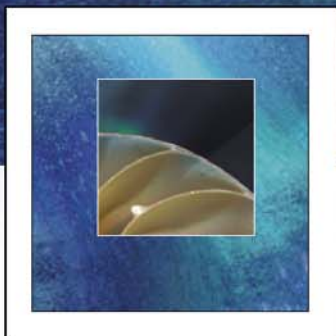


**World Commission on the Social Dimension of Globalization**



**Reports on the Knowledge Network Meetings**

**Policy Integration Department  
International Labour Office  
Geneva**

**World Commission on the Social Dimension of  
Globalization**

**Reports on the Knowledge Network Meetings**

**Organized by the Secretariat**

**Policy Integration Department  
International Labour Office  
Geneva**

Geneva, March 2004

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# Reports on the Knowledge Network Meetings

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## Foreword

The World Commission on the Social Dimension of Globalization was established by the ILO in 2002 to find ways to promote a fair and inclusive globalization, which could expand decent work, reduce poverty and unemployment, and foster growth and development. The Commission comprised 26 eminent people reflecting a broad spectrum of views, policy concerns, constituencies and geographies. It was chaired by two Presidents, Tarja Halonen of Finland and Benjamin Mkapa of Tanzania. The Commission's report was issued in February 2004 and is available at <http://www.ilo.org.wcsdg>. The members of the Commission served in their individual capacity and the Commission has full and independent responsibility for its work.

To assist the Commission in its work, a Secretariat was formed which undertook a wide variety of activities, including support to the Commission's meetings and to the preparation of its report, and the organization of national and regional dialogues among social and economic actors. Within the Secretariat, a Technical Secretariat was formed, tasked with undertaking research and compiling information on the key issues of interest to the Commission.

The Technical Secretariat undertook four principal types of activity:

First, a general review of globalization issues was undertaken. This gave rise to a series of concept notes on specific topics on which work was subsequently concentrated, and a working paper on past ILO work on globalization and related issues (*ILO Activities on the Social Dimension of Globalization: Synthesis Report*, Working Paper No 1, Policy Integration Department, July 2002).

Second, "knowledge networks" of experts and social actors were formed around the topics identified in the concept notes and other areas indicated by the Commission.

Third, a series of specific products were prepared: an ideas bank, a database, a bibliography, and a background document on the working and outcomes of other major commissions.

Fourth, analytical papers were prepared on particular issues.

This work was carried out by a Technical Secretariat managed by Rolph van der Hoeven. Full-time staff members of the Technical Secretariat included Susan Hayter, Arna Hartmann (seconded from the World Bank), and for shorter periods José Guilherme Almeida dos Reis, Kappadath Kannan and Nana Oishi. Several staff members of ILO Departments made substantial contributions to the Technical Secretariat's work, including Janelle Diller, Tayo Fashoyin, Deborah France, Robert Kyloh, John Langmore and Steven Oates. Annette Schut served as Documentalist and Mila Cueni, Zohreh Mobasser, Zydre Pember and Clare Schenker provided clerical and administrative support. Geraldeen Fitzgerald provided editorial support, and research assistance was provided by Andrew Lang, Malte Luebker and Renato Johnsson.

The present paper, and others issued by the Secretariat, does not commit members of the Commission – indeed, in summarizing the outcomes of meetings held in the course of the Secretariat's work it reflects the wide range of views which were expressed, and so illustrates their diversity, rather than reflecting the views of the Secretariat, of particular Commissioners, or of the Commission as a whole.

**Gerry Rodgers**  
**Technical Director**



## Preface

Much of the work of the Technical Secretariat involved assembling information, asking for expert views and opinions, and synthesizing outcomes on particular topics related to globalization. This involved extensive networking and substantive interaction with a wide range of experts and policy actors. This work was undertaken as a responsibility of the Secretariat since, until the publication of its report, the Commission had not expressed a public position.

In order to perform this work, the Secretariat formed “knowledge networks” on several key topics, that is to say it enjoyed contact with experts on these areas, including policy practitioners, academics and writers and others. These experts were not considered in any way representative, but the Secretariat tried to ensure that varied perspectives, in terms of geography, policy views and interest (including business and labour) were included. There was also extensive participation from other organizations of the multilateral system (ECLAC, IMF, IOM, UNCTAD, UNDP, UNESCO, UNHCR, WB and the WTO).

Knowledge networks were established on eight topics:

- How can the benefits of globalization reach more people? Policies for inclusion at the national level.
- Local markets and policies in a global context.
- How can cross-border networks of production and technology promote decent work, growth and development?
- International Migration: Is labour mobility part of the global policy agenda?
- International governance for inclusive globalization.
- The relationship between culture and globalization.
- Values and goals in the context of globalization.

*The issues of gender and of employment were dealt with as cross-cutting, .i.e. they were considered within each of the other networks (as well as and through the publication of background papers which fed into the work of the networks and the Commission’s deliberations).*

*Eleven meetings and one email exchange of these networks were held between September 2002 and April 2003. Output from these meetings and the email exchange consisted of short reports emphasizing new policy directions and concise contributions from participants. About 100 shorter and longer papers were presented at these meetings which were attended by more than 100 participants.*

This publication includes edited and shortened versions of the reports of the 11 knowledge network meetings and the email exchange, originally prepared by the staff of the Secretariat and by some participants, who are acknowledged at the end of each report.

Other publications include a description of the ILO’s activities on globalization, a report on the ideas bank, an overview of the outcome of major commissions, a literature survey on globalization, as well as some 20 other specialized papers on various issues related to the Social Dimension of Globalization.

**Rolph Van der Hoeven**  
**Manager, Technical Secretariat**

March 2004





**How can the benefits of globalization reach more people?  
Policies for inclusion at the national level**

16 – 17 September 2002  
Geneva

## **Introduction**

The main objective of the meeting was to discuss the importance of national level policies to combat the adverse effects of globalization and enhance national capacity to access the opportunities presented by globalization and to spell out national strategies for development. The meeting was designed to discuss these issues from the perspective of developing countries.

The key issues discussed were:

- What are the dimensions and manifestations of exclusion in the context of globalization?
- How can an inclusionary agenda be promoted? Does history provide some guidelines?
- Does globalization impact differently in different regions and, if so, is there a need for differentiated policy frameworks?
- What are the issues at the international level, especially the 'globalization rules' and how do they interact with national requirements for inclusive development?
- What national policy framework would be required to promote inclusive development that will deal with globalization?
- Who are the actors and what are the mechanisms to be addressed for promoting inclusive policies at the national level?

## **Exclusion as an issue, its dimensions and manifestations**

Participants emphasized that the concept of exclusion is one that goes far beyond what is conveyed by the notion of inequality, which has increased during the 1990s both across and within countries. Exclusion conveys a sense of denial or loss ('you are kicked out' or 'you lose out') or non-inclusion ('you are not invited'). While dealing with exclusion, one needs to ask the question: who is interested in inclusion? Exclusion issues need to be discussed with reference to those who are included. One way to underline the importance of addressing the theme is by pointing out the cost of exclusion – not just economic, but political and socio-cultural. Another way is to address the need to avoid exclusion by positing inclusion as a normative agenda. The real danger lies in a return to social Darwinism if issues of exclusion are ignored.

Globalization is not the only cause of exclusion. There are pre-existing exclusionary structures, institutions and policies in both rich and poor countries. In the former a minority may feel excluded while in the latter a majority may feel excluded. The focus however should be on the exclusionary impact and tendencies arising out of the current process of globalization. The manifestations of exclusion are often revealed by the inability of countries and peoples to participate to their benefit in the globalization process or to influence the trajectory of globalization in a way that will promote the greater inclusion of countries and peoples. The term 'people' includes: (i) those engaged in the production of what are called 'non-tradable' i.e. those without a market for international trade which characterizes most agrarian and semi-agrarian economies, (ii) subsistence communities (such as indigenous people whose exchange relations are not governed by commercial market transactions, (iii) farmers who do not get access to international markets; and (iv) those small producers and service providers who are forced out of their local and national markets as a result of the entry of powerful external competitors, (v) unskilled workers, and (vi) those who 'lose' out (e.g. workers in organized industries) as a result of industrial restructuring or relocation. The dimensions of the excluded are bound to differ from country to country depending on economic and social conditions, but very few countries are spared from the exclusionary impact of globalization. The meeting underlined the need to bring out the social profile of the excluded as it relates to the human condition, which directly links up with the social dimension of globalization.

## **History as a guide for an inclusionary approach**

The importance of a historical perspective while addressing current issues of exclusion was strongly emphasized. The Welfare State, which emerged in Western Europe, was the outcome of a long historical struggle characterized by the granting of a series of basic rights to citizens by the State – from civil to political to socioeconomic rights. The societal transformation that took place as a result heralded an ideological shift from social hierarchy to social equality. This was made possible as a

result of the assertion of the labouring poor expressed in economic and political terms. The latter included a wide variety of social movements resulting in trade unionism and the establishment of social democratic parties. From the perspective of the richer classes in society, it was pointed out that there was recognition that the cost of exclusion would eventually become too high. This is the thesis of neutralizing the threat constituted by *les classes dangereuses* to political order and public well-being. But there was also an objective economic condition. The inclusion of the labouring poor was made possible as a result of the long and relatively slow process of industrialization and urbanization with relatively low capital intensity in an era of expanding markets.

The current process is quite different. Market expansion is not being targeted at people at the base of the economic pyramid. Profit maximization does not allow raising the extremely low level of wages in a large number of poor countries. Industrialization is more capital-intensive, rendering labour, especially those without advanced education and skills, increasingly irrelevant. The rules of globalization are characterized by greater freedom for mobility of capital than labour, and labour market flexibility that tends to reduce, rather than increase, returns to labour. Added to these is the low priority for social policies which tends to reinforce and accelerate the pace of exclusion. The danger of a return to social Darwinism seems real, not imaginary. This calls for an alternative conceptualization of what needs to be done. The centrality of employment in such a conceptualization seems obvious.

### **‘One size doesn’t fit all’: Same process, differential impact and the need for a differentiated policy framework**

Discussions in the meeting revealed the impracticality of the ‘one size fits all’ approach. This was brought into sharp focus when discussing the diverse regional contexts of Asia, Latin America and Africa.

#### **Asia**

The Asian experiences are often cited as success stories in globalization, beginning in East Asia (first generation NICs) then to South East Asia and finally to the large economies of China and India. The success of East and South East Asia dates prior to globalization and the financial crisis following adoption of the globalization rule of capital account convertibility has accentuated the spectre of exclusion. This is illustrated most dramatically in Indonesia where a financial crisis led to an economic crisis that later turned into a social and political crisis. It has increased the vulnerability of the labouring poor who find themselves in the informal economy. China is perceived as a willing globalizer but its policies of economic liberalization were started from within, without any external pressure and on its own terms and timing. In India, the economic liberalization process is somewhat similar to China and, despite considerable opening up of the economy, remains relatively more cautious. These two countries are often cited as the more successful globalizers yet they did not fully follow the globalization textbook as laid down in the Washington Consensus. Still the Asian scenario is such that it has raised a number of issues in relation to the social dimension of globalization. Employment may have increased, but more of it is in the informal economy and away from the concept of decent work, not to speak of social security. Disparities have widened in terms of regions within the country (including rural and urban), groups, economic sectors such as agriculture/non-agriculture and gender. Performance in macroeconomic variables and averages in social indicators often conceal these widening inequalities. Such a scenario underscores the critical need for a broad-based social security that will raise the ‘social floor’ and act as a counter to the tendency of a ‘race to the bottom’. Citing the examples of China and India, it was pointed out that while there has been impressive growth in income much of the issues of quality of employment and social security are inadequately addressed. Social policies have taken a back seat over pro-growth (often not pro-poor) economic policies. The relative downgrading of social policies during a period of high growth was described as paradoxical and perhaps indicates the strong ideological shift away from issues of social equity.

#### **Latin America**

The situation in Latin America provided a contrast to that in Asia. Savings rates are low and there is a great dependency on external capital flow in contrast to many Asian countries. During the 1980s, many countries faithfully followed the rules of the Structural Adjustment Programme laid down by the Washington Consensus. The result has been low growth, increased debt burden, low capital flow, increased poverty and unemployment, increasing informalization in employment and declining social security. Government policies turned out to be more pro-cyclical and volatility of growth became a

## **How can the benefits of globalization reach more people? Policies for inclusion at the national level**

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mirror of foreign investment. Disparities in Latin America are also much sharper, as between rural and urban and indigenous populations and others. Historically embedded patterns of exclusion go side by side with systems of exclusive privileges created for the elite. The recipe of privatization recommended as a solution to corruption in the state system has often turned out to be a source of corruption. The scope for national policy options does exist in Latin America and there is an urgent need to balance economic policies and social policies. Full employment and broad-based social security should be brought into the policy agenda.

### **Africa**

Discussion on Africa brought home the point of the regional differentiation of the impact of the globalization process. Success stories are few (e.g. Botswana, Mauritius and to some extent South Africa), if not nil. Most African countries implemented the prescriptions of the Washington Consensus but that did not lead to sustainable growth or poverty reduction. Both international policies and national context contributed. Unlike East and South East Asia, Africa did not enjoy the advantage of geopolitical factors. With predominantly agrarian economies depending on the export of primary commodities, Africa suffered as a result of huge declines in the terms of trade. Trade restrictions in Western countries amount to a loss of around 100 billion dollars annually for Africa. Foreign capital flow is insignificant and whatever comes goes to extractive and other primary sectors (e.g. plantations and mining). The result of widespread poverty, low level of industrialization and adverse external factors has been a weakening of the State. In many countries this has been further exacerbated by conflicts within and across countries, often involving control over resources that have an attractive global market. Pre-existing exclusionary features such as class or race and the rural-urban divide have contributed to a heightened sense of exclusion. The HIV/AIDS pandemic further impedes economic growth as well as social development, and some of the globalization trade rules (e.g. TRIPS) are not helpful in addressing this issue. Increased poverty and informalization of employment are some of the manifestations of exclusion. All these point to the need for alternative policies based on social dialogue and better governance to ensure employment with social security for the large mass of poor people.

### **International policy reform for national policies to promote inclusion**

Participants stressed that the international context cannot be separated from the discussion of national policies because the process of globalization has serious and long-term consequences on how developing countries can shape their policies for national development. Take, for example, the case of capital flows. In the case of FDI, there is scant proof that free FDI flows have helped poor countries to grow faster or reduce the exclusionary impact of globalization by creating more jobs and much needed social security. First, ten countries account for about 90 per cent of the total FDI flows and none of these is really poor. Second, FDI inflows do not seem to constitute net additions to investment. Often, the larger part of the investment represents mergers and acquisitions involving privatizations, there are few Greenfield commitments and, in the poorer countries the latter are often concentrated in extractive enterprises. Private capital flows in general have proven to be more of a bane than a boon, as the various Latin American and Asian financial crises show. Therefore, a strong case could be built against premature capital account convertibility. There is also a case for regulating capital mobility. In this context the case for a Tobin tax should be seriously considered. This could be utilized for financing development, especially in areas of employment creation and provision of broad-based social security.

The importance of governance issues at the international level was also underlined as an area for policy reform. Trade rules ensuring market access are imposed on poorer countries, but not enforced in rich countries. Non-tariff barriers for goods including agricultural commodities are being lowered in many poor countries while there is no sign of dismantling the huge agricultural subsidies in the European Union, Japan and the United States. The promised dismantling of the barriers erected by the EU, Japan and the United States for the import of textiles and clothing has not made much progress. These issues need to be addressed seriously to ensure poorer countries have access to markets in products where they have an advantage. Many African countries would benefit by ensuring market access to agricultural commodities in rich countries.

International mobility of labour is an area where there is need for an agreement. While increased mobility of capital and goods are enforced, there is no concerted action on the need for labour mobility. This needs to be examined closely, taking into account the barriers for the mobility of less skilled workers and the greater opportunities for mobility of highly skilled workers. A system of taxation of

skilled and professional workers in the receiving countries and transferring them to countries of origin should be viewed as a matter of compensation for the loss of returns from investment in human capital.

There is an urgent need to examine governance issues at the global level and in rich countries. Often the focus is on governance in poorer countries. The need to enforce 'practise what you preach' is important whether it is in corruption, reducing defence outlays, unilateral decisions on protectionist measures or commitment to a multilateral system of governance on global issues (e.g. the environment).

### **A national policy framework to promote inclusive development: Integrating macroeconomic policies and macro-social policies**

The meeting recognized the importance of addressing policies at the national and international levels conjunctively. The leading actors are national governments and international organizations; some of the latter now wield considerable power in laying down the rules of the globalization game, the 'only one in town'. However, it was underlined that there is a strong case for adopting a 'perspective from below', from those of the excluded, so that their concerns are articulated through a broad spectrum of civil society organizations including political parties, trade unions, advocacy groups and developmental NGOs.

Here again, as clearly reflected in the intense discussions, 'one size doesn't fit all'. The exclusionary impact of globalization differs from region to region, depending on initial conditions as well as national policy frameworks. This calls for a differentiated approach to policy in order to combat exclusion and advance inclusion. Some countries have a strong national state with long-term developmental goals with high savings, investment and FDI (e.g. China). Others share the same features but not with significant FDI (e.g. India). Some have low savings but are dependent on FDIs (e.g. Latin America) and others have low savings, low or no FDI and are dependent on a few primary commodities for export (many countries in Africa). The capacity of national governments in the last two categories differs widely and it is especially weak in countries affected by conflict.

Several national policy options were discussed. These may be summarized in terms of the need for balancing macroeconomic policies with social policies, with full employment and provision of universal social security within a paradigm of broad-based growth and long-term development. The international context of globalization will be an important dimension of national policy frameworks. Emphasizing the need for a differentiated approach to national policies, depending on regional and country-specific characteristics, the core elements of a national policy framework were debated. This approach, based on the recent work of the Economic Commission for Latin America (ECLA), was presented by its representative in the meeting and may be summarized as follows.

The experience of the 1990s indicates that the current process of globalization has led to unstable economic growth and volatility in financial markets, culminating in financial crisis. The new rules for trade and investment, as well as access to financial resources, have weakened labour market institutions, leading to increased vulnerability and often poverty in many developing countries. The prospect for increasing employment in the formal sector has declined considerably due to the low employment elasticity of the growth process. The result has been an increase in unemployment and the informalization of work and working conditions. Contributory payment systems are replacing institutionalized social security systems wherever they exist and in many countries most workers have no formal social security support. Demands for universalization of education and health care services are giving way to market-based and privatised systems. International labour migration is considerably lower than the movement of capital.

To address these issues, national policies will have to recognize the need for multiple objectives in economic development strategies. Achieving economic growth with stability and inclusion of the broader sections of the population, together with the enhanced efficiency of state institutions, is called for. Such an approach needs to be based on solid social and fiscal covenants that incorporate two aims: (i) strengthening the international global system to take care of the supply of global public goods, a human rights-based world system and overcoming the asymmetries in the world economic system, and (ii) national strategies to deal with globalization through a broad view of macroeconomic stability and the role of counter-cyclical policies, the importance of productive development strategies, strengthened social linkages and an appropriate balance between public and private interests.

## **How can the benefits of globalization reach more people? Policies for inclusion at the national level**

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### **Strengthening the international global system**

At the international level, a number of policies need to be reviewed and new ones put in place to create conditions for appropriate national policies. These were spelled out as (i) measures for the adequate supply of global public goods, (ii) equality with the right to be different, (iii) international cooperation for overcoming three basic asymmetries — the higher propensity of developing countries to greater vulnerability to external shocks, the extreme concentration of technical progress in advanced industrial countries and the higher speed of capital mobility compared with barriers to labour mobility, (iv) preventive measures against the disintegrative nature of the globalization process, requiring policies at the national level for social cohesion backed by a network of world, regional and sub-regional institutions, and (v) promotion of democracy, including the governance of global institutions.

### **National policies to deal with globalization**

The hallmark of this policy should be a balancing of macroeconomic with macro-social policies in an integrated approach to development. Four main policy agenda issues arose. (i) Macro economic policies should manage business cycles with appropriate counter-cyclical policies. This should be aimed at preventing accumulation of excessive levels of debt, prudential regulation and supervision of the financial sector and a sound fiscal system to enable, among other things, the public sector to perform its duties. (ii) Recognize the role for productive development strategies. This is required in view of the continuing transformation of the productive sector and the need to build systemic competitiveness. This should be based on creating innovative systems to enhance technical capacity, support for new productive activities and provision of quality infrastructure. Considerable scope exists here for public-private participation. (iii) Policies for establishing social linkages in the absence of which social progress will be adversely affected. The factors influencing such a process are the increasing demand for qualified labour affecting equity and inclusion, changing composition of productive employment arising out of competitiveness, increased dualism in productive structure and social risks due to labour market adjustments. Social linkage policies should aim at universal coverage of education of quality, employment policies linked with increasing productivity, labour training policies, strengthening of small and medium enterprises, encouraging social dialogue and social protection based on universality, solidarity, efficiency and integrity. Active social policies should be recognized as productive investments. Such policies will have to be financed through a system of progressive taxation. (iv) Social inclusion based on public-private partnership. The objective is to subordinate the economic system to the social objectives by supplying public and merit goods, more equitable distribution of income, enhancement of markets, promotion of collective interest and broadening and deepening democracy by ensuring an active participation of the civil society.

While endorsing the approach of the above outlined national policy, the need to bring in full employment as an explicit objective was also highlighted. This is because of the exclusionary impact of globalization as well as the social urgency to reduce poverty and vulnerability in many countries. It was pointed out that economic liberalization policies, which guide the current process of globalization, have led to pro-cyclical policies in many countries and rendered them vulnerable to business cycles in rich countries. Domestic monetary policies are becoming increasingly irrelevant while currency volatility leads to financial and social crises.

Given the differential national contexts, it was also emphasized that full employment per se is not sufficient to combat exclusion and promote inclusion. It should be pursued in tandem with a national policy of *universalizing social security* as mentioned above. This should include not only social protection to the vulnerable but also a broad range of social consumption issue (e.g. education and health, old age pensions, etc.) with a view to 'levelling up' the social floor. Such a social floor, designed and implemented according to national contexts, could help prevent a race to the bottom.

### **The role of different actors in civil society**

While economic and social policies are decisive elements of a strategy for combating exclusion via employment, income and social security, the question of political power and participation in governance is another key element. In many situations, state policies do not promote inclusion and often promote exclusion. The decentralization of governance, ensuring participation for those who face greater exclusion (e.g. women, minorities), and greater voice for civil society organizations were underlined. A plea was made to address issues and concerns of exclusion from the perspective of the excluded.

An active civil society provides the space for demanding greater inclusion and the role of movements such as the trade unions was highlighted. Labour is at the receiving end and trade unions in many countries have become weaker. At the same time, the vast majority of the labouring poor are in the informal economy. There is a need to link up trade union activities (often representing the voice of workers in the formal economy) with the problems of workers in the informal economy. The emergence of, and the need for, new forms of social unionism should be welcomed.

The inclusionary agenda should also strike a favourable chord with employers when viewed from the need to increase the aggregate demand. Cheap labour per se will not lead to enhancing profitability. Investment in human capital, greater employment and income are crucial from a macroeconomic standpoint for increasing aggregate demand and sustained growth. In many countries small and medium enterprises are also at the receiving end because the field is not level for SMEs.

Participants recommended that the Commission provide an alternative to the current process of globalization with an approach that would be visionary.

### **Policy proposals**

- The meeting unanimously underlined the crucial nature of the development agenda for the developing countries. The rules of globalization should facilitate the process of development and should recognize the reality of poverty, unemployment and the low level of human development. Participants advocated a visionary approach should be articulated that would be inclusionary.
- Specific areas that deal with globalization which need to be addressed to facilitate a more inclusive agenda for national policies are (i) regulation of capital flows, (ii) greater facilitation of flow of labour, especially low skilled labour, (iii) dismantling the barriers in the OECD countries to market access for developing countries, especially in agricultural commodities, clothing and textiles, and (iii) focus on global governance, especially a review of the functioning of the multilateral institutions.
- In the area of capital mobility, a system of taxation was advocated. The Tobin tax is one proposal. Tax on capital mobility by national governments (e.g. Malaysia and Chile), which have proved to be successful, is another.
- Participants noted that the focus of national policies dealing with globalization have a very narrow range and mainly concentrate on a set of issues relating to fiscal balancing, dismantling subsidies, liberalizing trade and investment rules and promoting privatization. These have impacted adversely, in varying degrees, on different groups of people in society. There is an urgent need to balance macroeconomic policies with macro-social policies.
- Two areas that link and overlap macroeconomic with macro-social policies are employment and social security. Employment should be an explicit objective in national policy. It addresses the Keynesian efficiency criterion of full employment by focusing on effective demand in the economy.
- Social security should include social protection for contingencies and old age as well as the provision of basic social services, such as education and health care. The goal of national policies should be the universalization of social security arrangements. Social policies should be seen as an investment in the economy to advance human development.
- Financing of social security should receive adequate priority in national policies. Taxation, based on a progressive system, should be seen as a source of financing for social security. Strengthening the coverage and collection of taxes should be addressed by national governments.

