

# **EMPLOYMENT SECTOR**

## **2002/1**

*Working Paper on  
the Informal Economy*

### **Globalization and the Informal Economy: How Global Trade and Investment Impact on the Working Poor**

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Employment Sector  
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## Foreword

This report is the first of a series of papers that were commissioned under the auspices of the ILO Inter-Sectoral Task Force on the Informal Economy in preparation for the general discussion on the informal economy at the 90<sup>th</sup> International Labour Conference (ILC) in Geneva in June 2002. The papers in this series include studies of regional trends, selected country level studies and thematic investigations at the global level. Most of them seek to identify new trends and patterns that have emerged over the last several years and to go into more depth regarding the factors underlying the continuing growth of the informal economy, not only in developing countries, but also in advanced countries and countries undergoing transition. Particular attention has been paid to the impact of globalization, liberalization, privatisation, migration, industrial reorganization and macro-economic policies prompting these trends.

The present paper, *Globalization and the Informal Economy: How Global Trade and Investment Impact on the Working Poor*, has been prepared by Marilyn Carr, Institute of Development Studies, Sussex, and Martha Alter Chen, Harvard University. It seeks to pull together existing empirical evidence on globalization and the informal economy with a special emphasis on women workers and producers. It shows how globalization tends to lead to shifts from secure to insecure forms of employment and to more precarious forms of self-employment. It also recognises that globalization can indeed lead to new opportunities in the form of new jobs for wage workers and new markets for the self-employed.

The reader will observe that nearly all of the papers in this series attempt to tackle the problem of conceptualising the informal sector. The development of a conceptual framework for the International Labour Conference report was carried out at the same time as the production and finalization of the papers included in this series. As such it was not possible to agree in advance upon a single concept for use by the authors of these papers.

This paper was prepared under the supervision of Andrea Singh, International Focus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) and Josiane Capt, International Focus Programme on Skills, Knowledge and Employability (IFP/SKILLS), with the assistance of Joanna Jackson. It has been funded under the IFP/SEED Programme.



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## **Introduction**

Globalization means different things to different people. In its broadest sense, the term encompasses all types of economic and cultural transfers between nations - including domination of the media and widespread use of the world-wide web. In a narrower sense, it refers to the economic exchange of goods and services internationally and international financial flows. In this paper, we concentrate on the economic aspects of globalization, and particularly on trade and investment liberalization and its impacts on workers in the informal economy.

Global trade and investment patterns are having a dramatic impact on employment relations and work arrangements around the world. But there is no single meaning of economic globalization for the global workforce. The impact can be both negative and positive and differs by context, by industry and trade, and by employment status. Some of those who work in the informal economy have been able to find new jobs or new markets for their products while others have lost jobs or markets. Moreover, many workers have seen their wages decline, their working conditions deteriorate, or their workloads increase. Although increasing attention is being given to the impact of globalization and trade liberalization on labour, much of what has been written is as yet quite theoretical, very generalized, or mainly anecdotal. In addition, there is a bias towards looking at the impact of globalization on formal wage work and, to a lesser extent, on informal employment. Relatively little has been written on the impact of globalization on women who work in the informal economy.

This paper seeks to fill this gap by focussing on the impact of globalization on those who work in the informal economy, with a special emphasis on women workers and producers. In Section 1, we analyze the growth of the informal economy in recent decades and the links between working in the informal economy and being poor. In Section 2, we discuss the definition and measurement of the informal economy and the links between the informal and formal sectors of the economy. In Section 3, we look at the impact of trade and investment policies on women from three different perspectives: type of worker; sub-sector; and region; and in Section 4, we touch briefly on policy responses and review some of the responses which women's organizations are giving worldwide.

### **1. Globalization and informalization**

Over the past two decades, despite predictions to the contrary, employment in the informal economy has risen rapidly in all regions of the developing world and various forms of non-standard employment have emerged in most regions of the developed world. In the developing world, it was only the once-rapidly-growing economies of East and Southeast Asia that experienced substantial growth of modern sector employment. However, in the wake of the recent financial crisis, most of these countries experienced a substantial decline in formal wage employment and a concomitant rise in informal employment. How many retrenched workers have been reinstated in formal jobs as these economies have begun to recover from the crisis is not yet known. Even before the Asian crisis, official statistics indicated that the share of the informal economy in the non-agricultural workforce ranged from over 55 percent in Latin America to 45-85 percent in different parts of Asia to nearly 80 percent in Africa (Charmes, 1998a).

Why has the informal economy continued to expand and grow? There is no simple answer to this question as different causal factors are at work in different contexts. However, some mix of the following sets of factors would explain the persistence or expansion of the informal economy in most countries, regions, or industries. The first set of factors relates to the pattern of economic growth. Some countries have experienced little or no economic growth, while others have pursued capital-intensive growth or what some observers call “jobless growth”. In both such contexts, not enough jobs are created for all those seeking work. Many frustrated formal job seekers find employment or create their own work in the informal economy. Another pattern of economic growth – “high tech” growth - tends to create more high-skill service sector jobs than lower-skill manufacturing jobs. In such contexts, those without the skills to compete for high-tech formal jobs find work or continue to work in the informal economy. There is another, more optimistic, scenario: namely, “growth from below”. In some regions, countries, or industries, the small business and micro-business sectors are more dynamic and create more jobs than the formal sector.

The second set of factors has to do with economic restructuring and economic crisis. Available evidence suggests that during periods of economic adjustment, whether due to economic reforms or economic crises, the informal economy tends to expand. This is because retrenched workers move into the informal economy when public enterprises are closed or the public sector is downsized. This is also because households need to supplement formal sector incomes with informal earnings in response to inflation or cutbacks in public services.

The third set of factors relates to the globalization of the world economy. Global trade and investment patterns tend to privilege capital, especially companies that can move quickly and easily across borders, and to disadvantage labour, especially lower-skilled workers that cannot migrate easily or at all (Rodrik, 1997). To increase their global competitiveness, more and more investors are moving to countries that have low labour costs or shifting to informal employment arrangements. Furthermore, there has been a radical restructuring of production and distribution in many key industries characterized by outsourcing or subcontracting through global commodity chains. The net result is that more and more workers are being paid very low wages and many of them have to absorb the non-wage costs of production (Ibid.). Globalization also tends to privilege large companies who can capture new markets quickly and easily to the disadvantage of small and micro entrepreneurs who face difficulties gaining knowledge of - much less access to - emerging markets. In sum, globalization puts pressure on low-skilled workers and petty producers by weakening their bargaining power and subjecting them to increasing competition.

Why should the persistence or expansion of the informal economy be of interest or concern? There is a link between working in the informal economy and being poor. Average incomes are lower in the informal economy than in the formal sector. As a result, a higher percentage of people working in the informal economy, relative to the formal sector, are poor. However, there is no simple relationship between working in the informal economy and being poor or working in the formal sector and escaping poverty (Charmes, 1998a, Sethuraman, 1998, and Thomas, 1995). The relationship between informal employment and poverty appears only when informal workers are classified by employment status and by industry or trade. Informal incomes worldwide tend to decline as one moves across the following types of employment: from employer to self-employed to informal and casual waged workers to industrial outworker.

