

Impact of Trade on Employment

(draft)



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Context of Trade and Employment

- Trade is essential for development and employment creation, but the link between them is complex
- Trade is a double edged sword : create better employment opportunities and vice versa

What does literature say?

Relationship between Trade and Employment

- An immediate rise in unemployment in the short run and a reversal of that rise and an eventual decline in unemployment in the long run (Dutt, Mitra and Ranjan, 2009)
- Aggregate employment is determined by growth in the labour force, macroeconomic variables, and labour market institutions – and trade openness or trade liberalisation plays no role at all (Hoekman and Winters, 2007)
- The role of technological change and the impact of greater openness on the elasticity of demand for labour (UNCTD , 2013)

What does literature say?

- Neoclassical economists used evidence of rising employment and exports to justify the positive role of foreign manufacturing operations (Ariff, 1991)
- However, there have been extensive accounts of super-exploitation in which workers with higher wages in home countries were replaced with workers with low wages at host sites (Fröbel *et al.*, 1980; Jomo, 1986; Limqueco *et al.*, 1989).

Myanmar and Trade Agreements

- Since 1948, Myanmar is one of the fountain members of GATT and of the WTO since 1995.
- Also a member of ILO since 1948
- All the FTAs that Myanmar has signed and that are in effect are related to ASEAN
- As an LDC: preferential access to a number of markets through Generalized System of Preferences (GSP), incl. through the EU's Everything But Arms scheme and US GSP A+ scheme (its most favorable GSP regime)

Myanmar's Trade Agreements ; in force and under negotiation

FTA name	FTA partner countries	Status
ASEAN Free Trade Area (AFTA)	Brunei, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam	Signed and in effect since 1992
ASEAN-Australia and New Zealand Free Trade Agreement (AANZ)	ASEAN + Australia and New Zealand	Signed and In Effect since 2010
ASEAN-India Comprehensive Economic Cooperation Agreement (incl. AIFTA)	ASEAN + India	Signed and In Effect since 2010
ASEAN-Japan Comprehensive Economic Partnership (incl. AJFTA)	ASEAN + Japan	Signed and In Effect since 2008
ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement (incl. ACFTA)	ASEAN + China	Signed and In Effect since 2005
ASEAN-Korea Comprehensive Economic Cooperation Agreement (incl. AKFTA)	ASEAN + Republic of Korea	Signed and In Effect since 2010
ASEAN-Hong Kong, China Free Trade Agreement	ASEAN + Hong Kong	Negotiations launched in 2014
Regional Comprehensive Economic Partnership	ASEAN + Australia, China, India, Japan, Korea, and New Zealand	Negotiations launched in 2009
Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area	Bangladesh, Bhutan, India, Nepal, Sri Lanka, Thailand	Framework Agreement signed in 2004 and negotiations launched
Myanmar-US Trade and Investment Framework Agreement	USA	Framework Agreement signed in 2013

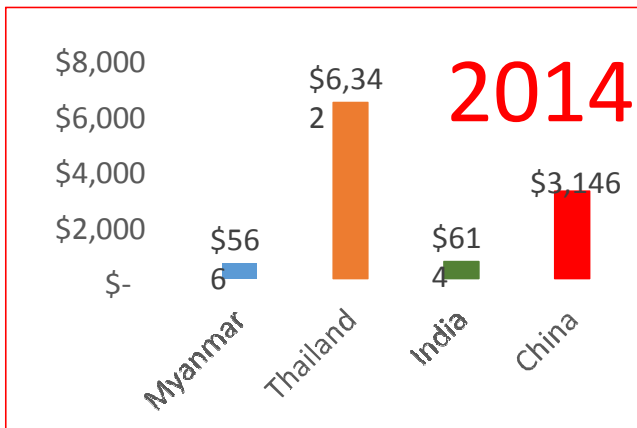
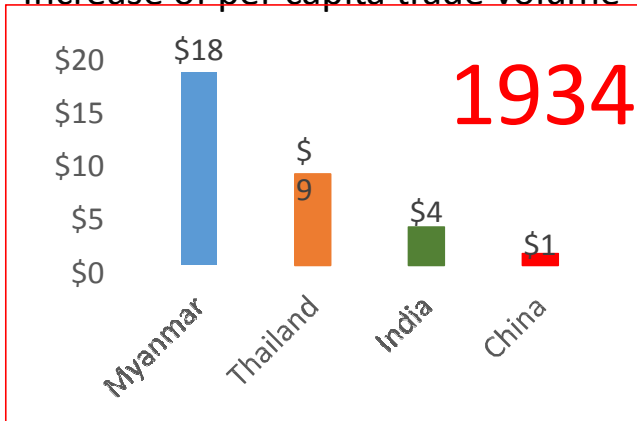
Source: ADB (<http://aric.adb.org/fta-country>); UNESCAP (http://artnet.unescap.org/APTIAD/agg_db.aspx)

