ILO publication: Trade and decent work: Indicator guide (2021)

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TRADE BRIEF

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ABSTRACT

Decent work conditions and trade policies can have a great impact on a country's economy and its workforce. For this reason, the International Labour Organization (ILO) recently published a guide addressing decent work indicators in trade policies and trade agreements. Many aspects such as employment, rights at work, social protection and social dialogue are identified as priorities in this context. The report aims to provide an assessment of the relation between trade and labour law. By proposing decent work indicators, this guide can be used for a comprehensive assessment of the trade policies' effect on the labour market and vice versa. While much research on this subject still needs to be done, ILO proposes a human-centred approach for policymakers to assess trade agreements. This guide should therefore be consulted by policymakers before negotiating and concluding new trade agreements to line up with the ILO objectives of inclusive growth, full employment, and decent work for all. This Trade Brief reviews the first chapter of the report: Conceptual framework: a decent work approach.

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ILO publication: Trade and decent work: Indicator guide (2021)

By Audrey Bessette

Introduction

The International Labour Organization (ILO) recently published a guide addressing decent work indicators in trade policies and trade agreements. Many aspects such as employment, rights at work, social protection and social dialogue are identified as priorities in this context. This report aims to provide an assessment of the relation between trade and labour law (International Labour Organization, 2021: xi). The effects of trade on working conditions and employment are still to be adequately studied. This Trade Brief reviews the first chapter: conceptual framework: a decent work approach.

The ILO has adopted a three-step strategy to support the inclusion of labour indicators in trade policies (International Labour Organization, 2021: 8):

- Developing and applying a broader set of labour market indicators (which will be addressed in another blog post)

- Linking those indicators to appropriate assessment methodologies

- Conducting empirical analyses at the country level

This indicator guide should therefore be read together with the ILO Handbook of Assessment Methodologies and country's empirical analysis. The indicator guide and the handbook are described as: "a diagnostic toolkit for decent work-oriented assessments of trade" (ILO, 2021: 1). The reference to trade policies includes both tariff and non-tariff measures.

This guide, addressed to various stakeholders, is especially relevant to women and small to medium enterprises to achieve equal opportunities in the global trading system. Trade, particularly in the manufacturing sector, creates jobs for low-skilled workers including migrants, women, and youth. Many recent changes in the labour market have not been considered in existing studies, providing a justification for this guide. High-volume trade coming from international demands for products lead to

intense competition in the manufacturing sector and downward pressure on working conditions. This is also amplified by the fragmentation of production, in search of cost efficiency and competitiveness, which impacts trade practices. The lower cost of production attracts investment, and social considerations such as labour law may well be overlooked. There is an increase of non-traditional work arrangements in the services sectors which often does not include social security coverage. This can be the result of intersectoral shifts in employment caused by trade liberalisation (ILO, 2021: 5). The important increase of short-term contracts and irregular working hours within global supply chains adds challenges to the implementation and stabilisation of labour norms. A fall in collective bargaining coverage and union density has been noticed by the ILO in recent research (Ibid.). This evolution of the labour context provides motivation for the research and development of the Indicator Guide.

As previously noted, supporting the achievement of decent work for all is the main goal of this guide. However, this can be particularly difficult to achieve with trade agreements as the relative importance of different aspects of decent work can vary from country to country (ILO, 2021: 6). ILO reinforces the importance of decent work as a universal goal even when agreements are concluded between many different countries with unique economic and social contexts. This can be achieved through the 60 statistical indicators of the decent work framework and its different pillars. 41 ILO's indicators were chosen for the toolkit and an additional 5 indicators were taken from the literature (ILO, 2021: 11). To select those indicators, ILO evaluated their link with trade based on theoretical and empirical evidence. Diversity within the indicators has been ensured following the framework of ILO decent work indicators itself, which gives a holistic perspective of the labour market.

