



FOURTEENTH ITEM ON THE AGENDA

**Report of the Working Party on the
Social Dimension of Globalization**

**Oral report by the Chairperson of the
Working Party, Mr M. Mdladlana,
Government delegate of South Africa**

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I. Trade and employment: Panel discussion on issues arising from the joint ILO/WTO Secretariat study on challenges for policy research¹

1. I recalled that the ILO and the World Trade Organization (WTO) Secretariat had produced a joint study on trade and employment, which was published on 19 February 2007 and which was well received. It provides a thorough review of the literature on the relationship between trade and employment. The joint study was summarized in paper GB.298/WP/SDG/1, which also included some pointers for the debate. When we discussed the preparations for the meeting in November 2006, the Vice-Chairpersons and I felt that it would be interesting to have a panel debate as a means to introduce the joint study. We had a distinguished panel who launched the discussion by offering their views on the joint study and where it might lead our future work.
2. Mr Lamy, Director-General of the World Trade Organization, explained that the joint study on trade and employment was the first collaborative research project between the ILO and the WTO Secretariat. It provided an impartial overview of what could be said, and with what degree of confidence, on the relationship between trade and employment. It distinguished itself from other surveys by focusing particularly on the connections between trade policies and labour and social policies and by bringing together different streams of literature including trade literature, labour market literature, public finance and education literature. Mr Lamy said the joint study stayed away from giving policy advice but could help policy-makers to think about policy design and about the trade-offs that may be implied.
3. Mr Lamy emphasized a number of messages from the joint study as an input into the panel debate, including: that while it had been known for some time that trade both creates and destroys jobs, according to recent insights in economic thinking, trade creates and destroys jobs in all sectors involved in trade – this implied that policy-makers could not simply target import-competing sectors if they wanted to assist workers affected by trade-related job loss; that the changing nature of trade and in particular the role of offshoring was likely to make it increasingly difficult for policy-makers to predict which jobs are at risk; that modern economies need constantly to reallocate resources and trade is not the only driver of change – the smoother the reallocation process following change, the higher the prospects for economic growth; and, that while there may be reasons to believe that a trade-off exists between providing insurance for workers against adverse professional events on the one hand and economy efficiency on the other, this trade-off apparently does not need to be steep. On the latter point, Mr Lamy said that in order to reach the best of both worlds, i.e. significant growth rates with acceptable levels of risk for workers, policies needed to be well designed.
4. Addressing another aspect from the joint study, Mr Lamy said that increases in inequality were a major concern in many countries, both industrialized and developing countries, and the low-skilled appeared to be hardest hit by these changes. While trade was often blamed for the phenomenon, there was broad agreement that technological change and not trade was the main driver of these increases in inequality. That said, trade was often the vehicle carrying technology into societies and, since technological change was abstract, there was a tendency to “shoot the messenger”. As for the effects of trade reform on employment and wages particular to developing countries, the study’s main message was that knowledge of

¹ GB.298/WP/SDG/1.

this issue is highly incomplete. This was due to insufficient understanding of what happens in the informal economy.

5. Mr Lamy said a number of aspects followed clearly from the joint study: first, that trade policy interacts with other policy areas, including labour market policy, education policy and redistribution policy; second, that coherence among these policy fields helps to optimize the outcomes of trade liberalization and is likely to have positive effects on public support for trade reform; and, third, that research to support increased policy coherence could have high pay-offs.
6. Mr Lamy suggested a number of questions on which policy-makers needed better answers and on which further research was necessary. First, if there is a trade-off between guaranteeing efficient adjustments to change on the one hand and assisting workers to deal with the negative consequences of change on the other, how best to target both objectives at the same time? Second, while redistribution policies are useful to counter increasing inequality and to maintain public support for liberalization, how best to design redistribution given that it distorts incentives of those who pay and those who receive? Moreover, how best to redistribute from mobile winners (capital) to immobile losers (labour) and how to redistribute in capacity constrained developing countries. A third set of questions have to do with skills: while it is well known that the low-skilled have an increasingly hard time in modern labour markets, plenty of highly educated people do not find appropriate jobs: what exactly are the skills required in modern economies? What do well-functioning education policies look like in an integrated world?
7. A fourth set of research questions relate to achieving a better understanding of employment responses in developing countries; in this respect more information about the informal economy and the interaction between informality and trade was needed. Mr Lamy suggested further joint research work might focus on developing countries and could be useful, for example, in the Aid for Trade debate and in working towards a more solid conceptual base.
8. In closing, Mr Lamy said the present joint study was a good example of how international organizations can assist Members in making decisions in an increasingly complex and fast-changing environment. It was also an encouraging illustration of how useful collaboration can be developed between the ILO and the WTO Secretariat. Mr Lamy indicated that this initiative would be followed up and that Members' inputs were needed.
9. Mr Andrade (Minister of Labour and Social Welfare, Chile) expressed satisfaction with the common work undertaken by the secretariats of the ILO and the WTO. His Government faced an important challenge to make globalization coincide with social challenges, and had already signed 54 trade agreements leading to a preferential market of 3 billion people. He underscored the complexity between trade and employment, and indicated that the relationship between trade and employment depended on the initial conditions in countries and on the manner in which trade policies were applied. With regard specifically to his own country, he observed that between the mid-1960s and the early 1980s, deindustrialization took place, the consequence of neo-liberal policies. In the 1980s, slow recovery took place, especially in agriculture and mining, but that with the establishment of democracy, more sustainable growth was achieved. However, as the report showed, despite growth, working places were in danger in all sectors. Chile, therefore, promoted pro-active policies with the accent on employability and protection. Special mention needed to be made of skills certification and improvements in training.
10. He noted a tension between efficiency and the protection workers demanded when facing job losses. He called for a formula to be found to reconcile competitiveness and social integration. Other challenges of globalization were the fact that delocalization had limited

