

UN Cluster on Trade and Productive Capacity: Multi-partner Trust Fund
Trade and Employment
Thematic note

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1. Context: Trade for Employment and Sustainable Development

Strengthening the potential of trade as an important means of achieving sustainable growth and creation of decent jobs in a globalizing world is critical in addressing the massive job challenges today. Global unemployment since the Great Recession has continued to increase, and by 2019, more than 212 million people could be out of work according to a recent ILO report. Young workers are particularly hit with a global youth unemployment rate of almost 13 per cent in 2014, with a further increase expected in coming years.

Moreover, global and regional trade integration over the last two decades has been contributing to important progress in poverty reduction and income growth in emerging and developing countries, taken as a whole. Yet, the number of people living on less than 3.10 PPP-adjusted USD per day has been recently estimated as nearly 36 per cent (around 2 billion), while people living in extreme poverty (on less than 1.90 USD per day) is estimated as 15 per cent of the total population of emerging and developing countries. Poverty reduction has been significant globally, but uneven across regions remaining stubbornly high in Africa and parts of Asia. Some developed economies, especially in Europe, have also experienced increased poverty and some estimates indicate that 300 million people in developed countries were living in poverty in 2012 (defined in relative terms based on incomes under 60 per cent of the median).

Global unemployment and widespread poverty are acute manifestations of the decent work deficits that afflict economies in the developed and developing world. Building productive capacity for benefiting from the potentials of trade is a fundamental strategy for reducing poverty through the creation of decent jobs and the promotion of sustainable and inclusive growth.

2. Policy Challenges

The perspective of the 2030 Agenda indicates the broad acknowledgment that benefits from trade are not automatically generated by trade openness.

First, even when trade expansion triggers the growth of certain economic sectors, its employment impact varies considerably across industries and countries. In some cases, openness and market access may simply allow the expansion of few sectors which may lack significant backward and forward linkages with the rest of the economy. If this happens, the potential of direct and indirect net job creation is undermined, which often leads to the phenomenon of jobless growth as is commonly observed in commodity exporting countries.

Second, the quality of the newly-created jobs may not be sufficient to improve the living conditions and prospects of workers and thus contribute to an inclusive, economically and socially sustainable growth pattern. Unduly low pay, sometimes under the legal minimum wage, excessive work hours, workplace accidents and denial of workers' basic rights remain serious obstacles to the achievement of the 2030 Agenda.

Third, trade integration typically has distributional effects among asset owners and groups of workers, which are often not fully taken into account in trade and related policies. As a result, the economy-wide gains of trade are not sufficiently shared with those that lose from increasing integration. Significant efforts have been made to address this issue, particularly through providing a range of employment services and income support for the disadvantaged workers, but, in many cases, the overall redistributive effects were rather limited. For this reason, trade has often been associated with rising inequality.

Fourth, lack of economic diversification renders many countries, in particular Least Developed Countries (LDCs) which are also characterized by a lack of human assets and low income, extremely vulnerable to the volatility of globally integrated markets. The economic, social and environmental sustainability of growth associated with trade integration will depend on the capacity to upgrade and diversify by creating productive capacities. These require more investment in social and physical infrastructure, physical and human capital as well as knowledge accumulation. Achieving such outcomes have become more challenging in the current global context.

Trade and investment can be a vehicle of expansion of production, diversification, technological upgrading, growing incomes and social progress through the generation of decent work. The 2030 Agenda, including the SDGs and the Addis Ababa Action Agenda, recognizes that Sustainable Development needs to be pursued focusing on mutually supportive goals and instruments that ultimately create the productive capacity for sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Benefiting from trade and allowing a mutually beneficial intensification of trade and investment flows requires the development of productive capacity in the economy as a whole and in particular on those economic activities with potential for decent job creation.

3. Integration in the global production networks and Decent Work

As a consequence of trade openness, technological innovation, ICT progress and reduction in transportation costs, 60 to 80 per cent of world trade is now conducted through global value chains. Global value chains are therefore of crucial and increasing importance to the world of work. In June 2016, the 105th session of the International Labour Conference discussed "Decent Work in Global Supply Chains" and their relation with trade.

