



HIGHLIGHTS from Chapter 3

TRADING PROTECTION FOR JOBS

Key Points

- *South Asia's sectors with the lowest tariffs have paid 16 percent higher wages, on average, and accounted for more than three-quarters of aggregate employment growth over the past decade.*
- *Carefully sequenced tariff cuts in South Asia, especially in conjunction with broader free trade agreements, would particularly benefit younger and higher-skilled workers and those in manufacturing, who tend to work in trade-oriented sectors that are currently held back by elevated tariffs on intermediate inputs.*
- *Governments can help unlock greater benefits from trade reform by supporting worker reallocation to new jobs through efforts such as improving connectivity, worker skilling, removing obstacles to firms' growth, and an appropriate social safety net.*

Jobs challenge. South Asia has struggled to create enough jobs for its rapidly growing population. Employment ratios—employment in percent of the population aged 15 or older—in South Asia, particularly in the non-agricultural sector and for women, are among the lowest worldwide. Unless job creation accelerates considerably, employment will continue to fall short of population increases in all South Asian countries over the next two decades (figure 1).

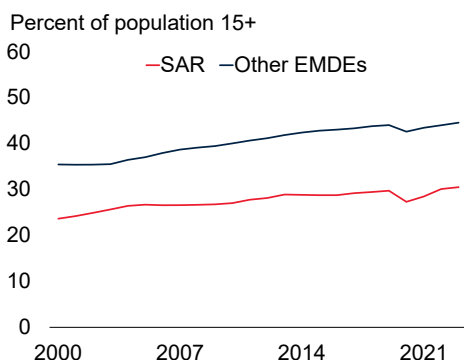
International experience. Past episodes of major tariff reductions were typically accompanied by significant increases in aggregate employment, with benefits disproportionately rewarding skilled and young workers, and firms in the manufacturing sector. Employment or wage gains were greater after reductions of tariffs on intermediate inputs than after general tariff reductions.

Tariffs and jobs in South Asia. About 39 percent of South Asia's workers are in sectors that are sheltered by tariffs above 30 percent. Yet, the most dynamic parts of South Asia's labor markets are those that are least sheltered by tariffs. Over the past decade, the least protected sectors—those with tariffs below 5 percent—have generated more than three-quarters of South Asia's employment growth, although they employ only one-third of its workers. Firms in these sectors have also paid 16 percent higher wages than the average job and tended to employ significantly younger and more skilled workers. Tariffs on intermediate inputs are currently twice as high in South Asia as in other emerging market and developing economies; cuts in these tariffs could improve competitiveness, especially if implemented in conjunction with broader trade agreements.

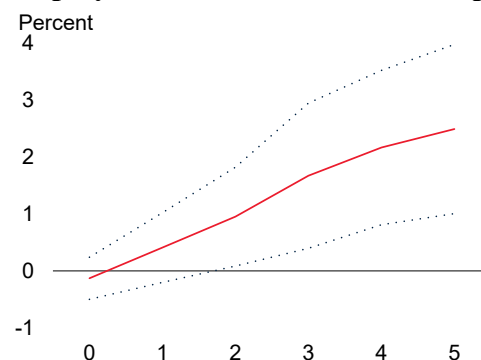
Policy implications. Governments could smooth the reallocation of workers in response to trade reform by carefully sequencing tariff cuts, starting with tariffs on the most widely used intermediate inputs. The highest tariffs, which affect a large share of the workforce, could be lowered more gradually. Complementary policies could reduce the job switching cost for workers, such as better transport and digital connectivity, upskilling, more transparent job or housing search options, and the streamlining of size-dependent policies that discourage firms' growth.

