

## Labour Aspects Associated with Intergration Processes and Free Trade Agreements in the Region

Since the 1990s, the increased liberalization of trade has been fuelled by regional integration processes and especially free trade agreements. In 2003, two key agreements were signed: the Free Trade Agreement between Chile and the United States, and the trade agreement between Peru and the Southern Common Market (MERCOSUR). These processes have a major multidimensional impact on the participating countries of the region, particularly on their labour markets. The contents of the agreements reflect a growing concern for social and labour issues.

Based on two ongoing ILO studies, this feature article discusses the socio-labour impact of the integration processes and free trade agreements. The article concludes that the measurable performance of these initiatives has been modest in terms of employment, wages and vulnerable groups, despite the advances made in the legal recognition of workers' rights. Nevertheless, the level of enforcement of labour standards varies among and within the countries of the region. These weaknesses jeopardize social support for the processes because the economic benefits of integration and free trade do not reach every one equally and can even negatively affect some groups, requiring governments to implement compensatory policies.

The processes underway, a trend generically known as the "new regionalism," differ in their pace and contents from the integrationist and international trade policies implemented in the region during the 1960s and 1970s, reflecting the profound changes taking place in the region and the world since that time. These changes include the failure of the state-centred paradigm in Latin America during the late 1970s and early 1980s, as well as the fall of authoritarian regimes; the processes of economic stabilization and structural adjustment that began in most of the countries of the region in the 1980s; and the defeat of socialist regimes at the end of the 1980s and early 1990s, paving the way toward a greater trade and financial liberalization. Globalization has accelerated this liberalization in the past decade.

To differing degrees, the countries of the region have committed to opening their economies in an effort to strengthen trade negotiations, thereby permitting them to reach agreements that improve their competitiveness in foreign markets. Economic integration and free trade are viewed as appropriate

instruments to contribute to resolving the countries' most pressing needs. For this reason, the countries of the region have prioritized international economic and trade relations in their foreign policy.

### *Economic Integration and Free Trade*

In the literature on these processes, there is a generally accepted classification system for integration consisting of several steps or successive phases of increasing complexity. At the first level are *preferential economic areas or zones*, where trade advantages exist among the participating countries, but without negotiations regarding key trade aspects between the signers. The second level is the *free trade zone or area*, in which tariff and non-tariff measures are usually eliminated between member countries, although each member maintains these restrictions when trading with non-participating countries.

Next is the *customs union*, which eliminates restrictions on the circulation of goods from member countries and imposes a common external tariff on imports from non-member countries. The fourth level is the *common market*, where commodities, capital and workers circulate freely. The *economic union* is the fifth level. At this level, in addition to the aforementioned aspects, economic policies are harmonized in terms of targets for inflation, fiscal deficits and others. Finally, *total economic integration* establishes the unification of monetary, fiscal, labour, social and environmental policies with a supra-national authority whose decisions are binding for member states. Although this classification system has not been exactly replicated in practice, it is useful for organizing existing initiatives.

Integration processes and free trade agreements differ in some aspects. The main dissimilarity is that integration processes have broader agendas than do free trade agreements, particularly with respect to socioeconomic, political and labour issues, without neglecting the so-called "free trade plus," which includes provisions on government purchases, protection of intellectual property and labour affairs. Integration processes and free trade agreements are both voluntary and do not affect the sovereignty of member states.

Their effects are also dissimilar, particularly as regards labour. For example, in the common market, the free circulation of workers in all member countries is a

deliberate objective, something that does not occur with free trade agreements. In Europe, which was a common market before becoming an economic union, workers circulated well before capitals and services did so. In Latin America and the Caribbean, the future Free Trade Area of the Americas (FTAA), despite its expected "plus," does not currently address this issue.

The commitment of the countries of the region to integration has moved far beyond trade liberalization and the development of common rules of exchange. They have also committed to financial and macro-economic cooperation (the Andean Development Corporation, for example); the harmonization of regulatory frameworks (the Andean Community of Nations- CAN); the completion of the physical infrastructure (Initiative for the Regional Integration of South America); as well as the promotion of social integration (especially the MERCOSUR Socio-Labour Declaration) and political integration (such as the recent Strategic Alliance between Brazil and Peru).

