USAID
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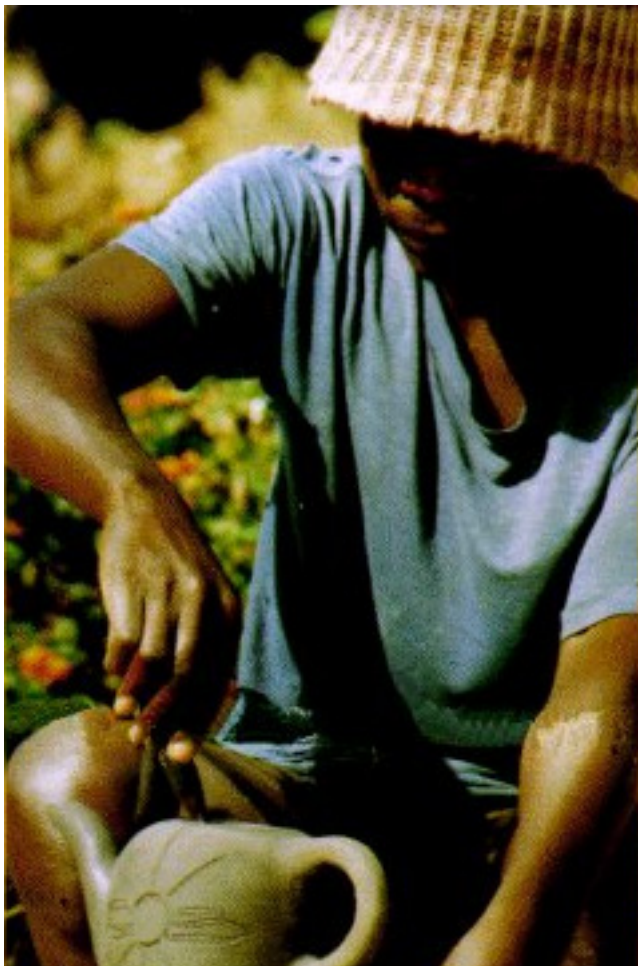
DEVELOPING COUNTRY LABOR MARKET ADJUSTMENTS TO TRADE REFORM

AN OVERVIEW AND RESOURCE GUIDE



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Developing Country Labor Market Adjustments to Trade Reform

An Overview and Resource Guide

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An Overview and Resource Guide

Sponsored by the Economic Growth office of USAID's Bureau for Economic Growth, Agriculture and Trade (EGAT), and implemented by Nathan Associates Inc. under Contract No. PCE-I-98-00016-00 Task Order 013, the Trade Capacity Building (TCB) Project helps developing countries assess their trade constraints and prioritize their trade-related technical assistance needs. The project provides trade experts for short-term technical assistance in developing countries and assists USAID missions in designing, implementing, monitoring, and evaluating technical assistance that will stimulate economic growth and reduce poverty. Electronic copies of reports and materials related to trade needs assessments, resource guides, and trade training workshops are available at www.tcb-project.com. USAID Missions and Bureaus may learn more about activities under this project by contacting Tracy Quilter, USAID/EGAT, TCB Project Task Manager, tquilter@usaid.gov.

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Contents

Illustrations

Figures

Tables

Exhibits

Acronyms and Abbreviations

ALEF	Advancing Learning and Employability for a Better Future (USAID/Morocco)
ALMP	Active labor market programs
ANE	Asia and Near East Bureau (USAID)
CGE	Computable general equilibrium models
DCHA	Democracy, Conflict, and Humanitarian Assistance
DIS	Development Information Services (USAID)
DTIS	Diagnostic Trade Integration Studies
E&E	Europe and Eurasia
EC	European Community
EG	Economic growth
FDI	Foreign direct investment
FIAS	Foreign Investment Advisory Service
FTA	Free trade agreement
GATE	Greater Access to Trade Expansion (USAID/EGAT/WID)
GDA	Global Development Alliance
GTAP	Global Trade Analysis Project
GWIT	Global Workforce in Transition (USAID/EGAT/ED)
HR/LS	Human resources and labor standards
ILAB	International Labor Affairs Bureau (of the U.S. Department of Labor)
ILO	International Labor Organization
IR	Intermediate result
MEDA	Mediterranean Development Assistance
NAFTA	North American Free Trade Agreement
OECD	Organization for Economic Cooperation and Development
SEED	Support for East European Democracy
SME	Small and medium enterprise
SO	Strategic objective
TAA	Trade adjustment assistance
TCB	Trade capacity building

TIR	Trade Impact Review
USAID	U.S. Agency for International Development
USDOL	U.S. Department of Labor
USGAO	U.S. Government Accountability Office
USTR	U.S. Trade Representative
WTO	World Trade Organization

Preface

The most significant asset of most poor households in the developing world is the labor of household members. How globalization, in particular trade liberalization—multilateral, regional, bilateral, or unilateral—affects workers in developing countries is thus a critical aspect of development assistance.

This paper explores how labor markets and workers adjust to the opportunities brought by trade liberalization and the accompanying challenges of heightened global competition. We summarize relevant research, describe current programs funded or implemented by donors including the U.S. Agency for International Development (USAID), and recommend how USAID can support transitions in labor markets of partner countries undergoing economic adjustment as a result of trade liberalization.

This paper is part of a broad process of knowledge sharing and the development of a Community of Practice on the topic. In 2005, USAID initiated internal knowledge sharing that brought together practitioners with a common interest in labor-related assistance under the leadership of the Bureau of Economic Growth, Agriculture, and Trade (EGAT). In conducting the research for this paper, we met with analysts and practitioners from think tanks, other U.S. government agencies, and international organizations. Thus, preparation of this overview and resource guide has helped to link USAID to other members of the development community with an interest (research or programmatic) in labor market adjustments to trade liberalization.

Executive Summary

Trade-liberalizing agreements can present opportunities for producers and consumers, but they also can induce significant economic adjustments at the national level as well as for individual workers. USAID and other donors have supported developing countries' efforts to participate effectively in the global economy, providing a variety of resources and technical assistance known as "trade capacity building" (TCB). Conventional definitions of TCB, including those used by USAID and the Organization for Economic Cooperation and Development (OECD), have encompassed assistance that enables developing countries to participate more effectively in trade negotiations, implement commitments made in trade agreements, and respond to the opportunities that globalization brings. Recent statements by donor and technical assistance agencies suggest that helping developing countries cope with transitional adjustment issues will receive greater attention in coming years.

In this overview and resource guide, we focus on trade-induced adjustments at the labor market and worker level. Labor markets adjust in many ways to trade liberalization, but a simple conceptual framework is as follows:

- ***An initial trade "shock" to supply and demand conditions*** occurs in the product markets when trade barriers are lowered in the home country or in a significant trading partner.
- ***Short-term adjustments occur, reflecting changes in the demand for labor.*** Shifts affect employment, wages, working conditions, and job security, with workers in activities that either produce for export or use imported content in goods sold domestically gaining advantage, and workers in activities facing heightened import competition negatively affected.
- ***A longer term adjustment to both labor demand and supply*** follows, as trade reform stimulates investment and output, in turn affecting demand for labor. On the supply side, as work opportunities arise, workers have an incentive to learn new skills in order to pursue new job opportunities.

Each stage of this process is conditioned by structural and institutional factors that reflect particular conditions in the country, industry, or region, including the business-enabling environment, labor market policies, and culture.

Labor market adjustments are complex and context-specific; moreover, significant gaps in data and empirical methods prevent researchers from making definitive statements that apply across a variety of settings. Nonetheless, we derive the following conclusions from our survey of the economic literature on the impact of trade reforms on labor markets and workers:

- ***Aggregate employment.*** Most of the *ex post* evidence is drawn from data on formal jobs in manufacturing—a small share of employment in most developing countries. Even this limited base of evidence reveals very different outcomes in different contexts. One consistent finding is that the impact of trade reform on aggregate employment is small, except in countries that attract substantial amounts of foreign direct investment (outside the mineral sector).
- ***Employment distribution.*** Many studies find little evidence that trade liberalization causes significant reallocation of labor across sectors, but it does cause substantial job churning—hiring and firing—within sectors as labor is reallocated from less to more competitive firms. Adjustments within firms also may be substantial.
- ***Sectoral effects.*** Empirical evidence of the impact of trade reform on incomes in the rural economy and the informal sector is scant; studies have focused on urban, formal sector workers.
- ***Wages and wage inequality.*** One of the clearest conclusions in the empirical literature is that trade reform tends to increase wage inequality, primarily by increasing the wage premium for skills. Skilled workers are relatively scarce, and thus, increased demand for their labor may lead to substantial increases in their real wage. At the same time, in most developing countries a majority of the workforce works in the informal sector, where the supply of unskilled labor is abundant and wages are generally market determined. There, increased demand for labor may have little impact on wages. The rise in wage inequality does not mean that unskilled workers are getting poorer; indeed, one analysis concluded that in a variety of countries, "exporting activities are associated with increasing incomes for the unskilled and the poor" (Harrison 2005).
- ***Gender differences.*** Trade reform can affect men and women differently. Female workers are favored in many labor-intensive export industries, such as garments and footwear. Several studies have found evidence that trade liberalization reduces the gender wage gap in the formal sector. The flip side of increased opportunity, however, is vulnerability and increased work burdens overall. Women working in export industries are more at risk as a result of income or job loss from shifts in global competitiveness or in trading arrangements that affect their competitive position in target markets. Few mechanisms exist to help women manage the burden of formal employment in addition to household responsibilities.

The cost of adjustment to trade liberalization is especially onerous in poor countries. Very poor workers face the greatest suffering from any loss of livelihood, because labor is their primary, if not sole, asset. In addition, many developing countries have high rates of unemployment and underemployment; the scarcity of jobs means displaced workers may not quickly find alternate employment, so their periods of lost income may be prolonged. Poor countries also lack formal institutions or mechanisms, such as unemployment insurance or other social safety nets, to help workers replace lost income on a temporary basis.

Beyond these generalizations, however, we know very little about the adjustment paths of individual workers who lose jobs or livelihoods as a result of trade reform—how long they are between jobs, how they support themselves and their families in between jobs, or how their new wages and working conditions compare to their former ones. Household surveys or tracking surveys would be helpful to track this issue following implementation of significant trade

reforms. In general, safety nets, which could ease transitions for workers who lose jobs and income following liberalization, are too costly for very poor countries, where more vulnerable and needy segments of the populace should have higher priority for support than displaced but able bodied workers.

One point of consensus that emerges in the literature is that a country's long-term growth path following trade reform depends on how well it stimulates investment, which in turn depends on complementary structural and institutional factors that affect the investment climate or business-enabling environment. In countries with weak investment climates, reforms to address deficiencies are essential for achieving positive labor market outcomes in response to trade liberalization. Labor regulations are critical components of the investment climate: burdensome labor codes, characteristic of many poor developing countries, weaken the investment and job creation response to trade liberalization, particularly for labor-intensive industries. Another key element is exchange rate policy: the exchange rate affects the competitiveness of exports and the attractiveness of investment.

Few donor programs, past or present, name trade reform-related labor adjustment as an explicit goal. Many, however, address one or both of two broad objectives:

- ***Improving economy-wide labor market outcomes*** after trade liberalization, including increased formal sector jobs, lower unemployment, higher real wages and incomes, increased labor productivity, and reduced poverty.
- ***Easing adjustment for dislocated workers and their communities*** by helping dislocated workers find new jobs, providing them with temporary income support during periods of unemployment, and helping communities attract job-creating investment.

To improve economy-wide labor market outcomes, donors have pursued a variety of approaches, including providing the following three types of assistance:

- ***Business-enabling environment.*** USAID has sponsored business-enabling environment reform projects in every region. These projects have usually focused on removing administrative and regulatory barriers to business operations, such as registration, licensing, and inspections procedures. Only a few projects have focused specifically on creating more flexible labor markets.
- ***Industry cluster/producer competitiveness.*** USAID has undertaken competitiveness enhancement projects that provide technical, management, marketing, and networking assistance to cluster associations and individual companies in more than two dozen countries. Other donors have provided similar support. Many of these programs are explicitly linked to changes in the regional or global trading (and therefore competitive) environment, including the negotiation or implementation of free trade agreements with the United States, economic partnership agreements with the European Union, or regional trade arrangements. They often encompass workforce development and job creation components or objectives.
- ***Factory, line, worker productivity.*** Boosting productivity may be linked to a competitiveness initiative, but other considerations have also motivated this type of assistance. Improved productivity can help attract or retain foreign investment, and is thought to improve working

conditions when managers see that better conditions boost labor productivity. Efforts to improve labor productivity can be at odds with efforts to create jobs, however; a well trained, more productive workforce may be able to produce more with fewer workers. Thus, if demand for workers' output does not rise, the net employment impact may be negative. Therefore, productivity-related interventions must simultaneously consider how to ensure that labor demand remains strong or grows.

To ease adjustment for workers and their communities, donors have undertaken "active labor market programs" (ALMP), which target labor market clearance directly. ALMPs include public works programs, employment services (job counseling, search assistance, matching, labor exchanges), training for unemployed workers, retraining following mass layoffs, training for youth, microenterprise development, and wage subsidies. Overall, ALMPs are helpful in emergencies, but are decidedly limited as a long-term solution to employment issues. Providing employment services that link labor supply with demand is one of the most productive and cost-effective activities in this category, assuming that other growth preconditions are in place.

Several other types of donor programs are relevant to the needs of workers in transition as a result of trade-induced changes to the labor market. For example, between 1999 and 2004, the U.S. government spent more than $600 million on TCB assistance in the category of human resources and labor standards (HR/LS). Although most of the funding was allocated to combating child labor, one-fourth was allocated to programs especially relevant to trade-induced labor adjustments: 20 percent was spent on promoting international labor standards, labor rights, and worker safety; and 5.5 percent was spent on workforce assessments and ALMPs.

The HR/LS category of the TCB database does not necessarily capture all funding for relevant programs. Assistance related to export competitiveness (and job creation) would generally be counted under the "trade facilitation" category. And assistance related to improvements in the overall business-enabling environment may not be captured in the TCB database at all.

In reviewing the literature and donor programs, we have identified gaps in our knowledge and understanding of the relationship between trade reform and labor adjustment at the labor market or individual worker level. Our review has also revealed that little is known about the cost-effectiveness of programming decisions that have supported labor adjustment. Thus, we recommend seven ways that USAID could further its understanding of this subject and improve its programming in response to trade liberalization in the months and years to come.

1. ***Fill Gaps in Understanding of Trade Reform and Labor Adjustment.*** Better labor data and fuller knowledge of the adjustment process will improve the effectiveness and sustainability of USAID's trade-related labor adjustment assistance. While USAID cannot fill all the knowledge and data gaps in this area, it can target select areas of need, such as standard data on labor market conditions in partner countries and Institutional capacity for conducting labor force, household, and enterprise surveys.
2. ***Explicitly Include Labor Adjustment Support in TCB Assistance.*** USAID and other donors should assess likely labor market effects of trade reform and implement programs to ease adjustment costs. Where possible, USAID should consult with the Office of the U.S. Trade Representative (USTR) before negotiations start to plan adjustment-related assistance. In

addition, USAID and other donors should ensure that trade-related labor adjustment assistance is fully reflected in data collection and reporting on TCB assistance.

3. ***Design Trade-related Labor Adjustment Assistance Strategically and Comprehensively.*** When designing trade-related labor adjustment assistance, donors should take into account the full range of forces that affect the demand for and supply of labor, including trade trends, investment flows and the quality of the business-enabling environment. In addition, programs should reflect an understanding of the short- and long-term dynamics of economic structural change after trade liberalization. Such comprehensive analysis facilitates design of appropriate assistance strategies.

4. ***Assess Program Results and Longer-term Impact on Labor Markets and Worker Adjustment Paths.*** USAID should examine the cost-effectiveness of various approaches to assistance, using metrics including cost per job placement, cost per worker trained to a given skill level, or cost per unit of income generated by training or business support programs. Over time, missions should track job creation, labor market function, and productivity trends, using indicators such as those suggested in Appendix A.

5. ***Better Organize USAID Program Information to Facilitate Dialogue.*** Parties outside USAID do not have an access point for information on the Agency's trade-related labor adjustment programs. Instead, they must rely on either Internet searches for project websites or searches of USAID's Development Experience Clearinghouse. All operating units and their projects should maintain websites; these should be interlinked.

6. ***Conduct Multiproject, Multicountry Evaluations.*** Thematic, multiproject, and multicountry evaluations are vital avenues for identifying effective program strategies. USAID could conduct evaluations alone or in collaboration with other donors via OECD's Development Assistance Committee.

7. ***Build a Multidonor Community of Practice.*** Communities of practice unite professionals who are interested in various dimensions of a common theme. USAID should build and participate in a community of practice on labor adjustments to trade reform that includes USAID missions, think tanks, research institutes, and consulting firms. Participation in such a community of practice would provide the Agency access to emerging research on trade-related labor adjustment as well as a forum for public leadership on the issue.

1. Introduction

TRADE REFORM AND THE CHALLENGES OF ADJUSTMENT

Developing countries are liberalizing trade as they

- Implement commitments from multilateral agreements, such as the 1994 "Uruguay Round" Agreements and successor plurilateral agreements under the auspices of the World Trade Organization (WTO);[1]
- Negotiate or implement regional trade agreements, including free trade agreements (FTAs) with developing countries and between developing and developed countries (Table 1-1 summarizes U.S. bilateral FTAs involving developing countries); and
- Introduce trade and other economic reforms unilaterally to help producers become more competitive in the global marketplace.

USAID and other donors have supported developing countries' efforts to participate in the global economic arena by providing substantial resources for trade capacity building. The USAID strategy document, Building Trade Capacity in the Developing World (March 2003), provides a conceptual framework for trade capacity building, indicating that USAID's TCB projects will support participation in trade negotiations, implementation of trade agreements, and economic responsiveness to opportunities for trade.

Trade-liberalizing agreements can present opportunities for exporters from signatory countries, but they also can induce significant economic adjustment during the transitional phase. Trade-related economic adjustments may occur

- At the ***national level,*** as tariff reductions cut trade-derived revenues or adjustments in quotas, access rules, or as external quality requirements change markets for goods and services;
- At the ***producer level***, as changing relative prices induce economic actors to build new or reorient existing networks to improve their competitiveness, and as firms and farms reorganize and strategize—individually or in producer associations—about how to remain competitive, invest in labor, and take advantage of trade opportunities.

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[1] Of which, in the context of this paper, the most significant are the *General Agreement on Tariffs and Trade 1994,* the *General Agreement on Trade in Services,* the *Agreement on Agriculture,* and the *Agreement on Textiles and Clothing.* Significant successor plurilateral agreements include the *Agreement on Basic Telecommunications Services*, the *Agreement on Government Procurement*, and the Ministerial *Agreement on Trade in Information Technology Products.*

Table 1-1

U.S. Government Bilateral Free Trade Agreements

Enacted		Negotiated, Not Yet Enacted		Negotiations Underway	
Country	**Income**	**Country**	**Income**	**Country**	**Income**
1980s					
Israel (1985)	HI				
Canada (1985)	HI				
1990s					
Mexico (1993)	UM				
2000s					
Jordan (2000)	LM	Bahrain (2004)	HI	**Ecuador**	LM
Chile (2003)	UM	Costa Rica (2005)	UM	**Panama**	UM
Singapore (2003)	HI	**Dominican Republic** (2005)	LM	**Botswana**	UM
Australia (2004)	HI	**Guatemala** (2005)	LM	**Lesotho**	Low
Morocco (2006)	LM	**Peru** (2005)	LM	Malaysia	UM
El Salvador (2006)	LM	Oman (2006)	UM	**Namibia**	LM
Honduras (2006)	LM	**Colombia** (2006)	LM	Republic of Korea	HI
Nicaragua (2006)	Low			**South Africa**	UM
				Swaziland	LM
				Thailand	LM

Note: HI—High-income country, UM—Upper-middle-income country, LM—Lower-middle-income country, Low—Low-income country, according to World Bank 2006 World Development Report categorization. Countries in boldface are USAID presence countries or countries covered by USAID regional programs.

- At the ***labor market level,*** due to changes in market structure and geography, institutions, policies for pensions, hiring/firing, roles of labor unions, social safety nets, geographic mobility of workers, and incentives to invest in labor or enforce labor regulations.
- At the ***worker level,*** either the individual or household, as individuals make choices about workforce participation and choices about investing in their human capital in response to shifts in demand for their labor/skills.

These shifts in turn induce related changes

- As governments seek to improve revenue collection or introduce fiscal reforms to compensate for lost trade tax revenues or limit new opportunities for corruption;
- As producers seek flexibility in labor markets so they can hire and fire more freely in response to demands for labor; and
- As schools and training programs seek to supply the skills needed in the workforce.

