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*Item 4: The impact of trade on employment and poverty reduction*

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# **The Impact of Trade on Employment and Poverty Reduction**



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# What do we, and researchers, mean by «trade»?



- Exports?
- Imports?
- $X+M/GDP$ ? Degree of openness or trade integration.
- Trade liberalization?
  - levels of industrial tariffs, quantitative restrictions,
  - Rules, including for trade in services and in agriculture.

The «findings» on the impact of **Trade** on **growth, poverty reduction, and employment** depend on which of these variables are used to measure «trade».

# Multiple trade and ... links or nexus

Multiple questions receive multiple answers



## 1. Trade - growth - poverty reduction (90s paradigm)

- Does opening up reduce poverty?
- Does opening up stimulate growth?

## 2. Trade – growth - **Employment** - poverty reduction

- Does liberalization raise employment and productivity?
- Does liberalization raise wages?
- What impact on gender?
- How does trade affect the quality of work and labour standards?
- How does trade affect the informality?
- What impact on agricultural employment and rural household production and consumption?
- What impact on employment in services?

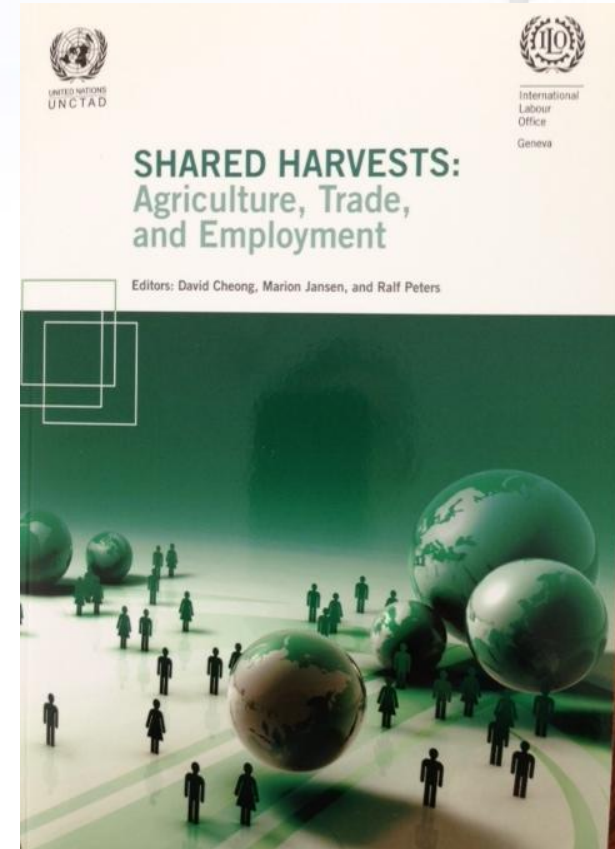
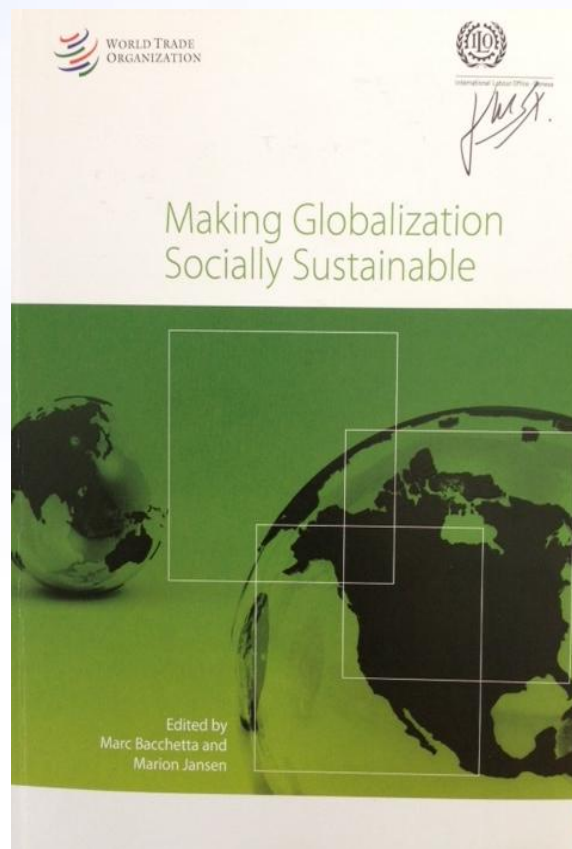
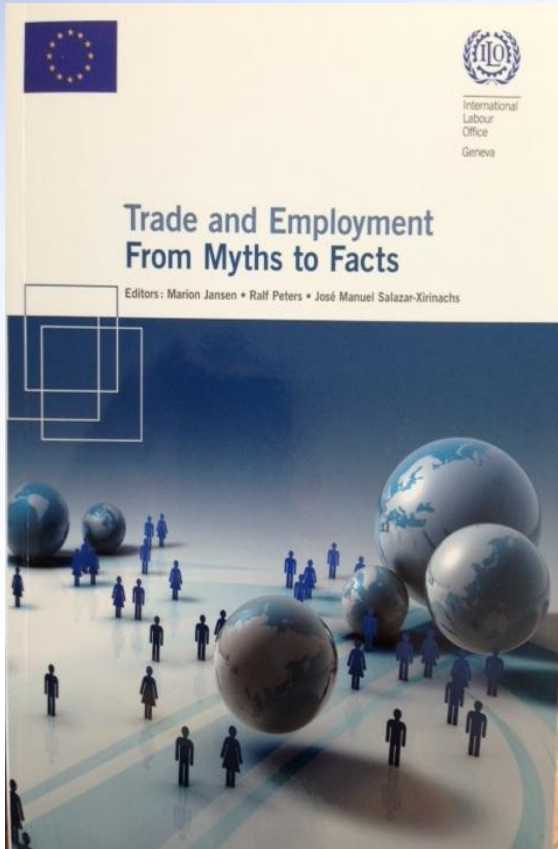
## 3. Trade - inequality