In its conclusion the Government, Workers and Employers representatives highlight the large benefits associated with global supply chains, including the contribution to economic growth, job creation, poverty reduction, entrepreneurship and transition from informal to the formal economy. It is also acknowledged that failures at all levels of global supply chains have contributed to decent work deficits, including undermining labor rights, particularly freedom of

association and collective bargaining. Decent work deficits are pronounced in a significant number of Export Processing Zones linked to global supply chains. It is also recognized that governments may have limited capacity and resources to effectively monitor and enforce compliance with laws and regulations, while the expansion of global supply chains across borders have exacerbated these governance gaps.

With this background, the ILC points out that global action for decent work in global supply chains is needed, calling for: (i) “actively promote social dialogue and fundamental principles and rights at work, including freedom of association and the right to collective bargaining for all workers, regardless of their employment status, including in Export Processing Zones”; (ii) “consider to include fundamental principles and rights at work in trade agreements, taking into account that the violation of fundamental principles and rights at work cannot be invoked or otherwise used as a legitimate comparative advantage and that labor standards should not be used for protectionist trade purposes”.

Referring to the ILO’s Social Justice Declaration of 2008, the international community achieved agreement on a balanced reference to the crucially important relationship between trade and labour standards.

Concrete steps to ensure better coherence between trade and investment policies and the promotion and protection of decent work are needed to ensure that international trade and investment become true drivers of sustainable development – generating growth and prosperity, as well as decent work and social justice, fundamental preconditions for lasting peace.

4. Policies and Capacity Building for “Trade for Employment and Sustainable Development”

Trade and globalization contributes to creating decent jobs, when trade and employment as well as other complementary policies are effectively integrated in a coherent manner as part of a broader sustainable development strategy. The UN Inter-Agency Cluster on Trade and Productive Capacity can support governments and national stakeholders in addressing their specific challenges of designing and implementing coherent policy frameworks and building capacity to make trade a vehicle of decent work and sustainable development.

Addressing specific challenges for developing countries

To enable the creation of decent employment in a world with trade expansion and continued fragmentation of production along the global value chain is challenging for developed and developing countries. Developing countries face competition for both exports and on domestic markets from countries that have already built productive capacities and specialized in certain areas. Market access, nowadays increasingly in the form of non-tariff measures such as product quality standards and regulations, constitute difficulties for low income countries. Furthermore, two relatively recent developments pose additional challenges for developing countries. First, the trade slowdown may require adjustments to policy strategies to use trade as a means of job creation. Second, recent evidence indicates production is deepening within the producing countries, for instance, by expanding domestic production to intermediate inputs. This could increase the difficulties of countries not yet well integrated in global value chains to get

integrated. Therefore, a policy framework should be developed in a given country, taking into account its specific circumstances.

A coherent policy framework

Strengthening the trade-employment linkage requires a focused and multidimensional action which can jointly tackle a wide range of policy challenges. Successful trade integration into the global economy requires a consistent set of policies in the areas of trade, infrastructure investment, regulations, skills and education, labor market, environmental and social protection, as well as creating the incentive at the sectoral level to develop dynamic productive capacities and strengthen the connectivity of markets and enterprises via local and global supply chains. Cases of successful “export-led growth strategies”, for instance, have been characterized by a coherent and self-reinforcing set of policies and institutions affecting the quantity and quality of investment, the labor market and the development of human capital. Certain forms of export-led growth may come at the expenses of social and environmental outcomes, which can undermine its own sustainability. Successful development under the new and universally approved Agenda will depend on the broader concept of sustainability, with an additional attention to the social and environmental dimensions.

Policy frameworks for making trade a driver of sustainable development and employment need to be developed by tapping on existing research, dedicated country-specific analysis and intervention-specific assessments. This requires a fundamental process of participation of government, private sector, civil society and social stakeholders to ensure that interventions are effectively leading to environmental, social and economic sustainability.

