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Trade and Unemployment: What do the Data Say?

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ABSTRACT

Two theories about the impact of international trade with unemployment: Ricardian and Hecksher Ohlin theory. This research is also to know the impact of trade openness, economic growth, and inflation on unemployment of ASEAN-5, 1996-2016.

The data used is pooled data. Data sources from the World Bank. The analytical unit consists of ASEAN-5 countries (Indonesia, Malaysia, Philippines, Singapore, and Thailand). Method analysis used is Vector Error Correction Model (VECM).

The results economic growth has a positive relationship to unemployment in the ASEAN-5. Trade openness and inflation have a negative relationship to unemployment in the ASEAN-5. ASEAN-5 in 1996-2016 lead to the Ricardian theory, where when there is increasing international trade openness the unemployment will decreases.

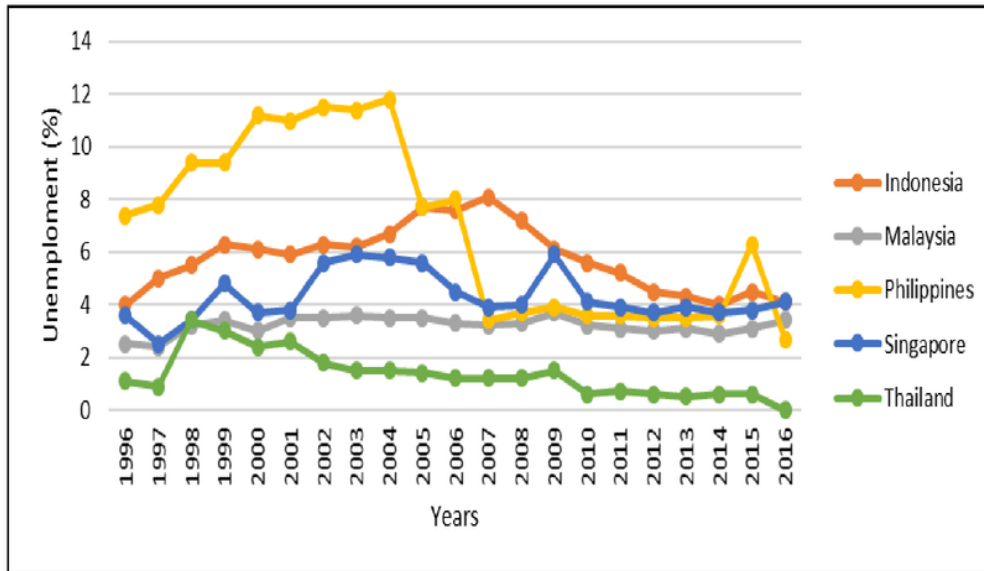Keywords: Unemployment, Trade Openness, Economic Growth, Inflation, VECM

INTRODUCTION

Two theories of Ricardian and Hecksher-Ohlin (HO) theory about the impact of international trade with unemployment.

Figure 1
Trade Openness of ASEAN Countries-5, 1996-2016
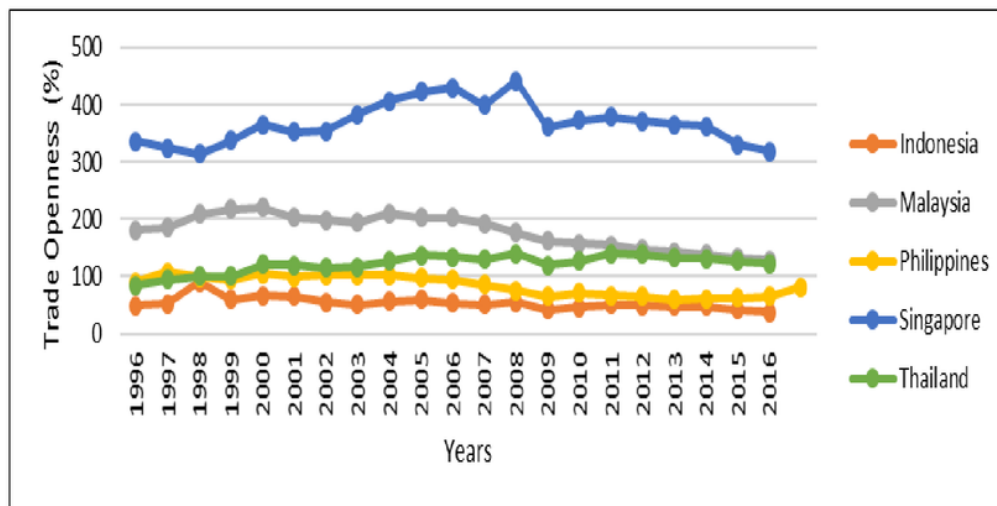
Source: World Bank, calculated by authors (2018)

