



## Governing Body

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### High-Level Section

*Working Party on the Social Dimension of Globalization*

HL

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### FIRST ITEM ON THE AGENDA

## Trade and employment: Review of recent studies

#### Purpose of the document

This paper presents findings from two recent high profile volumes edited and published by the ILO. It describes how evidence from these publications has been channelled into the policy debate at international and national level. The paper invites the Working Party to review the findings of the publications and the policy directions they suggest.

**Relevant strategic objective:** Employment (Create greater opportunities for women and men to secure decent employment and income) and Policy Coherence.

**Policy implications:** See paras 21–29.

**Legal implications:** No.

**Financial implications:** No.

**Follow-up action required:** Yes, see paras 21–29.

**Author unit:** EMP/TRENDS and INTEGRATION.

**Related documents:** GB.309/17.



## I. Background

1. In recent decades, many economists and policy-makers have asserted that trade liberalization has a strong potential to contribute to growth and that the effects will automatically be beneficial for employment. In particular, the job creation potential of exports has frequently been used as an argument in favour of trade liberalization. For many years, however, survey evidence has reflected concern about some of the effects of globalization on jobs, wages and job insecurity.<sup>1</sup>
2. The 2004 report of the ILO World Commission on the Social Dimension of Globalization, *A fair globalization: Creating opportunities for all*, highlighted the significant potential of globalization in terms of increased connectivity and productive capacity. It also concluded, however, that the potential has not materialized for many men and women around the world, whose aspirations for decent jobs, livelihoods and a better future for their children in the context of open markets have not been met.
3. Very recently, trade policy-makers' interest in trade and employment linkages has increased significantly as a result of public concern that the effects of trade reforms on the labour market might be a major reason for the sluggish progress being made in trade negotiations at regional and multilateral levels. The increased protectionist sentiments highlighted by some observers have also frequently been attributed to public concerns about the effects of trade on the labour market.
4. This increased interest in trade and employment linkages among trade policy-makers is, for instance, reflected in the creation in 2010 of the International Collaborative Initiative on Trade and Employment (ICITE) by the Organisation for Economic Co-operation and Development (OECD). It is also apparent in the request by the International Chamber of Commerce Research Foundation (ICCRF) in 2009 to the ILO and the World Trade Organization (WTO) to produce a joint volume on the social sustainability of globalization. Last but not least, the theme of trade, productive capacities and employment was explicitly addressed during the meeting of the Trade and Development Commission of the United Nations Conference on Trade and Development (UNCTAD) in June 2011.<sup>2</sup>
5. Against this background, the International Labour Office launched two major publications on the theme of globalization and labour markets in September and October 2011. Both publications make a constructive contribution to the ongoing debate on trade and employment linkages at the national, regional and global level. In particular, they make proposals on how the coherent design of trade and social policies can contribute to the promotion of quality jobs with adequate levels of protection in the context of open markets.
6. The first is an ILO–WTO co-publication entitled *Making globalization socially sustainable*, for which the ICCRF provided funding. The second is a publication entitled *Trade and employment: From myths to facts*, which was funded by the European Union (EU). Edited by the Office, both volumes consist of chapters contributed by external authors including high-profile academics such as David Blanchflower, Carles Boix, Olivier Cadot, Margaret McMillan, Nina Pavcnik and Dani Rodrik.

<sup>1</sup> See, for instance, the survey evidence quoted in Chapters 3 and 5 of M. Bacchetta and M. Jansen (eds): *Making globalization socially sustainable* (Geneva, ILO–WTO, 2011).

<sup>2</sup> See UNCTAD document TD/B/C.I/15, paras 23–30.

7. *Making globalization socially sustainable* revolves around three themes: trade and employment, trade and inequality, and trade and uncertainty. Three chapters were commissioned on each of these themes.<sup>3</sup> Some chapters provide an overview of existing academic evidence on relevant economic linkages while others examine policy issues such as the role of social protection in labour markets exposed to external shocks, the role of redistribution policies in a globalized world and the role of education policies in making globalization more inclusive.
8. *Trade and employment: From myths to facts* is one of the outcomes of an EU-funded technical assistance project.<sup>4</sup> The book aims to assist in meeting the following three objectives: (i) filling knowledge gaps by taking stock of the existing evidence on trade and employment with a focus on work using recent methodologies and datasets and on work that pays special attention to the functioning of labour markets; (ii) contributing to the design of tools that governments, social partners and experts can use to evaluate the employment effects of trade; and (iii) contributing to the design of policy mixes that promote quality jobs with adequate levels of protection in the context of open markets.

