



Policy Priorities for International Trade and Jobs

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International Collaborative Initiative on Trade and Employment

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- ICITE is a collaborative effort of 10 international organisations
- Active engagement of social partners
- Empirical approach to the issues



Organization of
American States



WTO OMC



Headline conclusions

Market openness associated with promotion of growth & productivity; better employment, wages, working conditions.

These positive impacts are not automatic; entail **adjustment**.

Complementary policies are needed:

- investment in human resources & physical infrastructure
- economic policies and governance systems that create a positive climate for doing business and private investment
- social safety net to assist individuals
- appropriate institutions (e.g. core labour rights)

Protectionism has a high cost:

impedes ability of economy to benefit from trade



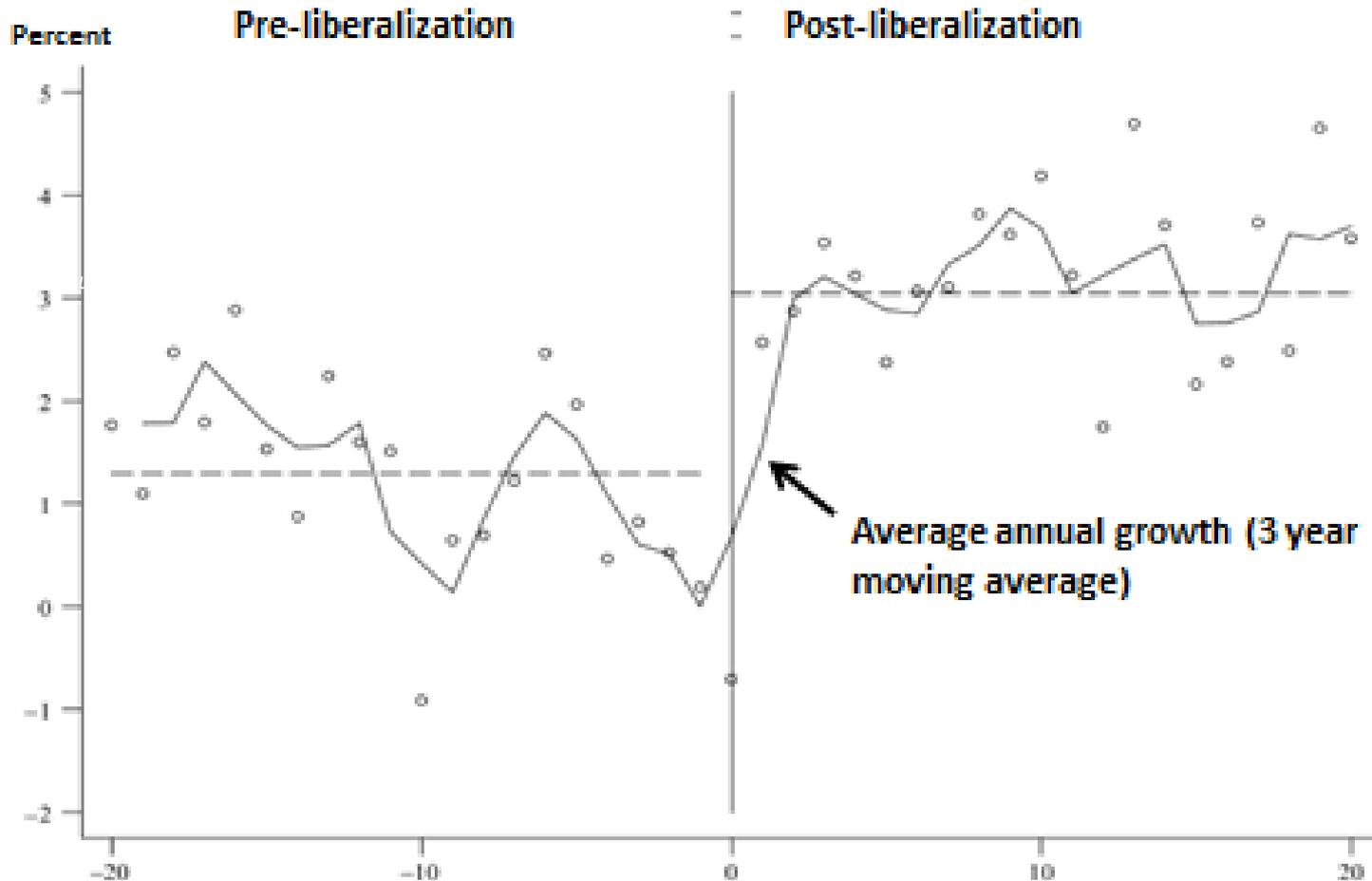
Trade and growth

Trade associated with growth & improved productivity

- Our review of 14 multi-country econometric studies undertaken since 2000 (OECD ICITE overview: Newfarmer & Sztajerowska) found that all concluded that to trade promotes growth & in turn had a positive effect on national incomes.
- Open economies grow faster than closed ones.
- Of the studies surveyed, not one has shown that trade restrictiveness has had a long term positive impact on growth;
- Instead trade restrictions often tax the poor (e.g., raising the cost of imported consumer goods), provide relief at a high cost; can stifle productivity and growth (e.g., by constraining competition & access to competitive intermediate inputs).



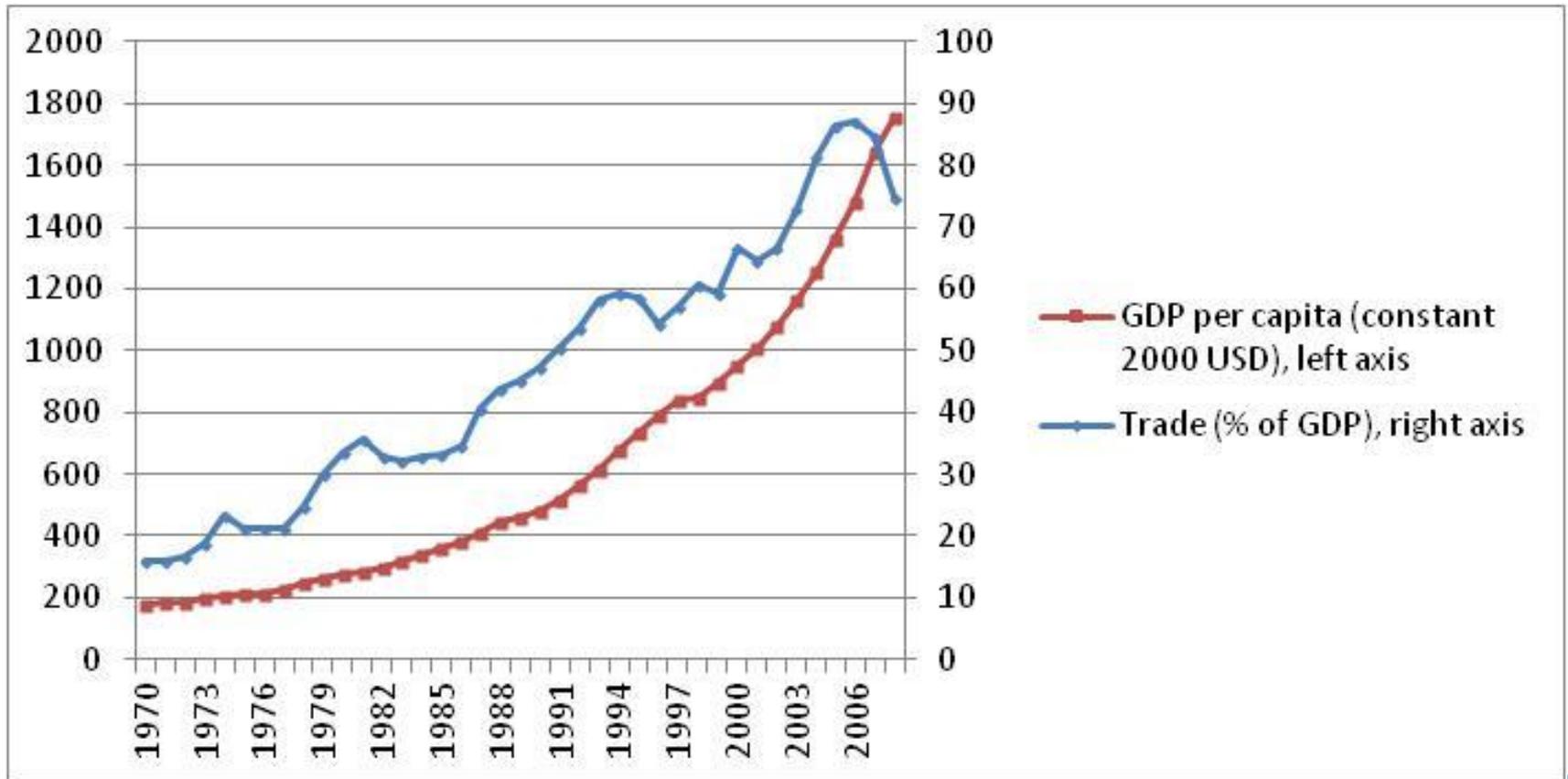
Economic growth, before/after liberalization



Source: Wacziarg and Welch (2008)



Trade openness and growth, East Asia & Pacific



Source: WDI.



