



THIRD ITEM ON THE AGENDA

Governance, social partnership and globalization: A preliminary review of issues**I. Introduction**

1. The Working Party decided last November to hold a first discussion in March 2003 on the subject of “governance, social partnership and globalization” and requested the Office to produce a concept paper outlining key issues for discussion. It was foreseen that the discussion of the present paper would define the contents of the more substantive paper that would be presented and discussed in November 2003.
2. Governance, and the role of social partnership within it, is highly pertinent to the issue of how the social impact of globalization can be improved. It is now widely recognized that good governance is a prerequisite for successful development. This includes the ability to harness globalization for achieving higher rates of economic growth and sharing its benefits more widely. In the present context of rapid economic integration, issues of global governance have assumed considerable importance. However, these issues are not addressed in the present paper as they are being dealt with by the World Commission on the Social Dimension of Globalization.
3. The term “governance”, as used in the literature of social science, can be defined as the controlling, directing or regulating influence of the set of institutions and policies that determine the functioning of an economy and society. It is a wider concept than that of the structure of political authority and the role of government, including, as it does, the role of economic and social institutions that underpin the functioning of an economy. These institutions include the framework of both formal and informal norms and rules that guide interactions between non-governmental actors such as employers’ organizations, trade unions and non-governmental organizations (NGOs). Social partnership, in turn, refers to collaborative relationships between governments and employers’ and workers’ organizations to achieve mutually agreed economic and social objectives.

II. The interrelationship between governance, social partnership and globalization

4. The relevance of governance to globalization and its social dimension can be set out as follows. In seeking to reap the economic benefits of globalization in terms of higher levels of growth and employment creation, many countries have liberalized trade and investment flows. But the actual impact of such liberalization is to a large extent dependent on the quality of governance. For example, a limited capacity to design and implement economic policies may result in the inappropriate scope, timing and sequencing of liberalization measures, thus leading to unfavourable outcomes.¹ Similarly, poor governance reflected, for instance, in political and social instability, a high level of corruption, insecure property rights, weak enforcement of contracts, macroeconomic instability and seriously distorted markets will prevent a country from reaping the full benefits of globalization. Domestic investors will be deterred from exploiting the new opportunities in export markets and the country will fail to attract foreign investment. Similarly, necessary adjustments to the structure of the economy will be blocked.
5. Poor governance as described above will thus severely limit the overall economic benefit that can be reaped from globalization. It will, at the same time, also aggravate the social costs. The opening up of the economy, especially in the context of poor governance, will expose it to greater risk of economic fluctuations and even economic crises. The process of adjustment will also create losers and winners. All this translates into greater economic insecurity that must be redressed by strong social institutions to provide increased social protection, adjustment assistance to losers, and equitable access to new economic opportunities. Such institutions are weak or missing in countries characterized by weak governance, a fact that greatly increases the social costs of globalization.
6. Social partnership is an important part of this general relationship between governance and globalization. A basic requirement of good governance is that there should be institutions that provide for the effective participation of interest groups in the formulation and implementation of policies that affect them. Within this framework, free and independent organizations of workers and employers can act as pressure groups for more participatory, transparent and accountable government. At the same time, social partnership can be an important force for raising productivity and economic competitiveness. As such, effective social partnership has a key role to play in minimizing the social costs of globalization and ensuring more equitable access to its benefits.

III. The increasing interest in governance issues

7. The increasing attention that has been devoted to this broad issue of governance springs from several interrelated sources. One is the recognition that poor governance has been a basic cause of developmental failure. An extreme example of this is the growing incidence of “state failure” or the collapse of political authority that has led to anarchy and economic

¹ See papers presented to two previous sessions of the Working Party: “Trade liberalization and employment” (GB.282/WP/SDG/2) and “Investment in the global economy and decent work” (GB.285/WP/SDG/2).

retrogression.² More broadly, there has been growing recognition that an exclusive focus on economic policies alone, such as “getting prices right”, privatization, or macroeconomic stabilization, is far from sufficient in achieving economic development. The failure of the early structural adjustment policies of the 1980s that were based on such an approach was a powerful demonstration of this. This perception was reinforced by the experience of the transition economies in the 1990s, which highlighted the crucial importance of appropriate institutions to the functioning of a market economy. Privatization and economic liberalization without the prior development of an effective system of property rights and the enforcement of contracts and the regulation of predatory market behaviour produced disappointing results. Similarly, the Asian financial crisis of 1997-98 provided a dramatic illustration of the importance of proper regulation of the financial sector and of sound corporate governance.