the bargaining power of trade unions, which had in turn resulted in greater inequality, especially for wage earners. He observed, however, that the solution was not a reduction in trade, and that social dialogue should be seen as fundamental to achieving agreements to reduce inequality, eliminate social exclusion and put in place a sound trade environment. In essence, in opening up the economy, it was important that workers were made part of the process through social dialogue, and that governments were ready to finance the social policies and protection. That was the better solution to trade restriction and one fully consistent with the ILO's Decent Work Agenda.

11. He concluded by observing that education and training were indispensable and necessary to transform economies on the basis of exports of primary products to innovation-based economies. He noticed also that the strong increase in demand for skills had increased the inequality between skilled and unskilled labour. One had, therefore, to redistribute opportunities through social policies linked to systems of flexible education in order to face new challenges. He fully subscribed to the observation that trade, labour and social policies were linked, and that greater policy coherence was needed between them to have a positive effect on trade and openness, while increasing the quality of labour.
12. Ms Pillai (Secretary of Labour and Employment, India) thanked both the ILO and the WTO Secretariat for their joint study and acknowledged it to be a very important initiative. Within this context, she welcomed if further studies were commissioned, following the recommendations that had emanated from the study. The present study concluded that trade would lead to a division of labour and was expected to trigger restructuring of economic activity, implying closure of economic activity in some areas of the globe and the creation of new firms, investment and jobs in other parts of the global economy. That could be positive or negative, depending on the country's specific factors, such as the functioning of the labour and product markets. She noted that, although efficiency gains caused by trade liberalization were expected to lead to positive overall employment effects in terms of jobs and/or wages, average wage increases might nevertheless hide considerable distributional changes that could affect workers negatively. She highlighted the fact that the joint study identified certain situations in which government interventions would be helpful by discussing different types of labour and social policies which could have appropriate efficiency effects.
13. She shared with the panel an India-specific study which endorsed some of the conclusions of the joint ILO/WTO study. Important conclusions were that, while smaller firms had high employment intensity as well as export intensity, a large proportion of such firms did not export at all, but when they did so, their export intensity was high. However, the percentage of the non-exporting firms steadily declined as one moved from smaller to larger firms; that suggested that policies should focus on small and medium-sized enterprises.
14. She mentioned also that manufacturing exports had in the past had a moderating effect on the decrease in employment in that sector, but that currently, because of rapidly declining labour intensity, the share of jobs in export-oriented manufactured products as a proportion of total jobs could actually decline. Agricultural exports might therefore account for a disproportionate and growing share of jobs because of their higher labour intensity. Ms Pillai observed that India had actually done extremely well in the services sector and in the IT and IT-enabled services sectors. She still saw room for growth, as only 10 per cent of the potential had so far been realized. In closing, she also urged the ILO to take the initiative in developing an international standard on skills portability.
15. Mr Katz (President of the International Organisation of Employers) said he was impressed by the study, but observed that trade was only one of the factors impacting on employment and labour markets. Other factors were foreign direct investment (FDI), technological

change, macro-policies and other micro-policies; all were wrapped up in the concept of globalization. He stressed that the issue was not new, as the ILO in 1987 had convened a High-Level Meeting on Structural Adjustment and Employment inviting other international organizations and dealing with essentially the same problem – how to adapt, through structural adjustment, to the rapid changes that were taking place and the pressures in the world economy. That High-Level Meeting had recommended that international organizations collaborate, each within its own mandate. He admitted that bilateral research cooperation was easier, but suggested nevertheless that multilateral cooperation research should be undertaken with other institutions such as the international financial institutions and the Organisation for Economic Co-operation and Development (OECD), which had done work on structural adjustment.

