

Trade and Employment in the Global Crisis

Launch

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It's a long way from Wall Street to a Liberian Rubber Farm...



Outline

1. Trade and Employment During the Crisis: Global Data
2. Country Case Studies: employment effects of trade fluctuations during the crisis
3. Trade and employment effects of policy responses



While everyone was affected, some regions suffered more than others...

	Exports		Imports	
	2008	2009(Jan-Sep)	2008	2009(Jan-Sep)
World	15.1	-30	15.2	-30
Western Europe	11.3	-30	12	-32
Asia	14.4	-24	20.4	-27
North America	10.6	-27	7.6	-30
South/Central America	20.5	-25	30.1	-32
CIS	35.3	-45	32	-41
Africa & Middle East	31.2	-50	25.9	-21

... and some products declined sharper than others.

World Exports of selected manufactures by Quarter, 2008 to 2009 Q3

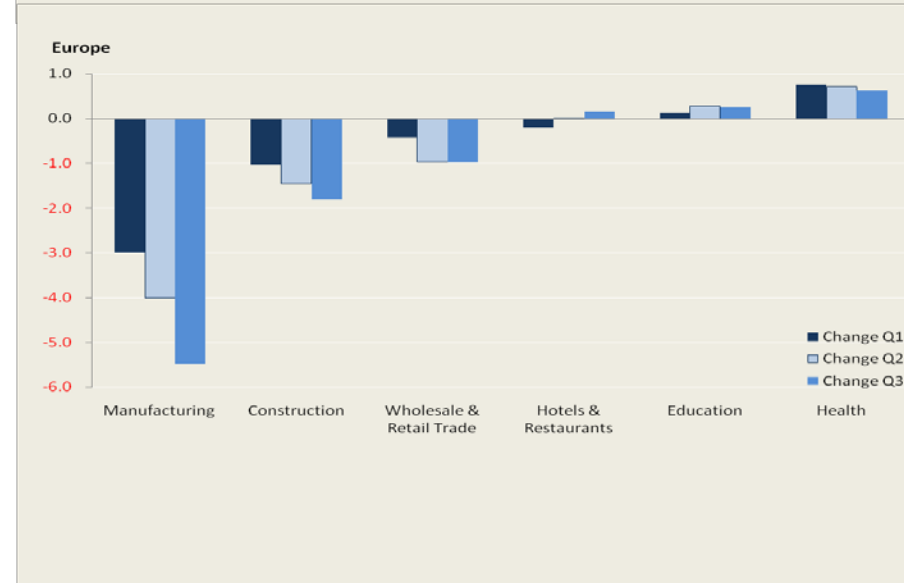
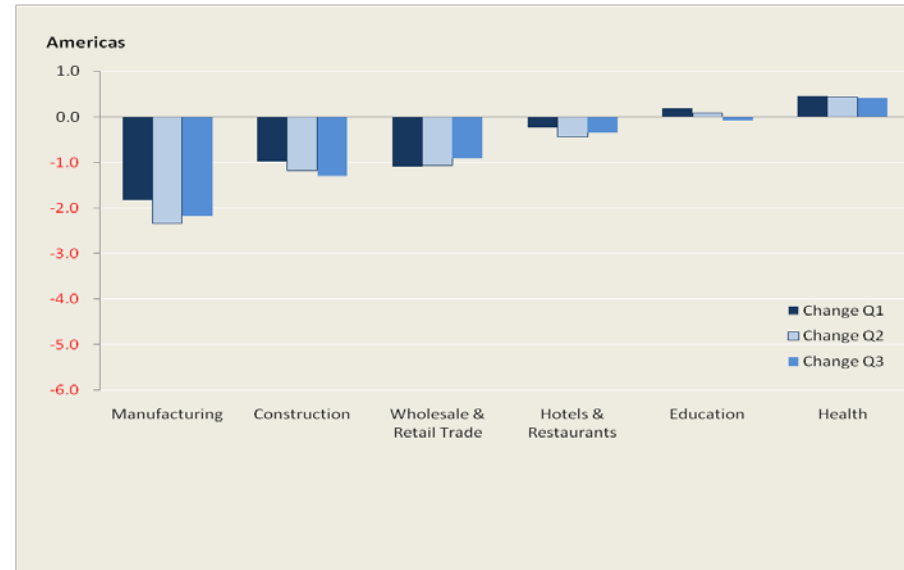
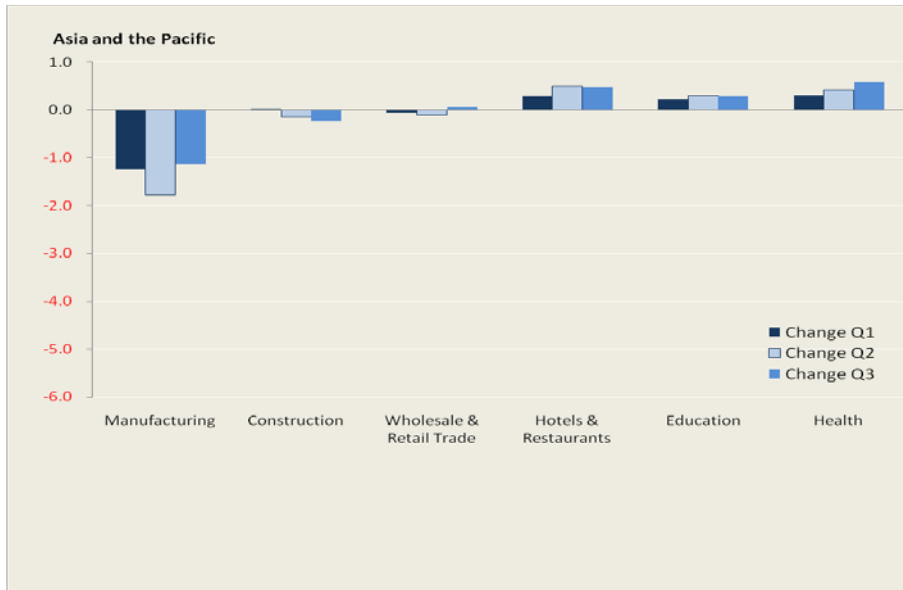
	(Percentage changes, y-o-y, current dollars)						
	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3
Manufactures	15.4	17.9	12.5	-11	-28	-29.9	-20.8
Iron and steel	13.8	25.9	41.4	3.7	-38	-55.5	-54.8
Automotive products	14.8	15	2.6	-26.5	-47.1	-45.8	-16.8
Office and Telecom Equipment	9.3	12.4	6.6	-14.7	-28.4	-22	-29.6
Chemicals	18.4	23.5	20.4	-6.7	-23.5	-24.6	-12.4
Textiles and Clothing	9.6	9.5	6	-7.2	-16	-19.8	-14.5