For countries of the region, the integration process is a shared development initiative of their democracies and an associative instrument to promote the growth of their economies, which separately face serious problems in an unfavourable international context. In Latin America, there is awareness that the countries began participating in globalization during a time of crisis, while the developed countries entered this process during a time of well being. However, there is also the conviction that integration is required to achieve benefits from the globalization process.

### *Accelerated Integration Process*

Over the past two decades, all forms of integration have increased significantly and in a widespread manner. Currently, the World Trade Organization (WTO) has registered 203 agreements of different types in effect (Table C.I). Most of these (69%) are bilateral free trade agreements and association agreements between a third country and a bloc of countries that already have an existing free trade agreement between them. In the hemisphere of the Americas, there are 18 registered agreements.

Integration expansion occurred largely as a result of the agreements of the Uruguay Round of trade negotiations, which, among other results, led to the creation of the WTO in 1995. Seventy-five percent of existing free trade agreements have been signed since that year.

The accelerated development of the so-called Washington Consensus was also influential in expanding integration by calling for the elimination of obstacles that impeded the free functioning of markets as a condition for achieving healthy, sustained economic growth and for generating more and better jobs. Although there is still debate about whether the expectations of the Washington consensus were met, there is no doubt about its influence on the global climate favouring free trade over the past decade. The Washington Consensus also called for the reduction of the size of the state apparatus, financial liberalization and market deregulation.



TABLE C.I

#### DIFFERENT TYPES OF INTEGRATION AGREEMENTS AND COVERAGE

Continents	Regional trade agreements	Incorporation into a customs union	Free trade agreement	Service agreements a/	Others
Europe	7	9	82	11	-
America	6	-	7	5	-
Asia	5	-	4	1	3
Africa	5	-	-	1	-
Oceania	3	-	2	-	-
Countries of different continents	4	-	45	3	-
Total	30	9	140	21	3

**Source:** World Trade Organization (WTO), 2003.

a/ There are two primary approaches in the liberalization of services, one known as the "Positive List" and the other the "Negative List". In the former, countries agree to grant national treatment and market access, specifying the type of access and/or treatment offered for specific services or service providers, whereas in the latter all of the sectors and measures must be liberalized. (See *Development, Trade, and the WTO – A Handbook*, World Bank, June 2002.)

### *The Summits of the Americas and the Free Trade Area of the Americas (FTAA)*

Inspired by the 1990 Initiative of the Americas, the first of three Summits of the Americas took place in Miami in 1994, with the participation of the heads of state and government of 34 democracies of the Americas. The process focused on four issues: consolidation of democracy and the rule of law, the eradication of poverty, environmental protection and the attainment of economic prosperity through the liberalization of trade and investments in the FTAA. The development of the FTAA has a negotiations schedule with specific objectives and its own administrative structure. In contrast, follow up of non-trade commitments has been less structured and restricted to national contexts. As a result, the FTAA is considered the only integrating multinational topic on the agenda of the Summit process.

The declarations of the heads of state and government of the Americas reflect a broad agenda that goes beyond trade. Among other issues, the Miami Summit focused on the consolidation of democracy and the defence of human rights; the Santiago Summit (1998) introduced the second generation of reforms; and, the Quebec Summit (2001) centred on the development of human potential. All of these issues reflect the concern for achieving the equitable distribution of the benefits of free trade and integration. However, the question remains as to whether the follow up of these efforts is the individual responsibility of the countries or whether it requires cooperative community actions within the FTAA framework or in integrating hemispheric agreements in other areas.

