Globalization and Labor Market Integration

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Abstract

Globalization has accelerated the flow of goods, services, investments, and technology across national lines, but hasn't done the same for labor resources. Instead of moving foreign workers to their home country plants, multinational companies move their plants to where the workers live. Global labor mobility, therefore, still lags behind other factors of production. This may be attributed, in part, to government restrictions on economic migration and on the right of foreign workers, particularly the less skilled ones, to compete for jobs across national markets and political demarcation lines. As a result, the labor markets in the various countries around the world remain largely un-integrated with the possible exception of some of the highly skilled elite segment. This paper explores changes in the labor markets, job gains and losses, and structural changes that impact the human capital in this age of globalization. It also examines the impact of the movement of capital, supply chains, and technology on the supply and demand for labor across the advanced, emerging, and developing economies.

Keywords: Globalization, labor market, integration, labor mobility, tradable sector, non-tradable sector, supply chain

Introduction

The world has gone through several waves of globalization and de-globalization since the 18th century. As leading European nations abandoned the restrictive mercantilist philosophy in the 18th and 19th centuries in favor of the liberalization of trade policies and practices, the flow of goods as well as investments across countries and continents grew, but the movement of labor was limited to periodic waves of migration to selected countries, primarily in the new world or within the vast European empires. Trade expansion was assisted by improvements in transportation that made possible the movement of goods to distant markets. The European countries' colonization of vast territories around the world also helped them to establish control over the sources of raw materials and energy that were needed for their industries. In the meantime, the colonies were seen as markets for their industrial output. On occasion, however, liberalization led to a backlash and trade wars as happened in the period between World War I and World War II when there was a movement away from globalization -- toward greater economic nationalism, autarky, and protectionism (O'Rourke and Williamson, 1999, p. 183).

The current wave of globalization that began about six decades ago has gone beyond those that preceded it in accelerating the flow of world trade and investment. The level of global economic integration that has so far been achieved is unprecedented although full integration still has some way to go since it is held back by periodic protectionist tendencies and conflicting governmental motives and policies. There is a persisting perception, however, that globalization is a double edged sword, and the integration and interdependence it creates, brings a lot of good but also leads to the spread of economic woos from one country or region to all others. For example, the 2008 recession started in the United States but spread quickly and became a global recession, causing some to speculate that the age of globalization was over and the world would again go through a de-globalization period.

This, however, did not happen. Although economic recovery is proceeding at a slower than expected pace, the 2012 sovereign debt problem in Greece, Spain and some other European countries has also had broad negative consequences on the world economy, and has also raised concerns about the return to protectionism and other restrictive economic policies as a defensive tactic.

Critics of globalization also keep reminding us that globalization's promised benefits serve some economies more than others, and some groups within the various economies more than others. The benefits that include higher rates of economic growth and greater efficiencies in the use of capital resources have not been shared equally by all trading partners. As a result, there have been winners and losers in trade, investment flows, and employment. In the experience of some of the less developed and emerging countries, their low labor costs are a blessing because they help in attracting investments in services and manufacturing from the more advanced high wage countries. To some other developing countries, however, globalization has lessened their economic independence, made them more dependent on their external sectors, and caused a decline in their domestic industries that couldn't complete with imports from the more advanced economies. Meanwhile, to the critics in the advanced countries that have for decades been championed globalization, globalization is "inextricably associated with outsourcing and surging imports that destroy jobs and depress wages" (Dadush and Shaw, 2012, p.1). From a broader perspective, Spence (2011) described the two sides of the coin of globalization, stating that "by relocating some parts of the international supply chains, globalization has been affecting the price of goods, job patterns, and wages almost everywhere" (p. 19).

Employment in the Tradable and Non-Tradable Sectors

The tradable and non-tradable sectors differ in their characteristics and the likelihood that globalization would impact the manufacturers' relocation decisions to attain greater efficiency in operations or other desirable objectives. The tradable sector is composed of activities in the supply chain that can be undertaken at various locations, regardless of the location of demand. Included in this sector are product and component manufacturing, product engineering, research and development (R&D), and accounting. The non-tradable sector, on the other hand, includes business activities that can't be located or moved away from consumer or final user demand. Among those are construction, health care, hotels, restaurants, and government services such as public safety, firefighting, and trash collection.

The geographic spread of modern education and technological know-how, along with advances in communication and transportation, has led to a consistent growth in the tradable sector. They have made it possible for multinational corporations to relocate manufacturing, service activities, and internal functions to the developing and emerging markets of Asia, Eastern Europe, Latin America and Africa. Even some parts of the supply chain that have in the past been kept in the advanced economies due to the required use of highly skilled labor have become tradable as low-wage countries improved their technological capabilities and the quality of their human capital.