## 4. Trade - worker uncertainty & insecurity

## 5. Trade - fiscal revenue & spending



# Three recent books:



# 1. Trade – growth – poverty reduction



## Key questions

- Does opening-up stimulate growth?

- Sachs and Warner (1995); Rodriguez and Rodrik (2000).
- Rodrik (2007) One Economics, Many Recipes.
- Jansen, Peters, Salazar-Xirinachs (2011), Trade and Employment: From Myths to Facts.

- Does growth reduce poverty?

- Dollar & Kraay (2002) «Growth is good for the poor»
- Ravallion (2001) «Growth, Inequality and Poverty»

- Does trade liberalization boost productivity?

- Gibson (2011) Assessing the Impact of Trade on Employment, in Jansen, Peters, Salazar-Xirinachs.

## What we know:

- Yes, but not unconditionally:
  - Most high performing countries have used unorthodox, two track, gradualist trade reform paths.
  - trade reform policies require a combination with other policies (infrastructure, education and training, enterprise development, social policies)
  - Timing and sequencing are key. Growth response is highly responsive to the specifics of trade policy design
- Yes, but the poverty response to growth depends on:
  - growth being high and sustained
  - the sectoral pattern of growth
  - the combination of employment and social policies
- Yes, strong, positive effects in tradeable sectors.

# 2. Trade – employment (1)



## Key questions

- Does opening-up or liberalization raise employment?

## What we know:

- Employment outcomes result from a reshuffling process: -  
uncompetitive companies shrink or close; -  
competitive-high productivity firms grow.
- The efficiency of the reshuffling process depends on national institutional settings:  
-good infrastructure, well functioning financial sectors, -  
good social protection systems, -  
strong labour market institutions.
- Many things can go wrong:
  - Most textbook discussion is predicated on situation of advanced economies with highly diversified productive structures. Here the net job creation effect depends on the employment creation versus labour saving effects of higher productivity.
  - In developing economies, with simple and undiversified productive structures, the net balance of creative destruction depends strongly on new investment and supply response capabilities. In its absence ,destruction can outweigh creation.
- Employment effects differ widely accross countries and depend on a large number of country specific factors

## 2. Trade – employment (2)



### Key questions

- How is job creation in the exporting sectors?
- What is the net job creation effect in developing countries?

### What we know:

- It may be disappointing. Successful exporters have such high level of productivity that they may grow without net job creation or with only modest one....,
- However, jobs are higher quality, as jobs in exporting activities are often good ones, with higher productivity and higher wages than in the rest of the economy,...
- But they may be too few to absorb workers losing their jobs in the import competing firms.
- A significant amount of workers displaced in import competing sectors do not move into exporting sectors, instead end-up in lower paid services occupations.



