



Brussels, 18.5.2004

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**The Social Dimension of Globalisation - the EU's policy contribution on extending
the benefits to all**

1. EXECUTIVE SUMMARY

The process of globalisation has brought significant benefits to many people across the world. Higher quality – and higher earning – jobs have been created in parts of the world which have previously relied largely on agriculture to maintain their people.

These positive aspects of globalisation are recognised by the report of the *World Commission on the Social Dimension of Globalisation*¹ (WCSDG) published on 24 February 2004. However the report also notes that the benefits of globalisation are not shared equally across all countries and groups and that, without an effective system of global governance, the current model of globalisation is generating unbalanced outcomes and is not likely to lead to global sustainable development.

The EU has long pursued policies, both at home and internationally, which seek to ensure that economic and social progress go hand in hand. In particular in Lisbon in 2000, the Heads of State and Government agreed an integrated strategy for reforms which is intended to lead to Europe becoming the most competitive knowledge based society in the world, with more and better jobs and increased social cohesion, by promoting mutually reinforcing policies to address the needs of competitiveness, employment, social progress and environmental sustainability. This strategy is also the basis for the EU's policy response to the impact of globalisation on businesses, jobs and citizens in Europe.

The EU's economic and social model, and the Lisbon strategy which translates it into practice, cannot simply be transposed to other parts of the world. Nevertheless, the *WCSDG* has highlighted a number of aspects of the model which may be of interest to the Union's partners. This is especially true of the processes involved in the design, implementation and evaluation of policies which are essential to the achievement of the balance between economic and social objectives. The EU model places particular emphasis, for example, on solid institutional structures for the management of economic, employment, social and environmental issues and the interplay between them, on strong social and civil dialogue and on investment in human capital and the quality of employment.

¹ 'A fair globalization: creating opportunities for all', <http://www.ilo.org/public/english/wcsdg/>

The EU must also ensure that it exercises its external policies in a way which contributes to maximising the benefits of globalisation for all social groups in all its partner countries and regions. Its external policies have always had an important social dimension, for example in supporting universal access to basic social services in the developing world. For some time now, the EU has also been promoting the effectiveness and coherence of global governance, including economic governance, through international institutions, to ensure that trade policy and bilateral relations with regions and individual countries are fully supportive of social development and to ensure that development and external co-operation contributes to maximise positive and minimise negative social consequences of globalisation. It also encourages the private sector to contribute to these objectives.

This Communication briefly describes the current range of actions undertaken in the framework of the Union regarding the social dimension of globalisation and makes proposals for certain changes. It is intended to be a first contribution to the debate which has been started by the publication of the *WCSDG's* report and in particular to the discussion on the follow-up to be held at the International Labour Conference in Geneva in June 2004. The Commission believes that some of *WCSDG's* proposals should also be discussed at other fora which have responsibility for financial, economic and trade issues.

2. BACKGROUND

The EU has long been aware of the advantages and risks of greater economic integration at world level, not least based on its own experience of substantial and successful regional integration. It has developed policies to promote both economic progress and social cohesion, underpinned by its attachment to fundamental rights and freedoms. It has adopted a strategy for sustainable development dealing with economic, social and environmental policies in a mutually reinforcing way². The EU has also emphasised the need to build the balance between economic, social and environmental imperatives into its external relations policies. It has already initiated and developed relevant policies³ such as on the linkages between trade and development, the poverty focus of development cooperation, core labour standards and social governance, CSR, trade and the environment, its commitment to multilateralism, to sustainable development and the fight against corruption and to human rights in the world.

In response to concerns on this issue, the *World Commission on the Social Dimension of Globalisation (WCSDG)*, was established by the International Labour Organisation (ILO). It has delivered on 24 February 2004 an authoritative report which analyses the social impact of globalisation. The European Commission contributed to the establishment and work of the *WCSDG* and indicated its willingness to contribute to its effective follow-up⁴. The report makes a series of recommendations intended to lead to a better management of globalisation, aiming at a fairer distribution of benefits among the peoples of the world and a better anticipation of the costs which are often associated with sudden global adjustments.

² European Council of Göteborg, Presidency Conclusions, June 2001.

³ COM(2002) 513 final of 18.9.2002, COM(2000) 212 final of 26.04.2000, COM(2001) 416 final of 18.7.2001, COM(2002) 347 final of 2.7.2002, COM (1996) 54 final of 28.2.1996, COM(2003) 526 final of 10.9.2003, COM(2003) 829 final of 23.12.2003, COM(2001) 252 final of 8.5.2001.

⁴ <http://www.ilo.org/public/english/wcsdg/consulta/index.htm>
<http://www.ilo.org/public/english/standards/relm/gb/docs/gb285/pdf/gb-16.pdf> (§42-43)

The *WCSDG's* report covers a wide range of issues which are relevant for both the internal and external policies of the EU. It builds on a number of initiatives which exist at global level. Overall it was well received by ILO member states, the EU and by the international organisations in the ILO Governing Body in March 2004⁵. However, if the input of the *WCSDG* is not to become simply yet another report alongside other initiatives, concrete steps are needed to follow up its recommendations. The follow-up of the report will be discussed at the annual meeting of the International Labour Conference in June 2004, but the Commission believes that some of its proposals should also be discussed in other international fora which have responsibility in particular for financial, economic and trade issues.

The Commission believes that the EU can and should make an active contribution to harnessing globalisation so that it serves social as well as economic goals. There is a growing interest, including in the *WCSDG* report, in the EU approach to economic, employment and social issues and, more generally in the EC model of sustainable development. This is now even more relevant with EU enlargement. The Commission is therefore taking this opportunity to set out its initial views on some of the issues raised in the *WCSDG's* report as a basis for the forthcoming debate.

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The impact of globalisation on different societies is a hotly debated topic. These impacts are multi-faceted and can be both positive and negative, depending on timing and the specific context in each country. Associated notably with increased transport and use of natural resources, the mechanisms by which the increased flows of trade, capital, ideas and people around the world impact on economies, societies and the environment are complex and depend on domestic situations, including on whether appropriate flanking measures are in place.

Globalisation is a term that is used in many ways, but the principal underlying idea is the progressive integration of economies and societies. It is driven by new technologies, new economic relationships and the national and international policies of a wide range of actors, including governments, international organisations, business, media, labour and civil society⁶. It is a process of integration which has been underway since at least the second half of the nineteenth century, if not before. The rate of integration has recently been boosted by technological progress and by policy decisions to reduce barriers to international transactions. It has led, in particular, to the increasing international division of labour.