Trade Capacity Building and Adjustment

Although trade adjustment is considered an aspect of trade capacity building, it has not been featured prominently in definitions of trade capacity building[2]or in most programmatic decisions relating to support for countries undergoing trade liberalization.[3] This is beginning to change—perhaps in part because of the political realities of trade negotiations. Opposition to trade liberalization comes most often from interest groups who fear heightened competition in their long-sheltered home markets. For political leaders to undertake trade reforms, they need to respond to these concerns with facts about the adjustment process, and often with programs to facilitate it. In recognition of this, the World Bank and IMF, the WTO, and several G8 countries have committed to large increases in "Aid for Trade." A 2005 World Bank/IMF paper defines Aid for Trade as "assistance by the international community to help countries address supply-side constraints to their participation in international markets and *to cope with transitional adjustment costs from liberalization"* (emphasis added).[4]

Labor Market and Worker Adjustment

The labor market is the economic arena in which human knowledge and skills—in the form of workers' labor—are allocated to productive activities. Adjustments in labor markets involve the following parties:

- ***The private sector***, as firms reorient strategies and resources in response to new opportunities;
- ***Workers,*** as individuals and households respond to changes in the demand for their labor; and
- ***Policymakers,*** as governments seek to protect and expand public welfare in the wake of redistributed economic activity and employment.

Assistance to facilitate trade-related labor market adjustments aims to

- Recognize and minimize adjustment costs for the most vulnerable members of society;
- Ensure that education and training programs provide workers with the skills that the labor market demands;
- Safeguard workers' rights and safety while improving labor market flexibility; and
- Create policies and institutions that foster growth in employment, wages, and output.

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[2] The WTO and OECD maintain a trade capacity building database that defines 26 categories of TCB assistance. USAID maintains a separate database that lists over thirty TCB assistance categories. Neither database lists adjustment assistance as a distinct category.

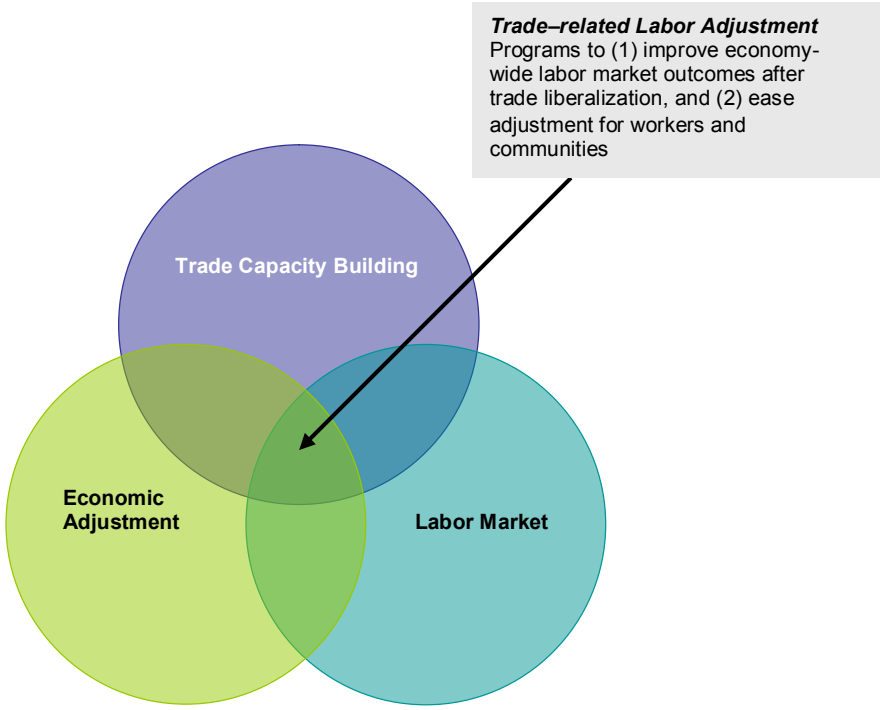
[3] We use the terms "trade liberalization" and "trade reform" interchangeably in this paper.

[4] *Doha Development Agenda and Aid for Trade.* IMF/World Bank, September 19, 2005. http://siteresources.worldbank.org/DEVCOMMINT/Documentation/20651864/DC2005-0016(E)-Trade.pdf, accessed April 7, 2006.

SCOPE, OVERVIEW, AND OBJECTIVES OF THIS PAPER

The purpose of this paper is to strengthen USAID's ability to help developing countries meet the challenges posed by trade-related labor market adjustments. We therefore focus on the intersection of three issues: trade capacity building, labor, and economic adjustment (Figure 1-1).

Figure 1-1
Focus of Trade-Related Labor Adjustment Assistance



This focus orients the conceptual framework presented in Chapter 2, our review of the empirical evidence on the trade reform and labor adjustment process in Chapter 3, our survey of donor assistance in Chapter 4, and our recommendations in Chapter 5 for USAID to address the knowledge and practice gaps identified in earlier chapters. Specific objectives of this paper include the following:

- To improve USAID's understanding of how trade liberalization may affect labor markets, including the circumstances and contexts that facilitate or inhibit adjustment.
- To broaden USAID's awareness of existing programs that help facilitate trade-related and other labor transition processes.
- To identify knowledge gaps, both with respect to analysis of labor market transitions, and programmatic best practices.
- To inform USAID of potential implementing partners.

Appendix A presents a technical note on labor market indicators; Appendix B lists sources consulted; Appendix C lists contacts made by the researchers; and Appendix D is an annotated list of institutions that could be included in a broad community of practice.

2. Conceptual Framework and Developing Country Context

This chapter outlines a simple conceptual framework of labor market adjustments to trade liberalization and describes special features of labor markets in developing countries that affect labor market adjustment.

CONCEPTUAL FRAMEWORK

The purpose of trade reform is to improve welfare. In the short term, the objective is to reallocate resources more efficiently, increase choice, and reduce costs for consumers and producers. In the longer-term, the aim is to stimulate growth in output, employment, and wages. If the policy is successful, these benefits far outweigh short-term adjustment costs.

Though labor markets adjust in many ways to trade liberalization, there is a common logic to the process, which provides a useful conceptual framework here. In essence, the adjustment to trade liberalization can be characterized by three stages (see Figure 1-1):

- ***An initial trade "shock"*** to supply and demand conditions in product markets due to reductions in tariffs or nontariff barriers in the home country or a significant trading partner;
- ***Short-term adjustments*** resulting from changes in the demand for labor as a result of the trade shock;[5]
- ***Longer-term adjustments*** in both labor demand and supply in response to incentives created by trade reform.

"Global integration is by its nature disruptive" (Birdsall 2004, 301).

Each stage is conditioned by structural and institutional factors that reflect particular conditions in each country, including the structure of the overall economy and its labor force, labor market institutions, the business-enabling environment, labor market policies, and cultural factors. These

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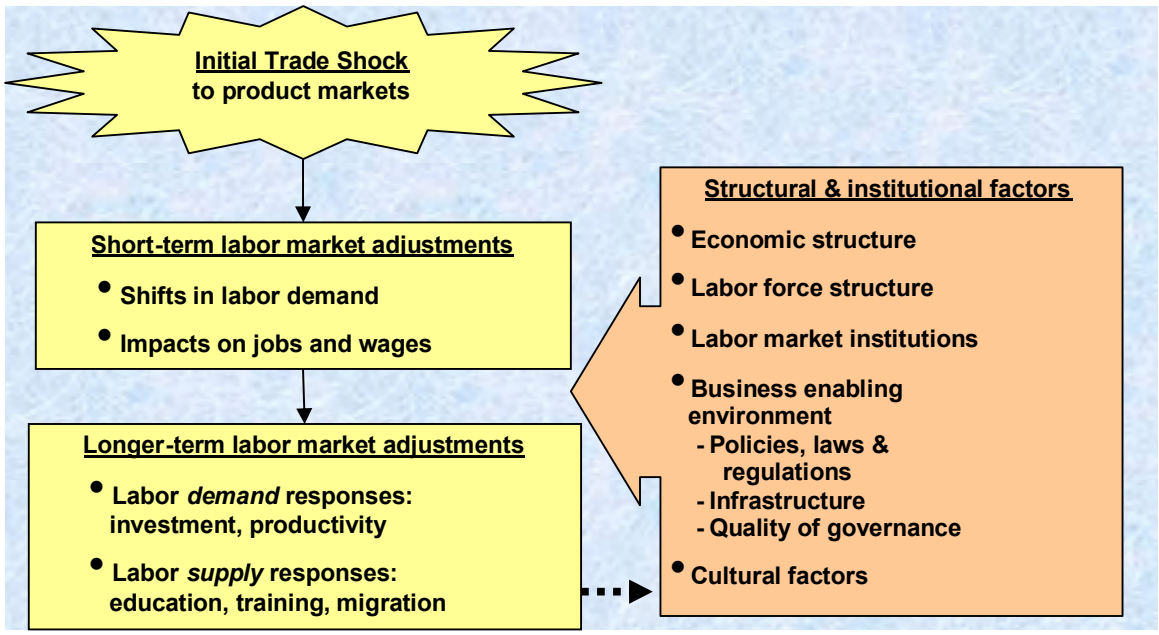
[5] "Short term" is defined here as the period in which the capital stock, the composition of the labor force (including skills), and the set of technologies can be taken as given. This is essentially the assumption in "comparative static" calculations of the general equilibrium impact of trade liberalization. In calendar terms, significant changes in the "given" conditions generally require at least one year to emerge. For present purposes we refer to such changes as "longer-term adjustments." They can also be called "dynamic" responses, in contrast to the comparative static effects.

underlying factors evolve partly because of the influence of trade liberalization. In many cases, countries can ease labor market adjustment to trade reform by removing structural and institutional impediments.

Figure 2-1
Adjustment to Trade Liberalization



Initial Trade Shock

The impact of trade reform is first felt in product markets, where trade reform affects both supply and demand. In the process, some groups benefit while others face costs and uncertainties:

- Exporters and their upstream suppliers gain greater access to global markets. However, domestic consumers of exported goods may face lower domestic supply and higher prices.
- Producers using imported inputs benefit from lower costs. Correspondingly, upstream suppliers may lose sales or face lower prices because of stronger import competition.
- Consumers of imported goods benefit when lowered trade barriers reduce domestic prices and bring better products to the market. Lower prices, in turn, produce ripple effects as consumers, in aggregate, have more purchasing power to spend on other goods and services.
- Producers of tradable goods for the local market face tougher domestic market conditions when imports come in more freely. Heightened competition in the domestic market may force businesses to close or to produce different products.

Short-term Adjustments

In the short term, trade liberalization affects labor markets mainly through changes in the derived demand for labor, which mirror the impact of trade shocks in the product markets. Shifts in the demand for labor affect employment, wages, working conditions, and job security. The winners include workers in industries that produce for export, and industries that gain a cost advantage from

trade liberalization. The losers include workers in industries that face increased competition from imports.

In well-functioning labor markets, most workers who lose jobs or income opportunities quickly move to new sources of livelihood at comparable wages. The adverse effects are largely attenuated, although workers still bear adjustment costs such as temporary loss of income and expenses related to job searches, relocation, or retraining. The adjustment burden can be most difficult for the very poor, and for women, who have more childcare and household responsibilities (Gammage *et al.* 2002).

In many countries, however, labor markets are plagued by rigidities that prevent displaced workers from obtaining new sources of livelihood. Rigidities arise from poor macroeconomic policies, burdensome labor regulations, a mismatch of skills, geographic immobility, weak job-search incentives resulting from poorly designed safety nets, information asymmetries, nonmarket wage-setting mechanisms, and weak institutions for matching workers to jobs. Labor markets therefore may not adjust smoothly to shifts in labor demand. Depending on conditions, jobs in favored sectors may expand slowly, whereas job losses may be swift.

Though the short- and long-term benefits of trade reform generally outweigh the costs, those costs often weigh heavily in the policy process.

As a result, short-term adjustment to trade reform may entail serious economic and social costs for certain businesses, workers, and consumers. The costs are often highly visible, whereas the benefits can be diffuse and less readily apparent. Consequently, the short-term costs often take center stage in the media and in politics—especially when affected groups are represented by politically powerful and media-savvy interest groups, such as long-sheltered industries and labor unions.

Longer-term Adjustments

The degree to which trade reform stimulates output, employment, and wages depends on the response on both the demand and supply sides of the labor market. On the demand side, the benefits of reform depend on the private sector's investment response. If entrepreneurs and foreign investors see reforms as producing substantial market opportunities, investment flows are likely to reflect that assessment. Whether such investment creates jobs is in part a function of the labor intensity of the sectors into which it flows: labor-intensive investments can create jobs with little effect on productivity or wages, whereas capital- or skill-intensive investments may lead to "jobless growth" and opportunities for only a small subset of workers. Successful trade reform stimulates an investment response sufficient to generate both job growth and improved labor productivity. A hospitable policy environment ensures that taxes, subsidies, or regulations do not distort the demand for labor.

Changes in labor supply also affect the impact of trade reform. As work opportunities arise, workers have an incentive to invest in education and training to get better jobs. Incentives, however, are diluted by market imperfections, such as lack of information on job openings, lack of funds to invest in training, and discrimination. Employers face diluted incentives to invest in

training because they cannot count on capturing the benefits: workers, once trained, may leave for other jobs. Thus, market incentives alone may not induce an efficient supply response.

INFLUENTIAL STRUCTURAL AND INSTITUTIONAL FACTORS

Structural and institutional factors shape labor market adjustments in the short and longer term. These factors include the initial structure of the economy and labor force; policies and institutions that influence labor demand, labor supply, and labor reallocation; and even sociocultural factors such as attitudes about the role of women and children.

The impact of trade reform on labor *demand* depends on the business-enabling environment, which includes economic policies, market-supporting laws and regulations, the quality of governance, and domestic security. Many of these factors influence the dynamics of labor demand indirectly via their effects on the costs and risks that firms face when creating jobs. Government policies and institutions affect the labor *supply* response through education and training programs, social safety nets, and other policies that affect the returns to investment in education and skills.

In the labor market itself, pertinent factors include the structure of the labor force (by education, skill level, age, gender, poverty status, and location), labor market segmentation, mechanisms for wage determination in various sectors, patterns of job discrimination, the strength of labor unions, labor codes, and mechanisms for dispute resolution. Also important are laws and regulations on employment contracts, work hours, paid leave (maternity and other), minimum wages, protection of young workers, gender equity, worker associations, collective bargaining, strikes and lockouts, and dispute settlement. In many countries, labor market policies include unemployment insurance; mandated health schemes; pension requirements; skills certification; jobs programs (including programs for women, youth, the disabled, the poor); and employment search services.[6]

Of course, these structural and institutional conditions evolve. Indeed, some changes may be influenced by the labor market outcomes from trade reform; hence the feedback arrow in Figure 2-1. The feedback can be driven by a pursuit of complementary reforms to enhance the benefits or mitigate the costs of trade liberalization. Or it can be driven by political pressures that arise when trade reform becomes a lightning rod for special interest pleading. At worst, these political pressures can block or reverse trade reforms that are vital for economic transformation and growth. At best, they compel governments and donors to understand and respond to genuine adjustment costs.

LABOR MARKETS IN DEVELOPING COUNTRIES

Although the conceptual framework above applies generally, the labor market in many developing countries—particularly low-income countries and fragile and post-conflict states— have special features that affect the adjustment to trade reform.

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[6] International labor conventions concluded under the auspices of the ILO may also govern markets. See ILO websites on national labor laws (www.ilo.org/public/english/dialogue/ifpdial/ll/observatory/profiles/index.htm) and international labor standards (www.ilo.org/public/english/standards/norm/introduction/what.htm).

Many poor countries have "dualistic" labor markets (Fields 2004), in which a minority of workers have regular formal sector jobs, while a majority works in the informal sector. Women are often disproportionately engaged in informal sector work, and in certain occupations in the informal sector (Chen *et al.,* 2005), where wages are generally set by market forces, anchored by income levels in subsistence agriculture. In the formal sector, wage determinants can differ by industry or occupation. Wages are driven by market conditions in many cases, but also by efficiency wage considerations,[7] industry-wide negotiations, collective bargaining, or implicit rent-sharing arrangements between employers and workers in industries lacking effective competition.

Poor, dualistic economies tend to have large pools of unskilled labor. Consequently, shifts in labor demand due to trade liberalization (or any other shock) primarily affect employment, not the real wage, in market segments where wages are competitively determined. Given the large pool of unskilled workers and rapidly growing labor force in many countries,[8] a very large change in labor demand in the formal sector would be required to alter the competitive wage for unskilled labor, either positively or negatively. By the same token, shocks or innovations that increase (or decrease) the productivity of labor in household agriculture are likely to have a corresponding effect on the wage for unskilled labor throughout the economy.[9] The supply of skilled workers tends to be far less responsive to changes in demand; hence, in this segment of the market, labor demand shocks may lead to substantial changes in the real wage.

Another salient factor, as argued by Stiglitz and Charlton (2004, 24), is that the cost of adjustment to trade liberalization is especially onerous in poor countries. The main reason is simply that very poor workers face the greatest suffering from any loss of livelihood. In addition, many developing countries have high rates of unemployment and underemployment, which limit prospects for fully replacing lost income. Poor countries also lack formal institutions to help workers bear the cost of a transitional job loss, such as unemployment insurance or social safety nets. These considerations suggest that any adverse effects of trade reform merit special weight in poor countries—and that resulting improvements in employment or wages for poor workers have an especially high value.

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[7] An "efficiency wage" is a wage above the market equilibrium cost of labor, which profit-maximizing employers pay to gain the benefit of higher productivity, through the impact of better wages on factors such as motivation, turnover, absenteeism, and health.

[8] The labor force in sub-Saharan Africa is growing by 2.4 percent per year (World Development Indicators 2005). In many countries the resulting "youth bulge" is a policy concern. In contrast, most former Soviet-bloc countries have a stagnant labor force and face serious problems sustaining pension benefits for an aging population. This is one of many structural sources of labor market heterogeneity among developing countries.

[9] This is a basic lesson of the classical model of dualistic development formulated by W. Arthur Lewis and elaborated by Gustav Ranis and John Fei.

3. Empirical Evidence on Trade-Induced Labor Adjustments

Labor market adjustments are complex and context-specific. This observation is useful in guarding against simplistic conclusions, but is otherwise not very helpful. This chapter reviews what we *do* know about the impact of trade reform on labor markets and about the adjustment process in those markets. We first discuss methods for collecting empirical evidence, then surveys findings, presenting evidence regarding short-term and longer-term adjustment separately.

DATA SOURCES AND EMPIRICAL METHODS

In the wake of trade reforms, one would hope to observe healthy labor market dynamics through statistics such as

- Net job creation in the formal sector,
- Increasing labor force participation,
- Declining unemployment,
- Rising real wages and labor incomes,
- Rising labor productivity,
- Declining poverty, and
- Improved gender equity—in all the above indicators.

Skewed or piecemeal information on the impact of trade reform may undermine public support for the reform.

Unfortunately, the availability of labor market data is a major problem in many countries, especially those with low incomes and weak state capacity. Demographic estimates of the labor force are available for most countries. Regular reports on employment, real wages, labor incomes, unemployment, and productivity are available for many middle-income countries, but few low-income countries. Gender disaggregation of key indicators is often missing. And poverty statistics, in most developing countries, are far from timely.

Trade policy is just one of many factors that affect labor market dynamics—and often a minor one.

While it is very important to monitor trends in basic labor market statistics, before-and-after changes do not actually show the *impact of trade liberalization*. The problem is that trade policy is just one of many factors affecting the labor market dynamics, and often a minor one. Markets continually adjust to a variety of shocks stemming from new technology, product innovation, shifting consumer tastes and demographics, other policy measures, political events, and conditions of nature. Consequently, one may observe negative

changes in the labor market data even if the trade reform has a very positive effect— or vice versa.

To evaluate the impact of trade liberalization, observed outcomes must be compared with an estimate of what would have happened without liberalization. Approaches for solving this problem include consulting or undertaking (1) econometric studies based on microeconomic data for particular countries, (2) international cross-section econometric analyses, (3) computable general equilibrium (CGE) models, and (4) careful case studies.

The best quality of information on labor market adjustments to trade liberalization comes from econometric studies using microeconomic data for specific countries. Most of this research is based on enterprise data, organized by sector or by firm. Inferences about the impact of trade reform are derived by taking advantage of the fact that exposure to trade reform differs across industries and firms in well-defined and measurable ways. This is a relatively new area for research, and not many studies are available for developing countries. In addition, studies that have been published focus on formal sector manufacturing and do not shed much light on other labor adjustments.

International cross-section data sets are widely used to identify empirical regularities in the development process. This approach has limited applicability for studying labor market adjustments because internationally comparable data on employment or wages are so sparse. Furthermore, many economists dismiss the validity of results derived from pooling heterogeneous groups of countries. Applications to trade reform are even more controversial because of technical difficulties in quantifying trade reform, and questions about whether trade reform is a cause or a result of other economic changes.[10]

CGE models have become a standard tool for quantifying the economy-wide impact of trade policy changes. The models have been widely applied to unilateral reforms, bilateral and regional trade agreements, and global trade agreements, including the Doha negotiations.[11] In essence, CGE models provide economic projections based on a theoretical specification of how markets adjust, combined with detailed production, trade and other economic data. For this reason, the models are often referred to as "quasi-empirical." Unfortunately, most CGE applications to trade

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[10] Trade policy is not an independent variable if trade reforms are driven or influenced by other policy changes or trends in the economy. In their outstanding review of empirical evidence on how trade affects poverty, Winters, McCulloch, and McKay remark that "the weight borne by such studies is remarkable, particularly since so many economists profess to distrust them" (2004, 78).

