

29 June 2011

**International Collaborative Initiative on Trade and Employment
(ICITE)**

Latin American and Caribbean Labour Markets and the Global Economy

ICITE 2nd Regional Conference

Rapporteurs' Report

Rapporteurs:

Niny Khor, ADB

Marcelo LaFleur, UN ECLAC

Douglas Lippoldt, OECD

Nanno Mulder, UN ECLAC

14-15 June 2011

**UN Economic Commission for Latin America and the Caribbean (ECLAC)
Avenida Dag Hammarskjöld 3477, Santiago, Chile**

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I. OECD Introduction

A. Background

The Latin American and Caribbean regional conference on trade and employment was conducted as part of the on-going International Collaborative Initiative on Trade and Employment ([ICITE](#)). The ICITE project is a joint partnership of 10 international organisations designed to explore the relationship between trade and employment, including consideration of policy implications.² In addition to serving as a catalyst for a new wave of empirical analysis, the initiative seeks create an inventory of data resources, promote dialogue among stakeholders, and provide information resources for policy-makers and the public.

B. Santiago Conference Evaluation Overview

The second ICITE regional conference was held during 14-15 June in Santiago, Chile, at the headquarters of the UN Economic Commission for Latin America and the Caribbean. It brought together some 70 participants (60 registered) including policy makers, academic experts, social partners, representatives of international organisations, and other stakeholders. Six ICITE partner organisations were represented (ADB, IADB, ILO, OECD, UN ECLAC, World Bank). In co-operation with the World Bank, the Government of Spain provided financial support for the event through its Special Fund for Latin America and the Caribbean.

The objective of the event was to:

- 1) Take stock and expand the range of empirical and institutional analyses on the relationship between international integration and labour markets,
- 2) Promote dialogue and exchange of relevant literature among stakeholders, and
- 3) Inform policy-makers and the public of key findings.

¹ The views expressed are those of the individual rapporteurs and do not necessarily reflect those of other conference participants, the organizers (OECD, UN ECLAC, World Bank) or their member countries, or the ICITE partner institutions.

² Participating organisations include: ADB, AfDB, ECLAC, IADB, ILO, OAS, OECD, UNCTAD, World Bank & WTO.

The program focussed on three inter-related issues that are of particular relevance for policymakers in the region: i) the role of external shocks in determining labour outcomes in Latin American and Caribbean economies, ii) the evolving macroeconomic environment and labour market adjustment, and iii) openness, Informality and labour market adjustment.

The success was gauged in part using a participant evaluation form, which was distributed at the event. The form generated a response rate of about 25% (16 completed forms). Overall, the participant evaluations were quite favourable:

- 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 quality of the papers and presentations, the focus of the conference agenda, and the substance of the discussions including the engagement of both policy makers and experts.
- In terms of the indicators for the quality of the organisational aspects of the meeting, the average score was 5.8 out of 7. The conference logistics attracted significant praise from the participants and the highest marks. Other aspects that were highly scored included the selection of participants, the structure of the sessions, and the steps to assure adequate time for discussion.

The experience from the Manila ICITE conference helped to inform the Santiago ICITE conference. A rapporteur from ADB provided a briefing for the Santiago participants on the themes and conclusions from the Manila conference. This helped to ensure continuity and cross-sharing of ideas between the two events. A similar report will be incorporated in the agenda for the planned Tunis conference, building on the themes and conclusions of the two previous ICITE regional conferences.

Also, based on a suggestion from participants at the Manila ICITE conference, the Santiago organisers made every effort to make available materials for the Santiago conference in advance. This was very much appreciated by the Santiago participants and demonstrated learning also with respect to the organisational aspects.

II. Santiago Conference – Rapporteurs’ Summary Record

NB, all available papers and presentations from the conference have been posted on the conference internet site ([here](#)).

Opening Remarks and Keynote

Chair: Carlos Silva-Jáuregui, World Bank
(Session rapporteur: Douglas Lippoldt, OECD)

Oswaldo Rosales, UN ECLAC

Oswaldo Rosales, UN ECLAC, opened the conference. He pointed to the overall objectives and components of the ICITE initiative, including the regional conference series. He noted that the Latin America and Caribbean conference was preceded by the ICITE conference in Manila. He underscored that in considering the means by which trade interacts with employment, it is important to take into account regional variation. For example, in the case of Latin America in the aftermath of the recent global economic crisis, the links to China have been restored faster than those with the United States. This is particularly true with respect to commodities trade. These international linkages need to be considered in relation to the labour market because external shocks can have repercussions. Foreign trade policies, exchange rate policies, countercyclical programmes and other policies influence the evolution of such linkages and the related domestic developments. UNECLAC has a variety of projects underway that are highly relevant to the topic of trade and employment. Among others, these include work on trade, investment and openness to stimulate job opportunities and growth; a report on poverty, employment and trade; development of a sectoral database (KLEMS) covering LAC countries with application in analysis of productivity and labour market developments; and examination of value chains.

Mike Plummer, OECD

Mike Plummer, OECD, opened his remarks with a review of the ICITE initiative concerning on-going research, conference series, planned publication and other outputs. He noted that this work has a mandate from ministers from the OECD Ministerial Conference in 2011, with a follow-up report due for ministers at the 2012 Ministerial Conference. Mike cited the importance of consideration of regional perspectives with respect to trade and welcomed the opportunity to hold the ICITE LAC conference in Chile, which provided such a valuable example of growth and positive labour market experience associated with market opening. He highlighted the broader economic performance in the region, which is outperforming the EU and US in the current recovery. This has international implications, e.g., with respect to South-South trade, and domestic implications, e.g., with respect to poverty reduction. Moreover, there is potential for further economic gains from market opening, provided that appropriate complementary policies are in place such as those related to education, labour market and social policy. He also noted the role of the international community via the Aid For Trade initiative in assisting developing countries to overcome challenges related to market opening. Conferences such as the Santiago ICITE event play an important role in exchange of ideas and sharing experience, for peer learning and development of new policy insights related to trade and employment.

Andrés Marinakis, ILO Chile

Andrés Marinakis, ILO, opened by pointing to the value of considering new perspectives on trade and employment issues. The situation of LAC differs from that in Asia and Africa, and there is further variation within regions. With respect to the recovery from the recent economic crisis, recovery –

including in the labour market – has been faster in South America than in Central America. ILO is actively engaged in work on these issues with published results on such issues as the relationship between trade and employment and approaches to making globalisation more socially sustainable. He also raised some issues of concern in the LAC context, including shortfalls in the quality and quantity of employment creation, a need for further diversification of products and markets, the recent “reprimarisation” of exports (shifting back to raw materials dependency), the underdevelopment of some aspects of social protection, and continued challenges with respect to inequality, among others.

