

# **Comments on: “Trade, Employment and Inclusive Growth in Asia” by Douglas H. Brooks**

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# Asia: similarities and differences

- As pointed out:
  - The trade-growth relationship is very strong in Asia – probably the most dramatic illustration globally.
  - Again similar to experience elsewhere, unskilled labour-rich Asian developing countries are experiencing growing inequality: so the simple Stolper-Samuelson proposition does not hold.
  - Structural changes (contracting agriculture sector), demographic changes, more educated workforce

# Policy Issues and Research Agenda

**The policy and research agenda in developed countries – and academia - driven largely by concerns about job losses in traditional labour intensive industries due to trade liberalisation and off-shoring:**

- Major shift in research paradigm: from 'older' trade theory – Including, Krugman style New Trade Theory - to New-New Trade Models (Melitz – heterogeneous firms).
- These models do give richer insights
  - Within sector labour movements: productivity/wage effects: more productive firms export, experience faster productivity growth, pay higher wages and may become more capital and skill intensive
- Similar changes are happening in Asian economies: opening to global markets and FDI has made more industries tradable and shifted the boundary within industries between exporters and non-exporters

**BUT.....**

***Unemployment of workers in ISI industries due to trade liberalisation no longer central issue – compared to both developed and ‘emerging’ economies - like Brazil***

- **Asia, as a region, at a different stage of trade liberalization**
- Manufacturing trade liberalisation – though behind the border barriers remain important, Asia has made huge progress in trade liberalisation (in general, low average tariffs/tariff equivalents)
  - Employment share of ISI industries within manufacturing has greatly diminished
  - Sequencing and ‘by-passing’ strategy has minimized major (un) employment effects
  - Opening up other (labour intensive, export oriented) manufacturing sectors; development of export platforms with FDI

# Rising Inequality: a major concern

- Inequality increase suggests Stolper-Samuelson effects swamped by other factors
- Scope for application of *New–New Trade models*
  - Skill-biased technology?
    - Plausible. Large inflows of FDI might further strengthen because of ‘skill-biased technology embodied in imported capital equipment’

## ***Large sectoral labour shifts have already occurred in many Asian countries***

- **Contrast with most developed and many non-Asian developing regions**
- ***But cases recorded where immobility has had negative income and employment consequences***
  - Broad Implications clear:
    - Facilitate sectoral, spatial and occupational labour mobility
    - But more policy measures and research needed to develop cost-effective, practical interventions

***Dynamics of change and adjustment  
should be modeled and analyzed with  
more attention to the specific  
features of Asian countries***

**In Asia, the major areas for further opening is in segments of the services sector and (food) agriculture**

These are characterized by:

***Small firms (farms) and large informal labor force***

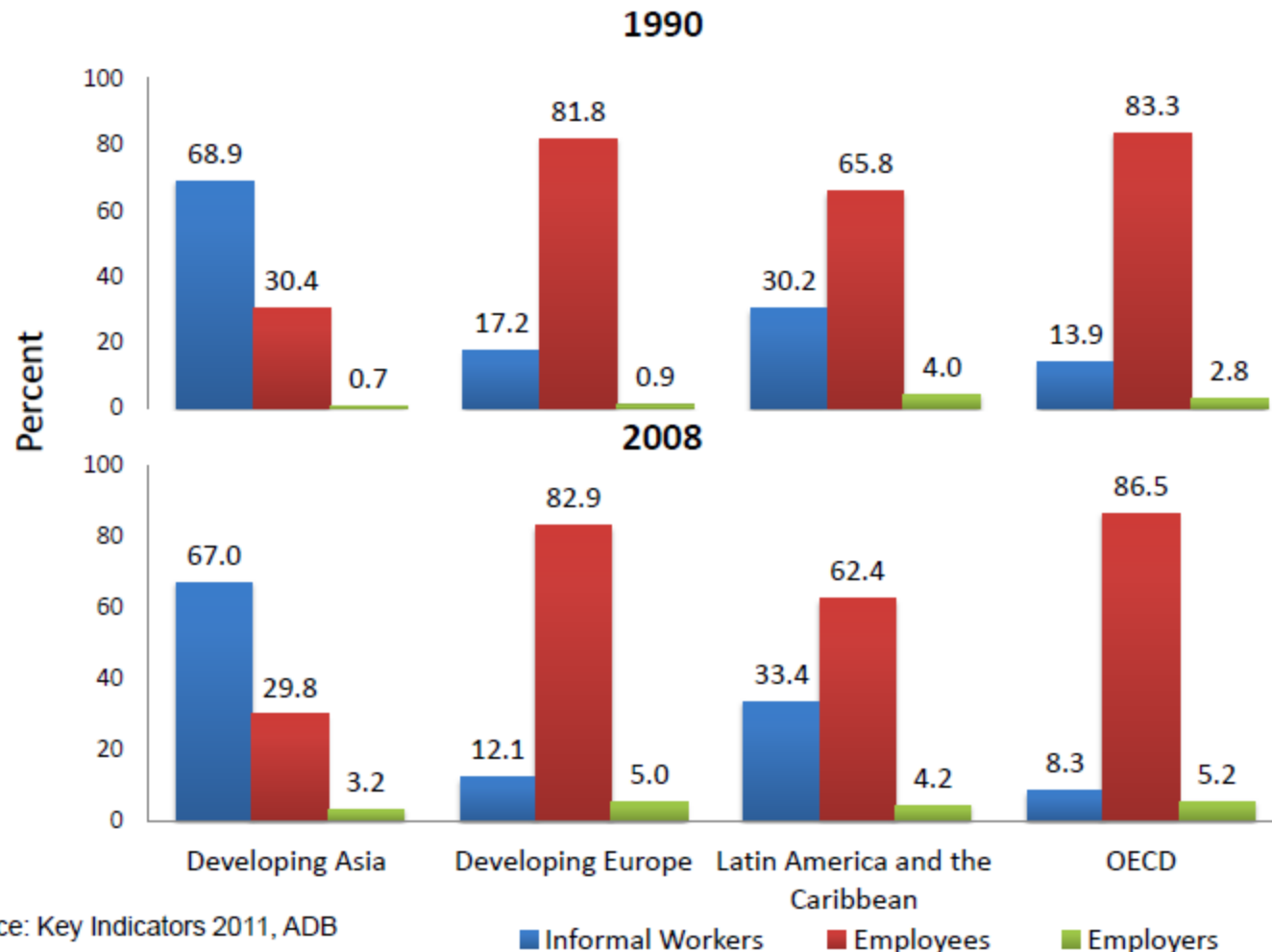


## Somewhat different issues....

- *Impact on small farms/firms in agriculture, retail trade pose rather different issues to 'pure' labour market adjustment assistance*
- Concerns about:
  - *food and income security*
  - *land concentration*
  - *large (possibly foreign owned) firms*

As pointed out,

Another feature of the Asian labor market is the high rate of informality



# Globalization and the Informal Sector

- Literature shows that relationships are complex,, context-dependent
- Research in Asia sparse (e.g. Manning and Aswicahyono, 2012)
  - Sectors are very heterogeneous
    - Does trade – and more generally globalisation - widen the formal-informal wage gap?
    - If so, through what channels?
  - Is globalisation formal-biased, skill-biased?
  - Is there a size-bias?
    - Small producers (farms)
    - Supply chains and segments
- What interventions?

**More effort needed into understanding and formulating concrete adjustment policies in particular segments of services, food agriculture, paying attention to specific features such as informality**

**Thank You**