[11] CGE models have been used for quantitative analysis of the general equilibrium effects of trade reforms by the World Bank, the U.S. International Trade Commission, the UNDP, the International Food Policy Research Institute, the Institute for International Economics, and many others. Purdue University's Global Trade Analysis Project (GTAP) model is the standard bearer, because of the great attention devoted to compiling detailed data on global trade flows as an empirical foundation for their model.

policy have a simplistic specification of labor markets and gloss over labor transition issues.[12] Nonetheless, some CGE results are of interest for the synthesis of empirical evidence.

Case studies of countries or industries also provide a rich body of evidence. But unless the analysis is done carefully, these studies may fail to establish that observed outcomes are the result of trade reforms, as opposed to other factors. Similarly, it is often difficult to extract general insights from specific cases.

SHORT-TERM ADJUSTMENTS IN THE LABOR MARKET

We begin our discussion of short-term adjustments by examining effects on employment and wages—the primary points of concern for many critics of trade reform. We then review short-term effects in other areas, including consumption, labor regulations, gender, child labor, and the spatial aspects of adjustment. We close with a discussion of the short-term, economy-wide impact of liberalization.

Employment and Wages

Trade reform's short-term effects on employment and wages are a central concern of policymakers, workers, and globalization critics. This section summarizes the evidence on these effects.

Aggregate Employment and Wages: Diverse Impacts

Most of the evidence on trade reform's effects on aggregate employment and wages is drawn from limited data on formal jobs in manufacturing. The main finding is that there are different outcomes in different contexts. A few examples illustrate the point:

- ***Lower wages, not much impact on employment***. A study using plant-level data in Mexico showed that pre-NAFTA trade reforms reduced the average real wage by 3–4 percent, with no significant effect on aggregate employment. However, wages did drop up to 14 percent in sectors that had been most protected.[13]
- ***Not much impact on employment or wages***. A recent World Bank study on the labor market impact of trade reforms in the 1980s in Indonesia, Korea, and Thailand found no significant changes in the trend for real wages or employment, either in the aggregate or by sector according to trade sensitivity. The study explains this as a consequence of flexible labor markets, which facilitated smooth labor transitions.[14]
- ***Positive effects on employment and wages***. An ILO review concludes that "in those developing economies which emerged as important exporters of manufactures to

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[12] USAID's GATE Project, described more fully in the section Trade and Gender, will undertake gender disaggregation of CGE models in Bangladesh and South Africa to examine the differential effect of trade liberalization on male- and female-headed households.

[13] Harrison and Hanson (1999, 141), citing earlier research. These early papers are still prominently cited, which reflects the paucity of more recent research on these issues.

[14] The Asian examples are from Bourguignon and Goh (2004).

industrialized countries, growth of trade had a large positive effect on manufacturing employment and wages," particularly in Asia; however, a large majority of developing countries have been "unable to benefit from trade liberalization." A recent World Bank document likewise reports that trade liberalization has a large positive effect on employment in countries that attract foreign direct investment (FDI), except in the mineral sector, but negligible effects otherwise.[15]

Empirical studies suggest that trade liberalization has a small impact on aggregate employment and wages.

To the extent that empirical studies do find an impact on aggregate employment and wages, it is usually small. However, results must be treated with caution because they are based largely on evidence from the formal manufacturing sector, which is not the source of livelihood for most workers in developing countries. In addition, most of the evidence is from middle-income countries, where one finds the best data. Still, this evidence helps to inform the controversy on trade reform, which often centers on isolated examples of "deindustrialization" in highly protected sectors. It is useful to have empirical evidence showing that these examples are not the norm. At the same time, the evidence does not give much comfort to those expecting uniformly positive effects on employment and wages.

Distribution of Employment: Big Impacts within Particular Sectors

Many studies find surprisingly little sign that trade liberalization causes a significant reallocation of labor across sectors. Yet it does cause substantial job churning—hiring and firing—*within* sectors, through a reallocation of labor from less to more competitive firms, and from restructuring of enterprises. In the process, many workers do lose their jobs, even if the employment effect does not show up in aggregate statistics.

Liberalization causes "job churning" *within* particular sectors, but surprisingly small reallocation of labor *between* sectors.

There are many examples of huge and persistent job impacts (positive or negative) within particular sectors. For example, Bangladesh experienced a tenfold increase in garment sector employment over the past 15 years; in contrast, Zambia lost thousands of jobs when its inefficient garment industry collapsed as a direct result of trade liberalization. Both countries suffered concurrent declines in overall formal sector employment, though for reasons other than trade reform (de Cordoba and Laird 2005, xxvii and xxx). In Zambia, the loss of formal jobs in garment production was accompanied by extensive job creation in the informal sector, although at lower wages (Exhibit 3-1).

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[15] The ILO results are from Ghose (2000, 34); the FDI citation is from an issues paper presented to a World Bank workshop on labor markets (World Bank 2005a, 8).

Exhibit 3-1

Zambia's Garment Industry: Collapse and Restructuring

Zambia offers a well-substantiated case of "deindustrialization" in the wake of trade reforms and other structural adjustments implemented in the early 1990s. Between 1980 and 2003, formal sector employment fell from 23 percent to 8 percent of the total labor force. The garment sector was hit especially hard. With the elimination of exchange controls—which had a far greater impact than tariff reductions—imports of second-hand clothing jumped six-fold between 1990 and 1993. By 1993, 51 of 72 clothing enterprises had shut down. By the mid-1990s, "the domestic garment industry had all but disappeared" (Hansen 2000, 234). Perhaps 10,000 jobs in the formal sector were lost.

Usually that is the end of the story. But the full picture is more complex. Local garment production had been extremely inefficient because of high tariff barriers and exchange controls, at the expense of local consumers. Imports of second-hand clothing (*salaula*, locally) reduced the price of reasonably good quality clothing by as much as 90 percent. Thus, the market adjustment boosted real incomes for millions of poor consumers.

Liberalization of the *salaula* trade also kindled rapid job growth in the informal sector. In just two Lusaka markets, some 2,500 traders were dealing in *salaula* by 1995. Many thousands of jobs were also created in small -scale transportation and warehousing, while tailoring services enjoyed a boom because of the demand for alterations.

To be sure, the garment workers who lost jobs in Zambia because of the reform program faced critical adjustment problems. In addition, most of the informal sector jobs pay minimal wages and offer no job protection. On balance, however, this is not a simple story of trade reform causing industrial disaster.

SOURCES: Hansen (2000); Salem (2003); McCulloch, Baulch and Cherel-Robson (2003).

The example of Zambia demonstrates the need to understand the linkage between the formal and informal labor markets. Goldberg and Pavcnik review the research and find some evidence that trade reform leads to a higher probability of working in the informal sector. They emphasize, though, that the evidence is not robust and that mixed findings may be due to institutional factors that vary across countries.[16]

Wages: Increasing Inequality and a Higher Premium for Skills

One of the strongest conclusions in the empirical literature is that trade liberalization tends to increase wage inequality, primarily by increasing the wage premium for skills. This directly contradicts a basic prediction of traditional neoclassical trade theory—that lowering trade barriers will reduce wage differentials in poorer countries by increasing the demand for unskilled labor-intensive products, relative to high-skilled labor- and/or capital-intensive goods.

Trade liberalization increases wage inequality by increasing the premium for skills. . . although rising wage inequality does not mean that unskilled workers are getting poorer.

[16] Goldberg and Pavcnik (2004, 249 and 264). Hoekman and Winters (2005, 27) also review this literature and reach a similar conclusion: there is little evidence that trade liberalization has increased informal employment, except in countries with severe labor market rigidity.

The main explanation for this anomaly is that the traditional theory examines *static* adjustments, whereas globalization stimulates *dynamic* innovations that increase the relative demand for skills (Feenstra and Hanson 2001). This proposition has strong empirical support, especially in countries where liberalization stimulates FDI inflows. Another likely cause is the increased participation of China, India, and Vietnam in the global trading system. These countries altered patterns of comparative advantage by bringing huge new supplies of low-cost, unskilled labor to the global stage. Many countries that once held an advantage in unskilled labor-intensive products now appear better positioned to compete in resource-based products. This analysis applies especially to Latin America, the focus of much of the empirical research. Finally, the traditional theory did not take into account the fact that many developing countries heavily protected industries that use unskilled labor intensively, making this segment of the labor market most vulnerable to the adverse effects of trade reform.

The rise in wage inequality does not mean that unskilled workers are getting poorer. On the contrary, Harrison (2005) finds that in a variety of contexts, ranging from Poland to India to Colombia, "exporting activities are associated with increasing incomes for the unskilled and the poor." Likewise, Winters, McCullough, and McKay find that widespread concerns about trade having "generally adverse effects on the employment or wages of poor people…are not well founded" (2004, 107).

Furthermore, there is an important exception to the tendency toward wage inequality: in the 1970s and 1980s, trade liberalization led to a *decline* in wage inequality in the Asian Tiger economies. These reforms, of course, occurred before the outward-looking reforms in China, India, and Vietnam. The Asian Tigers also had flexible labor markets, which favored a broadly based increase in wages from strong export growth. Perhaps most important, these countries invested enormously in education; the rapid increase in supply of skilled workers mitigated the tendency toward greater wage inequality.

A careful study in Brazil by Arbache (2003) highlights the importance of education in mitigating adverse effects. Arbache found that trade liberalization caused wages to decline in the traded and nontraded goods sectors, but contemporaneous gains in education fully offset the negative effect of trade reform. As a result, average wages did not actually decline.

Although these studies all focused on urban, formal sector workers, trade reform likely has substantial effects on incomes in the rural economy and the informal sector. However, empirical evidence is scant at present.[17] Different segments of the rural economy may be affected in different ways: for example, Harrison (2004, 8) cites evidence that smaller corn farmers in Mexico suffered large income losses as a result of NAFTA, while larger farmers gained—another reminder of the complexity of the adjustment process (see Exhibit 3-2). A priori, for unskilled

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[17] New research on trade reform's effects on rural and informal sector incomes is forthcoming for at least one country - Mexico. See Juan M. Rivera, Scott Whiteford and Manuel Chavez, eds., *The Impact of NAFTA on Small Producers in Mexico --Prospects for Change*. University of Scranton Press (forthcoming).

rural labor's income to increase, there would need to be prolonged, rapid growth in labor demand (to pull up the market wage) or increased productivity in small-scale farming (to push up the market wage). Trade reform can stimulate either of these adjustments, but only in the longer term.

Exhibit 3-2

NAFTA and Effects on Mexican Agricultural Labor

The North American Free Trade Agreement (NAFTA) between the United States, Mexico, and Canada came into effect on January 1, 1994. Mexico's experience with NAFTA is frequently cited as evidence of the negative impact of trade liberalization on labor. Value added in Mexican agriculture fell from $32 billion in 1993 to $25 billion ten years later, while employment in rural agriculture declined from 8.1 million to 6.8 million. Overall, however, the number of employed increased by more than 8 million, while the percentage of employed among the working-age population rose from 84 to almost 98 percent, and employment grew at an average rate of 3.3 percent per year, despite the 1995 and 2001 recessions. New jobs were created in agro-processing, especially for women. Employment in manufacturing, commerce, and construction also expanded, and out-migration may have also absorbed displaced agricultural labor.

Gary Hufbauer and Jeffrey Schott note that "Since agriculture contributed only 4 percent of Mexican GDP in 2003, it seems fairly certain that national gains to Mexico from trade liberalization will ultimately swamp income losses in the agricultural sector. Nevertheless, the adjustment costs are both real and painful, particularly to affected farms and communities" (2005, 288–289).

SOURCES: Esquivel et al. (2003); Wodon et al.(2003); Lederman, Maloney, and Serven (2003); Polaski (2003); White, Salas, and Gammage (2003); Rosenzweig (2004); Hufbauer and Schott (2005).

Workers' Adjustment Paths: A Lack of Good Data

The evidence just examined shows that aggregate employment effects and inter-sector reallocations are often small. Nonetheless, trade reform does cause the loss of some livelihoods; in some cases the losses may be widespread.[18] The resulting burden on affected workers can be onerous, unless they find good new jobs or income sources quickly. What, then, do we actually know about the "adjustment paths" of workers who lose jobs or livelihoods as a result of trade liberalization in developing countries? How quickly do they find new jobs or income-generating activities, and how do their new wages and working conditions compare to their old ones? What determines whether workers recover quickly or not?

The simple answer is: we do not know much. Getting solid information at the individual level requires data from a sequence of household surveys spanning major liberalization events, or tracking surveys that document the transition experience of workers affected by trade reforms. A few studies have probed this issue by matching household survey data with information on the extent to which sectors of employment are affected by trade reform between the survey years.

[18] In one striking example, the ILO (2004, 19) cites a loss of nearly 100,000 textile jobs in Lodz, Poland, due mainly to competition from Asia.

Bourguignon and Gho (2004) examine data for Indonesia, Korea, and Thailand in the decade before the Asian crisis. They find no significant trade-related differences in employment flows, worker vulnerability, or wage trends across sectors, despite substantial reductions in trade barriers. They also cite a study on Mexico and Argentina by Arongo and Maloney (2002) which found that workers in trade-sensitive industries had a slightly elevated incidence of job separation during periods of trade reform, but without lasting effects. Unfortunately, these careful microeconomic studies cover only a few middle-income countries.

Research on the relationship between trade reform and unemployment provides indirect evidence on whether displaced workers find new jobs. The results are mixed. Some studies show strong adverse effects, some show no significant effects at all, and some show strong positive effects. For example, on the positive side, a 1999 survey of more than 50 other studies on trade liberalization found that "the adjustment costs associated with transitional unemployment are not high and that unemployment durations are generally quite short," while also noting that the evidence was not very robust (Matusz and Tarr 1999, in Winters, McCullough, and McKay 2004, 102). On the negative side, a leading labor market expert at the World Bank has pointed out that unemployment rates in Chile, Mauritius, Poland, and Sri Lanka rose to double digits following major liberalization episodes, and remained at very high levels for more than a decade, despite the fact that these countries are "success stories in their regions" (Rama 2003, 18).

Overall, the empirical record on adjustment paths is more useful for identifying knowledge gaps than for illuminating the adjustment process. There is a clear need for better microeconomic data and more studies covering a wider range of countries.

Safety Nets: Costly but Politically Useful

Safety net programs can ease transitions for workers who lose jobs and income in the wake of liberalization. Generous programs, however, undermine the incentive to find work. This was apparent in some Eastern European countries in the 1990s (Rutkowski and Scarpetta 2005; O'Leary 2000). At the other extreme, very poor countries cannot afford effective welfare programs covering any substantial number of workers; in any case, other vulnerable groups are even needier than displaced but able-bodied workers.

There is no reason to single out workers affected by trade reform for safety net benefits, except as a tactic to overcome political barriers to reforms. Labor market churning is entirely normal in a market economy. Trade is just one of many economic shocks that create job losses for particular industries, firms, and workers—often a very minor one. Yet trade-specific safety net benefits may be useful when trade reform's "losers" are politically powerful (as is often the case).

Consumption Effects: Scant Evidence

Trade liberalization also affects workers via consumption channels. First, workers benefit from a gain in real income to the extent that trade reform reduces the price of goods they consume (known in economics as "the consumption effect"). Second, workers and their families respond to this rise in real income by spending more on other goods and services; this stimulates demand for

labor in many other sectors, including those not directly influenced by the change in trade policy ("the expenditure linkage effect").

Goldberg and Pavcnik (2004, 258) report some interesting results on the consumption effect, while stating that it "has been mostly neglected in empirical work by trade economists."[19] Their central finding is that food prices dominate the consumption effect for poor workers, because food accounts for a large share of total spending by the poor. They also find evidence that "the magnitude of the consumption effect is generally much smaller than the magnitude of labor income effects"(261). This implies that the rural multiplier is driven mainly by direct changes in labor income, rather than lower prices for consumer goods.

A survey by Winters, McCulloch, and McKay (2004) examines the evidence on expenditure linkages. Their main finding, based on numerous studies in Asia and Africa, is that poor rural households have a high propensity to consume locally produced, nontradable foods. Hence, an extra dollar of real income in rural areas generates a strong "multiplier effect" (i.e. each additional dollar of expenditures increases the total income in those areas by much more than one dollar). The increase in income presumably improves rural employment prospects. Unfortunately, this survey gives no indication of the magnitude of this phenomenon.

Burdensome Labor Codes: an Obstacle to Adjustment

Many poor countries have well-intended labor regulations that sharply increase the effective cost to employers of hiring unskilled labor. Such labor codes have deep political roots, because workers holding formal sector jobs (the "insiders") have a strong incentive to push for more benefits. Yet stringent regulations may discourage job creation, to the disadvantage of workers who lack formal employment (the "outsiders").

Well-intentioned but burdensome labor codes discourage investment and job creation.

Evidence from empirical research, including business surveys, has shown that highly protective labor standards, if enforced, weaken the investment and job creation response to trade liberalization—particularly for industries that are labor intensive.[20] The 2006 *World Development Report* cites India and South Africa as examples of countries where stringent labor codes benefit formal sector workers, who tend to be well off by local standards, while pushing many other workers into unemployment (South Africa) or unprotected informal sector jobs (India). In many countries, of course, labor codes are not well enforced. Thus, Botero (2004) finds no significant effects of labor regulations in low-income

[19] To be sure, CGE studies on the impact of trade reform inherently incorporate both consumption channels; as discussed earlier, these are simulations based on assumptions about market adjustments, not *ex post* evidence about actual impacts. In particular, most CGE studies use assumptions about labor markets.

[20] For example, in their study of trade and labor markets in Asia, Hasan and Mitra (2003) find that countries or states with less labor market regulation adjust more favorably to trade reform. Similar findings have been reported for Colombia, Peru, and Eastern Europe (*World Development Report* for 2005, 151). See also Rutkowski and Scarpetta 2005, 36), and Botero (2004) for an econometric study covering 85 countries.

countries, where public administration is weak and enforcement open to "subversion." In Mozambique, however, labor codes have been reported as a serious problem for businesses, despite widespread "subversion," because of the payoffs required to escape penalties for minor technical violations.[21] The worst of all worlds is to have strong labor codes that discourage investment and impair job creation without protecting the intended beneficiaries.

Opponents of trade reform sometimes claim that it systematically erodes workers' legal protections and benefits. There is no clear evidence to support this assertion (Goldstein and Pavcnik 2004, 245). It is true that once one recognizes the costs that labor codes can impose on workers (especially the "outsiders"), it makes sense to seek a balance by trimming back the most onerous regulations. In this sense, there is a grain of truth to the argument about dilution of labor standards. Nonetheless, the whole point is to benefit workers, broadly, and facilitate more flexible responses to trade reform and other shocks.

Gender: More Jobs for Women—and More Vulnerability

Trade reform can affect men and women differently. The Women's Edge Coalition has prepared a comprehensive review of trade impacts differentiated by gender.[22] We present a few of the most salient points here.

A number of studies find that female workers are favored in labor-intensive export industries that experience rapid job growth after trade reform. This favorable effect is often associated with export processing zones where labor regulations are less stringent. Several studies also find evidence that trade liberalization reduces the gender wage gap in the formal sector (Rama 2003 and 2004).

On the other hand, trade liberalization can increase women's vulnerability to income and job loss. In poor countries, many women earn their living by growing food crops. An influx of imports may decrease food prices, thus lowering incomes for households that produce more food than they consume.[23] Bourguignon and Gho (2004) show that women in Korea, Indonesia, and Thailand are more vulnerable than men to job and income loss in the course of labor market adjustments. Yet the authors conclude that policies to address gender discrimination and women's access to education are more important than trade policy for remedying this vulnerability.

Women may be affected both positively and negatively when trade reform causes male migration from rural areas (in response to new, urban job opportunities or lost farm income). There is evidence from countries as different as Mexico and Uganda that this coping mechanism "increased the workloads for women and children remaining behind" (Winters, McCullough, and

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[21] This is one of the most prominent issues raised in a series of public–private conferences that have been held in Mozambique since the mid-1990s.

[22] See Gammage *et al*. (2002) and Gammage, Packman, and Diamond (2005); see "Trade Impact Review," http://www.womensedge.org/index.php?option=com_kb&page=articles&articleid=8&Itemid=72.

[23] Where women grow and process export crops trade reform can have positive effects on income and status, but export crops are usually controlled by men.

McKay 2004, 90). At the same time, male migration often provides the women who stay behind an important source of remittance income.

