



Trade and Employment in a Globalized World

Jakarta, December 2012

**Labour Market Adjustment and Trade
Liberalization in Emerging Markets**

**Trade and Labour Market:
Cross-Country Findings**

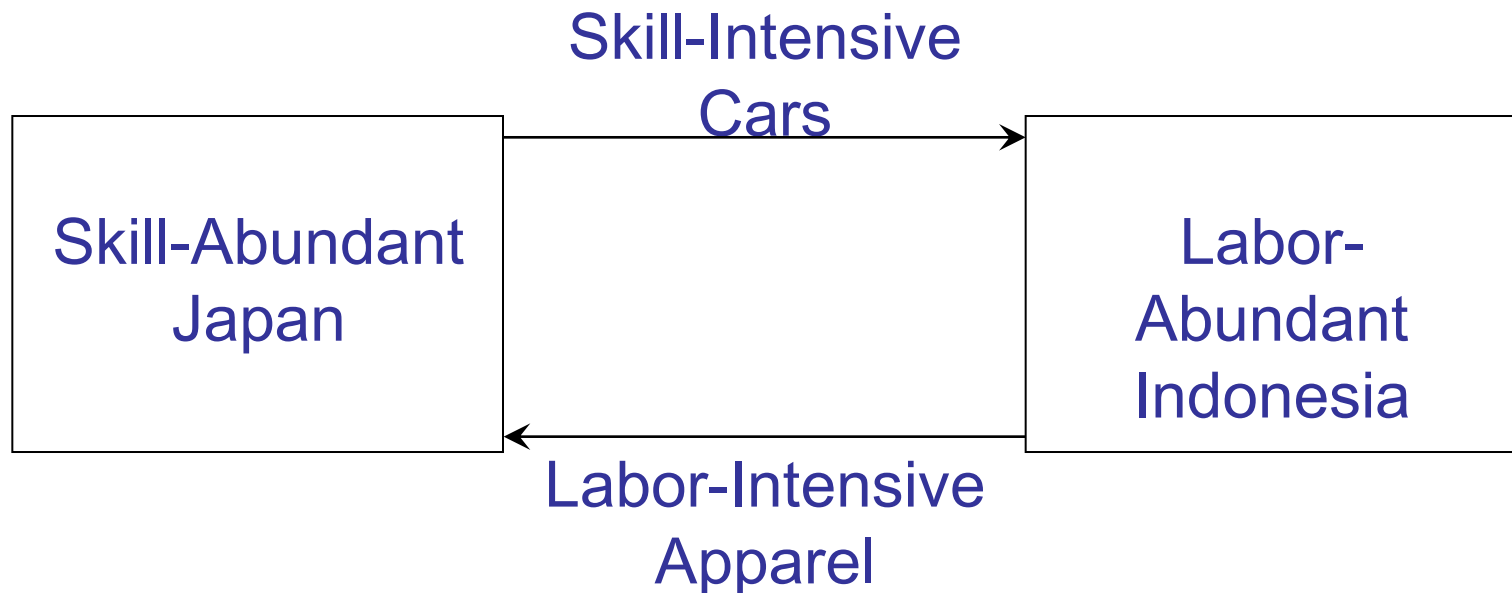
Ralf Peters, UNCTAD

Motivation

- The trade to GDP ratio has increased significantly throughout the world to an average of about 60 per cent
- Main reasons are lower trade barriers and transport costs and better and cheaper communication possibilities
- Thus, many jobs are already directly affected by international trade. The wages and working conditions in sectors with low import penetration are often indirectly affected by the high potential mobility of production.