Although the *WCSDG* report has a tendency to focus on the negative impacts of globalisation, overall its impact has been positive, though in some cases the benefits have not been sustained in the face of particular challenges. In the immediate post war period, the main beneficiaries of globalisation were the industrialised countries, where real income per capita has more than tripled over the second half of the twentieth century. More recently, a study by the World Bank⁷ shows that the opening of markets and economic integration have also contributed to substantial economic progress for developing countries that have managed to enter global manufacture and service markets. In the latest wave of globalisation, countries such as China, India and Mexico have doubled their ratio of trade to income, with their exports being made

⁵ <http://www.ilo.org/public/english/standards/relm/gb/docs/gb289/pdf/gb-16.pdf>

⁶ Definition used by the *WCSDG*: <http://www.ilo.org/public/english/wcsdg/globali/index.htm>

⁷ *Globalization, Growth and Poverty* – A World Bank Policy Research Report, World Bank and Oxford University Press, 2002.

up increasingly of finished products and services, not just raw materials⁸. Such countries have on average increased their annual per capita economic growth from 1% in the 1960s to 3% in the 1970s and 5% in the 1990s. With such growth rates, often above those of OECD countries, these developing countries are now showing signs of convergence.

Largely as a result of the strong economic growth in Asia, global poverty is falling and the world is on target to reach the Millennium Development Goal of halving poverty between 1990 and 2015⁹. In China alone, 200 million people have been lifted out of poverty since 1990. Other indicators support this positive view: while life expectancy increased by about 10 years in industrialised countries between 1950 and 1999, it increased by nearly 20 years in developing countries (and by nearly 30 years in India and China)¹⁰.

However, these positive impacts have not been universal. Countries which are home to about two billion people are not participating strongly in globalisation and risk remaining marginalised from the world economy. For instance in Sub-Saharan Africa the number of people living on less than a dollar per day has actually increased by 30 % over the last decade. Life expectancy has gone down, and the prospects for achieving the Millennium Development Goals (MDGs) are not good. Improving the economic situation and living standards in such regions is one of the major challenges for the global economy. In this context, the Commission welcomes the emphasis which the *WCSDG* puts on domestic policies and believes that getting policy right at home is vital, not only to reaping the benefits of global integration, but also to stimulating the leverage of domestic investment, which is often underdeveloped.

Poverty remains a problem even in those countries which have seen rapid growth. Economic integration can have a significant positive effect on poverty, but securing such positive benefits requires a reduction in inequalities and effective social policies. Core labour standards (CLS)¹¹ and tripartite and bipartite social dialogue, to give effect to such policies are seen as a key part of the framework for ensuring a fair globalisation, while recognising that they are a baseline. The final objective should be the creation of dynamic social progress with a view to promoting decent work for all¹². The EU policy that labour rights should not be used for protectionist reasons and its rejection of any unilateral sanctions-based approach is in line with the position of the *WCSDG*¹³.

All countries need to ensure a domestic environment which is supportive to trade, investment and social equity. Open and transparent administration is a key part of this environment. For many countries regional integration offers an opportunity to expand economies of scale and stimulate competition, as well as solidarity amongst peers, increasing efficiency, but also increasing the credibility of reform, providing clarity and consistency for potential investors. The EU supports developing countries in their efforts in these areas.

⁸ In India, for example, IT exports now account for nearly 40% of export earnings.

⁹ World Development Report 2004, World Bank.

¹⁰ Angus Maddison, *The World Economy: A Millennial Perspective*, OECD 2001.

¹¹ Core labour standards (CLS) are internationally agreed in the ILO and cover: elimination of discrimination in employment, elimination of forced labour, abolition of child labour, freedom of association and the right to collective bargaining.

¹² The decent work agenda covers the strategic objective of the ILO and includes workers rights, employment, social dialogue and social protection. *The World Commission* supports the decent work agenda (§ 502-510 and annexe 1). Decent work promotion is also included in the cooperation between the European Commission and the ILO, Exchange of letters of 14.05.2001, OJ, C 165, p. 23.

¹³ General Affairs Council Conclusions of 21.07.2003; *WCSDG* report § 421.

The *WCSDG* rightly observes, that the crucial efficiency gains that trade can stimulate in developing countries have been limited by lingering protection in the very sectors where they often have comparative advantage – notably agriculture, processed commodities and labour-intensive goods. This is the case both in developing and developed markets. Although in the latter these barriers are sometimes offset by preferential access agreements, such as the EU's Everything But Arms (EBA) initiative for LDCs, such high levels of market access are the exception rather than the rule. If the global division of labour is to be made to work more effectively for development, such barriers need to be addressed.

In addition, as the *WCSDG* underlines, it is undeniable that adjustment costs co-exist with the efficiency gains from trade. The gains of market opening typically exceed the costs. However the costs tend to be more concentrated amongst those sections of the population that had benefited from past protection, while the benefits are spread more diffusely and are thus less evident. Unless the fruits of integration with the world economy can be more evenly spread between and within countries, support for globalisation will remain fragile.

Coping with economic and industrial restructuring is not a straightforward task and the transitional period can be very long. Anticipation is important. Workers need to be supported so that they can seize the opportunities that globalisation offers and cope with future changes. Adequate supportive policies are necessary in both the North and the South to anticipate the long term and mitigate the short term negative impacts on vulnerable regions, sectors and workers. Governments must ensure effective accompanying policies, commensurate with their level of development, which encourage job creation through business start ups, provide retraining and pursue active labour market policies and adequate safety nets. In addition they need to maximise the contribution of migrant workers to economic growth and secure their fair share of welfare gains by ensuring their effective integration into society.

The *WCSDG* highlights that in some countries globalisation has exacerbated gender imbalances. Deep-rooted and long-standing gender inequalities often result in the social costs of globalisation falling disproportionately on women. However, as the *WCSDG* also indicates, these imbalances depend largely on the level of gender equality prevailing in the norms, institutions and policies of a country when its integration in the global economy takes places¹⁴. Gender equality is a fundamental objective of EU internal and external policies and an essential element of the internationally agreed core labour standards (CLS).

3. THE RELEVANCE OF THE EU'S ECONOMIC AND SOCIAL MODEL

As recognised by the *WCSDG's* report, the EU is a very particular model of political, economic and social integration. While preserving distinct national identities for its Member States, the EU has created a single market with free movement of goods, services, capital and people. Economic and monetary union has pushed the process further still, opening up new opportunities for producers of goods, providers of services and for consumers. In doing so, it has contributed to improving living conditions of its citizens and in particular for those in the least developed Member States. The GDP per capita of Spain and Portugal has increased from respectively 71% and 54% of the EU average in 1985, when they joined the EU, to 86% and 71% in 2002, while that of Ireland has jumped from 60% in 1973 to over 125% in 2002.

¹⁴ WCSDG report, § 214-217.

There has long been a strong social dimension to the economic integration of Europe. At the time of the common market, the social dimension focused principally on workers' rights, gender equality and social and economic cohesion through Structural Funds. But, with increasing integration, it has expanded to encompass a broader range of objectives, including full employment and higher quality jobs, the quality of education and training systems, adequate and sustainable social protection, the promotion of social dialogue and the fight against discrimination and social exclusion. These objectives are reflected in the European treaties and the conclusions of Heads of State and Government of EU Member States at various meetings of the European Council. In particular, the Heads of State and Government agreed in Lisbon in 2000 an integrated strategy for reforms which is intended to lead to Europe becoming the most competitive knowledge based society in the world, with more and better jobs and increased social cohesion, by promoting mutually reinforcing policies to address the needs of competitiveness, employment, social progress and environmental protection. This strategy is also the basis for the EU's policy response to the impact of globalisation on businesses, jobs and citizens in Europe.