Niny Khor, ADB

Niny Khor, ADB, provided a report to the Santiago ICITE conference on the themes and insights from the Manila ICITE conference. The crisis in Asia was driven substantially by a downturn in exports, which have since recovered. Employment did not recover, however, and the growth slowdown continues, albeit with some variation. This is not just due to global crisis, as there are issues related to structural adjustment and country specific institutions, among other factors. With respect to trade, Asia has experienced a dramatic opening in recent decades. Manufacturing trade has tended to dominate, but services are increasingly important. Trade is correlated with better conditions (decrease working hours) and higher wages, with increasing demand for skilled labour. Regional integration is playing a role in promotion of openness. This has been conducive to development of value chains. The role of China in these developments is extremely important for Asia, whereby China is exporting finished products to UK, Japan and elsewhere while importing input from Asia. There is room for further gains from market opening, including from deepening and expanding regional trade and free trade areas. All of this has implications for the labour market and raises a challenge of how to promote inclusive growth. Asia made great strides, including 5 impressive examples of economic catching up (Hong Kong-China, Japan, Korea, Singapore and Chinese Taipei), but there is further potential for growth and poverty alleviation.

KEYNOTE: WHAT SHOULD POLICYMAKERS KNOW ABOUT GLOBAL INTEGRATION AND LABOUR MARKETS?

Presenter: Andrés Velasco, Former Finance Minister, Chile

Under the heading of his broad topic, Andrés Velasco focused his remarks on the key areas of employment and the distribution of income. He noted that consideration of issues at the interface between labour and trade has generated heated discussions on inequality and the distribution of wages. While wage structure changes slowly, employment changes much more quickly. A key issue is whether policy makers can deliver better performance in relation to inequality. There are three key dimensions to consider at the household level: the size of the household, the number working in the household and the income per member of the household. He cited evidence that higher-income households often have more members employed and generating income. (This is also often the case in comparing employment rates between poor and wealthy countries.) Thus, a key issue for policy makers is how to change income distribution via change in employment rates. Employment rates, especially female employment rates, are relatively low in Latin America. Mr. Velasco illustrated the issues via an in-depth look at the structure in household income in Chile, which has a very high level of inequality. The employment rate in Chile for the low decile of households is just 0.15 jobs per capita, whereas for the high decile households it is 0.61 jobs per capita. Via a series of simulations, he showed the effect of improving employment performance, both keeping wages per hour constant and permitting some wage adjustment. The simulations of improved employment in the lowest decile demonstrated big impacts on inequality from increasing the number working and the number of hours worked. Thus, it is clear that access to jobs is key to addressing concerns about income inequality.

He then highlighted the reasons why lower decile households have weak labour market performance. These households work fewer hours overall, with lower employment rates especially for younger people (18-34 years) and females. They also have disproportionate representation in poor sectors, with much

more self-employment and much lower shares in public sector employment. Moreover, the poor households tend to have higher numbers of children, less schooling, greater proportions located in rural areas, and higher proportions of handicapped members.

Policy responses can address supply side issues (e.g., provision of childcare, policies to influence urbanisation, housing and transportation, and employment subsidies) and demand side issues (e.g., flexibility in working hours, care in setting minimum wages, laws against discrimination, and use of employment subsidies). Moreover, there is a need for a policy response to human capital shortfalls whereby education and training investment needs to be brought more in line with the needs of the labour market. There is also a need for supply and demand matching via employment services and information systems.

SESSION 1: HETEROGENEOUS EFFECTS OF ECONOMIC SHOCKS ON LABOUR MARKETS

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

The chair opened the session, introducing each speaker in turn, followed by an open discussion, and responses by the speakers.

The Roles of Openness and Labour Market Institutions for Employment Dynamics during Economic Crises

Presentation by Marion Jansen, ILO, of a paper by Elisa Gamberoni (World Bank), Erik von Uexkull (ILO), and Sebastian Weber (Graduate Institute of International and Development Studies)

This presentation opened by highlighting the impacts of the recent economic crisis, which led to declines in GDP and employment growth around the world, but especially in Central and Eastern Europe, and the High Income Countries. In considering a series of economic shocks, the presentation noted that global crises tend to generate milder employment downturns than domestic debt or banking crises. The experience of a broad sample of countries with respect to labour market performance in crises provides some policy insights. First of all, the front line of defence is to avoid the crisis via sound policy decisions. However, this cannot always be successful, in part because some crises arise out of exogenous shocks. Secondly, the choice of best labour market policy response depends on the nature of the shock. If it is clear that the shock is temporary crisis, then policies should aim to retain people in jobs (e.g., the German approach to short time working). However, if the nature of the crisis is structural, then policies to facilitate labour market adjustment are appropriate. In either case, recovery is placed at risk if policy makers seek recourse in protectionist trade policy measures.

Trade and Formal Labour Markets in Northern Mexico during the U.S. Recession of 2008-09

Presenter: David Kaplan, IDB (co-authors: Daniel Lederman, World Bank, and Raymond Robertson, Macalester College)

This presentation considered trade and formal labour markets and the nature of adjustment, in particular employment and wage responses to trade shocks in the northern states of Mexico. The presentation considered the demand shock that hit Mexico during the recent economic crisis, whereby Mexico's trade with the United States fell by 43%. This exogenous shock was associated with an employment decline of 9% and a decline in wages, including for those who remained employed during the crisis. The authors found that in the study regions, employment fell in both the tradable and the non-tradable sectors. Lower skilled workers were notably vulnerable in the downturn, then rehired during the recovery. An interesting

aspect was the time-to-build effect, whereby employment effects can be associated with export flows one-quarter later. Increased imports can be a positive for workers as well, for example signalling increased inputs for production processes. These effects can be indirect. Thus, employment in a sector can be related to imports and exports in related sectors. Overall, the research highlights that exogenous shocks can have labour market effects beyond the directly-affected trade sectors and that the adjustments in the Mexican context tended to be made via changes in the quantity of labour employed rather than in the wage levels for those who remained employed.

Domestic Inflation and Labour-Market Adjustment: Implications for Macro and Micro Policies
Presenter: Julian Messina, World Bank (co-author: Anna Sanz-de-Galdeano)

Julian Messina presented a paper that examined the consequences of rapid disinflation for downward wage rigidities in Brazil and Uruguay. Using matched employer-employee administrative data, the authors consider the how changes in expectations were associated with changes in wage rigidities in recent decades. In Brazil, the introduction in 1999 of inflation targeting by the Central Bank was associated with a change in the emphasis of wage setting negotiations from a minimum wage focus to one based on inflation expectations. (In Brazil, the minimum wage is binding for a substantial share of the labour force, nearly 7%.) In Uruguay, a change to a floating exchange rate and a weakening of unions were associated with a decline in wage indexation, while resistance to nominal wage cuts became more manifest.

