



Globalization and Employment: Global Shocks, Structural Change and Policy Response

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Structural change, global imbalances, and employment in developing countries

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Overview

- Medium-term shifts in the structure of world demand
- Global rebalancing: which countries' consumer demand could make up for the decline in United States consumer demand?
- Potential impact of global rebalancing, led by the US and China, on trade flows and employment
- Conclusions





1. Medium-term shifts in the structure of world demand

- The level and structure of world trade depends on relative importance of rich and poor countries in global economic growth
- Non-homothetic demand preferences present at international level (e.g. rich countries consume and import more consumer durables than poor ones)
- The import content differs across different elements of demand and across different countries
- Imperfect similarity of composition of consumer-good import baskets





2. Which countries could make up for decline in US consumer demand?

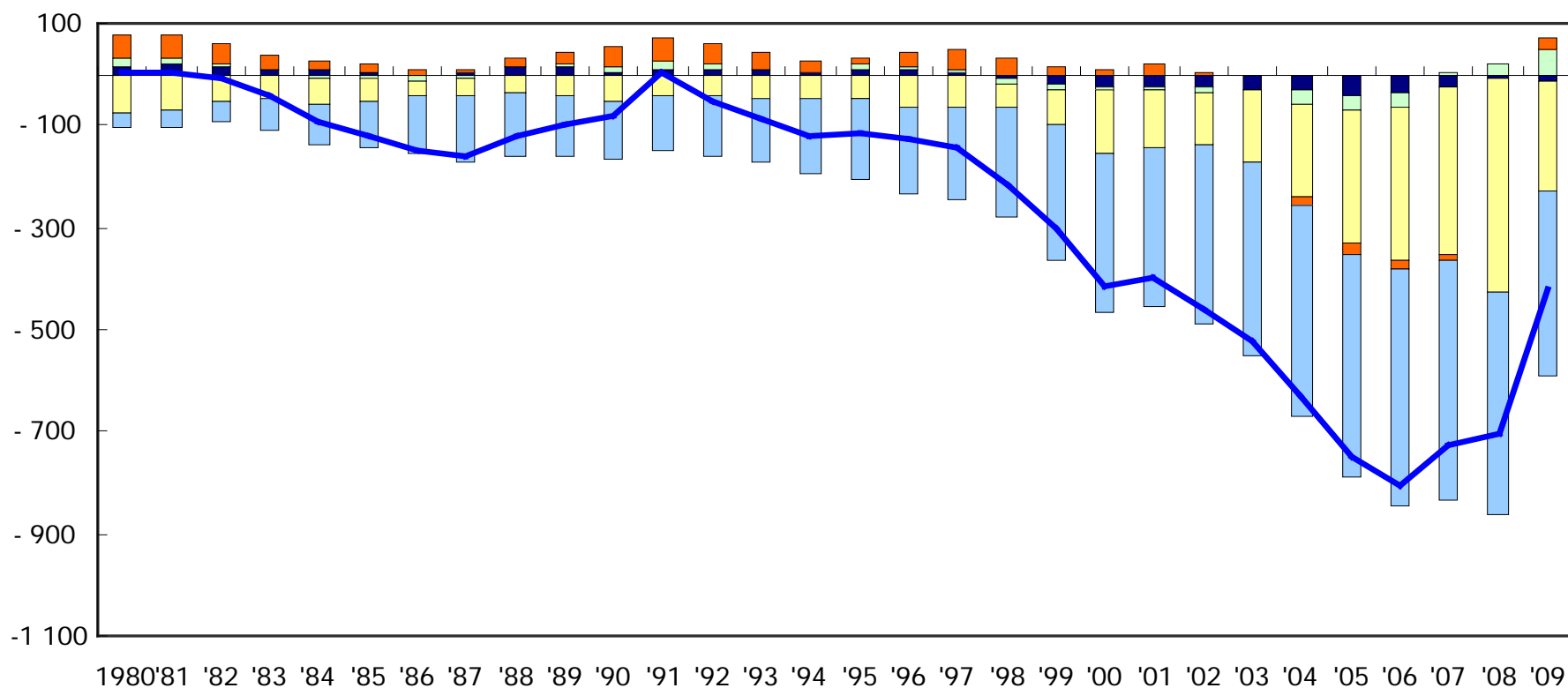
- Bipolar perspective – China and US:
 - Sizeable share of global imbalances
 - Recent growth trajectories have developed in opposite directions
 - US: external deficit, and high and rising share of private consumption in GDP
 - China: external surplus, and low and declining share of private consumption in GDP
- But other, especially surplus, economies need to contribute to global rebalancing