Growth trajectory: Little structural transformation

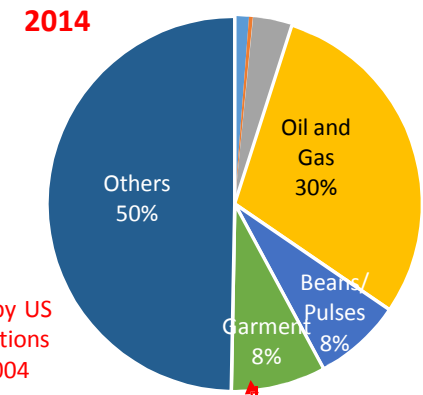
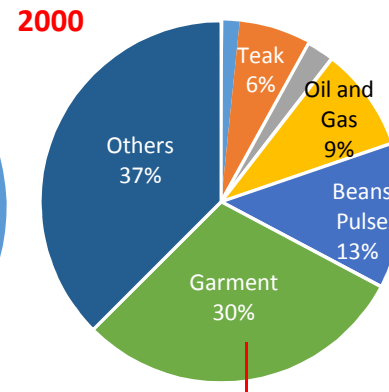
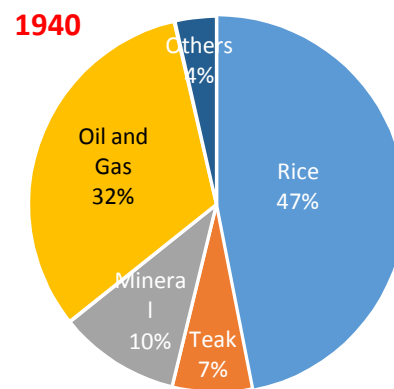
➤ In Myanmar, agriculture has been mainstay of the economy for last century; 36% of GDP; 60% of population.

➤ Myanmar export narrowly based all along: rice, oil/gas, jade, teak, beans/pulses a remains unchanged

Increase of per capita trade volume



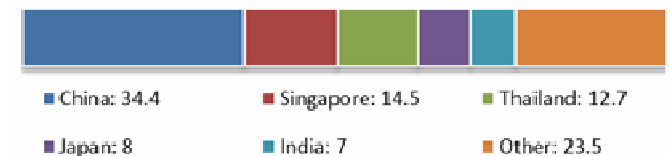
Source: J.R. Andrus (1947), ADB (2015)



Total exports by destination (% , 2016)



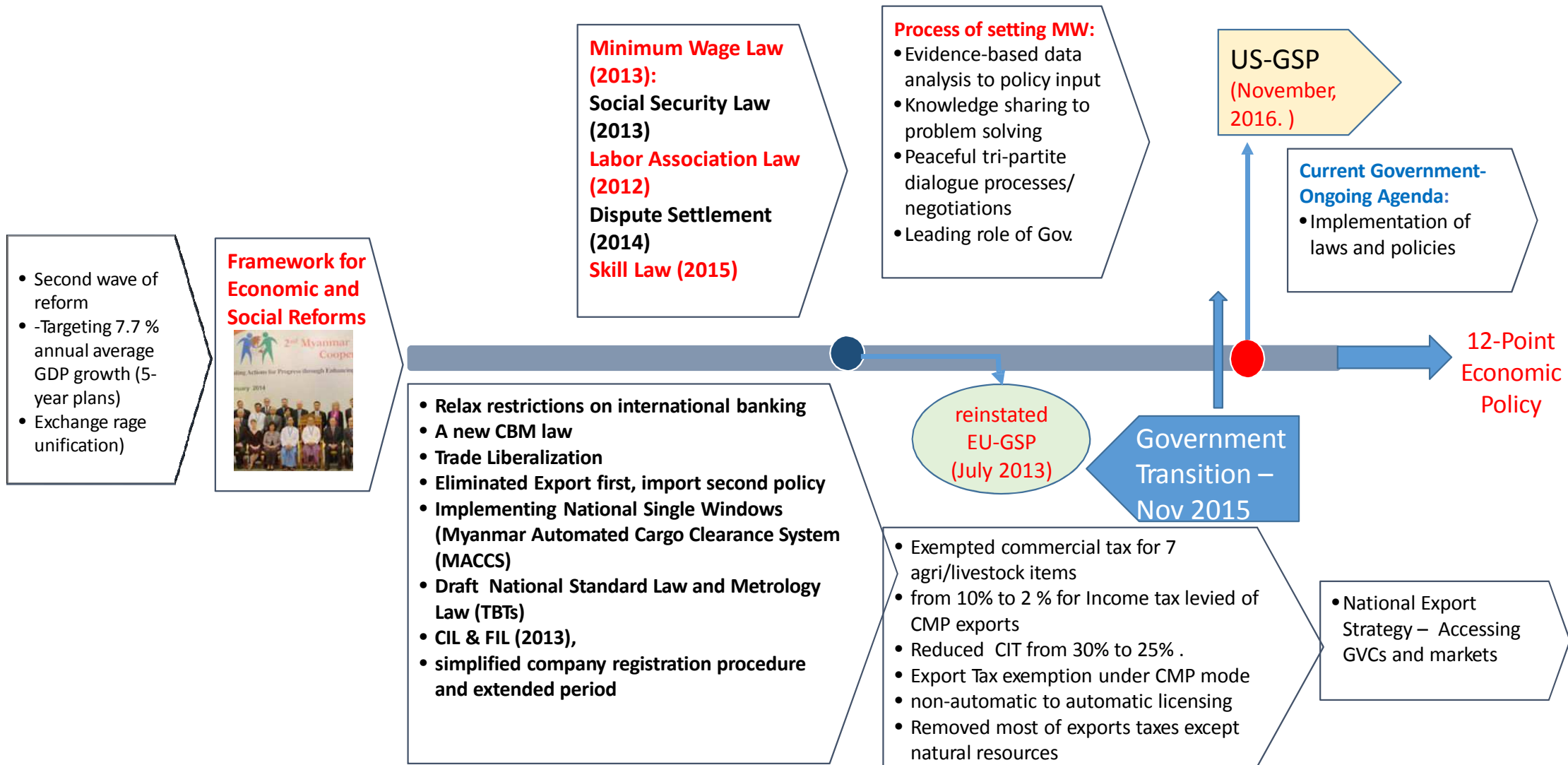
Total imports by main origin (% , 2016)



