

**A critical evaluation of policies and
programmes that mitigate the effects of free
trade on unemployment**

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Table of Abbreviations

ALMP	Active Labour Market Policy
ASEAN	Association of South East Asian Nations
CAAP	Canadian Adjustment Assistance Programmes
CBEG	Competitive Business and Employment Growth
CEDU	Community Employment Development Unit
CEG	Community Employment Group
CER	Closer Economic Relations Agreement
DOL	Department of Labour
DWS	Displaced Worker Surveys
EBSMs	Employment Benefits and Support Measures
EI	Employment Insurance
ESP	Earnings Supplement Project
EU	European Union
FTA	Free Trade Agreement
GAAP	General Adjustment Assistance Programme
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IMF	International Monetary Fund
JSA	Job Seeker Agreement
NAFTA	North America Free Trade Agreement
NAFTA -TAA	North America Free Trade Agreement- Trade Adjustment Assistance
NZTCEP	NZ and Thailand Closer Economic Partnership
NZSCEP	NZ and Singapore Closer Economic Partnership
OECD	Organization for Economic Cooperation and Development
PES	Public Employment Service
SAA	Special Adjustment Assistance

SANMA	Special Assistance for Non-Metropolitan Areas
TAA	Trade Adjustment Assistance
TCF	Textile, Clothing and Footwear
TIA	Training Incentive Allowance
TRA	Trade Readjustment Allowance
TWG	Transition to Work Grant
WRK4U	Work for You Programme
WTO	World Trade Organization

Abstract

Free trade is a net gain to both trading partners in general. However, trade liberalization does harm some inefficient industries. This research will check various labor market policies and programmes that might be used to reduce the effects on the people who lose jobs from free trade. The purpose of this paper is to evaluate programmes such as Trade Adjustment Assistance programmes, wage insurance, wage subsidy and training subsidy, using qualitative means to critically evaluate such schemes, especially in the context of the New Zealand labour market. This research provides seven optional labour market policy strategies to the New Zealand government for future labour policy consideration.

Chapter 1 Introduction and background

In recent decades, trade globalization and liberalization have increased in popularity. Free trade areas are growing in prominence through increased multilateral trade liberalization in the World Trade Organization (WTO). In general, free trade makes possible a progressive extension of the area within which specialization and the division of labour takes place, according to the economic principle of comparative advantage. This produces gains from trade in overall productivity and economic efficiency and results in higher living standards both at home and abroad (Johnson, 2007). Similarly, evidence provided in the OECD (2005) shows that trade and investment liberalization has been an important source of rising employment and living standards. Davidson, Martin and Matusz, (1999) believe that free trade expands trade partners' export markets, resulting in an increasing demand for some products, and thus creating more jobs. Moreover, additional efficiency gains could be achieved from international trade, including increasing overall product market competition (Markusen, 1981), the exploitation of economies of scale and enhanced product variety (Krugman, 1979), and technology spillovers or increases in R&D investment (Bartelsman *et al.* 2004; Rivera-Batiz and Romer, 1991). Although it is difficult to measure the gains from trade precisely, a number of studies have provided evidence that a rise in the ratio of trade to GDP is associated with an increase in per-capita income, and more open countries typically grow faster than less open ones, in addition to enjoying higher income levels at any given period of time (Dollar, 1992; Sachs and Warner, 1995; Harrison, 1996; Edwards, 1998; Frankel and Romer, 1999, cited in OECD, 2005).

In reality, however, “realizing the gains from trade requires the move of production

factors away from activities in which a country is relatively less efficient than its trading partners and towards activities where it is relatively more efficient” (OECD, 2005, p.11). It means that there are job losses in some sectors with trade liberalization, such as manufacturing jobs in some developed countries (Kletzer, 2004). Furthermore, there have been increasing anxieties that expanding global trade puts downward pressure on the wages and working conditions of many workers in OECD countries (OECD, 2005). Increasing free trade may also induce adjustment costs which are caused by the reduction in wages and living standards for some workers who were employed in affected trade sectors. Furthermore, not addressing these adjustment costs may erode public support for further open trade policies (OECD, 2005), and for undertaking policy reform in both economic and social areas (Prowse, 2005). Most of these factors suggest that “the labour-market adjustment costs associated with trade-related displacement may merit a policy response” (OECD, 2005, p.35).

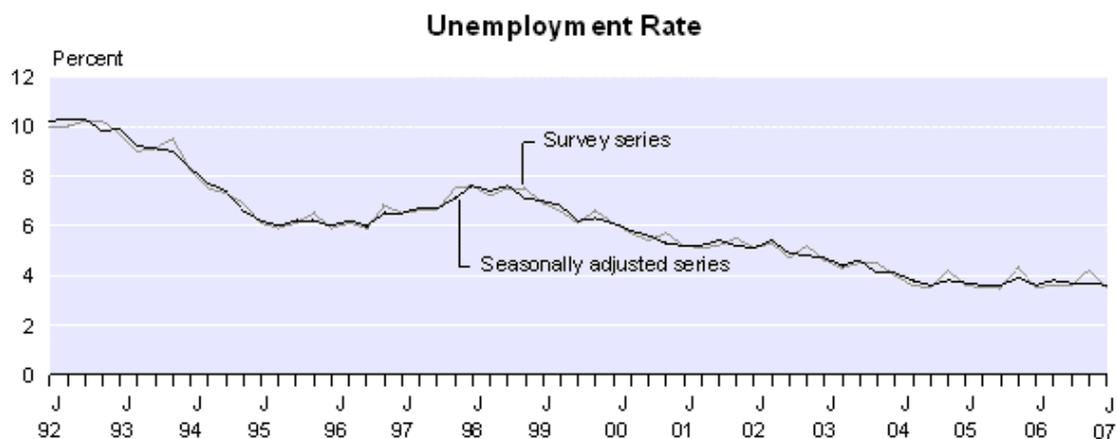
There is a large literature devoted to identifying the winners and losers from free trade and trying to measure their gains and losses (Davidson and Matusz, 2006). Furthermore, there is an increasing number of scholars (Dixit and Norman, 1980, 1986; Brecher and Choudhri, 1994; Feenstra and Lewis, 1994, cited in Davidson and Matusz, 2006; Kletzer, 2004; Kaivanto, 2007) suggesting that the job losers from free trade could be fully compensated by various methods. Under the traditional full employment mode of trade theory, Dixit and Norman, (1986, cited in Davidson and Matusz, 2006) have suggested that using commodity taxes could be a way, without exhausting the gains from free trade, to compensate the losers. Kletzer and Litan (2001, cited in Kaivanto, 2007) have indicated that wage insurance is instrumental in reducing worker anxiety and thereby “should reduce worker opposition to trade liberalization and globalization more broadly” (p.962). Several other methods such as wage subsidy, employment subsidy and training subsidies (e.g. trade adjustment assistance (TAA)), are also considered as useful policies to alleviate the burden placed on workers who lose their jobs from free trade (Davidson and Matusz, 2006) or are forced to move towards lower paying jobs. In practice, some countries have

already carried out TAA programmes. U.S.A.'s Trade Expansion Act of 1962, and the earnings supplement project (ESP) in Canada are two examples in the policy arena.

New Zealand (NZ) is a small open economy, which is heavily reliant and impacted on by the international environment (Smith, 2004). According to Statistics NZ (2007), about 35 per cent of NZ's total GDP is made up of export receipts from goods and services. NZ therefore is a strongly trade-oriented economy and the NZ government has emphasised that, as a small country, NZ needs access to large overseas markets. Therefore, the NZ government looks to work closely with individual trading partners to solve problems and seek more open trade and investment relationships (WTO, 2007). NZ's first and highly successful FTA was signed in 1983 with Australia. NZ also has a free trade deal with Singapore, Thailand, and a Pacific Four Agreement (NZ, Singapore, Chile and Brunei). NZ has recently concluded the negotiation of FTA with China and signed the FTA agreement in April 2008. NZ has also initiated free trade negotiations with Hong Kong, Malaysia, and the Association of South East Asian Nations (ASEAN).

Some scholars believed that "NZ's under-skilled, under-employed, low wage, low inflation, high exchange rate, export-driven economy was totally exposed to international forces, and the victims of the market were forced to depend on shrinking welfare safety net or private charity" (Jane Kelsey, 1995, p.2, cited in McMillan, 1998). However, the general unemployment rate has actually decreased (with the exception of 1998 and 1999) since 1992 (Statistics NZ, 2007, see figure 1). Particularly, the unemployment rate fell to 4.9 percent in 2002, a fifteen year low. Furthermore, the unemployment rate has consistently kept low since then, remaining under 4 per cent since 2004. This paints a picture of the NZ labour market being in a strong position.

Figure 1



Source: Statistics New Zealand 2007

The NZ government may have also contributed to the current situation in the labour market. Although there are no targeted policies or programmes to support trade-displaced workers in NZ, some general policies or programmes such as Competitive Business and Employment Growth (CBEG) programme, and the Community Employment Development Unit (CEDU was renamed Community Employment Group (CEG)) encourage more flexible and more local control thus allowing (PMTFOE, 1994, p.13, cited in Scott & Pawson, 1997), communities to “develop their own solution to unemployment in partnership with government” (PMTFE, 1994, p.15, cited in Scott & Pawson, 1997).

Fears or anxieties that rising international economic integration increases job losses and reduction in wages and working conditions appear to be widespread in developed countries (OECD, 2005). For example, recently, two of NZ’s best-known companies, Fish & Paykel Appliance and ANZ are moving jobs to low labour cost countries. It results in 430 job losses and 400 job changes in NZ, but top management from both of firms believed that outsourcing would give them competitive advantages (NZ HERALD, 2008). Although Fisher & Paykel and ANZ still have business operating in NZ, the anxieties of job loss or job changes are not surprising. Such fears may become

a main obstacle to further free trade reform. Therefore, governments and/or private organizations must have policy response to assist people who are adversely affected by trade-related structural adjustment. Given the multitude of policies carried out in different countries, it is difficult to know which one is most suitable for the circumstances of the NZ labour market. In this paper, I will critically evaluate current labour market policies or programmes, specifically targeted at trade related unemployment, and then attempt to find which policy or set of policies may be suitable for the NZ labour market.

The following sections and chapters will use a qualitative research methodology. The qualitative approach to research involves gathering a great deal of information about a small number of subjects (Veal, 2005). Specifically, Veal (2005) believed that “the information collected is generally not presentable in numerical form and conclusions are not based on statistical analysis” (p.26). In this study, most of the analysis such as a critique of Trade Adjustment Assistance programmes or similar policies carried out in other countries will be of a descriptive nature. Consequently, the conclusions made in this study will be based solely on qualitative analysis. This study will not rank these programmes or policies. It will compare these programmes and policies in different states or countries so that a recommendation will be able to be put forward on what method will best suit the current situation of the NZ labour market. Although I will utilise some numerical data about the effects of carrying out TAA programmes or policies, the analysis of this data will again be provided in a descriptive format.

Information about the method of Trade Adjustment Assistance that is adopted by different countries or suggested by economists will be collected firstly from a variety of past research studies. Comparisons of the different policies or variants of similar policies will be analyzed, with a focus on the United States (where the majority of the research emanates from).

This dissertation is organized as follows. The effects of international trade on

employment and wages in developed countries; especially in OECD countries are discussed in Chapter 2. Attention in Chapter 3 turns to analyzing how trade-adjustment costs related to job displacement are distributed to the workers. How a variant of trade adjustment assistance policies or programmes work in overseas countries is also discussed. In Chapter 4, the NZ economy and labour market situation will be introduced briefly. Attention then turns to an analysis of the current labour market policy strategy that the NZ government should take when NZ attempts to further open its free trade doors to the world.

Chapter 2 Trade related job loss – theory and evidence

As commonly understood and used in policy circles, the term “trade related job loss” refers to job losses caused by an increase in imported goods (Kletzer, 2004) as well as the outsourcing of production or part of production of goods and services (OECD, 2005). This understanding is likely to lead to anxiety or fear that international trade is indeed a causal mechanism responsible for rising unemployment and/or downward wage pressures. Against this background, it is unremarkable to state that the identification of the impact and incident of global trade on labour market disadvantages has gained in prominence. Upon completion of such assessments, governments and other policy organizations can then develop suitable policies and policy instruments to address these labour market imbalances, for example by developing suitable assistance programmes aimed at trade-displaced workers to find them alternative employment.

