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**JOB CREATION AND EMPLOYMENT SECURITY IN THE ERA OF GLOBALIZATION**

*Draft report prepared by the co-Rapporteurs*

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**Foreword**

1. The purpose of the present report is to highlight and summarize the tensions between globalization and the world of labour, placing special emphasis on the impact of globalization on labour markets. The report highlights some of the far-reaching changes that have occurred in this regard.

2. The report's main message relates to the question of how to deal with globalization in terms of labour. A straightforward reply can be found domestically, in the form of accelerated national capabilities and increased capacity to face the impact of globalization. We therefore anchor our analysis at the national level, in the belief that now is the time for stakeholders and policymakers to move from sterile debates about the negative aspects of globalization to positive action, notably in the field of labour. Indeed, industrial protectionism and low levels of productivity and competitiveness can neither facilitate access to the international market nor ensure profits from trade liberalization and globalization. All these subjects merit special attention and thorough evaluation.

3. We make no claim to provide definitive answers, but hope that the report can help shed some light on this complex matter.

**1. Introduction**

4. The debate about merits or disadvantages is now history. In the world of work as it evolved following the collapse of communism in Europe and as a consequence of programmes imposed by the IMF in the 1990s, we have witnessed the emergence of major changes resulting from globalization, information technologies and technical innovation.

5. The rise of pro-market economic doctrines over the last 20 years has played a crucial role in laying the philosophical foundations for the emergence of globalization. The key question, however, is how labour markets can reply adequately to the challenges of globalization.

6. Significant policy changes are required at national level. In fact, government policies and structural adjustment programmes should be implemented in order to maximize the benefits of globalization and minimize its impact on labour markets.

7. Our concern is essentially that globalization should benefit all countries and improve the welfare of all people worldwide. In terms of labour markets, this means that it should raise economic growth rates but not undermine domestic socio-economic conditions and employment security. Full application of the process of globalization involves changes in economic structure that affect people's jobs, livelihoods and incomes.

8. The introduction of the market economy has drastically altered the environment in which classic industrial relations were long conducted. The guarantee of lifelong employment is being steadily eroded, while some privatized enterprises shed labour in the process of restructuring.

9. The present report reflects the views of a parliamentary body on the impact of globalization on the world of labour. It is also a personal attempt to assess the link between globalization, on the one hand, and economic and labour market insecurity, on the other. The fact that markets in all countries are becoming more global is exacerbating the feeling of insecurity among both employees and employers.

10. Indeed, there are two sides to globalization. It can generate demand, opportunities and gains, but it also imposes new constraints and challenges. The potential gains from globalization are neither automatic nor painless. They depend on the initial preconditions and on the local situation.

11. In fact, given the controversial relationship between globalization and labour, the picture that emerges from the analysis of economic performance, job creation and employment opportunities is mixed and extremely difficult to apply generally.

## **2. Globalization: its nature and its impact on labour and industrial relations in general**

12. Generally speaking, globalization is perceived as an inevitable and irreversible, complex and multifaceted phenomenon. According to conventional wisdom, globalization is chiefly characterized by the liberalization of international trade in goods and services, the expansion of capital flows and Foreign Direct Investment (FDI) measured in both value and volume of exchange in goods and services, the emergence of multinational enterprises, and the introduction of new technologies, in particular information and communication technologies (ICTs). The combined and interactive effect of these developments has had a profound but nevertheless variable impact on different economic sectors, types of enterprises, categories and social groups of workers. Inversely, market openness and competition have had a considerable impact on trade and FDI flows and led to the emergence of a dynamic private sector, improving living standards and increasing job opportunities, especially for highly qualified people.

13. Historically speaking, globalization took root in ground well prepared by the economic reform and structural adjustment programmes launched with the support of the World Bank and the IMF in the 1980s for the purpose of introducing a market-based economy.

14. Globalization is a process that affects all economies to varying degrees and has both negative and positive influences on and consequences for their economic growth, job creation and employment. Indeed, the available empirical evidence suggests that there can be no successful globalization without successful localization.

15. Globalization requires economic and social adjustments - including in labour markets - in all countries, industrialized and developing alike. New economic opportunities require new skills, knowledge of management practices and methods of work organization that take into account the scale and complexity of the economy and gender equality. These are two indispensable conditions for social equality.

16. Many people still associate globalization with unfair social realities. Some authors have claimed that the process of globalization - and especially that of liberalization of trade and FDI - has led to a substantial deterioration of the employment situation and to job losses, presumably because of higher imports from developing countries.

