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## **Inclusive and job-enhancing trade: Asia-Pacific opportunities**

### **Asia-Pacific Trade and Investment Report (APTIR) 2013**

#### **Concept note**

As a major analytical work of the Trade and Investment Division and providing independent and innovative policy options for emerging policy issues, the 2013 issue of the Asia-Pacific Trade and Investment Report (APTIR) will focus on inclusive and job-enhancing trade. The report will also be used as a background document for discussion at the ESCAP's Committee on Trade and Investment. In the aftermath of the Rio+20 outcome document "Future for all" and in the context of internationally accepted development goals, making trade compatible with inclusive growth has emerged as a priority concern in the region (and globally).<sup>1</sup>

The section below attempts to explain the term 'inclusive trade', which has rarely been used and has not explicitly been defined by academics and international communities.<sup>2</sup> The section also provides a reading list on the linkages between trade, employment and other inclusivity measures. Section 2 introduces 15 stylized facts on the level and development of inclusivity (in socio-economic and political dimensions) and on the possible association between trade and inclusivity. These facts may stimulate and guide our thinking of achievements and challenges on the topic. Section 3 discusses what analytical studies may be needed to assess the effects of trade on inclusivity and outlines the idea for an econometric approach with some more details. Furthermore, the section proposes case studies/stories that will be prepared to complement the broader analytical work. Finally, Section 4 presents the tentative structure for APTIR 2013.

In addition to this concept note, a background paper that was prepared for the discussions during the Expert Group Meeting will additionally motivate the conceptualization of the report. The paper will focus on the theoretical and empirical literature relevant to the topic with a special focus on trade and employment issues and the relevant challenges (like informal sector and gender issues).

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<sup>1</sup> The conceptualization of the report will benefit from insights and applied policy messages of the Expert Group Meeting on the same topic to be held on 14 December 2012 in the United Nations Conference Centre in Bangkok.

<sup>2</sup> A simple Google Scholar search with the term 'Inclusive trade' in the title reports only one paper. A more general Google search with the term 'Inclusive trade' in the title reports 322 hits, but these websites refer mostly to inclusive trade policy making, which is only part of how we define trade to be inclusive. Lederman (2011) develops the linkages through which international trade may have positive and negative effects on inclusive growth, but he doesn't make use of and does not define the term 'Inclusive trade' explicitly.

## 1. What is inclusive trade?

Trade is inclusive if all people can contribute to and benefit from international trade, where “trade” for simplicity includes imports and exports of goods and services, FDI, the movement of labour across borders as well as trade related policies and trade facilitation. A pre-requisite for inclusive trade is that people have equal opportunities, in particular in terms of access to employment, entrepreneurship, technology and finance, but also in terms of access to social services such as education, health and information.<sup>3</sup> Equality of opportunities may then contribute to inclusivity. In particular, inclusivity includes aspects related to the creation of employment, the integration of specific groups in the labor force (e.g. women, young and unskilled workers as well as migrants), the compensation and productivity of workers (including an appropriate balance between compensation and productivity and ‘decent pay’) and the creation of new (micro-)firms and innovative/high-tech sectors. Furthermore, inclusivity is related to the level and variety of consumption as well as the price of consumption (in particular with respect to food, health and education). Finally, the poverty and inequality as well as the quality of life (well-being) dimensions are also included in the ‘inclusivity’ term.