***Original report prepared by Kappadath Kannan***





## **Local markets and policies in a global context**

7 – 8 November 2002  
Geneva

## **Introduction**

The main objective of the meeting was to examine the place of the 'local' in the context of the 'global'.

The key issues discussed were:

- What should be an appropriate approach and framework for a people-centred productive strategy?
- What needs to be done to strengthen small and medium enterprises and other local production systems?
- What is the experience in promoting social entrepreneurship programmes for strengthening local production systems?
- What is the potential of micro-finance in empowering the working poor?
- What is the role of cooperatives and organizations based on cooperation in accessing markets, creating jobs and providing social security?
- What is the scope and potential of information and communication technology (ICT) in promoting local development?
- What institutions, policies and support systems are required for promoting local action?

## **An approach and a framework for a people-centred productive strategy**

It was agreed that locating the sphere of local action in a global context requires an approach and a framework. The approach proposed was one of 'inclusive development with decent work for all'. It traced the history of economic development discourse and surmised that two powerful paradigms are on their way out. The first, based on state ownership and control and total planning of economic activities, collapsed in the former Soviet Union and is waning in many others. The second, based on neoliberalism giving primacy to the role of the market (often referred to as the 'Washington Consensus') has witnessed a series of financial crises, which has undermined its credibility and has attracted increasing criticism from many quarters. The need for a new paradigm has to reckon with the need for 'a culture of reformed capitalism'. The pace for rapid growth enunciated under neoliberalism produces what is often called a 'concentrating and excluding pattern of growth' (*concentrador y excluyente*). To overcome the social consequences of such growth there is an urgent need for inclusive development. Mere inclusion is not the aim, the terms of inclusion are equally important. Their main elements are

- Inclusion in employment with decent work conditions;
- Compensatory social policies for those who cannot work;
- Democracy as a foundational value to ensure participation and feedback.

By giving priority to employment, there is an emphasis here on *primary distribution of income*. But mere employment creation cannot solve the problem of enhancing the standard of living. There is therefore the need to view the approach as an interaction between the rate of growth of income and the rate of growth of productivity. Employment elasticity becomes crucial.

Poorer economies are characterized by the widespread nature of low productivity activities. The challenge now is to enhance productivity in the context of globalization. One strategy is to concentrate on labour-intensive technology in the production of non-tradable goods and services (those not facing competition from the external market). This strategy will be limited by the availability of wage-goods and foreign exchange. Examples of promoting a labour-intensive strategy of this type were highlighted as follows.

- Land and water based infrastructure works;
- Civil construction, especially social housing; and
- Biomass (land, forest and aquatic) based production of food, animal feed, fertilizers, construction materials, industrial feedstocks and pharmaceuticals.
- Provision of social services, such as the activities in the care economy.

The above strategy could be complemented by a non-investment strategy of growth that emphasizes (i) a greater utilization of existing productive capacity, and (ii) better maintenance of existing productive capacity for longer life.

Such a labour-intensive strategy could be made compatible with the requirements of sustainable development by promoting greater productivity of natural resources (including through the use of new technologies such as biotechnology), recycling and other forms of waste management, and conservation of energy.

The need for policies at the national as well as meso-levels was emphasized in order to translate them into programmes of action at the local level. This involves appropriate organizational forms that strengthen the local level in order to combat the negative social consequences of globalization and promote internal capacity to access opportunities in a globalizing world.

This calls for strengthening the small producers at the local level. This can be achieved through

- Diffusion and up-grading of skills through training;
- Facilitating the transition from small producers to small entrepreneurs by taking advantage of mutual aid and social entrepreneurship programmes;
- Encouraging cooperation (as in industrial clusters);
- Promoting cooperatives for production, marketing and services; and
- Access to financial services.

Provision of public and collective goods becomes a critical component of national and meso-level policies. These can be institutional, technological and financial. These were summarized as

- Access to appropriate technologies;
- Availability of extension services for diffusion of innovation;
- Institutional infrastructure to compensate for and correct financial market failure at the expense of the poor;
- Ensuring access to markets, and preferential treatments; and
- Informational and promotional assistance in identifying national and foreign market niches for quality products.

The message was that local initiatives cannot be seen in isolation of the national objectives of development. It is not possible to build a national development strategy simply by aggregating local development initiatives. There should be a harmonization of local and national strategies, looking for collaborative arrangements and synergies instead of wasteful duplications. A long-term national project with a vision shared by the citizens will have the capacity to insert the nation-state in a globalizing world in a mutually beneficial way.

### **What needs to be done to strengthen small and medium enterprises and other local production systems?**

Participants stressed the need to strengthen small and medium enterprises (SMEs) and other local production systems supported by appropriate national and meso-level policies and institutions. With regard to their linkage with globalization, three sets of issues were discussed: (i) the role of innovation and its diffusion, (ii) accessing market opportunities, and (iii) the role of the local space in global public goods.

It was emphasized that innovation needed to be understood broadly and not in a restricted R&D sense often involving high technology. It could be routine, incremental and may take various forms including organizational, technological and product changes. Citing examples from Africa, it was pointed out that the role of human capital development is very important. Here the national governments will have to play an active role. Small and medium enterprises were sheltered and protected for a long time and this is no longer a viable strategy. Instead, a national system of innovation should be in place. SMEs should be assisted in innovation in response to global competition and product market changes.

Citing the experience of local and community initiatives in Brazil, a number of innovative undertakings were highlighted. Community-based tourism is generating income for the local people and is environmentally sustainable. Similarly, community-based fishery is developing and is an effective answer to the destructive large-scale fishing by mechanized boats and ships. There is a lot of scope

for natural resource-based initiatives such as agro forestry, which would enhance biomass production and provide raw material for local industries. In all these initiatives, the use of new technologies such as information and communication technology and biotechnology can enhance the value and strengthen the local production systems.

On the question of the local space in global public goods, the relevance of biotechnology was cited. In Kenya, for example, biotechnology can be harnessed for ensuring food security by selecting suitable crops and improving planting materials. This requires concerted action at the national level since multinational enterprises are not interested in local specific requirements. Formal institutions ensuring the participation of stakeholders need to be developed. There is need for closer interactions between scientists and farmers, thus encouraging learning and trust building. Biotechnology research is costly and out of reach of many poorer countries. Often they are dependent on donors and their priorities. Multinational enterprises have developed new or modified crops that are being viewed suspiciously by some scientists and people in many countries. In such a situation there is a clear need for advancing the concept of global public goods in research and development institutions. Biotechnology could help strengthen poor countries in general and local level action in particular.

### **Promoting social entrepreneurship for strengthening local production systems**

The discussion on social entrepreneurship raised a numbers of issues, such as a strategy for strengthening local production systems. Social entrepreneurs were defined broadly as those using the business model in promoting social development. It can be primarily profit-driven or also applied where profit is not the primary driving force. Social entrepreneurship aims is to find solutions for people by tapping and developing their creative potential for innovation. Examples from two international programmes, the Ashoka Fellowship Programme and the Social Entrepreneurship Programme of the Schwab Foundation, were discussed.

One of the issues reviewed was the approach to developing entrepreneurship. While the social entrepreneurship programmes discussed depend on individual initiatives and leadership qualities, the alternative of collective entrepreneurship was cited as a more effective strategy. Some participants mentioned that the cooperative model is an example of social entrepreneurship. It was pointed out that a strict dichotomy in social entrepreneurship development need not arise, since both approaches could exist depending on local contexts and situations. The important issue was identified as a policy environment for the growth and development of social entrepreneurship. This requires a social dialogue with civil society organizations which now seeks to develop numerous programmes of social entrepreneurship in many, especially poorer, countries.

A special reference was made to initiatives in promoting women's entrepreneurship based on the ILO's programme on Boosting Employment through Small Enterprise Development (SEED). In many poor countries, women find themselves working in the informal economy. Very little social or state support exists for developing the entrepreneurial capacities of women. Most women working in the traditional textile, handicraft and similar sectors have specialized skills but for various reasons their products have only limited market and exposure. New product designs, information, finance and organizational support systems are required to access high value markets, often outside the country of these workers. The ILO SEED initiatives are based on promoting groups or collectives of women workers and improving their skill, organizational capacity, knowledge in handling ICT, marketing techniques, etc. Many community enterprises are driven by groups of what may be called social entrepreneurs and they are found to be as entrepreneurial and market-led as any commercial enterprise. They are often composed of public-private-NGO partnerships. It was reported that there is evidence from several countries that women-owned businesses are growing. If this positive trend can receive an added momentum through the provision of access to resources, guidance and support, there is every prospect that women entrepreneurs can become more effective in developing and expanding new businesses and creating additional incomes and jobs for others.

### **Potential of micro-finance in empowering the working poor**

Micro finance as a strategy for poverty alleviation has now acquired greater international acceptance, as shown by its presence in all continents (more so in poor countries but also in rich ones). According to one estimate, micro-finance institutions now serve around 54 million households in the world. By focusing on the poor, micro-finance helps in advancing both efficiency and equity. It works more effectively at the grass-roots level. In that sense, it is local by its very nature. Most micro-finance institutions do not insist on real assets as collateral, most often the loans are handed out on the basis

of personal trust or group liability. From a-credit giving arrangement, micro-finance has now expanded to include a variety of services such as savings, payment services, leasing, guarantees and insurance. It is expected that the years to come will see a growing diversification in institutions that provide micro-finance, from non-governmental micro-finance institutions to savings and credit cooperatives, commercial banks, community finance institutions, consumer credit companies, insurance companies and other financial institutions.

The pioneering experience of the Grameen Bank (in Bangladesh) in the area of micro-finance provided a useful empirical background to understand the working of micro-finance institutions. The assumptions on which the Grameen Bank started was that the poor are hard-working and have skills, they need access to cheap credit and they are not looking for charity to solve their problems of poverty. By 2002, the Grameen Bank was serving 2.3 million poor families in Bangladesh with women constituting 95 per cent of membership. Hence its programme has a specific gender focus. The Grameen Bank experience is being replicated in several countries. To supply technical help to potential groups in other countries, a Grameen Trust has been formed, which has provided a package of financial, technical and training support to 112 organizations in 34 countries, with a total outreach of nearly a million members of whom 99 per cent are women.

Some participants pointed out the need to differentiate between micro-credit and credit for micro-and small enterprises. The latter is related to the question of financing for primarily small-scale investment. It was clarified that the concept of micro-finance now takes into account the need for finance for the poor in a variety of ways as described above. There are different sets of experiences and examples and micro-credit for poor women is only one of them. There is a need to expand the idea of micro-finance for local-level development to include the creation of physical infrastructure and investment in human capital. It is this route that could help empower the working poor at the local level. This could act as a buffer against the ill effects of globalization.

### **Role of cooperatives in accessing markets, creating jobs and providing social security**

There was consensus that cooperatives should be placed in the larger context of the social economy and to recognize the principle of mutualism, in a globalizing world driven by competition between privately owned business entities. The social economy has been acknowledged as distinct from state-owned enterprises on the one hand and the private profit-driven sector on the other. The social economy includes cooperatives and other entrepreneurial structure for which profit is not the primary objective and is driven by stakeholders who are its determining force. It allows many legal forms such as cooperatives, associations, mutual aid societies, and foundations. Cooperatives have existed in all types of economies and in almost all countries and are estimated to employ nearly 17 per cent of the world labour force. But today they are undergoing deep transformation as a result of the challenges of neoliberalism, which were identified as:

- The need to enhance competitive capacity in an economic and political environment dominated by private capital, enterprises and market forces;
- To address the problem of preserving and increasing employment opportunities while reconciling the need for enhancing labour productivity;
- The need to address the issue of accumulation of capital for reinvestment.

There is awareness of the nature of these challenges in all countries. This requires a change in the policy environment as well as in the role played by the State so far. In many East European countries as well as in China, cooperatives have been formed to take over the restructured public-sector enterprises and there are many examples of efficient functioning. In the United Kingdom, there is a serious rethinking on cooperatives and other organizations in the social economy. This is because cooperatives become relevant in situations of market failure, market absence, the need for local control and the need to check the practices of the private sector of the economy (e.g. in credit, housing, etc.).

Other forms of organizations based on mutualism in the social economy also came up for discussion but in a limited way. It was pointed out a policy environment is a crucial one for the development of the social economy. A good deal of the social consequences of globalization that are against the interests of ordinary people can be pre-empted or taken care of by strengthening the social economy. This calls for strengthening not only the local level by focusing on social economy organizations but also at the

meso-level in terms of creating collective goods such as for training, consulting, building up consortia, etc.

Several policy implications followed from the discussion. Ensuring the commitment and involvement of the labour movement can strengthen the social economy. In several countries, the trade union movement is not seen as seriously committed to the success of cooperatives and other social economy actors. Strengthening the social economy in developing countries with a weak private sector will become a great deal easier if the social economy is first strengthened in rich industrialized countries. The policy support that the social economy could achieve in the latter is crucial to its success in the former. This could also lead to international support in terms of policy and institutions. As an example, some participants pointed to the ILO Recommendation No.193 on Promotion of Cooperative (2002) that lays down a set of recommendations at the international and national levels addressing the international bodies, national governments, employers and trade unions. The relevance of all these at the local level is that social economy organizations work for the sustainable development of their communities through policies approved by their members.

### Information and communication technology (ICT) and local level development

The potential of ICT was acknowledged as a tool in local-level development but many participants underlined that the effects of ICT is yet to be fully understood. As a tool for empowerment of people and communities at the local level, ICT enables (i) the creation of networks, thus improving access to information (e.g. health, education, government service, etc.), (ii) the reduction in transaction costs in local markets through better and timely information, (iii) greater market reach for products (e.g. intangibles like software or data processing, cultural products, etc.), and (iv) the creation of networks among small firms, thus reducing many disadvantages of 'smallness'. But ICT is a modern technology and stands on the shoulders of earlier technologies (such as electrical and telecom connection) and appropriate infrastructure. The ILO's *World Employment Report 2001* identified the following minimum preconditions for successful application of ICT, especially in poorer countries.

- A national policy framework;
- An educated and ICT trained workforce;
- Existence of basic infrastructure such as electricity and telecom.

The experiences of the Grameen initiatives in Bangladesh and ASAFE (Association for the Support of the Women Entrepreneur) in Cameroon showed that with innovative leadership and initiatives, the advantages of ICT could be harnessed to the benefit of poor people. In these two examples, the poor women are the beneficiaries. In Bangladesh the experiment of distributing mobile phones to women (who then offer its services to the people in their localities) proved to be a great success, because of the non-availability of fixed net telephone services and the needs of people to access information, as well as family members in distant places. The initiative in setting up Internet kiosks showed that youth was keen to train in ICT for better employment opportunities. In Cameroon, women's groups were formed to provide remote data processing services. In order to professionalise the services, ASAFE teamed with an Indian software firm for training, which also led to partnership in sharing business. These experiences emphasized the scope for South-South cooperation in the area of ICT because the similarity of larger socioeconomic conditions would provide a better appreciation of the specific needs in training and partnership.

From a larger developmental perspective, the issue was posed as one of emerging opportunities for maximizing qualified labour-intensive activities. A clear comparative advantage was demonstrated by the experience of India in software and other data processing services for the internal market. The experience of Ireland was also cited as a case of ICT-based qualified labour-intensive activities resulting in a reversal of migration. ICT also offers a powerful tool for strengthening the social economy. A new domain has been established called *dot (.) coop* and has been running for sometime now. A note of caution was sounded when dealing with telework opportunities for women that often results in a double burden at home – combining household work with wage work. There is a real need for cost-effective hardware but the hardware industry is currently the monopoly of rich countries. Conscious efforts are needed to develop low-cost and people-friendly software for use in low-income countries especially at the local level. Mention was made of the development of Simputer (a low-cost, user-friendly computer not requiring electricity connection) and the wireless telephone connection in India. Similar attempts are reported to be taking place in countries such as Brazil.

Future possibilities are still unfolding. The development of software in one's own language is an example. Significant work is in progress in a number of countries (e.g. India, China, Sweden). The increasing popularity and attraction of the free software Linux system will open up further possibilities in this direction. This could be utilized to maximize the opportunities for qualified labour-intensive activities. The role of diasporas in linking North and South to take advantage of opportunities of ICT needs to be recognized. At the international level, the UN has established a Task Force and a Trust Fund to promote ICT for development.

### **Institutions, policies and support systems for promoting local action**

Discussion on this subject mainly centred around two key topics: governance and development. It was agreed that these two issues acquire relevance not only at the global and national levels but at the local level too. The adverse impact of policies arising out of globalization are often borne by the local level, for example in the retrenchment of workers, when public enterprises and utilities are restructured and privatised, private enterprises are relocated and when the negative externalities (e.g. pollution) are unattended. Unemployment is a problem that often demands local solutions. There is therefore a strong case for recognizing the importance of the local arena. At the moment non-governmental groups and organizations carry out a variety of activities at the local, national and global levels. But the participation of local governments is missing. How to give voice to the local governments in both national and international fora is a challenge that needs to be addressed. The notion of good governance is something that is most appropriate and practical at the local level when viewed from such objectives as effectiveness, equity, participation, accountability and security.

While the question of governance and that of the appropriate linkages between local, national and international were appreciated, a case was made to view the issue from a larger and long run developmental perspective. Local systems could provide the much needed feedback as well as ideas to national and international policies. Development will be increasingly a negotiated process in an increasingly democratic political environment. This emphasizes that local institutions cannot be viewed in isolation from the national sphere. A national vision and a perspective for long-term development should inform the functioning of local institutions. Both local government and non-government institutions could view the local arena without a dualistic conception of sectors and territories such as informal-formal or rural-urban.

From the point of globalization, the idea is not to replace the national with the local. In fact, the crucial role of the national level came in for discussion time and time again. Just as a strategy for development calls for a multi-level approach, so is governance calling for a multi-tier approach. But at the level of the local it is not enough to talk about agencies and institutions in general. The crucial role of local self-governments should be recognized and appreciated. In many countries, there are constitutional mandates and safeguards for the functioning of local-level governments. More countries are now embarked on the task of decentralization of governance by creating local self-governments. Strengthening the local level could contribute to the balancing of the globalization process.

### **Policy proposals**

- The focus on the local should form an integral part of policies at both the national and global levels with a view to strengthening and promoting local production systems and enhancing market access, so that it addresses not merely the objective of growth but also employment creation and social security.
- As part of the strategy of the focus on the local, small and medium enterprises should receive special attention, as they constitute the main-level actors in the private sector in most developing countries. From the earlier strategy of mainly protection from competition, the new strategy has to be one of promotion with a view to enhance the competitive capacity of small and medium enterprises.
- For small and medium enterprises to compete effectively, they should be supported by national systems of innovation. Special efforts should be made to promote knowledge-intensive and employment-enhancing activities.
- Promotion of entrepreneurship – both individual and cooperative – should form an important element of national and international policies.
- The strengthening and promotion of the social economy should receive a higher priority than hitherto given. For a long time cooperatives addressed the problems arising out of market



failure, inequality and lack of social protection. Co-operative forms of organizations should be encouraged to develop by strengthening competition, innovation and management, based on their social identity and principles. National government should have explicit policies on the social economy, including the promotion of meso-level initiatives such as targeted consultancy, training centres and consortia.

- Micro finance has already received global attention as a powerful tool at the grass-roots level to combat poverty, reverse social exclusion and create livelihoods and employment. Global strategies for moving micro-finance to meet individual and family needs of the poor should be expanded to include building up social and economic infrastructure locally, with the active participation of local institutions especially the local government. The international community should identify ways to support micro-finance institutions that function effectively but face initial difficulties in breaking even. The creation of appropriate policy and regulatory framework is also required in order to scale up micro-finance to make a significant impact on global poverty.
- In order to overcome the dilemma between the need to continuously enhance labour productivity and generate adequate employment to match the growth in labour force, special attention should be given to the development of the non-tradable sector in the economy. Immense possibilities exist here to pursue a labour-intensive strategy with an appropriate blend of technologies. Examples of this are the care economy, waste management, etc. in the industrialized countries and land and water resource management and development, afforestation, public sanitation, housing, rural infrastructure, community tourism and fish farming in developing countries.
- National and international policies are advocated for the promotion of ICT for local-level development, especially creation of employment with decent work conditions. Special attention needs to be given to ensure the participation of women.
- The scope for South-South cooperation in the promotion of ICT for local development should receive international support.
- Given the potential of ICT to address problems of development, the proposal (from the Grameen Trust in Bangladesh) to set up an International Centre for Information Technology to Eliminate Global Poverty should be examined seriously. This could be modified not just to aim at eliminating global poverty but also to enhance local-level development that will address issues of gender, sustainable development and participation.

***Original report prepared by Kappadath Kannan***

## **Cross-border networks of production and technology**

19 – 20 September 2002  
Geneva

### Introduction

The main objective of the meeting was to discuss the recent developments in cross-border networks and technology and how these affect growth, employment and working conditions.

The key issues discussed were:

- Trade and foreign direct investment
- Global value chains
- Taking the high road or the low road?
- Race to the top or the bottom
- Working conditions: Who is responsible?
- Possible policy recommendations at the national and international levels.

### An overview of cross-border production networks

#### What's new?

Participants agreed that what distinguished this phase of globalization from previous waves of global economic integration was the *internationalization of production*. The organization of production had shifted from the fordist model, which dominated industrial production since the onset of industrial revolution, to a more flexible and fragmented global production system. Rapid technological advancement together with the lowering of barriers to trade and capital had enabled companies to break up the production process and locate distinctive stages of production in different countries. Economists referred to this phenomenon as the *international disintegration of production*. An example given was that of the 'American' car, it is estimated that 30 per cent of the car's value goes to Korea for assembly, 17.5 per cent to Japan for components and advanced technology, 7.5 per cent to Germany for design, 4 per cent to Taiwan and Singapore for minor parts, 2.5 per cent to the United Kingdom for advertising and marketing services and 1.5 per cent to Ireland and Barbados for data processing. Only 37 per cent of the production value is generated by the United States.

In contrast to earlier organizational structures and previous strategies adopted by multinational companies (MNEs), production is now organized on a regional or global scale. MNEs produce, source or assemble a final product in different locations around the globe in order to take advantage of differences in production costs, proximity to markets, infrastructure and/or other resources. Competition in global markets increasingly involves competition between entire production systems. The production system as a whole thus needs to be efficient — a process now coordinated by MNEs. Production of a good is no longer controlled and coordinated by individual factories or firms. It is often produced by a network of firms within a global production system coordinated by an MNE. These networks (or global value chains) stretch from the MNE — and through processes of outsourcing and subcontracting — to small and medium enterprises (SMEs); from the global to the local; from the formal to the informal economy.

Of course not all production takes place within these new global production systems. However, many of the issues that come to the fore in the debates about the effects of globalization concern activities in these systems. A question therefore is how much production is done within these global production systems? What has the change in the organization of production on a global scale meant for working conditions, employment and efforts to protect workers? What do we know about the social dimension of these new global production systems?

#### Trade and foreign direct investment (FDI)

MNEs account for about two-thirds of international trade (of which about one-third is intra-firm trade). MNEs may directly invest in production capacity abroad and/or may (out) source certain activities and inputs as part of their production strategies. In some countries, the growth of exports is directly linked to attracting export-oriented FDI and participating in global production systems. International trade and FDI are thus often complementary rather than substitutes for one another and need to be jointly understood as both the outcome of certain policies and the global production strategies of MNEs.

Figures on trade and FDI show that production is increasingly organized within these global production systems, creating a web of foreign affiliates and trade in intermediate goods. Since the early 1980s, FDI rose faster than international trade, which in turn grew more than world output. FDI flows declined in 2001, a factor attributed to the slowdown in the world economy. Virtually all countries – rich and poor – expend significant resources and efforts to lure FDI by MNEs into their territory. Yet the picture is one of the concentration of FDI flows in particular countries and regions of the world. Developed countries continue to account for the lion's share of FDI flows. Despite substantial liberalization of investment over the past decade, developing countries attract less than one-third of FDI flows, and even this is highly concentrated with the top five receivers accounting for the majority. However, this is a significant source of capital for these countries. For developing countries as a group, FDI represents the largest source of external finance.

