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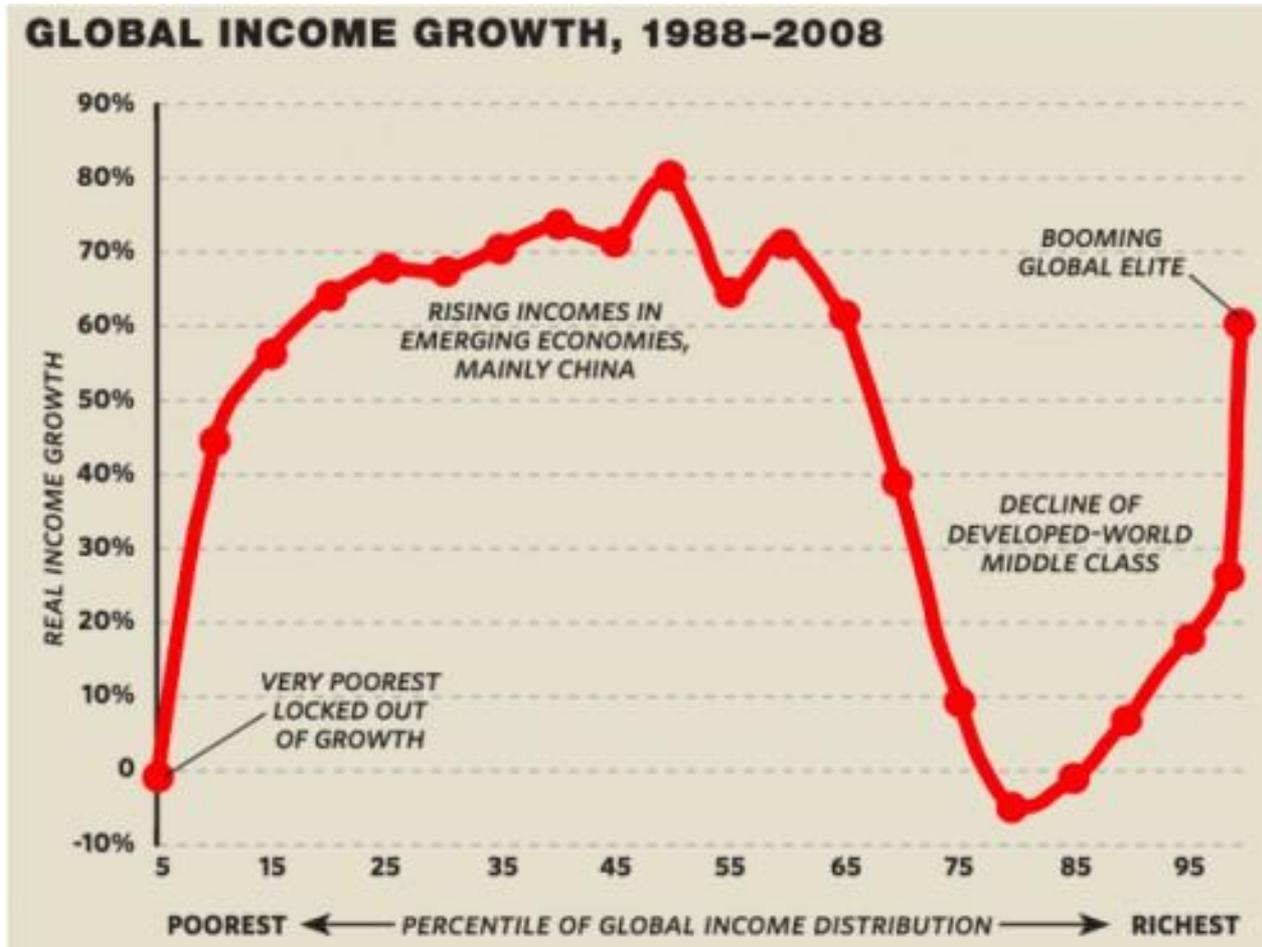
Economic Research and Statistics Division
WTO

UNCTAD: Trade and Development Commission: Agenda Item 4
Trade Multilateral Cooperation and Sustainable Development
3-6 pm, 14 November 2018

