International Labour Organization

Snapshots of the publication

Integrating trade and decent work

Volume 1 – Has trade led to better jobs?

Findings based on the ILO's Decent Work Indicators

3 Trade and labour market outcomes: A summary of the main theories and evidence at the firm and worker levels

by Benjamin Aleman-Castilla and José Carlos Rodríguez-Pueblita*

Summary

- The literature on trade and its effects on labour market outcomes has undergone a remarkable evolution in recent decades. Theoretical frameworks have transitioned from simple (or limited) to more comprehensive models that are able to encompass the heterogeneity, or diversity, of firms and workers, labour market frictions and real patterns of trade.
- Similarly, recent empirical studies have found compelling evidence that firm and worker characteristics play a key role in determining the effects of trade on labour market outcomes, firms' decisions on trade engagement (that is, on whether to import or export, or neither), and the allocation of resources within and between industries.
- Improvements in data and econometric tools have also contributed to the development of the underlying theories. However, researchers are still faced with methodological challenges, data quality issues, and lack of sufficient information on the nature of firms so as to better understand the trade-related decisions they take – for example, with regard to outsourcing and offshoring.
- Widening the scope of analysis by including alternative indicators to capture all the dimensions of decent work would contribute to the design of better-informed policy decisions. The use of administrative records as a source of linked employer–employee data would be another promising approach for further efforts in this field.

Background and introduction

The impact of international trade and trade policy on labour market outcomes has been extensively studied over the past 40 years, a period during which trade liberalization and globalization have reached historical highs.

The evolution of trade theory has led to more complex but also more realistic industry- and firm-level models that better reflect trade patterns and account for previously overlooked key factors underlying the effects of trade on labour markets. These include the diversity of firms and workers within an industry; their interactions with labour market frictions such as job search costs, skills mismatches, institutional or geographical barriers, and wage rigidities; and the fragmentation of production into tasks that can be internationally relocated as a result of remarkable advances in transport and information and communications technologies.

In addition, the availability of higher-quality databases, such as linked employer–employee data sets, and the development of new econometric tools have facilitated a surge in empirical studies that consider both worker and firm heterogeneities. This has prompted analysis of the effects of trade on various labour market outcomes that are crucial for evaluating trade policies in relation to decent work. Among these are gender gaps in employment and wages, working poverty, informality and the differential effects of trade on local or regional labour markets.

Research question and methodology

This chapter explores the impact of international trade on firms and workers. It provides an overview of the theoretical and methodological frameworks used to study that relationship and highlights the contribution of micro-level analysis to the design of effective trade and labour policies, complementing and nuancing the findings of macro-level and sectoral studies.

Findings and policy considerations

By moving away from the neoclassical model of comparative advantage, the theoretical frameworks currently used to analyse the implications of trade for the world of work have incorporated more complex and realistic features of the product and labour markets, such as heterogeneities in firms and workers, labour market frictions and global value chains.

As a result of this significant progress in the literature, it is now clear that the consequences of trade vary depending on a number of factors, including the characteristics of the trading partners, the sectoral composition of trade, and the institutional and policy environment of both importing and exporting countries.

Researchers still face major methodological challenges, particularly in developing countries, where the coverage and quality of data need to be improved. Combining administrative records with social security data can provide a promising source of linked employer–employee data, allowing researchers to study the impact of trade policies on labour market outcomes not adequately covered by traditional establishment or household surveys. Moreover, alternative statistical indicators, such as employment in excessive working time or female participation in management positions, can help to capture fully all the dimensions of decent work.

The aftermath of the COVID-19 crisis and the transformations associated with what has been described as the "fourth industrial revolution" are likely to have significant implications for both firms and workers in the context of international trade. The widespread adoption of new technologies and practices has led to a shift towards remote work and changes in the importance of location. These developments offer significant benefits but also pose risks such as job displacement and skills mismatches that need to be considered.

In general, appropriate policies and institutions are necessary to ensure that there is access to, and a fair distribution of, the gains from trade – and that workers and firms are able to adapt to the changing nature of work in the global economy. To that end, such policies should take account of the specificities of workers, firms, industries and regions; the presence of frictions in labour markets; and gender disparities.

* Authors:
Benjamin Aleman-Castilla, IPADE Business School, Universidad Panamericana.
José Carlos Rodríguez-Pueblita, IPADE Business School, Universidad Panamericana.

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International Labour Organization
Route des Morillons 4
CH-1211 Geneva 22
Switzerland

E: sekerler@ilo.org