As far back as 1996, Brian O'Reilly wrote a cover story in Fortune (2009, December 14) in which he observed that "unlike ten or fifteen years ago … American, European, and Japanese (factories) are increasingly likely to outsource – to contract for parts and labor from independent local suppliers…How difficult is it to find so-called sourcers abroad? No trouble at all in some industries…Those foreign sourcers are becoming increasingly capable" (p. 54). The natural consequence is that even highly skilled workers in the upper end of the value added chain in the high wage advanced economies have increasingly been finding their jobs under threat (Spence, 2011, 28-34).

The following table shows the sharp differences in hourly compensation in manufacturing in 17 countries that are a major motivating factor in the tradable sector's relocation decisions. They range from $57 in Norway to slightly above $1.00 in China and India. Such a wide gap also explains the growth in outsourcing.

Table I: Hourly Compensation in Manufacturing, 2010

Country	Average Hourly Compensation
Norway	$57.53
Switzerland	$53.20
Germany	$43.76
Australia	$40.60
France	$40.55
Canada	$35.67
U.S.A.	$34.74
Italy	$33.41
Japan	$31.99
United Kingdom	$29.44
S. Korea	$16.62
Slovakia	$10.72
Brazil	$10.08
Mexico	$06.23
The Philippines	$01.90
China	$01.36
India	$01.17

Source: Bureau of Labor Statistics, News Release, December 21,2011

Confirming the shift in jobs and employment in the tradable sector, a study by the National Science Board, the policy making body of the National Science Foundation (2012) revealed the loss of about 28 percent of high-tech R&D and manufacturing jobs in the United States during the 2000-2010 decade as investment flows to low-wage countries increased. "One of the most dramatic signs of this trend", according to this study, "was the loss of 687,000 high technology manufacturing jobs since 2000. U.S. multinational corporations also created research and development (R&D) jobs overseas at an unprecedented rate" (p.1) Whoriskey (2012, January 18) also observed that emerging and developing countries have become interested, not only in attracting investments that need low-skilled low- wage workers, but also those that need highly skilled workers and professionals, stating that "the number of research workers for U.S.-based multinationals working overseas has more than doubled …Although the long decline of manufacturing employment in the United States is often attributed to the cheaper wages in developing countries, China and developing countries in Asia have in recent years sought to lure more sophisticated manufacturing operations and jobs" (p. A12).

Limits of Cross-Border Labor Mobility

Sassen (2011) argues that the labor market today "is not very open and not very global. It is a mix of markets" (p. 48). Standing in the way of greater integration and in the way of the global corporations' having successful global workforce strategies is government regulations of immigration, and the diverse tax and legal systems, as Peggy Smith, the CEO of a workforce mobility association and Business Week's Evan Rothman (2012, August 26) noted. Quoting Jeffrey Joerres of the Manpower Group, Rothman (2012, August 26) also noted that the challenge is that governments are national and companies…are global… Protectionism also kicks in during downturns" (pp. S1, S3). One may as well argue that the global labor markets are more open to some groups than they are to others. As one would expect they are far more open to highly skilled workers, some professionals, experienced managers, and job creating entrepreneurs than they are to the unskilled, semi-skilled, and less educated. Immigration policies frequently favor the first group over the second. In today's increasingly smart economies, there has also emerged a small globally-oriented class of highly educated, ready to travel technocrats, executives, entrepreneurs, managers, scientists, and other professionals. Members of this class don't let geographic, psychological, and cultural barriers to limit their mobility or ambitions. Some of the members of this class are recruited by multinationals not only because of their knowledge and experiences but also because of their global networks and connections in their own home countries.

Reflecting on the rise of such global elites, Freeland (2011) stated that "the global market and its associated technologies have enabled the creation of a class of international business megastars. As companies become larger, the global environment more competitive and the rate of distinctive technological innovation even faster, the value to shareholders in attracting the best…increases correspondingly" (p.46).

Because of the mobicentricity of some of the highly skilled professionals and managerial elite, they are different from the typical immigrants who like to settle down and begin their lives anew in their new countries. Those global elite often relocate only if more promising or lucrative opportunities arise in other parts of the world. As Newland, Agunias, and Terrazas (2008), indicate, the immigration of mobicentric managers and other professionals is circular in that they often maintain “a continuing long-term and fluid pattern of international mobility” (p. 1).

