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Impacts of international trade on the labour market: Common methodological approaches for macro- and meso-level assessments

by Monica Hernandez*

Summary

- There are different methodological approaches that can be used to assess the impact of international trade policy¹ on the labour market. The choice of one approach over another is relevant, as the conclusions arrived at through these approaches influence policy design.
- The use of economic models is the most common way of assessing the impact of international trade policy. However, the scope of such models is limited to a handful of labour market indicators. Models that have been extended to include other labour market indicators related to decent work would be able to provide a more accurate assessment.
- Qualitative approaches, such as those based on the analysis of data obtained through in-depth interviews, and “mixed-methods” approaches, based on a combination of economic models and qualitative methods, have been used less frequently for this purpose. Although the time and financial commitment entailed may be high, they could potentially yield a more detailed picture of workers’ experiences, including those related to the various dimensions of decent work.
- Despite the improvement and evolution of the available frameworks, there is still a palpable need for methodological approaches that address a broader set of questions about decent work. This is essential for future research and relevant to evidence-based policymaking.

Background and introduction

International trade influences the levels of employment and income, and other labour market outcomes. Given that global supply chains have been operating for several decades, it is not surprising that the effects of trade on labour markets have manifested themselves in countries at all income levels. It is important to consider whether the tools currently used to evaluate the labour market impact of international trade are the most adequate possible, since such evaluations inform policy design.

As the table shows, models that consider the entire economy, such as computable general equilibrium (CGE) models, or a part of it, such as partial equilibrium models, can be used to assess the impact of changes in trade policy on the level of wages and employment, with disaggregation by sex and skill level. They can also be used to analyse the impact on informality. However, assessing the impact on other labour market conditions requires adjustments to the model used that are not straightforward or for which the necessary data is not always available.

Qualitative and mixed-methods approaches offer a more detailed picture of workers’ experiences, including their experiences related to dimensions of decent work such as informality; working time, family and personal life; a safe working environment; and stability and security of work. However, these approaches have been used less frequently to assess the labour market impact of changes in trade policy.

Research question and methodology

This chapter examines the most common methodological approaches for the empirical assessment of the labour market impact of international trade policy (covering an entire economy or some or just one of its sectors). It also examines the typical questions posed by these models (see the table below).

Methodology: the underlying assumptions, data requirements, and advantages and limitations of each approach are considered and analysed.

¹ Trade policy is understood here as the body of regulations governing exports and imports between countries. It includes both tariff measures (taxes on imports or exports) and non-tariff measures, such as sanitary and phytosanitary measures that can have an effect on the quantities and/or prices of traded goods.

► **Typical research questions when assessing the labour market impact of changes in trade policy**

Analysis based on	Research question
Computable general equilibrium models	What are the effects of a change in trade policy (e.g. removal of tariffs) on real gross domestic product, trade flows and aggregate employment?
Partial equilibrium models	How much employment may be lost in an industry as tariffs are removed and import prices fall?
Input–output models	How many jobs are created per sector (e.g. in the context of global supply chains) as a result of changes in foreign final demand due to changes in trade policy?
In-depth interviews and focus group discussions (qualitative data)	How has a change in trade policy affected the conditions for a worker (or a group of workers or labour in general) with regard to the various dimensions of decent work?
Mixed-methods approaches	What is the effect of a change in trade policy on the level of employment and what changes have workers experienced in their working conditions?

Findings and policy considerations

As shown in this chapter, the research question and the main purpose of a study should guide the choice of methodological approach to be used to assess the labour market impact of trade policy. When the goal is to learn about changes in specific labour market indicators, such as the level of employment, the use of economic models, such as general and partial equilibrium or input–output models, is appropriate. In other cases, when the priority is to find out about workers' experiences, a qualitative or mixed-methods approach would be a better option.

There are advantages and limitations to each of the approaches presented in this chapter. The limitations of the most commonly used economic models, such as CGE models, can sometimes be overcome with model extensions that allow for the analysis of a wider range of labour market indicators. However, there are other limitations that can be more difficult to overcome because they have to do with a model's underlying assumptions (for example, fixed labour supply and flexible wages in a CGE model). It also examines the typical questions posed by these models (see the table above).

When it comes to future research, it is crucial to undertake studies that create a bridge between trade policy changes and labour market indicators that are traditionally overlooked, such as status in employment and trade union density, and other labour market outcomes disaggregated by sex, age and other characteristics. Methodological approaches such as mixed-methods analysis and the production and use of a broader set of indicators can contribute to that endeavour and provide a better understanding of the implications of international trade for workers.

Improving the methodological frameworks that are already available is also important. A relevant step in that direction is the development of a time dimension in economic models to help governments to identify the best moment for implementing response measures, especially in sectors where firms and workers are most negatively affected by changes in trade policy.

In addition, it is also important to consider the role of non-tariff measures, which are commonly introduced as costs in CGE models. This treatment overlooks the potential positive effects of such measures on health, the environment and labour standards, for instance.

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