Discussant: Luis Felipe Céspedes, Adolfo Ibáñez University, Chile

The discussant highlighted some of the cross-cutting determinants of labour dynamics as evidenced by the presentations from the session. These include the nature of economic shocks (external vs. domestic, financial vs. trade), trade openness and integration, labour market frictions, financial market frictions and macroeconomic policy frameworks. He then reviewed the key conclusions from each presentation, while highlighting aspects of particular relevance to the conference theme. With respect to the presentation by Marion Jansen (Gamberoni et al) he noted that higher volatility associated with openness and trade integration implies an increased need for social protection. With respect to the presentation by David Kaplan, he noted that in the adjustment of employment quantity in Mexico, skills played an important role in labour market outcomes, in effect upgrading the skills composition of the northern Mexican labour force as employment shrank and the low-skilled workers were laid off. In commenting on the presentation by Julian Messina, Mr. Céspedes noted that as inflation declined in Brazil and Uruguay, that there was greater room for wage flexibility.

He then presented observations from across these presentations with an eye to the need for these to be taken into account in policy formation. He noted that labour markets do respond to volatility shocks. Exchange rates matter and real devaluation can deliver help to the tradable sector, which may mean better opportunities to sustain wages for those who remain in employment. At the same time, firms that rely on external financing suffer more in financial crises. And, he noted, credible monetary policy elicits a behavioural response as economic agents take the targets into account. Finally, the presentations in the session underscored the importance of empirical approaches to assessment of economic developments.

Discussion

The presentations led to a substantial amount of discussion. One important theme that emerged from this discussion was the need to differentiate policy between good and bad economic times. Flexicurity approaches (e.g., support for adjustment) may be appropriate under positive economic conditions, while temporary economic downturns may necessitate policies to ensure that competitive firms are able to maintain the employment attachment of workers (e.g., to prevent a damaging loss of human capital). In considering labour market rigidities and adjustment, there is a need to consider not just the role of

employment protection and cost of severance, but also the role of hiring and cost of recruitment. More broadly, the discussion highlighted the need to manage policy in a dynamic fashion that responds to the changing nature of the economic challenges.

**LUNCHTIME KEYNOTE: TRADE, EMPLOYMENT TRANSITIONS, AND INCOME RISK:
EMERGING ISSUES IN TRADE AND EMPLOYMENT**

Presenter: William F. Maloney, World Bank

**Chair: Daniel Lederman, World Bank
(Session rapporteur: Douglas Lippoldt, OECD)**

This presentation began with consideration of the impact of trade in first moments as per mainstream trade theory. Per Stolper-Samuelson, we would expect trade to raise returns to abundant factors and decrease returns to scarce factors in an economy. From the more recent literature on firms (e.g., Melitz, 2003), one would expect the performance of firms to be differentiated with more productive firms taking greater market shares in international commerce, having potentially positive effects on the economy. But, there is also a need to consider second moments and income volatility, whereby openness may also be associated with risk. Labour market risk may have impacts on human capital accumulation. Openness and trade may lead to a reallocation of labour and drive labour mobility. At the same time, international demand influences prices and international competition may lead to high demand elasticities. The associated risk for labour market participants has two components, permanent shocks and transitory shocks. Risk overall may decrease welfare for labour market participants when there is a persistent shock. On the other hand, the risks of transitory shocks on welfare can be addressed via social insurance or even self-insured as they attenuate over time. These insights are supported by empirical studies for the United States and Mexico. The conclusion is that greater openness can increase risk and that this can have welfare consequences. Openness can also drive increased mobility, which is also not always a good thing except where it leads to social convergence. Mr. Maloney concluded saying that policy should take into account risk, including measures to address damaging aspects via social protection and to promote social convergence via education and infrastructure investment, among other options.

**SESSION 2: LIBERALIZATION AND POLICIES TO FACILITATE LABOR MARKET
ADJUSTMENT**

**Chair: David Kaplan, IDB
(Session rapporteur: Marcelo LaFleur)**

The chair opened the session, introducing the presenters in turn before turning the floor over to the first presenter.

Adjustment to Trade Liberalization

Presenter: Marion Jansen, ILO (co-authors: Joseph Francois, Johannes Kepler Universität (Linz) and CEPR, and Ralf Peters, UNCTAD)

The work looks at the role of adjustment costs to trade. These are the costs that an economy must incur in reallocating factors of production from shrinking firms/sectors to flourishing firms/sectors to take advantage of greater trade opportunities from liberalization. These costs are a permanent shock and the literature must consider the effect of reallocating production factors, specifically labour.

The period of adjustment is a period of unemployment, with temporarily lower wages, high training costs, the need to replace obsolete machinery, and other transition costs. These adjustment costs are of high importance in the policymakers' agendas, as shown by the labour issues in the US-TAA; EGAF; the WTO "safeguards"; the technical assistance in RTAs. However, the research agenda does not prioritize

these adjustment costs, with few exceptions. Empirical work tends to focus on long run and steady state results, ignoring the role of short-term adjustment costs on these equilibriums.

The existing empirical studies on this relationship show that adjustment costs have a permanent affect on the long-term equilibrium, and the full gains of liberalization are never fully realized. Some of the determinants of adjustment costs are: financial markets development and access to credit; the education level of workers and access to training; employment protection policies; access to unemployment finance; and dynamics in the housing market, which affects labour mobility.

Estimates of adjustment costs range from about 10% to over 80% of the expected benefits of trade, depending of the study.

The work proposes simple measures of adjustment costs to be included in traditional modelling structures, including Computable General Equilibrium (CGE). The presenter pointed out that CGE models generally operate under the assumption of full-employment and, as such, ignore problems of short-term adjustment.

The presenter also showed that the estimates of adjustment costs in light of a new trade agreement can vary significantly across economies, depending in large part on the conditions of the labour market and market structure at the time of liberalization. In Panama and in Costa Rica, for example, the estimated labour displacement effects are significant (15% and 10%, respectively).

The presenter concluded that a number of policies can be designed to mitigate adjustment costs and more fully realize the gains from liberalization. These include gradual application of liberalization itself and the early announcement of schedules to give economic actors time to prepare and adjust to the new agreement.

Different Partners, Different Patterns: Trade and Labour Market Dynamics in Brazil Post-Liberalization

Presenter: David Kupfer, Federal University of Rio de Janeiro (co-authors: Marta Castilho, Esther Dweck, Marcelo Nicoll and Daniela Carbinato, Federal University of Rio de Janeiro)

The presentation aimed at illustrating some of the principal changes happening to the trade sector in Brazil, taking advantage of the KLEMS data. The size and complexity of the economy in Brazil requires a focus only on relevant themes, and a careful look at the dynamics between trade and employment.

The presentation described Brazil's liberalization history in the past 25 years, during which time tariffs fell across all sectors. Currently, average tariffs are near 15%, though with some notable exceptions (auto and auto parts, mining, and agriculture). The changes in the country's exchange rate during this time have had significant effects on international trade competitiveness. Also, the rise of China as an economic actor and manufacturing centre, high prices for basic commodities led to gains in the agro and mining sector, at the expense of industrial and traditional exports. This change is structural and will have permanent effects on employment.

Another development is the decoupling of the industrial output from employment in 1990. This was a consequence of large imports of capital goods and labour-saving production methods. As industrial output increased, employment has stagnated.