Role of Multinationals in Cross-Border Job Shifts

Decisions made by multinationals inevitably impact job creation, job shift, and job loss both in their home countries and foreign markets. By their very nature, they make their products in multiple locations, and depending on new production efficiencies they periodically relocate parts of their operations. Their motives in making such tactical decisions reflect the reasons they have entered the global market in the first place, which include increasing their returns, reaching new markets, raising productivity, leveraging their technological achievements, and sustaining their competitive advantage. An unintended consequence of such steps is the relocation of jobs and employment opportunities across countries. Accordingly, it wasn’t an issue for General Electric’s top management to shift operations and end up having 54 percent of company employees stationed in foreign markets in 2012 as compared to 46 percent in 2000. Similarly, Caterpillar’s growth pattern resulted in a 39 percent increase in its labor force in host countries between 2005 and 2010, as compared to only a 7.8 percent increase in their U.S. plants. Overall, the U.S. Department of Commerce reported that American companies, which cut 5.3 percent of their labor force in the United States in the aftermath of the 2009 recession, only cut 1.5 percent of their workers abroad. (Wall Street Journal, January 19, 2012).

Traditionally, multinational corporations moved some of their middle managers to run their foreign subsidiaries. Although this practice continues in many cases, some multinationals have begun to move talented individuals from foreign subsidiaries to parent companies to hold key positions if they can overcome the legal barriers that still stand in the way of cross-market mobility. Such companies have begun to appreciate their human capital, regardless of the original hiring locations and countries of origin. Some companies now also resort to diasporas to build bridges and take advantage of multinational social and professional network. In an article, titled “Weaving the World Together”, the Economist (2011, November 11) pointed out that diasporas “find themselves in the thick of things as the world becomes networked. Shrewd firms are taking notice” (p. 74).

Wages in an Interconnected Global Economy

Channels of globalization-- such as trade, investments by multinational corporations, and international migration—have differed in their impact on wages and incomes around the world. It is known that exports increase employment and incomes. It is also known that plant relocation shifts employment and leads to job loss and wage stagnation in the countries that lose their plants and their production capabilities, but has the opposite impact in the new plant locations. Immigration also has a mixed impact. It may increase labor supply in some industries in destination countries and cause wage reduction or stagnation. On the other hand, it reduces the supply of labor in the countries of origin and results in increasing their wage rates. One should not, however, overestimates the impact of migration on wages. Dadush and Shaw (2012) caution that “increased migration probably plays only a small role in wage convergence. The stock of emigrants from developing countries is just 2 percent of their population, so emigration has little role in raising wages by limiting the growth in labor supply in developing countries” (p2).

Is globalization then a force behind global income convergence or income inequality? Lindert and Williamson (2001) as well as O’Rourk (2001) argue that inequality that has been noted as a consequence of globalization has been an inequality between countries more so than within countries. To them, inequality within countries is a product of internal policies rather than globalization. For the developing countries, Mayer (2001) observed that globalization has improved access to new technologies and capital, and created opportunities to start new industries and upgrade the conditions of existing ones to the benefit of their labor force. However, the inflow of technology and capital, without the proper domestic policies, can increase income inequality.

Conclusion

The global labor market remains largely unintegrated despite the substantial progress made over the last few decades in inter-connecting and integrating the world economy.

Labor mobility is still limited by restrictions imposed by national governments as well as psychological and sociological factors that make it difficult and discourage the average worker from relocating and seeking employment in foreign markets. Restrictive immigration policies that stand in the way of the free movement of foreign workers across national lines, however, allow exceptions in favor of investors and individuals with highly desirable or exceptional abilities and skills. Rich countries like the United States, Canada, the United Kingdom, Germany, and France have traditionally been magnates for immigrants and temporary foreign workers who seek more rewarding jobs than they could obtain in their home countries. Although those countries remain highly desirable destinations of job seekers and immigrants, they have in recent decades been joined by emerging markets that have fast growing economies as well as by a few single resource-dependent rich countries like the major Middle Eastern oil and gas producers. For example, there is a growing interest in the Brazilian economy that has recently surpassed that of the United Kingdom to become the world's sixth largest. Juan Forero (2011) noted that not only have 2 million Brazilians who previously left for jobs in North America and Europe returned to their native country, but Brazil has become attractive to foreign nationals who seek new jobs and investment opportunities.

Multinational corporations employ a large number of workers both in their parent and host countries. Some of them employ hundreds of thousands of workers stationed throughout the world. Their decisions taken to establish new plants or relocate existing ones impact job creation in new markets and job loss in the old ones that have lost their competitive edge. A growing number of multinationals, meanwhile, currently adhere to global human capital strategies that allow them to search broadly for, and employ, executives, managers, and professionals with specialized talents regardless of their countries of origin. Once they find such talents, they groom them for advancement to positions, previously reserved to nationals from their home countries. Such employment strategies and practices add to cultural diversity in such large enterprises, and have the potential of slowly impacting the integration of the global labor market.

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