

Capacity-Building through Trade Relations: Packaging to Address Structural Labour Adjustment in Developing Economies

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Labour market adjustment following an increase in trade needs to be embraced as a necessary requirement for the trade agreement to benefit all its partners in the first place. Strengthening capacity building through trade agreements could contribute to reducing the negative effects of trade liberalization for labour and enable developing countries to address labour adjustment more effectively. Existing trade capacity-building measures seem to respond to challenges that arise during different stages of trade liberalization, but it is unclear to what extent «trade capacity-building» provisions ease pressures in labour adjustment. Based on the understanding that labour adjustment-related issues, post-trade liberalization, need to be addressed domestically through «general adjustment measures (GAMs)», such measures tend to be de-linked from trade agreements and are implemented largely on a strictly national basis. This paper examines the nature of «trade capacity-building» and of «GAMs», the effectiveness of both in labour adjustment in a developing country context and makes recommendations on how trade agreements could better address labour adjustment by combining both «trade capacity-building» provisions as well as elements of «GAMs»

Keywords: labour market adjustment, trade liberalization, trade agreements, capacity building, developing countries, informality, package treaties

1 INTRODUCTION

Trade liberalization entails reallocation of productive factors, which is expected to bring efficiency gains at the aggregate level. During this reallocation process, certain segments of workers typically bear higher and more disproportionate costs than others. These so-called labour adjustment trends across different jurisdictions

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indicate that trade shocks are often accompanied by adverse local labour market outcomes – impacting a few regions or sectors more than others – in the form of job displacements, loss of income, wage inequality, etc.¹ In order to maximize the gains from trade, governments therefore endeavour to reduce adjustment costs and duration linked with trade liberalization.²

Given that the nature and capacity of labour market institutions vary significantly across jurisdictions, it is generally understood that the national governments are best suited to frame the appropriate domestic labour market policy response (hereinafter referred to as general adjustment measures, GAMs).³ However, in the context of developing economies, the policy response to structural labour adjustment is often constrained by weaknesses of labour market institutions and policies, and the informal nature of the labour market. All of this renders individual trade-related hardship in a developing economy more likely and prolonged: Empirical studies indicate that several developing economies suffered large adjustment costs and prolonged adjustment durations, along with an increase in informality after liberalizing their trade in the 1980s and 1990s.⁴ Trade-capacity building measures (TCBs) have emerged as one of the key instruments to empower developing economies to benefit from trade liberalization. Although there is no standard definition for TCB, it can be broadly understood as development assistance that helps countries build physical, human, and institutional capacity to actively participate in and effectively integrate into the global trading system.⁵ As enablers of

¹ See e.g., David H. Autor et al., *The China Syndrome: Local Labour Market Effects of Import Competition in the United States*, 103 Am. Econ. Rev. 2121–68 (2013), doi: 10.1257/aer.103.6.2121; Daron Acemoglu et al., *Import Competition and the Great Employment Sag of the 2000s*, 34 J. Labour Econ. S141–S198 (2016), doi: 10.1086/682384; Vicente Donoso et al., *Do Differences in the Exposure to Chinese Imports Lead to Differences in Local Labour Market Outcomes? An Analysis for Spanish Provinces*, 49 Reg'l Stud. 1746–1764 (2013), doi: 10.1080/00343404.2013.879982.

² See Raymond Robertson, *Effects of Regulating International Trade on Firms and Workers*, 439 IZA World of Labour (2018), doi: 10.15185/izawol.439.

³ The traditional approach to international trade comprises two steps: in the first step, countries sign trade agreements to combat protectionist pressures and increase the size of the national economic pie, and in the second step, maximize social welfare by addressing the concerns of the losers of trade, see Gregory Shaffer, *Retooling Trade Agreements for Social Inclusion*, 1 U. Ill. L. Rev. 1, 2–3 (2019).

⁴ Pinelopi Goldberg & Nina Pavcnik, *Integrated and Unequal? The Effects of Trade on Inequality in Developing Countries*, VoxDev (30 Apr. 2018), <https://voxddev.org/topic/trade/integrated-and-unequal-effects-trade-inequality-developing-countries> (accessed 30 Jul. 2025).

⁵ See OECD, *The DAC Guidelines: Strengthening Trade Capacity for Development* (2001), <https://www.oecd-ilibrary.org/docserver/9789264194755-en.pdf?expires=1724762715&id=id&accname=guest&checksum=BDB7B785D5396F87F031174E854CFDDD> (accessed 27 Aug. 2024). ‘Capacity building’ as a concept is often used interchangeably with ‘capacity development’ which tends to look at capacity building in a more holistic and integrated manner, in terms of creating and building capacities to set and achieve a country’s development objectives over time. Originally, capacity building is used in a narrower sense as it focuses on building specific capacities often against a specific emerging challenge. In recent development literature concerning international aid agencies, capacity development is the favoured term but capacity-building still remains widely used, see European Parliament, *Understanding Capacity-Building/Capacity Development: A Core Concept of Development Policy* (2017), <https://www.europarl.eu>

trade benefits for developing economies, TCBs can be viewed as an important component of market access. Typically, the scope of assistance through TCB ranges from developing the physical infrastructure to facilitate trade, promoting exports, addressing the regulatory environment for business, trade, and investment, and improving labour standards to tackling the adjustment costs. These instruments can be multilateral (e.g., Aid for Trade (AfT), Trade Facilitation Agreement (TFA) of the WTO), or bilateral (e.g., Economic Partnership Agreements (EPAs) of EU, commitments in Preferential Trade Agreements).

While most TCB initiatives have focused on supporting developing countries to frame appropriate trade strategies, build capacity to negotiate their respective trade agendas, and implement trade-linked commitments, the challenges linked to trade-related labour adjustment in developing economies have largely been a blind spot. For instance, the WTO's AfT initiative acknowledges trade-related adjustment as one of its core concerns, but there have been no disbursements on this account.⁶

This lack of attention through TCB initiatives could be attributed to the central role of GAMs, as noted earlier, to address trade-related labour adjustment by national governments. While advanced economies have resources at their disposal to provide income support to displaced workers and to re-skill them for new jobs through different GAMs, the lack of similar capacity in developing economies amplifies the negative effects of trade liberalization, resulting in an increase in unemployment, poverty, or informality in trade-exposed regions.⁷ If the losers of trade are not effectively compensated, the distributional consequences of trade liberalization can erode the domestic political support for future reforms, as witnessed in several advanced economies despite commanding sufficient labour market resources.⁸ The economic roots of backlash against trade liberalization, as

opa.eu/RegData/etudes/BRIE/2017/599411/EPRS_BRI(2017)599411_EN.pdf (accessed 27 Aug. 2024); OECD, *The Challenge of Capacity Development: Working Towards Good Practice*, 8 OECD J. Dev. 233–276 (2008).

⁶ Almost 98% of the Aid for Trade expenditure in 2022 was on account of building productive capacity and economic infrastructure but there was no expenditure relating to trade-related adjustment, see WTO/OECD (2024), *Aid for Trade at a Glance 2024* 85, https://www.wto.org/english/res_e/booksp_e/a4tatglance2024_e.pdf (accessed 11 Nov. 2024).

⁷ For example, studies indicate that the availability of Unemployment Insurance (UI) schemes and their duration increase with the income levels of countries, for e.g., OECD high-income countries and Europe and Central Asia have the highest shares of economies with UI schemes (100 and 88% respectively), whereas, Sub-Saharan African and South Asian countries have the lowest share (8 and 25% respectively), see Hulya Ulku & Dorina Georgieva, *Unemployment Benefits, Active Labor Market Policies, and Labor Market Outcomes: Evidence from New Global Data*, World Bank Policy Research Working Paper 10027, 11–12 (2022); see also Romain Duval & Prakash Loungani, *Designing Labor Market Institutions in Emerging Market and Developing Economies: Evidence and Policy Options*, IMF Staff Discussion Note SDN/19/04, 8–12 (2019).

⁸ In the UK, the regions that were most exposed to Chinese trade shocks, witnessed greater support for Brexit, see Italo Colantone & Piero Stanig, *Global Competition and Brexit*, 112 Am. Pol. Sci. Rev. 201 (2018), doi: 10.1017/S0003055417000685. During Donald Trump's first election campaign, almost 67% of his supporters, and 52% of Republicans in overall, had a negative view of free trade, see Bruce

observed in advanced economies in the past, also exist in developing economies that have benefitted from free trade.⁹ In this light, given the limitations of GAMs in the context of developing economies and the non-existent role played by TCBs in easing the adjustment pains, it is crucial to examine if and how TCBs can support GAMs. This support is significant as it is likely to enable developing countries to deal with the structural labour adjustment that invariably follows trade liberalization, reduce adjustment costs, maximize the gains from trade, and notably, maintain support for free trade.

