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***Back to basics: Connecting politics and trade***

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**TRADE AS A TOOL OF ECONOMIC GROWTH,  
JOB CREATION AND POVERTY ALLEVIATION**

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1. Since the 1990s, trade has grown very fast, driven by a mix of technological change and policy reforms. Global merchandise trade in 2011 was around EUR 14 trillion, more than five times its value in 1990 (USD 18.2 trillion, up from USD 3.5 trillion in 1990). Due to the global economic crisis, this pace has slowed down in recent years. With the exception of 2009 trade growth has still remained positive and much bigger than economic growth. This underlines clearly that trade is an effective engine for growth. The current landscape is marked by a lack of substantial progress in the multilateral negotiations at the World Trade Organization, while there is a flurry of plurilateral and bilateral negotiations. Nevertheless, hope remains in some areas of the Doha Round, in particular in the field of trade facilitation, despite the rise of protectionist measures in some countries. Generally, the benefits of opening to trade and investment seem to have been forgotten and trade liberalisation appears to have fallen off the agenda of many policy makers.

2. Trade is one of the main pillars fostering growth, job creation and poverty alleviation. It is an indispensable element of political strategy in order to ensure the achievement of these three objectives.

**Trade and growth**

3. Historically, no country in the past 60 years has sustained consistently high levels of growth without greatly expanding its exposure to international trade and investments. Some success stories, like South Korea or Singapore or even a bigger economy like China where 400 Million people were lifted out of poverty (since reforms towards market economy structures started in 1978), are astonishing and the economic strategies of such countries have heavily relied on trade.

4. Trade and investment liberalisation affects growth positively in a number of ways. Trade allows countries to use their comparative advantage. Producers can reach bigger markets and increase the scale of their production. They can also import cheaper goods and services and find new sources of capital. Moreover, consumers can buy a wider range of goods and services, mostly at lower prices. Trade also contributes to passing on the knowledge and the technologies developed anywhere in the world.

5. A trade policy aiming at a gradual and progressive opening is more likely to contribute to economic growth than alternative protectionist policies. Economists share a basic consensus according to which trade, income and productivity levels are positively and strongly correlated, with robust evidence to support this. The OECD has calculated that an increase of one percentage point in the share of trade in GDP raises income levels by between 0.9% to 3%. Besides, trade has remained a strong contributor to growth throughout the crisis even when other economic factors have weakened.

6. According to the World Bank's Growth Commission, over the last 60 years there have been 13 "star" performers in the world – countries that have grown in real terms by more than 7% per year for at least 25 years. Sustained growth and development have rarely, if ever, been achieved in countries that have refused to open up to trade and investment.

7. Stability, government credibility and good governance, savings and reliance on markets are also important. Each country has indeed its own unique set of conditions for achieving economic growth. However, an export-led strategy has proved to be one of the most successful ways of ensuring development and employment.

8. Trade liberalisation needs to be supported by the right mix of accompanying measures. Education, investments into infrastructure, well-functioning governance structures, and initiatives facilitating self-employment and supporting SMEs are all together significant for positive effects of trade liberalisation. In this regard, the respect of fair wages and salaries, human rights as well as democracy are important cornerstones that should guide decision-makers at all levels. Improvements of all these elements would be beneficial for economies at the global scale to be able to harvest the full benefits that result from integration into the global trade and investment system. It will also influence the type of growth that derives from integration into the international trading system, in particular whether it appears to be socially sustainable and its effect on the environment.

9. Concluding the long-running Doha Round of trade negotiations would provide a boost to the world economy. Every option that brings us closer to reaching an ambitious conclusion of the Doha Round must be pursued. In this context, opportunities to achieve concrete results seem to be the most promising in the field of trade facilitation. Such a development would create greater security of market access, through the negotiation of policy disciplines. Maintaining an open trade regime whilst resisting protectionist temptations represents an important foundation for the global recovery and the new matching of global supply with demand. This is especially true for developing countries as so many depend on exporting to foreign markets to finance growth-stimulating imports of goods, services and technologies.

10. Since growth depends to a high degree on trade, and as tariffs have largely decreased throughout the world since the creation of the GATT, we are faced today with a more complex trade agenda: international trade negotiations increasingly revolve around behind-the-border regulatory policies, not just import tariffs, as in the case of the liberalisation of services. The international trade and investment policy agenda spans a plethora of policy areas and that is maybe one of the reasons why the power of trade for growth is sometimes underestimated and why negotiations are so difficult.