World trade has grown rapidly over the past fifty years. According to the OECD, (2005), the annual outflows of foreign investment were twenty-five times higher by the end of the 1990s than they were during the 1950s. International institutions such as the World Bank, IMF, and the OECD regularly promulgate advice predicated on the belief that openness in economic policy generates “predictable and positive consequences for growth” (Rodríguez & Rodrik, 1999, p.3). A recent report by the OECD (1998, p.36, cited in Rodríguez & Rodrik, 1999) states: “More open and outward-oriented economies consistently outperform countries with restrictive trade and [foreign] investment regimes.” The IMF (1997, p.84, cited in Rodríguez & Rodrik) adds further strength to this argument by stating that policies of foreign trade have become increasingly important factors to improve a country’s economic performance.

The theoretical literature has clearly identified the gains from trade: welfare benefits can be achieved when countries specialize in the production of goods and services such that they will export goods that can be produced relatively efficiently, and they will import goods that they would otherwise produce relatively inefficiently. In other words, a country’s production and trade pattern is determined by comparative advantage. Davidson and Matusz (2006) take matters further and suggest that, by removing tariffs and allowing an economy to adjust to free trade equilibrium, the highest level of aggregate welfare will be achieved.

Turning our attention to the labour market, international trade has, reportedly, a real impact on the labour market and respective labour market policies (Kletzer, 2004). The OECD (2005) believes that the most important long-run impact of global trade and investment on the labour market can be observed by pointing to increases in average real wages, which cause labour shifts from declining sectors to growing industries. However, neither economic theory nor economic history seems to suggest that increasing international trade undermines aggregate employment (OECD, 2005). A study by Frankel and Romer (1999, pp. 380-81) found that “increasing the ratio of

trade to GDP by one percent raises the per-capital income by between one-half and two percent". What is more, some scholars have argued that a ten percentage point increase in trade openness results in a productivity increase of four percent (Bassanini and Scarpetta, 2001). Other studies also provided evidence in support of the notion that a more open economy generally grows more rapidly than less open economies. The former also enjoy higher income levels at any given period of time (Dollar, 1992; Sachs and Warner, 1995; Harrison, 1996; Edwards, 1998, cited in OECD, 2005).

However, this is not where the story ends. New trade theorists argue that increasing return specializations would simply alter the pattern of comparative advantage (Deraniyagala & Fine, 2007). Realizing the gains from international trade requires production factors to move away from less efficient activities towards relatively more efficient ones (OECD, 2005). It also implies that, when a tariff is lowered, consumers may benefit, but workers involved in inefficiently producing the goods are made worse off. Job losses in some sectors are thus seen as inevitable consequences, although these job losses go hand in hand with new job opportunities in other sectors. In addition, it is likely that increasing trade with low-wage countries has played at least some role in increasing wage inequalities across many OECD countries (OECD, 2005).

As a result, it is important to identify how many job losses are related to international trade. The problem I face is that there is no universally accepted method of identifying whether a given worker is trade-displaced. The share of workers in a given industry who have become trade-displaced is equally difficult to gauge (Kletzer, 2004). The OECD (2005) indicates that only a fraction of job losses recorded in OECD countries are likely to be directly attributable to trade and investment liberalization. To illustrate this, data for 15 OECD countries over the period 1900-2000 show that the high-import-competition industries within manufacturing only accounted for 4 per cent of total employment on average (OECD, 2005). Kletzer (2004) also concludes that the relationship between increasing international trade and high rates of job losses

is rather weak. However, he points out that growing imports play a small role in job losses of an economy, but a large role in traditional high-import-competing industries.

Although no significant correlation between global trade and job loss has been reported, a negative notion of trade-displacement exists in public discourse (Kletzer, 2004). In many ways, this should come as no surprise. Company closures and workers' unemployment are painful experiences for individual workers and their communities, while the economic and social costs for a society as a whole can be large (OECD, 2005). Regardless of whether a sufficient number of new jobs can be created to compensate for the jobs lost, trade causes painful adjustments for those who lose their jobs even if they find new jobs relatively quickly. The costs incurred by these workers are not necessarily offset by the creation of new and possibly better jobs (Poole, 2007). There are, of course, other negative effects on trade-displaced workers, which the economic literature often ignores. Social and psychological costs following job loss can be considerable, including increased risks of divorce and deteriorating health status of affected individuals (Eliason, 2004).

In light of the above concerns, governments, particularly in developed countries, have experimented with a wide range of policies that focus on assisting trade-displaced workers, including the Trade Adjustment Assistance programme (TAA) in the United States, the Public Employment Service (PES) in Finland, and the Earnings Supplement Project (ESP) in Canada. Chapter 3 of this dissertation will analyze some of these trade adjustment policies in more detail.

Chapter 3 Adjustment cost and Trade Adjustment Assistance practice

In the long run, enhanced international trade is theoretically expected to improve economic performance for countries involved, via greater specialization and international competition (Molnar, Pain, and Taglioni, 2007). However, the improved incomes which come from international trade may be inequitable across the different trading partners. In addition, workers, particularly those working in import-competing industries, may experience high adjustment costs. In countries such as the U.S. and Canada, the government does intervene to reduce these adjustment costs and assist and compensate these unemployed workers effectively and efficiently. Consequently, it is important to identify how large these trade adjustment costs are and how they damage displaced workers' earnings in the short run and potential earnings in the long run.

Section 3.1 in this chapter covers some channels through which trade adjustment costs are delivered to workers. The use of TAA programmes in the U.S., Canada and Australia will be analysed in Section 3.2. From this analysis, it emerges that wage insurance is an important tool used when the government intervenes in trade-related unemployment. Section 3.3 of this chapter therefore discusses the various aspects of using this particular policy.

3.1 Adjustment costs for trade-related displacement workers

Although the empirical literature supports the theoretical arguments that trade increases aggregate productivity and welfare, trade theory also indicates that international trade may reduce the welfare of certain individuals. In particular, the

income of workers who are working in certain sectors may fall after tariffs are cut down (OECD, 2005). Trade adjustment costs related to job displacement are delivered to the workers through several channels. Firstly, workers whose working skills are specialized to import-competing sectors in countries that have less of a comparative advantage than their rivals. Further, low-skilled workers in a country where high-skilled labour is relatively abundant may lose their job permanently. In the OECD, increasing trade with low-wage developing countries has become a crucial cause of a trend toward rising inequality which has recently characterized EU labour market outcomes (Feenstra and Hanson, 2003; OECD, 1997; Torres, 1997). A major reason for increased inequality has been the reduced opportunity to work for workers with low levels of educational qualification (OECD, 2005). Furthermore, expanded outsourcing to emerging economies by multinational companies, where economies have comparative advantage in the production of goods and services using low-skilled workers intensively, has been another important cause of the reduction in low-skilled jobs available in developed OECD economies.

Secondly, Kletzer (1998) found that trade-related displaced workers tend to be older and less educated than others in the workforce. The author found that such workers reported considerably longer spells of unemployment than laid-off workers in general (17 weeks versus 7.2 weeks respectively). He also found that the trade-displaced workers experienced the lowest probabilities of re-employment during 1981-1983 in the US.

Thirdly, re-employed trade-related displaced workers tend to have reduced earnings. The Displaced Worker Surveys (DWS) found that real weekly wages of new jobs were thirteen percent lower than earnings from previous jobs over the period 1981-1995 in US (Farber 1997, cited in Kletzer, 1998). Another cause of earnings losses could be the inability to find a new full-time job. According to the DWS, just 12% of displaced workers were displaced from part-time jobs, while 17% of displaced workers were re-employed in part-time jobs, which might imply a movement from

full-time to part-time employment. Similarly, Stevens (1997, cited in Kletzer, 1998) found that displaced workers have experienced large and persistent earnings losses. In her study, yearly earnings reduce about 25% in the first year after job replacement. In the second year, the losses remain 15% lower than the income from previous jobs. Furthermore, the losses appear to persist seven or more years after job replacement. The annual earnings are 6% to 12% percent below the earnings of those not displaced (Kletzer, 1998). In addition, it is interesting to note that there is considerable re-employment within the manufacturing sector. 50% of displaced workers, who were working in nondurable and durable goods manufacturing companies, are being re-employed in manufacturing (Kletzer, 2004). Kletzer (2004) found that about one-fifth of these workers suffer earnings losses in excess of 30%.

Job replacement in some import-competing areas is followed by increasing international trade and re-employment of replaced workers is impeded by the “heterogeneous skills, asymmetric information, geographic mismatch and poor job-search skill” (OECD, 2005, pp.35). Replaced workers experienced these costs of adjustment as the international economy integrated further. It follows that the optimal policy response may need to include plans on how to adjust the labour market costs related to international trade (Burgoon and Hiscox, 2000).

3.2 TAA policies and programmes

Traditional economic theory suggests that free trade is Pareto-efficient in that the winners from global trade can afford to compensate the losers and still enjoy net gains (OECD, 2005). However, given the growing research on the effects of trade-related displacement, current research in this area has focused on what equitable and efficient adjustment assistance and compensation programmes may include and how they can be set up (Burgoon and Hiscox, 2000). The current programmes carried out in developed countries are based on three main principles: efficiency, equity and

political economy (OECD, 2005). Firstly, TAA should improve the efficiency of the economy. The long spells of unemployment following displacement and short-term and persistent reduction in incomes after re-employment suggest that trade-displaced workers do not match well with their employers who might subsequently use their skills in an efficient manner (OECD, 2005). Displaced workers may also not have the knowledge or awareness to obtain information about where to find relevant job opportunities and may therefore lack the necessary job search skills required (Kletzer, 1998). Policies and programmes that improve job search skills for trade-displaced workers or that assist them to obtain opportunities of pro-employment training may improve the relative efficiency of their re-employment (OECD, 2005). Additionally, increased layoffs arising from high import-competing has resulted in substantial increases in public spending such as increased funding for unemployment benefits and job search assistance programmes. Therefore, policies that encourage employers to internalize these social costs would be useful to use public funding more efficiently, because these policies may result in the government being able to spend that money on other area of the economy in need (Blanchard and Tirole, 2003). Secondly, TAA should reflect equity. The majority of the people enjoy the gains from global free trade while a minority of workers suffers high adjustment costs. It is judged unjust. There are strong assumptions under equity that the losers can be compensated at least partially and often be treated as adequate justification for initiating policies or programmes, such as income transfer payments, which could help the losers and promote free trade policies (Kletzer, 2004). Thirdly, trade-related displaced workers without assistance would affect the advance of free trade policy and an open trading system in a country (OECD, 2005). The outcome of 60 years of public opinion surveys in the United States suggests that anxiety of unemployment will cause low level of public support for further trade liberalization, unless increasing international trade is accompanied by increased adjustment assistance for trade-displaced workers (Scheve and Slaughter, 2001). Consequently, TAA that may mitigate displaced workers' pain could pursue the process of free trade in a country.

The OECD (2005) also suggests several difficult problems of policy design:

“*i*) the appropriate balance between proactive and reactive measures; *ii*) whether and when it is desirable for labour market programmes to differentiate between trade-displaced workers and other displaced workers; *iii*) the extent to which workers experiencing earnings losses due to international competition should be compensated; and *iv*) how compensation can best be provided so as to avoid undermining incentives for trade-displaced workers to search actively for a new job.” (p.27). Governments should consider these points carefully when they design a national strategy to reduce trade adjustment costs for displaced workers, because these considerations decide how TAA can assist displaced workers and thus significantly reduce the anxiety resulting from trade-related displacement and cushion the impact on displaced workers’ earnings.

Trade adjustment assistance programmes have already been implemented in developed countries such as the United States, Canada, and Australia. The experiences in these three cases will be discussed in more detail in the following sections.

