



**An ILO Perspective: Trends and Policy Challenges in
Trade and Migration for Latin America and the
Caribbean**

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An ILO Perspective on Employment and Social Policy:

Trends and Policy Challenges in Latin America and the Caribbean and in its Exchanges with Europe

1. Introduction

Recovery from the global financial and economic crisis of 2008/9 is well underway, albeit with a highly differentiated pattern across regions. The social and employment impact has been enormous. Global unemployment reached an all-time high of 210 million, wages declined in many countries, informal employment expanded further and poverty reduction suffered major setbacks. The crisis reminded us in dramatic terms of the multiple facets of globalization, on the one hand creating new opportunities for growth and job creation, and on the other hand raising economic and social vulnerabilities and challenging efforts to attain decent work. At the onset of the crisis, swift government action averted a global economic collapse and counter-cyclical policies helped save or create 21 million jobs worldwide in 2009-2010.¹ This experience underscores the fact that well-designed public policies will continue to have an important role to play in attaining a job-rich, balanced and sustainable recovery.²

During the global economic crisis, GDP growth in the LAC region dropped sharply from 5.7% in 2007 to -2.5% in 2009. However, the economic recovery in LAC has been more rapid and robust than originally forecast, with GDP projected to grow at 4 percent in 2010 and 2011, although country-level performance varies considerably.³ Two main drivers of this recovery can be identified. First of all, quick and effective implementation of counter-cyclical policies in many LAC countries sustained output and domestic demand through major public investment programmes, provision of credit to the private sector, increases in minimum wages and social transfers, all with high multiplier effects that help maintain domestic demand. Second, commodity-exporting countries such as Bolivia, Brazil, Chile, Mexico and Peru, have benefited from a relatively quick recovery in demand for natural resources, especially from India and China, that has raised the price of such commodities and maintained a high volume of exports.⁴ Nevertheless, there have been important declines among some countries particularly in the Caribbean that lost external demand for tourism from Europe and North America. Remittances from overseas migrant workers, which are a significant source of revenues in many countries, were estimated to have fallen by 15% from 2008 to 2009 although a return to modest growth is expected in 2010.⁵

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¹ G20 Labour and Employment Ministers: *Recommendations to G20 Leaders*, Bureau of International Labor Affairs (Washington, D.C., April 21, 2010, see website: http://www.dol.gov/ilab/media/events/G20_ministersmeeting/results.htm#): and ILO: *Recovery and Growth with Decent Work*, Report of the Director-General, International Labour Conference, 99th Session (Geneva, June 2010).

² ILO: *Accelerating a Job-Rich Recovery in G20 Countries: Building on Experience*, An ILO report, with substantive contributions from OECD to the Meeting of G20 Labour and Employment Ministers (Washington, D.C., 20-21 April 2010).

³ IMF: *World Economic Outlook: Rebalancing Growth* (Washington, D.C., April, 2010).

⁴ Ibid.

⁵ Inter-American Development Bank: *Remittances to Latin America and the Caribbean in 2009: The Impact of the Global Financial Crisis*, (Washington, D.C., 2010).

During the crisis, unemployment rates in LAC increased, but only modestly, from 7.5% in 2008 to 8.4% in 2009.⁶ More than two million women and men became unemployed as a result of the crisis, leaving a total of over 18 million unemployed in the LAC region (7 million of which are youth between 15 – 24 years of age). The enormous social and human cost of unemployment cannot be emphasized enough.

These figures fail to reveal the larger social and labour market crisis behind the economic crisis. Many vulnerable workers cannot afford to be unemployed, and instead, have accepted poorly paid work in precarious conditions without social protection and other rights provided under labour legislation, or have joined the swelling ranks of the informal economy. As the labour market adjusted by workers moving into low-productivity activities, average productivity declined. Furthermore, the unemployment figures themselves would be higher if it was not for a large number of discouraged workers who left the labour market for lack of opportunities⁷. The majority of the discouraged are youth who risk becoming a “lost generation” of long-term unemployed and discouraged workers, who lack job experience, or only find work in low-paid activities in the informal economy.⁸

While most countries in Latin America and the Caribbean (LAC) and Europe begin to recover, the crisis has also revealed the urgency to address a number of underlying structural social and economic trends. These predate the crisis, and to some extent were aggravated or accelerated by it. However, they will not disappear at the end of the crisis, and must be addressed if LAC countries are to benefit from globalization, reduce poverty, and provide decent employment to everyone. This paper addresses some of these longer term trends and related policy issues, in particular with respect to two important aspects of globalization: trade; and migration. The analysis develops from the perspective of countries in the LAC region, with a particular focus on their relationship with Europe in the spirit of the Foro de Biarritz, for which this paper was written. As countries in the LAC region emerge from the crisis and work towards a sustainable path of economic growth that is socially inclusive, this will involve policy decisions that concern their relationship with Europe in various ways. The following two sections of this paper explore trends and policy issues related to the areas of trade and migration.

Decent work deficits that have built up long before the current crisis, including sluggish job creation and poor quality of existing jobs with high incidence of informality and low social protection coverage have been major factors leading migrant workers to leave their countries of origin in search of better opportunities, earnings and social protection elsewhere. This is a growing trend, already strong toward the US but increasingly also to the EU. The export of labour, as a result of inadequate employment opportunities at home, is a global phenomenon, particularly marked in the LAC region.

LAC countries have benefited over the last years from strong growth in emerging markets, most notably China and India that translated into high demand for Latin American exports, especially in raw materials. These shifting patterns of trade have enabled high export growth and improving terms of trade, but they also bear risks. The geographical shift in trade has come

⁶ ILO: *Panorama Laboral 2009 América Latina y el Caribe*, Sub-Regional Office of the ILO (Lima, 2009).

⁷ ECLAC/ILO: *The economic situation in Latin America and the Caribbean*, Bulletin No. 3 (Santiago, June, 2010).

⁸ ILO: *Global Employment Trends for Youth*, (Geneva, August 2010).

along with a re-concentration of exports towards raw materials, while competition especially in low-skill manufacturing is becoming stiffer both in the world market and domestically through imports. The composition of trade with emerging markets is heavily skewed towards primary commodities, mainly agriculture and metals. While some Latin American countries have successfully boosted productivity and employment in export oriented agriculture, mining remains a sector with relatively low employment potential. In order to achieve sustainable growth decoupled from commodity price fluctuations and high job creation, Latin American countries must also look for new sectors of the economy. Boosting these new sectors and increasing overall competitiveness without lowering real wages will require capital investment as well as education and skills development.

Income inequality in LAC is among the highest in the world, linked to unequal distribution of assets (especially education and land) as well as unequal access to productive employment. Income inequalities rose in the 1990s, and have decreased slightly in the 2000s. Declining income inequalities have been attained largely through social transfers that should be reinforced by stronger fundamentals, such as improved wages and a more effective and equitable tax system.⁹ However, social transfers alone will not be able to reduce high income inequality. It is by improving the primary distribution of income, through better access to productive employment, and by matching increases in productivity with wage increases that LAC countries will generate the economic and social fundamentals of stable and more equal societies.

