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PERSPECTIVES

The internationalization of employment: A challenge to fair globalization? *

Calls for the goal of decent work and other employment objectives to be addressed as integral parts of international economic policies have become louder and louder with the spread of globalization. These have of course long been priorities for the ILO, and were repeated by the World Commission on the Social Dimension of Globalization in its report published in 2004. With migration being the focus of this double issue of the *International Labour Review*, there is an obvious link with "the internationalization of employment".

This theme of the internationalization of employment was addressed by a conference bringing together researchers from France and elsewhere, and organized jointly by the International Institute for Labour Studies and the Employment Sector of the ILO and the French Ministry of Labour, Employment and Social Cohesion, held in Annecy (France), 11-12 April 2005. This perspective reports on the major issues to emerge from discussions at that conference. Although the discussion mainly concerned the impact of globalization on the labour markets of developed countries, a global perspective was nevertheless sought, and there were participants from the new European Union countries and from developing countries.

The views reflected here are those of the researchers and analysts participating in the Conference; they do not necessarily reflect those of the ILO or of the French Government. A full report on the contributions to the Conference may be found in Auer, Besse and Méda (2006).

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Extent of the internationalization of employment

When questioned on what they see as the main threat arising from globalization, people commonly reply that their greatest fear is losing their job and/or having to accept a lower-quality one. Opposition to globalization is often rooted in popular fears of "offshoring" or the relocation of production and jobs, the displacement of national products by cheap imports made possible by low wages and poor labour standards, and labour market competition from low-paid migrants. To counter this widely held misconception with scientific evidence on the impact of globalization on employment, a conference on "The internationalization of employment: A challenge for a fair globalization" was jointly organized by the French Government and the ILO – the third such event.[1] Because the debate on migration is very complex, highly specific and politically sensitive, the Conference focused exclusively on the employment impact of cross-border trade and investment, including the question of trends in relocation of production and the ensuing "delocalization" of jobs. The aim was to produce new evidence on employment trends; to debate policy solutions for those displaced by cross-border trade and investment; and to discuss the form of governance needed for the employment dimension of globalization to be made more equitable.

Challenges and opportunities

The increasingly global dimension of trade and investment is both a challenge and an opportunity – so states the report of the World Commission on the Social Dimension of Globalization (WCSDG, 2004). In its simplest formulation, for example, the relocation of production can be expressed as investment and jobs which are lost in the sending country and gained in the receiving country. In that case, the winners and losers can be clearly identified.

However, this formulation does not reflect the true complexities of the internationalization of trade, investment and employment. Companies may be moving production overseas through delocalization and mergers and acquisitions, but they may also be contributing to the survival of national business because their in-sourced goods make them more competitive. They expand their markets and may find new export possibilities, again boosting employment in the sending country. Trade deficits may be seen as lost job opportunities but, again, cheaper imports of intermediate goods can make national industries more competitive.

[1] For reports of the first two conferences held in Annecy in 2001 and 2002, see: "The future of work, employment and social protection" and "The dynamics of change and the protection of workers" in *International Labour Review* (Geneva), Vol. 140 (2001), No. 4, pp. 453-474, and Vol. 141 (2002), No. 3, pp. 275-290, respectively. The next meeting in this series organized jointly by the ILO and the French Ministry of Employment, Social Cohesion and Housing, will be held in 2007 and is expected to focus on migration.

Cheaper imported goods also favour consumers. And trade and investment do not usually occur in only one direction: countries lose and win at the same time and the net balance is difficult to establish. In many respects, involvement in the globalization process now seems to be a precondition for maintaining and developing national production, employment and social welfare systems: research has shown that countries excluded from the globalization process are (and remain) the poorest. So, even in countries where the debate is overshadowed by the fear of job losses, amplified by media reports on plant closures and relocation of production, it is dangerous to jump to conclusions about the overall impact of this complex pattern.

