

Rapporteur's Report:
International Collaborative Initiative for Trade and Employment (ICITE)
Global Forum on Trade and Technical Seminar
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¹ The views expressed are those of the rapporteur and do not necessarily represent those of the OECD, OECD Member countries, or the ICITE partner organisations.

Executive Summary

The Global Forum on Trade was held during 8-9 November 2011 at the OECD headquarters in Paris, conducted as part of the International Collaborative Initiative on Trade and Employment (ICITE). It was a capstone event that followed regional ICITE conferences in Latin America and Caribbean, Asia and the Pacific, and Africa, bringing together some 125 participants. The ICITE consortium also sponsored a technical seminar.

The content and tenor of the discussion stressed that the objective of devising better policies for better lives depends both on promoting growth via trade liberalisation and on promoting equity through a fair distribution of the burdens and benefits. While participants disagreed on details or potential trade-offs between these two objectives, there was broad agreement that they are each desirable, complementary, and achievable. The forum considered ample evidence of a positive long-term relationship between market openness and growth, as well as the short-to-medium term relationship between trade, employment, and equity, which is more complex. Three general themes emerged in the discussion over these issues.

The first theme concerns the impact of trade liberalisation on employment and equity. Trade creates aggregate prosperity and contributes to inclusive growth. However, the latter half of that construction is not always as broadly recognized as the former in the general public and in policymaking circles. Participants differed here in degrees, with some seeing trade as leading to both growth and equity, thus implying that little or no further action is needed by government. They may nonetheless acknowledge a case for greater state action either to facilitate and promote trade or to adopt compensatory policies for reasons of political economy. Other participants expressed the belief that the gains are not evenly spread by the market alone, and that it may be necessary for governments to put in place a more active set of complementary policies that promote opportunity, adjustment, and equity.

Second, the conference considered the efficacy of these proposed complementary policies. Some focused on measures needed to promote trade, arguing for example, that greater investment is needed to improve not just the necessary trade hardware of ports and roads, but also the associated software of trade-facilitating customs procedures and a favourable business climate. Other participants focused more on the distribution of gains, with some contending that government transfers may be necessary to address income inequality and/or compensate those who are displaced by trade liberalisation. One recurring issue centred on whether workers who lose their jobs as a consequence of import competition differ from those whose job losses are attributable to other causes and, if so, whether they should be treated differently. This is an active issue in the literature, and one on which no consensus view emerged from the discussion.

The third theme concerned whether the challenges in the global economy today are transitory or perennial. The forum met at a challenging moment when the global economic recovery appears to be sputtering, governments keep struggling to balance fiscal consolidation and job creation, the Doha Development Agenda is stalled, the threat of protectionism may be on the rise, there are centripetal forces at work in some regional groupings, and current account imbalances are still producing severe global distortions. Another problem is the continuing “perception gap” in the public concerning the benefits of open markets. All of these problems serve to make trade liberalisation economically more necessary but politically more uncertain.

The next steps for ICITE will include the publication of research that the project has produced, and the development of a comprehensive, coherent, and accessible storyline regarding the practicalities of trade and inclusive growth. This will be taken up in the first half of 2012 as a collaborative effort among the ICITE partners.

I. Introduction

The Global Forum on Trade was held during 8-9 November 2011 at the OECD headquarters in Paris, conducted as part of the International Collaborative Initiative on Trade and Employment (ICITE). The ICITE project, a joint partnership of ten international organisations, is designed to explore the relationship between trade and employment and the associated policy implications.² In addition to serving as a catalyst for a new wave of empirical analysis, the initiative seeks to create an inventory of data resources, promote dialogue among stakeholders, and provide resources for policymakers and the public.

The Global Forum on Trade is a capstone event that followed regional ICITE conferences in Latin America and Caribbean, Asia and the Pacific, and Africa. From the opening comments of OECD Secretary General Angel Gurría through the final roundtable discussion, this forum offered a platform for presentation of cutting-edge research and dialogue among partner organisations in the ICITE consortium, national representatives, social partners, and experts. The program of the forum is reproduced as [Appendix 1](#).

This conference brought together some 125 participants including policymakers, academic experts, social partners, representatives of regional and international organisations, and other stakeholders. Nine ICITE partner organisations were represented: the Asian Development Bank (ADB), the African Development Bank (AfDB), the Economic Commission for Latin America and the Caribbean (ECLAC), the Inter American Development Bank (IADB), the International Labour Organisation (ILO), the Organisation for Economic Cooperation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD), the World Bank, and the World Trade Organization (WTO).

In addition to the one and a half-day forum, the ICITE consortium also sponsored a technical seminar on 9 November 2011. A summary of the research presented at that event, which provided an opportunity for more detailed examination of specific issues in trade and employment, is incorporated as [Appendix 2](#).

The Global Forum on Trade hosted fourteen addresses and presentations, several of which were devoted to new research on the subject, and six presentations were made at the technical seminar. These papers contributed to the substantial and growing literature that confirms the potential of trade liberalisation to deliver improved labour market outcomes, while also noting that realisation of the full benefits of openness requires a coherent policy framework that facilitates structural adjustment and addresses labour market and social concerns. Participants at both events also considered recent research published by sponsoring institutions, sometimes in collaborative efforts. The papers presented at the conference, as well as others referred to by participants, are catalogued in the bibliography that forms [Appendix 3](#). Many of these are available on-line, with hyperlinks to the source institutions provided in the bibliography.

Conference participants expressed appreciation for the relevance, substance and organisation of the conference. This was reflected in generally high feedback scores averaging 5.4 out of 7 on the evaluation forms.

² Organisations participating in ICITE include the ADB, the AfDB, ECLAC, the IADB, the ILO, the OAS, the OECD, UNCTAD, the World Bank, and the WTO.

