

The great jobs trade-off

JOBS JOBS JOBS

BRIEFING ON DECENT WORK AND TRADE

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decent work
decent life 



'The process of economic liberalization is typically marked by greater wage "flexibility" and the erosion of minimum wages, a reduction in public sector employment laws and regulations. The desire for developing countries to attract foreign investment and expand exports frequently leads to a race to the bottom with labour protection.'

THE INEQUALITY PREDICAMENT,
UN, AUGUST 25, 2005



Context

The fact that economic growth alone is far from eradicating poverty is a fact that many policy-makers are increasingly recognizing. 'Trickle down' theories have been proven wrong. In many developing countries, wealth from new and stronger growth is continuously concentrated amongst elites. Nowhere is this more stark than in the debate on the relationship between trade and decent work. The question of whether and how trade liberalization can contribute to the eradication of poverty and inequality is high on the agenda yet again, particularly as in the wake of the global economic crisis many neo-liberal policy makers have been calling for a speedy conclusion to the latest round of trade negotiations at the WTO, whilst civil society, academics and trade unions, having recognized that it is trade liberalization that has gotten us here in the first place, have been calling for a complete re-think of the global trading system.

Now more than ever, creating decent jobs that provide an adequate level of income and protect workers' rights is central to getting ourselves out of the crisis. Already millions of people have lost their jobs and there are many more that look set to lose theirs. This on top of the fact that even before the crisis we were in the middle of a jobs crisis: 189.9 million people worldwide are unemployed, half the world's workforce works but earns less than US\$2 per day. Even in developed countries the outlook is bleak: unemployment in OECD countries is predicted to increase by over eight million by 2010¹.

But having a job is not the end of it - decent employment is also the key mechanism by which wealth is redistributed. Men and women want a global system that enables people to work themselves out of poverty in freedom and dignity. Given that the greed of a few has resulted in the want of many, now is the time to ask ourselves what kind of a global trading system will actually help to redistribute the potential wealth created by trade.

Trade and employment: more or less jobs? Better or worse conditions?

Over the last three decades, the mantra repeated by economists and policy-makers has been that liberalizing economies will lead to economic growth which will automatically translate into an increase in jobs. But the overwhelming evidence is that not only has trade not created enough employment, the economic growth experienced by countries since liberalising their trade markets has been jobless growth. Despite some 4.2% growth in global output between 1997 and 2007, world employment only increased by only 1.6% yearly².

Nor does simply having a job guarantee a living income. On top of unemployment, many of the world's workers are underemployed, sometimes working a number of jobs on an irregular or casual basis, with no job security. In Asia alone, one billion people work to earn less than US\$2 per day. They are called the working poor because despite having a job, they don't have enough to live off. Women comprise about 60% of the world's working poor - they are often the most underemployed and the most casualised members of the workforce.

As the evidence has piled up, some of the world's most strident supporters of free trade have had to admit that trade liberalization and job creation are not automatically linked. The World Bank has admitted that "during periods of trade liberalization ... job destruction rates can be expected to proceed at a much faster pace than job creation. Globalisation could therefore be associated with higher unemployment rates"³.

¹ OECD, Economic Outlook No.84.

² ILO, Global Employment Trends, January 2008.

³ M.Rama, Globalisation and Workers in Developing Countries, World Bank Policy Research Working Papers (2003) p.17.

A microcosm of the effect that steep and sudden liberalization can have is the chaos and social displacement that followed the end of the so-called Agreement on Clothing and Textiles in 2005. Reducing quotas to zero in the Textile Clothing and Footwear (TCF) industry has meant that countries with low-wage production, countries such as Lesotho and Nepal, are seeing their work go to countries with even weaker protections for workers, such as China.

Many small least developed countries (LDCs) depended on the TCF industry as a big part of their income. Now that income is gone, up to 30 million workers are at risk of losing their jobs as a result and the conditions of all workers are being driven down⁴. As companies struggle to compete, they make their workers work harder, longer, for less money and use unacceptable repression like violence and intimidation to keep unions out of workplaces. Nowhere is this more evident than in the conditions experienced by workers in Economic Processing Zones. EPZ workers, 80% of whom are women, often work long hours, have no right to form a union or represent themselves.

