SESSION 1:
Evolving contribution of trade and the multilateral trading system to inclusive and sustainable development

INTERNATIONAL TRADE AND INCLUSIVE DEVELOPMENT:
BUILDING SYNERGIES
International trade and inclusive development: building synergies

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UN - ECLAC

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Income distribution: explanatory variables

**Structural Factors**
- Demographic
- Production
- Export, import
- Distribution of assets
- Access to new technologies
  - Land
  - Capital
  - Knowledge

**Markets**

**Factors**
- $K, L, \text{Nat.Res}$
- Prices: $i, w, r$

**Goods and services**
- $Q, X, M$
- $p_i, \text{ER}, t_i, \text{NTB}$

**Financial**
- $M_i, i, i^e, \text{ER}^e, \text{BoP}$

**Institutional aspects**
- Economic concentration
- Competition
- Regulation policies

**Policies**
- Macroeconomic
- Fiscal
  - Taxes
  - Expenditure
- Social
  - Education
  - Housing
  - Health
  - Pensions

Income distribution: explanatory variables
An integrated Policy Framework

- International trade is only one factor in the income distribution process
- Therefore, the key is to develop an integrated policy framework (Inclusive Trade as part of an Inclusive Development strategy).
- Links of trade policy with other policies:
  - Productive development (industrial policy)
  - SME support
  - Innovation, Competitiveness
  - Human resources (education, training)
  - Infrastructure
  - Access to technologies
  - Environment & sustainability
A renewed institutional approach:

- Public-private coordination
  - Shared medium-term agenda; Prospective vision
  - Medium and long-term goals
  - Funding
  - Monitoring, performance evaluation, transparency

- Coordination within the government
  - Between ministries and agencies
  - Inter-ministerial Committee
  - Strong link with the Presidential Office
The region’s production structure is very heterogeneous and a source of inequality.

**LATIN AMERICA (18 COUNTRIES): STRUCTURAL HETEROGENEITY INDICATORS, AROUND 2009**

(Percentages)

<table>
<thead>
<tr>
<th>GDP composition</th>
<th>Employment composition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High-productivity segment</strong></td>
<td><strong>Medium-productivity segment</strong></td>
</tr>
<tr>
<td>66.9%</td>
<td>22.5%</td>
</tr>
<tr>
<td></td>
<td><strong>Low-productivity segment</strong></td>
</tr>
<tr>
<td></td>
<td>10.6%</td>
</tr>
</tbody>
</table>

**LATIN AMERICA (18 COUNTRIES): GDP PER WORKER, PPP AROUND 2009**

(Thousands of dollars)

<table>
<thead>
<tr>
<th>High-productivity segment</th>
<th>Medium-productivity segment</th>
<th>Low-productivity segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>91.2</td>
<td>20.5</td>
<td>5.6</td>
</tr>
</tbody>
</table>

LA: Fiscal policy plays a limited role to improve income distribution

**LATIN AMERICA AND OCDE: INEQUALITY OF MARKET AND AVAILABLE INCOMES**

*Total population (Gini Indexes – Around 2011)*

- Ingreso de mercado
- Ingreso disponible en efectivo

Fuente: Prepared on the basis of National Surveys of households for LA and OECDSTAT.
What is inclusive trade?

- A type of trade that contributes to reducing **structural heterogeneity** through growth in employment, productivity and incomes
  - Thus helping to raise overall welfare and to reduce inequity.
- Book published by ECLAC in 2013, now available in English
Trade and growth: The links

- Debate: Is there a link between openness and growth?
- In general, there is positive correlation between both
- **Open economies tend to grow more.** No success stories of countries in autarky
- Both static factors (reallocation of factors) and dynamic forces are at play:

1. Trade opening
2. More competition
3. More innovation and incorporation of technology
4. Increase in productivity
5. Higher rate of growth

- Openness by itself does not produce growth; it needs complementary policies
  - Macroeconomic stability, rule of law, safety net, industrial policy, re-training for displaced workers, education, internationalization of firms, R&D, ....
Link 1: (Net) exports reduce poverty through economic growth

Selected countries and groups: Variation in exports, GDP and poverty, 2000-2010

A. Average annual GDP and export growth
   (In percentages)

B. Contributions of growth and improvements in income distribution to the reduction of poverty
   (In percentage points)

Source: ECLAC, based on CEPALSTAT and UNCTADSTAT databases, World Bank and ECLAC, Social Panorama of Latin America.
Link 2: Terms of trade gains explain part of LAC’s high national income growth in recent years

Selected countries: Breakdown of increase in national income, 2004-2011

(In percent)

Source: ECLAC, based on countries’ national accounts.
Link 3: Export diversification and growth

The degree of export diversification affects the GDP growth rate

- More diversified exports
- Less volatility of terms of trade
- Structural transformation
- Reduced fluctuations of export income
- Incorporation of technology and knowledge
- Less fluctuations of GDP growth and exchange rate
- New comparative advantages
- Entrance to new types of activities and sectors
- Investment in physical and human capital and knowledge
- Higher GDP growth rate

Latin America and the Caribbean still have a large potential to diversify exports

Source: ECLAC, SIGCI database.
Indeed, in the last decade the region’s exports have been re-concentrating on commodities.
Most of the region’s export growth comes from selling the same products to the same markets.

