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

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TRADE, GROWTH AND JOBS

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Trade, Growth and Jobs

What We Know

Market openness can be a key factor promoting growth,
...improving employment and wages,
...and contributing to better working conditions.

BUT these positive impacts are not automatic.

Complementary policies are also needed:

- ...public investment in human resources and physical infrastructure
- ...macroeconomic policies and governance systems that create a positive climate for private investment
- ...active labour market and social protection policies to assist individuals.



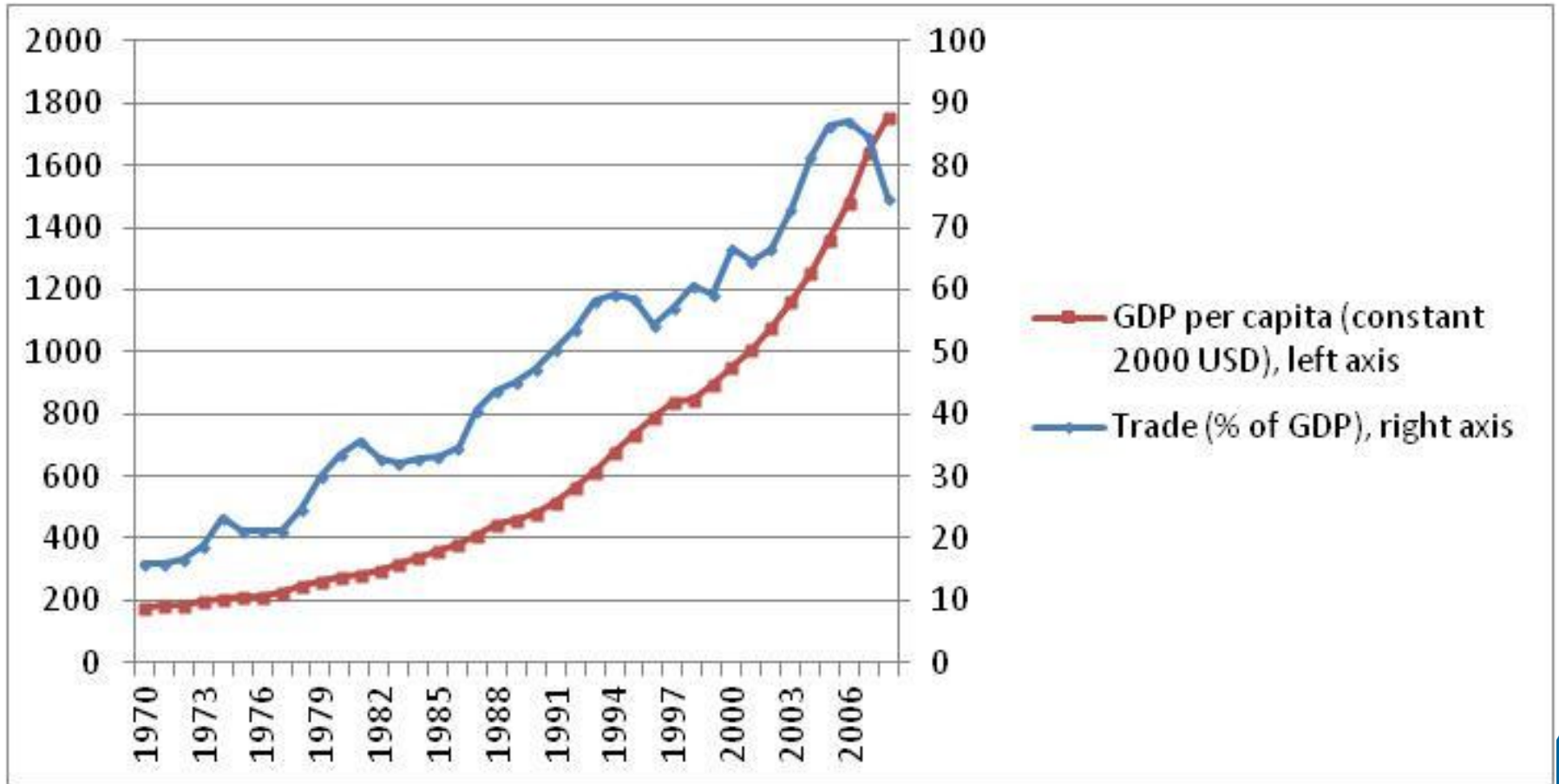
Trade and growth

Trade drives growth through increases in productivity

- Of the 14 multi-country econometric studies undertaken, all 14 concluded that openness to trade raises national incomes
- ...and all available country studies reach the same conclusion.
- Open economies grow faster than closed ones.
- Of the many studies available, not one has shown that trade restrictiveness has had a long term positive impact on growth;
- ...the impact of trade restrictions is often to tax the poor, create few jobs at very high cost, and stifle productivity and growth.