Child Labor: No Consistent Link with Trade

The empirical record does not point to a systematic, causal link between trade reform and increased child labor. On the contrary, the best evidence shows that "child labor is overwhelmingly a product of poverty, and most of it takes place in household farms and enterprises that are not directly affected by globalization" (Rama 2003, 32). Increased trade integration therefore reduces child labor, albeit indirectly, through its impact on incomes and poverty. As their incomes rise, families generally opt to remove their children from the workforce. However, these effects may vary from household to household. For example, in Vietnam, rice prices climbed after liberalization. Households that produced more rice than they consumed experienced greater real incomes and less child labor. Simultaneously, child labor increased in "rice deficit" households (those that consumed more rice than they produced). In Vietnam, the rice surplus households outnumber the rice deficit ones, but the situation could be reversed in other countries (Goldberg and Pavcnik 2004, 257).[24]

Spatial Aspects of Short-Term Adjustment

The adjustment of labor markets to trade reform has important geographical attributes, summarized below.

- ***Rural and urban workers' interests frequently diverge.*** In countries where agricultural activities have a comparative advantage, the price of domestically produced agricultural goods increases after trade liberalization. Rural laborers' jobs and incomes increase, but urban workers pay more for food. Brazil is an example of such a country. In contrast, in the Philippines and Malawi, increased agricultural imports give urban dwellers cheaper food but cause farmers' incomes to decline (Hoekman and Winters 2005, 18). These examples can be generalized across the spectrum of developing countries, depending on the extent to which agricultural activities were previously protected and whether they enjoyed a comparative advantage.

Rural and urban workers often have divergent interests with respect to trade liberalization.

- ***The effects of trade reform diminish with distance from the border.*** The degree to which trade affects prices at distances from the border depends on the quality of the roads, internal transaction costs, the logistical infrastructure, and the degree of competition in the domestic trading sector (Hoekman and Winters 2005 and others). For example, price effects from trade reform are weaker for farmers and households in the less developed, southern states of Mexico than for those in the more developed northern states (Nicita 2005).
- ***Liberalization may have large effects on particular locales.*** The city of Lodz, Poland lost nearly 100,000 textile jobs after liberalization, primarily because of competition from Asia

[24] See also Edmonds and Pavcnik 2004

(ILO 2004, 19). This is one of many examples of "local economic distress" in the wake of trade reform (Rutkowski and Scarpetta 2005). Undoubtedly, local economic jackpots are just as numerous, but the losers attract more attention. If labor were highly mobile, then location effects would hardly matter. Indeed, many workers do migrate in pursuit of better economic opportunities. But others are geographically immobile. There are many reasons: children to tend, personal or family connections, financial constraints, lack of skills to take advantage of opportunities in new locations, housing problems, insufficient information about job alternatives, and (in countries with generous safety net programs) weak incentives to relocate. Reduced constraints on migration can improve the balance of benefits and costs from trade reform.

International migration is an important response to trade reform and other economic adjustments; the ensuing remittances are a major source of foreign exchange for the country and an important source of income for many poor families. For example, emigration in Jamaica has been helping drive down unemployment for 15 years since labor market disruptions caused by a package of reforms, including trade liberalization. Development economists have been focusing on international migration on the grounds that liberalization of global labor markets can deliver far greater efficiency and welfare gains than further liberalization of trade or capital flows.[25] This claim is based on the fact that international wage differentials are far larger than cross-border differences in prices of goods and services, or returns on capital. However, the political, social, and security-related concerns attached to international migration complicate attempts to further liberalize it.[26]

Economy-wide Impacts of Trade Liberalization

The best sources of information on economy-wide aspects of trade liberalization are studies based on computable general equilibrium (CGE) models. CGE studies isolate the impact of trade shocks while holding other policies and structural constraints constant. These studies yield four reasonably consistent messages:

1. ***The benefits of better resource allocation and lower import prices outweigh the negative adjustment costs in nearly every instance, even in the short term.*** Exceptions occur when multilateral liberalization erodes significant trade preferences. For example, Cline (2004) estimates that Mexico will suffer a small overall loss from Doha Round tariff cuts, because they will erode NAFTA benefits.
2. ***Adjustment costs are more highly concentrated than the efficiency benefits*****;** hence, particular groups do suffer significant losses in the adjustment process, as emphasized by de Cordoba and Laird (2005).

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[25] This is a key point in Birdsall, Rodrik, and Subramanian (2005), as well as Stiglitz and Charlton (2004), among others.

[26] International labor migration is at least on the table for WTO consideration, as the "Mode 4" form of service delivery under the General Agreement on Trade in Services (GATS). However, there has been little movement on efforts to liberalize Mode 4 services in the WTO's current "Doha Round" negotiations.

3. ***For lower-income countries, the greatest welfare effects generally involve farm products***. The effects can be positive or negative, depending on the country context. This point underscores the need for better data on rural labor markets.

4. ***The short-term welfare effects of trade reform are relatively small, often less than 1 percent of GDP.*** For most countries, a once-off gain of 1 percent is just a blip on the growth path. Yet even this blip, applied globally, can lift millions of people out of poverty. Furthermore, this is the impact of trade reform alone; the welfare gains are substantially enhanced by complementary reforms. Nonetheless, these results reinforce a fundamental point: that the long-term growth effects of trade liberalization are far more important than the short-term market adjustments in delivering gains from trade.

LONGER-TERM ADJUSTMENTS: TRADE, GROWTH, AND LABOR MARKETS

In the longer term, trade reform's effects on workers and poverty depend on its success in stimulating investment-driven growth. The relationship between trade and growth has been a prominent and controversial research theme in development literature. Winters, McCullough, and McKay review both the evidence and the critiques in great detail. They conclude that establishing a clear causal link from trade reform to growth is difficult, but "the weight of experience and evidence seems strongly in that direction" (2004, 78). In particular, they find that many studies show a link from lower trade barriers to higher productivity. At the same time, they note that higher productivity can lead to employment rationalization and greater wage inequality (as in Eastern Europe),[27] or to net job creation and higher incomes for unskilled workers, depending on other conditions in the economy.

Trade reform's effects on workers and poverty depend on its success in stimulating investment-driven growth. . .

One point of empirical consensus is that the investment response to trade liberalization depends on complementary structural and institutional factors. In particular, the investment climate (or business enabling environment) largely determines the dynamics of labor demand. This encompasses a broad set of policies and institutional conditions, including macroeconomic stability, exchange rate policy, tax policy, the quality of infrastructure, the protection of property rights, enforcement of contracts, the administrative barriers to doing business, access to finance, the risks of crime and civil instability, the quality of the workforce, and the flexibility of labor regulations. In countries with critical weaknesses in the investment climate, reforms to address those problems are essential for achieving strong labor market outcomes in response to trade liberalization (Andersson *et al.* 2005).

. . . and the investment response to liberalization depends on the quality of the investment climate.

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[27] Since 1990, some countries of the former Soviet bloc have encountered high rates of investment and rapid growth, but fairly stagnant employment rates, declining labor force participation rates, and persistently high unemployment rates (Rutkowski and Scarpetta 2005).

Exchange rate policy also bears special emphasis because it is essentially a financial form of trade policy. This is because a real devaluation has the same effect on relative prices and market incentives as does a uniform tariff on all imports plus a commensurate subsidy on all exports. Thus, a well-managed devaluation can mitigate the adverse effects of trade liberalization (Hoekman and Winters 2005). Exchange rate policy is also important for stimulating an investment response. Hoekman and Winters suggest that "failure to choose and maintain a realistic real exchange rate has been one of the main causes of the failure of trade liberalizations in developing countries" (2005, 5).

Another common concern about the longer-term effect of trade reform on labor markets relates to the dynamics of comparative advantage. Some poor countries have such a strong comparative advantage in primary commodities that foreign demand for their exports puts strong upward pressure on the value of the local currency. This exchange rate effect can stifle transformational development by rendering other productive sectors uncompetitive, including labor-intensive manufacturing. Nigeria is commonly cited as an example of this "natural resource trap." This unfavorable dynamic adjustment, in terms of job creation, is typically associated with mineral wealth but can also arise from having a strong comparative advantage in agricultural products or from large net inflows of foreign aid, foreign investment, or worker remittances.

In addition to its effects on labor demand, trade reform stimulates dynamic adjustments in labor *supply*, particularly by creating incentives for workers and employers to invest in education and training. A review by Martin Rama (2003) of more than 300 studies shows that greater openness increases the returns to education, and that these wage differentials do indeed stimulate skill formation. In the case of the Asian Tiger economies, massive investments in education (for many reasons, not just trade reform) led to a more skilled labor force, higher productivity, and higher incomes across the board.

KNOWLEDGE GAPS

The synthesis above yields important insights into labor market adjustments to trade reform in developing countries. Yet it also reveals the huge amount we do *not* know.

To a large extent, knowledge gaps are attributable to data problems, and associated limitations in country and sector coverage in the empirical literature. Many countries lack regular and timely statistics on basic labor market conditions such as employment, unemployment, and wages. Few low-income countries regularly collect information on underemployment, informal employment, or the rural labor force, even though these are dominant attributes of their labor markets. As a result, policymakers and donors often "fly blind" on policies that affect workers.

Ideally, policymakers, donors, and researchers in every country should have regular access to timely standardized data on labor market conditions, from both administrative records and survey instruments. A reality check is needed, however, because the development of data systems is costly, and absorptive capacity in many countries is

Donors should support data collection and analysis systems when such systems meet demonstrated needs and when the recurrent costs are manageable.

limited. Donors should support data collection and analysis systems when such systems meet demonstrated needs and when the recurrent costs are manageable. These considerations suggest that programs to develop labor market data must be prioritized in close consultation with the recipient governments.

Important gaps in our understanding of labor market adjustments are listed below. Implications of these gaps for an analytic agenda for USAID and other donors are discussed in Chapter 5.

Short-term Adjustments

- ***Labor displacement***. To what extent is labor displaced as a consequence of trade liberalization? Is this a major source of job loss, or a minor cause of job churning?
- ***Distributional effects***. Which groups are affected most severely by trade-related job loss and increasing wage inequality? To what extent do displaced workers fall into poverty as a result of these job losses?
- ***Transition path***. How quickly do affected workers find new jobs or income-generating activities? How do new wages and working conditions compare with those of the jobs that were lost? What determines whether different workers recover quickly or not?
- ***Phasing and sequencing***. How are different groups of workers and households affected by the phasing of trade liberalization policies? Does slower implementation improve the balance between job creation and job destruction, or does it simply delay benefits, postpone costs, and draw more workers into unsustainable jobs?
- ***Location effects***. To what extent are the adverse impacts concentrated in particular locations? What are the best ways to ameliorate the adjustment costs in these circumstances?
- ***Consumption effects***. To what extent is job creation stimulated by the consumption effects and expenditure linkages that ensue after trade liberalization?
- ***Labor's share of income.*** In what direction, and to what extent, does trade reform affect labor's share of national income?
- ***Political economy of trade reform***. What can be done to manage the political economy of trade reform, with respect to labor market adjustments? How can researchers and policy analysts do a better job of focusing attention on the winners from trade reform?

Longer-term Adjustments

- ***Investment response and the growth of labor demand***. What are the critical constraints and barriers in each country that limit the investment response to economic reforms, including trade liberalization?
- ***Employment intensity of new investment***. What determines the employment intensity of the new investments stimulated by lower barriers to trade? What is the role of various institutional and policy factors?
- ***Wage inequalities and skills response***. To what extent do wage inequalities grow after trade reform? Does the pattern of inequality change by gender or across sectors, regions, and skill

levels? To what extent is there any discernible pattern by gender or income level? How does the supply of skills respond to these changes in wage differentials and skills-biased growth in the demand for labor fostered, in part, by trade liberalization? Are public sector interventions warranted to facilitate skill development and upgrading? What are the most cost-effective approaches?

- ***Migration and trafficking effects.*** What are the relationships between trade liberalization, on the one hand, and longer-term trends in international migration and trafficking in persons, on the other?

Structural and Institutional Factors

- ***Sources of heterogeneity***. Which policies or characteristics matter most in determining the gains and losses from trade reform? Which structural and institutional reforms maximize gains?
- ***Labor protection vs. market flexibility***. What is the appropriate balance between protection and flexibility? What are the benefits and costs from modifying particular labor regulations, such as the minimum wage, mandated benefits, hiring and firing rules, severance pay, and restrictions on the use of foreign workers?
- ***Adjustment assistance***. How does one determine the most appropriate form and amount of assistance—if any—for workers displaced by trade reform? How do social safety nets affect incentives for displaced workers to retrain, relocate, and search for new jobs?

4. Donor Assistance: Lessons of Experience

This chapter surveys donor experience in trade-related labor adjustment assistance. We first return to the diagram from Chapter 1 that depicts the intersection of trade, labor, and adjustment assistance to orient our discussion of interventions at or near this intersection. We then review donor programs that address aspects of trade-related labor adjustment. Most of these programs do not name such adjustment as a primary focus. However, they do address important aspects of the adjustment process, and help us determine which programming strategies are most effective. We conclude by identifying gaps in our knowledge of what makes program assistance effective.

SCOPE OF TRADE-RELATED LABOR ADJUSTMENT ASSISTANCE

Trade-related labor adjustment assistance includes programs at the intersection of three broader categories: trade capacity building, economic adjustment, and labor market functioning. Figure 4-1 shows the relationships between these categories, as they relate to donor assistance programs. We focus here on where the three circles overlap: trade-related labor adjustment assistance. Programs in this area generally have the following purposes:

1. *To improve economy-wide labor market outcomes* after trade liberalization, including

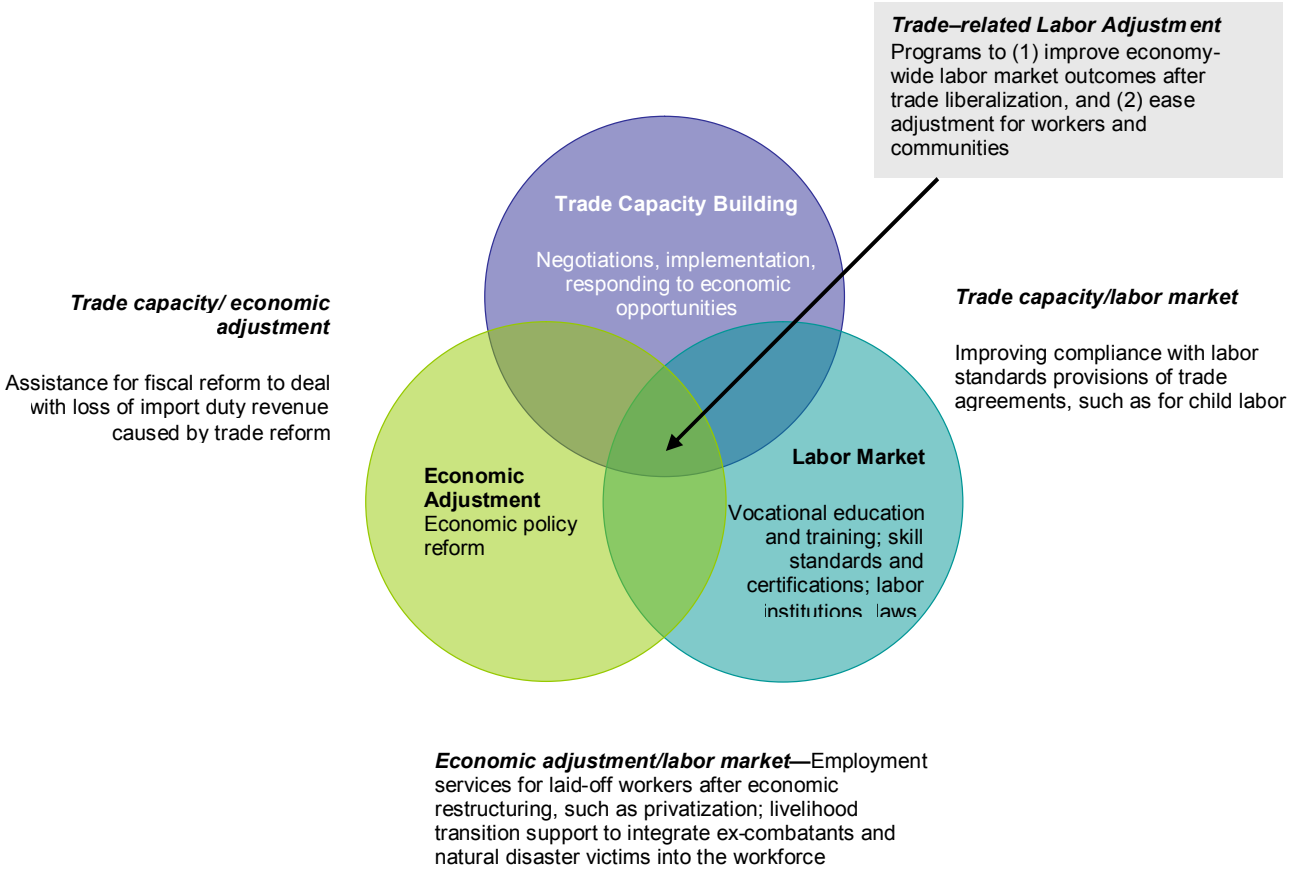
   — Increased formal sector job creation;
   — Increased labor force participation,
   — Lower unemployment;
   — Higher real wages and labor incomes;
   — Higher labor productivity; and
   — A reduction in poverty.

2. *To ease and expedite adjustment for dislocated workers and the communities in which they work*. Specifically, this means:

   — Helping dislocated workers to find new, good jobs;
   — Helping dislocated workers acquire new skills in anticipation of re-employment;
   — Providing dislocated workers income support during periods of temporary unemployment;
   — Helping communities that have lost jobs to attract new ones; and.
   — Improving gender equity.

Figure 4-1

Programming for Trade-related Labor Adjustment and Associated Challenges



REVIEW OF DONOR EXPERIENCE

Few donor programs, past or present, name trade reform-related labor adjustment as an explicit program goal. But many address, at least in part, one or both of the two broad objectives for labor-related adjustment assistance: improving economy-wide labor market outcomes after trade liberalization, and easing and expediting adjustment for workers and communities. The first two subsections below describe programs that address these objectives. The final subsection reviews programs less directly relevant to the objectives, but that still yield insights on good practice for trade-related labor adjustment programs.

Programs to Improve Economy-wide Labor Market Outcomes

This category of assistance includes programs to improve countries' environments for doing business, to enhance the competitiveness of specific industries, and to improve labor productivity at the factory level. Among these, the type of program most systematically evaluated is competitiveness. The results of other programs—on net employment, skills and wages, and foreign direct investment flows—will not be evident for several years.

Enhancing the Business-Enabling Environment

Burdensome regulations cause businesses to operate in the informal economy, where they remain small and create few jobs. Ease in doing business is associated with lower unemployment (Djankov 2006). When investors can easily start and close businesses, obtain needed licenses, hire and fire workers, obtain credit, and perform other business functions, they tend to become formal—and create jobs. Examples are plentiful: since 2002, Slovakia's reforms helped cut unemployment by 43,000, and Colombia's reforms of employment and business start-up regulations created 300,000 formal sector jobs (Djankov 2006).

According to the World Bank's *Doing Business* report, 99 countries introduced 185 reforms to make it easier to do business in 2004 (Djankov 2006). USAID has dedicated substantial support to such projects: over the past 15 or so years, the agency has funded and/or implemented more than 600 business enabling environment projects. As of 2004, cumulative spending on these projects totaled nearly $3 billion (USAID 2004a).[28] The agency has sponsored enabling environment reform projects in every region of the world, with the greatest number of projects and highest expenditures in Asia and the Near East and Europe and Eurasia. Africa has hosted the fewest such projects, but USAID is increasing its focus on enabling environment reform in the region.

USAID and other donors do address labor regulations, but the Agency has focused less on this than all other enabling environment reform topics (USAID 2004a). Examples include the following:

- ***Ghana Trade and Investment Reform***. USAID supported consensus-building activities that culminated in a new labor law. The law promulgated "clearer, more flexible and manageable labor regulations" (USAID 2004a), and was hailed as an outstanding example of policy reform consensus building (Stryker *et al.* 2003).
- ***Bulgaria Labor Market Reform.*** This project seeks to help Bulgaria create policies that give employers "the flexibility to make adjustments in the level and composition of their workforces necessary to improve productivity. . . and make their businesses more competitive." (USAID 2004a). The project's goals include reduction of individuals' periods of unemployment and the level of long-term unemployment.
- ***Sri Lanka National Productivity Policy.*** This project was led by The Competitiveness Initiative, a USAID program. The project prepared a "National Productivity Policy for Sri Lanka" report and proposed reforms to the Labor Termination Act and labor dispute procedures. While incremental progress in both of these areas resulted, Parliament did not enact the sweeping reforms that the project proposed. Trade unions demanded safety nets as necessary complements to labor law reforms, and Parliament's failure to pass these improvements doomed the reforms (USAID 2004a).

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[28] USAID uses the term "microeconomic reform projects" to describe its business-enabling environment work. It cautions that the number of projects may be underestimated as a result of staff turnover-induced loss of institutional memory. On the other hand, funding may be overestimated due to counting the complete budgets of activities in which enabling environment reforms formed only one part.

Improving Sectoral and Enterprise Competitiveness

Cluster competitiveness programs assist "clusters," which are groups of firms that make the same or similar goods or provide similar services (e.g. leather goods, IT services). These programs provide technical, management, marketing, and networking assistance to cluster associations and individual companies. By 2003, USAID had undertaken cluster-based competitiveness initiatives in 26 countries. The World Bank, European Community, and other donors have supported similar initiatives around the world (Mitchell Group 2003; ADE *et al*. 2003).

