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Trade with Developing Countries and Employment in the European Community

by Dieter Schumacher, Berlin*

The opposition to a liberal stance on imports of manufactures from developing countries is growing as certain specific groups of products made in these countries prove increasingly competitive and the industrialized countries suffer from persistent high unemployment. Model computations for the six most important EC countries reveal however that the imports from developing countries have only a small impact on employment in these economies seen as a whole¹.

Many factors combine to bring about changes in employment in an economy as a whole and in its individual sectors. As the effects of the various internal and external determinants cannot be viewed in isolation, they have to be ascertained with the aid of model computations and their attribution to the various causes must involve more or less simple assumptions. The starting point for our computations are the trade flows in 1977 and the changes in these flows compared with the 1970 figures. No attempt is made to establish a connection between imports and exports. An input-output analysis is used in order to take account of all employment effects, not only the direct ones arising immediately in the industry concerned, but also the indirect ones induced through interindustry linkages².

An expansion of exports has positive effects on production and employment; negative effects arise when domestic demand is satisfied by imported rather than home products. The — direct and indirect — manpower demand shortfall due to imports can be ascertained analogously to the calculation of the employment effect of exports, on the assumption that the imported goods can also be produced in the importing country (competitive imports) and that each value unit of imports cuts out one value unit of demand for domestically produced goods. As it is intended to examine the impact of trade on the economies of individual EC countries, the computations have to be based on the sectoral production functions of each of these countries. In view of the level of technological

know-how in the industrialized countries it may be assumed that in principle all imported industrial products (SITC divisions 5-8) can also be produced in the EC country. The calculated (negative) effects on employment of the importation of industrial goods are compared with the calculated manpower requirements for the exportation of industrial products.

Overall Employment Effects

In the seventies the developing countries considerably increased their share of the foreign trade of the six EC countries under review. This was essentially due to the higher cost of the oil supplies from OPEC countries but also to increased imports of finished goods — especially from the more advanced newly industrialized countries — and in the other direction to larger exports, in particular to the OPEC countries. The developing countries as a whole are still

¹ The article is based on the findings of a study which was commissioned by the Federal Minister for Economic Affairs; its publication in the *Beiträge zur Strukturforchung* series is now in preparation. Cf. D. Schumacher: Handel mit Entwicklungsländern und Beschäftigung in der Europäischen Gemeinschaft. Eine vergleichende Analyse anhand aktueller Import- und Exportströme im Handel mit Industrieprodukten (Trade with developing countries and employment in the European Community. A comparative Analysis on the basis of present import and export flows in the trade in industrial products).

² The calculations are based on statistics of the OECD (trade data) and the EC (input-output tables with employment figures by economic sectors, qualification levels and sex). The sectoral labour-output ratios show the situation in 1977; the standardized input-output tables relate to 1970. The value figures are accordingly in 1970 prices unless otherwise indicated. They are stated in US dollars which in 1970 had the same value as the European unit of Account EUR. Cf. D. Schumacher, *ibid.*, concerning the data and methods used and the qualifying assumptions made.

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Table 1
The Trade of Six EC Countries in Industrial Goods with Developing Countries
 (at current prices)

	Federal Republic of Germany	France	Italy	United Kingdom	Nether- lands	Belgium
Exports to Developing Countries						
1977 in US \$ bn	25.3	16.5	11.7	15.3	4.3	4.2
of which (in %):						
to European developing countries ¹	25.7	18.2	23.4	14.3	24.4	20.8
Spain, Greece, Portugal	14.0	13.8	14.1	10.1	16.4	14.8
Yugoslavia, Turkey	11.7	4.4	9.3	4.3	8.0	6.0
to Non-European developing countries ¹						
(excl. OPEC)	34.4	48.9	30.0	43.0	42.2	45.5
Mediterranean countries ²	7.8	14.5	11.5	9.3	8.4	12.1
Latin America	11.1	9.9	8.1	10.4	13.6	8.6
South-East Asian newly industrialized countries ³	5.7	3.6	2.9	8.9	5.5	8.2
Other developing countries	9.8	20.9	7.4	14.4	14.7	16.7
to OPEC countries ⁴	39.9	32.9	46.5	42.7	33.4	33.7
Share of industrial goods exports to all countries (in %)						
1970	18.5	27.7	23.7	27.6	13.8	10.8
1977	23.8	32.5	30.6	32.0	17.8	14.0
Imports from Developing Countries						
1977 in US \$ bn	7.7	4.5	3.1	4.6	1.9	2.0
of which (in %):						
from European developing countries ¹	33.0	43.2	33.8	19.5	27.0	21.2
Spain, Greece, Portugal	21.9	38.8	20.1	17.2	20.5	16.9
Yugoslavia, Turkey	11.1	4.4	13.7	2.3	6.4	4.3
from Non-European developing countries ¹						
(excl. OPEC)	62.2	52.4	60.5	74.1	70.3	76.6
Mediterranean countries ²	6.5	7.4	6.6	5.4	9.3	11.0
Latin America	12.6	8.2	18.7	13.3	10.6	10.1
South-East Asian newly industrialized countries ³	29.3	15.4	12.9	34.0	37.6	14.6
Other developing countries	13.8	21.4	22.4	21.5	12.9	40.8
from OPEC countries ⁴	4.8	4.4	5.7	6.4	2.7	2.2
Share of industrial goods imports from all countries (in %)						
1970	9.8	7.9	12.0	13.6	4.0	9.7
1977	12.6	10.5	12.5	11.5	6.8	7.1