OECD-Published ICITE Country Studies

- **Chile** (2003-2008) National employment survey, trade and investment data by sector; tradable vs non-tradable sectors. *Found wage premium in exporting sectors, controlling for other factors; relationship to collective bargaining (ILO-UNECLAC)*
- **France** (1995-04) Mfg: Merged customs declarations by firm, FICUS firm level economic data, DADS employee tax data. *Found that purchases of intermediates positive for employment; final goods imports negatively affect employment, substitution dominates. Export intensity associated with employment declines as large firms move to shift production.*



OECD-Published ICITE Country Studies (2)

- **Germany** (1999-07) Mfg and services; combined individual and industry level data. *Found that outsourcing of material and services inputs generally associated with positive labour demand, except in case of services inputs for the services sector.*
- **Japan** (1975-06) Mfg and services: employment and trade data used in conjunction with I/O tables. *Found that exports increased demand for worker-hours, but weak domestic final demand offset this; demand for employment from exports increased for manufacturing and non-manufacturing (inputs to manufacturing exports); changes in law increased hours flexibility and reduced employment adjustment.*



OECD-Published ICITE Country Studies (3)

- Mexico (1992-09) Used labour force survey employment and occupation data (ranking by education, % completing high school), trade and trade cost data. *Found that demand for low-medium skill labour expands with NAFTA, bottlenecks to utilisation of high skilled.*