Advances in trade agreements have been the result of complex negotiations processes and non-linear progress, whose results have not always satisfied all actors. In late November 2003, the 34 countries that met in Miami for the eighth round of FTAA negotiations arrived at a compromise between what had previously seemed like the irreconcilable positions of the United States and Brazil. This agreement left room for the countries of the region to join the free trade area at their own pace and permitted the debate to continue without addressing the most controversial issues for the parties: intellectual property (United States) and agricultural subsidies (Brazil). While the Miami accord satisfied the United States, which announced the opening of bilateral negotiations with five countries of the region (Bolivia, Colombia, Ecuador, Panama and Peru), it also satisfied Brazil, which prefers to negotiate as a bloc with its MERCOSUR partners. Nonetheless, it was disappointing for the countries of the region that already have free trade agreements with the United States: Canada, Mexico and Chile.

### *Integration Processes in Latin America and the Caribbean*

Economic integration processes need to incorporate a socio-labour dimension in its institutional framework that contributes to the development objectives from the perspective of the social actors of these processes. The four economic integration processes existing among the countries of the region have not addressed this aspect in equal measure.

**The Southern Common Market (MERCOSUR)**, established in 1991 between Argentina, Brazil, Paraguay and Uruguay, brought together a population that currently exceeds 200 million people and an estimated annual GDP of US \$1.03 trillion annually in 2000, which makes this initiative the largest economic integration process in Latin America and the southern hemisphere. Bolivia and Chile have signed economic and trade association agreements with MERCOSUR. Peru signed a free trade agreement with the bloc in 2003.

Thanks to income generated by foreign investment, attracted mainly by the process of privatization of public companies, the MERCOSUR countries (except Argentina) achieved strong economic growth and an acceptable labour performance until 1997. That year, the Asian crisis generated a process of economic and social instability, which eventually led to the Argentine crisis of 2002, and to negative effects on the economies of the other common market members.

MERCOSUR is the most developed process in the region in terms of labour and social dimensions of integration, as well as with respect to the incorporation of social actors into the process. Several years ago, a subcommittee of Sub-group 11 reviewed the situation of the bloc to harmonize labour legislation. The Sub-group selected 21 ILO conventions and promoted their ratification in the four MERCOSUR member countries to create a common doctrine. In July 1998, Sub-group 10 (which replaced Sub-group 11) began discussions on a possible labour agreement that would include part of the contents of a social charter presented by workers. That year, the MERCOSUR Socio-labour Declaration was approved, which recognizes the right to organize, collective bargaining, the right to strike, the elimination of forced labour, the special protection of minors, the principle of non-discrimination, equal employment and employment and occupational rights. In addition, the bloc has formed a permanent tripartite Socio-Labour Commission.

**The Andean Community (CAN)**, comprised of Bolivia, Colombia, Ecuador, Peru and Venezuela, covers a total population of almost 90 million and had a GDP of

US\$ 183 billion in 2000. Among the best-known Andean instruments for social and labour integration are the Simón Rodríguez Convention (modified); the Andean Social Security Instrument (Decision 546); the Andean Instrument on Safety and Health at Work (Decision 547); the Andean Labour Migration Instrument (Decision 545), and the Andean Work Administration Instrument.

Approved in 1973, the Simón Rodríguez Convention promotes socio-labour integration. It was declared dormant in 1993 and was subsequently updated to adapt it to the current socioeconomic context of the sub-region and to integration objectives. A key innovation of the modifying protocol of the convention is the establishment of a tripartite participation in its implementation.

The Andean Social Security Instrument establishes a common policy on the rights of insured individuals to receive services in other countries of the Community in the case of illness, maternity, work accidents and work-related illnesses, as well as old age, disability and death benefits.

The Andean Instrument on Safety and Health at Work establishes the basic occupational safety and health standards that serve as the basis for the progressive harmonization of the laws and standards that regulate the specific labour activities in each member country. It will also serve to promote the adoption of guidelines on safety and health management systems at work in the countries, as well as the establishment of a national system for occupational safety and health.

The Andean Labour Migration Instrument establishes common policy in terms of rights, obligations and procedures of workers who migrate to another country of the Community for work reasons.

Currently, regulations are being developed for these three decisions. Decision 553 is now being implemented. This decision established the guidelines of the Integrated Social Development Plan to reduce poverty. New Andean instruments are being prepared on work administration and eliminating child labour.