This guide is meant to reach a wide audience. While focusing on the understanding of government officials, workers' and employers' representatives and civil society representatives, it can be relevant to students, academics, and technical experts as well.

This study will summarise the third chapter of the Trade and Decent Work: Indicator Guide published (2021) by the International Labour Organization. This chapter is a very important part of this guide as it presents the decent work indicators for assessing the impact of trade.

The Indicators

This guide illustrates 46 indicators related to 11 substantive elements of the decent work agenda (ILO, 2021: 29). These indicators are the following:

Elements of the decent work agenda	Statistical indicators	Legal framework indicators
Employment opportunities	Employment-to-population ratio	Government commitment to full employment
	Unemployment rate	
	Youth unemployment rate	
	Youth not in employment, education or training	
	Unemployment by level of educational attainment	
	Labour force participation rate	
Economic or social context for decent work	Employment by branch of economic activity	
	Labour productivity (GDP per employed person, level and growth rate)	
	Labour share of gross value added	
	Earnings inequality (90:10 ratio)	
	Gini coefficient	
	Employment by occupational group	
Equal opportunity and treatment in employment	Occupational segregation by sex	Equal opportunity and treatment
	Female share of employment in senior in middle management	
	Gender wage gap	Equal remuneration of men and women for work of equal value
Adequate earnings and productive work	Average real wages	Statutory minimum wage
	Average hourly earnings by occupational group	
	Skill premium	

	Working poverty rate Poverty measures	
Social security	Employment by status in employment	Unemployment insurance
	Proportion of own-account workers and contributing family workers in total employment	Maternity leave
		Parental leave
	Share of women in wage employment in the non-agricultural sector	Termination of employment
		Old-age security or pension benefits (public/private)
		Incapacity for work due to sickness / sick leave (income replacement in case of sickness / sick leave)
	Informal employment rate	Incapacity to work due to invalidity (income replacement in case of nonoccupational invalidity)
	Share of population above the statutory pensionable age (or aged 65 and above) benefiting from an old-age pension	
	Public social security expenditure (percentage of GDP)	
	Share of economical active population contributing to a pension scheme	
Decent working time	Employment in excessive working time (more than 48 hours per week)	Maximum hours of work
Combining, work, family and personal life		Paid annual leave
	Employment by weekly hours worked	
Stability and security at work	Average annual working time per employed person	
	Time-related underemployment rate	
	Precarious employment rate	

Safe work environment	Occupational injury frequency rate, fatal	Employment injury benefits
	Occupational injury frequency rate, non-fatal	Occupational safety and health labour inspection
	Labour inspection (inspectors per 10,000 employed persons)	
Work that should be abolished	Child labour rate	Child labour
	Forced labour rate	Forced labour
Social dialogue, worker's and employer's representation	Trade union density rate	Freedom of association and the right to organize
	Employer's organisation density rate	Collective bargaining right
	Collective bargaining coverage rate	Tripartite consultations
	Days not worked due to strikes and lockouts	

Source: International Labour Organization, adapted by the author

ILO provides for each indicator (ILO, 2021: 29):

a) a list of indicators with definitions, methods of computation and preferred data sources, based on ILO (2013);

b) a brief description of the "impact channels" linking trade and the specific labour market impacts represented by the indicators;

c) some empirical evidence in order to fill in the context and facilitate interpretation."

Regarding employment opportunities, the guide refers to the **employment-to-population ratio (EPR)**. It can either be self-employment or paid employment as long as it comprises all persons of legal working age. Trade has direct and indirect effects on employment. Positive direct effects such as job creation are enhanced by effective exporting sectors, while negative effects such as job destruction can be caused by import-competing industries and less effective exporting sectors. Indirect effects can vary from the reallocation of displaced workers from certain sectors or from their inability to find employment afterwards. Trade can also impact the type of workers needed to answer the export market. For example, women and youth have been pointed out as strategic employees for labour-

intensive markets. Therefore, there is a positive relation between trade and the women's share in employment sectors, especially in the manufacturing area.