Turning to trade, here it is useful to look at the change in the structure of international trade over the past twenty years, in particular the rise in intermediate goods in overall international trade. Trade in intermediary inputs is estimated to have accounted for 30 per cent of the growth of total exports between 1970 and 1990. Trade in commodities classified as 'parts and components' (an example of trade in intermediary inputs) now accounts for around 30 per cent of world trade in manufactures. While much of this type of trade involves multinational firms, the share of *intra-firm* world trade has remained relatively constant. Some participants in the meeting thought it was thus fair to assume that the growth in trade in intermediary inputs represented a growth in outsourcing outside of the confines of the MNE. This shift in the structure of international trade, both to more trade in intermediate goods and increasingly outside of the confines of the MNE, is considered to have provided important opportunities for developing countries to participate in global production systems.

Indeed a set of developing countries emerged as major exporters of manufactures, indicating a shift in comparative advantage in labour-intensive manufactures and /or intermediate goods. However this participation has been limited to only 24 developing economies out of a set of 47 developing and developed economies, who together account for 90 per cent of world merchandise trade, of world manufactured exports and 88 per cent of global FDI inflows. The picture here is thus again one of concentration. Participants also noted that the involvement of the developing world in the export of manufacturers was usually limited to the labour-intensive processes (the assembly of parts and components) in the context or production-sharing in global production systems. Thus most of the value-added accrues to producers (of components and parts) in developed countries and to the MNEs that organize these production networks.

Some participants highlighted the fact that production within these global systems was also extremely transport-intensive, with products (or inputs) crossing borders multiple times. Participation in these global production systems and the distribution of the gains thus tended to be spatially concentrated. Cross-border networks tended to develop between clusters of countries with good communication and transportation links. This geographic clustering (and concentration) of cross-border manufacturing activities was a trend that was likely to continue, particularly given technological advances and emphasis on 'just-in-time' production processes. At the same time new technologies enable other cross-border activities in services and the ICT sector to become geographically dispersed across time zones allowing, for example, the operation of 24 hour call centres and data processing. The emergence of an intangible product market, digitized, transferred and sold in real time with lower barriers to entry could provide new opportunities for some developing countries.

## **Global value chains**

The basic idea of a 'global value chain' is that a product has to go through a series of 'value-adding' activities in the journey from raw material to the market. This type of analysis examines who is providing what segment of value in the production process. Who assembles the product? Who is responsible for the design (and may hold a patent) and who for the marketing?

This approach also looks at how the different production processes are coordinated when the value chain crosses national boundaries. The issue of the 'governance' and coordination of global production systems offers new opportunities to address one of the key challenges of globalization. How and under what circumstances can the global economy enhance the earning opportunities and economic security of all? Understanding the governance of global value chains sheds light on market structures and the power relations between different producers along the production chain. Current developments in global value chains point to the concentration of market power by two layers of firms who extract the most value in the chain. First the MNE, the lead firm which coordinates and steers the network activities by controlling strategic knowledge-intensive activities (or brand-name). Second, a

small number of 'first-tier' suppliers, offering 'integrated manufacturing services' on a global scale according to industry specificities – essentially coordinating and managing the global production process.

Participants highlighted the oligopolistic nature of market structures inherent in global value chains. MNEs internalize international production processes to protect rents that accrue to their firm-specific (often knowledge-based) assets and externalize (or contract out) those segments of production where there is more cost-competitiveness and less profit to be made – for example in the labour-intensive assembly of parts. Competition is therefore more intense at the bottom end of global value chains where there the less value-added, labour-intensive production takes place. In order to benefit from participation in these global production systems, firms and countries needed to upgrade their production process, that is to increase the service content of their activities in order to derive greater value from participation in global value chains. However, concentration of market power at the top end implied high barriers to entry into the most profitable segments of global value chains

In respect of employment and working conditions, an analysis of global value chains in horticulture, garments and the ITC sector showed that women tend to occupy the most precarious low and semi-skilled jobs at the bottom end of the global value chain. Working conditions were often very poor, workplaces unsafe and there was little or no protection. The more skilled employment in firms in the global value chain tended to be dominated by male employees, who enjoyed more protection and better working conditions. The question arose during the meeting of whether employment conditions of young female workers in the Export Processing Zones of developing countries should be assessed with reference to available employment alternatives at the local level, or to conditions offered to workers performing similar tasks in developed countries?

### **Perspectives on key issues**

A number of issues were raised and discussed during the meeting, as follows.

#### **Taking the high-road or the low-road of development?**

One concern was the role of the external sector in development. The question here was specifically whether and how participation in these global production systems contributed to decent employment and sustainable development?

Many view FDI, trade and participation in global production networks as providing opportunities for growth and development, particularly through the creation of new job opportunities and transfer of skills and technology. However others argue that developing countries and domestic industries participating in these global production systems often find that they are caught in a downward spiral of low-productivity, low-cost competition. Despite the fact that FDI is not flowing into developing countries, countries continue to invest resources in measures to attract FDI. This diverts national resources from other activities. Where developing countries have been successful in securing FDI for export, 'spillovers' in terms of technology and productivity were minimal, 'linkages' with the rest of the economy are very weak and there is often little value added in the production process.

Participants tended to agree that FDI was a lag rather than lead factor in economic growth; once an economy was booming, FDI would flow into it fuelling growth. Practitioners pointed out that countries needed to have a clear idea of the role they wanted MNEs to play in their economy and how FDI could be used as part of the overall development strategy, and then needed to *"break blood vessels and work endlessly to maximize the positive potential and have sleepless nights worrying about and working for the minimization of the disbenefits and the downside."* It was critical to develop and support linkages between the external sector and the domestic economy in order to avoid the development of enclaves. Local participation in the policy process could help promote innovative means to achieve this.

There was concern that while international firms investing in a particular location were *de facto* being subsidized in a variety of ways, strategic support to local firms was all too easily discredited as 'old' industrial policy and not permitted under current WTO rules. In fact the experience of the most successful cases of industrialization in the last part of the 20<sup>th</sup> century could not be replicated today. In addition, concentration of market power and higher barriers to entry at the top end of global value chains made it significantly more difficult for latecomers to replicate the upgrading path followed by the firms that are now global suppliers. It was thus urgent for countries to embark early on diversification strategies that minimize the risk of remaining 'sandwiched' between unattainable positions at the top

of existing global value chains and the intensely competitive bottom end – a point where all new entrants had similar endowments and each strove to do what the others did, but at a lower cost.

### **Is competition leading to a ‘race to the top’ or a ‘race to the bottom’?**

A second issue was the extent to which efforts to create an attractive environment to foreign investors was fuelling *competition* in regulation and in tax incentives and, in turn, eroding both the tax base (leaving the government even less resources with which to address social issues) and labour standards. While low and middle-income workers were sometimes involved in competitive underbidding in terms of production costs, some workers in industrialized countries asserted that their jobs were being exported to lower labour standard countries and that this was in turn eroding labour standards in their own countries.

Some participants noted that most empirical studies into the issue found no evidence for the assertion that trade in competing products (manufactures) with low-income developing countries eroded labour standards in industrialized countries. Similarly most studies found no evidence that competition for FDI engendered a race to the bottom or that low labour standard countries provided a haven for investors. In fact the balance of the evidence leans in the opposite direction: FDI tends to be greater in countries with stronger worker rights. However a ‘paradox’ highlighted during the knowledge network meeting was that despite these empirical findings, anecdotal evidence continued to exist of threats by firms to relocate production if labour regulation was implemented and of firms placing as a condition of investment a union-free environment.

Policy practitioners attending the meeting highlighted as a central concern the erosion of the tax base as a result of tax incentives offered to foreign investors. Some participants noted that tax incentives were ‘second best’ policy. They were not transparent and so a cost-benefit analysis of these schemes was difficult.

There was consensus that an important area where a race to the bottom was prevalent concerned the stagnation of world demand and oversupply in markets for primary commodities. This had led to the competitive bidding-down of international prices for primary commodities by the export countries. Those countries that do not have significant manufacturing capabilities were increasingly marginalized from globalization. This race to the bottom was confined to the exporters of primary commodities and was to the benefit of importing countries.

### **Working conditions and the protection of workers: Who is responsible?**

A third issue was the question of the impact that changes in the production system were having on the quality of employment. There was concern that the growth of international outsourcing was eroding the quality of jobs and fuelling more precarious forms of employment. This had followed a trend to deregulate labour markets and thus achieve maximum flexibility.

Related to this was the issue of the respective roles and responsibilities of the State and multinational enterprises. There was concern that globalization was eroding state sovereignty and constraining governments from implementing certain policies and/or labour laws. On the other hand there were allegations that governments were exaggerating the loss of sovereignty; certain rights were protected (property rights) while others were not (labour rights).

Participants noted that consumers and civil society were now holding some firms accountable for the non-implementation of laws by governments in countries from which these firms were sourcing. The rise of the ‘credence good’ where certain assurances about the process under which the good was produced are branded with the product was an example of this phenomenon. Certain firms with ‘aspirational’ policies argued that if codes of conduct were to have any meaning, firms needed to engage in resource-intensive upgrading of production with their suppliers. There was also the task of monitoring and inspection codes and voluntary commitments. Smaller MNEs who may only be sourcing 5 per cent of a supplier’s production had limited negotiating power vis-à-vis their suppliers and did not have the resources to engage in sustainable upgrading partnerships with suppliers. These firms argued that the responsibility for monitoring the implementation of basic labour laws was a public and not a private function.

Trade unions had been arguing for effective regulation and a framework of institutions and mechanisms to guarantee core labour standards. Agreements and other non-governmental multilateral activities were providing complementary frameworks for the implementation of codes of

conduct but ultimately, the role of the State needed to be enhanced, acknowledging that an effective public sector was an economic as well and a social necessity.

### **Policy proposals**

The following policy proposals were suggested during the meeting.

#### **Development policies**

- The present structure of trade in global production systems suggests that countries need a combination of *active production strategies* (industrial policy) and *stronger social policies*. The policy tool box should emphasize (i) innovations and the learning processes associated with them and (ii) linkages. This might include: local development initiatives (including the development of industrial clusters) and means to strengthen 'backward linkages'; 'mesoeconomic' policies including technology policies; policies to promote access to capital; and education and training policies. This should be underpinned by social dialogue and effective social policy, including measures to handle adjustment and restructuring.
- Developing countries could explore innovative ways to use global buyers to exploit niche markets for agricultural products, e.g. cut flowers or out-of-season vegetables. These opportunities could be leveraged to enhance local processing and upgrade local producers.

#### **Cross-border policy frameworks and institutions**

- National governments need to ensure effective regulation to guarantee core labour rights.
- Respect for core labour standards in global supply chains could be ensured by promoting or building on multi-stakeholder initiatives such as the Global Reporting Initiative, the Ethical Trading Initiative etc.
- Corporate social responsibility could be included as prerequisites in export credit agencies and public subsidies to firms.
- Since these production systems appear to be geographically concentrated, it might be worth considering what regional institutions could provide a framework to regulate these production systems. The European social model provides an example of cross-border social policy and regulation of labour standards. The European model also provides an example of a regime for limiting competition in fiscal incentives.
- Framework agreements between Global Union Federations and MNEs could be promoted. Around 20 such framework agreements currently exist. These commit the company and Global Union Federation to promote core worker rights in their worldwide operations.

#### **Multilateral and intergovernmental institutions – policies at the international level**

- Differences in policy areas across countries should be allowed. International competition policy (as being proposed in the Doha Round of WTO negotiations) may not be in the interest of developing countries which might want to have oligopolies, in order to promote development of firm-specific, knowledge-based assets that generate rents that can be re-invested.
- There are a variety of instruments related to the conduct of MNEs at the international level. Guidelines such as the OECD Guidelines for Multinational Enterprises and the ILO MNE Declaration need to be enforced. The follow-up procedures of the latter need to be revised to make cases and complaints more receivable.
- There could be a role for the ILO in certification and of auditors and/or monitoring labour standards.
- International organizations could assist developing countries in building capacity to bargain with MNEs. A template of best practice for industrial development and technical assistance could be extended to assist countries to make the most out of FDI.

- Countries could explore ways in which to prevent competition in incentives for investment through collective action, possibly by agreeing on incentive structures and thus limiting competitive bidding on financial and fiscal incentives.
- Greater coherence is needed in the international trading system, specifically:
  - Labour performance in Export Processing Zones could be included into the WTO country trade reviews.
  - Article 20 of the WTO (GATT) could be extended to include all core labour rights.
- One of the key initiatives could be to increase global demand, particularly for those countries presently marginalized from globalization. This involves reducing tariff and non-tariff barriers to trade, eliminating subsidies, addressing other technical barriers to trade and building capacity to meet standards, such as sanitary and phytosanitary measures. In respect of primary commodities, prices needed to be stabilized at a level that would permit exporting countries to resume sustained growth in the short term. International assistance for less developed countries also needed to be increased.

***Original report prepared by Susan Hayter and Aurelio Parisotto***





## **Regulatory frameworks in the global economy**

21 – 22 November 2002  
Geneva

### **Introduction**

The main objective of the meeting was to discuss regulatory frameworks in the global economy in order for economic integration to allow also for social integration and inclusion.

The key issues discussed were:

- Regulation in contemporary labour markets.
- 'Race to the bottom' and regulatory competition.
- Frameworks for promoting international labour standards.
- Social dialogue and industrial relations institutions.

The meeting began with a broad discussion of the relationship between globalization and labour regulation. Some participants noted that while globalization had a direct impact on labour markets, it had an indirect impact on labour regulation. One of the challenges in a globalizing economy was to prevent economic integration from leading to social disintegration. Social integration was important for international economic integration. Institutional frameworks that provided some form of regulation were important for social integration and balanced the short-termism of markets and political processes today.

### **Regulation in contemporary labour markets**

Changes in labour markets presented a number of challenges for the protection of workers and regulation of labour markets. These included the decline of the single employer/long-term employment relationship, a shrinking formal economy and expanding informal economy in many countries and an increase in outsourcing and subcontracting by firms (linked to changes in the global production system). Many countries lacked the resources to enforce legislation and develop adequately functioning labour inspectorates. Labour law was founded on the notion of powerful nation-states, however international economic integration had diminished this power.

One participant noted that the model of regulation that relied on an employment contract was based on contingent historical circumstances. The labour market institutions we now take for granted (such as the employment contract) did not exist 100 years ago. There was a need to rethink the platform for social policy and not limit this to the employment contract. Three options were suggested during the meeting: (i) the contract (either individual and/or collective); (ii) entitlements tied to citizenship not employment; and (iii) an intermediate category with entitlements linked to work, career or labour market status not to an employer.

It was important to focus on how entitlements and social policy could be delivered, rather than be caught in debates about legal categories in respect of employment contracts. These entitlements could be attached to labour market status rather than employment status. For example, working women on maternity leave could be guaranteed income separate from other entitlements linked to wage employment. There may also be new ways of crafting the contract on a collective basis. One participant gave the example of bargaining councils in South Africa where sectoral agreements were extended to non-parties such as home workers.

### **'Race to the bottom' and regulatory competition**

One participant observed that greater capital mobility, 'exit' rights being respected above all else, labour immobility and the deregulation of labour markets made a race to the bottom in regulation and labour standards inevitable. Companies were free to seek out more favourable environments in which to capture rents or extract the most value in the global supply chain. Some options for arresting the race to the bottom discussed during the meeting were: first, to allow freer movement of labour; second, states could begin to restrict the freedom of movement of corporations; and third, multinational enterprises (MNEs) could be compelled by the home state to adhere to and apply home country standards and regulation in the host country.

Another participant said that the problem with regulatory competition was that labour law and regulation was traditionally seen as a cost. Yet participants agreed that regulation could also be seen as assisting to create a virtuous circle: promoting inclusion, protection, redistribution and greater

efficiency alongside the achievement of other economic objectives. Some participants thought that regulatory competition could even induce a race to the top. For example, countries in Europe in the 19<sup>th</sup> century had engaged in a “race to the top” as a result of knowledge that a better educated workforce would benefit national security.’

### **Frameworks for promoting International Labour Standards**

There was discussion of emerging frameworks and approaches that ILO promoted respect for international labour standards. One such approach could be to cluster certain ILO Conventions, for example those related to gender equity, and then proactively promote the ratification of these as a package. Mention was also made during the meeting of the Global Compact and other voluntary initiatives such as codes of conduct. A presentation on the Maritime sector showed how a combination of ILO Conventions, collective agreements and voluntary codes were all providing an effective base of regulation in a truly globalized sector -- merchant shipping.

Most participants thought that there was also more scope for promoting labour standards through regional frameworks. Different parts of the world had very particular challenges and diverse realities. Labour regulation could be developed within the context of regional frameworks to respond to these realities. NAFTA and the EU in different ways provided the most developed examples; participants also mentioned efforts being made in the Southern Africa Development Community (SADC) and other regions.

A distinction was made during the meeting between core and comprehensive regulation. Core labour standards established a social floor or minimum standard. One of the most significant developments during the 1990s had been the recognition that the core labour standards of the ILO represent a fundamental set of rights in the context of integrating economies. Comprehensive regulation was concerned with gradually and continually improving on core labour standards. Core labour standards were ‘enabling rights’ – without which a comprehensive base could not be developed. Some participants thought it important to be able to expand what was considered ‘core’ and for this not to be frozen in time.

### **Social dialogue and industrial relations institutions**

A presentation on industrial relations institutions and social dialogue highlighted the capacity of these institutions to facilitate social and economic integration. Examples were given of where these institutions had been placed at the centre of change and had played a critical role in ensuring a more balanced and sustainable approach to adjustment. They had also contributed to good governance by forcing political actors to think in the longer term. Of course many countries did not have well functioning industrial relations systems, or had outdated institutions, or were suffering as a result of the weakening of workers’ and employers’ organizations. The latter had in some cases been a direct result of a piecemeal approach to the reform of industrial relations systems. Emphasis had been placed on making labour laws more flexible rather than taking a more integrated approach to the process of reform. A second presentation on the role of industrial relations during the Asian financial crisis reinforced the point that when national systems of industrial relations worked well, they provided resilience to respond to shocks and economic change.

Participants discussed the ways in which industrial relations contributed to adjustment. First, social dialogue reduced an information asymmetry by enabling a process where one of the social partners was able to contribute information that the other social partner may not otherwise have had, and which contributed to the effectiveness of a decision taken. Second, social dialogue ensured commitment to some difficult decisions that facilitated adjustment to change. Third, there tended to be more equal income distribution and thus greater social cohesion in those countries with more effectively functioning industrial relations systems. The latter was considered particularly important given concerns about the relationship between globalization and inequality. Most participants agreed that it was important to engage with the international financial institutions on these issues and that social dialogue was not sufficiently advocated in the context of the Poverty Reduction Strategy Papers.

Many examples were given of the different levels at which social dialogue was taking place in the context of globalization. The EU directive on works councils was promoting more consultation between MNEs and trade unions at a regional level. The number of global sectoral agreements between MNEs and International Trade Secretariats (ITS) had increased.

## **Policy proposals**

A number of proposals were made during the meeting:

- The ILO should play a more proactive role in the international system:
  - The Office should appoint a chief economist.
  - The ILO should become part of the development and monitoring of codes of conduct.
  - The Office should package and promote clusters of conventions around gender, employment etc.
  - More should be done to promote the core conventions. In particular, the ILO needed to engage with the International Financial Institutions.
- Examples from the mining and maritime sectors suggested that it would be valuable to explore sectoral strategies for regulation. These could include a range of different instruments and processes ranging from sectoral agreements between the ITs and MNEs to the application of sectorally specific conventions and labour standards.
- Regional institutions held out new opportunities for the protection and regulation of labour in the context of integrating economies.
- Technical assistance could be provided to assist countries to develop the capacity to implement and monitor labour law.
- Consideration should be given to delivering social entitlements through other means, separate to the employment contract.
- Technical assistance should be given to build the capacity of the social partners in countries, given the potential of industrial relations systems and social dialogue at the national level to contribute to smoother adjustment. The ILO should encourage its constituents to establish mechanisms for consultation with the key economic ministers on economic policies and employment.
- A ‘tapestry of regulation’ was needed in the global economy. This included individual and collective regulation, soft and hard regulation, and social dialogue at different levels (local, sectoral, national, regional and international).
- An FDI regime that could ensure that MNEs and states respected civil, economic and social rights needed to be shaped in order to prevent a “race to the bottom” in labour standards. It was also important to integrate a social floor into the trading and investment systems.

***Original report prepared by Susan Hayter and Robert Kyloh***

## **Corporate social responsibility**

14 – 15 February 2003  
Geneva

### Introduction

The main objective of the meeting was to discuss how the behaviour of business and corporate social responsibilities could contribute to a wide sharing of the benefits of globalization.

The key issues discussed were:

- Corporate social responsibility and social goals.
- Implementation, reporting and auditing.
- The role of international organizations.

### Corporate social responsibility and social goals

Generally speaking, Corporate Social Responsibility (CSR) is a term used to describe the ethical behaviour of business towards its constituents or stakeholders. Nevertheless, the wide variety of definitions associated with the term 'corporate social responsibility' has achieved no overall agreement on the concept. The fluidity of concepts suggests that more extensive research should be done. As observed at the meeting, without a common language we don't really know that dialogue with companies is being heard and interpreted in a consistent way.

There was general agreement that the business community, in partnership with the public sector and civil society, could play a role in the promotion of social goals. This is especially true in developing countries, where governments face severe constraints to develop and implement social and environmental regulation, as well as to deliver social services. There was also agreement that companies should not be expected to assume the role of governments.

Corporate social responsibility cannot and should not be seen as a substitute for national legislation. It can be seen as complementary to it, and as a tool. The importance of good national law and its proper enforcement ought thus to be, highlighted and once again this is essential in developing countries. These ideas summarize the most important conclusions and a significant consensus reached at the meeting. A shift context was noted. In the mid 1990s, corporate codes of conduct were proposed in the context of the failure of binding regulation at the national and international level. The focus tended to be that, in absence of law, multinational enterprises can, will and should self-regulate.

There is now wide agreement that the idea of multinational companies as replacement regulators – setting, implementing and monitoring their own rules in absence of *any others* – is deeply misguided. Subsuming the regulation of work in the regulation of the firm may damage the ILO's concepts of tripartism and social dialogue. Corporate codes of conduct are no longer seen as a freestanding alternative to traditional law.

The issue of whether and how CSR practices actually influence human behaviour is a complex one. Very little is known about the impact of codes, be it on business performance, or on social conditions. Regarding the business case for CSR, some participants believed that it would be intellectually dishonest to establish a direct, quantitative link. And, as one participant noted, "that shouldn't surprise or alarm us, since we also know very little about how traditional law creates standards at work."

The firm is not a monolithic black box, which responds like a mechanistic system to centralized commands. Firms (and surrounding production chains even more so) are complex institutions in which decision-making is the product of many different factors: culture at work, information flows, managerial style and the psychology of individuals. In accepting this view, there is a multitude of potential uses for statements of CSR and codes.

This also holds true for a state which has ratified and implemented all ILO standards and has highly developed labour laws. Even here, firms shape a response to laws – how and why they do so vary. Thus, it is necessary to stop seeing corporate codes of conduct as a simplistic device containing a set of rules that are automatically applied and can be effectively monitored.

In conclusion, the role of CSR should not be overstated. CSR is recognized as a tool. But statements of CSR need to be clear, based on legitimate legal standards (domestic and international), communicated effectively within the firm and provide opportunities for engagement with those outside.

Codes are not substitutes for the responsibility of government, nor social dialogue or collective bargaining. For some participants, they must be grounded in social dialogue, and they must leave space for, and take steps to, positively create worker voice. Some participants remarked that CSR involves other stakeholders as well, and that it is thus more appropriate to say that they should be grounded in civil dialogue.

In sum, the CSR issue alerts us to opportunities. These should be grasped and the broader agenda/process embraced. CSR can help change firm behaviour by influencing internal and external actors in complex ways that we are only beginning to understand.

## **Implementation, reporting and auditing**

There are a wide variety of mechanisms for and experiences with the implementation of CSR. When deciding to adopt CSR practices, a number of aspects must be addressed. Implementation encompasses different activities, starting by setting the objectives, benchmarking and internalizing, deciding on who and how monitoring will be performed and establishing reporting mechanisms and ways of working with business partners.

Numerous challenges are to be faced, both for companies and for the organizations involved in implementing CSR. For companies, it involves internalizing risks. As one participant noted, “like any investment, CSR is a cost before being an asset”.

