



Cities and Globalization: A Race to the Bottom?

UN-HABITAT Report finds the “fruits of globalization” are not offered to the poor.

According to UN-HABITAT's new publication, *The State of the World's Cities, 2004*, the “fruits of globalization” – economic growth, rising incomes and improvements in the quality of life - are rapidly being offset by the negative aspects of rapid urbanization: increased poverty, greater inequality, and the prediction that, by 2020, urban areas in the world's least developed regions will absorb nearly all of the global population increase predicted for the next three decades.

This “urbanization of poverty” is being propelled by a tremendous increase in the transnational movement of people and capital. The rapid transfer of money and jobs to cities and countries where cheap labour can be found has fueled what is being termed by the Report, a “race to the bottom.” For the urban poor who are impacted by this race, there are no winners, and the losers will most likely find themselves among the projected two billion people who, according to the report, will be living in slums by 2030.

Hardest hit by globalization are women and children - the most vulnerable of urban dwellers. Poor women are becoming increasingly marginalized as the “feminization of poverty” manifests itself in many parts of the world.

The positive aspects of globalization, including greater longevity, increased literacy, lower infant mortality and wider access to infrastructure and social services, mask the unfortunate truth that these benefits are not being shared equally. The effects of globalization on cities – both positive and negative – need to be better understood if public policy is to be effective in bettering the lives of those who live in them.

Rending the social fabric of cities

Under globalization, manufacturing activities in cities have been relocated ‘off-shore’ to the developing economies whose lower labour costs, lower taxes and less rigorous environmental protection enable higher profits. *The State of the World's Cities, 2004* asserts that the socio-economic consequences of globalization weaken access to basic infrastructure and housing, fuel the creation and expansion of slums, and reinforce the negative environmental and health impacts affecting the urban poor in many cities.

Demographic shifts, including transnational migration and poor integration of ethnic and racial groups, add impetus to these changes. So, too, does the ability (or not) of households and individual people to cope with rapid economic change. Those on the losing end of these changes can easily find themselves confronted with the loss of jobs, and the consequent sale of assets in order to survive, converting them into ‘the new poor,’ leaving them even more insecure and vulnerable in the face of economic change.

“Footloose Industries” leave poverty and instability in their wake

The last two decades have witnessed a transformation of the global economy, which has led to vast economic, social and political realignments in many countries and cities. The trend towards open markets has enriched some countries and cities tremendously, while others have suffered greatly. World trade in this period has grown from about US\$580 billion in 1980 to a projected US\$6.3 trillion in 2004, an 11-fold increase. Flows of capital, labour, technology and information have also increased tremendously.

But the assertion that trade liberalization invariably leads to better livelihoods in developing countries is simply not supported by the facts: income inequality within and between countries has increased greatly since the mid-1980s. The UN-HABITAT Report points out, for example, that among the losers in this “race to the bottom” are female workers in many countries in East Asia, whose wage levels and working conditions have declined as a result of the dropping of barriers to “footloose industries.” This same dynamic is evident inside individual cities as well, leaving many people unable to obtain stable jobs and incomes. This leads to changes in patterns of social inclusion and exclusion across cities, often along racial and ethnic lines.

The distribution of the 'fruits of globalization' reflects private-sector judgments about the expected financial returns to these investments, their security, and the economic and political environments in which they occur. According to the Report, corporations have tended to concentrate direct investment in ten countries, including China, Brazil, Mexico, Indonesia and Thailand. In stark comparison, the poorest countries – most of them in Africa – have seen no such investment.

In an extreme case, Buenos Aires saw more than 50 per cent of its employment switch sectors, as many medium-sized enterprises closed in a process of de-industrialization, including more than 4,600 enterprises from 1995 to 2000, or about two per day.

The vacuum created by 'footloose industries' is rarely filled by job opportunities for the poor. Rather, any new jobs tend to be in knowledge-intensive industries, many requiring university-level education.

Advanced economies are also in the race

The "race to the bottom," as evidenced by the flight of capital and jobs to locations with lower wage costs, has not been limited to the developing world. Previously productive urban industrial cities in the US, such as Detroit, Chicago, New York and San Francisco, have lost large shares of their employment base. The "race to the bottom" also occurs *within* individual cities, resulting in job losses where large segments of the labour force have to shift from one sector to another. The urban poor are losing jobs and benefits and must now find other income-generating opportunities in the informal sector, which offer no security or benefits.

"Informalization" fosters insecurity

The loss of secure jobs with secure community roots fosters an 'informalization' of the urban economy, with more people eking out a living in unregulated sectors. According to the Report, several economic processes converge to 'informalize' employment and other aspects of urban life. The closing of formal-sector enterprises often coincides with the down-sizing of ancillary industries and services. As one industry declines – as with light engineering in Karachi - incomes in the city as a whole reduce. Former employees are no longer able to purchase services on the street; hence, street vendors also suffer. Simultaneously, if utility tariffs increase - as they did in Karachi during the 1990s - other enterprises suffer and are forced to reduce their operations or close altogether.

Hitting the brakes

As *The State of the World's Cities, 2004* points out, globalization has set cities against each other in a desperate competition for a share of highly mobile capital and trade. The Report emphasizes that the needs and desires of global capital *must* be balanced with policies based on the needs of the region's own inhabitants. Otherwise, efforts to alleviate urban poverty will end up as meaningless gestures that provide little more than temporary relief – and the gap between rich and poor will continue to grow larger.

Jobs, consumption patterns and opportunities for social mobility are all easily influenced by external factors. This instability can be manifested in both national and local contexts through at least four important channels: patterns of investment, labour markets, prices and public expenditures. Moreover, they occur in different locations within the city, creating patchworks of decay, renewal, and economic revitalization. The challenge for national and local authorities is to identify which kinds of changes are occurring, or better still, which types of changes can be anticipated, in order to consider whether there are measures that can cushion or mitigate these impacts. To do that, changes must be anticipated and capital set aside to deal with them. The most likely victims of this "race to the bottom" must be identified and measures found to assist them.

If governments want to slow the pace of this "race to the bottom," they need to have the flexibility to move some of *their own* resources into activities to absorb labour – for example, increasing construction or maintenance programmes. This would create a modest safety net for the employees who face layoffs. Examples of such investment include assuring that potential secondary earners, usually mothers, have access to day care for children, thereby allowing them to go into the labour market. Similarly, assuring basic food supplements such as milk subsidies, would help protect the nutritional status of children. Both of these measures are more important than the municipality operating its full range of services.

These measures require financial resources. While all governments feel their budgets are severely constrained, the UN-HABITAT Report asserts that they need to apply discipline to save some of their resources for these future needs. This does not mean borrowing and thereby passing on debts to future generations. It means saving for the future. In reality, this saving is an insurance policy against future unknowns. Having such resources at hand allows decision-makers to face the future more confidently and to smooth out the impacts of volatile changes in the global economy at large. It means assuring that all members of society can continue to live in their chosen cities.

A "livable" city forms new partnerships and enters into social contracts with civil society. It promotes the participation of local capital. It invests in people, not just in infrastructure. It promotes forms of social mobilization that lead to strong public support. Finally, a livable city does this because the results will benefit the many, not merely a few.

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