FIGURE 1. Jobs exposure to tariffs in South Asia

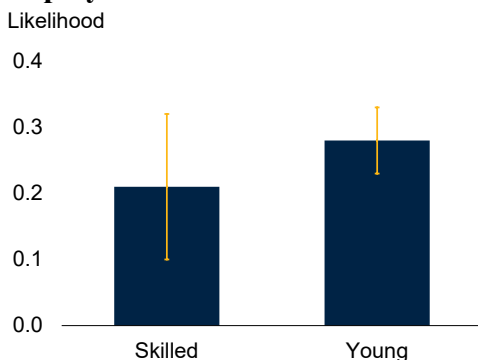
A. Employment ratio: Non-agriculture



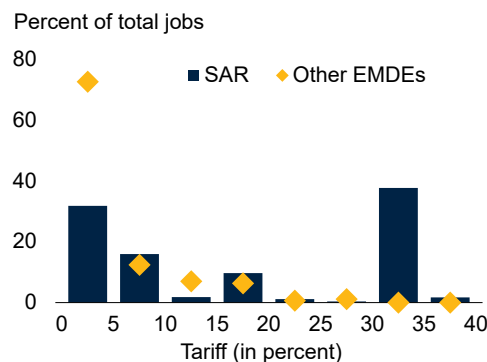
B. Cumulative impulse response of employment to start of tariff cut episode



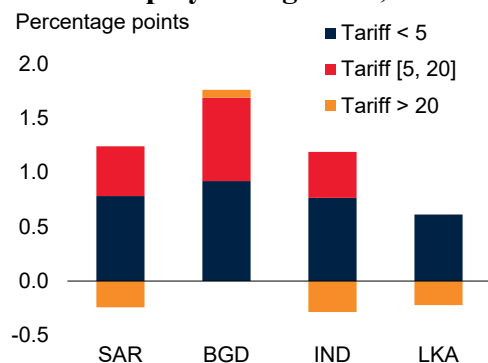
C. Likelihood of positive significant estimate: Differential impact of tariff cut on employment



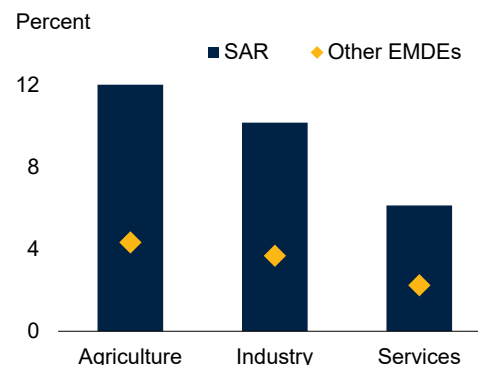
D. Number of workers, by output tariff bracket



E. South Asia: Contribution to average annual employment growth, 2010–23



F. Tariffs on intermediate inputs



Sources: ADB Multiregional Input-Output Tables (database); Global Labor Database (database); IMF World Economic Outlook (database); International Labour Organization; Penn World Table (database); World Development Indicators (database); WTO Analytical Database; World Bank.

Note: BGD = Bangladesh; EMDEs = emerging market and developing economies; IND = India; LKA = Sri Lanka; SAR = South Asia.

A. Employment ratios are expressed as share of the population aged 15 or older. Aggregate employment series is derived from Penn World Tables, extended beyond 2019 using the employment growth rate of the ILO employment



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series. Sectoral employment is constructed by splicing the aggregate employment series with the sectoral shares from the ILO modeled employment series. Working-age population-weighted averages of country groups.

B. Episodes are defined as the largest decile of one-year and five-year tariff reductions among up to 122 countries during 1995–2022, with 31 countries experiencing 33 tariff reduction episodes. Impulse response function is from a local projection estimating of cumulative changes in log employment on a dummy variable for the start of the tariff reduction episode. Dotted lines show 95 percent confidence intervals.

C. Based on a review of 83 studies on the domestic effect of trade liberalization using empirical estimates. Bars show the estimated marginal likelihood that impact of tariff cut on employment or wages is statistically significantly more positive by worker characteristics. Whiskers show the one-standard-error band on the estimated likelihood. A “skilled” worker is as defined in study, or is white collar or non-production worker, or has completed at least upper secondary school. A “young” worker is below the age of 30.

D. Figure reports simple averages of the ad valorem most-favored-nation duties applied. South Asia comprises latest data for all 6 countries in the region, and “other EMDEs” comprises 6 comparator countries. For Sri Lanka, data include para-tariffs.

E. Sample is restricted to Bangladesh, India, and Sri Lanka due to employment data availability at the two-digit level between 2010–14 to compute growth rates for at least a decade.

F. Tariffs on intermediate inputs are calculated as the weighted average across inputs (split from HS6 product codes using the Classification by Broad Economic Categories) used in the respective sectors.