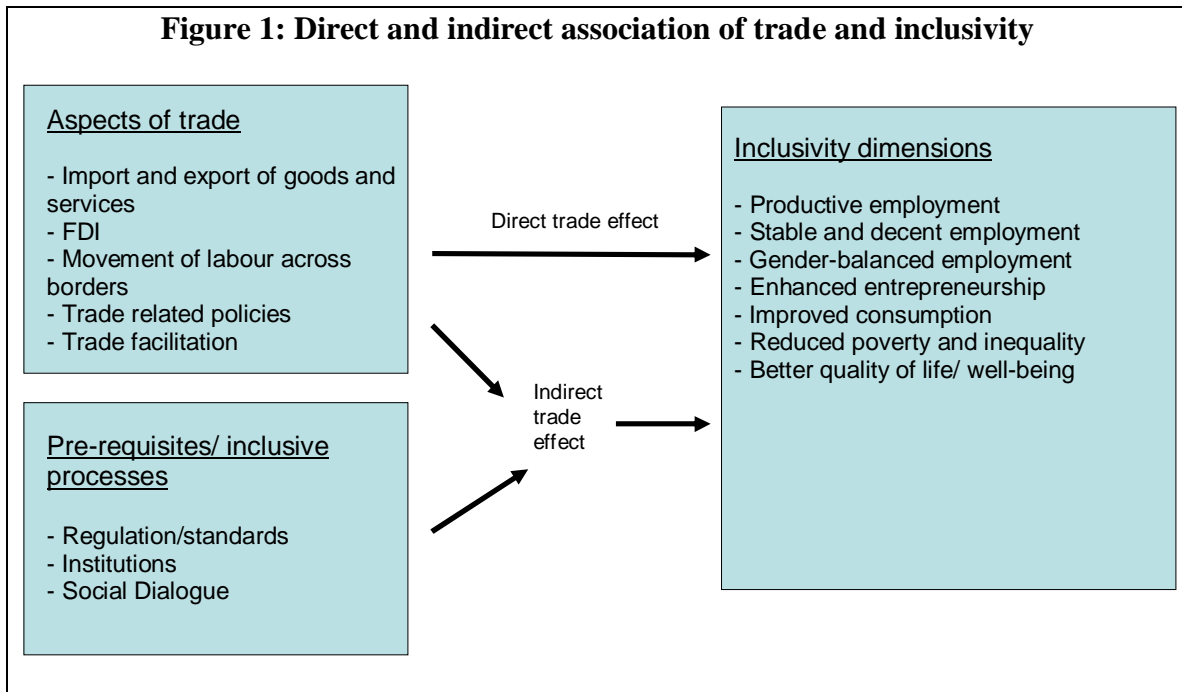
Trade, trade policy or trade facilitation alone may not lead to equality of opportunities and inclusivity. Pre-requisites for inclusive trade may be an unbiased regulatory environment for individuals and businesses and the existence of relevant institutions. Furthermore, inclusive trade may also require the existence of a social dialogue among all stakeholders towards outcomes/decisions taking into consideration all interests. These additional factors, which together with trade, trade policy or trade facilitation measures may contribute to inclusivity, define whether trade is inclusive in terms of process (see figure 1).

Thus, the role of trade in inclusivity may be ambiguous depending on the aspects of trade considered and other initial conditions (such as political institutions, macroeconomic policies and decision making processes). Lederman (2011) provides a broad overview on the linkages between trade and inclusivity, Harrison et al. (2011) a review on trade and inequality that appears relevant for inclusivity, and more specifically, Jansen et al. (2011) and Newfarmer et al. (2012) explore myths and evidence on trade and various aspects of employment while Munro (2011) gives a literature review on trade and the informal labour market in developing countries. Additionally, the new ILO (2013) wage report provides some insights as to the role of globalization to the development of various aspects of wages. With respect to possible ways to make trade work for inclusivity, Higgins et al. (2010) provide an outline of how Aid for Trade can help to deal with challenges.

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<sup>3</sup> Ianchovichina et al. (2009) similarly define inclusive growth in terms of access to opportunities.