3.2.1 TAA policy in the U.S.

The U.S. created the first active labour market programme targeted at trade-related sector adjustment, TAA, in 1962. TAA became a programmatic alternative to Escape Clause protectionism in Section 201 of the U.S. trade law (Burgoon and Hiscox, 2000). The TAA programme is intended to pursue trade liberalization by providing unemployment compensation and re-employment service to workers who are displaced by foreign trade and increased imports, and help them adjust to changes in market circumstances (Decker & Corson, 1995).

Under TAA, displaced workers as a group from a firm or an industry should submit an application of being eligible for TAA to the Department of Labour (DOL). If DOL determines that the applicants' unemployment was due to international trade, the workers in the industry, as individuals, are eligible to apply for TAA benefits and other re-employment services. According to TAA, to be eligible, displaced workers must have had employment for at least 78 weeks in three years before the impact date, and must have served for at least 26 weeks in the preceding year in a company affected by rising import competition (Stein, 1982). Displaced workers are then entitled to a trade adjustment allowance equal to either 65 percent of their previous salaries or 65 percent of the average manufacturing wage, whichever is less. This allowance is drawn over no more than 52 weeks for those under 60 years old and 65 weeks for those over 60 years of age (Burgoon and Hiscox, 2000). If displaced workers are enrolled in an approved training scheme, an extra 26 weeks allowance is provided. In addition, families who received job offers in other areas could obtain relocation subsidies. Others could access the testing, counseling, placement and training facilities that are generally available (Male & Mutti, 1978).

In addition to the assistance to individuals, the federal government has also set up programmes to help trade-affected companies and communities suffering job losses. Under the TAA programme, assistance for firms was administered by the Department of Commerce's Economic Development Administration. The programme provides assistance to companies that can prove that increased imports have contributed importantly to declines in production or revenue and to layoffs. Under the programme, a variety of aid measures are available for firms. Such assistances include technical advice in relation to production and marketing; financial supports via direct government loans or 90 percent loan guarantees, and tax relief in permitting losses to be carried forward for five years, rather than three years (Stein, 1982). These loan guarantees, loans, and grants are provided to businesses and grantees in eligible areas to help stimulate private sector employment and growth (GAO, 2001).

When the programme was first established in 1962, stringent eligibility criteria of the TAA made it difficult for trade-displaced workers to access it (Burgoon and Hiscox, 2000). All 26 of the petitions between October 1962 and November 1969 were declined. (Stein, 1982) In the early 1970s the requirements were relaxed by the Trade Act of 1974. In 1974, the Trade Expansion Act was replaced by the less rigid and more accommodating Trade Act, which took effect in April 1975, in advance to the Tokyo Round GATT (Now WTO) negotiations. Eligibility requirements and programme benefits under the new and old trade acts are summarized in Tables 1 and 2, respectively.

Table 1
Worker Eligibility Criteria For Trade Adjustment Assistance

Trade Expansion Act of 1962	Trade Act of 1974
<i>1. Imports</i>	
Articles like or directly competitive with those produced by the applicant are being imported in increased quantities	Articles like or directly competitive with those produced by the applicant are being imported in greater absolute or proportional quantities.
<i>2. Displacement</i>	
Sales or production at the workers' firm must have declined.	Sales or production at the workers' firm must have declined.
Workers concerned must be unemployed or underemployed, or threatened with either.	A significant number or proportion of workers in a firm have been or are threatened with total or partial layoff.
<i>3. Causation</i>	
Increased imports must be the major fact causing unemployment or under-re-employment.	Imports must have contributed importantly to the separation of workers.
Increased imports must be in major part the results of trade concessions granted under the trade agreement.	

Source: Paraphrased from the statutory language of 19 U.S.C. Sec. 1901 and Sec. 221, P.L. 93-618, cited in Male & Mutti (1978).

Table 2:
Worker Benefits Under Trade Adjustment Assistance

Trade Expansion Act of 1962	Trade Act of 1974
<i>1. Adjustment Allowance</i>	
A weekly adjustment allowance of 65 percent of the workers' average weekly wage, but not to exceed 65 percent of the average weekly manufacturing wage, for up to 52 weeks with up to 26 weeks extension for workers in training or workers over 60 years old.	A weekly adjustment allowance of 70 percent of the workers' average weekly wage, but not to exceed 70 percent of the average weekly manufacturing wage, for up to 52 weeks with up to 26 weeks extension for workers in training or workers over 60 years old.
<i>2. Employment Services</i>	
Training, testing, counseling, and placement services provided under other federal laws.	Training, testing, counseling, placement services, and other services through cooperating state agencies.
<i>3. Relocation Allowance</i>	
If a worker has a job offer in another area and the worker is a family head, a relocation allowance covering family moving expenses plus a lump-sum payment of 2 1/2 times the average weekly manufacturing wage will be paid to the worker	Workers who wish to move to another area may receive a relocation allowance of 80 percent of the necessary relocation expenses plus a lump-sum payment of 3 times the worker's average age weekly wage, up to \$500.
<i>4. Other Allowance</i>	
For travel to distant training centers grant 10 cents per mile plus a \$5 per day subsistence allowance.	Job-search allowance of 80 percent of a worker's job-search expenses up to \$500.

Source: Trade Expansion Act of 1962, Sectors. 321-330, and Trade Act of 1974, Sectors. 23 1-238, cited in Male & Mutti (1978).

Under the new act, workers are entitled to benefits from TAA if they become unemployed and firms too are similarly entitled, if sales decline, both due to import increases of like or directly competitive items contributing importantly to such impacts. Displaced workers are now eligible for the lesser of either 70 percent of their previous salaries or 70 percent of the average weekly manufacturing wage (Male and Mutti, 1978). In addition, a job search allowance of up to \$500 has been introduced to TAA for entire communities. In order to address claims efficiently, applications are no longer handled by the International Trade Commission but by the Department of

Labor (for workers) and Department of Commerce (for firms). Trade Act of 1974 resulted in 435,000 displaced workers receiving trade adjustment allowances between January 1975, when the act became law, and July 31, 1976 (Stein, 1982). In the fiscal year 1976, expenditure for adjustment allowances reached over \$1.3 billion while the average annual spending was less than \$6 million under the Trade Expansion Act of 1962 (Male & Mutti, 1978). Obviously, under the new law, displaced workers were obtaining greater compensation for trade-related losses than was previously the case

In 1981, The Omnibus Budget Reconciliation Act of 1981 sharply reduced programme expenditure during the 1980s, while the programme's rules were shifted from compensation to training (OECD, 2005). The major changes in the programme were to limit benefits and to spend more funds on offering adjustment services, particularly re-employment training (Decker & Corson, 1995). Furthermore, in 1988, eligible applicants of TAA and the recipients of the Trade Readjustment Allowance (TRA)¹ were required to take part in an approved training course before they obtained benefits, unless they received a waiver exempting them under certain circumstances (Decker & Corson, 1995).

In 1993, the push to enact the North America Free Trade Agreement (NAFTA) in the US Congress prompted the creation of a sister programme, the NAFTA Transitional Adjustment Assistance (NAFTA-TAA). Although, NAFTA-import-related job losses were more modest, accounting for 10.7% of total job losses, the NAFTA-TAA was somewhat more generous than the TAA (OECD, 2005). The NAFTA-TAA programme covers workers who were displaced because of increased imports from Mexico or Canada, or the movement of production to Mexico or Canada. In addition to the NAFTA-TAA programme provided for in the North American Free Trade Implementation Act, a Statement of Administrative Action was issued that offered

¹ TRA is an extended Unemployment Insurance (UI) benefits. The TRA benefits equal the UI benefits amount and extend the duration from 26 weeks to 52 weeks (Decker & Corson, 1995)

services and benefits for “secondary workers”, who were working for firms that supply or assemble products produced by directly affected firms certified under NAFTA-TAA (GAO, 2001). However, such secondary workers were not eligible for the NAFTA-TAA programme but received benefits under another displaced worker programme.

In 2002, the Trade Adjustment Assistance Reform Act merged NAFTA-TAA into TAA. The TAA Reform Act of 2002 also attempted to provide greater income support (OECD, 2005). For example, the maximum duration of benefit eligibility was extended to 78 weeks, up from 52, and workers taking part in remedial training courses were entitled to benefits for an additional 26 weeks (Kletzer, 2004). The revised programme also makes it easier for displaced workers who have difficulty to take training courses to waive the training requirement for receiving income benefits. It is noticeable that the TAA adds a refundable tax credit for health insurance, the Health Care Tax Credit, and the Alternative Trade Adjustment Assistance programme that includes an experimental wage insurance programme for older trade-displaced workers. During 2000-2002, an average of 39,000 workers became new recipients under this merged and revised TAA programme annually (Kletzer, 2004).

There are some arguments in favor of the US TAA programme. Decker & Corson, (1995) pointed out that the TAA programme was well-targeted as, under the new act, serviced workers who were permanently displaced from their jobs found it difficult to get a job with a higher pay than the UI benefit. For example, the training requirement under the new law might affect the recipients of TRA in two ways. First, it increased the participating rate of approved training programmes among displaced workers. Second, it assisted TRA in spending effectively for those who need training and reducing the duration of the unemployment spell and probably, too, increased incomes due to quick re-employment (Decker & Corson, 1995).

On the other hand, there are also researchers revealing defects and inefficiency of the

TAA. GAO (2001, and 2004), and Kletzer and Rosen, (2005) argued that 40 years of experience with the TAA has not revealed a clear economic efficiency rationale for having a targeted programme for all trade-displaced workers. In particular, the TAA has not met the distinct needs of trade displaced workers, but has provided a series of the same type of job search assistance, re-employment training and relocation services routinely offered to participants in active labour market policy (ALMP) (Kletzer, 2004). Stein (1982) found that only one out of ten workers in TAA found a suitable new job related to the training they received through the programme. Furthermore, Kletzer (2004, p.1) argued that “the creation of TAA and reforms to TAA has some parallels to rounds of trade liberalization, but the important dimension is in results, in that there is little proof that TAA brings to workers any sense of adequate compensation.” Training does help some displaced workers, but overall the evidence suggests an appraisal similar to Jacobson (1998, p. 505), “that training should be used sparingly,” and that “policymakers appear to underrate the ability of most workers to acquire substantially more human-capital-enhancing knowledge on the job rather than in the classroom.” The Office of Inspector General in 1993 concluded that the TAA programme did not work well in helping displaced workers back into suitable jobs, and particularly training course did not meet those workers needs (Magee, 2003).

GAO, (2001) also argued that offering trade adjustment assistance cannot resolve some of the long-term challenges, particularly those faced by lower-skilled workers and less economically diverse communities. The review found that approximately 80 percent of the TAA and NAFTA-TAA workers who had a high school education or less were under benefits system in 1999 and 2000, compared to 42 percent in the overall labour force. In addition, many of these displaced workers have been out of the educational system for 20 years, and in some communities, many of them have limited English language skills. Because of these challenges, TAA-sponsored training is unlikely to fill the gap between displaced workers and available jobs in the current economy.

In addition, GAO (2001) and Stein (1978) point out that the general effectiveness of trade adjustment assistance in the U.S. has been marred by cumbersome bureaucratic processes in programme administration. Firstly, slow processing in determining eligible job losers for TAA has resulted in low take-up rates and often long delays in the receipt of adjustment assistance. Secondly, the programmes have structural problems which impede effective service delivery (GAO, 2001). One of the problems is that the TAA and NAFTA-TAA programmes have a gap between extended income support payments, provided for up to 18 months, and training service, which is provided for up to 24 months. Consequently, displaced workers generally drop out of training when income support payments stop, because they cannot afford to remain in study without income assistance. Another problem with the programme structure was the instability of funding for training benefits (GAO, 2001). Because TAA and NAFTA-TAA certifications fluctuate and federal funding is provided to states quarterly and is based on prior expenditures, some states may not have received sufficient funding to cover workers enrolled during a quarter. In addition, Department of Labor delays in certifying TAA and NAFTA-TAA petitions or state programme administrative office delays in approving workers' training plans have been shown to limit workers' options (Stein, 1982).

