



Mastering the transition – An overview of successful trade adaptation policies

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Jens Matthias Arnold, Deputy Head of Division, OECD Economics Department
Robert Grundke, Senior Economist, OECD Economics Department



The gains from trade are significant

Trade reforms of the 1980s/90s raised investment and GDP growth

(Irwin 2019, Estevadeordal and Taylor 2013)

Since the 2000s, many firm-level studies have investigated the interplay between lowering trade barriers and productivity growth:

- **Improved access to intermediate inputs and capital goods** (e.g. Amiti and Konings 2007)
- **Disciplining effect of import competition** (e.g. Bloom et al. 2016)

Gains from trade are also significant for consumers:

- **Lower consumer prices** (e.g. Amiti et al. 2019)
- **Larger variety of products and services** (e.g. Broda and Weinstein, 2006)
- **LAC: OECD Economic Surveys Brazil 2018 and 2020, Argentina 2019**



...but are not equally distributed

Stolper-Samuelson (1941) and many later studies argue that lowering trade barriers creates winners and losers. Without compensation, not all are better off.

In the **long run**, effects on income inequality and employment are modest compared to other policies and factors, including institutions and technology

(e.g. Goldberg and Pavcnik 2007, Felbermayr et al. 2011)

However, due to **adjustment costs**, **short- and medium run** effects on income inequality can be significant (wages, unemployment):

- Reallocation of workers to more productive firms in the same sector
- Reallocation of workers to firms in other sectors



Adjustment costs can be large and persistent

Reallocation of displaced workers can be costly:

- Job creation and destruction may not occur simultaneously, nor in the same places.
- Mobility of workers may be limited by social attachments, but also housing or commuting costs.
- New jobs may require different skills than those that disappear.
- Job search and matching frictions.
- Labour and product market regulations.
- Capital market frictions.

Adjustment costs can be persistent, particularly at the regional level

(e.g. Dix-Carneiro and Kovac 2017, Feler and Senes 2017)

Adjustment costs can reduce gains from trade, but much depends on complimentary policies

(e.g. Autor et al. 2013. Kambourov 2009)



Policies can mitigate adjustment costs

- Complementary **horizontal policies** can significantly raise the gains from trade and reduce adjustment costs (Chang et al. 2009)
- Examples for such policies:
 - Infrastructure
 - Labour market and product market regulation
 - Active labour market policies
 - Access to finance
 - Housing
 - Fiscal and tax policies
 - Governance
 - Social protection
- **The sequencing of reforms:** front-loading complementary policies vs. big push vs. front-loading trade reform.
- **A sector- or region-specific policy focus** can improve targeting, but can also create challenges for equity and governance.



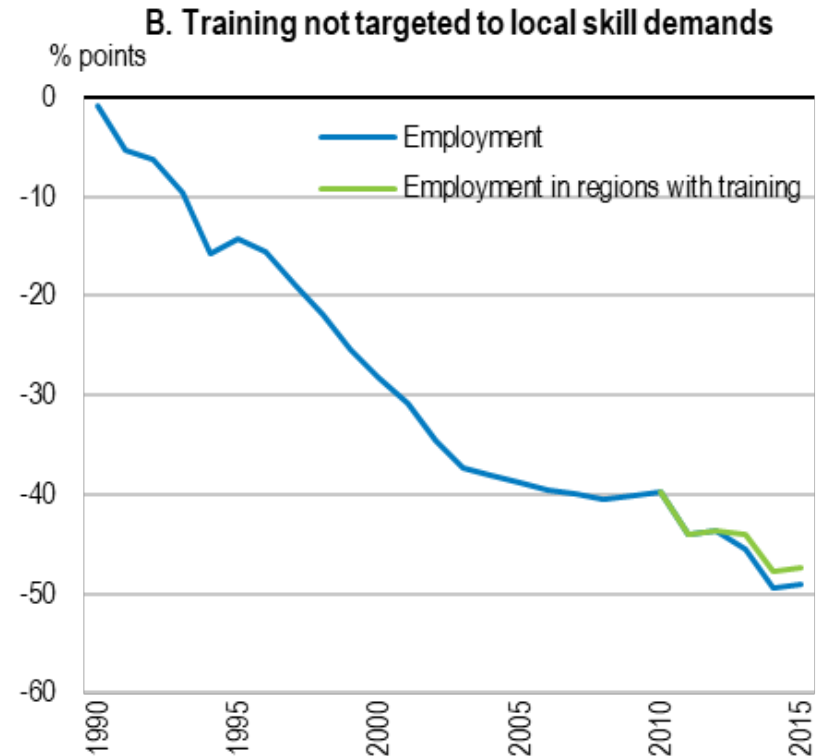
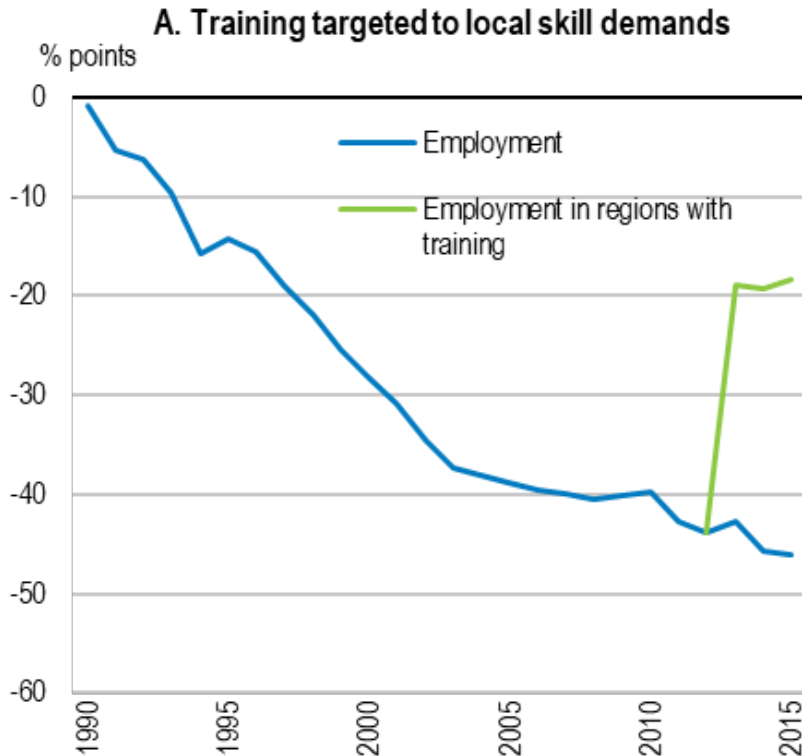
.. and help people reap new opportunities

- Flexible markets facilitate a more rapid adjustment
- Protecting workers in the transition through income support
 - **Combining flexibility with social protection: Denmark** combines low firing costs with generous unemployment insurance and targeted training and education
- **Targeted training** is key for helping workers move into good jobs
(e.g. OECD Economic Survey of Brazil, 2020)
- Training can be complemented with targeted job counseling and placement services, in addition to strong incentives for job search.
- In the presence of labour market informality, as in many developing economies, direct cash transfers can be more effective than unemployment insurance. But the link to training and job counseling is often underdeveloped.



Training policies can be key, if well designed

- Taking into account regional differences in the design of training policies is key, as skill demand differs across regions



Thank you for your attention!

Jens Arnold, OECD Economics Department
jens.arnold@oecd.org