

RICH IN NATURAL RESOURCES, POOR IN JOBS?

Revisiting the evidence linking employment
and trade specialisation in South America

Natural resource-rich South America confronting a strong dollar



CHAPTER
#1

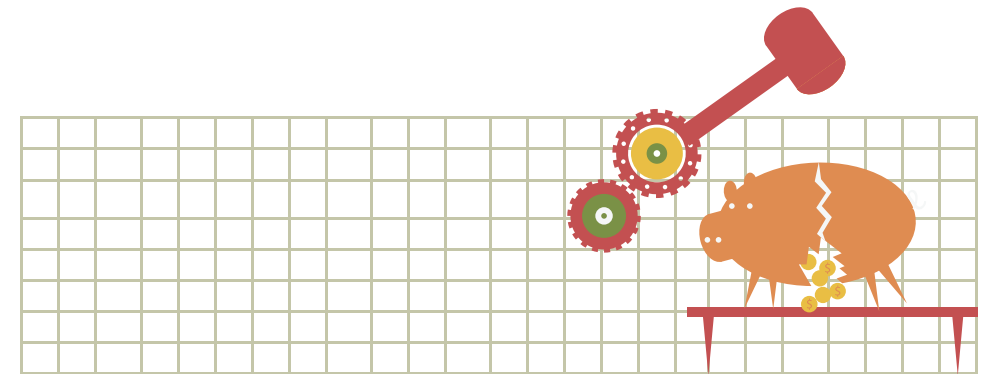
Natural resource-rich South America confronting a strong dollar

1. We talk a lot about China, but the US is changing its monetary policy... is it important for South America?

Yes, it is. Although the Chinese economy affects the long-run prospects and trends of the majority of South American countries, short-run turbulences and crisis episodes are closely tied to the Fed's decisions. The fear, of course, is a repeat of the dynamics of the early-1980s and the late-1990s.

2. How could the shift in US monetary policy affect South American countries?

There are three main channels that connect global monetary conditions with emerging, natural-resource rich countries. First, a strong dollar means weak prices not only for other currencies non pegged to the dollar, but also for any other good whose prices are denominated in dollars, such as commodities; second, disinflation policies in the United States negatively affect global growth and thus international trade; third, high US interest rates strain financial relations.



3. Are these changes hitting South American countries all alike?

No. There are heterogeneities related to the economic structure (whether its exports are specialized in fuel, minerals, or agricultural goods), trade openness (more open countries are harder hit), and financial integration (more financially-integrated countries are more exposed).

4. Are South American countries prepared for this new external context?

As a general trend, South American economies seem to be much better prepared for global turbulences than in past episodes of an appreciating dollar: net foreign liabilities are either low or negative; net government external debt is low, and capital inflows into the region are concentrated in direct investment and portfolio equity, which lowers currency risks. Downside risks are to be found everywhere in the deterioration in the current account, in financially-integrated economies in the hard-to-measure evolution of foreign corporate debt, and in macroeconomic-turbulent countries in capital flight and pressures on the exchange rates.

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Cursed goods? cursed jobs? or it's nothing like that?

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**CHAPTER
#2**

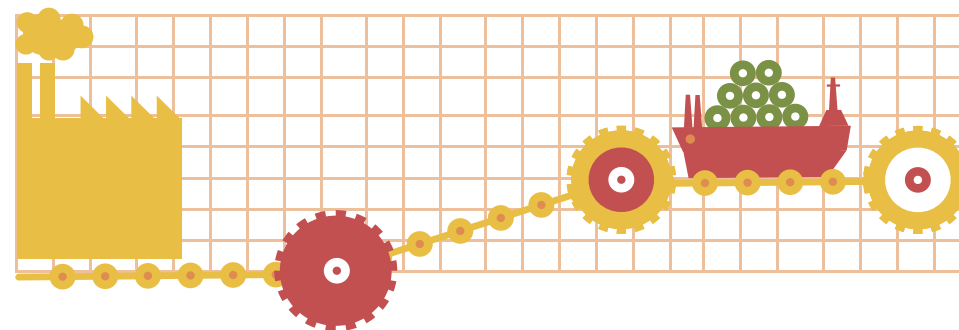
International trade, natural resources and employment in South America, revisited

1. Is international trade and jobs something new under the sun?

Yes, it is. Global labor markets are being deeply challenged by three drivers of change. First, demographic factors are moving the labor force to the South. Second, the global fragmentation of production and the emergence of global value chains are modifying the very nature of trade, moving from exchanging goods to exchanging tasks. And third, computerization, that allows both the replacement of labor for machines and the offshoring of production to developing countries.