- Myanmar's economic relations also confined to neighboring economies – China, Thailand, India and Singapore are major trading partner.

Source: J.R. Andrus (1947), CSO (2015), WTO (2017)

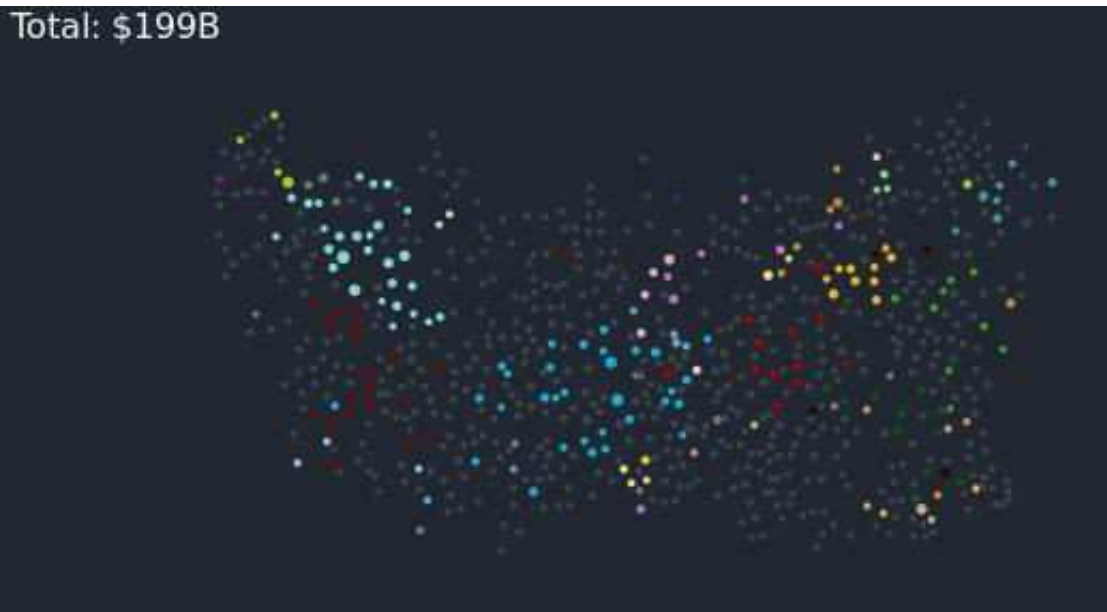
Background: Trade and Labor Market Reforms in Myanmar



