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"Creating an environment at the national and international levels conducive to generating full and productive employment and decent work for all, and its impact on sustainable development"

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Issues Note for Roundtable 2 on: "An integrated global agenda to achieve full and productive employment and decent work"

Introduction

Globalization has set in motion a process of far-reaching change. New technology, supported by more open policies, has created a world more interconnected than ever before. This spans not only growing interdependence in economic relations—trade, investment, finance and organization of production globally—but also social and political interaction. The global market economy has demonstrated potential productive capacity, but the world is far short from realizing this potential. The current process of globalization is generating imbalances, between and within countries. Wealth is being created, but too many countries and peoples are not sharing in its benefits. For many, globalization has failed to fulfil their expectation in terms of job expectations and a better economic future for their children.

Global markets have grown rapidly without the parallel development of economic and social institutions necessary for their smooth and equitable functioning. At the same time, there is concern about the unfairness of key global rules on trade and finance as well as their asymmetric effects on rich and poor countries. An additional concern is the failure of current international policies to respond adequately to the challenges posed by globalization. Moreover, the multilateral system responsible for designing and implementing international policies is under-performing. It lacks policy coherence as a whole and is not sufficiently democratic, transparent and accountable.
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Need for greater coherence in the multilateral system

In principle, there is congruence between the founding principles and aims of the main international organizations, and they share many objectives. In practice, however, the multilateral system is under-performing in ensuring coherence among economic, financial, trade, environmental and social policies to promote human development and social progress. Ensuring greater policy coherence is the responsibility not only of the organizations of the multilateral system but also of the governments and legislatures that oversee their work. In particular, the international organizations need to be given a clear political mandate to achieve greater policy coherence.

At the international level a new operational tool could be systematically developed to upgrade the quality of policy coordination between international organizations on issues where implementation of their mandates intersects and their policies interact. This would correct the imbalance between economic and social policies, eliminate policies working at cross-purposes and harness the synergy of complementary policies.

Issue for coherence

Five interrelated issues lend themselves to a global agenda that emphasizes the need to include social issues and, particularly attainment of full employment and job expectations as one of its main objectives: trade, international finance, global macro-economic policies, technology and migration [1,2].

Trade

In the trade and development context there are several asymmetries: first, many developing countries have been marginalized in the process of trade liberalization; secondly, developing countries are unable, de facto, to access developed countries markets; and, thirdly, there can be—in at least the short- and medium-term—adverse consequences of economic restructuring for employment. Overall evidence suggests that in the long-term trade liberalization has been associated with deteriorating wages and conditions of work only in the case of "marginalized" developing countries. In the case of other developing countries, where trade liberalization has helped promote value-added in manufactured exports, employment trends have been varied but real wages have generally risen, although in various cases wages of skilled workers have increased more than those of unskilled workers.

The picture is different if focused on global changes in particular industries. For example, trade liberalization has had the effect of shifting garment production from developed to developing countries. Overall, this has brought a decline in wages and labour conditions in worldwide garment production. But such global trends are consistent with rising wages and improving conditions of work in garment production in developing countries.

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[1] Since migration is dealt with in round-table 6, this note restricts itself to the first four issues

[2] This note deals mainly with international aspects; national aspects, especially in terms of reaching full employment, income and gender inequalities, are dealt with extensively in round-tables 1, 3 and 4

Particular concerns have been expressed about generally low standards in conditions of work and, in some cases, violation of trade union rights and treatment of women workers in export processing zones (EPZs) that have proliferated in some of the manufactures-exporting developing countries. These issues have received considerable attention. In general, findings show that wages and working conditions in EPZs vary quite widely, and even where they are poor by absolute standards, they are often better than those in much of the rest of the economy. Serious concern remains, however, that the full exercise of freedom of labour association is restricted by various means in several areas.

Foreign Finance

When viewed together, the findings from empirical research show that employment effects of foreign direct investment (FDI) inflows to developing countries are relatively weak and neither unambiguously positive nor negative. At best, such inflows make a minor contribution to the rate of investment in recipient countries. At the same time, an increasing share of FDI in total investment tends to reduce overall employment elasticity while shifting the pattern of labour demand in favour of higher skilled job. Rising wage inequality represents a further consequence.

On the positive side, an increasing share of FDI in total investment leads to an improvement in the average quality of employment for both higher and lower skilled labour. These observations should not be interpreted to mean that FDI inflows are of marginal use to developing countries. The correct interpretation is that FDI inflows can only complement, not substitute for, efforts to mobilize domestic savings and investment. Such inflows can help promote manufactured exports and improve labour productivity, but these gains are substantive and meaningful only in the case of those developing countries that have already achieved considerable manufacturing experience through their own efforts. A final point is that empirical research does not show FDI inflows to be particularly sensitive to the degree of capital account liberalization of countries. On the contrary, evidence suggests that FDI inflows depend less on policies in developing countries than on policies in developed countries and on global business plans of transnational corporations (TNCs).

Cross-border financial flows have grown massively, but the system is unstable, prone to crises and largely bypasses poor and capital-scarce countries. Gains in trade, debt relief, development aid and FDI cannot be fully reaped unless the international financial system is reformed to achieve greater stability.

Specific topics on trade and finance

- Since the least developed countries are not in a position to derive benefits from trade liberalization and FDI flows without substantial assistance from the international community to build their capacity, how can the international system provide more coherent support?
- Manufactures-exporting developing countries are in a position to derive benefits from trade liberalization and FDI inflows provided that they view these as components of well-defined development strategies. How can international rules for trade and capital flows, therefore, be

formulated so that they leave sufficient room for developing countries to design their own liberalization programmes?