Against this must also be set the real opportunities globalization offers to lower-income countries to gain a foothold in global production systems. And the growth of domestic markets in those countries is essential to a healthy global economic system from which all can gain. Such arguments can be advanced both within an enlarged European Union, and between Europe and the rest of the world.

Clarifying the extent of the threat

One of the aims of the Conference was to bring greater clarity to this debate. Different speakers presented some of the figures underpinning popular fears of the impact of globalization. For example, it was estimated that the huge 2004 trade deficit between the United States and China corresponds to a gross number of 1.8 million “forgone jobs”. A back-of-the-envelope calculation on the 2003 trade deficit between the European Union and China would indicate around 0.8 million forgone jobs. The concomitant decline in industrial employment reported from the United States or from France supports the argument that outsourcing adversely affects the industrial base of the countries concerned.

More recently there have also been effects on the hitherto protected service sector. There are alarming forecasts, such as those provided by Forrester Research, that around 1.2 million service jobs in the EU15 are likely to be offshored in the next decade (Forrester Research, 2004). At the same time, there is increasing demand for the agricultural sector to open up, and awareness of labour cost advantages not only in east Asia but also in the newest EU member countries. This fuels popular fears that the comparative advantages of western industrial countries are under threat.

However, though they did not deny these trends, most speakers and participants sought to defuse the more extreme forecasts. For example, apparently straightforward relocation of production occurs rather rarely. It was the cause of job losses in only 6 per cent of all restructuring cases reported by the European Restructuring Monitor. In France, only 10 per cent of job reductions in industry were reported to be due to offshoring. In general, it is difficult to attribute job losses primarily to globalization, because it is difficult to disentangle the many factors influencing jobs. In particular, it seems clear that – at least in the short term – technology can be a more important driver of job losses, especially if productivity gains are not followed by a proportional expansion of markets.

The concept of forgone jobs in trade accounts is also questionable, as import substitution policies would require a hypothetical array of infeasible and undesirable policies, such as low-wage strategies and labour-intensive production, and would rob both developing and developed countries of their comparative advantages. Uncertainty still surrounds the measurement of the overall effects on employment when both sending and receiving countries are taken into account. The results may be either zero-sum or positive-sum games. Vertical disintegration of the production of goods and services adds a new dimension to globalization, making it even more difficult to estimate the impact on employment. More and more intermediate inputs in production and (increasingly) in services are produced abroad, but are marketed both at home and abroad, often by multinationals that have their headquarters and their main workforce in developed countries.

Globalization is only one factor, and does not appear to be the dominant one. However, together with technological change and the new global production chains, it speeds up structural change. Although (some) developing countries' trade share has increased, developed countries remain the main actors in trade and investment and the drivers of globalization.

The nature of jobs particularly at risk in high-income countries was also discussed. Whilst it is true, as generally assumed, that this concerns mainly unskilled jobs, some higher-level service jobs are also subject to offshoring. Nevertheless, around 60 per cent of the jobs likely to be offshored in the United States in the near future are relatively poorly paid.

Another discussion concerned the increasing inequality associated with globalization and the internationalization of employment: while absolute poverty is decreasing, wage and income inequalities between countries and within many countries are increasing, sometimes at great speed. Some of this is due to variables such as geographical remoteness from main centres, some of it to a "race to the bottom" caused by increased competition between countries and between workers. Another factor is the "doubling of the global labour force" with the arrival of China and, to some extent, also of India in the global arena.