The CAN has an Andean Labour Advisory Council and a similar Business Council. Both issue opinions on programmes and activities of the integration process and attend the meetings of the Andean Council of Ministers of Foreign Affairs, as well as meetings of experts or work groups associated with the integration process.

In May 1999, the XI Andean Presidential Council approved the Cartagena Declaration, which called for a multidimensional social agenda addressing the core

issues of the generation of employment, education, health and housing, and the establishment of a common migration policy to protect the rights of migrant workers.

**The Central American Integration System (SICA)**, comprised of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, covers a total population of 36 million and had a GDP of US\$ 66 billion in 2000. The economic integration of Central America began with the creation of the Organization of Central American States (ODECA) through the San Salvador Charter of October 1951, as well as through the adoption of bilateral trade agreements and reciprocal preferences. Important multilateral agreements were subsequently signed and in December 1960, the General Agreement of Central American Economic Integration (Managua Agreement) established the Central American Common Market. This agreement stipulated that all bodies and agencies of the Programme for Central American Economic Integration would form part of the ODECA.

In 1991, the Tegucigalpa Protocol was signed at the XI Summit of Central American Presidents, which updated the legal framework of the ODECA. On that occasion, the SICA was established by the original members of the ODECA (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) and by Panama. Since then, the SICA has served as the institutional framework for the regional integration of Central America.

Several trade agreements, democratic stability accords and complementary integration instruments have since been signed in an effort to achieve a regional system for the welfare and economic and social justice of Central Americans. The instruments signed in the framework of this integration experience have mainly regulated trade aspects. Labour institutions have received little attention in the different legal instruments regulating them.

**The Caribbean Community and Common Market (CARICOM)** was created in 1973 and includes Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Granada, Guyana, Haiti, Montserrat, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago. The Community has a total population of over six million and had a GDP of US\$ 23 billion in 2000.

The following were the major achievements of the integration process in terms of social and labour development: The Civil Society Charter (1997); the Declaration of Labour and Industrial Relations Principles (1995); the CARICOM Agreement on Social Security



(1996); and the adoption of common principles to design, adopt and implement a multi-annual plan for the development of a labour market information system within the Caribbean sub-region.

The CARICOM Declaration is a true labour legal framework for the countries of the Community. The Declaration is used as the basis for the development of model community laws on the recognition of unions, safety and health at work, as well as equal opportunity and treatment. In addition, in 1993, a project was implemented to develop common labour laws for all member countries.

In the four integration processes described, social actors have not participated actively in the definition of community policies and in sub-regional decision-making. The strengthening of the presence of these actors in these decision-making bodies would give greater dynamism to the processes, contribute relevant information and at the same time generate the social support and legitimacy essential for their continued development.

At the national level, the weakness of employment administration hinders the effective follow up of labour legislation, even that referring to basic worker rights. Nevertheless, some countries in the region have established good labour practices, which could be better disseminated and shared with other partners of the sub-regional integration processes.

### *Labour Standards Specific to Integration*

The four integration instruments described above (MERCOSUR, CAN, SICA and CARICOM) have made commitments and agreements on labour legislation in different areas (basic rights, work conditions, employment, gender, employment administration, social security, as well as promotion and control entities). These are described below:

In terms of *basic rights*, with the exception of SICA, the integration entities have instruments and declarations that specifically refer to the freedom of association and the right to organize, collective bargaining rights as well as the elimination of forced labour, child labour and discrimination. The CAN Labour Advisory Council recommends improving compliance with core ILO conventions. The SICA addresses non-discrimination only.

With respect to *work conditions*, the agreements, instruments and declarations of the Organization of American States (OAS) and the CARICOM refer to rights at work, work days, rest, fair and adequate pay, work stability, promotion, standards on women who work, disabled workers, vacations, holidays,

occupational safety and health and mechanisms to resolve labour disputes. The SICA addresses only fair and adequate pay. The CAN approved a new instrument on occupational safety and health. The MERCOSUR has established mechanisms to resolve labour disputes.

Regarding *employment*, these international standards address promotion of employment, movement of manual labour or migrant workers, professional training and vocational training.