In light of the above, this paper examines how synergies can be established between TCBs and GAMs to enhance the overall policy response to address trade-related labour adjustment in developing countries and enable developing countries to liberalize their trade and integrate in the global market for their own benefit. We begin our assessment with an examination of the nature of labour adjustment in developing economies following trade liberalization and of limitations of GAMs in mitigating the adverse distributional impacts.¹⁰ We then turn to the nature and the scope of TCBs and show that they have played a limited role in supporting developing countries dealing with trade-related labour adjustment so far. This enables us to explore synergies between GAMs and TCBs, and their utilization for greater trade openness. In this regard, we recommend linking TCBs with GAMs through treaty commitments, using trade agreements as a vehicle (so-called packaging). The proposed mechanism includes a quid pro quo arrangement (e.g., India-EFTA TEPA), a unilateral commitment (e.g., United States-Mexico-Canada Agreement (USMCA)), an adjustment and compensation support packaged within trade agreements (e.g., Trade Adjustment Assistance) to strengthen GAMs, and the enforcement of standards that facilitate labour adjustment to address domestic labour market rigidities. We conclude by recommending greater synergy between TCBs and GAMs to expand the policy space of governments and, in turn, protect trade openness in an environment of tariff uncertainties and an increasingly transactional nature of trade relations.

Stokes, *Republicans, Especially Trump Supporters, see Free Trade Deals as Bad for US*, Pew Research Center (31 Mar. 2016), <https://www.pewresearch.org/short-reads/2016/03/31/republicans-especially-trump-supporters-see-free-trade-deals-as-bad-for-u-s/> (accessed 30 Jul. 2025).

⁹ See Nina Pavcnik, *The Winners and Losers from International Trade*, IISS (23 Jan. 2019), <https://www.iiss.org/online-analysis/survival-online/2019/01/winners-losers-trade/> (accessed 27 Aug. 2024); see also Francesco Iacocca et al., *Trade liberalization and the Rise of Populism in Brazil*, WIDER Working Paper 118/2020 (2020).

¹⁰ Rigid labour laws, e.g., hinder a firm's decision to hire or fire the optimal number of workers due to the costs involved therein, and in turn, limit the gains from trade following trade liberalization, see Georgui Kambourov, *Labour Market Regulations and the Sectoral Reallocation of Workers: The Case of Trade Reforms*, 76 Rev. Econ. Stud. 1321–1358 (2009), doi: 10.1111/j.1467-937X.2009.00552.x.

2 KEY CHALLENGES OF LABOUR ADJUSTMENT IN A DEVELOPING COUNTRY CONTEXT

The labour adjustment linked to trade liberalization entails the reallocation of workers from the import-competing sectors (causing job losses in the short run) to sectors that enjoy comparative advantage (e.g., export-led sectors). During this process, there are adverse distributional consequences for losers of trade, i.e., firms and workers exposed to increased import competition. For instance, the rapid pace of the rise of China and its accession to the WTO in 2001 led to a surge in exports of labour-intensive manufacturing products to the markets of developed economies such as the US and the EU. This triggered labour market shocks in these advanced economies, resulting in plant closures, job displacements, decline in wages, etc. in sectors/regions that were exposed to imports from China.¹¹ In some markets, such as the US, the impact of trade shocks was prolonged, resulting in a longer duration of adjustment, and the respective governments had to dole out larger social security payouts.¹² Few countries were able to adjust better than others due to a combination of an effective social safety net and active labour market policies (ALMPs) to re-train or skill unemployed workers.¹³

To enable the displaced workers to transition to new employment, governments, through their GAMs, are entrusted with providing social security (e.g., income support) and/or skill development, training facilities, etc. The domestic capacity to design and implement appropriate GAMs that address the distributional consequences of trade liberalization plays a critical role in influencing the adjustment process. The following section briefly discusses the nature of the adjustment process in developing economies and the limitations of GAMs in addressing the adverse impact of trade liberalization.

2.1 ADVERSE DISTRIBUTIONAL CONSEQUENCES AND INFORMALITY

Unlike the ‘China shock’ experienced by developed economies, a number of developing economies unilaterally liberalized their trade during the 1980s and 1990s, involving substantial tariff cuts, especially in the manufacturing sector.¹⁴ It

¹¹ Some studies estimated a total number of 9,85,000 manufacturing jobs lost between 1999 and 2011 in the US due to competition from Chinese imports, and a total of two million jobs lost in the entire US economy due to their impact on inter-industry linkages, see Acemoglu et al., *supra* n. 1.

¹² See Autor et al., *supra* n. 1.

¹³ For example, the adverse impact of Chinese imports on employment in Norway was mitigated by a generous welfare state with flexible labour laws and a robust social security system, see Ragnhild Balshvik et al., *Made in China, Sold in Norway: Local Labour Market Effects of an Import Shock*, 127 J. Pub. Econ. 137–144 (2015), doi: 10.1016/j.jpubeco.2014.08.006.

¹⁴ The decade after 1985 saw an unprecedented number of trade liberalization episodes in developing countries around the world, see Douglas A. Irwin, *Recent History of Global Integration: The Globalisation*

was largely understood, at least in theory, that an open trade regime would boost export opportunities for labour-intensive industries and create additional jobs for semi-skilled and unskilled workers (abundant factor), which in turn would lead to a reduction in income inequality.¹⁵ It was also expected that the loss of jobs, in the short run (due to foreign competition), would be compensated by an increase in employment in the export-led sectors.¹⁶

Ex post economic analysis, however, shows that several developing economies witnessed longer than expected adjustment durations and an increase in informal employment in trade-exposed regions in the period after trade liberalization. China, for instance, experienced an increase in informal employment from 3% in 1995 to over 28% in 2007,¹⁷ in cities that faced larger tariff cuts, post-accession to the WTO in 2001.¹⁸ Due to increased competition from foreign firms (post-trade liberalization in 1991), amongst other reasons, India witnessed an increase in the number of informal firms in the manufacturing sector, as well as a rise in the number of contract (or temporary) workers in the formal sector.¹⁹ In Brazil's case, the increase in informality persisted in the long run (in regions exposed to greater import competition post-trade liberalization), indicating a prolonged adjustment duration. This is because the trade-displaced workers in the formal sector eventually settled for informal jobs, as neither the exports nor the comparative advantage sectors were able to absorb these workers.²⁰

Hence, adjustment trends in developing economies indicate that informality acts as a buffer for workers who use informal employment as a fallback option: Informality provides a margin of adjustment for workers in the event of an economic

Wave of 1980s and 1990s, 112 AEA Papers and Proceedings 244–251 (2022), doi: 10.1257/pand.p.20221048; For a more detailed discussion on country-wise trends, see Judith M. Dean, Seema Desai & James Riedel, *Trade Policy Reform in Developing Countries since 1985: A Review of the Evidence*, World Bank Discussion Papers (1994).

¹⁵ Theoretically, the case for benefits of trade liberalization was initially built on standard economic theory (Heckscher–Ohlin model) which predicted that gains to trade should flow to abundant factors, and thus, in case of developing economies unskilled labour would benefit most from trade liberalization, and subsequently, 'newer' trade theories supported liberalization on the ground that free trade would improve productivity and incomes, as more productive firms would push out less productive ones from the market, see Sebastian Dullien, *Shifting Views on Trade Liberalisation: Beyond Indiscriminate Applause*, 53(3) *Intereconomics* 119–124 (2018), doi: 10.1007/s10272-018-0733-8.

¹⁶ Marc Bacchetta & Marion Jansen, *Adjusting to Trade Liberalisation: The Role of Policy, Institutions and WTO Disciplines*, 7 *WTO Special Stud.* 15–18 (2003).

¹⁷ Feicheng Wang et al., *Import Competition and Informal Employment: Empirical Evidence from China*, IOS Working Papers No. 392 (2021).

¹⁸ Shen Zhou et al., *Trade Liberalization and Regional Labor Market Dynamics: Evidence from China's WTO Accession*, 125 *J. Int'l Money & Fin.* 1–17 (2022), doi: 10.1016/j.jimonfin.2022.102635.

¹⁹ Bishwanath Goldar & Suresh C. Aggarwal, *Informalization of Industrial Labour in India: Effects of Labour Market Rigidities and Import Competition*, 50 *Dev. Econ.* 141–169 (2012), doi: 10.1111/j.1746-1049.2012.00162.x.

²⁰ Rafael Dix-Carneiro & Brian K. Kovak, *Margins of Labor Market Adjustment to Trade* 117 *J. Int'l Econ.* 125–142 (2019), doi: 10.1016/j.jinteco.2019.01.005.

shock. For reasons of political economy, this may appear to be functional in developing economies by keeping unemployment under check. However, an increase in informality may reduce welfare gains from trade liberalization due to a decline in overall productivity: Informal firms are relatively smaller in size from an economy of scale perspective and typically offer jobs with lower skill and education levels compared to those in the formal sector.²¹

Furthermore, the workers who are employed informally (either in the informal sector or as contract workers in the formal sector) operate for obvious reasons outside the scope of most of social security laws.²² Thus, the larger the informal workforce is in a country, the more likely are individual hardships following any kind of economic shock: informal workers are more vulnerable to job displacements and have no economic safety net, unlike the formal sector workers, who are largely covered under different labour and social security laws. Dealing with labour adjustment is therefore particularly challenging in economies with a large informal workforce and typically associated with considerable individual hardship. It is, hence, crucial to prevent an increase in informality following trade liberalization – particularly if such trade liberalization was the choice of the government (i.e., through the conclusion of a PTA).

