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**Comments by Jose M. Salazar-Xirinachs, Executive Director, Employment Sector, ILO at Roundtable 8 on:**

**“Strengthening UNCTAD: Enhancing its development role”**

On behalf of our Director-General, Mr. Juan Somavia, I would like to thank the invitation to the ILO and to be present in this panel.

UNCTAD XII this week in Accra is addressing one of the major challenges of the 21<sup>st</sup> century: how to harness globalization for development. In this sense I would like to congratulate UNCTAD for keeping the focus on the relevant issues: Is globalisation a leading cause of rising inequality? Does it tend to increase or reduce poverty? What impacts does it have on growth and employment? What needs to be done by countries and how can the United Nations and multilateral system best contribute to development under globalization? These are the key questions.

Like UNCTAD, the ILO has done a significant amount of research on these questions and they have been subject to extensive tripartite debate. One of our contributions was the convening of a “World Commission on the Social Dimension of Globalization” of which President Mkapa was a distinguished member and Co-Chair.

In fact, the ILO’s response to globalization is precisely what we call the Decent Work Agenda and its four interconnected pillars: promotion of full and productive employment; expanding social security; respect for fundamental principles and rights at work and promoting social dialogue and participation.<sup>1</sup>

I want to call your attention to the fact that conceptually the Decent Work Agenda, in addition to being based on values and international labour conventions that provide a social floor for globalisation, is also a policy approach that is anchored on the challenges of modernizing the production structure and creating productive employment via the promotion of sustainable enterprises, entrepreneurship, innovation and technology, via investing in education and skills for workers, and also via appropriate trade and investment policies. In other words, the themes at the core of the ILO and those at the core of UNCTAD are quite closely related. “Productive capacities matter” says UNCTAD. “Productive employment and decent work matter” says the ILO. In fact, these are two sides of the same coin. Employment and decent work is the key factor behind productive capacities. It is employers and workers who make enterprises run, grow and create wealth and development... if conditions are right!

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<sup>1</sup> This is an integrated and balanced articulation of policy areas that has sharpened the focus on how to deal with some fundamental development issues in the context of globalization. And this is not simply an agenda that the ILO has invented... it is the agenda that people everywhere cares about. This is why it has been increasingly recognized as useful to connect sometimes abstract policy discussions with the concrete impacts policies have on the opportunities and challenges men and women face in their work and life. And this is why making decent work a global goal has been in itself a major improvement to respond to globalization.

These themes now occupy a central place in the international trade, globalization and development debate. But this was not always so, particularly they were not always so in the Bretton Woods institutions. Now, at last, things seem to be changing, and at least in terms of the focus of the international development debate, they are changing in the right direction. As Mr. Sutpachai's report to this Conference says, it is no longer just a matter of "getting prices right", but of "getting development right", it is no longer a matter simply of "getting the macroeconomic balances right" and deregulation, but of productive transformation and smart regulations.

This rebalancing of approaches to development has not been easy, and it is still work in progress. UNCTAD, the ILO and other UN agencies have contributed to it and this is why the work of UNCTAD and other agencies, with high quality research and policy advice, as well as capacity building on these issues continues to be so important.

I fully agree with the opinion of the *Panel of Eminent Persons* that UNCTAD should continue to be a leading think tank on development issues, firmly anchored in the three pillars of its work. In fact, I would like to argue that with globalization, and in a world that is changing so quickly, the role of UNCTAD is more important than ever and needs strengthening.

To justify this argument I would like to comment on seven lessons in seven areas that I think we have learned, or should have learned, from development experience and to which UNCTAD has contributed. However, there is still controversy and knowledge gaps around them. And I think UNCTAD can enhance its development role precisely by continuing to engage and having intellectual leadership in all of them.

## **I. Key development issues**

### **1. Diversity and the Need for Policy Experimentation and Innovation**

The first lesson is that there is no one-size-fits-all or "magic bullet" for development. We cannot pretend that we know for sure how to promote growth and development in particular situations. We know the general principles and we can all make long and comprehensive checklists of important "to do" things, but in fact, let us be honest, there is significant uncertainty among economists as to the exact policy mix that can maximize growth in particular situations.<sup>2</sup> This requires a very good knowledge of local capabilities, constraints and opportunities and this in turn can only be achieved by well informed consensus building, social dialogue, and local institutions with good policy formulation and implementation capacities.