Export products distribution

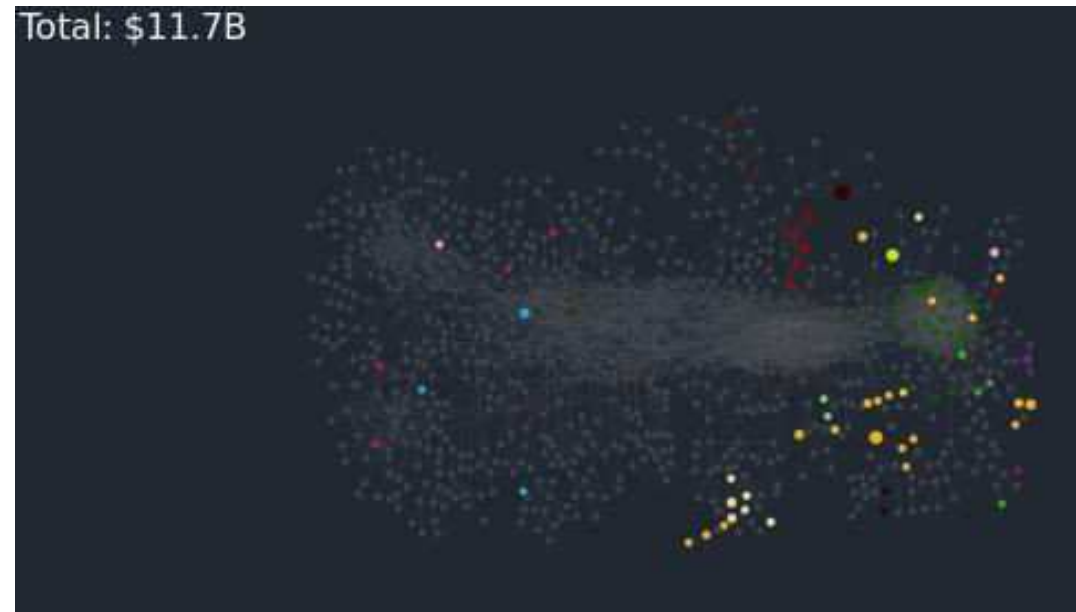
Thailand

Total: \$199B



Myanmar

Total: \$11.7B



Key features of Myanmar's trade

TARIFFS:

- 18.8% of all tariff lines (at HS 8-digit level) are bound, incl. all agricultural lines but only 5.1% of non-agricultural lines
- Bound tariffs range from 0% (e.g. electrical machinery or transport equipment) to 550% (e.g. chemicals, beverages, and tobacco, and cereals and preparations)
- In 2015, simple average **bound** rate was 84.1%; average **applied** MFN tariff was 5.6%
- This significant difference (82 percentage points), and the fact that only 18.8% of tariff lines are bound, gives authorities considerable scope to raise tariffs, implying a certain unpredictability for traders
- Average tariffs on agricultural products are higher than those for non-agricultural products: 8.6% vs. 5.1%.

Key features of Myanmar's trade

NON-TARIFF MEASURES (NTMs):

Customs procedures are time-consuming and costly: Myanmar stands at 171 out of 190 in the World Bank's *Ease of Trading Across Border* ranking (2018)

To be able to **import**, a company must:

- register with DICA (Directorate of Investment & Company Administration)
- register as a "trader" with Ministry of Commerce (MoC)
- join UMFCCI (Federation of Chambers of Commerce and Industry)
- for most products, obtain an **import license** issued by MoC
 - In 2013, import licensing requirements were abolished for 166 products (over 1,900 tariff lines)

To be able to **export**, a company must:

- register as company with DICA and as an exporter with MoC
- for most products, obtain an **export license** from MoC
 - Reform in 2013, but currently only 152 types of goods no longer require export licenses
- for certain products, obtain a recommendation from relevant ministries and/or UMFCCI

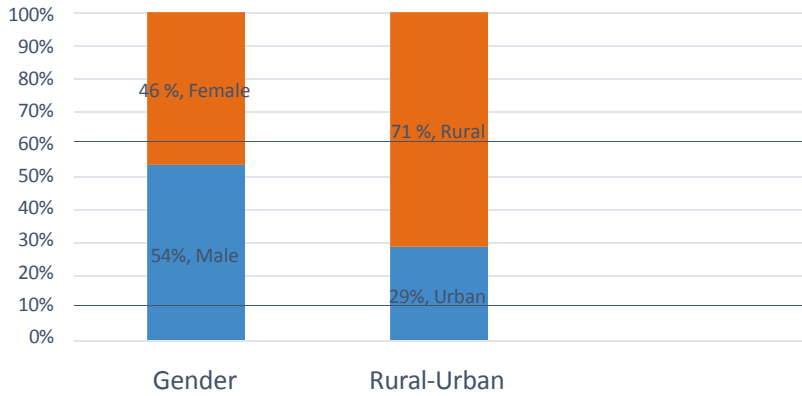
Key features of Myanmar's trade

STANDARDS:

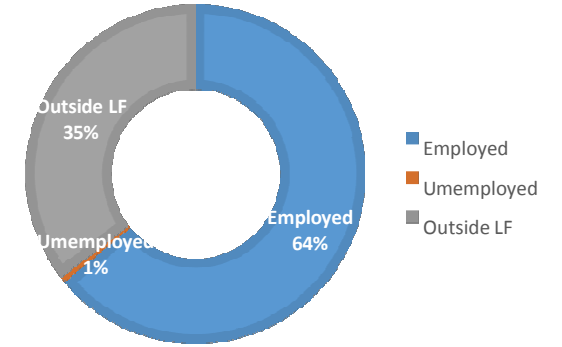
- Standardization Law is new (enacted by parliament in 2014)
- Only few standards exist in Myanmar (around 65)
- None of Myanmar's current PTAs contains a chapter on standards and technical regulations

