

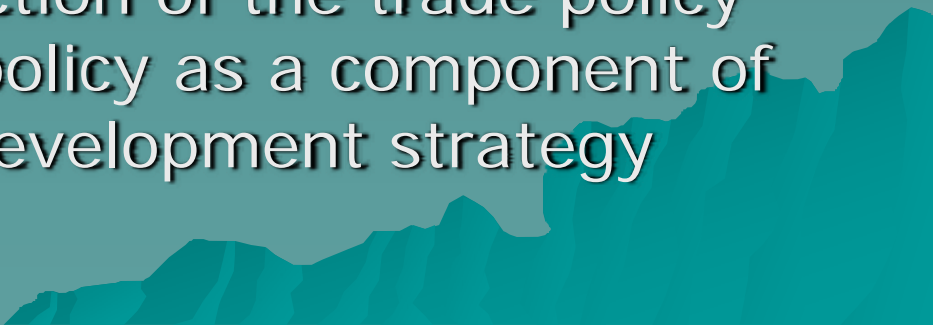
A review of methodological approaches to the analysis of the impact of trade liberalisation on growth and poverty

Implications for the direction of
the trade policy debate
in South Africa


Niki Cattaneo
Rhodes University

A stylized, dark teal mountain range graphic is located in the bottom right corner of the slide, extending from the right edge towards the center.


Overview

- Introduction
 - The theoretical and empirical analysis of the impact of trade liberalisation on growth and poverty: key issues and linkages
 - Empirical methodologies adopted to analyse these effects in South Africa
 - Implications for the direction of the trade policy debate: strategic trade policy as a component of South Africa's national development strategy
- 
- A stylized teal silhouette of a mountain range is located in the bottom right corner of the slide, partially overlapping the text of the last bullet point.


Introduction

- Trade Policy and Strategy Framework document: SA's major development goals
 - Key concerns: employment creation and poverty reduction
 - Wide range of economic and social policies required
 - Role and position of trade policy in this context has been contested
 - Further unilateral trade liberalisation vs a strategic trade and industrial policy
- 
- A stylized silhouette of a mountain range in a darker teal color, located at the bottom right of the slide.

Theoretical and empirical analyses of the impact of trade liberalisation on growth and poverty: key issues and linkages

- The static versus dynamic effects of trade
 - Trade liberalisation, growth and poverty
 - Trade liberalisation, trade performance and the balance of payments
 - Trade liberalisation, income distribution and poverty
- 
- A stylized, layered mountain range graphic in shades of teal and blue, located in the bottom right corner of the slide.

Lessons for the trade policy debate

- Static comparative advantage theory provides an insufficient framework for considering questions of growth and development through industrialisation in developing countries
 - Consideration of the dynamic effects of trade leads to a recognition of the notion of dynamic comparative advantage
 - Suggests that comparative advantage needs to be created, which in turn has important implications for trade and industrial policy
- 
- A stylized, dark teal mountain range graphic is located in the bottom right corner of the slide, partially overlapping the text of the third bullet point.

Lessons for the trade policy debate

- ◆ Theoretical and empirical analysis of the impact of trade liberalisation on growth yields ambiguous results
- ◆ Key difficulties with empirical studies: measures used for openness or liberalisation, determination of causality, econometric methodology
- ◆ Renewed interest in case study analysis

Lessons for the trade policy debate

- ◆ Growth-poverty reduction link: trickle-down vs emphasis on redistribution
- ◆ Trade-income distribution-poverty link: evidence of rising wage and income inequality in many developing countries
- ◆ Greater recognition of the importance of income distribution in the analysis of the impact of trade liberalisation on poverty called for

Empirical methodologies adopted to analyse the impact of trade liberalisation on growth, employment and poverty in South Africa

- Partial equilibrium approaches
 - Effective rates of protection and the anti-export bias
 - Trade flows and the balance of payments
 - The benefit-incidence of tariff liberalisation and employment effects
- Computable general equilibrium modelling


Partial equilibrium approaches

- ◆ Effective rates of protection and anti-export bias
 - Use in econometric studies
 - Problem of general equilibrium inferences about resource pulls
 - Impact of export and related incentives should be included in anti-export bias measures


Partial equilibrium approaches

- Trade flows and the balance of payments
 - Impact on imports
 - Impact on exports
 - Balance of payments effects
- Benefit-incidence analysis and employment effects
 - Price effects of changes in the tariff structure
 - Contrasted with the impact of job losses
 - Calculations highly dependent on underlying assumptions about perfect pass-through of tariff changes to domestic prices


Computable general equilibrium modelling

- Results critically depend on quality of data used and assumptions made by the modeller
 - Complexity and sophistication often such that policy advice may be accepted without results being subjected to adequate scrutiny
 - Assumptions must be made explicit, sensitivity testing and replication investigations needed
- 
- A stylized, dark teal silhouette of a mountain range is positioned in the bottom right corner of the slide, partially overlapping the bottom edge of the text area.


Computable general equilibrium modelling

- ◆ Use in analysis of poverty effects of trade liberalisation has been facilitated by use of CGE macro models with micro simulation models
 - ◆ Allows use of micro-household survey data
 - ◆ Findings: growth associated with rising inequality, insufficient on its own to address poverty and employment challenges
- 
- A stylized, dark teal silhouette of a mountain range is positioned in the bottom right corner of the slide, extending from the right edge towards the center.


Trade policy as a component of South Africa's national development strategy

- ◆ Tariff changes and FTAs since 2000
 - ◆ Effect of lack of progress in the Doha Round
 - ◆ Question: What system and rules of trade best for economic development and poverty reduction (rather than free trade vs protectionism characterisation)
- 
- A stylized, dark teal mountain range graphic is located in the bottom right corner of the slide, partially overlapping the text of the last bullet point.


Trade policy as a component of South Africa's national development strategy

- ◆ Growth without BOP difficulties
 - ◆ Development of new comparative advantages
 - ◆ Strategic use of tariffs and subsidies for infant industry protection to promote structural change
 - ◆ Key concerns: government's ability to "do" or oversee effective selective intervention; capture by special interest groups, rent-seeking
- 
- A stylized, dark teal mountain range graphic is located in the bottom right corner of the slide, partially overlapping the text of the last bullet point.

Conclusion

- ◆ Is "free trade" system a relevant benchmark?
 - ◆ Developments within neoclassical economics in this regard
 - ◆ Engagement of South African technical literature with the technical literature on the theory and practice of selective intervention, in particular in relation to performance requirements and addressing capacity and rent-seeking issues
- 
- A stylized, layered mountain range graphic in shades of teal and blue, located in the bottom right corner of the slide.

Conclusion

- ◆ Benchmarks need to be relevant to development goals
 - ◆ Take account of complexities, rules, obligations and pressures of the trade negotiation aspects of the trade policy context
 - ◆ Coordination needed between other areas of economic and social policy and trade and industrial policy
- 
- A stylized silhouette of a mountain range in a darker shade of teal, located in the bottom right corner of the slide.

Conclusion

- ◆ Liberalisation and growth that has occurred has been unable to address the problem of poverty in a context of rising inequality and severe joblessness
- ◆ Accelerated growth unlikely to be forthcoming due to external and other constraints
- ◆ SA will need strong and effective social policy to work in tandem with economic policy while attempting to effect the structural change required to create jobs