



Trade policies, poverty eradication and employment creation

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SECOND UN DECADE FOR THE ERADICATION OF POVERTY (2008-2017)**

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Outline

1. Growth and poverty: some stylized facts
2. The international context and the role of policy
3. Trade policy, trade and employment in the context of the SDGs
4. Closing remarks

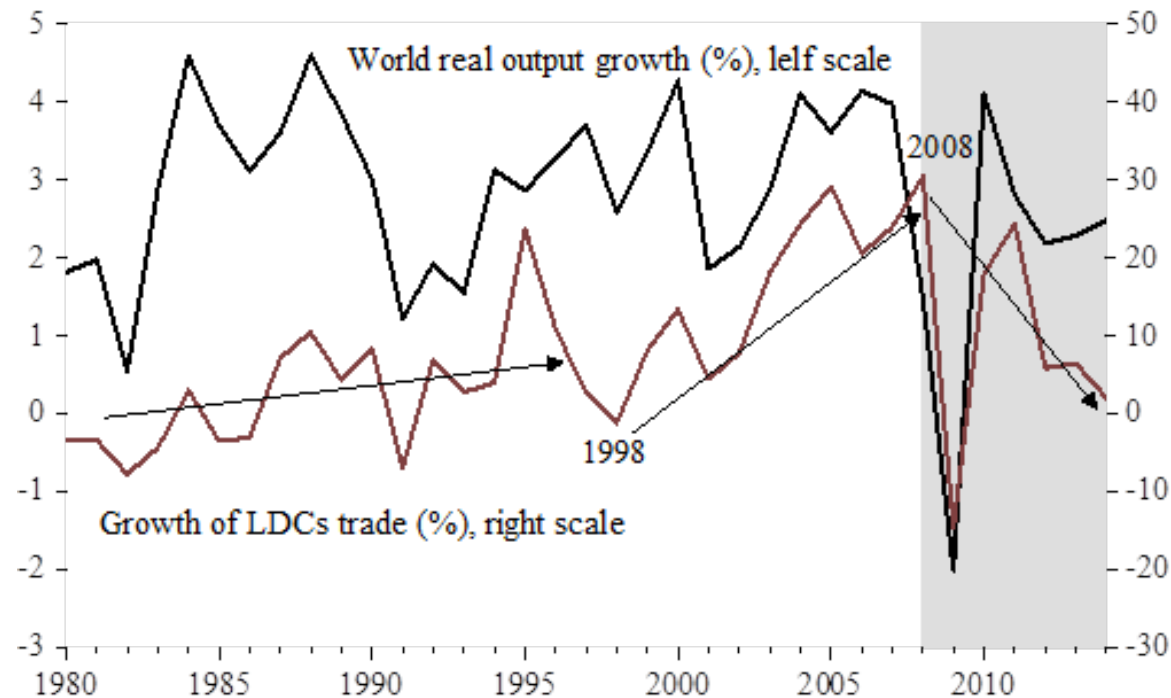


Background



Growth in LDCs

World output and LDCs trade, 1980-2014

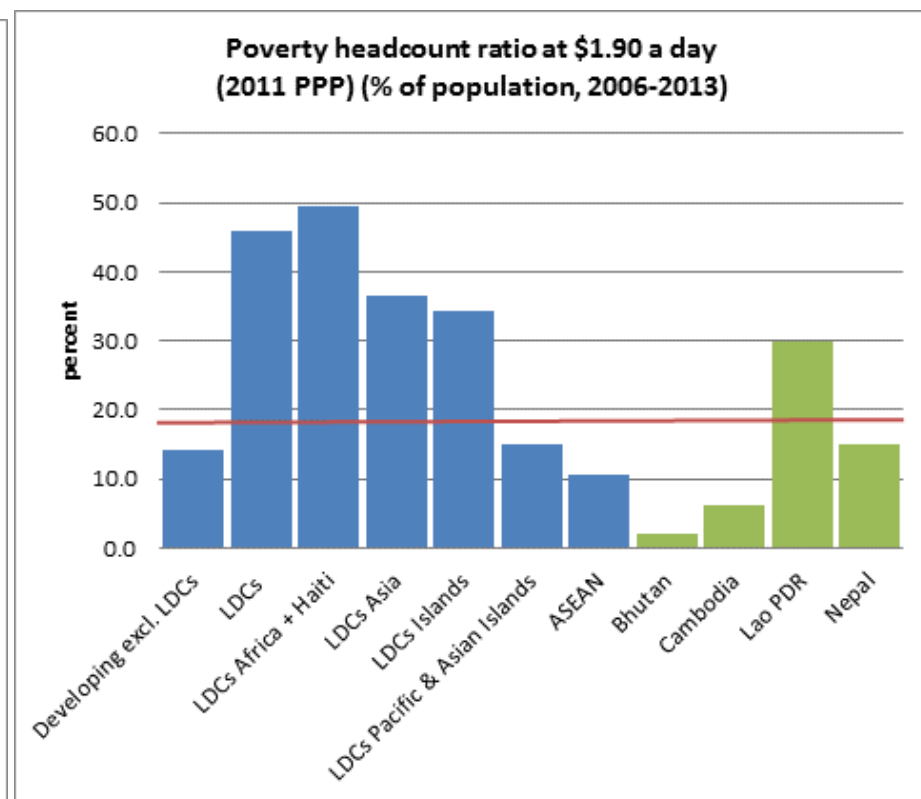
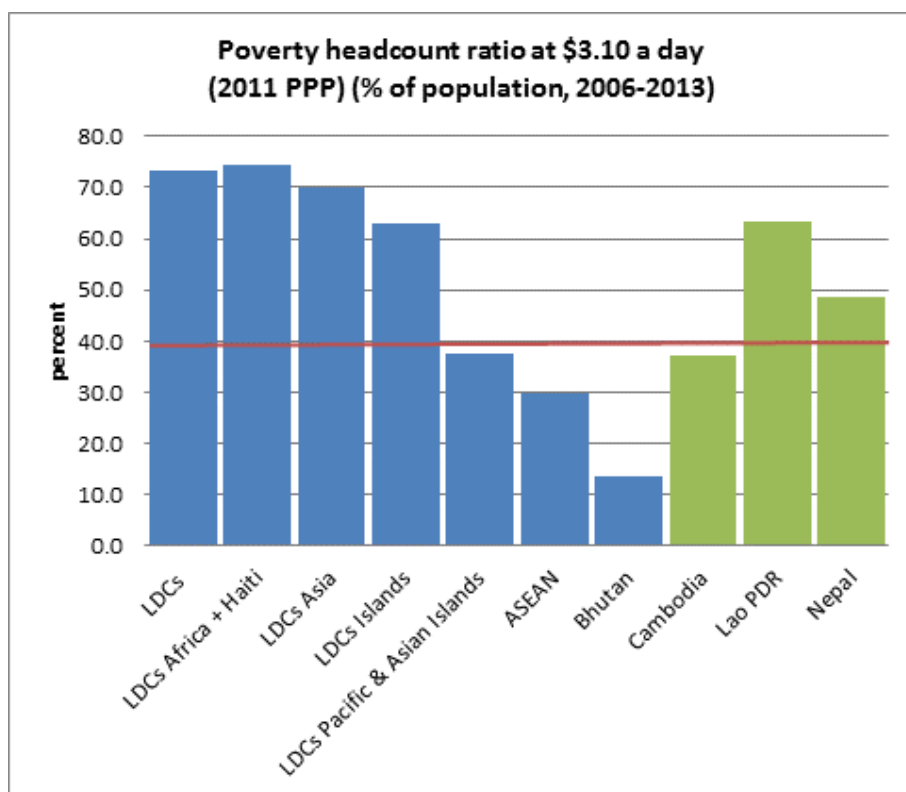


Note: total trade measured in US Dollars at current prices and current exchange rates in millions.

Source: UNCTAD.



Poverty Headcount Ratios



Source: World Bank, Development Research Group, 2014.