## II. Findings

9. The findings of *Making globalization socially sustainable* are best summarized in the publication's foreword, which is signed by the WTO Director-General, Pascal Lamy, and the ILO Director-General, Juan Somavia. As the foreword notes, the volume highlights three challenges policy-makers face in relation to the social sustainability of globalization. First, the structure and levels of employment emanating from increased openness can be more or less favourable to the labour force and to economic growth. Second, openness – while helping to buffer domestic shocks – can increase the vulnerability of labour markets to external shocks, as witnessed during the Great Recession.<sup>5</sup> Third, the gains from globalization are not distributed equally and some workers and firms may lose out in the short and even medium term.
10. The book's overall policy conclusions reinforce the view that trade, employment and social policies need to be pursued together. While globalization is seen as a potential source of growth and poverty reduction, a range of conditions need to be in place in order to maximize its benefits and ensure that those who are affected negatively are compensated. The publication's findings therefore suggest that there is an important role for governments in investing in public goods and strengthening the functioning of different markets that are crucial for smooth and growth-enhancing reallocation processes. The important role of social protection in open economies is emphasized in the book and the analysis highlights the need to adjust social protection systems to local conditions.<sup>6</sup> Contributions to the

<sup>3</sup> None of the chapters explicitly deals with the relationships between international trade agreements and international labour standards.

<sup>4</sup> Technical assistance project INT/07/15/EEC entitled *Assessing and addressing the employment effects of trade*.

<sup>5</sup> The extent of the employment impact of such negative shocks has been quantified in the cases of India and South Africa in D. Kucera, L. Roncolato and E. von Uexkull: "Trade contraction and employment in India and South Africa during the global crisis", in *World Development*, 2012, <http://dx.doi.org/10.1016/j.worlddev.2011.11.003> .

<sup>6</sup> These findings echo those of an earlier ILO publication that focused on the employment effects of trade during the Great Recession – see M. Jansen and E. von Uexkull, *Trade and employment in the global crisis* (Geneva, ILO and Academic Foundation, 2010).

publication also highlight the role that education and skill-development policies play in strengthening the labour force's ability to adjust to change and ensuring a wider distribution of the gains from trade.

11. The findings of *Trade and employment: From myths to facts* are in line with those above and add some additional evidence. Based on analyses of the informal economy and countries' supply responses to trade reform in terms of export diversification, this publication's findings confirm that the effects of trade liberalization on the levels and structure of employment depend on national institutional settings and on the functioning of relevant markets at national level. The publication highlights a number of measures governments can take to strengthen the supply response of their economies and the resulting employment creation. The role of infrastructure is highlighted, as is that of workers' education and skills.
12. *Trade and employment: From myths to facts* also provides a detailed analysis of the adjustment phase following trade liberalization, focusing on labour market effects. Trade reforms do not appear to have a strong negative effect on unemployment rates, but the costs for unlucky individuals can be substantial. In line with the ILO–WTO publication, this volume argues that well designed social protection systems can be very effective in facilitating adjustment processes, particularly if they contain unemployment insurance components. From an economic perspective, strong social protection systems appear to be preferable to targeted trade adjustment assistance, although the latter may be justified on economic grounds if the negative impact of trade reforms is very concentrated and takes the form of, for instance, mass lay-offs in specific locations.
13. The ILO–EC publication also finds that gender aspects of trade need to be addressed through gender equity policies, as trade is unlikely to reduce gender inequality. A more equitable distribution of benefits from trade expansion can only be achieved if gender differences in employment are low with respect to the distribution among sectors, occupations and skill levels. An important policy recommendation for governments is, therefore, to pursue general gender equity policies with the aim of increasing women's employment options through, for instance, education, childcare provision and alleviation of unpaid workload.

### III. Dissemination of findings at international level

14. In the hope that the two publications will contribute to enhanced policy coherence, the dissemination strategy for both volumes has aimed to ensure their visibility in the global policy community, particularly the trade community. To that end, both volumes have been presented at a range of events hosted by, or jointly organized with other, relevant institutions.
15. The ILO–WTO co-publication was first launched at the WTO secretariat in Geneva during the WTO 2011 Public Forum. It was subsequently presented at the Peterson Institute for International Economics, a high-level think tank based in Washington, DC. *Trade and employment: From myths to facts* was first launched in Brussels at the European Commission headquarters. It was launched in Geneva at a joint ILO–UNCTAD event in January this year.
16. Findings from both volumes have also been presented at different events in the context of the OECD-led ICITE initiative, notably at the regional events in Tunis and Santiago de Chile and at the OECD Trade Committee meeting in Paris in December 2011. Findings

have also been presented at a workshop organized at the World Bank headquarters in Washington, DC.

