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Harnessing Trade for Inclusive Development and Resilient Growth

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1. Introduction

Export-led strategies in Asia and the Pacific have been successful in promoting economic growth in the region. Over the last two decades, the developing countries in the region have grown on average around 8 per cent as compared to 3 per cent in the Latin America (ESCAP, 2011b).

In the post-2008 global financial crisis era, however, the challenge for the region is to reposition trade and investment policies taking into account new realities in the international economy towards achieving more inclusive and sustainable development as well as to build resilient and green economies.

This briefing note highlights some initiatives and change in strategies that are necessary to make trade-led growth conducive to achieving more inclusive and sustainable development and resilient growth that also leads to poverty alleviation. The main objective of the note is to draw attention of policymakers to factors to be considered in designing trade policy that would assist in delivering growth with fairer distribution of gains. The policy brief also aims to present some topics which analysts and researchers of trade can pursue further such as studying impact of trade on gender, employment, and social protection.

2. Harnessing Agricultural Trade for Inclusive Development

One of the critical areas in which trade can contribute to achieving inclusive development is through promoting trade in labour-intensive agricultural products (UNEP, 2011, pp.64). Agricultural trade has the potential to create a number of opportunities for the rural sector and contribute towards inclusive development, as more than half of the entire population still lives in rural areas where agriculture is the main economic activity. Increase in agriculture trade would not only augment income in rural areas but would also lead to more balance growth. It is associated with reducing need for migration to cities which would help in reducing pressure in already overcrowded cities, which battle with additional strain on sewage, sanitation system and pollution, traffic congestion among other adverse effects of urbanization.

Multilateral trade policies espoused by the WTO over the years have focused on gradual reduction and removal of tariff and other barriers (such as export and domestic support measures) pertaining to agricultural products trade, However, in reality there still exist a number of trade barriers that prevent developing countries to conduct agricultural trade on a level playing field. Domestic subsidies and other producer support measures provided in developed countries continue to act as barriers for developing countries to export their agriculture products to these economies and distort and diminish any competitive advantages that developing countries may have. The fact that farmers in developed countries are provided subsidies whereas, developing countries can not afford to do the same has created stumbling block for developing countries to conduct agricultural trade based on comparative and cost advantage. Many developing countries in the past, in response to low agriculture commodity prices moved away from trade in agriculture products and focused on labor-intensive manufactured goods that were more competitive in international markets. Recent sky rocketing of food prices since 2007-2008 (ESCAP, 2011b) raise questions that, if developing countries had focused on production and trade in agriculture products according to their natural comparative advantage, they would have benefited substantially from the recent boom in agriculture commodities, and had to import less agriculture products, had they not shifted away from agriculture towards production of manufactured goods. Developing countries that are producers of primary commodities of course are benefiting from recent hike in commodity price. However, they must continue to make an effort to diversify their exports to establish a broader export base and protect them against volatility in commodity markets.

