

International Collaborative Initiative on Trade and Employment  
(ICITE)

Labor, Trade and Inclusive Growth: Sustaining a Dynamic Asia

**Rapporteurs' Report**

Rapporteurs:

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Asian Development Bank Headquarters  
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(Manila)

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ICITE, FIRST REGIONAL CONFERENCE

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**RAPORTEURS' REPORT<sup>1</sup>**

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I. Background

1. As the economic recovery gains traction and rebalancing impacts structural transformation in Asia, efforts to ensure robust, inclusive growth and poverty reduction remain a top priority for governments in the region and beyond. International trade has a clear role to play in this process, having demonstrated over the past half century its importance in stimulating long-run growth, productivity enhancement, development and job creation.

2. Recent studies have confirmed this empirically, while also noting that realization of the full benefits of openness requires a coherent policy framework that facilitates structural adjustment and addresses labor market and social concerns. A recent joint report by ILO-OECD-World Bank-WTO (2010), entitled *Seizing the Benefits of Trade for Employment and Growth*, noted that subject to such conditions there remains substantial potential for further liberalization of trade in goods and services to contribute to improved economic performance world-wide.

3. The International Collaborative Initiative for Trade and Employment ([ICITE](#)) comprises efforts of 10 partner organizations to expand the knowledge base on these issues, including consideration of policy implications. The initiative is delivering a new wave of substantive research through country studies and thematic papers, opportunities for dialogue via three regional conferences and an OECD Global Forum on Trade event, and public information via a series of working papers, policy briefs and a publication.

*Manila Conference Evaluation Overview*

4. The first ICITE regional conference, held at the Asian Development Bank in Manila during 18-19 April 2011, was designed to consider trade and employment issues taking into account the regional specificities in Asia. It brought together more than 75 participants including policy makers, academic experts, representatives of business and labor, and other stakeholders. A number of OECD country representatives attended including 2 ambassadors (Chile and Switzerland). Six ICITE partner organizations

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<sup>1</sup> The views expressed are those of the individual rapporteurs and do not necessarily reflect those of other conference participants, the organizers (ADB or OECD) or their member countries, or the ICITE partner institutions.

were represented at the event (ADB, AfDB, ILO, OECD, UNCTAD and WTO).<sup>2</sup> ADB sponsored the participation of government representatives from 6 developing countries in the region, while others participated at their own expense.

5. The objective was to have an exchange of views anchored by new empirical work conducted in association with ICITE partner organizations and other sponsors. The success was gauged using a participant evaluation form, which was distributed at the event. The form generated a response rate of just under 50% (35 completed forms). Overall, the participant evaluations were quite favorable:

- In terms of the indicators for content, the average score was 5.4 out of 7. In annotations on the forms, participants generally praised the presentations for being relevant and accessible. The main suggestions for future events were to allow for more time for in-depth discussion and to provide advance distribution of the substantive materials.
- In terms of the indicators for the quality of the organizational aspects of the meeting, the average score was 5.7 out of 7. The conference logistics attracted significant praise from the participants and the highest marks. One suggestion was to make the conference materials available electronically for future reference.

6. The experience from the Manila conference has been shared with the organizers of the upcoming ICITE regional conference on Latin America and the Caribbean, to be held at the headquarters of UN ECLAC in Santiago, Chile, during 14-15 June 2011. In order to help ensure continuity and cross-sharing of ideas amongst participants at the regional events, the ADB will report at the Santiago conference on the outcomes of the Manila conference.

## II. Manila Conference - Summary Record

### *Opening Remarks*

Chairperson: Douglas Brooks, ADB  
(Session rapporteur: Susan Stone, OECD)

7. The chair opened the conference and introduced each of the keynote speakers in turn.

### *Welcome by Juzhong Zhuang, Deputy Chief Economist, ADB*

8. Mr. Zhuang welcomed the participants to ADB and thanked all those participating. He pointed out the importance of the ICITE project, saying there was an urgent need for coherent policies which address social concerns.

9. During the last two decades Emerging Asia's share of world trade doubled from 7% to more than 16%, with trade driving its tremendous growth. East Asia accounts for 25% of world trade (doubling its trade since 1990), while 2009 exports of China and India grew by over 50%. This is in sharp contrast to the world average of 6%. There exists large variation across the region, however; for example, Malaysia, Philippines and Nepal exhibit growth at less than the world average.

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<sup>2</sup> ICITE partner organizations not represented in Manila included UN ECLAC, IADB, OAS and World Bank. This was mainly due to the regional focus of these partners on trade and employment in Latin America; together with OECD, ECLAC and World Bank are co-organising the upcoming Santiago ICITE regional conference.

10. This growth varies by sector. For example, wearing apparel and footwear experienced a 75% year-on-year decline during the crisis. Not all sectors were hit this badly, but some setbacks remain. Overall, though, unemployment rates are only slightly elevated, attenuated in the past year as economies turned around quickly. Developing Asia had unemployment rates of 5.9% in 2009 and 9% in 2010, compared with 7.8% for the Asia region as whole in 2009 and 7.7% in 2010. Demand still remains sluggish, especially in manufacturing. Total employment in manufacturing is still shrinking in several Asian economies including Hong Kong, Thailand, Philippines and Chinese Taipei. Growth accompanied by rapid industrialization shifted economies away from agriculture. This change is most striking in China where agriculture accounted for 66% of employment in 1990 and, by 2011, only slightly over 33%.

11. There is a need to understand the connection between trade and employment creation in times of rapid industrialization and structural change. What kinds of social policies are needed to protect workers as economies shift and move away from agriculture? There are still about 900 million people living below the \$1.25/day poverty line. Trade is an important factor in the creation of the Asian miracle, so it is important to understand these processes.

*Welcome by Michael Plummer, Head, Development Division, TAD, OECD*

12. Mr. Plummer welcomed participants and noted that it was fitting to hold the first ICITE conference in Dynamic Asia, where the role of trade has been so evident in the region's development success. Asia has demonstrated the importance of increased market openness and integration into the global economy. This is underscored by the economic performance of many Asian economies. Growth in China, India and the region as a whole is projected to be nearly 3 times greater than that of the US and the Euro zone in the coming years. Asia has demonstrated in practice that open economies grow faster than closed ones. The countries that have embraced openness have been more successful in sustaining growth and moving up the development ladder than those that have not. No country has been able to develop over the long-run without integration into the global economy. In addition to promoting increasing efficiency and access to vast global – rather than restricted national – markets, trade liberalisation facilitates technological progress and the global spread of innovation. These deeper economic forces are the primary source of longer-term gains in productivity that are necessary to achieve higher levels of per capita incomes.

