

Shaping the social dimension of global governance
Remarks by José M. Salazar-Xirinachs
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In the invitation to this conference Mr Spidla mentioned two objectives: to look at the social challenges that accompany globalisation and to explore the policies that are needed, both in Member States and in terms of global governance. This part of the panel is on the global governance issues.

I would like to approach this complex issue in three parts:

- First, to review what we know about the social impacts of globalisation.
- Secondly, to explore some of the policies needed to improve the social outcomes of globalisation, and
- Thirdly, comment on the implications for global governance.

I. Globalisation and decent work

Is globalisation a leading cause of rising inequality? Does it tend to increase or to reduce poverty? What impacts does it have on employment and on the work place? Does it increase worker insecurity or lower working conditions?

The ILO has done a significant amount of research on these questions and they have been subject to extensive tripartite debate from which some important shared views have emerged.

In 2002 the ILO convened a “World Commission on the Social Dimension of Globalization” to develop a broad consultation on these questions and make recommendations. From divergent voices a converging view emerged, at the same time optimistic and sobering, which was expressed by the Commission’s final Report by saying that:

The potential (of globalization) for good is immense...the global market economy has demonstrated great productive capacity. Wisely managed, it can deliver unprecedented material progress, generate more productive and better jobs for all, and contribute significantly to reducing world poverty. But, we also see how far short we still are from realizing this potential. The current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being generated, but too many countries and people are not sharing in the benefits.

The report presents a vision for change. Putting people first, and working at the local level, are key messages. It argues for a series of coordinated changes across a broad front, ranging from **reform of parts of the global economic system** to strengthening governance at the local level, while stressing that this should and can be achieved in the context of open economies and open societies.

One of the most interesting aspects of the report is its emphasis in that, in some important senses, the response to globalization begins at home. People live locally and the way each country manages its internal affairs is a critical determinant of the extent to which people can benefit from globalization. Therefore, one of the recommendations of the report is to improve national governance in all countries.

The report also recommended to give high priority to policies to meet the central aspiration of women and men for decent work, including policies to raise the productivity of the informal economy, to integrate it into the economic mainstream, and to enhance the competitiveness of enterprises and economies.

Consistent with this, the ILO's response to the challenges of globalization, but also the opportunities it poses for development, is the Decent Work Agenda – a strategy, centred on people, to make employment creation a global and a local priority. This is also the ILO's contribution to the Millennium Development Goals...after all, there is no way to eradicate poverty, without creating jobs.

The Decent Work Agenda has four strategic objectives: fundamental principles and rights at work; promotion of full and productive employment; social protection; and social dialogue and participation. It is an integrated and balanced articulation of policy areas that has sharpened the focus on the social dimensions of globalisation.

The ILO is very encouraged by the support that the European Union has given to the Decent Work Agenda, by adopting the Communication on “Promoting Decent Work for All” in May, 2006, and subsequent conferences in 2006 and 2008, by highlighting the importance of productive employment and decent work in its Lisbon Agenda, its Declaration on Globalisation, in its policy dialogue and cooperation with neighbourhood countries and in bilateral trade negotiations, as well as in the European consensus on Development. All of these are examples of very significant contributions by the European Commission and Member States to better take into account the social dimensions of globalisation and to improve the governance of it at the global level.

II. What do we know about the social impacts of globalisation?

Let me step back to briefly to review what we know about the social impacts of globalisation to have a better sense of the priorities for action.

Inequality

Let's begin with inequality. The various measures of inequality suggest that most developing countries experienced an increase in inequality in the last 20 years, and this is true also of most developed countries, including in Europe. The question is: to what extent is this due to globalisation? The answer is: to an important extent.

The rise in wage inequality in both developed and developing countries is due to the increased demand for skills which is associated with a number of factors: technological change, capital flows, trade flows, outsourcing, plant upgrading and other sources. Research tells us that in developed countries skill-biased technical change is the dominant factor. And that in developing countries trade and

globalisation-related channels are significant because the diffusion of technology through trade and foreign investment binds innovation and globalization together in a single process. So globalisation does exert pressures towards higher inequality.

Part of the reason why trade has not helped the unskilled, low-wage workers in many semi-industrialized countries, like those of Latin America, is the emergence of China and India. This has greatly expanded the world supply relatively cheap and low-skilled workers with whom workers and companies in these countries have to compete. On the positive side, this is also producing a huge increase in the number of global consumers with positive effects on global demand for goods and commodities.

Poverty

What about the impacts of trade and globalisation on poverty?

Most economists agree with the view that trade growth can contribute to poverty reduction, but this is based on a syllogism: “trade stimulates economic growth, growth reduces poverty, therefore trade reduces poverty” and it has been difficult to demonstrate the first two premises empirically.

Establishing the link between trade liberalization and growth is difficult mostly because trade policies are always applied in combination with other public policies, such as investment in infrastructure and human capital, institutional reforms and enterprise development, and this variety of policy mixes complicates the ability to draw clear conclusions. There is therefore a significant amount of uncertainty among economists about what is the right policy mix for growth.