17. Generally speaking, the relocation of production between countries can destroy jobs in one place and create employment in others. Globalization has given rise to a number of concerns: on the one hand, many developed countries are afraid of competition from low-wage countries; on the other, companies in developing countries find it difficult to compete with powerful multinational corporations from the developed world.

18. Developing countries unanimously believe that globalization requires adjustments and reforms that cause considerable short- and long-term hardship and pain, in particular for the poor and for medium-income social classes. While acknowledging that the process of globalization has the potential to raise living standards, we believe that it also entails considerable risks such as increased labour market insecurity.

19. Globalization also presents new challenges to the State in terms of adequate social protection and security. Most people are directly affected by globalization through their work and employment. In addition, gender-based discrimination in developing countries has become a threat to women who must bow to the rules of their culture. Such social and cultural factors must be taken into consideration when drawing up education and labour management strategies. When they are provided with proper and equal conditions, women represent an important labour force in any society. New forms of work and new formats of long-term employment have emerged. This has had an impact on the different elements of labour relations, including employment contracts, working time, wages, social dialogue, worker participation, etc.

20. Those who have a job have also grown more insecure for a number of interrelated reasons such as the erosion of the welfare state, the deregulation of labour markets and the declining power of trade unions.

### **3. Job and employment creation**

#### **3.1 Changing trends and patterns of trade in the global economy**

21. The structure of formal employment had changed significantly. The very term "employment" should now be used in its broadest sense to include not only jobs in the formal sector but also new types of jobs, such as work for people with disabilities, supported employment, self-employment, income-generating activities, and participation in family businesses or corporations. It is noteworthy that changes in the production process have had far-reaching consequences on the demand for certain kinds of labour.

22. In general, there is a mismatch between graduates' skills and available jobs. Labour markets are being re-modelled in response to the challenges of economic integration and global competition. In the face of the wholesale destruction of jobs, the national economy must create

fresh employment opportunities. New sectors such as ICT are among those growing most rapidly and offer the majority of new jobs. The knowledge economy is transforming labour market demand in economies all over the world. Wherever technological progress has been allowed to play a role, demand for highly skilled workers, in particular highly skilled ICT workers, has also increased. Preference is increasingly given to skilled employees and professional workers, such as technicians. At the same time, demand for low-skilled manpower and agricultural workers has declined. Given the social and economic growth of societies, education and skill-developing programmes are considered to be as important as job creation. These programmes should not neglect the urgent matter of gender equality in male-dominated societies. Job creation goes hand-in-hand with the productivity growth that creates new employment opportunities and encourages demand for labour, which should be a priority for all countries.

23. In short, studies and empirical evidence prove that productivity growth resulting from mechanization and robotization can enormously reduce demand for manpower. Likewise, programmes to privatize overstuffed public services may have a negative effect on job creation and employment opportunities.

24. Special mention should be made of the explosive growth in non-standard and non-traditional forms of employment, including part-time and occasional distance working, the feminization of the labour force, the shrinking role of the State in economic management and regulation, and the growing role of the market economy.

### **3.2 Unemployment**

25. In this critical period, unemployment rates in most developing countries are tending to increase, with the proportion of unemployed among educated individuals rising. This phenomenon affects in particular underskilled women, who work in poor conditions and for a lower rate of pay.

26. Reducing the unemployment rate has become a top priority for governments as the labour force outstrips demand and more people become jobless than new jobs are created.

27. Although the markets have performed well economically, they have not created sufficient numbers of productive jobs. In addition, deteriorating economic structures have resulted in greater numbers of unemployed. It is important to point out in this regard that, while it is crucial to create new jobs and employment opportunities, it is no less vital to ensure the quality of employment, in accordance with the Declaration on Fundamental Principles and Rights at Work adopted by the International Labour Organization (ILO) in 1998, and with other international labour standards.

### **3.3 Education**

28. Education is a key element in the global economy and a factor of economic survival. In an increasingly competitive global market, illiteracy remains an important factor of social exclusion, with uneducated, unskilled and underskilled people being deprived of the benefits of privatization. Both the quantity and the quality of education affect economic growth and have a significant impact on employment and job creation.

29. The knowledge-based economy and its changing needs are among the most noticeable features of today's labour market. Lack of human capital can reduce the capacity of any country to seize the opportunities afforded by trade liberalization, FDI and ICT. The countries concerned

should invest in education, training and the spread of knowledge, in ways that are adapted to each country's social conditions and with the underlying goal of being gender and age inclusive.

30. In general, new economies and industrial societies demand higher levels of education and skills, and this is reflected in job offers.

