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The Role of Trade in Fostering Inclusive Growth in the Asia-Pacific[#]

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Abstract

Rising inequalities in wealth and income, alongside other measures of exclusion, have been observed in both advanced and developing economies in recent decades. These growing disparities are often interpreted as a threat to not only social stability but also future economic prosperity. Changing the dynamics of growth to make it more 'inclusive' has therefore become a priority at both the national and international levels. Inclusive growth can be broadly understood as growth that is accessed and shared equitably by all segments of society. In this context, trade and investment are recognised as being intimately linked with issues of employment, income distribution and equality. However, the role that trade and international economic openness plays in generating inclusive growth, and the evidence from the Asia-Pacific region, is not empirically analysed. This paper reviews the trends in growth, and inequality in the Asia-Pacific region before setting out a framework for linking changes in trade with inclusiveness. Next the paper presents cross-country analysis linking inclusivity across four dimensions—aggregate employment, productivity, poverty and income equality, and gender equality—to international openness through trade and investment. The results show that an expansion of trade and investment does not necessarily produce more inclusive development. Rather, a range of complementary policies need to be deployed alongside managed opening of national economies.

Keywords: inclusive growth, inequality, international openness
JEL Classifications: F43,O40

[#] Invited paper from *Thailand and the World Economy* (*TWE*)
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1. Introduction

The Asia-Pacific region has achieved dynamic economic growth matched with significant reductions in absolute poverty over the last 4 decades. However, there has not been similar success on other aspects of inclusiveness. In particular, inequality within many countries has worsened. Moreover marginalized and vulnerable countries did not succeed in capturing a proportionate share of the benefits created by the region's growth. Put simply, the orthodox approach which emphasized using trade and investment to increase overall growth, and considered distributional issues as secondary, has not produced fully inclusive societies. If the trade- and investment-led growth pursued to date had been more geared towards inclusiveness, the number of poor would today be even lower. In this context, the paper reviews whether international trade and investment policies have supported inclusive growth in the Asia-Pacific region and considers how more inclusive growth can be fostered in future The paper makes a further contribution towards the conceptualization of inclusive trade and investment. It considers trade and investment inclusive if all people can contribute to and benefit from those activities.

The results clearly show that sustained growth in trade and investment flows do not necessarily translate into inclusive development. An important implication from the results is that a range of complementary policies are required to foster more inclusive economic development in the presence of international openness. Among these are measures to: improve functioning of labour markets; increase aggregate investment; raise information and communication technology expenditure; and equalize access to education.

The paper begins with an analysis of the sate of growth and inclusive development in the region with a special focus on patterns of inequality and poverty. Second, the paper defines inclusive growth and analyses, drawing upon past regional experience, how trade and investment can contribute to such growth. Section 4 presents a conceptual model for analysing the links between international openness and inclusivity. Section 5 describes the empirical model and analyses results followed by concluding rmarks and policy recommendations.

2. Challenge of inclusive growth in the Asia-Pacific region

Growing inequalities in income, wealth, and wellbeing are increasingly recognised as one of the world's most urgent social and economic challenges. In the national and international media, in public debates and academic discussions, and in international fora, rising divisions between rich and poor are perceived as a threat to social stability, a drag on future prosperity, and a danger to the credibility and legitimacy of political institutions and processes. Recognising these concerns, the international community through the Rio+20 Conference outcome document *The Future We Want* reaffirmed the need for "reducing inequalities, raising basic standards of living; [and] fostering equitable social development and inclusion" (United Nations 2012). This emphasis on more inclusive and equitable patterns of growth is likely to be strongly reflected in the Sustainable Development Goals which are on course to be finalised in late-2015 and which will determine shared, universal international development priorities over through to 2030.

Worries that inequality has become too high are shared across both developed and developing countries, though the context of the debates is quite different. In developed economies, fears are mainly related to: stagnating incomes for the middle-

and lower-segments of the population; rising shares of income and wealth accruing to narrow elites; and perceptions of declining social mobility, job security, and economic opportunities, especially for young people. While overall income inequality has been rising for, in some cases, decades, these concerns have acquired new urgency in the low-growth and high-unemployment environment that has followed the global financial crisis in many advanced economies. Not only is increased inequality deemed socially damaging, some studies have linked it to a weakening of future growth prospects (Stiglitz 2013; Cingano 2014).

The causes of these shifts in income distributions and employment prospects in advanced economies are widely debated. Factors commonly cited include: increases in trade and competition with low-wage economies alongside the outsourcing of production to developing economies; technological changes that reduce demand for labour, both unskilled and now increasingly skilled; alterations in the structure of labour markets towards temporary and contract-based working; and a corporate culture that has become more driven by short-term financial pressures and more geared to enhancing rewards for executives, not least those in financial institutions (Summers et al. 2015). The growing importance of inherited wealth, rather than labour income, as a determinant of inequality—particularly in low-growth environments—has also been much discussed (Piketty 2014). In response to these concerns, politicians and other leaders economies have put forward calls for programmes of action under the rubric of "inclusive growth", or other related terms like ""inclusive capitalism" (Edsall 2015), or "shared prosperity"

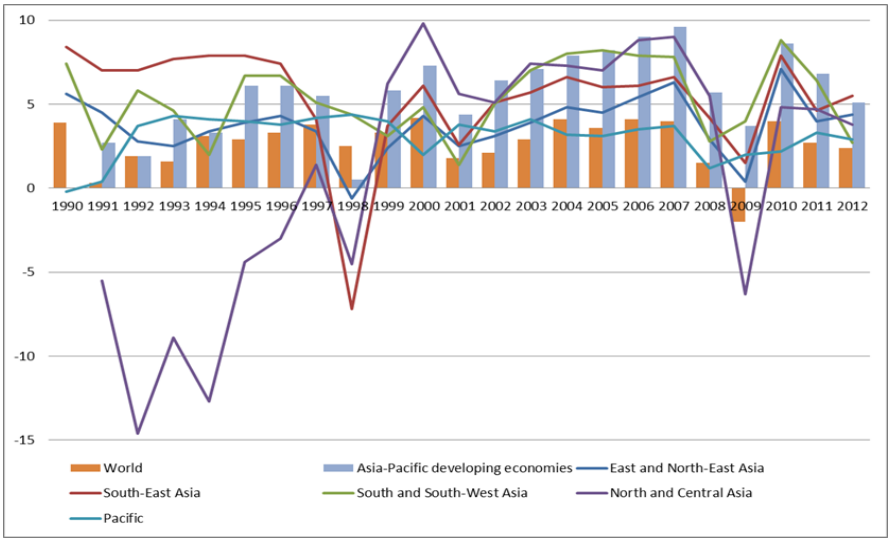
In contrast to stagnation in advanced economies, many developing countries, especially in the Asia-Pacific have enjoyed rapid growth and saw continued economic expansion even throughout the global financial crisis of 2008-2009: indeed, growth rates in Asia-Pacific developing economies consistently exceeded the world average in each year since the Asian financial crisis of 1998 (figure 1). Since 2008, the recoveries of regional economies from the global downturn triggered by the financial crisis have also generally been rapid and were supported by fiscal and monetary stimulus policies made possible by healthy economic fundamentals. While regional growth has moderated somewhat since 2010—partly as a consequence of restructuring to lessen dependence on external demand and internal imbalances—the overall outlook is reasonably bright. Growth in 2015 for developing Asia is expected to be 5.8% in 2015, which is a slight increase from 5.6% in 2014 (ESCAP 2015).

The substantial falls in poverty headcounts which have accompanied impressive growth in the period from 1990 are well-known. For Asia as a whole, the share of the population living on less than $1.25 a day fell from 55 to 21% from 1990 to 2010 (ESCAP 2013). In absolute terms this translated into a reduction from 1,544 million to 758 million people. China led the way in this transition: around two-thirds of the total absolute reduction was achieved in China with large absolute falls also recorded in India, Bangladesh, and Viet Nam among others. However, the region was in 2010 still home to over 60% of the total global population—over 750 million people—living on less than $1.25 a day.

Yet there is no doubt that globally the distribution of income between countries remains extremely uneven. Indeed, in 2010, 55% of global income was accounted for by countries that comprised only 16% of the world's population (United Nations 2013). Further, low income countries created a fraction over 1% of global income despite containing 72% of the total global population (ibid). This picture has somewhat improved as rapid and sustained growth in many developing countries has prompted, on some measures, some convergence in incomes between rich and poor nations (Spence 2012). Adjusted for living costs, per capita output in developing economies between

2000 and 2009 rose at an average of 7.6%, a rate 4.5 percentage points higher than in advanced economies. If that differential was sustained, incomes would converge with those in the United States in around 30 years (The Economist 2014). The likelihood that such convergence will continue is, however, falling. The end of the benign global environment of low interest rates, and strong demand in advanced markets which preceded the crisis and helped facilitate the convergence is not likely to return. This is leading to some scepticism about the prospects for such widespread persistent catch-up continuing given the difficulties of creating the right institutional conditions for sustained growth (Rodrik 2011). Thus future reductions in income inequality between the majority of developing countries and advanced economies cannot be confidently forecast, though some individual countries able to stick to successful policy frameworks will continue to see success.