2.2 LIMITATIONS OF DOMESTIC LABOUR MARKET POLICIES

Typically, two types of GAMs are distinguished: passive and active domestic labour market policies.²³ Passive labour market policies (PLMPs) are policies primarily concerned with income replacement during periods of unemployment. These include public expenditure for unemployment benefits or early retirement. Not typically considered as a PLMP is a general flexibility in the labour market. However, it is argued here that flexibility in the labour market also constitutes a form of PLMP: it is non-

²¹ Around 75% of informal employment and 80% of employment in the informal sector is concentrated in economic units of fewer than ten workers compared with 22% of formal employment, OECD/ILO (2019), *Tackling Vulnerability in the Informal Economy* 37–38 (OECD Publishing 2019). See also Rafael L. Porta & Andrei Shleifer, *Informality and Development*, 28 J. Econ. Persp. 109, 112–115 (2014), doi: 10.1257/jep.28.3.109.

²² Many of the workers in the informal sector are excluded from the scope of social protection systems, and due to this lack of coverage of informal workers, 55% of the world's population, or more than four billion people, is not or is only partially covered by social protection, see OECD/ILO, *supra* n. 21, at 90.

²³ PLMPs are 'safety nets' that help provide income support to workers in case of job displacement and ALMPs act as a 'trampoline' to help workers re-enter the labour market, Michael Trebilcock & Sally Wong, *Trade, Technology, and Transitions: Trampolines or Safety Nets for Displaced Workers?* J. Int'l Eco. L. 509, 514–517 (2018), doi: 10.1093/jiel/jgy023. OECD defines ALMPs as all expenditures that help improve beneficiaries prospect of finding gainful employment (e.g., public employment services, training, employment incentives, direct job creation), and examples of PLMPs include unemployment insurance, unemployment assistance, programmes for early retirement, Clemente Pignatti & Eva Van Belle, *Better Together: Active and Passive Labour Market Policies in Developed and Developing Economies*, ILO Working Paper No. 37, 4 (2018).

interventionist, applies to all actors in the market in the same way, and flexibility is critical for the ability of the labour market to adapt to trade liberalization for its benefit.²⁴

ALMPs seek to enhance motivation and incentives to work, improve job readiness and opportunities for suitable employment, and expand job opportunities. ALMPs often include a mix of training and basic skills education, work experience, job-search assistance, and direct job creation. They tend to be more targeted than PLMPs and are, to some degree, also more interventionist in the labour market. ALMPs aiming at enhancing human capital and sustaining employability show positive effects overall on unemployment.²⁵ PLMPs, such as the unemployment insurance system, however, may decrease the incentive to work. Generally, the more generous the insurance system, the more adverse the effect.²⁶ Ideally, countries pursue a combination of both ALMPs and PLMPs. The EU, for instance, promotes the concept of «flexicurity», which entails a combination of flexibility and security on the passive side, in combination with ALMPs that strengthen and enable flexible labour markets and a generous social security system.²⁷

The largely informal nature of the labour market in developing economies impedes the capacity of national governments to design and implement appropriate policy responses through their GAMs.²⁸ PLMPs such as unemployment insurance, minimum wage legislations, or wage protection largely exclude informal workers who typically constitute a major chunk of the workforce.²⁹ Governments often do not have capacity to expand income replacement to informal workers who therefore continue to remain outside the scope of most of the social security schemes.³⁰

²⁴ Studies indicate that countries with more rigid employment protection laws make it difficult for trade-displaced workers to reallocate to other sectors resulting in stronger reduction of worker flows from unemployment to employment, see Hedieh Aghelmaleki, Ronald Bachmann & Joel Stiebale, *The China Shock, Employment Protection, and European Jobs*, 75(5) ILR Rev. 1269–1293 (2021), doi: 10.1177/001979392111052283.

²⁵ See also Ewa Rollnik-Sadowska & Edyta Dabrowska, *Cluster Analysis of Effectiveness of Labour Market Policy in the European Union*, 9 Oecon. Copernic. 143, 146 (2018), doi: 10.24136/oc.2018.008.

²⁶ Kamila Fialova & Ondrej Schneider, *Labor Market Institutions and Their Effect on Labor Market Performance in the New EU Member Countries*, 47 Eur. Econ. 57, 72 (2009), doi: 10.2753/EEEE0012-8775470303.

²⁷ *Ibid.*, at 62.

²⁸ Informality is strongly linked to the degree of development of an economy including its labour market, as almost 89% of the employment in low-income countries and 82% in lower-middle-income countries is informal, compared to 50% in upper-middle-income countries and 16% in high-income countries, see International Labour Organization, *Women and Men in the Informal Economy: A Statistical Update*, 15 ILO (2023).

²⁹ See *supra* n. 22.

³⁰ In recent years, several countries have achieved progress in extending social protection benefits to informal workers, for e.g., India has leveraged its digital public infrastructure to extend the coverage of social welfare payments directly to the beneficiary accounts including informal workers, thus recording a phenomenal expansion of social security coverage from 19% in 2015 to 64.3% in 2025, see *India's Social Security Coverage up 64.3% in 2025 from 19% in 2015, Benefits to 940 Million: ILO* (The Economic Times 11 Jun. 2025), <https://economictimes.indiatimes.com/news/economy/policy/indias-social-se>

Furthermore, developing countries – for historical reasons – typically do not have PLMPs in the form of general flexibility in the labour market. To the contrary, their comparatively (over)rigid labour market regulations, governing the flexibility to fire employees and severance payments, create additional barriers to labour mobility, thereby extending the adjustment duration and cost.³¹ The impact of rigid labour laws on adjustment costs in developing countries should not be underestimated. In India, for instance, the districts with more rigid labour laws and higher firing costs impeded the reallocation of workers (post-trade liberalization in 1991) due to lower mobility, as compared to districts with more flexible labour laws, which witnessed higher manufacturing growth and greater poverty reduction.³² Rigid employment protection legislation also exacerbates labour market segmentation along the formal-informal divide in developing economies, as it ensures that formal workers enjoy higher levels of job security on one hand, but the legal design largely excludes informal workers on the other hand.³³

ALMPs are also largely limited to formal workers, and other workers (informal) tend to rely more on informal social networks to find new jobs, and such inefficiencies in the labour market information system often result in poor matching between the demand and supply of local jobs.³⁴ ALMPs (or a lack thereof) also impact the mobility of workers. Following tariff reductions and subsequent job displacements in the import-competing sectors, skilled workers enjoy higher mobility as compared to unskilled and semi-skilled workers (constituting a majority of the informal workforce), and consequently, informal workers are more likely to bear a higher burden of adjustment costs.³⁵ Lower investment in ALMPs, such as training and skill development in informal economies, is therefore likely to delay the gains from trade and

curity-coverage-up-64-3-in-2025-from-19-in-2015-benefits-to-940-million-ilo/articleshow/121775832.cms?from=mdr (accessed 30 Jul. 2025).

³¹ Most developing and emerging countries tend to rely more on employment protection laws, particularly on generous severance payments and higher firing costs, instead of UI as a protection against the risk of job losses because of weak enforcement and monitoring capacities in relation to informal workers, see Donald O. Parsons, *Compensating Displaced Workers*, 444 IZA World of Labor, doi: 10.15185/izawol.444. See also Antonia Asenjo & Clemente Pignatti, *Unemployment Insurance Schemes Around the World: Evidence and Policy Options*, ILO Working Paper No. 49, 9–10 (2019).

³² Petia Topalova, *Factor Immobility and Regional Impacts of Trade Liberalization: Evidence on Poverty from India*, 2 Am. Econ. J. Applied Econ. 1–41 (2010), doi: 10.1257/app.2.4.1.

³³ Giovanna Vallanti & Giuseppina Gianfreda, *Informality, Regulation and Productivity: Do Small Firms Escape EPL Through Shadow Employment?*, 57(3) Small Bus. Econ. 1383–1412 (2021), doi: 10.1007/s11187-020-00353-9; see also Hartmut Lehmann & Alexander Muravyev, *Labor Market Institutions and Informality in Transition and Latin American Countries*, IZA DP No. 7035 (2012).

³⁴ Job matches through Public Employment Services in Latin American countries such as Colombia (1%) and Brazil (3.8%) is low when compared to advanced economies (e.g., EU (9.6%), Japan (20%)), see *What Works: Active Labour Market Policies in Latin American and the Caribbean*, 146 ILO (2016).