Inter-Industry Trade



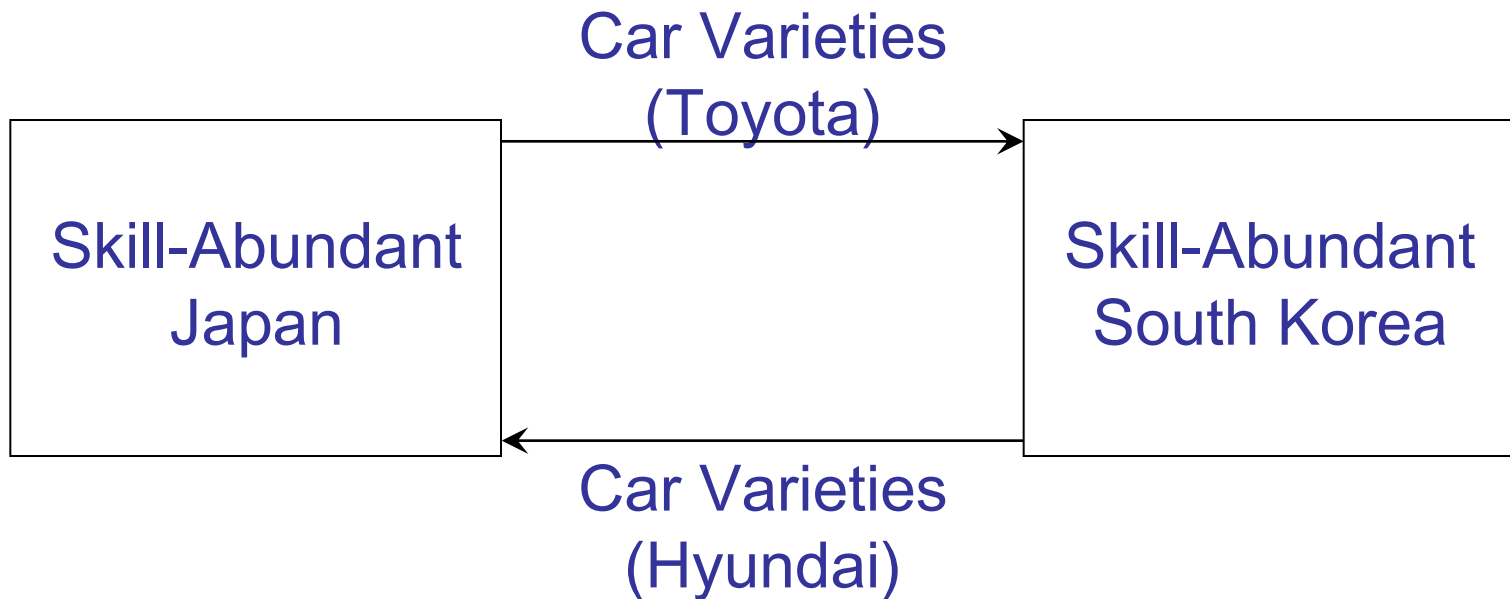
- Prediction:
 - Countries export some industries, import others
 - Reshuffling of goods and production factors
- Traditional theory:
 - Efficiency gains, trade liberalization raises average income level
 - Low skilled workers in developing countries better off

RISKS: Sectoral Unemployment

Percent Changes in Labour Usage Relate to Base, by Sector Swiss Formula, Ambitious Scenario

		Machinery and Equipment	Non Ferrous Metals	Other Manufacturing	Motor Vehicles	Electronics
Asia	China	-2.8	-4.1	-0.2	-10.4	6.7
	India	-2.2	-25.9	-2.1	-5.6	-1
	Rest of South Asia	-8.7	-13.4	-7.3	-36.8	-14.9
	South East Asia	0.2	-6.4	-2.3	-6.6	-1.7
Americas	Brazil	-5.2	3.2	-2	-4.3	-1
	Central America and Caribbean	-6.3	-8.2	-6.2	-2.1	-6.8
	Andean Pact	-4.7	6.4	-2.9	-9.6	-10.7
	Argentina, Chile & Uruguay	3.2	-1.4	-2	9.3	-7.6
Africa and Middle East	Middle East and North Africa	0.2	5.8	-1.5	1.9	5.1
	Sub Saharan Africa	-0.6	8	-0.5	0.6	-3.5

Intra-Industry Trade



- Prediction:
 - Firms specialize in different varieties which are exported and imported within the same industry
- However:
 - Some firms export and many others do not
 - New new trade theory: heterogeneity of firms, more productive export

Trade and Jobs

Trade appears to create and destroy jobs in all sectors involved in trade

Trade appears not only to lead to a situation in which some sectors shrink and others expand but also to reshuffling within sectors

- Good news ?
Reallocation easier within than across sectors
- Bad news?
A wider range of jobs are at risk and more difficult for policy makers to predict which jobs are at risk