The **unemployment rate**, on the other side, can be calculated with the proportion of the unemployed population that is willing and looking to work (ILO, 2021: 34). Unemployment should be evaluated according to respective age groups and gender, as youth may be unemployed due to their higher participation to training or educational programmes. The skill level is also another form of disaggregation of unemployment proposed by literature to establish the correlation of trade and the labour force.

The **labour force participation rate (LFPR)** measures the economically active population. The population can be employed or unemployed and they are in their working age (ILO, 2021: 37). Then again, this measure should be divided between gender, age groups and educational attainment. The LFPR is a relevant indicator for economic activity and its potential. This rate varies in correlation with the unemployment rate and the level of informal employment and own-account work.

The **employment by branch of economic activity** indicator is based on three broad sectors: agriculture, services, and industry (ILO, 2021: 41). The subsectors depend on the research conducted. It is measured by the number of employed persons/women in a sector or subsector compared to the total number of the employed population (regardless of the sector). Trade policies have different impacts depending on the sectors. For the industry sector, readjustment to modern trade commends intra-industry reallocation, which can be complicated by labour mobility barriers. Workforce might be reallocated to lower-productivity firms or informal work. In the manufacturing sector, the liberalisation of trade has resulted in lower wages and affected mostly low-skilled workers.

The indicator for **employment by occupation/skill level** is focused on an occupational and educational definition of skills. This section presents four broad categories related to occupation/skill level: low, medium, high and a separate one for the armed forces (ILO, 2021: 43). This indicator can also be distributed by gender and age groups. According to the comparative advantage theory, trade liberalisation has increased the demand for high-skilled workers in developed countries. Meanwhile, the demand for low-skilled workers has increased in emerging economies. It tends to benefit women in

developing countries as there are more job opportunities for low-skilled workers. Technology also plays a major part in the necessity of skilled and low-skilled labour force. Empirical evidence shows the polarisation of jobs by skill level, which means there is less medium-skilled occupation and there is an increase in low- and high-skilled jobs.

Labour productivity is measured as GDP per worker or per hour worked. GDP stands for the value of the total output produced during a time period (ILO, 2021: 46). For the industry sector, we often use the GVA, which is the gross value added per worker or per hour worked. Labour productivity is an indicator of economic efficiency. Trade leads to higher productivity as it pushes countries to specialise in certain exporting sectors and it improves technology transfer. Trade also increases productivity growth in import-competing sectors (ILO, 2021: 48). In the manufacturing industry, firms supplying final goods are found to be less productive than firms supplying inputs. Participation in global value chains (GSV) is associated with increased productivity, especially for developed countries. The increase is less noticeable for emerging economies.

The **labour share of income** represents the share of gross value added (GVA) from wages and compensation given to workers. Trade can result in the returns of two broad factors of production: capital and labour (ILO, 2021: 48). This indicator measures the distribution of the benefits. A decrease in the labour share of income results from workers not receiving an equitable share or from workers bearing the decline of productivity. Contemporary empirical evidence suggests that capital returns be higher than labour across the world due to multiple factors. The shift in production structures due to technology encourages the use of more capital-intensive processes, such as automation and computerisation. Globalisation allows firms to relocate their operations to low-cost labour in different countries. Trade openness leads to higher competition and more bargaining power for firms. The limited governmental capacity to enforce labour restrictions related to multinationals asymmetric power also affects labour returns. Excess profits are also redirected as capital to stakeholders.

