LINKS BETWEEN EMPLOYMENT, PRODUCTIVITY AND POVERTY: INTERNATIONAL EXPERIENCE

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I. Introduction

The number one Millennium Development Goal of the United Nations is to halve between 1990 and 2015 the world's total population living in extreme poverty and suffering from hunger. Most observers expect that this target will be missed, at least in some world regions.

The reasons for continuing high poverty are manifold, including lacking employment opportunities, low quality of employment, gender inequality, illiteracy, low productivity, civil war, unclean water, epidemics, natural disasters and climatic change. While some of these origins of poverty have long been held to be natural and beyond the discretionary means of humans, it is being increasingly recognized that there is hardly any source of poverty that is not man-made, and thus within the capacity and responsibility of human action to redress it.

This paper was prepared for the ECES conference on "Employment, Productivity and Poverty in Egypt," held in Cairo on June 26, 2007. It was specifically designed to emphasize international dimensions of the subject. It looks beyond contemporary Egypt, addresses issues of economic globalization, and refers to pertinent historical experience. The paper starts out by mapping important global and regional characteristics and trends of poverty. It proceeds by focussing on employment and productivity as major determinants of poverty, and analyzes inter-linkages between these factors and economic growth. Furthermore, policies and institutions, both national and international ones, are examined that need to be put in place in order to promote employment, productivity and the alleviation of poverty.

II. Persistent Extreme Poverty

Poverty is rampant in much of the developing world, but not unknown, and even spreading, in the advanced industrialized countries. Internationally comparable measures of absolute poverty used by the World Bank give us the numbers and shares of the resident population that lives on less than one dollar or two dollars per person a day. The Bank considers an income of $1.08 (measured in prices of 1993 and international purchasing power parity) as the absolute minimum in poor countries that is required for meeting basic consumption needs for food and other essentials, such as shelter, clothing, health and transport.

According to World Bank estimates, the proportion of extremely poor people in the world—living on less than one dollar a day—declined by nearly 400 million in the 1980s and 1990s, whereas the population living under two dollars per day actually rose (Chen and Ravallion 2004). The bulk of the global decline of extreme poverty is due to the strong

diminution of poverty in East Asia, and particularly in coastal China, (although recent estimates by the Asian Development Bank have put China's poverty rate at a much higher level than previously stated. See Financial Times, November 13, 2007). Other regions look much less favorable. The number of poor people in Sub-Saharan Africa and in the transition economies of Central and Eastern Europe has been on the up-turn. There are countries where poverty is rising, in spite of an upsurge of economic growth.

Poverty on a mass scale persists not only for the population at large, but also for the working population. Based on World Bank data, the ILO has been producing estimates on the working poor for the world as a whole and for major regions. These show the number and proportion of employed people living in families where each family member has less than one dollar or two dollars a day to live on. In 2004, the estimated number of working poor worldwide was approximately 1.4 million based on the two dollar line, and 535 million for the one dollar line (Kapsos 2004).

Estimates of the numbers and shares of working poor by world region are presented in Table 1. For Africa, the figures show a rise of working poor living on less than one dollar a day, from 125 million in 1996 to 153 million in 2006 (representing about 46 percent of the global number of working poor) and a rise of working poor living on less than two dollars from almost 209 million to more than 260 million (which amounted to 79 percent of working poverty worldwide). The estimated number of working poor has increased strongly in Sub-Saharan Africa, whereas in North Africa it has been stagnant, or risen moderately (taking the two-dollar poverty threshold). Percentage rates of working poverty have declined substantially in northern Africa, and slightly in Sub-Saharan Africa.

Table 2 presents for various world regions the rates of GDP growth that would be required to achieve the number one millennium development goal (MDG) of cutting into half the rates of poverty, in this case working poverty. Taking the rates of GDP growth accomplished between 1995 and 2005, it can be concluded that if economies continue to grow at the same rate in the ten years after 2005 as they did in the ten years before, the MDG relating to poverty will be achieved only in East Asia, but not in the other regions. The margin of failure of meeting the target will be largest in Sub-Saharan Africa.

Poverty is not gender neutral. In developing countries, with few exceptions, women are more affected by poverty than men, and there has been a trend towards the "feminization" of

poverty. In Africa, this manifests itself in the inferior access to education and productive assets such as credit and land. Also, women are more likely to be restricted in their access to product and labor markets. These inequalities result in a higher incidence of poverty among women—often accompanied by rising poverty among children and invariably lower health and education outcomes (World Bank 2001).

III. RISING INCOME INEQUALITY

People are rated extremely poor because they cannot satisfy their basic needs. But, independently from whether or not they have the minimum consumption capacity, people are also considered poor if they cannot afford what people with average income have. The extent of relative poverty depends on income distribution. It is measured by the proportion of the population below a certain percentage value (e.g., 50 percent) of average income. In a large number of countries, relative poverty has increased in recent decades after it had reached a minimum in the 1950s and 1960s. Relative poverty has risen even in countries that have experienced high rates of economic growth. In China, for instance, relative poverty is high, especially in the rural areas; according to the World Bank, the real income of the poorest 10 percent of the population fell by 2.4 percent in the two years to 2003, at a time when the economy was growing by nearly 10 percent a year (Financial Times, November 21, 2006).

Poverty is the more likely to rise the more the distribution of income and productive assets, such as land and capital, is skewed. Countries with roughly comparable levels of per capita GDP have vastly different levels of poverty evidently because their income distribution differs greatly. Figures in Table 3 demonstrate that in countries of medium-level development with a per capita income of between $4000 and $6000 (in PPP) in 2004, the share of absolute poverty varied between 19 percent and two percent or less. All countries with two-digit rates of absolute poverty had relatively high income inequality, indicated by Gini-coefficients of more than 0.44, whereas countries with a share of less than 10 percent of poverty had Gini-coefficients of less than 0.40.

International differences in income inequality indicated by national Gini-coefficients are enormous. Egypt is quoted with a Gini-value of 0.32 in 2004/05 (Kheir-El-Din and El-Laithy 2006). This figure may be said to indicate an internationally moderate degree of income inequality. The lower band of Gini-values is found in countries such as Denmark, Sweden, Norway and Japan showing coefficients of approximately 0.25. The highest Gini-coefficients

(above 0.60) are recorded in countries like Namibia, Botswana, Central African Republic and Bolivia. Many countries in Latin America are listed with values of more than 0.50, the US and China are recorded with values of 0.41 and 0.45, respectively (UNDP 2006).

There is evidence to show that in the majority of countries income inequality is on the rise. A study by the UN for 73 nations for the period from 1960 to 2000 yielded a rise of the intra-national income differential in 48 countries which together accounted for about 80 percent of the world population. Income inequality remained constant in 16 countries and declined in nine countries (UNDP 2002). The world Gini-coefficient rose from 0.32 in 1978 to 0.43 in 1995 (World Bank 2000). Presently, the 65 million richest individuals on earth earn 564 times more than the 65 million poorest people. The factor was still 216 in 1980 (Der Spiegel 2007a). Largely due to stagnating or declining real wages, and tax cuts on higher incomes, income inequality has also risen in many prosperous industrialized countries including the United States. Earnings for nearly 97 percent of US workers—even those with college degrees—have been falling recently. As a result, the public sentiment has become more protectionist. Wage and income inequality in the US is greater now than at any other time in the last 70 years (Scheve and Slaughter 2007).

In a broad range of countries, the accumulation of wealth among a small minority is immense, while the bulk of the population sees no improvement of its livelihood. An example is Russia where the 500 richest now command about 40 percent of the country's total income. Long-term trends of income inequality in the world population also show sharply increasing disparities: The ratio of the richest 20 percent to the poorest 20 percent of the population was three to one in 1820, increasing to 11 to one in 1913, to 30 to one in 1970, and to 86 to one by 1990. At that time the richest 20 percent of the people on earth had 86 percent of the global wealth at their disposal (UNDP 1999).

Leaving distributional outcomes to the play of market forces produces ever greater inequality in wages, earnings, incomes and taxes, simply because the existing differentials in the resource endowments of individuals and groups, including land, money, education, power and rights, will give the well equipped advantages over the less well off. Hence, relative poverty due to income inequality tends to be self-reinforcing. Unless something is done about it, it will deepen and get more entrenched. Poverty can be "inherited" as it is passed on from one generation to another. If, for example, a family loses money, it will almost inevitably see

a subsequent shrinking of other assets that determine its livelihood status. It cannot spend as much on health any more, its diet will worsen, it cannot buy insurance to protect itself against the risks of life, children will get an inferior education, and social relations will suffer. It cannot purchase land, and it stands a poor chance to get a loan. All this will affect the access to jobs, and particularly the good jobs, or to make it as self-employed worker, not to speak of starting a business. As aggravation drags on, people see even the most basic capabilities degenerate, such as showing up at the workplace on time or enduring work for eight hours, or working in a team. If all this happens on a large scale, and for an extended period of time, a resilient "culture of poverty" emerges from which it is difficult for the individual and the family to escape.

There are other mechanisms that reinforce the destructive effects of poverty and high income inequality which, as a consequence, may impair economic growth and diminish the chance for poverty reduction. Growing divides between the rich and the poor may threaten social cohesion and political stability. Frequently, the poor become politically apathetic. They abstain from voting in elections or do not engage themselves in political activity to improve their lot. There is a close link between income inequality and crime, notably offences against property.

Van der Hoeven has shown how income distribution intervenes in the relationship between economic growth and poverty reduction. Specifically, increased inequality acts as a filter dampening the positive effect of growth: "With a per capita growth rate of two percent, a country with high inequality (Gini-coefficient of 0.6) reduces its part of the population living in poverty from 64 percent to 60 percent. However, a country with low inequality (Gini-coefficient of 0.3) reduces the share of the poor from 40 percent to 33 percent. Thus, when inequality is low, growth will reduce poverty faster than when inequality is high" (van der Hoeven 2000). Consequently, policy makers should focus not just on growth as such, but also on the pattern of growth.