¹ Gibraltar and Malta are included among non-European developing countries. - ² Cyprus, Egypt, Gaza strip, Gibraltar, Israel, Jordan, Lebanon, Malta, Morocco, Spanish Sahara, Syria and Tunisia. - ³ Hongkong, Malaysia, Philippines, Singapore, South Korea and Taiwan. - ⁴ Organization of the Petroleum Exporting Countries and Bahrain, North Yemen, Oman and South Yemen.

Sources: OECD, Commodity Trade Statistics, Series C, 1970 and 1977; author's own calculations.

of greater importance to the European Community as a market for industrial products and as suppliers of raw materials than as a source of semi-manufactures and finished goods.

Aided by the model computations, it may be estimated that in 1977 over a million gainfully employed persons in Great Britain and nearly one million in the Federal Republic of Germany depended on exports of industrial goods to developing countries (including the OPEC) directly or through production of intermediate goods; in Italy and France their number was close to 700,000 and in the Netherlands and Belgium 120,000 each. In all countries these exports accounted for approx. 3-4 % of total employment. Of those employed by manufacturing industry about 10 % were generally working on exports for the Third World – in Great Britain

as many as 13 %. The “employment equivalent” of the imports of industrial goods from the Third World in the same year on the other hand is to be put for the four large EC countries at no more than one-third and for the two smaller ones (Belgium and the Netherlands) at one-half of the employment effect of the exports. For the incremental imports between 1970 and 1977 the model calculations show a negative effect on employment which works out at 0.6 % of the total employment in the six EC countries under review.

In order to provide a better comparison the employment effects of exports and imports were related to units of US \$ 1 bn (at 1970 prices)³. For this amount of exports Great Britain needed the largest number of workers in 1977, namely nearly 150,000; Italy followed

³ About \$ 2 bn at 1977 prices.

Table 2
Overall Employment Effects of the Trade with Developing Countries in Industrial Goods in 1977

	Federal Republic of Germany	France	Italy	United Kingdom	Nether- lands	Belgium
Workers Dependent on the Exports						
Number of persons (in thousands)	956.8	679.2	685.4	1,124.9	124.9	121.3
% of total employment	3.8	3.2	3.4	4.5	2.7	3.2
Number of persons (in thousands) per US \$ 1 bn of exports ¹	85.8	89.2	111.5	145.7	62.0	60.4
of whom (in %):						
Men	72.2	71.6	75.5	73.9	84.9	76.4
Women	27.8	28.4	24.5	26.1	15.1	24.0
Qualified personnel ^{2,3}	58.2	58.6	46.6	.	60.7	44.4
Semi- and unskilled workers ²	41.8	41.4	53.4	.	39.3	55.6
Workers Made Redundant by the Imports						
Number of persons (in thousands)	358.0	233.6	181.1	362.7	69.1	62.6
% of total employment	1.4	1.1	0.9	1.5	1.5	1.7
Number of persons (in thousands) per US \$ 1 bn of imports ¹	93.6	102.0	121.9	146.1	73.7	64.1
of whom (in %):						
Men	54.0	61.0	57.9	61.7	74.3	69.5
Women	46.0	39.0	42.1	38.3	25.7	30.5
Qualified personnel ^{2,3}	43.7	48.8	43.6	.	49.9	38.8
Semi- and unskilled workers ²	56.3	51.2	56.4	.	50.1	61.2

¹ At 1970 prices; commodity structure in 1977. - ² In manufacturing industry only; approx. 80% of the total employment effect arose here. - ³ Salaried employees and skilled workers.