But it is not just job losses that have been the consequence of trade liberalization. Impoverished producers of goods, whether in the urban informal economy or in agriculture, have been particularly vulnerable to the influx of cheap. This has led to a massive rise in internal migration as agricultural producers have left their land in search of jobs in the cities, giving rise to the phenomenon of slums and driving labour conditions down as people are more and more desperate to accept any kind of work.

Not surprisingly, those most affected have been the poor, illiterate and unskilled workers. This has occurred not only as a result of the primary economic impact of liberalized trade but also because of its indirect effects. For example, the increased mobility of capital combined with high levels of unemployment has weakened the bargaining position of workers vis-à-vis employers. At the same time, increasing international competition for markets and for Foreign Direct Investment has generated pressures to increase labour market flexibility and erode labour protection. Hence, in despite some positive effects of FDI such as the fact that workers in foreign firms often earn more than in local firms, there have been growing concerns over the indecency of jobs generated in some parts of the global production system. This is particularly true of employment in firms acting as sub-contractors to Multinational Enterprises in labour-intensive industries.

The current trade negotiations: more of the same medicine

The fact that developing countries had in fact been damaged by trade liberalization was the reason why in 2001 the world's multilateral trading rules organization, the World Trade Organisation (WTO), set about negotiating the so-called Doha Development Agenda. The intent of this, the latest round of trade liberalisation negotiations, according to its proponents, was to make trade rules fairer for developing countries. Opponents charged that the round would expand a system of trade rules that were bad for development and interfered excessively with countries' domestic "policy space". Increasingly, as the negotiations progressed, the WTO's credibility as an institution representing interests of rich and poor alike came under broad attack, with growing acknowledgement by insiders and outsiders that the likely gains from a new trade round



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Trade liberalization in Africa

Most of the Least-Developed Countries (LDCs), a group that includes most of the countries in sub-Saharan Africa, experienced a proportional decline in their share of world markets – despite the fact that many of these countries had implemented trade liberalization measures. As a result Africa is the continent that suffers from the highest levels of incidence of informal work. Some 85% of working people do not earn more than US\$2 per day. And the trend is getting worse: over the last decade the number of workers earning less than US\$2 per day has increased by 55.5 million, with a 26.6 million increase in those earning less than US\$1 per day.

⁴ Stitched Up: How those imposing unfair competition in the textiles and clothing industries are the only winners in this race to the bottom, International Free Trade Union Confederation, 2005.

are less than previously hyped, and that most of the gains will likely stay in the developed world. A Tufts University study brought attention to World Bank data showing a "likely scenario" from the negotiations of developing country "gains" of only US\$6.7 billion versus Northern gains of US\$31.7 billion — or, in more stark terms, an average of "less than a penny a day for those in the developing world."⁵

A major problem with the way trade negotiations are currently carried out is the fact that sectors are traded off one against one another, as if they were equal. In the WTO Doha Round, for instance, the aim is to match "ambition" in agriculture by "ambition" in the non-agricultural market access negotiations (NAMA). A cut of 54% in tariffs in agriculture, is targeted to be matched by a similar proportion cut in NAMA. This means that a country like Brazil, wishing to gain access to other's agricultural markets and defend its industrial sectors, trades its NAMA sectors off for cuts in agriculture. Since workers are not necessarily able to move smoothly from one sector to the other, this strategy makes no sense as it is predicated on the notion that in order for some to gain jobs, others must lose them. It is also contrary to the notion of development that countries in the EU practiced after World War one which was to build and protect both their industrial and agricultural sectors, recognizing the importance of both.

It is contradictions like these that have meant that since 2001, there has been no agreement on the Doha Round. The round was permanently put on hold in July 2008, when a meeting of trade ministers in Geneva failed to reach agreement. In the meantime, when it became clear that developing country governments would not sign up to such a deal without appropriate concessions and safeguards, those interested in pursuing the trade liberalization agenda such as the US and the EU turned to bilateral and regional free trade agreements (FTAs) as a tool for further market access.