#### **IV. Impact of findings for policy coherence at national and international level**

17. The joint OECD, ILO, World Bank and WTO final report to the G20 Summit meeting in Seoul on 11 and 12 November 2010, entitled *Seizing the benefits of trade for employment and growth*, benefited from ongoing work for the two publications mentioned above. The G20 report underlines the fact that trade opening must be complemented by properly designed domestic policies, including employment and social protection policies to ensure that benefits from trade are widely shared. This argument was also taken up in the address of the WTO Director-General, Pascal Lamy, to the Working Party on the Social Dimension of Globalization on 15 November 2010.
18. The book launch at UNCTAD took place during the preparatory period for the UNCTAD XIII conference, which will be held in Qatar from 21 to 26 April 2012. The launch was well attended by staff of Geneva-based UN missions, particularly those involved in conference preparations. There were numerous indications at the event that findings from the publication may be incorporated into background documents for the UNCTAD XIII conference.
19. Insights gained from the two publications have been influencing ILO activities within the United Nations system Chief Executives Board (CEB) Inter-agency Cluster on Trade and Productive Capacity and guiding the ILO proposals within the Cluster on country level United Nations Development Assistance Frameworks (UNDAFs).
20. Based on the evidence discussed above on the role of education and skills for export diversification and economic growth, the ILO has begun to develop a technical assistance tool called Skills for Trade and Economic Diversification (STED). STED is a methodology that provides guidance for the integration of skills development in sectoral policies.<sup>7</sup> It is designed to support growth and decent employment creation in sectors that have the potential to increase exports and contribute to economic diversification. As such, it is expected to appeal to donors working in the field of trade-related technical assistance and relevant line ministries (e.g. trade, economy, industry) at the national level.

#### **V. Driving coherence: Opportunities for ILO evidence to be used by partner agencies**

21. Part II(C) of the ILO Declaration on Social Justice for a Fair Globalization requests ILO to invite other international and regional organizations to “promote decent work, bearing in mind that each agency will have full control of its mandate”. The calendar year 2012 provides a number of opportunities for the ILO to address trade and employment issues with other agencies.
22. In April 2012, the UNCTAD XIII ministerial conference will take place. The two publications discussed above may help to add an employment and social protection dimension to the discussions.

<sup>7</sup> More information can be found at <http://www.ilo.org/sted>.

23. The WTO Public Forum in September 2012 will provide another opportunity to discuss the theme of trade and employment and the policy implications of the publications' findings.
24. In May 2012, the OECD Ministerial Council Meeting is likely to address the theme of trade and employment, given that the OECD plays the lead role in the abovementioned ICITE initiative. Three messages from the publications are particularly relevant to ministers' discussions: (i) trade openness can contribute to growth and employment if it is complemented by appropriate flanking measures; (ii) open markets accompanied by strategic education and skill policies can contribute to lowering unemployment, including youth unemployment; and (iii) strong social protection systems can help to increase support for trade opening.
25. While the role of infrastructure and other trade facilitation measures for countries' supply response have been the subject of much attention from trade policy-makers, there has been less focus on the relevance of education and skills policies for supply response. On the basis of the evidence presented in this paper and the two related publications, the relevant international agencies could be invited to examine whether, and how, education and skills policies can be successfully integrated into trade and foreign direct investment (FDI) strategies. This could take the form of new analytical work, possibly in a joint undertaking with the ILO. Partner agencies may also wish to examine whether Aid for Trade can play a role in helping countries to integrate education and skills policies in their trade and FDI strategies.
26. The World Commission on the Social Dimension of Globalization has highlighted the need for a global commitment to deal with social and economic insecurity as a necessary condition to provide legitimacy to the globalization process.<sup>8</sup> This idea is now widely accepted, as illustrated in the report entitled *Social protection floor for a fair and inclusive globalization*, which was prepared by the Advisory Group, chaired by Michelle Bachelet.<sup>9</sup> Yet the link between trade policies and other policies related to globalization and social protection floors is rarely made, with the exception of the occasions described in paragraph 17 of this paper. Relevant trade-related international agencies could be invited to examine whether, and how, support can be given to the development of social protection systems in open economies or economies in which further trade reform would be considered. Partner agencies may wish to examine the possible role of policy sequencing and of Aid for Trade in this context. The option of making explicit reference to mechanisms like the UN Social Protection Floor Initiative in the technical assistance components of trade agreements may also be examined.
27. In addition, the Office is conducting further research into the determinants of supply response and employment creation (see paragraph 11) in the context of two publications that are currently under preparation, one entitled *Capabilities for productive transformation and employment* and a joint ILO–UNCTAD edited volume, which is likely to be entitled *Growth, productive transformation and employment*. This work is being conducted in response to the 2010 conclusions of the Committee for the Recurrent Discussion on Employment (International Labour Conference document C.E./D.33) and will be a useful addition to the two volumes discussed in this paper. Given the important

<sup>8</sup> GB.310/WP/SDG/1, para. 1.

<sup>9</sup> [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_165750.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_165750.pdf).

role of the agricultural sector for employment creation, a separate volume on agriculture, trade and employment is currently under preparation in cooperation with UNCTAD.<sup>10</sup>

- 28.** The Working Party is invited to review the findings of the two publications discussed in this paper and the policy directions they suggest.

<sup>10</sup> Work on this volume is being undertaken in the context of the technical assistance project INT/07/15/EEC also mentioned in footnote 4.