³⁵ Pinelopi K. Goldberg & Nina Pavcnik, *Distributional Effects of Globalisation in Developing Countries*, XLV J. Econ. Lit. 39, 76–77 (2007), doi: 10.3386/w12885; see also Topalova, *supra* n. 32.

exacerbate the adverse distributional consequences, particularly on informal workers.³⁶

Thus, embracing international trade is going to have distributional consequences that may be concentrated in certain regions (with greater trade exposure) and impact certain classes of workers (low-skilled) more than others. Experience from advanced economies, such as the US, indicates that effective adjustment assistance programmes can reduce the demands for protectionism.³⁷ This, however, is comparatively more challenging to achieve in developing economies due to local labour market characteristics, such as informality and rigid regulations: The lack of desired support from GAMs reduces the policy space of the government to address distributional consequences of trade liberalization, and as a result, interest groups may oppose attempts by governments to rationalize tariffs in ‘sensitive’ sectors that hurt their interest. We can observe that developing economy governments adopt an overall inward-looking stance in response to domestic pressure. This may manifest in the form of an increasing reliance on protectionist instruments such as tariffs, non-tariff barriers, safeguard mechanisms, etc., or a lack of depth in trade agreements and even non-participation in trade agreements,³⁸ thereby sacrificing opportunities for greater integration with global value chains and the anticipated gains of trade.³⁹

3 SCOPE AND LIMITATIONS OF TRADE CAPACITY BUILDING INSTRUMENTS IN ADDRESSING LABOUR ADJUSTMENT IN DEVELOPING COUNTRIES

TCB instruments aim to respond to challenges that arise during different stages of trade liberalization in developing economies: starting from the formulation of the trade

³⁶ See Sun et al., *The Effects of Trade Liberalisation on Skill Acquisition: A Systematic Review*, J. Int’l Trade L. & Pol’y 74–95 (2019), doi: 10.1108/JITLP-08-2018-0036.

³⁷ A study of US counties indicates that counties with a history of successful trade adjustment assistance petitions experienced fewer calls for trade protection, highlighting thereby that trade protectionism and trade adjustment policies can act as a substitute for each other, Stephen E. Kim & Krzysztof J. Pelc, *The Politics of Trade Adjustment Versus Trade Protection*, 54 Comp. Pol. Stud. 2354–81 (2021), doi: 10.1177/0010414020957687.

³⁸ India’s apprehensions relating to flooding of low-cost Chinese imports and a surge in dairy imports from Australia and New Zealand led to demands for stricter safeguards and longer phase-in tariff schedules for sensitive items during RCEP negotiations. These demands were not agreed to by other partner countries which, amongst other reasons, led to India’s withdrawal from RCEP, Pankhuri Gaur, *India’s Withdrawal from RCEP: Neutralizing National Trade Concerns*, 27 J. Asia Pac. Econ. 270, 277 (2022), doi: 10.1080/13547860.2020.1809772.

³⁹ Brazil, for instance, remains one of the most protectionist countries in the world with a high simple MFN average applied rate, high use of anti-dumping measures and non-tariff barriers such as local content rules, shallow depth of trade agreements, low backward participation in global value chains, etc., see Marcelo Esteveao & Fernando Coppe Alcaraz, *Brazil in the New World Economic Order in Brazil: Boom, Bust, and the Road to Recovery* (Antonio Spilimbergo & Krishna Srinivas eds 2019).

strategy itself; followed by trade negotiations to ensure an efficient and knowledgeable ministerial apparatus that can coordinate with various domestic stakeholders who bear the consequences of trade liberalization⁴⁰; and the implementation stage that relates to compliance with rules and standards, dealing with regulatory and technical barriers, and even providing the necessary infrastructure.

The final stage, i.e., adjustment phase, begins post-trade liberalization, wherein firms and workers adapt to import competition. This may entail a restructuring of production, sectoral reallocation of different resources, job displacements, etc. The duration and the associated costs of adjustment determine the net welfare gains that are expected to flow from trade liberalization. Longer adjustment processes imply higher costs of adjustment, which in turn lower the gains from trade.⁴¹ Typically, governments rely on strengthening GAMs, and not TCBs, to ease adjustment pressures on the local labour market. While the previous section highlights some of the limitations of GAMs, the following sections examine the scope of different TCBs from the point of view of addressing trade-related job displacements in developing economies and analyse their limitations in this regard.

3.1 SCOPE OF TCB INSTRUMENTS

TCB initiatives, in general, are implemented at the multilateral and bilateral levels, in or outside of trade agreements. The focus of most of the TCB initiatives has centred on building capacities that enable trade liberalization and facilitate integration with the global trading system. Enhanced Integrated Framework initiatives, for instance, support Least Developed Countries (LDCs) to mainstream trade into national development strategies, and also build capacities (including addressing critical supply-side constraints).⁴² More recently, WTO members implemented the TFA to reduce trade costs and improve the efficiency of international cross-border trade.⁴³ The agreement has in-built flexibilities to allow all members to implement their obligations in a manner they deem suitable,⁴⁴ and to allow

⁴⁰ See e.g., Ziga Vodusek & Robert Devlin, *Trade Related Capacity Building: An Overview in the Context of Latin American Trade Policy and the MERCOSUR-EU Association Agreement*, INTAL-ITD Occasional Paper 29 (2005).

⁴¹ See Joseph Francois et al., *Trade Adjustment Costs and Assistance: The Labour Market Dynamics*, in *Trade and Employment: From Myths to Facts* 214–218 (Marion Jansen et al. eds 2011).

⁴² See EIF, *2022 Annual Report: Fostering Inclusive Trade in the Least Developed Countries* (2023), https://enhanceddif.org/system/files/uploads/EIF_Annual_Report_2022_E_Web.pdf (accessed 27 Aug. 2024).

⁴³ See *Protocol Amending the Marrakesh Agreement the World Trade Organization*, WT/L/940, WTO (28 Nov. 2014).

⁴⁴ Around thirty-five technical measures have been drafted as best endeavour clauses applicable to all members (developed and developing countries) to provide them with the flexibility to implement these

developing countries and LDCs to condition implementation on the receipt of technical and capacity building support.⁴⁵

At the multilateral level, WTO's AfT program⁴⁶ is one of the most widely used initiatives to channelize different aid components already being supplied through existing donor agencies at the bilateral and multilateral levels, into a single framework.⁴⁷ The program focuses on five core areas which inter alia include trade policy and regulation, trade-related infrastructure, productive capacity building, and trade-related adjustment.

TCB is also provided by individual donors, mainly advanced economies, such as the US, EU (including individual EU countries), Japan, Korea, Canada, and Switzerland.⁴⁸ Until recently, the US provided TCB assistance to developing countries, including potential partners in trade agreements, on a bilateral basis, and through contributions to multilateral organizations and established global TCB trust funds.⁴⁹ The Millennium Challenge Corporation and the US Agency for International Development have historically provided the bulk of US TCB assistance,⁵⁰ but other agencies such as the US Department of Labor, the US Department of Agriculture, or the US Department of Commerce also provide such assistance.⁵¹ The EU operationalized bilateral TCB through its two main legal instruments: the Development Cooperation Instrument and the European

measures, OECD/WTO, *Aid for Trade at a Glance 2015: Reducing Trade Costs for Inclusive, Sustainable Growth* 113 (2015), http://dx.doi.org/10.1787/aid_glance-2015-en (accessed 27 Aug. 2024).

⁴⁵ Articles 14–16, *Protocol Amending the Marrakesh Agreement*, *supra* n. 43.

⁴⁶ The legal framework for AfT was set out in the Dec. 2005 Hong Kong Ministerial Declaration, explaining its aim as 'to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO agreements and more broadly to expand their trade', see Simon Lester, *Aid for More Than Just Trade: The Case for a Role for the WTO in Development Aid*, 30 UNSW L. J. 332, 336–37 (2007).

⁴⁷ José Antonio Alons, *Aid for Trade: Building Productive and Trade Capacities in LDCs*, CDP Policy Review Series (2016).

⁴⁸ For example, the Trade Capacity Building Program (TCBP), launched in 2003, is France's primary bilateral instrument for implementing its public aid commitments to trade development, see *The Trade Capacity Building Program*, <https://www.afd.fr/en/trade-capacity-building-program> (accessed 27 Aug. 2024).

⁴⁹ In a very recent development this year under the Trump 2.0 administration, the US has discontinued disbursement of foreign aid through USAID, one of its principal donor agencies, *Trump Administration to Cut all USAID Overseas Roles in Dramatic Restructuring*, The Guardian (10 Jun. 2025), https://www.google.com/search?q=usaid+dismantled&oq=USAID+dismantled&gs_lcrp=EgZjaHJvbWUqBwgA EAAyGAAQyBwgA EAAyGAAQyBwgB EAAyGAAQyCAGCEAAyFhgeMgoIAxAAGAoYFhgeMggIB BAAGBYHjIICAUQABgWGB4yCAGGEAAyFhgeMggIBxAAGBYHtI BC D U x N z l q M G o 0 q A I A s A I B &sourceid=chrome&ie=UTF-8 (accessed 30 Jul. 2025).