II. Principal Themes of the Forum

If the content and tenor of the discussion at the forum were to be reduced to a single sentence, it is this: The general objective of devising better policies for better lives depends both on promoting growth via trade liberalisation and on promoting equity through a fair distribution of the burdens and benefits, and while participants disagreed on some of the details or potential trade-offs between these two objectives there was broad agreement that they are each desirable, complementary, and achievable. The forum considered ample evidence of a positive long-term relationship between market openness and growth, but the short-to-medium term relationship between trade, employment, and equity is more complex. Many participants stressed the need for complementary policies both to enhance the gains from trade liberalization and to ensure that they are distributed equitably. Securing these goals is made more challenging by the economic crisis in our recent past and growing concerns about our immediate future.

Three general themes emerged in the discussion over these issues, each of which drills deeper into the core question. These themes concern the impact of trade liberalisation on employment and equity; the efficacy of the complementary policies that might be deployed to promote the two goals; and whether the challenges in the global economy today are transitory or perennial. Each of these three themes is discussed at greater length below.

A. *The Impact of Trade on Employment and Equity*

Trade creates aggregate prosperity, as Jagdish Bhagwati observed in his keynote address, and also contributes to inclusive growth. The latter half of that construction is not always as broadly recognized as the former, however, both in the public at large and in policymaking circles, where the dislocations caused by trade liberalisation can produce economic and political challenges. While participants did not all agree on the extent to which trade liberalisation promotes inclusive growth, or the type or magnitude of complementary policies that may be needed to ensure that the benefits are spread, none challenged the observation of WTO Deputy Director General Alejandro Jara that closing off trade is a formula to produce poverty.

Much of the discussion addressed the controversies surrounding the equitable distribution of gains between and within countries. Concerning the issues of growth and equity between countries, several of the presentations focused on the consequences of trade liberalisation between developing and industrialized countries. These issues were examined both vertically (considering the experiences of countries at different levels of income and development) and horizontally (considering the experiences of countries in different regions of the world). Participants also discussed the lessons that might be derived from the experiences of peers in other regions, as in the case of the Asian regional cooperation in transportation corridors or Australia's experience with a commodity boom.

As for growth and equity within countries, the views on the relationship between trade liberalisation, economic growth, and equity can be arrayed along a spectrum. It is anchored theoretically at one end by strict free-traders who believe that the market is essentially a meritocracy from which we can expect growth but should not be concerned over equity (thus implying that state intervention is unnecessary and counterproductive), and at the other end by radicals who prize equity over growth (which may imply either limitations on liberalisation or very substantial investment in remedial or compensatory measures). While these extremes exist both in theory and in some quarters of the larger policy debate, neither was in evidence at this forum. The discussion's centre of gravity was instead balanced between two centrist alternatives.

The most optimistic centrists see trade leading both to growth and equity, thus implying that little or no further action is needed by government. They may nonetheless acknowledge a case for action to facilitate and promote trade (e.g., expansion of infrastructure) or for reasons of political economy (e.g., providing assistance to trade-displaced workers to reduce their opposition or even secure their support for further liberalisation). At a somewhat less optimistic level, other participants expressed the belief that while trade can yield both growth and equity the former is more assured than the latter, and it may therefore be necessary for governments to put in place more active policies that promote opportunity, adjustment, and equity.

Participants in the latter group pointed to several categories of workers or other stakeholders whose boats are less apt to rise with the economic tide, and that may therefore merit closer attention by policymakers. This was a recurring theme in the discussion, with participants differing over the extent to which workers whose job losses can be attributed to import competition should be treated differently than other unemployed persons. In particular, Session IV focused on this issue and provoked a lively debate among the conference participants. Stephen Pursey of the ILO similarly noted that when observing average outcomes we can lose sight of the distribution of gains, and that the typical worker may never see the gains enjoyed by the top-performing sectors. Other participants referred to more specific problems for certain constituencies; Bhagwati, for example, underlined the problems of older workers whose skill sets may not have kept up with the times. Doug Brooks of the ADB observed that in Asia two-thirds of employment is in the informal sector, where the results for work safety, working conditions, etc. are not as good as they are for the formal sector. Each of these arguments regarding the problems faced by specific constituencies implied the need for some form of government intervention, acting as a complement rather than a substitute for trade liberalisation.

B. The Efficacy of Options to Promote Trade and Equity

Moving from the observation that there is at least some tension between the economic objective of creating a larger pie *versus* the social or political objective of dividing that pie equitably, participants considered various ways that the two objectives might be jointly pursued. Much of the discussion related to what the proper role of the state may be, above and beyond negotiating for the progressive reduction or elimination of trade barriers.

Some focused on measures needed to promote or facilitate trade, arguing for example that greater investment is needed by national governments, international institutions, and the donor community in expanding the essential infrastructure of trade. This includes not just the necessary hardware of ports and roads but also the associated software of trade-facilitating customs procedures and a favourable business climate. That point was explored retrospectively for Asian countries and prospectively for Latin American, Caribbean, and African countries.

Other participants focused more on the distribution of gains, with some contending that government transfers may be necessary to address income inequality and/or compensate those who are displaced by trade liberalisation. Still other participants focused on measures that might be employed to address both growth and equity. Chief among these complementary steps are labour policies (which may include active labour market policies and trade adjustment assistance), education and training, and the social safety net. Other elements that might be deployed to complement trade liberalisation are migration policy, including migration management and immigration policies in partner countries; policies to encourage employers and workers to move from the informal to the formal sector; social dialogue and public-private dialogue; and transfer of technology and knowledge.

One recurring issue centred on whether workers who lose their jobs as a consequence of import competition differ from those whose job losses are attributable to other causes and, if so, whether they should be treated differently. The adjustment costs for this group appear to be higher than for other job losers, according to Stefano Scarpetta of the OECD, as exemplified by large wage losses on the post-displacement job in the United States and by long-term unemployment and labour force in Europe. While he did not then argue that these workers need programs that treat them differently, others believed that they may merit programs that differ with respect to availability, funding, and duration. This is an active issue in the literature, and one on which no consensus view emerged from the discussion. Some argued on the one hand that trade-displaced workers tend to differ from other job losers in certain respects, be it industry, age, skill level, etc. and tend to be concentrated in certain areas or sectors, and merit special attention on these grounds. Others argued that there is little justification for treating workers differently solely on the basis of claims of trade competition. Some stressed that the priority should be a comprehensive policy framework that includes elements aiming at enhancing the mobility of workers, developing labour force skills, and employment-oriented social assistance.

