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### Industry and sustainable development

#### Report of the Secretary-General

#### Addendum

#### Industry and social development\*

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## I. Introduction

1. Social development is a multifaceted concept involving the creation of employment, the social protection of workers, improvement of their working environment and investment in human capital. There does not have to be a trade-off between the profitability of industry, a condition of economic sustainability, and social development. Industrial development is unsustainable unless it provides adequate employment together with working conditions that respect workers' health and safety, and the environment. More positively, profitable industrial growth is one of the best ways of supporting social development. The role of the state in creating and maintaining a level playing field is essential because market forces do not provide incentives to all firms to pay attention to the social development of their workforce or of the surrounding community.

2. The relation between industry and social development is a global issue linked to the changing structure of employment both within and between regions. The International Labour Organization (ILO) *World Employment Report, 1996/97* concluded that full employment, one of the pillars of social development, remains an achievable goal. Fear of the emergence of a general phenomenon of jobless growth in countries of the Organisation for Economic Cooperation and Development (OECD) is not well founded. Nevertheless, there are intense anxieties in many quarters over the possible job-destroying effects of rapid technological change and intensified international competition. Industrial workers in OECD countries fear that globalization accelerates such changes even if it does not cause them, and reinforces them by way of the delocalization of industrial production to relatively low-wage developing countries. At the same time, while industrial workers in certain developing countries may be benefiting from new sources of employment thanks to access to global markets, the sustainability of such employment is far from guaranteed.

3. To achieve sustainable social development, it is essential to create sufficient employment of acceptable standards for all those who desire to work, which is an enormous challenge. OECD countries have experienced high rates of unemployment, informalization of production and working conditions, and increased income inequality. In other regions, the employment situation has been similarly subject to upheaval. Latin America and sub-Saharan Africa have experienced a decline of the formal manufacturing sector, increasing informalization and underemployment. Certain African countries have experienced a trend back to the agricultural sector. South Asia has shown a slow but continuous improvement of economic conditions and levels

of employment; yet poverty remains high and much remains to be done to provide the population with decent employment. The recent financial crisis in South and South-East Asian countries indicates the fragility of economic development and employment growth even in those countries considered, up to now, as the most successful examples of industrial growth and development.

4. These experiences make it clear that social protection is a necessary complement to employment generation. Globalization will not be politically viable if it leads to a deterioration in social justice. Rising inequality, deteriorating labour welfare and the absence of adequate social protection could breed discontent and provoke a strong backlash against globalization.

5. Nevertheless, there are some reasons for optimism. Expansion of export-oriented manufacturing has led to increased job opportunities for women, albeit usually at a lower-than-average wage rate, but the gains made from increased access to labour markets are of great importance to enhance gender equality. Notwithstanding recent events, the experience of East and South-East Asia offers hope that poor countries can achieve rapid growth without increasing inequality, and also shows that human development, such as providing education and health care, is essential for sustainable economic growth. But there are also positive developments outside East Asia. The corporate responsibility movement is making strong headway in OECD countries, as firms find that less exploitative working conditions – better health and safety conditions, shorter working hours and more consultative management forms – can improve economic performance in many dimensions.

6. Interestingly, such initiatives are not confined to the formal sector. There are cases of small enterprises in South Asia and Africa collectively providing social protection for themselves, on their own initiative, on the clear understanding that such measures enhance the productivity of their operations. One important policy challenge is to find ways to facilitate and encourage the spread of such initiatives throughout the informal industrial sector. The potential to enhance productivity is very great in this sector, given low productivity levels in many such activities to date, and the need to do so is most pressing, not only because wages are low in the informal sector but because the great bulk of industrial employment is generated in small enterprises.

7. At the macroeconomic level, sustainable social development can only be achieved with a reasonable rate of economic growth; at the level of the firm, sustainable improvement of working conditions can only be achieved with increases in value added, so that competitiveness is not

threatened. However, the contrary is also true, that is, social development provides the foundation for and preconditions of both economic growth at the macro level and competitiveness at the level of the industrial enterprise. There are many such instances of good practices, in which social development and good economic performance go hand in hand.

## II. Industry and human development

8. Social development is a precondition for competitiveness in an increasingly global economy. For example, providing basic education and health care to the majority of the population is essential for rapid development. High levels of literacy in East Asia preceded and accompanied its economic boom rather than following it. Conversely, the low levels of education in South Asia or sub-Saharan Africa have formed a barrier to growth.