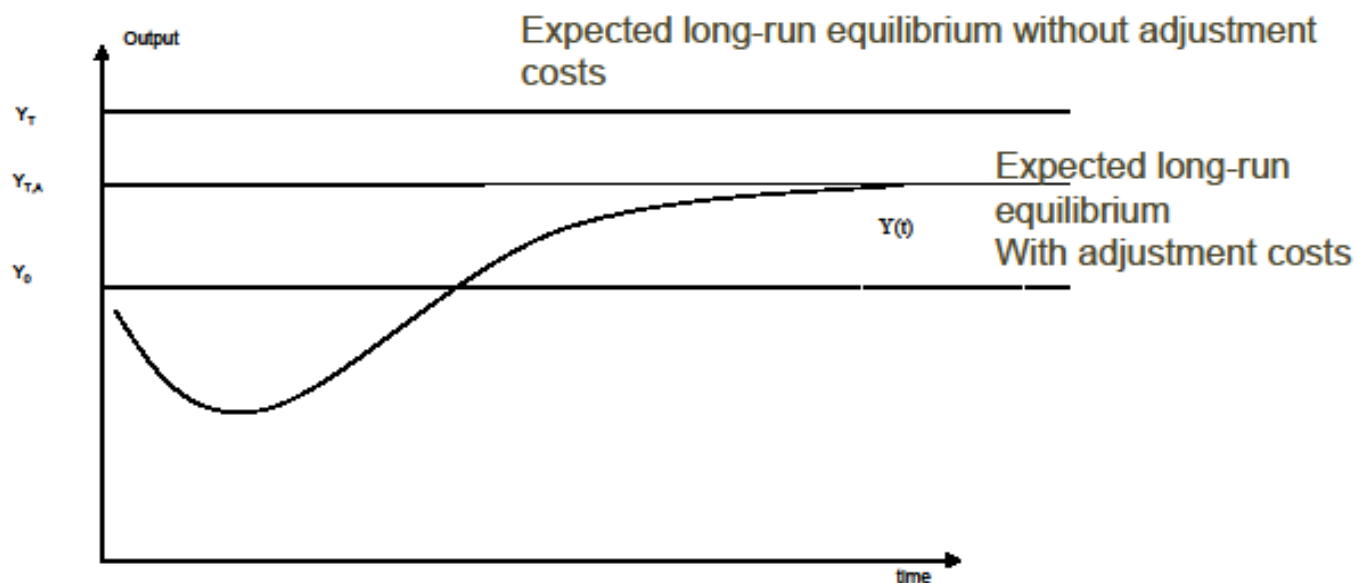
Adjustment costs and assistance

- To benefit from trade and trade liberalization economies have to reallocate factors of production within and between sectors
 - This structural change is the source of gains from trade but brings with it costs of adjustment
 - E.g. evidence confirmed that some groups of workers tend to face temporary unemployment and lower income when their jobs are lost to international competition
- ➔ Aggregate adjustment costs appear to be normally significantly smaller than the long term benefits
- ➔ But not negligible and long-term equilibrium may never be reached ...



Trade Adjustment Costs: The Labour Market Dynamics

The adjustment process may determine the long-run benefits from trade



Adjustment costs and assistance

Social adjustment costs (aggregate)	Private adjustment costs	Labour	<ul style="list-style-type: none"> Unemployment Lower wage during transition Obsolescence of skills Training costs Personal costs (e.g. mental suffering; not considered here)
		Capital	<ul style="list-style-type: none"> Underutilized capital Obsolete machines or buildings Transition cost of shifting capital to other activities Investments to become an exporter
	Public sector adjustment costs		<ul style="list-style-type: none"> Lower tax revenue Social safety net spending Implementation costs of trade reform

Adjustment costs in North-South FTA

Proxies for labour market adjustment costs indicate that such costs may be high

Table: Effect on European and Central American Labour Displacement for unskilled and skilled Workers

	Static / short term effects		Dynamic / Long term effects	
	Unskilled	Skilled	Unskilled	Skilled
EU27	0.3	0.3	0.3	0.3
COSTA RICA	10.6	10.7	11.2	11.2
GUATEMALA	2.7	2.7	2.7	2.7
NICARAGUA	5.2	5.2	5.1	5.1
PANAMA	17.1	17.1	17.4	17.4

Standard deviation of sector changes in employment (percentage)



Regional Integration: Tariff reduction

Employment Effects: Positive and small

		Rigid
<ul style="list-style-type: none">• Employment shifts among sectors• Overall employment benefits predicted• Small changes with few exceptions• Limitations apply (no within sector productivity change)	Botswana	0.28
	Madagascar	0.01
	Mozambique	4.30
	Mauritius	0.10
	Malawi	0.28
	Tanzania	0.09
	Zambia	0.63
	Zimbabwe	-
	South Africa	0.13
	Rest of South African Customs	0.25
	DRC & Ang	0.13

Change in per cent

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT


UNCTAD

FTA Indonesia – China: What is the impact on employment?