The international context and the role of policy



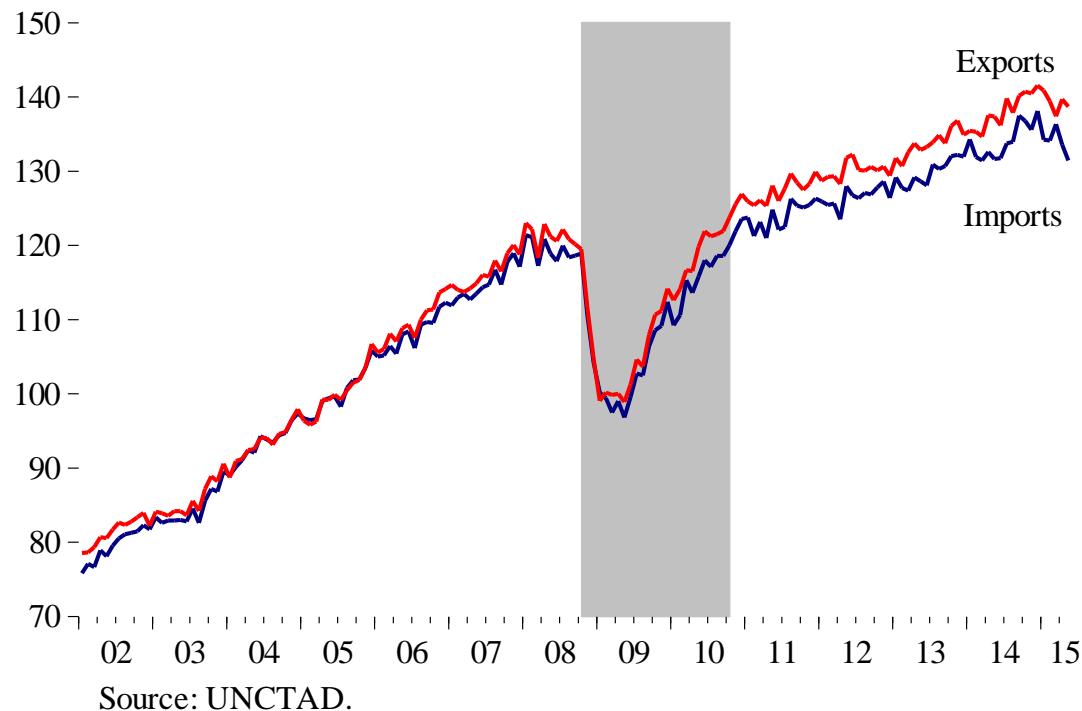
Policies to increase production and income and employment creation / expansion

- Fiscal policy: Central role to finance public investment and social services
- Credit policy: Improve access to financing of firms – including farmers, micro and small enterprises
 - Multiple actors: development banks (national and regional), rural banks, commercial banks, credit cooperatives, informal institutions, etc.
- Monetary policy: Focus on delivering stable inflation

(see UNCTAD Trade and Development Report, 2015)



The international context



- Trade has been growing at a very fast pace driven by favourable policies, technological innovation and reductions in transaction costs. BUT international dynamics have changed since the global recession.

The international context

- Weak demand, financial market fragility and high inequality have affected growth performance in advanced and developing countries. The crisis is not over and the risk of stagnation in advanced economies is still latent (UNCTAD, TDR 2015).
- International trade cannot provide alone a remedy to insufficient global demand.

Policies matter!!



Trade, Employment and Poverty



Trade and poverty: the mechanisms

- The Macroeconomic channel: trade, growth, and poverty
 - Trade affects economic growth
 - Growth can reduce poverty and inequality
- The Microeconomic channel: household welfare
 - Trade affects prices
 - Prices affect households' income and welfare



The role of trade costs

- Important to consider the role of trade costs in accounting for the eventual impact of trade on poverty reduction in LDCs
- Atkin and Donaldson (2015, “Who's Getting Globalized? The Size and Implications of Intra-national Trade Costs”, NBER Working Paper) address this crucial topic
 - They advance new datasets and focus on Ethiopia and Nigeria
 - One of their key findings is that the cost of distance within Ethiopia and Nigeria is four to five times larger than in the USA
 - The findings imply that consumers in these countries' remote locations suffer from the high cost of the intra-national connections and therefore with the rest of the world
- So they are paying a higher price for imports, with the consequent reduction in the consumer surplus, because of the intra-national costs
- Therefore reducing intra-national trade costs should be a point of focus for structural reforms in developing countries if greater gains for trade are to be observed in the future (see UNCTAD, *Making trade work for Least Developed Countries: A Handbook on Mainstreaming Trade*, 2016)