Studies analyzing the adjustment experience of trade related displaced workers and the impact of adjustment programmes on their ability to regain employment have thrown light on the usefulness of the U.S. programmes (Stein, 1982) These researches show that the TAA programme was established mainly for political motivation related to how majority coalitions have been obtained for trade liberalization legislation in the United States (Destler, 2005; Kletzer and Rosen, 2005). For instance, the primary purpose of both, the 1962 and 1974 trade acts was to authorize U.S. negotiations in the Kennedy and Tokyo General Agreements on Tariffs and Trade rounds (GATT, now WTO). The second factor reinforcing political support for TAA may be the relatively modest levels of support offered by the general unemployment insurance and ALMP systems in the United States, which heighten the overall level of anxiety

associated with the prospect of increased trade competition (OECD, 2005).

3.2.2 TAA in Canada

Canadian Adjustment Assistance Programmes (CAAP) consist of both general and industry specific schemes. In December 1967, the General Adjustment Assistance Programme (GAAP) was initiated. The GAAP was one part of a national strategy to develop the Canadian industry and economy (Ritchie, 1992). It was established to aid companies who were either adversely affected by increasing imports as a result of tariff reduction negotiations, or who wished to attract new export opportunities.

The assistance included a 90% government guarantee on private loans or the direct provision of public lending in special situations (Stein, 1982). Aid was confined to companies without access to an alternative and was subject to the submission and approval of projects detailing feasible adjustment plans. Furthermore, the government defrayed 50 percent of the spending of drafting and submitting proposals (Ritchie, 1992).

However, import competing firms were not forced to shift from products in which Canada did not have a comparative advantage. In 1971, coverage of the GAAP was expanded. There was no longer any requirement to demonstrate disadvantages related to international free trade and trade-related injuries. The revised scheme covered manufacturers who wished to expand or restructure their plants to improve their performance in international markets, who perceived opportunities to access new markets or who wished to adapt to disruptive import inflows (Ritchie, 1992).

In terms of assistance to displaced workers, the GAAP required firms laying off twenty or more employees to serve displaced workers with three months' notice (Stein, 1982). Apart from that, trade displaced workers obtained the same services as the

other unemployed, which in addition to maintenance allowances, included travel subsidies for job searches and grants to help meet relocation expenses (Kesselman, 1986).

However, there have been an increasing number of arguments that the programmes have not satisfied demands for special compensation. The GAAP has several structural problems. First, the GAAP has a lack of adequate provision for individual displaced workers. Second, the GAAP assist inefficient export companies to withstand international competition. These import competing firms were not required to shift from products which in Canada had a comparative disadvantage when they accepted the fund. This kind of financial support is inefficient. Therefore, it was suggested that the GAAP should establish an industrial adjustment and redeployment fund to help shift the country's highly protected, labour-intensive, and standard-technology activities (Stein, 1982). The argument also suggested that an effective GAAP would have to pay more attention to regional policies, since the majority of workers who were particularly vulnerable to international competitive pressures resided in Quebec.

More recently, the Canadian government provides general benefits for all of the unemployed workers under the Employment Insurance Act. It is noticeable that the government offers more benefits and support services for the workers and the unemployed workers. These activities include Employment Benefits and Support Measures (EBSMs), as well as measures and services provided by the National Employment Service. Most EBSMs are delivered through Labour Market Development Agreements with all of the provinces and territories, in the form of either a co-managed agreement or a transfer agreement. It is also in part to respond to the differing needs of labour markets across Canada. These EBSMs are composed of four benefit programs—Targeted Wage Subsidies, Self-Employment Assistance, Job Creation Partnerships and Skills Development—and a series of Employment Services.

These services include job search assistance, resume preparation, and other job search or employment-related activities. Furthermore, the Canada government has continued to focus on improving policy delivery. In 2005, the Canada government established the department of Service Canada to deliver all of programmes and services, including the EI and EBSMs, via a one-stop service delivery network.

3.2.3 TAA in Australia

In 1973, the Australian government announced a unilateral tariff reduction of 25 percent across all goods, which was accompanied by an interim adjustment assistance programme. The programme was administered by a one-man tribunal. In 1974, a Special Adjustment Assistance (SAA) programme was set up in order to promote and ease the process of desirable change (OECD, 1975). The SAA programme provided assistance to companies and workers who were affected by government actions. These actions were prescribed by the government such as tariff decisions in connection with consumer electronic equipment and components, domestic appliances and woven man-made fibre fabrics; the lifting of import quotas on woven shirts and knitted outerwear; the reduction of subsidies to shipbuilders; actions involving dairy industry adjustments; the passenger and motor vehicle and components decision and the removal of sales tax exemption on aerated waters (Stein, 1982).

The SAA also offered income maintenance for workers and self-employed or small scale employers who were not under the official prescribed category if they became unemployed as a result of the government policy. The earning maintenance was equal to the workers average wages over the preceding six months, and with a ceiling of 1.5 times the national average wage. Payments of income maintenance were made for only six months, while the TAA subsidy in the US was provided for two years. If a firm was eligible for assistance, the financial support would be offered in order to help them achieve economic production and desired modification. These financial benefits

included “a closure compensation equal to 85 percent of the difference between the declared value of a firm's assets for taxation purposes and their realized sales value, 50 percent of the costs of acquiring technical consultative services (up to a maximum of \$10,000) and 90 percent loan guarantees for undertaking adjustments consistent with government policy” (Stein, 1982, p.10). In addition, the Special Assistance for Non-Metropolitan Areas (SANMA), as a supplementary scheme, was initiated to assist small town manufacturers that were affected by prescribed actions.

However, there were some criticisms of the SAA. Most of them argued that the decisions to prescribe particular government actions appeared quite arbitrary (Stein, 1982). The Crawford Report (1979) pointed out that the programme merely provided temporary assistance to maintain employment without providing incentives for resource transfers to more efficient industries. The programme also has the problem of bureaucratic response in terms of inordinate delays in processing claim (Stein, 1982). In 1977, because of large increases in aggregate unemployment which generated dissatisfaction with the efficiency and equity aspects of the programme, and because of the government's decision to re-impose import quotas to sustain output in some sensitive industries such as agriculture and dairy, both adjustment programmes were permanently suspended. Since then Australia has administered a number of sector adjustment assistance programmes aimed at industries hit hard by trade liberalization. These programmes consist of four main types of programme. They are: job creation, wage subsidy, training subsidy and special placement service programmes (Webster, 1998). In 2004, Australia initiated several new programmes aimed at workers in the sugar, automobile components and the textile, clothing and footwear (TCF) sectors. These programmes focused on aiding displaced workers to obtain re-employment skills, which allowed them to move into growing industry areas. Evidence from a four-year longitudinal study suggests that re-training helped those who had the best pre-training employment prospects, but that, for those with poorer prospects, the length of training had a large and significant negative impact in the likelihood of finding re-employment (OECD, 2005). In terms of a wage subsidy programme, both

the early Australian evaluation in the 1980s and the more recent evaluation in the 1990s found that a wage subsidy raised the employability of a programme's participants (Webster, 1998).

3.3 Wage insurances

Wage insurance has emerged as a potential additional adjustment policy tool, particularly in the context of free trade. For most trade-related displaced workers, the costs of a job loss occur as re-employment earnings losses (Kletzer, 2004). Re-employment in services is associated with the largest earnings losses (OECD, 2005). An analysis of re-employment earnings, which compared weekly earnings at the time of displacement and when re-employed, showed that displaced workers in the manufacturing sector experienced large earnings losses 12%, compared to a loss of just under 4% for non-manufacturing displaced workers (Kletzer, 2004). Among the re-employed workers, import-competing displaced workers had average weekly earnings losses of about 13% (Kletzer, 2001). This large average income reduction masks considerable variation: one-third of import-competing displaced workers report earning the same or more in their new job as they earned on the displaced job, and one-quarter reported earnings losses of 30% or more (Kletzer, 2004). There may be little retraining associated with these moves in the TAA programme. In terms of unemployment benefits, they typically do not provide any compensation for wage losses once re-employed. It follows that wage insurance has considerable potential for reducing these losses (Kaivanto, 2007).

A system of wage insurance pays displaced workers who accept new jobs at lower wages, within a specified period of time an earnings subsidy that replaces a fraction of the difference between earnings on the old and new jobs (Kletzer, 2004). There are three main reasons for promoting the idea of offering wage insurance to trade-displaced workers. First, this would help provide more equitable gains from

globalization by reducing the adjustment costs faced by those who are hurt by trade and investment liberalization. Second, wage insurance would provide an incentive to speedy re-employment as unemployment benefits become less attractive relative to accepting a new job, potentially in growth sectors. Once in a new job, the employee would be more likely to receive the type of training necessary for advancement in the new firm or sector. Finally, by mitigating workers' anxieties about the job and earnings insecurities related to international trade, political opposition to further opening domestic markets would also be diminished (Kaivanto, 2007).

As proposed in Kletzer and Litan (2001), eligible workers would receive some fraction of their weekly earnings loss. The fraction could vary by age and tenure of the worker. Payments begin only when a worker has a new job (full-time) and could continue for up to two years following the initial job loss, as long as the new job paid less than the displaced job. With the incentive, the programme can also be seen from an active labor market policy perspective, in the spirit of re-employment bonuses. It is worth noting that wage insurance may have both, a training incentive and a re-employment incentive because, by reducing earnings losses, it can encourage displaced workers to consider entry-level jobs in new industries that offer on-the-job training (Kletzer, 2004)

Recently, Germany and the United States have introduced wage insurance schemes for trade-related displaced workers. A targeted scheme of wage insurance was also introduced in the United States. It was one of the TAA programme expansions contained in the Trade Act of 2002 (Kletzer, 2004). From August 2003, workers who are at least 50 years old and who are certified as being trade-displaced workers and who meet all of the eligibility criteria for the TAA, may choose Alternative Trade Adjustment Assistance (ATAA) instead. The ATAA provides a wage subsidy to eligible workers who start a new full-time job within 26 weeks of being displaced and wages paid by the new job are below those on the previous job (OECD, 2005). Provided that the worker does not earn more than USD 50 000 per year from the new

job, a subsidy of 50% of the difference between the new wage and the old wage is paid, up to USD 10 000 over two years. This subsidy is available for a maximum period of two years following the layoff.

In Germany, a programme of wage insurance was initiated by the government in 2003². The programme is limited to displaced workers aged 50 years and older. Workers, if re-employed in a new job that is paying less than their previous jobs are eligible for obtaining two types of earning subsidies. First, wage insurance provides a payment of 50% of the earnings differences between the new jobs and old jobs. Second, pension contributions on the new job are supplemented up to 90% of the wage paid by old employers. It is notable that the German wage insurance programme has no time limits placed on earnings supplements.

These wage insurance programmes concern a number of complex issues related to design details and possible distortions, such as whether subsidizing re-employment at low wages could blunt motivation for workers to search for a well-paid job, that have yet to receive careful scrutiny (Kletzer, 2004). However, a wage insurance trial in Canada provided some evidence into the potential of these wage insurance programmes to promote rapid re-employment and better reconcile efficiency and equity goals (Bloom, Schwartz, S. Lui-Gurr, S. and Lee, 1999). The Earnings Supplement Project (ESP) was a Canadian demonstration programme to test wage insurance by measuring the effect of the supplement on employment, earnings, and unemployment insurance (UI) benefit receipt (Kletzer, 2004). ESP applicants were randomly assigned to two groups: a supplement group, which was provided the supplement, and all standard UI benefits and services, and a control (standard) group, who were not offered the supplement, but all standard UI benefits and services. For eligible displaced workers who found a new job (Full-time) within 26-weeks period, that paid less than the old job, the supplemental payments equaled 75% of the earning difference. A weekly supplement was set at a maximum of \$250 and payments could

² The German Case of wage insurance was retrieved from OECD, 2005, p56.

be received for a maximum of two years. Key findings suggest that the programme increased the percentage of displaced workers who found full-time jobs by 4.4 percentage points, reflecting both a shift from part-time to full-time work, as well as an increase in overall employment. Findings also indicated that the two groups looked for jobs with similar intensity but that ESP participants were willing to consider a wider range of jobs, including those that paid less than their previous jobs (OECD, 2005). Kletzer (2004) concluded that earning supplements produced very modest effects on job search, in terms of quick re-employment and reduced UI receipt.