8. There has also been a parallel shift in economic thinking that gives greater attention to institutional factors in the determination of economic performance.³ The importance of a secure system of property rights, of lowering the costs of economic transactions and of eliminating corruption and “rent-seeking” behaviour among economic agents has been increasingly recognized. There has also been growing recognition of the role of “social capital” or the network of institutions and values (such as trust) that underpin the interactions among agents in a market economy.⁴ Problems of collective action and of channelling the activities of interest groups towards the common good have also been recognized.⁵
9. This growing interest in the issue of good governance was also fuelled by the movement in favour of strengthening fundamental human rights and democracy. The advancement of human rights has come to be recognized not only as a basic end in itself but also as an important means of ensuring good governance and achieving economic development. Moreover, good governance is in turn essential for ensuring that these rights are fully realized.
10. The new international consensus that places the reduction of poverty at the centre of the development effort has also led to the recognition that good governance is an essential element for effective poverty reduction. The consequences of bad governance, such as a high level of corruption and inflation, hit the poor most.⁶ Institutions that serve the interest of an elite and exclude the poor from participation in markets are an important factor behind the perpetuation of poverty. For example, poor governance reflected in features such as the lack of access to credit, insecure property rights, and regulatory barriers to

² See “State failure, collapse and reconstruction”, in Special issue: *Development and Change*, Vol. 33, No. 5, Nov. 2002. See also Wohlmuth, K., Bass, H.H., and Messner, F. (eds.): “Good governance and economic development” (Lit Verlag, Munster, 1999).

³ For a comprehensive review of this literature see Lin, J.Y. and Nugent, J.B.: “Institutions and economic development”, in Bherman, J. and Srinivasan, T.N. (eds.): *Handbook of Economic Development*, Vol. 3A (North-Holland, Amsterdam 1995). See also Drobak, J.N. and Nye, J.V.C. (eds.): “The frontiers of the new institutional economics” (Academic Press, 1997).

⁴ Hall, R.E. and Jones, C.I.: “Why do some countries produce so much more output than others?”, in *Quarterly Journal of Economics*, Vol. 114(1), Feb. 1999, pp. 83-116.

⁵ Olson, M.: *The logic of collective action* (Cambridge University Press, Cambridge, UK, 1965) was the seminal work for this field of research.

⁶ World Bank: *World Development Report 2002: Building Institutions for Markets* (World Bank, Washington, DC, 2001).

market entry have all contributed to confining the poor to the informal sector.⁷ Similarly, the incapacity of governments to deliver basic public services, such as education and health care, also affects the poor most adversely. More broadly, the lack of democratic governance leads to a neglect of the interests of the poor and inadequate responses to their needs.⁸

IV. Objectives and promotional strategies

11. There is now a growing consensus around the key elements of good governance.⁹ These include the following:

- (a) respect for fundamental rights, including those contained in the ILO Declaration on Fundamental Principle and Rights at Work, the rule of law and clean, transparent and accountable government;
- (b) an effective system of property rights and contract enforcement;
- (c) the regulation of markets to curb fraud and anti-competitive behaviour and to promote sound corporate governance;
- (d) fiscal and monetary institutions that ensure economic stability;
- (e) institutions to provide social protection and manage social conflict. This includes strong labour market institutions that conform to ILO standards;
- (f) an adequate level of social capital and trust to underpin economic transactions.

