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Trade policy and labour markets: Indicators and evidence

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Summary

- Most research provides a limited perspective on the conceptualization of trade policy and labour markets, as well as their interactions.
- The analysis in this chapter shows that trade policy instruments (consisting of a variety of tariff and non-tariff measures (NTMs)) have varying effects on labour markets, depending on the sector, geographical region and specific characteristics of firms and workers.
- The chapter provides valuable insights into the effects of trade policy on jobs and wages. It also includes the effects on important qualitative elements related to decent work, such as working arrangements and working conditions. NTMs, in particular, could play a crucial role in promoting social safeguards, such as international labour standards, and improving the integration of global supply chains.
- Building a decent work perspective of the labour market into trade policy would support trade objectives, including growth and competitiveness, while enhancing the well-being of workers.

Background and introduction

Trade policies refer to the set of rules, regulations and formal practices that oversee international trade. Domestic, bilateral and multilateral trade policies have historically influenced and shaped labour markets globally. The policies aim to boost economic growth, safeguard domestic industries, create jobs, improve consumer welfare, and promote collaboration with trade partners in areas of domestic importance. Thus, trade policy can often be connected to labour market objectives.

The changing phases of globalization in recent decades, including hyperglobalization and deglobalization, have required governments to adopt flexible and diverse approaches to achieve a range of economic, political and social objectives. Additionally, there is an important relationship between participation in global supply chains and trade policy.

Although international trade is widely regarded as favourable to overall welfare, the literature has found that it can have long-term adverse distributional effects on the labour market. However, defining and establishing a clear link between trade policy and labour market outcomes is difficult, primarily because trade policy is difficult to measure within methodologies that analyse the impact of trade. Tariffs and NTMs

are frequently used in tandem, particularly in the context of regional trade agreements, which makes it difficult to isolate impacts. Additionally, the problems in quantifying NTMs, combined with limited data availability, contributes to the complexities in measuring labour market effects.

Furthermore, most analyses of trade policy's labour market implications have typically concentrated on determining its influence on employment and wages. There has been little investigation of various labour market outcomes associated with decent work, such as working arrangements, working conditions and workers' rights. Thus, the chapter explores two of these decent work indicators (social security coverage and gender wage disparities) in the context of trade policy.

Research question and methodology

The chapter examines the effects of trade policy instruments, including tariffs and NTMs, on specific labour market outcomes. The methodological approach for this investigation is a comprehensive literature review and secondary data analysis.

The literature review consists of assessing the empirical evidence relating to the role of trade policy in directly

and indirectly influencing employment and wages. Indirectly, it considers trade policies' role in influencing trade costs, trade flows and trade composition, including in facilitating or obstructing participation in global supply chains.

The data analysis is based on tariff data spanning over a century taken from the World Bank, Center for Prospective Studies and International Information (CEPII), the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD). The data are analysed based on income levels and regions, and (in the case of NTMs) categorized by country and product.

Findings and policy considerations

Trade policy instruments affect the labour market by influencing trade flows, cost structures and market composition. These changes affect, among other things, prices, labour demand and supply, skills needed by businesses, and employment contracts.

The literature has largely explored employment and wages, and the empirical findings show how trade policy can influence these variables. The analysis shows that the impacts of trade policy instruments such as tariffs and NTMs vary by sector, region, and business and worker characteristics. NTMs have far-reaching implications for health, safety, the environment and the economy, as well as promoting social safeguards, including international labour standards. They are particularly important, relative to other industries, in the agricultural and other primary industries (as shown in the figure below). NTMs are also an important element to enhancing global supply chain integration.

While there is little research on labour market characteristics beyond employment and wages, theoretical and empirical literature still provides significant insights. This research illuminates the difficulties of studying trade policy effects on employment features such as working arrangements, working conditions and other qualitative factors that define decent work. For example, studies that examine the effects of trade on the gender wage gap and provision of social security coverage either fail to identify specific trade policy measures or find heterogeneous results.

Since the Global Financial Crisis of 2007–08, there has been a notable slowdown in the process of globalization, and it is worth noting that several economies are currently adopting trade policies that lean towards a more restrictive approach. For this reason, it becomes more relevant to fully comprehend the labour market implications of trade policy.

