



**Multi-year Expert Meeting on Enhancing the Enabling Economic Environment
at All Levels in Support of Inclusive and Sustainable Development (2nd session)**

Towards an enabling multilateral trading system for inclusive and sustainable development

Geneva, 8 – 9 December 2014

SESSION 1:

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

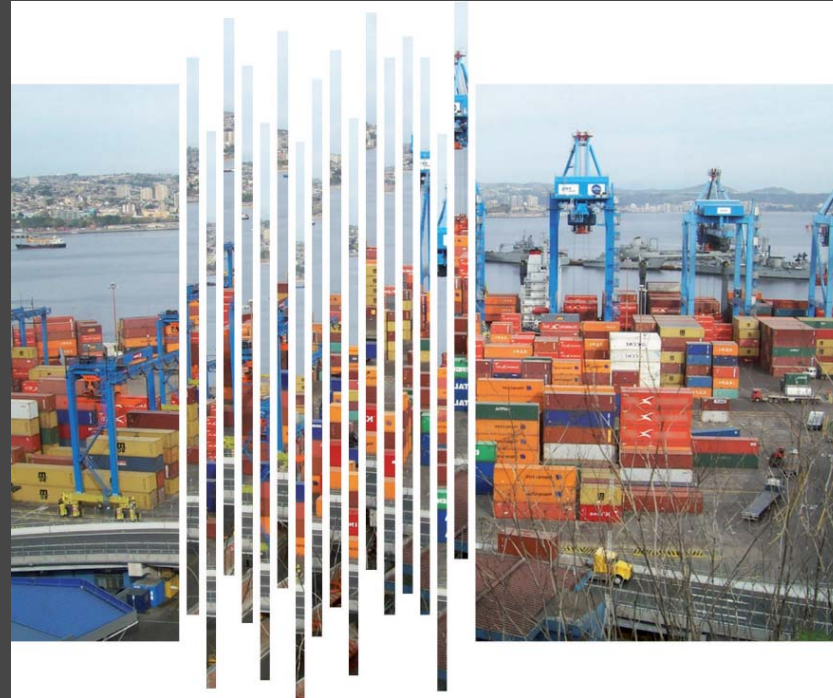
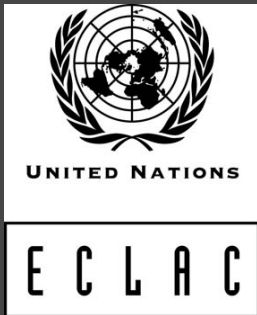
**INTERNATIONAL TRADE AND INCLUSIVE DEVELOPMENT:
BUILDING SYNERGIES**

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UN - ECLAC



International trade and inclusive development: building synergies

Oswaldo Rosales

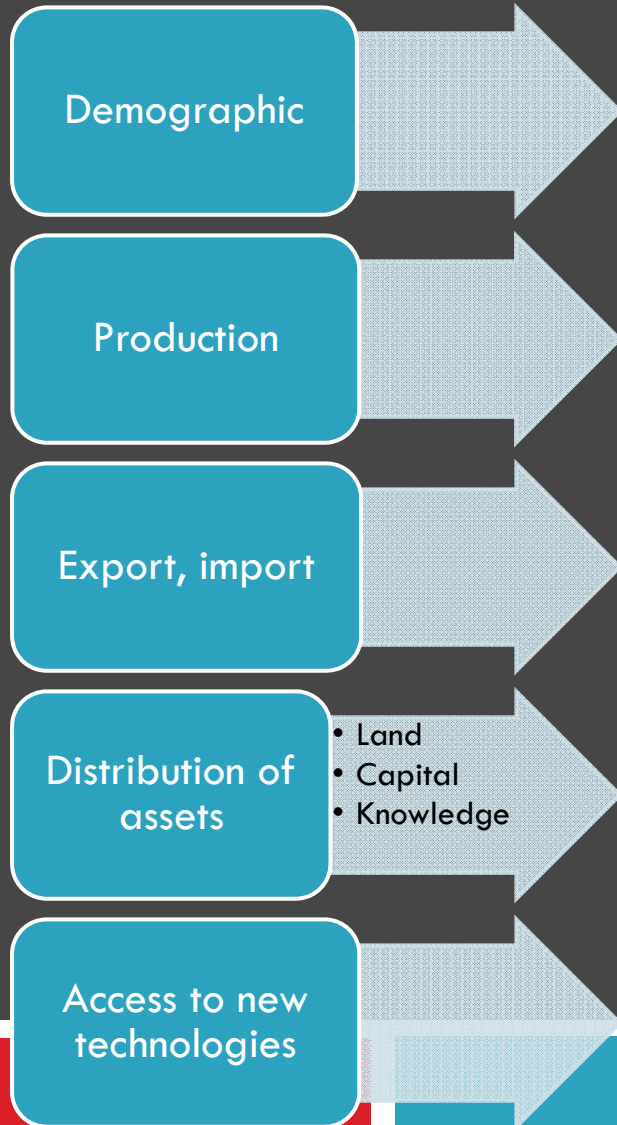
Chief, International Trade and Integration Division

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Expert Meeting “Inclusive and Sustainable Development”
UNCTAD, Geneva, 8-9 December 2014.

Income distribution: explanatory variables

Structural Factors



Markets

Factors

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

Goods and services

- Q, X, M
- p_i, ER, t_i, NTB

Financial

- $M_i, i, i^e, ER;$
 BoP

Institutional aspects

- Economic concentration
- Competition
- Regulation policies

Policies

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

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

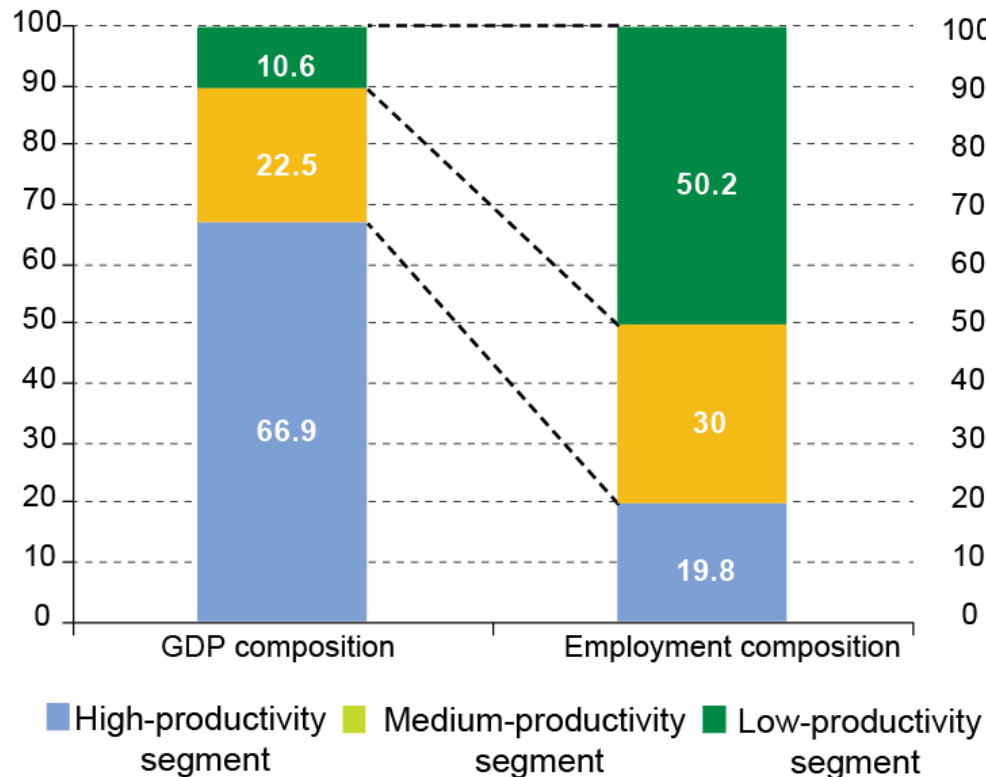
A renewed institutional approach:



