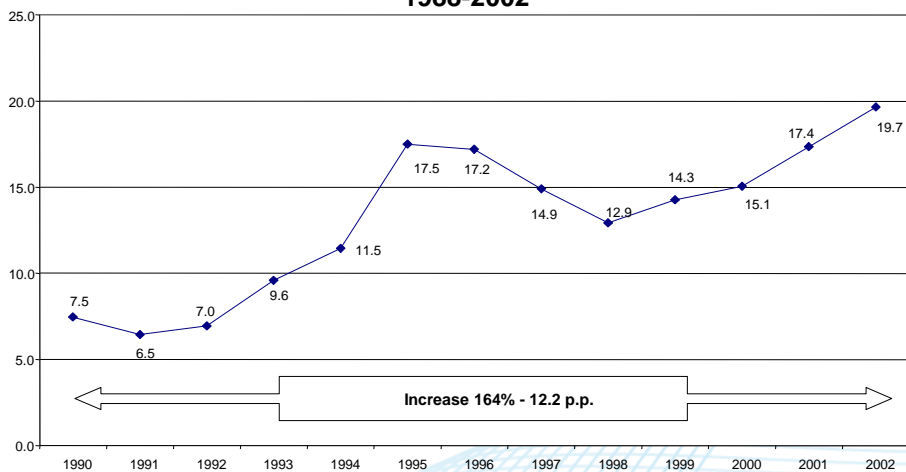
Total urban centres 1993-2003



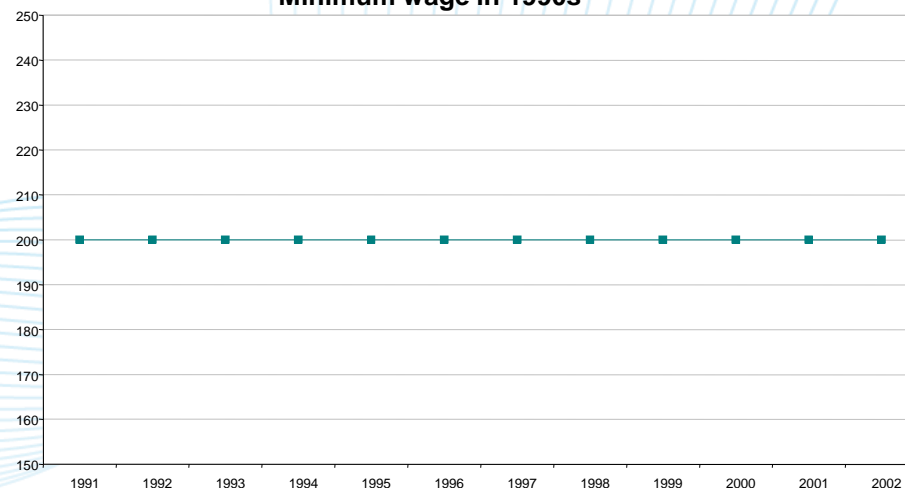