9. Investment in human development, in general, provides positive returns. But improving basic education and health is not a simple strategy, especially for the poorest countries. At the same time that these measures need to be taken, increasing competition makes it harder to implement them. Although industrial development is seen to be largely the responsibility of the private sector and despite the move towards privatization of industry that accompanied many structural adjustment programmes, the State has a crucial role to play in making industry competitive.

10. Although industry is one of the engines of economic growth and employment creation, in many developing countries industrial employment and output have grown very slowly over the last two or three decades. The “tiger economies” of East and South-East Asia were the only ones to simultaneously achieve rapid growth in output, employment and real wages through industrial expansion. Some of the newly industrializing Asian economies, such as China and Indonesia, have recently benefited from a labour-absorptive pattern of growth based on expansion of industrial capacity.

11. Employment usually increases along with industrial output, but that relationship is far from fixed. Growth is in many places becoming less employment intensive: between 1975 and 1990, employment elasticity fell in 9 of the 16 economies for which it was possible to make such a comparison.<sup>1</sup> This trend is not limited to the richest, OECD countries: it is a cause for concern in some developing countries, such as India and Pakistan, since they display very low elasticities of employment in industry, with industrial employment increasing much more slowly than the value of output.

12. Accompanying these changes in employment have been changes in wages, including the disparities between men and women. There has been enormous divergence between regions: whereas real wages declined in only four of a sample of 20 developed countries, they declined in about half of a sample of Asian countries.<sup>2</sup> In other places, experiences were even less favourable: real manufacturing wages declined in 26 of 33 non-Asian developing countries. Wage disparities between men and women in manufacturing are large, with a female-to-male ratio of the order of 2 to 3, with no evidence of any general diminution of the gap. The East Asian developing countries tend to have the largest gender gap in wages, and where the wage gap is decreasing, it is declining less than proportionally to gains in women’s education. But the declines in real wages may reflect the absorption of more lower-paid women into the industrial sector workforces rather than falls in existing wage levels.

13. Worry about the impact of globalization on both quantity and quality of industrial employment is justified, but it is certainly not universally true that globalization leads to an overall decline in employment. As the share of manufactures in the exports of many countries, particularly in the developing world, has increased, the resulting rise in industrial output has been accompanied by an increase in employment. However, the impact varies across regions, between and within countries and sectors.

14. Overall, in richer countries, the impact is labour-saving and employment-reducing, especially for unskilled workers. Countries with a traditional manufacturing base have tended to experience the sharpest reductions in industrial employment as a consequence of globalization. By contrast, in the East and South-East Asian countries, employment has been created at rapid rates, and in some cases full employment has been sustained for many years on this basis. Middle income countries face greater international competitiveness from lower-cost suppliers as world trade continues to be liberalized. For their industries to survive, they must expand export capacity into new, more technology-intensive product areas, where fewer but more highly skilled workers will be required. Even so, in some cases the growth of output may be sufficiently rapid to generate increases in total employment, even with reduced employment elasticities. And real wages are likely to rise in this situation. In low-income countries that have developed an export orientation, manufacturing employment in relatively labour-intensive forms of production is expanding rapidly, which draws in far higher proportions of female labour than other types of industrial production.

15. The situation regarding the quality of employment is equally diverse. Although increasing competition stimulates increased productivity, it jeopardizes the survival and

profitability of many firms, which may seek short-term cost savings by cutting back on social protection for their workers and by attenuating the nature of their contractual obligations to their workforce. Globalization often leads to cost-cutting and delocalization of once protected industries, raising also the danger of a “race to the bottom” insofar as respect for fundamental labour standards is concerned. Trade unions are confronted with a reduced ability of workers to resist such deterioration in standards.

16. Thus, globalization has introduced the possibility of deterioration in working conditions for large sections of the industrial workforce worldwide. In some places, this is already happening, as indicated by evidence of dramatic moves away from guaranteed jobs to “flexible” labour markets and the rise of non-regular forms of employment in the old industrial centres. Self-employment and part-time and temporary employment have risen markedly in all OECD countries. Some export-oriented industries in developing countries still use child and bonded labour, and ignore safety considerations. Here, however, more research is required to determine whether or not globalization actually contributes to poor working conditions and disregard of core labour standards or merely increases the international visibility of pre-existing working conditions. There is a danger, especially for women drawn into the market for cheap labour, that gains in women’s labour market participation may be short-lived and not carry through when industries move to more skill-intensive production.

17. Central to the possibility of a country gaining from globalization is the fulfilment of certain conditions of social development. As indicated above, the East Asian countries provided health, education and some other social services to the population before the onset of rapid economic growth. Some countries, such as Pakistan, have acknowledged the force of this argument in deciding to reallocate state expenditures in favour of social sectors. Others, notably East Asian countries in transition from centrally planned to market systems, are finding that a historical pattern of high social spending serves them in good stead in the new global trading system.

