

Chapter 19. Trade Policy, Inequality, and Resilience

In the previous chapter, we learned why countries trade, how comparative advantage works, and how goods and services move through global value chains. But understanding trade is only the beginning. The more difficult questions are what happens after markets open, industries expand or decline, and countries become more connected to one another.

Trade can create lower prices, new jobs, larger markets, and access to technology. At the same time, its effects are not shared equally. Consumers may benefit from cheaper imports while local producers lose income. Export industries may grow while workers remain in insecure or low-paid jobs. Mining and manufacturing may generate foreign exchange, yet nearby communities may bear pollution, displacement, or pressure on water and land. These outcomes show that trade is not simply a technical matter of exports and imports. It is also a question of power, fairness, adjustment, and public responsibility.

This chapter examines the policy choices that shape who benefits from trade and who may be left behind. It looks at the experiences of workers, farmers, firms, consumers, governments, and communities. It also discusses labor rights, gender inequality, environmental protection, food and energy security, digital trade, artificial intelligence, and the need to prepare for disruptions in global supply chains. The cases of rice tariffication, Philippine nickel, Davao bananas, and the BPO sector show that the same policy or economic change can produce different effects across society.

The chapter also asks how trade can contribute to development without making the economy dangerously dependent on a few products, markets, suppliers, or technologies. A resilient trade strategy does not mean closing the country to the world or producing everything locally. It means strengthening domestic capabilities, diversifying economic relationships, protecting essential needs, and preparing workers and communities for change.

Ultimately, trade policy should not be judged only by how much exports increase or how many investments enter the country. It should also be judged by whether it creates dignified work, raises domestic value added, protects people and the environment, strengthens national capabilities, and gives affected groups a meaningful voice in economic decisions. Trade is a tool of development—not the final goal.

A. Who Benefits—and Who Can Be Left Behind?

Trade creates gains, but these gains are distributed through markets and institutions. Ownership matters. A Filipino worker employed by an exporter benefits through wages, while shareholders may receive profits. Consumers benefit when prices fall, but a local producer may lose income. Government may collect taxes, but it may also spend money on incentives, infrastructure, or adjustment assistance. Communities may gain jobs but bear congestion, pollution, water use, or displacement.

Table 18.4. Trade creates different effects across society



Adjustment costs are real

Economic models often assume that workers and resources move from shrinking industries to expanding ones. In real life, this movement takes time and money. A farmer cannot instantly become a semiconductor engineer. A factory worker may live far from new jobs. Skills, age, family responsibilities, housing, transport, and discrimination shape who can adjust. Without retraining, income support, job placement, public services, and regional development, the costs of trade can remain concentrated for years.

Labor rights and the race to the bottom

Countries may try to attract investment by offering low wages, weak regulation, tax incentives, or cheap land and energy. This can create a race to the bottom if governments compete by reducing worker and environmental protection. International Labour Organization guidance emphasizes that states must enforce labor laws and that companies have responsibilities to respect rights throughout their supply chains (ILO, 2021). Trade should not depend on child labor, forced labor, unsafe workplaces, union suppression, or discrimination.

Gender and unpaid work

Trade can expand employment for women, particularly in garments, electronics, tourism, and business services. But women may be concentrated in lower-paid or insecure positions while men dominate management and technical occupations. Long or irregular work hours can also increase pressure on unpaid care work at home. Policies for equal pay, safe transport, childcare, maternity protection, freedom from harassment, and technical training help ensure that trade expands genuine opportunity rather than simply using existing inequalities.

CASE STUDY: Rice Tariffication: lower barriers, different effects

Republic Act No. 11203, enacted in 2019, replaced quantitative restrictions on rice imports with tariffs and created the Rice Competitiveness Enhancement Fund. The reform aimed to improve food security, reduce consumer prices, and support farmers through machinery, seed, credit, and training ("Republic Act No. 11203," 2019).

The basic trade-off was clear: consumers could benefit from greater supply and lower prices, while rice farmers could face lower farmgate prices and stronger competition. A PIDS simulation found that the broad consumer gains from liberalization could exceed total producer losses, but the costs were concentrated among net rice producers (Briones, 2019). This means a policy can produce a positive total gain while still causing serious hardship to a particular group.