31. The emergence of a global, knowledge-based economy has placed a premium on learning throughout the world. Life-long learning and permanent education have become necessities for all countries. Developing countries risk falling behind if their systems of education and training do not keep pace and fail to provide the necessary skills. Traditional training and learning models are no longer valid. Formal education institutions need to undergo constant improvement and be more flexible, in particular as regards access to education and skills development.

32. In our view, if developing countries do not promote opportunities for learning and occupational training, the technology gap between them and the developed countries will continue to widen.

### **3.4 Vocational training and skills development**

33. From both the economic and social points of view, everybody agrees on the value of vocational training. There is no controversy on this point.

34. In a globalized economy, vocational training is an important policy issue. Progress within any enterprise or sector can be achieved only on the basis of acquired skills and demonstrated levels of competency. The absence of trained workers is one of the main constraints faced by private enterprises in an open market. Most workers require further training to remain competitive in their current jobs. Firms exposed to international markets absolutely need their workers to upgrade their skills. The economies of developing countries remain handicapped by the abundance of unskilled labour.

35. The current pace of technological change has raised the expected performance and skill requirements of most jobs. Training programmes can help workers to adapt and upgrade their personal skills in the face of ever-changing economic conditions and also to meet the challenges of technological change.

36. All countries seem to be looking for ways to encourage firms to increase their commitment to training and to allocate greater resources to upgrading the skills of technicians and blue-collar production workers.

37. For obvious reasons, vocational training programmes are only useful if they are designed to take into account labour market requirements and provide a guarantee that workers trained in one enterprise will not be immediately hired by another firm (the "free-riding problem").

38. Vocational training must be provided to workers who feel insecure about their jobs and who seek a change of employment. Most employers are interested in manpower that is able to acquire new skills while continuing in regular employment. Vocational training, especially in developing countries, must focus on including women in the workforce and creating equal opportunities for both genders.

### **3.5 Job creation in micro, small- and medium-sized enterprises (SME)**

39. It is widely recognized that small firms greatly outnumber large firms around the world, including in terms of their share of the labour force. The sector is further characterized by the high proportion of self-employed.

40. SMEs are said to be big contributors to and creators of employment opportunities and are important players in terms of economic growth. They hold an important key to employment because they use relatively less capital to create jobs in comparison to large enterprises. This is a salient feature for developing economies especially, with their abundance of labour and shortage of capital. It should be borne in mind that SMEs in most developed and developing countries comprise 90 per cent of private non-agricultural enterprises.

41. SMEs are also characterized by low productivity, low incomes and hazardous work conditions. If properly delivered, micro-credit schemes can certainly help create employment opportunities and upgrade existing jobs.

### **3.6 Jobs in the agricultural sector**

42. We must gauge the important contribution of the agricultural sector to productive employment and job creation. The issue is not only falling commodity prices and subsidies in agriculture - attention must also be given to employment opportunities and chances for poor people to find jobs and to work themselves out of poverty.

43. The agricultural sector remains the main source of new employment opportunities and jobs. In rural areas, jobs are obviously most likely to be in the agricultural sector, which also has the potential to absorb urban manpower.

44. In general, it can make business sense to reduce agricultural subsidies in developed economies and facilitate access by developing economies to developed country markets. In this regard, public investment in rural areas can decrease agricultural production costs and make the sector more competitive, a consideration that may lead policymakers to pay greater attention to the job-creation potential of the agricultural sector.

45. Finally, non-farm activities can provide other employment opportunities.

### **3.7 Job creation in the service sector**

46. In a global economy, employment in the service sector stands to gain substantially from exports. The impressive growth of the service sector in some economies is attributed to the shortage of jobs in both the agricultural and manufacturing sectors.

### **3.8 Expansion of the informal economy**

47. Evidence suggests that the impact of globalization on economic performance and employment is necessarily restricted to the formal sector. As regards employment, the informal economy is typically biased towards employment growth and characterized by substantial economic activity. This sector of the economy can help create jobs and can sometimes also produce better jobs. It is heavily biased towards unskilled labour and marked by low productivity and low-income employment, especially for women. Informal small-scale enterprises provide many jobs and are considered to be an important source of income; self-employed workers

constitute a large part of the informal economy's workforce. In some developing countries, the informal economy accounts for between 45 to 50 per cent of the urban labour force, including a large number of women.

### **3.9 Gauging the effects of ICTs, FDI and the export sector on employment and job creation**

48. There is evidence that the rapid growth of ICTs has had a profound impact on the emergence of new enterprises requiring new skills and knowledge. ICTs have the potential to drive employment generation.

