



# *Are the poor getting globalized?*

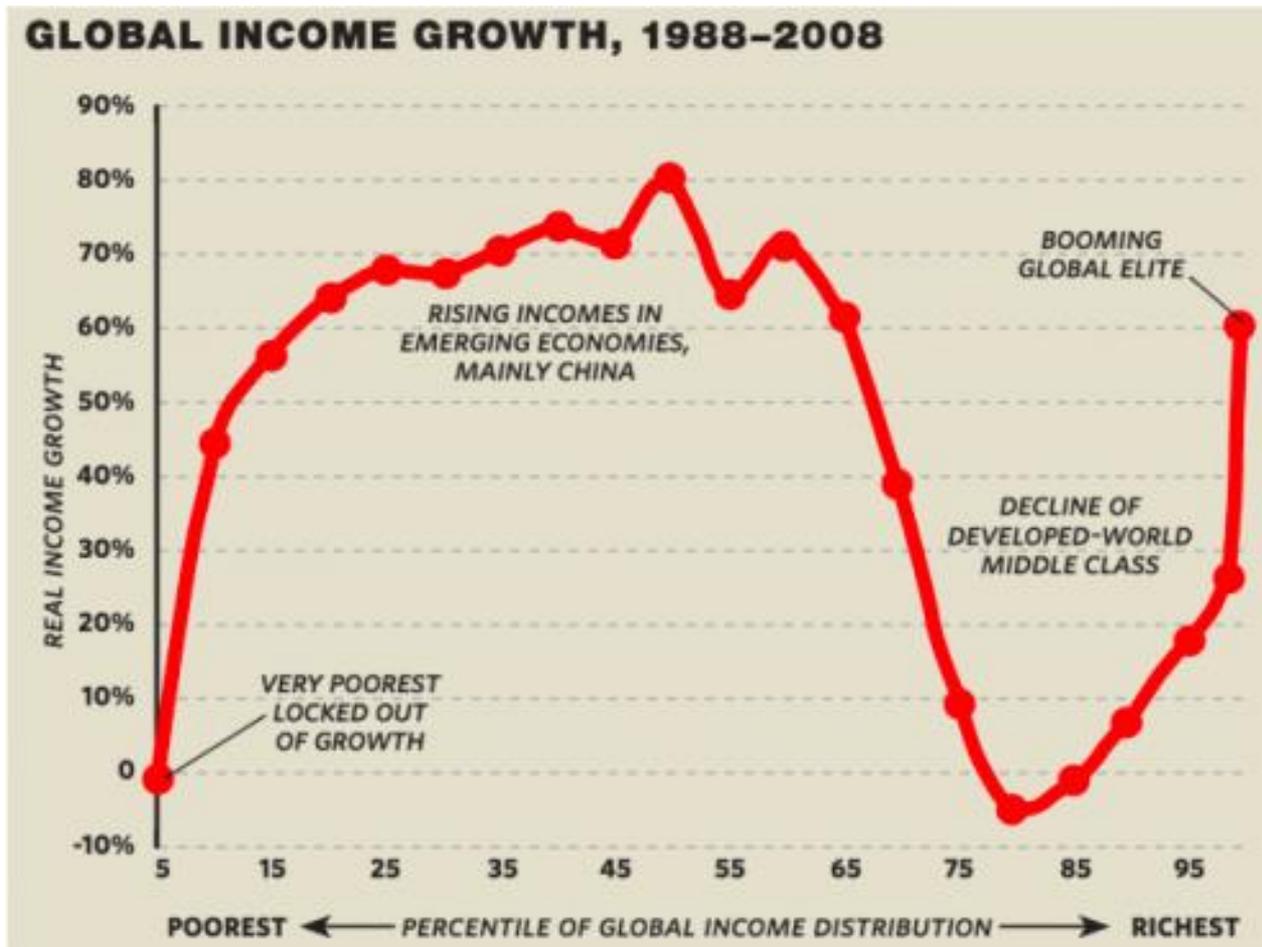
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# Motivations



Globalization is under fire: increasing inequality in developed and *developing* countries



# Why have the poor only marginally benefited?



Literature has focused on:

(i) Poor consumers, especially in rural areas, benefit less from liberalization because:

- High domestic transport costs (Nicita, 2009; Emran and Hou, 2013; Atkin and Donaldson, 2012)
- Market frictions (Campa and Goldberg, 2002; Atkin and Donaldson, 2012; Ural Marchnad, 2012; Han et al. 2016)