⁵⁰ See *Trade Capacity Building Fast Facts 2021*, USAID, <https://tcb.usaid.gov/data/FY2021-TCB-Fast-Facts.pdf> (accessed 27 Aug. 2024).

⁵¹ For example, the Bureau of International Labour Standards (ILAB) of the US Department of Labour funds and implements programs to help developing countries adhere to international labour standards, especially regarding child labour, see US Department of Labor, *2022 Findings on the Worst Forms of Child Labour* 6–9 (2023), https://www.dol.gov/sites/dolgov/files/ILAB/child_labor_reports/tda2022/2022-Findings-on-the-Worst-Forms-of-Child-Labor.pdf (accessed 27 Aug. 2024).

Development Fund.⁵² The EU recently established the ‘Neighbourhood, Development and International Cooperation Instrument – Global Europe’ instrument that consolidates ten separate instruments, including the TCB-related Development Cooperation Instrument and the European Development Fund.⁵³

3.2 LIMITATIONS OF TCB INSTRUMENTS

Despite the multiple channels through which multilateral and bilateral donors direct their funding for TCB activities, trade-related labour adjustment remains largely ignored. While AfT recognizes trade-related adjustment as one of its priority areas,⁵⁴ disbursements on this account are non-existent compared to spending in other core areas.⁵⁵ In 2020, 98% of the total AfT disbursements were made towards building productive capacity (e.g., supporting the private sector to diversify exports) and economic infrastructure (e.g., ports, roads, telecommunication networks, etc.), whereas the disbursements on account of trade-related adjustment during the same period were insignificant.⁵⁶ In terms of AfT disbursements (category-wise) received by countries based on their income status for the year 2020, the following table provides a comparative perspective on the spending priorities of donors.

⁵² The assistance through the DCI was earlier implemented through three programs – geographic, thematic and Pan-African programs covering a large number of developing countries (excluding ACP countries), specific developmental goals and strategic partnership with Africa respectively, see REGULATION (EU) No. 233/2014 of the European Parliament and of the Council of 11 Mar. 2014 establishing a financing instrument for development cooperation for the period 2014–2020, laying down common rules and procedures for the implementation of the Union’s instruments for financing external action OJ L 77, 15 Mar. 2014. The European Development Fund (EDF) was the main instrument for providing Community aid for development cooperation in the African, Caribbean and Pacific (ACP) states and Overseas countries and territories (OCTs), and it financed any project or program which contributed to the economic, social or cultural development of the countries in question, and also funded regional cooperation and integration program, see Council Regulation (EU) No 2015/322 of 2 Mar. 2015 on the implementation of the eleventh European Development Fund OJ L 58.

⁵³ See Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 Jun. 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, amending and repealing Decision No 466/2014/EU and repealing Regulation (EU) 2017/1601 and Council Regulation (EC, Euratom) No 480/2009 OJ L 209.

⁵⁴ The WTO Task Force on Aid for Trade has identified ‘Trade-related Adjustment’ as one of the aid for trade categories, to help developing countries with the cost associated with trade liberalization, such as tariff reductions, preference erosions, or declining terms of trade, see WTO/OECD, *Aid for Trade at a Glance 2022: Empowering Connected, Sustainable Trade* 182–183 (2022), <https://doi.org/10.1787/9ce2b7ba-en> (accessed 27 Aug. 2024).

⁵⁵ *Ibid.*, at 16.

⁵⁶ *Ibid.*, at 30–31.

Table 1 *AfT Disbursements for the Year 2022 (Amount in USD Million (2020 Constant))*

Income Group \AfT Category	Least Developed Countries	Other Low- Income Countries	Lower Middle- Income Countries	Upper Middle- Income Countries
Building Productive Capacity	7651.5	47.8	9870.9	3625.3
Economic Infrastructure	11574.2	0.4	14978.5	3525.5
Trade Policy and Regulations	427.7	0.2	208.1	31.6
Trade-related Adjustment	–	–	0.0	–

Source: WTO/OECD (2022), *AfT at a Glance 2022: Empowering Connected, Sustainable Trade* (2022), <https://doi.org/10.1787/9ce2b7ba-en>

Note: ‘–’ denotes zero, ‘0.0’ denotes amounts of less than USD 0.5 million

Expenditure by donor countries under AfT has also completely ignored trade-related adjustment compared to other areas such as infrastructure, capacity-building, and trade policy (see Table 1). This is corroborated by looking at the AfT expenditure trends by the EU and the US. The EU AfT spending towards trade-related adjustment during the period 2011–2020 constituted less than 0.1% of its total spending.⁵⁷ Similarly, the bilateral TCB funding from different US agencies has largely focused on trade-related agriculture, enterprise development, and the financial sector, whereas, the recent increase in funding on account of trade-related labour (with no separate head for trade-related adjustment) has been attributed to the mandated spending on improving worker’s rights in Mexico as part of commitments under the USMCA, and expenditures in Colombia and Ethiopia.⁵⁸

Insofar as PTAs are concerned, only a limited number have incorporated specific labour adjustment-related provisions as part of the labour chapter, a chapter

⁵⁷ See *EU Aid for Trade: Progress Report 2022* 150 (2023), <https://op.europa.eu/en/publication-detail/-/publication/c2814529-8fce-11ed-b508-01aa75ed71a1/language-en> (accessed 27 Aug. 2024).

⁵⁸ See *supra* n. 50.

on cooperation, or as a side agreement on labour cooperation.⁵⁹ In these PTAs, TCB is typically addressed in general terms and limited to voluntary commitments and declarations of intent. For instance, in the EU-CARIFORUM trade agreement, the parties agree to support efforts in relation to education programs, including skills training and policies for ‘labor market adjustment’.⁶⁰ EU trade agreements with countries such as Algeria, Jordan, Morocco, Tunisia, and Montenegro acknowledge the importance of addressing the adverse impacts of labour adjustment, wherein the parties agree to cooperate on upgrading different labour market policies relating to employment, social security systems, etc.⁶¹ US trade agreements generally list out specific areas of cooperation and capacity building, such as unemployment assistance programs or human resource development to address adjustment issues,⁶² and use of institutional mechanisms to support cooperation in areas such as training and adjustment programs.⁶³ The provisions linked to the development of labour market policies to promote the employability of workers, the development of skills, unemployment insurance, etc., can also be found in trade agreements (or as a side agreement).⁶⁴ Overall, in the absence of legally binding or enforceable commitments linked to, say, a compulsory dispute settlement mechanism,⁶⁵ or a pre-ratification conditionality linked to improvement in domestic labour standards,⁶⁶ the PTA provisions related to labour adjustment remain largely toothless.

⁵⁹ A study of 280 trade agreements in force and notified to WTO (as of Jun. 2017) inter alia found that only three trade agreements involving EU and Caribbean Forum (CARIFORUM), Georgia and the Republic of Moldova explicitly mention ‘labor market adjustment’, see WTO, *World Trade Report 2017: Trade, Technology and Jobs* 139 (2017), https://www.wto.org/english/res_e/booksp_e/world_trade_report17_e.pdf (accessed 27 Aug. 2024).

⁶⁰ See Art. 196 of Economic Partnership Agreement between the CARIFORUM states and the European Community, 15 Oct. 2008, *provisionally applied since* 29 Dec. 2008.

⁶¹ See e.g., Art. 101 of the Stabilization and Association Agreement between the European Communities and the Republic of Montenegro, 15 Oct. 2007, *entered into force* 1 May 2010.

⁶² Annex 15-A of the United States-Bahrain FTA, 14 Sep. 2004, *entered into force* 11 Jan. 2006, for instance, lays down a labour cooperation mechanism on matters including social safety net programs such as unemployment assistance and worker adjustment programs, minimum standards for wages and benefits. Similar language is also used in other US FTAs with Chile, Colombia, Korea, Panama, Morocco and Peru.

⁶³ For instance, the parties agree to designate an officer in their Ministry of Labour to serve as a contact point to carry out the work of the Labour Cooperation Mechanism on matters relating to human resource development, employment training, worker adjustment programs, social security, etc., see Annex 18.5 of the Chile-United States FTA, 6 Jun. 2003, *entered into force* 1 Jan. 2004.

⁶⁴ Switzerland and China agreed to operationalize cooperation on labour and employment through a MoU dated 15 Jun. 2011, which was also linked to the FTA between the two countries, see Art. 13.5 of the FTA between The Swiss Federation and The People’s Republic of China, 6 Jul. 2013, *entered into force* 1 Jul. 2014.

⁶⁵ For example, non-compliance with labour obligations in a number of US trade agreements leads to the same dispute settlement process as non-compliance with commercial obligations, see James Harrison, *The Labour Rights Agenda in Free Trade Agreements*, 20 J. World Inv. & Trade 705, 715–720 (2019), doi: 10.1163/22119000-12340153.

⁶⁶ See e.g., Annex-23A, United States-Mexico-Canada (USMCA), 30 Nov. 2018, *entered into force* 1 Jul. 2020.