## 2. Trade – employment - informality (3)



### Key questions

- How does trade liberalization affect informality?

### What we know:

There is a two way relationship between trade liberalization and informality:

- Trade reform may have an effect on the size and performance of the IE, but no relationship was found in several studies
- The existence of an IE affects the supply response to trade reform. Economies with large informal sectors have less capacity to take advantage of freer trade:
  - Because the typical characteristics of the IE (lack of access to credit, lack of skilled workers, inefficiencies due to small firm size) ...
  - limit the possibilities of the IE to take advantage of trade,

- ILO-WTO (2009): Globalization and Informal jobs in developing countries, A Joint Study, M Bachetta, E. Ernst, J Bustamante.
- A. Sinha, Trade and the Informal Economy, in Jansen, Peters, Salazar-Xirinachs (2011).



## 2. Trade – employment – job quality (4)



### Key questions

- How does trade liberalization affect quality of work and labour standards?

### What we know:

- Although there are exceptions and examples to the contrary, most of the evidence does not support the argument that countries experience declining labour standards as a result of trade or trade agreements.
- Many export activities actually help to lift people out of poverty and can be seen as contributing to a «race to the top»
- This is not to say that non-compliance with ILS in export activities is not a problem!. There are major problems of compliance and of bad working conditions in violation of ILO ILS. And ILO works on these issues (eg Better Work, eradication of Child Labour Programme)
- But often compliance problems are more widespread and numerically significant in non-tradeable sectors than in tradeable ones.

## 2. Trade – economic diversification (5)



### Key questions

- Does trade liberalization contribute to increased diversification?

### What we know:

1. Yes, trade liberalization is typically followed by an increase in export diversification, but this effect is stronger in middle income countries (MICs) than in LICs.  
This means: Wealthier economies with higher capabilities are able to benefit more.
2. In poor country settings liberalization often leads to loss of production and jobs in manufacturing (de-industrialization).

## 2. Trade – gender (6)



### Key questions

- Does trade liberalization contribute to create more and better jobs for women?

### What we know:

- Yes, trade expansion often creates jobs for women in labour-intensive export-oriented industries. These contribute to women's economic autonomy and status in the household.
- But, conditions of work have often been poor (low wages, gender wage inequalities, long hours, job instability)
- In some countries that have managed to move up the technology ladder, the employment opportunities for women have declined, as women may have more limited skills in more skill-intensive sectors.
- Trade expansion create jobs for women but does not necessarily reduce gender gaps.

## 2. Trade in agriculture and employment (7)



### Key questions

- What impact of trade liberalization on agriculture?
- And on rural household production and consumption?

### What we know:

- In some countries farm employment dropped dramatically in some sectors following trade lib, accelerating rural-urban migration (Mexico)...
- In others, agriculture is a major sector contributing to export revenue and employment (Argentina, Brazil, Canada, NZ).
- Significant Empl and output gains have been estimated from MTL ag lib, but concentrated.
- How border prices are transmitted to poor households depends on how isolated poor people are and on marketing agency policy.
- Some markets are created, others destroyed.
- Households respond well to price signals if they have access to information, credit and inputs
- There are strong production and expenditure linkages from dynamic sectors in rural areas.

# 2. Trade in Services and Employment(8)



There are **good** services jobs...



...and there are **not-so-good** services jobs



# Trade and Employment in Services, Developing Countries (8)



- Since **services are particularly labour-intensive** (more than manufacturing), **job creation through services exports is a good way of absorbing surplus labour** in Developing countries.
- **Back-office services** (finance, insurance, transport, energy, and telecommunications) and **social services** (health and education) may generate not only **direct employment** but also **induced employment** in other economic sectors through **productivity effects**.
- **To have competitive services exports**, countries need to **adapt technical and vocational education and training programmes to raise the skills levels of workers**.