Inequality of earnings and of income are other indicators relevant to the "economic and social context of decent work" for the Decent Work Agenda (ILO, 2021: 51). It reflects inequality within the total population. It measures the share of income of the top decile of the population with the bottom decile. The Gini coefficient also indicates inequality by establishing the proportion of total income cumulatively

earned by each percentile of the population. Global inequality has decreased due to GDP growth rates in certain countries. However, trade can affect disproportionally certain regions or sectors which may lead to increase in inequality. As discussed with the labour share indicator, trade liberalisation can lead to a decline in wages and an increase in capital which polarise earnings. While not being elaborated in this guide, skill premiums can be treated as a measure for inequality of earnings and is often linked to trade. According to the ILO, the impact of trade on inequality is not clear as they are getting mixed results from research on a country level depending on their national policies (ILO, 2021: 52).

Average real wages represent the total monthly wages of all employees divided by the number of employees (ILO, 2021: 55). This measure is adjusted to inflation. This indicator reflects workers' purchasing power. According to trade neoclassical models, earnings are directly affected by changes in output prices with allocative efficiency. In modern trade theory, dynamic gains of trade influence change in wages. While allocative efficiency is considered static gains, dynamic gains is related to economic development and productivity gains is an example. Empirical evidence shows the effect of trade on wages with two main channels: the direct channel of changes in wages and the indirect channel of the effect on price levels in a country (Ibid.). Results of research vary depending on the national economic structures and on if the research is conducted on the aggregate level or a firm level. The direct channel offers less robust evidence of changes in wages, according to trade. However, regarding the indirect channel, studies sustain a rise in wages following a decline in price levels across countries. Trade might increase wages for workers, but not as significantly as it increases benefits for firms in terms of productivity gains. Other factors, such as collective bargaining and the mode of globalisation can create a rise in wages.

The **gender wage gap** compares the gross average hourly earnings of men and women. It is calculated as a percentage of the gross average hourly earnings of men. It can be used at an aggregate level or focus on certain economic activity or occupational category. Neoclassical theories suggest that trade liberalisation leads to wage equality between different economies by increasing the wage of unskilled workers in developing economies and decreasing the wage of skilled workers in developed economies (ILO, 2021: 56). As women represent an important part of unskilled workers in developing countries, they theoretically should witness a raise in remuneration. Modern studies have not yet concluded on

specific consequences of trade on the gender pay gap. Some research establishes the closing of the gender wage gap with technological advancement and capital-intensive trade, while other studies suggest the widening of the gap with different factors such as reallocation and employment segregation. Authors believe trade liberalisation might have reinforced the discriminatory component of the pay gap as it reduces the bargaining power of women and forces them to fill the unskilled positions. Women's rising level of education and skill are, however, promising and could result in the narrowing of the gap. Empirical evidence reaffirms the need to revolutionise the gender norms as there still is a very present gender segregation in education limiting the women's place in skilled workforce (ILO, 2021: 57).

The **skill premium** is used as an indicator to measure the gap between high- and low-skilled workers considering factors such as education, occupation, or task-based frameworks (ILO, 2021: 57). To evaluate education attainment and obtain the skill premium, a ratio can be calculated between the wages of workers with a university degree to the wages of those with primary education. Occupation can be categorised in multiple forms, such as production or non-production workers or classification under ISCO. Task-based frameworks fall into those divisions: routine, non-routine, manual, interactive and analytic tasks. In many theories, trade liberalisation seems to lead to an increased skill premium in both developed and developing economies. As previously mentioned, some research establishes a correlation between technological advancements and growth in capital flow with the need of a skilled workforce. Empirical evidence shows various results with many of them pointing to a skill premium increase.

Another wage inequality indicator is the **industry wage premium**. It compares the wage of a worker in a specific industry with the overall average wage (ILO, 2021: 59). A change in skill demand or geographical area can affect the industry wage premium. Empirical evidence does not show a direct association with trade and an increase or decrease in the industry wage premium.