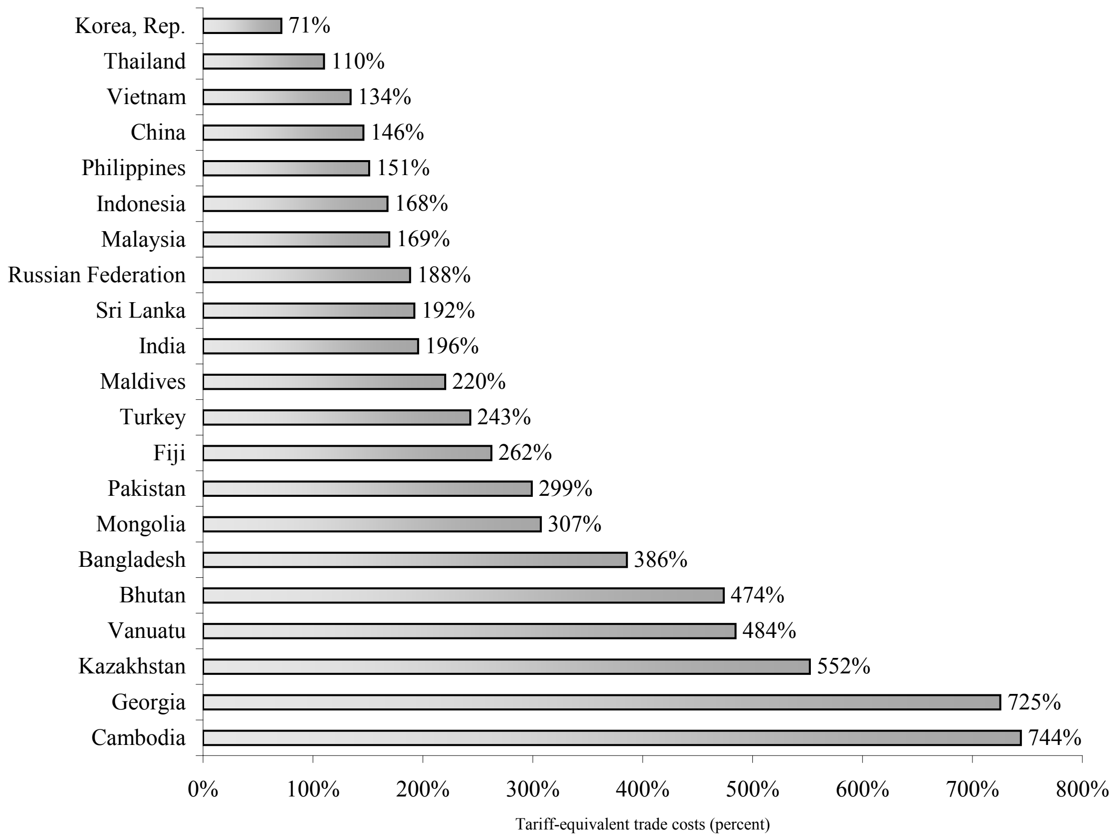
[1] This text was prepared while the author was working as an Economic Affairs Officer in the Trade and Investment Division of ESCAP. She benefited from comments from Joong-Wan Cho and Mia Mikic. Any remaining errors and/or omissions are the sole responsibility of the author, and the views presented are those of the author and do not necessarily reflect the views of the United Nations or other ARTNeT members and partners

In addition, firms located in industrialized countries, in general, maintain significant control over food distribution systems, standards and regulatory processes at all stages of the supply chain (Gereffi et al, 2005) as international food safety standards and verifiable logistics management systems in international markets are too complicated for adaptation by developing countries. Since major part of supply chain are in hands of firms from developed countries, even for the agricultural commodities traded by traders from developing countries, substantial profits go to middle men (even if located in developing countries) while farmers receive only a small portion of the final price, making their income gains insignificant and poverty reduction almost impossible.

In terms of sustainable agriculture practice, trade in organic agricultural produce and products have huge potential that developing countries may be able to tap into. Even though organic products fetch premium price, there is a substantial cost involved for certification and labeling that is borne by the producers of "organic" agricultural products. Perhaps the producers employing unsustainable methods of agricultural production can be taxed for environment degradation caused and revenues thereof can be invested in introducing number of initiatives such as the capacity building of farmers to meet the international standards of labeling, storage and food safety standards for trade in organic agriculture products. Moreover, developing countries also need to increase the investment in agriculture and rural infrastructure. The national policies such as improved land tenure rights for smallholder farmers, targeted programmes for women smallholder farmers, such as microfinance can go a long way in ensuring a vibrant agriculture sector.

Given the constraints of trade in agriculture at global markets, countries of the Asia-Pacific region should also attempt to enhance regional trade in agriculture. The potential for regional trade in agriculture is not fully exploited due to similar constraints limiting participation in trade at global level: infrastructure bottlenecks, cumbersome regulatory procedures and lack of capacity in meeting technical barriers to trade. In selected Asian countries, it requires up to 25 days, preparing 25 documents to complete one export transaction (ESCAP, 2011d). These inefficiencies are costly for both importers and exporters alike lessening their competitiveness of trade in agriculture products. The figure analyses the cost of trading agriculture commodities in international markets vis a vis the cost of "intra-national" trade. For example, agricultural trade cost indicator in the period of 2007-2009 for Maldives-Japan is 220 per cent. This suggests that, on average, it would cost Maldives-Japan about 220 per cent more to trade between 2 countries than the cost of trading domestically.