Consumer goods account for over 85% of the increase in the US non-energy trade deficit

United States current-account balance and trade balance by end-use category, 1980–2009 (\$bn)



Foods, feeds, beverages, and exports and imports nes

Energy

Consumer goods (nonfood), incl autos

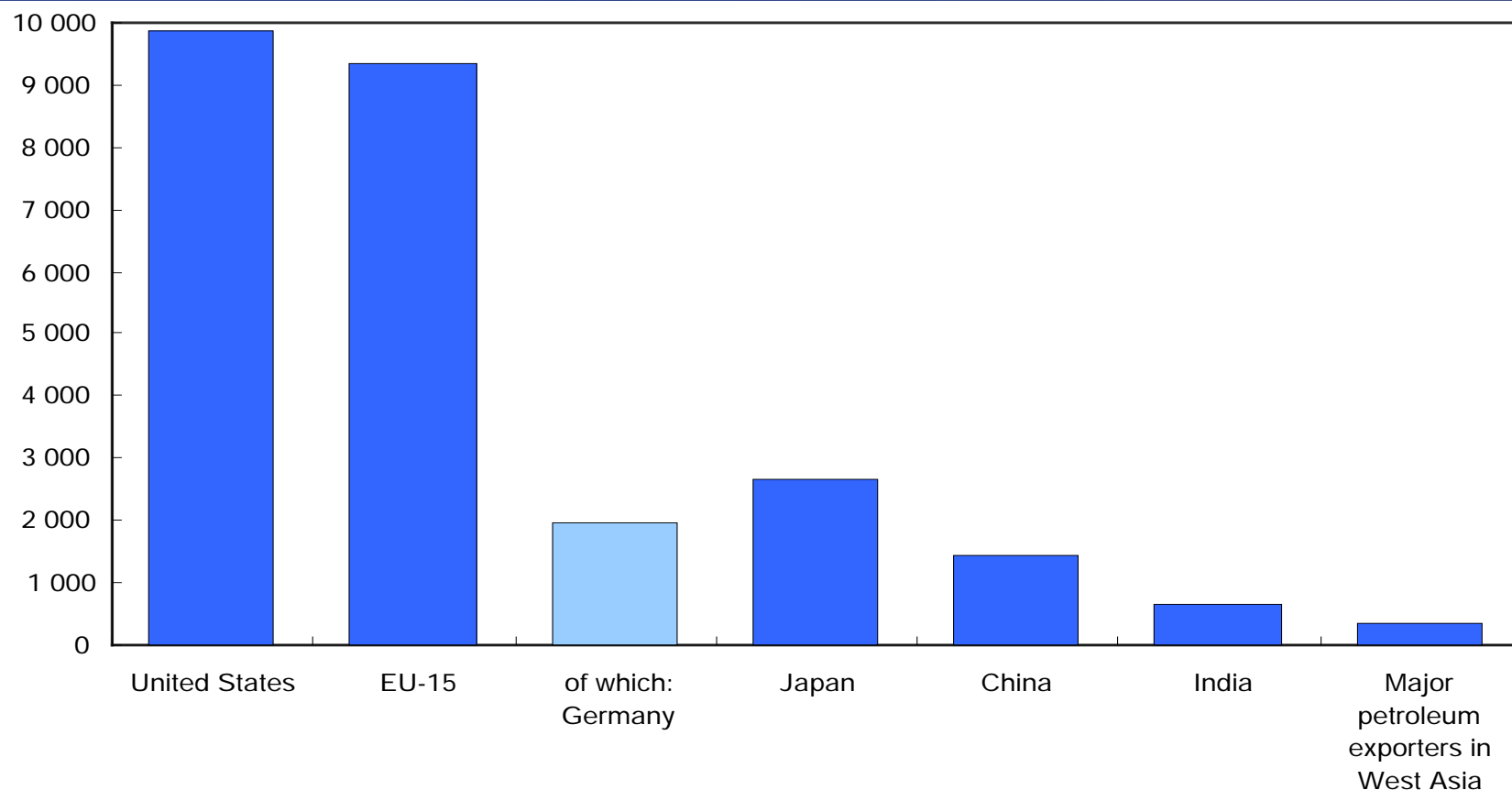
Industrial supplies and materials (excl energy)

Capital goods

Current account balance

China's level of consumption is too small to compensate for declining US consumption