Global trends



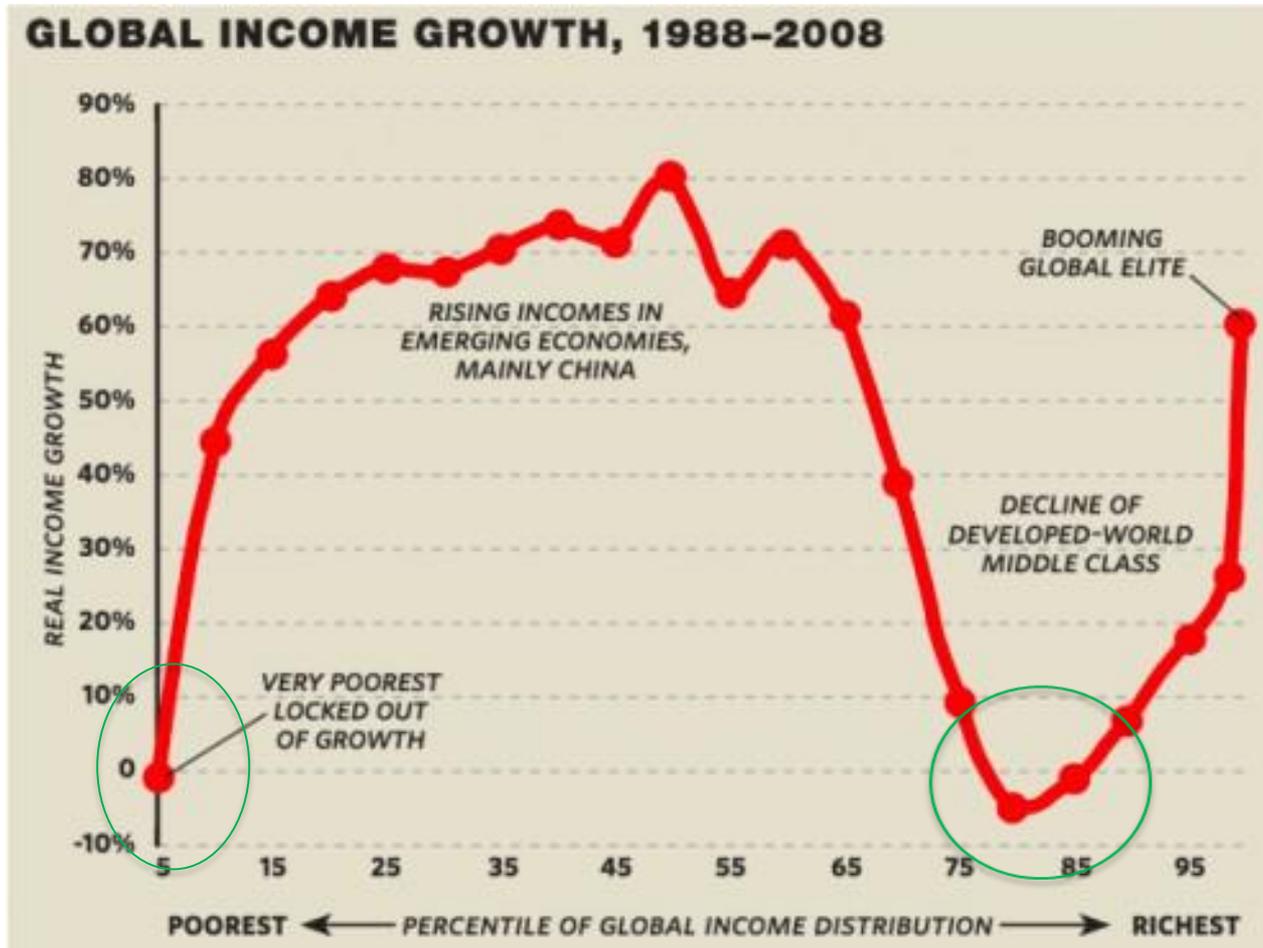
Milanovic's elephant



Global trends



Milanovic's elephant



What can limit the gains from trade of the poor ?



Literature:

(i) Lower prices do not transmit fully to poor consumers (especially in rural areas) because of:

- High domestic transport costs
- Lack of competition in the distribution sectors

(ii) Poor producers may benefit less from opening up to trade

- Skill-biased technological change associated with trade
- FDI increases the demand for skill workers

(iii) Poor producers have limited resources to face adjustment costs

- high reallocation costs for the poor (across sectors and geographically)

.... What can limit the gains from trade of the poor ?