Some participants argued that considerations of political economy may strengthen the case in favour of programs that differentiate between workers according to the cause of their job losses. Bhagwati pointed out that trade adjustment assistance or other targeted programs for trade-displaced workers serve not only an economic function but a political one, as they are needed to secure labour union support for (or at least reduced animus towards) trade liberalization. The utility of such appeals depends on whether the unions are open to persuasion, however, a matter that is called into question by an observation made by Bernard Hoekman of the World Bank. He noted that in the United States the unions strike a protectionist position even though their membership base is increasingly concentrated in non-traded sectors, such as government workers, thus implying that protectionist preferences may have become so imbedded in their program that union support for liberalisation is no longer within reach. Ken Ash of the OECD found a lot of intuitive sense in the proposition that general versus targeted measures are better, but also observed that when there is a specific segment of the population is displaced there may be an argument in favor of targeting.

C. Perennial and Transitory Issues

The forum did not take place in a vacuum, but was instead held in an atmosphere that is clouded by the problems of the present and concerns over the future. It met at a challenging moment when the global economic recovery appears to be sputtering, governments keep struggling to balance fiscal consolidation and job creation, the Doha Development Agenda is stalled, the threat of protectionism may be on the rise, there are centripetal forces at work in some regional groupings, and current account imbalances are still producing severe global distortions. All of these problems serve to make trade liberalisation economically more necessary but politically more uncertain. The participants nonetheless considered the lessons, both positive and negative, to be learned from the recent and distant past.

In his keynote address, Jagdish Bhagwati urged that we need to go into a “fourth gear of spending” in order to create more employment. Harkening back to Friedman’s observation that “we are all Keynesians now”, he argued that a Keynesian solution is needed in the present circumstances. That prescription does not apply across the board, however, as macroeconomists make bad trade policymakers. They do not understand the retaliatory dynamics of international relations, he said, and hence the instinct of some among them to propose mercantilistic *cum*

macroeconomic instruments needs to be resisted. Bhagwati expressed the fear that trade policy will become a default instrument as the other means of reflating economies are closed off. Noting that this is where Keynes found himself at the start of the Great Depression, only to regret this position later, Bhagwati observed that the resort to trade policy as a macroeconomic instrument was wrong then and wrong today. We have a short-term Keynesian problem that needs to be addressed through means other than trade protection, and a trade problem that needs to be kept out of Keynesian hands.

In another look behind to the 1930s, Carlos Primo Braga of the World Bank made a more favourable comparison. He observed that while the Great Recession of 2007-2009 had devastating economic effects, the good news is that it was not accompanied by a major resurgence of protectionism. There have been some examples of “murky protectionism” in the form of local-content requirements, bail-outs, and the like, but nothing compared to the severe market-closing experience of the 1930s. This demonstrates that policymakers can indeed learn from the past and are not condemned to repeat the mistakes of their predecessors.

The Keynesian question relates as well to the proper size and role of the state. On specific issues affecting trade, some participants implied that we need a state that is smaller at the border in one respect (i.e., lower tariffs and less burdensome procedures) while also bigger in another (i.e., improvements in infrastructure such as ports and roads). That latter point received considerable attention, especially for developing countries in Asia, Africa, and the Americas. While the only major controversy surrounding the question of infrastructure concerned how such projects are to be financed, other responses to the economic crisis involve more sensitive matters. Doug Brooks of the ADB noted that the crisis brings challenges and opportunities to enact difficult and unpopular policies, including reforms aimed at inflexible labour markets, a huge informal sector, youth unemployment, social safety nets, etc. This is an area, however, where what some call a reform will be perceived by others as a severe cut in needed programs.

One perennial problem to which several participants referred is what Michael Plummer of the OECD called the “perception gap” and that Primo Braga deemed a failure of salesmanship on the part of the trade community. While practical experience and academic analysis both underline the substantial gains from trade, there nevertheless remains a widespread perception that the distribution of these benefits is skewed to favour rich countries or people over the poor. Several participants believe that those perceptions in the general public are mistaken,³ but may nevertheless act to limit the ability of policymakers to achieve further liberalisation. This may be a contributing factor to the stall in multilateral trade negotiations. It remains unclear whether that stall is a transitory problem or the manifestation of a perennial one, but in either case there was no optimism expressed at the forum on the near-term prospects for a multilateral deal. Fortunately, there are alternatives. Michael Plummer of the OECD observed that with countries having already picked much of the “low-hanging fruit” in earlier multilateral negotiations and in unilateral liberalisation, regional trade arrangements now lead the way not as a substitute for multilateralism, but as a complement to it.

³ That was not a universal opinion. Stephen Pursey of the ILO observed that survey evidence on these issues reflects realities and not misperceptions about globalization and labour market linkages, and John Evans of the Trade Union Advisory Committee to the OECD raised similar concerns.

III. Presentations and Discussion⁴

A. *Opening Remarks and Keynote Address*

OECD Secretary General Gurría set the tone for the event by presenting a series of questions in his opening remarks. Chief among these is how we can turn trade into an engine of stable employment and inclusive growth. This leads to such subsidiary questions as the following: Is international trade helping to reduce socio-economic disparities in highly open countries? Is integration to world markets promoting regional integration in some countries? Who are the main beneficiaries of open trade?

Jagdish Bhagwati picked up on these questions in his keynote address. He noted that while the positive impact of trade on growth and development is well-documented, the relationship between trade and jobs is more complex. The debate had earlier been over the trade-and-wages link, with the fear that trade would drive wages down. The controversy has since been dominated by a new series of narratives, one of them being the switch from the trade-and-wages to the trade-and-jobs issue.

Another narrative concerns the impact of trade and mechanization on employment. Bhagwati recognized that unskilled labour does indeed have a problem, as it is continually depressed by mechanization. Trade nevertheless makes it possible for the poor to gain by reducing the costs of their consumption items. Unskilled workers are disadvantaged by skill-biased technological change, which is a separate process, but also benefit from the lower prices for consumer goods that trade brings. The labour unions do not recognize this, however, as they have the mind-set that it is all a loss. Labour policy becomes extremely important as flexibility in the labour market makes losses compatible with gains: If you can't fire, you won't hire, and it is not possible to provide security in a specific job. Trade requires continuous shifts or, in the vernacular, there is no gain without pain.