The existing instruments do not specifically address *gender*, except from the perspective of non-discrimination on the basis of sex. The MERCOSUR Socio-labour Declaration establishes its commitment to guaranteeing the principle of non-discrimination in Article 1. In Article 3, it calls for equal treatment and opportunity among the sexes. In addition, MERCOSUR has established the Women's Forum and the Tripartite Committees for Women's Equal Employment Opportunities. Without specifically referring to women, the CAN establishes in its social security instrument the full application of the principle of equal treatment and the elimination of all forms of discrimination.

The CARICOM does not refer to gender issues although all countries of this sub-region call for non-discrimination in their respective constitutions. In addition, their national laws establish equal pay. In the SICA, the 1995 Central American Social Integration Treaty establishes non-discrimination on the basis of sex, and the Managua Protocol of that year calls for the elimination of de facto or legal discrimination against women, in an effort to improve their quality of life and position in society.

The agreements, instruments and declarations refer to *employment administration* and labour inspection in the case of CAN, CARICOM and MERCOSUR. There are no references to this issue in the OAS Declaration or in SICA agreements and protocols.

With respect to *social security*, the agreements, instruments and declarations of the integration processes address social security issues in general, subsidies for work accidents and work-related illnesses, severance pay for work accidents and work-related illnesses, medical care, coverage of funeral expenses, protection against unemployment, retirement and death benefits. There are few references to these topics in SICA documents.

Except in the case of the SICA, the integration instruments address the subject of *entities for the promotion* and control of the application of a variety of legal instruments.

In summary, labour regulations have been included in the four regional integration instruments of Latin America and the Caribbean, in varying degrees and scope, although in some cases they are incorporated only in declarational, generic terms. In general, specific or complementary instruments have addressed labour issues after the integration instrument was developed, in some cases many years later.

Despite their diversity, the labour institutions incorporated into the agreements, instruments and declarations originating from the different processes have developed into a coherent, complementary group. This indicates that developing a set of concerted legal labour standards is feasible according to the region's integration experiences.

Finally, in the framework of the classification system, the CARICOM has 31 labour provisions, making it the instrument with the most provisions in quantitative terms, followed by the MERCOSUR with 17 and the CAN with 15. The SICA has seven provisions, making it the integration experience with the fewest labour provisions.

### *Decent Work and Integration*

A key reason governments choose to participate in economic or trade integration agreements is the new jobs they can generate. The creation of quality employment is also a crucial component of the social appraisal and legitimacy of integration processes. Employment is probably the social dimension of the initiatives that most directly affects individuals in the countries.

Decent work is the most deeply felt aspiration of men and women in all societies, as the ILO Director General said at the XV American Regional Meeting, held in Lima in 2002. Satisfying this aspiration implies that the worker has a job, of course. However, this basic condition is insufficient: for work to be decent, workers' basic rights must be respected and their occupation must permit them to support themselves and their families in dignity, satisfying their basic needs for food, housing, health, social security and education.

The integration processes have had diverse effects on employment and decent work in the countries of the region. Opponents of the trade liberalization which forms part of these initiatives point to the inevitable loss of jobs which it causes, while those who favour it stress the increased employment opportunities that it helps generate and the occupations that would be at risk if the country does not participate. Moreover, the inability of the economies to create a sufficient number of quality jobs has led to the social unrest that globalization provokes, since the lack of employment

is the main weakness of the economic and social system based on liberalized trade and investment.

### *Employment Performance and Wages*

In light of the above, it is essential to review the existing evidence on the labour performance of these processes. The impact of foreign trade on wages and employment has been diverse both among and within countries. Evaluating this balance can be difficult because of the methodological complexity of distinguishing between the effects of trade policies and those of other policies.

With the trade liberalization of the 1990s, average tariffs in Latin America decreased from a low of 35% and a high of 100% to a minimum of 14% and a maximum of 22%. In addition, tariff differentiation declined and capital flow restrictions were eliminated. Nevertheless, the two expected effects of liberalization did not occur: unskilled manual labour (compared with skilled labour) did not increase in the formal sector and urban unemployment did not decline.