### **Trade and employment**

11. The investment and trade liberalisation and technological innovation have globalised the labour market. The overall effect of trade liberalisation on the labour market is positive. It can,

however, create substantial reorganisation in the structure of the labour market encompassing displacement of jobs from specific sectors to other sectors where a significant number of new jobs are created. As the bulk of employment is within SMEs, the continued expansion and internationalisation of SMEs is an essential mechanism which must be supported by targeting all the barriers that specifically affect SMEs on the international stage.

12. Meanwhile, the internationalisation of the production chain and the increasing integration of large economies that benefit from a surplus in low-wage workers have to some extent reinforced public concerns. However, jobs affected by trade openness are not entirely lost; they are often only displaced to other sectors or areas of activities. Indeed, the OECD has witnessed in its member countries a stronger rate of job turnover in the 1990s up to 2005 than ever before and trade has contributed to this trend.

13. The current economic landscape is marked by more and more international mobility of goods and capital, but workers are not yet equally able to move across borders. To help affected displaced workers is more necessary than ever for the sake of efficiency, equity and public economy. Therefore, some kind of compensation mechanisms should ensure that workers receive proper support in order to be able to re-orientate their careers and improve their chances of finding another position. This should be done in a way reflecting the special talents and needs of the persons affected. Such workers should be encouraged to find jobs in expanding sectors rather than staying in a declining industry or remain unemployed.

14. Besides, no trading nation should engage in social dumping through violations of labour standards. Compliance with existing international labour standards and promotion thereof across the world is particularly important for a level playing field in international trade. In this regard, solutions have to be found within the multilateral system of the International Labour Organisation (ILO). Additionally, a functioning social dialogue appears to be the necessary tool to smoothen the transition from workers into new jobs and alleviate the adverse effects of an internationalisation of trade,

15. When these conditions are met, open markets can create important opportunities on a global scale.

### **Trade and poverty reduction**

16. Trade has been an engine of growth in many countries, even though this has not always materialised into an immediate poverty reduction. The degree to which trade contributes to poverty reduction varies considerably across countries. As explained in the recent work of the ILO and the WTO on making globalisation socially sustainable, the effect of international trade on wage differences and therefore on poverty is "rather nuanced". Several developing countries have experienced in the last decades higher inequalities at the same time as they opened up to international trade. However, this does not mean that trade is solely responsible for this development, since multiple factors play a role in this regard.

17. International experts, including the World Bank, had assessed at the start of the Doha Round that this round has the potential to lift some 100 million people out of poverty. Therefore, through more international trade we have it in our hands to contribute significantly to poverty reduction all across the globe.

18. Improving the competitiveness of Least Developed Countries through reducing obstacles to their export performance, the WTO encouraged the creation of the Aid for Trade initiative.

Its goal is to tackle the supply-side constraints that severely limit some countries' ability to benefit from the multilateral trading system. Depending on the specific country context, this could require further investments in human capital and rural infrastructure, and access to credit and technical assistance to promote macroeconomic stability. More competitive developing economies should have fewer difficulties in accepting further trade liberalisation. This approach will also help to generate a more inclusive growth, where the benefits of international trade are also extended to a greater degree to remote, rural or simply poorer regions.

19. In addition, there are other challenges, such as good governance, administrative and legal structures, and modernising the structure of the economy, which might hinder wealth generated by trade from benefiting all parts of the economy equally. For example, in many low-income countries the informal sector represents a very high proportion of the domestic economy and cross-border trade. Informal enterprises find it much harder to gain access to the necessary financing, technology and contracts to be active internationally and to become internationally competitive. Another example is the lack of a proper tax system and collection due to bad governance and corruption. It prevents the increased wealth generated by trade from being properly channelled throughout the economy.

### **Conclusion**

20. Trade is a crucial element to create growth and jobs, as well as to reduce poverty across the globe. Generally, it appears as a *conditio sine qua non* for countries to grow out of poverty while fighting for the creation of new jobs. Hence, international trade should be promoted on different levels: multilateral, plurilateral and bilateral, agreements do not exclude, but complement each other. The efforts undertaken via the World Trade Organisation for achieving international growth and poverty reduction are more necessary than ever. All possibilities for improvement need to be explored and pushed forward on to the WTO negotiation agenda starting above all with trade facilitation with the potential to facilitate the integration of all into international trade. Thus, concrete results in the on-going Doha Round, in particular with regard to trade facilitation, seem to be the appropriate answer in times of a global economic crisis.