

DECENT WORK AND FAIR GLOBALIZATION: A GUIDE TO POLICY DIALOGUE

Trade Rules for Decent Work and a Fair Globalization

One of the most difficult dimensions of the decent work and fair globalization agenda is the relationship between trade and labour. The debate between trade and labour standards has to an extent diverted attention from another key dimension of the trade and labour nexus: the differential impact of trade on employment. Recent research shows that the impact of trade liberalization on labour markets is much more important than previously assumed. Does this mean primarily that policies should better support labour market adjustments to trade liberalization, or that trade rules themselves should be made more consistent with the full and productive employment goals of developing countries?

The impact of trade liberalization on employment

Over the last few decades, advocates of free trade have tended to ignore the fact that intensified international competition increases the pace of both job creation *and* job destruction – and does so in very uneven ways within and between countries. The predictions of conventional trade theory that expanded trade will be equalizing no longer hold true. Instead, *there appears to be widespread tendency for wage and income inequality to increase in the wake of trade liberalization and related developments such as the increase in trade in services and intermediate goods, increased flows of foreign direct investment (FDI) and outsourcing, and the diffusion of skill-biased technological change.* Also, adjustments to trade liberalization do not only affect import-competing sectors, but other sectors as well.

So job insecurity is much more pervasive than previously assumed. In many cases, rapid and across-the-board trade liberalization in Africa and Latin America since the 1980s led to the destruction of existing industries, particularly of those that were at their early stages of development,

entailing massive job losses without necessarily leading to the emergence of new ones. According to some estimates, total income losses for sub-Saharan Africa from trade liberalization amounted to US\$270 billion over the past two decades – more than the total ODA received by the region.

In contrast, the newly-industrialized economies in East Asia had taken a much more gradual and selective path to trade liberalization, as part of a long-term industrial policy. Like most of the industrialized economies had done, they liberalized their trade only after their domestic industries had reached a certain level of industrialization and development in which firms were in a position to compete internationally.

Should workers adjust to trade liberalization or should trade rules adjust to full employment goals?

As awareness is growing that the social dislocations caused by trade liberalization are much greater than assumed, much of the current policy discussions and research on trade and labour are increasingly focusing on *how labour markets can better adjust to trade reform* (in effect: adjust to trade liberalization). Such adjustments include national policies to deal with negative distributional effects, including through strengthened social protection and active labour market policies to help better match labour supply and demand, including through skills and retraining programmes. However, the other side of the equation is equally important: namely, *how should trade policies and rules be renegotiated or adjusted to be made more consistent with the objective of full and productive employment?*

Policy space in trade rules for national decent work strategies

A key operational dimension to make global trade rules fair and equitable is to ensure that developing countries have enough **policy space** to tailor national measures to local conditions and needs, as part of the principle of special and differential treatment for developing countries. The ILO World Commission on the Social Dimension of Globalization had noted that the new trade rules adopted with the founding of the World Trade Organization (WTO) at the end of the Uruguay Round in 1994 now make the selective protection or strategic promotion of domestic enterprises vis-à-vis foreign competition much more difficult. Many of the development policy tools used over many decades by the already-industrialized countries and by successful East Asian economies are no longer allowed. For example, current WTO rules today limit the ability of developing countries to use subsidies for their companies facing stiff competition from cheaper imports, incentives to compel foreign investors to purchase locally-produced goods, and technology policies to assist their companies.

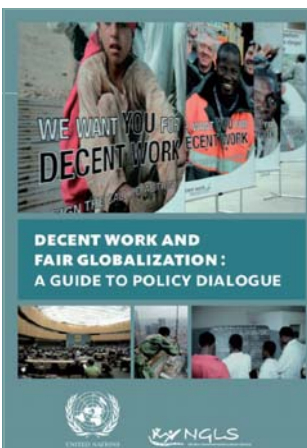
An important step towards a common understanding was multilateral consensus recognition of the concept of 'policy space' at the 11th United Nations Conference on Trade and Development (UNCTAD XI). It is now accepted that multilateral rules *do* impose constraints on policy space in developing countries.

Therefore, there is an urgent need to more carefully examine existing agreements, as well as the ones under negotiation, to see whether greater policy space should be embedded within these to ensure they are compatible with the goals of full and productive employment and decent work for all.

Some of the main topics affecting the decent work agenda in the current Doha Round of multilateral trade negotiations at the WTO relate to:

- ◇ Industrial tariff liberalization: the current WTO negotiations call on many developing countries to give up their rights to shift and raise tariffs on industrial goods imports, with a danger that they could possibly become locked in low-value added production paths that would hinder the potential to create more productive employment and decent jobs and move up the development ladder.
- ◇ A special safeguard mechanism: to protect rural livelihoods and food security in developing countries: a major stumbling block in the current WTO negotiations is the extent to which developing countries can temporarily increase trade barriers against surges of cheaper imported foodstuffs that threaten their domestic farmers' capacity to supply the local market.
- ◇ Financial services liberalization: the current WTO agreement provides the only significant regulatory regime for international financial services, but with insufficient regard for its consequences either for growth or *stability*. While many countries have learned from the recent financial crisis that greater levels of financial sector regulation are needed, especially with respect to the ability of governments to limit the size of banks, introduce new regulations and ban risky activities, the current WTO provisions could be interpreted in a manner that would legally block countries from revising their regulatory structures in ways that would promote growth, equity and greater financial stability.

Beyond the WTO, there is the proliferation of bilateral trade and investment treaties that go much beyond current obligations under the WTO, and such treaties are on the forefront of international civil society advocacy campaigns.



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