At the subsequent meeting in Barcelona in 2002, the European Council defined the European social model as being based on good economic performance, on a high level of social protection and life long learning and on social dialogue between representatives of employers and employees¹⁵. European policies promote employment growth, including by investing in education, skills and mobility, and contribute to reducing the number of people at risk of poverty and to the sustainability of social protection systems. The model emphasises both the need to involve workers in the changes which affect them, and especially in the management of corporate restructuring, and to enhance the quality of work.

The report of the *WCSDG* identifies a number of elements of the EU model as having contributed particularly to its success in improving living and working conditions: a strong legal framework; openness to the world economy and an effective market economy; supportive national social protection systems and common minimum standards for employment; involvement of the stakeholders through the European social dialogue; gender equality; and, more widely, respect for human rights and the rule of law, democracy and the strengthening of democratic supervision through the European Parliament.

The EU's economic and social model, and the Lisbon strategy which translate it into practice, cannot simply be transposed to other parts of the world. Nevertheless, the *WCSDG* has highlighted a number of aspects of the model which may be of interest to the EU's partners, especially in terms of the processes which are essential to the achievement of the balance between all the objectives at stake. The EU model places particular emphasis on solid institutional structures for the management of economic, social and environmental issues and the interplay between them, on effective public services and services of general interest, on strong social and civil dialogue, on investment in human capital and on the quality of employment.

Practical experience of the relevance of the European economic and social model for countries in the process of economic transition has been seen recently in the context of the Union's latest enlargement. The ongoing transformation of the economies of the eight countries of Central and Eastern Europe, which joined the Union on 1 May 2004 after less than 15 years of experience of the market economy, is testament to the contribution which the

¹⁵ Presidency Conclusions, European Council, Barcelona, 15 and 16 March 2002.

European model can make to deal with the social impact on workers and their families. The Commission has in particular emphasised the need to strengthen the capacity of public authorities, social partners and civil society to better anticipate the consequences of economic changes, to invest in education and in skills of the workforce and to provide sustainable social protection systems to cushion the shock for individuals.

4. MANAGING THE CONSEQUENCES OF GLOBALISATION IN THE EU

Globalisation increases the pressure on economic actors in the EU to remain at the cutting edge of competitiveness. As highlighted by the *WCSDG*, the social impact of adjustment also affects industrial economies. For trade liberalisation to succeed and have maximum economic impact, mechanisms must be provided to cope with the adjustment costs, in particular those associated with restructuring. Managing change will help to address the needs of those negatively affected by market opening, ensuring a more equal spread of the gains of liberalisation¹⁶. It requires a coherent and forward looking approach with full involvement of and commitment by all public and private stakeholders. The *WCSDG* also underlines the importance of regional integration in helping countries to manage globalisation and refers to the EU policies and experiences¹⁷.

Overall economic gains for the EU from globalisation are undoubtedly positive. Restructuring, including relocations, not only affects low- skilled workers and the manufacturing industry but can now increasingly be found in the service sector, including in highly skilled jobs in knowledge intensive business services. The economies of the New Member States and in particular those from Central and Eastern European Countries (CEEC) have been undergoing in-depth restructuring for more than a decade now¹⁸ as a result of the transition to a market economy. This has led to a substantial shift of employment between the three main sectors (agriculture, industry and services) and this process is still ongoing. Restructuring within sectors as part of modernisation following the introduction of new technologies or the emergence of new competitors is present in both existing and new Member States.

To maintain Europe's competitiveness, it is necessary to invest heavily in human resources at all ages. This is even more necessary in a context of an ageing society, which makes the use of all potential labour essential. The Lisbon strategy, and in particular the European Employment Strategy, encourages public authorities, companies and the social partners at all levels to promote competitiveness by increasing investment in the skills of the workforce and by making the most effective use of information and communication technologies. All stakeholders are required to anticipate, trigger and absorb change.

The EU also invests heavily in human capital through the Structural Funds and this contributes significantly to economic and social cohesion across the Union. However these resources could be better targeted at addressing challenges posed by globalisation, such as promoting the adaptability and employability of people and enterprises and disseminating research and innovation more evenly throughout Europe. The European Social Fund (ESF) in

¹⁶ WCSDG report, § 173, 234, 278-289, 369-379 and annexe 1.

¹⁷ *WCSDG* report, § 313-334.

¹⁸ Employment in Europe 2002, chapter 5 and Employment in Europe 2003; Structural change, convergence and specialization in the EU Accession Countries, ed. by M. Landesmann, WIIW (October 2003).

particular should act as a catalyst for national and regional investments to contribute to employment and life long learning, to increased quality and productivity at work and to social inclusion. The Community initiative in the field of human resources known as 'EQUAL' promotes and tests new means of tackling all forms of discrimination and inequalities within the labour market. It is currently dealing with issues such as age management and lifelong learning, business creation and the social economy, a better integration into the labour market of less favoured groups such as people with disabilities, migrants and ethnic minorities, and reconciling family and professional life.¹⁹ Community cooperation in the fields of education and training also contributes significantly to the Lisbon Strategy goals, including through its programmes (Socrates, Leonardo da Vinci, Youth).

As highlighted in the Commission's Report on cohesion²⁰ and the Communication on financial perspectives²¹, the Structural funds should be used to better address economic and social restructuring.

Anticipating change, managing restructuring and ensuring the right balance between flexibility and security requires both effective bipartite social dialogue and solid partnerships between employers, trade unions and public authorities. At the Tripartite Social Summit for Growth and Employment on 25 March 2004, all the partners affirmed their commitment to renewing a European Partnership for Change, and agreed to review the progress made in the various levels of partnership at subsequent Tripartite Social Summits. Partnership will be of particular importance in order to manage the impact of continuing restructuring in the new Member States, where the capacity of both employers' organisations and trade unions to engage in constructive bipartite social dialogue requires further strengthening. This is crucial if they are to reach agreements on the measures which will be required in order to alleviate and manage the potentially negative social consequences of restructuring.

Strong social partner organisations can make significant contributions to both the quality of employment and to maintaining the competitiveness of companies by securing the motivation, loyalty creativity and productivity of employees. The European treaty encourages dialogue between social partners at cross-industry and sectoral level and the Commission has requested them to make better use of their European bargaining area²². Cross-sector and sectoral social partners have included restructuring and managing change in their respective work programmes and ongoing activities and include issues such as life long learning and quality at work. The Commission has invited them to discuss the initiatives on restructuring in more detail. The European Monitoring Centre on Change established in October 2001 will provide social partners with tools to better understand, anticipate and manage change and is now enlarging its activities to the New Member States.