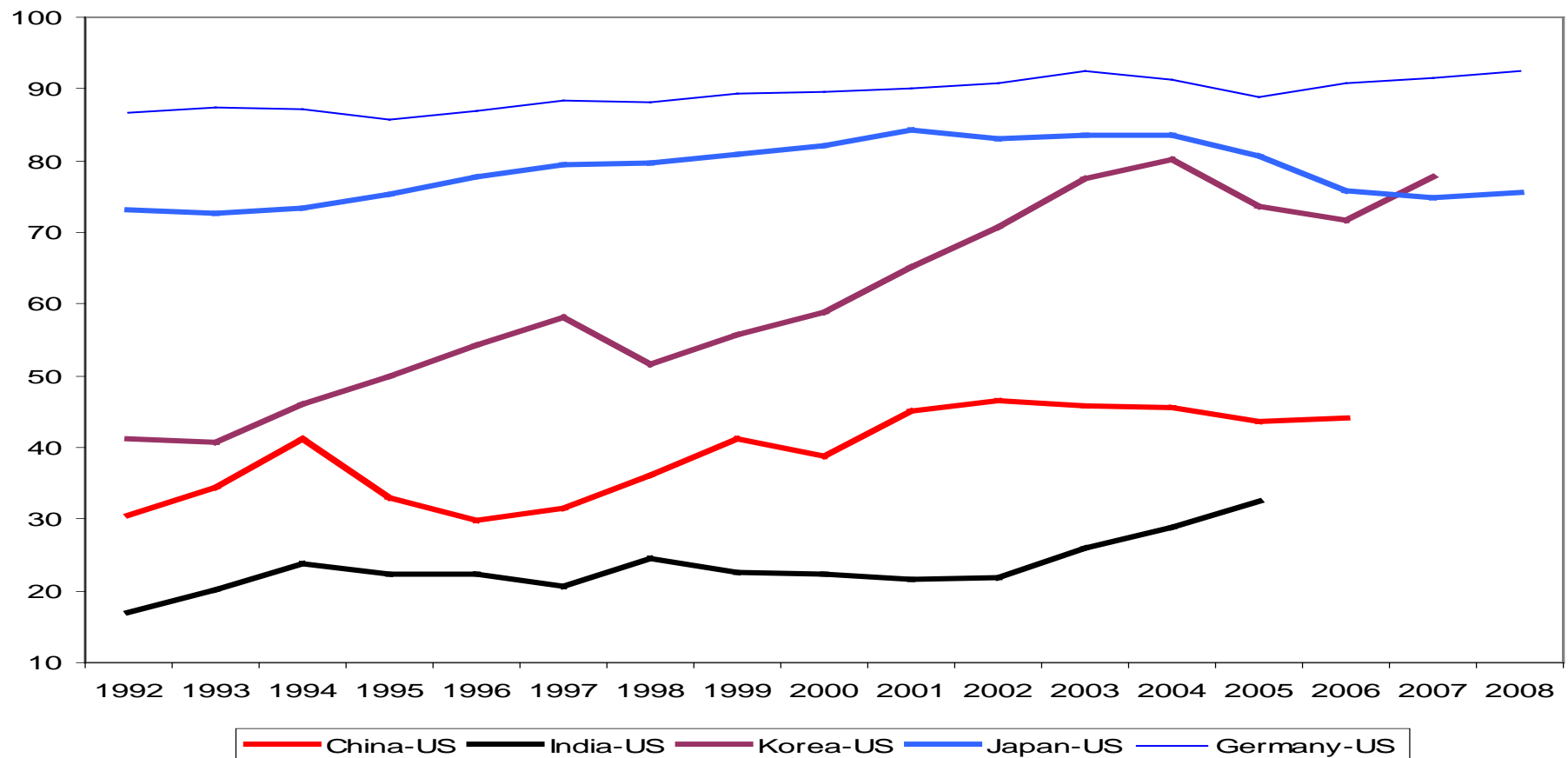
Household consumption: average level 2007–2008, selected countries and country groups, \$bn





China's consumer-good imports too different to compensate for declining US consumption

Composition of consumer good imports, selected countries and regions, 1992–2008, per cent of similarity relative to the United States





