Executive Summary

International Labour Organization

Trade and employment in the global crisis

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While the world is starting to recover from the biggest economic and financial crisis since the Great Depression, we now have the data for first evaluations of the causes and consequences of the crisis. This book reviews global patterns of trade and employment as well as evidence from seven ILO country-level studies that focus on the employment effects of changes in trade flows during the crisis. The studies cover two low-income countries (Liberia and Uganda), three lower-middle-income countries (Egypt, India and Ukraine) and two upper-middle-income countries (Brazil and South Africa).

The volume of world trade is estimated to have fallen by around 12 per cent in 2009. Over the same period, global unemployment is estimated to have increased by 0.9 per cent. In the first quarter of 2009, more than half of the countries for which relevant data are available experienced a decline in real wages as compared to 2008. While developed and transition economies have been most strongly affected by negative developments in labour markets, most developing economies are also experiencing a rise in unemployment and underemployment.

Openness to trade can in good times be a source of economic and employment growth, but it also exposes countries to external shocks. The current crisis demonstrates that integration into global markets makes domestic labour markets vulnerable to shocks of foreign origin. To be able to support labour markets, it is important to understand the mechanisms through which such shocks affect domestic economies, as well as the likely effects on employment levels and conditions at the aggregate and individual levels.

The first conclusion that can be drawn from this country-level work is that the employment effects of the crisis-related trade shock differed significantly across the seven countries. To a large extent the level and nature of employment effects depend on countries' level of openness and their export structure. There is also strong variation in how the reduced demand for labour caused by the trade shock manifested itself; in some cases (e.g. Uganda and the Egyptian tourism sector), this was mainly in terms of reductions in wages or hours worked. On the other hand, Brazil, the Egyptian textile sector and South Africa experienced a significant contraction in terms of quantity of employment. The Ukraine and Liberia studies show evidence of both employment and wage reductions, as well as of increasing wage arrears. In Liberia and Uganda, there is also evidence of increasing casualization of labour.

Despite these differences, analysis of the seven country cases allows for some general conclusions:

- The employment effects of the trade shocks have been significant in all countries and large in several of them, underlining the need for policy responses to take into account the trade–employment linkage. Employment effects have been particularly severe in countries whose exports are concentrated in the sectors that experienced the largest drop in trade during the crisis, e.g. iron and steel, and products related to automobiles;

- The trade shock has often contributed to increased pressure on nominal wages, partly because it undermines workers' bargaining position. Given that the global financial and economic crisis was preceded by sharp hikes in global food prices, the resulting cuts in real income were severe in some cases, in particular for poor workers, who spend a significant share of their income on food.

- The employment effects of the trade shocks are not restricted to trading sectors, but affect the entire economy. This happens through two channels: a reduced demand for inputs by exporting companies and a general reduction in demand because of reduced household incomes. The estimates presented in this book show that up to half of the employment effects triggered by trade shocks may be the result of such income-induced effects.

- Trade shocks have an effect on the functional and gender distribution of income. The direction of that impact can be predicted reasonably well on the basis of traditional trade models.

- Volatility in global markets is likely to have long-term effects on economies because of its effect on investment decisions by companies and households. The household decisions most likely to be affected are those related to migration and education. Volatility can also have a long-term effect on the distribution of gains from investment. This happens, for instance, through its effect on the bargaining power of parties involved in the negotiation of wages or concession agreements for investment projects.

Governments have responded to the crisis by introducing different types of policy measures. In addition to significant support measures targeting the financial sector in the most affected countries, governments around the world have introduced fiscal and monetary policy stimulus packages to help the "real" economy cope with the crisis. The book groups these measures into three types: trade protection measures, other sector-specific support measures, and social and labour market measures applied across sectors. The first type of measures clearly conflicts with the spirit of multilateral trade agreements; policy-makers around the globe pledged not to resort to protectionism during the crisis. The ILO's response to the crisis, the

Global Jobs Pact, reflects the idea that a general raise in protectionism would ultimately not be beneficial to labour market recovery. Thus far, the use of trade protection measures to cope with the consequences of the crisis has been very limited.

Sector-specific support measures also have the potential to distort trade and therefore to conflict with multilateral trade agreements. Sectoral measures targeting employment are likely to be less problematic than those targeting capital, however. Infrastructure projects are unlikely to be trade-distortive and can have employment creation effects as well as positive long-term effects on growth by reducing trade costs. Such projects are therefore strong candidates for successful stimulus packages from both a trade and an employment point of view.

Cross-sectoral social and labour market policies have also been playing a very positive role during the current crisis. When based on existing social protection systems or labour market legislation, they act as automatic buffers and can be rapidly scaled up or targeted towards groups particularly affected by the crisis. With a minimal potential to distort trade flows, such measures perform extremely well with regard to both employment and trade objectives.

Apart from protectionism, which has serious negative long-term consequences, all the measures mentioned require funding, and fiscal space is therefore a precondition for introducing them. One element of good crisis management not yet mentioned does not require fiscal space: strong social dialogue between employers, workers and governments. This can be very helpful in times of crisis for the design of appropriate policy packages, and can be a crucial element of crisis management in countries with little or no fiscal space. In such countries, social dialogue can ensure that losses from negative external shocks are distributed in such a way as to avoid excessive social hardship and minimize long-term negative consequences for growth. Encouraging dialogue with and between employers and workers increases the chances of finding solutions that guarantee enterprise survival and at the same time minimize losses for individual households. Such solutions should not necessarily target preservation of the status quo, but take into account that a successful crisis response may include adjustment among enterprises and workers.

At the time this book was finalized, recovery from the global crisis was already beginning. The policy advice here will therefore be useful above all in terms of indicating priorities for the winding down of crisis packages. Cross-sectoral social and labour market policies should be maintained the longest, in particular those targeting the most vulnerable groups in society.

But this book also contains a strong policy message for the future. With the levels of global financial and trade openness achieved, individual economies will continue to be vulnerable to external shocks. The debate on whether global volatility has increased is so far unresolved, but there is a fair chance that external shocks will become more frequent. It is thus of crucial importance to prepare economies for this during times of economic growth.

Creating fiscal space during periods of growth should be a priority for policy-makers at the national and international levels. Yet during such periods, emphasis should also be given to strengthening administrative capacity in general and social protection systems and labour market policy instruments in particular. These work as automatic stabilizers in times of crisis, and if they are in place beforehand they can be rapidly scaled up or retargeted towards affected groups. Social protection is thus a crucial element of a sustainable system of global trade and contributes to minimizing the negative effects of global volatility. The need to build fiscal space should therefore not be considered a constraint for strengthening social protection systems.

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