ILO EMPLOYMENT Podcast

Global challenges – Global solutions

Transcript for:

Trade: Good or bad for jobs?

With Christoph Ernst, ILO Expert on trade and investment

Welcome to the ILO Employment Department Podcast Series, Global Challenges - Global Solutions. I'm your host, Tom Netter, and today we're going to talk about whether trade is good or bad for jobs.

It goes without saying that trade and investment have contributed to job creation, expanded market opportunities, higher incomes and improved working conditions across the globe. But is it a viable strategy today for creating decent jobs, promoting growth, and reducing poverty while preserving the environment?

Despite global economic growth, for many, the promise of globalization isn't working. Instead, many workers are fighting just to stay afloat, in a system they feel is leaving them behind.

So, what are these realities? Today's liberal trade system faces deep challenges. Poorly coordinated trade policies – marked by short-term competition rather than long-term cooperation – can destabilize supply chains, erode labour markets and undermine investor confidence. At the heart of these concerns is the question of how trade can benefit everyone

rather than result in an uneven labour market of winners and losers. For years, ILO research has documented how international trade can be an engine of growth and creating decent jobs.

But things are changing. The realities of trade and investment are far more complicated than they used to be. Years of globalization have had an uneven impact: does it still mean that decent job opportunities are readily available? If so, for whom— men and women? And what kind of policies are being formulated at the global, regional and domestic levels?

Here with us today to address the different impacts of trade policy on domestic industries, consumption patterns, employment and labour markets, is Christoph Ernst, ILO expert on trade and investment. Christoph, welcome to the podcast.

Tom: So, let's start with the basics. Can you briefly explain or comment on the types of factors and economic policies that influence the relationship between trade and employment? And also, can you analyze whether trade creates or destroys jobs?

Christoph: First of all, thank you very much for inviting me to this podcast. First of all, trade is not neutral to employment. It has an impact. It can create or destroy jobs depending on the economic context and the respective policies in place. Let me quote here ILO's DG Gilbert-Houngbo, who highlighted that slower global growth and rising trade tensions are putting pressure on job creation. He stressed that employment is not a passive result of economic growth. It must be an active part of it. And then he calls for a stronger link between job creation, workers' protection and inclusive democratic development.

More in detail, international trade opens up opportunities to expand the market of products to foreign markets. But at the same time, it also increases the competition by foreign competitors on the national markets by imports. So, there are several factors we have to take into consideration. Obviously, the trade factors, as mentioned, it's more competition. We talk about comparative advantage to import, to export. The complementarity between countries, some countries have critical minerals, others have cars to produce, and they exchange. And the importance of diversification, also to find niches where to produce and not depend on one product which stabilizes the economy.

Then there are also other economic factors which matter. First of all, the exchange rate. High exchange rate means imports are cheap and exports are more expensive. Inflation, debt, growth, but also the purchasing power of the host country and the destination country matters. But there are also lots of non-economic factors like policies, rules and institutions. Also basic things like infrastructure, having good streets and harbors for the transportation, but also sometimes cultural aspects.

But I think it's also very important to refer to the political economy behind that, which plays an important role. We all know about the importance of trade agreements, bilateral agreements, regional agreements, regional zones, European Union, Mercosur, et cetera. And industrial policies and related policies to promote specific sectors exposed to trade. Related to that, it's also very important, policies related to education, skills development, infrastructure and transport.

But what matters most when we talk about the policies is to have an integrated approach of relevant policies. In isolation, they don't have impact. But it's not just to apply the policies, but also to find the right timing and sequencing of the policy reforms. In fact, the free market is the driving force, but sound governments help steering in the right direction.

Tom: Okay, Christoph, thanks very much for that. You've touched on some very interesting points here, the nexus between the labour market and trade, investment, and industrial policies. So, this brings me to my next question. How can countries benefit from the potential of trade for employment and inclusive growth? What's needed? What are some of the challenges?

