



PRESS RELEASE

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International trade, a threat to jobs?

The growth of trade generates economic expansion, but can also result in an increase in long-term unemployment depending on the sectors of activity that are developing, stress UNIGE economists.

What is the impact of increasing international trade on the labour market? This question is at the heart of many political debates, but it has long been absent from international economics textbooks. The economic impact is seemingly obvious: the growth of international trade leads to economic expansion, which in turn generates jobs. Until recently, the issue – considered key in politics – was deemed secondary by economic theory. A team of economists from the University of Geneva (UNIGE), in collaboration with a researcher from the United Nations Conference on Trade and Development (UNCTAD), has set out to dismantle this paradox. Their research, published in the journal *European Economic Review*, shows that the effect of international trade on employment varies greatly from one country to another, depending on their areas of specialization. There are winners, like Switzerland, but also losers.

«Opening up to international trade has two distinct effects on the labour market. An expansionary effect – an overall positive impact on income and job creation - and a reallocation of work from sectors that face international competition to exporting sectors,» explains Marcelo Olarreaga, professor at the Institute of Economics and Econometrics of the Geneva School of Economics and Management (GSEM) of UNIGE. The development of foreign trade therefore leads to increased specialisation of economies and its impact on employment depends on the sectors in which each country specialises.

The characteristics of the labour market do indeed differ from one branch of the economy to another. In some sectors, such as the automobile or metalworking industries, for example, it suffers more frictions and long-term unemployment may develop. In others, such as communication, television or radio equipment or medical instruments, vacant jobs are filled more quickly. The country can therefore register a net gain in employment if these latter sectors develop at the expense of those with more labour market frictions.

107 countries under the microscope

To measure the correlation between trade and unemployment, these economists looked at data from 107 countries over a 14-year period from 1995 to 2009. «Our analysis shows that the impact varies according to each country's area of specialization. To uncover this mechanism, we reconstructed the unemployment rate by sector for all these economies, and cross-referenced it with foreign trade data by product,» explains Céline Carrère, professor at the GSEM Institute of Economics and Econometrics.



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“The impact of increasing international trade on the labour market depends on each country's area of specialization,” says Professor Marcelo Olarreaga, Dean of the Geneva School of Economics and Management.

High resolution pictures

«There are thus winners and losers from globalisation in terms of unemployment,» stresses Frédéric Robert-Nicoud, professor at the Institute of Economics and Econometrics of the GSEM of UNIGE. While Switzerland, Denmark and Singapore, for example, are doing well, other countries such as Brazil, Chile and Poland may experience a growth of the unemployment rates partially due to trade liberalization. The development of Brazil's foreign trade, for example, has benefited sectors such as paper manufacturing, food and tobacco, where Brazil has a comparative advantage. However, these areas of activity are characterized by stronger frictions in the labour market, thus leading to a potential increase in the unemployment rate because of increased trade openness. Trade flows are obviously not the only factors involved, but the study shows that trade can be a source of long-term unemployment.

A positive impact for Switzerland

Switzerland experiences expansion of business sectors such as medical, optical and precision instruments, for which it is competitive and which benefit from a labour market with little friction. These sectors notoriously struggle to fill in vacant jobs. Contrary to Brazil, it has hence seen its employment rate sustained as its international trade has grown.

Even if international trade proves globally profitable for an economy, it may increase income and employment inequality, raising the issue of redistribution. «Trade can play an important role in helping countries achieve sustainable development goals, but the complex effects of trade policy on employment must be taken into account,» says UNCTAD economist Marco Fugazza. Indeed, the study has helped UNCTAD produce a [guide for policymakers](#) on how to design trade policies that are more oriented towards sustainable development goals.

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