The unemployment rate, which averaged between 5.5% and 6.5% in Latin America during the first half of the 1990s, rose to 8.9% by the end of the decade and increased to 10.8% in late 2002. The 10.8% rate was calculated using the new Brazilian statistical series (based on the Monthly Employment Survey (PME)), which introduced an increase of two percentage points in the unemployment rate, and a break in the series for the region beginning in 2001. At the same time, employment increases were higher among unskilled workers than among more highly skilled workers. Considering that informal employment is synonymous with unskilled work and low productivity, 42.8% of total urban employment was in the informal sector in 1990, increasing to 46.5% in 2002. During the 1990s, seven of every 10 new workers were employed in the informal sector.

Although there are multiple causes for the insufficient growth of employment for unskilled workers and the increase in unemployment, one explanation is that the relative cost of unskilled labour in Latin America is high compared with that of Asia, for example.

After the liberalization of their economies, many countries began applying a fixed exchange rate policy, with or without trade protection measures. The net result of this form of opening in terms of the labour market is that countries without instruments to protect employment in their traded goods sector, which compete with imports, were less competitive due to their previous high protection levels. Other countries, such as Mexico, were in a different position. Mexico's use of a flexible exchange rate permitted the country

to implement protection policies and to foster employment in its traded goods sector.

Wage performance is also diverse. On the one hand, while employment of less skilled manual labour has increased in the informal sector (particularly in trade, informal services and microenterprises), the wage gap has widened between semi-skilled and unskilled workers. One explanation is that the informal sector has reached a saturation point and therefore does not have the great capacity of earlier years to absorb workers, despite the reduction in the average income in this sector. Another argument is that wage differences did not decrease because there was no export boom in the region, for which reason the employment of unskilled manual labour occurred in the non-traded goods sector, especially in the informal sector, rather than in the export or traded goods sector, without creating opportunities to close the income or wage gap.

In addition, the purchasing power of wages in most of the countries improved between 1990 and 2002. Real manufacturing wages increased by 1.6% annually and minimum wages rose by 1.3% on average. Nevertheless, this growth was insufficient to recover minimum wage levels existing in 1980, which in 2001 equalled 75% of the value of that year. In eight of the 18 Latin American countries analyzed, real minimum wage levels are 50% below the 1980 average.

### *Vulnerable Groups*

Integration processes should be analyzed from the standpoint of their effects on vulnerable groups in society, including women, low-income groups and migrant workers.

Some analysts believe that processes of economic integration and free trade have neutral effects with respect to the situation of women. Others argue that because the purportedly neutral policies omit gender considerations, they are actually not neutral since they do not reduce gender gaps in the different areas of the labour market.

Regarding poverty trends, it is not possible to methodologically separate integration effects produced by economic and social policies from those generated by the external context the countries of the region face. Nevertheless, neither the decline in the inflation rate nor the increased public spending in social areas has managed to alleviate poverty. The efforts to make progress are lost when a new crisis occurs. According to the Economic Commission for Latin America and

the Caribbean (ECLAC), 43.4% of households in the region were poor and 18.8% were extremely poor in 2002, which means an increase of 2.1 and 2.5 percentage points, respectively, compared with 1999 levels. Compared with 1980, which is used as the reference year because it reflects the situation in Latin America before the foreign debt crisis, the number of people living in poverty increased by 19.2 percentage points while those living in extreme poverty rose by 8.4 percentage points. The increase was mainly due to the deterioration of employment, the main source of household income, during the period.

Poverty increasingly affects women and children. The impact is greatest on children. There is a larger proportion of minors in poor households given the higher fertility rate among poor women. Women face greater difficulties in obtaining employment and having access to opportunities to generate enough income to satisfy their basic needs. The Labour Force Participation Rate (LFPR) among women, particularly those from poor households, continues to be substantially below the LFPR among men, despite a significant increase in recent decades. The unemployment rate among women and their participation in the informal sector continue to be higher than those of men.