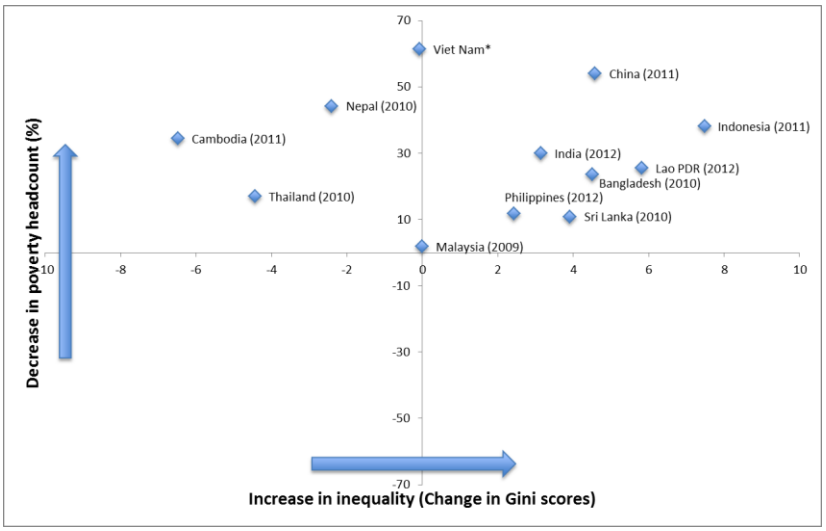
Figure 1: Annual average GDP growth rates: developing Asia-Pacific and subregions (1990-2012)



Source: ESCAP Online Database (2014)

Further, despite strong aggregate growth figures and falling poverty rates, income inequality has also risen *within* most Asia-Pacific developing economies since 1990. Figure 2 shows the different patterns of growth witnessed in several Asia-Pacific economies. While none of the economies featured saw rises in the poverty headcount, they had significantly different experiences in terms of inequalities. Whereas Cambodia, Thailand and Nepal saw both falls in the poverty headcount and falling inequality, China, Indonesia and Lao PDR saw large increases in inequality even while recording falls in absolute poverty.

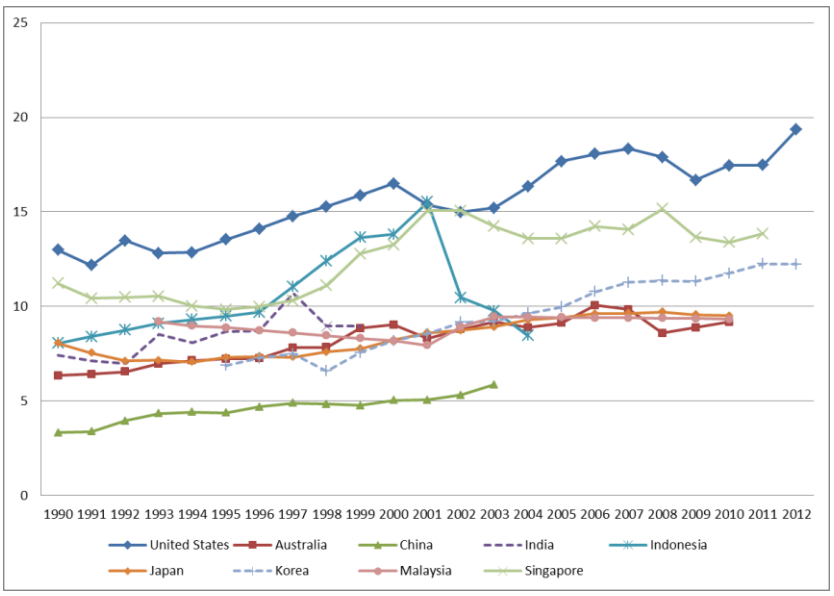
Figure 2: Changes in GINI coefficients and falls in poverty headcounts (at $1.25 a day) for selected Asia-Pacific economies since 1990



Note: *For Viet Nam GINI data is from 2009 and poverty data from 2012
Source: ESCAP calculations based on World Bank Development Indicators (2014) and data from Blakrishnan, Steinberg and Syed (2013).

Many Asia-Pacific countries have also seen growing shares of income accruing to the top 1% of the income distribution (figure 3). While the total share of income going the top 1% remains below the rate observed in the United States in most cases, Singapore and the Republic of Korea have rates over 10% and others are approaching that level.

Figure 3: Share of total income accruing to top 1% of the income distribution in selected economies (1990-2012)



Source: World Top Incomes Database, University of Paris (2014)

Alongside income inequalities, other social indicators have shown mixed progress in Asia-Pacific developing countries and considerable disparities exist both within and between countries. For instance, on gender parity, considerable progress has

been made in tackling gender enrolment gaps in education. Of developing Asian countries, only Afghanistan, Malaysia, Pakistan, and Papua New Guinea now have parity rations below 0.95 in primary education. Gender gaps are still notable in terms of employment, however, with the shares of women in vulnerable jobs, compared to total jobs, much higher for women than for men in two-thirds of economies of developing Asia (ADB 2014).

Health outcomes also vary within countries: in 21 of 29 developing economies of Asia and the Pacific, a child from the poor household is at least twice as likely to be underweight as a child from the rich household. Similarly, for antenatal care, access rates to the recommended minimum of four health worker visits was more than five times as high in the richest quintile as in the poorest quintile in Afghanistan, Bangladesh, India, the Lao PDR, and Pakistan. On access to essential infrastructure, for example, in much of Asia many households lack access to modern forms of energy for cooking. In 17 out of 36 developing economies surveyed by the ADB, solid fuels were the major source of cooking fuel for more than half households and at least 90% of the households in the lowest wealth quintile were using solid fuels for cooking (ADB 2014).

Thus, the context of the debate over 'inclusive growth' is considerably different in Asia-Pacific developing countries compared with the advanced economies. In those developing countries which have experienced sustained growth, concerns over rising inequality are less about the consequences of stagnation and more over whether the proceeds of growth are being distributed with sufficient fairness. This encompasses questions of the extent to which growth is 'pro-poor' and serves to reduce poverty and other indicators of deprivation; and whether marginalised groups and regions are able to participate in growth. On the other hand, for developing countries that have experienced less growth, the challenges of 'inclusiveness' are more related to ensuring that businesses, households and communities have access to the potential benefits of growth stemming from international economic openness.

3. Defining inclusive growth and the role of trade

3.1 Defining Inclusive Growth

Against this backdrop of rising inequality in the midst of growing prosperity for many, regional scholars and policymakers are increasingly concerned with the broad range of issues subsumed under the heading of 'inclusive growth.' Concerns that unequal distributions of income, wealth and wellbeing are undermining prospects for sustainable development are thus prompting widespread concerns with current economic models. In this context, the concept of 'inclusive growth' has gained widespread traction as a potential antidote to excessive levels of economic and social inequality. The attention of academic researchers as well as international institutions, such as the World Bank, OECD, ADB, United Nations and others, has therefore been focused on two related, though distinct, challenges: (i) defining and specifying what constitutes inclusive growth in order that evidence-based analysis on patterns on growth can be undertaken; and (ii) identifying policies or interventions that are likely to yield more inclusive outcomes, however these are precisely conceptualised.

There is a certain degree of common ground amongst different attempts to define inclusive growth. A shared intuition is that an exclusive prioritization on economic growth has numerous deficiencies and that while growth and efforts to tackle poverty and inequality can be mutually reinforcing, the links are not automatic. Thus all approaches to inclusive growth involve attention to distributional questions

concerning the allocation of economic resources to the less prosperous parts of society; and nearly all go beyond the narrow economic sphere to capture other elements connected to human development. These commonly include some measures of health, education, environmental quality or other social indicators. Some efforts also look beyond aggregate national distributions to consider impacts on groups which have been traditionally marginalised; this could be, for example, by gender or geography.

