

# THE ILO AND THE SOCIAL DIMENSIONS OF GLOBALIZATION

*POSITION PAPER*



INTERNATIONAL ORGANISATION OF EMPLOYERS

*Adopted by the Management Board  
on 10 November 2001*

## **INTRODUCTION**

*Globalization has become a fundamental issue at both national and international levels in recent years and will continue to do so. The International Labour Organization has adopted globalization as one of its key areas of focus over the coming years. Given its mandate, the ILO has concentrated on the labour and social dimensions of globalization and proposes increased labour rights and improved working conditions as a panacea to social problems. Yet it is erroneous to merely place broad socio-economic problems at the door of globalization or seek to provide isolated remedies to perceived problems. A more productive strategy would be to analyze the actual causes of these problems, determine the obstacles to overcoming them and identify the policies and institutions required to rectify them.*

*There are a wide range of institutional and policy reforms that a country needs to have in place in order to benefit from globalization. Improved labour rights, amongst other benefits, are a natural extension of this process. The ILO's role in this process should be to identify the problems that fall within its mandate and capacity, and to arrive at a coherent view based on empirical evidence as to what needs to be done at the national and international levels to enable more countries and people to benefit from globalization.*

*François Perigot  
President*

*Daniel Funes de Rioja  
Executive Vice-President*



## ***GLOBALIZATION AND ITS BENEFITS***

1. Globalization, the process describing current economic integration, is not a new phenomenon. Economic integration has been taking place for over a century. However, the speed of current economic integration, caused by developments in information and communications technology, increased investment and capital flows and trade liberalization, is new.
2. Globalization has the ability to transform economies and imbibe them with sound economic and political structures and institutions. Countries wishing to benefit from globalization need to promote political transparency, economic openness and institutional reform. Globalization acts as a catalyst to such reform, and is linked to greater political and economic democracy. Globalization and democracy reinforce each other.
3. Free trade has the potential to drive economic growth, create wealth, improve labour conditions and result in a better division of labour between countries based on comparative advantage. Reaping these benefits requires a combination of policies at national and international levels, including the removal of tariff and non-tariff barriers to trade.
4. Globalization empowers the consumer by creating increased choice.
5. Foreign direct investment (FDI) generates not just capital, but increased knowledge and skills in an economy. It promotes a focus on productivity improvement, management skills and facilitates integrated links to developed markets. Attracting FDI requires creating an attractive environment for investment, which includes government accountability and transparency, capital mobility, labour market flexibility, human resource development and infrastructure.
6. Trade and FDI have a positive impact on wages in the developing world, as export firms pay higher wages than non-exporters and foreign owned firms pay higher wages than local firms.
7. Improvements in information and communications technology, which require an enabling environment for the absorption of ICT, benefit everyone.
8. Increased economic interdependence among countries creates political stability and peace.
9. Countries more receptive to trade and FDI have grown at twice the rate of closed economies. Globalization has helped to reduce income gaps between developed and developing countries participating in the globalization process, while the income gap has increased between globalizing and non-globalizing countries.



## ***CHALLENGES TO INTEGRATING WITH THE GLOBAL ECONOMY***

### **WEAK MARKET INSTITUTIONS**

10. A prerequisite to participation in globalization is the need to put in place the political and economic conditions and institutions to create a market economy. These include access to and the respect for the rule of law, an impartial judiciary, recognition and enforcement of basic property and contractual rights, an efficient and well-regulated financial system, an effective and corruption-free democratic political system and sound macro-economic policies. These conditions and institutions should be developed by each country to fit its individual administrative and financial capacity and using a consensual approach through national social partners.

### **LACK OF CAPITAL**

11. In many developing countries the absence of legal rights to assets prevents their productive use. As a result, there is a lack of capital to drive entrepreneurship among much of the population, which in turn encourages the growth of the informal economy. An estimated US\$ 9.5 trillion in value remains in a dormant state in developing countries as assets held in defective forms. This situation can be solved through national policy, legal and institutional reforms.

### **TECHNOLOGY EXCLUSION**

12. Bridging the 'digital divide' is a key to guaranteeing that more countries have the necessary tools to participate in the global economy. Improved human resource development, investment in education and skills and infrastructure development are part of the policy framework needed to address this important deficiency. A country that has established the appropriate environment for the absorption of ICT will find international assistance more helpful in making the transition quicker.

### **INAPPROPRIATE BUSINESS ENVIRONMENT**

13. A sound communications and transport infrastructure, and other important features of an appealing business environment, are essential components of any strategy designed to attract FDI.