To achieve strong and balanced growth based on productive investment and high productivity, LAC countries will need to pay much greater attention to employment, skills and social protection policies. The Global Jobs Pact adopted by the International Labour Conference in June 2009, and strongly supported by the United Nations General Assembly, its Economic and Social Council, and by G20 Leaders at their Summit in Pittsburgh (September 2009), outlines a decent work path to recovery and sustainable growth.

The vocational and education system in various countries must enhance the quality and labour market relevance of its training and extend its availability to a wider proportion of the labour force. Such efforts in skill development are rendered ineffective without high quality and coverage of public education that provides school graduates with the requisite basic knowledge and capacity that will enable them to move forward and acquire more specialized skills through the vocational training system. Strategic investment in skills development must be a central component in competitive strategies emerging from the crisis.

Another key emerging challenge for the LAC region, therefore, is to implement policies for sustained reduction of income inequalities. These inequalities not only perpetuate unjust and unsafe societies, but also undermine other goals such as broader access to education, social protection and skills development that are essential components for attaining balanced economic and social development and future competitiveness of the region.

This requires Latin American governments to put in place effective mechanisms for social protection. The benefits of such measures go beyond the immediate impacts on poverty and equity. They also have positive effects on future life chances through education and improved health of children from poor families, and they provide an important demand stabilizing effect during economic downturns.

⁹ Goni, E. et al.: *Fiscal redistribution and income inequality in Latin America*, World Bank, Policy Research Working Paper Series No. 4487 (Washington, D.C., 2008).

Social dialogue is a central value of the ILO, and pivotal to its Decent Work Agenda. Through institutions and practice, social dialogue is an essential component of a forward-looking policy agenda, involving employers' and workers' organisations, but also other representative groups, in forging broad understandings on the paths of reforms that are necessary and need to be sustained over several years.

2. Changing Trade Patterns

The expansion of international trade and export-oriented production has been a vital source of economic growth, job creation and development in many developing and emerging countries, including in the LAC region. However, a wide body of literature shows that gains from trade in terms of growth, employment and poverty reduction are not always fully realised. Trade therefore needs to be accompanied by strategic and broad-based policy initiatives in both economic and social policy spheres to ensure that engagement with the global economy brings positive spillovers to domestic firms and workers. LAC has a history of mixed results from trade, with some countries like Chile and Brazil being among the high performers of the global economy. Even in countries that have done very well in terms of export growth over the last years, concerns often surround the sustainability of growth and sometimes disappointing results in terms of employment creation and poverty reduction.

In recent decades, the share of low- and middle-income countries in world exports for goods rose from 16 percent in 1986 to over 30 percent in 2008.¹⁰ In this process, exporting companies have gained access to technology, crucial capital goods and inputs, management practices, and new markets, which has boosted labour productivity, enabled the creation of new industries and, in turn, fuelled new job growth often with higher skill content. However, a rising share of export growth in LAC has been in raw materials and extractive industries with low employment intensity. Outward orientation, especially when it is combined with dependency upon a limited range of products and markets, exposes exporting countries to the risk of external shocks. The global economic crisis of 2008/9 was a remarkable example for this as it triggered a global trade collapse in which world trade fell by approximately 30% between the first half of 2008 and the first half of 2009. There was a synchronicity in the trade collapse, in which imports and exports fell during the second half of 2008 and first half of 2009 in all 104 nations reporting data to the WTO.¹¹

Rebalancing of global trade will require greater diversification in terms of final markets. As the main market for most LAC exports in the US as well as traditional trading partners in Europe experience a slow recovery, South-South links are strengthening through increasing trade, aid and foreign direct investment.¹² In addition, raising domestic demand in LAC countries can serve as another source of growth. Policy measures in this latter case will need to raise real labour incomes as a key policy instrument, as well as strengthening and extending social protection to reduce precautionary savings and encourage greater consumption.

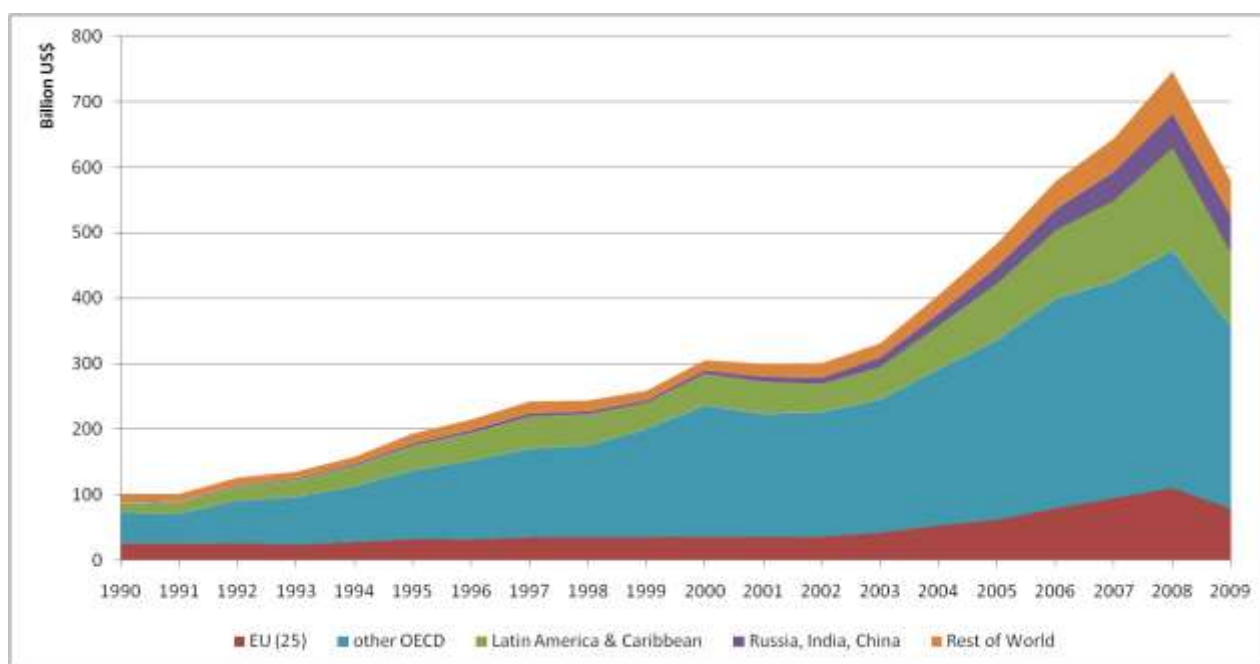
¹⁰ Milberg, W. and D. Winkler: *Trade crisis and recovery: Restructuring of global value chains*, Policy Research Working Paper No. 5294, World Bank (Washington, D.C., 2010).