18. Increasingly, the service sector is becoming the most important employer of labour in various parts of the world. Its growth has also been closely linked to overall increase in welfare, as well as to the globalization of the economy. Liberalization, which has begun with the inclusion of services into World Trade Organization rules under the Uruguay Round of multilateral trade negotiations, may help to increase service sector employment. The growth of the service sector has also facilitated the growth of global industrial trade,

particularly as a result of innovative information technology and new forms of financial and business services.

19. Figures on the growth of service sector employment are partly a statistical illusion. Many enterprises are reducing their in-house workforces, buying services from external providers instead of hiring labour. Technological progress, particularly in telecommunications and information processing, has allowed many such services to be relocated internationally. Thus, industry remains the motor force in expansion, but with increasing linkages to services. The health of the service sector and linkages to industry are factors that help globalization to foster increased employment.

20. Much of the growth in manufacturing employment takes place in informal enterprises. In poorer countries, the informal sector forms the major part of the economy, and that sector has been growing in richer as well as in developing countries. Therefore, its productive potential should be harnessed while at the same time seeking to improve the conditions of workers. The concept of the informal sector, however, hides enormous diversity. In middle-income countries in Latin America, South Asia and the Middle East, small-scale urban industry in the informal sector is much more important relative to the formal sector than in most East Asian countries. The traditional informal sector in developing countries includes independent small producers, but subcontracting is also common, particularly between formal and informal enterprises. These developments require new efforts to extend the protection of core labour standards to informal enterprises.

21. Informalization in the industrialized countries is often a reaction to increasing international competition, and provides a means to reduce labour costs and introduce greater flexibility, including casual and part-time employment. The result is “third-world” labour conditions, and small sweatshops employing vulnerable groups within the large cities of the United States of America and Europe, alongside increases in non-regular forms of work by established producers. In developing countries also, pressure of competitiveness is pushing producers towards atypical ways of organizing production, which in turn is leading to the informalization of employment.

22. But the informal sector also contains small companies with high skill levels and with certain comparative advantages. The greater knowledge that the informal sector may have of the local institutional context and of other complementary informal enterprises helps it to benefit from globalization. Where clusters develop or strong links are established between international firms and local small suppliers, the informal sector is more likely to be able to

move to exporting and/or to act as a supplier to export-oriented industry. The greatest potential for employment growth lies with small and medium enterprises (SMEs), and policies that support informal sector enterprises with micro-credit and with improved working conditions and social protection can help them to cross the threshold to the formal sector.

### III. Policy challenges for Government and business

23. Recent changes in employment worldwide, particularly related to globalization, thus provide risks as well as opportunities. To turn current challenges into advantages, policies that promote the quality as well as quantity of employment are necessary: on the one hand, there is a win-win situation, in that there are policies that promote social development and at the same time enhance productivity and competitiveness, but on the other hand, in many situations employers are unlikely to create such conditions of social development. Countries where this tendency is paramount are at serious risk of falling behind in the globalizing economy.

24. For the market to function in the long-term interest of the population, certain preconditions need to be created that will steer enterprises in this direction and facilitate the task for the state and private sectors of enhancing social development. There is increasing emphasis on the need for partnership between the State, the private sector and civil society in pursuit of this goal. A first policy challenge is to ensure sufficient employment of high quality. This presupposes sustainable economic growth. Employment creation should not compromise basic efficiency, especially in an increasingly competitive environment. For this, a supportive macroeconomic environment is essential. In addition, patterns of economic growth should be channelled towards employment-intensive forms of growth, especially in labour-surplus economies. Labour-intensive manufacturing is an option for developing countries, and it has provided jobs, especially for women, more effectively than import-substitution strategies. Economic reforms that correct for incentive biases, such as overvalued exchange rates and protection of capital intensive sectors, are likely to improve the situation. The basic infrastructure and services that support the productivity of SMEs are often inherently labour-intensive, and investments in public works infrastructure are a good way to create employment in both the infrastructure and industrial sectors.

25. According to a United Nations Industrial Development Organization (UNIDO) estimate, the informal sector typically

employs three quarters of the industrial labour force in developing countries. It cannot be taken for granted that informal-sector enterprises have higher labour intensity, and substandard working conditions are a common problem. The policy and regulatory environment should enable rather than obstruct the success of SMEs through the removal of market and product barriers, and in accordance with social development objectives, should also encourage higher levels of social protection in this sector. Fiscal policy should be non-penalizing in its impact on small firms, and finance and credit policies often need specific revision to ensure that the needs of small firms for finance capital are met. Limited access to capital is commonly much more of a bottleneck for the growth of small firms than is the cost of capital. An enterprise and productivity enhancing culture can be supported by Governments in quite simple ways, such as with a system of rewards to successful innovators and firms that introduce good employment practices.