4 REDESIGNING TCBS AND GAMS FOR GREATER TRADE OPENNESS

Given the nature of labour adjustment patterns in developing countries, because of prevailing informality and ineffective GAMS, the structural adjustment phase should be given more attention in TCBS. Particularly, labour market adjustment following an increase in trade needs to be embraced as a necessary requirement for the trade agreement to benefit all its partners in the first place: the capacity to fully implement and enforce trade liberalization commitments depends to a great extent on the capacity to manage labour market adjustment. While capacity building in infrastructure, trade-related technology, and skills is already considered in modern PTAs, support in labour market adjustment remains largely a blind spot in TCBS.

This comes somewhat as a surprise, given that within the scope of existing bilateral and multilateral private sector development programs and development assistance in general, various relevant instruments are already in place: assistance in the policy design of the right mix of flexibility and security in the labour market,⁶⁷ assistance in the implementation of relevant International Labour Organization (ILO) labour standards,⁶⁸ internship programs and other support in skill development and vocational and professional education and training, and finally also active facilitation and promotion of new jobs through access to public and private finance.⁶⁹

A greater synergy between different TCBS and GAMS is, therefore, needed at the domestic level, as they appear to have worked in silos without mechanisms to support or complement each other. In this context, the labour adjustment-related TCBS are international instruments aimed at addressing domestic capacity issues in relation to trade-related labour adjustment in developing economies (e.g., cooperation or institutional arrangements in trade agreements to directly address labour

⁶⁷ For instance, the European Union and the governments of Belgium, France and Spain have set up and funded a technical cooperation facility, SOCIEUX+ (available in more than 160 eligible countries and territories worldwide) to help developing countries improve their capacities in designing more effective ALMPs and PLMPs, see *Peer to Peer cooperation in Social Protection, Labour and Employment: Factsheet, SOCIEUX+*, https://socieux.eu/wp-content/uploads/2023/07/SOCIEUX_Factsheet_en.pdf (accessed 27 Aug. 2024).

⁶⁸ Alas, with the caveat that in this context, a careful assessment of to what extent labour standards interfere with the required level of flexibility to address adjustment has to be undertaken.

⁶⁹ The Development Finance Institutions (DFIs), for instance, typically invest as part of their objective in private sector development in job creation in developing countries and emerging economies, among others, with an interest in reducing the need to emigrate, representing about 18.7 trillion USD in aggregated total assets worldwide and therewith contribute an estimated 10% of total global investment, thereby, playing an important role in labour market adjustment through job creation in developing countries, see Jiajun Xu et al., *What are public development banks and development financing institutions?—qualification criteria, stylized facts and development trends*, 1 *China Econ. Q. Int'l.* 272, 271–294 (2021), doi: 10.1016/j.ceqi.2021.10.001. The Swiss Investment Fund for Emerging Markets (SIFEM), for instance, reports 483'253 (formal and sustainable) jobs supported in emerging markets in 2022 [online], <https://sifem.ch/our-impact/impact-results/> (accessed 28 May 2024).

adjustment). For instance, Trade Adjustment Assistance (TAA) programs⁷⁰ can be TCBs if they are part of an international, legally or politically binding agreement. Trade adjustment programs that are designed unilaterally and domestically, however, do not fall within the scope of TCBs but qualify as GAMs: they can have an important impact on the ability of a country to deal with trade-related structural adjustment, but are not part of an international agreement or sufficiently linked to a specific trade agreement.⁷¹

GAMs, unlike TCBs (which focus only on trade-linked labour adjustment), are concerned with the capacity of the labour market as a whole to deal with structural adjustment, independent of its origin. The focus lies on general policies and instruments that ensure flexibility, foster competitiveness, and prevent long-term unemployment.⁷² Structural adjustment in the labour market may come from various origins – e.g., digital revolution, trade liberalization, financial crises, migration, aging population, or other external shocks. It may affect different industries in different ways, oftentimes unpredictably. Successful GAMs, therefore, target the effect and not the source of structural adjustment. This also means that, in principle, structural adjustment due to trade liberalization can be addressed by the same type of labour market capacity instruments as structural adjustment linked with the digital revolution or following a global crisis. Despite their differences, labour adjustment-related TCBs and GAMs are not mutually exclusive but share complementarities. The objectives of TCBs and GAMs overlap to the extent that they both focus on and support each other in facilitating the trade-linked labour adjustment.

Given the linkages between TCBs and GAMs, there is a case for establishing greater synergies between the two: Full and immediate implementation, enforcement, and use of a new trade agreement typically leads to a sudden, substantive need

⁷⁰ These programs, specifically designed to address the negative effects of trade liberalization in the labour market, render access to training and social security conditional on adjustment due to trade liberalization, but for various reasons, the programs so far have delivered mixed results, see Walter Corson & Walter Nicholson, *Trade Adjustment Assistance for Workers: Results of a Survey of Recipients under the Trade Act of 1974*, 4 Res. Lab. Econ. 417–469 (1981); Paul T. Decker & Walter Corson, *International Trade and Worker Displacement: Evaluation of the Trade Adjustment Assistance Program*, 48 Indus. & Lab. Rel. Rev. 758–774 (1995), doi: 10.1177/001979399504800410; L. E. Marcal, *Does Trade Adjustment Assistance Help Trade-Displaced Workers?* 19 Contemp. Econ. Pol’y 59–72 (2001), doi: 10.1093/cep/19.1.59; Kara M. Reynolds & John S. Palatucci, *Does Trade Adjustment Assistance Make a Difference?*, Working Paper Series 2008-12 (2008); Ronald D’Amico & Peter R. Schochet, *The Evaluation of the Trade Adjustment Assistance Program: A Synthesis of Major Findings*, Mathematica Pol’y Res. (2012); Tim Meyer, *Misaligned Lawmaking*, 73 Vand. L. Rev. 151–221 (2020). They were abandoned by the EU in 2016 and are currently not funded in the US, see Christine McDaniel, *If Congress Want More Trade, There’s A Bill to Pay* (The Hill 31 Mar. 2023), <https://thehill.com/opinion/international/3927908-if-congress-wants-more-trade-there-s-a-bill-to-pay/> (accessed 27 Aug. 2024).

⁷¹ For the classification of different legal instruments in labour adjustment, see also Joost Pauwelyn & Charlotte Sieber-Gasser, *Addressing Negative Effects of Trade Liberalization: Unilateral and Mutually Agreed Flanking Policies*, 23 World Trade Rev. 554–572 (2024), doi: 10.1017/S1474745624000508.

⁷² OECD, *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy* 62–86 (2018), https://www.oecd.org/employment/emp/long%20booklet_EN.pdf (accessed 27 Aug. 2024).

for structural adjustment in the labour market. If no suitable GAMs or labour adjustment-related TCBs are in place, this sudden shock will prolong the adjustment phase, deepen its potential harm for individual workers and industries, and reduce the benefits of trade liberalization.⁷³ On the other hand, if GAMs and TCBs are linked together through legally binding arrangements or otherwise, the policy response to address trade-related labour adjustment can be strengthened, and the adverse distributional consequences from tariff reductions can be minimized.

The benefits of trade liberalization only fully materialize as intended once the inevitable – and possibly even desired – structural adjustment following trade liberalization has taken place.⁷⁴ This is true for all the partners in a trade agreement and is partly the reason why industrialized countries have a self-interest in supporting their developing country partners in the full and immediate implementation of the trade agreement. This further underscores the rationale behind the need to have a labour-adjustment-related TCB in addition to a domestically well-funded GAM: A TCB that directly supports GAM is more targeted and, hence, more salient, as it helps tide over the opposition to a more open trade regime in developing economies.⁷⁵

From evolving practices and precedents in recent times, the following possible mechanisms of linking GAMs with TCBs using trade agreements emerge:

4.1 CREATING BINDING COMMITMENTS BASED ON QUID PRO QUO

Very recently, in Spring 2024, general labour capacity building was included in a trade agreement for the first time – and therewith qualifies as labour adjustment-related TCB: In the Trade and EPA between the European Free Trade Association (EFTA)⁷⁶ and India,⁷⁷ EFTA Member States agreed to facilitate the generation of one million jobs within fifteen years in India from the entry into force of the Agreement. These jobs must be clearly attributable to the foreign direct investment (FDI) in India from EFTA investors.⁷⁸ EFTA and India agree for this purpose to cooperate, among others, in the facilitation of continued skill development, vocational and professional education, and training.⁷⁹ If, after fifteen years, the generation

⁷³ See Francois et al., *supra* n. 41, at 229–230.

⁷⁴ Jean-Christopher Maur, *Coping With Trade Liberalization Adjustment* (2006), <https://www.ilo.org/publications/coping-trade-liberalization-adjustment> (accessed 27 Aug. 2024).

⁷⁵ Given that an effective adjustment assistance programme can placate domestic demands for protectionism, part of the benefit of having such GAMs in place is also captured by the trading partner in the form of lower and stable tariffs, see Kim & Pelc, *supra* n. 37, at 2375.