13. Regional production chains have been driving changes in trade on the production end, particularly in the area of electronics. The ASEAN Economic Community, which is by the far the most ambitious economic cooperation accord in the developing world, aims to create a “single market and production base” in part to replicate this success in other areas.

14. There remain additional opportunities to build on this success and promote more far reaching and inclusive economic development. With the right mix of policies, countries can push beyond the so-called middle income trap, delivering quality employment opportunities while assisting those who may face adjustment challenges.

15. Open trade is a necessary but not a sufficient condition. For trade to foster inclusive growth, a properly designed framework needs to include various policy targets, including labor market, education and social policy objectives. Well crafted policies can enhance the opportunities available to those who stand to gain from trade opening and help those who are displaced to develop new skills and find new opportunities. Here, it should be acknowledged that some less developed countries are facing particular challenges with respect to such issues as institutional capacity or extreme poverty.

16. There are some challenging questions facing the conference. These include:

- How have increased trade and economic integration changed labor conditions in Asia?
- How can various configurations of bilateral and regional cooperation initiatives, from “ASEAN+” accords to the Trans-Pacific Partnership, be effectively nested in multilateral initiatives under the WTO?
- Has trade generated negative impacts on employment in individual economies in the region and, if so, why has this been the case? How can better development of labor market institutions improve outcomes?

17. The trade and employment policy dialogue starts, but it does not end, here in Manila. This conference is the first regional event of ICITE. The initiative joins 10 partner international organizations in seeking a better understanding of how trade and employment interact, and developing policy relevant conclusions to support a job creating economic recovery. By 2012, ICITE will produce 30 thematic and country studies, looking at diverse aspects including wage implications of trade liberalisation; trade in tasks; trade, employment and gender; global value networks and productivity; trade, off-shoring and migration; among others. In addition, there will be 3 regional conferences, this being the first, leading up to a trade and employment themed Global Forum on Trade on 7-8 December 2011 at the OECD headquarters in Paris.

*PLENARY SESSION 1: Globalization, Regional Co-Operation, Rebalancing and Adjustment – Macro Perspectives and Models, Part 1*

Chairperson: Douglas Brooks, ADB  
(Session rapporteur: Susan Stone, OECD)

18. The chair opened the session, introducing each of three presenters in turn before turning the floor over to the discussant. This was followed by an open discussion and responses by the presenters.

*Globalization and Changes in Labor Conditions in Asia*

Presenter: Robert Flanagan, Stanford University (co-author: Niny Khor, ADB)

19. This presentation addressed the issue of how international trade and investment influence the quality of employment in Asian and non-Asian economies. The authors measured quality in terms of working conditions (job safety, pay) as well as labor rights (non-discrimination, child labor, forced labor, freedom of association).

20. On average across Asia, compensation is lower and hours worked are higher, while accidents are a little lower, than in non-Asian economies. Overall, rights are about the same. Recent developments have seen improvements in labor conditions everywhere except with respect to working hours for Asia (this could be cyclical). Pay differences have narrowed, but hours and civil liberties differences widened. The authors examined whether open versus closed economies have better labor conditions – i.e. how trade influences labor conditions. The traditional view is that sectors using resources more productively increase wages and have superior working conditions. However, there is also the argument put forward by some critics that free trade leads to degradation in wages and conditions in order to gain competitive advantage. The second theory is not supported by data. Open economies have better conditions – higher pay, fewer accidents, higher life expectancy, and slightly lower hours. Rights are all better as well. The differences are not as stark for the Asian economies, where pay is the only measure significantly better in open economies.

21. Overall the authors found that trade does not degrade labor conditions. The analyses found that the indirect effects of trade on labor conditions (through its effects on per capita income) were more significant than the direct effects of trade on labor conditions. They found no statistically significant evidence of direct effects on trade conditions.

22. Finally, the paper looked at whether multinational corporations (MNCs) were taking advantage of cheap labor or knowledge capital (i.e. combination of technology with local inputs). Evidence was that most MNCs are associated with knowledge capital FDI, not going to countries with poor labor conditions. The authors found that the key determinants were market size and investment risks. And, risks tended to be relatively high in countries with poor labor conditions. Asian countries had a smaller share of world FDI than would be predicted by the model (based on risk and market size).

23. A missing element in the analysis of globalization is international migration – a major force in narrowing international inequality.

*A Commercial Policy Package for Rebalancing the Global Economy? Implications for Asia*

Presenter: Przemyslaw Kowalski, OECD (co-author: Molly Leshner, OECD)

24. Imbalances are driven by the goods side, while services trade imbalances have been relatively constant. Most economies running surpluses in goods trade are running deficits in services and vice versa. The paper found higher services trade barriers in trade surplus countries, thus accessing these markets in surplus countries is difficult. The differences in specialization of exports of goods are not as big as observed in services. Some Asian economies have specialized in exporting services (Indonesia, Philippines and Malaysia, for example) but others are significantly under importing services.

25. The empirical work showed that a tariff reduction leads to quite small rebalancing effects. Reducing costs to services trade by 30% across the board leads to small changes but this is because the initial shares are small. Remaining tariffs in some of the surplus countries are shown to impede the export potential of some deficit countries. On the services side, deficit countries are at a disadvantage because they face higher barriers to exporting in the sector in which they have a comparative advantage

26. The contribution of liberalisation to rebalancing is small but not negligible. Unemployment scenarios in OECD trade policies have a bigger impact. Trade policy reform from the point of view of Asia should call for a more balanced growth model.

*Employment Dimension of Trade Liberalization with China: Analysis of the Case of Indonesia with Dynamic Social Accounting Matrix*

Presenter: Ralf Peters, UNCTAD (co-author: Christoph Ernst, ILO)

27. This paper examines employment effects in light of Indonesia's concerns with the ASEAN-China FTA. The goal is to develop a methodology that is simple and available to government officials and civil society. To this end, a Social Accounting Matrix (SAM) was used along with an employment satellite that linked employment numbers to industry output. The authors looked at the employment effects of increasing exports by 1 billion rupia. They found the biggest gains were in crops, which also has the lowest labor productivity figures. The employment gains were lower in petrol and other minerals which aren't as labor intensive. Labor productivity was shown to be highest in mining. Strong backward linkages and income effects led to the highest employment impacts being on the young and female (who are predominant in those industries).