Labor Market Dynamics in Myanmar

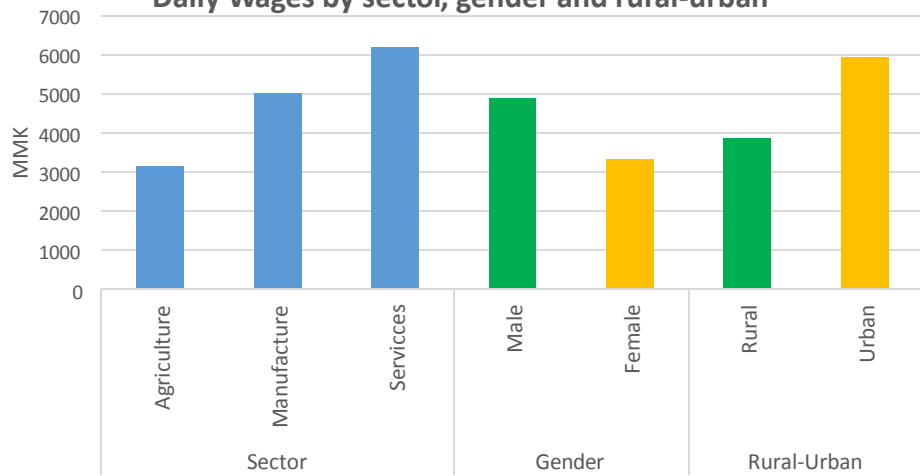
By gender and rural-urban



Working age population



Daily Wages by sector, gender and rural-urban



Source: Myanmar LFS (2015)

By education level

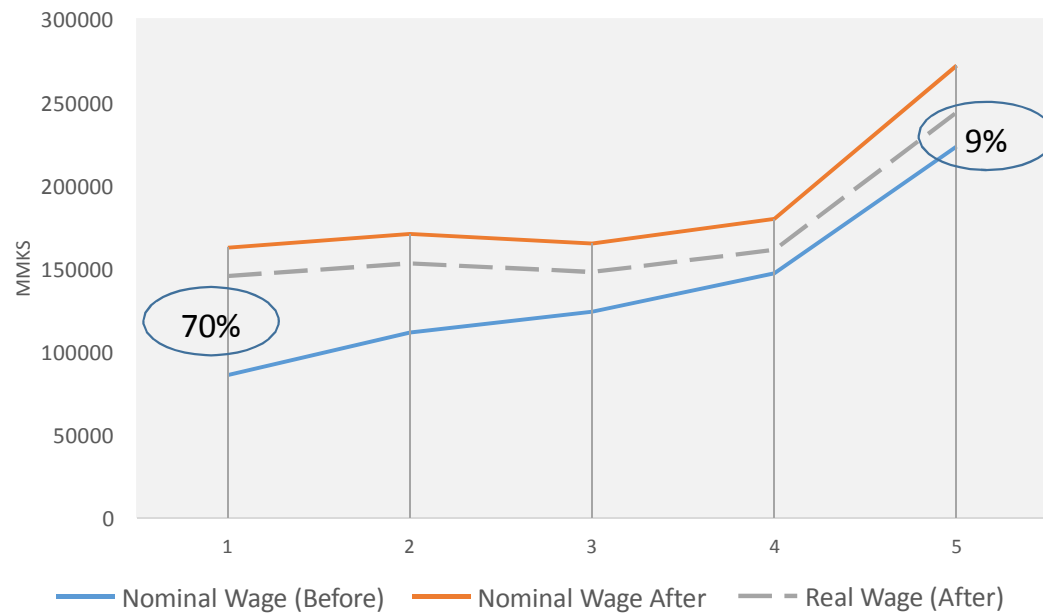


Effects of a Minimum Wage on Wage Redistribution (2016)