- 16.** He found current popular perceptions of the problems of trade liberalization very disturbing, and noted that they had caused a backlash against the whole notion of globalization and trade. He admitted that there was a great deal of insecurity, and that institutions should deal with that when discussing future policy. Attention therefore needed to be given to country social dialogue, active labour market policies, retraining, education for lifelong learning, portability of pensions and health insurance.
- 17.** His main concern was focused on the current debate on the Doha Round. He observed that, if that should fail, it would be a major shock and cause a good deal of unravelling. He was of the opinion that the International Trade Union Confederation, by positioning the need for new regulation of trade and investment to cope with the perceived inequities of globalization, meant the introduction of a social clause. He quoted two well-known trade economists who had observed that any renewed effort to include labour issues with regard to the WTO was likely to be the “kiss of death” and that the demands for inclusion of standards in trade treaties would be seen as continuing protectionism by rich country interest groups acting out of fear and self-interest, rather than from the altruism and empathy they occasionally professed. He also referred to current debates in the United States Congress on the Trade Promotion Authority (TPA). In closing, Mr Katz felt sorry to raise such issues, which were not covered in the report, but he was afraid that, if the Doha Round failed on the issue of labour rights, the ILO ought to be very concerned.
- 18.** Mr Trotman (Worker Vice-Chairperson of the Governing Body) welcomed the joint ILO/WTO study and noted that it should pave the way for further studies, not only with the WTO, but also with the OECD, the International Monetary Fund (IMF) and the World Bank, with a view to stimulating development for the vast masses of the people and not just for the privileged few. As trade policies and labour and social policies interacted considerably, he supported the observation that greater policy coherence could have significant impacts on the growth effects of trade reforms, and thus ultimately on their potential to improve the quality of jobs around the world. Mr Trotman posited that policy coherence must be based on the understanding that labour and social policies, as well as trade policies, should serve human development objectives. An approach that promoted a free trade agenda first, and treated labour policies second, as a repair instrument for the damage caused, was clearly insufficient.
- 19.** He cautioned against the over-optimistic view that, in the long run, all countries would win from trade liberalization; the effects on employment and wages could be negative even over a longer period. He pointed to examples in Africa and Latin America of deindustrialization due to trade reform. A related matter of concern was the current proposals for tariff restructuring. If deep tariff reductions took place across the board in developing countries in the context of WTO negotiations on non-agricultural market access (NAMA) and Economic Partnership Agreements (EPAs), the industrialization process in developing countries would be seriously undermined. A shift of the export base from primary commodities to manufacturing and modern services, through promotion of

appropriate physical infrastructure and the required skills of the labour force, was needed. He noted that the ILO's Global Employment Agenda (GEA) could assist developing countries in identifying industries with a comparative advantage. The impacts of the current NAMA and EPA proposals would, however, severely compromise that role, as spelled out in the GEA, of identifying industries and countries to move up the value chain.

20. Mr Trotman also referred to aid for trade as a possible instrument to foster restructuring. He wondered, however, whether in some instances, aid was not compensation for bad trade agreements. In his opinion, aid should allow developing countries to build up a modern manufacturing base that allowed them to use the opportunities of market access and ensured decent work. The ILO could offer assistance in areas such as the removal of supply-side constraints, competitiveness promotion, upgrading of skills, and facilitation of labour-market adjustments, social security and social protection in the informal market.
21. He was also concerned that, with reduced trade tariffs, government revenues might be significantly reduced, thus jeopardizing their spending on infrastructure and on education and training. He noted that the study did not deal with export processing zones. He quoted several experiences with export processing zones where trade union rights were not respected. Although he believed that it was important for enterprises to take advantage of the trade system, he felt that enterprises should not be allowed to take advantage of the lack of global governance to undermine national institutions and national regulations in order to acquire a disproportionate share of global wealth.
22. In conclusion, he suggested setting up a committee for trade and decent work in the WTO, as well as urging coordination and cooperation in countries between the various ministries that relate to trade, so that when governments spoke, they expressed the same ideas at the ILO, the WTO, the IMF and other bodies. He finally urged the WTO to assist the ILO by encouraging delegations to trade meetings to include a tripartite component.

Main themes of the debate

23. The panel's presentations were followed by a lively plenary discussion, both in the morning and afternoon sessions. Delegates welcomed the collaboration between the ILO and the WTO Secretariat that led to the present paper, as Malawi, speaking for the Africa group, and many others pointed out. There was a general appreciation of the high quality of the paper and its balanced nature that was shared by the Workers, Employers and Governments, and delegates offered their thanks to the Office and to the two authors of the background study. The debate took up many of the elements already made by the panel and gave further depth and detail to them. The following summary picks up the main themes of a wide-ranging debate.
24. Speakers, including the Employer Vice-Chairperson, highlighted the great positive potential of trade for growth and job creation, but several also expressed concerns about negative repercussions and trade-related job losses. The German delegate, speaking on behalf of the European Union (EU) and other countries,² recalled that both the European Commission and the European Council had emphasized that trade liberalization played an important role in achieving sustainable growth, full employment and decent work aiming at poverty reduction. However, she argued that globalization might also have negative consequences, especially for the most vulnerable and least qualified workers. The

² The candidate countries Turkey, Croatia, and the former Yugoslav Republic of Macedonia, the countries of the Stabilisation and Association Process and potential candidates Albania, Bosnia and Herzegovina, Montenegro, Serbia and the Republic of Moldova aligned themselves with the statement.

Government delegate of Canada reasoned that countries could not have growth without trade, and that without growth countries could not achieve the objective of more jobs and decent work. According to the Government delegate of China, trade promoted regrouping of resources in the light of comparative resources, and overall resulted in a more efficient and rational use of those resources.