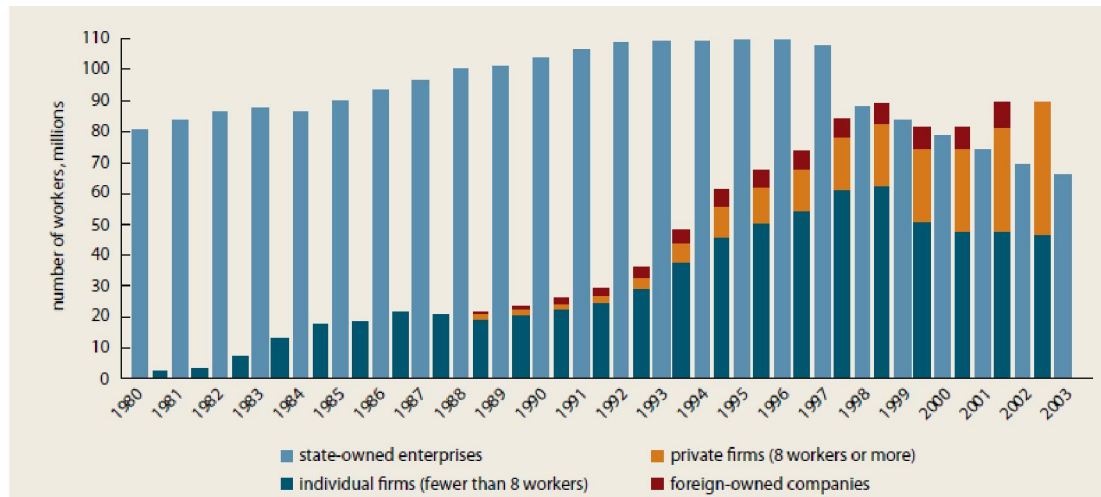
**Figure 1: Direct and indirect association of trade and inclusivity**



## **2. Stylized facts on inclusivity and the relationship between trade and inclusivity**

This section provides a set of stylized facts (without a particular order) collected from recent publications of international organizations (including ESCAP, World Bank, OECD and ILO) on the level or the development of inclusivity as such (Fact 1-9) as well as on the possible interrelationship between trade and inclusivity (Facts 10-15). This anecdotal evidence may support and guide the discussions during the EGM and may help to determine what inclusivity dimensions can be linked to trade and should therefore be considered in APTIR 2013.

**Fact 1: In China, employment growth is led by the private sector.** Having in mind that China has seen particularly strong economic growth during the last two decades; the figure shows that strong economic growth is associated with strong employment growth in the private sector (that is, employment of micro-firms, medium and large firms, but also foreign-owned companies).



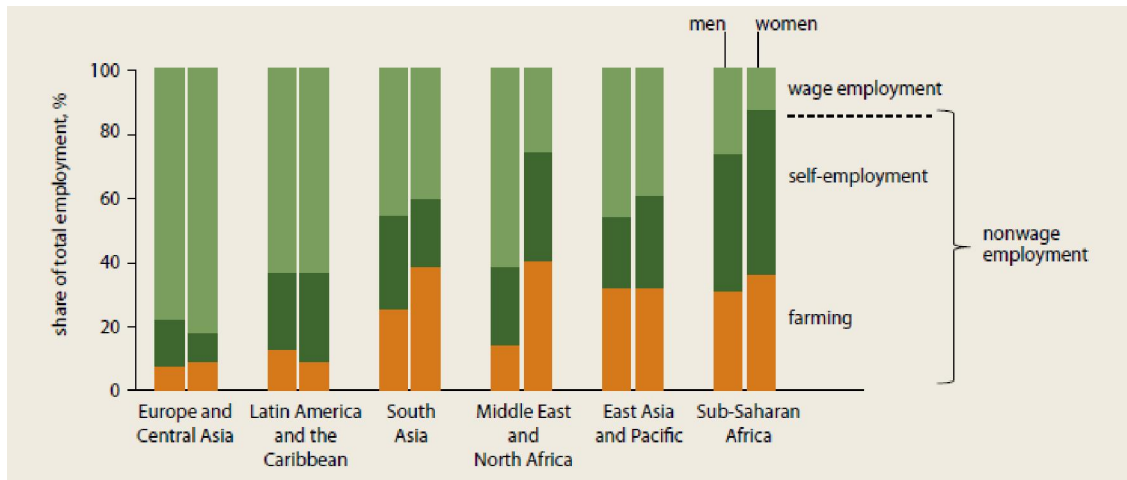
Source: Figure retrieved from World Bank (2012, p. 8)

**Fact 2: Economic growth does not always come with formal sector employment.** The table shows that average annual growth in GDP in selected Asian developing economies is considerably higher than growth in formal employment since the global economic crisis (2009-2011). Considering that formal compared to informal employment is superior in terms of job quality (given the social benefits and security that may come with it), the inclusive job creation outcome in these countries is sobering.

