

Questions and answers on Growth, Productive Employment and Decent Work in the LDCs

In preparation for the Fourth UN Conference on the Least Developed Countries (LDC-IV), the International Labour Organization (ILO) has produced a report "Growth, Productive Employment and Decent Work in the LDCs," which argues for transformative policies for decent work in LDCs. UN-NGLS (United Nations Non-Governmental Liaison Service) interviews José Manuel Salazar-Xirinachs, Executive Director for Employment, ILO, on the key insights and recommendations of the report.

Most LDCs in the last decade experienced exceptionally high growth rates – many over 7% a year. Yet the record of decent employment creation and poverty reduction has been very disappointing. What has been wrong with the prevailing patterns of growth?

The problem is that GDP [gross domestic product] growth per se is a very limited measure of success. You have to look at the sectoral pattern of growth, at the jobs created by growth, incomes raised, poverty reduced, at broad based access to opportunity and to social services. In many LDCs the high growth is very concentrated in one or two extractive industries, and linked to very high commodity prices. That raises the average rate of growth. But people do not live on averages. In most LDCs productive capacity in manufacturing and agriculture remains limited; exports are concentrated in a narrow range of products, vulnerability to external shocks is high; average productivity is the lowest in the world, reflecting the large weight of the informal economy; from 2000 to 2009 employment grew at 2.9% – above population growth but much below GDP growth; industry is a mere 10% of total employment; the share of wage and salary workers increased only slightly from 14% in 2000 to 18% in 2008; the majority of workers remain trapped in vulnerable and informal forms of employment that cannot lift them from the poverty line.

In our report - [Growth, Productive Employment and Decent Work in the LDCs](#) - we show that a higher share of manufacturing is associated with lower volatility and better labour market outcomes, that is, a lower level of working poor and a higher level of productivity. There is a clear contrast between African LDCs and Asian LDCs. The Asian LDCs have a higher proportion of manufactures and a more diversified production structure. We argue that promoting growth of manufacturing has important developmental effects. And, we reiterate what should be obvious: that "what a country produces matters", and that the policy challenge is to accelerate and sustain growth, but also to improve the quality of this growth, in terms of a more diversified production structure and a more socially inclusive, job-rich pattern of growth.

What would it take to fundamentally transform growth patterns to dramatically increase quality job creation in LDCs over the next decade?

If you accept this argument about the quality of growth, then you must also accept that there is a very important role for the State, for planning, and for policy coordination and coherence in LDCs to accelerate growth, improve its quality and its job creation content. It is not simply a matter of leaving markets alone or of promoting free trade. The strength of the private sector and entrepreneurship is unleashed where conditions are right. The question is what are the right conditions? The State must create a good environment for enterprises, facilitating investment via a good macroeconomic and regulatory environment, improving public services and institutions, engaging in massive investments in education and training, as well as essential infrastructure. In all successful catching up countries the State has been proactive, not passive, in promoting productive transformation and upgrading. The main development policy challenge is one of upgrading capabilities of individuals, enterprises and public institutions at all levels. The real wealth of nations is its people, not its natural resources. If a country is blessed by having natural resources the blessing is the opportunity to invest in its people, not the concentration of rents for a small proportion of its citizens.

In the report we identify several avenues to transform growth patterns.

First, there has been a long history of neglect and therefore stagnation of agriculture. There was lack of investment in infrastructure, too rapid agricultural trade liberalization and dismantling of State support to farmers. Agriculture should return to be a high policy priority, with a focus on integral support to small farmers.

Second, the failure to promote manufacturing and industrialization is a mistake. In only four LDCs did manufacturing account for more than 15% of GDP in 2009. In 30 out of 49 it does not exceed 10% of GDP. In more than half of LDCs its share of GDP actually fell over the past 20 years. LDCs should have a view on manufacturing and actively promote it because manufacturing contributes to higher productivity, to learning of production skills and to economic diversification. A highly productive services sector is usually linked to a thriving manufacturing sector. Without manufacturing, a large part of services tend to be low productivity, informal economy services.

Third, investment in infrastructure is also key. The way infrastructure is built and maintained can make a large difference in the employment multiplier effects. LDCs should insure that their infrastructure investments are not only enhanced but are designed and implemented with the specific objective of boosting employment.

Fourth, education, training, trade, investment and technology policies are the engines of productive transformation and productive employment creation. Education policies should be part and parcel of industrial development policies. The report shows that in successful catching up countries, educational attainment, measured by average years of schooling (AYS) preceded productive transformation. Countries with lower AYS have much smaller shares of manufacturing in GDP. Countries with higher AYS have higher shares of manufacturing in GDP and higher levels of diversification. There should be clear links between education and training policies on the one hand and industrial and productive transformation policies, on the other. A job rich catching up process is about promoting rapid processes of upgrading and learning.

Fifth, in LDCs less than 10% of the economically active population has access to social protection and less than one in 20 elderly receive an old age pension. Effective social protection policies are a key investment in human development and a contribution to growth and productive employment.

Sixth, respect for workers' rights. LDCs have not fully developed the governance structures necessary to comply with international obligations, including ILO Conventions, and face serious challenges in the implementation of them due to lack of capacity and resources. Fifteen of the 49 LDCs have not yet ratified one or more of the ILO eight fundamental Conventions, while 47 of the 49 countries have not ratified one or more of the four ILO governance instruments.

What you describe implies a fundamental change in the mindset of donors and international financial institutions (IFIs) towards accepting a more proactive role of the State in the economy, including more employment friendly macroeconomic policies....