⁷⁶ Members are Iceland, Liechtenstein, Norway and Switzerland, see <https://www.efta.int/> (accessed 15 Aug. 2025).

⁷⁷ Trade and Economic Partnership Agreement between the EFTA states and the Republic of India (TEPA) 10 Mar. 2024, *entered into force* 1 Oct. 2025.

⁷⁸ Article 7.1 of TEPA.

⁷⁹ *Ibid.*, Art. 7.3.

of one million jobs in India by means of FDI from EFTA has not been achieved, and subsequent consultations have not resulted in a mutually satisfactory solution, India can undertake temporary and proportionate remedial measures in market access in goods trade to rebalance the concessions given to EFTA.⁸⁰

While there have been promises made before to facilitate the creation of jobs through FDI,⁸¹ these provisions are unique so far: (1) in terms of details and specifications, since the parties to the agreement lay down clear and quantifiable commitments of investment and job creation targets, and (2) in terms of enforceability, given that the consultation mechanism⁸² together with the possibility of ‘remedial measures’ does create an economic incentive for EFTA countries to constantly monitor their investment and job creation targets and combines the failure to meet these targets with a legal (and economic) consequence.⁸³ Therewith, the EFTA commitments to facilitate the creation of jobs in India are, as a result, just as ‘legally binding’ as they would be if they were subject to dispute settlement proceedings.⁸⁴

The inclusion of a commitment to facilitate job creation, in combination with a commitment to engage in ALMPs such as skill development and vocational education and training in a trade agreement involving a developing country partner is for two reasons not surprising: first, industrialized countries typically engage in both activities already within the scope of their development assistance programs. Formalizing these efforts through inclusion in a trade agreement, hence, ought not to create additional costs for them. Second, empirical research attributes ALMPs with a great potential of easing labour market adjustment following trade liberalization. These commitments are likely to contribute substantially to a shorter structural adjustment phase following the implementation of the agreement and, therefore, benefit not only the developing country member of the agreement but also its partner countries.

The above model could act as a template for future trade agreements to address trade-related labour adjustment, wherein market access to one trading partner may be conditioned on extending support to strengthen GAMs or build capacities in sector(s) where tariffs are being negotiated. Developing economies, for instance, are already exploring possibilities to allow tariff reductions in a specific sector, say,

⁸⁰ *Ibid.*, Art. 7.7.

⁸¹ In the EU-US trade deal in reaction to the US reciprocal tariffs, the EU announced just recently, e.g., the intention to invest in the US an additional 600 billion USD in various sectors by 2029. See European Commission, *The EU-US Trade Deal*, https://commission.europa.eu/topics/trade/eu-us-trade-deal_en (accessed 2 Oct. 2025).

⁸² Article 7.7 of TEPA.

⁸³ *Ibid.*, Art. 7.8.

⁸⁴ Since failure to meet the targets – and therewith a violation of obligations – would result under normal dispute settlement proceedings also at the maximum in remedial measures.

agriculture, by committing their trading partner in the treaty itself to invest in capacity building in productivity-enhancing technologies, sustainable farming, logistics, storage, etc. Such a ‘tech-for-tariff’ arrangement is being explored (although in the early stages) in the India-Australia FTA.⁸⁵

Although the performance of such provisions on the ground is yet to be tested, there is good reason to hold-on this approach and continue to negotiate reciprocal arrangements in trade agreements to strengthen the effectiveness of GAMs in developing countries. To add teeth to these measures, the rebalancing provision on lines of EFTA-India TEPA may serve as a useful model.⁸⁶ It remains to be seen whether such arrangements are also in the cards for small and independent developing economies, given that they work in favour of North-South cooperation wherein the developing country has a large domestic market (e.g., India, Brazil) to offer as a quid pro quo.

4.2 EXPLORING COMPLEMENTARITIES FOR MUTUAL BENEFIT

Informality in developing economies remains one of the main impediments to the effective implementation of GAMs, as the lack of sufficient employment opportunities in the formal sector often pushes workers to the informal sector. Employment creation, especially in the formal sector, therefore, forms a significant component of the adjustment process to facilitate the reallocation of such workers. Developed countries, on the other hand, increasingly face labour (and different skills) shortages due to an aging population. In such a scenario, trade agreements can emerge as a useful arrangement for trading partners to explore complementarities and mutual benefits. Advanced industrial economies, for instance, can address their domestic skill shortage by extending support through training and job assistance services to workers from developing economies faced with capacity constraints and employment-related challenges.⁸⁷

Developing economies, with surplus labour comprising semi-skilled and unskilled workers in the informal sector, can negotiate bilateral arrangements that address labour shortage in developed economies. For instance, Taiwan signed a Memorandum of Understanding (MoU) with India to address its job shortage

⁸⁵ *Australia Pitches a Tech-for-Tariff Agri Deal With India* (Mint 12 Mar. 2024), <https://www.livemint.com/economy/australia-pitches-a-tech-for-tariff-agri-deal-with-india-11710149016864.html#:~:text=New%20Delhi:%20Australia%20has%20offered,aware%20of%20the%20development%20said> (accessed 9 Aug. 2024).

⁸⁶ See *supra* n. 80.

⁸⁷ Germany addresses its labour shortage by offering support in the form ALMPs such as vocational training, job search and placement assistance to attract foreign workers (in developing economies) through different state-led initiatives at the federal level, non-governmental stakeholders and other non-profit initiatives, Jan Schneider, *Labour Migration Schemes, Pilot Partnerships, and Skills Mobility Initiatives in Germany*, Working Paper, World Bank 17–25 (2023).

(due to an aging population) in certain key sectors such as manufacturing, agriculture, or construction.⁸⁸ The agreement also helps India to address its domestic employment challenges, as India is a labour-surplus country with an overwhelming majority of informal workers, especially in the agriculture and construction sectors.⁸⁹ Such MoUs or bilateral agreements can be linked to trade agreements with clear quantifiable commitments, say, in terms of the number of jobs to be created, nature of jobs, duration of commitment, etc.⁹⁰ The success of these agreements depends on exploring mutual benefits, and not on the bargaining power or the size of the domestic market of the developing economy.

4.3 INCORPORATE LEGALLY ENFORCEABLE ADJUSTMENT ASSISTANCE

GAMs typically consist of a compensation and an adjustment component to financially support workers who face job displacements and facilitate their transition to new jobs. TCBs comprising a targeted adjustment assistance program, such as the TAA in the US, combining elements of compensation and/or adjustment, can be linked with or incorporated in a trade agreement as a precondition for market access in specific sectors where workers are more likely to face adverse labour market outcomes post-trade liberalization. The arrangement was first explored through the trade adjustment assistance program, NAFTA-TAA, specifically designed to address structural adjustment in the US labour market following NAFTA.⁹¹ The recommendation here, however, differs from the arrangement under NAFTA-TAA, as the adjustment assistance mechanism is proposed to be linked to the trade agreement itself (and not to the domestic implementing legislation as in the case of NAFTA TAA) to support trade-displaced workers in the partner (developing) country.

By embedding adjustment assistance within trade agreements, they are likely to be subjected to the same timelines and implementation requirements as trade liberalization commitments.⁹² This would ensure that governments are perpetually accountable to the concerns of potential losers of trade once a trade agreement is implemented. To identify potential losers for a more targeted adjustment assistance, the TCB measure within the trade agreement could also include assistance to

⁸⁸ *India, Taiwan Sign MoU to Bring Indian Workers to Tide over Labour Shortage* (The Hindustan Times 17 Feb. 2024), <https://www.hindustantimes.com/india-news/india-taiwan-sign-mou-to-bring-indian-workers-to-tide-over-labour-shortage-101708101494842.html> (accessed 9 Aug. 2024).

⁸⁹ ILO, *India Employment Report 2024: Youth Employment, Education and Skills* 24–26 (2024), <https://www.ihdindia.org/pdf/India-Employment-web-22-April.pdf> (accessed 9 Aug. 2024).

⁹⁰ For instance, a bilateral agreement on labour and employment between Switzerland and China has also been linked with the FTA between them, *see supra* n. 64.

⁹¹ NAFTA-TAA program authorized under Title V of the North American Free Trade Agreement Implementation Act of 1993, P.L. 103–182.

⁹² *See Meyer supra* n. 70.

developing economies to conduct ex-ante impact assessments, during the negotiation phase, to ascertain the impact of a trade agreement in specific sectors.⁹³ To add teeth to the commitments such that they are credible and binding, rebalancing provisions on lines of EFTA-India TEPA may be incorporated, as previously noted. This would ensure that the mutually agreed adjustment assistance is adhered to by the trading partner committing to extend such assistance.

