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7

Gendered effects of trade restrictions on labour market outcomes in Malawi

by Henry Kankwamba*

Summary

- Malawi, a landlocked developing economy in southern Africa that is highly dependent on agriculture for its exports, is committed to economic growth through decent work, agricultural commercialization and urbanization. Having experienced the vagaries of several recent crises, the country serves as a relevant case study for exploring the impact of trade liberalization on labour market outcomes.

- This chapter examines the gendered effects of trade restrictions – in the form of tariff escalation – on occupational choice in Malawi's labour market. It also seeks to assess the gendered impact of such restrictions in the agricultural and non-agricultural sectors using an economy-wide modelling framework.

- The modelling results suggest that a move towards trade restrictions, such as the imposition of high tariffs, would lead to high job losses in the agricultural and non-agricultural sectors alike. In particular, a tariff standing at 50 per cent would destroy over 1 million jobs, affecting primarily women across the labour market but more markedly in agriculture. Trade restrictions in a more flexible labour market therefore tend to increase unemployment.

Background and introduction

Trade can contribute significantly to agricultural growth, broader economic development and decent work. In addition, scholars of trade theory largely agree that trade restrictions can harm economic growth. However, the differentiated impacts of trade restrictions on various segments of the labour market and across a range of economic sectors are not only complex but also little understood.

Malawi is a relevant case study because the country is committed to achieving United Nations Sustainable Development Goal 8 ("Decent work and economic growth") by enhancing agricultural productivity and commercialization through increased participation in trade, industrialization and urbanization. Not only is Malawi's case highly representative of the situation in many African countries – in that it has low income per capita, is labour-abundant and has scarce natural resources – but it also illustrates a number of practical challenges that have a direct bearing on trade restrictions and labour markets.

Having being hit considerably by the COVID-19 crisis, whose effects on the country's trade and labour markets have yet to be fully analysed, Malawi's input and commodity markets are not entirely competitive. Despite labour mobility and active migration between and within Malawi's districts, productivity has not increased in agriculture. There still exist sole buyers and sellers of exportable commodities, and instances of forced labour can also be found. Moreover, the country has a history of imposing ad hoc policies, such as trade bans, that have considerable distortionary effects on core factors of production such as labour and capital. Tackling these issues could be highly beneficial in terms of ensuring a more sustainable economic growth trajectory.

For a country dependent on agriculture such as Malawi, higher total factor productivity is often linked to increased economic growth. However, removing trade restrictions in the form of tariff reductions could change the structure of the labour market by opening it to foreign competition. A theoretically consistent ex ante analysis coupled with a modelling approach driven by micro-econometric data can uncover these mechanisms.

Research question and methodology

This chapter explores the gendered effects of hypothetical trade restrictions on labour market outcomes. Specifically, it assesses the impact of trade restrictions on occupational choice in the agricultural and non-agricultural sectors, disaggregated by skill level and sex.

A standard computable general equilibrium model is used, together with a top-down behavioural micro-simulation drawing on real microeconomic data for Malawi. The key innovation of this approach is to combine ex ante impact evaluation with a representative household survey using ex post econometric techniques. This mixed-methods approach enhances existing analytical tools and facilitates a better understanding of the impacts of trade policies, as it uses real survey data in its micro-simulation and its behavioural assumptions are theoretically consistent.

Findings and policy considerations

The results of the modelling suggest that a move towards trade restrictions would hurt unskilled workers more than skilled ones. As can be seen in the figure below, the largest losses among both skilled and unskilled workers would occur in the agricultural sector, with close to 1 million jobs destroyed there, followed by over 110,000 jobs lost in the non-agricultural sector. In addition to the unskilled, skilled workers would also be affected, with over 300,000 agricultural and over 44,000 non-agricultural jobs being lost in that group.

Trade restrictions hurt women to a greater extent than men. Among non-agricultural workers in Malawi, a "most favoured nation" tariff rate of 50 per cent would lead to around 40,000 female workers becoming unemployed. It is unskilled women in the agricultural sector who stand to lose the most, with close to 320,000 jobs being destroyed. Furthermore, 18,000 jobs would be lost among skilled female non-agricultural workers. These results indicate that women in the labour market, particularly those with low skills levels, are adversely affected by trade restrictions.

The overall conclusion that a move towards a less liberalized regime would lead to greater job losses and an increase in poverty and inequality is in line with recent findings in the literature that more liberalized economies without many rigidities in the labour market could benefit greatly from trade. A direct policy implication is that, in order to foster gender-sensitive economic growth, policymakers should pay attention to how labour markets respond to changes in trade policy.

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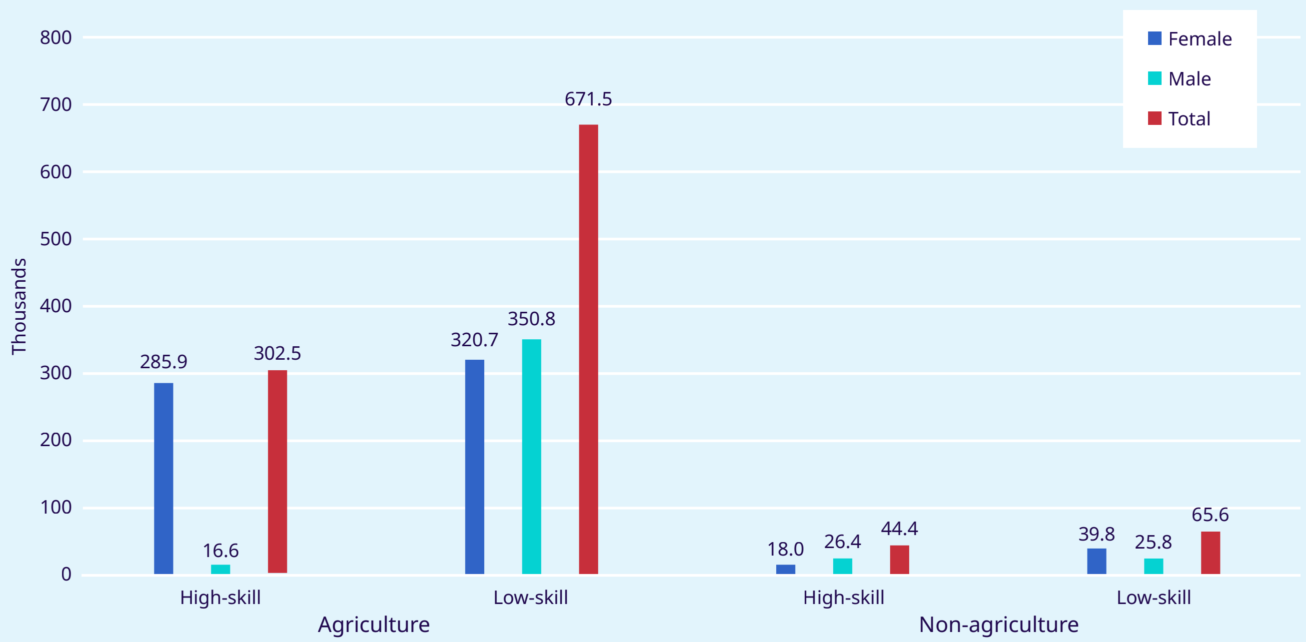
▶ Simulated number of jobs lost in Malawi if trade restrictions were to be introduced, based on micro-simulation results, agriculture vs non-agriculture, by sex and skill level (thousands of jobs)



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