

**FOR DEBATE AND GUIDANCE**

## SECOND ITEM ON THE AGENDA

**Trade and employment: Follow-up  
to the joint ILO/WTO Secretariat study**

1. During its last session in March 2007, the Working Party debated the issues arising from the joint ILO/WTO Secretariat study on “Trade and employment: challenges for policy research”.<sup>1</sup> Panellists and delegates alike welcomed the collaboration with the WTO secretariat and highlighted the close interaction between trade and employment, emphasizing the need for policy coherence between both spheres. Constituents also offered their guidance to the Office for its activities within this domain; they suggested that the Office should: (i) consolidate the knowledge base through a series of in-depth case studies on the effect of trade liberalization on employment and wages; (ii) strengthen the capacity of constituents to assess the impact of trade reform on employment and decent work at the national level; (iii) facilitate the formulation of coherent policies towards trade and employment, based on sound data and diagnosis, with the involvement of the social partners; and (iv) continue to undertake collaborative research with other multilateral organizations, including the WTO secretariat, on trade and employment and other topics that can produce synergies.<sup>2</sup>
2. The present paper, which is submitted for information and guidance, aims to update the Governing Body about ongoing and planned activities that are relevant to trade and decent work.<sup>3</sup> It starts by summarizing the results of a recent mapping exercise undertaken by the Office at the request of the High-level Committee on Programmes (HLCP) of the UN system Chief Executives Board (CEB). The ILO’s submission to the CEB/HLCP provided an overview of the ILO’s activities in relation to trade, and in particular to trade capacity building. The paper then outlines how the Office is responding to the guidance offered by constituents in the March 2007 session of this Working Party with respect to points (i) to (iii) above, and provides some details on two planned projects to assess and address the effects of trade on productive employment and decent work. The paper also gives an update on the research collaboration between the Office and the WTO secretariat.

<sup>1</sup> GB.298/WP/SDG/1.

<sup>2</sup> GB.298/14(Rev.), p. 9 ff.

<sup>3</sup> See also the paper before the ESP that gives an overview of the implementation of the Global Employment Agenda, and in particular the section on the GEA’s Core Element 1 “Promoting trade and investment for productive employment and market access for developing countries” (GB.300/ESP/2).

## 1. Mapping of the ILO's trade-related activities

3. In February 2005, the HLCP of the UN system Chief Executives Board (CEB) established an inter-agency Task Force on Economic Development (TFED) with the aim of defining “a common framework for collective action” among UN organizations involved in economic development. Led by UNIDO, the Task Force is compiling a comprehensive inter-agency resource guide on capacities and expertise of UN system organizations in the area of trade capacity building. The resource guide is intended to facilitate better collaboration among agencies and for use by the UN Resident Coordinator system to better respond to country-level requirements in the field of trade-related technical assistance.<sup>4</sup>
  
4. In its submission, the Office outlined its strategy to promote an integrated approach to trade and productive employment and decent work. The approach seeks to build the capabilities of countries and the social partners (governments, workers' and employers' organizations) to realize the opportunities for decent employment and income that may be created as a result of trade and to limit social adjustment costs. The Office emphasized that this strategy was applied at the national, regional and international levels and provided some detail on its implementation. At the national level, the ILO is involved in trade-related issues through its Decent Work Country Programmes in a number of ways, namely through:
  - (a) assessing the impact of trade policy on employment and working conditions;
  - (b) developing integrated sectoral strategies that seek to improve the export competitiveness of enterprises together with the number of jobs created and the conditions of work and employment;
  - (c) supporting social dialogue between trade unions, employers' organizations and government to promote more effective and coherent policies for both trade and labour markets;
  - (d) facilitating labour market preparedness for trade by providing assistance with the development of active labour market policies, skills development,<sup>5</sup> adequate regulatory frameworks and institutions to provide social protection;
  - (e) strengthening productive capabilities for trade preparedness, in particular through unlocking the potential of enterprises to create decent jobs and by building skills and knowledge.<sup>6</sup>

<sup>4</sup> The United Nations Industrial Development Organization (UNIDO) plans to publish the Inter-Agency Resource Guide on Trade Capacity Building in early 2008 and will post it on the organization's web site at [www.unido.org/tcb](http://www.unido.org/tcb)

<sup>5</sup> The role of skills development and skills utilization in adjusting labour markets efficiently and equitably to changes wrought by trade – as well as factors such as the environment and technology – will be discussed in more detail in the Office's report for the ILC general discussion in 2008 on skills for improved productivity, employment growth and development. The report will also address the effective coordination of skills development policies with trade and industrial policies for moving along the high road to development.

<sup>6</sup> See *The promotion of sustainable enterprises*, Report VI, submitted to the International Labour Conference, 96th Session; and the Report of the Committee on Sustainable Enterprises, International Labour Conference, 96th Session, *Provisional Record* No. 15.