28. The new methodology shows that total gains are slightly smaller than losses calculated as import impacts being higher than export impacts. This is influenced by the fact that existing trade is high in

sectors where China's tariffs are already low. The greatest losses were among female and young workers, and less in rural areas. Overall the short and medium term employment effects are relatively small (0.2% of total employment). There are small net losses for Indonesia but sectoral distribution is different – agriculture being one sector where net jobs are created. Outcomes depend on labor intensity plus the backward linkages of industries and income.

29. The authors conclude by saying the methodology is transparent and simple to implement, but it lacks behavioral or dynamic effects, lacks scale economies, and does not account for job quality (e.g., agriculture versus other sectors, subsistence farming versus other more 'quality' jobs).

Discussant: Jayant Menon, ADB

30. The discussant treated each of the session papers in turn:

- Globalization and Changes in Labor Conditions in Asia

Here, the key issue to think about is that nonwage compensation in some very poor countries makes up a large portion of compensation, so published numbers can be misleading. For example, in the Malaysian rubber industry, they offer medical care and the like to get around paying high wages. This also reduces labor mobility by reducing the ability to generate savings, so this can reduce the quality of employment when it may seem quite high. There are some problems with the way open and closed economies are defined. The open and closed indicator used was developed in mid 1990s and only exists for this decade. The authors should consider a number of trade barriers to make the determination if country was open or closed. Also they might consider using degrees, rather than a binary, yes/no approach.

Migration is a critical area but the discussant found it missing in the analysis. Also, the distinction between formal and informal labor markets is missing. This is especially important in Asia where the informal segment is quite large. While it is difficult to quantify it should still be brought into the analysis. FDI was linked into the analysis a bit too simplistically. There are four different types: efficiency seeking, resource seeking, market seeking (covered by size), and tariff jumping. These dimensions should be considered.

- A Commercial Policy Package for Rebalancing the Global Economy? Implications for Asia

There are firm views at ADB and ADBI about the amount that trade liberalisation can contribute to rebalancing. They see the link to rebalancing as weak or unclear. Good trade policy in general is sometimes incidental. The major outcomes in the paper, in terms of rebalancing, occur in so-called big cuts; however, a 10% cut should not be too difficult given the nature and size of the problem. It is probably happening already. Policies for rebalancing, as opposed to just good trade policy, should be viewed with caution. In the end, it is really still about the US and China; once the situation in these two countries is addressed, there isn't much of a problem. Think about relating the work to [Max] Corden's analysis. His skeptical argument is that this is intertemporal and nothing really needs to be done.

- Employment Dimension of Trade Liberalization with China: Analysis of the Case of Indonesia with Dynamic Social Accounting Matrix

There is quite a bit of interest in the tension raised by the ASEAN-China FTA and given that this accord is expected to bite, there is a lot of concern. Results presented here accord with expectations based on labor intensities but it is worth trying to bring in behavioral responses. One role as



researchers is to try to educate government officials rather than over simplify models, especially when shocks affect relative prices. The discussant would like to see more on how sensitive industries fared in the analysis (those that unsuccessfully tried to ‘quarantine’ the agreement).

*Excerpts from the general discussion for Plenary Session 1, Part 1*

31. It is difficult to tell Asian economies to raise openness in services, while at the same time showing little gains from such a move on rebalancing. There is a need to think about the appropriate kind of advice on how to open up these sectors and to which extent a computable general equilibrium model is the appropriate tool in evaluating these service sectors (e.g. banking and insurance).

32. There needs to be further analysis on the spectrum of employment loss – especially consideration of the variation in these losses by skill level. In the Malaysian case, there was a shift in some operations to China to take advantage of low labor costs. Malaysia changed its investment policies, which affected inflows of FDI. Earlier the emphasis was on labor-intensive industries and the change in policies affected the types of inflow and outflow. Certainly policy can influence the degree of FDI by sector.

33. While the work showed that free trade improves labor conditions, there is a large share of low skilled workers in the informal sectors where job insecurity is very high; free trade’s ability to help these workers in precarious situations is not always evident. Bargaining power decreases with globalization and industrial policy, so how does free trade help these workers in a weak position?

34. Free trade is shown to help a portion of the unemployed or underemployed; it expands employment but not necessarily wages. Only once did the authors observe that exports had taken up the slack in employment before a wage effect comes in and the authors see this as improvement in labor conditions. They should explore this more. Trade may increase employment, but what about quality?

*PLENARY SESSION 2: Globalization, Regional Co-Operation, Rebalancing and Adjustment – Macro Perspectives and Models, Part 2*

Chairperson: Masakazu Sakaguchi, ADB  
(Session rapporteur: Przemyslaw Kowalski)

35. The chair opened the session, introducing each of three presenters in turn before turning the floor over to the discussant. This was followed by an open discussion and responses by the presenters.

*Trade and Employment in the Agricultural Sector: The Case of Indonesia*

Presenter: Rina Oktaviani, Bogor Agricultural Institute (co-author: David Vanzetti, Australian National University, ANU), ILO-sponsored study

36. This paper focused on the Indonesian agricultural sector as an interesting case for studying employment effects of trade liberalization. The sector draws heavily on an informal labor force, has relatively low productivity, and is largely unregulated. All of these characteristics can potentially help the sector to adjust to trade shocks. The paper used a hybrid empirical approach combining a global computable general equilibrium (CGE) model within which trade shocks are generated with a single country general equilibrium model of Indonesia contributing a more detailed representation of the Indonesian labor market. Policy scenarios included the ASEAN-China FTA, a DDA scenario, a productivity increase in the agricultural and non-agricultural sectors and a skill-enhancement program in the agricultural and non-agricultural sector. Trade liberalization scenarios yielded very small effects on employment while the productivity enhancing scenarios yielded more significant results, though some of the effects spilled over beyond the targeted sectors.