The Wages and Employment Channel

- Trade openness in developing countries should reduce wage inequality but the evidence is not conclusive:
 - Extensive empirical literature holds that the effect depends on many factors, which are country- and time-specific (Goldberg and Pavnick JEL, 2007).
- **Technology:** Trade (Globalization) raises growth rates in all countries, but it worsens the distribution of income because more able workers benefit relatively more from the improved matching technology - skill premium! (e.g. Grossman and Helpman, NBER, 2014).
- **Global supply chains:** the emergence of value chains has opposite effects on wage inequality for workers employed at the bottom and at the top of the chain, generating wage inequality across sectors (Costinot, Vogel and Wang, NBER, 2012).



Trade and employment: net outcome

Net Impact of trade on jobs (McMillan and Verduzco, ILO, 2011; and Harrison, McLaren and McMillan, Annual Review of Economics, 2011).

- *Exports*

Jobs in export activities tend to be of higher quality, observing higher productivity and higher wages than in non-export sectors. Yet, productivity and exports might increase without significant job creation.

- *Imports*

Imports do indeed destroy jobs in certain industries, i.e. employment is reduced because of import competition (the import-competing sector contracts following trade liberalization; in other instances even disappears). YET, the fact that trade destroys jobs in certain industries does not mean that it reduces employment overall.



- Government Revenue and Expenditure Channel: household welfare: no strong evidence that trade liberalization has decreased social expenditures in developing countries.
- Policies and institutions play an important role in mediating the effects of liberalization, and providing the safety nets and social protection programmes to counteract the impacts on income distribution and poverty (Ali and Thorbecke, 2000; Fosu, 2010; Thorbecke, 2014).



Trade policy and development: challenges

- *Limited structural transformation* (agriculture & industry);
- *High level of informality* (lack of credit, low skills, inefficiencies due to small size)
- *Inclusion* (gender, regional disparities, etc.);
- *Sustainability* (mitigation and adaption, particularly in small and structurally vulnerable economies).

Trade policy *per se* is not sufficient to boost economic growth and lower poverty:

- A high level of human and institutional capacity is necessary to formulate and implement effective trade strategies.
- Structural transformations are required to overcome supply side constraints.



Role of trade policy: nationally and in the 2030 Development Agenda

- Set clear overall goals and objectives that are measurable and that will be monitored: E.g., Istanbul Programme of Action for LDCs target of doubling exports by 2020; the SDGs: No poverty, Decent work and economic growth, Reduce inequalities, and Partnerships for the goals.
- Provide a framework for an actionable agenda
- Focus on specific targets/actions
- Based on consultations/deliberative processes and communicated widely – general awareness of aims and results achieved matters
- No “one size fits all” – must be flexible and dynamic to adjust to changing national and international circumstances.



Policies priorities for employment creation in LDCs

- Develop productive capacities and generate employment
- Technology upgrading and economic diversification and upgrade traditional sectors
 - Appropriate (labour-intensive) in non-tradable activities
 - Aim at productivity growth in all sectors.
- Non-tradables: Major role in absorbing surplus labour (in short to medium term)



Conclusion

- The central focus of trade policy should be to help address constraints that reduce competitiveness and impede the use of trade in realization of economic growth, employment creation and poverty eradication objectives.
- The priority from a trade perspective is to identify and implement an action agenda to reduce trade costs for enterprises across all sectors, including farmers and SMEs.
- A successful national development strategy should comprise, over and above macroeconomic strategies, elements of social protection schemes that while reducing poverty, can also contribute to human capital improvements, better health and increased productivity. Social protection programmes can have an effective role in providing a safety net or shock absorbing mechanism, and hence contribute to eliminate the virtuous circle of poverty-low productivity and unemployment.



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