EU legislation sets minimum requirements which all Member and all companies must observe when contemplating large-scale job losses or preparing other decisions likely to affect workers. The most recent texts clearly promote upstream worker involvement, notably on strategic issues and on the foreseeable evolution of employment within companies. In addition more and more individual companies are undertaking socially responsible approaches to the management of change. The EU encourages such initiatives. EU legislation

¹⁹ http://europa.eu.int/comm/employment_social/equal/index_en.html

²⁰ COM(2004) 107 final of 18.2.2004.

²¹ COM(2004) 101 final of 10.2.2004.

²² COM(2002) 341 final of 26.6.2002.

ensures minimum standards for occupational health and safety and for working conditions. Social partners are closely involved in this standard setting process. CLS such as non-discrimination in employment and equal opportunities for men and women are guaranteed by EU legislation. Freedom of association and collective bargaining are enshrined in the European Charter of Fundamental Rights.

To facilitate a positive attitude to change among businesses and workers, the safeguards provided by social protection systems must be made sustainable, which in many cases will imply reform and modernisation. The Union supports the reform process through an open method of co-ordination, aimed at spreading best practice and achieving greater convergence towards the main EU goals: Member States agree common objectives in relation to social adequacy and financial sustainability of their social protection systems and exchange best practice and engage in peer review. Following the successful implementation of the open method of co-ordination in the area of pensions, the Commission has recently launched a proposal for a new process of co-ordination in the field of health care. The Lisbon strategy also encourages an institutional and regulatory environment conducive to investment in research and innovation so that Europe remains an attractive business location. The Commission believes that the Union should promote further clustering of activities (R&D and production sites). Equally, effective public services and services of general interest are important both for promoting competitiveness and social inclusion. The EU also supports local development and the *WCSDG* highlights the employment and environmental potential of local initiatives²³.

Sustainability Impact Assessments (SIAs) of trade liberalisation negotiations should help to better assess the internal impacts of liberalisation on the EU, and in particular, on the weakest EU regions and industries and better identify linkages between various policies²⁴. SIAs and the integration of their results within the EU's policies should enable it to better address the internal and external social, environmental and economic challenges of liberalisation. The establishment of a steering committee including social partners and civil society will ensure a substantial social dimension within the SIAs.

5. HARNESSING GLOBALISATION - EU ACTION TO PROMOTE THE SOCIAL DIMENSION OF GLOBALISATION

The *WCSDG's* report is relevant to a number of the EU's external policies.

5.1. The social dimension of European bilateral and regional relations

The European Community's relations with third countries encompass a large number of issues addressed in the report of the *WCSDG*, in particular good governance, the rule of law, human rights and democratisation, as well as social development as the necessary corollary of economic development to ensure sustainable progress.

²³ *WCSDG* report, § 290-312.

²⁴ Since 1999, SIA has been generalised to all major trade negotiations and is now enshrined in a broader commitment to Impact Assessment, COM(2002) 276 final.

5.1.1. *Bilateral and regional agreements*

The EU has negotiated Agreements with virtually all countries and many regional groupings of the world. Their main objectives are to promote stability and sustainable economic and social development worldwide. To this end, EU bilateral and regional Agreements set up institutional arrangements for political and technical dialogues and put in place a framework for, in particular, economic, institutional and social cooperation. Most of the Agreements also include a social chapter, which, for some of them, still needs to be fully exploited.

Respect for democratic principles, human rights and the rule of law have been included as essential elements of all Agreements with third countries or regional groupings since 1992. Civil society and the social partners are also part of the process. Dialogue and consultation with local civil society and between partner countries authorities and local civil society is promoted.

All bilateral negotiations provide the opportunity for the Commission to strengthen the sustainable development dimension of its Agreements and translate its policy commitments into concrete action. Therefore it is important that existing provisions on CLS, such as art. 50 of Cotonou and other Agreements, are effectively implemented.

The Commission is also committed to carrying out Sustainability Impact Assessments (SIAs) of bilateral negotiations. These will assess, inter alia, the impacts on social development in the EU and its partner countries, using a broad set of indicators and involving in a wide consultation stakeholders, such as private sector associations, trade unions and civil society at large.

The EU-ACP negotiations of Economic Partnership Agreements (EPAs)²⁵ were launched in September 2002. Social aspects, such as poverty, employment or south-south migration, are key elements in the development dimension of the EPA talks. The EC has continued to include specific provisions on CLS in bilateral agreements, following the Cotonou example. The 2002 Association Agreement with Chile, for example, includes a comprehensive title on social cooperation²⁶. Most recently, the blueprint for the future EU – Canada Trade and Investment Enhancement Agreement (March 2004) establishes a dialogue on sustainable development, including its social dimension. In ongoing or future bilateral or regional negotiations, the Commission intends to pursue its efforts to put sustainable development at the heart of these agreements.

The Commission has also a long standing cooperation in the field of employment and social affairs with Japan and the US and will envisage to extending this to Canada as well as China and possibly to other emerging economies.

Bilateral relations could also involve positive incentives for products complying with certain social or/and environmental standards. They also offer the opportunity to better address policy coherence, in particular between trade negotiations, implementation, SIAs and technical assistance, through optimising the allocation of aid to areas where adjustment costs are the

25 EPAs are an ambitious approach to supporting development through trade and integration. They will enter into force from 2008.

26 The parties commit to giving priority to the creation of employment and respect for fundamental social rights and to co-operating in a number of measures related to poverty reduction, the fight against social exclusion, modernising labour relations and other related areas.

highest. Another potential development relates to the setting up of joint processes to build a mutual partnership on sustainable development. The EC will explore new joint mechanisms within bilateral Agreements to discuss and monitor relevant aspects for the social dimension of globalisation in which international organisations (such as the ILO) would be invited to participate. One possibility is the creation of joint bilateral “Observatories” to monitor developments and provide a forum for exchanges of views between governments, the European Parliament, the social partners and civil society at large, while fully involving international organisations and bodies.

5.1.2. Political dialogue at regional level

The European Community has also adopted strong relations at regional level and has consistently supported regional integration efforts and processes in other parts of the world. Regional integration is a useful step towards better integration in the world economy and should help these countries and regions to maximise the benefits of globalisation. In its relations with the Balkans for example, the EU has put a strong emphasis on regional cooperation and integration to allow greater social economic and political stability and as a first step towards further integration with the EU.

Furthermore, the EU has developed a series of political dialogues at regional level like the Asia-Europe Meeting (ASEM) process or the EU-Latin America and Caribbean Summits, at Heads of States level, while political relations with 78 ACP countries are governed by the Cotonou Agreement, which foresees a series of instruments and institutions to promote political dialogue. There is also a regular political dialogue with ECOWAS, SADC and the African Union. These high level dialogues offer opportunities to discuss the challenges linked to globalisation and to try to define joint responses. In the context of ASEM, European and Asian leaders are committed to addressing global issues of common concern including the impact of globalisation, the management of migratory flows, the reduction of barriers to trade and investment, financial and social policy reform and environmental issues.

