



TRADE, GROWTH AND JOBS

In today's climate of weak economic recovery, high unemployment and pressure on public finances, what can governments do to boost growth and employment? One answer lies in keeping global markets open. Openness has historically gone hand in hand with better economic performance, in both developed and developing economies, creating new opportunities for workers, consumers and firms around the globe and helping to lift millions out of poverty. Raising barriers to trade, on the other hand, is not only a costly and an ineffective policy option, but it can also be anti-poor, penalizing most those it aims to protect.

Findings from the OECD-led International Collaborative Initiative on Trade and Employment (ICITE)*, collected in the publication *Policy Priorities for International Trade and Jobs*, highlight how different aspects of trade, including its more novel facets such as global services outsourcing and production off-shoring, play a pivotal role in boosting growth and creating high-value high-pay jobs.

The conclusions are clear: open markets further; protect workers, not jobs; and invest in education and skills training to allow workers to seize newly emerging opportunities and in robust safety nets to assist those unable to adapt on their own. When supporting policies are in place, trade-generated growth is more inclusive and more widely shared across society. The result: trade and market openness becomes a more potent tool for generating better quality jobs and boosting much-needed growth.

Trade improves employment and wages through growth

Trade affects employment in many and complex ways. One of the most important ways is through growth and rising per capita incomes. Numerous studies, covering different parts of the globe and countries at very different levels of development, highlight the powerful role of trade in driving growth.

- ▶ Of the 14 main multi-country econometric studies undertaken since 2000 and cited in the OECD overview chapter, all 14 have concluded that trade plays an independent and positive role in raising incomes.¹
- ▶ Case studies reviewing the experience of the 12 most rapidly growing countries over the past 60 years concluded that harnessing the power of the global economy was a central feature common to all 12.² Other case studies also suggest that the evidence is “overwhelming” that trade plays an essential role in raising incomes.³
- ▶ In Africa, a one percentage point increase in the ratio of trade over GDP is associated with a short-run increase in growth of around 0.5% per year, and with an even larger effect in the long-run, reaching about 0.8% after ten years.⁴

The power of trade to increase incomes is important to workers because of the close correlation between per capita incomes and real average wages. Studies also show that openness without supportive policies cannot make its maximum contribution to growth. Besides sound macroeconomic policies, especially important are establishing a positive business climate, flexible labour markets, high-quality education and skills training systems, and adequate safety nets.

Trade – both exports and imports – contribute to creating better jobs

In country after country, the power of both exports and imports to raise productivity growth is a factor in creating higher skill and higher wage jobs. ICITE analysis and abundant firm-level literature points in a common direction: exporting firms usually pay higher-than-average wages. Exporters in the United States, for example, on average pay wages that are some 6% higher than non-exporters.⁵ Imports are also found to have a strong positive effect on wages through their positive effects on productivity.⁶ As a result, wages in more open sectors are generally higher than in closed sectors.

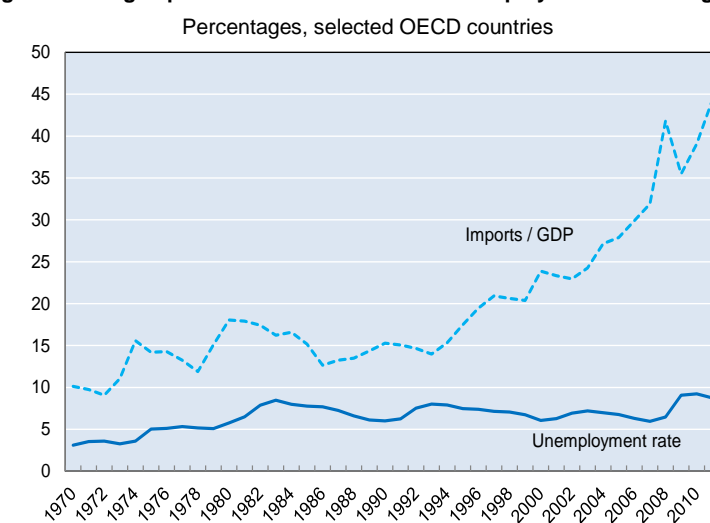
- ▶ An ICITE study looking at a broad sample of countries between 1970 and 2000 shows that workers in the manufacturing sector in open economies benefitted from pay rates that were between 3 and 9 times greater than those in closed economies, depending on the region.⁷
- ▶ In Chile, a worker in a high-openness sector (measured in terms of exports, import penetration and level of FDI) earned on average 18% more than a worker in a low-openness sector in 2003. This wage premium increased further to 25% in 2008.⁸

As with traditional merchandise trade, off-shoring and outsourcing from developed countries – two commonly-feared aspects of globalisation – are also associated with productivity increases and growth. As a result, off-shoring and outsourcing more often complement rather than replace domestic jobs, and usually provide higher wage opportunities.

- ▶ Studies for the United Kingdom, United States, Germany and Italy reach the conclusion that off-shoring of intermediate goods has either no or positive effects on both employment and wages. In Italy and Germany, for example, off-shoring was associated with wage increases. A study of EU countries, Switzerland and the United States shows that off-shoring in services also tends to complement local employment; other studies generally find positive effects on wages and employment.
- ▶ In Argentina, Brazil, India and the Philippines the impact of business processing outsourcing (BPO) on wages was significant and positive. In India, wages in the BPO sector were nearly double the average wage, and in the Philippines on average 53% higher for workers of the same age.⁹

There are also public fears about imports reducing domestic job opportunities. Here the evidence is also clear: there is no systematic long run link between import levels and unemployment. Very high import growth in OECD countries is uncorrelated with unemployment rates across the OECD area (Figure 1).