There are hundreds of voluntary initiatives and codes, and no common standards. Some participants evaluated the content of codes, and found these to be broadly deficient: codes are often vague, not linked to legitimate reference points and also shaped by distorting focus. A substantive proportion of codes do not provide for observance of ILO core labour standards. It was reported that many suppliers complained of the incoherence of these codes and of “audit fatigue”.

Participants observed the marked difference between codes that apply to supply chains and codes that apply only to the enterprise itself. The role of the enterprise in monitoring the practices of another company is not the same as the role of monitoring codes that apply to the company itself. There are obvious limits for action when a company detects non-compliance with the code by another company in the supply chain.

On the positive side, the increasing interest of trade unions, NGOs, community and other networks on CSR issues and the opportunities for social dialogue in sectoral and regional agreements is a most welcome recent trend. The creation of multi-stakeholder initiatives, such as the Ethical Trade Initiative (ETI) and the Global Reporting Initiative (GRI), introduces new actors between state and markets. Examples were cited that reinforced the point that multi-stakeholder teams were important in creating standards, improving methodologies and producing credible reports.

These organizations are a response to a set of interactions that come with globalization and a weakness of governance at the global level. Initiatives like GRI, ETI and Global Compact are trying to add value to a relevant global framework, not trying to replace what exists already. Existing international standards are always references to be observed.

A trend has been detected towards an increase in proactive reporting. Reporting is seen as one of the preconditions for restoring trust in business, which has been strongly affected in recent years. Some figures confirm this trend: 45 per cent of the largest companies today are producing reports on environmental and social issues, up from 35 per cent in 1999. It was remarked that the quality of these reports still shows a great degree of variation.

Independent monitoring networks can play a key role in developing countries. These are not part of companies or unions, rather they are non-profit organizations. Examples were given of NGOs fully committed to transparency, letting civil society monitor the monitors (unlike private auditing). There is often a problem in many countries with a lack of capacity of local institutions. There is a clear role for the ILO to be part of – perhaps to lead – this training process.

The discussions on monitoring, reporting, and indicators suggest that the focus should be placed on something more dynamic than a simple code of conduct. It means a shift to new models of engagement, with the involvement of stakeholders, in order to ensure more truthful answers.



## **The role of international organizations**

Deep-rooted differences in corporate culture make it difficult to establish a common global model. The time is not ripe for the convergence of CSR practices. Differentiation will continue for some time. In short, so far there is no common global model.

But some experiences are beginning to change this setting. The Global Compact is assuming the leadership, and the nine principles of the compact can form the basis of an international model. The overall and overriding challenge is how to make implementation work. Again, CSR implementation is an ongoing experiment.

The role of international organizations is to research, collect, analyse and disseminate information on CSR practices. They can also provide a forum for open discussion and the exchange of ideas on the subject. But some participants would like to see the ILO go further, working on an internationally agreed set of benchmarks for commercial service and certifying international auditors. As remarked by one participant, this would avoid “the privatization of the private corporate standards”.

One participant suggested that as in its collaboration with the UN Global Compact, the ILO should ensure that its core labour standards for *countries* are translated into meaningful standards for *companies*. Others disagreed since international labour standards are written for implementation and enforcement by governments.

Among international organizations, the ILO is seen by some as “the CSR organization”. The MNE Declaration is recognized as the unique comprehensive tripartite CSR instrument, based on universal values and social dialogue. A revision of the 1977 Declaration to cover all types of enterprises could be helpful to reinforce this instrument, which could and should then be marketed around the world.

The importance of cooperation between relevant international organizations, including the OECD and the World Bank, was also highlighted by some participants to achieve synergy of actions both at global and national level.

## **Policy proposals**

In addition to the above recommendations, a number of policy proposals were suggested during the meeting. Their inclusion here, however, does not commit individual participants.

- Explore the application of these standards through empirical application and case studies at the enterprise and workplace level.
- Persist in research into codes of conduct in the light of their application.
- International organizations should continue to research, collect, analyse and disseminate information on CSR initiatives, provide a forum for debate on CSR which would help define the distinct roles of the different actors and promote CSR through instruments such as the UN Global Compact and the ILO’s Tripartite Declaration concerning Multinational Enterprises and Social Policy.
- Labour inspections mechanisms should be strengthened. The ILO could help develop a link between private and public labour inspectors (share information, use the same methodology, joint training).
- The ILO could revise the 1977 Declaration and use it as a marketing instrument for the adoption of CSR practices on a solid tripartite basis.

***Original report prepared by José Guilherme Almeida dos Reis and Susan Hayter***

## **International migration: Issues for multilateral cooperation and policies**

18 – 19 September 2002  
Geneva

## **Introduction**

The main objectives of the meeting were to discuss the changing landscape of migration and whether global governance could contribute to the improvement of flows and working conditions of migrants.

The key issues discussed were:

- A global overview of international migration, including recent development at national, regional, and international levels.
- An examination of newly emerging multilateral initiatives in this field, assessing their achievements and identifying further policy challenges.
- The possible mechanism for future global governance and/or multilateral cooperation on international migration.

## **A global overview of international migration: What's new?**

### **Globalizing migration**

Many participants agreed that migration has become an integral part of globalization. Migration has expanded its reach to broader geographical areas. It is no longer just a North-South phenomenon, but becoming a global phenomenon, involving more South-South flows. While migration has affected only a limited number of countries before the 1990s, virtually all countries in the world are now affected by migration. One participant reported that the growth of migrant populations has accelerated particularly in the 1990s: it increased by 40 per cent in the first half of the decade and 60 per cent in the latter half. The global migrant population was 185 million in 2002. In some regions, the increase was due to political changes (e.g. democratization and new emerging states in Eastern Europe, armed conflicts in Africa and the Balkans), but globalization of the economy has been a major factor. The growth of the ITC sector in many industrialized countries led to an expansion of immigration quotas for skilled professionals across borders. Intensifying competition in the global economy also yielded the demand for low-wage migrant labour in manufacturing, agriculture, construction, and services. South-East Asia and Russia accommodate 200 nationalities, which is a significant change from the Cold War era.

### **Transnationalism**

New technological and cultural changes enabled people to cross borders in a way which were not previously possible. For instance, an increasing number of people now reside in multiple countries, being engaged in 'circular migration.' Some regularly spend a certain amount of time in one country as seasonal workers, and remainder in their home country. Others immigrate to one country and base their life there while maintaining strong ties with their country of origin and retaining their citizenship and social security benefits. The proliferation of these transnational communities challenges existing forms of citizenship and national identity, which are still based on the concept of nation-states as autonomous and closed political units. Several participants highlighted the importance of recognizing and studying transnationalism in more detail. One attendee was concerned that there has been a lack of institutional cooperation on defining terminology, not only among migration-related agencies such as the IOM, UNHCR, and ILO, but also within the larger framework of pertinent international organizations such as the United Nations and the World Bank.

### **Growing irregular (illegal) migration: Why and how?**

Most participants expressed their concerns about the rapid increase in irregular migration, which is another new trend in international migration. This is partly due to the intensifying competition in the global economy which requires cheaper and more dispensable labour. One participant noted that half a million migrants enter the United States and another half a million enter Europe illegally. Trafficking, smuggling, and irregular migration now involve many more countries either as sending, receiving, or transit countries (and increasingly a combination of these), aided by globalizing information flows and the declining cost of transportation in real terms. According to one participant, the Caribbean is becoming a transit region for irregular (illegal) migrants from China to the United States. She reported

that an estimated 200,000 Chinese have been smuggled worldwide every year by organized crime syndicates, many of whom land first in the Caribbean to later reach their final destination, the United States.

Legalization of irregular/illegal migrants is also a challenge. One participant reported that millions of illegal migrants in the United States lose their jobs once they become legalized because legalization entitled them to minimum wage and social security which employers did not want to pay. The insufficient government resources for labour inspection are also a problem.

A few participants remarked on the apparently diminishing effectiveness of controlling migration, especially after the September 11 terrorism. The growing irregular migration is also attributable to the gap between tightened immigration policies in industrialized countries and growing emigration pressures in developing countries. Declining state control and the increasing activities of international crime syndicates have accelerated this process.

### **Indistinct boundaries between migrants and asylum seekers**

Many participants agreed that given the current immigration restrictions, asylum is the only legal option for many migrants who want to enter industrialized countries. The problem is that the number of those who arrive as asylum seekers but have economic motives (so called “economic refugees”) has risen significantly over the decade. Some argue that the majority of these asylum seekers in Europe do not get deported and remain in the country even after their asylum applications were rejected. These pseudo asylum populations impose socioeconomic burdens on governments and host communities. Many countries and international organizations started realizing that migration and asylum are no longer distinctly separate issues but now require a more integrated approach. These unclear boundaries are concurrently posing a political problem as the public perception turns negative even toward legal migrants and officially recognized refugees, which has electoral implications for many politicians. One participant pointed out as a key problem that the current asylum system does not allow asylum seekers to work, which serves to increase negative perceptions among the public.

### **Feminization of migration**

Women now comprise about one half of international migrants. In some countries, the majority of migrants are women. Most of them are concentrated in the vulnerable sectors such as entertainment (and/or sex) sector, domestic work, and manufacturing industry in other countries. Ageing of the population as well as increasing work pressures have also forced many working families to rely on foreign nannies, nurses, and care-givers who are often migrant women from developing countries. This dimension of ‘new international division of reproductive labour’ has become increasingly salient in the past decade. Gender is a main aspect of trafficking, as the majority of the victims are said to be women and girl children. Problems of physical and sexual abuse against them have been widely reported. It would be essential to address the gender aspect of migration more effectively in policy discussions so that both immigration and emigration policies could be better tailored to the specific needs of migrant women and their protection.

### **Health and migration**

One participant commented that mobile people can trigger health issues by introducing new or re-emerging diseases to countries of transit or destination or by being vulnerable to conditions acquired from their new host communities. A critical relationship exists between population mobility and emergence or re-emergence of infectious diseases such as TB and HIV/AIDS. On the other hand, the linkage between migration and health is not always negative. For instance, an increasing number of bilateral and multilateral agreements that foster the migration of health workers are perceived as positive on the receiving end, though in some cases it leads to shortages of nurses and doctors in the countries of origin which, in turn, affects the quality of medical services for local populations. There is an urgent need to conduct more research on the impact of migration on health.

## **A changing landscape of international migration**

### **Increasing political implications**

Migration has been increasingly politicized in recent years. As seen in the election processes in some

European countries, migration issues have been affecting the voters' decision more significantly than earlier. This is becoming a challenge for many politicians in migrant-receiving countries, especially in Europe. Many industrialized countries still need high-skilled immigrants and immigration is crucial for these countries as they face the problems of ageing and slow population growth. However, the relatively unsuccessful migration management and migrant disintegration have frustrated the voters. One participant mentioned that right-wing nationalist political parties have been trying to take advantage of this situation and capture swaying votes by addressing the 'immigration question' especially when the election is close (e.g. the parties are between 4-5 percentage points from each other.) This 'policy by panic' will not change until popular perceptions are dealt with. One participant expressed concern about the media prejudice against immigrants, which is partly responsible for the growing xenophobia.

Some participants also noted that the political difficulty also derives from conflict between the utilitarian approach (based on the labour demand for migrants) and the humanitarian approach (that emphasizes the need for protection). It is difficult to marry these two approaches. As one participant argued, "that is why many states adopt the humanitarian policy that is subjected to utilitarian principles". Another participant also pointed out that the current globalization process and the Welfare State concept do not go together, and posed the question of how to reconcile them.

### **Emerging multilateral consultations**

For many years, governments have used to responding to changing migratory trends on an ad hoc basis with mostly unilateral measures, or occasionally, bilateral agreements. However, reflecting the growing impact of migration (especially that of irregular migration) and imminent concerns associated with it, governments have gradually accepted the idea that solutions to international migration would require multilateral and regional approaches to coordinate policies. Starting with the Budapest Process in 1991 that aimed to prevent irregular/illegal migration from Eastern and Central Europe, Regional Consultative Processes (RCP) have emerged across the world over the last decade. Now every continent has one or more RCP, and inter-regional consultations have also taken place.

The structure of these processes varies; some are one-off forums, others have a secretariat. But they share two characteristics in common, which are being informal and non-binding. As a consequence, there is much more improvement to be made as it is ultimately governments that decide on getting together to share information and data. Many governments prefer to take time and build trust with each other before moving toward any more formal mechanism. In other words, these processes are still at the nascent stage even after ten years, trying to build trust and confidence with one another.

Whether these processes will be integrated into a more comprehensive global consultation process remains to be seen. One participant was pessimistic about these regional consultative processes being able to bring out any shared interests, because of conflicts at the national level in each country pertaining to the effects of economic migration. In the European Union, there has been little significant change in policy concerning the admission and employment of third country nationals. In North America, the discussions on liberalizing movements between the United States and Mexico have been derailed since September 11 because of the concerns for terrorism. In other parts of the world, the consultations on migration have been driven by donor-country interests (e.g. trafficking and reducing migration), yielding ambiguous results. Another participant pointed out that a general agreement on movement of people would be difficult as it does not proceed from a theory on which there is a consensus. Unlike trade regimes, which proceed from the theory of comparative advantage that 'closed' countries would suffer slower economic growth, or environmental regimes, which are based on the near consensus that global warming will be costly, there is no compelling theoretical argument that all forms of migration are beneficial.

However, there are still some optimistic signs in multilateral initiatives. One participant observed the general pattern of convergence as most approaches move to similar subjects and define similar terminology across the board. Other progress has been made with inter-regional discussions such as the so called "5 + 5 process" with five Mediterranean countries in Europe discussing with five North African Mediterranean countries. The Berne Initiative, which is a broader multilateral consultation led by the Swiss government, is a revisit of the Cairo conference follow-up that seeks convergence with various regional processes. It has already held two meetings with 80 experts and policy-makers, where a remarkable degree of consensus was established for a multilateral approach and a framework for guiding principles.

According to some participants, the current challenges lie in the following areas. The first is to figure out how to bridge the various divisions and interests. Many of the multilateral initiatives have been largely driven by asymmetric concerns; those initiated by receiving states aim to curb growing clandestine immigration and trafficking; those by origin states are aimed at protecting their nationals against exploitative treatment or getting their undocumented citizens regularized. One participant also pointed out regional divisions. For instance, European countries, which have convergent policies among themselves, are less interested in the global consensus, and the United States is extremely sceptical about the idea of guiding principles. On the other hand, developing countries are welcoming these global initiatives. The second challenge is designing consultations which offer possibilities for 'win-win' solutions which guarantee some concrete commitments, such as joint regulation of movements and reciprocal rights to social security.

In general, most countries have less tolerance for a formal, legally binding agreement. The advice from governments is to go slow, forge common understanding and define major migration issues, including their terminology, since problems arise from a lack of definition and/or familiarity of migration terms among policy makers.

## **Toward global governance on international migration**

While this section was intended to focus on a long-term strategy for the possible global governance structure, many participants felt that time is still not ripe yet to discuss this issue in concrete terms. One participant was pessimistic about the emergence of global governance in the current situation where the ILO Conventions on migration have not been widely ratified and the UN Convention has still not yet entered into force. As a consequence, the discussion was shifted to more short-term, practical strategies for better migration management and more effective protection of migrants.

### **Setting core principles versus strengthening existing mechanism**

One participant noted the usefulness of setting up the 'core principles' on international migration. His view was that given the low rates of ratifications for both the ILO Conventions and the UN Convention on Migrant Workers and Their Families, the core principles (which are non-binding) would be more helpful in engaging governments to cooperate and take some actions.

However, the majority of the participants were opposed to setting up such principles or declarations. Many existing principles and declarations have proved ineffective because of the political sensitivity of migration. The gap between such principles and reality remains wide. Some participants also emphasized the need to think about the obstacles for ratification of existing international legal instruments on migration, and to identify goals and principal actors before defining principles. While it is relatively easy to agree on principles, the real change would be possible only if various main actors are convinced of common long-term interests.

The Berne Initiative, the first international consultative process on migration, is also in the process of producing a set of guiding principles. Some participants remarked that the effectiveness of adding another set of principles by the World Commission is questionable. The majority felt that concentrating on strengthening the existing mechanism would be more constructive. They also agreed that the continuous process of engaging governments (as seen in regional consultation processes) would be more important than setting up new principles.

### **Migration versus development**

Many shared the view that migration should be a tool for development. After years of enhancing border controls, many governments have realized that it is impossible to completely stop or control migration and make people stay home. However, at the same time, there seems to be a consensus that 'reducing' emigration pressures by promoting economic development could be a common interest among many governments. In the current situation where the impact of official development aid is marginal and also foreign direct investment is hard to come by, more innovative policy initiatives are needed to make migration a tool of development.

Some participants agreed that there was an over-emphasis on the importance of aid. Previous studies have already concluded that aid is not effective in reducing emigration pressure and that most migrant-sending countries have had difficulty attracting foreign direct investment for many years, which

will not change in the near future. It was recommended to focus on the effects of trade and investment policies that shape migration, given that structural adjustment has been a major determinant of migration, especially skilled migration from Africa. They warned that while migration policy may be regulated, this alone does not address fundamental causes. At the same time, there was also concern that the economic integration of countries with significant differences in economic levels would create a 'migration hump', in which the number of migrants increases for a long period of time before it declines as the economic gap diminishes between the countries.

Others suggested that migrant remittances, which amount to 100 billion dollars a year, should be better utilized for local economic development. Directing more remittances into official channels is perhaps the first challenge. This would enable governments to better grasp the resources that they could tap into. It would be essential to establish clear national and international strategies to make the best and most efficient use of these resources for development. Some NGOs, development agencies, and a few international financial institutions are already involved in this field to a varying degree, but their efforts have been rather fragmented. Coordinating these efforts and integrating them into the policy formulation process would be helpful. Further analysis on the impact of macroeconomic policies that might cause emigration was also suggested.

Some participants remarked that the perspective of 'global human resources development' is needed. In the cases where high-income countries enjoy tremendous economic benefits from high-skilled professionals from developing countries, and if these countries of origin significantly suffer due to the skill shortage for their own national development, there might need to be some mechanisms that could at least partially compensate the severity of the brain-drain effect.

## **Policy proposals**

### **Integrated policy approach**

Many participants first recommended that governments be more open and honest about the reality of the migration that they are facing. It is important for them to recognize that migration will not cease simply by increasing the budget of border controls. Migration requires more comprehensive measures.

As migration becomes more complex in nature, more integrated and multidisciplinary approaches are required. Some participants argued that policy makers should involve not only economists but also academics from other relevant disciplines, and reflect their views in their migration policies. Many participants also agreed on the importance of involving all the relevant ministries – not only the Ministry of Interior but also the Ministries of Labour, Finance, Welfare, and Women, etc. Coordinating their efforts would be a key to successful migration management. Fragmentation of institutional involvement tends to be ineffective and also self-defeats the purpose. Within the context of such a comprehensive approach, policies also need to be tailored to the needs of distinct categories of migrant populations (e.g. temporary migrants, permanent residents, refugees, and asylum seekers), while maintaining some flexibility to accommodate the fluidity of these categories.

The majority of participants agreed that migrant workers themselves should have some representations in the policy dialogues with the help of trade unions and other civil society organizations (e.g. migrant NGOs, human rights NGOs, and women NGOs, etc.). The importance of incorporating business communities was also highlighted. Tripartite consultations and negotiations, which could include other civil society organizations, would be essential in the process of managing migration. The ILO's Decent Work Agenda could be also integrated into the process.

### **Migration and development**

Many participants commented that the remittances should be better utilized to maximize their economic development pay-off, as they substantially exceed the amount of Official Development Aid (ODA). One recommendation was to make it easier and cheaper for unskilled workers without bank accounts or banking experience to transfer money across borders. Another proposal was to develop policies such as matching remittance investments to encourage remittances to be invested to maximize job creation. In doing so, the governments should ensure that economic policies in migrant areas of origin do not discourage the formation of often small remittance-financed businesses, and that technical and marketing assistance is available to help these businesses succeed.

Diaspora communities could also play a key role in supporting sustainable development in the countries of origin. Many communities provide financial support, but some also offer non-financial forms of support such as capacity building, information exchange, technology transfer, business investment and other grass-roots transnational practices that could help national development in migrant-sending countries.

### **Multilateral initiatives**

The current regional initiatives on international migration were welcomed and worth further support and encouragement. While there was a view of setting up new principles or guidelines on migration, the majority of participants were opposed to this idea and agreed that it would be more constructive to focus multilateral efforts on the “Participatory Discourse”, that is engaging as many countries as possible to build trust and enhance dialogues and policy coordination among governments. The protection of migrants (especially women migrants) also needs special attention. One participant noted that it would be extremely useful to start with a minimal and specific agenda in multilateral dialogues. The Bali Conference, for instance, focused on counter-trafficking, but is now leading to discussions in other areas. This meeting has also led to agreement on terminology and legislation in the field of counter-trafficking and smuggling, which was quite helpful. Establishing the agreements on minimal agenda and continuing the dialogues could lead to productive results in the long run.

### **Institutional coordination**

Most participants agreed that more systematic and coherent coordination among international agencies would be needed. It was recommended that the current coordination mechanism among the ILO, IOM, UNHCR, and other UN agencies be strengthened. In particular, the issues of mandate and cooperation between the UNHCR and the IOM will have to be resolved, as the UNHCR might move into more general migration issues. One participant noted that it is not appropriate to propose a new UN-machinery at this point, but it is necessary to encourage ongoing regional coordination processes to lead to such machinery in the future.

*Original report prepared by Nana Oishi*





## **Migration, development, and integration: Policy strategies and challenges**

16 – 17 December 2002  
Geneva

## **Introduction**

The objective of the meeting was to discuss various aspects of migration and migration policies in relation to the development needs of developing countries.

Key issues discussed were to:

- Examine the developmental aspects of international migration
- Address the issue of socioeconomic integration of migrants, identifying recent trends and challenges.
- Explore the roles of various actors for a better policy environment.
- Provide some concrete policy proposals on these two areas for the World Commission on the Social Dimension of Globalization.

## **The overall impact of migration on development**

The general understanding has been that labour migration by itself is unlikely to improve a sending country's development potential substantially. While individual migrants and their families tend to gain from migration in terms of economic security, the same cannot be claimed for the countries. There is little evidence to indicate that labour migration and flows of remittances have generated sustained growth.

However, as seen in the following sections, the participants agreed that it would be still possible to maximize the benefits of migration and help improve national economy, if migration is better managed. To achieve this goal, the capacity for governance must be improved to capitalize on the growth-enhancing effects of migration, minimize adverse consequences, and create an environment that favours productive investments.

One participant pointed out that while development and employment creation in developing countries would be necessary to reduce emigration pressures, development actually increased migration. Other participants explained that the increase in migration would be normal because of what is called a 'migration-hump' where migration increases for a certain period of time after economic transformation. Better communications, transportation, and other improvements in daily life raise people's expectation level and enhance their ability to migrate. As income levels rise, emigration first increases and then declines after reaching its peak. As for employment creation, its impact might be minimal as unemployment itself is not a true cause of migration. Most migrants are employed prior to migration, and thus simply creating any jobs would not reduce emigration pressures. The real challenge is how to create decent work that would motivate people to stay in their home countries.

Bilateral, regional, and international trade regimes are beginning to have a profound impact on migration. One example is the European Union's initiative to harmonize the migration regime to serve as a counterpart to its customs union. The North American Free Trade Agreement (NAFTA) also includes migration-related provisions for freer movement of the highly skilled. While movements of less-skilled workers are excluded from such provisions, the issue is like to be revisited as economic integration grows.

Other participants observed that the social impact of migration tends to be underestimated. This is due to the difficulty in measurement, but it was suggested that governments ensure that they protect migrants' basic rights and also fund programmes to monitor the social consequences of migration.

A possible link between development and forced migration was also pointed out: development could have destabilizing effects, leading to ethnic, social, and religious tensions that break out into violence, creating internally displaced people and refugees.

## **The impact of globalization on migration and development**

### **Remittances**

An increasing global migration has resulted in the rise in remittances to the level of over 100 billion dollars per year. The economic implication is quite significant: in the Philippines, for instance, remittances comprise 8 per cent of GDP and 16 per cent of households regularly receive them. It is estimated that each remittance dollar generates two dollars worth of economic activity. A few participants warned that remittances also have an effect of increasing economic inequality among the population while having a strong poverty reduction effect. However, the overall consensus was that the benefits of remittances were still significant. They should be better channelled and utilized for migrants' long-term investment, as well as sustainable national development, so that the economic benefits of migration could be more equally distributed.