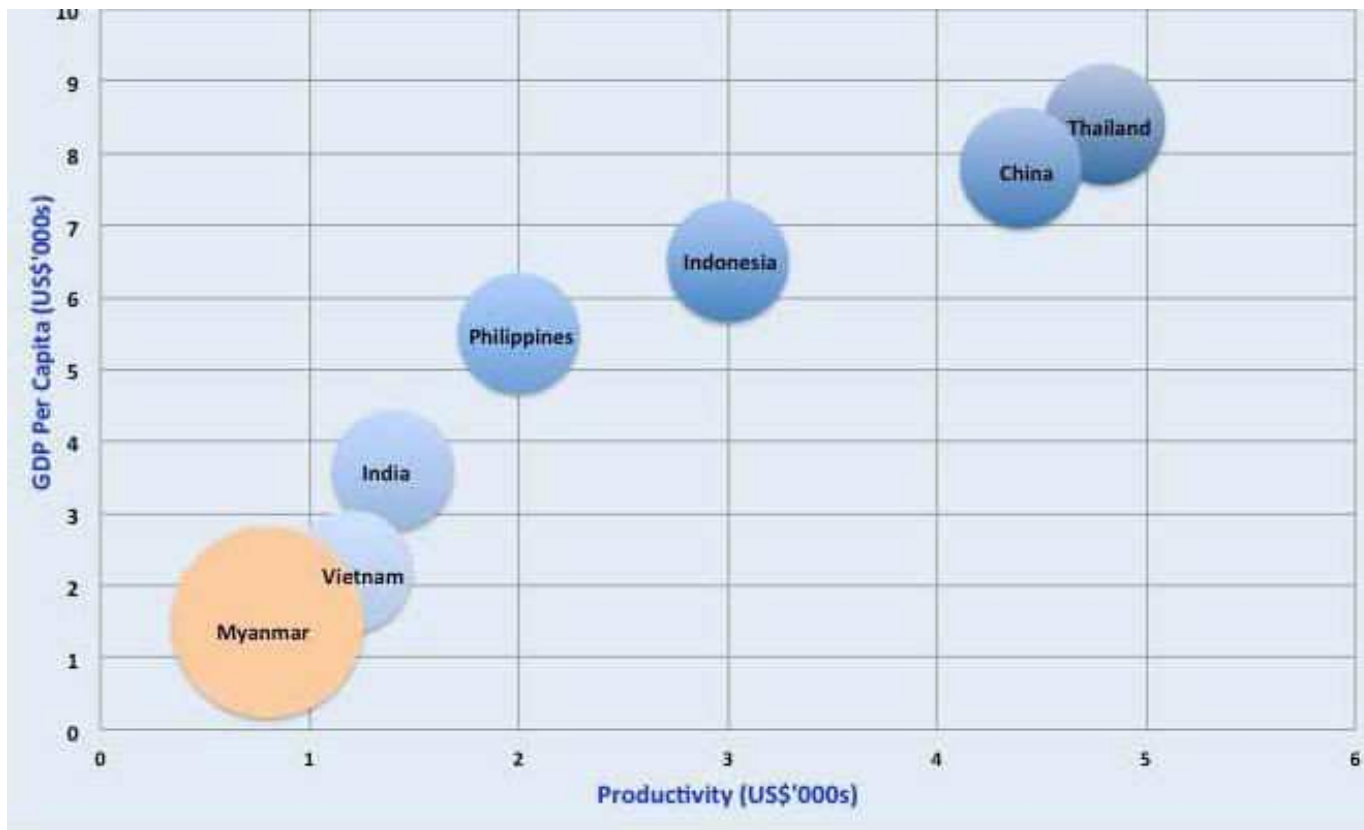
Basic Salary Distribution Across Quintiles