Among the necessary action and partnership interventions:

- Understand the economy-wide implications of trade and investment integration and of social, environmental and economic policies that affect trade. Identify the country-specific policy gaps in the areas of pro-employment macroeconomic and sectoral policies that can stimulate growth through trade and investment expansion and support the related policy formulation processes.
- Further the collective understanding on the implication of labor provisions on regional and global trade agreements, their effects on labor force and market outcomes at the global and national level.
- Understand which specific skill gaps can impede trade and economic diversification in tradable sectors. Skills are one of the major factors impacting on the ability of firms in tradable sectors to participate effectively in export markets, to connect to global and regional supply chains and to hold their own when their domestic market opens to foreign competition. The extent to which education and training systems meet the skills needs of employers and workers in tradable sectors varies significantly between countries. Dialogue between sector stakeholders has proved to be crucially important both to formulate and implement policies.

- Understand the effect of regulations and (mandatory and voluntary) standards on the potential of regional and global integration to create decent jobs. Regulatory coherence within countries and regulatory convergence among countries can lower hurdles to trade while achieving important non-trade objectives related to health and environmental protection (including with SPS measures and TBT). Non-tariff measures have been identified as the main obstacle to trade disproportionately affecting LDCs. Measures need to be understood and streamlined also in least-developed and developing countries. Modern trade agreements are increasingly about regulatory issues rather than tariffs. Understanding the implications and the potential of such provisions is paramount for developing countries to benefit in terms of sustainable development and job creation.
- Identify policy solutions and implement technical cooperation programs to reduce the carbon, water, land, materials and environmental pollution embodied in trade, labor and final consumption. Identify how technical and financial assistance can support environmental and social standards. Explore the scope of Green Export Processing Zones to get a competitive advantage, including through clean and reliable energy provision and increasing productivity. Identify targeted trade policies in the domain of environmental goods and services including organic production with the potential of creating employment, particularly in Africa, reducing the cost of clean technology and healthier food.

Trade-related capacity-building

Effective development and implementation of coherent policy framework requires a wide range of capacity building interventions, especially in developing countries. In order to maximize the decent work outcomes of trade, efforts should be made to improve countries' capacities in developing and implementing policies in the areas of sectoral and industrial development, investment (both domestic and foreign), skill strategies (both in domestic and export sectors), mainstreaming trade and market access, corporate social responsibility and social protection. Among others:

- Technical support in the formulation of policies and private sector oriented interventions on activities with potential for decent job creation through trade and investment integration.
- Creating connectivity between MSME, local and global value chains as well as promoting formalization of employment to support export capacity and productivity.
- Supporting international efforts to promote sustainable investment and decent work through training of Investment Promotion Agencies (IPAs). Joint events for information sharing and capacity-building, such as in investment facilitation and sustainable development, enhance their policy on corporate social responsibility. This includes promoting more socially responsible supply chains, and participates actively in various other international initiatives as well as at the country level.

- Support coherent policymaking by strengthening the ability and institutional infrastructure to develop coherent regulations (including standards) that achieve important non-trade objectives such as health, environmental and social protection while not putting economic development and job creation at risk. Provide technical support to strengthen regulatory convergence at the regional and global level and to assess the potential for employment creation.
- Technically support the development of labor market institutions and policies and implement the findings and policies on skills for trade and economic diversification through effective country tailored training programmes.
- Support the implementation of social protection floor components that enhance the resilience to trade-induced economic shocks and the process of structural transformation towards a more productive and export oriented economy.

Partnership

A partnership between national governments, stakeholders, and social and development partners with the technical support of International Organizations can help address these challenges. The Agenda 2030 is giving the universally shared framework for creating support to countries in achieving their goals of sustainable and inclusive growth and decent work for all by benefiting of trade integration. A number of programmes supported by the UN Cluster on Trade and Productive Capacity MDTF (on Trade and Employment) could provide capacity-building to generate sustainable growth and decent work through strengthening of their productive capacities and deepening their trade integration.