The presenter identified sectors that increased and decreased total employment between 2001 and 2007. Using KLEMS data, the presenter also showed changes in employment by output value for each of the sectors and skill levels. Also, the presenter compared the skill level embodied in Brazil's exports by partner. Exports to Mercosur are generally medium-skilled, which those to China are low-skilled.

Using a structural decomposition methodology, the presenter also analysed the impact of changes in Brazilian economy on employment. He found that exports added 3.5 million jobs between 1990 and 2001, while competition from imports led to a loss of 1.5 million jobs.

Between 2001 and 2007, the employment gains were larger, with a net positive of 7.2 million jobs due to trade. The majority of those were in low skill jobs (3.7 million), followed by 2.9 million new jobs in medium-skilled sectors. The presenter also showed some results by trading partner, with important differences that prevent a general statement.

Openness, Wage Gaps and Unions in Chile: A Micro Econometric Analysis

Presenter: Nanno Mulder, UN ECLAC (co-authors: Jorge Friedman, Sebastián Faúndez, Esteban Pérez Caldentey, Carlos Yévenes (ECLAC) and Mario Velásquez, Fernando Baizán, Gerhard Reinecke (ILO))

The presentation provided evidence and stylized facts about the wage gaps in Chile in the context of export sectors.

The evidence shows that the skill-premium in Chile increased during the period of trade liberalization (80s-90s), but it was small relative to the effect of skill-biased technological change and the “quality effect” in open sectors, as well as the impact of capital imports from rich countries (tradable and non-tradable sectors). Labour demand was biased towards the more educated during this period.

In the 2000s, the wage gap in Chile fell as supply of higher educated workers rose and labour market institutions changed (minimum wage, unions, norms, and others). Currently, the wage gaps in Chile are significant across income groups, but the gap is smaller across levels of education.

The study attempted to explain the wage gaps between salaried workers in different economic sectors in Chile, taking into account the degree of openness of each sector. The study also included data on union membership in each sector. The estimated wage equation was decomposed by worker endowments, sector, and residual.

The results show that there exists an education premium and that 1 additional year of education results in a 14% additional premium. Other significant factors were experience, gender, and union membership. This last one is interesting in that it shows that union membership results in a wage premium in sectors more open to trade.

The presenter concluded that the wage premium between highly open and closed sectors increased between 2003 and 2008. Also, union membership explains a large portion of the sector-specific effect.

Trade and Occupational Employment in Mexico Since NAFTA

Presenter: José Antonio Rodríguez López, University of California and consultant to OECD (co-author: Raymundo Miguel Campos-Vázquez, Center for Economic Studies, El Colegio de México, and consultant to OECD)

The study focuses on the wage gap between skilled and unskilled workers, looking at the effects of trade on the evolution of employment levels for different skill groups. The study found that with NAFTA, the ensuing reduction in trade costs results in greater gains in employment of low-skilled workers compared to higher-skilled workers.

The methodology ranks the skill level of workers in each of the 17 occupations studied, sorting these by in a base year (1992), and then using this rank during the study. The results show that NAFTA coincided with an increase in the importance of low-skill employment and a decrease in the importance of high-skill employment.

As a result, the presenter concluded that a decrease in trade costs between the U.S. and China has a negative impact on occupations in Mexico, with a stronger negative effect on high-skill occupations. In effect, China is competing with Mexico in more sophisticated occupations.

Excerpts from the general discussion

Models of labour mobility and adjustment costs should consider the characteristics of local labour markets, in which mobility rates are very low and adjustment costs high. It was agreed that the effect of China imports competing with smaller producers should be studied in the context of these local geographic markets.

It was also agreed that, while there exist some models for labour market frictions, the need to explicitly treat adjustment costs in trade analysis needs to be underlined since CGE models are one of the main tools for informing policy and do not include measures for adjustment costs in labour markets. Some discussion followed the observation that the study pointed to the importance of adjustment costs, but finally argued against many adjustment programs in bilateral and other agreements. One of the reasons for the criticism is that these adjustment programs fail to consider transitional effects and that the solution to labour market difficulties has to be broad and systemic. It was argued that a piecemeal approach that only targeted labour markets touched by a specific agreement failed at solving national problems.

In Brazil, the issue of the decoupling between growth and employment illustrated in the presentation was raised. What are the reasons for the increased level of production but lower level of employment seen in the Brazil data? Explanations include the rapid absorption of technology when Brazil liberalized and open its borders to imports from highly advanced economies. This quick adoption of new technologies reduced the need for workers. In addition, it was explained that in Brazil, companies adopted a strategy of production while minimizing investment, again reducing the need for workers. In a second phase, monetary stabilization led to investment on capital to replace older capital, again reducing the need for workers.

A question was raised over the surprising results of the Chile study that found that the union effect to be stronger in the more open sectors, which in theory should be those that are more competitive and have lower effective labour costs. An explanation was given that in some sectors with high rents, such as mining, unions are able to capture a share of these rents, which could explain the larger wage premium there. Other possible explanations include the relative intensity of capital and firm size in particular sectors. It is an area that needs further research.

About China, there was a discussion about this country's effect on the North American production chain as a whole, which would have far-reaching effects. In addition, the results of the Mexico study generated a discussion about the internationalization strategy of Mexico compared to China, where Mexico in NAFTA opts for a more vertical structure to expand the US market. A parallel was also drawn between the integration experience in Asia, where displacement was observed at first, but finally effective integration and complementarities were achieved. Could Mexico replicate this or join the Asian value chain? It was pointed out that transportation and other trade costs for Mexico in the US market are close to zero, while Chinese exports face an 8% level of costs, yet China is gaining competitiveness. One of the possible explanations may be the differences in labour market flexibility between these countries. This needs to be studied in more detail.

There was also some discussion on the role of Commodities in Chile, on the high participation on manufacturers in Mexico's exports, on Brazil's higher participation of service exports, and the need for better value-added measures of trade.

SESSION 3: INTERNATIONAL INTEGRATION, INFORMALITY AND JOB QUALITY

Chair: Osvaldo Rosales, UN ECLAC
(Session rapporteur: Niny Khor, ADB)

The chair opened the session, briefly highlighting the prevalence of informal sector in Latin America before turning the session to the first presenter.

Apparel and Women's Wages After the Multi-Fibre Agreement: Evidence from El Salvador

Presenter: Raymond Robertson, Macalester College (co-author: Alvaro Trigueros-Argüello, FUSADES)

The author provided a case study of El Salvador, which like many countries in Central Mexico relies heavily on maquiladora exports. Apparel is one of the key sectors, being quite labour intensive with women usually accounting for more than 50% of apparel employment. This research is part of a book analysing wages and working conditions in Cambodia, El Salvador, Honduras, Indonesia and Madagascar.

While there exists a voluminous academic literature and debate on trade and wages, the linkages are not exactly clear-cut. On one hand, globalization and working conditions in developing countries have been highlighted in literature on sweatshops, typically depicting the negative sides of globalization. On the other hand, there is a large and growing literature on globalization and gender – including various case studies and publications by the World Bank and the ILO – showing that in these countries, workers in the apparel sector earn more than the average. The wage premium is especially significant relative to agriculture. Thus, the expansion of the apparel industry in these countries has also created a lot of opportunities for women to leave agriculture.

