International Labour Organization

ILO brief

Research Brief

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Tariff rises, trade tensions and labour markets[1]

Employment impacts and policy implications

Key points

- Trade tensions destroy jobs rather than protect them. Tariffs may be presented to defend domestic industries, but when major economies impose tariffs and others respond, the result is lower trade, higher costs, and weaker employment. The simulations suggest that global job losses could range from around 8 million to 23 million, depending on how far trade tensions escalate and how broadly tariffs are applied.
- The employment costs are unevenly distributed. The largest job losses are not necessarily in the countries imposing the tariffs. Developing economies in Asia are especially exposed because of their role in global supply chains. Low-income and upper-middle-income economies also face significant employment risks.
- Vulnerable workers are hit the hardest. The estimated job losses fall disproportionately on workers who already have weaker labour market protection. Across the scenarios, informal workers account for more than half of job losses, while unskilled workers account for around four-fifths.
- Even partial de-escalation does not remove the damage done. A scenario with lower tariffs reduces the overall scale of job losses, but the employment impact remains substantial. This suggests that once trade tensions disrupt production networks, the labour market effects can persist.
- Labour standards are becoming tariff levels. In June 2026 the United States proposed additional duties of 10 or 12.5 per cent on almost all imports from 60 economies that it found had failed to ban, or to enforce a ban on, goods made with forced labour. The measure is broad in coverage but moderate in rate. On its own it would reduce global employment by around 7.8 million jobs, and the burden would again fall mainly on informal and unskilled workers in developing economies.
- Policy responses need to connect trade, labour, and social protection. Managing trade tensions is not only a trade policy issue. Governments need coordinated responses that protect workers, support affected firms and sectors and help workers move into new job opportunities.

[1] Authored by Ernst, Michelena, Bertin (2026), this brief draws on the paper "Tariffs and Labor Markets: The Employment Impact of the Recent Trade Conflict. A Multiregional Input-Output Analysis". Tariffs and Labor Markets: The Employment Impact of the Recent Trade Conflict. A Multiregional Input-Output Analysis by Christoph Ernst, Gabriel Nicolas Michelena, Pablo Bertin :: SSRN, consulted on 14 July 2026.

Introduction

The global trading system has entered a more uncertain phase. Since 2016, trade policy has been shaped by unilateral measures, tariff increases and geopolitical tensions. The earlier United States-China trade conflict marked an important turning point, and more recent policy announcements suggest that trade tensions could intensify further.

These developments matter for labour markets, as they can have significant effects on workers. Tariffs change the cost of imported goods and intermediate inputs. Firms that rely on global supply chains may face higher production costs. Exporters may lose market access. Consumers may face higher prices. Over time, these effects can reduce output, weaken competitiveness and lower demand for workers.

The employment impact is rarely confined to one country or one sector. In today's global economy, a tariff imposed in one country can affect suppliers, workers and consumers in many other countries. A sector that appears protected in one country may depend on inputs produced elsewhere. Likewise, workers in developing economies may be affected even when their own governments are not directly involved in the tariff dispute.

Trade tensions are also evolving. In a recent Section 301 determination issued on 2 June 2026, the Office of the United States Trade Representative (USTR) identified 60 economies, that fail to enact or enforce bans on the importation of goods produced via forced labour. In response, the USTR proposed additional tariffs of 10 or 12.5 per cent applied to the vast majority of exports from the affected nations to the United States. This constitutes a significant shift in trade policy methodology. Previously, US enforcement relied on product-specific import bans, primarily through Section 307 of the Tariff Act of 1930 and the 2022 Uyghur Forced Labor Prevention Act (UFLPA). The novelty of this recent Section 301 application lies in its structural target: rather than restricting specific illicit goods, it enacts punitive measures against partner governments for failing to implement and enforce equivalent domestic legislation. Its broad coverage and moderate rates make it a distinct shock and raise a central labour-policy question: who bears the cost of enforcing labour standards through trade measures?

This brief examines how rising tariffs and trade tensions could affect employment across countries and groups of workers. The central conclusion is clear: trade conflict is not a job-creating strategy. It is more likely to reduce employment globally and to deepen existing inequalities.

Issues

The analysis estimates the potential employment effects of different tariff scenarios. It uses a multiregional input-output (MRIO) framework, drawing on information on trade flows between countries and sectors, along with employment data, to assess how changes in tariffs may affect production and jobs.

