

Challenges to social inclusiveness and environmental sustainability

Social inclusiveness and income inequality

Incomes created along the circle may not flow to the poorest people in society

The virtuous circle does not itself guarantee socially inclusive or environmentally sustainable outcomes. Social inclusiveness requires that at least two conditions are in place. First, part of the income generated by the circle should flow to the poorest people in society, increasing welfare at the bottom of the pyramid. Second, traditionally marginalized groups should be able to participate fully in the market.

Several global trends hinder these aspirations. When the largest share of income goes to highly skilled workers, the inclusiveness of the circle is weakened. The trend towards greater automation of production skews the distribution of profits towards factory owners and managing directors, to the detriment of workers. Excessive concentration of income at the top of the distribution also has detrimental effects on the circle's functioning, as a critical mass of income is needed to launch the process.

Price declines may be abetted by falling labour standards

Without regulation, national or international, competitive pressures in global markets can undermine social inclusiveness. Many global value chains are highly cost-effective, but few provide much social protection, particularly for the low-skill and low-technology links (where competitive pressures are stronger). In these conditions, the virtuous circle may not be so virtuous, instead benefiting groups of consumers in industrialized countries at the expense of workers.

Other potentially negative societal impacts

Industrial jobs can be hazardous, even deadly, particularly in lower-income countries with labour-intensive plants and weak employment and environmental standards. The health and well-being of the wider community may also suffer from unchecked pollution. Access to good labour conditions and a healthy environment is a key constituent of an industrialization agenda with social inclusiveness at its core.

Concentration of production in a few industrial hubs

More broadly, how inclusive the circle is at the global level depends on the extent to which countries benefit from its income-generation mechanisms, as well as the modality in which they participate. When countries remain caught in the lower segments of global production—or are left out altogether—the circle cannot be regarded as globally inclusive.