The cost of funding such an arrangement in a trade agreement need not be borne additionally by a developed economy, as existing bilateral/multilateral channels already exist to support GAMs in different jurisdictions. For instance, the EU runs a program, SOCIEUX+ Expertise on Social Protection, Labour and Employment, to expand and improve access to better employment opportunities and inclusive social protection systems in developing countries.⁹⁴ While such programs are designed to improve policy response towards structural labour adjustment in the beneficiary countries, lately, there is also an increasing acknowledgment of the need to integrate trade and labour market policies.⁹⁵ Similarly, multilateral initiatives through agencies such as the ILO promote collaboration with developed countries to support programs linked to job creation, social protection, etc., in developing countries.⁹⁶ As discussed earlier, the AfT program has an explicit adjustment assistance component, which, although underutilized, can be scaled up and tied to trade agreements. Developed economies could, therefore, link some of these initiatives within a trade agreement in the form of adjustment assistance to their trading partner in specific sectors to gain market access or negotiate other tariff commitments. Given that developed economies already channelize substantial funds for TCB-related activities, the proposed arrangement does not impose additional costs and is thus unlikely to create resistance amongst domestic stakeholders for reasons of political economy.

⁹³ For example, EU extended assistance to Vietnam to conduct an ex-ante impact analysis of the trade agreement during the negotiations of EVFTA *see* Action Document for ASEAN Regional Integration Support – Viet Nam Trade-Related Assistance (ARISE Plus Viet Nam) 12, https://international-partnerships.ec.europa.eu/document/download/84700aae-a886-47cf-9d03-d1054dd13833_en (accessed 27 Aug. 2024).

⁹⁴ *See supra* n. 67.

⁹⁵ The ILO program on integrating trade and decent work (INTEGRATE) is built on the premise wherein decent work is treated as a central objective of trade policy and focusses on labour market effects of international trade and trade policy, *see Integrating Trade and Decent Work*, [https://www.ilo.org/integrating-trade-and-decent-work#:~:text=Programme%20Background,-\(INTEGRATE%20comprises%20three&text=Supporting%20sustainable%20development%20through%20the,under%20the%20SUPPORT%20project\)%3B](https://www.ilo.org/integrating-trade-and-decent-work#:~:text=Programme%20Background,-(INTEGRATE%20comprises%20three&text=Supporting%20sustainable%20development%20through%20the,under%20the%20SUPPORT%20project)%3B) (accessed 27 Aug. 2024).

⁹⁶ ILO's Decent Work Country Programs are the main vehicle to support developing countries in taking forward ILO's Decent Work Agenda that aims at securing social protection, fair income, employment creation, etc., *see Decent Work Country Programs*, ILO, <https://www.ilo.org/regions-and-countries/europe-and-central-asia/ilo-office-central-and-eastern-europe/what-we-do/decent-work-country-programmes> (accessed 27 Aug. 2024).

4.4 UNILATERAL COMMITMENTS

High-income countries can also extend unilateral assistance, through commitments within a trade agreement (or through domestic legislation linked to the trade agreement), to support GAMs in developing economies. For instance, the US has earmarked funds, through explicit commitment in the domestic legislation implementing the USMCA, to improve the labour standards in Mexico and support Mexico's effort to comply with labour commitments under the trade agreement.⁹⁷ Critics may, however, argue that the binding and unilateral nature of assistance may come with conditionalities on the weaker trading partner, and therefore, the arrangement may not provide a level playing field.

4.5 ENFORCING LABOUR STANDARDS TO ADDRESS RIGIDITIES IN DOMESTIC LABOUR REGULATIONS

ILO's Decent Work Agenda is an instrument linked to a few trade agreements to address the social outcomes of globalization and free trade. It rests on four pillars – employment creation, social protection, rights at work, and social dialogue. To further institutionalize the Decent Work Agenda, the ILO unanimously adopted the Declaration on Social Justice for a Fair Globalization in 2008. The Declaration acknowledges the impact of trade liberalization and globalization on the employment and loss of income of workers, especially in the informal economy, and inter alia seeks to strengthen its TCB efforts to assist Member States in this direction. While most of the modern-day trade agreements contain labour provisions that reaffirm and commit to implementing the ILO core labour standards,⁹⁸ the ILO Decent Work Agenda doesn't feature in most of the trade agreements, except for a few agreements concluded by New Zealand, Australia, and some of the early agreements concluded by the US, Canada, and Chile.⁹⁹

⁹⁷ The USMCA implementing legislation includes USD 210 million to ILAB for USMCA-related technical assistance projects and to monitor USMCA compliance, including the necessary expenses of additional full-time ILAB employees for the Interagency Committee and labour attachés in Mexico, see *Labor Rights and the United States-Mexico-Canada Agreement (USMCA)*, <https://www.dol.gov/agencies/ilab/our-work/trade/labor-rights-usmca> (accessed 27 Aug. 2024).

⁹⁸ The Declaration on Fundamental Principles and Rights at Work and its Follow-Up contain core principles that ILO Member States are expected to follow even if they have not ratified the ILO's conventions in which they are expressed; the core standards relate to freedom of association and right to collective bargaining, elimination of forced and compulsory labour, abolition of child labour, elimination of discrimination in respect of employment and occupation, and safe and healthy working environment, see *ILO Declaration on Fundamental Principles and Rights at Work*, <https://www.ilo.org/ilo-declaration-fundamental-principles-and-rights-work> (accessed 27 Aug. 2024).

⁹⁹ Jean-Baptiste Velut et al., *Comparative Analysis of Trade and Sustainable Development Provisions in Free Trade Agreements* (2022), <https://www.lse.ac.uk/business/consulting/assets/documents/TSD-Final-Report-Feb-2022.pdf> (accessed 27 Aug. 2024).

Linking the ILO's Decent Work Agenda and the related Declaration with trade agreements, on lines of ILO's core labour standards, can create an enabling environment and act as a push for developing economies (say, through a binding pre-ratification clause, e.g., USMCA) to bring reforms and/or streamline domestic labour regulations and institutions, such as those relating to minimum wages, employment protection, social safety, etc.¹⁰⁰ Creating flexibilities in the labour market and widening social security for workers, through such reforms, could ease the adjustment pressures and address the problem of informality, to the extent they are linked to rigid and exclusionary laws.

However, unlike core labour standards, which are universally acknowledged, such externally driven reforms linked to adjustment-related labour market regulations may not enjoy the same level of acceptance and should be assessed carefully by respective jurisdictions based on local labour market conditions. For example, flexibility in employment protection legislation (easy-to-hire/fire rules) facilitates reallocation of workers, but over-reliance on flexibility without sufficient social protection measures (e.g., unemployment insurance) in place, especially for vulnerable workers engaged informally, could be counterproductive.

5 CONCLUDING ASSESSMENT

The international trading landscape is changing fast, with countries, led by the US, looking at tariffs as a bargaining tool to gain access to foreign markets. In this regard, countries with larger markets enjoy greater bargaining leverage over smaller or less developed economies that rely on exports to boost their domestic growth. The push for a reduction in tariffs, especially of sectors that have remained protected so far, through bilaterally negotiated deals in these circumstances, is likely to create greater churn in the labour markets. As noted earlier, domestic capacity constraints and labour market characteristics such as informality and rigid labour laws in developing economies may reduce the effectiveness of GAMs in dealing with the adjustment pressures created by this churn. At the same time, more advanced economies are exploring ways to rationalize their current TCB disbursements based on their changing priorities and the logic of returns on investment. For instance, USAID, which contributes significantly to the TCB initiatives, has been disempowered through budget cuts under the Trump 2.0 administration.¹⁰¹ Similar trends are also visible in the EU, which is exploring a change in the architecture of

¹⁰⁰ Studies indicate that exports of low-income countries benefit from the introduction of labour clauses in North-South trade agreements through deep cooperation (rather than sanctions), *see* Celine Carrère et al., *Labour Clauses in Trade Agreements: Hidden Protectionism?*, 17 *Rev. Int'l Org.* 453–483 (2021).

¹⁰¹ *See supra* n. 49.

development assistance by shifting from ‘charity’ to ‘mutual partnerships’ that provide returns on investment or profits.¹⁰²

By exploring possible synergies between the TCBs and the GAMs, this paper demonstrates how both developed and developing economies can continue to maximize their respective gains from trade openness and legal certainty in trade relations. The suggested mechanisms involving TCB initiatives in support of GAMs are unlikely to entail additional costs – politically or financially – for advanced economies, as assistance mechanisms through various bilateral and multilateral channels are already operational. Instead, we suggest the incorporation of existing instruments into trade agreements for greater effectiveness, transparency, and reliability. Notably, by creating additional policy space through such synergies, developing economies can rely less on protectionist instruments such as tariffs and safeguards, and also sell the idea of trade liberalization better to their domestic stakeholders. Such a change in the attitude towards integration in the global market and international value chains is expected to reduce the economic vulnerability of developing economies through diversification (i.e., of trading partners and export markets) and legal protection (i.e., through PTAs).

¹⁰² Europe’s Development Budget Balancing Act, Devex Newswire (26 Mar. 2025), <https://www.devex.com/news/devex-newswire-europe-s-development-budget-balancing-act-109718> (accessed 30 Jul. 2025).