In simple terms, the approach asks three questions. How would tariffs change the cost of goods traded between countries? How would those cost changes affect production across sectors and supply chains? How would changes in production translate into changes in employment?

The results should be read as scenario-based estimates, not as precise forecasts. They show the direction, scale and distribution of possible employment effects under different assumptions about tariff increases and retaliation. Their value is in identifying where labour-market risks are likely to be greatest and which groups of workers may need the most support.

Four scenarios

Scenario 1: Broad tariffs increase without retaliation. The United States raises import tariffs on trading partners, including additional tariff increases in selected sectors such as steel and cars. Other countries do not retaliate.

Scenario 2: Tariff increase with retaliation by selected partners. The United States raises tariffs, while some trading partners, including Brazil, Canada and China, respond with retaliatory measures. This scenario reflects a more confrontational trade environment.

Scenario 3: Partial de-escalation, but continued tension with China. The United States reduces the general increase in tariffs to 10 per cent for most partners but imposes higher tariffs on imports from China. China also imposes tariffs on imports from the United States. Some developing countries reduce import duties on goods from the United States.

Scenario 4: A near-global tariff linked to forced labour. The United States applies an additional duty of 10 or 12.5 per cent to almost all imports from the 60 economies covered by the Section 301 determination of 2 June 2026. Coverage is close to universal, since every region of the analysis is affected, but the rates are well below those of Scenarios 1 and 2. The measure is unilateral and still at the proposal stage, so no retaliation is assumed.

Together, these scenarios capture different degrees of trade tension: broad escalation, escalation with retaliation, partial easing combined with continued bilateral conflict, and a broad but moderate surcharge tied to labour standards.

Main findings

Global employment falls in all scenarios

The analysis finds negative employment effects in all four scenarios. Under Scenario 1, global employment falls by an estimated 21.7 million jobs. Under Scenario 2, the losses are larger, at around 23 million jobs. Under Scenario 3, the losses are smaller but still substantial, at around 15.3 million jobs. Under Scenario 4, the tariff linked to forced labour reduces global employment by around 7.8 million jobs, that is 0.25 per cent of the employment covered by the analysis, and world exports by about USD 323 billion, or 1.4 per cent.

This means that even when tariffs are partially reduced, the employment damage remains significant. Trade tensions disrupt production networks, alter prices and weaken demand for labour. These effects do not disappear simply because some tariffs are moderated.

▶ **Table 1: Impact on employment in Scenarios 1 to 4, in thousand jobs and percentage**

Income group	Scenario 1	Change (%)	Scenario 2	Change (%)	Scenario 3	Change (%)	Scenario 4	Change (%)
China	-6 322	-0.85%	-6 183	-0.83%	-6 972	-0.94%	-2 440	-0.33%
HIC-Asia	-860	-0.73%	-798	-0.68%	-549	-0.47%	-341	-0.29%
HIC-EU27	-798	-0.40%	-788	-0.40%	-697	-0.35%	-370	-0.19%
HIC-Rest	-944	-0.60%	-1 012	-0.64%	-596	-0.38%	-388	-0.25%
Low income	-195	-0.15%	-185	-0.14%	-134	-0.10%	-90	-0.07%
Low income-Asia	-6 186	-0.94%	-6 675	-1.01%	-2 341	-0.36%	-2 409	-0.37%
USA	-846	-0.54%	-1 330	-0.84%	-541	-0.34%	+54	+0.03%
Upper middle-Asia	-1 612	-0.87%	-1 601	-0.87%	-594	-0.32%	-569	-0.31%
Upper middle-Rest	-2 903	-1.02%	-3 405	-1.19%	-1 888	-0.66%	-1 328	-0.46%
Other regions	-1 037	-0.21%	-1 033	-0.21%	-1 026	-0.21%	+67	+0.01%
Total	**-21 702**		**-23 010**		**-15 336**		**-7 814**	

Source: Author's estimation.

China and developing Asia face the largest losses

The largest absolute job losses are concentrated in China and developing Asian economies. China loses an estimated 6.3 million jobs in Scenario 1, 6.2 million jobs in Scenario 2 and 7.0 million jobs in Scenario 3. Low-income Asian economies also face large losses: 6.2 million jobs in Scenario 1, 6.7 million jobs in Scenario 2 and 2.3 million jobs in Scenario 3.