The link between working in the informal economy and being poor is stronger for women than for men. A higher percentage of women than men worldwide work in the informal economy. Moreover, there is a gender gap in incomes and wages in the informal economy. This is because women worldwide are under-represented in higher income employment statuses in the informal economy (employer and self-employed) and over-represented in the lower income statuses (casual wage worker and industrial outworker). For instance, relatively few women are employers who hire others; and relatively few men are industrial outworkers. Even within the same trade or industry, men and women tend to be involved in different employment statuses. In many countries, for example, men traders tend to have larger scale operations and to deal in non-perishable items while women traders tend to have smaller scale operations and to deal in food items.

Available evidence suggests that globalization of the economy tends to reinforce the links between poverty, informality, and gender. This is because global competition tends to encourage formal firms to shift formal waged workers to informal employment arrangements without minimum wages, assured work, or benefits and to encourage informal units to shift workers from semi-permanent contracts without minimum wages or benefits to piece-rate or casual work arrangements without either assured work, minimum wages, or benefits. This is also because globalization often leads to shifts from secure self-employment to more precarious self-employment, as producers and traders lose their market niche. With these shifts, and as more and more men enter the informal economy, women tend to be pushed to the lowest income end of the informal economy: for example, as petty traders or as industrial outworkers.

But globalization can also lead to new opportunities for those who work in the informal economy in the form of new jobs for waged workers or new markets for the self-employed. However, a collaborative effort on the part of grassroots organizations of those who work in the informal economy with sympathetic representatives of non-governmental, research, government, private sector, and international development organizations is needed to enable the most vulnerable segments of society to seize these opportunities.

For this to happen, there needs to be a much more detailed picture of who is in the informal economy and what they are doing, as well as a more detailed analysis of how globalization, particularly trade and investment policies, are affecting the employment arrangements and income sources of those who work in the informal economy. This paper seeks to pull together existing empirical evidence on globalization and the informal economy, including a review of on-going research and action on these issues, and to point out where gaps exist and further work is required.

## **2. The informal economy**

The term “informal sector”, thrust into popular use by an ILO mission to Africa in the early 1970s, is invoked to refer to street vendors in Bogota; shoeshine boys and rickshaw pullers in Calcutta; garbage collectors in Cairo; home-based garment workers in Manila, Montreal, Madeira, or Mexico City; and home-based electronic workers in Leeds, Istanbul, and Kuala Lumpur. Some observers feel the sector is simply too varied or heterogeneous to be meaningful as a concept (Peattie, 1987). However, in the early 1970s and again in the late 1990s, several independent schools of thought converged on the fact that the informal sector as a whole accounts for a significant share of employment and output and cannot, therefore, be dismissed or disregarded. As we enter the 21<sup>st</sup> century, it is clear that the informal sector is

here to stay and needs to be better understood. In addition, given its large size and diversity, as well as the increasing ties and overlaps with the formal sector, many have expressed the opinion that it is not a 'sector' at all and that informal 'economy' is a more appropriate term.

## 2.1 Definition and measurement

Despite the heterogeneity of the informal economy, those who work in the informal sector can be grouped into several basic employment categories:

Employer:

- ◆ owners of informal enterprises
- ◆ owner operators of informal enterprises

Self-Employed:

- ◆ own-account workers
- ◆ heads of family businesses
- ◆ unpaid family workers

Wage Workers:

- ◆ employees of informal enterprises
- ◆ casual workers without a fixed employer
- ◆ homeworkers (also called industrial outworkers)
- ◆ domestic workers
- ◆ temporary and part-time workers
- ◆ unregistered workers

Of course, some persons belong to more than one of these basic categories: those who change jobs or activities across any given unit of time (day, month, year) and those who hold more than one job or are engaged in more than one economic activity at any given time.

It should be noted that the 1993 definition of the informal sector adopted by the 15<sup>th</sup> International Conference of Labour Statisticians (ICLS) only includes one category of informal wageworkers: namely, employees of informal enterprises. Under the 1993 ICLS definition, individual countries can decide what size of unregistered units to include in the informal sector and whether the agriculture sector and domestic workers should be included. Some observers, including the international network called Women in Informal Employment: Globalizing and Organizing (WIEGO), recommend an employment-based definition of the informal sector that would include **all** non-standard wage workers who work without minimum wage, assured work, or benefits, whether they work for formal or informal firms. These observers have begun to use the terms "informal employment" and "informal economy" rather than the term "informal sector".

Whichever definition is used - the enterprise-based definition adopted by the ICLS in 1993 or the employment-based definition recommended by WIEGO - special efforts must be made to improve data collection on the informal economy. In 1997, the ICLS asked the Government of India to convene an International Expert Group on Informal Sector Statistics (called the Delhi Group). The Delhi Group seeks to improve concepts, measures, and methods for collecting data on the size and contribution of the informal sector/economy. Over the past several years, progress has been made in collecting and compiling data on employment in the informal economy by employment status and industrial sector and in

calculating its contribution to the overall economy (largely by Jacques Charmes as consultant to the Statistics Division of the United Nations Secretariat; see UN, 2000). Most recently, the National Sample Survey of India commissioned an Indian economist, Jeemol Unni, to develop and test modules to better capture and measure the informal sector/economy, both rural and urban, in India. These modules were used in the latest round of the NSSO's surveys and the results will soon be published. Interim results suggest that 30 percent more economic units have been captured using the improved measures and methods than had been captured under previous NSSO surveys (N.S. Sastry, Director-General of NSSO, personal communication, 2000).

However, data on the size and contribution of two sub-sectors of the informal economy, home-based workers and street vendors, are still weak. This is, in part, because women are concentrated in these two sectors. Without the efforts of activists to highlight and measure home-based work, and a recent compilation of the findings from a number of micro-surveys, women who work from their homes would still be largely invisible (Chen et al, 1999). Recognizing the limitations of standard official data in this regard, the Delhi Group recently requested WIEGO to write several technical papers on how to improve existing concepts, measures, and methods to better capture home-based work and street vending (Charmes, 1998b,c; Ferran, 1998 a,b; and Pedrero, 1998). The core recommendations made by the authors of these papers were endorsed by the Delhi Group at its second meeting in 1998. In brief, the recommendations call for adding questions on "place of work" and "degree of dependence/independence" in labour force surveys and population censuses; and for collecting data and making estimates disaggregated by gender, formal/informal sectors, and industrial classification (including homework and street vending) in national accounts.

## **2.2 Linkages with the formal economy**

There are three well-known schools of thought regarding the links between the informal and the formal economies: the proponents of these schools are referred to as, respectively, the dualists, the structuralists, and the legalists. The stylized views of each of these schools can be summarized as follows. The dualists view the informal economy as a separate marginal sector - not directly linked to the formal sector - that provides income or a safety net for the poor (ILO, 1972). They argue that the informal economy exists or persists because economic growth or industrial development has failed, as yet, to absorb those who work in the informal economy. The structuralists view the informal economy as being subordinated to the formal economy (Castells and Portes, 1989). They argue that privileged capitalists in the formal economy seek to erode employment relations and subordinate those who work in the informal economy in order to reduce their labour costs and increase their competitiveness. The legalists view informal work arrangements - or, more specifically, unregistered businesses - as a rational response to over-regulation by government bureaucracies (de Soto, 1990). They argue that those who run informal businesses do so to reduce their own costs and increase their own wealth.