Yet another narrative focuses on the question of whether trade between rich and poor countries constrains the prospects for the rich countries. The gains from trade that the rich countries enjoy may diminish as developing countries grow and become more similar to the industrialized countries, but there will also be more trade in similar products (so-called trade in variety). Outsourcing is the biggest issue in the competition between these countries, and it offers new opportunities. Jobs are opening up through outsourcing and in-sourcing, but here again the critics tend to over-emphasize the potential losses. He observed that the concerns over the loss of these jobs are overblown. Often the decline of a particular service in one country and its emergence in another country are not linked, but in the general public the consequences of structural processes in the economy are often mistakenly attributed to international competition. Moreover, certain services cannot be performed from a long distance or require particular certification.

Bhagwati concluded by commenting on the current predicament in which we find ourselves. We are living in the aftermath of a recession and financial crisis, and are not out of the woods yet, and there is little progress on trade liberalization. As noted above (see section II.C), he argued against the use of trade as an instrument of macroeconomic policy. While there are

⁴ Note that many of the presentations summarized here are available on-line; see the bibliography in [Appendix 3](#) for the links. Note also that in the interests of space and clarity, those points made by participants that were already reviewed in section II (Principal Themes of the Forum) are generally not repeated in this section.

solid, Keynesian reasons for governments to increase stimulus, they should not look to trade restrictions as one of the instruments. In place of entering into a destructive cycle of trade retaliation, countries should instead negotiate for further reductions in barriers.

B. Macro Perspectives on Trade, Employment, and Growth

The first session concerned the extent to which increased market openness contributes to recovery from the recent global recession and creation of employment opportunities. It began from the proposition that job creation has not kept pace with the recovery in trade. Among the questions that the panellists sought to answer were how policy can help to address impediments to structural adjustment, and thereby increase the potential for employment opportunities in expanding areas of the economy; and in the long term, how can policy promote sustainable positive economic and labour market outcomes in relation to trade?

Gary Banks of the Australian Productivity Commission Trade, Employment and Growth presented an argument for the capacity of government to make affirmative moves that are self-sustaining. Relating the Australian experience with a “top-down” approach to trade liberalisation from the 1970s forward, he stressed that this was accompanied by reforms in other fields (e.g., deregulation of the labour market). The net result was that Australia achieved new levels of productivity and innovation. The level of unemployment fell, but so did employment in manufacturing. Government had a role, providing some adjustment assistance as well as aid to innovation and R&D, but the real key was the gradual and complementary nature of reform. The lesson, he said, is this: Don't wait. Don't use domestic rigidities to justify the retention of protection. Trade and employment can work together, and the need for market flexibility is the key to success. In the subsequent discussion, one South African participant argued that his country's experience in the early 1990s with a Big Bang approach to trade reform implied that gradualism works better. The differing experiences between these two countries led to speculation that the quality of education is important, as it may help to explain the Australian take-off in services compared to the South African skills shortage.

Stephen Pursey, Director of Policy Integration at the ILO, argued that we need to be realistically innovative. Strong social policies are needed to deal with the challenges of globalization. More trade is not always the magic answer, he said, and we should not over-sell the benefits of trade liberalisation. Noting the necessity of complementing market-opening measures with adjustment policies, he said that active, well-integrated policy measures are needed to achieve balance. Pursey pointed to two recent ILO books issued in collaboration with the EU and the WTO, respectively (see the bibliography in [Appendix 3](#)) that present evidence and analysis on the trade and employment linkages. The challenges that the research reported in these volumes pose to policymakers include three main points. First, trade does not necessarily lead to the level and type of job creation that they expect. There is increasing evidence that exporters do not create enough new jobs to absorb the jobs lost in import-competing firms and the transition processes following trade reform or trade shocks are not always smooth. Second, countries need to provide adequate protection to individuals against exposure to external shocks emanating from openness. Openness does provide a buffer against internal shocks, and helps countries to recover from external shocks, but openness makes countries vulnerable to economic problems in partner countries. Third, the distribution of the gains and losses from trade remains a challenge. Income inequality has been on the increase in many countries in recent years and the phenomenon is observed in both industrialized and developing countries.

According to Doug Brooks of the ADB, the trade and *growth* nexus is reasonably well-established, but the relationship between trade and *employment* is more complex. The short-run dynamics centre on such matters as job creation versus destruction and the wage effects, but in the long run the data show weak effects on aggregate employment and mixed results on sectoral wage and employment effects. Recent decades witnessed evolving employment patterns not just due to the global crisis, but also tremendous shifts in patterns of employment in the Asia-Pacific region. The emerging stylized facts are that services are important and growing rapidly, wages increased broadly and are generally robust, and trade did not lead to degradation of labour conditions in Asia. More trade is correlated with better conditions and higher wages. The data also point to increased demand for skilled labour, and the gains for countries from regional integration. Taking these trends into account, as well as innovations in technology, outsourcing, parts and components trade, etc., openness brings opportunities to expand output and employment in certain sectors, but they come with costs that need to be minimized and managed well in the less competitive sectors. While the relationship between trade and employment is not a zero-sum game, the mechanisms of transfer of gains from the winners to losers should be better understood. Politically difficult reforms are needed to manage the shift of labour and firms towards the winning sectors to maximize gains.

C. Trade and Inclusive Growth I

The second session turned to the issue of trade and inclusive growth, a topic that has risen to the top of policy agendas for governments and international organisations. While definitions vary, inclusive growth is often seen as covering such objectives as sustainability, availability of productive employment opportunity for the working age population across society, improved and equitable employment compensation over time, poverty reduction, and increased overall growth.