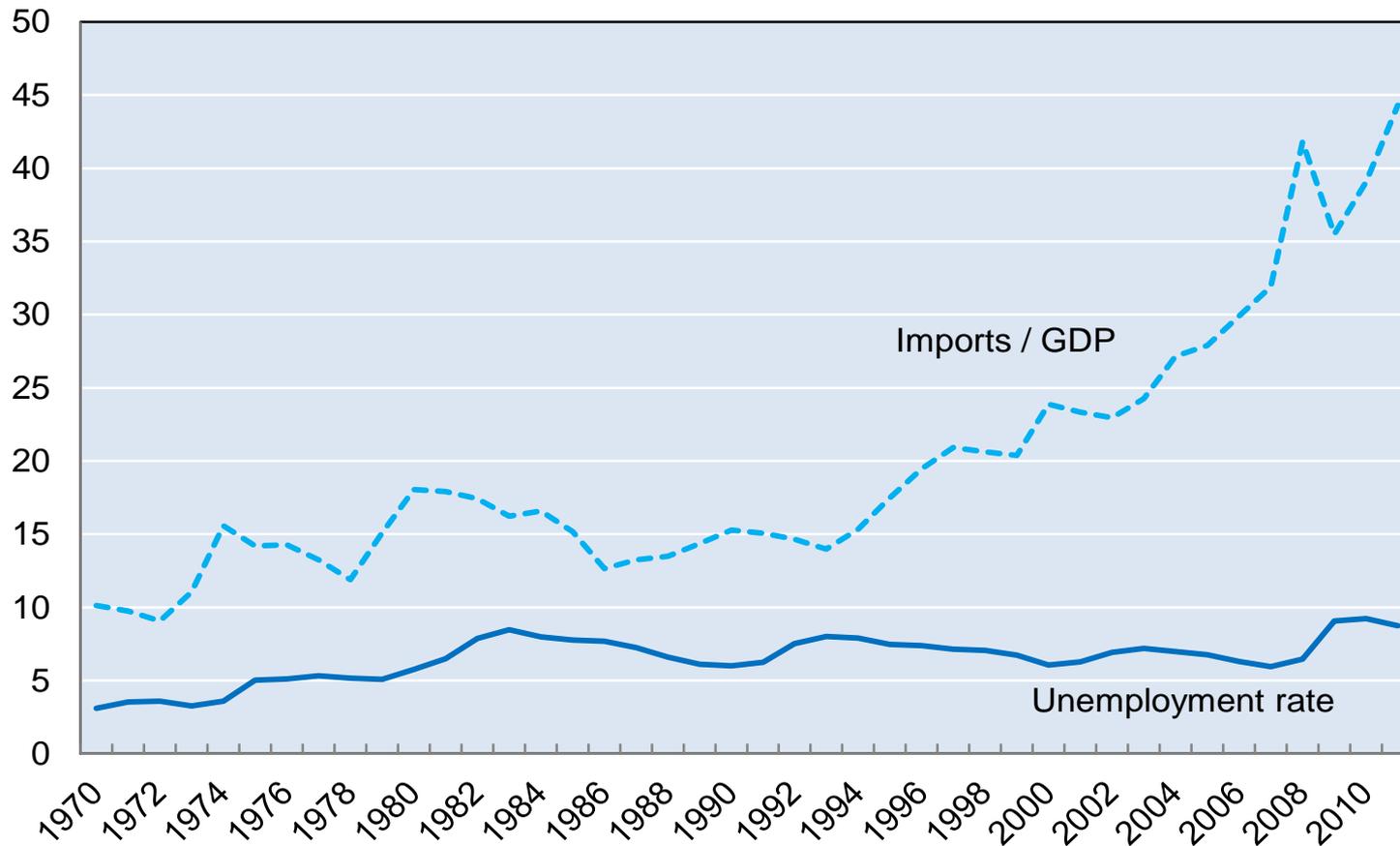
Trade and employment

Trade: imports and exports contribute to better jobs

- Exporting firms tend to pay higher wages.
- Intermediate imports (the bulk of trade), by raising productivity growth, promote higher-wage, skilled jobs.
- Openness to trade can improve overall working conditions (injuries, child labour, hours worked): growth and development promote welfare, preferences & expectations; FDI – MNCs concerned about reputation; gov't capacity.
- Policy & labour market institutions play an important role.



Imports and unemployment, not correlated long term



Source: Newfarmer and Sztajerowska (2012), building on Irwin (2009)
Note: Chart presents a simple average for 23 OECD countries



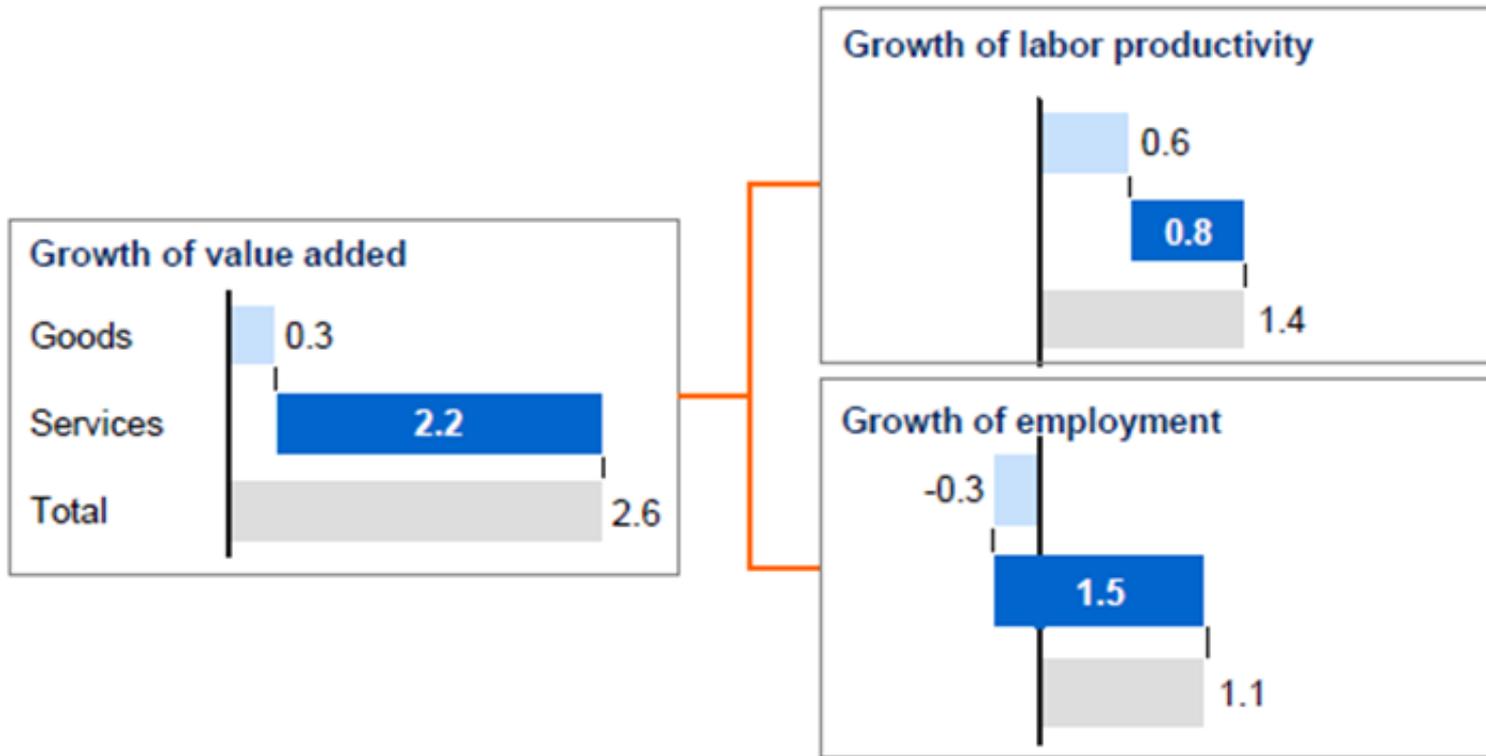
The composition of jobs has changed...