(iv) The poor are not so globalised after all

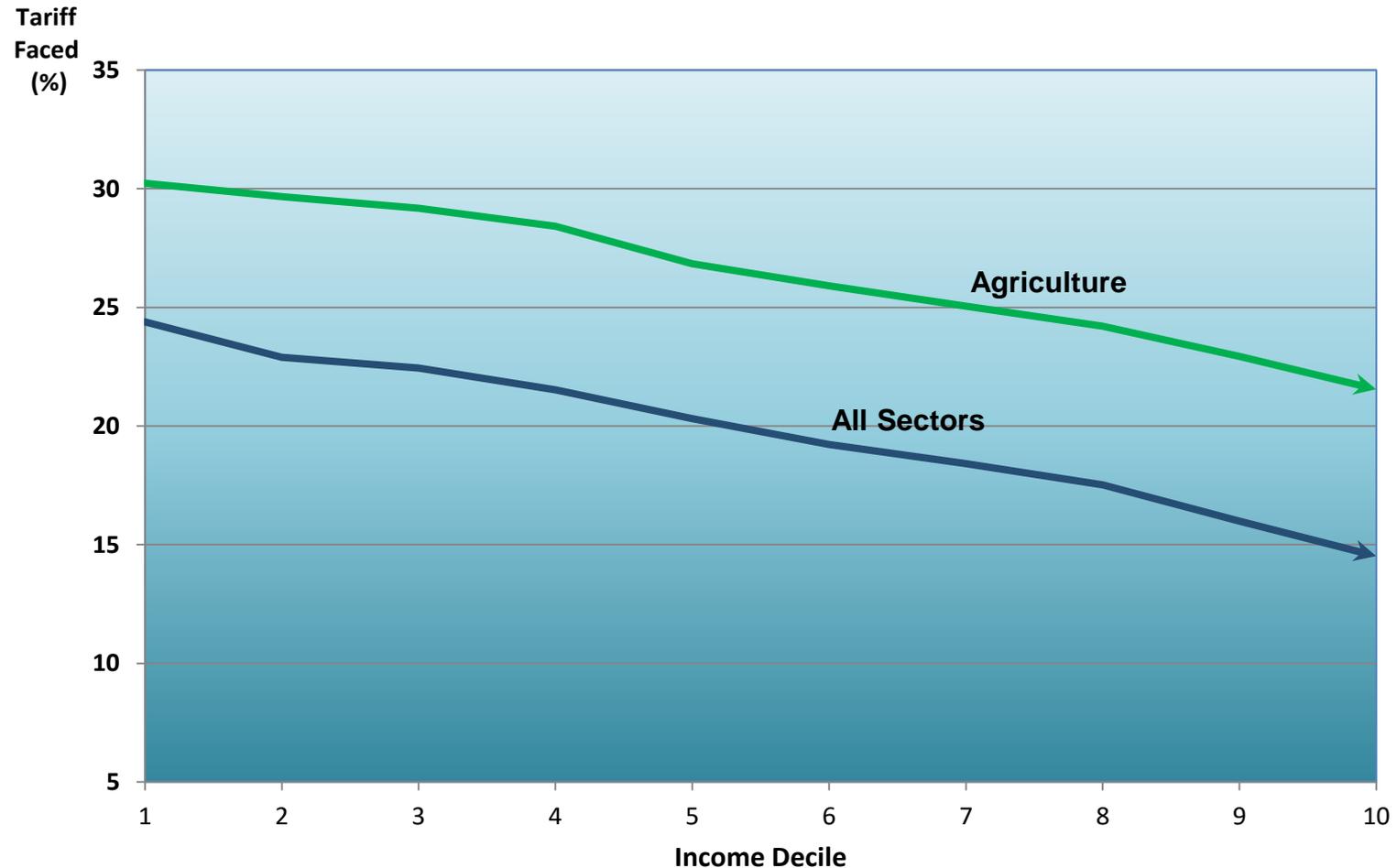
So far literature focuses on the impact of reducing import tariffs on the poor, yet conditions of access *foreign* markets are key to capture trade opportunities

- McCaig (2011) focus on *US-Vietnam FTA* show bigger poverty decline in Vietnam occurred in provinces that experienced the largest market access improvements (largest cuts in US import tariffs). Similarly, Porto (2006) for Argentina..

What are the market access conditions for the poor? Are there still benefits for the poor to reap?



1. Market access and income level are inversely correlated - even within sector.

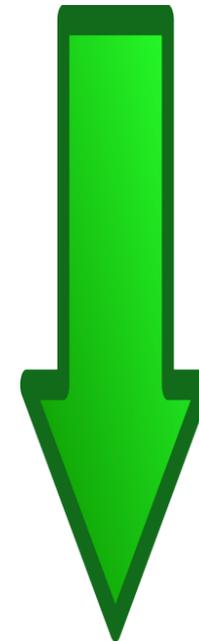


What do we find?



