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Trade and employment

Purpose of the document

This paper, originally drafted for the High Level Section of the Governing Body, presents findings from two high-profile volumes edited and published by the ILO in 2011. It describes how evidence from these publications has been channelled into the policy debate at international and national levels. The paper invites the Governing Body 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 paragraphs 26–29.

Legal implications: None.

Financial implications: None.

Follow-up action required: None.

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Related documents: GB.309/17

I. Background ¹

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. For many years, however, opinion surveys have reflected public concern about some of the effects of globalization, and in particular trade opening on employment, wages and job insecurity. ²
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 had 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 were not being met.
3. Recently, trade policy-makers' interest in trade and employment linkages has increased significantly as public concerns about the effects of trade on jobs is considered to be a factor driving increased protectionist sentiments with negative repercussions on trade negotiations.
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. The theme of trade, productive capacities and employment was also explicitly addressed during the meeting of the Trade and Development Commission of the United Nations Conference on Trade and Development (UNCTAD) in June 2011. ³
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 levels. 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. Both publications are available electronically on the ILO website dedicated to the theme "trade and employment": www.ilo.org/trade.
6. The first volume 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.

¹ This document is an updated version of GB.313/WP/SDG/1, which was not considered at the March session

² 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).

³ 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.⁴ 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.⁵ 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; (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 WTO Director-General Pascal Lamy and 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.⁶ 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. 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 following trade reform. The important role of social protection in open economies is emphasized and the analysis highlights the need to adjust social protection systems to local conditions.⁷ Contributions to the 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.

⁴ None of the chapters explicitly deal with the relationships between international trade agreements and international labour standards.

⁵ Technical assistance project INT/07/15/EEC entitled *Assessing and addressing the employment effects of trade*.

⁶ 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, Vol. 40, No. 6, June), pp. 1122–1134.

⁷ 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).

11. The findings of *Trade and employment: From myths to facts* are in line with those outlined above and add some additional evidence. Based on analyses of the informal economy and countries' responses to trade reform in terms of export diversification, the publication highlights a number of measures that 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. The volume also provides a detailed analysis of the adjustment phase following trade liberalization, focusing on labour market effects. In line with the ILO–WTO publication, it 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 in specific situations.
13. The ILO–European Commission (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.

III. Dissemination of findings at international level

14. With a view to maximizing the contribution of the two publications to enhanced policy coherence, the dissemination strategy for both volumes has aimed to ensure their visibility amongst global policy-makers, particularly the trade community. To that end, both volumes have been presented at a range of international events, often jointly organized with other institutions.
15. The ILO–WTO co-publication was 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 launched in Brussels at the European Commission headquarters in 2011 and in Geneva at a joint ILO–UNCTAD event in January 2012.
16. Findings from both volumes have also been presented at different events in the context of the OECD-led ICITE Initiative and at a workshop organized at the World Bank headquarters in Washington, DC.
17. In relevant policy debates the role of social protection systems in open economies has consistently been emphasized by the ILO. Emphasis was also put on the important role of training and education in strengthening the supply response to trade opening and in contributing to a sustainable distribution of the gains from globalization.

IV. Impact of findings for policy coherence at national and international levels

Policy advice and research

18. 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 WTO Director-General Pascal Lamy to the Working Party on the Social Dimension of Globalization on 15 November 2010.
19. The book launch of *Trade and employment: From myths to facts* at UNCTAD took place during the preparatory period for the UNCTAD XIII Ministerial Conference and was well attended by representatives of Geneva-based UN missions, particularly those involved in conference preparations. The outcome document of the UNCTAD XIII Conference contains a reference to UNCTAD's role in providing "analytical and technical support in the evolving concept of social protection floors".⁸ The document also states that UNCTAD should, "in collaboration with the International Labour Organization, WTO and other relevant organizations, continue its work on the impact of trade on employment and inclusive sustainable development, with a special focus on the poor and youth".⁹
20. The ILO's participation in ICITE benefited greatly from work on the two volumes discussed in this paper. On the occasion of the OECD Ministerial Council Meeting in May 2012, an ICITE e-publication was launched in the context of a session dedicated to the theme of trade and employment.¹⁰ The two ILO volumes discussed in this paper are referred to prominently in the OECD overview chapter of the publication. In addition, the ILO contributed three chapters to it.
21. "Trade and jobs" is considered to be one of the "twenty-first century issues" for the multilateral trade system discussed at the WTO Public Forum (September, 2012). The Forum's programme featured a high-level panel on "trade and jobs" and senior ILO officials were invited to act as panellists. ILO officials were also invited to draft the background note on the theme for the WTO web discussion preceding the Public Forum.¹¹

Technical assistance

22. Based on the evidence discussed above on the role of education and skills for export diversification and economic growth, the ILO developed a technical assistance tool called Skills for Trade and Economic Diversification (STED). STED is a methodology that

⁸ UNCTAD: *The Doha Mandate*, 13th Session, Doha, Apr. 2012, TD/500/Add.1, para. 31(a).