- 25.** Other speakers took up the argument that trade led to both the destruction and creation of jobs and enterprises, and weighed the positive and negative aspects against one another. The Employer Vice-Chairperson emphasized that employment effects were principally driven by country-specific factors, one of them being a good investment climate attracting foreign direct investment. The Government delegate of Norway pointed out the tremendous advantages of globalization that had brought about high growth and poverty reduction, but also cautioned that despite impressive growth, no reduction in the number of unemployed had taken place and hundreds of millions of workers still lived in abject poverty. Speaking on behalf of the group of Latin American and Caribbean countries (GRULAC), the Government delegate of the Bolivarian Republic of Venezuela drew attention to the negative effects of trade liberalization on people in developing countries, and called for greater coherence between trade and labour market policies in order to avoid adverse outcomes. The danger of trade-related job losses was underscored by other speakers. Several Workers' delegates shared a predominantly critical assessment of some aspects of trade liberalization. The Worker Vice-Chairperson explained that workers were not opposed to open markets, but rather to the terms, sequence and selective opening of markets and the negative impact on workers' rights.
- 26.** The Government delegate of China pointed out that it was difficult to identify, in advance, people who were at risk of trade-related job losses and to provide timely and relevant assistance. The Government delegate of France argued that virtually all jobs were threatened by trade, and called for a closer integration of trade and social policies in order to facilitate a smoother adjustment process; she mentioned the challenges in respect of social security, highlighted at the recent conference in Paris. Similarly, the observer from the OECD emphasized that adjustment support policies were absolutely essential to improving the returns from globalization and to help people to move from declining sectors or jobs to those undergoing expansion. As far as developing countries were concerned, aid for trade could make a contribution to that process, an approach that was part of the EU's policy. The European Employers pointed out that it was essential to ensure that people remained employable, making full use of social protection and training policies. The Government delegate of Germany, speaking on behalf of the EU, noted that the EU had created the European Globalization Adjustment Fund to provide specific support to EU workers made redundant as a result of changes in world trade patterns, and to facilitate their reintegration into employment.
- 27.** Many delegates also said that the repercussions of trade on inequality were a major concern for them, and pointed out that low-skilled workers were often the first to be negatively affected by trade liberalization. For example, the Government delegate of Germany, speaking on behalf of the EU, recognized that distributional inequities might appear despite average wage increases. Similarly, the Government delegate of Spain emphasized that trade openness could have effects on wages and wage differentials. The Government delegate of Argentina offered the example of Argentina, where inequality had risen between the 1970s and the 1990s. The Canadian Workers' delegate pointed out that, as in Argentina, the gap between rich and poor had widened in Canada over the past 20 years, coinciding with substantial opening up of trade towards the United States and Mexico. Another Workers' delegate noted that some evidence showed that trade, not only technological change, contributed to rising income inequality.

28. Several speakers argued that such adverse distributional outcomes put the sustainability of globalization into question. The Government delegate of Norway warned that people would not accept globalization that benefited only the few; it must either be made to benefit all or mechanisms must be put in place to redistribute the gains from winners to losers. The Government delegate of Spain similarly called for greater solidarity, and the Government delegate of Cuba highlighted the need for a system for international trade with clean, balanced and fair rules, creating a macroeconomic environment that would promote equitable distribution of the benefits of trade and advance the objectives of full employment and decent work. The general concern about inequality was also shared by the Brazilian Employers' delegate, who called for consideration of an appropriate distribution of gains and warned that many workers currently did not share the benefits from trade, a situation which needed to be addressed. Another delegate, speaking on behalf of the EU, argued that trade could generate a "win-win" situation only if both social equity and economic efficiency were promoted. Effective social dialogue was therefore needed to enhance social justice and societal stability. Furthermore, the ILO/WTO study revealed the need for the design of a new employment-generating development strategy, necessitating the systematic inclusion of a wider range of countries in discussions on trade impacts. The Government delegate of South Africa pointed to the vital role of its employment equity legislation in achieving justice, economic growth and job creation. The Government delegate of China drew attention to efforts China had made to reduce income inequality.
29. In a related argument, it was pointed out that the bargaining power of workers decreased with greater trade openness. As the Argentine Workers' delegate emphasized, that underlined the need for effective social dialogue structures. The positive role social dialogue had played in Argentina was affirmed by the country's Government delegate, who said that welfare had been restored through dialogue and had led the country to a renewed path of growth. The South African Workers' delegate noted the important role of collective bargaining in sustaining and growing aggregate demand and addressing income inequality issues.
30. Continuing on the theme of the simultaneous destruction and creation of jobs and enterprises induced by trade liberalization, several speakers raised the concern that trade liberalization could lead to deindustrialization. The South African Workers' delegate warned that the African continent faced the danger of being thrown back into a position of providing agricultural raw materials and minerals to the rest of the world. That concern was shared by the Government delegate of the Islamic Republic of Iran, who emphasized that deindustrialization entailed a loss of both jobs and welfare, and by the Nigerian Employers' delegate, who said that the disappearance of the manufacturing sector was already a reality in Africa. Trade was not the sole reason for that development, which was exacerbated by bad governance, poor infrastructure and the lack of an enabling environment for businesses. Arguing along similar lines, the Government delegate of Nigeria said that many developing countries faced serious structural weaknesses in addition to a lack of the policy space that would enable them to protect local industries. The limited capacity of developing countries was also emphasized by the Worker Vice-Chairperson, who recalled that today's situation had deep historical roots linked to colonialism and the slave trade.
31. Several Workers' delegates warned that further cuts in manufacturing tariffs threatened the survival of industry in developing countries, citing the impact of the NAMA proposals on the manufacturing sector in countries such as South Africa, Argentina and Pakistan. One delegate called for an asymmetrical approach to market opening and strong focus on industrial policy. While agricultural market access was important, speakers questioned whether it was worth sacrificing manufacturing jobs through a multilateral trade agreement in order to achieve it. The Employers' delegate of Pakistan underlined the great importance of agricultural employment for developing countries, and said that an agricultural tariff