*Trans-Pacific Partnership: Implications for Growth, Employment and Policy*

Presenter: Michael Plummer, OECD (co-authors: Peter Petri, Brandeis University, and Fan Zhai, China Investment Corporation)

37. The second paper of the session presented a CGE study of incentives for Trans-Pacific Partnership (TPP) and Asia-focused FTAs (Asian track) and considered their implications for policy, growth and employment in Asia and across the Pacific. The study found that the trans-Pacific track of integration generates substantial welfare gains for the North and South American economies and that there are significant additional gains for Asian economies over the Asian track. Most countries studied are better off “in “ rather than “out” of each of these integration paths and therefore both tracks are likely to gain momentum and become building blocks of the Free Trade Area of Asia and Pacific (FTAAP). The trans-Pacific track seems particularly beneficial as without it, in the end, the US and China will have offered preferences to most Asia-Pacific economies, except each other. The presentation also made some recommendations on areas that should be covered by the agreements to make the potential trans-Pacific track of integration more inclusive (e.g. transparency, strong accession clauses).

*Employment and Structural Changes in Asia in Times of Rebalancing and Adjustment*

Presenter: John Gilbert, Utah State University

38. Empirical analysis was presented of: (i) current trends in international trade in Asia and (ii) the likely impacts of long-run structural transformations on trade patterns and employment. Constant market shares analysis was employed to decompose changes in world trade flows into: (i) world growth effects; (ii) commodity effects; (iii) market effects and (iv) competitiveness effect. This analysis produced an interesting finding that of the 13 larger developing members countries of the Asian Development Bank, only Bangladesh, China, India, Korea, Pakistan, Thailand and Viet Nam increased their competitiveness. The long-run impacts on trade patterns and employment have been investigated in a CGE model which assumed a set of macroeconomic projections of key growth parameters. Bearing in mind important caveats related to these assumptions, this analysis suggests that the expansion of world trade, driven strongly by China and India, will continue strongly until 2020 and slow down somewhat in the period to 2030. As far as labor market outcomes are concerned the model predicted gradual lessening of the unskilled/skilled wage gap. In terms of employment, most skilled labor is likely to be absorbed into services and, manufacturing with strongest increases in transportation and auto sectors.

Discussion by discussant (Jesus Felipe, ADB) and by participants:

39. One of the major comments made by the discussant on the overall content of the session was that it should focus more on ‘inclusiveness’, one of the key themes of the conference. In fact, he pointed, out that ‘inclusive’ growth has not been defined or it is defined differently in different papers presented in the session. He also was not clear what is meant by rebalancing in the context of Asia. He pointed out that what actually happened in Asia was industrialization, sophistication and diversification of production. But these are long term issues that may have little to do with the short-term macroeconomic rebalancing. Is rebalancing about current account imbalances or export led growth or is it about the US living beyond its means? The discussant also pointed out that in studying the structural transformation it is important to accurately account for the sources of growth. In his opinion, the most common model for growth is transferring labor from low productivity activities towards high productivity activities. The problem with this model is however that such growth creates unemployment. So the key issue in discussant’s mind is how to generate full or close-to-full employment.

40. Referring more directly to the first presented paper, he pointed out that labor issues are almost not covered at all in existing or negotiated RTAs, including in Asia and that consultation on labor issues with social partners is almost non-existent. He also wondered about the incentives for conclusion of the

DDA, given the high reported stakes associated with Trans-Pacific Partnership as well as about the pervasiveness and implications of exclusion of sensitive products in the existing liberalisation initiatives. In response, the first presenter explained that labor clauses in RTAs are controversial mostly because it is seen as developed countries imposing standards on developing countries and pointed out that better consultation with stakeholders is needed.

### *PLENARY SESSION 3: Productivity, Wages and Global Value Chains, Part 1*

Chairperson: Ralf Peters, UNCTAD  
(Session rapporteur: Przemyslaw Kowalski)

41. The chair opened the session, introducing each of three presenters in turn before turning the floor over to the discussant. This was followed by an open discussion and responses by the presenters.

#### *Wage Implications of Trade Liberalisation*

Presenter: Susan Stone, OECD (co-author: Ricardo Cavazos, OECD)

42. The paper used the mandated wages approach of Feenstra and Hanson and presented new cross-country evidence of a positive impact of imports and a negative impact of import protection on wages. A positive link between trade and wages was found for non-OECD countries while the results for the OECD countries were less conclusive. The former effect has been attributed to the productivity gains associated with imports. A hypothesis has been put forward that the lack of a link between trade and wages in the OECD sub-sample could possibly be explained by non-tariff measures (NTMs), which are not explicitly accounted for in the presented analysis. Evidence was also presented for wage differentials at the occupation level showing them as being smaller for large trading partners.

#### *The Effects of Working Condition on Business Performance: Increasing the Profits and Resilience of Cambodian Firms*

Presenter: Drusilla Brown, Tufts University, ILO-sponsored study

43. This paper explored an interesting issue of the efficiency case for international labor standards. In other words, is it in employers' interest to comply with core international labor standards? The natural experiment studied here was the ILO's Better Factories Cambodia initiative in the Cambodian apparel industry. The first major finding was that the initiative achieved better compliance (above that attained by global reputation-sensitive buyers) by threatening public disclosure of non-compliance, and it helped factories identify management practices that were more efficient than standard practices in the apparel industry. Even after the end of the public disclosure period, companies remained fundamentally in compliance and high-compliance firms were found to be more likely to survive the 2008 crisis.

#### *Offshoring and Migration in a World with Policy Spillovers*

Presenter: Cosimo Beverelli, WTO (co-author: Nadia Rocha, WTO)

44. This paper presented a theoretical model that attempts to explain the effects of changes in bilateral costs of migration and offshoring on migration and offshoring from third countries. It also investigates potential effects of migration costs on offshoring and vice versa. It models allocation of tasks of different complexity across immigrants, offshored workers and natives and it offers the possibility of different assumptions about the ordering of the tasks (e.g. in one of the scenarios migrant workers are assigned simpler tasks than offshored workers while in another different levels of complexity are assigned to migrant and offshored workers from two different trading partners). The model generates a number of predictions about substitutability of migrants and offshored workers and about substitutability of migration

and offshoring between different partner countries. The paper also presented some preliminary empirical verification of the model predictions using migration and offshoring data from various sources. This first empirical verification suggested that the model generates predictions consistent with data.

#### Discussion by discussant (Bruno Carrasco, ADB) and by participants

45. Referring to the first paper, the discussant wondered about the exact mechanisms behind the trade and wage link established by the empirical work. Can it be concluded that trade liberalisation is good for wages in import sectors? He wondered about the role of the non-traded sector in shaping the relationship between trade and wages and pointed out that the paper could usefully make a reference to some standard trade models with a non-traded sector (e.g. Balassa-Samuelson effect). Perhaps, he argued, the difference between the OECD and non-OECD samples can be explained by the different sizes of the non-traded sectors in these two country groups. It has been also pointed out that the measures of fit of the presented regressions were rather low, which suggested other factors can potentially explain the link between trade and wages.

