

Trade and employment in the global crisis: Lessons for the future

While the world is starting to recover from the biggest economic and financial crisis since the Great Depression, a new ILO publication provides the data for a first evaluation of the role of trade as a transmission mechanism during the crisis. The book reviews global patterns of trade and employment as well as evidence from seven ILO country studies that focus on the employment effects of changes in trade flows during the crisis. ILO Online spoke with José Manuel Salazar-Xirinachs, Executive Director of the ILO's Employment Sector, and with the authors of the study, Marion Jansen and Erik von Uexküll.

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What impact did the economic crisis have on trade and investment flows? And what has been the subsequent impact on employment and wages?

José Manuel Salazar-Xirinachs: The volume of world trade is estimated to have fallen by around 12 per cent in 2009. Since 2007, global unemployment is estimated to have increased by 30 million. In the first quarter of 2009, more than half of the countries for which relevant data are available experienced a decline in real wages as compared to 2008. While developed and transition economies have been most strongly affected by negative developments in labour markets, most developing economies have also experienced a rise in unemployment and underemployment.

Are there major differences between countries with respect to the employment impact of the crisis?

Erik von Uexküll: The employment effects of the crisis differed significantly across the seven countries studied: Brazil, Egypt, India, Liberia, South Africa, Uganda and Ukraine. Despite these differences, the employment effects of the trade shocks have been significant in all countries and large in several of them, underlining the need for policy responses to take into account the trade–employment linkage. Employment effects have been particularly severe in countries whose exports are concentrated in the sectors that experienced the largest drop in trade during the crisis, e.g. iron and steel, and products related to automobiles.

Did openness to trade worsen the effects of the crisis?

Marion Jansen: In good times openness to trade can be a source of economic and employment growth, but it also exposes countries to external shocks. The current crisis has demonstrated the close interdependence of the world economy. Integration into global markets makes domestic labour markets vulnerable to shocks of foreign origin. To be able to support labour markets, it is important to understand the mechanisms through which such shocks affect domestic economies, as well as the likely effects on employment levels and conditions at the aggregate and individual levels.

How did governments react to the crisis?

José Manuel Salazar-Xirinachs: Governments have responded to the crisis by introducing different types of policy measures. In addition to significant support measures targeting the financial sector in the most affected countries, governments around the world have introduced fiscal and monetary policy stimulus packages to help the “real” economy cope with the crisis.

Our book groups these measures into three types: trade protection measures, other sector-specific support measures, and social and labour market measures applied across sectors. This categorization allows us to examine the different policies from both a trade and an employment angle, an approach that is useful –if not necessary – in order to identify so-called “coherent” policy measures, i.e. measures that are good for trade and good for employment.

The first type of measures clearly conflicts with the spirit of multilateral trade agreements; policy-makers around the globe pledged not to resort to protectionism during the crisis. The ILO's response to the crisis, the Global Jobs Pact, reflects the idea that a general raise in protectionism would ultimately not be beneficial to labour market recovery. Thus far, the use of trade protection measures to cope with the consequences of the crisis has been very limited. But the risks are there. Countries should make sure that the currency tensions do not turn into further trade tensions.

What can we learn from the book about effective policy responses during the crisis?

Marion Jansen: An important lesson is that stimulus packages with infrastructure components have great potential to combine short-term employment creation with increased opportunities for future trade. Other policies targeted towards specific sectors may not always meet policy-makers' expectations in reducing the economic slowdown. This is in particular the case for sectoral policies that target capital rather than labour. Sector specific policies may also be in conflict with multilateral trade rules.

By contrast, the third type of measures, i.e. cross-sectoral social and labour market policies, have been playing a very positive role during the current crisis. When based on existing social protection systems or labour market legislation, they act as automatic buffers and can be rapidly scaled up or targeted towards groups particularly affected by the crisis. With a minimal potential to distort trade flows, such measures perform extremely well with regard to both employment and trade objectives. When stimulus packages are progressively reduced, these policy measures should be maintained the longest, in particular those targeting the most vulnerable groups in society.

How important is the availability of fiscal space for the design of good policy responses?

Marion Jansen: Most effective crisis policies require fiscal space but at least one element of good crisis management does not require fiscal space: strong social dialogue between employers, workers and governments. This can be very helpful in times of crisis for the design of appropriate policy packages, and can be a crucial element of crisis management in countries with little or no fiscal space. Social dialogue can ensure that losses from negative external shocks are distributed in such a way as to avoid excessive social hardship and minimize long-term negative consequences for growth. There are examples of companies that introduced short-time working schemes after consultation with their employees. The companies suffered temporary losses and the workers temporary revenue cuts, but ultimately the companies successfully weathered the crisis without lay-offs.

Which are the lessons for the future that can be drawn from the recent crisis?

José Manuel Salazar-Xirinachs: With the levels of global financial and trade openness achieved, individual economies will continue to be vulnerable to external shocks. The debate on whether global volatility has increased is so far unresolved, but there is a fair chance that external shocks will become more frequent. It is thus of crucial importance to prepare economies for this during times of economic growth by building up strong social protection systems. Creating fiscal space during periods of growth should be a priority for policy-makers at the national and international levels. Yet during such periods, emphasis should also be given to strengthening administrative capacity in general and social protection systems and labour market policy instruments in particular.

ILO has a long-standing experience in designing cost-effective social protection systems and has a lead role in the UN Social Protection Floor Initiative. This Initiative can, in my view, play a key role in increasing the social sustainability of globalization. Social protection systems also act as a buffer in the adjustment processes following trade reform and thus play a very positive role should governments decide to further liberalize trade.

Is there public support for further trade liberalization after the recent crisis?

Marion Jansen: Already before the crisis, public support for further liberalization was weak in a number of countries. In some low income countries there had been disappointment about the growth effects triggered by earlier liberalizations. In a number of high income countries parts of the population felt that they had not participated in the gains from trade. The crisis may have strengthened those sceptical sentiments.

Labour markets outcomes may be key to increasing public support from trade liberalization. There are examples of high income countries where median incomes have been stagnant and even slightly went down in the recent decades. Also some emerging economies have experienced declining labour shares of GDP notwithstanding strong export growth. Ensuring that larger numbers of individuals gain from globalization can have a strong positive impact on public support for globalization. Co-ordinated action at the global level may be necessary to achieve this.