Stefano Scarpetta of the OECD highlighted the rising levels of income inequality within OECD countries. Things have gotten more unequal in high-income industrialized countries, though a bit less unequal among the lower-income OECD members (i.e., Chile, Mexico, and Turkey). Redistribution has increased in the OECD countries, but not enough to undo the rising level of income inequality. Policies are therefore needed, he said, to serve as a buffer for workers. It is difficult to disentangle the effects of trade and FDI from other factors such as skill-biased technological changes, institutional and regulatory reforms, changes in employment patterns and in family formation and household structures, and changes in tax and benefit systems. He found little evidence of a direct effect of globalisation on wage inequality, but technological change did have an impact, especially by boosting wages at the higher end. A number of regulatory reforms aimed at promoting growth and productivity also had a positive impact on employment, but at the same time were associated with increased wage inequality. The rise in the supply of skilled workers was a major counterweight in reducing wage differentials and promoting employment. In view of the sizeable adjustment costs for trade-displaced workers, governments need to implement labour market policies that strengthen job creation, upgrade skills, and steer workers towards more productive jobs. Government transfers also have an important role to play to safeguard low-income households, and there is scope for reviewing some existing tax provisions among top-income households.

Mina Masheyekhi of UNCTAD noted that these issues will be taken up in the thirteenth session of the United Nations Conference on Trade and Development (UNCTAD XIII),⁵ which

⁵ Details available at <http://www.unctad.org/Templates/meeting.asp?intItemID=1942&lang=1&m=21643>.

will be held in April, 2012 on the theme of Development-Centred Globalization: Towards Inclusive and Sustainable Growth and Development. She made four main points on inclusive growth and development. First, international institutions can play a vital role in sustainable development. Second, the link between trade and growth is neither simple nor automatic. Benefits from trade expansion have not been distributed equally. LDCs have seen their market share in global exports declining for decades. How can we then go to value-added goods and services, beyond primary product exports? The LDCs have liberalized, but have not really benefited from this due to lack of diversification. Third, structural change is needed. Markets remain closed, especially with regard to free movement of people, and improvements are needed in education, human capital, and infrastructure. Fourth, national and international policies are needed for inclusive development. We need an ambitious, comprehensive, and development-oriented outcome out of the Doha Development Agenda and other trade negotiations.

D. Trade and Inclusive Growth II

Continuing the theme of that second session, this panel sought to address the role for policy to promote inclusive growth with respect to distributional issues and empowerment of key groups in society, the evidence on policy areas that might influence outcomes with respect to inclusiveness, and how policies might differ according to level of development.

Basing his presentation on a forthcoming paper by Daniel Lederman, Bernard Hoekman of the World Bank noted that inclusive growth can be defined as long-term sustained productivity growth and employment opportunities for a wide range of firms and households. This presentation argued for a wider view of the issues than is typically seen in trade policy *per se*. A key element is long-term wage and employment outcomes. Trade can support inclusive growth, if workers and firms can adjust and shift into sectors with growing demand and adopt new technology. The utility of trade reforms cannot be seen in the abstract, but depends on policies and factors in other areas (e.g., labor mobility costs, the upgrading or retooling of skills, etc.). More broadly, the net effect of trade reform on the poor comes both from these employment effects and from the impact on prices that they pay for goods. In general, if the relative prices of goods accounting for a large share of the consumption of poor households fall, trade reforms can be deemed pro-poor. Hoekman also reviewed the large outstanding research agenda on the relationship between trade and inclusive growth, both with respect to households and firms.

Jean-Pierre Verbeist of the Asian Institute of Technology Connectivity offered lessons from the Greater Mekong Subregional (GMS) Cooperation Program experience with improved connectivity. Created in 1992, the GMS Program groups Cambodia, Laos, Myanmar, Viet Nam, Thailand, Yunnan Province and Guangxi AR of China. Noting that poverty is highly concentrated along unconnected border areas in all GMS countries, he described a case of subregional cooperation based on improved connectivity (transport, power, telecommunications) to accelerate development and alleviate poverty. The GMS case shows that improved regional connectivity is an important element in reducing poverty and making growth more inclusive through expansion of intra-country trade, but more importantly intra-regional trade. In the absence of good transportation networks, inadequate infrastructure operates like an infinite tariff. He nonetheless cautioned that while improvements in transportation bring large benefits, trade facilitation has an even larger impact. Progress in trade facilitation is still limited in the GMS and ASEAN countries. Most GMS countries implemented major market-based economic reforms over the past 20 years, but to make these reforms inclusive they need to reach poorest people and regions that are unconnected to better-off urban centers which benefited most from reforms.

Other participants stressed the importance of transportation for their respective regions. It is arguably even more significant for Africa than for Asia, as there are fifteen land-locked countries in Africa. Speaking in the next session, Paolo Giordano of the IADB placed the subject in a Latin American and Caribbean perspective. He noted the issue of cost and who will cover it, which was also raised in a question posed by Michael Plummer of the OECD. Thailand and China finance their own projects, according to Verbeist, and provide partial financing for the other countries. Other donors include the World Bank and ADB. Cambodia and Laos are LDCs that get concessional financing from many sources. Plummer observed that some studies find that infrastructure development is associated with reduced income inequality.

E. Employment Implications of Regional Integration

This panel took as its point of departure the fact that effective regional trade arrangements (RTAs) and other initiatives to promote regional integration can reshape economies, a point that was highlighted at the three ICITE regional conferences this year. Such integration efforts can facilitate trade or increase the complexity that traders face globally and can lead to trade expansion or trade diversion. Moreover, they can influence economic specialisation and the international division of labour, with implications for the exploitation of comparative advantage.

WTO Deputy Director General Alejandro Jara noted how limited and slow multilateral liberalization can be, such that bilateral or plurilateral liberalization may achieve results faster and in greater depth. But the question remains whether the employment implications are different. His answer was conditional, stressing that not all RTAs are alike and that the quality of an agreement matters. In some agreements the enforcement deficit is very high, a fact that devalues the attractiveness of the enlarged market and does not make for a good business environment. RTAs can also be distinguished by the issues that they cover (with one critical question being whether investment falls within the scope of an agreement's rules), their rules of origin, etc. We also need to know why an RTA is being negotiated in the first place. More often than not, they are being negotiated in response to other countries' RTAs, as exporters don't like to be discriminated against in third markets; see for example the case of competitive liberalization among Korea, the EU, and the United States. While labour standards in RTAs were a sensitive issue when they were first raised, we can now assess the experience and conclude that some of it has been very positive. Policymakers find that having labour and environmental standards in a trade agreement makes it easier to get the needed resources from the parliament.