Differences in market access between consecutive income deciles are generally statistically significant

| Income Decile | Household Weekly Consumption | | Average Tariff Faced (%) |
|---------------|------------------------------|-------|--------------------------|
| | Rupees | US \$ | Simple |
| 1 | 511 | 9.6 | 24.4 |
| 2 | 783 | 14.8 | 22.9 |
| 3 | 962 | 18.2 | 22.4 |
| 4 | 1130 | 21.3 | 21.5 |
| 5 | 1305 | 24.6 | 20.3 |
| 6 | 1504 | 28.4 | 19.2 |
| 7 | 1761 | 33.2 | 18.4 |
| 8 | 2118 | 40.0 | 17.5 |
| 9 | 2713 | 51.2 | 16.0 |
| 10 | 5112 | 96.5 | 14.5 |



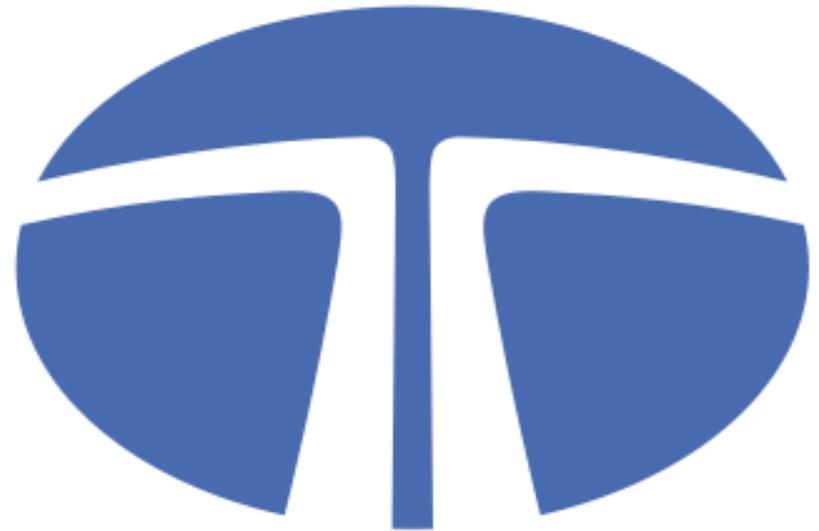
Average tariff faced by the next higher income decile is consistently lower.

What do we find?



2. Formal sector faces more liberal tariffs than enterprises in the informal sector.

9.8% vs 7.2%



What do we find?



3. Women face significantly higher tariff barriers to export.

20.4%



What do we find?



Across deciles, tariffs faced by women are usually significantly higher than those faced by men.



What do we find?



4. People working in rural areas have heavier barriers for their exports.



What do we find?



Rural workers face significantly higher tariffs across all income levels than their urban counterparts.

Average Tariff Faced (%) by Income Decile and Rural/Urban Sector

| Decile | Simple | | |
|----------------|-------------|-------------|-------------|
| | Rural | Urban | Difference |
| 1 | 26.4 | 15.0 | 11.4 |
| 2 | 25.0 | 13.4 | 11.6 |
| 3 | 24.5 | 13.6 | 10.9 |
| 4 | 23.6 | 13.3 | 10.3 |
| 5 | 22.5 | 12.4 | 10.1 |
| 6 | 21.3 | 13.1 | 8.2 |
| 7 | 20.9 | 11.7 | 9.2 |
| 8 | 20.5 | 11.0 | 9.5 |
| 9 | 19.5 | 10.0 | 9.5 |
| 10 | 19.2 | 8.8 | 10.4 |
| Overall | 22.6 | 11.7 | 10.9 |

Trade policy barriers add to higher transport costs for low income families



| Distance (km) to nearest urban area | Average | Average tariff % | |
|---|----------|------------------|--|
| | Income | | |
| | (Rupees) | | |
| GT 600 | 1,002 | 24.4 | |
| 401-600 | 1,116 | 17.3 | |
| 301-400 | 1,199 | 16.3 | |
| 201-300 | 1,235 | 15.7 | |
| 151-200 | 1,406 | 17.5 | |
| 51-100 | 1,415 | 17.5 | |
| 101-150 | 1,429 | 17.5 | |
| 1-50 | 1,881 | 14.3 | |
| 0 (Centre) | 2,185 | 9.6 | |
| | | | |

Results also hold for NTMs



| Income Decile | Number of NTMs Faced | Duncan's test |
|---------------|----------------------|---------------|
| 1 | 199 | a b |
| 2 | 201 | a |
| 3 | 201 | a |
| 4 | 192 | b |
| 5 | 194 | a b |
| 6 | 180 | c |
| 7 | 182 | c |
| 8 | 169 | d |
| 9 | 166 | d |
| 10 | 127 | e |
| | | |

What do we find?



5. Globalization has not narrowed down the gap in tariffs faced between the rich and the poor over the years.

However, decrease in tariffs was faster for urban workers compared to their rural counterparts.