Migration has also increased, both on the international and national (rural-urban) levels. Changes in global prices of primary products can lead to migration, even national (rural-urban) migration. For example, the sharp decline in coffee prices has caused migration in recent years. The migration phenomenon has both positive and negative effects in the countries or regions with incoming and outgoing workers. Workers who migrate to another country, particularly illegally, are forced to do so by the lack of employment and opportunities. Societies in developed countries that receive migrants reject this trend, although there is growing recognition that immigration is an antidote against the aging of the population and the subsequent increase of labour and retirement costs.

In countries faced with emigration, the process has a positive effect in that migrants' relatives receive remittances, which in some Central American and Caribbean countries represent significant resources, exceeding 15% of the GDP in 2001 (El Salvador, 17%; Haiti, 24.5% and Nicaragua, 22%). At the same time, however, migration produces an understudied drain on human resources from those countries, compromising future development opportunities. In addition, the phenomenon results in the transfer of resources to more developed countries through investments in education and training.

## *Compensatory and Employment Policies*

Although trade liberalization threatens different productive and service activities that are not competitive in the new environment, it is difficult to generalize which sectors of the economy will benefit or suffer from free trade. Moreover, the intrinsic characteristics of the labour market lack the dynamism of other markets to enable its participants to switch rapidly from activities in decline to sectors of rapid growth. Furthermore, information on new labour opportunities does not always reach workers of the less competitive sectors in a timely manner.

Many workers need training to qualify for new jobs, a process that does not occur automatically. Some groups of workers simply do not have access to training. One of the lessons of the past decade is that in open economies, the availability and quality of education is a key factor for the training of human capital to the level required to make it competitive in the new economy. Workers with more education and skill reap greater benefits in the new environment, which underscores the relationship between coverage and quality of the educational system and the reduction of poverty and a more equitable income distribution.

Integration processes and free trade agreements can adopt compensatory unemployment policies associated with trade liberalization. They can also include policies to stimulate the generation of employment by increasing competitiveness, define strategies for transitional periods, demand compliance with specific labour standards, encourage special treatment for vulnerable sectors, and promote improvements in education and training.

## *Conclusion*

Since 1990, the rapid increase of integration processes in the hemisphere has underscored the close linkages between the economic and social agendas. To evaluate these processes in the societies where they take place, institutions and actors must analyze their economic and social effects, jointly or at least in parallel. In some ways, the globalization of the world's economies goes beyond previous analytical frameworks because global and multidimensional phenomena require equally broad approaches.

The ILO proposes the option of an integrated approach to overcome the tendency to analyze political, economic and social variables as if they were separate areas. This requires management practices among governments and in the public and private sectors aimed at integration, fostering synergies. The region has some valuable initiatives. Some governments have established inter-ministerial committees in which

officials responsible for economic and social policies interact. Cooperation between the ministries of labour, foreign trade and the economy is crucial for addressing work issues in the policies, economies and initiatives of integration and free trade.

During the XIII OAS Inter-American Conference of Ministers of Labour, held in Salvador de Bahía, the ministers stressed the need to advance toward an integral social agenda that incorporates socio-labour and economic policies, which requires the ministries of labour to take a more active role. "A social and labour agenda is an integral part of economic growth and is a way of ensuring the equitable distribution of benefits (...). An integrated policy framework combining economic and social policies must consider the economic realities the countries face in implementing a comprehensive social agenda. The integration of the economic and social development objectives also requires stronger forms of interaction between governments and citizens at the domestic, regional and hemispheric levels."

Economic and social policies intersect in the area of employment. Society will judge integration processes based on their performance in this area. Available data from more than a decade of integration efforts, which have developed with unprecedented speed and scope, indicate that they have not been satisfactory in generating jobs. Moreover, minimum wages have not recovered their historic levels and poverty has increased. The above should be viewed from the perspective that it is not possible to separate the effects of integration processes from the environment of volatile, cyclical economic growth that has predominated in recent years. Less clear are the effects of these processes on gender and the situation of migrant workers. At any rate, results indicate that there has been a decline in decent work.

