

Remarks by José Manuel Salazar-Xirinachs

Executive Director, Employment Sector, ILO

**At UNCTAD XIII Panel on Reflections on the international trading system
and inclusive development**

Doha, Qatar, 24 April, 2012

Thank you chair, Mr. Supachai, Mr Lamy, Honorable Ministers,

Distinguished delegates and participants, Ladies, and Gentlemen,

Thank you for the opportunity for the ILO to intervene in this Panel and greetings from Director General Juan Somavia.

I would like to tackle directly the first three questions in the draft agenda for this panel:

Is a trade-led growth strategy valid in the post crisis era?

I think the answer to this question is yes, this strategy is still valid. The crisis has not weakened the case for international integration and export diversification as core elements of development strategies, except of course if you are a systemically large country like China or India.

I would like to argue that the case for exports to continue to be a major engine of growth and upgrading in developing countries remains strong for 3 main reasons:

First, because exports by most developing countries are so small in total world trade that there is plenty of room for them to expand despite broad global rebalancing and less exuberant absorption in OECD countries.

Consider this: 130 developing countries comprise only 15% of developing country exports, equivalent to just 2.5% of OECD imports. The typical country in this group could increase its exports by 40% if it could capture only a 0.01% of OECD import market share.

Second, because export-led growth does not necessarily mean current account-surplus-led growth. In the longer term, countries could continue to pursue balanced strategies with strong growth in both exports and imports.

Third, if there is real rebalancing in large surplus countries, like China, South-South trade can sustain another round of export-oriented growth. All of this is a major opportunity for those 130 developing countries that represent only 15% of developing country trade. In fact, for many low-income countries rebalancing means more exports, not less.

What the crisis did bring was a strong reminder about the importance of domestic markets and regional integration, and it also accelerated the realization that the main growth markets are not just in the traditional North but in the emerging south.

The next issue I would like to address is:

**What role should trade policy play in fostering the inclusiveness of growth?
How does trade contribute to employment?**

The ILO has recently done quite a lot of analytical work on the relationship between trade and employment, some of it jointly with the WTO, and we have classified our work into three themes:

1. The effect of trade on the quantity and quality of employment
2. The effect on economic uncertainty experienced by workers
3. The effects on inequality or the distribution of the gains

So let me tell you a bit about the lessons we have drawn in these areas. But let me introduce this by saying that I think post-crisis, and given the dire situation of labour markets around the world, the trade-employment relationship very much qualifies as one of the new XXIst Century issues for the international trading system that previous speakers mentioned. Now, in which way should we look at this relationship?

Trade and the quantity and quality of Employment

On trade and employment, nobody questions that integrating to the world economy and doing business with the rest of the world through trade and investment is crucial for development and for job creation, this is a very important point, because it has not necessarily been like this in the past. But does this mean that a one-size-fits-all free trade policy is optimal always and in all sectors? Or that at some stages of development reasonable levels of support for some sectors or export promotion are always bad?

The first lesson is that unfortunately, the answers to these questions have often been oversimplified. Trade policy choices depend on level of development, size of the market, sequencing and timing issues are key, as are the complementary policies.

This is what the history of today's developed countries show. It is also what the experience of the Asian tigers show, and that of Latin America. We have to admit that many success stories of export growth are no simple stories of trade liberalization but more complex multidimensional stories where several ingredients are key. And, conversely, that many LDCs, even though they have opened their markets significantly, have not managed to benefit from increased trade opportunities.

Second, we have known for years that trade opening triggers adjustment and resource reallocation. If there is upgrading, discovery of new activities and new investment in productive capacities then opportunities are created for displaced workers to move into newly created jobs in the export sector. And you have creative destruction. The lesson that has been learned, in some cases at great cost in terms of de-industrialization and unemployment, is that if the complementary policies and a good investment climate are not there you might have destructive destruction, too much cleansing of companies and not enough investment, upgrading, discovery and jobs.

So, what can be done to improve the employment outcomes of trade?

1. First, in the ILO we believe that the International Trading System should pay more attention to the objective of promoting full and productive employment and productive capacities. Free Trade Agreements need to align liberalization approaches and disciplines with these broader objectives.
2. Second, export and investment promotion policies as well as industrial policies can play a positive role as instruments for job creation. But these policies must be designed in a "smart way" in terms of strategic public-private partnerships, with appropriate transparency and accountability to avoid capture and rent-seeking, and with attention to sectors with high growth and jobs potential, as well as productivity growth. Country assistance to design such supply-side policies deserves increased attention in trade related technical assistance.
3. Third, employment creation can be disappointing if trade reform is introduced in such a way that there is a decoupling between the job creation

and job destruction process. Gradual reform is much more likely to lead to a smooth adjustment processes in labour markets than drastic or badly timed liberalization. This is the main reason why “less than full reciprocity” in the outcome of NAMA negotiations, for instance, is important, as is introducing it into GATT Article XXIV.

Trade, uncertainty and social protection

The second theme is the effect of trade on the economic uncertainty of workers and their families. Losing employment is a devastating experience for anyone and workers in developing countries are particularly vulnerable, because most of them do not have access to unemployment insurance, financial services, or other means to compensate their income losses.

This is why social protection is so important in open economies. Several countries have put in place targeted trade adjustment schemes. But these address only some types of shocks and they are difficult to implement. Instead, strong and well designed social protection systems with broad coverage deal much better with job and income insecurity. And they function as automatic stabilizers for aggregate demand during downturns. Initiatives like the UN Social Protection Floor Initiative therefore deserve the utmost attention and support from trade negotiators.

Trade and inequality

The third theme is trade and inequality.

The distributional outcome of trade is highly linked, first and foremost, with its net employment creation impacts and the wages paid by the tradeable activities. The lack of positive employment impact is one of the main reasons why trade liberalization has often gone hand in hand with increases in inequality. So what I just said about gradual and well timed trade reform is important for equality and inclusive development also.

Second, as I said, to make globalization fairer and growth more inclusive, open trade and increased social protection should be seen as complementary policies.

To take care of the possible inequalizing effects of trade, a third key element is investment in infrastructure and in people. Helping workers to upgrade their skills is key to reduce the gaps between the wages of skilled and unskilled workers. All successful globalizers managed to invest in both capital and people in a way that is supportive and coordinated with their trade and industrial policies.

The ILO is developing new methodologies to strengthen our long-standing expertise on vocational training and anticipation of skill needs. Our “Skills for Trade and Economic Diversification” (STED) methodology was designed to identify and overcome skill shortages in key exporting sectors. It is precisely a tool that can help countries to position themselves in higher segments of GVCs. It was also designed to allow for easy integration into trade-related technical assistance projects.

In sum, the distributional consequences of trade and FDI should be taken very seriously.

Thank you.