Two objectives

- Concerns in Indonesia about employment implications of the ASEAN – China FTA
- Loss of millions of jobs predicted

Few studies on ACFTA consider employment explicitly

- 
1. Employment effects of ACFTA in Indonesia
 2. Develop a relatively simple methodology to be used by government officials and social society

Employment effects

- Employment losses due to higher imports from China
- Employment creation due to higher exports to China
- Net losses in terms of employment: 60'000 jobs
- Rel. more female jobs lost
- Rel. more young workers lose job
- Rel. more jobs created in rural areas

	Export gai	Imports los
Crops	60'257	75'853
Other Agriculture	43'204	8'490
Livestock	6'997	8'966
Forestry	1'123	736
Fishery	3'391	4'425
Coal, Metal, Petroleum Mining	2'031	578
Mining and Quarry	896	8'004
Food, Beverages and Tobacco	4'866	6'776
Textile, Wearing apparel, Garm	14'892	41'176
Wood	6'964	2'095
Paper, Print, Transp, Metal Pro	6'520	20'353
Chemical, Fertilizer, Clay and C	4'619	4'847
Electricity, Gas and Water	363	677
RoadLI	259	313
RoadKI	81	99
Irrigation	47	57
Construction	108	130
Trade Services	23'419	38'363
Restaurant	14'230	19'686
Hotel Affairs	172	258
Land Transportation Services	5'230	8'038
Air, Water Transportation and	3'850	5'674
Storage, Other Transportation S	1'315	2'111
Bank, Insurance, and Services	1'319	1'831
Real Estate and Business Ser	1'778	2'826
Government, Defensive, Educat	6'623	8'791
Other Individual and Household	9'537	13'245
Total	224'092	284'397

Trade and Adjustment

- Size of the costs depends on the magnitude of liberalization and the functioning of markets; costs can be high esp. for individuals
- Most adjustment costs appear to be borne by workers
- Trade displaced workers tend to be slightly older, have more tenure and higher earnings on the lost job
- No strong evidence that trade induced unemployment being very different from unemployment caused by other shocks (probably due to labour churning within sectors)
- Adjustment assistance, i.e. on policy measures to mitigate the costs of adjustment from trade, can be designed to redistribute income or to increase efficiency, depending on the political goals
- It appears that from an economic perspective generally available adjustment measures should be preferred over targeted trade adjustment assistance



Trade and Adjustment Assistance

Why?

- Moral concerns: why those affected by trade liberalization should be treated differently
And: targeted assistance appears to have had rather mixed success in facilitating structural adjustment
And: it appears nearly impossible to identify all workers adversely affected by trade liberalization

But

- Political economy argument: more support for liberalization if adjustment assistance exists (maybe less important if generally available social policies in place, concentrated structural changes such as mass layoffs or regional concentration may still justify specific trade adjustment assistance)
- Demand for social security in developing countries, especially emerging economies, appears increasing as the exposure to external shocks is increasing with globalization



Trade and Adjustment

- Many of the instruments may presently be beyond reach in many developing countries but important lessons can be learned from experiences in developed countries
- A strong case can be made that it is important that adjustment policy measures focus on supporting the distribution of gains from globalization more equally and to increase efficiency of the adjustment process
- In many countries a majority of workers seem to be very concerned about trade liberalization
- Appropriate labour market and trade policies can have a large leverage here, as they have the potential to raise support for liberalization among voters *if* liberalization is expected to bring net benefits for a country



Categorization of adjustment policies related to labour market issues



	Labour market and social policies		Trade policies	
		Examples		Examples
Coherent policies to facilitate adjustment	Passive labour market policy Active labour market policy Social security	Unemployment insurance Unemployment services, Training Health care	Gradual liberalization Early announcement	Transition period in trade agreements Implementation period after conclusion of agreement
Specific trade adjustment polices	Extending and targeting labour market policies to trade affected workers	Services in case of mass layoffs	Safeguard measures	GATT Article XIX

Coherent Policy Making

- Trade and trade liberalization can lead to significant displacement of workers
- Labour churning not only between sectors but also within
- Adjustment assistance because of efficiency and/or distribution objectives
- Strong social protection systems appear preferable to targeted adjustment assistance
- Education and skills policies prepare the ground for the development of new export products
- Governments have a role in helping firms to survive or grow ...
- ... in particular in the case of informal firms



UNCTAD

PROSPERITY FOR ALL

www.unctad.org



UNITED NATIONS
UNCTAD