Sources: Model computations based on OECD and EC data: OECD, Commodity Trade Statistics, Series C, 1977; EC Commission, Print-outs with revised figures on the national accounts; Eurostat, Input-Output Tables. The Nine and the Community, Special Series 8, 1970, Luxembourg 1978; Eurostat, Employment and Unemployment 1972-1978, Luxembourg 1979; Eurostat, Public Censuses in the Community Countries 1968-1971, Luxembourg 1977; Eurostat, Social Statistics, Structure of Salaries and Wages in Industry 1972, Special Series, Luxembourg (no date).

next with over 110,000; in the Federal Republic and France almost 90,000 were needed, and in Belgium and the Netherlands only 60,000. The figures differ because of divergent sectoral export patterns, import intensities and labour productivities. In the two smaller EC countries for instance imported intermediate inputs accounted directly and indirectly for 40 % of the value of the exports, leaving only 60 % as the contribution to the gross domestic product; the effect on employment is correspondingly small. In the large EC countries on the other hand 75-85 % of the export value is home-produced; the percentage figure is highest in France. The high manpower requirements in Italy and even more in Great Britain arise chiefly as a result of low productivity: the domestic product-per-worker in manufacturing industry amounted in 1977 in Great Britain to no more than \$ 5,600 and in Italy \$ 6,600 as compared with \$ 9,500-10,000 in the other countries (at 1970 prices).

A breakdown of the employment effect from the production of goods for export by levels of qualification and sex also reflects the general differences between the economies of the EC countries. The workers in the Netherlands, the Federal Republic and France are trained to a very high level; in these countries the

qualified workers account for approx. 60 % of the employment effect of the exports but only for about 45 % in Italy and Belgium⁴. The Netherlands have the lowest female participation in employment: at 15 % it is only about half of that in the other EC countries.

The (negative) employment effects of imports deviate considerably from the manpower requirements for exports owing to the differences in the composition of the supplies and purchases of industrial goods to and from developing countries. The number of workers needed for the production of export goods for the Third World in the six EC countries is on average only about 10 % lower than the employment content of the domestic production displaced by an equal amount of imports. In the Netherlands the difference is greatest (16 %); in Great Britain an equal amount of manpower is needed for both. The proportion of women in the labour force required for the production of exports is on average only about two-thirds of that in import-replaced production. The production of export goods for developing countries also generally involves a markedly smaller proportion of unskilled and semi-skilled labour; it thus absorbs more human capital.

⁴ Comparable figures for Great Britain are not available.

Table 3

The Net Effect on Employment of a US \$ 1 bn¹ Increase in the Imports and Exports of Industrial Goods from and to Developing Countries in 1977

(in Thousands of Persons by Industry, Sex and Level of Qualification)