Total Salary (Basic plus additional allowances) Distribution Across Quintiles

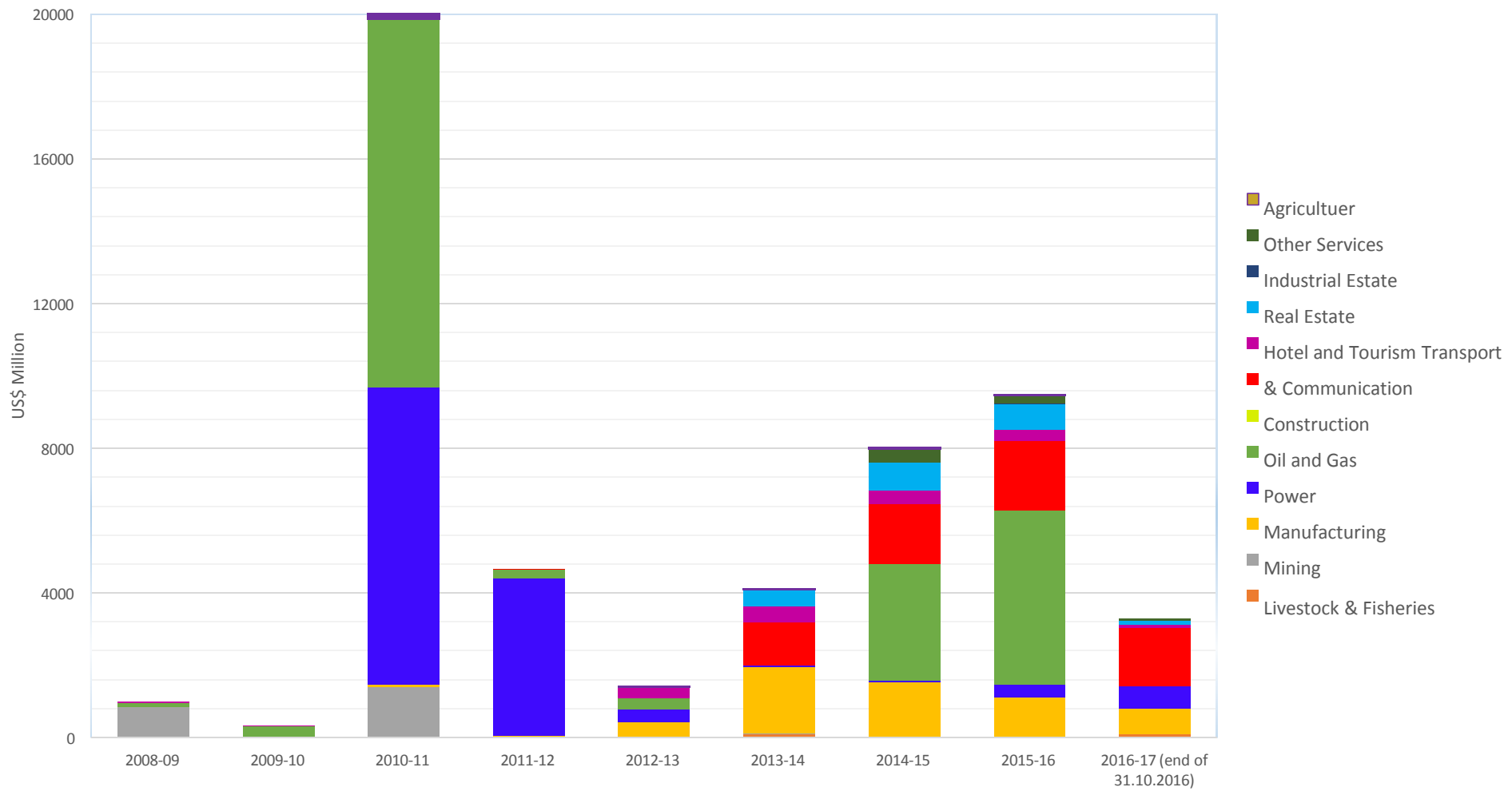


Labour productivity in Myanmar and selected economies



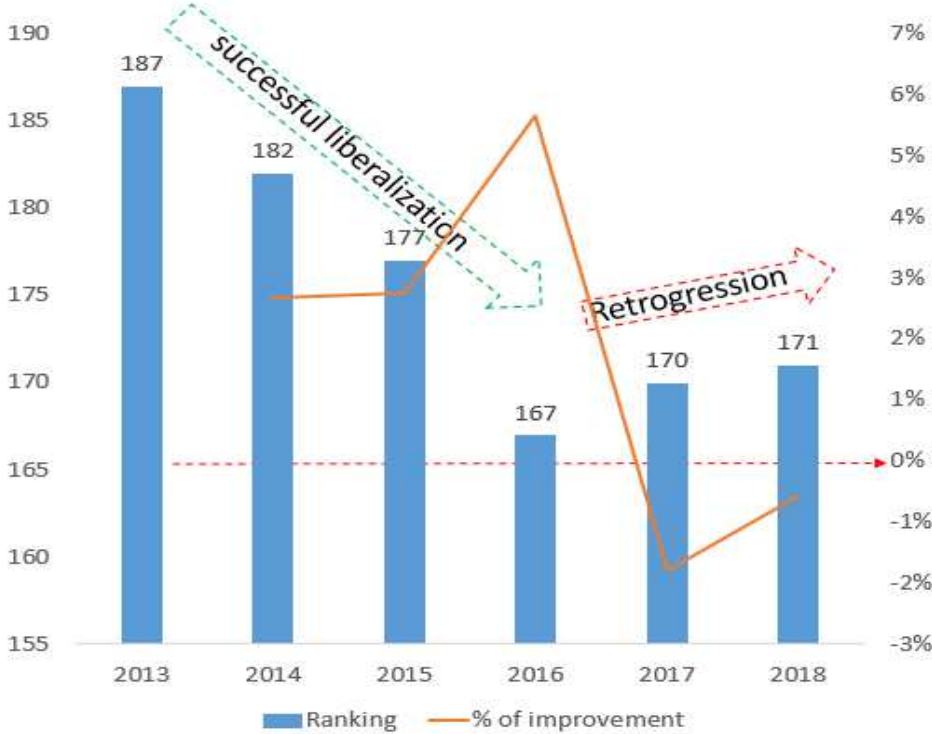
Source: McKinsey (2013) Myanmar's moment: Unique opportunities, major challenges, MGI, June

YEARLY APPROVED AMOUNT OF FOREIGN INVESTMENT (BY SECTOR)