Recent developments in Latin America are a good example of an increased focus on social issues and the social dimension of globalisation. Social cohesion will be the main topic of the EU-Latin America and Caribbean Summit in Guadalajara in May 2004. In this context, the Commission has proposed that the Heads of State and Government of both regions take concrete decisions to: (a) encourage Latin American countries to adopt sound and efficient policies to increase social cohesion by reducing poverty, inequalities and exclusion in the areas of democratic governance, social policies, public finance and fiscal policy; (b) encourage the international community, including and in particular the International financial Institutions (IFIs), to support these measures and to ensure that reform programmes are carefully screened for their impact on social cohesion and social stability; and (c) intensify cooperation between the EU and Latin America in the field of social cohesion. This approach is in line with the recommendations and views of the *WCSDG* on regional integration as a stepping stone towards a fairer globalisation²⁷.

5.1.3. Neighbourhood policy

The “*European Neighbourhood Policy*”, aims at enhancing relations with the Eastern and Southern neighbouring countries of the Union following enlargement. The ultimate aim of

²⁷ *WCSDG* report, §327-331 and annexe 1, national governance, n° 8.

this initiative is to create an area of stability and prosperity based on shared values and common interests. It will assist the partner countries in carrying out political and economic reforms while strengthening dialogue and cooperation with them in the social field.

Cooperation on the social dimension will cover in particular regional development, employment, social policy and structural reforms. In terms of regional development, the EU will encourage partner Governments' programmes to foster decentralisation, reduce regional disparities, create employment and promote core labour standards and social dialogue. Policies favouring poverty reduction and the improvement of national welfare systems will also be supported. The EU will also encourage partner governments to enhance the effectiveness of social assistance, to implement strategies to boost economic growth and to support the development of small and medium sized enterprises, as well as to address child poverty and ensure free access for both boys and girls to primary and secondary education, in particular in the countryside.

5.1.4. Promoting human rights and democratisation in third countries

The process of globalisation is a potential force for freedom and justice as well as for prosperity. The Commission's Communication on the EU's role in promoting human rights and democratisation in third countries²⁸ shows how the Union contributes to making globalisation a fairer and more inclusive process. The mainstreaming of human rights and democratisation issues in all EU policies is complemented by financial support to activities of civil society and international organisations in third countries through the European Initiative for Democracy and Human Rights (EIDHR). There is a strong link between good governance, including the fight against corruption, the rule of law, the protection of human rights and fundamental freedoms and the quality of justice²⁹. An adequate and properly enforced legal framework guarantees the protection of workers' and citizens' rights and is also key to social protection for citizens in general and for workers in particular. It enables the promotion of decent work, the fight against illegal work as well as the exploitation of certain categories of people like women and children who are more exposed to trafficking and to low wages and unemployment or abuses such as moral and sexual harassment.

5.1.5. Migration

Migration is an important and sensitive issue in the discussion on globalisation. It has to be addressed in all its aspects: not only the South-North migration but also South-South migration, its human aspects including basic rights, the protection and integration of migrants and its economic and social components in all their variety including remittances and brain drain/gain. It is necessary to further develop bi- and multi-lateral dialogues on this phenomenon and to take account of its security implications. The Union is continuing to develop a set of rules that will govern the EU's approach towards migration. For some years now, migration issues have been part of the Co-operation and Association Agreements concluded with third countries. The *WCSDG* recommends the establishment of a multilateral framework for the cross-border movement of people and proposes different actions including at regional level³⁰.

²⁸ COM(2001) 252 final of 8 May 2001.

²⁹ Communication on a comprehensive policy against corruption, COM (2003) 317 final of 28.5.2003.

³⁰ *WCSDG* report, §428-446 and annexe 1, labour in the global economy, n° 2 and 3.

5.2. Development and external cooperation

5.2.1. Millennium Development Goals

The EU has committed itself to focus its international development assistance on helping developing countries to achieve the Millennium Development Goals (MDG's). The MDG's, together with the World Summit on Sustainable Development Plan of Implementation agreed upon in Johannesburg, provide an ambitious agenda for reducing poverty and supporting sustainable development. The *WCSDG* highlights the importance of MDG's as a first step towards a socio-economic 'floor' for the global economy and calls for greater efforts to mobilise resources³¹.

Against this background the EC will focus on delivering on its international commitments, with clear targets on poverty, education, health, gender and environment. The specific objectives and actions agreed in Monterrey³² and Johannesburg will set the pace and direction of this work. As a precondition to achieve these objectives EU policy coherence shall be strengthened. Continued attention will be given to the need to ensure that domestic and external EU policies are conducive to the agreed international commitments and do not undermine the objectives of EC development cooperation. The implications of other EU policies (e.g. trade, agricultural and fisheries policy, migration policy, policies on environment, food safety regulations, research, information and communication technologies; EU security strategy, fight against drugs, money laundering, human trafficking, international terrorism) on developing countries will be continuously assessed.

5.2.2. External cooperation

Much of the responsibility for social development lies with partner countries themselves. They must ensure that their domestic policies respect human rights and fundamental freedoms and the rule of law and ensure transparent and accountable governance. They should also integrate trade into national development strategies and secure a better distribution of the benefits of integration with the global economy. This requires: a) institutional and regulatory reforms, including agrarian and fiscal reforms, which will lead to sustainable formal private sector job creation and effective labour markets; b) improvement of an equitable access to social services, notably in health and education; c) development or strengthening of redistribution mechanisms, including social protection schemes; and d) better involvement of non-state actors, respect for CLS and the promotion of social dialogue.

The international community has a responsibility to promote these objectives. The EU supports the uptake of these policies, in particular through its regional and bilateral support mechanisms and under national cooperation programmes with partner countries. The EC approach to the social dimension of external aid - in dialogue with and support to partner countries - is considered part of the democratic and stabilisation process and a necessity to secure a minimal level of acceptance of and support for the important economic and social transformations partner countries are facing. It contributes to absorbing the shock of the social consequences of transition and thus to a more sustainable business and trade environment. To better assess the social consequences of globalisation and better target its external aid interventions, the European Community intends to promote the mainstreaming of this social

³¹ *WCSDG* report, § 21, 450-481, annexe 1 on better international policies.

³² Commission communication, COM(2004) 150 final, 5.3.2004, Translating the Monterrey consensus into practice: the contribution of the EU.

dimension, in particular in above mentioned areas, at the programming and implementation stages of its programmes and projects.

The Asian crisis and the impact of reforms undertaken by countries in transition, show the importance of social protection schemes and appropriate redistribution mechanisms to cushion the social impact of crisis and transition. These practices and social schemes have to be developed on a sustainable, institutional basis. Experience in Latin America in dealing with social instability and political unrest shows the importance of an operational social dialogue.