IV. Employment and Productivity as Key Determinants of Poverty and Wealth

For a long time, the dominant preoccupation of economists was with prosperity. In his seminal work on the "Wealth of Nations" (first published in 1776), Adam Smith (1986) identified the division of labor as the engine of prosperity. Specialization would raise labor productivity, because it would improve the worker's dexterity, save time, and permit the use

of machines that are more efficient than humans. Fifty years later, David Ricardo argued that nations can boost wealth further if they engage in an international division of labor. Each country would be better off if it traded with others, and each concentrated on the products it can do best or most efficiently. In view of the enormously advanced degree of specialization nowadays, within and across national economies, one wonders why we are now talking so much about poverty in the world.

Apparently, poverty is not the mirror image of prosperity. Its reduction does not necessarily move in tandem with economic growth. In some instances, it does not decline at the same time as GDP and average GDP per capita increases. Conversely, poverty may or may not rise when the economy is in recession or crisis. For example, while in Mexico, Argentina and South East Asia poverty surged during and after the financial crises in the 1990s, there was hardly any increase of poor people in Finland when the country encountered an economic depression in the early 1990s. Furthermore, as pointed out by the UN Economic Commission for Africa, the scope of impact of growth on poverty goes beyond the income dimension. Employment-intensive growth increases the consumption potential of the population, especially food consumption, reducing malnutrition, which is particularly rampant in poor rural communities. This is important because next to education and skills, employability of the labor force depends on nutrition and health (Economic Commission for Africa 2005).

There are several, interdependent sources of wealth, including natural wealth, factor inputs (land, labor, capital, technology and knowledge), economic output relative to factor inputs (productivity), and the distribution of the product of the economic activity. While natural resource endowments can make a country prosper, it rarely does that without perverse side effects. Thus, oil rich countries, such as Nigeria, have gotten poorer in spite of large revenues, while resource poor countries, e.g., Finland, Ireland, and the Republic of Korea, have prospered in recent decades. In the following, the concern will be with employment and productivity as the two pivotal factors that are the most promising, in terms of sustainable wealth creation and poverty alleviation. At the same time their potential effects for improvement are practically inexhaustible, particularly if one thinks of the quality of jobs.

Employment

Employment is one of the crucial factors of development, and a key instrument of avoiding and reducing poverty. The quantity of labor input (employed workers times working time) is a major determinant of the scope of an economy for economic growth. The quality of employment is a critical factor for the level of productivity and international competitiveness. Provided that employment is 'decent' (see the Appendix below), it endows individuals with a sense of self-respect, recognition and usefulness to society; it ensures them a means of livelihood and often provides a vehicle for participation and interaction with other members of the community.

In statistical terms, the *volume of labor input* is indicated by the following key indicators:

- The rate of ***labor force participation*** of the working-age population that engages actively in labor market either by working or looking for work;
- the ***inactivity rate***, defined as the proportion of the working-age population that is not in the labor force;
- the ***employment-to-population ratio*** (or briefly: employment rate) measuring the proportion of the working-age population that is employed;
- the ***rate of unemployment*** marks the proportion of the labor force that does not have a job but is available and actively looking for work;
- ***employment in the informal economy*** indicates the ratio between informal and total employment;
- the rate of (time related) ***under-employment*** measuring the proportion of employed workers seeking to work additional hours in their current job or another job; and
- the number of weekly and annual ***working hours***; (for detailed definitions based on international statistical conventions, see ILO 2006).

Table 4 presents rates of labor force participation, rates of employment and rates of unemployment of the population of age 15 and older. The data show substantial, and partly very large, country differences in these indicators across world regions. Average labor force participation is highest in East Asia and Sub-Saharan Africa and lowest in the Middle East and North Africa (henceforth MENA). The low rate of participation in this latter region can be attributed to the comparatively very small rate of participation of women in the labor force. In 2004, it amounted to only 28.4 percent, compared to 52.5 percent for the world as a whole, and 67.7 percent in East Asia. The male rate of participation in MENA stood at 77.0 percent, which was close to the world average of 79.0 percent. Youth participation in the region was 39.9 percent, again the lowest rate among the regions. It should also be noted, however, that

labor force participation in MENA rose between 1994 and 2004, and that this rise was entirely due to an increase in the women participation rate from 24.6 percent to 28.4 percent. Latin America was the only other region that saw its women activity rise by a similar magnitude (ILO 2006). Where labor force participation declined this was partly due to later entry to the labor force as a result of more years of education and/or occupational training.

Employment rates have moved largely in parallel with the participation rates. The rate shrank worldwide from 63.0 percent to 61.5 percent, whereas in MENA, it rose from 45.1 percent to 46.5 percent, yet still remaining at a much lower level than elsewhere (Table 4). Again, this outcome can largely be explained by differences in employment between women and men. In 2004, the percentage point difference between male and female employment-to-population ratios in the region amounted to 46.2, which was by far the largest anywhere. It compares to a world average figure of 25.1. The lowest aggregate employment rates anywhere, and notably the lowest rates for women, are registered in Yemen, Iran, Jordan and the West Bank and Gaza. In these countries, women rates are less than 10 percent. Egypt is listed with an overall employment rate of 43.5 percent, a rate of 70.6 percent for men and 16.0 percent for women in 2001 (Table 5).

Curiously, the highest rates of labor force participation and employment can be observed in some of the poorest countries on earth, and concurrently in some of the richest, most advanced industrialized countries, such as the Nordic countries in Europe and North America. It means that the degree of development, indicated by GDP per capita, cannot be the decisive determinant of labor market behavior. The high rates in the poorest countries can be attributed to the need for (nearly) everybody, who are physically capable, to work in order to survive. In the North of Europe and North America, it is the 'Protestant Work Ethic" (Max Weber), and also pro-active policies for women employment that account for high activity rates. Another key characteristic of the northern "labor societies" is the large extent of dependently employed labor. Predominantly Catholic countries in Europe that have similar levels of GDP per capita as the Scandinavians show markedly lower activity. Religion can also be presumed to influence labor force behavior in the Islamic world, accounting for the low rate of women participation and women employment. The impact is not, however, equally strong as indicated by the varying gaps between male and female participation across Muslim countries. Other factors may be at work. These include, for example, the access of women to certain occupations. For example, while women are excluded from access to the

judiciary in Saudi Arabia, other Arab countries, including Syria, Morocco, Tunisia, Algeria and Sudan have had women judges for more than three decades (Elsadda 2004). Egypt has just started to allow women to serve as judges.

Unemployment rates in MENA exceed on average those of other regions. The level of joblessness of women in the Arab world sticks out to be extremely high. The mean women unemployment rate in MENA was 19.2 percent in 2004. It was almost twice as high as the rate in the second highest region (Latin America) and close to three times the average women unemployment level worldwide (of 6.6 percent) (ILO 2006).

Caution is necessary in interpreting and assessing these findings. First of all, the high women unemployment rates do not hold for each and every Arab or Islamic country. Secondly, unemployment data in developing countries are of limited reliability and indicative value. In many places, they are available only for urban areas and for some sectors of the economy. Data are obtained from different sources. For example, in Egypt, Kenya, Uganda and Zimbabwe, estimates are derived from household surveys, while in Algeria, Nigeria, and Mauritius, they result from official statistics.

Unemployment usually refers to the dependently employed portion of the labor force, not to the self-employed. While in the developed countries the proportion of self-employed is typically small, it is typically large in developing countries. Much of the employment on the African continent is of a near-subsistence nature, with high proportions of the labor force in agricultural activities and a significant number employed in their own businesses with "contributing family members". Often, workers in poor countries cannot afford to be unemployed, especially where there is no unemployment compensation, and therefore, there is no incentive to report the unemployment or register with an employment office. Studies on the labor market and poverty in Egypt demonstrated that the unemployed are not primarily the poor or illiterate, but non-poor young people from relatively well-off families with intermediate and higher education (El Laithy and El Ehwany 2006). Generally speaking, in developing countries the problem is not so much unemployment, but rather the conditions of work of those who are employed. Under-employment in the sense of unsteady work, because of lack of demand or a shortage of materials, is frequent. Productivity suffers if the work flow is discontinuous. To offset low productivity and earnings, people tend to work long hours in order to attain the minimum income for their livelihood. Working long hours on a regular

basis tends to harm workers' health. So, features of work in poor countries are the co-existence of time-related under-employment and over-employment, and a vicious cycle of poor health and low productivity.

Notwithstanding the caveats related to statistical measurement, it is fairly clear that countries in MENA, Egypt included, underutilize their potential labor force and employment capacity. In particular, there is large scope in the region, and more room than anywhere else, for raising the level of labor market activity of women.

One reason for high unemployment in MENA could be rapid labor force growth. With an average rate of 3.3 percent between 1993 and 2003, annual labor force growth in that region was in excess of any other world region, and way above the world average of 1.8 percent (ILO 2005a). This high rate of growth of the labor force makes absorption of new entrants in the labor market especially difficult. MENA has a fast growing, young population, 37 percent of which was below the age of 15 years in 2000, and 58 percent below the age of 25 years. In 2003, youth unemployment amounted to 25.6 percent on average, the highest rate of any world region (ILO 2005a).

The rate of informal employment is one of the most important statistical indicators of the quality of jobs. Remuneration and working conditions are other features of job quality that are closely linked to informality. Work in the informal economy means being outside the legal and regulatory frameworks, and is thus normally characterized by a high degree of vulnerability. Workers have no or little legal or social protection and are excluded from, or have limited access to, public infrastructure and public services. Informal economy workers are rarely organized in trade unions for collective representation (even though recently some union campaigns in some developing countries have succeeded), and have little or no voice at the work place and in the socio-political sphere. Most informal economy workers are self-employed, own-account workers, or contributing family workers (ILO 2002).