reduction in the Doha Round was crucial. Similarly, the Government delegate of Nigeria highlighted the great potential for employment creation and poverty reduction that would result from trade liberalization in cotton.

- 32.** The Director-General of the WTO, Mr Lamy, made a number of observations in response to the comments made on the multilateral trade negotiations and trade opening more broadly. He noted, for example, that both theory and practice had shown that overall the consequences of opening up markets was beneficial. Of course, it was not true for all people all the time. This was why governments, together with international agencies, needed to address the costs of opening and needed also to address the challenges of ensuring distribution of the benefits. Mr Lamy noted also that in some cases developing countries had not benefited from conditions of fair competition. However, the Doha Development Agenda provided a crucial opportunity for these aspects to be addressed. In addition, when the negotiations are completed, developing countries will still be able to avail themselves of the tool of special and differential treatment.
- 33.** Some Workers' delegates asked how the WTO could contribute to universal respect for labour standards, or at least not undermine them. The South African Workers' delegate raised the issue of tripartite delegations in WTO negotiations, pointing to the good experience of his own country. The observer from the European Commission called for reciprocal observer status between the ILO and the WTO, which could serve to strengthen and institutionalize their cooperation. Another suggestion, made by the Workers' group, was that the WTO should have a committee on trade and decent work to better incorporate labour aspects into its work. The Workers' delegate of the Netherlands concurred, and said that that position was not only shared by the European trade unions, but also by European employers and large sections of civil society which were represented in the European Economic and Social Committee (EESC). The two other main conclusions emerging from the EESC were that member States should better coordinate their respective positions vis-à-vis the ILO and the WTO, and that strengthening the ILO's supervisory system was a key element in achieving decent work.
- 34.** Delegates also touched on the controversial issue of social clauses in trade agreements. In particular, the Employers opposed social clauses in WTO trade agreements. The Employer Vice-Chairperson emphasized the relevance of the ILO Declaration on Fundamental Principles and Rights at Work in this respect. In response, the Director-General of the WTO, Mr Lamy, said that a debate on this question had taken place at the WTO but that there had been no consensus on inserting an explicit link between trade and labour in the texts. There was one exception, which was an explicit reference to forced labour. The current situation was as follows: international labour standards exist and the ILO deals with them; Members must abide by their undertakings at the ILO and WTO. In case of tensions, international law provides for mechanisms to solve them. The ILO also has mechanisms to survey compliance; and in general these tensions are to be addressed by Members themselves. Concerning the composition of WTO delegations, Mr Lamy noted that WTO Members did sometimes include worker and employer representatives in their delegations; this was a matter entirely for Members to decide upon. Mr Lamy also noted the difference between ILO as a tripartite organization and WTO as an intergovernmental organization and stressed that the Secretariat has no influence on Members' decision-making in that regard.
- 35.** Many speakers pointed out that freer trade and labour standards should not be seen as antagonistic objectives, and pointed out certain complementarities. The EU, in a statement continued by the Government delegate of Finland, noted that research had indicated that respect for fundamental principles and rights at work had a positive impact on countries' competitiveness. As noted by the South African Workers' delegate, there was considerable evidence of synergies between rights and growth which warranted further study. However,

the Government delegate of South Africa expressed concern that countries eroded labour standards in the hope of attracting trade and investment. He called on the ILO to have a thorough debate on freedom of association and social dialogue, and expressed concern at attempts to attract investment and trade at the expense of workers' rights and freedoms. He was joined in that call by the European Employers, who saw it as inappropriate to use a lack of freedom of association in a misguided effort to improve economic competitiveness. The Government delegate of Spain stressed that support for labour standards should not be misconstrued as an attempt by industrialized countries to reduce the competitiveness of developing countries, and emphasized the positive role of social dialogue in finding solutions that balanced security and flexibility. The Employer Vice-Chairperson reaffirmed the importance of the ILO Declaration on Fundamental Principles and Rights at Work as a common vision for all employers. This, however, should in no way represent a break on international trade.

