



The effects of trade policy on poverty - Macedonian Case

AUTHOR:
ISKRA STANCEVA-GIGOV

Review of Literature and Empirical Evidence

► **Theoretical aspects** about relation between trade liberalization and poverty reduction

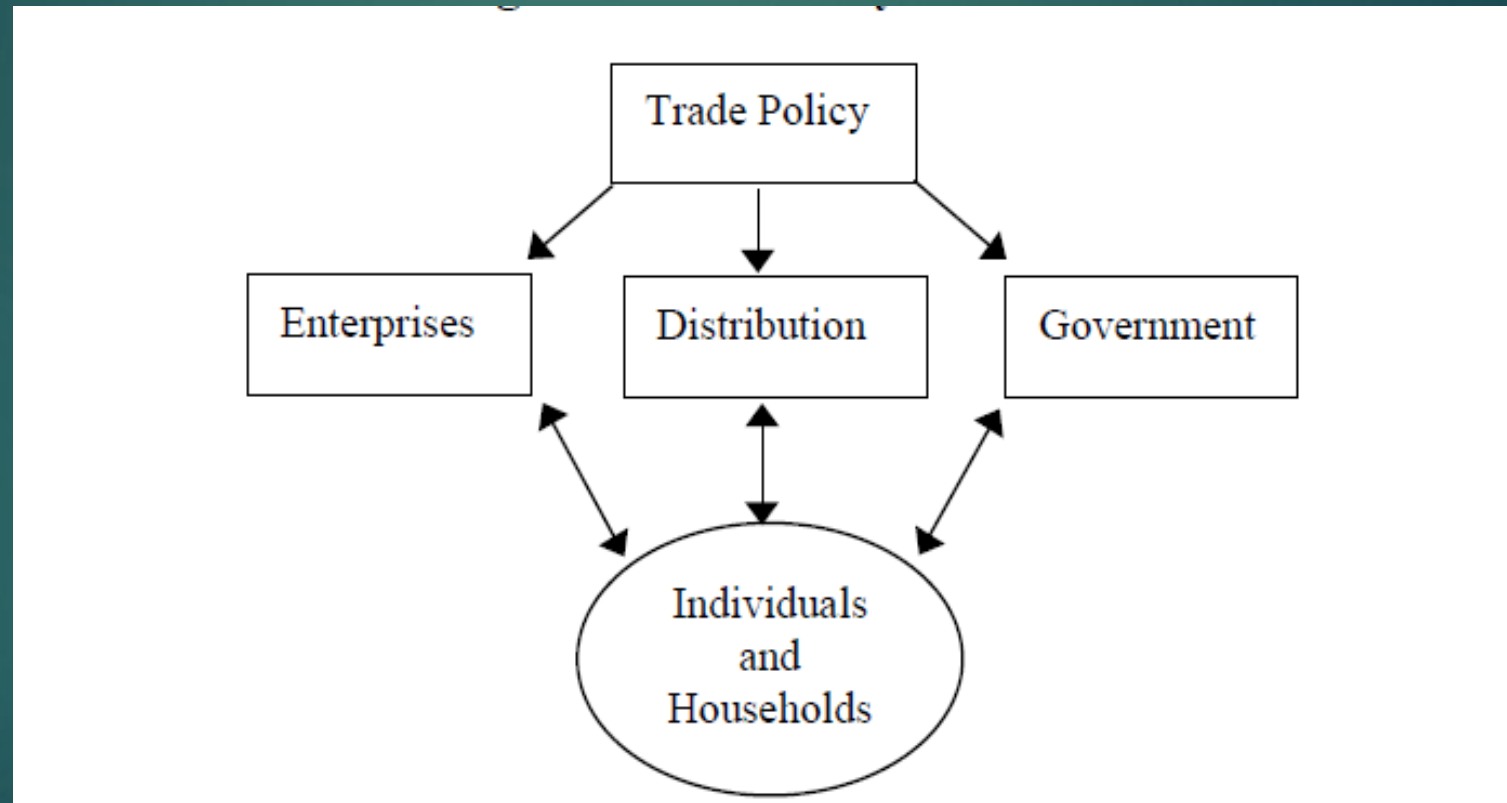
- the traditional classical **trade theories**
- new **trade theories** focused on possible trade dynamic gains
- standard **growth models** (Solow model)
- new **growth theories** (Grossman and Helpman)

► **Empirical aspects**

► There is no general consensus both at the theoretical and empirical levels. The issue is more complex.