Trade openness and growth, East Asia & Pacific





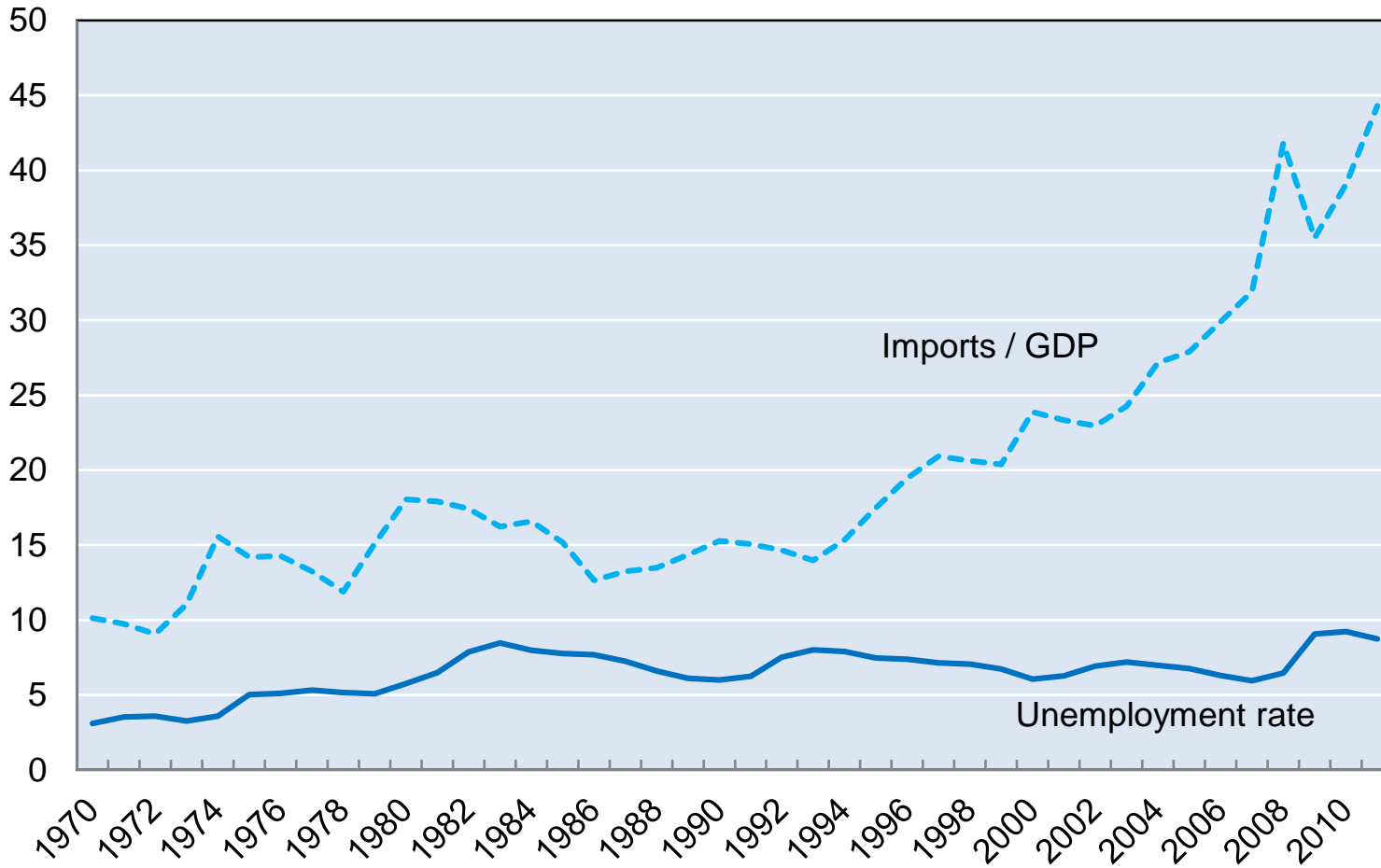
Trade and employment

Trade – imports and exports – contributes to new and better jobs

- Exporting firms tend to pay higher wages.
- Imports, by raising productivity growth, create higher-wage/skill jobs.