At the regional level, the ILO is involved in assisting regional institutions to assess the impact of trade integration on decent work and to develop regional social policies on employment, skills development, the movement of people, social protection, labour standards and other goals. At the international level, the ILO promotes dialogue between its constituents on the potential employment effects of trade policies and measures that maximize opportunities for employment and decent work. The ILO also engages with other agencies to promote policy coherence between trade policies on the one hand and labour market policies on the other.

5. The Office further detailed its role in three domains that were of particular interest to the mapping exercise: global advocacy; trade policy development; and supply capacity promotion. With respect to global advocacy, the submission emphasized the role of this Working Party in discussing and formulating policies aimed at enhancing the social dimension of trade and related issues. It also drew attention to the policy coherence initiative (PCI) as a mechanism to achieve greater coherence between the policies concerned with growth (including trade policy), investment and employment between the United Nations agencies and the Bretton Woods institutions. The Office also participated in the inter-agency Task Force on Trade and Gender that is led by UNCTAD and aims to enhance synergies among agencies and to promote gender equality through mainstreaming gender in trade and trade policy.
6. The discussion of trade policy development cited the ILO's contribution to poverty reduction strategies (PRSS) in more than 35 countries. They aim at empowering constituents and sensitizing relevant key stakeholders to incorporate employment and other decent work dimensions in the PRSSs, and examining their link to other policy domains, including trade. Another example is the ILO's work on regional integration and employment policies in Central and West Africa. It seeks to reinforce regional capacities for analysis, social dialogue and the design of strategies to address the interrelationship between trade liberalization and regional integration and employment and decent work. Further, trade impact studies undertaken by the ILO<sup>7</sup> intend to assist countries to anticipate the likely impact of trade policies on employment and to monitor progress in achieving decent work (see also section 2 below). The link between trade and decent work is also at the heart of the ILO's country-level work on export processing zones (EPZs) under the EPZs InFocus Initiative. Current activities include country studies on Madagascar, Costa Rica, Indonesia and Sri Lanka and round tables on EPZs in Madagascar and Costa Rica.<sup>8</sup>
7. The ILO's efforts to enhance supply capacity include integrated sectoral strategies to build capabilities and improve competitiveness. The underlying principle is that the promotion of decent work is not only a social objective, but also contributes to improved competitiveness in world markets. Currently, the ILO is engaged in a project in Morocco in the textile and clothing sector. Through its work on value chain analysis, upgrading and cluster development, the Office supports the efforts of policy-makers to help enterprises that are linked into global value chains to upgrade their productive capabilities. To date, most activities have been focused on agro-business. The ILO aims to enhance the business

<sup>7</sup> The Office is currently preparing country studies on trade and employment for Chile and Costa Rica. Further, it is working on studies to assess the impact of the phasing-out of the Multi-Fibre Arrangement (MFA) in Mauritius and Lesotho and exploring the feasibility of a study on trade and employment in Brazil.

<sup>8</sup> On the basis of these country studies and an additional literature review covering China, the Office is preparing a report on EPZs for the March 2008 session of the Governing Body. The report will present the main trends in economic and social development of EPZs over the last five years, and make recommendations for the future work of the ILO with respect to EPZs.

environment in which small enterprises develop in a manner that serves employment goals. For example, a local economic development (LED) project has assisted the Laikipia Maasai community in Kenya. As one component, opportunities are identified for Maasai products in local and export markets. And by promoting good workplace practices, the Office assists enterprises to adopt environmentally friendly technologies, develop skills and human resources, and enhance productivity to remain competitive in national and international markets.

8. The Office is also increasingly engaged in the Aid for Trade initiative that the WTO has been developing in partnership with the regional development banks. The Aid for Trade initiative brings together finance and trade ministers, senior donor representatives, regional institutions and key private sector actors to focus on trade capacity-building challenges and to set out priorities for future action. Engagement in this process provides opportunities to advocate the priority of formulating coherent policies towards trade and employment and to use ILO tools and knowledge for capacity building in enhancing supply capacity and facilitating labour market preparedness for trade.