The law was amended in 2024 through Republic Act No. 12078, which expanded farmer-support mechanisms ("Republic Act No. 12078," 2024). PIDS researchers nevertheless argued that an independent endline assessment was needed because the effects of several RCEF components remained inconclusive and were difficult to separate from fuel, fertilizer, wage, and climate shocks (Briones & Azis, 2024). The case shows that opening trade must be matched by effective, timely, and accountable support—not merely promised assistance.

Guide questions

1. Why might rice consumers and rice farmers experience the same policy differently?
2. Is it enough to say that society gains in total? What responsibilities does government have toward those who lose?
3. What evidence should be used to determine whether farmer-support programs are working?

B. Trade, the Environment, and Climate Change

International trade can support environmental goals by spreading renewable-energy technology, efficient machinery, and climate-resilient knowledge. It can also increase emissions and ecological damage through production, shipping, mining, deforestation, overfishing, waste, and the movement of pollution-intensive activities to places with weaker regulation. The environmental effect depends on what is produced, how it is produced, how far it travels, and which rules govern the value chain.

Carbon in global value chains

A product's environmental footprint is not limited to the country where it is sold. Emissions may occur during mining, electricity generation, component production, assembly, and shipping in several economies. ADB argues that decarbonizing global value chains requires cleaner energy, green technology, sustainable investment, and greater transparency about emissions throughout production networks (ADB, 2024).

Environmental standards can encourage cleaner production, but they can also become difficult barriers for small exporters if compliance is costly. Public laboratories, shared certification services, green finance, technology assistance, and clear transition periods can help producers meet higher standards instead of being excluded.

Transition minerals and the new resource question

The shift to electric vehicles, batteries, renewable power, and expanded electricity grids is increasing demand for nickel, copper, lithium, cobalt, graphite, and rare earth elements. Under the International Energy Agency's stated-policies scenario, nickel demand for clean technologies rises from 562 thousand tons in 2024 to about 1.35 million tons in 2030. Mining and refining are highly concentrated in a small number of countries, creating both economic opportunity and supply risk (IEA, 2025)

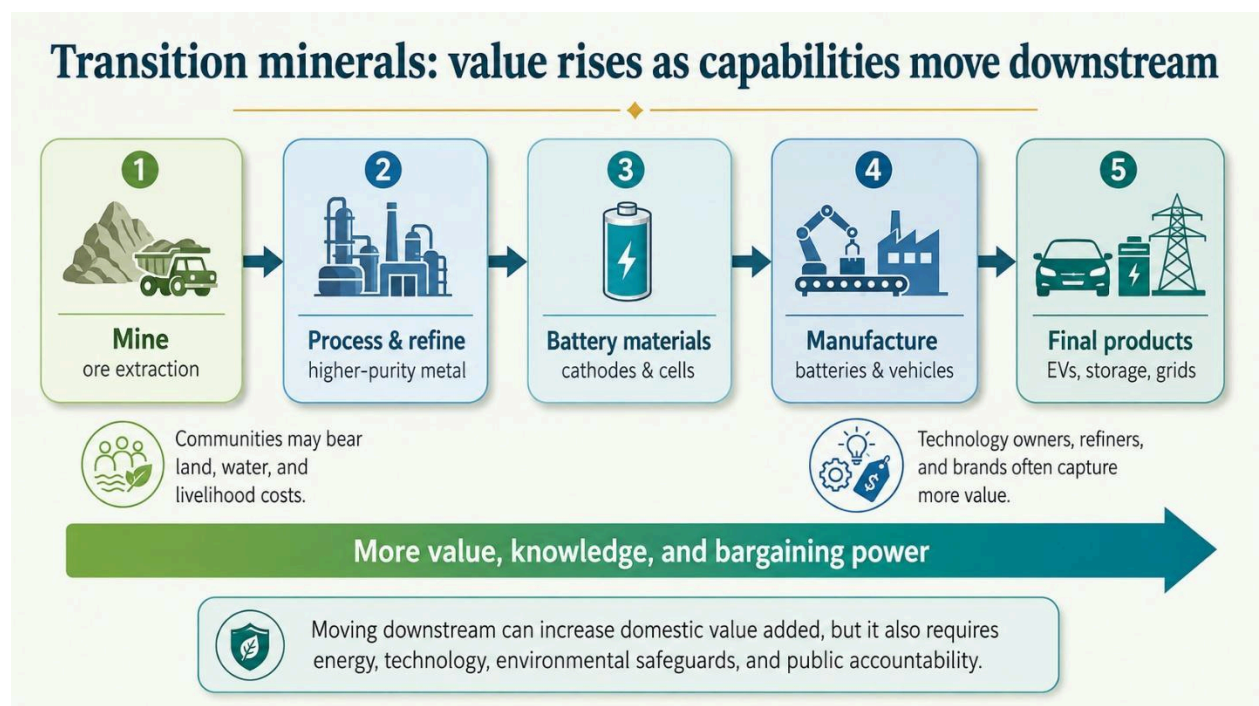


Figure 18.5. Moving downstream in the transition-mineral value chain.