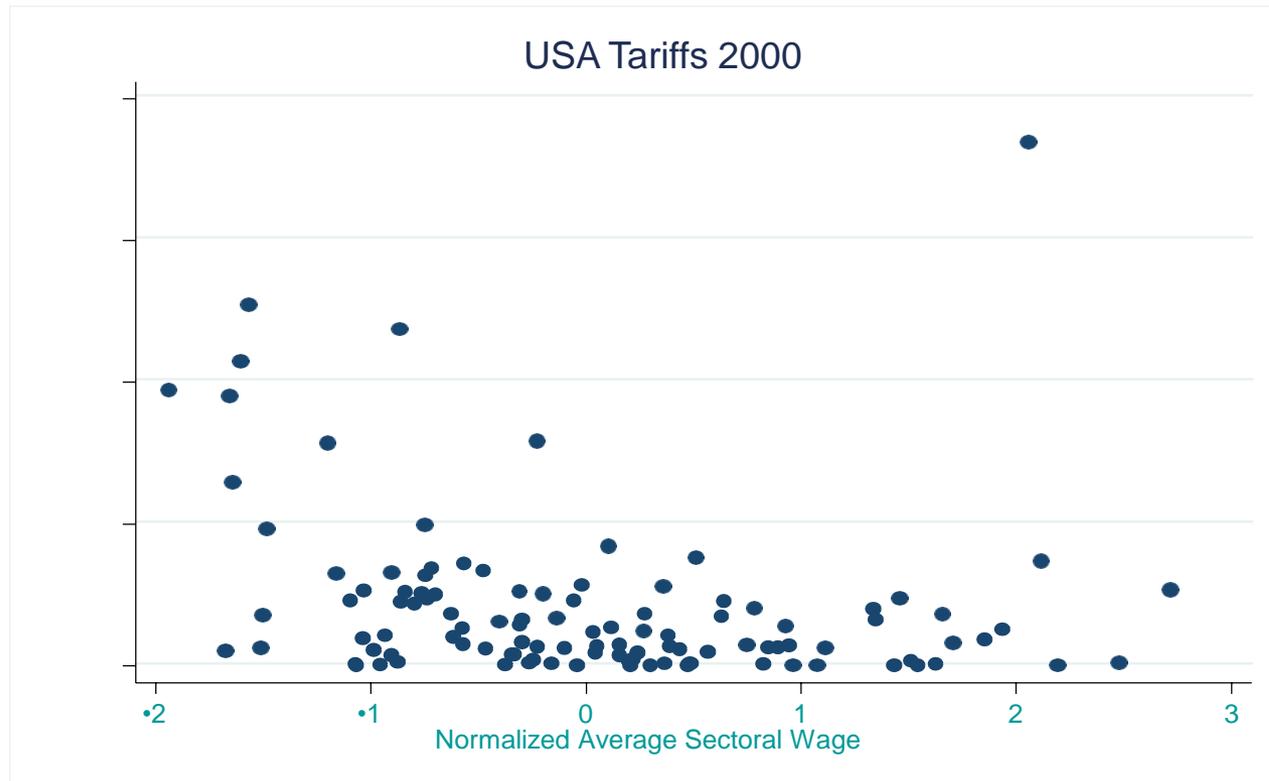
Tariffs have also gone down faster for men than for women.

| Average Tariff Reduction (1996 vs 2012) | |
|--|------------|
| Decile 1 (lowest 10%) | 2.6 |
| Decile 10 (highest 10%) | 2.4 |
| Rural | 2.4 |
| Urban | 3.3 |
| Women | 2.5 |
| Men | 2.7 |



What explain these findings?