Through the Mediterranean Development Assistance (MEDA) program, the European Community and 10 countries are working to improve the competitiveness of partner countries' private sectors before the countries implement economic partnership agreements with the EU. MEDA has delivered technical, management, and training services to SMEs through business centers and helped prepare broad "industrial modernization" strategies.[29] An external evaluation of MEDA found that it delivered many *outputs* (e.g., number of persons trained, number of business plans produced), but its impact on *outcomes* was inconclusive (e.g., impact on sales, exports, employment).

Competitiveness initiatives often acknowledge the importance of workforce development and job creation. However, they do not universally include large components in these areas, nor do they always include job creation as an explicit objective, even though the number of jobs created is a results indicator for some.[30] For countries that depend heavily on a single, labor-intensive sector, job considerations may figure explicitly and in fact be a significant driver as well as desired outcome of a competitiveness activity. For example, USAID/Dominican Republic has launched a Global Development Alliance (GDA) initiative funded by three parties: USAID/Dominican Republic, USAID/EGAT, and ADOZONA, an association of local garment producers. The GDA is training Dominican workers in skills demanded in the apparel sector, a sector that accounts for the vast majority of the country's export revenue and that is facing intense global competition since global textile and apparel quotas were eliminated in January 2005.

Boosting Labor Productivity

Productivity growth is considered the linchpin of economic growth, part of the "microeconomic agenda" that must accompany projects focused on macroeconomics (USAID 2002). Donor-supported efforts to improve labor productivity are often linked to general trade competitiveness initiatives. But competitiveness is not the sole impetus for donor programs that aim to boost productivity. For example, USAID's decision to focus resources in Cambodia on improving labor productivity in the garment sector was linked to broader objectives, including economic governance, labor rights, and educational development. Heightened global competition in the textile and apparel sector—a sector critical to Cambodia's economy—was also a very significant underlying factor. In this case, the trade reform that triggered or threatened to trigger adjustments

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[29] See http://europa.eu.int/comm/external_relations/euromed/meda.htm.

[30] A thought leader in the business, SRI International, lists the capability for "generating substantial employment opportunities" as a criterion for identifying high-potential clusters (Mitchell Group 2003, 35).

in the labor market was not a reform implemented by Cambodia, but the phase-out of the global textile and apparel quotas.

As a result of a unique set of historical and economic factors, USAID/Cambodia identified a way to further its strategic objectives for both economic and political governance, as well as educational advancement objectives, in a niche not occupied by other donors and consistent with U.S. objectives to strengthen Cambodian adherence to internationally recognized good labor practices.[31] A benchmarking assessment concluded that training mid-level factory managers as would produce the greatest impact on Cambodian competitiveness and general labor practices (Salinger *et al.* 2005). In 2005, USAID launched a three-year project to create a self-sustaining Garment Industry Productivity Center in Cambodia. Project outcomes to be monitored include the development of skills among training participants and the effect on productivity in participating factories (O'Dell 2005).

Efforts to improve labor productivity can be at odds with efforts to create jobs (i.e., to boost demand for labor). A well trained, more productive workforce may be able to produce more with fewer workers; if demand for workers' output does not rise, the net employment impact may be negative. Thus, productivity-related interventions must simultaneously consider how to ensure that labor demand remains strong or grows. In Cambodia, USAID believes that productivity enhancements will help producers to remain competitive in a global environment of heightened competition, and to retain—or even lure—much-needed foreign investment.

Programs to Ease and Expedite the Transition Process for Workers and Communities

Programs focused on "improving the functioning of the labour market by enhancing labour market mobility and adjustment, facilitating the redeployment of workers to productive activities and, generally, enabling people to seize new job opportunities as they arise" are often collectively referred to as "active labor market programs" (ALMP).[32] Cahuc and Zylberberg (2004) define a number of ALMP intervention categories. Those most relevant to trade-related labor adjustments are as follows:[33]

- ***Employment services*** include job search assistance, career counseling, and labor exchanges. These programs can be cost-effective when implemented in favorable economic

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[31] Cambodia and the U.S. signed a Bilateral Textile Agreement in 1999 that linked Cambodian access to the U.S. market to Cambodian factories' compliance with international labor standards, to be monitored by the International Labor Organization. In addition, it was recognized that Cambodia's ability to retain or expand its position as a garment supplier to the U.S. and EU markets would increasingly depend on its competitiveness as well as adherence to strong labor standards. U.S. foreign assistance in Cambodia, precluded under the Foreign Assistance Act from providing assistance to the Cambodian government, is targeting civil society groups and private sector actors.

[32] As defined in the OECD glossary (www.oecd.org). Active labor market programs are distinguished from "passive" labor market programs, such as the provision of unemployment benefits and early retirement pensions, which are not addressed by Dar and Tzannatos or Betcherman *et al.*

[33] The discussions of the focus and impact of each type of assistance are drawn from Dar and Tzannatos (1999) and Betcherman *et al*. (2004).

environments. They are relatively ineffective in the absence of demand for labor, and they are less appropriate in countries where the share of formal sector employment is low. The Labor Exchange project (Anglophone Caribbean and Suriname) funded by the U.S. Department of Labor is an example of an employment services project.

- ***Retraining for workers laid off en masse*** is two to four times more expensive than job search assistance for such workers. Dar and Tzannatos state that "the evidence on the lack of effectiveness and cost-effectiveness of these programs suggest [sic] that they should not be the principal source of support to assist individuals to move to gainful employment. If these programs are to be used, they should be small scale and targeted towards those subgroups who can benefit the most from them" (1999).
- ***Wage subsidies*** most often take the form of payment to firms to hire unemployed individuals. Dar and Tzannatos conclude that subsidies "are unlikely to have positive social returns in the way measured by economists, though they may contribute to some reduction in social exclusion among older workers and single mothers."
- ***Public works programs*** usually provide jobs to disadvantaged groups, such as older workers, the long-term unemployed, those affected by crisis or disaster. These programs are useful as short-term social safety nets, but ineffective as permanent solutions to unemployment. Workers receive little training that makes them employable afterwards.
- ***Microenterprise development programs*** have been widely embraced by donors, but do little to significantly reduce unemployment. They appear to work best when targeting specific groups, such as women and older workers.

Some programs combine one or more of these types of interventions. We describe two such programs below: the U.S. Department of Labor's SEED Act Programs and the U.S. Trade Adjustment Assistance Program.

SEED Act Programs

The U.S. government sponsored labor market adjustment programs in several Central and East European countries under the 1989 Support for East European Democracy (SEED) Act. SEED programs were intended to help workers who lost their jobs because of privatization and government restructuring. Assistance included public employment services, vocational training, labor department capacity building, labor/management relations training, and labor redeployment services. Grants-funded community development initiatives complemented employment services.

SEED programs have been evaluated a number of times, but the evaluations focus on outputs (labor market services provided) rather than outcomes (employment). Many U.S. Department of Labor (USDOL) labor market transition programs in Poland, Hungary, and Bulgaria were designed using labor employment service models drawn from U.S. experience (Glaeser *et al.* 1996). Longer time horizons and greater access to local economic development grants would have strengthened the projects' abilities to expand results delivery (Stacey 2005). Evaluations allude to difficulty with cross-donor coordination during this period of significant change and rapid resource transfer (World Bank, ILO, and European donors were also active in these areas). While the effect on job creation is unknown, local economic development had a substantial effect

on empowerment and democracy-building, as did the modernization of labor market services (Eriksson *et al.* 2003).

U.S. Trade Adjustment Assistance Program

The United States Trade Adjustment Assistance (TAA) program, in effect since 1962 and modified several times since, assists workers who are "certified" by the Department of Labor as having lost their jobs because of trade. Benefits include retraining and job search/relocation subsidies as well as "passive" assistance (extended unemployment insurance and health care benefits). In addition, "Alternative TAA" offers wage subsidies to workers who do not enter retraining, but quickly find new jobs at a lower pay rate.

In addition to the benefits it offers dislocated workers, TAA may also serve a political purpose: the existence of a safety net for workers dislocated by trade may soften opposition to trade liberalization (Rosen 2002). The program has interested policymakers in a number of developing countries, though the high costs of the U.S. TAA program suggest that it would be difficult to transplant a comparable program to most developing countries.

In the United States, the TAA program has been the subject of recent scrutiny. A 2004 evaluation by the U.S. Government Accountability Office found that retraining services were much improved through the creation of "one-stop centers" providing a package of services to displaced workers and recommended a more thorough evaluation. In response, USDOL contracted in 2004 with an outside firm to assess the impact of the program on training and wage outcomes, comparing TAA participants with a control group of unemployed workers served by programs outside of TAA. Site visits, quantitative analysis, and write-up are expected to run through 2008.

Other Trade-Related Labor Market Programs

In this section, we review programs that do not fit neatly into the two broad categories of trade-related labor adjustment assistance, but which still yield insights on good practice. Some fall within the U.S. government definition of trade capacity building assistance, others do not.

Trade Capacity Building: Human Resources and Labor Programs

Since 1999, U.S. government agencies have contributed more than $5 billion to trade capacity building (TCB) assistance. TCB funds support a broad range of trade-related activities, including trade policy formulation and implementation, export promotion and competitiveness, trade-related infrastructure, customs and border procedures, and trade-related labor and environmental issues (Figure 4-2).

USAID's database of U.S.-funded TCB activities categorizes them by program focus.[34] The category "Human resources and labor standards" includes the following activities:

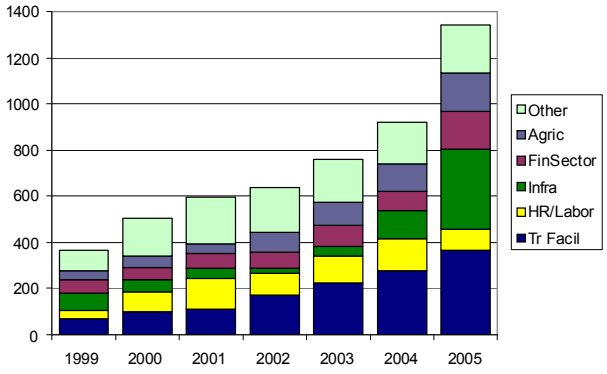
- Programs to combat the worst forms of child labor;
- Programs to promote compliance with labor rights and standards;

[34] http://qesdb.cdie.org/tcb/index.html

- Workforce assessments and workforce development;
- Competitiveness initiatives;
- Support for labor institutions and trade unions; and
- Labor-related research and training.

Figure 4-2

U.S. Trade Capacity Building Assistance, by Category ($US million)



Between 1999 and 2005, HR/LS accounted for 14 percent of U.S. TCB spending. However, the sums provided to HR/LS have shrunk recently, as seen in Figure 4-2. Table 4-1 provides a breakdown of HR/LS activities from 2002 through 2005. Although USAID manages two-thirds of TCB assistance, it has managed only 7 percent of the HR/LS programs in the past four years; the USDOL's International Labor Affairs Bureau (ILAB) has been responsible for more than 90 percent of activity in this category. This institutional setting may shift, as ILAB has experienced significant budget cuts in recent months.[35]

Table 4-1

U.S. Trade Capacity Building Assistance on Human Resources and Labor Standards, 2002–2005

Subcategory	Share of Allocation (%)
Programs to combat worst forms of child labor abroad	69.9
Promotion of international labor standards, labor rights, worker safety	18.9
Workforce assessments, workforce development, education and training, employment services	5.5
Promotion of economic growth, competitiveness, cluster development, business advisory services, business education	1.8
Trade union organization, promotion of collective bargaining	1.3
Development of labor institutions, labor policy reform, insurance schemes	1.2
Other	1.4
Total HR/LS resources, 2002-2005	$440.8 million

SOURCE: USAID TCB Database, http://qesdb.cdie.org/tcb/index.html, accessed 11/30/05

[35] This institutional responsibility may soon shift or be eliminated, as the proposed FY 2007 budget for ILAB is more than 80 percent below its FY 2006 enacted level, returning ILAB to its core mission of research and advocacy. Source: U.S. Department of Labor. (2006) "FY2007 Budget Overview." http://www.dol.gov/_sec/Budget2007/overview.htm, accessed February 7, 2006.

The TCB database implies that U.S. government funding for trade-related labor adjustment assistance is almost nil, but activities associated with aspects of the adjustment process do appear in categories besides HR/LS. For example, funding for programs focusing on export competitiveness (and job creation or maintenance) are generally counted under trade facilitation, rather than human rights/labor standards.

Similarly, USAID TCB funding has directly addressed the employment effects of trade liberalization in relation to trade in textiles and apparel—although such work is apparently counted under trade facilitation rather than HR/LS. Before textile and apparel quotas were phased-out, many textile-dependent developing countries sought assistance to analyze the impact of the phase-out and ways to improve competitiveness or diversify their export base. USAID supported such studies in a number of developing countries, including Cambodia, the Dominican Republic, Madagascar, Bangladesh, and Sri Lanka. It also implemented competitiveness and labor productivity programs in several of these countries.

Finally, USAID has sponsored or co-funded a number of Diagnostic Trade Integration Studies (DTIS).[36] These studies explore the linkages between trade's income and employment effects and poverty reduction. For example, the Mozambique DTIS defined a pro-poor trade reform strategy that examined trade's impact on livelihoods and labor markets (Nathan Associates 2004b). The USAID TCB database usually tallies DTIS support as "assistance related to trade agreements" rather than HR/LS.

Assessment Tools and Approaches

To guide programming decisions for ALMPs or TCB assistance, USAID sometimes use assessment tools with a workforce focus or subcomponent. We focus on three in particular:

- ***Workforce Assessments.*** In 2002, USAID launched Global Workforce in Transition (GWIT), an initiative which has conducted "workforce assessments" in more than a dozen countries. These assessments examine labor supply and labor demand and suggest ways to bridge them. USAID/Morocco's Advancing Learning and Employability for a Better Future (ALEF) project is one example of a multiyear program implemented in response to such an assessment; vocational training has focused on agricultural education, tourism industry training, and entrepreneurship training in and outside schools.[37] Another new USAID workforce activity is the Asia and Near East Bureau's (ANE) "Jobs for the 21st Century" initiative. It launched country assessments in late 2005 for the Philippines and India, and will launch at least 6 more over the next 12 to 18 months. The approach is unique in that both education and economic advisers in the Bureau are designing and implementing the assessments.

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[36] DTISs are carried out by a number of donors under the umbrella of the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries. See www.integratedframework.org for examples.

[37] See www.alef.ma for information in French on the project.

- ***Trade Reform Impact Assessments.*** A number of USAID TCB activities have completed separate workforce or job impact assessments, including in the context of bilateral or multilateral trade negotiations. In Morocco, USAID conducted an assessment during negotiations on a bilateral free trade agreement with the United States. The assessment recommended programs targeting the rural sector and the "missing middle" of out-of-school youth, especially girls (Salinger *et al*. 2003). In the Dominican Republic, USAID sponsored a study of likely employment effects of the phase-out of the textile and apparel quotas (Minor 2003). Subsequent econometric modeling projected the impact on the Dominican Republic of a U.S. free trade agreement with five Central American countries, and assessed scenarios in which the Dominican Republic was party to the agreement. The findings persuaded the Dominican government to join the negotiations.
- ***Trade and Gender Assessments***: USAID's Office of Women in Development's Greater Access to Trade Expansion (GATE) project identifies gender-based constraints on participation in trade-related activities. GATE applies the trade impact review (TIR) methodology developed by the Women's Edge Coalition.[38] The TIR recognizes that many aspects of labor markets are marked by gender differences, irrespective of education and skill levels (Gammage *et al.* 2002, v). GATE will provide analytical and operational support to at least eight USAID missions and operating units.[39]

Strengthening Labor Market Institutions

Labor market institutions include labor ministries and inspectorates, unions, employer organizations, labor courts or arbitration councils, and employment search services (public or private). Donors support a number of programs to build these institutions' capacities, including their ability to uphold labor standards. These programs sometimes overlap with other initiatives, like trade capacity building (see Exhibit 4-1), business-enabling environment reform, or democracy and governance. Regardless of the umbrella under which they sit, this assistance is relevant to both economy-wide and worker/community adjustment processes.

KNOWLEDGE GAPS RELATED TO PROGRAMMING

There is still much we do not know about how best to promote smooth labor market transitions in response to trade liberalization. The following represents a summary of the practice gaps observed across programs and project activities surveyed here:

- ***Labor institutions and the economic growth agenda***. What is the best way to create synergy among economic growth and democracy and governance activities so that labor and economic growth agendas are more compatible? Can the successes of labor organization activities help labor groups take on broader business and economic objectives? How does one

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[38] See Gammage *et al.* 2002; White 2002; and Daniels 2005. The TIR has been applied to the case of Mexico in White *et al.* 2003.

[39] For an example of GATE's contribution to the USAID/Bangladesh country action plan, see Development and Training Services, Inc. (2005). GATE will conduct a TIR in Bangladesh in 2006.

bring employers and workers together to discuss competitiveness and more equitable distribution of the gains from growth?

Exhibit 4-1

Improving Labor Rights: The Trade Agreements Angle

The U.S. Trade Promotion Authority Act of 2002 names as a trade negotiating objective the strengthening of U.S. trading partners' capacity to promote respect for core labor standards. USDOL's ILAB, the ILO, and the nonprofit Solidarity Center have implemented important U.S. government–funded work in this area. Cambodia provides several examples. Between 2001 and 2005, the ILO was contracted by the U.S. government to monitor working conditions in Cambodia's garment factories because the country's enforcement of its labor code and core international labor standards was stipulated in the U.S.–Cambodia Bilateral Textile Agreement. These activities have empowered laborers and helped the government and employers to recognize that socially responsible manufacturing is a legitimate and rewarding element of the competitiveness equation. To underscore the link between labor standards and global competitiveness, the World Bank's Foreign Investment Advisory Service recently advised Cambodian authorities and garment industry leaders on options for national branding in the socially responsible manufacturing market niche (FIAS 2005).

Note: In the wake of elimination of multilateral textile quotas, these functions have been reorganized into the Better Factories Project, managed by the ILO and funded by the U.S. Department of Labor, USAID, Agence Française de Développement, the Garment Manufacturers' Association in Cambodia, the Royal Government of Cambodia, and international garment buyers. See www.betterfactories.org.

- ***Coordination between specialists in the fields of economic growth and education.*** Professionals in the fields of economic growth and education may have difficulty relating to each other's domains—business and classroom can sometimes seem far apart. What kinds of workforce development or labor market training exercises would help specialists in these two fields speak a common language around the workplace, jobs, and education and training for employment?
- ***The formal vs. informal sector***. What else do ALMPs that focus on youth, women, informal sector participants, or other under-represented groups need to do? Should USAID and other donors focus worker interventions on training in anticipation of formal sector employment, or prepare workers for informal sector employment, even as they undertake programs to improve the business environment such that informal sector entities may choose to register in the formal sector? How should they modify workforce development programs to address the particular, alternative education and social service needs of specialized labor market clients who may not be immediately destined for formal sector employment?
- ***Results indicators.*** How should one evaluate programs that address trade-related labor adjustments? Many USAID programs measure effectiveness by the number of new jobs created, even when the intervention is occurring in amidst heightened competition at home and abroad as a result of trade liberalization. Is there a better indicator of impact? How should one measure improvements in worker productivity (and thereby competitiveness)—particularly if interventions diminish the need for workers? What indicators should one use to assess how well the labor market is working?

- ***Cost-effective approaches for monitoring and evaluation***: How can USAID help its partner governments, agencies, and interest groups develop cost-effective systems to monitor and evaluate the long-term impact of trade liberalization on labor markets and workers?

5. Recommendations for USAID

In this chapter, we outline an agenda for addressing needs identified in the research inventory from Chapter 3 and the survey of assistance in Chapter 4. We then describe how USAID could improve its collection and organization of information on trade reform and labor adjustment, systemize the harvesting of "lessons learned" from projects, and foster knowledge exchange among the many groups and individuals who are working on this topic.

1. Fill Gaps in Understanding of Trade Reform and Labor Adjustment

Selective USAID support for analytical work on labor market issues can enhance the effectiveness and sustainability of country programs that address labor market adjustments to trade reform. Priorities include

- ***Standard data on labor market conditions.*** Policymakers should have at least monthly or quarterly access to data on labor force participation, formal sector employment, open unemployment, wages, and productivity, disaggregated by sector and gender. Breakdown by age and education is also desirable. Systems should be developed to provide regular but less-frequent data on informal sector employment, rural employment, underemployment, and poverty rates.
- ***Institutional capacity for conducting labor force, household, and enterprise surveys.*** In conjunction with major trade liberalization programs or TCB programs, USAID missions should consider supporting tracking or household panel surveys of persons adversely affected by reforms. Such surveys help USAID and partner countries understanding adjustment costs and design assistance programs. Without this information, even assessing whether such programs are worthwhile is difficult. Enumerators must be trained to survey male and female household members and capture gender asymmetries.