Globalization old and new

However, globalization is not a new phenomenon: between about 1870 and the outbreak of the First World War, cross-border trade and investment had already reached levels that were not subsequently surpassed until the mid-1970s. Though post-war trade was gradually to regain its early-twentieth-century level, today it differs considerably from nineteenth-century trade: in 1913, the United Kingdom – the leading trading nation of the time – imported wheat and tea and exported textiles and traded largely with far-off and dissimilar countries. Today, the bulk of trade occurs between developed (hence similar) countries: the "old" 15-member European Union alone accounts for 40 per cent of world trade. Two-thirds of these countries' imports and exports are traded between them. France, Italy, the Netherlands and the United Kingdom are the main trading partners of Germany, itself the leading European exporter. There is less trade between Germany and the United States than between Germany and Belgium and Luxembourg. Most world trade is therefore local, in terms both of products and of trading partners. Apart from its trade with other European countries, France's trade with the rest of the world, including the United States and Japan, accounts for less than 10 per cent of its GDP. The proportion of western Europe's exports to the developing world fell throughout the post-war period. At present, exports from the wealthy to the poor countries account for only 2 to 3 per cent of the former's GDP.

Multinationals' activities mirror world trade, of which they are also the main vector: in 1998, 77 per cent of the sales of American multinationals were to OECD countries. Clearly, these multinationals are primarily interested in the consumers of the countries in which they are based, which explains why multinationals' foreign direct investment has long been in the wealthy countries. It also explains why the higher a wealthy country places its customs barriers, the greater the direct investment it attracts: investment *in situ* is a way of avoiding tariff barriers and reaching the consumer. This is why in the early 1980s Japanese motor-manufacturing firms stepped up their investment in the United States in order to counter the local industrial protection.

Changes

It is only at the start of the twenty-first century that a genuine change seems to be occurring, with an increase in trade from developing to industrial countries. China is the most prominent example of this trend. Although total employment in multinational firms increased by only 25 per cent between 1989 and 1998, it doubled in Asia in that decade. In China, it increased by 53 per cent per annum. Multinationals are now setting up in emerging economies where customs tariffs are low, in order to use them as a platform for re-export. In east Asia, on average half of production is re-exported. This re-export takes place along a production chain, chiefly to other Asian countries, before the end product is finally despatched to global markets. In 1995, most American imports were intermediate products purchased by industrial firms. In European countries (e.g. France, Germany and the United Kingdom), over half of intermediate products are now imported.

The famous Barbie doll offers a striking illustration of the new nature of world trade: the "vertical disintegration" of the manufacturing process. The raw material (the plastic and the hair) comes from Taiwan (China) and Japan; assembly takes place in the Philippines, before moving on to lower-wage areas in Indonesia and China. The moulds come from the United States, as does the last coat of paint prior to sale.

Value chains

The vertical disintegration of production characterizing the current expansion of world trade is closely associated with the development of information technologies, and is underpinned by a revolution in work organization. These new production methods were not created by the information technology (IT) revolution, but IT makes it possible to broaden their use and create new applications based on the networking of complex production units, within and outside the firm. Outsourcing to subcontractors plays a major role in these new management methods. Firms focus on their comparative advantage, on the points at which their margins are greatest and, particularly, on the two ends of the chain, as discussed below. From this point of view, it may be said that employment is itself being internationalized by a process which predates it and is much more global than is suggested by the proportion of jobs actually offshored.

The value chain approach also shows the comparative advantages of countries: only the parts of the value chain providing the greatest added value remain in the developed countries: research, design and conception, as well as promotion and marketing strategies. Globalization is indeed helping these ends of the value chain to prosper but, by contrast, it is tightening the noose around the intermediate stage, i.e. production. This is why it is misleading to contrast services and industry: the industrial sector's most service-oriented activities are flourishing (in the wealthy countries), while production in the strict sense tends to be outsourced. Recent studies show that firms active in international trade tend to focus on tasks geared to managing the new complexity of the value chain. So, in a way relocation of production and de-industrialization are the twin conditions of "global sourcing", itself increasingly a precondition for doing business.

Effects of the internationalization of employment

Globalization encompasses both continuity and change. Decisions to set up abroad are often governed by market-seeking arguments: the concept of forgone employment as such is probably misleading, as cost differentials do not permit firms to serve the market from home. Not setting up abroad would thus correspond to a lost opportunity. As the respective local and foreign employment content in final products is difficult to disentangle, the employment effects remain uncertain.