These agreements have an equally damaging effect and in many ways are worse as they pit strong, industrialized countries against small developing ones in what is clearly an unequal power-relationship. According to an UNCTAD report which looked at a range of developing country FTAs with developed countries, many of whom are being pursued by the European Union, "...the gains for developing countries from improved market access are far from guaranteed, whereas they have to give up a large part of the policy space they might otherwise have used to promote the creation of new productive capacities, industrial upgrading and structural change in their economies."⁶

The same report outlines other non-trade areas in which FTAs with developed countries will particularly hurt developing countries. First, in government procurement, developing countries use policies that favor local companies and people, and boost the domestic economy, thus creating jobs. However, the FTA removes this policy tool by opening up government procurement to foreign companies, which results in local companies not being able to compete. Second, many FTAs currently being negotiated require developing countries to liberalise their service sectors, which severely damages attempts to develop domestic service sectors such as banking, finance, telecommunications and professional services. These sectors are all vital for developing countries as they provide more high-skilled, decent jobs that are associated with a reduction in poverty and inequality.

Third, the investor-protection rules of FTAs give new rights to potential foreign investors, thus "drastically reducing the scope of the host country to decide whether or not to approve a foreign investment or impose conditions for such an approval." Moreover, measures favoring local investors have to be curbed as these are seen as discriminating against foreign investors. "Several of the measures adopted successfully by Malaysia,

'No business which depends for existence on paying less than living wages to its workers has any right to continue in this country. By living wages I mean more than a bare subsistence level, I mean the wages of decent living.'

FRANKLIN DELANO ROOSEVELT



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⁵ Back to the Drawing Board: No Basis for Concluding the Doha Round of Negotiations by Kevin P. Gallagher and Timothy A. Wise, RIS Policy Brief #36, April 2008.

⁶ Trade and Development Report 2007, UNCTAD, 2007.



Not learning from history

What is ironic in the discussion about trade and development is that what industrialized countries are trying to push developing countries into doing in terms of trade liberalization is not at all the same path they took. The theory that developed countries, and Europe in particular, have been able to attain the high level of economic development they have today through free trade is a misnomer. European and US industry has for many years enjoyed high levels of tariff protection, allowing industries to develop and grow without the threat of cheaper imports.

Similarly, the idea that the so-called Asian tigers have been able to develop economically at the pace they have as a result of trade liberalization is an argument that ignores that fact that countries such as China, Vietnam, Korea, Japan, India and Taiwan have all used highly protectionist policies to protect their infant industries. These policies were combined with export promotion and export subsidy policies.

Global Europe

Yet despite the evidence that neither is trade liberalization good for developing or developed countries, in October 2006, Peter Mandelson - the then EU's Trade Commissioner - launched the EU's new strategy for a **Global Europe – competing in the World**⁷ which charts an even more aggressive approach to trade policy. This strategy looks in two directions: outward to the EU's relations with other countries, particularly in the South and inwards to the kind to the Europe that is envisioned for the future.

For the first time, the policy clearly links the EU's external trade agenda with the necessity of becoming more competitive within Europe itself. This will demand de-regulation of social and environmental standards or as Mandelson's de-regulation agenda calls it - "an open and flexible approach to setting our rules". It envisages loosening regulation around services, which could mean more privatization, as well as government procurement, which will most likely have a negative effect on jobs within the EU itself.

The outward policy is equally disturbing in terms of its effects on developing countries. Gone is the talk of making globalisation work for the world's poorer countries. Instead the strategy calls for "a sharper focus on market opening and stronger rules in new trade areas of economic importance to us". Access to public services, industrial and public procurement markets of emerging economies is a central element of the new strategy. This aggressive push in favour of European Transnational corporations also extends to demanding access to natural and energy resources.

This strategy has served to guide the EU's negotiations with the ACP countries for Economic Partnership Agreements (EPAs). Within these negotiations, the EU is attempting to transform the non-reciprocal Cotonou Partnership Agreement into reciprocal free trade pacts. The EU's agenda for the EPAs goes even beyond the WTO Doha Round agenda in terms of ambition. The EU is asking for liberalization in industrial and agricultural sectors based on applied tariffs, rather than bound tariffs as in WTO negotiations; opening a wide range of services sectors; as well as liberalizing countries' investment, competition and government procurement regimes. The latter were issues rejected by the G90 (Africa Group, LDCs and ACP) for inclusion in the Doha Round. In pushing Africa towards a purely market-oriented approach to regional integration, the EU has completely overlooked Africa's immediate needs: enhancing production capacities using a range of policies which have worked, and continue to work for the developed economies.