The task of defining inclusive growth while simple at first glance, is thus actually of considerable complexity as it involves the combination of the concepts of *growth* with *distribution* in a single measure—this then requires some specification of the potential trade off between the two (Winters 2014). Accordingly, several different approaches have emerged. One important dividing line is whether poverty is treated in absolute or relative terms. For instance, some approaches prioritise growth that benefits the poorest even if other segments of the income distribution benefit more (Anand, Mishra, and Peiris 2013). International organizations have developed their own distinct frameworks for measuring inclusive growth (table 1). Complicating the picture further are a range of related concepts and frameworks that have been put forward such as 'shared prosperity' or 'pro-poor growth' (CAFOD 2014). This paper does not offer an alternative conception of inclusive growth to place alongside the existing definitions, rather we explore some of the linkages between trade and some of the components of 'inclusive growth' likely to be widely shared across most approaches.

Table 1: Definitions of 'Inclusive Growth' by different international organizations

Institution	**Approach to Inclusive Growth**
OECD	The OECD framework is an analytical tool designed to allow policymakers to assess developments in income and non-income outcomes for different social groups and over specific time frames. At the core of the analysis is the idea of *multidimensional living standards:* which accounts for both income and non-income measures of wellbeing and their distributional aspects. Three dimensions are measured: (i) household income, (ii) risk of unemployment and (iii) health status (OECD 2012).
ADB	The ADB "Framework of Inclusive Growth Indicators" encompasses a fairly broad definition of inclusive growth as 'growth coupled with equality of opportunity.' This is then built from three policy pillars: high, efficient and sustained growth to create productive jobs and economic opportunity; social inclusion to ensure equal access to economic opportunity; and social safety nets to mitigate vulnerability and prevent extreme poverty. Underpinning these three pillars is a set of 35 indicators across: (i) poverty and inequality, (ii) economic growth and employment, (iii) key infrastructure endowments, (iv) access to education and health, (v) access to basic infrastructure utilities and services, (vi) gender equality and opportunity, (vii) social safety nets, and (viii) good governance and institutions (ADB 2011). The ADB approach does not instil inclusivity into a single indicator which makes comparison and quantification harder, but does correspond to most major conceptions of which elements should be reflected in any approach
World Bank	The World Bank has identified inclusive growth as being marked by a concern for both the *pace* and the *pattern* of growth. The following characteristics are

	specifically identified: For growth to be sustained in the long run, it should be broad-based across sectors. Issues of structural transformation for economic diversification therefore take a front stage. Some countries may be an exception and continue to specialise as they develop due to their specific conditions (e.g. small states). It should also be inclusive of the large part of the country's labour force, where inclusiveness refers to equality of opportunity in terms of access to markets, resources and unbiased regulatory environment for businesses and individuals. Inclusive growth focuses on both the pace and pattern of growth. How growth is generated is critical for accelerating poverty reduction, and any inclusive growth strategies must be tailored to country-specific circumstances (World Bank 2009). They also emphasise: productive employment rather than income redistribution (hence the focus is not only on employment growth but also on productivity growth); having not only the firm, but also the individual as the subject of analysis; a concern with the absolute definition of pro-poor growth, not the relative one.
United Nations (International Policy Centre for Inclusive Growth)	IPC-IG has distinguished between 'pro-poor growth' and 'inclusive growth' noting that inclusive growth is broader – benefitting everyone. They also emphasise not only the *outcomes* of growth, for instance changes in the income distribution, but also the *manner* through which it takes place: "The concern with the process of growth is based on the understanding that in addition to sharing the benefits of growth, people must actively participate in the growth process. Accordingly, with respect to process, inclusive growth can be thought of as entailing the expansion of opportunities for participation, which can include both engagement in productive economic activities and having a say on the orientation of the growth process" (IPC-IG 2013)

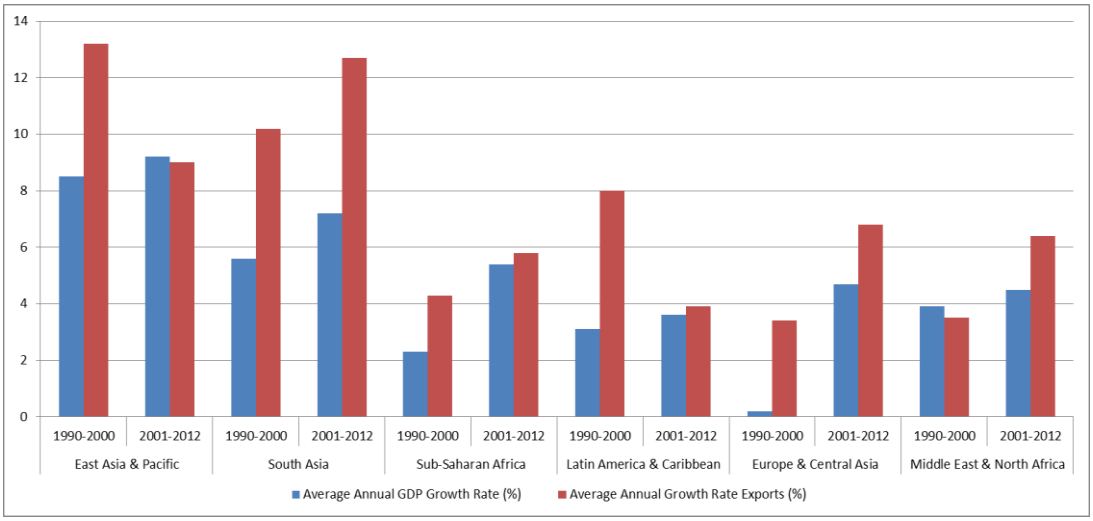
Source: Author's demonstrations.

3.2 The role of trade in inclusive growth

The theoretical and empirical linkages between (i) trade and economic growth and (ii) trade and poverty reduction have yielded a substantial literature in recent years. There is a well-established correlation between output and trade openness: richer countries tend to have a higher share of trade to their gross domestic product (GDP). The direction of causality, however, remains disputed. Some recent empirical studies using cross-country analysis have found evidence that trade openness causes growth (Sachs et al. 1995) though there are ongoing disagreements and these findings are not universally accepted (Rodriguez and Rodrik 1999).

What is clear is that the last two decades of generally strong GDP growth in the Asia-Pacific have also been characterised by growing economic openness, understood as the share of exports and imports in GDP (figure 4). In all regions of the world, exports of goods and services have grown more rapidly than annual GDP since 1990 (figure 4). Large emerging economies liberalization of their trade and investment regimes and increasingly adopted export-oriented growth models. The fragmentation of production across national boundaries and the accompanying spread of global supply chains—many centred on the East and Southeast Asian regions—also increased the trade intensity of the regional economy.

Figure 4: Annual average growth in GDP and exports by region



Source: World Bank Development Indicators (2014)

Compared with the studies of the links between trade and growth, there has been less work specifically linking trade and inclusive growth, under any of its various definitions. However, much of the literature on trade and poverty and wages remains highly relevant for the inclusive growth agenda. Trade can affect household welfare, as well as the distribution of incomes and their purchasing power, through multiple channels (Winters 2000). For instance, trade liberalization can lower the prices of goods and services; change relative wages between and within sectors; and alter employment prospects. Trade policy, policies regulating foreign direct investment and approaches to trade facilitation all influence the environment in which trade takes place and have knock-on impacts on the inclusiveness of growth (see ESCAP 2013). That said, it is difficult *a priori* to know how changes in trade and investment policy will impact on the inclusiveness of growth. Thus Lederman (2013) and others, have attempted to characterise the relationship between trade and inclusive growth in terms of household and firm choice: trade is inclusive when workers and firms have the capabilities to move into growing economic activities created by trade, "that is, international trade offers opportunities for workers and firms, but their existing capabilities and the policy environment help determine the extent and distribution of such benefits" (ibid). The empirical analysis in the next section is thus an explicit attempt to gauge the impact of the policy environment—in terms of complementary policies—on the inclusiveness of growth in the context of growing economic openness.

4. Empirical Analysis: The link between International Openness and Inclusivity

The study uses cross-country analysis of Asia-Pacific economies to explore the interaction between international openness through trade and inclusivity.[1] Four dimensions of inclusivity are considered: (i) aggregate employment and its distribution; (ii) aggregate productivity; (iii) poverty and income inequality; and (iv) equal opportunity between genders. Analysis is undertaken using data from the Asia-Pacific region from 1988 to 2010. A description of the basic model set-up is given below and

[1] The empirical work presented in this Chapter was first published as chapter 8 in the Asia-Pacific Trade and Investment Report 2013.

the details of sources of data, construction of various indicators for econometric analysis, and the specification of the model are given in ESCAP (2013) and Fritz (2013).