In a way, then, popular perceptions in the wealthiest countries associating only job losses and no job gains with the internationalization of employment are probably exaggerated reactions. However, though this finding may be important it does not help to settle people's worries. This is because the mere possibility of setting up abroad, of moving investment across the globe, acts as a threat: the danger of downgrading working conditions is a real one, as is the fear of job losses.

It is in the nature of structural change to destroy jobs in certain locations, certain sectors and for certain groups, and to create jobs in other locations, other sectors and for other groups of workers; this is what makes adjustment painful and difficult. In a national political context, no soothing benefit is derived from the argument that the internationalization of employment, viewed at the global level, is a zero-sum or even a positive-sum game with winners gaining more than the losers have lost. Politicians have to address the tension between global (even national) compensation and local losses, and between the very real short-term problems and the probable, but more uncertain long-term gains. The Conference therefore also discussed what can be done to make competition fairer, to minimize the negative effects of the internationalization of employment and, where negative employment effects seem inevitable at least in the short run, how to manage these effects.

Managing the effects of the internationalization of employment

Several conclusions for the management of the employment flows of globalization follow from this argument. They have implications for both industrial and labour market policies. The Conference focused on labour market policies, but it was noted that industrial policies as well as sound macroeconomic policies would be essential to create alternative jobs for those displaced by foreign trade and investment. Policy options for adaptation in high-income countries attracted the greatest attention: obviously, countries entering global markets with cost advantages are likely to employ different strategies, depending on whether they are members of the expanded European Union or developing countries.

Three different approaches were identified. The first focuses on participation in value chains. In this case, priority is likely to be given to speeding up specialization of the firms at both ends of the chain: sectors with a high R&D potential should be promoted, while at the same time jobs (especially unskilled jobs) may need support in the sectors not directly subject to international competition. This is the path naturally being taken by France, a country wishing both to pull off a high-technology industrial policy (Beffa, 2005), and to implement a targeted policy of subsidizing low-wage, local jobs, as proposed in another recent French report (Cahuc and Kramarz, 2005).

The second approach is geographical: emphasis is placed on the resources available to regions rather than on sectors, as in the previous approach. A region wishing to adapt must offer the new (physical and human) infrastructure required by the global economy. National governments and/or the European Union could use the EU structural funds or the new EU adjustment fund to compensate regions affected by offshoring, at least for a certain period, to help them prevent the downward spiral of fewer jobs, less revenue, less infrastructure and general loss of attractiveness.

The third approach targets the individuals affected by change. According to the conventional conception of international trade, an efficient international division of labour emerges if, within each country, workers are reallocated between sectors. Such an approach to the problem enables measures focusing on individuals to be developed, and is one of the main starting-points of the debate on “flexicurity”.

A combination of all three approaches is probably feasible, since they are not mutually exclusive.

Like globalization, restructuring of firms is not new

Discussions at the Conference focused particularly on the third approach. Though there has often been recourse to redundancy in the past, there are encouraging signs that a genuine and permanent “adjustment management system” is developing, linked to trade liberalization and globalization, among other factors. In this connection, the second session of the Conference considered the anticipation of job transfers and how to protect workers affected by the relocation of production and economic downsizing.

Research on these issues conducted in the 1970s remains relevant today. At that time there was a radical change in the international division of labour, characterized by the emergence of new Asian competitors (Japan and the Republic of Korea) with modern means of production, low wages, lower rates of trade unionization, less stringent labour and environmental standards, and cheap energy and raw materials. The first sectors to be affected by this new competition were textiles, clothing, electrical and optical equipment, later followed by shipbuilding, steel production, the automobile industry, and mechanical and electronic engineering. Various programmes were developed, aimed at cushioning the effects of redundancy and/or at reallocating workers to other sectors through adaptation training, wage subsidies or early retirement. Even before the 1970s, the experience of the European Coal and Steel Community (the forerunner of the European Union, established in 1952) shows that both national and international public authorities were much involved in mitigating the effects of redundancies arising from the gradual liberalization of this protected sector. As this example shows, already at the birth of the European Union the strong links between the introduction of a common market and the need to develop ways of preventing or curing the resulting job losses were recognized. The same holds true for other trade blocs, such as the North American Free Trade Agreement (NAFTA), that reinforced trade adjustment assistance – though at a much lower level of government and without any supranational intervention.