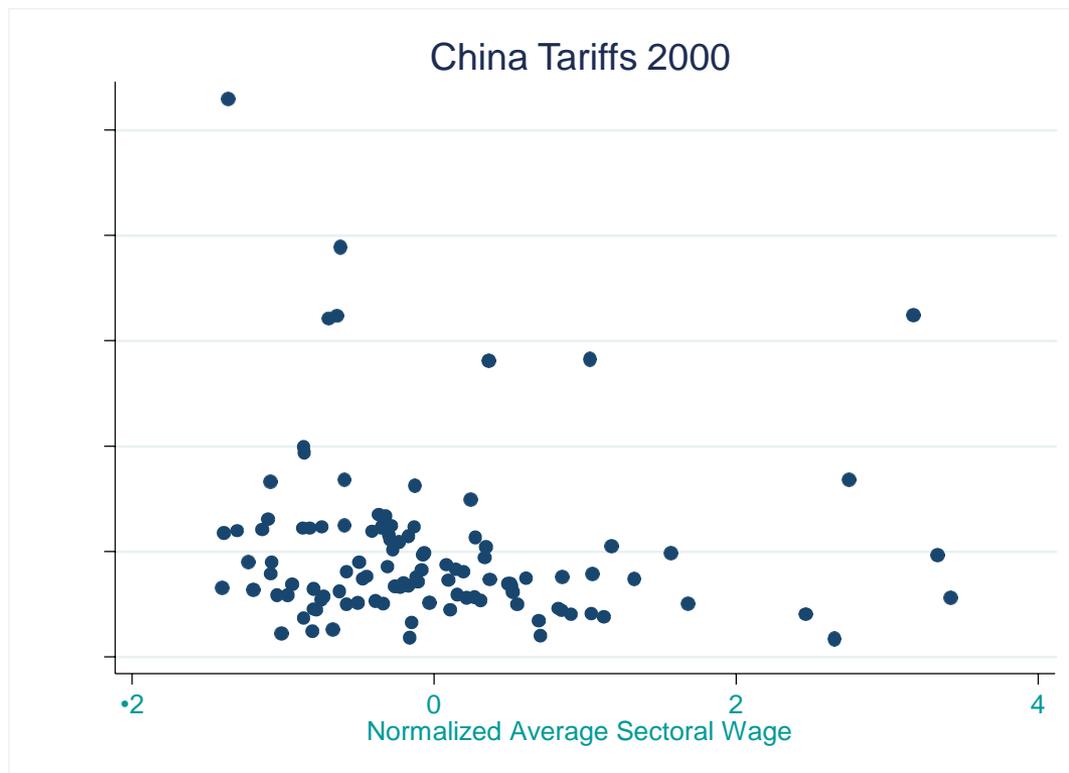
- “pro-poor” (unilateral) trade policy in countries with very different factor endowment Eg. In US





What explain this finding?

- “pro-poor” (unilateral) trade policy in China



But what are the systemic effects?



Concluding remarks:

- unilateral pro-poor trade policies (by a sufficient number of countries) create a **systemic issue**
- ...unilateral pro-poor trade policies may have created a world where the poor end up facing higher tariffs
- ... thus, depressing global demand for the goods the poor produce
If all countries protect their low-wage sector, even small countries will behave like a LARGE country ..