⁹ *ibid.*, TD/500/Add.1, para. 56(o).

¹⁰ D. Lippoldt (ed.): *Policy priorities for international trade and jobs* (OECD, 2012), at <http://www.oecd.org/trade/icite>.

¹¹ M. Jansen and J.M. Salazar-Xirinachs: *Trade and jobs: What role for multilateralism?* (Geneva, ILO, 2012).

provides guidance for the integration of skills development in sectoral policies.¹² 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.

23. In March 2012, the ILO was invited upon the initiative of Geneva representatives of members of the League of Arab States to join the “Aid for Trade Initiative for Arab States” that is being elaborated by the International Islamic Trade Finance Corporation and the United Nations Development Programme (UNDP), with the involvement of the International Trade Centre (ITC), UNCTAD and the United Nations Industrial Development Organization (UNIDO). This Initiative is still under negotiation and has drawn the attention of the OECD and the WTO, two agencies with a coordinating role in the aid for trade framework. STED has been included in this Initiative and the Office received funds to undertake project preparatory work in five countries at the end of 2012. STED also features prominently in the US\$8-million project funded by the Ministry of Finance of the Russian Federation to apply the ILO-G20 training strategy. It is the first technical cooperation partnership with the Russian Federation and the project aims to help countries bridge education and training to export growth, economic diversification and the creation of more and better jobs. Preliminary negotiations were held with the secretariat of the Enhanced Integrated Framework (EIF) about the possibility to conduct STED analyses for Diagnostic Trade Integration Studies (DTIS).¹³
24. STED is also playing an increasingly important role for ILO activities within the United Nations System Chief Executives Board for Coordination (CEB) Inter-Agency Cluster on Trade and Productive Capacity and in the ILO proposals as a member of the Cluster for country-level United Nations Development Assistance Frameworks (UNDAFs).

V. Promoting coherence in trade and labour market policies

25. The two publications discussed in this note emphasize the important role of social protection systems in open economies. This confirms the view of the World Commission on the Social Dimension of Globalization, which 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.¹⁴ 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 Social Protection Floor Advisory Group chaired by Michelle Bachelet.¹⁵ The Social Protection Floors Recommendation, 2012 (No. 202), recalls that the ILO Declaration on Social Justice for a Fair Globalization emphasizes the importance of “developing and enhancing measures of social protection [...] which are

¹² More information on STED can be found at <http://www.ilo.org/sted>.

¹³ Under the umbrella of the UN CEB Inter-Agency Cluster on Trade and Productive Capacity, the ILO is already conducting a technical assistance project financed by the Swiss State Secretariat for Economic Affairs (SECO) under the framework of the EIF, entitled *Enhancing sustainable tourism, clean production and export capacity in Lao PDR*.

¹⁴ GB.310/WP/SDG/1, para. 1.

¹⁵ http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_165750.pdf

sustainable and adapted to national circumstances, including [...] the extension of social security to all”.

26. *The Doha Mandate* assigned UNCTAD the role of providing “analytical and technical support in the evolving concept of social protection floors”. More generally, relevant trade-related international agencies may similarly wish to consider whether, and how, support can be given to the development of social protection systems in open economies or economies examining trade reform. Partner agencies may wish to examine the possible role of policy sequencing and of Aid for Trade in this context. Technical assistance components of trade cooperation agreements could also support the extension of social protection. The ILO may want to consider collaborating with UNCTAD and others in this field.
27. The two publications discussed in this note also emphasize the important role of skills and education in strengthening the supply response to trade opening and in contributing to a sustainable distribution of the gains from globalization. The ILO tool STED has already been recognized by the trade community as a desirable ingredient for trade-related technical assistance.
28. The Governing Body is invited to review the findings of the two publications discussed in this paper and the policy directions they suggest.