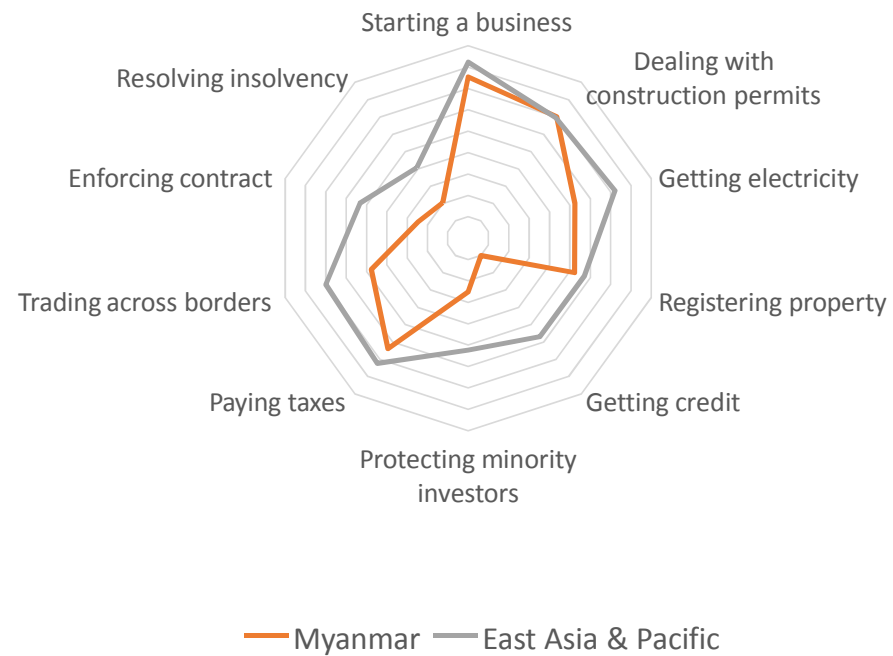
Source: DICA, Myanmar (2016)

Ease of Doing Business Ranking in Myanmar



Source: World Bank, *Ease of Doing Business Indicators*

Barriers for business in Myanmar



Source: World Bank, *Ease of Doing Business 2018*.

What does literature say about Trade and Employment in Asia

- In Japan, the author Kiyota (2011) found that the demand for worker-hours from exports increased but it was not large enough to offset the decrease in demand for worker-hours from slower domestic final demand. The demand for employment from exports has increased since 1985 in both manufacturing and non-manufacturing industries
- In Indonesia, authors Brooks and Manning (2011) observed how in 2005 based on a slower growth in manufacturing exports and a shift away from the light industry, fewer jobs were created through exports in manufacturing
- Rasiah (1993) argued that the evolving labour process in modernising electronics and textile factories was actually improving working conditions and wages compared to the alternative faced by the peasantry under feudal conditions and workers under oppressive backyards characterised by stagnant technologies in Malaysia.

What does literature say about Trade and Employment in Myanmar?

- According to ADB (2012) the garment exports in Myanmar offer a welcome diversification from a traditional reliance on primary commodities and remain an important source of employment generation.
- Myint and Rasiah (2012) conducted a study to examine the impact of export-oriented garment manufacturing on employment, skills and wages in Myanmar working with the Myanmar Garment Manufacturing Association (MGMA)
- They found that being highly labour-intensive, garment production offers strong employment opportunities at sites capable of attracting transient low wage workers docile enough to absorb high fluctuations in labour demand

What does literature say about Trade and Employment in Myanmar

- Based on the licensing system for exports and imports, Aung (2009) noted how, through these practices, trade turnovers have increased, trade facilitation has improved tremendously, and job opportunities have opened up for more locals in border areas.

Potential policy areas for future

- Heavy reliance on income from natural resource-based sectors could lead to growth in unemployment and long-term structural problems such as rising income inequality, de-industrialization (Dutch disease), and environmental degradation. Therefore, the Government should utilize its resource-based revenues to invest in infrastructure and human capital, in order to pave a way for economic diversification and specialization for sustainable and inclusive development of Myanmar (ESCAP, 2012b).
- If Myanmar could increase exports of such products instead of exporting its unprocessed natural resources, the value of its exports would be much higher and contribute more to the country's economic development and, at the same time, provide employment opportunities and a better livelihood to local people and would contribute to human resources development through technology transfers (Aung, 2009).

Potential policy areas for future

- Due to the lack of diversification, the country is susceptible to demand and price fluctuations. A broadening of the productive base would provide added stability and a source of employment for the many people who are currently engaged as surplus rural workers or low paying informal activities (ADB, 2012)
- The development of infrastructure, education and intermediary organizations that support technological upgrading in firms. Only then can the demand for the creation of quality jobs and improvements to working conditions be achieved (Myint and Rasiah, 2012).