As Dani Rodrik has argued: "If Latin America were booming today and China and India were stagnating, we would have an easier time fitting the world to our policy framework. Instead, we are straining to explain why unorthodox, two-track, gradualist reform paths have done so much better than sure-fire adoption of the standard package."<sup>3</sup> So things are not as simple as to just recommend countries to put on what Thomas Friedman calls the "Golden Straightjacket"!

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<sup>2</sup> Rodrik (2007a).

<sup>3</sup> Rodrik (2007b), p 55.

We know that it is essential for countries to focus on identifying constraints on growth and removing them. The most notable constraints include inadequate finance; bad infrastructure (electricity, telecommunications, transport); low levels of human capital, knowledge and technology; large risks (such as property rights uncertainty or macroeconomic instability); and, very important, low capacity to identify, discover and develop higher productivity activities.

But how to sequence the different policies in particular situations remains a challenge. And, besides, it is not just a matter of passively removing restrictions and creating an enabling environment, but also of proactively and intelligently promoting activities and sectors with increasing returns and dynamic benefits and emulating international good practices.

The international community has a big role to play in this respect, via trade and other rules, aid and other financing mechanisms. Given the uncertainty about what triggers and sustains growth, part of this role is to provide countries with space for policy learning, experimentation and innovation. Policy space in this sense is an important concept that still remains subject to controversy, and UNCTAD is an important forum to discuss it and clarify it.

## 2. Growth matters but the pattern of growth also matters

Second, we have learned that while growth is essential for creating jobs and reducing poverty, the sectoral pattern of growth also matters. The ILO has insisted a lot on this, as has UNCTAD. We have documented how the employment content of growth has been diminishing in many countries and regions, in some cases even to the extreme of producing so-called “jobless growth”. It is important to increase the employment content of growth. This takes us back to the whole issue of how to diversify the production structure, the role of dynamic industrial and services sectors, and to many of the policy messages in the important UNCTAD 2006 Least Developed Countries Report on “*Developing Productive Capacities*”.

The ability to sustain economic and productivity growth in developing countries is critically associated with at least three factors: (1) capacity to diversify the production structure, that is, to attract investment into new activities; (2) capacity to strengthen linkages not only with global value chains but within the country; and (3) capacity to create domestic technological capabilities. Skills upgrading is a critical factor underlying all these capabilities.<sup>4</sup>

Research at UNCTAD, the ILO, regional economic commissions and other institutions has significantly contributed to the ongoing rediscovery, by the mainstream of the international development community, of the importance of

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<sup>4</sup> For instance, the fact that seven or more of every ten jobs in Latin America in the last 15 years have been created in the informal economy goes a long way in explaining the underlying growth failure in most Latin American countries, hidden to some extent behind the growth boost provided by the commodity boom. Economies need to diversify into dynamic agricultural, industrial and service sector activities with increasing returns and high productivity growth. Many studies have shown that countries that have integrated into the more dynamic world markets have performed better than those that have specialized in primary commodities and natural-resource intensive goods.

productive transformation policies, of enterprise development, of investment in human capital, of the role of science, technology and innovation in productivity. All these topics have always been high priority in the intellectual history of UNCTAD, in its research, policy consensus and capacity building agenda, and this has been and continues to be a significant contribution by UNCTAD. The state of the art discussion yesterday on “Harnessing knowledge and technology for development” is a good example.

To this, the ILO brings a particular focus on the labour-market side of the productive transformation policies. Our point in this respect is that if a country wants to increase the employment content of growth and reduce poverty it needs to “get its economic activities right”.