Three main channels through which trade liberalization affects poverty

Figure 1. The Analytical Scheme



Source: Winters, L.A. (2000). Winters, L.A. (2000). Trade liberalisation and poverty, Discussion Paper No. 7, Poverty Research Unit, University of Sussex, UK, p. 2

The case of Macedonia

► Trade Liberalization

- Macedonia and WTO (2003)
- Macedonia and the EU – it is the first country that signed SAA in 2001, and entered into force in 2004 - Full liberalization of trade in industrial products was achieved as of 1 of January 2011; In relation to trade in agricultural products, in 2012 about 1,615 tariff lines for products originating from the EU were imported without the application of customs duties in Macedonia (69.4% of the 2,326 tariff lines).
- Other Free Trade Agreements - CEFTA 2006 (2007), EFTA (2001), Turkey (2000) and Ukraine (2001)

► Trade policy instruments and practices

- The simple average applied MFN tariff declined from 11.1% in 2004 to 8.5% in 2013.
- Agricultural products are bound at 17.5% and industrial products at 6.2%.
- Upon accession to the WTO the former Yugoslav Republic of Macedonia undertook to eliminate and not reintroduce or apply quantitative restrictions on imports, or other non-tariff measures such as licensing, quotas, bans, permits, prior authorization requirements, licensing requirements, and other restrictions having equivalent effect.

State in external sector

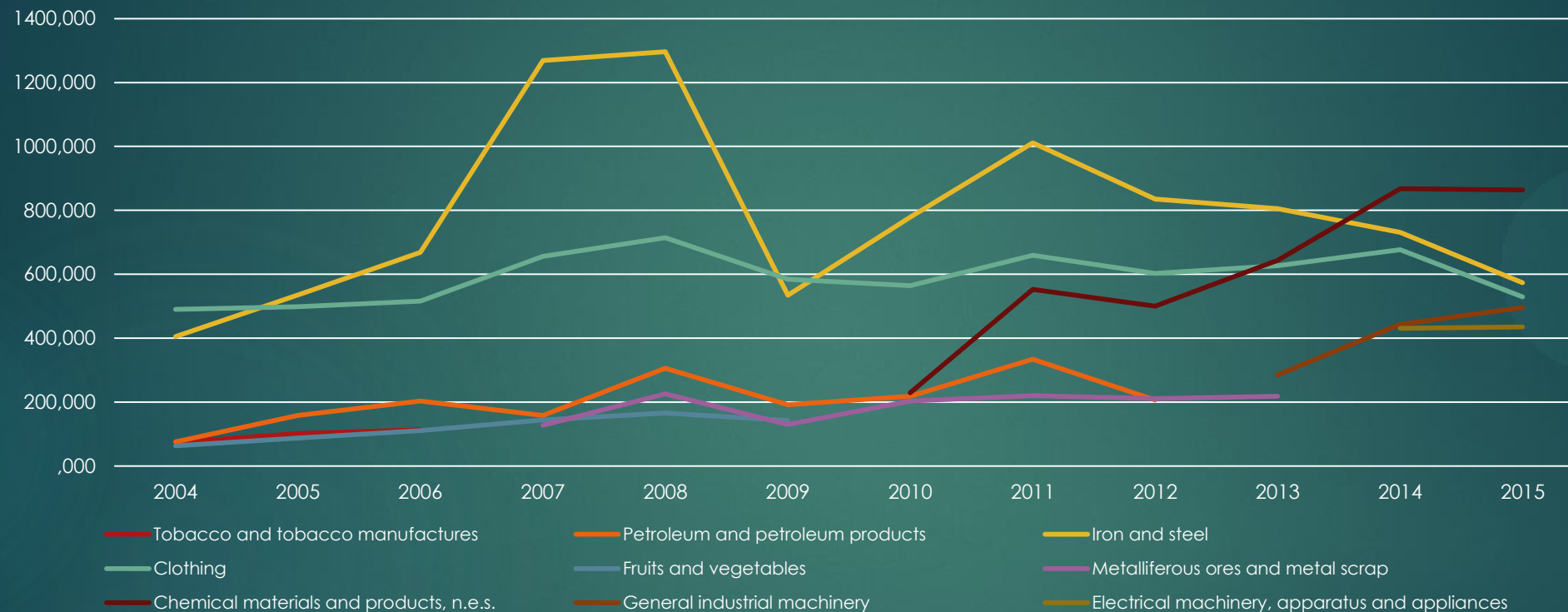
Figure 2. Export, import and trade openness



Source: Prepared by author according to the data from <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=MK> and <http://www.nbrm.mk/>