In brief, what distinguishes each of these schools is their underlying model of power or power relationships. The dualists subscribe to the notion that there are few (if any) power relationships between those who work in the informal and the formal economies. The structuralists subscribe to the notion that the formal economy exerts a dominant power relationship over the informal economy in its own interests. The legalists subscribe to the notion that informal entrepreneurs exercise their own power - or choice - to operate informally as a response to unreasonable bureaucratic controls. Other observers would argue

for a comprehensive framework that recognizes that the linkages and power relationships between the informal economy, formal sector, and the public sector differ by which segment of the informal economy one is talking about. To illustrate, street vendors often have to vend informally because they are not incorporated in existing regulatory frameworks or because existing regulatory frameworks are too punitive or constraining. Industrial outworkers typically have little bargaining power with those who put out work to them. And self-employed garment makers often have relatively little market knowledge, market access, or bargaining power compared to large garment manufacturers.

### **2.3 Linkages with the global economy**

Workers and producers in the informal economy are linked to the global economy in various ways. A large share of the workforce in key export industries, including garments, textiles, sport shoes, and electronics, work in export processing zones, sweatshops, or from their homes under informal employment arrangements. In this paper, we will focus primarily on women who work from their homes under informal arrangements for global commodity chains.

A global commodity chain is the network that links the labour, production, and distribution processes that result in one commodity or product. Such networks or chains link individual workers and enterprises, often operating under both formal and informal arrangements, spread across several countries to one another within the world economy. These commodity chains can be local, national, regional or global, but with increased globalization, they are becoming increasingly global and more difficult to map. Two kinds of global value chains have been identified, depending on the nature of the product and the production process: buyer-driven chains (e.g. in the footwear and garment sectors) in which retailers govern production; and producer-driven chains (e.g. in the automobile and electronic sectors) in which large manufacturers govern the process. Powerful buyers or producers determine every link in the chain - from production of inputs to the sale of final products - which can reach all over the world (Gereffi, 1994). The trend toward buyer-driven chains is reinforced by technological changes in retailing - notably, the bar code - that allow retailers to stock smaller inventories and change orders more frequently. The result is 'lean retailing' that demands quick and timely supply of goods; what is called the 'just-in-time' inventory system. In the garment industry, many retail companies now monitor their sales on a day-to-day basis using computerized checkout systems to record the most popular items. Because they no longer order large stocks of garments, and require short turnaround supply, the sub-contractors who supply garments have to be located closer to the main markets in Europe and North America. The just-in-time system has led to an increase in homeworking in countries such as Turkey, Morocco, Mexico and Guatemala, and may threaten the large-scale garment sector in Asia.

The net result of these and other trends is that the informal economy, long considered incompatible with economic growth and industrialization, has been expanding in both developed and developing countries. In fact, self-employment, casual labour markets, and sub-contracting rather than union contracts appear to be a defining characteristic of recent economic trends (Castells and Portes, 1989). In the manufacturing sector, informal activities - such as sweatshops, unlicensed factories, and industrial outwork - are proliferating despite the focus on large firms. And, in the agricultural and forestry sectors, most backward linkages - such as production, collection and processing - are still carried out informally. Many industrial homeworkers face insecure jobs and poor working conditions including cramped

quarters, poor lighting, long hours, and low wages. Many self-employed producers face increased competition or loss of markets. For homeworkers to benefit from new work opportunities, they need increased bargaining power and more secure contracts. And for home-based producers to benefit from emerging markets, they need increased bargaining power and greater market access.

### **3. Impact of trade and investment liberalization**

This section looks at the impact of liberalization policies on employment and job quality from three different (but overlapping) perspectives:

- ◆ informal workers in **different employment statuses**;
- ◆ informal workers/producers in **different sub-sectors**; and
- ◆ informal workers/producers in **different regions**.

#### **3.1 Categories of informal workers/producers**

As mentioned earlier, there are three broad categories of informal sector workers/producers, each of whom can be affected either positively or negatively by trade and investment liberalization, as follows:

##### *Owners and Owner-Operators (of Informal Enterprises)*

On the positive side, globalization is providing many new economic opportunities for small businesses through increased access to global markets. There is a fast growing demand in North America, Europe and Japan for commodities such as shea butter and shrimps that can provide increased incomes for small businesses in the South.

On the negative side, many small businesses are closing because of competition from imported goods. For example, most small-scale oil processing businesses in India have closed down following a change in trade policy that allows imported soya oil from the United States of America (Shiva, 2001).

##### *Self-Employed (own-account-workers, heads of family businesses, unpaid family workers)*

As with owner operators, the own-account workers can have new economic opportunities provided through trade and investment liberalization. However, without effective organizing, these workers usually are not able to take advantage of such opportunities because they lack access to the credit, training, technologies and market information needed. Women are most likely to suffer from lack of access to needed resources and information.

On the negative side, many own-account workers also suffer from competition from imported products. For example, most women who earned an income from producing sisal bags in Kenya are now without this source of income because imitation bags from Southeast Asia have replaced their product. Also in Kenya, Uganda and Tanzania, women who used to earn an income from smoking and selling fish have lost their source of livelihoods following the establishment of fish processing factories which have been set up to export fish from Lake Victoria to Europe as a result of investment liberalization policies. In such situations, own-

account workers move into less remunerative sectors of the informal economy such as petty trading or resort to piecework in garment factories or factory-farms where working conditions and earnings are much less attractive.

*Wage Workers (employees of informal enterprises; casual workers; homeworkers or industrial outworkers, domestic workers, temporary and part-time workers, unregistered workers)*

There is growing evidence to suggest that globalization has served to increase the numbers of informal wagedworkers and to increase the insecurity of the existing informal workforce. With the breakdown of a social contract between employers and employees, and the 'race to the bottom' as corporations move from country to country in search of the lowest wage rates, workers are subject to low wages, lack of benefits, and lack of security in their workplace. At the same time, governments are now less able to respond to the vulnerable and disadvantaged sections of the workforce because revenues are decreasing as tariffs and taxes are reduced as part of the globalization process. One estimate is that as much as one third of total tax revenue may have been lost in many countries as a result of trade liberalization. (DAW, 1999).