One conclusion, however, is clear: investment in both infrastructure and human capital is a key co-determinant of growth along with trade integration. If a country has poor investment policies it will be difficult or impossible for it to benefit from trade opening. But institutions and good governance are also important for growth.

The conclusion is that trade integration is important for growth but a lot depends on how it is done, regarding both the specifics of trade policy design and what policy mix is put in place along with trade policy to maximize growth.

What about the link between growth and poverty? The conventional wisdom argues that growth generally reduces poverty. Recent research has indeed tended to strengthen this conventional wisdom. This is further confirmed by significant poverty reduction in countries that have managed to sustain high rates of growth over several years, such as China and India.

But growth alone is not enough. The Decent Work Agenda suggests that growth is essential for reducing poverty, but that the pattern of growth also matters. Therefore, while it is essential for countries to focus on identifying constraints on growth and removing them, it is also important to identify ways to increase the employment content of growth. All this requires first and foremost good local institutions and dialogue, and a very good knowledge of local capabilities, constraints and opportunities.

Employment

One of the main channels through which trade and globalization affect poverty is through their impacts on employment and wages. A recent ILO-WTO Joint Study and review of the literature on the relationship between Trade and Employment shows that employment effects of trade have differed widely across countries and depend on a large number of country-specific factors. The wage and net employment effects of trade reform are generally found to be small, but behind them there is substantial job churning, which poses important transitional issues.

Research shows that a lot of employment reshuffling and job reallocation takes place, and that this “creative destruction” occurs mostly within sectors, not just between sectors. This explains why many surveys have revealed that workers in very different types of industries report greater perceived job insecurity as countries liberalize.¹

This means that support for adjustment needs to be taken seriously and explicitly addressed.

Worker security, labour standards and informality.

All this means that globalization and trade openness tend to expose workers to increased economic uncertainty in the form of less secure employment or more volatile income and wages. This issue has been much discussed in developed countries where it has also been recognized that other factors unrelated to globalisation, such as population ageing and inefficient welfare services, are also at play. For instance, a 2005 OECD study concludes that “international trade and investment appear to be far from being the biggest sources of employment and earnings insecurity for workers.” The background study for this conference also makes a similar point. Both studies suggest that familiar policy instruments, such as unemployment benefits, active labour market programmes, and lifelong learning can significantly reduce the insecurity resulting from trade-related displacement by fostering reintegration into employment and cushioning the impact of earning losses on family incomes.²

The problem in developing countries is that in many of them the social protection system is not sufficiently developed, there is insufficient investment in education, skills and lifelong learning and in active labour market policies. This makes aid for trade all the more important to rebalance outcomes of trade policies between countries, and this is a major issue for the global governance of trade.

Many globalization sceptics have argued that in developing countries globalization may affect inequality and poverty by inducing non-compliance with labour standards or by increasing the size of the informal economy. The evidence in general does not support the claim that countries experience declining labour standards as a result of globalization. This is not to say that non-compliance with labour standards in export activities and global value chains is not a problem. It is. Governments, industries and workers, with the support of the ILO, are involved in many efforts around the world

¹ ILO-WTO (2007).

² OECD (2005), p 59.

to improve labour standards. The point is rather that there does not seem to be a systematic race to the bottom induced by globalization and that often violations and abuse problems are more widespread and significant in non-tradable sectors than in tradable ones. There is, for instance, abundant evidence that firms in Export Processing Zones (EPZs) pay higher wages than firms in equivalent activities in the rest of the economy.³

Finally, although the evidence on the relationship between trade liberalization and the informal economy is still limited and inconclusive,⁴ much of it suggests that informal sector employment has been on the rise, or has not diminished, even in high growth countries. This highlights the importance of policies to promote the transition to formalisation and extend social protection in the informal economy.

III. Improving global governance

Now, how can global governance be made more effective in tackling these issues? The World Commission on the Social Dimensions of Globalisation pointed to three major and interrelated issues of global governance that needed improvement:

- First, fair and more development-friendly rules.
- Second, better international policies.
- Third, more accountable and better performing international institutions.

These issues continue to be the main global governance agenda today, and I would like to comment briefly on each of them

1. Fair and more development friendly rules

On fair and development friendly rules, a number of elements are important.

First, 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. 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.

Second, outcomes from multilateral trade rounds need to be balanced. Agricultural protectionism is a major obstacle to the reduction of poverty, negating much of the good that is being done by Official Development Assistance. Tariff escalation for processed commodities must be addressed and aid for trade should help countries deal with the proliferation of technical product and process standards.

³ OECD (1996), Maskus (1997),

⁴ This is the conclusion of WTO-ILO (2007).