	Average GDP growth	Average formal sector employment growth
China	9.6	0.8
India	7.8	0.2
Papua New Guinea	7.5	2.6
Mongolia	7.5	2.3
Sri Lanka	6.6	-0.2
Viet Nam	5.9	4.1
Indonesia	5.7	1.6
Solomon Islands	4.5	3.1
Philippines	4.1	2.7
Malaysia	3.5	1.8
Republic of Korea	3.3	0.6
Vanuatu	3.3	2.5
Pakistan	2.6	3.0
Thailand	1.9	0.3
Fiji	0.2	1.2
Tonga	0.0	0.7
Samoa	-0.9	0.7

Source: Figure retrieved from ESCAP (2012, p. 44)

**Fact 3: A job does not always come with a wage.** Related to the previous fact, the figure shows the importance of the informal self-employment and farming sector in developing countries. This self-employment may often come with insufficient access to basic social services (such as health). It is therefore relevant to understand what self-employment means in terms of inclusivity.



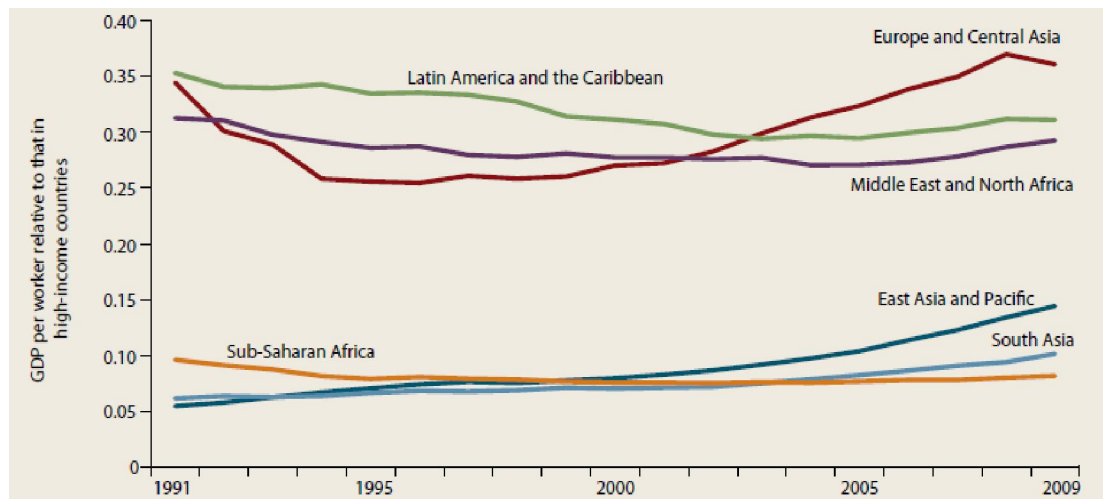
Source: Figure retrieved from World Bank (2012, p. 5)

**Fact 4: Employment growth may come with lower real wages.** The table reports average annualized changes in real wages and employment by region between 1980 and 2005). This longer term perspective shows that the quality of jobs in terms of pay have worsened during.

