

# Income distribution, export patterns, and poverty alleviation

## TRADE AND INCLUSIVE GROWTH

The distribution of gains and losses that result from trade negotiations is an object of much controversy. The opening of domestic markets in Latin America has been mostly associated with greater wage inequality. With this in mind, it is important to identify elements of trade policy that are able to improve developing countries' participation in the global economy and promote inclusive growth. This phenomenon has created new relationships between trade policy and other policies focused on stimulating growth and improving welfare. Non-traditional methodologies are needed to assess the new instruments of trade policy to grasp their real impact on unemployment, income distribution, and poverty.

It is impossible to establish a direct relationship between trade and poverty. For the Latin American region, it is very difficult to analyze trade changes, growth, and poverty alleviation. On one hand, dynamic export growth and the surge of foreign direct investment are the clearest signs of how Latin American countries became more integrated into the world economy. On the other hand, economic growth did not return to pre-1980 levels, so poverty alleviation programs were largely ineffective.

BY EDUARDO BIANCHI

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## THE GROWTH AND POVERTY PUZZLE

Table 1 presents a variety of measures of annual growth, which include both simple averages across countries and weighted averages. The pattern is clear: Latin American economic growth in the 1990s has been frustratingly low. Even the acceleration of GDP growth to 3.6 percent from 1990 to 1997 does not look especially strong compared with that from 1950 to 1980. Contrasting GDP growth, rather than per capita GDP growth, makes some sense for this region because shifting age distributions can make comparisons of per capita

GDP misleading. Indeed, Latin America's labour force grew in the 1990s at rates similar to those between 1950 and 1980.

As Table 1 indicates, GDP per active worker grew at a slower rate between 1990 and 1997 than GDP per capita, reflecting a much poorer performance relative to the historical pattern before 1980. Furthermore, this growth recovery was followed by a sharp slow down during the "lost half-decade" of 1998 to 2002, when GDP grew at a rate not unlike that in the 1980s. As a result, for the period 1990 to 2002 as a whole, the rate of growth of GDP and GDP per capita was less than half of those that characterized the three decades prior to the debt crisis; making the relationship between trade and poverty or trade policy, poverty, and inequality really difficult to demonstrate. However, the pattern of economic growth and development, rather than growth per se, may have significant effects on income distribution and poverty profile.

## THE ELUSIVE QUEST FOR TRANSFORMATIVE DEVELOPMENT

While many countries have set their sights on diversification of production and export structures, how this relates to poverty reduction is not always factored in soundly. Furthermore, there is

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TABLE 1 Latin America's Growth, 1950–2002

	1950–1980		1980–1990		1990–1997		1997–2002		1990–2002	
	WEIGHTED AVERAGE	SIMPLE AVERAGE	WEIGHTED AVERAGE	SIMPLE AVERAGE	WEIGHTED AVERAGE	SIMPLE AVERAGE	WEIGHTED AVERAGE	SIMPLE AVERAGE	WEIGHTED AVERAGE	SIMPLE AVERAGE
<b>GDP growth</b>	5.5	4.8	1.1	1.0	3.6	3.9	1.3	1.7	2.6	2.9
<b>GDP per capita</b>	2.9	2.1	–0.9	–1.2	2.0	1.9	–0.3	–0.3	1.0	1.0
<b>GDP per worker</b>	2.7	2.4	–1.7	–1.9	1.0	0.9	–1.3	–1.2	0.1	0.0
<b>Total factor productivity</b>	2.1	2.0	–1.4	–1.4	1.1	1.9	–1.1	–1.1	0.2	0.6

Source: José Antonio Ocampo published by ECLAC (2008) and previously in (2004), vol. 18, no. 2 *Journal of Economic Perspectives* 70

little understanding of the mechanisms that transmit trade effects to the level of the family unit.

The studies on trade, inequality, and poverty in Latin America are neither numerous nor conclusive in general. In comparative terms, in Latin America these questions are less intensively analyzed than in Asian countries. Most studies carried out in Latin America suffer from an empirical bias, dedicated to identification and characterization of income data, and less to causes and consequences.

In that context, LATN's research unit on Trade, Inclusive Growth, and Development explores and considers the macro-economic challenges of the links between trade and inclusive growth and the context of the proliferation of both trade agreements and trade negotiations. In addition, this research focuses on the main challenges to social and economic inclusion and emphasizes the distributive impacts of public policies associated with trade.

## THE IMPORTANCE OF COMPENSATORY POLICIES TO REDUCE POVERTY AND INEQUALITY

Empirical evidence suggests that the relationship between trade liberalization and poverty and inequality can be either positive or negative, depending on various factors. In any case, it is important to acknowledge that there will always be certain sectors of the population that will be the worst off (temporarily or permanently) after trade liberalization. For these populations, compensatory policies acquire a very relevant role, although knowledge about the effectiveness of these policies is close to none.

Both developed countries and some Latin American countries have implemented compensatory policies in various forms (unemployment benefits, focalized programs, emergency employment programs, social funds, food security programs, housing programs, training programs, etc.). LATN is analyzing the

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concrete effects of trade liberalization and the consequent compensatory policies at two levels: rural and industrial.

It is important to answer the question of how, faced with a situation of trade liberalization, compensatory policies can mitigate the adverse effects at the level of families and individuals members. In general, the analysis at both levels (rural families and industrial employment) in Latin America reflected that the most important disadvantage of compensatory policies is the lack of capacity to fully and effectively mitigate the associated costs of changes in trade policy.