26. Another policy involves clustering that supports organizational capacity-building for collective access to services, such as market information, trading standards and marketing. The nurturing of institutional links between small firms can also provide the basis for harmonization of and improvements in social protection for member firms' workers. The ILO has given technical assistance to groupings of small enterprises in the United Republic of Tanzania and India in projects that have been successful in supporting employment security and improved labour productivity.

27. Increasing labour force participation by women should be welcomed. Barriers preventing women from entering the labour force – including high fertility, low levels of skills and education, or lack of child-care facilities – should receive attention. Virtuous circles can be created that improve women's welfare and capabilities, at the same time increasing overall economic growth.

28. Conditions of employment for women should be central to employment policy. Many discriminatory practices exist in the rapidly growing economies no less than elsewhere. Women are overrepresented in industrial sectors, with low pay and insecure jobs, and face discrimination in relation to employment conditions and wages. Also, policies should focus on the further development of skills among the female labour force to ensure that countries have a large supply pool of skills as they graduate out of simple labour-intensive and into higher value-added, more technology-intensive production activities.

29. Agenda 21 also recognizes the role of business in achieving its objectives by working towards cleaner production and responsible entrepreneurship. The importance

of increasing the efficiency of resource use, including the reuse, recycling and reduction of waste per unit of economic output, is well recognized. Employers are increasingly becoming aware of their social responsibility in achieving such objectives. The ILO programme on employers' organizations and cleaner production aims to encourage businesses to work proactively to improve environmental performance and assist them in doing so.

30. There are three ways in which business perceives its social responsibilities. According to one school of thought, the business of business is to make business. After all, enterprises pay taxes, make donations to non-governmental organizations and pay wages. But that view no longer dominates. A second common view recognizes that there are serious social problems and that business has a social role, with a responsibility to devote resources to tackling such issues as ecological degradation and unemployment. In reality, however, words and actual action differ considerably, as shown by the widespread trend towards the downsizing of the workforce.

31. A third small but rapidly growing group of enterprises sees social problems as symptoms of more fundamental issues. The strategy of these enterprises to cope with such problems is not through incremental changes in attitude of enterprises towards customers, employees and suppliers. Rather, it requires a fundamental change in business itself. Social initiatives are an essential component of the new strategy, which aims to achieve a growing convergence between the needs of society and business interests. While enterprises have always been involved in social activities, genuine new initiatives are characterized by financial support to outplacement, self-employment, employee buy-outs, business start-ups and indirect assistance to outsiders, and the financial involvement of employees in business management.

32. It is essential to integrate action on the general environment with activities on the working environment. Although it is not easy to monitor progress regarding the working environment, there is a concern that single-minded pursuit of economic growth alone in a competitive world may sometimes result in a lack of adequate safeguards on safety and environment in places of work, which may be at least partly responsible for the growing number of accidents in workplaces and an overall deterioration in the work environment in many countries. The trends that are noticeable in workplaces include increased intensity in pace of work, greater use of chemical substances and introduction of new technologies. Improving occupational safety and health, as well as more participatory management strategies, makes good business sense. More needs to be done to spread the lessons and examples of such good practices, and to provide

incentives to contribute to better working conditions. Simple measures, relating to hygiene for example, may improve working conditions and efficiency. Incentives are important. For example, accident insurance can have built-in inducements to reduce the number of occupational accidents.

33. Working conditions for women should be high on the agenda. A major neglected issue is violence at the workplace; certain exposed occupations are particularly affected. Finally, adoption of legislation on issues that affect women, especially maternity rights and provisions, and night work need special attention to ensure that protection does not lead to declining access to jobs.

34. If poor countries can build their human capital resources, catch-up is possible. If early development of human capital resources does not take place, the possibility of convergence is less. Improving basic education and health is a win-win strategy, but it is not a simple strategy, especially for the poorest countries that have severe budgetary constraints. Yet countries need to prepare their population for international competition, and this is a major policy challenge for the State.

35. Many industrial enterprises are worried by the level of education of school-leavers, for example, and by the educational requirements of a flexible labour force. Better information regarding specific demands for labour, as well as the provision of schooling, can be provided by enterprises, sometimes in partnership with Governments. Again, a serious problem is that the poorer countries who need such measures most, are less likely to obtain them, either from business or the Government.