Yes, indeed. In terms of the IFIs, they have now widely recognized many of the policy mistakes in their prescriptions for LDCs in the past: the neglect of agriculture, the belief that infrastructure could be built by the private sector alone, the belief that free trade alone would unleash exports without sufficient attention to the investment climate and supply side restrictions, the ideological bias in favour of ideal textbook markets and against a proactive role for the State and public policy. They also had a too narrow conception of macroeconomic balances and policy. Donors incurred in their own mistakes: many emphasized "assistentialist" programmes focused on social transfers and services to the poor and did not see that the best and most sustainable social policy is a good productive job. In short, the productive transformation agenda, and with it many key issues to transform the economic development pattern, have been systematically neglected and this is what we emphasize in our report.

The ILO Report for LDC-IV breaks a "taboo" in mainstream development policy circles, namely that trade protection, with the right safeguards, can be used by less developed countries as a tool to develop new industries and diversify. It notes that there is still policy space for LDCs to do this within multilateral trade rules, but this policy space is drastically reduced in bilateral free trade agreements, including EPAs. Should the decent work impact of these North-South bilateral trade deals be looked at more seriously, especially in the case of LDCs?

Trade policy in LDCs is a very important issue that must be seen with fresh eyes from a development perspective. Taboos are not useful for good policy and we do provoke policy makers to think outside of the box. Nobody questions that integrating to the world economy and doing business with the rest of the world through trade and investment is crucial for development, but does this mean that a one-size-fits-all free trade policy is optimal always and in all sectors? Or that reasonable levels of protection or export promotion are always bad? Unfortunately, the answer to these questions has been oversimplified. Trade policy choices

depend on the level of development, size of the market, and sequencing and timing issues are key. This is what the history of today's developed countries show. It is also what the experience of the Asian tigers show, and that of Latin America. Regional integration is also very important.

In LDCs, trade liberalization has not led to significant export diversification. On the contrary they show increased concentration. What you observe in LDCs is trade opening but with relative lack of trade integration. This is due to a whole host of competitiveness and supply-side constraints and also non-tariff barriers in export markets.

Another finding of the report is that trade openness increases growth volatility in countries with low export diversification, and reduces it in countries with more diversified production structure. So less diversified economies are more vulnerable in terms of volatility. We also refer to findings that LDCs show a "high death rate" of bilateral export relationships as they have problems in maintaining and growing stable and lasting trade relations.

And yes, we argue that multilateral trade rules allow some space for LDCs to use incentives and industrial policy, but that is not the case with bilateral FTAs.

Tell us why social dialogue and broad participation in policy frameworks are so important in strengthening developmental governance in LDCs? Could this encourage LDCs' development partners to take a more genuine approach to "country ownership" of national development strategies?

Developmental governance is an important concept that on the "what" question refers to issues such as those mentioned above and on the "how" question refers to the need for a national vision transformed into clear plans and strong institutions as well as mobilization of social partners towards that vision and plans and transparency and evaluation of the results of policies. This sense of purpose, commitment and mobilization can only be achieved through solid social dialogue and participation. Country ownership cannot be just government ownership. Social partners must also own the policies and hold public institutions accountable for results.

The ILO report for LDC-IV suggests that "developing employment guarantee programmes may well be a way to cut structural unemployment and seasonal surplus labour in LDCs." Tell us more about the opportunities and challenges of developing such kinds of schemes in the coming years.

Public Employment Programmes (PEP), such as Employment Guarantee Schemes (EGS) complement employment creation by the private sector, and offer an additional policy instrument with which to tackle the problem of un(der)employment, as part of wider employment and social protection policy. They can take different forms and straddle a spectrum of options from short-term emergency employment programmes, to more long-term public work programmes, to universal employment guarantee schemes. PEPs allow for the scaling up and down of employment offers, in times of both financial crises and natural disasters, but also facing seasonal surplus labour. Public employment programmes should also be reduced in scale during the times of peak labour demand so as not to compete with these other economic activities. If the work on offer is exploitative and at unacceptable working conditions, PEPs can also be used to offer workers an alternative, even during peak seasons, and so contribute to achieving minimum standards and conditions of work.

The ILO campaign around “social protection floors” seems to have won the economic argument that social protection is an investment, not a cost. But what about its affordability in LDCs?

Yes, we are very glad our campaign is changing mindsets around this issue and influencing policy. The extension of social protection coverage in LDCs is especially urgent, but also faces severe financial and fiscal constraints. The Social Protection Floor concept emphasizes a set of minimum social security guarantees for all, including a minimum level of income for those in need, as well as effective access to health care and other social services. These can build, as far as possible, on existing social protection mechanisms, and should be coordinated with employment policies. It is clear, however, that in many countries, implementation needs to be sequenced, starting with modest programmes responding to the most urgent needs, which can then be gradually extended in line with national priorities, and financial and administrative capacities. For example, Nepal introduced a social pension scheme in 1995, providing a social pension to older women and men over age 75 and poor widows, and recently reduced the age threshold to 70 years. This example shows how programmes can gradually expand from a modest basis, even in very poor countries.

External assistance can indeed help accelerate the implementation of a social protection floor. Ideally, such transitional assistance should be embedded in the national strategy for social and economic development and policy planning mechanisms, with a view to gradually tapering off external assistance in line with a gradual expansion of domestic fiscal space. Resource-rich LDCs enjoy an advantage in this regard. Resource-poor LDCs will find it more difficult and may have to draw on external assistance for a longer period, yet there is no way around greater investments in social protection if countries want to promote their most valuable resource: their people.