Turning to the employment implications of regional trade integration, Paolo Giordano of the IADB saw very significant scope, retrospectively and prospectively, for regionalism in trade among Latin American and Caribbean countries. The returns to regional integration, however, tend to diminish over time. The effects of trade liberalisation are positive but small, and adjustment costs can be significant. Protectionism is not the answer, however, as it is anti-poor. Technological change, often embodied in foreign direct investment, tends to favor high-skilled labour. This can lead to higher levels of wage inequality. These results are intensified by the fact that Latin American and Caribbean countries opened up at the same time that other labour-intensive economies, notably India and China, became globally integrated. As a result of this competition, the Latin American and Caribbean comparative advantage is no longer in labour-intensive goods. Giordano also discussed the software of integration, arguing that it needs to be complemented with the hardware of transportation networks. That can be very costly, however, with estimated investments of 4.9% of the region's GDP to bring Latin American and Caribbean infrastructure endowments on par with its income level, relative to other regions.

Michael Plummer of the OECD observed that the Asian development model is not easy to characterize, given the region's diversity, but in general trade has been an engine of growth. The sources of trade growth have been mostly policy-induced, particularly via trade and investment liberalisation through unilateral, multilateral, and regional or bilateral economic reforms. Unlike many other regions, the political push in Asian RTAs has been a result of a need to support economic integration forged by international production networks and other modern forms of industrial organisation that go beyond borders, making trade and FDI-related barriers increasingly costly. To date many of the accords have formed the classic "Asian Noodle Bowl" with dubious benefits in some cases. Associated problems with the current approach suggest a strong incentive to consolidate and expand. In November, 2010 the APEC Summit approved of Asian and Transpacific paths to creation of an eventual "Free-trade Area of the Asia-Pacific" (FTAAP) in 2010. According to Petri, Plummer, and Zhai (2011), two paths to the FTAAP each yield significant gains, with trade creation outweighing trade diversion in all scenarios; the forecast shows that excluded countries can benefit via welfare spillovers. The welfare gains per job shift in these scenarios are very high, suggesting the agreements present domestic "win-win" scenarios, provided that appropriate compensation policies are in place. This underscores the conclusion that trade liberalisation generates large gains but effective complementary strategies need to be developed to facilitate structural change and protect the most vulnerable.

F. Labour Market Policies

The final panel took up the experience that has been accumulated with respect to both trade liberalisation and national labour market policies.

John P. Martin of the OECD observed that the gains from trade imply labour reallocation, and that displaced workers loom large in the public consciousness and in policy debates. They may also encounter greater labour market difficulties. There are thus three rationales for policy interventions to assist trade-displaced workers, which may variously be supported on grounds of efficiency (output is lower when trade-displaced workers remain unemployed or move into low-productivity jobs), equity (it is unfair that a minority of workers should lose from a policy that increases overall income), and political economy (political support for trade liberalisation presupposes adequate compensation for the losers). One set of policy responses consists of indirect measures to foster efficient re-employment of trade-displaced workers, in light of the *OECD Jobs Strategy*.⁶ These include measures that provide for adaptable labour markets (providing for such elements as wage-setting that adapts to changing economic conditions and taxation of labour income that is not so high as to depress employment), supportive product markets (i.e., a stable, pro-growth macro policy and vigorous product market competition), and a supportive environment for innovation. Another set of options fall under the rubric of active labour market programmes (ALMPs), and include such elements as basic job-search services for all job losers and other, more intensive services such as training, employment subsidies, and mobility assistance. He observed that careful targeting is essential to achieving good results, and that ALMPs can be delivered via the public employment services (the most common model), or private employment services providers (as in Australia), or both.

Marion Jansen of the ILO also took up the issue of programs for trade-displaced workers. She argued that while globalization increases income risk, and the gains from globalization are not distributed equally, social protection allows for consumption smoothing and can contribute to

⁶ See http://www.oecd.org/document/1/0,3746,en_2649_33927_38939649_1_1_1_1,00.html.

redistribution. It can also help to avoid labour market congestion and make globalization more palatable politically. She also reviewed the arguments for and against targeting trade-displaced workers. Opponents argue that these workers do not fare worse and that trade is not the only driver of inequality. The proponents answer that the labour market effects of trade reform and shocks are often concentrated in geographical or sectoral terms. She concluded that trade-specific labour market policies cannot replace general social protection systems, including active and passive labour market policies. Social protection systems differ in low-income countries for a variety of reasons, including low fiscal space. Open economies need to be able to adjust to change, and this is easier when labour markets are flexible, workers are well educated, and other markets function. Decoupling, needs to be avoided. Among the complementary policies she identified were employment subsidies to facilitate transition into new jobs and ALMPs. She also pointed to new opportunities at the global level for knowledge building, aid for trade, and increased understanding of cross-issue linkages in international law.

Steven J. Matusz of Michigan State University offered considerations for optimal policy design when dealing with trade-displaced workers. Starting from the proposition that there is general agreement that elimination of trade-distorting policies benefits some individuals while harming others, he said that in principle income could be re-distributed post-reform so that all share in the gains from freer trade. In actual practice, however, compensatory redistribution is minimal or non-existent, and most policies considered in the academic literature are hopelessly complicated and impractical. After reviewing several recent studies that aimed at quantifying the adjustment costs imposed by trade liberalization, in which different methodologies that focused on different questions not surprisingly yielded different results, he observed that a significant amount of adjustment can be accommodated by ordinary labour-market churning. Even so, the two-year re-employment prospects for workers displaced from jobs in high-import-competition manufacturing are dim, and the post re-employment earnings for workers displaced from high-import-competition manufacturing can be significantly lower. Recognizing the scope of the problem and the heterogeneity of experience, Matusz stated that the objective should be to design a policy that effectively reduces the burden of adjustment that is borne by a relatively small number of workers. That policy should be guided by the principles of minimal impact on the public purse, minimal distortions, and be simple enough to be practical. Among the policy options that he thought worth consideration were enhanced unemployment benefits, (re)training subsidies, wage subsidies, employment subsidies, and wage insurance.