¹¹ R. Baldwin: *The great trade collapse: Causes, consequences and prospects*, Centre for Economic Policy Research (CEPR, London, 2009).

¹² OECD: *Perspectives on Global Development 2010: Shifting Wealth* (Paris, 2010).

The gradual shift of LAC exports to new trading partners, especially India and China, predates the crisis, and it likely to receive an additional boost as the global economy rebalances. LAC exports to all major regions have grown substantially over the last two decades, on average nearly 12% per year, when measured in terms of the value of exports. As seen in Figure 1, a sharp acceleration of exports took place over the period from 2002 up to the global crisis. This export growth has contributed great dynamism to overall economic growth rates, and consequently, has impacted positively upon job creation in the region. Over this period, regional urban unemployment rates declined from 11.4% in 2002 to 7.5% in 2008¹³.

Figure 1: Latin American Exports by Destination Region, 1990-2009 (by value of exports in US\$ billions)



Source: COMTRADE, based on all Latin American and Caribbean countries with continuous data availability from 1990-2009 as included in Figures 1 – 4 in this section: Argentina; Barbados; Bolivia; Brazil; Chile; Colombia; Costa Rica; El Salvador; Ecuador; Jamaica; Mexico; Nicaragua; Panama; Paraguay; Peru; Trinidad y Tobago; and Uruguay.

When examined as a share of total export value, LAC exports to the EU have remained fairly stable since the beginning of the new millennium up to 2008. However, long-established commercial ties between LAC and Europe may be increasingly eclipsed in the future by new, rapidly emerging trading partners and regions. In particular, the group of Russia, India and China (RIC) has risen as a trading partner with Latin America from 2% in 2002 to 7% in 2008, and so has the rest of the world (RoW) from 5% in 2002 to 9% in 2008. The rising share of these new export markets has been gained at the expense of exports to non-EU OECD countries which fell from 63% to 49% over the same period, with the US as the single most important destination in this group.

During the crisis, aggregate exports from LAC fell sharply by 23% from 2008 to 2009, and so did exports to the EU. Exports to RIC countries were largely unaffected and continued to grow

¹³ ILO: *Panorama Laboral 2009 América Latina y el Caribe*, Sub-Regional Office of the ILO (Lima, 2009).

while exports to all other regions plummeted, which led to a jump in the RIC export share to 10%. While the sudden increase of export share during the crisis may be partially reversed as growth picks up again in industrialized countries, the increasing importance of RIC in the global economy suggests that the trend towards a higher share of exports to these countries is likely to persist. RIC economies are likely to take a more predominant role as an export destination for LAC economies in the years ahead.

However, the scale of exports is only one dimension of trade. The next section will analyze the structure and more qualitative characteristics of the shifting patterns of LAC trade and their impact on economic and social development.

2.1. Changing Trade Patterns, Growth, and Employment Creation

It is a common tenet in economic theory that countries should move into products with high potential for raising total factor productivity (TFP) in order to achieve sustained growth. For example, a study based upon a long-term analysis of growth patterns between 1960-2003 concluded that unlike Asia, Latin America has failed to move into industrial sectors with high potential for productivity growth.¹⁴ This led to a diversion of labour into low productivity activities, often in the informal sector. Typically, manufacturing is considered the sector with the highest potential for TFP growth, while natural resources are seen as sectors with little potential for TFP growth. With respect to agriculture, this view is being contested by authors who point out that TFP has grown faster in agriculture than in manufacturing in the period 1967-92.¹⁵ The service sector is somewhat ambiguous in this regard given its heterogeneous nature: typical informal service activities such as street vending and household services exhibit low potential for TFP growth, while, in contrast, modern segments such as business services and information technology can exhibit very high TFP growth. The structure of trade and investment thus has an important impact on growth, employment, and poverty reduction. In short: What you export matters.

In the LAC region, the highest rate of export growth over the period 2000-2008 was attained by raw materials, which surpassed 18% growth per year on average (Figure 2). The main share of this sector was accounted for by extractive industries that typically create few new jobs and have low TFP growth. Hence, the products experiencing the highest export growth rates in LAC may not yield the strongest gains in terms of job creation or dynamic productivity that are the necessary conditions to attain a more sustainable integration in global markets.

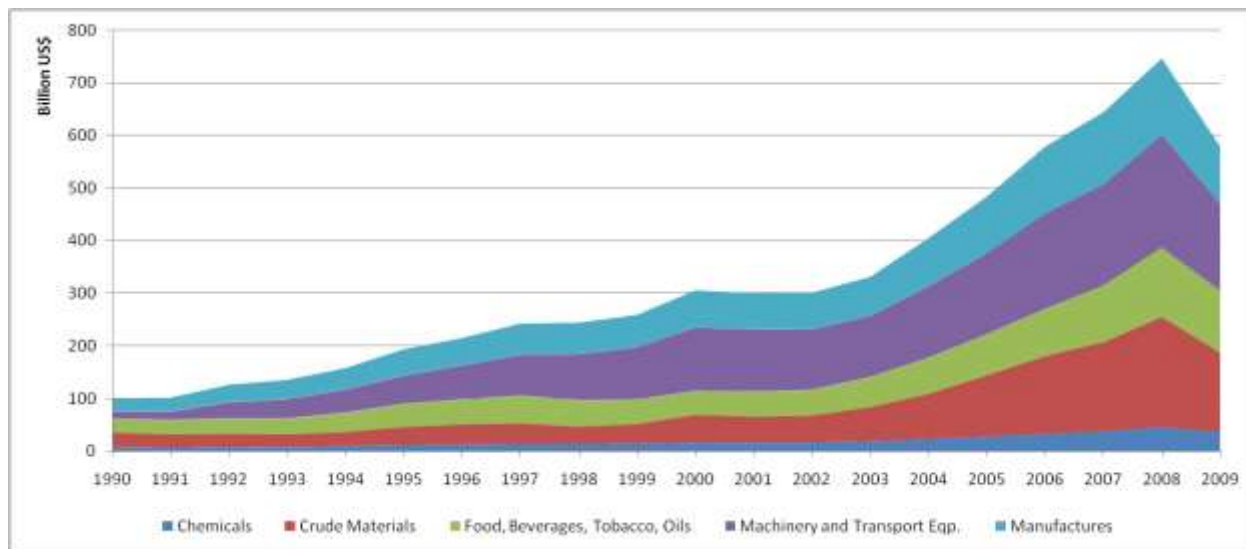
This changing pattern in the composition of trade is linked to the geographical shift of exports towards RIC, as seen in Figure 3 below. The share of raw materials is much higher in exports to RIC (55%) than in exports to the EU (28%), other OECD countries (25%), the LAC region (23%) or the rest of the world (23%), which instead import more manufactures, machinery and transport equipment from Latin America. Thus, the increasing trade with RIC countries is likely to shift Latin American exports even more towards raw materials, with low TFP growth

¹⁴ Escaith, H: *Industrialización Truncada y Tercerización Sustitutiva en América Latina*, in: *Problemas del Desarrollo* 37/147, 2006.