Export by SITC Sectors

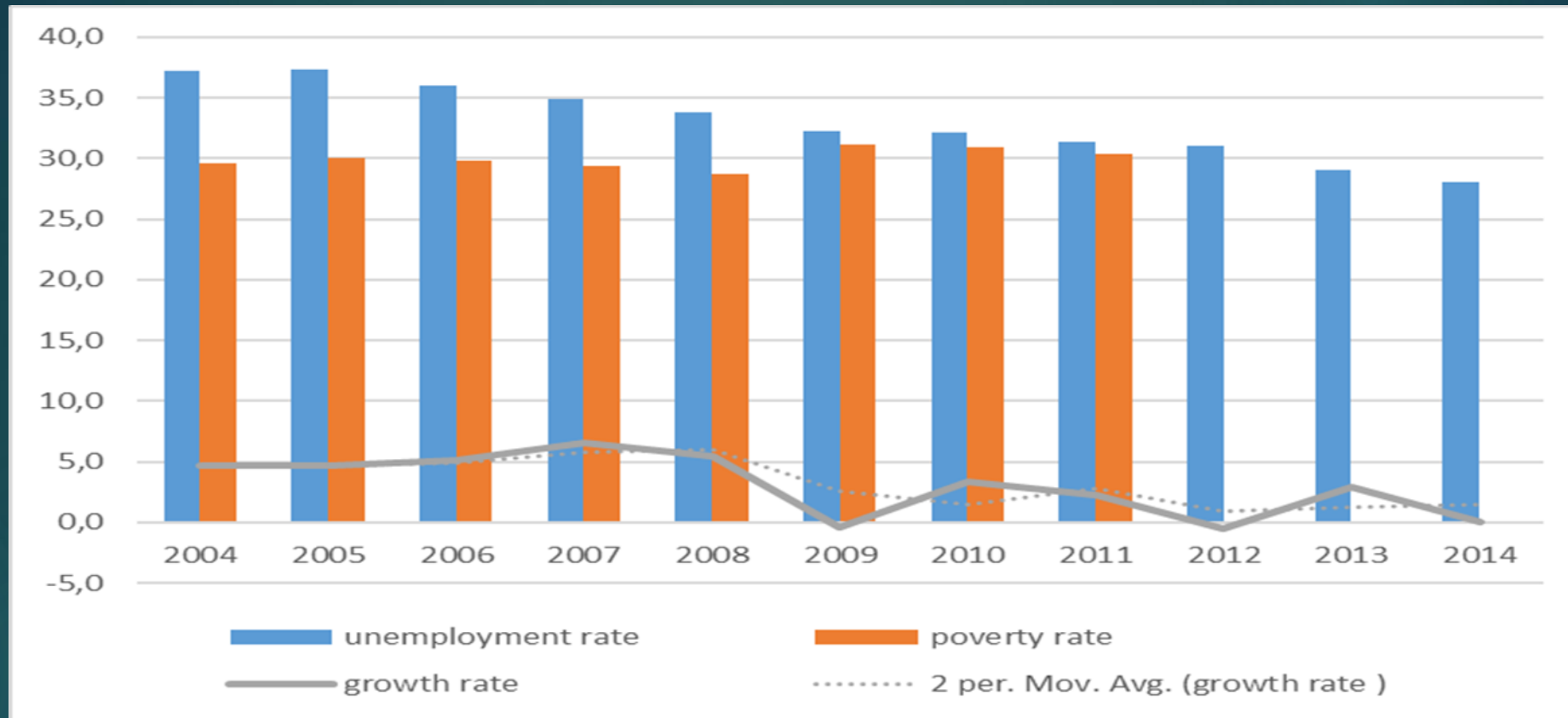
Figure 3. Five most exported products (2004-2015)



Source: Prepared by author according to the data from <http://www.nbrm.mk/>

Manufacturing industry is the most important exported sector. The largest portion of the manufacturing industry's exports is realized by the following groups of products: flat-rolled iron and still products, clothing, chemicals (catalysts) and chemicals products, food products (tobacco, fruit and vegetables and wine), fuels and in the last few years machinery and equipment.