(ii) Poor producers benefit less because:

- skill-biased technological change associated with trade
- FDI increases the demand for skill workers
- high reallocation costs (across sectors and geographically) (Banerjee and Newman, 2004; Topalova, 2010)

# .... Why have the poor only marginally benefited?



## (iii) Patterns of liberalization

- relative poverty declined by less in areas with high concentration of industries that lost protection (Topalova, 2010 for India; and Kovak, 2013 for Brazil)

But, so far literature focuses on tariff structure in the *domestic country... while conditions of access to foreign markets are key to capture trade opportunities*

- McCaig (2011) focus on *US-Vietnam FTA* show bigger poverty decline in Vietnam occurred in provinces that experienced the largest market access improvements (largest cuts in US import tariffs). Similarly, Porto (2006) for Argentina..

*What are the market access conditions for the poor? Are there still benefits for the poor to reap?*

# What do we do?



Look at tariffs (and NTBs) that individuals face in their potential markets

- by individual characteristics
  - Income decile
  - Women/man
  - Rural/urban
  - Formal/informal
- People employed in India

# Data and Methodology



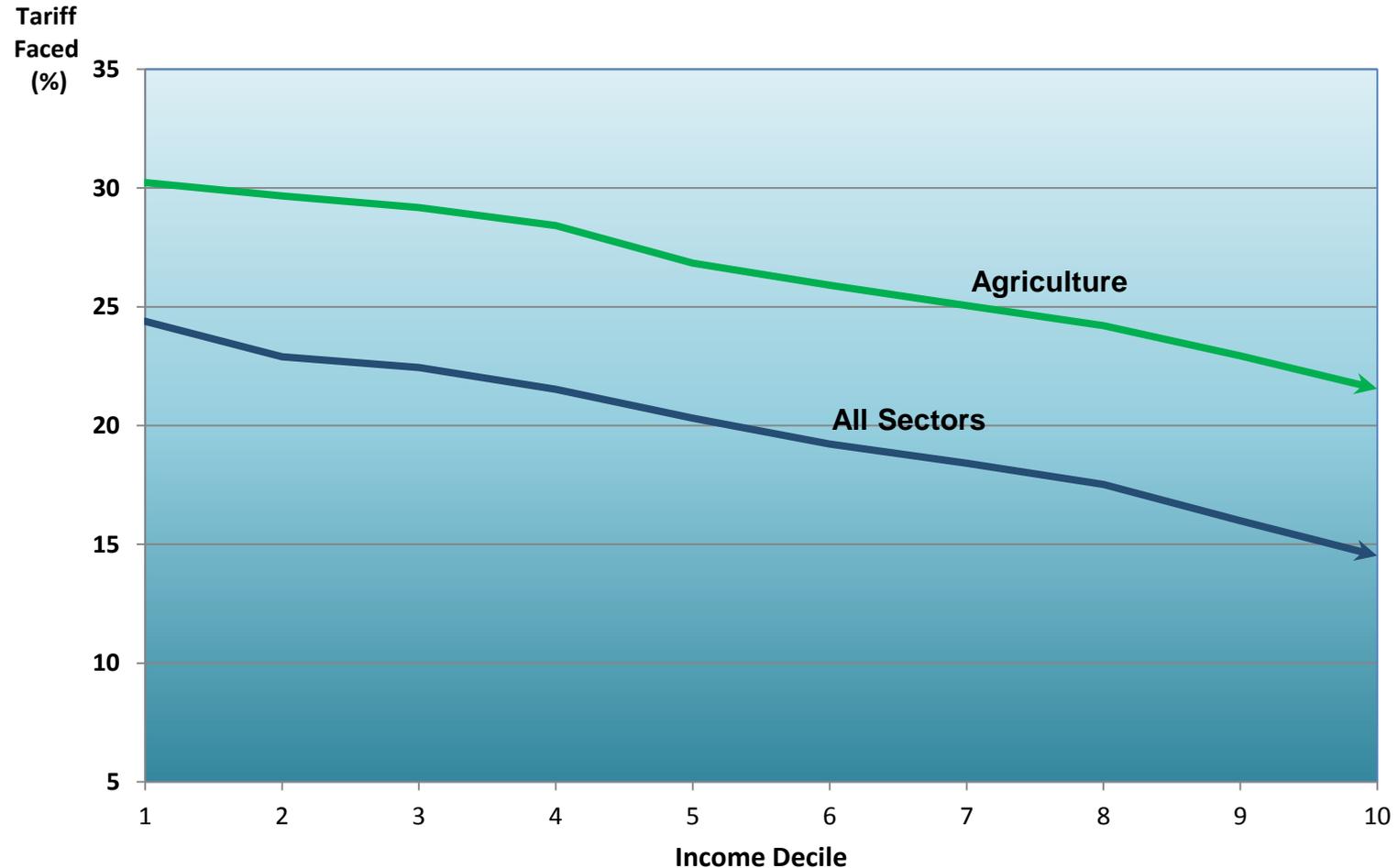
We look at trade barriers that *producers* face to access international market, merging 2 datasets:

