UNCTAD

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Policy Dialogue: Redefining the Role of the Government in Tomorrow's International Trade

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SESSION 1: TRADE POLICY FOR INCLUSIVE GROWTH IN THE 21ST CENTURY ECONOMY

Session 1.a: Mapping the challenges for government

TRADE POLICY FOR INCLUSIVE GROWTH

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Trade Policy for Inclusive Growth

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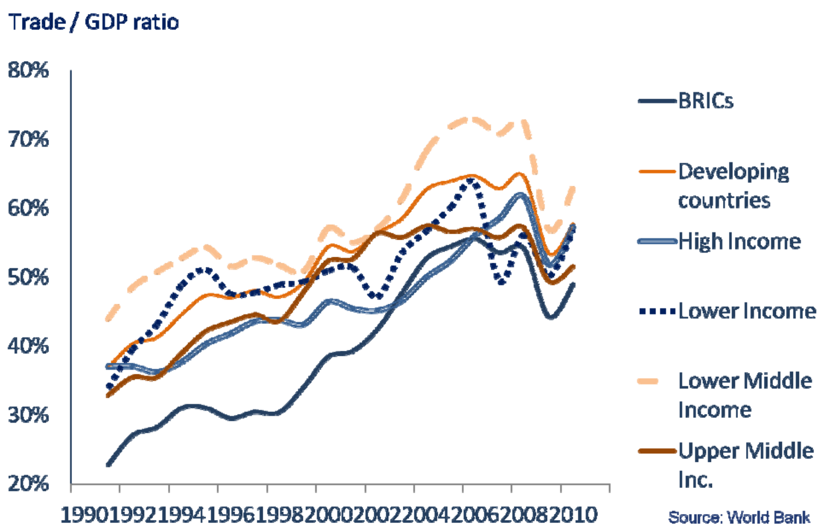
Inclusive Growth

- Defining inclusive growth (IG)
  - Key dimension: productive employment rather than income redistribution
- Working definition: “long-term sustained productivity growth and employment opportunities for a wide range of firms and households”
- Implication: major elements of IG are longer-term wage and employment outcomes, abstracting from (effects of) transfers

Trade and Inclusive Growth

- Trade can support IG by allowing workers/firms to shift into sectors with growing demand and through access to new technologies and knowledge
- Trade's contribution to IG *depends* on behavioral responses to changes in relative prices
  - Households: changes in sources of income and consumption
  - Firms: changes in product mix, sources of inputs
- Adjustment a function of existing capabilities/skills, mobility costs, access to credit, operation of factor markets, upgrading/retooling of skills, incentive framework for product innovation and technology adoption, etc.
- Policies go (far) beyond trade reforms

Managing Volatility & Shocks



Households and Workers

- Impacts of relative price changes on consumption and sources of income depend on:
  - Initial conditions (structure/level of tariffs; pass-through)
  - Worker mobility costs and "connectivity"(across sectors incl. in-out of informality, firms, territories)
  - Ability to finance retooling/investment
  - Skills – e.g., language for business process outsourcing
- Much of the policy agenda revolves around access to and quality of services – public and private

Firms

- Trade (reforms) impact on profits and other measures of performance (productivity, etc.)
- Key: changes in behavior, induced productivity effects, investment in changes in the product mix
  - Depends on capabilities of the firm
  - And on operating environment ("investment climate")
- Size matters: large firms are more integrated
  - Better able to deal with shocks
  - And the fixed costs of entry into new markets
  - Have better access to finance
  - Benefit from multi-product, multi-market diversification
- But SMEs generate most (new) employment

Some Implications for Trade Policy

- "Old agenda" remains very relevant
  - Market access matters – tariffs, quotas, product standards, etc.
    - Reduce market segmentation and fixed costs of market entry
  - Uncertainty matters too, perhaps even more → trade and investment agreements that lock-in open markets and ensure access to resources and food staples
  - As tariffs fall, uncertainty costs become *relatively* more important
  - NTBs generally less transparent; create greater uncertainty
- "New agenda" is critical
  - 'Trade costs': Pass-through and mobility costs in part a function of "connectivity" → trade facilitation; pro-competitive distribution and logistics services trade reforms
  - Enhancing competitiveness and raising productivity →
    - In part again a services trade reform agenda (cost/quality of inputs);
    - Need to address market failures (access to credit; information)
- Managing volatility—complementing greater openness with adjustment assistance and "opportunity nets"