Regaining the consensus for globalisation[i]

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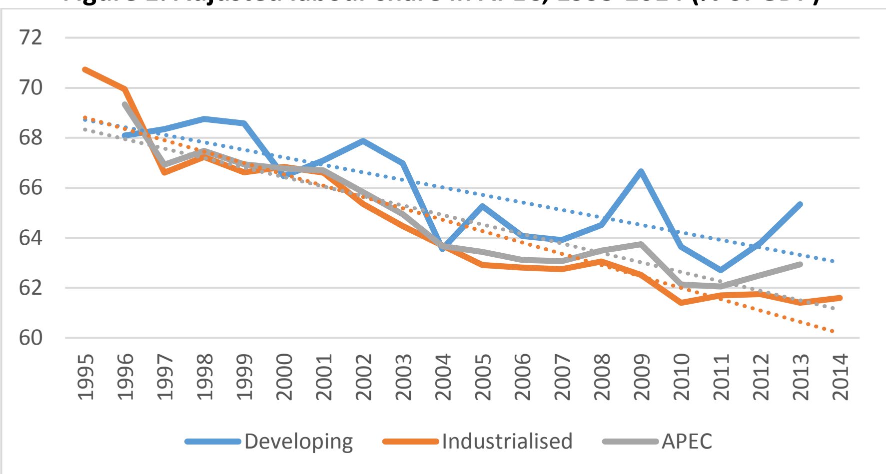
It was not very long ago when discussions about globalisation were so hopeful. Globalisation was an irreversible and unambiguous force for good. Trade openness and investment liberalisation were to lead us to unprecedented growth and prosperity, and therefore poverty reduction and rising living standards. Greater economic integration due to trade and investment linkages were also supposed to reduce the likelihood of wars and conflict. Those hopeful cheers about globalisation are long gone, and the public discourse on globalisation has increasingly been dominated by gloom and cynicism.

For the most part, globalisation has delivered on its promise of greater growth and prosperity. Numerous studies have documented the benefits of trade and regional economic integration not only on economic growth but also on poverty reduction (Fajgelbaum and Khandelwal 2014; Wacziarg and Welch 2008; World Bank and WTO 2015). Technological innovation—a key ingredient in economic growth—is also synergistically related to globalisation.[ii] On one hand, the exchange of capital, knowledge, and information made possible by globalisation contributes to the advancement of technology through research and development. On the other, improved technologies for transportation, logistics, communication, and financial transaction push forward globalisation and regional integration through global value chains.

However, while globalisation is rightly credited with greater prosperity in recent decades, a key criticism is that its benefits have not been broadly distributed, adversely affecting workers due to ensuing changes in demand for labour and skills (Dabla-Norris et al. 2015; IMF, World Bank and WTO 2017). Indeed, even within the APEC region the labour share of GDP—a common macro-level indicator of distribution—has been on a downward trend in 1995-2014, coinciding with the period when globalisation and technological innovation were on an upswing (Figure 1).

Figure 1. Adjusted labour share in APEC, 1995-2014 (% of GDP)



Notes: Labour shares are adjusted to account for informal sector wages, which can be significant especially in developing economies. Computationally, we multiply the compensation of employees from national accounts data by the ratio (Employees + Self-employed)/(Employees). Industrialised APEC economies are Australia; Canada; Japan; New Zealand; and the United States; developing APEC economies are all other APEC economies not classified as industrialised. Aggregates are weighted by GDP. Compensation data are not available for Indonesia and Viet Nam. Dotted lines are trendlines.
Source: ILO, OECD, UN, WB, economy sources, and PSU staff calculations.