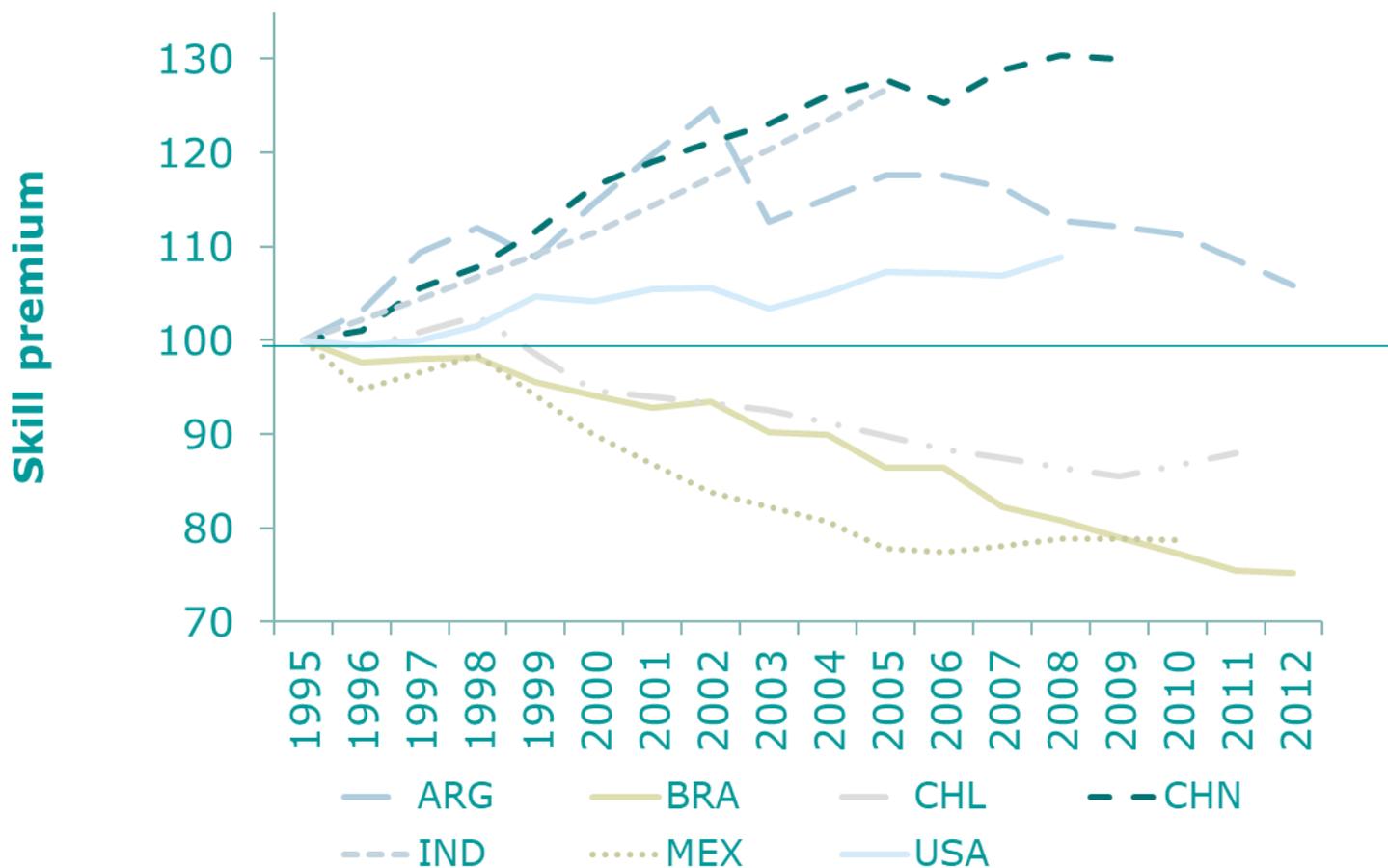


THANK YOU!

Skill-Premium Change



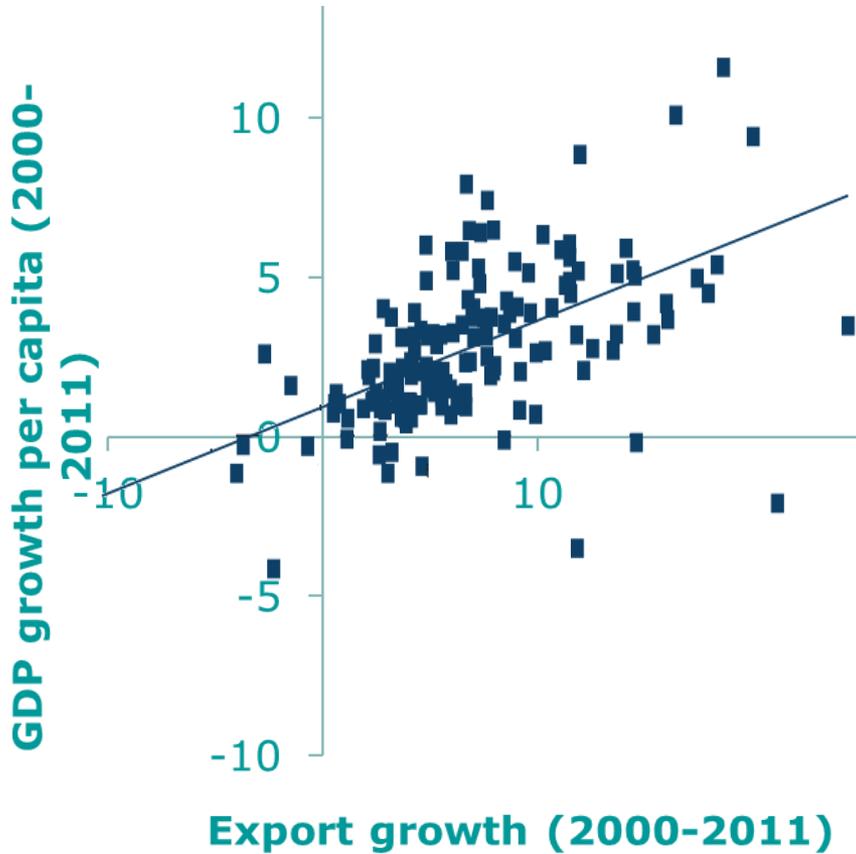
Inequality as measured by the skill premium shows different trends