This situation contrasts with the progress made in trade agreements and the progressive inclusion of basic labour rights and labour standards in these instruments. In addition to the inclusion of labour laws in these agreements, it is necessary to improve the enforcement of these norms since compliance levels vary between countries, which are associated with the different levels of development. Compliance also varies within countries. A dichotomy exists between the progress made in rights protection and the socio-labour context, thus hindering the expansion of the benefits of free trade. The contrast between these factors partially explains the existing social dissatisfaction, tensions and unrest, which jeopardize economic integration, as recent examples have illustrated. The success of integration processes depends on overcoming this new gap in a democratic environment.



## Box C.1

## LATIN AMERICA AND THE CANCUN SUMMIT

The failure of the World Trade Organization (WTO) Ministerial Conference, held in Cancun, Mexico in September 2003, reopened the controversy surrounding trade liberalization and heightened the scepticism regarding the benefits of globalization for the countries of the region.

Just when it appeared that the climate of uncertainty prevailing after the terrorist attacks on New York and Washington in 2001 had been overcome, and Latin America was once again on the path toward growth, the discouraging results of the Cancun Summit impeded a more optimistic outlook.

Despite their efforts, the trade ministers from the 147 member states of the WTO could not reach a consensus at the conference to move forward on several key issues of trade liberalization. Consensus was not reached relating to the call by most of the developing countries for reduced agricultural subsidies in industrialized countries. Also unsuccessful were the proposals to expand trade negotiations to include investments, establish competition policies, promote transparency in public sector purchases and facilitate trade. For their part, the industrialized countries did not obtain support for their petition for a greater opening of markets to the rest of the world. Discrepancies and debates not only took place between north and south, but also between industrialized countries, as well as between developing countries.

For countries of Latin America and the Caribbean, most of which are deeply committed to market liberalization measures as well as to sub-regional integration processes, and in some cases hemispheric integration, the results of the Cancun Summit were unsatisfactory. If the more prosperous countries, which demand unilateral access to poorer countries, do not open their borders to fair foreign competition in agriculture, respecting the WTO standards and regulations that apply to other countries, confidence in the benefits of globalization will erode further. In many countries of the region, agriculture is a key sector because of its participation in the GDP and employment. For example, more than 30% of workers are employed in this sector in five countries of the region (Guatemala, Haiti, Honduras, Nicaragua and Paraguay). Therefore,

barriers to access to the markets of industrialized countries with agricultural production negatively affect economic growth and employment.

Since the end of the Uruguay Round in 1994, which intensified the process of trade and financial liberalization, the labour market situation has deteriorated in Latin America due to rising unemployment, the expansion of informal sector employment and the low growth of real wages. The volatile performance of the economies and the nature of adjustment processes implemented to correct external imbalances are partially responsible for this decline. However, the decline is also the result of the unequal trade liberalization and capital flows among industrialized countries and developing countries. In addition, countries that prospered and industrialized by establishing tariff and non-tariff barriers, subsidies and other measures to protect the inefficient sectors of their economies, now discourage the use of these strategies by poorer countries.

In his message at the WTO Conference, UN Secretary General Kofi Annan warned that "Trade liberalization is no panacea for developing countries. For many of them, it involves considerable adjustment and social costs. (...) So many people have yet to benefit, and in the developing world there has been great dislocation without a safety net." In Latin America, the problem is familiar: at least one country has experienced a grave systemic crisis – political, economic and social – every year for the past few years. The phenomenon reflects the social disillusionment with globalization, which can potentially erode democratic processes.

One of the consequences of the Cancun Summit is, paradoxically, the effectiveness of multilateralism for resolving controversies. Countries of the region have a greater negotiating capacity when they negotiate as a multilateral group rather than at the sub-regional or bilateral level. If no progress is made toward free trade, prolonging the current situation – one of the possible scenarios – multilateral efforts rather than sub-regional or bilateral efforts will be required to break the status quo. A second lesson refers to the importance of using available mechanisms of the multilateral entities to defend their interests, such as has occurred in cases of product negotiations.