This phenomenon of falling labour shares is not unique to APEC. Several studies have noted the decline of labour shares in recent years (e.g., IMF 2017; ILO and OECD 2015). A falling labour share indicates increasing income inequality: low-skilled workers bear most of the brunt of lower wages while middle-skilled occupations also experience a decline in real earnings. Meanwhile, a lower labour share translates to a higher capital share and, since the majority of capital owners belong to the top income distribution bracket, a higher compensation to capital leads to rising income inequality (IMF 2017). A falling labour share also indicates slower wage growth compared with the growth of labour productivity (Schwellnus et al. 2017), which has implications on the ability of markets to fairly compensate workers for their productivity. This decline in labour share, rising inequality, and a perception that the gains of economic growth have not been shared equally has contributed to increasing hostility towards economic integration and shifting preferences towards more inward-looking policies (IMF 2017).

The causes of the declining labour share of income are complex and multi-layered. First-order causes would be domestic policies: for example, studies have shown that tax policies, deregulation, and privatisation can contribute to a falling labour share (IMF 2017; OECD 2012). However, domestic policies alone cannot explain the trends in labour share being observed around the world. There must be forces at the international level that are causing this trend. Two main causes of falling labour shares have been identified in the literature, and they are the synergistic forces of globalisation and technological change (Autor et al. 2017; ILO and OECD 2015; IMF 2017).

Technological advancements in recent decades have not only made machines, robots, and computers more efficient in performing tasks, they have also made them more affordable through enhanced production methods and global value chains. Consequently, the relative cost of accessing production capital has fallen to the point that it is often more efficient for firms to automate certain tasks—i.e., replace labour with machines—particularly routine ones (OECD 2012; Driver and Muñoz-Bugarin 2010; Karabarbounis and Neiman 2013).

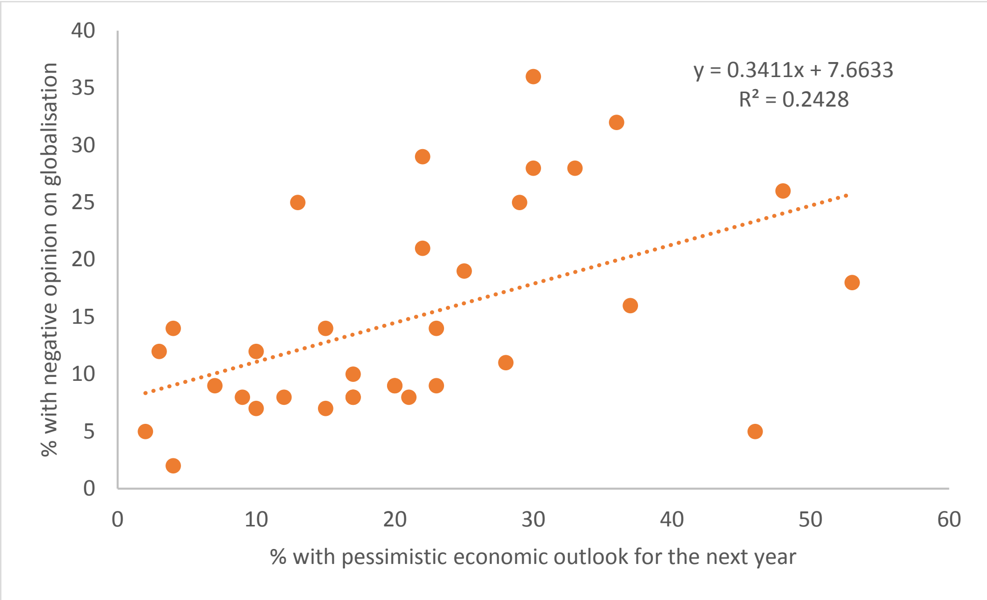
Analysis conducted by IMF (2017) which looked at changes in labour shares over the long term showed that technological advancement along with “routinisation” (i.e., the ability to automate certain job tasks) are the largest contributors to the declining labour income shares in developed economies. Even in labour-abundant developing economies, the increasing efficiency and cost-effectiveness of new technologies could tilt production capital-labour ratios in favour of capital.