Upper-middle-income Asian economies also experience significant employment declines, especially in the first two scenarios. These results reflect the structure of global production. Many Asian economies are deeply integrated into global value chains. They supply intermediate goods, components and labour-intensive products to international markets. When tariffs disrupt these flows, the employment effects can be large.

The United States also loses jobs

Although tariff increases are often justified to protect domestic employment, the analysis finds that the United States also experiences job losses. Estimated job losses in the United States are 846,000 jobs in Scenario 1, 1.3 million jobs in Scenario 2 and 541,000 jobs in Scenario 3.

The losses are smaller than in China and parts of Asia, but they are still significant. This reflects the fact that tariffs can raise costs for domestic firms, especially those using imported inputs. Retaliation by trading partners can also reduce export opportunities. Tariffs may protect some jobs in some sectors, but they can destroy jobs elsewhere in the economy.

Retaliation increases the employment cost

Scenario 2 produces the largest job losses overall because retaliation magnifies the negative effects of trade conflict. When countries respond to tariffs with their own measures, more sectors and workers are affected. Exporters lose access to markets. Firms face more uncertainty. Supply chains have become more costly and less reliable. These effects combine to reduce employment more widely.

This confirms a central policy lesson: trade conflicts are not zero-sum. They can leave all sides worse off.

A broad tariff linked to forced labour spreads the cost more thinly

Scenario 4 works differently from the other three. Rates of 10 to 12.5 per cent are moderate; however, they apply to almost every trading partner, so breadth partly substitutes for depth. Global employment falls by around 7.8 million jobs, roughly one third of the loss in Scenario 2. The largest absolute losses are again in China (2.4 million jobs) and in low-income Asia (2.4 million, mainly India, Viet Nam and Bangladesh), while in relative terms Upper middle-Rest, low-income Asia and China are the most affected, reflecting their dependence on the United States market.

The United States is the only individual economy that gains employment in this scenario, with an estimated 54,000 additional jobs as demand shifts towards domestic suppliers. Even so, United States exports fall by 1.8 per cent, or about USD 42 billion, because production costs rise and demand in partner economies weakens. A measure directed entirely at the practices of trading partners is therefore not costless at home.

Workers affected most

Informal workers carry a significant share of the burden

Informal workers account for more than half of estimated job losses in all four scenarios: 57.5 per cent in Scenario 1, 57.7 per cent in Scenario 2, 53.1 per cent in Scenario 3 and 58.4 per cent in Scenario 4.

This matters because informal workers often have limited access to social protection, income support, severance pay, training or formal job-search assistance. When they lose their jobs, they are less likely to be protected by existing labour-market institutions.

▶ **Table 2: Job losses distribution by labour group (%)**

Group	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Formal	42.5	42.3	46.9	41.6
Informal	57.5	57.7	53.1	58.4
Skilled	17.5	18.7	19.8	17.1
Unskilled	82.5	81.3	80.2	82.9
Adult	85.9	85.9	87.1	86.4
Youth	14.1	14.1	12.9	13.6
Male	64.3	66.7	66.5	66.1
Female	35.7	33.3	33.5	33.9

Source: Author's elaboration

Unskilled workers are especially exposed

Unskilled workers account for most estimated job losses: 82.5 per cent in Scenario 1, 81.3 per cent in Scenario 2, 80.2 per cent in Scenario 3 and 82.9 per cent in Scenario 4.

This suggests that trade tensions could worsen labour-market inequality. Workers with lower levels of education or fewer transferable skills may find it harder to move into new jobs; this is especially true if losses are concentrated in labour-intensive sectors.

Men account for a larger share of losses, but women may still face serious risks

Men account for around two thirds of estimated job losses across the scenarios. This is likely to reflect the sectoral composition of trade-related employment, including manufacturing, transport and other tradable sectors where male employment is often higher.

However, this should not lead to the conclusion that women are unaffected. Women may be concentrated in specific export sectors, informal work or lower-paid jobs where income losses can be severe. A full assessment of gender impacts would require more detailed sectoral and occupational analysis.