### Labour informality rate



### Unemployment rate 1988-2002

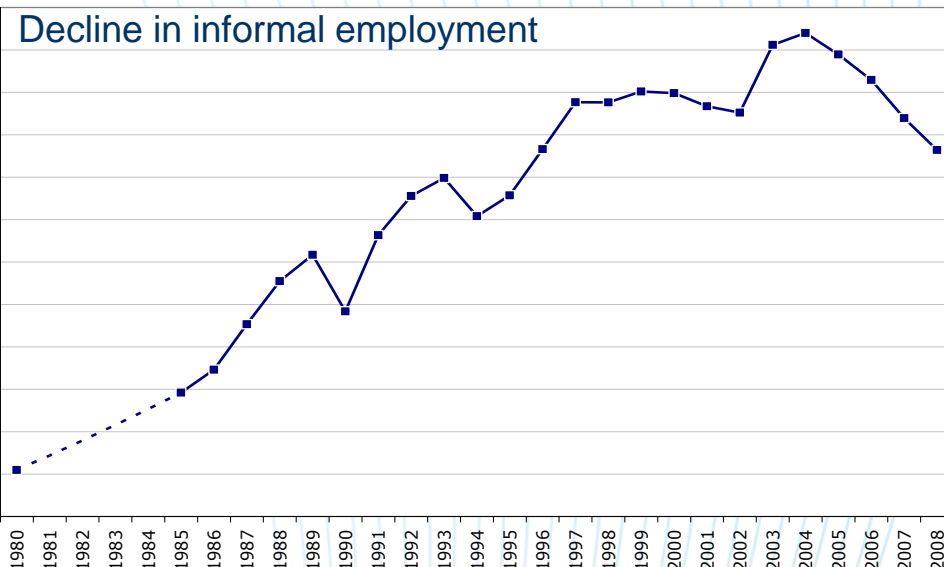
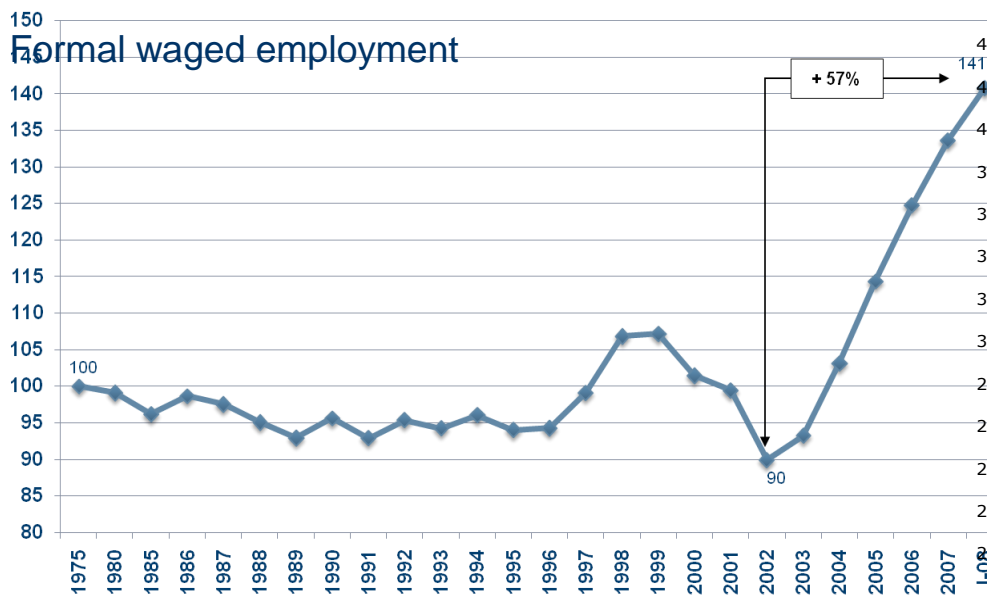