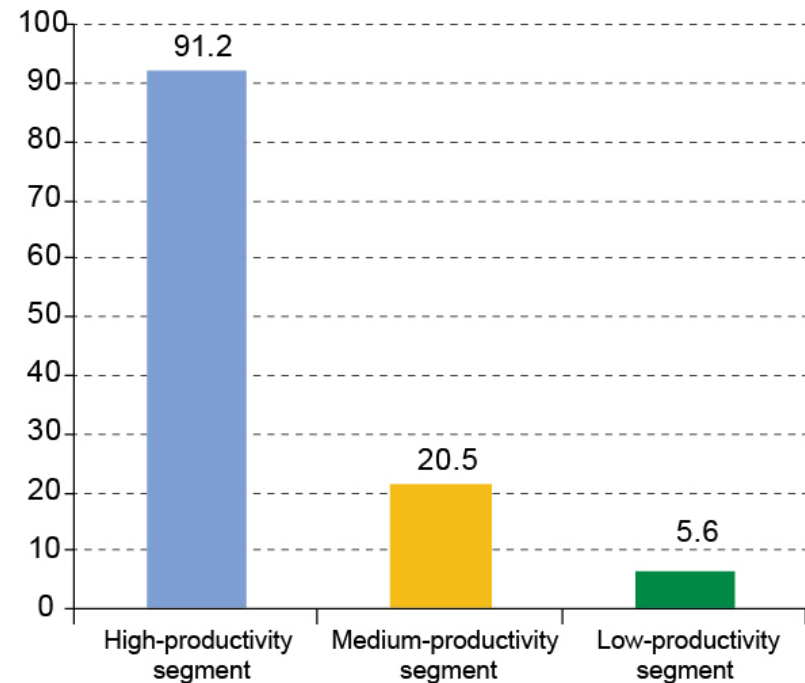
- Public-private coordination
 - ▣ Shared medium-term agenda; Prospective vision
 - ▣ Medium and long-term goals
 - ▣ Funding
 - ▣ Monitoring, performance evaluation, transparency
- Coordination within the government
 - ▣ Between ministries and agencies
 - ▣ Inter-ministerial Committee
 - ▣ Strong link 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)



LATIN AMERICA (18 COUNTRIES): GDP PER WORKER, PPP AROUND 2009
(Thousands of dollars)

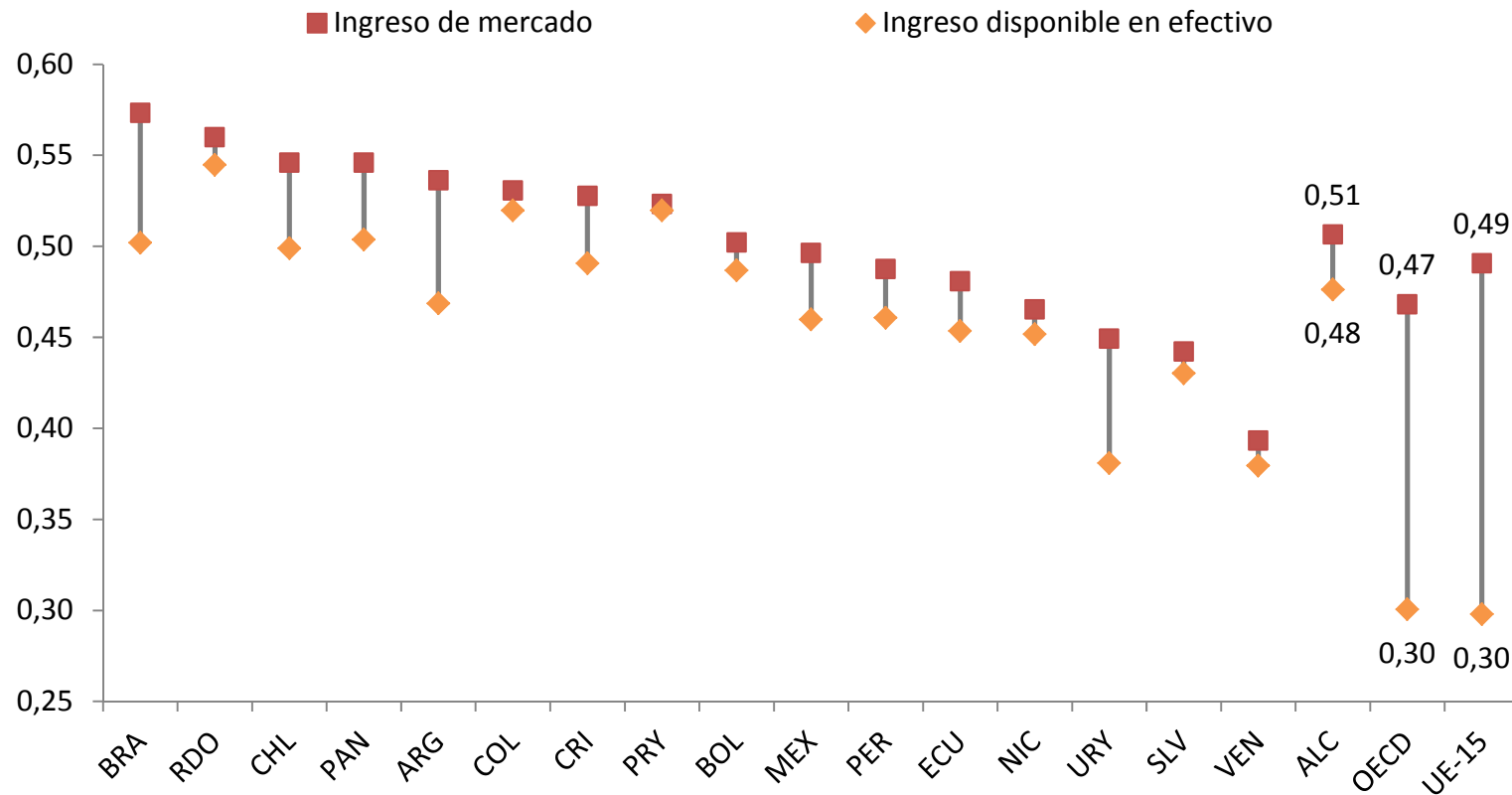


Source: ECLAC, on the basis of R. Infante, "América Latina en el 'umbral del desarrollo'. Un ejercicio de convergencia productiva", *Working Paper*, No. 14, Santiago, Chile, June 2011, unpublished.

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

LATIN AMERICA AND OCDE: INEQUALITY OF MARKET AND AVAILABLE INCOMES

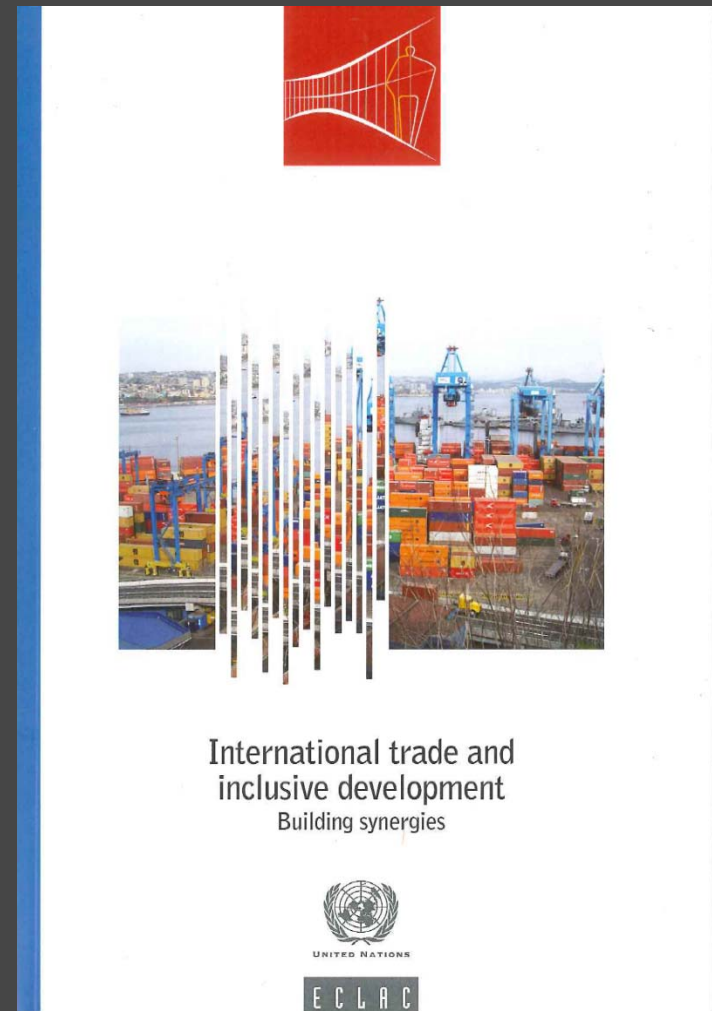
Total population
(Gini Indexs- Around 2011)



Fuente: Prepared on the basis of National Surveys of households for LA and OECDSTAT.

