

## Trade and Employment

### The Challenge

Over the past decades trade and Foreign Direct Investment (FDI) flows have played an increasingly important role in the world economy, contributing significantly to economic growth both at the global level and within individual countries. Yet not all countries, enterprises or individuals have found it easy to take advantage of the most recent waves of globalization.

The challenges arising appear to be threefold:

- The structure and levels of employment resulting from increased openness can be more or less favorable to the labor force and to economic growth;
- Openness – while helping to buffer domestic shocks – can increase the vulnerability of domestic labor markets to external shocks as witnessed during the Great Recession;
- The gains from globalization are not distributed equally and some workers and firms may lose in the short and even medium-run.

For the ILO, the challenge is to better understand how trade and FDI policies affect decent work opportunities and to assist policy-makers at global, regional and national levels to design policy solutions that optimize the positive effects of trade and FDI on employment.



### The ILO Response

The 1944 Declaration of Philadelphia mandates the ILO to examine all economic and financial policies and measures in the light of the objectives established by the International Labour Conference. The Declaration also requests the ILO to collaborate with other international bodies, notably to “avoid severe economic fluctuations”. These mandates have been renewed by the Declaration on Social Justice for a Fair Globalization (2008). The Global Jobs Pact (2009) emphasizes the need for trade and financial flows to take place within a well-regulated global framework.

The ILO’s approach to meeting the challenges outlined above has evolved around three lines of work:

- Assessing the employment effects of trade;
- Examining the interactions between employment, trade and FDI policies;
- Contributing to the design of national policies to enhance the employment gains from trade.

Together these three lines of work contribute to a better understanding of the **design of coherent employment, trade and FDI policies**. They also contribute to a better understanding of institutional settings that are most conducive to the implementation of coherent employment, trade and FDI policies.

While policy makers can build on a rich body of evidence about the effects of trade and FDI on the gross domestic product (GDP), evidence of the effects of trade and FDI on decent work opportunities is relatively scarce. A significant part of the ILO’s work on trade and employment therefore takes the form of **assessments of the employment effects of trade**. Relevant efforts are geared towards building a strong evidence base to enrich the policy debate and towards the building of evaluation tools. Capacity-building efforts conducted jointly with the International Training Centre of the ILO in Turin, Italy, aim at strengthening constituents’ capacity to use such tools in the preparation of policy design.

Relevant tools developed by the ILO have already been applied to evaluate the labour market effects of trade shocks during the Great Recession in countries such as Brazil, Egypt, India, Liberia, South Africa and Uganda. Country-specific tools are in the process of being developed for Bangladesh, Benin,

Indonesia and Guatemala and first assessments of the employment effects of trade in those countries have been conducted. Some of the relevant work has concentrated on trade in specific sectors, such as agriculture or services (including Mode 4 trade). Other studies have focused on labour market adjustments following trade liberalization, the linkages between trade and the informal economy or the gender aspects of trade.

ILO work on the **interactions between employment, trade and FDI policies** also often takes the form of empirical and policy research. Much of this is carried out in collaboration with other international institutions, in particular, United Nations Conference on Trade and Development, the World Trade Organization and the World Bank. The Trade and Employment Program has built strong partnerships with academia which have resulted in high level publications and research events involving globally recognized academic experts.

Findings of the analytical work are channeled into the policy debate at the global, regional and national level through events and debates organized in collaboration with other international organizations, national think tanks or ILO constituents. In many cases such policy debates do not only involve representatives of employer and worker groups but also representatives of different ministries including the ministries responsible for labour, trade, investment and development issues.

ILO work on **national policies to enhance the employment gains from trade** mainly takes the form of policy dialogue, technical assistance and capacity building. Technical assistance in this field is often conducted in the context of the United Nations Chief Executives Board (UN-CEB) Cluster on Trade and Productive Capacity that ILO joined in 2010.

Technical assistance in this area benefits from research conducted under the other two lines of work. Research conducted on the role of education and skills for export diversification and economic growth, for instance, has significantly shaped the design of the recently developed technical assistance tool called STED: Skills for Trade and Economic Diversification. STED is a methodology that provides guidance for the integration of skills development in sectoral policies. It is designed to support growth and decent employment creation in sectors that have the potential to increase exports and to contribute to economic diversification and as such is a tool that targets donors active in trade-related technical assistance and relevant line ministries (e.g. trade, economy, industry) at the national level.

## Key Tools and Resources

International Labour Office (ILO). 2004. *Final report of the World Commission on the Social Dimension of Globalization: A fair globalization: Creating opportunities for all* (Geneva).

Bacchetta, M; Jansen, M.; Von Uexkull, E. 2010. *Trade and employment in the Global Crisis* (Geneva, ILO).

Jansen, M.; Peters, R. ; Salazar-Xirinachs, J.-M. 2011. *Trade and employment: From myths to facts* (Geneva, ILO).

Skills for Trade and Economic Diversification (STED): a brochure presenting the STED technical assistance tool, available at <http://www.ilo.org/STED>



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