12. There has also been a growing body of research on the determinants of good governance. As mentioned earlier, an influential strand of thinking stresses that respect of individual rights and democratic processes is a prerequisite for good governance. Without this, issues of the legitimacy, accountability and transparency of government action cannot be adequately dealt with. The other influences on the quality of governance that have been identified include the following:

- (a) the size of the State and the extent of regulation of the economy. Some studies have concluded that the larger the State the greater the opportunities for corruption and the hijacking of regulatory processes by special interests;
- (b) greater openness to international trade appears to be associated with better governance;
- (c) the degree of competitiveness of markets also appears to be important. Greater ease of entry into economic activities helps to reduce predatory behaviour and to expand economic opportunities for poor producers;

⁷ For a further discussion of the link between poor governance and the existence and growth of the informal economy, see the Resolution concerning decent work and the informal economy, adopted by the International Labour Conference at its 90th Session (2002).

⁸ Sen, A.K.: "Development as freedom" (Knopf, New York, 1999).

⁹ Rodrik, D.: "Institutions for high-quality growth: What are they and how to acquire them" (Paper delivered at the IMF Conference on Second Generation Reforms, October 1999).

- (d) a slow, high-cost, and inaccessible judicial system has been identified as an important barrier to economic transactions and good governance;¹⁰
- (e) missing institutions in some areas. This is important because there are strong complementarities between institutions. Examples of missing institutions in developing countries have included the absence of markets for some forms of insurance, of bankruptcy procedures and of intellectual property rights;
- (f) the inadequacies of informal institutions. Although these often play an important role in governance they suffer from the serious drawback that, compared to formal institutions, they tend to be limited in scale and to exclude certain groups.

13. This type of research has influenced the policies of donor institutions and international organizations. Improving governance has become an important objective of aid policy¹¹ and governance criteria feature in conditions for providing development assistance.¹² Some donor countries now include the respect for fundamental human rights and democratic government as a condition for receiving development assistance. Development assistance directed at strengthening governance has come to cover a wide field of activities. This has included support of the development of electoral systems and for democratic political institutions; the strengthening of civil society organizations; the strengthening of the performance, accountability and transparency of governmental institutions; research and training programmes improving the regulation of the financial system; promoting better corporate governance; and reform of the judicial system. The impact of such assistance is inherently difficult to evaluate and the few evaluations that are available show mixed results.

14. The field is not, however, free of differences in views. Some developing countries reject conditionality based on human rights and democracy, seeing this as an infringement of national sovereignty. They would prefer a narrower view of the issue of governance centred on increasing the capacity and efficiency of governmental institutions regardless of the nature of the political system.¹³ Implicit in this view is the rejection of the proposition that democracy is essential for good governance and successful economic performance. There have of course been instances of efficient administration and successful economic development in non-democratic states.¹⁴ It is also true that democracy by itself does not always ensure good governance. But such arguments ignore the fundamental point that respect for human rights is an important end in itself.

¹⁰ Messick, R.E.: "Judicial reform and economic development: A survey of issues", in *The World Bank Research Observer*, Vol. 14, No. 1 (Feb. 1999).

¹¹ For an influential early statement on this, see *DAC Orientations on Participatory Development and Good Governance* (OECD, Paris, 1993).

¹² Crawford, G.: "Evaluating European union promotion of human rights, democracy and good governance: Towards a participatory approach", in *Journal of International Development*, Vol. 14, 2002, pp. 911-926.

¹³ Boas, M. "Governance as multilateral development bank policy: The cases of the African Development Bank and the Asian Development Bank", in *European Journal of Development Research*, Vol. 10(2), Dec. 1998.

¹⁴ Leftwich, A.: "Governance, the State and the politics of development", in *Development and Change*, Vol. 25 (1994), pp 363-386.