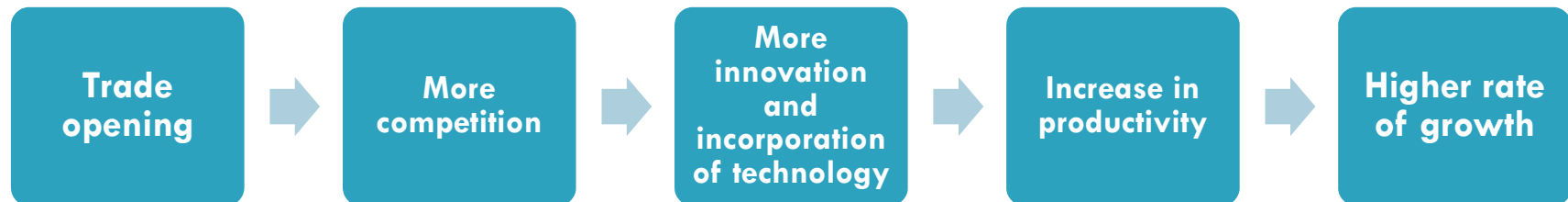
What is inclusive trade?

- 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:

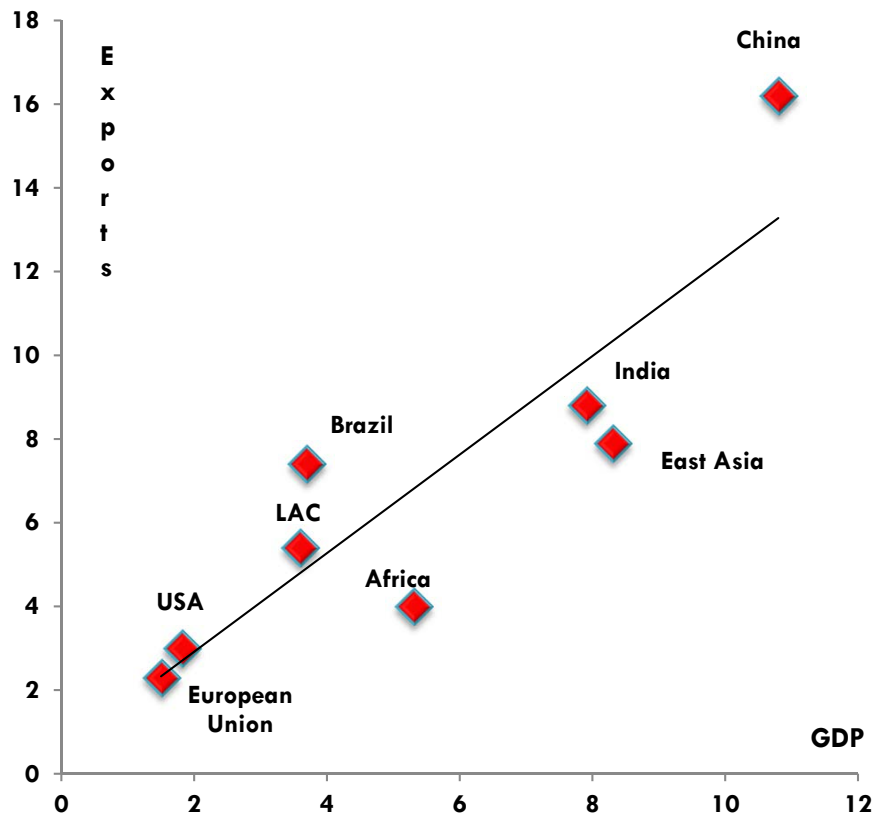


- Openness by itself does not produce growth; it needs complementary policies
 - Macroeconomic stability, rule of law, safety net, industrial policy, re-training for displaced workers, education, internationalization of firms, R&D,

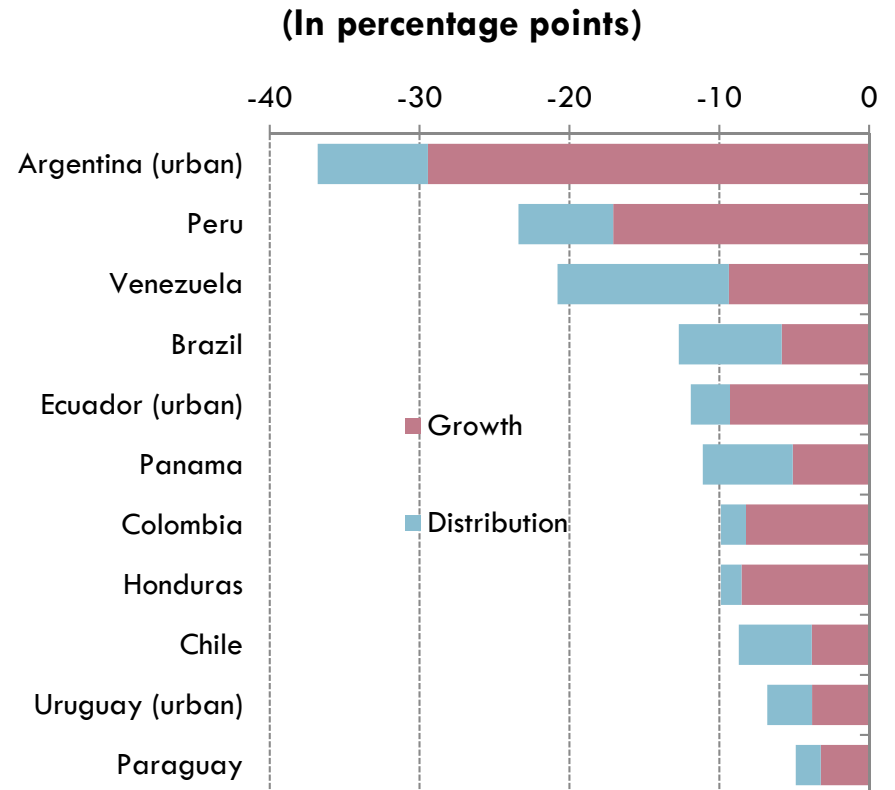
Link 1: (Net) exports reduce poverty through economic growth