Comprehensive trade costs for agricultural products for selected Asia and the Pacific countries excluding tariffs, between selected economies and Japan



Source: "Updated and New Sectoral Trade Cost Estimates in Asia and the Pacific", ESCAP TID Staff Working Papers, No. 05/2011

Global and regional initiatives including South-South co-operation have a role to play in improving capacity of developing countries to trade in agricultural products. Regional trade facilitation efforts can focus on reducing non-tariff barriers and streamlining procedures as well as reducing financial costs of trade in agriculture products. Another area of building capacity is to develop national standards aligned with international requirements to compete effectively with industrialized nations in agricultural trade.

Moreover, supporting the implementation of the World Intellectual Property Organization's development agenda and providing improved access to and reasonable use of international property rights (IPRs) that involves traditional knowledge, ecological agriculture techniques and genetic resources in international IPR regimes would help advance development and sustainability goals in developing countries.

Finally to make agriculture contribute towards sustainable development, international community can study the impact of climate change on the agriculture sector, and implications of the agro-industry for transition to a low carbon economy.

Box 1 Enhancing intraregional trade

Since 1990 South-South trade has grown at almost twice the rate of world trade. According to UNCTAD, South-South merchandise trade accounted for more than 10% of world trade imports in 1995 and by 2008, this share had almost doubled to nearly 20% valued at $3.1 trillion. The figures also indicate that more than 70 percent of South-South trade is attributed to intra-Asian trade. Intraregional trade in primary commodities excluding fuels in 2010 was 250 billion which constituted about 10 percent of total intraregional trade within developing Asian countries of 2.5 trillion dollars.

As countries focus towards intra-regional trade, along with geographical shift, there is necessarily a product shift as taste, preferences, and consumption power in Asian countries are quite different from traditional export markets.

Trade Support Institutions (TSI) have a role to play in providing strategic direction and a number of support services to assist firms to successfully identify and translate intra-regional trade opportunities into business realities.

TSIs can provide technical expertise to SMEs to enter target markets, support in market intelligence, design, packaging, standards and quality, pricing and promotion. Trade fairs are useful for networking, benchmarking and learning from competitors as well as meeting distributors and buyers. TSIs also need to assist enterprises to better meet quality requirements, using the domestic market for research and development, ensuring that enterprises are sufficiently prepared to obtain financing and helping exporters find the right slot in global supply chains.

In certain cases, countries may be able to export the same products within the region that were exported to developed countries. However, this identity in broad categories masks heterogeneity. Developing regional markets especially through South-South trade offers potential to exploit geographical proximity and less demanding product standards at times. The firms may need to alter cost and quality structure of existing products in keeping with purchasing power in new markets.

Since upgrading product qualities and specialization are important for long term export success, it may be advisable for countries to carefully design their geographical diversification strategy. This is especially true due also to the fact that at times importers from developed countries transfer state of the art technology and knowhow to exporters to produce better quality products. Exporting to developed countries may also impel them to improve overall efficiency as it requires better planning, meeting deadlines, quality control, maintaining product consistency etc.

Identification of products to be exported to intra-regional markets also needs to take into consideration the impact of changing demographics. For example, in contrast to China, which faces an ageing population, India and South Asia are expected to see a decrease in the national median age over the next 10 to 15 years.

There is also a need to find innovative new ways of financing to assist exporters as they shift from traditional markets of developed countries into new markets and customers. An alternative financing model focusing on five key stages in the chain: producers, stokers, traders, processors and end-users needs to be developed.