3.4. Conclusion

The empirical literature suggests that trade increases aggregate productivity and welfare, while it reduces the welfare of certain individuals who are working in import-competing sectors. Displaced workers experience trade adjustment costs in several ways, such as longer spells of unemployment and earnings losses when they were re-employed. Economic theory suggests the winners from international trade could compensate the losers and still enjoy net gains from trade. In practice, more and more developed countries' governments have initiated active labour market policies and trade adjustment assistance programme to improve the efficiency of the labour market and solve the problem of inequity between winners and losers in the market. Several trade adjustment assistance programmes carried out in US, Canada and Australia have provided evidence that the TAA can aid displaced workers to obtain necessary re-employment training, reduce the duration of the unemployment spell and probably increase incomes through quick re-employment. However, the TAA programmes also have structural problems and thus impede effective service delivery, because of instability of funding for training benefits. Furthermore, criticism of the TAA argued that the programmes were designed mainly for political incentives to obtain public support for trade liberalization legislation. Therefore, the TAA did not meet the displaced workers needs. Recently, wage insurance has been regarded as

another efficient method to aid displaced workers. The outcome of wage insurance programmes in Germany and US has not received scrutiny, but the ESP in Canada provided some evidence that wage insurance could promote rapid re-employment and better reconcile efficiency and equity goals.

With increasing international economic integration, more and more countries, particularly developed countries, face the challenge of trade related adjustment costs, New Zealand being one of them. The practice of the TAA in US and other OECD countries provides a useful policy reference. However, the experience from other countries suggests that the most appropriate design of the TAA programme will vary according to the national context. Above all, previous experience has shown that the avoidance of distorted policies and ineffective policy deliveries should be regarded as key objectives when designing and implementing suitable policy tools.

Chapter4 International trade practice and the NZ labour market

Although trade-related displaced workers may experience higher trade adjustment costs than other workers who have lost their jobs, use of a TAA programme may not necessarily be applicable in every open and trade-intensive economy. It is possible that the benefits outweigh the costs of free trade by a large margin or that the group of displaced workers is insignificantly small or that they find replacement jobs easily. Consequently, it is important to study what is happening in the NZ economy in terms of current and projected future international trade practices and respective labour market impacts.

4.1 New Zealand international trade practice

NZ is a small open economy. The NZ economy is heavily reliant on, and is impacted on by the global economy (Smith, 2004). NZ's export receipts from goods and services account for about 35 per cent of New Zealand's total GDP (Statistics New Zealand, 2007). Consequently, trade policy remains a fundamental part of the Government's broader economic policies designed to promote higher economic growth (World Trade Organisation, 2007). To achieve this growth, NZ needs to be able to sell its goods and services abroad without substantial barriers facing areas of comparative advantage such as agriculture, horticulture, forestry and fisheries. However, 68% of NZ's exports are resource-based commodities that face significant tariff barriers and quota restrictions. For example, Chinese tariffs on NZ wine are currently 14 to 65 percent. NZ is currently committed to removing barriers to international trade, and pursues free trade through multilateral, bilateral and regional trade agreements.

NZ was one of the original signatories to the General Agreement on Tariffs and Trade

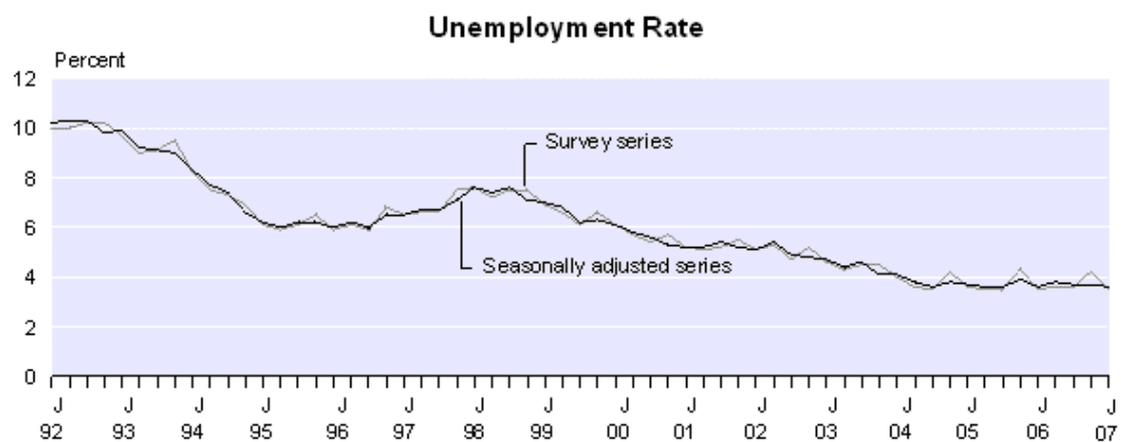
(GATT, now the World Trade Organization-WTO). Under the WTO framework, NZ could increase its access to larger overseas markets (Kerr, 2000). It is estimated that through the 7-year Uruguay Round and multilateral trade negotiations, NZ exports are \$3.1 billion better off. NZ is also a member of the Cairns Group, which is a coalition of nineteen agricultural exporting countries which account for over 25 per cent of the world's agricultural exports. It consists of developed and developing countries, and is committed to achieving free and fair trade in agriculture. The objectives of the Cairns Group are: deep cuts to all tariffs (including tariff peaks) and removal of tariff escalation, the elimination of all trade-distorting domestic subsidies; the elimination of export subsidies and clear rules to prevent circumvention of export subsidy commitments (Cairns Group, 2007).

The NZ government also looks to work closely with individual trading partners to solve problems and seek more open trade and investment relationships. NZ's first and highly successful FTA was signed in 1983 with Australia. The Australia-New Zealand Closer Economic Relations Agreement (CER) has been described by the WTO as "the world's most comprehensive, effective and mutually compatible free trade agreement" (WTO, 2007). In addition to the CER, there are currently three other FTAs in force. They are: Trans-Pacific Strategic Economic Partnership (Trans-Pacific SEP); NZ and Thailand Closer Economic Partnership (NZTCEP); and the NZ and Singapore Closer Economic Partnership (NZSCEP). Additionally, in April 2008, the NZ and China Free Trade Agreement was concluded and signed by both governments. Furthermore, NZ and Gulf-Cooperation Council Free Trade Agreement, ASEAN-Australia/New Zealand Free Trade Agreement, New Zealand and Malaysia Free Trade Agreement, and New Zealand and Hong Kong Closer Economic Partnership are all under negotiation (MFAT, 2007). The NZ government also plans to start FTA negotiations with other big economies and markets such as the US and Japan.

4.2 NZ's labour market

Given its open economy, NZ industries compete in global markets. However, as an OECD country, NZ has disadvantages when competing or trading with developing countries, particularly higher labour costs. As such, potential negative influences on the NZ labour market are easy to discern, such as pushing up unemployment rate and workers' income in trade affected sectors. However, NZ has enjoyed relatively low and stable unemployment rates since 1945 (Maloney, 2002). Findings from Figure 1 suggest that unemployment has decreased (with the exception of 1998 and 1999) since 1992.

Figure 1:

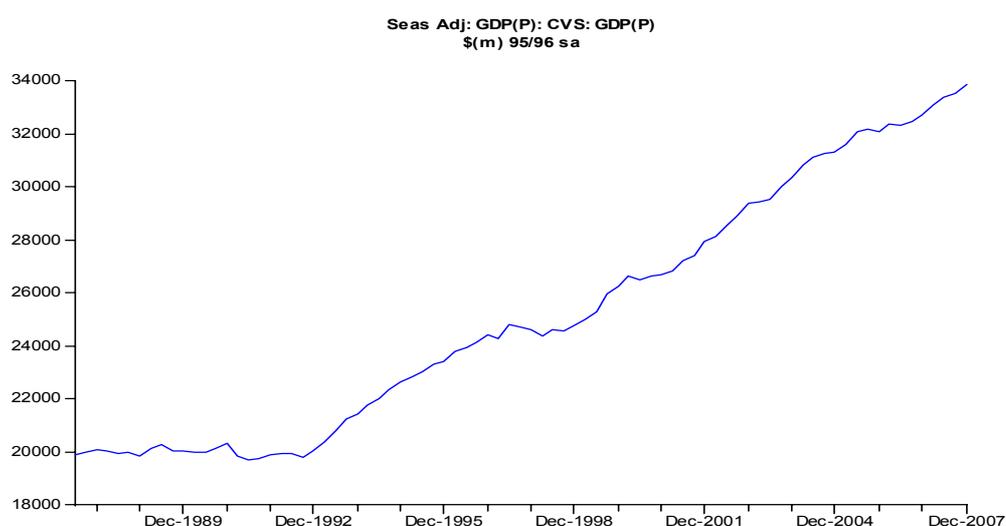


Source: Statistics New Zealand, 2007

The unemployment rate fell to 4.9 percent in 2002, a fifteen year low. Furthermore, the unemployment rate has kept low, under 4 per cent since 2004, and consequently the NZ labour market has maintained its strong position (Statistics New Zealand, 2007). The reasons for the decreasing unemployment rate are: 1) the lack of skilled working-age labour is major problem in NZ economy (Morrison, 2002). According to Statistics New Zealand (2007), growth in working-age skilled labour continues to slow after reaching its maximum in 2004. The reason for the shortage might be the exodus of skilled labour. Secondly, the low unemployment rate also resulted from

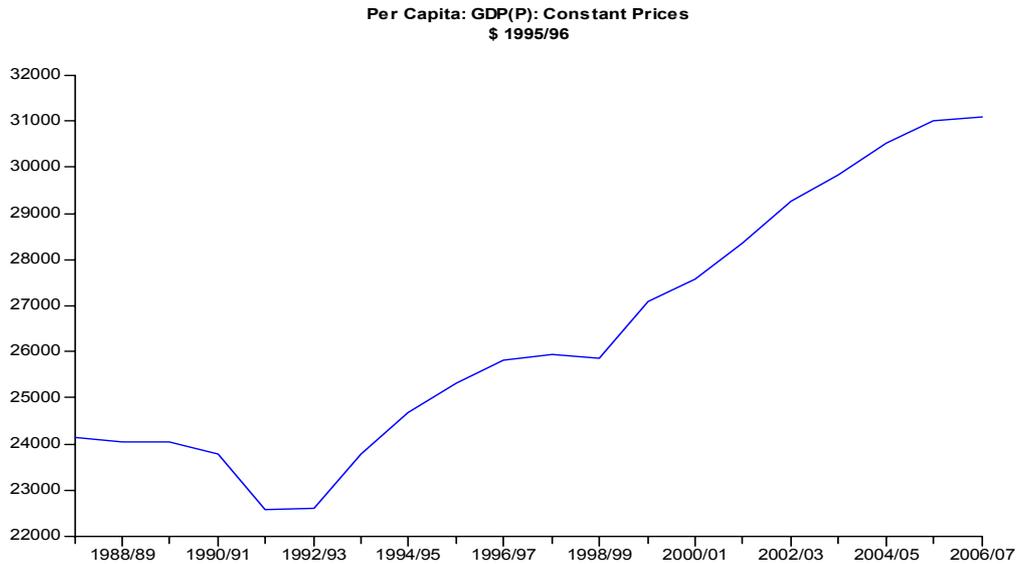
increasing exports. By reference to employment multipliers, both the direct or first-round effect and final effects of extra export receipts ripple throughout the whole economy. These multiplier effects vary in different sectors. In a labor-intensive industry, the increase in export will provide more jobs than low labor-intensive sectors (MFAT, 2007). In labor-intensive sectors, such as horticulture and, fruit, the increasing exports have generated more jobs in these industries. Additionally, Roberts (1994) suggested that free trade can assist some industries built comparative advantages and then provide more jobs. Free trade also provides opportunities to workers who lost jobs in non-comparative advantage industries to learn new technology and then obtain new jobs. Finally, domestic economic reforms undertaken in the mid-1980s through to the early 1990s along with a generally buoyant world economy might be an important cause of the lower unemployment rate in NZ (Maloney, 2002). The NZ economic performance has improved after implementing the reforms. The positive outcomes of economic reform have been particularly marked since 1992. New Zealand GDP figures tell us that the economy of New Zealand has kept a trend of increasing over the period of 1992-2006 (See figure 2). Although, the scale of NZ economy is not big, GDP per capita has improved through the period 1995-2002. Growth averaged 3.3% over the past 4 years (1999 –2002) (see figure 3).