Figure 1 Rising imports are uncorrelated with unemployment in the long run



Source: OECD Economic Outlook database.

Trade can also improve working conditions

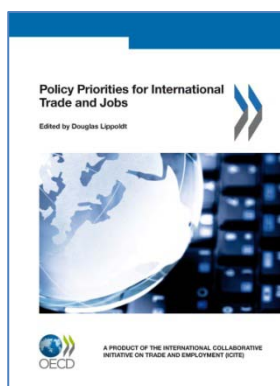
Besides delivering better wages, trade can also improve overall working conditions. Whether the measure is injuries on the job, child labour, informality, or effects on female labour, trade tends to improve working conditions through its positive impact on per capita incomes.

- ▶ In a broad sample of open and closed economies around the world, examined over a 30-year period, open economies significantly outperformed closed ones in working conditions, including fatal accidents and life expectancy. Labour rights are also generally better respected.¹⁰
- ▶ ICITE country case studies also show that in Japan, trade contributed to a reduction in the number of hours worked¹¹ and in Chile it interacted with unionisation in the export sectors to raise wages for workers.¹²

What are the policy implications?

- ▶ **Protectionism is the wrong response to economic and trade-related concerns**
All forms of discriminatory measures reduce transparency, create uncertainty, risk provoking retaliatory measures from trading partners, and if allowed to build up incrementally over time they stifle trade, constrain productivity, weaken growth and have the opposite impact intended.
- ▶ **More open markets are a necessary but not a sufficient condition for inclusive growth, job creation and overall prosperity. Complementary policies are also needed.**
- ▶ **The nature of these complementary policies varies by country**, but generally includes:
 - public investments that improve domestic supply capacity
 - macroeconomic and structural policies and governance institutions that create a positive climate for private investment
 - active labour market and social protection policies
- ▶ **Trade and other structural policies can play a greater role in boosting growth and jobs**
Particularly in today's economic circumstances, trade policy measures can contribute to growth without undue additional stress on budget deficits. While this is best achieved through a strengthened rule-based multilateral trading system, plurilateral, regional and national initiatives are also viable options.

Further reading



Policy Priorities for International Trade and Jobs

A product of the International Collaborative Initiative on Trade and Employment (ICITE), this publication presents highlights from two years of work as selected by ICITE partners, featuring regional, country and thematic studies on the links between trade and employment.

The publication is free to read online and download at www.oecd.org/trade/icite.

Notes

- 1 Newfarmer, R. and Sztajerowska M. (2012), "Trade and Employment in a Fast-Changing World", in OECD (2012), *Policy Priorities for International Trade and Jobs*, Douglas Lippoldt (ed.), OECD, Paris.
- 2 Spence, M. and M. M. El-Erian (2008) *Growth Strategies and Dynamics Insights from Country Experiences*, Working Paper No. 6, Commission on Growth and Development.
- 3 Srinivasan, T.N. and Bhagwati, J. (2001), "Outward Orientation and Development: Are Revisionists Right?" in Deepak L. and R. Shape (eds.) *Trade, Development and Political Economy: Essays in Honour of Anne Krueger*, London: Palgrave.
- 4 Brückner, M. and D. Lederman (2012), "Trade causes growth in Sub-Saharan Africa," *Policy Research Working Paper Series 6007*, The World Bank.
- 5 Bernard, A. B., J. B. Jensen, S. J. Redding and P. K. Schott (2007), "Firms in International Trade," *Journal of Economic Perspectives*, American Economic Association, vol. 21(3), pages 105-130.
- 6 *OECD Trade Policy Working Papers* No. 122, "Wage Implications of Trade Liberalisation: Evidence for Effective Policy Formation", Stone, S. and R. Cavazos Cepeda (2011).
- 7 Flanagan, R. J. and Khor N. (2012), in OECD (2012), *Policy Priorities for International Trade and Jobs*, Douglas Lippoldt (ed.), OECD, Paris.
- 8 Friedman, J. *et al.* (2012), "Openness, Wage Gaps and Unions in Chile: A Micro Econometric Analysis", in OECD (2012), *Policy Priorities for International Trade and Jobs*, Douglas Lippoldt (ed.), OECD, Paris.
- 9 Messenger, J. and N. Ghosheh (ed.) (2010), *Offshoring and Working Conditions in Remote Work*. Basingstoke/Geneva : Palgrave Macmillan/International Labour Organization.
- 10 Flanagan, R. J. and Khor N. (2012), in OECD (2012), *Policy Priorities for International Trade and Jobs*, Douglas Lippoldt (ed.), OECD, Paris.
- 11 *OECD Trade Policy Working Papers* No. 127. "Trade and Employment in Japan", Kiyota, K. (2011).
- 12 Friedman, J. *et al.* (2012), "Openness, Wage Gaps and Unions in Chile: A Micro Econometric Analysis", in OECD (2012), *Policy Priorities for International Trade and Jobs*, Douglas Lippoldt (ed.), OECD, Paris.

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* Participating ICITE partner organisations include: ADB, AfDB, ECLAC, IADB, ILO, OAS, OECD, UNCTAD, World Bank & WTO. Views expressed in this document do not necessarily reflect those of ICITE partner organisations.