Using the available indicators and data, large numbers and shares of informal employment are found in South Asia, Africa, Latin America and the Caribbean. This is suggested from the large proportions of casual workers without a fixed employer, and self-employed and contributing family members in these regions. The share of workers holding this employment status reaches as much as 93 percent in Tanzania, 86 percent in Uganda, 79 percent in Zambia, 78 percent in Cameroon, 63 percent in Kenya and 61 percent in Morocco

(ILO 2007). According to (partly conflicting) estimates, proportions were also fairly high in Egypt, Tunisia and Algeria. (De Gobbi and Nesporova 2005; El Laithy and El Ehwany 2006; ILO 2007).

The types of informal employment in which women are concentrated—as non-agricultural own-account workers, domestic workers and unpaid workers on family farms—have lower hourly earnings and a higher risk of poverty than the types of informal employment in which men typically work—e.g., informal wage employment (Chen 2005).

During the last two decades, informalization of employment has increased in many countries, including some of those with high annual growth rates of GDP per capita. It suggests that growth is not the only variable that matters. Nevertheless, it was found that informalization increased faster in countries with low growth (Heintz 2006).

Productivity

For a country to prevent poverty, or move out of it, it is crucial that it does not only create jobs but productive jobs. Productivity growth raises incomes and reduces poverty. The reduction in poverty can in turn improve productivity performance because higher income permits people to get more education and better health, thus becoming more productive.

Labor productivity depends inter alia on a country's sectoral composition of economic activities. Both labor productivity and total factor productivity have an impact on poverty. The latter accounts for sources of productivity beyond the direct efficiency of labor, such as management quality, product quality, work organization, technology, impacts of disease, crime levels and systems of governance and government.

Low productivity jobs have been a primary source of poverty in many developing countries. Table 6 shows labor productivity measured in terms of GDP per employee and GDP per hour worked in the entire economy and the manufacturing for selected countries in different regions and of different levels of development in 2003 and 2004, respectively. The entries in the table display enormous variations in the level of productivity, and hence large potentials for improvement, across countries. As hours of work differ also between countries, the distribution of GDP per employed and GDP per hour worked is not entirely congruent. Normally, the variation of labor productivity has little to do with differences in how hard or how long workers work. On the contrary, poor workers in developing countries can work long hours, strenuously, under bad physical conditions, but yet have low labor productivity and

therefore receive low income because they lack access to technology, education or other factors needed to raise productivity (ILO 2005a).

Obviously, one channel to tackle the productivity problem would be to reduce the proportion of informal jobs whose productivity can be assumed to be mostly poor. Yet, holding or seeking work in the informal economy is in itself a response to lacking employment opportunities in the formal economy or insufficient income gained in this sector. Hence, other approaches to productivity improvement must be sought that are within the range of realistic options for developing countries.

Between 1993 and 2003, labor productivity in the world increased by almost 11 percent. Throughout the 1990s, the annual rate of global productivity improvement was around two percent. During the last two years the rate increased to 2.6 percent (IMF 2007). The global improvement was mainly driven by the growth of labor productivity in East Asia (+ 75 percent), South Asia (+ 37.9 percent), and South East Asia (+ 21.6 percent). While this growth looks impressive, it must be borne in mind that Asia started from low levels of productivity, and a flattening of growth rates should be expected at a more advanced stage of development. While growth rates in labor productivity and GDP growth rates usually move in the same direction, there is not necessarily a close relationship. In fact, there are two regions whose productivity performance in the recent past (from 1993) ran counter to the trend: the transition economies in Central and Eastern Europe (CEE) and MENA. The latter region achieved GDP growth of an average annual rate of 3.5 percent, but annual growth of labor productivity was only 0.1 percent (ILO 2005a). The overall regional figures, however, mask significant differences across countries. The region reflects the diversified situation of the oil producing versus the non-oil producing economies. As a result of increases in the demand and the price of oil, the oil-producing countries saw their GDP rising, whereas in the non-oil producing economies GDP growth resulted from employment growth. In both instances, GDP growth was accompanied by stagnant productivity. In the view of the ILO, "employment creation does not translate into productivity growth, if the jobs created are not decent and productive, providing an insufficient income for employees, and making it impossible for them to have an impact on the demand side of the economy. … The Middle East and North Africa should not be taken as a case against employment creation but rather a perfect example of why in the longer run decent employment creation and productivity growth have to go

hand in hand with GDP growth. Only then will economic growth lead to poverty reduction.” (ILO 2005a).

V. Employment, Productivity and Economic Growth

A high rate of economic growth is a necessary, but not a sufficient, condition for poverty reduction. Empirical studies have shown that high growth has led to significant reductions of poverty in some countries, but not in others. Research on Egypt highlighted that although growth has been achieved recently, this was not reflected in improved income distribution, lower poverty and increased per capita expenditure (Kheir-El-Din and El-Laithy 2006).

There are different combinations of growth and poverty reduction (Islam 2006). Overall, the relationship between the two variables has weakened during the 1990s (World Bank 2003). Not merely the rate of GDP growth, but also the pattern of growth matters for poverty reduction. In particular, growth is to be given a pro-poor orientation. This can be accomplished, firstly, through attaining higher employment intensity, e.g., by allocating investment to labor-intensive sectors of the economy. Secondly, the poor will benefit if productivity gains are translated into higher real wages and earnings (Osmani 2006).

Employment Intensity of Economic Growth

A certain rate of economic growth can variably be achieved through a certain rate of employment growth and/or productivity growth. The share of employment in growth is defined by the employment intensity of growth, or the elasticity of employment with respect to output. It is commonly measured by the percentage change in the number of employed persons in an economy associated with a percentage change in economic output, measured by GDP. Meanwhile, the ILO has collected sufficient comparable data to estimate employment elasticities, broken down by sex and economic sector, for 139 countries (Kapsos 2005).

Table 7 shows estimates of employment elasticities for the world as a whole, selected world regions and Egypt, for three sub-periods between 1991 and 2003. The figures reveal that global employment elasticity rose between the first and the second half of the 1990s, and declined thereafter, reflecting most probably the poor employment performance following the global economic slowdown at the turn of the century. For every one-percentage point of additional GDP growth, total employment grew between 0.30 and 0.38 percentage points during the three periods. This indicates that roughly two thirds of the economic growth

realized worldwide can be attributed to gains in productivity, and about one third resulted from more employment. Looking at the regions we notice that the proportions vary greatly. East Asia sticks out with low elasticity figures (of less than 0.2), indicating that more than four fifths of the GDP growth in that region (which was more rapid than anywhere else) was generated by productivity improvement. At the other end of the spectrum is the Middle East. Its high elasticity figures suggest that GDP growth was very employment-intensive, while labor productivity growth was poor. No surprise then that in view of the strong increase in the size of the working-age population in the region, and comparatively low GDP growth rates, the number of working poor in the region was rising.

Furthermore, we see that the elasticity entries vary greatly by worker group. Youth employment elasticities are low, and certainly too low to avoid further increases in youth unemployment. On the global level, and also in most regions, employment elasticities are larger for women than for men. In Egypt, female elasticity values rose between 1991 and 2003, while male values declined, ending up with a big differential in favor of women in the early years of the present decade. Recalling the very large gender gap in the employment-to-population ratios in MENA (shown in Table 5), including Egypt, the recent much higher employment elasticities for women relative to men suggest that some "catching up" process is occurring in the region. However, as Kapsos (2005) suggests, the findings may also be indicative of women's continued disproportionate representation in low-wage and low-productivity jobs.

Khan (2001) has argued that labor-abundant economies, and especially those with relatively high incidence of poverty, need to achieve relatively higher employment intensity than do countries with less labor surplus. He demonstrates that employment elasticities gradually fall as an economy becomes more developed and more labor scarce. In his view, elasticity values in developing countries should ideally be around 0.7 until these economies attain upper-middle-income status. In a later article, Khan (2006) stressed the linkage between employment and poverty. For the reduction of poverty, growth must be induced to generate more productive and remunerative employment, and demand for labor must be strengthened through rising labor incomes. Growth will fail to bring about commensurate poverty alleviation under the following conditions: low output elasticity of demand for labor; employment impact of high growth offset by countervailing contraction of employment induced economic reforms; economic growth creating employment for which the poor do not

possess the requisite skills; and growth taking place in a situation of highly unequal distribution of productive assets like land and capital. To produce favorable outcomes for employment, public interventions for poverty reduction must include: policies, institutions and incentives for rapid labor-absorbing growth; measures for transforming the poor into productive entrepreneurs; raising the adjustment capacity of the poor through skill formation; providing protection and safety nets for the newly unemployed; and specially designed employment opportunities for the labor-disadvantaged households (e.g., female-headed).

In Africa, growth has largely failed to generate sufficient employment. As indicated above, growth rates are below those required to have an impact on poverty through more employment. In a fair number of countries, and particularly in the oil-exporting ones, growth is concentrated in the capital-intensive enclave industries that have few or no links to the rest of the economy. Over the last twenty years, gross investment in GDP has been 18 percent in total Africa (compared with 33 percent in East Asia). Slow growth of productivity has resulted in the lack of structural economic transformation and diversification. Insufficient investment in human capital due to inappropriate education and training policies has also been cited as a hindrance to productivity improvement. Loss of human capital has occurred through HIV/AIDS and brain drain. Unequal access to education is partly attributable to the patrimonial system which distributes public goods in favor of privileged groups and regions. In 2000, rates of literacy in Africa were lower than in all other world regions, except South Asia. They stood at 59 percent in North Africa and 61 percent in Sub-Saharan Africa. This compares with a world average of 79 percent (Economic Commission for Africa 2005).