CASE STUDY: Philippine nickel: export the ore or build a deeper industry?

The Philippines is one of the world's important nickel-producing economies. Rising global demand may increase investment and export earnings. But the developmental outcome

depends on the country's position in the value chain. Exporting unprocessed ore captures less value than producing refined materials, battery components, or other manufactured products.

Moving downstream is not costless. Mineral processing can require large amounts of electricity, water, capital, technology, and waste management. Poorly planned facilities can intensify pollution or lock the country into carbon-intensive power. Mining also affects Indigenous peoples, farmers, fishers, watersheds, and biodiversity. Communities may carry the costs even when national export figures rise.

A responsible strategy would require strong environmental enforcement, free and informed community participation, transparent contracts and taxes, rehabilitation funds, local employment and supplier programs, renewable power, and a realistic assessment of which processing stages the country can perform competitively and safely. The question is not simply whether to mine, but who decides, who benefits, and who bears the risks.

Guide questions

1. Why does processing usually capture more value than exporting raw ore?
2. What environmental and social costs must be included when judging whether an investment is beneficial?
3. Should the country process every mineral locally, or should decisions depend on energy, technology, market, and ecological conditions?

C. Trade Vulnerability and Economic Resilience

Global value chains are efficient because firms source inputs from places that can provide them at low cost and reliable quality. The same specialization creates dependence. The COVID-19 pandemic disrupted factories, ports, travel, and shipping. Later geopolitical conflicts and trade restrictions affected energy, food, metals, and technology. Typhoons, droughts, animal diseases, and crop pests can also interrupt supply. A shock in one location can travel through the entire chain.

From “just in time” to “just in case”

Before recent crises, many companies minimized inventories and depended on deliveries arriving exactly when needed. This reduced storage costs but left little room for disruption. Firms and governments now pay more attention to backup suppliers, strategic reserves, cybersecurity, regional sourcing, and business continuity. Resilience does not mean producing everything locally. It means avoiding dangerous dependence on a single source and maintaining the ability to respond when normal trade is interrupted.

Efficiency matters—but so does the ability to withstand shocks

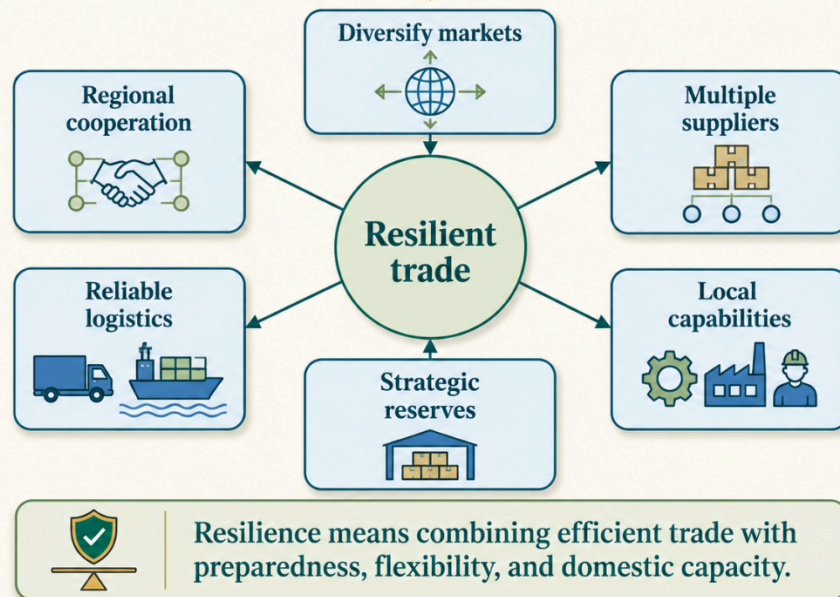


Figure 18.6. Elements of a resilient trade strategy.