The end of the Multi Fiber Agreement (MFA) saw a reduction of exports from higher wage exporters such as Hong Kong, with production shifting towards lower-wage countries, like El Salvador and China. For El Salvador, this translated into a huge boom in demand from 1990 till mid-2005. However, the situation changed with the entry of China, and El Salvadoran exports quantity fell by almost 40% from 2005-2010.

The author follows the methodology of Do (2011) and Mussa (1974) to estimate Mincerian wage equations using two-stage approach. Labour force data come from repeated cross-sectional data drawn from the *Encuesta de Hogares de Propósitos Múltiples*. They estimated the gender coefficient, though not yet correcting for ability bias. They note that, unlike Cambodia, there are a lot of remittances into El Salvador from workers overseas, especially in the United States. This is significantly associated with lower labour force participation rates for households receiving remittances.

Their data also show that there is an increase in the share of apparel employment around 2003-2004 (8.6%, 7.3%), coinciding with China's entry. Apparel employment declines again to 5.9% in 2005. The apparel price seems to be driving apparel premium in wages – so drops in prices led to drops in the wage premium. This has negative implications in narrowing the gender wage gap in El Salvador.

Globalization and Informal Jobs in Developing Countries

Presenter: Marc Bacchetta, WTO (co-authors: Ekkehard Ernst and Juana P. Bustamante, ILO)

The author presented research that is part of the joint ILO-WTO program on Work and Employment. The focus of their research is the following question: what is the effect of globalization on the informal part of

labour market? Most of the available evidence on the impact on globalization is on the formal part of employment. One of the impediments is lack of a uniform definition. Here, they define informality as remunerative work that is not recognized, regulated, or protected by existing legal or regulatory frameworks. These jobs exist in both informal and formal enterprises, and include small entrepreneurial firms. The diversity of informal jobs is reflected in the heterogeneity of views regarding informality, namely dualist, structuralist and legalist perspectives. But a unifying approach across the three perspectives is emerging since none of these approaches can fully explain the informal economy. Thus, the informal economy can be thought of comprising 3 segments: households engaged in survival activities, micro enterprises, and informal workers in formal firms. The size of the informal economy varies tremendously across regions, with the highest in Asia, around 78%. Latin America is actually lower, around 60%.

Empirical evidence on the effect of trade opening varies. Early evidence for Morocco, Mexico and Egypt suggests that openness pushes workers towards low-paid temporary work, or informal salaried work. In India (2005), there is some evidence that higher levels of subcontracting followed trade liberalization. In Brazil, this seemed to have led to a slight increase in informal jobs. One multi-country study (2008) gives mixed results. Evidence on wages is even more limited and also mixed, depending on the respective labour market characteristics.

What are consequences of informality for trade and growth? The evidence, again, is relatively thin. In general, they find that informality is associated with lower GDP growth. Almost 40% of observed export concentration can be associated with large informality rates. Informality also prevents adjustment and creates poverty traps: in Mexico, transition matrices show a 40% probability that an informal worker will remain informal.

Views diverge on whether governments should pursue active formalization policies, and how such policies should be designed. Regardless, any policy to formalize the informal sector should be complemented with other policies, such as active labour market policies and improved education and skills for workers. The latter is especially key for workers to find formal jobs. Vocational training systems can also provide additional policy leverage. In addition, it is important to support informal workers through strengthened social protection, and enforcing labour standards.

On the trade side, the design of trade reforms matter: credible announcement of the reform path is crucial, combined with gradual implementation of such reform and other country-specific trade reforms. Countries should also exploit complementarities: greater benefits can be gleaned from trade opening when labour markets allow for better adjustments of jobs. Many open issues remain. For example, how are the different segments of the informal economy relates to each other and to the formal economy? How does the adjustment process play out in the informal economy? What are the time lags, and how does domestic policy interact? How do initial country conditions determine the optimal policy mix?

Is Informal Normal? Informal Employment in Times of Shifting Wealth

Presenter: Juan De Laiglesia, OECD Development Centre

Informal employment is pervasive, persistent even in countries with adequate growth, and hardly a hidden phenomenon. The author focuses on two global phenomena that can have an impact on informality (including both employment in the informal sector and informal employment in the formal sector). First, increased economic growth leads to structural changes and changing role of trade – this affects the share of the informal sector. Second, growth has led to an emerging middle class, which is also largely informal.

The study finds that the share of informal employment in total non-agricultural employment is highest in Sub-Saharan Africa, followed by South and East Asia, Latin America, Western Asia, Northern Africa, and lowest in transition countries. Cross-country patterns also suggest that the share of informal employment should decline with economic growth. Yet despite growth, informal employment persists in many countries. Structural change has a composition effect but it is small. For example, in Mexico the decline of agricultural employment led to an increase in not just formal salaried work, but non-agricultural sector informal employment as well.

The theoretical literature is inconclusive on the links between trade and informality. Competition can lead to cost saving in the form of informally produced inputs or labour, leading to an increase in informality. On the other hand, heterogeneity of firms could lead to the formalizations of more productive firms, and the exits of less productive ones, thus decreasing informality. Changes in relative profitability and price of non-tradables versus tradables also lead to a fall in informality. Empirical evidence gives rise to a mixed picture at the country level: negative in Mexico, but positive in pre-labour reform Colombia. Macro evidence suggests that informality falls with trade but informal output share increases. In Brazil (1991-2001), there is no evidence that manufacturing sectors that liberalized more have more or less informality. Nonetheless, two thirds of Brazilian informal workers are found in agriculture, trade and repair activities, domestic service and construction.

The characteristics of the informal sector vary greatly by sector. Looking at wage distribution in Mexico (2007) the author finds that formal and informal wage distributions are almost identical overall, except for self-employment in agriculture. An important global issue is that labour force participants in the newly emerging middle class are largely informal. In Brazil, Bolivia and Mexico, the middle class are largely working in the informal sector. This provides a challenge to social protection issues. Informality really matters for coverage of these programs. Almost the majority of formal workers are covered, but only a very small percentage of informal workers have pensions, especially those who are poor.

Other key issues: the mobility of jobs suggests that there are good informal jobs (huge diversity of job quality), and there are barriers between types of informal jobs. Women are not necessarily more likely to be informal, though they are more likely to be in worse jobs. This calls for policies to improve the quality of informal jobs and to address heterogeneity across and within countries: by creating more jobs, increasing incentives to choose formality, and including informal workers in social protection programs. The role of trade could be important for incentives, for example, by linking exports to formalizing.

Discussant: Gerhard Reinecke, ILO

The discussant provided an overview of the issues in the session, given the overlapping themes of the three papers on the effects and interactions of trade on job quality, informality, and policies and institutions. Overall, the relationship and effects are heterogeneous, depending on econometric models and data, which segment of informality is being analysed, and differences between country situations. In addition, the literature does not uniformly follow the ILO 2002 definition of informality, compounding the issue of lack of standardised data. The only conclusion seems to be that trade will not automatically solve labour market problems and create decent jobs.