On the Trade-off Between Productivity and Employment

The concept of "trade-offs" in economics should be used with caution. As Amartya Sen has warned us, trade-offs tend to be based on false and rudimentary reasoning. "What economists and politicians often see as inevitable, or inexorable, trade-offs can be reconciled by policy and good practice" (Sen 2000). As development in East Asia demonstrates, it is possible to get higher productivity without accepting less employment. Also, there need not be a trade-off between the quantity and the quality of employment and, more specifically, there is no need to create more jobs before one should be concerned with better jobs.

The trade-off between employment and productivity is usually presented by saying that productivity gains cause job shedding. This happens largely due to structural and frictional

change which leads to the displacement of workers at the level of the firm or sector. Such labor saving effects are indeed desirable because they are the very source of "creative destruction" and prosperity.

Productivity gains, e.g., by substituting capital for labor, will create a problem for employment only, if and where job loss at the micro level is not compensated by job creation elsewhere in the economy and at the aggregate level of the economy. This could happen if the overall demand for labor is insufficient to generate full employment, or there is no effective assistance for adjustment of firms and labor, or the reallocation of labor from the declining to the expanding units in the economy is too time-consuming. Hence, we need to make a distinction between what is happening at the micro- and the macro-level of the economy, and we need to look at compensatory mechanisms that offset the labor saving effects in a particular unit. Among the main compensating mechanisms are the following ones (ILO 2005a):

- Higher productivity can boost aggregate demand through its effect on income. Productivity improvement allows to appropriate at least part of the gains to wage increases which translate into incremental consumption power that in turn raises aggregate demand for goods and services and ultimately the level of employment. That this mechanism can work, and does work, can be derived from the fact that some of the countries with the highest level of productivity have very high employment rates and full or near-full employment.
- Higher per capita income thanks to higher productivity evokes new tastes and develops new demands for goods and services, often exhibiting a shift in demand from primary products to manufactured goods and on to (normally comparatively labor intensive) services.
- Productivity increases may entail lower product prices which, in turn, can increase the demand for the product, and eventually also employment; or it may entail demand for other products with corresponding employment creation;
- Higher profits from increased productivity can result in higher employment through increased real investment.

Sufficient labor demand is of paramount significance for the simultaneous pursuit of the employment and productivity objectives. The recent decline of the employment elasticity of growth suggests that productivity trends are increasingly influential in determining demand. If employment is to be expanded without compromising productivity improvements, output of goods and services should expand at least as rapidly as productivity. This can be achieved by relaxing demand constraints (e.g., inadequate market access), capital constraints (e.g., insufficient investment), or both types of constraints simultaneously (Heintz 2006).

Improving productivity by substituting labor for capital, however, is only one of several options. It may not even be the most desirable solution to productivity enhancement, especially in developing countries that face a capital shortage. There is a range of sources of productivity enhancement that have no direct or indirect negative effect on the level of employment and do not require (much) capital inputs. Among them are increases of product quality, greater capacity utilization, a more efficient use of materials, and better organization, management and treatment of labor.

A nearly inexhaustible source of productivity enhancement is provided by various dimensions of cooperation and partnership among economic actors, including cooperation among workers, cooperation between workers and management, between firms, and across countries, for the benefit of better resource utilization, knowledge-sharing and innovation. Such cooperation requires little or no extra physical or financial capital, but instead demands "social capital" in the form of trust. There are excellent examples of such cooperation, as for instance in clusters or districts of small firms in which economies are gained through agglomeration and performance is improved through jointly organized producer services (Pyke and Sengenberger 1992; Cossentino et al. 1996). The potential for improvement is especially large in developing countries with typically small-sized enterprises.

Finally, there is the role of public goods. Raising productivity and employment can be achieved concurrently by investments in economic and social infrastructure, including health, education, housing, energy and communications that are almost universally recognized as crucial ingredients to higher labor productivity. Capital investment required may be affordable even for poor countries. "Developing countries, especially as regional blocs, may even have the capability in terms of their existing industrial structures and capacities to provide for many of the physical inputs required … with minimal foreign components. However, guided by the crippling doctrine of "sound" public finance, which puts a strict ceiling on the government's fiscal deficit in all circumstances, they do not undertake such bold public investment programmes by expanding demand through government orders … Investment in many of these circumstances would be capable of generating much of the needed savings through an expansion of output … made possible through relaxing the constraints on infrastructure with some time lag. And, the weaker the constraint of the supply of wage-goods, the less would be the fear of inflation in the short run … the higher level of supply would expand the tax base." (Bhaduri 2005).

VI. Poverty and Economic Globalization

Addressing the contemporary issues of employment, productivity and poverty would be incomplete without going more deeply into the global context in which national economies operate nowadays. Poverty is interconnected with the liberalization of markets for goods, services and capital and the resulting international integration of the economy.

The second wave of modern globalization, which started to evolve in the 1970s and gained momentum with the surge of cross-national private financial flows in the 1980s and 1990s, has affected poverty in significant ways: it has exacerbated the economic and social disparities between the rich and the poor world; it has raised the weight of the external economy relative to the internal, domestic economy of nations; and it has increased the scale of negative external effects on countries, notably the poorer countries.

Increased Inter-country Inequality

The promises of globalization derived from the received theory are largely at variance with reality. According to standard wisdom economic globalization will boost economic growth and employment, and enrich every participating country. Net gains accrue from economic integration, even though within a country there may be winners and losers. With liberalized foreign trade and investment, funds will flow to the poor countries where capital is scarce and, hence, the return on investment will be higher than in the developed industrialized countries, with favorable effects on equity and poverty. Capital inflows may come in the form of loans or portfolio investment, supplementing domestic savings and loosening the financial constraint on national public budgets and on additional investment by local companies. Or they may take the form of foreign direct investment (FDI), which is expected to bring about greater efficiency as a result of more intense competition, trade specialization in accordance with local comparative advantage and the transfer of technology and superior management techniques. Trade liberalization in poor countries switches production from non-tradables and inefficient import-substitutes towards efficient exportables, thereby raising the demand for unskilled labor in which the poor countries are supposed to have a comparative advantage. If a less developed country producing commodities with low skill content trades with a developed country that produces skill intensive products, both countries are said to benefit. According to the standard economic theory on trade—first developed by David Ricardo, and more recently elaborated in the Heckscher-Ohlin and the Stolper-Samuelson theorems—trade

will entail factor cost equalization that will diminish the economic disparities between nations and eventually let them converge at the same level of income.

Such mainstream economics has been used to design and justify the development paradigm of the international financial institutions and some of the regional development banks. Under the so-called Washington Consensus, policy prescriptions towards the developing and transition countries have been geared to the removal of barriers to international trade, the liberalization of capital flows and the creation of a strong patent regime regulating technology transfers and intellectual property. These policies can have effects conducive to development under adequate market conditions, but they generate adverse distributive outcomes in the presence of weak institutions, or when applied prematurely under asymmetric, poorly sequenced policies and incomplete market conditions.

The downside of globalization weighs heavily when looking at the large and widening disparities of income between the planet's rich and poor countries. There is little sign of convergence as predicted by the theory. Instead, the divergence in relative productivity levels and living standards, both between developed and developing countries and among developing countries is overwhelming. The industrial countries, thanks to their abundance of capital, political and market power and technological leadership, have benefited from globalization—although income is stagnating and poverty is growing there at the margins of society, and especially among unskilled workers. Countries in East and South East Asia have made a big leap forward in economic development. In twenty years, largely due to high economic growth, the poverty rate in Asia has been cut by half. Globally, however, the winners are a minority among the nations.

The growing development gaps are revealed by the following figures: GDP per capita in the poorest 20 countries on earth has increased from an average of $212 (in constant 1995 dollars) in 1960-62 to $267 in 2000-02. In the richest 20 countries, the rise in the same period was from $11,417 to $32,339 (World Commission 2004). In 24 African countries, GDP per capita is less today than in 1975 and in 12 countries even below its 1960 level.

Table 8 shows for the period 1985-2003, the margin by which the low income countries trailed the other regions in respect of GDP, exports, FDI inflows, and short-term portfolio investment. With regard to trade, it is important to bear in mind that until recently poor countries suffered from adverse terms of trade, because of either low product prices or high

input costs. Figures on international capital mobility show clearly that low-income countries have been marginalized. Contrary to what the theory predicts, capital did not flow from the richest to the poorest countries or poorest intra-country regions to even out the disparities. Paradoxically as it may seem, net financial transfers (i.e., net capital inflows less net interest and other investment income payments) from developing to industrialized countries have increased over the last ten years (UNCTAD 2007). Its mirror image is the vast and widening external debt of the United States whose balance of payments deficit has accumulated to reach 6.5 percent of GDP.

According to the latest World Bank forecasts, income disparities between world regions and across countries that have already assumed grotesque proportions will continue to diverge between now and 2030. "Countries everywhere increase exports as world trade outpaces other sources of growth. … In combination with technological change, and to a lesser extent, foreign-direct investment, globalization-related forces may combine to increase inequality in many countries—at the same time as they are raising average incomes. … Per capita incomes as a percentage of high-income countries will strongly rise in East Asia to reach about 35 percent, rise at a lesser rate in South Asia to reach about 14 percent of high-income countries, stagnate in Latin America and the Middle East and North Africa at the level of 26 percent and 18 percent respectively, and decline in Sub-Saharan Africa to end up at 6 percent." (World Bank 2007).

Globally, there has been a dramatic acceleration in the growth of FDI inflows during the last 20 years, with an average annual rate of increase of 14 percent. The cumulative value of FDI has reached nearly $10 trillion. The bulk of FDI and portfolio investment has been flowing to high-income countries and a limited number of developing countries, among them the petroleum-exporting countries. So, cross-country capital flows had their share in widening the globe's economic divide. The least developed countries have never been recipients of significant net FDI inflows, indeed of any kind of private capital inflows. They have been and remain dependent on official loans and grants (Ghose 2005). Within host countries, it is usually the most developed regions and especially the areas in and around the capital cities that receive the bulk of inward investment, while backward or depressed regions tend to get by-passed.