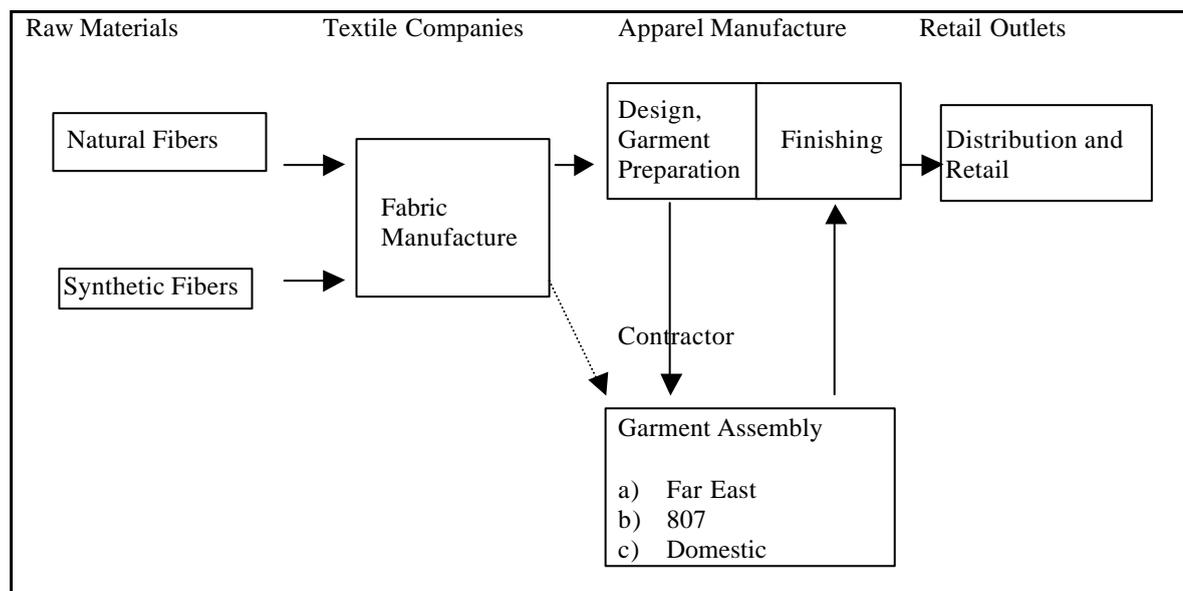
### **3.2 Sub-sectors**

Workers/producers in the informal economy are also affected depending on the type of work they do - and particularly whether they are in a sector that has expanding or declining markets, and whether or not they have control over the returns to their work. With increased globalization, large numbers of workers/producers are now integrated into global commodity chains. To illustrate how women producers/workers fit into commodity/distribution chains, we describe here three of the most researched chains:

#### ***Fashion Garments***

In the case of fashion-oriented apparel chains, there is marked vertical disintegration as major retailers and brand companies have moved out of manufacturing to concentrate only on design and marketing, and now sub-contract or outsource manufacturing to local firms which subcontract to middlemen, which further subcontract to own-account producers and homeworkers (see Figure 1).

**Figure 1: Fashion-Oriented Chain**



Source: Taplin 1994.

Note: This figure is a schematic presentation of the US fashion-oriented garment or apparel industry. "807" refers to a US Department of Commerce regulation that levies duties on value-added on US products assembled overseas.

In addition, as this is an export-oriented industry, it is subject to international trade policies and particularly to protectionist measures in the United States and Europe, which have had a significant effect on the locational patterns of production. If one compares the global sourcing of apparel (where quotas are prevalent) with footwear (no quotas), one sees that far more countries are involved in the production and export networks for clothes than for shoes. This is a quota effect, whereby the array of Third World apparel export bases is being continually expanded to bypass the import ceilings mandated by quotas against previously success apparel exporters (Gereffi, 1994).

Two other factors shape the overseas production network. First, economic competition puts pressure on retailers to locate their production networks in countries where costs are lower -a factor that often results in sudden closures and loss of employment for women when a company decides to move elsewhere. Second, the fashion-oriented segment of the apparel industry encompasses those products that change according to retail buying seasons with most of today's leading apparel firms having six or more buying seasons a year. While these firms utilize numerous overseas factories because of their need for low wages and organizational flexibility, there is increasing evidence that they are now sourcing more from domestic producers and from countries which are nearer to home because of the need to decrease the lead-time needed for delivery (Ibid.). The net result is a highly dispersed and volatile industry in which homeworkers are the least likely to receive pay or even be notified when their contracts end.

Countries and corporations are taking two approaches towards increased competition among developing countries for markets for labour-intensive products such as ready-made garments. The first is to diversify into different types of products for export which have higher profits and less crowded markets. In countries where this is happening, the proportion

of women employed in Export Processing Zones (EPZs) is falling as more men are recruited into the new industries which are technologically sophisticated and which demand higher skill levels (which men are given greater opportunities to acquire). In Malaysia, for example, the proportion of women workers in EPZs fell from 75 percent in 1980 to 54 percent in 1990. The second strategy is to try to maintain or increase market share in existing export industries by undercutting competitors - usually by cutting labour costs. This is what is often called the "race to the bottom" and is neither good for the women workers nor for the countries concerned. It is a common phenomenon, however, and we are now seeing a real downturn in the prices for garments in world markets precisely because corporations are able to bid down labour costs in developing countries. Neither of these strategies seems to work in favour of women. (Joekes, 1999).

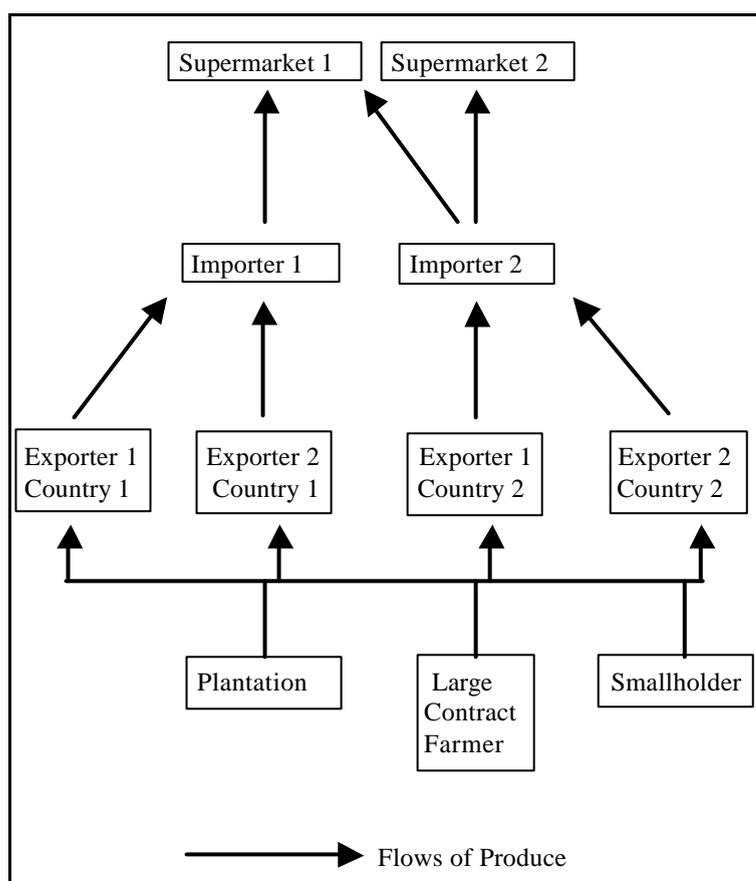
### ***Non-Traditional Agricultural Exports***

An interesting trend in the agricultural sector in Africa and Latin America, and increasingly in Asia, is that of the promotion of Non-Traditional Agricultural Exports (NTAEs) - primarily fruits and vegetables and cut flowers aimed at the European and North American markets. According to one recent source (Barrientos, 1999), these are now part of an expanding world trade in horticultural products, whose total value in 1988/89 was US\$40.3 billion, exceeding trade in cereals, which was US\$38.6 billion.

