

goods in which they have a comparative advantage. Trade liberalization also allows for the greater exploitation of economies of scale. By allowing domestic producers greater market access opportunities, the freer market conditions allow firms to undertake greater specialized production runs that reduce the unit costs of production. For countries with small domestic markets, economies of scale may be extremely important.

Trade liberalization also increases competition, in both the foreign and domestic markets. This implies that firms will need to respond faster to changing market conditions. Greater competition is likely to provide an incentive for firms to increase their economic performance through cost-saving innovations and to enhance the quality of their products. Trade liberalization undertaken in a bilateral or multilateral context and which establishes clear trading rules will reduce uncertainty. Without such rules, a country may face unilateral actions from its trade partners. The reduction of uncertainty, while providing more stable access, will also allow firms to make more informed business decisions.

### 3.2 Labour Adjustment

The economic benefits stemming from trade liberalization require adjustment, including labour market adjustment. The OECD has summarized the empirical results of a number of studies conducted on the employment effects of trade liberalization.<sup>16</sup> The OECD concluded that the net impact of trade liberalization on employment is in general small at the aggregate level of the overall economy. The labour adjustment required is also likely to be small with respect to changes occurring for other reasons, such as technological change or the emergence of new products. In an average year, in the developed countries 20 percent of the work force will change jobs. The OECD report concluded that "the number of additional workers who would have to change jobs as a result of trade liberalization would be likely to be only a fraction of the normal rate of labour turnover, particularly if the trade liberalization were spread over a number of years."<sup>17</sup>

The employment effect is more important, however, at the sectoral level, although smaller than employment changes due to other causes, such as large exchange rate movements and technological developments. The OECD has found that trade liberalization and increased trade in goods, especially with developing

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<sup>16</sup> OECD, "Trade and Employment", C(89)42, 1989.

<sup>17</sup> OECD, "Trade and Employment", C(89)42, Annex Summary Report, 1989, p.4.