¹⁵ Martin, W. and Mitra, D. 1999. *Productivity Growth and Convergence in Agriculture and Manufacturing*. World Bank Policy Research Working Paper 2717.

potential, poor skill content and low employment creation – a trend that will likely continue in the future given the continuous high growth of these export markets.

Figure 2: Latin American Exports by Product Category



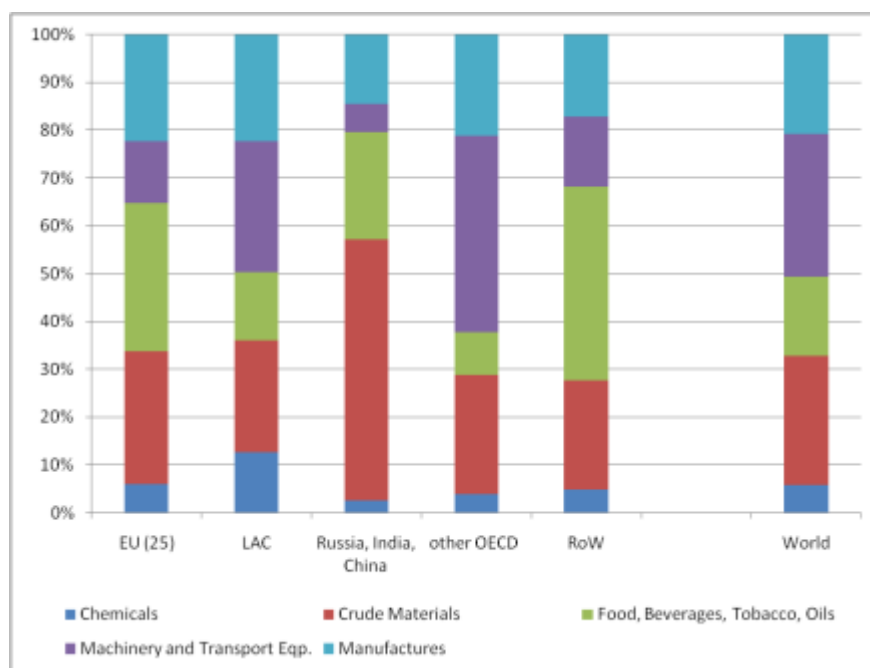
Source: COMTRADE, based on all Latin American and Caribbean countries with continuous data availability from 1990-2009.

The shift in exports towards raw materials with lower potential for TFP based growth poses challenges for stable, long-term growth. The good news is that other exports, including manufactures and machinery and transport equipment, also continued to grow between 2000 and 2008, although at lower rates than in the 1990s. This indicates that at the aggregate level, so far there do not appear to be significant effects of dutch disease. Dutch disease describes a phenomenon – first described with respect to the Netherlands - where commodity exports lead to currency appreciation that undermines the competitiveness of other export sectors. One reason that this does not appear to have happened at a significant scale during the commodity export boom in the LAC region is that major exporters such as Chile and Peru have successfully managed the windfall profits from their natural resource exports. Crucial elements of such a strategy are to use revenue from natural resource exports for productivity-enhancing investment and to avoid excessive currency appreciation and short-term fluctuations.¹⁶ Nevertheless, a shift in exports towards raw materials with lower potential TFP growth poses challenges for a country’s long-term growth strategy. Governments should consider very carefully the role of resource exports in their development strategy and find ways to, at the same time, encourage exports in sectors with high TFP growth potential.¹⁷

¹⁶ Gottschalk, R., Prates, D.: *East Asia’s Growing Demand for Primary Commodities – Macroeconomic Challenges for Latin America*. G-24 Discussion Paper 39, 2006.

¹⁷ Moreira, M.M.: *Fear of China: Is there a Future for Manufacturing in Latin America?*, in: *World Development* 35/3, 2006.

Figure 3: Product Category Shares of Latin American Exports by Destination Region (2006-08)



Source: COMTRADE, based on averages between 2006 and 2008 for all Latin American and Caribbean countries with continuous data availability from 1990-2009.

Given the differences in the products exported, LAC exports to the EU and other OECD countries, as well as to the region, seem to have greater potential for TFP growth. This can also have positive implications for the quality of jobs created. One could argue, therefore, that trade between LAC and these trading partners is of a higher quality for industry (in terms of value-added) and for workers (in terms of relatively more productive jobs created). Efforts to include social, labour and environmental provisions in trade arrangements with these partners could also contribute to establishing a minimum social floor under globalization.

Carefully designed industrial policy measures can support the development of high TFP sectors through many different means, including support for research and development and the discovery of new markets. The selection of such sectors can go beyond manufacturing, and also include modern service and agriculture sectors, in particular those with high potential for employment creation. Successful industrial policy is not about governments making ex-ante choices of industries to be supported. Instead, it is argued that industrial policy should pursue a collaborative process and build “institutional arrangements whereby information on profitable activities and useful instruments of intervention can be elicited.”¹⁸ From this perspective, a tripartite approach that brings together the interests and unique knowledge of government, employers, and workers in formulating and constantly monitoring a country’s industrial development strategy, bears the greatest potential for success.

A crucial issue in sustaining economic growth is the diversification of exports towards a higher number of different products and services as well as diversification in the number of markets served by exports.¹⁹ Empirically, export diversification is associated with higher growth.²⁰ In

¹⁸ Rodrik, D.: *Industrial Development: Some Stylized Facts and Policy Directions*. In: UN Department of Economic and Social Affairs: *Industrial Development for the 21st Century: Sustainable Development Perspectives* (New York, 2007).

¹⁹ Bacchetta, M., Jansen, M., Lennon, C., Piermartini, R.: *Exposure to External Shocks and the Geographical Diversification of Exports*. In: Newfarmer, R., Shaw, W., and Walkenhorst, P. (eds.): *Breaking Into New Markets*, World Bank (Washington,

contrast, excessive export concentration in products or markets increases exposure to external shocks, thereby leading to higher volatility.²¹ In turn, volatility leads to more uncertainty, lower investment, and lower innovation.²²

Volatility is not only negative for growth and long-term development; it also impacts directly on the incomes of workers. This is particularly problematic for the poor who often do not have access to social protection, credit or other means to smoothen out their consumption in the event of a decline in income. In these cases, temporary income shocks can even have lasting negative effects through their impact on health and education of children and by forcing people to take up low productivity jobs below their qualification (mis-matching).