Figure 2
Unemployment of ASEAN Countries-5, 1996-2016

Source: World Bank, calculated by authors (2018)

A literature study explaining the positive effect of international trade with unemployment, such as: Dutt *et. al* (2009); Kim (2011). While negative relationship on international tarde on unemployment, such as: Weder and Wyss (2010); Nathakumar *et al.* (2011).
The research question is: What is the impact of the trade openness, economic growth, and inflation on unemployment of ASEAN-5 in 1996-2016?

LITERATURE REVIEW

Theories of trade: theory of Absolute Advantage; Comparative Advantage; Ricardian Theory; Hecksher Ohlin (HO). Other variables affecting unemployment are economic growth and inflation. Empirical studies: Hasan *et al.* (2010); Nathakumar *et al.* (2011); Kim (2011); Nwaka *et al.* (2012); Alawin (2013).

RESEARCH METHODOLOGY

This study uses panel data. Period from 1996-2016. Unit of analysis: is the ASEAN-5.
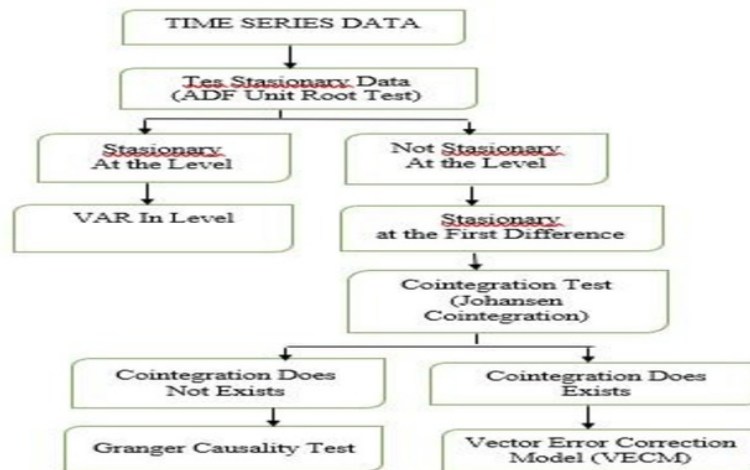
$$UE_t = \alpha_1 + \sum_{j=1}^{k} \beta_{11}KPI_{t-j} + \sum_{j=1}^{k} \beta_{12}PE_{t-j} + \sum_{j=1}^{k} \beta_{13}INF_{t-j} + Ect\text{-}1 + \varepsilon_t$$

EU   = Unemployment;
KPI   = Trade openness;
PE   = Economic growth;
INF   = Inflation;
A   = Constants;
t   = Time;
j   = Country;
β   = Coefficient of each variable;
EC   = *Error Correction Model;*

RESULTS
EU = - 87,73446 – 0,099549KPI + 21,97674PE – 3,158173INF
                          [-2,37312]   [7,72045]   [-3,45165]

     Trade openness has negative coefficient equal to -0,09. This means that if trade openness increased by 1% then the unemployment decreased equal to 0.09%.
     Economic growth variable has positive coefficient equal to 21,97. This means that if economic growth increased by 1% then unemployment increased by 21.97%.
Inflation variable has negative coefficient is -3,15. This means that if inflation has increased by 1% then unemployment decreased by 3.15%.

CONCLUSION
     Trade openness has negative coeefficient equal to -0,09. This is accordance with the initial hypothesis that the higher the tarde openness of will be the lower the unemployment rate. This result is also appropriate and support the research that has been done by Hasan *et al.*(2010); Weder and Wyss (2010); Nathakumar *et al.* (2011); and Alawin (2013).
     Economic growth variable has positive coefficient equal to 21,97. This is not inaccordance with the intial hypothesis that the higher the economic growth of a country, the lower the unemployment rate. These results are also appropriate and support research conducted by Nwaka *et al.* (2012).

Inflation variable has negative coofficient -3,15. Inflation variable according to the initial hypothesis that says the higher the lower the inflation rate of unemployment. This result is inaccordance with a study conducted by Nwaka *et al.* (2012).

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