**Sources of export growth**

- **Destination markets**
  - Existing
  - New

- **Products**
  - Intensive margin
  - Extensive margin

The extensive margin leads to more productivity gains and growth than the intensive margin.

However, LAC export growth in the last 2 decades has been dominated by the intensive margin.

**Breakdown of LAC export growth by extensive and intensive margins, 1995-2010**

- **1995-2002**
  - New product to new market: 1%
  - New product to existing market: 5%
  - Existing product to new market: 10%
  - Existing product to existing market: 84%

- **2003-2010**
  - New product to new market: 1%
  - New product to existing market: 4%
  - Existing product to new market: 9%
  - Existing product to existing market: 86%
Excluding Mexico, the regional market absorbs almost 60% of the manufactures exported from Latin America and the Caribbean.
The Latin American market is also the most conducive to export diversification

Average number of products exported to selected markets, 2013

<table>
<thead>
<tr>
<th>Region</th>
<th>South America</th>
<th>Central America</th>
<th>The Caribbean</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America and the Caribbean</td>
<td>2312</td>
<td>2141</td>
<td>824</td>
<td>3841</td>
</tr>
<tr>
<td>United States</td>
<td>1149</td>
<td>1034</td>
<td>792</td>
<td>4136</td>
</tr>
<tr>
<td>European Union</td>
<td>1204</td>
<td>479</td>
<td>404</td>
<td>2855</td>
</tr>
<tr>
<td>China</td>
<td>308</td>
<td>120</td>
<td>57</td>
<td>1419</td>
</tr>
</tbody>
</table>

Source: ECLAC, based on COMTRADE.
However, Latin America trades little with itself compared to other regions.

SELECTED GROUPINGS: SHARE OF INTRA-GROUP EXPORTS IN TOTAL EXPORTS, 2008-2013

(In percentages)

Source: ECLAC, based on COMTRADE.
Moreover, regional production integration continues to be very limited.

SELECTED GROUPINGS: SHARE OF PARTS AND COMPONENTS IN INTRA-GROUP EXPORTS, 2000-2013

(In percentages)

Source: ECLAC, based on COMTRADE.
Fostering intraregional trade is key to promote inclusive growth

LAC: Inclusive trade indicators by export destination

<table>
<thead>
<tr>
<th>Export destination</th>
<th>Diversification</th>
<th>Employment</th>
<th>SME involvement</th>
<th>Linkages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Products</td>
<td>Firms</td>
<td>Direct</td>
<td>Indirect</td>
</tr>
<tr>
<td>LAC</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>United States</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>European Union</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

- LAC needs to strengthen regional integration to:
  - Increase the region’s competitiveness in international markets
  - Promote intraregional trade and integration in GVCs

- To do this, it is key to move towards a more integrated market by:
  - Improving regional infrastructure (transport, telecoms) and logistics
  - Harmonizing regulations (FDI, services, competition, public procurement, TBT)
  - Coordinating national industrial policies at the regional level
LAC exports are very concentrated in terms of firms and markets

**EXPORT SHARE OF THE TOP PERCENTILE OF EXPORTING FIRMS, AROUND 2010**

<table>
<thead>
<tr>
<th>Country</th>
<th>Export Share of Top Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela (Bol. Rep. of)</td>
<td>98</td>
</tr>
<tr>
<td>Colombia</td>
<td>80</td>
</tr>
<tr>
<td>Chile</td>
<td>78</td>
</tr>
<tr>
<td>Bolivia (Plur. State of)</td>
<td>77</td>
</tr>
<tr>
<td>Paraguay</td>
<td>76</td>
</tr>
<tr>
<td>Mexico</td>
<td>73</td>
</tr>
<tr>
<td>Argentina</td>
<td>72</td>
</tr>
<tr>
<td>Peru</td>
<td>70</td>
</tr>
<tr>
<td>Brazil</td>
<td>60</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>54</td>
</tr>
<tr>
<td>Panama</td>
<td>47</td>
</tr>
<tr>
<td>Uruguay</td>
<td>41</td>
</tr>
</tbody>
</table>

**LATIN AMERICA (10 COUNTRIES): DISTRIBUTION OF EXPORTING FIRMS BY NUMBER OF MARKETS AND PRODUCTS, AROUND 2010**

- **36.1%** 1 product / 1 destination
- **34.6%** From 2 products / 2 destinations to 3 products / 3 destinations
- **25.4%** From 4 products / 4 destinations to 10 products / 10 destinations
- **4.0%** 10 or more products / 10 destinations