Most of the public policies and company measures to support restructurings originate in these historical experiments, with European countries making greater use of varied policies than the United States. They included preventive measures affecting the conditions in which businesses operate, attempts to ensure gradual change, the use of "age-related" labour market measures, as well as active measures to promote geographical and/or occupational mobility, reindustrialization subsidies, etc. European policies rapidly moved away from measures to slow the restructuring process, and accepted – though not without struggle – the free play of the market on condition that job cuts were flanked by policies to reallocate and protect the workers affected. Three determining factors appeared to trigger public intervention:

- large companies forced to lay off large numbers of workers;
- the impossibility of staggering these job losses over time, which meant that they appeared both sudden and massive;
- the geographical concentration of the job losses, which rendered them even more visible and also caused losses of dependent activities.

Because of these factors, small and medium-sized enterprises were largely left to adjust by themselves, whereas large enterprises benefited from an array of adjustment measures.

Obviously, the need to restructure as a result of globalization occurs all over the world, in Latin America as well as in Asia, where surplus workers are often laid off without much public intervention or compensation from the firm involved in the restructuring. The former communist countries deserve special mention, notably because the structure of the labour market and the operating rules in their societies showed no open unemployment, but a form of "labour hoarding" within firms themselves, instead. Under market economy rules, the internal management of workforce surpluses disappeared and massive job losses and open unemployment emerged despite some of the adjustment measures taken to cushion the effects of the regime change.

Towards a permanent "adjustment management system"?

Though adjustment policies are characterized by continuity rather than sudden change, the numerous instruments applied to adjust to the effects of free trade and globalization in a socially responsible way do suggest that priorities have gradually evolved. The general direction is increasingly "Schumpeterian" – a reference to the famous Austrian economist who in the first half of the twentieth century formulated his analysis of the "creative destruction" of capitalism. According to Schumpeter, there is no point in delaying job losses resulting from capitalism, nor should this be done to protect workers under threat. However, measures to compensate those affected and to organize the reallocation of workers from shrinking or rationalizing sectors to growing sectors are justified.

But structural change is now taking place in a context where lay-offs are no longer unfortunate but isolated incidents – indeed, they are gradually becoming more widespread and permanent. They do not concern large firms alone: because of new forms of work and company organization which result in outsourcing and just-in-time delivery, smaller supplier units, both national and international, are immediately affected by problems arising in the core units of the value chain. Interdependence has increased and with it effects all along the chain. The Conference coined the term a "genetic mutation" in restructuring to describe the constant need to be flexible and competitive which is making it harder for workers to adjust, and to find and keep jobs.

Two major changes can be observed in the use made of measures to accompany restructuring. Today, in developed countries at least, restructuring tends to be managed on the basis of permanent rules and schedules drawn up by the public authorities. Along with this tendency towards "red tape", there is a growing emphasis on active approaches which focus on the new jobs of the future, rather than on the preservation of the past. In practice, these two approaches are ushering in a "new balance of rights and duties" for those affected by economic redundancies, in the European Union at least. Thus, every time a contract seems likely to be terminated, recourse to the law or the courts is considered. The effects of such a "legalization" of labour relations are most evident when restructurings occur, because the workers concerned have usually been employed for a long time in sectors where stable, protected labour relations were the norm.