Figure 2:



Source: NZ Time Series 2008.

Figure 3:



Source: NZ Time Series 2008

Evans, Grimes, Wilkinson, and Teece (1996) identify a wide range of reforms leading to a general stimulation of the NZ economy. Some reforms, including benefit level reductions from April 1991, the Employment Contracts Act, which took effect in April 1991, and which abolished compulsory unionism and facilitated employer–employee individual contracts, had contributed to the reduction in the unemployment rate.

However, the reform was not cost free. The reform adjustment costs arguably transferred to the worker’s shoulder. For example, the unemployment rate shot up during the reform period from 5% in 1984 to almost 11% in 1992 and the inequity of income widened (McMillan, 1998). In order to reconcile the community-based demands for government action on the worsening unemployment problem with free market reforms, the NZ government continuously initiated active labour market policies (ALMP) to assist and encourage unemployed people to obtain working opportunities. These ALMPs combined with other economic reforms, and thus resulted in a reduction of unemployment and an increase of NZ’s GDP.

4.3 Conclusion

With a population of about 4 million people, foreign trade is essential to NZ's prosperity. Free trade agreements, including multilateral, regional and bilateral agreements, have played an important role in removing international trade barriers to NZ exports, particularly on NZ's agricultural products, and thus assist NZ exporters to obtain access to large markets more easily than before. NZ has enjoyed stable GDP growth with a lower rate of unemployment since 1999. However, there are some major problems in the labour market, such as the lack of skilled working-age labour. The NZ government has adopted ALMPs to assist the unemployed in finance and job-seeking. These ALMPs will be described in the next chapter together with recommendations in terms of assistance for workers displaced by free trade.

Chapter 5 NZ labour market policy: the present and future

The study of NZ labour market policy starts with the economic reforms of the 1980s. The reforms not only stimulated the NZ economy but also brought a soaring unemployment rate in 1992. The ALMPs were undertaken at that time, as an important policy response to high unemployment. This section will begin with the background information on the economic reform in 1984, and then a description of the major ALMPs. It is widely known that the NZ government has pursued the strategy of integrating the economy with the global market and in turn achieving economic growth. Consequently, imports and exports have influenced NZ society significantly. Some New Zealanders might enjoy the cheaper, high quality products with advanced technology, while others who are working in the import-competing sector might suffer a loss of earnings. The anxiety of losing jobs may influence the process of integration with the global economy. Therefore, the NZ government's appropriate policy response to trade-related unemployment might not only mitigate those workers' transition costs but also obtain public support to pursue free trade policy. Some of the policy recommendations will be discussed in the second part of this chapter.

5.1 NZ labour market policy

NZ has seen vast change in economics, politics, foreign relations and Maori-Pakeha relations since the 1980s (McMillan, 1998). Particularly in economic policies, a wide range of reforms was introduced by the government, such as the abolition of exchange controls in 1984; the floating of the New Zealand dollar in 1985; the phasing out of assistance to land-based and manufacturing industries and moves to put state-owned enterprises on a commercial basis; an acceleration of the timetable for lowering tariffs

and the phasing out of import licensing. McMillan (1998) pointed out that NZ economic reforms were needed and well-designed. Although there was a sluggish response to the reforms, they were successful in NZ. However, the social costs were high (Podder and Chatterjee, 2002). The unemployment rate reached a peak at 11% in March 1992. Average unemployment also increased to 8.1% during 1988-1995, while it was 4.7% during 1980-1987 and 0.7% during 1973-1979 (Nickell, 2003). Under public pressure, the Labour Government undertook a comprehensive review of employment assistance measures in 1990 and two employment assistance policies were initiated. The first policy was “Competitive Business and Employment Growth” (CBEG). This included a number of grant programmes aimed at small business development, innovation and export growth (Perry, 1991). During its first year, 1,651 applications were approved nationwide totaling over \$14 million and most grants were allocated to businesses in the main cities (Business Development News, 1992 cited in Scott and Pawson, 1997). The second policy resulted in the establishment of the “Community Employment Development Unit” (CEDU) within the Department of Labour in 1990, renamed the “Community Employment Group” (CEG) in 1992. This targeted the unemployed. The programme was based on a devolution partnership with local communities and the partnership was formalized in contracts with local groups who were expected to achieve specific outcomes and move toward self-funding (Scott and Pawson, 1997). Most of the employment projects were delivered through the local employment resource centre and enterprise agencies. For example, in 1994, CEG funded a self-employment training scheme entitled “Be Your Own Boss”, with available funding of \$3.3 million. The programme contracted 56 local employment resource centre and enterprise agencies to spread all over the country (Scott & Pawson, 1997). In 1998, the Labour government merged the Benefit Department and Employment Services into a new department, Work and Income. In order to improve the service performance, a new system of internal performance monitoring was also introduced.

More recently, the NZ government has paid more attention to ALMPs (OECD, 2005). The NZ government's employment priorities are set out in the government-wide Employment Strategy, developed in 2000. The Employment Strategy is designed to create the right conditions for employment and to maximize employment opportunities. Its main aims are to minimize disadvantage in the labour market and to maximize the number of jobs and level of earnings for all (DOL, 2002). The Employment Strategy is informed by the Department of Labour's Human Capability Framework, which is an integrated way of looking at the factors that influence labour market outcomes (Johri, de Boer, Pusch, Ramasamy, and Wong, 2004). Then in 2003, the Labour government implemented a range of new active policies which were targeted at the capacity of labour, opportunity of creation and matching – the three components of the Human Capability Framework. The Ministry of Social Development has developed three categories for these labour market policies. The first is Capacity Building Programmes, such as the Training Incentive Allowance (TIA). The second one is Matching Programmes, such as job search assistance programmes: the Transition to Work Grant (TWG) and Work Track. The third is Opportunity Creation Programmes, such as self-employment assistance via enterprise allowances. However, the boundaries of these categories are not sharply defined. The TIA and TWG³ programme were two financial supports in two categories, which were provided by the NZ government in 1983. If people receive the Domestic Purposes Benefit, Widow's or Invalid's Benefit, or an Emergency Maintenance Allowance, they may be eligible to obtain TIA. The TIA paid for the actual course-related costs for up to 12 months. If the training course is longer than one year, applicants would need to reapply each year. Another job search assistance scheme was the Transition to Work Grant. The TWG helps the job seeker to pay job-searching related costs. For example: if a person has a job interview or a new job (generally for 30 or more hours a week), the TWG would help pay for essential things, such as the costs of clothing for the interview, transport, essential work clothing or equipment, and living costs until the

³ The information about Training Incentive Allowance and Transition to Work Grant is retrieved from the Department of Work and Income website: <http://www.workandincome.govt.nz/get-assistance/extra-help/>

first pay. Moreover, the grant is non-recoverable and non-taxable. Furthermore, the NZ government, in practice, often offers a combination of various types of programmes, such as the WRK4U (Work for You) seminars and the Jobs Jolt programme.

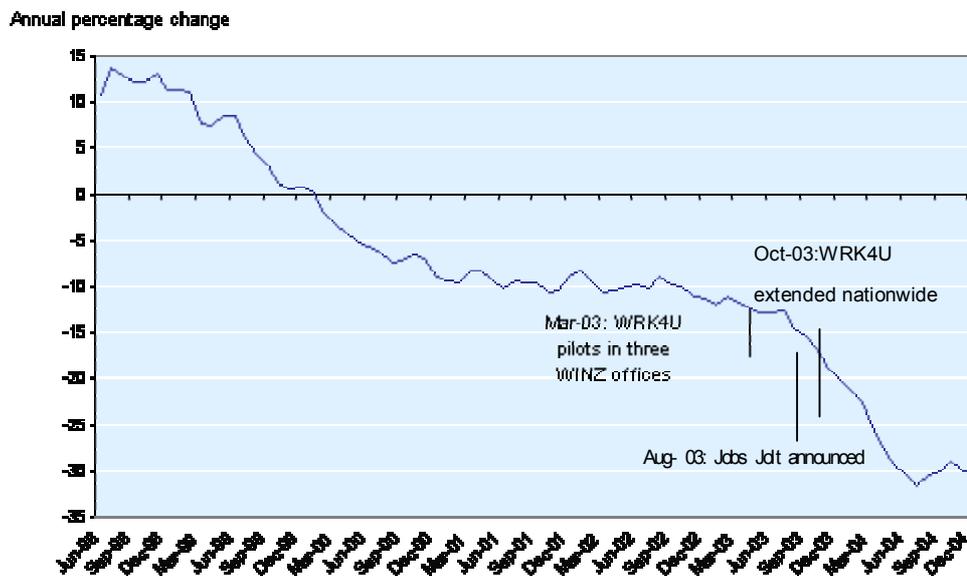
The WRK4U programme was designed for people intending to apply for unemployment benefits, but it emphasised that work is available and should be considered before entering the benefit system (MSD, 2008a). In 2003, the Government approved another package of initiatives entitled Jobs Jolt. The package of initiatives consisted of time-limited programmes aimed at assisting job seekers into employment, and ongoing initiatives that increased the level of activity of benefit recipients with a focus on assisting people into employment, with more case management and clearer mutual obligations (MSD, 2008b). It is important that the package also contains components that are designed to present clearer messages about the NZ government's expectations that people of working age in receipt of a benefit ought to be taking every reasonable step towards paid work (MSD, 2008b).

In July 2007, the Labour Government initiated a new programme, Redundancy Support. Businesses may experience changes such as down-sizing, closing or the relocation of their operation from time to time. Consequently, employees may be at risk of redundancy. The new scheme was introduced to identify these businesses and their employees and then take active measures to support businesses and employees (Work and Income, 2008). The NZ Government recognized that central government has a responsibility to provide assistance and opportunities for these employees to move into new employment quickly and effectively. The programme not only focused on providing assistance for affected employees when redundancy occurs, but it emphasised working early with businesses and workers who were affected by a change event such as company's closing or the relocation of operation. The new initiative offered such services as: meeting with employees to talk about the business

situation and needs; co-ordinating services to assist and support affected employees; providing training courses and other assistance to support employees to find other jobs in a timely measure (Work and Income, 2008).

Since 2000, the total number of benefit recipients in NZ had been falling by up to 10% a year, but the fall accelerated through 2003 and 2004, with the total having fallen more than 30% compared with one year earlier (See figure 4). Given the coincidence of the timing, it seems reasonable to conclude that much of the latter large fall can be attributed to ALMP programmes (OECD, 2005). However, it should be noted that none of those programme specifically target trade displaced workers.

Figure 4:
Annual percentage change in the number of jobseekers on unemployment benefit,
New Zealand, 1998-2004



WRK4U: Work For You

WINZ: Work and Income New Zealand

Source: the Department of Labour New Zealand 2007.