- 36.** The Workers' delegate of Pakistan, equally endorsing the universal coverage of labour standards, called for the application of standards in export processing zones (EPZs). The Workers' delegate of Bahrain drew attention to the exploitation of migrant workers, and demanded that they be allowed full freedom of association and collective bargaining. The Government delegate of Nigeria also highlighted the role of migration, and drew attention to the ILO multilateral framework for a rights-based approach to labour migration as a good starting point for policy formulation.
- 37.** Throughout the debate, there was strong support for greater policy coherence from across the delegations. To name but a few examples, the Brazilian Employers' delegate argued that with appropriate policies, globalization could be good for the majority of workers, and pointed out that an improvement in employment outcomes could be achieved through better integration of economic and social policies. The Employer Vice-Chairperson mentioned the importance of policies for, and investment in, education and skills, and the role business could play in this. Similarly, the Government delegate of France called for trade and social policies to be brought together, and stressed that social standards and decent work needed to be taken into account by the multilateral system. The observer from the European Commission agreed that greater coherence could have strong positive effect on growth, employment and social cohesion. The Government delegate of India said that there was a need for faster and more inclusive growth. The Employer Vice-Chairperson emphasized the vital role of enterprise creation and development in terms of national economic and social development. Making informed choices in all policy domains was thus vital, according to the South African Workers' delegate, who warned that poorly designed trade policies could not be offset by good labour market policies. Several delegations, such as the Government delegation of Germany on behalf of the EU, acknowledged that the paper before the Governing Body was in itself a substantial contribution to greater inter-agency coherence.

Implications for the Office's work

- 38.** Delegations stressed that building a knowledge base on the interaction of trade and employment was a pivotal task for both the ILO and the WTO Secretariat. There was also broad agreement that the two organizations should deepen their collaboration to that end, and that the ILO should pursue similar research collaboration with other multilateral agencies such as the IMF, the World Bank and the OECD. There would be a high pay-off from such research if it could help the formulation of more coherent policies. Speakers offered their guidance regarding the areas on which that research might focus. Mr Lamy suggested future collaboration between the ILO and the WTO Secretariat, in particular with regard to developing countries. He received support for that idea from, among others, the Employer Vice-Chairperson, who indicated that the joint study had many messages for

the ILO's work and who endorsed the idea of in-depth case studies, in particular on the informal economy, migration and flexicurity. He also lent his support to the proposal to engage other agencies in similar cooperation, and to broaden its scope beyond trade and employment. A suggestion made by the Workers was to study the synergy between labour standards and trade competitiveness in more detail, and the Government delegate of the United States suggested that a question raised in the paper should be pursued further, namely, why the hypothesis, that wage inequality decreased with greater trade openness in labour-abundant countries, did not hold.

39. Apart from the endorsement of further collaboration with other agencies, as suggested in paragraph 33(i) of the paper before the Governing Body, there was also broad support for the other conclusions drawn in the paper. The suggestion to facilitate exchanges of information and experience amongst constituents on the social effects of trade reform was received positively, and several delegations, in particular from the Government and Workers' groups, suggested that the ILO should make efforts to strengthen the capacity of constituents in that regard. Delegates also commented positively on an effort to be made to review how ILO policies across the different domains of the Decent Work Agenda contributed to social equity and economic efficiency.
40. A novel idea developed during the deliberations was to use the joint ILO/WTO Secretariat's study in national-level social dialogue. Mr Somavia (Director-General of the ILO) argued that it could promote a better understanding of the interaction between different policy spheres and thus contribute to greater coherence at the national level and to a move away from segmentation in ministries. The idea of a follow-up to the study at the national level received broad support. For example, the Canadian Employers' delegate agreed that the report would be useful in addressing problems at the country level. Similarly, the Government delegate of Greece endorsed the idea of moving the debate to the national level, basing the diagnosis on sound data.
41. In closing the discussions, Mr Somavia put on record Mr Lamy's commitment to further and continued collaboration between the two secretariats, within the realm of their respective competences. He observed that the discussion demonstrated an important institutional breakthrough and also provided a justification for the existence of the Working Party. It was not surprising that the debate went into the issue of a fair globalization, since it was difficult to deal with trade without dealing with globalization and that the ILO, as an institution had expressed concern that, when globalization was unbalanced, it weakened social cohesion. He recalled recent statements by the heads of the European Central Bank and the Federal Reserve Bank of the United States, who had expressed concern that the benefits from the world economy were unbalanced. With the Decent Work Agenda, the ILO might have the instruments to solve some of those imbalances.
42. The report and the discussions also highlighted the role of research. He referred to the budget debate in the Programme, Financial and Administrative Committee, highlighting strategies to reinforce the ILO's knowledge base. An institution that did not do research on its own policies was an institution that was cutting itself off. The Director-General further observed that the discussion made it clear that trade, social and labour policies were intertwined, implying that every policy area had to be thought of in terms of its interaction with other policy areas. However, the system of policy-making was going precisely in the opposite direction – which was a recipe for certain policies eventually having more weight than others. In many cases, countries were not yet capable of being so internally coherent that they became externally coherent when they reached the level of international organizations. Many speakers had indeed indicated that they would like the ILO to continue work with the WTO and also strengthen collaboration with the OECD, the IMF,

the World Bank and the regional banks, either in the form of policy coherence initiatives or in other ways.

43. The Director-General stressed that many speakers raised the issue of anticipating the impact of trade liberalization, which, although difficult, had to be attempted, since poorly designed trade policies could not be corrected by well-designed labour market policies. Another issue which he found interesting was the concept of international portability of skills and the role of small enterprises not only in relation to employment creation but also to export promotion. Finally, he reiterated that the joint ILO/WTO Secretariat study could also be a very useful source for tripartite dialogue at the national level and could thus contribute to a tripartite consultation on trade negotiation, to which many speakers had alluded.