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)**

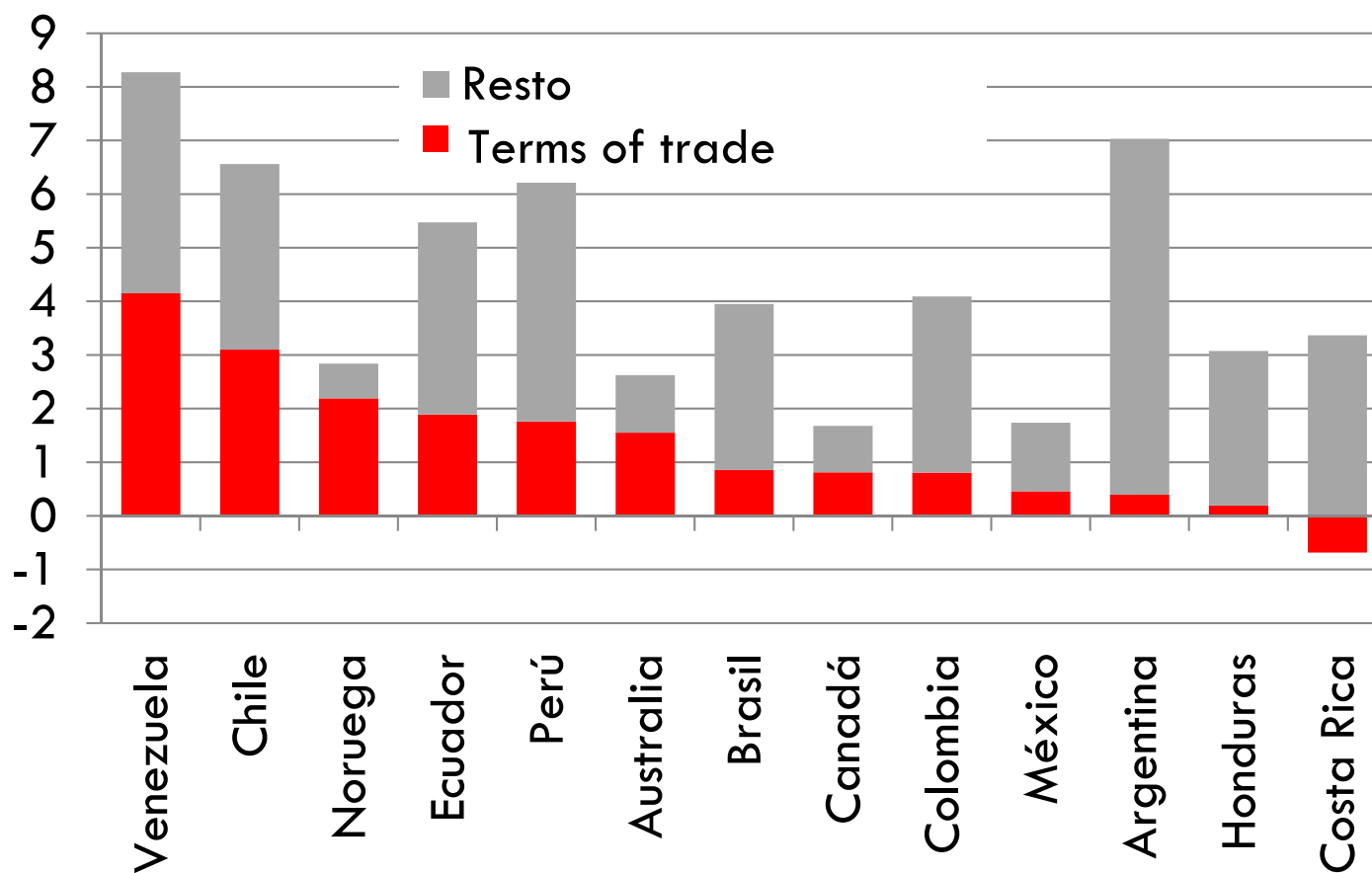


Source: ECLAC, based on CEPALSTAT and UNCTADSTAT databases, World Bank and ECLAC, *Social Panorama of Latin America*.

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

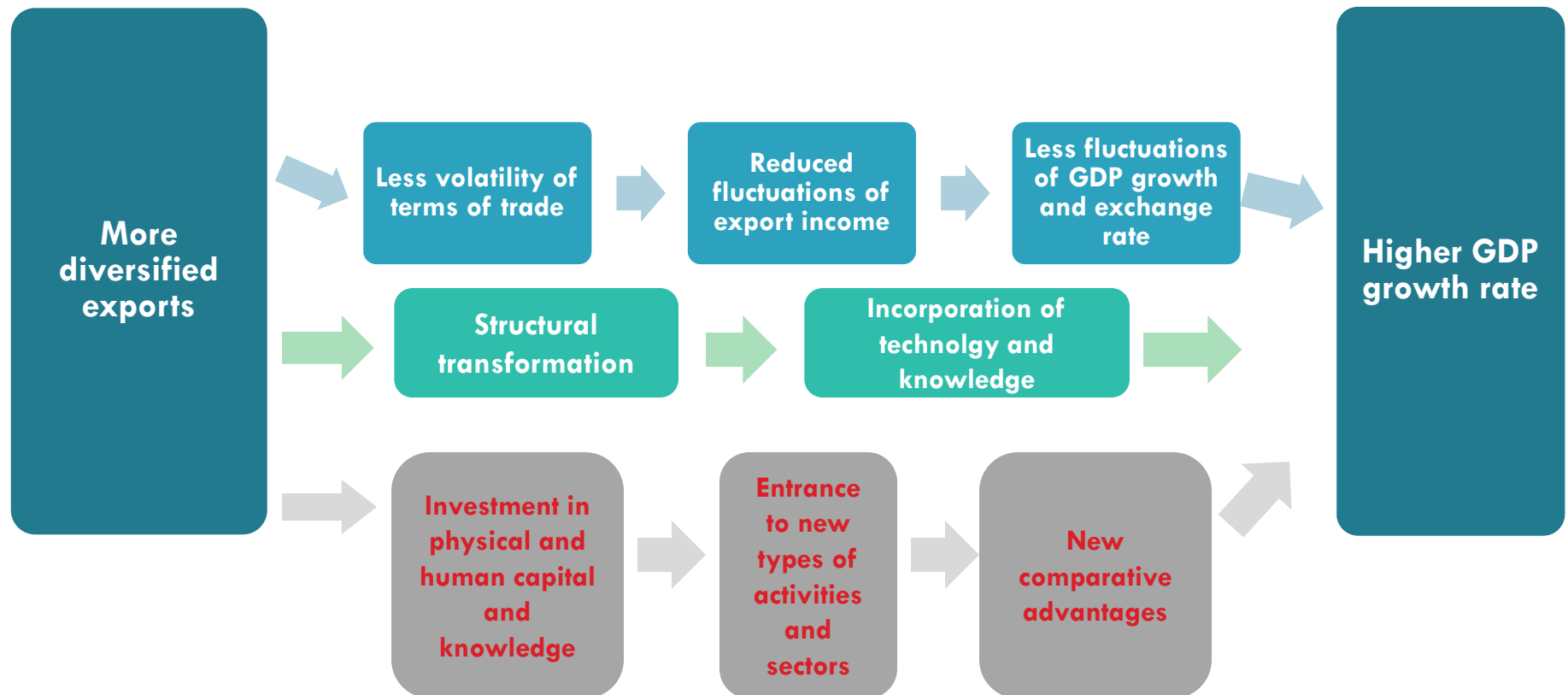
(In percent)



Source: ECLAC, based on countries' national accounts.