4.1 Basic set-up

Let Y, an indicator of inclusivity, is determined by (1) the international openness variables I, (2) the complementary policy variables S and (3) the time and country fixed effects F. To address endogeneity concerns, the control variables are lagged by one period unless noted otherwise.

$$Y_{i,t} = \beta_1 I_{i,t-1} + \beta_2 S_{i,t-1} + \beta_3 F_i + \beta_4 F_t + e_{i,t} \quad (1)$$

The control variables for international openness are included in vector ***I***.[2] The international openness variables include three trade and three FDI variables.[3] In line with the literature, de facto trade openness is measured as the sum of the nominal import and export value, normalised by the country's nominal GDP. However, this measure only speaks to the level of international involvement. To account for this shortfall, a second variable is included to discern potential difference between in- and outflows, namely the ratio of import over export value. The third variable included for trade reflects the need to account for potential differences between net exporters and net importers. To this end, we opt for the inclusion of the squared export-import ratio which allows for gradual changes in the effect of the net export status on the outcome variable.[4] The control variables with respect to FDI have been constructed in the same manner with the stocks of inward and outward FDI taking the role of imports and exports.

$$I_{i,t} = \begin{bmatrix} \frac{X_{i,t}+M_{i,t}}{GDP_{i,t}} & \frac{X_{i,t}}{M_{i,t}} & \left(\frac{X_{i,t}}{M_{i,t}}\right)^2 \\ \frac{IN_{i,t}+OUT_{i,t}}{GDP_{i,t}} & \frac{OUT_{i,t}}{IN_{i,t}} & \left(\frac{OUT_{i,t}}{IN_{i,t}}\right)^2 \end{bmatrix} \quad (2)$$

The empirical analysis seeks to deduce complementary policies that may affect the impact of international openness on the inclusivity indicators. The complementary policies considered here relate to (i) sectoral composition of the economy, (ii) the composition of trade, (iii) education and investment, as well as (iv) labour market policies. For each of these policies, a set of proxy variables has been chosen.

From this pool of proxy variables, a set inspired by the literature review is chosen for the model of each dimension of inclusive trade. All proxy variables are included following a common structure. To identify feedback between said variable and international openness a series of interaction terms has been included as displayed in equation (3) below. As with the international openness variables, the complementary policy proxies are included at the first lag unless noted otherwise.

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[2] To economise on space, the vectors ***I*** and ***S*** are not displayed in the mathematically correct notation.

[3] A detailed description of the data underlying all variables can be found in Fritz (2013).

[4] A potential alternative to this specification is the use of a simple dummy to distinguish between net importers and net exporters. However, this specification did fall prey to repeated multicollinearity issues between the stand-alone dummy and interactions of the dummy with supplementary policy variables.

$$\mathbf{S}_{i,t} = \begin{bmatrix} s_{i,t} & & \\ s_{i,t} \times \frac{X_{i,t}+M_{i,t}}{GDP_{i,t}} & s_{i,t} \times \frac{X_{i,t}}{M_{i,t}} & s_{i,t} \times \left(\frac{X_{i,t}}{M_{i,t}}\right)^2 \\ s_{i,t} \times \frac{IN_{i,t}+OUT_{i,t}}{GDP_{i,t}} & s_{i,t} \times \frac{OUT_{i,t}}{IN_{i,t}} & s_{i,t} \times \left(\frac{OUT_{i,t}}{IN_{i,t}}\right)^2 \end{bmatrix} \quad (3)$$

Let si,t denote a proxy variable. Besides including the variable itself, interaction are formed with each international openness variable i.e. the sum of trade or FDI, plus the ratio of its components. To account for systematic difference between net exporters and net FDI outward stock, an interaction term of the proxy variable with the squared export-import (outward-inward FDI) ratio is included as well.

The empirical model is estimated using Feasible Generalised Least Squares (FGLS). Besides heteroskedasticity, serial correlation in the error term has to be addressed as both the dependent variable as well as the independent variables show high degrees of persistence. To correct for autocorrelation, the Prais-Winsten estimator is used to estimate the degree of autocorrelation in the error term and correct coefficient and standard deviation estimates accordingly. The coefficient of autocorrelation used to correct for serial correlation is computed to approximate a Durbin-Watson statistic of 2, meaning no serial correlation, and corrected for the sample size. Unfortunately, this correction does not fully remove serial correlation in some equations.

All estimations are performed in levels rather than logs. Estimating in levels allows the inclusion the squared export-import ratio which would be collinear when included in logarithmic form. Unfortunately, the estimation in levels goes at the expense of simplicity in the interpretation of the variables as the coefficient reflects a one-unit change in the independent variable. Two measures have been taken to facilitate interpretation. First, the tables included a column with the mean value of the independent variable in each row. The reader may thus infer what a realistic change in the variable of interest implies for the outcome variable. As the presence of interaction terms further complicates the interpretation, second, a graphical representation of the statistically significant interaction terms is presented among the results for each estimation. These charts provide the reader with an intuitive tool to infer the changing impact of international openness in the presence of different complementary policies.

5. Empirical Estimation and Results

Within the overall theoretical framework given above, the section below describes empirical specification and results.

The literature review found that the net direction of the trade flow seems to matter for employment outcomes; and that labour market regimes seem to play a crucial role. The net direction of trade is already controlled for through the international openness variables as specified above. Besides the direction of the flow, the model used in this section will also account for the composition of trade.

The variables set for the trade composition was chosen to cover various aspects of the literature review. For one, we control for the share of exports going to high-income countries, namely OECD members. The implication for complementary policy of, say, a positive association between OECD-bound exports and domestic employment opportunities would be to concentrate export promotion activities in that direction. To a similar tune, a further variable is included to control for the share of exports that is generated in the traditional sectors. These traditional sectors are textile and leather

products as mentioned in the literature review with respect to employment opportunities for women. Here, the implication of a positive association between employment opportunities and the share of traditional good exports would be to promote development in such industries further. The final variable in this set is the share of intermediate goods in total imports. The literature indicates that increased imports of intermediates while beneficial for productivity may substitute foreign for domestic labour. Including this variable for the consideration of employment opportunities assesses the latter claim and may provide guidance when balancing increased productivity with potential job losses.

With respect to labour markets, unfortunately no close proxy for the labour market regime of satisfactory prevalence has been found to date. One considered measure is the Flexibility Index for the labour market as compiled by the World Economic Forum (WEF). Unfortunately, this measure is only available from 2005 onwards. Relying on this metric alone thus diminishes the sample size substantially. An analysis of related variables has revealed the level of tax revenue derived from income, profit and capital gains to be associated with the WEF measure of labour market flexibility. The tax revenue stemming from this source and normalised by domestic GDP is positively associated with labour market flexibility. That is, countries with higher labour market flexibility tend to realise a higher level of tax revenues from income, profit and capital gains. As this tax measure is widely available, it will be used as a proxy for the labour market in the estimation below.

The full specification of the complementary policy vector used in this dimension thus reads:

$$\mathbf{S}_{i,t}^{emp} = \begin{bmatrix} s_{i,t}^{emp} & & \\ s_{i,t}^{emp} \times \frac{X_{i,t}+M_{i,t}}{GDP_{i,t}} & s_{i,t}^{emp} \times \frac{X_{i,t}}{M_{i,t}} & s_{i,t}^{emp} \times \left(\frac{X_{i,t}}{M_{i,t}}\right)^2 \\ s_{i,t}^{emp} \times \frac{IN_{i,t}+OUT_{i,t}}{GDP_{i,t}} & s_{i,t}^{emp} \times \frac{OUT_{i,t}}{IN_{i,t}} & s_{i,t}^{emp} \times \left(\frac{OUT_{i,t}}{IN_{i,t}}\right)^2 \end{bmatrix} \quad (4)$$

Where

$$s_{i,t}^{emp} = \begin{bmatrix} \frac{OECD_{i,t}}{X_{i,t}} & \frac{TRAD_{i,t}}{X_{i,t}} & \frac{INTER_{i,t}}{M_{i,t}} & \frac{LABORTAX_{i,t}}{GDP_{i,t}} \end{bmatrix} \quad (5)$$

5.1 International openness and employment

Inclusive growth depends on the growth of productive employment opportunities. The literature on trade and employment suggests, however, that trade plays only a small role in determining aggregate employment, particularly in rural areas less exposed to trade (see e.g. Harrison and Revenga, 1998; Ravallion, 2006; and Topalova, 2007). At the industry level, trade liberalization has been associated with short-term job losses in those industries facing increased import competition, though these are generally outweighed by gains over the longer-term, mainly from industries that are net exporters (Hasan et al, 2012).

