

Memo by Raphael Kaplinsky

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I found the background paper prepared by Tim and Gary to be very insightful. However, there is one issue which I think the paper did not address which is both a conceptual problem and a potential embarrassment if our work is to be read by economists, or rather Economists. Conceptually, focusing on individual sectors can misinterpret the overall employment effect of trade, since in a general-equilibrium world, employment-losses in a single sector may in fact create employment gains in another (for example, by cheapening the cost of inputs). This is a fundamental issue which has to caution our value chain/industry analyses of the employment effects of trade and technical change

Related to this we would be foolhardy to ignore the heated and extensive debate in the 1990s amongst economists on the employment losses from trade. As you know Adrian Wood's book essentially sparked this debate and whilst he (and his camp) argued that there was a significant employment fallout from trade with developing countries, others (notably Slaughter and Lawrence) argued that this was incorrect and that the primary driver for unemployment of the unskilled in the US and Europe (and of adverse income distribution trends) was technical change. In sum, they argued the case for unfettered free trade, whereas Wood had argued that active state interventions in the labour markets was necessary if trade with low-income economies was not to lead to politically and ethically unsustainable trends in income distribution.

VC analysis and industry studies have a role to play in this debate since much of the technical change observed by Slaughter, Lawrence and others was stimulated by competition from low-wage economies using relatively labour-intensive technologies. Our detailed analysis can illustrate this well. Incidentally, and this is a separate issue, both of these interpretations are weakened by the aggregated trade data which both camps use and which confuses intra- and inter-industry effects – for example, to what extent are China's "high-tech" electronic exports a sum of labour-intensive assembly? This is again an issue which can be informed by VC analysis, but also by the use of more disaggregated trade data in macro-analyses (paper available on this if anyone wants).

So, a brief note of caution in our discussions, on both counts. First, lets make sure we look at inter-industry and economy-wide impacts of what we observe in our VC/industry studies. And, second, there's no point in ignoring the clout of the discussions amongst these economists, and if we are able, I believe we should ensure that we relate to this literature.

(A small point of historiography. Much of our analysis was preceded by the work of Froebel, Heinrichs and Kreye (and then Gerry Helleiner) in the early 1980s on the New International Division of Labour. Similarly the work on the role of global buyers was as I remember first raised in a paper in *World Development* in 1973.... We seldom relate to this literature, which seems a pity to me.)