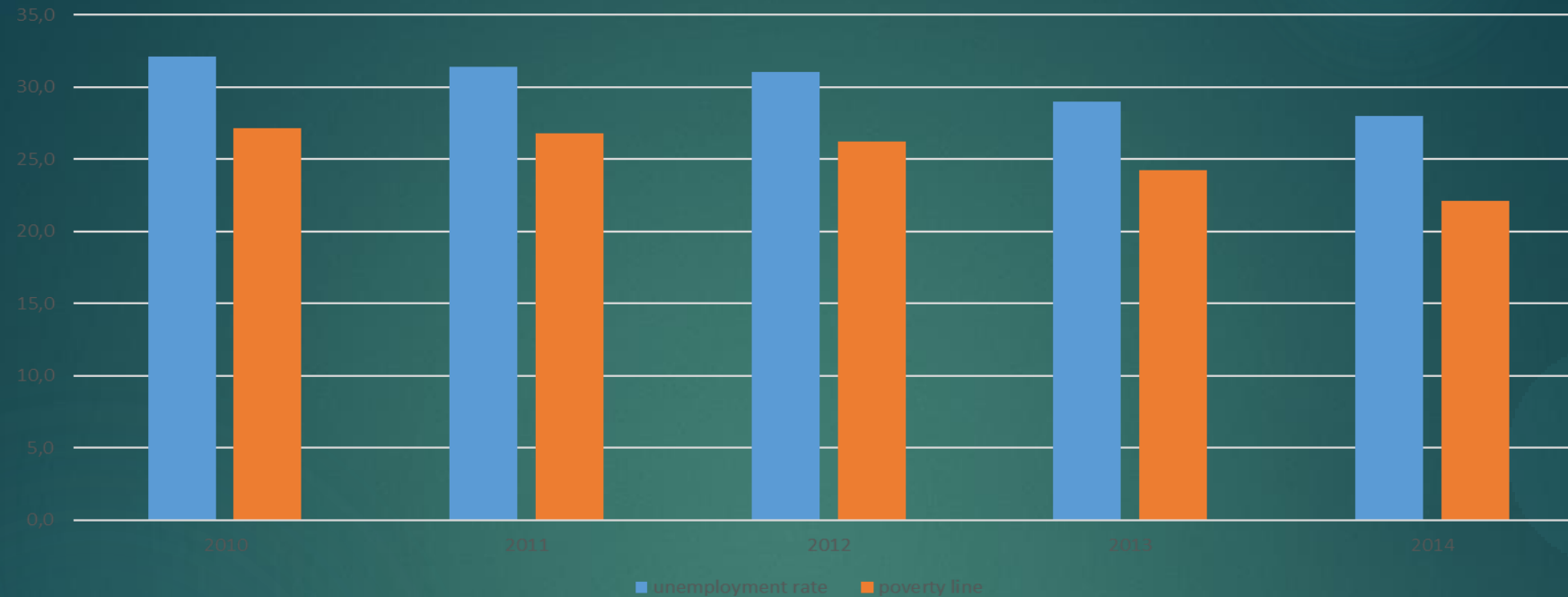
Figure 4. Unemployment rate, growth rate and poverty rate (2004-2014)



Source: Prepared by author according to the data from https://www.quandl.com/data/WORLDBANK/MKD_SI_POV_NAHC-Macedonia-FYR-Poverty-headcount-ratio-at-national-poverty-line-of-population and <http://www.nbrm.mk/>

- ▶ FYR Macedonia has made impressive progress in reducing unemployment (declining from 34 percent in 2008 to 28 percent in 2014), yet most jobs were created in low-productivity sectors or in the public sector.
- ▶ Between 2004 and 2008, official relative poverty statistics (measured at 70 percent of median consumption) remained largely unchanged at around 30 percent.