Nonetheless, there is some wisdom in the midst of the chaos, especially that pertaining to our knowledge of the central role of policies and institutions. All three authors highlight this, and coincide in their recommendation of policies: to lower the cost of formalizing, to enhance reinforcement of regulations, and to increase benefits of formality. Recent experiences of several Latin American countries (Brazil, Uruguay, Argentina, Paraguay) in reducing informality offer interesting insights, given the success against 'opportunistic informality' and the improved labour inspection. The quality of inspection must be improved, and the number of inspectors does not automatically ensure good enforcement.

For future research, better data will allow for better quantitative research, with convergence towards the ILO definition. However, better results are probably to be found on very specific time-bound experiences, rather than big overall picture. If institutions matter, how can they be incorporated into research design and data gathering: measures of number of labour inspectors per 1000 workers? Indicators on quality of institutions? Alternatively, more qualitative approaches could be employed as well.

Excerpts from General Discussion

- *Apparel and Women's Wages After the Multi-Fibre Agreement: Evidence from El Salvador*

The audience raised the question whether the literature on heterogeneous firms can explain the decline in prices and wages in the context of El Salvador. It is also very important to come up with a framework to explain why these firms would be offering higher wages. Are these firms paying efficiency wages? This would be important for development of an improved policy framework. Another point concerns the comparison between Cambodia and El Salvador. In the case of Cambodia, there is an understanding between Cambodia and the USA on better labour conditions. Is there any study on effect of that agreement on the increase of trade in apparel industry? Given the knowledge that the end of the MFA was coming, does this affect the outcome? In terms of Chinese competition, it may be that the increases in wages in China recently will make possible of a rebirth of apparel industry in Latin America.

Author's Response

It is absolutely correct that, subject to data availability, firm-level heterogeneity would be appropriate to use, as in Melitz's framework. The author also has five papers looking at the impact of the Better Factories programme. Latin American countries had entered into various trade agreements in anticipation of China's integration into the global trade patterns, but many countries did not prepare for the end of the MFA. El Salvador refused to participate in the Better Factories program. Chinese competitiveness does not depend solely on cheap wages – Chinese wages are comparable to El Salvador. Perhaps the key of China's success lies in its aggressiveness in moving upstream and looking for market opportunities.

- *Globalization and Informal Jobs in Developing Countries*

The audience wondered about the implications of extending the benefits of labour policies to informal markets, and the mechanism through which this could happen. In addition they raised caution in supporting active labour policies, given that there is no conclusive evidence that these work well in the various contexts. Another question concerned whether the degree of informality in the EU and US is comparable to that of emerging countries, and whether there is any lesson to be drawn from their experience.

Author's Response

The literature suggests that we still need a stick and carrot approach toward formalizing the labour market, and thus in addition to labour inspectorate activity, policies need something else as an incentive. The authors did not look at informality in developed countries, though there is some work recently in that area. As to extending the benefits of social protection programs to informal sector, the point they would like to stress is that some sort of universal basic floor would be helpful.

- *Is Informal Normal? Informal Employment in Times of Shifting Wealth*

The audience mentioned Santiago Levy's proposal to delink health care from formal labour relationship. Is this something Latin America should take seriously? Also, there are ways one can encourage formality

with incentives, such as lowering labour taxes. This can be then financed through increases in general taxes. It would be interesting to include a discussion on potential ways to achieve those two goals. Often programs set up to support informal workers actually end up discouraging formality.

Author's Response

Santiago Levy's proposal is laudable, but one has to be careful to not solve formality problem by creating unemployment problems. Another way to resolve this is through taxation – specifically by simplifying it. Reducing the cost of compliance for everyone, whether in taxation or relaxing restrictions in hours worked, etc, would be beneficial. In Brazil, for example, companies found it easier to comply than in some other countries since taxes and social security contributions for workers could be all done through one form.

- *Other Discussion*

There was a robust discussion on the best way to strengthen the enforcement of existing regulations, strengthening labour inspections, as well as on evaluation. In principle, the hypotheses presented by the authors in this session are all reasonable, but empirical evidence is still not convincing. Does it make sense to rethink our evaluation methods? Perhaps the agenda should include a way to assess the efficacy of programs underway and the enforcement in place.

If we are seriously in seeking better evaluation at the operational level, then we need to be prepared. For example, with skill training programs, there is limited availability and a high demand, making this a good candidate for controlled, randomized trials. Measurement of effects should not occur in isolation: policies have to be considered in context especially when assessment is carried out.

SESSION 4: TRADE, POVERTY AND INEQUALITY

Chair: William F. Maloney, World Bank

(Session rapporteur: Nanno Mulder, UN ECLAC)

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 Poverty in Latin America: What Do We Know?

Presenter: Julio Guzman, IDB

The author provided an overview of the theoretical and empirical links between trade and poverty in Latin America, as well as policies promoting poverty reduction following trade opening. In theory, trade impinges on poverty through changes in relative prices (affecting consumption and income), employment and wages, as well as taxes and fiscal spending (affecting consumption). However, as the exact impacts depend on many conditions, it can be concluded that the effects of trade on poverty are indirect and complex, short and long term, dependent on local conditions and the prevalence of complementary policies. Often the benefits of trade liberalization are little visible, while the costs are easily recognized. The empirical evidence on the links between trade, income, growth, inequality and poverty is mixed, even though history has shown that no country has succeeded in achieving important social gains in a context of a closed economy. This mixed evidence partly results from the fact that key assumptions of theoretical models predicting social gains from trade are not fulfilled (*e.g.* full employment, labour mobility, informality, etc.).

Free trade agreements between countries in the region and the European Union and the United States have had heterogeneous impacts on economic growth on the former group of countries. Moreover, this impact has also differed between economic sectors, in part related to the economic context prior to trade liberalization, as illustrated by simulation results of CGE models. For example, FTAs with both trading partners created 36 thousand jobs in Peru but more than 135 thousand in Colombia. Moreover, the impacts at the regional and industry levels are also highly heterogeneous.

Complementary policies at the national, meso and micro levels are essential to improve the trade and poverty nexus. Countries in the region have advanced substantially with the “software” in terms of regional and bilateral free trade agreements. However, the region lags behind in “hardware”, in particular in infrastructure development.

First-Order Effects of Liberalization on Real Wages: The case of Chile

Presenter: Marcelo Lafleur, ECLAC (co-authors: José Duran and Alfonso Finot, ECLAC)

These authors conducted an ex-post analysis of the effects of trade policy changes on poverty and income distribution in Chile between 1999 and 2006. Their methodology identifies three transmission channels through which a change in tariffs affects the welfare of households: direct and indirect effects on prices and an indirect effect on household income. These effects are estimated using data from the 1997 and 2007 household expenditure surveys, customs, consumer price index and the supplementary survey on labour incomes.