- India Employment and Unemployment Survey data (68<sup>th</sup> round done in July 2011 – June 2012)
  - ✓ *Household level data*: Consumption data proxy for income; “usual” sector of employment of household head (ISIC) matched with tariff faced in major export markets at HS6
  - ✓ *Individual-level data*: Income data for individuals within a household; principal week individual activity (ISIC) matched with tariff faced at major markets at HS6 .. Gender, informality
- Tariffs applied in India’s export markets (2012, 1996)

# What do we find?



1. Market access and income level are inversely correlated
  - even within sector.

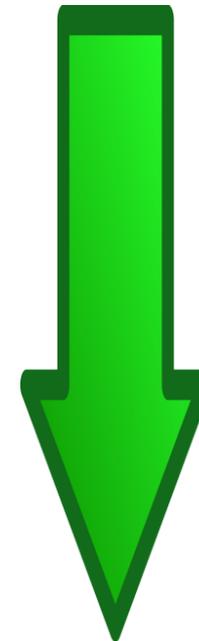


# What do we find?



*Differences in market access between consecutive income deciles are generally statistically significant*

Income Decile	Household Weekly Consumption		Average Tariff Faced (%)
	Rupees	US \$	Simple
1	511	9.6	24.4
2	783	14.8	22.9
3	962	18.2	22.4
4	1130	21.3	21.5
5	1305	24.6	20.3
6	1504	28.4	19.2
7	1761	33.2	18.4
8	2118	40.0	17.5
9	2713	51.2	16.0
10	5112	96.5	14.5



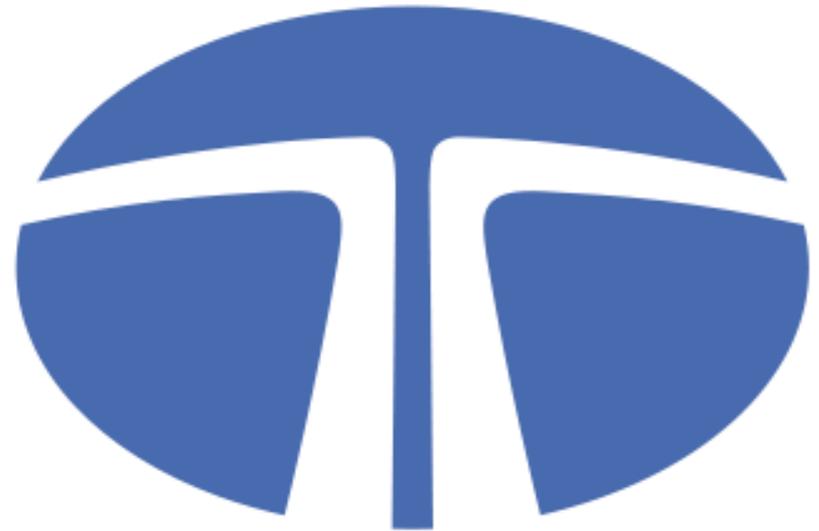
*Average tariff faced by the next higher income decile is consistently lower.*

# What do we find?



2. Formal sector faces more liberal tariffs than enterprises in the informal sector.

**9.8% vs 7.2%**



# What do we find?



*3. Women face significantly higher tariff barriers to export.*

**20.4%**



# What do we find?



*Across deciles, tariffs faced by women are usually significantly higher than those faced by men.*



# What do we find?



4. People working in rural areas have heavier barriers for their exports.



# What do we find?



*Rural workers face significantly higher tariffs across all income levels than their urban counterparts.*

## Average Tariff Faced (%) by Income Decile and Rural/Urban Sector

Decile	Simple		
	Rural	Urban	Difference
1	26.4	15.0	11.4
2	25.0	13.4	11.6
3	24.5	13.6	10.9
4	23.6	13.3	10.3
5	22.5	12.4	10.1
6	21.3	13.1	8.2
7	20.9	11.7	9.2
8	20.5	11.0	9.5
9	19.5	10.0	9.5
10	19.2	8.8	10.4
<b>Overall</b>	<b>22.6</b>	<b>11.7</b>	<b>10.9</b>