II. Growth, investment and employment: An update on policy coherence research and meetings³

44. Agenda item two, an update on policy coherence research and meetings on the theme of growth, investment and employment, was briefly presented by the Office. The Office spokesperson made two points in introducing the item: first, that, despite a half decade of quite respectable global growth, global labour market performance had clearly lagged behind. Global unemployment, both in absolute and relative terms, did not reflect output growth; the number of working poor, with two dollars a day for themselves and their families, had not shown an appreciable decline; globalization had appeared to favour skill-intensive, rather than employment-intensive, growth in developing countries; and the share of global employment in services had surpassed agriculture for the first time ever in 2006 – but without any guarantee that that equated to decent work. The second point to note was that the Policy Coherence Initiative (PCI) was but one of many systemic efforts at coordination in the system – efforts which included the Millennium Development Goals (MDGs) themselves, the UN reform and “One UN” countries, the discussion on WTO/ILO collaboration earlier that day, and the ILO/UNDP Memorandum of Understanding. In short, notions of “policy coherence” were very clearly in the wind.
45. The Employer Vice-Chairperson focused on the importance of labour market indicators as the basis on which to understand how developing country labour markets were evolving. He considered that topic to be central for the Employers, who wished to see a debate on the issue and on the indicators in the Governing Body or in the Working Party. The Employer Vice-Chairperson similarly wanted broader discussion on the “toolkit” – an ILO contribution to assisting the multilateral system in the evaluation of each agency’s impact on employment and decent work arising from their policies and programmes, and requested of the ILO by the UN Chief Executives’ Board, as a result of the recommendation from the ECOSOC Ministerial Declaration of 2006. He believed that the toolkit could be usefully discussed in the Working Party, and that tripartite discussion of its content and intent could be of value. He gave broad endorsement of the ILO’s involvement with other agencies of the multilateral system, including the Bretton Woods institutions and also regional development banks and the OECD, on the broad themes of growth, investment and jobs. He suggested two themes for further discussion of particular note: the first related to the question of migration, and the second to the informal economy. Finally, the concept of “flexicurity”, social protection framed by social dialogue, had to be a major theme for the ILO, and needed to be discussed in the Governing Body.

³ GB.298/WP/SDG/2.

46. The Worker Vice-Chairperson, while endorsing as a general point the ILO's engagement with other agencies in the PCI, issued two notes of caution. First, there was a concern over lack of "buy-in" in the PCI, and the risk that ILO interests and values might not be reflected in an effort that had been billed as "coherence". Evidence for that concern, for the Workers, came from the fifth PCI, hosted by the World Bank in April 2006, in the course of which the World Bank had appeared to downgrade the effort for "policy coherence" to one of a mere "exchange of notes". At the same meeting, the World Bank had put forward a concept of "good jobs", defined solely in terms of an income component and thus falling far short of the ILO concept of decent work. Second, an operational premise of the PCI was called into question by the Workers. The PCI, in order to promote frank and free discussion, identified its participants as participants, rather than as "representatives" of their respective agencies. The Workers would wish to have some assurance in future reports on the PCI that an institutional message was being presented at those meetings. He reiterated that the original objective of the PCI was to discuss how the economic policies put forward by multilateral economic and financial institutions support or work at cross purposes with objectives of social development and decent work, promoted by the ILO and other UN agencies.
47. In her intervention, the Government delegate of Germany, representing the EU,⁴ noted that the PCI with its associated member organizations was of the highest relevance. The PCI meetings to date had been of crucial interest. The EU was very supportive of the ILO's successful efforts to enrich those meetings with elements reflecting its comparative advantage. The EU particularly appreciated that the ILO had contributed to the spirit of creating "second generation" indicators that went beyond standard measures of employment and unemployment toward a broader definition of job quality, as discussed at the fifth PCI held at the World Bank in April 2006. The EU believed that the PCI was an appropriate response to the deliberations of the UN Economic and Social Council (ECOSOC) on bringing economic and social policy considerations closer into tandem, and wanted the PCI to be an input into the forthcoming ECOSOC Coordination Segment on the promotion of decent work, as well as that of the UN Commission for Social Development. Finally, the EU endorsed plans for a coordinated and collaborative research agenda among the PCI participants. The EU was convinced that the PCI was becoming increasingly an instrument for advancing concrete and operational objectives to achieve a coherent policy framework within the multilateral framework, each agency retaining its distinctive comparative advantage.
48. The Government delegate of Kenya viewed the importance of the PCI as an effort to overcome duplications and overlaps among the institutions involved on the question of growth, investment, and employment creation. Of particular interest to Kenya were questions raised in the fifth PCI relating to the inadequacy of labour market information. The Kenyan delegation endorsed the ILO's toolkit for mainstreaming employment and decent work across the multinational system. The IMF and the ILO shared the main objectives of full employment, which needed to be pursued in the context of the Decent Work Agenda.
49. The Government delegate of Finland acknowledged that the ILO's effort at maintaining the momentum of the PCI had contributed to a "crumbling of the firewall" between considerations of economic and social policies. The Finnish delegation drew attention to the considerations, advanced by the World Bank in the fifth meeting of the PCI, on the

⁴ The candidate countries Turkey, Croatia and the former Yugoslav Republic of Macedonia, the countries of the Stabilisation and Association Process and potential candidates Albania, Bosnia and Herzegovina, Montenegro, Serbia, and the EFTA countries, Iceland and Norway, members of the European Economic Area, as well as Ukraine and the Republic of Moldova, aligned themselves with the statement.

quality of employment. The Finnish delegation pointed out that the link between growth and employment was not simple, and that it passed through other channels, such as innovation.