The EPAs are just a small portion of the EU Trade Commission's agenda which has also launched a round of Free Trade Agreements (FTAs) with regions - the Community of Andean Nations, Central America and ASEAN as well as with countries - Korea and India. All of them will have a range of negative impacts on decent work, both in the EU and in developing countries. The fact the agenda is being pursued as the world faces the massive rise in unemployment resulting from the same policies betrays the dominance of corporations in setting the EU's trade agenda priorities.

⁷ Global Europe – competing in the World: A contribution to the EU's jobs and growth strategy, October 2006 (http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130380.pdf).

While it was clear before the global economic crisis, it is even more clear now - the one thing we cannot do is do nothing about the worsening employment levels and conditions of workers due to the race to the bottom approach encouraged by the current rules of the global trading system.

Neither is a recourse to knee-jerk protectionism, the specter of which looms large the answer. Trade does have the potential to create more and better jobs if underpinned by a solid system of regulation, cooperation and solidarity. That system is within reach should our policy-makers exercise the kind of political will that history has shown is required to face massive economic crisis. SOLIDAR, together with its members, allies and partners is committed to helping our decision-makers muster the bravery to embark on such a project.

« **Jobs Jobs Jobs** » is a three-year project which aims to demonstrate that Decent Work is fundamental for development and the eradication of poverty.

Decent Work is a concept developed by the International Labour Organization, and supported by trade unions, NGOs and other civil society organisations. It brings together the quantity of employment with the quality of the employment created. The main elements of Decent Work are employment creation, workers' rights, social protection and social dialogue.

All Jobs Jobs Jobs Briefings are available (in English and French) on: www.solidar.org

The Project, coordinated by SOLIDAR, is supported by the EU.

SOLIDAR is a European network of 50 NGOs and labour movement organisations working towards all people living in dignity. SOLIDAR promotes equality, solidarity and social justice in the fields of social affairs, international cooperation and education in Europe and worldwide.

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What is to be done? Stop, re-think and act

And yet, there is no shortage of development friendly alternatives and reforms to the trading system that could be implemented to ensure decent work worldwide.

- **To begin with**, there should be an assessment of the impacts of trade agreements on decent work and on developing countries. Any trade policy should take full account of these impact assessments. Until such assessments are not conducted, there should be a moratorium on all multilateral, bilateral and regional trade agreements.
- **Secondly**, a number of human rights advocates are arguing for trade law to be subsumed under the UN human rights charters, including the Universal Declaration on Human Rights, as well as the International Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights. States have the duty to ensure the conditions of basic economic security and social participation of citizens. According to the Universal Declaration on Human Rights (UDHR) of 1948 everyone has the right to social security, the right to work, the right to equal pay for equal work and the right to education (Articles 22–27). In addition, the ILO's Decent Work Agenda, which includes the 1998 Declaration on Fundamental Principles and Rights at Work amongst other things commits states to ensuring that workers are able to organize in trade unions and bargain collectively to improve their wellbeing.

Taking account of these workers and human rights obligations – enshrined in international law – can provide important criteria by which governments can evaluate policy options. If taken seriously, these obligations cannot be subject to bargaining or trade-offs. Using human rights as the underlying rationale for the functioning of the trade system will radically change the multilateral trade system.

- **Thirdly**, regional integration which is not driven by market opening but instead by a development integration model could significantly enable developing countries to develop their industries. This model as envisioned by developing country leaders such as Julius Nyerere "stressed co-ordinated industrial development with the help of a bigger regional market; regional funds or banks provided to less advantaged members; and assistance to the less developed countries within the group in terms of technology transfer and the building of production capacities. Rather than focusing on maximizing efficiency, the emphasis is on cooperating with one another to stimulate the creation of productive capacities. Instead of seeing trickle-down as the way benefits would be distributed, the development integration model emphasizes the importance of cooperation, and the use of corrective measures in order to have equitable development between members...Above all, [this model] begins with countries' needs as the starting point, rather than a time-table for trade liberalization characteristic of the open regionalism model."⁸

⁸ Rethinking the trading system, Aileen Kwa, Friedrich-Ebert-Stiftung, 2007.



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