One major challenge to achieve these goals would be channelling the remittances through formal institutions. Many migrants come from poor rural areas and do not have bank accounts because they lack sufficient identifications or documents. Sending money to their families through banks is also not necessarily convenient for them as banks often operate only in large cities. Though it entails some risks, migrants prefer to use informal channels to send remittances to their family.

Another challenge would be to reduce transaction costs as it is estimated that 10-15 per cent of remittances are spent on the fees for money transfer. To maximize the economic impact of remittances, it is also necessary to channel them to more inexpensive, secure institutions. Some microfinance institutions are providing remittance services as well as follow-up financial services at favourable terms. These initiatives should be further promoted and encouraged.

To leverage remittances for the national economic development, more systematic efforts are needed. Some governments have set up 'matching funds', through which migrants can invest their remittances for the benefit of their communities. In Zacatecas, Mexico, for instance, the federal, state, and municipal governments put out one dollar each for every dollar migrant workers invest on the development project. Within eight years of operation, 4.5 million dollars was channelled toward over 400 community projects. Some migrants' hometown associations and microfinance institutions also have started helping members to send remittances to their communities of origin, and invest them for the benefit of the villages in, for example, small businesses.

International organizations could play a major role in coordinating the initiatives to reduce transaction costs and also to maximize the development impact of remittances.

### **Brain-drain/migration of the highly skilled**

Some concerns were expressed as to emigration of highly skilled workers leading to the growing global inequality. Industrialized countries will have more human resources that would help enhance their economic growth, whereas developing countries will lose the return of their education investment and further hamper their economic development. One participant suggested that skilled emigrants in developing countries pay back for their education or be required to serve in their home countries for a certain period of time if they received public education.

However, overall, more positive views were also presented on the emigration of highly skilled workers. For instance, the Green Revolution in India was initiated by ex-migrants who have learned the new farming techniques abroad and invested their remittances on agricultural development in their community. Housing and industrial sectors have been also developed in some areas with remittances. Local entrepreneurship increased as well. Some skilled migrants also invested on social sectors such as private education and health. Some facilities for science education were improved with the investment of skilled migrants abroad.

More recently, the large outflows of ITC workers have been making significant impacts on the economy of some developing countries. In India, one of the major impacts is forging commercial networks of those highly skilled migrants abroad (e.g. in Silicon Valley) and back home (e.g. in Bangalore). Because of the growing inflows of capital investment by Indian ITC migrants in the United States and Europe, some Western researchers argue that there is not much negative impact of brain-drain. While it is true to a certain extent, it is also true that these migrants normally do not return to India, which in itself is a loss of human resources for the country. In the cases of Taiwan and the People's Republic of China, more skilled migrants have been returning home because of the growing economy and also the governments' efforts to promote their return. The technological infrastructure in these countries has also been sufficiently developed so that expatriates would not feel much inconvenience in working back home. In the case of India, most ITC emigrants are still reluctant to return home permanently partly due to inadequate technological infrastructures (e.g. unreliable power

supplies, costly and outdated telecommunication services) and many bureaucratic restrictions, corruption, and the unresponsiveness of government to start their own businesses. At present, there is some 'brain circulation' happening because of the job loss in the ITC sector in the United States which has forced some ITC professionals to return to India. However, this is perceived as a temporary phenomenon, and the challenge is how to keep them home when the US market picks up again.

It was pointed out that most of the ITC emigrants were from urban areas. This reflects growing regional inequality in terms of income and education levels. In India, for instance, the majority of university students come from urban areas. To prevent a serious rural-urban divide, it is necessary for governments to invest on education more in rural areas.

One participant noted that the policy of receiving countries also affects the rate of return among emigrants. Many emigrants do not wish to return home fearing the possibility of not being able to enter the country of residence again. If receiving countries give a permanent right for settlement to emigrants from West Africans living in France, for instance, they are more likely to return home at least for some time. The difficulty with re-entry discourages people from returning home.

Some participants remarked that the migration of skilled professionals should not be seen as brain drain but rather as a strategic method to build up industries. For instance, some developing countries demand more visas for their ITC workers while they negotiate for more subcontracts for ITC services back home. As seen in GATS, migration and trade are increasingly becoming more complementary. Developing countries could make further efforts to bring more ITC outsourcing service projects from industrialized countries so that they could help their own ITC workers at home, which will prevent brain drain.

### **The role of Official Development Aid**

One participant mentioned that ODA had a mixed impact in many developing countries, and that it was not clear whether ODA helps curtail the need to migrate. Other participant pointed out that poverty reduction had never been a major component of US aid, and ODA would not be the answer to employment creation in developing countries either. One negative effect of ODA is that it can help keep an overvalued exchange rate overvalued.

Many agreed that ODA by itself would not stop emigration. However, ODA could still be used to help alleviate emigration pressures. One strategy would be targeting ODA in main source regions of migrants as most migrants come from limited geographical areas. Using part of ODA as matching funds for migrant investments in developmental projects could also be an effective strategy for development and alleviation of emigration pressures.

### **Regional cooperation on migration and development**

A "paradox" of international migration, according to one participant, is that migration is international and yet is managed only at a national level. However, regional dialogues and cooperation on migration and development have been gradually emerging in recent years. While there is some scepticism about these regional initiatives as "masked cooperation" mainly serving the interests of powerful receiving countries, the overall consensus was that these initiatives would be worthwhile and thus should continue and be further encouraged. Most participants believed that it would be only through international cooperation, coordination, and harmonization of migration policies that cross-border movements of people could be effectively managed. This consensus reflects the increasingly complex reality of migration; many countries have become both migrant-sending and receiving countries, and sometimes even 'transit countries,' which would require more cooperation and coordination at multilateral levels.

One of the main challenges for these multilateral initiatives would be to figure out a 'win-win strategy' for economic development for both receiving countries and sending countries. The factors necessary for the success of regional cooperation could include: (1) continuous dialogues; (2) bilateral cooperation funded on the concept of equal partnership; (3) recognizing that migration dynamics is evolving, and adjusting to the changes; (4) engaging migrants' associations and affected communities in the dialogues. Many agreed that the involvement of NGOs would be helpful.

One participant pointed out that migration is not an essential part of international relations and foreign policy. As migration is influencing national security in a concrete form, it is important to train government officials (particularly diplomats) on the weight of this issue.

## Socioeconomic integration of migrants

Some concerns were expressed on bifurcation of migrants' education levels. While the proportion of migrants with a university degree is higher than the native population, the proportion of those with no high school diploma is also higher. While those on the upper scale (e.g. ITC workers, engineers, and other professionals) have relatively few problems integrating themselves into the labour market and society, those on the lower scale (unskilled migrants) tend to be less integrated. How to integrate the latter would be a challenge.

Socioeconomic integration is not simply a matter of providing equality of access to opportunities (e.g. access to employment, housing, health care and other social services) but would also include promoting equality of treatment, sensitizing the local population to the needs of migrants, educating migrants on their rights, creating structures for information and assistance, providing access to credit, recognizing their educational qualifications back home, allowing the political participation of migrants, and so on.

One participant noted that the success of migrants' integration in the US derives from its citizenship policy (the *jus soli* birthright principle in particular), a relatively easy naturalization process, a strong sponsorship system, and flexible labour markets. When the vast majority of migrants are employed, integration tends to proceed more smoothly. The US also has strong anti-discrimination policies, including by nationality, and thus is able to provide migrants with access to a much wider range of jobs than in European countries. However, other participants commented that the process of acquiring United States citizenship and permanent residence has been affected by September 11 and the subsequent war against terrorism. The new way of thinking is that integration starts before migrants leave their country of origin, which includes adopting more appropriate selection procedures of migrants. There is criticism, however, that many countries use their admission/selection policies as part of the integration policies, trying to decrease the entry of "unwanted migrants" and/or those who are less likely to integrate.

Bilingual education, which has been developed in some major receiving countries, could be useful in better integrating newly arrived migrants. However, due to budget constraints, the quality of these programmes is often criticized as sub-standard level. In addition, some political backlash in recent years has resulted in the abolition of this type of programme. Even if language programmes are abolished, however, providing sufficient pre-school education for migrants' children would be a key to their successful integration. It would be equally important to provide migrant parents with more information on children's education.

Many participants agreed on the important role of migrant communities in receiving countries, and suggested that their potential resources be more optimally realized and utilized. Efforts should also be made not to isolate migrant communities and develop them into ghettos. In particular, second- and third- generation migrants should have political rights, especially the right to vote. The fundamental democratic principle of 'no taxation without representation' should be applied to migrants and their children as many of them pay taxes and yet cannot have their voices heard.

Some attendees said the reality was that many countries actually had not promoted or sometimes even discouraged integration of migrants. Also, a fear of immigration is emerging in many liberal receiving countries. As a result, there is a renewed interest in temporary migration programmes which lead to less integration and less mobility in the labour force. For migrant-sending countries, the rise in temporary migration would be beneficial, as it will lead to an increase in the amount of remittances as well. However, for individual migrants, it will not be too beneficial, as they will enjoy less rights and less access to resources in host countries. A few participants agreed that permanent immigration programmes would be more helpful to maximize the rights of migrants as such programmes would put them on the citizenship track.

A few participants also called for the reintegration of returned migrants to their home communities. International organizations such as the ILO could provide help for micro-credit schemes and so on.

Migration experts used to refer to assimilation, pluralism, multiculturalism, and integration. However, all of these have had problems in getting accepted by the society. A suggestion was made to reorient the discussion toward promoting 'interculturalism' or 'intercultural dialogue' which would advocate the dialogues between migrants and national populations on many relevant issues including national/cultural identity. This approach, which is based on the recognition of fundamental human

rights, will help the society understand that integration would require the efforts on both sides, and explore what kind of efforts to be made.

### **Trafficking**

Irregular migration, trafficking in particular, is becoming a major concern for many countries. It has been recognized that to combat trafficking and the globalization of sexual exploitation and forced labour would require regional as well as international cooperation. One participant mentioned the importance of 'three Ps' in tackling with trafficking: (1) Providing alternative economic opportunities for the trafficked; (2) Prosecution and establishing trafficking as a crime; (3) Protection of the victims of trafficking, and help their reintegration. It is now understood that these are interlinked and any policy and approaches need to take these three elements in mind. Another risk is that migrants are increasingly going into debt bondage to pay off smuggling fees. This is where trafficking and irregular migration overlap, and becoming a serious problem.

There is a concern, however, that the current debates on trafficking tend to mainly centre on stricter border control and deportation of irregular migrants. The UN Protocol on Trafficking in Persons has also been framed within a crime prevention convention and thus the responses on global action against trafficking have been mainly from the perspectives of national security, criminal law enforcement, and crime prevention. It would be helpful to link trafficking more closely with development issues since poverty is after all the root cause of this phenomenon.

## **The roles of various actors**

### **Governments**

Many participants expressed their opinion that governments need to establish a policy framework that allows free circulation of migrant workers (at least those who are skilled), and that guarantees their admission and their readmission.

It is also important for governments to maximize the economic benefits of migration. One of such efforts could be to facilitate the flows of remittances. Governments could help migrants get identity cards to open bank accounts and provide the information on inexpensive money transfer.

In migrant-sending countries, governments need to make further efforts to reduce emigration pressure and also irregular migration. Targeted development would be helpful as emigrants normally come from particular regions. In migrant receiving countries, governments are encouraged to re-examine the policies that actually sustain migration (e.g. agricultural subsidy). There was also a suggestion that the countries that employ a large number of foreign workers should take steps to regularize them and should set up guest worker programme.

Overall, governments need to take a comprehensive approach to migration policies, which would require more cooperation among national ministries. Migration policies are often formulated by one ministry without sufficient consultation with others. Since migration entails various dimensions such as labour market, development, security, welfare, etc., governments should bring all the concerned ministries and agencies together to establish integrated migration policies, ideally in cooperation with civil society.

### **Trade unions and employers' organizations**

Many participants acknowledged that trade unions and employers' organizations could play more active roles in the field of migration. There was a suggestion that the ILO help with their capacity building and cooperation between these organizations and civil society in providing protection for migrants and many other areas.

### **Civil society**

It was suggested that governments be encouraged to adopt more open policies for civil society organizations. The role of civil society, especially that of migrant organizations, would be helpful in many ways. First, assigning a formal role to civil society organizations on the receiving end would be extremely important in building constituent support for legal avenues of migration. Second, civil society has been playing an important role for migrant protection through advocacy and practical assistance.

Many of them actively promote international legal instruments concerning migration, and/or provide direct help for migrants in destination countries. The development of international civil society on migration issues would be of particular importance to protect migrants in the countries where domestic civil society has not been well developed due to government regulations for example. Third, civil society could help migrants better integrate into receiving countries by providing necessary information and services. Fourth, migrant organizations in receiving countries could exert some influence on political process in their home countries by linking themselves with local lobby groups. They could promote the policies that would help migrants abroad and/or returnees.

One participant pointed out that the work of civil society needs to be carefully evaluated as some civil society organizations could adopt extreme political and/or religious positions, preventing workers from full integration. Others agreed that accreditation would be a challenge for governments, international organizations and other development agencies that work closely with civil society. It was also suggested that unions play more active roles in protecting migrant workers, and also that the ILO work more closely with migrant NGOs.

## **International organizations**

International organizations have the advantage of being able to examine issues in wider contexts and offer constituencies the best alternative. This includes initiating various dialogues at bilateral or multilateral levels. More efforts could be made to gather good practices and promote them to other countries and regions. In the case of the ILO and the UN, promoting further ratifications of their conventions as well as their effective implementation continue to be their main responsibility.

In terms of policy setting, international organizations have some roles to play. The ILO has been conducting various policy advisory work for many countries. The IOM also provides policy advice and helps governments with capacity building for migration policies and legislations.

As some participants noted, no official 'leading agency' for migration issues exists within the United Nations system, and there has been some overlapping work done by existing UN agencies and other intergovernmental organizations. Some called for the establishment of the World Migration Organization similar to the WTO, equipping it with a more effective enforcement mechanism. While a few participants recognized the usefulness of such an organization with a strong enforcement mechanism, the idea was not pursued further.

A few participants noted that the potential of regional organizations should be re-examined given that most migration flows remain at the regional level, and that management of regional migration flows had become a major challenge. It would be also extremely useful if regional organizations in the North and the South could coordinate their migration policies.

Finally, there was a suggestion that the ILO develop a code of practice regarding the recruitment of the highly-skilled with the help of its tripartite partners.

## **Policy proposals**

### **General**

- Cross-border movements of people could be addressed as an important component of the development agenda. If properly managed, migration could be a more effective tool for development in source countries through the use of remittances and better management of human resources. Migrants themselves should be also seen as resources for development in their home countries. Development agencies should pay more attention to the development potentials of migration.
- Managing migration and integrating migrants would be the keys for successful globalization for the forthcoming decades.
- The United Nations should hold a conference or experts meeting on migration, especially from the perspective of economic, social, and political rights.

### **Remittances**



- Governments, international organizations, migrants' associations, and other microfinance institutions should coordinate initiatives to reduce transaction costs for remittances so that migrants, their families, communities, and even governments could maximize the economic benefits of migration.
- Governments, international organizations, and regional banks should take further initiatives to maximize the development impact of remittances. Increasing migrants' incentive for investment in developmental projects in their communities would be a key action. Offering tax breaks (e.g. on imported capital, interest, and investment profits); providing matching funds for migrants' investment by using government funds and/or ODA; or setting up migrants' investment funds could be possible strategies. The coordination with existing initiatives by migrants' associations and other microfinance institutions would be of use.
- It is important to ensure that economic policies in migrant areas of origin do not discourage the formation of remittance-financed businesses, and that technical and marketing assistance is available to help these businesses succeed.

### **Brain drain**

- Governments could make further efforts to bring more ITC outsourcing service projects from industrialized countries so that they could help their own ITC workers at home, which could prevent or alleviate brain drain.
- 'Brain circulation' should be further promoted by creating a more favorable investment/career environment for highly skilled emigrants abroad.
- To encourage the permanent return of highly skilled emigrants, dual citizenship and pension investment schemes could be promoted.

### **Socioeconomic integration**

- To better integrate migrants into a host society, governments should make sure that migrants enjoy equal access to opportunities in the labour market, housing, and other social services. Adopting strong anti-discrimination legislations would be of considerable benefit.
- To ensure integration, governments could also sensitize the local population to the needs of migrants, educate migrants on their rights, create structures for information and assistance, provide access to credit, recognize their educational qualifications back home, and allow the political participation of migrants.
- Helping migrants with language acquisition is an important factor for integration; it would increase their chance in the labour market. Providing migrants with necessary information and guidance on their children's education would be a key aspect of successful multi-generational integration.
- Birthright (*jus soli*) citizenship and relatively easy naturalization would help the integration of migrants and their children by allowing full political participation in the host country.

### **Migration policies**

- Policy coordination and harmonization between migrant-sending and receiving countries would be necessary. This could be done at bilateral levels, but existing regional and multilateral dialogues would be useful for this purpose.
- Governments are encouraged to adopt a comprehensive approach to cross-border movements of people. Coordinating the efforts among concerned ministries in the policy-making process would be of utmost importance, so that migration policies could address the essential dimensions of employment, rights, national security and welfare.
- In migrant-sending countries, governments need to make further efforts to reduce irregular migration as well as emigration pressures in general. Targeted development with the help of ODA would help here, as emigrants normally come from particular regions.

### **Multilateral dialogues**

- Regional and other multilateral dialogues could be further encouraged to coordinate migration flows and harmonize migration policies as well as conflicting interests.

- Trade unions, employers' organizations, migrant organizations, and other civil society organizations could get more actively involved in the process.
- To stop forced migration, conflict management would be also necessary, and therefore could be added to the agenda of multilateral dialogues.

### **Data**

- Governments and international organizations should further efforts to cooperate on standardizing the data collection procedure and also making available more migration data.
- More data collection and research would be needed to measure the impact of global migration, particularly the multiplier effect of remittances.

*Original report prepared by Nana Oishi*



## **Governance for better globalization**

22 November 2002  
New York

## **Introduction**

The main objectives of the meeting were to discuss global resources and global governance for a better and more inclusive globalization.

The key issues discussed were:

- Global resources for development;
- Global public good;
- Global governance.

## **Global resources for socioeconomic development**

All those who spoke acknowledged that large additional resources are required to finance movement towards the UN Millennium Development Goals, let alone enacting the comprehensive strategies aimed at social and economic development, or dealing with such urgent issues as the education gap in developing countries and ageing of populations everywhere.

There was agreement with seeking sources of finance that would have minimum political cost either because:

- Their incidence was not highly visible;
- The political and bureaucratic legislative and administrative effort was minimized;
- They were directly related to funding an attractive form of expenditure; and/or
- Their national cost was structurally tied to a world effort.

Four potential ways of mobilizing additional resources were through internationally coordinated action:

- Taxing international air transport;
- Additional taxes on carbon use;
- A currency transaction tax; and
- The creation of Special Drawing Rights for voluntary distribution to developing countries.

Other ways of increasing resources were also discussed:

- To and through national governments, including the stemming of leakages in national revenue systems related to international mobility of capital and enterprise, by improved international tax cooperation;
- Available through local governments;
- Through community mobilization;
- From private charity;
- From commercial enterprise; and
- Through the intermediation of NGOs such as microfinance schemes.

Of all of these, strengthening the efficiency and honesty of domestic tax systems was agreed as centrally important. There was also no disagreement with the view that the most effective methods of increasing external finance for development would be rapid increases in Official Development Assistance and reduction of agricultural subsidies in the European Union, Japan and the US which total in the region of 350 billion dollars annually. While the equivalent of a movie ticket a month from everyone in donor countries would double the volume of aid, the question is what prospects are there of increased aid and reduced protection happening?

Of the additional external sources the two which may well be most feasible in the short term, with some additional political advocacy, are a new issue of Special Drawing Rights and improvements in international cooperation about tax matters, not least because of the contribution this could make to improving the efficiency and so the equity of national tax systems. It is clear, too, that microfinance schemes can be an especially cost-effective means of mobilizing funds for the poor.

The principal issue raised in discussion was about the capacity of countries to efficiently absorb major increases in external funding. There was complete agreement that the credibility of all proposals for increased financing for development depends on being able to demonstrate that existing finances are being well used, that more are needed and that, if mobilized they would be effectively used. Although one attendee discussed the implications of major increases in external financial support by assuming that a huge increase might happen instantaneously, that seems most unlikely, given the difficulty in practice of mobilizing any additional funds at all. Another said that lack of absorptive capacity is often mentioned as a justification for doing little or nothing. But all discussants agreed that the question of how to spend substantial additional financial resources so as to maximize the effectiveness and efficiency with which they contribute to the highest priority social and economic goals is a major issue. Large reductions of debt and external funding of recurrent expenditure on teachers were suggested as potentially cost-effective expenditures. Increased distribution through NGOs can be an effective channel. One clear conclusion of the discussion was the need to gain more information and commission a paper on management of the funds and on requirements for increasing absorptive capacity.

Other issues raised were the possibility of moral hazard in the mobilization of domestic resources if there was a significant increase in external funding; and the danger of fundability, the use of additional funds for purposes other than those donors consider most desirable – though other discussants suggested that enhancing domestic governance involves allowing governments freedom to make such choices. There was considerable concern about the damage caused by increasing conditionality, since this undermines national political systems and the capacity for unimpeded national budgeting and other decision-making. Another dangerous moral hazard is to international financial institution staffs who are able to argue powerfully for their preferred policies but are not subject to sanctions if they fail.

On the issue of political acceptability a question was posed about whether governments would be willing to introduce a tax – such as on airline travel, carbon emissions or currency transactions – to raise funds for international purposes when they have not done so for domestic uses. Two responses were that they would be easier to introduce after an international agreement, and that in the current situation of eroding national tax bases due to increasing global integration, the motivation for governments to seek new national sources of revenue is growing and that a portion (to be determined at the time of negotiation of any new revenue measure involving international agreement) would be likely to be retained for domestic use. This is perhaps the greatest incentive for finance ministries to contemplate the introduction of new revenue measures.

In relation to Special Drawing Rights, although there was agreement from countries with 75 per cent of the votes in the IMF when the proposal for a new issue was last made in 1997 (85 per cent are required for adoption), no country has yet adopted George Soros' latest proposal. However, that could be because the proposal has not been put again on the agenda of the International Monetary and Financial Committee. Whether a new issue of SDRs could be distributed to developing countries would be a voluntary decision by recipients. The possibility of lowering interest rates on SDRs was raised but this would be difficult to do because it would involve renegotiating the arrangements for them.

On the issue of channelling additional finance through more trusts, reservations were raised about the opportunity this creates for more conditionality and also the consequential bypassing of governments and budgetary processes that is commonly involved.

## Global public goods

A two-part definition of public goods was suggested:

- Goods that have: “a special potential for being public [with] non-excludable benefits, non-rival benefits, or both”, and
- Goods that “are de facto public [that] are nonexclusive and available for all to consume”. Global public goods “are goods with benefits that extend to all countries, people, and generations”. Examples of global public goods include international communications networks, international norms and standards, peace and security, international financial stability, efficient markets, environmental sustainability, and control or eradication of communicable diseases. The annual cost of inaction is far greater than the cost of provision of global public goods. For example, the

annual cost to Africa of communicable diseases is estimated at over 1000 billion dollars, while the estimated cost of intervention to effectively address these diseases is less than 100 billion dollars (*Kaul et al., Providing Global Public goods, 2003, p.33*).

There was general acknowledgement of the value of the concept, especially as a means of focussing on externalities, but a concern that it was being overloaded. There was acceptance of the classic category of public goods and recognition of the international spillovers, but doubts about the extent to which international activities should be included in the category. For example, the issue of how to categorize the WTO was discussed, with general agreement in the end that it should not be regarded as a global public good itself but that its purpose is to contribute to the provision of the global public goods of a fair, multilateral trading system. A clear distinction is needed between the processes of provision, of which the institutions are an important part, and the global public good itself. The question was also posed as to whether, if the trading system can be regarded as a global public good, can the WTO be transformed so that it benefits the public more broadly?

Other reservations expressed were: unease about emphasizing the self-interested benefits of global public goods, for this might erode the motive of solidarity and so dilute commitment to equitable development (though surely in human society motives are generally mixed and there is a place for both self-interest and disinterest: these motives are often complimentary); and the presumption "that 'global public bads are simply the analogue of global public goods, where externalities spill over across national boundaries,'... is not entirely correct. For global public goods have distributional implications. For example, deforestation might sustain livelihoods for the poor in one country, but cause floods that hurt people across the border in another.