## **2. Assessing and addressing the effects of trade on decent work**

9. As outlined above, constituents suggested during the last session of this Working Party that the Office should consolidate its knowledge base on the effect of trade liberalization on employment and wages; strengthen the capacity of constituents to assess the impact of trade reform on employment and decent work at the national level; and facilitate the formulation of coherent policies on trade and decent work with the involvement of the social partners. The thrust of the debate in the Working Party's March 2007 session was that the activities of the Office should be oriented towards practical and coherent trade and employment strategies for developing countries.
10. The Office has since acted on this guidance, as well as the guidance given by the Committee on Employment and Social Policy in the framework of the Global Employment Agenda, and is currently preparing a project proposal on "Assessing and addressing the effects of trade on employment". There is an urgent need to anticipate the labour market impact of new trading arrangements, such as a possible agreement in the Doha Round of negotiations at the WTO and the conclusion of free trade agreements (FTAs) and of economic partnership agreements (EPAs). To this end, the proposed project aims to build capacity at the country level on the effects of trade on employment in order to support the design of effective and coherent policies that take account of the labour market effects of trade liberalization. This is based on the ultimate goal to promote decent work in developing countries. In line with the Working Party's guidance, the projects pursue three specific objectives that build on each other:
  - (a) consolidate the knowledge base on the effects of trade on employment and the policy options available to address the adjustment challenges and promote decent work;
  - (b) strengthen the capacity of policy-makers, constituents, researchers and other institutions in pilot countries to assess the effects of changes in trade policy on employment;
  - (c) improve the capacity of policy-makers and the social partners in pilot countries to design effective and coherent policies that respond to the adjustment challenges and promote decent work.

11. The project would be implemented in parallel with a planned project on “Monitoring and assessing progress on decent work in developing countries”. This project pursues as its main objective strengthening the capacity of ILO member States to self-monitor and self-assess progress towards decent work. To achieve this, activities under the proposed project could include: the identification of ways of measuring progress on decent work which take into account both international labour standards and country-specific circumstances; support for improving statistical data collection on decent work; the production of studies to document and analyse trends in decent work; and subsequently promoting tripartite dialogue to identify coherent policies that address the challenges in achieving decent work. As was argued in the paper before this Working Party in March 2007, the analysis of the impact of trade on employment and working conditions and subsequent policy design is hampered by the paucity of timely and comprehensive statistics.<sup>9</sup> Thus, the improved collection of data on labour market trends will complement the project outlined in the previous paragraph.
12. Both projects seek to jointly contribute to improved monitoring and analysis of labour market developments in a manner that directly supports the formulation of effective and coherent policies to promote decent work. They would initially be implemented in pilot countries that will be selected so as to include countries of different size, economic structure and level of development, ensuring diversity of geographic coverage.<sup>10</sup> While constituents in the pilot countries would thus directly benefit from the projects, global knowledge tools developed in the projects can support the efforts of policy-makers in other countries to anticipate the effects of changes in trade policies on employment, and to design effective and coherent policies that respond to the adjustment challenges in a way conducive to decent work. To achieve this, good practices would be disseminated through publications, media-related activities, as well as regional and global workshops.
13. Given that both projects require substantial funding, the Office is seeking to obtain extra-budgetary funding. To this end, the Office is currently in preliminary consultations with the European Commission.
14. Finally, the International Institute for Labour Studies is launching a research project on the broader issue of the challenges of globalization for labour market institutions and social protection. The Institute will also carry out a joint study with the WTO, as discussed below.<sup>11</sup>

### 3. Collaboration with the WTO secretariat

15. As indicated above, constituents welcomed the collaboration between the ILO and the WTO secretariat that led to the joint study on “Trade and employment: challenges for policy research”. Constituents also supported further collaboration between the Office and the WTO secretariat, and both Mr Lamy, Director-General of the WTO, and Mr Somavia, Director-General of the ILO, indicated that the two organizations will follow up on the study in consultation with constituents.

<sup>9</sup> GB.298/WP/SDG/1, para. 30.

<sup>10</sup> Countries that are interested in participating in either of the two projects are invited to express their interest to the Office.

<sup>11</sup> See the forthcoming note for discussion at the November session of the Institute’s Board.

- 16.** The Office and the WTO secretariat have agreed that, as a next step, they will jointly carry out a study on the links between globalization, trade and informal employment. The persistence of a large informal economy is a major policy issue for developing countries and represents a significant obstacle to the goal of decent work for all. Greater economic growth associated with globalization may help reduce the size of the informal economy and lead to the creation of more formal jobs. However, this is not necessarily the case and the linkages between trade liberalization, foreign direct investment and other facets of globalization and outcomes in terms of informality are likely to be complex. It is crucial to shed light on the policy settings which may help developing countries make the most from globalization by promoting transitions to formal employment and decent work.
- 17.** A study on this topic will also bring into focus a number of the broader questions about the interaction between engagement in the global economy and improved governance of labour markets in developing countries. The purpose of the joint study on the links between globalization and informal employment will be to: (i) present key facts on globalization, trade and informal employment in developing countries; (ii) review the literature on this issue; and (iii) undertake new empirical research with a view to identifying causal links and assess how policies and institutions influence these links. The project will lead to a first report, covering mainly the first two topics above, at the end of 2008 and will be finalized in 2009. It will be implemented by the ILO's International Institute for Labour Studies and the WTO's Economic Research and Statistics Division. External contributions to fund this activity will be sought.
- 18.** The Working Party is invited to comment on the proposals for follow-up to the ILO/WTO Secretariat study on trade and employment.

Geneva, 18 October 2007.

*Submitted for debate and guidance.*