

Trade, labour and the crisis: Time to rethink trade!

by Esther Busser

Trade has been one of the main transmission channels of the financial and economic crisis to developing countries where many jobs were lost in export sectors. This was largely due to a reduced demand for goods in industrialised economies as well as to a lack of access to credit for the financing of exports.

At the international level, calls against protectionism (that is, increasing barriers to trade) have been manifold. These calls have been made in the International Labour Organisation (ILO) Global Jobs Pact, G-20 Declarations and government declarations in organisations such as the World Trade Organisation (WTO) and the Organisation for Economic Co-operation and Development (OECD). Despite these calls and the common understanding that closing off markets would have negative effects and risk a further deepening of the crisis, several countries have resorted to protectionist measures.

Discussions around trade and the crisis have mainly focused on whether countries have resorted to protectionist measures, the nature of these measures as well as their impacts. However, this discussion only reflects a part of the overall picture on the role of trade in the crisis. It does not touch on its role in promoting a sustainable recovery and in addressing the underlying imbalances in world trade. Two important questions, therefore, need to be raised. The first is whether the pre-crisis model of export-led growth in some countries and debt-fuelled consumption in others is sustainable. The second is whether the outcomes of export-led growth have indeed been beneficial for the long-term employment and development perspectives of developing countries.

The crisis has shown that the push for trade liberalisation and open markets over the past couple of decades, as promoted by the WTO, the major economies and Transnational Corporations (TNCs), has resulted in an export or "market access" focused trade model, which in turn has created a situation where many countries became dependent on export markets for their growth. Such a situation makes them vulnerable in cases of shocks, like in the current crisis, particularly when demand drops simultaneously in all markets, resulting in job losses. This constitutes a crucial difference with the Asian financial crisis, which limited itself to Asian countries and allowed them to export themselves out of their crisis, an option not available currently.

Several voices have been calling for a rebalancing of trade, not only to reduce vulnerability to trade shocks but, more importantly, to rebalance global demand. Such voices have been expressed in several fora, including in the G-20, the International Monetary Fund (IMF), ILO and other United Nations (UN) organisations. Such a rebalancing would require less dependence on export markets and more emphasis on creating diversified domestic markets in all countries, that are based on consumption and wage led growth as well as a re-establishment of wage-productivity linkages.

However, these calls for rebalancing are made amidst the dominance of a free trade paradigm. The "no protectionism" slogan is regularly accompanied by a call for "further trade liberalisation". Mixing the two is problematic, especially when it comes to rebalancing efforts that do require a substantial rethinking of the role of trade and trade liberalisation in sustainable recovery and development. The recent G-20 Toronto statement that calls upon "the OECD, the ILO, World Bank and the WTO to report on the benefits of trade liberalisation for employment and growth at the Seoul Summit"¹ clearly shows how the current drive for trade liberalisation continues to reign.

Moreover, this rebalancing exercise questions the long-term growth perspectives to be achieved in developing countries by free trade and the current specialisation pattern. The vulnerabilities of developing countries are unfortunately not only limited to their dependence on export markets, but also to specialisation in low value added activities in highly competitive markets.

Despite some diversification and industrialisation successes, particularly in Asia and in a few Latin American countries, many developing countries have witnessed a specialisation in limited numbers of low value-added economic activities. This strategy has not only increased the dependency of these countries on export markets, but it has also failed to bring about diversification and to substantially raise income levels and decent work opportunities. Trade liberalisation has played a major role in this process. An exclusive focus on trade liberalisation has forced countries to specialise in products in which they have a so-called natural comparative advantage, either in agriculture and natural resources or in low value added and labour intensive manufacturing. This is problem-

atic because commodities and low value added manufacturing (such as textiles and clothing) are characterised by highly competitive markets, low prices, low productivity gains, low wages, poor working conditions and powerful supply chains that have reinforced competition and a race to the bottom. In other words, specialising in production in which developing countries have a natural comparative advantage only allows for limited productivity and wage improvements. In such a context, creating decent employment and higher levels of income remains difficult and rather challenging. Strategies that only focus on entering and stagnating in the lower ends of global supply chains are therefore problematic and limit prospects for a diversified economy.

A rebalancing approach should thus aim at creating decent and productive employment through diversification of economies. This would entail increasing productivity in sectors such as agriculture while at the same time building comparative advantage and productive capacity in higher value added activities characterised by increasing returns to investment and a higher potential for productivity gains. Such a strategy for development is not only the key to more productive employment, higher wages and decent working conditions, but also instrumental in increasing aggregate demand and stimulating the growth of domestic markets.

What is important to understand, though, is that such a development and rebalancing strategy is only possible if governments reinvigorate their developmental role, build the relevant institutions, diversify their economies and adopt pro-active and strategic trade and industrial policies. The challenge is to recognise again the importance of these policy instruments aimed at putting diversification, productivity increases in agriculture, industrial development and structural transformation at the top of the agenda if decent and productive employment is to be delivered. This can only be done if trade agreements and trade liberalisation are looked at in a different way and assessed on the basis of their impacts on development and decent work. Unfortunately, over the last two to three decades, countries have been set on a path of trade liberalisation that has largely eliminated such instruments and policy space through commitments in trade and investment agreements.

Such policy space is crucial if countries currently confined to low value added activities want to move up the value chain, diversify their economies and rely more on domestic and wage led growth. Experiences in industrialised countries and successful emerging economies have shown that trade liberalisation has to be gradual to allow economies to build up their productive capacity and specialise in the right activities. There is an important role for the state in channeling investment, protecting domestic markets, providing access to finance and attracting new technology. A variety of policy instruments will be necessary to ensure industrial development. Such instruments do include the strategic and flexible use

of tariffs (low for inputs and higher on products in which competitiveness is being developed), subsidies, reverse engineering, local content and other investment requirements, export taxes and so on. Many of these instruments have either been prohibited or strongly limited by current trade agreements.

Although the Doha round seems stalled, the demands to revive it are frequent and the aggressive bilateral trade liberalisation led by the US and the EU continues more than ever, reducing much of the remaining policy space for developing countries. In a similar way policy space is being reduced in developing countries that are in the process of accession to the WTO, slashing their tariffs, opening up their services and reducing their policy space far beyond that of WTO members with comparable levels of development, thus having a strong impact on their long term development perspectives. A much more viable strategy would be to promote regional integration, diversification and development. Unfortunately the current drive for liberalisation hinders such regional strategies.

Governments will have to shift from a laissez-faire approach in trade to a more active role whose core objective is the creation of decent and productive employment through industrialisation and structural transformation. To put industrial policies high on the agenda again requires a serious reconsideration of the current free trade paradigm. Instead of eliminating vital policy space, a new trade regime should actively promote the use of it, as some protection will be needed to enable industrialisation and create decent work. A new trade regime such as this is imperative if a sustainable recovery is to become a reality.

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¹ G-20 Toronto summit declaration :

<http://g20.gc.ca/toronto-summit/summit-documents/the-g-20-toronto-summit-declaration/>