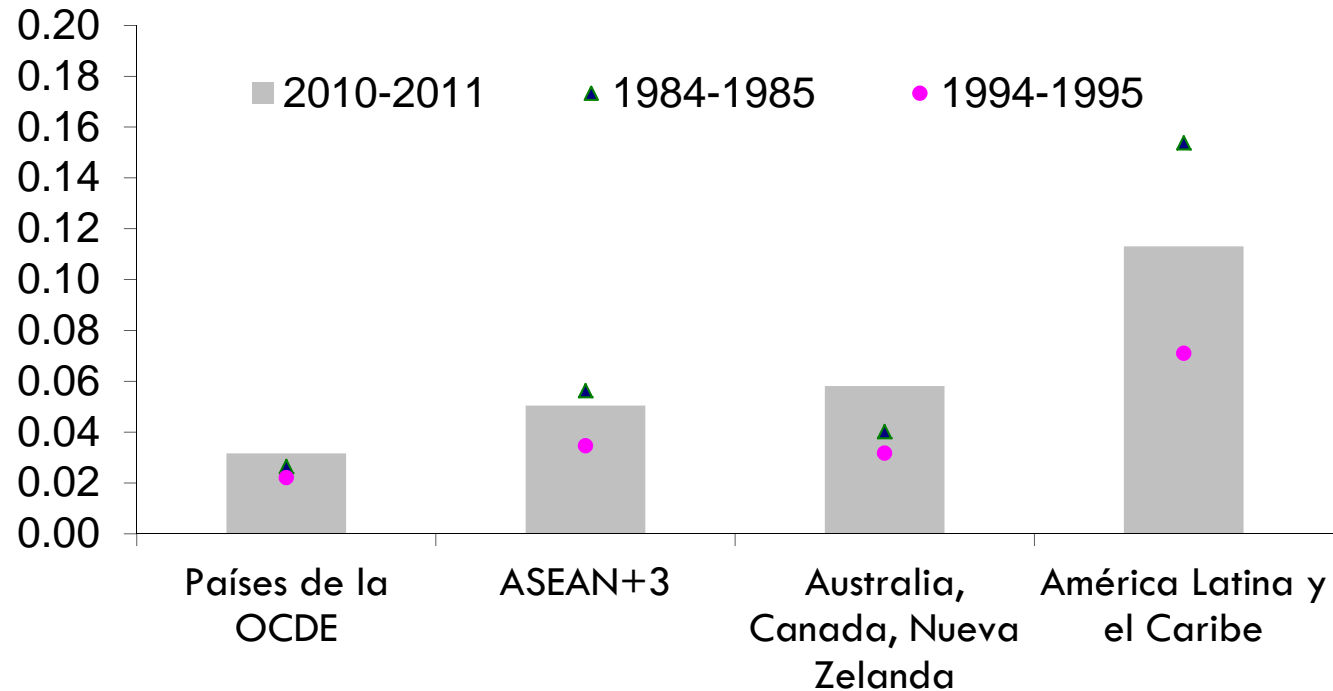
Link 3: Export diversification and growth

The degree of export diversification affects the GDP growth rate



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

Latin America and other regions: Concentration of export basket (Herfindahl-Hirschman Index)

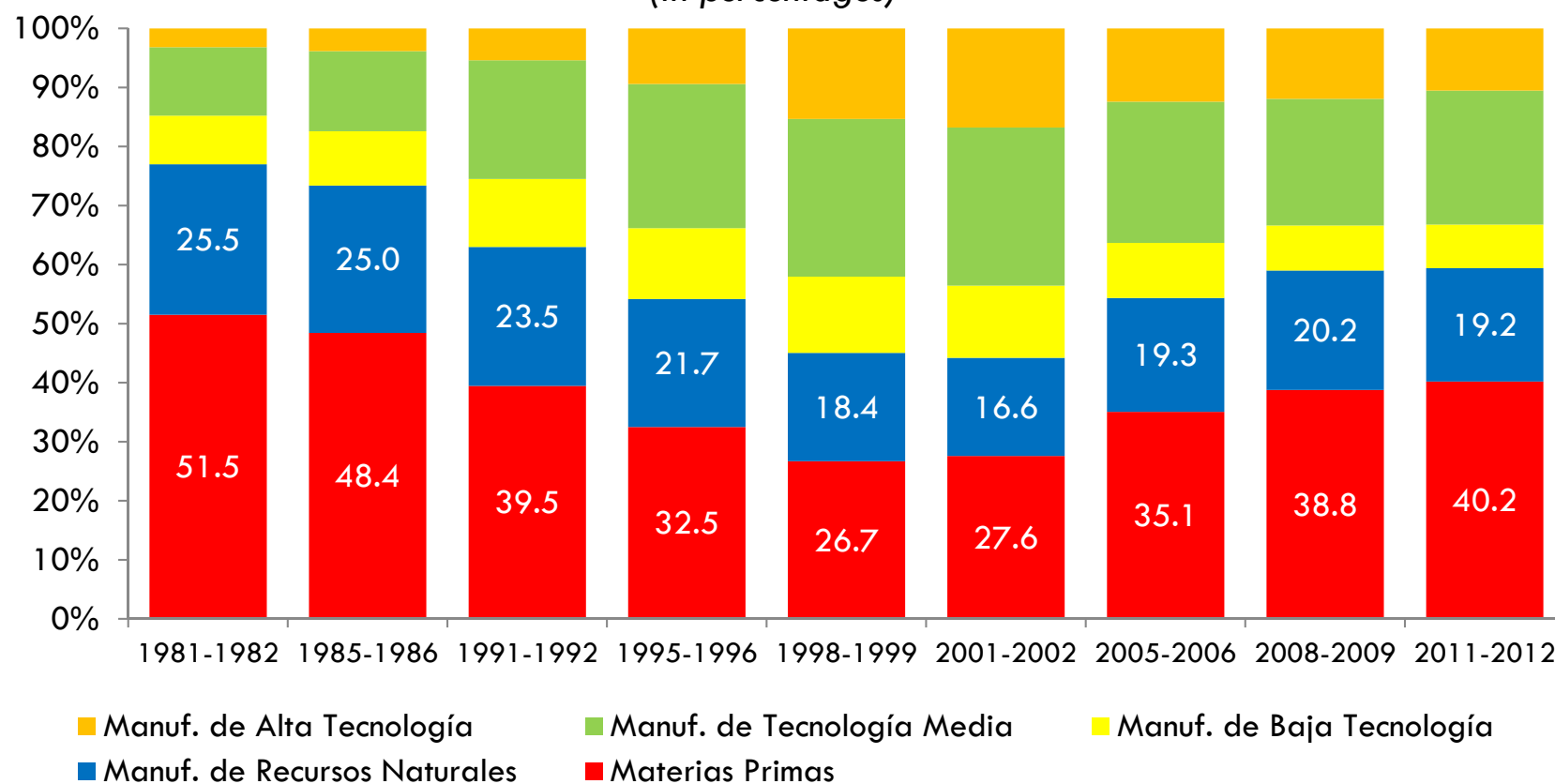


Source: ECLAC, SIGCI database.

Indeed, in the last decade the region's exports have been re-concentrating on commodities

Latin America and the Caribbean: Distribution of total exports by technological content, 1981-82 to 2011-12

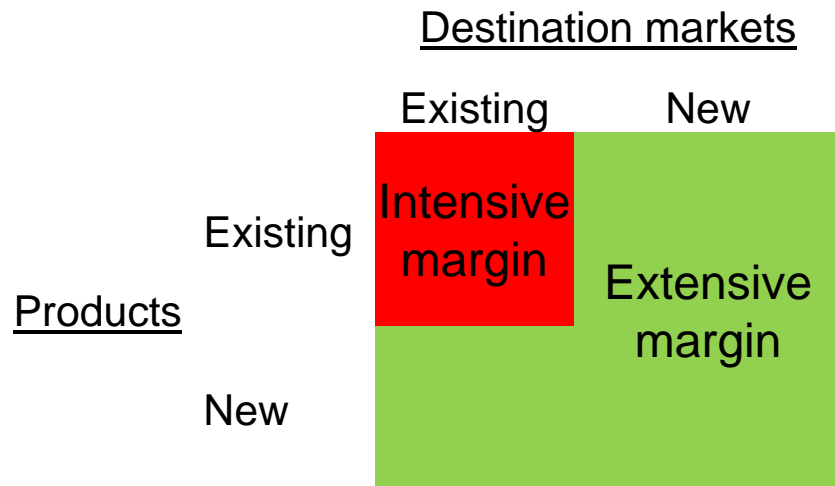
(In percentages)



Source: ECLAC, based on COMTRADE.