5.2 Analysis for future labour market policy

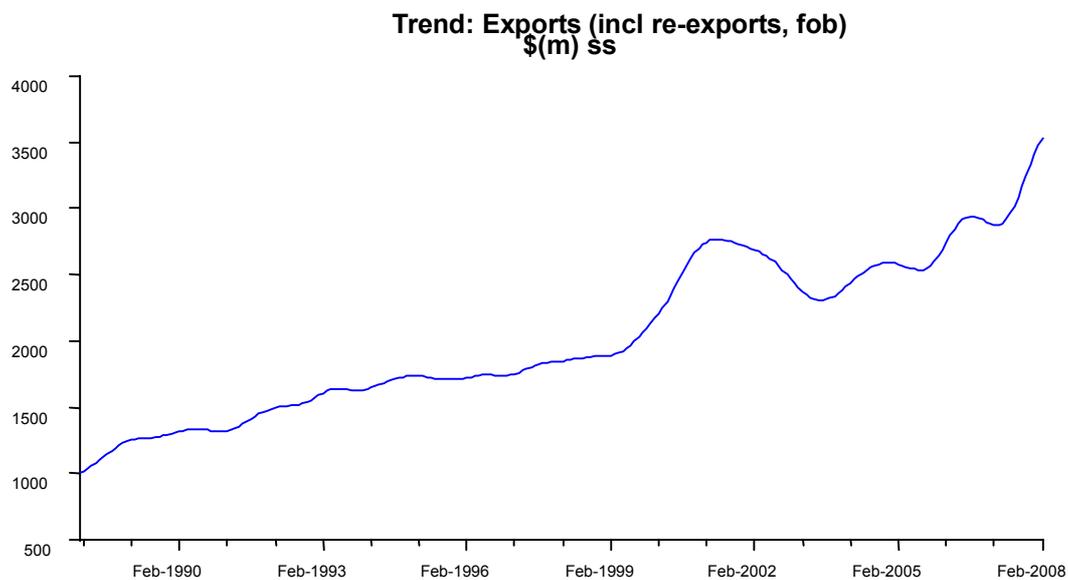
In NZ with neo-liberal market reforms from the mid 1980s, the unemployment problem was worsening sharply (Maloney, 2002). Although, the NZ government has carried out a series of ALMPs and benefit system reforms, there are few that influenced the unemployment rate (OECD, 2005). The results from Maloney's study indicate there is no statistical evidence that benefit reforms lower the official unemployment rate. In fact, Maloney (2002) found that these changes to the welfare system increased the unemployment rate nearly one-quarter of a percentage point. This could be explained as follows: the benefit cuts lower the unemployment rate by reducing the wage rates, but they also increase the unemployment a little bit more by raising labour force participation rate. Similarly, Scott and Pawson's study (1997), which focused on the local impacts of national labour policies or programme to combat unemployment, showed that the very limited contribution made by these schemes to the aims of reducing the unemployment rate. All of these factors doesn't mean these reforms or policies are unnecessary or ineffective. The slow economy response to economic reform might be an explanation to why ALMPs have little impacts on reducing unemployment rate because ALPMs is a part of economic reform package. The statistical evidence, such as GDP per capita and the unemployment rate, shows that the NZ economy performance has been improved after economic reform, and it has become apparent since 1992.

It is difficult to determine which policy in the economic reform has made the biggest contribution to economic success in NZ, because any single policy in economic reforms might have little effect in itself, or even be counterproductive (McMillan, 1998). However, the NZ government's policies of integrating the NZ economy with the global and regional economy have played an important role. As underpinning evidence, statistical data are used to display the overall import and export values between 1988 and February 2008 (see figures 5 and figure 6) and also the trade

balance between 1989 and February 2008 (see figure 7). It is clear that the value of New Zealand's imports and exports increased continuously over the period 1995 to 2005. Over the years, there has been about 71 percent increase in the value of exports, while there has been about an 89 percent increase in the value of imports. Figure 7 also clearly tells us that only in 1992, 1993, 1994 and 2001, did New Zealand have a positive trade balance. Figure 8 shows the contribution exports made to the whole NZ economy. It is obvious that exports have been an important component of the NZ economy, contributing more than 30 percent to GDP in the period 1999-2006.

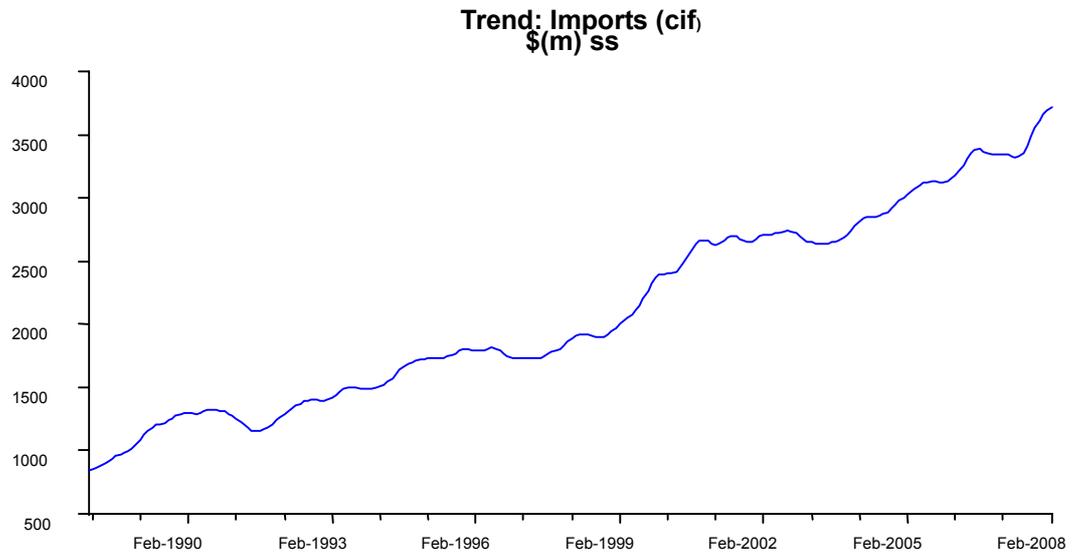
These figures illustrate that the increase in general trade flow might have a positive relation to NZ's economic growth.

Figure 5:



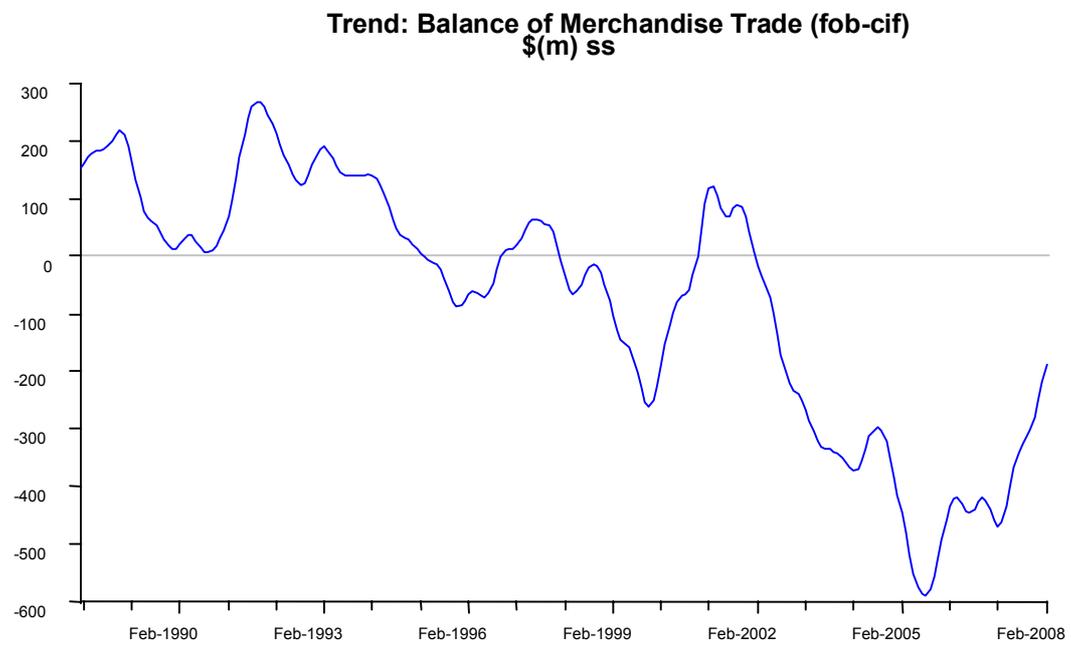
Source: Time series New Zealand 2008.

Figure 6:



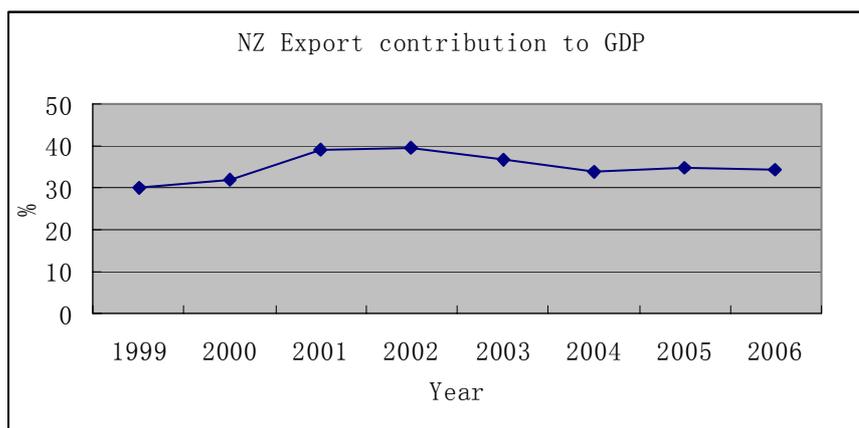
Sources: Time series New Zealand, 2008

Figure 7:



Source: Time series New Zealand, 2008.

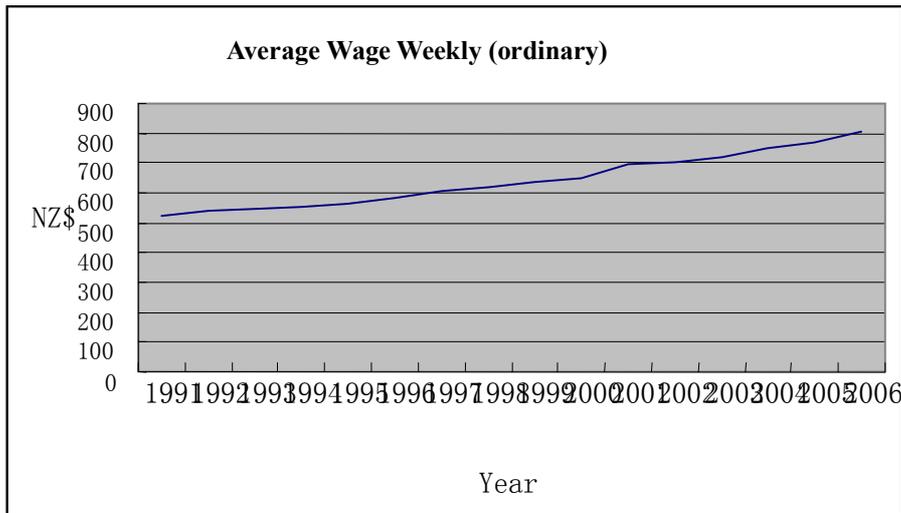
Figure 8:



Source: Statistics New Zealand, 2007.

In terms of impact of international trade on workers, neither economic theory nor the record of history suggests that aggregate employment performance has been destroyed by increased globalization (OECD, 2005). Similarly, Deardorff and Lattimore, (1999 a, b), have examined the link between trade liberalization and income in NZ over the period 1986-1996. They found that increased international trade has not contributed to an inequality of workers' income. Furthermore, "the results suggest that trade liberalization, trade agreements and improved market access . . . might have actually improved the distribution in the sense of raising relative returns to employees with lower qualifications and, presumably, lower wages" (p. 87). Figures 8 and 9 show that there may be a positive relation between international trade and employment and average income. Figure 9 tells that workers enjoyed a steadily increasing average weekly wage. It has increased from \$521.45 in 1991 to \$802.40 in 2006 (See Figure 9).

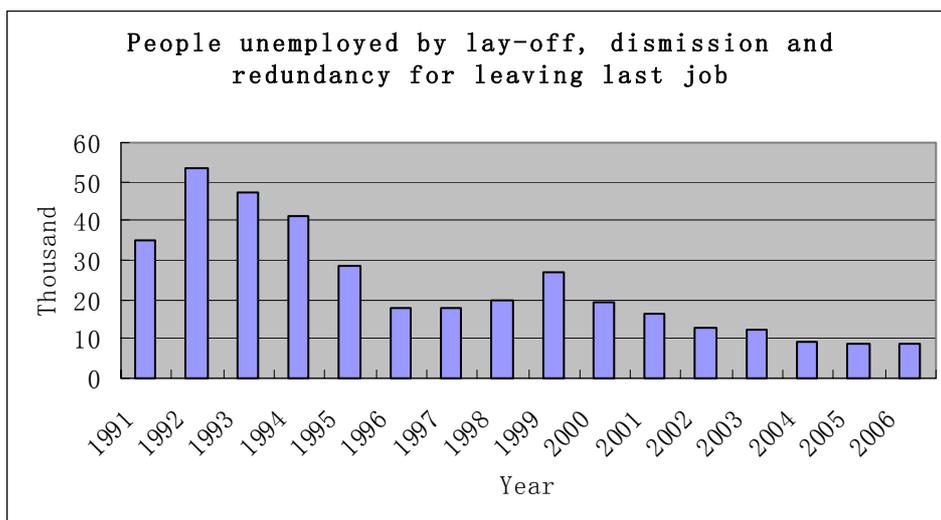
Figure 9:



Source: Quarterly Employment Survey, 2007

Figure 10 shows the number of unemployed people who were laid off, dismissed, and made redundant when leaving their last job over the period 1991 to 2006. The number of workers who left their last job due to layoff, dismissal, and redundancy dropped significantly from 35200 to 8500 between 1991 and 2006 (See figure 10).