Special attention should be given to evaluating the interaction between globalisation and gender equality. In this respect, the EU strongly promotes gender mainstreaming in its co-operation policy.

Trade reforms often involve transitory costs for certain groups of the population who need support to adapt to the new context. The IMF has announced a trade integration mechanism to support countries which suffer balance of payments difficulties due to trade policy changes such as the removal of MFA quotas. However the international community needs to address the issue of adjustment costs more systematically if potential negative social impacts are to be avoided. The EU is progressively developing support for trade-related adjustment as part of a coherent development strategy. This would involve support at three levels: a) building up adequate domestic institutional capacity to support the policy reform measures required, including the reform of fiscal systems to help cushion the reduction in government revenue due to declining receipts of import duties; b) programmes to anticipate adjustment needs aimed at ensuring a more equitable spread of gains and smoothing the transfer of productive resources from previously protected sectors to those with the highest comparative advantage and c) accompanying programmes for productive capacity development to ensure that the opportunities offered by increased market access can be fully exploited.

Trade-related assistance to help concerned countries to manage economic and social adjustment is an important element of the EU's multilateral agenda, expanded below. The EU has significantly increased its programming for trade related assistance in all developing country regions over the last four years. More attention must however be given in future development aid programmes to helping less developed countries to mainstream trade into their poverty reduction strategies and to manage the social impact of trade liberalisation, notably through the creation of social protection mechanisms and a socio-economic floor upon which trade reform should be built. This should ensure a more favourable environment for investment and job creation in the formal economy and an equitable sharing of the gains of growth. The EU will encourage the same focus in the aid programmes provided by bilateral donors and other international organisations.

5.3. Ensuring that trade policy is fully supportive of social development

Trade liberalisation is widely acknowledged to be a key factor in supporting global growth and development. By promoting competition and efficiency, continued growth in international trade is instrumental in maintaining higher rates of productivity growth. Although the regional integration highlighted earlier can foster growth, it remains a second best solution compared to more ambitious multilateral efforts. According to the World Bank³³, the gains from

³³ Global Economic Prospects 2004, Realizing the Development Promise of the Doha Agenda.

implementation of the WTO's Doha Development Agenda (DDA), could lie somewhere in the region of \$270bn-\$520bn in 2015.

Globalisation needs to be harnessed in support of the weakest and most vulnerable if it is to be fair and equitable. The Commission communication of 2001 on CLS³⁴ suggested a range of trade policy initiatives to promote social development, based on a recognition of the universality of CLS, the EU's support for the work of the ILO and its increased and enhanced co-operation with other international organisations. This approach was subsequently endorsed by the General Affairs Council on 21.07.2003.

Since the 2001 Communication, the Commission has promoted its general approach while working on the implementation of a number of concrete initiatives both in the multilateral and the bilateral spheres, including through the WTO³⁵, with regard to the Generalised System of Preferences (GSP) and in bilateral and regional relations with developing countries³⁶. This section explains inter alia how the Commission has sought to implement the objectives set out in 2001 and how they can be pursued.

The DDA negotiations offer an opportunity to contribute to the achievement of the social development goals established by the Millennium Declaration as well as to contribute to sustainable development. They have great potential to foster long-term economic growth, stimulate trade and investment, promote sustainable development and the management of the challenges of globalisation and to thereby assist developing countries' integration into the world trade system in a way that will help them combat poverty and raise living and working standards in an equitable manner³⁷. The *WCSDG* acknowledges the crucial role of the DDA, and encourages efforts to make multilateral trade liberalisation mutually beneficial to all countries and socially equitable within them. The *WCSDG* also underlines that trade liberalisation should be a means to achieve ultimate objectives, such as high and sustained growth, full employment, promotion of decent work and the reduction of poverty. The EU has sought to reflect these goals in its own negotiating position by taking account of social development aspects in all key negotiating areas, in many cases as a form of special and differential treatment. In its September 2002 Communication on Trade and Development, the Commission identified three essential elements, subsequently endorsed by the Council, vital to achieve genuinely pro-development outcomes in the DDA, namely: market access; multilateral rules; and trade-related assistance and capacity building³⁸.

As concerns market access, the EU advocates an approach under which all WTO Members contribute to the liberalisation process according to their level of economic development and capacities, while focussing on market opening or reduction of trade distortions for sectors and

³⁴ Communication on Promoting Core Labour Standards and Improving Social Governance in the Context of Globalisation, COM(2001) 416 final of 18.7.2001, hereafter 'the 2001 Communication'.

³⁵ The Council conclusions urged the EU to encourage discussions on an autonomous and voluntary basis on the social development issues – including the respect of CLS – during the Trade Policy Review (TPR) exercise in the WTO. In preparation of the upcoming EU TPR in July 2004, the Commission has started to gather evidence on the positive correlation between social standards in the EU and the EU's economic and trade performance. The Commission believes that this voluntary exercise constitutes a useful way to demonstrate the positive correlation between social development, market opening and multilateral trade rules.

³⁶ These latter efforts have been described in section 5.1.1.

³⁷ Commission Communication on reviving the DDA Negotiations-the EU perspective" COM(2003) 734 final of 26.11.2003.

³⁸ This latter issue has been discussed in 5.2.2

products of special interest to developing countries. In this way trade liberalisation can help poverty reduction and economic growth in developing countries, creating the conditions for equitable social development. Since some of the highest barriers to trade exist between developing countries themselves, the creation of new markets through South-South trade will be equally important, and may also mitigate the concern of several weaker developing countries about the impact of preference erosion. In addition, meaningful initiatives by developed WTO Members, such as the EU's own granting of duty and quota free access for Least Developed Countries' exports, remain an objective.

The social consequences of trade policy changes are particularly evident in certain industrial sectors. In the steel sector, the recent US trade measures impacted not only on EU workers, but also on those in developing countries. In textiles and clothing, changes in the trade regime mean that certain weaker developing countries stand to lose the market share that quotas had previously guaranteed³⁹. The negative impacts of certain trade policy changes call for an integrated approach, combining adequate domestic social policies with appropriate donor support and opening of broader market opportunities for these countries' exports.

The Commission recognises that agriculture is a particular concern for developing countries. The EU has embarked on reforming its agricultural policies toward less trade-distorting support, including a significant reduction in its export subsidies and the promotion of sustainable development. It is clear that agriculture remains at the heart of developing countries' DDA interests. However the impact of liberalisation will, as in the textiles sector, be ambiguous. In the short term at least, net food importing developing countries may face higher prices causing concerns of food security⁴⁰. At the same time those countries that currently benefit from preferences, particularly the poorest, will see their preferential access eroded, with potential implications for their export earnings. Global, co-ordinated efforts are needed to maximise gains from market opening and minimise any negative social costs of adjustment.

A key problem for developing countries is their high dependence on a few key agricultural commodities. The solution is much wider than market access. In two recent Communications in February 2004, the Commission suggested integrated approaches to achieve sustainable development, including through trade, for countries dependent on commodities in general and cotton in particular⁴¹. This involves a series of trade and non-trade measures including encouraging more sustainable practices along the commodity supply chain.