The concept was commended as a lens through which to view global issues and ways of addressing them, providing inputs to their provision and the governance of them. That purpose led naturally to the question of gaps in the provision of global public goods; and to the issue of means of providing and regulating them, including the incentive structure for their provision. Another question was whether the concept of global public goods can inform the discussion about the provision of opportunities for work and improving labour standards? Yet another was how to involve the private sector in the provision of global public goods so as to make that sector more socially responsible. The latter area was under researched and perhaps needs further study and reflection.

## Global governance

### Introduction

Global governance was discussed based on three presentations of significant issues.

The first presentation argued that the current view of globalization as an automatic and benign force that leads inexorably to higher and converging incomes is flawed. This view focuses on the positive, face of globalization while entirely neglecting the negative side. Two historical episodes (1870-1913 and 1978-1998) were distinguished to show that, in the first period, not only did the rich globalization partners experience diverging income growth but also that those countries which were "globalized" through colonization, were eviscerated. For example, India was de-industrialized during this period, and from a pre-colonial per capita income close to Britain's, experienced a 10-30 per cent fall in income while a colony. The record during the more recent period (1978-1998) was generally worse than during the previous two decades, with rising inequality and little growth in poor countries. China also had its highest growth rate in the 1980s, before trade liberalization and tariff cuts were introduced so one could question the theory that openness automatically leads to growth.

The second presentation addressed the issue of who should be accountable in global governance and how this could best be achieved not just in the multilateral institutions of the UN, IMF, World Bank and WTO but also in large corporations and the large, often North-based, NGOs. In global governance few actors can claim to have been directly elected by voters and yet, increasingly, governments are pressured to cede sovereignty to inter-governmental organizations dominated by a few powerful countries. The IFIs were envisaged as technical agencies and yet have expanded well beyond their mandate, with structures that are not representative and do not hold them to account. For example, neither voting records nor Minutes of Board meetings are published; the results of internal monitoring and evaluation are not always acted on effectively; and developing countries hold few seats on the Boards and control fewer votes, while the United States can exercise a special veto. In the WTO (and to an extent in the Bank and Fund) informal behind the scene 'Green Room' consultations are

undertaken by powerful Member States with the result that decisions are presented as a *fait accompli* with little role for inclusive negotiation. The global private sector is “quieter and less visible” in these forums, yet through powerful lobbying, particularly in the United States, its norms and institutions (such as the ICC and the ICA) are influential in global governance, but its own activities remain minimally regulated. It was suggested that improved transparency with proper recording, reporting and publishing of information about processes, more inclusive negotiations, follow-up evaluation outcomes and nationally owned poverty alleviation strategies could improve accountability to individual citizens.

The third presentation, a brief summary of the authoritative ECLAC report on *Globalization and Development* was presented. The report argues that “the process of globalization requires a new institutional framework in which a more efficient management of global interdependence can be combined with the introduction of firm, clearly defined principles of international solidarity.” Achieving economic and employment growth and implementing fiscal policies with solid social and democratic endorsement that address issues of employment and unemployment, the increase in the informal economy, social security, poverty and worsening income distribution are needed. At the international level, guaranteeing an adequate supply of global public goods, building a human rights based world system, tackling global asymmetries (including migratory and technological), and better management of crises (self-insurance schemes and debt reduction mechanisms) are necessary steps. At the regional level, progress needs to be made on consolidating trade integration schemes, developing regional funds and improving ownership and autonomy. At the national level, a broader view of macroeconomic stability and the role of counter-cyclical monetary policies were emphasized. Proactive investment policies, which raise domestic savings and encourage SMEs, and a balance between private and public interests, need to be implemented.

Participants agreed that globalization needs to be better managed and raised three main issues:

### **The global democratic deficit**

- There was general recognition of the global democratic deficit and of the importance of increasing the inclusiveness and fairness of global governance. For example, multilateral institutions such as the BWIs and WTO should have more equitable representational structures. Also an “exit option” (like an EU opt-out clause) is important, for example in, WTO trade agreements, to allow countries (particularly from the developing world) to negotiate a better position and avoid signing up to ‘single undertakings’. Developing countries should also be allowed to use public enforcement of corporate codes of conduct as a bargaining chip in trade negotiations. The WTO work agenda needs to be restricted to what are genuine trade issues, not least so that developing countries have the time and capacity to participate effectively. Similarly, in the BWIs, better representation requires more equitable voting, reform of the Boards’ constituency system and exit options. The focus of reform should therefore be on enabling developing countries to have a more just position from which to negotiate.

### **Decision-making in multilateral institutions**

- It was suggested that participation of non-state actors (especially business but also NGOs) should be limited at the decision making stage. Decision-making in multilateral institutions should remain an inter-state process. One cautionary note about weakening WTO multilateral agreements was that the United States might then push for stronger bilateral agreements – the US is currently trying to incorporate TRIPS into such agreements. It was recommended that the WTO enforce article 24. It was also recognized that an entrenchment process of TRIPS and other rule-based systems was taking place. Yet the Doha Round could be used to agree on a standstill or even a rollback of the process of deeper integration at least until there is a substantial and effective reduction of protection by the developed countries in agriculture and relatively unsophisticated manufactures which most penalize developing countries. Also at the next Doha negotiations, a discussion on the diffusion of intellectual property and technology would be pertinent.

### **Accountability**

- Accountability was also recognized as important. Multilateral institutions were described as threatening “the consent of the governed”. Discussion focused on how the accountability of these institutions could be made congruent with the actions they are taking. At the moment their accountability is skewed and they are answerable in fact to a small number of powerful states.



There is a serious danger of the erosion of democracy if the international public domain remains dominated by one or a few powerful states.

The need in the WTO for an arbitration system for developing countries which have difficulty in bringing disputes to settlement procedures because of cost and lack of technical expertise, was raised. The trade review mechanism currently flags violations but institutional mechanisms for enforcement are inadequate. The idea of a WTO prosecutor who could act for developing countries in prosecuting violations was suggested.

In the International Monetary Fund and World Bank there has been a wide-ranging expansion of conditionality as a result of bureaucratic practice, as well as a tendency for “mission creep”. The danger is that new guidelines (introduced in 1997) will “languish on the website” and fail to be applied. There were calls at the meeting for independent evaluations to ensure that staff adhere and observe the guidelines. At the moment, staff of the International Monetary Fund and the World Bank make technical and political decisions although the latter should be the responsibility of their Boards. There were proposals to link the decisions of lending officers and the Boards of the institutions back to national governments. However this would require more answerable Boards. For some developing countries the Executive Director on the Board cannot be withdrawn, as this person represents a constituency of many other developing countries. In contrast, the United States can withdraw its representative overnight.

The lack of accountability via risk sharing was also highlighted: all the risk of a loan falls on the borrowing country and the IFIs are the first in line to be paid back unless repayment is unsustainable (as for HIPC countries). A project by project assessment was called for, to ensure transparency and the responsibility of technical advisors for their advice, particularly for smaller countries.

If a system of professional negligence and liability were introduced as was suggested, collecting damages from the IFIs would ultimately come from the borrowers – developing countries – which provide the income. The appearance of Bank and Fund staff before national parliaments was recommended, as they have recently done in the US Congress and the UK House of Commons.

It was reported that progress is being made: the IMF is attempting to improve its surveillance mechanism, the extent of conditionality has dropped by one-third in IMF lending and there have been attempts to withdraw it altogether from PRSPs. Is this, a “triumph of hope over experience” questioned one participant? Often what is said at policy level and what the loan officer actually does are very different. For example, a recent G24 review of PRSPs of the Fund apparently shows very little change. That said, neither the Fund nor Bank is “monolithic” – they contain some reformers genuinely committed to the new approach. For example, following a decision by Kohler, 65 per cent of IMF Article 4 missions meet with trade unions. The need for the IFIs to direct their lending arrangements appropriately and not require governments to repay “odious” past debt was also raised. Increased transparency at all stages and for each country was recommended.

## Conclusions

The final question discussed was, is more global governance needed? There was recognition that in the current global system a host of small developing countries are increasingly accountable to international donors and not to their people. With the existence of “mission creep” and the encroaching mandate of the IFIs and WTO outside the multilateral negotiating forums, one question asked was, would it be better to restrict governance by those institutions? When the IMF requires compliance with many types of standards there is a “hollowing out” of national effort.

Perhaps, it was suggested, cooperation between agencies should concentrate on achieving a coherence of goals, while recognizing the inevitability of policy diversity. This kind of cooperation could even extend to the Bank and the Fund including reviews of the social and employment impacts (for example, health and safety issues in building a dam) of their programmes before a lending decision is taken. The BWIs and the WTO could integrate such concerns into all their various country reports (IMF Article IV reports, World Bank IDA country annual reviews and WTO trade policy reviews). If policy coherence is to be addressed, this means considering not only the BWIs and WTO which tend to be the focus of attention, but also the development-oriented institutions of the UN and private sector institutions. Some global norms (like the *international human rights instruments*) illustrate the positive outcome of global cooperation. Policy evolution can be constructive, such as increased World Bank funding for education and health. Global cooperation should extend to promoting the respect of

international human and labour rights instruments (like the ILO Declaration on Fundamental Principles and Rights at Work) throughout the structures and programmes of the multilateral institutions.

All agreed that there is a need for an oversight council for the whole intergovernmental system – a body composed of heads of government – as it is only at this level that trade-offs can be made between issues of social, economic and financial policies. An Economic and Social Security Council could take on this role. The French government reportedly had plans to promote this idea at the 2003 G8 meeting. Such a Council might also replace ECOSOC – although the political difficulty of replacing ECOSOC through a change of the Charter is almost overwhelming. Another possibility raised was that an independent body should verify respect for universally recognized principles and standards in the operation of international institutions.

A meeting composed of the members of the General Committee (G28) of the General Assembly is another alternative: the structure of the General Committee provides a well-balanced basis for such a “Global Council” as members are equitably of the regions. The current purpose of the General Committee is strictly organizational – it has no political function. If its structure was accepted as representative, the President of the General Assembly could call a meeting of Prime Ministers and Presidents at the time of the beginning of the General Assembly session, without the need to change the Charter.

Other suggestions included consideration of the strengths and weaknesses of various models for global governance. One example is the tripartite structure of the ILO. (A possible weakness might be the exclusion of some actors such as NGOs and the fact that the informal economy is not represented). Another example is the OECD model, which could be viable as it allows access to senior officials as well as ministers. The introduction of a Global Peoples Congress was felt to be unlikely to work as it would only create a “democratic mirage” that people were being represented, without in fact changing the realities of power.

Other conclusions reached included recognition that change normally happens through incremental steps. Although the language of Monterrey and Doha is weak, they do present windows of opportunity. A useful step would be to send a development minister as a national representative to the Committee meetings of the Fund and Bank, not just a finance minister. Encouraging factors are that the UN has a reform-minded Secretary General and that the MDGs are focusing on the work of the intergovernmental system.

Designing improved institutions for global governance and seeking ways of ensuring that it becomes more effective in meeting the needs of ordinary people is a priority. The task is to identify feasible, inclusive policies, processes and institutional changes that can realize this wish and tackle “global apartheid”. It is essential to articulate strategies towards which the concerned are feeling their way and which are sufficiently far-reaching to attract serious interest and support.

***Original report prepared by Caroline Lewis, John Langmore and Rolph van der Hoeven***



## **Trading for fairer globalization**

6 December 2002  
Geneva

### Introduction

The objectives of the meeting were to discuss the status of the current trading regime and which trade rules and policies would favour a fairer and more inclusive developmental pattern.

The key issues discussed were:

- The appropriate place of trade liberalization in development.
- Specific biases and imbalances in the current trading.
- The desirability of the recent expansion of the trade agenda, and its proposed further expansion.
- The impact of trade rules on specific 'social policies' such as employment, labour markets, the provision of clean water, and the security of food sources.

### Trade liberalization in development strategy

A central pillar of the development model adopted in the past two decades is an emphasis on rapid, cross-sectoral trade liberalization as the driver of export-led growth.

The discussion under this first heading took the form of an evaluation and critique of this development model. Four basic questions were addressed:

- whether trade liberalization as implemented under the Washington Consensus had positively or negatively contributed to development, and why;
- whether it is possible for trade liberalization to be an effective development tool and if so, under what conditions;
- whether international economic rules and institutions allow developing countries to manage and constrain the process of liberalization to their benefit; and
- how it might be possible to formulate a new, more comprehensive development vision than that provided by the Washington Consensus.

Most participants shared the view that the Washington Consensus had failed to deliver on its promises of faster growth and development and had at times caused lasting damage to developing economies. Some noted that no empirical link has been established between trade liberalization and faster growth. Indeed, as one participant noted, growth in developing countries was faster before the Washington Consensus than during it. Furthermore, in many cases, trade liberalization has not led to industrialization, but *deindustrialization*. The meeting was told of the example of manufacturing industries in Tanzania, which were devastated when import controls were lifted, primarily as a result of competition from cheap manufactured goods from other developing countries such as Viet Nam, Pakistan and China. Finally, the world became less inflationary after trade liberalization but volatility moved to financial markets at both the domestic and global levels.

A number of discussants and participants perceived that the central flaw of the Washington Consensus is that it treats integration and liberalization per se as the objectives of development policy. Thus, any new development strategy must ensure that trade liberalization measures are subordinated to the overarching goal of development. The first step towards that end would be to identify clearly the key conditions under which developing countries can take advantage of trade liberalization. A few participants identified an urgent need for more case studies to be undertaken, with a view to producing concrete *guidelines on how to manage liberalization* "in a positive way". One participant added that methods to develop such guidelines are also needed. These guidelines would address at least the following issues:

- The proper sequencing of trade liberalization and financial liberalization;
- The proper pace of trade liberalization, taking into account social as well as economic factors;
- The utility of selective liberalization, in some sectors but not others;
- The need for appropriate flanking policies, as safeguards against the types of problems which liberalization has caused in the past, for example:
  - investment in legal systems and border control measures to prevent smuggling of goods;

- investment in production capacity to ensure that the technical capability for export growth exists in key sectors.

There was a consensus that the process of liberalization had to be very carefully managed. Most agreed that the State should play an active and interventionary role in conditioning, guiding and where necessary, constraining import and export flows.

One question which arose was whether current international economic rules and institutions are sufficiently *flexible* to allow developing countries to pursue such interventionary policies. The view was expressed that the post-Uruguay Round WTO law still provides governments with a great deal of room to manage trade flows effectively, including provision for temporary safeguards, balance of payments restrictions, and protection against unfair trade practices. In addition, participants noted the relatively permissive treatment of industrial subsidies, such as subsidies relating to investment in science and technology and regional development. The combined effect of these measures was sufficient to allow developing countries to emulate the kinds of policies which were used so successfully by the East Asian ‘tigers’.

Nevertheless, all participants agreed that flexibility for developing countries had been significantly constrained in recent years. One participant noted that many safeguard measures require the payment of compensation, diminishing their utility for many developing countries. Others raised concerns about the Special and Differential Treatment (SDT) provisions in WTO law, particularly those introduced in the Uruguay Round. It was argued that the extended time periods are arbitrary and often insufficient, and that despite being broadly defined they are in some cases operationalized in a very limited manner.

In light of these concerns, *amendments to the SDT provisions* were proposed or supported by several participants:

- The scope of SDT provisions should be extended to cover all WTO obligations;
- Fixed time limits for implementation be abolished. Instead, certain obligations of developing countries should be indefinitely suspended until they reached a specified level of development. If this were not possible, fixed time periods should be significantly extended.

However, the point was repeatedly made that trade rules were not the only constraint on developing-country policy flexibility. WB and IMF conditionalities were identified as probably the most important restriction on developing country policy choice, and conditions in bilateral aid agreement can similarly limit the options open to governments. Increased flexibility in trade rules would be of no use if concurrent changes were not made in other institutions to ensure that developing countries were allowed and encouraged to use such flexibility. It was acknowledged that changing the culture of these organizations was a formidable hurdle. Another practical problem is that some developing-country governments are not aware of the full extent of their rights under trade law, or are too concerned to maintain friendly relations with powerful trading partners to use them fully. It was proposed that greater education about exceptions and safeguards in trade agreements would go some way to ameliorating both these problems.

A consistent theme of the discussion was that trade must be only one part of a much *broader development vision*. A number of participants expressed frustration that no such vision currently exists, nor is there an obvious forum where this could be evolved and debated with the meaningful input of developing countries themselves. It was proposed that such a forum be provided.

The substance of such a broad development strategy was beyond the scope of the discussion. Nevertheless, some key issues were identified including the problem of the informal economy; the need for state-led investment in science and technology; the utility of strategic regional development agreements; and the urgent problem of finding sources of capital to fund development projects.

## Specific impediments in the trade regime

A second thread of the ‘trade development’ discussion concerned some of the specific biases and imbalances in the current trading system. This set of problems has less to do with the dangers of trade liberalization generally, and more to do with problems caused by the uneven pattern of partial liberalization set up under the current trade regime.

One of the major impediments noted related to the *terms of trade* for developing countries. A number of participants expressed concern over the apparent dependence of developing countries on exports of primary products, and the concurrent dominance of developed countries in manufacturing and value-added. It was argued that escalating tariff regimes reinforced this dependence. Dependence on primary product exports raises concern for two reasons: first, because developing a manufacturing base is crucial to the process of development, and second, because world prices for primary products are both highly unstable and declining over the long term.

Some participants countered that this was becoming less of a problem for developing countries. The percentage of primary products in developing countries exports have decreased over the past four to five decades, and their share of global manufacturing exports had increased. Nevertheless, the problem still required urgent action:

- One participant proposed that escalating tariff structures in developing countries need to be dismantled. However, it was noted that developing countries could not take advantage of greater market access without significant investment in technical productive capacity.
- Three proposals were made in relation to price fluctuation: the revival of price stabilization pacts, the use of agreements constraining the conduct of powerful intermediaries, and the reduction of subsidies in developing countries to address the problem of oversupply (see below). A significant number of participants favoured the inclusion of world commodity prices on the agenda of the WTO.

A second concern related to *trade in agricultural products*. Unsurprisingly, the most important issue in this area was identified as the use of subsidies in developing countries. Agricultural subsidies present a number of different problems for developing countries. Net-food-exporting nations face immense difficulties in penetrating developing countries markets, as well as securing market share in 'third country' markets. In relation to net-food-importing developing countries, imports of heavily subsidized products from developing countries have caused devastation to local farmers, leading to severe problems for national food security.

A detailed analysis was provided of the provisions of the Agreement on Agriculture, and concludes that developing countries' agricultural subsidies are only minimally constrained by it – indeed, the overall level of such subsidies had substantially *increased* in the past decade or two. At the same time, strictures on developing countries' subsidies are effectively far more stringent, in part because of their lower 'baseline' level of subsidies. Some detailed changes to the Agreement on Agriculture, which would go some way towards ameliorating these problems were proposed.

It encompasses two main points:

- A rapid and effective decrease in subsidies in developing countries. *All* forms of subsidies must be subject to reduction, and export subsidies must be eliminated as soon as possible.
- More effective special and differential treatment for developing countries. Import control measures must be allowed for the purposes of facilitating rural development, and of protecting food security. Furthermore, special safeguards must be available without the current need to prove an injury to domestic production, or the need to pay compensation.

A related problem, that of the use of food safety standards as non-tariff barriers was also raised, though not discussed in any detail.

Two further issues were raised briefly. The first was the issue of *market access for textile exports*. It was noted that commitments in this area are equally as low as in the area of agriculture. The second was the importance of stronger commitments on the *movement of natural persons* under the GATS. It was argued that the inclusion in WTO law of stronger rights for migrant workers (such as arrangements to ensure payment after they have left the country) would be of substantial benefit to many developing countries in which remittances from foreign workers form a significant source of national income.

In relation to both of these issues, however, a question was raised as to the problems which stronger commitments may cause *between* developing countries. One participant noted, for example, that textile manufacturers in India are increasingly suggesting that freer trade in textiles may be to their disadvantage, as their current market share risks being taken by countries such as China. Similarly, some developing countries receive significant numbers of migrant workers from other developing countries. All participants agreed that it was necessary to disaggregate analyses of developing countries, and pay close attention to the differential impact of proposed reforms on different

developing countries. However, there was disagreement among participants about whether such “*South-South issues*” should be addressed in the WTO. There is a risk these issues would be used by developed countries to stall negotiations.

It is one thing to identify key areas of concern for developing countries, but it is quite another to have the capacity to press for change in these areas. Serious concern was expressed by a number of participants that developing countries do not have the resources or technical capacity to negotiate equally with powerful developed countries in the WTO. Too often, developing countries are excluded from ‘green room’ negotiations, and have little meaningful input into the design of compromise solutions. All participants agreed that there was a strong need to *build negotiating capacity* in developing countries, including the creation of *permanent institutions of policy co-ordination*. One participant suggested that regional trade agreements between developing countries may provide necessary negotiating training and experience. Alternatively, it was suggested that a forum be created for the co-ordination of developing countries’ negotiating positions as preparation for the forthcoming WTO Ministerial.

A related issue was raised in relation to the *structure of negotiations*. One participant noted that the practice of negotiating a vast array of issues as a single commitment in large negotiating ‘rounds’ was not the most effective way of achieving optimal solutions to these problems.

## The trade agenda: Non-core issues in the WTO

The Uruguay Round of negotiations saw the introduction of a number of entirely new areas into the law of the WTO, the most important of which were the *intellectual property* regime (TRIPS) and the agreement on *trade in services* (GATS). A paper was presented which was highly critical of these new issues, and advocated removing them entirely from the trade regime. It argued that such issues took much needed attention and resources away from issues which were of pressing concern to developing countries, that they were inadequately understood by developing countries, and that (at least in the case of TRIPS), they were actually in conflict with the core agenda of the WTO. It was further contended that GATS and TRIPS were included essentially for the financial benefit of developed countries, who dominated the global production of intellectual property and the provision and exchange of the most important services. While the agreements contained some flexibility and concessions for developing countries, pressure exerted in bilateral negotiations made it difficult for developing countries to take full advantage of those concessions. In the discussion some participants and participants agreed, while others took a different view. Some questioned the political feasibility of removing these issues from the trade regime. Others saw potential benefits for developing countries in these agreements. For example, those developing countries involved in the export of tourism services, software services, or entertainment products, arguably have much to gain from GATS and TRIPS.

A proposal to increase further the agenda of the WTO, through the incorporation of the so-called ‘Singapore issues’ was examined. Some were strongly opposed to the inclusion of any of these issues, suggesting that they would further imbalance an already biased trade regime. Strictures on government procurement would remove or threaten one of the most important tools which developing-country governments have for promoting local industry and ensuring macroeconomic stability. While an agreement on competition could conceivably be beneficial if it were to address the power of MNCs, the weakness in negotiating strength of developing countries would almost certainly ensure that it became merely a tool for developed countries to prise open developing-country markets further.

The issue of *investment* was more controversial. Some participants argued that an agreement on investment ran the risk of limiting the ability of governments to regulate foreign investment, for example through local input requirements, export requirements, or limits on imports. One participant used recent experience under NAFTA Chapter XI to demonstrate the potentially severe impact of investment agreements on domestic regulatory flexibility. Other participants countered that in many respects a single multilateral investment regime is arguably better than many thousands of bilateral agreements in which many of the dangers already referred to are equally present. Furthermore, a multilateral agreement on investment offers the possibility of formulating much-needed international rules relating to legitimate and illegitimate investment incentives (in relation to Export Processing Zones).

Finally, the discussion turned to issues needing to be *added* to the WTO agenda, which have thus far not been seriously contemplated in that institution. One participant suggested that *supply-side export*



*constraints* should be added to the WTO agenda. Others noted the lack of an *international counterpart to domestic adjustment assistance programmes*. The adjustment costs of liberalization have so far been far higher than anticipated, and a few participants shared the view that international assistance may be required to support investment in struggling production infrastructure in developing countries. It was acknowledged that a great deal of work remains to be done before such an idea gains widespread acceptance and that, even if the idea were to be supported in principle, formidable operational challenges existed.

### The effect of trade on social rights and social policies

The final item on the agenda was a consideration of ways in which trade rules (and trade generally) impacted on social policies and on the enjoyment of social rights.

Participants noted the potential threat which trade in GM foods poses to the *right to food* in receiving countries. Genetically modified seeds can interbreed with surrounding crops, infiltrating non-proprietary stocks, and threatening sources of food for vulnerable populations. Second, the potential impact effects of the GATS on the *right to water* were noted. Even where the provision of water services has not been listed in a country's schedule, it was argued that the ability of states to regulate water supply for the purposes of protecting the environment and the health of its population would probably be significantly constrained, and at the very least subject to unnecessary and unpredictable international scrutiny. Third, it was suggested that trade rules can adversely impact on the right to health by constraining the policy choices of governments in the area of tobacco regulation. Measures as diverse as packaging requirements, advertising restrictions, and import restrictions may all in some circumstances be subject to challenge in the WTO dispute settlement system.