Third, fairer trade and economic rules will not be sufficient by themselves. Core labour standards provide a minimum set of global rules for labour in the global economy and efforts should be made to strengthen the respect for these core labour standards. The ILO approach to this is a promotional one, combining regular reporting and transparency with substantial technical cooperation programmes. Linking trade agreements with commitments to respect core labour standards might be an important contribution. Ultimately and in the long term the solution lies in combining sustainable growth with transparent reporting, accountability and technical cooperation.

Fourth, good rules for trade and capital need to be complemented by fair rules for the movement of people. This is a controversial but very important issue. The World Commission pointed out that a major gap in global governance frameworks is the absence of a multilateral framework for governing the cross-border movement of people. Migration patterns are clearly linked to globalization, declining costs of transportation and communication, increased awareness about differences in living standards, etc. Many labour surplus countries are beginning to explicitly include migration as a component of their employment strategies. They want to make migration a positive factor for development via facilitating remittances, limiting “brain drain” of qualified people, promoting migration of unskilled workers in temporary movements of labour and other measures. And for industrialized countries with ageing and shrinking populations, rationalized flows of migration make sense. Of course, there are potential costs, such as the potential displacement of local workers, burdens on labour market institutions and social protection systems and potential weakening of social cohesion. The issue is very sensitive but also very important in any list global governance challenges.

2. Better international policies

As regards international policies, market opening measures and financial and economic considerations seem to predominate over social ones. This needs rebalancing. This can be done in several ways.

First, the UN system, the Bretton Woods institutions and bilateral aid agencies need to agree that rather than knowing for sure how to make economies grow, there is considerable uncertainty among economists on the right policy mix for growth. The international development community must recognize this and be prepared to support countries in their search for the right strategies and priorities according to local conditions, assets and restrictions instead of promoting “one- size-fits-all” development visions or emphasizing the “magic bullet” in fashion at a particular time. Space for policy learning, experimentation and innovation must be provided and encouraged.

Second, reaching the Millenium Development Goals will require meeting the 0.7% target of Official Development Assistance (ODA) as well as its more effective delivery. It will also require maintaining efforts at debt relief for Heavily Indebted Poor Countries (HIPC).

Third, a major contribution to rebalancing global priorities is putting full and productive employment and decent work at the center of international economic and social policies and delivering on this goal and for achieving global social justice. The recent adoption by the Chief Executive Board for Coordination of the Toolkit for Mainstreaming Employment and Decent Work in the work of the UN System and Bretton Woods institutions is an important operational step in this direction. Promoting decent work in global value chains is a major component of this agenda. The private sector can make a major contribution by, beyond complying with International Labour Standards and national law, engaging in Corporate Social Responsibility initiatives.

Fourth, international action on education and skills needs to be reinforced. Investing in education and skills development targeting unskilled workers, seem to be the key to compensating globalization-related effects on a widening wage gap, and this is true in both developed and developing countries. There is overwhelming evidence that all high performing countries that have benefited from globalization have invested significantly in their education and training systems. Countries can also be more flexible to benefit and adjust to globalization the higher the level of human capital.

Fifth, as I mentioned, support for adjustment needs to be taken seriously and explicitly addressed. Trade adjustment programmes exist in some countries, like the US and also the Globalization Adjustment Fund in the EU, but rarely in developing countries. Aid for Trade is advocating for assistance to be provided by developed countries to ease the adjustment in poor countries, and this is very appropriate. The question is whether Aid for Trade is flowing in the necessary amounts and whether it is being effective. 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, (b) continuous investment and upgrading of skills (life-long learning); (c) active labor market policies (ALMPs) to facilitate re-employment; and (d) modern social security systems that provide income support and facilitate labor market mobility. This is the essence of the flexicurity approach recently adopted by the European Union, and behind European welfare states.

Unfortunately, in many developing countries, weak social security systems and fiscal and economic constraints make key elements of this “welfare state” approach extremely difficult to implement. In particular, while many industrialized countries have well developed and generous social protection systems, developing countries typically cannot afford them and have very limited social safety nets. In developing countries, targeted trade adjustment assistance programs are generally not feasible. 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 the major drivers of change of globalization and reduce uncertainty and insecurity for workers.

In summary, creating productive employment through enterprise development and investing in education and skills, facilitating adjustment for workers and enterprises, expanding social security, and improving respect for workers rights... and all of this via social dialogue, these are the essential elements of the Decent Work Agenda. This

is not simply an agenda that the ILO has invented, it is the agenda that people everywhere care about. And this is why making decent work a global goal has been in itself a major improvement in global governance. The challenge is to deliver on it.

3. More accountable and better performing international institutions

And this brings me to the third and last category of improvements in global governance: How to have more accountable and better performing international institutions. The concern has been that the Multilateral system is under-resourced, overloaded and yes, underperforming in tackling development challenges. There are also issues of policy coordination and coherence. The idea of “Delivering as one” has brought some positive changes in the way the UN is functioning on the ground. But the challenges are enormous. Ultimately, the decision remains with nation states for both resources and strengthening of competencies of the multilateral institutions. These issues could be the subject of a conference by themselves.

I thank you for your attention.