46. Referring to the second paper, the discussant emphasized the role of customer awareness in explaining the success of the Better Factories Cambodia program. He also pointed out that who bears the costs of compliance with international standards (e.g. firms themselves or is there assistance to comply) must play an important role in determining the success of this type of programs. Overall, the discussant was impressed with the evidence of the success on the program as presented and was wondering how institutions like the Asian Development Bank can support this kind of work in other countries of the region. A trade union representative made an intervention and pointed out that the ADB and other international funders could start by measuring performance in its project related to compliance with labor standards. Some participants pointed out that some more discussion was warranted on the definition of international labor standards as compared to definition of domestic labor standards. How do the two types of standards differ and how do they interact?

47. Comments on the third paper focused on the link between the complex nature of the theoretical model and its actual interpretation. Some of the questions that came to the discussant's mind included: how are the costs of offshoring and migration defined and whether the cultural links can be taken into account. He was also wondering about the nature of binding constraints: what is really constraining migration and offshoring: demand for this kind of services or their supply? He also pointed out that any study of economic effects of migration should address the reasons for restrictive migrations policies in the first place. A comment was also made that it would be good to capture the different propensity to migrate in different industries (e.g. manufacturing versus business services).

#### *PLENARY SESSION 4: Productivity, Wages and Global Value Chains, Part 2: Challenges of Moving Up the Value Chain for Middle Income Countries*

Chairperson: Susan Stone, OECD  
(Session rapporteur: Douglas Lippoldt, OECD)

48. This session was comprised of one thematic presentation and two case studies. The chair opened the session, introducing each of three presenters in turn before turning the floor over to the discussant. This was followed by an open discussion and responses by the presenters.

*Competition, Labor Intensity and Specialization: Structural Changes in Post-Crisis Asia*

Presenter: Kanda Naknoi (co-author: Yothin Jinjarak, Purdue University)

49. The first presentation considered changes in the exporting patterns and the degree of competitiveness in selected Asian countries in the decade following the 1997 Asian economic crisis. Country coverage included China, Indonesia, India, Japan, Korea, Malaysia, Singapore, Thailand and Vietnam. The presentation introduced a partial-equilibrium framework for the analysis, highlighting the role of labor cost and cost of capital as key determinants of the degree of competitiveness while taking into account relative growth rates in total factor productivity and foreign-domestic inflation differentials. After a review of theory and earlier work, the presentation moved to highlight changes in exporting patterns by country and industry, then sorting these into industries with positive and negative evolution of revealed comparative advantage (RCA) with a view to assessing labor intensity and price competitiveness. The authors find that a majority of industries in these countries experienced positive change in RCA, that labor intensity and foreign-domestic wage inflation differentials were not significant determinants of change in RCA, that countries were split in terms of the real exchange rate impacts on competitiveness, and that increased export volumes did not result in wage driven losses in competitiveness. Competitiveness may be associated with reduced costs of capital and increased productivity.

*Foreign Labor in Malaysian Manufacturing: Trends, Patterns and Implications for Domestic Wages*

Presenter: Evelyn Devadason, University of Malaysia (co-author: Prema-Chandra Athukorala, ANU)

50. The second presentation considered the case of Malaysia, where temporary foreign workers have played a key role in manufacturing growth over the past two decades – especially in export oriented and multinational-dominated industries – raising concerns of a possible negative impact on the evolution of wages. The presentation highlighted relevant features of the Malaysian labor market including the weak trade union movement, weak de facto social protection, lack of a standard minimum wage law, and differential treatment of foreign workers, among other aspects. Using a panel data set, the analysis considers the impact of the presence of foreign workers on wages and finds a mild negative effect. But, this effect is much smaller than other factors in the structure and performance of the domestic labor market, including limits on trade union activity.

*Trade and Employment in Hong Kong*

Presenter: James Patrick Vere, University of Hong Kong

51. The third presentation opened with an overview of the situation of Hong Kong, noting in particular the market openness and trade dependency of the economy. The past decade has witnessed a structural shift towards services, including notably the finance sector. Hong Kong is now a net exporter of services and net importer of manufactured products. Access to services markets is critical and through bilateral and regional accords Hong Kong is aiming to gain expanded access. Hong Kong firms are outsourcing labor intensive manufacturing to China. At the same time, business services have remained and prospered in Hong Kong. The structural change has raised policy considerations including how to deal with labor market adjustment and inequality. Manufacturing has shed low skilled workers, while the service sector has only absorbing some of these (e.g., in restaurants or security functions). While Hong Kong has been well served by its liberal trade regime, this remains a challenge and points to the need for appropriate policies, including social and labor market policies (e.g., the pending imposition of a minimum wage requirement).

Discussion by discussant, Jorn Brommelhorster, ADB, and by participants

52. The discussant briefly reviewed each of the presentations and offered some insights and queries for each. Concerning the presentation on structural change and competitiveness, he noted that the analytical approach grouped very different countries and sectors and could benefit from presentation of more disaggregated findings. Moreover, the authors could usefully offer some suggestions of how to pursue further analysis of the key issues of cost of capital and total factor productivity. Concerning the study on Malaysia, he commended the authors for providing a good overview of the situation in Malaysia, but posed questions about the situation in Malaysia in comparison to other labor importing countries such as Germany or Dubai. Is Malaysia labor deficit or could Malaysians potentially take on some of the jobs held by foreigners, such as those involving low skilled work. With respect to Hong Kong, the discussant pointed to the success in avoiding the so-called middle-income trap. He asked about the limits to the potential of the service sector, noting that it may need some agriculture and manufacturing sector activity as complements (e.g., in order to ensure awareness of service needs in those sectors and the related demand potential).

53. The chair then opened the floor for discussion and participants raised a variety of issues. With respect to the social challenges, one speaker asked about the approaches governments may use to encourage wage increases and equitable sharing of benefits without stimulating inflation or creating undue distortions. Another asked about the role of exchange policy and inflation in the evolution of RCA. Also, one speaker noted that RCAs are outcome based and may not provide insights into future potential. Moreover, in the case of China, the evolution of RCAs may have been influenced by accession to WTO rather than domestic considerations such as endowments.