- What policies might developing countries implement to ensure that the dynamism of exporting sectors spills over the rest of the economy, and to prevent them becoming economic enclaves? In the case of manufactures exporters, what kind of industrial policies could develop domestic productive linkages? In the case of primary exporters, how can countries receive a fair part of the natural resources rent and better use it for favouring long-term development and employment?
- Trade liberalization, irrespective of its employment effects, generates adjustment costs by increasing labour market turnover. Do developing countries, therefore, need to put in place labour market policies and institutions for providing adjustment assistance to those workers who are adversely affected?
- What can be done at international level to promote greater flows of foreign investment to those developing countries that currently receive little as well as to increase the employment impact?
- The Declaration on Fundamental Principles and Rights at Work by the International Labour Organisation (ILO) provide a minimum set of global rules for labour in the global economy, and respect for them should be strengthened in all countries. How can relevant international institutions assume their part in promoting these standards and ensure that no aspect of their policies and programmes impedes implementation of these rights?

Macro-economic Policies

Greater market access is not a panacea. A more balanced strategy for sustainable global growth and full employment, including an equitable sharing among countries of the responsibility for maintaining high levels of effective demand in the global economy, is essential. Enhanced coordination of macro-economic policies among countries to this end is a key requirement. A successful global growth strategy will ease economic tensions among countries and make market access for developing countries easier to achieve.

Macro-economic policies have both a global and a national dimension. At global level, although the World Bank, International Monetary Fund and World Trade Organization have primary responsibility for issues relating to the international economic environment, a number of UN agencies also have a strong interest in this. For example, these issues have an important bearing on employment creation (ILO), on development strategies (UNCTAD, UN-DESA), on agriculture (FAO), on industrial development (UNIDO) and on human capabilities (UNDP). All these agencies have a potentially important contribution to make in their specific spheres of expertise as well as in jointly highlighting the social dimension of macro-economic policies.

Specific topics on Macro-economic policies

- What arrangements need to be developed to make full employment a priority goal of international economic and financial policies?
- Can better international coordination of macro-economic policies contribute to higher growth and employment creation?

- How can global policies on trade and finance give countries sufficient policy space, within agreed common disciplines, to pursue sound macro-economic policies suited to their realities and aimed at increased growth in output and employment?
- What is the scope for international agencies to prevent financial instability and to achieve more orderly and socially-sensitive recovery from financial crises?

Technology

Productivity growth is an important way to improve human welfare and development, as embodied in the Millennium Development Goals. It is the catalyst for structural transformation, from agriculture to light manufacturing, further to skill-intensive manufacturing, and thereafter to services. During the transition, workers increase their wages, which is a reflection of higher productivity. In short, behind sustained demand increase and structural change lies productivity growth, originating from technological progress and implementation of increasingly improved production techniques. Therefore, productivity growth is best discussed against the backdrop of long-term trends.

In addition, increased employment—be it at low or high wage—also stimulates growth and, therefore, a virtuous circle can be discerned, with high growth leading to increased employment and the latter, in turn, spurring on further growth.

Increased productivity growth is an important source of overall economic growth, and productivity-supported growth is what generates higher structural employment and welfare. Technological progress? or knowledge creation—is essential for achieving productivity growth. Although the process of tech-knowledge creation (acquisition, adaptation and development) can also occur in developing countries, two potential channels for technology transfer [3] are international trade and foreign direct investment. However, unless the absorptive capacity is sufficiently developed, such technology transfer from abroad is unlikely to be of much benefit. In addition to absorptive capacity, another important prerequisite for technology transfer to be of benefit is the suitability of specific technologies for domestic production, which depends on the organization of production, sophistication of production inputs (e.g., capital and labour) and such external factors as electricity supply and other forms of infrastructure.

Specific topics on technology/productivity growth

- Is it possible and desirable to establish a global agenda that would improve productivity performance and, ultimately, welfare but without neglecting the importance of national ownership of the policy formulation process, aimed at deriving national strategies?

[3] Technology transfer concerns mainly disembodied technological change (soft technology in the sense of management practices and ways of organizing production). But it can also be hard (usually embodied in capital), which requires facilitating imports of capital goods (i.e. machinery, equipment and the like).

- Is there a better way of undertaking structural transformation, for example, one that would result in more employment generation? There are different ways to achieve growth, with different implications for employment generation. Should international development agencies assist countries to align themselves better in relation to their comparative advantages and, not to be forgotten, their dynamic comparative advantages? How does the answer to this question relate to the issue of national ownership of the policy formulation process, e.g., what should be done if fundamentals for a particular country suggest unskilled, labour-intensive production while its national government opts for skill-intensive production?

- To what extent should international development agencies focus their efforts on the short-term effects of actions taken to increase productivity growth? If so, how? For example, rationalizations and structural change—with the latter being driven mainly by productivity enhancement—may reduce employment while increasing productivity. However, short-term impacts may have long-term consequences. Job destruction in some sectors, by weakening domestic demand and investment, may prevent the generation of more and better employment in the short *and* long term.

- Public investment in infrastructure, health and education are productivity promoting. However, a considerable part of developing countries' budgets go to servicing debts (external and internal), with little remaining for capital expenditure. Focusing on external debt relief, funds that were previously used for debt service can now be used for productivity enhancing investments, for example, in education and health. In principle, the same could be argued for aid, i.e. that it be used for productivity-enhancing activities. To which extent should international development agencies be concerned with the subject?

- From an optimal efficiency point of view, should investment in infrastructure be mainly public or private? Is there any scope for public-private partnership when it comes to such investment?

- How should externalities, social cohesion, regional development and national integration or, even nation-building be taken into account when thinking about the role of the state and its relative efficiency in infrastructural investment?