In the United States, mass redundancy procedures often involve anti-discrimination measures in disputes over age discrimination. In many countries in Europe, "social plans" set out substantial procedural requirements on major companies wishing to carry out mass lay-offs.

Despite the diversity of situations to be found in individual countries, an "economic redundancy system" is beginning to emerge in Europe at least; this ranges in content from the limitation or regulation of redundancies to the obligation to give advance warning or to consult the workforce and/or various regional or national public bodies, or to follow a series of predetermined steps. This system also has a basis in European legislation (the EC Directive relating to collective dismissals of 1975, subsequently amended in 1992 and consolidated in 1998). Most recently, with the accession of new member States to the European Union in 2004, the aim has been to introduce a supranational financing mechanism, a growth adjustment fund of one billion euros per annum, and contingency reserves as part of the social cohesion policy totalling some 11 billion euros over coming years.

Activation of restructuring

From the point of view of a company facing stronger competition and operating in a context in which work is being reorganized and intensified, it seems natural to keep the workers regarded as the most adaptable and productive. Older, poorly trained workers then become the main target of redundancies. They are also difficult "clients" for active employment policies. Early retirement schemes may seem the best solution for most of them. In the past, this policy was widely used to deal with mass lay-offs. But today, with an ageing labour force, it seems difficult to continue with this win-win solution from the past. Then it allowed firms to adjust, provided income security to workers and guaranteed social peace, but the cost was an additional burden on public or company finances. Terminating the early retirement option leaves three alternatives regarding older workers: that they remain employed by their firms, at the cost of a possible trade-off with employment for young people; accepting higher levels of unemployment with a high risk of pauperization at older ages; or opting for an active labour market policy to manage their transition to new jobs or to offer temporary replacement jobs.

The gradual withdrawal of early retirement schemes leaves older workers (the main victims of restructurings) with a bleak outlook. The challenge ahead is two-fold: how to enable firms to offer longer careers to their older employees and how to make restructuring more "active", in the sense of genuinely helping workers redeploy from shrinking to expanding sectors. This last option may entail a more even distribution of the lay-offs across all age groups.

But can active measures do the job? The OECD finds that the redeployment rate for laid-off workers looking for a new job rarely exceeds 50 per cent, and this concords with the findings of most experts (OECD, 2004). The situation here (accentuated by the particular circumstances and people involved) is that active employment policies perform relatively poorly. In particular, there is great scepticism about training as an employment policy tool when dealing with restructuring. It is often deemed ineffective if it is too general, but more effective if it is vocational. However, workers who are made collectively redundant are often skilled in a particular, now-disappearing trade, have had long careers in shrinking sectors and are older –and often find it very difficult to feel motivated about training even if they gain access to it.

Thus, though in theory active public (or public/private) labour market policies are required, ways must be found of making them more efficient in helping reallocate workers – which is difficult if jobs are rationed. For that to be done and an efficient “adjustment management system” to be created, several conditions must be met.

There should be measures to prevent job loss, and only after these are exhausted should there be active redeployment. For example, when the business cycle leads to temporary lay-offs, special temporary lay-off systems or short-time work schemes may prevent temporary difficulties affecting the labour market from becoming permanent.

There should be career management, not just job loss management. Most of the studies tracking what happened to the victims of restructuring emphasize that the degree to which redeployment is successful depends very much on the workers’ past career. Careers start long before such redundancies occur and this implies a need for general employability policies. The protection of professional career paths or policies providing for protected mobility at cross-over points in working lives where risks occur (e.g. the transition from school to work, from job to job, or from job to unemployment) are a new approach going beyond ad-hoc redundancy management to genuine “adjustment management systems”.

Persons undergoing retraining or benefiting from other active labour market measures should be active participants. For example, the resistance to training often displayed by dismissed workers (especially older workers) parallels the real difficulties they face in finding new jobs, but also tends to amplify these difficulties. This Catch-22 situation must be tackled: new jobs corresponding to the training received must be offered at some stage in the process. Positive age discrimination policies may help to open up jobs for this category of worker.

