

TRADE EXPANSION, EMPLOYMENT  
AND INCOME DISTRIBUTION

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The literature on international trade in relation to development - even where it has been empirical rather than theoretical - has concentrated on the relationship between exports and growth of GNP, savings gap and investment ratios, in accordance with the main parameters of the neo-classical growth model. By contrast, little has been done to analyse export development systematically in relation to parameters which have come to the fore recently, for a reduction of poverty in developing countries, with consequent emphasis on income distribution, employment, technology and rural development. This neglect also applies to the work of international organizations (with the exception of UNCTAD) which have tended to treat employment policies, income distribution policies, technology policies etc. as the internal matters of developing countries.

This is at odds both with recent theoretical developments which tend to emphasize the influence of the global system and global relations on the internal structures of developing countries, and also with empirical findings about the impact of changes in trade relations upon the employment situation in developing countries. Thus it has been estimated<sup>1</sup> that the decline in the share of developing countries in world trade between 1955 and 1970 has cost the developing countries 72 million jobs, or no less than 14.5 per cent of their 1970 labour force. Similar estimates related more specifically to agricultural exports have been made by the FAO and the World Bank, and although couched in terms of GNP they enable us to infer the great potential gain in employment which developing countries could enjoy as a result of liberalized imports of agricultural and agriculture-based products by the richer countries.

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A start now has been made in analysing trade liberalization in relation to employment and income distribution rather than economic growth in general.<sup>2</sup> This paper is a revised, shorter version of the paper which was produced as a first report on the project, and first published in IDS Bulletin Vol. 6 No. 4, 1975. Whilst still somewhat provisional, the project has already resulted in a number of clarifications and the collection of useful data.

This first analysis was undertaken in the context of the idea of unilateral, non-reciprocal trade concessions which dominated the first approach towards the coming GATT negotiations, preceding the oil crisis and related upheavals. In any future work the emphasis would have to be much more on balanced trade expansion rather than unilateral trade 'liberalization'. While this would lead a different flavour to the analysis, the essential impact of increased export production, and/or better prices for exports, on employment and income distribution would remain substantially the same.

A conceptual framework for analysing employment effects of additional exports is more or less shared by most analysts. There is the direct employment provided by increasing export volumes; this may be zero if the initial expansion or liberalization is entirely in terms of higher prices obtained for exports (i.e. export earnings), perhaps as a result of commodity agreements, rather than improved access for additional exports. Then there is the indirect or linkage effect which can be sub-divided into backward linkage (additional domestically produced inputs) and forward linkage.

Besides the direct and indirect (linkage) employment effects we can distinguish the multiplier effects arising from the expenditure of the additional incomes earned through expanded direct and indirect employment. Increased export earnings due to higher prices could have employment multiplier effects in the same way as increased export volumes, although the two effects are not necessarily identical.

Finally, there is the very important non-classical type of balance-of-payments employment effect; this is the expansion of employment and creation of additional incomes made possible by the removal or relaxation of the foreign exchange bottleneck due to higher export earnings.

Thus there are four headings under which the employment effect of additional exports can be analysed: direct, indirect, multiplier, and balance of payments. Not enough empirical or measurement work has been done for us to say very much about the relationship between these four types of additional employment, except that in most situations direct employment creation will be only a minor part of the total employment effect. Hence, it would be misleading to try to deduce the impact on income distribution and on poverty from the direct employment effect only.

The report of the Philippines ILO Employment Mission<sup>3</sup> contains some data<sup>4</sup> which would indicate that the linkage employment effects alone were over three times the direct employment effects in the case of traditional consumption goods; over two-and-a-half times in the case of modern capital goods.

The link between the degree of trade liberalisation, or freedom of access to markets on the part of the developing countries, and the nature of their overall technology deserves special emphasis. Freer trade is the means by which the developing countries can bring into play their abundant labour supplies as well as their natural resources, and therefore trade expansion tends to be equivalent to a shift in technology in the direction of greater labour intensity. The labour intensity of production is not only determined by the technology of producing given products, but also, very importantly, by the output mix. Additional trade will give added importance to labour-intensive products in the total output mix. It ill behoves richer countries to preach to developing countries the virtues of labour-intensive or intermediate technology, while at the same time through trade restrictions denying them one of the most important and obvious ways of employing such a technology.