The global economic crisis of 2008/09 demonstrated the potentially devastating effects of volatility in world trade for developing countries.²³ LAC's changing trade patterns have been associated with have led to a trend of higher export concentration due to a higher share of raw material exports, following a phase of diversification in the 1990s. This is unlikely to be offset by small gains in terms of geographic diversification that come with a higher weight of new export partners such as China and India. Thus, vulnerability to external trade shocks is likely to have increased over the last decade due to higher export concentration and overall higher levels of openness. However, the crisis has also demonstrated that many LAC countries have learned from past experience and met the crisis with relatively stable macroeconomic conditions and appropriate and well-implemented policy responses built around demand stimulus and social protection. It has thus demonstrated that having the mechanisms in place to deliver such policies is both necessary and effective.

2.2. Changing Trade Patterns, Inequality and Poverty

Even where trade contributes to economic growth, this does not necessarily translate into the creation of decent employment and a reduction in poverty. Many countries that experienced strong export growth over the last decade, often fuelled by the boom in natural resource trade, have at the same time experienced sharp increases in inequality, and remained disappointed with employment growth and poverty reduction. Another concern is the quality of employment created, which is often very low in terms of both wages and labour standards.

Developing countries with many low-skilled workers tend to trade with industrialized countries in products that are more intensive in relatively unskilled labour. In this way, they seek to create jobs and raise wages for unskilled workers, in ways that will thus reduce income inequality and poverty. However, this pattern may be changing. Many LAC countries are well

D.C. 2009); and Brenton, P, Saborowksi, C., von Uexkull, E. : *What explains the low survival rate of developing country export flows?* World Bank Policy Research Working Paper 4951 (Washington, D.C., 2007).

²⁰ Hesse, H.: *Export Diversification and Economic Growth*. In: Newfarmer, Shaw and Walkenhorst (eds.): *Breaking Into New Markets*, World Bank (Washington, D.C., 2009).

²¹ Jansen, M.: *Income Volatility in Small and Developing Economies: Export Concentration Matters*. World Trade Organization, Discussion Paper No. 3(Geneva, 2004).

²² Aghion, P. Et al: *Volatility and Growth: Financial Development and the Cyclical Composition of Investment*. NBER Working paper No. 11349, (Cambridge, 2004).

²³ Jansen, M. and E. von Uexkull: *Trade and Employment in the Global Crisis*, International Labour Organization (Geneva) and Academic Foundation (New Delhi, 2010).

endowed with both land and natural resources. Furthermore, most have sought to diversify their exports over time by developing sectors that use higher technology and skills.

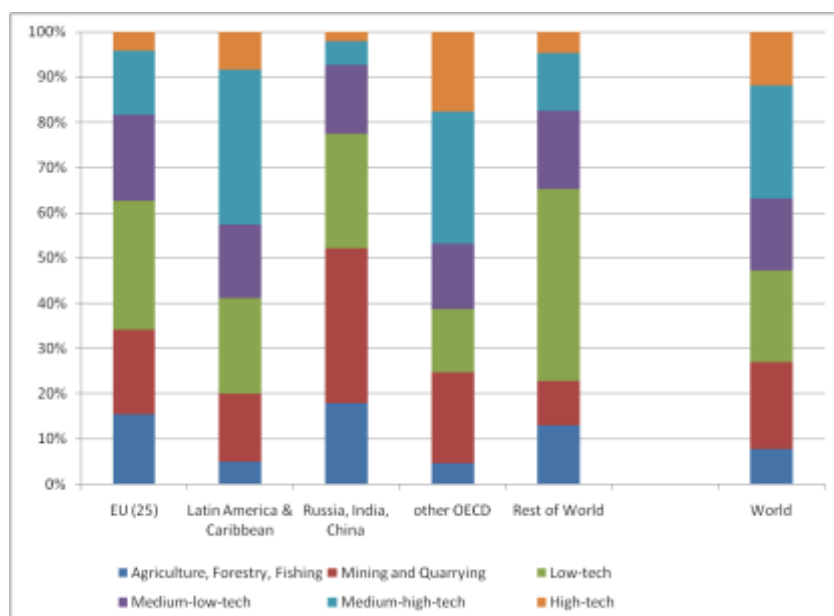
Figure 4 presents a rough classification of LAC exports by technology content. Typically, one would expect high-technology products to be more intensive in capital and skilled labour, while low technology exports are likely to make more intensive use of unskilled labour. The classification also singles out mining and quarrying, which in most cases is rather capital intensive and dependent on endowments of natural resources, as well as agriculture, hunting and fishing. Low and medium-low technology products account for 36% of Latin American exports, roughly comparable to the share of high and medium-high tech exports (37%). The remainder is made up by mining and quarrying (19%) and agriculture, forestry, fishing (8%).

Figure 4 also shows that the share of high and medium-high technology products is greater for exports to the LAC region (42%) and non-EU OECD countries (47%), while exports to the EU and the RoW exhibit a higher share of low and medium-low technology products (48% and 60% respectively). Exports to Russia, India and China show a particularly high content of mining and quarrying (34%) and agriculture, forestry, fishing (18%).

This leads to two conclusions. First, the historical export path of most Latin American countries has been to start out as commodity exporters, and eventually undertake substantial efforts to develop high technology industries. While this has been successful in some cases, it has left many countries with a relatively narrow base of non-commodity low tech exports that intensively use unskilled labour. Thus, exports have often not translated into the creation of jobs and income for unskilled workers.

Second, products imported from emerging economies such as India and China that are well-endowed with unskilled labour are to a large extent in low tech products, while exports to these countries are mainly in capital-intensive mining products. Hence, a shift towards more trade with these countries is likely to have adverse effects on income distribution in LAC as it reduces the demand for unskilled labour while increasing the capital intensity of exports.

Figure 4: Technology Content of Latin American Exports by Destination



Source: Author's calculation based on data from COMTRADE for the years 2006-8 and a technology classification provided by Eurostat based on R&D expenditure by industry.

Generally, globalization has been found to lead to greater inequality, to which two main factors contribute. First, with production technology becoming more complex, globalization has on aggregate led to higher demand for skilled labour, and consequently higher wages for those skilled workers versus lower wages for relatively low-skilled workers. Second, wage shares have not accompanied the rise in productivity gains. This is often attributed to a shift in bargaining power from immobile labour to mobile capital.

Indeed, data collected for a sample of 14 LAC exporting countries suggests that competition with emerging countries in low tech, and labour-intensive products that are price-sensitive tends to exert downward pressure on wages. The data reveals that even when productivity has increased, workers have not shared in these gains equitably. For example, in the period 2000-2005, the wage share of GDP declined by 1.5 percentage points on average in the sample of 14 LAC countries. This coincides with the beginning of the described shift towards capital intensive commodity exports.