The global slowdown in employment growth (and losses of existing jobs)...

	Real GDP growth			Employment growth		
	2007	2009	diff	2007	2009	diff
World	5.2	-1.1	-6.2	1.9	0.7	-1.2
Developed Economies and European Union	2.6	-3.5	-6.2	1.4	-2.5	-3.9
Central and South Eastern Europe (non-EU) & CIS	7.6	-6.5	-14.1	2.1	-2.2	-4.3
East Asia	11.2	6.1	-5.1	0.9	0.9	0.0
South-East Asia and the Pacific	6.5	0.5	-6.1	2.5	1.7	-0.8
South Asia	8.7	5.0	-3.7	2.4	1.8	-0.6
Latin America and the Caribbean	5.7	-2.5	-8.2	2.1	0.2	-1.9
Middle East	6.1	1.4	-4.7	3.0	3.7	0.7
North Africa	5.8	3.7	-2.1	2.7	2.4	-0.3
Sub-Saharan Africa	6.8	1.2	-5.7	3.0	2.8	-0.2

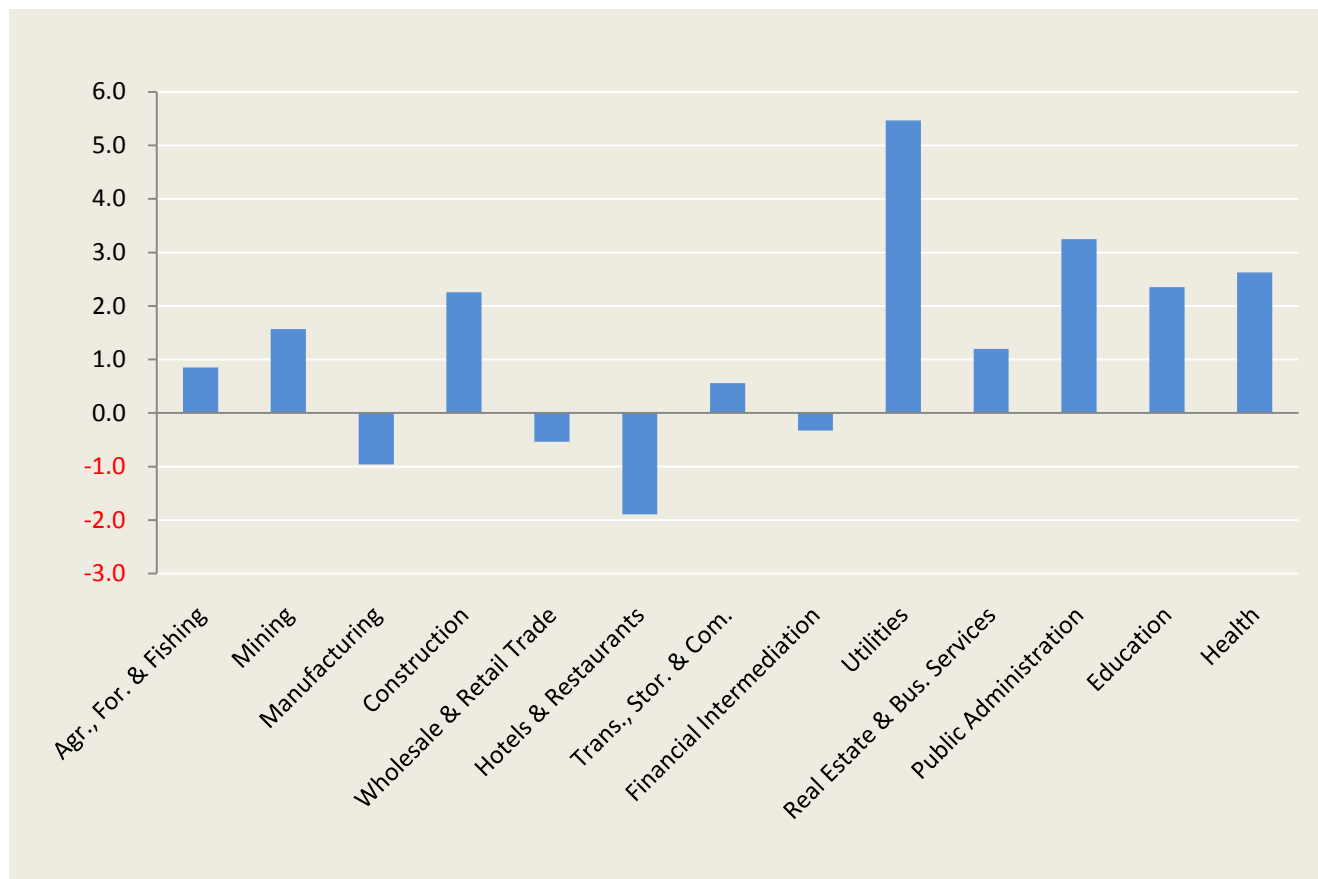
Most jobs were lost in manufacturing.

Change in Employment in Selected Countries (mln. jobs) by Region and Industry



Some companies also reacted by cutting wages...

Average Change in Wages by Industry in Selected Countries



How do we expect trade to affect labour markets in individual countries during a global crisis?

- We expect the direct effect to be sector specific : export sectors are most affected.
- In the short-run, we expect the strongest negative effect to be on sector specific production factors (capital?) and on factors intensively used in export sectors (low skilled labour in developing/emerging economies?)
- We expect there to be indirect effects via supply and income effects, but a priori we do not know how rapidly the effects will spread.
- We expect to observe different combinations of wage and employment effects depending on company and government policies.