The effect of trade on *labour rights* in developed countries and developing countries was raised. It was set out clearly how trade flows can affect employment in different countries differently. In developed countries, increased competition from imports increases pressure on producers to cut wages and make cost savings through the more flexible organization of labour forces. Such developments primarily affect unskilled labour, thus further increasing the wage differential between this group and skilled workers. The threat of 'capital flight' undermines the ability of organized labour to resist these developments. In developing countries, the problems associated with Export Processing Zones are well known, and there are fears that the need to attract and retain foreign capital leads governments to under-enforce labour standards in these zones. In all countries, adjustment costs in the form of temporary unemployment can also be severe where insufficient re-skilling programmes exist.

Some took a somewhat different approach to the issue of labour and other social rights. Drawing on conclusions from earlier in the discussion, the point was made that trade is neither necessarily bad nor necessarily good for labour rights – rather, much depends on the local conditions in which it occurs. Many violations in developing countries occur in industries which are sustained as much by domestic as international demand. The thrust of this approach was that the developing countries must develop the domestic capacity to deal with the social impacts of globalization at a national level. This led to two broad conclusions:

- The solution to labour rights issues often lay in *more* trade, provided that it is accompanied by appropriate flanking policies, for example policies related to human resource development, or investment in human capital. The benefit of this will be twofold. First, it will have the effect of increasing the economic capacity of developing countries to promote and enforce labour rights within their territories. Mongolia was cited as an example of a country in which labour rights issues were of less relevance to the population than the severe food shortages which they endured. Second, and more generally, increased global integration of a country is often associated with reduced discrimination, and a move towards a culture of respect for human rights. (Another participant challenged the empirical basis of this last claim, but there was a consensus that *some* connection between economic and political liberalization existed, even if its precise limits and mechanisms remain unclear.)
- Raising the level of domestic capacity requires a vast amount of money. Developing countries must find ways to mobilize their domestic capital more effectively than they currently do. Recent estimates were quoted that developing countries collectively contain approximately 7 trillion dollars of underutilized domestic capital, and suggested that improvements to domestic legal structures were a crucial part of unlocking these funds.

A wide variety of other proposals were made in relation to all issues raised in this section of the discussion. A number of participants stressed the importance of international law as an integral part of any solution. One participant noted the use of new instruments of international law such as the Bio safety Protocol and the WHO Framework Convention on Tobacco Control as 'shields' against the increasing intrusion of WTO law on domestic regulation. In addition, a number of participants advocated strengthening international supervisory and enforcement mechanisms relating to labour rights.

A useful list of potential strategies was presented, many of them bearing on issues of institutional design, and in particular the relationship between the WTO and other international governmental and non-governmental bodies.

- The ILO should be given observer status at the WTO. This proposal is equally applicable to other international organizations such as the WHO, the OHCHR, and others.
- Labour groups should be given a voice in the WTO dispute settlement process, through the expanded use of *amicus* briefs and consultative mechanisms. Again, this is equally applicable to other NGOs, and is designed to partly redress the current imbalance whereby only corporate interests have effective (if informal) input into governmental submissions.
- A WTO Working Group should be convened to investigate 'trade and labour' issues, and the relationship of trade rules to other social policies.
- Similarly, the Trade Policy Review Mechanism should be expanded to include the impact of Members' trade policies on social rights and policies.
- International meetings of trade ministers, labour ministers and other relevant domestic officials should be convened so as to create a forum for discussion in which a balance of national interests is represented.
- Decisions of the ILO and other international bodies which potentially conflict with trade rules (such as decisions in relation to trade with Myanmar) should be given due weight in the WTO dispute resolution system.

It was suggested that the potential be explored for clarifying the scope of GATT Article XX to ensure that it covered all fundamental labour rights; for non-protectionist measures to be considered that could prevent labour standards being undermined through world trade; and for positive incentives measures to be taken to encourage the full respect of fundamental workers' rights.

Specifically in relation to labour rights and development, a four-pronged solution was presented, based on:

- ensuring that employment creation is central to developing countries development strategies. This will involve targeted industrial policy programmes, as well as investment in technical capacity and human resource development. It was noted that in particular the need for non-farming rural employment programmes, such as the fostering of town and village enterprises in China;
- strengthening adjustment assistance at the domestic level, and building it into development strategies;
- increasing domestic social protections. It was noted that the level of social protection in developing countries had shrunk in real terms over the past decade; and
- strengthening international and domestic mechanisms for the promotion and enforcement of labour rights.

Another participant suggested clarifying the scope of GATT Article XX to ensure that it covered all fundamental labour rights.

**Report prepared by Andrew Lang and Rolph Van der Hoeven**



## **Globalization, culture and social change**

(in cooperation with the United Nations Research Institute for Social Development)

30 – 31 January 2003

Geneva

### Introduction

The objective of this meeting was to discuss the impact of globalization on culture, as well as the impact of culture on the process of globalization and how these interactions affected social progress and social change.

The key issues discussed were:

- Defining the terms 'globalization', 'culture' and 'social change'.
- Cultural dimension, identity and harmonization in the context of globalization.
- Power and institutional changes shaping globalization and social change.

### Defining globalization, culture and social change

#### Globalization

##### Defining globalization

Concerns have been raised about the positive and negative impulses, the gains and losses, and the strengths and weaknesses that globalization produces – on one side opinions about homogenization, increasing inequalities, and 'Americanization' have been put forward, while opposing views suggest that cosmopolitanism, faster communications, and the empowerment of the oppressed far outweighed any negative effects. Some claimed that globalization is 'multivalent', and that both micro- and macro-levels of 'the global' need to be considered. More specifically, the need is to contemplate the 'global scaling of the local' in reference to 'horizontal' global networks where individuals now directly engage 'the global' without the need for physical proximity, and which ensure participation. The 'global scaling of the local', according to some, is leading to a new dimension of human mankind's existence: the emergence of a new social order, or of a 'mega-society'.

There was consensus that, however defined, globalization is a force that brings people together for better and for worse, resulting in ever-increasing interconnectedness and the development of a transnational social order. Hence, for the purpose of clarity, the term 'globalization' is used in reference to this concept of emerging transnationalism.

##### Challenges related to globalization

There was little disagreement that globalization generates many challenges for the majority of the global population. For example, some noted the widespread rise of fundamentalist views and of xenophobia. Others considered that much ethnocide can be expected in the upcoming decades, with little that can be done about it by the international community. At fault are the dominant groups that present their views as neutral in order to manipulate the workings of 'globalization' according to their interests.

One participant remarked on the implications of such manipulations, reflecting on the various incarnations of imperialism. Others agreed, believing that most people perceive globalization to be disruptive to their lives, due mainly to transnational corporations that swallow up domestic enterprise, as well as general privatization that leads to downsizing, unemployment, and cuts to education and health services.

##### Globalization and the role of nation-states

There was also little disagreement about the crucial role of nation-states in the spread of globalization. It was emphasized that the nation-state as historically constructed needs to be better understood. The encounter between the national and 'the global' is a very rich and contested frontier zone, where the rules of engagement are not fully spelled out, and where certain values, standards, and norms ultimately gain the upper hand.

## Culture

### Defining culture

The term 'culture' proved relatively more difficult to define than that of 'globalization'. One participant had found 26 definitions, and wondered if the word would be better used as a critical or an ideological concept. One participant described the term as having five different components, as being a process, a goal, an outcome of 'globalization', an influence affecting economic rationality, as well as an instrument of resistance or domination during the spread of 'globalization'. Others described culture as being a historic and interactive process, a shared set of beliefs, values, customs, behaviours and artifacts that members of society use to cope with their world and with one another. It was also asserted that economics cannot be separated from culture and technology.

### Challenges related to culture

It was agreed that 'culture' can never be fixed or accepted as given. This concurrence led to four concerns, however. First, should the processes that transform cultures be allowed to take place without constraint? Second, could universal values which span all cultures be found and then bolstered in order to strengthen a more inclusive process of globalization? Third, even if a minimum common denominator for universal values were to be agreed upon (e.g. human dignity), a deeper understanding of 'culture' will in all likelihood still not be advanced. Fourth, can a distinction be made between 'cultures' and 'civilizations' and, if so, whether or not 'cultures' in fact produce 'civilizations'.

### Culture and the role of nation-states

Only a few remarks were made about the role of nation-states in conjunction with culture: Some concurred in their views of the nation-state as the traditional architect of 'culture' and purported that a weakening of the nation-state might translate to better cultural development. Others provided additional comments, suggesting that the nation-state's capacity to design and impose 'culture' will often result in unintended consequences. In the context of 'globalization' the imposition of 'culture' from one nation-state to another can, according to this view, generate increased solidarity in the second nation-state, thereby reinforcing its previous 'culture'.

## Social change

### Defining Social change

To various participants social change is a problematical and in fact 'old' term that connotes the spread of Western values and culture, suggesting that 'social transformation' might be a better choice of term as it implies greater structure and contested power. Hence, the expression 'social change' will be used in reference to all visible and significant social transformations that occur within various 'cultures', irrespective of the source of those transformations.

### Challenges related to social change

One participant pointed to the possible negative impact of global macroeconomic policies which affect 'social change' and questioned whether or not economic decisions must be accepted as given and suggested that these decisions, including their social and political aspects, perhaps should not be taken by technocrats but by international society as a whole. The NGO community and civil society could likely be cited to get this idea on the table, as they are often viewed as a 'cure-all' for global problems. But another participant stressed, however, that NGOs and civil society have enormous troubles with listening to each other, noting that a 'culture of exclusion' persists within these bodies.

### Social change and the role of nation-states

It was argued that globalization is not only about 'reinforcing the empire' but also about destabilizing it; there has been a forced partial reorientation of national projects towards global agendas, resulting in a denationalizing of the nation-state wherein formal systems break down and informal systems emerge. It was also noted that since certain aspects of the nation-state in fact gain power through 'globalization', areas such as the Ministries of Finance, Departments of Commerce, the regulatory agencies and the Executive, it is therefore crucial to consider internal differentiation when

contemplating denationalization. Other suggested the need to look deeper at the changing nature of the Nation State in order to better monitor the weakened multilateralism resulting from 'social change'.

Various participants disagreed, asserting that the difference between strong and weak states, as well as the influence of transnational professional groups, is underestimated. Furthermore, nations are just being reworked and internally transformed, not denationalized. Others noted the paradox that where some nation-states are in fact weakened by globalization, there is at the same time increasing demand for nation-states among war-torn and developing societies. It was also remarked that the functioning public institutions required for successful nation-states do not imply a diminished role of the nation-state.

## Analysis

### Globalization and culture

#### Cultural Darwinism and the matter of scale

Views were divided on what impact globalization makes on various cultures. Concerning the role of nation-states, some accused the United States of America of being the modern Rome, and suggested that unequal cultural exchanges in the world indicate the development of 'cultural Darwinism'. Others agreed, believing that developed countries have the upper hand; and therefore, many Africans see 'globalization' as a new form of imperialism.

The idea that globalization can be linked to imperialism, Westernization, or even 'Americanization' did not ring true for everyone, however. Some stated frankly that 'globalization' does not equate to 'Americanization', and that many aspects of 'globalization' are not benefiting the United States. The United States is also on the receiving end of the processes of globalization – dealing with matters such as the increasing influence of migrants and various industries – thereby making it difficult to substantiate any unilateralist American ideology.

A participant offered somewhat of a resolution to the conflicting views by emphasizing that while conditions of inequality within and between countries are plainly worsening, both in terms of economic and cultural freedoms, the matter of scale must firstly be scrutinized. There is a need to problematize the categories 'the global' and 'the local' in order to rethink the relationship among the different spheres, specifically between the international, national, regional, community, and interpersonal levels. By doing so a clearer and more informed picture of globalization can emerge.

#### Identity and resistance

The matter of identity was singled out by some as being the most important feature of 'culture'. While the nation-state is probably the best safeguard and protector of identity, 'globalization' entails the changing of identity and the emergence of global identities. Identities have traditionally been linked to formal citizenship rights that are themselves associated with the Nation State, but the increasing appearance of citizens in nations other than their own now serves to elevate a shared sense of global consciousness. Also the forces of globalization allow for an enhanced recognition and understanding of 'the other', thereby allowing the majority of the global population to awaken to itself.

However, some participants believed that the forces which create multi-ethnic societies at the same time facilitate the empowerment and destruction of individual sub-cultures. Some emphasized that identity becomes a source of resistance against the forces of globalization – the African reaction in particular has been a revival of pan-African nationalism and the resistance of globalization through the assertion of an African identity. There is also the emergence of a 'culture of memory' in response to the feelings of uprootedness produced by globalization, and the 'conflict' – as opposed to 'violence' – which is generated by cultural contact. This conflict need not be bad in itself, it can lead to renewed dialogue and creative solutions. There are alliances and other countervailing forces to consider when thinking about processes of identity.

Others argued that the African renaissance is not the result of any form of anti-globalization, but rather a different form of globalization that is creating a more level playing field.

### Homogenization and diversification

A question is whether globalization contributes primarily toward homogenization or diversification. National cultures have become enterprises of homogenization, built through 'blood and fire' and at the expense of sub-cultures. Most people therefore oppose globalization for reasons of homogenization. Many perceive globalization to have a negative, homogenizing effect, but one distinction should be drawn between economic and cultural globalization, the latter being perceived much more positively. The expanding market for cultural items such as music, films, customs, and food is, in this view, liberating.

Other participants added that the fundamental difference between economic and cultural globalization is the openness that is needed to maintain vibrant cultures – a globalized, borderless world economy implies such openness and is therefore a positive phenomenon that should be welcomed. Globalization can promote diversity and exchange, which is the best environment for cultural development. But others asked, "What diversity do we want?" and drew attention to the matter of cultural clashes and the 'clash of civilizations'.

### The role of economic doctrine

One attendee stressed the role of economic doctrine in 'globalization' and its interplay with culture, viewing economic doctrine as a cultural expression. As such it can only be adopted and then persist by being culturally embedded. Also the rise of developmentalism and the reduced role of the State indicate that political parties and domestic businesses in developing countries are no longer the main channel for economic doctrine.

Others agreed that 'popular' economics is a major source of cultural embeddedness and added that the knowledge of such usually comes from the international media, which may at times be prejudiced towards neoliberal doctrine. Some, while agreeing with this 'mapping', inquired further about the national 'culture' that serves as the foundation to economic doctrine. A sub-culture of finance is installing itself in country after country, creating a cultural geography that crosses borders.

### Cultural industries and intellectual property rights

The role of cultural industries was examined in conjunction with globalization and culture. It was asked whether cultural industries can become an instrument of development for generating additional value out of cultural assets. From a development perspective, 'culture' is an economic resource in which developing countries are very well endowed. When the commodification of a culture does take place, one line of thought suggests that changing the culture in form and essence is a toxic influence, while counter-opinion finds the process to be at any rate inevitable, but at least provides a productive base for cultural production and reproduction. Either way, it remains difficult to say how far culture should be commercialized, noting the especially problematical task of differentiating between culture and entertainment. Intellectual property rights – the principal guardian of cultural industries – have largely been hijacked by the major countries, leaving musicians and creators of original works from developing countries desperate for protection.

Others agreed that intellectual property rights restrict cultural diversity and are essentially a detriment to the majority of artists. The system might be restructured in order to take into account the moral rights of smaller-scale artists.

## **Globalization and social change**

### The issue of power

It was asserted that 'the global' is never self-contained. 'Social change' is a one-way movement from developed Western countries, while shifts in the North are continually transmitted to the South. Several noted the importance of the mass media as an instrument in this transmission, and as an influence on social change and wished to eliminate the neutrality of the term 'globalization'. Instead, they proposed the existence of a new imperialism which in essence equates to fundamentalism within the leading powers – and would put into question the effectiveness of South to South dialogue under such a view of 'globalization'. One attendee summarized these positions by proclaiming the 1980s as "the decade of liberalization", the 1990s as "the decade of globalization", and that the decade following 11 September is now being defined by rogue states and terrorists – under the prevailing new ideology that if one is anti-globalization, one is also anti-American. Others dissented from these notions,



doubting that a new decade was born after September 11, and believing that terrorism is a fight for power at the global level. Outside of terrorism there are huge state and institutional interests behind neoliberal policy, interests that do not relate exclusively to 'Americanization'.

### Institutional changes

An important question is whether the globalization of the 1990s is still the 'order of today', as visible institutional changes that have recently emerged – in particular the reversal in liberating trends since September 11: the growing fundamentalist approach used with regard to issues of security and international affairs, the use of surveillance, immigration policies, and restrictions on travel.

Concerning specific institutional changes, it was observed that the WTO requires countries to change their entire economic structure in order to obtain membership. Others noted that not until the 1990s did judges in national courts use international human rights instruments for interpretation and later adjudication, maintaining that many new institutional practices such as these can be found at the global level when 'globalization' is deconstructed.

## Conclusions and recommendations

### Overcoming the limits of dialogue

There was full agreement that processes of dialogue, within the context of 'globalization', 'culture', and 'social change', are fundamentally biased and need to be changed. A new form of dialogue is needed but it was questioned what language should be used – some voiced concern about the advancement of global English, stressing that before an appropriate dialogue can be considered the interests of various social groups need to be better understood – especially since wars are often fought between people of the same language. Any new dialogue needs specific definition, including dimension, issues, text, meanings, devices, and structural frames. When attempting to cultivate dialogue, there remains the problem of 'intellectual inertia': when key actors who have invested time and money in their PhD's commonly remain attached to their ideas and beliefs, no matter how much the world changes. Others thought this to be less of a problem: only where superior values are assumed does dialogue become impossible – no reasonable dialogue can be had with strict defenders of fundamental values. Other limits of dialogue were also pointed out, such as when hard interests like real estate or oil come into play, and deliberated whether dialogue can ever create the capacity to restructure those interests.

Addressing these concerns, the need for people to see each other as part of humanity in order to advance non-defensive dialogue that avoids fundamentalism was advanced. Many schools presently teach how to debate and win but not how to listen, a matter which highlights the need to educate in inter-cultural discourse.

Dialogue should not be between 'cultures', civilizations, or institutions, but between human beings and groups. What appears as dialogue is often just a politics of reinforcement, which renders conversation futile. It is therefore important to recreate the conditions for dialogue; consensus should be on the rules and not on the content. Minimal rules – including the recognition of the human condition and of basic human rights – are urgently required.

### Setting international policy and a new global framework

Concerning the setting of international policy, a firewall exists between cultural 'specialists' and economists that claims to be rational. eg the "naïve" perception in the WTO that political and cultural realities can simply be ignored. In particular, historical migration processes must be taken into account in the technical debates on trade.

'Shifting values and involvements' under globalization were cited as grounds to contemplate a new global framework. There is a need for a 'moral economy', or an economy that protects a 'humane international society' as opposed to any 'culture' in particular. It is better not to speak about 'culture' but rather about 'moral vision' in a collective sense. How can a 'humane international society' – one that runs on the principles of reciprocity and redistribution – be promoted? One participant referred to the 2003 World Economic Forum's Davos Poll which highlighted the profound distrust that a strong majority of people evince towards the chief proponents of globalization, namely political representatives, the International Monetary Fund, transnational corporations, and national big businesses. The poll indicated a profound crisis of democratic accountability and an erosion of democratic legitimacy. The same survey indication that people are far more trusting of the armed

forces, NGOs, educational institutions, the UN, and religious organizations. Some participants argued that, to help incorporate a 'moral economy' into a new global framework, collaborating with these four institutions would have a higher likelihood of success because of the trust element. In response to this several voiced concerns: some viewed the opinion poll as problematic, noting that most Africans would never be so trusting of their armed forces; others remarked that the military, as well as the church, have been significant sources of oppression; denied the existence of a global community and of any responsibility for redistribution and questioned the effectiveness of working with NGOs, noting that they are not accountable to anyone.

## **General recommendations**

General recommendations included the following. Global actors should look not just to the UN for dialogue solutions, but also to regional bodies. The importance of always promoting multiculturalism and avoiding homogenization was stressed. Securing a public sphere, in which alternative voices can be heard, and the governing of the emerging 'global information society' according to long-term global interests and not the short-term interests of commercial stakeholders, was advocated. Others highlighted the need for pro-cultural social policies in which every human being can contribute towards global culture, and recommended the sponsorship of open systems of learning that encourage creativity and which are based on diversity and inclusion, not homogenization and exclusion. Global markets should be harnessed not just for economic needs, but also for spiritual needs.

International monitoring and accountability mechanisms need to be created so that the power structures behind domestic and international inequalities can be better analysed: International monitoring, when accompanied by an institutional mechanism, can help to check for conditions of injustice while simultaneously forcing into action those who would not normally comply with resolutions. An independent monitoring commission might be created to establish standards for measuring trust among NGOs. Others recommended filling the gap between academic research and the work of various UN agencies. Ideas included the launching of a 'cultural freedom index'. It was also suggested that because of increasing discrimination and xenophobia immigration policies should be monitored through international policies of shame.

Finally, it was recommended that since the economic discourse of ordinary people gives meaning to their lives, greater attention should be paid to the process by which professional economic discourse is encoded and then decoded by receivers. Opposition to globalization is not so much about change as it is about volatility, economic uncertainty, and insecurity. For this reason there is a need to create the conditions in which people feel more secure. One potential direction for economic policies would be for their design to address the reduction of uncertainty and volatility.

***Original report prepared by Will Taylor***



# **Globalization and labour market adjustment in developing countries**

(in cooperation with the Department for International Development, UK)

8 April 2003  
London

### Introduction

The main objectives of this meeting were to discuss the various effects of globalization on labour markets in terms of employment levels, conditions of work, skills and labour relations, and what type of national and international policies should be envisaged to increase employment and working conditions and to make globalization more inclusive.

The key issues discussed were:

- Evidence from developing countries.
- Changes in conditions of employment and labour relations.
- Training, education and skills development.
- Policy implications.

### Globalization and labour markets: Evidence from developing countries

The initial discussion concentrated on what economists would generally predict the effects of globalization on labour markets to be and, more importantly, why these predictions may not have been realised in practice. Three issues were discussed:

- The crucial distinction between long run and short-run effects;
- The potential of affected countries to respond to changes in the economic environment they face;
- The fact that globalization is associated with simultaneous effects on a variety of economic policy areas in many countries.

Generally when economists talk about gains from globalization they usually mean that greater economic integration (through increased trade, capital flows and migration) will deliver benefits on average and in aggregate in the long run. Even in the long run, however, there will be an uneven distribution of effects. The challenge for multilateral institutions is to devise mechanisms by which the gainers, typically richer countries, can effectively compensate losers, typically the poorest countries. Most discussion concentrated on the fact that policy-makers concerned with managing the effects of globalization need to concentrate on mitigating the short-run adjustment costs. Among economists, these issues have been most fully analysed in respect of trade liberalization. When a country reduces trade barriers and opens itself up to the global market, the immediate effect is increased exposure of domestic producers to foreign competition. Less competitive domestic sectors will lose, wages and/or employment will fall, and labour in those sectors will typically bear the brunt of the adjustment costs. Economists recognize these costs, but tend to believe that long run gains will more than offset them. Some contended that 'the path to paradise is through hell', while others argued that 'the path to hell is through hell also' and countries may not know which path they are on). A country's ability to absorb the adjustment costs and gain from openness depends crucially on its responsiveness, especially the supply response of the export sector. For a variety of structural, institutional and policy reasons, supply response tends to be constrained in poorer countries – the potential to grasp new opportunities is often least in the poorest countries. Typically, adjustment costs are highest and the period of adjustment longest in those countries least able to bear them. The benefits from globalization tend to be biased towards technology-intensive firms and relatively skilled labour, so there is a tendency for manufacturing employment to fall. While growth of service employment may accommodate this in more developed countries, in poorer countries it is typically the informal sector that has to absorb displaced labour. However, this is often the 'sector of last resort' with low wages and poor conditions of employment.

The problem could be compounded by the fact that most poor countries are implementing at the same time a similar set of policy reforms and are affected by the tide of globalization. The potential to increase exports is muted in economies dependent on exports of a narrow range of primary commodities, especially if all producers are trying to increase supply together. This leads to what one

participant described as the “curse of latecomer countries” and again it is the poorest countries that are worst affected.

The meeting considered various issues from the evidence of developing countries on the effects of globalization on labour markets.