In 2005, the inflows of FDI increased compared to previous years, to reach a world total of $916 billion. Inflows to developing countries rose to the highest level ever recorded—$334 billion, with the countries in East and South-East Asia remaining the main magnet. Yet, in percentage terms, the share of developed countries increased to 59 percent of global inward FDI. The share of developing countries was 36 percent and that of South-East Europe and the CIS-countries was about four percent (UNCTAD 2006). An upturn in the flow of FDI to developing countries can be potentially beneficial, but serious reservations should be mentioned: A large part of the FDI is directed to the primary sector, and especially into the extraction of oil, gas and other minerals, linked to the increasing demand for energy and raw materials. A good deal of the investment goes into mergers and acquisitions, instead of green-field investments that hold the prospect for increased employment. Even a greater share of total FDI received by developing countries does not necessarily mean an improvement of their relative income position. Whether or not it entails industrial upgrading and economic improvement depends on the kind of economic activities created by the investment. Often, it turns out that transnational companies that organize the international production chains place low-value added, poorly paid activities in developing countries (e.g., low-skill assembly of imported skill- and technology-intensive parts and components), whereas high-value added activities with high pay including R&D, product design, marketing and the manufacturing of investment goods are located in the advanced industrialized countries. Although developed countries now have a lower share in world manufacturing exports, they have actually increased their share in world manufacturing value added. Developing countries, by contrast, have achieved a steeply rising ratio of manufactured exports to GDP, but without a significant upward trend in the ratio of manufacturing value added to GDP. As a result, the income gap between developing and developed nations gets widened, rather than narrowed (UNCTAD 2002). A good illustration is the Maquiladora industrialization in northern Mexico which led to shallow development, with weak linkages into the rest of the economy and no decline of the wage gap with the US. There is a limited number of emerging economies including South Korea, Taiwan, Singapore, Malaysia, China and India that due to significant industrial upgrading and the take-up of higher technology products form exceptions to this trend.

Capital inflows to developing countries are largely exogenous, not driven by the unmet demand for investment finance, but the objectives of international investors. Their effects are not unambiguously positive for developing countries. FDI inflows tend to crowd out domestic

investment, which greatly reduces their potentially investment-augmenting effect. Capital account liberalization can generate serious problems for developing countries, not just because this exposes developing countries to external shocks delivered by volatile capital flows, but more importantly because it undermines national governments' autonomy in macro-economic policy. Governments tend to lose control over national investment rates, which come to be strongly influenced by international investors. This makes it extremely difficult for national governments to pursue independent demand management policies (Ghose 2005).

Root Causes of Rising Global Inequality

It is not economic globalization as such that is to blame for the widely unsatisfactory economic and social outcomes. Instead, it is the way the second wave of globalization from the 1970s has been managed. Where increasing trade and FDI were accompanied by social protection and institutional support for necessary adjustments, outcomes have largely been positive. The most negative results have been encountered in countries that adopted an untrammeled (fundamentalist) market policy framework.

There are several reasons why the 'global free market paradigm' has failed to produce the expected factor-price equalization and convergence of income. First, these two theorems are based on assumptions, such as full employment and access to the same technology in all countries, which are at variance with reality. Most developing countries are faced with huge labor surpluses. Second, markets are good for the allocation of resources, but they do not all by themselves produce equity. They accentuate, rather than mitigate, existing gaps in income and productive assets. The reason is that a combination of money, market power and political power, is used to buy advantages in the assets that generate economic growth. More money buys more or better assets. This makes for inequality between countries as well as inequality within countries. Conventional economic theories on free trade tend to be mute on the dimension of asymmetric relations (which was acknowledged lately by the leading economist Paul Samuelson).

On the global level, prevailing power imbalances are reflected in, and reinforced by, the distribution of voting rights in international organizations, especially the World Bank and the IMF, which are the most influential and financially potent institutions. Developing countries are under-represented in these institutions because voting power in their decision-making

bodies depends on capital shares the majority of which has been held by the richest nations. Staffing in these institutions is also dominated by the prosperous countries. The top executives of the Bank and the Fund have always been chosen by the US and the EU, respectively.

Third, the nearly exclusive concentration in the neo-liberal policy framework on static, allocative efficiency implies that little attention is paid to stimulating the dynamic forces of markets (UNCTAD 2006). Strengthening the creative function of the market does not simply come about by deregulation and privatization. Rather, institutions are needed to create market capacity. For strengthening the market the state and civil society play a crucial role. The state got weakened, however, by conditionalities that developing countries faced in return for loans and development assistance by the international financial institutions. These included restrictive stabilization policies that resulted in high nominal and real interest rates, and structural adjustment programmes (SAPs) comprising rigorous privatization, slimming the state and public service, and cutting salaries in public administration which made remuneration uncompetitive and led to a decline in service quality.

Good governance at the national and local level is crucial to attract FDI, and to use it efficiently. The World Bank publishes statistics on the factors that senior managers regard as severe constraints to investment. In most countries, the main obstacles to investment are: policy uncertainty; corruption; legal insecurity, including the lack of confidence that local courts uphold property rights; and high taxes. Nearly all of these conditions are related to weakness of the state or insufficient resource inputs to good public administration. Corruption flourishes where pay of public officials is inadequate so that these officials seek extra sources of income.

Fourth, free trade works well only in the fantasy world of perfect markets. While access to capital, technology, management techniques and innovation through open markets may deliver significant benefits—benefits that closed markets cannot match—open markets can cause a lot of harm in the absence of an appropriate institutional framework. Without rules to regulate competition, trade and capital markets combine to favor the emergence of excessive market power for trans-national companies. This, in turn, creates barriers for new entrants to the market and disadvantages others, such as producers who depend on retail firms for their final market.

Fifth, compared to the earlier modern wave of globalization (approximately between 1870 and 1914), the current phase of globalization involves a phenomenal growth of private trade in financial assets in the future and on-the-spot foreign exchange markets through an enormous range of credit instruments. The daily average turnover in foreign exchange markets amounts to many times the value of commodity trading. Due to deregulation of financial markets, national governments lost much of their earlier control and private traders are now in command of this exchange. As a consequence, space left for national governments for macro-economic policy has shrunk. Both governments and central banks feel compelled to pursue policies that do not disturb the financial markets in order to avoid negative repercussions for their economies. They have come to adopt restrictive monetary and fiscal policies to focus on price stability, avoid even low rates of inflation, and stem capital flight from their countries. In turn, this lets GDP growth decline, makes the pursuit of full employment policies much more difficult, and slows down the output elasticity of employment. In addition, the private capital markets will not create the necessary conditions for convergence in the cross-country distribution of assets because they are driven by short-term earnings considerations, instead of the long-term strategies required for development (Bhaduri 2005).

The surge of private cross-border capital flows has coincided with a reduction, or at least a tapering off, of *official government development assistance* provided by the rich world to the poor world. While leading industrialized countries have repeatedly committed themselves (e.g., at the conferences in Monterrey and Glen Eagles) to step up development aid, it turned out that they have not always honored their commitments. Only a handful of the rich countries (including Denmark, Sweden, Norway, Finland and the Netherlands) have lived up to the UN-rule to provide 0.7 percent of their GDP to overseas aid, while France and Germany provide only about half of this target rate, and the US provides only 0.11 percent of GDP, a tiny fraction of what the country expends for armament and the military.

Distorted, Unfair Trade

Trade rules, set in multilateral as well as bilateral negotiations, and actual trade practices have contributed to the growing divergence between the North and the South. Some of the existing trade arrangements and domestic supports have had severely trade-distorting effects, and have been utterly unfair to the developing world. Rich countries in the North, particularly the

United States, the European Union and Japan have set tariff and non-tariff barriers for manufacturers and agricultural producers in developing countries. They have spent billions of dollars, euros, or yens to subsidize their own production, with the effect of producing huge surpluses. Using export and transport subsidies, they have sold the extra production to poor countries at prices that in spite of very low local production costs in developing countries made it virtually impossible for the latter to compete. Examples of traded agricultural products include highly subsidized cotton, corn, soybeans, wheat and rice exported from the US and out-competing producers in Mali, Burkina Faso and other African countries whose economy is highly dependent on such products; subsidized tomato growers in Spain hurting tomato growers in Senegal; and subsidized cheap poultry, milk powder, onions, fruits and other agricultural products sold by EU countries in Africa and elsewhere in the South. Fishermen on the West Coast of Africa are having increasing difficulties catching fish because big fishing fleets of the northern countries, with highly subsidized modern equipment and fuel for their vessels, operate along their shores. In 2006, the EU spent more than 200 million euros to buy fishing rights in foreign seas (Der Spiegel 2007b). For Sub-Saharan Africa, the impact of such trade is disastrous because a large proportion of the population lives on agriculture and fisheries.

Asymmetric trade extends also to the manufacturing sector. It harmed the textiles and clothing industry, which provided the main source of exports and foreign exchange earnings for many African countries. Second-hand clothes collected in good faith by charity organizations in Europe and North America have been shipped to Zambia, Kenya and Tanzania. They are sold there duty-free by local traders at prices that undercut the price levels of the infant domestic textile and clothing industries, throw local firms out of business and workers out of jobs, and fail to generate the income that is needed for the development of local market and consumption power. This sort of destructive commerce was made possible after the countries in eastern Africa rapidly opened their markets in the 1990s, in exchange for loans from the World Bank and other international donors (Jeter 2002). Lessons from 19th century economists (e.g., Friedrich List) according to which a country should protect its infant industries and open only gradually after local industries have matured and become competitive have obviously been forgotten. The African clothing industry continues to face upheavals as WTO negotiations on non-agricultural market access (NAMA) erode the tariff preferences that are essential for the competitiveness of that industry. Bilateral trade

agreements have been concluded between rich and the poor countries whose net benefits worked largely in favor of the rich. As a result of such practices, many manufacturers, farmers and fishermen in Sub-Saharan Africa and South Asia have been driven out of the market.