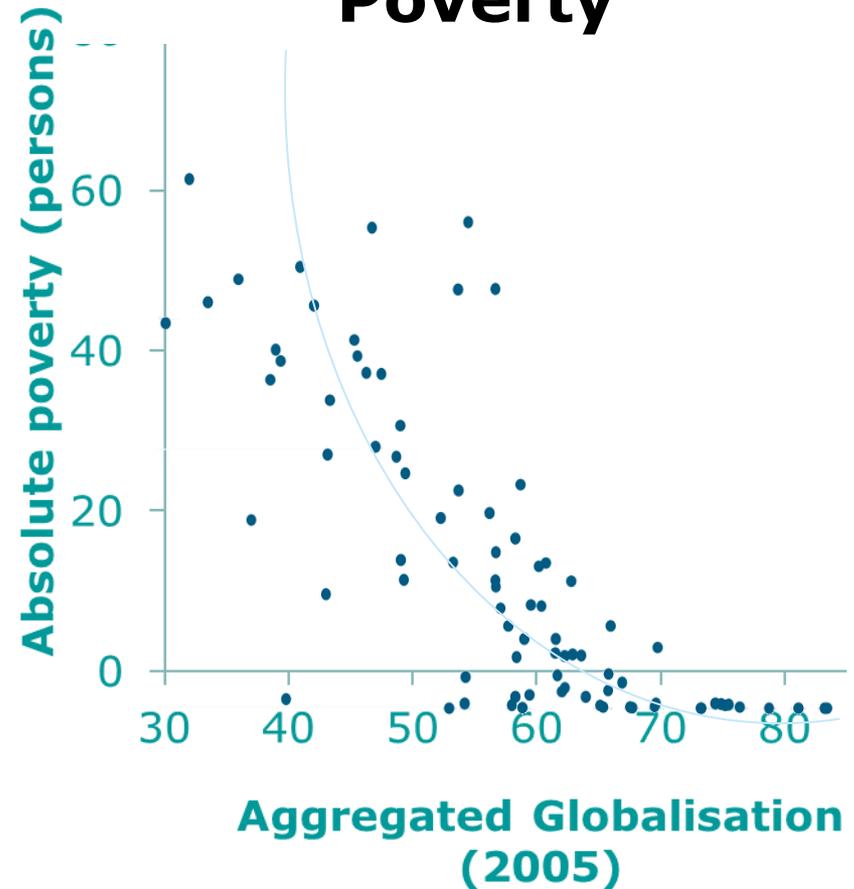
Trade is correlated with growth and poverty reduction



Economic growth



Poverty

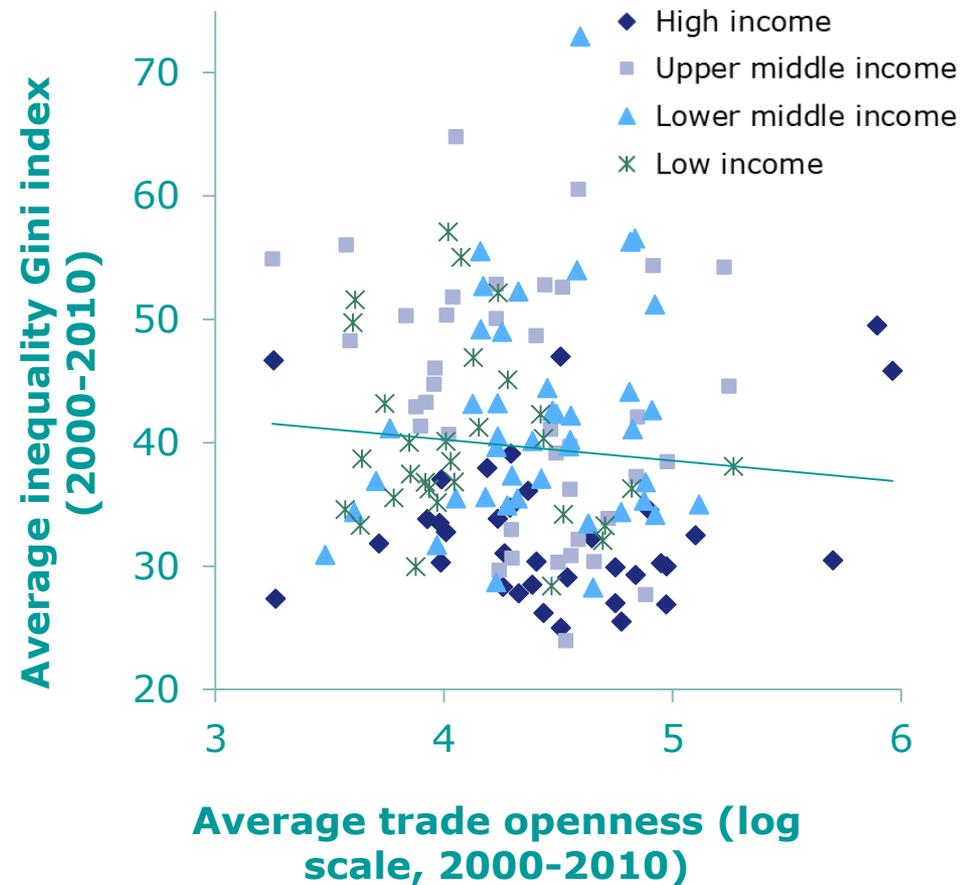


Sources: WTO, Berg and Nilsson, 2014

Increasing inequality does not appear to be correlated with within countries inequality



- Decreasing income inequality between countries
- Increasing income inequality within countries
- Entire regions left behind in certain countries



Source: WTR