	Federal Republic of Germany	France	Italy	United Kingdom	Nether- lands	Belgium
1 Agriculture, forestry, fisheries	-0.8	-3.5	-1.1	-0.1	-0.2	-0.2
2 Mining and energy	0.2	-0.0	0.1	0.3	0.1	-0.2
3-18 Manufacturing industries	-7.3	-9.0	-9.5	-1.2	-10.1	-3.2
3- 5 Basic materials and producer goods	2.1	-0.2	1.6	2.1	1.6	-3.3
3 Ferrous and non-ferrous ores and metals	0.8	-1.2	-1.5	1.6	0.7	-4.1
4 Minerals and non-metallurgical mineral products	-0.4	-0.5	2.9	-1.5	-2.4	-1.2
5 Chemical products	1.7	1.5	0.3	2.0	3.2	1.9
6-11 Investment goods	28.7	21.8	33.0	45.0	21.2	13.4
6 Metal goods (excl. machinery and transport equipment)	2.7	5.2	10.0	5.6	1.3	3.1
7 Agricultural and industrial machinery	17.2	8.9	16.0	18.7	7.0	6.2
8 Office and data processing machines, precision and optical instruments	0.6	0.4	0.7	-0.7	2.2	1.0
9 Electrical products	2.4	3.3	2.7	4.2	3.7	2.4
10 Motor vehicles and parts	4.8	1.2	2.7	13.3	0.8	0.8
11 Other transport equipment	1.1	2.7	1.0	3.9	6.1	0.0
12 Food, beverages, tobacco products	0.0	-0.0	-0.0	-0.1	-0.0	0.0
13-18 Consumer goods	-38.1	-30.5	-44.2	-48.3	-32.7	-13.3
13 Textiles, clothing	-32.1	-20.3	-32.0	-35.8	-21.9	-10.5
14 Leather and leather goods, footwear	-3.7	-3.5	-7.4	-4.9	-2.8	1.0
15 Timber, wooden products and furniture	-2.9	-6.9	-9.5	-6.8	-9.2	-2.4
16 Paper and printing products	0.0	-0.6	-0.4	0.4	0.3	0.1
17 Rubber and plastic products	1.7	1.7	2.6	1.3	2.4	0.9
18 Other manufactures	-1.0	-1.0	2.5	-2.5	-1.6	-0.5
19 Building and construction	0.1	0.1	0.1	0.5	0.3	0.1
20-24 Services	0.1	-0.4	-0.1	0.2	-1.9	0.1
20 Trade, recovery and repair services	0.1	-0.9	-0.9	0.0	-1.4	0.2
21 Transport and communication services	-0.0	0.0	0.7	-0.1	-0.2	-0.4
22 Banking and insurance services	0.0	-0.0	-0.1	0.2	0.0	-0.0
23 Other market services	0.0	0.5	0.2	0.0 ²	-0.3	0.5
24 Non-market services	0.0	0.0	0.0	0.0	-0.0	0.0
1-24 Total	-7.8	-12.8	-10.4	-0.4	-11.7	-3.7
Men	11.5	1.6	13.6	17.5	-2.1	1.4
Women	-19.2	-14.4	-24.0	-17.9	-9.6	-5.1
Qualified personnel ^{3,4}	6.8	2.6	-1.4	.	0.7	1.6
Semi- and unskilled workers ³	-14.1	-11.6	-8.1	.	-10.8	-4.8

¹ At 1970 prices; commodity structure in 1977. - ² Included in sector 22. - ³ In manufacturing industry only; almost all intersector shifts occur in this area.

⁴ Salaried employees and skilled workers.

Sources: Model computations based on OECD and EC data: OECD, Commodity Trade Statistics, Series C, 1977; EC Commission, Print-outs with revised figures on the national accounts; Eurostat, Input-Output Tables. The Nine and the Community. Special Series 8, 1970, Luxembourg 1978; Eurostat, Employment and Unemployment 1972-1978, Luxembourg 1979; Eurostat, Public Censuses in the Community Countries 1968-1971, Luxembourg 1977; Eurostat, Social Statistics, Structure of Salaries and Wages in Industry 1972, Special Series, Luxembourg (no date).

Increased division of labour with developing countries thus entails substantial shifts in manpower requirements. An especially important aspect is that most of the redundancies due to the imports occur among groups of workers who are in any case disadvantaged: if imports from the Third World substitute for domestic production and an equal amount of goods is produced instead for export, the result is that on balance — corresponding to their relative shares of employment in the various industries — women are made redundant while the demand for male labour rises. Similarly, the redundancies hurt those at the lower end of the wage scale while more openings arise at the upper end. The structural change induced by increased division of labour with developing countries thus implies

a need for enhanced training of women in what are regarded as men's jobs and training to a higher level of qualification for the workforce in general.

Sectoral Employment Effects

The backdrop to the changes at the overall economic level is provided by sectoral shifts in employment which are shown in Table 3. Despite all the differences of detail the structural changes, that are induced by exchange of goods with developing countries, point in the same direction in the EC countries under review. These structural changes are in the main characterized by a shift of manpower requirements from the consumer goods sector to the investment goods industries.

Redundancies occur chiefly in the textile, clothing and leather industries while the mechanical engineering industry is the principal beneficiary from the increase in employment.

These structural effects are manifest in the trade with virtually all groups of Third World countries. They are in general most prominent in the exchange of goods with South-East Asia but relatively small in the exchanges with the three candidates for accession to the EC (Spain, Greece⁵, Portugal).

The dimensions of the shifts in employment can be indicated by the sum total of sectoral "net gains" on the one hand and sectoral "net losses" on the other. On the basis of the composition of the trade with developing countries in 1977 an expansion of imports and exports by \$ 1 bn involves the greatest number of job changes in Great Britain (52,000) and Italy (42,000); next come the Federal Republic (33,000), the Netherlands (28,000) and France (26,000) while Belgium comes last (17,000). With increased division of labour with the Third World 30-40 % of the additional jobs for export production arise in other economic sectors – at the level of disaggregation chosen here – than those in which labour is made redundant by the imports. Owing to the high level of intrasectoral division of labour in the EC countries' trade with industrialized western countries outside the EC the corresponding figure for these is below 20 %; for the intra-EC trade it is as low as 10 %⁶.