### 3. The role of trade and trade liberalization in development

The third lesson concerns the sensitive issue of the role of trade integration and trade liberalization in development, at the very heart of UNCTAD’s mandate. In my view, the right lesson to draw is that trade integration is not exactly the same as trade liberalization, and that while trade liberalization is important for growth and development, a lot depends on **how** and **when** it is done, and **what** are the initial conditions. A simple focus on trade liberalization as a general formula for growth and poverty reduction is misleading and simplistic. This is not to argue in favour of protectionism. Economic openness is much more favourable to growth and poverty reduction than a general inward-looking economic policy. But the fact remains that most high performing countries have integrated with the world economy by using unorthodox approaches to trade reform, which combine relatively long periods of nurturing and support for domestic industry with the establishment of Export Processing Zones (EPZs) and proactive investment attraction and export promotion policies.

On the timing of free trade, for instance, I think the option of Central American countries to have a Free Trade Agreement with the United States makes sense for them, but this does not mean that it makes sense for each and every country at any time. These countries are doing this after four decades of promoting industrialization through import-substitution, during which important industrial skills were developed. Their combined domestic market is small: it does not reach 50 million people. They have a strategic geographical location at the crossroads by air and sea routes to major markets, with coasts both on the Atlantic and Pacific Oceans. Therefore their strategy of becoming efficient logistical and production platforms for exports of goods and services and agricultural goods to those markets and to further connect with global production chains via free trade seems appropriate under these circumstances. The options and timing for large countries, or countries with a different economic policy history and minimal previous industrial skills and learning, might be quite different. In other words, initial conditions matter.

Thus, in the design of international trade rules countries, particularly the least developed, should be given policy space and flexibility and should be encouraged to find their own solutions to promote growth. Important progress has been made in this regard. For instance, the European Consensus on Development recognizes the

principle of differentiation. The WTO has carved out a series of special treatments and flexibilities for least developed countries and small economies, an approach actually invented by UNCTAD. The World Bank is at present in an effort to align its policies under the heading of “Inclusive and Sustainable Globalization” although how this is going to translate into country programmes remains to be seen. The Aid for Trade initiative was launched in recognition of the fact that trade opening by itself will not promote growth and that the challenge is to find the right way to combine trade liberalization with other public policies aimed at strengthening infrastructure, human capital, innovation or enterprise development to boost the supply response of the economy.

#### 4. The role of agriculture

Fourth, since a majority of the poor in many developing countries live in rural areas, policy makers should be concerned with rural development policies, both on-farm and off-farm, including with promoting the synergies between urban and rural areas and identifying sectors and value chains that could have the largest growth and employment linkages as a result of trade policy changes and with promoting their expansion.

The present global food crisis has brought a sense of urgency and a new dimension to this question. Given the magnitude of the crisis and its wider and longer term implications, actions are needed under an integrated approach combining action at national and international levels, and short- and long-term measures. In that regard, the decision being considered at this 12<sup>th</sup> UNCTAD Conference to establish a task-force to explore ways to stabilize world food prices and plan long-term solutions to food security challenges is a step in the right direction.<sup>5</sup>

#### 5. The role of the state

The fifth lesson I would like to refer to has to do with the role of the State. Economic policies and reforms cannot continue under the mistake of focusing only on the agenda of reducing the role of the State, ignoring that the State is at the heart of the social pact in each country. Without an effective State it is almost impossible or ineffective to implement development policy, be that macroeconomic policy, social policy or trade negotiations. The idea that the State must “simply get out of the way” is wrong, unless one is thinking of unnecessary regulations, red tape or corruption. Strengthening the capacity of the state institutions to provide services, and have good governance and social dialogue are important development challenges in and of themselves.

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<sup>5</sup> In the short term, what is most important is to protect the already precarious livelihoods and purchasing power of the poor and the vulnerable and prevent any further widening of the decent work deficits that already existed before the crisis. This could be done via cash transfer programmes, employment programmes and appropriate adjustments in money wages. In the longer term, it is important to support investment in agriculture to expand supply, with special attention given to small and marginal farmers so that they are not left out of possible benefits.

