# PROJECT BRIEF 8:

14 | APRIL | 2025

## MODELLING SOCIAL AND DISTRIBUTIONAL IMPACTS OF TRADE AND SUSTAINABILITY POLICIES

## 1. Main Messages

**Trade and sustainability policies have significant social and distributional impacts,** but their effects vary across different socio-economic groups. Household Budget Surveys (HBS) and micro-level data were integrated into the modelling framework to **assess the social and regional disparities of trade policy outcomes.**
**Trade liberalisation impacts employment, income distribution, and poverty levels differently** in high-income versus low-income households.
Results suggest that **targeted policies are needed** to mitigate adverse effects and ensure an equitable distribution of trade benefits.

## 2. Research Scope & Methodology

This study explores the social and distributional impacts of trade and sustainability policies using **quantitative modelling approaches.** The research methodology includes:

- The **MAGNET CGE model**, which integrates economic, environmental, and social variables.
- Use of **Household Budget Surveys (HBS)** to provide disaggregated insights into household-level economic impacts.
- **Comparison of different trade policy scenarios**, including full liberalisation and sustainability-focused trade frameworks.
- **Assessment of labour market changes**, income distribution, and poverty reduction across socio-economic groups.

## 3. Key Findings: Evidence Supporting Policy Discussions

### 3.1. Trade and Social Inequality: Winners and Losers

- **Trade liberalisation can lead to income gains** in some sectors while marginalising vulnerable groups.
- **Lower-income households face greater economic uncertainty**, particularly in regions with high employment dependency on agriculture.
- Targeted compensation mechanisms (e.g., income support or retraining) **can help mitigate distributional disparities.**

**Implication:** Policymakers should adopt redistributive measures to balance the social effects of trade policies.

### 3.2. The Role of Household Budget Surveys in Trade Modelling

- **Household Budget Surveys provide granular insights** into how different income groups experience trade policy changes.
- The integration of household-level data into CGE models enhances policy relevance, **enabling assessments of inequality and poverty dynamics.**

**Implication: Trade impact assessments must include disaggregated household data** to improve equity in policy decisions.

### 3.3. Trade and Employment: Sectoral Shifts and Vulnerabilities

- **Trade policies affect job creation and job displacement differently** across industries.
- Employment shifts towards high-productivity sectors can improve overall income levels, but **low-skilled workers may struggle to transition.**
- **Social safety nets and active labour market policies are needed** to support workers at risk of losing jobs.

**Implication: Labour market policies should be aligned with trade** reforms to ensure inclusivity and economic resilience.

## 4. Implications for EU Policy & Trade Governance

- **Social impact assessments should be integrated into trade negotiations.**
- Trade agreements should include specific provisions **addressing income inequality.**
- **Stronger monitoring frameworks are needed** to assess social outcomes of trade liberalisation.
- **Introduce compensation schemes for vulnerable workers** affected by trade policies.
- **Expand access to vocational training and upskilling initiatives.**
- **Ensure targeted social assistance programs** for low-income households.
- **Trade policies should be aligned with the European Green Deal's social fairness objectives.**
- **Sustainability-focused trade strategies must include social safeguards** to prevent exacerbating inequalities.
- **Greater coordination between trade and labour market policies** is essential for inclusive growth.

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# 5. Conclusion

This study highlights the need for more integrated approaches to trade, sustainability, and social equity.

**Key takeaways:**

- Trade liberalisation can generate economic benefits, but **social disparities must be addressed.**
- **Household-level data is crucial for designing equitable trade policies.**
- **Stronger social protection and active labour market policies** are needed to support vulnerable groups.

This Project Brief is based on **Deliverable 3.2.** of the TRADE4SD project.

Trade4SD is a 4-year project devoted to research on a topic which is high on the domestic as well as multilateral, EU and bilateral trade policy agenda. The ambition of the project is to explore and foster the positive linkages between trade and sustainable development is to provide policy recommendations for the creation of new opportunities for agents involved in the global, regional and national agri-food value chains, and to define conditions for sustainable livelihoods of farm producers in the EU and developing partner countries. Trade is a central factor in shaping global, regional and local development. Increased trade, empowered by the growth of Global Value Chains (GVCs), has boosted productivity and incomes in many countries.

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