

MEDIA RELEASE

WTO Public Forum 2017: WTO Chairs compare country strategies for making trade more inclusive

Every year, policymakers, development specialists, academics and business people from around the world converge on the World Trade Organization's headquarters in Geneva to attend the **WTO Public Forum**, one of the organisation's most popular and high-profile events. The theme of this year's Public Forum, which took place from 26-28 September 2017, was **'Trade behind the headlines'** in recognition of the need to move beyond general talk about trade and to "get into the heart of the issues at hand" (Roberto Azevedo, WTO Director-General).

In keeping with this theme, the WTO Chairs session at the Public Forum (attended by **Prof Wilma Viviers** and two of her colleagues from **TRADE, Prof Marianne Matthee** and **Ms Carli Bezuidenhout**) focused on how trade (and trade policy) can be made more inclusive and effective, particularly for small businesses. Opening the WTO Chairs session, **Dr Robert Koopman** (the WTO's Chief Economist and Director of the Economic Research and Statistics Division) remarked that policymakers in developing countries need to mainstream trade into national development strategies if they are to arrive at sustainable solutions to poverty, unemployment and inequality.

WTO Chairs from four different countries were invited to give presentations at the session - Barbados, Indonesia, Jordan and South Africa - with topics ranging from the effects of climate change on trade performance to the link between trade activity and employment levels. Marianne and Carli from TRADE gave a joint presentation titled **'Inclusive growth and wage inequality: the case of South African manufacturing exporters'**.

'The UN Sustainable Development Goals recognise exports as an engine for inclusive growth, which in turn acts as an important vehicle for poverty alleviation, job creation and more sustainable societies,' said Marianne. 'But exporting also poses a challenge to the achievement of such inclusive growth because there is a noticeable wage inequality between exporting and non-exporting firms.'

Marianne went on to explain that the international literature shows that exporting firms pay a wage premium relative to non-exporting firms, which has widened in recent years as global trade has expanded. While South Africa's export sector is ripe for expansion and diversification, the country can ill-afford to fuel a widening wage gap by promoting the interests of exporting firms over those of non-exporting firms because South Africa is already classified as one of the most unequal societies in the world, with tensions rising in many quarters.

With a view to better understanding the distribution of wages within manufacturing exporting firms relative to non-exporting firms in South Africa (which over the years has received little formal attention due to limited data and other constraints), and indeed how

wage differentials might contribute to wage inequality, Marianne and Carli embarked on a multi-party research collaboration a couple of years ago with policymakers from South Africa's National Treasury and the South African Revenue Service (SARS) as well as academics from UNU-WIDER and Stellenbosch University. Their study formed part of a project involving a detailed labour market analysis. In this regard their research team have scrutinised the wage differentials between exporting and non-exporting manufacturing firms in South Africa while also examining wage inequality *within* firms and what has influenced this, such as the firms' general characteristics, and the types of products exported and types of destinations served. The analysis was conducted using the Bernard and Jensen export premia method to determine wage differentials in a firm at the 5th, 25th, 75th and 95th percentiles.

'Right across the within-firm wage distribution (from the 5th to the 95th percentiles) we found that there is a hierarchy in the wage premium for firms the further away a destination is located,' Carli said. 'For example, wages in firms exporting to the SACU region only are lower than those in firms exporting to other destinations in Africa which, in turn, are lower than those in firms exporting globally. Whereas globally active exporting firms provide better jobs and pay higher wages, there is also a higher level of wage inequality within these firms relative to non-exporting firms.'

Carli explained that the wage inequality is largely influenced by the number of employees in a firm and their productivity (output per worker). In this regard, it is the larger and more productive firms that are more likely to be involved in exporting. Skills are naturally an important factor in the determination of wages. Interestingly, though, it was found that the wage inequality has little to do with the type or quality of the product being exported or the economic conditions of the destination export market.

'From a policymaking point of view, one cannot simply look at increasing exports as a way of achieving more inclusive growth,' said Marianne. 'Policies need to support specific types of exporting firms – that is, those that have the potential to grow and become more productive. It is these types of firms that have the potential to employ more people and pay higher wages.'

Possible policy-related interventions in this regard include: increased financial support and market information, especially for small firms; targeted investment in sectors with particularly strong export growth potential; and the encouragement of cost-effective sourcing of inputs from abroad and stronger competition in the local market which will help to boost competitiveness. In addition, one of the cornerstones of a drive to make trade more inclusive, with positive spill-over effects for the economy as a whole, is a strong culture of educational advancement and skills development.

'By increasing the supply of skilled workers, it is possible to reduce the premium paid to in-demand skilled workers,' said Marianne. 'Building knowledge and skills is highly complex because it cuts across all economic sectors and must keep pace with today's rapidly changing world, but it is an absolute imperative. Also, an attitude of life-long learning is becoming a non-negotiable determinant of a firm's success.'

Marianne, Carli and the other members of the research team will continue their collaboration with a view to adding more value to the global conversation about how to entice more firms

into exporting and how to turn them into valuable sources of economic opportunity, employment and sustainability.

For more information about the work of the TRADE research entity at the North-West University, contact: wilma.viviers@nwu.ac.za or visit the TRADE website: <http://commerce.nwu.ac.za/trade>.