## 6. Labour market policies and governance

The sixth lesson has to do with labour market policies and governance. Whether it is trade, technological change, or climate change, the impacts of all of these drivers of change in the labour market mean that support for labour market adjustment needs to be taken seriously and explicitly addressed. Labor market governance to facilitate the transition, deal with employment and earnings insecurity and combat inequality should be seen as a comprehensive package that includes a number of mutually reinforcing elements: (a) flexible contractual arrangements to allow enterprises and economies to adjust, (b) continuous investment and upgrading of skills; (c) active labor market policies (ALMPs); and (d) modern social security systems. This is the essence of the flexicurity approach recently adopted by the European Union, and at the core of European welfare states.

Unfortunately, in most developing countries, underdeveloped production structures, small tax bases and political resistance make key elements of this “welfare state” approach extremely difficult to implement. And targeted trade adjustment assistance programmes to ease the pain, such as those of the US or the European Globalisation Adjustment Fund, are not feasible or even desirable in developing countries.

Instead, a mix consisting of: (a) strengthening productive employment policies, (b) efforts to widen the coverage of social security within a minimum affordable package, and (c) improving respect for core labour standards would seem to be the best way to respond to globalization and its drivers of change in the labour market by reducing uncertainty and insecurity for workers and reducing poverty in general.

## 7. Policy coherence

The seventh area of lessons refers to policy coordination and coherence. Too often policies, and policy advice by different institutions, have been working at cross purposes, lacking an integrated perspective, to the detriment of growth, productive employment and poverty reduction. For instance, macroeconomic policy-makers have too often focused narrowly on wages as a cost. Where wage growth far exceeds productivity expansion, this is a valid concern. However, ILO research shows that consumption growth accounts for around two thirds of overall growth in most regions of the world. This consumption growth is fuelled in turn by the wage incomes of the growing middle classes. And this is particularly important for the largest and middle sized developing countries. Policy coherence here means balancing the different drivers of growth, by focusing not just on exports as a source of growth but also on the growth dynamism that can come out from growing internal markets and the expanding middle class of wage earners.

Policy coherence also has to do with getting right the mix between the need to promote dynamic, high productivity activities in industry and services and the timing and pace of trade liberalization. Trade policy design has to take into account production and employment concerns.

Improved policy dialogue and coordination within countries between ministries and with social partners, and internationally between the Bretton Woods institutions, UN agencies and bilateral donors, can yield better policy coherence on trade, growth, employment and decent work.

In these areas, and many others, such as migration, how to harness Foreign Direct Investment for development, regional integration and south-south cooperation, etc, countries face major challenges and UNCTAD, in partnership with other multilateral and regional organizations, can play a leading and very important role with cutting edge research and policy analysis, consensus building and enhancing capacities.

## **II. Role of the UN and the Multilateral system**

Let me finish with a brief word on the role of the UN and the multilateral system. There is no doubt that the UN system can do, and is doing, a lot to help countries meet globalization and development challenges. The question is how to have more effective, accountable and better performing international institutions?

In this respect there are a number of concerns:

- One concern has been that the Multilateral system is under-resourced, overloaded and yes, underperforming in tackling development challenges.
- Another has to do with policy coordination and coherence that I just discussed.
- Another has to do with the participation and voting strength of developing countries in international organizations, including the fact that the institutions and frameworks responsible for global governance have not yet been adapted to the rise of the emerging new economic powers, despite their clear systemic impacts (eg, on commodity prices, flows of FDI including in Africa, influence of sovereign wealth funds, etc).
- And yet another one is how to engage more the private sector and civil society.

The MDGs have brought important focus to the work of the multilateral system on poverty reduction policies and monitoring, and the MDGs have recently been strengthened with the inclusion of targets on productive employment and decent work, bringing a much needed productive transformation perspective into them.

The idea of “Delivering as one” has also brought positive changes in the way the UN is functioning on the ground. But the challenges remain enormous.

Ultimately, the decision remains with nation states for both resources and for strengthening the core competencies and the governance of multilateral institutions.

UNCTAD, the ILO, UNIDO and other UN organizations bring a much needed perspective on the challenges of development anchored in growth, productive transformation, technology, employment and decent work, at the same time based on values of human rights, equity, inclusion, non-discrimination and social justice.

These are all complex issues. I am convinced that high quality research, turned into useful tools for consensus building on policy matters and capacity building is today more important than ever to harness the enormous potential of globalization and its drivers of change for development.