In addition to trade policy, there are number of administrative barriers which may act as barriers to trade. Trade costs of many economies of the region have decreased, largely due to tariff cuts, but much remains to be done to address non-tariff barriers (NTBs) arising from unnecessarily cumbersome procedures and regulations or inadequate logistics services. In this context, trade facilitation measures to simplify procedures and formalities are of utmost importance to the countries in the region. The recent ASEAN Single Window initiative aims at developing a regional Single Window system for its member countries by 2012.

Aid for trade can be utilized to facilitate intra-regional trade expansion and diversification. Aid-for trade includes (1) technical assistance for trade policy and regulations; (2) trade related infrastructure, (3) productive capacity building including supply side capacity for trade development, (4) Implementing and adjusting to trade-related reform and liberalization, (5) other trade-related needs including smooth integration into the world trading system and implementation of trade agreements.

In addition to agriculture, there is a need to enhance intra-regional trade in climate smart goods and services, food processing, information technology related products and services as well as other manufactured products.

3. Trade and Employment

The global financial and economic crisis that began in September 2008, ushered in the greatest economic challenge faced by government, where volume of world trade contracted in real terms by 12.5 per cent in 2009 and unemployment rose to 210 million people worldwide, an increase of more than 30 million compared to 2007. At the G-20 Summit in Toronto in June 2010, the G-20 countries requested OECD to lead a study investigating trade-jobs link. According to OECD findings, 50 per cent cut in tariffs and non-tariff barriers by G-20 countries would lead to significant increases in national income for all G-20 countries and their partners. The potential gains on the employment opportunities were found to be positive, ranging from 1 to 2.5 per cent in the short run to 5 per cent in the long run.

In spite of these optimistic findings, the countries are concerned about the prospects of 'jobless growth' as globalization led to rising unemployment due to the contagion effect of crisis in developed countries affecting developing countries in 2008. For example, garment sector in Cambodia experienced sharp fall in demand in the United States (US) and the European Union (EU) since late 2008 and forced more than 100 factories to close, with many more having to reduce staff, suspend production, and cut hours. Although some of those who have lost jobs at this time would have since found new employment—both within the sector and outside—a large number would have either returned home to their villages or remained essentially jobless or underemployed in the informal economy. An economic and labor market rapid assessment conducted indicated that 34 per cent of labour force in the garment sector have seen a fall in their income since 2008—by an average of $16 per month. On a typical income of $80 per month, this represents about a 20 per cent decrease.

In spite of these effects, the OECD report has stressed that trade could be powerful protagonist in supporting recovery and job creation. Evidence suggests that countries adopting open trade policies have been more successful in sustaining growth and moving up the development ladder. In addition to increasing efficiency, trade facilitates technological progress and the dissemination of innovation. These, in turn, lead to rise in productivity in the long term and higher levels of per capita incomes.

Despite the positive link between trade, growth and employment, in the short run, trade also triggers structural changes as inefficient sectors contract and allow for growth in more efficient tradable sectors. This relocation more often than not takes long time and is associated with additional problems (relocation, retraining, generational and gender impacts, etc) especially for the most vulnerable in the society. If anywhere in economic practice we should say "it gets worse, before it gets better" it is in relation to structural transformation. In this context, national governments have an important role to play in facilitating and expediting the process of structural adjustment while protecting the most vulnerable. Further studies can be undertaken to explore how private sector could help in this process.

Moreover, trade liberalization has complex labour market implications with respect to gender. On one hand, women comprise between 53 per cent and 90 per cent of employed in many export sectors in middle income developing countries. Expanding employment opportunities for women can increase household assets under women's control and thereby lead to greater investments in the health and education of future generation.

On the other hand, women are unable to capitalize on trade opportunities fully as they lack education, face professional discrimination and are paid less than men for the same tasks performed. The related issues -education, equal employment opportunities and women entrepreneurship - need to be addressed before women can take full advantage of trade liberalization.