Poverty can be measured in multiple ways as it is not limited to income and consumption, but also extends to deprivation of education, opportunities, and quality of work (ILO, 2021: 60). Poverty incidence refers to the share of population living with wages below the poverty line. The working poverty rate illustrates the lack of opportunities for decent employment. It is measured by the share of

the employed population living in households with incomes below the poverty line (Ibid. Women are, in many economies, more vulnerable to poverty with limited access to education and employment. While trade openness is theoretically bringing economic growth and poverty reduction, the reality is more nuanced. Recent theories discuss a negative impact on low-skilled workers as trade liberalisation can increase polarisation in the wages offered. However, trade has partially reversed the limited job access to women by creating employment opportunities. Policymakers play an important role in reducing the wage gap and poverty by addressing distributional impacts (ILO, 2021: 62). The WTO has provided empirical evidence that trade liberalisation does not directly benefit the population in extreme poverty as it does with the other social classes (World Trade Organization, 2018). Export concentration and mobility constraints can disadvantage the poor, which suggests the need for export policies covering diversification and human-capacity building. Policymakers should focus on enhancing the benefits of trade to reach the population in poverty (ILO, 2021: 62).

The **status in employment** indicator classifies workers into two categories: wage and salaried workers or self-employed workers. The latter has four subcategories: employers, own-account workers, members of producer's cooperatives and contributing family workers (ILO, 2021: 62). A given status in employment category is compared to the total employment to obtain the computation. This indicator is relevant to study the level of economic risk in certain categories, the strength of worker's institutional attachment to their jobs and the level of authority with other workers (ILO, 2021: 63). In developing and emerging economies, almost half of total employment falls in the own-account workers category or unpaid family workers. This is another indicator that should be disaggregated by age and gender to give an accurate representation as women and youth tend to occupy informal work. A lack of long-term data limits the empirical evidence showing the effects of trade on employment statuses. A study has been done to evaluate the effects on labour markets in the Southern African Customs Union (SACU) after the trade liberalisation of South Africa in 1990s. The study has been conducted in Botswana and whilst the tariff reduction did not affect workers' movement across industries, more workers have turned to informal firms or self-employment. Researchers therefore found evidence of within-industry changes in employment statuses (ILO, 2021: 65). According to this study, hours worked, and monthly income seem to decrease following trade liberalization. Worker's movement to informal status partially drive these changes, but results are imprecise (McCaig & McMillan, 2020). Furthermore, SACU's trade

liberalization has unsignificant effect on the unemployment rate. As pointed out by the authors, there is not enough studies and data on that subject. The movement of workers from formal to informal firms could lead to a major decrease in labour productivity, especially in the manufacturing sectors. Policymakers should therefore consider improving conditions in the formal sector to retain workers and increase labour productivity.

Informality is another indicator closely related to status employment. ILO defines informality as: "firms and workers not covered or insufficiently covered by formal arrangements" (ILO, 2021: 65). It is measured by the share of employed persons who are in informal employment. The disaggregation should be made by gender and age. Agriculture and low-productivity services offer many informal jobs, especially to youth and women since they face many barriers to access formal employment. Empirical evidence shows mixed results concerning the trade influence on informality. Developing countries tend to have a higher share of informal employment due to lower wages and higher productivity in informal firms (ILO, 2021: 66). In theory, trade would seem to increase informality for exporting industries as the cost of formal employment rises to answer the needs of high average productivity.

Social security is represented by statistical indicators and legal framework indicators. According to the ILO, Social security refers to : "the provision of benefits to secure protection from lack of work-related income, inability to access affordable healthcare, insufficient family support, and general poverty and social exclusion" (ILO, 2021: 68). The statistical indicators measure different aspects of social security such as the share of the population above the statutory pensionable age benefiting from an old-age pension, the public social security expenditure (percentage of GDP) and the share of economically active population contributing to a pension scheme (Ibid.). The legal framework indicators ensure protection for workers with many provisions such as parental leave, unemployment insurance and incapacity for work due to invalidity or sickness. In theory, trade would lead to an increase in social protection for workers with more revenues for firms to reinvest in wages or public social security expenditure. The social security taxes would also be benefiting from an increase. Trade liberalisation could also lead to more informal employment which would decrease the level of social protection. Empirical evidence shows a decrease of employment protection legislation due to globalisation. To be competitive and attract foreign investment, some countries are bound to neglect legal protection of

workers. Studies reflect different positions in terms of social programme expenditure variance following trade liberalisation. While some research concludes in a decrease of government spending on social programmes, others see a direct link between exposure to trade and an increase in public investment in social measures (ILO, 2021: 69).