As with garments, the global value chains for NTAEs are buyer-driven and controlled by a handful of major supermarket chains in North America and Europe (See Figure 2). NTAEs offer some hope of increased incomes for women who represent about 80 percent of the workforce in this fast growing sector. In many ways, this is a replay of the garment export industry in Asia, with large supermarkets/corporations dominating the value chain, and with women working often on large-scale 'factory' farms for very low wages and in very bad working conditions. In fact, working conditions often are worse than in the case of garments, because of the high use of pesticides and resulting physical and mental health risks including nausea, birth defects, and acute depression.

As with the garment export industry, there is much debate as to whether such employment opportunities empower women. On the one hand, women do get wages straight into their hands and have more control over income than when they work for their husbands on smallholder export crops. For example, a 1993 study in Morocco showed that women employed in agribusiness not only controlled their own earnings but also, due to their status of 'income earner', had an increased role in household decision-making (USAID, 1999). However, research elsewhere has highlighted the fact that, because the work on NTAEs is seasonal, there is no sustained increase in women's status. Peasant farmers (both women and men) have been displaced from the land they used to farm and now have no alternative but to seek paid (but temporary and insecure) work on the new NTAE farms and plantations. In Chile, for instance, there are an estimated 300,000 temporary workers on NTAE farms of whom over 50 percent are women. There are only 50,000 permanent workers, 95 percent of whom are men (Barrientos, 1999).

**Figure 2: Flows of Produce in African Fresh Vegetable Chain**



Source: Dolan et al., 1999.

As the weakest links in the global value chain for NTAEs, women temporary workers fail to reap much of the benefits from the export boom. In Chile, fruit exports expanded by 258 percent from 340,000 tons in 1982 to 1.2 million tons in 1994. However, the distribution of returns is very uneven. For example, in the case of seedless grapes in 1993/94, producers accounted for 11 percent of costs (of which 5% were for wages), while exporters, importers and Northern retailers accounted for 28, 26, and 35 percent respectively (Barrientos, 1999). Similar figures come from other parts of the world. For example, in Zimbabwe, producers account for 12 percent (of which wages are about half) of total costs, while exporters (including packaging and air-freight) account for 30 percent, importers for 12 percent, and retailers for 46 percent of costs (Dolan, 1999). Of interest is the fact that even in the retail part of the global value chain, it is women workers who are in the weakest position. A recent study, which traced the journey of tomatoes from the fields of Mexico to the supermarkets and fast-food chains of Canada found that the vast majority of temporary workers in the latter were women who faced similar problems with respect to low wages and insecurity as did those in Mexico (Barndt, 1999). As with garment workers, there is obviously a need to ascertain the extent to which it is possible to increase the share of women workers (both in the South and the North) in financial returns.

## *Shea Butter*

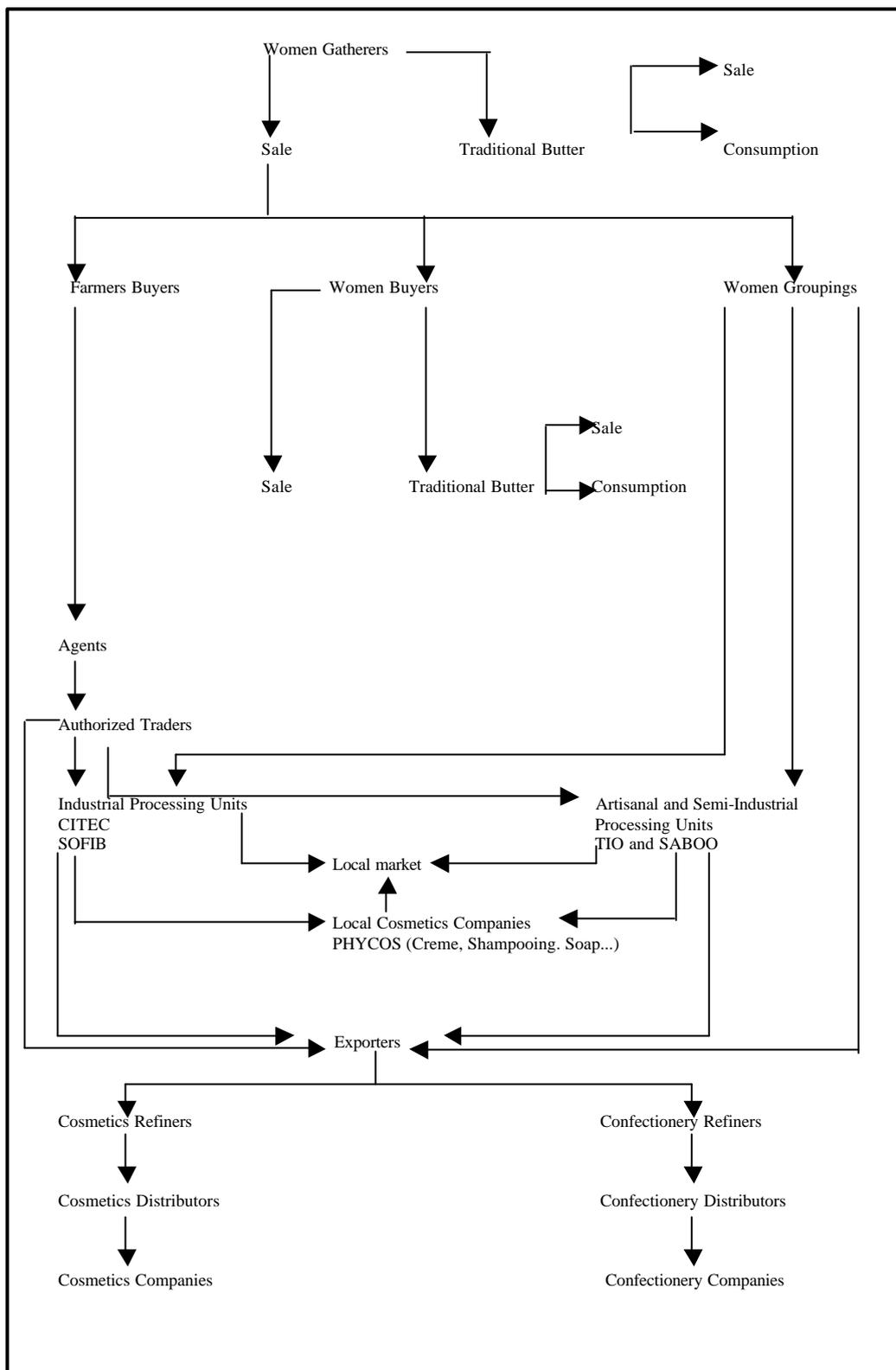
Another category of products for which there is now a surprisingly sizeable and growing international market is that of non-timber forest products (NTFPs) which include: essential oils, medicinal plants, gum arabic, rattan, natural honey, brazil and other edible nuts, mushrooms, and shea and neem and other types of wild nuts and seeds which produce oils that can be used for cooking, skin care and other purposes. In all, there are now 150 NTFPs of major significance in international trade, which together involve millions of workers and producers, including many who live in the most remote areas in developing countries.