Food and energy security

Food security is not the same as complete food self-sufficiency. Imports can stabilize supply when domestic harvests fail, while domestic production protects against world shortages, export bans, or shipping disruptions. A balanced strategy combines productive local agriculture, diversified import sources, transparent reserves, efficient logistics, social protection, and nutrition policy.

Energy security has similar dimensions. The Philippines imports most petroleum used in transport and industry. Diversifying suppliers can reduce risk, but the deeper long-term strategy is to reduce dependence through public transport, energy efficiency, renewable power, storage, and stronger grids. Trade policy, industrial policy, and climate policy are therefore connected.

CASE STUDY: Bananas from Davao: export success and market dependence

Bananas were the Davao Region's leading export in the first quarter of 2025, generating US\$330.72 million and accounting for 40.95 percent of regional exports. Japan was the region's largest export destination, and bananas made up most exports sent there (PSA Region XI, 2025).

Export specialization creates income for growers, workers, packers, transporters, ports, and local governments. But dependence on one crop or a small number of markets creates vulnerability. Plant disease, extreme weather, changes in foreign sanitary standards, diplomatic disputes, or the bargaining power of large buyers can quickly reduce sales and farm incomes.

Resilience may require stronger disease control, climate adaptation, crop and market diversification, farmer organizations, domestic processing, transparent contracts, and support for small growers to meet standards. Export growth is more secure when producers have several buyers and keep a larger share of the final value.

Guide questions

1. What are the advantages and risks of specializing in a successful export crop?
2. How can farmers reduce dependence on a small number of buyers or destination markets?
3. How could Davao keep more value from banana exports?

D. Digital Trade, BPO, and the Future of Services

Digital networks allow services to be delivered across borders at very low transport cost. Filipino workers provide customer experience, accounting, finance, software development, animation, game development, engineering support, health information management, legal services, and other professional tasks to overseas clients. The Philippines' language skills, large workforce, telecommunications networks, and experience with international clients helped build this industry.

The sector's success shows the value of human capital. It also reveals risks. Entry-level routine tasks are increasingly automated. Artificial intelligence can draft responses, summarize documents, generate code, and analyze data. This may reduce demand for some jobs while increasing demand for workers who can supervise AI, solve complex problems, understand industries, protect data, communicate with clients, and exercise judgment.

CASE STUDY: BPO and artificial intelligence: protect jobs or upgrade work?

BSP estimated Philippine BPO-related service export revenues at US\$33.5 billion in 2025. The industry supports a large number of workers and creates demand for offices, transport, food, housing, telecommunications, and other local services (BSP, 2026).

Artificial intelligence is unlikely to affect every task in the same way. Repetitive calls, basic data entry, and standardized back-office work face greater automation pressure. More complex services—such as cybersecurity, data analytics, health information management, software engineering, finance, design, and customer problem-solving—may use AI as a tool rather than be fully replaced by it.

A development strategy should therefore focus on upgrading rather than freezing the industry in its current form. Priorities include stronger basic education, continuous worker training, affordable broadband, data protection, support for firms outside Metro Manila, and social protection for workers displaced during technological change.

Guide questions

1. Which BPO tasks are easiest to automate, and which require more human judgment?
2. Who should pay for retraining when technology changes—the worker, the firm, government, or all three?
3. How can the Philippines use AI to move into higher-value services instead of competing mainly through lower labor costs?

E. Making Trade Inclusive, Sustainable, and Developmental

The goal of trade policy should not be to maximize exports at any cost. It should help build an economy that creates productive and dignified work, meets people's needs, develops national capabilities, protects communities and ecosystems, and remains resilient during shocks. Trade is a tool of development, not the final objective.

1. Invest in people and productive capabilities

Workers and firms need strong basic education, technical and vocational training, universities, research institutions, digital skills, management capability, and opportunities for lifelong learning. These investments allow the country to move from low-value tasks into engineering, design, technology, professional services, and locally owned enterprises.

2. Build infrastructure that lowers costs for everyone

Reliable electricity, ports, roads, rail, cold storage, broadband, laboratories, and efficient customs procedures are public foundations for trade. Infrastructure should not only serve large exporters in a few urban zones. Connecting farms, small cities, cooperatives, and micro, small, and medium enterprises broadens participation.

3. Develop local suppliers and domestic linkages

An export enclave may generate foreign exchange while buying few inputs locally. Supplier-development programs can connect domestic firms to exporters through training,

finance, standards, technology, and procurement. The more inputs and services produced locally, the more export growth circulates through the domestic economy.