Most of the region's export growth comes from selling the same products to the same markets

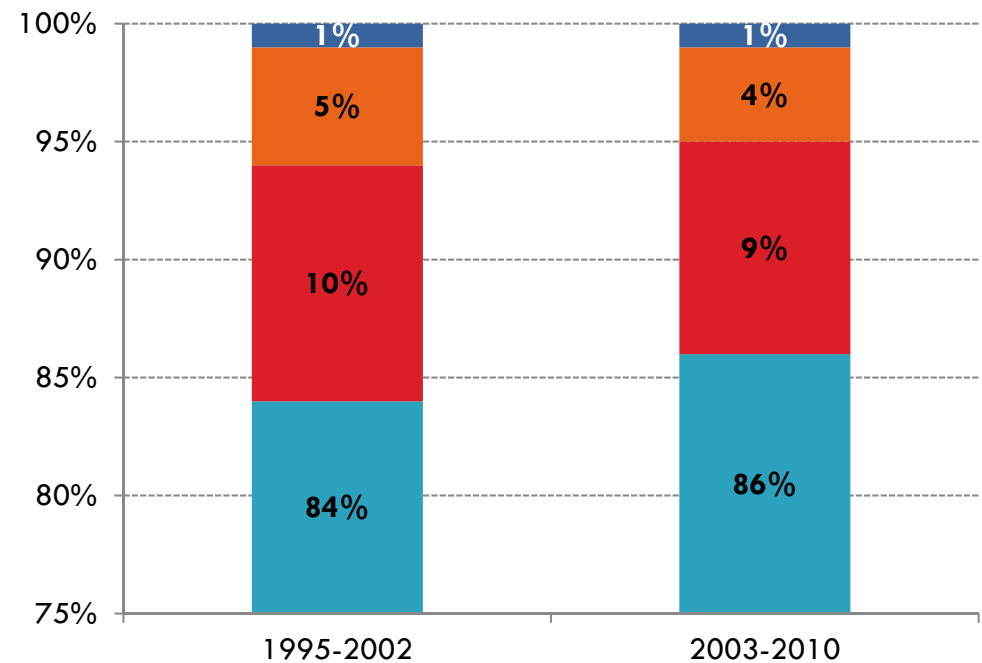
Sources of export growth



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

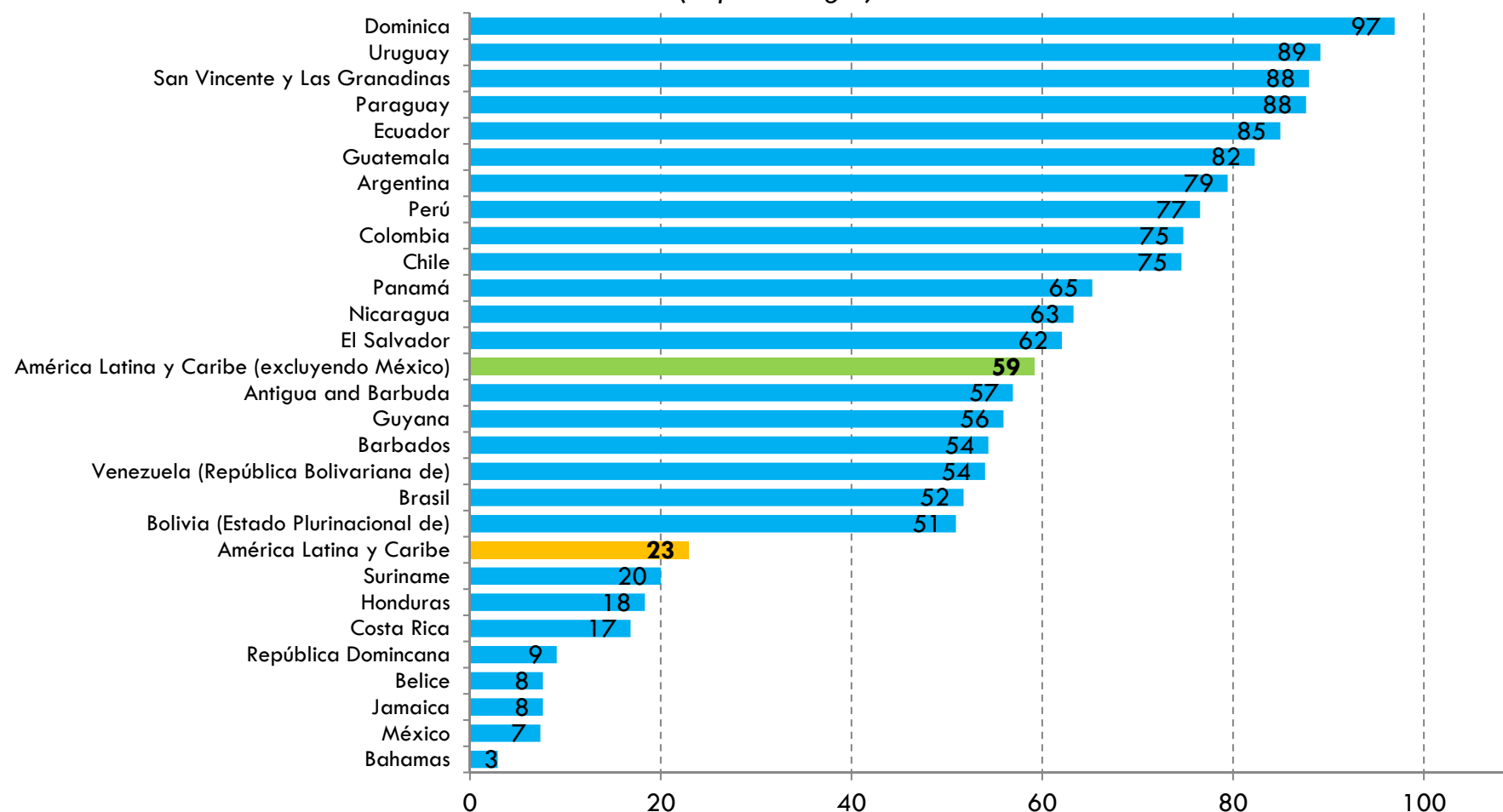


- New product to new market
- New product to existing market
- Existing product to new market
- Existing product to existing market

Excluding Mexico, the regional market absorbs almost 60% of the manufactures exported from Latin America and the Caribbean