The social partners must be actively and genuinely involved. Many of the redundancy policies come under their responsibility, as they are part of public employment services, training boards and so on. The constructive involvement of the social partners in reshaping active labour market policies is also in their own interest. For employers, an “adjustment management system” means that socially responsible adjustment can continue; for unions, it helps their members and results in attention being paid to both insiders and outsiders in the labour market.

National governments must take a proactive stance. Important parts of the “adjustment management system” will be state financed, and some parts also state run. Much of the organization will remain with decentralized units of the government or employment services, although civil society should also be involved and a variety of public, private and voluntary intermediary organizations can help.

A proactive stance by regional entities such as the European Union is also needed. The possible establishment of a growth adjustment fund is a clear sign that the EU is moving in this direction and will co-finance worker reallocation. The European Employment Strategy is an important plank in the flanking of restructuring as well.

A global strategy needs to be developed. The multilateral system should more forcefully agree on the need for a "redundancy management system" that effectively tackles the problem of the reallocation of workers. Developing countries and emerging economies, in particular, which face some of the same problems (e.g. the recent phasing-out of the Multi-fibre Arrangement has created worldwide employment problems) but without the financing and organizational capacities of the developed countries, require advice on the management of restructuring and financial aid to cope with redundancies.

There remains the question of whether or not access to such a policy framework for the adjustment needs of workers should be made available only to workers displaced by trade and offshoring, such as those for whom the United States trade adjustment assistance programmes were designed. Such a proposal is politically attractive, as it would allow governments to show their active contribution to solving the problems caused by the internationalization of employment. Evaluation of labour market policies has also shown that targeted programmes achieve better results than general programmes. From an economic and practical point of view, however, such targeting makes much less sense. It has been shown that it is increasingly difficult to disentangle the causes of redundancies (trade and investment, relocation of production, technology, national competition, unsuccessful mergers and acquisitions, turbulence on the financial markets, privatization, etc.). Moreover, the characteristics of the workers displaced by trade or by other factors are basically the same, and it would be difficult to deny rights to some, while granting them to others. Another factor is that the emerging "redundancy management system" can be seen if not as a global public good at least as a national or interregional public good. This would logically imply open access for all in similar situations.

Governance

In the long term and at the global level, the employment effects of globalization may well be positive. However, more adaptive capacity is required in the short and medium terms. A permanent, but adaptable "adjustment management system" (as outlined above) is a plausible option both nationally and in regionally integrated economic areas such as the European Union, but also in the NAFTA or Mercosur areas. More difficult, but perhaps not impossible, would be the establishment of an international adjustment fund, which would try to compensate the losers, possibly by taxing the winners, on a global level.

Policy coherence

International instruments are needed to cope with some of the employment concerns felt in the current phase of globalization. For example, on the global level, more coherent policies are needed to accompany structural change. Attempts are already being made by some key players in the multilateral system, such as the World Bank, to flank proposals for free trade with social policies which are in fact very similar to policies proposed by the ILO and by the European Union. Moreover, the OECD has fully committed itself to policies for worker security to accompany the liberalization of trade. Such "flexicurity" regulations and policies, which accept adjustment but provide security, are a promising area of common international action.

Labour standards

However, there is also a need to reduce disparities in conditions of competition, especially for developing countries. Though the Conference focused rather on the impact of trade and investment on the labour markets of the developed world, discussion of ILO labour standards indicated that the countries of the South are in greater need of policies to protect them from unfair competition than are the countries of the North. The dominance of the latter in trade and investment remains overwhelming. The countries of the North are not the ones suffering most from the negative effects of competition through cost advantages in the price of labour and the conditions of work, as they have the advantage of high productivity and a favourable position in the value chain. For example, although wages in some of the new EU member countries are much lower than in the old EU member countries, high productivity levels in the advanced countries compensate for these cost disadvantages. And the multinationals of the advanced countries, which invest in the countries formerly with transition economies, can combine low labour costs with high productivity and thus have a competitive edge.

