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Policy Priorities for International Trade and Jobs

Editor: Douglas Lippoldt
(Organization for Economic Cooperation and Development,
OECD 2012)

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TRADE AND JOBS

International Collaborative Initiative on Trade and Employment
(ICITE)

Douglas Lippoldt,
OECD Directorate for Trade and Agriculture



Publication: Policy Priorities for International Trade and Jobs, 2012

- ICITE is a collaborative effort of 10 international organisations
- Active engagement of social partners
- Empirical approach to the issues



Organization of
American States



WTO OMC



Headline conclusions

Market openness associated with promotion of growth & productivity; better employment, wages, working conditions.

These positive impacts are not automatic; entail **adjustment**.

Complementary policies are needed:

- investment in human resources & physical infrastructure
- economic policies and governance systems that create a positive climate for doing business and private investment
- social safety net to assist individuals
- appropriate institutions (e.g. core labour rights)

Protectionism has a high cost;
impedes ability of economy to benefit from trade



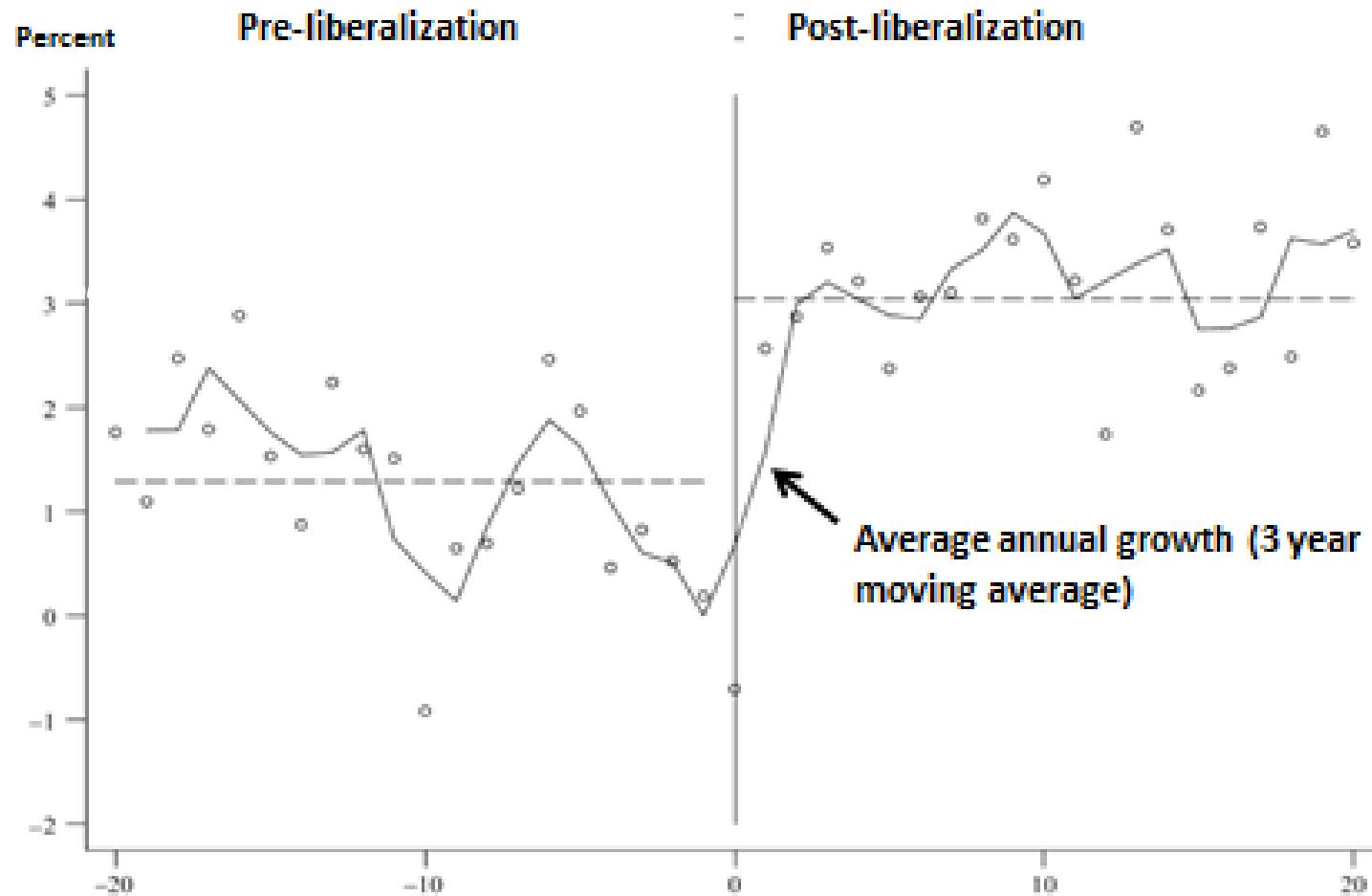
Trade and growth

Trade associated with growth & improved productivity

- Open economies grow faster than closed ones.
- Our review of 14 multi-country econometric studies undertaken since 2000 (cited in the OECD ICITE overview chapter) found that all concluded that to trade promotes growth & in turn had a positive effect on national incomes.
- Of the studies surveyed, not one shows that trade restrictiveness has had a long term positive impact on growth
- Instead trade restrictions often tax the poor (e.g., raising the cost of imported consumer goods), provide relief at a high cost; can stifle productivity and growth (e.g., by constraining competition & access to competitive intermediate inputs).