In the same direction, it has been pointed out in the ILO employment missions, especially the one for Colombia<sup>5</sup>, and confirmed by subsequent analysis,<sup>6</sup> that increased labour intensity initially induced by trade expansion will in turn have a multiplier effect in generating further labour-intensive employment and hence more equal income distribution in several senses:

- (a) the demand pattern of lower income groups tends to be more labour-intensive products, so that the employment multiplier effect tends to be positively correlated with the initial employment effect;

the higher the initial employment, the higher also the former;

- (b) the linkages of the products consumed by lower income groups tend to be more labour-intensive and hence the linkage effect also tends to be positively correlated with the direct employment effect;
- (c) the import content of both direct linkage and multiplier employment from products produced by lower income groups is less than for products consumed by higher income groups, and this would tend to increase the domestic employment impact as well as the balance of payments effect of such additional initial employment.<sup>7</sup>

An interesting corollary of this is that trade expansion tends to result in a more equal income distribution in developing countries by enhancing the share of labour as against capital; while in the developed countries - at least as far as trade with the developing countries is concerned - it will have the opposite effect, resulting in a more unequal income distribution. This to some extent explains the political resistance in developed countries to more liberal imports from the developing countries, at least in the absence of redistribution social policies or effective compensation and adjustment procedures.<sup>8</sup>

The study undertaken at the Institute of Development Studies has also brought out very clearly how the specific approaches to trade liberalization, such as particularly, the 'Kennedy Round' of GATT negotiations and the EEC Preference Scheme (GSP),<sup>10</sup> have been almost systematically weighted against the poorer countries and against those commodities and processing margins that are of particular value for employment creation and hence reduction of poverty in developing countries.

Once we take seriously the idea of trade as a tool in the fight against poverty, it is clear that trade promotion for the benefit of developing countries must go far beyond trade concessions. A further offshoot of this line of thinking is the idea that adjustment assistance must be available not only to workers and producers in developed countries who might otherwise offer resistance to more liberal imports from poorer countries, but also to developing countries, in two forms:

- (a) adjustment assistance for the import-substituting industries which have been built up on the basis of protection and distorted factor prices, and which might suffer even in a controlled transition towards an export orientation. Care would obviously have to be taken that such payments did not benefit foreign investors and national producers who have made good profits on the basis of past protection and inducements, and can well afford to carry the cost of transition themselves. Also, such payments must not be allowed to become a subsidy for continued existence rather than for a smoothed transition.
  
- (b) the very export industries that would be built up on the basis of better market access offered by the rich countries need protection against sudden and unforeseen disruption suffered when the rich countries, for reasons of national policy, suddenly invoke escape clauses or restrict access after initially offering it to developing countries. This is an aspect of adjustment assistance which deserves further exploration.

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1. WILLIAM TYLER, *'Employment Generation and the Promotion of Manufactured Exports in Less Developed Countries: Some Suggestive Evidence; paper prepared for the Kiel Conference on Problems of the International Division of Labour, mimeo, July 1973.*

2. H. W. SINGER ET AL., *Trade Liberalization, Employment and Income Distribution: a first approach, IDS Discussion Paper No. 31.*

3. *Sharing in Development: A Programme of Employment, Equity and Growth for the Philippines, ILO Geneva, 1974.*

4. *Special Paper No.19: 'Intersectoral linkages and direct and indirect employment effects'.*

5. *Towards Full Employment. A Programme for Colombia, ILO Geneva, 1970.*

6. FELIX PAUKERT ET AL., *Redistribution of Income Patterns of Consumption and Employment - A Case Study for the Philippines*, working paper prepared for ILO World Employment Research Programme, Geneva May 1974.

7. It should be pointed out, however, that this last element was not confirmed in the Philippines case by FELIX PAUKERT ET AL., *op. cit.*

8. This has also been pointed out by MICHAEL LIPTON, see 'Confrontation Versus Co-operation: Poor Countries' Dwindling External Options; Bargaining; and the Case for Multiple Bilateralism' in IDS Bulletin Special Issue 'Oil and Development', Vol. 6 No. 2, October 1974.

9. IDS Discussion Paper No. 31. *op.cit.*

10. The EEC Preference Scheme is presently due to be significantly improved, especially by including processed agricultural products, liberalizing the level of ceilings under GSP Preference drastically reducing the number of sensitive products where the EEC reserves the right of cancellation of preference, and a modification of the rules of origin which will remove the present bias against regional co-operation among developing countries. These are very significant improvements as far as developing countries as a whole are concerned, but it is not clear at this moment whether they could significantly affect the bias within the scheme against poorest countries and against poor producers. The most significant improvement from that point of view would seem to be the extension of the scheme to processed agricultural products.

### E D I T O R ' S   N O T E

In the three papers of the previous section, some of the major elements including Education and Employment; Technology and Employment; Trade and Employment, of an employment oriented development strategy have been examined. There are two other important areas which also pertain to such a strategy: Rural Development and Employment; and Youth and Employment. These fall within particular interests of the Commonwealth Youth Programme and the Commonwealth Secretariat. It was considered appropriate to examine and analyse these areas in the nature of case studies which incorporate information gathered at workshops and seminars organised by the Secretariat as well as some first hand observations.