Adding to the impacts of changing technology is globalisation which has led to the formation of global value chains and, therefore, more imports and offshoring (Amiti and Wei 2005; Hummels et al. 2011)—activities which have been associated with job losses, particularly at the middle-skill level. In the case of developed economies, competition from imports makes it imperative that lower-skill, labour-intensive stages of production are relocated to developing economies where wages are relatively cheaper. Imports also lead to access to cheaper capital goods (e.g., machines and computers), making labour relatively more expensive and hence encouraging firms to automate. Essentially, by facilitating factor reallocation and relocation, globalisation has lowered the bargaining power for labour to negotiate for higher wages (Harrison 2005).

Where do we go from here?

Regaining the consensus for globalisation requires reigniting people's hopes. Globalisation and technological advancements lead to many changes, and people's opinions on them hinge on whether these changes make them hopeful or pessimistic about the future. Public opinion data by Pew Research shows that people with a pessimistic economic outlook[iii] also tend to have a negative opinion on globalisation[iv] (Figure 2). Indeed, if you think globalisation means jobs may be taken by a computer or shipped abroad, then you will not have a favourable opinion of globalisation.

Figure 2. Correlation between pessimism and anti-globalisation opinion, 2014



Notes: Data covers 940 respondents across 44 economies.
Source: Pew Research Global Attitudes data[v] and PSU staff calculations.

Making people more hopeful about the future in the face of globalisation and technological change thus requires addressing structural unemployment. While structural unemployment has many causes, technological change and globalisation contribute to skills mismatches and economic realignments that can make workers insecure about the future.

Addressing structural unemployment and skills mismatches begins with improving access to and the quality of education and training, especially among disadvantaged groups and workers. Primary and secondary education is the bedrock of any future skills development and contributes to equalising opportunities for all people and allows them to access the new jobs created by technological change and globalisation.

In order to assist workers displaced by various economic forces, economies need to implement active labour market policies (ALMPs) that ensure a timely, coordinated, and holistic approach to responding to skills gaps and mismatches while providing support and protection to workers. ALMPs cover various aspects of skills development, social protection, and employment.

These include policies and programmes on skills training and apprenticeships, gathering and disseminating labour market information, providing unemployment benefits, and job counselling (Figure 3). Coordinating these policies and activities is crucial for equitably distributing opportunities and ensuring inclusive growth while assisting displaced workers and promoting efficiency in the labour market.

Figure 3. Active Labour Market Policies

Source: APEC Economic Policy Report 2017 Factsheet.[vi]

The role of social protection and safety net programmes cannot be overemphasised. By providing assistance and income security to workers and households, these programmes help people weather uncertain economic environments. If designed as part of a set of coordinated ALMPs, they can also help unemployed workers find appropriate jobs and provide them with opportunities for skills development.

Hope and security for one's future are aspirations shared by all people. Everyone wishes the best prospects for themselves and their families. Globalisation and technological advancements, by their dynamic nature, contribute to a sense of uncertainty and insecurity. Part of the attraction of anti-globalisation and protectionism is nostalgia for simpler and more certain days of yore: bringing back the jobs and communities of yesteryears without the nuances and complexities of today's world. Regaining the consensus for globalisation requires retaking the high ground of hope, showing people that globalisation still holds the promise of greater—and this time more broadly shared—prosperity.

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[i] This article is adapted from the theme chapter of *APEC Regional Trends Analysis* November 2017 by E.A. San Andres, A. Wirjo and S.K. Singh: https://www.apec.org/Publications/2017/11/APEC-Regional-Trends-Analysis-2017
[ii] See, for example, National Research Council. 1988. *Globalization of Technology: International Perspectives*. Washington, DC: The National Academies Press. https://doi.org/10.17226/1101.
[iii] To gauge economic outlook, respondents were asked, "Over the next 12 months do you expect the economic situation in our country to improve a lot, improve a little, remain the same, worsen a little or worsen a lot?"
[iv] To gauge opinion on globalisation, respondents were asked, "What do you think about the growing trade and business ties between (survey country) and other countries – do you think it is a very good thing, somewhat good, somewhat bad or a very bad thing for our country?"
[v] http://www.pewglobal.org/datasets/2014/
[vi] https://www.apec.org/Publications/2017/11/Fact-sheet---2017-APEC-Economic-Policy-Report