36. Over the last decades and often linked to the crisis of employment, much concern has rightly been expressed about the viability of many social security provisions, particularly in the face of growing unemployment and ageing. Furthermore, there is a danger of jobs being lost to the detriment of sectors with good social protection in favour of employers or countries that do not provide such coverage. An opposing concern has been the limited coverage of social security, particularly in developing countries.

37. But there are also positive lessons to be learned. Unemployment benefits have successfully been restructured in some OECD countries, such as to stimulate re-entry into labour markets. The role of both business and Government in retraining workers for "employability" provides one avenue for reducing the pressure on traditional safety net programmes.

38. In poorer areas, successful social security provisions are by necessity different, but positive measures are possible.

For example, the Indian Self Employed Women's Association has stressed child care as the most important measure for assuring mothers' peace of mind and improving productivity. Recent work by the ILO has attempted to introduce adapted forms of social security in the informal sector, such as in the form of collective (mutual) insurance against health costs in Dar es Salaam.

#### **IV. Policy challenges for the international community**

39. The central concern of the international community with respect to industry should be its growing international disparities. Globalization renders these inequalities more visible, and it increases countries' and groups' risks of falling deeper into poverty and exclusion. Enhancing social development worldwide is a common goal, one that will be advantageous in the long run for all concerned.

40. The World Summit for Social Development (1995) provides perhaps the strongest basis for international cooperation to eradicate poverty. Policies should build on countries' commitments expressed in the declaration, which includes the expansion of productive employment and the reduction of unemployment for those able to work, as well as the enhancement of social protection and reducing vulnerability of the poorest groups. For employment-related policies, the international community has a role to play to ensure that international trade and trade agreements do not halt the creation of employment on a world scale, and that core labour standards are adhered to, especially with respect to freedom of association, collective bargaining, abolition of child and bonded labour, and gender discrimination.

41. Adherence to the core standards and other standards related to working conditions, occupational safety and health, and social security offer promising means of social development. While encouraging the observance of these standards, international agencies should also focus on assisting countries at lower levels of development in their efforts to participate in the global economy. Although the ultimate objective is to enable these countries to be competitive in the global economy without compromising on labour standards, technical assistance may be required to help firms in low-income countries and small enterprises in all regions to attain the required standards without undercutting their competitive position.

42. The ILO programme of action against child labour, implemented in collaboration with private-sector employers and trade unions, has helped to change the climate of public

opinion, persuading Governments that practical solutions to the problem of child labour are possible, and mobilizing resources internationally to address the issue. This approach also provides the lesson that multi-enterprise involvement is essential, i.e., that employers across the board must be drawn in to any sectoral programme to improve labour standards. The introduction of such improvements may carry a cost to enterprises, even if only in the short term. Only if all firms are involved and make changes at the same time can the problem of penalizing compliant firms in terms of their market share be overcome.

43. With globalization, the role of Governments, employers and trade unions is undergoing transformation. For actors in the international community, a number of options are suggested. First, the United Nations has a role in the monitoring of the progress made in following up the Copenhagen Declaration on Social Development, in conjunction with Agenda 21. Second, the ILO has a central role in monitoring the implementation of relevant labour standards, and in stimulating patterns of economic growth that provide job opportunities for all those who desire to work. Third, countries within trade blocs should consider the wider implications of trade agreements and make long-term effects in terms of employment creation and social development central not only to trade but also to investment policies. Fourth, both domestic and multinational enterprises have an interest in developing social initiatives: enhancing social development within and outside companies makes good business sense, certainly in the long run. International organizations of employers are playing a role in spreading information about and expanding these good practices. Finally, trade unions are facing an unprecedented challenge as a result of rapid technological development and globalization. They need to reorient and reorganize at both the national and international levels to confront an increasingly global economy, in which global inequalities are increasingly coming to the forefront. Also, new emphasis is being placed on reaching out to and organizing workers in the informal industrial sector. Trade unions have a vital economic function during industrial restructuring, and continue to play an important role as vehicles of democracy and advocates of social justice, notably by reaching out to women, minorities, consumer groups, the unemployed and the growing numbers of working poor in countries round the world.

#### *Notes*

<sup>1</sup> See *World Employment 1996/97* (Geneva, International Labour Office, 1996), p. 151.

<sup>2</sup> See A. Amsden and R. Van der Hoeven, "Manufacturing output, employment and real wages in the 1980s: labour's loss until century's end", *Journal of Development Studies*, vol. 32 (1996), No. 4, pp. 506-530.

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