Additional suggestions include the following:

- USAID missions involved in any aspect of trade policy reform or trade capacity building should expect to monitor labor market statistics, identify major deficiencies in labor market data systems, and coordinate with the host government and other donors to remedy critical problems.
- Programs to improve labor market statistics must balance the value of this information against the cost of new systems development, limitations on the absorptive capacity of statistical agencies in many developing countries, and other data development priorities.
- All programs aimed at improving the quality of labor market data must include the development of systems for timely disclosure to the public.

- The development of labor market data systems should take into account ILO standards, as much as possible.

2. Explicitly Include Labor Adjustment Support in TCB Assistance

Donors providing TCB support in the context of trade negotiations—or even unilateral reforms—should assess likely labor market effects and implement programs to ease adjustment costs. This sort of assistance strengthens trade partners' reform-minded leaders as they seek to build local support for liberalization. An approach to technical assistance that is mindful of adjustment costs calm trade partners' fears about those costs. Where possible, USAID should consider labor market adjustment issues before negotiations start, consulting with USTR on how to support the negotiations with adjustment-related assistance. This sort of assistance strengthens trade partners' reform-minded leaders as they seek to build local consensus for trade liberalization, and thus can contribute to the advancement of the bilateral negotiations.

This programmatic survey found examples of USAID mission performance plans that explicitly addressed post-liberalization adjustments, as in Jordan, Morocco, Honduras, and Cambodia. Unfortunately, they represented a small minority of the plans surveyed for this report, suggesting room for improvement agency-wide.

In addition, USAID and other donors may wish to review internal and multidonor definitions and sub-classifications of TCB assistance to ensure that trade-related labor adjustment assistance is fully reflected in data collection and reporting.

3. Design Trade-related Labor Adjustment Assistance Strategically and Comprehensively.

Donors should take the following into account when designing trade-related labor adjustment assistance:

- External forces such as trade and investment that affect demand for and supply of labor, and
- Institutions, policies, and regulations (i.e., the business-enabling environment) that are much broader than "labor" institutions as conventionally defined, but which have fundamental bearing on economic growth and hence the demand for labor.

Such programs should reflect an understanding of the short- and long-term dynamics of economic structural change after trade liberalization—including expected effects on employment, wages, skills requirements, working conditions, and other labor market dimensions. From such a comprehensive analysis, missions can identify strategies for business promotion, competitiveness and/or labor productivity enhancement, workforce skill development, and transitional assistance for dislocated workers. USAID's Jobs for the 21st Century Initiative and its Garment Industry Productivity Center in Cambodia take this approach (see Chapter 4). Another example is USAID/Morocco's ALEF program which seeks to strengthen functional alliances between education and training systems and the private sector. Today, there is often a disconnect between economic growth and labor-related programming, with the former focusing on private sector development, and oriented typically toward producer entities, and the latter focusing on worker organizations, worker rights, labor-related legislation or regulation, and or worker skills development. Trade adjustment-related labor assistance needs to be designed more expansively or holistically.

4. Assess Program Results and Longer-term Impact on Labor Markets and Worker Adjustment Paths

As country trade reform programs are implemented, economic progress should be tracked in terms of job creation, labor income, labor market function, and productivity trends, using some combination of indicators outlined in the technical note in Appendix A. At the same time, USAID should insist that missions report outcomes using a metric that provides insight into the cost-effectiveness of various approaches. Examples include cost per job placement, cost per worker trained to a given skill level, or cost per unit of income generated by training or business support programs.

Labor market programs, trade reform programs, and business development programs should require baseline surveys and regular follow-on surveys to monitor and evaluate labor market impacts. When possible, programs should be structured with control groups to enable scientifically sound impact evaluations.[40]

5. Better Organize USAID Program Information to Facilitate Dialogue

There are many opportunities for strengthening knowledge management in USAID. For instance, while strategic plans, annual reports, and Congressional budget justifications are available online, not all operating units have websites and of those that do, not all websites link to project websites. This makes it extremely cumbersome (at least from the outside) to learn about a mission or bureau's actual project activities, let alone to link specific projects to program components or strategic objectives under their strategic plan.[41] In researching this paper, we started with the TCB database, available online, which identifies specific projects in each country or region or bureau that have TCB-related aspects for fiscal years 1999 through 2005.[42] Activity descriptions and funding levels are also associated with each entry. This allowed us to search for project-specific information by country or region or bureau. USAID's internal Annual Report database allows analysts to connect strategic plans to strategic objectives, program components, and even specifically contracted activities. However, parties outside USAID must rely on either Internet searches for project websites or searches of USAID's Development Experience Clearinghouse in order to find project reports.[43] In contrast, USDOL maintains a detailed project database and, at

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[40] In January 2006, the MCC issued *Guidelines for Economic Analysis* and *Guidelines for Monitoring and Evaluation* that endeavor to establish standards along these lines for Millennium Challenge compacts. (www.mcc.gov).

[41] USAID uses a common reporting framework to publicize its objectives, results, and expenditures across all operating units (i.e. Washington-based regional bureaus, technical bureaus, and other Agency units, and field-based country-level and regional support missions). Each operating unit is governed by its own multi-year *strategic plan*, which is built on a limited number of *strategic objectives.* These, in turn, are implemented using *program components*, of which there are nearly 40 that are classified in 9 sectoral areas. *Program components* are implemented by specific programs, projects, and activities. Program results are measured using a set of *common indicators.* Each operating unit files *annual reports* of results achieved in the past year, and *budget justifications* to Congress which lay out expected funding plans for the upcoming year.

[42] http://qesdb.usaid.gov/tcb/index.html

[43] http://dec.usaid.gov/

our request, was able to provide "summary sheets" for every project of interest. The sheets concisely describe objectives, partners, activities, results and funding. The search for USAID project-specific information would be far simpler if all operating units and their projects maintained websites and linked them to each other.

6. Conduct Multiproject, Multicountry Evaluations.

Evaluations have fallen out of favor at USAID (Weber 2004), but thematic, multiproject and multicountry evaluations that explore lessons learned are still needed. Best practice examples are the Mitchell Group's excellent survey on experiences with competitiveness initiatives and the GATE project overview of trade- and gender-related best practices.

Besides lessons learned, evaluations also need to tackle the important issue of cost-effectiveness. The ALMP surveys by Dar and Tzannatos and Betcherman *et al.* highlight the weak returns on several approaches to labor market services provision. Donors could undertake such an evaluation in a multi-agency format, as has been done for numerous other topics under the auspices of the OECD's Development Assistance Committee.

7. Build a Multidonor Community of Practice

Communities of practice unite professionals who are interested in various dimensions of a common theme. USAID/Washington has an informal, internal community of practice on labor markets. A small group of experts from global and regional bureaus meets regularly to discuss topics of interest, including analytic needs and aspirations. The authors of this report found great interest in labor market adjustments to trade reform among USAID missions, think tanks, research institutes, and consulting firms.[44] USAID should link its in-house community of practice on labor issues to external communities—via websites, workshops, and outreach meetings with colleagues—to help it become an informed consumer of research on and, ideally, a vigorous participant in the broader community of practice on labor market adjustments to trade reform.

[44] A list of potential members of this broader community of practice is included in Appendix D.

Appendix A. Technical Note on Indicators

INDICATORS FOR ASSESSING LABOR MARKET ADJUSTMENT TO TRADE LIBERALIZATION

Many USAID partner countries need donor support to develop the capacity to produce and disseminate timely and accurate labor market statistics. In low income countries that lack even basic data, the process can start with establishing or strengthening systems for obtaining regular data reports from administrative records covering the formal sector. The sources will vary by country, but may include annual company reports to labor ministries and business registries, data from labor exchanges, and payroll tax records. In some cases simple modifications to existing reporting forms, such as monthly payroll tax returns, can produce rich information about employment, wages, labor productivity, and the skill structure of the labor force in the formal sector, including breakdowns by sector and by size of enterprise.[45]

Data derived from formal administrative records will obviously give an incomplete picture of conditions and trends in the labor market. Broader data can only be obtained from survey instruments that contain a well structured labor market module. Adding a labor module to surveys that are being undertaken anyway is clearly much less costly than creating special surveys. The World Bank is pursuing a labor market research program that will likely address this issue,[46] but there is plenty of scope for other donors to support capacity development in this area.

One glaring data gap relating to labor market adjustments to trade liberalization is the absence of tracking surveys that reveal the actual transition experience of displaced workers. As noted in the main report, several papers were published in the 1990s providing such information in connection with lay-offs from civil service reforms in developing countries. Similar microeconomic studies are badly needed to improve our understanding of how workers displaced due to trade liberalization fare in terms of employment and income.

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[45] Taking steps to convert administrative records into useful, timely, and widely disseminated data for policy analysis may also cast a harsh light on deficiencies in the administrative records, which could lead to beneficial changes in the reporting system to improve compliance.

[46] One conclusion of the World Bank's Labor Market Research Strategy ("stocktaking") Conference in November, 2004, was to identify a need for reconsideration of the labor component of the Living Standards Measurement Survey (LSMS) methodology, which serves as a standard for household surveys in many developing countries.

A related issue, and a major operative concern for USAID, is the selection of indicators for monitoring labor market conditions in host countries.[47] Any template for monitoring labor market transitions across a wide sample of countries will be heavily constrained by the availability of comparable and timely data. Up-to-date labor market indicators will not be found in standard international data sources such as the World Bank's World Development Indicators or the ILO's "ILOsta" database.[48] In middle-income countries receiving USAID support, timely labor market data can usually be obtained from local statistical offices. But in low-income countries and fragile states, timely data on labor markets is often not available. These data limitations underscore the importance of providing assistance to help partner countries develop systems for collecting and disseminating labor market statistics.

As the central international source for labor market data, the ILO has developed a set of twenty Key Indicators of the Labor Market (KILM),[49] as summarized in Exhibit A-1. For most developing countries, the KILM agenda is too ambitious. Indeed, even the most basic statistics are missing or out of date in the KILM data set for a surprisingly large number of countries.

Exhibit A-1

Key ILO Labor Market Indicators

- Labor force participation rate
- Employment –to-population ratio
- Status in employment *
- Employment by sector
- Part-time workers
- Hours of work
- Employment in the informal economy
- Unemployment
- Youth unemployment
- Long-term unemployment
- Unemployment by educational attainment
- Time-related underemployment
- Inactivity rate
- Educational attainment and illiteracy
- Manufacturing wage indices
- Occupational wage and earning indices
- Hourly compensation
- Labor productivity and unit labor costs
- Employment elasticities
- Poverty, working poverty and income distribution

Within USAID, the Global Workforce in Transition (GWIT) IQC has made an effort to identify a set of Workforce Competitive Indicators that could be tracked by USAID missions involved in

[47] Due to time constraints, and the focus of this study on trade adjustments, it is not possible to comment in detail on individual indicators in this paper.

[48] The WDI 2005 data base has labor force estimates for nearly every country up to 2003, and none for 2004; WDI has data on the sectoral distribution of the labor force for only 5 countries in 2002, and none beyond that date; no figures are reported beyond 2001 for labor force data by education level; data on unemployment is provided for 80 of 207 countries in 2002, and zero for more recent years. For ILO data, see laborsta.ilo.org/ .

[49] International Labour Organization, *Key Indicators of the Labour Market*, Fourth Edition, 2005. www.ilo.org/public/english/employment/strat/kilm/ ·

labor transition programs.[50] The preliminary list of GWIT indicators (reproduced in Table A-1) includes 17 key variables covering overall program results (growth, poverty, inequality), employment and unemployment, private sector competitiveness, educational attainment, and labor market flexibility. Dozens of secondary indicators provide more detailed data on the same issues, as well as on productivity. According to the GWIT report, data on the secondary indicators "are likely to be available at the national level," but it would require a special efforts to obtain such data from local sources. In reality, there are likely to be major gaps in country coverage for many of these variables, even if the "special efforts" are undertaken.

Table A-1

(Preliminary) GWIT Workforce Competitiveness Indicators [a]

Results	Indicator Level [b]
Economic growth	Key
Poverty rate > $2 per day	Key
Gini coefficient	Key
WORKFORCE COMPETITIVENESS	
Employment	Key
Unemployment rate	Key
Youth unemployment rate	Secondary
Unemployment rate by level of education	Secondary
Targeted populations: urban, rural, region	Secondary
Labor force participation, with breakouts	Secondary
Employment-to-population ratio	Secondary
Inactivity rate	Secondary
Long-term unemployment rate	Secondary
Employment in the informal sector	Secondary
Annual population growth rates	Secondary
Estimated number of jobs that must be created	Secondary
PRODUCTIVITY	
Productivity by sector, cluster, firm	Secondary
Unit labor cost	Secondary
Rate of productivity improvement	Secondary
FDI	Secondary
Public employment as % GDP	Secondary
Wages by sector	Secondary
Wages and earnings by industry/occupation and industry/gender	Secondary
PRIVATE SECTOR DIAGNOSTIC	
From Porter's Microeconomic Index	
Capacity for innovation	Key
Degree of customer satisfaction	Key

[50] Summarized in Salinger (2005).

Results	Indicator Level [b]
Extent of staff training	Key
Production process sophistication	Key
Willingness to delegate authority	Key
Reliance on professional management	Key
Incentive compensation	Key
Same measures by industry, cluster, firm	Secondary
EDUCATIONAL ATTAINMENT	
Index of primary, secondary, tertiary completion and adult literacy (equal weights)	Key
Percent GDP expenditure on education, by level	Secondary
Quality measures of teaching workforce	Secondary
Educational attainment of men, women	Secondary
Percent of 25-29 year olds completed tertiary education	Secondary
Female/male adult literacy ratio	Secondary
Enrollments, by level	Secondary
Tertiary students in science, math, engineering (UNDP-HDR)	Secondary
Number of different types of tertiary institutions	Secondary
Students in internet based learning	Secondary
LABOR MARKET FLEXIBILITY	
Doing Business Employment Laws Index	Key
Flexibility of hiring index	Secondary
Flexibility of firing index	Secondary
Conditions of employment index	Secondary
TBD Wage/productivity ratio	Secondary
Labor market flows (mobility) job change; rural to urban migration	Secondary
Part-time workers	Secondary
Hours of work	Secondary

[a]Work in progress under the GWIT IQC
[b]Key indicators are ones for which comparable data exist across countries
Note: Secondary indicators are ones for which data are likely to be available at national level.
SOURCE: Salinger (2005)

USAID's Europe and Eurasia (E&E) Bureau has separately developed a set of labor market indicators as part of their impressive Country Labor Market Assessment activity. The framework adopted by E&E examines over 30 indicators under four "pillars" of labor market performance involving labor force participation; capacity and commitment of the state in providing benefits to, taxing, and hiring workers); labor productivity; and labor market outcomes (employment, unemployment, and wages). The following indicators make up the

- Participation
  - — Growth/contraction in labor force participation
  - — Participation rate (ratio of labor force to working age population)
  - — Concentration of prime age workforce
  - — Employment as percentage of 1989 levels

— Official unemployment rates
— Labor force survey unemployment rates
— Youth unemployment
— Long-term unemployment
— % employed in agriculture
— Unemployment benefit eligibility
— Unemployment benefit adequacy (ratio to minimum food basket)
— Unemployment benefit claimant ratio
— Retirement benefit eligibility
— Retirement benefit replacement ratio
— Payroll tax as percentage of total wage bill
— Public sector employment as percentage of total employed

- Productivity
  — GDP per capita
  — Growth in GNI per capita, 1998-2001
  — Ratio of value added to % employed in agriculture, 1998-2002
  — Labor cost in manufacturing
  — Days lost
  — Occupational fatalities per 100,000

- Outcomes
  — Average change in employment since 1997
  — Income share held by lowest 20 percent
  — Average wages
  — Real wages as percentage of 1989 wages
  — Correlations between real GDP growth and change in employment
  — Unemployment by level of education
  — Unemployment by gender (McKeon 2005)

Data problems are much less severe in the E&E region, because most of the countries are relatively advanced, and national statistics are linked to the European Bank for Reconstruction and Development and UNICEF TransMONEE[51] data systems, as well as the ILO and the World Bank. Still, the E&E Bureau found it necessary in 2004 to undertake a local data collection exercise to supplement information available from the standard sources. This exercise was successful, but the costs were fairly high and it was necessary to engage a data specialist to correct for inconsistencies across countries. The lesson is that special data collection efforts are no substitute for systematic programs to improve local data systems on labor market conditions.

The labor market data templates developed by the ILO, GWIT, and E&E do not specifically address the impact of trade liberalization. Nonetheless, they provide a diverse menu of indicators

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[51] "TransMONEE, produced by the UNICEF Innocenti Research Centre, is a database of socio-economic indicators for Central and Eastern Europe and the Commonwealth of Independent States and the Baltics. The database allows the rapid retrieval and manipulation of economic and social indicators for 27 countries in the region." Source: http://www.unicef.org/ceecis/resources_1222.html, accessed February 20, 2006.

for monitoring many dimensions of the labor market adjustment process in individual countries or in groups of countries. For any given application, the indicators should be selected on the basis of clear criteria, such as data coverage, accessibility, timeliness, and quality. In addition, each indicator must be clearly defined and pertinent to the issues at hand.

In the context of trade liberalization, the empirical literature focuses on three primary labor market variables:

- Employment rates
- Real wages/labor incomes
- Wage differentials by skill

The impact of trade on poverty is also a major research concern, probably the dominant concern. As poor families depend largely on labor income, the poverty impact is inseparable from the labor market impact—though the emphasis for poverty analysis may be on rural and informal sector labor markets, rather than trade-sensitive manufacturing. Other variables of significant interest in the literature, but less widely studied in developing countries (due in part to data limitations), include the effect of openness or globalization on:

- Labor transition rates, especially movement from formal to informal or temporary jobs
- Unemployment, especially long-term job separations
- Changes in coverage of labor standards and labor protection
- Incidence of working poor (people with jobs but poverty-level incomes)
- Labor market opportunities for women, and wage differentials by gender
- Child labor
- Geographic mobility within countries
- International migration

As a final point, the literature on trade and labor market adjustments emphasizes the first-order importance of labor demand conditions. Thus, indicators relating to the quality of the business enabling environment also have a major bearing on labor market dynamics, as constraints on job creation. In this regard, some indicators, such as the "Doing Business" measures of the cost of labor regulations, have dual importance in that they affect labor market adjustments directly, and also through their impact on the investment climate.

Indicators for Evaluating the Performance of USAID Labor Market Programs

In addition to developing indicators to monitor the labor market impact of trade liberalization, USAID also faces an institutional imperative to identify "results" indicators for tracking the effectiveness of aid programs to facilitate labor transitions.

On a conceptual level, these programs fall into three categories; they can be designed to:

- Enhance the skills, productivity, or mobility of labor supply;
- Stimulate more rapid growth of labor demand; or
- Improve the quality of labor market institutions and remove impediments to matching supply and demand.

On an operational level, USAID missions and bureaus have established results indicators for reporting on the accomplishments of projects spanning 37 Program Components (PCs), which jointly constitute the overall scope of Agency activities. According to a recent tabulation by DIS, based on USAID's 2005 Annual Report (AR), 27 of the PCs involve activities with labor-related indicators, broadly defined.[52] The DIS tables show dozens of different indicators being used to track program results, bearing some relation to labor markets. Common measures fall into categories such as the number of program beneficiaries or people trained, volume of job creation, number of business start-ups, amount of micro-credit provision, amount of income generation, number of legal reforms, and various national level statistics, among others.

The enumeration of labor-related results indicators from the 2005 AR raises three concerns, involving the underlying logical framework; the vital distinction between the monitoring of indicators and the evaluation of program impacts; and the need for more analysis of the relationship between costs and benefits.

First, the indicators selected for each program should demonstrate a clear hierarchy linking project inputs to outputs, results, and objectives.[53] This familiar logical framework certainly does not establish cause and effect at the level of results and objectives, because these outcomes are affected by many factors beyond project control. Yet it can show whether observed outcomes are consistent with expectations, and if not, raise valid questions about why the variances occur. The information in the DIS summary of 2005 AR indicators show that most of the indicators used for labor-related activities focus just on project outputs. It is nice to know, of course, that the intended outputs are produced (such as a given number of displaced workers getting trained); by itself, however, this information conveys nothing about whether the anticipated results are being achieved (such as job placements), or programmatic objectives observed (such as higher employment rates, improved labor productivity, and better incomes for workers).

The second tier of problems involves the need to apply more scientific methodology to evaluate the impact and effectiveness of the programmatic interventions. Specifically in the context of evaluating active labor market programs (ALMPs), O'Leary (2000) distinguishes uses the term "gross impacts" to describe before-and-after changes, as distinct from "net impacts," which require with-and-without analysis (as discussed in the previous section). Observed changes in results indicators, however, well defined and logical they may be, only provide information about the gross impacts. O'Leary acknowledges that it is not simple to carry out an assessment of net

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[52] On the basis of frequency, the highest incidence of labor-related indicators is found under:

- PC 21 (Increase Agricultural Sector Productivity), with 61 instances;
- PC 17 (Improve Economic Policy and the Business Environment), with 54 instances;
- PC 28 (Improve Quality of Workforce through Vocational/Technical Education), with 39 instances;
- PCs 22 and 6 (Protect and Increase the Assets and Livelihoods of the Poor, and Strengthen the Legislative Function/Legal Framework), each with 34 instances;
- PCs 16 and 37 (Increase Trade and Investment, and Protect and Increase Food Security of Vulnerable Populations), each with 29 instances.