# Trade policy barriers add to higher transport costs for low income families



Distance (km) to nearest urban area	Average	Average tariff %	
	Income		
	(Rupees)		
GT 600	1,002	24.4	
401-600	1,116	17.3	
301-400	1,199	16.3	
201-300	1,235	15.7	
151-200	1,406	17.5	
51-100	1,415	17.5	
101-150	1,429	17.5	
1-50	1,881	14.3	
0 (Centre)	2,185	9.6	

# Results also hold for NTMs



Income Decile	Number of NTMs Faced	Duncan's test
1	199	a b
2	201	a
3	201	a
4	192	b
5	194	a b
6	180	c
7	182	c
8	169	d
9	166	d
10	127	e

# What do we find?



5. Globalization has not narrowed down the gap in tariffs faced between the rich and the poor over the years.

However, decrease in tariffs was faster for urban workers compared to their rural counterparts.

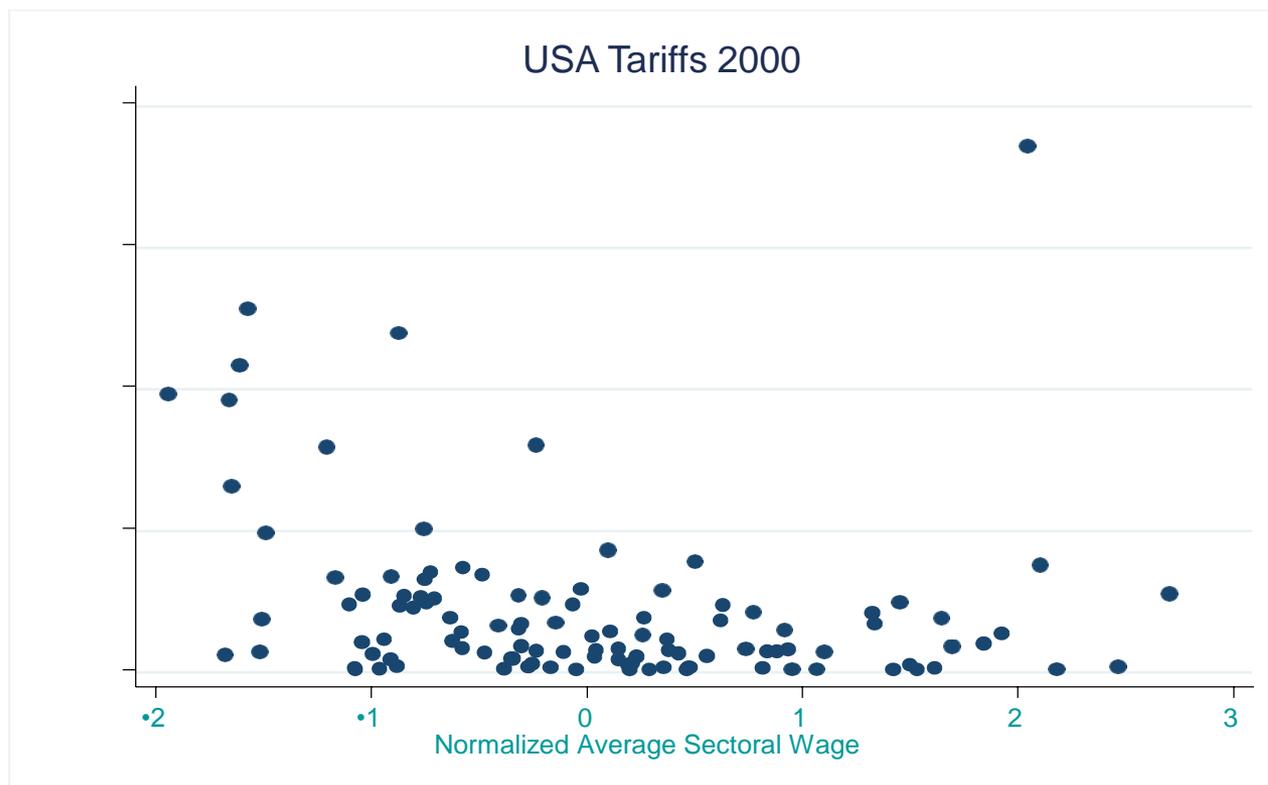
Tariffs have also gone down faster for men than for women.