50. The Government delegate of India noted that the growth process in her country had, in recent years, led to employment growth ahead of population growth, but the bulk of that growth occurred in the unorganized (informal) economy. The situation was one of duality in economic fortunes. The critical question for India was to expand the scope for decent work – good jobs – in the formal sector. The supply side mattered. The Government of India was expanding its efforts for skills upgrading and certification. India was competing on the higher level in skilled segments of the global market. At the same time, there were shortages that needed to be addressed. The Indian delegation hoped that the ILO High-Level Tripartite Meeting on Policy Coherence, which was due to be held in for Delhi from 3 to 4 April 2007, would provide food for thought on those issues.

III. ILO Forum on Decent Work for a Fair Globalization: Report on preparations ⁵

51. The progress report on an ILO Forum on Decent Work for a Fair Globalization was submitted to the Working Party for information and introduced by the Office. The Office spokesperson thanked the Government of Portugal for its offer to host the Forum during the Portuguese presidency of the EU. He noted that the details of the Forum, to be held on 1–2 November 2007 in Lisbon, continued to be the subject of close consultation with the Governing Body Officers. A central principle would be to ensure the interaction between the ILO's tripartite constituency with the various international organizations, non-governmental bodies and individuals invited to the Forum. A format of small panels, chaired by Governing Body members, could be an effective catalyst for that process. The final budget of the Forum would depend on the outcome of ongoing discussions with the Officers of the Governing Body.
52. The Employer Vice-Chairperson noted that the Forum's panels would be chaired either by a Governing Body member or by a significant personality, and observed that the gathering of participants on 31 October 2007 should not be of a substantive nature. He would wish to see a more detailed assessment of the costs of the event – the direct costs, but also the indirect costs in terms of staff time devoted to the event's preparation. All the proposed topics were of interest. The Employers would wish to see the question of job creation taken up, and, in relation to improvements in both working conditions and enterprise health, attention given to the informal economy needed to dwell not merely on the upgrading of the informal economy, but on strategies for its inclusion in the formal economy. With reference to previous comments made by the Secretary of Labour and Employment of India, the Employer Vice-Chairperson wished to endorse the importance of SMEs in growth and employment generation, and in the disadvantaged position of SMEs in terms of the need for skills upgrading of their employees and adapting to new technologies. Skills development was an essential subject for the Employers.
53. The Worker Vice-Chairperson noted that fuller planning of the Forum event would require several hours of discussion, and asked the Chairperson whether now was the right time to open such a discussion. Concerning the reply of the Chairperson that further opportunities for a full discussion among the Officers of the Governing Body would be forthcoming, the Worker Vice-Chairperson confined his remarks to a few specific points. He noted that, with a planned participation of 250 persons, the organization of the Forum's work did not

⁵ GB.298/WP/SDG/3.

seem to lend itself to full plenaries. He argued that, at a minimum, two parallel sessions, each involving one half of the participants, would be preferable. The background document and the panel discussions should underline the different components of the Decent Work Agenda as cross-cutting, with particular focus on workers' rights.

54. The Government delegate of Germany, speaking on behalf of the EU,⁶ endorsed preparations for the Forum and expressed their wholehearted thanks to the Portuguese authorities. The EU was pleased to see that the format of parallel sessions and interactive debate had been retained in the organization of the Forum. The EU held that the six subjects retained for the Forum were ones which they supported, and that they “cross-cut” deliberations in several ILO committees. The EU agreed in principle with the proposed participants to the Forum, believing that the range of participants could contribute to the dissemination of concrete ILO messages for a fair globalization.
55. In his conclusion of the debate, Mr Somavia (Director-General of the ILO) noted that the governmental community, at national and international levels, had broadly endorsed the objective of decent work. He observed that the Forum could be an opportunity to reach out to important supporters of the concept, national parliaments and local authorities being chief among them. The invitation to selected NGOs was instrumental, in that the largest and most established of those, had extensive networks of their own through which to propagate ILO messages on decent work. Finally, the academic community among others could discover a new set of issues upon which to base future research endeavours and elements in academic curricula. There was much of potential value to take away from this event. Dissemination, in short, was an important and intended outcome of the Forum.

Geneva, 28 March 2007.

⁶ The candidate countries Turkey, Croatia and the former Yugoslav Republic of Macedonia, the countries of the Stabilisation and Association Process and potential candidates Albania, Bosnia and Herzegovina, Montenegro, Serbia, and the EFTA country, Norway, Member of the European Economic Area, as well as Ukraine and the Republic of Moldova aligned themselves with the statement.