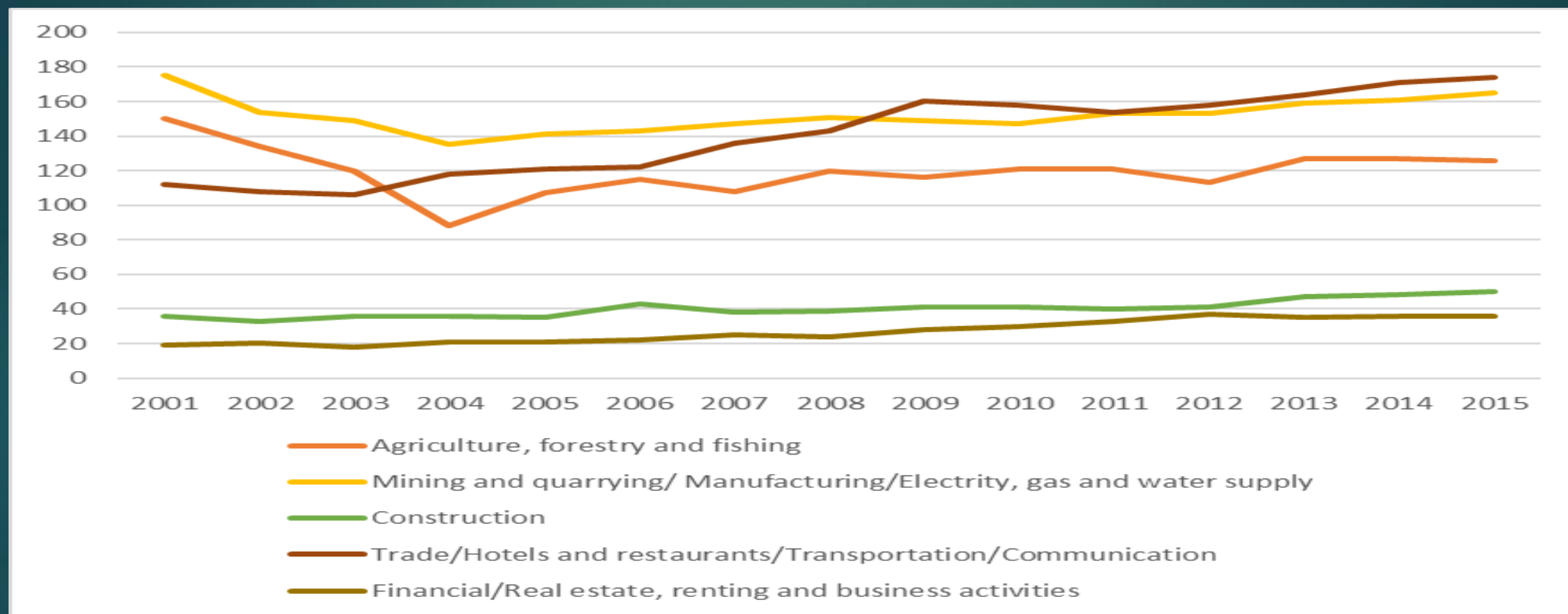
Figure 5. Unemployment rate and poverty rate (SILC), (2010-2014)



Source: Prepared by author according to the data from <http://www.stat.gov.mk/PrethodniSoopstenijaOblast.aspx?id=115&rbrObl=13>

- Poverty reduction in FYR Macedonia was slow before 2008 but seems to have accelerated in recent years.
- Macedonia has recently adopted a new way of measuring poverty through the income-based Survey of Income and Living Conditions (SILC), also used in the EU.
- According to SILC data, the share of the population at risk of poverty declined modestly from 27 percent in 2010 to 26.2 percent in 2012 and 22.1 in 2014, with an average real GDP growth of 2.3 percent.

Figure 6. Employed by sectors of activities, by NKD (2001-2015)



Source: Prepared by author according to the data from <http://makstat.stat.gov.mk/>

Key points

- ▶ In the last 6 years the services industry takes primacy in terms of employment. On the one hand it allows to assert that the Macedonia has shown to be to a certain extent responsive to new financial and trade opportunities, creating new employment possibilities in these sectors. On the other hand nevertheless, job creation in these economic activities has not been able yet to compensate job destruction in the third predominant sectors (agriculture/forestry/fishery activities).
- ▶ The manufacturing industry is the second significant industry in terms of employment. The greatest number of workers in the manufacturing industry is employed in: textile and apparel, food and beverages, exploitation and production of metals and metal products, and leather and related products. This coincides with the most exported products. The expected increase in manufacturing and FDI related exports can translate into net job creation and contribute to urban poverty reduction.
- ▶ Agriculture, forestry and fishing take the third place in employment, although almost half population lives in rural areas. Here is recorded job destruction compared with the period before trade liberalization.
- ▶ Construction sector is on the fourth place and register a modest increase in employment, especially for the less skilled and less well-off.

Concluding remarks

- ▶ The analysis suggests that the country to a certain extent responsive to the new trade opportunities launched by trade liberalization. Trade liberalization has promoted the enlargement of those sectors where usually more competences are required, hence skilled workers, while negatively affecting the most traditional economic activities, which employed mostly unskilled/low skilled workers. This has not alleviated greatly poverty because the poor rely mostly on unskilled labour.
- ▶ Higher real wages and employment in construction, manufacturing, and services are expected to have contributed to further reductions in urban poverty.
- ▶ All positive impact of trade (higher productivity, employment generation and improved terms of trade and resource allocation) will not manifest in full, if trade liberalization is not consolidated by complementary policies related to infrastructure and market institutions development, labour mobility, adequate credit facilities and social safety nets. All these are conceived as necessary means to encourage the poor to take advantage of opportunities generated by trade liberalization.

THANK YOU FOR YOUR ATTENTION

TIME FOR QUESTIONS