Specific parameters for each transmission channel were estimated independently. The authors estimated the pass-through parameters for eight tradable price groups, while the effect on non-tradable prices was estimated by price elasticities of these prices relative to tradable goods. The effect of trade liberalization on wage income was estimated using firm-level data to characterize labour demand elasticities with respect to domestic prices.

The authors found that lower effective tariffs reduced domestic prices and increased welfare. The overall effect was positive, though small, and larger in lower income households. The results also show that the dispersion variance of the benefits was high, especially in the first and second income quintiles. Moreover, domestic prices did not adjust fully to changes in border prices, and in some product groups, particularly food products, the pass-through was rather low. The results suggest that complementary policies should promote competitive markets to transmit more effectively the benefits of trade liberalization to consumers.

Who Suffers the Burden of Adjustment? Returns to Schooling and Business Cycles in Latin America

Presenter: Daniel Lederman, World Bank (co-author: Rojas Alvarado, University of Costa Rica)

The third paper of this session dealt with cyclical variations in returns to schooling (RTS) in Latin America. For this purpose, the authors estimated the average effects of business cycles on RTS in two stages using a pseudo-panel. In the first stage, permanent and cyclical components of RTS were estimated with Pseudo-Panels of birth-year cohorts for 12 Latin American countries. In the second stage, partial correlations between cyclical RTS and four types of shocks (real & financial, external & domestic) were calculated.

The main findings can be summarized as follows. First, the cyclical components of returns to schooling tended to be significant in 8 out of the 12 countries, whereas long-term trends were significant in less than a handful. Second, the most robust determinant of cyclical fluctuations in the returns to schooling were temporary fluctuations in foreign demand for exports, which tend to be positively correlated with returns

to schooling. Third, the effect of export fluctuations (driven by changes in foreign demand) seemed to be attenuated by labour-market rigidities, such as constraints on employers to hire temporary workers on an hourly basis and minimum wages. From a policy perspective, it is tempting to conclude that such rigidities can stabilize the returns to schooling and thus income inequality (between skilled and unskilled workers). However, this effect needs to be weighed against their long-term costs for the economy as a whole, including the fact that rigidities are associated with quantitative impacts on labour markets. That is, rigidities should be evaluated by taking into account the potential reduction in hiring as well as the loss of jobs during downturns, rather than as a means to smooth out fluctuations in the skill-driven inequality.

Discussion: Oscar Landerretche, University of Chile, and conference participants

- Trade and Poverty in Latin America: What Do We Know?

This paper's argument is that the falling support for trade liberalization, in particular free trade agreements, is due to its heterogeneous effects on regions and sectors, which in turn may be explained by high and variable transport costs related to underinvestment in infrastructure ("hardware"). These findings may be questioned on different accounts. First, the data do not show a significant decrease in support for trade liberalization in the 2000s. Second, the heterogeneous sectoral and regional effects of the FTAs with the European Union and the United States shown by the author are not a demonstration of a net negative outcome. Indeed, there are supposed to be winners and losers (sectors and regions) from trade integration, but maybe what is missing is a social safety net and other policies that help those individuals that loose to get back on their feet. Third, in the view of the author, the missing link is infrastructure. However, the small contribution of trade to growth and poverty reduction is due to many other factors, including different kinds of inequality, a lack of mobility, meritocracy, competition, innovation and entrepreneurship.

In his reply, the presenter argued that the small net benefits from FTAs shown by CGE models arise from their static nature. Dynamic models would show larger net benefits, but are more difficult to construct as they require a multidimensional approach simulating labour markets and imperfect competition. Also, he recognized there are more missing links than infrastructure alone, but the IDB considers this as one of the major bottlenecks instead of regulatory ("software") or other issues.

- First-Order Effects of Liberalization on Real Wages: The case of Chile

The second paper argued trade liberalization has been welfare improving for households in Chile, in particular those in the lowest income quintiles. These results may seem to contradict the results of the previous paper. However, there is no paradox, as this paper does not estimate the costs of trade liberalization. As a country adapts to trade liberalization, it is important not to look only at gains, but also at "losses" or "creative destruction" in terms of the increased volatility of incomes and wages, the increased probability of unemployment (at least in the short run), and wealth effects for losers. This could be done, but is difficult for this period (1996 to 2007), as Chile was already a very open specialized economy with a very small domestic market, which had undergone most of the adjustments. Therefore, it would be interesting to focus the analysis on an earlier episode of trade liberalization.

In his reply, the presenter recognized the period of analysis was not ideal, but was chosen for reasons of data availability. Moreover, as the paper does not include a model of the labour market, it is difficult to measure costs in addition to benefits. Also, the goal of the paper was not to measure the full impact of trade liberalization but only to evaluate the effect of a reduction of import tariffs on household welfare. It was pointed out more work needs to be done on the effect of trade liberalization on the production of low income households, in addition to the effects on their consumption.

- Who Suffers the Burden of Adjustment? Returns to Schooling and Business Cycles in Latin America

In his presentation, Daniel Lederman emphasized that one should not look only at the impact of globalization in terms of costs and benefits in levels, but also at its impact on risk. In the case of this paper, he shows that the returns to schooling have become more volatile in Latin America due to changes in the cycle related to variations in import demand from open and specialized economies. However, from the country-by-country charts presented in the paper, it is difficult to see the empirical regularities claimed by the authors. Indeed, the exceptions of Brazil, Chile and Venezuela to the general findings are not a small thing. In sum, the results are interesting but probably too heterogeneous and call for the need to control for other factors such as the degree of openness and differences in industrial structures among countries. The paper thus raises a lot of new questions and opens a big research agenda.

In his response, the author emphasized the interesting results of the paper: heterogeneous shocks produce heterogeneous outcomes among countries. Also, he noted that to the extent business cycles have become more volatile due to globalization, more research is needed on the “second order effects”.

PANEL: POLICY RESPONSES AND LABOR MARKET ADJUSTMENTS IN LATIN AMERICA AND THE CARIBBEAN

Chair: Carlos Silva-Jáuregui, World Bank
(Session rapporteur: Douglas Lippoldt, OECD)

This session included presentations by Country Representatives and Social Partners. The chair introduced the speakers in turn, giving each the floor. Closing remarks were presented at the end of the conference.

Andrés Concha - Chairman of the Chilean Manufacturers' Society (SOFOFA)

Mr. Concha provided an overview of economic development in Chile noting the structural adjustments and increased labour market policy flexibility that had an influence on chronic unemployment. Some restructuring was taking place via collective bargaining processes. The design of the labour market policy framework is important, having an impact on the pace of economic growth. In the industrial sector, benefits of liberalisation can be seen in the improved trade situation and increased participation of unskilled labour. He contrasted the robust recovery in Latin America after the recent downturn, with the Asian financial crisis that took 10 years of recovery time. The Latin American labour market and exchange rate policy reforms helped to foster the positive experience in the region after this latest crisis. As a next step in the region's economic development, he noted the importance of boosting labour market participation especially for women.