Figure 10:



Source: Household Labour Force Survey, 2007

On the other hand, some workers are enjoying increasing wages, while others are suffering an income loss. The OECD (2005) pointed out that it is much more likely that growing international trade with low-labour cost countries has affected workers' wages in many OECD countries. Moreover, the international sourcing of intermediate materials and the internationalization of production and services might have greater influences on labour markets than the trade in final goods and services (Molnar, Pain, and Taglioni, 2007). A number of such examples are found in NZ. The La-Z-Boy, the recliner chair previously manufactured in NZ, is now being produced in Thailand and China, with a loss of 70 jobs; Fisher & Paykel announced they were moving their operations to Thailand and China in 2007 - 2008, with the loss of several hundred jobs. Meanwhile, local North Shore tape manufacturer 3M is closing its Auckland plant in 2008, with the loss of 50 jobs, and bathroom ware company Kohler is also scaling down its operation in NZ, with around 75 jobs likely to go. The ANZ National, NZ's largest bank will outsource hundreds of jobs to India. Although ANZ insisted no one would be made redundant, the staff affected would be retrained and redeployed⁴. The reasons for their leaving NZ could be the strong NZ dollar and high labour costs. In addition, it is noticeable that these business decisions were made before signing the FTA with China. In April, 2008, the NZ government signed the FTA with China, the world's biggest emerging economy. Chinese companies have great advantages in labour intensive industries. Consequently, the effects of implementing FTA with China on vulnerable industries, the manufacturing sector for instance, are uncertain and thus fear and anxiety of job loss may spread. Certainly, strong opposition has been voiced in NZ. It is necessary for the NZ government to assess the worst outcomes of complementing FTA with China and take a quick policy response to these outcomes. Targeted programmes, for example trade adjustment programmes and wage insurance, should be considered by the NZ government. The reasons for initiating the adjustment assistance programme to help the trade-affected are:

⁴ Information about NZ business redundancy is retrieved from NZ Herald, 2007 and 2008.

1) The NZ TAA could minimize inefficiency and inequities in the labour market. Global trade-induced job losses in some sectors will create new job opportunities in other sectors (OECD, 2005). The government has information and resources to re-arrange affected workers into more efficient industry from less efficient sectors. Also, the unemployment benefit programme is an equity approach to compensate displaced workers. The trade-displaced workers tend on average to suffer larger adjustment difficulties than other groups (the details are discussed in Chapter 3), and thus it is suggested for the NZ government to implement a targeted programme supporting displaced workers to become re-employed in other industries when trade shocks seriously affect specific regions or industries. 2) The NZ government's undertaking of the TAA programme would mitigate the anxiety of unemployment and thus obtain public support to pursue the free trade strategy.

There are some examples of implementing the TAA programme around the world, but there is not a simple set of strategies that could be copied in NZ. Several optional strategies, which take the experiences and lessons from other countries such as US, Canada and Australia, will be recommended as follows:

1. The NZ government should carefully set up the criteria for being eligible for TAA. The special unit could be established across NZ government departments, including the NZ Statistics, the Ministry of Social Development, the Ministry of Education and the Ministry of Economic Development. The information about the labour market situation, the flow and volume of international trade, and the industry situation will be collected and analyzed carefully and form the basis for the criteria. The experience from the U.S. should be considered: when the U.S. TAA was initiated in 1962, the eligibility criteria were made very restrictive. In the first eight years, therefore, no workers and companies were found to be eligible for the U.S. TAA. The programme was effectively unworkable. The NZ government should consider carefully what the NZ TAA's targeted groups are and what they need. Furthermore, because economic and industrial situations change

over time, the criteria should be reviewed every six months at least, so the criteria could meet the displaced workers' needs at different stages and use resources more effectively.

2. The overall goal of the NZ TAA programme is to ensure that displaced workers have more opportunities and incentives to be reemployed in more efficient industries than other unemployed workers. This implies two things: 1) offering more working opportunities and 2) encouraging displaced workers to move into efficient sectors. Most displaced workers are forced to leave jobs because of redundancy, the company's outsourcing or the plants' shutdown. Therefore, for the sake of equity, if the displaced workers are approved to join the TAA programme, they should be given more chances to obtain jobs than those under general benefits for a long time. Currently, displaced workers and other unemployed people are treated the same, which is unfair. The NZ TAA should provide more opportunities for job interviews and other related supports, such as Redundancy Support, TIA and TWG programmes being implemented at the moment, to eligible displaced workers. All of those special aids could be included in the Job Seeker Agreement (JSA) between workers and government agencies. The complex issue is assisting displaced workers to get jobs in more efficient industries. The U.S. and Canada TAA have offered supports to import-competing firms. NZ has some similar programmes such as Export Allowances in some industries, but they are not in ALMPs. These policies may be economically inefficient. As discussed in Section 2, most OECD countries, including NZ, cannot compete with some of the emerging economies particularly in labour-intensive industries because of high labour costs and little differentiated products in these sectors. These import-competing firms were not required to shift from products in which NZ has no comparative advantage when they accept the fund and thus financial supports on these companies may fail in the medium or long term. Consequently, governments should pay more attentions on efficient industries. Governments' financial and political supports to these companies will

help them grow smoothly and rapidly. Also, it is noticeable that displaced workers lack necessary skills that new jobs require. As per above discussion, this study suggests three optional policy strategies, which may solve these problems of inefficiency, to the NZ government. Firstly, the NZ government could provide re-employment training for the displaced workers, and make them meet the requirement of new employers. Secondly, the NZ government could provide policies to encourage companies which are in growing industries to hire more displaced workers. If the skills of displaced workers could not match the new jobs, so the government should provide financial support, such as wage subsidies to employers, to the companies who hire more low-skilled displaced workers. Through one-year training on jobs, these workers might become skilled labourers in these areas. It would improve the performance of these industries, too.

3. The claim process for TAA should be simplified. The workers as a group from a firm or industry could submit an application for being TAA to Work and Income. If Work and Income approves the application, the individuals in the application could join the TAA programme. Merging the functions of certification and implementation into one department could reduce the ineffectiveness of bureaucratic processes involving in certifying workers for TAA. The research also suggests that the NZ TAA programme should sit beneath the general unemployment benefit system as a complementary policy. This is similar to the Canadian GAAP. The people who qualify for both the general criteria for UI and the special criteria for TAA and who sign a Job Seeker Agreement with Work and Income, would then get additional benefits from the TAA programme. The extra benefits for trade-related displaced workers indicate a rationale that the government should compensate displaced workers, because their losing of a job is partly due to the government's policies. As a small labour market and economy, NZ doesn't need a special institute to implement the TAA programme. Also, a small change might fit on the present benefit system with its low costs and high efficiency.

4. As it is time-limited with a clear exit strategy, it could avoid abusing funding and thus help other displaced workers who need help to become reemployed. Similar strategies are widely adopted by other countries.

5. Recent researches (Corson et al., 1989 and Johnson & Klepinger, 1991, cited in OECD, 2005) suggest that the requirements to participate in a working skill-improvement and job-seeking programme can increase employment and reduce the level of unemployment. The NZ TAA could require these displaced workers to take these courses and pay the course fees for them, but it is unnecessary to force displaced workers to take part in a learning programme. Three reasons for this are: 1) People could learn knowledge and skills in both classroom and workplaces. 2) In order to obtain special benefits, people who have no learning abilities would join the class and take the course. This would waste the limited learning funding and time. 3) The U.S. TAA experiences suggest that a retraining course doesn't guarantee displaced workers to find a new job.

6. Job-search assistance following advance notification of job loss can also help workers to shorten the spell of unemployment. The job losses caused by international trade are sometimes predictable in allowing adjustment assistance to begin in advance of workers' layoffs. For example, under the FTA with China, the furniture industry in NZ would be affected seriously, because the labour cost and raw material costs are much cheaper in China. This potential risk suggests the employment service staff could take action in advance of redundancy occurring. The Redundancy Support adopted by the NZ government in 2007 is similar to this suggested policy, but suggested policy specifically targets on trade-related unemployment.

7. Finally, wage insurance should be introduced in the NZ labour market. As a method of earning supplement for displaced workers, it has a very modest

influence on job searching (Kletzer, 2004). But, according to the US and German experience, a wage insurance would be useful to help elder displaced workers to re-employ. It is difficult for the displaced worker aged 50 or over to learn new technology or get a degree. Consequently, they are more likely to enter entry level jobs and thus an earning loss is inevitable. A NZ wage insurance could provide 50% of the difference in earning and could also connect with the pensions of the elder displaced workers. Increasing the pension contribution of the new job makes sure they have sufficient funding for a retired life.

Chapter 6 Concluding Remarks

International trade has grown rapidly over the past fifty years. Enhanced world trade is expected to improve economic performance for countries involved, via greater specialization in the production of goods and services and international competition. However, improved earnings that come from global trade may be inequitable across the different industries. Workers, particularly those working in import-competing industries, may experience high adjustment costs. Job replacement, reduced incomes, and long spells of unemployment are all seen as inevitable trade adjustment costs for displaced workers. Although research from OECD (2005) indicates that only a fraction of job losses recorded in OECD countries are likely to be directly attributed to trade and investment liberalization, a negative notion of trade-displacement exists in public discourse. Consequently, governments in OECD countries have experimented with a variant of policies and programmes that focus on assisting trade displaced workers. The U.S. TAA, Canadian TAA and Australia TAA programmes are discussed in this research. These programmes provided evidence that the TAA can assist displaced workers to obtain necessary re-employment training, reduce the duration of the unemployment spell and probably increase earnings. On the other hand, these programmes have problems and thus impede effective policy delivery. Wage insurance has been seen as another potentially efficient approach to assist displaced workers. The ESP in Canada provided some evidence that wage insurance could promote rapid re-employment and better reconcile efficiency and equity goals.

NZ is a small economy and heavily reliant on international trade, and thus is influenced by the global economy. Since the economic reform in 1984, the NZ economy has enjoyed improved economic performance, such as the increase in the value of trade and stable GDP growth. However, the economic success was not cost free. The unemployment rate was pushing up to 11% in 1992. In order to assist the unemployed to obtain working opportunities, the NZ government adopted ALMPs in

early 1990s, such as CBEG. However, these early programmes have generally made a little contribution to the aims of reducing the unemployment rate at that time. More recently, the NZ government has paid more attention on building government-wide employment strategy, which focuses on minimizing disadvantage in the labour market and maximizing the number of jobs and level of earnings for workers. Consequently, the Labour government has initiated a range of active policies since 2003. These new programmes have contributed to the drop in benefits claimed. It is noticeable that new programmes such as the WORK4U, the Job Jolt, TIA, target all of the unemployed workers. With the NZ moving closer to the Asia markets, especially low labour-cost markets, the NZ's workers who are working in labour-intensive sectors, will take a high risk of job loss and income reduction. NZ needs a TAA programme, because not only lower TAA job search costs and help displaced workers get re-employment promptly and efficiently, but also broaden the support of further integrating the economy with global markets. Seven recommendations are provided by the research. These suggestions involve: setting up suitable criteria; simplify the process of application; time-limited strategy and wage insurance issue.

Finally, it is worth pointing out that this study has some limitations. This research cannot get detailed information about trade-related displaced workers directly from Statistics NZ or other resources. The trend of increasing trade-related redundancy is estimated, which is based on the NZ foreign trade policy and the current industrial situation. Furthermore, it is necessary to do more detailed research to understand the complexity of TAA interacting with other factors in the wider employment context to achieve their desired outcomes.

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