ILO country level work

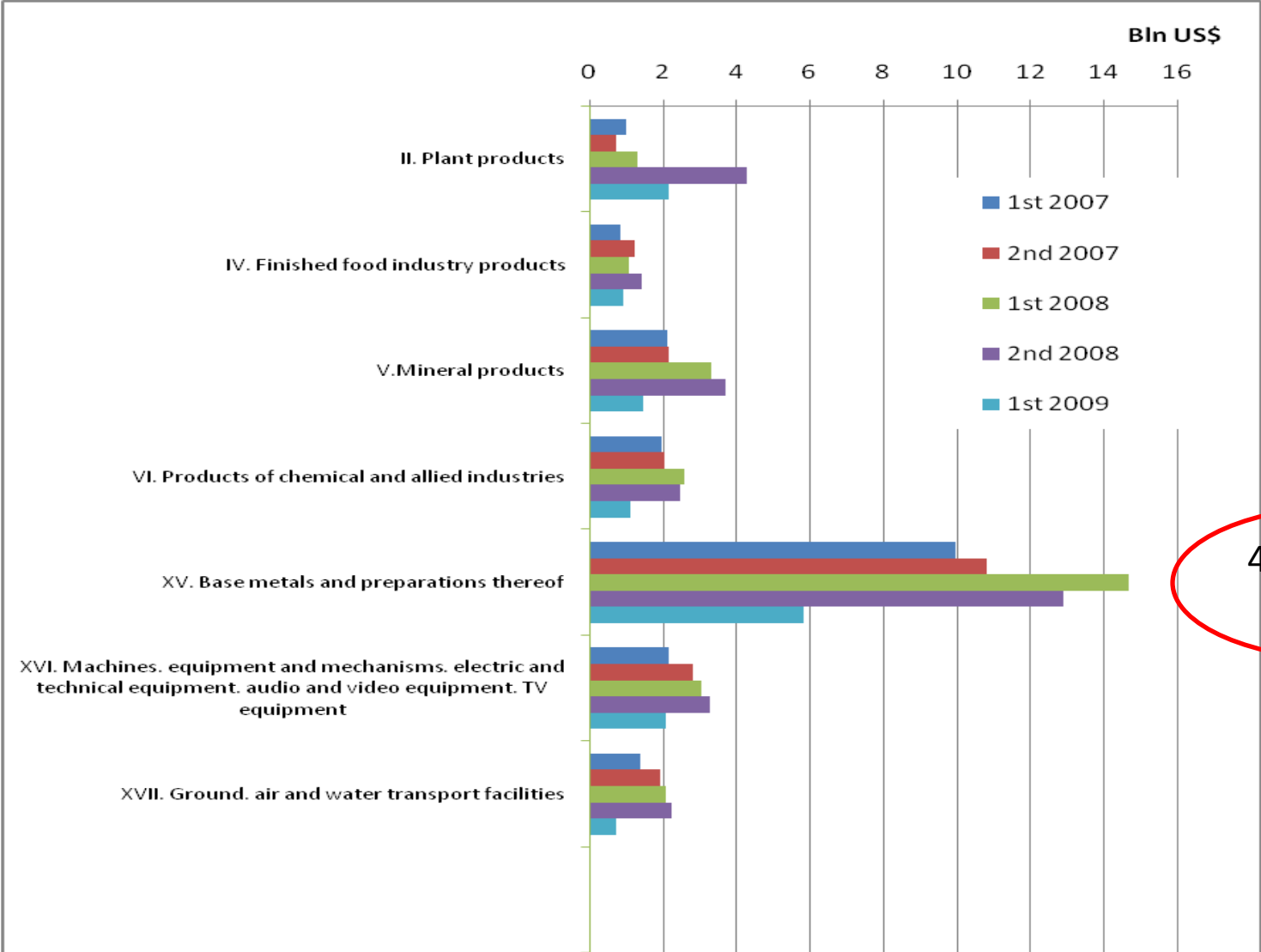
- **Ukraine** → Rapid Assessments
- **Liberia** and **Uganda** → Rapid Assessments
- **India** and **South Africa** (quantitative: SAM based Leontieff Multiplier model)
- **Brazil** (quantitative: SAM based CGE model)
- **Egypt** → Rapid assessment