### Minimum wage in 1990s

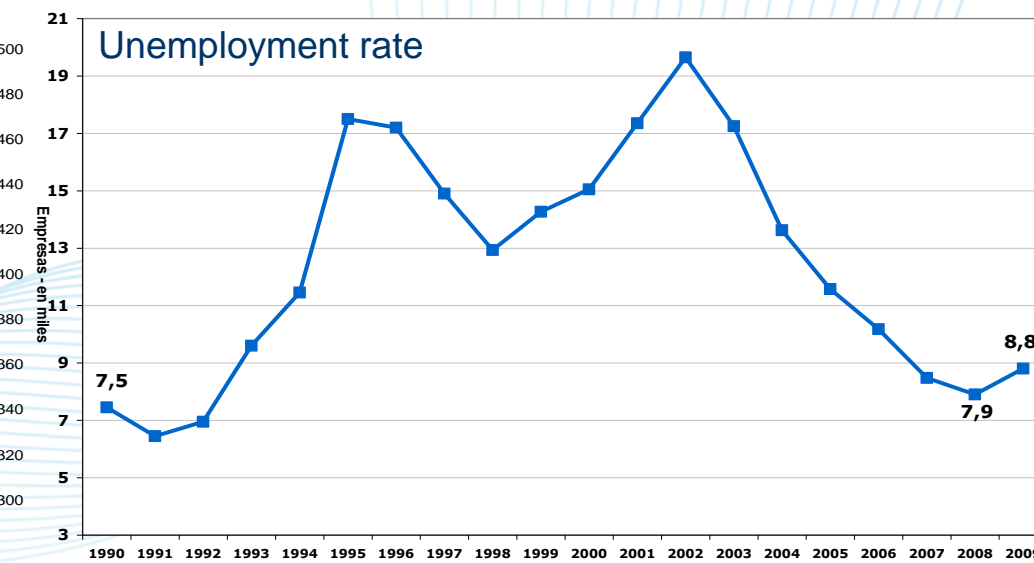
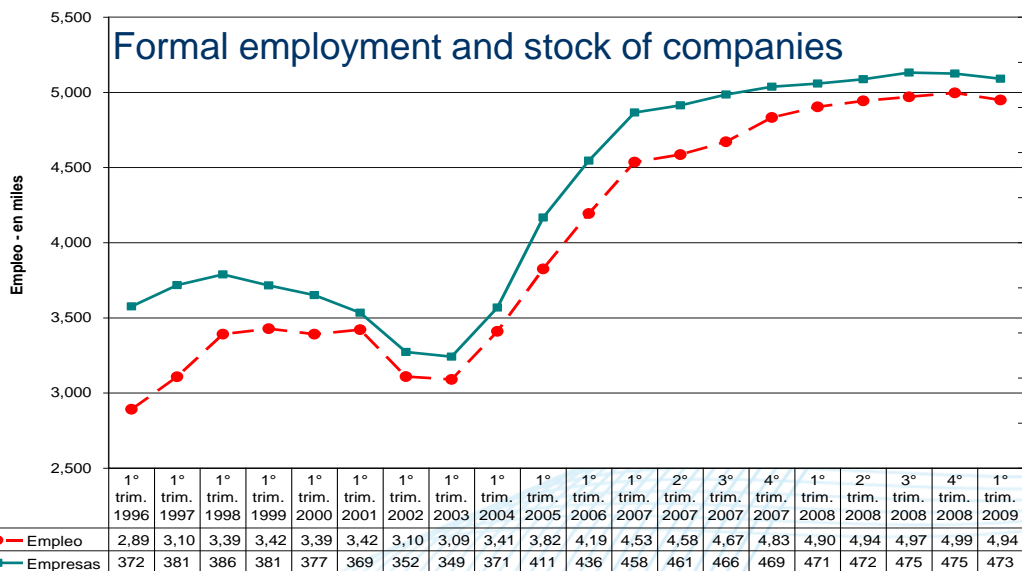


# Entre 2003 y 2008 la mejora en el empleo alcanzó una magnitud record

Translation: From 2003 to 2008, employment rose to record levels



Industria, Comercio y Servicios. En miles



Source: MTEySS, based on EPH (INDEC)

# Concerns and achievements



## International institutions (WTO, IMF, G-20, ILO, IACML)

- Trade analysis shows Argentina's difficulty, and that of other LCDs, in integrating in world trade, characterized by major asymmetry between rich and poor countries.
  - This was exacerbated by the international rules established with the creation of the WTO (regarding the GATT). The difficulties created by the Doha Round are examples of differentiated treatment.
  - On the other hand, however, UN/ECOSOC (2006) recognized that opening to trade had to take place gradually, in accordance with the specific characteristics of each country so that its development would not be impaired.\*
  - The Argentina of the 1990s: indiscriminate opening and repercussions involving the destruction of the productive system, unemployment, rise in precarious employment, etc.
- Need to move forward by taking account of the social dimension of globalization, including employment and social protection as key considerations in economic policy decisions.
  - In "Examen de Políticas Comerciales de la OMC" [Review of WTO Trade Policies] (2007), Argentina included a chapter on trade and employment, thus becoming the first LDC to include the matter as a trade policy objective (active participation by the Ministry of Labor in the WTO, along with the Ministry of Foreign Affairs and Ministry of Economy ).
  - Another example was the international community consensus regarding policies implemented to address the recent crisis, specifically in the period immediately following the Lehman Brothers collapse.