As globalization continues to increase the overall demand for skills, and furthermore as we see changing trade patterns towards more South-South trade, this will increase the pressure on low-skilled jobs. A major implication for policymakers is that skills are central for enabling trade to lead to employment and poverty reduction, and that workers must be ensured a fairer share in the gains from economic integration and upgrading. This entails investing in education, vocational training and lifelong learning for workers.

LAC government should also be strategic with respect to skills when designing industrial policies.²⁴ As global competition has become fierce with China's entry to the world market, this requires a careful analysis of world market conditions to identify niches in which a country can compete. Skilled and unskilled labour are often compliments rather than substitutes. The availability of highly skilled workers can, for instance, be a major pull factor for investment projects that also create jobs for unskilled workers.

Finally, important as they are, improvements in education and the availability of skills take a long time to materialize, and even then may not be sufficient to offset the increasing income inequality that results from globalization. In other words, they are not a substitute for redistributive policies. Latin America remains one of the regions in the world with the highest inequality in income distribution, resulting from a very uneven distribution of assets (including education and land). While income inequalities rose in the 1990s, the LAC region has demonstrated substantial progress in reduction of income inequality in the 2000s – this now presents a central policy challenge to sustain this progress through stronger policy interventions and support. In the past, public policies through the collection of taxes and distribution of social transfers, have achieved little lasting impact in terms of effective redistribution; tax collection in the future should be made more progressive and transfers more effectively targeted towards the poor.²⁵

Perhaps the most encouraging success in this regard has been accomplished through conditional cash transfer programmes such as *Bolsa Familia* in Brazil and *Oportunidades* in

²⁴ This type of strategic approach is used in the “*Skills for Trade and Economic Diversification*” (STED) methodology of the ILO.

²⁵ Goni, E., Lopez, JH, Servén, L.: *Fiscal Redistribution and Income Inequality in Latin America*. World Bank Policy Research Working Paper 4487 (Washington, D.C., 2008).

Mexico that led to substantial reductions in inequality, despite their relatively small volumes.²⁶ In addition, such programmes can also contribute to reducing the underlying long-term causes of poverty and income inequality by improving educational attainment and health.

On the income side, revenue from natural resources, if carefully managed in a way that cushions price fluctuations, can contribute to the ability of governments to carry out redistributive policies. However, such policies can only complement, not substitute, the necessity to develop a broad and equitable tax base. With increasing trade and capital mobility, a key question in this regard is how to avoid the adverse impact of tax competition.²⁷ Tax competition, in particular with respect to tax breaks for foreign investment, is often a regional phenomenon, with countries within the same regional trading block competing against each other.²⁸ Thus, progress in tax coordination at the regional level could bring substantial benefits in this regard.

A broad literature survey examining the relation between trade liberalization and poverty concluded that enabling the poor to take advantage of the opportunities arising from trade is key for trade to have a pro-poor impact.²⁹ The topics discussed above – making sure that trade creates jobs that are accessible for unskilled workers and investing in education – are crucial in this regard. Access to finance is often a critical constraint as well, and microfinance can be an effective tool to allow poor people to become entrepreneurs and seize arising economic opportunities.

3. Migration from Latin America and the Caribbean to Europe³⁰

High inequality, sluggish job creation and decent work deficits in many existing jobs in the LAC region have been push factors, causing migrant workers to leave their country of origin and seek economic opportunities elsewhere, often to the US and increasingly to the EU. This growing trend and the EU policy measures that have improved the regulation of migration and taken important steps toward reducing the precariousness of migrant workers will be discussed in this section.

²⁶ Soares, S. et al: *Conditional Cash Transfers in Brazil, Chile and Mexico: Impacts upon Inequality*. In: Estudios Económicos, Numero extraordinario (2009).

²⁷ OECD: *Harmful Global Tax Competition- An Emerging Global Issue* (Paris, 1998).

²⁸ Wells, L., et al: *Using Tax Incentives to Compete for Foreign Investment- Are they Worth the Cost?* World Bank, FIAS Occasional Paper 15 (Washington, D.C: 2001).

²⁹ Winters, A., et al: *Trade Liberalization and Poverty: The Evidence So Far*. In: Journal of Economic Literature 42, 2004.

³⁰ See the following ILO instruments, in relation to migration:

ILO (2007) *Marco multilateral de la OIT para las migraciones laborales. Principios y directrices no vinculantes para un enfoque de las migraciones laborales basado en los derechos*. Oficina Internacional del Trabajo Ginebra

http://www.ilo.org/public/english/protection/migrant/download/impr_framework_sp.pdf

C97 Convention on Migrant Workers (revised), 1949

<http://www.ilo.org/ilolex/cgi-lex/convds.pl?C097>

R86 Recommendation on Migrant Workers (revised), 1949

<http://www.ilo.org/ilolex/cgi-lex/convds.pl?R086>

C143 Convention on Migrant Workers (supplementary texts), 1975

<http://www.ilo.org/ilolex/cgi-lex/convds.pl?C143>

R100 Recommendation on the Protection of Migrant Workers (insufficiently developed countries), 1955 (provisional)

<http://www.ilo.org/ilolex/cgi-lex/convds.pl?R100>

R151 Recommendation on Migrant Workers, 1975

<http://www.ilo.org/ilolex/cgi-lex/convds.pl?R151>

Documents from the International Labour Conference 2004.

A significant characteristic of the European labour market since 2000 is the increase of migration from the LAC region. The 2000 census indicates that Spain continues to be the principal migration destination, followed by Italy and then other countries such as Portugal, France, Switzerland, Belgium, the United Kingdom, Holland and Germany.

The trend of Latin American migration to Europe has two principal aspects worth highlighting. First of all, the factors driving migration in many cases are related to a perceived lack of opportunities in the country of origin. In the LAC region, labour markets are characterized by a high degree of informality, which continues to be an obstacle to the promotion of Decent Work. Despite the five-year cycle of sustained growth prior to the crisis, which had led to a continuous decline in urban unemployment rates in the LAC region from 11.4% in 2002 to 7.5% in 2008, informality and precarious forms of work continue to be prevalent.³¹ Countries such as Argentina and Brazil have implemented integrated economic and social policies that have lowered the growth rate of informality,³² but the impact of the crisis has threatened to reverse this good progress. Second, there are “pull” factors that may attract people to migrate overseas.

The following discussion is focussed upon the important advances achieved in Europe to address the rising number of migrants coming from the LAC region. New measures have been introduced to improve the regulation of migration, and these have contributed toward reducing the labour and social precariousness and informality of migrant workers. Overall, the European initiatives demonstrate good practices toward strengthening the social dimension of globalization.

Among the “pull” factors, it is important to note that workers in the LAC region are migrating to Europe not only in search of better earnings, but also to obtain stronger social protection, involving recognition of *de jure* rights of non-discrimination and more effective *de facto* application of rights and social protection. Bilateral labour agreements signed primarily with Spain have provided improved labour protection, and processes of regularization have been undertaken by Spain, Italy and Portugal. A large number of migrant workers from the LAC region have benefitted in these same countries from bilateral and multilateral agreements in the area of social security that have been signed over the last two decades, as well as more effective application of these regulations.