Indicators for **working hours** measures two different aspects: the actual time worked by an employee within a reference period and the share of employees who worked excessive hours. ILO defines excessive hours as more than 48 hours per week (ILO, 2021: 69). The precarious employment rate is the main indicator related to **working arrangements**. Precarious is defined as: "work that is low-paid (with a worker's earnings being close to or below poverty levels), offers inadequate employment protections, gives the worker minimal control over working conditions, and is not protected by laws or any collective agreements on issues relating to health and safety or discrimination" (Ibid.). **Non-standard forms of employment** are defined as: "temporary employment, part-time work, temporary agency work, work involving multiple parties and disguised employment relationships" (Ibid.). Precarious employment and non-standard forms of employment have similar features, but the latter focuses on insecurity of work. Working hours and arrangements are often specific to the different industries while indicators related to non-standard forms should be categorised by age and gender. The rapidity of production needed for global supply chains and technological change in trade lead to task-based occupations which can often be automated, computerised, or offshored. As a result, firms usually switch to non-standard forms of employment. Empirical evidence supports this theory as short-term contracts and irregular working hours answers the flexibility needed for global supply chains demands. This phenomenon has been particularly present in the garment and apparel sector for the "just in time" production. Decent work could be optimised by switching from an "external numeric flexibility" to "internal functional flexibility," where firms rely on workers training instead on temporary workers (ILO, 2021: 70).

The safe work environment is evaluated through different indicators such as **occupational safety and health, non-exploitative work, and labour standards**. Legal framework indicators include the abolition of child and forced labour, employment injury benefits and occupational safety and health (OSH) labour inspection (ILO, 2021: 73). In theory, trade should foster working conditions improvements.

Competitive pressures due to trade liberalisation incentivise firms to comply less with labour standards and therefore, reduce costs. ILO supports the incorporation of labour standards provisions in trade agreements. Limited studies have been conducted towards trade effects on occupational safety and health (Ibid.). Empirical evidence suggests a decrease in child and forced labour as firms wish to establish a good reputation for foreign investors.

The decent work indicators for **social dialogue** include statistical indicators on trade union density, employers' organisation density, collective bargaining coverage and labour strike. The legal framework indicators rely on freedom of association, the collective bargaining right and tripartite consultation (ILO, 2021: 74-75). In other words, the principle of decent work supports negotiation between trade unions and employers on wages, working conditions and working time. Trade openness have various effects on collective bargaining and freedom of association depending on the studies. Some find negative association while others suggest a positive link. Competitive production in export sectors might lead to weaker rights to association and negotiation, while the external opinion of investors could lead to more respect for trade unions on that matter. Ambiguous results limit the conclusions offered by this report.

Conclusion

Decent work conditions and trade policies can have a great impact on a country's economy and its workforce. By proposing decent work indicators, this guide can be used for a comprehensive assessment of the trade policies effect on the labour market and vice versa. While much research on this subject still needs to be done, ILO proposes a human-centred approach for policymakers to assess trade agreements. The different indicators are based on data from various countries. Outcomes often differ and theories do not settle on a specific relation between trade and labour markets. However, this guide highlights the various factors and contexts having an influence on this relation. This guide should therefore be consulted by policymakers before negotiating and concluding new trade agreements to line up with the ILO objectives of inclusive growth, full employment, and decent work for all. This revision of the indicators can be useful to obtain a general idea of the different aspects in need of consideration during trade negotiations.

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