54. The presenters were given a brief time to reply. Concerning structural change and competition, the speaker reviewed the approach from the paper used to decompose competitiveness, but noted the challenge of looking at the determinants at an industry level. For example, it is a challenge to measure capital stock at national level, but a real problem to do so at an industry level. As for labor intensity, sectoral composition may be an issue, whereby change may come within a sector but also from the shifts in the distribution of labor across sectors with different labor intensities (even where the average may not change much). With respect to Malaysia, the speaker noted the potential of redressing some concerns through an equalization of treatment between domestic and foreign workers (e.g., resisting attempts to exclude foreign workers from benefits or minimum wage). In such a case, then foreign labor would be employed where needed to close labor shortfalls and not in cost-based competition with domestic labor. At the same time, the temporary nature of foreign labor engagement results in incentives for employers to minimize investment in any human development in this resource. With respect to Hong Kong, the speaker noted that it is a unique case that may not serve as an example for other countries seeking to escape the middle income trap. He also noted that one needs to look beyond the Gini coefficient to get a sense of inequality and shared benefits from market openness and growth. For example, in the case of Hong Kong, the economy has a high Gini score, but also assured public health care (which may offset some income inequality). On the other hand, there are real challenges from the on-going structural change, such as difficulties in placing some laid-off manufacturing workers into services jobs.

*PLENARY SESSION 5: Labor Market Institutions and Key Challenges: Human Capital Development, Informality and Inclusive Growth, Part 1*

Chairperson: Douglas Lippoldt, OECD  
(Session rapporteur: Niny Khor, ADB)

55. The chair opened the session, introducing each of three presenters in turn before turning the floor over to the discussant. This was followed by an open discussion and responses by the presenters. The

session focused on labor market institutions and key challenges in the areas of human capital development, informality and inclusive growth based on the country experiences of China, Japan and Korea.

#### *Trade and Employment in China*

Presenter: Du Yang, Chinese Academy of Social Sciences (co-author: Cai Fang, Chinese Academy of Social Sciences)

56. Du Yang delivered a presentation highlighting the rapid change in the Chinese labor market as a result of demographic shifts accompanied by rapid economic growth. Informality is declining and hourly compensation is increasing. Trade is playing an important role and value added in the export sector amounts to about 10% of GDP. Based on this observation, Du argues that the main challenge for China is how to maintain ‘flexicurity’, in particular for migrant workers.

#### *Trade and Employment in Japan*

Presenter: Kozo Kiyota, Yokohama National University and Consultant to OECD

57. The presentation of Kozo Kiyota established that demand for employment in the Japanese export sector has increased since 1990, both in manufacturing and non-manufacturing sectors. However, this has not been sufficient to offset the decreases in demand for worker hours in the domestic market. Ultimately, this has meant a general decline in demand for working hours since 1980. Changes in two labor statues in Japan have influenced these developments by permitting increased flexibility in hours, but also shifting the work week to 5 days. The result is that adjustment to variation in labor demand is generally coming through variation in working hours, though with surplus demand being addressed via overtime and weekend working.

#### *Exporting, Employment and Skill Upgrading: Evidence from Plant Level Data in the Korean Manufacturing Sector*

Presenters: Chang-Gyun Park, Chung-Ang University and Consultant to OECD, and Chin Hee Hahn, Kyungwon University and Consultant to OECD

58. The authors presented a paper that examined empirically the effect of exporting on demand for skills via the evolution of employment of non-production workers. Exporting firms have seen increased demand for skills via within firm adjustments toward non-production employment. Exporting activities have led to skills upgrading in the manufacturing sector with firm sponsored training playing a major role. One policy implication of this is a need to provide appropriate support for unskilled labor facing adjustment challenges.

Discussion by discussant, Wendy Duncan, ADB, and by participants

59. The discussant, Wendy Duncan, counseled that policy makers should focus on answering three central issues that arise from the presentations: (i) What is the role of the government in skills training? (ii) What type and nature of assistance that should be provided to workers caught in the adjustment process? and (iii) What is the role of firms of training suppliers in skills upgrading? Another suggestion from the audience was to explore the role of institutional forces such as trade unions in determining growth and structure of wages. With respect to the paper on Japan, a comment from the audience suggested the use of real wage compensation instead of just wage hours to account for the deflationary trend in Japan and possible shifts in compensation structures between exporting and non-exporting sectors. A notable comment came from a participant who pointed out that there are winners in the importing sector, not just losers. And, there are indirect benefits from imports that should also be considered. Overall, the implication is that there is a role for general labor market policies that can address needs economy-wide, a policy orientation that the ILO has supported.

*PLENARY SESSION 6: Labor Market Institutions and Key Challenges: Human Capital Development, Informality and Inclusive Growth, Part 2*

Chairperson: Marion Jansen, ILO  
(Session rapporteur: Niny Khor, ADB)

60. The chair opened the session, introducing each of four presenters in turn before turning the floor over to the discussant. This was followed by an open discussion and responses by the presenters.

*Trade and Employment in Cambodia*

Presenter: Jayant Menon, ADB (co-author: Hal Hill, ANU)

61. Jayant Menon presented an overview of on-going work to examine the effects of the following factors on the Cambodian clothing industry with particular attention to low skilled, immobile women workers: (i) the termination of the Multi-Fiber Arrangement/Agreement on Textiles and Clothing; (ii) the growing Chinese presence in the apparel sector; and (iii) increased attention on compliance with international labor standards. The changing situation in the sector is posing a challenge for Cambodia in terms of strategies for sustainability of the industry and consideration of options to move up the value chain.

*Trade and Employment in Indonesia*

Presenters: Christopher Manning, ANU, and Douglas Brooks, ADB

62. The experience of Indonesia on employment as it relates to trade was presented by Christopher Manning. He began his presentation with an overview of the economic situation, starting from the Asian Financial Crisis which introduced a period of slower growth for Indonesia. Manufacturing exports, especially in labour intensive sectors, fell substantially. Agriculture and services have been the main areas for job creation. Domestic demand has been driving growth. Exports are driven by oil, gas and minerals. Yet, the labor force is large, youthful, relatively and low skilled. The authors' estimates show that there is potential for significant export-related employment growth in light industry and services sectors in Indonesia. However, in order to reach this potential a variety of challenges must be met including addressing supply constraints behind the border, reform of labor institutions, and deregulation of international trade and investment.