49. As regards the quality of new jobs, it is no secret that the majority of incoming FDI flows originate from technologically advanced countries, which suggests that they may be conducive to the creation of high-skilled, high-wage jobs.

50. In countries where the government supports export-oriented approaches, trade liberalization heightens the possibilities for export, and hence for increased output and employment in the export sector. Exports are believed to have been an important engine of job creation, both directly, in the export sector itself, and indirectly, through a spill-over effect on the rest of the economy.

51. Cross-border investment and FDI flows can raise growth rates if there are spill-over benefits and if technology and skills are transferred to the local economy. In such cases, investment leads to a rise in labour productivity and incomes, with an overall positive impact on economic growth, productivity and employment opportunities. FDI stimulates the creation of skilled jobs and therefore reduces demand for low-skilled labour.

52. The emergence of global production systems has led to increased FDI flows and has created new industrial growth opportunities for developing countries. Some 60,000 multinational enterprises employing about 85,000 foreign nationals are key actors in these global production systems. Increased investment is always associated with higher levels of employment and a multitude of new jobs.

53. We must note, however, that unrestricted growth in imports of consumer goods may imply that those goods are being dumped on the domestic market and hence are responsible for the loss of large numbers of local jobs.

54. Remuneration and working conditions tend to be better in foreign-owned companies and joint undertakings, even when differences in employee skills are taken into account.

55. To complete the picture, the available empirical evidence suggests that the increased international mobility of capital and in particular FDI flows has shifted the balance of power from labour to capital.

### **3.10 The diminishing role of the public sector as a job provider**

56. Since the implementation of the main components of structural adjustment programmes, the role of the public sector as a job provider has been sharply curtailed. In addition, there are not enough jobs in the rest of the formal sector to absorb the overflow from the reduced public sector workforce. The public sector nevertheless remains the preferred employer.

## **4. Employment security**

### **4.1 Labour market flexibility: the modern concept of labour law**

57. Traditionally, workers in most countries enjoy some form of legal protection from arbitrary or unexpected dismissal. This is due to a combination of government regulations, trade union power and enlightened management. With its stringent rules, labour law prohibits employers from terminating contracts after a trial period. In the global economy, however, labour market flexibility has vastly increased, to the detriment of employment security, with most workers finding themselves outside the scope of labour law – the result of pressure to achieve the requisite flexibility. The main change is the growing percentage of the workforce with short-term or part-time contracts. Indeed, there has been a steady increase in the number of part-time, casual and informal contracts and of temporary workers on the labour market.

58. The main question is how to strike a balance between labour market flexibility, on the one hand, and basic employment security, on the other, while at the same time ensuring social and economic policies are well balanced and take into account the legal rights of women.

### **4.2 New patterns of employment and the diversification of forms of work**

59. Regular salaried employment patterns and standard relationships between employers and employees are on the decline. Various types of non-standard labour contracts have appeared in most countries since the mid-1970s. They include part-time work, temporary employment, fixed-term contracts, and sometimes employment with no written contract at all. It is difficult to say whether globalization, trade liberalization and FDI share responsibility for the spread of this new type of workplace relationship. It is a fact, however, that demand for labour has become more volatile and that non-standard forms of employment can be used by enterprises to increase the numerical flexibility of labour markets. Moreover, these new contracts do not provide for full social security coverage as established by law. On the other hand, an increase in non-standard work contracts does not necessarily mean greater employment insecurity. Part-time or temporary work is often the express desire of the employee. As a rule, the proportion of voluntary part-timers is higher among women.

### **4.3 Employment security versus flexibility**

60. It is a paradox that, at a time when demand for institutional change, technological progress, innovation and improved work organization is strong, job security is generally declining in most countries. A number of significant factors are influencing the balance between the labour market, on the one hand, and employment security and the rules governing labour relationships, on the other.

61. All observers agree that it is more difficult for employers to justify dismissals in rigid labour markets, resulting in large severance payments when they decide to fire workers for economic or other reasons. At the same time, workers may lose interest in acquiring new skills and in mastering more productive tools in the absence of adequate employment security. They may be afraid of working themselves out of the job. The issue is higher salary versus loss of security.

62. To have adequate job security, workers must be entitled to receive advance notice of the termination of work, to severance pay or other forms of compensation if they are laid off, and to back-pay if they are unlawfully dismissed. Increasing international competition for markets has generated additional pressure in terms of labour market flexibility and eroded labour protection.