Region	Annualized percentage change in real wages (per employee)	Annualized percentage change in employment
Developed Economies	0.33	-0.51
East Asia and the Pacific*	-1.56	3.87
Europe and Central Asia	-2.88	4.35
Latin America and the Caribbean	-1.27	-0.07
Middle East and North Africa	-4.39	-0.42
South Asia	-0.27	0.16
Sub-Saharan Africa**	-3.55	-0.84
<b>World</b>	<b>0.01</b>	<b>1.36</b>

Source: Figure retrieved from Jansen et al. (2011, p. 29)

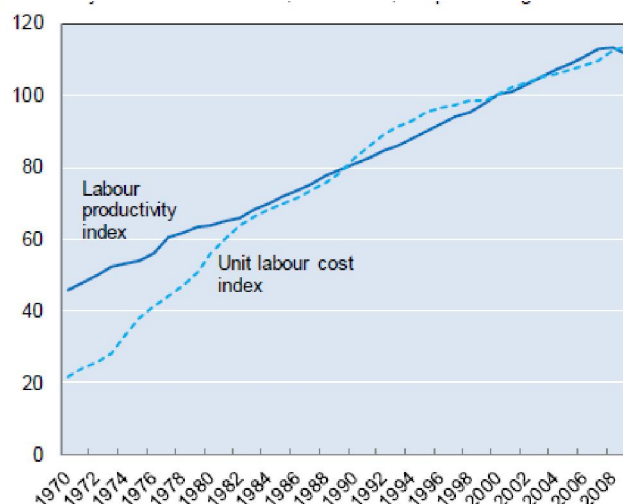
**Fact 5: Labour productivity remains low in developing countries.** The figure reveals that labour productivity in the Asia-Pacific regions relative to that in high income countries (measured by GDP per worker) has only marginally improved during the last two decades. The same holds for other developing regions. Economic growth in developing regions may thus not have sufficiently been inclusive in terms of productivity gains.



Source: Figure retrieved from World Bank (2012, p. 55)

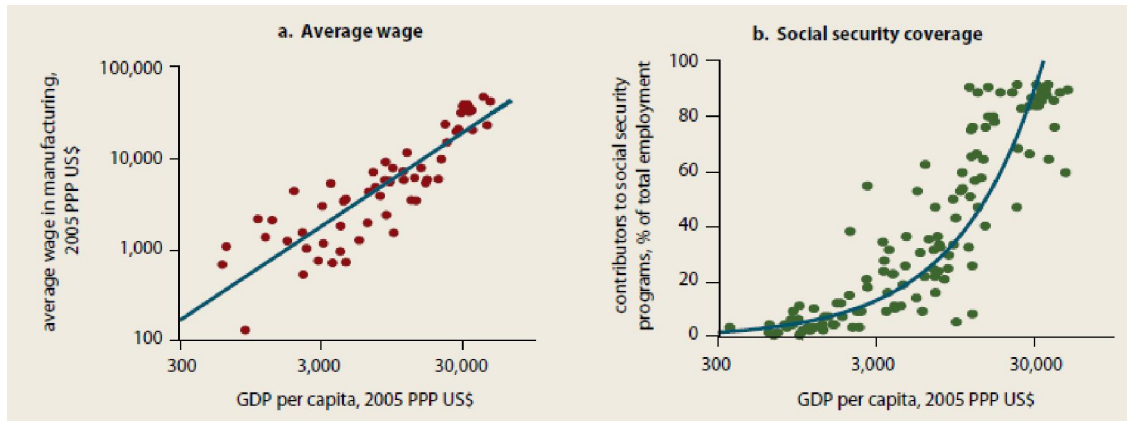
Notes: Ratio is measured in 2005 purchasing power parity US\$.

**Fact 6: Rising labour productivity is associated with rising wages.** For six OECD countries (simple average), the figure shows that productivity and wages are strongly and positively associated. Recalling Fact 4 that pay has worsened and Fact 5 that productivity in developing countries is low and has not improved during recent years; this stylized fact emphasizes the importance of productivity for inclusive labour remuneration.



