

Is globalization bad for the global poor? This study ran an experiment to find out.

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An Ethiopian man works in a factory owned by a Chinese firm.
(Jenny Vaughan/AFP/Getty Images)

In the past several decades, manufacturing jobs have fled the developed world for the developing world. Obviously, that's profoundly reshaped the economies of developing countries like China and Bangladesh. But what does that mean for the ordinary people who are doing the work — often for incredibly low wages?

Answering this question can be tricky. Large-scale data — like a nation's poverty rate or GDP — can help give us a general sense of trade's effect on growth and the poor. The problem is it can often be tough to figure out what low-wage manufacturing, specifically, adds to a country's economy. It's even harder to drill down and measure the impact on those employed in the factories.

Enter economists Chris Blattman of the University of Chicago and Stefan Dercon of Oxford University. They came up with an interesting way of answering this question: [Run a random, controlled experiment](#).

Normally, economists can't do stuff like this: You can't exactly run a lab test on an economy. But Blattman and Dercon convinced [five companies in Ethiopia](#) to hire people at random from a group of consenting participants, and then tracked the effects on their incomes and health. That way, you could pretty clearly figure out the effects taking a low-wage manufacturing job had on actual people.

So what did they find? Basically, that these are *bad jobs*. They hurt people's health and don't actually pay more than other opportunities.

Bad jobs, but perhaps valuable ones all the same. The economists believe the factories provide valuable employment opportunities for those who wouldn't otherwise have them, and thus play an important role in a nation's development.

“You have to hold two things in your head,” Blattman told me over the phone. “Yeah, it's better to have more jobs around — but there are actually some considerable health risks here. People are taking them because they're desperate.”

What the study found



(Zacharias Abubeker/AFP/Getty Images)

Blattman and Dercon chose Ethiopia because there's a lot of manufacturing

growth there, and they talked to an array of firms before finding five willing to participate in the experiment.

Then they took a large number of people who applied to jobs at these firms and sorted them into three groups. One group got entry-level jobs. A second got a cash grant from the researchers, as well as a five-day training course in entrepreneurship. The third was a control group, and so got nothing.

Over the course of the next 13 months, Blattman and Dercon tracked what happened to all three groups. This involved compiling data on their wages, conducting surveys on their health, and having research assistants conduct in-depth interviews with some of the workers.

The goal was to figure out if factory jobs helped more people than entrepreneurship support, and whether either was better than simply doing nothing and letting people find jobs on their own. Blattman came in expecting the factory work to look relatively attractive — but ended up being surprised.

It turned out that for most people, working in a factory didn't significantly improve their income relative to the people in the control group. But getting cash to help start your own business did.

“On balance the factory job offer seems to have no significant effect on income,” Blattman and Dercon write. “The entrepreneurship program has a sizable effect on income, however ... a one third increase in earnings for otherwise very poor young people.”

Moreover, they find, people in the factories did considerably worse on some important health measures than people in the control group.

“The disability rate rises 3.3 percentage points among those offered an industrial job, nearly doubling the risk of injury,” they write. It gets worse:

Working in an industrial job is associated with at least a 28 percentage

point increase in perceived health risks (especially chemicals but also smoke), a more than 40 percentage point increase in the perception of a need for safety equipment, and at least a 35 percentage point increase in complaints of chemicals.

The “sweatshops” label clearly hits on something true: These factories are more dangerous than other places to work, and don’t pay enough to make up for those risks.

So if these jobs have so many downsides and so little clear benefit, why do people keep taking them?

Some of them just didn’t have good prospects in the entrepreneurship or informal spheres — perhaps because of a lack of training or skills. For these *specific* people, stable employment in a factory led to higher wages overall.

“People with poor self-employment or wage prospects may be able to increase their earnings in the industrial sector because it offers them more regular employment than they could otherwise find,” Blattman and Dercon write.

For others, though, factories represented a kind of trial or safety net: something to do when they were in between small business ventures, or something to try out to see if it suited them. These people generally left factory jobs as soon as they could. They’re the people that Blattman described as “desperate” in our conversation.

“People try to work in factories for as little time as possible, until they either get something at a better firm or they can be self-employed,” he says. “They have to make a bad choice.”

What it means



A mother in an Ethiopian plant with a child.
(Giorgio Cosulich/Getty Images)

This study only looks at five firms in Ethiopia, of course, so it might not tell us a lot about other companies, let alone countries. But Blattman and Dercon think there's at least some reason to believe it could.

“The patterns we observe — low wages and high rates of turnover — have been relatively common features of industrial jobs from modern day higher-skill Chinese manufacturing to industrialization in the US or UK as recently as a century ago,” they write. “Hence our firms and worker experiences may not be so exceptional.”

So how does this study add to our understanding of the big-picture question of whether globalization is good for poor people?

One thing it suggests is that we need to think more seriously about regulation on industry in developing countries, like requiring companies to stop using

dangerous chemicals or make the risks of factory jobs clearer to prospective employees.

Some economists have criticized such proposals, suggesting they would raise operating costs and thus lower employment. But Blattman believes the evidence on this is mixed, and that the health risks are serious enough to risk it.

“This is why we have worker protections,” he tells me.

At the same time, however, they caution against over-reading their results. They still believe that low-wage manufacturing jobs are net good for countries, despite their manifest problems. “However unattractive these jobs are to the majority of workers, we do not conclude that Africa needs fewer low-wage manufacturers,” they write.

That’s because their effect on wages is more subtle than you might think.

When a factory comes into a developing country, it by definition creates new jobs. That means more opportunities for the same number of people, causing factory and non-factory employers alike to raise wages to try to get the best employees. The reason that there was no difference between factory incomes and non-factory incomes in the Blattman and Dercon studies is that the very presence of factory jobs raises wages for *everyone*, not just factory workers.

For this reason, Blattman tells me, “there’s no way that masses of people are going to get employed, and you’re going to see rising wages without industrial development.” Trying to stop factories from setting up in poor countries would be [a great way to keep people poor](#).

So perhaps the most fundamental takeaway is that we need to have a more nuanced picture of globalization’s effect on the global poor. Instead of thinking in binary terms, we need to separate out the ways globalization has benefited the poor versus the way it hurts them.

Something as complicated as globalization is never going to be just good or just bad. We need to divide the good and the bad, and figure out how to address the latter without eliminating the former.