Youth also face risks

Youth account for around 13–14 per cent of job losses. This share may appear smaller than that of adults, but young workers are often more vulnerable during periods of labour-market adjustment. They are more likely to be in temporary, informal or entry-level jobs, and they may face longer-term scarring effects if job opportunities decline early in their working lives.

Implications

Tariffs are a costly way to pursue employment goals

The results challenge the idea that tariffs are an effective tool for protecting jobs, particularly in economies deeply integrated into global value chains. While some workers in protected sectors may benefit temporarily, the broader employment effects are negative, including in the country issuing the tariff itself. This is driven by the direct and indirect effects that tariffs generate across the economy: higher production costs for industries that use protected inputs, reduced export competitiveness, disrupted supply chains, higher consumer prices, and weaker overall demand.

The policy implication is not that governments should ignore legitimate concerns about unfair trade, industrial decline or strategic dependency. Rather, it is that tariffs alone are a blunt and costly instrument. If used without broader coordination, they can harm the very workers they are intended to protect. There is therefore a need for an integrated policy framework, for example a national development strategy, putting the goal of Decent Work for Social Justice and Poverty Reduction at the center. Achieving more and better jobs requires a coherent policy mix, not isolated measures. Industrial and trade policies should be combined with employment and labour-market policies, such as skills development, and reinforced by complementary investments in areas such as infrastructure, transport and education.

Trade shocks become labour-market shocks

Trade tensions affect workers through several channels. Firms that rely on imported inputs may face higher costs and reduce production. Exporters may lose demand in foreign markets. Supply chains may be disrupted. To compensate for this effect, they may delay investment or invest abroad rather than at home. Consumers may face higher prices, reducing real purchasing power. Over time, these effects reduce demand for labour.

This means that trade policy cannot be separated from employment policy. Decisions about tariffs and trade restrictions have direct consequences for jobs, wages, working conditions, and social protection systems.

Developing economies need special attention

The findings show that developing economies, especially in Asia, face large employment risks. This is partly because many of them are integrated into global supply chains as suppliers of labour-intensive goods and intermediate inputs. Beyond supply chain exposure, the nature of modern manufacturing itself limits the job-creating potential of tariffs: in the United States, the low labour-to-output ratio observed in manufacturing sectors means that even a significant reshoring of production would generate relatively few jobs. Combined with deep global value chain integration, this makes tariffs a poorly suited instrument for fostering employment. For these countries, trade tensions can create a difficult policy dilemma. They may have limited influence over the trade decisions of major economies, yet they bear significant employment consequences. This highlights the importance of multilateral cooperation and support for countries that are indirectly affected by trade conflicts.

Labour-market inequality may deepen

Job losses are concentrated among informal and unskilled workers; trade tensions risk widening existing inequalities. Workers with fewer protections are more likely to experience income losses, job insecurity and difficulty finding new employment.

Without policy intervention, the adjustment costs of trade conflict will fall disproportionately on those least able to absorb them. This calls for a new integrated approach combining in a consistent way labour market with industrial and trade policies.

Labour standards need enforcement capacity, rather than just tariffs

The objective of Section 301 action, eliminating forced labour, is fully consistent with international labour standards. The results, however, show that the cost of pursuing it through tariffs would be borne mainly by informal and unskilled workers in developing economies, that is to say, by the groups with the least access to social protection and the most exposed to abuse. There is also a risk that the abrupt cancellation of orders will push vulnerable workers into more precarious or informal work, rather than out of it.

Pressure on market access therefore needs to be combined with support for the workers and firms that absorb the adjustment. This includes trade-adjustment measures and active labour-market policies in the most exposed export sectors, notably textiles and apparel in South and South-East Asia, as well as technical assistance to help partner governments build credible enforcement systems, including labour inspection, and social protection to cushion the transition. Applied on their own, tariffs risk penalising workers rather than the practices they are meant to eliminate.

During the preparation of this work, the author(s) utilized a bespoke dual-layered editing and proofreading engine (an internal tool that applies the ILO house style rule set and a generative AI language pass (Google Gemini)) for copy-editing, proofreading and language refinement against ILO editorial standards. Following the use of this tool, the author(s) carefully reviewed and edited all content as necessary, and assumes full responsibility for the document/publication's content. No material subject to intellectual property rights, including third party material, was used without acknowledgment and permission.

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