One such product is shea butter. Shea is a commodity that has been collected, processed, and used by women in West Africa for centuries as a cooking oil or body lotion and for medicinal purposes. Now there is a growing and profitable market for shea butter in Europe, North America and Japan for use in cosmetics. However, the women who collect the shea nuts get very little of the high price, which the final product brings in the North. One study in Burkina Faso has estimated that shea butter is sold to consumers in Europe at 84 times the price paid to local women for the raw material (Provost, 1995). Most of this value added is accrued by the numerous middlemen, exporters, importers, refiners and retailers who make up the complicated shea butter value-chain shown in Figure 3.

Part of the problem is that while women's existing level of technology for processing shea nuts is adequate for the needs of local markets, a much higher quality product is demanded in Northern markets which means that women must sell the unprocessed nuts directly to middlemen for export to countries where advanced technology is available. Even if women were to gain access to improved processing technologies, there is still a problem in gaining access to information about and links to distant markets, which means that women still are dependent on middlemen further up the value chain.

The price of shea is likely to go even higher if the European Union follows through on its proposed policy to allow shea butter to be used as a substitute for cocoa butter in chocolate manufacture (Bekure, 1997). As in the apparel and NTAE sectors, women are stuck in the least profitable segments of the industry and, having little power, are not in a strong position to bargain with those further up the chain for increased returns for their labour (and, in this case, their traditional knowledge). In addition, the fear is that foreign direct investment (FDI) will be attracted to the area to establish processing facilities and that women will be displaced from this increasingly profitable industry. With conditions now better understood, programmes are underway to organize women collectors and processors, to introduce improved processing technologies, and to find ways of gaining direct access to international markets. Similar analysis and action is being taken in the case of other groups of own-account workers who are linked into lengthy and often difficult to trace commodity chains.

**Figure 3: Value-Chain of Shea Butter in Burkina Faso**



Source: International Development Research Centre (IDRC) Work in Progress.

As noted earlier, a set of cross-regional studies of women in the global apparel chain and in selected global forest product chains, including shea butter, is currently being designed. Using common methodologies, including structured interviews with women as well as other key participants along the commodity chain, these studies will seek to specify the main operations, participants, product flows, production relationships, market linkages, and other key features of the global commodity chain. The goal is to identify the main constraints and opportunities for women in these chains in order to design appropriate policy and programmatic responses.

### **3.3 Regions**

Finally, workers in the informal economy are also affected differently according to which region of the world they live in. When the United Nations Development Fund for Women (UNIFEM) first commissioned work on Women and the New Trade Agenda in 1992, women from the regions advised that this could not be dealt with at a global level because the differences between regions are so great (Joeques and Weston, 1994). As a consequence, research now has been carried out in most regions, and regional policy dialogues - based on the findings of this research - have taken place over the years in Delhi, Brazil, Bangkok, Harare and Mexico (several of the papers are now available in published form - see UNIFEM, 1996; Wee, 1998; and Cardero, 1999). As the following examples illustrate, these have shown how complex the situation is.

#### *Asia*

In the Asian region there has been export-led growth through which large numbers of jobs were created in labour-intensive activities and particularly in garments for export, where women account for over 80% of the workforce in most cases. This has led some researchers to refer to industrialization as being female-led as well as export-led. (Joeques, 1995).

One of the most spectacular cases of female-led industrialization is that of Bangladesh. In 1978, there were 4 garment factories in the country. By 1995, there were 2,400 factories employing 1.2 million workers of whom 90% were women under the age of 25 years, and garments were employing 70% of women in wage employment (Bhattacharya, 1999). The question that is asked is whether this is good or bad for women? Wages are very low and working conditions are not good. However, unskilled women in export-oriented factories are paid almost the same (90%) as unskilled men, as opposed to only 57% outside these factories. Also, women say that this work is much better than alternatives (Joeques, 1999; Kabeer, 1995). This leads us to exercise some caution when discriminating against clothes produced by vulnerable groups in developing countries. For example, a United States bill on child labour under 15 in garments in Bangladesh made thousands of girls redundant, but they still had to earn a living, so they ended up with working conditions which were worse than before (Fontana, 1998).

While trade policies have an impact on women, gender also has a bearing on trade policies. A good example of what can happen comes from Pakistan. Pakistan is similar to Bangladesh in that it has very low literacy rates, especially among women who have few options for productive employment. Government has had a policy of export expansion, and exports are heavily focussed on cotton and cotton textiles, which is a heavily male-dominated industry (88% of workers are men). There was a very sluggish response to the export drive because (for a variety of socio-cultural reasons) women could not be mobilized to expand the labour supply as happened in Bangladesh (Fontana, 1998).

Sri Lanka has a much higher literacy rate than Bangladesh and Pakistan, but there still are thousands of young women going into garment production in Export Processing Zones (EPZs). Garments now are a bigger export item than tea, and the women to men employment ratio has gone up from 25% in 1963 to 80% in 1985. However, the fact that women still receive low wages and have very poor working conditions prompts us to ask whether gender equality really has increased? In addition, 500,000 women from Sri Lanka are now working in the Middle East. This makes a big difference for the country as their remittances bring in more foreign exchange than tea exports, but it is not necessarily benefiting women themselves. They work under appalling conditions and get to keep little or none of the money for their own use (Fontana, 1998).

The Philippines provides a good example of how - even though women may be the first to get jobs in periods of export expansion - they are also the first to lose them when something goes wrong, as in the Asia crisis. By early 1998, over 200 garment factories had closed in the Philippines with immediate loss of income for factory and home-based workers. Women have to seek alternatives such as horticulture, but this is difficult because of their restricted access to credit, training, improved technologies and markets. So they resort to vending what does not require much input, but also results in tiny profits (Carr, 1998).

What is likely to happen in Asia in the future? In particular, will the level of labour participation among women remain high? There are two issues involved here:

- ◆ what approach is being taken to increased competition among developing countries for markets for labour-intensive products such as ready-made garments, shoes and electronics? As was seen in the earlier section on garments, neither of the two strategies currently being adopted - diversification into more capital-intensive products, or cutting of labour costs - would seem to work in favour of women.
- ◆ what will happen after the Multilateral Fibre Agreement (MFA) is phased out in 2005? This arrangement has so controlled trade in textiles and garments over the last decades that there will be some quite dramatic shifts occurring - many of them in Asia where textiles and garments are a major export industry. It will be very important to start examining the likely outcome of the end of the MFA as soon as possible so as to plan for likely changes well in advance.

## *Africa*

In Africa exports are still linked to primary commodities, the prices for which are in slow decline in world markets. Also, many traditional women's industries are in jeopardy because of cheap imports from Asia and Direct Foreign Investment from Europe.

Agriculture is the major source of exports in Africa, and many governments promote export of cash crops - often with serious consequences for domestic food security. For example, in Ghana, the Government has supported an export drive based on cocoa that is a crop totally controlled by men. However, women are generally expected to provide unpaid family labour that leaves them with less time to devote to production of food for family consumption and for sale (Fontana, 1998). Women's own crops are not seen as important and are not supported or protected from imports (although they could be according to WTO regulations). Thus, in Ghana, and in several other countries in West Africa, imported cheap rice is bringing the price down for produce of domestic (women) farmers with all that this implies for incomes and domestic food security.