Given the importance of informal employment in many regional developing economies, it is important to also consider the impacts of trade on informal employment. Previous research suggests the impacts of trade policy changes mirror the impacts upon aggregate employment (Bacchetta et al., 2009). More specifically, trade adjustments may stimulate temporary involuntary informal employment but over the longer-term increased openness to trade and investment decrease informal employment by increasing the availability of formal employment opportunities which tend to be

associated with higher wages and better conditions. Bachetta et al (2009) in particular find that trade liberalisation stimulates informal employment in the short-run, however decreases informal employment in the long-run, as the working population as whole benefits from growth associated with greater levels of trade. Nevertheless, whether countries can benefit from trade and investment will depend on how flexible their labour markets are and whether they can facilitate rapid reallocations of workers across industries. Overall, the positive effects associated with international openness are shown to occur following a lag (Dutt et al, 2009).

To consider the relationship of economic openness with inclusivity through the employment channel we considered: (i) the employment-population ratio, and (ii) the share of informal i.e. contract-less employment in total employment. The important aspects of trade composition emphasised in this model include types of export markets (measured by export shares to high- and middle-income markets) and characteristics of export industries (traditional sectors, and the intensity of imported intermediates).[5]

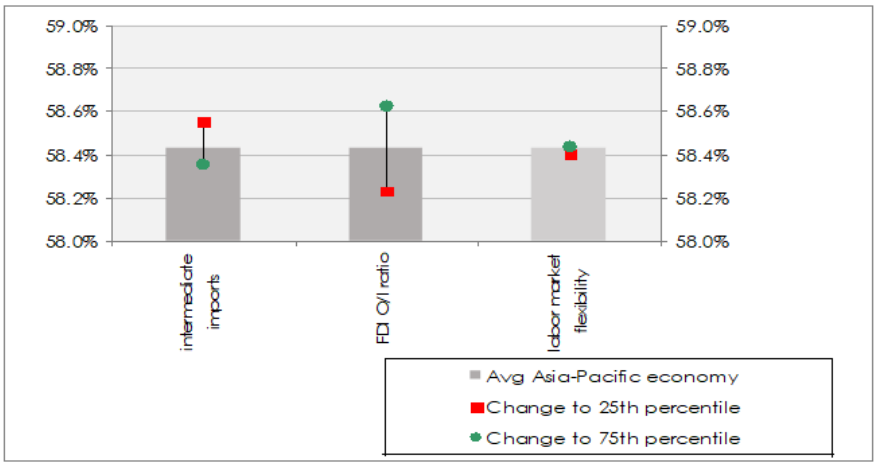
Our results reflect that international openness by itself has little impact on employment opportunities. However, some interactions between openness and supplementary policies are of significance. For instance, we find that the employment participation rate is significantly related to the interactions of the share of intermediate goods in total imports and labour market flexibility with the outward-over-inward FDI ratio. Figure 5 displays how a change in each of these variables would benefit the hypothetical average Asia-Pacific country from a sample.

According to our counterfactuals, changes in the share of intermediate goods imports only have a muted effect on employment participation. The average Asia-Pacific economy in the data set had a 32% share of intermediate good in total imports. For the bottom quarter this value was 22% while it was 38% at the top quarter of observations in our sample. According to our estimates, if the average Asia-Pacific country were to change its share of intermediate goods in total imports from 32% to 22%, the employment participation rate would increase slightly from 58.42% (figure 5, grey column) to 58.55% (figure 5, red square). However, if the average Asia-Pacific country were to move from the mean intermediate goods share into the top quarter (38%), then the hypothetical employment participation rate would fall to 58.35% (figure 5, green dot).

Interpreting the impact of additional labour market flexibility is similar. As figure 5 illustrates, a move from the mean into the first quarter of the most flexible labour markets in our sample would raise the employment participation rate, albeit a tiny amount. Similarly, if the average Asia-Pacific country were to fall from the mean to the bottom quarter of labour market flexibility, the consequences for employment participation would be negative, though minimal.

[5] The estimation in this section include: four international openness indicators, four measures/complementary policy variables, as well as interaction terms between each supplementary measure and complementary policy variable and the international openness indicators. See annex for a full description. The international openness indicators are the sum of inward and outward FDI stocks as a share of GDP, the sum of exports and imports as a share of GDP and the ratios exports/imports and outward/inward FDI. The supplementary measure variables used in this model are the share of intermediate imports in total imports, the share of traditional goods exports in total exports, the share of exports going to OECD members, and the share of exports going to middle income countries. For this estimation, traditional goods are labour intensive products such as textiles and clothing as well as footwear and leather products. Due to data availability, the complementary policy (labour market flexibility) is represented by a proxy (relative tax revenue from labour and profits).

Figure 5 : Intermediate imports and composition of foreign direct investment



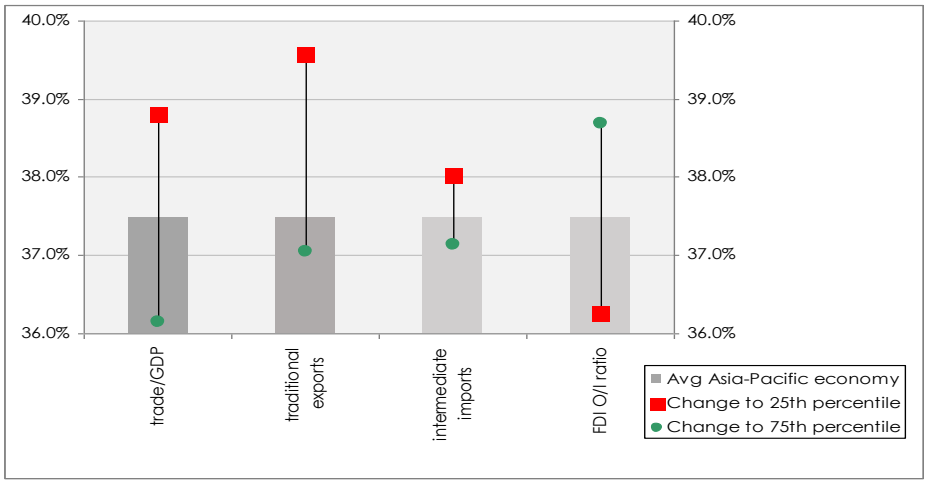
Source: Author's calculations.

In our sample, countries that have relatively more outward foreign direct investment (FDI) also feature higher employment participation rates. The mean outward/inward FDI ratio in our data is 0.3, implying $3 of outward FDI stock for every $10 of inward FDI stock. If this average value were to increase to $4 outward FDI per $10 inward, the employment participation rate would increase to 58.62%. Were it to drop to only $2, the employment participation rate would drop to 58.23%. Countries with a relatively higher outward FDI stock thus seem to enjoy higher employment participation rates. However, causation may run both ways and there may also be an uncontrolled third factor, e.g. education attainment or development status, at play.

Regarding the informal employment share, increasing the share of traditional goods in total exports could potentially decrease the size of informal employment. As figure 6 shows, moving from the average share of traditional goods in total exports (0.8% in our sample) to that of the top quarter (0.9%) would decrease the informal employment share from 37.4% to 37%. The considerable sensitivity of the informal employment share to this export class is also illustrated by a move in the other direction. If an average Asia-Pacific country was to move from the mean to the bottom quarter (0.3% of total exports), the hypothetical informal employment share would rise to 39.57%.

Further implication of the hypothetical deviation from the average country in figure 5 is the importance of trade in reducing the informal employment share. If international openness measures, as the sum of GDP share of exports and imports, would increase from the sample mean of 50% to a hypothetical 60%, the informal employment share would fall by close to a percentage point. Therefore, according to these estimates opening to trade may reduce informal employment. However, increases in total trade would need to be of considerable magnitude.

Figure 6 : The composition of exports, foreign direct investment and the exposure to international trade affect the informal employment share



Source: Author's calculations.

5.2 International openness and Productivity

Productivity is important for inclusive growth as it is associated with higher wages and living standards. In terms of the role of trade, companies exposed to trade tend to be more productive, on average than their counterparts who produce only for the domestic market (Melitz, 2003). This may be a result of the more productive firms 'self-selecting' into export activity; or may be because companies taking the decision to enter a foreign market launch a learning process to prepare themselves for exporting which raises productivity. Exporting companies appear to also invest more in further productivity enhancing improvements and such as technology and research and development. More liberal trade and investment regimes are also associated with higher productivity as they allow for the efficient sourcing of inputs and also for efficiency-enhancing foreign ownership. For instance, the establishment of China's special economic zones (SEZs) throughout the 1980s and 1990s saw average labour productivity rise in these zones, thanks to FDI invested in their SEZs

This section examines links between openness and productivity considering the additional policy variables of intermediate imports, the preparation and skill-enhancement activities of (future) exporting companies, as well as the importance of the export destination.[6] The role of intermediate imports is included by controlling for its share in total imports.[7] The inclusion of trade with specific export destination relates to the point mentioned in the literature review, that productivity enhancements are particularly pronounced in trade with a higher income country.[8] Finally, preparation and productivity-enhancing activities are controlled for using three variables: first, investment as a share of GDP; second, in order to capture companies' investments into

[6] The complementary policy variables used here are the share of intermediate imports in total imports, the share of exports going to OECD members, the share of exports going to middle income countries, the share of employees undergoing vocational training, the share of investment in GDP, and a proxy for the real expenditure on ICT products per employee.