# Concerns and achievements



- What are Argentina's challenges and opportunities in the national policy area? Do these policies have some room for autonomy?
  - The type of macroeconomic policy and “growth pattern” selected is of high importance, highlighting a need for policy coordination. The room for maneuver, fiscal and trade surpluses, and existing institutions in Argentina also meant that the current crisis had less impact on employment than in earlier crises.
  - To be noted in the institutional area is the role of labor institutions. The political commitment in place since 2003 has given prominence, within the institutional hierarchy, to reviving labor institutions, which allowed an inclusive labor market dynamic to develop. Similarly, sector strategy policies accorded priority to the manufacturing, rather than the financial, sector, establishing a trend that needs to be strengthened.



# Concerns and achievements



- It is often considered that in the Knowledge-based Society, innovation tends to eliminate jobs and exacerbate social divides ...
- What is the relationship between innovation and employment?
  - In the 1990s, with business competition and business opportunities, capacities accumulated in companies and within the sector, and labor cost-saving technology was incorporated.
  - One of the report's findings is that in determining the types of relationships between innovation and employment, consideration must be given to the ways in which globalization is managed.
    - This is a complex relationship determined by interaction among micro, meso, and macro, and by political institutions. In the long term, this may be positive a positive relationship, associated mainly with quality jobs.
  - SMEs: It was noted that greatest innovation was associated with more jobs and higher quality jobs, regardless of the branch of activity.
  - In the most highly innovative companies both hard (products and processes) and soft (organization, marketing, skill development, etc.) innovations take place. The latter were not the case in the preceding decade.

## Concerns and achievements



- The pattern of industrial specialization and of industry's integration into the international economy has not changed significantly, owing to the marked impact of commodity prices.
- What is the role of trade in growth and employment? Consideration was given to the bilateral relationship with China, given its growing importance as a trade partner.
  - A return to commodity exports: less complex and of less added value, soy beans replacing oil (negotiations were recently conducted in that regard).
  - Its imports have more technological content and capital goods imports are more frequent.
  - Losses in terms of added value and jobs. Weakness of trade relations and long-term trade imbalances.

# Concerns and achievements



- Given the Argentine pattern of integration in the international economy, there is much debate regarding the sustainability of a development strategy based on commodities and natural resources.
- We reflect on opportunities and challenges in the environmental area (e.g., soil exhaustion, pollution, and expansion of the agricultural frontier), and in the fiscal, exchange rate, inflationary, and employment areas, with their ensuing distributive impacts on society.
  - Policy instruments to address different risks were analyzed, such as exchange rate appreciation (Dutch Disease), agro-inflation, and agriculturalization, among others, in a context of high prices for agricultural products.
  - At different levels of analysis, it was noted that instruments (export duties) have created more room for maneuver for public policy.
    - Disconnection of domestic from international food prices as an anti-inflationary policy.
    - Redistribution of income between agricultural producers and consumers, with progressive net impact.
    - In the agro industrial chain, diversification of agricultural production and promotion of activities of higher added value based on differentiated quotas.

# Conclusions



- The labor market is the main transmission mechanism of the social impacts of globalization.
- International experience shows that how much impact globalization has on countries is determined by national public policies, and their degree of coordination and adjustment.
- Coordination among policies and institutions improves integration in the international economy when social and labor aspects are taken into account.
- The report emphasizes a need for progress in designing an international integration strategy whose objectives include institutional complementarity with regard to:
  - Economic growth;
  - Policies for innovation and product development;
  - Job protection and promotion mechanisms; and
  - Social protection systems.