There is a similar situation in Kenya where the Government has been promoting export of tea. Here land has been diverted from food crops (controlled by women) to tea - and only men are allowed to be licensed as tea producers by the State Marketing Board. Women have to put in long hours in harvesting tea, but have no control over the income resulting from sales. Research has revealed that although tea-producing households have higher incomes than those that do not produce tea, they have higher levels of malnutrition because women have little or no control over income in the former (Ongile, 1999). It is findings such as those which have led governments such as that of Namibia to reverse previous policies that supported export crops, and to increase support to subsistence farmers, and especially to female-headed households (Stark, 1998).

Another interesting trend in the agricultural sector in Africa is that of the promotion of Non-Traditional Agricultural Exports (NTAE) - primarily fruits and vegetables and cut flowers aimed at the European markets. These do offer some hope of increased incomes for women who represent about 90% of the workforce in this fast growing sector (DAW, 1999). In many ways, this is a replay of the garment export industry in Asia, with large corporations dominating the commodity chain, and with women working on large-scale 'factory' farms for very low wages and in very bad working conditions. In fact, the conditions are worse than in the case of garments, because of the high use of pesticides and resulting physical and mental health risks. However, women do get wages straight into their hands and have more control over income than when they work for their husbands on smallholder export crops (DAW, 1999; USAID, 1999). On the negative side, however, is the effect that this type of 'factory' farming is having on soil fertility and on the availability of food locally.

A similar phenomenon has been happening with African countries that have been promoting fish exports. A particularly striking case is that of the three countries surrounding Lake Victoria. Here, the Government has encouraged foreign investment in modern fish processing factories around the lake. There are now 50 of these, which employ very few workers and which export fish to Europe and Japan. This has resulted in thousands of women losing their jobs in smoking and sale of fish in local markets. It also means that little or no fish is available to eat locally with disastrous effects in terms of rising rates of malnutrition among children (IUCN, 1997). Another example of how Foreign Direct Investment may affect women's livelihoods in Africa is that of shea nuts. As was seen earlier, this traditional crop is becoming increasingly valuable in the markets of Europe and North America. However, the fear is that foreign investors rather than local women will benefit from the increased economic opportunities presented.

An associated problem relates to that of intellectual property rights. Under the Agreement on Trade-Related Intellectual Property Rights (TRIPS) of the WTO, it is now possible to patent life forms if they have been altered in some way for new and innovative uses. Shea butter runs the risk of becoming patented by Northern researchers or companies in much the same way as have many other products, such as neem and tumeric (from India) and brazzein (also from West Africa). Neem, which has been used by women farmers as a pesticide and fungicide for generations now has more than 35 patents on it in the US and Europe, mainly for its pesticidal properties. Local communities receive no share in the profits accruing, and are already victims of reduced access to this traditional resource due to increased market prices. Tumeric has been used in India as a magic cure-all from time immemorial. In 1995, two American scientists were granted a US patent on the use of tumeric for healing wounds, claiming it to be novel. The Indian Government challenged the patent and managed to win the legal battle; otherwise, this patent would have prevented Indian companies from marketing turmeric for wound healing in the US, and could have made

it illegal for Indian companies to use Indian tumeric for this purpose even in India! Finally, brazzein is a substance found in a West African berry that is 500 times sweeter than sugar. American researchers have obtained a patent in the US and in Europe for a protein isolated from the berry and plan to market it worldwide claiming that it is their invention. They have no plans to assist the West African people to share in the estimated US\$100 billion a year market (Kaihuizi, 1999).

The other major sources of livelihoods for women in Africa are traditional industries such as food processing and handicrafts, and vending and hawking - all of which have been affected by trade liberalization. In the case of traditional industries, there are many accounts of women basket makers and cooking oil processors being displaced by cheap imports from Asia. While it would be wrong to argue for protection of inefficient production, there are - nevertheless - hundreds of thousands of livelihoods being jeopardized or destroyed in this way, with little or no support available to enable women to upgrade their industries or to diversify into other areas. In the case of vending or hawking, recent research in countries such as South Africa shows that foreign traders are now entering from elsewhere in the Region, bringing with them new and different types of products. Faced with competition, many women vendors end up working for these (predominantly male) newcomers with resulting cuts in income and independence. And even vendors are becoming tied into multinational corporation chains with companies such as Unilever selling their soap through them and with Coca-Cola renting out kiosks (Skinner, 1999; Kapila, 1999).

### ***Latin America and the Caribbean***

In this region 'modern' services are a fast growing export sector. The region also has a large well-educated female labour force. In fact, it is the only region where - in several countries - women's enrollments in schools outnumber those for men. In Jamaica and other Caribbean Islands, there are now many relatively prestigious and well-paid jobs for women in 'digiports', which focus for example on data entry for US airlines companies. Women often represent 100% of the workforce in these zones, but despite their relatively high education levels, they still are paid only 57% of men's wages (Fontana, 1998).

In several other countries in Southern and Central America, it is traditional services - vending and domestic service - which account for the bulk of women's employment. In Mexico, for example, 70% of women's employment is in these types of services. However, 80% of all exports are manufactured goods - a large proportion of which are in sectors such as ready-made garments in which women comprise well over 50% of the labour force working mostly in Export Processing Zones (Cardero, 1999). However, as in Asia, the proportion of women in EPZs (especially near the US border) is declining with increased liberalization. For example, the share of women in the export sector as a whole fell from 45% in 1991 to 35% in 1993 (Ghiara, 1999) and, of those still working in the export sector, increasing numbers are located in EPZs furthest away from the US border where wages are much lower (Cardero, 1999).

As in Africa, many Latin American countries have a growing trade in Non-Traditional Agricultural Exports (NTAEs). For example, in Chile, fruit exports expanded by 258% from 340,000 tons in 1982 to 1.2 million tons in 1994. This expansion has resulted in many peasant farmers being displaced from their land - some of whom now make up the 300,000 temporary labour force that works on the new NTAE farms and plantations. The majority of these temporary workers are women (as opposed to only 5% of permanent workers), and although there has been some raising of status for women as a result of earning wages, the

temporary and uncertain nature of work, as well as the low pay and inadequate working conditions tend to limit this effect. As in other parts of the world, distributions of returns in this industry are very uneven. For example, in the case of seedless grapes in 1993/94, producers accounted for only 11% of costs (of which only a proportion went to workers), while exporters, importers and Northern retailers accounted for 89% of total costs (Barrientos, 1999).

In conclusion, therefore, there are both winners and losers in the globalization process. Impact varies according to who you are, what you are doing to earn an income, and where you live. The results of research to date have been outlined above, but much more context specific research still need to be undertaken before we can have a clearer idea of how workers and producers in the informal economy are being affected by globalization.

#### **4. Responses**

Although more research is still needed, as we have seen above, there is nonetheless a considerable amount of information, which can already be used to shape the policy agenda to assist producers/workers in the informal economy to maximize the positive aspects of globalization and to minimize the negative aspects.