In parallel, negotiations in services also have much to offer in terms of greater opportunities for South-South trade and the liberalisation of those services sectors that provide the key infrastructure for economic development and growth or environmental protection. Given the particular nature of the sector and its growing relevance for employment creation, specific efforts in terms of assisting less experienced developing countries in mastering the challenges

³⁹ The European Commission itself has started to follow up on its own Communication on the Future of The Textiles and Clothing Sector, COM(2003) 649 final of 29.10.2003 with the creation of a High-Level Group to recommend possible initiatives to facilitate the sector's adjustment. Concrete actions are also proposed in the follow up of the SIA on textiles and clothing in an official positioning paper of the Commission.

⁴⁰ See, for example, SIA of WTO negotiations, food crops sector, SEI, 2002, for the European Commission.

⁴¹ Proposal for an EU action plan on Agricultural Commodity Chains, Dependence and Poverty' and 'Proposal for an EU-Africa Partnership in support of cotton development'.

of regulatory reform will be necessary. The EU will contribute to this. As concerns the rule-making component of the DDA, it is of great importance, for developed and developing countries alike, to create optimal conditions for cross border trade (trade facilitation), to encourage a climate attractive to productive foreign direct investment, to promote fair competition and the procurement of quality goods and services for its citizens at decent prices. Although WTO members remain divided about the appropriateness of multilateral rules in all of these areas, the Commission remains convinced that they would foster a more stable and transparent economic environment that will in turn be conducive to sustained economic growth, in particular in developing countries.

Promoting social development through market access for developing countries

The Commission supports the promotion of core labour standards and the broader goal of decent work and uses trade instruments where appropriate. It agrees with the *WCSDG* on the importance of ensuring market access for developing countries and it secures high levels of access for developing countries to its market in a number of ways. Least Developed Countries and ACP partners benefit from exceptionally high levels of access to the EU market⁴². Beyond these special schemes the GSP (Generalised System of Preferences) provides significant preferential access to all developing countries. The GSP contains a social incentive system whereby effective compliance with core labour standards qualifies a beneficiary for additional trade preferences. The revision of the GSP scheme in 2002 made the scheme more attractive to developing countries by widening the additional trade preferences. A further reform of the scheme, to be applicable from 2006, will focus on maximising benefits to recipients and promoting the full application of core labour standards in beneficiary countries.

5.4. Promoting private initiatives for social development

Governments have an essential responsibility in securing equitable social development. The private sector however can also be a powerful, complementary conduit for change. Companies, both national and transnational, the wider business community, trade unions and broader civil society can contribute to attain social goals and promoting good social governance both in the EU and elsewhere. Companies increasingly recognise that responsible business conduct can strengthen their competitiveness. Another important aspect is that globalisation and the media revolution have contributed to the empowerment of public opinion enabling pressure for a better social governance in the global economy. Socially responsible trade, business and investment and promoting accountability throughout the supply chain for goods and services are higher on the public agenda⁴³.

Corporate Social Responsibility (CSR) is an approach which can help trade and investment work for sustainable development. In 2002 the EU adopted a strategy to promote CSR which is in line with the proposals and recommendations of the *WCSDG*⁴⁴. The Commission subsequently took a number of initiatives to promote CSR, including awareness raising initiatives on the business case for CSR, exploring the feasibility and desirability of developing criteria/guidelines for fair and ethical voluntary trading scheme at Community level, promoting the development of global codes of conduct by EU social partners and enhancing synergies with trade policies.

The Commission also established the European Multi-stakeholder CSR Forum aiming at developing a new form of dialogue and linkages between different policy areas and interests and at exploring how to define an EU approach and guiding principles. The Forum brings together the main EU stakeholders - organisations of employers and business, trade unions and civil society. The Forum has addressed a wide spectrum of issues: better knowledge,

⁴² ACP countries under the Cotonou agreement where the vast majority of tariff lines are already subject to zero tariffs and where free trade areas will be negotiated with ACP partners over the coming years. LDCs under the Everything But Arms initiative (a special arrangement within the GSP) where there will be no tariffs at all for the Least Developed Countries from 2008.

⁴³ *WCSDG* report, § 546-559 and annexe.

⁴⁴ COM(2001) 416 final, Council conclusions of 21.7.2003, Resolution of the European Parliament of July 2002 and Commission communication, COM(2002) 347 final, 2.7.2002, 'CSR: A business contribution to sustainable development'.

specific needs of SMEs and the promotion of effective transparency. It has discussed development issues such as: tackling HIV/AIDS in Africa, the application of CLS in the textiles sector and financial transparency in the extractive industries. It will conclude its work with a report in summer 2004.

The Commission notes with interest that the *WCSDG* recommends that the ILO should convene a global multi stakeholder's forum on CSR⁴⁵. The *WCSDG* acknowledges that there is scepticism in some quarters about the real impact of CSR schemes. The Commission agrees with the *WCSDG* that voluntary initiatives can only complement legislation and social policy and that they should promote higher standards. The Commission agrees that the contribution of voluntary initiatives can be strengthened in a number of ways. Consumers and civil society need to have some assurance that they are more than a PR exercise and do lead to significant positive impacts. To be credible CSR instruments need to be developed transparently, in full consultation with the social partners and other relevant stakeholders and their implementation needs to be verifiable. In this connection, efforts in terms of reporting are needed. If they are to take account of the circumstances in third countries, local social partners and other relevant stakeholders also need to be fully implicated in the process. The Commission considers that further thought should be given to ways to operationalise these objectives and to identify best practices.

As part of policies on CSR, private codes of conduct and broad-based sector level partnerships relating to labour issues including CLS, broader human rights and environment, can play a useful role. In relation to labour issues, they should take into account relevant internationally agreed standards⁴⁶ and be seen as complementary to legislation, its enforcement and collective agreements⁴⁷. European and global social dialogue can also promote a more coherent framework for codes of conduct and for partnerships. European sectoral social dialogue committees have already agreed on sectoral codes of conduct applicable in EU and in the global supply chains⁴⁸. Several European companies have signed codes of conduct in the framework of their European works councils.

In addition, the Commission actively supports the application of the OECD Guidelines for Multinational Enterprises. These provide benchmarks for responsible business conduct, but we need to work to ensure that implementation is more rigorous and consistent. One of the difficulties with ensuring wider uptake is the free rider problem – non-active corporations benefit from the activities of others without making efforts themselves. One way by which the Commission is seeking to increase uptake is by building references to the Guidelines into its bilateral agreements (eg EU-Chile Association Agreement; agreement under negotiation with Mercosur). Thought should be given to securing more generalised uptake either through concerted private action and/or government initiatives, such as making support measures like export credits contingent on conformity with the OECD Guidelines.

⁴⁵ *WCSDG* report, § 554-557, 613-616.