Bruno Baranda - Vice Minister of Labour, Chile

Mr. Baranda spoke on *Economic Integration, Crisis and Development Policies in the Chilean Labour Market*. He emphasised Chile's opening to the global economy, the government's response to the economic crisis, and the government's development agenda. Citing an ILO study from 2008, he noted that Chile's expansion of exports has been associated with increased in salaried employment, despite some losses in textiles and furniture. Moreover, openness to investment has made a sizeable contribution towards job creation. Thus, openness has had positive labour market impacts. In recent years, labour market policy reforms have helped to adjust the social safety net in ways that have helped to weather multiple crises. An important reform was to grant workers with fixed term contracts access to unemployment benefits. These benefits were also subsequently extended earthquake victims. There have been a variety of training reforms as well, developed in consultation with tripartite committees. These

include tax write offs for training, training for unemployed, training in conjunction with worker retention initiatives. Some of this investment has been funded from employer tax contributions and tax credits. In addition there have been efforts to implement certification of existing skills, to support SME training, and to support of younger workers. Together the various labour market initiatives have helped to ensure social protection and contributed to a robust recovery. Going forward the development agenda is aimed at boosting economic capacity. There are efforts underway to reduce structural fiscal deficit to 1% of GDP, to double investment in technology (R&D) from 0.4 to 0.8% GDP, while tackling poverty via creation of a ministry of social development and various channels of support. Employment objectives include promote of the increased participation of women in the labour market, as well as further development of youth employment and additional training initiatives.

Soledad Villafañe - Director of Studies and Macroeconomic Coordination at the Ministry of Labour, Argentina (Video Conference)

Soledad Villafane spoke on globalisation and Argentina's labour market policies in a very substantial presentation entitled *Policy Responses and Labour Market Responses in Argentina*. According to her presentation, a period of policy liberalisation and deregulation during the 1990s was associated with increased unemployment, increased labour informality (38%), increased poverty, and more broadly an economic and social crisis. During 2003-2010, Argentina moved to reform implementing elements of the ILO's Decent Work model together with macroeconomic reforms such as targeting a stable and competitive exchange rate, external and fiscal surpluses, and policies for stimulation of domestic demand and investment. Social programmes were reinforced to provide cash transfers to vulnerable families, food support to needy and free access to generic medicines. Employment and labour institutions were revived including renewed labour inspection, employment protection via reduced flexibility, attacks on informality via eased, on-line worker registration, as well as measures to reduce recruitment costs and develop active labour market policies. Ms. Villafane noted that the results have been quite positive. Economic growth rose from growth from 1.5% in 1993 to 7.6% in 2010. There is increased trade openness ($X+M/GDP$), a positive trade balance, and employment growth of 3.5% annually. There is also decreased labour informality along with the increased formal employment. Inequality has also declined. Further measures were undertaken during the crisis to maintain employment and wages. Labour market policy evaluations of certain of the labour market policies have been favourable.

Jorge Arbache - Senior Economic Adviser to the President of the Brazilian Development Bank-BNDE

In a presentation entitled *Policy Responses and Labor Market Adjustments in Latin America and the Caribbean*, Mr. Arbache provided an overview of key themes emerging over the course of the conference. Citing the thousands of pages of material published on these topics, he asked the rhetorical question whether there are new issues to be addressed. He underscored that "yes, there are." Factors such as the emergence of China and other leading developing economies, the financial crisis, increased volatility and increased intra-industry trade are changing the economic landscape. For example, linkages to the Chinese economy are fuelling growth rates in the region and leading to increased South-South trade, while also leading to Dutch disease in some economies. The financial crisis in the developed countries is leading to some difficulties in developed countries including with respect to handling distortions caused by subsidies, limitations on immigration, and constraints on potential remittances associated with the economic downturn. In some cases, there have been protectionist measures and trade preferences, while the multilateral trade agenda is stalled.

Mr. Arbache reviewed a number of emerging issues that merit further study. For example, he cited recent empirical evidence in support of Hecksher-Ohlin (Stolper-Samuelson) endowment-focused trade analyses. At the same time, jobs are being created mostly in service sector, not in the tradable sector. In the commodity sector, which plays a big role in Latin American trade, there is evidence of a wage

premium. Exchange rate and non-tariff barriers become more important than tariffs to influence trade (and can undermine openness). Openness is advancing nonetheless via regional and bilateral trade agreements. Are we addressing the new issues? We need to address the impacts of these things on job creation, labour demand, wage formation, quality of jobs and poverty. The appropriate policy responses also need to be addressed including fiscal policy, policies to promote export diversification and mitigate growth volatility, policies to promote productivity gains in the service sector and informal sectors, and policies to develop human capital infrastructure, innovation, entrepreneurship. Moreover, we should not lose sight of the Doha objectives, fighting protectionism and anti-immigration policies. Social safety nets and labour market policy assessment need further development, as well.

Roland Schneider- Senior Policy Advisor, Trade Union Advisory Committee

Mr. Schneider noted his pleasure at being in a region that is experiencing a healthy recovery from the economic crisis. But, he also noted that the well being of workers requires more be done. In the case of Chile, for example, the OECD Employment Committee developed a list of measures as part of Chile's accession to the OECD. These were designed to improve effectiveness of the employment services, promote redistributive effects, develop collective bargaining, and improve performance of the labour inspectorate. More broadly, he underscored the role for economists, especially trade economists, in identifying and promoting appropriate policy settings. ICITE should focus on measures to make trade more fair, whereby he commented that international markets suffer from weak governance. In response to the recent OECD ministerial council meeting, he noted the TUAC message that international organisations should not oversell trade. Trade and globalization are means, not an end in themselves. In this regard, the narrative regarding trade is losing popular appeal, and policy makers need to accept that there are legitimate concerns that merit a response. First of all, should come the recognition that markets and government institutions are necessary complements. For example, we need openness and competitiveness policies that can go with adequate labour market institutions and welfare state components. A new benefits-based analysis is needed, based on sound indicators and sustainability. It is not enough to see improvement in GDP. We must also take into account inequality and poverty, linking development to decent work and a social protection floor. We also should not lose sight of core labour standards. The update of the OECD Guidelines for MNCs is an important development, providing standards adopted by governments and channel for labour feedback.

Closing remarks

Osvaldo Rosales, UN ECLAC, and Carlos Silva-Jáuregui, World Bank, provided closing remarks for the conference, recognising the importance of the conference issues for the Latin American and Caribbean region. They highlighted the quality of the presentations, the engagement of participants, and the utility of the discussions.

Douglas Lippoldt, spoke on behalf of the OECD and the ICITE initiative, thanking the ICITE partners for their support of the conference and, in particular, the UN ECLAC for hosting the conference, the UN ECLAC, OECD and World Bank for mobilising outstanding speakers and content, and the Government of Spain for its financial support of the event. He noted upcoming ICITE events including a regional conference in Africa (September 2011) and a Global Forum on Trade event in Paris (November 2011), as well as the OECD Ministerial Council Meeting in 2012, where the results of the ICITE initiative will be presented.

With that, the Chair declared the conference closed.