



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Expert Meeting on Assessing and Addressing the Effects of Trade on Employment

Session on:

Trade and diversification of the economic structure

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Discussion of

C Carrère, V Strauss-Kahn and O Cadot:

Trade diversification, income, and growth: what do we know?

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1. General comments

- Authors deserve a lot of credit for reviewing vast literature on export (as well as import) diversification
- Main strength is support of theoretical discussion by empirical evidence
- Authors focus on measures of export diversification, drivers of export diversification, and policy implications





2. The main line of argumentation

- What matters is 'extensive margin' (new products)
- Productivity growth is key for extensive margin
- Trade liberalization (Sachs-Warner measure) is powerful instrument to attain export diversification
- Main policy conclusion:
 - How to achieve export diversification is part of debate on industrial policy, equated with 'picking winners'
 - Leave picks to markets "which can provide an endless stream of adventurers"
 - But how best to imitate advanced technology?



3. Three main queries

- Export diversification has two objectives:
 - Reduce vulnerability – concentration measures
 - Promote activities with technology spillovers and high productivity growth – measures of technological upgrading (manufactures; PRODY; etc)
 - Are both reflected in the extensive margin?
- Impact of liberalization on diversification
 - Importance of exchange rate in liberalization dummy
 - Competitive exchange rate boosts tradable manufactures and improves extensive margin
- The paper says relatively little about production structure and employment



4. Links between trade, diversification of economic structure, and employment

- Economic development implies structural change and rising per capita income
 - Structural change often measured through employment
 - Trade-off between employment and per capita income?
- Structural change driven by productivity growth and demand
- Trade provides demand (exports) and productivity growth (imports) – role of balance-of-payments constraint
 - How to integrate (broad-based or selective)?
- Magic formula results in combination of productivity growth with rise in economy-wide employment to population ratio



5. Policy instruments addressing this link

- Investment policy for new products
 - Access to finance (profits, bank loans, etc)
 - Do entrepreneurs need support to address market failures?
 - Strategy vis-à-vis foreign investors (technology transfer, local content, labour issues, etc)
- Wage policy (double role as cost and demand factor)
 - Productivity growth can translate into lower prices, higher retained profits or higher wages – what mix to choose?
 - Role of wage restraint to increase international competitiveness and create (or maintain) employment – sustainability issue
- Trade and exchange-rate policies
 - Export-processing zones, import-duty drawbacks, tariff policy
 - Exchange rate as a target to boost exports and employment or an instrument for monetary stabilization?

6. Structural change and quality of work

- Structural change is usually associated with
 - Changing proportions between formal wage-based jobs and informal employment
 - Increase in the quality of employment
 - In agriculture, self-employment rather than formal wage jobs
 - Wages in industry tend to be higher than in agriculture
- But conditional on absorption of labour released from agriculture by manufacturing (output growth)
 - Rural-urban migration may instead cause increase in informal urban service sectors
 - Urbanization requires infrastructure development to avoid shanty towns and urban poverty