LAC COUNTRIES: SHARE OF LAC IN TOTAL EXPORTS OF MEDIUM- AND HIGH-TECHNOLOGY MANUFACTURES, 2013

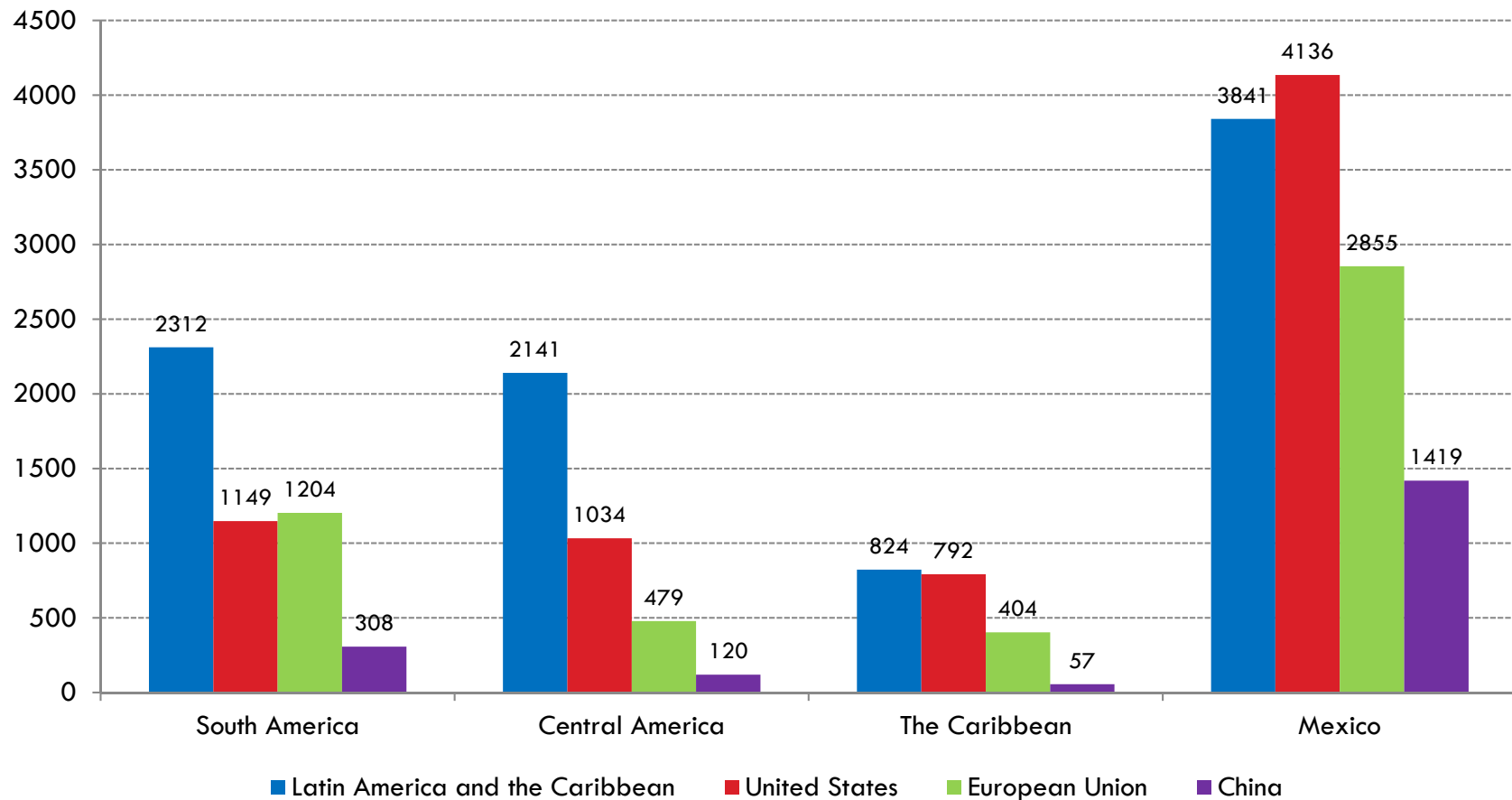
(In percentages)



Source: ECLAC, based on COMTRADE.

The Latin American market is also the most conducive to export diversification

Average number of products exported to selected markets, 2013

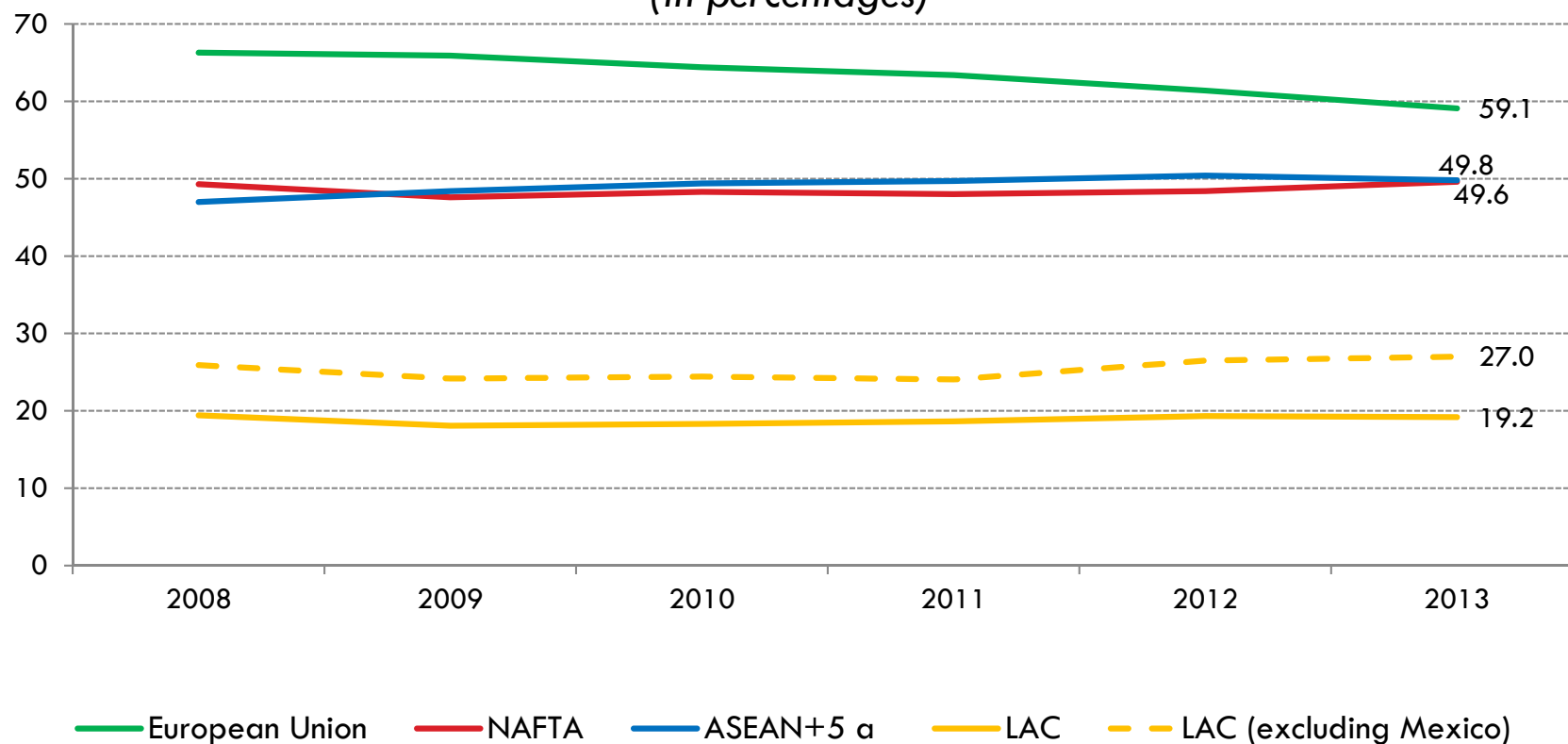


Source: ECLAC, based on COMTRADE.