Christoph: Okay, first of all, international trade pushes competition, which often leads to higher productivity and exchange of technology. And often the sectors which are exposed to international trade are more productive and workers earn higher income. But there's also a risk that the less competitive sectors may disappear and create a process of de-industrialization. In general, trade changes or trade liberalization, even protection, may lead to a structural transformation process to create a new national economic paradigm.

So, you may have some sectors who may potentially lose, others may potentially win in trade liberalization or trade protection, what we see currently. The importance again is to have the right policies in place to mitigate the negative aspects of the so-called losing sectors and to fully benefit from new trade potential because it's also not automatic. So, the losing sectors, it's very important to have the right timing and sequencing. That, for example, you don't open up immediately but gradually to imports to have a time of adjustment of these sectors, maybe to specialize in a specific niche or to go out of the sector and to reallocate the workers in other sectors.

So, it's very important to have here the accompanying policies in place. So industrial trade policies for the transition period but also increase the geographic and functional mobilities of workers through skills development and other support. But also to have a universal social protection coverage to help workers in losing sectors. And with regard to the winning sectors, it's important to have a look at the bottlenecks and how to overcome the bottlenecks of promising sectors, for example, through skills and enterprise development, because it has a potential to grow, but they don't have enough workers to do this job. And having the concrete industrial policies in place to develop the sector or logistics and transport.

Interesting cases in Costa Rica, for example, where they attracted IT companies from the US and then they developed new programs at university, they developed also of the infrastructure to attract this investment. And that was a kind of success story to get the new investment through trade.

Important is to have a coherent set of integrated policies and not just trade and employment policies to get to an inclusive growth. And also very important is a well-functioning social dialogue to make it work and to get an understanding of the interests of the different actors like the enterprises, the workers, and also to see how the government in total could support these changes together with them.

Tom: Well, as you know, the pursuit of decent work is central to the ILO and is at the heart of SDG 8. Can you offer some examples of countries, including developing countries, or initiatives that have incorporated employment considerations into trade and investment policies?

Christoph: Okay, first, decent work is not a byproduct of traded investment. It has to be designed and included into this. An example is the Industrial Acceleration Plan in Morocco, which targets investment with value chain upgrading, reforms in the textile and the automobile sector.

In this regard, it's very important to link foreign investment to local large companies and micro and small medium sized enterprises to create jobs and to improve local skills. So, it's important to include employment objectives like on job creation, skills development, or productivity gains. In other words, to mainstream employment into trade investment policies.

And that's precisely the objective of the ILO Mainstreaming Employment into Trade Investment, or METI, programme, which supports this in MENA countries like Morocco. Concretely, this METI programme helps to align trade and investment strategies with employment goals, and having a specific look at sector-specific bottlenecks. For example, how to tackle skill shortages, how to support micro and small, medium-sized enterprises to increase their productivity, how to get to formality in these companies.

So as a result, we have observed a greater MSME participation in export-oriented supply chains, strengthened skill systems and more and better jobs. And also particularly for women and young people, which are specifically targeted by this project, which often in these MENA countries, normally have low-skilled and low-paid jobs. And through this project, we aimed at improving this and we got some positive results in this regard.

Tom: Now, we can't have a discussion on global trade without talking about supply chains, which are a source of employment for millions of workers. Yet we know that there are many decent work deficits. For example, informality continues to be widespread in certain sectors. I know this is a big ask, but briefly, how do we build a just future with sustainable supply chains? And perhaps, can you also articulate three or four main things can be done?

Christoph: Yes, actually, this is a big challenge. Global supply chains are to a large extent formal, depending on the sectors, sector-specific and the countries involved, obviously. But the share, which is informal and with other forms of decent work deficits, is not too limited, and in some countries that's an opportunity also to push them into formality. For example, due diligence rules by major industrialized countries like, for example, the European Union, OECD also has some, Germany aim to tackle these deficits in supply chain.

The ILO has an Action Programme on Supply Chain and a Programme on Trade and Decent Work, which are supporting the implementation of this due diligence through the promotion of decent work and the respect labour rights and its enforcement, especially we look here into labour inspection, in supply chain in specific countries. Most of them are currently in Asia and some in Africa.