G. Roundtable Discussion

Moderated by Guy de Jonquières of the European Centre for International Political Economy, this concluding session brought together the sometimes concordant and sometimes disparate elements of the preceding discussions. It reflected the fact that while analysts may start from the proposition that the gains that free trade brings to consumers and competitive industries will outweigh the losses experienced by firms and workers in import-competing industries, they differ in their views on how large the latter group's losses are and how society as a whole ought to respond. The discussion reviewed and reiterated these differences.

David Frost of the UK Department for Business, Innovation and Skills wondered why less attention is now being paid to protectionism. He suspected that this is cyclical in Europe as different issues arise in different times. The fact is that we are not near a Doha deal, other issues are more pressing and draw attention away from this topic. More widely, (1) trade losses are more visible than the benefits, (2) trade economics is hard to understand, as comparative

advantage is counter-intuitive and trade negotiators speak like mercantilists, and (3) people question the views of the elites who got us in trouble.

Other panelists held diverging views on these observations. Carlos Primo Braga took up those last two points when he opined that the trade community has not always been effective in communicating the benefits of trade. It did not do well in countering the campaign of NGOs on cotton, for example, or the concerns of least-developed countries, each of which have influenced public opinion. He also agreed that the law of comparative advantage is a complex idea that is indeed not well understood by the general public and policymakers, but took heart from the fact that even in the depth of the recent crisis there was not resort to 1930-style protectionism.

De Jonquières disagreed with Frost on the point that the benefits of trade are less visible, as EU citizens now enjoy many benefits and rights that were not available to them thirty years ago. Ken Ash stressed that OECD research emphasizes the benefits that countries derive from imports, much of which is in intermediates and contributes to firms' productivity and competitiveness. By contrast, John Evans of the Trade Union Advisory Committee to the OECD disagreed with the contention that the trade community has not communicated those benefits effectively, arguing that the benefits themselves may be smaller than the community acknowledges. Median incomes have not kept pace with the growth in productivity, and we need to have a policy framework and a discourse in which workers can see themselves gaining from it. The policy response in Europe, he said, has been better than in the United States.

On the question of whether targeted measures are needed for adjustment and relief, Ash observed that measures that are targeted to impacts are worth considering but do not appear to be the first-best option. Evans said that the scale of the needs for adjustment raise critical questions of funding, a concern that de Jonquières shared, while Frost noted that targeted measures need to be limited and that a high-cost "flexicurity" system may not work everywhere.

Panelists and participants also addressed questions of how policy is made (or not). Tadahihiro Asami of the Business and Industry Advisory Committee to the OECD observed that political instability in Japan has been a problem in devising policies, as is the sensitivity of worker mobility. Primo Braga said that it is sometimes hard to draw a direct line between good policies and stability. Tunisia was doing the right things, for example, but popular discontent there was evident in the Arab Spring. Paolo Giordano of the IADB asked how countries can best promote cooperation on adjustment across ministries in order to address such cross-cutting issues as the linkages between trade and jobs, noting that this has been a practical problem for his institution. Should there be a minister of trade adjustment? Ash would prefer a minister of trade opening, and Evans a minister of policy coherence.

The panel also discussed the policies and performance of developing countries in general and Indonesia in particular.

Ash took up the issue of next steps for ICITE in his closing comments. This will include the publication of research that the project has produced. He stressed that the work so far has produced much raw material, but institutions now need to turn their attention to producing a comprehensive, coherent, and accessible storyline regarding the practicalities of trade and inclusive growth. This will be taken up in the first half of 2012 as a collaborative effort among the ICITE partners.

Appendix 1:
Programme of the Global Forum on Trade 2011

8 November 2011, OECD Conference Centre Room 9

09:30-09:45 **Opening Remarks**

[Speech](#) by Secretary General Angel Gurría (OECD).

09:45-10:30 **Keynote Presentation**

Prof. Jagdish Bhagwati, Columbia University

10:30-11:45 **Session I: How does trade relate to employment and growth? (macro perspectives)**

Chair: Bernard Hoekman, World Bank

Presentations

[Trade, Employment and Growth](#), Gary Banks, Productivity Commission

[Making Globalisation Socially Sustainable](#), Stephen Pursey, ILO

[Trade and Employment in Asia](#), Doug Brooks, ADB

Open discussion

12:00-13:00 **Session II, Part I: What is the nature of inclusive growth and how is it influenced by trade? How does trade liberalisation affect vulnerable groups in society?**

Chair (Part I): Jagdish Bhagwati, Columbia University

Presentations

[Trade Integration And Income Inequality: Links And Policy Responses](#), Stefano Scarpetta, OECD

Trade, international trading system and inclusive development, Mina Masheyekhi, UNCTAD

Open discussion

15:00-16:00 **Session II, Part II: What is the nature of inclusive growth and how is it influenced by trade? How does trade liberalisation affect vulnerable groups in society? (continuation)**

Chair (Part II): Raed Safadi

Presentations

[Trade and Inclusive Growth](#), Bernard Hoekman, World Bank

[Connectivity, Trade Facilitation And Inclusive Growth: Some Lessons From The Greater Mekong Subregional Cooperation Program](#), Jean-Pierre Verbeist, Asian Institute of Technology

Open discussion

16:30-18:00 **Session III:** What are the employment implications of regional trade integration?

Chair: Dawn Shackelford, USTR

Presentations

Multilateralising RTAs — Labour Market Implications, Alejandro Jara, World Trade Organisation

[Employment Implications of Regional Trade Integration: Is It All About Trade Policy?](#), Paolo Giordano, IADB

[Asian and Transpacific Paths to the Asia-Pacific Economic Community](#), Michael Plummer, OECD

Open discussion

9 November 2011, OECD Conference Centre Room 9

09:30-11:00 **Session IV:** Are there transferrable policy lessons from national labour market policy experience with trade liberalisation?