However, Latin America trades little with itself compared to other regions

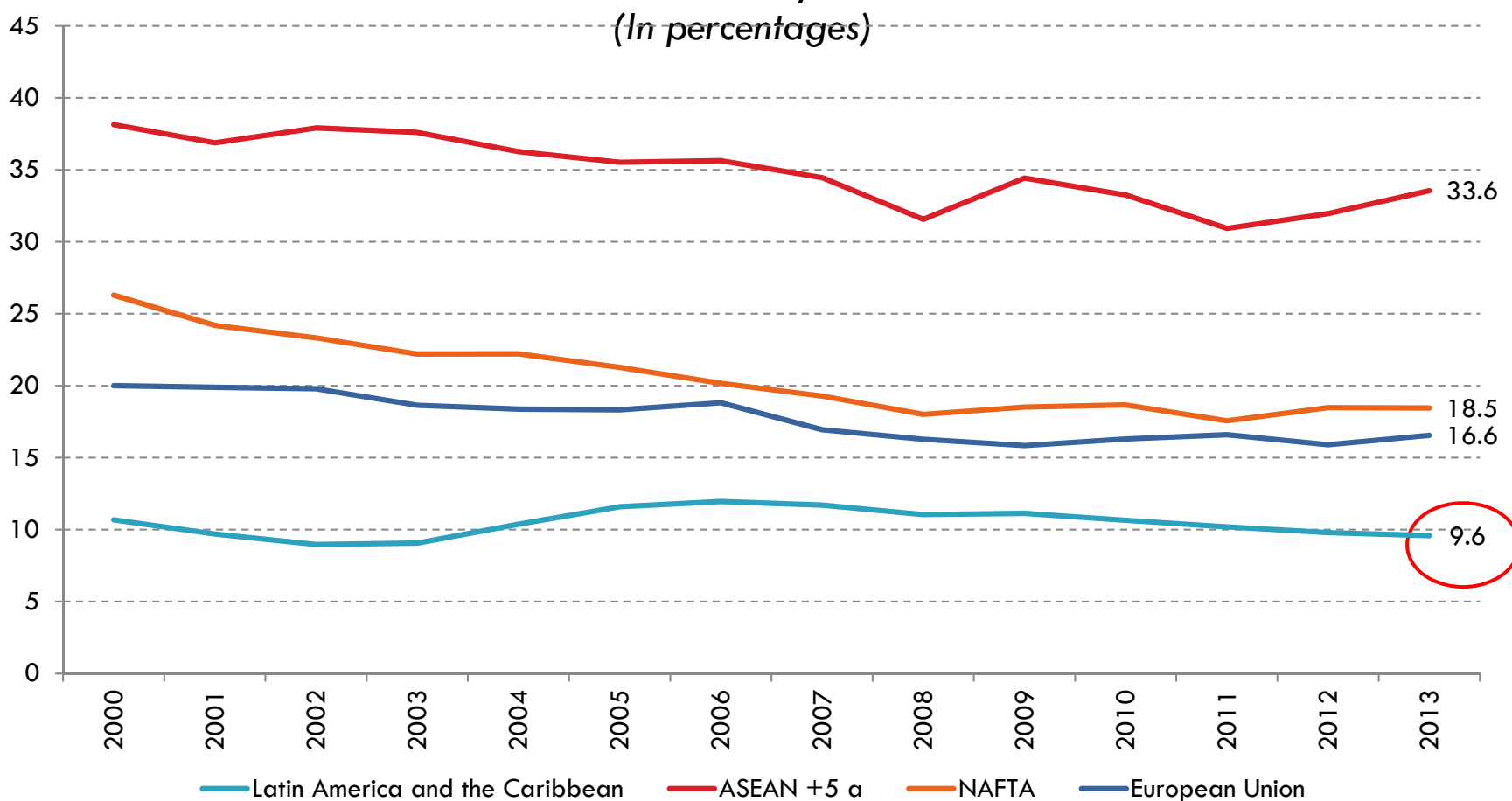
SELECTED GROUPINGS: SHARE OF INTRA-GROUP EXPORTS IN TOTAL EXPORTS, 2008-2013

(In percentages)



Moreover, regional production integration continues to be very limited

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



Source: ECLAC, based on COMTRADE.

Fostering intraregional trade is key to promote inclusive growth

LAC: Inclusive trade indicators by export destination

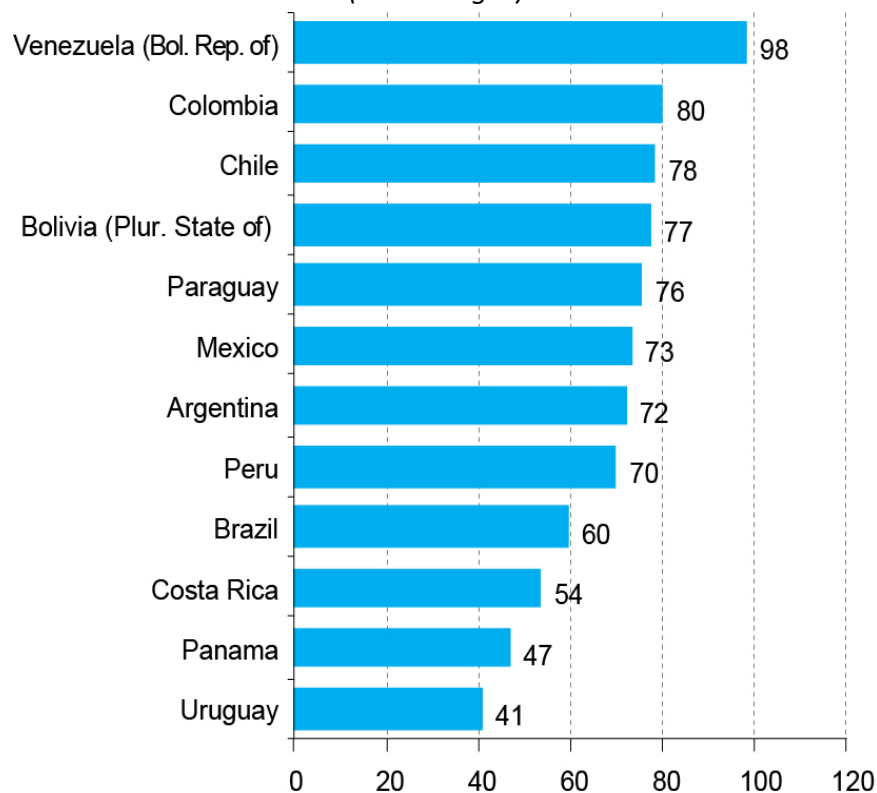
Export destination	Diversification		Employment		SME involvement	Linkages	
	Products	Firms	Direct	Indirect		Foreign	Domestic
LAC	<i>High</i>	<i>High</i>	<i>High</i>	<i>High</i>	<i>Medium</i>	<i>Medium</i>	<i>High</i>
United States	<i>High</i>	<i>High</i>	<i>High</i>	<i>High</i>	<i>Medium</i>	<i>Medium</i>	<i>Medium</i>
European Union	<i>High</i>	<i>Medium</i>	<i>Medium</i>	<i>Medium</i>	<i>Low</i>	<i>Low</i>	<i>Medium</i>
Asia Pacific	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>

- 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

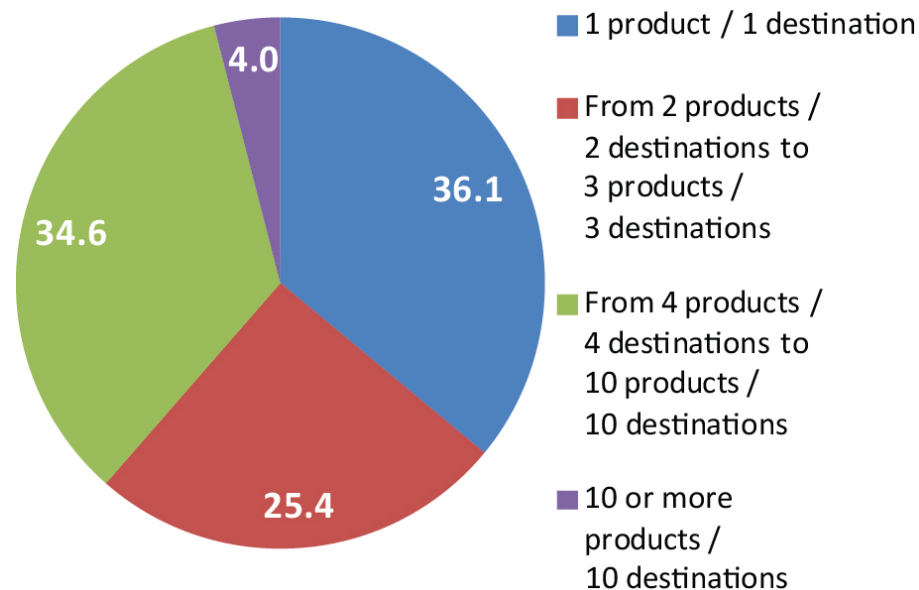
(Percentages)



Source: ECLAC, on the basis of official information from the customs services of the respective countries, OECD, World Bank and specialized studies.

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

(Percentages)



Source: ECLAC, on the basis of official information from the customs services of the respective countries.

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)

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

Source: ECLAC, *International trade and inclusive development: building synergies*, 2014.

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)

Selected countries: Employment in export sector

(In percent)

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

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

Results	Studies
<u>Long term growth is higher</u> in those firms that export than in those that do not. When firms also import, long term growth is even higher	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)
The impact of exports on long term growth is larger in small plants	Colombia (Isgut 2001)
<u>New plants that export show higher Total Factor Productivity</u> growth than plants that do no export	Colombia (Fernandes y Isgut 2005)
Importers (of intermediate goods) have a major probability of survival than those who do not import	Chile (López 2006; Gibson y Graciano 2011; Namini et al. 2011)

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-Hirschman 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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