The subsidies provided by developed countries on agricultural products are to end in 2013. But new initiatives have been taken as part of the Doha round of WTO trade negotiations that could further disadvantage the poorer developing countries. Asymmetry manifests itself in the barriers, and the growing restrictions, to diffusing technology and knowledge through globalization. In the emerging regime of trade-related intellectual property rights (TRIPS), poor countries find it difficult to learn or adopt the production technology embodied in the goods and services they import. Another problem arising for them when removing import tariffs is that they lose an important source of public revenues that can be used to develop local infrastructure.

Labor Migration

Yet, the questionable policy stance of the North does not end here. When people in Africa, Latin America and the Caribbean, or Asia, seek to escape the consequences of job and income losses, civil war and increasingly the damage caused by droughts, floods and other effects of climatic change, they try as migrants to knock on the door of Europe, the United States, Japan, Australia and other rich countries. Mostly, they find the doors slammed. More precisely, the rich open the door a little bit, receiving highly qualified workers from the poorer regions of the world. Under the telling title "Give us Your Best and Brightest: The Global Hunt for Talent and Its Impact on the Developing World," a recent study documents and assesses the staggeringly high share of skilled nationals from developing countries who have migrated to rich countries in recent decades. To counteract the effects of increasing human capital cleavage caused by this migration the authors recommend control policies that can directly stem migrant inflows and outflows; compensation policies that share the spoils of emigration with those remaining behind (e.g., countries receiving the returns from the use of migrant skilled labor to compensate the sending countries for their cost of investment in education and training); and connection policies that strengthen diasporic interactions and capital enhanced return (Kapur and McHale 2005).

The strict control of unskilled labor migration by the rich countries and the flow of skilled labor from the developing to the developed countries provide at least a partial explanation why wage equalization through migration does not take place.

The Countries that Fared Better

There remains a compelling case for public policy intervention to foster economic development in the global South. The emerging economy countries with the highest rates of GDP growth from the 1990s to the present, including China, the Republic of Korea, Vietnam, Malaysia and India, have been far from strictly following the free trade doctrine. They have used the opportunities provided by the international market, but they have retained import controls, regulations and subsidies. China still has not liberalized its capital accounts. Also, the East Asian economies went beyond relying on "comparative advantages" starting to develop their endogenous industry potential. Activities of foreign TNCs were controlled in accordance with national policy goals and directed to the transfer and upgrading of technology and the setting of local content rules, in order to maximize technological and economic spillover to the domestic enterprises. The United States, the EU countries, Japan and other advanced countries had themselves gained their prosperity through mixed, extensively regulated economies. For their industrialization, they have consistently deployed industrial policy, performance requirements, soft intellectual property regimes, subsidies, and government procurement. They have been selective, slow and cautious in opening their economies. They protected their infant, and sometimes even their mature, industries. They restricted the entry of foreign investment. Why should the same be denied to the developing countries? What legitimizes the imposition of the Northern WTO agenda on trade and investment on countries of the South that was characterized by two observers as "Do as We Say, Not as We Did" (Chang and Green 2003)?

Doubts may be raised, however, whether the steep growth path of *China* during the last two decades is sustainable. The country already encounters social tensions because it develops highly unevenly, in terms of sectors, regions and urban and rural areas. Even greater conflicts may come from the heavy burden that the present growth pattern produces for the coming generations due to fast degradation of the natural environment whose symptoms are the shortage of clean water, heavy air pollution and health problems. Cancer rates are soaring because of the uncontrolled use of chemicals and pesticides, and polluted air. While China has

been capable of upgrading its economy and technology standards quickly, it also owes part of its competitive performance to product and brand name pirating, wage dumping (stemming from the suppression of free trade unions), and currency dumping (due to keeping the external value of its currency artificially low). It is questionable whether such policies and practices can be maintained for long. They provoke resentment both in the North and the South.

Limits of the Export-led Development Strategy

China is by no means the only case of mercantilist policies that produce adverse repercussions on the competitiveness and balance-of-payments in other parts of the world. Next to China, many countries have resorted to currency devaluation to improve their competitive position in international markets (e.g., Ireland and the Netherlands in the 1980s, the UK in the 1990s, and Switzerland, Japan and Argentina in the early 2000s). In a global perspective, the aggressive export-led strategy, particularly in labor-intensive manufacturing, suffers from a "fallacy of composition". It arises when each country attempts simultaneously to improve its international competitiveness by cutting unit costs, be it by currency devaluation or labor cost dumping, but without paying attention to the problem of aggregate demand in the domestic or world markets. Since by definition global trade has to be balanced, one country's exports are another's imports, and the export surplus of some countries must be matched by a corresponding import surplus of other countries. As a result, not all countries can achieve an export surplus in this strictly zero-sum game through competitive cost reductions. If all try to do so, the inevitable outcome is global overproduction and a global shortage of demand. This situation was already experienced by the advanced industrialized countries in the period between the two World Wars, when after the breakdown of the gold standard they engaged in "beggar-thy-neighbor" policies of competitive devaluation of national currencies, until a Standstill-Agreement could finally be reached in 1936. We witness a similar destructive competition in the present phase of globalization, such as competitive labor market flexibility, competitive tax cuts and tax holidays usually in favor of the rich, or a race among countries of concessions and subsidies, etc., with the effect of out-competing one another in trade and foreign investment.

China has been able to escape the effects of downward competition as it joined the multilateral trading system from a position of strength: spectacular success in export expansion; a sound balance-of-payments position; and abundant international reserves. Unlike

China, however, most developing countries have a weaker economic, political and technological structure, and they do not have the same policy space to set propitious conditions for nourishing competitive enterprises and technological upgrading. Not only are they unable to achieve the required export surplus, they are also restrained from turning towards their internal markets due to restrictive fiscal and monetary policies of their governments (Bhaduri 2005). Many have opened their capital accounts prematurely. Thus, they are placed in a particular disadvantage. Competition among the countries in the South has become fiercer than the competition between the North and the South, and most southern countries have less financial capacity for counteracting the negative effects of this competition. The deadlock confronting the global trade talks in the present Doha Round of the WTO has resulted not only from disputes among the rich nations, and the rich and the poor countries, but also from disagreements between the top tier of the emerging market economies (including China, India and Brazil), a second tier of developing countries (including Mexico and Thailand) complaining that they are shut out by the rapid developers, and a third tier of the poorest countries in Africa that complain that their needs are being ignored (New York Times, July 21, 2007).

Many developing countries that have been pushed toward export-led growth are facing the limits of this strategy for their development. They have grown too slowly to escape unemployment, underemployment and poverty. Export-led growth has made them more, not less dependent on the developed countries. Many are highly vulnerable because their economies depend on one or a few export products and on business cycles in the importing northern countries. An example is the flower industry in East Africa and the Caribbean. Reliance on the export strategy has aggravated their problem of declining terms of trade. Falling prices compel them to export even more, thereby compounding the problem of falling prices. This vicious cycle has long been visible for producers of primary products. Now, it is also observed in manufacturing following the delocalization of manufacturing capacity from the industrialized countries. The countries that have borrowed in hard currency usually need to service their debt also in hard currency. As they have no other means than earning repayment from exports this makes it likely to push them even further toward export-led development. As mentioned above, a further pathology of export-led growth is the unintended creation of excess capacity in the manufacturing sector, in individual countries and globally.

The contradictions inherent in the export-led growth regime suggest that the prevailing dominant development paradigm should be revisited. An open economy should not be viewed as a reliable substitute for a domestic development strategy. Countries of the South should consider placing greater emphasis on developing their domestic economy and internal institution building, at least until they have acquired greater strength in their home markets. The rich countries and the international financial institutions that have advocated, promoted, and even pushed the growth of the external economy should revise their strategy correspondingly. A paradigm emphasizing demand-led growth will require a constellation of policy shifts including adequate development finance and financial reforms that ensure stable capital flows, notably to the poorer developing countries, and a set of commonly agreed rules for globalization, including international labor standards. Moreover, deep domestic development requires growing wages and an improved distribution of current income in favor of the poor.

CONCLUSIONS

Prevailing poverty is closely inter-linked with un- and underemployment, deficits in the quality of employment, poor productivity, particularly in the much enlarged informal economy, and increased economic and social inequality of income and productive assets, both within and across countries. Raising employment rates, augmenting the quality of jobs, and boosting productivity are among the most urgent, promising and sustainable avenues of combating poverty.

There are no insurmountable trade-offs between the quantity and the quality of employment, and between employment expansion and productivity improvement. The two objectives can be complementary if they are embedded in comprehensive and integrated policy frameworks, combining the micro level and the macro level of the economy.

The contemporary world has the technical capacity and the financial means to eradicate poverty anywhere, including in the least-developed countries. Notwithstanding this option—and despite existing international agreements and political commitments of world leaders—poverty reduction is slow or absent in a fair number of nations.

The reasons for the persistence of poverty and related deficits of employment and productivity are complex. Not just straight economics but political economy analysis is required to understand them. The reasons can be traced to attitudes and postures, including

parochialism, lacking far-sightedness, and above all, power positions—often used ruthlessly to represent particularistic instead of common interests, notably on the part of the powerful nations and power-holding elites in the developing countries. So, they concern issues of fairness and equity which the market alone cannot resolve. The world is only partly on a path of convergence. A limited number of emerging economies have been catching up with the industrialized world. The majority of developing countries have seen a widening of their development gap with the rich world. Among other things, this calls into question heavy reliance on the dominant export-led development paradigm.