2. What does it mean for South American countries?

First, all South American countries are experiencing the dividend stage in the demographic transition. Second, the region's position in global value chains is biased towards upstream activities, just the opposite of what occurs in emerging regions, such as Asia. Third, South American labor markets are characterized by a relative specialization in routine and non-routine cognitive tasks if we compare them with other emerging regions, such as Asia or Africa. This means that both substitution and complementarity effects of computerization can be activated.



3. Is upstreamness bad for jobs?

Following an aggregate, generalized-linkages approach, we found that is not necessarily the case. Indeed, the South American record over the last decade shows that upstreamness can foster employment growth and employment quality, the latter in term of skills, tasks, and status. Wage inequality was the main driver of the reduction in overall household income in equality during the first decade of the 21st century. On the downside, falling skill premium is one factor characterizing labor markets in the region.

4. What do the case studies say about upstreamness and jobs?

As there is no publicly available, consistent statistical system to study these new features of international trade and jobs impacts, case studies can be of help. In this chapter we conducted country-specific, sectoral analyses to complement the aggregate view and found that there are opportunities for economic upgrading, but they don't translate automatically into better jobs; instead, a sizable set of public policies –from encouraging a better matching between skills and tasks to a careful study of the governance rules in global value chains– is key to yielding social upgrading.

Natural Resources and Development > Edition 2015/2016

RICH IN NATURAL RESOURCES, POOR IN JOBS?

Revisiting the evidence linking employment
and trade specialisation in South America

Jobs in natural resource-
related value chains.
The case studies in the
2015+2016 Edition



CASES



Country > Peru
Value chain > Mining
Team > Edmundo Beteta (PUCP / CISEPA)
 Ángel Guillén (PUCP / CISEPA)
 Daniel Hurtado (PUCP/CISEPA)
Summary > By analyzing evidence at the municipal level for the period between 1993 and 2007, the case study evaluates the direct and indirect impact of mining-related activities on the quantity and quality of employment. It also studies to what extent these value chains foster green activities and green jobs.

Country > Brazil
Value chain > Oil and gas in Rio de Janeiro
Team > Lia Hasenclever (IE/UFRJ)
 Heitor Mendes (PPED/IE/UFRJ)
 Henrique Cavalieri (PPGE/IE/UFRJ)
Summary > The case study analyzes the impact of the oil and gas value chain on the generation and qualification of jobs in Brazil and locally in Rio de Janeiro in the 2000s, using both qualitative and quantitative approaches, and with a special focus in skill-enhancing policies.

Country > Argentina
Value chain > Timber and Pulp
Team > Daniela Ramos (CENIT/UNTREF)
 Marín del Castillo (CENIT/UNTREF)
 Josué Flores (CENIT/UNTREF)
 Ignacio Carciofi (CENIT/UNTREF) (IIEP)
Summary > The case study contributes to understanding to what extent the skills profile of workers and firms in the Timber and Pulp value chain of Misiones, Argentina, affects their ability to engage in economic and social upgrading processes. It includes a variety of perspectives, from high-tech companies to SMEs; from business associations to trade unions.

Country > Uruguay
Value chain > Primary sector
Team > Fedora Carbajal (CINVE)
 Francisco Pareschi (CINVE)
 Federico Veneri (CINVE)
Summary > The case study analyzes the influence of changes in commodity prices and technologies on the skill-premium in Uruguay during the period 2006-2011. It is found that the change in commodity prices occurred in the period under analysis would have a statistically significant effect in reducing wage inequality, and that this was driven by the wage premium paid to unskilled workers.