- Wages in the most open sectors as much as 25% higher (labour market policy also very important).
- Openness to trade can improve overall working conditions (injuries, child labour, hours worked, etc.).



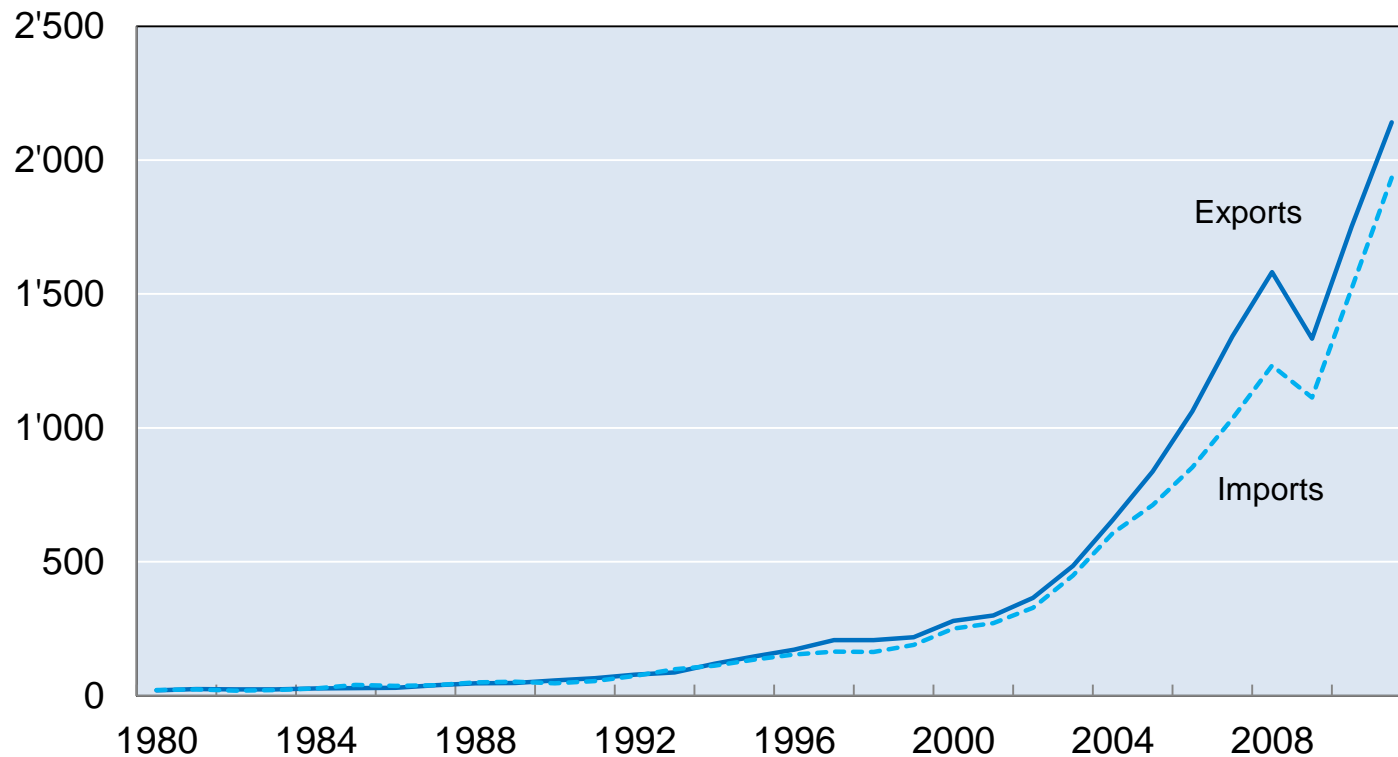
Imports and unemployment, not correlated long term