Model computations based on the *actual* increase of imports and exports show that in the 1970-1977 period the expansion of the trade in industrial goods with developing countries resulted in quite as large – or even larger – shifts in the sectoral structure as the increase of the exchange of goods with the industrialized western countries in and outside the EC although the trade with the Third World carried far less weight than that with the industrialized countries. In relation to overall employment the expansion of trade with the developing countries caused in this period the biggest shifts in the Netherlands (0.5 %) and the Federal Republic of Germany (0.3 %) and the smallest shifts in Italy (below 0.1 %). The changes have thus very little effect indeed on total employment; they are also small in relation to the overall changes in the sectoral employment pattern during the period under review. In the future the changes induced in the employment pattern by additional trade with developing

countries will probably also carry relatively little weight: even if the imports doubled compared with 1977 and the exports grew by a similar margin, the change would (given the same sectoral trade composition as in 1977) not affect more than 0.5 % of all workers in any of the six EC countries considered.

Final Conclusions

The dimensions involved are such that the course of the trade with developing countries cannot be regarded as a significant cause of unemployment in the EC countries; measures to oppose imports of industrial goods from the Third World are not a suitable means for reducing unemployment. The positive effect of trade barriers on employment is small; over the longer term they will have a negative effect because they tend to conserve structures which are no longer competitive and, besides, impair the export trade.

Given an equal increase in trade, Great Britain and Italy would have to cope with the greatest structural changes – in terms of the number of workers involved – as a result of increased division of labour with developing countries. The individual EC countries do not, however, have an equal chance to secure the additional Third World orders needed to bring about these changes. The Federal Republic and the Netherlands are probably placed most favourably because of their high productivity and their highly competitive range of products which is slanted towards investment goods and chemical products. France probably comes next – with a similarly high level of labour productivity and an international position in regard to investment goods which has greatly improved during the seventies. The situation is less favourable for Belgium with its less solid supply structure (focusing on metals and textiles). Even worse are the prospects for Great Britain with its low productivity in all areas. Italy's position is probably also highly unfavourable because of low productivity and an obsolete supply structure (with emphasis on textiles, clothing and leather goods). Italy and Belgium are also the EC countries affected most by competition of developing countries in their export markets.

Considering the numbers involved, there are, in principle, no decisive objections from the point of view of employment policy to the liberal trade policy towards the Third World which is necessary from a development policy point of view. The differing attitudes of the individual EC member states make it doubtful, however, whether free access of the developing countries to the entire European market can readily be put into practice. On the contrary, at present – in spite of the formally

⁵ Greece has been an EC member since Jan. 1, 1981.

⁶ Only in Italy are major intersectoral changes caused by the trade with industrialized countries.

more or less concluded establishment of a common trade policy, which is prescribed in the EEC Treaty – individual member states are setting up further import restrictions. Even the Community itself is becoming increasingly protectionist.

In such an unfavourable commercial climate it is especially difficult to put forward suggestions for a liberalization of imports which can seriously be discussed in the political decision-making bodies and which have some prospect of being realized. It must in particular be taken into account here that there are differences between the member states in regard to the weight of foreign trade-induced structural changes and also in terms of economic efficiency. Also, opinion as to the extent to which the shrinking of threatened industries can be regarded as socially acceptable will vary from country to country.

For these reasons an offer from the EC to the developing countries to reduce import restrictions according to a timetable which was binding and identical for all member states would have to be

accompanied by a structural policy which took account of the considerable differences between the EC countries in regard to the weight of structural changes resulting from trade with the Third World and in terms of economic efficiency.

Conceivable is the preferential active support of structural change by the Community in those countries with relatively large problems. Sector-related restructuring subsidies are already being granted in some cases or else legislation is in preparation for this purpose. There will, however, be very little scope for a common structural policy as long as the presently still growing constraints on the Community budget are not removed through a comprehensive reform of the agricultural policy. It should therefore be considered, whether the liberalization plan to be agreed upon should take differences between the EC countries of the kind mentioned above into account. This could be done by setting time-limits for the gradual removal of existing trade barriers for individual EC countries which differ from the arrangement agreed for the majority.

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