Chair: Anders Ahnlid, Sweden

Presentations

[Labour Market Policy and Trade](#), John Martin, OECD

[Labour Market and Social Policies When Markets Are Open](#), Marion Jansen, ILO

[Trade, Adjustment and Labour Market Policies](#), Steven J. Matusz, Michigan State University

Open discussion

11:30-13:00 **Policy Conclusions:** Panel discussion on points of convergence and divergence in labour market experience and policy responses to trade liberalisation

Moderator: Guy de Jonquières, European Centre for International Political Economy

Moderated question & answer session with policy makers and social partners

Carlos Primo Braga, World Bank

Tadahiro Asami, Business and Industry Advisory Committee to the OECD

John Evans, Trade Union Advisory Committee to the OECD

David Frost, Director for Europe, Trade & International Affairs, UK Department for Business, Innovation and Skills

Ken Ash, OECD

Closing remarks: Ken Ash, OECD

Appendix 2:
Summary of Research Presented at the Technical Seminar
9 November 2011, 15:00-18:00
OECD Conference Centre Auditorium

The technical seminar that piggy-backed on the Global Forum on Trade provided an opportunity to present and discuss new research on the issue of trade and employment.

Douglas Lippoldt and Monika Sztajerowska of the OECD reviewed an OECD Policy Brief they prepared on key themes arising from ICITE work to-date. They summarized three preliminary findings. First, greater market openness is a necessary condition for sustained improvement of economic performance, including improved productivity, higher incomes and new job opportunities. Second, trade creates new economic opportunities, allowing countries to leverage previously under-utilised assets and human capital, but must be complemented by other policies in order to ensure inclusive growth. Third, complementary policies, including education, ALMPs, labour market flexibility, infrastructure development, and social protection are essential to facilitate adjustment, inclusion and capacity to benefit from trade liberalisation. Click [here](#) for their presentation, and [here](#) for their background note.

Patrick Jomini of the Australian Productivity Commission presented a paper on trade, employment, and structural change in Australia. He argued that increased interconnectedness, decreasing transport costs, and increased liberalisation have all contributed to the increasing openness of the Australian economy, leading to changes in the structure of trade, output, and employment. Drawing on various studies, including one developed for this paper, he examined the likely influence of trade on employment outcomes, income, and the structure of the economy. He concluded that since the 1980s, the Australian economy has experienced a period of liberalisation which has improved its ability to deal with external shocks. The recent effects of a 30 per cent improvement in the terms of trade are leading to significant structural adjustments, not unlike those experienced as the result of earlier trade liberalisations. The modelling suggests that benefits from the shock will be increased if there is enough flexibility to encourage resources to move across sectors and regions. This flexibility is also required to reduce the costs of adjustments. The extent to which a trade shock affects aggregate employment depends on the labour market conditions in which the shock is applied. Click [here](#) for the presentation.

Susan Stone of the OECD presented a study on micro-level evidence on trade and labour market adjustment. The paper examined the relationship between trade measures and employment and wages, with private adjustment costs defined as unemployment and wage adjustments. The estimated impact was based on a sample of five countries, including three OECD economies (Canada, Israel, and the UK) and two non-OECD economies (Brazil and South Africa), using harmonised labour force survey data. The principal findings of this paper were the absence of consistent evidence of low-skilled labour being overly exposed to trade pressures; a stronger relationship between trade and offshoring measures for the OECD economies (but Brazil has shown marked increases in manufacturing offshoring); little evidence of a strong link between unemployment duration and high import competition; no negative adjustment costs for workers in industries with high export shares (i.e. higher wages than average and lower probability of unemployment for workers in industries with high export shares); mixed evidence of adjustment costs for workers in high import penetration industries; and a positive

association with both wages and employment outcomes for workers in industries with high offshoring measures. Click [here](#) for the presentation.

Samira Salem of the U.S. International Trade Commission presented a paper that used qualitative and quantitative analysis to investigate the relationship between trade, offshoring, and U.S. manufacturing employment between 1999 and 2008. The authors examined whether increased trade flows and offshoring are associated with declining U.S. multinational corporations' manufacturing employment and whether the origin of imports and the destination for offshoring matters when it comes to employment outcomes. The results support findings in the literature, concluding that higher import penetration, especially from low-income countries, results in lower manufacturing employment by U.S. parents. They also found in one set of specifications that increased exports are associated with higher U.S. parent manufacturing employment, suggesting that exports at least partially offset employment losses from import penetration. Finally, offshoring to high-income countries has a complementary effect on U.S. parent employment in the manufacturing sector (*i.e.*, increasing affiliate employment in high income countries is associated with increasing U.S. parent employment). Click [here](#) for the presentation.

Daniel Lederman presented a literature review and quantitative assessment covering 25 years of empirical evidence on the role of openness in promoting the growth of GDP per capita. This was a period in which modeling went from linear to non-linear approaches, with significant controversies over convergence and education, but throughout this time they find surprisingly robust evidence on the positive effect of openness. This is an especially significant finding for developing countries, where the variation in the openness index is great, but it may be a transitory effect and is possibly less relevant for high-income countries, where that metric is less heterogeneous. Click [here](#) for the presentation.

Nanno Mulder of UN-ECLAC presented a paper on productivity growth in Latin American manufacturing, focusing on the role for international trade intensities. The evidence shows that over time Latin America and the Caribbean has fallen behind the productivity leader, using the United States as the basis of comparison. Trade affects the region's producers through several channels, including imports that expose domestic firms to competition, technological upgrading through imported capital, technology transfer through export-oriented foreign direct investment, the exit of less productive plants, and declining transport costs that increases benefit from trade via imported capital and scale economies from exports. He presented an empirical estimation of these effects, concluding that trade intensities do matter for productivity. He also concluded that import penetration is more important than export intensity, export diversification is another key channel, intra-industry trade is significant only in natural resource industries, and the overall reform index is not significant at the industry level. Click [here](#) for the presentation.

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