	Population (mln.)	GDP pc (\$ PPP)	Income Group	Real GDP growth			Trade / GDP	Trade (\$) per capita	Total exports of goods on a free-on-board (f.o.b) (% change pa)		
				av 2000-7	2008	2009			2006-8	2006-8	av 2000-7
Brazil	190	9'684	Upper Middle	3.5	5.1	-0.7	26.2	1'854	16.6	23.2	-22.7
Egypt	80	5'042	Lower middle	4.7	7.2	4.7	72.9	1'217	21.6	22.1	-19.3
India	1'125	2'753	Lower middle	7.2	7.3	5.4	47.6	467	20.8	34.5	-17.9
Liberia	4	371	Low	0.0	7.1	4.9	114.5	227	6.3	32.7	-38.5
South Africa	48	9'768	Upper middle	4.2	3.1	-2.2	67.5	3'837	13.2	15.7	-22.1
Uganda	31	1'075	Low	7.3	9.0	7.0	53.6	212	21.3	35.2	17.8
Ukraine	47	6'933	Lower middle	7.5	2.1	-14.0	98.0	3'026	20.4	35.8	-40.7
World	6614.40	9996.00		4.2	3.0	-1.1	56.8	4'267	12.1	14.9	-23.0
source:	World Bank	World Bank	World Bank	IMF	IMF	IMF	WTO	WTO	IMF, National Central Banks		



Ukraine: an example of a country specialized in the “wrong” sectors ...



42 % of total exports



... and exporting to the “wrong” markets.

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28% of
Ukraine's pre-
crisis exports

38% of
Ukraine's pre-
crisis exports



Employment losses were strongest in exporting sectors, but also spread to the rest of the economy.

Ukraine: Sectoral Impact of the Crisis on the Labour Market

	Employment change 09-08 (Aug)	Wage change 09-08 (Jan-Aug)
17,18: Manufacture of Textile; Manufacture of Wearing Apparel; Dressing and Dyeing of	-15%	0%
20: Manufacture of Wood and of Products of Wood and Cork, except Furniture; Manufacture of articles of Straw and Plaiting Materials	-16%	-1%
25: Manufacture of Rubber and Plastics Products	-17%	-8%
26: Manufacture of Other Non-Metallic Mineral Products	-26%	-15%
27, 28: Manufacture of Basic Metals; Manufacture of Fabricated Metal Products, except Machinery and Equipment	-15%	-6%
29: Manufacture of Machinery and Equipment NEC	-21%	-8%
34,35: Manufacture of Motor Vehicles, Trailers and Semi-Trailers; Manufacture of other T	-20%	-15%
36: Other Manufacturing	-22%	-11%
F: Construction	-26%	-22%
J: Financial Intermediation	-19%	8%

South Africa: estimated employment impact of trade shock during the crisis

Tradeable goods industrie	1 Agriculture, hunting, forestry and fishing	-241038
	2 Coal mining	-3004
	3 Gold mining and other mining	-7893
	4 Food processing	-14088
	7 Clothing	-10447
	10 Wood products	-128919
	12 Printing and publishing	-23126
	16 Glass products	-10342
	19 Metal products	-41403
	27 other manufacturing	-40167
	28 Non tradeable goods and industries	-366060
	36 All industries	-886486