#### **4.4 The reasons for growing employment insecurity in the global economy**

63. The most obvious reasons are increasing competition for export markets and foreign investment, combined with such interrelated factors as the erosion of the welfare state, labour market deregulation and in particular the visibly declining power of trade unions. At the same time, companies have to adapt their processes to labour market responsiveness in the context of increasing economic openness and the growing influence of global market forces, so as to withstand the competitive pressures of the market. Certain kinds of contracts give employers considerable power and freedom to shape the size of their labour force and the terms under which it is employed at any moment in the production cycle and under any economic circumstances.

64. There is widespread agreement that the spread of non-standard forms of employment is not automatically synonymous with labour market instability or an increase in early employment. At the same time, people with non-standard forms of employment have worse working conditions than regular employees.

#### **4.5 The key role of social dialogue in employment security and the integration of social and economic policies**

65. Strong and independent representative organizations of employers and workers are essential for fruitful social dialogue between social partners. There is evidence that the role of collective bargaining as the main instrument of industrial relations has been weakened as a result both of the decentralization of these relations and of the individualization of employment conditions. The government authorities alone cannot assume full responsibility for the process of globalization and its implications for labour markets. The social actors, namely employers and employees, have a significant role to play in this regard through their respective organizations.

### **5. Concluding remarks**

#### **5.1 Globalization and the norms of equality and social justice**

66. While there are differences of opinion and even doubts about the positive impact of globalization on people's welfare, we are fully convinced that globalization, which is an indispensable and irreversible means of ensuring sustainable development, will continue to further the cause of social justice. We believe that globalization can and must meet the needs, interests and aspirations of people and communities everywhere. In fact, when it is fair, globalization has a great potential for improving people's welfare and living standards. Both in theory and as shown by empirical evidence, trade liberalization and FDI flows lead to higher economic growth and greater productivity and, on the whole, can result in unprecedented material progress.

67. It is true, though, that in some cases globalization is invoked as a pretext to justify severe and non-popular policy measures, such as cutbacks in the social protection of vulnerable groups of people.

68. Globalization leaves the State with no choice but to adapt its economy and education system by upgrading people's skills and technological capacities. Moreover, sustained global competition in maintaining high standards of labour and social protection remains a big challenge for developing countries.

## **5.2 Many actors must be engaged in the realization of global social and economic goals**

69. Social dialogue at different levels and through different forms of partnership is considered to be an essential democratic instrument for the creation of a better working world. We must do more to make the governance of social safety nets more effective, to make trade fair and to increase the number and improve the quality of jobs. We emphasize the importance of speeding up technological progress and of formulating effective strategies for dealing with the challenges of globalization. To ensure nationwide employment security and respect for human rights at work, each country should have access to independent and coherent policy choices.

## **5.3 Labour law and practices**

70. Labour law and practices should serve to strike the best legal balance and to make national companies more competitive, while increasing their ability and readiness to create new jobs and recruit more employees, irrespective of gender. At the same time, they should level out the segregation of workers based on the type of contract they hold and improve worker access to institutions and programmes that can make them more employable and help the unemployed find jobs. Employees need greater employment security and adequate protection against dismissal; even dismissals for just cause must be properly carried out. It is not without interest to point out in this context that employment regulations providing excessive protection can have unintended negative consequences both in terms of job creation and the capacity of companies to adapt to market constraints.

71. In short, in the era of globalization labour legislation and regulations must enshrine sufficiently flexible hiring and firing practices, while protecting workers from abuse and undue job insecurity. In certain countries, dismissals are regarded as socially unjustified even when labour law recognizes that there may be unavoidable economic reasons for lay-offs and dismissals, such as technological change and the reorganization of work practices.

72. Contracts of indefinite duration should continue to constitute the standard form of employment relationship between employers and employees. We must recognize, however, that in some cases and circumstances fixed-term contracts may correspond more closely to the needs of both employers and employees.

73. Measures should be taken to alleviate the brutal impact of globalization, economic liberalization and privatization. Governments should not be over eager to adopt new labour laws that give employers greater freedom to dismiss staff and make use of back-to-back fixed-term contracts for long-term work, instead of improving conditions of employment.

74. In the era of globalization, labour regulations have become particularly important as the sole bulwark of protection between vulnerable groups and permanently changing economic, humanitarian and social conditions. At the same time, they have to be sufficiently adaptable to allow enterprises, businesses and people to take up the new opportunities afforded by globalization.

75. Finally, in a globalized economy, labour market regulation is a key policy area in which reform must be aimed at improving economic performance and increasing labour market adaptability, while enhancing job security, social equality and working conditions, it being understood that labour market inflexibility remains at the heart of employment problems.

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