However, to date, few policy makers have explicitly addressed the opportunities and constraints faced by informal producers/workers in the context of global integration and competition. In large part, this is because they remain undercounted in official statistics and poorly understood in development circles. To design appropriate policies in support of these producers/workers (most of whom are now part of global commodity chains), policy makers would need, first, to distinguish between micro-entrepreneurs/own-account producers and sub-contract and casual workers. Producers require a range of policy interventions to promote their knowledge of, access to, and bargaining power in markets; while sub-contract and casual workers require a range of policy interventions to govern and protect their employment relations. Some of these policies are dealt with in the companion paper entitled “Supporting Workers in the Informal Economy: A Policy Framework” prepared by Chen, Jhabvala, and Lund (2002).

An important strategy leading to the promotion of a favourable policy environment for informal producers and workers is grassroots organizing. Although relatively little has been documented on this - in comparison to other types of organizing such as that of the environmentalist (e.g. biopiracy) and consumer (e.g. codes of conduct) activists - informal producers/workers and their associations (especially women producers/workers) are becoming increasingly active in terms of advocating for positive changes in policy and legislation for themselves.

A leader in this respect is the Self-Employed Women’s Association (SEWA) of India, which is the oldest trade union of women who work in the informal economy. Since 1972, when it was founded, SEWA has organized self-employed women and women engaged in homebased work, street vending, and casual work, and has provided a range of services (financial, health, childcare, and training) to its members. Today, it has a membership of over 250,000 women. For the past two decades, SEWA has also led an international movement to increase the visibility and voice of women who work in the informal economy. Since the early 1980s, SEWA has negotiated with the international trade union federations and the International Labour Organisation (ILO) to recognize informal sector workers. In the late 1980s, in recognition of its efforts, SEWA was invited by the Government of India to lead a

commission on women in the informal sector and by the ILO to serve on an expert committee on homeworkers.

There are now many similar examples of women's unions/associations both from India and elsewhere. In India, the Working Women's Forum in Madras now has several hundred thousand women members. In Madeira, Portugal, a Union of Embroiderers has successfully fought for a range of social protection measures in support of the embroiderers from the Portuguese Government. In Durban, South Africa, the Self-Employed Women's Union has successfully negotiated government support for street traders and homebased workers. Also recently, clothing unions such as the Textile, Clothing, and Footwear Union (TCFUA) in Australia and UNITE in Canada have begun to organize homeworkers, recognizing that they now make up the majority of the workforce in selected industries.

During the 1980s, the various unions, grassroots organizations, and non-governmental organizations working with homebased workers and street vendors - in both the North and the South - began to establish linkages. In the mid-1990s, at two separate meetings in Europe, these organizations came together to form two international alliances of women in the informal sector: one of homebased workers called HomeNet; the other of street vendors called StreetNet. And in 1997, a global action-research coalition called Women in Informal Employment: Globalizing and Organizing (WIEGO) - which is comprised of grassroots organizations, research institutions and international development agencies - was formed to promote better statistics, research, programmes and policies in support of women in the informal economy. These three international alliances - HomeNet, StreetNet and WIEGO - are part of a fast-expanding international movement of women who work in the informal economy.

For the purposes of this paper on globalization, we would like to highlight two further strategies, which the international movement has identified as being important to implement in support of homebased workers, street vendors, and other women who work in the informal economy worldwide. These are:

- \* Research and Statistical Studies to document the number, contribution and working conditions of specific groups of informal economy producers/ workers in specific sub-sectors; and to assess the impact of globalization on them;
- \* Action Programmes to help informal producers/workers gain access to - and bargain effectively within - labour and product markets (both local and global).

*Research and Statistics:* As was seen above, although there is now more research and statistics available on women producers/workers in the informal sector, much more is still needed if there is to be a solid base on which policy makers can make informed decisions. In particular, there is a need to move beyond general macro-level studies on impact of trade and investment liberalization on women producers/workers towards in-depth empirical studies on the impact of specific types of producers/workers in specific countries and within specific global commodity chains. Comparative studies of this type are underway or being planned in those sub-sectors in which women predominate as producers/workers, and which are being affected significantly by increased globalization. These are: garments; agro-processing; horticulture; and non-timber forest products. While there has been some research done on global commodity chains in these sub-sectors, it has tended to be top-down, has concentrated on the industry as a whole or larger firms rather than own-account, sub-contracted and factory workers, and has not been gender specific. The international movement has, therefore, placed

major emphasis on pushing forward with research on global commodity chains which is undertaken from the perspective and with the participation of grassroots producers/workers themselves and which captures the way in which globalization is affecting who is doing - and getting - what along the chain. Through such detailed research, it is hoped that practical policy recommendations can be formulated which will help to redress the current imbalance of power and returns within these chains (See WIEGO website under Global Markets Programme).

*Action Programmes:* The other strategy, which has been identified as important by the workers and activists in the international movement, is that of demonstrating to policy-makers new and alternative methods of assisting women producers/workers in the informal economy to take advantage of new economic opportunities arising from globalization. One such example is that of a Women's Trade Centre being developed by SEWA to test how thousands of grassroots rural women producers can be assisted to link directly with international markets. SEWA has already developed a marketing infrastructure that links 15,000 craftswomen with their own market outlet in Ahmedabad in Gujarat (Banascraft) - where they receive a fair price for their goods and are not subject to exploitation by middlemen. As the number of women artisans grows, there is an ever increasing need to find new markets, and to assist with this, SEWA has established a Women's Trade Centre which aims to: (a) create global networking and partnerships for micro-entrepreneurs (initially craftswomen); (b) provide inputs regarding consumer preferences and market trends; and (c) create market linkages through e-commerce and other channels.

SEWA recognizes that it is very difficult for informal producers to easily or quickly enter mainstream export markets. Thus, they see the Women's Trade Centre as a 'buffer', which absorbs the pulls and pressures of market forces and also guides and helps grassroots women to carve out a niche in the market. SEWA's partners in the international movement, including WIEGO, will assist with developing effective marketing strategies in North America and in Europe. In this way, SEWA hopes to demonstrate to the Indian Government how it is possible for grassroots women to participate in global commodity chains in which they have some measure of control, rather than simply being the invisible and disposable workforce of the retail-driven chains which have become all too common. Eventually, the Women's Trade Centre will be expanded to help SEWA's partners in the international movement link grassroots women in other parts of the world to global markets, and to inform policy makers around the world of practical ways in which grassroots women producers can be assisted to link effectively with global markets.

In conclusion, for informal producers/workers to be able to respond effectively to the new opportunities - as well as the negative impacts - associated with the liberalization of trade and investment, it will be necessary to implement the four-fold interrelated strategies outlined above: namely, direct action programmes; focused research and statistics; local and international organizing of informal workers; and relevant policy dialogues. It is hoped that this paper on globalization, along with its companion paper on policy, offer some guidance as to what is needed and what is possible in support of the global informal workforce.

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## **List of Employment Sector Papers on the Informal Economy**

"Decent Work in the Informal Economy: Abstracts of working papers".

1. "Globalization and the Informal Economy: How Global Trade and Investment Impact on the Working Poor", by Marilyn Carr and Martha Alter Chen.
2. "Supporting workers in the Informal Economy: A Policy Framework", by Martha Alter Chen, Renana Jhabvala and Frances Lund.
3. "International Labour Standards and the Informal Sector: Developments and Dilemmas", by Charlotta Schlyter.