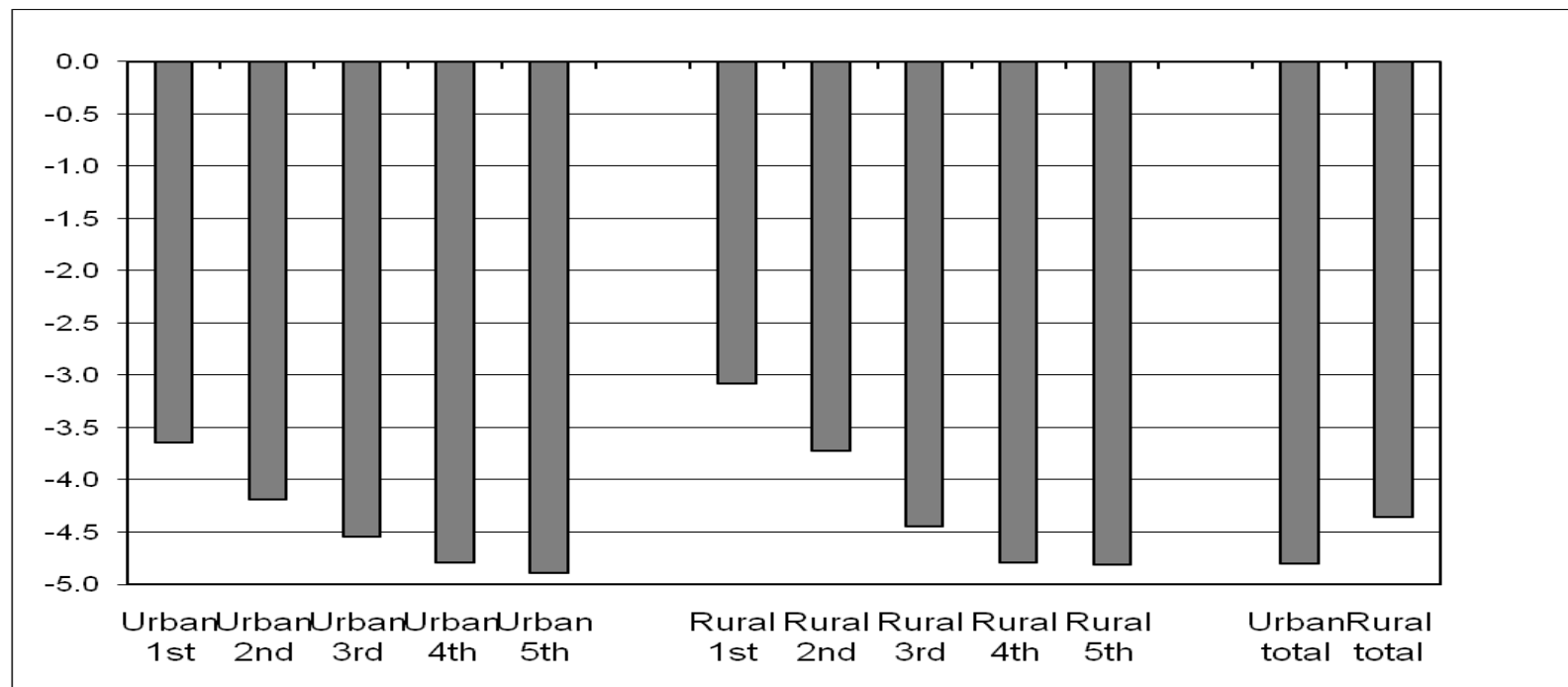
Source: Simulation results from Kucera et al (2010)

Of which 390,000 through income induced effects



Predicted income losses in South Africa are substantial, especially for richer households.

South Africa : Impact of Trade on Income by Household



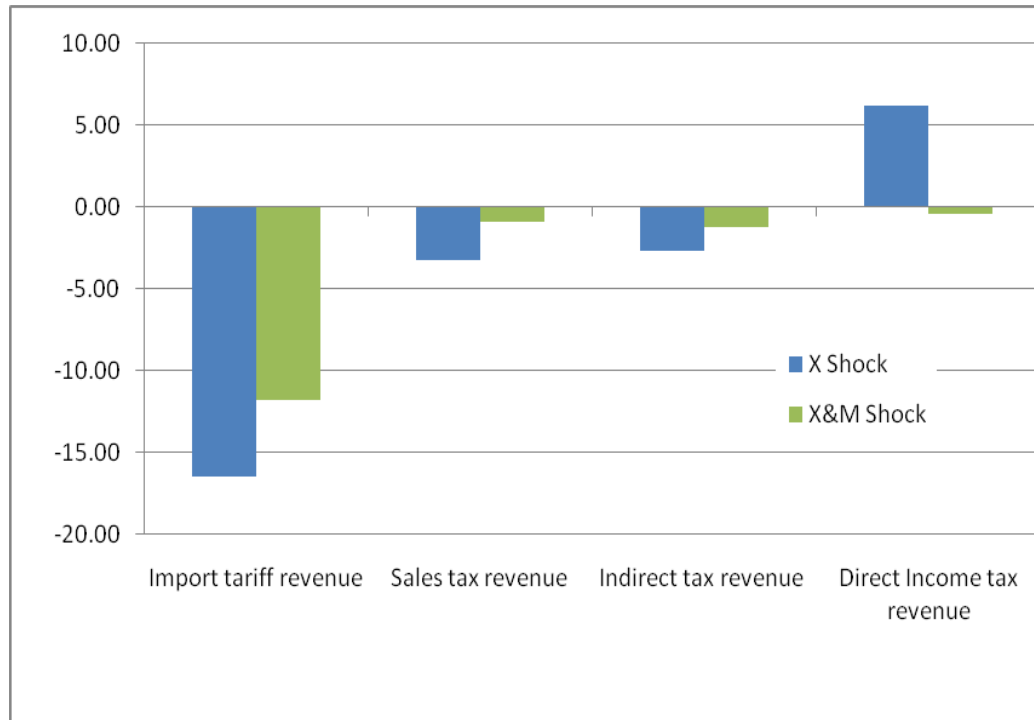
All factors are predicted to lose, but very low wage earners are hit the hardest.