⁴⁶ The European approach to CSR reflects and is integrated in the broader context of various internationally agreed standards, such as the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (1977/2000), the OECD Guidelines for Multinational Enterprises (2000).

⁴⁷ Global social partners in one the most globalised sectors, the shipping industry, have even concluded an international collective agreement. Commission, Member States and EU social partners are involved in the ongoing ILO work on the consolidation of maritime ILO standards.

⁴⁸ http://europa.eu.int/comm/employment_social/publications/2003/ke4702397_en.html

5.5. Governance at global level

The contribution of the international institutions to socially sustainable globalisation is a prerequisite for progress. The multilateral system needs to become more effective to cope with existing and emerging challenges to global governance and the rule of law⁴⁹. The Commission supports a coherent and holistic approach to questions relating to the social dimension of globalisation in WTO, International Financial Institutions (IFIs) and across UN bodies as well as the strengthening of key bodies, including the ILO⁵⁰.

In relation to the UN there is a need to ensure policy consistency between ECOSOC, the Commission for Social Development and the Third Committee of the UN General Assembly. The Commission believes that serious consideration should be given to existing proposals such as the establishment of an Economic and Social Security Council. The results of the High-Level Panel on UN reform established by the UN Secretary-General should be taken into account in that context. The Commission considers that the first steps to increase co-ordination and coherence should focus on enhancing the efficiency of existing bodies. The present mandate of ECOSOC should be addressed in that context. The EU is ready to play a very active role to lead the process relating to the development of the international agenda. It recognises the need to step up efforts to raise its profile in the form of a comprehensive approach to peace, security and development. The Commission is committed to strengthening its contribution.

The EU should also aim to speak more consistently with one voice in the whole range of UN fora and other international organisations dealing with social and economic issues in order to ensure policy coherence. The Commission will continue to actively support EU co-ordination through better exchange of information and preparing proposals for EU positions and initiatives. The EU is also ready to encourage partner countries to enhance their follow-up to multilateral commitments and goals through implementation, both in the framework of the bilateral dialogue and through providing assistance to the countries who need it.

The IFIs, the WTO and the UN system in their aid-providing, market opening and norm-setting roles must work consistently and in a co-ordinated manner towards the strategic goal of sustainable development. There is a need to move from declarations and nominal coherence to effective and concerted action based on complementarity and identification of positive synergies. This depends crucially on the will of their member states – both developing and developed countries. It also requires the system of global economic governance to be efficient, inclusive and representative.

Improving the WTO negotiation process would contribute to making the multilateral trading system fairer and more socially equitable. The *WCSDG*'s report correctly observes that better participation of developing countries in WTO negotiations would be conducive to their efforts to link trade liberalisation more effectively to domestic social development agendas.⁵¹ The Commission has made concrete proposals related to the preparation and to the organisation of Ministerial Conferences, and to working methods and decision-making procedures, aimed at

⁴⁹ This position is both reflected in the Commission's Communication on the EU and the UN: the choice of multilateralism (COM(2003) 526, 10.9.2003) and the Council conclusions concerning this, as well as in the European Security Strategy, adopted by the European Council in December 2003.

⁵⁰ In line with the 2001 Communication.

⁵¹ The Doha Development Agenda is, in itself, an important step in this direction, putting development concerns at the heart of trade negotiations.

increasing the participation in the WTO system of developing countries, in particular the least developed amongst them. However bringing the multilateral trade agenda closer to social development concerns cannot happen in isolation within the WTO. The EU should aim to improve co-ordination on matters related to social governance in the context of globalisation and assure coherence on this issue in all relevant international organisations, including in the WTO and in the ILO⁵². It should also promote a more effective dialogue between the WTO and the ILO with the aim of observer status for the ILO in the WTO.

The *WCSDG* has suggested a number of innovative ways to achieve greater quality in policy coherence at the international level, both through confirming shared objectives, in particular decent work and through a number of new co-operation mechanisms. The suggested Policy Coherence Initiatives, Policy Development Dialogues and the ‘Globalisation Policy Forum’ all appear promising in binding the multilateral agenda more closely to the heart of peoples’ concerns, however mandates should be clear and focused if they are to be effective. The participation of the economic, trade, financial and social organisations in such policy coherence initiatives, in particular those related to global growth, investment and employment creation, would be an especially useful inspiration for the successful completion of the current trade round and its best contribution to a fair outcome.

The IFIs have a key role to play in supporting sound governance in the developing world. Policy coherence within these organisations and between them and the wider multi-lateral system is vital if a global environment supportive of sustainable development is to be achieved. Support for policies that ensure effective engagement with the world economy, while supporting wider sustainability objectives, should be a priority.

The euro has swiftly established itself as the second internationally used currency, but the EU does not currently impact as strongly as it might do on the policies of the international financial institutions and this weakens policy coherence. Its voice remains fragmented and thus its ability to influence key policy decisions and orientations is muted. This is problematic as these institutions have a defining role in development and the management of financial crises. In addition it poses problems for the EU’s own policy coherence within the trade, finance and norm setting pillars of global economic governance. The leverage of the EU to promote a model of development which fully integrates the social dimension would be considerably increased by a unified presence in the institutions of multilateral economic governance. This means speaking with one voice, pursuing a common position through qualified majority voting and voting as a group.

The international trade and financial institutions have become the focus of unprecedented interest in civil society. As proposed by the *WCSDG* they need to become more transparent and inclusive and the organisations of employers and workers and broader civil society should be more involved. The example of the OECD, where employers and workers are formally represented and consulted, is an interesting approach in this respect⁵³. The Commission also attaches great importance to promoting an active dialogue with the organisations of employers and workers and broader civil society. The Commission will continue to improve dialogue with its stakeholders on the different processes and issues related to the social dimension of globalisation.

⁵² General Affairs Council conclusions of 21 July 2003.

⁵³ *WCSDG* report, § 562.

As highlighted by the *WCSDG* report⁵⁴, research and data collection on the social dimension should be strengthened. In the context of 6th Framework Research Programme, the Commission is planning to launch a Network of Excellence to conduct research on the issue of ‘Global governance, regulatory frameworks and the role of the EU’. This will include analysis of the social dimension.

6. CONCLUSION

In this communication the Commission sets out its initial views on some of the issues raised in the report of the *WCSDG*. Overall the report delivers balanced, critical but positive messages that can be the basis for future action. It recognises that some steps have already been taken at global, regional and national levels but it makes it very clear that much more should be done at all levels in a complementary and mutually reinforcing way to extend the benefits of globalisation to all. This is a challenge to both the EU and its Member States. The effective follow-up of the report, by all partners, will be of key importance.

The EU has already developed initiatives and policies to address the social dimension of globalisation both in Europe and elsewhere. It is now important that the Union, at the highest political level, expresses its commitment to taking action to strengthen this dimension in the light of the *WCSDG's* report and the initial proposals made in this Communication.

⁵⁴ *WCSDG* report, § 623-629.