### **OTHER CONSTRAINTS**

14. Globalization must ultimately encompass all trade in all industries and commodities if it is to fully benefit all countries equally. The current trading climate is not always conducive to developing countries benefiting from trade. These countries must be able to operate in a trading environment that allows them to fully benefit from trade across all sectors of the global economy. Existing tariff and non-tariff barriers in important sectors such as agriculture

and textiles imposed by developed countries need to be revisited, as does access to all markets in developed and developing countries alike. The disadvantaged position of developing countries in relation to trade has an impact well beyond trade. It deprives them of the capacity to create jobs and find the resources for technology and infrastructure development.

15. To fully realize the benefits of globalization, developing countries need to be assisted in adapting their procedures and opening their markets at an appropriate pace suitable to existing constraints in their economies. China and India are often cited as examples of countries making the adjustment at a pace within their own capacities.
16. Countries that wish to benefit from globalization need to analyze where they stand on the comparative competitiveness indices and to develop the necessary policies and capacities to improve their position. To achieve this, they will need targeted assistance from developed countries and international institutions, allied with changes to the current trading climate.

## ***THE EMPLOYERS VIEW***

### **THE SOCIAL DIMENSIONS OF GLOBALIZATION**

17. This refers to how the process of globalization is changing the world of work and, therefore, the policies, practices and institutions which affect the world of work.

### **GLOBALIZATION IS NOT THE CAUSE OF INEQUALITY**

18. It is disingenuous and unfair to place the world's socio-economic problems at the door of globalization. Poverty and inequality are affected by a diverse range of factors such as political instability and conflict, poor policy and institutional frameworks, corruption, disease, lack of infrastructure and access to technology changes, and poor investment climate. The evidence demonstrates that countries outside the ambit of globalization have continued to see inequality increase while those that are integrating into the global economy have seen it reduced. *Exclusion from globalization is a cause of inequality, not inclusion in it.* In developed countries technological developments account for the greater part of inequality.

### **GLOBALIZATION HAS BEEN A NET CREATOR OF JOBS**

19. Accompanying the process of globalization is the increasingly rapid changes in technology and communications. This has often necessitated restructuring in certain sectors as an economy moves to more technology, knowledge or skills intensive products or services, leading in some cases to job losses. In the long term, these kinds of progress-based changes lead to increased skills, increased opportunities to attract FDI and overall economic growth. Furthermore, globalization has allowed more flexibility in the workplace leading to opportunities for part-time work, tele-work and greater participation of women in the labour market. Similarly free trade and investment, accompanied by requisite policies to capture their benefits, lead to job creation in developing countries as well.

### **CHALLENGES PRESENTED BY GLOBALIZATION**

20. Free trade and FDI have great potential to contribute to economic growth, employment generation, wealth creation and poverty reduction. However, countries need to develop their economies at a pace within their own capacity, with assistance from international organizations and trading partners. This will often help to prevent the closure of domestic industries and unemployment, which could result in political and social instability and reduce a country's capacity to give effect to the ILO strategic objectives. Changes in economic policies to adjust to globalization involve restructuring processes, which in the short term may cause dislocation, but ultimately any changes should increase productivity, skills and knowledge leading to increased economic growth.

#### **LABOUR RIGHTS ALONE WILL NOT SOLVE ALL THE PROBLEMS**

21. Socio-economic problems cannot be solved exclusively by social means, and adequate regard must be given to the political and economic policies necessary to create the capacity to introduce and sustain the social agenda. A social and labour agenda are a natural appendage to economic growth, and are not what helps countries to reap the benefits of globalization. They are one means of securing the fair distribution of such benefits.

#### **NO ONE INTERNATIONAL ORGANISATION CAN SOLVE ALL THE PROBLEMS**

22. The issues relative to globalization fall within the mandate of many international organizations. With respect to a particular social or economic goal the choice of the policy instrument must be appropriate to meeting that goal in a targeted fashion. The ILO should note the challenges to greater economic integration, address those within its mandate and promote policies and institutions at both national and international levels that support a 'sustainable' agenda. The ILO cannot hope to address on its own all the dilemmas faced by countries wishing to benefit from globalization.

#### **ECONOMICS MUST BE CONSIDERED TOGETHER WITH THE SOCIAL ASPECTS OF GLOBALIZATION**

23. The ILO's proposal of an integrated policy framework combining economic and social policies must take account of the economic realities countries face in sustaining the cost of a social agenda; advise countries on how the necessary resources may be found, including ways to mobilize indigenous sources of capital; and diagnose the reasons for the problems that constrain countries from improving labour standards.