China: the world's largest exporter...and the second largest importer

**China's exports and imports of goods and services
1980-2011, billion USD**



Source: WDI

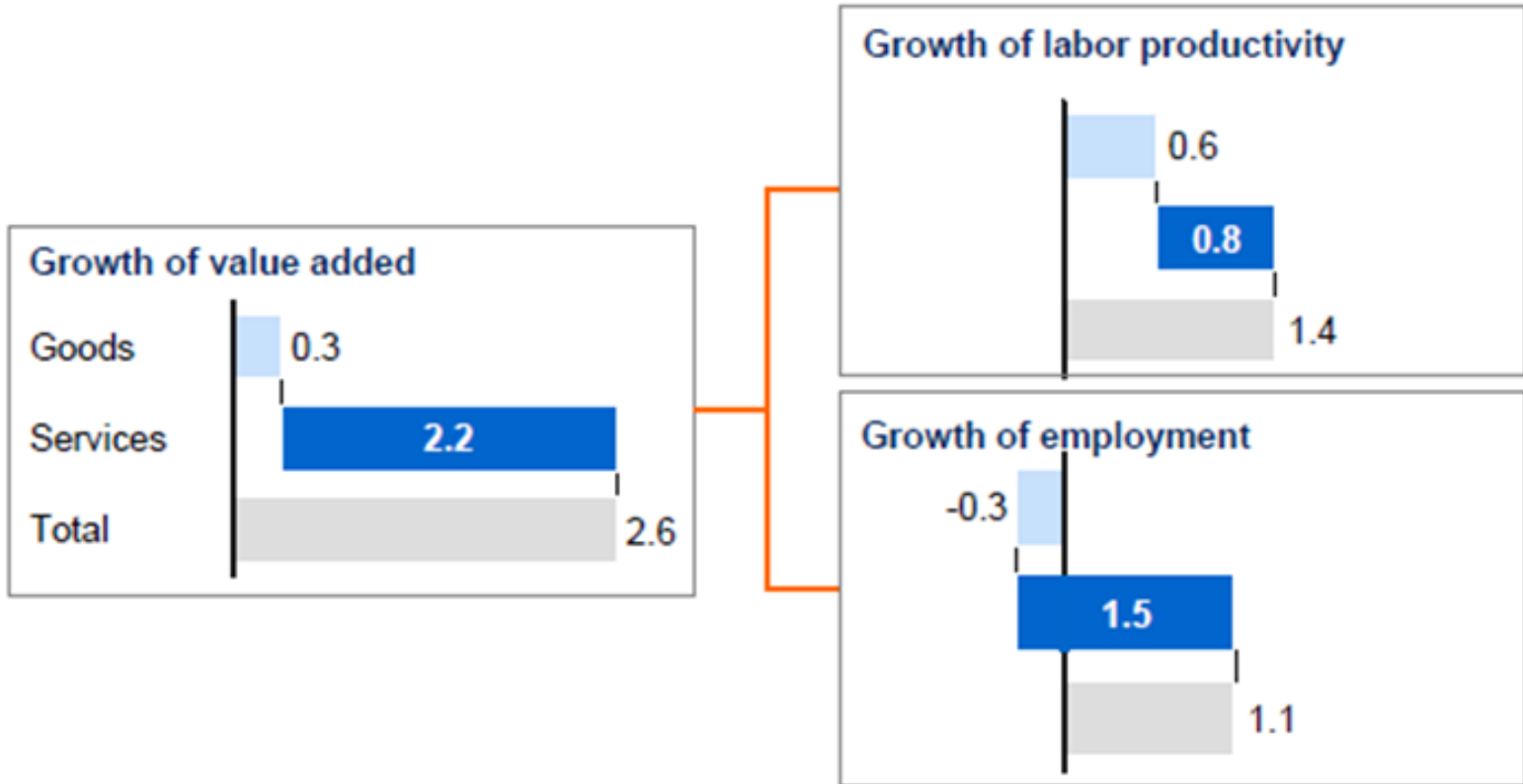


The composition of jobs has changed...

- The global location of manufacturing has shifted from higher to lower income countries over the past 30 years:
 - ...global manufacturing jobs, 115M to 162M
 - ...high income countries: 61M jobs to 54M jobs
 - ...East Asia: 27M jobs to 69M jobs
- While services sectors accounted for all net job growth in high-income countries and 85% of new jobs in middle-income countries between 1995-2005.



Growing importance of services sectors



Source: in McKinsey Global Institute analysis



Services Trade and Jobs

- Half the jobs in global value chains are found in the services sector.
- In developing countries more than two-thirds of services sector jobs are in SMEs
 - Which drive job creation
- Jobs related to international trade in services often contribute to improved labour market outcomes
 - Wages in the tradeable business services sector in developing countries are often significantly higher than the average



Trade and complementary policies

Appropriate companion policies are key to inclusive growth

- Public investment in high quality education and training is a prerequisite;
...along with strategic infrastructure (IT, transport, etc)
- Macroeconomic policies and governance systems must create a positive climate for private investment
...including for key services sectors.
- Active labour market and social protection policies are essential
...including support for training & skills upgrading and job search-creation,
...and temporary income support, employment insurance, etc.