Economic growth, before/after liberalization



Source: Wacziarg and Welch (2008)



Trade and employment

Trade: imports and exports contribute to better jobs

- Exporting firms tend to pay higher wages.
- Intermediate imports (the bulk of trade), by raising productivity growth, promote higher-wage, skilled jobs.
- ADB: Openness to trade can improve overall working conditions (injuries, child labour, hours worked): growth and development promote welfare, preferences & expectations; FDI – MNCs concerned about reputation; gov't capacity.
- Policy & labour market institutions play an important role.

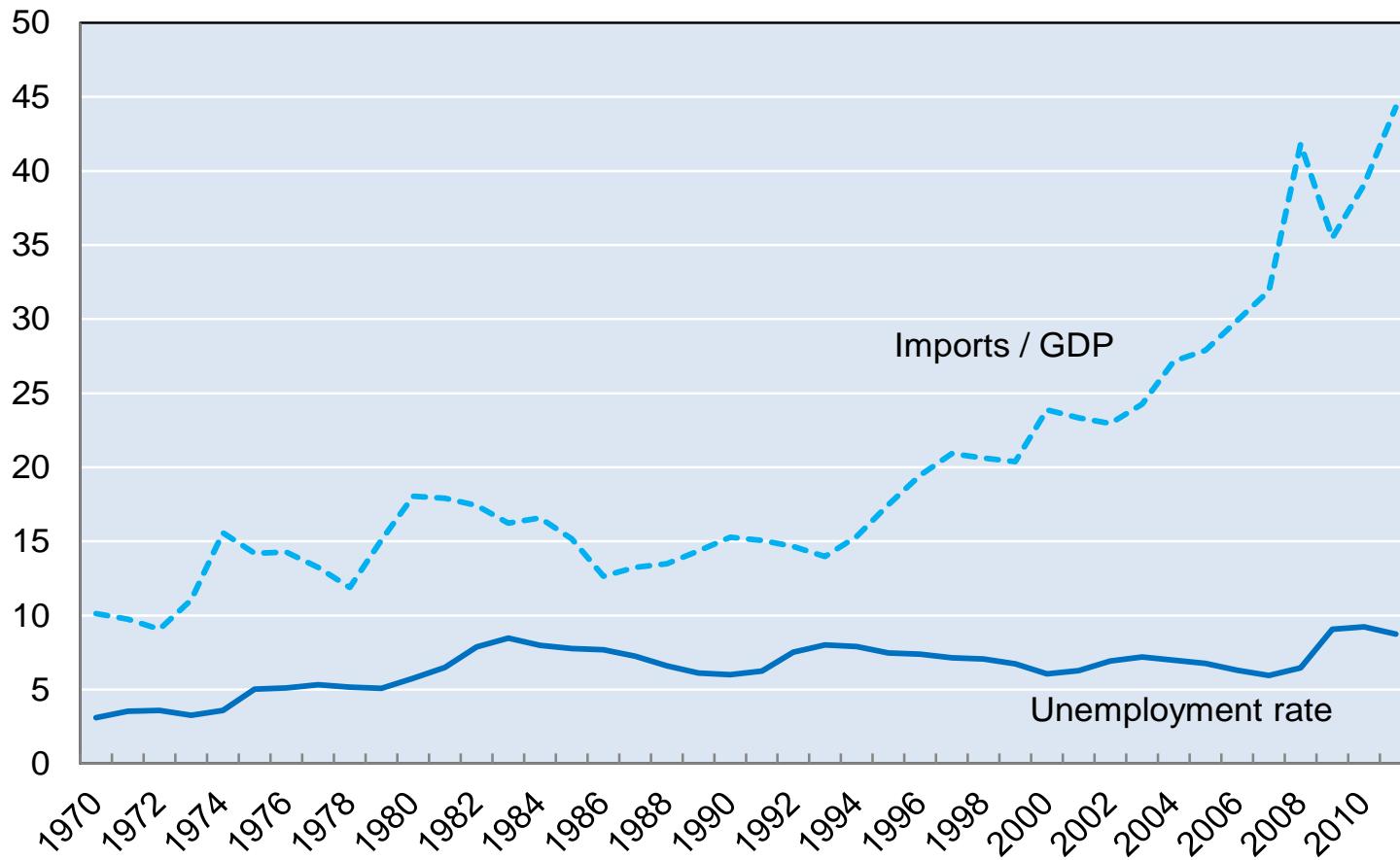


The composition of jobs has changed...