Appendix

Productivity and 'Decent Work': The Role of International Labor Standards

Worldwide compliance with, and full implementation of, international labor and social standards would greatly facilitate productivity enhancement and poverty alleviation.

Classic economic doctrine holds that the conditions of work and life depend on the real income of each country. Labor conditions cannot be lifted "artificially" beyond what economic growth permitted (Feis 1927). By contrast, the ILO, from its beginning, maintained that the rise of labor conditions would not simply come in the wake of economic progress, but required a pro-active approach based on legal rights and international agreement. While it cannot be denied that economic growth facilitates the improvement of the terms of employment and labor, productivity growth as its most important component is contingent on the conditions of labor. In other words, labor standards are both an output of, and an input to, growth.

ILO's agenda of tackling the issue of employment, productivity and poverty is laid down in its document "Working Out of Poverty" (ILO 2003). It is guided by ILO's international labor standards (ILS). Their economic and social aim is to enable workers and employers to participate in the fashioning of the economic processes which affect them directly or indirectly, protect them from adverse effects, and promote socially acceptable adjustment of the economy. The standards include the eight core conventions laid down in the 1998 ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up (covering freedom of association and the right to collective bargaining and freedom from child labor, forced labor and discrimination in employment and occupation), and a host of social standards on the promotion of employment, skills training and human resources development, public and private employment services, employment and income protection, social security, occupational health and safety, minimum wages, maximum hours of work, rest periods, conflict resolution, protection of workers with special needs, such as women, handicapped persons and migrants, labor inspection and labor statistics. These are all part and parcel of ILO's decent work agenda.

ILS are instrumental to establish the legal and institutional framework for human resources development, ensure equity and justice in the work process, and provide a measure of certainty and predictability easing constraints on investment. They can be useful to avoid

the over-use, as well as the under-utilization, of working capacity and the exploitation of vulnerable individuals and groups in the labor market.

The salutary impact of ILS on productivity is increasingly recognized (for a synthesis of economic, social and political dividends of ILS: see Sengenberger 2005). In 2000, OECD published the results of a survey of empirical studies on the impact of all core ILS for 75 developed and less developed countries. It was found that countries which strengthen their core labor standards can increase economic efficiency by raising skill levels in the workforce and by creating an environment that encourages higher productivity and innovation (OECD 2000).

Here are three illustrations of the economic benefits from observing ILO standards:

Equality of Treatment and Social Inclusion

One of the largest untapped potentials for stepping up the rate of economic growth is to provide equal opportunity and treatment in employment and occupation by eliminating discrimination (in accordance with ILO Convention No. 111), and ensuring equal pay for work of equal value (ILO Convention No. 100). The two ILO instruments are now almost universally ratified, but they are far from being fully implemented.

The source of higher economic growth in a regime of equal opportunity is obvious. It allows the fuller and better use of available talents, knowledge, skills and experience, and increases the effort that workers are willing to make when they feel equitably treated. Furthermore, better access of particular groups, such as women, minorities or disabled workers to the labor market increases the rate of employment that next to productivity is a key determinant of GDP growth.

A study by the World Bank revealed that per capita income in South Asia, Sub-Saharan Africa, and MENA could have grown 0.5–0.9 percentage points faster than it did in the period 1960–1992, had these regions closed their gender gap at the same rate achieved in East Asia in that period. Gender disparities are greatest on average in poorer countries. Within countries, these disparities tend to be greatest among the poorer households. Generally, it was found that in developing countries, better access of women to education, vocational skills, land and credit results in improved labor market outcomes and higher productivity growth (King and Mason 2001).

To combat discrimination, equality of treatment needs to be mainstreamed in national action programmes, and promoted through more integrated and better-coordinated global action; in many countries it requires more appropriate laws and better law enforcement; it can be promoted through non-regulatory initiatives, such as government purchasing, and lending and investment policies; and finally, social partners should be equipped to make equality a reality at the workplace through collective bargaining and company codes of conduct.

Social Protection

There are various elements of social protection, including employment protection; income protection in case of unemployment, sickness, disability, maternity and old age; and occupational safety and health. All of them have the potential to make the economy more performing.

Occupational safety and health of workers is part and parcel of human security. At the same time, safety at work is of enormous economic significance. Its absence entails heavy costs to employees, employers and society at large. Regulation for the prevention of accidents and occupational diseases is, therefore, profitable for enterprises and the economy as a whole. It has the effect that the cost of safety and health standards are internalized to firms, instead of being shifted to workers or the public.

The ILO has estimated that each day, an average of 5000 people die as a result of work accidents and diseases globally. Approximately four percent of world GDP is lost with the cost of injury, death and disease (ILO 2005b). This calculation takes only a fraction of the total economic burden into account. Visible cost items include medical care and rehabilitation, disability pensions, property damage, loss of raw materials, police and fire services and costs for benefit administration. Invisible or indirect costs include loss of working capacity and employability, loss of wages and fringe benefits, loss of production, work place disruption, workforce retraining, re-staffing, absenteeism, loss of markets and loss of goodwill of the firm.

The enormous human and economic loss from work-related accidents and diseases suggests that it is worth investing more in preventative measures. ILO's strategy on occupational safety and health involves the application of relevant ILO conventions, standard enforcement, research, development of indicators and guidelines, development of inspection

systems, information and advisory services, promotion and partnerships, and technical cooperation (ILO 2005b).

Employment protection and income protection are essential ingredients of the flexibility required for labor market functioning. At the same time, flexibility for adjustment is needed to produce the economic means for financing security provisions. Hence, security and flexibility depend on each other. Social protection assumes even greater importance when a national economy opens up to international markets, and is therefore exposed to greater risks of volatility (e.g., through contagion to economic crises anywhere in the world), and also to the more rapid changes of demand associated with global markets. Faster structural change accentuates the need for both quantitative and qualitative adjustment in the labor market. It will lead to higher rates of structural and frictional unemployment unless it is counteracted by active labor market policies and employment services to avoid mismatch. If workers are not reasonably shielded from the negative impact of change, they will be unlikely to cooperate in the implementation of change. Positively stated, a secure worker is more willing to take risks and cooperate in change. Therefore, protective labor standards are not an impediment to sustained openness and efficiency, but one of their most important prerequisites.

The first wave of globalization ended abruptly for most countries in Europe during the 1920s because at that time national governments knew no other ways than protectionist measures in the commodity markets to shield their countries from the adverse impact of trade. It was only after social protection was built up within their welfare states that the social risks of openness, such as mass emigration and protectionism, could be contained. Hence, social protection should be considered as a positive alternative to protectionism in the form of tariffs, quotas and other import restrictions in product markets, or restrictions on labor migration.

Social protection is still unsatisfactory in many parts of the globe, notably in the poor countries. The ILO estimates that no more than 20 percent of the world's labor force are covered by adequate social protection schemes. Social security arrangements and social services can reduce poverty. There is evidence from Europe that social transfers reduce the risk of poverty by up to two thirds (in countries like Denmark, Sweden and the Czech Republic, and by about one half in France and the Netherlands (EUROSTAT 2006)).

Minimum Wages

There is a social and an economic function of minimum wage fixing. The first one is to secure a living wage. The second one is to provide an impetus to firms to promote competence and the efficient use of resources. Without an effective floor to pay and other terms of employment, there can be underbidding of wages leading to low pay and a downward spiralling of remuneration. The need for a floor on wages has long been acknowledged. Its importance was stressed already by Winston Churchill in the British House of Commons in 1909, when he famously remarked that "[without a wage floor] … the good employer is undercut by the bad and the bad employer by the worse." In the absence of a minimum wage which may be set by statute, government decree or collective agreement, technologically and managerially backward firms can easily survive, and this prevents more efficient and more advanced firms from expanding their share of the market. Conversely, where minimum pay standards are set, downward flexibility is blocked. Firms have to seek competitive advantages in other, more constructive and inventive ways, i.e., in labor conditions which are above the minimum standard. Firms that are unable or unwilling to meet the standard will be squeezed out of the market, and their market share is taken over by the more performing firms. In this way, minimum wages act as a spur to dynamic efficiency. They put pressure on employers to improve management, technology, products and processes, and to make better use of their workers by improved human resources policies. So, the economic effect of a floor set by minimum wages is twofold. It takes destructive competition out of the labor market, and it shifts competition on to the product market and product quality.

A study using data in 30 developing countries, mainly in Africa and Latin America, revealed that raising the minimum wage contributes to the reduction of wage inequality and poverty without any significant negative effect on the level of employment. There was also no evidence that the ratio between the minimum wage and the average wage would affect the size of the informal economy in Latin America. The finding supports the view that in this region, wage rigidity in the form of a wage floor is not the main reason for the large volume of informal employment (Eyraud and Saget 2005; Saget 2001).

Appendix: Tables

Table 1. Estimates of numbers and rates of working poor in Africa and in other world regions in 1996 and 2006, or latest year available

	$1 a day working poverty			$2 a day working poverty		
Region / Year	1996	2006	2015 (proj.)	1996	2006	2015 (proj.)
	Numbers of working poor (millions)					
Africa	125.0	152.8	182.9	208.6	260.3	316.7
North Africa	1.5	1.5	0.9	22.3	24.8	23.5
Sub-Saharan Africa	123.5	151.3	182.0	186.3	235.5	293.2
	Rates of working poor as percent of total employed					
Africa	48.3	46.2	44.1	80.7	78.6	76.4
North Africa	3.4	2.6	1.3	51.7	42.7	32.7
Sub-Saharan Africa	57.3	55.4	53.1	86.5	86.3	85.6
East Asia		12.1			44.2	
South East Asia and Pacific		11.1			56.9	
South Asia		34.4			87.2	
Latin America and Caribbean		11.3			30.9	
Middle East		3.0			27.6	
World		17.6	13.1*		47.4	40.8*

Source: ILO, African Employment Trends, Geneva, April 2007, pp. 14 and 16.