[7] As the sale of final products using such intermediates may be delayed, the share of intermediate imports is included both for the present as well for the previous year.

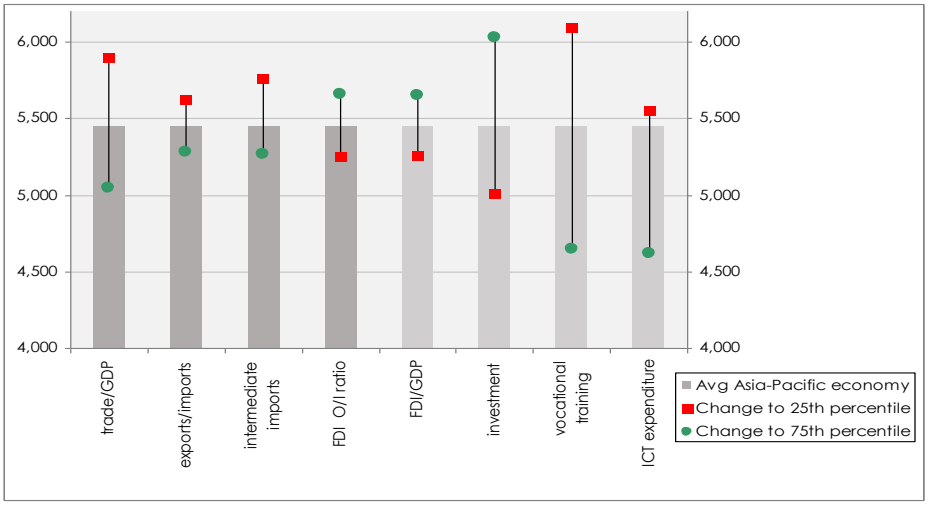
[8] As productivity is simply a ratio of the price of output over labour input, productivity gains reaped in trade with higher income countries need not necessarily reflect more efficient production, but rather a higher price premium. To control for this channel, the share of exports going to OECD countries is included as a control variable.

their labour force a measure of information and communications technologies (ICT) expenditure is included;[9] third, the measure to assess employer's investment into their labour forces is the prevalence of vocational training.[10]

Results show that *increased trade openness, as well as the impact of FDI, is beneficial for domestic productivity*. However, the combination between international openness and supplementary policies appear to have mixed results. Graphical representation attempts to clarify the overall effect of international openness in combination with various supplementary policies. Here, significant interactions concern intermediate imports, vocational training, and investment and ICT expenditure. As before, the importance of these policies is considered by calculating the effect of a hypothetical move away from the sample mean.

Figure 7 illustrates the economic importance of the various statistically significant complementary policies and the international openness measures.[11] Apparently, the most effective means to increase productivity is to increase investment as a share of GDP. Moving from an average share of 25% to the top quarter's share of 31% may be associated with a boost of output per worker from $5,450 to $6,090.

Figure 7 : Vocational training, investment and ICT expenditure affect aggregate productivity



Source: Author's calculations.

[9] As data for ICT expenditure is not readily available, this study uses trade data on ICT products. To proxy for the computerization of the work place, the average real import value of office machinery per employee is computed and included in the estimation.

[10] This prevalence is captured by the share of total employees currently enrolled in vocational training for each country, and the working assumption is that a higher level of vocational training is associated with higher labour force productivity.

[11] The considered data points for the supplementary policy variables reflect the sample mean, the 25th percentile and the 75th percentile. For the stated variables, these values are: intermediate import share [0.22; 0.32; 0.38]; vocational training share [0.006; 0.02; 0.04]; investment share [0.2; 0.25; 0.31], ICT expenditure $/worker [0.26; 3.74; 10]. For the international openness variables, the hypothetical values are: exports/imports [0.8; 0.9; 1]; trade/GDP [0.4; 0.5; 0.6], FDI O/I ratio [0.3; 0.4; 0.5]; FDI/GDP [0.3; 0.4; 0.5].

With ICT expenditure and intermediate imports, results presented in figure 7 suggest that a movement of the average Asia-Pacific country into the first quarter of these complementary policies is not conducive to the inclusiveness of growth. However, this negative effect turns around if international openness increases simultaneously. For instance, if one were to boost ICT expenditure in the presence of increasing outward FDI, productivity losses turn into net productivity gains. The same is true for intermediate imports, which accompanied by an increasing net trade surplus are associated with higher domestic productivity.

According to these estimates, increasing the share of the people in vocational training may not produce immediate positive productivity results. From our sample, a possible move from the average 2% of the population that is in vocational training to the top quarter's value of 4% decreases aggregate productivity considerably.

Regarding the tested dimensions of international openness, an increase in the FDI stock appears beneficial for aggregate productivity. Countries that showed a higher sum of outward and inward FDI stock compared to domestic GDP also showed higher aggregate productivity. This is especially true when the outward FDI stock increases more rapidly as a share of GDP than the inward FDI stock. As already pointed out above for employment participation, causation may run both ways in the sense that it may only be the more productive countries that are able to generate outward FDI in the first place. The observed association could thus again be driven by an unobserved third factor such as the development stage of the economy.

The beneficial effects of FDI openness contrast with the seemingly negative relationship between productivity and international trade integration. In our sample, countries with a higher share of total trade over GDP showed less output per worker. The effect found for the composition of trade as measured by the exports/imports ratio helps illuminate this counterintuitive association. If exports increase faster than imports (i.e. the exports/imports ratio increases) the potential negative effect is smaller and eventually becomes positive.[12] For countries that export more than they import, increases in total trade are associated with increased aggregate productivity. Thus our evidence suggests that the composition of trade matters for aggregate productivity.

5.3 International openness, wages and inequality

In those developed countries experiencing stagnant wages at the lower levels of the income distribution, international trade is widely blamed for growing inequalities. In particular, trade with lower-wage developing countries is held responsible. In developing countries, there is a less defined discourse on the relationship between trade and income inequality. Significant literature points, however, to other macroeconomic trends, such as skill-biased technological change, as a significant alternative source of increasing inequalities around the globe (IMF 2007).

While trade is clearly associated with higher incomes it is not clear what the direction of causality is not whether trade-induced growth is more beneficial to the poor than economic growth stemming from other sources. Various cross-country studies, using data from the 1960s until the end of the century, found a positive association between trade volumes and income inequality (Barro 2000; and 2008). In terms of other kinds of inequalities, some results find that urban areas benefit more from trade than rural places (Nicita 2009). However, this depends upon the mobility labour, and extent

[12] Our estimates imply that the effect for the trade composition as measured by the export/import ratio changes the sign from net importers to net exporters. See Fritz (2013) for more details (e.g. figure 9 on the relationship between productivity, the exports/imports ratio and intermediate imports).

to which individuals can relocate and benefit from new opportunities in urban areas; it may not exacerbate nation-wide inequalities.

The education level of the workforce could also play a role in determining the effects of trade on inequality. Based on 61 countries, a study by Gourdon, Maystre and de Melo (2008) found that trade liberalization is associated with increased income inequality in low-income countries whose workforce are scarcely educated or whose exports consisted mainly of natural resources. In low-income countries where the majority of the labour force has at least primary education, income inequality reduced following liberalization. Other findings of relevance are that foreign-owned firms in developing countries tend to pay more. When simple wage averages between domestic and foreign-owned enterprises in developing countries are compared, wage differences of up to 50% are observed. Even though the dominant portion of this inequality can be attributable to differences in job characteristics between the two groups, foreign-owned firms still pay a wage premium of up to 10% over domestic-owned enterprises.

To capture the relationship between international openness and the domestic income distribution, three inclusivity indicators have been collected. Analysis begins with evolution of real average hourly wage. Poverty prevalence, as share of the population living on less than $2 (PPP) per day, is then measured. The Gini index (a popular measure of income inequality) is also used to gauge the relationship between international openness and income distribution.[13] To control for skill-biased technological change, this study uses trade data on ICT. To proxy for the computerization of the work place, the average import value of office machinery per employee is calculated.[14] Due to lack of data, the model is limited to one further control variable. The additional variable included in this model is real GDP per capita, as differentiation between general economic growth-induced poverty reductions and the specific merits of trade- or FDI-induced growth is sought.