[53] The nomenclature varies from one source to another.

impacts. It requires either field experiments with suitable control groups, or "quasi-experimental statistical methods" using microeconomic data to control for the effect of other factors. But he also emphasizes that before-and-after information is of little use for understanding the actual effects of a program, and may provide decision makers with completely misleading signals about the value of various ALMPs.[54]

The World Bank has undertaken or reviewed dozens of scientific evaluations of ALMPs, and found considerable evidence suggesting that many such programs yield poor results. Bank studies have also confirmed O'Leary's claim that before-and-after results can be highly misleading. An excellent example is a private sector development program (falling on the labor-demand side of the conceptual framework) funded by the Bank in Mauritius. The program provided matching grants to businesses to stimulate the transfer of technology, in order to sustain rapid growth and enhance labor productivity. An initial before-and-after evaluation showed excellent outcomes for project beneficiaries. In sharp contrast, a scientific evaluation conducted by Biggs (1999) demonstrated that the project "failed to promote much additionality." Both the statistical analysis and the supporting facts revealed that the favorable outcomes would largely have occurred without project support. Thus, the main effect of the project was simply to subsidize a limited number of entrepreneurs, yielding no significant development impact.

This scientific methodology can be costly and difficult to implement properly, so in practice the evaluation of project performance often does rely on the logical framework.[55] Even if data is only available on gross impacts, and not net impacts (using O'Leary's nomenclature) the monitoring system should link the observed changes in key indicators to cost parameters. In short, the project performance should judged on the basis of cost-effectiveness, wherever possible. Thus, the data systems should include information on the cost per job placement, the cost per worker trained to a given skill level, the cost per unit of income generated, or the cost per micro-credit, rather than focusing more narrowly on observed results themselves.

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[54] O'Leary also makes some interesting points about displacement effects and substitution effects. A displacement effect occurs "when treatment subjects improve their outcome at the expense of others." For example, in conditions of stagnant labor demand, a program to train displaced workers may be shown to help them land new jobs, but then other workers may be left without employment. A substitution effect occurs when the designation of monitoring indicators alters the behavior of project participants. For example, managers of a training may give preference to workers who least need retraining, in order to show strong results. O'Leary calls this "creaming."

[55] Interestingly, even the long-standing Trade Adjustment Assistance program in the United States has never been subject to a rigorous evaluation analysis. A multi-year study of this nature has only recently begun.

Appendix B. Sources Consulted

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Appendix C. Contacts

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Joshua Muskin, Academy for Educational Development (ALEF Project)

Jane O'Dell, Nathan Associates (Cambodia Garment Industry Productivity Center Project)

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Thomas Hertel, GTAP, Purdue University

Catherine Novelli, Mayer, Brown, Rowe, and Maw (former Assistant U.S. Trade Representative)

Sandra Polaski, Carnegie Endowment for International Peace (former U.S. Special Representative for International Labor Affairs)

UNCTAD

Santiago Fernández de Córdoba

WORLD BANK

Louise Cord, Poverty Reduction and Economic Management Network

Jean-Jacques Dethier, Research Manager, Development Economist's Office

Pierella Paci, Poverty Reduction and Economic Management Network

L. Alan Winters, Director, Development Economics Research Group

Appendix D. Communities of Practice

A community of practice is a self-selected group of people informally united around a shared passion and expertise, connected through work, communications (both electronic and face-to-face), and repeated sharing of information (Wenger and Snyder 2000). In this appendix, we identify communities of practice in the U.S. and elsewhere that are active at the intersection of labor markets and trade reform.

TRADE LIBERALIZATION AND LABOR TRANSITIONS: AREAS OF PRACTICE

The space where trade liberalization and labor market adjustment activities intersect includes the following parties:

- **Trade negotiators** pursue bilateral, regional, and multilateral agreements to address tariffs applied to trade in goods, customs matters, health and safety regulations, technical barriers to trade, intellectual property, services, investment, electronic commerce, government procurement, trade remedies, and trade-related environment and labor issues.
- **Development practitioners and their contractors** provide a range of international cooperation and technical assistance services to developing and transition countries.
- **Researchers** explore labor markets in developing countries at think tanks and universities around the world. Work ranges from the testing of theoretical models to policy advocacy writings.
- **Workforce development professionals** aim to orient public sector policies, institutions, and programs in ways that address the needs of displaced workers.
- **Gender analysts and feminist scholars** examine the impact of trade liberalization on women's employment in formal and informal sector jobs, wages, job market churning, and the effects of these on women's reproductive and household responsibilities.
- **"Fair trade," anti-sweatshop, and anti-globalization advocacy organizations** have emerged in large numbers since the Uruguay Round and the creation of the World Trade Organization. Some of these groups champion measures to protect the livelihoods of farmers and workers in developing countries. Others focus on raising consumer awareness about exploitative or substandard working conditions in developing countries.

TRADE LIBERALIZATION AND LABOR TRANSITIONS: COMMUNITIES OF PRACTICE

Academic Institutions and Individual Researchers

This sections lists academic institutions that specialize in trade liberalization and labor markets, or who have faculty members who focus on these areas. Individuals' research interests of are indicated in parentheses:

- *Bard College, The Levy Economics Institute*: Caren Grown (women and trade; previous director of Poverty Reduction and Economic Governance team at International Center for Research on Women) (www.levy.org)
- *Cornell University, School of Industrial and Labor Relations, Department of International and Comparative Labor* is concerned with industrial and labor relations systems and labor markets around the globe, including Western Europe, Asia, Latin America, and Africa. (http://www.ilr.cornell.edu/academics/icl.html)
- *Dartmouth College, Department of Economics*: Eric Edmonds (child labor) (http://www.dartmouth.edu/~eedmonds/), Nina Pavnick (trade and labor) (http://www.dartmouth.edu/~npavcnik/)
- *Duke University, Department of Sociology*: Gary Gereffi (global value chains, industrial networks, implications for workforce development) (http://fds.duke.edu/db/aas/Sociology/faculty/ggere)
- *Harvard University, Department of Economics:* Richard B. Freeman (labor institutions, effect of trade on inequality) (http://www.nber.org/~freeman/)
- *Harvard University, Kennedy School of Government:* Robert Z. Lawrence (trade, globalization, labor) (http://ksghome.harvard.edu/~RLawrence/FullBio.html), Martha Chen (gender and globalization) (http://ksgfaculty.harvard.edu/Martha_Chen)
- *University of California at Berkeley, Department of Agricultural and Resource Economics:* Ann E. Harrison (international trade and labor) (http://are.berkeley.edu/~harrison/)
- *University of California at Davis, Department of Economics:* Robert C. Feenstra (global production sharing and wage inequality) (http://www.econ.ucdavis.edu/faculty/fzfeens/) with Gordon H. Hanson (see below)
- *University of California at San Diego, Department of Economics:* Gordon H. Hanson (labor migration, globalization, labor market impacts of trade liberalization) (http://irpshome.ucsd.edu/faculty/gohanson/)
- *Université Montesquieu Bordeaux IV, Centre d'économie du développement*: One of the themes of research for 2003-2006 includes poverty, inequality, and labor markets (http://ced.u-bordeaux4.fr/ced03.htm#A31)
- *University of Pennsylvania, Department of Economics:* Jere R. Behrman (*inter alia,* labor markets, education) (http://www.econ.upenn.edu/cgi-bin/mecon/bin/view.cgi?id=2)

- *Wellesley College, Department of Economics:* David L. Lindauer (*inter alia*, labor, trade, poverty and unemployment) (http://www.wellesley.edu/Economics/Lindauer/index.html)
- *Yale University, Department of Economics:* Penny Goldberg (*inter alia,* trade and labor markets) (http://www.econ.yale.edu/~pg87/)

Academy for Educational Development

Focus: The Academy for Educational Development manages the USAID-funded "Advancing Learning and Employability for a Better Future" (ALEF) project in Morocco. The project was developed in response to a workforce assessment conducted by the GWIT project (see below) on the likely workforce implications of the U.S.–Morocco Free Trade Agreement. The website describes the project as contributing "… to the ongoing efforts of Morocco to strengthen the quality of its workforce by providing young people with skills that respond to the needs of the changing marketplace. ALEF will work collaboratively with public and private partners to strengthen the relevance of basic education and vocational training, thereby increasing job opportunities. The project will at the same time, build the capacity of educational institutions to provide job counseling and placement services. Information and communication technologies will be integrated into all project activities to strengthen the capacities of partners, as well as provide students with important skills for today's marketplace. Throughout the project, special attention will be given to assuring gender equity and responding to the specific needs of young women in target communities and schools." (http://www.aed.org/Projects/ALEF_Morocco.cfm)

Address: Washington, DC (http://www.aed.org)

Contact: Suzanne Dadzie

African Economic Research Consortium

Focus: The African Economic Research Consortium (AERC) is a network designed to facilitate policy-oriented research in Africa, training of graduate level policy-focused researchers, and communication of research and training progress among all interested parties. The research agenda of local and international researchers is determined by an independent advisory council and disseminated via a program that brings researchers together on a regular basis. Two thematic areas of AERC research are: 1) poverty, income distribution, and labor market studies, and 2) trade, regional integration, and sectoral policies. Published works of interest include analyses of the links between macroeconomic reforms, poverty, and labor markets (Agénor, "Stabilization Policies, Poverty and the Labour Market: Analytical Issues and Empirical Evidence" (1998)) and a survey of formal and informal labor markets (Bigsten and Horton, "Labour Markets in Sub-Saharan Africa" (1997)). Trade liberalization is not a specific dimension of these works.

Address: Nairobi, Kenya (http://www.aercafrica.org)

Contact: Professor William Lyakurwa (Executive Director, AERC)

American Institutes for Research

Focus: AIR is a non-profit research institute that covers a wide range of social science disciplines. AIR's work in international development focuses on global education projects and workforce research, including vocational training projects.

Address: Washington, DC (www.air.org)

Contact: Janet Robb (Vice President and Director, International Development), Mark Kutner (Program Director, Workforce Research & Analysis)

Carnegie Endowment for International Peace

Focus: The trade, equity, and development group of the Carnegie Endowment for International Peace (CEIP) has conducted a number of studies and published reports relating to trade liberalization and its impact on labor standards, as well as on job outsourcing in developed countries and jobless growth in developing countries. Key CEIP publications in the trade, equity, and development area include analyses, reports, and policy briefs on the impact of NAFTA on Mexico's labor market, integration of labor standards in trade agreements, and strategies for improving the competitiveness of key export industries (e.g., garments in Cambodia) and their workforces in the face of trade liberalization.

Address: Washington, DC (http://www.carnegieendowment.org/programs/global/index.cfm?fa=proj&id=102&proj=zted)

Contact: Sandra Polaski, Senior Associate and Director, Trade, Equity, and Development Project

Center for Global Development

Focus: The Center for Global Development (CGD) conducts joint activities and engages joint fellows with the Institute for International Economics (IIE). Research topics at CGD include trade policy and agreements and globalization. Through its linkage to the Institute for International Economics, CGD also works on labor standards and development. Research conducted by William Cline on the impacts of liberalizing trade policy on global poverty, and by Kimberly Elliott on agriculture, textiles, and labor standards, is relevant. Researchers explore implications of global and regional trade agreements, and their implications for developing countries. A 2004 policy brief by Elliot on CAFTA, labor standards, and development examines the potential positive synergies between globalization, development, and labor standards.

Address: Washington, DC (http://www.cgdev.org/)

Contacts: Nancy Birdsall (Director); William R. Cline, Senior Fellow (CGD & IIE); Kimberley Ann Elliot, Research Fellow (CGD & IIE)

Center for Economic and Financial Research

Focus: CEFIR's main research areas include industrial organization and competition policy, macroeconomic policy, and labor and social policy. Lead economist Irina Denisova's research

interests include the microeconomics of unemployment, poverty and inequality, and effectiveness of government labor programs. Other areas of related research include the WTO accession and implications for Russia's labor market (Akhmedov et al. 2003), and reviews of active labor market programs.

Address: Moscow, Russia

Contact: Erik Berglof (President), Irina Denisova (labor markets), Ksenia Yudaeva (international trade, Policy Programs Director)

Center for Economic Research and Graduate Education-Economics Institute

Focus: CERGE-EI is an English-language economics teaching and research facility associated with both the University of Prague and the Academy of Sciences of the Czech Republic. Two of its faculty, Daniel Münich and Stephen Jerajda, are engaged in research in the areas of labor and education economics.

Address: Prague, Czech Republic (www.cerge-ei.cz)

Contacts: Daniel Munich, Stephen Jerajda

Development Research Policy Unit, University of Cape Town

Focus: Research and advocacy conducted by the Development Policy Research Unit (DPRU) at the University of Cape Town focuses on labor markets, poverty, and inequality, both in South Africa and across Africa. Recent reports explore the South African labor market in a globalizing world, as well as the links between poverty, inequality, and labor markets in Africa. The DPRU aims to promote in South Africa an enabling economic environment propitious for employment creation. DPRU's research program is undertaken in partnership with South African and international partners, including the International Labor Organization (ILO), the U.K. Department for International Development (DFID), the USAID-supported Strategies and Analysis for Growth and Access (SAGA) Project, and the University of Cape Town School of Economics.

Address: Cape Town, South Africa (http://www.commerce.uct.ac.za/dpru)

Contact: Haroon Bhorat (Director)

East-West Center

Focus: The East-West Center, established by the U.S. Congress in 1960, is an education and research organization focusing on issues of mutual interest to Asia, the Pacific, and the United States. Its Poverty Alleviation, Rural Development, and Trade group is considering the effect of trade liberalization on labor markets in Asian developing countries, i.e. China, India, and Indonesia.

Address: Honolulu, Hawaii (http://www.eastwestcenter.org/res-pr-detail.asp?resproj_ID=90)

Contacts: Tianshu Chu (EWC fellow), Rana Hasan (adjunct EWC fellow, also economist at Asian Development Bank), Devahsish Mitra (Economics Department, Syracuse University)

Economic Policy Institute

Focus: The EPI presents a more skeptical institutional view of the links between trade, globalization, living standards, and labor markets. In "NAFTA's Cautionary Tale," EPI looks at the effects of trade agreements such as NAFTA and CAFTA on labor markets in the U.S., Canada, and Mexico with regard to labor standards and protection of worker rights. EPI analysis suggests that NAFTA has resulted in job losses, growing inequality, and wage suppression in the U.S. While unemployment rates have gone down in Mexico since NAFTA, EPI points to increased income inequality and reduced incomes and job quality for the vast majority of workers in Mexico as effects of NAFTA. In its publication "Truth and Consequences of Offshoring" EPI suggests that the benefits to the U.S. economy of offshoring have been overstated and its negative consequences glossed over.

Address: Washington, DC (http://www.epi.org)

Contact: Robert E. Scott (Director of International Programs)

Economic and Social Research Foundation

Focus: Tanzania's Economic and Social Research Foundation (ESRF)'s programs on 1) growth and poverty, and 2) globalization and regional integration examine economic issues of relevance to labor markets in East and Southern Africa. Research highlights include "Economic Reforms and Labour Market Institutions in Tanzania" (1998).

Address: Dar es Salaam, Tanzania (http://www.esrftz.org)

Contact: Haidari K. R. Amani (Executive Director)

Education Development Center

Focus: EDC is a nonprofit organization focused on the delivery of education-related services (e.g., curriculum development, school leadership training, teacher training,…) in the U.S. and abroad. Its Global Learning Group (GLG) manages basic education, information technology-based learning, and youth development projects. Within the GLG a Workforce Development center has been active, undertaking a seminal work that examined workforce investment programs in the Philippines, Tanzania, Peru, Namibia, and India (Aring and Corbitt, 1996; Aring and McClusky, 1998). EDC's workforce development group also manages the GWIT project consortium, described in greater detail below.

Address: Newton, Massachusetts and Washington, DC (www.edc.org)

Contacts: Ron Israel (Director of EDC international programs); Elizabeth Markovic (Director, GWIT)

European-Mediterranean Partnership

Focus: Under the 1995 Barcelona Declaration, the European Union provides resources to Mediterranean-rim partner countries to encourage economic growth and job creation. Technical assistance resources are provided under the MEDA program in a number of areas, including 1) support to business centers to enhance private sector competitiveness (especially of small and medium sized enterprises) faced with free trade Association Agreements, and 2) social funds for employment creation (Egypt). A 2003 evaluation of technical assistance delivered as part of the economic cooperation programs with Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia explicitly links structural adjustment, including privatization of state-owned companies, and progressive trade liberalization with rising unemployment and income inequality in the target countries. The evaluation concluded that private sector development was effectively supported by business centers, but that complementary projects to renovate education systems, enhance entrepreneurs' management skills, and renovate vocational training systems were not well coordinated with them. In addition, insufficient external financing was made available to implement business center recommendations. See http://europa.eu.int/comm/europeaid/evaluation/program/medrep.htm.

Address: Brussels, Belgium and partner countries (http://europa.eu.int/comm/external_relations/euromed/index.htm)

Contact: Laura Baeza (Unit chief, Near and Middle East and Southern Mediterranean Issues), A. Bassols Soldevila (Desk officer, Economic and Financial Aspects of EuroMed Partnership)

Fair Labor Association

Focus: In the wake of consumer activism concerned about abusive working conditions in manufacturing plants around the world, the Fair Labor Association (FLA) was formed in 1999 as a coalition of industry, non-governmental organizations, colleges and universities to promote compliance with international labor standards. Sixteen brand-label garment and footwear firms are presently members of the FLA. Twelve firms have been accredited by the FLA to act as independent external monitors in factories around the world.

Address: Washington, DC (www.fairlabor.org)

Contact: Auret van Heerden (President & CEO)

Global Trade Analysis Project (GTAP)

Focus: Purdue University's Department of Agricultural Economics' Center for Global Trade Analysis hosts the GTAP, which since its inception in 1993 has become a global network of researchers and policy makers conducting quantitative analysis of international policy issues. GTAP's goal is to improve the quality of quantitative analysis of global economic issues using an economy-wide, computable general equilibrium framework. GTAP unites data, models, and utilities to understand a host of trade policy questions, e.g. impacts of WTO accession, free trade agreements, specific tariff revisions, specific industry impacts (such as impact of post-MFA environment on textiles and clothing industries), etc. A number of GTAP-based analyses have

explored the impact of trade reform on labor market outcomes (e.g., China, Indonesia, Pacific region).

Address: West Lafayette, Indiana (www.gtap.agecon.purdue.edu)

Contacts: Professor Thomas W. Hertel (Executive Director), Robert A. McDougall (Deputy Director), Professor Wallace E. Tyner (Senior Policy Advisor)

Global Workforce in Transition Project

Focus: The Global Workforce in Transition (GWIT) project provides workforce development and jobs education services to USAID in Washington and its missions abroad. Services consist of workforce assessments and assistance to upgrade secondary education, technical /vocational skills training, entrepreneurship and skills training for out-of-school youth and adults, industry-specific technical training, and job placement services, including school-to-work programs. GWIT has prepared workforce assessments or surveyed the applicability of workforce development diagnostic tools in Armenia, Azerbaijan, Bahrain, Bulgaria, Djibouti, Kosovo, Macedonia, and Morocco. USAID's Asia and Near East Bureau plans to invest in youth workforce development programs, encompassing both education/training (supply) and job creation (demand), in its new "Jobs for the 21st Century" strategy. To prepare for this, rapid assessments will be undertaken in the Philippines (completed December 2005), India (completed January 2006), Pakistan, and West Bank/Gaza (latter in early 2006).

Address: Washington, DC (www.gwit.us)

Contacts: Clare Ignatowski (GWIT CTO, USAID/EGAT/ED), Robert McClusky (USAID/EGAT/ED), Elizabeth Markovic (EDC GWIT project director)

Greater Access to Trade Expansion Project

Focus: The GATE project, launched by USAID in 2004, seeks to enhance gender-equitable practices in policies practiced by USAID missions with respect to their economic growth and trade activities. After seeking proposals from USAID missions and allocating funds to country-level activities through a competitive bidding process, GATE is working in Bangladesh Vietnam, Albania, Dominican Republic, Peru, Nigeria, Kenya, and South Africa.

Address: Arlington, VA (www.usaid.gov/wid; *to come*)

Contacts: Mary Knox (Cognizant Technical Officer, USAID/G/WID), Nancy Rockel Pitrone (USAID/G/WID), Peter Davis (Director, Development & Training Services, Inc.)

Institute for Development Studies, University of Sussex

Focus: The globalization team at IDS conducts research and policy work aimed at promoting sustainable economic growth to reduce poverty in conjunction with other organizations such as ILO. Its trade program focuses on human resources, skills, and gender, among other topics. Its

global value chain program assesses how to improve firms' and workers' connections to global production networks (http://www.ids.ac.uk/globalvaluechains/).