- Globalization is associated with greater openness, which in general tends to be associated with growth, increased productivity and increased average wages. However, short-run and long run effects may differ, depending largely on adjustment costs. Trade liberalization can impose short-run adjustment costs so that initially wages may fall but, over time, there tends to be a positive effect on wages (at least for those who remain in employment). Increased foreign direct investment (FDI) is another feature of globalization but this tends to have a short-run positive impact on wages, as there are no comparable adjustment costs.
- Wage inequality, in particular skilled-unskilled wage differentials, has tended to increase globally: between countries, within countries and even within firms. The effect has been most pronounced in richer and more industrialized countries, but the returns to skills and education have increased almost everywhere. The best way to bring about increased wages for unskilled labour is to pursue a growth strategy that increases demand for such workers.
- The evidence that increased trade rapidly leads to increased employment is weak. Typically, trade exposes firms to more competition so they strive to increase productivity. Often this means reduced employment at a firm or industry level, but this may be more than off-set by multiplier effects on the economy (especially the service sector). In general, trade promotes growth and this increases the demand for labour.
- The effect on unemployment is even more difficult to identify as the concept itself is ambiguous in many least developing countries (LDCs). Formal sector employment actually covers only a small share of the labour force; in poor countries the majority of labour is employed in rural and/or informal sectors. Again, it is aggregate economic growth that offers the potential to reduce unemployment. Features of globalization as they affect a country may or may not promote aggregate growth.
- The dramatic increase in China’s share of global markets in low-skill labour-intensive goods poses a predicament for other low-income countries, such as Africa. Labour costs in China are very low yet rising unemployment exerts downward pressures on wages. Few African countries can compete with China on labour costs and this limits the potential markets they can try to penetrate. Indeed, many African firms are unable to compete against imports from China, so have little chance of competing in global markets.

## Conditions of employment and labour relations

Globalization has been associated with changes in the organization of production whereby producers in developing countries, especially low-income countries, find themselves in contractual relations with firms in developed (or at least relatively more developed) countries. Two forms of contract are most common. The fragmentation of production means that multinationals often outsource assembly or component manufacture to lowest cost suppliers. Global value chains mean that developing country suppliers are often ‘supplying to contract’ to global buyers, who will source from the lowest cost providers of goods to the required standard. In both cases, while suppliers have to meet a stipulated standard of product they compete on cost, often labour cost, and are the weakest or lowest link in the global production/value chain.

The changing nature of production relations has implications for labour, as competitive suppliers require flexible labour markets. Labour regulations that strengthen the rights and entitlements of workers may make labour markets more rigid and this can reduce growth. Regulations that increase job security may actually reduce formal employment: greater job security reduces employers’ ability to select and retain the most productive workers, and reduces the incentives for employees to increase their effort and productivity. Thus, regulations can have the unintended consequence of reducing flexibility and productivity, thereby reducing competitiveness and employment. Two implications for labour relations were discussed.

First, there is increasing *fragmentation of labour* (or segmentation of labour markets) and work is seen as an individual rather than collective activity. This has eroded the base for trade unions, which were

often the strongest voice for the interests of the poor (at least in Western economies), and has contributed to greater social fragmentation. Consequently, (potential) workers are placed in competition with each other for casual low-paid employment, and stronger labour market regulations are portrayed as weakening competitiveness, thus undermining the growth of employment and production. Some workers do benefit and fragmentation can reduce poverty even if it increases inequality. For example, in Bangladesh female unskilled workers in the garment industry have benefited and globalization has been associated with increased employment (but at very low wage rates, often below the poverty line) and greater wage inequality. India, in contrast, has not experienced similar growth in employment of unskilled females, but generally rising wages and employment have been associated with reductions in urban poverty.

Second, there is increased *casualization of labour* as globalization has been associated with lessened security of tenure while productivity gains have reduced manufacturing employment significantly. On the other hand, mean wages tend to increase, even if variance also increases, while the duration of unemployment spells is often shortened (as there are more jobs), so labour overall may benefit. In some countries it tends to be who lose full-time jobs while women gain the casual low-paid jobs (imposing costs on the individual who typically has unreduced household commitments). This can generate a 'crisis of masculinity' as males lose jobs and dignity, one factor underpinning a shift into criminal activity, violence against women and even the rise of political or religious fundamentalism. In some societies, on the other hand, the casualization of labour has encouraged stronger community networks and support systems. For example, informal sector and women's labour organizations have often emerged as important forces in civil society in place of traditional trade unions.

Three policy dimensions were considered:

- What can be done to reduce the uncertainty of employment and vulnerability of workers? While the need for flexible labour markets can be accepted, this begs the question of *how* flexible and flexible in what aspects. Although low-income countries have had limited success with minimum wages, the increase in low-paid casual jobs creates the problem of the working poor and global competition on wage costs encourages a race to the bottom. Minimum labour standards are desirable and a living wage should be an agreed objective. Furthermore, the nature of the flexibility required may be very different in exporting as compared to import-competing sectors.
- What are the 'undesirable' features of fragmentation that should be addressed? A fundamental weakness of labour markets in many developing countries is that jobs are allocated on the basis of personal or ethnic contact rather than on merit. Thus, fragmentation reflects and reinforces unequal power relations and discourages workers from increasing their own productivity. The policy objective is to ensure that labour segmentation is compatible with appropriate incentives.
- What should be done to rebuild political workers institutions? For example, in South Africa there has been a focus on strengthening trade unions and improving labour regulation and legislation. In other countries informal civil groupings have emerged (e.g. self-employed women's groups). The challenge to labour organizations is to anticipate and address the effects of globalization.

## Training, education and skills development

Human capital enhancement makes an important contribution to growth. Broad-based education is important not only in enhancing human capital but in broadening access of opportunity in training and skill acquisition. Participants concentrated discussion on four issues, three relating to aspects of globalization (trade, FDI and migration) and the fourth with funding and providing training.

First, increasing exposure to international trade has effects on the demand for and returns to workers with different skill-levels. The view that some countries can specialize in low-skill labour-intensive products is too simplistic as there are many relatively labour abundant economies, especially China, competing to produce the same products. The need to be competitive implies pressure to increase productivity so that there is a general rise in the level of skill requirements for any job. Increasing productivity requires investment in physical capital and more skilled labour is needed to use (or be combined with) capital equipment. Competitive firms adopt technologies that tend to require more skilled operatives. A good example is information and communication technologies – computers are widespread and require various skills. Thus, the pressures of competition and the requirements of new technologies increase the skill bias, and increase the returns to worker education.

Evidence shows that workers with higher initial skill levels are better able to benefit from training. Thus, the aim of government should be to provide basic education so that entrants to the labour market are enabled to acquire skills and benefit from training. Firms will have an incentive to provide job-specific training, although it is usually only relatively large firms that can afford to do so. There is a role for government in promoting equity in training and skills acquisition, i.e. in providing opportunities for workers in small firms or micro-enterprises.

Second, foreign direct investment tends to increase the bias towards skilled workers. Foreign-owned firms do provide training, and are often better placed than local firms to transfer appropriate skills, but they also tend to employ better skilled workers and to pay higher wages than local firms. Thus, FDI can contribute to increasing skilled-unskilled wage inequality. But also foreign firms can be the catalyst for increasing the skill base and can introduce better systems of management and organization.

Third, labour migration can have adverse effects on developing countries if it is the most highly skilled workers (in whom the public sector has often invested most) that emigrate (the brain-drain). On the other hand, the remittances from low-skilled workers (in whom the State has invested little) abroad can be a major source of income. Developed-country policies towards labour migration, and the type of labour mobility promoted under GATS, tend to encourage movement of high-skilled rather than low-skilled workers. As such, they encourage the type of mobility that offers the least benefits to developing countries.

Fourth, there are issues regarding funding of training schemes. Quite a lot is known about types of training and how to provide them (firms have their own in-house programmes and many 'training packs' exist), but less is known about how to integrate government and private sector efforts. What can the public sector do to raise the quality and coverage of training beyond what private firms would do? What new sources of non-government funding can be accessed? African experience offers a few answers:

- National coordination or consultative bodies with employer representation are essential for effective government training systems.
- Training institutions should be autonomous multi-service providers (i.e. broad rather than narrow based), and this facilitates attracting private sources of finance (such as employer or community contributions in addition to fees).
- National qualification certification systems do help to raise standards but are quite costly so competency-based training may be more appropriate in poor countries.
- Private sector providers (including NGOs, religious organizations and for-profit trainers) tend to be more responsive to demand and more cost-effective in the use of facilities and provision of training than are public institutions. Government regulatory capacity is weak so there is a lack of uniformity in standards.
- The for-profit institutions are the most responsive to demand but are usually located in urban areas and tend to provide only a narrow range of commercial skills.
- Religious and non-government organizations are more likely to meet social objectives, such as reaching the poor, but less likely to reflect employer demand.

## Policy proposals

Despite the diversity of participants, considerable agreement was reached on a range of policy implications and recommendations.

- Increased globalization (via growth in trade, cross-border investment and migration) is good for growth in the long run. Over a very long period of time, the process has been associated with increased income and reduced poverty in a large number of countries. Although there are some differences between the present wave of globalization and past waves, there are also some similarities. There are therefore opportunities for benefits.
- Globalization in itself is not, however, sufficient to guarantee a better growth performance, even in the long run. Other complementary policies are essential, both economic (such as macroeconomic policies) and non-economic (for example, to provide a stable and transparent system of property rights). Some of these policies will relate to labour, at least supporting basic worker rights.



- It is essential to distinguish between the short and the long run. Policies which are intended to promote integration with the world economy (like trade liberalization) can impose short run adjustment costs, which can include reductions in real wages of those employed in import competing activities and/or unemployment. These adjustment costs are not evenly dispersed. Rather they tend to be concentrated, often on vulnerable groups.
- The existence of adjustment costs is not in itself an argument against change. In fact, one can plausibly argue that adjustment costs are the price we must pay for change. However, that price need not be taken as a given and policy intervention should be tailored to minimizing adjustment costs and smoothing the transition from the short to the long run. In particular, it is possible to identify who is most likely to bear these costs and to design social protection mechanisms.
- Although there are regularities in the evidence on globalization and adjustment that can be exploited, it is vital to recognize that both integration promoting policy reforms and policies to support adjustment should be tailored to the policy context. Timing, sequencing and implementation should all be fashioned by the policy context in general and the characteristics of the labour market in particular.
- Evaluation of labour market conditions should not only take into account pre-existing unemployment but also structural characteristics related to racial, cultural and gender-based segmentation. Appropriate interventions must be tailored to the specific country context.
- Compensation mechanisms have a role to play, both in a multilateral and national context. With regard to the former, continued transfers from the richest to the poorest are clearly important. With regard to national mechanisms, there is considerable experience with a range of schemes in the North though few are evidently transferable to the poorest countries, given their high costs. They are therefore probably only relevant in the very short run.
- Retraining programmes also have a role to play and this is clearly an area where targeted investment from the multilateral agencies is vital. The development of mechanisms to underpin national qualification standards has enjoyed success in a number of countries, as have schemes to support enterprise-level training schemes.
- Education more generally is, of course, the single most important policy initiative – not only to the capabilities of the current stock of human capital but more importantly to human capital accumulation. Moreover, since many adjustment issues are fundamentally controversial because of inter-generational redistribution, there is a second order long-term benefit here.
- Employment on demand schemes or labour-intensive public works schemes can be effective in reaching the poor, but only offer low levels of pay. Nevertheless, these can be an important means to mitigate adjustment costs in poor countries.
- There is little evidence that minimum wages are helpful in poor countries. Typically, the minimum is actually very low, only benefits a few workers and constrains growth of the formal sector (which is needed to drive growth).
- Trade unions do have an important role to play but this is most effective if they accept the need to negotiate labour market flexibility to address the challenges, rather than if they try to resist pressures associated with globalization.
- A relaxation of hiring and firing legislation is more likely to be acceptable and effective if combined with social protection mechanisms. Labour market regulation often fails in poor countries because it is difficult to ensure compliance.
- Ultimately, it is sustained economic growth that offers the greatest potential for increasing employment, labour conditions and incomes. Globalization offers opportunities. The challenge is how the poorest can be helped to benefit from these opportunities and share in growth.

*Original report prepared by David Greenaway and Oliver Morrissey*

## **Values and goals in the context of globalization**

Email exchange  
24 – 30 September 2002

### Introduction

The main objective of the meeting was to identify widely shared values or principles, which could promote a desirable pattern of globalization and correct dysfunctional aspects. Some stressed the values reflected in formal statements such as international legal instruments and declarations and plans of action of UN summits, reflecting widely agreed goals and beliefs. Others considered that, along with those important sources of values, one needed to look to the behaviour and attitudes of private actors beyond formal intergovernmental frameworks.

The key issues discussed were:

- Values for a “successful” outcome of globalization.
- Values and markets.
- Values guiding processes for successful globalization.
- Putting values into practice: Implementation issues.

### Values for “successful” outcomes of globalization

In discussing universal values most relevant to achieving rights-based human development in the context of globalization, many emphasized values relating to human dignity, to freedom from want and to recognition of basic human, political, civil, social and economic rights. Particular mention was made of rights relevant to the exercise of democracy, the right to own property on a basis of equality, the right to education, the right to seek employment of one’s choice, and the free exercise of religion. The discussion highlighted the specific challenge of achieving women’s human dignity, noting the need to ensure that rights encompass the private sphere of home and family as well as improve women’s bargaining position in society outside the home – notably, enabling rights related to education and the right to seek outside employment, access to credit, property rights, and rights to enter into financial transactions.

Freedom of association was singled out as an enabling right that facilitates the development (and re-alignment) of power and the space for other elements of civil society to emerge in any country in which trade unions are allowed, regardless of region or culture; another view stressed the need to supplement associational rights with other rights in view of increasingly diversified interests of workers. Others focused on “capabilities”, that is, what people are actually able to be and to do, as an approach that spanned cultural diversities.

Some participants emphasized sustainability as a fundamental value; it was recognized that sustainability varied from short to long term, even among groups with common interests in terms of labour, ecological, social or psychological conditions. One participant focused on the “counterweight” value of solidarity to ensure common benefits from globalization; the term encompassed solidarity between states, (e.g. the most advanced and the marginalized); between generations; and between workers and consumers, especially in developed countries

### Values and markets

The rules of markets, and the shape markets take, were perceived as signposts to a society’s set of values. Some participants set economic markets on one side and social goals (e.g., human rights) on the other, and sought to integrate the two. In contrast, others asserted that markets and the various dimensions and values of society cannot be separated; human life consists of whole cultures, with markets embedded in society. Still others viewed the market as a tool without values per se that delivered goods and services – some well, some not so well, and some not at all.

In comparing commonalities and differences in values across markets and society generally, a variety of points were raised. Some participants stressed that economic globalization could yield benefits only when modified and regulated through universal human rights or, more broadly, through direct state action. Universal values could support weaker parties in the market or to create a more level playing field. The social floor of core labour standards, for example, was considered necessary to ensure that

market principles of voluntarism and choice could bring about desirable labour market outcomes. One participant noted that the better governments work, the less concern there is about government interventions in the economy to deliver social goals.

In relation to cultural preferences and gender justice in markets and development, it was important to ask which culture and whose culture, since cultures are plural and not single, dynamic and not static; the view of the 'culture' may reflect only dominant power systems. It was noted that international human rights contain provisions that require the State to take active measures to change cultural traditions that imply discrimination on grounds of gender.

Others focused on how rules for economic and social justice might also promote well-functioning markets, arguing for example that full, productive and freely chosen employment policies and non-discriminatory employment practices are also good for markets. Goals essential to markets (e.g., voluntarism, choice, efficiency, competition) could be channelled into positive social directions. Examples included market considerations of externalities to avoid negative operating effects, such as pollution, and socially responsible market behaviour to insure against reputational risk.

## Values guiding processes for successful globalization

The discussion highlighted a number of areas in which shared values were considered to be instrumental in bringing common approaches across markets, rules, and institutions. Various participants stressed that the three guiding principles of non-discrimination, transparency, and accountability could be a basis for developing a common framework to guide the various actors in globalization. In that regard, some viewed non-discrimination as an independent outcome as well as a part of the process and as necessary to protect those with less power, both among individuals in human rights and among countries in global trading. The application of such principles to governments was seen as basic and necessary to achieving human rights and well-functioning markets. However, their application to international institutions was equally compelling, though implementation would differ. Transparency, as expressed by one participant, included providing access to civil society to view and have a voice (not necessarily a vote) in the operations of international organizations. This was particularly necessary as the legitimacy of governments' positions on globalization issues were deemed to come increasingly into question.

Others emphasized the need for international institutions to be concerned not just with good governance but with encouraging the capacity of governments to intervene, correct inequalities and social injustice caused by economic globalization, and provide necessary physical and social security. Still other viewpoints emphasized the common operation of trust and honesty; trust could make markets function best and, at work through rules and institutions (both formal and informal) could build public support for sustainable economic integration. Confidence-building measures by institutions (for example, increased internal and external transparency) were suggested as a means to building trust and integrated approaches.

A number of participants noted the relationship between markets and democratic governance. It was asserted that the two go together and should be based on the same values, principles and behaviour correctly implemented by all actors of economic and political life. Some participants saw democratic, or good, governance as a means of balancing the different and sometimes conflicting motivating values and interests among different segments of society. Good governance itself was seen to depend upon practices of transparency and accountability in similar ways to how well-functioning markets operate. Others appreciated the way democracy facilitated functioning of markets but also served to correct its negative consequences for social justice.

## Putting values into practice: Implementation issues

Various participants noted that no single international institution or international agreement, in trying to achieve its own goals, could override the universally recognized principles and standards that reflect the widely shared values upon which the existence of those arrangements depends. Nonetheless, some stressed the unnatural separation and lack of coordination of social and economic development at the international level, in contrast to their intimate linkage in daily life. Others emphasized the basic role of governments in pursuing an integrated view of human development in their activities across all

international institutions. Still others underscored the power relations that determined which values were applied in certain ways and mechanisms, and suggested a need for reflection on why and how the privileged elite of any State, international organization, class, or culture would freely choose to give up and share their advantage more broadly. Combining strong incentives with trust and institution building was suggested as one method of addressing the power impasse.

A number of suggestions focused on how to use shared values to strengthen existing international rules and frameworks or create new approaches for dealing with challenges of globalization across public and private sectors, for example:

Some step toward a certain minimum of cooperation among existing international organizations so that each, in its respective work, could reinforce the work of the others. In that regard, there was a need to address conditionality programmes of international financial institutions by strengthening the capability of the ILO to assist countries with the creation of safety nets and other adjustment programmes to lower costs associated with adjustment to economic shocks.

- In monitoring and reporting systems, indicators to guide human development indices were needed that could identify the impact of globalization and obstacles that stand between deprived people and their ability to be fully functional in society. In addition, broader indicators and metrics beyond money coefficients were considered necessary to measure quality-of-life.
- In collection of data, especially with regard to non-discrimination and equality, there was a need for more disaggregated data to show the impact of globalization on different groups, particularly those most disadvantaged. Building the capacity to gather and analyse such information was seen as critical to guiding effective policy and rule-making, in both local settings and globally.
- The identification of guiding principles could reflect the key values that define successful outcomes of globalization and address the instrumental values essential to achieving those outcomes. Values like transparency, democratic governance, and accountability could guide policies and behaviour across key actors in globalization, including inter-governmental organizations, corporations and non-governmental organizations as well as states. The rules and methods of application of those instrumental, or enabling, principles would necessarily take into account the different actors, regional and cultural contexts involved.
- As to intergovernmental organizations, an independent body could verify that underlying universally recognized principles and standards reflecting the key values to successful outcomes of globalization and common enabling principles were respected in the operation of international institutions, rather than relying on individual arrangements for oversight as is currently the case.

A variety of means for better implementing shared values to address the challenges of globalization were suggested, for example:

### Space for dialogue

Practical or concrete steps could be taken to open spaces for dialogue on ways in which values could be used to guide new approaches to globalization. Notably, existing spaces included some parts of the UN, such as with the Values Caucus and UN Secretariat, in the work of the Human Development Reports of UNDP, and with UNESCO's Common Framework for the Ethics of the 21<sup>st</sup> Century. Some participants suggested building on the Earth Charter's model in using an innovative process that maximized global participation in what was called an "emerging global consensus on the need to realign human values and goals" through its Charter on Human Responsibilities. One participant proposed that the ILO establish an ongoing "values network" that could be transparent and followed by, among others, international financial institutions and governments; e-mail would be the usual means of exchange but the network would also meet in order to ensure mutual listening and developing of shared plans. Still other proposals touched on various international and national frameworks, including meetings like the World Economic Forum, the use of mass media by deploying public funds to preempt the necessary airtime from commercially dominated use, and the contribution of social dialogue mechanisms. Some stressed that a series of dialogues would be preferable to one event, and in particular ongoing dialogues among international institutions like ILO and IMF, which would be aided by policy coherence among national governments. The challenge must be kept in mind of how to ensure that any such efforts at dialogue include the participation of those who are effectively excluded from any meaningful engagement with the key actors in globalization.

## **Lessons from existing models**

Drawing models for action from existing experiences in balancing market-led globalization with social priorities would be helpful to broaden such initiatives. Some participants noted a number of such initiatives in public, private and multi-stakeholder contexts. Examples included ILO projects in child labour elimination, factory monitoring and workplace democracy; OECD monitoring of operations of multinational enterprises; framework agreements between multinational enterprises and global unions; the UN Global Compact; and shareholder and investment-related initiatives. Others suggested building upon the new alternative globalization movements, in coalitions with labour unions, which were seen as effective in pressuring markets, including through use of the mass media.

## **Mapping values**

The discussion highlighted methods of identifying common values that have been articulated by the international community and could guide the goals and processes of “successful” globalization. Some participants proposed to start with a study of formal expressions of values (e.g. international legal instruments, declarations and plans of action from UN summits, etc.) in order to define the social parameters for more equitable globalization. Others suggested including statements drawn from grass-roots initiatives, such as the Earth Charter, the 1993 Statement of the Parliament of the World’s Religions, and the Prague Declaration of 2001, and notably commission reports and publications of “people’s” response (e.g., A People’s Response to Our Global Neighbourhood). Still others pointed out that surveys, religious interpretations, and other statements assessing or reflecting the behaviour and attitudes of private actors in social, cultural and political dimensions added an important dimension to inter-governmental frameworks.

## **Work on information and indicators to address disparities**

Some participants saw drawing upon existing initiatives as a first step in reform of information gathering and evaluation tools. Reference was made in that regard to ILO’s work on measuring decent work through statistical indicators recognizing the need for non-quantification methods. A set of interdependent “capabilities” that reflected rights related to successful outcomes of globalization (see above) were proposed as goals for targeting the varying levels of resources or freedoms that different groups in different situations need to reach the same level of functioning. Particular attention was drawn to excluded groups, such as women in situations of traditional under-education, and people with disabilities. The tremendous power of the inner spirit was considered as a source to be tapped to better define and conceive the balance of material and non-material needs in the context of globalization, as a necessary step to effective policy-making based on values motivating behaviour of the various actors. Another viewpoint suggested that taking into account national needs and cultural diversity in the way common values are expressed within and between countries would further strengthen monitoring and capacity to target and achieve effective and accountable state action.

## **Exploring guiding principles**

Recommendations for ways to explore a framework of guiding principles for globalization were debated, on the levels of desired outcomes and processes of globalization. It was suggested that any such framework draw upon principles that already have some influence on the global entrepreneur, and yet ensure effective representation of poor and illiterate women and other excluded groups. The development of such a framework was seen as a matter of practical agreement based on deep common commitment to successful globalization, even though underlying metaphysical or religious disagreement might persist. As detailed above, the three guiding principles of non-discrimination, transparency, and accountability, particularly in the context of all inter-governmental organizations, deserved further exploration. Some stressed the need to ensure that guiding principles serve as reference points for good governance, and educational and organizational change in international and national level action. Others saw that the goals reflected in such principles could inform governments in achieving coherence across a number of now separate policy domains, both nationally and internationally.

*Original report prepared by Janelle Diller*



## **Annex I**

### **Lists of participants**



## How can the benefits of globalization reach more people?

16 – 17 September, 2002

Geneva

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## **Cross-border networks of production and technology**

19 – 20 September, 2002

Geneva

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## Corporate social responsibility

14 – 15 February, 2003

Geneva

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## Migration, development and integration: policy strategies and challenges

16 – 17 December, 2002

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6 December, 2002

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## **Globalization and labour market adjustment in developing countries**

(in cooperation with the Department for International Development, UK)

8 April, 2003

London

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