From the perspective of developed countries, with regard to trade-employment link, since the advent of the 2008 crisis, there has been concern amongst them about the impact of international outsourcing or off-shoring (e.g., trade in services) on employment in their domestic economy. In industrialized countries often the labour-intensive parts of production are relocated abroad, allowing production at home to focus more on capital or skill-intensive production. Being confronted with rising unemployment rates since the crisis, relocation of jobs are attributed directly to offshoring and developed countries are revisiting need for policies to eliminate adverse employment effects of such arrangements. Any shift in production or service provision back to developed countries need to be weighed with potential loss of jobs and employment in developing countries. Moreover, the studies show that offshoring may lead to higher job turnover in the short run but in the long run, there is no indication that offshoring leads to higher unemployment overall in developed countries. There is a possibility that low-skilled workers may suffer while high skilled employment may expand in the developed countries. The policy implication is that policy makers can try to identify the groups of society which lose from globalization and attempt to compensate them for the job loss. The challenge here is to identify the losers accurately and compensate them in a manner which gives them incentive to look for re-employment rather than rely on assistance.

4. Trade and Social Protection

Social protection refers to publicly provided safety nets of two kinds. The first type is poverty alleviation measures which help people who are born poor or lack the productive assets or skills to escape from poverty. The second type consists of social insurance programmes or other labour market interventions that allow people to deal with labour market risks. Trade and social protection are linked through the latter category namely to protect individuals against the negative consequences of labour market conditions caused by external shocks.

Trade liberalization is an important component of globalization that necessarily creates winners and losers at the same time. In sectors adversely affected by import competition, the lay off decision by a firm leads to an increase in the pool of unemployed people searching for jobs. Work by Kletzer (2001) for the United States shows that an average worker experiences a lifetime income loss of US $ 80,000 from displacement due to import competition. Similarly, many developing countries have suffered from major losses in terms of loss of employment from reduction in export demands from developed countries during the recent crisis.

Social protection programmes can target displaced workers and ensure that workers displaced from their existing jobs as a result of trade reform are adequately compensated. Social protection measures need to take into account the realities of those women who are employed in export sectors. There are considerable number of women who are part of paid workforce in all industries including export industries in Asia and the Pacific. However, women are more likely to enter fragile and insecure forms of employment in the formal sector and amongst the first to be laid off during periods of economic hardship. Women are also overrepresented in informal sector where such social insurance are not available. It is imperative that governments design the social protection systems to particularly protect the vulnerable groups including women and to ensure that they are compensated adequately from job loss due to import competition. Trade provides efficiency gains, redistributing some of the gains to those vulnerable groups who are adversely affected may lead to enhanced distributional equity.

Box 2 Trade Adjustment Assistance Programmes

While unemployment insurance, employment protection and public works programmes are broader in nature, trade adjustment assistance programmes are more targeted to providing social insurance that allows people to deal with labour market risks emanating specifically from trade. Trade adjustment assistance programmes are meant to compensate workers for loss of employment in industries that have lost to import competition or suffered reduction in export demand. The protection of workers makes it politically more feasible to facilitate exit of non-competitive industries from the market, leads to less distortion in the economy and less burden on governments to protect uncompetitive industries through subsidies. The efficiency gains are transferred to compensate workers for temporary job loss as well as to re-train them to acquire skills to obtain employment in other competitive industries.

In addition to trade adjustment assistance to displaced workers, there can also be technical assistance provided to firms adversely affected by import competition and to farmers who face drop in their earnings due to a decline in the international price of their products. This policy would facilitate affected country's structural transition towards investing more in efficient sectors and divesting from the declining ones.

The policy makers need to design social protection policies that promote the interest of labour force and at the same facilitate exit from sectors where the country is no longer competitive

Conclusion

The scope of the trade policy has so far been to increase efficiency in trade. Efforts have been made in the past to enhance the capacity of developing countries to derive maximum benefits from international trade. If we are to reposition trade in the post-crisis era to make it contribute to inclusive development, not only traditional areas such as trade in agriculture need to be revisited, but also the scope of trade policy has to be enlarged to include topics such as trade and employment. Finally, it order for trade to work for all, innovative social protection schemes need to be designed to ensure that vulnerable groups who lose from import competition or export decline are adequately compensated

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