Policy conclusions

- Avoid protectionism; trade restrictions stifle productivity and growth, and lead to job losses in the long term. Protect workers, not jobs.
- Open markets further. Trade can play a powerful role in contributing to raising incomes and creating jobs. But openness in goods and services markets is not a sufficient condition for inclusive growth, job creation and overall prosperity.
- Provide a strong foundation for income and employment growth: invest in education and skills and physical infrastructure, and improve the investment and business climate.
- Implement active labour market policies and robust social safety nets to equip workers to exploit new opportunities and to assist in the adjustment process.
- And remember that growth itself is an important adjustment policy, contributing to a greater flow of job opportunities.



New ICITE book: *Policy Priorities for International Trade and Jobs*



Policy Priorities for International Trade and Jobs

A PRODUCT OF THE INTERNATIONAL COLLABORATIVE INITIATIVE ON TRADE AND EMPLOYMENT (ICITE)

Chapter 1

Trade and Employment in a Fast-Changing World

Read and download the full publication and individual chapters, as well as other material from the ICITE project, at www.oecd.org/trade/icite

This document has been developed as a contribution to the International Collaborative Initiative on Trade and Employment (ICITE) coordinated by the OECD. The views expressed are those of the author and do not necessarily reflect those of the OECD, OECD member country governments or partners of the ICITE initiative.



Policy Priorities for International Trade and Jobs

Edited by Douglas Lippoldt



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