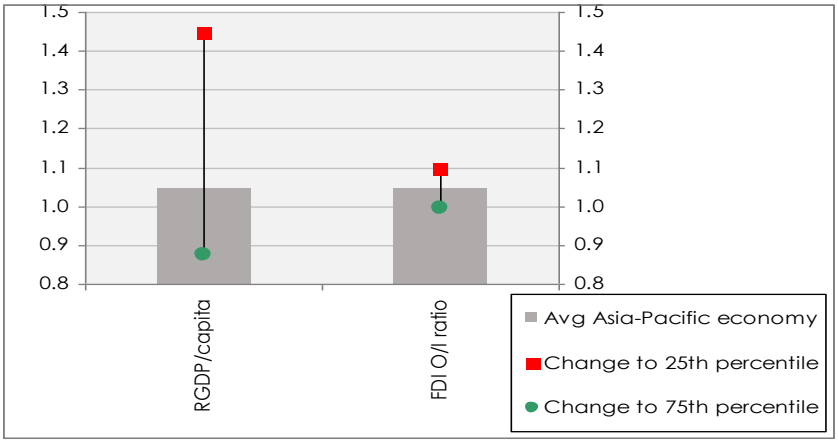
The main interaction, in respect to real wages, occurs between the outward/inward FDI stock ratio and real GDP per capita. According to these estimates, adding outward FDI dampens the real wage of domestic workers, albeit at an increasingly slow pace. This relationship is also shown in figure 8, illustrating that a higher real GDP per capita is not necessarily reflected in higher wages.[15] However, a higher share of inward FDI in a country's total FDI stock (i.e. a reduction in the FDI outward/inward ratio) contributes positively to real wages in the host country. According to figure 9, moving from the mean value of the outward-over-inward FDI ratio of 0.3 to a lower 0.2 increases the real wage from $1.05 to $1.10.

[13] Unfortunately, data availability for these variables is severely limited. At best, the data sets used in the estimations of this section are one third of the size of the ones used so far. For this reason, results in this section have to be interpreted cautiously. As we will see in the graphical representation, the predictions are very sensitive to deviations from the mean and quickly move out of sample.

[14] The estimation underlying this model includes the same international openness indicators as that of section A. 2. The complementary policy variable used is a proxy for the real expenditure on ICT products per employee. To control for the stage of development, real GDP per capita is included as a further control variable.

[15] The considered data points for the supplementary policy variables reflect the sample mean – the 25th percentile and the 75th percentile. For the stated variables, these values are: intermediate RGDP/capita in $ [790; 4178; 5634]; ICT expenditure $/worker [0.26; 3.74; 10]. For the international openness variables, the hypothetical values are: FDI O/I ratio [0.3; 0.4; 0.5]; FDI/GDP [0.3; 0.4; 0.5].

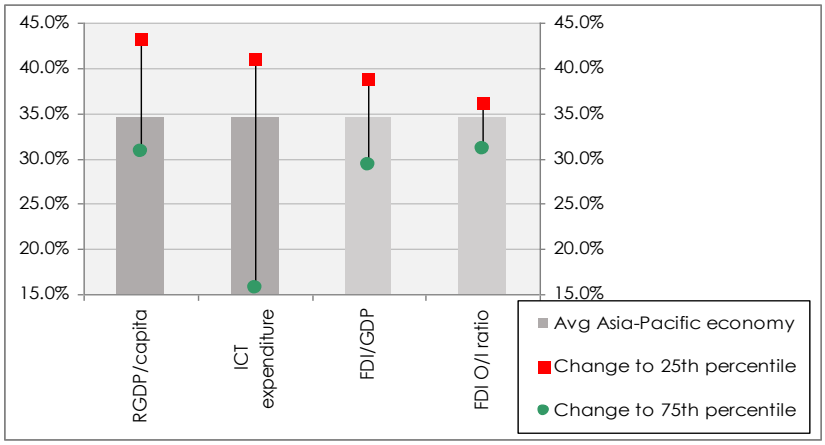
Figure 8 : Real wages need not grow with the stage of development



Source: Author's calculations.

Regarding the poverty rate, an increase in ICT expenditure per worker seems to be a principal supplementary policy (figure 9). According to these estimates, moving from the average sample expenditure of $3.73 to $10 would lower the poverty rate from 34% to below 20%. As shown above, the reduced sample size may lie behind the strength of this association, as the estimated coefficients may be unreliable. Apart from the strong ICT result, all other policies and international openness variables seem beneficial for poverty reduction, although to a lesser extent.

Figure 9 : The stage of development and ICT expenditure affects the poverty rate

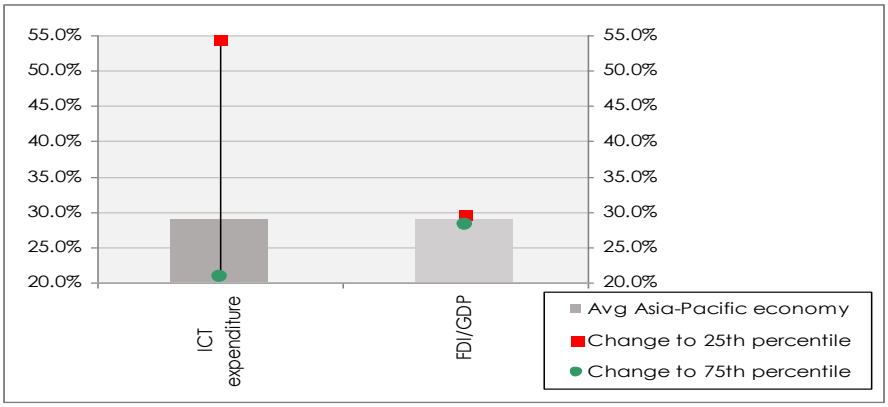


Source: Author's calculations.

Lastly, figure 10 depicts the statistically significant interaction between ICT expenditure and share of FDI over GDP, with respect to the Gini coefficient. It appears that the size of total FDI stock relative to GDP is not an economically important determinant for the value of Gini coefficient. This is different for the volume of ICT expenditure per worker. In this instant, higher expenditure is associated with greater income inequality. Again, sensitivity of the Gini coefficient against the value of ICT expenditure may be a product of the sample size. However, benefits of increased information technology (IT) in the work place rationalised in the overall direction of this effect may only add to a small subset of the working population. It is an issue that

may reflect the scarce IT literacy or little availability of white collar work which most benefits from increased ICT expenditure.

Figure 10 : ICT expenditure affects income distribution



Source: Author's calculations.

5.4 International openness and gender equality

Relatively little research has been devoted to capturing the gender effects of international openness. Export orientation is associated with higher female labour force participation in Turkey and a variety of Asian countries. (SOURCE). But the link between international openness and the gender wage gaps remains unclear. Analysing the gender wage gap evolution in 80 countries among many occupations during 20 years, Oostendorp (2009) finds a mixture of developments in low-and high-skilled employment associated with increasing international openness. In developing countries, the gender wage gap in low-skilled jobs seems to have narrowed while in high-skilled jobs it has become wider. However, individual country studies do not necessarily support this pattern. The literature is far from conclusive on what the role of trade is; whether it is still persisting, or even widening, gender wage gap.

One study using NAFTA data found that trade prompted firms to upgrade production technologies thereby lowering the need for physical labour. This led to the replacement of blue-collar male labour with female (Juhn, Ujhelyi, and Villegas-Sanchez 2014).

The prime inclusivity indicator chosen for equal opportunity is female labour force participation. The initial estimation was with participation as the females in labour force. The second model uses the ratio of female to male labour force participation. As female labour force participation was relatively lower on the outset, positive contributions to this ratio imply that female employment is catching up; therefore employment opportunities are spreading more equally across the sexes.