Table 2. Annual GDP growth rates (in %) required to achieve the halving of working poverty rate by 2015 and growth projections for 1995-2005

Region	Growth rates required to halve working poverty: $1 a day	$2 a day	Growth rate 1995-2005
East Asia	3 – 4	6 – 8	7.9
South East Asia	4 – 5	10 +	4.1
South Asia	5 – 6	10 +	5.8
Latin America & Caribb.	3 – 4	4 – 6	2.4
Middle East and North Africa	4 – 5	8 – 10	4.0
Sub-Saharan Africa	8 +	10 +	3.7
Transition Countries	4 – 5	8 – 10	3.3

Source: Kapsos (2004).

Table 3. Poverty and income inequality in medium-level development countries with comparable per capita income

Country	HDI rank*	Per capita income (dollars in PPP), 2004	Poverty** (below $1)	Gini-Index***
China	81	5,896	16.6	44.7
Peru	82	5,678	12.5	45.6
Philippines	84	4,614	15.5	46.1
Jordan	86	4,688	≤2.0	38.8
Paraguay	91	4,813	16.4	57.8
Sri Lanka	93	4,390	5.6	33.2
El Salvador	101	5,041	19.0	52.4
Algeria	102	4,439	≤2.0	35.3
Jamaica	104	4,163	≤2.0	37.9
Egypt	111	4,211	3.1	34.4
Guatemala	118	4,313	13.5	55.1
Morocco	123	4,309	≤2.0	39.5

Sources: UNDP, Human Development Report 2006, Tables 1, 4, and 15.
* Country Rank on the Human Development Index 2004.
** 1990-2004: most recent year available in period.
*** A value of 0 represents perfect equality, and a value of 100 perfect inequality.

Table 4. Rates of labor force participation, employment, and unemployment (in %), by world region, in 1994 and 2005

Region	LFPR		LFPR		Employment rate		Unemployment rate	
	1994	2004	2004		1994	2004	1994	2004
			Male	Female				
World	66.9	65.7	79.0	52.5	63.0	61.5	5.9	6.3
Developed economies	60.5	60.4	69.1	52.2	55.6	56.2	8.2	7.0
CEE and CIS	61.9	57.9	67.6	49.3	57.0	52.6	7.9	9.2
East Asia	78.1	75.0	82.0	67.7	75.5	72.3	3.4	3.6
South East Asia & Pacific	69.5	70.2	82.7	57.8	66.9	65.8	3.7	6.2
South Asia	61.6	60.0	82.2	36.8	59.2	57.2	3.9	4.8
Latin America & Caribbean	63.8	65.7	80.8	51.4	59.1	60.5	7.3	8.0
Middle East & North Africa	51.7	53.2	77.0	28.4	45.1	46.5	12.7	12.5
Sub-Saharan Africa	76.2	74.1	85.9	62.7	68.6	66.6	9.9	10.2

Source: ILO, Key Indicators of the Labor Market, 4th edition, Geneva 2006, pp. 85, 147, and 370.

Table 5. Rates of employment of the population 15+, by sex, for selected regions and countries (%)

Country	Year	Total	Men	Women
Industrialized Countries				
Norway	2004	69.5	72.7	66.5
Sweden	2004	66.0	68.2	63.7
Germany	2004	51.8	58.3	45.6
Bulgaria	2004	40.6	43.9	37.6
United States	2004	62.3	69.2	56.0
Canada	2004	62.7	67.8	57.8
Asia				
China	2001	57.2	n.a.	n.a.
India	2000	56.2	78.8	32.9
Bangladesh	2000	69.7	84.4	54.0
Nepal	1999	83.3	88.3	80.5
Pakistan	2002	39.8	65.6	12.1
Middle East and North Africa				
Yemen	1998	28.2	52.1	4.2
Iran	1996	32.1	55.7	7.9
Jordan	2003	32.0	54.7	8.9
Syria	2002	47.0	74.8	17.8
Egypt	2001	43.5	70.6	16.0
Tunesia	1997	40.9	n.a.	n.a.
Morocco	2003	45.7	68.4	23.7
Turkey	2004	43.7	67.8	22.9
Sub-Saharan Africa				
Ethiopia	1999	69.4	80.1	58.5
Tanzania	1991	82.0	85.0	79.2
Ghana	1992	80.8	80.8	80.5
South Africa	2002	39.4	46.4	33.1
Latin America				
Costa Rica	2001	56.6	75.7	38.5
Peru	2002	62.5	72.3	53.4
Brazil	2001	54.8	67.4	43.1
Chile	2003	49.2	66.3	32.7
Argentina	2003	43.3	52.7	35.0

Source: ILO, Key Indicators of the Labor Market, 4th edition, Geneva 2004, pp. 149-159.

Table 6. Labor productivity in selected regions and countries, 2003 or 2004

Country	Year	GDP per person employed (1990 dollars)	GDP per hour worked (1990 dollars)	GDP per person employed in manufacturing
United States	2004	63 617	34.97	91 801
France	2004	54 198	39.09	66 196
Germany	2004	43 899	30.42	56 413
UK	2004	46 472	28.78	60 422
Japan	2004	44 122	25.23	63 727
China	2003	8 380	n.a.	7 384
Korea, Rep. of	2004	35 177	26.05	44 910
Indonesia	2003	8 385	n.a	4 969
Bangladesh	2003	3 023	n.a	n.a.
India	2003	5 781	n.a.	5 200
Pakistan	2003	7 360	n.a.	n.a.
Iran	2003	14 250	n.a.	n.a.
Jordan	2003	12 962	n.a.	n.a.
Yemen	2003	9 662	n.a.	n.a.
Egypt	2003	8 640	n.a.	n.a.
Algeria	2003	8 453	n.a.	n.a.
Morocco	2003	7 545	n.a.	n.a.
Ethiopia	2003	1 284	n.a.	n.a.
Tanzania	2003	1 214	n.a.	n.a.
Kenya	2003	1 952	n.a.	n.a.
South Africa	2003	10 097	n.a.	n.a.
Ghana	2003	2 826	n.a.	n.a.
Côte d' Ivoire	2003	3 214		
Mexico	2004	21 823	10.35	10 300
Argentina	2003	20 655	10.85	n.a.
Brazil	2003	14 455	7.85	3 819
Chile	2003	27 794	14.08	n.a.

Source: ILO, Key Indicators of the Labor Market, 4th edition, Geneva 2006, p. 814.

Table 7. Employment elasticities of GDP growth by world region (selected), age group and sex, and GDP growth, 1991-2003

	Employment elasticities			GDP growth (percent)		
Period	1991-1995	1995-1999	1999-2003	1991-1995	1995-1999	1999-2003
Region						
World	0.34	0.38	0.30	2.9	3.6	3.5
-Youth	-0.02	0.11	0.06			
-Women	0.40	0.44	0.33			
-Men	0.30	0.34	0.29			
North Africa	0.30	0.74	0.51	2.2	4.8	4.1
-Youth	0.24	0.71	-0.34			
-Women	0.41	1.04	0.59			
-Men	0.26	0.65	0.50			
Egypt	0.53	0.48	0.33	4.1	5.3	3.7
-Youth	0.89	0.72	-1.43			
-Women	0.39	0.39	0.83			
-Men	0.56	0.50	0.21			
Middle East	1.10	1.29	0.91	3.9	3.0	4.1
Sub-Saharan Africa	0.73	0.82	0.53	1.1	3.2	3.2
East Asia	0.14	0.14	0.18	11.6	7.4	7.7
South-E-Asia & Pacific	0.39	0.20	0.42	7.4	1.6	4.8
South Asia	0.40	0.49	0.36	6.0	5.8	5.1
Latin America	0.65	0.70	0.45	3.5	2.7	1.4
Caribbean	0.43	0.37	-0.42	1.9	5.2	2.5

Source: Kapsos 2005, pp. 8-19.

Table 8. World and regional income, exports and capital flows, 1985-2002

Indicator	$ billion		Rate of increase	Percentage share	
	1985	2002	1985 – 2002	1985	2002
Gross domestic product					
China and India	559	1922	3.4 fold increase	4.4	6.0
Low-income countries, excl. India	579	635	1.1 fold increase	4.5	2.0
Middle-income countries, excl. China	2 234	3 703	1.7 fold increase	17.5	11.5
High-income countries	9 393	25 867	2.8 fold increase	73.6	80.5
World	12 765	32 127	2.5 fold increase	100	100
Exports of goods and services					
China and India	79	685	8.7 fold increase	3.4	8.7
Low-income countries, excl. India	83	215	2.6 fold increase	3.6	2.7
Middle income countries, excl. China	334	1 227	2.8 fold increase	18.7	15.6
High-income countries	1 719	5 733	3.3 fold increase	74.3	72.9
World	2 314	7860	3.4 fold increase	100	100
Inflows of FDI					
China and India	1.7	62.0	37 fold increase	2.9	9.8
Low-income countries, excl India	1.9	7.1	3.7 fold increase	3.3	1.1
Middle-income countries, Excl. China	9.7	79.1	8.1 fold increase	16.8	12.5
High income countries	44.7	484.3	10.8 fold increase	77.1	76.8
World	58	633	10.9 fold increase	100	100
Inflows of total portfolio investments					
China and India	2.3	49.8	22.0 fold increase	1.7	6.9
Low-income countries, excl. India	0.05	0.07	1.3 fold increase	0.04	0.009
Middle-income countries, excl. China	9.1	30.0	3.3 fold increase	6.7	4.2
High-income countries	123.9	639.9	5.2 fold increase	91.6	89.9
World	135.2	719.8	5.3 fold increase	100	100

Source: Gunter and van der Hoeven, 2004, p. 10.

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