- The global location of manufacturing has shifted from higher to lower income countries over the past 30 years
- Global manufacturing jobs increase: 115M to 162M
 - Decrease in High income countries: 61M jobs to 54M jobs
 - Increase in East Asia: 27M jobs to 69M jobs
- According to McKinsey: service sectors accounted for the net job growth in high-income countries and 85% of new jobs in middle-income countries between 1995-2005.
- Agriculture sheds labour, esp in leading developing countries.
- Portion of this adjustment is trade-related; highlighting need for complementary policies to enable and assist



Imports and unemployment, not correlated long term



Source: Newfarmer and Sztajerowska (2012), building on Irwin (2009)
Note: Chart presents a simple average for 23 OECD countries



Asia – ICITE Studies

- **Regional (ADB)** - Increased trade = increased demand for labour in sectors concerned (e.g., manufacturing, some services); often drawn from agriculture & informal sector (Asia: ag emp shares = 66% in 1990, 44% in 2008)
 - Comparison of liberalisers vs non lib (25 years): productivity growth affects labour market; related wealth increase associated with better labour standards
 - Most child labour is in subsistence farming
- **Indonesian trade with China (ILO/UNCTAD):** modelling FTA; Indonesia is a net ag exporter to China; its ag relatively labour intensive, thus expect emp gains from increased ag trade
 - Now much subsistence farming; trade may provide exit opportunities



Latin America – ICITE Studies

- **Brazil (ECLAC):** I/O data with matched trade & emp, 2002-08. Findings: Export jobs up 2%, whereas total employment up 18% and exports up 200%; shift in export mix from mfg to commodities; from N. America to Asia; also role of productivity increase in agriculture (83% of exports to China centred on mining activities, agriculture, beverages & food; also note 80% of labour in ag export sector low skill)
- **IADB on trade and poverty**, regional lit review:
 - CAFTA – ag tariff reductions associated with lower nominal income for rural households, but consumption costs decline as well, overall net positive even in rural areas
 - Trade openness conducive to growth & poverty reduction, but flanking policies important: human capital, governance, infrastructure, labour market, macro



Africa – ICITE Studies

- **SADC (UNCTAD):** Ag productivity: a key issue for welfare; tension with emp objectives
 - Mozambique: Ag 81% emp, 28% GDP; Zambia: Ag 72% emp, 22% GDP
 - Intra African trade only 10% of total trade; potential benefits for welfare from expansion
 - Complementary policies: education, training, mobility support, infrastructure
- **South Africa (OECD) :** ag exports 17% to SADC, 40% EU
 - Ag employment down by about 1 million over 40 years to ca. 650,000
 - Trade-related shifts in sector since 1980s: horticulture up due to exports (fruit, wines): from 10% to 25% of output; crops from 50% to 25%; animals still 40% output but shift from red meat to poultry; imports rise due to soybean-oil cake for poultry feed
 - Further liberalisation – COMESA, ECA, SADC: duty free, NTMs reduced = 1.5% ag employment increase; welfare improvements for non-white households
- **ECOWAS (ILO)**
 - Regional trade: lower cost than global (proximity, language), a chance to build trade capacity; exporters tend to be larger, more productive; regional trade more diverse
 - low ag prody illustrated by high labour cost shares in exports (Benin 30%, Mali 35%)



Trade and complementary policies

Appropriate complementary policies are key to inclusive growth, facilitation of adjustment and ability to capitalise on opportunities from openness

Enabling environment, e.g.:

- Economic policies and governance systems must **create a positive climate for doing business** and private investment including in Ag & food processing.
- Investment in high quality education and training
- Strategic infrastructure (IT, energy, transport, trade facilitation)

Protecting workers not specific jobs, e.g.:

- **Active labour market and social protection policies:**
 - including support for re-training & skills upgrading, placement assistance and temporary income support, possibly unemployment insurance
- Labour market institutions such as core labour rights



Protectionism

- Disrupts the process of upgrading
- Condemns economy to lower productivity than would otherwise be the case (hence lower general wages and problem of insiders & outsiders)
- Promotes rent seeking rather than productive occupation
- Damages labour market outcomes as well as consumer welfare (as well as producer competitiveness)
- Protectionism is anti-poor; significant negative employment effects on balance
- Urge to protect was constrained during recent crisis, but threat remains



Policy conclusions

- **What's new under ICITE?**
 - Convergence in broad perspectives on trade across Int'l Organisations; political economy perspectives: highlights need for better integration across policy areas
 - Broad coverage, updated studies and incremental progress in methods and data for certain countries
- **Open markets further:** Phase in more openness including for agriculture; a necessary, but not a sufficient, condition for inclusive growth & overall prosperity
- **Avoid protectionism;** trade restrictions stifle productivity & growth; lead to job losses in the long term. Protect workers, not jobs.
- **Complementary Policies:**
 - Provide a strong foundation for income and employment growth
 - Provide an appropriate safety net



For more information

- ICITE materials available at: <http://www.oecd.org/site/tadicite/>
- OECD Trade and Agriculture Directorate: www.oecd.org/tad
- Contact us: tad.contact@oecd.org
- Follow us on Twitter: [@OECDtrade](https://twitter.com/OECDtrade)