Average Tariff Reduction (1996 vs 2012)	
Decile 1 (lowest 10%)	2.6%
Decile 10 (highest 10%)	2.4%
<b>Rural</b>	<b>2.4%</b>
<b>Urban</b>	<b>3.3%</b>
<b>Women</b>	<b>2.5%</b>
<b>Men</b>	<b>2.7%</b>



# What explain these findings?

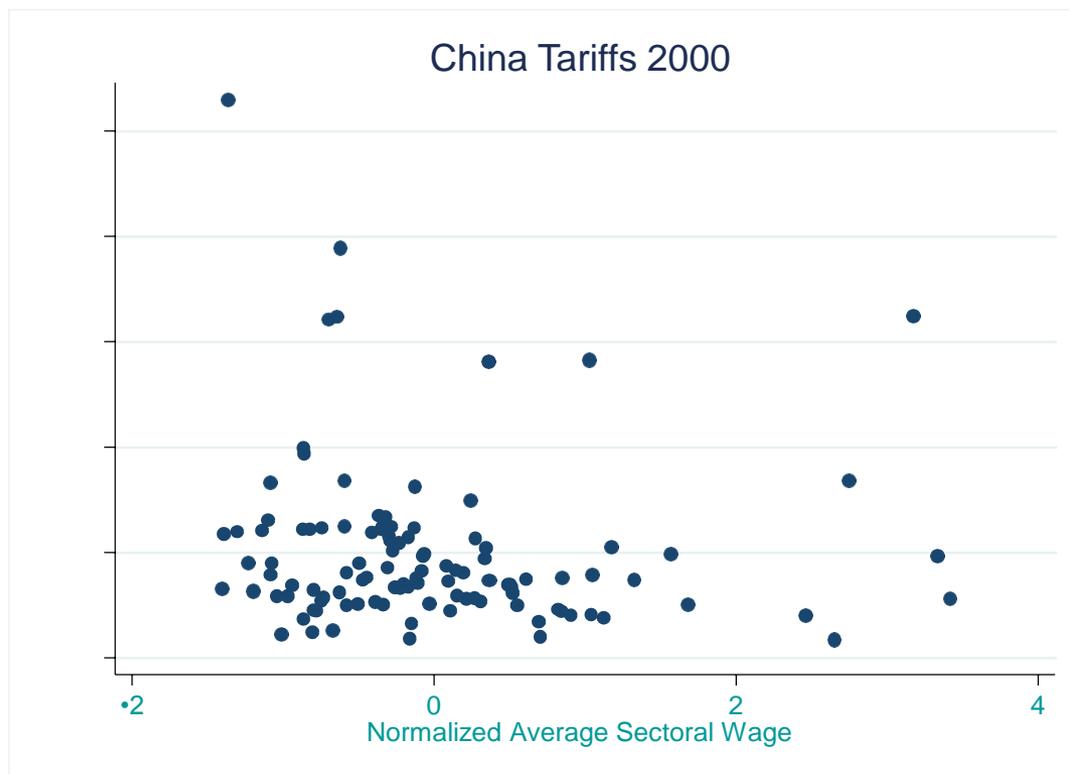
- “pro-poor” (unilateral) trade policy in countries with very different factor endowment .... Eg. In US





# What explain this finding?

- “pro-poor” (unilateral) trade policy in China



# Unilateral pro-poor trade policy ...motivations



- Recent literature has derived a microfounded government welfare function that display
  - Loss aversion
  - Inequality aversion

Tovar (2009); Freund and Ozden (2008); Lu et al. (2010) show that government are more likely to set tariffs to increase income of low-wage intensive sector
- But, this literature did not address the systemic effects



## and systemic effects

- unilateral pro-poor trade policy create a **prisoner's dilemma problem**

	protect	No protect
protect	1,1	3,0
No protect	0,3	2,2

- ...unilateral pro-poor trade policies have created a world where the poor end up facing higher tariffs
- ... thus, depressing global demand for the goods the poor produce  
If all countries protect their low-wage sector, even small countries will behave like a LARGE country ..

# Conclusion



- The “poor”, women and people living in the rural areas face higher barriers to trade. Small enterprises also face higher tariff barriers in their export markets.
- Unilateral pro-poor trade policy create a prisoner’s dilemma ... thus, depressing global demand
- International co-operation to reduce trade costs for the goods that the poor produce can help achieve a more even distribution of the gains from trade
- Work in progress





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THANK YOU!