4. Support adjustment and social protection

Trade reforms should include credible plans for workers and producers who bear concentrated costs. Unemployment insurance, cash support, retraining, job placement, agricultural extension, credit, debt relief, health care, and regional development can make adjustment possible. Support should be timely, accessible, transparent, and evaluated—not announced only after harm has occurred.

5. Protect labor rights and the environment

Low prices are not true economic gains when they depend on unsafe work, unpaid wages, polluted water, destroyed forests, or unrehabilitated mines. Government must enforce labor, competition, consumer, tax, and environmental laws. Companies should disclose supply-chain risks and provide accessible grievance and remedy systems. Communities must have a meaningful voice in projects that affect their land and livelihoods.

6. Use strategic, disciplined industrial policy

Public support should target learning, innovation, quality jobs, resilience, and decarbonization. Firms receiving incentives should face clear obligations and performance tests. Government should publish costs and results, prevent conflicts of interest, and withdraw support when firms fail to meet agreed goals. Industrial policy becomes progressive when it builds shared capabilities rather than transferring public resources to a few companies.

7. Diversify markets and suppliers

Dependence on one product, buyer, supplier, or country increases vulnerability. Export promotion should help firms reach several markets, while procurement should avoid unnecessary single-source dependence. Regional cooperation can strengthen food, medicine, energy, and technology security without requiring isolation.

8. Make trade policymaking democratic

Trade negotiations often involve technical rules with large social effects. Farmers, workers, small businesses, Indigenous peoples, consumers, environmental groups, local governments, and researchers should have access to information and opportunities to participate. Government should publish impact assessments, negotiating objectives, commitments, and adjustment plans. Transparency improves both legitimacy and policy quality.



Figure 18.5. From more trade to better development

F. Economics and Justice: Big Questions

Why do some countries and people gain more from trade than others?

Countries with technology, finance, strong institutions, educated workers, infrastructure, brands, and bargaining power can capture more value. Within countries, those who own capital or have adaptable skills often gain more quickly than workers and producers facing import competition.

Should governments prioritize efficiency or fairness?

Lower-cost imports and specialization can increase total efficiency. Fairness asks whether displaced workers, farmers, and affected communities receive protection, opportunity, and a voice. Good policy seeks efficiency without treating concentrated harm as invisible.

Who benefits from export growth?

Exporters, workers, suppliers, governments, and communities may gain, but their shares differ. High export values do not automatically mean high wages, strong local ownership, technology transfer, or environmental protection.

How can the trading system become more inclusive?

Invest in people and infrastructure; enforce labor, competition, and environmental rules; support small producers; develop local suppliers; provide social protection; diversify markets; and make negotiations transparent and participatory.

Let's Review!

- Trade creates benefits and costs that are distributed differently among consumers, workers, farmers, firms, governments, and communities.
- Adjustment costs are real because workers and producers cannot immediately move from declining industries to new jobs or sectors.
- Trade policy should protect labor rights and prevent countries from competing through low wages, unsafe work, weak regulation, or environmental destruction.
- Policies such as rice tariffication may benefit consumers while imposing concentrated losses on farmers, making timely and effective adjustment support essential.
- International trade can spread green technology, but global production, shipping, mining, and resource processing can also increase pollution and carbon emissions.
- Moving from raw-material exports into processing and manufacturing can increase domestic value added, but environmental, energy, social, and community costs must be considered.
- Trade resilience requires diversified markets and suppliers, reliable logistics, strategic reserves, regional cooperation, and stronger local productive capabilities.
- Food and energy security do not require producing everything domestically; they require a balanced combination of local capacity, diversified imports, reserves, efficiency, and preparedness.
- Export specialization can create income and jobs, but dependence on one product, buyer, or market makes producers vulnerable to disease, climate shocks, changing standards, and geopolitical disputes.
- Digital trade and BPO create opportunities for Filipino workers, but artificial intelligence increases the need for continuous training, social protection, and movement into higher-value services.
- Inclusive trade policy invests in people, infrastructure, local suppliers, technology, and regional development while protecting workers, communities, and ecosystems.
- Trade policymaking should be transparent and participatory so that farmers, workers, MSMEs, Indigenous peoples, consumers, and affected communities have a voice in decisions.

Chapter Key Takeaway

Trade can support development, but its gains and costs are not shared equally. Good trade policy must combine competitiveness with social protection, environmental responsibility, economic resilience, and democratic participation so that those who benefit also share responsibility for those who bear the risks.

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