## NEW EXPORT PATTERNS PROMOTING INCLUSIVE GROWTH AND TRADE

Despite the weakened links between the internationally oriented activities and the domestic economy, export success has been a major determinant of overall national economic success. However, GDP growth has not been associated with the extent to which a country shifted away from reliance on natural resource-intensive export patterns. The poor performance of aggregate production and productivity growth in Latin America reflects a diverse experience of some successful and some lagging sectors.

In Latin America, analysis of the labour markets indicated that the "northern" pattern of specialization in manufactures (and some services) proved much more effective in generating employment, particularly wage-labour employment in tradable sectors, than did the "southern" pattern of specialization

in natural resource-intensive goods. Employment did not follow specialization patterns in non-tradeable sectors (particularly in relation to wage employment); however, employment did follow specialization patterns in tradeable sectors where the growth of employment was more dynamic in the northern part of the region.

## INCLUSIVE GROWTH, TRADE, AND INEQUALITY: CAN THEY WORK TOGETHER?

On one hand, when talking about links between trade policies, poverty, and inequality in Latin America, there is an emerging consensus that trade has the potential to contribute to economic growth and poverty reduction, although the exact outcome depends on the country-specific circumstances.

The effect of trade policies on poverty can be highly sensitive to other policies that are in place or are being adopted. Empirical findings show that the distributional effects of a trade opening, without the accompanying measures, can be detrimental to the welfare of the poor; however, the optimal content and sequencing of these measures for Latin America and the Caribbean are yet to be determined. It is necessary to analyze trade and poverty in the context of a specific country in order to make better predictions about the potential outcomes of trade policies, and to establish how these results can be translated into concrete actions, in both trade and compensatory policies.

On the other hand, when talking about links between inclusive growth and inclusive trade, it is important to understand that the emergence of dynamic export activities was not a direct outcome of trade liberalization. In light of recent trends, it is important to accept that production and technological links between dynamic firms and sectors and the rest of the economy do not occur automatically, and that active policies must be implemented to counteract dualism in

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the construction of pipelines in Peru. The same court also accepted a claim against the mining company Monterrico Metals in relation to a case of the torture and murder of indigenous and community leaders in Peru who were members of the National Coordination for Communities Affected by Mining. Two lawsuits were also filed in the US federal court against the mining firm Drummond for complicity in the killings of trade unionists in Colombia with links with paramilitary forces. Evidence of links between Chiquita Brands and paramilitary groups, which was produced at the Peoples' Tribunal process in Latin America, had probative value in a trial against Chiquita in a US court.

This is all part of a growing corporate accountability movement in the region, which increasingly highlights the negative development implications and social entitlements related to natural resource extractions. The thousands of lawsuits that BP currently faces in US courts is only the latest chapter of a long-standing situation in Latin America.

## DIVERSE STATE RESPONSES TO TOUGH POLICY CHALLENGES

The BP oil spill in the United States is giving momentum to an ongoing debate about the nature of corporate responsibility for human and environmental rights violations. A policy response by governments—and international organizations such as the United Nations Development Programme, Inter-American Development Bank, and Organization of American States—has been to embrace the agenda of corporate social responsibility (CSR). Canada's Department of Foreign Affairs and International Trade created a \$170,000 CSR fund to assist Canadian offices, domestic and abroad, to engage in CSR-related activities.

The promise of the CSR agenda is that business will play a role in overcoming the main social and ecological challenges associated with neoliberal globalization. As a model of corporate voluntary, self-regulation, CSR accommodates

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and offsets growing pressure for greater corporate accountability in the form of binding and enforceable obligations with human rights. CSR provisions are also entering a new generation of FTAs. Corporations are expected to take responsibility voluntarily for the impact of their actions in several social and environmental domains. This will have profound regulatory implications insofar as it redefines state–market relations; however, as a form of privatization of public state responsibilities, CSR instruments often have inadequate means of enforcement.

Another policy response has been labour and environmental side agreements in bilateral FTAs. This was the case with NAFTA in the mid-1990s and, more recently, with the FTAs of the United States with Chile, Peru, and Central America under CAFTA. Canada's ratification of an FTA with Colombia incorporates a controversial system of assessment of human rights compliance.

Relations between South American neighbours have not been without tension on the subject of natural resources either. The pulp mill diplomatic dispute between Uruguay and Argentina over the shared use of a river is enough evidence of the potentially pernicious political consequences of a lack of common standards and policies when dealing with the treatment of investments in natural resources.

## A COMING BREAKTHROUGH IN HEMISPHERIC RELATIONS?

A different language is emerging in South America with potential implications for regional politics surrounding sustainable development and citizenship. The recent "World Peoples' Summit on Climate Change and the Rights of Mother Earth," hosted in April 2010 by the Bolivian government, saw the participation of hundreds of social and indigenous movements and organizations from 140 countries. Climate debt and the rights of the earth and indigenous peoples were among the core concepts of a consensus that reinterpreted "nature" as organically linked with human activity. The summit's conclusions were supported by regional groupings such as the Bolivarian Alliance for Our America and the Union of South American Nations.

Although it may be too soon to have a clear view of the implications of social and state transformations in the Americas, they will nevertheless have an impact on the role that natural resources play in relation to development policies, state–market relations, and investments. 

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productive structures. These strong policies must support small-sector firms and their links with larger enterprises.

## KNOWLEDGE NETWORKS A FINAL CRITICAL ELEMENT

So then, it is important that knowledge-generation networks like the Latin American Trade Network reinforce their efforts to stimulate dialogues between diverse points of view on whether and how trade can reduce poverty. Dialogue is also needed around what complementary policies can be adopted to support a more equitable distribution of the gains from trade, in order to generate new ideas for redistributive policies that are compatible with export-led growth strategies for the region. 