Market Openness & The Labor Market

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International Collaborative Initiative on Trade and Employment

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International Collaborative Initiative on Trade and Employment

• ICITE is a collaborative effort of 10 international organisations

• Active engagement of social partners

• Empirical approach to the issues
Trade openness and growth, East Asia & Pacific

Source: WDI.
Market Openness: Making It Effective

- Opening at the border and liberalizing traditional trade measures such as tariffs: important

- As tariffs reduced, binding constraints relate more to behind the border issues

- OECD’s *Market Openness Principles* provide guidance on key issues related to making market openness effective
World Bank: Overall Trade Restrictiveness Index, applied tariffs-only, 2009

OTRI averages for agriculture and manufactured imports.

OECD Market Openness Principles

• Principles of Market Openness:
  – Transparency
  – Non-discrimination
  – Use of least restrictive regulations
  – Harmonisation towards international standards
  – Streamlining conformity assessment
  – Application of competition principles from a market openness perspective

Also related:
  – Respect for intellectual property rights
Case of Indonesia

• The Indonesian economy is healthy...
  – GDP, inflation, unemployment and external balances are solid.
  – FDI has been robust.

• Tariffs are low and tariff dispersion has fallen.

• Important steps have been taken to improve the business environment, but barriers persist for mode 3 trade in services.

• NTMs appear to be on the rise (e.g., licensing).

OECD Market Openness
Recommendations: Indonesia

• Establish an independent body to evaluate the impact of trade and investment regulations.

• Institute a process in which broad stakeholder consultations are systematically required.

• Improve co-ordination between the centre and the periphery.

• Ensure that new laws and regulations benefit Indonesia as a whole (e.g., RIAs).

• Streamline the licensing process.

Market Openness Yields Benefits for the Labour Market

Source: Flanagan and Khor (2011)
Table 4. Labor Conditions - Recent Developments

<table>
<thead>
<tr>
<th>Working Conditions</th>
<th>2008</th>
<th>Percent Change Since 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly compensation</td>
<td>37.0</td>
<td>236.6</td>
</tr>
<tr>
<td>Asian</td>
<td>19.43</td>
<td>152.6</td>
</tr>
<tr>
<td>Non-Asian</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Work Hours</td>
<td>2156</td>
<td>2.3</td>
</tr>
<tr>
<td>Asian</td>
<td>1914</td>
<td>.2</td>
</tr>
<tr>
<td>Non-Asian</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job Accident Rate</td>
<td>5.9</td>
<td>-22.2</td>
</tr>
<tr>
<td>Asian</td>
<td>n.a.</td>
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<tr>
<td>Non-Asian</td>
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<table>
<thead>
<tr>
<th>Labor Rights</th>
<th>2008</th>
<th>Percent Change Since 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child Labor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil Liberties</td>
<td>4.5</td>
<td>-8.1</td>
</tr>
<tr>
<td>Asian</td>
<td>2.0</td>
<td>-22.3</td>
</tr>
<tr>
<td>Non-Asian</td>
<td></td>
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</tbody>
</table>

Note: Labor force weighted estimates.
Sources: See Appendix A.

Source: Flanagan and Khor (2011)
Main findings for Asia

• Broad improvement in labor conditions in Asia and other countries accompanied globalization of late 20\textsuperscript{th} and early 21\textsuperscript{st} century

• Advances in per capita GDP advance labor conditions, and main influence of increased trade flows on labor conditions is indirect through its impact on per capita GDP

• Poor labor conditions do not attract disproportionate shares of world FDI. Market size and investment risk are the dominant influences on FDI

Source: Flanagan and Khor (2011)
Trade and employment in Indonesia

• Weak performance in creating manufacturing jobs partially due to fewer jobs in export-oriented industries after Asian financial crisis (Aswicahyono, Brooks and Manning 2011)

• Number of jobs created per unit of export has also declined over time, implying low elasticities of employment with respect to exports

• Higher value-added services sector is key
Indonesia labor market: informal work

Percentage of Informal Workers to Total Employment

- **Bangladesh**: (1991-2005) Start 88.3, End 85.9
- **India**: (1991-2008) Start 80.1, End 81.9
- **Nepal**: (1991-2001) Start 74.3, End 71.6
- **Indonesia**: (1992-2008) Start 68.5, End 67.9
- **Pakistan**: (1990-2008) Start 74.2, End 74.2
- **PRC**: (1995-2008) Start 63.1, End 64.3
- **Thailand**: (1990-2008) Start 58.9, End 70.3
- **Philippines**: (1990-2008) Start 54.2, End 53.1
- **Korea, Rep. of**: (1990-2008) Start 43.5, End 43.5
- **Malaysia**: (1990-2008) Start 32.6, End 31.4
- **Hong Kong, China**: (1990-2008) Start 24.8, End 21.9

Source: ADB (2011)
Informality and non-wage benefits

Source: ADB (2011)
Increasing % of employees working at least 40 hours per week

Source: Flanagan and Khor (2011)
New ICITE book: *Policy Priorities for International Trade and Jobs*

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](http://www.oecd.org/trade/icite)
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• OECD Trade and Agriculture Directorate: www.oecd.org/tad

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