3. Impact of rebalancing, led by US and China, on trade flows and employment

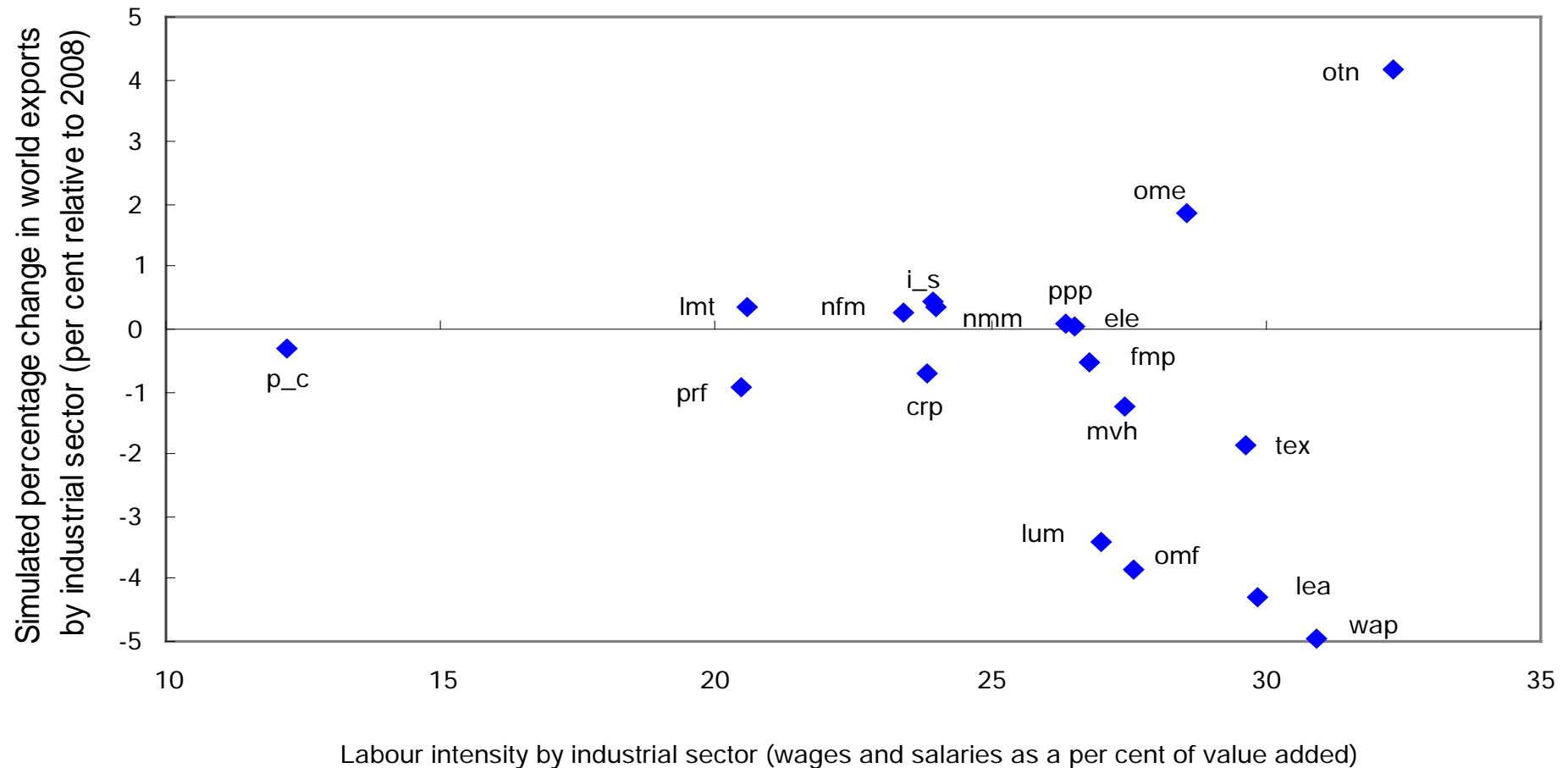
- Bipolar view adopted only for convenience
- GTAP-simulation based on 3 assumptions:
 - a decline in United States consumption as a share of GDP by 5 percentage points
 - an increase in China's household consumption as a share of GDP by 7 percentage points
 - a reduction in United States' potential output by 1 percentage point relative to 2008





Labour-intensive sectors are affected most by decline in world exports

Change in world exports by industrial sector and labour intensity, per cent





4. Conclusions

- Cross-country differences in economic growth, as well as in contribution of consumption and exports to growth rates, played key role in accumulation of substantial global imbalances, and they will also be crucial for the reduction of global imbalances
- Rebalancing confined to US and China is insufficient
- Labour-intensive sectors risk being affected most adversely by US-China rebalancing
- Does global rebalancing make East Asia's export-focused development strategy unsustainable?





Thank you !

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