15. Another point of difference is over the strategy to be adopted for strengthening governance.¹⁵ One view is that the requirements for good governance, including the type of institutions needed, are fundamentally similar for all countries. It asserts that for democratic, free-market economies the main requirements in terms of economic institutions are a minimal level of state intervention in product, capital and labour markets; hence, the across-the-board prescription on trade and capital account liberalization, labour market flexibility and privatization. This view also implies that since the institutional requirements are fundamentally similar for all countries, developing countries would do well to simply adopt blueprints of successful institutions from industrialized countries. Coincidentally, they should also not be apprehensive about the harmonization of institutional rules to common international standards in areas such as financial regulation and intellectual property rights. In contrast, the opposing view is that there is wide range of possible sets of institutional arrangements that are feasible and compatible with good governance and successful economic performance. Proponents usually point to the diversity in institutional arrangements among the developed countries themselves in support of this. From this perspective, differences in local conditions in terms of culture, institutional history and the availability of material and human resources should be a determining influence on institutional development. Imported blueprints are unlikely to work since institutions need to be adapted to differences in local conditions. A better approach would be to favour experimentation and learning in the process of institutional development. This would also imply that countries should be wary of prescriptions for a “big bang” approach to economic reform since this underestimates the time and difficulty involved in institutional development.
16. In the 2003 *World Development Report*, the World Bank summed up its views on the issue of the strategy for institutional development. This emphasizes the importance of identifying missing institutions that need to be developed; of ensuring that complementary institutions are in place; of promoting adaptation and innovation in institutional development, taking into account available administrative capacity, human capabilities and technologies; and of ensuring competition, open trade and free flow of information. Institutions should also be designed to be simple and incentive-compatible. An overriding objective should be to develop institutions that will make markets more efficient, integrated and inclusive.

V. The ILO and social partnership

17. The ILO has long been involved in the promotion of a key aspect of good governance, i.e. social partnership. The very tripartite structure of the ILO could be seen as the recognition of the importance of social partnership for the attainment of social justice and economic and social development. There has also been a consistent strategy for the promotion of this aspect of governance.¹⁶ Essentially, it involves the promotion of fundamental labour rights (especially freedom of association and the right to bargain collectively), the promotion of a legal framework and institutional mechanisms to support social dialogue and cooperative industrial relations, and the strengthening of the capacity of workers’ and employers’ organizations through training and other forms of technical assistance. It will be noticed that elements of this strategy were precursors of similar approaches in current strategies for

¹⁵ See Rodrik, D.: op. cit., for a good review of this issue.

¹⁶ See the Resolution concerning tripartism and social dialogue, adopted by the International Labour Conference at its 90th Session (2002).

promoting better governance through, for example, strengthening respect for fundamental human rights and the capacity and role of civil society organizations in general.

18. The long-standing rationale for the ILO's commitment to promoting social partnership also coincides with several of the arguments that have surfaced more recently in favour of promoting good governance. Fundamentally, there is common ground in the recognition of the importance of institutional factors for improving governance, economic performance and social equity. There is also a similarity of views on the importance of reconciling sectional interests through making organizations of interest groups more "encompassing". For the ILO, this translates into the view that strengthening the social partners and involving them in the formulation and implementation of policies affecting them is the best way of reconciling conflicting interests for the common good of society, of mobilizing support for economic reform and maintaining industrial and social peace, of fostering collaborative effort to raise productivity and economic performance, and of ensuring that the institutions governing the world of work are best adapted to local specificities. In addition, the promotion of social partnership that is grounded in respect for fundamental labour rights makes an important contribution to the advancement of human rights and democratic, accountable and transparent governance.
19. Finally, as pointed out earlier, social partnership has an important contribution to make in meeting some of the key challenges of globalization, such as the need to increase international competitiveness, facilitate economic reform, provide increased social protection and adjustment assistance, cope with the consequences of economic shocks and crises, and share the benefits of globalization more equitably.

VI. The options for further discussion

20. The above review of issues suggests several options for what the next discussion in November 2003 could focus on –
 - (i) the role and contribution of the ILO to the promotion of good governance. Given that the ILO has been a pioneer in the promotion of good governance, especially with respect to social partnership, it would be timely to examine how its role in this area could be enhanced by capitalizing on the new interest in governance issues. This would involve a stocktaking of what has been achieved and a review of its current strategy in relation to those of other major actors within the multilateral system;
 - (ii) how the contribution of social partnership to maximizing the benefits of globalization and sharing its benefits more equitably could be enhanced;
 - (iii) a more detailed examination, based on a review of successful experiences, of how effective social partnership can contribute to other aspects of good governance such as sound economic management and improved corporate governance;
 - (iv) a substantive review of the literature on the determinants of good governance and the policy guidelines that can be derived from this research.

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