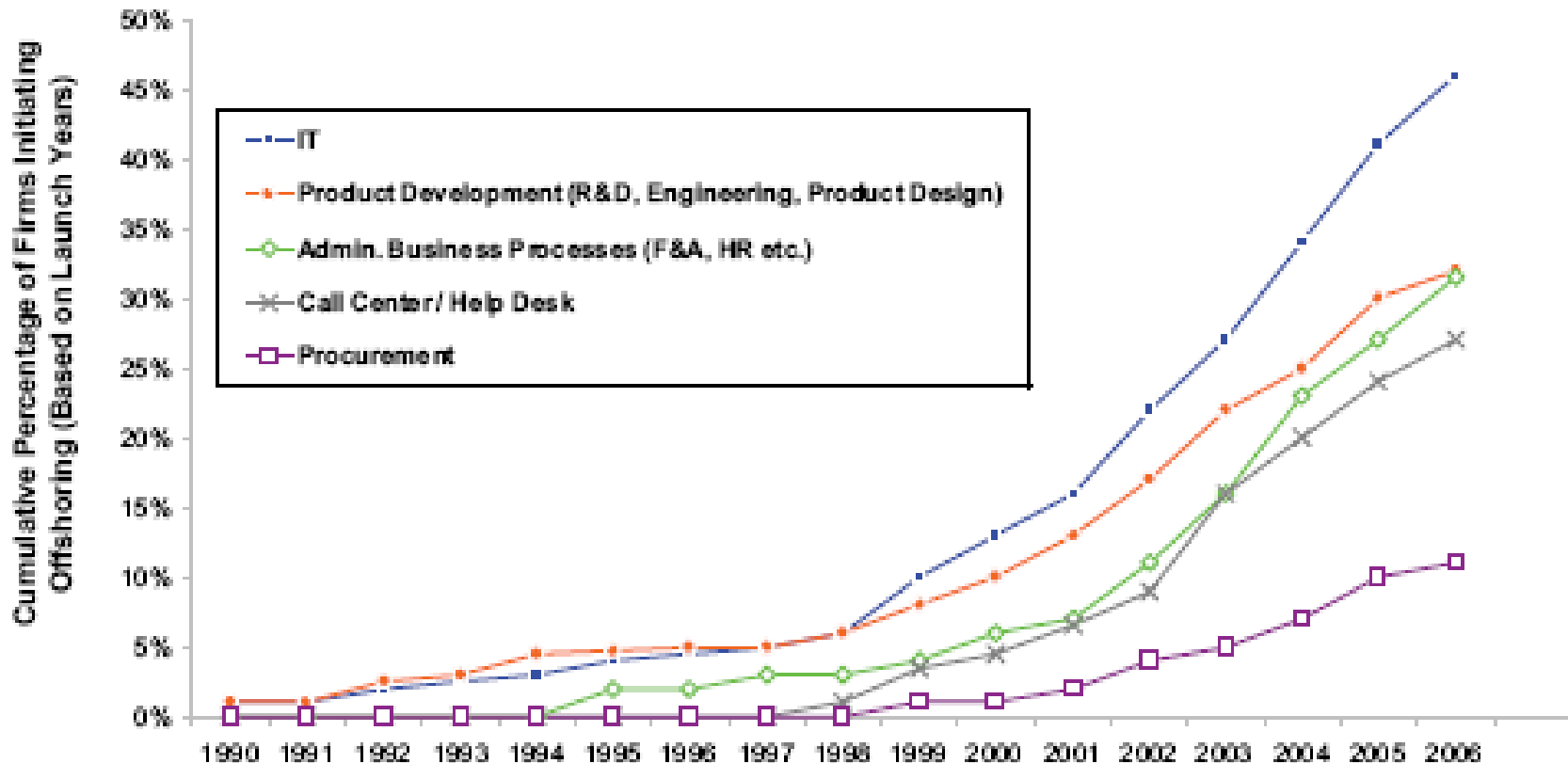


# Offshoring trends by business function



Offshoring is growing across all business functions, with IT offshoring still leading the pack

Cumulative Percentage of Firms Initiating Offshoring, by Function





# How can international cooperation around trade contribute to job creation?



- Better macroeconomic coordination and rebalancing
- Market access – open trading system
- Policy space to accommodate development policy
- Trade-related capacity building
- Fully integrating the social dimension into trade and globalization-one of the defining challenges of 21st C:
  - Trade agreements to include respect for Fundamental Principles and Rights at Work
  - Better data and transparency on GVCs, including their social dimension and working conditions
  - Social Protection Floor – complementary to strong MLT system