Source: ECLAC, on the basis of official information from the customs services of the respective countries, OECD, World Bank and specialized studies.
Latin American SMEs account for the majority of export firms, but for a very small share of export value

Selected LAC countries: SME export performance indicators, around 2010
(In percentages)

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
<th>Colombia</th>
<th>Costa Rica</th>
<th>Mexico</th>
<th>Peru</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs/Total export firms</td>
<td>76,1</td>
<td>61,2</td>
<td>58,3</td>
<td>71,1</td>
<td>64,6</td>
<td>88,4</td>
<td>88,0</td>
</tr>
<tr>
<td>SME exports/Total exports</td>
<td>6</td>
<td>7,5</td>
<td>7</td>
<td>4,5</td>
<td>16</td>
<td>4</td>
<td>3,3</td>
</tr>
<tr>
<td>Main SME export markets</td>
<td>Latin America</td>
<td>Latin America, EU</td>
<td>Latin America, USA</td>
<td>Latin America, USA</td>
<td>Central America, USA</td>
<td>USA</td>
<td>Latin America, USA</td>
</tr>
</tbody>
</table>

Link 4: Trade and employment

- **Direct employment**: Those employed in export firms
- **Indirect employment**: Those working in sectors supplying goods and services to export firms
- Estimates are based on input-output tables which are available for some countries in the region:
  - Brazil, Chile, Colombia, Mexico and Uruguay
- Despite the destruction of employment by imports, the net effect of international trade on employment was positive in all countries
Employment in the export sector grew faster than in the non-tradable sector (except for Colombia)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>% of total employment</th>
<th>Indirect/ Direct</th>
<th>Average annual growth rates</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total employment</td>
<td>Export related employment</td>
</tr>
<tr>
<td>Brasil</td>
<td>2000</td>
<td>10,1</td>
<td>0,99</td>
<td>2,9</td>
<td>10,6</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>14,5</td>
<td>1,17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>1996</td>
<td>18,4</td>
<td>0,69</td>
<td>1,6</td>
<td>5,6</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>24,1</td>
<td>0,62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>1997</td>
<td>14,6</td>
<td>0,36</td>
<td>3,4</td>
<td>1,1</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>12,2</td>
<td>0,37</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>2003</td>
<td>13,4</td>
<td>0,34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td>1997</td>
<td>12,5</td>
<td>1,00</td>
<td>0,7</td>
<td>4,4</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>16,8</td>
<td>1,04</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ECLAC, based on national input-output tables.
**Link 5: Firms that export (and import) perform better in terms of growth/productivity than those that do not**

**Results from econometric studies on firms’ participation in trade in Latin America**

<table>
<thead>
<tr>
<th>Results</th>
<th>Studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term growth is higher in those firms that export than in those that do not. When firms also import, long term growth is even higher.</td>
<td>México (Bernard 1995, Clerides et al. 1998); Chile (Meller 1995, Alvarez y López 2005, Kasahara y Lapham 2008); Colombia (Clerides et al. 1998, Isgut 2001)</td>
</tr>
<tr>
<td>The impact of exports on long term growth is larger in small plants</td>
<td>Colombia (Isgut 2001)</td>
</tr>
<tr>
<td>New plants that export show higher Total Factor Productivity growth than plants that do no export</td>
<td>Colombia (Fernandes y Isgut 2005)</td>
</tr>
<tr>
<td>Importers (of intermediate goods) have a major probability of survival than those who do not import</td>
<td>Chile (López 2006; Gibson y Graciano 2011; Namini et al. 2011)</td>
</tr>
</tbody>
</table>
Some policy proposals at the national level

- Foster innovation networks
- Put education and training at the heart of upgrading policies
- Help SMEs to improve their performance so they can connect to GVCs
- Strengthen links between commodities, manufacturing and services

- **A modern, smart industrial policy is essential to do all this**

- The WTO agreements and most FTAs leave *sufficient policy space* to:
  - Support R&D, innovation
  - Provide preferences to SMEs in public procurement
  - Support “green” goods and services
  - Support clusters
  - Implement supplier development programs
  - Implement programs to train specialized human capital and to certify professional qualifications, quality
Some possible indicators of inclusive trade

A. **Diversification** (products/markets)
   - Herfindahl-Hirchsman Index
   - Number of exported products/export markets
   - Number of products exported to each market
   - Breakdown of exports (traditional vs. non traditional) en each market

B. **Innovation, technological content**
   - Breakdown of exports by technological content

C. **Inclusiveness**
   - Breakdown of exports by firm size
   - Share of intraregional trade (number of products and firms involved)
   - Direct and indirect employment involved in exports and imports
   - Wages in export firms by industry/sector
Thank you

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