*A Cross-Sectoral Analysis of Trade and Employment in Bangladesh*

Presenter: Selim Raihan, University of Dhaka, ILO-sponsored study

63. Selim Raihan used partial and general equilibrium analysis to find that various Bangladesh FTA scenarios would bring positive net effects on export growth and employment. At the same time, he found that the largest benefits for Bangladesh would arise from duty free-quota free market access in developed economies. At the same time, the various trade liberalisation scenarios indicated some potential negative labor market effects associated with adjustment, and care would be needed to mitigate these.

*Trade Liberalization and Unemployment: Theory and Evidence from India*

Presenter: Rana Hasan, ADB (co-authors: Devashish Mitra, Syracuse University; Priya Ranjan, University of California – Irvine; Reshad N Ahsan, University of Melbourne)

64. Rana Hasan introduced his topic with a review of the economic situation in India with respect to poverty, the labor market, and trade. He underscored the decline in poverty, the significant trade liberalization since the 1990s, and the role of state governments in the economy. Using state and industry level data in India, the authors demonstrate that contrary to popular perception, trade liberalization is not



associated with increasing unemployment for India. Conversely, urban unemployment declines with liberalization in states with more flexible labor markets and larger employment shares in net exporting industries.

Discussion by discussant, Vinaye Dey Ancharaz, African Development Bank, and by participants

65. The discussant faced a particular challenge in that there was a tremendous amount of material covered in this very substantial session. With respect to the presentation on Cambodia, the discussant thought that the paper may benefit from looking more deeply into the structure, value chain and competitiveness of the clothing industry in Cambodia and from there charting the prospects for diversifying into other industries. Concerning the paper on Indonesia, the discussant recommended that the Indonesia paper look closer into the export composition of the services sector and urged some attention to the symptoms of Dutch disease that may be hindering diversification in Indonesia. Concerning the paper on Bangladesh, recommendations that followed from the discussion include the possibility of using CGE modeling to unify the various analytical tools employed in the paper. The discussant suggested the extension of the analysis to include a multilateral trade liberalization scenario. Turning to the paper on India, the discussant thought that the paper can be enriched by giving attention to the link between the liberalization of the service sector and its rise in the Indian economy. From the four presentations, the unifying message that emerged was that trade has been and will be beneficial for this set of Asian economies, but that complementary policies on labor markets, social protection, and industrialization policies are also necessary.

#### Asian Policy Perspectives

Moderator: Ganeshan Wignaraja, ADB  
(Session rapporteur: Niny Khor, ADB)

66. The Asian policy perspectives session included presentations from government representatives from six countries on challenging issues in their own labor markets: Monoj Kumar Roy of the Ministry of Commerce of Bangladesh; Chuop Narath of the Ministry and Labor of Vocational Training in Cambodia; Wang Lianhai of the Ministry of Commerce of China; Poonam Chauhan of Giri National Labor Institute from India; Maruli Apul Hasoloan of the Ministry of Manpower and Transmigration of Indonesia; Gadigasalam Alagasan from the Ministry of International Trade and Industry in Malaysia.

67. Recurrent themes and policy intervention areas identified by the representatives include: (i) the countries represented have all generally benefited from trade in terms of growth and employment; (ii) they have all experienced negative employment repercussions of the global financial crisis; (iii) trade has been associated with creation of good jobs, but there remains a challenge to address informality in employment relations in some areas; (iv) the drive to capitalize on the economic potential of trade depends in part on the availability of good infrastructure (v) trade-related adjustment has underscored the need for responsive social protection systems; (vi) labor institutions and labor market flexibility must be developed as part of an overall economic strategy in relation to trade; and (vii) skills training and upgrading play an important role in the ability to respond to economic adjustment challenges.

#### Policy Round Table

Moderator: Michael Plummer, OECD  
(Session rapporteur: Douglas Lippoldt, OECD)

68. The policy round table session consisted of four brief presentations and a period of moderated open discussion from the floor.

*Chang-Sang Cho, Ministry of Strategy and Finance of South Korea*

69. The first presentation delivered a review of policy highlighting Korea's experience with export led growth, especially in the years since 1962 and the first 5 year economic development plan. Initially this was focused on heavy industry, chemical industry and defense strategy, then textiles as a next step. Trade has increased faster than GDP and Korea has remained engaged in policy formation through international processes and institutions including via the WTO, OECD and G-20. In view of Korea's high trade dependency, Korea is pursuing a policy of market opening bilateral accords, with ratification pending for accords with the EU and US, work underway towards accords with China and Japan.

*Georgios Altintzis, International Trade Union Confederation*

70. This presentation provided perspectives from an important social partner, the International Trade Union Confederation (ITUC). The speaker called for more engagement of social partners in shaping discussions about trade and employment and in the policy formation process. Trade liberalisation and growth objectives must also take into account social impacts. Citing discussions from the 2010 IMF/ILO Oslo conference, he noted that increased income inequality can be associated with trade liberalisation, technological change and weakened labor market institutions. These institutions need to be strengthened and developed in coherence with other policies (e.g., tax policy), with a view to promoting redistribution. With respect to the question of inclusive trade-related development, he noted the importance of policies to invest in skills development and protection of core labor standards. In developing countries and elsewhere, informality poses a real challenge in this regard, indicating a lack of social protection. Thus, there is a need to promote formalization of the employment relationship. With respect to regional integration initiatives, he called for greater transparency and consideration of the needs of the poor. He proposed that ADB should involve social partners more deeply in its lending practices and could consider IFC as an example of such engagement.

*Hans Cacdac, Philippine Department of Labor and Employment*

71. This presentation highlighted the trade and employment interface in the current Philippine Development Plan (2011-16). The Philippines have struggled to find a means to promote inclusive growth. Income inequality remains a real problem, especially in the South, as does poverty. The employment population ratio is stagnant, and even for those in employment there are problems of underemployment (ca. 20%), informality and precarity. As is well known, in the face of limited domestic opportunity, many Filipinos live and work abroad. In response to the broad challenges, the government is striving to implement an ILO inspired decent growth strategy with four pillars: 1) creation of employment opportunities, 2) assurance of rights at work, 3) provision of social protection and 4) institutions for social dialogue. Trade will play an important role in this growth strategy, whereby the Philippines will engage in bilateral and regional trade arrangements and seek to provide economic opportunity through opening of pathways for exports of services including movement of natural persons, while also developing export processing zone policies and promoting productivity as part of industry and sectoral policies.