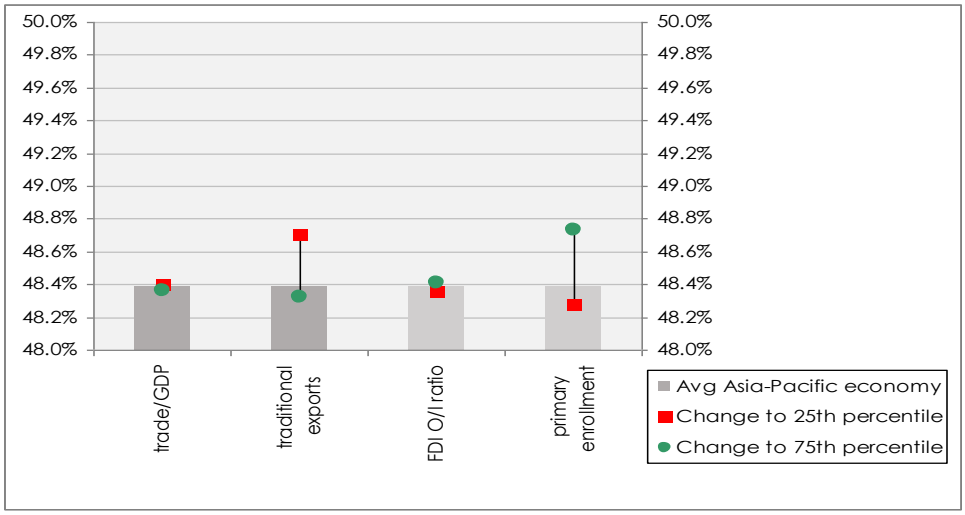
The literature review only offers little guidance with the choice of further controls for equal opportunity. Besides an observed equalization of labour force participation rates across the sexes in exporting countries, a measurable finding on the aggregate was the importance of the export composition. Apparently, traditional export sectors (such as textiles and leather products) are associated with higher female labour input. In contrast, an economy geared towards industrial and capital intensive production seemed to have the opposite relationship. Reflecting on these insights, two controls are added to the baseline specification: for one, the share of traditional export sectors (namely textiles and leather products) in total exports; for two, the value added of industrial production in total GDP.

Besides trade, the education of women is likely to play a dominant role in female employment. To address this issue, the complementary policy variables include the ratio of female over male enrolment rates in primary education.[16] The rates ratio captures the strength of female educational attainment in relation to the male labour force.[17]

Results show only muted effects of international openness on equal opportunity, in accordance to the literature review. Figures 11 and 12 reveal that absolute female labour force participation, as well as relative female-to-male employment participation, is not strongly influenced by international openness variables alone, nor when joined with complementary policy variables.

While the economic effect is minimal, figure 11 suggests that a reduction in the share of traditional goods in total exports, as well as an increase in the female primary enrolment rate, lifts female employment participation.[18] If the average Asia-Pacific country could increase primary enrolment from 89% to the 99%, the enrolment rate found in the top quarter of countries in the region, our estimates imply an increase in the female employment participation rate from 48.38% to 48.73%. There can be similar gains by reducing the share of traditional exports from an average 0.8% to the bottom quarter's value of 0.3%. As evident from figure 11, changes in the degree of international openness (as measured by the share of trade in GDP or the outward-over-inward FDI stock ratio), while significantly statistically associated, is of no essential economic importance in female labour force participation rates.

Figure 11 : Female employment participation is little affected by complementary policies



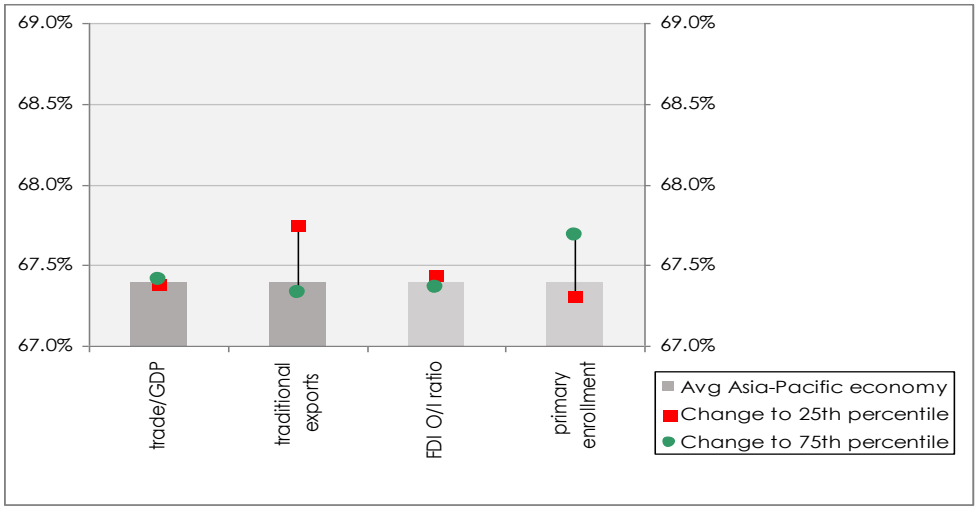
Source: Author's calculations.

[16] Estimation in this section includes the same international openness indicators as those of section A.2. The complementary policy variable used are the share of traditional goods exports in total exports, the share of industry in total value added, and the ratio of past female to male primary school enrolment rates.

[17] As this effect may only be realised after some considerable time, the ratio for primary education is only included with a lag of 10 years.

[18] The considered data points for supplementary policy variables reflect the sample mean, the 25th percentile and the 75th percentile. For the stated variables, these values are: traditional export share [0.003; 0.008; 0.009], female primary enrolment [0.86; 0.89; 0.99]. For the international openness variables, the hypothetical values are: FDI O/I ratio [0.3; 0.4; 0.5]; trade/GDP [0.4; 0.5; 0.6].

Figure 12 : Relative female-to-male employment participation is largely invariant to the composition of exports or primary schooling



Source: Author's calculations.

The same pattern also applies in relation to female labour force participation rates catching up. In this sample, the female labour force participation rate is as high the men's by roughly 70%. As with the previous findings on how to increase female labour force participation per se, relative participation rates may be increased via less traditional goods exports and increased female primary enrolment (figure 12). Again, the degree of international openness is largely irrelevant to the inclusivity indicator. Openness is measured by total trade value as a share of GDP or the outward-over-inward FDI ratio.

6. Concluding Remarks

The Asia-Pacific region is in urgent need of new policy approaches that prioritise the inclusiveness of growth, while ensuring that the potential gains from trade and investment are fully exploited. The analysis above supports the idea that complementary policies are needed to ensure that workers and firms are fully equipped to benefit from the opportunities created by international economic openness. For firms this can mean ensuring that they have access to technology and know-how in order to be able to compete with imports and seek out opportunities in export markets. For households, similarly, individuals need the knowledge and skills needed to be able to move into expanding sectors and take on new forms of productive employment. More specifically, the results presented above suggest that economic openness through trade and investment can better support inclusive outcomes in the presence of the following complementary policies:

- Employment: To boost inclusive employment outcomes, in particular to support aggregate formal employment in an open economy, our estimates suggest that the promotion of intermediate imports and exports in traditional goods sectors can be a means to boost employment outcomes. Furthermore, an increase in labour market flexibility may lay the ground for positive employment effects of increased international openness.
- Productivity: Getting FDI policies right is important for boosting productivity. Aggregate investment is an important driver of increasing productivity once countries increase their openness to FDI. However, the results imply that an

increased relative importance of outward FDI may dampen, although not counteract, this positive effect. Second, increased ICT expenditure may also boost productivity, especially in countries that see relatively high volumes of outward FDI. Increasing access to ICT may allow for the reintegration of employees, whose traditional industries have shifted away from domestic production. Lastly, promotion of intermediate goods imports may increase productivity in net exporting countries. However, results are ambiguous with respect to this policy; increased intermediate imports seem to have a negative association with productivity, in the presence of increasing de facto trade openness.

- Wages and equality: It is harder to draw clear policy implications from the results in this area partly on account of the limited size of the sample, together with observation gaps for individual countries. We note though that increased ICT expenditure may contribute to inclusiveness of growth, possibly by equipping firms to raise productivity.
- Gender: First, female labour force participation apparently decreases with the size of the traditional goods sector, as measured by its export share. Second, the equality of primary school enrolment across the sexes helps towards received benefits from increased international openness. In turn, this contributes to the equal economic opportunity of women, although only to a small extent. The picture was nuanced for the promotion of intermediate goods imports or exports from traditional sectors such as leather and textiles. While intermediate goods imports promoted employment and productivity in net exporting countries, their effect on less integrated or net importing countries was found to be negative. In regard to traditional goods exports, the positive effect found for aggregate employment did not seem to carry over into increased female employment participation.

Inclusive growth rests, of course, on a much broader institutional and policy framework than is discussed here. These policies range from institutions and regulation, macroeconomic and exchange rate policies, competition policy, industrial policies, infrastructure and human capital investment strategy, to social and environment protection. Access to finance, especially for often credit-constrained SMEs, is also an essential prerequisite. There is no-one size fits all approach to inclusive growth. Countries though should learn from each other's experiences and successes and failures. International and regional co-operation can help in this regard. In the field of trade and investment, for instance, more needs to be done to ensure that the least developed and land-locked countries obtain genuine market access for their exports and are given sufficient support to develop the productive capacities to benefits from growing regional trade and investment.

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