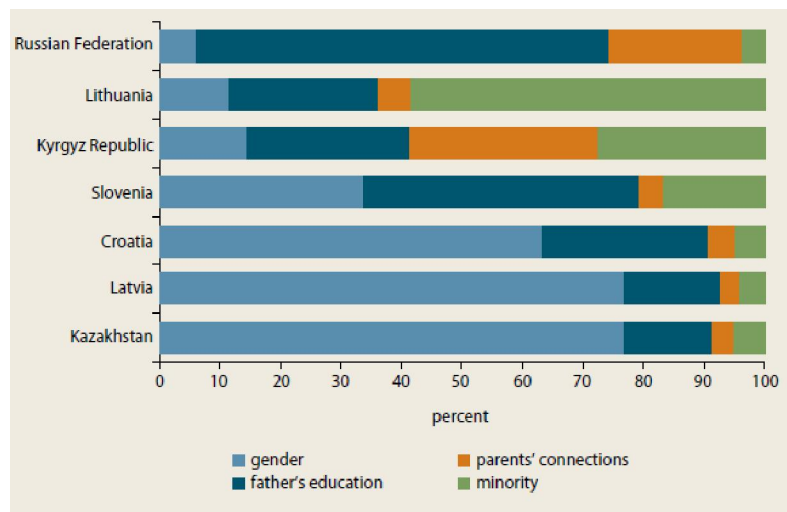
Source: Figure retrieved from Newfarmer and Sztajerowska (2011, p. 20)

**Fact 7: Jobs provide higher earnings and benefits as countries grow.** The figure indicates a strong and linear relationship between GDP per capita and average wages in manufacturing (left panel) and contributions to social security programs. These trends are consistent with the argument that growth is in fact inclusive in terms of pay and social security.



Source: Figure retrieved from World Bank (2012, p. 9)

**Fact 8: Gender and father's education account for a large share of inequality of opportunities in access to jobs.** The figure presents the relative contribution of different factors on the inequality of opportunities in selected developing countries. It should be noted that the severity of this inequality is not retrieved from the figure. It seems that in most investigated countries gender and education of the father lead to most inequality in terms of access to jobs.



Source: Figure retrieved from World Bank (2012, p. 173)

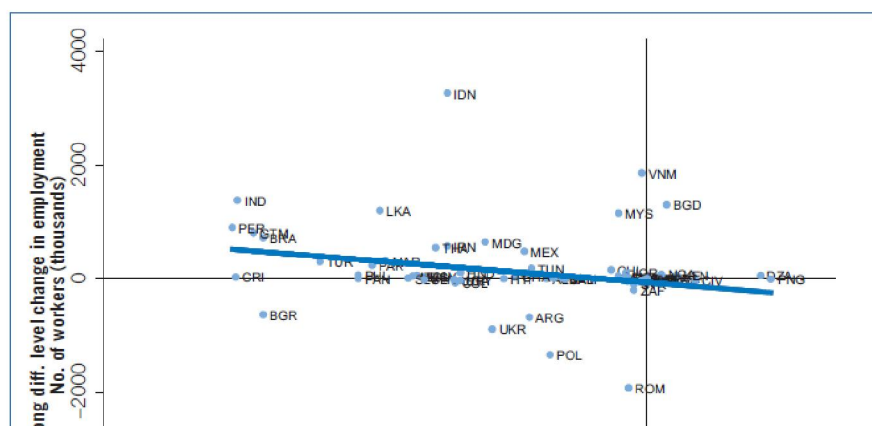
**Fact 9: Finance and electricity are among the top constraints faced by formal private enterprises.** The most relevant constraints for different firms in terms of size and in terms of their origin identified in the table are helpful to identify those inclusive processes that have to be improved most urgently.

Constraint	Firm size			Income level				All
	Small	Medium	Large	Low	Lower middle	Upper middle	High	
Access to finance	●	●	●	●	●	●	●	●
Power shortage	●	●	●	●	●			●
Lack of skills			●				●	
Informal competition	●	●			●	●		●
Tax rates				●		●	●	

● most severe   
 ● second-most severe   
 ● third-most severe

Source: Figure retrieved from World Bank (2012, p. 24)

**Fact 10: Lower tariffs are associated with more employment.** The long-run (1980-2005) association between trade liberalization and employment in developing countries (excluding China) reveals a negative and statistically significant relationship. The figure shows, however, shows a lot of heterogeneity of the experience across countries. This heterogeneity indicates that other factors together with the liberalization of trade may explain job creation in developing countries.



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