*Ernie Cecilia, Employers' Confederation of the Philippines*

72. The final speaker in the policy round table highlighted from an employer's perspective the difficult situation in the Philippine labor market, where informality is the norm, poverty is high, labor force growth exceeds employment growth, and chronic unemployment plagues many educated members of the labor force due to severe skills mismatch. In response, he noted that the economy must become more conducive to private sector development. Three areas for improvement include: 1) reform of labor market governance, including amendment of the labor code and labor administration to balance worker protections with business needs to have a return on investment; 2) decrease the costs of doing business (e.g., reducing

corruption), 3) improve the employability of Filipino workers through more appropriate education and training. Internationally, drawing on input from BIAC, he noted five overarching themes related to trade and employment: 1) the role of policies to complement trade liberalisation and deal with adjustment challenges (here he stated that the OECD could make a particular contribution by documenting empirical evidence as to what works); 2) the value of keeping markets open and further opening including DDA, 3) the importance of promoting conditions for development of international cost-efficient value chains, 4) the need for increased labor flexibility and mobility, and 5) the need for organizations like the OECD to support governments in development of such appropriate policy directions.

## Discussion

73. Despite tight timing for the session, there was a lively discussion that followed these four presentations. Participants raised a number of issues from the floor. With respect to trade unionization, a participant from Indonesia cited the fragmentation in the union movement there with thousands of small unions and 91 confederations. While stressing the importance of democratization and human rights, the questioner asked what might be the optimal structure for the trade union movement? Should there be more order in the development of worker representation? A participant from Africa asked about the challenge of informality. How can formalization be encouraged? Are there cases of reform in education or human resource policies that may be relevant for other countries? A participant from the ILO noted the importance of policy coherence in between the drive for increased openness and the need for social protection. How can such coherence be promoted and corresponding policies financed? A speaker from UNCTAD noted the proliferation of trade accords and the expansion of subject matter they cover, all of which constrains the ability of governments, particularly developing countries, to make independent policy choices. Given the situation of least developed countries, how much policy space is appropriate and necessary for them to improve their economic situations?

74. With respect to the trade union situation in Indonesia, the ITUC speaker responded by noting that the key issue is not the optimal structure of trade unions but rather coverage. In other words, the objective ideally should be 100% coverage of the workforce and an active collective bargaining environment that enables stakeholders to avoid conflict. With healthy conditions for social dialogue, society can advance as business and labor work towards shared objectives. Concerning financing of social protection, the speaker from Korea noted that there may not be a one-size fits all model. Korea employs fiscal means to ensure adequate social protection, but other countries may well find other viable approaches. In this regards, comparative studies may be useful in identification of lessons and best practices. In response to a query on the rise of informality in the Philippines, the government representative noted that a variety of factors are contributing especially in rural areas such as declines in real wages, lack of credit, and education failures. He noted that employment protection legislation is relatively strict in the Philippines, and that there needs to be balance in employment policy taking into account productivity and competitiveness. Other measures that can help to address the situation include democratization and local and regional autonomy that can help combat distrust and corruption, and improvement of employment services and job search assistance via Internet to facilitate placements into formal employment. The employers' representative noted that informality is also associated with the large number of micro-entrepreneurs in the Philippines, accounting for 90% of enterprises. Formal sector restrictions encourage informality among these entrepreneurs. For example, the minimum wage is 12 times that of Vietnam and the number of paid holidays is 23. By easing regulation and increasing attractiveness, the Philippines could benefit from increased FDI inflows, returning of experienced overseas workers, and more effective entrepreneurial activities.

## Concluding Statements

(Session rapporteur: Douglas Lippoldt, OECD)

75. This session comprised concluding remarks from OECD and ADB.

*Douglas Lippoldt, OECD*

76. The speaker gave the concluding remarks on behalf of OECD. He thanked the ADB for hosting the conference and for the excellent collaboration in preparing the conference. He personally thanked the team that led the preparations for ADB (Douglas Brooks, Niny Khor and Ann Roxas), as well as their colleagues, and thanked the participants all around for their contributions. He then highlighted the next steps in the International Collaborative Initiative on Trade and Employment (ICITE), under which the Manila conference was held. These include elements focusing on research, dialogue and public information. At the Manila regional conference, the first set of ICITE country and thematic studies was presented. Quite a few additional studies are planned over the life of the project, which is being carried out during the timeframe 2011-12. The Manila event on *Labor, Trade and Inclusive Growth: Sustaining A Dynamic Asia* was the first of three regional conferences planned under the International Collaborative Initiative on Trade and Employment. The next regional events will be:

- *Latin American and Caribbean Labor Markets and the Global Economy* (hosted by UNECLAC, Santiago, Chile, 14-15 June 2011), and
- *Trade, Jobs and Inclusive Development in Africa* (hosted by the African Development Bank, tentatively planned for 22-23 September 2011).

These regional events will be followed by an ICITE-themed OECD Global Forum on Trade event to be held at OECD headquarters in Paris during 7-8 December 2011. As for public information, a number of the ICITE studies are slated for release as ICITE working papers and there is an ICITE project publication planned for release in time for the OECD Meeting of Council at Ministerial Level in May 2012. In addition, a number of policy briefs are planned to provide information on interim conclusions from the project.

*Douglas Brooks, ADB*

77. The speaker provided the concluding remarks for the conference. Reviewing key themes from the conference discussions, he highlighted four. First, he emphasized the importance of trade in relation to economic development in the Asia-Pacific region and underscored the point that changing trade patterns have employment implications. Second, he noted the general view that trade liberalisation works best when accompanied by economically complementary conditions in the labor market including respect for core labor standards, flexibility (e.g., with respect to employment regulation), development of skills and human capital, and, more broadly, a suitable macroeconomic policy framework. Third, openness can entail vulnerability for some, which should be recognized and addressed. Corresponding labor market institutions need to be developed and in view of the dynamics of the economy these institutions will need to adjust over time. Fourth, the dynamics of trade imply that some general policy measures need to be in place in order to equip the economy for change. Such policies include education and training programs that deliver knowledge and skills of general utility, social safety nets that facilitate adjustment, measures to promote formality over informality in employment relations, and policies to promote inclusive growth across the various social groups. Upon concluding these remarks, the speaker thanked all concerned for their engagement and contributions to making the conference a success. With that, he adjourned the conference.