#### **GLOBALIZATION MUST BE EXAMINED AT THE NATIONAL LEVEL**

24. The obstacles to globalization need, in the first instance, to be examined at the national level. Importantly, the ILO should be careful in making assumptions applicable to all countries across the board. The ILO can facilitate the social partners to jointly approach governments on a common agenda that diffuses the benefits of globalization more widely.

#### **GLOBALIZATION HELPS RAISE LABOUR STANDARDS**

25. Investors are not attracted by low labour standards in a given country, as poor labour conditions are obstacles to a productive and skilled labour force. Key factors such as an attractive business environment, sound infrastructure and market supporting institutions are key drivers in encouraging FDI. It is the two reinforcing processes of democratization and globalization working in tandem that have led to a wider recognition of labour rights.

## ***EXPLOITING THE ILO'S ADVANTAGE***

26. The ILO holds a unique position, as it is the only international organization in which governments, employers and workers actively participate in developing policy orientations. However, there needs to be a deeper exploration of common ground between workers and employers, especially at national level.
27. The Declaration on Fundamental Principles and Rights at Work represents an important new promotional and practical tool at the ILO's disposal to promote social progress in the modern world.

### **KEY ILO ACTIONS**

- The ILO should recognize and analyze the beneficial impact of free trade (i.e. without many of the existing barriers) on employment and labour standards and how a failure or inability to participate in free trade limits the capacity of countries to improve labour conditions.
- The ILO should also draw on existing research by other international organizations on investment promotion and enterprise development.
- The ILO could use its expertise more actively to assist countries in formulating the policies and strengthening the institutions needed for business growth, attracting FDI and participating in trade consistent with national realities. The ILO's capacity to provide assistance would be strengthened by improving its macro economic policy expertise as recently proposed by the Office.
- The ILO can offer its education and skills development expertise to assist countries in improving their human resources development policies, which are crucial to productivity development, competitiveness and generation of employment.
- In the area of social protection and security, the ILO could use its expertise and experience to modernize existing systems. There is scope for collaboration with the World Bank in order to combine expertise and to secure funding for programmes.
- The ILO policies and programmes can contribute to creating the appropriate economic environment for attracting investment for enterprise and employment creation. The development of ILO research needs to cover the policies, laws, institutions and governance needed to create an economy that can benefit from globalization. The ILO should examine obstacles to the generation of domestic capital, the real reasons for the existence of the informal economy, the barriers to business growth and competitiveness.



## ***SUMMARY OF A PRODUCTIVE APPROACH***

*An agenda needs to be devised based on bringing the benefits of globalization to all countries that wish to participate in it. This agenda must incorporate an analysis of why some countries are unable to benefit from globalization and how the ILO, through its policies and programmes, can help these countries adapt. The role of the social partners must also be utilized, particularly their ability to promote the establishment of appropriate political and economic policies and institutions and the necessary national environment and infrastructure to enable countries to benefit from globalization. Importantly, the appropriate role of labour rights must be identified and coordinated with other equally important political, social and economic policies that facilitate a country's active participation in the globalizing economy.*

### **KEY QUESTIONS TO BE ADDRESSED IN THIS DEBATE**

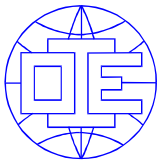
- What are the legal and institutional changes countries need to make to benefit from globalization?
- Why are some countries benefiting from the process and others are not and how can assistance be given to effect needed changes?
- What are the barriers to employment creation?
- What social protection and security policies are affordable and most effective?
- How can education and skills development training assist countries in reaping the benefits of information and communication technology?
- What are the obstacles in some developing countries to the generation of domestic capital and why do they exist?

### **EMPLOYERS AGENDA**

- Identify the obstacles to economic integration.
- Promote the establishment or reform of institutions, political systems, practices and processes needed to overcome these obstacles.

- Promote the creation or strengthening of market and non-market institutions to create the conditions to benefit from trade, investment and technology absorption and diffusion.
- Promote the development of policies for, and investment in, education and skills development.
- Support joint efforts with the other constituents to create the appropriate environment to bring the benefits of globalization to those countries that want to participate.

\* \* \* \* \*



**INTERNATIONAL ORGANISATION OF EMPLOYERS (IOE)**

26, chemin de Joinville

1216 Cointrin / Geneva

Switzerland

Phone : +4122 929 00 00

Fax : +4122 929 00 01

E-mail : [ioe@ioe-emp.org](mailto:ioe@ioe-emp.org)

Website : [www.ioe-emp.org](http://www.ioe-emp.org)

© 2001, International Organisation of Employers