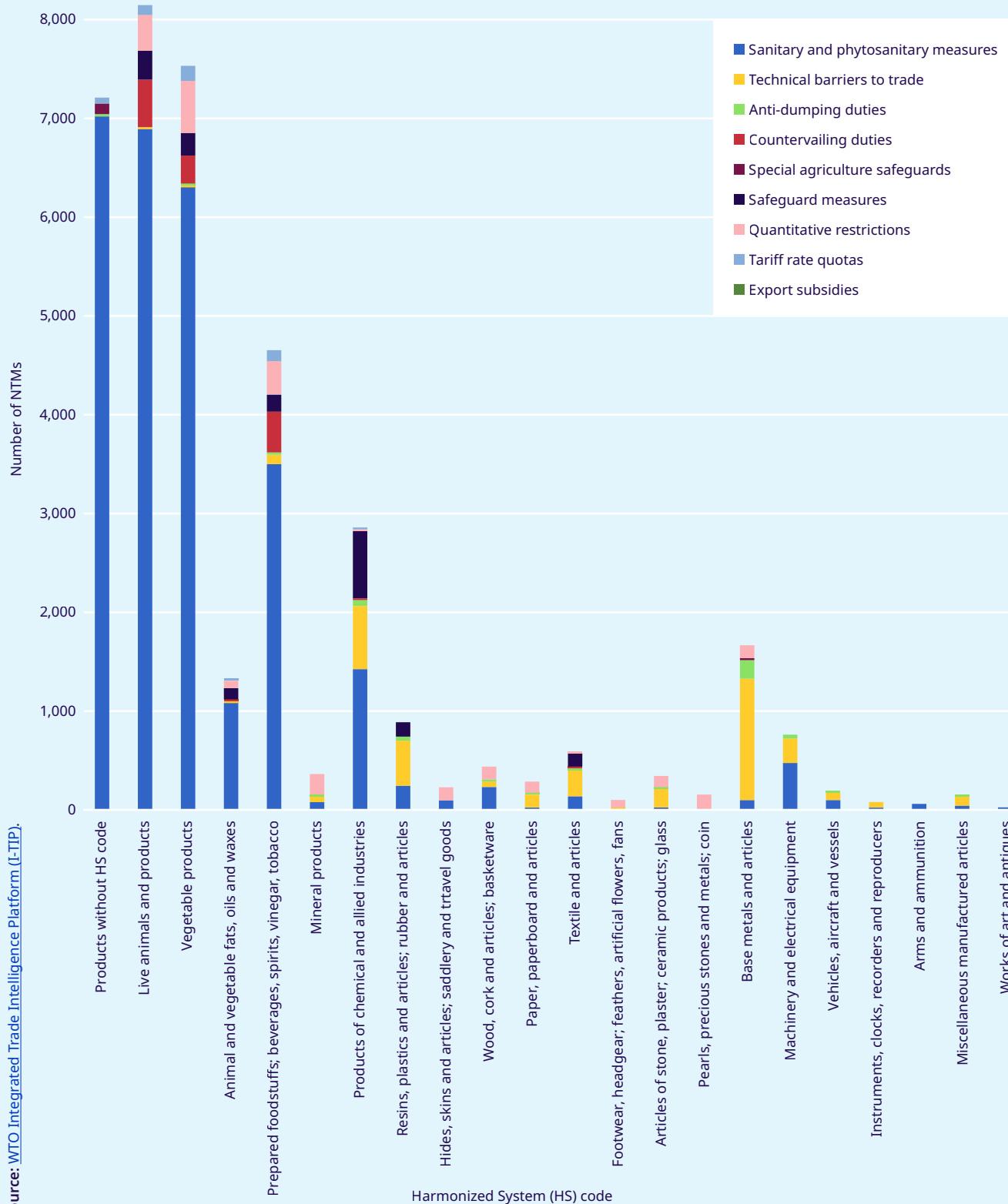
Thus, this review serves as a valuable resource to consider an analytical framework to guide future analyses of globalization and the labour market. Indeed, it is imperative to adopt a more comprehensive perspective on the labour market – one that prioritizes the notion of decent work. Such an approach would not only foster economic growth and competitiveness, but also enhance the overall well-being and living conditions of workers across the globe.

See figure on following page.

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► Non-tariff measures in force by product category, July 2023



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