The METI project, we have already talked about it, has a more development approach, I would call it, looking into how to improve productivity, the working conditions and the labour standards at the bottom of the global value chain, supported by public policies, for example, labour market policies, skills and enterprise development, but also how to engage the multinationals or bigger national companies who participate in the value chains. These measures help to improve the resilience of the supply chain, but also the transition to formality of informal workers or also informal economic units.

Tom: Thanks, Christoph, for that comprehensive answer. Now, in terms of climate, many countries are developing green economies to become climate neutral, which involves some other things, reducing greenhouse gas emissions and improving resource efficiency. So, what is the role of “green trade” and how does it contribute to more sustainable and inclusive development?

Christoph: So far, green trade is still limited, but we see that it has a high growth potential because the world is moving into this direction besides some international setbacks. But every economy in every country, they take a lot of steps towards this, especially on renewable energies, circular economy, it's progressing quite a lot. Where is green trade? It is in renewable energies and related technologies like solar panels, wind turbines, also in eco-friendly manufactured goods, for example, recycled paper, but also electric vehicles, sustainable agriculture products, all this issue about organic food, fair traded goods, environmental services, and also circular economy, replacing slowly but surely waste management systems.

So, two recent ILO studies showed the growing relevance of green trade in fostering, especially what you said, inclusive and sustainable economic development and the role of global value chains in disseminating these green technologies and creating new employment opportunities. As a result, we found out that high-income countries and China have a strong influence on green exports. China, for example, solar panels, batteries, e-vehicles. And also imports. So, there's a lot of exchange between these countries. And low-income countries have markedly lower rates of participation influence in that area. There's also this kind of inequality issue that we have here. However, the increase of green exports from middle-income countries between 2012 and 2022 was remarkable.

Let's have a look at employment. Here again, high income countries, in particular from Europe, but also countries like China, had the highest proportion of green export-oriented employment in 2019, while lower middle-income countries had low participation rates in green exports. Important to notice that most jobs are formal with a lower share of female and high-skilled workers.

So, going green means creation of jobs, but it may also mean the loss of jobs in contaminating sector or substitution effect like in the circular economy. If you recycle more plastic, you produce less fresh plastic, just to explain it. Labour market and related policy should take both aspects into consideration to benefit mostly from green trade.

Tom: Great. So finally, where do we go from here? What concrete steps are needed to improve coherence between trade and investment policies and promote decent work?

Christoph: I think something which is often underestimated, not by the ILO, by all other actors, is a well working social dialogue is key to this. Bringing the different actors together. You have here the three key ministries, trade, investment, sometimes investment is still by finance or planning and labour, but also together with the social partners and other line ministries, for example, transport or education, and often also getting input from academia and civil society.

It matters a lot to create a common understanding of the interdependencies of trade, investment and employment. Policy makers and technical staff in the Ministry of Trade, for example, have to understand the impact of trade on employment. And for example, staff from the Labour Ministry should understand the importance of direct greenfield investment, meaning, for example, the creation of a new plant, for employment.

A common analysis or the creation of an inter-ministerial policy working group plus, for example, including CSO, academia and social partners, like established in the METI project in Jordan, goes in the right direction.

Also, smaller progress is very much welcome, just to quote that, for example, once the Ministry of Investment invited the Ministry of Labour in Jordan when they designed investment policies. So, they take them into consideration. So, this getting together and getting closer and to have a social policy dialogue around these issues, for me, it's key to progress in the right direction, not just to get growth, but that the growth is sustainable and inclusive.

Tom: Christoph, that was great. And I want to thank you so much for taking the time to share your insights with us today on whether trade is good or bad for jobs. You've highlighted very well how trade and employment strategies can evolve to meet today's challenges, but can we hope that new policies will lead to decent jobs?

It sounds like a cliché, but only time will tell. In the meantime, that's all the time we have for today. I'm Tom Netter, and you've been listening to the ILO Employment Policy Departments podcast series Global Challenges, Global Solutions. For more on this subject, go to www.Ilo.org/employment. Meanwhile, thank you for your time.