One area where further progress could be obtained between the European Union and the LAC region concerns the recognition and transferability of skills of migrant workers, which would help to improve occupational mobility as well as avoid a de-skilling of medium and highly qualified migrant workers.

3.1. Migration toward the European Union, Primarily Spain and Italy

A noteworthy trend in migration from the LAC region to Europe, in contrast to that of the United States, is the high percentage of female migrant workers (reaching 53% of total migrants to Holland and 54% of migrants to Italy and the United Kingdom). In Europe, the majority of female migrants work in hotels and restaurants, in retail and wholesale trade, in real

³¹ ILO: *Panorama Laboral 2009 America Latina y el Caribe*, Sub-Regional Office of the ILO (Lima, 2009).

³² ILO 2010, “Employment policies for social justice and a fair globalization”, Recurrent item report on employment, International Labour Conference, 99th Session, Geneva.

estate and in small-scale businesses. The fact that a significant number of migrant workers from the LAC region have been able to regularize their status in Western Europe might have had a positive influence in permitting female migrants to diversify their labour market integration into a wider range of sectoral activities than seen in North America.

Spain receives nearly half of all migrant workers coming to the European Union from the LAC region, and this role has increased exponentially over the past decade. The majority of migrants to Spain come from Ecuador, followed by Colombia, Peru, Argentina, Bolivia and the Dominican Republic. Data from the Spanish social security registries of 2007 indicates that 70% of Latin American migrants were working in services, followed by construction (18%), industry (17%) and agriculture (5%).

Migrant workers make a recognized contribution to economic growth, as reflected in a report by the Economic Office of the President of Spain in 2006, which calculated that “the effect of migration...represented 30% of GDP growth over the last decade”.³³

Migration from the LAC region to Italy has also increased, although at a lower level than to Spain. The high level of female migrants is noteworthy, representing 67% of total migrants to Italy in 2007.

European countries have formulated policies and initiatives to address this situation. These involve both the conceptual framework for these policies and initiatives, as well as their implementation, primarily as regards the regulation of migration, the provision of social protection and other labour and social rights, as well as the recognition of qualifications and skills.

The following section summarizes some of the principal initiatives that have been implemented by European Union countries. Some brief considerations are also provided concerning the impact that the economic crisis might have upon progress attained thus far.

3.2. Regulation of Migration and Providing Protection to Migrant Workers

Two of the most important tools recommended by the ILO for regulating labour migration and providing social protection to migrant workers are bilateral agreements and employment contracts³⁴.

The ILO recommends that dialogue between sending and receiving countries around the regulation of migration should be undertaken in either a bilateral or a multilateral context as concerns central issues such as employment and residence rights for migrant workers, the movement of migrant workers, the situation of irregular migrant workers, the transferability of social security and the recognition of qualifications and skills of migrant workers.³⁵

³³ Economic Office of the President of Spain: *Inmigración y Economía Española: 1996-2006*, 15 de noviembre de 2006.

³⁴ A model of a bilateral labour agreement and of an employment contract are included in Recommendation No. 86 that accompanies ILO Convention number 97, adopted in 1949.

³⁵ See: Convention number 143, article number 9; Recommendation number 151; Convention number 118 *On Equal Treatment (Social Security)*, 1962; Convention number 143, article 14; Recommendation number 195; and

a) Bilateral agreements concerning labour migration

Numerous bilateral agreements concerning the exchange of labour have been signed and implemented between European countries and different LAC countries. These agreements grant migrants the right to work, on the basis of equal opportunity in relation to national citizens, and based upon the principles of equality of treatment and non-discrimination. Among these agreements, some examples can be highlighted:

i) the bilateral agreements signed by Spain with Ecuador, Colombia and the Dominican Republic in 2001, that established a bilateral framework for the regulation of migration, including aspects such as the communication of employment opportunities, recognition of professional qualifications, labour and social rights and the voluntary return of migrants.

ii) the protocol concerning treatment and right to reside of workers between Italy and Argentina, that entered into force in 1990.

iii) the labour agreement concerning the reciprocal hiring of citizens between Portugal and Brazil in 2003, that covered a large number of professions.

b) Regularization Processes for Migrant Workers

The regularization processes undertaken by Spain, Italy and Portugal have benefited a large number of migrants from the LAC region.

The regularization process undertaken by Spain in 2005 is considered a good practice, as its design and application involved extensive consultations with workers' and employers' organizations. The programme allowed migrant workers that had registered with the local government authorities at least six months in advance, that had no criminal record and that had the necessary qualifications required for their job, to regularize their situation. The majority of requests for regularization that were accepted came from migrants in the areas of domestic work, construction, agriculture and the hotel sector.

In Italy's last regularization process (during the period 2002-04), 766,877 regularization requests by Latin Americans were accepted. Similarly, the regularization processes undertaken by Portugal have primarily benefited Brazilians.

3.3. Social Security and other labour and social rights

a) Bilateral and multilateral agreements

The transferability of pensions is a fundamental factor to permit the movement of workers between countries, without risking the loss of social security coverage. Countries including Argentina, Brazil, Chile, the Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Peru, Uruguay and Venezuela have signed bilateral social security agreements with a large number of European countries, primarily with the aim of permitting the transferability of pensions.

Multilateral Framework of the ILO for Labour Migration, Principles and Non-Binding Guidelines for a rights-based focus on labour migration, Geneva, 2007, p.15, p. 20-22, p. 26-30.

For example, Brazil has signed such agreements with Greece, Portugal and Spain. Similarly, Chile has concluded thirteen social security agreements concerning the transferability of pensions with European countries since 2000.

In 2007, Spain signed the Multilateral Ibero-American Agreement. Under this Agreement, a documented migrant worker from LAC can receive services and makes payments to the social security system on the same conditions as Spanish citizens. In order to renew permission to reside and work in Spain, migrant workers must join and make regular payments to the national social security system.

Similarly, Portugal has authorized both citizens and foreign residents to receive certain benefit payments (such as medical assistance, health, old age, as well as maternity benefits).³⁶

b) Other labour and social benefits

Access to professional training in Portugal is available to all foreign workers that have regularized their status with the government.

Under the principle of family reunification, the Spanish government has extended the right to migrant workers to invite family members (spouse and children) to reside with them in Spain, after a one-year period of legal residence and after renewing the initial residency authorization to reside beyond one year in the country. Children that are under 18 years of age, disabled, or unmarried can join their parents in Spain. If a migrant is unemployed prior to the termination of the employment contract, due to no fault of the worker, then the migrant worker is authorized to remain in the country and seek another job.