There is fierce price competition between developing countries, which is now intensified by the sudden arrival of China in global markets, despite the numerous new opportunities provided by China's growing domestic market. Many countries are vulnerable. The Agreement on Textiles and Clothing expired at the end of 2004, and Chinese production capacity has expanded enormously. As a consequence, countries like Bangladesh, Cambodia, Mexico, Morocco, Sri Lanka and Thailand are now subject to increased competition and fear the loss of jobs. In 2001, the ILO launched a unique multi-donor partnership project in Cambodia's garment industry which employs more than 270,000 mostly female workers and makes up 80 per cent of all exports. This project, called "Better Factories Cambodia", created a team of independent labour monitors to make unannounced visits to garment factories, checking on conditions such as freedom of association, wages, working hours, sanitary facilities, machine safety and noise control. Cambodia has been able to gain market share through this strategy for upgrading labour standards.

Labour standards are highly relevant – in particular the fundamental rights at work (freedom of association and collective bargaining, freedom from forced labour, discrimination and child labour). The latter are now widely perceived as a floor to the conditions of employment in the global economy. Full respect for these rights, it was stated, would make a significant difference – it was argued, for instance, that freedom of association in China would lead to substantial wage increases.

Ever since the time of Albert Thomas, the first Director-General of the ILO in the 1920s, the Organization has argued that improved labour conditions would not simply come about in the wake of economic progress, but required a proactive approach on legal rights and international agreement. Unregulated competition in the labour market can depress labour conditions. The remedy to this situation is a common rule or minimum floor for conditions of employment which is applied by all. If there is foreign competition, then the normative regulation has to be international, too. It has to be applied equally in the labour, product and capital markets to prevent undercutting of the standard and a spill-over of sub-standard labour conditions from one country to another. This functional requirement is recognized by economists when they refer to "moral hazard", "negative externalities", or "free riders". However, the problem is that these rules would have to be introduced more or less simultaneously in all countries, or at least in a sufficient number of countries to make their practice the norm.

Some Conference participants considered labour standards should be linked to trade negotiations, and urged cooperation between the WTO and the ILO. For example, the European Union grants preferential tariffs to countries which respect the ILO's fundamental rights at work. Voluntary respect for fundamental labour standards is also part of the corporate social responsibility agenda, for instance in the United Nations' Secretary-General's Global Compact, providing another way of advancing the implementation of labour standards.

The link between trade and labour standards, notably the scope for conditionality, is controversial because it is often viewed in developing countries as a form of protectionism by wealthy countries. But there are also fundamental socio-economic reasons for considering labour standards as integral to the development process, rather than following a model of "growth first and standards later". Therefore, while a generalized system of preferences and labour standard conditionality in trade negotiations may help promote respect for standards, ultimately it is their contribution to growth and development which is more important.

Social dialogue

The development of international social dialogue is another important element in governance for fairer globalization and the internationalization of employment. Workers' and employers' organizations are both concerned by the internationalization of employment and should have a say in matters such as labour standards, the conditions of competition, the security of workers, etc. Some 30 International Framework Agreements have been negotiated between a multinational company and the trade unions of its workforce at the global level. Such agreements can ensure respect for the fundamental rights of workers promoted by the ILO throughout the subsidiaries of transnational companies.

As stated above, one particularly striking effect of economic globalization is the acceleration of structural change in countries opening up to international trade and capital flows. In order to avoid risks and to maximize gains from trade, employers and employees need to adapt quickly and effectively, by shifting to new products and processes, and acquiring new skills and competencies. Governments should provide knowledge and services to promote trade adjustment through labour market information systems and active labour market policies. On the basis of its Conventions on human resources development and employment services, the ILO operates a range of advisory services for countries seeking to benefit from the globally most advanced and effective policies and practices.

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