Address: Brighton, United Kingdom (http://www.ids.ac.uk/ids/global/index.html)

Contacts: John Humphrey (head of Globalisation team); Raphael Kaplinksy, Hubert Schmitz (global value chains group members); Christopher Stevens (trade group); Stephanie Barrientos (gender group)

Institute for International Economics

Focus: IIE's Globalization and Labor program focuses on the impact of trade on employment, incomes, labor standards, and outsourcing, as well as on trade adjustment assistance programs in the U.S. Globalization and multilateral trade reform are also an important area of emphasis.

Address: Washington, DC (http://www.iie.com/research/researcharea.cfm?ResearchTopicID=19#politics)

Contacts: William Cline (trade and incomes), Kimberley Elliot (labor standards), Gary Hufbauer (globalization, trade politics), Jeffrey Schott (multilateral trade reform).

Institute for the Study of Labor

Focus: The Institute for the Study of Labor (IZA) conducts research in many aspects of labor economics, including labor market programs, behavioral and personnel economics, migration, labor markets and institutions, labor markets in transition economies and now being extended to include emerging economies, and the future of labor. In May 2005, IZA convened a conference on "Labor Market Dynamics, the Role of Institutions, and Internal Labor Markets in Transition and Emerging Market Economies" (http://www.iza.org/conference_files/iza_ebrd_2005/viewProgram?conf_id=834).

Address: Bonn, Germany (www.iza.org)

Contacts: Klaus Zimmerman (Director, IZA), Hartmut Lehmann (Program Director, Labor Markets in Emerging and Transition Economies, http://www.iza.org/en/webcontent/research/ra5)

International Labor Organization

Focus: The overall focus of the ILO being "promoting decent work for all," the organization has several programs that address the issue of trade liberalization and labor markets. The Employment division's Employment Strategy group conducts employment and labor market analysis in the context of globalization and macroeconomic and development policies. Several authors have explored the impact of trade liberalization on labor markets in developing and OECD countries. Analyses of the effect of trade liberalization on labor markets have been undertaken on a global level, as well as with respect to Mexico, Brazil, China, Malaysia, and India. The International Institute for Labor Studies (IILS) is an internal ILO think tank that has

explored labor market institutions in the context of growth and openness (http://www.ilo.org/public/english/bureau/inst/index.htm).

Address: Geneva, Switzerland (http://www.ilo.org/public/english/employment/strat/analysis/globalpubl.htm)

Contact: Ajit Ghose (employment analysis)

Maquila Solidarity Network

Focus: The Maquila Solidarity Network (MSN) is indicative of a wide community of nongovernmental organizations interested in promoting fair trade, including fair labor practices. MSN is the secretariat of the Ethical Trading Action Group (ETAG), a coalition of faith, labor, and nongovernmental organizations that work together to advocate for the global observation of humane labor practices based on international labor standards. MSN promotes solidarity with activist groups in Mexico, Central America, and Asia that advocate for better working conditions in maquiladoras and export processing zones. MSN organizes a "No Sweat!" consumer boycott campaign in Canada. It has also written extensively on the global garment industry in the context of labor practices, the elimination of trade quotas, and regional trade agreements such as CAFTA. For links to a wider set of similarly minded communities, see http://www.maquilasolidarity.org/links/index.htm.

Address: Toronto, Canada (http://www.maquilasolidarity.org/)

National Bureau of Economic Research

Focus: The National Bureau of Economic Research (NBER) is a private, non-profit organization that supports a comprehensive program of economic research. NBER's Labor Studies Program looks broadly at issues of employment, compensation, and labor organization, both in the U.S. and around the world. One NBER working paper in this area explores the trade-inequality-poverty linkage in the face of recent trade liberalization episodes (Goldberg and Pavcnik, WP 10593, June 2004). Another examines cross-country patterns of international trade and child labor (Edmonds and Pavcnik, WP 10317, February 2004).

Address: Cambridge, MA (www.nber.org)

Contact: Professor Richard B. Freeman, Harvard University (NBER Labor Studies Program director)

National Governors Association, Center for Best Practices, Workforce Development

Focus: The NGA's workforce development group focuses on best practices in the areas of education, employment, and job training engaged by U.S. state governments. Activity areas include state workforce development system reform; implementation of the Workforce Investment Act of 1998; comprehensive state strategies for workforce and economic development and welfare-to-work; occupational training for labor market entrants and the unemployed; skill

upgrading for workers who are already employed; school-to-work systems with a particular focus on private sector involvement; skill standards as a basis for organizing education, training, and work; linkages among education reform, higher education, and economic development; and effectiveness of state employment and training systems in delivering results.

Address: Washington, DC (www.nga.org)

Contacts: Sam Leiken, Martin Simon

Organization for Economic Cooperation and Development

Focus: The OECD nominally includes a focus on employment and social safety nets in developing countries, though its website reveals few recent publications in this area. In its latest "Employment Outlook," the OECD considers strategies to encourage employment in order to help countries fully benefit from globalization and to prevent a backlash against open trade. Their 2005 policy brief on this topic encourages a combination of direct measures (e.g., active labor market programs, unemployment insurance, targeted trade adjustment assistance) and indirect measures (e.g., economic growth policies that strengthen job creation, education and training to upgrade skills, policies to encourage industrial redevelopment and improved competitiveness, and structural reallocation of labor to most productive sectors) to this end. In its Trade Committee, the OECD has recently considered the linkage between trade and structural adjustment (i.e., economic transformation, not 1980s/90s structural adjustment programs), and within that, the impact on workers. The OECD's Development Cooperation directorate and the OECD horizontal program on trade and structural adjustment contributed a working paper that examines these issues in the context of developing countries (J. Andersson, F. Bonaglia, K. Fukasaku, and C. Lesser, Working Paper No. 245, July 2005).

Address: Paris, France (www.oecd.org/employment and www.oecd.org/trade)

Overseas Development Institute

Focus: ODI's programs on Trade Liberalization and Poverty and International Economic Development are focusing on issues of interest. A new set of studies on globalization and education was commissioned by DFID. ODI is also engaged in a research seminar on international trade and skill-biased technological change in 2005-06.

Address: London, United Kingdom (http://www.odi.org.uk/iedg)

Contacts: Dirk Willem te Velde (globalization and education), Sheila Page (international trade and skill-biased technological change)

Oxfam

Focus: "Make Trade Fair" is a key campaign slogan of Oxfam. Trade, and its impacts on local livelihoods is a key focus issue. The organization is concerned with the impact of trade agreements on poverty reduction, employment, agriculture, and social services. Oxfam recognizes that "trade can be a powerful engine for poverty reduction, but rigged trade rules and double

standards too often mean it now hurts people's livelihoods," according to the Oxfam U.K. website. Trade topics covered by Oxfam policy analysts include assessments of the impacts of 1) the Free Trade Agreement of the Americas on Latin American and Caribbean countries; 2) Euro-Mediterranean Agreements on Mediterranean and Arab countries; 3) U.S. cotton policy on West African cotton farmers; 4) the WTO Agreement on Agriculture on poor farmers around the world; and 5) trends in international commodity markets (e.g., coffee, sugar) on developing country farmers.

Address: (Various locations) (http://www.oxfam.org)

Rockefeller Foundation

Focus: Two themes which receive grant support from the Rockefeller Foundation are Global Inclusion and Working Communities. In addition, Rockefeller's East and Southern Africa regional program considers education and training as a component to help citizens take advantage of broader economic opportunities.

Address: New York, NY (http://www.rockfound.org)

Contact: Darren Walker (Director, Working Communities)

Solidarity Center

Focus: The American Center for International Labor Solidarity (ACILS) is part of the international outreach program of the U.S. American Federation of Labor—Congress of Industrial Organizations (AFL-CIO). ACILS works on child labor, export processing zones, the global economy, women's equality, and worker rights, among other issues. Through its advocacy work, ACILS helps to insure that workers' views and rights are visible and heard in trade liberalization and economic management debates in developing countries around the world.

Address: Washington, DC (http://www.solidaritycenter.org/)

Strategies and Analysis for Growth and Access Project

Focus: SAGA's research themes are 1) schooling, education, and human capital; 2) health and nutrition; 3) risk, vulnerability, and poverty dynamics; and 4) empowerment & institutions. Labor markets in sub-Saharan Africa (broadly, or by country) are the focus of analysis in the context of economic growth and structural economic change.

Address: Cornell University, Ithaca, NY (http://saga.cornell.edu)

Contacts: David Sahn (Chief of Party and Director, Cornell Food and Nutrition Policy Program); Peter Glick (Senior Research Associate, Cornell Division of Nutritional Sciences)

United Nations Conference on Trade and Development (UNCTAD), Trade Analysis Branch

Focus: UNCTAD's Trade Analysis Branch produces research and analysis on international trade issues of interest to developing countries. In 2005, the Trade Analysis Branch completed a project entitled "Coping with Trade Reforms: a Developing Country Perspective on the WTO Industrial Tariff Negotiations." The project included three components: an analysis of developing countries' potential gains and losses from tariff liberalization, conducted using the GTAP modeling system (see description above); a review of literature on adjustment costs related to trade reform; and eight country studies focused on adjustment to trade reforms. The case studies covered Bangladesh, Brazil, Bulgaria, India, Jamaica, Malawi, the Philippines, and Zambia. The full project report may be downloaded from the Trade Analysis Branch's website: http://192.91.247.38/tab/events/namastudy/coping.asp

Address: Geneva, Switzerland (http://192.91.247.38/tab/Default.asp)

Contact: Santiago Fernández de Córdoba, Economist, UNCTAD.

U.S. Agency for International Development

Focus: Various groups within USAID are focusing or beginning to focus on labor market issues in partner countries.

- ***Global Democracy, Conflict, and Humanitarian Assistance Bureau, Democracy & Governance Office:*** USAID's DCHA/DG office has supported the organization and support of labor unions in countries around the world for several decades. This activity is undertaken as part of DCHA/DG's strategy to support the development of civil society organizations. The prime implementer for this work is the AFL-CIO's international Solidarity Center (formerly known as the American Center for International Labor Solidarity, ACILS), supported via a series of cooperative agreements since the 1990s.
- ***Economic Growth, Agriculture, and Trade Bureau, Education Office:*** USAID's global Education office manages an indefinite quantity contract known as Global Workforce in Transition (GWIT) (see above).
- ***Economic Growth, Agriculture, and Trade Bureau, Economic Growth Office, Trade and Investment Team:*** The Trade and Investment Team manages a wide range of trade and investment capacity building activities, including the Trade Capacity Building Project, under which this overview and resource guide has been prepared..
- ***Economic Growth, Agriculture, and Trade Bureau, Women in Development Office:*** The WID office's new GATE project (see above) is the relevant activity in this area.
- ***Asia & Near East Bureau***: ANE is developing a "Jobs for the 21st Century" initiative, combining both education and economic growth perspectives in one cross-cutting strategic initiative. Four country missions (Philippines, India, Pakistan, and West Bank/Gaza) will undertake workforce assessments under the auspices of the GWIT project.

- ***Europe & Eurasia (E&E) Bureau***: Programs to address worker displacement caused by political and economic reform in the aftermath of the fall of the Soviet Union were in place between 1996, with the passage of the Support for Eastern European Democracy (SEED) Act, and the early 2000s. SEED funds were allocated to USAID and then on to the U.S. Department of Labor's International Labor Affairs Bureau (ILAB). ILAB in turn contracted with Worldwide Strategies Inc. (see below) for implementation of market-focused job creation programs that included one or more of the following components: 1) labor management adjustment committees to assist companies that shed significant numbers of workers, 2) Quickstart, a project component that provided management assistance to companies to retool and thereby retain workers, and 3) local economic development programs that brought local community stakeholders together to envision new economic futures for their localities and work towards implementation of that vision. More recently, the GWIT project has undertaken workforce assessments in a number of E&E countries. Follow-on activities are being developed by several of those missions.

Address: Washington, DC (http://www.usaid.gov) and abroad

Contacts: Kimberly Ludwig (DCHA/DG), Clare Ignatowski (EGAT/ED), Tracy Quilter (EGAT/EG/TI), Mary Knox (EGAT/WID), Nancy R. Pitrone (EGAT/WID), Seema Agarwal-Harding (ANE/TS), Tony Chan (ANE/TS), Paul Mulligan (ANE/TS), Elizabeth McKeon (EE/DGST).

U.S. Department of Labor

Focus: USDOL's work is of interest in two areas: international labor affairs programs that it runs in partner countries around the world and trade adjustment assistance that it provides to U.S. workers dislocated as a result of international trade. Each is summarized below:

- International labor cooperation issues have been the domain of the Bureau of International Labor Affairs (ILAB) (http://www.dol.gov/ilab/), administered through several offices, including:
  - National Administrative Office (NAO) oversees labor cooperation under the North American Free Trade Agreement. (http://www.dol.gov/ILAB/programs/nao/main.htm)
  - Office of Foreign Relations (OFR)'s technical cooperation group serves as the clearinghouse for assistance to developing and transition countries on core labor standards, work conditions, training for displaced workers, employment services, and workplace HIV/AIDS prevention programs. (http://www.dol.gov/ilab/programs/ofr/technical_cooperation.htm)
  - International Child Labor Program (ICLP) administers programs to combat the worst forms of child labor and educate on child labor problems. Much of the funding under this office was in turn implemented via the International Labor Organization. (http://www.dol.gov/ILAB/programs/iclp/main.htm)
- Trade Adjustment Assistance (TAA) is provided to U.S. firms, farms, and workers that are negatively affected by trade agreements. The TAA program for workers is managed by the

DOL's Employment and Training Administration's (ETA) Office of National Response (ONR). (http://www.doleta.gov/tradeact/) The U.S. Commerce Department manages the TAA program for firms, while the U.S. Department of Agriculture's Foreign Agricultural Service handles the assistance program aimed at the farm sector.

Address: Washington, DC (www.dol.gov)

Contacts: 1) International Labor Technical Cooperation: Sue Hahn (Assistant Director, DOL/ILAB/OFR), Steve Marler (Project Managers Team Leader, DOL/ILAB/OFR) Bruno Bui (DOL/ILAB/OFR), Maya Beja (DOL/ILAB/OFR)

2) Trade Adjustment Assistance: Douglas Small (Director, DOL/ETA/ONR), Terry Clark (ETA), Erin Fitzgerald (ETA), Heidi Casta (ETA/Office of Policy Development and Research/Policy and Legislation Team Leader), Dorothy Comer (ETA)

U.S. Government Accountability Office

Focus: The U.S. GAO responds to Congressional requests for evaluation studies of U.S. government programs. Its Education, Workforce, and Income Security group covers education and employment issues from cradle to grave, including basic education, adult education, workforce training, trade adjustment assistance, and income support programs. The International Trade group has examined such issues as U.S. government trade capacity building programs, U.S. assistance to facilitate agriculture sector-related free trade agreement implementation in Mexico, and the human resource impact of an accelerated free trade agreement negotiations agenda on the U.S. government.

Address: Washington, DC (http://www.gao.gov)

Contacts: Sigurd Nilsen (Director, EWIS); Dianne Blank (Assistant Director, EWIS); Lorin Obler (EWIS)

U.S. Trade Representative's Office

Focus: Both the USTR office for Trade Capacity Building and the office for Labor Affairs oversee the coordination of technical assistance to developing country partners with respect to trade-induced economic transitions. Assistance includes support for rural diversification, commercial market linkages, and labor department cooperation, especially in the areas of labor standards and child labor.

Address: Washington DC (http://www.ustr.gov)

Contacts: Mary Ryckman (Assistant USTR for Trade Capacity Building), Lewis Karesh (Assistant USTR for Labor Affairs), Aaron Rosenberg (Director for Trade and Labor Affairs)

W. E. Upjohn Institute for Employment Research

Focus: The Upjohn Institute's mission is "finding and promoting solutions to employment-related problems.". The Institute researches issues including social safety net programs (e.g.,

disability and workers' compensation, unemployment insurance), family labor issues, welfare-to-work, and workforce education and training. Labor standards in the U.S. and Canada are tracked in a labor standards database, available online. In 2004, the Upjohn Institute published "International Trade and Labor Markets" (C. Davidson and S. Matusz), which explores effects of differing degrees of labor market flexibility on employment and labor market transitions, and examines the relative merits of policies such as trade adjustment assistance, wage subsidies for dislocated workers, and job training subsidies for addressing the issues.

Address: Kalamazoo, Michigan (http://www.upjohninst.org/)

Contact: Randall Eberts (Executive Director, Economic development and local labor markets)

Women in Informal Employment: Globalizing and Organizing

Focus: This group, referred to as WIEGO, is a global research and policy analysis network focused on poor women employed in the informal economy. WIEGO works with membership-based organizations of workers in the informal economy, NGOs, research and statistics institutions, national governments, and international development agencies. WIEGO's Global Markets Program assesses the impact of trade liberalization on women producers and workers (http://www.wiego.org/main/areas2.shtml). The Social Protection group explores social protection mechanisms that can be extended to women informal workers (http://www.wiego.org/main/areas3.shtml). An extensive list of related institutions is provided at http://www.wiego.org/main/links.shtml.

Address: Cambridge, MA (WIEGO Secretariat)

Contact: Martha Chen (Coordinator, Harvard University, Kennedy School of Government)

Women's Edge Coalition

Focus: The Women's Edge Coalition is a membership organization. Its advocacy focuses on assuring that U.S. international trade and assistance programs create opportunities for women and their families around the world. With support from the Rockefeller Foundation, the Women's Edge Coalition developed a framework for assessing the gender impacts of trade and investment agreements (Gammage et al., 2002). The framework explores the price, employment, wage, consumption, and legal and regulatory effects of agreements, by sector, and identifies analytic tools that can be used to undertake such impact assessments. This methodology is now being used by USAID's GATE project, where several authors of the Women's Edge Coalition's *Trade Impact Review* now are employed.

Address: Washington, DC (www.womensedge.org)

Contact: Ritu Sharma (Co-Founder and President)

World Bank

Focus: In a recent survey of research priorities for all major departments of the World Bank, labor market issues ranked at or near the top of the priority list. The World Bank's Social Protection and Poverty Reduction and Economic Management networks are embarking on a joint research program in the area of labor markets. This 2-3-year effort will address the following concerns (taken from World Bank 2005a):

- How do labor market policies and institutions contribute to a better investment climate while promoting decent working conditions and support to workers affected by changes?
- How do labor markets function in the regulated and unregulated sectors, and how could policies be tailored to the needs of workers in the two sectors?
- Because economic reform does not happen in isolation, what are the costs of reforming some areas (i.e., product or financial markets) and not labor markets? Is there an optimal sequence for reforms? How can the Bank facilitate the political process of labor reforms?
- What are the interactions between education and labor market policies that can promote human capital, enhance productivity and wages, and promote adaptability of workers?

Address: Washington, DC (www.worldbank.org)

Contacts: Louise Cord (PREM), Jean-Jacques Dethier (Development Economist's Office RS, Research Manager), Robert Holtzmann (SP), Pierella Paci (PREM), Alan Winters (Director, Development Economics Research Group)

World Commission on the Social Dimension of Globalization

Focus: Co-chaired by H.E. Ms. Tarja Halonen, the President of Finland, and H.E. Mr. Benjamin Mkapa, the President of Tanzania, the World Commission on the Social Dimension of Globalization was charged with identifying policies to make globalization more inclusive and less socially divisive. The Commission's secretariat was housed at the ILO during its two-year period (2002-2004), and it is now the ILO that is charged with following up on its recommendations.

Address: Geneva, Switzerland (http://www.ilo.org/public/english/wcsdg/index1.htm and http://www.ilo.org/public/english/fairglobalization/index.htm)

Contact: Mr. Padmanabha Gopinath (Executive Secretary, World Commission)

World Trade Organization

Focus: The research department of the WTO Secretariat addressed the issue of adjustment costs in response to trade liberalization with a special study, *Adjusting to Trade Liberalization* (Bacchetta and Jansen, 2003). The study explores evidence on adjustment costs, such as the effect of trade liberalization on (un)employment; how workers are affected by adjustment costs; empirical evidence on the losses suffered by displaced workers; ways in which the governments can facilitate the adjustment process in labor markets (e.g., with domestic institutions and policies such as credit markets, social safety nets, education and training, infrastructure and utilities, information, domestic macroeconomic policy and careful staging of trade policy reforms).

Address: Geneva, Switzerland
(http://www.wto.org/english/res_e/booksp_e/special_study_7_e.pdf)

Worldwide Strategies Inc.

Focus: With the collapse of the Soviet Union, the U.S. Government provided resources through USAID and the U.S. Department of Labor to design and implement programs to assist dislocated workers throughout Central Europe. Under the Support for Eastern European Democracies (SEED) Act, WSI implemented integrated community development programs in Bulgaria, Hungary, Macedonia, Poland, Romania, and Ukraine.

Address: Boise, Idaho and Washington, DC (http://www.w-s-i.net/cee/)

Contact: Virginia Stacey (Executive Director), Gedeon Werner (Deputy Director)