Brazil: Predicted Changes in Factor Incomes

	North	NE	C West	South	Sao P	Rio	SE
V low wages	-11.15	-7.27	-1.60	-6.00	-7.43	-7.71	-8.80
Low wages	-9.24	-6.78	-2.13	-5.64	-6.48	-6.80	-7.99
Med wages	-7.37	-6.09	-2.06	-5.94	-5.68	-5.96	-6.71
High wages	-2.85	-2.48	-0.95	-2.44	-2.56	-2.44	-2.86
V high wages	-2.83	-2.19	-1.08	-2.36	-2.77	-1.41	-2.94
Capital	-4.64	-3.73	-5.26	-4.75	-5.10	-2.39	-5.16
Land	-9.51	-5.48	6.37	-1.01	-3.37	-8.69	-6.97

Brazil

Simulated changes in tax revenues (% change)



Liberia: export earnings declined rapidly as world market demand for rubber (80% of total exports) collapsed...

- Plantations reacted to the crisis through lay-offs and by increased use of precarious contracts (using contractual rather than regularly employed labour)
- Smallholders suffered severe income losses.
- Increasingly tense labour relations and riots on two large rubber plantations
- Reduced bargaining power of the government in ongoing re-negotiations of rubber concessions may lead to negative outcomes well into the future



Long run effects of fluctuations in Liberia

Volatility is bad for growth

Company investment decisions affected:

- Insecurity among smallholders on replanting decisions increased

Household investment decisions are affected:

- Short term declines in the incomes of the poorest households can perpetuate into the future -> eg.: children have to be taken out of school ; households migrate

Volatility can be bad for government revenue

Distribution of gains from investments is affected:

- Government lost bargaining power in concession negotiations due to the need to protect employment and secure revenues in the short run -> lower government revenues



Policy Responses: trade vs. labour “views”

- Trade policy and trade finance
- Sectoral and company-specific stimulus programmes
- Cross-sectoral measures



Trade Policy and Trade Finance

- Leaders (including ILO) warned against spirals of protectionism
- G20 pledged to make US\$ 250 billion available for trade finance (... But there is country level evidence of trade finance not being used during crisis)



Sector specific policies

OECD-UNCTAD-WTO G20 report asks for dismantling of sector specific measures especially those that “support capital rather than labour”



- Relatively high potential to be trade distortive (can be challenged under WTO Agreements).
- ILO Global Jobs Pact supports them in employment intensive sectors.
- Infrastructure is “different”: low potential to be trade distortive, can spur future trade flows and is highly employment intensive.



Cross-sectoral Policies

- Examples: unemployment benefits, income transfers (to poor, young, elderly)
- Not trade distortive
- Have the potential to address direct and indirect employment effects of trade shocks
- Effective cushions against external shocks (ILO, WB)
- Automatic buffers if in place before crisis



Conclusions

- **Employment effects of trade shocks have been significant**
- **Trade shocks have contributed to pressure on nominal wages**
- **Income induced employment effects of trade shocks have been estimated to represent as much as half of the total employment effect**
- **There is evidence that trade shocks have affected investment decisions with possible negative consequences for growth**

Strong social protection systems are an essential element of socially sustainable globalization:

**not trade distortive
effective buffers**