- The global location of manufacturing has shifted from higher to lower income countries over the past 30 years
- Global manufacturing jobs increase: 115M to 162M
 - Decrease in High income countries: 61M jobs to 54M jobs
 - Increase in East Asia: 27M jobs to 69M jobs
- According to McKinsey: service sectors accounted for the net job growth in high-income countries and 85% of new jobs in middle-income countries between 1995-2005.



Growing importance of services sectors

Growth indicators, high income countries, compound annual growth rates, 1985-2005



Source: McKinsey Global Institute (2010), *How to Compete and Grow*.

OECD Trade and Agriculture Directorate



Trade and Adjustment

- Adjustment essential in allocation of resources to most productive deployment
 - Sectoral
 - Inter-Firm
 - Intra-Firm
- Adjustment costs
 - Short term (e.g., new job elsewhere in sector)
 - Longer term (e.g., change of sector or occupation; LT Unemp)
- Highlights the need for complementary policy



Trade and complementary policies

Appropriate complementary policies are key to inclusive growth, facilitation of adjustment and ability to capitalise on opportunities from openness

Enabling environment, e.g.:

- Economic policies and governance systems must **create a positive climate for doing business** and private investment ...including in key services sectors.
- Investment in high quality education and training
- Strategic infrastructure (IT, energy, transport, trade facilitation)

Protecting workers not specific jobs, e.g.:

- **Active labour market and social protection policies:**
 - including support for re-training & skills upgrading, placement assistance and temporary income support, unemployment insurance
- Labour market institutions such as core labour rights



Protectionism

- Disrupts the process of upgrading
- Condemns economy to lower productivity than would otherwise be the case; hence lower general wages and problem of insiders & outsiders (e.g. Stone and Cavazos, 2012: *Found negative association of NTMs with wage developments*)
- Promotes rent seeking rather than productive occupation
- Damages labour market outcomes as well as consumer welfare (as well as producer competitiveness)
- Protectionism is anti-poor; significant negative employment effects on balance
- Urge to protect was constrained during recent crisis, but threat remains



Policy conclusions

- **What's new under ICITE?**
 - Convergence in broad perspectives on trade across Int'l Organisations; political economy perspectives: better integration across policy areas
 - Broad coverage, updated studies and incremental progress in methods and data for certain countries
- **Open markets further:** More open markets – including for services – are a necessary, but not a sufficient, condition for inclusive growth and overall prosperity.
- **Avoid protectionism;** trade restrictions stifle productivity & growth; lead to job losses in the long term. Protect workers, not jobs.
- **Complementary Policies:**
 - **Provide a strong foundation for income and employment growth:**
 - **Provide a safety net**



New ICITE book: *Policy Priorities for International Trade and Jobs*



Policy Priorities for International Trade and Jobs

A PRODUCT OF THE INTERNATIONAL COLLABORATIVE INITIATIVE ON TRADE AND EMPLOYMENT (ICITE)

Chapter 1

Trade and Employment in a Fast-Changing World

Read and download the full publication and individual chapters, as well as other material from the ICITE project, at www.oecd.org/trade/icite

This document has been developed as a contribution to the International Collaborative Initiative on Trade and Employment (ICITE) coordinated by the OECD. The views expressed are those of the author and do not necessarily reflect those of the OECD, OECD member country governments or partners of the ICITE initiative.





For more information

- ICITE publication and working papers available *gratis* at: www.oecd.org/trade/icite
- OECD Trade and Agriculture Directorate: www.oecd.org/tad
- Contact us: **tad.contact@oecd.org**
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