3.4. Recognition of diplomas, skills and competencies

Recognizing the existing skills and competencies of migrant workers can benefit the recipient country, as well as migrant workers themselves. Similarly, making opportunities available for migrant workers to raise their skills and receive certification for acquired skills is another important avenue whereby the expertise of migrant workers can be utilized more effectively in the receiving country.

In this regard, it is worth noting that the level of formal education of migrant workers coming from the LAC region to the European Union has risen over time. A striking characteristic of this extra-regional migration is the growing level of women with a high level of formal education. Of concern, most of these medium to highly qualified migrants find better paid work opportunities overseas, but in areas that require lower qualification than those they would find in their countries of origin. Over time, this situation may result in a de-skilling process for such migrant workers.

The ILO recognizes that having recognized qualifications in the destination country is a crucial pre-requisite to obtain a good job.³⁷ A recent ILO document mentioned that “Workers must

³⁶ Geronimi, Eduardo: *Admisión, contratación y protección de trabajadores migrantes*, Social Protection Sector, International Migration Programme, International Labour Office, Geneva, Studies on International Migration number 70, p. 31-32.

³⁷ In Article 14 of convention Number 143 and in paragraph number 6 in Recommendation number 151.

have pertinent and verifiable qualifications in order to access opportunities for employment and to adjust to a constantly-evolving labour market. This assumes that qualifications ought to be transferable between jobs and easily recognized by employers”, not only within the same country, but also between countries.³⁸

While the term “brain drain” refers to medium and highly-skilled human resources that are supposedly being well-used in the labour market of receiving countries, de-skilling concerns the inability to make good use of one’s acquired skills and competencies in the labour market. The phenomenon of de-skilling involves qualified human resources that are not being utilized appropriately in the receiving countries, resulting in a lost investment made in education and training by the migrant worker and their family, as well as the country of origin.

A relevant initiative in this regard is the Common Area of Higher Education (ALCUE), an initiative of countries from the LAC region and the European Union for the creation of an environment of interaction and of bilateral and multilateral cooperation between their respective systems of higher education. Spain has advanced most in this framework, through a system whereby an academic degree obtained overseas can be officially recognized, in line with a corresponding degree in Spain. For some Latin American countries such as Bolivia, Colombia, Cuba, Chile, Ecuador, Panama, Peru and Venezuela, the Andrés Bello Agreement can apply, thereby allowing for legalization of an educational degree via diplomatic channels and substituting the final step of common legalization.

Nevertheless, these processes continue to be lengthy and costly, and require further attention. The lack of recognition for their acquired competencies reduces the possibilities for many migrant workers to attain more favourable occupational mobility.³⁹

3.5. The Crisis, Return Migration and Remittances

What has been the impact of the crisis upon migrant workers and their earnings? Remittances, that have been an important factor contributing to improved well-being of families of migrant workers back in their countries of origin, fell by 15% between 2008 and 2009.⁴⁰ According to Manuel Orozco, the Director of the Remittances Programme of the Inter-American Dialogue, migrants have had to use their savings in order to cope with the recession that has resulted from the crisis.

Despite this negative context created by the crisis, there has been no evidence thus far of a potential “mass return” of Latin American migrant workers. This could be attributed to the high cost involved in returning to the country of origin, as well as the high cost of a future return to Europe. This might also be the result of the great effort made by European countries in recent years to establish procedures, such as those mentioned in this text, to create more stable conditions for migrant workers.

Migration appears to have improved the labour market position of some migrant workers who have voluntarily returned to their country of origin. Information from a recent survey developed by the ILO and the Ecuadorian government indicates that returning migrants have improved their labour market position as well as income, particularly in the case of women.

³⁸ ILO, 2007: *Transferability of Qualifications*, 298 meeting, Governing Body, Geneva, March 2007. GB.298/ESP/3 Employment and Social Policies Commission.

³⁹ Stefoni, Carolina: *Migración, Género y Servicio Doméstico*, report prepared for the ILO, not published, p. 33.

⁴⁰ Press Releases. *BID percibe punto de inflexión en remesas a América Latina y el Caribe*. (<http://www.remesamericas.org/>).

4. Conclusion

The post-crisis policy agenda put forward by governments to achieve strong, sustainable and balanced recovery and growth requires greater public policy attention toward employment and social protection.⁴¹

In the LAC region unemployment rates rose relatively little during the crisis and recovered much faster and more robustly than originally forecast. However, open unemployment indicators mask the true extent of the “crisis behind the crisis” of labour market distress. Various forms of vulnerable work have risen in LAC, as workers have accepted poorly paid, low-productivity work in precarious conditions without social protection or other rights enshrined under labour legislation, and the informal economy has grown. A large number of discouraged workers simply withdrew from actively seeking work, including a “lost generation” of discouraged youth that are either unemployed or can only find work in the informal economy.

The crisis and reduced consumption in the United States and Europe have accelerated shifting patterns of trade in the LAC region that are leading toward greater exports to Asian markets (particularly China). This has been associated with a re-increase in the export share of commodities including metals that tend to generate little employment. Export concentration upon a limited number of products would increase the exposure of countries in the region to external volatility. Instead, to attain stable and inclusive growth, LAC economies must seek sources of growth and job creation from sectors with high potential for employment and productivity growth, while also raising the value-added of existing sectors and creating jobs for the large share of low-skilled workers. This balanced growth path will require new capital investments higher wage shares for workers and stronger education and skills development of the labour force. Raising the quality and coverage of public education and vocational training thus constitutes a crucial hurdle for most LAC economies. Another major challenge for the LAC region is to sustain the reduction of income inequalities achieved over the 2000s through stronger fundamentals involving social transfers, rising wage adjustments and a more effective tax system.

The decent work deficits that built up long before the current crisis, including sluggish job creation and poor quality of existing jobs (including high incidence of informality and low social protection coverage), have been major factors leading migrant workers to leave their countries of origin in search of better opportunities, earnings and social protection elsewhere. Migration from the LAC region to the United States is already strong, but is shifting increasingly toward Europe. This paper has cited various policy measures implemented by European governments that receive the greatest flux of migrants from LAC countries and that constitute good practices in areas such as regulating migration flows, ensuring reciprocal social security arrangements and recognition of skills and formal qualifications. It is important to ensure that the crisis does not undermine these positive policy measures.

Ultimately, a diversified and competitive basis of trade will only be achieved, and the tide of migrant workers seeking better prospects elsewhere will only be contained, if policies in the recovery period high priority to a combination of economic, social and labour market policies that promote sustainable growth and employment creation, redress income inequalities, and

⁴¹ IMF-ILO: “The Challenges of Growth, Employment and Social Cohesion”, joint IMF-ILO conference in cooperation with the Office of the Prime Minister of Norway (Oslo, 2010).

improve the quality and coverage of the education and vocational training systems to create a work force with higher skills that are well-suited to emerging labour market requirements.